



# Consolidated Financial Report [IFRS] For the First Quarter Ended June 30, 2018

July 26, 2018

**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)

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

## 1. Performance for the First Quarter Ended June 30, 2018 (April 1, 2018 to June 30, 2018)

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

|            | Revenues    |     | Adjusted Operating Income |       | Operating Income |      | Income before Income Taxes |      | Net Income  |      |
|------------|-------------|-----|---------------------------|-------|------------------|------|----------------------------|------|-------------|------|
|            | Million yen | %   | Million yen               | %     | Million yen      | %    | Million yen                | %    | Million yen | %    |
| June, 2018 | 259,699     | 7.6 | 15,980                    | (9.5) | 20,580           | 20.5 | 21,383                     | 18.4 | 16,963      | 22.1 |
| June, 2017 | 241,312     | 6.6 | 17,664                    | 8.4   | 17,083           | 11.6 | 18,055                     | 45.2 | 13,892      | 44.4 |

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

|            | Net Income attributable to Shareholders of the Parent Company |      | Comprehensive Income |      | Earnings per Share (Basic) | Earnings per Share (Diluted) |
|------------|---|------|----------------------|------|----------------------------|------------------------------|
|            | Million yen   | %    | Million yen          | %    | Yen                        | Yen                          |
| June, 2018 | 17,026  | 22.6 | 21,752               | 47.7 | 39.82                      | —                            |
| June, 2017 | 13,893  | 46.1 | 14,726               | —    | 32.49                      | —                            |

## (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   |
| June, 2018  | 1,092,480   | 588,171      | 580,372   | 53.1  | 1,357.37  |
| March, 2018 | 1,058,832   | 570,192      | 562,720   | 53.1  | 1,316.08  |

## 2. Dividends

|                        | Dividends per Share |       |     |          |        |
|------------------------|---------------------|-------|-----|----------|--------|
|                        | 1Q                  | 2Q    | 3Q  | Term-end | Annual |
|                        | Yen                 | Yen   | Yen | Yen      | Yen    |
| March, 2018            | —                   | 13.00 | —   | 13.00    | 26.00  |
| March, 2019            | —                   |       |     |          |        |
| March, 2019 (Forecast) |                     | 13.00 | —   | 13.00    | 26.00  |

Note: Revision of the latest forecasts of results : No

## 3. Business results forecast for the year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

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

|           | Revenues    |     | Adjusted Operating Income |      | Income before Income Taxes |      | Net Income attributable to Shareholders of the Parent Company |      | Earnings per Share (Basic) |
|-----------|-------------|-----|---------------------------|------|----------------------------|------|---|------|----------------------------|
|           | Million yen | %   | Million yen               | %    | Million yen                | %    | Million yen   | %    | Yen                        |
| Full-year | 1,020,000   | 3.2 | 73,000                    | 12.1 | 64,500                     | 37.2 | 48,000  | 13.7 | 112.26                     |

Note: 1. Revision of the latest forecasts of results : No

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

※ Other Notes

Numbers of shares issued (Common stock)

( i ) Number of shares outstanding at end of period

(Including treasury stock)

|                 |             |                 |             |
|-----------------|-------------|-----------------|-------------|
| June, 2018      | 428,904,352 | March, 2018     | 428,904,352 |
| June, 2018      | 1,332,651   | March, 2018     | 1,332,135   |
| June, 2018 (1Q) | 427,571,899 | June, 2017 (1Q) | 427,575,573 |

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

(iii) Average number of shares issued during the term

\*This quarterly consolidated financial report is not subject to the quarterly review procedure by the scope of audit.

\*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 may differ from those projected. Please refer to “(3) Forecasts for the Fiscal Year Ending March 31, 2019, including Consolidated Operating Forecasts” on page 6 for precondition and assumption as the basis of the above forecasts.

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# 1. Qualitative Information Regarding Financial Results for the Three Months Ended June 30, 2018

## (1) Information Regarding Operating Results

The global economy during the three months ended June 30, 2018, remained on a modest rebound track primarily in developed countries. Steady economic growth continued in the United States maintained, backed by an improvement in the employment situation and an increase in individual consumption and capital expenditures. European economies, especially in the euro-zone, continued on a moderate recovery path due to an improvement in capital investment and productivity. The Chinese economy remained steady supported by robust consumption, while economic growth in other Asian emerging countries was also generally on a mild recovery track. Amid such circumstances, the Japanese economy saw a gradual recovery as a result of improvement in the employment and income environment as well as increased exports and capital investment supported by a recovery of the global economy.

Among the industries in which the Group operates, in the automobile industry, sales increased year on year overall, due to a recovery in the United States and increases in China and Europe, despite a year-on-year drop in sales of new vehicles in Japan as the effect of new model cars ran its course. Demand for steel increased mainly in the manufacturing sector, including automobile and industrial machinery. Housing starts remained unchanged in Japan, while they increased in the United States. In the electronics industry, smartphone shipments were on a declining trend.

Under the business circumstances described above, the revenues of the Group for the three months ended June 30, 2018 increased by 7.6% year on year to ¥259,699 million. This result was influenced mainly by a rise in raw material prices (sliding-scale raw materials price system), in addition to an increase in demand for mainstays. Adjusted operating income\* decreased by ¥1,684 million year on year to ¥15,980 million, mainly due to a rise in costs following aggressive investment, despite an increase in income associated with increased revenue and the effects of cost reduction measures. Operating income increased by ¥3,497 million to ¥20,580 million as a result of recording ¥5,757 million in gain on bargain purchase, etc. under other income, which was generated from making Santoku Corporation (“Santoku”) a consolidated subsidiary of the Company as of April 2, 2018. For the three months ended June 30, 2018, income before income taxes increased by ¥3,328 million to ¥21,383 million and net income attributable to shareholders of the parent company increased by ¥3,133 million to ¥17,026 million, compared with those for the three months ended June 30, 2017.

Results by business segment are as follows. Note that revenues for each segment include intersegment revenues. There were no changes to the businesses of the Group during the three month ended June 30, 2018.

The Company has also changed the business segment of SH Copper Products Co., Ltd, a subsidiary of the Company, and one other subsidiary from the Wires, Cables, and Related Products segment to the Specialty Steel Products segment as of July 1, 2017, aiming to strengthen battery-related components in the Specialty Steel Products segment. Due to this change, the results of SH Copper Products, etc. for the three months ended June 30, 2017 have been recorded under the Specialty Steel Products segment.

### ***Specialty Steel Products***

Revenues in the Specialty Steel Products segment for the three months ended June 30, 2018, were ¥76,363 million, an increase of 8.1% as compared with those for the three months ended June 30, 2017. Adjusted operating income was unchanged from the three months ended June 30, 2017 at ¥7,512 million, due to an increase in costs associated with aggressive investment and a rise in raw materials prices. Operating income also remained unchanged year on year at ¥7,641 million.

#### <Specialty Steel>

Sales of molds and tool steel increased year on year, due to robust sales mainly in Japan. Sales of industrial equipment materials exceeded those for the three months ended June 30, 2017 on the back of an increase in sales of environment-conscious products related to automobiles. Sales of alloys for electronic products increased year on year as a result of an increase in sales of battery-related and organic EL panel-related components, in addition to robust sales of semiconductor package components.

Sales of aircraft-related and energy-related materials increased year on year overall, due to an increase in sales of aircraft-related materials despite weak results of energy-related materials.

#### <Rolls>

Both domestic sales and exports of rolls were strong. Sales of injection molding machine parts increased as capital investment-related demand remained at a high level. As a result, sales of rolls as a whole increased year on year.

#### <Soft Magnetic Materials and Applied Products>

Sales of soft magnetic materials and applied products as a whole increased year on year due to robust sales of applied products for automobiles on the back of increased demand, although demand for amorphous metals was stagnated.

#### ***Magnetic Materials and Applications***

Revenues in the Magnetic Materials and Applications segment for the three months ended June 30, 2018 were ¥29,328 million, an increase of 15.9% year on year, while adjusted operating income decreased by ¥1,277 million year on year to ¥757 million due to an increase in costs associated with aggressive investment and changes in raw material prices. Operating income increased by ¥4,373 million year on year to ¥6,436 million as a result of recording ¥5,757 million in gain on bargain purchase, etc. under other income, which was generated from making Santoku a consolidated subsidiary of the Company as of April 2, 2018.

Sales of rare earth magnets exceeded those for the three months ended June 30, 2017 overall. This increase in sales is attributable to strong demand for automotive electronic components for electric power steering and hybrid/electric vehicles, and a rise in sales of industrial equipment, supported by increased capital investment-related demand for robots and semiconductor-related products. Santoku becoming a consolidated subsidiary also had an effect on overall sales.

Sales of ferrite magnets increased year on year on the back of strong demand for automotive electronic components, reflecting increased automobile production, despite a decrease in some of the overseas demand for household appliance parts.

#### ***Functional Components and Equipment***

Revenues in the Functional Components and Equipment segment for the three months ended June 30, 2018, were ¥93,659 million, an increase of 2.6% year on year, due in part to a rise in raw material prices (sliding-scale raw materials price system). Adjusted operating income decreased by ¥624 million year on year to ¥3,307 million, and operating income decreased by ¥1,016 million year on year to ¥2,547 million.

#### <Casting Components for Automobiles>

Sales of casting components for automobiles increased as a whole compared with those for the three months ended June 30, 2017. This was due to an increase in demand for casting components for commercial vehicles, farming machinery, and construction machinery in North America, and increased demand for automobiles in Asia.

Sales of heat-resistant exhaust casting components increased year on year due to an increase in demand in the Asian and Japanese markets, amid structural business reforms including productivity improvement, correction of selling prices, and adjustment of production volumes with the aim of improving revenues. Sales of aluminum wheels fell below those for the three months ended June 30, 2017 despite initiatives in structural business reforms.

#### <Piping Components>

Sales of pipe fittings as a whole remained unchanged from the three months ended June 30, 2017. This mainly reflected an increase in housing starts in the United States despite a temporary drop in demand in Japan due to price revisions. Sales of semiconductor manufacturing equipment dropped year on year due to the delay of some capital investment projects. As a result, sales of piping components as a whole decreased year on year.

#### ***Wires, Cables, and Related Products***

Revenues in the Wires, Cables, and Related Products segment for the three months ended June 30, 2018, were ¥59,969 million, an increase of 11.4%, and adjusted operating income increased by ¥154 million to ¥3,586 million, as compared with those for the three months ended June 30, 2017. Operating income of the segment decreased by ¥165 million to ¥3,083 million for the same period.

#### <Electric Wires and Cables>

Sales of wires and cables for rolling stock grew significantly, mainly for China. Sales of electric wires for FA/robots increased, while sales of magnet wires were also robust mainly for automobiles. As a result, sales of electric wires and cables as a whole increased year on year.

#### <High Performance Components>

Demand for various sensors, harnesses for electric parking brakes and hybrid automobiles increased, and demand for brake hoses was also firm. Sales of high performance components for medical use increased year on year supported by robust demand for both probe cables and tubes. As a result, sales of high performance components as a whole increased year on year.

### **Other**

Revenues in the Other segment for the three months ended June 30, 2018, were ¥1,075 million, an increase of 30.5%, and adjusted operating income increased by ¥77 million to ¥142 million, as compared with those for the three months ended June 30, 2017. Operating income of the segment increased by ¥103 million to ¥205 million for the same period.

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

## **(2) Analysis of Financial Condition**

### 1) Assets, liabilities, and equity

The analysis of changes in the Group's condensed interim consolidated statement of financial position as of the end of the period ended June 30, 2018, is as follows:

Total assets were ¥1,092,480 million, an increase of ¥33,648 million compared with the end of the fiscal year ended March 31, 2018. Current assets were ¥492,159 million, an increase of ¥8,127 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to the net effect of an increase in inventories of ¥20,462 million and a decrease in cash and cash equivalents of ¥11,505 million. Non-current assets were ¥600,321 million, an increase of ¥25,521 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to an increase in property, plant and equipment of ¥21,374 million.

Total liabilities were ¥504,309 million, an increase of ¥15,669 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to the net effect of an increase in short-term debt of ¥22,117 million, and a decrease in other financial liabilities of ¥6,989 million. Total equity was ¥588,171 million, an increase of ¥17,979 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to an increase in retained earnings of ¥11,434 million.

### 2) Cash flows

Cash and cash equivalents as of the end of the three months ended June 30, 2018, were ¥43,407 million, a decrease of ¥11,505 million from the end of the fiscal year ended March 31, 2018, as a result of net cash used in investing activities exceeding cash provided by operating activities and financing activities. The analysis of cash flows for each category as of June 30, 2018, is as follows:

#### <Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥10,805 million. This was mainly attributable to the net effect of net income of ¥16,963 million, depreciation and amortization of ¥12,244 million despite payment of ¥14,095 million for the increase of working capital or inventories, among others.

#### <Cash Flows from Investing Activities>

Net cash used in investing activities was ¥29,401 million, which was mainly attributable to payment of ¥30,320 million for the purchase of property, plant and equipment.

#### <Cash Flows from Financing Activities>

Net cash provided by financing activities was ¥6,109 million. This was mainly attributable to a net increase in short-term debt of ¥18,991 million, repayment of long-term debt of ¥9,446 million, and payment of dividends of ¥5,565 million.

## **(3) Forecasts for the Fiscal Year Ending March 31, 2019, including Consolidated Operating Forecasts**

The performance for the three months ended June 30, 2018, resulted in the same level as the initial forecast, in general. There will be no change to the figures in the operating forecast for the fiscal year ending March 31, 2019 (April 1, 2018, through March 31, 2019) that was announced on April 26, 2018.

**2. Condensed Interim Consolidated Financial Statements  
and Notes to Condensed Interim Consolidated Financial Statements**  
**(1) Condensed Interim Consolidated Statement of Financial Position**

(Millions of yen)

|  | As of<br>March 31, 2018 | As of<br>June 30, 2018 |
|--|-------------------------|------------------------|
| Assets   |                         |                        |
| Current assets                                       |                         |                        |
| Cash and cash equivalents                            | 54,912                  | 43,407                 |
| Trade receivables                                    | 207,628                 | 216,394                |
| Inventories  | 190,202                 | 210,664                |
| Other current assets                                 | 31,290                  | 21,694                 |
| Total current assets                                 | 484,032                 | 492,159                |
| Non-current assets                                   |                         |                        |
| Investments accounted for using the equity method    | 27,863                  | 28,155                 |
| Investments in securities and other financial assets | 21,385                  | 21,170                 |
| Property, plant and equipment                        | 355,318                 | 376,692                |
| Goodwill and intangible assets                       | 141,896                 | 145,542                |
| Deferred tax assets                                  | 13,280                  | 13,602                 |
| Other non-current assets                             | 15,058                  | 15,160                 |
| Total non-current assets                             | 574,800                 | 600,321                |
| Total assets   | 1,058,832               | 1,092,480              |

(Millions of yen)

|  | As of<br>March 31, 2018 | As of<br>June 30, 2018 |
|--|-------------------------|------------------------|
| <b>Liabilities</b>   |                         |                        |
| <b>Current liabilities</b>   |                         |                        |
| Short-term debt  | 27,203                  | 49,320                 |
| Current portion of long-term debt                                      | 27,368                  | 30,792                 |
| Other financial liabilities  | 41,060                  | 33,555                 |
| Trade payables   | 172,994                 | 175,542                |
| Accrued expenses   | 40,313                  | 37,031                 |
| Contract liabilities   | —                       | 800                    |
| Advances received  | 869                     | —                      |
| Other current liabilities  | 7,153                   | 5,378                  |
| <b>Total current liabilities</b>                                       | <b>316,960</b>          | <b>332,418</b>         |
| <b>Non-current liabilities</b>   |                         |                        |
| Long-term debt   | 106,273                 | 103,320                |
| Other financial liabilities  | 956                     | 1,472                  |
| Retirement and severance benefits                                      | 57,807                  | 59,016                 |
| Deferred tax liabilities   | 3,305                   | 3,933                  |
| Other non-current liabilities  | 3,339                   | 4,150                  |
| <b>Total non-current liabilities</b>                                   | <b>171,680</b>          | <b>171,891</b>         |
| <b>Total liabilities</b>   | <b>488,640</b>          | <b>504,309</b>         |
| <b>Equity</b>  |                         |                        |
| <b>Equity attributable to shareholders of the parent company</b>       |                         |                        |
| Common stock   | 26,284                  | 26,284                 |
| Capital surplus  | 113,518                 | 114,883                |
| Retained earnings  | 407,180                 | 418,614                |
| Accumulated other comprehensive income                                 | 16,896                  | 21,750                 |
| Treasury stock, at cost  | (1,158)                 | (1,159)                |
| <b>Total equity attributable to shareholders of the parent company</b> | <b>562,720</b>          | <b>580,372</b>         |
| Non-controlling interests  | 7,472                   | 7,799                  |
| <b>Total equity</b>  | <b>570,192</b>          | <b>588,171</b>         |
| <b>Total liabilities and equity</b>                                    | <b>1,058,832</b>        | <b>1,092,480</b>       |



**(2) Condensed Interim Consolidated Statement of Income  
and Condensed Interim Consolidated Statement of Comprehensive Income**  
[ Condensed Interim Consolidated Statement of Income ]  
[ For the three months ended June 30, 2018 ]

(Millions of yen)

|   | Note | For the first quarter ended<br>June 30, 2017 | For the first quarter ended<br>June 30, 2018 |
|---|------|--|--|
| Revenues  |      | 241,312                                      | 259,699                                      |
| Cost of sales   |      | (194,227)                                    | (212,564)                                    |
| Gross profit  |      | 47,085                                       | 47,135                                       |
| Selling, general and administrative expenses                                      |      | (29,421)                                     | (31,155)                                     |
| Other income  |      | 853  | 6,823  |
| Other expenses  |      | (1,434)                                      | (2,223)                                      |
| Operating income  | 1    | 17,083                                       | 20,580                                       |
| Interest income   |      | 66   | 46   |
| Other financial income  |      | 1,037  | 807  |
| Interest charges  |      | (630)  | (544)  |
| Other financial expenses  |      | —  | (2)  |
| Share of (losses) profits of investments accounted<br>for using the equity method |      | 499  | 496  |
| Income before income taxes  |      | 18,055                                       | 21,383                                       |
| Income taxes  |      | (4,163)                                      | (4,420)                                      |
| Net income  |      | 13,892                                       | 16,963                                       |
| Net income attributable to:   |      |  |  |
| Shareholders of the parent company  |      | 13,893                                       | 17,026                                       |
| Non-controlling interests   |      | (1)  | (63)   |
| Net income  |      | 13,892                                       | 16,963                                       |
| Earnings per share attributable to shareholders of<br>the parent company          |      |  |  |
| Basic   |      | ¥32.49                                       | ¥39.82                                       |
| Diluted   |      | —  | —  |

Note: 1. Adjusted operating income, which is the operating income presented in the condensed interim consolidated statement of income, excluding other income and other expenses, is ¥17,664 million and ¥15,980 million for the three months ended June 30, 2017 and 2018, respectively.

[ Condensed Interim Consolidated Statement of Comprehensive Income ]

[ For the three months ended June 30, 2018 ]

(Millions of yen)

|  | For the first quarter ended<br>June 30, 2017 | For the first quarter ended<br>June 30, 2018 |
|--|--|--|
| Net income   | 13,892                                       | 16,963                                       |
| 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 | 152  | (8)  |
| Share of other comprehensive income of investments accounted for using the equity method               | 7  | (115)  |
| Total items not to be reclassified into net income   | 159  | (123)  |
| Items that can be reclassified into net income   |  |  |
| Foreign currency translation adjustments   | 546  | 4,928  |
| Net change in fair value of cash flow hedges   | 57   | 111  |
| Share of other comprehensive income of investments accounted for using the equity method               | 72   | (127)  |
| Total items that can be reclassified into net income   | 675  | 4,912  |
| Total other comprehensive income   | 834  | 4,789  |
| Comprehensive income   | 14,726                                       | 21,752                                       |
| Comprehensive income attributable to:  |  |  |
| Shareholders of the parent company   | 14,696                                       | 21,846                                       |
| Non-controlling interests  | 30   | (94)   |
| Comprehensive income   | 14,726                                       | 21,752                                       |

### (3) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

|   | Common stock | Capital surplus | Retained earnings | Accumulated other comprehensive income | Treasury stock, at cost | Total equity attributable to shareholders of the parent company | Non-controlling interests | Total equity |
|---|--------------|-----------------|-------------------|--|-------------------------|---|---------------------------|--------------|
| Balance at April 1, 2017                        | 26,284       | 115,806         | 376,069           | 19,555                                 | (1,151)                 | 536,563   | 12,183                    | 548,746      |
| Changes in equity                               |              |                 |                   |  |                         |   |                           |              |
| Net income                                      | —            | —               | 13,893            | —                                      | —                       | 13,893  | (1)                       | 13,892       |
| Other comprehensive income                      | —            | —               | —                 | 803                                    | —                       | 803   | 31                        | 834          |
| Dividends to shareholders of the parent company | —            | —               | (5,559)           | —                                      | —                       | (5,559)   | —                         | (5,559)      |
| Dividends to non-controlling interests          | —            | —               | —                 | —                                      | —                       | —   | (21)                      | (21)         |
| Acquisition of treasury stock                   | —            | —               | —                 | —                                      | (2)                     | (2)   | —                         | (2)          |
| Sales of treasury stock                         | —            | —               | —                 | —                                      | —                       | —   | —                         | —            |
| Transactions with noncontrolling interests      | —            | —               | —                 | —                                      | —                       | —   | —                         | —            |
| Transfer to retained earnings                   | —            | —               | 17                | (17)                                   | —                       | —   | —                         | —            |
| Total changes in equity                         | —            | —               | 8,351             | 786                                    | (2)                     | 9,135   | 9                         | 9,144        |
| Balance at June 30, 2017                        | 26,284       | 115,806         | 384,420           | 20,341                                 | (1,153)                 | 545,698   | 12,192                    | 557,890      |

|   | Common stock | Capital surplus | Retained earnings | Accumulated other comprehensive income | Treasury stock, at cost | Total equity attributable to shareholders of the parent company | Non-controlling interests | Total equity |
|---|--------------|-----------------|-------------------|--|-------------------------|---|---------------------------|--------------|
| Balance at April 1, 2018                        | 26,284       | 113,518         | 407,180           | 16,896                                 | (1,158)                 | 562,720   | 7,472                     | 570,192      |
| Changes in equity                               |              |                 |                   |  |                         |   |                           |              |
| Net income                                      | —            | —               | 17,026            | —                                      | —                       | 17,026  | (63)                      | 16,963       |
| Other comprehensive income                      | —            | —               | —                 | 4,820                                  | —                       | 4,820   | (31)                      | 4,789        |
| Dividends to shareholders of the parent company | —            | —               | (5,558)           | —                                      | —                       | (5,558)   | —                         | (5,558)      |
| Dividends to non-controlling interests          | —            | —               | —                 | —                                      | —                       | —   | (7)                       | (7)          |
| Acquisition of treasury stock                   | —            | —               | —                 | —                                      | (1)                     | (1)   | —                         | (1)          |
| Sales of treasury stock                         | —            | 0               | —                 | —                                      | 0                       | 0   | —                         | 0            |
| Transactions with noncontrolling interests      | —            | 1,365           | —                 | —                                      | —                       | 1,365   | 428                       | 1,793        |
| Transfer to retained earnings                   | —            | —               | (34)              | 34                                     | —                       | —   | —                         | —            |
| Total changes in equity                         | —            | 1,365           | 11,434            | 4,854                                  | (1)                     | 17,652  | 327                       | 17,979       |
| Balance at June 30, 2018                        | 26,284       | 114,883         | 418,614           | 21,750                                 | (1,159)                 | 580,372   | 7,799                     | 588,171      |

**(4) Condensed Interim Consolidated Statement of Cash Flows**

(Millions of yen)

|  | For the first quarter ended<br>June 30, 2017 | For the first quarter ended<br>June 30, 2018 |
|--|--|--|
| Cash flows from operating activities:  |  |  |
| Net income   | 13,892                                       | 16,963                                       |
| Adjustments to reconcile net income to<br>net cash provided by operating activities: |  |  |
| Depreciation and amortization  | 11,282                                       | 12,244                                       |
| Share of losses (profits) of investments accounted<br>for using the equity method    | (499)  | (496)  |
| Financial income and expenses  | (473)  | (307)  |
| Losses (profits) on sale of property, plant and equipment                            | 427  | 562  |
| Structural reform expenses   | 70   | 3  |
| Net loss (gain) on business reorganization and others                                | —  | (5,757)                                      |
| Income taxes   | 4,163  | 4,420  |
| (Increase) decrease in trade receivables   | (11,660)                                     | (2,864)                                      |
| (Increase) decrease in inventories   | (12,365)                                     | (15,577)                                     |
| (Increase) decrease in accounts receivable - other                                   | 969  | 6,546  |
| Increase (decrease) in trade payables  | 8,045  | 4,346  |
| Increase (decrease) in accrued expenses  | (4,022)                                      | (3,874)                                      |
| Increase (decrease) in retirement and severance benefits                             | 583  | 310  |
| Other  | (5,086)                                      | (1,514)                                      |
| Subtotal   | 5,326  | 15,005                                       |
| Interest and dividends received  | 917  | 421  |
| Interest paid  | (982)  | (713)  |
| Payments for structural reforms  | (70)   | (3)  |
| Income taxes paid  | (2,559)                                      | (3,905)                                      |
| Net cash provided by operating activities  | 2,632  | 10,805                                       |

(Millions of yen)

|  | For the first quarter ended<br>June 30, 2017 | For the first quarter ended<br>June 30, 2018 |
|--|--|--|
| Cash flows from investing activities:  |  |  |
| Purchase of property, plant and equipment  | (17,450)                                     | (30,320)                                     |
| Purchase of intangible assets  | (258)  | (268)  |
| Proceeds from sales of property, plant and equipment   | 53   | 189  |
| Purchase of investments in securities and other financial assets<br>(including investments in subsidiaries and investments accounted for using the equity method)        | (24)   | 281  |
| Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | 825  | 329  |
| Other  | 19   | 388  |
| Net cash used in investing activities  | (16,835)                                     | (29,401)                                     |
| Cash flows from financing activities:  |  |  |
| Increase (decrease) in short-term debt, net  | 5,087  | 18,991                                       |
| Proceeds from long-term debt   | 300  | 3,272  |
| Repayment of long-term debt  | (6,150)                                      | (9,446)                                      |
| Purchase of shares of consolidated subsidiaries from non-controlling interests   | —  | (1,142)                                      |
| Dividends paid to shareholders   | (5,559)                                      | (5,558)                                      |
| Dividends paid to non-controlling interests  | (21)   | (7)  |
| Acquisition of common stock for treasury   | (2)  | (1)  |
| Proceeds from sales of treasury stock  | —  | 0  |
| Net cash used in financing activities  | (6,345)                                      | 6,109  |
| Effect of exchange rate changes on cash and cash equivalents   | 385  | 982  |
| Net increase (decrease) in cash and cash equivalents   | (20,163)                                     | (11,505)                                     |
| Cash and cash equivalents at the beginning of the first quarter  | 139,411                                      | 54,912                                       |
| Cash and cash equivalents at the end of the first quarter  | 119,248                                      | 43,407                                       |

## (5) Changes in Accounting Policies

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

From the beginning of the three months ended June 30, 2018, the Group has adopted IFRS9 "Financial Instruments" (amended in July 2014). As a transitional measure upon the adoption of IFRS9 (amended in July 2014), the Group applies this standard with the cumulative effect of initially applying this standard recognized as an adjustment to the beginning balance of retained earnings for the three months ended June 30, 2018.

There is no material impact on the Group's financial position and operating results from the application of this standard.

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

From the beginning of the three months ended June 30, 2018, the Group has adopted IFRS 15 "Revenue from Contracts with Customers". As a transitional measure upon the adoption of IFRS 15, the Group applies this standard retrospectively with the cumulative effect of initially applying this standard recognized as an adjustment to the beginning balance of retained earnings for the three months ended June 30, 2018.

There is no material impact on the Group's financial position and operating results from the application of this standard.

## (6) Segment Information

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

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

## II Last consolidated first quarter (from April 1, 2017 to June 30, 2017)

(Millions of yen)

|  | Business Segment         |                                     |                                     |                                     |          | Others | Total   | Adjustments | Condensed Interim Consolidated Statement of Income |
|--|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|----------|--------|---------|-------------|--|
|  | Specialty Steel Products | Magnetic Materials and Applications | Functional Components and Equipment | Wires, Cables, and Related Products | Subtotal |        |         |             |  |
| Revenues   |                          |                                     |                                     |                                     |          |        |         |             |  |
| External customers   | 70,571                   | 25,304                              | 91,247                              | 53,754                              | 240,876  | 436    | 241,312 | —           | 241,312  |
| Intersegment transactions  | 50                       | 3                                   | —                                   | 73                                  | 126      | 388    | 514     | (514)       | —  |
| Total revenues   | 70,621                   | 25,307                              | 91,247                              | 53,827                              | 241,002  | 824    | 241,826 | (514)       | 241,312  |
| Segment profit   | 7,546                    | 2,063                               | 3,563                               | 3,248                               | 16,420   | 102    | 16,522  | 561         | 17,083   |
| Financial income   | —                        | —                                   | —                                   | —                                   | —        | —      | —       | —           | 1,103  |
| Financial expenses   | —                        | —                                   | —                                   | —                                   | —        | —      | —       | —           | (630)  |
| Share of (losses) profits of investments accounted for using the equity method | —                        | —                                   | —                                   | —                                   | —        | —      | —       | —           | 499  |
| Income before income taxes   | —                        | —                                   | —                                   | —                                   | —        | —      | —       | —           | 18,055   |

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.

## III Current first quarter (from April 1, 2018 to June 30, 2018)

(Millions of yen)

|  | Business Segment         |                                     |                                     |                                     |          | Others | Total   | Adjustments | Condensed Interim Consolidated Statement of Income |
|--|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|----------|--------|---------|-------------|--|
|  | Specialty Steel Products | Magnetic Materials and Applications | Functional Components and Equipment | Wires, Cables, and Related Products | Subtotal |        |         |             |  |
| Revenues   |                          |                                     |                                     |                                     |          |        |         |             |  |
| External customers   | 76,317                   | 29,328                              | 93,659                              | 59,767                              | 259,071  | 628    | 259,699 | —           | 259,699  |
| Intersegment transactions  | 46                       | —                                   | —                                   | 202                                 | 248      | 447    | 695     | (695)       | —  |
| Total revenues   | 76,363                   | 29,328                              | 93,659                              | 59,969                              | 259,319  | 1,075  | 260,394 | (695)       | 259,699  |
| Segment profit   | 7,641                    | 6,436                               | 2,547                               | 3,083                               | 19,707   | 205    | 19,912  | 668         | 20,580   |
| Financial income   | —                        | —                                   | —                                   | —                                   | —        | —      | —       | —           | 853  |
| Financial expenses   | —                        | —                                   | —                                   | —                                   | —        | —      | —       | —           | (546)  |
| Share of (losses) profits of investments accounted for using the equity method | —                        | —                                   | —                                   | —                                   | —        | —      | —       | —           | 496  |
| Income before income taxes   | —                        | —                                   | —                                   | —                                   | —        | —      | —       | —           | 21,383   |

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.

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

Due to this change, the results of SH Copper Products, etc. for the three months ended June 30, 2017 have been recorded under the Specialty Steel Products segment.