



Consolidated Financial Report [IFRS]

For the Year Ended March 31, 2019

April 25, 2019

Listed Company: Hitachi Metals, Ltd. (URL <https://www.hitachi-metals.co.jp/e/index.html>)

Listed Stock Exchanges: Tokyo Stock Exchange, Inc. (First Section, Code Number 5486)

Representative: Koji Sato, President and Chief Executive Officer

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Date of the Ordinary General Meeting of Shareholders: June 25, 2019

Note: Figures are rounded off to the nearest million yen.

1. Performance over the year under review (Apr. 1, 2018 - Mar. 31, 2019)

(1) Operating Results

(% indicates the rate of +/- compared with the previous fiscal year)

| | Revenues | | Adjusted Operating Income | | Operating Income | | Income before Income Taxes | | Net Income | | Net Income attributable to Shareholders of the Parent Company | |
|-------------|-------------|-----|---------------------------|--------|------------------|--------|----------------------------|--------|-------------|--------|---|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| March, 2019 | 1,023,421 | 3.6 | 51,427 | (21.0) | 42,442 | (8.4) | 43,039 | (8.4) | 31,243 | (25.7) | 31,370 | (25.7) |
| March, 2018 | 988,303 | 8.5 | 65,130 | (1.3) | 46,326 | (32.1) | 46,985 | (28.8) | 42,075 | (17.0) | 42,210 | (16.6) |

(Note) In order to give a true view of the condition of the whole Group's business without the effects of business restructuring etc., the Hitachi Metals Group (the "Group") shows "adjusted operating income" which is the operating income recorded in the consolidated statement of income, excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profit indicator for the Hitachi Group, including Hitachi, Ltd.

| | Comprehensive Income | | Earnings per Shar (Basic) | Earnings per Share (Diluted) | Net Income Ratio to Equity attributable to Shareholders of the Parent Company | Income before Income Taxes Ratio to Assets | Operating Income Ratio to Revenues |
|-------------|----------------------|--------|---------------------------|------------------------------|---|--|------------------------------------|
| | Million yen | % | Yen | Yen | % | % | % |
| March, 2019 | 36,422 | (8.1) | 73.37 | — | 5.5 | 4.0 | 4.1 |
| March, 2018 | 39,653 | (23.7) | 98.72 | — | 7.7 | 4.5 | 4.7 |

Reference: Share of profit of investments accounted for using the equity method March, 2019 ¥2,063millions March, 2018 ¥2,706millions

(2) Financial Standing

| | Total Asset | Total Equity | Equity attributable to Shareholders of the Parent Company | Equity attributable to Shareholders of the Parent Company Ratio | Equity per Share attributable to Shareholders of the Parent Company |
|-------------|-------------|--------------|---|---|---|
| | Million yen | Million yen | Million yen | % | Yen |
| March, 2019 | 1,099,252 | 595,211 | 587,979 | 53.5 | 1,375.16 |
| March, 2018 | 1,058,832 | 570,192 | 562,720 | 53.1 | 1,316.08 |

(3) Statement of Cash Flows

| | Cash Flows from Operating Activities | Cash Flows from Investment Activities | Cash Flows from Financing Activities | Cash and Cash Equivalents at the End of Period |
|-------------|--------------------------------------|---------------------------------------|--------------------------------------|--|
| | Million yen | Million yen | Million yen | Million yen |
| March, 2019 | 66,582 | (96,247) | 14,838 | 41,098 |
| March, 2018 | 39,133 | (75,080) | (47,562) | 54,912 |

2. Dividends

| | Dividends per Share | | | | | Total Dividends (Annual) | Dividend Payout Ratio (Consolidated) | Dividends on Equity attributable to Shareholders of the Parent Company (Consolidated) |
|------------------------|---------------------|-------|-----|----------|--------|--------------------------|--------------------------------------|---|
| | 1Q | 2Q | 3Q | Term-end | Annual | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| March, 2018 | — | 13.00 | — | 13.00 | 26.00 | 11,116 | 26.3 | 2.0 |
| March, 2019 | — | 17.00 | — | 17.00 | 34.00 | 14,538 | 46.3 | 2.5 |
| March, 2020 (Forecast) | — | 17.00 | — | 17.00 | 34.00 | | 51.0 | |

3. Business results forecast for the year ending March 31, 2020 (Apr.1, 2019 - Mar.31, 2020)

(% indicates the rate of +/- compared with the same term of the previous fiscal year)

| | Revenues | | Adjusted Operating Income | | Income before Income Taxes | | Net Income attributable to Shareholders of the Parent Company | | Earnings per Share (Basic) |
|-----------|-------------|-------|---------------------------|-----|-------------------------------|--------|---|-------|-------------------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full-year | 1,000,000 | (2.3) | 54,000 | 5.0 | 38,000 | (11.7) | 28,500 | (9.1) | 66.66 |

(Note) In order to give a true view of the condition of the whole Group's business without the effects of business restructuring etc., the Hitachi Metals Group (the "Group") shows "adjusted operating income" which is the operating income recorded in the consolidated statement of income, excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profitindicator for the Hitachi Group, including Hitachi, Ltd.

※ Other Notes

Numbers of shares issued (Common stock)

(i) Number of shares outstanding at end of period

(Including treasury stock)

(ii) Number of treasury stock outstanding at end of period

(iii) Average number of shares issued during the term

| | | | |
|-------------|-------------|-------------|-------------|
| March, 2019 | 428,904,352 | March, 2018 | 428,904,352 |
| March, 2019 | 1,334,441 | March, 2018 | 1,332,135 |
| March, 2019 | 427,570,903 | March, 2018 | 427,573,950 |

*This financial report is outside the scope of audit procedures.

*The forecast figures, with the exception of actual results, are based on certain assumptions and predictions of the management at the time of preparation. Changes in business conditions or underlying assumptions may cause actual results to differ from those projected. Please refer to "1. (1) Overview of Operating Results" on page 4 for precondition and assumption as the basis of the above forecasts.

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1. Overview of Operating Results

(1) Overview of Operating Results

1) Overview of Fiscal 2018 (fiscal year ended March 31, 2019)

The global economy during the year ended March 31, 2019, remained on a modest rebound track primarily in developed countries. Steady economic recovery continued in the United States, underpinned by a continued improvement in the employment situation and an increase in individual consumption and capital expenditures. Emerging economies in Asia were also generally on a modest recovery path. Meanwhile, the Chinese economy gradually slowed down as a result of the trade conflict with the United States and a slowdown in domestic demand, which contributed to keeping production and export levels unchanged in Europe. Amid such circumstances, the Japanese economy was faced with a fall in business confidence due to the impact of the natural disasters that hit the country during the second quarter ended September 30, 2018 (July through September, 2018) and a decrease in the industrial production and export volume indexes starting from the end of 2018, led by the economic slowdown in China and Europe.

Among the industries in which the Group operates, the automobile industry in Japan saw solid sales of new vehicles, mainly light vehicles. In the United States, the industry enjoyed firm sales mainly of commercial vehicles and trucks, against the backdrop of continued economic recovery, whereas in China, there was a significant drop in sales, mainly of passenger vehicles, and in Europe, there continued to be a declining trend in sales that has been seen since the autumn. Demand for steel remained firm, especially in the manufacturing sector. Housing starts remained unchanged both in Japan and the United States. In the electronics field, smartphone shipments decreased.

Under the business circumstances described above, for the year ended March 31, 2019, the revenues of the Group increased by 3.6% to ¥1,023,421 million, compared with those of the year ended March 31, 2018. This result was affected mainly by a rise in raw materials prices (sliding-scale raw material price system). Adjusted operating income* decreased by ¥13,703 million to ¥51,427 million, for the year ended March 31, 2019 compared to the year ended March 31, 2018. This was mainly due to a slowdown in the electronics-related and semiconductor-related markets, a decline in demand for various manufacturing equipment and industrial machinery, and a decrease in sales of new vehicles in China and Europe, despite the successful cost reduction measures. The Group has positioned heat-resistant exhaust casting components and aluminum wheels as “businesses with issues” and is making efforts in structural reforms. The Group has been working on structural reforms including productivity improvement, correction of selling prices, and adjustment of production volumes with the aim of improving profitability of heat-resistant exhaust casting components. As a result, profitability improved to a certain extent, but it is expected that the profit forecast made at the beginning of the fiscal year cannot be achieved, mainly because of a sharp decline in demand especially in the Chinese and European markets during the third quarter ended December 31, 2018 (October through December, 2018). Therefore, the Group recorded an impairment loss of ¥6,975 million in the third quarter ended December 31, 2018, following careful examination and estimation of future profitability. The Group also announced that it will withdraw from the aluminum wheels business by the end of September, 2020 (see “Announcement of Withdrawal from the Aluminum Wheels Business (Transfer of Shares of Subsidiary’s Stock)” dated December 17, 2018), and recorded restructuring expenses of ¥3,303 million in the year ended March 31, 2019, as losses associated with the transfer of shares of AAP St. Marys Corp., a consolidated subsidiary manufacturing aluminum wheels. Meanwhile, the Group recorded ¥5,757 million in gain on bargain purchase, etc. under other income, which was generated from making Santoku Corporation (“Santoku”) a consolidated subsidiary of the Company as of April 2, 2018. As a result, operating income for the year ended March 31, 2019 decreased by ¥3,884 million to ¥42,442 million, compared with the year ended March 31, 2018. Income before income taxes decreased by ¥3,946 million to ¥43,039 million and net income attributable to shareholders of the parent company decreased by ¥10,840 million to ¥31,370 million, as compared with the previous fiscal year.

Results by business segment are as follows. Note that revenues for each segment include intersegment revenues. There were no changes to the businesses of the Group during the fiscal year ended March 31, 2019.

The Company changed the business segment of SH Copper Products Co., Ltd., a consolidated subsidiary of the Company, and one other subsidiary, from the Wires, Cables, and Related Products segment to the Specialty Steel Products segment as of July 1, 2017, aiming to strengthen battery-related components in the Specialty Steel Products segment. Due to this change, the results of SH Copper Products, etc. for the previous fiscal year ended March 31, 2018 have been recorded under the Specialty Steel Products segment.

Specialty Steel Products

Revenues across the entire Specialty Steel Products segment for the fiscal year ended March 31, 2019, were ¥304,562 million, an increase of 4.8% compared with those of the fiscal year ended March 31, 2018. This was mainly driven by a rise in raw material prices (sliding-scale raw material price system), despite a decline in demand that had been seen since the third quarter ended December 31, 2018.

<Specialty Steel>

Sales of molds and tool steel increased year on year mainly due to a rise in raw material prices (sliding-scale raw material price system), despite inventory adjustments in Japan from the third quarter ended December 31, 2018, onwards as well as a decrease in demand in international markets especially in China. Sales of industrial equipment materials exceeded those of the fiscal year ended March 31, 2018, on the back of an increase in sales of environment-conscious products related to automobiles. Overall sales of alloys for electronic products remained at the same level as the fiscal year ended March 31, 2018, due to a slowdown in demand for organic EL panel-related and semiconductor package components from the third quarter ended December 31, 2018, onward, despite firm sales of battery-related components throughout the period. Sales of aircraft-related and energy-related materials increased year on year overall, due to an increase in sales of aircraft-related materials despite weak results of energy-related materials.

<Rolls>

Both domestic sales and exports of rolls were strong. Sales of injection molding machine parts increased over the entire fiscal year ended March 31, 2019, as demand remained at a high level until the end of the third quarter ended December 31, 2018, despite a slowdown in the fourth quarter ended March 31, 2019 (January to March, 2019). As a result, overall sales of rolls increased year on year.

<Soft Magnetic Materials and Applied Products>

Overall sales of soft magnetic materials and applied products increased year on year, due to sales of amorphous metals being unchanged from the fiscal year ended March 31, 2018 and robust sales of applied products for automobiles on the back of increased demand.

Adjusted operating income decreased by ¥4,702 million to ¥23,163 million compared with the fiscal year ended March 31, 2018, due to a sharp decline in demand for the Company's mainstay specialty steel products from the third quarter ended December 31, 2018, onward, and production adjustments in response to this decline as well as increased aggressive investment costs, despite the positive effect of price correction. Operating income of the segment decreased by ¥3,615 million to ¥22,512 million for the same period.

Magnetic Materials and Applications

Revenues in the Magnetic Materials and Applications segment for the fiscal year ended March 31, 2019 were ¥109,351 million, an increase of 3.0% year on year.

Sales of rare earth magnets exceeded those of the fiscal year ended March 31, 2018, as a result of making Santoku a consolidated subsidiary of the Company. However, on the actual demand front, sales for industrial equipment-related applications fell significantly below those of the previous fiscal year, due to a slowdown in the electronics-related and semiconductor-related markets and a decline in demand for various manufacturing equipment and industrial machinery. Sales for automotive electronic components applications also decreased year on year, mainly reflecting a decline in new vehicle sales in China and Europe.

Sales of ferrite magnets for household appliance parts decreased. However, sales of ferrite magnets as a whole remained unchanged year on year, as sales for automotive electronic components applications for the fiscal year 2018 as a whole increased year on year, despite a decrease in the fourth quarter.

Adjusted operating income decreased by ¥6,313 million year on year to ¥3,280 million, due to an increase in costs associated with aggressive investment and changes in raw material prices as well as a slump in rare earth magnet demand mainly for industrial equipment-related applications. Operating income increased by ¥1,480 million year on year to ¥8,766 million as a result of recording ¥5,757 million in gain on bargain purchase, etc. under other income, which was generated from making Santoku a consolidated subsidiary of the Company as of April 2, 2018.

Functional Components and Equipment

Revenues in the Functional Components and Equipment segment for the fiscal year ended March 31, 2019 were ¥367,563 million, an increase of 2.1% year on year, due in part to a rise in raw material prices (sliding-scale raw material price system) as well as an increase in sales of casting components for automobiles.

<Casting Components for Automobiles>

Overall sales of casting components for automobiles increased year on year. This was due to an increase in demand for casting components for commercial vehicles, farming machinery, and construction machinery in North America, and an increase in demand for automobiles in Asia.

<Piping Components>

Overall sales of pipe fittings in the fiscal year ended March 31, 2019 fell below those of the fiscal year ended March 31, 2018. This was because, while in the United States, sales remained unchanged from the previous fiscal year, Japan experienced a decline in demand due to the price revision made at the end of the fiscal year ended March 31, 2018. Sales of semiconductor manufacturing equipment decreased year on year due to the delay of some capital investment projects. As a result, overall sales of piping components decreased year on year.

Adjusted operating income decreased by ¥1,310 million year on year to ¥10,489 million, due to lower productivity driven by the personnel shortage at Waupaca Foundry Holdings, Inc. in the United States and a decrease in sales of semiconductor manufacturing equipment. A total of ¥10,278 million was recorded as other expenses, due to the implementation of the structural reforms described on page 2 in the heat-resistant exhaust casting components and aluminum wheels businesses positioned as “businesses with issues.” As a result, operating income decreased by ¥3,070 million year on year to be an operating loss of ¥2,463 million.

Wires, Cables, and Related Products

Revenues in the Wires, Cables, and Related Products segment for the fiscal year ended March 31, 2019, were ¥240,123 million, an increase of 4.2%. The increase was driven by the expansion of the focused fields, among other factors.

<Electric Wires and Cables>

Sales of wires and cables for rolling stock grew mainly in China, and sales of wires and cables for construction increased. Sales of magnet wires were also solid mainly for automobile applications. As a result, overall sales of electric wires and cables increased year on year.

<High Performance Components>

Sales of automobile electronic components increased year on year, due to an increase in demand for various sensors, harnesses for electric parking brakes and hybrid automobiles, despite a decline in demand for brake hoses. Sales of high performance components for medical use also increased year on year, supported by solid demand for both probe cables and tubes. As a result, sales of high performance components as a whole increased year on year.

Adjusted operating income decreased by ¥2,399 million to ¥12,548 million, as compared with the fiscal year ended March 31, 2018, led in part by increased fixed costs associated with capital expenditure. Operating income of the segment increased by ¥415 million to ¥11,598 million for the same period, mainly due to a decrease in other expenses.

Other

Revenues in the other segment for the fiscal year ended March 31, 2019, were ¥4,429 million, an increase of 29.6%, and adjusted operating income increased by ¥662 million to ¥786 million, as compared with the fiscal year ended March 31, 2018. Operating income of the segment increased by ¥834 million to ¥945 million for the same period.

2) Outlook for Fiscal 2019 (the fiscal year ending March 31, 2020)

As for the Group's business environment, while the Group expects the world economy to remain on a gradual recovery path, the future remains difficult to predict as there are a number of uncertainties stemming from political instability in many countries including issues surrounding the United Kingdom's exit from the EU, a prolonged and escalating trade dispute between the United States and China, concerns about further economic slowdown in emerging countries, a consumption tax hike scheduled for October this year in Japan, and sudden fluctuations in exchange rates and raw material prices.

In this business environment, the Group aims to expand its "Only 1, No. 1" businesses and products for sustainable growth based on the fiscal 2021 medium-term management plan to position itself as a high-performance materials company that supports a sustainable society. The consolidated operating forecasts for the fiscal year ending March 31, 2020, the first year of this medium-term management plan, are as follows:

Consolidated operating forecasts for the fiscal year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(% indicates the rate of +/- compared with the same term of the previous fiscal year)

| | Revenues | | Adjusted Operating income | | Income before Income Taxes | | Net Income attribute to Shareholders of the Parent Company | | Basic Earnings per Share |
|-----------------------------------|-------------|-------|---------------------------|-----|----------------------------|--------|--|-------|--------------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Fiscal year ending March 31, 2020 | 1,000,000 | (2.3) | 54,000 | 5.0 | 38,000 | (11.7) | 28,500 | (9.1) | 66.66 |

* In order to give a true view of the condition of the Company's business without the effects of business restructuring, adjusted operating income is presented as "operating income" in the table above, wherein said adjusted operating income is the operating income recorded in the consolidated statement of income, excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profit indicator for the Hitachi Group, including Hitachi, Ltd.

(2) Overview of Financial Condition

1) Assets, liabilities, and equity

The analysis of changes in the Group's condensed interim consolidated statement of financial position as of the end of the fiscal year ended March 31, 2019, is as follows:

Total assets were ¥1,099,252 million, an increase of ¥40,420 million compared with the end of the fiscal year ended March 31, 2018. Current assets were ¥480,331 million, a decrease of ¥3,701 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to an increase in inventories of ¥24,603 million and decreases in cash and cash equivalents of ¥13,814 million and trade receivables of ¥12,322 million. Non-current assets were ¥618,921 million, an increase of ¥44,121 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to an increase in property, plant and equipment of ¥46,842 million.

Total liabilities were ¥504,041 million, an increase of ¥15,401 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to increases in short-term debt of ¥21,641 million and the current portion of long-term debt and long-term debt of ¥19,613 million in total and a decrease in trade payables of ¥17,743 million. Total equity was ¥595,211 million, an increase of ¥25,019 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to an increase in retained earnings of ¥18,706 million.

2) Cash flows

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2019, were ¥41,098 million, a decrease of ¥13,814 million from March 31, 2018, as a result of net cash used in investing activities exceeding cash provided by operating activities and financing activities. The analysis of cash flows for each category as of March 31, 2019, is as follows:

<Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥66,582 million. This was mainly attributable to the net effect of net income of ¥31,243 million, depreciation and amortization of ¥50,901 million despite payment of ¥18,261 million for the increase of working capital of inventories among others.

<Cash Flows from Investing Activities>

Net cash used in investing activities was ¥96,247 million, which was mainly attributable to payment of ¥98,414 million for the purchase of property, plant and equipment.

<Cash Flows from Financing Activities>

Net cash used in financing activities was ¥14,838 million. This was mainly attributable to a net increase in short-term debt of ¥18,522 million, proceeds from long-term debt of ¥45,633 million, repayment of long-term debt of ¥34,979 million, and payment of dividends of ¥12,973 million.

In principle, the Company covers funding for growth investments with operating cash flows generated during the normal course of business and liquid funds. For other financing on a larger scale, Hitachi Metals implements reliable and flexible methods to minimize opportunity losses for its growth, including accessing financial and capital markets.

In the fiscal year ended March 31, 2019, the Group issued unsecured bonds of ¥40 billion in December, 2018 to finance capital expenditure and loan repayment, aiming to mainly strengthen the basis for further growth.

Hitachi Metals adopted a Group cash pooling system to help manage its own working capital and that of its subsidiaries. In principle, consolidated subsidiaries in Japan procure funds through this system, rather than taking on external debt. By consolidating surplus funds and debts across the Group, Hitachi Metals has better positioned itself to become more financially efficient. Group companies in the U.S. and China also use this cash pooling system, through which funds are centrally managed to enhance financial efficiency.

| | March, 2015 | March, 2016 | March, 2017 | March, 2018 | March, 2019 |
|--|-------------|-------------|-------------|-------------|-------------|
| Ratio of equity attributable to shareholders of the parent company (%) | 43.0 | 48.0 | 51.6 | 53.1 | 53.5 |
| Ratio of equity attributable to shareholders of the parent company at market value (%) | 72.8 | 48.0 | 64.2 | 50.8 | 50.0 |
| Ratio of interest-bearing debts to cash flows (%) | 234.3 | 190.4 | 217.5 | 411.0 | 303.5 |
| Interest coverage ratio (times) | 38.1 | 30.6 | 31.2 | 15.2 | 24.6 |

*Ratio of equity attributable to shareholders of the parent company: Equity attributable to shareholders of the parent company/total assets

Ratio of equity attributable to shareholders of the parent company at market value: Total market value of stocks/total assets

Ratio of interest-bearing debts to cash flows: Interest-bearing debts/cash flows from operations

Interest coverage ratio: Cash flows from operations/interest paid

1. Each indicator is calculated using financial information per consolidated financial statements.
2. Total market value of stocks is calculated by multiplying the closing stock price at the fiscal year end by total number of stocks issued (excluding treasury stocks) as of the fiscal year end.
3. Cash flows from operating activities in the consolidated statements of cash flows are used as cash flows from operations in the above calculation. Interest-bearing debts include all interest-bearing debts recorded in the consolidated statement of financial position. Interest paid represents the amount of interest expenses paid per the consolidated statements of cash flows.

(3) Business Risks

The following are some of the business risks that may affect the performance and financial condition of the Group:

- a) Risks associated with market conditions related to product demand
- b) Risks associated with changes in raw material prices
- c) Risks associated with financing activities
- d) Risks associated with changes in foreign exchange rates
- e) Risks associated with changes in the value of securities
- f) Risks associated with the global expansion of businesses
- g) Risks associated with competitiveness and development and commercialization of new technologies and products
- h) Risks associated with intellectual property rights
- i) Risks associated with environmental regulations
- j) Risks associated with product defects
- k) Risks associated with laws and regulations, and official regulations
- l) Risks associated with earthquakes and other natural disasters
- m) Risks associated with information security
- n) Risks associated with retirement benefit obligations
- o) Risks associated with relationship with the parent company
- p) Risks associated with M&A
- q) Risks associated with securing talent

The Group strives to avoid or minimize the impact of such risks by establishing and maintaining effective risk management systems. However, these risks may not be fully avoided or minimized, and may affect operating results, financial condition, and other aspects of the Group.

2. Basic Views of Selecting Accounting Standards

The Group has voluntarily adopted IFRS and prepared its consolidated financial statements under IFRS for the annual securities report beginning from the fiscal year ended March 31, 2015 (April 1, 2014 through March 31, 2015), for the purposes of further globalizing its business, better understanding of group management, stronger governance, and more efficient business operations.

3. Consolidated Financial Statements and Notes to Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

| | (Millions of yen) | |
|--|-------------------------|-------------------------|
| | As of March 31, 2018 | As of March 31, 2019 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 54,912 | 41,098 |
| Trade receivables | 207,628 | 195,306 |
| Inventories | 190,202 | 214,805 |
| Other current assets | 31,290 | 29,122 |
| Total current assets | 484,032 | 480,331 |
| Non-current assets | | |
| Investments accounted for using the equity method | 27,863 | 28,563 |
| Investments in securities and other financial assets | 21,385 | 19,978 |
| Property, plant and equipment | 355,318 | 402,160 |
| Goodwill and intangible assets | 141,896 | 143,558 |
| Deferred tax assets | 13,280 | 9,652 |
| Other non-current assets | 15,058 | 15,010 |
| Total non-current assets | 574,800 | 618,921 |
| Total assets | 1,058,832 | 1,099,252 |

(Millions of yen)

| | As of March 31, 2018 | As of March 31, 2019 |
|---|-------------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Short-term debt | 27,203 | 48,844 |
| Current portion of long-term debt | 27,368 | 34,268 |
| Other financial liabilities | 41,060 | 37,730 |
| Trade payables | 172,994 | 155,251 |
| Accrued expenses | 40,313 | 38,018 |
| Contract Liabilities | — | 534 |
| Advances received | 869 | — |
| Other current liabilities | 7,153 | 2,739 |
| Total current liabilities | 316,960 | 317,384 |
| Non-current liabilities | | |
| Long-term debt | 106,273 | 118,986 |
| Other financial liabilities | 956 | 923 |
| Retirement and severance benefits | 57,807 | 58,124 |
| Deferred tax liabilities | 3,305 | 4,964 |
| Other non-current liabilities | 3,339 | 3,660 |
| Total non-current liabilities | 171,680 | 186,657 |
| Total liabilities | 488,640 | 504,041 |
| Equity | | |
| Equity attributable to shareholders of the parent company | | |
| Common stock | 26,284 | 26,284 |
| Capital surplus | 113,518 | 115,045 |
| Retained earnings | 407,180 | 425,886 |
| Accumulated other comprehensive income | 16,896 | 21,925 |
| Treasury stock, at cost | (1,158) | (1,161) |
| Total equity attributable to shareholders of the parent company | 562,720 | 587,979 |
| Non-controlling interests | 7,472 | 7,232 |
| Total equity | 570,192 | 595,211 |
| Total liabilities and equity | 1,058,832 | 1,099,252 |

(2) Consolidated Statements of Income and Comprehensive Income

[Consolidated Statement of Income]

(Millions of yen)

| | Note | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|---|------|--------------------------------------|--------------------------------------|
| Revenues | | 988,303 | 1,023,421 |
| Cost of sales | | (803,607) | (851,029) |
| Gross profit | | 184,696 | 172,392 |
| Selling, general and administrative expenses | | (119,566) | (120,965) |
| Other income | | 5,401 | 10,667 |
| Other expenses | | (24,205) | (19,652) |
| Operating income | 1 | 46,326 | 42,442 |
| Interest income | | 449 | 514 |
| Other financial income | | 988 | 846 |
| Interest charges | | (2,334) | (2,818) |
| Other financial expenses | | (1,150) | (8) |
| Share of (losses) profits of investments accounted for using the equity method | | 2,706 | 2,063 |
| Income before income taxes | | 46,985 | 43,039 |
| Income taxes | | (4,910) | (11,796) |
| Net income | | 42,075 | 31,243 |
| Net income attributable to: | | | |
| Shareholders of the parent company | | 42,210 | 31,370 |
| Non-controlling interests | | (135) | (127) |
| Net income | | 42,075 | 31,243 |
| Earnings per share attributable to shareholders of the parent company | | | |
| Basic | | ¥98.72 | ¥73.37 |
| Diluted | | — | — |

Note: 1. Adjusted operating income, which is the operating income presented in the Consolidated Statement of Income, excluding other income and other expenses, is ¥65,130 million and ¥51,427 million for the fiscal year ended March 31, 2018 and 2019, respectively.

[Consolidated Statement of Comprehensive Income]

(Millions of yen)

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| Net income | 42,075 | 31,243 |
| Other comprehensive income | | |
| Items not to be reclassified into net income | | |
| Net change in fair value of financial assets measured at fair value through other comprehensive income | 663 | (363) |
| Remeasurements of defined benefit plans | 2,094 | 1,013 |
| Share of other comprehensive income of investments accounted for using the equity method | 474 | (1,127) |
| Total items not to be reclassified into net income | 3,231 | (477) |
| Items that can be reclassified into net income | | |
| Foreign currency translation adjustments | (6,132) | 5,800 |
| Net change in fair value of cash flow hedges | 433 | (49) |
| Share of other comprehensive income of investments accounted for using the equity method | 46 | (95) |
| Total items that can be reclassified into net income | (5,653) | 5,656 |
| Total other comprehensive income | (2,422) | 5,179 |
| Comprehensive income | 39,653 | 36,422 |
| Comprehensive income attributable to: | | |
| Shareholders of the parent company | 39,569 | 36,562 |
| Non-controlling interests | 84 | (140) |
| Comprehensive income | 39,653 | 36,422 |

(3) Consolidated Statement of Changes in Equity

(Millions of yen)

| | Common stock | Capital surplus | Retained earnings | Accumulated other comprehensive income | Treasury stock, at cost | Total equity attributable to shareholders of the parent company | Non-controlling interests | Total equity |
|--|-----------------|--------------------|----------------------|---|-------------------------------|---|------------------------------|--------------|
| Balance at April 1, 2017 | 26,284 | 115,806 | 376,069 | 19,555 | (1,151) | 536,563 | 12,183 | 548,746 |
| Changes in equity | | | | | | | | |
| Net income | — | — | 42,210 | — | — | 42,210 | (135) | 42,075 |
| Other comprehensive income | — | — | — | (2,641) | — | (2,641) | 219 | (2,422) |
| Dividends to shareholders of the parent company | — | — | (11,117) | — | — | (11,117) | — | (11,117) |
| Dividends to non-controlling interests | — | — | — | — | — | — | (177) | (177) |
| Acquisition of treasury stock | — | — | — | — | (7) | (7) | — | (7) |
| Sales of treasury stock | — | 0 | — | — | 0 | 0 | — | 0 |
| Transactions with non- controlling interests | — | (2,288) | — | — | — | (2,288) | (4,618) | (6,906) |
| Transfer to retained earnings | — | — | 18 | (18) | — | — | — | — |
| Total changes in equity | — | (2,288) | 31,111 | (2,659) | (7) | 26,157 | (4,711) | 21,446 |
| Balance at March 31, 2018 | 26,284 | 113,518 | 407,180 | 16,896 | (1,158) | 562,720 | 7,472 | 570,192 |
| Changes in equity | | | | | | | | |
| Net income | — | — | 31,370 | — | — | 31,370 | (127) | 31,243 |
| Other comprehensive income | — | — | — | 5,192 | — | 5,192 | (13) | 5,179 |
| Dividends to shareholders of the parent company | — | — | (12,827) | — | — | (12,827) | — | (12,827) |
| Dividends to non-controlling interests | — | — | — | — | — | — | (146) | (146) |
| Acquisition of treasury stock | — | — | — | — | (3) | (3) | — | (3) |
| Sales of treasury stock | — | 0 | — | — | 0 | 0 | — | 0 |
| Transactions with non- controlling interests | — | 1,527 | — | — | — | 1,527 | 46 | 1,573 |
| Transfer to retained earnings | — | — | 163 | (163) | — | — | — | — |
| Total changes in equity | — | 1,527 | 18,706 | 5,029 | (3) | 25,259 | (240) | 25,019 |
| Balance at March 31, 2019 | 26,284 | 115,045 | 425,886 | 21,925 | (1,161) | 587,979 | 7,232 | 595,211 |

(4) Consolidated Statement of Cash Flows

(Millions of yen)

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| Cash flows from operating activities: | | |
| Net income | 42,075 | 31,243 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 46,138 | 50,901 |
| Impairment losses | 10,611 | 7,394 |
| Share of losses (profits) of investments accounted for using the equity method | (2,706) | (2,063) |
| Financial income and expenses | 2,047 | 1,466 |
| Losses (profits) on sale of property, plant and equipment | 2,340 | 3,721 |
| Structural reform expenses | 799 | 3,306 |
| Net loss (gain) on business reorganization and others | (280) | (5,653) |
| Income taxes | 4,910 | 11,796 |
| (Increase) decrease in trade receivables | (33,542) | 18,294 |
| (Increase) decrease in inventories | (37,829) | (20,378) |
| (Increase) decrease in accounts receivable - other | (8,096) | 1,482 |
| Increase (decrease) in trade payables | 23,028 | (16,177) |
| Increase (decrease) in accrued expenses | 3,181 | (2,800) |
| Increase (decrease) in retirement and severance benefits | 697 | 302 |
| Other | (2,975) | (4,264) |
| Subtotal | 50,398 | 78,570 |
| Interest and dividends received | 1,672 | 818 |
| Interest paid | (2,583) | (2,712) |
| Payments for structural reforms | (628) | (66) |
| Income taxes paid | (9,726) | (10,028) |
| Net cash provided by operating activities | 39,133 | 66,582 |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (76,265) | (98,414) |
| Purchase of intangible assets | (1,262) | (1,476) |
| Proceeds from sales of property, plant and equipment | 2,073 | 650 |
| Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | (105) | 260 |
| Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | 918 | 955 |
| Payments for transfer of business | (86) | — |
| Other | (353) | 1,778 |
| Net cash used in investing activities | (75,080) | (96,247) |

(Millions of yen)

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|---|--------------------------------------|--------------------------------------|
| Cash flows from financing activities: | | |
| Increase (decrease) in short-term debt, net | 2,335 | 18,522 |
| Proceeds from long-term debt | 3,549 | 45,633 |
| Repayment of long-term debts | (35,239) | (34,979) |
| Purchase of shares of consolidated subsidiaries from non-controlling interests | (6,906) | (1,362) |
| Dividends paid to shareholders | (11,117) | (12,827) |
| Dividends paid to non-controlling interests | (177) | (146) |
| Acquisition of common stock for treasury | (7) | (3) |
| Proceeds from sales of treasury stock | 0 | 0 |
| Net cash used in financing activities | (47,562) | 14,838 |
| Effect of exchange rate changes on cash and cash equivalents | (990) | 1,013 |
| Net increase (decrease) in cash and cash equivalents | (84,499) | (13,814) |
| Cash and cash equivalents at the beginning of the year | 139,411 | 54,912 |
| Cash and cash equivalents at the end of the year | 54,912 | 41,098 |

(5) Notes to the Consolidated Financial Statements

[Changes in Accounting Policies]

1) Adoption of IFRS 9 "Financial Instruments" (amended in July, 2014)

From the beginning of the full-year ended March 31, 2019, the Group has adopted IFRS9 "Financial Instruments" (amended in July, 2014). As a transitional measure upon the adoption of IFRS9 (amended in July, 2014), the Group applies this standard with the cumulative effect of initially applying this standard recognized as an adjustment to the beginning balance of retained earnings for the full-year ended March 31, 2019. There is no material impact on the Group's financial position and operating results from the application of this standard.

2) Adoption of IFRS 15 "Revenue from Contracts with Customers"

From the beginning of the full-year ended March 31, 2019, the Group has adopted IFRS 15 "Revenue from Contracts with Customers." As a transitional measure upon the adoption of IFRS 15, the Group applies this standard retrospectively with the cumulative effect of initially applying this standard recognized as an adjustment to the beginning balance of retained earnings for the full-year ended March 31, 2019. There is no material impact on the Group's financial position and operating results from the application of this standard.

[Segment Information]

The Group's operating segments are components for which independent financial information is available and which are regularly reviewed by the Board of Directors to assist the Board in making decisions about resources to be allocated to the segments and to assess performance.

The Group has adopted a Company-based organization structure and established seven business headquarters based on the type of products and services. Each of the seven business units prepares a comprehensive strategy and engages in business activities related to their products and services for both the domestic and international markets.

Based on the above, the Specialty Steel Products segment comprises the Specialty Steel Business, Roll Business, and Soft Magnetic Materials Business. The Magnetic Materials are composed by Magnet Business. The Functional Components and Equipment segment comprises the Automotive Components Business and Piping Components Business. The Wire, Cables, and Related Products segment comprises the Electric Wires and Cables Business.

The primary products and services included in each segment are as follows:

| Reportable segment | Major products and services |
|-------------------------------------|---|
| Specialty Steel Products | <ul style="list-style-type: none"> •YASUGI SPECIALTY STEEL brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials, semiconductor and other package materials, and battery-related materials], materials for industrial equipment [automobile related materials, and razor and blade materials] aircraft- and energy-related materials, and precision cast components) •Rolls for steel mills •Injection molding machine parts •Structural ceramic products •Steel-frame joints for construction •Soft magnetic materials (Metglas® amorphous metals; FINEMET® nanocrystalline magnetic material; and soft ferrite) and applied products |
| Magnetic Materials and Applications | <ul style="list-style-type: none"> •Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) •Ceramic components |
| Functional Components and Equipment | <ul style="list-style-type: none"> •Casting components for automobiles (HNM™ high-grade ductile cast iron products, cast iron products for transportation equipment, and HERCUNITE™ heat-resistant exhaust casting components) •SCUBA™ aluminum wheels and other aluminum components •Piping and infrastructure components (Gourd™ Gourd brand pipe fittings, valves, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices, and sealed expansion tanks) |
| Wires, Cables, and Related Products | <ul style="list-style-type: none"> •Industrial cables, electronic wires, electric equipment materials, and industrial rubber products •Cable assemblies •Automotive electronic components and brake hoses |

Income by reportable segment is based on operating income. Intersegment revenues are based on prevailing market price.

Last consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Millions of Yen)

| | Business Segment | | | | | Others | Total | Adjustments | Consolidated statements of income |
|---|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-----------|--------|-----------|-------------|-----------------------------------|
| | Specialty Steel Products | Magnetic Materials and Applications | Functional Components and Equipment | Wires, Cables, and Related Products | Subtotal | | | | |
| Revenues | | | | | | | | | |
| External customers | 290,412 | 106,119 | 360,053 | 229,888 | 986,472 | 1,831 | 988,303 | — | 988,303 |
| Intersegment transactions | 187 | 12 | — | 644 | 843 | 1,586 | 2,429 | (2,429) | — |
| Total revenues | 290,599 | 106,131 | 360,053 | 230,532 | 987,315 | 3,417 | 990,732 | (2,429) | 988,303 |
| Segment profit | 26,127 | 7,286 | 607 | 11,183 | 45,203 | 111 | 45,314 | 1,012 | 46,326 |
| Financial income | — | — | — | — | — | — | — | — | 1,437 |
| Financial expenses | — | — | — | — | — | — | — | — | (3,484) |
| Share of profits of investments accounted for using the equity method | — | — | — | — | — | — | — | — | 2,706 |
| Income before income taxes | — | — | — | — | — | — | — | — | 46,985 |
| Segment assets | 388,098 | 135,390 | 341,073 | 246,805 | 1,111,366 | 1,490 | 1,112,856 | (54,024) | 1,058,832 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 14,275 | 7,086 | 16,739 | 6,715 | 44,815 | 298 | 45,113 | 1,025 | 46,138 |
| Capital expenditure | 27,974 | 20,619 | 24,705 | 8,710 | 82,008 | 207 | 82,215 | 9,571 | 91,786 |
| Impairment losses | 1,193 | 1,340 | 8,011 | 41 | 10,585 | 26 | 10,611 | — | 10,611 |

Note:

1. Segment profit is based on operating income.
2. Intersegment transactions are recorded at the same prices used in transactions with third parties. Adjustments represent mainly allocation variances of general and administrative expenses for corporate assets, which are not allocated to each reportable segment.
3. Adjustments represent mainly cash and cash equivalents, investments in securities, and other financial assets included in corporate assets and eliminations of intersegment transactions.
4. Capital expenditure represents increases in property, plant and equipment, intangible assets, and investment property.

Current year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

| | Business Segment | | | | | Others | Total | Adjustments | Consolidated statements of income |
|---|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-----------|--------|-----------|-------------|-----------------------------------|
| | Specialty Steel Products | Magnetic Materials and Applications | Functional Components and Equipment | Wires, Cables, and Related Products | Subtotal | | | | |
| Revenues | | | | | | | | | |
| External customers | 304,366 | 109,351 | 367,563 | 239,602 | 1,020,882 | 2,539 | 1,023,421 | — | 1,023,421 |
| Intersegment transactions | 196 | — | — | 521 | 717 | 1,890 | 2,607 | (2,607) | — |
| Total revenues | 304,562 | 109,351 | 367,563 | 240,123 | 1,021,599 | 4,429 | 1,026,028 | (2,607) | 1,023,421 |
| Segment profit (loss) | 22,512 | 8,766 | (2,463) | 11,598 | 40,413 | 945 | 41,358 | 1,084 | 42,442 |
| Financial income | — | — | — | — | — | — | — | — | 1,360 |
| Financial expenses | — | — | — | — | — | — | — | — | (2,826) |
| Share of profits of investments accounted for using the equity method | — | — | — | — | — | — | — | — | 2,063 |
| Income before income taxes | — | — | — | — | — | — | — | — | 43,039 |
| Segment assets | 420,105 | 159,193 | 339,251 | 258,570 | 1,177,119 | 1,396 | 1,178,515 | (79,263) | 1,099,252 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 15,616 | 9,296 | 16,501 | 7,157 | 48,570 | 325 | 48,895 | 2,006 | 50,901 |
| Capital expenditure | 37,504 | 22,523 | 19,551 | 12,879 | 92,457 | 508 | 92,965 | 2,424 | 95,389 |
| Impairment losses | — | — | 7,378 | 16 | 7,394 | — | 7,394 | — | 7,394 |

Note:

1. Segment profit (loss) is based on operating income.
2. Intersegment transactions are recorded at the same prices used in transactions with third parties. Adjustments represent mainly allocation variances of general and administrative expenses for corporate assets, which are not allocated to each reportable segment.
3. Adjustments represent mainly cash and cash equivalents, investments in securities, and other financial assets included in corporate assets and eliminations of intersegment transactions.
4. Capital expenditure represents increases in property, plant and equipment, intangible assets, and investment property.

The Company has changed the business segment of SH Copper Products Co., Ltd, a subsidiary of the Company, and one other subsidiary from the Wires, Cables, and Related Products segment to the Specialty Steel Products segment as of July 1, 2017, aiming to strengthen battery-related components in the Specialty Steel Products segment.

Due to this change, the results of SH Copper Products, etc. for the year ended March 31, 2018, have been recorded under the Specialty Steel Products segment.

Other Related Information

For the year ended March 31, 2018

1) Product and service information

Information is similar to that presented under Segment Information above and is therefore omitted.

2) Geographic information

(a) Revenues

(Millions of yen)

| Japan | North America | Asia | Europe | Other areas | Total |
|---------|---------------|---------|--------|-------------|---------|
| 431,549 | 294,836 | 198,076 | 51,447 | 12,395 | 988,303 |

Note: Revenues are classified by country or region based on the customer's location.

Revenues from external customers attributed to any individual country or region other than Japan, the United States, and China were not material.

Revenues from external customers in the United States and China were ¥259,683 million and ¥75,323 million, respectively.

(b) Non-current assets (excluding financial instruments)

(Millions of yen)

| Japan | North America | Asia | Europe | Other areas | Total |
|---------|---------------|--------|--------|-------------|---------|
| 321,141 | 170,395 | 44,664 | 278 | 1,482 | 537,960 |

Note: Non-current assets (excluding financial assets) attributed to any individual country or region other than Japan and the United States were not material.

Non-current assets (excluding financial assets) attributable to the United States were ¥170,395 million.

3) Significant customer information

There were no major external customers who are considered significant on a stand-alone basis.

For the year ended March 31, 2019

1) Product and service information

Information is similar to that presented under Segment Information above and is therefore omitted.

2) Geographic information

(a) Revenues

(Millions of yen)

| Japan | North America | Asia | Europe | Other areas | Total |
|---------|---------------|---------|--------|-------------|-----------|
| 448,984 | 310,880 | 200,703 | 50,406 | 12,448 | 1,023,421 |

Note: Revenues are classified by country or region based on the customer's location.

Revenues from external customers attributed to any individual country or region other than Japan, the United States, and China were not material.

Revenues from external customers in the United States and China were ¥277,942 million and ¥76,206 million, respectively.

(b) Non-current assets (excluding financial instruments)

(Millions of yen)

| Japan | North America | Asia | Europe | Other areas | Total |
|---------|---------------|--------|--------|-------------|---------|
| 357,898 | 176,293 | 50,825 | 220 | 1,989 | 587,225 |

Note: Non-current assets (excluding financial assets) attributed to any individual country or region other than Japan and the United States were not material.

Non-current assets (excluding financial assets) attributable to the United States were ¥176,293 million.

3) Significant customer information

There were no major external customers who are considered significant on a stand-alone basis.

[Net Income per Share]

The calculation of basic EPS attributable to shareholders of the parent company is summarized as follows.

Note that diluted EPS attributable to shareholders of the parent company is not presented because no potential ordinary shares of common stock were issued or outstanding.

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|---|--------------------------------------|--------------------------------------|
| Weighted-average number of ordinary shares on which basic EPS is calculated | 427,573 Thousands of shares | 427,570 Thousands of shares |
| Net income attributable to shareholders of the parent company | 42,210 Millions of yen | 31,370 Millions of yen |
| Basic EPS attributable to shareholders of the parent company | 98.72 Yen | 73.37 Yen |

[Subsequent Events]

There is no applicable item.