Hitachi Metals, Ltd. (Apr. 26, 2006)

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2-1 Shibaura 1-chome, Minato-ku, Tokyo

Consolidated Financial Report for the 12-month period ended March 31, 2006

Contact: Sig Ishigay, Officer and General Manager

Corporate Communications Tel: +81-3-5765-4073

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

1. Performance over the year, April 1, 2005 to March 31,2006 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	**3/2006**	3/2005	(Change)
Net Sales (million yen)	**590,678**	559,540	5.6%
Operating income (million yen)	**47,502**	40,401	17.6%
Ordinary income (million yen)	**45,305**	36,387	24.5%
Net income (million yen)	**17,165**	15,218	12.8%
Net income per share (yen)	**48.95**	42.65	
Diluted net income per share (yen)	**—**	—	
Net income to shareholders' equity (%)	**10.0**	9.7	
Ordinary income to total assets (%)	**8.3**	7.6	
Ordinary income to net sales (%)	**7.7**	6.5	

Notes: 1. Profit (loss) on equity method investment: 508 million yen (previous year: 85 million yen)
2. Average number of shares outstanding (3/06: 347,082,741 3/05: 351,760,299)
3. Accounting policy has been made change.

(2) Consolidated Financial Standing	**3/2006**	3/2005
Total assets (million yen)	**554,275**	532,285
Shareholders' equity (million yen)	**179,960**	162,400
Shareholders' equity ratio (%)	**32.5**	30.5
Shareholders' equity per share (yen)	**518.93**	465.20

Note: Number of shares outstanding at the end of year (3/06: 346,456,495 3/05: 348,640,434)

(3) Consolidated cash flows (million yen)	**3/2006**	3/2005
Cash flows from operating activities	**55,547**	31,739
Cash flows from investment activities	**(27,983)**	(13,749)
Cash flows from financing activities	**(18,053)**	(18,180)
Cash and cash equivalents at yearend	**64,844**	53,563

(4) Consolidated subsidiaries and application of the equity method

Number of consolidated subsidiaries : 102

Equity method applied non-consolidated subsidiary : None

Equity method applied affiliates : 15

(5) Consolidated scope and changes to the application of the equity method

Consolidation: New companies 4 Companies removed 8

Equity method : New companies coming under equity method None Companies removed 1

2. Forecasts of results for the term, April 1, 2006 to March 31, 2007

	At mid-term	At year end
Net sales (million yen)	294,000	600,000
Ordinary income (million yen)	21,000	45,500
Net income (million yen)	9,500	21,000

Reference: Expected net income per share (full-year basis) consolidated: 60.61 yen

Note: The outlooks for performance presented in this document are statements regarding future plans, not historical facts, and represent the judgments of the management of the Company based on current conditions as well as certain premises and assumptions. In fact, changes in assumptions and prevailing conditions as well as other developments, along with a wide range of other factors may lead to outcomes that differ substantially from those presented in this document. For these reasons, the Company requests that all parties concerned refrain from relying exclusively on these outlooks when making investment and other decisions.

Consolidated subsidiaries: 102 companies

43 domestic companies

Hitachi Tool Engineering, Ltd.	Hitachi Ferrite Electronics, Ltd.
Hitachi Metals Techno, Ltd.	NEOMAX MATERIALS Co., Ltd.
NEOMAX Co., Ltd.	Alcast, Ltd.
Hitachi Metals Admet, Ltd.	Seitan Inc.
Hitachi Metals Tool Steel, Ltd.	Tokyo Seimitsu Kogyo, Ltd.
NEOMAX TRADING Co., Ltd.	Hitachi Valve, Ltd.
HMY, Ltd.	Himec, Ltd.
HMW, Ltd.	Hallow, Ltd.
	Hitachi Metals Solutions, Ltd.

etc.

59 overseas companies

Hitachi Metals America, Ltd.	Hitachi Metals (Dong Guan) Specialty Steel Co., Ltd.
Hitachi Metals Europe GmbH	Hitachi Metals (Thailand) Ltd.
Hitachi Metals Singapore Pte. Ltd.	Hitachi Metals (Suzhou) Electronics, Ltd.
Hitachi Metals Hong Kong Ltd.	Metglas, Inc.
Hitachi Metals (Shanghai) Ltd.	Luzon Electronics Technology, Inc.
Hitachi Metals (India) Pvt. Ltd.	AAP St. Marys Corporation
Newport Precision, Inc.	ACP Manufacturing Co. LLC
SinterMet, LLC	HN Automotive, Inc.
Five Ace Technology Co., Ltd.	Ward Manufacturing Inc.
Hitachi Rolls (Thailand) Ltd.	Hitachi Metals (Suzhou) Valves & Fittings, Ltd.

etc.

Consolidated Management Policies

1. Fundamental Management Policies

Hitachi Metals, Ltd. and its subsidiaries (collectively, the "Company") aim to contribute to the betterment of society by providing environment-friendly, superior-quality products that are made possible through the use of cutting-edge materials and proprietary technologies. Using these proprietary technologies and by developing new ones, the Company endeavors to fulfill its corporate responsibility, to create higher value-added products and capabilities in a timely manner. Hitachi Metals is dedicated to satisfying the shareholders, investors, and customers that support its existence, as well as society in general, by delivering top-level solutions achieved through creative imagination and forthright action. In addition, each employee is allowed the freedom to explore and optimize his or her individual skills and creativity with a view to creating a dynamic company.

2. Dividend Policy

Changing customer needs and technologies together with advancing globalization characterize the current business environment. Under these circumstances, Hitachi Metals considers its prime responsibility to be appropriate and long-term return to its shareholders through the strengthening of its international competitiveness, the expansion of dividend-enabling profit, and the maximization of corporate value. To this end, the Company has adopted a policy of paying stable dividends to shareholders while maintaining and expanding its financial strength to make possible investments for the future. The Company sets aside earnings with the future development of operations in mind, investing in new materials development and in bringing new products to market. At the same time, Hitachi Metals is also developing new businesses and streamlining facilities to expand the production of highly competitive products, and to create a vibrant global network. As in the past, Hitachi Metals intends to pay an interim and year-end cash dividend from retained earnings. The Company also plans to purchase treasury stock as appropriate with the aim of enabling the execution of flexible capital policies.

3. Reasons and Policy for Lower Investment Unit

Hitachi Metals believes that a lower investment unit is an effective measure to expand the investor base and increase share liquidity. While paying due consideration to costs and benefits related to performance, share prices, shareholder composition, liquidity and implementation, Hitachi Metals is examining the feasibility of implementing lower investment units in the future, but currently has no plans to do so.

4. Target Business Indicators

In line with its dividend policy, the Company will strive to achieve a consolidated ROE (Return on equity) of 12% to maintain the income level required to increase corporate value, while providing shareholders with long-term returns on their investments.

5. Medium- to Long-Term Strategy and Issues to Be Addressed

The Hitachi Metals Group formulated its Fiscal 2008 Medium-Term Management Plan in March 2006, aiming to create business opportunities based upon protection of the global environment, and to achieve sustainable growth. Numerical targets of the Fiscal 2008 Medium-Term Management Plan, which were set based upon the successful attainment of targets of the previous Fiscal 2005 Medium-Term Management Plan, call for the Company to attain consolidated return on equity (ROE) of 12%, net sales of ¥630 billion, operating income of ¥57 billion and net income of ¥26 billion by the fiscal year ending March 31, 2009.

The Fiscal 2008 Medium-Term Management Plan establishes responding to global environmental protection needs as the guiding principle of its business strategy. As a materials manufacturer, the Hitachi Metals Group is aware of the significant role it plays in promoting environmental preservation across a broad range of areas including the following: contributing to the creation of lighter weight automobiles that feature better fuel efficiency and adhere to emissions standards, producing materials for the electronics and electrical equipment industries that lead to energy conservation and eliminate the use of harmful substances, and the recycling of industrial waste. In addition, many of the Group's products are closely linked with the product categories identified by the Top Runner Program (which establishes the performance of the most-advanced devices currently produced as the Top Runner Standard for specific energy consuming devices) under the Energy Conservation Law. Accordingly, our business strategies including our R&D activities and expansion of our operations incorporate concerns for the environment and measures to ensure its preservation. Through these efforts, the Hitachi Metals Group will recognize opportunities to create new businesses.

The outline of the Action Plan for the Medium-Term Management Plan is as follows:

(1) Policies to Create Growth Drivers

a. Expand Global Business

The Hitachi Metals Group is working to strengthen the brand power of its products throughout the international markets in which they are sold. We aim to achieve further growth in world markets. Sales of electronics- and automobile-related products are expanding on the three fronts of Europe, the U.S. and Asia. In addition, we are planning for growth in molds, tools, housing, energy and other infrastructure related fields in the Asian region. Environmental regulations are becoming increasingly stringent in these regions. Against this backdrop, Hitachi Metals will endeavor to deliver products that match the unique environmental concerns of each region.

In the automobile sector, an industry experiencing global growth, we will further strengthen our lineup of products in harmony with the environment for use in hybrid, diesel and gasoline vehicles. In energy, we will also promote sales of energy-conserving amorphous alloys in Asia as a means to expand business.

By firmly establishing a multipolar production structure based upon the above policies in European, U.S. and Asian locations, we have set a goal of raising our overseas sales ratio from the current level of 39% to 45% by fiscal 2008. We aim to achieve stable growth in world markets.

b. Create New Products

The Hitachi Metals Group is selecting fields related to automobiles, electronics, energy and infrastructure in which we are strong, and aggressively advancing research and development focused on items in which we are confident we can capture the number one position in order to triumph in the increasingly competitive global market.

Under a lateral association among each subsidiary within the Hitachi Metals Group, we are advancing development efforts by concentrating Group’s management resources. New product markets that we entered through to fiscal 2005 included automobile exhaust filters/purifying materials, transmission materials, highly safe aluminum wheels, alloys for thin-film deposition liquid crystal displays, multilayered ceramic devices for mobile communications, lead-free packaging materials for semiconductors, optical devices, high-performance mill rolls, advanced pipe fittings and others. We will endeavor to accelerate efforts in realizing the full potential of products that are currently being developed. Under our roadmap for development in core fields, we have positioned the development of products in harmony with the environment at the heart of our growth strategies, while prioritizing the appropriation of management resources.

Through these policies, we are endeavoring to raise the new product sales ratio from its current level of 25% to our target of 30%, and focusing on renewing the composition of our product lineup by maintaining that level.

(2) Establish a Robust Structure to Achieve Growth

a. Strengthen the financial position

The Hitachi Metals Group is striving to improve operating income while making efforts to reduce working capital in order to accumulate the capital resources needed for both capital investment and R&D investment for sustainable growth. Hitachi Metals is working to bring innovations and upgrades to its backbone processes thereby increasing productivity. Efforts are also being continually made to integrate product lineups and specifications, improve production control through IT and generally make comprehensive *Monozukuri* capability breakthroughs. Across the entire operating process, from order through production and delivery, Hitachi Metals is committed to significantly reducing the number of inventory days held and curtailing working capital.

b. Manufacturing process reform

In order to reinforce its *Monozukuri* capability including measures to ensure cost structure reform, The Hitachi Metals Group is pursuing further productivity enhancements and implementing drastic reforms of the entire manufacturing process from raw material input through delivery. In mainstay products of mature fields, we will continue to pursue cost innovation and improvements in profit ratios. In an effort to further distinguish Hitachi Metals from its competitors, we will develop innovative processing techniques, namely black-box technologies, for strategic products that will serve as future growth drivers, creating further barriers to market entry.

Hitachi Metals also recognizes environmental management as one of its most important priorities. In order to promote unified environmental management throughout the Group, we are constructing a comprehensive environmental management system based upon the "Hitachi Metals Basic Environmental Protection Policies." Through this system, Hitachi Metals will strengthen compliance with environmental standards and reduce environmental burden by implementing lifecycle assessment, a method for comprehensively evaluating the impact of a product on the environment throughout its lifecycle.

Hitachi Metals will continue to actively disclose environmental accounting and other information related to the Group's environmental activities.

Through these measures, Hitachi Metals aims to be the best partner for its customers as a development-driven company with world-class product development capabilities able to continuously supply new products that are essential to its customers.

6. Matters Related to the Parent Company

(1) Parent Company Information (As of March 31, 2006)

Name	Affiliation	Percentage of voting rights held by the parent company (%)	Stock exchanges on which the parent company's stock is traded
Hitachi, Ltd.	Parent company	56.6% (0.6)	First Section of the Tokyo Stock Exchange, First Section of the Osaka Securities Exchange, First Section of the Nagoya Stock Exchange, Fukuoka Securities Exchange, Sapporo Stock Exchange, Luxembourg Stock Exchange (Luxembourg), Deutsche Bourse (Germany), Euronext Amsterdam (the Netherlands), Euronext Paris (France), New York Stock Exchange (U.S.)

Note: The figure in parentheses indicates the percentage of indirect ownership in the percentage of voting rights held by the parent company column.

(2) Position of Listed Companies in the Hitachi Group, and Transactional, Personnel, and Capital Relationships with the Parent Company and its Group Companies

As a member of the Hitachi Group, Hitachi Metals has a close cooperative relationship with parent company Hitachi, Ltd. and its other group companies. Hitachi Metals executes its business activities while leveraging the management resources of the Hitachi Group.

Hitachi, Ltd. and its group companies are leading shareholders in the Company, holding 56.6% of Hitachi Metals' voting rights. Two of Hitachi Metals' three outside directors hold concurrent positions as directors or representative executive officers of Hitachi, Ltd. (The person who concurrently held the position of representative executive officer of Hitachi, Ltd. resigned that position and assumed the post of representative executive officer and director of another Hitachi Group company as of April 1, 2006.) In addition, three employees of Hitachi, Ltd. have been dispatched to the administrative and research and development departments of Hitachi Metals. Moreover, Hitachi Metals is in a transactional relationship with Hitachi, Ltd. that covers cash deposits based on the Hitachi Group's pooling system, buying and selling of products, providing of services, trading of technologies, granting permission for use of the company logo, and leasing of real estate. Hitachi Metals is also in a transactional relationship with Hitachi, Ltd. group companies covering the buying and selling of products and providing of services. Aside from these relationships, Hitachi Metals also lends cash to joint venture companies it has funded with Hitachi, Ltd., and entities outside the Hitachi Group, and acts as a debt guarantor against borrowings by joint-venture companies.

b. Restrictions, Risks and Merits of Being Part of the Parent Company's Corporate Group, and Impact of Transactional, Personnel and Capital Relationships with the Parent Company and its Group Companies on Management and Business Activities

Hitachi Metals has a close cooperative relationship with parent company Hitachi, Ltd. and its other group companies. Hitachi Metals executes its business activities while leveraging the management resources of the Hitachi Group.

Among Hitachi Metals six directors, two outside directors also hold concurrent positions as directors or representative executive officers of Hitachi, Ltd., and indicate their opinions at meetings of the Board of Directors. Accordingly, the determination of Hitachi Metals management policies may be impacted.

The dispatching of employees from Hitachi, Ltd. is practiced for the purpose of exchange between personnel, and these employees do not assume important posts at Hitachi Metals. Moreover, Hitachi Metals' business activities do not have a high degree of dependence upon transactions with Hitachi, Ltd. and its group companies.

c. Philosophy Concerning and Policies to Establish a Degree of Independence from the Parent Company

Hitachi Metals maintains autonomy in its business operations and transactions from Hitachi, Ltd. and its group companies.

Hitachi Metals' Board of Directors consists of one outside director from outside of the Hitachi Group, two outside directors who hold concurrent positions as directors or representative executive officers of Hitachi, Ltd., and three directors from within Hitachi Metals. Accordingly, we believe that we are able to maintain autonomy in our business decisions, as directors who hold concurrent positions at Hitachi, Ltd. make up less than half of the Board of Directors. The dispatching of employees from Hitachi, Ltd. is practiced for the purpose of exchange between personnel, and these employees do not assume important posts at Hitachi Metals. Business transactions with Hitachi, Ltd. and its group companies are conducted effectively after agreement by both sides and consideration of market prices.

d. Progress in Establishing a Degree of Independence from the Parent Company

Hitachi Metals maintains autonomy from Hitachi, Ltd. and Hitachi Group companies in its business operations and transactions. The appointment of directors who hold concurrent positions at Hitachi, Ltd. and the dispatching of personnel from Hitachi, Ltd. does not interfere with the independence of Hitachi Metals' business decisions. Moreover, Hitachi Metals' business activities do not have a high degree of dependence upon transactions with Hitachi, Ltd. and its group companies. Hitachi Metals understands these circumstances, as giving it a degree of independence from the parent company.

(Concurrent positions of directors) (As of March 31, 2006)

Position	Name	Position at parent company or its group companies	Reason for appointment
Outside Director	Yoshiki Yagi	Board Director (Chair), Hitachi, Ltd.	To strengthen oversight functions of Hitachi Metals' Board of Directors and to assure close relations with the Hitachi Group
Outside Director	Masaharu Sumikawa	Executive Vice President and Executive Officer, Hitachi, Ltd.	To strengthen oversight functions of Hitachi Metals' Board of Directors and to assure close relations with the Hitachi Group

*Note: Masaharu Sumikawa resigned from the positions of Executive Vice President and Executive Officer of Hitachi, Ltd. and assumed the post of Representative Executive Officer and Director of Hitachi Plant Technologies, Ltd. as of April 1, 2006. As a result, as of April 1, 2006, Yoshiki Yagi is the sole director among Hitachi Metals' six directors who holds a concurrent post as director at the parent company. Masaharu Sumikawa are the sole director who holds concurrent director post at subsidiary of the parent company.

Financial Performance and Financial Condition

1. Financial Results

(1) Overview (fiscal year ended March 31, 2006)

Looking at the global economy during the fiscal year ended March 31, 2006, the U.S. economy remained firm on the back of robust personal and supported by residential investment and private-sector capital investment. This was despite the impact of the sharp rise in crude oil prices and difficult operating conditions for certain leading companies. In Asia, growth remained high, particularly in China, which continued to invest heavily and expand export activities. ASEAN countries also remained strong, while Taiwan and Korea fared well following completion of inventory adjustments in the IT and digital-related devices sectors. Economic conditions in Europe enjoyed a soft recovery.

Following a prolonged period of stagnation during the post-bubble era, the Japanese economy experienced clear signs of a recovery buoyed by an upswing in exports reflecting the weak yen, robust private-sector capital investment and firm personal consumption.

Conditions in the industries in which the Hitachi Metals Group operates were as follows. In the automobile industry, demand centered on standard passenger cars expanded in Japan. Conditions overseas were also favorable with North America and Asia experiencing overall growth. The semiconductor industry continued to do well on the back of increased demand primarily for flash memories, while demand rose significantly centered in Asia and Latin America for mobile phones. Demand also rose sharply in the personal computer industry mainly in emerging countries including Brazil, Russia, India and China, collectively referred to as BRICs, prompting market expansion in mobile PCs. Steel production remained high, fueled by activity in Japan and China. In the domestic construction industry, however, conditions deteriorated due to widening public-sector deficits. This was despite an increase in private-sector investment on the back of improvements in corporate earnings and expectations of a firm recovery.

Against this backdrop, net sales of the Hitachi Metals Group climbed 5.6% compared with the previous fiscal year to ¥590,678 million, as a result of strong-demand for automobile-related products, as well as IT and household appliance-related products such as LCD TVs.

On the earnings front, operating income rose ¥7,101 million year on year to ¥47,502 million. Despite a general increase in global prices for scarce metals and raw materials, this improvement is attributed to revisions in sales prices and increased efforts to reduce costs and expenses. Ordinary profit climbed ¥8,918 million to ¥45,305million owing to the incidence of a gain on foreign exchange reflecting the weakening yen in foreign exchange currency markets.

Looking at extraordinary profit and loss, the loss on structural reform and transfer to write-off discrepancies as a result of changes in accounting declined. Hitachi Metals, however, incurred new losses on the application of impairment accounting and environmental safety measure expenses. In addition, the provision for income taxes rose substantially in line with the increase in income before income taxes and minority interests. Hitachi Metals also reported an increase in minority interests. Accounting for these factors, net income climbed ¥1,947 million compared with the previous fiscal year to ¥17,165 million.

As a result of the aforementioned, the Group exceeded the targets in its Fiscal 2005 Medium-Term Management Plan.

In the context of cash dividend payments, Hitachi Metals has decided to distribute a year-end dividend of ¥5 per share on par with the previous fiscal year. This represents a full-year cash dividend of ¥10 per share.

Results by business segment are presented as follows. The sales amounts include intersegment sales and transfers.

High-Grade Metal Products and Materials

Sales of molds and tool materials as well as cutting tools rose significantly due to strong demand from the automobile industry. In high-grade electronic materials, however, overall sales declined. On a positive note, demand for semiconductor materials increased, particularly in overseas markets. Results were further boosted by a significant rise in sales of LCD panel-related materials supported by increased investment in LCD panel production equipment. In contrast, sales of CRT display-related materials fell sharply reflecting the shift toward flat-panel displays. Sales of rolls increased substantially on the back of robust demand, particularly in China. Sales of components for injection molding machines were on par with the previous fiscal year. The drop in components for compact injection molding machines was offset by an increase in automobile-related products.

As a result, net sales in this segment totaled ¥246,075 million, an increase of 21.4% compared with the pervious fiscal year. Operating income was ¥22,809 million, a increase of ¥3,981 million year on year.

Electronics and IT Devices

Despite continued strong demand, particularly from the automobile industry, overall sales of ferrite, rare-earth and other magnets, and their applications declined year on year due to the impact of business reorganization implemented in the previous fiscal year. In the mobile phone components category, overall sales were also on par with the previous fiscal year. Despite an increase in sales of multilayered devices due to the rise in production of mobile phones, results were impacted by the decline in isolator sales reflecting the growing trend toward isolator-less mobile phones. Results in soft magnetic materials were mixed. Sales of soft ferrites rose driven by an increase in production of mobile phones, game consoles and LCD TVs. However, FINEMET® results were unchanged from the previous fiscal year. Sales of the Company's amorphous alloys METGLAS® rose significantly in line with an increase in applications in electric transformers against the backdrop of growing awareness of energy conservation and the environment. With the application of products in medical devices and equipment, Hitachi Metals experienced robust sales in IT equipment materials and components.

As a result, net sales in this segment totaled ¥159,953 million, an increase of 0.3% compared with the previous fiscal year. Operating income for the period was ¥17,108 million, up ¥3,733 million year on year.

High-Grade Functional Components and Equipment

Sales of high-grade ductile iron castings declined compared with the previous fiscal year reflecting strict product selection criteria. Results in heat-resistant metal castings, on the other hand, improved dramatically in line with the emergence of new applications of the Company's products. Sales of aluminum wheels were up, owing to an increase in application of wide-rimmed and other products mainly in the domestic market. Sales of pipe fittings decreased, reflecting the growing trend toward the adoption of different materials for piping. Results in stainless steel and plastic piping components increased due to sales growth in new products in the gas and water system fields. Internal systems lost ground due to declining sales prices and the impact of competing products. Sales of structural systems, however, advanced buoyed by robust private-sector capital investment.

Accounting for these factors, net sales in this segment rose 6.6% compared with the previous fiscal year to ¥184,322 million. Operating income climbed ¥837 million to ¥9,246 million year on year.

Services and Other

Domestic and overseas sales of Services and Other were strong. Segment net sales and operating income on the other hand declined significantly following the reorganization of a logistics subsidiary and the transfer of its business to the High-Grade Metal Products and Materials segment.

As a result, net sales in this segment decreased 32.0% to ¥69,423 million. Operating income declined ¥520 million year on year to ¥1,419 million.

(2) Outlook (fiscal year ending March 31, 2007)

In the fiscal year ending March 31, 2007, the global economy is expected to follow a path of continued overall expansion. In the United States, the gap between real estate supply and demand, experienced throughout the fiscal year under review, is anticipated to narrow with signs of market deceleration attributed to the increase in interest rates. At the same time, asset efficacy, a characteristic of rising property prices, is also forecast to experience a gradual decline. Within Asia, China is expected to pursue high levels of investment as it embarks on continued development and prepares for the Beijing Olympic Games. Expectations are evident, however, that the Chinese economy will be affected by a slowdown in exports due to the appreciation of the yuan and downward pressure to control production investment expansion with the aim of avoiding excess capacity. In other Asian countries, exports mainly of IT and digital-related materials are anticipated to rise. This is expected to be offset by the impact of increasing energy prices and climbing interest rates resulting in forecast stagnant conditions. As a result, stagnant conditions are forecast. In Europe, continued moderate recovery of the economy is anticipated.

In general, the Japanese economy is expected to continue its path of self-sustaining expansion based on strong fundamentals including healthy capital investment and personal consumption. Despite a positive growth cycle of robust corporate earnings contributing to improvements in employment conditions and disposable incomes, the potential for the economy to temporarily enter a correctional phase is also evident as it incurs an increase in fixed costs reflecting rising capital investment, an upsurge in wages due to the tight labor market and rising interest rates.

In the industries in which the Hitachi Metals Group operates, activities in electronics and IT devices-related products, centered on semiconductors and mobile phones, are expected to benefit from continued healthy production of mobile phones and LCD panels. Downward pressure on sales prices, however, is also anticipated to continue. In high-grade metal-related products and materials, global demand is forecast to expand on the back of robust capital investment. Conditions are also anticipated to benefit from strong sales in the automobile industries in Europe, North America, Asia and Japan. In the domestic construction industry, reductions in public works are expected to offset improved trends in private-sector capital investment. Accordingly, difficult conditions are forecast to remain.

Against this backdrop, the Hitachi Metals Group has formulated its Fiscal 2008 Medium-Term Management Plan, a three-year plan from fiscal 2006 (refer to page 3 for details). Positioning overseas business development and the creation of new products as growth drivers, the Company is moving steadily forward with efforts to achieve the plan. Numerical management targets for each growth driver are an overseas sales ratio of 45% and a new product sales ratio of 30%. At the same time, Hitachi Metals will reinforce competitiveness in its mainstay businesses, formulate strict cash flow guidelines in an effort to promote drastic reduction of working capital, further restructure its cost structure and pursue productivity enhancements by reforming the manufacturing process.

As a result of the aforementioned factors, performance outlook for the fiscal year ending March 31, 2007, is as follows.

(Millions of Yen)

	Net sales	Operating income	Ordinary income	Net income
Consolidated	600,000	48,000	45,500	21,000
Non-consolidated	270,000	11,000	13,500	9,000

2. Financial Position

Net cash provided by operating activities totaled ¥55,547 million, an increase of ¥23,808 million compared with the previous fiscal year, owing to the increase in profits and significant improvement in working capital.

Net cash used in investment activities was ¥27,983 million, an increase of ¥14,234 million from the previous fiscal year on account of growing capital investment and a decrease of earnings due to sale of property, plant and equipment.

Net cash used in financing activities decreased by ¥127 million from the previous fiscal year to ¥18,053 million, reflecting payments of ¥12,200 million for reduction of interest-bearing debt, cash dividends of ¥4,097 million and purchase of treasury stock of ¥1,757 million.

As a result of these activities, cash and cash equivalents at the end of the fiscal year amounted to ¥64,844 million, an increase of ¥11,281 million from the beginning of the fiscal year.

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Shareholders' equity ratio	34.4%	34.7%	35.2%	30.5%	32.5%
Shareholders' equity ratio on a market price basis	33.5%	26.0%	41.2%	44.3%	86.6%
Debt service years	10.6	4.8	7.3	5.4	2.9
Interest coverage ratio	4.0	12.5	8.4	12.4	19.8

Notes: 1. Shareholders' equity ratio = shareholders' equity/total assets
2. Shareholder' equity ratio on a market price basis = market capitalization/total assets

3. Business risks

Risks that may potentially impact the financial performance and condition of the Hitachi Metals Group include but are not limited to the following: market trends in related industries; economic trends in regions of operation; changes in cash flow due to trends in capital investment and the status of sales activities; fluctuations in raw materials prices caused by the impact of international markets; the disturbance of business activities in overseas markets due to economic, social or political circumstances; changes in capacity related to the securing of competitive superiority, or the development and commercial application of new technologies and new products; conflict related to intellectual property rights; cost increases needed to comply with environmental regulations; and the incurring of costs in the event that product defects should arise and require response.

While the Hitachi Metals Group strives to avoid the occurrence and minimize the impact in the event that risks such as those above should occur, such risks cannot be completely avoided or eliminated, and the Company's financial performance and condition may be affected.

Note: The outlook for performance presented in this document includes statements regarding future plans, not historical facts, and represent the judgments of the management of the Company based on current conditions as well as certain premises and assumptions. In fact, changes in assumptions and prevailing conditions, as well as other developments, along with a wide range of other factors may lead to an outcome that differs substantially from what is presented in the outlook. For these reasons, the Company requests that all parties concerned refrain from relying exclusively on this outlook when making investment and other decisions.

Changes in Accounting Policies

(1) Accounting for the impairment of fixed assets

Effective from this year onward, the Company adopted “Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets” (issued by the Business Accounting Deliberation Council on August 9, 2002) and the Financial Accounting Standard Implementation Guidance No. 6, “Implementation Guidance on Accounting Standards for Impairment of Fixed Assets” (issued by the Accounting Standards Board of Japan on October 31, 2003). As a result, income before income taxes declined ¥1,607 million.

(2) Important hedge accounting methods

Historically derivative transactions, other than for certain subsidiary companies, were valued by the mark-to-market method with changes in value recognized in earnings. From the fiscal year under review, the Company has adopted the deferred hedge accounting method. The purposes for adopting this change are to reflect the better reflect the effectiveness of hedges in financial statements and to ensure accuracy in periodic accounting of profit and loss. There was no impact on profit and loss as a result of this change.

Additional Information

(1) Valuation standards for marketable securities

Historically, the Company has applied the gross-average method or the moving-average method for the valuation of marketable securities. Following the change in valuation method from the gross-average method to the moving-average method, the moving-average method or the gross-average method has been used for the valuation of marketable securities. There was no impact on profit and loss as a result of this change.

(2) Change in functional currencies of overseas subsidiary companies

Historically, the financial statements of overseas subsidiaries Luzon Electronics Technology, Inc. and Hitachi Metals Singapore Pte. Ltd. were prepared utilizing each company’s local currency, namely Philippine peso and Singapore dollars, respectively. The functional currency for Luzon Electronics Technology, Inc. is yen and for Hitachi Metals Singapore Pte. Ltd. U.S. dollars. From the fiscal year under review, financial statements for each overseas subsidiary are prepared using their respective functional currencies.

Consolidated Balance Sheets

(Millions of Yen)

	End of 3/06 (A)	End of 3/05 (B)	(difference) (A)-(B)
ASSETS			
Current assets:			
Cash and deposits in banks	**35,569**	33,773	1,796
Notes receivable and accounts receivable	**118,775**	113,806	4,969
Receivable for completed construction work	**272**	819	(547)
Cash pooling deposits	**29,275**	19,423	9,852
Negotiable securities	**1**	400	(399)
Inventories	**106,113**	102,088	4,025
Deferred tax assets	**10,521**	14,226	(3,705)
Other	**8,882**	5,313	3,569
Total current assets	**309,408**	289,848	19,560
Fixed assets:			
Net property, plant and equipment	**200,760**	197,833	2,927
Intangible fixed assets	**3,215**	2,675	540
Other	**40,892**	41,929	(1,037)
Total fixed assets	**244,867**	242,437	2,430
Total assets	**554,275**	532,285	21,990
LIABILITIES and SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	**73,399**	61,421	11,978
Short-term debt	**75,524**	76,611	(1,087)
Bonds redeemable within a year	**3,499**	1,009	2,490
Accrued income tax	**6,255**	6,613	(358)
Accured operating expenses	**22,583**	21,256	1,327
Advance payments from customers	**634**	970	(336)
Deferred tax liabilities	**21**	3	18
Other	**15,678**	15,501	177
Total current liabilities	**197,593**	183,384	14,209
Long-term debt, less current maturities	**81,995**	95,170	(13,175)
Reserve for retirement benefits	**29,402**	31,639	(2,237)
Reserve for directors' retirement bonuses	**1,231**	1,138	93
Allowance for environmental safety measures	**1,528**	—	1,528
Deferred tax liabilities	**3,365**	3,190	175
Other	**5,704**	8,018	(2,314)
Total liabilities	**320,818**	322,539	(1,721)
Minority interests	**53,497**	47,346	6,151
Shareholders' equity:			
Common stock	**26,284**	26,284	—
Capital surplus	**36,701**	36,701	—
Retained earnings	**121,348**	107,966	13,382
Unrealized net gain on available-for-sale securities	**4,045**	1,948	2,097
Other	**(8,418)**	(10,499)	2,081
Total shareholders' equity	**179,960**	162,400	17,560
Total Liabilities and Shareholders' equity	**554,275**	532,285	21,990

Comparative Statement of profit and loss

(Millions of Yen)

	Fiscal 2005 (Mar. 31,06) (A)	Ratio to Sales (%)	Fiscal 2004 (Mar. 31,05) (B)	Ratio to Sales (%)	(A)/(B) (%)
Net sales	**590,678**	100.0	559,540	100.0	106
Cost of sales	**458,945**	77.7	438,995	78.5	105
Gross profit	**131,733**	22.3	120,545	21.5	109
Selling, general and administrative expenses	**84,231**	14.3	80,144	14.3	105
Operating income	**47,502**	8.0	40,401	7.2	118
Other income:					
Interest and dividends	**759**		362		210
Investment income based on equity method	**508**		85		598
Other	**5,280**		4,465		118
Total	**6,547**	1.1	4,912	0.9	133
Other expenses:					
Interest	**2,854**		2,496		114
Other	**5,890**		6,430		92
Total	**8,744**	1.5	8,926	1.6	98
Ordinary profit (loss)	**45,305**	7.7	36,387	6.5	125
Extraordinary profit (loss)					
Net gain on switch to definined contribution pension plan	**144**		—		—
Gain from the disposal of stocks of affiliated companies	**91**		—		—
Gains from sale of property and epuipment	**407**		3,709		11
Gain on equity share fluctuation in consolidated subsidiaries	—		1,681		—
Loss on devaluation of property and equipment	**(1,419)**		—		—
Loss on impaired property and equipment	**(1,607)**		—		—
Write-off discrepancies as a result of changes in accounting	—		(3,093)		—
Extraordinary loss on revision of retirement benefit plan system	**(14)**		(41)		34
Environmental safety measure expenses	**(1,553)**		—		—
Loss on structural reform	**(1,801)**		(8,651)		21
Other	**(56)**		(490)		11
Total	**(5,808)**	(1.0)	(6,885)	(1.2)	84
Income before income taxes and minority interests	**39,497**	6.7	29,502	5.3	134
Corporation and inhabitant taxes	**9,919**		8,871		112
Adjustment account for corporate tax	**7,130**		1,872		381
Minority interests	**5,283**	0.9	3,541	0.6	149
Net income	**17,165**	2.9	15,218	2.7	113

Statement of Consolidated Surplus

(Millions of Yen)

	Fiscal 2005 (Mar. 31,06) (A)	Fiscal 2004 (Mar. 31,05) (B)	(A)/(B) (%)
Balance at beginning of year	**107,966**	95,940	113
Cash dividends	**3,477**	2,998	116
Bonuses to directors and corporate auditors	**195**	194	101
Decrease in line with changes in functional currencies of overseas consolidated subsidiaries	**111**	—	—
Decrease of other surplus	**3,783**	3,192	119
Net income	**17,165**	15,218	113
Balance at end of year	**121,348**	107,966	112

Consolidated Statements of Cash Flows

(Millions of Yen)

	End of 3/06	End of 3/05
Cash flows from operating activities		
Income before income taxes and minority interests	**39,497**	29,502
Depreciation and amortization	**22,579**	22,933
Cost of structural reform	**1,801**	8,651
Environmental safety measure expenses	**1,553**	—
Gain on equity share fluctuation in consolidated subsidiaries	—	(1,681)
Increase (decrease) reserve for retirement benefits	**(2,228)**	1,700
Net gain on switch to defined contribution pension plan	**(130)**	—
Gain (loss) on sales of property and equipment	**(559)**	(3,771)
Loss on disposal of property, plant and equipment	**1,758**	2,184
Write down of property, plant and equipment	**1,419**	—
Loss on impaired property and equipment	**1,607**	—
Interest and dividends received	**(759)**	(362)
Interest charges	**2,854**	2,496
(Increase) in receivables	**(1,976)**	(9,292)
Decrease in receivables for completed construction work	**545**	2,174
(Increase) in inventories	**(1,671)**	(15,127)
Increase in payables	**9,164**	6,624
Other	**(4,924)**	(3,427)
Subtotal	**70,530**	42,604
Amount paid for transfer to defined contribution pension plan	**(1,477)**	(1,945)
Amount paid for extra ordinary loss on structual reform	**(918)**	(2,292)
Earnings on interest and dividends	**888**	362
Interest paid	**(2,805)**	(2,568)
Income taxes paid	**(10,671)**	(5,559)
Income from compensation for high-grade embankment	—	1,137
Net cash provided by operating activities	**55,547**	31,739
Cash flows from investment activities		
Proceeds from redemption of securities	**12**	1,000
Purchase of investment securities	**(638)**	(62)
Proceeds from sales of investment securities	**587**	—
Proceeds from sale of subsidiaries' common stock	**87**	44
Expenditures for acquisition of net property, plant and equipment	**(28,808)**	(24,109)
Proceeds from sale of property assets	**2,269**	11,435
Expenditures for acquisition of intangible fixed assets	**(1,280)**	(409)
Expenditures for acquisition of shares of newly consolidated subsidiaries	—	(1,613)
Other	**(212)**	(35)
Net cash used in investing activities	**(27,983)**	(13,749)
Cash flows from financing activities		
Increase in short-term borrowings	**(4,276)**	3,545
Proceeds from long-term debt	**659**	6,584
Payments on long-term debt	**(7,646)**	(8,051)
Proceeds from issue of bonds	—	2,054
Expenditures for redemption of bonds	**(937)**	(16,131)
Proceeds from sale of treasury stock	**1**	7
Purchase of treasury stock	**(1,757)**	(2,827)
Dividends paid to shareholders	**(3,477)**	(2,998)
Dividends paid to shareholders of subsidiaries	**(620)**	(363)
Net cash provided by (used in) financing activities	**(18,053)**	(18,180)
Effect of exchange rate changes on cash and cash equivalents	**1,770**	254
Net increase (decrease) in cash and cash equivalents	**11,281**	64
Cash and cash equivalents at beginning of year	**53,563**	42,896
Effect of changes in consolidated subsidiaries	—	10,603
Cash and cash equivalents at end of year	**64,844**	53,563

Reconciliation of cash and deposits in banks in consolidated balance sheets at period end cash and cash equivalents in consolidated statements of cash flows

Cash and deposits in banks	**35,569**	33,773
Securities (Money Market Fund, etc.)	—	367
Cash pooling deposits	**29,275**	19,423
Cash and cash equivalents at end of year	**64,844**	53,563

Retirement Benefits

(a) Summary of Retirement Benefit System:

Hitachi Metals and its subsidiaries have established Employees' Pension Fund Plans (EPF), qualified pension plans and lump-sum payment plans as its defined-benefit pension system.

Certain overseas subsidiaries maintain defined-benefit pension plans. A retirement benefit trust has been established for Hitachi Metals, Ltd.

One consolidated subsidiary is partially changing to a defined contribution pension plan.

(b) Accrued retirement benefits recognized in consolidated balance sheets (Millions of Yen)

	Fiscal 2005 (Mar. 31,06)	Fiscal 2004 (Mar. 31,05)
Present value of the obligation	**(138,829)**	(141,140)
Fair value of plan assets	**102,584**	84,601
Funded status	**(36,245)**	(56,539)
Unrecognized transitional obligation	—	—
Unrecognized actuarial loss	**14,110**	32,398
Unrecognized prior service(benefit)cost *	**(4,992)**	(5,860)
Net amount recognized in consolidated balance sheets	**(27,127)**	(30,001)
Prepaid pension cost in consolidated balance sheets	**2,275**	1,638
Accrued retirement benefits recognized in consolidated balance sheets	**(29,402)**	(31,639)

* Certain subsidiaries adopted simple-calculation methods to calculate obligations.

(c) Periodical pension cost recognized in consolidated statements of operations (Millions of Yen)

	Fiscal 2005 (Mar. 31,06)	Fiscal 2004 (Mar. 31,05)
Service cost *	**(4,029)**	(4,614)
Interest cost	**(3,631)**	(3,690)
Expected return on plan assets	**2,929**	2,692
Amortization of unrecognized transitional obligation	—	(3,093)
Amortization of unrecognized actuarial loss	**(2,987)**	(3,348)
Amortization of unrecognized Prior service (benefit) cost	**481**	139
Gain (loss) on shift from tax-qualified pension plan to defined contribution pension plan system	**130**	(41)
Amount paid following adoption of a defined-contribution pension system	**(1,218)**	(803)
Premium retirement and severance payment	**(970)**	(1,765)
Periodical pension cost recognized in consolidated statements of operations	**(9,295)**	(14,523)

Note:

* The retirement benefit expenses of consolidated subsidiaries using simple-calculation methods are recorded under service cost.

(d) Actuarial assumptions

Methods of attribution to periods	**Fiscal 2005 (Mar. 31,06)**	Fiscal 2004 (Mar. 31,05)
Discount rate	**Mainly 2.5%**	Mainly 2.5%
Expected rate of return on plan assets	**Mainly 3.0%**	Mainly 3.0%
Amortization period of unrecognized actuarial loss	**Mainly14 years**	Mainly14 years
Amortization period of unrecognized prior service benefit and cost	**Mainly14 years**	Mainly14 years
Amortization period of unrecognizedtransitional obligation	**5 years**	5 years

Business segment information

Year under review (Apr. 1, 2005 - Mar. 31, 2006)

(Millions of yen)

	High-Grade Metal Products and Materials	Electronic and IT Devices	High-Grade Functional Components and Equipment	Services and Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	**225,647**	**135,747**	**168,905**	**60,379**	**590,678**	—	**590,678**
Intersegment	**20,428**	**24,206**	**15,417**	**9,044**	**69,095**	**(69,095)**	—
Total sales	**246,075**	**159,953**	**184,322**	**69,423**	**659,773**	**(69,095)**	**590,678**
Operating costs and expenses	**223,266**	**142,845**	**175,076**	**68,004**	**609,191**	**(66,015)**	**543,176**
Operating income	**22,809**	**17,108**	**9,246**	**1,419**	**50,582**	**(3,080)**	**47,502**
Assets	**227,272**	**171,332**	**140,038**	**45,810**	**584,452**	**(30,177)**	**554,275**
Depreciation and amortization	**7,603**	**7,648**	**6,288**	**454**	**21,993**	**586**	**22,579**
Capital expenditures	**12,368**	**9,609**	**6,971**	**302**	**29,250**	**390**	**29,640**

Fiscal previous Year (Apr.1, 2004 - Mar. 31, 2005)

(Millions of yen)

	High-Grade Metal Products and Materials	Electronic and IT Devices	High-Grade Functional Components and Equipment	Services and Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	170,653	135,487	155,326	98,074	559,540	—	559,540
Intersegment	32,022	23,950	17,570	3,965	77,507	(77,507)	—
Total sales	202,675	159,437	172,896	102,039	637,047	(77,507)	559,540
Operating costs and expenses	183,847	146,062	164,487	100,100	594,496	(75,357)	519,139
Operating income	18,828	13,375	8,409	1,939	42,551	(2,150)	40,401
Assets	191,094	167,968	134,628	57,883	551,573	(19,288)	532,285
Depreciation and amortization	6,960	8,157	6,159	1,102	22,378	555	22,933
Capital expenditures	10,080	5,773	9,015	407	25,275	339	25,614

Notes:

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

2. The Company and its subsidiaries operate in the following four business segments:

High-Grade Metal Products and Materials	Molds and tool materials, High-grade electronic materials (Display materials, Semiconductor and other package materials, Components for copying machines and other office equipment) Rolls for steel, nonferrous and non-metal rolling, Injection molding machine parts Structural ceramics, Steel frame joints for construction Steel forgings, Cutting tools, Other
Electronic and IT Devices	Hard magnetic materials (Ferrite, Rare-earth magnets, Castings, Bonded magnets and their applications) Mobile phone components (Isolators, Multilayered devices) Soft magnetic meterials (Soft ferrites, Nano-crystalline soft magnetic materials (FINEMET®) Amorphous metal materials (METGLAS®) Componets and materials for IT equipment, Other
High-Grade Functional Components and Equipment	High-grade ductile iron castings, Heat-resistant metal castings Aluminum wheels and other aluminum products Pipe fittings, Stainless steel and plastic piping components Water cooling equipment Precision mass flow control devices, Internal and structual systems, Other
Services and Other	Environmental analysis and consulting, Metal materials survey and analysis Light alloy cabinets made with Press-forging manufacturing method Other sales and services, Other

3. Corporate assets included on "Eliminations and corporate assets" at March 31, 2006 and March 31, 2005 totaled ￥179 million and ￥12,104 million, respectively. The corporate assets consisted principally of surplus working funds (cash and cash equivalents), long-term investments and assets held at general affairs and administrative sections.
4. Unallocatable operating costs included in "Eliminations and corporate assets" at March 31, 2006 and March 31, 2005 amounted to ￥2,920 million and ￥2,110 million, rexpectively. Most of these costs were incurred at the corporate head office of the Company.

Geographical segment information

Year under review (Apr. 1, 2005 - Mar. 31, 2006) (Millions of Yen)

	Japan	North America	Asia	Other areas	Subtotal	Eliminations and corporate assets	Total
Sales:							
Unaffiliated customers	**431,976**	**71,849**	**64,437**	**22,416**	**590,678**	—	**590,678**
Intersegment	**72,979**	**16,302**	**38,351**	**670**	**128,302**	**(128,302)**	—
Total sales	**504,955**	**88,151**	**102,788**	**23,086**	**718,980**	**(128,302)**	**590,678**
Operating costs and expenses	**463,707**	**82,262**	**98,558**	**23,205**	**667,732**	**(124,556)**	**543,176**
Operating income	**41,248**	**5,889**	**4,230**	**(119)**	**51,248**	**(3,746)**	**47,502**
Assets	**467,740**	**57,595**	**63,740**	**12,517**	**601,592**	**(47,317)**	**554,275**

Fiscal previous Year (Apr.1, 2004 - Mar. 31, 2005) (Millions of Yen)

	Japan	North America	Asia	Other areas	Subtotal	Eliminations and corporate assets	Total
Sales:							
Unaffiliated customers	420,941	68,033	53,910	16,656	559,540	—	559,540
Intersegment	57,706	8,968	29,290	533	96,497	(96,497)	—
Total sales	478,647	77,001	83,200	17,189	656,037	(96,497)	559,540
Operating costs and expenses	443,110	72,967	80,189	17,113	613,379	(94,240)	519,139
Operating income	35,537	4,034	3,011	76	42,658	(2,257)	40,401
Assets	449,436	52,061	51,085	8,953	561,535	(29,250)	532,285

Notes:

1. Corporate assets included on "Eliminations and corporate assets" at March 31, 2006 and March 31, 2005 totaled ￥179 million and ￥12,104 million, respectively. The corporate assets consisted principally of surplus working funds (cash and cash equivalents), long-term investments and assets held at general affairs and administrative sections.
2. Unallocatable operating costs included in "Eliminations and corporate assets" at March 31, 2006 and March 31, 2005 amounted to ￥2,920 million and ￥2,110 million, rexpectively. Most of these costs were incurred at the corporate head office of the Company.

Overseas sales

Year under review (Apr. 1, 2005 - Mar. 31, 2006) (Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	**67,860**	**126,622**	**28,310**	**9,337**	**232,129**
Consolidated sales	—	—	—	—	**590,678**
Overseas sales as a share of consolidated sales	**11.5%**	**21.4%**	**4.8%**	**1.6%**	**39.3%**

Fiscal previous Year (Apr.1, 2004 - Mar. 31, 2005) (Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	63,297	107,601	23,746	8,803	203,447
Consolidated sales	—	—	—	—	559,540
Overseas sales as a share of consolidated sales	11.3%	19.2%	4.3%	1.6%	36.4%

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

The Situation of Marketable securities and Derivatives Transactions

1.Securities (Millions of Yen)

(1) Bond for maturity and Other securities with market price

	End of 3/06			End of 3/05		
	Balance sheet value	**Market price**	**Valuation profit/loss**	Balance sheet value	Market price	Valuation profit/loss
Bond for maturity:						
Government bonds and Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other bonds	—	—	—	—	—	—
Total	—	—	—	—	—	—
Other securities:						
1. Balance sheet value exceeds cost						
Stocks	**2,132**	**10,136**	**8,004**	2,118	6,125	4,007
Bonds						
Government bonds and Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	1,000	1,014	14
Other bonds	—	—	—	—	—	—
Other	—	—	—	30	31	1
Total	**2,132**	**10,136**	**8,004**	3,148	7,170	4,022
2. Balance sheet value does not exceed cost						
Stocks	**194**	**179**	**(15)**	105	84	(21)
Bonds						
Government bonds and Municipal bonds	—	—	—	—	—	—
Corporate bonds	**1,001**	**995**	**(6)**	2	2	0
Other bonds	—	—	—	—	—	—
Other	**0**	**0**	**0**	367	367	0
Total	**1,195**	**1,174**	**(21)**	474	453	(21)
Other Securities Total	**3,327**	**11,310**	**7,983**	3,622	7,623	4,001

(2) Securities without market price

	End of 3/06	End of 3/05
	Balance sheet value	Balance sheet value
Bond for maturity:		
Government bonds or Municipal bonds	—	—
Corporate bonds	—	—
Other bonds	—	—
Total	—	—
Other Securities:		
Non-listed stock	**1,242**	1,004
Non-listed overseas bond	**7**	6
Total	**1,249**	1,010

Notes:

1. An impairment loss of ￥32 million was recorded in connection with marketable securities (￥32 million for non-listed marketable securities without quoted market values).
2. Impairment accounting policy
   In principle, impairment accounting shall be applied to an asset when its value falls by 50% or more. The difference between market and book values shall be reported as valuation loss. In the event the value of marketable securities declines by 30% or more but less than 50% for a continuous period of 3 years, the difference between market and book values shall be

2. Difference between market price and contract value of derivatives transactions (Millions of Yen)

	End of 3/06			End of 3/05		
	Contract value	**Market price**	**Appraisal gain/loss**	Contract value	Market price	Appraisal gain/loss
Exchange contract transactions:						
U.S. dollars (buy)	**228**	**230**	**2**	82	83	1
U.S. dollars (sell)	—	—	—	4,203	4,266	(63)
EURO(sell)	—	—	—	—	—	—
EURO(buy)	**275**	**284**	**9**	303	313	10
Currency option transactions:						
[Buy]						
U.S. dollars (sell)	—	—	—	5,548	28	(2)
EURO(sell)	—	—	—	419	5	(4)
[Sell]						
U.S. dollars (sell)	—	—	—	6,390	159	(129)
EURO(sell)	—	—	—	838	10	(1)
Currency swap transactions:						
Receipts yen payments dollars	**12,700**	**(513)**	**(513)**	13,700	953	953
Interest-rate swaps						
Receipts variable payments fixed	**2,500**	**0**	**0**	2,500	(15)	(15)
Total	—	—	**(502)**	—	—	750

Hitachi Metals, Ltd. (Apr. 26, 2006)

Code:5486

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

2-1 Shibaura 1-chome, Minato-ku, Tokyo

Non-consolidated Financial Report for the 12-month period ended March 31, 2006

Contact: Sig Ishigay, Officer and General Manager

Corporate Communications Tel: +81-3-5765-4073

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

1. Performance over the year, April 1, 2005 to March 31,2006 (Figures are rounded off to the nearest million yen)

(1) Operating results	**3/2006**	3/2005	(Change)
Net Sales (million yen)	**268,986**	249,733	7.7%
Operating income (million yen)	**10,572**	10,735	(1.5%)
Ordinary income (million yen)	**12,538**	12,622	(0.7%)
Net income (million yen)	**6,339**	4,539	39.7%
Net income per share (yen)	**18.26**	12.90	
Diluted net income per share (yen)	—	—	
Net income shareholders' equity (%)	**5.4**	3.9	
Ordinary income to total assets (%)	**4.4**	4.5	
Ordinary income to net sales (%)	**4.7**	5.1	

Notes: 1. Average number of shares outstanding (3/06: 347,107,107 3/05: 351,787,743)

2. Accounting policy has been made change.

(2) Dividend	**3/2006**	3/2005
Annual dividend per share (yen)	**10.00**	10.00
Interim (yen)	**5.00**	5.00
End of period (yen)	**5.00**	5.00
Total dividend paid (full year)(million yen)	**3,465**	3,504
Payout ratio (%)	**54.8%**	77.5%
Shareholders' equity yield (%)	**2.9%**	3.0%

(3) Financial standing	**3/2006**	3/2005
Total assets (million yen)	**289,429**	278,551
Shareholders' equity (million yen)	**118,420**	117,202
Shareholders' equity ratio(%)	**40.9%**	42.1%
Shareholders' equity per share (yen)	**341.78**	336.15

Notes: 1. Number of shares outstanding at end of year (3/06: 346,480,932 3/05: 348,664,707)

2. Number of treasury stock outstanding at end of year (3/06: 10,687,755 3/05: 8,503,980)

2. Forecasts of results for the term, April 1, 2006 to March 31, 2007

	At mid-term	At year end
Net sales (million yen)	132,000	27,000
Ordinary income (million yen)	6,600	13,500
Net income (million yen)	4,400	9,000
Interim dividends per share (yen)	5.00	—
Dividends at end of period per share (yen)	—	5.00
Annual dividends per share (yen)	—	10.00

Reference: Expected net income per share (full-year basis) 25.98 yen

Note: The outlooks for performance presented in this document are statements regarding future plans, not historical facts, and represent the judgments of the management of the Company based on current conditions as well as certain premises and assumptions. In fact, changes in assumptions and prevailing conditions as well as other developments, along with a wide range of other factors may lead to outcomes that differ substantially from those presented in this document. For these reasons, the Company requests that all parties concerned refrain from relying exclusively on these outlooks when making investment and other decisions.

Comparative Balance Sheets

ASSETS	End of 3/06 (A)	End of 3/05 (B)	Change (A)-(B)
			(Millions of Yen)
Current assets:			
Cash and deposits in banks	**4,248**	2,591	1,657
Notes receivable and accounts receivable	**40,684**	37,133	3,551
Receivables for completed construction work	—	541	(541)
Inventories	**39,899**	36,961	2,938
Cash pooling deposits	**29,275**	19,423	9,852
Deferred tax assets	**4,138**	7,646	(3,508)
Other	**17,887**	18,879	(992)
Allowance for doubtful accounts	**(57)**	(1,110)	1,053
Total current assets	**136,074**	122,064	14,010
Fixed assets:			
Net property, plant and equipment			
Buildings and structures	**20,324**	21,077	(753)
Machinery, equipment and vehicles	**25,558**	25,142	416
Tools, furniture and fixtures	**1,797**	1,411	386
Land	**19,180**	18,873	307
Construction in progress	**3,026**	3,529	(503)
Total	**69,885**	70,032	(147)
Intangible fixed assets	**1,388**	1,310	78
Investments, etc.			
Investment securities	**2,420**	1,864	556
Stock of affiliated company	**58,269**	57,531	738
Long-term loans	**7,460**	8,872	(1,412)
Deferred tax assets	**12,827**	15,030	(2,203)
Other	**1,895**	2,270	(375)
Allowance for doubtful accounts	**(745)**	(296)	(449)
Provision for loss on investments	**(44)**	(126)	82
Total investment, etc.	**82,082**	85,145	(3,063)
Total fixed assets	**153,355**	156,487	(3,132)
Total assets	**289,429**	278,551	10,878

Comparative Balance Sheets

LIABILITIES and SHAREHOLDERS' EQUITY

(Millions of Yen)

	End of 3/06 (A)	End of 3/05 (B)	Change (A)-(B)
Current Liabilities			
Accounts payable	**36,733**	26,505	10,228
Short-term debt	**36,029**	34,261	1,768
Long-term debt redeemable within a year	**4,000**	—	4,000
Accrued income taxes	**199**	363	(164)
Accrued operating expense	**8,011**	7,620	391
Advance payments from customers	**257**	609	(352)
Other	**6,955**	7,511	(556)
Total current liabilities	**92,184**	76,869	15,315
Bonds	**29,000**	29,000	—
Long-term debt	**31,000**	35,000	(4,000)
Reserve for retirement benefits	**17,455**	18,830	(1,375)
Reserve for directors' retirement bonuses	**329**	289	40
Allowance for environmental safety measures	**1,035**	—	1,035
Other	**6**	1,361	(1,355)
Total fixed liabilities	**78,825**	84,480	(5,655)
Total Liabilities	**171,009**	161,349	9,660
Shareholders' equity:			
Common stock	**26,284**	26,284	—
Capital surplus	**36,701**	36,701	—
Profit reserve	**6,571**	6,571	—
Special reserve	**45,080**	45,184	(104)
Retained earnings at end of year	**9,587**	6,620	2,967
Unrealized net gain on available-for-sale securities	**252**	141	111
Treasury stock	**(6,055)**	(4,299)	(1,756)
Total shareholders' equity	**118,420**	117,202	1,218
Total Liabilities and shareholders' equity	**289,429**	278,551	10,878

Comparative Statement of profit and loss

(Millions of Yen)

	Fiscal 2005 (Mar.31,06) (A)	Ratio to Sales (%)	fiscal 2004 (Mar.31,05) (B)	Ratio to Sales (%)	(A)/(B) (%)
Net sales	**268,986**	100.0	249,733	100.0	108
Cost of sales	**229,565**	85.4	210,631	84.3	109
Gross profit	**39,421**	14.6	39,102	15.7	101
Selling, general and administrative expenses	**28,849**	10.7	28,367	11.4	102
Operating income	**10,572**	3.9	10,735	4.3	98
Other income:					
Interest and dividends	**3,558**		3,199		111
Other	**2,287**		2,900		79
Total	**5,845**	2.2	6,099	2.4	96
Other expenses:					
Interest	**1,316**		1,283		103
Other	**2,563**		2,929		88
Total	**3,879**	1.4	4,212	1.7	92
Ordinary profit (loss)	**12,538**	4.7	12,622	5.1	99
Extraordinary profit (loss)					
Gain from sale of property, plant and equipment	**1,008**		210		480
Gain on distribution of affiliated company residual	**456**		6		7,600
Gain from the disposal of subsidiaries	**86**		—		—
Loss on structural reform	**(1,575)**		(1,730)		91
Environmental safety measure expenses	**(1,059)**		—		—
Loss on impaired property and equipment	**(774)**		—		—
Increase in provision for affiliated company doubtful accounts	**(650)**		(1,064)		61
Loss on liquidation of affiliated companies	**(584)**		—		—
Increase in provision for loss on investments	**(18)**		(126)		14
Write-down devaluation of investment securities	—		(194)		—
Write-off Discrepancies as a result of changes in accounting	—		(2,174)		—
Total	**(3,110)**	(1.2)	(5,072)	(2.0)	61
Income before income taxes and minority interest	**9,428**	3.5	7,550	3.0	125
Corporation, inhabitant and enterprise taxes	**(2,547)**		(2,216)		—
Adjustment account for corporate tax	**5,636**		5,227		108
Net income	**6,339**	2.4	4,539	1.8	140