

Hitachi Metals, Ltd. (July 30, 2008)

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Consolidated Financial Report for the first quarterly ended June 30, 2008

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Listed Stock Exchanges: Tokyo and Osaka (First Section, Code 5486)

1. Performance over the year, April 1, 2008 to June 30, 2008 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	6/08(quarter)	6/07(quarter)	(Change)	3/08
Net sales (million yen)	175,599	172,371	1.9%	701,075
Operating income (million yen)	15,421	12,538	23.0%	59,698
Income before income taxes and minority interests (million yen)	17,423	17,105	1.9%	51,427
Net income (million yen)	8,670	8,590	0.9%	27,034
Net income per share (yen)	24.59	24.25		76.48
Diluted net income per share (yen)	—	—		—

(2) Consolidated Financial Position	6/08(quarter)	3/08
Total assets (million yen)	626,010	619,466
Net assets (million yen)	240,969	235,507
Equity ratio (%)	35.0	34.4
Net assets per share (yen)	620.98	604.22

Note: Shareholders' equity (6/08: 218,919 6/07: 213,026)

2. Dividend	6/08(quarter)	6/07(quarter)	3/09 (Planned)
Annual dividend per share (yen)	—	—	14.00
Interim (yen)	—	—	7.00
End of period (yen)	—	—	7.00
Total dividend paid (full year) (million yen)	—	—	—
Consolidated dividend payout ratio (%)	—	—	—
Dividends to net assets (consolidated)	—	—	—

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	—	84.25	—

Business results for the first quarter of the fiscal year ending March 31, 2009 have progressed steadily in line with plans. While current economic conditions are characterized by a certain level of uncertainty due to a variety of factors including fluctuations in the price of raw materials and global economic trends, consolidated business results for the interim and full fiscal year periods remain unchanged from forecasts previously announced on April 30, 2008.

4. Other

(1) Changes in major subsidiaries during the period under review: None

(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)

Changes resulting from revisions to accounting standards: For details, Please refer to page 8.

(3) Numbers of shares issued (Common stock)

Number of shares outstanding at end of year (including treasury stock) 6/08: 366,557,889 6/07: 366,557,889

Number of treasury stock outstanding at end of year 6/08: 14,020,680 6/07: 13,996,744

Number of shares average at end of year 6/08: 352,547,583 6/07: 354,158,655

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.

【Qualitative Information and Financial Statements】

1. Qualitative Information Regarding Consolidated Business Results

During the first quarter of the fiscal year ending March 31, 2009, conditions throughout the global economy were mixed. Impacted by a slowdown in residential investment and mounting financial sector uncertainty, the U.S. economy continued to exhibit signs of an overall downturn. In Asia, on the other hand, economic growth was sound, particularly in China where capital investment remained robust. While economies continued to expand throughout the Association of Southeast Asian Nations, economic growth in Europe was modest.

On the domestic front, personal consumption was sluggish. Coupled with a slowdown in overall production in line with weak export activity, economic growth in Japan stalled.

Conditions in the industries in which the Hitachi Metals Group operates were generally sound. Activity within the automobile sector increased, with overseas production climbing particularly in Europe and Asia. Despite the drop in domestic demand, production in Japan was boosted by export activity. In the semiconductor industry, the market remained steady on the back of increased demand for IT-related devices. The market for mobile phones also grew, reflecting persistent market expansion mainly in Asia. In personal computers, deliveries picked up, primarily to Asia and Europe. The steel industry continued to experience production growth, boosted mainly by export activity. On a negative note, the domestic construction industry maintained its downward spiral. This was attributable to a drop in private-sector capital investment, impacted by revisions to the Building Standards Law and lackluster public investment in the wake of government spending cutbacks.

Under these circumstances, the Hitachi Metals Group's net sales climbed 1.9% compared with the corresponding period of the previous fiscal year to ¥175,599 million, mainly as a result of continuous robust demand from its primary customers in the automobile and IT-related industries.

From a profit perspective, operating income was ¥15,421 million. Despite the rise in global prices for raw materials, including rare metals, Hitachi Metals took steps to revise sales prices and to further reduce costs and expenses. In the first quarter of the fiscal year under review, income before income taxes and minority interests was ¥17,423 million. Net income amounted to ¥8,670 million.

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

High-Grade Metal Products and Materials

Sales in this segment totaled ¥79,464 million, an increase of 12.4% compared with the corresponding period of the previous fiscal year. Operating income was ¥7,721 million.

Overall sales of molds and tool steels increased. This was attributable to an upswing in domestic demand, mainly from the automobile industry and steady export activity primarily to Asia. Sales of cutting tools were also firm boosted mainly by automobile industry demand. Turning to alloys for electronic products, overall sales were flat year on year excluding the impact of a change in the transfer of segment control of certain products. Despite a drop in semiconductor and other packages reflecting the affects of production adjustments in the memory industry, weak results were offset by

demand growth in Asia for LCD panel-related materials. For rolls, demand increased mainly in Japan and China, while sales climbed for injection molding machine parts driven by robust demand for mid-sized injection molding machinery components.

Electronics and IT Devices

Segment sales were ¥42,948 million, a decrease of 7.6% compared with the corresponding period of the previous fiscal year. This was in part attributable to the transfer of segment control of certain products. Operating income totaled ¥5,442 million.

Overall sales of permanent magnets climbed substantially year on year. Despite flat ferrite magnet sales, results were attributable to significant growth in rare earth magnets on the back of robust demand from automobile-related industries, particularly for use in hybrid automobiles and electric power steering systems. In soft magnetic materials, FINEMET[®] sales were down. Results in soft ferrites, however, recovered following a period of inventory adjustment by primary customers. Sales of amorphous metals rose substantially on the back of continuing strong demand, mainly from China and India, for transformer-related applications. Taking the aforementioned into consideration, sales of soft magnetic materials improved overall. Turning to mobile phone devices, sales of isolators rose on the back of strong demand for use in terminals and base stations. These gains were more than offset, however, by the drop in sales of multilayered devices reflecting inventory adjustments by customers particularly in China. As a result, overall sales of mobile phone components declined compared with the corresponding period of the previous fiscal year.

High-Grade Functional Components and Equipment

Sales in this segment decreased 0.5% year on year to ¥52,388 million. On the earnings front, operating income was ¥2,920 million.

In ductile iron, sales increased year on year owing to robust demand in Japan. Buoyed by strong demand mainly from Europe, sales of heat-resistant castings increased year on year. In aluminum wheels, demand was stagnant year-on-year in Japan. Results were, however, boosted by persistent robust demand from North America. As a result, overall sales increased. Buffeted by the impacts of changes in the material composition of piping components and a slump in the domestic building industry due to revisions to the Building Standards Law, sales of pipe fittings declined. On a year-on-year basis, demand in Japan remained flat for stainless steel and plastic piping components. Coupled with the slump in U.S. demand, overall sales declined. Sales of access flooring systems grew considerably, spurred by an upswing in office-related demand in line with urban redevelopment. Results in structural systems also improved on the back of stable capital investment.

Services and Other

Both domestic and overseas sales in the Services and Other segment were robust. As a result, overall results climbed 3.9% compared with the corresponding period of the previous fiscal year to ¥28,322 million, while operating income amounted to ¥749 million.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

As of the end of the first quarter of the fiscal year ending March 31, 2009, cash and cash equivalents stood at ¥44,658 million, down ¥3,163 million compared with April 1, 2008. This reflects the increase in working capital and proactive capital investment that exceeded depreciation and amortization during the period under review.

Details of cash flow activities are provided briefly as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥7,116 million, down ¥2,381 million from the corresponding period of the previous fiscal year. While income before income taxes and minority interests totaled ¥17,423 million, up ¥318 million year on year, working capital, including notes and accounts receivable–trade and inventories, increased.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥9,351 million, up ¥3,078 million from the corresponding period of the previous fiscal year. During the period under review, the purchase of property, plant and equipment totaled ¥10,113 million, down ¥2,584 million year on year. Proceeds from sales of property, plant and equipment, on the other hand, was ¥743 million, ¥5,530 million lower compared with the corresponding period of the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities declined ¥2,438 million year on year to ¥308 million. The principal component was proceeds from long-term loans payable of ¥4,182 million, up ¥4,182 million compared with the corresponding period of the previous fiscal year.

3. Qualitative Information Regarding Forecasts

Business results for the first quarter of the fiscal year ending March 31, 2009 have progressed steadily in line with plans. While current economic conditions are characterized by a certain level of uncertainty due to a variety of factors including fluctuations in the price of raw materials and global economic trends, consolidated business results for the interim and full fiscal year periods remain unchanged from forecasts previously announced on April 30, 2008.

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 6/08	End of 3/08	(difference)
ASSETS			
Current assets			
Cash and deposits	35,786	36,856	(1,070)
Notes and accounts receivable-trade	125,688	123,678	2,010
Deposit paid in subsidiaries and affiliates	8,852	10,620	(1,768)
Finished goods	40,198	36,629	3,569
Semi-finished goods	10,941	10,643	298
Raw materials	41,629	36,834	4,795
Work in process	39,558	37,851	1,707
Other	21,450	23,100	(1,650)
Allowance for doubtful accounts	(526)	(479)	(47)
Total current assets	323,576	315,732	7,844
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	58,982	59,723	(741)
Machinery, equipment and vehicles, net	85,166	83,800	1,366
Land	52,471	53,031	(560)
Other, net	17,691	18,940	(1,249)
Total property, plant and equipment	214,310	215,494	(1,184)
Intangible assets			
Goodwill	49,091	49,931	(840)
Other	5,528	5,403	125
Total investments and other assets	33,505	32,906	599
Total noncurrent assets	302,434	303,734	(1,300)
Total assets	626,010	619,466	6,544
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	105,569	98,671	6,898
Short-term loans payable	63,004	50,981	12,023
Current portion of long-term loans payable	19,556	20,980	(1,424)
Current portion of bonds	1,488	11,249	(9,761)
Income taxes payable	8,633	11,942	(3,309)
Provision	106	294	(188)
Other	40,420	45,695	(5,275)
Total current liabilities	238,776	239,812	(1,036)
Noncurrent liabilities			
Bonds payable	39,000	40,008	(1,008)
Convertible bond-type bonds with subscription rights to shares	40,000	40,000	—
Long-term loans payable	30,927	27,209	3,718
Provision for retirement benefits	25,959	25,891	68
Other provision	4,119	4,456	(337)
Other	6,260	6,583	(323)
Total noncurrent liabilities	146,265	144,147	2,118
Total liabilities	385,041	383,959	1,082
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	—
Capital surplus	41,241	41,241	—
Retained earnings	168,016	161,488	6,528
Treasury stock	(10,591)	(10,552)	(39)
Total shareholders' equity	224,950	218,461	6,489
Valuation, translation adjustments			
Valuation difference on available-for-sale securities	465	(208)	673
Foreign currency translation adjustments	(6,496)	(5,227)	(1,269)
Minority interests	22,050	22,481	(431)
Total Net Assets	240,969	235,507	5,462
Total liabilities and net assets	626,010	619,466	6,544

Consolidated Quarterly Statements of Income

(Millions of Yen)

	1st quarter fscal 2008 (Jun.30.08)	Ratio to Sales (%)	1st quarter fscal 2007 (Jun.30.07)	Ratio to Sales (%)	(difference) (%)
Net sales	175,599	100.0	172,371	100.0	102
Cost of sales	138,976	79.1	136,605	79.3	102
Gross profit	36,623	20.9	35,766	20.7	102
Selling, general and administrative expenses	21,202	12.1	23,228	13.5	91
Operating income	15,421	8.8	12,538	7.3	123
Non-operating income					
Interest income	167		227		74
Dividends income	106		98		108
Foreign exchange gains	1,929		1,477		131
Other	1,887		1,588		119
Total non-operating income	4,089	2.3	3,390	2.0	121
Non-operating expenses					
Interest expenses	738		1,021		72
Loss on valuation of derivatives	591		—		—
Other	756		1,438		53
Total non-operating expenses	2,085	1.2	2,459	1.4	85
Extraordinary income					
Gain on sales of noncurrent assets	105		4,161		—
Gain on sales of subsidiaries' and affiliates' common stock	—		291		—
Total extraordinary income	105	0.1	4,452	2.6	2
Extraordinary loss					
Impairment loss	(107)		—		—
Loss on structural reform	—		(51)		—
Allowance for doubtful accounts to affiliates	—		(63)		—
Legal settlement expenses	—		(35)		—
Surcharge on violation of the Antitrust Law	—		(667)		—
Total extraordinary losses	(107)	(0.1)	(816)	(0.5)	13
Income before income taxes and minority interests	17,423	9.9	17,105	9.9	102
Income taxes -current	8,132		7,666		106
Income taxes -deferred	(159)		215		(74)
Minority interests in income	780	0.4	634	0.4	123
Net income	8,670	4.9	8,590	5.0	101

Consolidated quarterly statements of cash flows

(Millions of Yen)

	End of 6/08
Net cash provided by (used in) operating activities	
Income before income taxes and minority interests	17,423
Depreciation and amortization	7,504
Amortization of goodwill and negative goodwill	527
Interest and dividends income	(273)
Interest expenses	738
Decrease (increase) in notes and accounts receivable-trade	(1,582)
Decrease (increase) in inventories	(9,867)
Increase (decrease) in notes and accounts payable-trade	6,723
Increase (decrease) in accrued expenses	(4,479)
Other, net	2,043
Subtotal	18,757
Income taxes paid	(11,641)
Net cash provided by (used in) operating activities	7,116
Net cash provided by (used in) investment activities	
Purchase of property, plant and equipment	(10,113)
Proceeds from sales of property, plant and equipment	743
Purchase of intangible assets	(343)
Interest and dividends income received	360
Other, net	2
Net cash provided by (used in) investment activities	(9,351)
Net cash provided by (used in) financing activities	
Net increase (decrease) in short-term loans payable	11,515
Proceeds from long-term loans payable	4,182
Repayment of long-term loans payable	(2,111)
Redemption of bonds	(10,483)
Interest expenses paid	(901)
Purchase of treasury stock	(39)
Cash dividends paid	(2,115)
Cash dividends paid to minority shareholders	(356)
Net cash provided by (used in) financing activities	(308)
Effect of exchange rate change on cash and cash equivalents	(620)
Net increase (decrease) in cash and cash equivalents	(3,163)
Cash and cash equivalents at beginning of period	47,821
Cash and cash equivalents at end of period	44,658

Notes to the Consolidated Financial Statements

1. Changes in major subsidiaries during the period under review: None

2. Adoption of the simplified financial accounting methods and special accounting methods for presenting quarterly consolidated financial statements

1) Simplified financial accounting methods
(Valuation method for inventories)

With respect to the calculation of inventories at the end of the first quarter of the fiscal year ending March 31, 2009, a portion of the physical inventory is omitted and a reasonable method is used based on the previous consolidated fiscal year's physical inventory.

(Calculation method for depreciation for fixed assets)

Certain consolidated subsidiaries calculate the depreciation of fixed assets using a method whereby the estimated annual depreciation is proportionally distributed by period based on reasonable estimates.

(Method for calculating deferred tax assets and liabilities)

If it has been determined that no significant changes have arisen in the business environment or in the occurrence of temporary differences since the end of the previous consolidated fiscal year, the recoverability of deferred tax assets is calculated by a method using future earnings estimates based on a review of the previous consolidated fiscal year-end, and tax planning.

2) Special accounting methods for presenting of quarterly consolidated financial statements

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of deferred tax accounting on income before income taxes and minority interests in the consolidated fiscal year, including the first quarter of the fiscal year ending March 31, 2009, and multiplying income before income taxes and minority interests for the first quarter of the fiscal year ending March 31, 2009 by said estimated effective tax rate.

3. Changes in the application of accounting policies, procedures and disclosures in the presenting of quarterly consolidated financial statements

(Changes due to revisions in accounting standards)

1) Effective from the year ending March 31, 2009, the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12) and its Implementation Guidance, "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14) have been applied. Quarterly consolidated financial statements have been prepared in accordance with the "Regulation for Quarterly Consolidated Financial Reporting."

2) Effective for fiscal years beginning on or after April 1, 2008, "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16) has been applied. Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions. The revised accounting standard requires that all finance lease transactions be capitalized. Meanwhile, the existing accounting standard will continue to be used for finance leases other than those in which the ownership of the leased assets is to be transferred to lessees, and for which the lease start date is prior to the initial year of application. The application of this policy had no impact on operating income and income before income taxes and minority interests.

3) Effective from the first quarter of the fiscal year ending March 31, 2009, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18), has been applied and, accordingly, some revisions have been made to the consolidated accounts as necessary. The application of this policy had no material impact on operating income and income before income taxes and minority interests.

(Changes other than the above)

(Changes in disclosure classification of statements of cash flows)

Given investors' growing interest in corporate value, effective from the first quarter of the fiscal year ending March 31, 2009, interest and dividends received as recorded in cash flows from operating activities have been included in cash flows from investing activities, and interest paid has been included in cash flows from financing activities, in order to appropriately conform interest expenses to the calculation of corporate value recognized as capital cost in similar fashion to cash dividends paid.

As a result of this change in disclosure classification, cash flows from operating activities increased by ¥541 million, cash flows from investing activities increased by ¥360 million and cash flows from financing activities decreased by ¥901 million, respectively.

(Additional Information)

As a result of reviewing its use of assets and other factors in the wake of revisions to the Corporate Tax Law, Hitachi Metals and its domestic consolidated subsidiaries have changed the useful life of machinery and equipment beginning from the first quarter of the fiscal year ending March 31, 2009. As a result of this change in accounting policy, operating income and income before income taxes and minority interests each decreased by ¥247 million.

*Notes to the Consolidated Financial Statements

Effective from the fiscal year ending March 31, 2009, the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12) and its Implementation Guidance "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14) have been applied. Quarterly consolidated financial statements have been prepared in accordance with "Regulation for Quarterly Consolidated Financial Reporting."

Business Segment Information

1st quarter fiscal2008 (Apr.1, 2008 - Jun. 30, 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	70,992	33,192	44,947	26,468	175,599	—	175,599
Intersegment	8,472	9,756	7,441	1,854	27,523	(27,523)	—
Total sales	79,464	42,948	52,388	28,322	203,122	(27,523)	175,599
Operating income	7,721	5,442	2,920	749	16,832	(1,411)	15,421

1st quarter fiscal2007 (Apr.1, 2007 - Jun. 30, 2007)

(Millions of yen)

Sales:							
Unaffiliated customers	63,584	38,699	46,109	23,979	172,371	—	172,371
Intersegment	7,137	7,773	6,519	3,289	24,718	(24,718)	—
Total sales	70,721	46,472	52,628	27,268	197,089	(24,718)	172,371
Operating income	6,065	4,758	3,511	99	14,433	(1,895)	12,538

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 TM] 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 TM] Aluminum wheels[SCUBA®], other aluminum components Piping and infrastructure components(Gourd® pipe fittings, stainless steel and plastic piping components) Construction components including access flooring and structural systems
Services and Other	Other sales and services, Other

Geographical Segment Information

1st quarter fiscal2008 (Apr.1, 2008 - Jun. 30, 2008)

(Millions of Yen)

	Japan	North America	Asia	Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	123,362	19,309	23,886	9,042	175,599	—	175,599
Intersegment	27,359	1,948	10,418	126	39,851	(39,851)	—
Total sales	150,721	21,257	34,304	9,168	215,450	(39,851)	175,599
Operating income	12,842	1,712	2,083	446	17,083	(1,662)	15,421

1st quarter fiscal2007 (Apr.1, 2007 - Jun. 30, 2007)

(Millions of Yen)

Sales:							
Unaffiliated customers	121,173	21,055	22,723	7,420	172,371	—	172,371
Intersegment	22,066	3,194	10,962	304	36,526	(36,526)	—
Total sales	143,239	24,249	33,685	7,724	208,897	(36,526)	172,371
Operating income	11,193	1,498	1,341	309	14,341	(1,803)	12,538

Overseas Sales

1st quarter fiscal2008 (Apr.1, 2008 - Jun. 30, 2008)

(Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	16,777	39,454	11,848	2,111	70,190
Consolidated sales	—	—	—	—	175,599
Overseas sales as a share of consolidated sales	9.6%	22.5%	6.7%	1.2%	40.0%

1st quarter fiscal2007 (Apr.1, 2007 - Jun. 30, 2007)

(Millions of Yen)

Overseas sales	18,585	39,282	9,036	2,009	68,912
Consolidated sales	—	—	—	—	172,371
Overseas sales as a share of consolidated sales	10.8%	22.8%	5.2%	1.2%	40.0%

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