

Hitachi Metals, Ltd. (Apr. 24, 2014)

<http://www.hitachi-metals.co.jp/>
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Consolidated Financial Report for the 12-month period ended March 31, 2014

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Listed Stock Exchanges: Tokyo (First Section, Code 5486)

Scheduled Date of the Ordinary General Meeting of Shareholders: June 25, 2014

1. Performance over the year, April 1, 2013 to March 31, 2014 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	3/2014	3/2013	(Change)
Net sales (million yen)	807,952	535,779	50.8%
Operating income (million yen)	59,536	21,079	182.4%
Income before income taxes and minority interests (million yen)	50,796	17,230	194.8%
Net income (million yen)	39,417	12,955	204.3%
Net income per share (yen)	95.65	36.20	
Diluted net income per share (yen)	—	—	
Net income to shareholders' equity (%)	12.9	5.5	
Return On Assets	8.8	3.8	
Operating income to net sales (%)	7.4	3.9	

Note: Consolidated Statements of Comprehensive Income: 52,823 million yen 111.9% (previous year: 24,927 million yen (42.2%))
Equity in losses(earnings) of affiliated companies: 1,306 million yen (previous year: 230 million yen)

(2) Consolidated Financial Position	3/2014	3/2013
Total assets (million yen)	840,742	541,286
Net assets (million yen)	373,198	259,865
Equity ratio (%)	43.2	46.2
Net assets per share (yen)	848.73	684.96

Note: Shareholders' equity (3/2014: 362,944 million yen 3/2013: 250,298 million yen)

(3) Consolidated cash flows (million yen)	3/2014	3/2013
Cash flows from operating activities	100,557	62,975
Cash flows from investing activities	(30,906)	(28,718)
Cash flows from financing activities	(30,914)	(31,278)
Cash and cash equivalents at year-end	95,543	34,102

2. Dividend	3/2013	3/2014	3/2015 (Planned)
Annual dividend per share (yen)	14.00	17.00	20.00
Interim (yen)	7.00	7.00	10.00
End of period (yen)	7.00	10.00	10.00
Total dividend paid (full year) (million yen)	5,025	7,271	—
Consolidated dividend payout ratio (%)	38.7	17.8	20.4
Dividends to net assets (consolidated) (%)	2.1	2.2	—

3. Consolidated Financial Forecast for the term, April 1, 2014 to March 31, 2015

	Interim period	Year-on-year Change (%)	Full-year	Year-on-year Change (%)
Net sales (million yen)	443,000	26.4	910,000	12.6
Operating income (million yen)	31,500	36.2	68,000	14.2
Income before income taxes and minority interests (million yen)	27,000	49.8	57,000	12.2
Net income (million yen)	19,500	102.4	42,000	6.6
Net income per share (yen)	45.60	—	98.21	—

4. Other

- (1) Changes in major subsidiaries during the period under review: Yes
Newly included : Hitachi Densen Shoji, Ltd. and Hitachi Cable America Inc. and Shanghai Hitachi Cable Co., Ltd. and Hitachi Cable (Suzhou) Co., Ltd. and Hitachi Cable (Johor) Sdn. Bhd. and Tonichi Kyosan Cable, Ltd. and Hitachi Cable Vietnam Co., Ltd.
Excluded : —
- (2) Changes in accounting policies, accounting estimates and retrospective restatements in the consolidated financial statements
[1] Changes due to revisions in accounting standards: No
[2] Changes other than those in [1]: Yes
[3] Changes in accounting estimates: No
[4] Retrospective restatements: No
- (3) Numbers of shares issued (Common stock)
Number of shares outstanding at end of year (including treasury stock) 3/2014: 428,904,352 3/2013: 366,557,889
Number of treasury stock outstanding at end of year 3/2014: 1,272,690 3/2013: 1,137,966
Number of shares average at end of year 3/2014: 412,104,159 3/2013: 357,875,686

* This quarterly consolidated financial report is not subject to the quarterly review procedure by external auditors that are based on Financial Instruments and Exchange Act. The quarterly review procedure has not yet finished at the point of releasing this financial summary.

*The forecast figures, with the exception of actual results, are based on certain assumptions and predictions of the management at the time of preparation. Changes in business conditions or underlying assumptions may cause actual results may differ from those projected. Please refer to “1. Analysis of Operating Results” on page 3 for precondition and assumption as the basis of the above forecasts.

Hitachi Metals, Ltd. (5486) Financial Report for the Year Ended March 31, 2014

【Operating Results and Financial Condition】

1. Analysis of Operating Results

(1) Overview of Fiscal 2013 (the fiscal year ended March 31, 2014)

Despite various economic issues, the global economy experienced moderate upturns and showed some steadiness for the fiscal year ended March 31, 2014. The U.S. economy continued to experience moderate upturns while emerging nations, including China showed signs of recovery. The European economy, on the other hand, remained weak, in general, because of impacts of the fiscal austerity measures in European nations.

As for the Japanese economy, both export and production steadily recovered in the improved export environment and an increase in domestic production due to the weak yen trend stemming from expectations for the accommodative monetary policy.

Among the industries in which the Hitachi Metals Group (the “Group”) operates, the domestic production of automobile stayed strong backed by the improved export and the demand for automotive increased in various overseas markets, including North American and Asian markets, except for European markets. The mobile phone industry enjoyed favorable sales, especially in emerging nations because of growth of the smartphone market. The semiconductor industry experienced negative growth in the thin-screen television and personal computer markets despite the brisk demand for smartphones and tablets. Domestic housing construction continued to rise and public investments remained steady. Steel production increased because of the improved demand in construction and the recovery in automobile production.

On July 1, 2013, Hitachi Metals, Ltd. (the “Company”) merged with Hitachi Cable, Ltd. Hitachi Cable, Ltd., became the Cable Materials Company following the merger. The operating results of the Group include those of the new company in the “Wires, Cables, and Related Products” segment starting from the three months ended September 30, 2013.

Under the market environment described above, net sales of the Group for the fiscal year ended March 31, 2014, increased by 50.8% to ¥807,952 million, and operating income increased by ¥38,457 million to ¥59,536 million compared with those for the fiscal year ended March 31, 2013. Income before income taxes and minority interests increased by ¥33,566 million to ¥50,796 million. Net income increased by ¥26,462 million to ¥39,417 million despite recognizing ¥1,000 million of litigation expenses, ¥5,378 million of restructuring-related expenses, and ¥3,166 million foreign value added tax included in extraordinary losses for the fiscal year ended March 31, 2014.

Results by business segment are as follows. Note that sales include intersegment sales and transfers. “Electronics and IT Devices” was renamed as “Magnetic Materials and Applications” effective from the three months ended June 30, 2013. This change in the segment name does not affect the segment information.

High-Grade Metal Products and Materials

Sales in the High-Grade Metal Products and Materials were ¥237,664 million, an increase of 6.6% compared with those for the fiscal year ended March 31, 2013. Operating income increased by ¥7,757 million to ¥25,412 million compared with those for the fiscal year ended March 31, 2013.

Special Steels

Sales of molds and tool steels increased from the fiscal year ended March 31, 2013, as the demand in overseas markets has recovered and the demand in Japanese market has also improved in the second half of the fiscal year ended March 31, 2014, mainly because of the rebound in automobile production. Sales of alloys of electronic products increased compared with those for the fiscal year ended March 31, 2013. Strong demand for display-related materials in medium- to small-sized panels, as well as a recovery trend in semiconductors and other package materials contributed to sales increase compared with those for the fiscal year ended March 31, 2013. Sales of industrial equipment and energy-related materials increased as the demand for automobile-related materials, including environment-friendly products, remained robust. The brisk demand for materials for aircraft components also contributed to the increase in sales of energy-related materials.

Rolls

Sales of rolls decreased because of low demand in the domestic market, offsetting increased demand in overseas markets. Sales of injection molding machine parts increased from the fiscal year ended March 31, 2013, reflecting the recovery of demand in both domestic and overseas markets.

Amorphous Materials

Sales of amorphous materials increased from the fiscal year ended March 31, 2013. The demand in the Chinese market, a leading market, remained solid as a result of policies of the Chinese government to encourage the deployment of energy-saving equipment as well as the effects of the weak yen, despite the demand slightly dropped in the second half of the fiscal year ended March 31, 2014.

Cutting Tools

Sales of cutting tools increased because of steady demand in overseas markets supported by the improved export and the recovered domestic demand for industrial machinery.

Magnetic Materials and Applications

Sales in the Magnetic Materials and Applications segment were ¥134,249 million, a decrease of 5.6% compared with those for the fiscal year ended March 31, 2013. Operating income increased by ¥12,582 million to ¥11,718 million when compared to the fiscal year ended March 31, 2013.

Magnets

Sales of rare earth magnets decreased from the fiscal year ended March 31, 2013. Strong sales of automotive electronic components for hybrid cars and domestic cars and a recovery trend of the demand for factory automation-related products were not sufficient to offset the continued low demand for hard disk drive and the impact of fall in raw material prices. Sales of ferrite magnets increased with strong demand for automotive electronic components and household appliance parts in both domestic and overseas markets.

Soft Magnetic Materials and Applied Products

Overall sales of soft ferrite materials increased with strong demand for parts for solar power generation systems and automotive electronic components. Sales of FINEMET[®] also increased in the first half of the fiscal year ended March 31, 2014, with robust demand for parts for solar power generation systems in the European markets.

High-Grade Functional Components and Equipment

Sales in the High-Grade Functional Components and Equipment segment were ¥187,691 million, an increase of 9.1% when compared to the fiscal year ended March 31, 2013. Operating income increased by ¥2,643 million to ¥12,831 million when compared to the fiscal year ended March 31, 2013.

Casting Components for Automobiles

Overall sales of casting components for automobiles increased. While sales of heat-resistant exhaust casting components did not reach the previous year's level due to the effects of the decline in demand in the leading market for this type of products under the economic downturn in Europe, sales of high-grade ductile iron products increased with the favorable demand for passenger vehicles in overseas markets, including the U.S. automobile market, and the brisk demand mainly for commercial vehicles in the Japanese automobile market.

Sales of aluminum wheels fell below target and decreased in both the U.S. and Japan compared with those for the fiscal year ended March 31, 2013.

Piping Components

Sales of pipe fittings increased mainly because of the continued improvement in the U.S. housing market, as well as a sign of recovery in the housing starts in Japan. Sales of stainless steel and plastic piping components also increased since proven advantages in light of construction and earthquake resistance triggered demand for the gas-related products.

Construction Components

Sales of construction components increased because of the strong demand for steel construction supported by private capital expenditures in the domestic market and robust public investments in Japan.

Wires, Cables, and Related Products

This new business segment was established in association with the merger with Hitachi Cable, Ltd., on July 1, 2013. The operating results of the Group include those of this segment starting from the three months ended September 30, 2013.

Sales in the Wires, Cables, and Related Products segment for the fiscal year ended March 31, 2014, were ¥251,154 million. Operating income was ¥17,047 million.

Electric Wires and Cables

Sales of electric power and industrial wires and cables increased with the strong demand for overseas railway projects and constructions, including the construction of solar power facilities, in addition to the demand for construction investments.

Sales of metals for electronic and communication products increased mainly because of the brisk demand for semiconductor manufacturing equipment. For materials for electronic devices, sales of magnet wires increased due to a recovery in demand mainly for products for automobile and continued to hum along, and sales of photovoltaic cells increased primarily because of the favorable domestic demand.

Automotive Products

Sales of automotive products steadily increased with the brisk demand especially for electronic components, a focused product of the Group, backed by solid performance in North American markets.

Information System Devices and Materials

Sales of information system devices and materials increased because of a growth in sales of network products associated with increased capital investments in infrastructures by telecommunications carriers along with the widespread use of smartphones.

Other

Sales in the Other segment were ¥3,241 million, a decrease of 21.4% when compared to the fiscal year ended March 31, 2013. Operating income increased by ¥79 million to ¥596 million when compared to the fiscal year ended March 31, 2013.

(2) Outlook for Fiscal 2014 (the fiscal year ending March 31, 2015)

As for the Group's business environment, the Group expects that the U.S. economy would recover gradually, although the European economy would remain weak and emerging countries would experience an economic slowdown. In Japan, despite concerns of decreasing demand in response to the consumption tax hike, the Group expects that exports would continue to increase due to the weakening yen. The Group considers this would lead to an increase in domestic productions and a solid growth in investments in public sectors and private sectors.

Amid this business environment, the Group is committed to establish a stronger business foundation by accelerating implementation of the global strategy and expanding or creating our business domains.

The Group currently forecasts an increase in revenue for the fiscal year ending March 31, 2015, expecting a solid demand mainly for our automotive-, infrastructure-, and energy-related products. The Group further expects an increase in income, which is not only attributable to the increase in revenue, but also to our continuous efforts to reduce costs (both manufacturing costs and expenses).

	Net sales (million yen)	Operating income (million yen)	Income before income taxes and minority interests (million yen)	Net income (million yen)	Net income per share (yen)
9/2014 (six months)	443,000	31,500	27,000	19,500	45.60
Fiscal 2014 (twelve months)	910,000	68,000	57,000	42,000	98.21

2. Analysis of Financial Condition

As of March 31, 2014, cash and cash equivalents were ¥95,543 million, an increase of ¥61,441 million as compared with those as of March 31, 2013. This outcome was mainly attributable to an increase in cash and cash equivalents resulting from the merger with Hitachi Cable, Ltd., on July 1, 2013, and the fact that net cash provided by operating activities was more than net cash used in financing activities and investing activities.

The status of cash flows as of March 31, 2014, and the primary factors for those results are as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥100,557 million. This was mainly attributable to consolidated income before income taxes and minority interests for the fiscal year ended March 31, 2014, of ¥50,796 million, and an increase of ¥ 9,363 million mainly due to a decrease in working capital, such as inventories.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥30,906 million. This was mainly attributable to an expenditure of ¥28,040 million on purchase of property, plant, and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥30,914 million. This was mainly attributable to repayments of ¥22,411 million for interest-bearing debts and dividend payments of ¥5,912 million.

The following table shows historical trends in cash flow indicators:

	3/2010	3/2011	3/2012	3/2013	3/2014
Capital ratio (%)	37.3	39.3	38.0	46.2	43.2
Capital ratio at market value (%)	66.9	69.7	62.5	59.5	74.7
Interest-bearing debts to cash flows (year) (%)	299.3	351.0	5,626.1	231.7	175.0
Interest coverage ratio (ratio)	26.7	23.0	1.6	34.3	41.5

*Capital ratio: equity/total assets

Capital ratio at market value: total market value of stocks/total assets

Interest-bearing debts to cash flows: interest-bearing debts/cash flows from operations

Interest coverage ratio: cash flows from operations/interest paid

(1) Each indicator is calculated using financial information per consolidated financial statements.

(2) Total market value of stocks is calculated by multiplying the closing stock price at the fiscal year end by total number of stocks issued (excluding treasury stocks) as of the fiscal year end.

(3) Cash flows from operating activities in the consolidated statements of cash flows are used as cash flows from operations in the above calculation. Interest-bearing debts include bonds and loans payable recorded in the consolidated balance sheets. Interest paid represents the amount of interest expenses paid per the consolidated statements of cash flows.

3. Dividend Policy and Dividends for the Current and Next Fiscal Years

Our basic dividend policy is to determine profit distributions to shareholders and internal reserves by comprehensively assessing business environment, business development, and business performance. Management's primary commitment is to generate robust growth over medium-term to long-term period, by strengthening the international competitiveness and enhancing the corporate value of the Company, to deliver appropriate returns of profits to shareholders in a long-term period under the business environment with evolving customer needs and technology and globalization. The internal reserves are to be used for development and commercialization of new materials, incubation of new businesses, and expansion and streamline of competitive product lines by looking into the future business development. The Company purchases treasury stock to implement the agile capital policy in accordance with its needs, financial conditions, stock price levels, and other factors.

For dividend payments from the current fiscal year's retained earnings, the management paid an interim dividend of ¥7 per share (the dividend record date: the end of the second quarter) and forecasts a year-end dividend of ¥10 per share, consisting of an ordinary dividend of ¥7 per share and a special dividend of ¥3 per share, (the dividend record date: the end of the fiscal year), which will result in an annual dividend of ¥17 per share. For dividend payments from the next fiscal year's retained earnings, the management forecasts an interim dividend of ¥10 per share (the dividend record date: the end of the second quarter) and a year-end dividend of ¥10 per share (the dividend record date: the end of the fiscal year), which will result in an annual dividend of ¥20 per share, considering operating forecasts.

4. Business Risks

The following are some of the business risks that may affect the performance and financial condition of the Group:

- Market trends in electronics, automobiles, construction, and other industries in which the Group operates
- Economic fluctuations in the United States, Asia, Europe, and other regions where the Group sells its products
- Price changes in raw materials affected by international market conditions
- Effects of fluctuations in interest rates and credit risks associated with financing activities
- Impacts of changes in foreign exchange rates on transactions, assets, and debt denominated in foreign currencies
- Impairment losses arising from changes in fair value of investment securities held
- Disturbances due to economic, social, or political factors affecting overseas operations
- Decline in competitiveness and abilities to develop and commercialize new technologies or products
- Disputes over intellectual property rights
- Increase in costs associated with environmental, export control, or other regulation, or penalties for regulatory violations
- Costs related to product defects
- Impact of earthquakes or other massive natural disasters on business activities
- Claims and lawsuits for damages due to unauthorized disclosure of personal and confidential information

The Group strives to avoid or minimize the impact of such risks by establishing and maintaining effective risk management systems. However, these risks may not be fully avoided or minimized, and may affect operating results, financial condition, and other aspects of the Group.

【Organization of the Hitachi Metals Group】

The Company merged with Hitachi Cable, Ltd., on July 1, 2013. Under this new structure, the Group comprises a total of 96 subsidiaries and 20 affiliates, and engages in businesses of high-grade metal products and materials; magnetic materials and applications; high-grade functional components and equipment; and wires, cables, and related products.

The major companies of the Group are categorized, in general, as below.

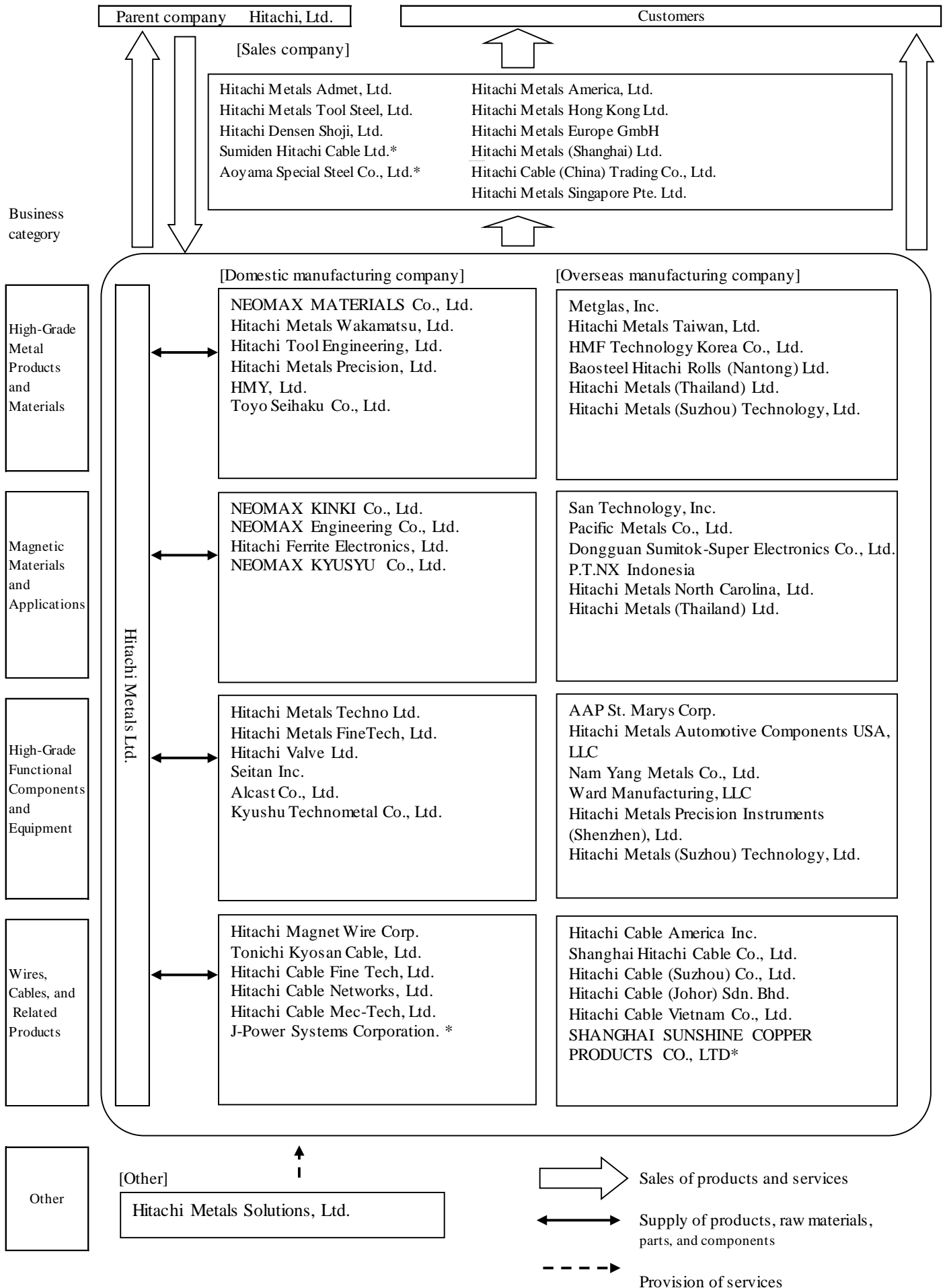
Business Segment	Principal Products and Major Group Companies
High-Grade Metal Products and Materials	<p><u>(Principal Products)</u></p> <ul style="list-style-type: none"> •YSS™ brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials and semiconductor and other package materials], industrial equipment and energy-related materials, and razor and blade materials) •Precision cast components •Rolls for steel mills •Injection molding machine parts •Structural ceramic products •Steel-frame joints for construction •Metglas® amorphous metals •Cutting tools
	<p><u>(Major Group Companies)</u></p> <p>Hitachi Metals Tool Steel, Ltd.; NEOMAX MATERIALS Co., Ltd.; Hitachi Metals Wakamatsu, Ltd.; Hitachi Tool Engineering, Ltd.; Hitachi Metals Precision, Ltd.; HMY, Ltd.; Toyo Seihaku Co., Ltd.; Aoyama Special Steel Co., Ltd. (*); Metglas, Inc., Hitachi Metals Taiwan, Ltd.; HMF Technology Korea Co., Ltd.; Baosteel Hitachi Rolls (Nantong) Ltd.; Hitachi Metals Admet, Ltd.; Hitachi Metals America, Ltd.; Hitachi Metals Hong Kong Ltd.; Hitachi Metals Europe GmbH, Hitachi Metals (Shanghai) Ltd.; Hitachi Metals Singapore Pte. Ltd.; Hitachi Metals (Thailand) Ltd.; Hitachi Metals (Suzhou) Technology, Ltd.</p>
Magnetic Materials and Applications	<p><u>(Principal Products)</u></p> <ul style="list-style-type: none"> •Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) •Soft magnetic materials (soft ferrite; FINEMET® nanocrystalline magnetic material; and Metglas® amorphous metals) and applied products •Components for information and telecommunication equipment •IT materials and components •Materials and components for medical equipment
	<p><u>(Major Group Companies)</u></p> <p>NEOMAX KINKI Co., Ltd.; NEOMAX Engineering Co., Ltd.; Hitachi Ferrite Electronics, Ltd.; NEOMAX KYUSHU Co., Ltd.; San Technology, Inc., Pacific Metals Co., Ltd.; Dongguan Sumitok-Super Electronics Co., Ltd.; P.T.NX Indonesia, Hitachi Metals North Carolina, Ltd.; Hitachi Metals Admet, Ltd.; Hitachi Metals America, Ltd.; Hitachi Metals Hong Kong Ltd.; Hitachi Metals Europe GmbH, Hitachi Metals (Shanghai) Ltd.; Hitachi Metals Singapore Pte. Ltd.; Hitachi Metals (Thailand) Ltd.</p>
High-Grade Functional Components and Equipment	<p><u>(Principal Products)</u></p> <ul style="list-style-type: none"> •High-grade casting components for automobiles (HERCUNITE® heat-resistant exhaust casting components and HNM™ high-grade ductile cast iron products) •SCUBA™ aluminum wheels and other aluminum components •Forged components for automobiles •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) •Construction components (floor access systems, structural systems, and roofing systems) •Chain (for material handling systems)
	<p><u>(Major Group Companies)</u></p> <p>Hitachi Metals Techno, Ltd.; Hitachi Metals FineTech, Ltd.; Hitachi Valve, Ltd.; Seitan Inc., Alcast, Ltd.; Kyushu Technometal Co., Ltd.; AAP St. Marys Corp., Hitachi Metals Automotive Components USA, LLC, Nam Yang Metals Co., Ltd.; Ward Manufacturing, LLC, Hitachi Metals Precision Instruments (Shenzhen), Ltd.; Hitachi Metals Admet, Ltd.; Hitachi Metals America, Ltd.; Hitachi Metals Europe GmbH, Hitachi Metals (Shanghai) Ltd.; Hitachi Metals Singapore Pte. Ltd.; Hitachi Metals (Suzhou) Technology, Ltd.</p>

Business Segment	Principal Products and Major Group Companies
Wires, Cables, and Related Products	<p><u>(Principal Products)</u></p> <ul style="list-style-type: none"> •Electric wires and cables (electric power and industrial wires and cables; electronic wires, cables, and wiring devices; fiber optic and telecommunication cables; magnet wires; and industrial rubber products) •Automotive products (electronic components and brake hoses) •Information system devices and materials (information networks, wireless systems, and compound semiconductor products) • Metal and component products (Brass products, etc.)
	<p><u>(Major Group Companies)</u></p> <p>Hitachi Densen Shoji, Ltd.; Hitachi Magnet Wire Corp., Tonichi Kyosan Cable, Ltd.; Hitachi Cable Fine Tech, Ltd.; Hitachi Cable Networks, Ltd.; Hitachi Cable Mec-Tech, Ltd.; J-Power Systems Corporation. (*), SUMIDEN HITACHI CABLE Ltd. (*); Hitachi Cable America Inc., Hitachi Cable (China) Trading Co., Ltd.; Shanghai Hitachi Cable Co., Ltd.; Hitachi Cable (Suzhou) Co., Ltd.; Hitachi Cable (Johor) Sdn. Bhd., Hitachi Cable Vietnam Co., Ltd.; SHANGHAI SUNSHINE COPPER PRODUCTS CO., LTD (*)</p>
Others	<p><u>(Principal Businesses)</u></p> <p>Real estate and software businesses</p>
	<p><u>(Major Group Company)</u></p> <p>Hitachi Metals Solutions, Ltd.</p>

(Note)

1. The companies marked (*) are affiliates.
2. The companies that engage in multiple businesses are included in the respective segments.

The above can be illustrated, in general, as below



(Note) 1. Companies without mark are consolidated subsidiaries. Companies with asterisk (*) are affiliates.

【Management Policies】

1. Basic Management Policy

The basic management policy of the Group is to operate business, as fulfilling social responsibilities, to contribute towards creating a better society by developing relationships with stakeholders of the Group, such as shareholders, investors, and business partners. The Group, therefore, endeavors to create new products and businesses through enhancement of basic technologies and technical innovation, and to provide new values to the society. The Group also ensures that its product development and manufacturing is environmentally sustainable. In addition, the Group will engage with the society through disclosing appropriate corporate information in a timely manner, contributing to the community, reflecting a broad social perspective to management of the Group, and establish a relationship of mutual trust. Through these business activities, the Group commits to become the “Best Company” with steadily raising its corporate value.

2. Management Indicators

The goal of the Group has been to achieve a return on equity of at least 13% under the fiscal 2015 medium-term plan, which is essential for continual dividends in a long period in accordance with our dividend policy and for returns of profits to our shareholders as enhancing a corporate value.

3. Medium- to Long-Term Corporate Management Strategies and Challenges

The Company’s main focus is on quality in its management practices since the inception and contributes to society by offering distinctive materials and products for various industries, including the automotive, electronics, and infrastructure sectors.

Meanwhile, market globalization has accelerated as the world economy has changed structurally, with expectations that competition will be increasingly intense. Under these conditions, the environment surrounding the Company is set to change substantially, and Hitachi Metals has compiled its medium-term management plan for the period ending in March 2016 as part of its efforts to achieve new growth. The Company will strive to sustain its development as a manufacturer of highly functional materials, seeking growth in global markets while strengthening its corporate foundations.

Our goal under the fiscal 2015 medium-term plan is to achieve sustained growth as a manufacturer of highly functional materials. To that end, we will boost and accelerate global growth strategies, bolster our capabilities in developing new products and technologies, and maximize the synergy generated by the merger.

The following will be priority items:

(1) Bolster our capabilities in developing new products and technologies

Increasing the speed of everything from material and product development to market launches, commencement of mass production, and sales promotions, we will accelerate the creation and development of the new products that will be our next mainstays. The development of materials, in particular, serves as the basis of the industrial revolution, and is also the wellspring of the Group’s continuing existence and contributions to society. In the midst of ongoing efforts to achieve low-carbon societies in countries and regions around the world, we will continue to enhance our efforts and focus corporate resources on environmentally friendly products.

(2) Strengthen and accelerate global growth strategies

Strengthening and expanding our marketing and sales forces while accelerating globalization of our production, we will also strive to strengthen our cost competitiveness on two tracks: improvements to our production technologies and expansion of global procurement and centralized purchasing. We will establish a cost structure to enable us to do battle in the global marketplace. Doing this will increase our ability to expand into global markets and bolster our competitiveness, and we will put our strengths to work in efforts to expand the scope of our operations in the infrastructure, energy, automotive, and electronics sectors.

(3) Establish robust corporate foundations

We will build robust financial foundations by endeavoring to quickly demonstrate the benefits of our corporate integration, in addition to expanding global procurement and centralized purchasing and cutting IT and logistics costs. In tandem with this, we will deploy capital and assets strategically and adeptly, endeavoring to maximize our corporate value. Furthermore, as we execute the actions put forth in this medium-term management plan, we will encourage the training and promotion of the human resources who represent our future, providing the driving force to achieve sustained growth.

Consolidated Balance Sheets

(Millions of Yen)

	End of 3/2014	End of 3/2013	(difference)
ASSETS			
Current assets			
Cash and deposits	45,289	28,395	16,894
Notes and accounts receivable-trade	210,503	99,265	111,238
Marketable securities	1,058	49	1,009
Finished products	52,336	43,953	8,383
Work in process	45,007	26,819	18,188
Raw materials	45,547	46,288	(741)
Deffered tax asset	16,059	8,594	7,465
Accounts receivable-other	32,629	12,545	20,084
Group pooling cash deposits	49,196	5,658	43,538
Other	10,835	4,816	6,019
Allowance for doubtful accounts	(681)	(635)	(46)
Total current assets	507,778	275,747	232,031
Fixed assets			
Tangible fixed assets			
Buildings and structures, net	71,076	48,536	22,540
Machinery, equipment and vehicles, net	87,475	71,455	16,020
Tools, furniture and fixtures, net	11,592	8,511	3,081
Land	55,849	49,547	6,302
Lease assets, net	58	8	50
Construction in progress	8,616	6,970	1,646
Total tangible fixed assets	234,666	185,027	49,639
Intangible assets			
Goodwill	33,546	36,114	(2,568)
Other	12,579	5,624	6,955
Total intangible assets	46,125	41,738	4,387
Investments and other assets			
Investment securities	36,203	15,239	20,964
long-term loans receivable	161	2,342	(2,181)
Deffered tax asset	1,008	8,914	(7,906)
Other	15,491	14,726	765
Allowance for doubtful accounts	(690)	(2,447)	1,757
Total investments and other assets	52,173	38,774	13,399
Total fixed assets	332,964	265,539	67,425
Total assets	840,742	541,286	299,456

(Millions of Yen)

	End of 3/2014	End of 3/2013	(difference)
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	167,436	67,942	99,494
Short-term loans payable	42,949	38,085	4,864
Current portion of long-term loans payable	39,635	6,202	33,433
Income taxes payable	7,422	1,638	5,784
Accrued expense	33,280	17,918	15,362
Advances received	2,830	990	1,840
Deferred tax liabilities	8	55	(47)
Allowance for directors' bonuses	354	314	40
Provision for surcharge	332	—	332
Other	23,796	16,096	7,700
Total current liabilities	318,042	149,240	168,802
Fixed liabilities			
Bonds payable	35,000	30,000	5,000
Convertible bond-type bonds with subscription rights to shares	4,495	4,495	—
Long-term loans payable	53,879	67,153	(13,274)
Provision for retirement benefits	—	22,573	(22,573)
Liability for retirement benefits	47,939	—	47,939
Provision for directors' retirement benefits	79	156	(77)
Provision for loss on business of subsidiaries and affiliates	—	496	(496)
Provision for environmental measures	1,024	598	426
Deferred tax liabilities	3,267	2,007	1,260
Negative goodwill	13	45	(32)
Asset retirement obligations	194	170	24
Other	3,612	4,488	(876)
Total fixed liabilities	149,502	132,181	17,321
Total liabilities	467,544	281,421	186,123
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	—
Capital surplus	115,692	42,463	73,229
Retained earnings	239,530	192,500	47,030
Treasury stock	(1,010)	(833)	(177)
Total shareholders' equity	380,496	260,414	120,082
Valuation, translation adjustments			
Net unrealized holding gains (losses) on available-for-sale	4,802	3,849	953
Gain (loss) on deferred hedge transactions	(876)	7	(883)
Foreign currency translation adjustments	(4,693)	(11,372)	6,679
Pension liability adjustment of foreign subsidiaries	—	(2,600)	2,600
Remeasurements of retirement benefits	(16,785)	—	(16,785)
Total valuation, translation adjustments	(17,552)	(10,116)	(7,436)
Minority interests	10,254	9,567	687
Total Net Assets	373,198	259,865	113,333
Total liabilities and net assets	840,742	541,286	299,456

Consolidated Statements of Income

(Millions of Yen)

	Fiscal 2013 (Mar. 31,2014)	Ratio to Sales (%)	Fiscal 2012 (Mar. 31,2013)	Ratio to Sales (%)	(difference) (%)
Net sales	807,952	100.0	535,779	100.0	151
Cost of sales	638,872	79.1	440,684	82.3	145
Gross profit	169,080	20.9	95,095	17.7	178
Selling, general and administrative expenses	109,544	13.6	74,016	13.8	148
Operating income(loss)	59,536	7.4	21,079	3.9	282
Non-operating income					
Interest income	723		330		219
Dividends income	305		140		218
Negative goodwill amortization	321		31		—
Equity in earnings of affiliated companies	1,306		230		568
Foreign exchange gains	1,684		1,683		100
Gain on sale of marketable securities	74		517		14
Rent income of fixed assets	514		237		217
Reversal of provision for surcharge	1,429		—		—
Other	3,622		3,282		110
Total non-operating income	9,978	1.2	6,450	1.2	155
Non-operating expenses					
Interest expenses	2,362		1,839		128
Loss on revaluation of securities	17		101		17
Loss on disposal of fixed assets	1,520		1,013		150
Product maintenance and repair	1,654		330		501
Other	3,063		2,995		102
Total non-operating expenses	8,616	1.1	6,278	1.2	137
Extraordinary income					
Gain on sales of stocks of subsidiaries and affiliated companies	129		—		—
Gain on sales of property and equipment	188		141		133
Gain on change in equity	160		—		—
Gain on sales of patent rights	100		—		—
Insurance income	—		4,722		—
Total extraordinary income	577	0.1	4,863	0.9	12
Extraordinary losses					
Loss of disaster	—		375		—
Loss on impairment of property and equipment	71		473		15
Loss on disposal of property planed and equipment	155		1,621		10
Loss on structural reform	5,378		3,268		165
Litigation expenses	1,000		3,147		32
Foreign value added taxes	3,166		—		—
Loss on forward agreement of stocks of subsidiaries and affiliates	909		—		—
Total extraordinary losses	10,679	1.3	8,884	1.7	120
Income before income taxes	50,796	6.3	17,230	3.2	295
Income taxes-current	11,321		5,045		224
Income taxes-deferred	(176)		(1,760)		10
Total extraordinary income taxes	11,145	1.4	3,285	0.6	339
Income before minority interests	39,651	4.9	13,945	2.6	284
Minority interests in income	234	0.0	990	0.2	24
Net income	39,417	4.9	12,955	2.4	304

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Fiscal 2013	Fiscal 2012
	(Mar. 31, 2014)	(Mar. 31, 2013)
Income before minority interests	39,651	13,945
Other comprehensive income:		
Net unrealized holding gains (losses) on available-for-sale securities	947	(661)
Deferred gains on hedges	23	1
Foreign currency translation adjustments	8,172	10,826
Remeasurements of retirement benefits, net of tax	—	(145)
Remeasurements of defined benefit plans	3,040	—
Accounted for using equity method	990	961
Total other comprehensive income (loss)	13,172	10,982
Comprehensive income	52,823	24,927
Comprehensive income attributable to:		
Shareholders of the parent company	52,063	23,505
Minority shareholders	760	1,422

Consolidated Statements of Changes in Net Assets

Fiscal 2012 (Apr.1, 2012 - Mar.31, 2013)

(Millions of Yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2012	26,284	41,244	184,127	(10,707)	240,948
Changes during the fiscal 2012					
Cumulative effects of changes in accounting	—	—	—	—	—
Restated balance	—	—	—	—	—
Transfer of pension liability adjustment of foreign subsidiaries	—	—	—	—	—
Increase by merger	—	—	—	—	—
Cash dividends	—	—	(4,582)	—	(4,582)
Net income (loss) for the fiscal 2012	—	—	12,955	—	12,955
Acquisition of treasury stock	—	—	—	(313)	(313)
Retirement of treasury stock	—	1,219	—	10,187	11,406
Change of scope of consolidation	—	—	—	—	—
Net increase/decrease during the fiscal 2012 of non shareholders' equity items	—	—	—	—	—
Total increase/decrease during the fiscal 2012	—	1,219	8,373	9,874	19,466
Balance as of March 31, 2013	26,284	42,463	192,500	(833)	260,414

(Millions of Yen)

	Valuation, Translation Adjustments and others							Minority Interests	Total Net Assets
	Net Unrealized Holding Gain on Securities Available-for-Sale	Gain (loss) on Deferred Hedge Transactions	Foreign Currency Translation Adjustments	Transfer of pension liability adjustment of foreign subsidiaries	Remeasurements of defined benefit plans	Total Valuation, Translation Adjustments and others			
Balance as of March 31, 2012	3,595	6	(21,812)	(2,455)	—	(20,666)	20,113	240,395	
Changes during the fiscal 2012									
Cumulative effects of changes in accounting	—	—	—	—	—	—	—	—	
Restated balance	—	—	—	—	—	—	—	—	
Transfer of pension liability adjustment of foreign subsidiaries	—	—	—	—	—	—	—	—	
Increase by merger	—	—	—	—	—	—	—	—	
Cash dividends	—	—	—	—	—	—	—	(4,582)	
Net income (loss) for the fiscal 2012	—	—	—	—	—	—	—	12,955	
Acquisition of treasury stock	—	—	—	—	—	—	—	(313)	
Retirement of treasury stock	—	—	—	—	—	—	—	11,406	
Change of scope of consolidation	—	—	—	—	—	—	—	—	
Net increase/decrease during the fiscal 2012 of non shareholders' equity items	254	1	10,440	(145)	—	10,550	(10,546)	4	
Total increase/decrease during the fiscal 2012	254	1	10,440	(145)	—	10,550	(10,546)	19,470	
Balance as of March 31, 2013	3,849	7	(11,372)	(2,600)	—	(10,116)	9,567	259,865	

Consolidated Statements of Changes in Net Assets

Fiscal 2013 (Apr.1, 2013 - Mar.31, 2014)

(Millions of Yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2013	26,284	42,463	192,500	(833)	260,414
Changes during the fiscal 2013					
Cumulative effects of changes in accounting	—	—	(425)	—	(425)
Restated balance	26,284	42,463	192,075	(833)	259,989
Transfar of pension liability adjustment of foreign subsidiaries	—	—	—	—	—
Increase by merger	—	73,221	13,437	(10)	86,648
Cash dividends	—	—	(5,552)	—	(5,552)
Net income (loss) for the fiscal 2013	—	—	39,417	—	39,417
Acquisition of treasury stock	—	—	—	(181)	(181)
Retirement of treasury stock	—	8	—	14	22
Change of scope of consolidation	—	—	153	—	153
Net increase/decrease during the fiscal 2013 of non shareholders' equity items	—	—	—	—	—
Total increase/decrease during the fiscal 2013	—	73,229	47,455	(177)	120,507
Balance as of March 31, 2014	26,284	115,692	239,530	(1,010)	380,496

(Millions of Yen)

	Valuation, Translation Adjustments and others						Minority Interests	Total Net Assets
	Net Unrealized Holding Gain on Securities Available-for-Sale	Gain (loss) on Deferred Hedge Transactions	Foreign Currency Translation Adjustments	Transfar of pension liability adjustment of foreign subsidiaries	Remeasurements of defined benefit plans	Total Valuation, Translation Adjustments and others		
Balance as of March 31, 2013	3,849	7	(11,372)	(2,600)	—	(10,116)	9,567	259,865
Changes during the fiscal 2013								
Cumulative effects of changes in accounting	—	—	—	2,600	(10,668)	(8,068)	(60)	(8,553)
Restated balance	3,849	7	(11,372)	—	(10,668)	(18,184)	9,507	251,312
Transfar of pension liability adjustment of foreign subsidiaries	—	—	—	—	—	—	—	—
Increase by merger	56	(1,143)	(1,725)	—	(9,089)	(11,901)	2,106	76,853
Cash dividends	—	—	—	—	—	—	—	(5,552)
Net income (loss) for the fiscal 2013	—	—	—	—	—	—	—	39,417
Acquisition of treasury stock	—	—	—	—	—	—	—	(181)
Retirement of treasury stock	—	—	—	—	—	—	—	22
Change of scope of consolidation	—	—	(113)	—	—	(113)	—	40
Net increase/decrease during the fiscal 2013 of non shareholders' equity items	897	260	8,517	—	2,972	12,646	(1,359)	11,287
Total increase/decrease during the fiscal 2013	953	(883)	6,679	—	(6,117)	632	747	121,886
Balance as of March 31, 2014	4,802	(876)	(4,693)	—	(16,785)	(17,552)	10,254	373,198

Consolidated Statements of Cash Flows

(Millions of Yen)

	End of 3/2014	End of 3/2013
Cash flows from operating activities		
Income (loss) before income taxes	50,796	17,230
Depreciation and amortization	33,639	24,219
Amortization of goodwill and negative goodwill	2,430	2,801
Loss on impaired property and equipment	71	473
Loss on disaster	—	375
Gain on sales of property and equipment	(743)	(271)
Loss on disposal of property, plant and equipment	1,675	419
Loss on structural reform	5,378	3,268
Litigation expenses	1,000	3,147
Foreign value added taxes	3,166	—
Reversal of provision for surcharge	(1,429)	—
Loss on forward agreement of stocks of subsidiaries and affiliates	909	—
Interest and dividends income	(1,028)	(470)
Insurance income	—	(4,722)
Interest expenses	2,362	1,839
Decrease (Increase) in notes and accounts receivable-trade	(18,941)	25,772
Decrease (Increase) in inventories	14,138	38,014
Decrease (increase) in accounts receivable	(6,005)	6,576
Increase (decrease) in notes and accounts payable-trade	14,166	(27,761)
Increase (decrease) in accrued expenses	4,438	(2,827)
Increase (decrease) in accrued retirement benefits	—	(357)
Increase (decrease) in net defined benefit liability	(856)	—
Other	(2,198)	(5,291)
Subtotal	102,968	82,434
Proceeds from insurance income	—	1,901
Payments for loss on disaster	—	(375)
Amount paid for structural reform	(2,556)	(2,587)
Payments for litigation expenses	(1,758)	(2,389)
Income taxes paid	(3,994)	(16,009)
Refund of income taxes	5,897	—
Net cash provided by operating activities	100,557	62,975
Cash flows from investing activities		
Expenditures for acquisition of property, plant and equipment	(28,040)	(28,307)
Proceeds from sales of property, plant and equipment	992	713
Expenditures for acquisition of intangible assets	(3,125)	(781)
Acquisition of business	—	—
Purchase of investment securities	(55)	(180)
Proceeds from sales of investment securities	418	688
Purchase of stocks of subsidiaries' and affiliates companies	(1,705)	(311)
Proceeds from sales of subsidiaries' common stock	200	78
Interest and dividends income received	1,038	465
Other	(629)	(1,083)
Net cash used in investing activities	(30,906)	(28,718)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(13,596)	(18,204)
Net increase (decrease) in commercial paper	—	(11,000)
Proceeds from long-term loans payable	3,126	23,928
Repayment of long-term loans payable	(11,941)	(14,633)
Redemption of bonds	—	(4,000)
Interest expenses paid	(2,424)	(1,837)
Proceeds from sale of treasury stock	14	2
Purchases of treasury stock	(181)	(313)
Cash dividends paid	(5,552)	(4,582)
Cash dividends paid to minority shareholders	(360)	(639)
Net cash by used in financing activities	(30,914)	(31,278)
Effect of exchange rate changes in cash and cash equivalents	2,853	3,157
Net increase (decrease) in cash and cash equivalents	41,590	6,136
Cash and cash equivalents at beginning of year	34,102	27,966
Increase in cash and cash equivalents resulting from merger	21,317	—
Decrease in cash and cash equivalents resulting from change of scope of	(1,466)	—
Cash and cash equivalents at end of year	95,543	34,102

Business Segment Information

Last consolidated fiscal year (Apr. 1, 2012 - Mar. 31, 2013)

(Millions of Yen)

	Business Segments Reported					Subtotal	Other Businesses	Total	Adjustments	Consolidated Statements of Income
	High-Grade Metal Products and Materials	Magnetic Materials and Applications	High-Grade Functional Components and Equipment	Wires, Cables, and Related Products						
Sales:										
Unaffiliated customers	219,920	142,150	171,986	—	534,056	1,723	535,779	—	535,779	
Intersegment	2,995	(1)	52	—	3,046	2,403	5,449	(5,449)	—	
Total sales	222,915	142,149	172,038	—	537,102	4,126	541,228	(5,449)	535,779	
Operating Income (Loss)	17,655	(864)	10,188	—	26,979	517	27,496	(6,417)	21,079	
Assets	274,275	167,337	124,803	—	566,415	13,410	579,825	(38,539)	541,286	
Depreciation and amortization	11,440	5,412	6,342	—	23,194	411	23,605	614	24,219	
Capital expenditures	10,336	8,368	7,015	—	25,719	409	26,128	560	26,688	

Last consolidated fiscal year (Apr. 1, 2012 - Mar. 31, 2013)

(Millions of yen)

	Japan	North America	Asia	Europe	Ohters	Total
Overseas Sales	304,887	63,907	122,333	36,879	7,773	535,779

Note: Overseas sales represent sales made by the parent company and its consolidated subsidiaries in countries or regions other than Japan.

Overview of Business Segments Reported

High-Grade Metal Products and Materials	<ul style="list-style-type: none"> •YSS™ brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials and semiconductor and other package materials], industrial equipment and energy-related materials, and razor and blade materials) •Precision cast components •Rolls for steel mills •Injection molding machine parts •Structural ceramic products •Steel-frame joints for construction •Metglas® amorphous metals •Cutting tools
Magnetic Materials and Applications	<ul style="list-style-type: none"> •Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) •Soft magnetic materials (soft ferrite; FINEMET® nanocrystalline magnetic material; and Metglas® amorphous metals) and applied products •Components for information and telecommunication equipment •IT materials and components •Materials and components for medical equipment
High-Grade Functional Components and Equipment	<ul style="list-style-type: none"> •High-grade casting components for automobiles (HERCUNITE® heat-resistant exhaust casting components and HNM™ high-grade ductile cast iron products) •SCUBA™ aluminum wheels and other aluminum components •Forged components for automobiles •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) •Construction components (floor access systems, structural systems, and roofing systems) •Chain (for material handling systems)

Business Segment Information

Year under review (Apr. 1, 2013 - Mar. 31, 2014)

(Millions of Yen)

	Business Segments Reported					Subtotal	Other Businesses	Total	Adjustments	Consolidated Statements of Income
	High-Grade Metal Products and Materials	Magnetic Materials and Applications	High-Grade Functional Components and Equipment	Wires, Cables, and Related Products						
Sales:										
Unaffiliated customers	234,101	134,182	187,426	250,687	806,396	1,556	807,952	—	807,952	
Intersegment	3,563	67	265	467	4,362	1,685	6,047	(6,047)	—	
Total sales	237,664	134,249	187,691	251,154	810,758	3,241	813,999	(6,047)	807,952	
Operating Income (Loss)	25,412	11,718	12,831	17,047	67,008	596	67,604	(8,068)	59,536	
Assets	283,929	158,699	133,388	262,076	838,092	15,013	853,105	(12,363)	840,742	
Depreciation and amortization	11,945	6,295	7,223	7,188	32,651	571	33,222	417	33,639	
Capital expenditures	11,849	7,297	6,380	5,604	31,130	201	31,331	656	31,987	

Year under review (Apr. 1, 2013 - Mar. 31, 2014)

(Millions of yen)

	Japan	North America	Asia	Europe	Ohters	Total
Overseas Sales	472,249	94,153	183,170	46,918	11,462	807,952

Note: Overseas sales represent sales made by the parent company and its consolidated subsidiaries in countries or regions other than Japan.

Overview of Business Segments Reported

High-Grade Metal Products and Materials	<ul style="list-style-type: none"> •YSS™ brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials and semiconductor and other package materials], industrial equipment and energy-related materials, and razor and blade materials) •Precision cast components •Rolls for steel mills •Injection molding machine parts •Structural ceramic products •Steel-frame joints for construction •Metglas® amorphous metals •Cutting tools
Magnetic Materials and Applications	<ul style="list-style-type: none"> •Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) •Soft magnetic materials (soft ferrite; FINEMET® nanocrystalline magnetic material; and Metglas® amorphous metals) and applied products •Components for information and telecommunication equipment •IT materials and components •Materials and components for medical equipment
High-Grade Functional Components and Equipment	<ul style="list-style-type: none"> •High-grade casting components for automobiles (HERCUNITE® heat-resistant exhaust casting components and HNM™ high-grade ductile cast iron products) •SCUBA™ aluminum wheels and other aluminum components •Forged components for automobiles •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) •Construction components (floor access systems, structural systems, and roofing systems) •Chain (for material handling systems)
Wires, Cables, and Related Products	<ul style="list-style-type: none"> •Electric wires and cables (electric power and industrial wires and cables; electronic wires, cables, and wiring devices; fiber optic and telecommunication cables; magnet wires; and industrial rubber products) •Automotive products (electronic components and brake hoses) •Information system devices and materials (information networks, wireless systems, and compound semiconductor products) •Metal and component products (Brass products, etc.)