

Hitachi Metals, Ltd. (Feb. 2, 2011)

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Consolidated Financial Report for the 9-month period ended December 31, 2010

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

1. Performance over the year, April 1, 2010 to December 31, 2010 (Figures are rounded off to the nearest million yen)

(1) Consolidated Operating Results	12/2010(quarter)	12/2009(quarter)	(Change)
Net sales (million yen)	388,035	308,161	25.9%
Operating income (million yen)	34,031	3,625	838.8%
Income before income taxes (million yen)	29,945	(2,637)	—
Net income (million yen)	16,455	(2,944)	—
Net income per share (yen)	46.69	(8.35)	—
Diluted net income per share (yen)	—	—	—

(2) Consolidated Financial Position	12/2010(quarter)	3/2010
Total assets (million yen)	523,081	517,984
Net assets (million yen)	218,249	212,783
Equity ratio (%)	38.0	37.3
Net assets per share (yen)	563.94	548.76

Note: Shareholders' equity (million yen) 12/2010:198,756 3/2009: 193,423

2. Dividend	12/2010(quarter)	12/2009(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, 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) 12/10: 366,557,889 3/10:366,557,889
Number of treasury stock outstanding at end of year 12/10: 14,113,368 3/10:14,085,629
Number of shares average at end of year 12/10: 352,463,902 12/09: 352,485,373

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 nine-month period of the fiscal year ending March 31, 2011, although the global economy sustained a gentle recovery overall, economic growth in China softened to some degree under the impact of government measures aimed at curbing inflation. In the United States and Europe, calls were heard for action in response to unemployment rates remaining high and the credit crunch. Turning to the domestic Japanese economy, despite the fact that a slow but steady recovery continues to unfold, the termination of economic stimulus measures and other developments combined to heighten a mood of uncertainty, with economic activity lapsing into a general standstill.

For industries in which the Hitachi Metals Group is active, although demand for automobiles in Japan declined with the end of the program of subsidizing purchases of environmentally friendly vehicles, the Chinese auto market continues to run robust. The semiconductor field charted progress, with surging demand for smartphones, portable terminals, and other related products serving as a favorable tailwind. Demand for cell phones and personal computers posted increases as well, particularly in emerging nations. As for steel, the Japanese steel industry moved into somewhat of an adjustment phase, while the overseas sector, too, was short of evidence of a strong recovery. Japan's domestic housing starts continue their upward climb, although public investment is sluggish.

Within this type of business environment, consolidated net sales for the Hitachi Metals Group in the nine-month period finished at ¥388,035 million, an increase of 25.9% compared to that in the corresponding period of the previous year. Operating income rose ¥30,406 million over the figure for the same period the year before, to ¥34,031 million, and income before income taxes produced a year-on-year gain of ¥32,582 million at ¥29,945 million. As a result, net income in the period under review was tracked at ¥16,455 million, a gain of ¥19,399 million over that in the same period of the previous fiscal year.

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

High-Grade Metal Products and Materials

Sales in the high-grade metal products and materials segment finished at ¥168,441 million, and operating income was ¥19,077 million.

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

For molds and tool steel, strong demand for automobile-use molds, the primary use sector for tool steel, enjoyed broad-based expansion. For alloys for electronic products, demand for LCD-panel-related materials and semiconductor and other package materials was strong despite moving into an inventory adjustment phase. Tracking industrial equipment and energy-related materials, although demand for automotive-related materials expanded with the primary focus on overseas markets, energy-related materials sales were sluggish. For rolls, even with domestic demand failing to reach a full-fledged recovery, orders increased. Examining injection molding machine parts, customers continued to receive orders for injection molding machines to be used in China; consequently, demand for such parts increased. For cutting tools, a recovery in production, progress in inventory adjustments, and other positive developments in the automobile- and electronics-related industries—the main customers for these products—continued to help fuel a gentle yet sustained rebound in demand.

Electronics and IT Devices

Sales in the electronic and IT devices segment were ¥101,449 million, and operating income came in at ¥12,005 million.

The sales performance of major products in this segment is as follows.

For permanent magnets, in addition to the impact of steep increases in raw material prices, a lull in demand for rare earth magnets for use in automobiles at home in Japan emerged and is linked to the end of subsidies paid for purchases of environmentally friendly vehicles. Exports, however, grew, particularly shipments to the United States and Europe. Demand for magnets for use in household appliances and personal computers continued to show strength. In the factory automation field, despite some rare earth magnet demand in China, South Korea, and Taiwan accompanying capital investment moving into an adjustment phase, orders gained ground overall. Orders for ferrite magnets for automotive and household appliance applications were solid. Under soft magnetic materials, amorphous metals posted handsome growth, buoyed by vigorous demand in the major markets of China, India, and North America. Orders for soft ferrite for use in portable terminals displayed strength, with sales of FINEMET® for utilization in industrial equipment, onboard devices, and solar power generation systems continuing to achieve solid advances. For components for information telecommunications equipment, demand slipped in the wake of changes in certain components used in cell phones and other communications devices as well as facility equipment to other items.

High-Grade Functional Components and Equipment

Sales in the high-grade functional components and equipment segment were ¥119,032 million, and operating income finished at ¥8,505 million.

Sales results for major products in this category follow.

Demand for high-grade ductile iron products grew, boosted by customers' brisk sales in the China and North America markets. For heat-resistant exhaust casting components, robust sales to U.S. and European automobile parts manufacturers helped keep demand sturdy. Turning to aluminum wheels, demand benefited from customers' strong sales in the China and North America markets, with orders for these products turning in strong figures. Pipe fitting sales felt the impact of lagging construction demand and capital investment cutbacks in Japan and the United States. As a result, demand failed to bounce back, and sales declined slightly. Demand for stainless steel and plastic piping components failed to rally from the doldrums, constrained by sluggish housing starts in Japan and the United States alike, and sales fell slightly. Construction component demand remained flat as well, due primarily to cutbacks in construction and capital investment.

Other

Sales in this segment were ¥2,511 million. Operating income finished at ¥502 million.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

At the end of the third quarter of the fiscal year ending March 31, 2011, cash and cash equivalents stood at ¥35,803 million, a decrease of ¥7,836 million compared to that at the end of the previous fiscal year. This outcome is mainly attributable to the fact that the cash flows channeled into investing and financial activities exceeded the cash flows generated as a result of operating activities.

The status of cash flows for the third quarter and the primary factors behind the reported results are outlined below.

Cash Flows from Operating Activities

Net cash generated from operating activities was ¥32,998 million. This is mainly attributable to the fact that income before income taxes and minority interests was ¥29,945 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥16,556 million. This is mainly attributable to the fact that the purchase of property, plant and equipment totaled ¥13,155 million and the transfer purchase of the mass flow controller business accounted for ¥3,721 million and other outlays.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥20,812 million. This is mainly attributable to the fact that although income resulting from long-term loans payable was ¥16,600 million, redemptions of bonds accounted for ¥29,895 million, cash dividend paid amounted to ¥4,564 million, and other outlays were generated.

3. Qualitative Information Regarding Forecasts

The company's consolidated performance for the nine-month period of the fiscal year ending March 2011 was supported by robust demand, primarily in the automobile- and IT-related fields, with steady progress made with respect to the company's plans. On the negative side, the steep rise in raw material prices continued, and we are having difficulties ascertaining the impact of that development on our performance at the present stage. In view of these conditions and with regard to performance projections for the full fiscal year ending March 2011 (April 1, 2010, through March 31, 2011), the decision was made to retain the forecast figures announced on October 26, 2010.

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 12/2010	End of 3/2010	(difference)
ASSETS			
Current assets			
Cash and deposits	31,636	31,175	461
Notes and accounts receivable-trade	92,268	90,564	1,704
Finished products	37,684	32,066	5,618
Work in process	30,683	27,467	3,216
Raw materials	37,204	25,191	12,013
Deposit paid in subsidiaries and affiliates	3,718	12,048	(8,330)
Other	23,700	21,857	1,843
Allowance for doubtful accounts	(491)	(591)	100
Total current assets	256,402	239,777	16,625
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	52,725	56,056	(3,331)
Machinery, equipment and vehicles, net	72,737	79,059	(6,322)
Land	50,210	50,429	(219)
Other, net	10,664	12,890	(2,226)
Total property, plant and equipment	186,336	198,434	(12,098)
Goodwill	42,237	43,995	(1,758)
Other	7,890	6,597	1,293
Total intangible assets	50,127	50,592	(465)
Total investments and other assets	30,216	29,181	1,035
Total noncurrent assets	266,679	278,207	(11,528)
Total assets	523,081	517,984	5,097
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	76,644	67,213	9,431
Short-term loans payable	48,993	52,874	(3,881)
Commercial Paper	6,000	4,000	2,000
Current portion of long-term loans payable	5,433	1,743	3,690
Current portion of bonds	—	10,000	(10,000)
Income taxes payable	9,843	2,081	7,762
Allowance	196	155	41
Other	32,735	32,199	536
Total current liabilities	179,844	170,265	9,579
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	48,707	38,047	10,660
Provision for retirement benefits	22,143	21,299	844
Other provision	3,381	4,113	(732)
Other	6,652	7,477	(825)
Total noncurrent liabilities	124,988	134,936	(9,948)
Total liabilities	304,832	305,201	(369)
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	0
Capital surplus	41,243	41,243	0
Retained earnings	162,695	150,470	12,225
Treasury stock	(10,691)	(10,664)	(27)
Total shareholders' equity	219,531	207,333	12,198
Adjustment gains and losses			
Net unrealized holding gains (losses) on available-for-sale	2,021	1,861	160
Foreign currency translation adjustments	(22,796)	(15,771)	(7,025)
Total adjustment gains and losses	(20,775)	(13,910)	(6,865)
Minority interests	19,493	19,360	133
Total Net Assets	218,249	212,783	5,466
Total liabilities and net assets	523,081	517,984	5,097

Consolidated Quarterly Statements of Income

(Millions of Yen)

	3rd quarter fiscal 2010 (Dec.31.10)	Ratio to Sales (%)	3rd quarter fiscal 2009 (Dec.31.09)	Ratio to Sales (%)	(difference) (%)
Net sales	388,035	100.0	308,161	100.0	126
Cost of sales	300,562	77.5	255,669	83.0	118
Gross profit	87,473	22.5	52,492	17.0	167
Selling, general and administrative expenses	53,442	13.8	48,867	15.9	109
Operating income	34,031	8.8	3,625	1.2	939
Non-operating income					
Interest income	261		308		85
Dividends income	117		98		119
Other	2,395		2,810		85
Total non-operating income	2,773	0.7	3,216	1.0	86
Non-operating expenses					
Interest expenses	1,317		1,598		82
Foreign exchange loss	2,097		491		427
Other	2,822		4,404		64
Total non-operating expenses	6,236	1.6	6,493	2.1	96
Extraordinary gains					
Gain on liquidation in silent partnership	—		1,025		—
Total extraordinary income	—	—	1,025	0.3	—
Extraordinary loss					
Impairment loss	302		45		671
Loss on liquidation of affiliates	293		—		—
Loss on structural reform	—		3,965		—
Loss on adjustment for changes of accounting standard for asset retirement	28		—		—
Total extraordinary losses	623	0.2	4,010	1.3	16
Income before income taxes	29,945	7.7	(2,637)	(0.9)	—
Income taxes	12,397	3.2	(56)	(0.0)	—
Minority interests in income	1,093	0.3	363	0.1	301
Net income	16,455	4.2	(2,944)	(1.0)	—

Consolidated quarterly statements of cash flows

	(Millions of Yen)	
	End of 12/2010	End of 3/2009
Cash flows from operating activities		
Income before income taxes and minority interests	29,945	(2,637)
Depreciation and amortization	20,824	22,658
Amortization of goodwill and negative goodwill	1,952	1,977
Loss on devaluation of investment securities	38	20
Interest and dividends income	(378)	(406)
Interest expenses	1,317	1,598
(Increase) Decrease in notes and accounts receivable-trade	(6,437)	(12,041)
(Increase) Decrease in inventories	(23,104)	14,264
Increase (Decrease) in notes and accounts payable-trade	13,116	16,569
Increase (Decrease) in accrued expenses	(826)	(2,553)
Other, net	(434)	(329)
Subtotal	36,013	39,120
Income taxes paid	(3,867)	(3,476)
Income taxes refund	852	7,307
Net cash provided by operating activities	32,998	42,951
Cash flows from investing activities		
Purchase of investments in subsidiaries	—	(159)
Proceeds from sales of investments in subsidiaries	11	127
Proceeds from sales of investment securities	77	458
Purchase of property, plant and equipment	(13,155)	(18,170)
Proceeds from sales of property, plant and equipment	506	372
Purchase of intangible assets	(750)	(831)
Payments for transfer of business	(3,721)	—
Interest and dividends income received	340	398
Other, net	136	(46)
Net cash by used in investment activities	(16,556)	(17,851)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,217)	(9,029)
Net increase (decrease) in Commercial Paper	2,000	3,000
Proceeds from long-term loans payable	16,600	6,000
Repayment of long-term loans payable	(1,296)	(3,636)
Redemption of bonds	(29,895)	(5,921)
Interest expenses paid	(1,412)	(1,732)
Proceeds from sales of treasury stock	—	2
Purchase of treasury stock	(28)	(23)
Cash dividends paid	(4,230)	(4,230)
Cash dividends paid to minority shareholders	(334)	(465)
Net cash used in financing activities	(20,812)	(16,034)
Effect of exchange rate change on cash and cash equivalents	(3,466)	(370)
Net increase (decrease) in cash and cash equivalents	(7,836)	8,696
Cash and cash equivalents at beginning of period	43,639	33,476
Effect of changes in the fiscal year-end of consolidated subsidiaries	—	(45)
Cash and cash equivalents at end of period	35,803	42,127

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 third quarter of the fiscal year ending March 31, 2011, a portion of the physical inventory is omitted and a reasonable method is used based on the first half of the 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 third quarter of the fiscal year ending March 31, 2011, and multiplying income before income taxes and minority interests for the third 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 third 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)

From the third 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

3rd quarter fiscal 2010 (Apr.1, 2010 - Dec. 31, 2010)

(Millions of yen)

	Business Segments Reported			Subtotal	Other Businesses	Total	Adjustments	Consolidated Statements of Income
	High-Grade Metal Products and Materials	Electronics and IT Devices	High-Grade Functional Components and Equipment					
Sales:								
Unaffiliated customers	166,970	101,078	118,954	387,002	1,033	388,035	—	388,035
Intersegment	1,471	371	78	1,920	1,478	3,398	(3,398)	—
<u>Total sales</u>	<u>168,441</u>	<u>101,449</u>	<u>119,032</u>	<u>388,922</u>	<u>2,511</u>	<u>391,433</u>	<u>(3,398)</u>	<u>388,035</u>
Operating Income	19,077	12,005	8,505	39,587	502	40,089	(6,058)	34,031

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	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)