

A Message from the CEO



Priming for New Growth

**Confident in Our Inherent Skills and Overarching Vision,
We View Current Harsh Operating Conditions as an Opportunity
to Further Refine Our Capabilities as We Again Move toward a
Starting Line for New Growth**

Fiscal 2008 Financial Results

In fiscal 2008 (the fiscal year ended March 31, 2009), the Hitachi Metals Group reported a substantial year-on-year decline in both revenue and earnings.

In the six-month period ended September 30, 2008, consolidated net sales and operating income were generally firm, amounting to ¥353.7 billion and ¥29.7 billion, respectively. Triggered by global financial market instability, which resulted in violent fluctuations in the economic environment, however, signs of a slowdown in automotive- and electronics-related orders received began to emerge toward the latter half of July through to early August 2008. Thereafter, the pace of this downturn hastened, particularly from late November 2008.

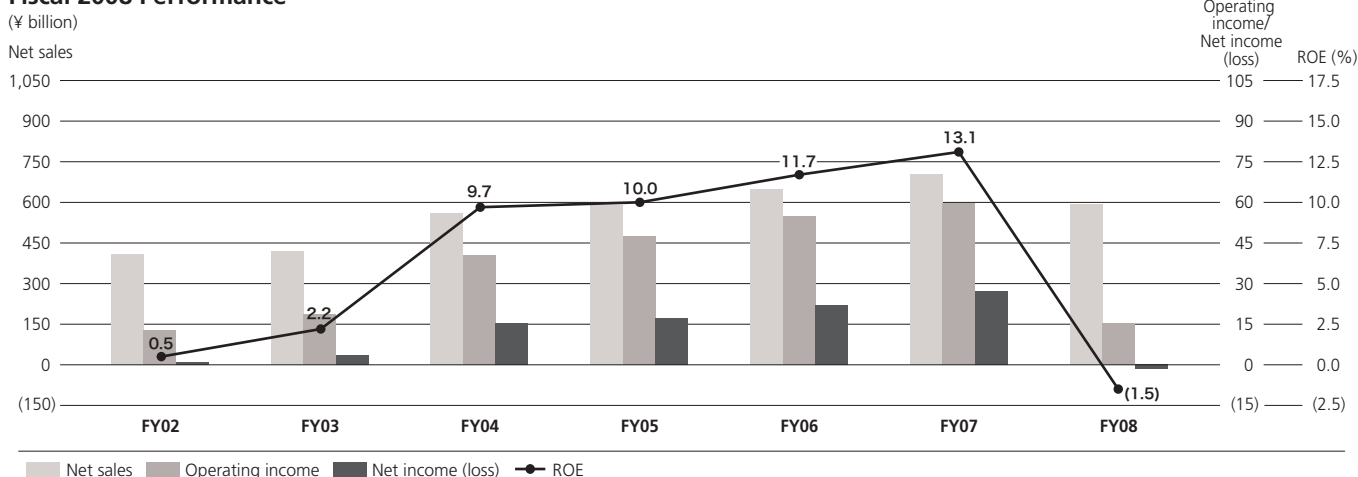
Despite expectations of medium- to long-term growth, magnets, a product category in which Hitachi Metals boasts a leading global market share, were not immune to this economic downturn. Moreover, fears of a buildup in tool steel inventories became increasingly pronounced in light of the Group's customary emphasis on maintaining production at full capacity to address order backlogs. While sales of eco-friendly products, including magnets for hybrid vehicles and HERCUNITE® heat-resistant exhaust casting components, were slightly down, results remained relatively firm compared with the substantial decline in other products. In an effort to ensure a quick return to full production in tune with the inevitable recovery in demand, Hitachi Metals implemented various drastic measures from December 2008.

In specific terms, the Group significantly cut back production, accelerating the pace of inventory reduction. At the same time, Hitachi Metals lowered the break-even point ratio by building a platform designed to promote cost structure reform. In tackling numerous long-standing priority issues, steps were taken to trim personnel expenses at domestic bases and to curtail amortization and overhead expenses. After clarifying the roles and responsibilities of each operating base, and in order to strengthen individual business segments, Hitachi Metals ramped up established endeavors in the second half of fiscal 2008 to reconfigure production capacity in line with business scale and to eliminate and consolidate points of operation. As a result, the operating income break-even point ratio decreased 10 percentage points from 78% in the first half of fiscal 2008.

Results for the full fiscal year ended March 31, 2009 fell considerably compared with fiscal 2007. This was mainly attributable to large-scale operating losses on the back of the drop in sales. In the fiscal year under review, net sales declined ¥110.4 billion, or 16%, to ¥590.7 billion. On the earnings front, operating income fell ¥44.6 billion, or 75%, to ¥15.1 billion. Reflecting the implementation of structural reforms, the Hitachi Metals Group reported a net loss of ¥3.0 billion. This was a year-on-year downturn of ¥30.0 billion.

Fiscal 2008 was therefore an important year that rechanneled the Group's priorities toward achieving sustainable growth. Constituting far more than a set of emergency measures aimed at curbing costs, the initiatives implemented during the fiscal year under review were aimed at positioning the Group for comprehensive structural reform and the next stage of growth. As Hitachi Metals enters fiscal 2009, the Group is committed to enforcing measures thus far established. Looking

Fiscal 2008 Performance



further ahead, every effort will be made to strengthen the Group's management and business platforms and to return to a sustainable growth trajectory.

Understanding Conditions in Fiscal 2009 and Beyond

Recovery from difficult conditions is not expected to be quick in fiscal 2009. Impacted by inventory adjustments, both by the Group and its customers, sales are expected to follow trends in the real economy. As a result, net sales for the fiscal year ending March 31, 2010 are forecast to reach 70% of performance levels recorded in the first half of fiscal 2008. Working to consistently lower its break-even point, Hitachi Metals has established a full fiscal year operating income target of ¥10.0 billion. Steps will be taken to review progress on a quarterly basis, with revisions to business scale and initiatives implemented in accordance with needs.

With the rapid downturn in economic conditions reaching global proportions, the Hitachi Metals Group is confronting major changes in its business environment. While a gradual pickup in demand is anticipated, taking into consideration shifts in market trends, needs and sales prices, Hitachi Metals does not expect a return to previous robust conditions in the short term.

In the field of automobile production, for example, among the Group's customers the transfer overseas of manufacturing functions continues to gather pace. In addition to the growing prominence of newly emerging countries and the increased focus on small- and medium-sized cars, the trend toward more stringent environmental regulations is placing increased emphasis on innovative technologies. Turning to electronics-related fields, market calls for more compact, low-priced products delivered with reduced lead times are becoming increasingly conspicuous, while in areas related to industrial infrastructure, pressures to implement a variety of measures, including investment on a global scale commensurate with environmental protection initiatives, are also growing more pronounced.

As a manufacturer of highly functional materials, Hitachi Metals delivers a broad spectrum of products to a wide range of industries. With a varied and diverse product lineup that caters to the needs of numerous customers, the Group does not overly rely on any single client, product or domain. This is what sets Hitachi Metals apart from its competitors in the specialty steel industry as a whole; it is its defining feature and underlying strength. Looking ahead, Hitachi Metals plans to fully utilize this competitive edge and to accurately grasp and understand market circumstances and conditions as the means to better capitalize on growth opportunities. In this context, the Company recognizes the need to further bolster its corporate structure and, by association, to pursue management that aspires to greater heights and an enhanced ability to compete in global markets. Accordingly, **Hitachi Metals has positioned fiscal 2009 as a year for bolstering its management and business platforms** and for implementing measures that will forge a robust corporate structure.

Buoyed by past efforts to strengthen its corporate structure, the Hitachi Metals Group is confident in its ability to weather sharp hikes in raw material prices and withstand commonplace shifts in customer demand. Amid a period of prolonged profit growth that began in 2002, however, Hitachi Metals recognizes that in relative terms it holds surpluses in certain mature businesses. As a result, the Company is keenly aware of the need to further bolster its business structure. Therefore, given the global market share that individual products are likely to capture when economic conditions



recover after a period of persistent downturn, the Group recognizes that it must reshape itself in order to ensure a robust structure.

While Hitachi Metals had taken steps to formulate its medium-term management plan for the period commencing April 1, 2009, it decided to suspend these efforts in mid November 2008. Amid ongoing volatility in operating conditions, this was attributable to a variety of factors, including anticipated changes in the market scale of individual business segments, shifts in competitive relationships and fluctuations in the content and nature of future technological demands. Taking into consideration the negative pressures being placed on its business activities, Hitachi Metals recognizes the downside risk associated with sticking rigidly to a medium- to long-term growth strategy, which raises the potential of misreading current underlying conditions and, in turn, could lead to irrevocable errors in policy selection. In order to establish a structure that is capable of swiftly shifting to growth mode as economic conditions recover, therefore, Hitachi Metals has decided to focus on implementing measures in fiscal 2009 aimed at strengthening its management and business platforms and building a taut and slim corporate structure.

Fiscal 2009 Action Plan

For fiscal 2009, the Hitachi Metals Group has identified the following policy objectives: **(1) reform cost structure; (2) review product strategy; and (3) pursue rapid new product development.**

(1) Reform Cost Structure

Despite expectations that conditions will remain difficult throughout fiscal 2009, Hitachi Metals will concentrate its efforts on **building a highly efficient production structure.**

From the purchase of raw materials to the delivery of finished products, the Company will comprehensively review the manufacturing process. Thoroughly evaluating product function and quality in terms of market-imposed requirements, Hitachi Metals will omit certain procedural stages as and when it considers appropriate. Turning to the reassessment of input and operating costs, a complete analysis of raw and sub-material procurement expenses, utility charges, outsourcing and related expenditures will be undertaken. In reevaluating its position in individual markets, the Company will pay particular attention to volume-zone products. And, in the event it is at a cost disadvantage or where cost structures are high, Hitachi Metals would be forced to withdraw from the market.

Action Plan to Strengthen the Group's Operating Platform Execute Measures to Strengthen Group's Platform for New Growth

Action Plan for Second Half of Fiscal 2008

- **Improve Production Efficiency**
Cut personnel expenses, review structural consolidation
- **Reduce Working Capital**
Cut inventory, review investments

Action Plan for Fiscal 2009

- (1) **Reform Cost Structure**
Promote highly efficient productivity through review and streamlining of organization
- (2) **Review Product Strategy**
Expand eco-friendly products business, apply "Select and Focus" to mature products
- (3) **Pursue Rapid New Product Development**
Reorganize system to achieve synergies, accelerate launch of new products in strategic markets

In addition, the Company will **streamline individual bases and the Group's organization**. Having laid the groundwork in fiscal 2008, Hitachi Metals will review every facet of its business activities and operations to ensure the optimal, minimal complement of administrative employees at each base. Naturally, at bases that generate relatively limited sales, operating expenses impose excessively heavy burdens. In pursuing future business strategies, the Company will identify the most efficient production base structure and model, implementing consolidation and integration as required.

(2) Review Product Strategy

Recognizing the strength that a wide-ranging portfolio of eco-friendly products provides, the trend toward prioritizing development in this area is anticipated to increase. While activity in the environmental and energy fields may temporarily stall, each market continues to offer considerable potential. Looking ahead, Hitachi Metals will continue to **selectively concentrate management resources and actively expand business**. As a part of these endeavors, the Company will review individual product strategies based on its projections of the global economy following a return to business prosperity. Collectively, these initiatives will provide the platform for future growth.

It is imperative that the Company achieve a leading position in volume-zone products, with the ultimate aim of securing market recognition as the de facto global standard. To this end, Hitachi Metals will recreate and develop a cooperative manufacturing, sales and development structure in an effort to realize unrivalled competitive advantage.

In mature markets, fields where large-scale product growth is limited and areas that, while offering growth potential, are experiencing weak sales of **mature products**, the Company will adopt a **select and focus approach** that encompasses business segment withdrawal based on a variety of considerations, including future market trends, competitive advantage and the relationship with other products.

(3) Pursue Rapid New Product Development

A vision of the Hitachi Metals Group's future is incomplete without **the rapid and consistent market launch of newly developed products**. Accordingly, Hitachi Metals will develop a succession of products that accurately capture market needs, timing each market launch to optimal effect. To this end, the Company will reshape its R&D structure to better reflect market trends.

In concrete terms, Hitachi Metals reexamined its magnetic materials R&D structure. At the same time, the Company undertook certain readjustments with the aims of strengthening its magnet and soft magnetic materials development capabilities and bolstering its ceramic materials development platform. In the future, Hitachi Metals is looking to realize rapid results based on these endeavors.

Guided by the aforementioned three policy initiatives, the Hitachi Metals Group will actively implement its action plan in fiscal 2009. Much more than simply the restructuring of existing operations, this action plan strives to bolster the Group's management and business platforms, which are expected to lead to new growth opportunities.

Continued Investment Allocation for Growth

Looking to expand its profit stream into the future, the Hitachi Metals Group had previously recognized the parallel need to increase quantity. Accordingly, steps had been taken to actively invest in areas designed to rationalize and improve productivity. In fiscal 2009, however, and despite this earlier allocation of funds toward a host of investment projects designed to boost future profits, the Group will now temporarily suspend investment activity aimed at improving productivity, focusing more on reducing its overall investment amount while continuing to invest in products that exhibit growth potential.

While narrowing its investment focus and adopting a more selective approach toward individual projects, Hitachi Metals will continue to invest in areas where future growth is assured, making every effort to capture new growth opportunities.

The Company will also maintain a positive investment stance toward areas that result in definitive cost reductions. The Group will never fail in its efforts to raise its technological excellence or investments aimed at compensating areas of weakness. With regard to the allocation of funds aimed at improving productivity, Hitachi Metals will postpone investment activity. Future decisions will be based on demand recovery and such considerations as customer trends. The Hitachi Metals Group remains committed to strategic growth-oriented investment and will strictly monitor performance yields while seeking to secure swift investment recovery.

Turning to depreciation and amortization, values fluctuate in accordance with the scale of annual investment. In fiscal 2009, Hitachi Metals estimates it will report an amount of approximately ¥30.0 billion, virtually unchanged from the previous fiscal year.

In short, the Hitachi Metals Group will continue to adopt a flexible investment posture that takes into consideration future market trends while concentrating on areas where robust profit growth is assured.



The Next Medium-Term Management Plan

Turning to concerns with regard to its future, the Hitachi Metals Group has suspended the formulation of the medium-term management plan it had scheduled to commence from fiscal 2009. Despite this decision, however, the Group's commitment to securing sustainable growth remains unchanged.

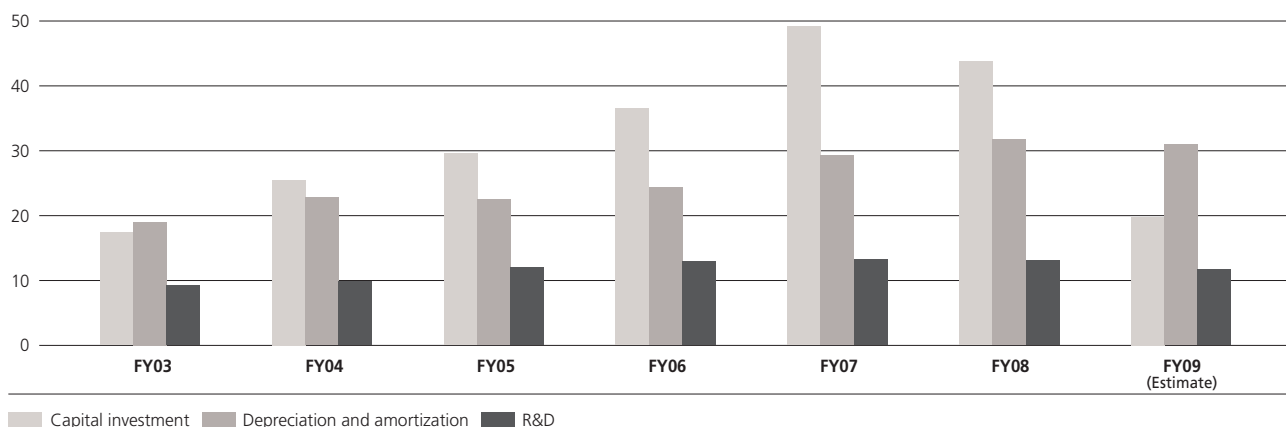
Taking into consideration, however, significant changes in its underlying business environment, Hitachi Metals will carefully select products in an effort to further raise individual business segment quality. Amid the trend toward more compact, low-priced products, the Company will reorganize existing and future eco-friendly products according to their growth potential, focusing strictly on areas that can be expected to expand. In the automotive field, for example, energy-efficient products are anticipated to significantly impact the large vehicle market. On the other hand, the overall market scale for large vehicles is contracting, which necessarily limits the level of product growth in this area. Hitachi Metals will undertake a review of its business portfolio based on final product market trends and other related considerations. The Hitachi Metals Group is in broad terms composed of seven internal companies and two publicly listed subsidiaries. As a result, the Group offers a wide-ranging and diverse product lineup. On this basis, it is inevitable that discrepancies and imbalances will develop among product groups. While promoting comprehensive structural reform, the Group will endeavor to strengthen its corporate structure and, by raising its management quality and capabilities, turn difficult conditions into opportunities for growth. Looking one year ahead, Hitachi Metals anticipates it will again outline its growth focus and vision to shareholders for the period commencing in fiscal 2010.

Returning Profits to Shareholders

Hitachi Metals is committed to enhancing its corporate value and consistently increasing its earnings capacity with a view to the payment of cash dividends. The goal of the Group is to provide acceptable returns to shareholders on both a stable and long-term basis. Based on this fundamental business guideline, the Company will continue to develop a firm financial platform that addresses the need for investment and that shares sustainable growth with Hitachi Metals' shareholders and other stakeholders.

Investment Allocation for Growth

(¥ billion)



Currently, Hitachi Metals is pursuing several growth-oriented investment projects considered essential to its efforts to realize sustainable growth. Over the past few years, the Company has continued its evolution toward a robust business structure capable of realizing sustainable growth while remaining active in the allocation of cash reserves to growth-oriented investments in line with the need to return profits to shareholders.

With regard to the payment of cash dividends, Hitachi Metals decided to increase its fiscal 2008 dividend by ¥1 per share for a total of ¥13 per share. On the understanding that performance recovery will require a considerable amount of time, the Company is projecting an annual cash dividend payment for fiscal 2009 of ¥12 per share, down ¥1 per share year on year.

Closing Words to Shareholders and Investors

Maintaining its focus on the Group's historic growth driver, namely, the creation of cutting-edge products, Hitachi Metals has worked diligently to shift from a mature to a new growth stage. Although confronting an operating environment in substantial turmoil and a short-term drop in its original eco-friendly products, an area of significant importance to the Company, Hitachi Metals is confident that its growth potential over the medium to long term remains unchanged and that opportunities of significant advantage continue to exist.

By further strengthening its lineup of eco-friendly products and refining its "Only One, No. 1" strategy, Hitachi Metals remains convinced that it can to some extent weather fluctuations in economic conditions and secure a path of sustainable growth.

With expectations that difficult conditions will continue unabated, fiscal 2009 is recognized as a significant turning point for the Company as it strives to build a robust corporate structure.

The competitive advantage that defines Hitachi Metals' products remains deeply entrenched. Looking ahead, the Company will leverage its unwavering commitment to "materials magic" to extend this competitive advantage throughout global markets.

As the Group works tirelessly to carry out and realize the goals of its endeavors, I would ask all stakeholders for their continued support and understanding.