



Consolidated Financial Report [IFRS]

for the Year Ended March 31, 2020

May 27, 2020

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: Mitsuki Nishiyama, Chairperson and Chief Executive Officer

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Date of the Ordinary General Meeting of Shareholders: June 23, 2020

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

1. Performance over the year under review (Apr. 1, 2019 - Mar. 31, 2020)

(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, 2020	881,402	(13.9)	14,383	(72.0)	(39,126)	—	(40,614)	—	(39,538)	—	(37,648)	—
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)

(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 (loss) 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.

	Comprehensive Income		Earnings per Share (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, 2020	(56,804)	—	(88.05)	—	(6.8)	(3.9)	(4.4)
March, 2019	36,422	(8.1)	73.37	—	5.5	4.0	4.1

Reference: Share of profit of investments accounted for using the equity method *March, 2020 ¥1,667millions* *March, 2019 ¥2,063millions*

(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, 2020	977,766	522,853	520,313	53.2	1,216.92
March, 2019	1,099,252	595,211	587,979	53.5	1,375.16

(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, 2020	105,958	(56,418)	(45,735)	42,353
March, 2019	66,582	(96,247)	14,838	41,098

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			
March, 2019	Yen —	Yen 17.00	Yen —	Yen 17.00	Yen 34.00	Million yen 14,538	% 46.3	% 2.5
March, 2020	—	13.00	—	13.00	26.00	11,116	—	2.0
March, 2021 (Forecast)	—	—	—	—	—	—	—	—

*The dividends on March, 2021 (forecast) have been undetermined as of this point.

3. Business results forecast for the year ending March 31, 2021 (Apr.1, 2020 - Mar.31, 2021)

(% 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	750,000	(14.9)	(5,000)	—	(15,000)	—	(12,000)	—	(28.07)

(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 Group shows "adjusted operating income" which is the operating income (loss) 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)

March, 2020	428,904,352	March, 2019	428,904,352
March, 2020	1,337,583	March, 2019	1,334,441
March, 2020	427,568,334	March, 2019	427,570,903

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

(iii) Average number of shares issued during the term

*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 2019 (fiscal year ended March 31, 2020)

The global economy during the year ended March 31, 2020, continued to grow modestly until the end of the third quarter ended December 31, 2019. However, the global outbreak of the novel coronavirus disease (COVID-19, hereinafter “COVID-19”), which was first detected in China, and the measures against it, increasingly taken by countries and regions around the world such as lockdowns, started to have a visible impact on the real global economy in the fourth quarter ended March 31, 2020. In China, the effects of the COVID-19 outbreak significantly reduced industrial production and individual consumption, and consequently weakened economic growth, which had already been slowing down due to the trade conflict with the United States and slack domestic demand. Weak economies in Europe and Asian emerging countries also slowed down significantly due to the restrictions on economic activities as a result of the spread of COVID-19. In the United States, although the employment situation and individual consumption had continued to improve until the end of the third quarter ended December 31, 2019, there was a sharp fall in business confidence towards the end of the fiscal year ended March 31, 2020 due to the outbreak. Amid such circumstances, the Japanese economy faced a rapidly expanding economic stagnation due to the impact of COVID-19, on top of the already decreased industrial production and export volume. Among the industries in which the Group operates, sales of new vehicles dropped mainly in China and global sales also decreased as a result of a fall in Japan and the United States. Both domestic and international demand for industrial machinery were weak. Housing starts increased in the United States but declined in Japan. The electronics field showed signs of improvement in smartphone shipments at the end of 2019, but shipments dropped significantly during the fourth quarter ended March 31, 2020.

Under the business circumstances described above, the Group's operating results for the full year ended March 31, 2020 were as follows.

The COVID-19 outbreak had a limited impact on full-year results for the year ended March 31, 2020, despite a decline in demand in the automotive products business in China and North America, and reduced operation of related manufacturing bases.

Revenues decreased by 13.9% year on year to ¥881,402 million mainly due to a decrease in demand primarily for the Group's mainstays. Other significant reasons for the revenue decline include a fall in raw material prices (sliding-scale raw material price system) and structural reform measures in the Functional Components and Equipment segment.

Adjusted operating income* for the year ended March 31, 2020 decreased by ¥37,044 million year on year to ¥14,383 million. This was attributable to a major production adjustment implemented in order to address a decrease in demand and to optimize inventories, as part of measures to improve operational efficiency, in addition to a slowdown in the electronics- and semiconductor-related markets, a decline in demand for various manufacturing equipment and industrial machinery, and a decrease in sales of new vehicles, despite measures including a reduction in fixed costs.

Operating income for the year ended March 31, 2020 decreased by ¥81,568 million year on year, resulting in an operating loss of ¥39,126 million. This was attributable to the recording of impairment losses of ¥42,581 million in other expenses for the magnetic materials and applications business as a whole in the second quarter ended September 30, 2019. This was mainly due to the changes in the operating environment of the rare earth magnet business and the subsequent review of the future profitability of the magnetic materials and applications business. Income before income taxes decreased by ¥83,653 million year on year to a loss before income taxes of ¥40,614 million. Net income attributable to shareholders of the parent company decreased by ¥69,018 million from the same period of the previous year to a net loss attributable to shareholders of the parent company of ¥37,648 million.

The Group introduced business management based on Return on Invested Capital (ROIC) with the aim of improving cash flow and capital efficiency. As one of the measures to address these key management challenges in the fiscal year 2021 Medium-term Management Plan, the Group reduces the level of equity investment mainly by shortening the Cash Conversion Cycle (CCC) to reduce the risk of fluctuations in raw material prices. The group also cuts capital expenditure through carefully selected investment in core business areas. As a result, free cash flow for the year ended March 31, 2020 improved by ¥79,205 million from the same period last year.

The results by business segment are as follows. Note that revenues for each segment include intersegment revenues. There were no significant changes to the businesses of the Group during the fiscal year ended March 31, 2020.

The Company transferred soft magnetic components and materials from the Specialty Steel Products segment to the Magnetic Materials and Applications segment, and changed the segment name from the Magnetic Materials and Applications segment to the Magnetic Materials and Applications / Power Electronics Materials segment as of April 1, 2019. Due to this change, the

results of soft magnetic components and materials for the fiscal year ended March 31, 2018 (April 1, 2018 to March 31, 2019), have been recorded under the Magnetic Materials and Applications / Power Electronics Materials segment.

Specialty Steel Products

Revenues across the entire Specialty Steel Products segment for the fiscal year ended March 31, 2020, were ¥250,643 million, a decrease of 9.5% compared with those of the fiscal year ended March 31, 2019.

Breaking down the revenues by business, sales of molds and tool steel, among the business of tool steel & roll, decreased year on year, due to a decrease in demand in international markets especially in China and inventory adjustments including in a supply chain in Japan. Sales of rolls increased year on year as a result of a rise in demand in Japan. Sales of injection molding machine parts decreased year on year due to a sharp decline in demand in the third quarter ended December 31, 2019.

Among the business of industrial, aircraft & energy materials, sales of industrial materials decreased year on year, on the back of a decline in demand for products related to automobiles. Sales of aircraft- and energy-related materials increased year on year due to an increase in demand for both materials.

Overall sales of alloys for electronic products decreased year on year, due to a decline in demand for semiconductor package components, although sales of organic EL panel-related components grew and sales of clad metals for smartphones and batteries increased.

Adjusted operating income decreased by ¥16,936 million to ¥5,474 million compared with the year ended March 31, 2019, primarily due to a decline in demand for the Company's mainstays including molds and tool steel and industrial materials, a fall in raw material prices, and a reduction of work in process reflecting the decreased market demand. Operating income of the segment decreased by ¥14,217 million year on year to ¥7,585 million.

Functional Components and Equipment

Revenues across the entire Functional Components and Equipment segment for the fiscal year ended March 31, 2020, were ¥299,703 million, a decrease of 18.5% compared with those of the fiscal year ended March 31, 2019.

Breaking down the revenues by business, sales of casting components for automobiles in North America decreased year on year. This was attributable to the fact that demand for light trucks and passenger vehicles continued to decrease and that demand for casting components for commercial vehicles, and construction and agricultural machinery, which remained relatively robust until the end of the second quarter, has declined since the third quarter ended December 31, 2019. The decrease was also attributable to the COVID-19 outbreak at the end of the fiscal year. Meanwhile in Asia, sales decreased year on year driven by a fall in demand for casting components for automobiles. Sales of heat-resistant exhaust casting components decreased year on year, mainly reflecting a decrease in sales of new vehicles and careful selection of orders in order to improve earnings. It has been determined to withdraw from the aluminum wheels business. Therefore, in March 2019, the Company sold a consolidated subsidiary manufacturing aluminum wheels in the United States, and the termination of production in Japan is also progressing as planned towards the end of September 2020. As a result, overall sales of casting components for automobiles decreased year on year.

Among piping components, sales of pipe fittings to both domestic and international markets in the year ended March 31, 2020 remained unchanged year on year. 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 ¥11,399 million year on year, resulting in an adjusted operating loss of ¥910 million. This was primarily due to the suspension of the Company's major customers' operations at fiscal year end amid the COVID-19 outbreak, in addition to a decline in demand in the automotive casting components business in North America, which is the segment's core business, and ongoing sluggish sales of semiconductor manufacturing equipment. Operating loss was ¥9,222 million, a decrease of ¥6,759 million from the same period last year due to mainly recorded impairment losses.

Magnetic Materials and Applications

Revenues in the Magnetic Materials and Applications segment for the fiscal year ended March 31, 2020 were ¥116,760 million, a decrease of 14.8% year on year.

Breaking down the revenues by business, sales of rare earth magnets among magnetic materials and applications decreased year on year. This was due to a slowdown in the electronics- and semiconductor-related markets and a significant decline in demand for various manufacturing equipment and industrial machinery in the industrial equipment-related business. The decline in demand for automotive electronic components also contributed to the decrease in sales. Sales of ferrite magnets decreased year on year due to a decrease in demand for automotive electronic components. As a result, overall sales of magnetic materials and applications decreased year on year.

Among power electronics materials, sales of soft magnetic materials and their applied products decreased year on year due to a decline in demand for amorphous metals for transformers and some components for consumer equipment, despite an

increase in demand for the use of electronic vehicles. Meanwhile, sales of ceramic components increased year on year due to an increase in demand mainly for the use of automotive electronic components and medical and security-related devices. As a result, sales of power electronics materials as a whole remained at the same level as the same period last year.

Adjusted operating income decreased by ¥2,628 million year on year to ¥1,405 million, due to a decrease in demand for magnetic materials and applications. Operating income for the year ended March 31, 2020 decreased by ¥52,226 million year on year, resulting in an operating loss of ¥42,750 million. This was attributable to the recording of impairment losses of ¥42,581 million in other expenses for the magnetic materials and applications business as a whole in the second quarter ended September 30, 2019. This was mainly due to the changes in the operating environment of the rare earth magnet business and the subsequent review of the future profitability of the magnetic materials and applications business.

Wires, Cables, and Related Products

Revenues in the Wires, Cables, and Related Products segment for the fiscal year ended March 31, 2020, were ¥213,329 million, a decrease of 11.2%.

Breaking down the revenues by business, sales of medical use increased year on year due to an increase in demand for both tubes and cables. Sales of wires and cables for rolling stock decreased year on year as large-scale projects entered the offseason. Sales of magnet wires decreased year on year due to a decrease in their demand for both automotive and industrial applications. Sales of electronic wires also decreased year on year due to a decline in their demand mainly for FA / robots. As a result, overall sales of wires, cables, and related products decreased year on year.

Sales of automotive components decreased year on year, reflecting a decline in demand for automotive electronic components and brake hoses due to a decrease in global new vehicle sales.

Adjusted operating income decreased by ¥5,879 million to ¥6,669 million, as compared with the year ended March 31, 2019, led in part by a decline in demand. Operating income of the segment decreased by ¥6,341 million year on year to ¥5,257 million for the same period.

Other

Revenues in the other segment for the fiscal year ended March 31, 2020, were ¥3,371 million, a decrease of 23.9%, and adjusted operating income decreased by ¥32 million to ¥754 million, as compared with the fiscal year ended March 31, 2019. Operating income of the segment decreased by ¥435 million to ¥510 million for the same period.

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2) Outlook for Fiscal 2020 (the fiscal year ending March 31, 2021)

a) Situation of Operating Results

The ongoing outbreak of the novel coronavirus disease (COVID-19, hereinafter "COVID-19") is having a devastating impact on the global economy. The effects on the Group's business are expected to be more severe than those in the fiscal year ended March 31, 2020 with the automobiles, electronics, and industrial Infrastructure businesses, which are the Company's core business areas, facing a significant downturn in demand. In the business areas in which the Group operates, it is expected that the effects of COVID-19 are going to be that businesses are going to begin to return to normal operations gradually from the third quarter of the fiscal year ending March 31, 2021, but the effects will remain at a certain level throughout the quarter. As of today, the Group's offices are operating other than a few international locations. The business results forecasts for the year ending March 31, 2021 see revenues of ¥100 billion and adjusted operating income of ¥40 billion due to the effects of COVID-19.

b) Financial Condition

The Group had cash and cash equivalents of ¥42.4 billion on a consolidated basis as of the end of the fiscal year ended March 31, 2020. As of March 31, 2020, the Group also maintained a balance of ¥40 billion on commitment line contracts with several financial institutions and secured sufficient liquidity through the use of Hitachi Group's cash pooling system. As part of the efforts to improve cash flow and capital efficiency as a key business challenge raised in the fiscal 2021 Medium-term Management Plan, the Group will continue to maintain sufficient liquidity by shortening its Cash Conversion Cycle (CCC) and applying strict selection criteria to new capital expenditures.

c) Management Measures

The Group will ensure that it implements the action plans proposed in the fiscal 2021 Medium-term Management Plan as a medium- to long-term strategy aimed at growing again in the global market. As part of the efforts to reform its management under the name of "Hitachi Metals Transformation," the Group will strengthen its earning capabilities and improve capital efficiency by optimizing its portfolio, reforming its cost structure, and enhancing its sales and marketing capabilities.

Taking the above into consideration, the consolidated operating forecasts for the fiscal year ending March 31, 2021 are as follows (Please note that these forecasts are based on the assumption that the effects of COVID-19 on operating results will begin to return to normal operations on businesses from the third quarter of the fiscal year 2020, and are subject to change depending on when the COVID-19 outbreak is effectively contained.):

Consolidated operating forecasts for the fiscal year ending March 31, 2021 (April 1, 2020— March 31, 2021)

(% 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, 2021	750,000	(14.9)	(5,000)	—	(15,000)	—	(12,000)	—	(28.07)

* In order to give a true view of the condition of the whole Group's business without the effects of business restructuring etc., the Group shows "adjusted operating income" which is the operating income (loss) 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, 2020, is as follows:

Total assets were ¥977,766 million, a decrease of ¥121,486 million compared with the end of the fiscal year ended March 31, 2019. Current assets were ¥406,119 million, a decrease of ¥74,212 million compared with the end of the fiscal year ended March 31, 2019. This was mainly due to decreases of ¥37,574 million and ¥34,880 million in trade receivables and inventories, respectively. Non-current assets were ¥571,647 million, a decrease of ¥47,274 million compared with the end of the fiscal year ended March 31, 2019. Property, plant and equipment decreased by ¥21,065 million, which was mainly attributable to an increase of ¥15,061 million in right-of-use assets arising from the application of IFRS 16 "Leases" and decrease due to impairment losses of ¥22,479 million for the magnetic materials and applications business. In addition, goodwill and intangible assets decreased by ¥25,384 million, which resulted primarily from impairment losses of ¥20,102 million for the magnetic materials and applications business.

Total liabilities were ¥454,913 million, a decrease of ¥49,128 million compared with the end of the fiscal year ended March 31, 2019. The decrease of ¥18,716 million in the current portion of long-term debt and long-term debt was mainly attributable to the year-on-year reduction of ¥33,671 million in these debts, partially offset by an increase of ¥14,955 million in lease liabilities due to the adoption of IFRS 16 "Leases." Trade payables decreased by ¥28,611 million, respectively. Total equity was ¥522,853 million, a decrease of ¥72,358 million compared with the end of the fiscal year ended March 31, 2019. This was mainly attributable to decreases in retained earnings of ¥51,066 million and accumulated other comprehensive income of ¥16,956 million.

2) Cash flows

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2020, were ¥42,353 million, an increase of ¥1,255 million from March 31, 2019, as a result of cash provided by operating activities exceeding net cash used in investing and financing activities. The analysis of cash flows for each category as of March 31, 2020, is as follows:

<Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥105,958 million. This was mainly attributable to the net effect of net loss of ¥39,538 million, more than offset by depreciation and amortization of ¥55,180 million, impairment losses of ¥49,391 million, and a decrease of ¥38,879 million in working capital such as inventories.

<Cash Flows from Investing Activities>

Net cash used in investing activities was ¥56,418 million, which was mainly attributable to payment of ¥59,520 million for the purchase of property, plant and equipment.

<Cash Flows from Financing Activities>

Net cash used in financing activities was ¥45,735 million. This was mainly attributable to the repayment of long-term debts of ¥37,488 million and dividends paid to shareholders of ¥12,849 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, 2020, 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, 2016	March, 2017	March, 2018	March, 2019	March, 2020
Ratio of equity attributable to shareholders of the parent company (%)	48.0	51.6	53.1	53.5	53.2
Ratio of equity attributable to shareholders of the parent company at market value (%)	48.0	64.2	50.8	50.0	49.8
Ratio of interest-bearing debts to cash flows (%)	190.4	217.5	411.0	303.5	177.0
Interest coverage ratio (times)	30.6	31.2	15.2	24.6	39.6

*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. 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.

- a) Risks associated with product demand and market conditions
- b) Risks associated with raw materials procurement
- c) Risks associated with changes in foreign exchange rates
- d) Risks associated with the global expansion of businesses
- e) Risks associated with impairment losses on property, plant and equipment
- f) Risks associated with M&A
- g) Risks associated with business reorganization
- h) Risks associated with product quality
- i) Risks associated with financing activities
- j) Risks associated with securing talent
- k) Risks associated with relationship with the parent company
- l) Risks associated with intellectual property rights
- m) Risks associated with competitiveness and development and commercialization of new technologies and products
- n) Risks associated with environmental regulations
- o) Risks associated with laws and regulations, and official regulations
- p) Risks associated with earthquakes and other natural disasters
- q) Risks associated with information security
- r) Risks associated with retirement benefit obligations

Relating to "h) Risks associated with product quality," the Company discovered misconduct involving misrepresentation of the test results in the inspection reports submitted to customers for some products manufactured by the Company and its subsidiaries (for details refer to the "Misrepresentation of Test Results in the Inspection Reports with Respect to Certain Products of the Company and Its Subsidiaries" released on April 27, 2020).

The Company established a special investigation committee comprising outside experts, which is conducting an investigation into the facts and causes of the matter. Meanwhile, an internal task force plays a central role in undertaking a review of the organization to secure effective quality audit and the development of a test system that eliminates human intervention and does not allow to cause falsifications. The Company is working to strengthen its quality assurance system in order to regain the trust of its customers.

Going forward, taking into account the results of the investigation by the committee, the Company will be implementing preventive measures including further enhancing the framework of compliance and quality assurance.

As for "h) Risks associated with product quality," the following are the degree of the possibility and the timing of the occurrence of these risks currently known, their potential impact on the operating results, and measures to prevent the risks:

h) Risks associated with product quality

1) Effects of the Misconduct at Issue

The Group has recently initially discovered conduct including misrepresentation of test results in the inspection reports submitted to customers of some of the products manufactured by the Company and its subsidiaries. After initially discovering the misconduct, the Company informed the customers individually of the issue and has been discussing with them measures to address it. Although the effects in terms of product safety and performance arising from the misconduct are currently under investigation, there have been no customer demand for the immediate recall or replacement of products. The Company also established a special investigation committee comprising outside experts in order to objectively investigate the facts and causes of the matter and the investigation by this committee is ongoing. Depending on the progress, the matter may affect the operating results or financial situation of the Group. The potential effects include: a reduction in sales resulting from a loss of trust in the Group's products; additional measures to be taken in response to newly discovered misconduct; losses to be incurred including the costs of compensation for customers; and an increase in the costs required to improve the quality control system.

2) Faulty or Defective Products

The Group's products include those requiring high credibility such as key safety components. The Group established a strict quality control system for product manufacturing, in order to prevent faulty or defective products or those that do not meet the specifications agreed with customers from flowing into the market. However, if faulty or defective products or those that do not meet the specifications agreed with customers flow into the market and any costs are incurred in the repair, replacement, recall, compensation for damages, or legal actions of the Group's products, it may affect the operating results or financial situation 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, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and cash equivalents	41,098	42,353
Trade receivables	195,306	157,732
Inventories	214,805	179,925
Other current assets	29,122	26,109
Total current assets	480,331	406,119
Non-current assets		
Investments accounted for using the equity method	28,563	28,354
Investments in securities and other financial assets	19,978	13,234
Property, plant and equipment	402,160	381,095
Goodwill and intangible assets	143,558	118,174
Deferred tax assets	9,652	17,816
Other non-current assets	15,010	12,974
Total non-current assets	618,921	571,647
Total assets	1,099,252	977,766

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Short-term debt	48,844	53,048
Current portion of long-term debt	34,268	51,253
Other financial liabilities	37,730	26,642
Trade payables	155,251	126,640
Accrued expenses	38,018	35,042
Contract Liabilities	534	640
Other current liabilities	2,739	3,934
Total current liabilities	317,384	297,199
Non-current liabilities		
Long-term debt	118,986	83,285
Other financial liabilities	923	978
Retirement and severance benefits	58,124	67,560
Deferred tax liabilities	4,964	2,420
Other non-current liabilities	3,660	3,471
Total non-current liabilities	186,657	157,714
Total liabilities	504,041	454,913
Equity		
Equity attributable to shareholders of the parent company		
Common stock	26,284	26,284
Capital surplus	115,045	115,405
Retained earnings	425,886	374,820
Accumulated other comprehensive income	21,925	4,969
Treasury stock, at cost	(1,161)	(1,165)
Total equity attributable to shareholders of the parent company	587,979	520,313
Non-controlling interests	7,232	2,540
Total equity	595,211	522,853
Total liabilities and equity	1,099,252	977,766

(2) Consolidated Statements of Income and Comprehensive Income
 [Consolidated Statement of Income]

(Millions of yen)

	Note	For the year ended March 31, 2019	For the year ended March 31, 2020
Revenues		1,023,421	881,402
Cost of sales		(851,029)	(755,947)
Gross profit		172,392	125,455
Selling, general and administrative expenses		(120,965)	(111,072)
Other income		10,667	8,599
Other expenses		(19,652)	(62,108)
Operating income (loss)	1	42,442	(39,126)
Interest income		514	456
Other financial income		846	122
Interest charges		(2,818)	(2,646)
Other financial expenses		(8)	(1,087)
Share of (losses) profits of investments accounted for using the equity method		2,063	1,667
Income (loss) before income taxes		43,039	(40,614)
Income taxes		(11,796)	1,076
Net income (loss)		31,243	(39,538)
Net income (loss) attributable to:			
Shareholders of the parent company		31,370	(37,648)
Non-controlling interests		(127)	(1,890)
Net income (loss)		31,243	(39,538)
Earnings per share attributable to shareholders of the parent company			
Basic		¥73.37	¥(88.05)
Diluted		—	—

Note: 1. Adjusted operating income, which is the operating income (loss) presented in the Consolidated Statement of Income, excluding other income and other expenses, is ¥51,427 million and ¥14,383 million for the fiscal year ended March 31, 2019 and 2020, respectively.

[Consolidated Statement of Comprehensive Income]

(Millions of yen)

	For the year ended March 31, 2019	For the year ended March 31, 2020
Net income (loss)	31,243	(39,538)
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	(363)	(573)
Remeasurements of defined benefit plans	1,013	(7,069)
Share of other comprehensive income of investments accounted for using the equity method	(1,127)	219
Total items not to be reclassified into net income	<u>(477)</u>	<u>(7,423)</u>
Items that can be reclassified into net income		
Foreign currency translation adjustments	5,800	(9,723)
Net change in fair value of cash flow hedges	(49)	(109)
Share of other comprehensive income of investments accounted for using the equity method	(95)	(11)
Total items that can be reclassified into net income	<u>5,656</u>	<u>(9,843)</u>
Total other comprehensive income	<u>5,179</u>	<u>(17,266)</u>
Comprehensive income	<u>36,422</u>	<u>(56,804)</u>
Comprehensive income attributable to:		
Shareholders of the parent company	36,562	(54,588)
Non-controlling interests	(140)	(2,216)
Comprehensive income	<u>36,422</u>	<u>(56,804)</u>

(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, 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
Cumulative effect of accounting change	—	—	(607)	—	—	(607)	—	(607)
Restated balance	26,284	115,045	425,279	21,925	(1,161)	587,372	7,232	594,604
Changes in equity								
Net income (loss)	—	—	(37,648)	—	—	(37,648)	(1,890)	(39,538)
Other comprehensive income	—	—	—	(16,940)	—	(16,940)	(326)	(17,266)
Dividends to shareholders of the parent company	—	—	(12,827)	—	—	(12,827)	—	(12,827)
Dividends to non-controlling interests	—	—	—	—	—	—	(22)	(22)
Acquisition of treasury stock	—	—	—	—	(4)	(4)	—	(4)
Sales of treasury stock	—	0	—	—	0	0	—	0
Transactions with non-controlling interests	—	360	—	—	—	360	(2,454)	(2,094)
Transfer to retained earnings	—	—	16	(16)	—	—	—	—
Total changes in equity	—	360	(50,459)	(16,956)	(4)	(67,059)	(4,692)	(71,751)
Balance at March 31, 2020	26,284	115,405	374,820	4,969	(1,165)	520,313	2,540	522,853

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	For the year ended March 31, 2019	For the year ended March 31, 2020
Cash flows from operating activities:		
Net income (loss)	31,243	(39,538)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,901	55,180
Impairment losses	7,394	49,391
Share of losses (profits) of investments accounted for using the equity method	(2,063)	(1,667)
Financial income and expenses	1,466	3,155
Losses (profits) on sale of property, plant and equipment	3,721	△2,155
Structural reform expenses	3,306	5,460
Net loss (gain) on business reorganization and others	(5,653)	43
Income taxes	11,796	(1,076)
(Increase) decrease in trade receivables	18,294	33,673
(Increase) decrease in inventories	(20,378)	31,460
(Increase) decrease in accounts receivable - other	1,482	5,683
Increase (decrease) in trade payables	(16,177)	(26,254)
Increase (decrease) in accrued expenses	(2,800)	(2,359)
Increase (decrease) in retirement and severance benefits	302	472
Other	(5,749)	(3,598)
Subtotal	77,085	107,870
Interest and dividends received	2,303	2,361
Interest paid	(2,712)	(2,678)
Payments for structural reforms	(66)	(1,998)
Income taxes refund (paid)	(10,028)	403
Net cash provided by operating activities	66,582	105,958
Cash flows from investing activities:		
Purchase of property, plant and equipment	(98,414)	(59,520)
Purchase of intangible assets	(1,476)	(1,328)
Proceeds from sales of property, plant and equipment	650	5,321
Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	260	(115)
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	955	171
Other	1,778	(947)
Net cash used in investing activities	(96,247)	(56,418)

(Millions of yen)

	For the year ended March 31, 2019	For the year ended March 31, 2020
Cash flows from financing activities:		
Increase (decrease) in short-term debt, net	18,522	5,271
Proceeds from long-term debt	45,633	1,424
Repayment of long-term debts	(34,979)	(37,488)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(1,362)	(2,089)
Dividends paid to shareholders	(12,827)	(12,827)
Dividends paid to non-controlling interests	(146)	(22)
Acquisition of common stock for treasury	(3)	(4)
Proceeds from sales of treasury stock	0	0
Net cash used in financing activities	<u>14,838</u>	<u>(45,735)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>1,013</u>	<u>(2,550)</u>
Net increase (decrease) in cash and cash equivalents	<u>(13,814)</u>	<u>1,255</u>
Cash and cash equivalents at the beginning of the year	<u>54,912</u>	<u>41,098</u>
Cash and cash equivalents at the end of the year	<u>41,098</u>	<u>42,353</u>

(5) Notes to the Consolidated Financial Statements

[Changes in Accounting Policies]

Adoption of IFRS 16 "Leases"

From the beginning of the fiscal year ended March 31, 2020, the Group has adopted IFRS 16 "Leases." IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard introduces a single accounting model under which lessees recognize all leases in the statement of consolidated financial position.

As a transitional measure upon the adoption of IFRS 16, 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 fiscal year ended March 31, 2020.

The leases held by the Group are mainly real estate leases, and the effect of the adoption of IFRS 16 on the condensed statement of consolidated financial position as of the beginning of the fiscal year ended March 31, 2020 are minor and include: an increase of ¥16,693 million in assets mainly due to recognizing right-of-use assets, an increase of ¥17,300 million in liabilities mainly due to recognizing lease liabilities, and a decrease of ¥607 million in equity due to the adjustment to the beginning balance of retained earnings. Additionally, under IFRS 16, the depreciation adjustment of right-of-use assets is included in cash flows from operating activities instead of the payment of operating lease expense, and the payment of lease liabilities is included in cash flows from financing activities, in the condensed cash flow statement for the fiscal year ended March 31, 2020. This resulted in an increase in cash flows from operating activities and a decrease in cash flows from financing activities, compared to those under the old accounting 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 two-Business Division-based organization structure, which is composed by Advanced Metals Division and Advanced Components and Materials Division. Both of the business divisions prepare 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 Group is structured by four business segments: Specialty Steel Products segment, and Functional Components and Equipment segment are comprised by Advanced Metals Division; and Magnetic Materials and Applications / Power Electronics segment, and Wire, Cables, and Related Products segment are comprised by Advanced Components and Materials Division. The Group informs the operating results also with the segment basis.

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

Reportable segment	Major products and services
Specialty Steel Products	<p><Tool Steel & Roll></p> <ul style="list-style-type: none"> ·Molds and tool steel, Rolls for steel mills, Injection molding machine parts, Structural ceramic products, and Steel-frame joints for construction <p><Industrial, Aerospace & Energy Materials></p> <ul style="list-style-type: none"> ·Automobile-related materials, Razor and blade materials, Precision cast components, and Aircraft- and energy-related materials <p><Electronic Materials></p> <ul style="list-style-type: none"> ·Display-related materials, Semiconductor and other package materials, and Battery-related materials
Functional Components and Equipment	<p><Automotive Casting></p> <ul style="list-style-type: none"> ·HNM™ high-grade ductile cast iron products, Cast iron products for transportation equipment, HERCUNITE™ heat-resistant exhaust casting components, and Aluminum components <p><Piping Components></p> <ul style="list-style-type: none"> ·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)
Magnetic Materials and Applications / Power Electronics	<p><Magnetic Materials></p> <ul style="list-style-type: none"> ·NEOMAX® rare-earth magnets, Ferrite magnets, and Other magnets and applied products <p><Power Electronics Materials></p> <ul style="list-style-type: none"> ·Soft magnetic materials (Metglas® amorphous metals; FINEMET® nanocrystalline magnetic material; and soft ferrite) and applied products, and Ceramic components
Wires, Cables, and Related Products	<p><Electric Wire & Cable></p> <ul style="list-style-type: none"> ·Industrial cables, Electronic wires, Electric equipment materials, Cable assemblies, and Industrial rubber products <p><Automotive Components></p> <ul style="list-style-type: none"> ·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, 2018 to March 31, 2019)

(Millions of Yen)

	Business Segment					Others	Total	Adjustments	Consolidated statements of income
	Specialty Steel Products	Functional Components and Equipment	Magnetic Materials and Applications /Power Electronics	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	276,708	367,563	137,009	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	276,904	367,563	137,009	240,123	1,021,599	4,429	1,026,028	(2,607)	1,023,421
Segment profit (loss)	21,802	(2,463)	9,476	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	392,167	339,251	187,131	258,570	1,177,119	1,396	1,178,515	(79,263)	1,099,252
Other items:									
Depreciation and amortization	14,091	16,501	10,821	7,157	48,570	325	48,895	2,006	50,901
Capital expenditure	34,552	19,551	25,475	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.

Current year (from April 1, 2019 to March 31, 2020)

(Millions of yen)

	Business Segment					Others	Total	Adjustments	Consolidated statements of income
	Specialty Steel Products	Functional Components and Equipment	Magnetic Materials and Applications /Power Electronics	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	250,489	299,703	116,749	212,936	879,877	1,525	881,402	—	881,402
Intersegment transactions	154	—	11	393	558	1,846	2,404	(2,404)	—
Total revenues	250,643	299,703	116,760	213,329	880,435	3,371	883,806	(2,404)	881,402
Segment profit (loss)	7,585	(9,222)	(42,750)	5,257	(39,130)	510	(38,620)	(506)	(39,126)
Financial income	—	—	—	—	—	—	—	—	578
Financial expenses	—	—	—	—	—	—	—	—	(3,733)
Share of profits of investments accounted for using the equity method	—	—	—	—	—	—	—	—	1,667
Income before income taxes	—	—	—	—	—	—	—	—	(40,614)
Segment assets	368,543	308,941	147,373	244,089	1,068,946	8,814	1,077,760	(99,994)	977,766
Other items:									
Depreciation and amortization	16,715	17,166	9,281	8,300	51,462	453	51,915	3,265	55,180
Capital expenditure	19,140	14,813	7,613	9,874	51,440	156	51,596	1,423	53,019
Impairment losses	1,403	4,231	42,581	674	48,889	—	48,889	290	49,179

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 transferred soft magnetic components and materials from the Specialty Steel Products segment to the Magnetic Materials and Applications segment, and changed the segment name from the Magnetic Materials and Applications segment to the Magnetic Materials and Applications / Power Electronics Materials segment as of April 1, 2019. Due to this change, the results of soft magnetic components and materials for the twelve months ended March 31, 2019 (April 1, 2018 to March 31, 2019), have been recorded under the Magnetic Materials and Applications / Power Electronics Materials segment.

Other Related Information

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.

For the year ended March 31, 2020

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
405,410	245,349	166,136	44,542	19,965	881,402

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 ¥225,143 million and ¥63,380 million, respectively.

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

(Millions of yen)

Japan	North America	Asia	Europe	Other areas	Total
320,935	170,084	47,557	243	3,071	541,890

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 ¥170,084 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, 2019	For the year ended March 31, 2020
Weighted-average number of ordinary shares on which basic EPS is calculated	427,570 Thousands of shares	427,568 Thousands of shares
Net income attributable to shareholders of the parent company	31,370 Millions of yen	(37,648) Millions of yen
Basic EPS attributable to shareholders of the parent company	73.37 Yen	(88.05) Yen

[Subsequent Events]

There is no applicable item.