

Hitachi Metals

Financial Results for the First Three Months of Fiscal Year 2018

(April 1, 2018 to June 30, 2018)

July 26, 2018

1. Overview of the First Three Months of Fiscal Year 2018

Trend in demand

The global economy remained on a modest rebound track primarily in advanced countries. The Japanese economy continued to recover gradually as a result of the improvement in the employment and income environment with increasing exports and capital investment supported by a steady recovery of the global economy.

- **New vehicle sales in the United States showed signs of recovery; sales in Europe and China also grew, while sales decreased in Japan compared with the same period of FY2017.**
- **Industrial infrastructure-related demand for steel products increased mainly in the manufacturing sector, including automobiles and industrial machinery.**
Housing starts were flat in Japan but increased in the United States.
- **In the electronics field, smartphone shipments are on a decreasing trend.**

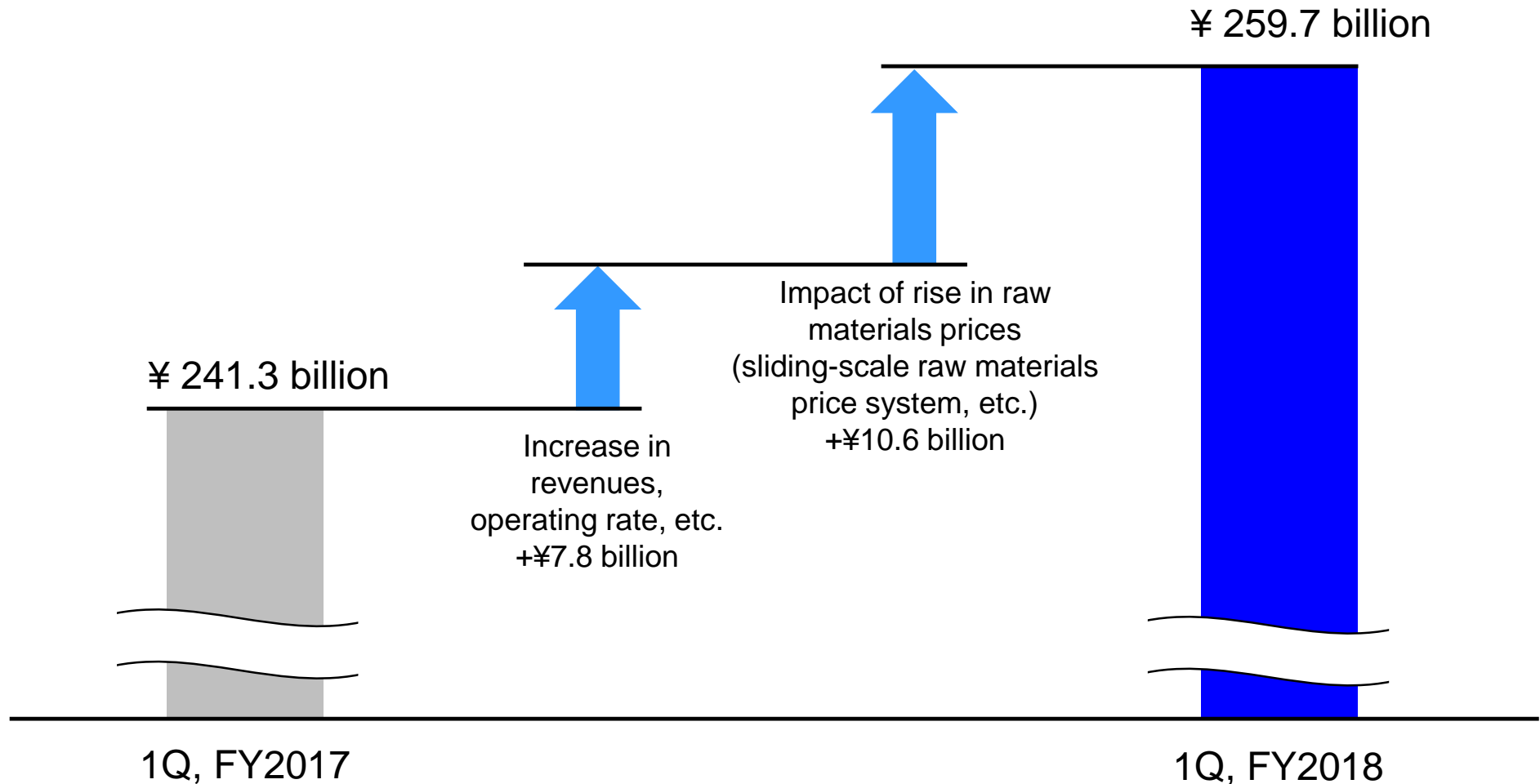
2. Operating Results for the First Quarter of Fiscal Year 2018

(¥ billions) Profit margin in brackets+B2:H11	1Q, FY2017 Actual US\$1 = ¥111 1 euro = ¥122 1 yuan = ¥16.2	1Q, FY2018 Actual US\$1 = ¥109 1 euro = ¥130 1 yuan = ¥17.1	Year-on- Year	Supplementary Note
Revenues	241.3	259.7	+8%	Increase in revenues, influenced mainly by a rise in raw materials prices (sliding-scale raw materials price system, etc.) and an increase in demand for mainstay products.
Adjusted operating income ^{*1}	[7.3%] 17.7	[6.2%] 16.0	-1.7	Decrease due in part to cost increase following aggressive investment, despite an increase in profits owing to a rise in revenues as well as the effects of cost reduction measures.
Other income	0.8	6.8	+6.0	Recorded gain on bargain purchase, etc. generated from making Santoku a consolidated subsidiary of the Company on April 2, 2018.
Other expenses	-1.4	-2.2	-0.8	
IFRS operating income	[7.1%] 17.1	[7.9%] 20.6	+3.5	
EBIT	18.6	21.9	+3.3	
Income before income taxes	18.1	21.4	+3.3	
Income taxes	-4.2	-4.4	-0.2	
Net income attributable to shareholders of the parent company	13.9	17.0	+3.1	
Overseas sales ratio ^{*2}	58%	57%	-1%	

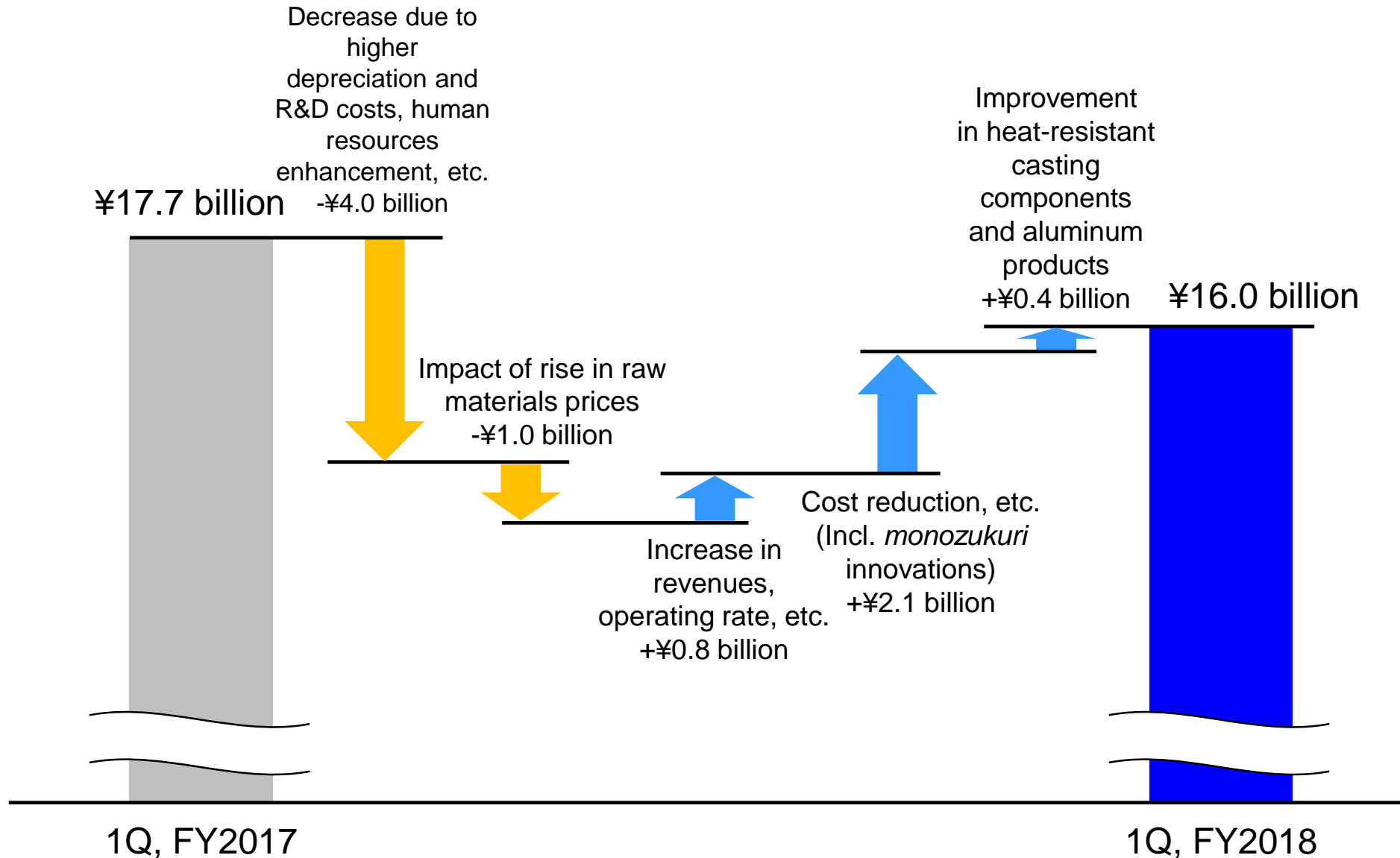
*1 Adjusted operating income: (Revenues) – (Sales Cost) – (Selling, General, & Administrative expenses)

*2 Overseas sales by region: 1Q, FY2018: North America, 31%; China, 8%; Asia (exc. China), 12%; Europe, 5%; Others, 1%
1Q, FY2017: North America, 32%; China, 7%; Asia (exc. China), 13%; Europe, 5%; Others, 1%

3. Factors Behind Increase/Decrease in Revenues (Year-on-Year)



4. Factors Behind Increase/Decrease in Adjusted Operating Income (Year-on-Year)



5. Operating Results by Segment for the First Quarter of Fiscal Year 2018

(¥ billions) Profit margin in brackets		1Q, FY2017 Actual US\$1 = ¥111 1 euro = ¥122 1 yuan = ¥16.2		1Q, FY2018 Actual US\$1 = ¥109 1 euro = ¥130 1 yuan = ¥17.1		Year-on-Year
Specialty Steel Products	Revenues		70.6		76.4	+8%
	Adjusted operating income	[10.8%]	7.6	[9.8%]	7.5	-0.1
	Operating income of the segment	[10.6%]	7.5	[9.9%]	7.6	+0.1
Magnetic Materials and Applications	Revenues		25.3		29.3	+16%
	Adjusted operating income	[7.9%]	2.0	[2.7%]	0.8	-1.2
	Operating income of the segment	[8.3%]	2.1	[21.8%]	6.4	+4.3
Functional Components and Equipment	Revenues		91.2		93.7	+3%
	Adjusted operating income	[4.3%]	3.9	[3.5%]	3.3	-0.6
	Operating income of the segment	[3.9%]	3.6	[2.7%]	2.5	-1.1
Wires, Cables, and Related Products	Revenues		53.8		60.0	+12%
	Adjusted operating income	[6.3%]	3.4	[6.0%]	3.6	+0.2
	Operating income of the segment	[5.9%]	3.2	[5.2%]	3.1	-0.1
Others/ Adjustments	Revenues		0.4		0.3	—
	Adjusted operating income		0.8		0.8	+0.0
	Operating income of the segment		0.7		1.0	+0.3
Total	Revenues		241.3		259.7	+8%
	Adjusted operating income	[7.3%]	17.7	[6.2%]	16.0	-1.7
	IFRS operating income	[7.1%]	17.1	[7.9%]	20.6	+3.5

As of July 1, 2017, the segment classification to which SH Copper Products Co., Ltd., a consolidated subsidiary, and another company belonged, was changed from "Wires, Cables, and Related Products" to "Specialty Steel Products." Due to this, the figures of 1Q in FY2017 have been restated in line with the new segment classification.

6. Operating Results by Segment: Specialty Steel Products (1)

Overall Summary

[Revenues]

Revenues increased, reflecting an increase in demand for specialty steel and rolls, in addition to the impact of rising raw materials prices (sliding-scale raw materials price system).

[Adjusted operating income]

Although revenues increased, income was flat year on year mainly due to a rise in costs owing to aggressive investment and a rise in raw materials prices.

Overview by Product

[Specialty steel]

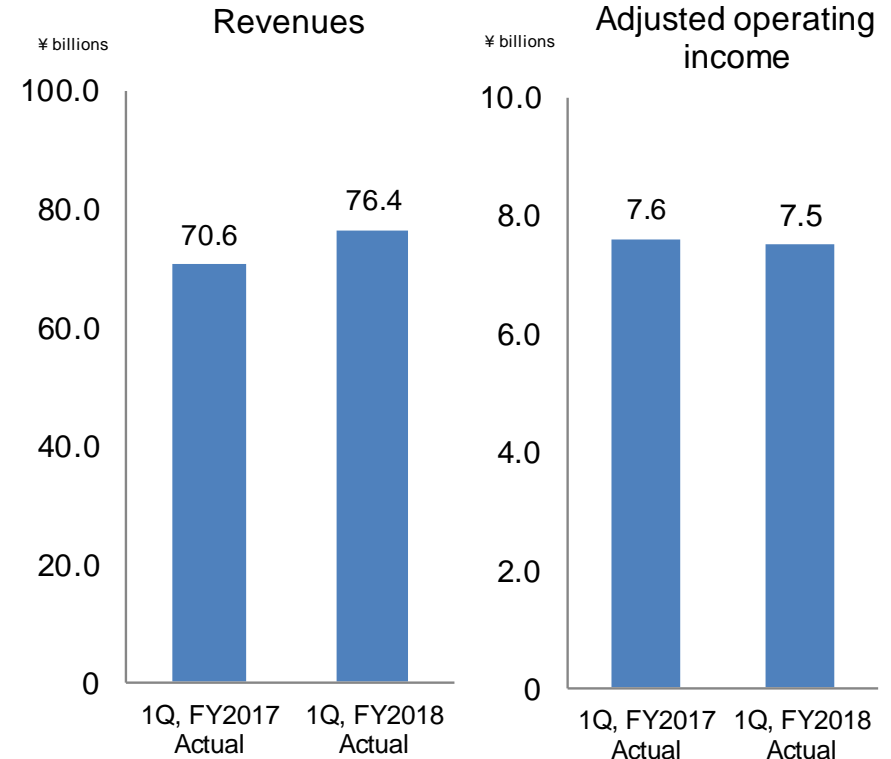
- **Molds and tool steel:** Sales increased year on year due to solid demand mainly in Japan.
- **Industrial equipment materials:** Sales increased year on year due to an increase in sales of environment-conscious products related to automobiles.
- **Alloys for electronic products:** Sales of battery materials and organic EL panel-related components increased. Sales of semiconductor package components were also strong, leading to a year-on-year increase in sales as a whole.
- **Aircraft-related and energy-related materials:** Sales increased year on year as a whole due to an increase in sales of aircraft-related materials, despite stagnant sales of energy-related materials.

[Rolls]

Both domestic and export sales of various rolls were strong. Sales of injection molding machine parts increased due to high capital investment-related demand. Steel-frame joints for construction were also strong, resulting in a year-on-year increase in sales of rolls as a whole.

[Soft magnetic components and materials]

Although demand for amorphous metals was stagnated, sales of applied products were firm due to increased demand for automobiles. Sales of soft magnetic components and materials increased year on year as a whole.



As of July 1, 2017, the segment classification to which SH Copper Products Co., Ltd., a consolidated subsidiary, and another company belonged, was changed from "Wires, Cables, and Related Products" to "Specialty Steel Products." Due to this, the figures of 1Q in FY2017 have been restated in line with the new segment classification.

7. Operating Results by Segment: Specialty Steel Products (2)

(¥ billions)		1Q, FY2017 Actual US\$1 = ¥111 1 euro = ¥122 1 yuan = ¥16.2	1Q, FY2018 Actual US\$1 = ¥109 1 euro = ¥130 1 yuan = ¥17.1	Year-on- Year
Specialty Steel Products	Revenues	70.6	76.4	+8%
	Specialty steel [⊙]	58.9	63.4	+8%
	Molds and tool steel [□]			+8%
	Industrial equipment materials [□]			+7%
	Aircraft-related and energy-related materials [□]			+13%
	Alloys for electronic products [□]			+9%
	Rolls [⊙]	5.1	6.1	+20%
	Soft magnetic components and materials [⊙]	6.6	6.9	+5%
	Adjusted operating income	7.6	7.5	-0.1
	Adjusted operating margin	10.8%	9.8%	-1.0%
Operating income of the segment	7.5	7.6	+0.1	

⊙ Simple sum before eliminating intersegment revenues

□ Indicates the change in revenues calculated by a simplified method

8. Operating Results by Segment: Magnetic Materials and Applications (1)

■ Overall Summary

[Revenues]

Revenues increased, reflecting the effects of making Santoku a consolidated subsidiary, in addition to strong demand for both rare earth magnets and ferrite magnets.

[Adjusted operating income]

Adjusted operating income decreased mainly on the back of aggressive investment and an increase in costs due to fluctuations in raw material prices.

[Operating income of the segment]

Segment income increased due in part to gain on bargain purchase generated from making Santoku a consolidated subsidiary.

■ Overview by Product

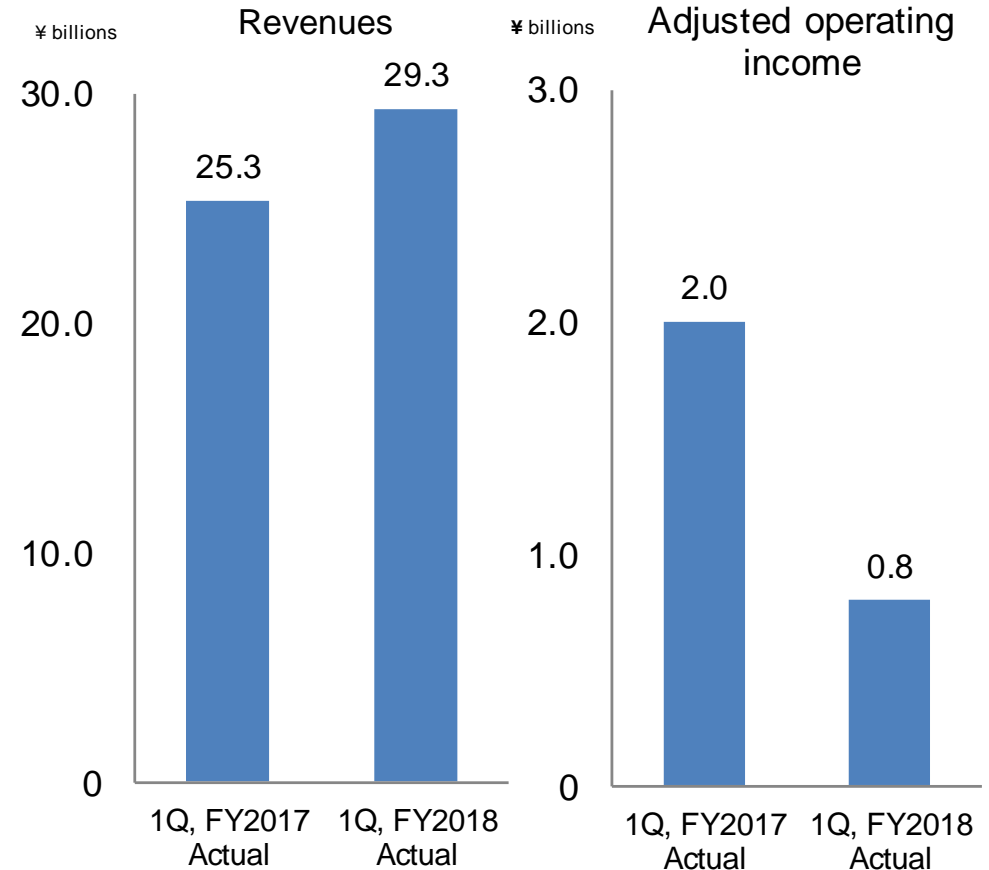
[Rare earth magnets]

Demand for automotive electronic components mainly for electric power steering and hybrid/electric automobiles was solid.

Sales of industrial equipment also grew, supported by increased demand for robots, semiconductors, and other capital investment-related products. Sales of electronics-related products decreased. Compounded with the effect of making Santoku a consolidated subsidiary, sales increased year on year as a whole.

[Ferrite magnets]

Sales increased year on year due to strong demand for automotive electronic components, reflecting increased automobile production, despite a partial decrease in foreign demand for household appliance parts.



9. Operating Results by Segment: Magnetic Materials and Applications (2)

(¥ billions)		1Q, FY2017 Actual US\$1 = ¥111 1 euro = ¥122 1 yuan = ¥16.2	1Q, FY2018 Actual US\$1 = ¥109 1 euro = ¥130 1 yuan = ¥17.1	Year-on- Year
Magnetic Materials and Applications	Revenues	25.3	29.3	+16%
	Rare earth magnets (weight)			-1%
	Ferrite magnets (weight)			-4%
	Adjusted operating income	2.0	0.8	-1.2
	Adjusted operating margin	7.9%	2.7%	-5.2%
	Operating income of the segment	2.1	6.4	+4.3

10. Operating Results by Segment: Functional Components and Equipment (1)

■ Overall Summary

[Revenues]

Revenues increased due to increased demand for cast iron products as well as a rise in raw materials prices (a sliding-scale raw materials price system).

[Adjusted operating income]

Income decreased due to special bonus payments at Waupaca (U.S.) and sluggish demand for aluminum wheels.

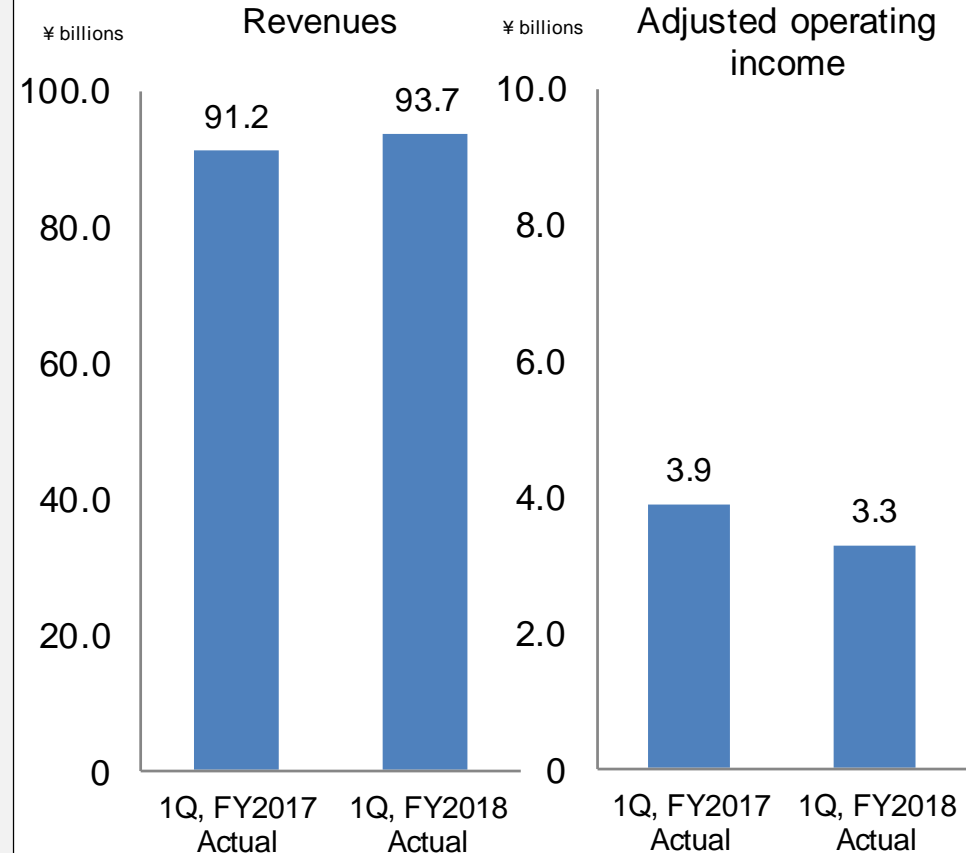
■ Overview by Product

[Casting components for automobiles]

- Cast iron products:
[North America] Demand for commercial vehicles, farm machinery, and construction machinery increased.
[Asia] Sales increased due to increased demand for automobiles. Sales increased year on year as a whole.
- Heat-resistant casting components: Sales increased year on year due to an increase in sales in the Asian and Japanese markets amid business structure reforms such as productivity improvement activities, the correction of sale prices and adjustment of production volumes to improve revenues.
- Aluminum wheels: Business structure reforms are currently under way to address rapid deterioration of performance since 2Q in FY2017. As a result, sales improved compared to 4Q in FY2017 but declined compared to 1Q in FY2017.

[Piping components]

Sales of piping components as a whole decreased year on year.
[Pipe fittings] Although demand decreased temporarily in Japan due to price revisions, sales were flat year on year as a whole, supported by an increase in housing starts in the United States.
[Other] Sales of semiconductor manufacturing equipment decreased year on year due to the delay of some capital investment projects.



11. Operating Results by Segment: Functional Components and Equipment (2)

(¥ billions)		1Q, FY2017 Actual US\$1 = ¥111 1 euro = ¥122 1 yuan = ¥16.2	1Q, FY2018 Actual US\$1 = ¥109 1 euro = ¥130 1 yuan = ¥17.1	Year-on- Year
Functional Components and Equipment	Revenues	91.2	93.7	+3%
	Casting components for automobiles [©]	79.0	82.0	+4%
	Cast iron products (weight)			+1%
	Heat-resistant casting components (HERCUNITE™) (weight)			+1%
	Aluminum wheels (number)			-9%
	Piping components [©]	12.3	11.6	-6%
	Adjusted operating income	3.9	3.3	-0.6
	Adjusted operating margin	4.3%	3.5%	-0.8%
	Operating income of the segment	3.6	2.5	-1.1

© Simple sum before eliminating intersegment revenues

12. Operating Results by Segment: Wires, Cables, and Related Products (1)

■ Overall Summary

[Revenues, adjusted operating income]

Both revenues and income increased, reflecting a rise in raw materials prices (sliding-scale raw materials price system) and an increase in focus sectors.

■ Overview by Product

[Electric wires and cables]

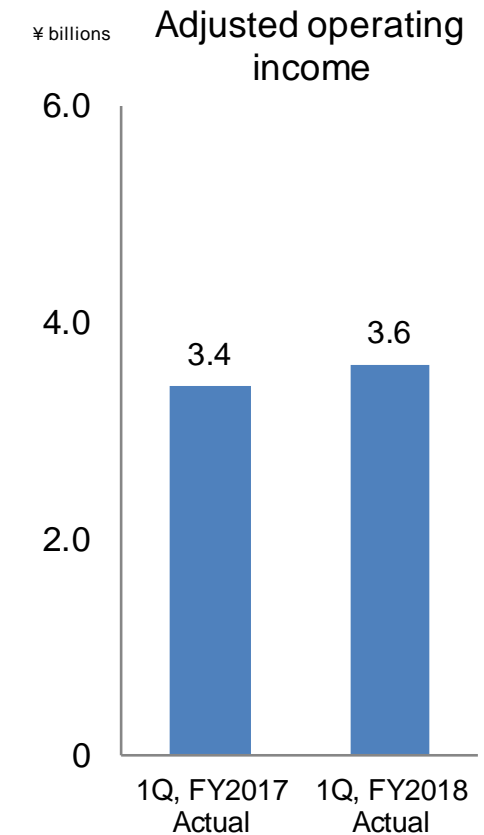
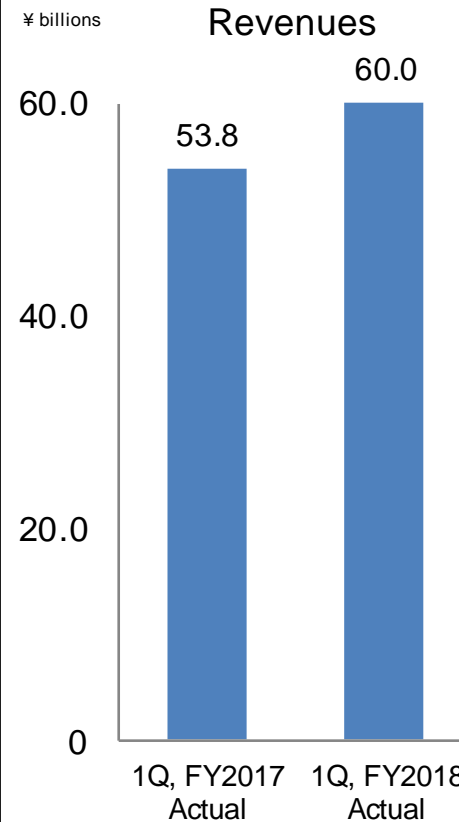
Sales increased year on year as a whole.

- [Wires and cables for rolling stock] Sales grew significantly, mainly in China.
- [Electric wires for devices] Sales of products for FA/robots increased, among others.
- [Magnet wires] Sales were firm, mainly in products for automobiles.

[High performance components]

Sales increased year on year as a whole.

- [Automotive products] Demand for various sensors, harnesses for electric parking brakes and hybrid automobiles increased, and demand for brake hoses was also solid.
- [Products for medical use] Sales of both probe cables and tubes increased year on year, supported by firm demand.



As of July 1, 2017, the segment classification to which SH Copper Products Co., Ltd., a consolidated subsidiary, and another company belonged, was changed from "Wires, Cables, and Related Products" to "Specialty Steel Products." Due to this, the figures of 1Q in FY2017 have been restated in line with the new segment classification.

13. Operating Results by Segment: Wires, Cables, and Related Products (2)

(¥ billions)		1Q, FY2017 Actual US\$1 = ¥111 1 euro = ¥122 1 yuan = ¥16.2	1Q, FY2018 Actual US\$1 = ¥109 1 euro = ¥130 1 yuan = ¥17.1	Year-on- Year
Wires, Cables, and Related Products	Revenues	53.8	60.0	+12%
	Focus sectors			
	Rolling stocks [□]			+15%
	Medical devices [□]			+4%
	Automotive electronic components [□]			+15%
	FA, robots [□]			+51%
	Magnet wires [□]			+13%
	Adjusted operating income	3.4	3.6	+0.2
	Adjusted operating margin	6.3%	6.0%	-0.3%
Operating income of the segment	3.2	3.1	-0.1	

□ Indicates the change in revenues calculated by a simplified method

14. Assets, Liabilities, and Net Assets

(¥ billions)	March 31, 2018 US\$1 = ¥106 1 euro = ¥131 1 yuan = ¥16.9	June 30, 2018 US\$1 = ¥111 1 euro = ¥128 1 yuan = ¥16.7	Change
Total assets	1,058.8	1,092.5	+33.7
Trade receivables and inventories	397.8	427.1	+29.3
Total liabilities	488.6	504.3	+15.7
Interest-bearing debt	160.8	183.4	+22.6
Equity attributable to shareholders of the parent company	562.7	580.4	+17.7
Non-controlling interests	7.5	7.8	+0.3
Equity attributable to shareholders of the parent company ratio	53.1%	53.1%	+0.0%
D/E ratio (times)	0.29	0.32	+0.03

- [Assets]** Change from March 2018: +¥33.7 billion ⇒ Increase in trade receivables, inventories, and property, plant and equipment, etc.
- [Liabilities]** Change from March 2018: +¥15.7 billion ⇒ Increase in short-term debt, etc.
- [D/E ratio]** Change from March 2018: Rose by 0.03 points

15. Consolidated Cash Flows

(¥ billions)	1Q, FY2017 Actual	1Q, FY2018 Actual	Year-on-Year
Cash flows from operating activities	2.6	10.8	+8.2
Cash flows from investing activities	-16.8	-29.4	-12.6
Free cash flows	-14.2	-18.6	-4.4
Core free cash flows*	-15.1	-19.8	-4.7

[Cash flows from operating activities]

An increase in net income and decreases in trade receivables and accounts receivable - other resulted in a net cash inflow ¥8.2 billion higher than 1Q in FY2017.

[Cash flows from investing activities]

Cash used in investing activities increased by ¥12.6 billion compared to 1Q in FY2017 due in part to the increase in purchases of property, plant and equipment (1Q, FY2017: ¥17.5 billion → 1Q, FY2018: ¥30.3 billion).

[Free cash flows]

Decreased by ¥4.4 billion compared to 1Q in FY2017 due to an increase in investing activities.

*Core free cash flows: (Cash flows from operating activities) – (Capital expenditure)

Reference Data (1)

(¥ billions)	FY2016 Actual	FY2017 Actual	1Q, FY2017 Actual	1Q, FY2018 Actual	FY2018 Forecast
	US\$1 = ¥108 1 euro = ¥119 1 yuan = ¥16.1	US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	US\$1 = ¥111 1 euro = ¥122 1 yuan = ¥16.2	US\$1 = ¥109 1 euro = ¥130 1 yuan = ¥17.1	US\$1 = ¥105
Revenues	910.5	988.3	241.3	259.7	1,020.0
Adjusted operating income	66.0	65.1	17.7	16.0	73.0
Adjusted operating margin	7.2%	6.6%	7.3%	6.2%	7.2%
Other income	14.1	5.4	0.8	6.8	
Other expenses	-11.8	-24.2	-1.4	-2.2	
IFRS operating income	68.3	46.3	17.1	20.6	
EBIT	68.5	48.9	18.6	21.9	67.0
Income before income taxes	66.0	47.0	18.1	21.4	64.5
Net income attributable to shareholders of the parent company	50.6	42.2	13.9	17.0	48.0
Interest-bearing debt	194.5	160.8	193.4	183.4	
Capital expenditure	63.8	91.8	15.2	22.7	100.0
Depreciation	43.0	46.1	11.3	12.2	55.0
R&D expenses	18.0	17.7	3.9	4.5	21.0
D/E ratio (times)	0.36	0.29	0.35	0.32	0.35
Earnings per share(Basic) (yen)	118.32	98.72	32.49	39.82	112.26
Dividend per share (yen)	26.0	26.0			26.0
Parent company shareholder equity per share (yen)	1,254.9	1,316.1	1,276.3	1,357.4	1,408.5
Employees	28,754	30,390	29,606	31,086	31,300
ROE* ¹	9.4%	7.5%			8.3%
ROA* ²	4.9%	4.0%			4.5%
Overseas sales ratio	56%	56%	58%	57%	54%

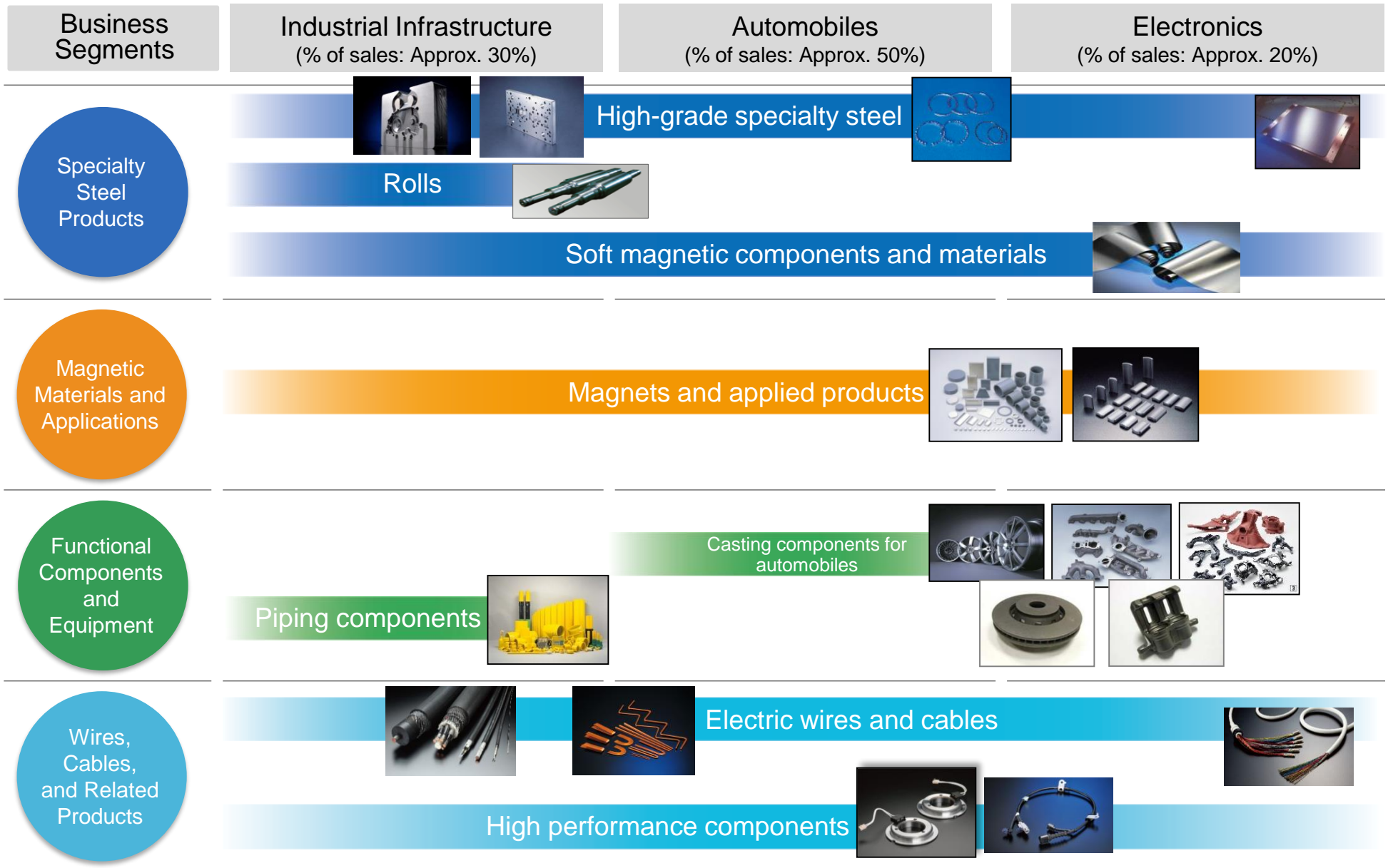
*1 Return on equity of shareholders of the parent company (ROE) = Net income attributable to shareholders of the parent company / Term-end equity of shareholders of the parent company x 100

*2 Return on total assets (ROA) = Net income attributable to shareholders of the parent company / Term-end total assets x 100

Major products' volume trends (weight basis)


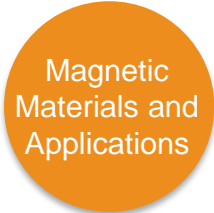


Product		1Q, FY2018 actual vs. 1Q, FY2017 actual
Specialty Steel Products	Molds and tool steel	-1%
	CVT belt materials	+8%
	Piston ring materials	+2%
	Organic EL-related components	+102%
Magnetic Materials and Applications	Rare earth magnets	-1%
Functional Components and Equipment	Cast iron products	+1%
	Heat-resistant casting components (HERCUNITE™)	+1%
	Aluminum wheels (number)	-9%

(For reference) Business Operations by Market



(For reference) Hitachi Metals: Description of Business Segments (October 1, 2017 onward)

■ Business Operations

Business segments	Business	Principal Products
 <p>Specialty Steel Products</p>	Specialty Steel Company	
	Specialty steel	YASUGI SPECIALTY STEEL brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials, semiconductor and other package materials, and battery-related materials], materials for industrial equipment [automobile-related materials, and razor blade materials], aircraft- and energy-related materials, and precision cast components)
	Rolls	Rolls for steel mills, structural ceramic products, injection molding machine parts, and steel-frame joints for construction
	Soft magnetic components and materials	Soft magnetic materials (Metglas® amorphous metals; FINEMET® nanocrystalline magnetic materials; and soft ferrite) and applied products
 <p>Magnetic Materials and Applications</p>	Magnets and applied products	Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products), ceramic components
 <p>Functional Components and Equipment</p>	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) and SCUBA™ aluminum wheels and other aluminum components
	Piping components	Piping and infrastructure components (Gourd™ Gourd brand pipe fittings and valves, 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	Industrial cables, electronic wires, electric equipment materials, and industrial rubber products
	High performance components	Cable assemblies, automotive electronic components, and brake hoses

This document contains forward-looking statements, such as results forecasts, management plans and dividend forecasts, that are not historical facts.

All such forward-looking statements are based upon all available information and upon assumptions and projections that were deemed reasonable 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 Americas, 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 technologies**
- **Fluctuations in the status of product markets, exchange rates and international commodity markets**
- **Changes in the financing environment**
- **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 Japanese stock markets**