

Hitachi Metals, Ltd. (July 28, 2011)

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Consolidated Financial Report for the first quarter ended June 30, 2011

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Listed Stock Exchanges: Tokyo and Osaka (First Section, Code 5486)(ISIN : JP3786200000)

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	6/2011(quarter)	6/2010(quarter)	(Change)	3/2011
Net sales (million yen)	129,413	126,868	2.0%	520,186
Operating income (million yen)	10,911	11,956	(8.7%)	43,143
Income before income taxes (million yen)	9,985	10,721	(6.9%)	36,061
Net income (million yen)	6,239	5,527	12.9%	22,204
Net income per share (yen)		15.68		63.00
Diluted net income per share (yen)	—	—		—
Note: Total Comprehensive Income(6/2011 4,909 million yen	6/2010 444 million yen)			

(2) Consolidated Financial Position	6/2011(quarter)	3/2011
Total assets (million yen)	536,000	529,869
Net assets (million yen)	230,597	228,010
Equity ratio (%)	39.3	39.3
Net assets per share (yen)	598.43	591.51
Note: Shareholders' equity (6/2011: 210,909	3/2011: 208,472)	

2. Dividend	6/2011(quarter)	6/2010(quarter)	3/2012(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, 2011 to March 31, 2012

	Interim period	Year-on-year Change (%)	Full-year	Year-on-year Change (%)
Net sales (million yen)	243,000	(4.4%)	533,000	2.5%
Operating income (million yen)	15,000	(31.6%)	43,000	(0.3%)
Income before income taxes	13,200	(31.3%)	37,000	(1.6%)
Net income (million yen)	7,200	(29.8%)	20,900	(5.9%)
Net income per share (yen)	20.43	—	59.29	—

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) 6/2011: 366,557,889 3/2011: 366,557,889
Number of treasury stock outstanding at end of year 6/2011: 14,120,873 3/2011: 14,115,670
Number of shares average at end of year 6/2011: 352,439,309 6/2010: 352,471,033

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 Performance for the First Quarter Ended June 30, 2011

(1) Qualitative Information regarding Consolidated Business Results

During the first quarter of the fiscal year ending March 31, 2012, the global economy sustained an overall recovery. China and other emerging nations continued to maintain buoyant economies, and gentle business upturns were carried on in the United States and Europe. The Japanese economy experienced a major slump in terms of production activities in the wake of the Great East Japan Earthquake, primarily in the manufacturing sector, during the first half of the quarter; however, signs of improvement were seen in the second half.

Concerning industries in which the Hitachi Metals Group operates, the automobile sector was impacted domestically by shortages in the supply of parts in Japan due to the earthquake disaster, with production declining across the board. Overseas, the momentum in the Chinese and U.S. markets slowed to some degree, but business results remained robust. For semiconductors, demand ran solid for smartphones, tablet computers, and other portable terminals in regions other than Japan, helping to boost sales. In information equipment, new demand for smartphones, tablet computers, and other products acted to drive the market, supporting a rise in sales despite sluggish growth in those of cell phones and personal computers. The steel sector suffered a major setback in Japan under the impact of the temblor, although overseas markets upheld an underlying expansion tone. Housing starts in Japan were weak due to the earthquake, with public investment remaining bearish; however, the range of decline in those outlays was lower.

Within this business environment, net sales for the Hitachi Metals Group in the first quarter of the consolidated fiscal year under review finished at ¥129,413 million, up 2.0% compared to the first-quarter figure in fiscal 2010. Operating income declined ¥1,045 million, to ¥10,911 million, and income before income taxes produced a year-on-year loss of ¥736 million, at ¥9,985 million. Net income in the quarter was tracked at ¥6,239 million, a gain of ¥712 million from that in the first quarter of the previous fiscal year.

High-Grade Metal Products and Materials

In the high-grade metal products and materials segment, sales finished at ¥56,926 million in the first quarter under review, a gain of 1.8% over the first-quarter figure in fiscal 2010. Operating income declined ¥342 million from that in the same quarter the previous year, to ¥6,291 million.

The sales performances of major products in this segment in the first quarter are as follows.

For molds and tool steel, demand for automobile-use molds—the primary application for tool steel—picked up in the second half of the quarter. In alloys for electronic products, demand for LCD panel-related materials declined slightly under the impact of adjustments made in the fourth quarter of the previous fiscal year. For semiconductor and other package materials, demand was firm for components for use in smartphones and other electronic equipment. Inventory adjustments and other factors, however, held sales to a level equivalent to that in the previous quarter. Under industrial equipment and energy-related materials, demand for automotive-related materials slipped in Japan due to the impact of the grave earthquake damage. However, demand from overseas increased, supporting a strong sales performance in this sector. Sales of energy-related materials increased in the first quarter, with special procurements stemming from the tremor a key factor at work. For roll sales, Japan's domestic market was dragged down by sluggish demand. In contrast, sales in emerging nations spearheaded an expansion of overseas markets. Sales of injection molding machine parts were brisk in the quarter under review, supported by solid demand related to smartphones and other information equipment. Turning to cutting tools, stagnate production in automotive-related industries—key customers in this sector—saw demand for these tools level off.

Electronics and IT Devices

Sales in the electronics and IT devices segment in the first quarter were ¥33,774 million, an increase of 2.2% from the figure for the same quarter the previous fiscal year. Operating income was tracked at ¥4,121 million, down ¥489 million.

Sales of major products in this segment in the quarter under review are as follows.

Among magnets, the rare earth magnet business was negatively affected by raw materials prices that

continued to rise sharply and a sudden drop in the use of these magnets for automobiles under the impact of the big earthquake. This situation improved somewhat in the second half of the quarter. Sales of rare earth magnets for use in household appliances increased, keyed largely to overseas demand. Although demand for these magnets for use in factory automation equipment to manufacture automobiles and LCD panels slumped, overall demand held strong. For ferrite magnets, there was a slight drop in the production of such magnets for application in automobiles and household appliances, but sales remained on a par with the previous year's level. Under soft magnetic materials, sales of amorphous metals declined due to a delay in bidding procedures in the major market of China as well as capital investment cutbacks by electric power companies following the March quake tragedy. Demand for soft ferrite slipped back as a reaction to a drop in sales of LCD televisions prompted by the end of government stimulus measures as well as a decline in automobile production. FINEMET® sales fell in the first quarter, the result of weakened demand for industrial equipment and inventory adjustments by the primary customers of solar power generation systems. Turning to components for information and telecommunications equipment, sales in the first quarter declined primarily because of delays in production launches by customers scheduled to adopt new components for smartphones as well as inventory adjustments for cell phones and other communications devices and equipment components.

High-Grade Functional Components and Equipment

Sales in the high-grade functional components and equipment segment in the first quarter were ¥38,767 million, up 1.8% from the figure for the same quarter the previous fiscal year. Operating income was ¥2,082 million, a decline of ¥545 million.

Sales of major products in this segment in the quarter under review are as follows.

Concerning high-grade ductile iron products, domestic output in Japan declined under the impact of the seismic calamity. Overseas sales, however, rose on the strength of robust demand, primarily from China. Overall, sales of these products posted a slight increase for the quarter. Sales of heat-resistant exhaust casting components rose in the first quarter. This reflected firm demand in compliance with bolstered exhaust emissions regulations and energy conservation, primarily involving exports to European automakers. Under aluminum wheels, export-bound domestic production in Japan declined in the aftermath of the big temblor. Production adjustments were implemented overseas by Japanese manufacturers, with sales for these wheels finishing down for the first quarter. For pipe fittings, the number of housing starts remained sluggish in Japan, but a sharp rise in demand for temporary housing following the earthquake disaster translated into growth in pipe-fitting sales. In the stainless steel and plastic piping components sector, although new housing starts remained anemic, a sharp rise in demand for temporary housing after the seismic destruction helped fuel broad-based sales growth for these products. Construction component demand rose in the first quarter, buoyed by a modest recovery in construction and capital investment.

Other

Sales in this segment in the first quarter were ¥1,285 million, a gain of 65.0% from the figure for the same quarter in fiscal 2010. Operating income finished at ¥203 million, a decline of ¥22 million.

(2) Qualitative Information regarding Changes in Consolidated Financial Positions

At the end of the first quarter of the consolidated fiscal year ending March 31, 2012, cash and cash equivalents (hereinafter referred to as "net cash") totaled ¥34,507 million, an increase of ¥513 million compared to that at the end of the previous fiscal year. This outcome is attributable to the fact that net cash generated as a result of operating activities exceeded net cash channeled into investing and financial activities.

The status of cash flows for the first quarter under review and the primary factors responsible for the reported results are outlined below.

Cash Flows from Operating Activities

Net cash generated from operating activities was ¥5,421 million. This is mainly attributable to the fact that although net income before income taxes for the quarter was ¥9,985 million, payments of corporate taxes and other obligations came to ¥4,011 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥4,411 million. This is mainly attributable to ¥4,903 million in expenditures due to the acquisition of tangible fixed assets.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥59 million. This is mainly attributable to an increase in interest-bearing debt of ¥2,691 million as well as cash dividend payments of ¥2,261 million and interest payments of ¥484 million.

(3) Qualitative Information Regarding Forecasts

Demand mounted a steady recovery in the first quarter under review, and the automobile-, IT-, and household appliance-related fields are forecast to continue to perform strongly in the second quarter. On a negative note, raw material prices continued to skyrocket, making it difficult to currently ascertain how performance will be affected. In view of these developments, the decision has been made to retain the forecast figures announced on May 30, 2011, concerning consolidated performance for the first half (April 1 through September 30, 2011) of fiscal 2011 (April 1, 2011, through March 31, 2012) as well as for fiscal 2011 in its entirety.

2. Notes to the Consolidated Financial Statements

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

(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 first quarter of the fiscal year ending March 31, 2012, and multiplying income before income taxes and minority interests for the first quarter of the fiscal year ending March 31, 2012 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, 2012. In the event, however, the Company is unable to use the estimated effective tax rate, the statutory effective tax rate is applied.

(3) Changes of Accounting Policies, Changes in Accounting Estimates and Retrospective restatement:
None

Consolidated quarterly balance sheets

(Millions of Yen)

	End of 6/2011	End of 3/2011	(difference)
ASSETS			
Current assets			
Cash and deposits	28,994	28,712	282
Notes and accounts receivable-trade	94,029	95,728	(1,699)
Finished products	43,089	39,677	3,412
Work in process	32,003	28,979	3,024
Raw materials	45,741	39,950	5,791
Deposit paid in subsidiaries and affiliates	5,316	5,265	51
Other	21,341	21,840	(499)
Allowance for doubtful accounts	(465)	(525)	60
Total current assets	270,048	259,626	10,422
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	52,521	53,157	(636)
Machinery, equipment and vehicles, net	70,013	72,854	(2,841)
Land	50,529	50,521	8
Other	9,811	9,500	311
Total property, plant and equipment	182,874	186,032	(3,158)
Intangible assets			
Goodwill	40,829	41,549	(720)
Other	7,699	8,003	(304)
Total intangible assets	48,528	49,552	(1,024)
Total investments and other assets	34,550	34,659	(109)
Total noncurrent assets	265,952	270,243	(4,291)
Total assets	536,000	529,869	6,131
LIABILITIES			
Current liabilities			
Notes and accounts payable-trade	83,943	78,145	5,798
Short-term loans payable	50,860	48,422	2,438
Current portion of long-term loans payable	7,968	8,002	(34)
Income taxes payable	3,707	4,631	(924)
Allowance for directors' bonuses	95	294	(199)
Other	33,797	36,259	(2,462)
Total current liabilities	180,370	175,753	4,617
Noncurrent liabilities			
Bonds payable	24,000	24,000	0
Convertible bond-type bonds with subscription rights to shares	20,105	20,105	0
Long-term loans payable	49,033	49,293	(260)
Provision for retirement benefits	22,024	22,072	(48)
Other provision	3,183	3,209	(26)
Asset retirement obligations	374	377	(3)
Other	6,314	7,050	(736)
Total noncurrent liabilities	125,033	126,106	(1,073)
Total liabilities	305,403	301,859	3,544
NET ASSETS			
Shareholders' equity			
Capital stock	26,284	26,284	0
Capital surplus	41,244	41,244	0
Retained earnings	174,595	170,471	4,124
Treasury stock	(10,699)	(10,694)	(5)
Total shareholders' equity	231,424	227,305	4,119
Valuation, translation adjustments			
Net unrealized holding gains (losses) on available-for-sale	3,712	3,812	(100)
Foreign currency translation adjustments	(22,270)	(20,687)	(1,583)
Other	(1,957)	(1,958)	1
Minority interests	19,688	19,538	150
Total Net Assets	230,597	228,010	2,587
Total liabilities and net assets	536,000	529,869	6,131

Consolidated Quarterly Statements of Income

(Millions of Yen)

	1st quarter fiscal 2011 (Jun.30.11)	Ratio to Sales (%)	1st quarter fiscal 2010 (Jun.30.10)	Ratio to Sales (%)	(difference) (%)
Net sales	129,413	100.0	126,868	100.0	102
Cost of sales	100,546	77.7	97,173	76.6	103
Gross profit	28,867	22.3	29,695	23.4	97
Selling, general and administrative expenses	17,956	13.9	17,739	14.0	101
Operating income	10,911	8.4	11,956	9.4	91
Non-operating income					
Interest income	99		79		125
Dividends income	74		64		116
Other	538		769		70
Total non-operating income	711	0.5	912	0.7	78
Non-operating expenses					
Interest expenses	462		571		81
Exchange losses	336		729		—
Other	836		819		102
Total non-operating expenses	1,634	1.3	2,119	1.7	77
Extraordinary income					
Gain on transfer to defined contribution pension plans	224		—		—
Total extraordinary income	224	0.2	0	0.0	—
Extraordinary loss					
Loss on Liquidation of Affiliates	227		—		
Loss on adjustment for changes of accounting standard for asset retirement	—		28		—
Total extraordinary losses	227	0.2	28	0.0	811
Income (loss) before income taxes	9,985	7.7	10,721	8.5	93
Income taxes	3,353	2.6	4,896	3.9	68
Income before minority interests	6,632	5.1	5,825	4.6	114
Minority interests in income (loss)	393	0.3	298	0.2	132
Net income (loss)	6,239	4.8	5,527	4.4	113

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	1st quarter fiscal 2011 (Jun.30.11)	1st quarter fiscal 2010 (Jun.30.10)
Income before minority interests	6,632	5,825
Other comprehensive income:		
Net unrealized holding gains on available-for-sale securities	(103)	(614)
Deferred gains on hedges	2	—
Foreign currency translation adjustments accounted for using equity method	(1,627)	(4,759)
	5	(8)
<u>Total other comprehensive income (loss)</u>	<u>(1,723)</u>	<u>(5,381)</u>
Comprehensive income	4,909	444
Comprehensive income attributable to:		
Shareholders of the parent company	4,557	662
Minority shareholders	352	(218)

Consolidated quarterly statements of cash flows

(Millions of Yen)

	End of 6/11	End of 6/10
Cash flows from operating activities		
Income before income taxes and minority interests	9,985	10,721
Depreciation and amortization	6,598	6,678
Amortization of goodwill and negative goodwill	656	642
Interest and dividends income	(173)	(143)
Interest expenses	462	571
Decrease (increase) in notes and accounts receivable-trade	837	(2,603)
Decrease (increase) in inventories	(12,834)	(9,901)
Increase (decrease) in notes and accounts payable-trade	6,438	10,274
Increase (decrease) in accrued expenses	(3,745)	(1,831)
Other, net	1,208	1,551
Subtotal	9,432	15,959
Income taxes paid	(4,011)	(1,315)
Net cash provided by operating activities	5,421	14,644
Cash flows from investing activities		
Proceeds from sales of investment securities	—	4
Proceeds from sales of subsidiaries' common stock	—	11
Purchase of property, plant and equipment	(4,903)	(4,577)
Proceeds from sales of property, plant and equipment	96	186
Purchase of intangible assets	(133)	(482)
Interest and dividends income received	172	135
Other, net	357	16
Net cash used in investment activities	(4,411)	(4,707)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,758	(577)
Net increase (decrease) in Commercial Paper	—	2,000
Repayment of long-term loans payable	(67)	(117)
Redemption of bonds	—	(5,000)
Interest paid	(484)	(683)
Purchase of treasury stock	(5)	(3)
Proceeds from sale of treasury stock	—	—
Cash dividends paid	(2,115)	(2,115)
Cash dividends paid to minority shareholders	(146)	(191)
Net cash used in financing activities	(59)	(6,686)
Effect of exchange rate change in cash and cash equivalents	(438)	(2,229)
Net increase (decrease) in cash and cash equivalents	513	1,022
Cash and cash equivalents at beginning of period	33,994	43,639
Effect of change in the fiscal year-end of consolidated subsidiaries	—	—
Cash and cash equivalents at end of period	34,507	44,661

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

First quarter fiscal 2011 (Apr. 1, 2011 - Jun. 30, 2011)

(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	56,291	33,689	38,683	128,663	750	129,413	—	129,413
Intersegment	635	85	84	804	535	1,339	(1,339)	—
Total sales	56,926	33,774	38,767	129,467	1,285	130,752	(1,339)	129,413
Operating Income (Loss)	6,291	4,121	2,082	12,494	203	12,697	(1,786)	10,911

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 (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)

Overseas Sales

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

(Millions of Yen)

	North America	Asia	Europe	Other	Total
Overseas sales	13,274	31,360	9,552	1,926	56,112
Consolidated sales	—	—	—	—	126,868
Overseas sales as a share of consolidated sales	10.5%	24.7%	7.5%	1.5%	44.2%

1st quarter fiscal 2011 (Apr. 1, 2011 - Jun. 30, 2011)

(Millions of Yen)

Overseas sales	12,911	32,327	10,777	2,026	58,041
Consolidated sales	—	—	—	—	129,413
Overseas sales as a share of consolidated sales	10.0%	25.0%	8.3%	1.6%	44.8%

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