

Hitachi Metals, Ltd. (Oct. 25, 2012)

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Consolidated Financial Report for the 6-month period ended September 30, 2012

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

1. Performance over the year, April 1, 2012 to September 30, 2012 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	9/2012(interim)	9/2011(interim)	(Change)
Net sales (million yen)	274,443	261,726	4.9%
Operating income (million yen)	16,952	16,532	2.5%
Income before income taxes (million yen)	17,732	15,273	16.1%
Net income (million yen)	10,885	6,790	60.3%
Net income per share (yen)	30.89	19.27	
Diluted net income per share (yen)	—	—	

Note: Total Comprehensive Income (9/2012 : 7,276 million yen 9/2011 : 487 million yen)

(2) Consolidated Financial Position	9/2012(interim)	3/2012
Total assets (million yen)	538,062	579,862
Net assets (million yen)	244,899	240,395
Equity ratio (%)	41.7	38.0
Net assets per share (yen)	637.20	625.04

Note: Shareholders' equity (9/2012 : 224,563 million yen 3/2012 : 220,282 million yen)

2. Dividend	9/2012(interim)	9/2011(interim)	3/2013 (Planned)
Annual dividend per share (yen)	—	—	14.00
Interim (yen)	7.00	6.00	—
End of period (yen)	—	—	7.00
Total dividend paid (full year) (million yen)	—	—	—
Consolidated dividend payout ratio (%)	—	—	—
Dividends to net assets (consolidated)	—	—	—

3. Forecasts of results for the term, April 1, 2012 to March 31, 2013

	Full-year	Year-on-year Change(%)
Net sales (million yen)	548,000	(1.6)
Operating income (million yen)	42,500	(5.3)
Income before income taxes(million yen)	39,800	(8.5)
Net income (million yen)	25,200	40.9
Net income per share (yen)	70.17	—

4. Other

- (1) Changes in major subsidiaries during the period under review: No
- (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: No
 - [2] Changes other than those in [1]: Yes
 - [3] Changes in accounting estimates: Yes
 - [4] Retrospective restatements: No
- (4) Numbers of shares issued (Common stock)

Number of shares outstanding at end of year (including treasury stock) 9/2012: 366,557,889 3/2012:366,557,889
Number of treasury stock outstanding at end of year 9/2012: 14,134,560 3/2012: 14,128,047
Number of shares average at end of year 9/2012: 352,426,414 9/2011: 352,436,727

* 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 "Qualitative Information Regarding Consolidated Forecast" on page 4 for precondition and assumption as the basis of the above forecasts.

【Financial Performance】

1. Qualitative Information Regarding Financial Results for the 6-Month Period Ended September 30, 2012

(1) Qualitative Information Regarding Consolidated Business Results

The global economy generally slowed down even more during the first half of the fiscal year ending March 31, 2013. European economies stagnated amid ongoing financial instability stemming from the debt crisis. The U.S. economy recovered slightly against a backdrop of slowing growth in personal consumption. Export growth in China and other emerging nations was sluggish, with their economies decelerating. On the other hand, there were increasing concerns that the Japanese economy would slow down as the pace of expansion dwindled owing to a slump in the global economy, overshadowing solid domestic demand, including that related to automobiles.

For industries in which the Group operates, the domestic automobile sector performed well, benefiting from eco-car subsidies and other policies. The American market was positive. In contrast, growth slowed in China and other emerging nations. European markets plunged. The overall cell phone market dwindled slightly despite higher smartphone demand. The semiconductor industry enjoyed brisk demand for smartphones and tablets but suffered from sluggish markets for LCD televisions and personal computers. The domestic steel market was flat despite reconstruction demand, while overseas demand slowed down. Housing construction was also generally unchanged despite reconstruction demand. Public investment remained steady, partly because of the impact of the supplementary budget.

Consolidated net sales for the Hitachi Metals Group for the first half of the period were ¥274,443 million, up 4.9% from the previous corresponding period. Operating income rose ¥420 million, to ¥16,952 million. Income before income taxes was up ¥2,459 million, to ¥17,732 million. Net income increased ¥4,095 million, to ¥10,885 million, reflecting ¥3,490 million in insurance income for flood damage in Thailand.

Results by business segment are as follows. Note that sales include intersegment sales and transfers. As of the first quarter of the fiscal year ending March 31, 2013, reporting categories changed and amounts for the previous corresponding period year have been restated to enable segment comparisons.

High-Grade Metal Products and Materials

Sales in this segment were ¥113,027 million, down 4.8% compared with the previous corresponding period. Operating income was down ¥2,549 million, to ¥8,188 million.

Sales of major products in this segment are as follows.

< Molds and Tool Steels >

For molds and tool steels, overall segment sales declined as sluggish exports and automobile production adjustments in the latter half of the period overshadowed favorable domestic demand for automobile-use molds as a result of the impacts of eco-car subsidies and other policies.

< Alloys for Electronic Products >

Sales of LCD panel-related materials dropped again amid a global slump in demand for LCD televisions.

Sales of semiconductor and other package materials decreased owing to sluggish demand for semiconductors.

< Industrial Equipment and Energy-Related Materials >

Sales of automotive-related materials were down owing to declining demand in the construction machinery, truck, and other categories.

Overall sales of energy-related materials decreased, as higher demand for aircraft parts was insufficient to offset downturns in energy-related offerings and in other industrial equipment.

< Rolls >

Sales of rolls were down slightly, reflecting lower domestic demand for steel in the shipbuilding, industrial machinery, and other sectors and the impact of production adjustments among customers overseas.

< Injection Molding Machine Parts >

Sales of injection molding machine parts dropped amid lower demand for machinery exported to China.

< Amorphous Materials >

Sales of amorphous materials increased on significantly higher demand in the key Chinese market.

< Cutting Tools >

Sales of cutting tools declined despite firm demand from automotive-related industries—key customers for these products—reflecting lower overseas demand.

Electronics and IT Devices

Sales in the electronics and IT devices segment in the period under review were up 23.0%, to ¥78,045 million. Operating income increased ¥1,153 million, to ¥6,943 million.

Sales of major products in this segment are as follows.

< Magnets >

Sales of rare earth magnets increased owing to price revisions, offsetting the impact of adjustments in the production of factory automation-related products and household appliance parts and reduced demand stemming from sluggish personal computer sales.

Sales of ferrite magnets also increased, reflecting favorable sales of automotive-use electronic components and household appliance parts.

< Soft Magnetic Materials >

Sales of soft ferrite materials benefited from favorable demand for automotive-use electronic components and parts for solar power generation systems.

Sales of FINEMET® were down in the absence of a recovery in Europe for solar power generation system parts and because of ongoing industrial machinery-related inventory adjustments.

< Information and Telecommunications Equipment Components >

Sales of information and telecommunications equipment components dropped amid production adjustments linked to slower sales to cell phone-related customers and sluggish adoptions of components used in products that are growing in popularity.

High-Grade Functional Components and Equipment

Sales in this segment increased 4.2%, to ¥83,627 million, while operating income advanced ¥1,024 million, to ¥4,544 million.

Sales of major products in this segment are as follows.

< High-Grade Ductile Iron Products >

Sales of high-grade ductile iron products increased overall on robust sales of passenger vehicles in Japan owing to the impact of eco-car subsidies and other policies, while demand in the United States remained strong.

< Heat-Resistant Exhaust Casting Components >

Sales of heat-resistant exhaust casting components declined, owing largely to an economic downturn in the key European market, dampening exports.

< Aluminum Wheels >

Sales jumped for aluminum wheels, reflecting the impact of eco-car subsidies and other policies and higher production of vehicles for export in Japan, while demand was brisk in the United States.

< Pipefittings >

Sales of pipefittings were unchanged despite signs of a turnaround in housing starts as a result of reconstruction demand and other factors.

< Stainless Steel and Plastic Piping Components >

Sales of stainless steel and plastic piping components were favorable owing to increased demand for City Gas for condominiums and reconstruction demand.

< Construction Components >

Sales of construction components were up slightly amid robust public investment and favorable conditions in the domestic construction and machinery markets on the strength of private sector capital investment.

Other

In this segment, sales increased 19.3%, to ¥2,397 million, while operating income was down ¥40 million, to ¥267 million.

(2) Qualitative Information Regarding Consolidated Financial Condition

At the end of the period under review, cash and cash equivalents (hereinafter “net cash”) were ¥23,284 million, a decrease of ¥4,682 million compared with the end of the previous fiscal year. This outcome was because the net cash generated from operating and financing activities was less than the net cash used in investing activities.

The status of cash flows during the period under review and the primary factors responsible for those results are as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥36,532 million. This was mainly attributable to ¥17,732 million in income before income taxes and a ¥13,749 million decrease in accounts receivable-trade and other working capital.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥15,793 million. This was mainly attributable to ¥16,376 million in expenditures for the purchase of property, plant and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥24,253 million. This was mainly attributable to a decrease of ¥11,000 million in commercial paper and ¥10,435 million in expenditures from the redemption of long-term debt.

(3) Qualitative Information Regarding Consolidated Forecasts

Examining the performance on a consolidated basis during the first half of the fiscal year ending March 31, 2013 (April 1 through September 30, 2012), adjustments continued as demand failed to recover in electronics-related and in machine tools and factory automation-related fields, offsetting

solid demand in automobile-related products. Regarding forecasts for fiscal 2012 in its entirety (April 1, 2012 through March 31, 2013), management expects the business climate to remain adverse, and will revise the forecasts announced on April 25, 2012.

Consolidated Operating Results Forecasts for the Fiscal Year Ending March 31, 2013(April 1, 2012, to March 31, 2012) Millions of Yen

	Net Sales	Operating Income	Income before Income Taxes	Net Income
Previous Forecast (A)	590,000	50,000	46,000	28,500
Current Forecast (B)	548,000	42,500	39,800	25,200
Difference (B – A)	△42,000	△7,500	△6,200	△3,300
Change ((B-A)/A)	△7.1%	△15.0%	△13.5%	△11.6%

2. Notes to the Consolidated Financial Statements

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

(2) Special Accounting Methods for Presenting of Quarterly Consolidated Financial Statements

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of deferred tax accounting on income before income taxes and minority interests in the consolidated fiscal year, including for the first quarter of the fiscal year ending March 31, 2014, and multiplying income before income taxes and minority interests for the quarter by said estimated effective tax rate applicable to income before income taxes and minority interests for the quarter. In the event, however, the Company is unable to use the estimated effective tax rate, the statutory effective tax rate is applied.

(3) Changes in Accounting Policies, Accounting Estimates and Retrospective Restatements

(Change in depreciation and amortization method for property, plant and equipment)

The Company and its consolidated subsidiaries previously used the declining-balance method for depreciation and amortization of property, plant and equipment (using the straight-line method for buildings (except building facilities) acquired on or after April 1, 1998). From the first quarter of the fiscal year ending March 31, 2013, the straight-line method was adopted.

The Group is shifting production abroad to accommodate the global expansions of its customers and ensure its competitiveness amid an appreciating yen. In keeping with the Fiscal 2012 Medium-Term Management Plan, a three-year initiative, the Group is largely harnessing overseas manufacturing operations to boost production to accommodate higher demand. Under that initiative, investments in facilities in Japan are mainly to manufacture high-value added offerings for which management anticipates stable demand and to rationalize and upgrade existing facilities.

The Group aims to stabilize the operations of domestic plants by installing facilities with general-purpose capabilities and enhancing manufacturing techniques to efficiently and optimally produce diverse offerings with minimum facilities.

With these new domestic facilities fully operating mainly during the fiscal year ending March 31, 2013, management anticipates stable operations throughout their usage period, including for existing facilities. Management therefore decided to switch to the straight-line depreciation and amortization method, which allocates average costs over usable periods, for the property, plant and equipment of the Group and domestic consolidated subsidiaries, after concluding that such a change would better reflect usage.

As a result of this change, depreciation and amortization in the first three months of the fiscal year ending March 31, 2014 was ¥1,326 million lower than under the previous method, while operating income and income before income taxes were ¥1,106 million higher respectively.

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 9/2012	End of 3/2012	(difference)
ASSETS			
Current assets			
Cash and deposits	23,134	25,733	(2,599)
Notes and accounts receivable-trade	99,543	115,362	(15,819)
Finished products	44,855	48,007	(3,152)
Work in process	30,969	33,925	(2,956)
Raw materials	61,185	71,116	(9,931)
Deposit paid in subsidiaries and affiliates	80	1,660	(1,580)
Other	23,378	29,954	(6,576)
Allowance for doubtful accounts	(453)	(489)	36
Total current assets	282,691	325,268	(42,577)
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	47,530	49,096	(1,566)
Machinery, equipment and vehicles, net	65,841	65,275	566
Land	49,768	49,879	(111)
Other	15,407	11,251	4,156
Total property, plant and equipment	178,546	175,501	3,045
Intangible assets			
Goodwill	37,397	38,744	(1,347)
Other	6,666	7,224	(558)
Total intangible assets	44,063	45,968	(1,905)
Total investments and other assets	32,762	33,125	(363)
Total noncurrent assets	255,371	254,594	777
Total assets	538,062	579,862	(41,800)
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	74,694	87,867	(13,173)
Short-term loans payable	55,827	57,081	(1,254)
Commercial Paper	—	11,000	(11,000)
Current portion of long-term loans payable	7,590	14,108	(6,518)
Income taxes payable	5,534	9,258	(3,724)
Allowance for directors' bonuses	204	233	(29)
Other	38,181	44,338	(6,157)
Total current liabilities	182,030	223,885	(41,855)
Noncurrent liabilities			
Bonds payable	30,000	30,000	0
Convertible bond-type bonds with subscription rights to shares	4,495	4,495	0
Long-term loans payable	44,859	48,548	(3,689)
Provision for retirement benefits	22,735	22,776	(41)
Other provision	3,039	3,188	(149)
Asset retirement obligations	246	408	(162)
Other	5,759	6,167	(408)
Total noncurrent liabilities	111,133	115,582	(4,449)
Total liabilities	293,163	339,467	(46,304)
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	0
Capital surplus	41,245	41,244	1
Retained earnings	192,897	184,127	8,770
Treasury stock	(10,713)	(10,707)	(6)
Total shareholders' equity	249,713	240,948	8,765
Valuation, translation adjustments			
Net unrealized holding gains (losses) on available-for-sale	2,620	3,595	(975)
Foreign currency translation adjustments	(25,315)	(21,806)	(3,509)
Other	(2,455)	(2,455)	0
Total valuation, translation adjustments	(25,150)	(20,666)	(4,484)
Minority interests	20,336	20,113	223
Total Net Assets	244,899	240,395	4,504
Total liabilities and net assets	538,062	579,862	(41,800)

Consolidated Quarterly Statements of Income

(Millions of Yen)

	1st half fiscal 2012 (Sep.30.2012)	Ratio to Sales (%)	1st half fiscal 2011 (Sep.30.2011)	Ratio to Sales (%)	(difference) (%)
Net sales	274,443	100.0	261,726	100.0	105
Cost of sales	220,486	80.3	208,906	79.8	106
Gross profit	53,957	19.7	52,820	20.2	102
Selling, general and administrative expenses	37,005	13.5	36,288	13.9	102
Operating income (loss)	16,952	6.2	16,532	6.3	—
Non-operating income					
Interest income	149		161		93
Dividends income	82		72		114
Insurance income	—		1,207		—
Gain on sales of marketable securities	509		—		—
Net income per share (yen)	1,371		1,404		98
Total non-operating income	2,111	0.8	2,844	1.1	74
Non-operating expenses					
Interest expenses	964		901		107
Foreign exchange loss	1,257		1,287		98
Other	1,553		1,706		91
Total non-operating expenses	3,774	1.4	3,894	1.5	97
Extraordinary gains					
Insurance income	3,490		—		—
Gain on transfer to defined contribution pension plans	—		224		—
Total extraordinary income	3,490	1.3	224	0.1	—
Extraordinary losses					
Loss on impairment of fixed assets	—		206		—
Loss on disaster	375		—		—
Loss on liquidation of affiliates	—		227		—
Restructuring charge	672		—		—
Total extraordinary losses	1,047	0.4	433	0.2	242
Income (loss) before income taxes	17,732	6.5	15,273	5.8	116
Income taxes	6,240	2.3	7,665	2.9	81
Income before minority interests	11,492	4.2	7,608	2.9	151
Minority interests in income (loss)	607	0.2	818	0.3	74
Net income (loss)	10,885	4.0	6,790	2.6	160

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	1st half fiscal 2012 (Sep.30.2012)	1st half fiscal 2011 (Sep.30.2011)
Income before minority interests	11,492	7,608
Other comprehensive income:		
Net unrealized holding gains on available-for-sale securities	(2,029)	(836)
Deferred gains on hedges	(6)	(2)
Foreign currency translation adjustments	(3,779)	(5,843)
Share of other comprehensive income of affiliated companies accounted for using equity method	<u>1,066</u>	<u>(440)</u>
Total other comprehensive income (loss)	<u>(4,748)</u>	<u>(7,121)</u>
Net income per share (yen)	6,744	487
Comprehensive income attributable to:		
Shareholders of the parent company	6,401	158
Minority shareholders	343	329

Consolidated quarterly statements of cash flows

(Millions of Yen)

	End of 9/2012	End of 9/2011
Cash flows from operating activities		
Income before income taxes	17,732	15,273
Depreciation and amortization	11,595	13,360
Amortization of goodwill and negative goodwill	1,333	1,313
Loss on disaster	375	—
Restructuring charge	672	—
Interest and dividends received	(231)	(233)
Insurance income	(3,490)	—
Interest expenses	964	901
Decrease (increase) in notes and accounts receivable—trade	16,405	(5,881)
Decrease (increase) in inventories	11,492	(31,704)
Increase (decrease) in notes and accounts payable—trade	(14,148)	21,282
Increase (decrease) in accrued expenses	(652)	(835)
Other, net	4,293	(6,729)
Subtotal	46,340	6,747
Proceeds from sales of investment securities	1,174	—
Payments for loss on disaster	(375)	—
Amounts paid for structural reform	(838)	—
Income taxes paid	(9,769)	(4,928)
Net cash provided by operating activities	36,532	1,819
Cash flows from investing activities		
Proceeds from sales of investment securities	655	—
Proceeds from sales of subsidiaries' common stock	59	4
Purchase of property, plant and equipment	(16,376)	(10,960)
Proceeds from sales of property, plant and equipment	198	360
Purchase of intangible assets	(251)	(295)
Interest and dividends income received	231	223
Other, net	(309)	503
Net cash by used in investment activities	(15,793)	(10,165)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(83)	3,837
Net increase (decrease) in Commercial Paper	(11,000)	8,000
Proceeds from long-term loans payable	661	—
Repayment of long-term loans payable	(10,435)	(733)
Proceeds from issuance of bonds	—	10,000
Redemption of bonds	—	(15,505)
Interest paid	(949)	(891)
Purchase of treasury stock	(7)	(9)
Proceeds from sale of treasury stock	1	—
Cash dividends paid	(2,115)	(2,115)
Cash dividends paid to minority shareholders	(326)	(225)
Net cash used in financing activities	(24,253)	2,359
Effect of exchange rate change in cash and cash equivalents	(1,168)	(1,889)
Net increase in cash and cash equivalents	(4,682)	(7,876)
Cash and cash equivalents at beginning of period	27,966	33,994
Cash and cash equivalents at end of period	23,284	26,118

Business Segment Information

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

1st half fiscal 2011 (Apr.1, 2011 - Sep. 30, 2011)

(Millions of yen)

	Business Segments Reported				Other Businesses	Total	Adjustments	Consolidated Statements of Income
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment	Subtotal				
Sales:								
Unaffiliated customers	117,297	63,373	80,187	260,857	869	261,726	—	261,726
Intersegment	1,374	68	96	1,538	1,141	2,679	(2,679)	—
Total sales	118,671	63,441	80,283	262,395	2,010	264,405	(2,679)	261,726
Net income per share (yen)	10,737	5,790	3,520	20,047	307	20,354	(3,822)	16,532

1st half fiscal 2012 (Apr. 1, 2012 - Sep. 30, 2012)

(Millions of yen)

	Business Segments Reported				Other Businesses	Total	Adjustments	Consolidated Statements of Income
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment	Subtotal				
Sales:								
Unaffiliated customers	111,573	78,048	83,620	273,241	1,202	274,443	—	274,443
Intersegment	1,454	(3)	7	1,458	1,195	2,653	(2,653)	—
Total sales	113,027	78,045	83,627	274,699	2,397	277,096	(2,653)	274,443
Operating Income (Loss)	8,188	6,943	4,544	19,675	267	19,942	(2,990)	16,952

2. Overview of Business Segments Reported

High-Grade Metal Products and Materials	High-grade specialty steels (molds and tool steels , alloys for electronic products (display-related, semiconductor and other packages) , industrial equipment and energy-related materials, rolls for steel, nonferrous and non-metal applications , injection molding machine parts , structural ceramic products , steel-frame joints for construction , cutting tools
Electronics and IT Devices	Magnets (rare-earth magnets [NEOMAX [®]], ferrite magnetic materials , and applied products), components for information and telecommunications equipment (multilayered devices, isolators) , IT components and materials , soft magnetic materials (soft ferrite cores and applied products, nanocrystalline magnetic material [FINEMET [®]] and applied devices, amorphous metals [Metglas [®]] and applied products)
High-Grade Functional Components and Equipment	High-grade casting components for automobiles (ductile iron products , heat-resistant exhaust casting components , aluminum wheels , other aluminum components) , piping and infrastructure components (pipe fittings, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices) , construction components (access floor system, structural system and roofing systems), chain(material handling systems)

Overseas Sales

1st half fiscal 2011 (Apr.1, 2011 - Sep. 30, 2011)

(Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	25,811	63,879	20,473	4,102	114,265
Consolidated sales	—	—	—	—	261,726
Overseas sales as a share of consolidated sales	9.4%	23.3%	7.5%	1.5%	41.6%

1st half fiscal 2012 (Apr.1, 2012 - Sep. 30, 2012)

(Millions of Yen)

Overseas sales	30,477	62,996	18,235	4,137	115,845
Consolidated sales	—	—	—	—	274,443
Overseas sales as a share of consolidated sales	11.1%	23.0%	6.6%	1.5%	42.2%

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