Hitachi Metals, Ltd. (Apr. 30, 2008)

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Consolidated Financial Report for the 12-month period ended March 31, 2008

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Listed Stock Exchanges: Tokyo and Osaka (First Section, Code 5486)
Scheduled Date of the Ordinary General Meeting of Shareholders: June 18, 2008

1. Performance over the year, April 1, 2007 to March 31,2008 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	**3/2008**	3/2007	(Change)
Net sales (million yen)	**701,075**	646,311	8.5%
Operating income (million yen)	**59,698**	54,722	9.1%
Income before income taxes and minority interests (million yen)	**51,427**	46,562	10.4%
Net income (million yen)	**27,034**	22,062	22.5%
Net income per share (yen)	**76.48**	63.81	
Diluted net income per share (yen)	—	—	
Net income to shareholders' equity (%)	**13.1**	11.7	
Operating income to net sales (%)	**8.5**	8.5	

Note: 1. Equity in losses(earnings) of affiliated companies: (12) million yen (previous year: 369 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 Position	**3/2008**	3/2007
Total assets (million yen)	**619,466**	629,590
Net assets (million yen)	**235,507**	222,626
Equity ratio (%)	**34.4**	31.5
Net assets per share (yen)	**604.22**	575.04

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

(3) Consolidated cash flows (million yen)	**3/2008**	3/2007
Cash flows from operating activities	**72,106**	53,011
Cash flows from investment activities	**38,112**	(122,583)
Cash flows from financing activities	**(31,498)**	50,896
Cash and cash equivalents at year-end	**47,821**	47,020

2. Dividend	**3/2008**	3/2007	3/2008 (Planed)
Annual dividend per share (yen)	**12.00**	10.00	14.00
Interim (yen)	**6.00**	5.00	7.00
End of period (yen)	**6.00**	5.00	7.00
Total dividend paid (full year) (million yen)	**4,239**	3,454	—
Consolidated dividend payout ratio (%)	**15.7%**	15.7%	—
Dividends to net assets (consolidated)	**2.0%**	1.8%	—

3. Forecasts of results for the term, April 1, 2008 to March 31, 2009

	Interim period	Year-on-year Change (%)	Full-year	Year-on-year Change (%)
Net sales (million yen)	349,000	0.8	710,000	1.3
Operating income (million yen)	28,000	5.4	61,000	2.2
Income before income taxes and minority interests (million yen)	25,800	5.6	56,600	10.1
Net income (million yen)	13,400	6.7	29,700	9.9
Net income per share (yen)	38.01	—	84.24	—

Note: The forecast figures, with the exception of actual results, are based on certain assumptions and predictions of the management at the time of preparation. Changes in business conditions or underlying assumptions may cause actual results may differ from those projected.

4. Other

(1) Changes in major subsidiaries during the period under review: None
For details, please refer to page 6.

(2) 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 17.

2) Changes other than those 1) above: None

(3) Numbers of shares issued (Common stock)

Number of shares outstanding at end of year (including treasury stock) 3/08: 366,557,889 3/07: 357,168,687

Number of treasury stock outstanding at end of year 3/08: 13,996,744 3/07: 12,051,101)

[Reference]

Non-consolidated Financial Report for the 12-month period ended March 31, 2008

1. Performance over the year, April 1, 2007 to March 31,2008 (Figures are rounded off to the nearest million yen)

(1) Operating results	**3/2008**	3/2007	(Change)
Net Sales (million yen)	**407,856**	302,896	34.7%
Operating income (million yen)	**21,696**	14,789	46.7%
Income before income taxes (million yen)	**22,533**	18,010	25.1%
Net income (million yen)	**13,590**	11,817	15.0%
Net income per share (yen)	**38.44**	34.18	
Diluted net income per share (yen)	—	—	

(2) Financial position	**3/2008**	3/2007
Total assets (million yen)	**428,292**	383,687
Net assets (million yen)	**144,313**	124,785
Equity ratio (%)	**33.7%**	32.5%
Net assets per share (yen)	**409.30**	361.55

Reference: Shareholders' equity (3/08: 144,313 3/07: 124,785)

2. Forecasts of results for the term, April 1, 2008 to March 31, 2009

	Interim period	Year-on-year Change (%)	Full-year	Year-on-year Change (%)
Net sales (million yen)	207,000	4.2	420,000	3.0
Operating income (million yen)	10,000	4.3	22,500	3.7
Income before income taxes (million yen)	13,500	4.3	27,300	21.2
Net income (million yen)	8,500	9.9	16,500	21.4
Net income per share (yen)	24.11	—	46.80	—

Note: The forecast figures, with the exception of actual results, are based on certain assumptions and predictions of the management at the time of preparation. Changes in business conditions or underlying assumptions may cause actual results may differ from those projected.

Consolidated subsidiaries: 88 companies

35 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.
HMY, Ltd.	Hitachi Metals Precision, Ltd.
HMW, Ltd.	Hitachi Valve, Ltd.
Tokyo Seimitsu Kogyo, Ltd.	Hitachi Metals Solutions, Ltd.

etc.

53 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.	Ward Manufacturing, LLC
SinterMet, LLC	Hitachi Metals (Suzhou) Valves & Fittings, Ltd.
Five Ace Technology Co., Ltd.	Baosteel Hitachi Rolls (Nan Tong) 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 None Companies removed 7
Equity method : New companies coming under equity method None Companies removed None

【Financial Performance】

1. Analysis of Consolidated Business Results

(1) Overview (fiscal year ended March 31, 2008)

Looking at the global economy throughout fiscal 2007, the 12-month period ended March 31, 2008, a slowdown in the U.S. economy became increasingly evident. This was attributable to the slump in residential housing investment and growing financial market instability triggered by sub-prime loan issues. In Asia, China continued to enjoy economic growth driven mainly by robust capital investment, while the ASEAN region and other countries, including Korea, also experienced ongoing economic expansion. Turning to regions outside the U.S. and Asia, signs of a slowdown in economic growth emerged throughout Europe.

On the domestic front, the pace of Japan's economic expansion slowed. Despite robust export and brisk manufacturing activities, operating conditions were impacted by sluggish personal consumption and a substantial drop in residential housing investment due to revisions to the Building Standards Law.

Conditions in the industries in which the Hitachi Metals Group operates were as follows. Activity within the automobile sector increased overall, with overseas production climbing particularly in Europe and Asia, while the upswing in export activity boosted production in Japan despite the drop in domestic demand. In the semiconductor industry, the market continued to expand on the back of increased demand for IT-related devices. The market for mobile phones also grew, reflecting persistent market expansion mainly in China and India. In personal computers, primarily of notebook computers, deliveries picked up. The steel industry continued to experience production growth, boosted mainly by robust export activity. In the domestic construction industry, private-sector capital investment declined, impacted by revisions to the Building Standards Law. The weak conditions were exacerbated by lackluster public investment in the wake of persistent government spending cutbacks.

Under these circumstances, the Hitachi Metals Group's net sales climbed 8.5% compared with the previous fiscal year to ¥701,075 million, mainly as a result of ongoing strong demand for automotive-related products and IT-related devices.

On the earnings front, operating income in the fiscal year under review increased ¥4,976 million year on year to ¥59,698 million. Despite the rise in global prices for raw materials, including rare metals, increased depreciation expenses resulting from revisions to the tax law as well as the amortization of goodwill in connection with the additional acquisition of NEOMAX Co., Ltd. in 2006, this improvement in income is attributable to revisions to selling prices and successful efforts to further reduce costs and expenses. Income before income taxes and minority interests also grew, rising ¥4,865 million compared with the previous fiscal year to ¥51,427 million.

Turning to extraordinary items, Hitachi Metals reported a gain on sale of land against such losses as the loss on structural reform of overseas businesses. As a result, net income rose ¥4,972 million to ¥27,034 million in the fiscal year under review.

Results by individual business segment are as follows. Sales amounts include intersegment sales and transfers.

High-Grade Metal Products and Materials

Sales in this segment totaled ¥292,370 million, an increase of 6.9% compared with the previous fiscal year. Operating income amounted to ¥28,664 million, up ¥4,362 million year on year.

Looking at principal product results, in the fiscal year under review, sales of molds and tool steels in Japan increased on the back of an upswing in mainly automotive-related demand, the introduction of new products and robust exports. In cutting tools, sales rose year on year buoyed by strong exports, primarily to Europe and Asia. In alloys for electronic products, sales of semiconductor and other package materials grew substantially, fueled by steady semiconductor production. While sales of LCD panel-related materials were essentially unchanged from the previous fiscal year, those of CRT display-related materials decreased drastically, reflecting the ongoing market transition to flat-panel displays. As a result, overall sales of alloys for electronic products declined year on year. In the fiscal year under review, sales of rolls were up owing to healthy export activity mainly to China while sales of injection molding machine parts declined year on year, impacted by market adjustments.

Electronics and IT Devices

Segment sales were ¥191,907 million, an increase of 13.3% compared with the previous fiscal year. Operating income totaled ¥20,277 million, up ¥2,208 million year on year.

On an individual principal product basis, sales of such permanent magnets as rare-earth magnets increased substantially. This was attributable to robust demand, particularly for magnets for use in hybrid automobiles and automotive equipment, particularly that related to electric power steering systems. Sales of ferrite magnets remained on par with the previous fiscal year. Accounting for these factors, overall sales of permanent magnets increased year on year. In soft magnetic materials, sales of soft ferrites declined reflecting the impact of inventory adjustments by primary customers and careful selection of products. Sales of FINEMET® were also down. Sales of amorphous metals, on the other hand, rose substantially on the back of continuing strong demand, mainly from China and India, for transformer-related applications. As a result, sales of soft magnetic materials increased significantly. Turning to devices for mobile phones, sales of isolators increased particularly for use in mobile phones and base stations. Coupled with an upswing in multilayered device sales mainly to China, overall results in mobile phone devices improved. In IT equipment materials and components, sales declined impacted by inventory adjustments by primary customers.

High-Grade Functional Components and Equipment

Sales in this segment increased 5.7% compared with the previous fiscal year to ¥222,453 million. On the earnings front, operating income climbed ¥2,154 million year on year to ¥16,227 million.

In ductile iron, domestic demand increased, particularly for trucks. This positive trend was further supported by an upswing in overseas demand and growth in the application of the Company's products. Accounting for these factors, overall sales improved year on year. Sales of heat-resistant exhaust casting components rose substantially, reflecting the high esteem in which the Company's products are held. This is particularly true in light of recent trends toward stricter environmental regulations, calls for improved fuel efficiency and continued robust demand, especially in Europe. In aluminum wheels, application of wide-rimmed products, an area in which Hitachi Metals holds significant competitive advantage, grew throughout the fiscal year under review together with persistent strong demand in Japan and overseas. This resulted in substantially higher aluminum wheel sales year on year. Sales of pipe fittings declined owing to the impact of changes in the material composition of piping components and a slump in the domestic building industry on the back of revisions to the Building Standards Law. This slump also contributed to a drop in sales of stainless steel and plastic piping components. Looking at infill and structural systems, sales of infill systems declined owing to overseas business reforms and cutbacks in capital investment by semiconductor-related firms. Boosted by robust private-sector capital investment, however, sales of structural systems increased.

Services and Other

Domestic and overseas sales were strong in this segment. Segment sales climbed 40.1% compared with the previous fiscal year to ¥109,663 million. Operating income on the other hand decreased ¥928 million year on year to ¥1,085 million.

(2) Outlook (fiscal year ending March 31, 2009)

Looking at the global economy in the fiscal year ending March 31, 2009, signs of a slowdown in the U.S. economy are expected to emerge due to the impact of growing instability in financial markets, a further slump in residential housing investment, an upswing in crude oil prices and inventory adjustments by the corporate sector. In Asia, China is forecast to enjoy continued economic growth. This expectation is tempered, however, by concerns regarding the impact on capital investment and exports of the government's tight monetary policies as well as appreciation in the cost of raw materials. In the ASEAN region and other countries, including Korea, economic activity is anticipated to slow because of the slump in the U.S. economy. Conditions in the United States are also forecast to negatively impact the European Continent.

While the impact of revisions to the Building Standards Law are expected to settle, the Japanese economy is still anticipated to confront difficult conditions. Economic activity is forecast to falter due to rising raw material prices, the slump in personal consumption and weak exports owing to the downturn in the global economy.

In the industries in which the Hitachi Metals Group operates, the automobile industry is expected to confront mixed conditions. On the one hand, overseas production is forecast to continue on an upward spiral, particularly in Europe and Asia. On the other hand, weak domestic demand and the downturn in exports due to appreciation in the value of the yen are anticipated to place pressure on domestic production. In the electronics and IT devices-related industries, particularly with regard to semiconductors, mobile phones and PCs, demand is forecast to grow in such countries as China and India. In the fiscal year ending March 31, 2009, however, pressures are expected to mount, driving down product sales prices. Buoyed by a recovery in domestic consumption, production in the steel industry is anticipated to remain high. At the same time, although private-sector investment is forecast to benefit as the effects of revisions to the Building Standards Law dissipate, construction is expected to remain weak owing to persistent constraints on public spending.

Against this backdrop, the Hitachi Metals Group will continue to implement a series of initiatives through fiscal 2008, the final year of its Medium-Term Management Plan. To date, the Group has successfully achieved the net sales and operating income targets of its Fiscal 2008 Plan; however, it continues to focus on its outstanding objectives of realizing new product sales equivalent to 30% of total sales and overseas sales equivalent to 45%. Moreover, Hitachi Metals remains committed to its cash flow management goals and efforts to improve capital efficiency. The Group will endeavor to reduce working capital, including inventories, further reorganize its cost structure, pursue productivity enhancements through the implementation of manufacturing process innovations and reinforce the competitiveness of volume zone products. Through these means, Hitachi Metals will raise the quality of its overall Group corporate structure as it looks toward its next medium-term management plan.

As a result of the aforementioned initiatives, Hitachi Metals' performance outlook for the fiscal year ending March 31, 2009 is as follows.

(Millions of yen)

	Net Sales	Operating Income	Income before Income Taxes and Minority Interests	Net Income
Consolidated	710,000	61,000	56,600	29,700
Non-Consolidated	420,000	22,500	27,300	16,500

2. Analysis of Consolidated Financial Position

As of March 31, 2008, cash and cash equivalents amounted to ¥47,821 million, a year-on-year increase of ¥801 million. During the fiscal year under review, Hitachi Metals experienced an increase in profits and improvements in working capital as well as increased earnings reflecting the decrease in financial requirements for the purchase of additional shares in consolidated subsidiaries. Collectively, this increase in funds more than offset the drop in financial requirements for repayment of interest-bearing debt and other obligations.

Net cash provided by operating activities totaled ¥72,106 million, up ¥19,095 million compared with the previous fiscal year. This was attributed to an increase in income before income taxes and minority interests of ¥4,865 million year on year to ¥51,427 million, as well as the contribution from an improvement in working capital mainly through decreases in receivables and inventories.

Net cash used in investing activities amounted to ¥38,112 million, a decrease of ¥84,471 million compared with the previous fiscal year. The primary factor for this result was the major impact of the acquisition of NEOMAX Co., Ltd. shares through a tender offer executed in the previous fiscal year, despite expenditures for the acquisition of property, plant and equipment totaling ¥43,139 million, up ¥10,790 million year on year.

Net cash used in financing activities amounted to ¥31,498 million, an increase of ¥82,394 million compared with the previous fiscal year. In September 2007, Hitachi Metals issued convertible bonds totaling ¥40,000 million with the aim of refinancing funds previously procured in connection with the aforementioned tender offer executed in the previous fiscal year. During the fiscal year under review, the Company also took steps to cutback its interest-bearing debt resulting in a decrease in short-term borrowings and repayment of other obligations. These factors contributed to the increase in funds used.

3. Dividend Policy / Dividend for the Next Fiscal Year

Changing customer needs and technologies coupled with advancing globalization characterize the current business environment. In this environment, Hitachi Metals considers its prime responsibility to be delivering 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 taking into full consideration the business environment as well as future business development and performance as it works toward its central aim of achieving growth over the medium to long term.

Hitachi Metals 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, the Company is developing new businesses and streamlining facilities to expand its production of highly competitive products and create a vibrant global network. In addition, the Company 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 execute flexible capital policies.

In connection with cash dividends for the fiscal year under review and the fiscal year ending March 31, 2009, Hitachi Metals plans to undertake the following payments after taking into consideration performance results for the fiscal under review, future business development and forecasts.

(Yen)

	Cash Dividends per Share		
Base Period	Interim Dividend	Fiscal Year-End Dividend	Annual Dividend
Fiscal year ended March 31, 2008	6.00 (Actual)	6.00 (Planned)	12.00(Planned)
Fiscal year ending March 31, 2009	7.00 (Planned)	7.00 (Planned)	14.00 (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 the electronics, automobile, construction and other related industries; economic trends in the United States, Asia, Europe and other regions of sales operation; changes in cash flow due to trends in capital investment and the status of sales activities; fluctuations in raw materials prices caused by the impact of international markets; the disturbance of business activities in overseas markets due to economic, social or political circumstances; a decline in capacity related to the securing of competitive superiority or the development and commercial application of new technologies and new products; conflicts related to intellectual property rights; increases in costs related to compliance issues or the settlement of legal and public issues related to environmental, export management and other regulations; and the incurrence of costs in the event of warnings, announcements and other orders of penalties in connection with a breach of relevant compliance issues or a product defect.

While the Hitachi Metals Group strives to avoid and minimize the impact of business risks through the maintenance of its risk management system, 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 of fulfilling its corporate social responsibilities in order to help 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

Consistent with its Fiscal 2008 Medium-Term Management Plan outlined later in this document and in line with its dividend policy, the Hitachi Metals Group will strive to achieve a consolidated ROE (Return on Equity) of 12% or more 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

Hitachi Metals is currently promoting its Fiscal 2008 Medium-Term Management Plan, which spans the three-year period beginning in the fiscal year ended March 31, 2007 through the fiscal year ending March 31, 2009. In the Fiscal 2008 Medium-Term Management Plan we set out business strategies that respond to global environmental protection needs. Through the Group's efforts, many Hitachi Metals products are closely linked with 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) initiated in line with the Energy Conservation Law. Our business strategies, including R&D activities and the expansion of our operations, accordingly reflect 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 place particular focus on:

・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 contribute to energy conservation and the elimination of the use of harmful substances.

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

The aims of the Fiscal 2008 Medium-Term Management Plan include surpassing consolidated ROE of 12%, ¥630 billion in net sales, ¥57 billion in operating income and ¥26 billion in net income in the fiscal year ending March 31, 2009, as well as realizing sustainable growth through global business expansion, new product generation and corporate structure reinforcement. To this end, Hitachi Metals formulated its Action Plan, which consists of the two initiatives outlined below. Against a backdrop of continued growth in both the global and Japanese economies during the period under review, Hitachi Metals achieved the numerical targets outlined in its Fiscal 2008 Medium-Term Management Plan. Nevertheless, while remaining conscious of the issue of improving the operating income margin, the Company will continue to work diligently to fulfill each of the aims and policies set out in the Action Plan as it strives to fortify its foundation for sustainable growth in the fiscal year ending March 31, 2009, the final year of the Fiscal 2008 Medium-Term Management Plan.

An outline of the Action Plan for the Medium-Term Management Plan

(1) Policies to Create Growth Drivers

a. Expand Global Business

The Hitachi Metals Group is working to strengthen the brand power of its products in every international market 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 United States 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 fiscal period ended March 31, 2007, Hitachi Metals established a joint venture company in China with Shanghai Baosteel Group to manufacture and market cast rolls for hot strip mills, a business that it is working to promptly get off the ground. In the automobile sector, an industry experiencing global growth, we will further strengthen our lineup of environmentally harmonious products for use in hybrid, diesel and gasoline vehicles. In energy, we will promote sales of energy-conserving amorphous metals in Asia with the aim of expanding demand. Also, in light of the changing market environment, Hitachi Metals is promoting a reexamination of manufacturing and sales structures to ensure the effective utilization of management resources. At the same time, the Company is taking steps to develop it human resources in support of overseas business development.

Along with these measures, we have set a goal of raising our overseas sales ratio to 45% by the fiscal year ending March 31, 2009. In the fiscal year under review, Hitachi Metals achieved an overseas sales ratio of 40.1% unchanged from 40.1% at the end of the previous fiscal year.

b. Create New Products

In research and development, the Hitachi Metals Group is selecting fields related to automobiles, electronics, energy and infrastructure and working aggressively with a focus on items within these fields. We are confident that backed by this strategy we can capture the number one position and triumph in the increasingly competitive global market.

Supported by lateral associations among the subsidiaries within the Hitachi Metals Group, we are advancing development efforts by concentrating the Group’s management resources while promoting more advanced R&D through cooperative research with university and public research laboratories. To date, we have launched innovative products that include new composition ferrite magnets, automobile exhaust filters/purifying materials, new transmission materials, alloys for thin-film deposition liquid crystal displays, multilayered ceramic devices for mobile communications, lead-free packaging materials for semiconductors, high-performance steel molds, molding steels for supersize plastic castings, high-performance surface treatment technologies, high-performance mill rolls, and advanced pipe fittings. Going forward, we will endeavor to accelerate the realization of the full potential of products that are currently being developed. In accordance with 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 renewing and revitalizing the composition of our product lineup as we endeavor to raise the new product sales ratio to 30% by the fiscal year ending March 31, 2009. For the fiscal year ended March 31, 2008, Hitachi Metals new product sales ratio was 27.7%, an increase of 1.3 percentage points from 26.4% at the end of the previous fiscal year.

(2) Establish a Robust Structure to Achieve Growth

a. Strengthen Financial Position

The Hitachi Metals Group is striving to improve operating income while endeavoring to reduce working capital in order to ensure adequate capital resources to fund 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 and thereby increase productivity. Efforts are also continually being 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 receipt through production and delivery, Hitachi Metals is committed to significantly reducing the number of days inventory is held and optimizing working capital.

b. Manufacturing Process Innovations

In order to thoroughly reinforce its *Monozukuri* capability, the Hitachi Metals Group is actively promoting the concentration of management resources in growth fields while strictly pursuing further productivity enhancements and implementing drastic reforms of the entire manufacturing process from raw material input through delivery on a Groupwide basis. With regard to volume zone products, such as tool steels, rolls, casting components for automobiles and piping components, we will continue to strengthen proprietary manufacturing technologies while pursuing cost innovations 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 into Hitachi Metals, creating NEOMAX Company, an internal company within the Hitachi Metals Group, with the aim of further bolstering competitive advantage. To enhance the Group's management efficiency, we intend to integrate sales and marketing centers as well as to consolidate corporate and administrative functions. At the same time, we will be looking to centralize our R&D structure in order to accelerate the development of innovative product applications. Through these actions, Hitachi Metals will secure its position as a leading magnetic materials company able to fulfill a variety of customer needs within both the permanent magnets and soft magnetic materials fields.

In June 2007, Hitachi Metals was issued a cease and desist order and surcharge payment order by the Japan Fair Trade Commission for violation of the Antimonopoly Law in relation to sales of polyethylene gas pipes and pipe fittings. In addition, through an independent internal investigation process, Hitachi Metals uncovered a breach of the Antimonopoly Law in relation to sales of flexible stainless steel gas pipes and pipe fittings. Hitachi Metals submitted its findings and an application for the surcharge leniency program to the Commission. The Company's application was approved in March 2008. Hitachi Metals deeply apologizes for the trouble and concern it has caused in this connection to its shareholders, investors, customers and all other stakeholders. Accordingly, we will take this opportunity to renew efforts to ensure strict and thorough observance of all laws and regulations.

Consolidated Balance Sheets

(Millions of Yen)

	End of 3/07	**End of 3/08**	(difference)
ASSETS			
Current assets			
Cash and deposits in banks	45,419	**36,856**	(8,563)
Trade notes and accounts receivable	133,660	**123,678**	(9,982)
Cash pooling deposits	–	**10,620**	10,620
Marketable securities	1,603	**345**	(1,258)
Inventories	121,871	**121,957**	86
Deferred tax assets	10,604	**10,510**	(94)
Other	13,096	**11,766**	(1,330)
Total current assets	326,253	**315,732**	(10,521)
Noncurrent assets:			
Net property, plant and equipment	209,103	**215,494**	6,391
Intangible assets	55,502	**55,334**	(168)
Other	38,732	**32,906**	(5,826)
Total noncurrent assets	303,337	**303,734**	397
Total assets	629,590	**619,466**	(10,124)
LIABILITIES			
Current liabilities			
Trade notes and accounts payable	97,501	**98,671**	1,170
Short-term debt	146,001	**71,961**	(74,040)
Current maturities of bonds	7,200	**11,249**	4,049
Accured operating expenses	22,647	**23,466**	819
Advance payments from customers	1,561	**1,151**	(410)
Deferred tax liabilities	65	**8**	(57)
Allowance for directors' bonuses	353	**258**	(95)
Other	28,502	**33,048**	4,546
Total current liabilities	303,830	**239,812**	(64,018)
Long-term debt, less current maturities	65,515	**67,217**	1,702
Convertible bonds	–	**40,000**	40,000
Reserve for retirement benefits	27,244	**25,891**	(1,353)
Reserve for directors' retirement bonuses	989	**902**	(87)
Allowance for loss on guarantees	–	**928**	928
Allowance for business losses	–	**1,136**	1,136
Allowance for environmental safety measures	1,516	**1,490**	(26)
Deferred tax liabilities	3,131	**1,028**	(2,103)
Negative goodwill	862	**1,433**	571
Other	3,877	**4,122**	245
Total liabilities	406,964	**383,959**	(23,005)
NET ASSETS			
Shareholders' equity			
Common stock	26,284	**26,284**	—
Capital surplus	36,703	**41,241**	4,538
Retained earnings	139,720	**161,488**	21,768
Less treasury stock, at cost	(7,740)	**(10,552)**	(2,812)
Total shareholders' equity	194,967	**218,461**	23,494
Valuation, translation adjustments and others			
Net unrealized holding losses(gains) on securities available-for-sale	2,674	**(208)**	(2,882)
Foreign currency translation adjustments	814	**(5,227)**	(6,041)
Total valuation, translation adjustments and others	3,488	**(5,435)**	(8,923)
Minority interests	24,171	**22,481**	(1,690)
Total Net Assets	222,626	**235,507**	12,881
Total liabilities and net assets	629,590	**619,466**	(10,124)

Consolidated Statements of Income

	Fiscal 2006 (Mar. 31,07)	Ratio to Sales (%)	**Fiscal 2007 (Mar. 31,08)**	Ratio to Sales (%)	(difference) (%)
Net sales	646,311	100.0	**701,075**	100.0	108
Cost of sales	504,089	78.0	**552,459**	78.8	110
Gross profit	142,222	22.0	**148,616**	21.2	104
Selling, general and administrative expenses	87,500	13.5	**88,918**	12.7	102
Operating income	54,722	8.5	**59,698**	8.5	109
Other income					
Interest and dividends	1,259		**1,445**		115
Equity in earnings of affiliated companies	369		—		—
Other	5,040		**7,163**		142
Total	6,668	1.0	**8,608**	1.2	129
Other expenses					
Interest	3,405		**3,855**		113
Other	6,355		**10,003**		157
Total	9,760	1.5	**13,858**	1.9	142
Extraordinary gains					
Gain on sales of property and equipment	503		**4,506**		896
Gain on sales of subsidiaries' and affiliates' common stock	123		**268**		218
Gain on sale of business	91		—		—
Gain on transfer to defined contribution pension plan	—		**115**		—
Extraordinary losses					
Loss on sales of property and equipment	(73)		—		—
Loss on disposal of fixed assets	—		**(661)**		—
Loss on impairment of property and equipment	(809)		**(192)**		24
Loss on structural reform	(3,098)		**(3,428)**		111
Allowance for doubtful accounts to affiliates	(1,091)		**(371)**		34
Allowance for loss on guarantees of affiliates' debt	—		**(928)**		—
Allowance for business losses of affiliates	—		**(1,136)**		—
Environmental safety measure expenses	(115)		—		—
Loss on transfer to defind contribution pension plan	—		**(236)**		—
Legal settlement expenses	(599)		**(291)**		49
Surcharge on violation of the Anititrust Law	—		**(667)**		—
Total	(5,068)	(0.8)	**(3,021)**	(0.4)	60
Income before income taxes and minority interests	46,562	7.2	**51,427**	7.3	110
Income taxes -current	14,826		**20,330**		137
Income taxes -deferred	4,740		**1,221**		26
Minority interests	4,934	0.8	**2,842**	0.4	58
Net income	22,062	3.4	**27,034**	3.9	123

Consolidated Statements of Changes in Net Assets

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					
Cash dividends	—	—	(3,460)	—	(3,460)
Bonuses to directors and corporate auditors	—	—	(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
Decrease due to changes in functional currencies of certain overseas subsidiaries	—	—	(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, Translation Adjustments and others					
	Net Unrealized Holding Gain on Securities Available-for-Sale	Gain (loss) on Deferred Hedge Transactions	Foreign Currency Translation Adjustments	Total Valuation, Translation Adjustments and others	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						
Cash dividends	—	—	—	—	—	(3,460)
Bonuses to directors and corporate auditors	—	—	—	—	—	(177)
Net income for the fiscal 2006	—	—	—	—	—	22,062
Acquisition of treasury stock	—	—	—	—	—	(1,682)
Retirement of treasury stock	—	—	—	—	—	4
Decrease due to changes in functional currencies of certain overseas subsidiaries	—	—	—	—	—	(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 Changes in Net Assets

Fiscal 2007 (Apr.1, 2007 - Mar.31, 2008)

(Millions of Yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2007	26,284	36,703	139,720	(7,740)	194,967
Changes during the fiscal 2007					
Cash dividends	—	—	(3,850)	—	(3,850)
Net income for the fiscal 2007	—	—	27,034	—	27,034
Acquisition of treasury stock	—	—	—	(2,814)	(2,814)
Retirement of treasury stock	—	2	—	2	4
Increase due to marger	—	4,536	—	—	4,536
Effect of the change in the reporting period of subsidiaries	—	—	(11)	—	(11)
Pension liability adjustments, net of tax	—	—	(1,405)	—	(1,405)
Net increase/decrease during the fiscal 2007 of non shareholders' equity items	—	—	—	—	—
Total increase/decrease during the fiscal 2007	—	4,538	21,768	(2,812)	23,494
Balance as of March 31, 2008	26,284	41,241	161,488	(10,552)	218,461

	Valuation, Translation Adjustments and others					
	Net Unrealized Holding Gain on Securities Available-for-Sale	Gain (loss) on Deferred Hedge Transactions	Foreign Currency Translation Adjustments	Total Valuation, Translation Adjustments and others	Minority Interests	Total Net Assets
Balance as of March 31, 2007	2,674	—	814	3,488	24,171	222,626
Changes during the fiscal 2007						
Cash dividends	—	—	—	—	—	(3,850)
Net income for the fiscal 2007	—	—	—	—	—	27,034
Acquisition of treasury stock	—	—	—	—	—	(2,814)
Retirement of treasury stock	—	—	—	—	—	4
Increase due to marger	—	—	—	—	—	4,536
Effect of the change in the reporting period of subsidiaries	—	—	—	—	—	(11)
Pension liability adjustments, net of tax	—	—	—	—	—	(1,405)
Net increase/decrease during the fiscal 2007 of non shareholders' equity items	(2,882)	—	(6,041)	(8,923)	(1,690)	(10,613)
Total increase/decrease during the fiscal 2007	(2,882)	—	(6,041)	(8,923)	(1,690)	12,881
Balance as of March 31, 2008	(208)	—	(5,227)	(5,435)	22,481	235,507

Consolidated Statements of Cash Flows

(Millions of Yen)

	End of 3/07	**End of 3/08**
Cash flows from operating activities		
Income before income taxes and minority interests	46,562	**51,427**
Depreciation and amortization	24,392	**29,385**
Goodwill and negative goodwill amortization	—	**1,990**
Cost of structural reform	3,098	**3,428**
Environmental safety measure expenses	115	—
Allowance for doubtful accounts to affiliates	1,091	**371**
Allowance for loss on guarantees of affiliates' debt	—	**928**
Allowance for business losses of affiliates	—	**1,136**
Legal settlement expenses	599	**291**
Decrease in accrued retirement benefits	(2,206)	**(1,381)**
Gain on sales of property and equipment	(611)	**(5,019)**
Loss on disposal of property, plant and equipment	2,084	**1,840**
Loss on impaired property and equipment	809	**192**
Interest and dividends received	(1,259)	**(1,445)**
Interest charges	3,405	**3,855**
Decrease (increase) in receivables	(13,674)	**6,400**
Increase in inventories	(14,870)	**(1,959)**
Increase in payables	23,731	**2,346**
Other	(3,240)	**(566)**
Subtotal	70,026	**93,219**
Loss on transfer to defined contribution pension plan	(1,319)	**(47)**
Amount paid for structual reform	(2,596)	**(928)**
Interest and dividends received	1,389	**1,556**
Interest paid	(3,302)	**(3,830)**
Income taxes paid	(11,187)	**(17,864)**
Net cash provided by operating activities	53,011	**72,106**
Cash flows from investing activities		
Proceeds from redemption of securities	—	**1,000**
Purchase of investment securities	(5,733)	**(1,321)**
Proceeds from sales of investment securities	1,526	**774**
Purchases of additional shares in consolidated subsidiaries	(86,647)	**(406)**
Proceeds from sales of subsidiaries' common stock	199	**778**
Expenditures for acquisition of property, plant and equipment	(32,349)	**(43,139)**
Preceeds from sales of property, plant and equipment	2,234	**7,981**
Expenditures for acquisition of intangible assets	(1,545)	**(3,054)**
Proceeds from sale of business	181	—
Other	(449)	**(725)**
Net cash used in investing activities	(122,583)	**(38,112)**
Cash flows from financing activities		
Decrease (increase) in short-term borrowings	68,648	**(83,016)**
Proceeds from long-term debt	1,802	**14,571**
Repayment of long-term debt	(9,888)	**(10,723)**
Proceeds from issue of bonds	—	**60,000**
Redemption of bonds	(3,666)	**(7,108)**
Proceeds from sale of treasury stock	4	**5**
Purchases of treasury stock	(1,682)	**(2,814)**
Dividends paid to shareholders	(3,460)	**(3,850)**
Dividends paid to minority shareholders	(862)	**(566)**
Capital contribution from minority shareholders	—	**2,003**
Net cash used in (provided by) financing activities	50,896	**(31,498)**
Effect of exchange rate changes on cash and cash equivalents	852	**(1,695)**
Net increase (decrease) in cash and cash equivalents	(17,824)	**801**
Cash and cash equivalents at beginning of year	64,844	**47,020**
Effect of changes in consolidated subsidiaries	—	**—**
Cash and cash equivalents at end of year	47,020	**47,821**

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	45,419	**36,856**
Securities (Money Market Funds, etc.)	1,601	**345**
Cash pooling deposits	—	**10,620**
Cash and cash equivalents at end of year	47,020	**47,821**

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Foreign currency translation and Translation of foreign currency financial statements

All foreign currency 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.

3. Changes in Accounting Standards

(1) Depreciation Method for Property, Plant and Equipment

Pursuant to a revision of the Corporation Tax Law, and effective from the interim period of the fiscal year ending March 31, 2008, depreciation of property, plant and equipment acquired by Hitachi Metals and its domestic consolidated subsidiaries on and after April 1, 2007 is calculated in accordance with the revised Corporation Tax Law. As a result of this change in accounting policy, operating income and income before income taxes and minority interests each decreased by ¥897 million.

(Additional Information)

Pursuant to a revision of the Corporation Tax Law, depreciation of assets acquired prior to March 31, 2007 by Hitachi Metals and its domestic consolidated subsidiaries are calculated in accordance with the Corporation Tax Law prior to its revision. Accordingly, when the residual value after depreciation in any particular fiscal year reaches 5% of the acquisition cost, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum value is amortized on a straight-line basis over five years from the following fiscal year and included in depreciation expense. Compared with the previously existing method, operating income and income before income taxes and minority interests each decreased by ¥1,533 million.

(2) Accounting Standard for the Measurement of Inventories

From the interim period of the fiscal year ending March 31, 2008, Hitachi Metals adopted Accounting Standards Board of Japan Statement No. 9, “Accounting Standard for the Measurement of Inventories,” issued on July 5, 2006, which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. As a result, inventories that are not held in the ordinary course of Hitachi Metals’ business, previously recorded under other expenses, are recorded under cost of sales from the fiscal period under review. On this basis, operating income declined by ¥1,409 million and income before income taxes and minority interests declined by ¥530 million, respectively.

Business Segment Information

Fiscal previous Year (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

Year under review (Apr. 1, 2007 - Mar. 31, 2008) (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	**259,688**	**154,082**	**193,481**	**93,824**	**701,075**	**—**	**701,075**
Intersegment	**32,682**	**37,825**	**28,972**	**15,839**	**115,318**	**(115,318)**	**—**
Total sales	**292,370**	**191,907**	**222,453**	**109,663**	**816,393**	**(115,318)**	**701,075**
Operating costs and expenses	**263,706**	**171,630**	**206,226**	**108,578**	**750,140**	**(108,763)**	**641,377**
Operating income	**28,664**	**20,277**	**16,227**	**1,085**	**66,253**	**(6,555)**	**59,698**
Assets	**262,589**	**190,048**	**143,213**	**48,998**	**644,848**	**(25,382)**	**619,466**
Depreciation and amortization	**10,063**	**10,826**	**7,554**	**501**	**28,944**	**441**	**29,385**
Capital expenditures	**22,052**	**13,350**	**10,704**	**3,079**	**49,185**	**142**	**49,327**

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	High-grade specialty steels[YSS™] Molds and tool steels, Alloys for electronic products(display-related、semiconductor and other packages), automotive products(piston ring and CVT belt materials) and other infrastructure products Rolls for steel mill, Injection molding machine parts, Ceramic products and steel-frame joints for construction, Cutting tools, Other
Electronics and IT Devices	Permanent magnets (ferrite, rare-earth[NEOMAX®], casting) and applied products Amorphous metals [METGLAS®] and applied devices Multilayered devices and isolators for mobile phone, Optical devices Soft ferrite core, Nanocrystalline magnetic materials [FINEMET®] and applied devices
High-Grade Functional Components and Equipment	Heat-resistant exhaust casting components[HERCUNITE®], Ductile iron[HNM™] Aluminum wheels[SCUBA®] , other aluminum components Piping and infrastructure components(Gourd® pipe fittings, stainless steel and plastic piping components) Construction components including infill amd structural systems
Services and Other	Other sales and services, Other

3. Corporate assets included on "Eliminations and corporate assets" at March 31, 2008 and March 31, 2007 totaled ￥17,745 million and ￥39,656 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, 2008 and March 31, 2007 amounted to ￥6,174 million and ￥3,302 million, respectively. Most of these costs were incurred at the corporate head office of the Company.

Geographical Segment Information

Fiscal previous Year (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

Year under review (Apr. 1, 2007 - Mar. 31, 2008) (Millions of Yen)

	Japan	North America	Asia	Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	**493,564**	**82,199**	**92,265**	**33,047**	**701,075**	**—**	**701,075**
Intersegment	**96,784**	**14,885**	**43,256**	**676**	**155,601**	**(155,601)**	**—**
Total sales	**590,348**	**97,084**	**135,521**	**33,723**	**856,676**	**(155,601)**	**701,075**
Operating costs and expenses	**539,148**	**90,610**	**128,715**	**32,335**	**790,808**	**(149,431)**	**641,377**
Operating income	**51,200**	**6,474**	**6,806**	**1,388**	**65,868**	**(6,170)**	**59,698**
Assets	**509,081**	**53,376**	**75,605**	**14,942**	**653,004**	**(33,538)**	**619,466**

Notes:

1. Corporate assets included on "Eliminations and corporate assets" at March 31, 2008 and March 31, 2007 totaled ￥17,745 million and ￥39,656 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, 2008 and March 31, 2007 amounted to ￥6,174 million and ￥3,302 million, respectively. Most of these costs were incurred at the corporate head office of the Company.

Overseas Sales

Fiscal previous Year (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%

Year under review (Apr. 1, 2007 - Mar. 31, 2008) (Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	**71,602**	**158,201**	**42,121**	**9,213**	**281,137**
Consolidated sales	**—**	**—**	**—**	**—**	**701,075**
Overseas sales as a share of consolidated sales	**10.2%**	**22.6%**	**6.0%**	**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.

Income Taxes

1. Principal Components of Deferred Tax Assets and Liabilities

	Fiscal 2006 (Mar. 31,07)	**Fiscal 2007 (Mar. 31,08)**
	(Millions of Yen)	
Deferred tax assets		
Net operating loss carryforwards	3,530	**1,575**
Provision for retirement and severance benefits	11,646	**10,536**
Employee pension trust	3,870	**3,121**
Elimination of unrealized profit on fixed assets	1,867	**1,867**
Allowance for doubtful accounts	1,346	**760**
Accrued bonuses	4,854	**5,016**
Taxable restructuring charges	179	**132**
Other	8,191	**11,381**
Subtotal	35,483	**34,388**
Less : valuation allowance	(5,818)	**(4,971)**
Total deferred tax assets	29,665	**29,417**
Deferred tax liabilities		
Depreciation	(2,811)	**(1,868)**
Net unrealized holding losses on securities	(2,087)	**—**
Special tax-purpose reserve	(745)	**(1,189)**
Retained earnings at overseas affiliated companies	(3,121)	**(3,405)**
Other	(3,706)	**(4,077)**
Total deferred tax liabilities	(12,470)	**(10,539)**
Net deferred tax assets	17,195	**18,878**

2. A Reconciliation Between the Statutory Income Tax Rate and the Effective Income Tax Rate

	Fiscal 2006 (Mar. 31,07)	**Fiscal 2007 (Mar. 31,08)**
	(Millions of Yen)	
Statutory income tax rate	40.4%	**40.4%**
(Adjustments)		
Expenses not deductible for tax purposes	0.7%	**1.1%**
Income not recognizable for tax purposes	(2.9%)	**(2.8%)**
Equity in earnings of affiliated companies	(0.3%)	**(0.0%)**
Differences in statutory tax rates at overseas subsidiaries	(1.7%)	**(2.5%)**
Change in the balance of valuation allowance for deferred tax assets	3.8%	**(1.0%)**
Amortization of goodwill	(0.6%)	**1.6%**
Non-recording of deferred tax assets on unrealized profit by companies with a deficit	0.3%	**(0.4%)**
Elimination of dividends from subsidiaries included in consolidation	5.0%	**4.8%**
Other	(2.7%)	**0.7%**
Effective income tax rate	42.0%	**41.9%**

Marketable Securities and Derivative Financial Instruments

1.Securities (Millions of Yen)

(1) Available-for-sale securities

	End of 3/07			**End of 3/08**		
	Acqusition cost	**Fair value**	**Unrealized gains(losses)**	Acqusition cost	Fair value	Unrealized gains(losses)
Bond for maturity:						
Government bonds and Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other bonds	—	—	—	—	—	—
Total	—	—	—	—	—	—
Other securities:						
1. Balance sheet value exceeds cost						
Equity securities	3,951	9,818	5,867	**1,439**	**4,378**	**2,939**
Bonds						
Government bonds and Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	3,951	9,818	5,867	**1,439**	**4,378**	**2,939**
2. Balance sheet value does not exceed cost						
Equity securities	4,061	3,505	(556)	**7,594**	**4,752**	**(2,842)**
Bonds						
Government bonds and Municipal bonds	—	—	—	—	—	—
Corporate bonds	1,002	999	(3)	**2**	**2**	**0**
Other bonds	—	—	—	—	—	—
Other	1,609	1,609	0	**1,693**	**1,693**	**0**
Total	6,672	6,113	(559)	**9,289**	**6,447**	**(2,842)**
Other Securities Total	10,623	15,931	5,308	**10,728**	**10,825**	**97**

(2) Non-marketable avairable -for-sale securities

	End of 3/07	**End of 3/08**
	Acquisition cost	**Acquisition cost**
Bond for maturity:		
Government bonds or Municipal bonds	—	—
Corporate bonds	—	—
Other bonds	—	—
Total	—	—
Other Securities:		
Unlisted equity securities	1,046	**1,238**
Other	—	—
Total	1,046	**1,238**

2. The contracted amounts and estimated fair value of the open derrivatives positions (Millions of Yen)

	End of 3/07			**End of 3/08**		
	Contract value	Fair value	Unrealized gain(loss)	**Contract value**	**Fair value**	**Unrealized**
Exchange contract transactions:						
U.S. dollars (buy)	237	239	2	**517**	**496**	**(21)**
U.S. dollars (sell)	42	42	0	**48**	**45**	**3**
EURO(buy)	161	162	1	**243**	**241**	**(2)**
Currency swap transactions:						
Receipts yen payments dollars	9,200	(324)	(324)	**7,200**	**872**	**872**
Total	—	—	(321)	—	—	**852**

Retirement Benefits

(a) Summary of Retirement and Pension Plans:

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 plans.

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

The Company and its certain subsidiaries have implemented defined contribution pension plans.

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

	Fiscal 2006 (Mar. 31,07)	**Fiscal 2007 (Mar. 31,08)**
Projected benefit obligation	(136,664)	**(131,345)**
Plan assets at fair value	102,197	**87,456**
Funded status	(34,467)	**(43,889)**
Unrecognized actuarial loss	14,557	**24,760**
Unrecognized prior service(benefit)cost *	(4,509)	**(5,324)**
Net amount recognized in consolidated balance sheets	(24,419)	**(24,453)**
Prepaid pension cost in consolidated balance sheets	2,824	**1,438**
Accrued retirement benefits recognized in consolidated balance sheets	(27,243)	**(25,891)**

Note:

* Certain subsidiaries have adopted a simplified method of calculation in determing their projected benefit obligations.

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

	Fiscal 2006 (Mar. 31,07)	**Fiscal 2007 (Mar. 31,08)**
Service cost *	(3,801)	**(3,788)**
Interest cost	(3,593)	**(3,508)**
Expected return on plan assets	2,906	**2,835**
Amortization of unrecognized actuarial loss	(1,734)	**(1,914)**
Amortization of unrecognized Prior service (benefit) cost	482	**472**
Loss on termination of defined benefit pension plan	(56)	**—**
Loss on transfer for lump-sum pension plan to defined contribution pension plan	—	**(121)**
Contributions to defined contribution	(1,165)	**(1,461)**
Premium retirement and severance payment	(3,228)	**(1,373)**
Periodic pension cost recognized in consolidated statements of income	(10,189)	**(8,858)**

Note:

* The cost for the consolidated subsidiaries to adopt a simplified method in accounting for retirement benefit has been included in service cost.

(d) Actuarial assumptions

Methods of attribution to periods	Fiscal 2006 (Mar. 31,07)	**Fiscal 2007 (Mar. 31,08)**
Discount rate	Mainly 2.5%	**Mainly 2.5%**
Expected rate of return on plan assets	Mainly 2.5%	**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**