Hitachi Metals, Ltd. (Oct. 28, 2008)

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Consolidated Financial Report for the 6-month period ended September 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 September 30,2008 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	**9/08(interim)**	9/07(interim)	(Change)	3/08
Net sales (million yen)	**353,665**	346,278	2.1%	701,075
Operating income (million yen)	**29,675**	26,563	11.7%	59,698
Income before income taxes and minority interests (million yen)	**29,671**	24,432	21.4%	51,427
Net income (million yen)	**15,335**	12,561	22.1%	27,034
Net income per share (yen)	**43.50**	35.48		76.48
Diluted net income per share (yen)	—	—		—

(2) Consolidated Financial Position	**9/08(interim)**	3/08
Total assets (million yen)	**629,157**	619,466
Net assets (million yen)	**246,247**	235,507
Equity ratio (%)	**35.5**	34.4
Net assets per share (yen)	**634.35**	604.22

Note: Shareholders' equity (9/08: 223,615 3/08: 213,026)

2. Dividend	**9/08(interim)**	9/07(interim)	3/09 (Planed)
Annual dividend per share (yen)	—	—	14.00
Interim (yen)	**7.00**	6.00	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

	Full-year	Year-on-year Change (%)
Net sales (million yen)	710,000	1.3
Operating income (million yen)	61,000	2.2
Income before income taxes and minority interests (million yen)	56,600	10.1
Net income (million yen)	29,700	9.9
Net income per share (yen)	84.25	—

Business results for the first half of the fiscal year ending March 31, 2009 have progressed steadily in line with plans. While there was a dramatic change in the economic environment from the second half of the second quarter, consolidated business results forecasts for the full fiscal year period (April 1, 2008 to March 31, 2009) previously announced on April 30, 2008 remain unchanged.

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) 9/08: 366,557,889 3/08: 366,557,889
Number of treasury stock outstanding at end of year 9/08: 14,046,200 3/08: 13,996,744
Number of shares average at end of year 9/08: 352,534,541 9/07: 354,058,922

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 Financial Report for the fiscal second quarter ended September 30, 2008】

１． Qualitative Information Regarding Consolidated Business Results

During the first half of the fiscal year ending March 31, 2009, the economic slowdown intensified in the United States due to decreasing residential investment and increasing financial uncertainty triggered by the subprime crisis. In Asia on the other hand, the economy as a whole showed continued expansion, including continued high capital investment growth in China. In Europe, the economic recovery was modest.

In Japan, with weak exports and a moderate decline in production, the economy stalled.

In industries in which the Hitachi Metals Group operates, while there were production cutbacks in the automobile sector in North America, production remained steady in Europe and Asia.

Despite weak domestic demand, production in Japan remained steady overall thanks to rising exports. In the semiconductor industry, demand for IT-related devices slowed down in the second quarter. The market for mobile phones grew, especially in Asia. Personal computer shipments were up, primarily in Europe and Asia. The steel industry also grew steadily due mainly to overseas demand. In the domestic construction industry, private-sector housing was slack and lackluster public investment continued in the wake of government spending cutbacks.

Under these circumstances, net sales for the Hitachi Metals Group in the first half of the current fiscal year climbed to ¥353,665 million, mainly due to continuing robust demand from its primary customers, the automobile and IT-related industries.

Turning to profits, operating income totaled ¥29,675 million, attributable to the steady growth of net sales and Hitachi Metals' efforts to revise sales prices and further reduce costs and expenses. Income before income taxes and minority interests was ¥29,671 million, while net income amounted to ¥15,335 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 ¥157,604 million While operating income was ¥14,552 million.

Overall sales of molds and tool steels increased due to steady domestic demand, mainly from the automobile industry and favorable exports. Sales of cutting tools were firm primarily due to automobile industry demand and remained unchanged year on year.

Sales of LCD panel-related materials to Asia were brisk and increased compared with those of the previous period. However, sales of semiconductor and other packages declined, reflecting the impact of production adjustments in the memory industry. As a result, overall sales of alloys for electronic products were down. Sales of rolls expanded, buoyed by firm demand particularly in Japan and China. Meanwhile, sales of injection molding machine parts were down due to a slumping North American market for these parts.

Electronic and IT Devices

Segment sales were ¥84,538 million. This was in part attributable to the transfer of certain products between business segments. Operating income totaled ¥10,665 million.

Sales of ferrite magnets decreased due to the impact of automobile production cutbacks in North America. Sales of rare earth magnets surged thanks to continued strong demand from automobile-related industries. As a result, sales of permanent magnets were up overall. In soft magnetic materials, FINEMET® sales were down, but sales of soft ferrites were up. Sales of amorphous metals rose on the back of higher demand, mainly from China and India, for transformers. Consequently, sales of soft magnetic materials increased overall. Turning to mobile phone devices, sales of isolators for use in base stations were up due to strong demand, primarily in China and India,. Sales of multilayered devices remained almost unchanged year on year. As a result, sales of mobile phone components were up as a whole.

High-Grade Functional Components and Equipment

Sales in this segment increased to ¥109,661 million. Operating income was ¥6,729 million.

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. Aluminum wheel demand was flat year-on-year in Japan, with sales remaining on par with those of the previous period thanks to steady demand from North America. Domestic sales of pipe fittings declined due to the negative impact of revisions to the Building Standards Law. Sales of stainless steel and plastic piping components dropped owing to stagnant demand in Japan and the United States. With office-related demand for access flooring systems in connection with urban redevelopment reaching a plateau and robust capital investment in structural systems, overall sales of these products showed steady expansion.

Services and Other

Sales in this segment climbed to ¥56,054 million, while operating income amounted to ¥1,059 million.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

During the period under review, net cash provided by operating activities exceeded net cash used in investing activities. At the same time, net cash used in financing activities was low. As a result, cash and cash equivalents as of the end of the second quarter of the fiscal year ending March 31, 2009 stood at ¥49,462 million, up ¥1,641 million compared with the end of the previous fiscal year.

Details of cash flow activities are provided briefly as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥23,880 million. The principal cash inflow was income before income taxes and minority interests, which totaled ¥29,671 million. Major cash outflows represented an increase in working capital items including notes and accounts receivable-trade and inventories.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥19,640 million. This was mainly attributable to the purchase of property, plant and equipment totaling ¥21,491 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥1,659 million. The principal components were cash dividends paid, which totaled ¥2,479 million and interest expenses paid amounting to ¥1,577 million.

3. Qualitative Information Regarding Forecasts

Business results for the first half of the fiscal year ending March 31, 2009 have progressed steadily in line with plans. While there was a drastic change in the economic environment from the last half of the second quarter, consolidated business results forecasts for the full fiscal year period (April 1, 2008 to March 31, 2009) previously announced on April 30, 2008 remain unchanged.

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 9/08	End of 3/08	(difference)
ASSETS			
Current assets			
Cash and deposits	**28,663**	36,856	(8,193)
Notes and accounts receivable-trade	**127,030**	123,678	3,352
Deposit paid in subsidiaries and affiliates	**20,786**	10,620	10,166
Finished products	**50,825**	47,272	3,553
Work in process	**39,031**	37,851	1,180
Raw materials	**40,311**	36,834	3,477
Other	**21,434**	23,100	(1,666)
Allowance for doubtful accounts	**(500)**	(479)	(21)
Total current assets	**327,580**	315,732	11,848
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	**58,240**	59,723	(1,483)
Machinery, equipment and vehicles, net	**85,237**	83,800	1,437
Land	**52,277**	53,031	(754)
Other, net	**21,015**	18,940	2,075
Total property, plant and equipment	**216,769**	215,494	1,275
Intangible assets			
Goodwill	**48,232**	49,931	(1,699)
Other	**5,795**	5,403	392
Total investments and other assets	**30,781**	32,906	(2,125)
Total noncurrent assets	**301,577**	303,734	(2,157)
Total assets	**629,157**	619,466	9,691
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	**100,601**	98,671	1,930
Short-term loans payable	**61,562**	50,981	10,581
Current portion of long-term loans payable	**19,635**	20,980	(1,345)
Current portion of bonds	**1,448**	11,249	(9,801)
Income taxes payable	**10,587**	11,942	(1,355)
Provision	**149**	294	(145)
Other	**42,341**	45,695	(3,354)
Total current liabilities	**236,323**	239,812	(3,489)
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	**30,831**	27,209	3,622
Provision for retirement benefits	**26,567**	25,891	676
Other provision	**3,947**	4,456	(509)
Other	**6,242**	6,583	(341)
Total noncurrent liabilities	**146,587**	144,147	2,440
Total liabilities	**382,910**	383,959	(1,049)
NET ASSETS			
Shareholders' equity			
Capital stock	**26,284**	26,284	—
Capital surplus	**41,245**	41,241	4
Retained earnings	**174,666**	161,488	13,178
Treasury stock	**(10,636)**	(10,552)	(84)
Total shareholders' equity	**231,559**	218,461	13,098
Valuation, translation adjustments			
Valuation difference on available-for-sale securities	**(689)**	(208)	(481)
Foreign currency translation adjustments	**(7,255)**	(5,227)	(2,028)
Minority interests	**22,632**	22,481	151
Total Net Assets	**246,247**	235,507	10,740
Total liabilities and net assets	**629,157**	619,466	9,691

Consolidated Quarterly Statements of Income

(Millions of Yen)

	1st half fiscal 2008 (Sep.30.08)	Ratio to Sales (%)	1st half fiscal 2007 (Sep.30.07)	Ratio to Sales (%)	(difference) (%)
Net sales	**353,665**	100.0	**346,278**	100.0	102
Cost of sales	**280,828**	79.4	**274,656**	79.3	102
Gross profit	**72,837**	20.6	**71,622**	20.7	102
Selling, general and administrative expenses	**43,162**	12.2	**45,059**	13.0	96
Operating income	**29,675**	8.4	**26,563**	7.7	112
Non-operating income					
Interest income	**352**		618		57
Dividends income	**117**		135		87
Foreign exchange gains	**1,299**		—		—
Other	**3,367**		2,977		113
Total non-operating income	**5,135**	1.4	3,730	1.0	138
Non-operating expenses					
Interest expenses	**1,438**		2,032		71
Loss on valuation of derivatives	**937**		—		—
Other	**2,730**		3,230		85
Total non-operating expenses	**5,105**	1.4	5,262	1.5	97
Extraordinary income					
Gain on sales of noncurrent assets	**113**		4,177		2
Gain on sales of subsidiaries’ and affiliates’ common stock	—		268		—
Gain on transfer to defined contribution pension plan	—		115		—
Total extraordinary income	**113**	0.0	4,560	1.3	2
Extraordinary loss					
Impairment loss	**(107)**		(11)		(973)
Loss on disposal of fixed assets	**(40)**		(661)		(6)
Loss on structural reform	—		(2,249)		—
Allowance for doubtful accounts to affiliates	—		(233)		—
Allowance for loss on guarantees of affiliates’ debt	—		(988)		—
Loss on transfer to defind contribution pension plan	—		(236)		—
Legal settlement expenses	—		(114)		—
Surcharge on violation of the Anititrust Law	—		(667)		—
Total extraordinary losses	**(147)**	(0.0)	(5,159)	(1.4)	3
Income before income taxes and minority interests	**29,671**	8.4	24,432	7.1	121
Income taxes -current	**12,025**		10,352		116
Income taxes -deferred	**808**		150		539
Minority interests in income	**1,503**	0.5	1,369	0.4	110
Net income	**15,335**	4.3	12,561	3.6	122

Consolidated quarterly statements of cash flows

	(Millions of Yen)
	End of 9/08
Net cash provided by (used in) operating activities	
Income before income taxes and minority interests	**29,671**
Depreciation and amortization	**15,287**
Amortization of goodwill and negative goodwill	**1,112**
Interest and dividends income	**(469)**
Interest expenses	**1,438**
Decrease (increase) in notes and accounts receivable-trade	**(4,376)**
Decrease (increase) in inventories	**(9,098)**
Increase (decrease) in notes and accounts payable-trade	**2,250**
Increase (decrease) in accrued expenses	**207**
Other, net	**1,367**
Subtotal	**37,389**
Income taxes paid	**(13,509)**
Net cash provided by (used in) operating activities	**23,880**
Net cash provided by (used in) investment activities	
Purchase of property, plant and equipment	**(21,491)**
Proceeds from sales of property, plant and equipment	**1,608**
Purchase of intangible assets	**(913)**
Interest and dividends income received	**574**
Other, net	**582**
Net cash provided by (used in) investment activities	**(19,640)**
Net cash provided by (used in) financing activities	
Net increase (decrease) in short-term loans payable	**10,670**
Proceeds from long-term loans payable	**4,544**
Repayment of long-term loans payable	**(2,172)**
Redemption of bonds	**(10,565)**
Interest expenses paid	**(1,577)**
Proceeds from sales of treasury stock	**8**
Purchase of treasury stock	**(88)**
Cash dividends paid	**(2,115)**
Cash dividends paid to minority shareholders	**(364)**
Net cash provided by (used in) financing activities	**(1,659)**
Effect of exchange rate change on cash and cash equivalents	**(940)**
Net increase (decrease) in cash and cash equivalents	**1,641**
Cash and cash equivalents at beginning of period	**47,821**
Cash and cash equivalents at end of period	**49,462**

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 second quarter of the fiscal year ending March 31, 2009, and multiplying income before income taxes and minority interests for the second quarter of the fiscal year ending March 31, 2009 by said estimated effective tax rate.

3.Changes in the application of accounting polices, 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 ¥1,003 million, cash flows from investing activities increased by ¥574 million and cash flows from financing activities decreased by ¥1,577 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 ¥510 million.

Business Segment Information

1st half fiscal2008 (Apr.1, 2008 - Sep. 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	**141,736**	**65,296**	**94,022**	**52,611**	**353,665**	—	**353,665**
Intersegment	**15,868**	**19,242**	**15,639**	**3,443**	**54,192**	**(54,192)**	—
Total sales	**157,604**	**84,538**	**109,661**	**56,054**	**407,857**	**(54,192)**	**353,665**
Operating income	**14,552**	**10,665**	**6,729**	**1,059**	**33,005**	**(3,330)**	**29,675**

1st half fiscal2007 (Apr.1, 2007 - Sep. 30, 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	127,002	77,960	95,054	46,262	346,278	—	346,278
Intersegment	15,528	17,974	13,793	6,974	54,269	(54,269)	—
Total sales	142,530	95,934	108,847	53,236	400,547	(54,269)	346,278
Operating income	13,003	9,702	7,165	280	30,150	(3,587)	26,563

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 access flooring and structural systems
Services and Other	Other sales and services, Other

Geographical Segment Information

1st half fiscal2008 (Apr.1, 2008 - Sep. 30, 2008) (Millions of Yen)

	Japan	North America	Asia	Other	Subtotal	Eliminations and Corporate Assets	Total
Sales:							
Unaffiliated customers	**246,632**	**40,213**	**47,823**	**18,997**	**353,665**	**—**	**353,665**
Intersegment	**53,231**	**3,809**	**20,427**	**164**	**77,631**	**(77,631)**	**—**
Total sales	**299,863**	**44,022**	**68,250**	**19,161**	**431,296**	**(77,631)**	**353,665**
Operating income	**24,806**	**3,301**	**4,309**	**610**	**33,026**	**(3,351)**	**29,675**

1st half fiscal2007 (Apr.1, 2007 - Sep. 30, 2007) (Millions of Yen)

Sales:							
Unaffiliated customers	242,070	42,438	46,126	15,644	346,278	—	346,278
Intersegment	46,546	7,039	21,742	422	75,749	(75,749)	—
Total sales	288,616	49,477	67,868	16,066	422,027	(75,749)	346,278
Operating income	23,177	3,095	2,926	766	29,964	(3,401)	26,563

Overseas Sales

1st half fiscal2008 (Apr.1, 2008 - Sep. 30, 2008) **(Millions of Yen)**

	North America	Asia	Europe	Other	Total
Overseas sales	**34,738**	**79,200**	**24,334**	**4,321**	**142,593**
Consolidated sales	**—**	**—**	**—**	**—**	**353,665**
Overseas sales as a share of consolidated sales	**9.8%**	**22.4%**	**6.9%**	**1.2%**	**40.3%**

1st half fiscal2007 (Apr.1, 2007 - Sep. 30, 2007) (Millions of Yen)

Overseas sales	36,802	79,928	19,419	4,962	141,111
Consolidated sales	—	—	—	—	346,278
Overseas sales as a share of consolidated sales	10.6%	23.1%	5.6%	1.5%	40.8%

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