

Hitachi Metals, Ltd. (July 27, 2004)

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URL <http://www.hitachi-metals.co.jp>

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Consolidated Financial Report for the first quarterly ended June 30, 2004

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Stock Exchange where listed (section): Tokyo(First), Osaka(First)

1. Items pertaining to the preparation of quarterly results:

(1) Use of simplified accounting procedures:

A simplified method has been used in certain cases to determine forecasted amounts presented in the quarterly reports for depreciation of property, plant and equipment.

(2) Changes in accounting principles in the most recent fiscal year:

Segment information- From fiscal 2004, the five former business segments (High-grade Metal Products and Materials; Electronics and IT Devices; High-Grade Casting Components for Automobiles; Construction Components, Plant and Equipment; and Service and Others) has been reorganized into four segments: High-grade Metal Products and Materials; Electronics and IT Devices; High-Grade Functional Components and Equipment; and Service and Others.

(3) Consolidated subsidiaries and application of the equity method

Number of consolidated subsidiaries: 97

Equity method applied non-consolidated subsidiaries : 2

Equity method applied affiliates : 18

Consolidated scope and changes to the application of the equity method

Consolidation : New companies 23 Companies removed 1

Equity method : New companies coming under equity method 2 Companies removed 1

Newly consolidated:

Hercunite Foundry Technology Ltd., Hitachi Metals (Suzhou) Valves & Fittings, Ltd.,

Hitachi Metals (Dong Guan) Speciality Steel Co., Ltd., NEOMAX Co., Ltd. (additional stock acquisition)

*Consolidation of the NEOMAX Group adds 19 new companies to the Hitachi Metals Group

Removed from consolidation: Hisago Valve Service, Ltd.

Newly subject to the equity method:

Taiwan Sumitok & Cimeo Precision Electronics, Inc. (included with consolidation of NEOMAX Group)

Removed from equity method: NEOMAX Co., Ltd. (included as consolidated subsidiary)

2. Performance over the year, April 1, 2004 to June 30, 2004 (Figures are rounded to the nearest million yen)

(1) Consolidated Operating results	6/04(quarter)	6/03(quarter)	Change(%)	3/04
Net Sales (million yen).....	135,623	98,178	38.1	420,080
Operating income (million yen).....	8,764	2,621	234.4	18,576
Ordinary income (million yen).....	8,469	2,252	276.1	15,184
Net income (million yen).....	4,670	472	889.4	3,408
Net income per share (yen).....	13.21	1.32	—	9.09
Diluted net income per share (yen)....	13.17	—	—	—

(2) Consolidated Financial Standing	6/04(quarter)	6/03(quarter)	3/04
Total assets (million yen).....	528,317	430,543	429,289
Shareholders' equity (million yen).....	155,534	152,737	151,224
Shareholders' equity ratio(%).....	29.4	35.5	35.2
Shareholders' equity per share (yen)....	440.08	427.93	427.40

(3) Consolidated cash flows (million yen)	6/04(quarter)	6/03(quarter)	3/04
Cash flows from operating activities ..	(1,659)	486	20,124
Cash flows from investment activities ..	(4,540)	(3,207)	(17,699)
Cash flows from financing activities ..	(1,380)	(7,197)	(15,786)
Cash and cash equivalents at yearend ..	45,798	47,420	42,896

Qualitative information regarding business results

Net sales during the first quarter of fiscal year 2004 (three month period) rose significantly from the same period of the previous fiscal year to ¥135,623 million, due to strong demand in the High-Grade Metal Products and Electronics and IT Components segments, and the inclusion of the NEOMAX Group in the scope of consolidation. In terms of profitability, income before income taxes increased to ¥8,996 million, with net income for the quarter totaling ¥4,670 million, reflecting the growth in sales.

Segment information is as follows. Net sales figures for each segment include intersegment sales and transfers.

The structure of the Company's business changed significantly during the fiscal year to March 31, 2004, with the acquisition of the amorphous metals and materials business and the transfer of the water treatment businesses, along with the inclusion of NEOMAX Co., Ltd. in the scope of consolidation. Consequently, business segments have been reorganized from the fiscal quarter under review.

High-Grade Metal Products and Materials

Sales of molds and materials for cutting tools were strong due to robust demand both in Japan and overseas, mainly for automobiles and digital consumer electronics. Sales of automotive components and materials were solid, due to the Company's focus on high performance materials in the face of healthy demand. Sales of shadow mask materials were strong, the result of vigorous demand for personal computer display masks in powerful emerging countries, and masks for flat CRT televisions, an area in which the Company is particularly skilled. Sales of IC lead frame materials were strong, due to robust demand for semiconductors. Sales of target materials were strong, due to growing demand for large-scale LCD televisions, and steady establishment of new production lines by LCD manufacturers in Korea and Taiwan. Sales of rolls fell, due to lagging demand. Sales of components for injection molding machines were strong, due to vigorous demand for injection molding machines in Asia.

As a result, sales in this segment totaled ¥48,561 million, with operating income of ¥4,270 million.

Electronics and IT Devices

The NEOMAX Group was included in the scope of consolidation from the fiscal year under review, and added to this segment. Sales of magnets for automobiles, household appliances, and factory automation systems increased. Demand for ferrite cores and wire components grew, mainly among the Company's focus areas of PDAs, LCD displays, and automotive use. Sales of IT components and materials (isolators, antenna switch modules) were strong, amid a robust market for mobile telephones.

As a result, sales in this segment totaled ¥38,579 million, with operating income of ¥2,966 million.

High-Grade Functional Components and Equipment

Sales of high-grade ductile cast iron products increased, due to vigorous demand to comply with stricter regulations for truck emissions. Sales of heat-resistant cast steel products declined, due to slow sales of the types of vehicles in which they are used, as well as a shift to other materials in some cases. Sales of aluminum products, despite an increase in products for trucks, remained on par with the corresponding quarter from the previous fiscal year, due to the screening of unprofitable products conducted during the previous fiscal year. Sales of aluminum wheels were up over the same quarter a year previous, due to demand for large diameter and fashionable products. Sales of pipe fittings (steel pipe and corrosion-resistant fittings) increased from a year earlier due to robust demand ahead of price revisions. Sales of stainless steel and plastic piping components, despite a continuing drop in prices, were up over a year previous due to an increase in market share for certain products. Sales of chains for industrial machinery, despite increases in products for general machinery, were down overall from the same quarter a year prior due to declining sales to sewage treatment plants resulting from curbs on public investment. Sales of double-structure floors rose along with increases in capital investment in digital consumer electronics and mobile telephones. Sales of plinth materials rose, supported by robust capital investment in IT.

As a result, sales in this segment totaled ¥40,796 million, with operating income of ¥1,828 million.

Service and Others

Sales were strong both in Japan and overseas.

As a result, sales in this segment totaled ¥26,292 million, with operating income of ¥615 million.

Qualitative information regarding changes in the financial position

Cash and cash equivalents at the end of the quarter amounted to ¥45,798 million, an increase of ¥2,902 million from the end of the previous fiscal year.

Cash used in operating activities amounted to ¥1,659 million, an increase of ¥2,145 million compared to the same quarter of the previous fiscal year. Although earnings increased significantly due to robust business during the first quarter, and the inclusion of the NEOMAX Group in the scope of consolidation, cash flow was affected by an increase in accounts receivable following the rise in sales, and an increase in inventories to secure raw materials ahead of appreciation of prices.

Cash used in investing activities amounted to ¥4,540 million, an increase of ¥1,333 million from a year earlier, due mainly to additional acquisition of stock in affiliated companies.

Cash used in financing activities amounted to ¥1,380 million, a decline of ¥5,817 million from the same period of the previous year, the result of the Company's policy of maintaining an overall balance in borrowing and redemption of interest-bearing debt.

Cash and cash equivalents at the end of the period increased an additional ¥10,603 million, due to the inclusion of NEOMAX Co., Ltd. (formerly Sumitomo Special Metals Co., Ltd.) in the scope of consolidation, through the acquisition of additional shares during the fiscal quarter under review.

Forecasts of results for the term, April 1,2004 to March 31,2005

[] Mid-term (April 1, 2004 to September 30, 2004)

1. Consolidated Results Forecasts

		Millions of Yen		
		<u>Net Sales</u>	<u>Ordinary Income</u>	<u>Net Income</u>
Previous Forecast	(A)	<u>232,000</u>	<u>7,500</u>	<u>2,500</u>
Revised Forecast	(B)	<u>265,000</u>	<u>14,000</u>	<u>6,000</u>
Difference	(B-A)	<u>+33,000</u>	<u>+6,500</u>	<u>+3,500</u>
Change	((B-A)/A)	<u>+14%</u>	<u>+87%</u>	<u>+140%</u>
(Reference)				
Results of at mid-term fiscal 2003		<u>197,750</u>	<u>3,777</u>	<u>94</u>

2. Non-Consolidated Results Forecasts

		Millions of Yen		
		<u>Net Sales</u>	<u>Ordinary Income</u>	<u>Net Income</u>
Previous Forecast	(A)	<u>105,000</u>	<u>3,500</u>	<u>1,300</u>
Revised Forecast	(B)	<u>119,000</u>	<u>5,000</u>	<u>2,000</u>
Difference	(B-A)	<u>+14,000</u>	<u>+1,500</u>	<u>+700</u>
Change	((B-A)/A)	<u>+13%</u>	<u>+43%</u>	<u>+54%</u>
(Reference)				
Results of at mid-term fiscal 2003		<u>119,136</u>	<u>1,587</u>	<u>933</u>

[] At yearend (April 1, 2004 to March 31, 2005)

Only interim forecasts for fiscal 2004 (April 1, 2004 to March 31, 2005) are being submitted at the present time, due to the difficulty of predicting the business environment during the second half of the fiscal year at the current stage. Full year forecasts, both parent and consolidated, will be announced at the earliest possible moment, once the business environment for the second half becomes more apparent.

[] Qualitative information regarding forecasts

Hitachi Metals is revising upward its sales and earnings forecasts for the interim period of fiscal year 2004 (April 1, 2004 to September 30, 2004), due to robust demand for personal computers, mobile telephones, and electronics-related products such as semiconductors, as well as strong demand in the automobile-related field.

Note: The forecast figures presented in the preceding sections, 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.

Consolidated Balance Sheets

(Millions of Yen)

	End of 6/04 (A)	End of 3/04 (B)	(difference) (A)-(B)
ASSETS			
Current assets:			
Cash and deposits in banks	28,047	20,746	7,301
Notes receivable and accounts receivable	106,107	80,286	25,821
Receivable for completed construction work	2,249	2,972	(723)
Cash pooling deposit	17,615	22,099	(4,484)
Negotiable securities	167	1,086	(919)
Inventories	91,673	71,668	20,005
Deferred tax assets	12,721	10,844	1,877
Other current assets	8,120	5,077	3,043
Total current assets	266,699	214,778	51,921
Fixed assets:			
Tangible fixed assets	208,671	151,456	57,215
Intangible fixed assets	3,323	2,977	346
Other	49,624	60,078	(10,454)
Total fixed assets	261,618	214,511	47,107
Total assets	528,317	429,289	99,028
LIABILITIES, MINORITY INTERESTS and SHAREHOLDERS' EQUITY			
Liabilities:			
Current Liabilities			
Accounts payable	55,974	40,757	15,217
Short-term debt	77,921	53,396	24,525
Bonds redeemable within a year	13,448	11,404	2,044
Deferred tax liabilities	5	—	5
Others	41,219	35,927	5,292
Total current liabilities	188,567	141,484	47,083
Fixed liabilities			
Bonds and long-term debt	94,986	82,725	12,261
Reserve for retirement benefits	30,024	26,422	3,602
Reserve for directors' retirement bonuses	1,060	1,335	(275)
Deferred tax liabilities	4,256	2,972	1,284
Others	12,601	12,599	2
Total fixed liabilities	142,927	126,053	16,874
Total liabilities	331,494	267,537	63,957
Minority interests	41,289	10,528	30,761
Shareholders' equity:			
Paid-in capital	26,283	26,283	—
Capital surplus	36,699	36,699	—
Consolidated Surplus	99,175	95,940	3,235
Appraisal gain(loss) for other marketable securities	1,537	1,500	37
Other	(8,160)	(9,198)	1,038
Total shareholders' equity	155,534	151,224	4,310
Total Liabilities, Minority interests and Shareholders' equity	528,317	429,289	99,028

Comparative Statement of profit and loss

(Millions of Yen)

	1 st quarter fiscal 2004 (Jun. 30,04) (A)	Ratio to sales (%)	1 st quarter fiscal 2003 (Jun. 30,03) (B)	Ratio to sales (%)	(A) / (B) (%)	Fiscal 2003 (Mar. 31,04)
Net sales	135,623	100.0	98,178	100.0	138	420,080
Cost of sales.....	107,101	79.0	79,627	81.1	135	336,495
Gross profit	28,522	21.0	18,551	18.9	154	83,585
Sales, general and administrative expenses.....	19,758	14.6	15,930	16.2	124	65,009
Operating Profit and loss	8,764	6.5	2,621	2.7	334	18,576
Other income:						
Interest and dividends.....	110		116		95	285
Investment income based on equity method.....	138		3		4,600	782
Other.....	883		885		100	2,952
Total	1,131	0.8	1,004	1.0	113	4,019
Other deductions:						
Interest and discount charges.....	624		513		122	2,092
Other.....	802		860		93	5,319
Total	1,426	1.1	1,373	1.4	104	7,411
Ordinary profit (loss)	8,469	6.2	2,252	2.3	376	15,184
Extraordinary profit (loss)						
Gain from the disposal of stocks of affiliated Companies.....	—		—		—	167
Gains from sale of fixed assets.....	444		201		221	2,975
Gain on equity share fluctuation in consolidated subsidiaries.....	1,361		—		—	—
Write-off Discrepancies as a Result of Changes in Accounting	(753)		(760)		99	(3,049)
Loss on structural reform.....	(525)		(200)		263	(3,859)
Extraordinary loss on revision of retirement benefit plan system.....	—		—		—	(114)
Previous period's portion of social insurance contribution on bonus accruals.....	—		—		—	(950)
Other.....	—		—		—	(689)
Total	527	0.4	(759)	(1)	—	(5,519)
Income before income tax	8,996	6.6	1,493	1.5	603	9,665
Corporate taxes	3,453	2.5	971	1.0	356	5,909
Minority shareholders' income, etc.	873	0.6	50	0.1	1,746	348
Quarterly net income	4,670	3.4	472	0.5	989	3,408

Statement of Consolidated Surplus

(Millions of Yen)

	1 st quarter fiscal 2004 (Jun. 30,04) (A)	1 st quarter fiscal 2003 (Jun. 30,03) (B)	(A) / (B) (%)	Fiscal 2003 (Mar. 31,04)
Consolidated surplus brought forward	95,940	94,523	101	94,523
Cash dividends.....	1,237	1,249	99	1,784
Directors' bonuses.....	198	207	96	207
Decrease of other surplus	1,435	1,456	99	1,991
Quarterly net income of the year under review	4,670	472	989	3,408
Consolidated surplus carried forward	99,175	93,539	106	95,940

Consolidated Statements of Cash Flows

(Millions of Yen)

	End of 6/04	End of 6/03	End of 3/04
Cash flows from operating activities			
Net income before income tax	8,996	1,493	9,665
Depreciation and amortization	6,079	5,017	19,108
Extra ordinary loss on structural reform	525	—	2,452
Gain on equity share fluctuation in consolidated subsidiaries	(1,361)	—	—
Increase (decrease) reserve for retirement benefits	290	343	935
Interest earned and dividends received	(110)	(116)	(285)
Interest paid	624	513	2,092
(Increase) decrease in receivables	(3,705)	688	(6,569)
Decrease in receivables for completed construction work	730	3,401	10,065
(Increase) in inventories	(6,736)	(4,058)	(4,438)
Increase (decrease) in payables	1,708	(4,292)	(954)
(Increase) in prepaid expenses	(1,522)	(828)	—
Other	(2,045)	2,642	(4,650)
Sub total	3,473	4,803	27,421
Amount paid for transfer to defined contribution pension plan	(1,864)	(1,652)	(1,851)
Amount paid for extra ordinary loss on structural reform	(109)	—	—
Earnings on interest and dividends	106	39	456
Interest paid	(562)	(653)	(2,405)
Income tax and other tax paid	(2,703)	(2,051)	(3,497)
Net cash provided by operating activities	(1,659)	486	20,124
Cash flows from investment activities			
Proceeds from sale of securities	1,002	7	153
Expenditures for acquisition of tangible fixed assets	(4,736)	(4,827)	(17,281)
Expenditures for acquisition of intangible fixed assets	606	1,758	15,891
Payment for additional acquisition of shares in affiliated companies	(1,270)	—	—
Other investment	(142)	(145)	(16,462)
Net cash used in investing activities	(4,540)	(3,207)	(17,699)
Cash flows from financing activities			
Increase in short-term borrowings	4,483	2,476	3,421
Proceeds from long-term debt	500	650	14,623
Payments on long-term debt	(2,178)	(4,241)	(21,436)
Proceeds from issue of bonds	2,096	1,208	11,619
Expenditures for redemption of bonds	(4,900)	(5,969)	(20,689)
Purchase of treasury stock	(4)	(2)	(1,410)
Dividends paid by parent company	(1,237)	(1,249)	(1,784)
Dividends paid to minority stock holders	(140)	(70)	(130)
Net cash provided by (used in) financing activities	(1,380)	(7,197)	(15,786)
Effect of exchange rate changes on cash and cash equivalents	(122)	(46)	(1,127)
Net (decrease) in cash and cash equivalents	(7,701)	(9,964)	(14,488)
Cash and cash equivalents at beginning of year	42,896	57,384	57,384
Addition to cash and cash equivalents from newly consolidated companies	10,603	—	—
Cash and cash equivalents at end of year	45,798	47,420	42,896
Listed cash and deposits to consolidated balance sheet at end of year and relation of listed cash and cash equivalents to consolidated statements of cash flows			
Cash and deposits	28,047	26,873	20,746
Securities (Money Market Fund, etc.)	136	2,151	51
Cash pooling deposits	17,615	18,396	22,099
Cash and cash equivalents at end of year	45,798	47,420	42,896

Segment Information

1 st quarter fiscal 2004 (Apr.1, 2004 - Jun. 30, 2004)		(Millions of Yen)					
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-grade Functional Components and Equipment	Services and Others	Total	Eliminated or Others	Consolidated
Net sales							
Sales to customers	40,380	32,764	36,984	25,495	135,623	—	135,623
In-house sales	8,181	5,815	3,812	797	18,605	(18,605)	—
Total net sales	48,561	38,579	40,796	26,292	154,228	(18,605)	135,623
Operating expenses	44,291	35,613	38,968	25,677	144,549	(17,690)	126,859
Operating income	4,270	2,966	1,828	615	9,679	(915)	8,764

1 st quarter fiscal 2003 (Apr.1, 2003 - Jun. 30, 2003)		(Millions of Yen)					
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-grade Functional Components and Equipment	Services and Others	Total	Eliminated or Others	Consolidated
Net sales							
Sales to customers	34,205	9,041	33,917	21,015	98,178	—	98,178
In-house sales	6,089	3,719	3,589	551	13,948	(13,948)	—
Total net sales	40,294	12,760	37,506	21,566	112,126	(13,948)	98,178
Operating expenses	37,990	12,740	36,516	22,044	109,290	(13,733)	95,557
Operating income	2,304	20	990	(478)	2,836	(215)	2,621

Note: Business segments have been determined in consideration of similarities in terms of product type, manufacturing method or sales method, or unit of receivership.

Change in Business Segments

From fiscal 2004, the five former business segments (High-grade Metal Products and Materials; Electronics and IT Devices; High-Grade Casting Components for Automobiles; Construction Components, Plant and Equipment; and Service and Others) has been reorganized into four segments: High-grade Metal Products and Materials; Electronics and IT Devices; High-Grade Functional Components and Equipment; and Service and Others. The segments were revised, taking advantage of significant changes in the business structure brought about by the inclusion of NEOMAX Co., Ltd. in the scope of consolidation, the acquisition of the amorphous metals and materials business and the transfer of the water treatment businesses. The segments were reorganized into the three product business divisions of High-grade Metal Products and Materials; Electronics and IT Devices; and High-Grade Functional Components and Equipment, in accordance with Group management. Products in the former segments of High-Grade Casting Components for Automobiles; and Construction Components, Plant and Equipment, have been consolidated under High-Grade Functional Components and Equipment, due to increasing similarities in terms of type and manufacturing method. Due to the contraction of the environment business, environmental systems products have been placed in the Services and Others segment.

Notes: Major Products :

High-Grade Metal Products and Materials	High-grade specialty steels, Components for copying machines and other office equipment Display materials, Semiconductor and other package materials Rolls for steel, nonferrous and non-metal rolling, Injection molding machine parts Structural ceramics, Steel frame joints for construction Steel castings and forgings for construction, shipbuilding and general manufacturing Cutting tools, Others
Electronics and IT devices	Ferrite and rare-earth magnets (castings or bonded) and their applications Isolators, Multilayered devices, Soft ferrites, EMC components Components and materials for IT and AV equipment Nano-crystalline soft magnetic materials (FINEMET [®]), Others
High-Grade Functional Components and Equipment	High-grade ductile iron castings (HNM [®]), Heat-resistant metal castings (HERCUNITE [®]) Aluminum wheels (SCUBA [®]) and other aluminum products Plastic piping components, Stainless steel piping components Steel pipe fittings, Built in plastic core type fittings Mechanical joints for drainage, Water cooling equipment Precision mass flow control devices, Expansion tanks, Internal and structural systems, Others
Services and others	Environmental equipment (incinerators, waste disposal) Environmental analysis and consulting, Metal materials survey and analysis Light alloy cabinets made with Press-forging manufacturing method Other sales and services, Others

Sales results by location

1st quarter fiscal 2004 (Apr.1, 2004 - Jun. 30, 2004)

(Millions of Yen)

	Japan	North America	Asia	Other	Total	Eliminated or Others	Consolidated
Net sales and operating income							
Sales to customers··	102,210	16,698	12,818	3,897	135,623	—	135,623
In-house sales·····	13,917	1,796	6,729	120	22,562	(22,562)	—
Total net sales···	116,127	18,494	19,547	4,017	158,185	(22,562)	135,623
Operating expenses	107,853	17,595	18,856	3,931	148,235	(21,376)	126,859
Operating income···	8,274	899	691	86	9,950	(1,186)	8,764

1st quarter fiscal 2003 (Apr.1, 2003 - Jun. 30, 2003)

(Millions of Yen)

	Japan	North America	Asia	Other	Total	Eliminated or Others	Consolidated
Net sales and operating income							
Sales to customers··	74,811	14,574	5,231	3,562	98,178	—	98,178
In-house sales·····	7,344	733	2,271	90	10,438	(10,438)	—
Total net sales···	82,155	15,307	7,502	3,652	108,616	(10,438)	98,178
Operating expenses·	80,638	14,343	7,291	3,554	105,826	(10,269)	95,557
Operating income···	1,517	964	211	98	2,790	(169)	2,621

Overseas sales

1st quarter fiscal 2004 (Apr.1, 2004 - Jun. 30, 2004)

	North America	Asia	Other	Total
Overseas sales·····	15,763	26,506	6,853	49,122
Consolidated sales·····	—	—	—	135,623
Overseas sales as a share of consolidated sales····	11.6%	19.5%	5.1%	36.2%

1st quarter fiscal 2003 (Apr.1, 2003 - Jun. 30, 2003) (Millions of Yen)

	North America	Asia	Other	Total
Overseas sales·····	13,308	12,181	5,291	30,780
Consolidated sales·····	—	—	—	98,178
Overseas sales as a share of consolidated sales····	13.6%	12.4%	5.4%	31.4%