

Financial Management

Financial Policy

In order to secure long-term sustainable growth, Hitachi Metals undertakes growth-oriented investment, delivers stable and continuous returns to its shareholders and maintains a sound and robust financial platform as a part of its overarching financial policy.

Leveraging its core characteristics including a diverse business profile active across various industrial fields, Hitachi Metals undertakes investments in both a strategic and flexible manner, conscious of the need to enhance financial efficiency and profitability. At the same time, the Company considers efforts to accelerate the cash generation cycle as a key management priority with the aim of ensuring a balanced financial position.

Policy toward Returning Profits to Shareholders

Consistent with its financial policy, Hitachi Metals recognizes that efforts to strengthen its financial platform, enhance profitability and realize sustainable growth contribute to increasing enterprise value. As an integral component of this overriding process, the Company is committed to providing an acceptable return to shareholders on both a long-term and continuous basis.

Taking into consideration the Group's consolidated performance, and based on the aforementioned policy and commitment, Hitachi Metals will pay cash dividends to its shareholders subject to its ability to secure adequate, stable and continuous retained earnings essential for sustainable growth.

In the first half of fiscal 2008, Hitachi Metals reported record-high results. As a result, the interim cash dividend was increased ¥1 per share. In the second half, however, conditions deteriorated rapidly, with a sudden and dramatic drop in orders. Despite efforts to implement urgent measures, including reductions in inventories as well as such fixed costs as personnel expenses, the Hitachi Metals Group recorded a substantial loss for the second half of fiscal 2008. Taking the aforementioned into consideration, Hitachi Metals has regrettably held the increase in its annual cash dividend to ¥1 per share. As of the end of the fiscal year under review, the Company declared a cash dividend of ¥13 per share for fiscal 2008. While the Group is expected to see a decrease in revenue and an increase in earnings in the 12-month period ending March 31, 2010, Hitachi Metals is forecasting a fiscal 2009 annual cash dividend of ¥12 per share, down ¥1 per share year on year, reflecting uncertainty with regard to future results.

On a year-on-year basis, Hitachi Metals recorded a loss on equity of 1.5% down from an ROE of 13.1% in fiscal 2007. For the fiscal year ending March 31, 2010, an ROE of approximately 0.5% is expected. Looking ahead, Hitachi Metals will endeavor to boost profit and profit margins while simultaneously employing a financial strategy aimed at enhancing capital efficiency. Through these means, the Company intends to increase shareholder value.

Financial Activities in Fiscal 2008

In principle, funds required for growth-oriented investments are covered by operating cash flows generated in the normal course of the Group's business and cash and cash equivalents on hand. For financial funding requirements that exceed this level, Hitachi Metals accesses financial and capital markets in its efforts to minimize growth-related opportunity loss.

Triggered by the collapse in September 2008 of Lehman Brothers in the United States, global financial markets entered a period of crisis. With both direct and indirect financial markets unable to function normally, a large number of companies were hard-pressed to meet their funding requirements. Buffeted by the cascading drop in demand, which

prompted a sharp and dramatic downturn in the global economy, the Hitachi Metals Group also confronted difficult operating and financing conditions.

Under these circumstances and carrying on from the previous fiscal year, Hitachi Metals undertook capital and growth-oriented investments in the fiscal year under review exceeding ¥40.0 billion. Against the backdrop of a harsh financial market environment and as a part of the Group's overall financial strategy, Hitachi Metals undertook the following financing activities, particularly from the second half of fiscal 2008.

1. Confronting a sharp and dramatic deterioration in its business environment from the second half of the fiscal year under review, Hitachi Metals implemented various urgent countermeasures aimed at significantly curtailing fixed as well as operating costs. As a part of these endeavors, the Group established an adequate number of both full-time and temporary employees that better reflects the contraction in its business scale. Having cut back inventories by ¥30.2 billion as of September 30, 2008, Hitachi Metals worked diligently to offset the drop in earnings by generating operating cash flows totaling ¥32.7 billion.
2. Hitachi Metals implemented a review of its financing measures and at the same time undertook to diversify procurement sources. Recognizing the need to be able to access external markets when internal funds are insufficient to requirements, Hitachi Metals also acknowledged that the chaos evident within financial markets has made it difficult to secure funds. In this context, and in order to ensure timely fund access, the Company established new commitment lines with certain financial institutions and commenced a short-term commercial paper program to take full advantage of support measures implemented by government financial authorities from the beginning of 2009.

Liquidity

Liquidity is a key component of Hitachi Metals' overall financial management policy. With respect to the Company's short-term obligations, defined as amounts with a maturity of less than 12 months, Hitachi Metals, in principle, maintains sufficient liquidity to flexibly address unforeseen circumstances.

As of March 31, 2009, total liquid funds stood at ¥33.5 billion, ¥14.3 billion lower than the previous fiscal year-end. In specific terms, this comprised ¥24.5 billion in cash and deposits in banks, ¥0.5 billion in short-term investments including money management funds, and ¥8.5 billion in Group cash pooling deposits managed by Hitachi, Ltd. This cash pooling system, which is capped at ¥30.0 billion and was established under contract with the parent company, Hitachi, Ltd., provides Hitachi Metals with access to another source of highly efficient liquid funds.

Hitachi Metals also maintains a cash pooling system with its consolidated subsidiaries, facilitating the daily management of funds on a Groupwide basis. In principle, consolidated subsidiaries procure funding through this Group cash pooling system, thereby negating the need for external funds. In consolidating the management of surplus funds and debt financing across the Group, Hitachi Metals is endeavoring to enhance financial efficiency.

Interest-Bearing Debt

On a year-on-year basis, the balance of interest-bearing debt declined ¥0.3 billion to ¥190.1 billion, as of March 31, 2009. Of this total amount, short-term interest-bearing debt stood at ¥82.2 billion, ¥1.0 billion lower than the previous fiscal year-end, while long-term debt less current maturities climbed ¥0.7 billion year on year to ¥107.9 billion. Accounting

for these factors, the debt/equity ratio deteriorated 0.09 of a point to 0.98.

A breakdown of the source of interest-bearing debt as of March 31, 2009 is as follows.

Short-term interest-bearing debt:

Short-term borrowings from financial institutions	¥66.6 billion
Short-term borrowings from parent company	—
Commercial paper	¥6.0 billion
Long-term debt from banks repayable within one year	¥3.6 billion
Straight corporate bonds including medium-term note program redeemable within one year	¥6.0 billion

Long-term debt:

Long-term debt from financial institutions	¥33.9 billion
Straight corporate bonds	¥34.0 billion
Euro-yen convertible bonds	¥40.0 billion

Hitachi Metals is registered to issue straight corporate bonds to a maximum total of ¥50.0 billion. The total limit amount was unused as of March 31, 2009. Overseas, Hitachi Metals is yet to renew the euro medium-term note program of its North America-based subsidiary. Accordingly, the Company does not plan to undertake a new issue.

Ratings

Hitachi Metals recognizes that a high and stable credit rating is essential to maintaining adequate levels of liquidity and a selective and flexible financial policy. Each year, the Company acquires a credit rating from Rating and Investment Information, Inc. (R&I), a major credit rating agency in Japan, for its long-term corporate bonds. Hitachi Metals had acquired an "A" rating as of March 31, 2009.

In addition, Hitachi Metals newly acquired an R&I short-term rating of "a-1" on its commercial paper on February 26, 2009.

Cash Flows

Please refer to page 52 of this report for details regarding fiscal 2008 cash flows.

In its efforts to secure an operating cash flow margin (cash flows from operating activities/net sales) of more than 12%, Hitachi Metals works to generate cash by increasing operating income, enhancing profitability and reducing working capital. For the fiscal year under review, the operating cash flow margin deteriorated 4.8 percentage points to 5.5%.

In the natural course of its business activities, the Company is paying particular attention to the reduction of inventories in its efforts to improve the operating cash flow margin. Despite a high level of activity throughout the fiscal year under review, Hitachi Metals clarified responsibilities for each category of inventories. Material inventories are to be managed by manufacturing departments in cooperation with procurement departments; manufactured products including work-in-process and finished goods are to be managed by manufacturing departments in cooperation with internal companies; and transit inventories are to be managed by domestic and overseas sales companies in cooperation with internal companies. In this manner, the Company is adopting a structure to control and streamline inventories to an optimal level and to pursue overall reductions over the medium to long term. Hitachi Metals' ability to reduce inventories by ¥30.2 billion amid the year-on-year decline in sales exceeding ¥110.0 billion, or 33%, in the second half of fiscal 2009 attests to the steady and gradual efficacy of current policy initiatives.

Looking ahead, Hitachi Metals will also endeavor to reduce the number of working capital turnover days with the aim of securing cutbacks and increased efficiencies in working capital. As of March 31, 2009, the number of working capital turnover days was 75, one day less than at the previous fiscal year-end. In fiscal 2009, Hitachi Metals will continue to hold a tight rein over inventories. The Group will improve the accuracy of its consolidated net sales forecasts and implement related measures in a timely fashion to ensure that inventories are managed appropriately while redoubling its efforts to rationalize stock with the aim of reducing the number of working capital turnover days below 75.

From a Group perspective, Hitachi Metals has adopted a cash pooling system in connection with the management of its own and consolidated subsidiaries' working capital. In principle, consolidated subsidiaries procure funds through this cash pooling system as opposed to undertaking external debt. By consolidating surplus funds and financing requirements across the Group, Hitachi Metals is better positioned to increase financial efficiency. Overseas, the cash pooling system has been applied to Group subsidiaries in the United States. Again, through concentrated funds management, Hitachi Metals Group companies in the United States are successfully enhancing financial efficiency.

Hitachi Metals considers a wide spectrum of alternatives in funding strategic investments of overseas consolidated subsidiaries. Among a host of options, Group companies implement optimal financial management by choosing from funds generated through operating cash flows, debt funding from local financial institutions, parent company guaranteed overseas financial institution lending and equity finance through an increase in capital stock.

In conjunction with the aforementioned initiatives aimed at increasing the operating cash flow margin, Hitachi Metals works diligently to lift profit margins, considered the most effective of its options to secure earnings growth. Going forward, the Company will accordingly continue to raise its return on investment while increasing the operating cash flow margin.

Investment Efficiency

Hitachi Metals flexibly invests in cornerstone businesses in its efforts to realize sustainable growth. The Company engages in such investment activities as M&A, in addition to the upgrade and renewal of plant and equipment; initiatives to further streamline operations, and to enhance and establish manufacturing bases aimed at increasing production capacity; and investment in employee welfare benefits. In this context, Hitachi Metals clearly defines and classifies its investment activities into those undertaken in the normal course of its everyday operations and those for strategic purposes, taking into consideration such issues as investment return.

With the goal of achieving ROA in excess of 10%, Hitachi Metals implements strategic investment proposals based on the present value of discounted cash flows. As a part of its overall investment decision-making process, the Company also considers internal rates of return. In fiscal 2007 and again in fiscal 2008, Hitachi Metals undertook investments totaling approximately ¥40.0 billion. Going forward, the Company has reduced its fiscal 2009 new investment budget to within ¥19.8 billion, equivalent to approximately 60% of depreciation and amortization. Irrespective of existing and new investments, Hitachi Metals will place considerable emphasis on raising investment return margins and promptly realizing investment effects.