

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 a key management priority with the aim of ensuring a balanced financial position.

Policy of 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. The Company is committed to providing an acceptable return to shareholders on both a long-term and continuous basis as an integral component of this overriding process.

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.

Because of the impact of the worldwide financial crisis that began in fiscal 2008, Hitachi Metals has been pursuing business operations in a state of uncertainty. However, even with net sales at 73.1% of fiscal 2008's results, progress made on urgent measures to strengthen the business platform has enabled the Company to secure initial profitability targets. Because of this, Hitachi Metals was able to pay annual dividends of ¥12 per share as planned. In fiscal 2010 as well, the Group forecasts annual dividends of ¥12 per share. Consequently, the consolidated dividend payout ratio was 218.4% in fiscal 2009 results and is anticipated to be 30.2% for fiscal 2010.

On a year-on-year basis, Hitachi Metals recorded ROE of 1.0% in fiscal 2009. For the fiscal year ending March 31, 2011, ROE of 7.1% 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 principle, funds required for growth-oriented investments are covered by operating cash flows generated in the normal course of the Group's business and by 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.

The economic situation in fiscal 2009 began recovering following a contraction due to the worldwide financial crisis. Nonetheless, the urgent measures to strengthen the business platform undertaken from the second half of fiscal 2008 remain in place, while the cash generated by slashing fixed costs and reducing inventories worked to cut short-term interest-bearing debt. In addition, Hitachi Metals is refinancing with long-term debt of ¥6.5 billion, applying said debt to the redemption of a portion of repayment of corporate bonds and long-term debt.

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, 2010, total liquid funds stood at ¥43.6 billion. This comprised ¥31.2 billion in cash and deposits in banks, ¥0.4 billion in short-term investments, including money management funds, and ¥12.0 billion in Group pooling cash deposits managed by parent company Hitachi, Ltd. This cash pooling system, capped at ¥30.0 billion and established under contract with Hitachi, Ltd., provides Hitachi Metals with access to another source of liquidity in case of emergency. Hitachi Metals also maintains a commitment line of ¥40.0 billion from external financial institutions as it builds a base capable of securing financing in any situation.

Interest-Bearing Debt

On a year-on-year basis, the balance of interest-bearing debt declined ¥19.4 billion to ¥170.7 billion as of March 31, 2010. Of this total amount, short-term interest-bearing debt stood at ¥68.6 billion, ¥13.6 billion lower than at the previous fiscal year-end, while long-term debt less current maturities fell ¥5.8 billion year on year to ¥102.1 billion. Accounting for these factors, the debt/equity ratio improved 0.1 of a point to 0.88.

Hitachi Metals is registered to issue straight corporate bonds to a maximum of ¥50.0 billion. The total amount allowed was unused as of March 31, 2010; the Company has never issued bonds in an amount as great as the maximum allowed. 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. As of March 31, 2010, the Company acquired from R&A an "A" rating for its long-term corporate bonds and an "a-1" rating for its commercial paper.

Cash Flows

Hitachi Metals works to generate cash by increasing operating income, enhancing profitability and reducing working capital. In the natural course of its business activities, the Company pays particular attention to thoroughly managing and reducing inventories. To this end, Hitachi Metals has 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. 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 further reducing the number of working capital turnover days.

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 rather than by taking on 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 fund management, Hitachi Metals Group companies in the United States are successfully enhancing financial efficiency.

Hitachi Metals considers a wide spectrum of alternatives when funding the 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.

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 as well as 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 undertaken for strategic purposes, giving due consideration to 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 and internal rates of return. Irrespective of existing and new investments, Hitachi Metals will place considerable emphasis on raising investment return margins and promptly realizing investment effects.