NETUREN

Annual Report 2020

For the year ended March 31, 2020

NETUREN CO., LTD.

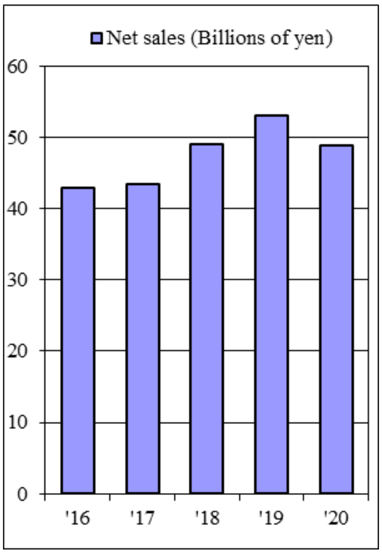
CONTENTS

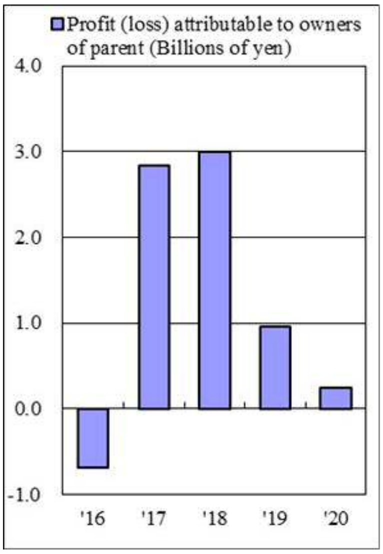
FIVE－YEAR SUMMARY

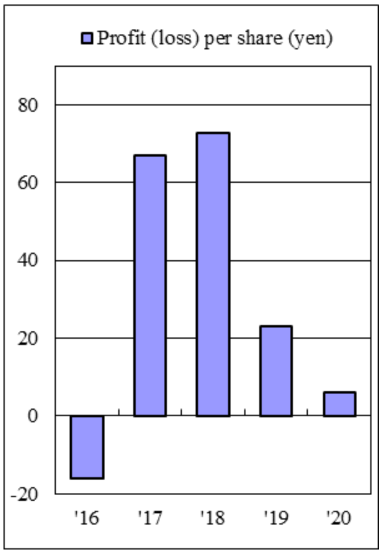
Neturen Co., Ltd. and Consolidated Subsidiaries
Five years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2016	2017	2018	2019	**2020**	**2020**
Net sales…………………………..	¥42,905	¥43,396	¥48,980	¥53,015	**¥48,806**	**$448,467**
Operating profit...………………….	2,145	3,003	3,656	3,569	**2,087**	**19,178**
Profit (loss)……………………..….	(411)	3,096	3,479	1,507	**719**	**6,607**
Profit (loss) attributable to owners of parent…………………..	(687)	2,834	3,003	950	**250**	**2,302**
Comprehensive income……………	(3,203)	2,671	4,768	(127)	**(594)**	**(5,466)**
Total assets………………………..	76,610	76,230	82,110	80,650	**76,277**	**700,890**
Total Net assets……………………	62,202	63,319	66,120	64,598	**62,772**	**576,796**
Per share of common stock………..						
Profit (loss)……………………	¥ (16.12)	¥66.98	¥72.73	¥23.21	**¥6.14**	**$0.06**
Cash dividends…………………	14.00	25.00	22.00	25.00	**22.00**	**0.20**
Stockholders' equity…………..	1,322.16	1,381.64	1,458.40	1,427.94	**1,379.16**	**12.67**

Note1: U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥108.83=US$1.
2: The fiscal year ended March 31, 2017 dividend includes a one time commemorative dividend of ¥4.00 per share.







TO OUR SHAREHOLDERS

The Group, consisting of the Company (Neturen Co., Ltd.), 18 subsidiaries and 4 affiliates, manufactures and sells prestressing steel bars and deformed steel bars for prestressed concrete used in civil engineering and construction; Induction Heated, Quenched and Tempered Wire (ITW) used mainly for suspension springs of automobiles and motorcycles, auto parts and construction machine parts; and induction heating equipment for various industries. The group also provides heat treatment services for major critical safety parts of automobiles, machine tools and construction equipment.

(1) Activities and Results

In the consolidated fiscal year under review, signs of a slowdown in the Japanese economy became more pronounced due to the expanded impact of the prolonged US-China trade friction. Moreover, the outlook of the global economy also became more uncertain, including the developments in European economies due to the Brexit issue in addition to the US-China trade friction.

Furthermore, with the spread of the COVID-19 infections from early 2020, the business environment became extremely severe due to increased uncertainty in the future outlook of economies as sluggish economic activities, caused by restrictions placed on the movement of people and goods, began to have a major impact on employment and investment.

Under such circumstances, the Group has been striving to increase its corporate value by promoting the basic policies set out in its 14th medium-term business plan “Accomplish V-20” (a three-year plan from April 2018 to March 2021): (1) Rapid development and market introduction of new technologies, new products, and new businesses, (2) Securing and fostering global human resources who will forge the present and future of our Group, and (3) Building a Global Structure for Safety, Quality and CSR Activities.

However, net sales in the consolidated fiscal year under review amounted to ¥48,806 million (down 7.9% year over year) due to a decline in orders from the automobile, construction machinery and machine tool industries caused by the US-China trade friction among others. Operating profit was ¥2,087 million (down 41.5% year over year) mainly due to an increase in fixed cost ratio resulting from a decrease in sales volume. Ordinary profit was ¥2,071 million (down 49.2% year over year) as a result of a decrease in operating profit and an increase in share of loss of entities accounted for using equity method. For extraordinary losses, impairment loss of ¥188 million and loss on valuation of investment securities of ¥209 million were recorded partly due to the spread of COVID-19 infections. As a result, profit attributable to owners of parent recorded ¥250 million (down 73.7% year over year).

Status by business segment

From the consolidated fiscal year under review, the Company changed its hollow rack bar and construction machine slewing ring businesses in "Induction Heating Division" to "Specialty Steel and Wire Products Division" in line with the organizational change aimed at increasing business efficiency for the NETUREN brand, using integrated processing, and further improving customer satisfaction. In line with this change, year-on-year comparison is presented using figures which we have modified in the respective period to suit the segment after the change.

a. Specialty Steel and Wire Products Division

Sales of civil engineering and construction-related products decreased year on year due to a decrease in the number of large-scale projects, including those related to the Olympics, and a decrease in the number of medium- and high-rise condominiums starts.

Sales of automobile-related products declined year on year due to sluggish sales in Europe, although sales of high-strength spring steel wire (ITW: induction heating quenched and tempered wire) in Japan were solid.

Sales of construction machine-related products decreased year on year due to a slowdown in overseas construction machinery industry markets.

Sales of machine tool-related products decreased year on year partly due to a decline in customer demand.

As a result, net sales were ¥26,521 million (down 6.8% year over year), with operating profit at ¥536 million (down 65.6% year over year) due to the inability to cover the decline in sales volume through measures to reduce fixed costs and an increase in expenses associated with the launch of new products under development for each related product.

b. Induction Heating Division

Sales of services related to induction heat treatment declined from a year earlier significantly affected by a market slowdown in major industries such as automobiles, machine tools and construction machinery.

Sales of induction-heating equipment decreased from a year earlier due to sluggish sales in Japan and Korea following a review of capital investment by customers.

As a result, net sales were ¥22,153 million (down 9.3% year over year), with operating profit of ¥1,482 million (down 25.3% year over year) due to lower sales that could not be offset by cost reduction efforts.

c. Others

This segment covers activities such as real estate leasing business that are not included in the reportable segments.

Rental properties owned by the Company are stably contributing to the business performance although the contribution is small.

As a result, sales in this segment were ¥132 million (up 1.0% year over year) and operating profit was ¥59 million (up 2.2% year over year).

(2) Cash Flow

At the end of the fiscal year under review, balance of cash and cash equivalents amounted to ¥11,697 million (up ¥411 million year over year).

a. Cash Flow Provided by Operating Activities

Net cash provided by operating activities amounted to ¥6,298 million (¥4,622 million income for the previous fiscal year).

This was caused mainly by profit before income taxes of ¥1,593 million and decrease in trade receivables of ¥2,668 million.

b. Cash Flow Used in Investing Activities

Net cash used in investing activities amounted to ¥4,020 million (¥5,510 million expenditure for the previous fiscal year).

This was caused primarily by payments for purchases of property, plant and equipment totaling ¥4,369 million.

c. Cash Flow Used in Financing Activities

Net cash used in financing activities amounted to ¥1,810 million (¥130 million expenditure for the previous fiscal year).

This was mainly due to dividends paid ¥1,060 million.

(3) Equipment Investment

The Group (the Company and its consolidated subsidiaries) has focused on making capital expenditures for new products and businesses as well as to meet orders received. To cope with changes in business environment, the group has also invested in rationalization. We are rigorously reviewing the effects of individual equipment investments by establishing standards for returns on investments.

The Group finances capital investments mainly with funds on hand. However, when large investments such as the establishment of a new subsidiary or construction of a new plant are necessary, capital investments are made using external funds.

In the fiscal year under review, equipment investment amounted to ¥4,177 million on a consolidated basis.

(4) Issues for the Coming Term

The business environment surrounding the Group has become extremely severe due to the US-China trade friction and the spread of the COVID-19 infections. Even under these circumstances, the Group will implement various measures by focusing on the following priority ones in order to minimize the decline in profits.

1. Rapid development and market introduction of New Technologies, New Products and New Businesses

Rapid development of New Technologies & New Products that have been ascertained of its marketability and business scheme. Incorporation of market needs by expansion and utilization of our global network, and realization of new businesses that acquire swift returns.

At the same time, carry out development of business creating activities which will lead to the next generation from mid to long-term perspective.

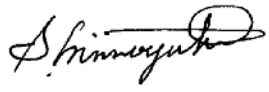
2. Securing and fostering global human resources who will forge the present and future of our Group

In order to secure and grow multifaceted and flexible human resources from companywide perspective, we will build and execute human resource development system from companywide perspective. We will also reinforce functions and organizations that support “work-style reform” which foster and promote diverse human resources.

3. Building a Global Structure for Safety, Quality and CSR Activities

To connect the entire company for Safety, Quality and CSR activities, where information is shared immediately companywide and build a system that can take quick countermeasures.

As a global company, all and every employee understands and acts on compliance, and is committed to building a Company with high social credibility.



Shigeru Mizoguchi
President

CONSOLIDATED BALANCE SHEET

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note2)
	2019	**2020**	**2020**
ASSETS			
Current assets:			
Cash and deposits(Note4)…………	¥13,506	**¥13,737**	**$126,226**
Notes and accounts receivable - trade(Note4)…………	12,779	**11,141**	**102,377**
Electronically recorded monetary claims claims (Note4)…………	4,450	**3,301**	**30,339**
Inventories (Note3)…………	5,025	**4,572**	**42,018**
Other…………	1,629	**1,736**	**15,958**
Total current assets…………	37,391	**34,490**	**316,920**
Non-current assets:			
Property, plant and equipment:			
Land…………	9,833	**9,880**	**90,791**
Buildings and structures…………	20,578	**21,236**	**195,130**
Machinery, equipment and vehicles…………	49,758	**49,627**	**456,009**
Construction in progress…………	956	**1,911**	**17,568**
Other…………	2,754	**2,692**	**24,744**
Accumulated depreciation…………	(53,680)	**(54,533)**	**(501,088)**
Total property, plant and equipment…………	30,201	**30,815**	**283,156**
Intangible assets:			
Leasehold interests in land…………	679	**657**	**6,038**
Goodwill…………	1,070	**895**	**8,227**
Other…………	146	**173**	**1,591**
Total intangible assets	1,896	**1,725**	**15,857**
Investments and other assets:			
Investment securities (Note4,5)…………	10,343	**8,560**	**78,663**
Retirement benefit asset…………	76	**91**	**840**
Deferred tax assets (Note7)…………	214	**128**	**1,183**
Other…………	607	**544**	**5,004**
Allowance for doubtful accounts…………	(80)	**(80)**	**(737)**
Total investments and other assets…………	11,161	**9,245**	**84,955**
Total non-current assets…………	43,259	**41,787**	**383,970**
Total assets…………	80,650	**76,277**	**700,890**

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note2)
	2019	**2020**	**2020**
LIABILITIES			
Current liabilities:			
Notes and accounts payable – trade (Note4)	¥2,906	**¥2,680**	**$24,625**
Electronically recorded obligations – operating (Note4)	4,887	**3,361**	**30,890**
Short-term borrowings (Note6)	1,396	**1,370**	**12,588**
Lease obligations (Note6)	54	**40**	**372**
Income taxes payable (Note7)	351	**205**	**1,890**
Provision for bonuses	610	**607**	**5,582**
Other	2,615	**2,394**	**22,000**
Total current liabilities	12,822	**10,659**	**97,950**
Non-current liabilities:			
Long-term borrowings (Note6)	2,159	**1,645**	**15,116**
Lease obligations (Note6)	37	**33**	**304**
Deferred tax liabilities (Note7)	40	**116**	**1,070**
Retirement benefit liability (Note12)	922	**939**	**8,631**
Other	69	**111**	**1,021**
Total non-current liabilities	3,229	**2,845**	**26,143**
NET ASSETS			
Shareholders' equity:			
Share capital	6,418	**6,418**	**58,976**
Capital surplus	4,724	**4,714**	**43,316**
Retained earnings	48,529	**47,718**	**438,470**
Treasury shares	(2,641)	**(2,641)**	**(24,272)**
Total shareholders' equity	57,030	**56,209**	**516,489**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	1,177	**495**	**4,550**
Foreign currency translation adjustment	98	**(367)**	**(3,377)**
Remeasurements of defined benefit plans	(36)	**(58)**	**(534)**
Total accumulated other comprehensive income	1,238	**69**	**638**
Non-controlling interests	6,328	**6,493**	**59,668**
Total net assets	64,598	**62,772**	**576,796**
Total liabilities and net assets	80,650	**76,277**	**700,890**

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note2)
	2019	**2020**	**2020**
Net sales	¥53,015	**¥48,806**	**$448,467**
Cost of sales	41,756	**38,754**	**356,097**
Gross profit	11,259	**10,052**	**92,370**
Selling, general and administrative expenses (Note8)	7,690	**7,965**	**73,191**
Operating profit	3,569	**2,087**	**19,178**
Non-operating income			
Interest and dividend income	327	**321**	**2,957**
Share of loss of entities accounted for using equity method	(20)	**(471)**	**(4,333)**
Gain on sales of investment securities	128	**15**	**146**
Subsidy income	62	**75**	**689**
Impairment loss (Note10)	(1,950)	**(188)**	**(1,734)**
Compensation for damage	(4)	**(30)**	**(281)**
Other net (Note9)	(96)	**(215)**	**(1,983)**
Other income (expenses) - net	(1,553)	**(493)**	**(4,538)**
Profit before income taxes	2,016	**1,593**	**14,639**
Income taxes (Note7)			
Current	876	**575**	**5,288**
Deferred	(367)	**298**	**2,742**
Total income taxes	508	**874**	**8,031**
Profit	1,507	**719**	**6,607**
Profit attributable to:			
Profit attributable to owners of parent	950	**250**	**2,302**
Profit attributable to non-controlling interests	556	**468**	**4,305**
Other comprehensive income (Note11)			
Valuation difference on available-for-sale securities	(349)	**(690)**	**(6,341)**
Foreign currency translation adjustment	(1,041)	**(435)**	**(4,002)**
Remeasurements of defined benefit plans, net of tax	29	**(21)**	**(197)**
Share of other comprehensive income of entities accounted for using equity method	(274)	**(166)**	**(1,532)**
Total other comprehensive income	(1,634)	**(1,314)**	**(12,074)**
Comprehensive income	(127)	**(594)**	**(5,466)**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	(378)	**(926)**	**(8,513)**
Comprehensive income attributable to non-controlling interests	251	**331**	**3,046**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 31, 2018…..…	¥6,418	¥4,758	¥48,521	¥ (2,461)	¥57,236
Changes of items during period...					
Dividends of surplus………...			(943)		(943)
Profit attributable to owners of parent…………….			950		950
Purchase of treasury shares…...				(179)	(179)
Change in ownership interest of parent due to transactions with non-controlling interests……………………...					—
Capital increase of consolidated Subsidiaries……………………		(34)			(34)
Other………………………...					
Balance at March 31, 2019……	**6,418**	**4,724**	**48,529**	**(2,641)**	**57,030**
Changes of items during period...					
Dividends of surplus………...			**(1,060)**		**(1,060)**
Profit attributable to owners of parent…………….			**250**		**250**
Purchase of treasury shares…...				**(0)**	**(0)**
Change in ownership interest of parent due to transactions with non-controlling interests……………………...		**(10)**			**(10)**
Capital increase of consolidated Subsidiaries……………………					—
Other………………………...					
Balance at March 31, 2020……	**6,418**	**4,714**	**47,718**	**(2,641)**	**56,209**

	Thousands of U.S. dollars (Note2)				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 31, 2019……	**$58,976**	**$43,413**	**$445,916**	**$ (24,270)**	**$524,035**
Changes of items during period					
Dividends of surplus………...			**(9,748)**		**(9,748)**
Profit attributable to owners of parent…………….			**2,302**		**2,302**
Purchase of treasury shares…...				**(1)**	**(1)**
Change in ownership interest of parent due to transactions with non-controlling interests……………………...		**(97)**			**(97)**
Capital increase of consolidated Subsidiaries……………………					—
Other………………………...					
Balance at March 31, 2020……	**58,976**	**43,316**	**438,470**	**(24,272)**	**516,489**

	Millions of yen				
	Accumulated other comprehensive income				
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at March 31, 2018…..…	¥1,541	¥1,093	¥ (66)	¥6,315	¥66,120
Changes of items during period					
Dividends of surplus………...					(943)
Profit attributable to owners of parent…………….					950
Purchase of treasury shares…...					(179)
Change in ownership interest of parent due to transactions with non-controlling interests……………………...					—
Capital increase of consolidated Subsidiaries……………………					(34)
Other………………………...	(364)	(995)	29	13	(1,316)
Balance at March 31, 2019……	1,177	98	(36)	6,328	64,598
Changes of items during period					
Dividends of surplus………...					**(1,060)**
Profit attributable to owners of parent…………….					**250**
Purchase of treasury shares…...					**(0)**
Change in ownership interest of parent due to transactions with non-controlling interests……………………...					**(10)**
Capital increase of consolidated Subsidiaries……………………					**—**
Other………………………...	**(682)**	**(465)**	**(21)**	**165**	**(1,004)**
Balance at March 31, 2020……	**495**	**(367)**	**(58)**	**6,493**	**62,772**

	Thousands of U.S. dollars (Note2)				
	Accumulated other comprehensive income				
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at March 31, 2019……	**$10,817**	**$903**	**$ (336)**	**$58,149**	**$593,568**
Changes of items during period					
Dividends of surplus………...					**(9,748)**
Profit attributable to owners of parent…………….					**2,302**
Purchase of treasury shares…...					**(1)**
Change in ownership interest of parent due to transactions with non-controlling interests……………………...					**(97)**
Capital increase of consolidated Subsidiaries……………………					**—**
Other………………………...	**(6,267)**	**(4,280)**	**(197)**	**1,519**	**(9,226)**
Balance at March 31, 2020……	**4,550**	**(3,377)**	**(534)**	**59,668**	**576,796**

CONSOLIDATED STATEMENT OF CASH FLOWS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note2)
	2019	**2020**	**2020**
Cash flows from operating activities:			
Profit before income taxes	¥2,016	**¥1,593**	**$14,639**
Depreciation	3,267	**3,189**	**29,304**
Impairment loss	1,950	**188**	**1,734**
Amortization of goodwill	129	**123**	**1,134**
Increase (decrease) in allowance for doubtful accounts	(0)	**(10)**	**(96)**
Increase (decrease) in provision for bonuses	(8)	**(3)**	**(31)**
Decrease (increase) in retirement benefit asset	21	**(19)**	**(175)**
Increase (decrease) in retirement benefit liability	66	**(14)**	**(130)**
Interest and dividend income	(223)	**(252)**	**(2,318)**
Interest expenses	42	**37**	**345**
Foreign exchange losses (gains)	24	**61**	**567**
Share of loss (profit) of entities accounted for using equity method	20	**471**	**4,333**
Loss (gain) on sales of property, plant and equipment	(4)	**6**	**61**
Loss (gain) on disposal of property, plant and equipment	49	**29**	**274**
Loss (gain) on sales of investment securities	(121)	**(15)**	**(146)**
Loss (gain) on valuation of investment securities	464	**209**	**1,926**
Decrease (increase) in trade receivables	(1,212)	**2,668**	**24,521**
Decrease (increase) in inventories	(521)	**405**	**3,727**
Increase (decrease) in trade payables	(281)	**(1,724)**	**(15,847)**
Increase (decrease) in accrued consumption taxes	267	**160**	**1,476**
Other, net	(297)	**(354)**	**(3,259)**
Subtotal	5,649	**6,752**	**62,044**
Interest and dividend income received	270	**284**	**2,614**
Interest paid	(38)	**(38)**	**(353)**
Income taxes (paid) refund	(1,257)	**(699)**	**(6,429)**
Net cash provided by (used in) operating activities	4,622	**6,298**	**57,876**

	Millions of yen		Thousands of U.S. dollars (Note2)
	2019	**2020**	**2020**
Cash flows from investing activities:			
Payments into time deposits………………………………….	¥ (2,744)	**¥ (2,936)**	**$ (26,980)**
Proceeds from withdrawal of time deposits………………….	1,931	**3,282**	**30,159**
Purchase of property, plant and equipment…………………..	(4,688)	**(4,369)**	**(40,145)**
Proceeds from sales of property, plant and equipment………	12	**3**	**34**
Purchase of intangible assets……………………………...	(25)	**(63)**	**(581)**
Purchase of investment securities……………………………	(192)	**(16)**	**(155)**
Proceeds from sales and redemption of investment securities….	321	**137**	**1,263**
Loan advances……………...………………………………..	(15)	**(1)**	**(15)**
Collection of loans receivable………………………………	10	**11**	**103**
Purchase of long-term prepaid expenses…………………….	(73)	**(39)**	**(360)**
Other, net……………………………………………………	(46)	**(28)**	**(259)**
Net cash provided by (used in) investing activities……..	(5,510)	**(4,020)**	**(36,939)**
Cash flows from financing activities:			
Proceeds from short-term borrowings…..…………………...	1,661	**1,338**	**12,296**
Repayments of short-term borrowings..……………………..	(1,848)	**(1,360)**	**(12,498)**
Proceeds from long-term borrowings………………………..	2,073	**20**	**183**
Repayments of long-term borrowings……………………….	(569)	**(533)**	**(4,901)**
Purchase of treasury shares…………………………………..	(179)	**(0)**	**(1)**
dividends paid………………….……………………………..	(943)	**(1,060)**	**(9,748)**
Dividends paid to Non-controlling interests…………………	(271)	**(321)**	**(2,956)**
Proceeds from share issuance to non-controlling shareholders.	—	**61**	**562**
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation…………..	—	**83**	**762**
Other, net……………………………………………………	(52)	**(36)**	**(335)**
Net cash provided by (used in) financing activities…….	(130)	**(1,810)**	**(16,636)**
Effect of exchange rate change on cash and cash equivalents	(202)	**(56)**	**(522)**
Net increase (decrease) in cash and cash equivalents…….	(1,220)	**411**	**3,777**
Cash and cash equivalents at beginning of period…………...	12,507	**11,286**	**103,709**
Cash and cash equivalents at end of period…………………..	11,286	**11,697**	**107,487**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Neturen Co., Ltd. (the Company) and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial instruments and Exchange Law of Japan.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in dollars) do not necessarily agree with the sum of the individual amounts.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form that is more familiar to readers outside Japan.

(1) Principle of Consolidation and Investments in Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and 17 significant subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. All unrealized profits and losses with regard to intercompany transactions of assets are also wholly eliminated in consolidation. The equity method to account for investments in an unconsolidated subsidiary and 4 affiliates has been followed by the Company in the accompanying consolidated financial statements. Accordingly, earnings corresponding to the equity ownership are included as income of the Company and the consolidated subsidiaries in investment accounts.

The fiscal year-end of all subsidiaries differs from that of the Company. Accounts of those subsidiaries which have different fiscal periods have been adjusted for significant transactions to properly reflect their financial positions and the results of operations.

(2) Foreign Currency financial statement

In translating the financial statements of foreign subsidiaries and affiliates into Japanese yen, all assets, liabilities, revenues and expenses are translated at the current exchange rates in effect each balance sheet date except for capital and retained earnings which are translated at the historical exchange rates in effect at the time of the transactions. The resulting translation adjustments are reflected as separate components in the accompanying consolidated financial statements as foreign currency translation adjustments.

(3) Cash and Cash Equivalents

Cash and cash equivalents for the consolidated statements of cash flows include cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase.

(4) Short-term Securities, Investment securities

Short-term securities and investment securities are classified and account for, depending on management's intent, as follows:

Held-to-maturity securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are amortized or accumulated to face value. Other securities, "available-for-sale securities" with fair value are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of net assets until realized. Other securities without fair value are carried at cost. In computing realized gain or loss, cost of other securities are principally determined by the moving-average method.

(5) Derivatives

Derivatives are valued by the market value method.

(6) Inventories

Inventories are principally stated at cost on a first-in, first-out basis, evaluates the amount of the inventories shown on the balance sheet by writing them down based on their decrease in profitability.

(7) Property, Plant and Equipment (except under lease)

Property, plant and equipment are stated at cost.

In the Company and its domestic subsidiaries, the declining-balance method is primarily used for depreciation.

Further, depreciation of buildings (excluding attached fixtures) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016, is calculated by the straight-line method.

In foreign subsidiaries, the straight-line method is primarily used for depreciation.

The range of useful lives is principally from 5 to 50 years for buildings and structures, from 4 to 12 years for machinery, equipment and vehicles.

(8) Intangible assets

Intangible assets are carried at cost less accumulated amortization, which are amortized by the straight-line method.

(9) Lease assets

Under accounting standards generally accepted in Japan, leased assets related to finance leases that do not transfer ownership of the leased property to the lessee are depreciation on a straight-line basis, with lease period used as their useful lives and no residual value.

(10) Allowance for Doubtful Accounts

The allowance for doubtful accounts has been provided at an amount computed based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the analysis of certain individual receivables.

(11) Research and Development Costs

Research and development costs are charged to income as incurred.

(12) Retirement and severance benefits

The retirement benefit obligation is attributed to each period by the benefit formula method.

Actuarial gain / loss is recognized using the straight-line method over mainly 10 years from next fiscal year.

After adjusting for the tax effects, unrecognized actuarial gains / losses are recorded in accumulated adjustment for retirement benefits in accumulated other comprehensive income in the net assets section.

(13) Goodwill

Goodwill is evaluated on an individual basis and amortized by the straight-line method over 10 years.

(14) Income Taxes

Income taxes of the Company and subsidiaries are provided on the basis of amounts payable as indicated in the tax returns.

The Company and its consolidated subsidiaries have adopted the assets and liabilities method of tax effect accounting in order to recognize the effect of all temporary differences in the recognition of assets and liabilities for tax financial reporting purpose.

(Accounting Standards Issued but Not yet Adopted)

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

In accordance with this comprehensive accounting standard for revenue recognition, revenue is recognized through the application of the following five steps.

1: Identify the contract with the customer.

2: Identify the performance obligations in the contract.

3: Determine the transaction price.

4: Allocate the transaction price to the performance obligations in the contract.

5: Recognize revenue as the performance obligations are satisfied.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

“Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)

“Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

In order to improve comparability with the provisions of international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter referred to as "Accounting Standard for Fair Value Measurement, etc.") were developed to provide guidance, etc. on how to calculate fair value. Accounting Standard for Fair Value Measurement, etc. are applied to the fair value of the following items:

Financial instruments under the Accounting Standard for Financial Instruments

Inventories held for trading purposes under the Accounting Standard for Measurement of Inventories

In addition, the Implementation Guidance on Disclosures about Fair Value of Financial Instruments was revised to provide explanatory notes such as a breakdown of the fair value of financial instruments by level.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

"Accounting Standard for Accounting Policy Disclosures, Accounting Changes, and Error Corrections" (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

The purpose of applying this standard is to indicate an outline of the accounting principles and procedures adopted when the relevant accounting standards are not clear.

(2) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

The purpose of applying this standard is to disclose information that facilitates the understanding of financial statement users regarding the content of accounting estimates for items whose amounts reported in the financial statements for the current fiscal year are based on accounting estimates and that may have a material impact on the financial statements for the following fiscal year.

(2) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

(Additional information)

(Accounting estimates for the impact of the spread of COVID-19 infections)

The Group conducts impairment accounting for non-current assets and accounting estimates for the collectability of deferred tax assets, based on information available at the time of the preparation of the consolidated financial statements.

In particular, although it is extremely difficult to reasonably estimate the impact of COVID-19 infections on the Group's earnings during the consolidated fiscal year under review, available impacts, such as declines in orders received, are factored in. Accounting estimates and assumptions that COVID-19 infections will have a significant impact on the consolidated financial statements are as follows:

We have conducted impairment accounting for non-current assets and accounting estimates for the collectability of deferred tax assets based on the assumption that the economic impact of COVID-19 infections will continue until the second quarter of the fiscal year ending March 2021 and then the economy will recover gradually.

While we believe that these estimates are reasonable, the impact of the spread of COVID-19 infections is largely uncertain and any unexpected change could have a material impact on the Group's consolidated financial statements.

2. Translation in U.S. Dollars

For the convenience of the reader, the accompanying consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥108.83 to $1, the approximate rate of exchange on March 31, 2020, at the Tokyo foreign exchange market. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars amounts at such rate or at any other rate.

3. Inventories

Inventories as of March 31, 2019 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Finished goods	¥1,188	**¥1,024**	**$9,414**
Work in process	1,795	**1,444**	**13,275**
Raw materials and supplies	2,041	**2,103**	**19,328**
	5,025	**4,572**	**42,018**

4. Status of financial instruments

(1) Policies for financial instruments

The Companies raised the funds by borrowing from financial institutions and retained earnings according to capital investment. The Companies manage funds only through short-term time deposit and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to trading receivables and payables. The Companies do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk.

Trade receivables —notes receivable , accounts receivable and electronically recorded monetary claims— are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers. Equity securities —the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices. Trade payable —notes payable , accounts payable and electronically recorded obligations— mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk. Short-term debt is raised mainly in connection with business activities. Long-term debt is taken out principally for the purpose of capital expenditure. Debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for debt bearing interest at variable rates, the Company undertakes interest rate swap transactions as a hedging instrument for most long-term debt.

(3) Risk management of financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirm the effectiveness of hedging and obtain approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instrument.

(c) Monitoring of liquidity risks for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage the liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

Estimated fair value of financial instruments:

The book value of the financial instruments on the consolidated balance sheets as of March 31, 2019 and 2020 and unrealized gain (loss) are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2019		
	Book value	Fair value	Difference
Cash and Deposits	¥13,506	¥13,506	¥—
Notes and accounts receivable-trade	12,779	12,779	—
Electronically recorded monetary claims	4,450	4,450	—
Investment securities:			
Held-to-maturity securities	205	206	0
Other securities	5,311	5,311	—
Total	36,253	36,254	0
Notes and accounts payable-trade	2,906	2,906	—
Electronically recorded obligations	4,887	4,887	—
Total	7,794	7,794	—
Derivatives			
Hedge accounting not applied	28	28	—
Total	28	28	—

	Millions of yen		
	2020		
	Book value	Fair value	Difference
Cash and Deposits	**¥13,737**	**¥13,737**	**¥—**
Notes and accounts receivable-trade	**11,141**	**11,141**	**—**
Electronically recorded monetary claims	**3,301**	**3,301**	**—**
Marketable securities and investment securities:			
Held-to-maturity securities	**204**	**201**	**(2)**
Other securities	**4,174**	**4,174**	**—**
Total	**32,559**	**32,557**	**(2)**
Notes and accounts payable-trade	**2,680**	**2,680**	**—**
Electronically recorded obligations	**3,361**	**3,361**	**—**
Total	**6,041**	**6,041**	**—**
Derivatives			
Hedge accounting not applied	**65**	**65**	**—**
Total	**65**	**65**	**—**

	Thousands of U.S. dollars		
	2020		
	Book value	Fair value	Difference
Cash and Deposits	**$126,226**	**$126,226**	**$—**
Notes and accounts receivable-trade	**102,377**	**102,377**	**—**
Electronically recorded monetary claims	**30,339**	**30,339**	**—**
Marketable securities and investment securities:			
Held-to-maturity securities	**1,875**	**1,851**	**(23)**
Other securities	**38,362**	**38,362**	**—**
Total	**299,182**	**299,158**	**(23)**
Notes and accounts payable-trade	**24,625**	**24,625**	**—**
Electronically recorded obligations	**30,890**	**30,890**	**—**
Total	**55,516**	**55,516**	**—**
Derivatives			
Hedge accounting not applied	**597**	**597**	**—**
Total	**597**	**597**	**—**

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities

Cash and deposits and notes and accounts receivable and electronically recorded monetary claims:

Fair value is based on the book value as the carrying amount approximates fair value, and because of the short maturity of these instruments.

Investment securities:

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 5.

Notes and accounts payable and short-term debt and electronically recorded obligations:

Since these items are settled in a short period of time, their book value approximates fair value.

Derivatives:

The Fair value is based on information provided by financial institutions at the end of the fiscal year.

(2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

As of March 31, 2019 and 2020, the cost of non-marketable securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Other securities without fair value:			
Unlisted equity securities	¥242	**¥242**	**$2,224**

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

(3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2019 and 2020

	Millions of yen			
	2019			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	¥13,506	¥—	¥—	¥—
Notes and accounts receivable-trade	12,779	—	—	—
Electronically recorded monetary claims	4,450	—	—	—
Investment securities:				
Held-to-maturity securities	—	100	100	—
Total	30,736	100	100	—

	Millions of yen			
	2020			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	**¥13,737**	**¥—**	**¥—**	**¥—**
Notes and accounts receivable-trade	**11,141**	**—**	**—**	**—**
Electronically recorded monetary claims	**3,301**	**—**	**—**	**—**
Investment securities:				
Held-to-maturity securities	**—**	**100**	**100**	**—**
Total	**28,180**	**100**	**100**	**—**

	Thousands of U.S. dollars			
	2020			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	**$126,226**	**$—**	**$—**	**$—**
Notes and accounts receivable-trade	**102,377**	**—**	**—**	**—**
Electronically recorded monetary claims	**30,339**	**—**	**—**	**—**
Investment securities:				
Held-to-maturity securities	**—**	**918**	**918**	**—**
Total	**258,944**	**918**	**918**	**—**

5. Short-term Investment Securities, Investment Securities and Other Securities

The following is an analytical summary of held-to-maturity securities and available-for-sale securities consisted of short-term investment securities, investment securities as of March 31, 2019 and 2020.

	Millions of yen						Thousands of U.S. dollars		
	2019			**2020**			**2020**		
Held-to-maturity securities:	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Bonds	¥205	¥206	¥0	**¥204**	**¥201**	**¥(2)**	**$1,875**	**$1,851**	**$(23)**
Others	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	205	206	0	**204**	**201**	**(2)**	**1,875**	**1,851**	**(23)**
Other securities:									
Available-for-sale securities	Book value (Fair value)	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)	Acquisition Cost	Unrealized gain (loss)
Bonds	¥—	¥—	¥—	**¥—**	**¥—**	**¥—**	**$—**	**$—**	**$—**
Equity securities	5,211	3,461	1,750	**4,174**	**3,247**	**927**	**38,362**	**29,839**	**8,523**
Others	99	100	(0)	**—**	**—**	**—**	**—**	**—**	**—**
	5,311	3,561	1,749	**4,174**	**3,247**	**927**	**38,362**	**29,839**	**8,523**

As of March 31, 2019 and 2020, the cost of non-marketable securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Other securities without fair value:			
Unlisted equity securities	¥242	**¥242**	**$2,224**
Non-consolidated subsidiaries and affiliates:			
Equity securities	4,585	**3,939**	**36,201**

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans consist mainly of short-term notes and short-term borrowings under the loan agreements. The weighted average interest rates applicable to such loans as of March 31, 2019 and 2020 were approximately 1.8% and 1.6% respectively.

Long-term debt as of March 31, 2019 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Unsecured loans from banks	¥2,700	**¥2,187**	**$20,100**
Less: current portion	(541)	**(542)**	**(4,983)**
Lease obligations	91	**73**	**676**
Less: current portion	(54)	**(40)**	**(372)**
	2,197	**1,678**	**15,421**

Interest rates applicable to the long-term loans mentioned above ranged from 0.3% to 0.3% as of March 31, 2019 and 2020 respectively.

The aggregate annual maturities of long-term debt payable as of March 31, 2020 were as follows:

As of March 31,	Millions of yen	Thousands of U.S. dollars
2022	**¥534**	**$4,907**
2023	**527**	**4,844**
2024	**580**	**5,334**
2025	**3**	**30**
	1,645	**15,116**

7. Income Taxes

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purpose for the years ended March 31, 2019 and 2020.

	As of March 31	
	2019	**2020**
Statutory tax rate	30.6%	**30.6%**
Permanent differences-Entertainment expenses and other	0.7	**0.9**
Permanent differences-Dividend income and other	(8.4)	**(12.6)**
Equity in earnings of unconsolidated subsidiaries and affiliates	0.3	**9.1**
Dividends from consolidated subsidiaries	8.6	**13.3**
Valuation allowance for deferred tax assets	4.6	**13.6**
Per capita inhabitance tax	2.1	**2.7**
Recognition of effective tax rate on retained earnings of foreign subsidiaries	(2.6)	**2.2**
Amortization of goodwill	2.0	**2.4**
Tax rate differences	(8.5)	**(8.6)**
Tax credit	(5.0)	**(2.4)**
Other-net	0.8	**3.7**
Effective tax rate	25.2%	**54.9%**

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Deferred tax assets:			
Inventories	¥36	**¥41**	**$377**
Depreciation	4	**8**	**77**
Intangible assets	16	**24**	**227**
Unrealized loss on valuation of other securities	7	**6**	**60**
Allowance for doubtful accounts	28	**27**	**251**
Accrued enterprise tax	29	**20**	**192**
Accrued employees' bonuses	208	**207**	**1,908**
Retirement benefit liability	434	**433**	**3,981**
Impairment loss	1,438	**1,303**	**11,981**
Unrealized loss on available-for-sale securities	174	**213**	**1,959**
Others	424	**454**	**4,174**
Subtotal	2,804	**2,741**	**25,192**
Valuation allowance	(1,076)	**(1,279)**	**(11,756)**
Total	1,727	**1,462**	**13,435**
Deferred tax liabilities:			
Accumulated earnings of consolidated subsidiaries	(495)	**(530)**	**(4,878)**
Reserve for deferred capital gains	(345)	**(341)**	**(3,134)**
Unrealized gain on available-for-sale securities	(571)	**(440)**	**(4,043)**
Others	(141)	**(137)**	**(1,266)**
Total	(1,554)	**(1,449)**	**(13,322)**
Net deferred tax assets (liabilities)	173	**12**	**113**

8. Research and Development Costs

Research and development costs are charged to income for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Research and development costs..	¥851	**¥944**	**$8,681**

9. Other Income / (Expenses) — Other, net

Other income / (expenses) — Other, net consists of the following items:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Foreign exchange gains..	¥ 24	**¥ —**	**$ —**
Foreign exchange Loss..	—	**(36)**	**(336)**
Other...	(121)	**(179)**	**(1,646)**
Other income (expenses) - net...	(96)	**(215)**	**(1,983)**

10. Impairment loss

The Company and its consolidated subsidiaries recorded impairment loss on the following asset groups.

2019 (From April 1, 2018 to March 31, 2019):

		Millions of yen	Thousands of U.S. dollars
		2019	**2019**
Location	Category of assets		
Okayama, Japan	Buildings and structures, Machinery, equipment and vehicles, Land, etc	**¥1,141**	**$10,280**
Ibaraki, Japan	Buildings and structures, Machinery, equipment and vehicles, etc	**448**	**4,036**
Mexico	Ditto	**314**	**2,832**
Indonesia	Ditto	**46**	**421**
		¥1,950	**$17,571**

The Group's assets are mainly grouped by factory (multiple factories are classified into one group when business complementarity is recognized) based on managerial accounting classification. In addition, consolidated subsidiaries' assets are primarily grouped by company.

For assets used for business operations where there was a significant decline in profitability, the book value was written down to the recoverable amounts. As result, an impairment loss ¥1,950 million was recorded as an extraordinary loss. The recoverable amounts of these assets were measured at their net realizable value. The net realizable value was based on the estimated sales value.

The Company recorded impairment loss on the following asset groups.

2020 (From April 1, 2019 to March 31, 2020):

		Millions of yen	Thousands of U.S. dollars
		2020	**2020**
Location	Category of assets		
Ibaraki, Japan	Buildings and structures, Machinery, equipment and vehicles, Construction in progress etc	**¥172**	**$1,580**
Kobe, Japna	Construction in progress	**16**	**153**
		¥188	**$1,734**

The Group's assets are mainly grouped by factory (multiple factories are classified into one group when business complementarity is recognized) based on managerial accounting classification.

For assets used for business operations where there was a significant decline in profitability, the book value was written down to the recoverable amounts. As result, an impairment loss ¥188 million was recorded as an extraordinary loss. The recoverable amounts of these assets were measured at their net realizable value. The net realizable value was based on the estimated sales value.

11. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Other consolidated comprehensive income for the year ended March 31, 2019 and 2020			
Unrealized gain on available-for sale securities			
Amount arising during the year	¥ (1,010)	**¥ (1,015)**	**$ (9,330)**
Reclassification adjustments for gains and losses recognized in the income statement	343	**193**	**1,780**
Amount before tax effect adjustment	(667)	**(821)**	**(7,550)**
Tax effect	317	**131**	**1,208**
Total	(349)	**(690)**	**(6,341)**
Foreign currency translation adjustments			
Amount arising during the year	(1,041)	**(435)**	**(4,002)**
Reclassification adjustments for gains and losses recognized in the income statement	—	**—**	**—**
Amount before tax effect adjustment	(1,041)	**(435)**	**(4,002)**
Tax effect	—	**—**	**—**
Total	(1,041)	**(435)**	**(4,002)**
Remeasurements of defined benefit plans			
Amount arising during the year	(44)	**(46)**	**(424)**
Reclassification adjustments for gains and losses recognized in the income statement	87	**15**	**139**
Amount before tax effect adjustment	43	**(31)**	**(284)**
Tax effect	(13)	**9**	**87**
Total	29	**(21)**	**(197)**
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(274)	**(166)**	**(1,532)**
Reclassification adjustments for gains and losses recognized in the income statement	—	**—**	**—**
Total	(274)	**(166)**	**(1,532)**
Total	(1,634)	**(1,314)**	**(12,074)**

12. Retirement and severance benefits

The Company has adopted a corporate pension plan and a lump-sum pension plan, both of which are defined benefit plans. The Company also adopted a retirement benefit trust.

Domestic consolidated subsidiaries have adopted lump-sum pension plans, and calculated projected benefit obligations by the simplified method.

Defined benefit plans

Movements in retirement benefit obligations except plan applied simplified method for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Balance at April 1	¥2,516	**¥2,634**	**$24,207**
Service cost	160	**171**	**1,571**
Interest cost	22	**23**	**220**
Actuarial loss (gain)	8	**(89)**	**(824)**
Benefits paid	(74)	**(137)**	**(1,264)**
Balance at March 31	2,634	**2,602**	**23,909**

Movements in plan assets except plan applied simplified method for the years ended March 31, 2019 and 2020 were as follows

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Balance at April 1………………………………………………………..	¥1,674	**¥1,770**	**$16,273**
Expected return on plan assets……………………………………………	28	**30**	**282**
Actuarial loss(gain)……………………………………………………...	(36)	**(135)**	**(1,249)**
Contributions paid by the employer………………………………………	178	**191**	**1,759**
Benefit paid………………………………………………………………	(74)	**(137)**	**(1,264)**
Balance at March 31……………………………………………………...	1,770	**1,719**	**15,800**

Movements in liability for retirement benefits based on the simplified method for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Balance at April 1..	¥ (46)	**¥ (16)**	**$ (156)**
Retirement benefit costs………………………………………………….	27	**15**	**142**
Benefit paid………………………………………………………………	(4)	**(8)**	**(76)**
Contributions paid by the employer………………………………………	—	**(28)**	**(260)**
Other…………………………………………………………………......	6	**3**	**33**
Balance at March 31……………………………………………………...	(16)	**(34)**	**(317)**
Liability for retirement benefits………………………………………….	59	**56**	**522**
Asset for retirement benefits……………………………………………...	(76)	**(91)**	**(840)**
Total net liability (asset) for retirement benefits at March 31…………...	(16)	**(34)**	**(317)**

Reconciliation from retirement benefit obligations and plan assets to liability (asset) for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Funded retirement benefit obligations……………………………………	¥2,808	**¥2,778**	**$25,530**
Plan assets………………………………………………………………..	(2,021)	**(1,987)**	**(18,261)**
	787	**791**	**7,268**
Unfunded retirement benefit obligations…………………………………	59	**56**	**522**
Total net liability (asset) for retirement benefits at March 31…………...	846	**847**	**7,790**
Liability for retirement benefits………………………………………….	922	**939**	**8,631**
Asset for retirement benefits……………………………………………...	(76)	**(91)**	**(840)**
Total net liability (asset) for retirement benefits at March 31…………...	846	**847**	**7,790**

Retirement benefit costs for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Service cost……………………………………………………………….	¥160	**¥171**	**$1,571**
Interest cost……………………………………………………………….	22	**23**	**220**
Expected return on plan assets……………………………………………	(28)	**(30)**	**(282)**
Net actuarial loss amortization…………………………………………...	87	**15**	**139**
Retirement benefit costs calculated by the simplified method…………...	27	**15**	**142**
Total retirement benefit costs for year ended March 31…………………	269	**194**	**1,791**

Breakdown of items recognized in other comprehensive income for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Actuarial differences……………………………………………………...	¥ (43)	**¥ 31**	**$ 284**
Total………………………………………………………………………	(43)	**31**	**284**

Breakdown of items recognized in accumulated other comprehensive income for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Unrecognized actuarial differences...	¥52	**¥83**	**$770**
Total………………………………………………………………………	52	**83**	**770**

Plan assets comprise for the years ended March 31, 2019 and 2020 were as follows:

	As of March 31	
	2019	**2020**
Plan assets comprise:		
Domestic Bonds……………………………………………………………………...	12.0%	**13.5%**
Domestic Stocks…………………………………………………………………..	15.9	**12.1**
Foreign Bonds……………………………………………………………………..	4.3	**5.9**
Foreign Stocks…………………………………………………………………….	11.3	**9.2**
Insurance assets (General account)………………………………………………..	50.0	**52.5**
Other…………………………………………………………………………….	6.5	**6.8**
Total…………………………………………………………………………….	100.0	**100.0**

Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

Actuarial assumptions for the years ended March 31, 2019 and 2020 were as follows:

	As of March 31	
	2019	**2020**
Discount rate……………………………………………………………………………..	1.0%	**1.0%**
Expected rate of return on plan assets……………………………………………………...	1.9	**1.9**
Future salary increase rate……………………………………………………………….	2.6	**2.5**

Defined contribution plans

The estimated amount of contributions to defined contribution plans at March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
The estimated amount of contributions to defined contribution plans…...	¥67	**¥93**	**$858**
Total...	67	**93**	**858**

13. Segment information

notes:

Summary of report segment

The reportable segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Companies divides the business into 2 segments: Specialty Steel & Wire Products Division-related business segment manufactures prestressing steel bars, deform prestressing steel bars, shear reinforcement bars for civil engineering and construction works, and Induction Heated, Quenched and Tempered Wire (ITW), auto parts and construction machine parts, etc. mainly for automobile and motorcycle suspension springs. The Induction Heat Treatment Service and Heating Machine Division-related business segment provides induction heat treatment services for major security parts of automobiles and machine tools. The segment also manufactures induction heating equipment for various industries.

Calculating methods of amounts of sales, profit (loss), assets and liabilities etc of each reportable segment

The accounting policies of the segments are substantially the same as those described in the "Summary of Significant Accounting Policies (Note 1)". Segment profit (loss) are based on operating profit. Intersegment sales are mainly based on market price.

Matters regarding Changes in Reportable Segments

From the consolidated fiscal year under review, the Company changed its hollow rack bar and construction machine slewing ring businesses in "Induction Heat Treatment Service and Heating Machine Division-related business" to "Specialty Steel & Wire Products Division-related business" in line with the organizational change aimed at increasing business efficiency for the NETUREN brand, using integrated processing, and further improving customer satisfaction. Moreover, segment information for the year ended March 31, 2019, has been restated based on the new classification after these changes.

Operations in different industries:

(1) Specialty Steel and Wire Products Division: Prestressing Steel Bars & Wires, Spiral Wires, Auto parts and Construction machine parts, etc.
(2) Induction Heat Treatment Service and Heating Machine Division: Surface heat treatment, Induction heating machine, etc.
(3) Others: Leasing and others

	Millions of yen				
	2019				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	¥28,462	¥24,422	¥52,884	¥130	¥53,015
Inter-segment	0	240	240	—	240
Total	28,462	24,662	53,125	130	53,255
Segment profit	1,559	1,984	3,543	57	3,601
Segment assets	30,089	31,323	61,413	1,817	63,231
Other items					
Depreciation and amortization	1,268	1,967	3,236	14	3,251
Increase in property, plant and equipment and intangible assets	1,518	3,110	4,629	248	4,877

	Millions of yen				
	2020				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	**¥26,521**	**¥22,153**	**¥48,674**	**¥132**	**¥48,806**
Inter-segment	**—**	**58**	**58**	**—**	**58**
Total	**26,521**	**22,211**	**48,732**	**132**	**48,864**
Segment profit	**536**	**1,482**	**2,019**	**59**	**2,078**
Segment assets	**28,457**	**28,740**	**57,197**	**1,868**	**59,066**
Other items					
Depreciation and amortization	**1,185**	**1,998**	**3,184**	**13**	**3,197**
Increase in property, plant and equipment and intangible assets	**2,059**	**2,013**	**4,073**	**98**	**4,171**

	Thousands of U.S. dollars				
	2020				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	**$243,697**	**$203,556**	**$447,254**	**$1,213**	**$448,467**
Inter-segment	**—**	**535**	**535**	**—**	**535**
Total	**243,697**	**204,091**	**447,789**	**1,213**	**449,003**
Segment profit	**4,929**	**13,625**	**18,554**	**543**	**19,098**
Segment assets	**261,483**	**264,086**	**525,569**	**17,173**	**542,742**
Other items					
Depreciation and amortization	**10,895**	**18,362**	**29,257**	**127**	**29,385**
Increase in property, plant and equipment and intangible assets	**18,919**	**18,505**	**37,425**	**900**	**38,326**

Reconciliation between reportable segment total and amounts disclosed in consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Sales:			
Reportable segment total	¥53,125	**¥48,732**	**$447,789**
Sales in "Others"	130	**132**	**1,213**
Elimination of inter-segment transaction	(240)	**(58)**	**(535)**
Sales in consolidated financial statements	53,015	**48,806**	**448,467**

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Profit:			
Reportable segment total	¥3,543	**¥2,019**	**$18,554**
Profit in "Others"	57	**59**	**543**
Elimination of inter-segment transaction	(32)	**8**	**80**
Operating profit in consolidated financial statements	3,569	**2,087**	**19,178**

	Millions of yen		Thousands of U.S. dollars
	2019	**2020**	**2020**
Assets:			
Reportable segment total	¥61,413	**¥57,197**	**$525,569**
Assets in "Others"	1,817	**1,868**	**17,173**
Corporate assets	17,466	**17,249**	**158,503**
Elimination of inter-segment transaction	(46)	**(38)**	**(355)**
Assets in consolidated financial statements	80,650	**76,277**	**700,890**

Other items are as follows:

	Millions of yen			
	2019			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization.......................................	¥3,236	¥14	¥16	¥3,267
Increase in property, plant and equipment and intangible assets………………………………..	4,629	248	(4)	4,872

	Millions of yen			
	2020			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization.......................................	**¥3,184**	**¥13**	**¥(8)**	**¥3,189**
Increase in property, plant and equipment and intangible assets………………………………..	**4,073**	**98**	**6**	**4,177**

	Thousands of U.S. dollars			
	2020			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization.......................................	**$29,257**	**$127**	**$(80)**	**$29,304**
Increase in property, plant and equipment and intangible assets………………………………..	**37,425**	**900**	**60**	**38,386**

Related information

Information about products and services

	Millions of yen						
	2019						
	Prestressing steel bars	ITW	Heat treatment	Auto parts and construction machine parts	Induction heating equipment	Others	Total
Sales:							
Customers............	¥8,958	¥11,495	¥16,468	¥6,910	¥8,216	¥967	¥53,015

	Millions of yen						
	2020						
	Prestressing steel bars	ITW	Heat treatment	Auto parts and construction machine parts	Induction heating equipment	Others	Total
Sales:							
Customers............	**¥8,922**	**¥10,855**	**¥14,801**	**¥5,946**	**¥7,219**	**¥1,060**	**¥48,806**

	Thousands of U.S. dollars						
	2020						
	Prestressing steel bars	ITW	Heat treatment	Auto parts and construction machine parts	Induction heating equipment	Others	Total
Sales:							
Customers...........	**$81,990**	**$99,746**	**$136,004**	**$54,640**	**$66,341**	**$9,744**	**$448,467**

Information about geographical areas

	Millions of yen					
	2019					
	Japan	Asia	North America	Europe	Others	Total
Net sales………..	¥38,341	¥9,596	¥3,381	¥1,677	¥18	¥53,015

	Millions of yen					
	2020					
	Japan	Asia	North America	Europe	Others	Total
Net sales………..	**¥35,399**	**¥8,447**	**¥3,791**	**¥1,117**	**¥52**	**¥48,806**

	Thousands of U.S. dollars					
	2020					
	Japan	Asia	North America	Europe	Others	Total
Net sales………..	**$325,269**	**$77,617**	**$34,835**	**$10,267**	**$477**	**$448,467**

Note: Net sales is based on a customer’s location and classified by countries.

	Millions of yen					
	2019					
Property, plant	Japan	Asia	North America	Europe	Others	Total
and equipment…	¥23,414	¥3,600	¥1,242	¥1,605	¥338	¥30,201

	Millions of yen					
	2020					
Property, plant	Japan	Asia	North America	Europe	Others	Total
and equipment…	**¥23,591**	**¥3,719**	**¥1,126**	**¥2,028**	**¥350**	**¥30,815**

	Thousands of U.S. dollars					
	2020					
Property, plant	Japan	Asia	North America	Europe	Others	Total
and equipment…	**$216,770**	**$34,179**	**$10,350**	**$18,639**	**$3,216**	**$283,156**

14. Subsequent events

(1) Cash dividends

The following appropriations of unappropriated retained earnings were approved at the meeting of shareholders of the Company held on June 25, 2020.

Cash dividends	Millions of yen	Thousands of U.S. dollars
¥9 per share (applicable to the six-month period ended March 31, 2020)……………	¥367	$3,374

15. Significant events after reporting period

Introduction of performance-linked compensation system

At a meeting of the Board of Directors held on May 20, 2020, the Company reviewed its executive compensation system and adopted a resolution to introduce a performance-linked cash compensation and stock compensation system (hereinafter referred to as the "System"). The proposal for the System was submitted and passed at the 109th Ordinary General Meeting of Shareholders held on June 25, 2020.

(1) Purpose of introducing the System

The System is introduced to provide the Company's Directors, excluding Outside Directors, with performance-linked cash compensation (short-term bonus), and to allocate shares with a transfer restriction and performance-linked shares to them, in order to offer incentives to continuously improve the corporate value of the Company.

(2) Outline of the System

Compensation for Directors, excluding Outside Directors, consists of (i) fixed compensation, (ii) performance-linked cash compensation as short-term incentive compensation (short-term bonus), and (iii) share-based compensation with a transfer restriction (RS: Restricted Stock) and performance-linked share-based compensation (PSU: Performance Share Unit) as medium-term incentives.

(i) Fixed compensation

According to the role and position of Directors, the amount of the base payment is determined, and annual fixed compensation at 80% of the base payment is divided proportionally over 12 months and paid as monthly fixed compensation.

(ii) Short-term incentives: Performance-linked cash compensation (short-term bonus)

26.25% of the base payment if the achievement rate of the previous year's result is 120% or more (full amount). The rate of payment (X1) is determined in the range of 0.0 - 1.0 depending on the degree at which net sales, operating profit, ordinary profit and profit attributable to owners of parent on a consolidated basis have been achieved.

Individual performance evaluations are based on qualifications and management skills among others, to add a difference in the range of ±10% to short-term incentives.

(iii) Medium-term incentives: Share-based compensation with a transfer restriction (RS), performance-linked share-based compensation (PSU)

For share-based compensation (RS), the Company shares with a transfer restriction will be distributed in advance. The number of distributed shares is calculated at 9.375% (12.1875% for the first two years when the system is introduced or when the Director is appointed) of the base payment based on the stock price on the business day preceding the Board of Directors' meeting for determining the amount of compensation.

The expiration date of the transfer restriction period is the date of resignation from the Company.

A performance-linked share-based compensation (PSU) will be granted ex-post for three fiscal years, according to the achievement of medium-term performance results during such period.

9.375% of the base payment if the achievement rate of the results for three fiscal years is 120% or more (full amount). The rate of payment (X2) is determined in the range of 0.0 - 1.0 depending on the degree at which net sales, operating profit, ordinary profit, profit attributable to owners of parent and ROE on a consolidated basis have been achieved.

Independent Auditors' Report

To the Board of Directors of Neturen Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Neturen Co., Ltd., which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income and comprehensive income, changes in net assets, and cash flows for the year then ended, and basis of presenting consolidated financial statements, other notes and consolidated supplemental schedules.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Neturen Co., Ltd. and its consolidated subsidiaries as of March 31, 2020, and their consolidated financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Audit Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of a going concern, and in accordance with accounting principles generally accepted in Japan, for disclosing, as necessary, matters related to going concern.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of duties within the maintenance and operation of the financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of these consolidated financial statements. In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- When auditing the consolidated financial statements, obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances in making risk assessments, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.

- Conclude on the appropriateness of management's use of the going concern basis for preparing the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the consolidated financial statements and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure, and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit process, and other matters required by auditing standards.

We also provide the Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Designated Engagement Partner,
Certified Public Accountant:

Hideo Kayashima

Hideo, Kayashima

Designated Engagement Partner,
Certified Public Accountant:

Hiroyuki Yoshimatsu

Hiroyuki, Yoshimatsu

Inoue Audit Corporation

INOUE AUDIT CORPORATION
Tokyo, Japan

2 September, 2020

CORPORATE DATA

Head Office:
Oval Court Ohsaki Mark West 2-17-1, Higashi-gotanda, Shinagawa-ku, Tokyo, Japan
Tel:+81-3-3443-5441
Fax:+81-3-3449-3969
http://www.k-neturen.co.jp/

Date of Establishment:
May 15, 1946

Paid-in Capital:
¥6,418 million

Common Stock:
Authorized: 150,000,000 shares
Issued: 43,790,500 shares
Number of shareholders: 21,588

Number of Employees:
1,640(Consolidated)

(As of March 31, 2020)

Directors and Corporate Auditors:

President (Representative Director)
Shigeru Mizoguchi

Managing Director
Katsumi Omiya
Nobumoto Ishiki

Director
Tomokatsu Yasukawa
Takashi Suzuki
Yoshitaka Misaka
Nobuhiro Murai
Naoki Hisada

Outside Director
Yasuko Teraura
Mineo Hanai

Standing Audit & Supervisory Board Member
Yoshihiro Ikegami

Outside Audit & Supervisory Board Member
Takeshi Nakano
Minoru Enjitsu

(As of June 25, 2020)