



# Consolidated Financial Report [IFRS]

## For the 9-month period ended December 31, 2019

January 30, 2020

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

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

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

### 1. Performance for the Third Quarter Ended December 31, 2019 (April 1, 2019 to December 31, 2019)

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

	Revenues		Adjusted Operating Income		Operating Income (loss)		Income before Income Taxes		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Dec, 2019	670,963	(13.5)	11,821	(72.4)	(34,708)	—	(35,746)	—	(40,795)	—
Dec, 2018	775,531	5.8	42,776	(10.5)	34,610	(18.4)	35,251	(20.0)	26,918	(22.8)

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

	Net Income (loss) attributable to Shareholders of the Parent Company		Comprehensive Income		Earnings per Share (Basic)	Earnings per Share (Diluted)
	Million yen	%	Million yen	%	Yen	Yen
Dec, 2019	(38,934)	—	(45,056)	—	(91.06)	—
Dec, 2018	27,006	(22.4)	31,099	(26.8)	63.16	—

### (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, 2019	1,025,124	535,612	531,900	51.9	1,244.01
March, 2019	1,099,252	595,211	587,979	53.5	1,375.16

### 2. Dividends

	Dividends per Share				
	1Q	2Q	3Q	Term-end	Annual
	Yen	Yen	Yen	Yen	Yen
March, 2019	—	17.00	—	17.00	34.00
March, 2020	—	13.00	—		
March, 2020 (Forecast)				13.00	26.00

Note: Revision of the latest forecasts of results : No

### 3. Business results forecast for the year ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(% 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	895,000	(12.5)	14,000	(72.8)	(43,500)	—	(47,000)	—	(109.92)

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

※ Other Notes

Numbers of shares issued (Common stock)

( i ) Number of shares outstanding at end of period

(Including treasury stock)

December, 2019	428,904,352	March, 2019	428,904,352
December, 2019	1,336,858	March, 2019	1,334,441
Dec, 2019 (3Q)	427,568,792	Dec, 2018 (3Q)	427,571,189

( 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, 2020, 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, 2019

## (1) Information Regarding Operating Results

The global economy as a whole saw moderate growth during the nine months ended December 31, 2019, but the pace of growth slowed and concerns over a slowdown in the future further deepened. In the United States, although the employment situation continued to improve and individual consumption increased, corporate activities were affected by a decline in capital investment. Meanwhile, Chinese economic growth continued to slow down as a result of the trade conflict with the United States and a slowdown in domestic demand. The economies of Europe and Asian emerging economies also weakened due to the effects of China's economic slowdown, and so on. Amid such circumstances, the Japanese economy was faced with a fall in business confidence, mainly in the manufacturing industry, as evidenced by a further decline in industrial production and exports.

Among the industries in which the Group operates, the automobile industry in Japan saw a decrease in sales of new vehicles, due mainly to the effects of natural disasters such as large-scale typhoons. Meanwhile, China experienced a significant drop mainly in sales of passenger vehicles, and the United States also saw a decrease in sales, leading to a drop in global automobile sales as a whole. Both domestic and overseas demand for industrial machinery were weak. Housing starts increased in the United States but declined in Japan. In the electronics field, smartphone shipments continued to decrease but signs of a recovery were seen towards the end of the year.

Under the business circumstances described above, the Group's operating results for the nine months ended December 31, 2019 were as follows.

Revenues decreased by 13.5% year on year to ¥670,963 million mainly due to a decrease in demand primarily for the Group's mainstays. Other significant reasons for the revenue decline include a fall in raw material prices (sliding-scale raw material price system) and structural reform measures in the Functional Components and Equipment segment.

Adjusted operating income\* for the nine months ended December 31, 2019 decreased by ¥30,955 million year on year to ¥11,821 million. This was attributable to a major production adjustment implemented in order to address a decrease in demand and to optimize inventories, as part of measures to improve operational efficiency, in addition to a slowdown in the electronics-related and semiconductor-related markets, a decline in demand for various manufacturing equipment and industrial machinery, and a decrease in sales of new vehicles, despite measures including a reduction in fixed costs.

Operating income for the nine months ended December 31, 2019 decreased by ¥69,318 million year on year, resulting in an operating loss of ¥34,708 million. This was attributable to the recording of impairment losses amounting to ¥42,581 million in other operating expenses for the magnetic materials and applications business as a whole during the six months ended September 30, 2019, which was due mainly to the changes in the operating environment of the rare earth magnet business and the subsequent review of the future profitability of the magnetic materials and applications business. Income before income taxes decreased by ¥70,997 million year on year to a loss before income taxes of ¥35,746 million. Net income attributable to shareholders of the parent company decreased by ¥65,940 million from the same period of the previous year to a net loss attributable to shareholders of the parent company of ¥38,934 million.

The Group introduced business management based on Return on Invested Capital (ROIC) with the aim of improving cash flow and capital efficiency. As one of the measures to address these key management challenges in the fiscal year 2021 Medium-term Management Plan, the Group reduces the level of equity investment mainly by shortening the Cash Conversion Cycle (CCC) to reduce the risk of fluctuations in raw material prices. As a result, free cash flow for the nine months ended December 31, 2019, improved by ¥55,920 million from the same period last year.

The results by business segment are as follows. Note that revenues for each segment include intersegment revenues. There were no significant changes to the businesses of the Group during the nine months ended December 31, 2019.

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

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

Revenues in the Specialty Steel Products segment for the nine months ended December 31, 2019 were ¥189,669 million, a decrease of 9.7% as compared with those for the nine months ended December 31, 2018.

Breaking down the revenues by business, sales of molds and tool steel, among the business of tool steel & roll, decreased year on year, due to a decrease in demand in international markets especially in China and inventory adjustments including in a supply chain in Japan. Sales of rolls increased year on year as a result of a rise in demand in Japan. Sales of injection molding machine parts during the nine months ended December 31, 2019 decreased on a year-on-year basis owing to a sharp drop in demand since the beginning of the current period under review.

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

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

Adjusted operating income decreased by ¥16,354 million to ¥3,354 million compared with the nine months ended December 31, 2018, due to a decline in demand for the Company's mainstays including molds and tool steel and industrial materials, a fall in raw material prices, and a reduction of work in process reflecting the market demand. Operating income of the segment decreased by ¥15,894 million year on year to ¥2,497 million.

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

Revenues in the Functional Components and Equipment segment for the nine months ended December 31, 2019 were ¥226,839 million, a decrease of 17.8% year on year.

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

Among piping components, overall sales of pipe fittings in the nine months ended December 31, 2019 remained unchanged year on year. Sales of semiconductor manufacturing equipment decreased year on year due to the delay of some capital investment projects. As a result, overall sales of piping components decreased year on year.

Adjusted operating income decreased by ¥6,335 million year on year to ¥1,063 million, largely due to a decrease in sales from the automotive casting components business in North America which is the segment's core business as well as a continued slump in sales of semiconductor manufacturing equipment. Operating loss was ¥917 million, an improvement of ¥3,801 million from the same period of the previous fiscal year.

### ***Magnetic Materials and Applications / Power Electronics***

Revenues in the Magnetic Materials and Applications / Power Electronics segment for the nine months ended December 31, 2019 were ¥88,859 million, a decrease of 15.4% year on year.

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

Among power electronics materials, sales of soft magnetic materials and their applied products decreased year on year due to a decline in demand for amorphous metals for transformers and some components for consumer equipment, despite an increase in demand for the use of electronic vehicles. Meanwhile, sales of ceramic components increased year on year due to an increase in demand mainly for the use of automotive electronic components and medical and security-related devices. As a result, sales of power electronics materials as a whole remained at the same level as the same period last year.

Adjusted operating income decreased by ¥3,403 million year on year to an adjusted operating income of ¥132 million, due to a decrease in demand for magnetic materials and applications. Operating income decreased by ¥51,942 million from the same period of the previous fiscal year to an operating loss of ¥42,839 million. This was attributable to the recording of impairment losses amounting to ¥42,581 million in other operating expenses for the magnetic materials and applications business as a whole during the six months ended September 30, 2019, which was due mainly to the changes in the operating environment of the rare earth magnet business and the subsequent review of the future profitability of the magnetic materials and applications business.

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

Revenues in the Wires, Cables, and Related Products segment for the nine months ended December 31, 2019, were ¥164,855 million, a decrease of 9.9% year on year.

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

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

Adjusted operating income decreased by ¥5,324 million to ¥5,272 million, as compared with the nine months ended December 31, 2018, led in part by a decline in demand. Operating income of the segment decreased by ¥4,788 million year on year to ¥5,342 million for the same period.

### ***Other***

Revenues in the Other segment for the nine months ended December 31, 2019, were ¥2,550 million, a decrease of 24.2%, and adjusted operating income increased by ¥184 million to ¥601 million, as compared with those for the nine months ended December 31, 2018. Operating income of the segment decreased by ¥283 million to ¥328 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 (loss) recorded in the consolidated statement of income, excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profit indicator for the Hitachi Group, including Hitachi, Ltd.

## **(2) 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, 2019, is as follows:

Total assets were ¥1,025,124 million, a decrease of ¥74,128 million compared with the end of the fiscal year ended March 31, 2019. Current assets were ¥446,813 million, a decrease of ¥33,518 million compared with the end of the fiscal year ended March 31, 2019. This was mainly attributable to a decrease in inventories of ¥21,930 million. Non-current assets were ¥578,311 million, a decrease of ¥40,610 million compared with the end of the fiscal year ended March 31, 2019. Property, plant and equipment decreased by ¥10,124 million, which was mainly attributable to an increase of ¥17,276 million in right-of-use assets arising from the application of IFRS 16 "Leases" and decrease due to impairment losses of ¥22,479 million for the magnetic materials and applications business. In addition, goodwill and intangible assets decreased by ¥23,767 million, which resulted primarily from impairment losses of ¥20,102 million for the magnetic materials and applications business.

Total liabilities were ¥489,512 million, a decrease of ¥14,529 million compared with the end of the fiscal year ended March 31, 2019. Short-term debt, and the current portion of long-term debt and long-term debt increased by ¥22,676 million and ¥3,318 million, respectively. The increase of the current portion of long-term debt and long-term debt was mainly attributable to an increase of ¥16,894 million in lease liabilities arising from the application of IFRS 16 "Leases," and the current portion of long-term debt and long-term debt, less the incremental effect of the lease liabilities, decreased by ¥13,576 million compared with the end of the fiscal year ended March 31, 2019. Trade payables and other financial liabilities (current liabilities) decreased by ¥24,449 million and ¥13,198 million, respectively. Total equity was ¥535,612 million, a decrease of ¥59,599 million compared with the end of the fiscal year ended March 31, 2019. This was mainly attributable to decreases in retained earnings of ¥52,357 million and accumulated other comprehensive income of ¥4,017 million.

## 2) Cash flows

Cash and cash equivalents as of the end of the nine months ended December 31, 2019, were ¥43,638 million, an increase of ¥2,540 million compared with the end of the fiscal year ended March 31, 2019, as a result of cash provided by operating activities exceeding net cash used in investing and financing activities. The analysis of cash flows for each category as of December 31, 2019, is as follows:

### <Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥57,448 million. This was mainly attributable to the net effect of net loss of ¥40,795 million, despite of the impairment losses of ¥45,138 million and the depreciation and amortization of ¥41,611 million among others.

### <Cash Flows from Investing Activities>

Net cash used in investing activities was ¥48,044 million. This was mainly attributable to payment of ¥47,017 million for the purchase of property, plant and equipment.

### <Cash Flows from Financing Activities>

Net cash used in financing activities was ¥5,921 million. This was mainly attributable to a net increase in short-term debt of ¥23,418 million, despite of the repayment of long-term debt of ¥16,337 million and the payment of dividends of ¥12,849 million.

## **(3) Forecasts for the Fiscal Year Ending March 31, 2020, including Consolidated Operating Forecasts**

There will be no change to the figures in the operating forecasts for the fiscal year ending March 31, 2020 (April 1, 2019, through March 31, 2020) that were announced on October 29, 2019.

**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, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	41,098	43,638
Trade receivables	195,306	183,457
Inventories	214,805	192,875
Other current assets	29,122	26,843
Total current assets	480,331	446,813
Non-current assets		
Investments accounted for using the equity method	28,563	28,020
Investments in securities and other financial assets	19,978	14,264
Property, plant and equipment	402,160	392,036
Goodwill and intangible assets	143,558	119,791
Deferred tax assets	9,652	10,678
Other non-current assets	15,010	13,522
Total non-current assets	618,921	578,311
Total assets	1,099,252	1,025,124



(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
<b>Liabilities</b>		
Current liabilities		
Short-term debt	48,844	71,520
Current portion of long-term debt	34,268	71,573
Other financial liabilities	37,730	24,532
Trade payables	155,251	130,802
Accrued expenses	38,018	34,141
Contract liabilities	534	780
Other current liabilities	2,739	3,317
Total current liabilities	317,384	336,665
Non-current liabilities		
Long-term debt	118,986	84,999
Other financial liabilities	923	912
Retirement and severance benefits	58,124	58,625
Deferred tax liabilities	4,964	4,965
Other non-current liabilities	3,660	3,346
Total non-current liabilities	186,657	152,847
Total liabilities	504,041	489,512
<b>Equity</b>		
Equity attributable to shareholders of the parent company		
Common stock	26,284	26,284
Capital surplus	115,045	115,343
Retained earnings	425,886	373,529
Accumulated other comprehensive income	21,925	17,908
Treasury stock, at cost	(1,161)	(1,164)
Total equity attributable to shareholders of the parent company	587,979	531,900
Non-controlling interests	7,232	3,712
Total equity	595,211	535,612
Total liabilities and equity	1,099,252	1,025,124

**(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, 2019 ]

(Millions of yen)

	Note	For the third quarter ended December 31, 2018	For the third quarter ended December 31, 2019
Revenues		775,531	670,963
Cost of sales		(640,603)	(575,484)
Gross profit		134,928	95,479
Selling, general and administrative expenses		(92,152)	(83,658)
Other income		8,701	2,586
Other expenses		(16,867)	(49,115)
Operating income (loss)	1	34,610	(34,708)
Interest income		335	361
Other financial income		941	101
Interest charges		(2,121)	(2,093)
Other financial expenses		(2)	(544)
Share of (losses) profits of investments accounted for using the equity method		1,488	1,137
Income (loss) before income taxes		35,251	(35,746)
Income taxes		(8,333)	(5,049)
Net income (loss)		26,918	(40,795)
Net income (loss) attributable to:			
Shareholders of the parent company		27,006	(38,934)
Non-controlling interests		(88)	(1,861)
Net income (loss)		26,918	(40,795)
Earnings per share			
Basic		¥63.16	¥(91.06)
Diluted		—	—

Note: 1. Adjusted operating income, which is the operating income (loss) presented in the condensed interim consolidated statement of income, excluding other income and other expenses, is ¥42,776 million and ¥11,821 million for the nine months ended December 31, 2018 and 2019, respectively.

[ Condensed Interim Consolidated Statement of Comprehensive Income ]

[ For the nine months ended December 31, 2019 ]

(Millions of yen)

	For the third quarter ended December 31, 2018	For the third quarter ended December 31, 2019
Net income (loss)	26,918	(40,795)
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	(365)	60
Share of other comprehensive income of investments accounted for using the equity method	(295)	95
Total items not to be reclassified into net income	(660)	155
Items that can be reclassified into net income		
Foreign currency translation adjustments	4,858	(4,310)
Net change in fair value of cash flow hedges	12	(81)
Share of other comprehensive income of investments accounted for using the equity method	(29)	(25)
Total items that can be reclassified into net income	4,841	(4,416)
Total other comprehensive income	4,181	(4,261)
Comprehensive income	31,099	(45,056)
Comprehensive income attributable to:		
Shareholders of the parent company	31,304	(42,940)
Non-controlling interests	(205)	(2,116)
Comprehensive income	31,099	(45,056)

### (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, 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

	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, 2019	26,284	115,045	425,886	21,925	(1,161)	587,979	7,232	595,211
Cumulative effect of accounting change	—	—	(607)	—	—	(607)	—	(607)
Restated balance	26,284	115,045	425,279	21,925	(1,161)	587,372	7,232	594,604
Changes in equity								
Net income (loss)	—	—	(38,934)	—	—	(38,934)	(1,861)	(40,795)
Other comprehensive income	—	—	—	(4,006)	—	(4,006)	(255)	(4,261)
Dividends to shareholders of the parent company	—	—	(12,827)	—	—	(12,827)	—	(12,827)
Dividends to non-controlling interests	—	—	—	—	—	—	(22)	(22)
Acquisition of treasury stock	—	—	—	—	(3)	(3)	—	(3)
Sales of treasury stock	—	0	—	—	0	0	—	0
Transactions with non-controlling interests	—	298	—	—	—	298	(1,382)	(1,084)
Transfer to retained earnings	—	—	11	(11)	—	—	—	—
Total changes in equity	—	298	(51,750)	(4,017)	(3)	(55,472)	(3,520)	(58,992)
Balance at Dec. 31, 2019	26,284	115,343	373,529	17,908	(1,164)	531,900	3,712	535,612

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

(Millions of yen)

	For the third quarter ended December 31, 2018	For the third quarter ended December 31, 2019
Cash flows from operating activities:		
Net income (loss)	26,918	(40,795)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,877	41,611
Impairment losses	7,378	45,138
Share of losses (profits) of investments accounted for using the equity method	(1,488)	(1,137)
Financial income and expenses	847	2,175
Losses (profits) on sale of property, plant and equipment	2,674	1,584
Structural reform expenses	2,893	—
Net loss (gain) on business reorganization and others	(5,653)	43
Income taxes	8,333	5,049
(Increase) decrease in trade receivables	2,875	10,172
(Increase) decrease in inventories	(27,804)	20,184
(Increase) decrease in accounts receivable - other	2,935	7,908
Increase (decrease) in trade payables	(8,780)	(23,521)
Increase (decrease) in accrued expenses	(2,795)	(3,527)
Increase (decrease) in retirement and severance benefits	278	761
Other	(7,991)	(8,504)
Subtotal	38,497	57,141
Interest and dividends received	2,093	2,228
Interest paid	(2,147)	(2,202)
Payments for structural reforms	(44)	—
Income taxes refund (paid)	(10,557)	281
Net cash provided by operating activities	27,842	57,448

(Millions of yen)

	For the third quarter ended December 31, 2018	For the third quarter ended December 31, 2019
Cash flows from investing activities:		
Purchase of property, plant and equipment	(76,126)	(47,017)
Purchase of intangible assets	(1,079)	(1,106)
Proceeds from sales of property, plant and equipment	576	293
Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	264	(109)
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	470	123
Other	1,537	(228)
Net cash used in investing activities	<u>(74,358)</u>	<u>(48,044)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term debt, net	29,243	23,418
Proceeds from long-term debt	44,605	934
Repayment of long-term debt	(28,478)	(16,337)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(1,362)	(1,084)
Dividends paid to shareholders	(12,827)	(12,827)
Dividends paid to non-controlling interests	(137)	(22)
Acquisition of common stock for treasury	(2)	(3)
Proceeds from sales of treasury stock	0	0
Net cash used in financing activities	<u>31,042</u>	<u>(5,921)</u>
Effect of exchange rate changes on cash and cash equivalents	922	(943)
Net increase (decrease) in cash and cash equivalents	<u>(14,552)</u>	<u>2,540</u>
Cash and cash equivalents at the beginning of the first quarter	54,912	41,098
Cash and cash equivalents at the end of the third quarter	<u>40,360</u>	<u>43,638</u>

## **(5) Changes in Accounting Policies**

### Adoption of IFRS 16 "Leases"


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

As a transitional measure upon the adoption of IFRS 16, the Group applies this standard with the cumulative effect of initially applying this standard recognized as an adjustment to the beginning balance of retained earnings for the full-year ending March 31, 2020.

The leases held by the Group are mainly real estate leases, and the effect of the adoption of IFRS 16 on the condensed statement of consolidated financial position as of the beginning of the full-year ending March 31, 2020 are minor and include: an increase of ¥16,693 million in assets mainly due to recognizing right-of-use assets, an increase of ¥17,300 million in liabilities mainly due to recognizing lease liabilities, and a decrease of ¥607 million in equity due to the adjustment to the beginning balance of retained earnings. Additionally, under IFRS 16, the depreciation adjustment of right-of-use assets is included in cash flows from operating activities instead of the payment of operating lease expense, and the payment of lease liabilities is included in cash flows from financing activities, in the condensed cash flow statement for the nine months ended December 31, 2019. This resulted in an increase in cash flows from operating activities and a decrease in cash flows from financing activities, compared to those under the old accounting standard.

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



## II Last consolidated fiscal 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	Functional Components and Equipment	Magnetic Materials and Applications /Power Electronics	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	209,822	276,057	105,048	182,679	773,606	1,925	775,531	—	775,531
Intersegment transactions	133	—	—	381	514	1,440	1,954	(1,954)	—
Total revenues	209,955	276,057	105,048	183,060	774,120	3,365	777,485	(1,954)	775,531
Segment profit (loss)	18,391	(4,718)	9,103	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.

## III Current year (from April 1 to December 31, 2019)

(Millions of yen)

	Business Segment					Others	Total	Adjustments	Condensed Interim Consolidated Statement of Income
	Specialty Steel Products	Functional Components and Equipment	Magnetic Materials and Applications /Power Electronics	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	189,558	226,839	88,849	164,544	669,790	1,173	670,963	—	670,963
Intersegment transactions	111	—	10	311	432	1,377	1,809	(1,809)	—
Total revenues	189,669	226,839	88,859	164,855	670,222	2,550	672,772	(1,809)	670,963
Segment profit (loss)	2,497	(917)	(42,839)	5,342	(35,917)	328	(35,589)	881	(34,708)
Financial income	—	—	—	—	—	—	—	—	462
Financial expenses	—	—	—	—	—	—	—	—	(2,637)
Share of (losses) profits of investments accounted for using the equity method	—	—	—	—	—	—	—	—	1,137
Income before income taxes	—	—	—	—	—	—	—	—	(35,746)

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