

Consolidated Financial Report [IFRS] for the First Quarter Ended June 30, 2015

July 28, 2015

Listed Company: Hitachi Metals, Ltd. (URL <http://www.hitachi-metals.co.jp/e/index.html>)

Listed Stock Exchanges: Tokyo Stock Exchange, Inc. (First Section, Code Number 5486)

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Note: Figures are rounded off to the nearest million yen.

1. Performance for the First Quarter Ended June 30, 2015 (April 1, 2015 to June 30, 2015)

(1) Operating Results (% indicates the rate of +/- compared with the previous fiscal year)

	Revenues		Operating Income		Income before Income Taxes		Net Income		Net Income attributable to Shareholders of the Parent Company		Comprehensive Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June, 2015	265,113	19.2	48,699	104.2	49,493	111.1	35,387	71.5	35,235	72.5	39,634	94.3
June, 2014	222,375	—	23,845	—	23,442	—	20,629	—	20,425	—	20,395	—

	Earnings per Share attributable to Shareholders of the Parent Company (Basic)	Earnings per Share attributable to Shareholders of the Parent Company (Diluted)
	Yen	Yen
June, 2015	82.40	—
June, 2014	47.76	—

(2) Financial Standing

	Total Asset	Total Equity	Equity attributable to Shareholders of the Parent Company	Equity attributable to Shareholders of the Parent Company Ratio	Equity per Share attributable to Shareholders of the Parent Company
	Million yen	Million yen	Million yen	%	Yen
June, 2015	1,098,672	510,099	500,221	45.5	1,169.88
March, 2015	1,083,450	476,176	466,359	43.0	1,090.64

2. Dividends

	Dividends per Share				
	1Q	2Q	3Q	Term-end	Annual
	Yen	Yen	Yen	Yen	Yen
March, 2015	—	10.00	—	13.00	23.00
March, 2016	—	—	—	—	—
March, 2016 (Forecast)	—	13.00	—	13.00	26.00

3. Business results forecast for the year ending March 31, 2016 (Apr.1, 2015 to Mar.31, 2016)

(% indicates the rate of +/- compared with the same term of the previous fiscal year)

	Revenues		Operating Income		Income before Income Taxes		Net Income attributable to Shareholders of the Parent Company		Basic Earnings per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Interim period	540,000	20.4	66,000	66.3	65,500	60.0	47,000	48.4	109.92
Full-year	1,100,000	9.5	107,000	26.8	106,000	22.7	73,000	3.4	170.73

※ Other Notes

(1) Changes in major subsidiaries during the period under review: None

(2) Changes in accounting policies and accounting estimates

(i) Changes in accounting policies requested by IFRS: None

(ii) Changes other than those in (i): None

(iii) Changes in accounting estimates: None

(3) Numbers of shares issued (Common stock)

(i) Number of shares outstanding at end of period

(Including treasury stock)

(ii) Number of treasury stock outstanding at end of period

(iii) Average number of shares issued during the term

June, 2015	428,904,352	March, 2015	428,904,352
June, 2015	1,320,727	March, 2015	1,303,157
June, 2015 (1Q)	427,589,766	June, 2014 (1Q)	427,653,212

*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 “(3) Forecasts for the Fiscal Year Ending March 31, 2016, including Consolidated Operating Forecasts ” on page 5 for precondition and assumption as the basis of the above forecasts.

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1. Qualitative Information Regarding Financial Results for the Three Months Ended June 30, 2015

(1) Information Regarding Operating Results

The global economy during the three months ended June 30, 2015, remained on a modest recovery track, while starting to cast uncertainty over future economic prospects. The U.S. economy continued to experience moderate upturns, whereas in Asia, the Chinese economy shifted to grow at a slow pace, South Korea turned to show a weak recovery, and Taiwan showed an economic slowdown. On the other hand, a slow recovery continued in the European economy as a whole; however, debt problems in Greece raised concerns over the financial turmoil. As for the Japanese economy, declining domestic auto production and stagnant exports, accompanied by an output cut of steel and other factors, intensified the sense of uncertainty regarding its economic outlook, although some manufacturers brought back their production home due to the prolonged depreciation of the yen.

Among the industries in which the Hitachi Metals Group (the "Group") operates, the Japanese automobile market remained sluggish affected by a continuance of a decreased production level because of a reduction in backlog of orders. In overseas countries, uncertainties increased in the auto industry overall, amid economic slowdowns in Europe, China, and some emerging countries, although demand in the United States remained strong. The mobile phone industry saw some moderation in demand for smartphones. Demand for personal computers stayed weak, whereas that for household appliances remained robust. Steel production decreased mainly due to weak automobile sales and a low construction demand, although the production for industrial machinery remained steady. Further, public investments remained weak, while the Japanese housing construction market started to recover.

Under these business circumstances as described above, the conversion of Waupaca Foundry, Inc. into a consolidated wholly owned subsidiary as of November 10, 2014, contributed to the financial results of the Group for the three months ended June 30, 2015. When compared with those for the three months ended June 30, 2014, revenues of the Group increased by 19.2% to ¥265,113 million and operating income increased by ¥24,854 million to ¥48,699 million. Operating income increased mainly due to an increase in gross profit, as well as posting gains on business reorganization and others of ¥29,073 million in other income arising from a transfer of shares equivalent to 51% of the issued shares of Hitachi Tool Engineering, Ltd. (currently named Mitsubishi Hitachi Tool Engineering, Ltd.) to Mitsubishi Materials Corporation as of April 1, 2015. For the three months ended June 30, 2015, income before income taxes increased by ¥26,051 million to ¥49,493 million and net income attributable to shareholders of the parent company increased by ¥14,810 million to ¥35,235 million, compared with the same period of the year ended March 31, 2015.

Results by business segment are as follows: Note that revenues for each segment include intersegment revenues and transfers.

High-Grade Metal Products and Materials

Revenues in the High-Grade Metal Products and Materials segment for the three months ended June 30, 2015, were ¥63,627 million, an increase of 2.6% as compared with those for the three months ended June 30, 2014. Operating income of the segment increased by ¥26,304 million to ¥34,891 million for the same period, partly due to gains on business reorganization and others of ¥25,931 million arising from the transfer of shares in Hitachi Tool Engineering, Ltd. (currently named Mitsubishi Hitachi Tool Engineering, Ltd.) on April 1, 2015.

<Specialty Steel>

While sales of tool steels showed a slowdown in China and the Association of Southeast Asian Nations their overall sales increased as compared with those for the three months ended June 30, 2014, due to robust demand in Japan backed by strong capital investment, as well as shift to high-value added products in product lines. Sales of alloys for electronic products decreased as compared with those for the three months ended June 30, 2014, due to a continuing decline in demand for both semiconductor and other package materials and display-related materials, despite a strong demand for smartphones and tablet devices. For industrial equipment materials, sales showed an overall increase, even with a partial slowdown in demand for automobile-related materials, as a result of a steady demand in environment-friendly products and other industrial components for overseas markets. Sales of aircraft-related and energy-related materials increased because of continuing robust demand, as well as reflecting the performance of Hitachi Metals MMC Superalloy, Ltd., which became a consolidated subsidiary of the Group from the second quarter of the fiscal year ended March 31, 2015.

<Rolls>

Sales of rolls showed a steady increase in both domestic and overseas markets during the three months ended June 30, 2015. Sales of injection molding machine parts remained steady year-on-year, thanks to a robust demand for smartphones and tablet devices.

<Amorphous Metals>

Sales of amorphous metals decreased as compared with those for the three months ended June 30, 2014, due to the continuing uncertainties in China, the major market for the products, in spite of some signs of recovery.

Magnetic Materials and Applications

Revenues in the Magnetic Materials and Applications segment for the three months ended June 30, 2015, were ¥31,679 million, a decrease of 7.6% as compared with those for the three months ended June 30, 2014. Operating income of the segment decreased by ¥1,342 million to ¥2,915 million for the same period.

<Magnets>

Sales of rare earth magnets decreased as compared with that for the three months ended June 30, 2014, because of the continuing effects of a slowdown in Japanese and U.S. demand for hybrid cars, despite of a strong demand in automotive electronic components, including electric power steering, factory automation-related, and smartphone-related products for domestic and overseas markets. Sales of ferrite magnets increased due to a strong demand for automotive electronic components and household appliance parts, both in Japanese and overseas markets.

<Soft Magnetic Materials and Applied Products>

Sales of ferrite applied products experienced a slowdown in demand for solar power generation systems parts. Sales of ferrite core remained strong mainly for automotive electronic components and smartphones. Sales of FINEMET[®] remained sluggish due to a decrease in demand for automotive electronic components and the production adjustment of air conditioners.

High-Grade Functional Components and Equipment

Revenues in the High-Grade Functional Components and Equipment segment for the three months ended June 30, 2015, were ¥95,456 million, an increase of 103.0% as compared with those for the three months ended June 30, 2014. Operating income of the segment increased by ¥4,094 million to ¥7,572 million for the same period.

<Casting Components for Automobiles>

An increase in sales of high-grade ductile iron products was due to a favorable demand for automobiles in overseas markets, including the United States, as well as in the domestic market. Sales of heat-resistant exhaust casting components decreased as compared with those for the three months ended June 30, 2014, due to a slowdown in demand in the European market, the leading market for the products, despite a strong demand in the U.S. market. Sales of aluminum wheels increased supported by a robust demand in the Japanese and U.S. markets. Furthermore, since the operating results of the Group included those of Waupaca Foundry, Inc. starting from November 2014, as a consolidated subsidiary of the Group, this significantly contributed to the overall increase in sales of Casting Components for Automobiles during the three months ended June 30, 2015.

<Piping Components>

Sales of pipe fittings remained flat year-on-year because the Japanese market turned to an upward trend along with an increase in the housing starts, but a steady demand in the U.S. market was offset by mainly the effects of delay in construction. Sales of stainless steel and plastic piping components also remained flat due to a slowdown in demand for earthquake-resistant measures.

Wires, Cables, and Related Products

Revenues in the Wires, Cables, and Related Products segment for the three months ended June 30, 2015, were ¥73,267 million, a decrease of 8.2% as compared with those for the three months ended June 30, 2014. Operating income of the segment decreased by ¥3,877 million to ¥4,978 million for the same period.

<Electric Wires and Cables>

While revenues from electric wires and cables decreased due to review of the Company's business portfolio, sales of electric wires and cables increased backed by steady demand in wires and cables for rolling stock, which is one of the focused areas of the Group, especially in the Chinese market and an increase in sales of probe cables for medical use in the global market. Electric wires and cables for machine tools were also in a good demand.

<Automotive Products>

Sales of electronic components, including vehicle-mounted sensors, showed a steady increase, supported by brisk demand for automobiles, especially in North America.

<Information System Devices and Materials>

Network products and wireless systems showed a weak demand, due to sluggish capital investments in infrastructure by telecommunications carriers because such investments have entered into a correction phase during the period.

Other

Revenues in the Other segment for the three months ended June 30, 2015, were ¥1,929 million, an increase of 49.7% as compared with those for the three months ended June 30, 2014. Operating income of the segment decreased by ¥181 million, resulting in an operating loss of ¥80 million for the same period.

(2) Analysis of Financial Condition

Cash and cash equivalents as of June 30, 2015, were ¥111,449 million, an increase of ¥32,420 million from March 31, 2015, as a result of net cash provided by operating activities and investing activities exceeding the cash used in financing activities.

The analysis for cash flows for each category as of June 30, 2015, is as follows:

<Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥23,806 million, which was mainly attributable to net income of ¥35,387 million for the three months ended June 30, 2015.

<Cash Flows from Investing Activities>

Net cash provided by investing activities was ¥17,772 million, consisting of mainly the following: proceeds of ¥27,006 million from sale of investments in securities and other financial assets by transferring 51% of the issued shares in Hitachi Tool Engineering, Ltd. (currently named Mitsubishi Hitachi Tool Engineering, Ltd.) to Mitsubishi Materials Corporation as of April 1, 2015; and payments of ¥12,503 million for the purchase of property, plant and equipment.

<Cash Flows from Financing Activities>

Net cash used in financing activities was ¥9,864 million, which was mainly attributable to repayment of long-term debt of ¥6,709 million and payment of dividends of ¥5,676 million to shareholders.

(3) Forecasts for the Fiscal Year Ending March 31, 2016, including Consolidated Operating Forecasts

The healthy performance for the three months ended June 30, 2015, was mainly supported by steady demand for automotive-related products mainly in North America and industrial infrastructure-related products. While an uncertain outlook for the business environment is anticipated to continue for some time, there will be no change to figures in the operating forecasts for the fiscal year ending March 31, 2016 (April 1, 2015, through March 31, 2016) that were announced on June 23, 2015.

2. Condensed Interim Consolidated Financial Statements

(1) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2015	As of June 30, 2015
Assets		
Current assets		
Cash and cash equivalents	79,029	111,449
Trade receivables	220,547	211,809
Inventories	166,486	168,702
Other current assets	49,989	48,511
Subtotal	516,051	540,471
Assets held for sale	28,569	—
Total current assets	544,620	540,471
Non-current assets		
Investments accounted for using the equity method	24,892	38,173
Investments in securities and other financial assets	18,411	25,292
Property, plant and equipment	299,669	304,223
Goodwill and intangible assets	160,269	161,478
Deferred tax assets	15,918	12,797
Other non-current assets	19,671	16,238
Total non-current assets	538,830	558,201
Total assets	1,083,450	1,098,672

(Millions of yen)

	As of March 31, 2015	As of June 30, 2015
Liabilities		
Current liabilities		
Short-term debt	32,039	34,882
Current portion of long-term debt	29,235	29,640
Other financial liabilities	30,765	28,089
Trade payables	178,614	177,104
Accrued expenses	41,986	36,617
Advances received	2,520	3,512
Other current liabilities	4,955	10,785
Subtotal	<u>320,114</u>	<u>320,629</u>
Liabilities related to assets held for sale	10,264	—
Total current liabilities	<u>330,378</u>	<u>320,629</u>
Non-current liabilities		
Long-term debt	194,076	188,587
Other financial liabilities	2,415	1,309
Retirement and severance benefits	63,007	59,626
Deferred tax liabilities	11,540	11,520
Other non-current liabilities	5,858	6,902
Total non-current liabilities	<u>276,896</u>	<u>267,944</u>
Total liabilities	<u>607,274</u>	<u>588,573</u>
Equity		
Equity attributable to shareholders of the parent company		
Common stock	26,284	26,284
Capital surplus	115,805	115,805
Retained earnings	277,856	307,694
Accumulated other comprehensive income	47,519	51,578
Treasury stock, at cost	(1,105)	(1,140)
Total equity attributable to shareholders of the parent company	<u>466,359</u>	<u>500,221</u>
Non-controlling interests	9,817	9,878
Total equity	<u>476,176</u>	<u>510,099</u>
Total liabilities and equity	<u>1,083,450</u>	<u>1,098,672</u>

**(2) Condensed Interim Consolidated Statement of Income
and Condensed Interim Consolidated Statement of Comprehensive Income**
[Condensed Interim Consolidated Statement of Income]
[For the three months ended June 30, 2015]

(Millions of yen)

	For the first quarter ended June 30, 2014	For the first quarter ended June 30, 2015
Revenues	222,375	265,113
Cost of sales	(172,685)	(213,927)
Gross profit	49,690	51,186
Selling, general and administrative expenses	(30,287)	(31,391)
Other income	5,327	30,261
Other expenses	(885)	(1,357)
Operating income	23,845	48,699
Interest income	231	151
Other financial income	91	974
Interest charges	(642)	(901)
Other financial expenses	(352)	—
Share of profits of investments accounted for using the equity method	269	570
Income before income taxes	23,442	49,493
Income taxes	(2,813)	(14,106)
Net income	20,629	35,387
Net income attributable to:		
Shareholders of the parent company	20,425	35,235
Non-controlling interests	204	152
Net income	20,629	35,387
Earnings per share attributable to shareholders of the parent company		
Basic	¥47.76	¥82.40
Diluted	—	—

[Condensed Interim Consolidated Statement of Comprehensive Income]
[For the three months ended June 30, 2015]

(Millions of yen)

	For the first quarter ended June 30, 2014	For the first quarter ended June 30, 2015
Net income	20,629	35,387
Other comprehensive income		
Items not to be reclassified into net income		
Net change in fair value of financial assets measured at fair value through other comprehensive income	334	(259)
Share of other comprehensive income of investments accounted for using the equity method	(37)	1,433
Total items not to be reclassified into net income	297	1,174
Items that can be reclassified into net income		
Foreign currency translation adjustments	(1,145)	3,155
Net change in fair value of cash flow hedges	(67)	645
Share of other comprehensive income of investments accounted for using the equity method	681	(727)
Total items that can be reclassified into net income	(531)	3,073
Total other comprehensive income	(234)	4,247
Comprehensive income	20,395	39,634
Comprehensive income attributable to:		
Shareholders of the parent company	20,224	39,456
Non-controlling interests	171	178
Comprehensive income	20,395	39,634

(4) Condensed Interim Consolidated Statement of Cash Flows

(Millions of yen)

	For the first quarter ended June 30, 2014	For the first quarter ended June 30, 2015
Cash flows from operating activities:		
Net income	20,629	35,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,614	10,646
Impairment losses	81	—
Share of profits of investments accounted for using the equity method	(269)	(570)
Financial income and expenses	672	(224)
Net (gain) loss on business reorganization and others	(3,937)	(28,682)
Income taxes	2,813	14,106
Decrease (increase) in trade receivables	7,204	11,644
(Increase) decrease in inventories	(7,078)	(1,973)
Decrease (increase) in accounts receivable - other	1,560	(1,901)
(Decrease) increase in trade payables	4,824	(2,816)
(Decrease) increase in accrued expenses	(3,571)	(5,215)
Increase (decrease) in retirement and severance benefits	(2,557)	(3,838)
Other	(3,682)	539
Subtotal	25,303	27,103
Interest and dividends received	312	751
Interest paid	(673)	(1,353)
Payments for structural reforms	(681)	(64)
Income taxes paid	(6,443)	(2,631)
Net cash provided by operating activities	17,818	23,806

(Millions of yen)

	For the first quarter ended June 30, 2014	For the first quarter ended June 30, 2015
Cash flows from investing activities:		
Purchase of property, plant and equipment	(7,650)	(12,503)
Purchase of intangible assets	(857)	(1,050)
Proceeds from sales of property, plant and equipment	332	272
Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	3	(115)
Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method)	(254)	27,006
Proceeds from transfer of business	9,678	1,023
Payments for transfer of business	(1,900)	—
Other	533	3,139
Net cash used in investing activities	<u>(115)</u>	<u>17,772</u>
Cash flows from financing activities:		
Increase (decrease) in short-term debt, net	2,592	2,556
Repayment of long-term debt	(1,000)	(6,709)
Dividends paid to shareholders	(4,277)	(5,559)
Dividends paid to non-controlling interests	(112)	(117)
Acquisition of common stock for treasury	(9)	(35)
Net cash used in financing activities	<u>(2,806)</u>	<u>(9,864)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(294)</u>	<u>706</u>
Net (decrease) increase in cash and cash equivalents	14,603	32,420
Cash and cash equivalents at the beginning of the first quarter	92,911	79,029
Cash and cash equivalents at the end of the first quarter	<u><u>107,514</u></u>	<u><u>111,449</u></u>

(5) Segment Information

I The primary products and services included in each segment are as follows:

Reportable segment	Major products and services
High-Grade Metal Products and Materials	<ul style="list-style-type: none"> •YSSTM brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials and semiconductor and other package materials], materials for industrial equipment [automobile-, aircraft-, 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
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 •Materials and components for IT devices •Materials and components for medical equipment
High-Grade Functional Components and Equipment	<ul style="list-style-type: none"> •Casting components for automobiles (HNMTM high-grade ductile cast iron products, cast iron products for transportation equipment, and HERCUNITETM heat-resistant exhaust casting components) •SCUBATM aluminum wheels and other aluminum components •Forged components for automobiles •Piping and infrastructure components (GourdTM brand pipe fittings, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices, and sealed expansion tanks)
Wires, Cables, and Related Products	<ul style="list-style-type: none"> •Electric wires and cables (electric power and industrial systems, electronic and telecommunication materials, electric equipment materials, and industrial rubber products) •Automotive products (electronic components and brake hoses) •Information systems (information networks and wireless systems)

II Last consolidated fiscal year (from April 1, 2014 to June 30, 2014)

(Millions of yen)

	Business Segment					Others	Total	Adjustments	Condensed Interim Consolidated Statement of Income
	High-Grade Metal Products and Materials	Magnetic Materials and Applications	High-Grade Functional Components and Equipment	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	61,116	34,259	46,738	79,624	221,737	638	222,375	—	222,375
Intersegment transactions	873	9	291	147	1,320	651	1,971	(1,971)	—
Total revenues	61,989	34,268	47,029	79,771	223,057	1,289	224,346	(1,971)	222,375
Segment profit	8,587	4,257	3,478	8,855	25,177	101	25,278	(1,433)	23,845
Financial income	—	—	—	—	—	—	—	—	322
Financial expenses	—	—	—	—	—	—	—	—	(994)
Share of profits of investments accounted for using the equity method	—	—	—	—	—	—	—	—	269
Income before income taxes	—	—	—	—	—	—	—	—	23,442

Note: 1. Segment profit is based on operating income.

2. Intersegment transactions are recorded at the same prices used in transactions with third parties. Adjustments represent mainly general and administrative expenses for corporate assets, which are not allocated to each reportable segment.

III Current year (from April 1, 2015 to June 30, 2015)

(Millions of yen)

	Business Segment					Others	Total	Adjustments	Condensed Interim Consolidated Statement of Income
	High-Grade Metal Products and Materials	Magnetic Materials and Applications	High-Grade Functional Components and Equipment	Wires, Cables, and Related Products	Subtotal				
Revenues									
External customers	63,502	31,680	95,453	73,206	263,841	1,272	265,113	—	265,113
Intersegment transactions	125	(1)	3	61	188	657	845	(845)	—
Total revenues	63,627	31,679	95,456	73,267	264,029	1,929	265,958	(845)	265,113
Segment profit (loss)	34,891	2,915	7,572	4,978	50,356	(80)	50,276	(1,577)	48,699
Financial income	—	—	—	—	—	—	—	—	1,125
Financial expenses	—	—	—	—	—	—	—	—	(901)
Share of profits of investments accounted for using the equity method	—	—	—	—	—	—	—	—	570
Income before income taxes	—	—	—	—	—	—	—	—	49,493

Note: 1. Segment profit (loss) is based on operating income.

2. Intersegment transactions are recorded at the same prices used in transactions with third parties. Adjustments represent mainly general and administrative expenses for corporate assets, which are not allocated to each reportable segment.