Business Strategy of the Magnetic Materials Company

Hitachi Metals IR Day 2016

June 3, 2016
Hitachi Metals, Ltd.

Ryoji Akada
Executive Officer
President of the Magnetic Materials Company
Business Strategy of the Magnetic Materials Company

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5. Conclusion
1-1. Our Position in the Magnet Industry

Supplying an extensive line-up of magnet products to the market

- Electronics-related: 15%
  - Consumer electronics & mobile devices
    - Rare earth magnets
    - Ferrite magnets
    - Information system components
- Automotive-related: 63%
  - Rare earth magnets
  - Ferrite magnets
    - For HEV & EV
    - For EPS
- Industrial infrastructure-related: 22%
  - FA & industrial equipment
    - Rare earth magnets
    - Ferrite magnets
    - Applied products

Magnetic Materials Segment
FY 2015 Revenues: ¥105.3 billion

World’s No. 1 brand
NEOMAX

Magnetic properties of the highest level
NMF-15 Series
Basic policy of the Magnetic Materials Company

Innovate monozukuri to pave the way for growth

- Strengthen global production sites
- Build innovative production lines

2018 Medium-Term Management Plan: Goals

<table>
<thead>
<tr>
<th></th>
<th>FY 2015 Results (¥120 = US$1)</th>
<th>FY 2018 Goals (¥115 = US$1)</th>
<th>Change vs. FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>¥105.3 bn</td>
<td>¥132.0 bn</td>
<td>125%</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>¥6.9 bn</td>
<td>¥17.0 bn</td>
<td>+¥10.1 bn</td>
</tr>
<tr>
<td>Adjusted operating margin</td>
<td>6.6%</td>
<td>12.9%</td>
<td>+6.3%</td>
</tr>
<tr>
<td>Overseas sales as a % of total sales</td>
<td>59%</td>
<td>67%</td>
<td>+8%</td>
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Automotive-related Market

- HEV and EV are becoming increasingly popular out of heightened environmental awareness engendered by regulations on CO₂ emissions and fuel efficiency in various countries and regions.
- HEV and EV production is projected to increase in China, the U.S., and Europe.

Projection of production volume for HEV and EV power systems in each country/region

* HEV indicates a full hybrid vehicle
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3-1. Strategy and Action Plan (1)

**Strengthen global production sites**

**Establish a joint venture in China**

Build an integrated structure from procurement of raw materials to production and sales

- **Company name:** Hitachi Metals San Huan Magnetic Materials (Nantong) Co., Ltd.
- **Location:** Nantong, Jiangsu Province, China
- **Capital:** RMB 450 million (Hitachi Metals: 51%; Zhong Ke San Huan: 49%)
- **Production capacity:** 1,000 tons/year (FY2017) ⇒ 2,000 tons/year
- **Sales goal:** ¥10 billion (FY2018)

Establish a new joint venture and start manufacturing quickly, and consolidate locations in Japan.

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Building innovative production lines

Respond to the growing demand for HEV and EV

Anticipate customer needs and develop a monozukuri structure that outstrips the competition

- High-performance automated line
- Real data management using IoT (Proper inventory management, automatic control of manufacturing conditions)

Improve production efficiency
  - Shorter lead times
  - Stable production

- Competitive heavy rare earth diffusion technology
- Recycling process utilizing proprietary technology

Improved material flow
Expand scale through lateral roll-out of innovative production line technologies

- Roll out the proprietary technology for innovative production lines to ferrite magnets as well.
- Reconfigure production lines to meet the requirements of the automotive sector for high quality components and ultra-thin, small components, which are difficult to manufacture.

Roll out capabilities in production technologies to all locations and supply high quality products on a global basis.

- Indonesia
- South Korea
- Japan
- U.S.
3-4. Investment Plans

Strengthen the business base

◆ Launch a joint venture in China
◆ Introduce innovative production lines at locations in Japan
  - Heavy rare-earth diffusion line
  - Introduce IoT
◆ Roll out innovative production lines globally

■ Capital Investment:
¥39 billion (cumulative total for FY2016-FY2018)
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4-1. Trend in Business Results

Revenues (¥billions)

- FY 2015: 105.3 (6.6%)
- FY 2016: 100.0 (8.0%)
- FY 2018: 132.0

Adjusted operating income (¥billions)

- FY 2015: 8.0 (8.0%)
- FY 2016: 17.0 (12.9%)
- FY 2018: 17.0

Overseas sales as % of total sales

- FY 2015: 59%
- FY 2016: 61%
- FY 2018: 67%

Revenues (left axis) - Adjusted operating income (right axis)
4-2. Trend in Revenues by Region

Expanding revenues in the Chinese, European, and U.S. markets

FY2015 Revenues: ¥105.3 billion

FY2018 Revenues: ¥132.0 billion
4-3. 2025 Vision

Achieving greater growth through innovation in the business base

Become a leading magnet company that helps to develop an ecologically-minded society

Revenues (¥billions)

- Reform business to achieve growth
- Expand business scale

2025 Vision

- 200.0
- Become a leading magnet company that helps to develop an ecologically-minded society

(2018 Medium-Term Management Plan)

FY 2015

FY 2018

FY 2025
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## Magnetic Materials Company

**Innovate monozukuri to pave the way for growth**

### FY2018 Plan

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This document contains forward-looking statements—such as results forecasts and management plans—that are not historical facts. All such forward-looking statements are based upon all available information and upon assumptions and projections that were deemed reasonable at the time the Company prepared this document. Changes to the underlying assumptions or circumstances could cause the actual results to differ substantially. The factors causing such differences include, but are not limited to, the following:

• Changes in economic conditions and regulations in the main markets where the Company operates, particularly Japan, the United States, Asia and Europe
• Sudden changes in technological trends
• Changes in competitive advantage and the capabilities of the Company and its subsidiaries and affiliates to develop and commercialize new products and businesses
• Fluctuations in the status of product markets, exchange rates and international commodity markets
• Changes in financing environment
• The capability of the Company and its subsidiaries and affiliates to cope with fluctuations in product supply and demand, the status of product markets, exchange rates and international commodity markets
• Protection of the Company’s intellectual property, and securing of licenses to use the intellectual property of other parties
• Changes in the status of alliances with other parties for product development, etc.
• Fluctuations in Japanese stock markets