

Consolidated Financial Report [IFRS] for the Year Ended March 31, 2015

June 23, 2015

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

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

Representative: Hideaki Takahashi, President and Chief Executive Officer

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Date of the Ordinary General Meeting of Shareholders: June 23, 2013

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

1. Performance over the year under review (Apr. 1, 2014 - Mar. 31, 2015)

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

	Revenues		Operating Income		Income before Income Taxes		Net Income		Net Income attributable to Shareholders of the Parent Company		Comprehensive Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March, 2015	1,004,373	24.3	84,407	58.0	86,391	54.8	71,918	48.7	70,569	46.6	104,441	86.9
March, 2014	807,794	—	53,428	—	55,820	—	48,362	—	48,133	—	55,895	—

	Earnings per Share attributable to Shareholders of the Parent Company (Basic)	Earnings per Share attributable to Shareholders of the Parent Company (Diluted)	Net Income Ratio to Equity attributable to Shareholders of the Parent Company	Income before Income Taxes Ratio to Assets	Income before Income Taxes Ratio to Revenues
	Yen	Yen	%	%	%
March, 2015	165.02	—	16.8	8.9	8.4
March, 2014	116.79	—	15.6	8.0	6.6

Reference: Share of profit of investments accounted for using the equity method March, 2015 ¥1,005millions March, 2014 ¥2,102millions

(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, 2015	1,083,450	476,176	466,359	43.0	1,090.64
March, 2014	848,772	382,840	372,217	43.9	870.36

(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, 2015	108,983	(113,750)	(8,884)	79,029
March, 2014	99,171	(9,832)	(30,195)	92,911

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, 2014	—	7.00	—	10.00	17.00	7,271	14.6	2.2
March, 2015	—	10.00	—	13.00	23.00	9,835	13.9	2.4
March, 2016 (Forecast)	—	13.00	—	13.00	26.00		15.2	

3. Business results forecast for the year ending March 31, 2016 (Apr.1, 2015 - Mar.31, 2016)

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

	Revenues		Operating Income		Income before Income Taxes		Net Income attributable to Shareholders of the Parent Company		Basic Earnings per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Interim period	540,000	20.4	66,000	66.3	65,500	60.0	47,000	48.4	109.92
Full-year	1,100,000	9.5	107,000	26.8	106,000	22.7	73,000	3.4	170.73

4. Other Notes

- (1) Changes in major subsidiaries during the period under review: Yes
 Newly included : Hitachi Metals MMC Superalloy, Ltd.
 Excluded : Hitachi Metals Techno, Ltd.

- (2) Changes in accounting policies and accounting estimates
 (i) Changes in accounting policies requested by IFRS: None
 (ii) Changes other than those in (i): None
 (iii) Changes in accounting estimates: None

- (3) Numbers of shares issued (Common stock)

- (i) Number of shares outstanding at end of period

(Including treasury stock)

March, 2015	428,904,352	March, 2014	428,904,352
March, 2015	1,303,157	March, 2014	1,247,222
March, 2015	427,629,682	March, 2014	412,127,681

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

- (iii) Average number of shares issued during the term

* Explanations concerning the appropriate use of operating forecasts and other specific items

1. The Company has adopted International Financial Reporting Standards ("IFRS") and prepared its consolidated financial statements under IFRS for annual securities reports beginning the fiscal year ended March 31, 2015. This report voluntarily discloses key consolidated financial information prepared under IFRS.

The Company released a consolidated financial report for the 12-month period ended in March 31, 2015 on May 12, 2015, which was prepared in accordance with the accounting principles generally accepted in Japan.

2. Information related to future estimates included in this report, such as the operating forecasts, is based on information currently available to the Company and assumptions determined to be reasonable. Actual results may differ significantly from the operating forecasts due to various factors.

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1 . Consolidated Financial Statements

(1) Consolidated Statements of Financial Position

(Millions of yen)

	As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
Assets			
Current assets			
Cash and cash equivalents	31,146	92,911	79,029
Trade receivables	102,276	208,167	220,547
Inventories	116,707	144,096	166,486
Other current assets	20,264	45,946	49,989
Subtotal	270,393	491,120	516,051
Assets held for sale	—	—	28,569
Total current assets	270,393	491,120	544,620
Non-current assets			
Investments accounted for using the equity method	8,427	29,569	24,892
Investments in securities and other financial assets	15,804	21,009	18,411
Property, plant and equipment	183,136	234,918	299,669
Goodwill and intangible assets	41,235	47,266	160,269
Deferred tax assets	16,882	9,108	15,918
Other non-current assets	10,658	15,782	19,671
Total non-current assets	276,142	357,652	538,830
Total assets	546,535	848,772	1,083,450

(Millions of yen)

	As of April 1, 2013	As of March 31, 2014	As of March 31, 2015
Liabilities			
Current liabilities			
Short-term debt	42,551	43,068	32,039
Current portion of long-term debt	6,452	39,953	29,235
Other financial liabilities	14,928	22,083	30,765
Trade payables	67,942	167,436	178,614
Accrued expenses	19,686	34,493	41,986
Advances received	793	2,832	2,520
Other current liabilities	2,156	9,479	4,955
Subtotal	154,508	319,344	320,114
Liabilities related to assets held for sale	—	—	10,264
Total current liabilities	154,508	319,344	330,378
Non-current liabilities			
Long-term debts	102,257	94,174	194,076
Other financial liabilities	1,408	1,446	2,415
Retirement and severance benefits	30,639	46,469	63,007
Deferred tax liabilities	592	1,210	11,540
Other non-current liabilities	3,707	3,289	5,858
Total non-current liabilities	138,603	146,588	276,896
Total liabilities	293,111	465,932	607,274
Equity			
Equity attributable to shareholders of the parent company			
Common stock	26,284	26,284	26,284
Capital surplus	42,463	115,591	115,805
Retained earnings	171,408	215,603	277,856
Accumulated other comprehensive income	4,916	15,749	47,519
Treasury stock, at cost	(833)	(1,010)	(1,105)
Total equity attributable to shareholders of the parent company	244,238	372,217	466,359
Non-controlling interests	9,186	10,623	9,817
Total equity	253,424	382,840	476,176
Total liabilities and equity	546,535	848,772	1,083,450

(2) Consolidated Statement of Income and Comprehensive Income

[Consolidated Statement of Income]

(Millions of yen)

	For the year ended March 31, 2014	For the year ended March 31, 2015
Revenues	807,794	1,004,373
Cost of sales	(637,081)	(793,517)
Gross profit	170,713	210,856
Selling, general and administrative expenses	(106,851)	(126,446)
Other income	5,844	21,303
Other expenses	(16,278)	(21,306)
Operating income	53,428	84,407
Interest income	743	805
Other financial income	2,000	3,170
Interest charges	(2,445)	(2,996)
Other financial expenses	(8)	—
Share of profits of investments accounted for using the equity method	2,102	1,005
Income before income taxes	55,820	86,391
Income taxes	(7,458)	(14,473)
Net income	48,362	71,918
Net income attributable to:		
Shareholders of the parent company	48,133	70,569
Non-controlling interests	229	1,349
Net income	48,362	71,918
Earnings per share attributable to shareholders of the parent company		
Basic	¥116.79	¥165.02
Diluted	—	—

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

	For the year ended March 31, 2015	For the year ended March 31, 2014
Net income	48,362	71,918
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	911	740
Remeasurements of defined benefit plans	(2,551)	10,002
Share of other comprehensive income of investments accounted for using the equity method	(50)	683
Total items not to be reclassified into net income	(1,690)	11,425
Items that can be reclassified into net income		
Foreign currency translation adjustments	8,178	20,582
Net change in fair value of cash flow hedges	5	(1,070)
Share of other comprehensive income of investments accounted for using the equity method	1,040	1,586
Total items that can be reclassified into net income	9,223	21,098
Total other comprehensive income	7,533	32,523
Comprehensive income	55,895	104,441
Comprehensive income attributable to		
Shareholders of the parent company	54,588	102,576
Non-controlling interests	1,307	1,865
Comprehensive income	55,895	104,441

(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, 2013	26,284	42,463	171,408	4,916	(833)	244,238	9,186	253,424
Changes in equity								
Net income	—	—	48,133	—	—	48,133	229	48,362
Other comprehensive income	—	—	—	6,455	—	6,455	1,078	7,533
Increase due to mergers	—	73,068	1,531	4,421	—	79,020	2,101	81,121
Dividends to shareholders of the parent company	—	—	(5,552)	—	—	(5,552)	—	(5,552)
Dividends to non-controlling interests	—	—	—	—	—	—	(360)	(360)
Acquisition of treasury stock	—	—	—	—	(191)	(191)	—	(191)
Sales of treasury stock	—	8	—	—	14	22	—	22
Change in the scope of consolidation	—	—	83	(43)	—	40	—	40
Transfer to retained earnings	—	—	—	—	—	—	—	—
Changes in the parent's equity in a subsidiary that do not result in the parent losing control of the subsidiary	—	52	—	—	—	52	(1,667)	(1,615)
Other	—	—	—	—	—	—	56	56
Total changes in equity	—	73,128	44,195	10,833	(177)	127,979	1,437	129,416
Balance at March 31, 2014	26,284	115,591	215,603	15,749	(1,010)	372,217	10,623	382,840
Changes in equity								
Net income	—	—	70,569	—	—	70,569	1,349	71,918
Other comprehensive income	—	—	—	32,007	—	32,007	516	32,523
Increase due to mergers	—	—	—	—	—	—	—	—
Dividends to shareholders of the parent company	—	—	(8,553)	—	—	(8,553)	—	(8,553)
Dividends to non-controlling interests	—	—	—	—	—	—	(550)	(550)
Acquisition of treasury stock	—	—	—	—	(107)	(107)	—	(107)
Sales of treasury stock	—	1	—	—	12	13	—	13
Change in the scope of consolidation	—	—	—	—	—	—	(1,946)	(1,946)
Transfer to retained earnings	—	—	237	(237)	—	—	—	—
Changes in the parent's equity in a subsidiary that do not result in the parent losing control of the subsidiary	—	213	—	—	—	213	(229)	(16)
Other	—	—	—	—	—	—	54	54
Total changes in equity	—	214	62,253	31,770	(95)	94,142	(806)	93,336
Balance at March 31, 2015	26,284	115,805	277,856	47,519	(1,105)	466,359	9,817	476,176

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the year ended March 31, 2014	For the year ended March 31, 2015
Cash flows from operating activities:		
Net income	48,362	71,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,762	39,917
Impairment losses	71	497
Share of profits of investments accounted for using the equity method	(2,102)	(1,005)
Financial income and expenses	(290)	(979)
Losses on sale of property, plant and equipment	945	1,453
Restructuring expenses	5,378	6,792
Net (gain) loss on business reorganization and others	780	(12,724)
Loss on revision of retirement benefit plan	—	2,367
Foreign value added taxes	3,166	—
Income taxes	7,458	14,473
Decrease (increase) in trade receivables	(15,112)	23,972
(Increase) decrease in inventories	13,913	(8,146)
Decrease (increase) in accounts receivable - other	(6,005)	2,726
(Decrease) increase in trade payables	14,166	(11,944)
Increase in accrued expenses	4,225	4,853
Increase (decrease) in retirement and severance benefits	(284)	3,601
Other	(5,465)	(9,811)
Subtotal	102,968	127,960
Interest and dividends received	1,038	732
Interest paid	(2,424)	(2,860)
Payments for structural reforms	(2,556)	(1,572)
Payments for litigation expenses	(1,758)	—
Foreign value added taxes refunded	—	1,731
Income taxes paid	(3,994)	(17,008)
Income taxes refunded	5,897	—
Net cash provided by operating activities	99,171	108,983

(Millions of yen)

	For the year ended March 31, 2014	For the year ended March 31, 2015
Cash flows from investing activities:		
Purchase of property, plant and equipment	(28,040)	(44,063)
Purchase of intangible assets	(3,125)	(4,087)
Proceeds from sales of property, plant and equipment	992	1,811
Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	(55)	(90,230)
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	(848)	15,838
Proceeds from transfer of business	—	9,678
Payments for transfer of business	—	(1,900)
Increase due to mergers	21,317	—
Other	(73)	(797)
Net cash used in investing activities	(9,832)	(113,750)
Cash flows from financing activities:		
Net decrease in short-term debt, net	(13,596)	(25,182)
Proceeds from long-term debt	3,126	123,923
Repayment of long-term debt	(11,941)	(98,411)
Dividends paid to shareholders	(5,552)	(8,553)
Dividends paid to non-controlling interests	(360)	(550)
Acquisition of common stock for treasury	(181)	(102)
Proceeds from sales of treasury stock	14	3
Purchase of shares of consolidated subsidiaries from non-controlling interests	(1,705)	(12)
Net cash used in financing activities	(30,195)	(8,884)
Effect of exchange rate changes on cash and cash equivalents	2,621	6,208
Net (decrease) increase in cash and cash equivalents	61,765	(7,443)
Cash and cash equivalents at the beginning of the year	31,146	92,911
Decrease in cash and cash equivalents resulting from transfer to assets held for sale	—	(6,439)
Cash and cash equivalents at the end of the year	92,911	79,029

(5) Notes to the Consolidated Financial Statements

[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 and one major group company. Each of the eight business units prepares a comprehensive strategy and engages in business activities related to their products and services for both the domestic and overseas markets.

Effective from the year ended March 31, 2015, Hitachi Metals Techno, Ltd. is excluded from the scope of consolidation, as the Company transferred common stock of Hitachi Metals Techno, Ltd. to CK Holdings Ltd as of March 25, 2015.

Based on the above, the High-Grade Metal Products and Materials segment comprises the Specialty Steel Business, Roll Business, and Soft Magnetic Materials Business, and Hitachi Tool Engineering, Ltd. ("Hitachi Tools"). The Magnetic Materials and Applications segment comprises the NEOMAX Business and Information System Components Business. The High-Grade 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
High-Grade Metal Products and Materials	<ul style="list-style-type: none"> •YSSTM brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials and semiconductor and other package materials], materials for industrial equipment [automobile-, aircraft-, and energy-related materials], and razor and blade materials) •Precision cast components •Rolls for steel mills •Injection molding machine parts •Structural ceramic products •Steel-frame joints for construction •Metglas[®] amorphous metals •Cutting tools
Magnetic Materials and Applications	<ul style="list-style-type: none"> •Magnets (NEOMAX[®] rare-earth magnets; ferrite magnets; and other magnets and applied products) •Soft magnetic materials (soft ferrite; FINEMET[®] nanocrystalline magnetic material; and Metglas[®] amorphous metals) and applied products •Materials and components for IT devices •Materials and components for medical equipment
High-Grade Functional Components and Equipment	<ul style="list-style-type: none"> •Casting components for automobiles (HNMTM high-grade ductile cast iron products, cast iron products for transportation equipment, and HERCUNITETM heat-resistant exhaust casting components) •SCUBATM aluminum wheels and other aluminum components •Forged components for automobiles •Piping and infrastructure components (GourdTM brand pipe fittings, 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"> •Electric wires and cables (electric power and industrial systems, electronic and telecommunication materials, electric equipment materials, and industrial rubber products) •Automotive products (electronic components and brake hoses) •Information system devices and materials (information networks, wireless systems, and compound semiconductor products)

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

Last consolidated fiscal year (from April 1, 2013 to March 31, 2014)

(Millions of Yen)

	Business Segment					Others	Total	Adjustments	Consolidated statements of income
	High-Grade Metal Products and Materials	Magnetic Materials and Applications	High-Grade Functional Components and Equipment	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	234,464	134,326	186,025	251,423	806,238	1,556	807,794	—	807,794
Intersegment transactions	3,563	67	265	467	4,362	1,685	6,047	(6,047)	—
Total revenues	238,027	134,393	186,290	251,890	810,600	3,241	813,841	(6,047)	807,794
Segment profit (loss)	19,731	10,058	12,915	15,975	58,679	578	59,257	(5,829)	53,428
Financial income	—	—	—	—	—	—	—	—	2,743
Financial expenses	—	—	—	—	—	—	—	—	(2,453)
Share of profits of investments accounted for using the equity method	—	—	—	—	—	—	—	—	2,102
Income before income taxes	—	—	—	—	—	—	—	—	55,820
Segment assets	284,834	159,619	137,056	265,318	846,827	14,823	861,650	(12,878)	848,772
Other items:									
Depreciation and amortization	11,977	6,301	7,300	7,179	32,757	571	33,328	434	33,762
Capital expenditure	11,849	7,297	6,380	5,604	31,130	201	31,331	656	31,987
Impairment losses	1,691	640	17	711	3,059	—	3,059	—	3,059

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 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, 2014 to March 31, 2015)

(Millions of yen)

	Business Segment					Others	Total	Adjustments	Consolidated statements of income
	High-Grade Metal Products and Materials	Magnetic Materials and Applications	High-Grade Functional Components and Equipment	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	257,396	135,400	282,018	327,595	1,002,409	1,964	1,004,373	—	1,004,373
Intersegment transactions	3,398	86	312	397	4,193	2,395	6,588	(6,588)	—
Total revenues	260,794	135,486	282,330	327,992	1,006,602	4,359	1,010,961	(6,588)	1,004,373
Segment profit (loss)	34,661	11,492	28,074	19,845	94,072	206	94,278	(9,871)	84,407
Financial income	—	—	—	—	—	—	—	—	3,975
Financial expenses	—	—	—	—	—	—	—	—	(2,996)
Share of profits of investments accounted for using the equity method	—	—	—	—	—	—	—	—	1,005
Income before income taxes	—	—	—	—	—	—	—	—	86,391
Segment assets	313,453	151,812	344,029	282,085	1,091,379	17,971	1,109,350	(25,900)	1,083,450
Other items:									
Depreciation and amortization	11,847	6,456	10,704	9,907	38,914	418	39,332	585	39,917
Capital expenditure	18,724	10,209	12,576	9,094	50,603	357	50,960	514	51,474
Impairment losses	—	5,209	88	410	5,707	—	5,707	174	5,881

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 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.

Other Related Information

For the year ended March 31, 2014

1. Product and service information

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

2. Geographic information

(1) Revenues

(Millions of yen)

Japan	North America	Asia	Europe	Other areas	Total
472,133	94,159	183,169	46,875	11,458	807,794

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 ¥83,686 million and ¥74,659 million.

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

(Millions of yen)

Japan	North America	Asia	Europe	Other areas	Total
257,461	24,402	43,442	302	1,094	326,701

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

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, 2015

1. Product and service information

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

2. Geographic information

(1) Revenues

(Millions of yen)

Japan	North America	Asia	Europe	Other areas	Total
527,660	200,362	212,499	49,244	14,608	1,004,373

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 ¥177,973 million and ¥84,508 million, respectively.

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

(Millions of yen)

Japan	North America	Asia	Europe	Other areas	Total
253,251	193,470	51,460	177	1,214	499,572

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 ¥193,470 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:

	2014	2015
Weighted-average number of ordinary shares on which basic EPS is calculated	412,127 Thousands of shares	427,629 Thousands of shares
Net income attributable to shareholders of the parent company	48,133 Millions of yen	70,569 Millions of yen
Basic EPS attributable to shareholders of the parent company	116.79 Yen	165.02 Yen
Potential ordinary shares without dilutive effects and not used in calculating diluted EPS attributable to shareholders of the parent company	Euro-yen convertible type bonds with stock acquisition rights subject to call at par due in 2019: ¥ 4,495 million (outstanding issues)	Euro-yen convertible type bonds with stock acquisition rights subject to call at par due in 2019: ¥ 4,495 million (outstanding issues)

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

[Subsequent Events]

<Transfer of shares of Hitachi Tool>

As of September 26, 2014, the Company and Mitsubishi Materials entered into an agreement under which Mitsubishi Materials acquired 51% of the issued shares in Hitachi Tool, a wholly owned subsidiary of the Company, to strengthen the base of the cemented carbide products (cutting tools) business. The shares were transferred under the agreement as of April 1, 2015, and Hitachi Tool changed its business name to Mitsubishi Hitachi Tool Engineering, Ltd.

Profit from business restructuring associated with the transaction are expected to be approximately ¥26,000 million.

[Information related to the Company's transition to IFRS]

The accompanying consolidated financial statements for the years ended March 31, 2015 and 2014, are the Company's first consolidated financial statements prepared in accordance with IFRS.

The opening IFRS statement of financial position was prepared as of April 1, 2013, the date of transition to IFRS, and reflected necessary adjustments to balances prepared in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"). Details of the first-time adoption and adjustments are as follows:

Exemptions under IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IFRS 1 generally requires retrospective application of IFRS for first-time adopters. However, IFRS permits some exemptions from the retrospective application and the Company elected to apply certain exemptions. The effects of these exemptions were adjusted to retained earnings or accumulated other comprehensive income at the date of transition to IFRS.

- Business combinations

The Company elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition, April 1, 2013. Accordingly, goodwill generated from acquisitions before the date of transition was recognized at the carrying amount determined in accordance with Japanese GAAP.

- Foreign currency translation adjustments on foreign operations

The Company reset the cumulative foreign currency translation adjustments to zero at the date of transition to IFRS.

- Designation of financial instruments existed prior to the date of transition

The Company classified financial assets based on the facts and circumstances that existed at the date of transition as permitted by IFRS 9 *Financial Instruments*. It elected to designate equity instruments, except for certain instruments, as financial assets measured at FVTOCI.

Mandatory exceptions by IFRS 1

IFRS 1 prohibits the retroactive application of IFRS with respect to accounting estimates, derecognition of financial assets and liabilities, hedge accounting, and non-controlling interests. The Company applied IFRS to these items prospectively from the date of transition.

Reconciliation of IFRS and Japanese GAAP

Reconciliation of Equity as of the Date of Transition (April 1, 2013)

(Millions of yen)

Assets	Japanese GAAP	Reclassifications	Differences in recognition and measurement	IFRS	Note	Assets
Current assets						Current assets
Cash and deposits	28,395	2,751	—	31,146		Cash and cash equivalents
Trade notes and accounts receivable	99,265	(602)	3,613	102,276		Trade receivables
Marketable securities	49	(49)				
Merchandise and finished products	43,953	73,107	(353)	116,707		Inventories
Work in process	26,819	(26,819)				
Raw materials and supplies	46,288	(46,288)				
Deferred tax assets	8,594	(8,594)				
Accounts receivable-other	12,545	(12,545)				
Group pooling cash deposits	5,658	(5,658)				
Other current assets	4,816	15,468	(20)	20,264		Other current assets
Allowance for doubtful accounts	(635)	635				
Total current assets	275,747	(8,594)	3,240	270,393		Total current assets
Non-current assets						Non-current assets
		8,324	103	8,427		Investments accounted for using the equity method
		13,946	1,858	15,804	(C)	Investments in securities and other financial assets
Property, plant and equipment, net	185,027	—	(1,891)	183,136		Property, plant and equipment
		41,738	(503)	41,235	(I)	Goodwill and intangible assets
Goodwill	36,114	(36,114)				
Others (intangible assets)	5,624	(5,624)				
Investment securities	15,239	(15,239)				
Long-term loans receivable	2,342	(2,342)				
Deferred tax assets	8,914	8,594	(626)	16,882	(A)(F)	Deferred tax assets
Others (investments and other assets)	14,726	(7,136)	3,068	10,658		Other non-current assets
Allowance for doubtful accounts	(2,447)	2,447				
Total non-current assets	265,539	8,594	2,009	276,142		Total non-current assets
Total assets	541,286	—	5,249	546,535		Total assets

(Millions of yen)

Liabilities and net assets	Japanese GAAP	Reclassifications	Differences in recognition and measurement	IFRS	Note	Liabilities and equity
Current liabilities						Current liabilities
Short-term borrowings	38,085	—	4,466	42,551		Short-term debt
Current maturities of long-term debts	6,202	134	116	6,452		Current maturities of long-term debt
		14,928	—	14,928		Other financial liabilities
Trade notes and accounts payable	67,942	—	—	67,942		Trade payables
Accrued income taxes	1,638	(1,638)				
Accrued expenses	17,918	926	842	19,686	(B)	Accrued expenses
Advance payments from customers	990	—	(197)	793		Advances received
Deferred tax liabilities	55	(55)				
Allowance for directors' bonuses	314	(314)				
Other current liabilities	16,096	(14,036)	96	2,156		Other current liabilities
Total current liabilities	149,240	(55)	5,323	154,508		Total current liabilities
Fixed liabilities						Non-current liabilities
Bonds payable	30,000	(30,000)				
Convertible bonds with subscription rights to shares	4,495	(4,495)				
Long-term debts, less current maturities	67,153	35,024	80	102,257		Long-term debts
		1,200	208	1,408		Other financial liabilities
Accrued retirement benefits	22,573	—	8,066	30,639	(D)	Retirement and severance benefits
Provision for directors' retirement benefits	156	(156)				
Provision for business losses of associates	496	(496)				
Provision for environmental measures	598	(598)				
Deferred tax liabilities	2,007	55	(1,470)	592	(A)(C)(F)	Deferred tax liabilities
Negative goodwill	45	(45)				
Asset retirement obligations	170	(170)				
Other non-current liabilities	4,488	(264)	(517)	3,707	(B)	Other non-current liabilities
Total non-current liabilities	132,181	55	6,367	138,603		Total non-current liabilities
Total liabilities	281,421	—	11,690	293,111		Total liabilities

(Millions of yen)

Liabilities and net assets	Japanese GAAP	Reclassifications	Differences in recognition and measurement	IFRS	Note	Liabilities and equity
Common stock	26,284	—	—	26,284	(G) (C)(D) (E)	Common stock
Capital surplus	42,463	—	—	42,463		Capital surplus
Retained earnings	192,500	—	(21,092)	171,408		Retained earnings
Accumulated other comprehensive income	(10,116)	—	15,032	4,916		Accumulated other comprehensive income
Treasury stock	(833)	—	—	(833)		Treasury stock, at cost
				244,238	Total equity attributable to shareholders of the parent company	
Minority interests	9,567	—	(381)	9,186		Non-controlling interests
Total net assets	259,865	—	(6,441)	253,424		Total equity
Total liabilities and net assets	541,286	—	5,249	546,535		Total liabilities and equity

Reconciliation of Equity as of March 31, 2014

(Millions of yen)

Assets	Japanese GAAP	Reclassifications	Differences in recognition and measurement	IFRS	Note	Assets
Current assets						Current assets
Cash and deposits	45,289	47,622	—	92,911		Cash and cash equivalents
Trade notes and accounts receivable	210,503	(604)	(1,732)	208,167		Trade receivables
Marketable Securities	1,058	(1,058)				
Merchandise and finished products	52,336	90,554	1,206	144,096		Inventories
Work in process	45,007	(45,007)				
Raw materials and supplies	45,547	(45,547)				
Deferred tax assets	16,059	(16,059)				
Accounts receivable-other	32,629	(32,629)				
Group pooling cash deposits	49,196	(49,196)				
Other current assets	10,835	35,184	(73)	45,946		Other current assets
Allowance for doubtful accounts	(681)	681				
Total current assets	507,778	(16,059)	(599)	491,120		Total current assets
Non-current assets						Non-current assets
		28,765	804	29,569		Investments accounted for using the equity method
		15,929	5,080	21,009	(C)	Investments in securities and other financial assets
Property, plant and equipment, net	234,666	—	252	234,918		Property, plant and equipment
		46,125	1,141	47,266	(I)	Goodwill and intangible assets
Goodwill	33,546	(33,546)				
Others (Intangible assets)	12,579	(12,579)				
Investment securities	36,203	(36,203)				
Long-term loans receivable	161	(161)				
Deferred tax assets	1,008	16,059	(7,959)	9,108	(A)(F)	Deferred tax assets
Asset for retirement benefits	3,927	(3,927)				
Others (investments and other assets)	11,564	(5,093)	9,311	15,782		Other non-current assets
Allowance for doubtful accounts	(690)	690				
Total fixed assets	332,964	16,059	8,629	357,652		Total non-current assets
Total assets	840,742	—	8,030	848,772		Total assets

(Millions of yen)

Liabilities and net assets	Japanese GAAP	Reclassifications	Differences in recognition and measurement	IFRS	Note	Liabilities and equity
Current liabilities						Current liabilities
Short-term borrowings	42,949	—	119	43,068		Short-term debt
Current maturities of long-term debts	39,635	167	151	39,953		Current maturities of long-term debt
		22,083	—	22,083		Other financial liabilities
Trade notes and accounts payable	167,436	—	—	167,436		Trade payables
Accrued income taxes	7,422	(7,422)				
Accrued expense	33,280	149	1,064	34,493	(B)	Accrued expenses
Advance payments from customers	2,830	—	2	2,832		Advances received
Deferred tax liabilities	8	(8)				
Allowance for directors' bonuses	354	(354)				
Provision for surcharge	332	(332)				
Other current liabilities	23,796	(14,291)	(26)	9,479		Other current liabilities
Total current liabilities	318,042	(8)	1,310	319,344		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds payable	35,000	(35,000)				
Convertible bonds with subscription rights to shares	4,495	(4,495)				
Long-term debts, less current maturities	53,879	39,959	336	94,174		Long-term debt
		1,150	296	1,446		Other financial liabilities
Liability for retirement benefits	47,939	—	(1,470)	46,469	(D)	Retirement and severance benefits
Provision for directors' retirement benefits	79	(79)				
Provision for environmental measures	1,024	(1,024)				
Deferred tax liabilities	3,267	8	(2,065)	1,210	(A)(C)(F)	Deferred tax liabilities
Negative goodwill	13	(13)				
Asset retirement obligations	194	(194)				
Other non-current liabilities	3,612	(304)	(19)	3,289	(B)	Other non-current liabilities
Total non-current liabilities	149,502	8	(2,922)	146,588		Total non-current liabilities
Total liabilities	467,544	—	(1,612)	465,932		Total liabilities

(Millions of yen)

Liabilities and net assets	Japanese GAAP	Reclassifications	Differences in recognition and measurement	IFRS	Note	Liabilities and equity
Common stock	26,284	—	—	26,284	(G) (C)(D) (E)	Common stock
Capital surplus	115,692	—	(101)	115,591		Capital surplus
Retained earnings	239,530	—	(23,927)	215,603		Retained earnings
Accumulated other comprehensive income	(17,552)	—	33,301	15,749		Accumulated other comprehensive income
Treasury stock, at cost	(1,010)	—	—	(1,010)		Treasury stock, at cost
				372,217		Total equity attributable to shareholders of the parent company
Minority interests	10,254	—	369	10,623	Non-controlling interests	
Total net assets	373,198	—	9,642	382,840		Total equity
Total liabilities and net assets	840,742	—	8,030	848,772		Total liabilities and equity

Reconciliation of Comprehensive Income as of March 31, 2014

(Millions of yen)

	Japanese GAAP	Reclassifications	Differences in recognition and measurement	IFRS	Note	
Consolidated statement of income						
Net sales	807,952	—	(158)	807,794		Revenues
Cost of sales	(638,872)	—	1,791	(637,081)	(J)	Cost of sales
Gross profit	169,080	—	1,633	170,713		Gross profit
Selling, general and administrative expenses	(109,544)	—	2,693	(106,851)	(I)(J)	Selling, general, and administrative expenses
		6,596	(752)	5,844	(H)	Other income
		(16,934)	656	(16,278)	(H)	Other expenses
Operating income	59,536	(10,338)	4,230	53,428		Operating income
		723	20	743	(H)	Interest income
		1,930	70	2,000	(H)	Other financial income
		(2,362)	(83)	(2,445)	(H)	Interest charges
		1	(9)	(8)	(H)	Other financial expenses
		1,306	796	2,102	(H)	Share of profits of investments accounted for using the equity method
Non-operating income	9,978	(9,978)				
Non-operating expenses	(8,616)	8,616				
Extraordinary income	577	(577)				
Extraordinary losses	(10,679)	10,679				
Income before income taxes and minority interests	50,796	—	5,024	55,820		Income before income taxes
Income taxes - current	(11,321)	176	3,687	(7,458)	(F)	Income taxes
Income taxes - deferred	176	(176)				
Income before minority interests	39,651	—	8,711	48,362		Net income
Minority interests	234	—	(5)	229		Net income attributable to non-controlling interests
Net income	39,417	—	8,716	48,133		Net income attributable to shareholders of the parent company

(Millions of yen)

	Japanese GAAP	Reclassifications	Differences in recognition and measurement	IFRS	Note	
Consolidated Statements of comprehensive Income						
Income before minority interests	39,651		8,711	48,362		Net income
Other comprehensive income						Other comprehensive income
						Items not to be reclassified into net income
Net unrealized holding gains on available-for-sale securities	947	—	(36)	911	(C)	Net change in fair value of financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	3,040	—	(5,591)	(2,551)	(D)(J)	Remeasurement of defined benefit obligations
		(50)	—	(50)		Share of other comprehensive income of investments accounted for using the equity method
				(1,690)		Total items not to be reclassified into net income
						Items that can be reclassified into net income
Foreign currency translation adjustments	8,172	—	6	8,178	(E)	Foreign currency translation adjustments
Deferred gains (losses) on hedges	23	—	(18)	5		Net change in fair value of cash flow hedges
		1,040	—	1,040		Share of other comprehensive income of investments accounted for using the equity method
				9,223		Total items that can be reclassified into net income
Share of other comprehensive income of affiliated companies accounted for using the equity method	990	(990)				
Total other comprehensive income	13,172	—	(5,639)	7,533		Total other comprehensive income
Comprehensive income	52,823	—	3,072	55,895		Comprehensive income
Comprehensive income attributable to shareholders of the parent company	52,063	—	2,525	54,588		Comprehensive income attributable to shareholders of the parent company
Comprehensive income attributable to minority interests	760	—	547	1,307		Comprehensive income attributable to non-controlling interests Comprehensive income

Notes to the Reconciliation of Equity

(Notes to reclassifications)

(A) Deferred tax assets and deferred tax liabilities

Under Japanese GAAP, deferred tax assets and liabilities are classified into current or non-current. As such, current and non-current presentation is not permitted per IFRS; these items are all reclassified into non-current assets and liabilities.

(B) Accrued expenses and other non-current liabilities

Certain accrued expenses and other non-current liabilities are reclassified based on the definitions and recognition criteria under IFRS.

(Notes to differences in recognition and measurement)

(C) Equity instruments

IFRS requires all equity instruments to be measured at fair value, regardless of whether or not they have active markets or not, and allows the fair value changes to be recognized in other comprehensive income. If fair value changes are recognized in other comprehensive income, subsequent gains or losses from sales of such instruments as well as the valuation gains or losses cannot be recognized in profit or loss.

Under Japanese GAAP, equity instruments with no active market are measured at acquisition cost, unless a decline in the fair value is determined to be other than temporary, in which case the difference between the acquisition cost and the fair value is recognized as an impairment loss. Gains or losses from the sales of equity instruments are recognized in profit or loss.

Adjustments for investments in securities and other financial assets as of March 31, 2014, and April 1, 2013, were ¥5,062 million and ¥1,858 million, respectively. The net differences after adjustments for deferred tax liabilities of ¥(1,793) million and ¥(657) million, respectively, are mainly included in other comprehensive income.

(D) Employee benefits

IFRS requires actuarial gains and losses to be recognized as incurred in other comprehensive income. Retirement benefit obligations are attributed to periods of service on a benefit formula basis.

Japanese GAAP requires actuarial gains and losses to be primarily expensed by the straight-line method over a certain period within the employees' average remaining service period when actuarial gains and losses are expected to incur from the following fiscal year of the occurrence. Retirement benefit obligations are attributed to periods on a straight-line basis.

Accordingly, accumulated other comprehensive income as of April 1, 2013, was reclassified entirely to retained earnings for the IFRS transition.

(E) Foreign currency translation adjustments

The Company has elected to treat cumulative translation differences for all foreign operations as zero at the date of transition to IFRS. As a result, the amount recorded in other comprehensive income under Japanese GAAP was entirely reclassified to retained earnings as of April 1, 2013.

(F) Deferred tax assets and deferred tax liabilities

Unrealized gains and losses from intercompany transactions are recorded as temporary differences under IFRS based on the asset and liability method. Deferred tax liabilities are recognized using the buyer's tax rate on the difference between the tax base and the carrying amount of the asset sold, after consideration of valuation of future deductible temporary differences. Under Japanese GAAP, tax expenses for the seller are deferred until the transaction is completed outside of the Group based on the deferral method.

Subsequent changes to deferred tax liabilities on items in other comprehensive income recognized in the past are recognized in other comprehensive income under IFRS. Under Japanese GAAP, subsequent changes, such as tax rate changes and adjustments to valuation allowances, are recognized in net income.

With respect to temporary differences on equity-method investees, IFRS requires all future taxable temporary differences to be recognized using tax rates in effect when temporary differences are resolved, such as at the time of dividends or disposal. Under Japanese GAAP, deferred tax liabilities are recognized using the tax rate applicable based on the premise that temporary differences are resolved by disposal.

(G) Retained earnings

The impacts on retained earnings, net of related tax effects, from the above adjustments are as follows:

(Millions of yen)

	April 1, 2013	March 31, 2014
Employee benefits (D)	(11,084)	(15,899)
Foreign currency translation adjustments (E)	(11,372)	(13,805)
Others	1,364	5,777
Total	(21,092)	(23,927)

Notes to the Reconciliation of Comprehensive Income

(Notes to reclassifications)

- (H) Other income, other expenses, interest income, interest charges, other financial income, other financial expenses, and share of profits of investments accounted for using the equity method

Items classified as non-operating income, non-operating expenses, extraordinary income, and extraordinary losses under Japanese GAAP are presented as finance related items (e.g. interest income, dividends income, interest charges, and foreign exchange gains or losses) are presented as interest income, other financial income, interest charges, or other financial expenses. The remaining items are presented as other income, other expenses, or share of profits of investments accounted for using the equity method.

(Notes to differences in recognition and measurement)

- (I) Goodwill

Goodwill is not amortized under IFRS, while it is amortized under Japanese GAAP on a straight-line basis over the period in which the economic benefits are expected to be realized.

Accordingly, an adjustment arising from the above difference decreased selling, general, and administrative expenses by ¥2,753 million for the year ended March 31, 2014.

- (J) Employee benefits

IFRS requires remeasurements for defined benefit corporate pension plans and lump-sum payment plans to be recognized in other comprehensive income. Remeasurement consists of actuarial gains and losses from defined benefit obligations, returns on plan assets (excluding interest income on plan assets), and others. Prior service cost is recognized immediately in profit or loss. Current service cost is recognized as incurred in profit or loss. Net interest is measured by multiplying the net defined benefit liability (asset) by discount rates and is recognized in profit or loss.

Japanese GAAP requires actuarial gains and losses and prior service costs that are not recognized as an expense in the current period to be included in accumulated other comprehensive income, which are subsequently amortized into profit or loss over a certain period of time. Current service cost, interest cost, and expected return on plan assets are recognized in profit or loss.

Accordingly, adjustments arising from the above differences decreased cost of sales; and selling, general, and administrative expenses by ¥1,387 million and ¥335 million, respectively, for the year ended March 31, 2014.

Notes to the Reconciliation of Statement of Cash Flows

Major reconciliations of the consolidated statement of cash flows for the year ended March 31, 2014, due to transition from Japanese GAAP to IFRS are as follows:

Interest and dividends received were classified as cash flows from investing activities and interest paid as cash flows from financing activities under Japanese GAAP, while they were both classified as cash flows from operating activities under IFRS.

Changes in cash and cash equivalents due to merger are separately presented by adjusting the beginning balance of cash and cash equivalent balance under Japanese GAAP, while such changes are presented as cash flows from investing activities under IFRS.

Accordingly, adjustments arising from the above differences decreased cash flows from operating activities by ¥1,386 million, and increased cash flows from investing activities by ¥21,074 million and cash flows from financing activities by ¥719 million for the year ended March 31, 2014.