# Consolidated Financial Report [IFRS]
## For the 9-month period ended December 31, 2018

January 31, 2019

**Listed Company: Hitachi Metals, Ltd.** (URL https://www.hitachi-metals.co.jp/e/index.html)
Listed Stock Exchanges: Tokyo Stock Exchange, Inc. (First Section, Code Number 5486)
Representative: Akitoshi Hiraki, President and Chief Executive Officer
Contact: Tatsuya Minami, General Manager, Corporate Communications Office Tel: +81-3-6774-3077

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

### 1. Performance for the Third Quarter Ended December 31, 2018 (April 1, 2018 to December 31, 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 | % |
| Dec., 2018 | 775,531 | 5.8 | 42,776 | (10.5) | 34,610 | (18.4) | 35,251 | (20.0) | 26,918 | (22.8) |
| Dec., 2017 | 733,113 | 10.0 | 47,821 | 1.4 | 42,393 | (14.5) | 44,089 | (7.5) | 34,849 | (3.5) |

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

| | 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 |
| Dec., 2018 | 27,006 | (22.4) | 31,099 | (26.8) | 63.16 | — |
| Dec., 2017 | 34,808 | (3.8) | 42,458 | 1.8 | 81.41 | — |

(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 |
| Dec., 2018 | 1,115,554 | 589,898 | 582,722 | 52.2 | 1,362.87 |
| 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 | — | 17.00 | — | | |
| March, 2019 (Forecast) | | | | 17.00 | 34.00 |

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 | 1,027,000 | 3.9 | 58,000 | (10.9) | 48,000 | 2.2 | 37,000 | (12.3) | 86.54 |

Note: 1. Revision of the latest forecasts of results : Yes
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 profitindicator for the Hitachi Group, including Hitachi, Ltd.

※ Other Notes

Numbers of shares issued (Common stock)

| | | | | |
|---|---|---|---|---|
| ( i ) Number of shares outstanding at end of period (Including treasury stock) | December, 2018 | 428,904,352 | March, 2018 | 428,904,352 |
| ( ii ) Number of treasury stock outstanding at end of period | December, 2018 | 1,334,043 | March, 2018 | 1,332,135 |
| ( iii ) Average number of shares issued during the term | Dec., 2018 (3Q) | 427,571,189 | Dec., 2017 (3Q) | 427,574,480 |

*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 7 for precondition and assumption as the basis of the above forecasts.

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# 1. Qualitative Information Regarding Financial Results for the Nine Months Ended December 31, 2018

## (1) Information Regarding Operating Results

The global economy during the nine months ended December 31, 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. Economic growth in other Asian emerging countries was also generally on a mild recovery track. Meanwhile in Europe, production and exports leveled off, creating a sense of economic stagnation. Economic expansion in China showed signs of slowing down, and imports and exports declined at the end of 2018 due to the impact of the trade issues with the United States. Amid such circumstances, the Japanese economy saw a gradual recovery over the period as a whole, 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, despite the impact of the natural disasters that hit Japan during the second quarter ended September 30, 2018 (July through September 2018) as well as the gradually emerging effects of the trade issues between the United States and China .
Among the industries in which the Group operates, the automobile industry in Japan saw solid sales of new vehicles, on the back of sales of ordinary passenger vehicles and light vehicles supplementing the drop in sales of small passenger vehicles. The industry in the United States enjoyed firm sales mainly of commercial vehicles and trucks, against the backdrop of continued economic recovery, while in China and Europe sales started to drop in the autumn. Demand for steel increased mainly in the manufacturing sector. Housing starts remained unchanged in Japan, while they increased in the United States. In the electronics field, smartphone shipments were on a declining trend.

Under the business circumstances described above, for the nine months ended December 31, 2018, revenues of the Group increased by 5.8% to ¥775,531 million, compared with those for the nine months ended December 31, 2017. This result was affected mainly by a rise in raw materials prices (sliding-scale raw material price system). Adjusted operating income* decreased by ¥5,045 million to ¥42,776 million, for the nine months ended December 31, 2018 compared to the nine months ended December 31, 2017, mainly due to effects of a slowdown in the electronics-related and semiconductor-related markets and decreased demand for various manufacturing equipment and industrial machinery, despite the effects of cost reduction measures. The Group has positioned heat-resistant exhaust casting components and aluminum wheels as “businesses with issues” and are making efforts in structural reforms. The Group has been working on structural reforms including productivity improvement, correction of selling prices, and adjustment of production volumes with the aim of improving profitability of heat-resistant exhaust casting components. As a result, profitability improved to a certain extent, but it is expected that the profit forecast made at the beginning of the fiscal year cannot be achieved, mainly because of a sharp decline in demand especially in the Chinese and European markets during the third quarter ended December 31, 2018 (October through December, 2018). Therefore, the Group recorded an impairment loss of ¥6,975 million in the third quarter ended December 31, 2018, following careful examination and estimation of future profitability. The Group also announced that the Group will withdraw from the aluminum wheels business by the end of September, 2020 (see "Announcement of Withdrawal from the Aluminum Wheels Business (Transfer of Shares of Subsidiary’s Stock)" dated December 17, 2018). All shares of the stock of AAP St. Marys Corp., a consolidated subsidiary of the Company manufacturing aluminum wheels, will be transferred as of March 1, 2019 (tentative). With the conclusion of the share transfer contract, the Group recorded restructuring expenses of ¥2,890 million in the third quarter ended December 31, 2018. Meanwhile, the Group recorded ¥5,757 million in gain on bargain purchase, etc. under other income, which was generated from making Santoku Corporation (“Santoku”) a consolidated subsidiary of the Company as of April 2, 2018. Therefore, operating income decreased by ¥7,783 million to ¥34,610 million, compared with that for the nine months ended December 31, 2017. For the nine months ended December 31, 2018, income before income taxes decreased by ¥8,838 million to ¥35,251 million and net income attributable to shareholders of the parent company decreased by ¥7,802 million to ¥27,006 million, compared with those for the nine months ended December 31, 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 nine months ended December 31, 2018.
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 nine months ended December 31, 2017 have been recorded under the Specialty Steel Products segment.

***Specialty Steel Products***

Revenues in the Specialty Steel Products segment for the nine months ended December 31, 2018, were ¥230,618 million, an increase of 7.1%, and adjusted operating income decreased by ¥171 million to ¥20,246 million, as compared with those for the nine months ended December 31, 2017. Operating income of the segment decreased by ¥1,122 million to ¥18,927 million for the same period.

<Specialty Steel>

Sales of molds and tool steel increased year on year, led by solid demand in Japan as well as a rise in raw material prices (sliding -scale raw materials price system), despite decreased demand in international markets especially in China.

Sales of industrial equipment materials exceeded those for the nine months ended December 31, 2017 on the back of an increase in sales of environment-conscious products related to automobiles. Sales of alloys for electronic products over the entire nine months ended December 31, 2018 increased year on year, as demand remained at a high level during the six months ended September 30, 2018 (April through September, 2018) and sales of battery-related components remained firm throughout the period, despite a slowdown in demand for organic EL panel-related and semiconductor package components during the third quarter ended December 31, 2018 (October through December, 2018). 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 sales of amorphous metals being unchanged from those for the nine months ended December 31, 2017 and robust sales of applied products for automobiles on the back of increased demand.

***Magnetic Materials and Applications***

Revenues in the Magnetic Materials and Applications segment for the nine months ended December 31, 2018 were ¥84,385 million, an increase of 6.6% year on year, while adjusted operating income decreased by ¥3,883 million year on year to ¥2,997 million due to an increase in costs associated with aggressive investment and changes in raw material prices. Operating income increased by ¥1,784 million year on year to ¥8,567 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 nine months ended December 31, 2017 overall. This increase in sales was attributable to solid demand mainly for automotive electronic components for electric power steering, while sales of industrial equipment decreased year on year due to a drop in capital investment-related demand for semiconductor-related products. Santoku becoming a consolidated subsidiary also had an effect on overall sales.

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

***Functional Components and Equipment***

Revenues in the Functional Components and Equipment segment for the nine months ended December 31, 2018, were ¥276,057 million, an increase of 3.6% year on year, due in part to a rise in raw material prices (sliding-scale raw materials price system). Adjusted operating income decreased by ¥1,103 million year on year to ¥7,398 million. A total of ¥9,865 million was also recorded as other expenses, due to the implementation of the structural reforms described on page 4 in the heat-resistant exhaust casting components and aluminum wheels businesses positioned as “businesses with issues.” Therefore, operating income decreased by ¥11,991 million year on year to be an operating loss of ¥4,718 million.

The state of businesses other than “businesses with issues” is as following:

<Casting Components for Automobiles>

Sales of casting components for automobiles increased as a whole compared with those for the nine months ended December 31, 2018. 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.

<Piping Components>

Sales of pipe fittings as a whole during the nine months ended December 31, 2018 fell below those for the nine months ended December 31, 2017. This was because while Japan experienced a last-minute surge in demand during the nine months ended December 31, 2017 due to the price revision made at the end of the previous fiscal year, sales were negatively affected by a decrease in demand in reaction to the price hike during the nine months ended December 31, 2018. Meanwhile in the United States, sales of pipe fittings increased year on year, mainly reflecting an increase in housing starts.

Sales of semiconductor manufacturing equipment decreased 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 nine months ended December 31, 2018, were ¥183,060 million, an increase of 6.8%, and adjusted operating income decreased by ¥327 million to ¥10,596 million, as compared with those for the nine months ended December 31, 2017. Operating income of the segment increased by ¥2,734 million to ¥10,130 million for the same period, mainly due to an decrease in other expenses.

<Electric Wires and Cables>

Sales of wires and cables for rolling stock grew mainly for China, and sales of wires and cables for construction increased. Sales of magnet wires were also solid 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 solid 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 nine months ended December 31, 2018, were ¥3,365 million, an increase of 36.5%, and adjusted operating income increased by ¥287 million to ¥417 million, as compared with those for the nine months ended December 31, 2017. Operating income of the segment increased by ¥485 million to ¥611 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 December 31, 2018, is as follows:

Total assets were ¥1,115,554 million, an increase of ¥56,722 million compared with the end of the fiscal year ended March 31, 2018. Current assets were ¥503,139 million, an increase of ¥19,107 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to increases in inventories of ¥32,670 million and a decrease in cash and cash equivalents of ¥14,552 million. Non-current assets were ¥612,415 million, an increase of ¥37,615 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to increases in property, plant and equipment of ¥35,781 million, respectively.

Total liabilities were ¥525,656 million, an increase of ¥37,016 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to the net effect of increases in short-term debt of ¥32,323 million and the current portion of long-term debt and long-term debt of ¥25,101 million in total and decreases in trade payables of ¥10,518 million and other financial liabilities (current liabilities) of ¥7,234 million. Total equity was ¥589,898 million, an increase of ¥19,706 million compared with the end of the fiscal year ended March 31, 2018. This was mainly attributable to increases in retained earnings of ¥14,337 million and accumulated other comprehensive income of ¥4,140 million.

2) Cash flows

Cash and cash equivalents as of December 31, 2018, were ¥40,360 million, a decrease of ¥14,552 million from March 31, 2018, as a result of net cash used in investing activities exceeding cash provided by operating activities and financing activities. The analysis of cash flows for each category as of December 31, 2018, is as follows:

<Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥27,842 million. This was mainly attributable to the net effect of net income of ¥26,918 million, depreciation and amortization of ¥37,877 million despite payment of ¥33,709 million for the increase of working capital of inventories among others.

<Cash Flows from Investing Activities>

Net cash used in investing activities was ¥74,358 million, which was mainly attributable to payment of ¥76,126 million for the purchase of property, plant and equipment.

<Cash Flows from Financing Activities>

Net cash used in financing activities was ¥31,042 million. This was mainly attributable to a net increase in short-term debt of ¥29,243 million, proceeds from long-term debt of ¥44,605 million, repayment of long-term debt of ¥28,478 million, and payment of dividends of ¥12,964 million.

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

Business environment surrounding the Group has been becoming increasingly severe at a rapid pace from the third quarter ended December 31, 2018, onwards, as primarily represented by a slowdown in the electronics-related and semiconductor-related markets and decreased demand for various manufacturing equipment and industrial machinery. Amid concern that the impact of the trade dispute between the United States and China on the global economy as a whole can be extended and prolonged, the future remains difficult to predict. In addition, the Group recorded a total of ¥9,865 million as other expenses in the third quarter ended December 31, 2018, in connection with the structural reforms of heat-resistant exhaust casting components and aluminum wheels businesses positioned as “businesses with issues.” Taking into accounts all these circumstances, the Group has revised the figures in the operating forecast for the fiscal year ending March 31, 2019 that was announced on April 26, 2018 as follows:

| | Revenues (million yen) | Adjusted Operating Income (million yen) | Income before Income Taxes (million yen) | Net Income attributable to Shareholders of the Parent Company (million yen) | Basic Earnings per Share (yen) |
|---|---|---|---|---|---|
| Forecasts announced on April 26, 2018 (A) | 1,020,000 | 73,000 | 64,500 | 48,000 | 112.26 |
| Revised forecasts (B) | 1,027,000 | 58,000 | 48,000 | 37,000 | 86.54 |
| Differences (B) - (A) | 7,000 | (15,000) | (16,500) | (11,000) | (25.72) |
| Changes (%) | 0.7% | (20.5)% | (25.6)% | (22.9)% | (22.9)% |
| (Reference) Results for the fiscal year ended March 31, 2018 | 988,303 | 65,130 | 46,985 | 42,210 | 98.72 |

Note: 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. 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 March 31, 2018 | As of December 31, 2018 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 54,912 | 40,360 |
| Trade receivables | 207,628 | 210,400 |
| Inventories | 190,202 | 222,872 |
| Other current assets | 31,290 | 29,507 |
| Total current assets | 484,032 | 503,139 |
| Non-current assets | | |
| Investments accounted for using the equity method | 27,863 | 29,069 |
| Investments in securities and other financial assets | 21,385 | 19,932 |
| Property, plant and equipment | 355,318 | 391,099 |
| Goodwill and intangible assets | 141,896 | 144,320 |
| Deferred tax assets | 13,280 | 12,947 |
| Other non-current assets | 15,058 | 15,048 |
| Total non-current assets | 574,800 | 612,415 |
| Total assets | 1,058,832 | 1,115,554 |

(Millions of yen)

| | As of March 31, 2018 | As of December 31, 2018 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Short-term debt | 27,203 | 59,526 |
| Current portion of long-term debt | 27,368 | 20,445 |
| Other financial liabilities | 41,060 | 33,826 |
| Trade payables | 172,994 | 162,476 |
| Accrued expenses | 40,313 | 38,158 |
| Contract Liabilities | — | 582 |
| Advances received | 869 | — |
| Other current liabilities | 7,153 | 6,268 |
| Total current liabilities | 316,960 | 321,281 |
| Non-current liabilities | | |
| Long-term debt | 106,273 | 138,297 |
| Other financial liabilities | 956 | 937 |
| Retirement and severance benefits | 57,807 | 59,098 |
| Deferred tax liabilities | 3,305 | 2,763 |
| Other non-current liabilities | 3,339 | 3,280 |
| Total non-current liabilities | 171,680 | 204,375 |
| Total liabilities | 488,640 | 525,656 |
| Equity | | |
| Equity attributable to shareholders of the parent company | | |
| Common stock | 26,284 | 26,284 |
| Capital surplus | 113,518 | 115,045 |
| Retained earnings | 407,180 | 421,517 |
| Accumulated other comprehensive income | 16,896 | 21,036 |
| Treasury stock, at cost | (1,158) | (1,160) |
| Total equity attributable to shareholders of the parent company | 562,720 | 582,722 |
| Non-controlling interests | 7,472 | 7,176 |
| Total equity | 570,192 | 589,898 |
| Total liabilities and equity | 1,058,832 | 1,115,554 |

## (2) Condensed Interim Consolidated Statement of Income
## and Condensed Interim Consolidated Statement of Comprehensive Income

**[ Condensed Interim Consolidated Statement of Income ]**

**[ For the nine months ended December 31, 2018 ]**

(Millions of yen)

| | Note | For the third quarter ended December 31, 2017 | For the third quarter ended December 31, 2018 |
|---|---|---|---|
| Revenues | | 733,113 | 775,531 |
| Cost of sales | | (596,012) | (640,603) |
| Gross profit | | 137,101 | 134,928 |
| Selling, general and administrative expenses | | (89,280) | (92,152) |
| Other income | | 3,634 | 8,701 |
| Other expenses | | (9,062) | (16,867) |
| Operating income | 1 | 42,393 | 34,610 |
| Interest income | | 332 | 335 |
| Other financial income | | 1,035 | 941 |
| Interest charges | | (1,808) | (2,121) |
| Other financial expenses | | (1) | (2) |
| Share of (losses) profits of investments accounted for using the equity method | | 2,138 | 1,488 |
| Income before income taxes | | 44,089 | 35,251 |
| Income taxes | | (9,240) | (8,333) |
| Net income | | 34,849 | 26,918 |
| Net income attributable to: | | | |
| Shareholders of the parent company | | 34,808 | 27,006 |
| Non-controlling interests | | 41 | (88) |
| Net income | | 34,849 | 26,918 |
| Earnings per share attributable to shareholders of the parent company | | | |
| Basic | | ¥81.41 | ¥63.16 |
| 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 ¥47,821 million and ¥42,776 million for the nine months ended December 31, 2017 and 2018, respectively.

**[ Condensed Interim Consolidated Statement of Comprehensive Income ]**

**[ For the nine months ended December 31, 2018 ]**

(Millions of yen)

| | For the third quarter ended December 31, 2017 | For the third quarter ended December 31, 2018 |
|---|---|---|
| Net income | 34,849 | 26,918 |
| | | |
| Other comprehensive income | | |
| Items not to be reclassified into net income | | |
| Net change in fair value of financial assets measured at fair value through other comprehensive income | 563 | (365) |
| Remeasurements of defined benefit plans | (163) | — |
| Share of other comprehensive income of investments accounted for using the equity method | 205 | (295) |
| Total items not to be reclassified into net income | 605 | (660) |
| | | |
| Items that can be reclassified into net income | | |
| Foreign currency translation adjustments | 6,465 | 4,858 |
| Net change in fair value of cash flow hedges | 386 | 12 |
| Share of other comprehensive income of investments accounted for using the equity method | 153 | (29) |
| Total items that can be reclassified into net income | 7,004 | 4,841 |
| Total other comprehensive income | 7,609 | 4,181 |
| Comprehensive income | 42,458 | 31,099 |
| | | |
| Comprehensive income attributable to: | | |
| Shareholders of the parent company | 42,019 | 31,304 |
| Non-controlling interests | 439 | (205) |
| Comprehensive income | 42,458 | 31,099 |

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

**Last consolidated fiscal year (from April 1 to December 31, 2017) through current year (from April 1 to December 31, 2018)**

(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 | − | − | 34,808 | − | − | 34,808 | 41 | 34,849 |
| Other comprehensive income | − | − | − | 7,211 | − | 7,211 | 398 | 7,609 |
| Dividends to shareholders of the parent company | − | − | (11,117) | − | − | (11,117) | − | (11,117) |
| Dividends to non-controlling interests | − | − | − | − | − | − | (165) | (165) |
| Acquisition of treasury stock | − | − | − | − | (6) | (6) | − | (6) |
| Sales of treasury stock | − | − | − | − | 0 | 0 | − | 0 |
| Transactions with non-controlling interests | − | (1,656) | − | − | − | (1,656) | (4,498) | (6,154) |
| Transfer to retained earnings | − | − | 18 | (18) | − | − | − | − |
| Total changes in equity | − | (1,656) | 23,709 | 7,193 | (6) | 29,240 | (4,224) | 25,016 |
| Balance at Dec. 31, 2017 | 26,284 | 114,150 | 399,778 | 26,748 | (1,157) | 565,803 | 7,959 | 573,762 |

| | 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 | − | − | 27,006 | − | − | 27,006 | (88) | 26,918 |
| Other comprehensive income | − | − | − | 4,298 | − | 4,298 | (117) | 4,181 |
| Dividends to shareholders of the parent company | − | − | (12,827) | − | − | (12,827) | − | (12,827) |
| Dividends to non-controlling interests | − | − | − | − | − | − | (137) | (137) |
| Acquisition of treasury stock | − | − | − | − | (2) | (2) | − | (2) |
| Sales of treasury stock | − | 0 | − | − | 0 | 0 | − | 0 |
| Transactions with non-controlling interests | − | 1,527 | − | − | − | 1,527 | 46 | 1,573 |
| Transfer to retained earnings | − | − | 158 | (158) | − | − | − | − |
| Total changes in equity | − | 1,527 | 14,337 | 4,140 | (2) | 20,002 | (296) | 19,706 |
| Balance at Dec. 31, 2018 | 26,284 | 115,045 | 421,517 | 21,036 | (1,160) | 582,722 | 7,176 | 589,898 |

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

(Millions of yen)

| | For the third quarter ended December 31, 2017 | For the third quarter ended December 31, 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | 34,849 | 26,918 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 34,479 | 37,877 |
| Impairment losses | 98 | 7,378 |
| Share of losses (profits) of investments accounted for using the equity method | (2,138) | (1,488) |
| Financial income and expenses | 442 | 847 |
| Losses (profits) on sale of property, plant and equipment | 1,109 | 2,674 |
| Restructuring expenses | 247 | 2,893 |
| Net loss (gain) on business reorganization and others | (320) | (5,653) |
| Income taxes | 9,240 | 8,333 |
| (Increase) decrease in trade receivables | (24,022) | 2,875 |
| (Increase) decrease in inventories | (32,409) | (27,804) |
| (Increase) decrease in accounts receivable - other | (4,698) | 2,935 |
| Increase (decrease) in trade payables | 10,505 | (8,780) |
| Increase (decrease) in accrued expenses | 1,345 | (2,795) |
| Increase (decrease) in retirement and severance benefits | 2,465 | 278 |
| Other | (8,597) | (6,671) |
| Subtotal | 22,595 | 39,817 |
| Interest and dividends received | 1,539 | 773 |
| Interest paid | (2,230) | (2,147) |
| Payments for structural reforms | (247) | (44) |
| Income taxes paid | (9,030) | (10,557) |
| Net cash provided by operating activities | 12,627 | 27,842 |

(Millions of yen)

| | For the third quarter ended December 31, 2017 | For the third quarter ended December 31, 2018 |
|---|---|---|
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (58,791) | (76,126) |
| Purchase of intangible assets | (775) | (1,079) |
| Proceeds from sales of property, plant and equipment | 1,178 | 576 |
| Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | (70) | 264 |
| Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) | 832 | 470 |
| Payments for transfer of business | (86) | – |
| Other | 102 | 1,537 |
| Net cash used in investing activities | (57,610) | (74,358) |
| Cash flows from financing activities: | | |
| Increase (decrease) in short-term debt, net | 5,509 | 29,243 |
| Proceeds from long-term debt | 300 | 44,605 |
| Repayment of long-term debts | (31,877) | (28,478) |
| Purchase of shares of consolidated subsidiaries from non-controlling interests | (6,160) | (1,362) |
| Dividends paid to shareholders | (11,117) | (12,827) |
| Dividends paid to non-controlling interests | (165) | (137) |
| Acquisition of common stock for treasury | (6) | (2) |
| Proceeds from sales of treasury stock | 0 | 0 |
| Net cash used in financing activities | (43,516) | 31,042 |
| Effect of exchange rate changes on cash and cash equivalents | 2,151 | 922 |
| Net increase (decrease) in cash and cash equivalents | (86,348) | (14,552) |
| Cash and cash equivalents at the beginning of the first quarter | 139,411 | 54,912 |
| Cash and cash equivalents at the end of the third quarter | 53,063 | 40,360 |

## (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 nine months ended December 31, 2018. There is no material impact on the Group's financial positon 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 nine months ended December 31, 2018. There is no material impact on the Group's financial positon 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 | •YASUGI SPECIALTY STEEL brand high-grade specialty steel products<br>(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)<br>•Rolls for steel mills<br>•Injection molding machine parts<br>•Structural ceramic products<br>•Steel-frame joints for construction<br>•Soft magnetic materials (Metglas® amorphous metals; FINEMET® nanocrystalline magnetic material; and soft ferrite) and applied products |
| Magnetic Materials and Applications | •Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products)<br>•Ceramic components |
| Functional Components and Equipment | •Casting components for automobiles<br>(HNM™ high-grade ductile cast iron products, cast iron products for transportation equipment, and HERCUNITE™ heat-resistant exhaust casting components)<br>•SCUBA™ aluminum wheels and other aluminum components<br>•Piping and infrastructure components (™ Gourd brand pipe fittings, valves, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices, and sealed expansion tanks) |
| Wires, Cables, and Related Products | •Industrial cables, electronic wires, electric equipment materials, and industrial rubber products<br>•Cable assemblies<br>•Automotive electronic components and brake hoses |

## Ⅱ Last consolidated fiscal year (from April 1 to December 31, 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 | 215,175 | 79,176 | 266,574 | 170,911 | 731,836 | 1,277 | 733,113 | − | 733,113 |
| Intersegment transactions | 135 | 12 | − | 469 | 616 | 1,188 | 1,804 | (1,804) | − |
| Total revenues | 215,310 | 79,188 | 266,574 | 171,380 | 732,452 | 2,465 | 734,917 | (1,804) | 733,113 |
| Segment profit | 20,049 | 6,783 | 7,273 | 7,396 | 41,501 | 126 | 41,627 | 766 | 42,393 |
| Financial income | − | − | − | − | − | − | − | − | 1,367 |
| Financial expenses | − | − | − | − | − | − | − | − | (1,809) |
| Share of (losses) profits of investments accounted for using the equity method | − | − | − | − | − | − | − | − | 2,138 |
| Income before income taxes | − | − | − | − | − | − | − | − | 44,089 |

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 year (from April 1 to December 31, 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 | 230,485 | 84,385 | 276,057 | 182,679 | 773,606 | 1,925 | 775,531 | − | 775,531 |
| Intersegment transactions | 133 | − | − | 381 | 514 | 1,440 | 1,954 | (1,954) | − |
| Total revenues | 230,618 | 84,385 | 276,057 | 183,060 | 774,120 | 3,365 | 777,485 | (1,954) | 775,531 |
| Segment profit (loss) | 18,927 | 8,567 | (4,718) | 10,130 | 32,906 | 611 | 33,517 | 1,093 | 34,610 |
| Financial income | − | − | − | − | − | − | − | − | 1,276 |
| Financial expenses | − | − | − | − | − | − | − | − | (2,123) |
| Share of (losses) profits of investments accounted for using the equity method | − | − | − | − | − | − | − | − | 1,488 |
| Income before income taxes | − | − | − | − | − | − | − | − | 35,251 |

Note: 1. Segment profit (loss) is based on operating income.

2. Intersegment transactions are recorded at the same prices used in transactions with third parties. Adjustments represent mainly allocation variances of general and administrative expenses for corporate assets, which are not allocated to each reportable segment.

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 nine months ended December 31, 2017 have been recorded under the Specialty Steel Products segment.