

To whom it may concern:

Company Name: Hitachi Metals, Ltd.  
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Notice Concerning Establishment of Neodymium-Iron-Boron Magnet Joint Venture  
(Subsidiary Transfer) in China  
(Progress Report on a Disclosed Matter)

Hitachi Metals, Ltd. (hereafter, “Hitachi Metals”) and Beijing Zhong Ke San Huan Hi-Tech Co., Ltd. (hereafter, “Zhong Ke San Huan”) have engaged in preparations for the establishment of a joint venture in the manufacturing and sales of Neodymium-Iron-Boron magnets as announced in “Notice Concerning Establishment of Neodymium-Iron-Boron Magnet Joint Venture (Subsidiary Transfer) in China” dated June 18, 2015, and “(Amendment) Notice of Partial Amendments to the Notice Concerning Establishment of Neodymium-Iron-Boron Magnet Joint Venture (Subsidiary Transfer) in China” dated June 9, 2016.

Hitachi Metals is pleased to hereby announce that all procedures required for the establishment of the joint venture “Hitachi Metals San Huan Magnetic Materials (Nantong) Co., Ltd. (hereinafter, “Hitachi Metals San Huan Magnetic Materials (Nantong)”) were completed on September 1, 2016 as outlined below:

1. Objectives for Establishing the Joint Venture

Hitachi Metals has provided a variety of industries, including the automobile, the IT and home electronics, the industrial machinery, and the medical, environmental, and energy industries, with a range of high-performance magnets led by the NEOMAX<sup>®</sup> series of Neodymium-Iron-Boron magnets, which possess some of the world’s highest levels of magnetic force. These magnets are important materials for reducing the size and weight of a wide range of products, increasing their efficiency and energy-saving capabilities, and improving their environmental performance.

Zhong Ke San Huan is a leading manufacturer of Neodymium-Iron-Boron magnets in China. Hitachi Metals has long had a licensing agreement with the company, and the company is also working to expand, not only in China and Asia, but to the European and U.S. markets as well, based on its leading-edge technologies and proven track record for delivering superior magnets.

As environmental laws and regulations are strengthened around the world, global demand for Neodymium-Iron-Boron magnets is expected to increase significantly, led by strong demand in China. This is particularly true in China, where market growth is anticipated in Electric Vehicles / hybrid vehicles, industrial motors, and a broad range of other sectors.

Given these conditions, Hitachi Metals determined that establishing a local production infrastructure in China is necessary to achieve global growth in its Neodymium-Iron-Boron magnet business over the medium to long-term, and that it is essential for Hitachi Metals to establish a joint venture with the Chinese leading magnet manufacturer Zhong Ke San Huan for the manufacture and sale of Neodymium-Iron-Boron magnets and expand business scale.

With the establishment of the joint venture, Hitachi Metals expects to expand the scale of its business and enhance

its competitiveness in the global market by facilitating an infrastructure comprising raw material procurement, manufacturing, and sales for its Neodymium-Iron-Boron magnet business in China. At the same time, Zhong Ke San Huan is expected to be able to further strengthen its position as the leading manufacturer of magnets in China by providing the joint venture with the business resources it possesses.

## 2. Outline of Hitachi Metals San Huan Magnetic Materials (Nantong) Co., Ltd.

(1)	Company name	Hitachi Metals San Huan Magnetic Materials (Nantong) Co., Ltd.	
(2)	Location	Qidong, Nantong, Jiangsu Province, China	
(3)	Title and name of representative	Ryouji Akada, Chairman of the Board	
(4)	Business details	Manufacture and sale of Neodymium-Iron-Boron magnets	
(5)	Stated capital	450 million yuan	
(6)	Date of incorporation	September 1, 2016	
(7)	Annual production capacity	2,000 tons/year	
(8)	Fiscal year end	December 31	
(9)	Investment interest	Hitachi Metals: 51% Zhong Ke San Huan: 49%	
(10)	Relationship to listed company	Capital relationship	A consolidated subsidiary with an investment of 51% by Hitachi Metals.
		Personnel relationship	Not applicable at present.
		Transactional relationship	Not applicable at present.

## 3. Future Plans

Hitachi Metals San Huan Magnetic Materials (Nantong) Co., Ltd. will be a consolidated subsidiary of Hitachi Metals and is positioned as an integrated production facility for Neodymium-Iron-Boron magnets at an annual output of 2,000 tons, from procurement of raw materials to manufacturing and sales, to service the Chinese market.

The joint venture will install equipment for mass production of 1,000 tons/year initially beginning in fiscal 2017. Subsequently, we will continue to increase capacity at an early stage, taking the trend in demand into account. The sales plan also projects sales of around 10 billion yen in fiscal 2018.

## 4. Future Projections

This event will have a minor impact on the consolidated business results of Hitachi Metals for FYE March 2017.

There is no change in the business results forecast announced on July 28, 2016.

5. Outline of Both Companies

1) Hitachi Metals, Ltd.

(1) Company name	Hitachi Metals, Ltd.
(2) Location	2-70, Konan 1-chome, Minato-ku Tokyo 108-8224, Japan
(3) Title and name of representative	Hideaki Takahashi, Representative Executive Officer; President and Chief Executive Officer
(4) Business details	Manufacture and sale of high-grade metal products and materials; magnetic materials and applications; high-grade functional components and equipment; and wires, cables, and related products
(5) Date of incorporation	April 1956
(6) Stated capital	26,284 million yen (as of March 31, 2016)
(7) Revenues	1,017.5 billion yen (for fiscal 2015)
(8) Adjusted operating income*	76.1 billion yen (for fiscal 2015)
(9) Operating income	100.0 billion yen (for fiscal 2015)
(10) Number of employees	29,157 (as of March 31, 2016)

\*Adjusted operating income: Revenues minus cost of sales and selling, general and administrative expenses

2) Beijing Zhong Ke San Huan Hi-Tech Co., Ltd.

(1) Company name	Beijing Zhong Ke San Huan Hi-Tech Co., Ltd.
(2) Location	Building A, 27th Floor, No. 66 East Road Zhong Guan Cun, Hai Dian District Beijing, 100190, China
(3) Title and name of representative	Wang Zhenxi, Chairman of the Board
(4) Business details	Research and development, manufacture, and sale of Neodymium-Iron-Boron magnets, other new materials, and products using those materials
(5) Date of incorporation	July 1999
(6) Stated capital	1,065.2 million yuan (as of December 31, 2015)
(7) Net sales	3,502.3 million yuan (for fiscal 2015)
(8) Operating income	412.1 million yuan (for fiscal 2015)
(9) Number of employees	5,138 (as of December 31, 2015)

(For Reference)

Hitachi Metals Consolidated Financial Forecast (Announced July 28, 2016) (Unit: JPY million)

	Revenues	Adjusted operating income	Income before Income Taxes and Minority Interests	Net Income Attributable to Owners of the Parent Company
Consolidated financial forecast (FYE Mar. 2017)	950,000	78,000	65,000	45,000

Consolidated Financial Results for the Previous Period (Announced April 27, 2016)

(Unit: JPY million)

	Revenues	Adjusted operating income	Income before Income Taxes and Minority Interests	Net Income Attributable to Owners of the Parent Company
Consolidated financial results (FYE Mar. 2016)	1,017,584	76,061	96,233	69,056

For inquiries regarding this matter:

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