Hitachi Metals, Ltd. (Oct. 26, 2010)

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Consolidated Financial Report for the 6-month period ended September 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 September 30,2010 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	**9/2010(interim)**	9/2009(interim)	(Change)	3/2010
Net sales (million yen)	**254,168**	195,276	30.2%	431,683
Operating income (million yen)	**21,938**	(3,501)	—	13,349
Income before income taxes (million yen)	**18,588**	(8,715)	—	5,727
Net income (million yen)	**10,251**	(5,680)	—	1,937
Net income per share (yen)	**29.08**	(16.11)		5.50
Diluted net income per share (yen)	—	—		—

(2) Consolidated Financial Position	**9/2010(interim)**	3/2010
Total assets (million yen)	**521,066**	517,984
Net assets (million yen)	**214,964**	212,783
Equity ratio (%)	**37.5**	37.3
Net assets per share (yen)	**554.97**	548.76

Note: Shareholders' equity (9/2010:195,605 3/2010:193,423)

2. Dividend	**9/2010(interim)**	9/2009(interim)	3/2011 (Planed)
Annual dividend per share (yen)	—	—	12.00
Interim (yen)	**6.00**	6.00	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

	Full-year	Year-on-year Change
Net sales (million yen)	510,000	18.1%
Operating income (million yen)	38,000	184.6%
Income before income taxes(million yen)	27,300	376.7%
Net income (million yen)	14,000	622.8%
Net income per share (yen)	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) 9/2010: 366,557,889 3/2010:366,557,889
Number of treasury stock outstanding at end of year 9/2010: 14,094,863 3/2010:14,085,629
Number of shares average at end of year 9/2010: 352,467,810 9/2009: 352,489,539

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

Examining the first half of the fiscal year ending March 31, 2011, although the global economy sustained a gentle recovery, unemployment rates in the United States and Europe remained high, and even China saw its economic growth soften to some degree. Turning to the domestic economy, despite the fact that steady improvements were recorded, the accelerating appreciation of the yen, the conclusion of economic stimulus measures, and other developments combined to elevate the mood of uncertainty in Japan.

For industries in which the Hitachi Metals Group is active, demand for automobiles expanded in China and other emerging nations, and the North American market geared up for a moderate increase. For semiconductors, recovery was led by robust demand for electronic equipment in emerging economies. Cell phones and personal computers posted a recovery as well, particularly in emerging nations. For steel, demand in Japan was solid, but overseas market conditions moved into stagnant territory. Japan's domestic housing starts are in a slight upturn, although the actual level remains low.

Within this business environment, the Hitachi Metals Group's consolidated net sales in the first half finished at ¥254,168 million, up 30.2% from the figure for the same period of the previous fiscal year. Operating income rose ¥25,439 million over that in the corresponding period the year before, to ¥21,938 million, and income before income taxes charted a year-on-year increase of ¥27,303 million, reaching ¥18,588 million. As a result, net income in the first half of the current fiscal year was tracked at ¥10,251 million, a ¥15,931 million increase from that in the corresponding period of the previous fiscal year.

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

High-Grade Metal Products and Materials

In the high-grade metal products and materials segment, sales finished at ¥111,750 million, and operating income was ¥12,197 million.

Sales results of major products in this segment are as follows.

For molds and tool steel, demand for molds for automotive parts, the primary use of tool steel, turned in a strong performance thanks to the favorable tailwind generated by the effects of subsidies for the purchase of eco-friendly vehicles. For alloys for electronic products, the rest of Asia was largely responsible for raising demand for LCD panel-related materials and semiconductor and other package materials to a more positive level. For industrial equipment and energy-related materials, demand for automotive-related materials was sound, boosted by the impact of the aforementioned eco-car purchase subsidies; energy-related materials, however, performed sluggishly. For rolls, although construction-related demand failed to bring about full-fledged recovery, orders in that sector led to a gentle increase. For injection molding machine parts, customers continue to receive orders for injection molding machines to be used in China; consequently, demand for such parts recovered in the second quarter. For cutting tools, recovery in production, progress in inventory adjustments, and other positive developments in the automobile- and electronics-related industries—the main customers for this segment—fueled a gentle yet sustained rebound in demand for these tools.

Electronics and IT Devices

Sales in the electronics and IT devices segment were ¥65,994 million, and operating income came in at ¥7,877 million.

Sales results of major products in this segment are as follows.

For permanent magnets, although the impact of steep increases in raw material prices was felt, sales of rare earth magnets for use in automobiles, household appliances, and personal computers showed strength. Likewise, demand for factory automation was solid, buoyed by a recovery in capital investment in China, South Korea, and other countries. Demand for ferrite magnets for automotive and household appliance applications was firm. For soft magnetic materials, sales of amorphous metals scored major growth backed by brisk demand in major markets China and India. Soft ferrite cores turned in a strong performance in shipments for use in household appliances and onboard devices, with FINEMET® sales achieving major growth thanks to demand for industrial equipment, onboard devices, and solar power generation. For components for information and telecommunications equipment, demand for cell phones and other communications equipment and facilities, digital electronics products for household use, and other areas shifted up to a par with that in the preceding quarter.

High-Grade Functional Components and Equipment

Sales in the high-grade functional components and equipment segment were ¥76,924 million, and operating income finished at ¥5,297 million.
Sales results for major products in this category are as follows.

The effects of Japan's subsidies for the purchase of eco-friendly cars were a key factor in maintaining demand for high-grade ductile iron products. Additional support came from healthy automobile sales of customers, primarily those in the Chinese and North American markets. Sales of heat-resistant exhaust casting components displayed particular strength in the European market, with demand solidifying as a result. For aluminum wheels, the automobile sales of customers targeting China and North America were vigorous, a factor that contributed to strong demand for these products. Pipe fittings felt the impact of anemic construction demand and capital investment cutbacks in Japan; as a result, demand continued to sag. For stainless steel and plastic piping components, demand failed to emerge from its slump, held back by sluggish housing starts in Japan and the United States alike. Looking at construction components, cutbacks in capital investment and a decline in construction kept demand stagnant.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

At the end of the second quarter of the fiscal year ending March 31, 2011, cash and cash equivalents stood at ¥44,701 million, an increase of ¥1,062 million compared to that at the end of the previous fiscal year. This outcome is mainly attributable to the fact that net cash provided by operating activities exceeded net cash used in investing and financing activities.
The status of cash flows at the end of the second quarter and primary factors behind the reported results are outlined below.

Cash Flows from Operating Activities
Net cash provided by operating activities was ¥27,369 million. This is mainly attributable to the fact that income before income taxes was ¥18,588 million.

Cash Flows from Investing Activities
Net cash used in investing activities was ¥8,467 million. This is mainly attributable to the fact that the purchase of property, plant and equipment totaled ¥8,631 million.

Cash Flows from Financing Activities
Net cash used in financing activities was ¥15,177 million. This is mainly attributable to the fact that although proceeds from long-term loans payable was ¥16,600 million, redemption of bonds totaled ¥24,895 million, cash dividends paid amounted to ¥2,306 million, and interest paid came to ¥938 million.

3. Qualitative Information Regarding Forecasts

The company's performance on a consolidated basis in the first half of the fiscal year ending March 2011 produced steady progress with respect to plans, supported by robust demand for electronics-related products and a shift to favorable demand in the automobile-related field. Although moves to regulate demand for LCD display-related materials and certain other electronics-related products emerged in the latter half of the second quarter, demand for automobile-related products remained strong. Against this backdrop, a decision has been made to revise performance forecasts for the entire 2011 fiscal year (April 1, 2010, through March 31, 2011).

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 9/2010	End of 3/2010	(difference)
ASSETS			
Current assets			
Cash and deposits	**33,951**	31,175	2,776
Notes and accounts receivable-trade	**89,437**	90,564	(1,127)
Finished products	**35,582**	32,066	3,516
Work in process	**30,412**	27,467	2,945
Raw materials	**32,947**	25,191	7,756
Deposit paid in subsidiaries and affiliates	**10,166**	12,048	(1,882)
Other	**22,036**	21,857	179
Allowance for doubtful accounts	**(508)**	(591)	83
Total current assets	**254,023**	239,777	14,246
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	**53,449**	56,056	(2,607)
Machinery, equipment and vehicles, net	**72,561**	79,059	(6,498)
Land	**50,167**	50,429	(262)
Other, net	**12,820**	12,890	(70)
Total property, plant and equipment	**188,997**	198,434	(9,437)
Intangible assets			
Goodwill	**42,567**	43,995	(1,428)
Other	**6,140**	6,597	(457)
Total intangible assets	**48,707**	50,592	(1,885)
Total investments and other assets	**29,339**	29,181	158
Total noncurrent assets	**267,043**	278,207	(11,164)
Total assets	**521,066**	517,984	3,082
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	**75,407**	67,213	8,194
Short-term loans payable	**49,163**	52,874	(3,711)
Commercial Paper	**4,000**	4,000	0
Current portion of long-term loans payable	**1,449**	1,743	(294)
Current portion of bonds	**5,000**	10,000	(5,000)
Income taxes payable	**7,087**	2,081	5,006
Allowance	**187**	155	32
Other	**34,641**	32,199	2,442
Total current liabilities	**176,934**	170,265	6,669
Noncurrent liabilities			
Bonds payable	**24,000**	24,000	0
Convertible bond-type bonds with subscription rights to shares	**20,105**	40,000	(19,895)
Long-term loans payable	**52,961**	38,047	14,914
Provision for retirement benefits	**21,838**	21,299	539
Other provision	**3,401**	4,113	(712)
Other	**6,863**	7,477	(614)
Total noncurrent liabilities	**129,168**	134,936	(5,768)
Total liabilities	**306,102**	305,201	901
NET ASSETS			
Shareholders' equity			
Capital stock	**26,284**	26,284	0
Capital surplus	**41,243**	41,243	0
Retained earnings	**158,606**	150,470	8,136
Treasury stock	**(10,673)**	(10,664)	(9)
Total shareholders' equity	**215,460**	207,333	8,127
Adjustment gains and losses			
Net unrealized holding gains (losses) on available-for-sale	**1,330**	1,861	(531)
loss on deferred hedge	**1**	—	—
Foreign currency translation adjustments	**(21,186)**	(15,771)	(5,415)
Total adjustment gains and losses	**(19,855)**	(13,910)	(5,945)
Minority interests	**19,359**	19,360	(1)
Total Net Assets	**214,964**	212,783	2,181
Total liabilities and net assets	**521,066**	517,984	3,082

Consolidated Quarterly Statements of Income

(Millions of Yen)

	1st half fiscal 2010 (Sep.30.2010)	Ratio to Sales (%)	1st half fiscal 2010 (Sep.30.2009)	Ratio to Sales (%)	(difference) (%)
Net sales	**254,168**	100.0	195,276	100.0	130
Cost of sales	**197,186**	77.6	166,795	85.4	118
Gross profit	**56,982**	22.4	28,481	14.6	200
Selling, general and administrative expenses	**35,044**	13.8	31,982	16.4	110
Operating income (loss)	**21,938**	8.6	(3,501)	(1.8)	—
Non-operating income					
Interest income	**162**		184		88
Dividends income	**78**		72		108
Other	**1,598**		1,882		85
Total non-operating income	**1,838**	0.7	2,138	1.1	86
Non-operating expenses					
Interest expenses	**880**		1,087		81
Foreign exchange gains	**1,437**		—		—
Loss on valuation of derivatives	—		99		—
Other	**2,248**		3,504		64
Total non-operating expenses	**4,565**	1.8	4,690	2.4	97
Extraordinary gains					
Gain on sales of property and equipment	—		—		—
Gain on liquidation in silent partnership	—		1,025		—
Total extraordinary income	**0**	0.0	1,025	0.5	—
Extraordinary losses					
Loss on impairment of fixed assets	**302**		—		—
Loss on structural reform	—		3,687		—
Loss on liquidation of affiliates	**293**		—		—
Loss on adjustment for changes of accounting standard for asset retirement	**28**		—		—
Total extraordinary losses	**623**	0.2	3,687	1.9	—
Income (loss) before income taxes	**18,588**	7.3	(8,715)	(4.5)	—
Income taxes	**7,653**		(3,098)		—
Minority interests in income (loss)	**684**	0.3	63	0.0	1,086
Net income (loss)	**10,251**	4.0	(5,680)	(2.9)	—

Consolidated quarterly statements of cash flows

(Millions of Yen)

	End of 9/2010	End of 9/2009
Cash flows from operating activities		
(Loss) income before income taxes	**18,588**	(8,715)
Depreciation and amortization	**13,487**	14,899
Amortization of goodwill and negative goodwill	**1,295**	1,330
Interest and dividends income	**(240)**	(256)
Interest expenses	**880**	1,087
Decrease (increase) in notes and accounts receivable—trade	**(2,499)**	(6,077)
Decrease (increase) in inventories	**(16,442)**	16,019
Increase (decrease) in notes and accounts payable—trade	**10,967**	8,286
Increase (decrease) in accrued expenses	**2,054**	(1,023)
Other, net	**833**	41
Subtotal	**28,923**	25,591
Income taxes paid	**(2,087)**	(3,395)
Income taxes refund	**533**	7,307
Net cash provided by operating activities	**27,369**	29,503
Cash flows from investing activities		
Proceeds from sales of investment securities	**5**	427
Purchase of subsidiaries' commom stock	—	(159)
Proceeds from sales of subsidiaries' commom stock	**11**	61
Purchase of property, plant and equipment	**(8,631)**	(14,891)
Proceeds from sales of property, plant and equipment	**349**	191
Purchase of intangible assets	**(597)**	(664)
Interest and dividends income received	**224**	255
Other, net	**172**	(65)
Net cash by used in investment activities	**(8,467)**	(14,845)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	**(2,422)**	(5,957)
Net increase (decrease) in Commercial Paper	—	3,000
Proceeds from long-term loans payable	**16,600**	—
Repayment of long-term loans payable	**(1,206)**	(498)
Redemption of bonds	**(24,895)**	(921)
Interest paid	**(938)**	(1,134)
Purchase of treasury stock	**(10)**	(13)
Proceeds from sale of treasury stock	—	2
Cash dividends paid	**(2,115)**	(2,115)
Cash dividends paid to minority shareholders	**(191)**	(336)
Net cash used in financing activities	**(15,177)**	(7,972)
Effect of exchange rate change in cash and cash equivalents	**(2,663)**	(881)
Net increase in cash and cash equivalents	**1,062**	5,805
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	**44,701**	39,236

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 half fiscal 2010 was ¥689 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

1st half fiscal2010 (Apr.1, 2010 - Sep. 30, 2010) (Millions of yen)

	Business Segments Reported							
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment	Subtotal	Other Businesses	Total	Adjustments	Consolidated Statements of Income
Sales:								
Unaffiliated customers	110,827	65,770	76,908	253,505	663	254,168	—	254,168
Intersegment	923	224	16	1,163	1,046	2,209	(2,209)	—
Total sales	111,750	65,994	76,924	254,668	1,709	256,377	(2,209)	254,168
Operating Income (Loss)	12,197	7,877	5,297	25,371	398	25,769	(3,831)	21,938

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 (high-grade 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)