

Hitachi Metals Financial Results for the First Half of Fiscal Year 2018 (April 1, 2018 to September 30, 2018)

October 25, 2018

1. Overview of the First Half of Fiscal Year 2018

Overview: Both revenues and income increased year on year; progress is roughly as assumed at the beginning of the fiscal year

- Both revenues and income increased year on year due to the growth of specialty steel products, price correction effects, profitability improvements of the “businesses with issues” (heat-resistant casting components and aluminum wheels), etc.
- Overall, progress is roughly as assumed at the beginning of the fiscal year.

Segments: Specialty steel and wires, cables and related products were robust; magnetic materials and applications and functional components and equipment were weaker

- Specialty steel: Both revenues and income increased year on year due to strong demand for industrial equipment materials and alloys for electronic products, compounded by price correction effects.
- Magnetic materials and applications: Income decreased year on year due in part to investments in an innovative production line in preparation for EVs*. Progress is weaker than assumed at beginning of the fiscal year due to a drop in demand for FA, etc. The launch of production lines is steady.
- Functional components and equipment: Income increased year on year for businesses with issues due to profitability improvement through price correction, productivity improvement, and quantity reduction of products. However, progress is weaker than initially assumed on the back of difficulty in hiring in North America and a drop in demand for devices for semiconductor manufacturing equipment.
- Wires, cables, and related products: Both revenues and income increased year on year as the five priority areas were solid. Progress is as initially assumed.

*Including term for hybrid electric vehicles (HEV) and plug-in hybrid electric vehicles (PHEV)

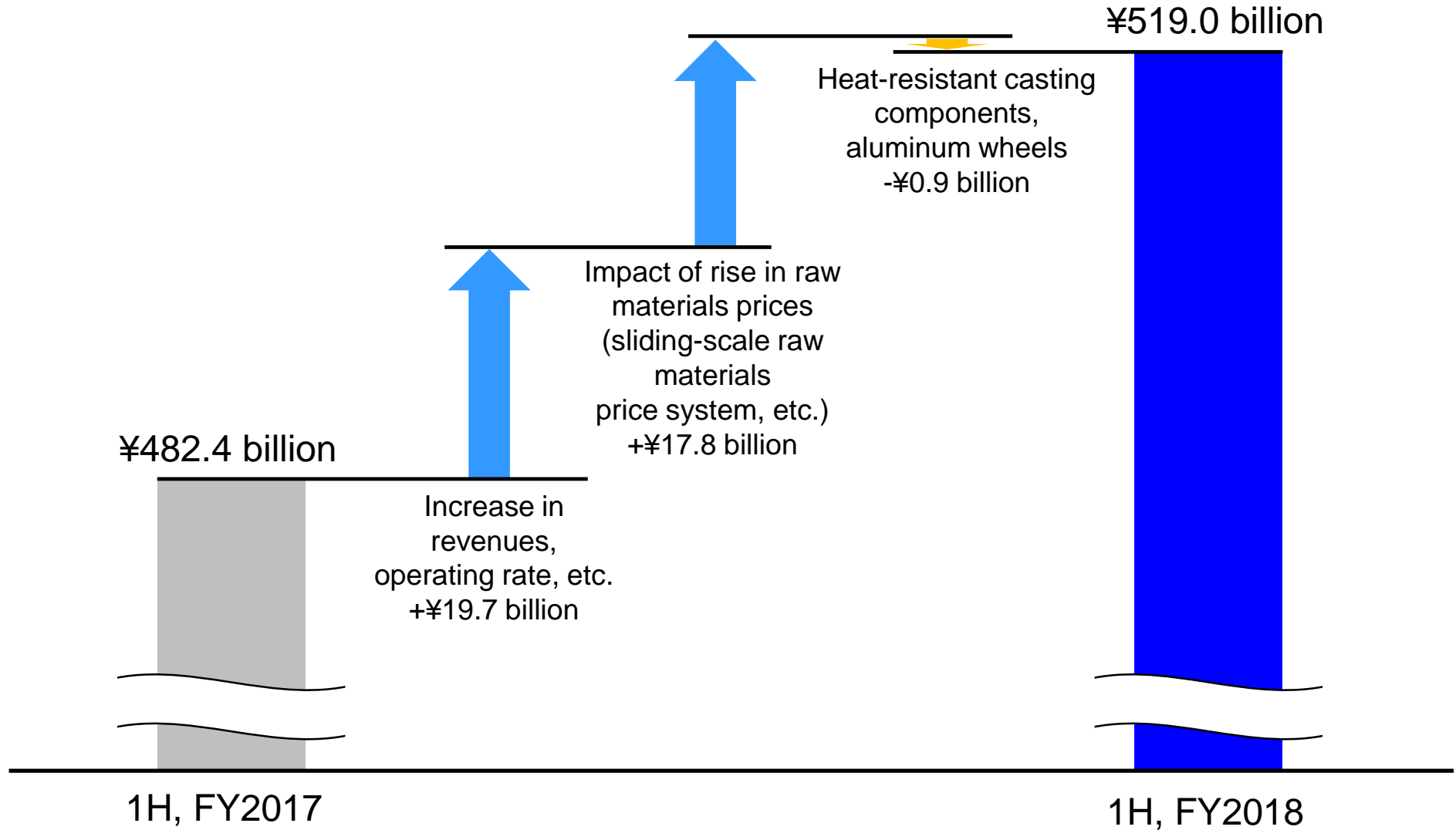
2. Operating Results for the First Half of Fiscal Year 2018

(¥ billions) Profit margin in brackets	1H, FY2017 Actual US\$1 = ¥111 1 euro = ¥126 1 yuan = ¥16.4	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	Year-on- Year	Supplementary Note
Revenues	482.4	519.0	+8%	Increase in revenues, influenced mainly by an increase in demand for mainstay products and a rise in raw materials prices (sliding-scale raw materials price system, etc.).
Adjusted operating income ^{*1}	[6.7%] 32.2	[6.4%] 33.1	+0.9	Increase due in part to an increase in profits owing to a rise in revenues, the effects of cost reduction measures, and revenue improvement of businesses with issues, despite cost increase following aggressive investment.
Other income	2.1	7.7	+5.6	Recorded gain on bargain purchase, etc. generated from making Santoku a consolidated subsidiary of Hitachi Metals, Ltd. on April 2, 2018.
Other expenses	-7.5	-5.0	+2.5	
IFRS operating income	[5.6%] 26.8	[6.9%] 35.8	+9.0	
EBIT	29.1	38.2	+9.1	
Income before income taxes	28.0	37.2	+9.2	
Income taxes	-8.4	-9.2	-0.8	
Net income attributable to shareholders of the parent company	19.6	28.1	+8.5	
Overseas sales ratio ^{*2}	57%	56%	-1%	

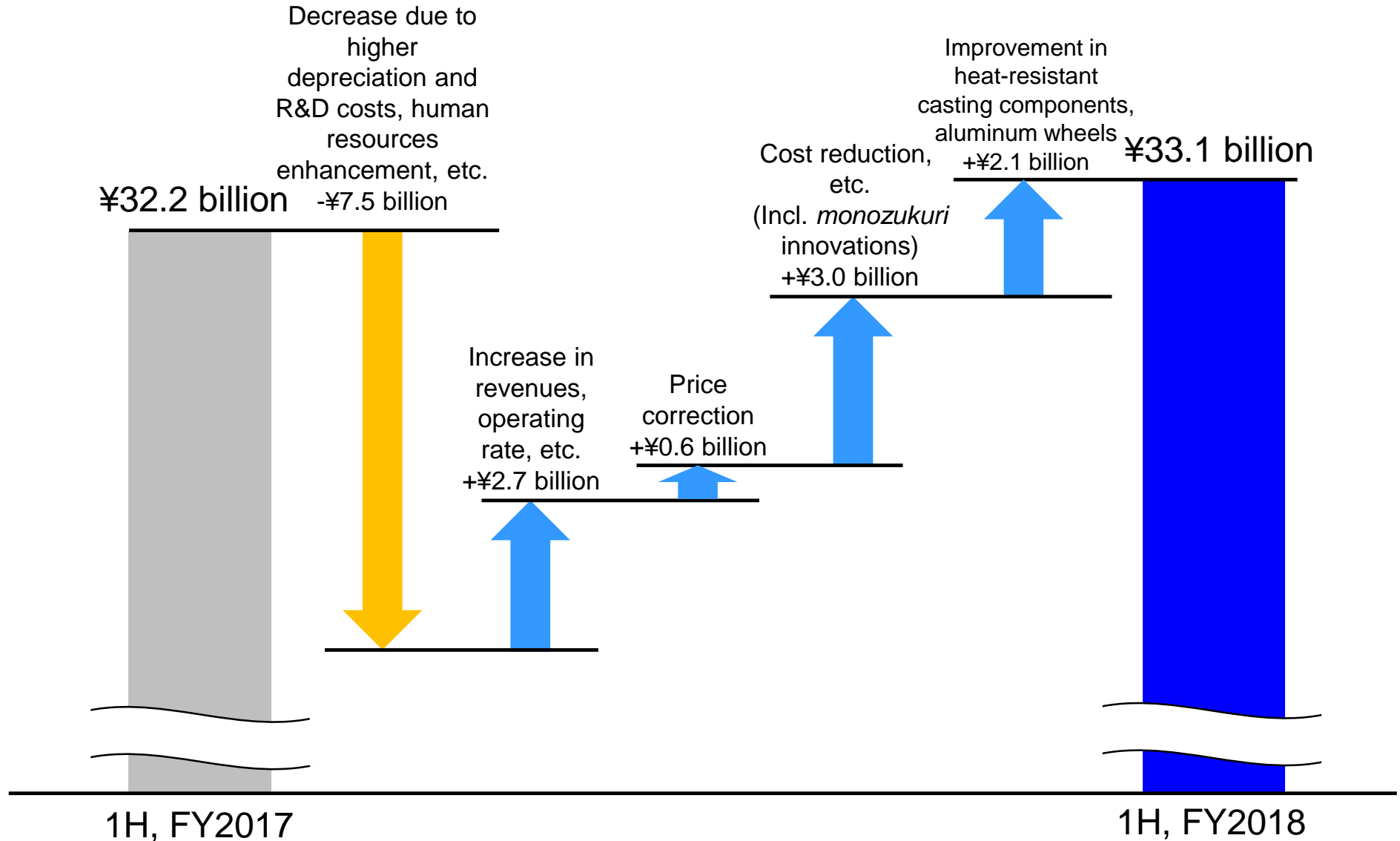
*1 Adjusted operating income: (Revenues) – (Sales Cost) – (Selling, General, & Administrative expenses)

*2 Overseas sales by region: 1H, FY2018: North America, 30%; China, 8%; Asia (exc. China), 12%; Europe, 5%; Others, 1%
1H, FY2017: North America, 31%; China, 8%; 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. Operating Results by Segment for the First Half of Fiscal Year 2018

(¥ billions) Profit margin in brackets		1H, FY2017 Actual US\$1 = ¥111 1 euro = ¥126 1 yuan = ¥16.4	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	Year-on-Year
Specialty Steel Products	Revenues	141.0	154.3	+9%
	Adjusted operating income	[9.6%] 13.5	[10.0%] 15.5	+2.0
	Operating income of the segment	[9.4%] 13.2	[9.6%] 14.8	+1.6
Magnetic Materials and Applications	Revenues	52.1	58.4	+12%
	Adjusted operating income	[9.2%] 4.8	[5.0%] 2.9	-1.9
	Operating income of the segment	[9.2%] 4.8	[14.6%] 8.5	+3.7
Functional Components and Equipment	Revenues	178.4	184.4	+3%
	Adjusted operating income	[3.5%] 6.2	[3.7%] 6.9	+0.7
	Operating income of the segment	[3.1%] 5.5	[2.7%] 4.9	-0.6
Wires, Cables, and Related Products	Revenues	110.5	121.0	+10%
	Adjusted operating income	[6.2%] 6.9	[6.0%] 7.2	+0.3
	Operating income of the segment	[2.5%] 2.8	[5.7%] 6.9	+4.1
Others/ Adjustments	Revenues	0.4	0.9	—
	Adjusted operating income	0.8	0.6	-0.2
	Operating income of the segment	0.5	0.7	+0.2
Total	Revenues	482.4	519.0	+8%
	Adjusted operating income	[6.7%] 32.2	[6.4%] 33.1	+0.9
	IFRS operating income	[5.6%] 26.8	[6.9%] 35.8	+9.0

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

■ Overall Summary

[Revenues]

Revenues increased, reflecting an increase in demand for specialty steel, in addition to the impact of rising raw materials prices.

[Adjusted operating income]

Income increased due to a rise in sales of major products and the effects of price corrections.

■ Overview by Products

[Specialty steel]

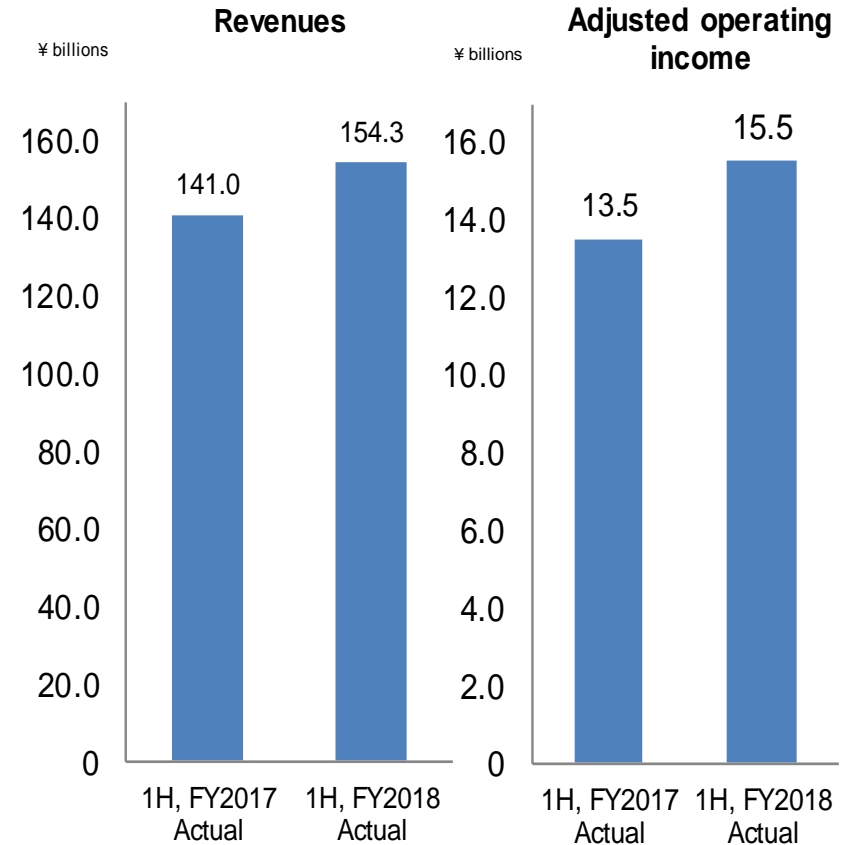
- Molds and tool steel: Sales increased year on year due to solid demand mainly in Japan.
- Industrial equipment materials: Sales increased year on year due to an increase in sales of environment-conscious products related to automobiles.
- Alloys for electronic products: Sales of battery materials and 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 also increased due to high capital investment-related demand, resulting in a year-on-year increase in sales of rolls as a whole.

[Soft magnetic components and materials]

Demand for amorphous metals recovered and 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.



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

(¥ billions)		1H, FY2017 Actual US\$1 = ¥111 1 euro = ¥126 1 yuan = ¥16.4	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	Year-on- Year
Specialty Steel Products	Revenues	141.0	154.3	+9%
	Specialty steel [Ⓞ]	118.3	129.1	+9%
	Molds and tool steel [□]			+11%
	Industrial equipment materials [□]			+11%
	Aircraft-related and energy-related materials [□]			+14%
	Alloys for electronic products [□]			+6%
	Rolls [Ⓞ]	10.1	11.5	+14%
	Soft magnetic components and materials [Ⓞ]	12.5	13.7	+10%
	Adjusted operating income	13.5	15.5	+2.0
	Adjusted operating margin	9.6%	10.0%	+0.4%
Operating income of the segment	13.2	14.8	+1.6	

Ⓞ 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 Products

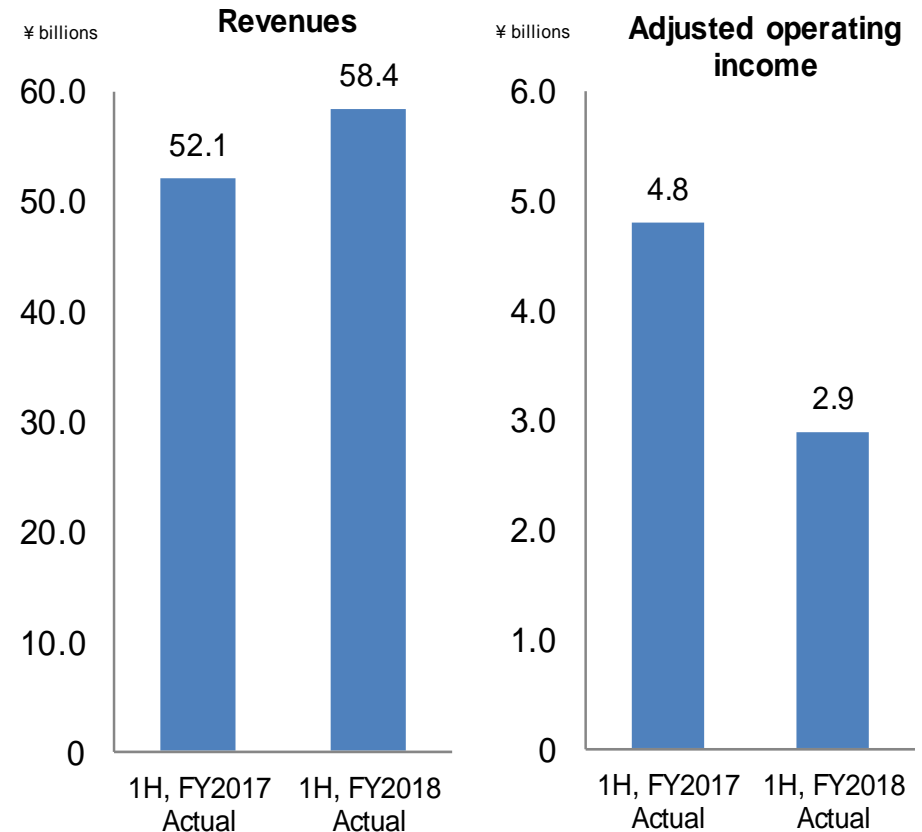
[Rare earth magnets]

Demands for automotive electronic components mainly for electric power steering and hybrid/electric automobiles were solid.

Sales of industrial equipment were unchanged year on year, due to decreased demand for mainly semiconductors capital investment-related products. 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 decrease in demand for household appliance parts.



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

(¥ billions)		1H, FY2017 Actual US\$1 = ¥111 1 euro = ¥126 1 yuan = ¥16.4	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	Year-on- Year
Magnetic Materials and Applications	Revenues	52.1	58.4	+12%
	Rare earth magnets (weight)			-2%
	Ferrite magnets (weight)			-5%
	Adjusted operating income	4.8	2.9	-1.9
	Adjusted operating margin	9.2%	5.0%	-4.2%
	Operating income of the segment	4.8	8.5	+3.7

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 increased due to the improvement of the “businesses with issues” (heat-resistant casting components, aluminum wheels).

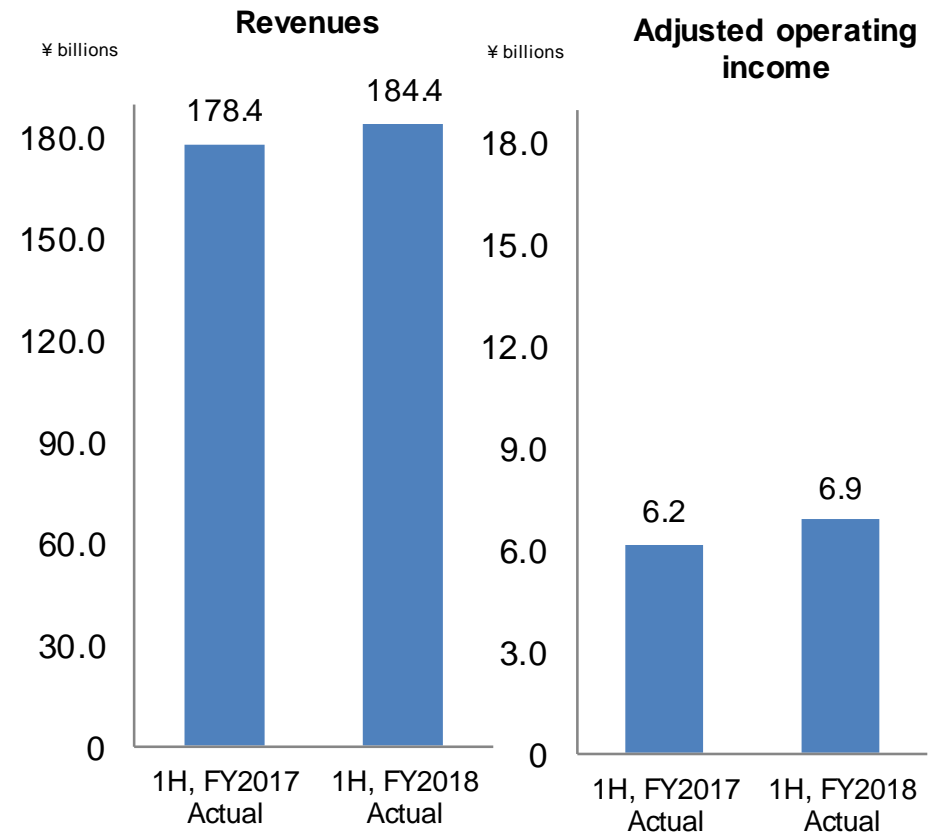
■ Overview by Products

[Casting components for automobiles]

- Cast iron products:
[North America] Demand for commercial vehicles, farm machinery, and construction machinery increased.
[Asia] Sales were robust due to increased demand for automobiles.
Sales increased year on year as a whole.
- Heat-resistant casting components, aluminum wheels:
Revenues decreased but income increased year on year due to business structure reforms such as productivity improvement activities, the correction of sale prices, and adjustment of production volumes to improve profitability.

[Piping components]

- Sales of piping components as a whole decreased year on year.
- Pipe fittings: Although demand for capital investment decreased in Japan due to price revisions and the summer heat wave, sales were unchanged 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 capital investment projects.



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

(¥ billions)		1H, FY2017 Actual US\$1 = ¥111 1 euro = ¥126 1 yuan = ¥16.4	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	Year-on- Year
Functional Components and Equipment	Revenues	178.4	184.4	+3%
	Casting components for automobiles [◎]	153.7	160.8	+5%
	Cast iron products (weight)			+2%
	Heat-resistant casting components (HERCUNITE™) (weight)			-5%
	Aluminum wheels (number)			-9%
	Piping components [◎]	24.7	23.6	-4%
	Adjusted operating income	6.2	6.9	+0.7
	Adjusted operating margin	3.5%	3.7%	+0.2%
	Operating income of the segment	5.5	4.9	-0.6

◎ 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 Products

[Electric wires and cables]

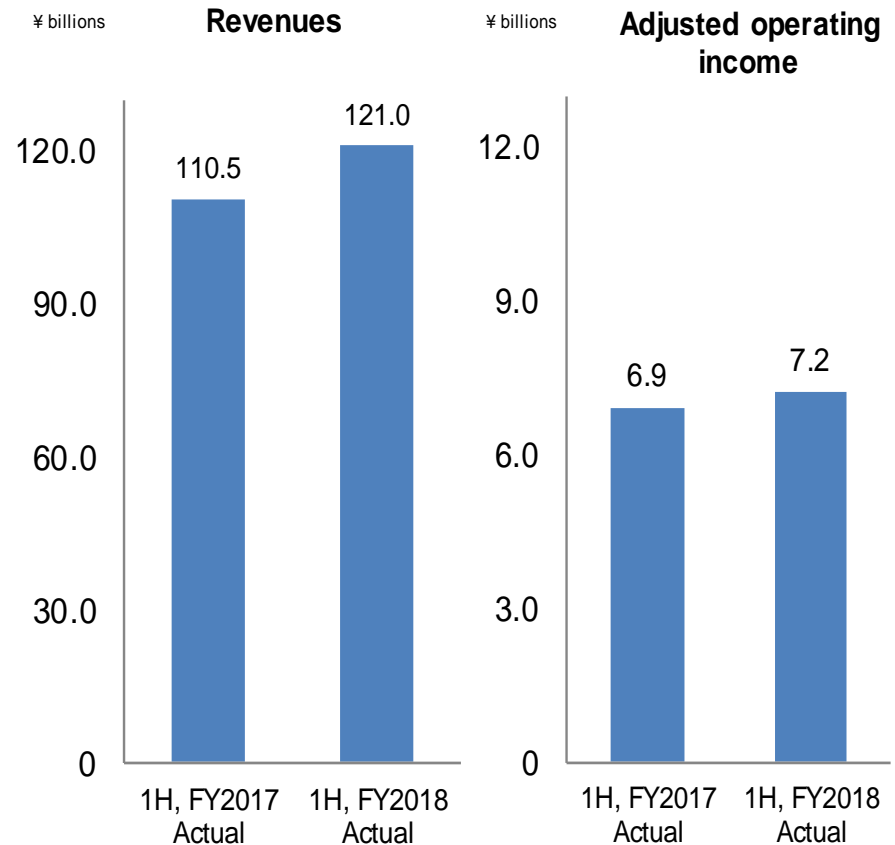
Sales of electric wires and cables increased year on year as a whole.

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

[High performance components]

Sales of high performance components increased year on year as a whole.

- Automotive products: Demand for various sensors, harnesses for electric parking brakes, and hybrid automobiles increased; 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.



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

(¥ billions)		1H, FY2017 Actual US\$1 = ¥111 1 euro = ¥126 1 yuan = ¥16.4	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	Year-on- Year
Wires, Cables, and Related Products	Revenues	110.5	121.0	+10%
	Focus sectors			
	Rolling stocks [□]			+18%
	Medical devices [□]			+14%
	Automotive electronic components [□]			+15%
	FA, robots [□]			+43%
	Magnet wires [□]			+13%
	Adjusted operating income	6.9	7.2	+0.3
	Adjusted operating margin	6.2%	6.0%	-0.2%
Operating income of the segment	2.8	6.9	+4.1	

□ 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	September 30, 2018 US\$1 = ¥114 1 euro = ¥132 1 yuan = ¥16.5	Change
Total assets	1,058.8	1,126.5	+67.7
Trade receivables and inventories	397.8	438.5	+40.7
Total liabilities	488.6	521.2	+32.6
Interest-bearing debt	160.8	201.4	+40.6
Equity attributable to shareholders of the parent company	562.7	598.0	+35.3
Non-controlling interests	7.5	7.3	-0.2
Equity attributable to shareholders of the parent company ratio	53.1%	53.1%	+0.0%
D/E ratio (times)	0.29	0.34	+0.05

- [Assets]** Change from March 2018: +¥67.7 billion ⇒ Increase in trade receivables, inventories, and property, plant and equipment, etc.
- [Liabilities]** Change from March 2018: +¥32.6 billion ⇒ Increase in short-term debt, etc.
- [D/E ratio]** Change from March 2018: Rose by 0.05 points

15. Consolidated Cash Flows

(¥ billions)	1H, FY2017 Actual	1H, FY2018 Actual	Year-on-Year
Cash flows from operating activities	12.0	22.0	+10.0
Cash flows from investing activities	-38.4	-51.2	-12.8
Free cash flows	-26.4	-29.2	-2.8
Core free cash flows*	-27.6	-31.3	-3.7

[Cash flows from operating activities]

An increase in net income, etc. resulted in a net cash inflow ¥10.0 billion higher than 2Q in FY2017.

[Cash flows from investing activities]

Cash used in investing activities increased by ¥12.8 billion compared to 1H in FY2017 due in part to the increase in purchases of property, plant and equipment (1H, FY2017: ¥39.1 billion → 1H, FY2018: ¥52.6 billion).

[Free cash flows]

Decreased by ¥2.8 billion compared to 1H in FY2017 due to an increase in investing activities.

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

Overview

- There will be no change to the full-year performance forecast as of at the beginning of the year due in part to the demand trend, the effects of price corrections, and profitability improvements of the “businesses with issues.”

Segments

- Specialty steel: Expected to remain solid mainly in industrial equipment materials and alloys for electronic products, compounded in addition to price correction effects.
Inventory of semiconductor package components will be adjusted.
- Magnetic materials and applications: Operation of innovative production lines is expected to be enhanced toward the fiscal year end.
Demand adjustment for FA will continue.
The materials flow will improve due to the acquisition of Santoku.
- Functional components and equipment: Profitability of the businesses with issues is expected to improve steadily.
There are continued concerns about hiring difficulties in North America. (Measures to secure personnel are being implemented.)
A decrease in demand for devices for semiconductor manufacturing equipment will continue.
- Wires, cables, and related products: Wires and cables for rolling stock and automotive electronic components are expected to remain robust.
Inventories of products for FA and robots will be adjusted.

17. FY2018 Results Forecast

(¥ billions) Profit margin in brackets	FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	FY2018 Forecast 1H actual US\$1= ¥110 2H assumption US\$1= ¥105
Revenues	988.3	519.0	1,020.0
Adjusted operating income	[6.6%] 65.1	[6.4%] 33.1	[7.2%] 73.0
EBIT	48.9	38.2	67.0
Income before income taxes	47.0	37.2	64.5
Net income attributable to shareholders of the parent company	42.2	28.1	48.0
ROE ^{*1}	7.5%		8.3%
ROA ^{*2}	4.0%		4.5%

*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

18. Revenues & Adjusted Operating Income Forecasts by Segment

(¥ billions)		FY2017 Actual US\$1 = ¥111 1 euro = ¥130 1 yuan = ¥16.8	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	FY2018 Forecast 1H actual US\$1= ¥110 2H assumption US\$1= ¥105
Specialty Steel Products	Revenues	290.6	154.3	320.0
	Adjusted operating income	27.9	15.5	31.0
	Adjusted operating margin	9.6%	10.0%	9.7%
Magnetic Materials and Applications	Revenues	106.1	58.4	115.0
	Adjusted operating income	9.6	2.9	7.5
	Adjusted operating margin	9.0%	5.0%	6.5%
Functional Components and Equipment	Revenues	360.1	184.4	345.0
	Adjusted operating income	11.8	6.9	17.0
	Adjusted operating margin	3.3%	3.7%	4.9%
Wires, Cables, and Related Products	Revenues	230.5	121.0	240.0
	Adjusted operating income	14.9	7.2	17.0
	Adjusted operating margin	6.5%	6.0%	7.1%
Others/ Adjustments	Revenues	1.0	0.9	0
	Adjusted operating income	0.9	0.6	0.5
Total	Revenues	988.3	519.0	1,020.0
	Adjusted operating income	65.1	33.1	73.0
	Adjusted operating margin	6.6%	6.4%	7.2%

Reference Data (1)

(¥ 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	1H, FY2017 Actual US\$1 = ¥111 1 euro = ¥126 1 yuan = ¥16.4	1H, FY2018 Actual US\$1 = ¥110 1 euro = ¥130 1 yuan = ¥16.8	FY2018 Forecast 1H actual US\$1 = ¥110 2H assumption US\$1 = ¥105
Revenues	910.5	988.3	482.4	519.0	1,020.0
Adjusted operating income	66.0	65.1	32.2	33.1	73.0
Adjusted operating margin	7.2%	6.6%	6.7%	6.4%	7.2%
Other income	14.1	5.4	2.1	7.7	
Other expenses	-11.8	-24.2	-7.5	-5.0	
IFRS operating income	68.3	46.3	26.8	35.8	
EBIT	68.5	48.9	29.1	38.2	67.0
Income before income taxes	66.0	47.0	28.0	37.2	64.5
Net income attributable to shareholders of the parent company	50.6	42.2	19.6	28.1	48.0
Interest-bearing debt	194.5	160.8	195.4	201.4	
Capital expenditure	63.8	91.8	38.9	44.4	100.0
Depreciation	43.0	46.1	22.7	24.8	55.0
R&D expenses	18.0	17.7	8.0	9.3	21.0
D/E ratio (times)	0.36	0.29	0.35	0.34	0.35
Earnings per share(Basic) (yen)	118.32	98.72	45.94	65.81	112.26
Dividend per share (yen)	26.0	26.0	13.0	17.0	34.0
Parent company shareholder equity per share (yen)	1,254.9	1,316.1	1,294.1	1,398.6	1,408.5
Employees	28,754	30,390	29,831	31,016	31,300
ROE ^{*1}	9.4%	7.5%			8.3%
ROA ^{*2}	4.9%	4.0%			4.5%
Overseas sales ratio	56%	56%	57%	56%	54%

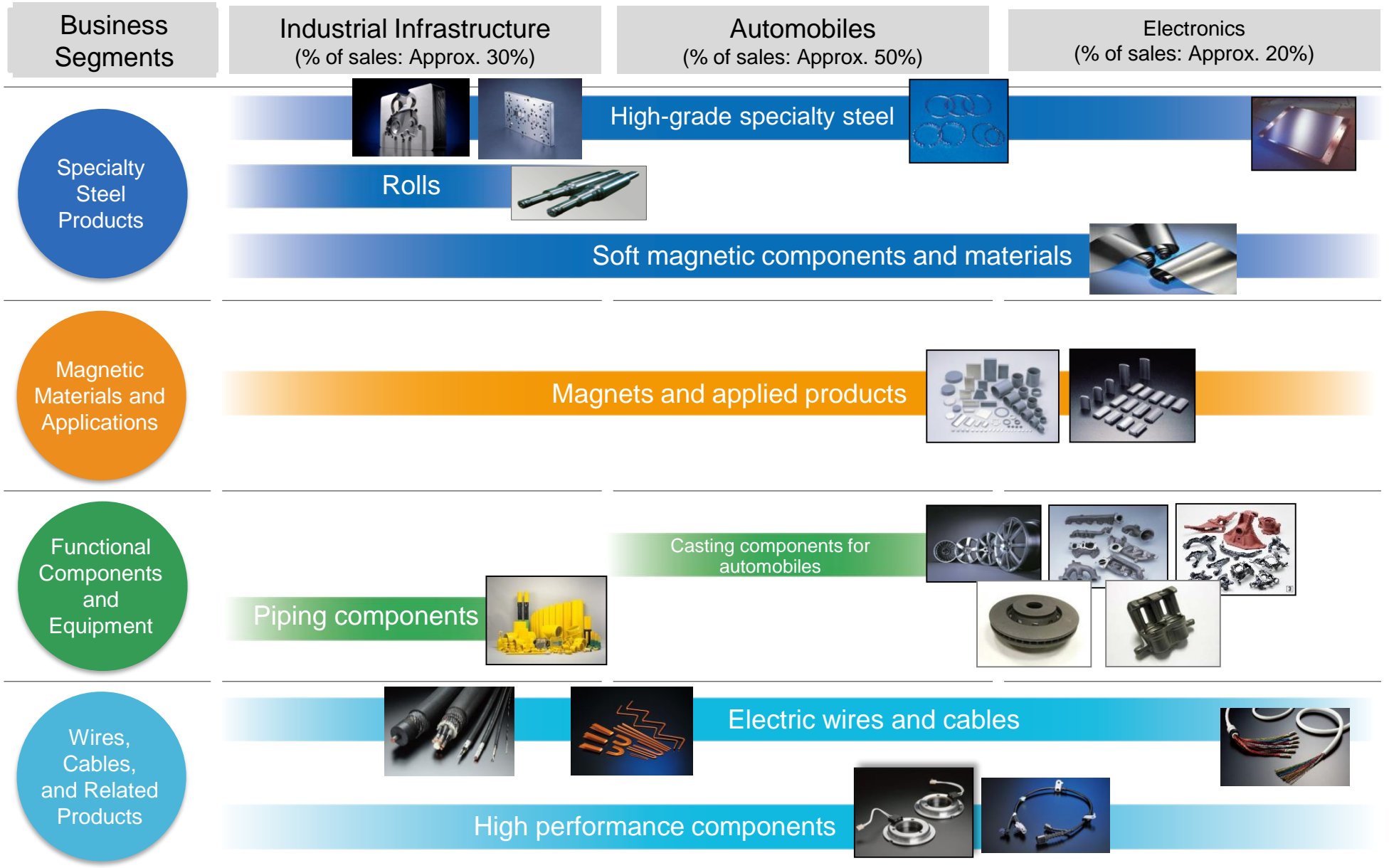
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*2 Return on total assets (ROA) = Net income attributable to shareholders of the parent company / Term-end total assets x 100

Major products' volume trends (weight basis)


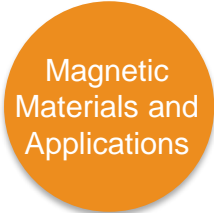


Product		1H, FY2018 actual vs. 1H, FY2017 actual
Specialty Steel Products	Molds and tool steel	+2%
	CVT belt materials	+5%
	Piston ring materials	+3%
	Organic EL-related components	+45%
Magnetic Materials and Applications	Rare earth magnets	-2%
Functional Components and Equipment	Cast iron products	+2%
	Heat-resistant casting components (HERCUNITE™)	-5%
	Aluminum wheels (number basis)	-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>	Magnetic Materials Company	
	Magnets and applied products	Magnets (NEOMAX® rare-earth magnets, ferrite magnets, and other magnets and applied products) and 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**