

Hitachi Metals, Ltd. (July 27, 2010)

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Consolidated Financial Report for the first quarter ended June 30, 2010

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

1. Performance over the year, April 1, 2010 to June 30,2010 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	6/10(quarter)	6/09(quarter)	(Change)	3/10
Net sales (million yen)	126,868	92,470	37.2%	431,683
Operating income (million yen)	11,956	(4,505)	—	13,349
Income before income taxes (million yen)	10,721	(5,581)	—	5,727
Net income (million yen)	5,527	(3,651)	—	1,937
Net income per share (yen)	15.68	(10.36)	—	5.50
Diluted net income per share (yen)	—	—	—	—

(2) Consolidated Financial Position	6/10(quarter)	3/10
Total assets (million yen)	519,462	517,984
Net assets (million yen)	210,925	212,783
Equity ratio (%)	37.0	37.3
Net assets per share (yen)	544.63	548.76

Note: Shareholders' equity (6/10: 191,967 3/10: 193,423)

2. Dividend	6/10(quarter)	6/09(quarter)	3/11(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, 2010 to March 31, 2011

	Interim period	Year-on-year Change (%)	Full-year	Year-on-year Change (%)
Net sales (million yen)	253,000	29.6	500,000	15.8
Operating income (million yen)	20,000	—	33,000	147.2
Income before income taxes	17,300	—	27,000	371.5
Net income (million yen)	9,000	—	14,000	622.8
Net income per share (yen)	25.53	—	39.72	—

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 7.

(3) Numbers of shares issued (Common stock)

Number of shares outstanding at end of year (including treasury stock) 6/10: 366,557,889 3/10: 366,557,889

Number of treasury stock outstanding at end of year 6/10: 14,087,625 3/10:14,085,629

Number of shares average at end of year 6/10: 352,471,033 6/09: 352,492,710

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.

1. Qualitative Information Regarding Consolidated Business Results

During the first quarter of the fiscal year ending March 31, 2011, the global economy experienced overall growth, driven by the robust economies of emerging markets. In Japan, the effect of a range of government policies and overseas-led demand nudged the economy into a gradual recovery.

In the industries in which the Hitachi Metals Group operates, conditions improved slightly. In the automobile sector, China saw expansion in demand while the North American market saw a more gradual recovery. Demand, centering on Asia, was steady in the semiconductor industry. The mobile phone and personal computer industries recovered in markets worldwide. The domestic steel market recovered on the back of overseas-led demand as housing starts hit bottom.

Against this backdrop, overall results improved. In the first quarter of the fiscal year under review, consolidated net sales increased 37.2% compared with the corresponding period of the previous fiscal year to ¥126,868 million. On the earnings front, Hitachi Metals posted operating income of ¥11,956 million, up ¥16,461 million compared with the corresponding period of the previous fiscal year, net income before income taxes of ¥10,721 million, a year-on-year increase of ¥16,302 million, and net income of ¥5,527 million, a jump of ¥9,178 million.

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 were ¥55,917 million. Operating income was ¥6,633 million.

Turning to results for individual principal products, demand for molds and tool steels recovered, reflecting the winding down of distribution stock corrections. In alloys for electronic products, sales were brisk on Asian demand for LCD panel-related materials as well as for semiconductor and other package materials. In industrial equipment and energy-related materials, demand for automotive products recovered while demand for energy-related materials slumped. Sales of rolls have yet to achieve a full-fledged recovery as conditions in construction-related demand remain severe. Sales of injection molding machine parts recovered, chiefly in China. In cutting tools, major customers in the automobile- and electronics-related markets saw production begin to recover and made progress with inventory adjustments and other factors, resulting in continued gradual recovery in tool demand.

Electronics and IT Devices

Segment sales were ¥33,046 million. Operating income was ¥4,610 million.

Sales of rare-earth magnets rose as a result of trends toward recovery in demand for automobiles, household appliances and personal computers as well as increased capital investment in factory automation in China, South Korea and other markets. Sales of ferrite magnets rebounded on the back of recovery of demand for automobiles and household appliances. In soft magnetic materials, sales of amorphous metals increased as demand recovered, and demand for soft ferrite trended toward recovery in line with recovered demand for automobiles and household appliances. FINEMET[®] sales increased on robust demand for industrial equipment and for in-vehicle mounted devices. Turning to components for information and telecommunication equipment, sales recovered in China while demand was sluggish in Europe.

High-Grade Functional Components and Equipment

Sales in the High-Grade Functional Components and Equipment segment stood at ¥38,073 million. Operating income was ¥2,627 million.

In ductile iron products, demand expanded dramatically, supported by brisk automobile sales, primarily in China and North America. Sales of heat-resistant exhaust casting components improved with increased demand from customers in Europe. In aluminum wheels, demand rose significantly because of brisk automobile sales to China and North America. Sales of pipe fittings continued to slump, impacted by weak domestic construction demand and cutbacks in capital investment. In stainless steel and plastic piping components, demand was stagnant on account of anemic housing starts in Japan and the United States. Looking at construction components, demand continued to be lackluster, buffeted by a sharp drop in construction demand and cutbacks in capital investment.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

As of the end of the first quarter of the fiscal year ending March 31, 2011, cash and cash equivalents increased ¥1,022 million year on year to ¥44,661 million. This was mainly attributable to net cash provided by operating activities exceeding net cash used in investing and financing activities.

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

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥14,644 million. The principal component was income before income taxes and minority interests of ¥10,721 million.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥4,707 million. This was mainly attributable to capital investment-related outflows totaling ¥4,577 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥6,686 million. In addition to a decrease of ¥3,694 million in interest-bearing debt, this was attributable to dividends paid of ¥2,306 million.

3. Qualitative Information Regarding Forecasts

In addition to robust demand for electronics-related products, favorable demand was experienced in the automobile-related field. Consequently, in the fiscal year ending March 31, 2011, Hitachi Metals now anticipates sales and income in the first half (April 1, 2010 to September 30, 2010) to exceed initial forecasts, on both a consolidated and non-consolidated basis.

With regard to the performance outlook for the full fiscal year (April 1, 2010 to March 31, 2011), because at the current time it is difficult to foresee what the second half business environment will be like, we choose not to make any projections on either a consolidated or non-consolidated basis. The full-year performance outlook will be disclosed as soon as the probable business environment in the second half of the fiscal year can be more reliably anticipated.

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 6/10	End of 3/10	(difference)
ASSETS			
Current assets			
Cash and deposits	33,535	31,175	2,360
Notes and accounts receivable-trade	90,242	90,564	(322)
Finished products	33,469	32,066	1,403
Work in process	29,310	27,467	1,843
Raw materials	30,015	25,191	4,824
Deposit paid in subsidiaries and affiliates	10,791	12,048	(1,257)
Other	21,225	21,857	(632)
Allowance for doubtful accounts	(545)	(591)	46
Total current assets	248,042	239,777	8,265
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	54,661	56,056	(1,395)
Machinery, equipment and vehicles, net	75,021	79,059	(4,038)
Land	50,183	50,429	(246)
Other, net	12,928	12,890	38
Total property, plant and equipment	192,793	198,434	(5,641)
Intangible assets			
Goodwill	43,288	43,995	(707)
Other	6,558	6,597	(39)
Total intangible assets	49,846	50,592	(746)
Total investments and other assets	28,781	29,181	(400)
Total noncurrent assets	271,420	278,207	(6,787)
Total assets	519,462	517,984	1,478
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	75,101	67,213	7,888
Short-term loans payable	51,385	52,874	(1,489)
Commercial Paper	6,000	4,000	2,000
Current portion of long-term loans payable	1,682	1,743	(61)
Current portion of bonds	5,000	10,000	(5,000)
Income taxes payable	4,872	2,081	2,791
Allowance	102	155	(53)
Other	30,658	32,199	(1,541)
Total current liabilities	174,800	170,265	4,535
Noncurrent liabilities			
Bonds payable	24,000	24,000	0
Convertible bond-type bonds with subscription rights to shares	40,000	40,000	0
Long-term loans payable	37,601	38,047	(446)
Provision for retirement benefits	21,520	21,299	221
Other provision	3,397	4,113	(716)
Other	7,219	7,477	(258)
Total noncurrent liabilities	133,737	134,936	(1,199)
Total liabilities	308,537	305,201	3,336
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	0
Capital surplus	41,243	41,243	0
Retained earnings	153,882	150,470	3,412
Treasury stock	(10,667)	(10,664)	(3)
Total shareholders' equity	210,742	207,333	3,409
Adjustment gains and losses			
Net unrealized holding gains (losses) on available-for-sale	1,231	1,861	(630)
Foreign currency translation adjustments	(20,006)	(15,771)	(4,235)
Total adjustment gains and losses	(18,775)	(13,910)	(4,865)
Minority interests	18,958	19,360	(402)
Total Net Assets	210,925	212,783	(1,858)
Total liabilities and net assets	519,462	517,984	1,478

Consolidated Quarterly Statements of Income

(Millions of Yen)

	1st quarter fiscal 2010 (Jun.30.10)	Ratio to Sales (%)	1st quarter fiscal 2009 (Jun.30.09)	Ratio to Sales (%)	(difference) (%)
Net sales	126,868	100.0	92,470	100.0	137
Cost of sales	97,173	76.6	81,162	87.8	120
Gross profit	29,695	23.4	11,308	12.2	263
Selling, general and administrative expenses	17,739	14.0	15,813	17.1	112
Operating income	11,956	9.4	(4,505)	(4.9)	(265)
Non-operating income					
Interest income	79		91		87
Dividends income	64		68		94
Other	769		916		84
Total non-operating income	912	0.7	1,075	1.2	85
Non-operating expenses					
Interest expenses	571		562		102
Exchange losses	729		—		—
Loss on valuation of derivatives	—		99		—
Other	819		1,409		58
Total non-operating expenses	2,119	1.7	2,070	2.2	102
Extraordinary income					
Gain on liquidation in silent partnership	—		1,025		—
Total extraordinary income	0	0.0	1,025	1.1	0
Extraordinary loss					
Impairment loss	—		—		—
Loss on structural reform	—		1,106		—
Loss on adjustment for changes of accounting standard for asset retirement	28		—		—
Total extraordinary losses	28	0.0	1,106	1.2	3
Income (loss) before income taxes	10,721	8.5	(5,581)	(6.0)	(192)
Income taxes	4,896	3.9	(1,857)		(264)
Income before minority interests	5,825	4.6	—		—
Minority interests in income (loss)	298	0.2	(73)	(0.1)	(408)
Net income (loss)	5,527	4.4	(3,651)	(3.9)	(151)

Consolidated quarterly statements of cash flows

(Millions of Yen)

	End of 6/10	End of 6/09
Cash flows from operating activities		
Income before income taxes and minority interests	10,721	(5,581)
Depreciation and amortization	6,678	7,371
Amortization of goodwill and negative goodwill	642	663
Interest and dividends income	(143)	(159)
Interest expenses	571	562
Decrease (increase) in notes and accounts receivable-trade	(2,603)	937
Decrease (increase) in inventories	(9,901)	11,370
Increase (decrease) in notes and accounts payable-trade	10,274	(5,319)
Increase (decrease) in accrued expenses	(1,831)	(3,662)
Other, net	1,551	(247)
Subtotal	15,959	5,935
Income taxes paid	(1,315)	(2,595)
Net cash provided by operating activities	14,644	3,340
Cash flows from investing activities		
Proceeds from sales of investment securities	4	206
Purchase of subsidiaries' common stock	—	(159)
Proceeds from sales of subsidiaries' common stock	11	55
Purchase of property, plant and equipment	(4,577)	(8,298)
Proceeds from sales of property, plant and equipment	186	62
Purchase of intangible assets	(482)	(344)
Interest and dividends income received	135	157
Other, net	16	49
Net cash used in investment activities	(4,707)	(8,272)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(577)	(2,193)
Net increase (decrease) in Commercial Paper	2,000	9,000
Repayment of long-term loans payable	(117)	(387)
Redemption of bonds	(5,000)	(921)
Interest paid	(683)	(695)
Purchase of treasury stock	(3)	(8)
Proceeds from sale of treasury stock	—	2
Cash dividends paid	(2,115)	(2,115)
Cash dividends paid to minority shareholders	(191)	(319)
Net cash used in financing activities	(6,686)	2,364
Effect of exchange rate change in cash and cash equivalents	(2,229)	(19)
Net increase (decrease) in cash and cash equivalents	1,022	(2,587)
Cash and cash equivalents at beginning of period	43,639	33,476
Effect of change in the fiscal year-end of consolidated subsidiaries	—	(45)
Cash and cash equivalents at end of period	44,661	30,844

Notes to the Consolidated Financial Statements

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

2. 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, 2010, 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 using future earnings estimates and tax planning applied in the previous consolidated fiscal year after modification to reflect such changes.

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, 2011, and multiplying income before income taxes and minority interests for the first quarter of the fiscal year ending March 31, 2011 by said estimated effective tax rate applicable to income before income taxes and minority interests for the first quarter of the fiscal year ending March 31, 2011. In the event, however, the Company is unable to use the estimated effective tax rate, the statutory effective tax rate is applied.

3. Overview of changes in accounting principles, procedures and methods of presentation in consolidated financial statements

(Application of accounting standards for asset retirement obligations)

From the first quarter of the fiscal year ending March 31, 2011, Hitachi Metals applies the Accounting Standards Board of Japan (ASBJ) Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, March 31, 2008) and ASBJ Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, March 31, 2008).

The application of this policy had no material impact on operating income and income before income taxes.

(Application of Accounting Standard for Equity Method of Accounting for Investments and Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method)

From the first quarter of the fiscal year ending March 31, 2011, Hitachi Metals applies ASBJ Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No. 16, March 10, 2008) and ASBJ Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (ASBJ PITF No. 24, March 10, 2008). Necessary revisions are made on a consolidated basis.

The application of this policy had no impact on operating income or income before income taxes.

(Application of Accounting Standard for Business Combinations)

From the first quarter of the fiscal year ending March 31, 2011, Hitachi Metals applies the following accounting standards (all announced December 26, 2008):

- Accounting Standard for Business Combinations (ASBJ Statement No. 21)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22)
- Partial amendments to Accounting Standard for Research and Development Costs (ASBJ Statement No. 23)
- Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7 (Revised 2008))
- Revised Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No. 16 (Revised 2008))
- Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 (Revised 2008)).

(Changes in methods of presentation)

(Quarterly consolidated statements of operations)

In the previous consolidated first quarter, the foreign exchange loss that had been included in other in non-operating expenses as it was less than 20% of total non-operating expenses; however, because it has been determined that the foreign exchange loss exceeded 20% of total non-operating expenses in the consolidated first quarter under review, it is presented as a separate accounting item. The foreign exchange loss included in other under non-operating expenses for the previous consolidated first quarter was ¥22 million.

From the first quarter of the fiscal year ending March 31, 2011, Hitachi Metals applies the Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements (Cabinet Office Ordinance No. 5, March 24, 2009) based on Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, December 26, 2008). Accordingly, from the fiscal period under review, a new accounting item, "income before minority interests," is presented.

Business Segment Information

1. Information with Regard to Amount of Net Sales as well as Income and Loss for Each Business Segment Reported

First quarter fiscal 2010 (Apr. 1, 2010 - Jun. 30, 2010)

(Millions of yen)

	Business Segments Reported				Other Businesses	Total	Adjustments	Consolidated Statements of Income
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment	Subtotal				
Sales:								
Unaffiliated customers	55,560	32,960	38,067	126,587	281	126,868	—	126,868
Intersegment	357	86	6	449	498	947	(947)	—
Total sales	55,917	33,046	38,073	127,036	779	127,815	(947)	126,868
Operating Income (Loss)	6,633	4,610	2,627	13,870	225	14,095	(2,139)	11,956

2. Overview of Business Segments Reported

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 magnetic materials , and applied products), components for information and telecommunications equipment (multilayered devices, isolators), IT components and materials , 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)