

Hitachi Metals, Ltd. (Oct. 25, 2006)

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Consolidated Financial Report for the 6-month period ended September 30, 2006

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

1. Performance over the year, April 1, 2006 to September 30, 2006 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating results	9/06(interim)	9/05(interim)	Change(%)	3/06
Net sales (million yen)	310,087	284,195	9.1	590,678
Operating income (million yen)	25,713	20,898	23.0	47,502
Income before income taxes and minority interests (million yen)	22,685	15,461	46.7	39,497
Net income (million yen)	11,680	6,150	89.9	17,165
Net income per share (yen)	33.77	17.69	—	48.95
Diluted net income per share (yen)	—	—	—	—

Notes: 1. Profit (loss) on equity method investment: 9/06: 170 yen 9/05: - million yen 3/06: 508 million yen

2. Average number of shares outstanding (9/06: 345,909,410 9/05: 347,692,501 3/06: 347,082,741)

3. No changes have been made in accounting policy.

(2) Consolidated Financial Standing	9/06(interim)	9/05(interim)	3/06
Total assets (million yen)	568,053	530,233	554,275
Net assets (million yen)	243,605	166,890	179,960
Equity ratio (%)	33.3	31.5	32.5
Net assets per share (yen)	547.25	481.65	518.93

Average number of shares outstanding at end of period (9/06: 345,631,502 9/05: 346,499,620 3/06: 346,456,495)

(3) Consolidated cash flows (million yen)	9/06(interim)	9/05(interim)	3/06
Cash flows from operating activities	29,399	13,536	55,547
Cash flows from investment activities	(19,428)	(11,418)	(27,983)
Cash flows from financing activities	(13,817)	(8,550)	(18,053)
Cash and cash equivalents at end of period	61,085	47,813	64,844

Notes: Consolidated subsidiaries and application of the equity method

Number of consolidated subsidiaries : 101

Equity method applied non-consolidated subsidiaries : None

Equity method applied affiliates : 14

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

Consolidation : New companies 1 Companies removed 2

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 year end
Net sales (million yen)	620,000
Operating income	51,000
Income before income taxes and minority interests (million yen)	44,500
Net income (million yen)	22,000

Reference: Expected net income per share (full-year basis) consolidated: 63.65 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: 101 companies

42 domestic companies

Hitachi Tool Engineering, Ltd.
Hitachi Metals Techno, Ltd.
NEOMAX Co., Ltd.
Hitachi Metals Admet, Ltd.
Hitachi Metals Tool Steel, Ltd.
NEOMAX TRADING Co., Ltd.
HMY, Ltd.
Hitachi Metals Precision, Ltd.

Hitachi Metals Wakamatsu, Ltd.
Hitachi Ferrite Electronics, Ltd.
NEOMAX MATERISLS Co., Ltd.
Alcast, Ltd.
Seitan Inc.
Tokyo Seimitsu Kogyo, Ltd.
Hitachi Valve, Ltd.
Himec, Ltd.

etc.

59 overseas companies

Hitachi Metals America, Ltd.
Hitachi Metals Europe GmbH
Hitachi Metals Singapore Pte. Ltd.
Hitachi Metals Hong Kong Ltd.
Hitachi Metals (Shanghai) Ltd.
Hitachi Metals (India) Pvt. Ltd.
Newport Precision, Inc.
SinterMet, LLC
Five Ace Technology Co., Ltd.
Hitachi Rolls (Thailand) Ltd.

Hitachi Metals (Thailand) Ltd.
Hitachi Metals (Suzhou) Electronics, Ltd.
Metglas, Inc.
Luzon Electronics Technology, Inc.
AAP St. Marys Corporation
ACP Manufacturing Co. LLC
HN Automotive, Inc.
Ward Manufacturing Inc.
Hitachi Metals (Suzhou) Valves & Fittings, Ltd.

etc.

Consolidated Management Policies

1. Fundamental Management Policies

While fostering a strong sense of trust among stakeholders including shareholders, investors and business partners, the Hitachi Metals Group engages in business activities based on its fundamental management policy to fulfill its corporate social responsibility in an effort to realize a better society. To this end, Hitachi Metals strives to enhance its fundamental technologies and adopt new challenges in an effort to develop breakthrough technologies that create new products and businesses. Through these means, we endeavor to deliver new value to the communities that we serve. In the development and manufacture of products, Hitachi Metals pays particular attention to the environment and the impact of its activities on future generations. In addition, we focus on the timely disclosure of relevant corporate information and pursue close communication with society through activities that contribute to the local community. While endeavoring to incorporate and reflect the opinions of broader society in the Group's management philosophy and decision-making, Hitachi Metals works to build confidence and bonds of trust with society. Through these endeavors, the Hitachi Metals Group strives to become the best possible company and to enhance its corporate value.

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 increase of distributable income, and the maximization of corporate value. To this end, the Company has adopted a policy of paying stable dividends from retained earnings 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. Furthermore, Hitachi Metals intends to pay an interim and year-end cash dividend with record dates of September 30 and March 31, respectively. In addition, the Company also plans to purchase treasury stock as appropriate based on a variety of factors including stock price levels, financial condition, and other requirements in line with efforts to ensure 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. The Fiscal 2008 Medium-Term Management Plan, which commenced in the fiscal year ending March 31, 2007 and continues through the fiscal year ending March 31, 2009, established numerical targets. These 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.

The Fiscal 2008 Medium-Term Management Plan establishes business strategies that respond to global environmental protection needs. Through its efforts, 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. Our business strategies, including R&D activities and the expansion of our operations, accordingly incorporate concerns for the environment and measures to ensure its preservation. In this context, the Hitachi Metals Group will recognize opportunities to create new businesses. Looking ahead, the Hitachi Metals Group will

particularly focus on contributing to:

- The creation of lighter weight and more fuel efficient automobiles that surpass stricter emission standards
- The production of materials for the electronics and electrical equipment industries that lead to energy conservation and eliminate the use of harmful substances.

The Hitachi Metals Group will make the most of its strengths as a materials manufacturer.

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. During the interim period under review, Hitachi Metals established a joint venture company in China with Shanghai Baosteel Group to manufacture and market cast rolls for hot strip mills. At the same time, the Company undertook a reorganization of its business in China with the aim of reinforcing its operating platform and commenced full-fledged Chinese operations, buoyed by the establishment of Hitachi Metals (China), Ltd., which will integrate the Group's business management functions in China.

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 demand.

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 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, 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 products that we launched to market through fiscal 2005 included automobile exhaust filters/purifying materials, transmission materials, highly safe aluminum road 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 products sales ratio to our target of 30% by fiscal 2008, and focusing on renewing the composition of our product lineup by maintaining that level.

(2) Establish a Robust Structure to Achieve Growth

a. Strengthen 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, the driving force behind 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 Innovations

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 volume zone products, 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.

In addition to the aforementioned Action Plan, Hitachi Metals strives to further enhance its self-awareness of the Group's corporate social responsibility throughout every facet of its business activities. To this end, the Company has formulated its Code of Conduct for Hitachi Metals Group Companies based on five key objectives, namely (1) enhancing awareness of social responsibility and corporate ethics, (2) pursuing mutual growth with business partners, (3) promoting truthful communication with society, (4) thinking about the next generation—an environmentally friendly solution, and (5) fostering the welfare of employees and society. In sharing these objectives among all members of the Group, we work toward becoming a company that contributes to society. In particular, Hitachi Metals recognizes environmental management as one of its most important priorities. In order to promote unified environmental management throughout the Group, we are pursuing 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. In an effort to promote its social and environmental activities across a broad stakeholder base, Hitachi Metals has also prepared and published its Social and Environmental Report with the aim of further enhancing communication with society.

Through these measures, Hitachi Metals, as a development-driven company utilizing its world-class product development capabilities, aims to be a best partner for its customers, continuously supplying new and essential products, and to realize true value in response to stakeholder demands.

6. Matters Related to the Parent Company

(1) Parent Company Information

(As of September 30, 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	56.8 (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, 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

In principle, Hitachi Metals maintains an autonomous stance in connection with its business operations and transactions with its parent company Hitachi, Ltd., and other Hitachi Group companies. As a member of the Hitachi Group, however, Hitachi Metals has a close cooperative relationship with Hitachi, Ltd. and other group companies and executes its business activities while leveraging the management resources of the Hitachi Group.

While recognizing the Company's independence, Hitachi Metals maintains the following major relationships with Hitachi, Ltd. and other group companies.

- a. Hitachi Metals engages in sales, marketing and other transactions with Hitachi, Ltd. and the Hitachi Group of companies. The level of these transactions, however, is not substantial and does not constitute an overall dependence on intra-group activities. The terms and conditions of transactions are determined subject to mutual discussion and negotiation based on market prices and common practice.
- b. Hitachi Metals' Board of Directors consists of one outside director from outside of the Hitachi, Ltd. group of companies, two outside directors who hold concurrent positions as directors and executive officers of Hitachi, Ltd., and four directors from within Hitachi Metals for a total of seven members. 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.
- c. Three employees of Hitachi, Ltd. have been dispatched to the administrative and research and development departments of Hitachi Metals. The dispatching of employees from Hitachi, Ltd. is conducted for the purpose of exchange between personnel, and these employees do not assume important posts at Hitachi Metals.

Financial Performance and Financial Condition

1. Financial Results

(1) Overview (Fiscal 2006 first half, the six months ended September 30, 2006)

Looking at the global economy during the first half of fiscal 2006 (the six months ended September 30, 2006), the U.S. economy was generally strong on the back of high levels of growth in corporate-sector capital investment despite the impact of high crude oil prices and sluggish residential investment. In Asia, bullish conditions were evident. China continued to enjoy high rates of economic growth buoyed by strong capital investment and an increase in export activity. ASEAN countries also remained firm, while Taiwan and Korea fared well on the back of an upward swing in exports. The economic environment in Europe experienced a moderate recovery led mainly by Germany.

The Japanese economy enjoyed persistent favorable conditions driven by robust capital investment, ongoing improvement in personal consumption and a weak yen, which generated export growth.

Conditions in the industries in which the Hitachi Metals Group operates were as follows. In the automobile industry, exports primarily of standard passenger cars grew in Japan while domestic production of trucks declined reflecting the impact of emission regulations and the drop in demand. The domestic market was also supported by an increase in exports. Overseas, conditions in North America trended downward, while Europe and Asia exhibited continued growth. In the semiconductor industry, operating conditions were positive supported by growth in IT-related devices and digital consumer electronics. Demand for mobile phones was particularly strong from emerging markets such as China and India. While the operating environment for PCs remained bullish in developing nations, shipments of notebook computers continued to increase to advanced countries. Driven by continued high levels of demand in Japan and China, conditions for steel were favorable. In the domestic construction industry, private-sector capital investment remained strong supported by an increase in capital investment. This was, however, offset by a drop in public investment as the government cutback spending in line with fiscal reform.

Against this backdrop, interim net sales for the Hitachi Metals Group climbed 9.1% compared with the corresponding period of the previous fiscal year to ¥310,087 million, mainly as a result of ongoing robust sales of automotive-related products and IT and household appliance-related products such as LCD displays.

On the earnings front, operating income rose ¥4,815 million year on year to ¥25,713 million. Despite the continued increase in global prices for crude oil and scarce metals, this improvement is attributed to revisions in sales prices and increased efforts to reduce costs and expenses. Income before income taxes and minority interests climbed ¥7,224 million to ¥22,685 million while net income rose ¥5,530 million to ¥11,680 million.

In the context of cash dividend payments, Hitachi Metals has decided to distribute an interim dividend of ¥5 per share, unchanged from the corresponding period of the previous fiscal year.

Sales and operating income 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 increased year on year, particularly to the automobile industry. In high-grade electronic materials, sales rose substantially driven by increased demand for semiconductor materials and persistent robust growth focusing mainly on LCD panel-related materials and IT-enabled household appliances. While CRT display-related materials were essentially on par with the previous fiscal year, overall sales of high-grade electronic materials surged year on year. Demand for the Company's rolls remained strong in Japan and China generating sales growth. Sales of components for mid- to large-size injection molding machines also climbed, particularly for automobiles and IT-enabled household appliances.

Accounting for these factors, net sales in this segment totaled ¥131,084 million, an increase of 11.6% compared with the corresponding period of the previous fiscal year. Operating income was ¥11,486 million, up ¥1,009 million year on year.

Electronics and IT Devices

Despite a drop in demand for HDD motor applications, overall sales of ferrite, rare-earth and other magnets, and their applications, rose year on year buoyed by strong demand for electronic equipment mainly from the automobile-related and FA industries. In the mobile phone components category, overall sales remained unchanged from the corresponding period of the previous fiscal year. Despite the sharp decline in isolator sales reflecting the growing trend toward isolator-less mobile phones, the upward swing in results was supported by strong isolator sales to base stations and a surge in the application of the Company's products. Sales of multilayered devices were on par with the six-month period ended September 30, 2005. Led by expanded application of Hitachi Metals products in medical devices and HDDs, sales of IT equipment materials and components increased. In the period under review, sales of soft ferrite increased owing to a pick up in demand for digital consumer electronics. FINEMET[®] sales also climbed substantially supported by strong industrial and other equipment segments. Sales of the Company's amorphous alloys rose due to continued robust demand mainly in Japan and Asia.

As a result, sales in this segment jumped 5.3% compared with the corresponding period of the previous fiscal year to ¥82,104 million. Operating income rose ¥607 million to ¥8,527 million.

High-Grade Functional Components and Equipment

Sales of high-grade ductile iron castings declined year on year reflecting strict product selection criteria and a drop in sales to primary customers. Results of heat-resistant metal castings increased in line with growth in shipments of automobile models utilizing the Company's products. Sales of aluminum wheels were up dramatically, owing to increased application in new car models. Although impacted by a shift in the material composition of piping components, sales in this product category increased due to strong demand mainly from the plant and residential sectors. Significant sales growth was recorded for stainless steel and plastic piping components, owing to strong demand from gas piping fields. Infill and structural systems also recorded dramatic sales growth boosted by dynamic private-sector capital investment.

Accounting for these factors, net sales in this segment totaled ¥101,071 million, an increase of 15.2% compared with the corresponding period of the previous fiscal year. Operating income also improved ¥2,711 million year on year to ¥ 6,066 million.

Services and Other

Domestic and overseas sales of Services and Other were favorable.

As a result, sales in this segment increased 1.7% compared with the same period of the previous fiscal year to ¥34,447 million. Operating income rose ¥501 million to ¥904 million.

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

From a global perspective, the United States economy is expected to experience a slowdown throughout the fiscal year ending March 31, 2007 impacted by rising crude oil and other natural resource prices and a slump in residential investment and personal consumption. Within Asia, China is forecast to continue its growth trajectory underpinned by persistent and robust capital investment. Concerns are, however, emerging as measures are implemented to curtail investment. China also faces increased pressure to raise the value of the yuan, and a variety of risks including inflation and declining international competitiveness. For ASEAN countries, Taiwan and Korea, export activity is anticipated to decline in line with the slowdown in the U.S. economy. In Europe, a continued soft recovery is forecast.

Turning to the domestic economy, Japan is expected to enjoy continued growth in capital investment. Improvements in employment conditions are also forecast to favorably impact personal consumption. Despite these positive factors, however, concerns are emerging in connection with the effect on exports of a slowdown in overseas economies and the threat of inflation amid rising crude oil and other natural resource prices.

In the industries in which the Hitachi Metals Group operates, activities in electronics and IT device-related industries, especially semiconductors and mobile phones, are anticipated to continue at high levels. Downward pressure on sales prices, on the other hand, is expected to intensify. In high-grade metal products and materials and high-grade functional components and equipment, persistent and robust conditions are forecast in the automobile industry on the back of strong overseas production. While continued high activity levels are anticipated in the domestic construction industry, difficult conditions are expected to linger, reflecting ongoing cutbacks in public works.

Under these conditions, the Hitachi Metals Group is moving steadily forward with efforts to achieve the objectives of its Fiscal 2008 Medium-Term Management Plan, which commenced in the fiscal year under review. Numerical targets under this Medium-Term Management Plan call for an overseas sales ratio of 45% and a new products sales ratio of 30%. At the same time, Hitachi Metals will pursue improved cash flow management in an effort to reduce working capital, further restructure its cost structure and pursue productivity enhancements by manufacturing process innovations, while reinforcing competitiveness in existing products.

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

(Millions of Yen)

	Net Sales	Operating Income	Income before income taxes and minority interest	Net Income
Consolidated	620,000	51,000	44,500	22,000
Non-Consolidated	293,000	13,000	15,500	9,500

2. Financial Position

During the first half of the fiscal year ending March 31, 2007, net cash provided by operating activities totaled ¥29,399 million, an increase of ¥15,863 million from the same period of the previous fiscal year. This was attributed to stronger earnings and improvements in working capital.

Net cash used in investing activities amounted to ¥19,428 million, up ¥8,010 million year on year owing to an increase in capital investment and purchase of investment securities.

Net cash used in financing activities was ¥13,817 million, an upward movement of ¥5,267 million year on year. This increase was primarily reflected in payments on interest-bearing debt totaling ¥10,693 million, dividends paid of ¥2,155 million and purchases of treasury stock of ¥973 million.

As a result of these activities, cash and cash equivalents totaled ¥61,085 million as of September 30, 2006, a decrease of ¥3,759 million since March 31, 2006.

	First Half Fiscal 2004	First Half Fiscal 2005	First Half Fiscal 2006	Fiscal 2004	Fiscal 2005
Shareholders' equity ratio	29.7%	31.5%	33.3%	30.5%	32.5%
Shareholders' equity ratio on a market price basis	37.5%	71.9%	67.8%	44.3%	86.6%

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 business 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; incidence of costs associated with conflicts 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, associated litigation and other factors.

While the Hitachi Metals Group strives to avoid and minimize the impact of business risks, the Company's financial performance and condition may be affected in the event such risks cannot be completely avoided or eliminated.

Changes in Accounting Policies

(1) Changes in Accounting Standard for the Presentation of Net Assets on the Balance Sheet

From the fiscal period under review, the Company has introduced "Accounting Standard for Presentation of Net Assets on the Balance Sheet" (the Accounting Standards Board of Japan [ASBJ] Statement No. 5, December 9, 2005) and "Guidance on the Accounting Standard for Presentation of Net Assets on the Balance Sheet" (ASBJ Guidance No. 8, December 9, 2005).

(2) Changes in Accounting Standard for Directors' Bonuses

From the fiscal period under review, the Company introduced "Accounting Standards for Directors' Bonuses" (ASBJ Statement No. 4, November 29, 2005).

The parent company adopted a company-with-committees structure as of June 2003, and treated directors' bonuses as expenses in accordance with "Tentative Treatments of Accounting for Directors' Bonuses" (ASBJ Practical Solutions Report No. 13, March 9, 2004).

(3) Changes in Accounting Standard for Business Divestitures

From the fiscal period under review, the Company introduced "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, December 27, 2005).

Changes in the Method of Presentation

Consolidated Balance Sheets: Consolidation adjustment account identified as of September 30, 2005 is recorded as goodwill or negative goodwill.

Consolidated Balance Sheets

(Millions of Yen)

	End of 9/06 (A)	End of 3/06 (B)	End of 9/05	(difference) (A)-(B)
ASSETS				
Current assets				
Cash and deposits in banks	40,342	35,569	32,652	4,773
Notes receivable and accounts receivable	122,072	118,775	114,530	3,297
Receivable for completed construction work	—	272	129	(272)
Cash pooling deposits	20,392	29,275	14,541	(8,883)
Negotiable securities	352	1	622	351
Inventories	113,071	106,113	108,849	6,958
Deferred tax assets	11,415	10,521	13,192	894
Other	9,574	8,882	6,411	692
Total current assets	317,218	309,408	290,926	7,810
Fixed assets				
Net property, plant and equipment	207,320	200,760	195,808	6,560
Intangible fixed assets	3,515	3,215	2,900	300
Other	40,000	40,892	40,599	(892)
Total fixed assets	250,835	244,867	239,307	5,968
Total assets	568,053	554,275	530,233	13,778
LIABILITIES				
Current liabilities:				
Accounts payable	83,861	73,399	61,242	10,462
Short-term debt	69,922	75,524	78,555	(5,602)
Bonds redeemable within a year	8,541	3,499	1,011	5,042
Accrued operating expenses	24,140	22,583	22,175	1,557
Advance payments from customers	612	634	587	(22)
Deferred tax liabilities	8	21	3	(13)
Allowance for directors' bonuses	182	—	—	182
Other	25,246	21,933	20,337	3,313
Total current liabilities	212,512	197,593	183,910	14,919
Long-term debt, less current maturities	72,210	81,995	88,456	(9,785)
Reserve for retirement benefits	28,817	29,402	30,321	(585)
Reserve for directors' retirement bonuses	952	1,231	1,102	(279)
Allowance for environmental safety measures	1,528	1,528	—	—
Deferred tax liabilities	3,096	3,365	3,165	(269)
Negative goodwill	1,215	—	—	1,215
Other	4,118	5,704	6,649	(1,586)
Total liabilities	324,448	320,818	313,603	3,630
MINORITY INTEREST	—	53,497	49,740	—
SHAREHOLDERS' EQUITY				
Common stock	—	26,284	26,284	—
Capital surplus	—	36,701	36,701	—
Retained earnings	—	121,348	112,177	—
Unrealized net gain on available-for-sale securities	—	4,045	2,660	—
Foreign currency translation adjustments	—	(2,358)	(4,924)	—
Treasury stock	—	(6,060)	(6,008)	—
Total shareholders' equity	—	179,960	166,890	—
Total Liabilities, Minority Interests and Shareholders' Equity	—	554,275	530,233	—
NET ASSETS				
Shareholders' equity				
Common stock	26,284	—	—	—
Capital surplus	36,703	—	—	—
Retained earnings	131,066	—	—	—
Treasury stock	(7,031)	—	—	—
Total shareholders' equity	187,022	—	—	—
Valuation and translation adjustments				
Unrealized net gain on available-for-sale securities	3,089	—	—	—
Gain (loss) on deferred hedge transactions	13	—	—	—
Foreign currency translation adjustments	(977)	—	—	—
Total valuation and translation adjustments	2,125	—	—	—
Minority interests	54,458	—	—	—
Total Net Assets	243,605	—	—	—
Total liabilities and net assets	568,053	—	—	—

Comparative Statement of profit and loss

(Millions of Yen)

	1 st half fiscal 2006 (Sep. 30,06) (A)	Ratio to sales (%)	1 st half fiscal 2005 (Sep. 30,05) (B)	Ratio to sales (%)	(A)/(B) (%)	Fiscal 2005 (Mar. 31,06)
Net sales	310,087	100.0	284,195	100.0	109	590,678
Cost of sales	240,744	77.6	221,869	78.1	109	458,945
Gross profit	69,343	22.4	62,326	21.9	111	131,733
Selling, general and administrative expenses	43,630	14.1	41,428	14.6	105	84,231
Operating income	25,713	8.3	20,898	7.4	123	47,502
Other income:						
Interest and dividends	525		315		167	759
Investment income based on equity method	170		—		—	508
Other	2,760		2,490		111	5,280
Total	3,455	1.1	2,805	1.0	123	6,547
Other expenses						
Interest	1,524		1,312		116	2,854
Other	2,648		2,138		124	5,890
Total	4,172	1.3	3,450	1.2	121	8,744
Extraordinary profit						
Net gain on switch to defined contribution pension plan	—		144		—	144
Gain from the disposal of stocks of affiliated companies	18		—		—	91
Gain from the disposal of subsidiaries	2		—		—	—
Gain from sale of property and equipment	373		238		157	407
Gain on sale of marketing rights	91		—		—	—
Total	484	0.2	382	0.1	127	642
Extraordinary loss						
Loss on devaluation of property and equipment	—		(1,419)		—	(1,419)
Loss on impaired property and equipment	(270)		(1,607)		17	(1,607)
Extraordinary loss on revision of retirement benefit plan system	—		—		—	(14)
Environmental safety measure expenses	—		—		—	(1,553)
Loss on structural reform	(1,170)		(2,148)		54	(1,801)
Transfer to related company allowance for doubtful accounts	(1,064)		—		—	—
Legal settlement expenses	(291)		—		—	—
Other	—		—		—	(56)
Total	(2,795)	(0.9)	(5,174)	(1.8)	54	(6,450)
Income before income taxes and minority interests	22,685	7.3	15,461	5.4	147	39,497
Corporation and inhabitant taxes	6,920	2.2	4,390	1.5	158	9,919
Adjustment account for corporate tax	1,807	0.6	2,768	1.0	65	7,130
Minority interests	2,278	0.7	2,153	0.8	106	5,283
Net income	11,680	3.8	6,150	2.2	190	17,165

Statement of Consolidated Surplus

(Millions of Yen)

	1 st half fiscal 2005 (Sep. 30,05)	Fiscal 2005 (Mar. 31,06)
Balance at beginning of year	107,966	107,966
Cash dividends	1,744	3,477
Bonuses to directors and corporate auditors	195	195
Decrease in line with changes in functional currencies of overseas consolidated subsidiaries	—	111
Decrease of other surplus	1,939	3,783
Net income	6,150	17,165
Balance at end of period	112,177	121,348

Consolidated Statement of Changes in Shareholders' Equity

1st half of fiscal 2006 (Apr.1, 2006 - Sep. 30, 2006)

(Millions of Yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2006	26,284	36,701	121,348	(6,060)	178,273
Changes during the interim period					
Distribution of retained earnings	—	—	(1,732)	—	(1,732)
Directors' bonus	—	—	(177)	—	(177)
Interim net income	—	—	11,680	—	11,680
Acquisition of treasury stock	—	—	—	(973)	(973)
Retirement of treasury stock	—	2	—	2	4
Increase/decrease due to changes in functional currencies of overseas consolidated companies	—	—	(53)	—	(53)
Net increase/decrease during the interim period of non shareholders' equity items	—	—	—	—	—
Total increase/decrease during the interim period	—	2	9,718	(971)	8,749
Balance as of September 30, 2006	26,284	36,703	131,066	(7,031)	187,022

	Valuation and Translation Adjustments					Minority Interests	Total Net Assets
	Unrealized Net Gain on Available-for-Sale Securities	Gain (loss) on Deferred Hedge Transactions	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments			
Balance as of March 31, 2006	4,045	—	(2,358)	1,687	53,497	233,457	
Changes during the interim period							
Distribution of retained earnings	—	—	—	—	—	(1,732)	
Directors' bonus	—	—	—	—	—	(177)	
Interim net income	—	—	—	—	—	11,680	
Acquisition of treasury stock	—	—	—	—	—	(973)	
Retirement of treasury stock	—	—	—	—	—	4	
Increase/decrease due to changes in functional currencies of overseas consolidated companies	—	—	—	—	—	(53)	
Net increase/decrease during the interim period of non shareholders' equity items	(956)	13	1,381	438	961	1,399	
Total increase/decrease during the interim period	(956)	13	1,381	438	961	10,148	
Balance as of September 30, 2006	3,089	13	(977)	2,125	54,458	243,605	

Consolidated Statements of Cash Flows

(Millions of Yen)

	End of 9/06	End of 9/05	End of 3/06
Cash flows from operating activities			
Income before income taxes and minority interests	22,685	15,461	39,497
Depreciation and amortization	11,564	10,440	22,579
Cost of structural reform	1,170	2,148	1,801
Environmental safety measure expenses	—	—	1,553
Transfer to related company allowance for doubtful accounts	1,064	—	—
(Decrease) in accrued retirement benefits	(601)	(1,285)	(2,228)
Net gain on switch to defined contribution pension plan	—	(144)	(130)
Gain on sales of property and equipment	(413)	(331)	(559)
Loss on disposal of property, plant and equipment	640	521	1,758
Write down of property, plant and equipment	—	1,419	1,419
Loss on impaired property and equipment	270	1,607	1,607
Interest and dividends received	(525)	(315)	(759)
Interest charges	1,524	1,312	2,854
(Increase) decrease in receivables	(2,927)	259	(1,976)
Decrease in receivables for completed construction work	272	684	545
(Increase) in inventories	(6,675)	(5,391)	(1,671)
Increase (decrease) in payables	10,199	(918)	9,164
Other	599	(2,162)	(4,924)
Subtotal	38,846	23,305	70,530
Amount paid for transfer to defined contribution pension plan	(1,316)	(1,427)	(1,477)
Amount paid for extra ordinary loss on structural reform	(376)	(632)	(918)
Interest and dividends received	644	324	888
Interest paid	(1,405)	(1,336)	(2,805)
Income taxes paid	(6,994)	(6,698)	(10,671)
Net cash provided by operating activities	29,399	13,536	55,547
Cash flows from investment activities			
Proceeds from sales of securities	—	—	12
Purchase of investment securities	(3,903)	(306)	(638)
Proceeds from sales of investment securities	220	417	587
Purchase of additional shares in consolidated subsidiary companies	(901)	—	—
Proceeds from sale of subsidiaries' common stock	25	—	87
Expenditures for acquisition of net property, plant and equipment	(14,950)	(11,810)	(28,808)
Proceeds from sale of property assets	857	915	2,269
Expenditures for acquisition of intangible fixed assets	(368)	(564)	(1,280)
Proceeds from business transfer	181	—	—
Other	(589)	(70)	(212)
Net cash used in investing activities	(19,428)	(11,418)	(27,983)
Cash flows from financing activities			
(Decrease) in short-term borrowings	(5,470)	(1,545)	(4,276)
Proceeds from long-term debt	1,800	300	659
Payments on long-term debt	(7,023)	(3,522)	(7,646)
Expenditures for redemption of bonds	—	—	(937)
Proceeds from sale of treasury stock	4	1	1
Purchase of treasury stock	(973)	(1,705)	(1,757)
Dividends paid to shareholders	(1,732)	(1,744)	(3,477)
Dividends paid to shareholders of subsidiaries	(423)	(335)	(620)
Net cash provided by (used in) financing activities	(13,817)	(8,550)	(18,053)
Effect of exchange rate changes on cash and cash equivalents	87	682	1,770
Net increase (decrease) in cash and cash equivalents	(3,759)	(5,750)	11,281
Cash and cash equivalents at beginning of year	64,844	53,563	53,563
Cash and cash equivalents at end of period	61,085	47,813	64,844
Reconciliation of cash and deposits in banks in consolidated balance sheets at end of period cash and cash equivalents in consolidated statements of cash flows			
Cash and deposits in banks	40,342	32,652	35,569
Securities (Money Market Funds, etc.)	351	620	—
Cash pooling deposits	20,392	14,541	29,275
Cash and cash equivalents at end of period	61,085	47,813	64,844

Business Segment Information

1st half of Fiscal 2006 (Apr. 1, 2006 - Sep. 30, 2006)

(Millions of Yen)

	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment	Services and Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	119,987	70,590	90,177	29,333	310,087	—	310,087
Intersegment	11,097	11,514	10,894	5,114	38,619	(38,619)	—
Total sales	131,084	82,104	101,071	34,447	348,706	(38,619)	310,087
Operating costs and expenses	119,598	73,577	95,005	33,543	321,723	(37,349)	284,374
Operating income	11,486	8,527	6,066	904	26,983	(1,270)	25,713
Assets	229,910	179,283	147,087	47,328	603,608	(35,555)	568,053
Depreciation and amortization	3,822	3,795	3,370	213	11,200	364	11,564
Capital expenditures	7,275	8,222	3,730	52	19,279	225	19,504

1st half of Fiscal 2005 (Apr. 1, 2005 - Sep. 30, 2005)

(Millions of Yen)

	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment	Services and Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	107,109	66,685	81,023	29,378	284,195	—	284,195
Intersegment	10,389	11,259	6,688	4,482	32,818	(32,818)	—
Total sales	117,498	77,944	87,711	33,860	317,013	(32,818)	284,195
Operating costs and expenses	107,021	70,024	84,356	33,457	294,858	(31,561)	263,297
Operating income	10,477	7,920	3,355	403	22,155	(1,257)	20,898
Assets	211,330	166,077	134,514	42,875	554,796	(24,563)	530,233
Depreciation and amortization	3,521	3,428	2,956	235	10,140	300	10,440
Capital expenditures	5,104	3,641	3,632	54	12,431	125	12,556

Fiscal 2005 (Apr. 1, 2005 - Mar. 31, 2006)

(Millions of Yen)

	High-Grade Metal Products and Materials	Electronics 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

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) Rolls for steel, nonferrous and non-metal rolling, Injection molding machine parts Structural ceramics, Steel frame joints for construction Steel forgings, Cutting tools, Other
Electronics and IT Devices	Hard magnetic materials (Ferrite, Rare-earth magnets, Castings, Bonded magnets and their applications) Mobile phone components (Isolators, Multilayered devices) Components and materials for IT equipment Soft magnetic materials (Soft ferrites, Nano-crystalline soft magnetic materials (FINEMET®)) Amorphous metal materials (Metglas®), 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 structural systems, Other
Services and Other	Environmental analysis and consulting, Metal materials survey and analysis Other sales and services, Other

Geographical Segment Information

1st half of Fiscal 2006 (Apr. 1, 2006 - Sep. 30, 2006)

(Millions of Yen)

	Japan	North America	Asia	Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	223,651	39,587	34,896	11,953	310,087	—	310,087
Intersegment	38,944	6,512	20,144	259	65,859	(65,859)	—
Total sales	262,595	46,099	55,040	12,212	375,946	(65,859)	310,087
Operating costs and expenses	241,710	42,639	52,585	12,019	348,953	(64,579)	284,374
Operating income	20,885	3,460	2,455	193	26,993	(1,280)	25,713
Assets	479,511	57,826	67,040	12,887	617,264	(49,211)	568,053

1st half of Fiscal 2005 (Apr. 1, 2005 - Sep. 30, 2005)

(Millions of Yen)

Sales:							
Unaffiliated customers	209,005	34,837	29,484	10,869	284,195	—	284,195
Intersegment	34,446	8,130	17,294	201	60,071	(60,071)	—
Total sales	243,451	42,967	46,778	11,070	344,266	(60,071)	284,195
Operating costs and expenses	225,124	40,599	44,954	11,135	321,812	(58,515)	263,297
Operating income	18,327	2,368	1,824	(65)	22,454	(1,556)	20,898
Assets	451,120	55,017	55,652	10,455	572,244	(42,011)	530,233

Fiscal 2005 (Apr. 1, 2005 - Mar. 31, 2006)

(Millions of Yen)

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

Overseas Sales

1st half of Fiscal 2006 (Apr. 1, 2006 - Sep. 30, 2006)

(Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	35,637	69,275	15,527	4,477	124,916
Consolidated sales	—	—	—	—	310,087
Overseas sales as a share of consolidated sales	11.5%	22.3%	5.0%	1.5%	40.3%

1st half of Fiscal 2005 (Apr.1, 2005 - Sep. 30, 2005)

(Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	33,036	58,392	14,384	4,254	110,066
Consolidated sales	—	—	—	—	284,195
Overseas sales as a share of consolidated sales	11.6%	20.5%	5.1%	1.5%	38.7%

Fiscal 2005 (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%

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 9/06			End of 3/06		
	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	2,123	8,339	6,216	2,132	10,136	8,004
Bonds						
Government bonds and Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	2,123	8,339	6,216	2,132	10,136	8,004
2. Balance sheet value does not exceed cost						
Stocks	4,041	3,916	(125)	194	179	(15)
Bonds						
Government bonds and Municipal bonds	—	—	—	—	—	—
Corporate bonds	1,001	1,000	(1)	1,001	995	(6)
Other bonds	—	—	—	—	—	—
Other	359	359	0	0	0	0
Total	5,401	5,275	(126)	1,195	1,174	(21)
Other Securities Total	7,524	13,614	6,090	3,327	11,310	7,983

(2) Securities without market price

	End of 9/06	End of 3/06
	Balance sheet value	Balance sheet value
Bond for maturity:		
Government bonds or Municipal bonds	—	—
Corporate bonds	—	—
Other bonds	—	—
Total	—	—
Other Securities:		
Non-listed stock	1,189	1,242
Non-listed overseas bond	—	7
Total	1,189	1,249

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

	End of 9/06			End of 3/06		
	Contract or notional amount	Estimated fair value	Gross unrealized gain (loss)	Contract or notional amount	Estimated fair value	Gross unrealized gain (loss)
Exchange contract transactions:						
U.S. dollars (buy)	166	169	3	228	230	2
U.S. dollars (sell)	1,459	1,461	(2)	—	—	—
Euro (sell)	—	—	—	—	—	—
Euro (buy)	—	—	—	275	284	9
U.S. dollars (sell) Won	383	367	16	—	—	—
Currency swap transactions:						
Receipts yen						
payments dollars	12,700	(361)	(361)	12,700	(513)	(513)
Interest-rate swaps:						
Receipts variable						
payments fixed	2,500	2	2	2,500	0	0
Total	—	—	(342)	—	—	(502)

Hitachi Metals, Ltd. (Oct. 25, 2006)

Code:5486

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

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Non-consolidated Financial Report for the 6-month period ended September 30, 2006

Contact: Sig Ishigay, Officer and General Manager

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

1. Performance over the year, April 1, 2006 to September 30, 2006 (Figures are rounded off to the nearest million yen)

<u>(1) Operating results</u>	<u>9/06(interim)</u>	<u>9/05(interim)</u>	<u>(Change)(%)</u>	<u>3/06</u>
Net sales (million yen)	144,655	129,100	12.0	268,986
Operating income (million yen)	6,818	4,472	52.5	10,572
Income before income taxes (million yen)	8,892	3,649	143.7	9,428
Net income (million yen)	5,855	2,915	100.9	6,339
Net income per share (yen)	16.93	8.38	—	18.26

Notes: 1. Average number of shares outstanding (9/06: 345,933,881 9/05: 347,716,823 3/06: 347,107,107)

2. No changes have been made in accounting policy.

<u>(2) Dividend</u>	<u>9/06(interim)</u>	<u>9/05(interim)</u>	<u>3/06</u>
Interim dividend per share (yen)	5.0	5.0	—
Annual dividend per share (yen)	—	—	10.0

<u>(3) Financial standing</u>	<u>9/06(interim)</u>	<u>9/05(interim)</u>	<u>3/06</u>
Total assets (million yen)	297,535	275,588	289,429
Net assets (million yen)	121,494	116,703	118,420
Equity ratio (%)	40.8	42.3	40.9
Net assets per share (yen)	351.49	336.78	341.78

Notes: 1. Number of shares outstanding at end of period (9/06: 345,656,002 9/05: 346,523,980 3/06: 346,480,932)

2. Number of treasury stock outstanding at end of period (9/06: 11,512,685 9/05: 10,644,707 3/06: 10,687,755)

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

	<u>At year end</u>
Net sales (million yen)	293,000
Operating income (million yen)	13,000
Income before income taxes (million yen)	15,500
Net income (million yen)	9,500
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) 27.48 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

(Millions of Yen)

	End of 9/06 (A)	End of 3/06 (B)	Change (A)-(B)
ASSETS			
Current assets			
Cash and deposits in banks	7,342	4,248	3,094
Notes receivable and accounts receivable	43,797	40,684	3,113
Inventories	41,833	39,899	1,934
Cash pooling deposits	20,392	29,275	(8,883)
Deferred tax assets	3,798	4,138	(340)
Other	16,935	17,887	(952)
Allowance for doubtful accounts	(244)	(57)	(187)
Total current assets	133,853	136,074	(2,221)
Fixed assets			
Net property, plant and equipment			
Buildings and structures	21,377	20,324	1,053
Machinery, equipment and vehicles	27,225	25,558	1,667
Tools, furniture and fixtures	1,971	1,797	174
Land	19,166	19,180	(14)
Construction in progress	4,912	3,026	1,886
Total fixed assets	74,651	69,885	4,766
Intangible fixed assets	1,366	1,388	(22)
Investments, etc.			
Investment securities	6,013	2,420	3,593
Stock of affiliated company	61,770	58,269	3,501
Long-term loans	8,490	7,460	1,030
Deferred tax assets	11,269	12,827	(1,558)
Other	1,841	1,895	(54)
Allowance for doubtful accounts	(1,698)	(745)	(953)
Provision for loss on investments	(20)	(44)	24
Total investments, etc.	87,665	82,082	5,583
Total fixed assets	163,682	153,355	10,327
Total assets	297,535	289,429	8,106

Comparative Balance Sheets

	(Millions of Yen)		
	End of 9/06 (A)	End of 3/06 (B)	Change (A)-(B)
LIABILITIES			
Current Liabilities			
Accounts payable	42,544	36,733	5,811
Short-term debt	34,857	36,029	(1,172)
Long-term debt redeemable within a year	2,000	4,000	(2,000)
Bonds redeemable within a year	5,000	—	5,000
Accrued income taxes	1,929	199	1,730
Accrued operating expense	8,139	8,011	128
Advance payments from customers	243	257	(14)
Allowance for Directors' bonuses	29	—	29
Other	10,133	6,955	3,178
Total current liabilities	104,874	92,184	12,690
Bonds	24,000	29,000	(5,000)
Long-term debt	29,000	31,000	(2,000)
Reserve for retirement benefits	16,856	17,455	(599)
Reserve for directors' retirement bonuses	271	329	(58)
Allowance for environmental safety measures	1,035	1,035	—
Others	5	6	(1)
Total Liabilities	176,041	171,009	5,032
SHAREHOLDERS' EQUITY			
Common stock	—	26,284	—
Capital surplus	—	36,701	—
Retained earnings	—	61,238	—
Unrealized net gain on available-for-sale securities	—	252	—
Treasury stock	—	(6,055)	—
Total shareholders' equity	—	118,420	—
Total Liabilities and Shareholders' Equity	—	289,429	—
NET ASSETS			
Shareholders' equity			
Common stock	26,284	—	—
Capital surplus	36,703	—	—
Retained earnings	65,361	—	—
Treasury stock	(7,026)	—	—
Total shareholders' equity	121,322	—	—
Valuation and translation adjustments			
Unrealized net gain on available-for-sale securities	171	—	—
Gain (loss) on deferred hedge transactions	1	—	—
Total valuation and translation adjustments	172	—	—
Total Net Assets	121,494	—	—
Total Liabilities and Shareholders' Equity			
Shareholders' Equity	297,535	—	—

Comparative Statement of profit and loss

(Millions of Yen)

	1 st half fiscal 2006 (Sep.30,06) (A)	Ratio to Sales (%)	1 st half fiscal 2005 (Sep.30,05) (B)	Ratio to Sales (%)	(A)/(B) (%)	fiscal 2005 (Mar.31,06)	Ratio to Sales (%)
Net sales	144,655	100.0	129,100	100.0	112	268,986	100.0
Cost of sales	123,533	85.4	110,423	85.5	112	229,565	85.4
Gross profit	21,122	14.6	18,677	14.5	113	39,421	14.7
Selling, general and administrative expenses	14,304	9.9	14,205	11.0	101	28,849	10.7
Operating income	6,818	4.7	4,472	3.5	152	10,572	3.9
Other income							
Interest and dividends	3,600		2,197		164	3,558	
Other	1,643		1,105		149	2,287	
Total	5,243	3.6	3,302	2.5	159	5,845	2.2
Other expenses							
Interest	699		658		106	1,316	
Other	1,412		1,163		121	2,563	
Total	2,111	1.4	1,821	1.4	116	3,879	1.4
Extraordinary profit							
Gain from sale of property, plant and equipment	166		268		62	1,008	
Gain on distribution of affiliated company residual assets	6		443		1	456	
Gain from the disposal of subsidiaries	—		—		—	86	
Total	172	0.1	711	0.6	24	1,550	0.5
Extraordinary loss							
Transfer to related company allowance for doubtful accounts	(1,160)		—		—	(650)	
Loss on impaired property and equipment	(50)		(774)		6	(774)	
Increase in provision for loss on investments	(20)		—		—	(18)	
Loss on structural reform	—		(1,365)		—	(1,575)	
Environmental safety measure expenses	—		—		—	(1,059)	
Loss on liquidation of affiliated companies	—		(876)		—	(584)	
Total	(1,230)	(0.9)	(3,015)	(2.4)	41	(4,660)	(1.7)
Income before income taxes	8,892	6.1	3,649	2.8	244	9,428	3.5
Corporation, inhabitant taxes	1,085		(1,075)		—	(2,547)	
Adjustment account for corporate tax	1,952		1,809		108	5,636	
Net income	5,855	4.0	2,915	2.3	201	6,339	2.4