

Hitachi Metals

Financial Results for the First Three Months of Fiscal Year 2016 (April 1, 2016 to June 30, 2016)

July 28, 2016

1-1. Overview of the First Three Months of Fiscal Year 2016

Trend in demand

Although the global economy remained on a mild recovery trend, uncertainty over the outlook increased by the end of the period due to the impact of Brexit.

In Japan, the impact of the rapid yen appreciation and sluggish external demand continued to be sources of concern.

- Automobile demand was robust in the U.S. and China, while Japan saw a year-on-year drop, mainly for subcompact cars.
- Industrial infrastructure-related demand for steel products was sluggish, while the supply and demand balance remained relaxed due to a high level of exports from China. Housing starts in the U.S. and Japan saw an increase.
- Demand for magnetic materials and applications as well as information systems-related demand remained sluggish.

1-2. Overview of the First Quarter of Fiscal Year 2016

IFRS

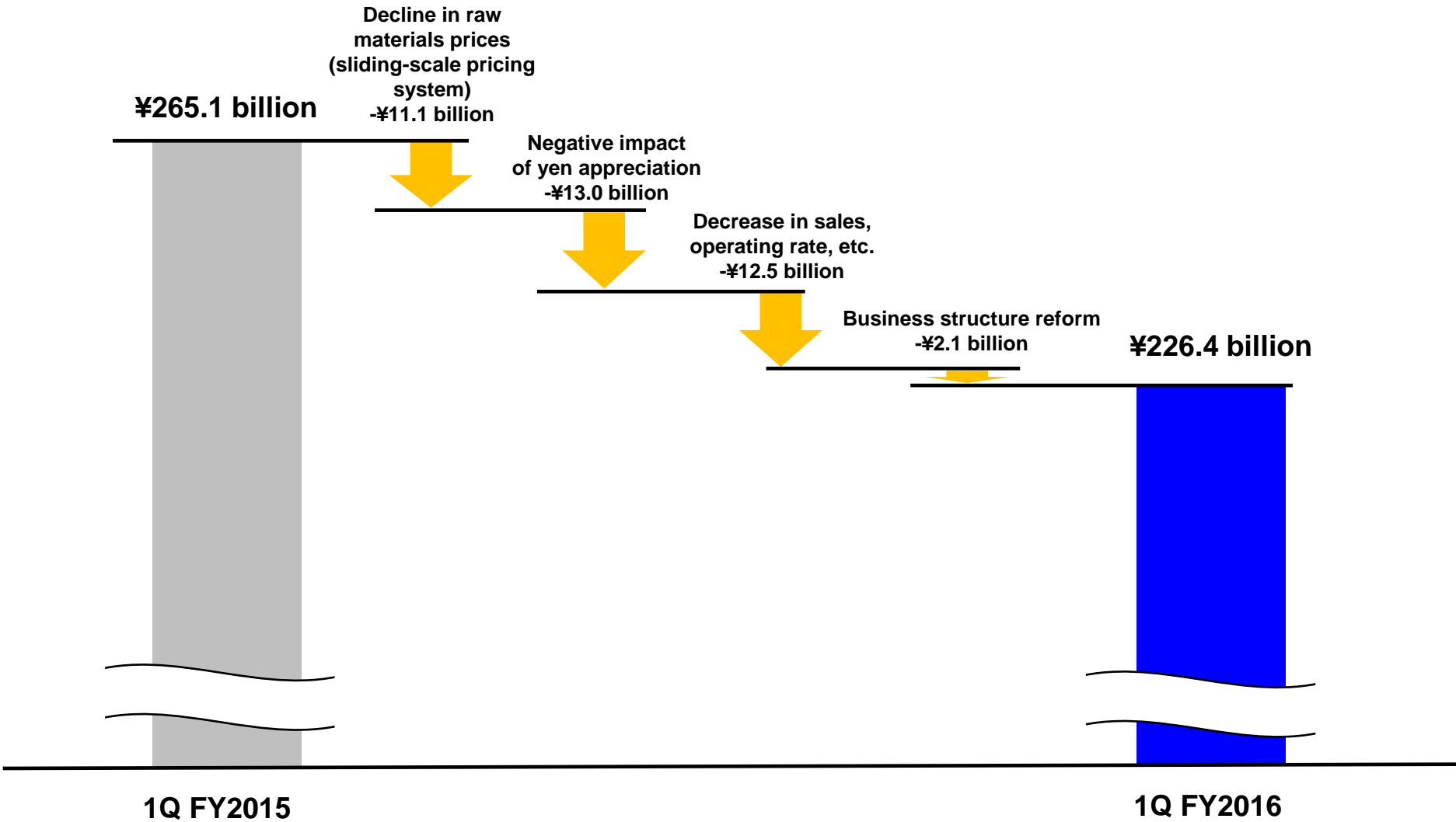
(¥billions)	Profit margin in brackets	1Q, FY2015 Business Performance 1\$=¥121.36	1Q, FY2016 Business Performance 1\$=¥108.14	Change	Progress against forecast for 1H, FY2016	
Revenues		265.1	226.4	-15%	49%	Decrease in revenues from a drop in raw materials prices (sliding-scale pricing system), yen appreciation, slowdown in demand, etc.
Adjusted operating income	[7.5%]	19.8	[7.2%] 16.3	(3.5)	48%	Decrease in income from yen appreciation and slowdown in demand, despite positive effects from cost reductions.
Other income		30.3	1.3	(29.0)		Income of ¥29.1 billion from business restructuring posted in 1Q, FY2015.
Other expenses		(1.4)	(2.3)	(0.9)		
Operating income	[18.4%]	48.7	[6.8%] 15.3	(33.4)	51%	
Interest and other financial income		0.8	(2.9)	(3.7)		-¥2.4 billion in foreign exchange loss.
Income before income taxes		49.5	12.4	(37.1)	44%	
Income taxes		(14.1)	(2.8)	+11.3		
Net income		35.4	9.6	(25.8)		
Net income attributable to owners of the parent company		35.2	9.5	(25.7)	50%	
Overseas markets' share of revenues*1		57%	56%	-1%		
Employees		29,342	28,926	-416		

*1 Overseas revenues by region:

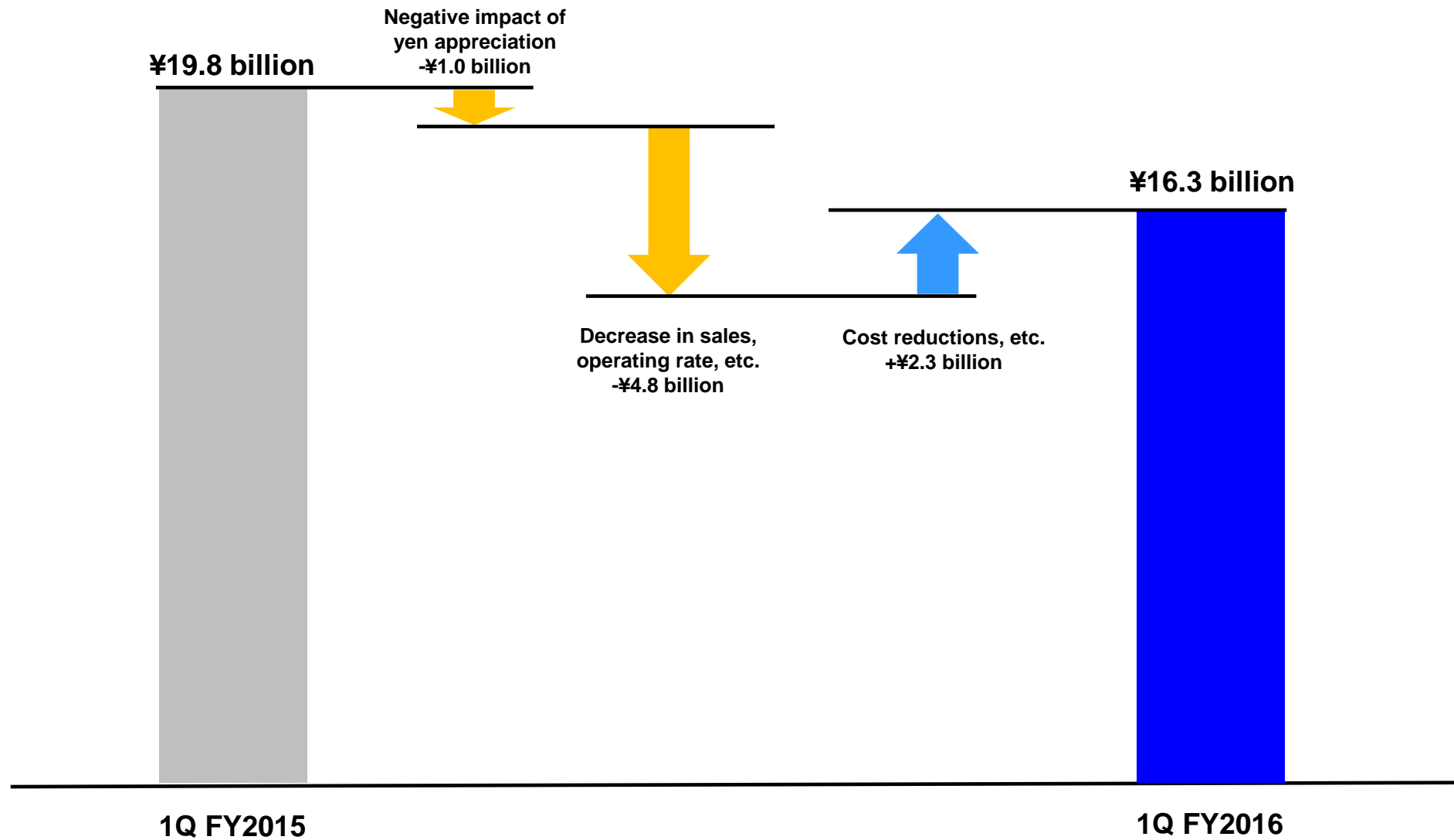
1Q, FY2015: North America, 31%; China, 8%; Asia (exc. China), 12%; Europe, 4%; Other, 2%

1Q, FY2016: North America, 31%; China, 7%; Asia (exc. China), 11%; Europe, 5%; Other, 2%

1-3. Factors Behind the Increase/Decrease in Revenues (Year-on-Year)



1-4. Factors Behind the Increase/Decrease in Adjusted Operating Income (Year-on-Year)



2-1. Operating Results by Segment for the First Quarter of Fiscal Year 2016

IFRS					
(¥billions)	Profit margin in brackets	1Q, FY2015 Business Performance 1\$=¥121.36	1Q, FY2016 Business Performance 1\$=¥108.14	Change	
High-Grade Metal Products and Materials	Revenues	67.5	58.6	-13%	* In the Magnetic Materials and Applications segment, soft magnetic materials were transferred to the High-Grade Metal Products and Materials segment in FY2016. Furthermore, Corporate R&D expenses were changed (to be borne by internal Companies). The 1Q, FY2015 performance figures are those after the above segment changes. Decrease in revenues and income due to the impact of a slowdown in demand mainly in Asia and a decline in demand for soft magnetic materials in China, despite strong demand for automotive-related environmentally friendly products. ¥26.8 billion in income resulting in part from business restructuring accompanying the sale of shares in the former Hitachi Tool Engineering posted in 1Q, FY15.
	Adjusted operating income	[11.5%] 7.7	[10.8%] 6.3	(1.4)	
	Operating income of the segment	[51.7%] 34.9	[10.6%] 6.2	(28.7)	
Magnetic Materials and Applications	Revenues	27.9	23.9	-14%	Decrease in revenues from the decline in demand related to industrial equipment and consumer electronics, as well as a drop in raw materials prices (sliding-scale pricing system), despite strong automotive-related demand. Decrease in income due to the impact of the decline in demand related to industrial equipment and consumer electronics, despite strong automotive-related demand.
	Adjusted operating income	[7.8%] 2.2	[5.4%] 1.3	(0.9)	
	Operating income of the segment	[8.0%] 2.2	[5.4%] 1.3	(0.9)	
High-Grade Functional Components and Equipment	Revenues	95.5	83.9	-12%	Decrease in revenues and income from a decline in domestic demand and the impact of exchange rates, despite robust demand for cars and heat-resistant cast steel in North America.
	Adjusted operating income	[7.4%] 7.1	[6.2%] 5.2	(1.9)	
	Operating income of the segment	[7.4%] 7.1	[6.2%] 5.2	(1.9)	
Wires, Cables, and Related Products	Revenues	73.3	59.7	-18%	Decrease in revenues due to a decrease in demand for wire coils and wires and cables used in construction, despite an increase in demand for wires and cables used in rolling stock, sluggish demand for automotive products in Japan, as well as a decline in raw materials prices (sliding-scale pricing system). Decrease in income due to a decrease in demand for wire coils and wires and cables used in construction, despite an increase in demand for wires and cables used in rolling stock, as well as sluggish demand for automotive products in Japan. ¥2.2 billion in income resulting in part from business restructuring, etc. posted in 1Q, FY15.
	Adjusted operating income	[3.9%] 2.9	[4.4%] 2.6	(0.3)	
	Operating income of the segment	[6.2%] 4.6	[3.2%] 1.9	(2.7)	
Other Adjustments	Revenues	1.0	0.3	(0.8)	
	Adjusted operating income	(0.1)	0.9	+1.0	
	Operating income	(0.1)	0.7	+0.8	
Total	Revenues	265.1	226.4	-15%	
	Adjusted operating income	[7.5%] 19.8	[7.2%] 16.3	(3.5)	
	Operating income	[18.4%] 48.7	[6.8%] 15.3	(33.4)	

2-2. Operating Results by Segment: High-Grade Metal Products and Materials

(¥billions) Profit margin in brackets	1Q FY2015	1Q FY2016	Change	Supplement
Revenues	67.5	58.6	-13%	Decrease in revenues and income due to the impact of a slowdown in demand mainly in Asia and a decline in demand for soft magnetic materials in China, despite strong demand for automotive-related environmentally friendly products.
Adjusted operating income	[11.5%] 7.7	[10.8%] 6.3	(1.4)	
Operating income of the segment	[51.7%] 34.9	[10.6%] 6.2	(28.7)	¥26.8 billion in income resulting in part from business restructuring accompanying the sale of shares in the former Hitachi Tool Engineering posted in 1Q, FY15.

Overview of Revenues

■ Specialty Steel

Sales of specialty steel fell below those for the three months ended June 30, 2015 due to inventory adjustments of tool steel affected by an economic slowdown, mainly in Asia.

Sales of industrial equipment materials equaled those for the same period, as sales of other industrial components for overseas markets shrank despite steady sales growth of environment-friendly products related to automobiles.

Sales of aircraft-related and energy-related materials faced an in-between season of demand.

Regarding alloys for electronic products, sales of display-related materials were stagnant.

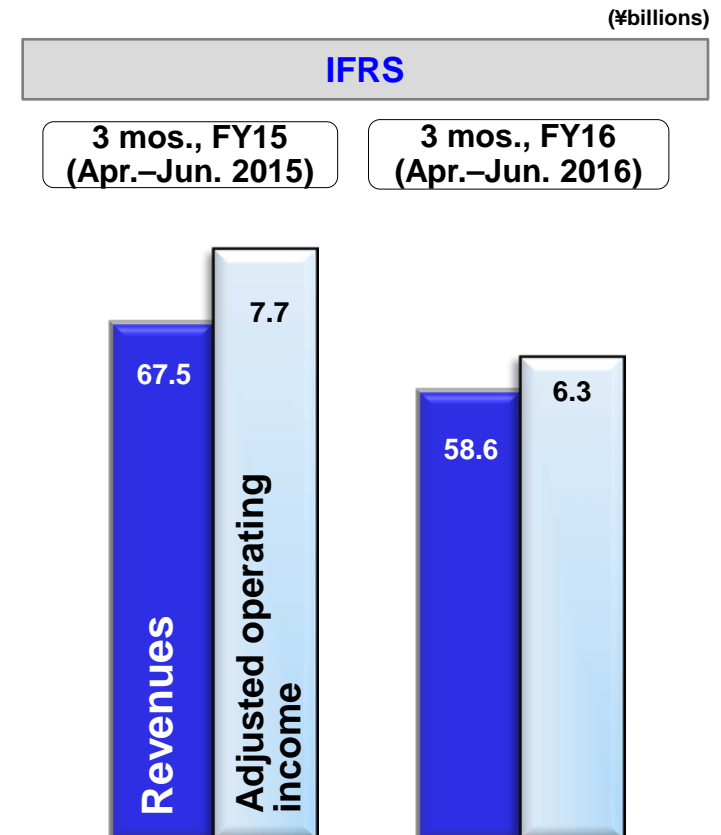
■ Rolls

Sales of rolls decreased due to diminished demand for various types of rolls mainly in overseas countries.

Sales of injection molding machine parts fell year-on-year, affected by a decline in demand for mobile devices.

■ Soft Magnetic Materials and Applied Products

Sales of soft magnetic materials and applied products decreased compared to the three months ended June 30, 2015 due to a drop in demand in China.



2-3. Operating Results by Segment: Magnetic Materials and Applications

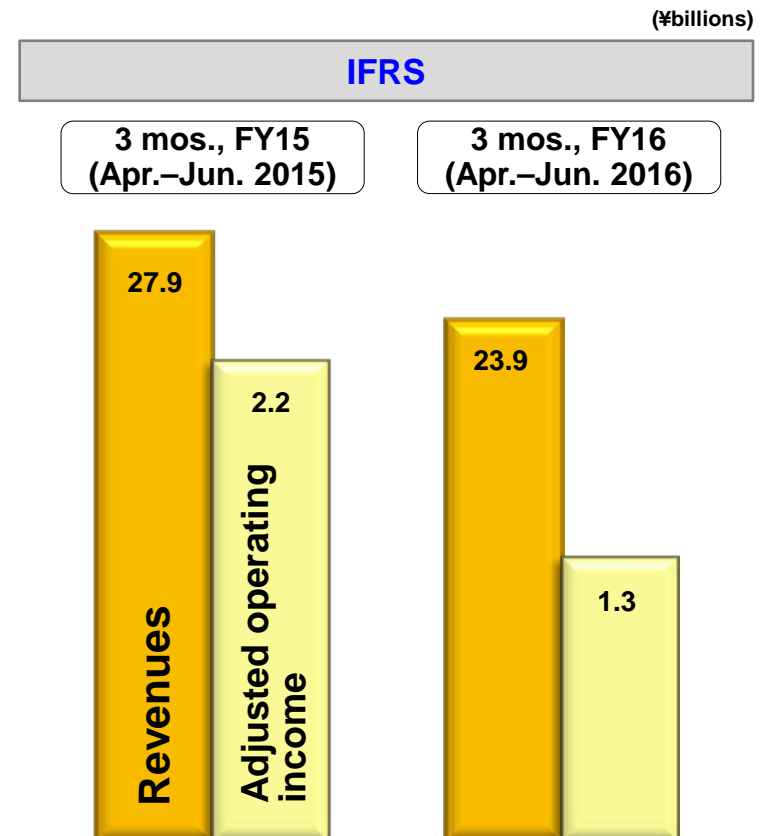
(¥billions) Profit margin in brackets	1Q FY2015	1Q FY2016	Change	Supplement
Revenues	27.9	23.9	-14%	Decrease in revenues from the decline in demand related to industrial equipment and consumer electronics, as well as a drop in raw materials prices (sliding-scale pricing system), despite strong automotive-related demand.
Adjusted operating income	[7.8%] 2.2	[5.4%] 1.3	(0.9)	Decrease in income due to the impact of the decline in demand related to industrial equipment and consumer electronics, despite strong automotive-related demand.
Operating income of the segment	[8.0%] 2.2	[5.4%] 1.3	(0.9)	

Overview of Revenues

■ Magnets

Sales of rare earth magnets decreased compared to the three months ended June 30, 2015 due to diminished demand for industrial equipment and household appliances despite strong demand in automotive electronic components for electric power steering and hybrid automobiles.

Regarding sales of ferrite magnets, certain household appliance parts were affected by decreased demand in overseas markets despite strong demand for automotive electronic components.



2-4. Operating Results by Segment: High-Grade Functional Components and Equipment

(¥billions) Profit margin in brackets	1Q FY2015	1Q FY2016	Change	Supplement
Revenues	95.5	83.9	-12%	Decrease in revenues and income from a decline in domestic demand and the impact of exchange rates, despite robust demand for cars and heat-resistant cast steel in North America.
Adjusted operating income	[7.4%] 7.1	[6.2%] 5.2	(1.9)	
Operating income of the segment	[7.4%] 7.1	[6.2%] 5.2	(1.9)	

Overview of Revenues

■ Casting Components for Automobiles

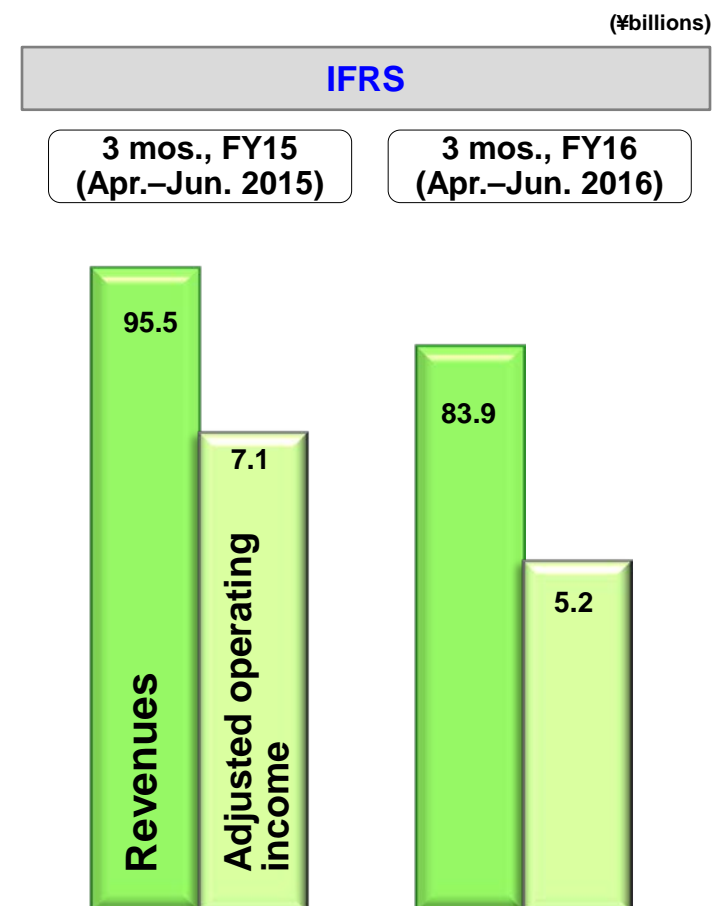
Despite strong demand for casting components for automobiles in the North American market, sales decreased compared to the three months ended June 30, 2015 due to the appreciation of the yen and a drop in domestic demand.

Sales of heat-resistant exhaust casting components increased compared to the same period of the prior year due to increased demand in European and American markets as well as in Asian countries.

Sales of aluminum wheels decreased compared to the same period of the prior year due to the appreciation of the yen despite robust demand in both the United States and Japan.

■ Piping Components

Sales of Pipe fittings as a whole decreased compared to the three months ended June 30, 2015 due to the effects of the delay in large-scale construction despite an increased number of new housing starts both in Japan and overseas.



2-5. Operating Results by Segment: Wires, Cables, and Related Products

(¥billions) Profit margin in brackets	1Q FY2015	1Q FY2016	Change	Supplement
Revenues	73.3	59.7	-18%	Decrease in revenues due to a decrease in demand for wire coils and wires and cables used in construction, despite an increase in demand for wires and cables used in rolling stock, sluggish demand for automotive products in Japan, as well as a decline in raw materials prices (sliding-scale pricing system).
Adjusted operating income	[3.9%] 2.9	[4.3%] 2.6	(0.3)	Decrease in income due to a decrease in demand for wire coils and wires and cables used in construction, despite an increase in demand for wires and cables used in rolling stock, as well as sluggish demand for automotive products in Japan.
Operating income of the segment	[6.2%] 4.6	[3.1%] 1.9	(2.7)	¥2.2 billion in income resulting in part from business restructuring, etc. posted in 1Q, FY15.

Overview of Revenues

■ Electric Wires and Cables

While revenues from magnet wires and electric wires and cables for construction decreased, sales of wires and cables for rolling stock, which is one of the focus areas of the Group, grew significantly, particularly in China.

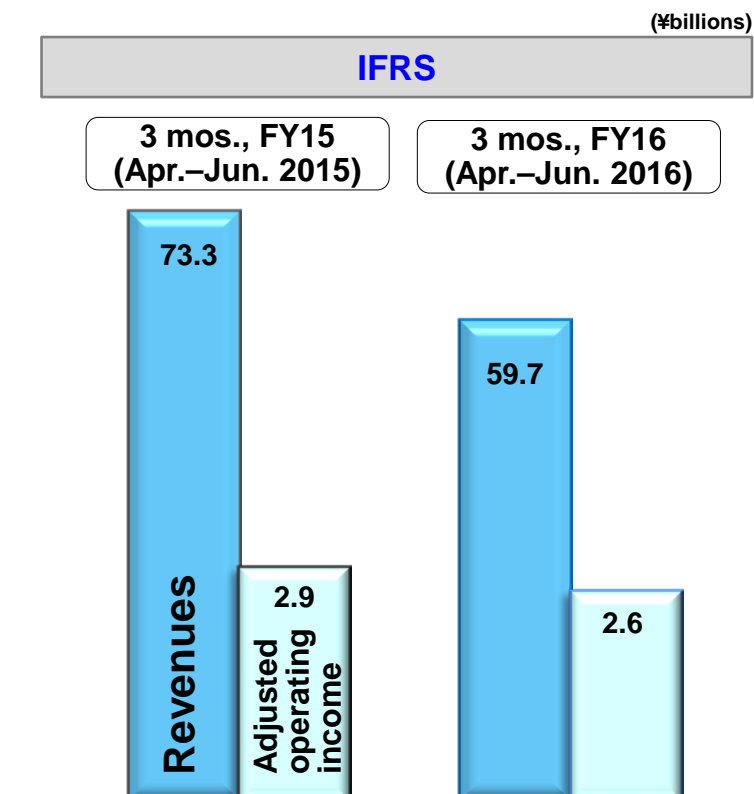
■ Functional Components

Sales of automotive products decreased compared to the three months ended June 30, 2015, affected by stalling domestic demand in spite of brisk sales of both electronic components for automobiles and brake hoses in North America.

Sales of probe cables for medical use decreased compared to the same period of the prior year due to diminished demand in overseas countries.

■ Information System Devices and Materials

Sales of information system devices and materials were affected by prolonged sluggish capital investments in infrastructure by telecommunications carriers.



2-6. Assets, Liabilities, and Net Assets

(¥billions)

Category	March 31, 2016 1\$=¥112.68	June 30, 2016 1\$=¥102.91	Change
Cash and cash equivalents	120.3	107.8	(12.5)
Trade receivables	178.3	173.3	(5.0)
Inventories	147.0	146.1	(0.9)
Other current assets	38.3	36.0	(2.3)
Non-current assets	549.5	525.0	(24.5)
Total Assets	1,033.3	988.2	(45.1)
Interest-bearing debt	220.4	213.6	(6.8)
Trade payables/other	151.4	147.6	(3.8)
Other current liabilities	156.8	140.3	(16.5)
Total Liabilities	528.6	501.5	(27.1)
Equity attributable to shareholders of the parent company	495.9	478.1	(17.8)
Non-controlling interests	8.8	8.6	(0.2)
Total Net Assets	504.7	486.7	(18.0)

Total assets decreased by ¥45.1 billion compared to the end of March, 2016

D/E ratio: 0.44' 0.45

[Assets]

-¥45.1 bil vs. end Mar. '16

[Liabilities]

-¥27.1 bil vs. end Mar. '16

[Total Net Assets]

-¥18.0 bil vs. end Mar. '16

⇒ **Decrease due to the negative impact of yen appreciation**

(D/E ratio)	0.44	0.45	+0.01
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2-7. Consolidated Cash Flows

Category	(¥billions)		
	3 mos. 2015	3 mos. 2016	Increase (Decrease)
Net income	35.4	9.6	(25.8)
Depreciation and amortization	10.6	10.6	0
Increase in operating capital	6.9	(5.7)	(12.6)
Other	(29.1)	(6.6)	+22.5
Cash flows from operating activities	23.8	7.9	(15.9)
Purchase of property, plant, and equipment	(13.6)	(12.9)	+0.7
Other	31.4	2.0	(29.3)
Cash flows from investing activities	17.8	(10.9)	(28.6)
Free cash flow	41.6	(3.0)	(44.5)
Increase (decrease) in debt and bonds	(4.2)	0.8	+5.0
Dividend payments, etc.	(5.7)	(5.6)	+0.1
Cash flows from financing activities	(9.9)	(4.8)	+5.1
Effect of exchange rate changes	0.7	(4.7)	(5.4)
Increase in cash and cash equivalents	32.4	(12.5)	(44.9)
Cash and cash equivalents at the end of period	111.4	107.8	(3.6)

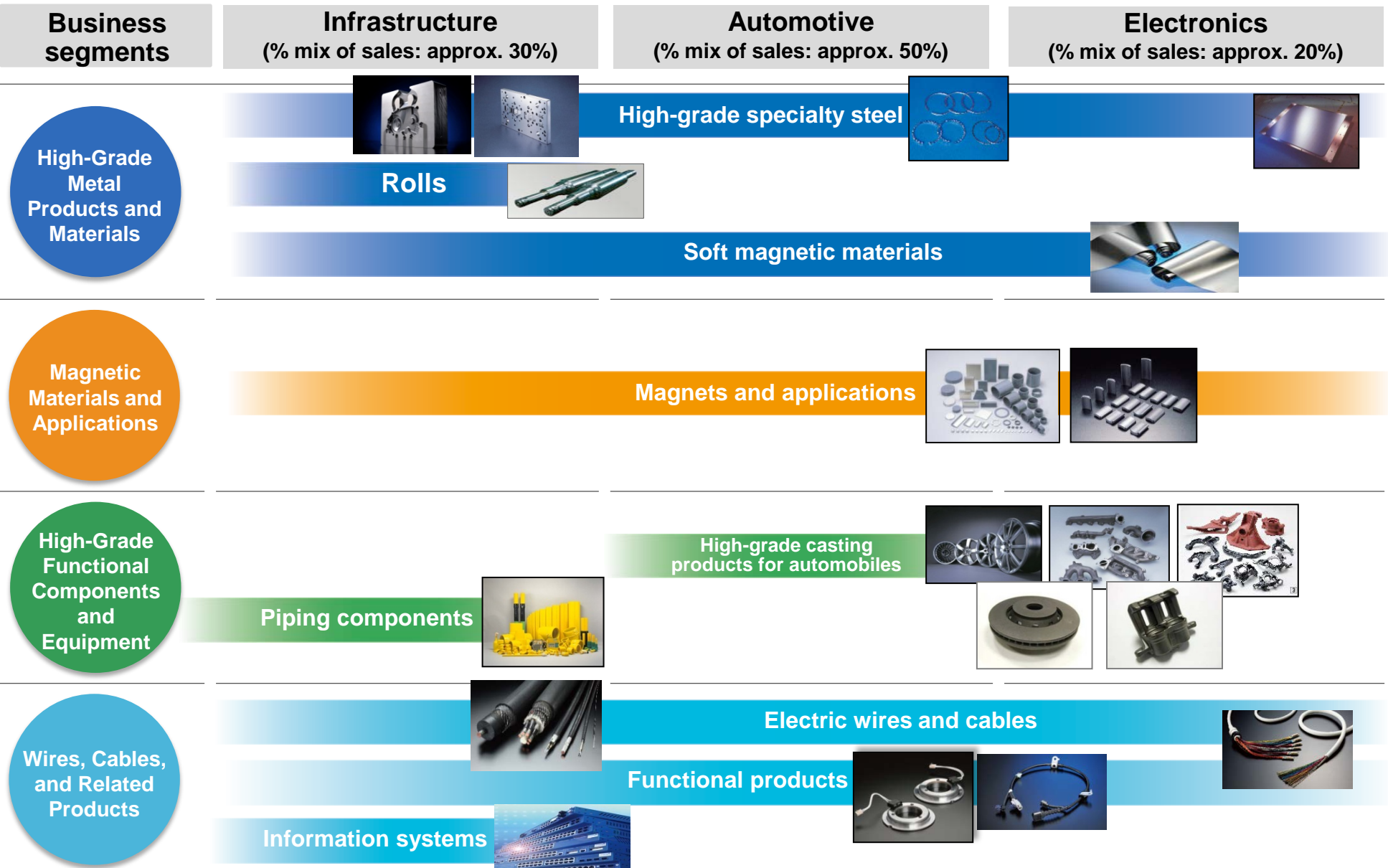
[Cash flows from operating activities]

Net cash provided by operating activities decreased by ¥15.9 billion over the same period last year. This was mainly attributable to a decrease in 1Q net income.

[Cash flows from investing activities]


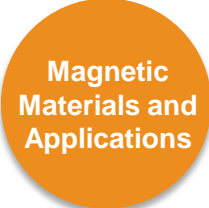


Net cash provided by investing activities decreased by ¥28.7 billion over the same period last year. This was mainly attributable to a gain (¥27.0 billion) on the sale of shares in the former Hitachi Tool Engineering, Ltd. in 1Q, 2015.

(Reference) Business Operations by Market (April 1, 2016–)



(Reference) Hitachi Metals: Description of Business Segments (April 1, 2016–)

Business structure of Hitachi Metals

Business segments	Business unit	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, semiconductor and other package materials, battery materials], materials for industrial equipment [automobile-related materials, razor and blade materials], aircraft- and energy-related materials, precision cast components <small>*YSS and Yasukihagane are Hitachi Metals' registered trademarks.</small>
	Rolls	Rolls for steel mills, injection molding machine parts, structural ceramic products, steel-frame joints for construction
	Soft magnetic materials	Soft magnetic materials (Metglas® amorphous metals materials; FINEMET® nanocrystalline magnetic materials; and soft ferrite) and applied products
 <p>Magnetic Materials and Applications</p>	Magnetic Materials Company	
	Magnets and applied products	Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) Ceramic products
 <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™ 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	Industrial cables, electronic wires, electric equipment materials, and industrial rubber products
	Functional products	Cable assemblies, electronic automotive components, brake hoses and wireless systems
	Information systems	APRESIA® information network products

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**