

# **Hitachi Metals**

## **Financial Results for Fiscal Year Ended March 31, 2018**

## **Operating Results Forecast for Fiscal Year Ending March 31, 2019**

**April 26, 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 ongoing 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 Japan increased, led by strong demand for new models; and Europe and China also showed solid demand, while sales decreased in the United States compared with FY2016.**
- **Industrial infrastructure-related demand for steel products increased mainly in the manufacturing sector, including automobiles and industrial machinery. Housing starts increased in the United States but are on a declining trend in Japan.**
- **In the electronics field, mobile device shipments increased.**

# 2. FY2017 Operating Results

(¥ billions) Profit margin in brackets	FY2016 Actual US\$1 = ¥108 1 euro = ¥119 1 yuan = ¥16.1	FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	Year-on- Year	Supplementary Note
Revenues	910.5	988.3	+9%	Increase in revenues, influenced mainly by a rise in raw materials prices (a sliding-scale raw material price system) and the depreciation of the yen, in addition to an increase in demand for mainstay products.
Adjusted operating income <sup>*1</sup>	[7.2%] 66.0	[6.6%] 65.1	-0.9	Decrease due to lower profitability of heat-resistant casting components and aluminum products as well as cost increase following higher raw material prices.
Other income	14.1	5.4	-8.7	Income resulting from business restructuring was posted in the same period of the previous year.
Other expenses	-11.8	-24.2	-12.4	Posting of impairment loss, etc.
IFRS operating income	[7.5%] 68.3	[4.7%] 46.3	-22.0	
EBIT	68.5	48.9	-19.6	
Income before income taxes	66.0	47.0	-19.0	
Income taxes	-15.3	-4.9	+10.4	Decrease in costs due to tax reforms in the U.S.
Net income attributable to shareholders of the parent company	50.6	42.2	-8.4	
ROE <sup>*2</sup>	9.4%	7.5%	-1.9%	
ROA <sup>*3</sup>	4.9%	4.0%	-0.9%	
Overseas sales ratio <sup>*4</sup>	56%	56%	0%	

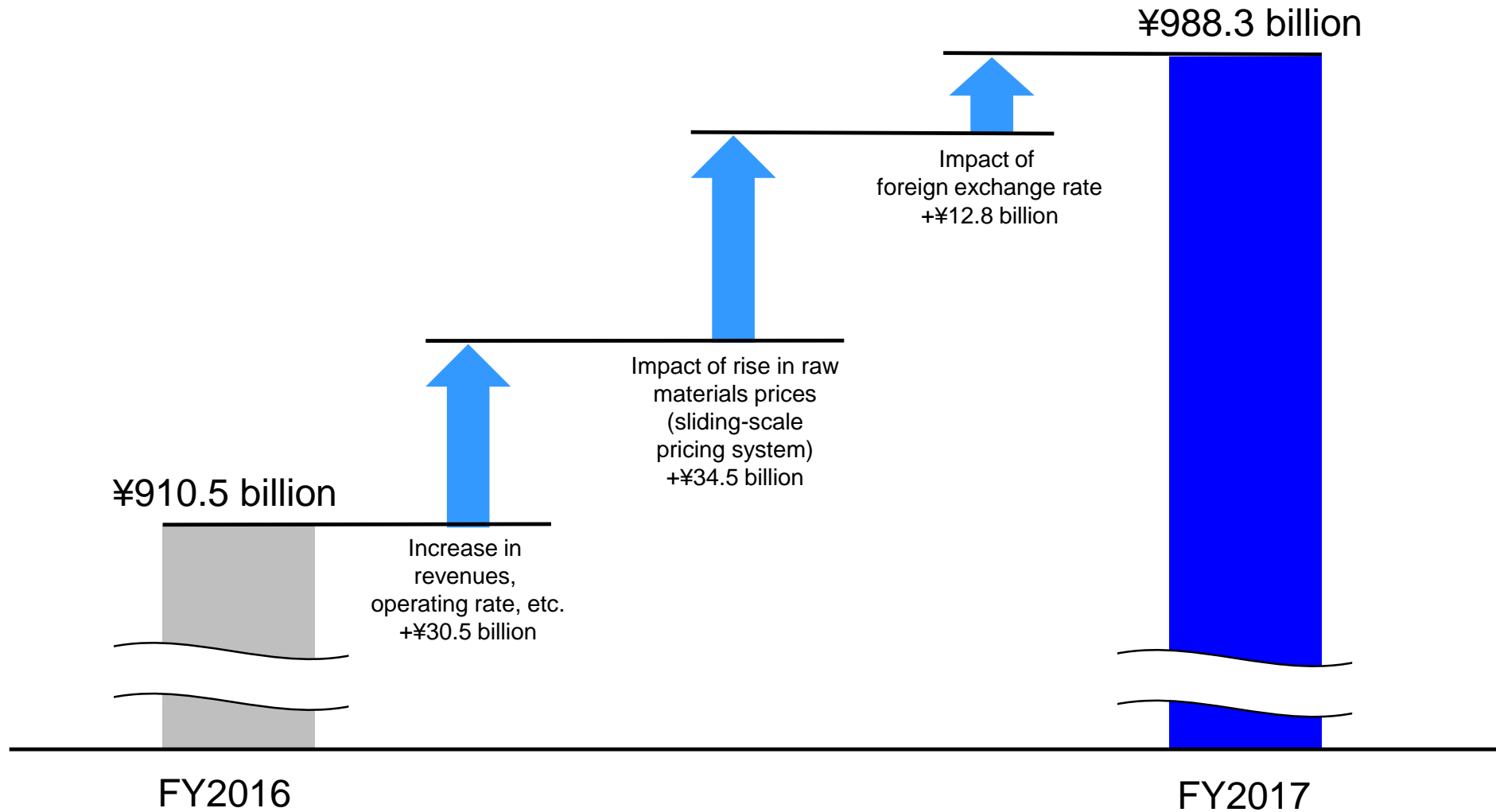
\*1 Adjusted operating income: (Revenues) – (Sales Cost) – (Selling, General, & Administrative expenses)

\*2 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

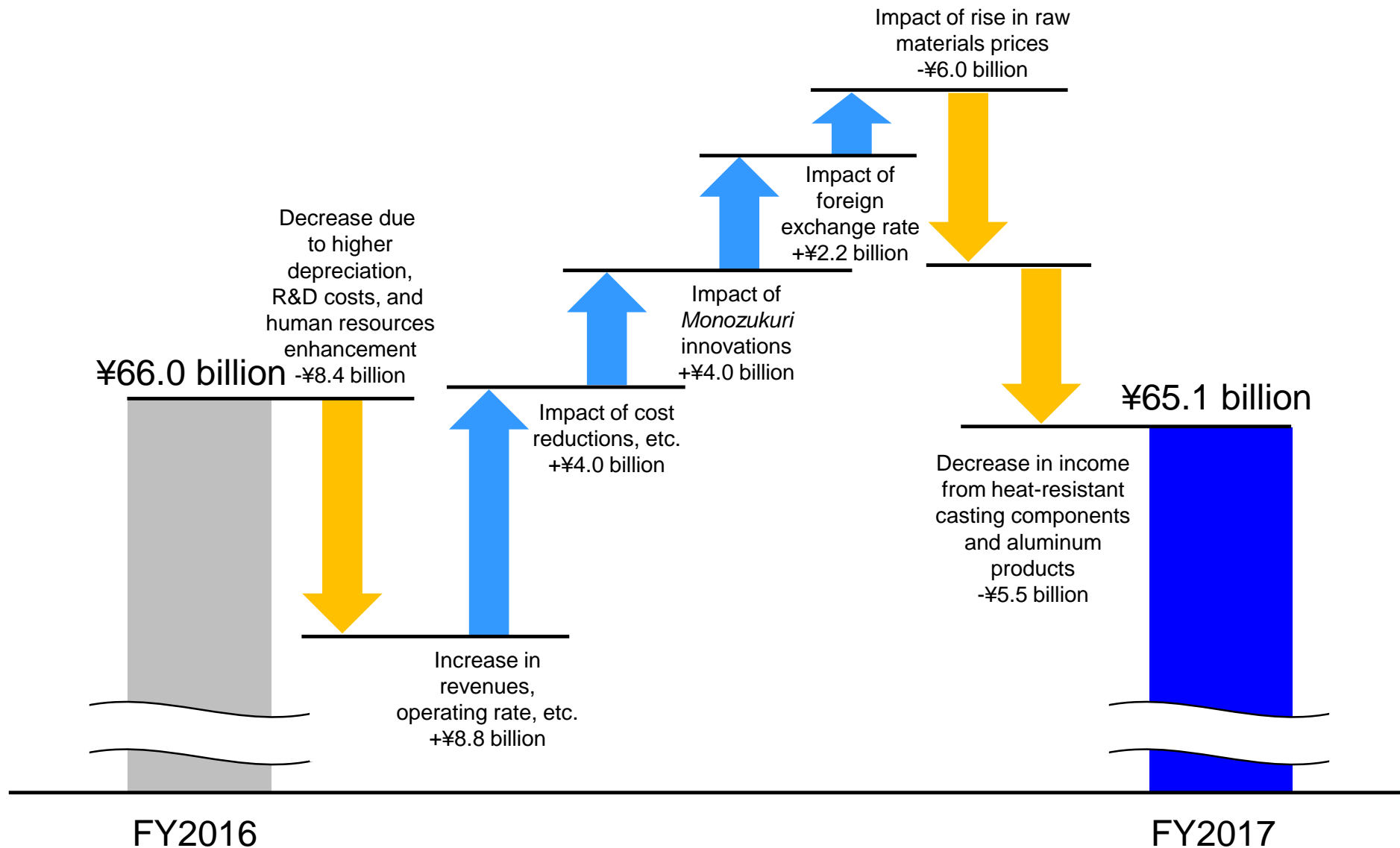
\*3 Return on total assets (ROA) = Net income attributable to shareholders of the parent company / Term-end total assets x 100

\*4 Overseas sales by region: FY2017: North America, 30%; China, 8%; Asia (exc. China), 12%; Europe, 5%; Others, 1%  
FY2016: North America, 31%; China, 7%; Asia (exc. China), 12%; 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. FY2017 Overview of Operating Results by Segment

(¥ billions) Profit margin in brackets		FY2016 Actual US\$1 = ¥108 1 euro = ¥119 1 yuan = ¥16.1	FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	Year-on- Year
Specialty Steel Products	Revenues	243.2	290.6	+19%
	Adjusted operating income	[9.7%] 23.5	[9.6%] 27.9	+4.4
	Operating income of the segment	[9.1%] 22.2	[9.0%] 26.1	+3.9
Magnetic Materials and Applications	Revenues	99.8	106.1	+6%
	Adjusted operating income	[9.3%] 9.3	[9.0%] 9.6	+0.3
	Operating income of the segment	[9.3%] 9.3	[6.9%] 7.3	-2.0
Functional Components and Equipment	Revenues	333.5	360.1	+8%
	Adjusted operating income	[5.2%] 17.5	[3.3%] 11.8	-5.7
	Operating income of the segment	[4.8%] 15.9	[0.2%] 0.6	-15.3
Wires, Cables, and Related Products	Revenues	232.9	230.5	-1%
	Adjusted operating income	[6.3%] 14.7	[6.5%] 14.9	+0.2
	Operating income of the segment	[8.6%] 20.1	[4.9%] 11.2	-8.9
Others/ Adjustments	Revenues	1.1	1.0	—
	Adjusted operating income	1.0	0.9	-0.1
	Operating income of the segment	0.8	1.1	+0.3
Total	Revenues	910.5	988.3	+9%
	Adjusted operating income	[7.2%] 66.0	[6.6%] 65.1	-0.9
	IFRS operating income	[7.5%] 68.3	[4.7%] 46.3	-22.0

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,” and operating results for FY2017 were recorded under the “Specialty Steel Products” segment. Figures of FY2016 have been restated to the new segment classification. The operating results of SH Copper Products Co., Ltd. have been included since 4Q FY2016.

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

## ■ Overall Summary

### [Revenues, adjusted operating income]

Both revenues and income increased, reflecting a rise in demand for molds and tool steel, industrial equipment materials and alloys for electronic products.

## ■ Overview by Product

### [Specialty steel]

- **Molds and tool steel:** Sales increased year on year due to a recovery in demand in both Japan and Asia.
- **Industrial equipment materials:** Sales of environmentally friendly products related to automobiles increased. Sales rose year on year as a whole, as sales of other industrial components, in particular, components for semiconductor-related equipment, increased.
- **Alloys for electronic products:** Sales of semiconductor package components were strong. Sales significantly increased year on year as a whole, due to strong sales of battery materials and organic EL panel-related components.
- **Aircraft-related and energy-related materials:** Sales decreased year on year as a whole as energy-related materials posted weak sales, although measures for sales expansion saw steady effects in aircraft-related materials, such as being certified as a supplier of large forged parts for aircraft engines by a customer.

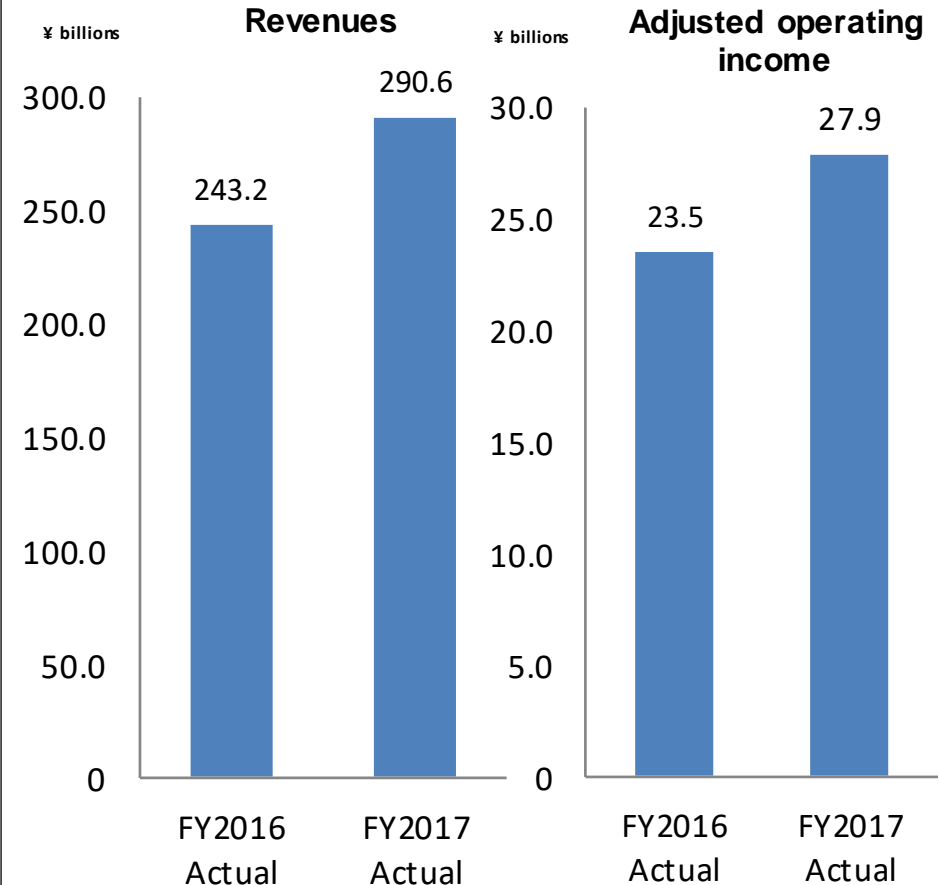
### [Rolls]

- **Injection molding machine parts:** Sales showed recovery resulting from an increase in demand for mobile devices.

As a result, sales of rolls as a whole increased year on year.

### [Soft magnetic components and materials]

Sales of applied products for mobile devices and automobiles were firm because of robust demand. However, demand for amorphous metals dropped, and sales fell as a whole year on year.



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," and operating results for FY2017 were recorded under the "Specialty Steel Products" segment. Figures of FY2016 have been restated to the new segment classification. The operating results of SH Copper Products Co., Ltd. have been included since 4Q FY2016.

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

(¥ billions)		FY2016 Actual US\$1 = ¥108 1 euro = ¥119 1 yuan = ¥16.1	FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	Year-on-Year
Specialty Steel Products	Revenues	243.2	290.6	+19%
	Specialty steel <sup>◎</sup>	195.0	243.8	+25%
	Molds and tool steel <sup>□</sup>			+9%
	Industrial equipment materials <sup>□</sup>			+11%
	Aircraft-related and energy-related materials <sup>□</sup>			-4%
	Alloys for electronic products <sup>□</sup>			+76%
	Rolls <sup>◎</sup>	20.6	21.2	+3%
	Soft magnetic components and materials <sup>◎</sup>	27.7	25.6	-8%
	Adjusted operating income	23.5	27.9	+4.4
	Adjusted operating margin	9.7%	9.6%	-0.1%
	Operating income of the segment	22.2	26.1	+3.9

◎ 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, adjusted operating income]

Both revenues and income increased, reflecting strong demand for both rare earth magnets and ferrite magnets.

## ■ Overview by Product

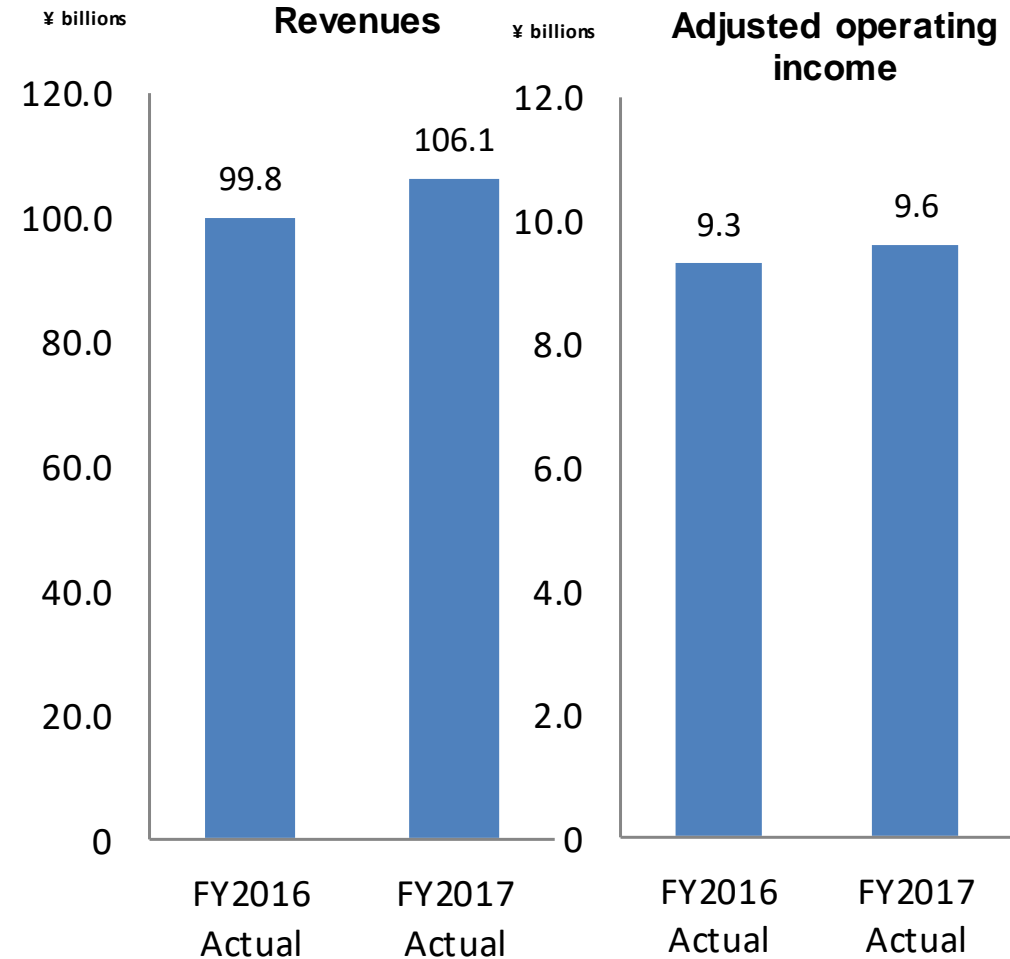
### [Rare earth magnets]

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

Sales of industrial equipment were also solid, supported by increased demand for robots and capital investment-related demand for organic EL panels and semiconductors.

### [Ferrite magnets]

Sales increased year on year due to strong demand for automotive electronic components, reflecting increased automobile production as well as firm demand for household appliance parts.



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

(¥ billions)		FY2016 Actual US\$1 = ¥108 1 euro = ¥119 1 yuan = ¥16.1	FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	Year-on-Year
Magnetic Materials and Applications	Revenues	99.8	106.1	+6%
	Rare earth magnets (weight)			+6%
	Ferrite magnets (weight)			+1%
	Adjusted operating income	9.3	9.6	+0.3
	Adjusted operating margin	9.3%	9.0%	-0.3%
	Operating income of the segment	9.3	7.3	-2.0

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

## ■ Overall Summary

### [Revenues]

Revenues increased due to increased demand for cast iron products and heat-resistant casting components.

### [Adjusted operating income]

Income decreased due to a drop in profitability of heat-resistant casting components and aluminum wheels.

### [Operating income of the segment]

Segment income decreased on the back of a rise in other expenses due in part to the posting of an impairment loss in the aluminum wheel business.

## ■ Overview by Product

### [Casting components for automobiles]

#### • Cast iron products:

[North America] While demand for products for pickup trucks and other light trucks as well as for passenger vehicles decreased, demand for products 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: Revenues increased year on year in the American, European, Asian, and Japanese markets. However, income decreased year on year, affected mainly by productivity issues.

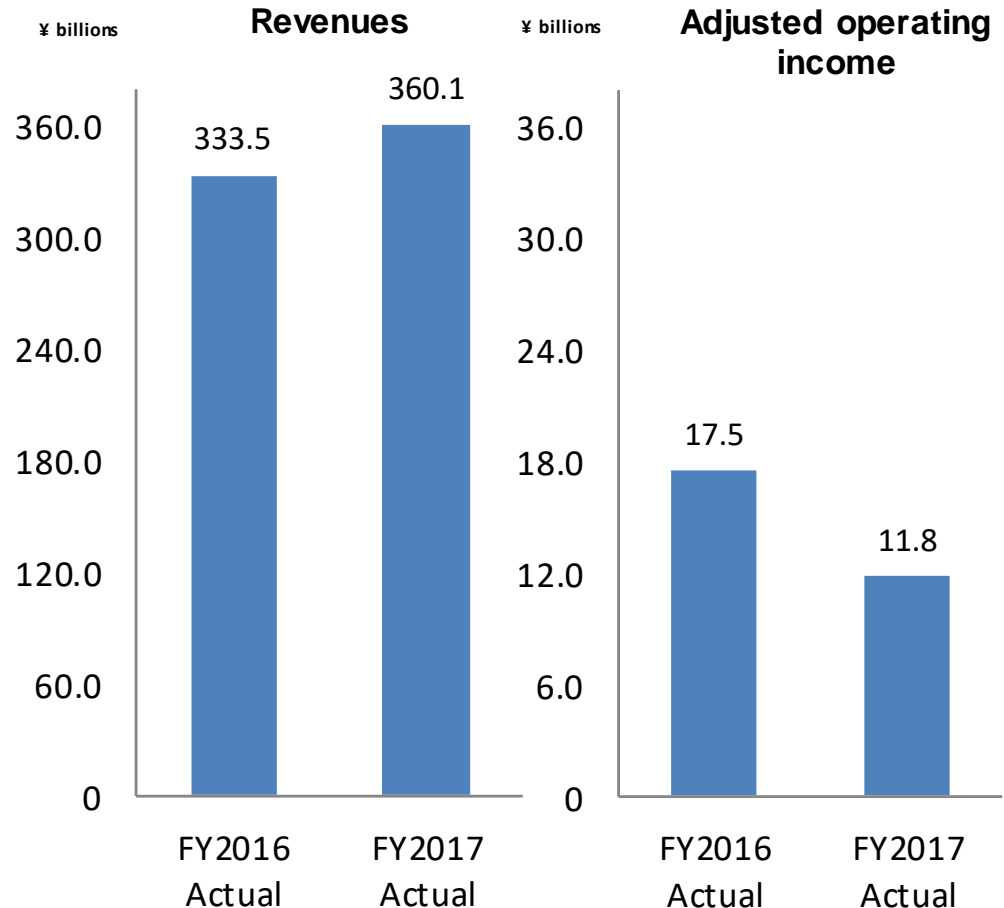
• Aluminum wheels: Sales fell year on year, owing to decreased demand for passenger vehicles in North America and productivity issues.

### [Piping components]

[Pipe fittings] Sales were solid due to increased housing starts in the United States and an increase in large-scale construction projects in Japan.

[Other] Sales were strong in devices for semiconductor manufacturing equipment, reflecting an increase in demand for semiconductor-related equipment.

Sales of pipe fittings as a whole increased year on year.



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

(¥ billions)		FY2016 Actual <small>US\$1 = ¥108 1 euro = ¥119 1 yuan = ¥16.1</small>	FY2017 Actual <small>US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8</small>	Year-on- Year
Functional Components and Equipment	Revenues	333.5	360.1	+8%
	Casting components for automobiles <sup>Ⓢ</sup>	284.9	308.5	+8%
	Cast iron products (weight)			+1%
	Heat-resistant casting components (HERCUNITE™) (weight)			+39%
	Aluminum wheels (number)			-18%
	Piping components <sup>Ⓢ</sup>	48.6	51.5	+6%
	Adjusted operating income	17.5	11.8	-5.7
	Adjusted operating margin	5.2%	3.3%	-1.9%
	Operating income of the segment	15.9	0.6	-15.3

Ⓢ Simple sum before eliminating intersegment revenues

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

## ■ Overall Summary

### [Revenues]

Revenues decreased due to the impact of business restructuring aimed at business portfolio remodeling.

### [Adjusted operating income]

Income increased, reflecting an increase in focus areas.

## ■ Overview by Product

### [Electric wires and cables]

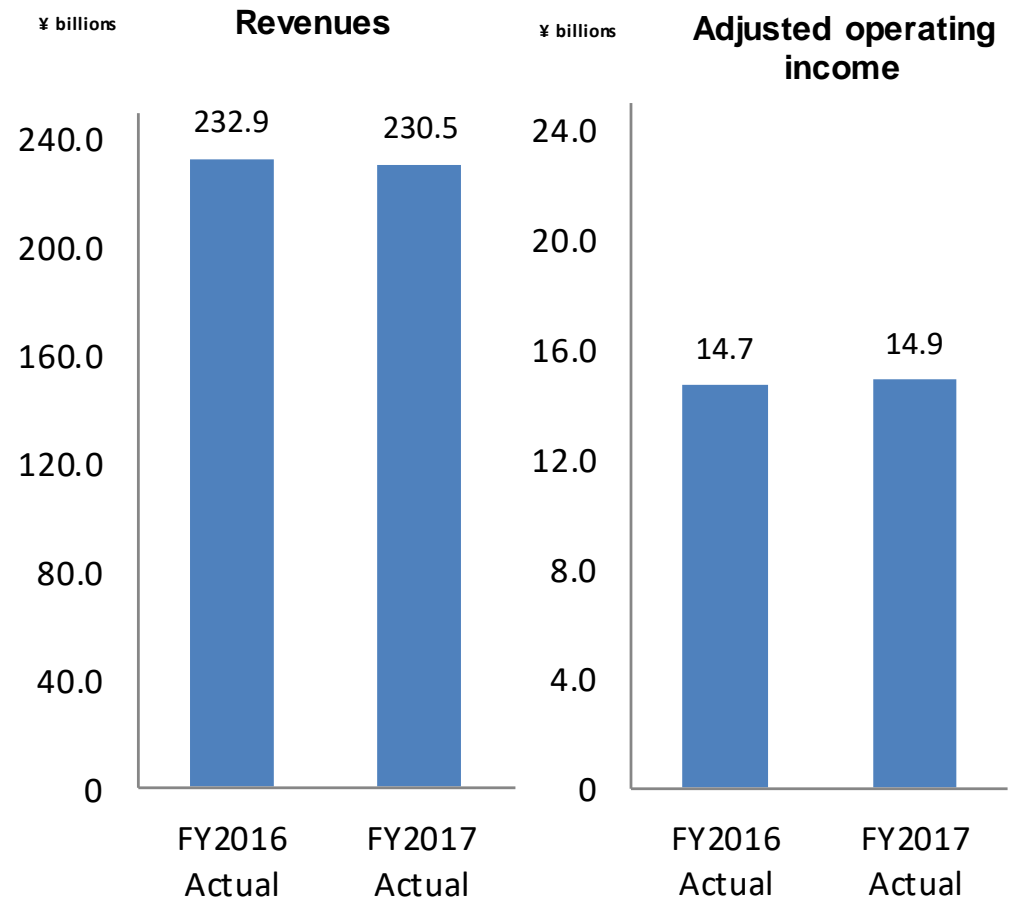
[Wires and cables for rolling stock] Sales grew significantly in China, among others.

[Electric wires for devices] Sales of products for semiconductor manufacturing equipment and FA/robots increased.

[Magnet wires] Sales of products for automobiles and industrial machinery were strong.

### [High performance components]

- Automotive products: Demand for various sensors, harnesses for electric parking brakes and hybrid automobiles increased, and demand for brake hoses was also solid.
- Probe cables for medical use: Sales increased year on year due to increased demand in overseas countries.



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

(¥ billions)		FY2016 Actual US\$1 = ¥108 1 euro = ¥119 1 yuan = ¥16.1	FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	Year-on-Year
Wires, Cables, and Related Products	Revenues	232.9	230.5	-1%
	Focus sectors			
	Rolling stocks <sup>□</sup>			+31%
	Medical devices <sup>□</sup>			+12%
	Automotive electronic components <sup>□</sup>			+20%
	Adjusted operating income	14.7	14.9	+0.2
	Adjusted operating margin	6.3%	6.5%	+0.2%
	Operating income of the segment	20.1	11.2	-8.9

□ Indicates the change in revenues calculated by a simplified method

# 14. Assets, Liabilities, and Net Assets

(¥ billions)	March 31, 2017 US\$1 = ¥112 1 euro = ¥120 1 yuan = ¥16.3	March 31, 2018 US\$1 = ¥106 1 euro = ¥131 1 yuan = ¥16.9	Change
Total assets	1,040.4	1,058.8	+18.4
Trade receivables and inventories	329.1	397.8	+68.7
Total liabilities	491.6	488.6	-3.0
Interest-bearing debt	194.5	160.8	-33.7
Equity attributable to shareholders of the parent company	536.6	562.7	+26.1
Non-controlling interests	12.2	7.5	-4.7
Equity attributable to shareholders of the parent company ratio	51.6%	53.1%	+1.5%
D/E ratio	0.36	0.29	-0.07

**[Assets]** Change from March 2017: +¥18.4 billion ⇒ Increase in trade receivables and inventories, etc.

**[Liabilities]** Change from March 2017: -¥3.0 billion

**[D/E ratio]** Improved 7 percentage points compared to end of FY2016 ⇒ Decreased due to repayment of borrowings, etc.

# 15. Consolidated Cash Flows

(¥ billions)	FY2016 Actual	FY2017 Actual	Year-on-Year
Cash flows from operating activities	89.4	39.1	-50.3
Cash flows from investing activities	-35.9	-75.1	-39.2
Free cash flows	53.5	-36.0	-89.5
Core free cash flows <sup>*</sup>	24.2	-38.4	-62.6

## [Cash flows from operating activities]

A decrease in net income, and increases in trade receivables and inventories resulted in a net cash outflow ¥50.3 billion higher than FY2016.

## [Cash flows from investing activities]

Cash used in investing activities increased by ¥39.2 billion compared to FY2016 due in part to the increase in purchases of property, plant and equipment (FY2016: ¥63.1 billion → FY2017: ¥76.3 billion).

## [Free cash flows]

Decreased by ¥89.5 billion due to a net cash outflow of cash flows from operating activities and an increase in investing activities.

<sup>\*</sup>Core free cash flows: (Cash flows from operating activities) – (Capital expenditure)



# 16. Operating Results Forecast for FY2018

(¥ billions) Profit margin in brackets	FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	FY2018 Forecast US\$1 = ¥105	Year-on- Year
Revenues	988.3	1,020.0	+3%
Adjusted operating income	[6.6%] 65.1	[7.2%] 73.0	+7.9
EBIT	48.9	67.0	+18.1
Income before income taxes	47.0	64.5	+17.5
Net income attributable to shareholders of the parent company	42.2	48.0	+5.8
ROE <sup>*1</sup>	7.5%	8.3%	+0.8%
ROA <sup>*2</sup>	4.0%	4.5%	+0.5%

- Exchange rate trend is for a stronger yen.  
(FY2017 actual: ¥111/\$ → FY2018 forecast: ¥105/\$)
- Firm demand is expected to continue mainly in core products.
- Income is expected to increase due to price revision effects, improvement in profitability of underperforming businesses, and the harvesting of gains from increased production, despite an increase in fixed costs due to aggressive capital expenditure.

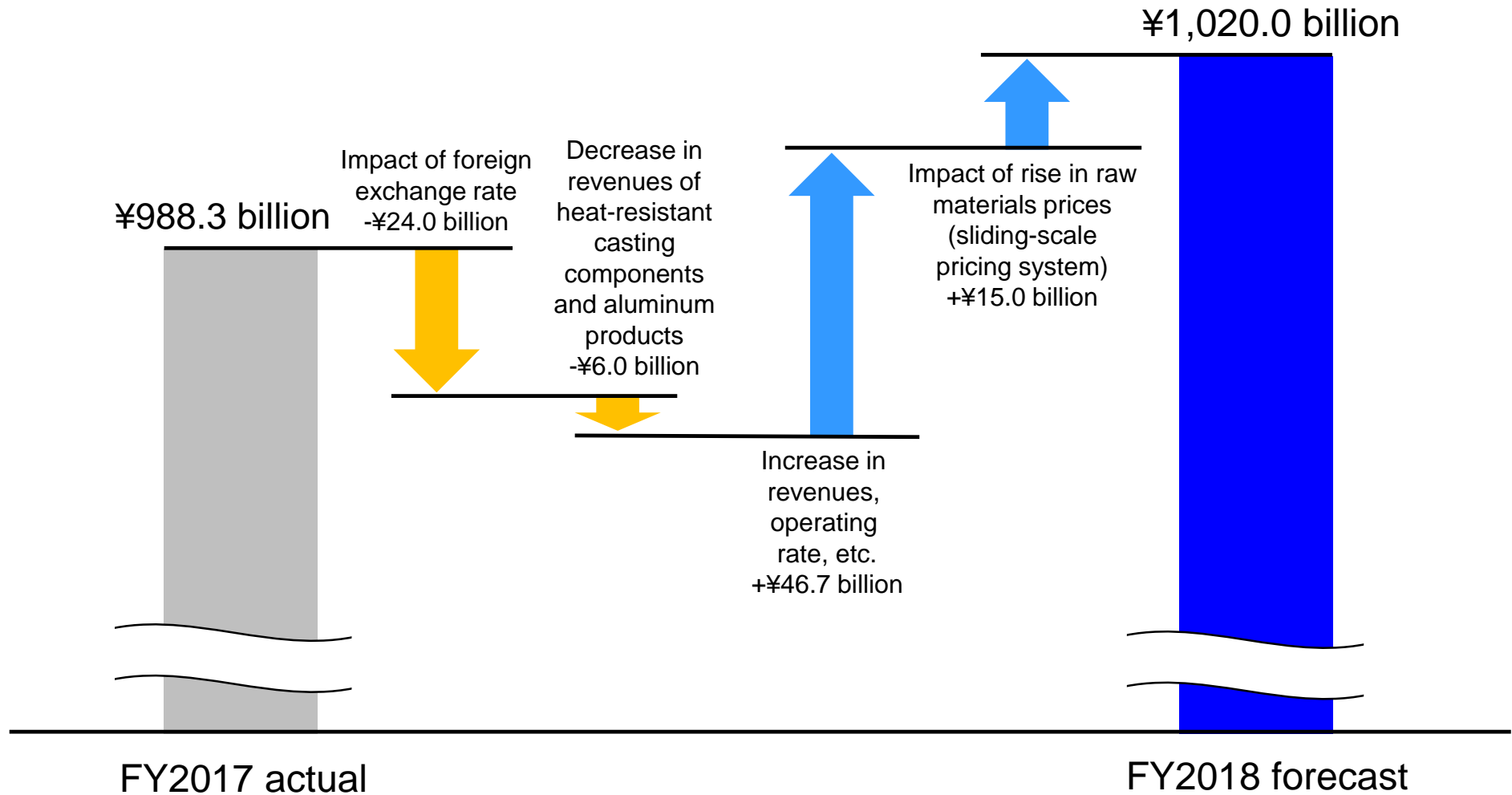
\*1 Return on equity of shareholders of the parent company (ROE) = Net income attributable to shareholders of the parent company / Term-end equity of shareholders of the parent company x 100

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

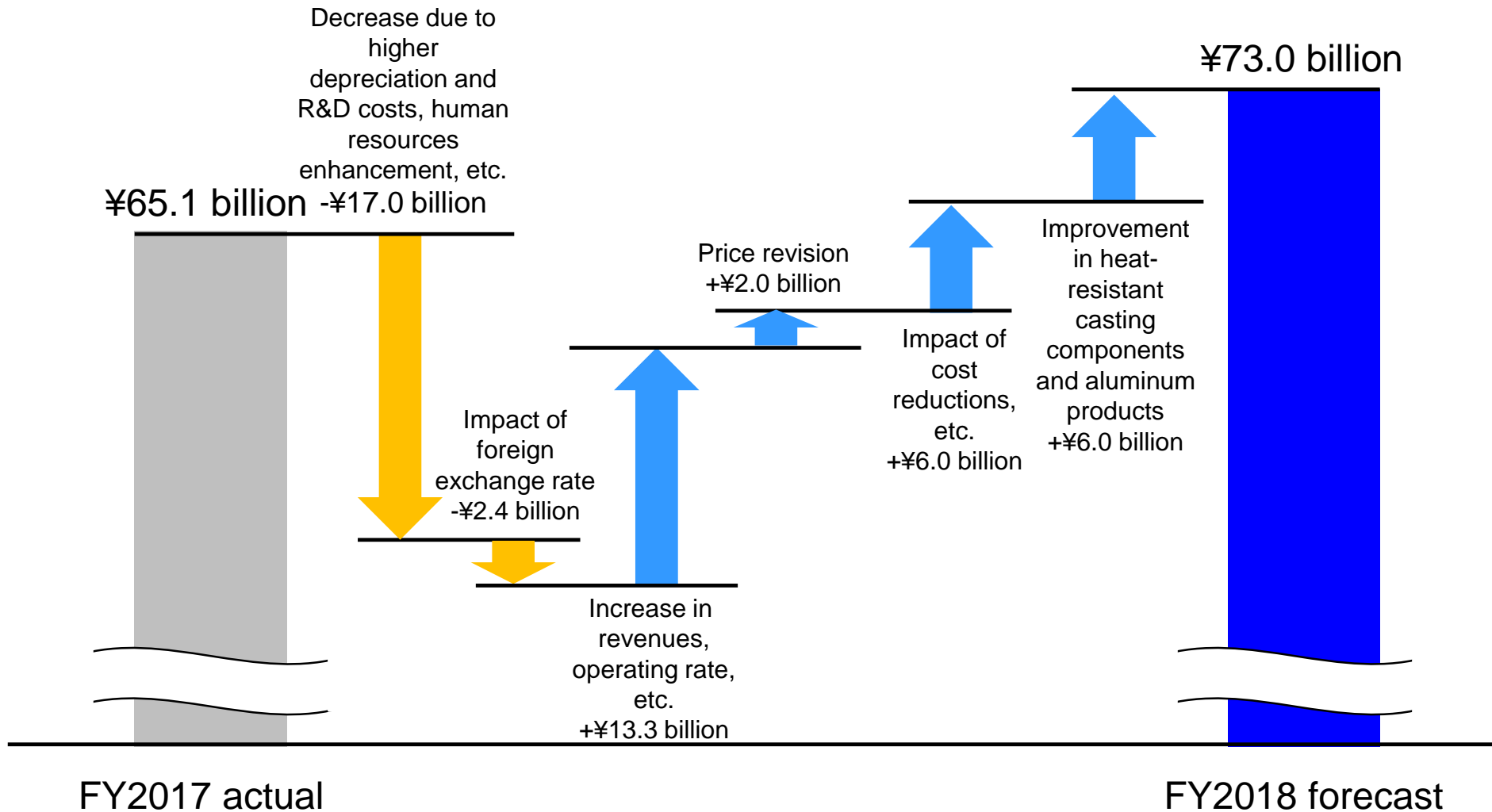
# 17. Revenues and Adjusted Operating Income Forecast by Segment

(¥ billions)		FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	FY2018 Forecast US\$1 = ¥105	Year-on- Year
Specialty Steel Products	Revenues	290.6	320.0	+10%
	Adjusted operating income	27.9	31.0	+3.1
	Adjusted operating margin	9.6%	9.7%	+0.1%
Magnetic Materials and Applications	Revenues	106.1	115.0	+8%
	Adjusted operating income	9.6	7.5	-2.1
	Adjusted operating margin	9.0%	6.5%	-2.5%
Functional Components and Equipment	Revenues	360.1	345.0	-4%
	Adjusted operating income	11.8	17.0	+5.2
	Adjusted operating margin	3.3%	4.9%	+1.6%
Wires, Cables, and Related Products	Revenues	230.5	240.0	+4%
	Adjusted operating income	14.9	17.0	+2.1
	Adjusted operating margin	6.5%	7.1%	+0.6%
Others/ Adjustments	Revenues	1.0	0.0	
	Adjusted operating income	0.9	0.5	
Total	Revenues	988.3	1,020.0	+3%
	Adjusted operating income	65.1	73.0	+7.9
	Adjusted operating margin	6.6%	7.2%	+0.6%

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



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



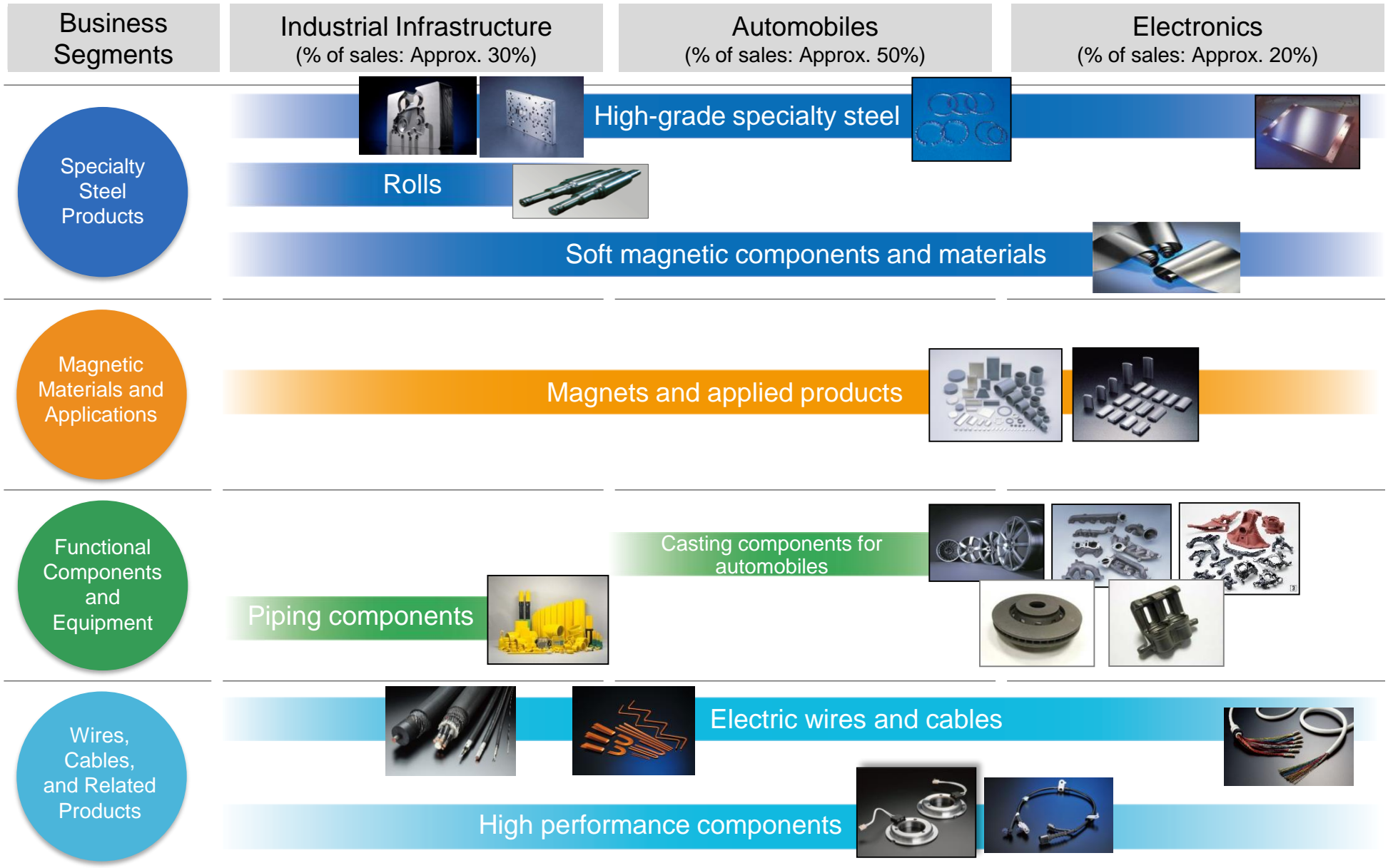
# Reference Data (1)

(¥ billions)	FY2013 Actual US\$1 = ¥100	FY2014 Actual US\$1 = ¥110	FY2015 Actual US\$1 = ¥120	FY2016 Actual US\$1 = ¥108 1 euro = ¥119 1 yuan = ¥16.1	FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	FY2018 Forecast US\$1 = ¥105
Revenues	807.8	1,004.4	1,017.6	910.5	988.3	1,020.0
Adjusted operating income	63.9	84.4	76.1	66.0	65.1	73.0
Adjusted operating income margin	7.9%	8.4%	7.5%	7.2%	6.6%	7.2%
Other income	5.8	21.3	36.4	14.1	5.4	
Other expenses	- 16.3	- 21.3	- 12.5	- 11.8	- 24.2	
IFRS operating income	53.4	84.4	100.0	68.3	46.3	
EBIT	57.5	88.6	99.1	68.5	48.9	67.0
Income before income taxes	55.8	86.4	96.2	66.0	47.0	64.5
Net income attributable to shareholders of the parent company	48.1	70.6	69.1	50.6	42.2	48.0
Interest-bearing debt	177.2	255.4	220.4	194.5	160.8	
Capital expenditure	32.0	51.5	59.6	63.8	91.8	100.0
Depreciation	33.8	39.9	42.9	43.0	46.1	55.0
R&D expenses	16.8	20.9	19.1	18.0	17.7	21.0
D/E ratio (times)	0.48	0.55	0.44	0.36	0.29	0.35
Earnings per share (yen)	116.79	165.02	161.50	118.32	98.72	112.26
Dividend per share (yen)	17.0	23.0	26.0	26.0	26.0	26.0
Parent company shareholder equity per share (yen)	870.4	1,090.6	1,159.7	1,254.9	1,316.1	1,408.5
Employees	26,850	30,278	29,157	28,754	30,390	31,300
ROE	12.9%	15.1%	13.9%	9.4%	7.5%	8.3%
ROA	5.7%	6.5%	6.7%	4.9%	4.0%	4.5%
Overseas sales ratio	42%	47%	56%	56%	56%	54%

## Major products' volume trends (weight basis)


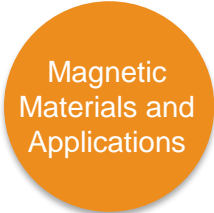


Product		FY2017 actual vs. FY2016 actual	FY2018 forecast vs. FY2017 actual
Specialty Steel Products	Molds and tool steel	+2%	Slight increase
	CVT belt materials	+21%	Same level as FY2017
	Piston ring materials	+7%	More than +10%
	Organic EL-related components	+66%	More than +35%
Magnetic Materials and Applications	Rare earth magnets	+6%	Less than +10%
Functional Components and Equipment	Cast iron products	+1%	Slight increase
	Heat-resistant casting components (HERCUNITE™)	+39%	Under -10%
	Aluminum wheels (number)	-18%	Under -10%

# (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>	Magnetic Materials Company	
	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**