

Hitachi Metals, Ltd. (Feb. 2, 2010)

http://www.hitachi-metals.co.jp

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Consolidated Financial Report for the 9-month period ended December 31, 2009

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

1. Performance over the year, April 1, 2009 to December 31, 2009 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	12/09(quarter)	12/08(quarter)	(Change)	3/09
Net sales (million yen)	308,161	496,745	(38.0%)	590,704
Operating income (million yen)	3,625	32,934	(89.0%)	15,058
Income before income taxes and minority interests (million yen)	-2,637	25,075		(200)
Net income (million yen)	-2,944	9,597		-3,016
Net income per share (yen)	-8.35	27.22		-8.56
Diluted net income per share (yen)				

(2) Consolidated Financial Position	12/09(quarter)	12/08(quarter)	3/09
Total assets (million yen)	514,680	578,134	530,191
Net assets (million yen)	206,621	230,700	214,576
Equity ratio (%)	36.3	36.1	36.6
Net assets per share (yen)	529.54	591.39	550.79

Note: Shareholders' equity (12/09:186,648 3/09: 194,153)

2. Dividend	12/09(quarter)	12/08(quarter)	3/10 (Planned)
Annual dividend per share (yen)			12.00
Interim (yen)			6.00
End of period (yen)			6.00
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, 2009 to March 31, 2010

	Full-year	Year-on-year Change (%)
Net sales (million yen)	440,000	(25.5)
Operating income (million yen)	10,000	(33.6)
Income before income taxes and minority interests (million yen)	2,500	
Net income (million yen)	1,000	
Net income per share (yen)	2.84	

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) 12/09: 366,557,889 3/09: 366,557,889

Number of treasury stock outstanding at end of year 12/09: 14,084,501 3/09: 14,059,816

Number of shares average at end of year 12/09: 352,485,373 12/08: 352,526,758

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 Third Quarter Ended December 31, 2009

1. Qualitative Information Regarding Consolidated Business Results

During the first three quarters of the year ending March 31, 2010, the global economy gained traction against the economic freefall, although Japan lagged behind. Harsh conditions continued in the United States, although economic countermeasures took effect and slight growth occurred there. Similarly, Europe remained in a severe situation, even though it put a halt to its downward spiral. Asia, particularly China, witnessed economic recovery. In Japan, increased exports, mainly to Asia, were among the visible signs that the economy had begun to regain its footing, even though severe economic conditions persisted.

Conditions were fragile in the industries in which the Hitachi Metals Group operates. Automobile industry sales entered into a gradual trend toward recovery owing to economic stimulus measures taken in Japan, the United States and Europe. Demand in the semiconductor industry continued to pick up, while the domestic mobile phone industry remained at a low level. In personal computers, Asian markets, particularly China, were robust, and the United States demonstrated improvements. In Japan, steel production showed signs of bottoming out, while domestic housing starts remained mired in a severe state due to the stagnant market.

Against the backdrop of this business environment, demand recovered in parts of the automobile and electronics-related industries. However, net sales for the Hitachi Metals Group in the nine-month period ended December 31, 2009 declined significantly compared to the corresponding period of the previous fiscal year, falling 38.0% to ¥308,161 million. Buffeted by the major impact of significant declines in net sales, Hitachi Metals posted an operating income of ¥3,625 million, down ¥29,309 million compared to the corresponding period of previous fiscal year, and a loss before income taxes and minority interests of ¥2,637 million, a year-on-year decrease of ¥27,712 million. The Company also reported a net loss of ¥2,944 million, a drop of ¥12,541 million compared with the corresponding period of the previous fiscal year as a result of recording an extraordinary loss of ¥3,965 million posted as structural reform.

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

High-Grade Metal Products and Materials

Sales of High-Grade Metal Products and Materials declined 37.6% compared with the corresponding period of the previous fiscal year, to ¥139,059 million, while operating income amounted to ¥1,289 million, a year-on-year decline of ¥13,673 million.

In molds and tool steels, despite distribution stock corrections coming to a conclusion, conditions remained severe. In alloys for electronic products, demand recovered for LCD panel-related materials and semiconductor and other package materials, primarily from Asia, and this buoyed recovery from early on in the first half of the fiscal year. In industrial equipment and energy-related materials, demand recovered for automotive-related material products, although demand fell for energy-related materials. Demand for rolls was stagnant as a result of customers' inventory corrections. Demand for injection molding machine parts entered a gradual recovery trend owing to improved market conditions for injection molding machinery. In

cutting tools, demand from major customers in the automobile industry increased slightly, although this was insufficient to recover from the sharp deterioration of tool demand since the previous fiscal year.

Electronics and IT Devices

Electronic and IT Devices sales were down 37.9% compared with the corresponding period of the previous fiscal year to ¥72,903 million. In the period under review, operating income declined ¥9,636 million to ¥3,172million year on year.

In rare earth magnets, demand demonstrated renewed growth primarily in the automobile, household appliance and personal computer markets, while demand picked up for ferrite magnets used in automobiles. Demand for amorphous metals showed little sign of movement, even though demand for soft ferrite improved and demand for FINEMET[®] demonstrated growth. Turning to components for information and telecommunications equipment, demand from China recovered, although demand continued to be sluggish in Europe.

High-Grade Functional Components and Equipment

Sales in the High-Grade Functional Components and Equipment segment contracted 35.6% year on year to ¥100,737 million. The segment operating income was ¥2,310 million, a deterioration of ¥6,088 million year on year.

Demand improved for ductile iron used in passenger vehicles, while demand for heat-resistant exhaust casting components trended toward recovery in both Europe—the effect of new product launches—and in North America. In aluminum wheels, demand gained momentum both domestically and in North America. Pipe fittings were impacted by falling domestic construction demand and cutbacks in capital investment, with demand remaining stagnant. In stainless steel and plastic piping components, demand continued to slump as a result of anemic housing starts in Japan and the United States. Demand for construction components was lackluster due to the impact of a steep reduction in construction demand and cutbacks in capital investment.

Services and Other

Sales in the Services and Others segment were down 43.5% compared with the corresponding period of the previous fiscal year, to ¥42,178 million. The segment operating loss was ¥371 million, a deterioration of ¥1,483 million year on year.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

At the end of the third quarter of the fiscal year ending March 31, 2010, cash and cash equivalents stood at ¥42,127 million, an increase of ¥8,651 million compared with the end of the previous fiscal year. This was mainly attributable to the impact of cash inflows in line with improvements in working capital arising from a decrease in inventories.

The status of cash flows for the third quarter and factors influencing results are as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥42,951 million. Cash inflows were attributable to the posting of amortization and depreciation of ¥22,658 million and improvements in working capital of ¥18,792million arising from a decrease in inventories, in addition to a refund of ¥7,307 million from income taxes paid in the previous fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥17,851 million. This was mainly attributable to capital investment-related outflows totaling ¥18,170 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥16,034 million. This was mainly attributable to a decrease in interest-bearing debt of ¥9,586 million, interest paid of ¥1,732 million and cash dividends paid of ¥4,695 million.

3. Qualitative Information Regarding Forecasts

Results for the nine-month period under review met initial expectations. Although the harsh operating environment is expected to persist, consolidated business results in the full fiscal year, ending March 31, 2010, are anticipated to remain unchanged from the forecasts previously announced on October 27, 2009.

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 12/09	End of 3/09	(difference)
ASSETS			
Current assets			
Cash and deposits	30,943	24,514	6,429
Notes and accounts receivable-trade	81,028	70,962	10,066
Deposit paid in subsidiaries and affiliates	10,585	8,473	2,112
Finished products	32,148	41,422	(9,274)
Work in process	28,271	28,410	(139)
Raw materials	24,526	30,189	(5,663)
Other	20,976	25,143	(4,167)
Allowance for doubtful accounts	(482)	(845)	363
Total current assets	227,995	228,268	(273)
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	56,700	57,646	(946)
Machinery, equipment and vehicles, net	82,527	88,220	(5,693)
Land	50,935	51,259	(324)
Other, net	12,470	18,872	(6,402)
Total property, plant and equipment	202,632	215,997	(13,365)
Intangible assets			
Goodwill	44,674	46,785	(2,111)
Other	6,647	6,940	(293)
Total intangible assets	51,321	53,725	(2,404)
Total investments and other assets	32,732	32,201	531
Total noncurrent assets	286,685	301,923	(15,238)
Total assets	514,680	530,191	(15,511)
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	62,942	47,733	15,209
Short-term loans payable	56,941	66,553	(9,612)
Commercial Paper	9,000	6,000	3,000
Current portion of long-term loans payable	1,472	3,653	(2,181)
Current portion of bonds	10,000	6,025	3,975
Income taxes payable	1,643	1,790	(147)
Other	30,525	40,384	(9,859)
Total current liabilities	172,523	172,138	385
Noncurrent liabilities			
Bonds payable	24,000	34,000	(10,000)
Convertible bond-type bonds with subscription rights to shares	40,000	40,000	—
Long-term loans payable	37,933	33,888	4,045
Provision for retirement benefits	22,458	23,228	(770)
Other provision	4,000	4,101	(101)
Other	7,145	8,260	(1,115)
Total noncurrent liabilities	135,536	143,477	(7,941)
Total liabilities	308,059	315,615	(7,556)
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	—
Capital surplus	41,243	41,243	0
Retained earnings	145,126	152,789	(7,663)
Treasury stock	(10,662)	(10,641)	(21)
Total shareholders' equity	201,991	209,675	(7,684)
Valuation, translation adjustments			
Net unrealized holding gains (losses) on available-for-sale	1,295	279	1,016
Net unrealized gains (losses) on hedge transactions	—	—	—
Foreign currency translation adjustments	(16,638)	(15,801)	(837)
Minority interests	19,973	20,423	(450)
Total Net Assets	206,621	214,576	(7,955)
Total liabilities and net assets	514,680	530,191	(15,511)

Consolidated Quarterly Statements of Income

(Millions of Yen)

	3rd quarter fiscal 2009 (Dec.31.09)	Ratio to Sales (%)	3rd quarter fiscal 2008 (Dec.31.08)	Ratio to Sales (%)	(difference) (%)
Net sales	308,161	100.0	496,745	100.0	62
Cost of sales	255,669	83.0	401,010	80.7	64
Gross profit	52,492	17.0	95,735	19.3	55
Selling, general and administrative expenses	48,867	15.9	62,801	12.6	78
Operating income	3,625	1.2	32,934	6.6	11
Non-operating income					
Interest income	308		460		67
Dividends income	98		183		54
Other	2,810		4,521		62
Total non-operating income	3,216	1.0	5,164	1.0	62
Non-operating expenses					
Interest expenses	1,598		2,164		74
Foreign exchange loss	491		1,806		27
Other	4,404		4,704		94
Total non-operating expenses	6,493	2.1	8,674	1.7	75
Extraordinary gains					
Gain on sales of noncurrent assets	—		113		—
Gain on sales of subsidiaries' and affiliates' common stock	—		638		—
Gain on liquidation in silent partnership	1,025		—		—
Total extraordinary income	1,025	0.3	751	0.2	136
Extraordinary loss					
Loss on devaluation of investment securities	—		4,435		—
Impairment loss	45		107		42
Loss on disposal of fixed assets	—		40		—
Allowance for doubtful accounts to affiliates	—		150		—
Allowance for business losses of affiliates	—		368		—
Loss on structural reform	3,965		—		—
Total extraordinary losses	4,010	1.3	5,100	1.0	79
Income before income taxes and minority interests	-2,637	(0.9)	25,075	5.0	—
Income taxes	-56		13,516		—
Minority interests in income	363	0.1	1,962	0.4	19
Net income	-2,944	(1.0)	9,597	1.9	—

Consolidated quarterly statements of cash flows

	(Millions of Yen)	
	End of 12/09	End of 12/08
Cash flows from operating activities		
Income before income taxes and minority interests	(2,637)	25,075
Depreciation and amortization	22,658	23,351
Amortization of goodwill and negative goodwill	1,977	1,776
Loss on devaluation of investment securities	20	4,435
Interest and dividends income	(406)	(643)
Interest expenses	1,598	2,164
Increase in notes and accounts receivable-trade	(12,041)	18,392
Decrease in inventories	14,264	(7,957)
Increase in notes and accounts payable-trade	16,569	(13,516)
Decrease in accrued expenses	(2,553)	(5,831)
Other, net	(329)	5,114
Subtotal	39,120	52,360
Income taxes paid	(3,476)	(22,114)
Income taxes refund	7,307	—
Net cash provided by operating activities	42,951	30,246
Cash flows from investing activities		
Purchase of investments in subsidiaries	(159)	—
Proceeds from sales of investments in subsidiaries	127	—
Proceeds from sales of investment securities	458	879
Purchase of property, plant and equipment	(18,170)	(31,620)
Proceeds from sales of property, plant and equipment	372	1,646
Purchase of intangible assets	(831)	(1,769)
Interest and dividends income received	398	746
Other, net	(46)	(203)
Net cash by used in investment activities	(17,851)	(30,321)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(9,029)	11,863
Net increase (decrease) in Commercial Paper	3,000	—
Proceeds from long-term loans payable	6,000	4,781
Repayment of long-term loans payable	(3,636)	(6,313)
Redemption of bonds	(5,921)	(10,565)
Interest expenses paid	(1,732)	(2,377)
Proceeds from sales of treasury stock	2	19
Purchase of treasury stock	(23)	(101)
Cash dividends paid	(4,230)	(4,583)
Cash dividends paid to minority shareholders	(465)	(641)
Net cash used in financing activities	(16,034)	(7,917)
Effect of exchange rate change on cash and cash equivalents	(370)	(3,068)
Net increase (decrease) in cash and cash equivalents	8,696	(11,060)
Cash and cash equivalents at beginning of period	33,476	47,821
Effect of changes in consolidated subsidiaries	—	(253)
Effect of changes in the fiscal year-end of consolidated subsidiaries	(45)	—
Cash and cash equivalents at end of period	42,127	36,508

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 third 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. If on the other hand, it has been determined that 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 based on future earnings estimates used in the previous fiscal year's consolidated settlement of accounts and tax planning taking into account the impact of the aforementioned significant changes.

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 third quarter of the fiscal year ending March 31, 2009, and multiplying income before income taxes and minority interests for the third 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)

Previously, the completed-contract method had been used to compute contract revenue. However, the Accounting Standards for Construction Contracts (ASBJ Statement No. 15, dated December 27, 2007) and the Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18, dated December 27, 2007) have been applied since the first quarter in the fiscal year under review. Beginning with the construction contracts launched during the first quarter of the fiscal year under review until the end of the third quarter under review, the percentage-of-completion method (in which the percentage of completion at the end of the reporting period is estimated based on the percentage of the cost incurred to the estimated total cost) shall be applied if the outcome of the construction activity is deemed certain during the course of the activity; otherwise, the completed-contract method shall be applied.

Application of the above will have no material impact on net sales, operating income or loss before income taxes and minority interests.

Business Segment Information

3rd quarter fiscal 2009 (Apr.1, 2009 - Dec. 31, 2009)

(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	128,300	53,534	86,475	39,852	308,161	—	308,161
Intersegment	10,759	19,369	14,262	2,326	46,716	(46,716)	—
Total sales	139,059	72,903	100,737	42,178	354,877	(46,716)	308,161
Operating income	1,289	3,172	2,310	(371)	6,400	(2,775)	3,625

3rd quarter fiscal 2008 (Apr.1, 2008 - Dec. 31, 2008)

(Millions of yen)

Sales:							
Unaffiliated customers	201,586	90,985	134,182	69,992	496,745	—	496,745
Intersegment	21,293	26,384	22,175	4,665	74,517	(74,517)	—
Total sales	222,879	117,369	156,357	74,657	571,262	(74,517)	496,745
Operating income	14,962	12,808	8,398	1,112	37,280	(4,346)	32,934

Notes:

- Business segments have been determined in consideration of similarities in terms of product type, manufacturing method or sales method, or unit of receivership.
- The Company and its subsidiaries operate in the following four business segments:

High-Grade Metal Products and Materials	High-grade specialty steels (molds and tool steels, alloys for electronic products (display-related, semiconductor and other packages), industrial equipment and energy-related materials), rolls for steel, nonferrous and non-metal applications, injection molding machine parts, structural ceramic products, steel-frame joints for construction, cutting tools
Electronics and IT Devices	Permanent magnets (rare-earth magnets [NEOMAX [®]], ferrite magnets, and applied products), components for information and telecommunications equipment (multilayered devices, isolators), IT materials and components, soft magnetic materials (soft ferrite cores and applied products, nanocrystalline magnetic material [FINEMET [®]] and applied devices, amorphous metals [Metglas [®]] and applied products)
High-Grade Functional Components and Equipment	High-grade casting components for automobiles (ductile iron products, heat-resistant exhaust casting components, aluminum wheels, other aluminum components), piping and infrastructure components (pipe fittings, stainless steel and plastic piping components, water cooling equipment, precision mass flow control devices), construction components (access floor systems, structural systems, material handling systems)
Services and Other	Other sales and services

Geographical Segment Information

3rd quarter fiscal 2009 (Apr.1, 2009 - Dec. 31, 2009)

(Millions of Yen)

	Japan	North America	Asia	Other	Subtotal	Eliminations and Corporate Assets	Total
Consolidated Financial Report for the 6-month period ended September 30, 2008							
Unaffiliated customers	206,115	37,173	46,585	18,288	308,161	—	308,161
Intersegment	49,045	2,991	20,140	162	72,338	(72,338)	—
Total sales	255,160	40,164	66,725	18,450	380,499	(72,338)	308,161
Operating income	1,977	118	4,065	832	6,992	(3,367)	3,625

3rd quarter fiscal 2008 (Apr.1, 2008 - Dec. 31, 2008)

(Millions of Yen)

Sales:							
Unaffiliated customers	349,766	56,491	65,441	25,047	496,745	—	496,745
Intersegment	72,183	5,209	28,809	204	106,405	(106,405)	—
Total sales	421,949	61,700	94,250	25,251	603,150	(106,405)	496,745
Operating income	26,087	4,324	5,368	992	36,771	(3,837)	32,934

Overseas Sales

3rd quarter fiscal 2009 (Apr.1, 2009 - Dec. 31, 2009)

(Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	32,048	71,009	24,216	4,206	131,479
Consolidated sales	—	—	—	—	308,161
Overseas sales as a share of consolidated sales	10.4%	23.0%	7.9%	1.4%	42.7%

3rd quarter fiscal 2008 (Apr.1, 2008 - Dec. 31, 2008)

(Millions of Yen)

Overseas sales	49,419	107,848	32,642	5,752	195,661
Consolidated sales	—	—	—	—	496,745
Overseas sales as a share of consolidated sales	9.9%	21.7%	6.6%	1.2%	39.4%

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