



Consolidated Financial Report [IFRS] for the Year Ended March 31, 2017

April 28, 2017

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: Akitoshi Hiraki, President and Chief Executive Officer

Contact: Tatsuya Minami, General Manager, Corporate Communications Office Tel: +81-3-6774-3077

Date of the Ordinary General Meeting of Shareholders: June 27, 2017

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

1. Performance over the year under review (Apr. 1, 2016 - Mar. 31, 2017)

(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, 2017 | 910,486 | (10.5) | 65,983 | (13.2) | 68,267 | (31.7) | 66,016 | (31.4) | 50,692 | (26.5) | 50,593 | (26.7) |
| March, 2016 | 1,017,584 | 1.3 | 76,061 | (9.9) | 99,954 | 18.4 | 96,233 | 11.4 | 68,980 | (4.1) | 69,056 | (2.1) |

(Note) Adjusted operating income is the operating income recorded in the consolidated statement of income, excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profit indicator for the Hitachi Group, including Hitachi, Ltd.

| | Comprehensive Income | | 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 | Operating Income Ratio to Revenues |
|-------------|----------------------|--------|---|---|---|--|------------------------------------|
| | Million yen | % | Yen | Yen | % | % | % |
| March, 2017 | 51,965 | 29.6 | 118.32 | — | 9.8 | 6.4 | 7.5 |
| March, 2016 | 40,082 | (61.6) | 161.50 | — | 14.4 | 9.1 | 9.8 |

Reference: Share of profit of investments accounted for using the equity method *March, 2017 ¥1,154millions* *March, 2016 ¥428millions*

(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, 2017 | 1,040,390 | 548,746 | 536,563 | 51.6 | 1,254.89 |
| March, 2016 | 1,033,311 | 504,675 | 495,865 | 48.0 | 1,159.70 |

(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, 2017 | 89,391 | (35,864) | (34,192) | 139,411 |
| March, 2016 | 115,742 | (32,147) | (37,872) | 120,300 |

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, 2016 | — | 13.00 | — | 13.00 | 26.00 | 11,118 | 16.1 | 2.3 |
| March, 2017 | — | 13.00 | — | 13.00 | 26.00 | 11,118 | 22.0 | 2.2 |
| March, 2018 (Forecast) | — | 13.00 | — | 13.00 | 26.00 | | 24.7 | |

3. Business results forecast for the year ending March 31, 2018 (Apr.1, 2017 - Mar.31, 2018)

(% 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 | | Basic Earnings per Share |
|-----------|-------------|-----|---------------------------|------|----------------------------|-------|---|--------|--------------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full-year | 950,000 | 4.3 | 80,000 | 21.2 | 63,000 | (4.6) | 45,000 | (11.1) | 105.24 |

(Note) Adjusted operating income is the operating income recorded in the consolidated statement of income, excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profit indicator for the Hitachi Group, including Hitachi, Ltd.

*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.

【Appendix】

Table of Contents

| | |
|--|----|
| 1. Overview of Operating Results | 4 |
| (1) Overview of Operating Results..... | 4 |
| (2) Overview of Financial Condition..... | 7 |
| (3) Business Risks..... | 8 |
| 2. Basic Views of Selecting Accounting Standards..... | 8 |
| 3. Consolidated Financial Statements and Notes to Consolidated Financial Statements..... | 9 |
| (1) Consolidated Statements of Financial Position..... | 9 |
| (2) Consolidated Statements of Income and Comprehensive Income..... | 11 |
| [Consolidated Statements of Income]..... | 11 |
| [Consolidated Statements of Comprehensive Income]..... | 12 |
| (3) Consolidated Statements of Changes in Equity..... | 13 |
| (4) Consolidated Statements of Cash Flows..... | 14 |
| (5) Notes to the Consolidated Financial Statements..... | 16 |
| [Segment Information]..... | 16 |
| [Net Income per Share]..... | 21 |
| [Subsequent Events]..... | 21 |

1. Overview of Operating Results

(1) Overview of Operating Results

1) Overview of Fiscal 2016 (fiscal year ended March 31, 2017)

During the year ended March 31, 2017, the global economy remained on a modest recovery path primarily in advanced countries. The United States maintained stable economic growth, backed by an increase in individual consumption and a favorable employment situation. European economies continued a moderate recovery despite a slowdown in improvements in some corporate sectors. The Chinese economy showed some signs of a partial rally in the market due to the effects of the government's various economic measures, and economic growth in emerging countries also remained on a recovery track. Amid these situations, the Japanese economy showed some signs of a gradual recovery thanks to the improvement in employment and income environments despite weak exports and production due to the impact of an economic slowdown in emerging countries.

Among the industries in which Hitachi Metals Group (the "Group") operates, sales in the automobile industry have increased overall compared with the fiscal year ended March 31, 2016. This is mainly due to increased demand in the Japanese market since the end of 2016 and steady demand in Europe and China, although the sales of new vehicles have reached their peak level in the United States. Supply and demand of steel showed positive signs in the construction sector in the Japanese market since the beginning of 2017, although demand for steel continued to experience challenges on a global basis affected by the economic slowdown in emerging countries. The number of new housing starts increased both in the United States and Japan. In the electronics industry, mobile devices started to show a recovery before the end of the fiscal year, and demand for household appliances increased mainly in Japan during the latter half of the fiscal year ended March 31, 2017.

Under the business circumstances described above, for the fiscal year ended March 31, 2017, revenues of the Group decreased by 10.5% to ¥910,486 million, adjusted operating income decreased by ¥10,078 million to ¥65,983 million, and operating income decreased by ¥31,687 million to ¥68,267 million, compared with those for the fiscal year ended March 31, 2016. These results were influenced mainly by a reduction in raw material prices (a sliding-scale raw material price system), the appreciation of the yen, and a decline in demand. Further, operating income decreased mainly due to a decrease in gross profit and gains on business reorganization and others of ¥30,232 million in other income arising from a transfer of shares equivalent to 51% of the issued shares of Hitachi Tool Engineering, Ltd. (currently named Mitsubishi Hitachi Tool Engineering, Ltd.) to Mitsubishi Materials Corporation as of April 1, 2015, during the fiscal year ended March 31, 2016. For the fiscal year ended March 31, 2017, income before income taxes decreased by ¥30,217 million to ¥66,016 million and net income attributable to owners of the parent company decreased by ¥18,463 million to ¥50,593 million, compared with the year ended March 31, 2016.

Results by business segment are as follows. Note that sales for each segment include intersegment sales and transfers. There were no changes to the businesses of the Group during the year ended March 31, 2017.

Effective from the three months ended June 30, 2016, the Group changed part of its internal managerial categories of businesses and consolidated subsidiaries related to reportable segments. It also changed treatment for certain corporate general and administrative expenses, such as research expenses and other such expenses, which were previously treated as adjustments, to allocate them to applicable reporting segments based on the budget. Refer to "3. Consolidated Financial Statements and Notes to Consolidated Financial Statements (5)Notes to the Consolidated Financial Statements [Segment Information]" for details.

Comparable year-on-year information presented below reflects the above changes to the categories of the reportable segments and treatment for certain corporate general and administrative expenses.

High-Grade Metal Products and Materials

Revenues in the High-Grade Metal Products and Materials segment for the fiscal year ended March 31, 2017, were ¥234,725 million, a decrease of 8.5%, and adjusted operating income decreased by ¥3,525 million to ¥23,503 million, as compared with those for the fiscal year ended March 31, 2016. Operating income of the segment decreased by ¥31,793 million to ¥21,277 million for the same period due to the effects of the decrease in revenues as well as gains on business reorganization and others of ¥25,931 million arising from the transfer of shares of Hitachi Tool Engineering, Ltd. (currently named Mitsubishi Hitachi Tool Engineering, Ltd.) during the three months ended June 30, 2015.

<Specialty Steels>

Sales of molds and tool steel fell below those for the fiscal year ended March 31, 2016, due to inventory adjustments of molds and tool steel affected by an economic slowdown mainly in Asia during the three months ended June 30, 2016. In industrial equipment materials, demand for environment-friendly products related to automobiles increased, and sales of other industrial components were strong. Sales of aircraft-related and energy-related materials faced an in-between season of demand. In alloys for electronic products, sales of display-related materials were stagnant.

<Rolls>

On September 1, 2016, the Group discontinued production at Baosteel Hitachi Rolls (Nantong) Ltd. with the objective of concentrating management resources in high value-added products. Additionally, sales of injection molding machine parts were affected by a decline in demand for mobile devices. As a result, sales of rolls as a whole fell year on year.

<Soft Magnetic Materials and Applied Products>

Sales of soft magnetic materials and applied products as a whole fell below those for the fiscal year ended March 31, 2016, due to a drop in demand in China, despite a gradual increase in demand for the mainstay Metglas® amorphous metals in India.

Magnetic Materials and Applications

Revenues in the Magnetic Materials and Applications segment for the fiscal year ended March 31, 2017, were ¥99,756 million, a decrease of 5.2%, and adjusted operating income increased by ¥2,392 million to ¥9,314 million, as compared with those for the fiscal year ended March 31, 2016. Operating income of the segment increased by ¥2,274 million to ¥9,301 million for the same period.

<Magnets>

In rare earth magnets, demand for industrial equipment and household appliances increased as compared with that for the fiscal year ended March 31, 2016, supported by strong demand in automotive electronic components for electric power steering and hybrid automobiles. In ferrite magnets, there was strong demand for automotive electronic components and household appliance parts. However, revenues in the segment fell below those for the fiscal year ended March 31, 2016, overall due to the effects of the reduction in raw material prices (a sliding-scale raw material price system) and the appreciation of the yen.

High-Grade Functional Components and Equipment

Revenues in the High-Grade Functional Components and Equipment segment for the fiscal year ended March 31, 2017, were ¥333,509 million, a decrease of 8.7%, and adjusted operating income decreased by ¥8,662 million to ¥17,453 million, as compared with those for the fiscal year ended March 31, 2016. Operating income of the segment decreased by ¥7,688 million to ¥15,920 million for the same period.

<Casting Components for Automobiles>

Despite sustained high demand for casting components for pickup trucks in North America, sales of casting components for automobiles as a whole decreased compared with those for the fiscal year ended March 31, 2016, due to a decrease in demand for casting components for farming machinery and construction machinery resulting from economic slowdown in emerging countries and sluggish grain and crude oil prices. Sales of heat-resistant exhaust casting components exceeded those for the prior fiscal year due to significant sales growth in the United States and Asia. Sales of aluminum wheels fell below those for the same period of the prior year due to a decrease in shipments as well as the appreciation of the yen.

<Piping Components>

Sales of pipe fittings as a whole fell below those for the fiscal year ended March 31, 2016, due in part to the effects of the delay in large-scale constructions in Japan, despite a steady increase in demand for housing-related supplies following an increased number of new housing starts both in Japan and overseas.

Wires, Cables, and Related Products

Revenues in the Wires, Cables, and Related Products segment for the fiscal year ended March 31, 2017, were ¥241,392 million, a decrease of 16.3%, and adjusted operating income decreased by ¥309 million to ¥14,715 million, as compared with those for

the fiscal year ended March 31, 2016. In the Wires, Cables, and Related Products segment, the following measures were taken for the purpose of renewing the business portfolio. The Information System Business, which is comprised of the information network business and wireless antenna business together with all issued shares of Hitachi Cable Networks, Ltd. held by Hitachi Metals, Ltd. (the “Company”), was transferred as of December 1, 2016. In addition, on January 5, 2017, for the purpose of making prompt management decisions in response to a rapidly changing market environment, the Company transferred all of its interest in SH Materials Co., Ltd, which was a joint venture between the Company and Sumitomo Metal Mining Co., Ltd. (“SMM”) and accounted for using the equity-method to SMM. At the same time, the Company obtained all of SMM’s interest in SH Copper Products Co., Ltd. (“SH Copper Products”), which was a joint venture between the Company and SMM and accounted for using the equity-method, and SH Copper Products became a wholly owned subsidiary of the Company. Due to these measures, the Company recorded gains on business reorganization of ¥8,417 million for the fiscal year ended March 31, 2017. As a result, operating income increased by ¥4,974 million to ¥20,953 million as compared with the fiscal year ended March 31, 2016.

<Electric Wires and Cables>

While revenues from magnet wires and electrical wires and cables for construction decreased, sales of wires and cables for rolling stock, which is one of the focus areas of the Group, grew significantly, especially for China.

<Functional Components>

In automotive products, demand for both electronic components for automobiles and brake hoses was strong. Sales of probe cables for medical use fell below those for the prior year due to diminished demand in overseas countries.

Other

Revenues in the Other segment for the fiscal year ended March 31, 2017, were ¥2,963 million, a decrease of 16.5%, and adjusted operating income decreased by ¥65 million to ¥253 million, as compared with those for the fiscal year ended March 31, 2016. Operating income of the segment increased by ¥188 million to ¥331 million for the same period.

2) Outlook for Fiscal 2017 (the fiscal year ending March 31, 2018)

As for the Group’s business environment, while the Group expects the world economies to continue on a recovery path, there are uncertainties stemming from political instability in many countries, concerns about further economic slowdown in emerging countries such as China, and sudden fluctuations in exchange rates and resource prices.

In this business environment, the Group aims to carry out its global growth strategies and build structures for sustainable growth based on the fiscal 2018 medium-term management plan to position itself as one of the world's leading high-performance materials company materials. The consolidated operating forecasts for the fiscal year ending March 31, 2018, the second year of this medium-term management plan, are as follows:

Consolidated operating forecasts for the fiscal year ending March 31, 2018 (April 1, 2017— March 31, 2018)

(% represents the percentage change year-on-year)

| | Revenues | | Adjusted Operating income | | Income before income | | Net income attributable to shareholders of the parent company | | Basic earnings per share |
|-----------------------------------|-----------|-----|---------------------------|------|----------------------|-------|---|--------|--------------------------|
| | ¥ million | % | ¥ million | % | ¥ million | % | ¥ million | % | ¥ |
| Fiscal year ending March 31, 2018 | 950,000 | 4.3 | 80,000 | 21.2 | 63,000 | (4.6) | 45,000 | (11.1) | 105.24 |

(Note) Adjusted operating income is the operating income recorded in the consolidated statement of income, excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profit indicator for the Hitachi Group, including Hitachi, Ltd.

(2) Overview of Financial Condition

1) Assets, liabilities, and equity

The analysis of changes in the Group's consolidated statement of financial position as of the end of the fiscal year ended March 31, 2017, is as follows:

Total assets were ¥1,040,390 million, an increase of ¥7,079 million compared with the end of the fiscal year ended March 31, 2016. Current assets were ¥491,895 million, a increase of ¥8,040 million compared to the end of the fiscal year ended March 31, 2016. This was mainly attributable to the net effect of an increase in cash and cash equivalents of ¥19,111 million and a decrease in other current assets of ¥14,950 million. Non-current assets were ¥548,495 million, an decrease of ¥961 million compared to the end of the fiscal year ended March 31, 2016. This was mainly attributable to decreases in investments accounted for using the equity method, goodwill and intangible assets, investments in securities and other financial assets, and other non-current assets of ¥10,198 million, ¥7,720 million, ¥1,482 million, and ¥1,035 million, respectively, despite of an increase in property, plant and equipment of ¥20,375 million.

Total liabilities were ¥491,644 million, a decrease of ¥36,992 million compared to the end of the fiscal year ended March 31, 2016. This was mainly attributable to a decrease in long-term debt of ¥35,300 million. Total equity was ¥548,746 million, an increase of ¥44,071 million compared to the end of the fiscal year ended March 31, 2016. This was mainly attributable to an increase in retained earnings of ¥39,928 million.

2) Cash flows

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2017, were ¥139,411 million, an increase of ¥19,111 million from the end of the fiscal year ended March 31, 2016, as a result of net cash provided by operating activities exceeding cash used in investing activities and financing activities.

The analysis of cash flows for each category as of the end of the fiscal year ended March 31, 2017, is as follows:

<Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥89,391 million, which was mainly attributable to net income of ¥50,692 million and depreciation and amortization of intangible assets of ¥43,039 million for the fiscal year ended March 31, 2017.

<Cash Flows from Investing Activities>

Net cash used in investing activities was ¥35,864 million, which was mainly attributable to the net effect of payment of ¥63,144 million for the purchase of property, plant and equipment, and proceeds of ¥27,903 million from the sale of investments in securities and other financial assets.

<Cash Flows from Financing Activities>

Net cash used in financing activities was ¥34,192 million, which was mainly attributable to repayment of long-term debt of ¥26,782 million and payment of dividends of ¥11,308 million to shareholders.

| | 3/2014 | 3/2015 | 3/2016 | 3/2017 |
|--|--------|--------|--------|--------|
| Ratio of equity attributable to shareholders of the parent company | 43.9 | 43.0 | 48.0 | 51.6 |
| Ratio of equity attributable to shareholders of the parent company at market value | 74.0 | 72.8 | 48.0 | 64.2 |
| Ratio of interest-bearing debts to cash flows | 178.7 | 234.3 | 190.4 | 217.5 |
| Interest coverage ratio | 40.9 | 38.1 | 30.6 | 31.2 |

*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.
4. As the Company has applied IFRS from the fiscal year ended March 31, 2015, with the transition date to IFRS of April 1, 2013, indicators for the fiscal years ended on March 31, 2013, are not disclosed.

(3) Business Risks

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

- a) Market trends in electronics, automobiles, construction, and other related industries in which the Group operates
- b) Economic fluctuations in the United States, Asia, Europe, and other regions where the Group sells its products
- c) Price changes in raw materials affected by international market conditions
- d) Effects of fluctuations in interest rates and credit risks associated with financing activities
- e) Impacts of changes in foreign exchange rates on transactions, assets, and debt denominated in foreign currencies
- f) Impairment losses arising from changes in fair value of investment securities held
- g) Disturbances due to economic, social, or political factors affecting overseas operations
- h) Decline in competitiveness and abilities to develop and commercialize new technologies or products
- i) Disputes over intellectual property rights
- j) Increase in costs associated with environmental, export control, or other regulation, or penalties for regulatory violations
- k) Costs related to product defects
- l) Impact of earthquakes or other major natural disasters on business activities
- m) Claims and lawsuits for damages due to unauthorized disclosure of personal and confidential information
- n) Estimates concerning retirement and service benefit
- o) Affects by a management strategy of the parent company
- p) Plan to reach M&A
- q) Difficulties to implement as the targeted benchmarks on the Medium-term Management Plan

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

2. Basic Views of Selecting Accounting Standards

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

3. Consolidated Financial Statements and Notes to Consolidated Financial Statements

(1) Consolidated Statements of Financial Position

(Millions of yen)

| | As of March 31, 2016 | As of March 31, 2017 |
|--|-------------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 120,300 | 139,411 |
| Trade receivables | 178,281 | 175,568 |
| Inventories | 146,964 | 153,556 |
| Other current assets | 38,310 | 23,360 |
| Total current assets | 483,855 | 491,895 |
| Non-current assets | | |
| Investments accounted for using the equity method | 36,437 | 26,239 |
| Investments in securities and other financial assets | 22,446 | 20,964 |
| Property, plant and equipment | 304,292 | 324,667 |
| Goodwill and intangible assets | 158,915 | 151,195 |
| Deferred tax assets | 12,552 | 11,651 |
| Other non-current assets | 14,814 | 13,779 |
| Total non-current assets | 549,456 | 548,495 |
| Total assets | 1,033,311 | 1,040,390 |

(Millions of yen)

| | As of March 31, 2016 | As of March 31, 2017 |
|---|-------------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Short-term debt | 25,251 | 26,301 |
| Current portion of long-term debt | 27,131 | 35,462 |
| Other financial liabilities | 26,714 | 26,360 |
| Trade payables | 148,999 | 150,785 |
| Accrued expenses | 38,067 | 37,817 |
| Advances received | 2,426 | 858 |
| Other current liabilities | 8,126 | 6,002 |
| Total current liabilities | <u>276,714</u> | <u>283,585</u> |
| Non-current liabilities | | |
| Long-term debts | 167,994 | 132,694 |
| Other financial liabilities | 3,482 | 1,641 |
| Retirement and severance benefits | 66,820 | 60,299 |
| Deferred tax liabilities | 7,933 | 8,758 |
| Other non-current liabilities | 5,693 | 4,667 |
| Total non-current liabilities | <u>251,922</u> | <u>208,059</u> |
| Total liabilities | <u>528,636</u> | <u>491,644</u> |
| Equity | | |
| Equity attributable to shareholders of the parent company | | |
| Common stock | 26,284 | 26,284 |
| Capital surplus | 115,806 | 115,806 |
| Retained earnings | 336,141 | 376,069 |
| Accumulated other comprehensive income | 18,780 | 19,555 |
| Treasury stock, at cost | (1,146) | (1,151) |
| Total equity attributable to shareholders of the parent company | <u>495,865</u> | <u>536,563</u> |
| Non-controlling interests | 8,810 | 12,183 |
| Total equity | <u>504,675</u> | <u>548,746</u> |
| Total liabilities and equity | <u>1,033,311</u> | <u>1,040,390</u> |

(2) Consolidated Statement of Income and Comprehensive Income

[Consolidated Statement of Income]

(Millions of yen)

| | Note | For the year ended March 31, 2016 | For the year ended March 31, 2017 |
|---|------|--------------------------------------|--------------------------------------|
| Revenues | | 1,017,584 | 910,486 |
| Cost of sales | | (819,433) | (731,153) |
| Gross profit | | 198,151 | 179,333 |
| Selling, general and administrative expenses | | (122,090) | (113,350) |
| Other income | | 36,416 | 14,070 |
| Other expenses | | (12,523) | (11,786) |
| Operating income | 1 | 99,954 | 68,267 |
| Interest income | | 847 | 346 |
| Other financial income | | 385 | 248 |
| Interest charges | | (3,692) | (2,810) |
| Other financial expenses | | (1,689) | (1,189) |
| Share of profits (losses) of investments accounted for using the equity method | | 428 | 1,154 |
| Income before income taxes | | 96,233 | 66,016 |
| Income taxes | | (27,253) | (15,324) |
| Net income | | 68,980 | 50,692 |
| Net income attributable to: | | | |
| Shareholders of the parent company | | 69,056 | 50,593 |
| Non-controlling interests | | (76) | 99 |
| Net income | | 68,980 | 50,692 |
| Earnings per share attributable to shareholders of the parent company | | | |
| Basic | | ¥161.50 | ¥118.32 |
| Diluted | | — | — |

Note: 1. Adjusted operating income, which is the operating income presented in the Consolidated Statement of Income, excluding other income and other expenses, is ¥76,061 million and ¥65,983 million for the fiscal year ended March 31, 2016 and 2017, respectively.

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

| | For the year ended March 31, 2016 | For the year ended March 31, 2017 |
|--|--------------------------------------|--------------------------------------|
| Net income | 68,980 | 50,692 |
| 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 | (1,166) | (38) |
| Remeasurements of defined benefit plans | (6,456) | 2,628 |
| Share of other comprehensive income of investments accounted for using the equity method | (119) | (477) |
| Total items not to be reclassified into net income | (7,741) | 2,113 |
| Items that can be reclassified into net income | | |
| Foreign currency translation adjustments | (19,960) | (1,590) |
| Net change in fair value of cash flow hedges | (233) | 1,114 |
| Share of other comprehensive income of investments accounted for using the equity method | (964) | (364) |
| Total items that can be reclassified into net income | (21,157) | (840) |
| Total other comprehensive income | (28,898) | 1,273 |
| Comprehensive income | 40,082 | 51,965 |
| Comprehensive income attributable to | | |
| Shareholders of the parent company | 40,664 | 51,821 |
| Non-controlling interests | (582) | 144 |
| Comprehensive income | 40,082 | 51,965 |

(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, 2015 | 26,284 | 115,805 | 277,856 | 47,519 | (1,105) | 466,359 | 9,817 | 476,176 |
| Changes in equity | | | | | | | | |
| Net income | — | — | 69,056 | — | — | 69,056 | (76) | 68,980 |
| Other comprehensive income | — | — | — | (28,392) | — | (28,392) | (506) | (28,898) |
| Dividends to shareholders of the parent company | — | — | (11,118) | — | — | (11,118) | — | (11,118) |
| Dividends to non-controlling interests | — | — | — | — | — | — | (425) | (425) |
| Acquisition of treasury stock | — | — | — | — | (41) | (41) | — | (41) |
| Sales of treasury stock | — | 1 | — | — | 0 | 1 | — | 1 |
| Transactions with non-controlling interests | — | — | — | — | — | — | — | — |
| Transfer to retained earnings | — | — | 347 | (347) | — | — | — | — |
| Total changes in equity | — | 1 | 58,285 | (28,739) | (41) | 29,506 | (1,007) | 28,499 |
| Balance at March 31, 2016 | 26,284 | 115,806 | 336,141 | 18,780 | (1,146) | 495,865 | 8,810 | 504,675 |
| Changes in equity | | | | | | | | |
| Net income | — | — | 50,593 | — | — | 50,593 | 99 | 50,692 |
| Other comprehensive income | — | — | — | 1,228 | — | 1,228 | 45 | 1,273 |
| Dividends to shareholders of the parent company | — | — | (11,118) | — | — | (11,118) | — | (11,118) |
| Dividends to non-controlling interests | — | — | — | — | — | — | (190) | (190) |
| Acquisition of treasury stock | — | — | — | — | (5) | (5) | — | (5) |
| Sales of treasury stock | — | 0 | — | — | 0 | 0 | — | 0 |
| Transactions with non-controlling interests | — | — | — | — | — | — | 3,419 | 3,419 |
| Transfer to retained earnings | — | — | 453 | (453) | — | — | — | — |
| Total changes in equity | — | 0 | 39,928 | 775 | (5) | 40,698 | 3,373 | 44,071 |
| Balance at March 31, 2017 | 26,284 | 115,806 | 376,069 | 19,555 | (1,151) | 536,563 | 12,183 | 548,746 |

(4) Consolidated Statements of Cash Flows

(Millions of yen)

| | For the year ended March 31, 2016 | For the year ended March 31, 2017 |
|--|--------------------------------------|--------------------------------------|
| Cash flows from operating activities: | | |
| Net income | 68,980 | 50,692 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 42,927 | 43,039 |
| Impairment losses | 1,372 | 1,063 |
| Share of (profits) losses of investments accounted for using the equity method | (428) | (1,154) |
| Financial income and expenses | 4,149 | 3,405 |
| Losses (profits) on sale of property, plant and equipment | 1,377 | 2,276 |
| Structural reform expenses | 3,250 | 1,495 |
| Net (gain) loss on business reorganization and others | (29,841) | (7,657) |
| Income taxes | 27,253 | 15,324 |
| (Increase) decrease in trade receivables | 33,731 | 6,092 |
| (Increase) decrease in inventories | 12,974 | (7,513) |
| (Increase) decrease in accounts receivable - other | 6,540 | 1,257 |
| Increase (decrease) in trade payables | (24,837) | 3,907 |
| Increase (decrease) in accrued expenses | (1,291) | 670 |
| Increase (decrease) in retirement and severance benefits | (701) | (2,691) |
| Other | (9,407) | (4,882) |
| Subtotal | 136,048 | 105,323 |
| Interest and dividends received | 1,641 | 2,497 |
| Interest paid | (3,780) | (2,864) |
| Payments for structural reforms | (3,239) | (762) |
| Income taxes paid | (14,928) | (14,803) |
| Net cash provided by operating activities | 115,742 | 89,391 |

(Millions of yen)

| | For the year ended March 31, 2016 | For the year ended March 31, 2017 |
|--|--------------------------------------|--------------------------------------|
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (53,646) | (63,144) |
| Purchase of intangible assets | (4,112) | (2,074) |
| Proceeds from sales of property, plant and equipment | 1,844 | 1,578 |
| Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | (12,940) | (773) |
| Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | 31,191 | 27,903 |
| Proceeds from transfer of business | 1,694 | — |
| Payments for transfer of business | (1,399) | — |
| Other | 5,221 | 646 |
| Net cash used in investing activities | <u>(32,147)</u> | <u>(35,864)</u> |
| Cash flows from financing activities: | | |
| Net increase (decrease) in short-term debt, net | (2,255) | 484 |
| Proceeds from long-term debt | 6,000 | — |
| Repayment of long-term debt | (30,034) | (26,782) |
| Proceeds from payments from non-controlling interests | — | 3,419 |
| Dividends paid to shareholders | (11,118) | (11,118) |
| Dividends paid to non-controlling interests | (425) | (190) |
| Acquisition of common stock for treasury | (41) | (5) |
| Proceeds from sales of treasury stock | 1 | 0 |
| Net cash used in financing activities | <u>(37,872)</u> | <u>(34,192)</u> |
| Effect of exchange rate changes on cash and cash equivalents | (4,452) | (224) |
| Net (decrease) increase in cash and cash equivalents | <u>41,271</u> | <u>19,111</u> |
| Cash and cash equivalents at the beginning of the year | <u>79,029</u> | <u>120,300</u> |
| Cash and cash equivalents at the end of the year | <u><u>120,300</u></u> | <u><u>139,411</u></u> |

(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. Each of the seven business units prepares a comprehensive strategy and engages in business activities related to their products and services for both the domestic and overseas markets.

Based on the above, the High-Grade Metal Products and Materials segment comprises the Specialty Steel Business, Roll Business, and Soft Magnetic Materials Business. The Magnetic Materials are composed by Magnet 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"> •YASUGI SPECIALTY STEEL brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials, semiconductor and other package materials, and battery-related materials], materials for industrial equipment [automobile related materials, and razor and blade materials] aircraft- and energy-related materials, and precision cast components) •Rolls for steel mills •Injection molding machine parts •Structural ceramic products •Steel-frame joints for construction •Soft magnetic materials (Metglas® amorphous metals; FINEMET® nanocrystalline magnetic material; and soft ferrite) and applied products |
| Magnetic Materials and Applications | <ul style="list-style-type: none"> •Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) •Ceramic components |
| High-Grade Functional Components and Equipment | <ul style="list-style-type: none"> •Casting components for automobiles (HNM™ high-grade ductile cast iron products, cast iron products for transportation equipment, and HERCUNITE™ heat-resistant exhaust casting components) •SCUBA™ aluminum wheels and other aluminum components •Forged components for automobiles •Piping and infrastructure components (Gourd™ Gourd 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"> •Industrial cables, electronic wires, electric equipment materials, and industrial rubber products •Cable assemblies •Electronic components for automotive, and brake hoses •Wireless systems •APRESIA™ Information networks 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, 2015 to March 31, 2016)

(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 | 256,343 | 105,257 | 365,112 | 288,216 | 1,014,928 | 2,656 | 1,017,584 | — | 1,017,584 |
| Intersegment transactions | 309 | 22 | 6 | 30 | 367 | 891 | 1,258 | (1,258) | — |
| Total revenues | 256,652 | 105,279 | 365,118 | 288,246 | 1,015,295 | 3,547 | 1,018,842 | (1,258) | 1,017,584 |
| Segment profit | 53,070 | 7,027 | 23,608 | 15,979 | 99,684 | 143 | 99,827 | 127 | 99,954 |
| Financial income | — | — | — | — | — | — | — | — | 1,232 |
| Financial expenses | — | — | — | — | — | — | — | — | (5,381) |
| Share of profits of investments accounted for using the equity method | — | — | — | — | — | — | — | — | 428 |
| Income before income taxes | — | — | — | — | — | — | — | — | 96,233 |
| Segment assets | 314,724 | 105,961 | 326,600 | 269,031 | 1,016,316 | 15,262 | 1,031,578 | 1,733 | 1,033,311 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 11,935 | 5,588 | 14,958 | 9,203 | 41,684 | 453 | 42,137 | 790 | 42,927 |
| Capital expenditure | 23,849 | 6,106 | 16,819 | 11,524 | 58,298 | 182 | 58,480 | 1,122 | 59,602 |
| Impairment losses | 25 | 16 | 1,187 | — | 1,228 | — | 1,228 | 144 | 1,372 |

Note:

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

Current year (from April 1, 2016 to March 31, 2017)

(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 | 234,621 | 99,754 | 333,506 | 241,219 | 909,100 | 1,386 | 910,486 | — | 910,486 |
| Intersegment transactions | 104 | 2 | 3 | 173 | 282 | 1,577 | 1,859 | (1,859) | — |
| Total revenues | 234,725 | 99,756 | 333,509 | 241,392 | 909,382 | 2,963 | 912,345 | (1,859) | 910,486 |
| Segment profit | 21,277 | 9,301 | 15,920 | 20,953 | 67,451 | 331 | 67,782 | 485 | 68,267 |
| Financial income | — | — | — | — | — | — | — | — | 594 |
| Financial expenses | — | — | — | — | — | — | — | — | (3,999) |
| Share of profits of investments accounted for using the equity method | — | — | — | — | — | — | — | — | 1,154 |
| Income before income taxes | — | — | — | — | — | — | — | — | 66,016 |
| Segment assets | 324,645 | 117,927 | 334,241 | 252,415 | 1,029,228 | 5,485 | 1,034,713 | 5,677 | 1,040,390 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 12,845 | 6,106 | 14,650 | 8,223 | 41,824 | 390 | 42,214 | 825 | 43,039 |
| Capital expenditure | 17,812 | 13,659 | 22,575 | 7,212 | 61,258 | 122 | 61,380 | 2,463 | 63,843 |
| Impairment losses | 123 | 204 | — | 730 | 1,057 | — | 1,057 | 6 | 1,063 |

Note:

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

Effective from the three months ended June 30, 2016, the Group changed part of its internal managerial categories of businesses and consolidated subsidiaries related to reportable segments, aiming for enhanced operational efficiency and further growth of the Soft magnetic materials-related businesses. Accordingly, the Soft magnetic materials and applied products business, which was previously included in the Magnetic Materials and Applications segment, has been aggregated into the High-Grade Metal Products and Materials segment.

In accordance with the change to the internal managerial categories, the Group also changed treatment for certain corporate general and administrative expenses, including research expenses that were previously treated as adjustments, to allocate such expenses to applicable reporting segments based on the budget.

Year-on-year comparable segment information presented below reflects the above changes to the categories of the reportable segments and treatment for certain corporate general and administrative expenses.

Other Related Information

For the year ended March 31, 2016

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 |
|---------|---------------|---------|--------|-------------|-----------|
| 451,116 | 312,847 | 192,773 | 45,844 | 15,004 | 1,017,584 |

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 ¥276,616 million and ¥73,988 million, respectively.

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

(Millions of yen)

| Japan | North America | Asia | Europe | Other areas | Total |
|---------|---------------|--------|--------|-------------|---------|
| 276,691 | 194,215 | 40,597 | 171 | 1,311 | 512,985 |

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 ¥194,215 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, 2017

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 |
|---------|---------------|---------|--------|-------------|---------|
| 403,610 | 276,803 | 174,227 | 42,755 | 13,091 | 910,486 |

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 ¥245,194 million and ¥62,743 million, respectively.

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

(Millions of yen)

| Japan | North America | Asia | Europe | Other areas | Total |
|---------|---------------|--------|--------|-------------|---------|
| 279,130 | 191,458 | 42,504 | 203 | 1,361 | 514,656 |

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 ¥191,458 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:

| | For the year ended March 31, 2016 | For the year ended March 31, 2017 |
|---|--------------------------------------|--------------------------------------|
| Weighted-average number of ordinary shares on which basic EPS is calculated | 427,583 Thousands of shares | 427,578 Thousands of shares |
| Net income attributable to shareholders of the parent company | 69,056 Millions of yen | 50,593 Millions of yen |
| Basic EPS attributable to shareholders of the parent company | 161.50 Yen | 118.32 Yen |

Note that diluted EPS attributable to shareholders of the parent company for fiscal 2015 is not presented because no potentially dilutive shares of common stock were issued or outstanding, and diluted EPS attributable to shareholders of the parent company for fiscal 2016 is not presented because no potential ordinary shares of common stock were issued or outstanding.

[Subsequent Events]

There is no applicable item.