# Financial Section

# SIX-YEAR SUMMARY

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2018, 2017, 2016, 2015, 2014, and 2013

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) |
|---|---|---|---|---|---|---|---|
| | 2018 (IFRS) | 2017 (IFRS) | 2016 (IFRS) | 2015 (IFRS) | 2014 (IFRS) | 2013 | 2018 (IFRS) |
| **For the year:** | | | | | | | |
| Revenue/Net sales* | ¥669,234 | ¥554,144 | ¥546,468 | ¥526,687 | ¥488,725 | ¥464,655 | $6,313,528 |
| Operating income | 46,219 | 53,152 | 53,036 | 29,226 | 36,569 | 23,559 | 436,028 |
| Net income attributable to owners of the parent/Net income* | 36,324 | 40,186 | 38,512 | 22,587 | 29,464 | 18,818 | 342,679 |
| Cash dividends | 12,494 | 11,453 | 10,412 | 7,497 | 7,497 | 7,913 | 117,868 |
| Capital expenditures | 42,589 | 39,859 | 32,022 | 26,643 | 33,492 | 46,698 | 401,783 |
| Depreciation and amortization | 34,721 | 28,114 | 29,404 | 27,271 | 24,626 | 25,255 | 327,557 |
| Research and development expenses | 30,839 | 28,164 | 27,816 | 26,920 | 26,234 | 25,534 | 290,934 |
| **At year-end:** | | | | | | | |
| Total assets | ¥701,163 | ¥609,155 | ¥535,155 | ¥542,535 | ¥494,724 | ¥477,880 | $6,614,745 |
| Total liabilities | 292,104 | 227,717 | 172,633 | 185,201 | 173,936 | 164,476 | 2,755,698 |
| Interest-bearing liabilities (Note 2) | 98,975 | 47,415 | 52,364 | 62,685 | 58,191 | 51,077 | 933,726 |
| Total equity/Total net assets* | 409,059 | 381,438 | 362,522 | 357,334 | 320,788 | 313,404 | 3,859,047 |
| **Per share data:** | | | | | | | |
| Net income attributable to owners of the parent/Net income* (basic) | ¥174.45 | ¥192.99 | ¥184.95 | ¥108.47 | ¥141.49 | ¥ 90.36 | $ 1.65 |
| Net income attributable to owners of the parent/Net income* (diluted) | — | — | — | — | — | — | — |
| Cash dividends | 60.00 | 55.00 | 50.00 | 36.00 | 36.00 | 38.00 | 0.57 |
| Equity attributable to owners of the parent/Net assets* | 1,922.85 | 1,800.91 | 1,710.62 | 1,672.33 | 1,512.06 | 1,474.11 | 18.14 |
| **Value indicators:** | | | | | | | |
| Operating margin (%) | 6.9 | 9.6 | 9.7 | 5.5 | 7.5 | 5.1 | |
| Return on revenue/sales* (%) | 5.4 | 7.3 | 7.1 | 4.3 | 6.0 | 4.0 | |
| Return on equity attributable to owners of the parent/Return on equity* (ROE) (%) | 9.4 | 11.0 | 10.9 | 6.8 | 9.9 | 6.4 | |
| Return on assets (ROA) (%) | 5.5 | 7.0 | 7.1 | 4.4 | 6.1 | 4.1 | |
| Net worth ratio (Ratio of equity attributable to owners of the parent to total assets)/ (Stockholders' equity ratio)* (%) | 57.1 | 61.6 | 66.6 | 64.2 | 63.6 | 64.2 | |
| Debt/Equity attributable to owners of the parent ratio Debt/Equity ratio* (DER) (times) | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | |
| Inventory turnover (times) | 8.9 | 9.5 | 9.6 | 9.4 | 9.9 | 10.4 | |
| **Number of employees** | 22,623 | 20,043 | 19,117 | 19,499 | 18,149 | 17,732 | |

*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 ¥106=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2018.
2. Interest-bearing liabilities include trade notes discounted.
3. In the fiscal year 2017, the provisional accounting in relation to the business combination was fixed, and with respect to the related major management indicators for the fiscal year 2016, among other aspects, the fixed data of the provisional accounting was reflected. (For details, refer to 16. Business Combination.)

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

For the Year Ended March 31, 2018

## RESULTS OF OPERATIONS

### Overview of Economic Trends and Business Results

During the fiscal year ended March 2018, the United States saw continued economic growth supported by solid consumer spending. Europe maintained a trend of economic recovery driven by consumer spending and exports. The Chinese economy and other emerging economies were robust. The Japanese economy also continued to rally with the help of exports and capital investment.

In the economic climate described above, the Hitachi Chemical Group instituted policies, they are "cultivate top share business by changing method of competition" and "accelerate commercialization through Open Innovation," in order to build robust business foundations for continuous growth under the medium-term management plan for the three years commencing in fiscal 2016. In line with these, it worked to produce the effect of the "niche and cluster strategy," increase its capabilities to launch new products and businesses, and expand its businesses by means of M&A and alliances with a view towards creating new value.

Specifically, Hitachi Chemical expanded sales of niche products, such as anode materials and nanoceria slurry, to capture market share. In addition to increasing the mass production of exterior plastic molded foam products, it acquired ISOLITE GmbH to broaden its sales channels in Europe and the United States and to step up the worldwide expansion of insulating materials through the promotion of Hitachi Chemical's products. It then worked to construct a system that helped produce synergy with TSB, HCEN and HCTD to boost the business scale in Europe and the ASEAN area. In the domain of regenerative medicine, the Group reached agreements on commissioned production with Daiichi Sankyo Co., Ltd. and SanBio Co., Ltd. In the domain of diagnostic medicine, it reorganized Kyowa Medex Co., Ltd. It thereby reinforced its business foundations.

As a result of these actions, consolidated revenue for the subject fiscal year stood at ¥669.2 billion, up 20.8% from the previous fiscal year because of growing demand for semiconductor materials, copper-clad laminates and carbon anode materials for lithium-ion battery, and an increase in consolidated subsidiaries following mergers and acquisitions led to the figure mentioned above. On the other hand, operating income dropped by 13.0% from the preceding fiscal year, to ¥46.2 billion, and net income attributable to owners of the parent fell by 9.6%, to ¥36.3 billion, following soaring prices of raw materials, insufficient synergy with new consolidated subsidiaries after M&A, and the posting of the penalty for the cartel formed in the past by the Group's capacitor business, while there were also positive factors including growth in quantity and continued cost reductions.

### Revenue

Consolidated revenue rose 20.8% from the previous fiscal year, to ¥669.2 billion. This mainly reflected business growth with rising demand for semiconductor materials, copper-clad laminates and carbon anode materials for lithium-ion battery, and an increase in consolidated subsidiaries following mergers and acquisitions.

The Functional Materials segment attained an 8.8% increase in revenue from the preceding fiscal year, to ¥297.1 billion.

In the field of electronic materials, revenue from epoxy molding compounds for semiconductors rose from the preceding fiscal year after sales expanded in the Chinese market. That from die bonding materials for semiconductors was poorer than in the previous fiscal year, reflecting a decline in demand from some customers. Revenue from polishing materials for flattening semiconductor circuits surged from the previous fiscal year following higher demand for 3D NAND flash.

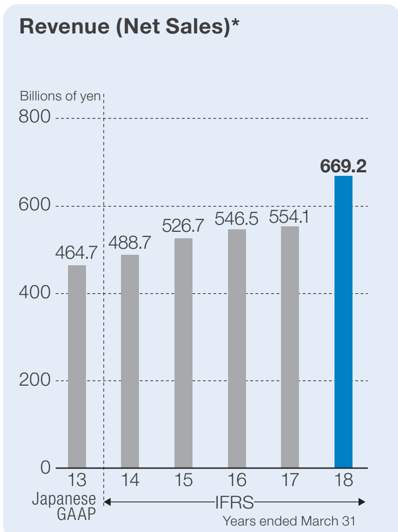
In the inorganic materials field, revenue from carbon anode materials for lithium-ion battery grew from the preceding fiscal year, with an increase in sales for environmentally friendly automobiles.

In the polymer science materials field, functional resins for food packaging showed strength, attaining higher revenue than in the previous fiscal year. Revenue from circuit connecting films for displays and touch panel related materials grew from the previous fiscal year after a sales hike for smartphones. Revenue from adhesive films was poorer than in the preceding fiscal year following a sales decline of surface protection films for liquid crystal displays despite rising sales of semiconductor mold releasing films.

In the printed wiring board materials field, revenue from copper-clad laminates was greater than in the previous fiscal year, reflecting rising sales of packaging substrates for smartphones and ICT infrastructure. Revenue from photosensitive dry films also expanded from the previous fiscal year, with growth in sales for smartphones.

The Advanced Components and Systems segment saw revenue rise by 32.4% from the previous fiscal year, to ¥372.2 billion.

In the automotive products field, revenue from plastic molded products was higher compared to the previous fiscal year. This was due to the reorganization of ISOLITE GmbH in Germany into a consolidated subsidiary in the second quar-




*Terms in parentheses are used for Japanese GAAP.

ter and to the launch of new products. Revenue from friction materials rose from the previous fiscal year after the release of new products with reduced copper content. Revenue from powder metal products was also up from the previous fiscal year with increased sales of components for construction machinery.

In the energy storage devices and systems field, revenue from batteries and systems for automotive and industrial use surged from the preceding fiscal year, reflecting the reorganization of FIAMM Energy Technology S.p.A. in Italy and Thai Storage Battery Public Company Limited in Thailand into consolidated subsidiaries in the fourth quarter of the previous fiscal year and in the second quarter of the subject fiscal year, respectively. Revenue from capacitors expanded from the previous fiscal year after growth in sales of industrial machinery.

In the electronic components field, revenue from printed circuit boards soared from the previous fiscal year after growth in sales of industrial machinery.

In the others field, revenue from diagnostics and instruments increased from the preceding fiscal year after the reorganization of Kyowa Medex Co., Ltd. into a consolidated subsidiary in the fourth quarter of the subject fiscal year.

Overseas revenue amounted to ¥421,001 million, an increase of ¥99,729 million. As a result, the proportion of overseas revenue came to 62.9%, an increase of 4.9% over the previous year.

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

Cost of sales amounted to ¥495.6 billion, up ¥92.6 billion, or 23.0%, compared to the previous fiscal year. Its ratio to revenue increased 1.3 percentage points, to 74.0%.

Selling, general and administrative (SG&A) expenses swelled ¥19.8 billion, or 20.4%, to ¥116.9 billion. Their ratio to revenue remained unchanged from the previous fiscal year, at 17.5%.

### Operating Income

Operating income stood at ¥46.2 billion, marking a decline of ¥6.9 billion, or 13.0%, from the preceding fiscal year. Its ratio to revenue also fell by 2.7 percentage points, to 6.9%.

The Functional Materials segment earned operating income of ¥46.8 billion, up ¥2.6 billion, or 5.9%, from the previous fiscal year. Its ratio to revenue slid 0.4 percentage points, to 15.8%. The Advanced Components and Systems segment suffered an operating loss of ¥0.6 billion, reflecting a decline in operating income of ¥9.4 billion from the previous fiscal year.

### Net Income Attributable to Owners of the Parent

Income taxes amounted to ¥11.8 billion, a decrease of ¥1.9 billion, or 13.6%, from the preceding fiscal year. Their ratio to income before tax (tax burden ratio) fell 0.9 percentage points, to 24.2%.

As a result, net income attributable to owners of the parent amounted to ¥36.3 billion, a decrease of ¥3.9 billion, or 9.6%, from the previous fiscal year.

## FINANCIAL CONDITION

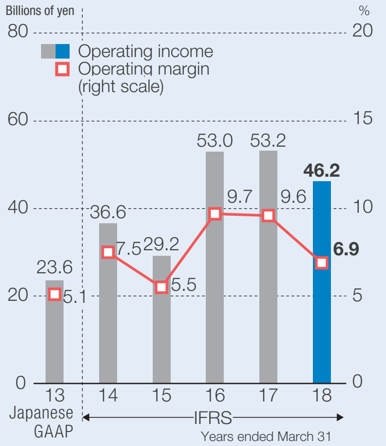
### Assets, Liabilities, and Equity

#### Assets

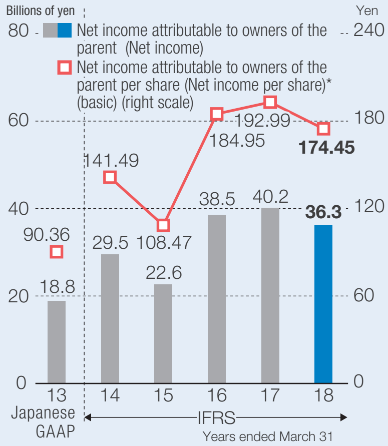
Total assets on March 31, 2018 stood at ¥701.2 billion, an increase of ¥92.0 billion from a year earlier.

This rise resulted chiefly from an increase in trade receivables related to the business combination and increased revenue, and from growth of intangible assets following the business combination.

**Operating Income / Operating Margin**

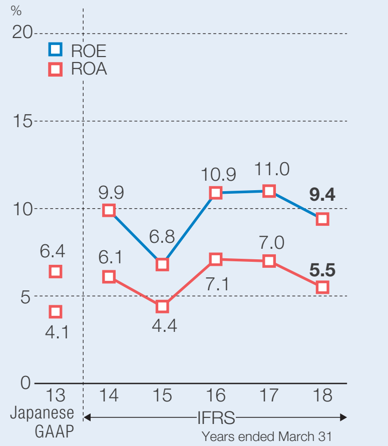



**Net Income Attributable to Owners of the Parent (Net Income) / Earnings per Share (Net Income per Share)* (Basic)**




*Terms in parentheses are used for Japanese GAAP.

**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.

### Liabilities

Total liabilities on March 31, 2018 amounted to ¥292.1 billion, showing a rise of ¥64.4 billion from a year earlier.

The hike is attributable to an increase chiefly in bonds and borrowings after growth in demand for funds associated with the business combination.

### Equity

Total equity on March 31, 2018 rose ¥27.6 billion from a year earlier, to ¥409.1 billion.

This was due mainly to an increase in retained earnings after posting net income.

### Cash Flows

Cash and cash equivalents on March 31, 2018 decreased ¥23.6 billion from a year earlier, to ¥84.0 billion.

Net cash provided by operating activities amounted to ¥34.9 billion, down ¥25.9 billion from the preceding fiscal year. The shrinkage resulted mainly from an increase in operating capital.

Net cash used in investing activities reached ¥87.8 billion, up ¥53.2 billion from the previous fiscal year, due mainly to increased expenses for the purchase of investments in subsidiaries.

Net cash provided by financing activities stood at ¥28.9 billion. The amount was up ¥65.4 billion from the previous fiscal year due to an increase in proceeds from long-term debt.

**Cash Flows**
Years ended March 31

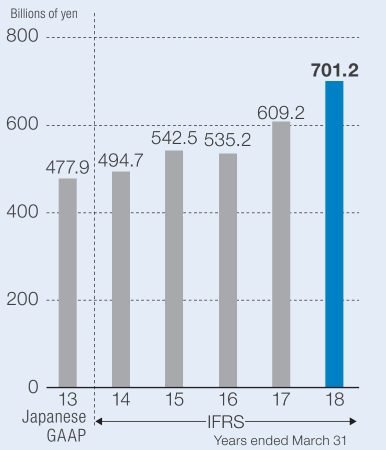
Millions of yen

| | 2017 | 2018 |
|---|---|---|
| Cash flows from operating activities | ¥ 60,819 | ¥ 34,916 |
| Cash flows from investing activities | (34,606) | (87,802) |
| Cash flows from financing activities | (36,476) | 28,932 |
| Cash and cash equivalents at end of year | 107,649 | 84,037 |

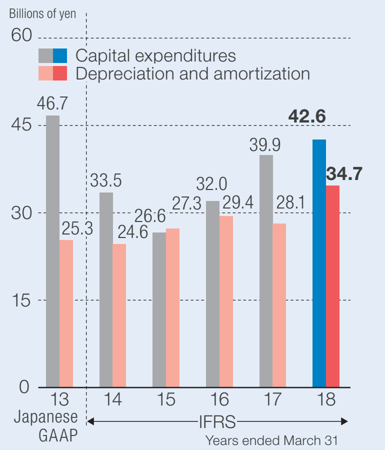
## Capital Expenditures, R&D Expenses

R&D expenses soared ¥2.7 billion yen, or 9.5%, from the preceding fiscal year, to ¥30.8 billion yen. Its ratio to revenue dropped 0.5 percentage points, to 4.6%. This was due mainly to investment in the Functional Materials segment.

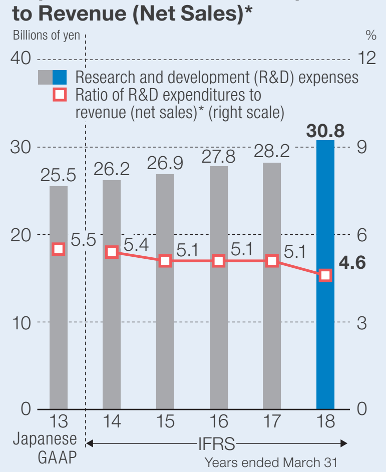
**Total Assets**




**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**

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

The distribution of profits to shareholders will basically take the form of the stable growth of dividends. Internal capital reserves will be invested in establishing a framework for R&D and the global provision of new high value-added products that have potential for strong growth, in strengthening platforms for operating businesses and in boosting growth, and will also be effectively utilized to establish a resilient financial structure.

Share buybacks will be carried out efficiently as shareholder returns to supplement dividends on a scale that is consistent with dividend policies.

For the fiscal year ended March 2018, the Company paid an annual dividend of ¥60 per share, which comprised a year-end dividend of ¥30 per share and an interim dividend of ¥30 per share.

**OUTLOOK AND FORECASTS FOR THE FISCAL YEAR ENDING MARCH 31, 2019**

The future economic outlook remains uncertain. While both the global economy and the Japanese economy will continue to achieve growth, there is concern about trade frictions between the United States and China and about the developments of the Brexit talks between the United Kingdom and the European Union as well as geopolitical risks in East Asia.

In the business climate described above, the Hitachi Chemical Group will continue to advance the basic policies, they are “cultivate top share business by changing method of competition” and “accelerate commercialization through Open Innovation,” for the current fiscal year as the final year of the medium-term management plan in an effort to constantly create innovations, achieve business growth that is faster than that of the market and increase its earning power.

On this basis, the Hitachi Chemical Group will operate its businesses with an emphasis on:

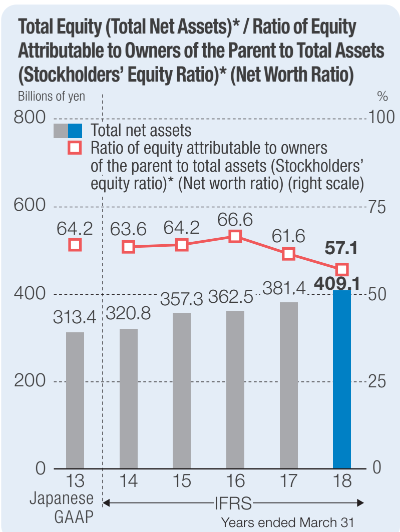
(1) Strengthening global business;

(2) Rapidly making new products and businesses into assets for competition;

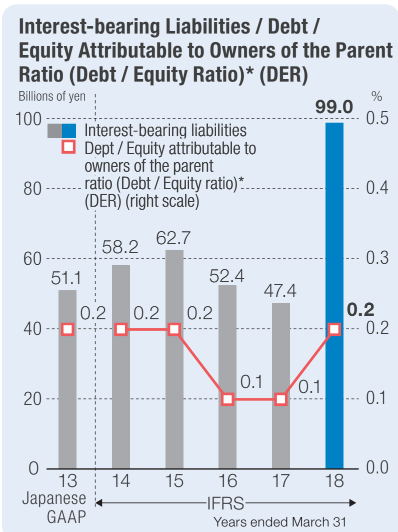
(3) Strengthen global base; and

(4) Promoting ESG (Environment, Society and Governance) management.

For the consolidated fiscal year ending March 31, 2019, the Hitachi Chemical Group is forecasting revenue of ¥710.0 billion, with operating income of ¥59.0 billion, income before income taxes of ¥62.0 billion, and net in- come attributable to owners of the parent of ¥46.0 billion.




*Terms in parentheses are used for Japanese GAAP.

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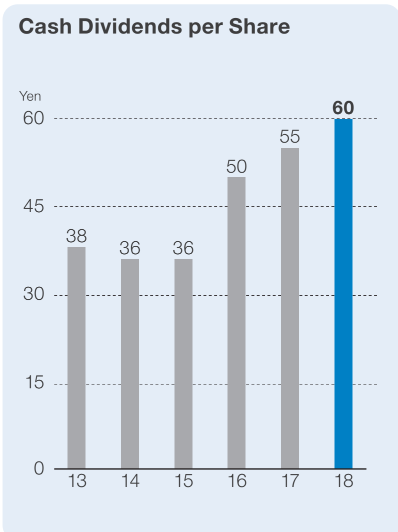

## BUSINESS AND OTHER RISKS

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, 2018.

### (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 two of its 10 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, 2018 and 2017

| | | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | | 2017 | 2018 | 2018 |
| **Assets** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | | ¥ 107,649 | ¥84,037 | $ 792,802 |
| Trade receivables | | 133,520 | 156,504 | 1,476,453 |
| Inventories | (Note 3) | 65,182 | 85,410 | 805,755 |
| Other financial assets | | 21,687 | 22,350 | 210,849 |
| Other current assets | | 4,251 | 4,782 | 45,113 |
| Total current assets | | 332,289 | 353,083 | 3,330,972 |
| **Non-current assets:** | | | | |
| Property, plant and equipment | (Note 4) | 186,633 | 210,210 | 1,983,113 |
| Intangible assets | (Note 5) | 33,687 | 76,495 | 721,651 |
| Net defined benefit assets | (Note 8) | 10,001 | 13,489 | 127,255 |
| Deferred tax assets | (Note 6) | 14,069 | 15,187 | 143,274 |
| Investments accounted for using the equity method | | 8,484 | 6,495 | 61,274 |
| Other financial assets | | 17,819 | 18,083 | 170,594 |
| Other non-current assets | | 6,173 | 8,121 | 76,613 |
| Total non-current assets | | 276,866 | 348,080 | 3,283,774 |
| Total assets | | 609,155 | 701,163 | 6,614,745 |
| **Liabilities** | | | | |
| **Current liabilities:** | | | | |
| Trade payables | | 80,924 | 85,293 | 804,651 |
| Bonds and borrowings | (Note 7) | 27,351 | 42,951 | 405,198 |
| Accrued expenses | | 27,251 | 27,945 | 263,632 |
| Income tax payables | | 11,940 | 4,204 | 39,660 |
| Other financial liabilities | | 22,934 | 21,095 | 199,009 |
| Other current liabilities | | 3,787 | 5,737 | 54,123 |
| Total current liabilities | | 174,187 | 187,225 | 1,766,274 |
| **Non-current liabilities:** | | | | |
| Bonds and borrowings | (Note 7) | 18,545 | 53,493 | 504,651 |
| Retirement and severance benefits | (Note 8) | 15,047 | 17,237 | 162,613 |
| Provisions | | 1,368 | 1,737 | 16,387 |
| Other financial liabilities | | 14,865 | 24,363 | 229,840 |
| Other non-current liabilities | (Note 6) | 3,705 | 8,049 | 75,934 |
| Total non-current liabilities | | 53,530 | 104,879 | 989,425 |
| Total liabilities | | 227,717 | 292,104 | 2,755,698 |
| **Equity:** | | | | |
| Common stock | (Note 9) | 15,454 | 15,454 | 145,792 |
| Capital surplus | | — | — | — |
| Treasury stock, at cost | | (234) | (246) | (2,321) |
| Retained earnings | | 345,827 | 367,999 | 3,471,689 |
| Accumulated other comprehensive income | | 13,954 | 17,176 | 162,038 |
| Total equity attributable to owners of the parent | | 375,001 | 400,383 | 3,777,198 |
| Non-controlling interests | | 6,437 | 8,676 | 81,849 |
| Total equity | | 381,438 | 409,059 | 3,859,047 |
| Total liabilities and equity | | ¥ 609,155 | ¥701,163 | $ 6,614,745 |

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, 2018 and 2017

## (Consolidated Statement of Income)

| | | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | | 2017 | 2018 | 2018 |
| Revenues | | ¥ 554,144 | ¥ 669,234 | $ 6,313,528 |
| Cost of sales | | (402,994) | (495,557) | (4,675,066) |
| Gross profit | | 151,150 | 173,677 | 1,638,462 |
| Selling, general and administrative expenses | | (97,115) | (116,947) | (1,103,274) |
| Other income | (Note 10) | 7,720 | 5,768 | 54,415 |
| Other expenses | (Note 10) | (8,603) | (16,279) | (153,575) |
| Operating income | | 53,152 | 46,219 | 436,028 |
| Financial income | (Note 12) | 886 | 1,160 | 10,943 |
| Financial expenses | (Note 12) | (3,207) | (2,386) | (22,509) |
| Share of profits of investments accounted for using the equity method | | 3,549 | 3,948 | 37,245 |
| Income before income taxes | | 54,380 | 48,941 | 461,708 |
| Income taxes | (Note 6) | (13,676) | (11,820) | (111,509) |
| Net income | | ¥ 40,704 | ¥ 37,121 | $ 350,198 |
| **Net income attributable to:** | | | | |
| Owners of the parent | | ¥ 40,186 | ¥ 36,324 | $ 342,679 |
| Non-controlling interests | | 518 | 797 | 7,519 |

| | Yen | | U.S. dollars (Note 2) |
|---|---|---|---|
| **Earnings per share attributable to owners of the parent:** | 2017 | 2018 | 2018 |
| Basic | ¥ 192.99 | ¥ 174.45 | $ 1.65 |
| Diluted | — | — | — |

See accompanying notes to consolidated financial statements.

## (Consolidated Statement of Comprehensive Income)

| | | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | | 2017 | 2018 | 2018 |
| **Net income** | | ¥ 40,704 | ¥ 37,121 | $ 350,198 |
| **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 | | 685 | 690 | 6,509 |
| Remeasurements of defined benefit obligations | (Note 8) | 1,753 | 1,478 | 13,943 |
| Total items that cannot be reclassified into profit or loss | | 2,438 | 2,168 | 20,453 |
| **Items that can be reclassified into profit or loss:** | | | | |
| Foreign currency translation adjustments | | (3,388) | 2,168 | 20,453 |
| Cash flow hedges | | 129 | (181) | (1,708) |
| Share of OCI of investments accounted for using the equity method | | 30 | (212) | (2,000) |
| Total items that can be reclassified into profit or loss | | (3,229) | 1,775 | 16,745 |
| Other comprehensive income (OCI) | | (791) | 3,943 | 37,198 |
| Comprehensive income | | ¥ 39,913 | ¥ 41,064 | $ 387,396 |
| **Comprehensive income attributable to:** | | | | |
| Owners of the parent | | ¥ 39,238 | ¥ 39,953 | $ 376,915 |
| Non-controlling interests | | 675 | ¥ 1,111 | $ 10,481 |

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, 2018 and 2017

| | 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, 2016 | ¥ 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 | | (10,396) | | | | |
| Transfer to capital surplus from retained earnings | | 2,017 | | (2,017) | | |
| Transfer of accumulated other comprehensive income to retained earnings | | | | 623 | (623) | |
| Other changes | | 375 | | | | |
| Total transactions with owners | — | (8,004) | (11) | (11,806) | (623) | — |
| Balance as of March 31, 2017 | 15,454 | — | (234) | 345,827 | 2,752 | 6,229 |
| Net income | | | | 36,324 | | |
| Other comprehensive income | | | | | 690 | 1,467 |
| Comprehensive income for the year | — | — | — | 36,324 | 690 | 1,467 |
| Cash dividends | | | | (12,494) | | |
| Purchase of treasure stock | | | (12) | | | |
| Sale of treasure stock | | 0 | 0 | | | |
| Changes from business combinations | | | | | | |
| Acquisition of non-controlling interests | | (25) | | | | |
| Transfer to capital surplus from retained earnings | | 2,065 | | (2,065) | | |
| Transfer of accumulated other comprehensive income to retained earnings | | | | 407 | (407) | |
| Other changes | | (2,040) | | | | |
| Total transactions with owners | — | — | (12) | (14,152) | (407) | — |
| Balance as of March 31, 2018 | ¥ 15,454 | ¥ — | ¥ (246) | ¥ 367,999 | ¥ 3,035 | ¥ 7,696 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 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 |
| Balance as of April 1, 2016 | ¥ 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 | | | | (10,396) | (323) | (10,719) |
| 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) | (20,444) | (553) | (20,997) |
| Balance as of March 31, 2017 | 4,852 | 121 | 13,954 | 375,001 | 6,437 | 381,438 |
| Net income | | | | 36,324 | 797 | 37,121 |
| Other comprehensive income | 1,670 | (198) | 3,629 | 3,629 | 314 | 3,943 |
| Comprehensive income for the year | 1,670 | (198) | 3,629 | 39,953 | 1,111 | 41,064 |
| Cash dividends | | | | (12,494) | (152) | (12,646) |
| Purchase of treasure stock | | | | (12) | | (12) |
| Sale of treasure stock | | | | 0 | | 0 |
| Changes from business combinations | | | | — | 1,839 | 1,839 |
| Acquisition of non-controlling interests | | | | (25) | (113) | (138) |
| Transfer to capital surplus from retained earnings | | | | — | | — |
| Transfer of accumulated other comprehensive income to retained earnings | | | (407) | — | | — |
| Other changes | | | | (2,040) | (446) | (2,486) |
| Total transactions with owners | — | — | (407) | (14,571) | 1,128 | (13,443) |
| Balance as of March 31, 2018 | ¥ 6,522 | ¥ (77) | ¥ 17,176 | ¥ 400,383 | ¥ 8,676 | ¥ 409,059 |

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, 2017 | $ 145,792 | $ — | $ (2,208) | $ 3,262,519 | $ 25,962 | $ 58,764 |
| Net income | | | | 342,679 | | |
| Other comprehensive income | | | | | 6,509 | 13,840 |
| Comprehensive income for the year | — | — | — | 342,679 | 6,509 | 13,840 |
| Cash dividends | | | | (117,868) | | |
| Purchase of treasury stock | | | (113) | | | |
| Sale of treasury stock | | 0 | 0 | | | |
| Changes from business combinations | | | | | | |
| Acquisition of non-controlling interests | | (236) | | | | |
| Transfer to capital surplus from retained earnings | | 19,481 | | (19,481) | | |
| Transfer of accumulated other comprehensive income to retained earnings | | | | 3,840 | (3,840) | |
| Other changes | | (19,245) | | | | |
| Total transactions with owners | — | — | (113) | (133,509) | (3,840) | — |
| Balance as of March 31, 2018 | $ 145,792 | $ — | $ (2,321) | $ 3,471,689 | $ 28,632 | $ 72,604 |

| | 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 |
| Balance as of April 1, 2017 | $ 45,774 | $ 1,142 | $ 131,642 | $ 3,537,745 | $ 60,726 | $ 3,598,472 |
| Net income | | | | 342,679 | 7,519 | 350,198 |
| Other comprehensive income | 15,755 | (1,868) | 34,236 | 34,236 | 2,962 | 37,198 |
| Comprehensive income for the year | 15,755 | (1,868) | 34,236 | 376,915 | 10,481 | 387,396 |
| Cash dividends | | | | (117,868) | (1,434) | (119,302) |
| Purchase of treasury stock | | | | (113) | | (113) |
| Sale of treasury stock | | | | 0 | | 0 |
| Changes from business combinations | | | | — | 17,349 | 17,349 |
| Acquisition of non-controlling interests | | | | (236) | (1,066) | (1,302) |
| Transfer to capital surplus from retained earnings | | | | — | | — |
| Transfer of accumulated other comprehensive income to retained earnings | | | (3,840) | — | | — |
| Other changes | | | | (19,245) | (4,208) | (23,453) |
| Total transactions with owners | — | — | (3,840) | (137,462) | 10,642 | (126,821) |
| Balance as of March 31, 2018 | $ 61,528 | $ (726) | $ 162,038 | $ 3,777,198 | $ 81,849 | $ 3,859,047 |

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, 2018 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| **Cash flows from operating activities:** | | | |
| Net income | ¥ 40,704 | ¥ 37,121 | $ 350,198 |
| Depreciation and amortization | 28,114 | 34,721 | 327,557 |
| Income tax expense | 13,676 | 11,820 | 111,509 |
| Interest and dividend income | (851) | (1,052) | (9,925) |
| Interest expenses paid | 1,098 | 1,537 | 14,500 |
| Share of profits of investments accounted for using the equity method | (3,549) | (3,948) | (37,245) |
| (Increase) decrease in trade receivables | (13,623) | (14,681) | (138,500) |
| (Increase) decrease in accounts receivables–other | (3,902) | 1,846 | 17,415 |
| (Increase) decrease in inventories | (5,648) | (8,938) | (84,321) |
| Increase (decrease) in trade payables | 13,140 | (530) | (5,000) |
| Increase (decrease) in retirement and severance benefits | (664) | (747) | (7,047) |
| Other | 5,212 | (5,326) | (50,245) |
| Subtotal | 73,707 | 51,823 | 488,896 |
| Interest and dividends received | 3,546 | 4,919 | 46,406 |
| Interest paid | (1,193) | (1,374) | (12,962) |
| Income taxes paid | (15,241) | (20,452) | (192,943) |
| Net cash provided by operating activities | 60,819 | 34,916 | 329,396 |
| **Cash flows from investing activities:** | | | |
| Expenses for property, plant and equipment acquired | (32,995) | (42,454) | (400,509) |
| Income from sale of property, plant and equipment | 2,326 | 1,152 | 10,868 |
| Proceeds from redemption and sale of investments in securities | 1,821 | 1,910 | 18,019 |
| Purchase of investments in subsidiaries | (2,375) | (33,863) | (319,462) |
| Purchase of investment accounted for using equity method | — | (8,061) | (76,047) |
| Expenses for investment securities acquired | (2,013) | (970) | (9,151) |
| Other | (1,370) | (5,516) | (52,038) |
| Net cash used in investing activities | (34,606) | (87,802) | (828,321) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term debt | (10,485) | 12,142 | 114,547 |
| Proceeds from long-term debt | 707 | 26,389 | 248,953 |
| Payments on long-term debt | (5,367) | (16,102) | (151,906) |
| Proceeds from issuance of bonds payable | — | 19,906 | 187,792 |
| Redemption of bonds | (10,000) | — | — |
| Dividends paid to stockholders | (10,412) | (12,494) | (117,868) |
| Dividends paid to non-controlling interests | (102) | (152) | (1,434) |
| Other | (817) | (757) | (7,142) |
| Net cash used in financing activities | (36,476) | 28,932 | 272,943 |
| Effect of exchange rate changes on cash and cash equivalents | (2,076) | 342 | 3,226 |
| Net increase (decrease) in cash and cash equivalents | (12,339) | (23,612) | (222,755) |
| Cash and cash equivalents at beginning of year | 119,988 | 107,649 | 1,015,557 |
| Cash and cash equivalents at end of year | ¥107,649 | ¥ 84,037 | $ 792,802 |

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, 2018 and 2017

## 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.

"Sale of investments accounted for using the equity method," which had been presented separately in "Cash flows from investing activities," has been included in "Other" starting from the fiscal year ended March 31, 2018 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, ¥351 million in "Sale of investments accounted for using the equity method" and -¥1,721 million in "Other," which were stated in "Cash flows from investing activities" in the Consolidated Statements of Cash Flows of the previous fiscal year, have been restated as -¥1,370 in "Other."

"Purchase of shares of consolidated subsidiaries from non-controlling interest holders," which had been presented separately in "Cash flows from financing activities," has been included in "Other" starting from the fiscal year ended March 31, 2018 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, -¥393 million in "Purchase of shares of consolidated subsidiaries from non-controlling interest holders" and -¥424 million in "Other," which were stated in "Cash flows from financing activities" in the Consolidated Statements of Cash Flows of the previous fiscal year, have been restated as -¥817 in "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 ¥106=US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2018. 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, 2018 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Finished and semi-finished goods | ¥ 29,187 | ¥ 42,802 | $ 403,792 |
| Work in process | 17,556 | 17,177 | 162,047 |
| Raw materials | 18,439 | 25,431 | 239,915 |
| Total | ¥ 65,182 | ¥ 85,410 | $ 805,755 |

## 4. Property, Plant and Equipment

Property, plant and equipment, at cost as of March 31, 2018 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Buildings and structures | ¥ 60,893 | ¥ 66,642 | $ 628,698 |
| Machinery, vehicles and tools, furniture and fixtures | 89,524 | 105,063 | 991,160 |
| Land | 21,335 | 24,401 | 230,198 |
| Construction in progress | 14,881 | 14,104 | 133,057 |
| Total | ¥186,633 | ¥210,210 | $1,983,113 |

## 5. Intangible Assets

Intangible assets as of March 31, 2018 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Goodwill | ¥ 12,030 | ¥ 34,162 | $ 322,283 |
| Software | 3,518 | 4,691 | 44,255 |
| Intangible assets related to marketing | 10,837 | 13,303 | 125,500 |
| Intangible assets related to customers | 2,919 | 16,225 | 153,066 |
| Intangible assets related to technologies | 675 | 4,784 | 45,132 |
| Other | 3,708 | 3,330 | 31,415 |
| Total | ¥ 33,687 | ¥ 76,495 | $ 721,651 |

Note: The amounts in the previous fiscal year are those after reflecting the revision of the initial allocation amount due to fixation associated with the fixation of provisional accounting for business combinations in the third quarter ended December 31, 2017.

## 6. Income Taxes

The income tax expenses (benefits) reflected in the consolidated statements of income for the years ended March 31, 2018 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Current tax expense | ¥ 14,572 | ¥ 11,711 | $ 110,481 |
| Deferred tax expense (benefit) | (896) | 109 | 1,028 |
| Total | ¥ 13,676 | ¥ 11,820 | $ 111,509 |

(Consolidated fiscal year ended March 31, 2018)

Associated with the enactment on December 22, 2017 of the tax reform bill that will reduce the federal corporate tax rate on or after January 1, 2018 in the United States, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been changed from 35% in the past to 21%, the federal corporate tax rate after the revision.

Reconciliations between the combined statutory income tax rate and the effective income tax rate are as follows:

| | 2017 | 2018 |
|---|---|---|
| Combined statutory income tax rate | 30.7% | 30.7% |
| Expenses not deductible for tax purposes | 0.6 | 0.7 |
| Difference in statutory tax rates of foreign subsidiaries | (2.6) | (4.1) |
| Tax credit for R&D expenses | (2.8) | (2.0) |
| Changes in unrecognized deferred tax assets | (0.2) | (5.0) |
| Adjustments to deferred tax assets and liabilities due to a tax rate change | — | 2.4 |
| Other | (0.6) | 1.5 |
| Effective income tax rate | 25.1% | 24.2% |

The effective statutory tax rate is based on Japanese corporate income taxes, residents' taxes and enterprise taxes, a rate of 30.7%.

The breakdowns of deferred tax assets and deferred tax liabilities and the details of changes are as shown below.

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Deferred tax assets: | | | |
| Net defined benefit liability | ¥ 5,305 | ¥ 5,701 | $ 53,783 |
| Accrued bonus | 2,955 | 2,996 | 28,264 |
| Depreciation and amortization | 2,746 | 3,381 | 31,896 |
| Intangible assets pertaining to business combinations | 5,930 | 8,298 | 78,283 |
| Other | 7,162 | 7,607 | 71,764 |
| Total deferred tax assets | 24,098 | 27,983 | 263,991 |
| Deferred tax liabilities: | | | |
| Net defined benefit assets | (3,155) | (4,444) | (41,925) |
| Financial assets at fair value through other comprehensive income (FVTOCI) | (1,249) | (1,375) | (12,972) |
| Intangible assets pertaining to business combinations | (3,957) | (9,409) | (88,764) |
| Other | (3,546) | (3,414) | (32,208) |
| Total deferred tax liabilities | (11,907) | (18,642) | (175,868) |
| Net deferred tax assets | ¥ 12,191 | ¥ 9,341 | $ 88,123 |

Note: The amounts in the previous fiscal year are those after reflecting the revision of the initial amount due to fixation of the consideration for acquisition associated with the fixation of provisional accounting for business combinations in the third quarter ended December 31, 2017.

## 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, 2018 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Short-term loans payable | ¥ 21,100 | ¥ 38,986 | $ 367,792 |
| Current portion of long-term loans payable | 6,251 | 3,965 | 37,406 |
| Short-term total | ¥ 27,351 | ¥ 42,951 | $ 405,198 |

Long-term debt as of March 31, 2018 and 2017 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Debentures: | | | |
| 9th series, due 2022, interest 1.19% | ¥ 9,974 | ¥ 9,979 | $ 94,142 |
| 10th series, due 2027, interest 0.38% | — | 19,910 | 187,830 |
| Loans, principally from banks: | | | |
| Maturing 2019–2025, interest 1.58% (average) | 8,571 | 23,604 | 222,679 |
| Long-term total | 18,545 | 53,493 | 504,651 |
| Total short-term and long-term debt (including current portion) | ¥ 45,896 | ¥ 96,444 | $ 909,849 |

## 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 |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Balance at the beginning of the year | ¥ 94,269 | ¥ 93,731 | $ 884,255 |
| Service cost | 3,764 | 4,096 | 38,642 |
| Interest expenses | 407 | 432 | 4,075 |
| Remeasurements of defined benefit plans: | | | |
| Actuarial difference arising from change in assumptions of population statistics | 224 | 164 | 1,547 |
| Actuarial difference arising from change in financial assumptions | (33) | 295 | 2,783 |
| Other | (1,018) | (58) | (547) |
| Benefits paid | (4,371) | (5,495) | (51,840) |
| Prior service cost | (542) | 36 | 340 |
| Other | 1,031 | 4,181 | 39,443 |
| Balance at the end of the fiscal year | ¥ 93,731 | ¥ 97,382 | $ 918,698 |

### 2) The fair value of plan assets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Balance at the beginning of the year | ¥ 87,323 | ¥ 88,685 | $ 836,651 |
| Interest income on plan assets | 403 | 425 | 4,009 |
| Remeasurements of defined benefit plans: | | | |
| Income from plan assets | 1,380 | 2,566 | 24,208 |
| Contributions by the Company | 3,035 | 3,108 | 29,321 |
| Benefits paid | (3,490) | (3,723) | (35,123) |
| Other | 34 | 2,573 | 24,274 |
| Balance at the end of the fiscal year | ¥ 88,685 | ¥ 93,634 | $ 883,340 |

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 (Note 2) |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Present value of defined benefit obligations | | | |
| Present value of obligations related to defined benefit pension plans | ¥ (72,807) | ¥ (74,333) | $ (701,255) |
| Present value of obligations related to lump-sum payment plans | (20,924) | (23,049) | (217,443) |
| Fair value of plan assets | | | |
| Fair value of assets related to defined benefit pension plans | 81,937 | 86,684 | 817,774 |
| Fair value of assets related to lump-sum payment plans | 6,748 | 6,950 | 65,566 |
| Total | (5,046) | (3,748) | (35,358) |
| Net defined benefit asset | 10,001 | 13,489 | 127,255 |
| Net defined benefit liability | ¥ (15,047) | ¥ (17,237) | $ (162,613) |

## 9. Stock

| | Common stock (Issued shares) | Treasury stock |
|---|---|---|
| Balance as of March 31, 2016 | 208,364,913 | 132,735 |
| Balance as of March 31, 2017 | 208,364,913 | 136,862 |
| Balance as of March 31, 2018 | 208,364,913 | 140,908 |

## 10. Other Income and Expenses

(1) Other income

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Gain on disposal of materials and scraps | ¥ 453 | ¥ 1,042 | $ 9,830 |
| Compensation income (Note) | 3,471 | 604 | 5,698 |
| Gain on sales of non-current assets | 276 | 527 | 4,972 |
| Gains on reversal of impairment loss | 790 | 62 | 585 |
| Other | 2,730 | 3,533 | 33,330 |
| Total | ¥ 7,720 | ¥ 5,768 | $ 54,415 |

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 |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Loss related to competition law (Note) | ¥ 774 | ¥ 9,917 | $ 93,557 |
| Loss on disposal of property, plant and equipment | 1,022 | 816 | 7,698 |
| Product repair expenses | 373 | 798 | 7,528 |
| Impairment losses | 936 | 306 | 2,887 |
| Other | 5,498 | 4,442 | 41,906 |
| Total | ¥ 8,603 | ¥ 16,279 | $153,575 |

Note: These are expenses relating to a violation of antitrust laws in transactions concerning certain electrolytic capacitors.

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

(1) Impairment loss

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 ¥311 million ($2,777 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.

For the year ended March 31, 2018

There was no posting of material impairment loss.

There is no material impairment loss posted.

(2) Reversal of impairment losses

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.

For the year ended March 31, 2018
There was no posting of reversal of material impairment loss.
There is no material impairment loss posted.

## 12. Financial Income and Expenses

(1) Financial income

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Interest income: | | | |
| Financial assets measured at amortized cost | ¥ 527 | ¥ 682 | $ 6,434 |
| Dividends: | | | |
| Financial assets measured at FVTOCI | 324 | 370 | 3,491 |
| Gain (loss) on securities and other investment, net: | | | |
| Financial assets measured at FVTPL | 18 | 80 | 755 |
| Other financial income | 17 | 28 | 264 |
| Total | ¥ 886 | ¥ 1,160 | $ 10,943 |

(2) Financial expenses

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2018 | 2018 |
| Interest expenses: | | | |
| Financial liabilities measured at amortized cost | ¥ 1,098 | ¥ 1,537 | $ 14,500 |
| Gain (loss) on securities and other investment, net: | | | |
| Financial assets measured at FVTPL | 12 | 10 | 94 |
| Foreign exchange losses (Note) | 2,062 | 487 | 4,594 |
| Other financial expenses | 35 | 352 | 3,321 |
| Total | ¥ 3,207 | ¥ 2,386 | $ 22,509 |

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 | |
|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2018 | |
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial liabilities measured at amortised cost: | | | | | | |
| Bonds and borrowings | ¥45,896 | ¥46,432 | ¥96,444 | ¥96,934 | $909,849 | $914,472 |

## 14. Contingencies

The Company and some of its subsidiaries are being investigated by the competition authorities in several countries and regions including South Korea over suspicions of violations of antitrust laws in transactions related to certain electrolytic capacitors. Furthermore, in the United States and other countries, civil litigations have been initiated against the Company and some of its subsidiaries. The impact of these legal actions is yet to be determined.

In June 2018, it emerged with regard to certain products among lead-acid batteries for industrial use manufactured at the Company's Nabari Works that an internal inspection method was adopted that differed from the inspection method agreed with customers regarding the capacity of lead-acid batteries at the time of shipment, and that figures differing from the actual measured values had been entered into the inspection certificates and submitted to customers. The Company plans to establish a special investigatory committee to conduct an investigation into the facts of the case and the cause, and to provide explanations to customers and other stakeholders. The outcome of the investigation of the special investigatory committee and discussions with customers may affect our financial position and operating results in the future. However, this is not reflected in the consolidated financial statements because the impact cannot be reasonably estimated at the present time.

## 15. Subsequent Events

For the year ended March 31, 2018

Not applicable

## 16. Business Combination

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

(Acquisition of FIAMM Energy Technology S.p.A.)

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

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Item | Amount | |
| Cash and cash equivalents | ¥ 10,452 | $ 98,604 |
| Adjustment of consideration for acquisition (accrued) | 515 | 4,858 |
| Contingent consideration | 420 | 3,962 |
| Total | ¥ 11,387 | $ 107,425 |
| Goodwill | ¥ 6,785 | $ 64,009 |

In the third quarter ended December 31, 2017 (FY2017), goodwill decreased ¥6,671 million from the initial amount that had been calculated on a provisional basis because the allocation of acquisition costs was completed. Major changes in assets acquired and liabilities assumed were a ¥13,193 million increase in "Intangible assets," a ¥2,249 million increase in "Deferred tax assets" and a ¥3,339 million increase in "Income tax payable." As a result, the fair value of non-controlling interests in comparison to the fair value of identifiable net assets above increased ¥5,638 million.

The amounts in the Consolidated Statement of Financial Position (balance at the end of FY2016) and the Consolidated Statement of Changes in Equity (balances at the beginning of FY2016 and FY2017) are the amounts after reflecting the revisions in the allocation amount above.

(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) |
| Payment for the acquisition of the shares of the subsidiary | ¥ 2,375 | $ 21,205 |

Consolidated Fiscal Year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

(Acquisition of PCT, LLC, a Caladrius Company)

In its 2018 Medium-term Management Plan, the Group outlined the basic policy for the life science business focused on "Cultivating the future foundation business based on the materials technology and diagnostic medicine business," with a key initiative of new entry into genetic diagnosis and regenerative medicine.

The Company acquired an interest in PCT, LLC, a Caladrius Company for the purpose of developing the contract cell manufacturing business for regenerative medicine globally, including Europe and the United States, by incorporating the brand value, manufacturing bases and sales network of the acquiree into the Group through the acquisition of an interest.

(a) Percentage of voting rights acquired

Percentage of voting rights after acquisition 100.0%

(b) Consideration for acquisition and goodwill

| Item | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | Amount | |
| Cash and cash equivalents | ¥ 8,828 | $ 83,283 |
| Fair value of equity interest held immediately before the date of acquisition | 2,173 | 20,500 |
| Total | ¥ 11,001 | $ 103,783 |
| Goodwill arising from acquisition | ¥ 4,395 | $ 41,462 |

While contingent consideration, assets acquired, liabilities assumed and goodwill had been accounted for on a provisional basis as the evaluation at fair value and the allocation of acquisition costs had yet to be completed in the third quarter ended December 31, 2017, they were fixed in the fourth quarter ended March 31, 2018.

(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 | ¥ 8,828 | $ 83,283 |
| Cash and cash equivalents of the acquired subsidiary | (521) | (4,915) |
| Purchase of investments in subsidiaries | ¥ 8,307 | $ 78,368 |

(Acquisition of ISOLITE GmbH)

In its 2018 Medium-term Management Plan, the Group specified a basic policy for the automotive products business to "Strengthen its foundation as a top global supplier" and works on development, manufacturing and the enhancement of sales bases overseas.

The Company acquired an interest in ISOLITE GmbH for the purpose of expanding sales of thermal insulations of the acquiree to Japanese automotive manufacturers through the existing sales network in Japan and accelerating the development of automotive products of the Company in Europe by utilizing the sales network and manufacturing bases of the acquiree in Europe.

(a) Percentage of voting rights acquired

Percentage of voting rights after acquisition 100.0%

(b) Consideration for acquisition and goodwill

| Item | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | Amount | |
| Cash and cash equivalents | ¥ 9,353 | $ 88,236 |
| Goodwill arising from acquisition | ¥ 1,888 | $ 17,811 |

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

| Item | Amount (Millions of yen) | Amount (Thousands of U.S. dollars) |
|---|---|---|
| Consideration for acquisition in the form of cash and cash equivalents | ¥ 9,353 | $ 88,236 |
| Cash and cash equivalents of the acquired subsidiary | (229) | (2,160) |
| Purchase of investments in subsidiaries | ¥ 9,124 | $ 86,075 |

While assets acquired, liabilities assumed and goodwill had been accounted for on a provisional basis because the allocation of acquisition costs had yet to be completed in the first half ended September 30, 2017, they were fixed in the third quarter ended December 31, 2017.

(Acquisition of Thai Storage Battery Public Company Limited)
In its 2018 Medium-term Management Plan, the Group outlined a basic policy for the energy storage business to “Establish presence in global markets through increased scale” and works to strengthen the product capabilities and enhance the manufacturing bases, etc.

The Company acquired shares of Thai Storage Battery Public Company Limited for the purpose of further strengthening and expanding the automotive and industrial lead-acid battery business in Southeast Asia by utilizing the brand value, manufacturing bases and sales network of the acquiree.

(a) Percentage of voting rights acquired
Percentage of voting rights after acquisition 86.9%

(b) Consideration for acquisition and goodwill

| Item | Amount (Millions of yen) | Amount (Thousands of U.S. dollars) |
|---|---|---|
| Cash and cash equivalents | ¥ 7,835 | $ 73,915 |
| Fair value of equity interest held immediately before the date of acquisition | 8,162 | 77,000 |
| Total | ¥ 15,997 | $ 150,915 |
| Goodwill arising from acquisition | ¥ 5,843 | $ 55,123 |

Assets acquired, liabilities assumed and goodwill had been accounted for on a provisional basis because the allocation of acquisition costs had yet to be completed in the first half ended September 30, 2017, and an adjustment was made to some of them in the fiscal year ended March 31, 2018.

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

| Item | Amount (Millions of yen) | Amount (Thousands of U.S. dollars) |
|---|---|---|
| Consideration for acquisition in the form of cash and cash equivalents | ¥ 7,835 | $ 73,915 |
| Cash and cash equivalents of the acquired subsidiary | (748) | (7,057) |
| Purchase of investments in subsidiaries | ¥ 7,087 | $ 66,858 |

(Acquisition of Kyowa Medex Co., Ltd.)
In its 2018 Medium-term Management Plan, the Group specified a basic policy for the life science business to “Cultivate the future foundation business based on materials technology and the diagnostic medicine business” and works to strengthen its business base.

The Company acquired shares of Kyowa Medex Co., Ltd. for the purpose of enhancing the product portfolio of the diagnostic reagent business of the Company by incorporating wide-ranging products of the acquiree, developing the acquiree’s products globally by utilizing the sales networks of the Group in the United States, Europe and Southeast Asia and expanding business through the sales expansion of diagnostic medicines of the Company by utilizing the sales network of the acquiree in Japan.

(a) Percentage of voting rights acquired
Percentage of voting rights after acquisition 66.6%

(b) Consideration for acquisition and goodwill

| Item | Millions of yen<br>Amount | Thousands of U.S. dollars<br>Amount |
|---|---|---|
| Cash and cash equivalents | ¥ 10,161 | $ 95,858 |
| Long-term accounts payable - other (Note) | 5,097 | 48,085 |
| Total | ¥ 15,258 | $ 143,943 |
| Goodwill arising from acquisition | ¥ 9,471 | $ 89,349 |

Note: Long-term accounts payable - other is written put options granted to the non-controlling interest holders of subsidiaries in the fiscal year ended March 31, 2018. The exercise period is three months from the day when three years have passed since the date of acquisition.

The allocation of acquisition costs has been completed in the fourth quarter ended March 31, 2018, and the amounts of assets acquired, liabilities assumed and goodwill have been fixed.

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

| Item | Millions of yen<br>Amount | Thousands of U.S. dollars<br>Amount |
|---|---|---|
| Consideration for acquisition in the form of cash and cash equivalents | ¥ 10,161 | $ 95,858 |
| Cash and cash equivalents of the acquired subsidiary | (1,325) | (12,500) |
| Purchase of investments in subsidiaries | ¥ 8,836 | $ 83,358 |

## 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 |
| | | | 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 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Functional Materials | Advanced Components and Systems | Total | Eliminations | Consolidated |
| | 2018 | | | | |
| Revenues from outside customers | ¥ 297,051 | ¥ 372,183 | ¥ 669,234 | ¥ — | ¥ 669,234 |
| Intersegment revenue | 4,575 | 1,462 | 6,037 | (6,037) | — |
| Total | ¥ 301,626 | ¥ 373,645 | ¥ 675,271 | ¥ (6,037) | ¥ 669,234 |
| Segment profit (loss) | ¥ 46,836 | ¥ (612) | ¥ 46,224 | ¥ (5) | ¥ 46,219 |
| Financial income | — | — | — | — | 1,160 |
| Financial expenses | — | — | — | — | (2,386) |
| Equity in profit (loss) of affiliates | — | — | — | — | 3,948 |
| Income before income taxes | ¥ — | ¥ — | ¥ — | ¥ — | ¥ 48,941 |
| Other items: | | | | | |
| Depreciation and amortization | ¥ 15,364 | ¥ 19,357 | ¥ 34,721 | ¥ — | ¥ 34,721 |
| Impairment losses | 120 | 186 | 306 | — | 306 |
| Reversal of impairment losses | 62 | — | 62 | — | 62 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Functional Materials | Advanced Components and Systems | Total | Eliminations | Consolidated |
| | 2018 | | | | |
| Revenues from outside customers | $ 2,802,368 | $ 3,511,160 | $ 6,313,528 | $ — | $ 6,313,528 |
| Intersegment revenue | 43,160 | 13,792 | 56,953 | (56,953) | — |
| Total | $ 2,845,528 | $ 3,524,953 | $ 6,370,481 | $ (56,953) | $ 6,313,528 |
| Segment profit (loss) | $ 441,849 | $ (5,774) | $ 436,075 | $ (47) | $ 436,028 |
| Financial income | — | — | — | — | 10,943 |
| Financial expenses | — | — | — | — | (22,509) |
| Equity in profit (loss) of affiliates | — | — | — | — | 37,245 |
| Income before income taxes | $ — | $ — | $ — | $ — | $ 461,708 |
| Other items: | | | | | |
| Depreciation and amortization | $ 144,943 | $ 182,613 | $ 327,557 | $ — | $ 327,557 |
| Impairment losses | $ 1,132 | $ 1,755 | $ 2,887 | $ — | $ 2,887 |
| Reversal of impairment losses | $ 585 | $ — | $ 585 | $ — | $ 585 |

Geographic information:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Japan | Asia | Other areas | Total |
| | 2017 | | | |
| Net sales | ¥ 232,872 | ¥ 251,197 (Note) | ¥ 70,075 | ¥ 554,144 |
| Net property, plant and equipment | ¥ 112,333 | ¥ 69,274 | ¥ 38,713 | ¥ 220,320 |

Note: Of Asia as described above, China: ¥97,860

| | Millions of yen | | | |
|---|---|---|---|---|
| | Japan | Asia | Other areas | Total |
| | 2018 | | | |
| Net sales | ¥ 248,233 | ¥ 288,816 (Note) | ¥ 132,185 | ¥ 669,234 |
| Net property, plant and equipment | ¥ 135,311 | ¥ 90,298 | ¥ 61,096 | ¥ 286,705 |

Note: Of Asia as described above, China: ¥109,974

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Japan | Asia | Other areas | Total |
| | 2018 | | | |
| Net sales | $ 2,341,821 | $ 2,724,679 | $ 1,247,028 | $ 6,313,528 |
| Net property, plant and equipment | $ 1,276,519 | $ 851,868 | $ 576,377 | $ 2,704,764 |

# 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 of Japan. This report is presented merely as supplemental information.

(TRANSLATION)

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

June 29, 2018

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

Ernst & Young ShinNihon LLC

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

Designated Limited Liability Partner,
Engagement Partner,
Certified Public Accountant: Go Kashiyama

<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 statement of financial position of Hitachi Chemical (the "Company") and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, including notes to the consolidated financial statements.

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 the Regulation for Terminology, Forms, and Preparation 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 undertaking these risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
As stated in Note 14. Commitments and Contingencies, the outcome of the investigation of the special investigative committee and discussions with customers may affect the Company's financial position and operating results in the future. However, this is not reflected in the financial statements because the impact cannot be reasonably estimated at the present time.
This matter does not have any impact on our opinion.

<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 and its consolidated subsidiaries as of March 31, 2018.

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 as independent position. 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 consolidated financial statements of the Company and its consolidated subsidiaries as of March 31, 2018 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.)