Hitachi Metals, Ltd. (Apr. 25, 2007)

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Consolidated Financial Report for the 12-month period ended March 31, 2007

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Stock Exchange where listed (section): Tokyo(First), Osaka(First)
Scheduled Date of the Ordinary General Meeting of Shareholders: June 21, 2007

1. Performance over the year, April 1, 2006 to March 31,2007 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	**3/2007**	3/2006	(Change)
Net sales (million yen)	**646,311**	590,678	9.4%
Operating income (million yen)	**54,722**	47,502	15.2%
Income before income taxes and minority interests (million yen)	**46,562**	39,497	17.9%
Net income (million yen)	**22,062**	17,165	28.5%
Net income per share (yen)	**63.81**	48.95	
Diluted net income per share (yen)	**—**	—	
Net income to shareholders' equity (%)	**11.7**	10.0	
Operating income to net sales (%)	**8.5**	8.0	

Note: 1. Profit (loss) on equity method investment: 369 million yen (previous year: 508 million yen)
2. As there are no potentially dilutive shares outstanding, details of diluted net income per share have not been included.

(2) Consolidated Financial Standing	**3/2007**	3/2006
Total assets (million yen)	**629,590**	554,275
Net assets (million yen)	**222,626**	179,960
Equity ratio (%)	**31.5**	32.5
Net assets per share (yen)	**575.04**	518.93

Note: Shareholders' equity (3/07: 198,455 3/06: 179,960)

(3) Consolidated cash flows (million yen)	**3/2007**	3/2006
Cash flows from operating activities	**53,011**	55,547
Cash flows from investment activities	**(122,583)**	(27,983)
Cash flows from financing activities	**50,896**	(18,053)
Cash and cash equivalents at yearend	**47,020**	64,844

2. Dividend	**3/2007**	3/2006	3/2008 (Planed)
Annual dividend per share (yen)	**10.00**	10.00	10.00
Interim (yen)	**5.00**	5.00	5.00
End of period (yen)	**5.00**	5.00	5.00
Total dividend paid (full year) (million yen)	**3,454**	3,465	—
Consolidated dividend payout ratio (%)	**15.7%**	20.4%	—
Dividends to net assets (consolidated)	**1.8%**	2.0%	—

3. Forecasts of results for the term, April 1, 2007 to March 31, 2008

	Interim period	Year-on-year Change (%)	Full-year	Year-on-year Change (%)
Net sales (million yen)	332,000	7.1	675,000	4.4
Operationg income (million yen)	24,000	(6.7)	55,000	0.5
Income before income taxes and minority interests (million yen)	22,000	(3.0)	49,000	5.2
Net income (million yen)	11,000	(5.8)	25,500	15.6
Net income per share (yen)	31.87	—	73.89	—

4. Other

(1) Changes in accounting principles, procedures and methods of presentation in consolidated financial statements (changes to important items that form the basis for preparing consolidated financial statements)

1) Changes resulting from revisions to accounting standards: For details, please refer to page 16.

2) Changes other than those 1) above: None

(2) Numbers of shares issued (Common stock)

Number of shares outstanding at end of year (including treasury stock) 3/07: 357,168,687 3/06: 357,168,687

Number of treasury stock outstanding at end of year 3/07: 12,051,101 3/06: 10,712,192)

[Reference]

Non-consolidated Financial Report for the 12-month period ended March 31, 2007

1. Performance over the year, April 1, 2006 to March 31,2007 (Figures are rounded off to the nearest million yen)

(1) Operating results

	3/2007	3/2006	(Change)
Net Sales (million yen)	**302,896**	268,986	12.6%
Operating income (million yen)	**14,789**	10,572	39.9%
Income before income taxes (million yen)	**18,010**	9,428	91.0%
Net income (million yen)	**11,817**	6,339	86.4%
Net income per share (yen)	**34.18**	18.26	
Diluted net income per share (yen)	—	—	

(3) Financial standing

	3/2007	3/2006
Total assets (million yen)	**383,687**	289,429
Net assets (million yen)	**124,785**	118,420
Equity ratio (%)	**32.5%**	40.9%
Net assets per share (yen)	**361.55**	341.78

Reference: Shareholders' equity (3/07: 124,785 3/06: 118,420)

2. Forecasts of results for the term, April 1, 2007 to March 31, 2008

	Interim period	Year-on-year Change (%)	Full-year	Year-on-year Change (%)
Net sales (million yen)	195,000	34.8	400,000	32.1
Operating income (million yen)	8,300	21.7	20,000	35.2
Income before income taxes (million yen)	11,500	29.3	23,000	27.7
Net income (million yen)	6,500	11.0	13,000	10.0
Net income per share (yen)	18.83	—	37.67	—

Consolidated subsidiaries: 95 companies

40 domestic companies

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

etc.

55 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.

Notes:

Consolidated subsidiaries and application of the equity method:

(1) Affiliated companies : 12

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

Consolidation : New companies 1 Companies removed 8

Equity method : New companies coming under equity method None Companies removed 3

Newly consolidated : Baosteel Hitachi Rolls (Nan Tong) Ltd.

Removed from consolidation :

Hitachi Metals MPF, Ltd., Hitachi Metals Electronics (Malaysia) Sdn. Bhd., Jiko Co., Ltd.
P.T.NEOMAX INDONESIA, Tatsumi Enginnering, Ltd., Central Coating & Assembly, Inc.
Maxcess Technologies, Inc.(Canada), Maxcess Technologies, Inc.(U.S.A)

Newly subject to the equity method : None

Removed from equity method :

Tohaku Butsuryu Service, Ltd., Taiwan Sumitok & Cimeo Precision Electronics, Inc., Nippon Katan Co., Ltd.

Financial Performance

1. Analysis of Financial Performance

(1) Overview (fiscal year ended March 31, 2007)

Looking at the global economy during the fiscal year ended March 31, 2007, the U.S. economy was again characterized by stable growth reflecting robust personal consumption and capital investment as well as healthy export activity. This ensued despite the sharp increase in crude oil prices and the drop in residential investment. In Asia, economic conditions were mixed. China continued to enjoy high rates of economic growth buoyed by robust exports and domestic investment. ASEAN countries also remained firm. Impacted by the downturn in IT-related exports, however, Taiwan and Korea showed signs of a slowdown. Conditions in Europe remained favorable with moderate growth across the continent.

In Japan, the domestic economy was impacted by stagnant personal consumption. This was more than offset by vigorous capital investment, on the back of improved earnings in the corporate sector, and robust export activity driven by the weak yen. As a result, conditions were characterized by continued moderate recovery.

Conditions in the industries in which the Hitachi Metals Group operates were as follows. In the automobile industry, sales in Japan declined, especially for passenger cars, impacted by weak domestic demand and personal consumption. However, exports remained firm, particularly to North America. As a result, production increased in Japan and overseas, most notably in Europe and Asia. The semiconductor industry continued to do well on the back of an upswing in demand primarily for DRAMs. Shipments of mobile phones also rose mainly to emerging markets throughout Asia, while global deliveries in the personal computer industry, particularly for notebooks, were robust. Steel production remained high, fueled by economic recovery in Japan and continued growth in China. In the domestic construction industry, private-sector investment expanded driven by vigorous capital investment amid improvements in corporate sector earnings. Public investment, on the other hand, remained flat with signs emerging of a downturn due to continued austere fiscal conditions.

Against this operating environment, net sales of the Hitachi Metals Group climbed 9.4% compared with the previous fiscal year to ¥646,311 million, as a result of strong demand for products related to automobiles, IT and household appliances, particularly LCD TVs.

On the earnings front, operating income rose ¥7,220 million year on year to ¥54,722 million, due to sales price revisions and increased efforts to reduce costs and expenses. The improvement in earnings came despite the sharp increase in global prices for scarce metals and raw materials, as well as the impact of goodwill depreciation following the acquisition of NEOMAX Co., Ltd. Income before income taxes and minority interest climbed ¥7,065 million year on year to ¥46,562 million. Net income improved ¥4,897 million compared with the previous fiscal year to ¥22,062 million.

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

Net sales and operating income by business segment are presented as follows. The sales amounts include intersegment sales and transfers.

Between November 7, 2006 and December 11, 2006, Hitachi Metals acquired stock of NEOMAX Co., Ltd. by way of tender offer. This was to consolidate management resources in the magnetic materials business, a key component of the Company's Electronics and IT Devices segment. As a result, Hitachi Metals raised its shareholding in NEOMAX to 93.2%.

On completion of the tender offer, both Hitachi Metals and NEOMAX again considered the necessary measures required to maximize the Group's corporate value. As a result of these deliberations, each company decided to pursue comprehensive business integration. On January 15, 2007, Hitachi Metals and NEOMAX executed a merger agreement with an effective integration date of April 1, 2007. As a part of business integration, NEOMAX was dissolved, with Hitachi Metals remaining as the surviving company.

High-Grade Metal Products and Materials

Sales of molds and tool materials declined year on year in the automobile industry due to inventory adjustments. Results were also impacted by stagnant operating conditions prior to the next major model change. Despite the impact of cutting tool inventory adjustments throughout the fiscal year under review, overall sales rose year on year fueled by strong first-half demand from the automobile industry. In high-grade electronic materials, overall sales were robust. Hitachi Metals enjoyed substantial increases in semiconductor and other package materials due to healthy semiconductor production and sales price revisions. Results in LCD panel-related materials were also strong with a significant year on year upsurge. Despite difficult trends highlighted by a contraction in the CRT display-related materials market, sales rose substantially compared with the previous fiscal year on the back of revisions to sales prices. Hitachi Metals recorded growth in rolls. Overseas sales were particularly strong, focusing mainly on increases in China. Sales of components for injection molding machines rose year on year due to demand growth for IT-related device compact products.

Accounting for these factors, net sales in the High-Grade Metal Products and Materials segment rose 11.2% compared with the previous fiscal year to ¥273,567 million. Operating income was ¥24,302 million, an increase of ¥1,493 million year on year.

Electronics and IT Devices

Despite the drop in principal customer sales attributed to reorganization within the hard disk market, overall results of ferrite, rare-earth magnets, magnets and their applications increased due to sales growth to the automobile and industrial machinery sectors. In the mobile phone components category, operating conditions were mixed. Sales in this category were on par with the previous fiscal year. Significant increases in sales of isolators for base stations focusing mainly on overseas markets were offset by flat year-on-year results in multilayered components and the drop in mobile terminal isolator sales, which reflected the growing trend toward isolator-less mobile phones. Results in the IT equipment materials and components category improved significantly with the growing application of Hitachi Metals' products mainly in consumer devices. In its soft magnetic material activities, Hitachi Metals enjoyed growth in soft ferrite buoyed by an upswing in demand for IT-related devices. Sales of FINEMET® for use mainly in industrial equipment were also strong with healthy increases in amorphous metal materials in line with continued robust demand for application in electric transformers.

As a result, net sales in the Electronics and IT Devices segment totaled ¥169,321 million, an increase of 5.9% compared with the previous fiscal year. Operating income for the period was ¥18,069 million, up ¥961 million year on year.

High-Grade Functional Components and Equipment

Despite increased overseas production mainly in Asia, overall sales of high-grade ductile iron castings declined compared with the previous fiscal year, reflecting a slump in sales to principal customers in Japan and strict product selection criteria. Results in heat-resistant metal castings, on the other hand, increased year on year with revisions in sales prices offsetting the impact of material changes by major customers. In aluminum wheels, sales grew significantly. This is attributed to improved sales of automobile models that use the Company's products. Despite the impact of changes in piping materials, sales of pipe fittings improved due to revisions of sales prices. Stainless steel and plastic piping components were up owing to increases in residential construction starts and an upswing in large-scale construction demand mainly in major metropolitan areas. Internal and structural system sales rose substantially, reflecting robust private-sector construction investment and capital expenditure.

Accounting for these factors, net sales in the High-Grade Functional Components and Equipment segment climbed 14.2% compared with the previous fiscal year to ¥210,487 million. Operating income rose ¥4,827 million year on year to ¥14,073 million.

Services and Other

Domestic and overseas sales of Services and Other were strong. As a result, net sales in the Services and Other segment increased 12.7% compared with the previous fiscal year to ¥78,272 million. Operating income rose ¥594 million to ¥2,013 million.

(2) Outlook (fiscal year ending March 31, 2008)

In the fiscal year ending March 31, 2008, the global economy is expected to experience a slowdown. Despite robust capital investment and personal consumption in the United States, conditions are forecast to suffer from the impacts of high crude oil prices and a drop in residential investment. Within Asia, continuing vigor is anticipated in the Chinese economy. This is mainly attributed to large-scale infrastructure investment and robust export activity. Amid the overall positive environment in China, some impact is expected to arise from concerns surrounding the government's policies to restrict investment, as well as declining competitiveness linked to rising consumer prices. In addition to adjustments in the production of electronics and IT devices, downward pressure on the economies of Taiwan, South Korea and ASEAN countries is expected to result from deceleration of the U.S. economy linked to the slump in export activity. European economies on the other hand are expected to experience continued steady growth.

On the domestic front, mixed conditions are anticipated. Private-sector capital investment is forecast to remain strong on the back of robust corporate results. The Japanese economy is expected to enter a temporary adjustment period, however, impacted by the delay in personal consumption recovery and a slump in export activity.

In the principal industries in which the Hitachi Metals Group operates, activities in the automobile industry are forecast to remain robust with activities overseas offsetting the slump in demand in Japan. Conditions in the electronics and IT devices industry, centered on semiconductors and mobile phones, are expected to enjoy continued demand growth supported by the introduction of new products and robust activity in emerging countries in Asia. In the Japanese construction industry, however, reductions in public works reflecting harsh fiscal conditions are expected to negate private-sector capital investment driven by improved corporate earnings.

Against this backdrop, the Hitachi Metals Group will continue to pursue its Fiscal 2008 Medium-Term Management Plan formulated in the previous fiscal year. This plan positions overseas business development and the creation of new products as principal growth drivers. In addition to the Group's efforts to achieve numerical management targets for each growth driver, namely an overseas sales ratio of 45% and a new product sales ratio of 30%, Hitachi Metals is also working to accelerate the synergy effects of its integration with NEOMAX. Furthermore, Hitachi Metals is promoting cash flow management in an effort to secure reductions in working capital, further restructuring its cost structure, pursuing productivity enhancements by reforming the manufacturing process and reinforcing the competitiveness of existing products.

As a result of the aforementioned factors, the performance outlook for the fiscal year ending March 31, 2008, is as follows.

(Millions of Yen)

	Net sales	Operating income	Income before income taxes (and minority interests)	Net income
Consolidated	675,000	55,000	49,000	25,500

2. Analysis of Financial Condition

Net cash provided by operating activities totaled ¥53,011 million, a decrease of ¥2,536 million compared with the previous fiscal year. Notwithstanding an increase in profits, the demand for working capital during the fiscal year under review was significant.

Net cash used in investment activities was ¥122,583 million, a year-on-year increase of ¥94,600 million. In addition to expenditures for the acquisition of net property, plant and equipment and payments for the purchase of investment securities, Hitachi Metals undertook payments in connection with the tender offer for NEOMAX shares.

Net cash provided by financing activities amounted to ¥50,896 million, a turnaround from net cash used of ¥ 18,053 million in the previous fiscal year. The major components were an increase in interest-bearing debt of ¥69,096 million to fund the tender offer for shares, dividends paid and the purchase of treasury stock.

As a result of these activities, cash and cash equivalents at the end of the fiscal year totaled ¥47,020 million, a decrease of ¥17,824 million from the beginning of the fiscal year.

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006
Shareholders' equity ratio	34.7%	35.2%	30.5%	32.5%	31.5%
Shareholders' equity ratio on a market price basis	26.0%	41.2%	44.3%	86.6%	71.8%
Debt service years	4.8	7.3	5.4	2.9	4.1
Interest coverage ratio	12.5	8.4	12.4	19.8	16.1

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

3. Dividend Policy / Dividend for the Next Fiscal Year

Changing customer needs and technologies together with advancing globalization characterize the current business environment. Under these circumstances, Hitachi Metals considers that its prime responsibility is to deliver appropriate and long-term returns to its shareholders by strengthening its international competitiveness and enhancing its 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.

In connection with cash dividends for the fiscal year under review and the fiscal year ending March 31, 2008, Hitachi Metals plans to undertake the following payments after taking into consideration the necessary retained earnings required to strengthen its financial position, bolster its operating foundation and to pursue initiatives integral to future business development.

(Yen)

	Cash Dividend per Share		
Base Period	Interim Dividend	Fiscal Year-End Dividend	Annual Dividend
Fiscal year ended March 31, 2007	5.00 (Actual)	5.00 (Planned)	10.00 (Planned)
Fiscal year ending March 31, 2008	5.00 (Planned)	5.00 (Planned)	10.00 (Planned)

4. 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 conflicts related to intellectual property rights; cost increases needed to comply with or settle legal and public issues relating to environmental and other regulations; and the costs incurred in the event that product defects should arise.

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.

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. 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.

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

As a development-driven company that possesses world leading product development capabilities, Hitachi Metals recognizes that the Group’s ability to become the best partner to its customers by consistently delivering new products essential to market needs is key to enhancing corporate value. Based on this belief, the Hitachi Metals Group formulated its Fiscal 2008 Medium-Term Management Plan in March 2006, which commenced April 1, 2006 and continues through the fiscal year ending March 31, 2009. Guided by this Plan, Hitachi Metals is implementing individual business plans in an effort to achieve its overall objectives of a 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. In the fiscal year under review, Hitachi Metals achieved an overseas sales ratio of 40.1%.

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 2006 (the fiscal year ended March 31, 2007), included new composition ferrite magnets, 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 steel molds, 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 fiscal 2008 target of 30% by renewing and revitalizing the composition of our product lineup. For the fiscal year ended March 31, 2007, Hitachi Metals new product sales ratio was 26.4%.

(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 entire Hitachi Metals Group is strictly pursuing further productivity enhancements and implementing drastic reforms of the entire manufacturing process from raw material input through delivery. In volume zone products such as tool steels, rolls, casting components for automobiles and piping components, we will continue to strengthen proprietary manufacturing technologies, 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, Hitachi Metals has consolidated the management resources of its magnetic materials business. Effective April 1, 2007, the operations of NEOMAX Co., Ltd., a consolidated subsidiary engaged in the manufacture and sale of magnets and ceramics, were integrated with Hitachi Metals to become NEOMAX Company, an internal company of the Hitachi Metals Group, with the aim of further bolstering competitive advantage. In an effort to enhance management efficiency, future steps will be taken to integrate sales and marketing centers, as well as consolidate corporate and administrative functions. At the same time, Hitachi Metals will centralize its R&D structure in an effort to accelerate the development of innovative product applications.

Since November 2006, the Japan Fair Trade Commission has conducted an investigation into possible breaches of the Antimonopoly Law by certain sales offices of Hitachi Metals' piping components business. Taking this matter with the utmost seriousness, Hitachi Metals is providing the Commission with its full cooperation. At the same time, we will renew efforts to ensure strict observance of all laws and regulations.

Consolidated Balance Sheets

(Millions of Yen)

	End of 3/06	**End of 3/07**	(difference)
ASSETS			
Current assets			
Cash and deposits in banks	35,569	**45,419**	9,850
Notes receivable and accounts receivable	118,775	**133,660**	14,885
Receivable for completed construction work	272	**215**	(57)
Cash pooling deposits	29,275	—	(29,275)
Negotiable securities	1	**1,603**	1,602
Inventories	106,113	**121,871**	15,758
Deferred tax assets	10,521	**10,604**	83
Other	8,882	**12,881**	3,999
Total current assets	309,408	**326,253**	16,845
Fixed assets			
Net property, plant and equipment	200,760	**209,103**	8,343
Intangible fixed assets	3,215	**55,502**	52,287
Other	40,892	**38,732**	(2,160)
Total fixed assets	244,867	**303,337**	58,470
Total assets	554,275	**629,590**	75,315
LIABILITIES			
Current liabilities			
Accounts payable	73,399	**97,501**	24,102
Short-term debt	75,524	**146,001**	70,477
Bonds redeemable within a year	3,499	**7,200**	3,701
Accured operating expenses	22,583	**22,647**	64
Advance payments from customers	634	**1,561**	927
Deferred tax liabilities	21	**65**	44
Allowance for directors' bonuses	—	**353**	353
Other	21,933	**28,502**	6,569
Total current liabilities	197,593	**303,830**	106,237
Long-term debt, less current maturities	81,995	**65,515**	(16,480)
Reserve for retirement benefits	29,402	**27,244**	(2,158)
Reserve for directors' retirement bonuses	1,231	**989**	(242)
Allowance for environmental safety measures	1,528	**1,516**	(12)
Deferred tax liabilities	3,365	**3,131**	(234)
Negative goodwill	—	**862**	862
Other	5,704	**3,877**	(1,827)
Total liabilities	320,818	**406,964**	86,146
MINORITY INTEREST	53,497	—	—
SHAREHOLDERS' EQITY			
Common stock	26,284	—	—
Capital surplus	36,701	—	—
Retained earnings	121,348	—	—
Unrealized net gain on available-for-sale securities	4,045	—	—
Foreign currency translation adjustments	(2,358)	—	—
Treasury stock	(6,060)	—	—
Total shareholders' equity	179,960	—	—
Total Liabilities, Minority Interests and Shareholders' Equity	554,275	—	—
NET ASSETS			
Shareholders' equity			
Common stock	—	**26,284**	—
Capital surplus	—	**36,703**	—
Retained earnings	—	**139,720**	—
Treasury stock	—	**(7,740)**	—
Total shareholders' equity	—	**194,967**	—
Valuation and translation adjustments	—		—
Unrealized net gain on available-for-sale securities	—	**2,674**	—
Gain (loss) on deferred hedge transactions	—	—	—
Foreign currency translation adjustments	—	**814**	—
Total valuation and translation adjustments	—	**3,488**	—
Minority interests	—	**24,171**	—
Total Net Assets	—	**222,626**	—
Total liabilities and net assets	—	**629,590**	—

Comparative Statement of Profit and Loss

(Millions of Yen)

	Fiscal 2005 (Mar. 31,06)	Ratio to Sales (%)	**Fiscal 2006 (Mar. 31,07)**	Ratio to Sales (%)	(difference) (%)
Net sales	590,678	100.0	**646,311**	100.0	109
Cost of sales	458,945	77.7	**504,089**	78.0	110
Gross profit	131,733	22.3	**142,222**	22.0	108
Selling, general and administrative expenses	84,231	14.3	**87,500**	13.5	104
Operating income	47,502	8.0	**54,722**	8.5	115
Other income					
Interest and dividends	759		**1,259**		166
Investment income based on equity method	508		**369**		73
Other	5,280		**5,040**		95
Total	6,547	1.1	**6,668**	1.0	102
Other expenses					
Interest	2,854		**3,405**		119
Other	5,890		**6,355**		108
Total	8,744	1.5	**9,760**	1.5	112
Extraordinary profit					
Net gain on switch to definined contribution pension plan	144		—		—
Gain from the disposal of stocks of affiliated companies	91		**42**		46
Gain from the disposal of subsidiaries	—		**81**		—
Gains from sale of property and epuipment	407		**503**		124
Gain on sale of marketing rights	—		**91**		—
Extraordinary loss					
Loss on devaluation of property and equipment	(1,419)		—		—
Loss on impaired property and equipment	(1,607)		**(809)**		50
Extraordinary loss on revision of retirement benefit plan system	(14)		—		—
Environmental safety measure expenses	(1,553)		**(115)**		7
Loss on structural reform	(1,801)		**(3,098)**		172
Transfer to related company allowance for doubtful accounts	—		**(1,091)**		—
Legal settlement expenses	—		**(599)**		—
Other	(56)		**(73)**		130
Total	(5,808)	(1.0)	**(5,068)**	(0.8)	87
Income before income taxes and minority interests	39,497	6.7	**46,562**	7.2	118
Corporation and inhabitant taxes	9,919		**14,826**		149
Adjustment account for corporate tax	7,130		**4,740**		66
Minority interests	5,283	0.9	**4,934**	0.8	93
Net income	17,165	2.9	**22,062**	3.4	129

Consolidated Statement of Changes in Shareholders' Equity

Fiscal 2006 (Apr.1, 2006 - Mar.31, 2007)

(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 fiscal 2006					
Distribution of retained earnings	—	—	(3,460)	—	(3,460)
Directors' bonus	—	—	(177)	—	(177)
Net income for the fiscal 2006	—	—	22,062	—	22,062
Acquisition of treasury stock	—	—	—	(1,682)	(1,682)
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 fiscal 2006 of non shareholders' equity items	—	—	—	—	—
Total increase/decrease during the fiscal 2006	—	2	18,372	(1,680)	16,694
Balance as of March 31, 2007	26,284	36,703	139,720	(7,740)	194,967

(Millions of Yen)

	Valuation and Translation Adjustments					
	Unrealized Net Gain on Available-for-Sale Securities	Gain (loss) on Deferred Hedge Transactions	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments	Minority Interests	Total Net Assets
Balance as of March 31, 2006	4,045	—	(2,358)	1,687	53,497	233,457
Changes during the fiscal 2006						
Distribution of retained earnings	—	—	—	—	—	(3,460)
Directors' bonus	—	—	—	—	—	(177)
Net income for the fiscal 2006	—	—	—	—	—	22,062
Acquisition of treasury stock	—	—	—	—	—	(1,682)
Retirement of treasury stock	—	—	—	—	—	4
Increase/decrease due to changes in functional currencies of overseas consolidated companies	—	—	—	—	—	(53)
Net increase/decrease during the fiscal 2006 of non shareholders' equity items	(1,371)	—	3,172	1,801	(29,326)	(27,525)
Total increase/decrease during the fiscal 2006	(1,371)	—	3,172	1,801	(29,326)	(10,831)
Balance as of March 31, 2007	2,674	—	814	3,488	24,171	222,626

Consolidated Statements of Cash Flows

(Millions of Yen)

	End of 3/06	**End of 3/07**
Cash flows from operating activities		
Income before income taxes and minority interests	39,497	**46,562**
Depreciation and amortization	22,579	**24,392**
Cost of structural reform	1,801	**3,098**
Environmental safety measure expenses	1,553	**115**
Transfer to related company allowance for doubtful accounts	—	**1,091**
Legal settlement expenses	—	**599**
Increase (decrease) reserve for retirement benefits	(2,228)	**(2,206)**
Net gain on switch to defined contribution pension plan	(130)	—
Gain on sales of property and equipment	(559)	**(611)**
Loss on disposal of property, plant and equipment	1,758	**2,084**
Write down of property, plant and equipment	1,419	—
Loss on impaired property and equipment	1,607	**809**
Interest and dividends received	(759)	**(1,259)**
Interest charges	2,854	**3,405**
Decrease (increase) in receivables	(1,976)	**(13,674)**
Decrease (increase) in receivables for completed construction work	545	**57**
Decrease (increase) in inventories	(1,671)	**(14,870)**
Increase (decrease) in payables	9,164	**23,731**
Other	(4,924)	**(3,297)**
Subtotal	70,530	**70,026**
Amount paid for transfer to defined contribution pension plan	(1,477)	**(1,319)**
Amount paid for extra ordinary loss on structual reform	(918)	**(2,596)**
Interest and dividends	888	**1,389**
Interest paid	(2,805)	**(3,302)**
Income taxes paid	(10,671)	**(11,187)**
Net cash provided by operating activities	55,547	**53,011**
Cash flows from investment activities		
Proceeds from redemption of securities	12	—
Purchase of investment securities	(638)	**(5,733)**
Proceeds from sales of investment securities	587	**1,526**
Purchase of additional shares in consolidated subsidiary companies	—	**(86,647)**
Proceeds from sale of subsidiaries' common stock	87	**199**
Expenditures for acquisition of net property, plant and equipment	(28,808)	**(32,349)**
Proceeds from sale of property assets	2,269	**2,234**
Expenditures for acquisition of intangible fixed assets	(1,280)	**(1,545)**
Expenditures for acquisition of shares of newly consolidated subsidiaries	—	**181**
Other	(212)	**(449)**
Net cash used in investing activities	(27,983)	**(122,583)**
Cash flows from financing activities		
Decrease (increase) in short-term borrowings	(4,276)	**68,648**
Proceeds from long-term debt	659	**1,802**
Payments on long-term debt	(7,646)	**(9,888)**
Expenditures for redemption of bonds	(937)	**(3,666)**
Proceeds from sale of treasury stock	1	**4**
Purchase of treasury stock	(1,757)	**(1,682)**
Dividends paid to shareholders	(3,477)	**(3,460)**
Dividends paid to shareholders of subsidiaries	(620)	**(862)**
Net cash used in financing activities	(18,053)	**50,896**
Effect of exchange rate changes on cash and cash equivalents	1,770	**852**
Net increase (decrease) in cash and cash equivalents	11,281	**(17,824)**
Cash and cash equivalents at beginning of year	53,563	**64,844**
Effect of changes in consolidated subsidiaries	—	—
Cash and cash equivalents at end of year	64,844	**47,020**

Reconciliation of cash and deposits in banks in consolidated balance sheets at year end to cash and cash equivalents in consolidated statements of cash flows:

Cash and deposits in banks	35,569	**45,419**
Securities (Money Market Funds, etc.)	—	**1,601**
Cash pooling deposits	29,275	—
Cash and cash equivalents at end of year	64,844	**47,020**

Important Items that Form the Basis for Preparing Consolidated Financial Statements

1. Summary of Significant Accounting Practices

(1) Translation of material foreign currency denominated assets and liabilities into Japanese yen

All foreign currency denominated monetary receivables and payables are translated into yen amounts at the rates of exchange in effect on the consolidated balance sheet date with translation differences accounted for as profit or loss. Assets and liabilities of overseas subsidiaries are translated into yen amounts at the rates of exchange in effect on the consolidated balance sheet date. Revenue and expenses are translated into yen amounts at the average exchange rate for the fiscal year and the differences are included in foreign currency translation adjustments account and minority interests in the net assets section.

2. Amortization of Goodwill

Goodwill is amortized equally over the estimated useful life of each asset, not to exceed 20 years. The goodwill acquired through the Company's acquisition of NEOMAX Co., Ltd., through a successful tender offer for additional shares in the fiscal year under review, is being amortized equally over a 20-year period. The tender offer was made for the purpose of maximizing the Group's corporate value by unifying the management resources of its magnetic materials business, the core business of the Electronics and IT Devices segment, and increasing the business synergies between R&D, business development, *monozukuri* capability, and overseas development. The investment effects are expected to extend over a long-term period exceeding 20 years. Consequently, amortization was spread over the maximum 20-year period allowed in the preparation of consolidated financial statements. In addition, other goodwill was amortized equally over a 5-year period.

3. 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

Effective from the fiscal year under review, the Company has adopted the "Accounting Standard for Business Divestitures (Accounting Standards Board Statement No. 7, December 27, 2005)," and the "Guide on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standards Board Implementation Guidance No. 10, December 27, 2005)."

4. 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.

Business Segment Information

Fiscal previous Year (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

Year under review (Apr. 1, 2006 - Mar. 31, 2007) (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	**248,419**	**145,479**	**186,061**	**66,352**	**646,311**	**—**	**646,311**
Intersegment	**25,148**	**23,842**	**24,426**	**11,920**	**85,336**	**(85,336)**	**—**
Total sales	**273,567**	**169,321**	**210,487**	**78,272**	**731,647**	**(85,336)**	**646,311**
Operating costs and expenses	**249,265**	**151,252**	**196,414**	**76,259**	**673,190**	**(81,601)**	**591,589**
Operating income	**24,302**	**18,069**	**14,073**	**2,013**	**58,457**	**(3,735)**	**54,722**
Assets	**241,459**	**188,719**	**147,335**	**56,401**	**633,914**	**(4,324)**	**629,590**
Depreciation and amortization	**8,089**	**8,227**	**6,935**	**408**	**23,659**	**733**	**24,392**
Capital expenditures	**14,101**	**13,773**	**7,384**	**1,234**	**36,492**	**295**	**36,787**

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) 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 Other sales and services, Other

3. Corporate assets included on "Eliminations and corporate assets" at March 31, 2007 and March 31, 2006 totaled ¥39,656 million and ¥179 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, 2007 and March 31, 2006 amounted to ¥3,302 million and ¥2,920 million, rexpectively. Most of these costs were incurred at the corporate head office of the Company.

Geographical Segment Information

Fiscal previous Year (Apr.1, 2005 - Mar. 31, 2006) (Millions of Yen)

	Japan	North America	Asia	Other	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

Year under review (Apr. 1, 2006 - Mar. 31, 2007) (Millions of Yen)

	Japan	North America	Asia	Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	**465,996**	**78,486**	**74,467**	**27,362**	**646,311**	**—**	**646,311**
Intersegment	**82,090**	**13,899**	**40,645**	**736**	**137,370**	**(137,370)**	**—**
Total sales	**548,086**	**92,385**	**115,112**	**28,098**	**783,681**	**(137,370)**	**646,311**
Operating costs and expenses	**502,455**	**85,609**	**110,119**	**27,195**	**725,378**	**(133,789)**	**591,589**
Operating income	**45,631**	**6,776**	**4,993**	**903**	**58,303**	**(3,581)**	**54,722**
Assets	**501,213**	**55,817**	**73,412**	**14,871**	**645,313**	**(15,723)**	**629,590**

Notes:

1. Corporate assets included on "Eliminations and corporate assets" at March 31, 2007 and March 31, 2006 totaled ￥39,656 million and ￥179 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, 2007 and March 31, 2006 amounted to ￥3,302 million and ￥2,920 million, rexpectively. Most of these costs were incurred at the corporate head office of the Company.

Overseas Sales

Fiscal previous Year (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%

Year under review (Apr. 1, 2006 - Mar. 31, 2007) (Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	**70,565**	**145,541**	**34,697**	**8,593**	**259,396**
Consolidated sales	**—**	**—**	**—**	**—**	**646,311**
Overseas sales as a share of consolidated sales	**10.9%**	**22.5%**	**5.4%**	**1.3%**	**40.1%**

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

Tax Effect Accounting

1. Principal Components of Deferred Tax Assets and Liabilities

(Millions of Yen)

Deferred tax assets	Fiscal 2005 (Mar. 31,06)	**Fiscal 2006 (Mar. 31,07)**
Net operating losses carried forward	8,003	**3,530**
Reserve for retirement benefits/Reserve for directors' retirement bonuses	12,798	**11,646**
Employee pension trust	4,462	**3,870**
Elimination of unrealized profit on fixed assets	1,867	**1,867**
Amount in excess of limit on additions to allowance for doubtful receivables	499	**1,346**
Accrued bonuses	4,760	**4,854**
Taxable restructuring charges	229	**179**
Other	8,726	**8,191**
Subtotal	41,344	**35,483**
Reserves for valuation	(7,523)	**(5,818)**
Total deferred tax assets	33,821	**29,665**
Deferred tax liabilities		
Depreciation	(2,665)	**(2,811)**
Net unrealized gain (loss) on securities	(3,332)	**(2,087)**
Reserve under the Special Taxation Measures Law	(650)	**(745)**
Retained earnings at overseas affiliate companies	(2,338)	**(3,121)**
Other	(3,997)	**(3,706)**
Total deferred tax liabilities	(12,982)	**(12,470)**
Net deferred tax assets (liabilities)	20,839	**17,195**

2. Major Factors in the Difference between the Statutory Effective Tax Rate and the Actual Effective Income Tax Rate

(Millions of Yen)

	Fiscal 2005 (Mar. 31,06)	**Fiscal 2006 (Mar. 31,07)**
Statutory effective tax rate	40.4%	**40.4%**
(Adjustments)		
Items including entertainment expenses never recognized as a loss	0.9%	**0.7%**
Items including dividends received never recognized as a profit	(3.2%)	**(2.9%)**
Investment income based on the equity method	(0.5%)	**(0.3%)**
Differences in tax rates at overseas subsidiaries	(1.5%)	**(1.7%)**
Change in reserve for valuation	3.2%	**3.8%**
Amortization of goodwill	(0.7%)	**(0.6%)**
Non-recording of deferred tax assets on unrealized profit by companies with a deficit	0.8%	**0.3%**
Elimination of dividends from subsidiaries included in consolidation	4.1%	**5.0%**
Other	(0.3%)	**(2.7%)**
Actual effective income tax rate	43.2%	**42.0%**

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 3/07**		
	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	**3,951**	**9,818**	**5,867**
Bonds						
Government bonds and Municipal bonds	—	—	—	**—**	**—**	**—**
Corporate bonds	—	—	—	**—**	**—**	**—**
Other bonds	—	—	—	**—**	**—**	**—**
Other	—	—	—	**—**	**—**	**—**
Total	2,132	10,136	8,004	**3,951**	**9,818**	**5,867**
2. Balance sheet value does not exceed cost						
Stocks	194	179	(15)	**4,061**	**3,505**	**(556)**
Bonds						
Government bonds and Municipal bonds	—	—	—	**—**	**—**	**—**
Corporate bonds	1,001	995	(6)	**1,002**	**999**	**(3)**
Other bonds	—	—	—	**—**	**—**	**—**
Other	0	0	0	**1,609**	**1,609**	**0**
Total	1,195	1,174	(21)	**6,672**	**6,113**	**(559)**
Other Securities Total	3,327	11,310	7,983	**10,623**	**15,931**	**5,308**

(2) Securities without market price

	End of 3/06	**End of 3/07**
	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	**1,046**
Non-listed overseas bond	7	**—**
Total	1,249	**1,046**

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

	End of 3/06			**End of 3/07**		
	Contract value	Market price	Appraisal gain/loss	**Contract value**	**Market price**	**Appraisal gain/loss**
Exchange contract transactions:						
U.S. dollars (buy)	228	230	2	**237**	**239**	**2**
U.S. dollars (sell)	—	—	—	**42**	**42**	**0**
EURO(buy)	275	284	9	**161**	**162**	**1**
Currency swap transactions:						
Receipts yen payments dollars	12,700	(513)	(513)	**9,200**	**(324)**	**(324)**
Interest-rate swaps						
Receipts variable payments fixed	2,500	0	0	**0**	**0**	**0**
Total	—	—	(502)	**—**	**—**	**(321)**

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 2006 (Mar. 31,07)**
Present value of the obligation	(138,829)	**(136,664)**
Fair value of plan assets	102,584	**102,197**
Funded status	(36,245)	**(34,467)**
Unrecognized actuarial loss	14,110	**14,557**
Unrecognized prior service(benefit)cost *	(4,992)	**(4,509)**
Net amount recognized in consolidated balance sheets	(27,127)	**(24,419)**
Prepaid pension cost in consolidated balance sheets	2,275	**2,824**
Accrued retirement benefits recognized in consolidated balance sheets	(29,402)	**(27,243)**

Note:

* 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 2006 (Mar. 31,07)**
Service cost *	(4,029)	**(3,801)**
Interest cost	(3,631)	**(3,593)**
Expected return on plan assets	2,929	**2,906**
Amortization of unrecognized transitional obligation	—	**—**
Amortization of unrecognized actuarial loss	(2,987)	**(1,734)**
Amortization of unrecognized Prior service (benefit) cost	481	**482**
Gain (loss) on shift from tax-qualified pension plan	—	**(56)**
to defined contribution pension plan system	130	**—**
Amount paid following adoption of a defined-contribution pension system	(1,218)	**(1,165)**
Premium retirement and severance payment	(970)	**(3,228)**
Periodical pension cost recognized in consolidated statements of operations	(9,295)	**(10,189)**

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 2006 (Mar. 31,07)**
Discount rate	Mainly 2.5%	**Mainly 2.5%**
Expected rate of return on plan assets	Mainly 3.0%	**Mainly 2.5%**
Amortization period of unrecognized actuarial loss	Mainly14 years	**Mainly14 years**
Amortization period of unrecognized prior service benefit and cost	Mainly14 years	**Mainly14 years**