

# Financial Section

- 02** Six-Year Summary
- 03** Management's Discussion and Analysis of Results of Operations and Financial Condition
- 08** Consolidated Statement of Financial Position
- 09** Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
- 10** Consolidated Statement of Changes in Equity
- 12** Consolidated Statement of Cash Flows
- 13** Notes to Consolidated Financial Statements
- 21** Independent Auditor's Report filed under the Financial Instruments and Exchange Act in Japan (Translation)

## SIX-YEAR SUMMARY

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries  
For the Years Ended March 31, 2017, 2016, 2015, 2014, 2013, and 2012

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)
	2017 (IFRS)	2016 (IFRS)	2015 (IFRS)	2014 (IFRS)	2013	2012	2017 (IFRS)
<b>For the year:</b>							
Revenue/Net sales*	¥ 554,144	¥ 546,468	¥ 526,687	¥ 488,725	¥ 464,655	¥ 473,069	\$4,947,714
Operating income	53,152	53,036	29,226	36,569	23,559	24,495	474,571
Net income attributable to owners of the parent/Net income*	40,186	38,512	22,587	29,464	18,818	16,427	358,804
Cash dividends	11,453	10,412	7,497	7,497	7,913	7,497	102,259
Capital expenditures	39,859	32,022	26,643	31,935	46,698	37,347	355,884
Depreciation and amortization	28,114	29,404	27,271	24,626	25,255	28,240	251,018
Research and development expenses	28,164	27,816	26,920	26,234	25,534	25,680	251,464
<b>At year-end:</b>							
Total assets	¥ 600,485	¥ 535,155	¥ 542,535	¥ 494,724	¥ 477,880	¥ 440,981	\$5,361,473
Total liabilities	224,430	172,633	185,201	173,936	164,476	153,742	2,003,839
Interest-bearing liabilities (Note 3)	47,415	52,364	62,685	58,191	51,077	40,856	423,348
Total equity/Total net assets*	376,055	362,522	357,334	320,788	313,404	287,239	3,357,634
<b>Per share data:</b>							
Net income attributable to owners of the parent/Net income* (basic)	¥ 192.99	¥ 184.95	¥ 108.47	¥ 141.49	¥ 90.36	¥ 78.88	\$ 1.72
Net income attributable to owners of the parent/Net income* (diluted)	—	—	—	—	—	—	—
Cash dividends	55.00	50.00	36.00	36.00	38.00	36.00	0.45
Equity attributable to owners of the parent/Net assets*	1,775.06	1,710.62	1,672.33	1,512.06	1,474.11	1,359.33	15.85
<b>Value indicators:</b>							
Operating margin (%)	9.6	9.7	5.5	7.5	5.1	5.2	
Return on revenue/sales* (%)	7.3	7.0	4.3	6.0	4.0	3.5	
Return on equity attributable to owners of the parent/Return on equity* (ROE) (%)	11.1	10.9	6.8	9.9	6.4	5.9	
Return on assets (ROA) (%)	7.1	7.1	4.4	6.1	4.1	3.8	
Net worth ratio (Ratio of equity attributable to owners of the parent to total assets/ (Stockholders' equity ratio)* (%)	61.6	66.6	64.2	63.6	64.2	64.2	
Debt/Equity attributable to owners of the parent ratio Debt/Equity ratio* (DER) (times)	0.1	0.1	0.2	0.2	0.2	0.1	
Inventory turnover (times)	9.5	9.6	9.4	9.9	10.4	11.7	
<b>Number of employees</b>	<b>20,043</b>	19,117	19,499	18,149	17,732	16,713	

\*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 ¥112=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2017.

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, 2017

## RESULTS OF OPERATIONS

## Overview of Economic Trends and Business Results

During the fiscal year ended March 2017, the U.S. economy continued to recover led by consumer spending, with the European economy also continuing to expand, albeit slightly, with consumer spending as the main driver. In China, the growth rate was sluggish, but economic expansion remained stable. Other developing nations experienced slow growth overall initially, but later recovered. The Japanese economy maintained a tone of recovery, supported by external demand.

In such an economic climate, the Hitachi Chemical Group, to establish a solid business foundation to allow for sustainable growth, under the Medium-term Management Plan that began in FY3/17, established a policy of "changing our method of competition," and worked to capture demand in growth fields and expand business through M&A. Apart from the above, we also implemented various measures including reform of the research and development structure, optimizing allocation of management resources by cutting back unprofitable businesses and products, and reducing costs on a global scale. Specifically, with the aim of gaining leading market share, Hitachi Chemical developed a "niche and cluster strategy" of identifying and concentrating management resources in products with high profitability and strategic significance (niche products), such as chemical mechanical planarization (CMP) slurries and anisotropic conductive films (ACFs) for displays, along with products that can utilize shared strategies to succeed globally through grouping (cluster businesses), such as semiconductor packaging materials and high functional resins. We also decided to move and strengthen the functions of the Open Laboratory for Semiconductor Packaging Materials in order to promote open innovation in materials and processes for semiconductor packaging. Further, in January 2017, Hitachi Chemical established the Innovation Center as a space for collaboration with stakeholders regarding new technologies and businesses, as part of an effort to strengthen the structure for open innovation.

In terms of M&A activities, in February 2017, Hitachi Chemical acquired as a subsidiary FIAMM Energy Technology S.p.A., an Italian company that manufactures and sells lead-acid batteries for automotive and industrial use. The acquisition provides the Hitachi Chemical Group with its first product development and production center in Europe, along with access to FIAMM's global sales network centered on Europe. Further, in March 2017, Hitachi Chemical decided to acquire as a wholly-owned subsidiary PCT, LLC, a Caladrius Company, a U.S. contract producer of cells for regenerative medicine. The acquisition marks the Hitachi Chemicals Group's entry into the regenerative medicine business in the life sciences fields, which the Group has designated as a priority business.

As a result of the above measures, despite the negative impact from exchange rates, consolidated revenues for the subject fiscal year increased 1.4% from the previous fiscal year to ¥554,144 million, due mainly to increased demand. Earnings were also boosted by rising demand and continuing cost reductions, with operating income rising 0.2% to ¥53,152 million, and net income attributable to owners of the parent up 4.3% to ¥40,186 million.

## Revenue

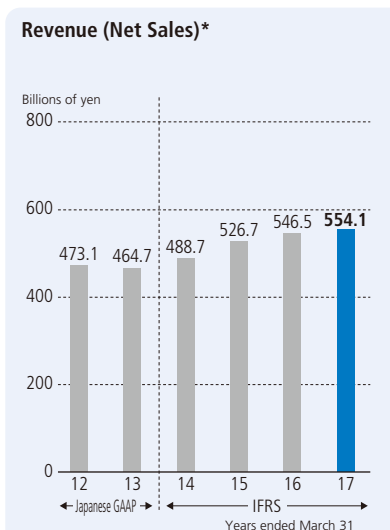
Consolidated revenues rose 1.4% from the previous fiscal year to ¥554,144 million. This mainly reflected increased demand for electronics materials, inorganic materials, and energy storage devices and systems, along with the inclusion of overseas subsidiaries in the scope of consolidation, offsetting the negative effects of foreign exchange.

The Functional Materials segment had revenue of ¥272,994 million, an increase of 1.2% from the previous fiscal year.

In the electronics materials field, sales of epoxy molding compounds for semiconductors rose in the Chinese market, but overall revenue was on a par with the previous fiscal year due to the effect of foreign exchange. Revenue from die bonding materials for semiconductors rose on increased demand for use in solid state drives (SSDs), and new adoption for smartphones. Revenue from chemical mechanical planarization (CMP) slurries was on a par with the previous fiscal year, as gains in sales for use in SSDs were offset by the negative effect from foreign exchange. Revenue from insulating varnishes, despite the negative effect from foreign exchange, rose from the previous fiscal year mainly due to the boost in sales following the acquisition of this business from Dainichiseika Color & Chemicals Mfg. Co., Ltd. in July 2016.

In the inorganic materials field, revenue from carbon anode materials for lithium-ion batteries rose on an increase in sales for use in eco-friendly automobiles. Revenue from carbon products declined as a result of slack demand from certain customers.

In the polymer science materials field, sales of adhesives and polyester resins rose, but revenue declined overall due to the negative effect from foreign exchange. In anisotropic conductive films (ACFs) for displays, sales increased for use in smartphones, mainly in the Chinese market, but revenue declined overall due to the foreign exchange effect. Revenue from touch panel supporting materials decreased on declining sales for use in tablet PCs. Revenue from adhesive films was down overall, as gains in sales of surface protective films for printed wiring boards were offset by declines in sales of semiconductor mold release sheets.



In the printed wiring board materials field, revenue from copper-clad laminates for printed wiring boards rose on an increase in sales for use in smartphones, information and communication technology (ICT) infrastructure. Revenue from photo-sensitive dry films declined due to the foreign exchange effect.

The Advanced Components and Systems segment had revenue of ¥281,150 million, an increase of 1.6% from the previous fiscal year.

In the automotive products field, revenue from plastic molded products, friction materials, and powder metal products declined overall, as gains from new projects were offset by such factors as the negative effect from foreign exchange.

In the energy storage devices and systems field, revenue from batteries and systems for automotive and industrial use rose from the previous fiscal year with the acquisition of FIAMM Energy Technology S.p.A. as a subsidiary in the fourth quarter of the subject fiscal year. Revenue from capacitors declined on a falloff in demand for use in wind and solar generating systems.

In the electronics components field, sales of printed wiring boards increased for use in ICT infrastructure, however revenue declined overall due to the foreign exchange effect.

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

Overseas revenue amounted to ¥321,272 million, an increase of ¥2,516 million, or 0.8%, from the previous fiscal year. As a result, the proportion of overseas revenue came to 58.0%.

### Cost of Sales and Selling, General and Administrative Expenses

Cost of sales amounted to ¥402,994 million, an increase of ¥3,620 million, or 0.9% compared with the previous fiscal year. The cost of sales to total net sales declined 0.4 percentage points to 72.7%, from 73.1% in the previous fiscal year, due mainly to increased sales volume and cost reductions.

Selling, general and administrative (SG&A) expenses were on a par with the previous fiscal year, amounting to ¥97,115 million, down ¥128 million compared to ¥97,243 million in the previous fiscal year. SG&A expenses as a ratio to total revenue declined 0.3 percentage points to 17.5%, from 17.8% in the previous fiscal year, due mainly to the increase in sales revenue.

### Operating Income

Operating income increased 0.2% from the previous fiscal year to ¥53,152 million, mainly as a result of increased sales volume and continuing cost reductions, offsetting the negative effects from fluctuations in sales prices and foreign exchange. The operating income margin decreased 0.1 percentage points, to 9.6% from 9.7% in the previous fiscal year.

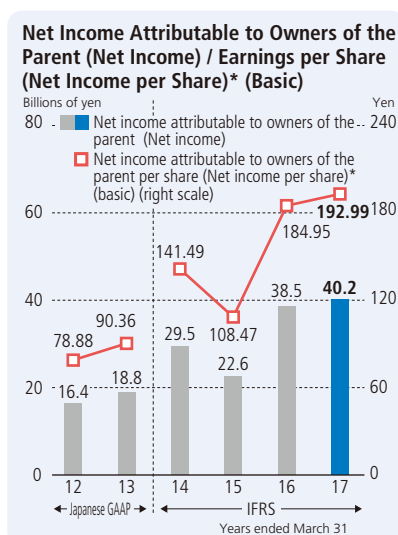
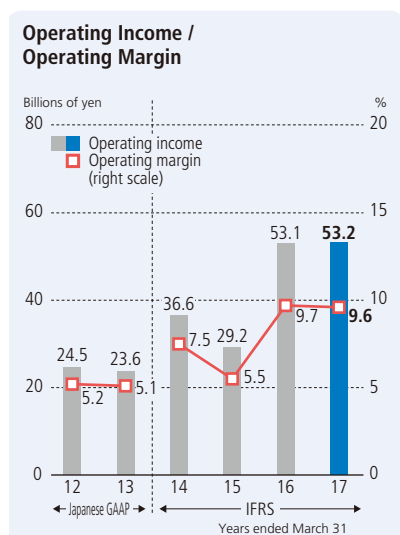
In the Functional Materials segment, segment profit rose 14.7% from the previous fiscal year to ¥44,241 million. The segment profit margin increased 1.9 percentage points to 16.2%.

In the Advanced Components and Systems segment, segment profit declined 38.7% from the previous fiscal year to ¥8,824 million. The segment profit margin decreased 2.1 percentage points to 3.1%.

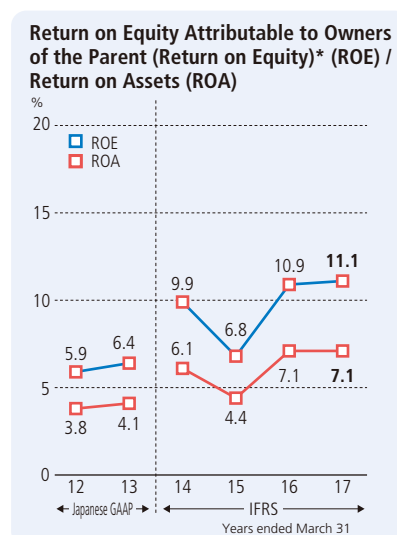
As a result, income before income taxes rose 1.3% to ¥54,380 million, from ¥53,682 million in the previous fiscal year.

### Net Income Attributable to Owners of the Parent

Income taxes decreased 5.9% to ¥13,676 million, from ¥14,530 million in the previous fiscal year. As a result, net income attributable to owners of the parent amounted to ¥40,186 million, an increase of 4.3% from ¥38,512 million in the previous fiscal year. Non-controlling interests decreased 19.1% to ¥518 million, from ¥640 million. Return on equity (ROE) attributable to owners of the parent rose 0.2 percentage points to 11.1%, and return on assets (ROA) was 7.1% on a par with the previous



\*Terms in parentheses are used for Japanese GAAP.



\*Terms in parentheses are used for Japanese GAAP.

fiscal year. Net income attributable to owners of the parent per share (basic) rose to ¥192.99 per share, from ¥184.95 in the previous fiscal year.

## FINANCIAL CONDITION

### Assets, Liabilities, and Equity

#### Assets

Total assets at March 31, 2017, stood at ¥600,485 million, an increase of ¥65,330 million compared with the previous fiscal year-end. Current assets increased ¥31,405 million, due mainly to an increase in trade receivables, related to business combinations and increased revenue. Non-current assets increased ¥33,925 million, due mainly to increases in property, plant and equipment, and intangible assets, related to business combinations and capital expenditures.

#### Liabilities

Total liabilities amounted to ¥224,430 million, an increase of ¥51,797 million compared with the end of the previous fiscal year. Current liabilities increased ¥36,705 million, due mainly to increases in trade payables and other financial liabilities, related to business combinations and increased revenue. Non-current liabilities increased ¥15,092 million, due mainly to an increase in other financial liabilities, related to business combinations.

#### Equity

Total equity amounted to ¥376,055 million, an increase of ¥13,533 million from the previous fiscal year. This mainly reflected an increase in retained earnings, against a decrease in capital surplus.

#### Cash Flows

Cash and cash equivalents at March 31, 2017, stood at ¥107,649 million, a decrease of ¥12,339 million from the end

of the previous fiscal year.

Net cash provided by operating activities amounted to ¥60,819 million, a decrease of ¥34,250 million from the previous fiscal year. This was due mainly to increases in trade receivables, and accounts receivable-other.

Net cash used in investing activities amounted to ¥34,606 million, a decrease of ¥1,057 million from the previous fiscal year. This was due mainly to an increase in expenses for property, plant and equipment acquired, against a decrease in expenses for investment securities acquired.

Net cash used in financing activities amounted to ¥36,476 million, an increase of ¥14,353 million from the previous fiscal year. This was due mainly to an increase in redemption of bonds.

#### Cash Flows

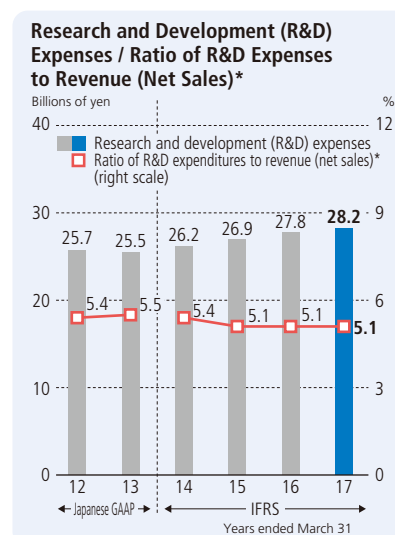
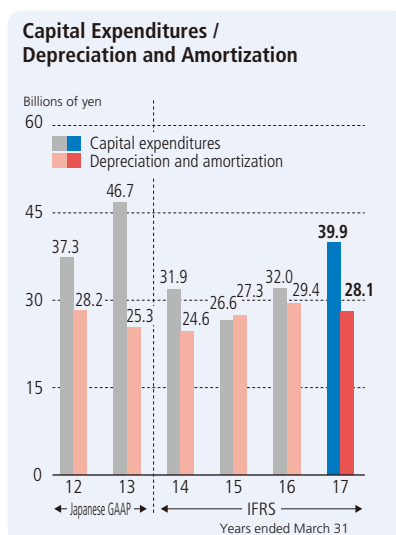
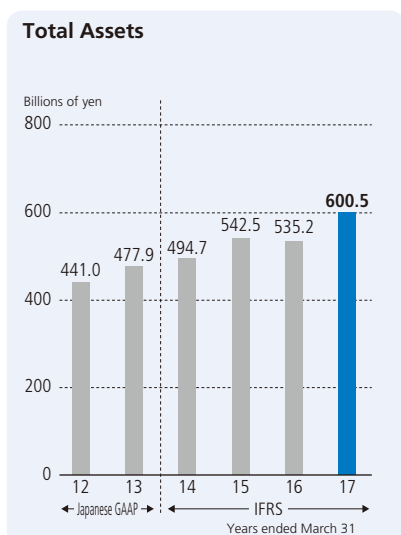
Years ended March 31

	Millions of yen	
	2016	2017
Cash flows from operating activities	¥ 95,069	¥ 60,819
Cash flows from investing activities	(35,663)	(34,606)
Cash flows from financing activities	(22,123)	(36,476)
Cash and cash equivalents at end of year	119,988	107,649

### Capital Expenditures, R&D Expenses

Total capital expenditures amounted to ¥39,859 million, an increase of ¥7,837 million from the previous fiscal year. This mainly reflected an increase in investment in the Advanced Components and Systems segment.

R&D expenses totaled ¥28,164 million, an increase from ¥27,816 million in the previous fiscal year. This represented 5.1% of total revenue, on a par with the previous fiscal year.



\*Terms in parentheses are used for Japanese GAAP.

## BASIC POLICY ON APPROPRIATION OF EARNINGS DIVIDEND

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. The Company 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, 2017, reflecting positive performance and in accordance with the policy of maintaining a payout ratio of around 30%, the Company increased its dividend by ¥5 per share compared to the previous fiscal year, paying an annual dividend of ¥55 per share, comprising a year-end dividend of ¥30 per share, and an interim dividend of ¥25 per share.

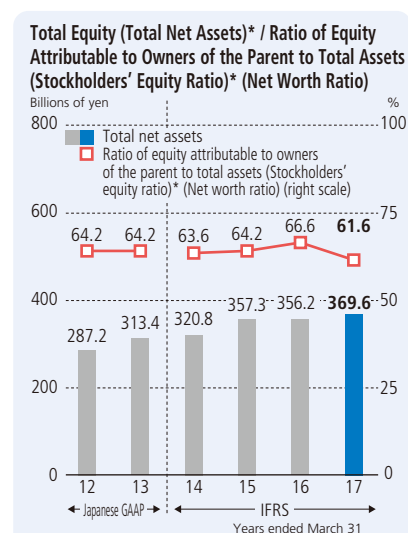
## OUTLOOK AND FORECASTS FOR THE FISCAL YEAR ENDING MARCH 31, 2018

The outlook for the global economy provides little grounds for optimism. Although the Japanese economy and the global economy are expected to remain firm overall, political risk in the U.S. and Europe has become evident, prompting concerns of an impact on the national and regional economies. Geopolitical risk has also increase in the Middle East and East Asia.

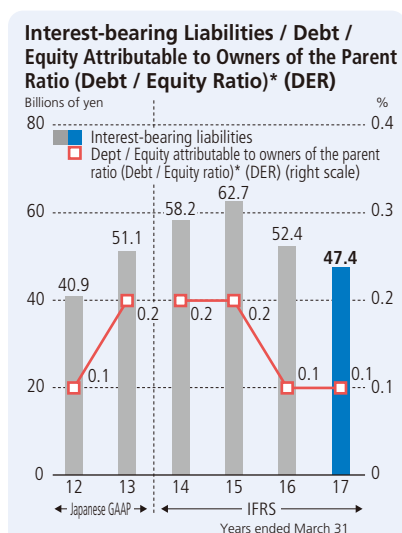
Amid such a business climate, the Hitachi Chemical Group will aim to successfully implement its three-year medium-term management plan that began from FY3/17, further advancing its policy of "changing our method of competition" in order to ceaselessly generate innovation, and achieve progress that exceeds market growth.

For the consolidated fiscal year ending March 31, 2018, the Hitachi Chemical Group is forecasting revenue of ¥610.0 billion, with operating income of ¥58.0 billion, income before income taxes of ¥60.0 billion, net income of ¥44.0 billion, and net income attributable to owners of the parent of ¥42.5 billion.

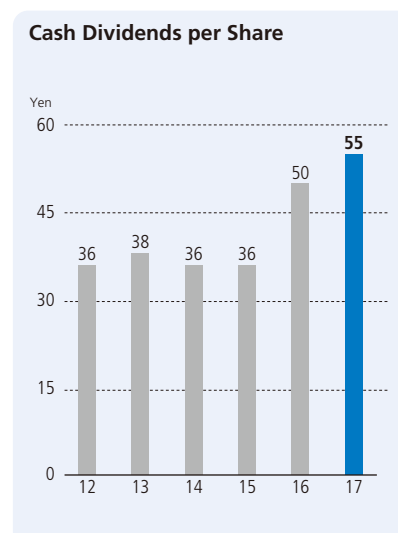
For the fiscal year ending March 31, 2018, the Company plans to increase the annual dividend by ¥5 per share, for a forecast dividend of ¥60 per share (¥30 per share for both the interim and year-end dividend).



\*Terms in parentheses are used for Japanese GAAP.



\*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, 2017.

### (1) Potential Risks in Overseas Activities

Hitachi Chemical produces and sells products in Japan, as well as in other countries and regions including Asia, the United States and Europe. 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.

### (2) 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.

### (3) Exchange Rate Fluctuations

Hitachi Chemical holds assets and liabilities that are exposed to the risk of exchange rate fluctuations because its business partners and trading areas span all over the world. 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 weakens the competitiveness of products exported to overseas markets while the depreciation of the yen increases the price of raw materials imported from overseas. Both of these may exert a material impact on earnings. The Group pursues measures to attenuate the risk from exchange rate fluctuations, but cannot guarantee that exchange rate fluctuations will not affect performance.

### (4) 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.

### (5) 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 expected results and/or effects 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.

### (6) Relationship with the Parent Company

Hitachi, Ltd., the parent company of Hitachi Chemical Co., Ltd., oversees numerous associated companies, and engages in a wide variety of operations covering the manufacture, sale, and service of products across multiple segments. Hitachi Chemical Co., Ltd. is responsible for a portion of the high functional materials segment. With three of its 11 Directors serving concurrently as Director or Executive Officer of Hitachi, Ltd. (as of the submission date of the Annual Securities Report), Hitachi Chemical Co., Ltd. also 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.

### (7) Retirement Benefit Obligations

Hitachi Chemical bears considerable retirement benefit expense obligations that are computed using actuarial calculations. These calculations are based on assumptions, namely projections including the mortality rate, the decrement rate, the retirement rate, salary changes, discount rates and the expected rate of return of pension assets. While these projections are based on key factors including personnel conditions, current market conditions, and future interest rate trends, and are deemed to be reasonable by the Group, it cannot guarantee that the projections will agree with actual results. For example, lower discount rates will lead to an increase in actuarial retirement benefit obligations. Such changes in assumptions may impact the financial position and the performance of the Group.

### (8) 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.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2017	2017
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥119,988	¥107,649	\$ 961,152
Trade receivables	109,249	133,520	1,192,143
Inventories (Note 3)	51,693	65,182	581,982
Other financial assets	16,527	21,460	191,607
Other current assets	3,200	4,251	37,955
Total current assets	300,657	332,062	2,964,839
<b>Non-current assets:</b>			
Property, plant and equipment (Note 4)	170,332	186,633	1,666,366
Intangible assets (Note 5)	13,463	27,486	245,411
Net defined benefit assets (Note 8)	6,960	10,001	89,295
Deferred tax assets (Note 6)	11,566	11,827	105,598
Investments accounted for using the equity method	7,665	8,484	75,750
Other financial assets	18,183	17,819	159,098
Other non-current assets	6,329	6,173	55,116
Total non-current assets	234,498	268,423	2,396,634
Total assets	535,155	600,485	5,361,473
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Trade payables	51,926	80,924	722,536
Bonds and borrowings (Note 7)	32,564	27,351	244,205
Accrued expenses	24,149	27,251	243,313
Income tax payables	8,144	8,680	77,500
Provisions	500	—	—
Other financial liabilities	15,128	22,907	204,527
Other current liabilities	1,784	3,787	33,813
Total current liabilities	134,195	170,900	1,525,893
<b>Non-current liabilities:</b>			
Bonds and borrowings (Note 7)	18,144	18,545	165,580
Retirement and severance benefits (Note 8)	13,906	15,047	134,348
Provisions	1,158	1,368	12,214
Other financial liabilities	2,064	14,865	132,723
Other non-current liabilities (Note 6)	3,166	3,705	33,080
Total non-current liabilities	38,438	53,530	477,946
Total liabilities	172,633	224,430	2,003,839
<b>Equity:</b>			
Common stock (Note 9)	15,454	15,454	137,982
Capital surplus	8,004	—	—
Treasury stock, at cost	(223)	(234)	(2,089)
Retained earnings	317,447	340,444	3,039,679
Accumulated other comprehensive income	15,525	13,954	124,589
Total equity attributable to owners of the parent	356,207	369,618	3,300,161
Non-controlling interests	6,315	6,437	57,473
Total equity	362,522	376,055	3,357,634
Total liabilities and equity	¥535,155	¥600,485	\$5,361,473

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, 2017 and 2016

### (Consolidated Statement of Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2017	2017
Revenues	¥546,468	¥554,144	\$4,947,714
Cost of sales	(399,374)	(402,994)	(3,598,161)
Gross profit	147,094	151,150	1,349,554
Selling, general and administrative expenses	(97,243)	(97,115)	(867,098)
Other income (Note 10)	10,539	7,720	68,929
Other expenses (Note 10)	(7,354)	(8,603)	(76,813)
Operating income	53,036	53,152	474,571
Financial income (Note 12)	1,038	886	7,911
Financial expenses (Note 12)	(3,615)	(3,207)	(28,634)
Share of profits of investments accounted for using the equity method	3,223	3,549	31,688
Income before income taxes	53,682	54,380	485,536
Income taxes (Note 6)	(14,530)	(13,676)	(122,107)
Net income	¥ 39,152	¥ 40,704	\$ 363,429
<b>Net income attributable to:</b>			
Owners of the parent	¥ 38,512	¥ 40,186	\$ 358,804
Non-controlling interests	640	518	4,625

	Yen		U.S. dollars (Note 2)
	2016	2017	2017
<b>Earnings per share attributable to owners of the parent:</b>			
Basic	¥ 184.95	¥ 192.99	\$ 1.72
Diluted	—	—	—

See accompanying notes to consolidated financial statements.

### (Consolidated Statement of Comprehensive Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2017	2017
<b>Net income</b>	¥39,152	¥40,704	\$363,429
<b>Other comprehensive income (OCI)</b>			
<b>Items that cannot be reclassified into profit or loss:</b>			
Net gains and losses from financial assets measured at fair value through OCI	(968)	685	6,116
Remeasurements of defined benefit obligations (Note 8)	(3,662)	1,753	15,652
Total items that cannot be reclassified into profit or loss	(4,630)	2,438	21,768
<b>Items that can be reclassified into profit or loss:</b>			
Foreign currency translation adjustments	(15,262)	(3,388)	(30,250)
Cash flow hedges	37	129	1,152
Share of OCI of investments accounted for using the equity method	(248)	30	268
Total items that can be reclassified into profit or loss	(15,473)	(3,229)	(28,830)
Other comprehensive income (OCI)	(20,103)	(791)	(7,063)
Comprehensive income	¥19,049	¥39,913	\$356,366
<b>Comprehensive income attributable to:</b>			
Owners of the parent	¥19,424	¥39,238	\$350,339
Non-controlling interests	(375)	675	\$ 6,027

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, 2017 and 2016

	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
<b>Balance as of April 1, 2015</b>	¥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	0			
Changes from business combinations						
Acquisition 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)	—
<b>Balance as of March 31, 2016</b>	15,454	8,004	(223)	317,447	2,690	4,475
Net income				40,186		
Other comprehensive income					685	1,754
Comprehensive income for the year	—	—	—	40,186	685	1,754
Cash dividends				(10,412)		
Purchase of treasure stock			(11)			
Sale of treasure stock		0	0			
Changes from business combinations						
Acquisition of non-controlling interests		(15,779)				
Transfer to capital surplus from retained earnings		7,400		(7,400)		
Transfer of accumulated other comprehensive income to retained earnings				623	(623)	
Other changes		375				
Total transactions with owners	—	(8,004)	(11)	(17,189)	(623)	—
<b>Balance as of March 31, 2017</b>	¥15,454	¥ —	¥(234)	¥340,444	¥2,752	¥6,229

	Millions of yen						
	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Foreign currency translation adjustments	Cash flow hedges	Total accumulated other comprehensive income	Total equity attributable to owners of the parent			
<b>Balance as of April 1, 2015</b>	¥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 combinations					635	635	
Acquisition 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)	
<b>Balance as of March 31, 2016</b>	8,368	(8)	15,525	356,207	6,315	362,522	
Net income				40,186	518	40,704	
Other comprehensive income	(3,516)	129	(948)	(948)	157	(791)	
Comprehensive income for the year	(3,516)	129	(948)	39,238	675	39,913	
Cash dividends				(10,412)	(102)	(10,514)	
Purchase of treasure stock				(11)		(11)	
Sale of treasure stock				0		0	
Changes from business combinations					11	11	
Acquisition of non-controlling interests				(15,779)	(323)	(16,102)	
Transfer to capital surplus from retained earnings				—		—	
Transfer of accumulated other comprehensive income to retained earnings			(623)	—		—	
Other changes				375	(139)	236	
Total transactions with owners	—	—	(623)	(25,827)	(553)	(26,380)	
<b>Balance as of March 31, 2017</b>	¥ 4,852	¥121	¥13,954	¥369,618	¥6,437	¥376,055	

See accompanying notes to consolidated financial statements.

Thousands of U.S. dollars (Note 2)						
Equity attributable to owners of the parent						
	Common stock	Capital surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income	
					Financial assets measured at fair value through OCI	Remeasurement of defined benefit obligations
<b>Balance as of April 1, 2016</b>	\$137,982	\$ 71,464	\$(1,991)	\$2,834,348	\$24,018	\$39,955
Net income				358,804		
Other comprehensive income					6,116	15,661
Comprehensive income for the year	—	—	—	358,804	6,116	15,661
Cash dividends				(92,964)		
Purchase of treasure stock			(98)			
Sale of treasure stock		0	0			
Changes from business combinations						
Acquisition of non-controlling interests		(140,884)				
Transfer to capital surplus from retained earnings		66,071		(66,071)		
Transfer of accumulated other comprehensive income to retained earnings				5,563	(5,563)	
Other changes		3,348				
Total transactions with owners	—	(71,464)	(98)	(153,473)	(5,563)	—
<b>Balance as of March 31, 2017</b>	\$137,982	\$ —	\$(2,089)	\$3,039,679	\$24,571	\$55,616

Thousands of U.S. dollars (Note 2)						
Equity attributable to owners of the parent						
Accumulated other comprehensive income						
	Foreign currency translation adjustments	Cash flow hedges	Total accumulated other comprehensive income	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
<b>Balance as of April 1, 2016</b>	\$74,714	\$ (71)	\$138,616	\$3,180,420	\$56,384	\$3,236,804
Net income				358,804	4,625	363,429
Other comprehensive income	(31,393)	1,152	(8,464)	(8,464)	1,402	(7,063)
Comprehensive income for the year	(31,393)	1,152	(8,464)	350,339	6,027	356,366
Cash dividends				(92,964)	(911)	(93,875)
Purchase of treasure stock				(98)		(98)
Sale of treasure stock				0		0
Changes from business combinations				—	98	98
Acquisition of non-controlling interests				(140,884)	(2,884)	(143,768)
Transfer to capital surplus from retained earnings				—		—
Transfer of accumulated other comprehensive income to retained earnings			(5,563)	—		—
Other changes				3,348	(1,241)	2,107
Total transactions with owners	—	—	(5,563)	(230,598)	(4,938)	(235,536)
<b>Balance as of March 31, 2017</b>	\$43,321	\$1,080	\$124,589	\$3,300,161	\$57,473	\$3,357,634

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2017	2017
<b>Cash flows from operating activities:</b>			
Net income	¥ 39,152	¥ 40,704	\$ 363,429
Depreciation and amortization	29,404	28,114	251,018
Income tax expense	14,530	13,676	122,107
Interest and dividend income	(859)	(851)	(7,598)
Interest expenses paid	1,471	1,098	9,804
Share of profits of investments accounted for using the equity method	(3,223)	(3,549)	(31,688)
(Increase) decrease in trade receivables	8,461	(13,623)	(121,634)
(Increase) decrease in accounts receivables–other	4,486	(3,902)	(34,839)
(Increase) decrease in inventories	7,218	(5,648)	(50,429)
Increase (decrease) in trade payables	4,640	13,140	117,321
Increase (decrease) in retirement and severance benefits	(802)	(664)	(5,929)
Other	584	5,212	46,536
Subtotal	105,062	73,707	658,098
Interest and dividends received	3,560	3,546	31,661
Interest paid	(1,555)	(1,193)	(10,652)
Business structure improved expenses paid	(783)	—	—
Income taxes paid	(12,227)	(15,241)	(136,080)
Income taxes refund	1,012	—	—
Net cash provided by operating activities	95,069	60,819	543,027
<b>Cash flows from investing activities:</b>			
Expenses for property, plant and equipment acquired	(29,856)	(32,995)	(294,598)
Income from sale of property, plant and equipment	1,459	2,326	20,768
Proceeds from redemption and sale of investments in securities	389	1,821	16,259
Purchase of investments in subsidiaries	(900)	(2,375)	(21,205)
Purchase of investment accounted for using equity method	(2,240)	—	—
Expenses for investment securities acquired	(3,263)	(2,013)	(17,973)
Sales of investments in subsidiaries resulting in charge in scope of consolidation	677	—	—
Sale of investments accounted for using the equity method	—	351	3,134
Other	(1,929)	(1,721)	(15,366)
Net cash used in investing activities	(35,663)	(34,606)	(308,982)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term debt	(4,226)	(10,485)	(93,616)
Proceeds from long-term debt	3,371	707	6,313
Payments on long-term debt	(5,727)	(5,367)	(47,920)
Purchase of shares of consolidated subsidiaries from non-controlling interest holders	(5,866)	(393)	(3,509)
Redemption of bonds	—	(10,000)	(89,286)
Dividends paid to stockholders	(8,954)	(10,412)	(92,964)
Dividends paid to non-controlling interests	(218)	(102)	(911)
Other	(503)	(424)	(3,786)
Net cash used in financing activities	(22,123)	(36,476)	(325,679)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(6,292)	(2,076)	(18,536)
Net increase (decrease) in cash and cash equivalents	30,991	(12,339)	(110,170)
<b>Cash and cash equivalents at beginning of year</b>	88,997	119,988	1,071,321
<b>Cash and cash equivalents at end of year</b>	¥119,988	¥107,649	\$ 961,152

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, 2017 and 2016

### 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.

"Impairment losses," which had been presented separately in the "Cash flows from operating activities" in the previous fiscal year, have been included in "Other" starting from the fiscal year ended March 31, 2017 due to its diminished materiality. The Consolidated Financial Statements of the previous fiscal year have been restated to reflect this change in presentation method.

As a result, the ¥1,227 million (\$10,955 thousand) of "Impairment losses" and the -¥643 million (-\$5,741 thousand) of "Other", which was stated in the "Cash flows from operating activities" in the Consolidated Statements of Cash Flows of the previous fiscal year, have been restated as ¥584 million (\$5,214 thousand) of "Other."

### 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 ¥112=US\$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2017. 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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Finished and semi-finished goods	¥22,904	¥29,187	\$260,598
Work in process	13,926	17,556	156,750
Raw materials	14,863	18,439	164,634
Total	¥51,693	¥65,182	\$581,982

### 4. Property, Plant and Equipment

Property, plant and equipment, at cost as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Buildings and structures	¥ 57,531	¥ 60,893	\$ 543,688
Machinery and transportation equipment	83,918	89,524	799,321
Land	20,427	21,335	190,491
Construction in progress	8,456	14,881	132,866
Total	¥170,332	¥186,633	\$1,666,366

### 5. Intangible Assets

Intangible assets as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Goodwill	¥ 5,111	¥18,543	\$165,563
Software	2,930	3,518	31,411
Other	5,422	5,425	48,438
Total	¥13,463	¥27,486	\$245,411

## 6. Income Taxes

The income tax expenses (benefits) reflected in the consolidated statements of income for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Current tax expense	¥13,961	¥14,572	\$130,107
Deferred tax expense (benefit)	569	(896)	(8,000)
	¥14,530	¥13,676	\$122,107

On March 29, 2016, “the Act to Partially Revise the Income Tax Act and Others” (Act No. 15 of 2016) and “the 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:

	2016	2017
Statutory tax rate	32.8%	30.7%
Expenses not deductible for tax purposes	0.7	0.6
Difference in statutory tax rates of foreign subsidiaries	(3.3)	(2.6)
Tax credit for R&D expenses	(1.9)	(2.8)
Changes in unrecognized deferred tax assets	0.3	(0.2)
Adjustments to deferred tax assets and liabilities due to changes in tax rate	1.6	—
Other	(3.1)	(0.6)
Effective income tax rate	27.1%	25.1%

The effective statutory tax rate is based on Japanese corporate income taxes, residents’ taxes and enterprise taxes. In fiscal year ended March 31, 2016, a rate of 32.8% was used, and in the fiscal year ended March 31, 2017, a rate of 30.7% 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, 2017 and 2016 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Net defined benefit liability	¥ 5,158	¥ 5,305	\$ 47,366
Accrued bonus	2,742	2,955	26,384
Depreciation and amortization	2,350	2,746	24,518
Other	6,835	7,162	63,946
Total deferred tax assets	17,085	18,168	162,214
Deferred tax liabilities:			
Net defined benefit assets	(2,130)	(3,155)	(28,170)
Financial assets at fair value through other comprehensive income (FVTOCI)	(1,163)	(1,249)	(11,152)
Other	(4,725)	(3,822)	(34,125)
Total deferred tax liabilities	(8,018)	(8,226)	(73,446)
Net deferred tax assets	¥ 9,067	¥ 9,942	\$ 88,768

## 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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Short-term loans payable	¥20,666	¥21,100	\$188,393
Current portion of bonds	9,998	—	—
Current portion of long-term loans payable	1,900	6,251	55,813
Short-term total	¥32,564	¥27,351	\$244,205

Long-term debt as of March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Debtures:			
8th series, due 2016, interest 2.17%	¥ 9,998	¥ —	\$ —
9th series, due 2022, interest 1.19%	9,969	9,974	89,054
Loans, principally from banks:			
Maturing 2018–2027, interest 2.84% (average)	8,175	8,571	76,527
Long-term total	18,144	18,545	165,580
Total short-term and long-term debt (including current portion)	¥50,708	¥45,896	\$409,786

## 8. Retirement Benefit Plans

The Company and certain subsidiaries have 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
	2016	2017	2017
Balance at the beginning of the year	¥91,314	¥94,269	\$841,688
Service cost	3,600	3,764	33,607
Interest expenses	651	407	3,634
Remeasurements of defined benefit plans:			
Actuarial difference arising from change in assumptions of population statistics	(214)	224	2,000
Actuarial difference arising from change in financial assumptions	3,086	(33)	(295)
Other	1,599	(1,018)	(9,089)
Benefits paid	(5,154)	(4,371)	(39,027)
Prior service cost	51	(542)	(4,839)
Other	(664)	1,031	9,205
Balance at the end of the fiscal year	¥94,269	¥93,731	\$836,884

### 2) The fair value of plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at the beginning of the year	¥88,062	¥87,323	\$779,670
Interest income on plan assets	624	403	3,598
Remeasurements of defined benefit plans:			
Income from plan assets	(692)	1,380	12,321
Contributions by the Company	3,637	3,035	27,098
Benefits paid	(4,127)	(3,490)	(31,161)
Other	(181)	34	304
Balance at the end of the fiscal year	¥87,323	¥88,685	\$791,830

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
	2016	2017	2017
Present value of defined benefit obligations			
Present value of obligations related to defined benefit pension plans	¥(74,901)	¥(72,807)	\$(650,063)
Present value of obligations related to lump-sum payment plans	(19,368)	(20,924)	(186,821)
Fair value of plan assets			
Fair value of assets related to defined benefit pension plans	80,762	81,937	731,580
Fair value of assets related to lump-sum payment plans	6,561	6,748	60,250
Total	(6,946)	(5,046)	(45,054)
Net defined benefit asset	6,960	10,001	89,295
Retirement and severance benefits	¥(13,906)	¥(15,047)	\$(134,348)

## 9. Stock

	Common stock (Issued shares)	Treasury stock
Balance as of March 31, 2015	208,364,913	128,401
Balance as of March 31, 2016	208,364,913	132,735
<b>Balance as of March 31, 2017</b>	<b>208,364,913</b>	<b>136,862</b>

## 10. Other Income and Expenses

### (1) Other income

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Compensation income (Note)	¥ 6,738	¥3,471	\$30,991
Gains on reversal of impairment loss	—	790	7,054
Gain on reversal of provision for surcharge	500	102	911
Other	3,301	3,357	29,973
<b>Total</b>	<b>¥10,539</b>	<b>¥7,720</b>	<b>\$68,929</b>

Note: The compensation income represents the amount received from Tokyo Electric Power Co. Holdings, Inc. for losses associated with the Fukushima Dai-ichi Nuclear Power Station accident.

### (2) Other expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Loss on disposal of property, plant and equipment	¥1,003	¥1,022	\$ 9,125
Impairment losses	1,227	936	8,357
Loss related to competition law (Note)	1,348	774	6,911
Provision for surcharge	500	—	—
Other	3,276	5,871	52,420
<b>Total</b>	<b>¥7,354</b>	<b>¥8,603</b>	<b>\$76,813</b>

Note: This is legal counsel fees relating to a violation of antimonopoly laws in transactions concerning aluminium electrolytic capacitors.

## 11. Impairment Losses and Reversal of Impairment Losses on Fixed Assets

### (1) Impairment loss

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 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.

For the year ended March 31, 2017, the Company and certain consolidated subsidiaries recognized impairment losses on fixed assets as follows:

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

The recoverable amounts were estimated for assets to be sold, which had been held by companies to be liquidated, and the amount of reduction of ¥616 million (\$5,500 thousand) was recorded as an impairment loss in "Other expenses" in the Consolidated Statements of Income. The recoverable amounts were calculated at prospective sales price less disposal expenses, and the fair values were classified as Level 3.



**(2) Reversal of impairment losses**

For the year ended March 31, 2016

Not applicable

For the year ended March 31, 2017, the Company and certain consolidated subsidiaries recognized impairment losses on fixed assets as follows:

Location	Use	Type
Japan	Production facilities and other	Land, buildings and structures, and other

As an increase in recoverable amounts was expected in certain assets among the asset group for which impairment loss was recognized in the past, the amount of increase ¥790 million (\$7,053 thousand) was recorded as a reversal of impairment loss in "Other income" in the Consolidated Statements of Income. The recoverable amounts were calculated at prospective sales price less disposal expenses, and the fair values were classified as Level 3.

**12. Financial Income and Expenses****(1) Financial income**

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Interest income:			
Financial assets measured at amortized cost	¥ 543	¥527	\$4,705
Dividends:			
Financial assets measured at FVTOCI	316	324	2,893
Gain (loss) on securities and other investment, net:			
Financial assets measured as amortized cost	60	—	—
Financial assets measured at FVTPL	7	18	161
Other financial income	112	17	152
Total	¥1,038	¥886	\$7,911

**(2) Financial expenses**

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Interest expenses:			
Financial liabilities measured at amortized cost	¥1,471	¥1,098	\$ 9,804
Gain (loss) on securities and other investment, net:			
Financial assets measured at FVTPL	385	12	107
Foreign exchange losses <sup>(Note)</sup>	1,751	2,062	18,411
Other financial expenses	8	35	313
Total	¥3,615	¥3,207	\$28,634

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	
	2016		2017		2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortised cost:						
Bonds and borrowings	¥50,708	¥51,465	¥45,869	¥46,432	\$409,545	\$414,571

**14. Contingency**

The Company and certain of its subsidiaries are being investigated by the competition authorities in several countries and regions including Europe, over suspicions of violations of antimonopoly laws in transactions relation to aluminum electrolytic capacitors and other items. Furthermore, in the United States and other countries, civil proceedings, including a class action suit, have been initiated against the Company and certain of its subsidiaries. The impact of these legal actions is pending.

## 15. Subsequent Events

### Business combinations

The Group, in accordance with a resolution of the Company's Board of Directors meeting held on February 22, 2017, completed the acquisition of all shares of PCT, LLC, a Caladrius Company ("PCT"), and made PCT its wholly-owned subsidiary, effective May 19, 2017.

The Group, in its 2018 Medium-term Management Plan, set forth a basic policy for the Life Sciences to "Cultivate future foundation business based on materials technology and diagnostic medicine business" and designated "entering new fields of genetic diagnosis and regenerative medicine" as its key measure.

The Group has acquired the shares of PCT, to the end of developing the business of contract manufacturing of cells for regenerative medicine on a global basis including Europe and the United States by incorporating PCT's brand value, manufacturing bases and sales networks into the Group.

(a) Percentage of voting rights acquired

Percentage of voting rights owned before the acquisition date: 19.9%

Percentage of voting rights additionally acquired at the acquisition date: 80.1%

Percentage of voting rights after the acquisition: 100.0%

(b) Consideration for acquisition

¥8,700 million (\$77,679 thousand) in cash and cash equivalents (estimated)

The amount of goodwill, assets acquired, liabilities assumed and the fair value of equity interest owned prior to the acquisition date have not been determined at the present time.

## 16. Business Combination

Year ended March 31, 2016 (April 1, 2015 – March 31, 2016)

No material business combinations occurred.

Year ended March 31, 2017 (April 1, 2016 – March 31, 2017)

### Business combination through acquisition of shares

On February 13, 2017, the Company acquired the shares of FIAMM Energy Technology S.p.A. ("FIAMM Energy Technology"). FIAMM Energy Technology has succeeded the automotive and industrial lead-acid battery business (excluding certain parts of the China business), which was split from the FIAMM S.p.A. ("FIAMM") Group, a worldwide manufacturer and distributor of automotive and industrial lead-acid batteries, car horns and antennas, with a large market share primarily in Europe.

The Company has made FIAMM Energy Technology its subsidiary to the end of applying the technology, which it has acquired over the years, to the said company, while at the same time utilizing FIAMM's brand value, manufacturing bases and sales networks with a view to further strengthening its automotive and industrial lead-acid battery business in Europe, the United States, Southeast Asia, etc.

(a) Percentage of voting rights acquired

Percentage of voting rights after acquisition: 51%

(b) Consideration for acquisition and goodwill

Item	Millions of yen	Thousands of U.S. dollars
	Amount	
Cash and cash equivalents	¥10,452	\$ 93,321
Adjustment of consideration for acquisition (accrued)	515	4,598
Contingent consideration	420	3,750
<b>Total</b>	<b>¥11,387</b>	<b>\$101,670</b>
Goodwill	¥13,456	\$120,143

The amount of goodwill has been calculated on a provisional basis, as the allocation of acquisition costs have yet to be completed.

(c) Payment of consideration in exchange for the acquisition of shares of the subsidiary is as follows.

Item	Millions of yen	Thousands of U.S. dollars
	Amount	
Consideration for acquisition in the form of cash and cash equivalents	¥10,452	\$93,321
Cash and cash equivalents of the acquired subsidiary	(8,077)	(72,116)
<b>Payment for the acquisition of the shares of the subsidiary</b>	<b>¥ 2,375</b>	<b>\$21,205</b>

## 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
	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

	Millions of yen				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
	2017				
Revenues from outside customers	¥272,994	¥281,150	¥554,144	¥ —	¥554,144
Intersegment revenue	3,897	2,233	6,130	(6,130)	—
Total	¥276,891	¥283,383	¥560,274	¥(6,130)	¥554,144
Segment profit (loss)	¥ 44,241	¥ 8,824	¥ 53,065	¥ 87	¥ 53,152
Financial income	—	—	—	—	886
Financial expenses	—	—	—	—	(3,207)
Equity in profit (loss) of affiliates	—	—	—	—	3,549
Income before income taxes	¥ —	¥ —	¥ —	¥ —	¥ 54,380
Other items:					
Depreciation and amortization	¥ 14,145	¥ 13,969	¥ 28,114	¥ —	¥ 28,114
Impairment losses	156	780	936	—	936
Reversal of impairment losses	—	790	790	—	790

	Thousands of U.S. dollars				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
	<b>2017</b>				
Revenues from outside customers	\$2,437,446	\$2,510,268	\$4,947,714	\$ —	\$4,947,714
Intersegment revenue	34,795	19,938	54,732	(54,732)	—
Total	\$2,472,241	\$2,530,205	\$5,002,446	\$(54,732)	\$4,947,714
Segment profit (loss)	\$ 395,009	\$ 78,786	\$ 473,795	\$ 777	\$ 474,571
Financial income	—	—	—	—	7,911
Financial expenses	—	—	—	—	(28,634)
Equity in profit (loss) of affiliates	—	—	—	—	31,688
Income before income taxes	\$ —	\$ —	\$ —	\$ —	\$ 485,536
Other items:					
Depreciation and amortization	\$ 126,295	\$ 124,723	\$ 251,018	\$ —	\$ 251,018
Impairment losses	\$ 1,393	\$ 6,964	\$ 8,357	\$ —	\$ 8,357
Reversal of impairment losses	\$ —	\$ 7,054	\$ 7,054	\$ —	\$ 7,054

## Geographic information:

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

	Millions of yen			
	Japan	Asia	Other areas	Total
	<b>2017</b>			
Net sales	¥232,872	¥251,197	¥70,075	¥554,144
Net property, plant and equipment	¥112,333	¥ 69,274	¥32,512	¥214,119

	Thousands of U.S. dollars			
	Japan	Asia	Other areas	Total
	<b>2017</b>			
Net sales	\$2,079,214	\$2,242,830	\$625,670	\$4,947,714
Net property, plant and equipment	\$1,002,973	\$ 618,518	\$290,286	\$1,911,777

## 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, 2017

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

Ernst & 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, 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the fiscal year from April 1, 2016 to March 31, 2017, 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, 2017, 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, 2017.

#### **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, 2017 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.

#### **Emphasis of Matter**

As stated in the Company's Internal Control Report, with respect to the internal controls over financial reporting of FIAMM Energy Technology S.p.A., which became a consolidated subsidiary of the Company through the acquisition of shares on February 13, 2017, and its ten subsidiaries, due to unavoidable circumstances stemming from the fact the acquisition of shares was conducted immediately prior to the fiscal year-end, the Company has excluded said internal controls from the evaluation of internal controls as of the fiscal year-end, on account of not having been able to execute sufficient evaluation procedures.

#### **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.)