

Hitachi Metals

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

January 26, 2017

1-1. Overview of the First Nine Months Period Ended December 31, 2016

Trend in demand

The global economy remained on a modest rebound track primarily in advanced countries, while economic growth in Asia slowed. In Japan, the economic conditions remained unclear along with weak exports and production, despite an upswing in individual consumption.

- The automotive-related field experienced a continued slump in sales of light vehicles in the domestic market, and a sign that the strong sales of new vehicles are reaching its peak was seen in the United States. However, sales have increased overall compared with those for the nine months ended December 31, 2015, since demand has increased in China and Europe.
- Meanwhile, in the industrial infrastructure-related segment, supply and demand of steel continued to experience challenges due to weak global demand. The number of new housing starts increased both in the United States and Japan.
- In the electronics field, while mobile devices suffered from stagnant growth, demand for household appliances increased, mainly in Japan.

1-2. Overview of Operating Results for the Nine-Month Period Ended December 31, 2016

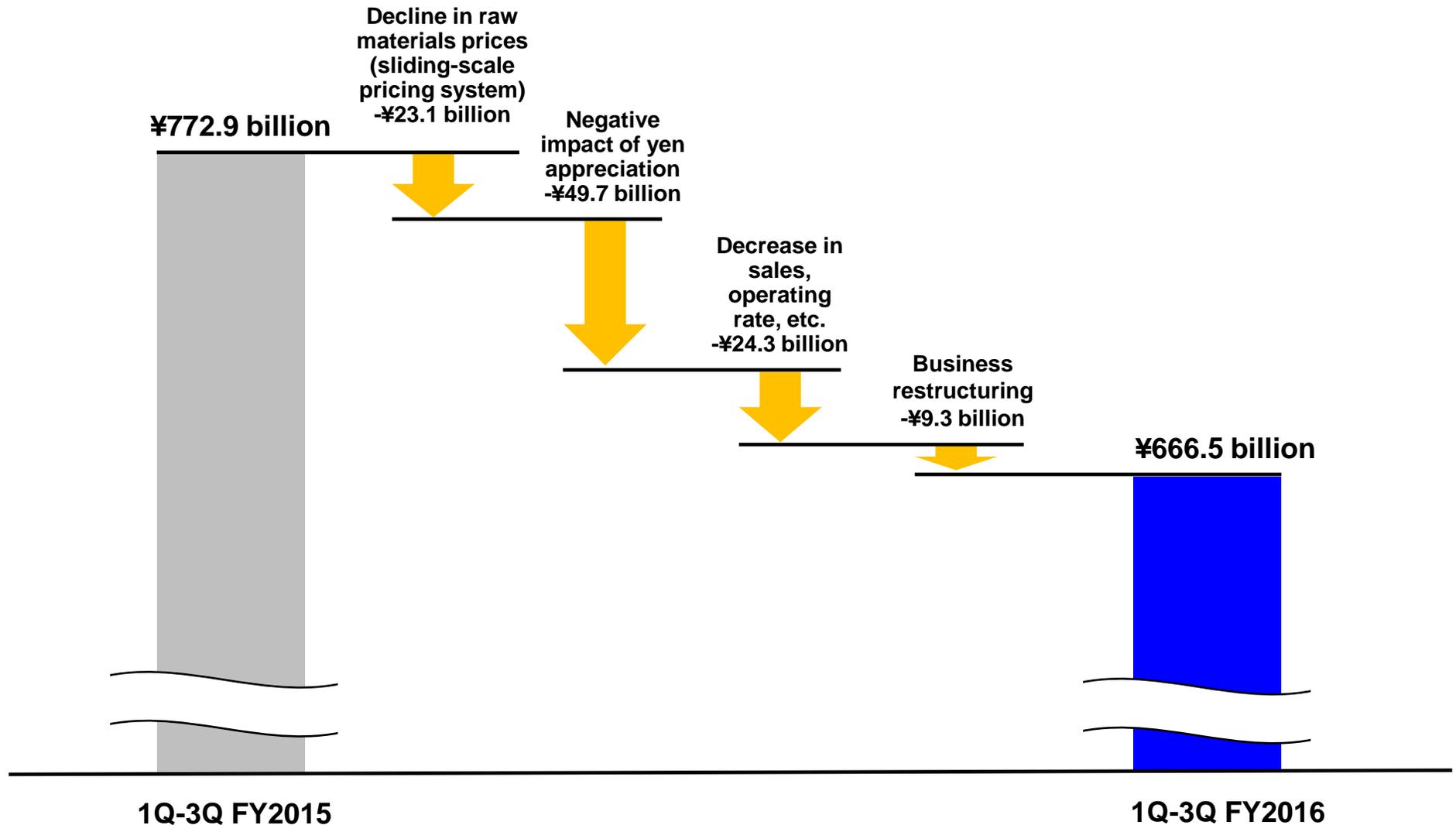
IFRS					
(¥billions)	Profit margin in brackets	First Nine Months of FY2015 Business Performance US\$1=¥121.70	First Nine Months of FY2016 Business Performance US\$1=¥106.63	Change	
Revenues		772.9	666.5	-14%	Decreased reflecting a drop in raw materials prices (sliding-scale pricing system), yen appreciation, a slowdown in demand, and business restructuring.
Adjusted operating income	(7.0%)	54.2	(7.1%) 47.2	-7.0	Although there was benefit from a decline in manufacturing costs and <i>monozukuri</i> innovations, income decreased due yen appreciation, a slowdown in demand, and difficulty processing heat-resistant cast steel for new products.
Other income		33.8	9.3	-24.5	Income from business restructuring: 1Q-3Q 2015: ¥30.2 billion (former Hitachi Tool Engineering, etc.) 1Q-3Q 2016: ¥5.1 billion (Information System Business, etc.)
Other expenses		-8.8	-6.9	+1.9	
Operating income	(10.2%)	79.2	(7.4%) 49.6	-29.6	
Interest and other financial income		-1.5	-2.0	-0.5	
Income before income taxes		77.7	47.6	-30.1	
Income taxes		-21.7	-11.5	+10.2	
Net income		56.0	36.1	-19.9	
Net income attributable to owners of the parent company		55.6	36.2	-19.4	
Percentage of revenues from overseas markets*		56%	55%	-1%	
Employees		29,167	28,290	-877	

*Overseas revenues by region:

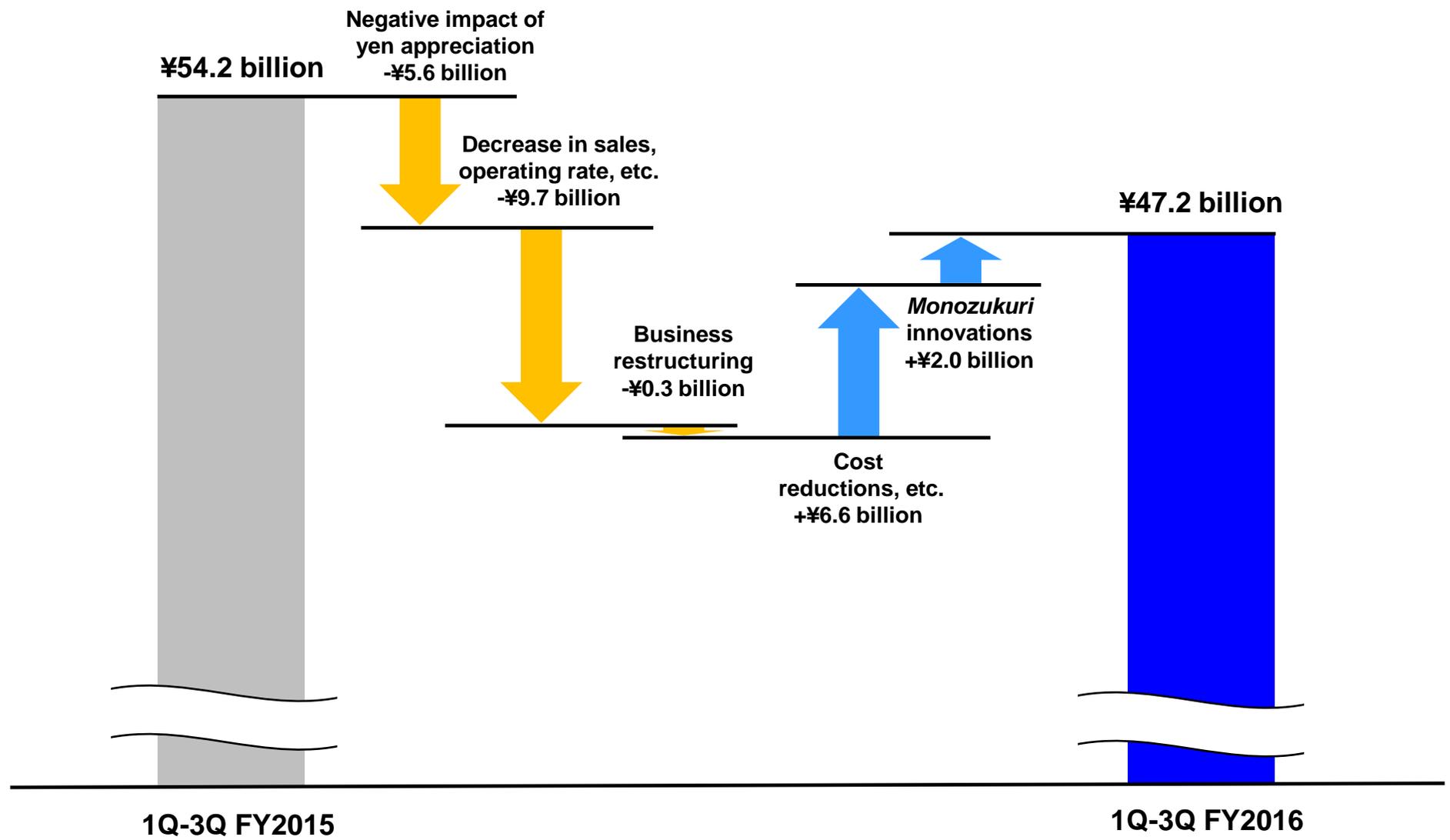
1Q-3Q 2015: North America, 31%; China, 8%; Asia (exc. China), 12%; Europe, 4%; Others, 1%

1Q-3Q 2016: North America, 30%; China, 7%; Asia (exc. China), 12%; Europe, 5%; Others, 1%

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)



1-5. Operating Results by Segment for the Nine-Period Ended December 31, 2016

IFRS

(#billions)	Profit margin in brackets	First Nine Months of FY2015 Business Performance* US\$1=¥121.70		First Nine Months of FY2016 Business Performance US\$1=¥106.63		Change	* 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). Business performance for 1Q-3Q FY2015 reflects the above changes to the categories of the reportable segments.
High-Grade Metal Products and Materials	Revenues		194.2		174.0	-10%	Declined due to an economic slowdown mainly in Asia and a drop in demand for soft magnetic materials in China, despite an increase in demand for environment-friendly products related to automobiles. ¥27.0 billion in income resulting from business restructuring accompanying the sale of shares of the former Hitachi Tool Engineering, Ltd. posted in 1Q-3Q, 2015.
	Adjusted operating income	(10.4%)	20.3	(9.9%)	17.2	-3.1	
	Operating income of the segment	(24.0%)	46.7	(9.1%)	15.9	-30.8	
Magnetic Materials and Applications	Revenues		80.6		73.6	-9%	Decreased due to the effects of the decline in raw materials prices (a sliding-scale raw material price system) and exchange rate effects (yen appreciation), despite a turnaround to growth in demand entering 2H. Income rose underpinned by robust demand, despite exchange rate effects.
	Adjusted operating income	(6.1%)	5.0	(8.7%)	6.4	+1.4	
	Operating income of the segment	(6.1%)	4.9	(8.7%)	6.4	+1.5	
High-Grade Functional Components and Equipment	Revenues		276.9		242.1	-13%	Decreased due to a slowdown in demand for farming and construction machinery products as well as exchange rate effects, despite sustained strong demand in pickup trucks in North America. Decreased due to exchange rate effects and difficulty processing heat-resistant cast steel for new products.
	Adjusted operating income	(6.6%)	18.4	(5.1%)	12.4	-6.0	
	Operating income of the segment	(6.1%)	17.0	(4.9%)	11.9	-5.1	
Wires, Cables, and Related Products	Revenues		219.2		175.9	-20%	Decreased due to impact from restructuring (Information System), a drop in revenue from wires and cables for construction as well as a decline in raw materials prices (a sliding-scale raw material price system), despite an increase in wires and cables for rolling stock. Remained flat year-on-year due to an increase in wires and cables for rolling stock despite a drop in sales of wires and cables for construction. Posted ¥5.1 billion in income from business restructuring, which is comprised of the sale of the Information System Business.
	Adjusted operating income	(4.7%)	10.2	(5.7%)	10.0	-0.2	
	Operating income of the segment	(5.1%)	11.3	(8.3%)	14.6	+3.3	
Other Adjustments	Revenues		2.0		0.9	—	
	Adjusted operating income		0.3		1.2	+0.9	
	Operating income		-0.7		0.8	+1.5	
Total	Revenues		772.9		666.5	-14%	
	Adjusted operating income	(7.0%)	54.2	(7.1%)	47.2	-7.0	
	Operating income	(10.2%)	79.2	(7.4%)	49.6	-29.6	

1-6. Operating Results by Segment: High-Grade Metal Products and Materials

Profit margin in brackets (¥billions)	First Nine Months of FY2015	First Nine Months of FY2016	Change	Supplement
Revenues	194.2	174.0	-10%	Declined due to an economic slowdown mainly in Asia and a drop in demand for soft magnetic materials in China, despite an increase in demand for environment-friendly products related to automobiles.
Adjusted operating income	(10.4%) 20.3	(9.9%) 17.2	-3.1	
Operating income of the segment	(24.0%) 46.7	(9.1%) 15.9	-30.8	¥27.0 billion in income resulting from business restructuring accompanying the sale of shares of the former Hitachi Tool Engineering, Ltd. posted in 1Q-3Q, 2015.

Overview of Revenues

■ Specialty Steel

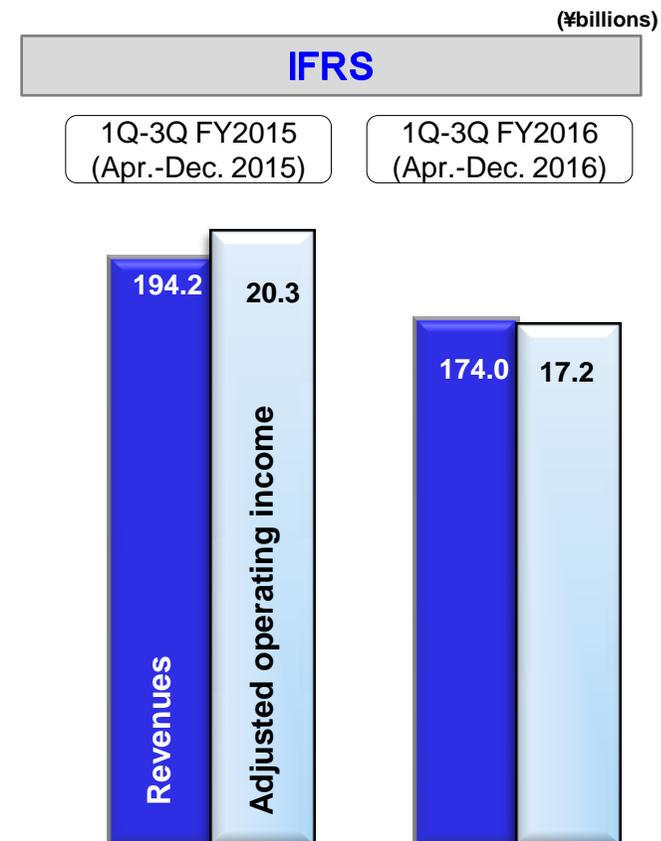
- Tool steel: Sales fell year-on-year due to inventory adjustments affected by an economic slowdown, mainly in Asia.
- Industrial equipment materials: Sales of environment-friendly products related to automobiles increased, and sales of other industrial components were also strong.
- Aircraft-related and energy-related materials: Faced an in-between season of demand.
- Alloys for electronic products: Sales of display-related materials were stagnant.

■ Rolls

- Various types of rolls: Discontinued production at Baosteel Hitachi Rolls (Nantong) Ltd. as of September 1, 2016 with the objective of concentrating management resources in high value-added products.
- Injection molding machine parts: Sales fell year-on-year, affected by a decline in demand for mobile devices.

■ Soft Magnetic Materials and Applied Products

Sales fell year-on-year due to a slowdown in demand in China, despite a gradual increase in demand for the mainstay amorphous metals in India.



1-7. Operating Results by Segment: Magnetic Materials and Applications

(¥billions)	Profit margin in brackets	First Nine Months of FY2015	First Nine Months of FY2016	Change	Supplement
Revenues		80.6	73.6	-9%	Decreased due to the effects of the decline in raw materials prices (a sliding-scale raw material price system) and exchange rate effects (yen appreciation), despite a turnaround to growth in demand entering 2H.
Adjusted operating income	(6.1%)	5.0	(8.7%) 6.4	+1.4	Income rose underpinned by robust demand, despite exchange rate effects.
Operating income of the segment	(6.1%)	4.9	(8.7%) 6.4	+1.5	

(¥billions)

Overview of Revenues

■ Magnets

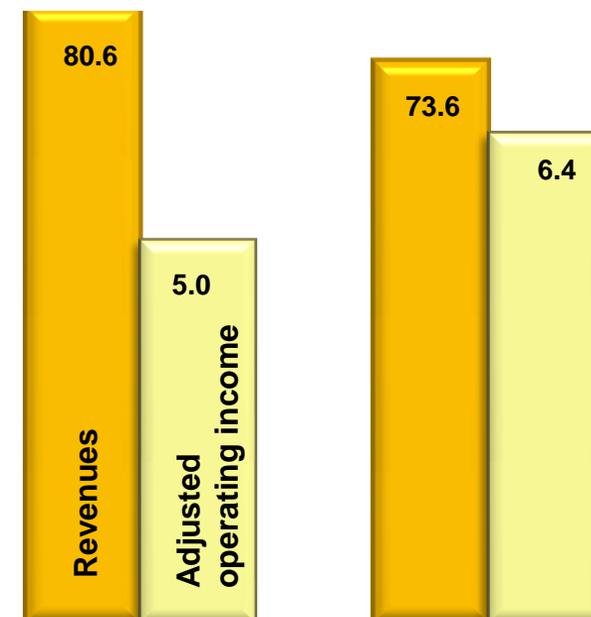
Revenues in the segment fell below those for the nine months ended December 31, 2015, overall due to the effects of the reduction in raw material prices (a sliding-scale raw material price system) and the appreciation of the yen.

- Rare earth magnets:
Demand for industrial equipment and household appliances remained the same year-on-year, despite strong demand in automotive electronic components for electric power steering and hybrid automobiles.
- Ferrite magnets:
There was strong demand for automotive electronic components and household appliance parts.

IFRS

1Q-3Q FY2015
(Apr.-Dec. 2015)

1Q-3Q FY2016
(Apr.-Dec. 2016)



1-8. Operating Results by Segment: High-Grade Functional Components and Equipment

(¥billions)	Profit margin in brackets	First Nine Months of FY2015	First Nine Months of FY2016	Change	Supplement
Revenues		276.9	242.1	-13%	Decreased due to a slowdown in demand for farming and construction machinery products as well as exchange rate effects, despite sustained strong demand in pickup trucks in North America.
Adjusted operating income	(6.6%) 18.4	(5.1%) 12.4		-6.0	Decreased due to exchange rate effects and difficulty processing heat-resistant cast steel for new products.
Operating income of the segment	(6.1%) 17.0	(4.9%) 11.9		-5.1	

Overview of Revenues

■ Casting Components for Automobiles

▪ Casting components for automobiles:

Despite sustained strong demand for casting components for pickup trucks in North America, sales of casting components for automobiles as a whole decreased year-on-year due to a decrease in demand of casting components for farming and construction machinery resulting from economic slowdown in emerging countries and a drop in grain and crude oil prices.

▪ Heat-resistant exhaust casting components:

Sales outperformed year-on-year due to strong performance in Europe as well as significant sales growth in the United States and Asia.

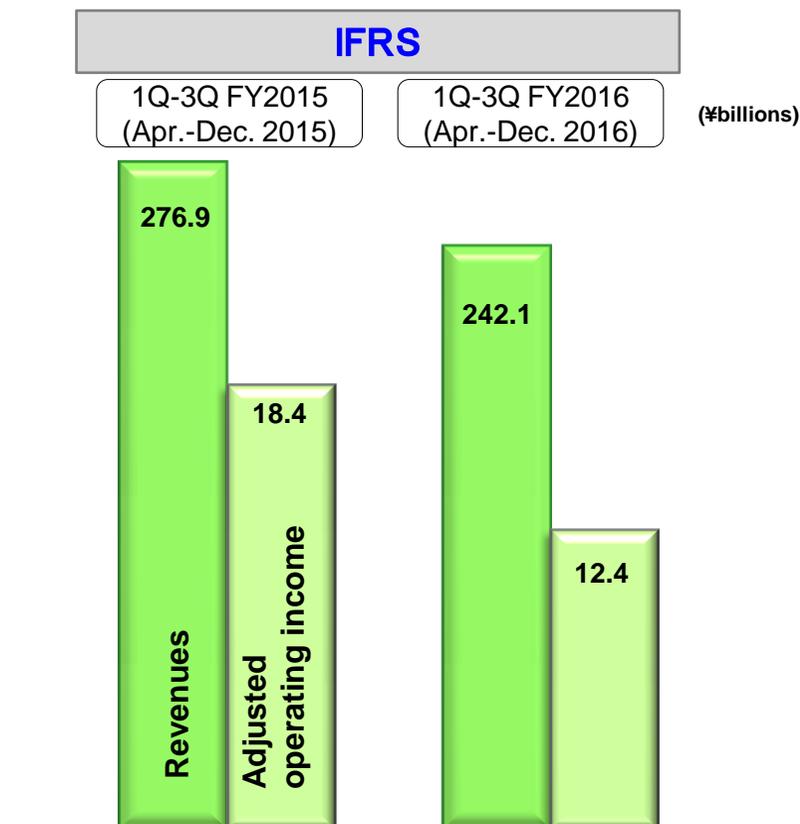
▪ Aluminum wheels:

Sales fell year-on-year due to a decrease in those shipments as well as the appreciation of the yen.

■ Piping Components

▪ Pipe fittings:

Sales of pipe fittings as a whole fell year-on-year due in part to the effects of the delay in large-scale constructions in Japan, despite a steady increase in demand for house-related supplies following an increased number of new housing starts both in Japan and overseas.



1-9. Operating Results by Segment: Wires, Cables, and Related Products

(¥billions)	Profit margin in brackets	First Nine Months of FY2015	First Nine Months of FY2016	Change	Supplement
Revenues		219.2	175.9	-20%	Decreased due to impact from restructuring (Information System), a drop in revenue from wires and cables for construction as well as a decline in raw materials prices (a sliding-scale raw material price system), despite an increase in wires and cables for rolling stock.
Adjusted operating income	(4.7%)	10.2	(5.7%) 10.0	-0.2	Remained flat year-on-year due to an increase in wires and cables for rolling stock, despite a drop in sales of wires and cables for construction.
Operating income of the segment	(5.1%)	11.3	(8.3%) 14.6	+3.3	Posted ¥5.1 billion in income from business restructuring, which is comprised of the sale of the Information System Business.

Overview of Revenues

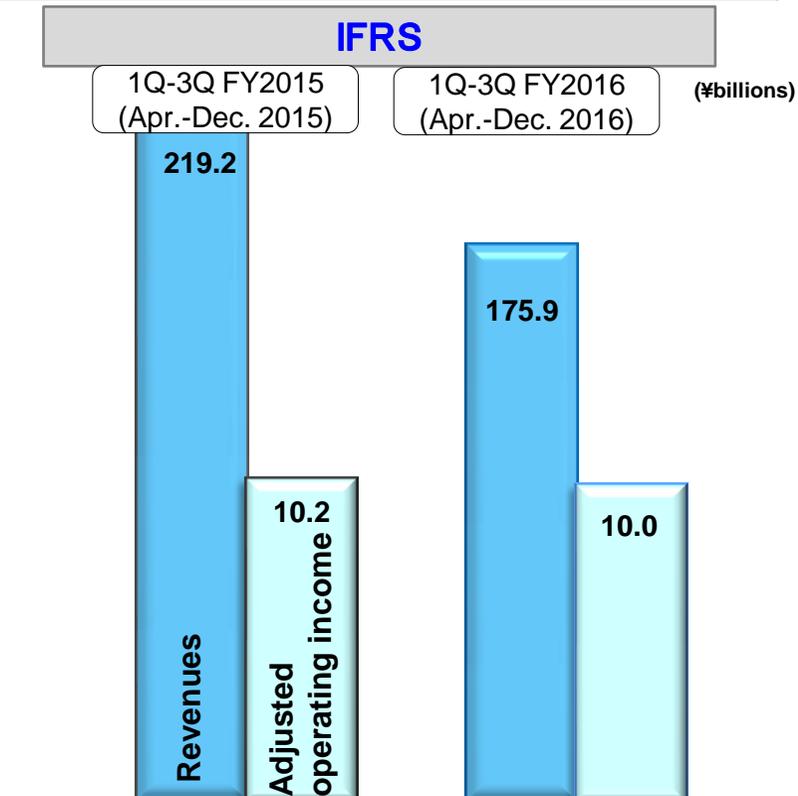
Revenues of this segment overall dropped year-on-year. This in part reflects the December 1, 2016 transfer of the Information System Business, which is comprised of the information network business and wireless antenna business together with all issued shares of Hitachi Cable Networks, Ltd. held by the Company.

■ 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, especially for China.

■ Functional Components

- In automotive products, demand for both electronic components for automobiles and brake hoses was strong.
- Sales of probe cables for medical use fell below those for the same period of the prior year due to diminished demand in overseas countries.



1-10. Assets, Liabilities, and Net Assets

(¥billions)

Category	March 31, 2016 US\$1 = ¥112.68	December 31, 2016 US\$1 = ¥116.49	Change
Cash and cash equivalents	120.3	116.5	-3.8
Trade receivables	178.3	174.5	-3.8
Inventories	147.0	148.8	+1.8
Other current assets	38.2	38.0	-0.2
Non-current assets	549.5	555.3	+5.8
Total Assets	1,033.3	1,033.1	-0.2
Interest-bearing debt	220.4	209.2	-11.2
Trade payables/other	151.4	144.1	-7.3
Other current liabilities	156.8	141.7	-15.1
Total Liabilities	528.6	495.0	-33.6
Equity attributable to shareholders of the parent company	495.9	526.3	+30.4
Non-controlling interests	8.8	11.8	+3.0
Total Net Assets	504.7	538.1	+33.4

Total assets decreased by ¥200 million compared to the end of March 31, 2016

D/E ratio: 0.44→0.40

[Assets]

-¥0.2 bil vs. end March, 2016

[Liabilities]

-¥33.6 bil vs. end March, 2016

⇒ **Decrease reflecting loan payment**

[Total Net Assets]

+¥33.4 bil vs. end March, 2016

⇒ **Increase in retained earnings of ¥25.4 billion**

D/E ratio	0.44	0.40	-0.04
-----------	------	------	-------

1-11. Consolidated Cash Flows

Category	(¥billions)		
	First Nine Months of FY2015	First Nine Months of FY2016	Increase (Decrease)
Net income	56.0	36.1	-19.9
Depreciation and amortization	32.1	31.9	-0.2
Increase in operating capital	6.9	-10.8	-17.7
Other	-32.0	-13.4	+18.6
Cash flows from operating activities	63.0	43.8	-19.2
Purchase of property, plant, and equipment	-43.1	-46.0	-2.9
Other	34.0	19.2	-14.8
Cash flows from investing activities	-9.1	-26.8	-17.7
Free cash flow	53.9	17.0	-36.9
Increase (decrease) in debt and bonds	-14.1	-13.9	+0.2
Dividend payments, etc.	-11.5	-8.2	+3.3
Cash flows from financing activities	-25.6	-22.1	+3.5
Effect of exchange rate changes	-1.6	1.3	+2.9
Increase in cash and cash equivalents	26.7	-3.8	-30.5
Cash and cash equivalents at the end of period	105.7	116.5	+10.8

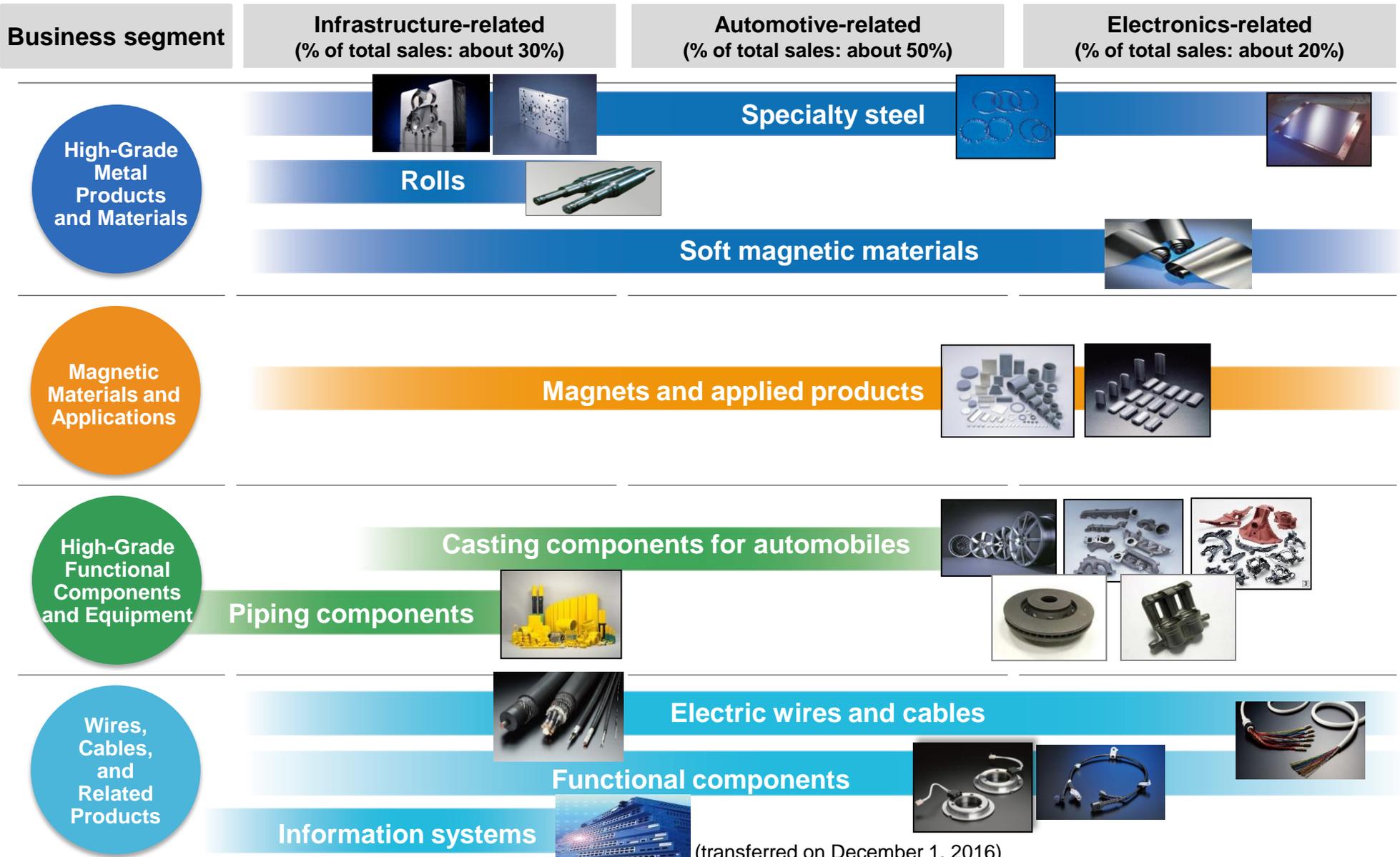
[Cash flows from operating activities]

A decrease in income for 1Q-3Q FY2016 and other factors resulted in a net cash outflow of ¥19.2 billion compared to the same period last year.

[Cash flows from investing activities]

Although there was an inflow of cash from the transfer of the Information System Business in 3Q FY2016, net cash flow was down ¥17.7 billion compared to the same period last year due in part to an inflow of cash from the sale of shares of the former Hitachi Tool Engineering, Ltd. in 1Q-3Q FY2015.

(Reference) Business Structure by Market (from April 1, 2016)



(transferred on December 1, 2016)

(Reference) Business Profiles for Each Segment (from April 1, 2016)

■ Business portfolio

Segment	Division	Main products
	High-Grade Metals Company	
	Specialty steel	YASUKI SPECIALTY STEEL (YSS) brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials, semiconductor and other packaging materials, and battery-related materials], materials for industrial equipment [automotive materials, and razor and blade materials] aircraft- and energy-related materials, and precision cast components). <small>YSS and Yasuki Hagane are registered trademarks of Hitachi Metals Ltd.</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; FINEMET® nanocrystalline magnetic materials; and soft ferrite) and applied products
	Magnetic Materials Company	
Magnets and applied products	Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) Ceramic products	
	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, other 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)
	Cable Materials Company	
	Electric wires and cables	Industrial cables, electronic wires, electric equipment materials, and industrial rubber products
	Functional components	Cable assemblies, electronic automotive components, brake hoses, and wireless systems (transferred on December 1, 2016)
	Information systems	APRESIA™ Ethernet switch (transferred on December 1, 2016)

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 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 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 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**