

Hitachi Metals

Financial Results for the First Nine Months of Fiscal Year Ending March 31, 2016 (April 1, 2015 to December 31, 2015)

January 28, 2016

*Towards
Innovative
Growth*



1-1. Overview of the First Nine Months of Fiscal Year Ending March 31, 2016

Trend in demand

Overall demand has been weak in the face of the sense of stagnation in the global economy. Deceleration of the Chinese economy became strikingly evident from the start of the year onward, and the number of indicators showing future uncertainty such as yen strength and the decline in the price of crude oil is rising.

- Automotive-related demand was strong in the U.S., while demand remained sluggish in Japan, China, and some emerging countries.
- Industrial infrastructure-related demand for steel products weakened as subcompact car production was cut and inventory adjustments were made in response to deteriorating demand in Asia, and public spending declined despite the recovery in housing starts in Japan.
- Electronics and information systems-related demand remained sluggish.

Special factors

A non-recurring gain resulting from portfolio restructuring was posted.

- There was a gain of ¥30.2 billion on business restructuring (¥27 billion related to the sale of shares in the former Hitachi Tool Engineering, Ltd.)

1-2. Overview of Operating Results for the First Nine Months of Fiscal Year Ending March 31, 2016



| IFRS | | | | |
|---|--|--|--------|--|
| (¥billions) Profit margin in brackets | First Nine Months of FY2014 Business Performance US\$1 = ¥106.87 | First Nine Months of FY2015 Business Performance US\$1 = ¥121.70 | Change | |
| Revenues | 716.4 | 772.9 | +8% | Increase in revenues from the consolidation of Waupaca Foundry, Inc., among other factors. |
| Adjusted operating income | [8.2%] 58.9 | [7.0%] 54.2 | -4.7 | Declined by ¥4.7 billion YoY due to a decline in revenues for products related to the information and electronics segments. |
| Other income | 9.9 | 33.8 | +23.9 | Income of ¥30.2 billion posted from business restructuring, etc. (¥27.0 billion of this was related to the sale of shares in the former Hitachi Tool Engineering, Ltd.) |
| Other expenses | (11.4) | (8.8) | +2.6 | |
| Operating income | [8.0%] 57.4 | [10.2%] 79.2 | +21.8 | |
| Interest and other financial revenue | 4.4 | (1.5) | -5.9 | |
| Income before income taxes | 61.8 | 77.7 | +15.9 | |
| Income taxes | (13.1) | (21.7) | -8.6 | |
| Net income | 48.7 | 56.0 | +7.3 | |
| Net income attributable to owners of the parent company | 47.8 | 55.6 | +7.8 | |
| Overseas markets' share of revenues*1 | 45% | 56% | +11% | Increase from the consolidation of Waupaca Foundry, Inc., among other factors. |
| Employees | 30,731 | 29,167 | -1,564 | |

*1 Overseas revenues by region:
 3Q, FY2015: North America, 31%; Asia, 19%; Europe, 4%; Other, 2%
 3Q, FY2014: North America, 16%; Asia, 22%; Europe, 5%; Other, 2%

1-3. Operating Results by Segment for the First Nine Months of Fiscal Year Ending March 31, 2016



| IFRS | | | | | |
|---|---------------------------|---|---|--------|--|
| | | First Nine Months of FY2014 Business Performance US\$1 = ¥106.87 | First Nine Months of FY2015 Business Performance US\$1 = ¥121.70 | Change | |
| | | (¥billions) Profit margin in brackets | | | |
| High-Grade Metal Products and Materials | Revenues | 193.8 | 183.1 | -5% | Declined by roughly ¥15.0 billion due to the sales of shares in the former Hitachi Tool Engineering, Ltd. and exclusion of the company from consolidation. |
| | Adjusted operating income | [12.2%] 23.6 | [11.1%] 20.4 | -3.2 | Decline in income, due in part to the exclusion from consolidation noted above. |
| | Segment operating income | [13.5%] 26.1 | [25.6%] 46.8 | +20.7 | ¥27.0 billion in income resulting from business restructuring accompanying the sale of shares, etc. posted. |
| Magnetic Materials and Applications | Revenues | 101.8 | 91.6 | -10% | Revenues declined as demand related to industrial equipment and consumer electronics declined. |
| | Adjusted operating income | [11.4%] 11.6 | [7.5%] 6.9 | -4.7 | Decline in income due to a decline in revenues and to the impact of impairment losses on raw materials. |
| | Segment operating income | [11.3%] 11.5 | [7.4%] 6.8 | -4.7 | |
| High-Grade Functional Components and Equipment | Revenues | 176.9 | 276.9 | +57% | Substantial increase in revenues in North America due to firm demand and the consolidation of Waupaca Foundry, Inc., among other factors. |
| | Adjusted operating income | [6.9%] 12.2 | [7.2%] 19.8 | +7.6 | Substantial increase in income due to the consolidation of Waupaca Foundry, Inc., among other factors. |
| | Segment operating income | [6.0%] 10.6 | [6.7%] 18.5 | +7.9 | |
| Wires, Cables, and Related Products | Revenues | 245.6 | 219.2 | -11% | Continued decline in demand for products related to information systems. |
| | Adjusted operating income | [6.4%] 15.7 | [5.2%] 11.5 | -4.2 | |
| | Segment operating income | [6.6%] 16.2 | [5.7%] 12.6 | -3.6 | Gain on business transfer posted in the first quarter of fiscal year ended March 31, 2015. (¥3.9 billion). |
| Other and Adjustments | Revenues | (1.7) | 2.1 | — | |
| | Adjusted operating income | (4.2) | (4.4) | -0.2 | |
| | Operating income | (7.0) | (5.5) | +1.5 | |
| Total | Revenues | 716.4 | 772.9 | +8% | |
| | Adjusted operating income | [8.2%] 58.9 | [7.0%] 54.2 | -4.7 | |
| | Operating income | [8.0%] 57.4 | [10.2%] 79.2 | +21.8 | |

1-4. Operating Results by Segment: High-Grade Metal Products and Materials

| (¥billions) Profit margin in brackets | First Nine Months of FY2014 | First Nine Months of FY2015 | Change | Comments |
|--|--------------------------------|--------------------------------|--------|--|
| Revenues | 193.8 | 183.1 | -5% | Declined by roughly ¥15.0 billion due to the sales of shares in the former Hitachi Tool Engineering, Ltd. and exclusion of the company from consolidation. |
| Adjusted operating income | [12.2%] 23.6 | [11.1%] 20.4 | -3.2 | Income declined due to the impact of the exclusion of the former Hitachi Tool Engineering, Ltd. from consolidation. |
| Segment operating income | [13.5%] 26.1 | [25.6%] 46.8 | +20.7 | ¥27.0 billion in income from business restructuring, etc. posted (related to the sales of shares in the former Hitachi Tool Engineering, Ltd.). |

Overview of Revenues

■ Specialty steel

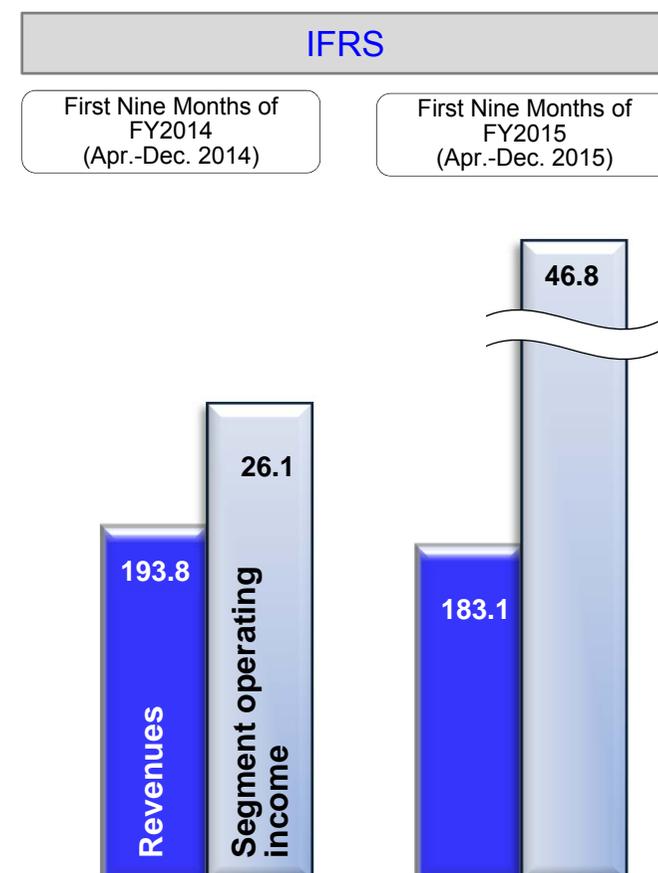
- Tool steel:
Sales to China and the ASEAN region declined, but strong sales of mold materials for automobiles in Japan and progress in shifting product composition toward high value-added products maintained sales on par with the same period last year.
- Industrial equipment materials:
Continued sluggish sales for some automotive-related components and materials caused sales to decline from the same period last year despite continuing firm sales of other industrial components and materials overseas.
- Aircraft and energy-related materials:
The substantial growth resulted in part from the consolidation of Hitachi Metals MMC Superalloy, Ltd. as a consolidated subsidiary from the second quarter of fiscal year ending March 31, 2015, in addition to the continuing trend of strong demand.
- Alloys for electronic products:
In alloys for electronic products, sales of display-related materials, and packaging materials for semiconductors and other products underperformed the same period last year.

■ Rolls

- Various types of rolls: Sales increased due to growth in exports.
- Injection molding machine parts: Firm demand, mainly for large machine parts, kept sales level with the same period last year.

■ Amorphous Metals

Sales underperformed the same period last year due to slumping sales to China, the main market.



1-5. Operating Results by Segment: Magnetic Materials and Applications

| (¥billions) Profit margin in brackets | First Nine Months of FY2014 | First Nine Months of FY2015 | Change | Comments |
|--|--------------------------------|--------------------------------|--------|---|
| Revenues | 101.8 | 91.6 | -10% | Revenues declined as demand related to industrial equipment and consumer electronics declined. |
| Adjusted operating income | [11.4%] 11.6 | [7.5%] 6.9 | -4.7 | Decline in income due to a decline in revenues and to the impact of impairment losses on raw materials. |
| Segment operating income | [11.3%] 11.5 | [7.4%] 6.8 | -4.7 | |

Overview of Revenues

■ Magnets

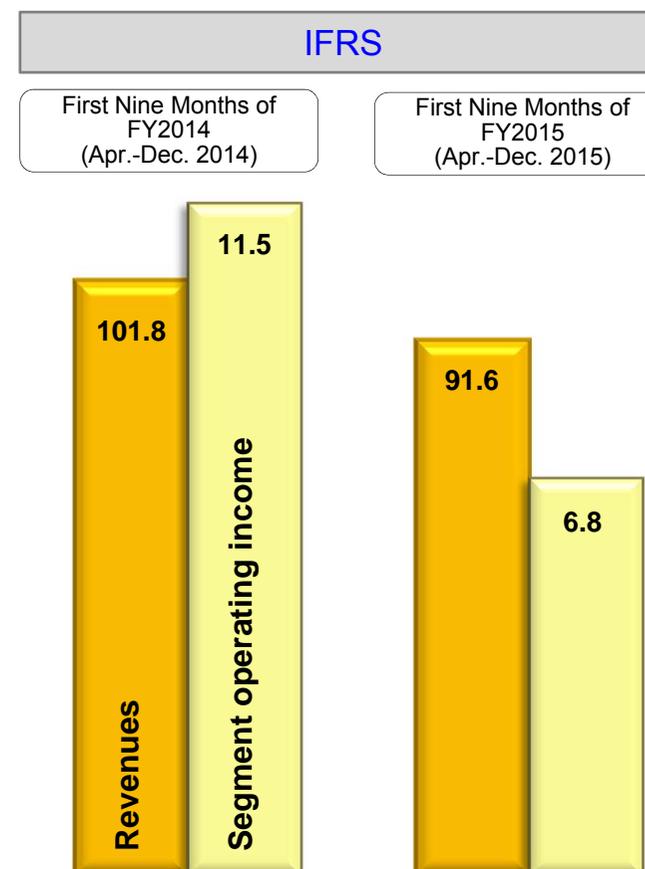
- Rare-earth magnets:
Demand was firm for automotive electronic components for automatic power steering, hybrid vehicles, and other automotive uses, however total sales of rare-earth magnets declined from the same period last year as demand related to industrial machinery and consumer electronics declined.
- Ferrite magnets:
Sales increased on the back of strong demand for automotive electronic components and consumer electronics parts both in Japan and overseas markets.

■ Soft magnetic materials and applied products

Sales of ferrite applied products for components used in solar power generation declined. Sales of ferrite cores also slumped as demand from China slowed.

Sales of FINEMET® declined as a result of the decline in demand for automotive electronic components and cutbacks in the production of air conditioners.

(¥billions)



1-6. Operating Results by Segment: High-Grade Functional Components and Equipment



| (¥billions) Profit margin in brackets | First Nine Months of FY2014 | First Nine Months of FY2015 | Change | Comments |
|--|--------------------------------|--------------------------------|--------|---|
| Revenues | 176.9 | 276.9 | +57% | Substantial increase in revenues in North America from firm demand and the consolidation of Waupaca Foundry, Inc., among other factors. |
| Adjusted operating income | [6.9%] 12.2 | [7.2%] 19.8 | +7.6 | Substantial increase in income from the consolidation of Waupaca Foundry, Inc., among other factors. |
| Segment operating income | [6.0%] 10.6 | [6.7%] 18.5 | +7.9 | |

Overview of Revenues

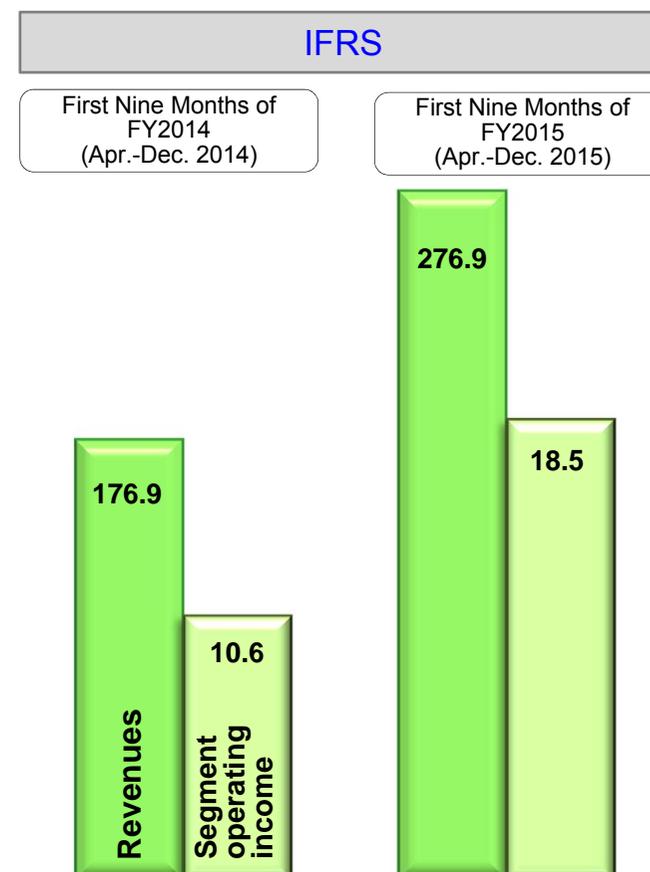
■ Casting components for automobiles

- Cast iron products:
The consolidation of Waupaca Foundry, Inc. resulted in a substantial increase in both sales and income for automotive casting components in general.
- Heat-resistant casting components:
Demand was temporarily stagnant during the first half of the fiscal year, but sales began to increase over the same period last year during the second half as North American market sales grew along with European market sales.
- Aluminum wheels:
Strong sales, mainly in the U.S. resulted in growth over the same period last year.

■ Piping components

- Pipe fittings:
Strong sales in the North American market kept sales on par with the same period last year despite the decline in sales to Japan.
- Stainless steel and plastic piping components:
Sales declined from the same period last year as demand in Japan hit a temporary lull.

(¥billions)



1-7. Operating Results by Segment: Wires, Cables, and Related Products



| (¥billions) Profit margin in brackets | First Nine Months of FY2014 | First Nine Months of FY2015 | Change | Comments |
|--|--------------------------------|--------------------------------|--------|---|
| Revenues | 245.6 | 219.2 | -11% | Demand for information system-related products remained sluggish. |
| Adjusted operating income | [6.4%] 15.7 | [5.2%] 11.5 | -4.2 | |
| Segment operating income | [6.6%] 16.2 | [5.7%] 12.6 | -3.6 | Gain on business transfer posted during the first quarter of fiscal year ended March 31, 2015 (¥3.9 billion). |

Overview of Revenues

■ Electric wires and cables

Revenues decreased as a result of changes made in the company's business portfolio.

Strong growth in sales of wires and cables used in rolling stock, a core area of the Group, were seen, mainly to overseas markets.

Sales of probe cables for medical use were also strong.

■ Automotive products

Sales increased over the same period last year because both electronic components and brake hoses recorded strong sales, supported by brisk demand for automobiles, especially in North America.

■ Information systems

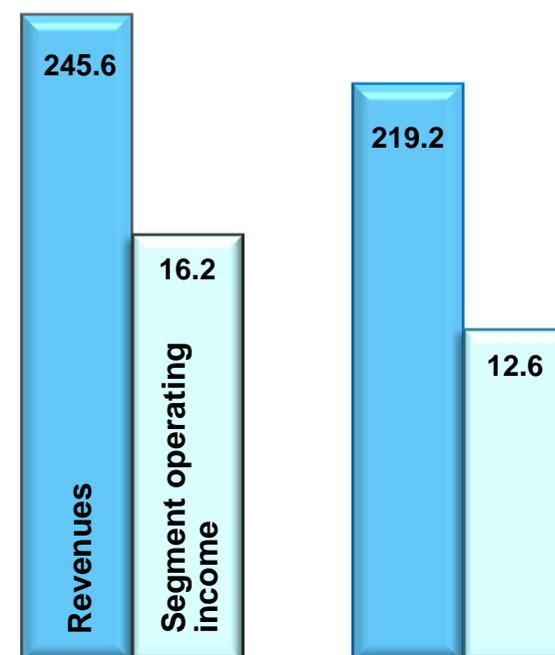
Communications providers continued to refrain from capital spending, causing slow sales of both network products and wireless systems, and resulting in a sales decline from the same period last year.

(¥billions)

IFRS

First Nine Months of
FY2014
(Apr.-Dec. 2014)

First Nine Months of
FY2015
(Apr.-Dec. 2015)



1-8. Assets, Liabilities, and Net Assets

(¥billions)

| Category | March 31, 2015 | December 31, 2015 | Change |
|---|----------------|-------------------|--------------|
| Cash and cash equivalents | 79.0 | 105.7 | +26.7 |
| Trade receivables | 220.5 | 194.6 | -25.9 |
| Inventories | 166.5 | 159.8 | -6.7 |
| Other current assets | 78.7 | 45.8 | -32.9 |
| Non-current assets | 538.8 | 554.3 | +15.5 |
| Total Assets | 1,083.5 | 1,060.2 | -23.3 |
| Interest-bearing debt | 255.4 | 239.4 | -16.0 |
| Trade payables/other | 181.1 | 161.3 | -19.8 |
| Other current liabilities | 170.8 | 145.8 | -25.0 |
| Total Liabilities | 607.3 | 546.5 | -60.8 |
| Equity attributable to shareholders of the parent company | 466.4 | 504.0 | +37.6 |
| Non-controlling interests | 9.8 | 9.7 | -0.1 |
| Total Net Assets | 476.2 | 513.7 | +37.5 |
| (D/E ratio) | 0.55 | 0.48 | -0.07 |

Change in total assets from March 31, 2015: -¥23.3 billion

D/E ratio 0.55 → 0.48

[Assets]

Change from March 31, 2015: -¥23.3 billion

- Decline of ¥6.7 billion due to inventory reduction efforts
- Decline of ¥28.6 billion (in Other current assets) from the sale of shares in the former Hitachi Tool Engineering, Ltd. on April 1, 2015

[Liabilities]

Change from March 31, 2015: -¥60.8 billion

- Improvement in the D/E ratio to 0.48 (-0.07 point) due to repayment of interest-bearing debt
- Decline of ¥10.3 billion (in Other liabilities) from the sale of shares in the former Hitachi Tool Engineering, Ltd. on April 1, 2015.

[Net Assets]

Change from March 31, 2015: +¥37.5 billion

1-9. Consolidated Cash Flows

(¥billions)

| Category | First Nine Months of FY2014 | First Nine Months of FY2015 | Increase (Decrease) |
|--|-----------------------------|-----------------------------|---------------------|
| Net income for the first nine months | 48.7 | 56.0 | +7.3 |
| Depreciation and amortization | 27.9 | 32.1 | +4.2 |
| Increase in operating capital | 0.0 | 6.9 | +6.9 |
| Other | (13.9) | (32.0) | -18.1 |
| Cash flows from operating activities | 62.7 | 63.0 | +0.3 |
| Purchase of property, plant, and equipment | (31.3) | (43.1) | -11.8 |
| Other | (77.4) | 34.0 | +111.4 |
| Cash flows from investing activities | (108.7) | (9.1) | +99.6 |
| Free cash flow | (46.0) | 53.9 | +99.9 |
| Increase (decrease) in debt and bonds | 28.0 | (14.1) | -42.1 |
| Dividend payments, etc. | (9.1) | (11.5) | -2.4 |
| Cash flows from financing activities | 18.9 | (25.6) | -44.5 |
| Effect of in exchange rates changes | 6.7 | (1.7) | -8.4 |
| Increase (decrease) in cash and cash equivalents | (20.4) | 26.7 | +47.1 |
| Cash and cash equivalents at the end of period | 72.5 | 105.7 | +33.2 |

[Cash flows from operating activities]

Net cash provided by operating activities increased by ¥0.3 billion over the same period last year. This was mainly attributable to a substantial increase in net income during the first three quarters.

[Cash flows from investing activities]

Net cash expenditures for investing activities during the fiscal year ending March 2016 improved by ¥99.6 billion from the same period last year. This was attributable to a cash inflow derived mainly from a ¥27.0 billion gain on the sale of shares in the former Hitachi Tool Engineering, Ltd. compared to the large cash expenditure for the acquisition of shares in Waupaca Foundry, Inc. during the fiscal year ended March 2015, and despite an increase in expenditures for capital investment aimed at strengthening the growth base in the fiscal year ending March 2016 .

[Cash flows from financing activities]

An increase in dividend payments during the fiscal year ending March 2016, compared to the funds procured for the acquisition of shares in Waupaca Foundry, Inc. in the fiscal year ended March 2015 resulted in a decline of cash inflow for financing activities of ¥44.5 billion compared to the same period last year.

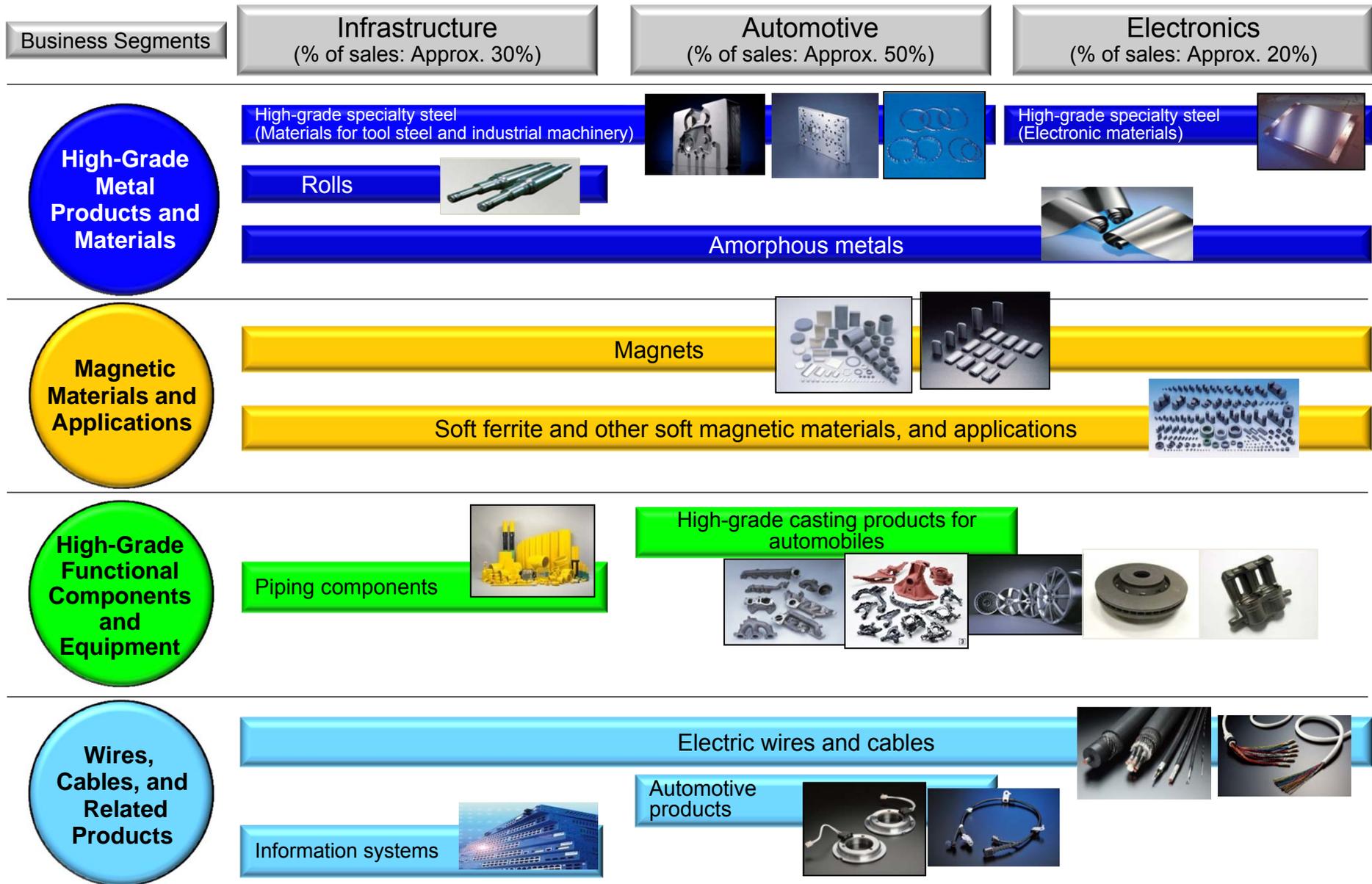
1-10. Results Forecast by Segment for Fiscal Year Ending March 2016

(¥billions)

| | | 3Q FY2015 Business Performance US\$1=121.50 | First Nine Months of FY2015 Business Performance (A) US\$1=121.70 | FY2015 Forecast (B) US\$1=121.00 | (B)-(A) |
|---|---------------------------|--|--|---|--------------|
| High-Grade Metal Products and Materials | Revenues | 58.8 | 183.1 | 248.0 | 64.9 |
| | Adjusted operating income | 6.8 | 20.4 | 28.6 | 8.2 |
| Magnetic Materials and Applications | Revenues | 29.2 | 91.6 | 122.0 | 30.4 |
| | Adjusted operating income | 1.9 | 6.9 | 10.8 | 3.9 |
| High-Grade Functional Components and Equipment | Revenues | 87.9 | 276.9 | 369.0 | 92.1 |
| | Adjusted operating income | 6.1 | 19.8 | 28.5 | 8.7 |
| Wires, Cables, and Related Products | Revenues | 71.6 | 219.2 | 299.0 | 7.98 |
| | Adjusted operating income | 4.3 | 11.5 | 16.5 | 5.0 |
| Other Businesses and Adjustments | Revenues | 0.4 | 2.1 | 2.0 | -0.1 |
| | Adjusted operating income | (1.1) | (4.4) | (7.4) | -3.0 |
| Total | Revenues | 247.9 | 772.9 | 1,040.0 | 267.1 |
| | Adjusted operating income | 18.0 | 54.2 | 77.0 | 22.8 |

There is no change to the figures in the operating forecast for the fiscal year ending March that was announced on October 27, 2015.

(Reference) Business Operations by Market



(Reference) Hitachi Metals: Description of Business Segments

| Business Segments | | Principal Products | |
|--|--|---|---|
|  <p>High-Grade Metal Products and Materials</p> | High-Grade Metals Company | Specialty steel | YSS™ brand high-grade specialty steel products: Molds and tool steel, alloys for electronic products [display-related materials and semiconductor and other packaging materials], materials for industrial equipment [automobile-, aircraft-, and energy-related materials], razor and blade materials, precision cast components |
| | | Rolls | Rolls for steel mills Injection molding machine parts Structural ceramic products Steel-frame joints for construction |
| | | Amorphous metals | Metglas® amorphous metals |
|  <p>Magnetic Materials and Applications</p> | Magnetic Materials Company | Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) Soft magnetic materials (soft ferrite; FINEMET® nanocrystalline magnetic material and applied products; and Metglas® amorphous metals) and applied products Materials and components for IT devices Materials and components for medical equipment | |
|  <p>High-Grade Functional Components and Equipment</p> | High-Grade Functional Components Company | Casting components for automobiles | Casting components for automobiles (HNM™ high-grade ductile cast iron products, cast iron products for transportation equipment, and HERCUNITE™ heat-resistant exhaust casting components) SCUBA™ aluminum wheels and other aluminum components Forged components for automobiles |
| | | Piping components | Piping and infrastructure components (Gourd™ Gourd brand pipe fittings, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices, and sealed expansion tanks) |
|  <p>Wires, Cables, and Related Products</p> | Cable Materials Company | Electric wires and cables (electric power and industrial systems, electronic and telecommunication materials, electric equipment materials, and industrial rubber products) Automotive products (electronic components and brake hoses) Information systems (information networks and wireless systems) | |

This document contains forward-looking statements—such as results forecasts and management plans—that are not historical facts. All such forward-looking statements are based upon all available information and upon assumptions and projections that were deemed rational at the time the Company prepared this document. Changes to the underlying assumptions or circumstances could cause the actual results to differ substantially. The factors causing such differences include, but are not limited to, the following:

- Changes in economic conditions and regulations in the main markets where the Company operates, particularly Japan, the United States, Asia and Europe
- Sudden changes in technological trends
- Changes in competitive advantage and the capabilities of the Company and its subsidiaries and affiliates to develop and commercialize new products and businesses
- Fluctuations in the status of product markets, exchange rates and international commodity markets
- Changes in financing environments
- The capability of the Company and its subsidiaries and affiliates to cope with fluctuations in product supply and demand, the status of product markets, exchange rates and international commodity markets
- Protection of the Company's intellectual property, and securing of licenses to use the intellectual property of other parties
- Changes in the status of alliances with other parties for product development, etc.
- Fluctuations in the Japanese stock markets