

Hitachi Metals, Ltd. (July 29, 2014)

<http://www.hitachi-metals.co.jp/e/index.html>

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Consolidated Financial Report for the first quarter of Fiscal 2014 (April 1, 2014 - June 30, 2014)

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Listed Stock Exchanges: Tokyo (First Section, Code 5486)(ISIN : JP3786200000)

(Figures are rounded off to the nearest million yen)

1. Performance for the First Quarter Ended June 30, 2014 (April 1, 2014 to June 30, 2014)

(1) Consolidated Operating Results	6/2014(quarter)	6/2013(quarter)	(Change)
Net sales (million yen)	223,750	135,448	65.2%
Operating income (million yen)	17,802	8,730	103.9%
Income before income taxes (million yen)	21,691	7,485	189.8%
Net income (million yen)	18,444	3,690	399.8%
Net income per share (yen)	43.13	10.10	
Diluted net income per share (yen)	—	—	
Note: Total Comprehensive Income(6/2014 19,431 million yen	6/2013 7,758 million yen)		

(2) Consolidated Financial Position

	6/2014(quarter)	3/2014
Total assets (million yen)	849,015	840,742
Net assets (million yen)	388,098	373,198
Equity ratio (%)	44.5	43.2
Net assets per share (yen)	883.61	848.73
Note: Shareholders' equity (6/2014: 377,855 million yen	3/2014: 362,944 million yen)	

2. Dividend

	6/2014(quarter)	6/2013(quarter)	3/2015(Planned)	3/2014
Annual dividend per share (yen)	—	—	20.00	17.00
Interim (yen)	—	—	10.00	7.00
End of period (yen)	—	—	10.00	10.00

Note: Revision of the latest forecast of dividend : None

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)	447,000	27.5%	910,000	12.6%
Operating income (million yen)	34,000	47.0%	68,000	14.2%
Income before income taxes	33,500	85.8%	57,000	12.2%
Net income (million yen)	25,000	159.5%	42,000	6.6%
Net income per share (yen)	58.46	—	98.21	—

Note: Revision of the latest forecasts of results : Yes

4. Other

- (1) Changes in major subsidiaries during the period under review: None
- (2) Application of special accounting methods for preparation for the consolidated financial statements: Yes
- (3) Changes in accounting policies, accounting estimates and retrospective restatements in the consolidated financial statements
 - [1] Changes due to revisions in accounting standards: None
 - [2] Changes other than those in [1]: None
 - [3] Changes in accounting estimates: None
 - [4] Retrospective restatements: None
- (4) Numbers of shares issued (Common stock)
 - Number of shares outstanding at end of term (including treasury stock) 6/2014: 428,904,352 3/2014: 428,904,352
 - Number of treasury stock outstanding at end of term 6/2014: 1,278,759 3/2014: 1,272,690
 - Number of shares average at end of term 6/2014: 427,627,744 6/2013: 365,414,511

*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, 2015, including Consolidated Operating Forecasts” on page 4 for precondition and assumption as the basis of the above forecasts.

[Financial Performance]

1. Qualitative Information Regarding Financial Results for the Three Months Ended June 30, 2014

(1) Information Regarding Operating Results

The global economy experienced moderate upturns overall and showed steadiness during the three months ended June 30, 2014. The U.S. economy continued to experience moderate upturns. In Asia, the Chinese economy continued to expand at a relatively slow pace, whereas South Korea and Taiwan showed signs of recovery. The economy in emerging nations remained flat. The European economy showed signs of moderate recovery from weakness caused by impacts of the fiscal austerity measures in European nations.

As for the Japanese economy, although consumer spending showed weakness at the beginning of the three months ended June 30, 2014 in response to the consumption tax hike on April 1, 2014, the overall outcome showed steadiness due to the strong export environment and increased productions in Japan followed by robust capital investments.

Among the industries in which the Hitachi Metals Group (the "Group") operates, the automobile market in Japan slightly recovered with an increase in production toward the end of the three months ended June 30, 2014 despite the negative effect of the consumption tax hike. The automobile market in overseas stayed relatively strong, including Europe, North America and China, although weakness was seen in certain Asian regions. The mobile phone industry enjoyed favorable demand for smartphones especially in overseas. The household appliance and personal computer industries stayed weak in Japan because of lower consumer spending whereas the overseas market remained steady. Further, the Japanese housing construction market shrank while public investments remained steady. Steel production decreased mainly due to weak automobile sales and low construction demand, although the production for shipbuilding and industrial machinery remained steady.

In addition to the market environment as described above, the merger with Hitachi Cable, Ltd. on July 1, 2013 further contributed to the financial results. Net sales of the Group for the three months ended June 30, 2014 increased by 65.2% to ¥223,750 million and operating income increased by ¥9,072 million to ¥17,802 million as compared with those for the three months ended June 30, 2013, the period prior to the merger. Income before income taxes and minority interests increased by ¥14,206 million to ¥21,691 million as compared with those for the three months ended June 30, 2013. Net income increased by ¥14,754 million to ¥18,444 million for the same period not only due to the boost in net sales and income but also due to the following recognized under extraordinary income: gain on transfer of business of ¥3,937 million; and gain on sale of property, plant and equipment of ¥125 million.

Results by business segment are as follows. Note that sales include intersegment sales and transfers.

High-Grade Metal Products and Materials

Sales in the High-Grade Metal Products and Materials segment were ¥62,727 million, an increase of 8.3% as compared with those for the three months ended June, 2013. Operating income increased by ¥1,698 million to ¥8,158 million for the same period.

<Special Steels>

Sales of molds and tool steel increased as compared with those for the three months ended June, 2013 mainly because of the rebound in automobile production in Japan, while the ASEAN market remained slightly weak. Sales of alloys for electronic products also increased, supported by strong demand for display-related materials in medium-to small-sized panels as well as for semiconductor and other package materials mainly for smartphones and tablet devices. Sales of materials for industrial equipment, including automobile-, aircraft- and energy-related materials, showed an overall increase: sales in automobile-related materials were globally supported by steady demand in environment-friendly products; aircraft-related materials showed robust demand; however, energy-related materials received less benefit from weak yen.

<Rolls>

Sales of rolls increased both in Japan and overseas during the three months ended June 30, 2014. Sales of injection molding machine parts remained flat as compared with those for the three months ended June 30, 2013 despite favorable demand both in Japan and overseas for smartphones and tablet devices.

<Amorphous Materials>

Sales of amorphous materials increased as compared with those for the three months ended June 30, 2013 attributable to the following: market in North America was steady; customers expecting an increase in demand built up their stock levels in China, the major market; and weak yen continued during the three months ended June 30, 2014.

<Cutting Tools>

Sales of cutting tools increased because of favorable demand for industrial machinery in Japan as well as steady overseas markets proven by an increase in exports.

Magnetic Materials and Applications

Sales in the Magnetic Materials and Applications segment were ¥34,372 million, an increase of 6.7% as compared with those for the three months ended June 30, 2013. Operating income increased by ¥3,382 million to ¥4,142 million for the same period.

<Magnets>

The increase in sales of rare earth magnets was supported not only by strong demand in automotive electronic components for hybrid cars and power steering but also by steady demand for household appliance and factory automation-related products. Sales of ferrite magnets increased due to strong demand for automotive electronic components and household appliance parts both in Japanese and overseas markets.

<Soft Magnetic Materials and Applied Products>

Overall sales of ferrite applied products increased with strong demand for parts for solar power generation systems. Sales of ferrite core remained steady mainly for automotive electronic components and smartphones. An increase in sales of FINEMET™ was largely attributable to steady 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 ¥47,016 million, an increase of 2.4% as compared with those for the three months ended June 30, 2013. Operating income decreased by ¥231 million to ¥3,012 million for the same period.

<Casting Components for Automobiles>

Sales of heat-resistant exhaust casting components remained the same level compared with those for the three months ended June 30, 2013, supported by a recovery in the European market, the leading market for the products, and by strong demand in the U.S. market. Sales of high-grade ductile iron products increased due to favorable demand for automobiles in overseas markets, including the U.S. In addition, limited impact of the consumption tax hike in Japan contributed to the positive result. Sales of aluminum wheels grew, supported by robust demand in the U.S. market and by a production increase of automobiles equipped with the products in Japan.

<Piping Components>

Sales of pipe fittings decreased despite robust demand in the U.S. market, as the housing starts in Japan suffered from a decrease in demand caused by the consumption tax hike. Sales of stainless steel and plastic piping components also decreased because of the decrease in the housing starts in Japan, although proven advantages in light of construction and earthquake resistance triggered demand for gas-related products.

<Construction Components>

Although sales of construction components were supported by private capital expenditures and public investments in Japan, the sales amount decreased as compared with those for the three months ended June 30, 2013, the period when there was a large boost in steel constructions.

Wires, Cables, and Related Products

Sales in the Wires, Cables, and Related Products segment were ¥80,277 million and operating income was ¥4,494 million for the three months ended June 30, 2014.

<Electric Wires and Cables>

Sales of electric power and industrial systems as well as electronic and telecommunication materials were supported by the following: an increase in orders for overseas railway projects and probe cables for medical use; and high demand for construction investments and machine tools in Japan. For electric equipment materials, robust sales of magnet wires were achieved mainly due to strong demand in Japan such as for automobiles.

<Automotive Products>

Sales of automotive products continued to grow, supported by brisk demand for electronic components, a focused product of the Group.

<Information System Devices and Materials>

Sales of network products remained solid as telecommunications carriers increased their capital investments along with widespread use of smartphones.

Other

Sales in the Other segment were ¥1,329 million, an increase of 55.3% as compared with those for the three months ended June 30, 2013. Operating income decreased by ¥42 million to ¥104 million for the same period.

(2) Analysis Regarding Consolidated Financial Condition

Cash and cash equivalents as of June 30, 2014 were ¥110,163 million, an increase of ¥14,620 million from March 31, 2014, as a result of net cash provided by operating activities and investing activities being larger than the sum of net cash used in financing activities.

The analysis for cash flows for each category as of June 30, 2014 is as follows:

<Cash Flows from Operating Activities>

Net cash provided by operating activities was ¥18,179 million, which was mainly attributable to income before income taxes and minority interests of ¥21,691 million and a decrease in working capital such as accounts receivable of ¥4,874 million. Payment for income taxes was ¥6,443 million.

<Cash Flows from Investing Activities>

Net cash provided by investing activities was ¥161 million mainly consisting of the following: proceeds from transfer of business of ¥9,678 million; purchase of property, plant and equipment of ¥7,650 million; and payments for transfer of business of ¥1,900 million.

<Cash Flows from Financing Activities>

Net cash used in financing activities was ¥3,479 million, which was mainly attributable to dividend payments of ¥4,389 million.

(3) Forecasts for the Fiscal Year Ending March 31, 2015, including Consolidated Operating Forecasts

The healthy performance for the three months ended June 30, 2014 was mainly supported by steady demand for automotive and industrial infrastructure-related products. In such circumstances, we have revised the original consolidated business forecasts announced on April 24, 2014, expecting that both sales and income for the six months ending September 30, 2014 (April 1, 2014 through September 30, 2014) are likely to exceed the original forecasts.

Consolidated operating forecasts for the six months ending September 30, 2014

	Net sales (million yen)	Operating income (million yen)	Net income before income taxes and minority interests (million yen)	Net income (million yen)	Net income per share (yen)
Forecasts announced on April 24, 2014 (A)	443,000	31,500	27,000	19,500	45.60
Revised forecasts (B)	447,000	34,000	33,500	25,000	58.46
Differences (B) - (A)	4,000	2,500	6,500	5,500	
Changes (%)	0.9	7.9	24.1	28.2	
(Reference) Results for the six months ended September 30, 2013	350,463	23,124	18,028	9,635	24.30

We expect that the market in which the Group operates will continue to remain strong throughout the fiscal year ending March 31, 2015 (April 1, 2014 through March 31, 2015). However, no revision is made to the operating forecast for the fiscal year ending March 31, 2015 as uncertainty remains in the business environment for the second half of the fiscal year. The forecast for the fiscal year ending March 31, 2015 shall be updated when the business environment becomes more foreseeable.

Consolidated Quarterly Balance Sheets

(Millions of Yen)

	End of 6/2014	End of 3/2014	(difference)
ASSETS			
Current assets			
Cash and deposits	48,244	45,289	2,955
Notes and accounts receivable-trade	203,519	210,503	(6,984)
Finished products	54,178	52,336	1,842
Work in process	49,318	45,007	4,311
Raw materials	44,351	45,547	(1,196)
Group pooling cash deposits	61,451	49,196	12,255
Other	60,669	60,581	88
Allowance for doubtful accounts	(658)	(681)	23
Total current assets	521,072	507,778	13,294
Fixed assets			
Tangible fixed assets			
Buildings and structures, net	68,180	71,076	(2,896)
Machinery, equipment and vehicles, net	86,411	87,475	(1,064)
Land	55,769	55,849	(80)
Other, net	20,813	20,266	547
Total tangible fixed assets	231,173	234,666	(3,493)
Intangible assets			
Goodwill	34,887	33,546	1,341
Other	12,137	12,579	(442)
Total intangible assets	47,024	46,125	899
Investments and other assets			
Investment securities	32,716	36,203	(3,487)
Other	17,716	16,660	1,056
Allowance for doubtful accounts	(686)	(690)	4
Total investments and other assets	49,746	52,173	(2,427)
Total fixed assets	327,943	332,964	(5,021)
Total assets	849,015	840,742	8,273
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	171,310	167,436	3,874
Short-term loans payable	44,894	42,949	1,945
Current portion of long-term loans payable	39,265	39,635	(370)
Income taxes payable	3,858	7,422	(3,564)
Allowance	115	686	(571)
Other	54,860	59,914	(5,054)
Total current liabilities	314,302	318,042	(3,740)
Noncurrent liabilities			
Bonds payable	35,000	35,000	—
Convertible bond-type bonds with subscription rights to shares	4,495	4,495	—
Long-term loans payable	53,909	53,879	30
Other provision	941	1,103	(162)
Asset retirement obligations	193	194	(1)
Liability for retirement benefits	45,365	47,939	(2,574)
Other	6,712	6,892	(180)
Total noncurrent liabilities	146,615	149,502	(2,887)
Total liabilities	460,917	467,544	(6,627)
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	—
Capital surplus	115,692	115,692	—
Retained earnings	253,679	239,530	14,149
Treasury stock	(1,019)	(1,010)	(9)
Total shareholders' equity	394,636	380,496	14,140
Accumulated other comprehensive income			
Net unrealized holding gains on available-for-sale securities	4,976	4,802	174
Gain (loss) on deferred hedge transactions	15	(876)	891
Foreign currency translation adjustments	(5,960)	(4,693)	(1,267)
Remeasurements of retirement benefits	(15,812)	(16,785)	973
Total accumulated other comprehensive income	(16,781)	(17,552)	771
Minority interests	10,243	10,254	(11)
Total Net Assets	388,098	373,198	14,900
Total liabilities and net assets	849,015	840,742	8,273

Consolidated Quarterly Statements of Income

(Millions of Yen)

	1st quarter fiscal 2014 (Jun.30.14)	Ratio to Sales (%)	1st quarter fiscal 2013 (Jun.30.13)	Ratio to Sales (%)	(difference) (%)
Net sales	223,750	100.0	135,448	100.0	165
Cost of sales	174,584	78.0	106,944	79.0	163
Gross profit	49,166	22.0	28,504	21.0	172
Selling, general and administrative expenses	31,364	14.0	19,774	14.6	159
Operating income	17,802	8.0	8,730	6.4	204
Non-operating income					
Interest income	226		82		276
Dividends income	91		55		165
Foreign exchange gains	—		664		—
Equity in earnings of affiliated companies	200		—		—
Other	1,120		837		134
Total non-operating income	1,637	0.7	1,638	1.2	100
Non-operating expenses					
Interest expenses	621		454		137
Exchange losses	349		—		—
Equity in losses of affiliated companies	—		80		—
Other	759		846		90
Total non-operating expenses	1,729	0.8	1,380	1.0	125
Extraordinary income					
Gain on transfer of business	3,937		—		—
Gain on sales of property and equipment	125		—		—
Total extraordinary income	4,062	1.8	—	—	—
Extraordinary losses					
Loss on impaired property and equipment	81		—		—
Loss on structural reform	—		503		—
Litigation expenses	—		1,000		—
Total extraordinary losses	81	—	1,503	1.1	5
Income (loss) before income taxes and minority interests	21,691	9.7	7,485	5.5	290
Income taxes	3,058	1.4	3,653	2.7	84
Income before minority interests	18,633	8.3	3,832	2.8	486
Minority interests in income (loss)	189	0.1	142	0.1	133
Net income (loss)	18,444	8.2	3,690	2.7	500

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	1st quarter fiscal 2014 (Jun.30.14)	1st quarter fiscal 2013 (Jun.30.13)
Income before minority interests	18,633	3,832
Other comprehensive income:		
Net unrealized holding gains on available-for-sale securities	203	272
Deferred gains on hedges	(15)	—
Foreign currency translation adjustments	(1,021)	3,331
Remeasurements of retirement benefits, net of tax	974	395
Share of other comprehensive income of affiliated companies	657	(72)
Total other comprehensive income (loss)	798	3,926
Comprehensive income	19,431	7,758
Comprehensive income attributable to:		
Shareholders of the parent company	19,199	7,447
Minority shareholders	232	311

Consolidated Quarterly Statements of Cash Flows

(Millions of Yen)

	End of 6/2014	End of 6/2013
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	21,691	7,485
Depreciation and amortization	8,585	6,276
Goodwill and negative goodwill amortization	788	670
Loss (gain) on transfer of business	(3,937)	—
Loss on impaired property and equipment	81	—
Cost of structural reform	—	503
Litigation expenses	—	1,000
Interest and dividends received	(317)	(137)
Interest charges	621	454
Decrease (increase) in accounts receivable-trade	6,098	1,665
Decrease (increase) in inventories	(6,048)	3,122
Increase (decrease) in payables	4,824	4,789
Increase (decrease) in accrued expenses	(3,975)	(1,366)
Other, net	(3,108)	(5,120)
Subtotal	25,303	19,341
Amounts paid for structural reform	(681)	(214)
Payments for litigation expenses	—	(1,758)
Income taxes paid	(6,443)	(1,300)
Net cash provided by operating activities	18,179	16,069
Cash flows from investing activities		
Expenditures for acquisition of property, plant and equipment	(7,650)	(5,548)
Proceeds from sales of property, plant and equipment	332	81
Expenditures for acquisition of intangible assets	(857)	(130)
Proceeds from transfer of business	9,678	—
Payments for transfer of business	(1,900)	—
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(264)	—
Interest and dividends income received	312	128
Other, net	510	(64)
Net cash provided (used) in investment activities	161	(5,533)
Cash flows from financing activities		
Net decrease in short-term loans payable	2,592	(4,736)
Proceeds from long-term loans payable	—	2,963
Repayment of long-term loans payable	(1,000)	(4,053)
Interest paid	(673)	(525)
Purchase of treasury stock	(9)	(9)
Cash dividends paid	(4,277)	(2,558)
Cash dividends paid to minority shareholders	(112)	(114)
Net cash used in financing activities	(3,479)	(9,032)
Effect of exchange rate change in cash and cash equivalents	(241)	871
Net increase in cash and cash equivalents	14,620	2,375
Cash and cash equivalents at beginning of period	95,543	34,102
Cash and cash equivalents at end of period	110,163	36,477

Business Segment Information

1. Information with Regard to Amount of Net Sales as well as Income and Loss for Each Business Segment Reported

First quarter fiscal 2013 (Apr. 1, 2013 - Jun. 30, 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	56,965	32,204	45,921	—	135,090	358	135,448	—	135,448
Intersegment	930	7	15	—	952	498	1,450	(1,450)	—
Total sales	57,895	32,211	45,936	—	136,042	856	136,898	(1,450)	135,448
Operating Income (Loss)	6,460	760	3,243	—	10,463	146	10,609	(1,879)	8,730

First quarter fiscal 2014 (Apr. 1, 2014 - Jun. 30, 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	61,854	34,363	46,725	80,130	223,072	678	223,750	—	223,750
Intersegment	873	9	291	147	1,320	651	1,971	(1,971)	—
Total sales	62,727	34,372	47,016	80,277	224,392	1,329	225,721	(1,971)	223,750
Operating Income (Loss)	8,158	4,142	3,012	4,494	19,806	104	19,910	(2,108)	17,802

2. 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], 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 •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 •Materials and components for IT devices •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 systems, electronic and telecommunication materials, electric equipment materials, and industrial rubber products) •Automotive products (electronic components and brake hoses) •Information system devices and materials (information networks, wireless systems, and compound semiconductor products)