Financial Section

SIX-YEAR SUMMARY

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2016, 2015, 2014, 2013, 2012, and 2011

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The date of transition to IFRS is April 1, 2013.

	Millions of yen (except per share data)						Thousands of U.S. dollars (except per share data) (Note 1)
	2016 (IFRS)	2015 (IFRS)	2014 (IFRS)	2013	2012	2011	2016 (IFRS)
For the year:							
Revenue/Net sales*	¥ 546,468	¥ 526,687	¥ 488,725	¥ 464,655	¥ 473,069	¥ 497,452	$4,836,000
Operating income	53,036	29,226	36,569	23,559	24,495	43,471	469,345
Net income attributable to owners of the parent/Net income*	38,512	22,587	29,464	18,818	16,427	18,943	340,814
Cash dividends	10,412	7,497	7,497	7,913	7,497	7,497	92,142
Capital expenditures	32,022	26,643	31,935	46,698	37,347	30,432	283,381
Depreciation and amortization	29,404	27,271	24,626	25,255	28,240	28,985	260,212
Research and development expenses	27,816	26,920	26,234	25,534	25,680	26,382	246,159
At year-end:							
Total assets	¥ 535,155	¥ 542,535	¥494,724	¥ 477,880	¥ 440,981	¥ 432,184	$4,735,885
Total liabilities	172,633	185,201	173,936	164,476	153,742	141,873	1,527,726
Interest-bearing liabilities (Note 3)	52,364	62,685	58,191	51,077	40,856	27,151	463,398
Total equity/Total net assets* (Stockholders' equity)	362,522	357,334	320,788	313,404	287,239	290,311	3,208,159
Per share data:							
Net income attributable to owners of the parent/Net income* (basic)	¥ 184.95	¥ 108.47	¥ 141.49	¥ 90.36	¥ 78.88	¥ 90.96	$ 1.64
Net income attributable to owners of the parent/Net income* (diluted)	—	—	—	—	—	—	
Cash dividends	50.00	36.00	36.00	38.00	36.00	36.00	0.44
Equity attributable to owners of the parent/Net assets*	1,710.62	1,672.33	1,512.06	1,474.11	1,359.33	1,320.30	15.14
Value indicators:							
Operating margin (%)	9.7	5.5	7.5	5.1	5.2	8.7	
Return on revenue/sales* (%)	7.0	4.3	6.0	4.0	3.5	3.8	
Return on equity attributable to owners of the parent/Return on equity* (ROE) (%)	10.9	6.8	9.9	6.4	5.9	7.0	
Return on assets (ROA) (%)	7.1	4.4	6.1	4.1	3.8	4.4	
Net worth ratio (Ratio of equity attributable to owners of the parent to total assets)/ (Stockholders' equity ratio)* (%)	66.6	64.2	63.6	64.2	64.2	63.6	
Debt/Equity attributable to owners of the parent ratio Debt/Equity ratio* (DER) (times)	0.2	0.2	0.2	0.2	0.1	0.1	
Inventory turnover (times)	9.6	9.4	9.9	10.4	11.7	13.2	
Number of employees	19,117	19,499	18,149	17,732	16,713	15,930	

*Terms are used for Japanese GAAP.

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, solely for the convenience of the reader, at the rate of ¥113=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2016.
2. Interest-bearing liabilities include trade notes discounted.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Year Ended March 31, 2016

RESULTS OF OPERATIONS

Overview of Economic Trends and Business Results

During the fiscal year ended March 2016, for the global economy, in the U.S. the economic recovery led by consumer spending continued on improvement in employment conditions, with Europe also followed a course of moderate recovery. In China, the economic slowdown continued amid efforts to transform the economic structure, with the economies of other developing nations remained weakened by the consequences of China's slowdown, and the effect of low oil prices.

In Japan, the economy remained at a standstill as consumer spending was weak on slow growth in wages, with increasing uncertainty from the start of 2016 as the yen strengthened and share prices fell.

In such an economic climate, the Hitachi Chemical Group, in order to respond agilely to changing circumstances, and establish a solid business foundation to survive global competition, under the Medium-term Management Plan that concluded at the end of FY3/16, moved to reap the benefits of M&A deals and other overseas investments, continued with proactive efforts to generate new products and businesses, and implemented various other measures including reforms to operational processes and the cost structure aimed at further enhancing productivity. Specifically, results were boosted as the Hitachi Chemical Group gained sales channels and business offices overseas by making CSB Battery Co., Ltd. a consolidated subsidiary in January 2015, as well as from efforts to strengthen business in the Asian region by making Taiwan First Li-Bond Co., Ltd. a consolidated subsidiary in April 2015. In addition, to further enhance the collective strengths of the Hitachi Chemical Group, on April 1, 2015, we established a regional headquarters in the U.S., and in Thailand restructured and consolidated several subsidiaries to concentrate management resources. We also conducted an absorption-type merger with Shin-Kobe Electric Machinery Co., Ltd. on January 1, 2016, and made other efforts for reorganization in Japan and overseas. These measures further enhanced management speed and effectiveness, and put in place a structure able to respond flexibly to the market characteristics and changes. Further, to accelerate the creation of new products and businesses quickly responsive to next-generation market needs, in 2015 we established an "open laboratory" as a place for Hitachi Chemical to lead in collaboration with customers and equipment manufacturers to jointly develop new materials and processes. We also made efforts to pursue open innovation utilizing external resources, including proactively incorporating technologies from external research institutes and venture companies.

As a result of the above measures, consolidated revenues for the subject fiscal year increased 3.8% from the previous fiscal year to ¥546,468 million. Earnings were boosted by the revenue increase, along with continuing cost reductions, and a reduction in fixed expenses from the implementation of a voluntary early retirement program in the previous fiscal year. Operating income increased 81.5% to ¥53,036 million, and net income attributable to owners of the parent rose 70.5% to ¥38,512 million.

Revenue

Consolidated revenues rose 3.8% from the previous fiscal year to ¥546,468 million. This mainly reflected higher sales of products for use in smartphones and automobiles, along with the inclusion of overseas subsidiaries in the scope of consolidation.

In the Functional Materials segment, revenue amounted to ¥269,769 million yen, a decrease of 2.7% from the previous fiscal year.

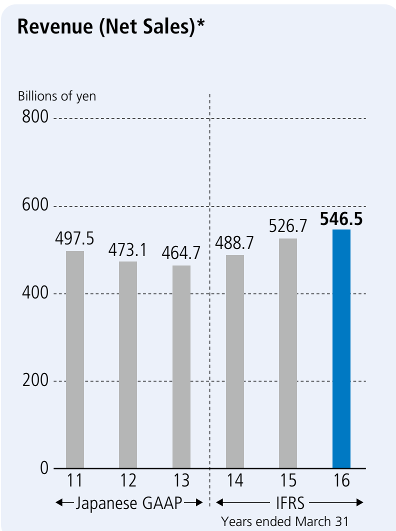
In the electronics materials field, revenue from epoxy molding compounds for semiconductors declined on a falloff in demand from certain customers. Revenue from die bonding materials for semiconductors, and slurry for chemical mechanical planarization, increased on firm demand for products such as smartphones. Revenue from varnishes was down from the previous fiscal year, mainly reflecting the slowdown in demand in the Chinese market.

In the inorganic materials field, revenue from carbon anode materials for lithium-ion batteries decreased due to a decline in sales of eco-friendly automobiles. Revenue from carbon products rose on increased demand from certain customers.

In the polymer science materials field, revenue from functional resins increased as a result of making Taiwan First Li-Bond Co., Ltd. a consolidated subsidiary in April 2015. Revenue from anisotropic conductive films for displays decreased on a decline in sales of products for tablet computers and other devices. Revenue from touch panel supporting materials decreased on sluggish demand from certain customers. Revenue from adhesive films was down, reflecting a decline in sales for use in surface protection of the optical sheets used in LCDs.

In the printed wiring board materials field, revenue from of copper-clad laminates for printed wiring boards rose on an increase in sales for use in smartphones and other devices. Revenue from photosensitive dry films for printed wiring boards was on a par with the previous fiscal year, due mainly to firm demand for use in smartphones.

In the Advanced Components and Systems segment, revenue amounted to ¥276,699 million, an increase of 10.9% from the previous fiscal year.



*Terms in parentheses are used for Japanese GAAP.

In the automotive products field, revenue from plastic molded products and powder metal products rose as a result of an increase in sales at overseas subsidiaries. Revenue from friction materials was on a par with the previous fiscal year, as a decline in sales in Japan due to slack demand for mini-vehicles was offset by higher sales at overseas subsidiaries.

In the energy storage devices and systems field, revenue from vehicle batteries rose on an expansion in sales in Japan and overseas mainly for repairs. Revenue from industrial batteries and systems increased as a result of CSB Battery Co., Ltd. being consolidated as a subsidiary in January 2015. Revenue from capacitors declined on a falloff in demand from certain customers.

In the electronics components field, revenue from printed wiring boards decreased on a falloff in demand from certain customers.

In the "others" field, revenue from diagnostics and instruments declined on a decrease in sales of allergy diagnostic reagents.

Overseas revenue amounted to ¥318,756 million, an increase of ¥36,609 million, or 13.0% from the previous fiscal year. The proportion of overseas revenue expanded to 58.3%, an increase of 4.7 percentage points from a year earlier.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales amounted to ¥399,374 million, an increase of ¥2,466 million, or 0.6% compared with the previous fiscal year. The cost of sales to total net sales declined 2.5 percentage points to 73.1%, from 75.6% in the previous fiscal year, due mainly to the voluntary retirement program implemented in the previous fiscal year.

Selling, general and administrative (SG&A) expenses amounted to ¥7,243 million, an increase of ¥6,123 million, or 6.7% from the previous fiscal year. SG&A expenses as a ratio to total revenue rose 0.5 percentage points to 17.8%, from 17.3% in the previous fiscal year, due mainly to the increase in costs related to making CSB Battery Co., Ltd. a consolidated subsidiary.

Operating Income

Operating income increased 81.5% from the previous fiscal year to ¥53,036 million, mainly as a result of cost reductions, and a decline in fixed expenses from the implementation of a voluntary early retirement program in the previous fiscal year. The operating income margin increased 4.1 percentage points, to 9.7% from 5.5% in the previous fiscal year.

In the Functional Materials segment, segment profit rose 64.2% from the previous fiscal year to ¥38,574 million. The segment profit margin increased 5.8 percentage points to 14.3%.

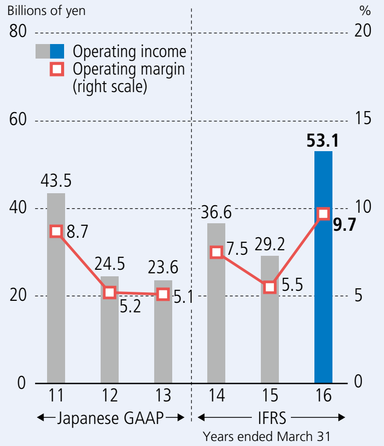
In the Advanced Components and Systems segment, segment profit rose 146.1% from the previous fiscal year to ¥14,388 million. The segment profit margin increased 2.9 percentage points to 5.2%.

As a result, income before income taxes rose 54.7% to ¥53,682 million, from ¥34,692 million in the previous fiscal year.

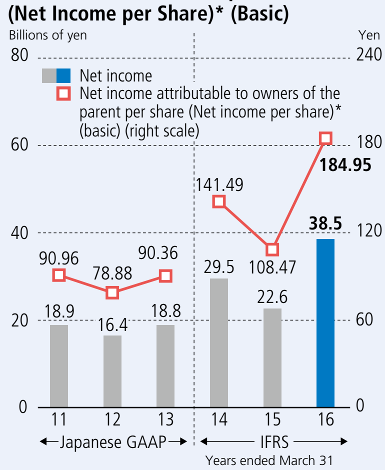
Net Income Attributable to Owners of the Parent

Income taxes increased 22.9% to ¥14,530 million, from ¥11,825 million in the previous fiscal year. As a result, net income amounted to ¥38,512 million, a increase of 70.5% from ¥22,587 million in the previous fiscal year. Return on equity attributable to owners of the parent (ROE) rose 4.1 percentage points to 10.9%, with return on assets (ROA) increasing 2.7 percentage points to 7.1%. Net income attributable to owners of the parent per share (basic) rose to ¥184.95 per share, from ¥108.47 in the previous fiscal year.

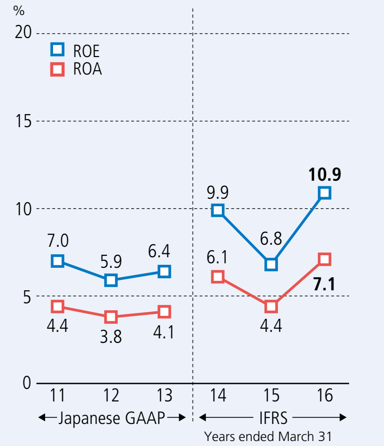
Operating Income / Operating Margin



Net Income / Net Income Attributable to Owners of the Parent per Share (Net Income per Share)* (Basic)



Return on Equity Attributable to Owners of the Parent (Return on Equity)* (ROE) / Return on Assets (ROA)



*Terms in parentheses are used for Japanese GAAP.

FINANCIAL CONDITION

Assets, Liabilities, and Equity

Assets

Total assets at March 31, 2016, stood at ¥535,155 million, a decrease of ¥7,380 million compared with the previous fiscal year-end. Current assets decreased ¥181 million, due mainly to a decline in trade receivables. Non-current assets decreased ¥7,199 million, due mainly to a decline in property, plant and equipment.

Liabilities

Total liabilities amounted to ¥172,633 million, a decrease of ¥12,568 million compared with the end of the previous fiscal year. Current liabilities decreased ¥3,499 million, due mainly to a decline in other financial liabilities. Non-current liabilities decreased ¥9,069 million, due mainly to a decrease in bonds and borrowings.

Equity

Total equity amounted to ¥362,522 million, an increase of ¥5,188 million from the previous fiscal year. This mainly reflected an increase in total equity attributable to owners of the parent, against a decrease in non-controlling interests.

Cash Flows

Cash and cash equivalents at March 31, 2016, stood at ¥119,988 million, an increase of ¥30,991 million from the end of the previous fiscal year.

Net cash provided by operating activities amounted to ¥95,069 million, an increase of ¥61,060 million from the previous fiscal year. This was due mainly to the increase in net income, together with a decline in business structure improvement expenses, an increase in trade receivables, and a decrease in inventories.

Net cash used in investing activities amounted to ¥35,663 million, an increase of ¥13,405 million from the previous fiscal year. This was due mainly to an increase in expenses for property, plant and equipment acquired, and a decrease in proceeds from withdrawal of deposits paid in subsidiaries and affiliates.

Net cash used in financing activities amounted to ¥22,123 million, an increase of ¥5,249 million from the previous fiscal year. This was due mainly to a decrease in short-term debt.

Cash Flows
Years ended March 31

Billions of yen

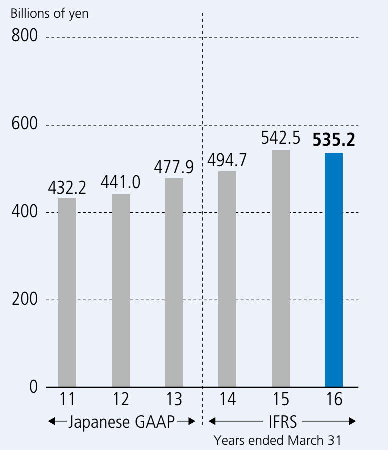
	2015	2016
Cash flows from operating activities	¥34.0	¥ 95.1
Cash flows from investing activities	(22.3)	(35.7)
Cash flows from financing activities	(16.9)	(22.1)
Cash and cash equivalents at end of year	89.0	120.0

Capital Expenditures, R&D Expenses

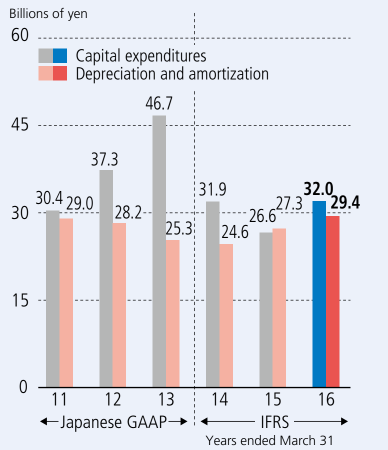
Total capital expenditures amounted to ¥32,022 million, an increase of ¥5,379 million from the previous fiscal year. This mainly reflected an increase in investment in the Advanced Components and Systems segment.

R&D expenses totaled ¥27,816 million, an increase from ¥26,920 million in the previous fiscal year. This represented 5.1% of total revenue, on a par with the previous fiscal year.

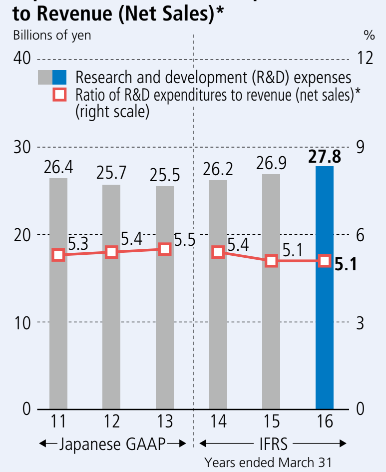
Total Assets



Capital Expenditures / Depreciation and Amortization



Research and Development (R&D) Expenses / Ratio of R&D Expenses to Revenue (Net Sales)*



*Terms in parentheses are used for Japanese GAAP.

BASIC POLICY ON APPROPRIATION OF EARNINGS DIVIDEND FORECAST FOR THE FISCAL YEAR ENDING MARCH 31, 2017

Hitachi Chemical determines the profit distribution policy taking into full account the business environment, operating results, future business and economic outlook, the payout ratio, and appropriate amounts of internal capital reserves.

Hitachi Chemical's aim is to achieve steady growth in dividends. Hitachi Chemical invests its internal capital reserves in researching and developing new high value-added products with growth potential, establishing a global supply system, and enhancing its existing business platforms, as well as strengthening its financial base.

Hitachi Chemical acquires its own shares on a flexible basis in accordance with its dividend policy and consistent standards, returning profits to its shareholders as a complement to dividend payments.

In the fiscal year ended March 31, 2016, the Company paid an annual dividend of ¥50 per share, comprising a year-end dividend of ¥25 per share, and an interim dividend of ¥25 per share. The forecast dividend for the fiscal year ending March 31, 2017 is ¥50 per share (¥25 per share for both the interim and year-end dividend).

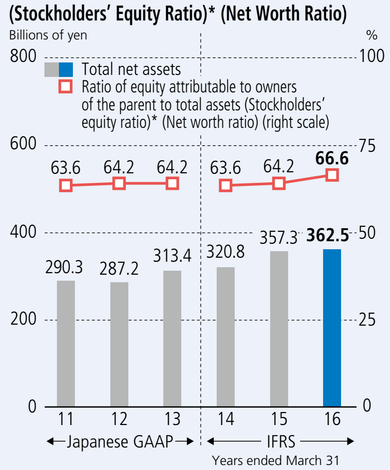
OUTLOOK AND FORECASTS FOR THE FISCAL YEAR ENDING MARCH 31, 2017

Considering the economic outlook, the U.S. economy is expected to continue to grow steadily, underpinned by consumer spending, though there are concerns that an additional interest rate hike could function as a negative factor. The European economy is also forecast to continue to recover at a moderate pace, driven by growing consumer spending, though the refugee crisis could lead to turmoil in the EU and Eurozone economy. Emerging economies are expected to remain soft overall, with the slowdown in the Chinese economy continuing to have an impact. The Japanese economy is benefiting from various economic policy measures, and is expected to recover at a moderate pace, though the outlook is unpredictable, with concerns over slowdowns in corporate earnings as a result of the stronger yen and downturns in China and other emerging nations.

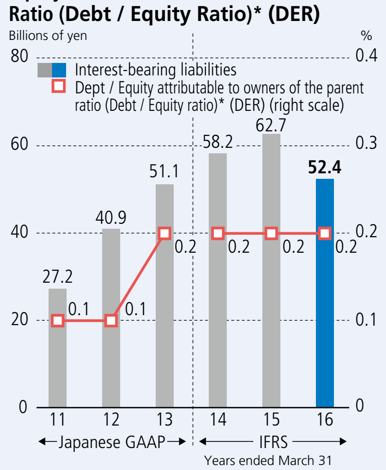
The Hitachi Chemical Group, taking into account this external business climate, has determined to establish a corporate group that provides the world with innovation that goes beyond chemistry, based on highly functional materials and looking a decade into the future, and formulated a three-year medium-term management plan that concludes at the end of FY3/19, centered on the goals of "strengthen global businesses" and "strengthen the management base." During FY3/17, the first year of the plan, Hitachi Chemical will accelerate innovation to create next-generation products and new businesses, establish a global business foundation with a competitive advantage, achieve world-leading levels of production efficiency, and implement other measures to build a strong management base to survive in an era of fast-moving changes in the economic environment.

For the consolidated fiscal year ending March 31, 2017, the Hitachi Chemical Group is forecasting revenue of ¥550.0 billion, with operating income of ¥54.0 billion, income before income taxes of ¥55.0 billion, net income of ¥39.2 billion, and net income attributable to owners of the parent of ¥38.5 billion.

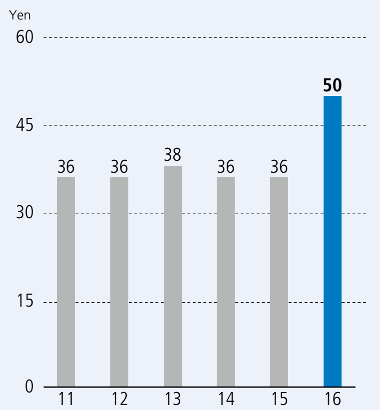
Total Equity (Total Net Assets)* / Ratio of Equity Attributable to Owners of the Parent to Total Assets (Stockholders' Equity Ratio)* (Net Worth Ratio)



Interest-bearing Liabilities / Debt / Equity Attributable to Owners of the Parent Ratio (Debt / Equity Ratio)* (DER)



Cash Dividends per Share



*Terms in parentheses are used for Japanese GAAP.

BUSINESS AND OTHER RISKS

Hitachi Chemical operates globally in a diverse range of fields, using sophisticated, specialized technologies. For this reason, a variety of factors may materially impact Group operations. These major business and other risks are described below. Statements concerning the future represent the judgment of Hitachi Chemical as of March 31, 2016.

(1) Exchange Rate Fluctuations

Hitachi Chemical holds assets and liabilities from overseas operations that are affected by fluctuations in foreign exchange rates. Due to product exports and raw material imports usually denominated in U.S. dollars, and at times in other local currencies, exchange rate fluctuations may exert a material impact on the performance of the Group. The appreciation of the yen against the U.S. dollar and other currencies may exert a material impact on earnings by weakening the competitiveness of products exported to overseas markets. The Group pursues measures to attenuate the risk from exchange rate fluctuations, but cannot guarantee that exchange rate fluctuations will not affect performance.

(2) Major Raw Material Price Fluctuations

Many of Hitachi Chemical's products use petrochemical products as raw materials. The purchase prices of petrochemical products are susceptible to fluctuations in crude oil prices. In addition, fluctuations in the markets for lead, copper, rare earths, and other raw materials, as well as export regulations in producing countries, may increase procurement costs or make it difficult to procure the necessary quantities. These factors may exert a material impact on Group performance.

(3) Acquisitions, Joint Ventures, and Strategic Alliances

Hitachi Chemical may acquire outside companies, establish joint ventures, and implement strategic alliances in order to develop new technologies and products, and raise competitiveness. These complex initiatives involve integration of businesses, technologies, products, and personnel that requires time and expense. Failure to implement these initiatives as planned may exert a material impact on Group operations. The success of these business alliances is determined in part by factors beyond the Group's control including alliance partner decisions and capabilities, and market trends. Implementation of these initiatives may cause the Group to incur acquisition-related expenses including expenses for integration and restructuring of acquired businesses. In addition, the Group cannot guarantee that it will succeed in integrating acquired businesses or that its initiatives will achieve all or part of initial objectives.

(4) Potential Risks in Overseas Activities

Hitachi Chemical produces and sells products in Japan, as well as in other countries and regions including Asia and the United States. There are inherent political and social risks in these countries and regions, which may exert a material impact on the financial position and performance of the Group.

(5) Public Regulations

Hitachi Chemical's business activities are subject to various regulations in the countries and regions in which it operates. The regulations include legal obligations related to foreign investment, trade, competition, intellectual properties, taxes, exchange rates, the environment, and recycling. Significant changes to these regulations could restrict operations, increase costs, and exert a material impact on Group performance.

(6) Financial Risk

Hitachi Chemical holds equities and other marketable securities. A decrease in the value of these marketable securities may exert a material impact on the financial position and performance of the Group. In addition, long-term procurement of funds from capital markets exposes the Group to risk associated with interest rate fluctuations and credit.

(7) Retirement Benefit Obligations

Hitachi Chemical bears considerable retirement benefit expense obligations that are computed using actuarial calculations. These appraisals involve important assumptions about conditions for estimating the fair value of pension assets including mortality rates, decrement rates, retirement rates, salary changes, discount rates, and expected rates of return on pension assets. In making these assumptions, the Group must take into account numerous factors including personnel conditions, current market conditions, and future interest rate trends.

Although the Group makes reasonable assumptions about conditions based on key factors, it cannot guarantee that projections will agree with actual results. Lower discount rates lead to an increase in actuarial retirement benefit obligations. Accordingly, changes in conditions may exert a material impact on the financial position and performance of the Group.

(8) Relationship with the Parent Company

As of March 31, 2016, Hitachi, Ltd., the parent company of Hitachi Chemical Co., Ltd., holds 51.2 percent of the Company's total number of shares issued and 51.4 percent of the total number of shares with voting rights (exclusive of indirect shareholdings). Hitachi, Ltd. oversees numerous associated companies, and engages in a wide variety of operations covering the manufacture, sale, and service of products in six groups: Power & Infrastructure Systems, Information & Telecommunication Systems, Construction Machinery, High Functional Materials & Components, Automotive Systems, and Healthcare.

Hitachi Chemical Co., Ltd. is part of the Hitachi Group's High Functional Materials & Components, and two of its 11 Directors serve concurrently as Director or Executive Officer of Hitachi, Ltd. (as of the submission date of the Annual Securities Report), and Hitachi Chemical Co., Ltd. has a close relationship with its parent company in areas including technical and personnel cooperation, and supplying products. As a listed company, Hitachi Chemical's basic policy is to deepen communication with all shareholders, and practice autonomous and attentive management that utilizes the strengths of the corporate group. However, the Hitachi Chemical Group's business development could be affected by the management strategies and other policies of Hitachi, Ltd.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

		Millions of yen		Thousands of U.S. dollars (Note 2)
		2015	2016	2016
Assets				
Current assets:				
Cash and cash equivalents		¥ 88,997	¥119,988	$1,061,841
Trade receivables		123,949	109,249	966,805
Inventories	(Note 3)	61,909	51,693	457,460
Other financial assets		23,659	16,527	146,257
Other current assets		2,324	3,200	28,319
Total current assets		300,838	300,657	2,660,681
Non-current assets:				
Property, plant and equipment	(Note 4)	179,196	170,332	1,507,363
Intangible assets	(Note 5)	12,301	13,463	119,142
Net defined benefit assets	(Note 8)	10,093	6,960	61,593
Deferred tax assets	(Note 6)	10,684	11,566	102,354
Investments accounted for using the equity method		5,216	7,665	67,832
Other financial assets		17,591	18,183	160,912
Other non-current assets		6,616	6,329	56,009
Total non-current assets		241,697	234,498	2,075,204
Total assets		542,535	535,155	4,735,885
Liabilities				
Current liabilities:				
Trade payables		51,354	51,926	459,522
Bonds and borrowings	(Note 7)	33,658	32,564	288,177
Accrued expenses		24,251	24,149	213,708
Income tax payables		6,758	8,144	72,071
Provisions		500	500	4,425
Other financial liabilities		19,702	15,128	133,876
Other current liabilities		1,471	1,784	15,788
Total current liabilities		137,694	134,195	1,187,566
Non-current liabilities:				
Bonds and borrowings	(Note 7)	26,619	18,144	160,566
Retirement and severance benefits	(Note 8)	13,345	13,906	123,062
Provisions		1,143	1,158	10,248
Other financial liabilities		3,051	2,064	18,265
Other non-current liabilities	(Note 6)	3,349	3,166	28,018
Total non-current liabilities		47,507	38,438	340,159
Total liabilities		185,201	172,633	1,527,726
Equity:				
Common stock	(Note 9)	15,454	15,454	136,761
Capital surplus		10,498	8,004	70,832
Treasury stock, at cost		(213)	(223)	(1,973)
Retained earnings		287,498	317,447	2,809,265
Accumulated other comprehensive income		35,004	15,525	137,389
Total equity attributable to owners of the parent		348,241	356,207	3,152,274
Non-controlling interests		9,093	6,315	55,885
Total equity		357,334	362,522	3,208,159
Total liabilities and equity		¥542,535	¥535,155	$4,735,885

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2016 and 2015

(Consolidated Statement of Income)

		Millions of yen		Thousands of U.S. dollars (Note 2)
		2015	2016	2016
Revenues		¥526,687	¥546,468	$4,836,000
Cost of sales		(396,908)	(399,374)	(3,534,283)
Gross profit		129,779	147,094	1,301,717
Selling, general and administrative expenses		(91,120)	(97,243)	(860,558)
Other income	(Note 10)	10,101	10,539	93,265
Other expenses	(Note 10)	(19,534)	(7,354)	(65,080)
Operating income		29,226	53,036	469,345
Financial income	(Note 12)	3,804	1,038	9,186
Financial expenses	(Note 12)	(1,769)	(3,615)	(31,991)
Share of profits of investments accounted for using the equity method		3,431	3,223	28,522
Income before income taxes		34,692	53,682	475,062
Income taxes	(Note 6)	(11,825)	(14,530)	(128,584)
Net income		¥ 22,867	¥ 39,152	$ 346,478
Net income attributable to:				
Owners of the parent		¥ 22,587	¥ 38,512	$ 340,814
Non-controlling interests		280	640	5,664

	Yen		U.S. dollars (Note 2)
Earnings per share attributable to owners of the parent:	2015	2016	2016
Basic	¥ 108.47	¥ 184.95	$ 1.64
Diluted	—	—	—

See accompanying notes to consolidated financial statements.

(Consolidated Statement of Comprehensive Income)

		Millions of yen		Thousands of U.S. dollars (Note 2)
		2015	2016	2016
Net income		¥22,867	¥39,152	$346,478
Other comprehensive income (OCI)				
Items that cannot be reclassified into profit or loss:				
Net gains and losses from financial assets measured at fair value through OCI		1,115	(968)	(8,566)
Remeasurements of defined benefit obligations	(Note 8)	2,887	(3,662)	(32,407)
Total items that cannot be reclassified into profit or loss		4,002	(4,630)	(40,973)
Items that can be reclassified into profit or loss:				
Foreign currency translation adjustments		15,643	(15,262)	(135,062)
Cash flow hedges		(59)	37	327
Share of OCI of investments accounted for using the equity method		1,085	(248)	(2,195)
Total items that can be reclassified into profit or loss		16,669	(15,473)	(136,929)
Other comprehensive income (OCI)		20,671	(20,103)	(177,903)
Comprehensive income		¥43,538	¥19,049	$168,575
Comprehensive income attributable to:				
Owners of the parent		¥42,390	¥19,424	$171,894
Non-controlling interests		1,148	(375)	(3,319)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2016 and 2015

	Millions of yen					
	Equity attributable to owners of the parent					
					Accumulated other comprehensive income	
	Common stock	Capital surplus	Treasury stock	Retained earnings	Financial assets measured at fair value through OCI	Remeasurement of defined benefit obligations
Balance as of April 1, 2014	¥15,454	¥12,013	¥(200)	¥272,009	¥3,333	¥5,250
Net income				22,587		
Other comprehensive income					1,115	2,887
Comprehensive income for the year	—	—	—	22,587	1,115	2,887
Cash dividends				(7,497)		
Purchase of treasure stock			(13)			
Sale of treasure stock			0			
Changes from business combination						
Purchase of non-controlling interests		(1,515)				
Transfer of accumulated other comprehensive income to retained earnings				399	(399)	
Other changes						
Total transactions with owners	—	(1,515)	(13)	(7,098)	(399)	—
Balance as of March 31, 2015	15,454	10,498	(213)	287,498	4,049	8,137
Net income				**38,512**		
Other comprehensive income					**(968)**	**(3,662)**
Comprehensive income for the year	**—**	**—**	**—**	**38,512**	**(968)**	**(3,662)**
Cash dividends				**(8,954)**		
Purchase of treasure stock			**(10)**			
Sale of treasure stock			**0**			
Changes from business combination						
Purchase of non-controlling interests		**(2,494)**				
Transfer of accumulated other comprehensive income to retained earnings				**391**	**(391)**	
Other changes						
Total transactions with owners	**—**	**(2,494)**	**(10)**	**(8,563)**	**(391)**	**—**
Balance as of March 31, 2016	**¥15,454**	**¥ 8,004**	**¥(223)**	**¥317,447**	**¥2,690**	**¥4,475**

	Millions of yen					
	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Exchange difference on translation of foreign operations	Cash flow hedges	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of April 1, 2014	¥ 7,003	¥14	¥15,600	¥314,876	¥5,912	¥320,788
Net income				22,587	280	22,867
Other comprehensive income	15,860	(59)	19,803	19,803	868	20,671
Comprehensive income for the year	15,860	(59)	19,803	42,390	1,148	43,538
Cash dividends				(7,497)	(134)	(7,631)
Purchase of treasure stock				(13)		(13)
Sale of treasure stock				0		0
Changes from business combination				—	6,862	6,862
Purchase of non-controlling interests				(1,515)	(4,708)	(6,223)
Transfer of accumulated other comprehensive income to retained earnings			(399)	—		—
Other changes				—	13	13
Total transactions with owners	—	—	(399)	9,025	2,033	(6,992)
Balance as of March 31, 2015	22,863	(45)	35,004	348,241	9,093	357,334
Net income				**38,512**	**640**	**39,152**
Other comprehensive income	**(14,495)**	**37**	**(19,088)**	**(19,088)**	**(1,015)**	**(20,103)**
Comprehensive income for the year	**(14,495)**	**37**	**(19,088)**	**19,424**	**(375)**	**19,049**
Cash dividends				**(8,954)**	**(218)**	**(9,172)**
Purchase of treasure stock				**(10)**		**(10)**
Sale of treasure stock				**0**		**0**
Changes from business combination				**—**	**635**	**635**
Purchase of non-controlling interests				**(2,494)**	**(2,820)**	**(5,314)**
Transfer of accumulated other comprehensive income to retained earnings			**(391)**	**—**		**—**
Other changes				**—**		**—**
Total transactions with owners	**—**	**—**	**(391)**	**(11,458)**	**(2,403)**	**(13,861)**
Balance as of March 31, 2016	**¥ 8,368**	**¥ (8)**	**¥15,525**	**¥356,207**	**¥6,315**	**¥362,522**

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 2)					
	Equity attributable to owners of the parent					
					Accumulated other comprehensive income	
	Common stock	Capital surplus	Treasury stock	Retained earnings	Financial assets measured at fair value through OCI	Remeasurement of defined benefit obligations
Balance as of April 1, 2015	$136,761	$92,903	$(1,885)	$2,544,230	$35,832	$72,009
Net income				340,814		
Other comprehensive income					(8,566)	(32,407)
Comprehensive income for the year	—	—	—	340,814	(8,566)	(32,407)
Cash dividends				(79,239)		
Purchase of treasure stock			(88)			
Sale of treasure stock			0			
Changes from business combination						
Purchase of non-controlling interests		(22,071)				
Transfer of accumulated other comprehensive income to retained earnings				3,460	(3,460)	
Other changes						
Total transactions with owners	—	(22,071)	(88)	(75,779)	(3,460)	—
Balance as of March 31, 2016	$136,761	$70,832	$(1,973)	$2,809,265	$23,805	$39,602

	Thousands of U.S. dollars (Note 2)					
	Equity attributable to owners of the parent					
	Accumulated other comprehensive income					
	Exchange difference on translation of foreign operations	Cash flow hedges	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of April 1, 2015	$202,327	$(398)	$309,770	$3,081,779	$80,469	$3,162,248
Net income				340,814	5,664	346,478
Other comprehensive income	(128,274)	327	(168,920)	(168,920)	(8,982)	(177,903)
Comprehensive income for the year	(128,274)	327	(168,920)	171,894	(3,319)	168,575
Cash dividends				(79,239)	(1,929)	(81,168)
Purchase of treasure stock				(88)		(88)
Sale of treasure stock				0		0
Changes from business combination				—	5,619	5,619
Purchase of non-controlling interests				(22,071)	(24,956)	(47,027)
Transfer of accumulated other comprehensive income to retained earnings			(3,460)	—		—
Other changes				—		—
Total transactions with owners	—	—	(3,460)	(101,398)	(21,265)	(122,664)
Balance as of March 31, 2016	$ 74,053	$ (71)	$137,389	$3,152,274	$55,885	$3,208,159

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2016 and 2015

		Millions of yen		Thousands of U.S. dollars (Note 2)
		2015	2016	2016
Cash flows from operating activities:				
Net income		¥22,867	¥39,152	$346,478
Depreciation and amortization		27,271	29,404	260,212
Income tax expense		11,825	14,530	128,584
Impairment losses	(Note 11)	763	1,227	10,858
Interest and dividend income		(750)	(859)	(7,602)
Interest expenses paid		1,736	1,471	13,018
Business structure improvement expenses		12,882	—	—
Share of profits of investments accounted for using the equity method		(3,431)	(3,223)	(28,522)
(Increase) decrease in trade receivables		(1,372)	8,461	74,876
(Increase) decrease in accounts receivables other		(4,533)	4,486	39,699
(Increase) decrease in inventories		(3,646)	7,218	63,876
Increase (decrease) in trade payables		(5,847)	4,640	41,062
Increase (decrease) in retirement and severance benefits		(4,793)	(802)	(7,097)
Other		1,712	(643)	(5,690)
Subtotal		54,684	105,062	929,752
Interest and dividends received		3,350	3,560	31,504
Interest paid		(1,701)	(1,555)	(13,761)
Business structure improved expenses paid		(13,583)	(783)	(6,929)
Income taxes paid		(10,190)	(12,227)	(108,204)
Income taxes refund		1,449	1,012	8,956
Net cash provided by operating activities		34,009	95,069	841,319
Cash flows from investing activities:				
Expenses for property, plant and equipment acquired		(22,896)	(29,856)	(264,212)
Income from sale of property, plant and equipment		1,125	1,459	12,912
Proceeds from redemption and sale of investments in securities		2,118	389	3,442
Purchase of investments in subsidiaries		(3,146)	(900)	(7,965)
Purchase of investment accounted for using equity method		—	(2,240)	(19,823)
Expenses for investment securities acquired		(2,887)	(3,263)	(28,876)
Sales of investments in subsidiaries resulting in charge in scope of consolidation		—	677	5,991
Proceeds from withdrawal of deposits paid in subsidiaries and affiliates		7,000	—	—
Other		(3,572)	(1,929)	(17,071)
Net cash used in investing activities		(22,258)	(35,663)	(315,602)
Cash flows from financing activities:				
Net increase (decrease) in short-term debt		157	(4,226)	(37,398)
Proceeds from long-term debt		1,058	3,371	29,832
Payments on long-term debt		(4,370)	(5,727)	(50,681)
Purchase of shares of consolidated subsidiaries from non-controlling interest holders		(5,671)	(5,866)	(51,912)
Dividends paid to stockholders		(7,497)	(8,954)	(79,239)
Dividends paid to non-controlling interests		(134)	(218)	(1,929)
Other		(417)	(503)	(4,451)
Net cash used in financing activities		(16,874)	(22,123)	(195,779)
Effect of exchange rate changes on cash and cash equivalents		6,468	(6,292)	(55,681)
Net increase (decrease) in cash and cash equivalents		1,345	30,991	274,257
Cash and cash equivalents at beginning of year		87,652	88,997	787,584
Cash and cash equivalents at end of year		¥88,997	¥119,988	$1,061,841

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2016 and 2015

1. Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on the historical cost basis, except for the following significant items

• derivatives are measured at fair value;
• financial instruments at fair value through profit or loss (FVTPL) are measured at fair value;
• financial instruments at fair value through other comprehensive income (FVTOCI) are measured at fair value;
• defined benefit liabilities (assets) are the present value of the defined benefit obligation less the fair value of plan assets.

2. Basis of Financial Statement Translation

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥113=US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2016. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

3. Inventories

Inventories as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Finished and semi-finished goods	¥26,308	¥22,904	$202,690
Work in process	17,715	13,926	123,239
Raw materials	17,886	14,863	131,531
Total	¥61,909	¥51,693	$457,460

4. Property, Plant and Equipment

Property, plant and equipment, at cost as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Buildings and structures	¥ 61,934	¥ 57,531	$ 509,124
Machinery and transportation equipment	90,665	83,918	742,637
Land	20,458	20,427	180,770
Construction in progress	6,139	8,456	74,832
Total	¥179,196	¥170,332	$1,507,363

5. Intangible Assets

Intangible assets as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Goodwill	¥ 5,105	¥ 5,111	$ 45,230
Software	2,557	2,930	25,929
Other	4,639	5,422	47,982
Total	¥12,301	¥13,463	$119,142

6. Income Taxes

The income tax expenses (benefits) reflected in the consolidated statements of income for the years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Current tax expense	¥ 9,977	¥13,961	$123,549
Deferred tax expense (benefit)	1,848	569	5,035
	¥11,825	¥14,530	$128,584

On March 29, 2016, the Act to Partially Revise the Income Tax Act and Others" (Act No. 15 of 2016) and Act to Partially Revise the Local Tax Act and Others" (Act No. 13 of 2016) were enacted by the National Diet. Under these acts, effective from the fiscal year beginning on or after April 1, 2016, a reduction in the corporate tax rate and other measures were implemented. Accompanying these changes, the effective statutory tax rate used to calculate deferred tax assets and liabilities was reduced from the previously used 32.8% to 30.7% for temporary differences expected to be reversed in the fiscal years beginning on April 1, 2016 and 2017, and to 30.5% for temporary differences expected to be reversed in the fiscal years beginning on or after April 1, 2018.

Reconciliations between the effective statutory tax rate and the actual rate of tax borne are as follows:

	2015	2016
Statutory tax rate	35.4%	32.8%
Expenses not deductible for tax purposes	1.4	0.7
Difference in statutory tax rates of foreign subsidiaries	(4.0)	(3.3)
Tax credit for R&D expenses	(2.6)	(1.9)
Changes in unrecognized deferred tax assets	1.3	0.3
Adjustments to deferred tax assets and liabilities due to changes in tax rate	4.0	1.6
Other	(1.4)	(3.1)
Effective income tax rate	34.1%	27.1%

The effective statutory tax rate is based on Japanese corporate income taxes, residents' taxes and enterprise taxes. In fiscal year ended March 31, 2015, a rate of 35.4% was used, and in the fiscal year ended March 31, 2016, a rate of 32.8% was used.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2016 and 2015 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Net defined benefit liability	¥ 5,216	¥ 5,158	$ 45,646
Accrued bonus	2,703	2,742	24,265
Depreciation and amortization	2,544	2,350	20,796
Other	7,278	6,835	60,487
Total deferred tax assets	17,741	17,085	151,195
Deferred tax liabilities:			
Net defined benefit assets	(3,218)	(2,130)	(18,850)
Financial assets at fair value through other comprehensive income (FVTOCI)	(1,916)	(1,163)	(10,292)
Other	(4,535)	(4,725)	(41,814)
Total deferred tax liabilities	(9,669)	(8,018)	(70,956)
Net deferred tax assets	¥ 8,072	¥ 9,067	$ 80,239

7. Short-term and Long-term Debt

Short-term loans payable, current portion of bonds and current portion of long-term loans payable as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Short-term loans payable	¥27,300	¥20,666	$182,885
Current portion of bonds	—	9,998	88,478
Current portion of long-term loans payable	6,358	1,900	16,814
Short-term total	¥33,658	¥32,564	$288,177

Long-term debt as of March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Debentures:			
8th series, due 2016, interest 2.17%	¥ 9,993	¥ 9,998	$ 88,478
9th series, due 2022, interest 1.19%	9,964	9,969	88,221
Loans, principally from banks:			
Maturing 2017–2027, interest 3.1% (average)	6,662	8,175	72,345
Long-term total	¥26,619	¥28,142	249,044
Total short-term and long-term debt (including current portion)	¥60,277	¥60,706	$537,221

8. Retirement Benefit Plans

The Company and certain subsidiaries have funded and unfunded defined-benefit corporate pension plans and defined contribution pension plans to provide retirement and severance benefits to substantially all of their employees.

Fluctuations in the present value of defined benefit obligations and the fair value of plan assets are as follows.

1) The present value of defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥93,293	¥91,314	$808,088
Service cost	3,547	3,600	31,858
Interest expenses	999	651	5,761
Remeasurements of defined benefit plans:			
Actuarial difference arising from change in assumptions of population statistics	(271)	(214)	(1,894)
Actuarial difference arising from change in financial assumptions	3,590	3,086	27,310
Other	(508)	1,599	14,150
Benefits paid	(10,451)	(5,154)	(45,611)
Prior service cost	—	51	451
Other	1,115	(664)	(5,876)
Balance at the end of the fiscal year	¥91,314	¥94,269	$834,239

2) The fair value of plan assets

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥82,149	¥88,062	$779,310
Interest income on plan assets	929	624	5,522
Remeasurements of defined benefit plans:			
Income from plan assets	6,593	(692)	(6,124)
Contributions by the Company	4,304	3,637	32,186
Benefits paid	(6,338)	(4,127)	(36,522)
Other	425	(181)	(1,602)
Balance at the end of the fiscal year	¥88,062	¥87,323	$772,770

The following amounts related to defined benefit plans were recorded in the consolidated statement of financial position.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Present value of defined benefit obligations (funded)	¥(85,628)	¥(88,042)	$(779,133)
Fair value of plan assets	88,062	87,323	772,770
Funding status	2,434	(719)	(6,363)
Present value of defined benefit obligations (unfunded)	(5,686)	(6,227)	(55,106)
Net assets (liabilities) in consolidated statement of financial position	¥ (3,252)	¥ (6,946)	$ (61,469)

9. Stock

	Common stock (Issued shares)	Treasury stock
Balance as of March 31, 2014	208,364,913	122,189
Balance as of March 31, 2015	208,364,913	128,401
Balance as of March 31, 2016	**208,364,913**	**132,735**

10. Other Income and Expenses

(1) Other income

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Compensation income (Note)	¥ 7,464	**¥ 6,738**	**$59,628**
Gain on reversal of provision for surcharge	—	**500**	**4,425**
Other	2,637	**3,301**	**29,212**
Total	¥10,101	**¥10,539**	**$93,265**

Note: This is compensation received from Tokyo Electric Power Company, Inc., for losses caused by the accident at the Fukushima Daiichi Nuclear Power Plant.

(2) Other expenses

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Business structure improvement expenses (Note)	¥12,882	**¥ —**	**$ —**
Loss related to competition law	671	**1,348**	**11,929**
Loss on disposal of property, plant and equipment	966	**1,003**	**8,876**
Impairment losses	763	**1,227**	**10,858**
Provision for surcharge	500	**500**	**4,425**
Other	3,752	**3,276**	**28,991**
Total	¥19,534	**¥7,354**	**$65,080**

Notes: 1. Business structure improvement expenses included extra retirement payment, outplacement support expenses, etc. associated with the implementation of the voluntary retirement and outplacement support program.
2. This is legal counsel fees relating to a violation of antimonopoly laws in transactions concerning aluminium electrolytic capacitors.

11. Impairment Losses on Fixed Assets

For the year ended March 31, 2015, the Company and certain consolidated subsidiaries recognized impairment losses on fixed assets as follows:

Location	Use	Type
Japan	Production facilities and other	Machinery, equipment and other

In conjunction with the decision to transfer business, the carrying amount was reduced to the recoverable amount, and the amount of such reduction of ¥763 million was recorded as an impairment loss in "Other expenses" in the consolidated statement of income. The recoverable amount is calculated at fair value less disposal expenses. Fair value less disposal expenses is based on the prospective sales price, and is classified as Level 3 in terms of IFRS fair value hierarchy.

For the year ended March 31, 2016, the Company and certain consolidated subsidiaries recognized impairment losses on fixed assets as follows:

Location	Use	Type
China, Taiwan and India	Production facilities and other	Machinery, equipment and other

Accompanying the decision to liquidate the business, the carrying amount was reduced to the recoverable amount, and the amount of such reduction of ¥1,037 million ($9,177 thousand) was recorded as an impairment loss in "Other expenses" in the consolidated statement of income. The recoverable amount is calculated as the prospective business sale price less disposal expenses. Fair value is classified as Level 3 in terms of IFRS fair value hierarchy.

12. Financial Income and Expenses

(1) Financial income

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Interest income:			
Financial assets measured at amortized cost	¥ 468	¥ 543	$ 4,805
Dividends:			
Financial assets measured at FVTOCI	282	316	2,796
Gain (loss) on securities and other investment, net:			
Financial assets measured as amortized cost	—	60	531
Financial assets measured at FVTPL	260	7	62
Foreign exchange gains (Note)	2,688	—	
Other financial income	106	112	991
Total	¥3,804	¥1,038	$9,186

Note: Gains and losses related to currency derivatives are included within foreign exchange gains.

(2) Financial expenses

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Interest expenses:			
Financial liabilities measured at amortized cost	¥1,736	¥1,471	$13,018
Gain (loss) on securities and other investment, net:			
Financial assets measured at FVTPL	33	385	3,407
Foreign exchange losses (Note)	—	1,751	15,496
Other financial expenses	—	8	71
Total	¥1,769	¥3,615	$31,991

Note: Gains and losses related to currency derivatives are included within foreign exchange losses.

13. Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2015		2016		2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortised cost:						
Bonds and borrowings	¥60,277	¥61,224	¥50,708	¥51,465	$448,743	$455,442

14. Contingency

The Group is being investigated by the competition authorities in several countries and regions, including the European Union and the United States, over suspicions of violations of antimonopoly laws in transactions relating to aluminium electrolytic capacitors and other items. Of these investigations, in the United States in April 2016, the Group entered into a plea bargaining agreement with the Department of Justice, under which the Group will pay fines. In November 2015, the Company and certain of its subsidiaries received objection notices from the European Commission in relation to potential violations of antimonopoly laws. Furthermore, in the United States, civil proceedings, including a class action suit, have been initiated against the Company and certain of its subsidiaries. Although the financial impact of these legal actions is pending, there is a high possibility that financial impact will occur, and the Company has presented reserves commensurate with the rationally estimable impact amount.

15. Subsequent Events

Not applicable.

16. Business Combination

Not applicable.

17. Segment Information

The Company's reportable segments are the constituent units of our business, for which separate financial information is available, and whose operating results are reviewed periodically by the Board of Directors of the Company to determine the allocation of management resources and assess their performance.

Based on the above, according to the degree of product processing, the Company determines two reportable segments, namely categorizing materials as "Functional Materials Segment" and the components and parts as "Advanced Components and Systems Segment."

Reportable segment information:

	Millions of yen				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
			2015		
Revenues from outside customers	¥275,769	¥249,292	¥525,061	¥ —	¥525,061
Intersegment revenue	9,071	2,911	11,982	(11,982)	—
Total	¥284,840	¥252,203	¥537,043	¥(11,982)	¥525,061
Segment profit (loss)	¥ 23,494	¥ 5,846	¥ 29,340	¥ (114)	¥ 29,226
Financial income	—	—	—	—	3,804
Financial expenses	—	—	—	—	(1,769)
Equity in profit (loss) of affiliates	—	—	—	—	3,431
Income before income taxes	¥ —	¥ —	¥ —	¥ —	¥ 34,692
Other items:					
Depreciation and amortization	¥ 13,574	¥ 13,697	¥ 27,271	¥ —	¥ 27,271
Impairment losses	476	287	763	—	763

	Millions of yen				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
			2016		
Revenues from outside customers	¥269,769	¥276,699	¥546,468	¥ —	¥546,468
Intersegment revenue	5,855	2,122	7,977	(7,977)	—
Total	¥275,624	¥278,821	¥554,445	¥(7,977)	¥546,468
Segment profit (loss)	¥ 38,574	¥ 14,388	¥ 52,962	¥ 74	¥ 53,036
Financial income	—	—	—	—	1,038
Financial expenses	—	—	—	—	(3,615)
Equity in profit (loss) of affiliates	—	—	—	—	3,223
Income before income taxes	¥ —	¥ —	¥ —	¥ —	¥ 53,682
Other items:					
Depreciation and amortization	¥ 14,397	¥ 15,007	¥ 29,404	¥ —	¥ 29,404
Impairment losses	—	1,227	1,227	—	1,227

	Thousands of U.S. dollars				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
			2016		
Revenues from outside customers	$2,387,336	$2,448,664	$4,836,000	$ —	$4,836,000
Intersegment revenue	51,814	18,779	70,593	(70,593)	—
Total	$2,439,150	$2,467,442	$4,906,593	$(70,593)	$4,836,000
Segment profit (loss)	$ 341,363	$ 127,327	$ 468,690	$ 655	$ 469,345
Financial income	—	—	—	—	9,186
Financial expenses	—	—	—	—	(31,991)
Equity in profit (loss) of affiliates	—	—	—	—	28,522
Income before income taxes	$ —	$ —	$ —	$ —	$ 475,062
Other items:					
Depreciation and amortization	$ 127,407	$ 132,805	$ 260,212	$ —	$ 241,336
Impairment losses	—	10,858	10,858	—	6,752

Geographic information:

	Millions of yen			
	Japan	Asia	Other areas	Total
		2015		
Net sales	¥244,540	¥239,609	¥42,538	¥525,061
Net property, plant and equipment	¥100,730	¥ 80,572	¥10,195	¥191,497

	Millions of yen			
	Japan	Asia	Other areas	Total
		2016		
Net sales	¥227,712	¥257,853	¥60,903	¥546,468
Net property, plant and equipment	¥103,307	¥ 70,819	¥ 9,669	¥183,795

	Thousands of U.S. dollars			
	Japan	Asia	Other areas	Total
		2016		
Net sales	$2,015,150	$2,281,885	$538,965	$4,836,000
Net property, plant and equipment	$ 914,221	$ 626,717	$ 85,566	$1,626,504

INDEPENDENT AUDITOR'S REPORT FILED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT IN JAPAN (Translation)

NOTE TO READERS:
Following is an English translation of the Independent Auditor's Report filed under the Financial Instruments and Exchange Act in Japan. This report is presented merely as supplemental information.

(TRANSLATION)

Independent Auditor's Report
(filed under the Financial Instruments and Exchange Act in Japan)

June 17, 2016

To Mr. Hisashi Maruyama
President, Chief Executive Officer
and Director of Hitachi Chemical

Erst & Young ShinNihon LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Masami Katakura

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Seiji Kuzunuki

<Audit of Financial Statements>

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet of Hitachi Chemical (the "Company") and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the fiscal year from April 1, 2015 to March 31, 2016, and the related notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, pursuant to the provisions of Article 93 of Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

<Audit of Internal Control>
Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of the Company as of March 31, 2016.

Management's Responsibility for the Report on Internal Control
The Company's management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility
Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.
An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion
In our opinion, management's report on internal control referred to above, which represents that the internal control over financial reporting of the Company as of March 31, 2016 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Interest
Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

(The above represents a translation, for convenience only, of the original report issued in the Japanese language.)