

# **Hitachi Maxell Consolidated Financial Results For the Third Quarter of FY 2007**

**( April 1, 2007 - December 31, 2007 )**

**January 31, 2008**

**maxell**

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# 1-1. Consolidated Financial Results for 3Q of FY2007

(Three-months period)

(millions of yen)

	3Q/FY06	3Q/FY07	change
<b>Net sales</b>	<b>54,288</b>	<b>58,145</b>	<b>+7.1%</b>
<b>Operating income</b>	<b>1,583</b>	<b>1,976</b>	<b>+24.8%</b>
<b>Ordinary income</b>	<b>2,003</b>	<b>2,683</b>	<b>+33.9%</b>
<b>Net income</b>	<b>1,006</b>	<b>1,381</b>	<b>+37.3%</b>
<b>Capital expenditure</b>	<b>2,686</b>	<b>2,870</b>	<b>+6.9%</b>
<b>Depreciation</b>	<b>2,891</b>	<b>3,448</b>	<b>+19.3%</b>
<b>R&amp;D costs</b>	<b>2,242</b>	<b>2,573</b>	<b>+14.8%</b>
<b>Exchange rate</b>	<b>\$1 =¥ 118</b>	<b>\$1 =¥ 113</b>	
	<b>1Euro=¥ 153</b>	<b>1Euro=¥ 165</b>	

# 1-2. Factor Analysis (year-on-year)

## Change

(3Q/FY06 → 3Q/FY07: Three-months period)

## Factor Analysis

(100 millions of yen)

### ■ Net sales

**+38**

(543 → 581)

**Volume** 62

**Unit price** -20

**Exchange rate** -4

### ■ Operating income

**+4**

(16 → 20)

**Volume** 18

**Unit price** -20

**Exchange rate** -2

**Cost reduction  
and others** 8

# 1-3. Consolidated Financial Results for 3Q of FY2007

(Nine-months period)

(millions of yen)

	3Q/FY06	3Q/FY07	change
<b>Net sales</b>	153,417	159,945	+4.3%
<b>Operating income</b>	5,665	4,494	-20.7%
<b>Ordinary income</b>	6,429	5,092	-20.8%
<b>Net income</b>	2,381	1,745	-26.7%
<b>Capital expenditure</b>	8,854	9,644	+8.9%
<b>Depreciation</b>	7,596	8,531	+12.3%
<b>R&amp;D expenses</b>	6,609	7,168	+8.5%
<b>Exchange rate</b>	\$1=¥ 116	\$1=¥ 117	
	1Euro= 149	1Euro= 164	

# 1-4. Factor Analysis (year-on-year)

## Change

(3Q/FY06 → 3Q/FY07: Nine-months period)

## Factor Analysis

(100 millions of yen)

### ■ Sales

**+65**

(1,534 → 1,599)

<b>Volume</b>	<b>104</b>
<b>Unit price</b>	<b>-70</b>
<b>Exchange rate</b>	<b>31</b>

### ■ Operating income

**-12**

(57 → 45)

<b>Volume</b>	<b>35</b>
<b>Unit price</b>	<b>-70</b>
<b>Exchange rate</b>	<b>5</b>
<b>Cost reduction and others</b>	<b>18</b>

# 1-5. Segment Information (year-on-year )

(Three-months period)

(millions of yen)

**Sales**

**Operating income (loss)**

	3Q/FY06	3Q/FY07 ( change )	3Q/FY06	3Q/FY07 ( change )
<b>Information Storage Media</b>	31,828	28,565 (-10.3%)	1,597	1,397 (-200)
<b>Battery</b>	12,700	14,899 (+17.3%)	412	900 (+488)
<b>Material-Device-Electronic Appliance</b>	9,760	14,681 (+50.4%)	-426	-321 (+105)
<b>Total</b>	<b>54,288</b>	<b>58,145 (+7.1%)</b>	<b>1,583</b>	<b>1,976 (+393)</b>

# 1-6. 3Q Segment Information (quater-on-quater)

(millions of yen)

	Sales		Operating income (loss)	
	2Q/FY07	3Q/FY07 ( change )	2Q/FY07	3Q/FY07 ( change )
<b>Information Storage Media</b>	27,000	28,565 (+5.8%)	950	1,397 (+447)
<b>Battery</b>	14,123	14,899 (+5.5%)	1,247	900 (-347)
<b>Material-Device-Electronic Appliance</b>	9,911	14,681 (+48.1%)	-233	-321 (-88)
<b>Total</b>	<b>51,034</b>	<b>58,145</b> (+13.9%)	<b>1,964</b>	<b>1,976</b> (+12)

## 2. Topics

2-1. Three Priority Business

2-2. Core Business

2-3. Measures to strength Optical Components Business

2-4. Improve Management Efficiency and Increase Organizational Strength

# 2-1. Three Priority Business

## Three Priority Business

### Batteries

- Rechargeable Batteries: strong sales for cell phone, portable game  
Increased production capacity in lithium ion batteries  
1H/07 14.5M→3Q/07 16.50M (units/month)
- Primary Batteries: sales rose for micro batteries, especially heat-resistance CR batteries for automotive, Button batteries recorded lower profitability due to increased silver oxide cost

### Optical Components

- Improved profitability by increasing sales of pickup lenses  
Increased lenses production capacity, start construction in Malaysia in Jan. 08 (Sep, 07/150M→Summer08/190M units/month)
- Invested on volume production of Blue-ray glass lenses
- Operational and Capital Tie-up with Chinontec (Dec., 07)

### Functional Materials

- Functional materials: Increased PDP optical film production capacity  
Commercialize LCD optical film in 4Q/07,  
Pursuing synergy benefits with Sliontec
- High-value added materials: higher sales for commercial-use ink

# 2-2. Core Businesses

Core Businesses	
Computer tape	<ul style="list-style-type: none"><li>■ Sales rose slightly by increased high capacity model (LTO3 ,LTO4) and positive effect on foreign exchange rate</li><li>■ Recorded large decrease of profit by price decline</li><li>■ Implement cost reduction rigorously through MPI*1 initiative</li></ul>
Optical Discs	<ul style="list-style-type: none"><li>■ Shipment increased for DVD-R discs</li><li>■ Lower sales and profit by the effect of price decline</li><li>■ Improve profitability by restructure</li></ul>

## — Optical Disc business restructure —

### <Production>

- Promote Super-ODM (started in April, 07) and OEM procurement
- Reduce model numbers (50% reduction in 2H/07 )

### <Reorganization in Maxell Group companies>

- Dissolution of Maxell Hi Tec (plan in the end of March 2008)  
discontinue media business and transfer precision die business to Tohshin Seiko

※MPI(Maxell Process Innovation) : Maxell original efficiency improvement and cost reduction initiatives

### Chinontec Overview

- 1948 Sanshin Seisakusho was established  
( Changed company name to Chinon in 1973)
- 1997 Spin off from Chinon
- Product lineup: glass/plastic lenses processing, optical engines/projection lenses for projectors, medical equipment, etc.

#### <Operational tie-up>

1. Technology: combine optical component technologies in which both companies have expertise, early development and commercialization of new products with heightened added value (multifunctional/modularized lens units)
2. Production: implement collaborative production of both companies' optical components
3. Marketing: use both companies' sales channels, enter new markets

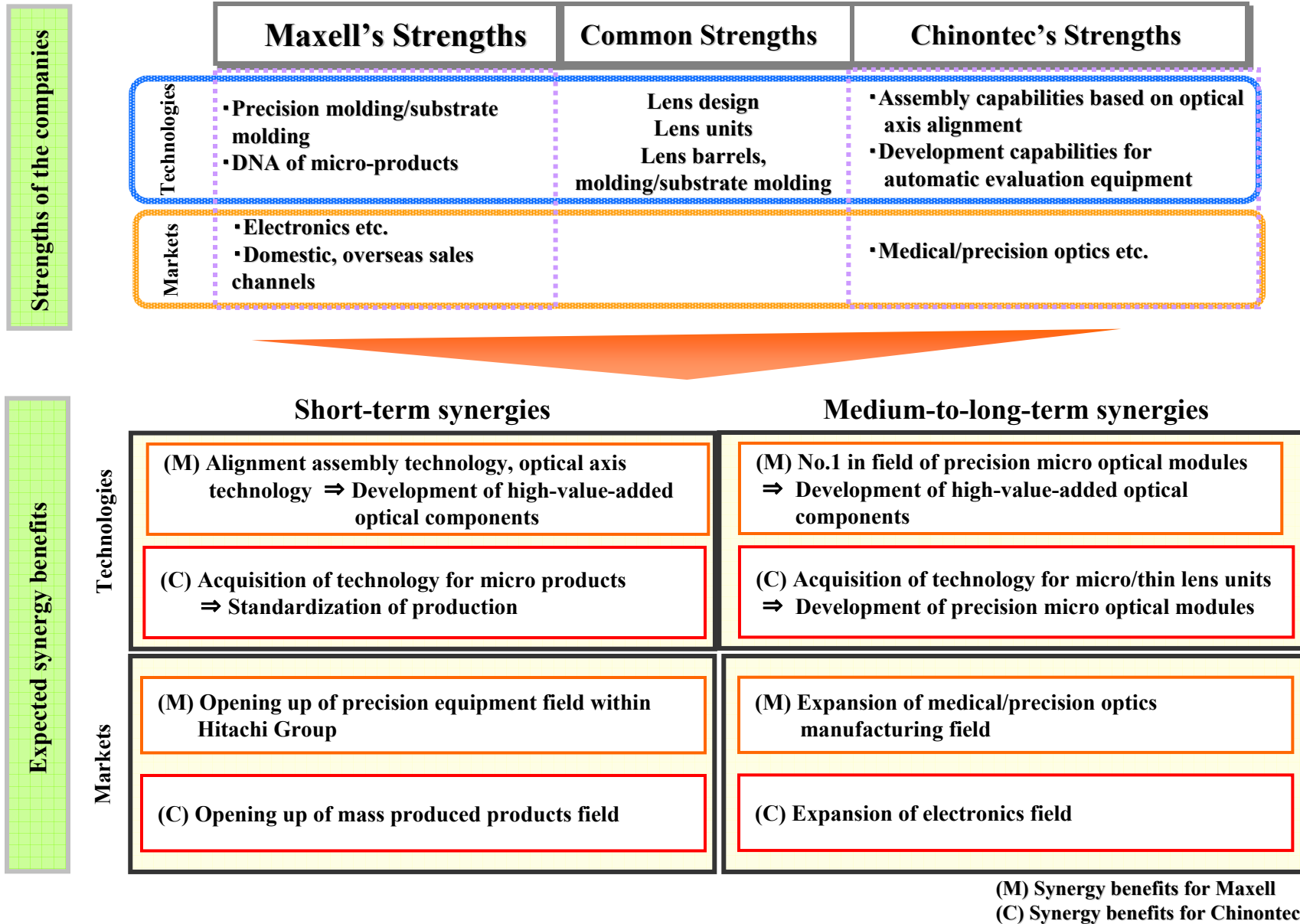
#### <Capital tie-up>

Maxell assumed total amount of Chinontec's third-party allocation of new shares

1. Number of shares assumed: 700
2. Transfer date: December 13, 2007
3. Percentage of shares owned after share acquisition: 18.9%

# 2-3. Strengthen Optical Components Business

## —Synergies with Chinontec



## 2-4. Improvement of Management Efficiency and Increase Organizational Strength

### MPI initiative

- Promote MPI initiative to all business group
- Promote MPI initiative to Group companies (Sliontec)
- Implemented on Computer tape in April 07, reduced 35% of product and work-in process inventory, fewer workers

### VEC※ initiative

- Promote top-down VEC to Group companies aggressively
- Strength total cost reductions in the core businesses
- Promote new investment VEC (lowering depreciation cost by reducing cost of large size capital investment such as Li ion batteries)
- VEL (VE leader) qualification shorten project period from 3 to 2 years term (targeting about 20% of total VE related employees)

### Six Sigma initiative

- Improve major production losses
- Promote wide range activities from manufacturing to sales operation (50 projects/year)
- Start fostering new Black belt (project leader)  
(Target: approx. 100 Black belt in FY2008)

※VEC: Value Engineering for Customers

## **3. Projection for FY2007**

### **3-1. Revision of Business Projection for FY2007**

### **3-2. Revision of Segment information**

# 3-1. Revision of Business Projection for FY2007

(millions of yen)

	Projection on October (A)	Projection on December(B)	(B)-(A)
Net sales	210,000	210,000	±0
Operating income	4,500	5,000	+500
Ordinary income	4,800	5,500	+700
Net income	1,500	1,500	±0
Exchange rate	\$1=¥ 117 1Euro=¥ 156	\$1=¥115 1Euro=¥163	

## 3-2. Revision of Business Projection for FY2007

(millions of yen)

	Sales (change)	Operating income (change)	Comparison with the previous projection Operating income(loss)
Information Storage Media	106,000 (-9%)	3,200 (-51%)	+1,000
Battery	56,000 (+19%)	3,000 (+30%)	-100
Material- Device- Electronic Appliance	48,000 (+25%)	-1,200 (-)	-400
<b>Total</b>	<b>210,000</b> (+4%)	<b>5,000</b> (-37%)	<b>+500</b>

## 4. Progress of Mid-term Business Plan

4-1. Measurement for Changing Business Portfolio

4-2. Changes of Segment Composition

4-3. Investment for Three Priority Businesses

## 4-1. Measurement for Changing Business Portfolio

**Measures executed in 3Q/FY07**

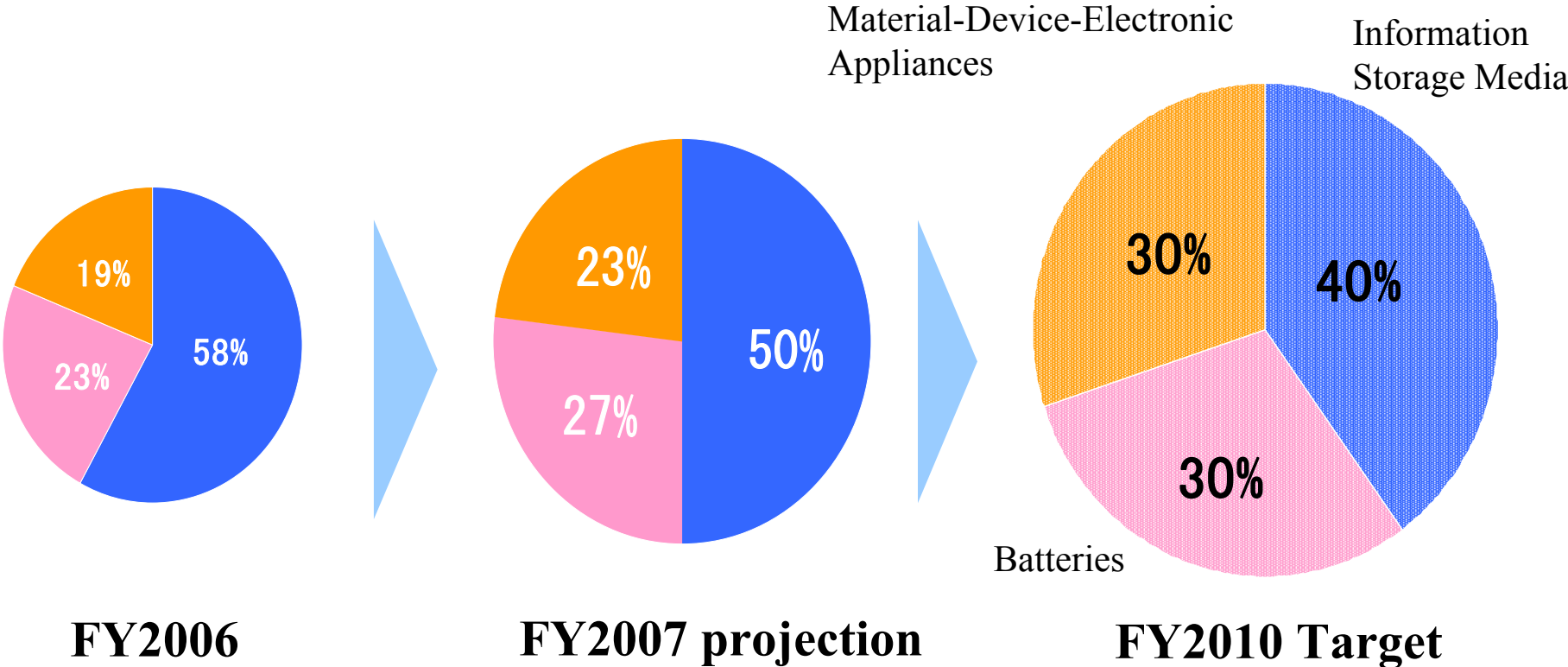
**Aggressive investment for batteries  
and optical components**

**Restructure of optical disk business**

**Strengthen optical component business by  
operational and capital tie-up with Chinontec**

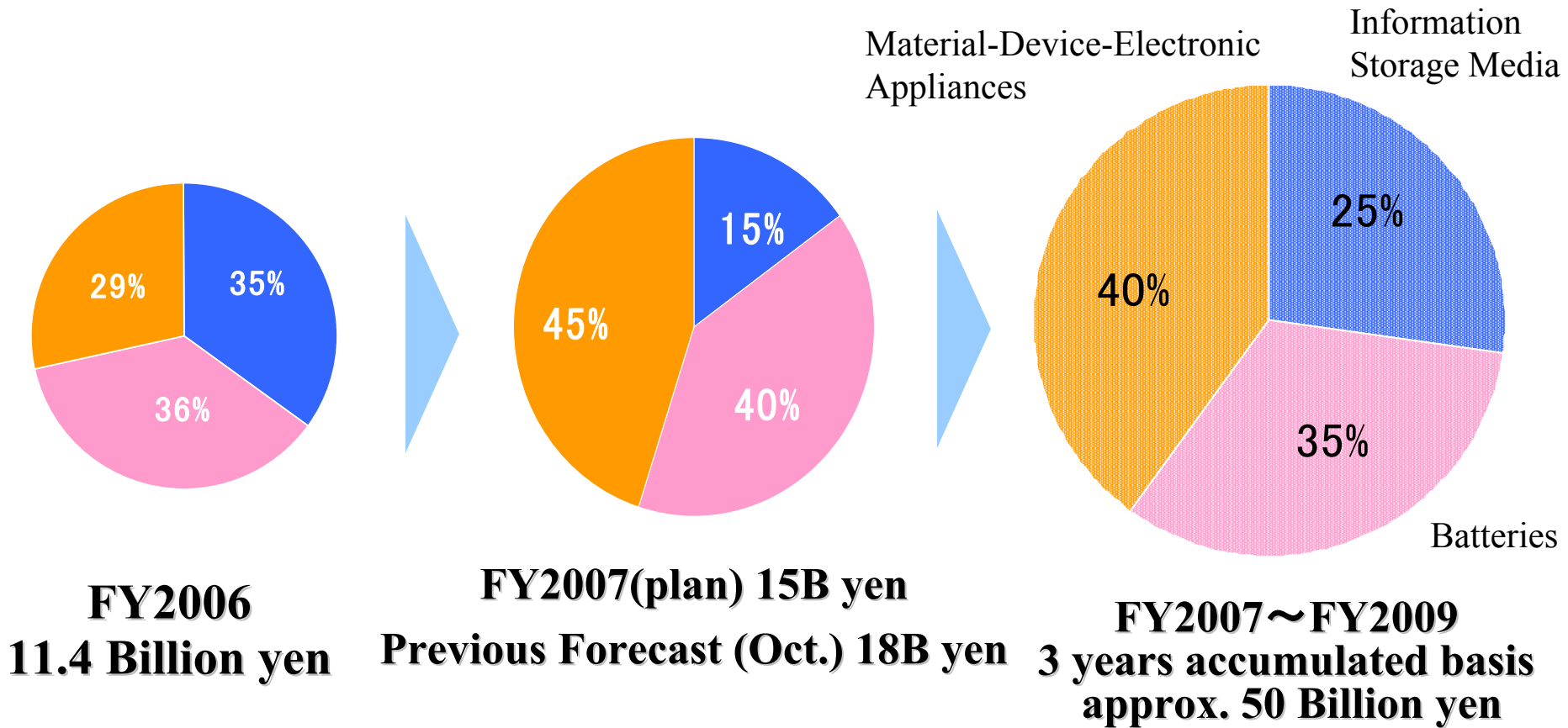
# 4-2. Changes of Segment Composition

## Sales by segment



# 4-3. Investment for Three Priority Businesses

## Capital investment by segment



## 5. Fine Payment for the European Commission

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# 5. Fine payment for the European Commission

## <Background>

- May 2002 Inspection carried by European Commission
- March 2007 Received Statement of Objections
- Nov. 2007 Fine payment order (14.4M euro/approx. 2.3B yen)
- Jan.2008 Resolution of payment for the Fine Payment

## <Financial impact >

- Plan to charge an extraordinary gains from reversal of accrued expenses (consolidated basis)

## <Strengthen Compliance management>

- Ensuring compliance with law and statutory regulations based on “Basis and Justice” and persisting in the relapse prevention
- Promoting a fair, transparent, free competition from a global viewpoint in the active conduct of business

Note: This document contains forward-looking statements which reflect management's current views and judgments with respect to certain future plans, events and strategies based on currently available information and do not constitute promises, commitments or guarantees. The forward-looking statements involve known and unknown risks and uncertainties that can cause actual results to differ materially from those projected or implied therein. Factor that can cause actual results to differ materially from those projected or implied in the forward looking statements and from historical events include, but are not limited to, future economic trends, competition in the industrial sector in which Maxell operates, market demand, rates of exchange (for the yen and other currencies in which Maxell makes significant sales or in which Maxell's assets and liabilities are denominated), and sociopolitical conditions and circumstances.

# Reference : Major Business Lines

<b>Segment</b>	<b>Main Products</b>
<b>Information Storage Media</b>	Computer tapes, Broadcasting video tapes, Blu-ray Discs, HD DVDs, DVDs, CDs, Audio tapes, Video tapes
<b>Battery</b>	Lithium ion rechargeable batteries, Coin-type lithium rechargeable batteries, Silver oxide batteries, Lithium ion primary batteries, Alkaline dry batteries
<b>Material-Device-Electronic Appliance</b>	Optical components, Functional materials, Adhesive tapes, RFID systems, IC cards, Small electric appliances, Electroforming/precision components, Metal/plastic molded products, etc.

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