

# Change to be a competitive business; Challenge ourselves to meet new targets



Hideaki Takahashi  
President and Chief Executive Officer

## Strong business performance in fiscal 2014

Hitachi Metals is now at a crucial turning point. Hitachi Metals chose “Change” and “Challenge” as our keywords for pursuing sustained growth. Every department is taking the initiative on this accordingly.

Despite changes in demand, mainly in the Japanese automobile sector, that impacted some businesses and products from the third quarter, we were able to clear our numerical targets for fiscal 2014 business performance as a whole.

We expect residual effects from changes in demand to linger in fiscal 2015 and the uncertain environment will persist. Nevertheless, we plan make steady progress toward our targets for the fiscal 2015 Medium-Term Management Plan (2015 Medium-Term Plan) and pave the way for our next step.

We also intend to build a solid base for the start of the next Medium-Term Management Plan.

## Issues that have surfaced in our journey toward sustained growth

In May we announced our fiscal 2014 results. I subsequently had many opportunities to talk to securities analysts and institutional and overseas investors who hold our shares. Their feedback was very positive. Some said, “I can sense that Hitachi Metals has reached a new stage of growth.” Others said, “Now is not the time to rest. I look forward to your further growth and progress.” The people I talked to certainly had big expectations for the company’s future. However, some analysts and investors were more critical.

For example, one said, “It’s so important that you keep up a continuous growth strategy. I expect Hitachi Metals to set and achieve high targets.”

Another stated, “Some of your business areas seem to have stopped growing. You need to be constantly innovating and demonstrating higher business value.”

Sustained growth is the aim of Hitachi Metals. In fiscal 2015, we will continue to steadily follow our strategy and work for growth on the global market to keep growth from stalling.

Certain issues that need to be addressed have surfaced, however. If we ask what it takes to be a competitive business in the global market, the answers include:

- 1** Build a strong business portfolio and continuously restructure it
- 2** Strengthen the technical superiority at the core of our competitive advantage
- 3** Manage risks with respect to change
- 4** Have a common sense of values and a strong organization in which we all work together

All of these are important elements of global competitiveness. We will pursue these initiatives.

# 1 To be a competitive business

## 1 | Build a strong business portfolio and continuously restructure it

### Aim to achieve a high-profit structure and profit expansion through sales growth

In fiscal 2014, we actively restructured our business portfolio as a growth strategy.

This includes the High-Grade Metal Products and Materials segment (High-Grade Metals Company). We transferred the majority of shares of Hitachi Tool Engineering, Ltd. (now Mitsubishi Hitachi Tool Engineering, Ltd.) to Mitsubishi Materials Corporation. We also invested in the aircraft and energy field. Here, we expect market growth and the chance to put our excellent materials technology to work. We are also investing heavily in processes upstream to our Yasugi Works, a source for sustained growth. This will help us build a steady cash flow from molds and tool steel. We have made similar moves in the High-Grade Functional Components and Equipment segment (High-Grade Functional Components Company). While we sold shares of Hitachi Metals Techno, Ltd. because we felt that global growth would be difficult on our own, we purchased Waupaca Foundry, Inc., which offers the potential to increase business scale and expand our market range in the iron casting business.

### Main Initiatives Implemented in Fiscal 2014

A review of the business portfolio was conducted with the goal of achieving sustainable growth.

Business (Segment)	Measures	Overview
Specialty Steel (High-Grade Metal Products and Materials)	Expanded aircraft and energy segment business domains	<ul style="list-style-type: none"> <li>Acquired MMC Superalloy Corporation shares (boosting holdings from zero to 51%), and consolidated the company</li> <li>Implemented strategic investment in Hitachi Metals MMC Superalloy, Ltd. (large ring mill)</li> </ul>
	Restructured the tool steel business	<ul style="list-style-type: none"> <li>Reorganized domestic distribution network (reorganized subsidiaries) and improved the efficiency of the sales system</li> <li>Revised prices and boosted profitability by restructuring the product lineup and adjusting prices</li> </ul>
	Enhanced the competitiveness of industrial machinery materials	<ul style="list-style-type: none"> <li>Expanded demand for automotive materials (piston ring materials, CVT belt materials)</li> <li>Started up a 24t vacuum induction melting and casting furnace, the largest in the world (CVT belt materials)</li> </ul>
	Decided on major capital investment in casting, forging, etc.	<ul style="list-style-type: none"> <li>New casting equipment, 10,000-ton class free forging press, high speed four-surface forging machine, etc.</li> <li>Invest will begin in FY2015 and commence in stages, with completion and start-up of operation scheduled for FY2017</li> </ul>
	Reinforced the business base for cemented carbide tools	Transferred 51% of shares held in Hitachi Tool Engineering, Ltd. to Mitsubishi Materials Corporation, strengthening the technology base
Rare-earth Magnets (Magnetic Materials and Applications)	Increased production capacity at domestic locations	Increased production capacity for rare-earth magnets used in HEV (NEOMAX KINKI Co., Ltd.)
	Explored establishment of a production site in China	Explored establishment of a joint venture with Beijing Zhong Ke San Huan Hi-Tech Co., Ltd. of China
Casting Components for Automobiles (High-Grade Functional Components and Equipment)	Strengthened the casting business in the Americas	Acquired Waupaca Foundry, Inc., establishing a commanding position in the ferrous casting for transport machinery business, and strengthened the business base by utilizing production technology, sales, procurement, and other management resources
Construction Materials & Equipment-related (High-Grade Functional Components and Equipment)	Transferred shares in Hitachi Metals Techno, Ltd.	Accepted a tender offer and sold all shares held in Hitachi Metals Techno, Ltd., a listed company. The company is targeting growth based on the new structure
Wire and Cables (Wires, Cables, and Related Products)	Reviewed business portfolio and reinforced the business base	<ul style="list-style-type: none"> <li>Transferred J-Power Systems Corporation shares (cutting holdings from 50% to zero)</li> <li>Reduced equity stake in Sumiden Hitachi Cable Ltd. from 50 to 34%</li> <li>Reduced equity stake in Shanghai Sunshine Copper Products Co., Ltd. from 49 to 13%</li> <li>Transferred the compound semiconductor business (completed transfer to Sumitomo Chemical Co., Ltd. on April 1)</li> </ul>
	Shifted to areas of anticipated growth	<ul style="list-style-type: none"> <li>Rolling stock cable operations in China, Europe, and the U.S.</li> <li>Medical wire (improved operational efficiency by consolidating production of probe cables)</li> <li>Automotive products (Grew sensor cables, and strengthen locations in Asia and Central America)</li> </ul>

As the market expands globally and our business environment changes, industries will rise and fall and markets will be transformed. Inevitably, our markets and business regions will expand and move. How can we sustain growth given all this change? First, we must build a high-profit foundation by restructuring our business portfolio. Then, we will strive to grow profits by continuously increasing sales in the global market.

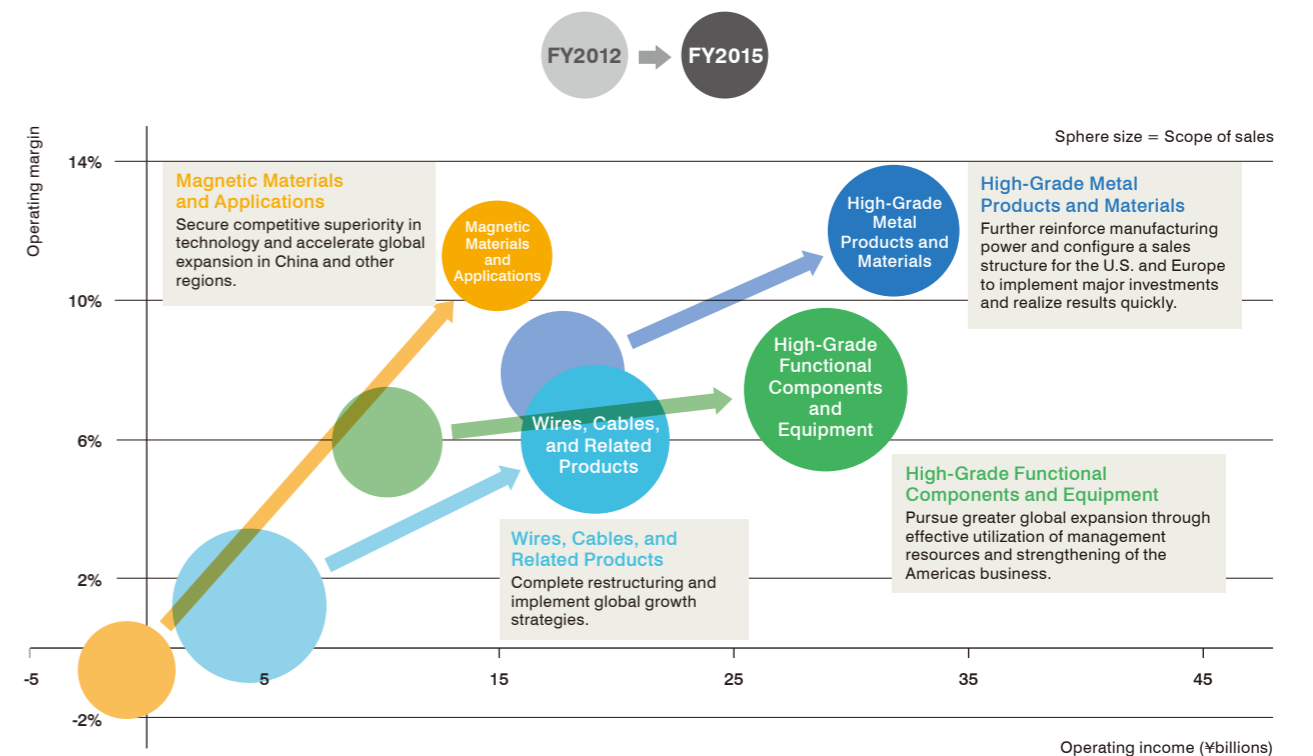
We will also implement structural reform as another essential aspect of our business. Hitachi Metals will continue to restructure our business portfolio and reform structurally. We will seek to use our capital more efficiently and achieve a higher ROE. For example, we will move away from mature businesses and let go of low-profit businesses.

Speed is also crucial. There are four business segments in the company, but the market and business structure applicable to each is different. The Magnetic Materials and Applications segment and the Wires, Cables, and Related Products segment differ starkly from High-Grade Metal Products and Materials segment and High-Grade Functional Components and Equipment segment. This is true as measured by the speed and impact of market change and relative competition. That is to say, the Magnetic Materials and Applications segment and Wires, Cables, and Related Products segment cannot compete by creating ideas and taking action at the same speed as the other two segments. Increasing the speed from decision-making to execution will give us a competitive advantage.

The Hitachi Metals Group is at a crucial turning point. It is no longer enough to continue on our old trajectory. We are taking on our challenges directly, and we are using new perspectives and ideas to build a competitive business portfolio at a faster pace. We are practicing strong and proactive management in recognition of this, and will aim to achieve a high-profit structure and profit expansion through sales growth.

### Business Portfolio

Shift to profit-generating segments and build a structure targeted at sustainable growth.



## 2 | Strengthen the technical superiority at the core of our competitive advantage

### Hone our technical superiority from the customer's perspective

Hitachi Metals has long created and offered products distinguished by our unique technologies. On the other hand, our customers are changing as market needs become more diverse. To survive, we must merge our aim-for-the-top market strategy based on technical superiority with product development and business strategy for meeting customer needs. We must break free from any strategy mired in past success. We must innovate from the customer's perspective as we aim for new growth.

To do this, we persistently research leading-edge technology and develop new products. It is important that we do this to constantly improve our basic strengths as a company. Recent years have brought remarkable advancements in materials technology and development. Chemical materials with properties similar to those of metal materials have emerged.

As the customer sees it, our products are materials and finished products at the same time. We are actively seeking to gain entry into new fields and offer customer-centered solutions. This will help customers make their own products and create value for the final user. Technical superiority, objectively improved, is the foundation of our growth strategy. We will embody our ideal of offering solutions by finding out what will sell and what customers want, and then making it.

## 3 | Manage risks with respect to change

### Improve our ability to sense and respond to change, especially when taking the offense

We are a materials developer and manufacturer actively investing for growth. Our risk is that business confidence may change and we will be unable to respond before our investment pays off.

The business environment is always changing. Recently, we are facing more diverse risks and the waves of change are becoming more intense. Foreign exchange rates fluctuate wildly. Business confidence in growth markets can evaporate suddenly. Geopolitical risks can cause rapid change. We must not be slow to respond to changes. For a company like ours, our operating rate has a big impact on profits. So any delay in response could cause great losses from which it would take long to recover. Although we need not worry about it excessively, we recognize the potential for such losses and will practice stricter risk management that anticipates deteriorating business conditions.

Business conditions are not the only risk to our operations. To operate our business in the global market, many things are important, including legal and cultural differences and geopolitical risk. We have to concretely identify risks inherent in the operation of each business and take preventive measures. We must also constantly brush up our response in the event that a risk develops into a crisis, and improve our ability to respond.

Risks are unpredictable and vary greatly in nature. Nonetheless, it is possible to see early signs of problems and take measures against them. We will improve our ability to sense and respond to change and will strengthen our business in every respect, especially when going on the offense.



## 4 | Have a common sense of values and a strong organization in which we all work together

### The role of regional headquarters outside Japan

As our business expands globally, we need to fortify our regional headquarters as a means of keeping the management of operations close to the market. We have been pursuing that initiative since fiscal 2014. With business in the Americas and China expanding in scale, in particular, the ability to configure a management structure capable of responding rapidly to the market, rather than management by company segment alone, is a matter of urgency. During fiscal 2015 we will strengthen the regional headquarters functions to ensure efficient business expansion.

To be a competitive business, we need a common sense of values and more capacity to act as an organization. Currently we seek to grow in the global market. Our business strategy and competitive conditions will be different in each area outside Japan. In the past we would have responded to these separately in each internal company and business area. Now, however, the key is to take a wider view and decide how to use management resources effectively in each market.

Offices and staff located outside Japan have the capacity to mobilize this way. In each region we need a variety of ideas and the ability to act dynamically. This includes expanding our customer base and enhancing business efficiency as part of a growth strategy in the region.

Our four regional headquarters (the Americas, Europe, Asia, and China) will seek sales growth in their respective areas. Each area will also work to improve its profitability. We intend to move to a business model guided by professionals with deep knowledge of their region and industry.

### Measures to achieve global business growth

#### 1 Strengthen governance by the regional headquarters

- Strengthen regional headquarter functions by actively recruiting and securing local management level human resources.
- The four regional headquarters (Americas, Europe, China, and Asia) will devise and implement regional business strategies based on the market conditions and customer status in each region.
- Strengthen the CSR and compliance structure overseas.

#### 2 Continue active investment directed at achieving global growth and work to expand business scale.

- Continue to implement the growth strategy in the tool steel and aircraft and energy segments. Concentrate investment in upstream processes that are the source of competitiveness in Japan and localize processing.
- Establish a structure for expanding global sales in the automotive segment, the rolling stock and medical devices segments, and work to expand sales to achieve profit growth.

## 2 Enhance corporate quality: strengthening risk governance

To achieve sustained growth, we must never forget that “everything must stand on a foundation of stable business activities.” Obeying the law and walking the path of virtue have always been the basis for action at Hitachi Metals Group. That is why our compliance initiatives have been so thorough.

We will adopt stricter risk governance both in Japan and elsewhere. My aim is to strengthen our programs and mechanisms for stamping out misconduct. I seek to have systems in place to expose risk and therefore keep improper transactions from happening. We need to have stronger auditing systems, third-party checks, and support functions. By enacting these, my goal is to have a more transparent business.

As our business grows globally, moreover, there are other risks. A problem with product quality or function risks a large-scale recall and the resulting financial loss. To strengthen and improve quality, we must begin by considering the maturity of our production and processes academically and systematically. Our approach to this will not be based just on our own view. Rather, we need to take the customer’s perspective to ensure quality that is convincing to the customer and community and will practice this kind of “Quality First.”

Of course, safety is vital to any manufacturing industry. We cannot really call ourselves a growth business if we do not have a good safety record. We must each have a common belief in “safety above all else.” There should be a sense of tension leading us to create a safe workplace.

Naturally, to practice compliance is to obey the law. Compliance, however, extends to every corporate initiative and the actions of each individual employee. Each employee will work consciously to enhance the corporate quality of the Hitachi Metals Group.

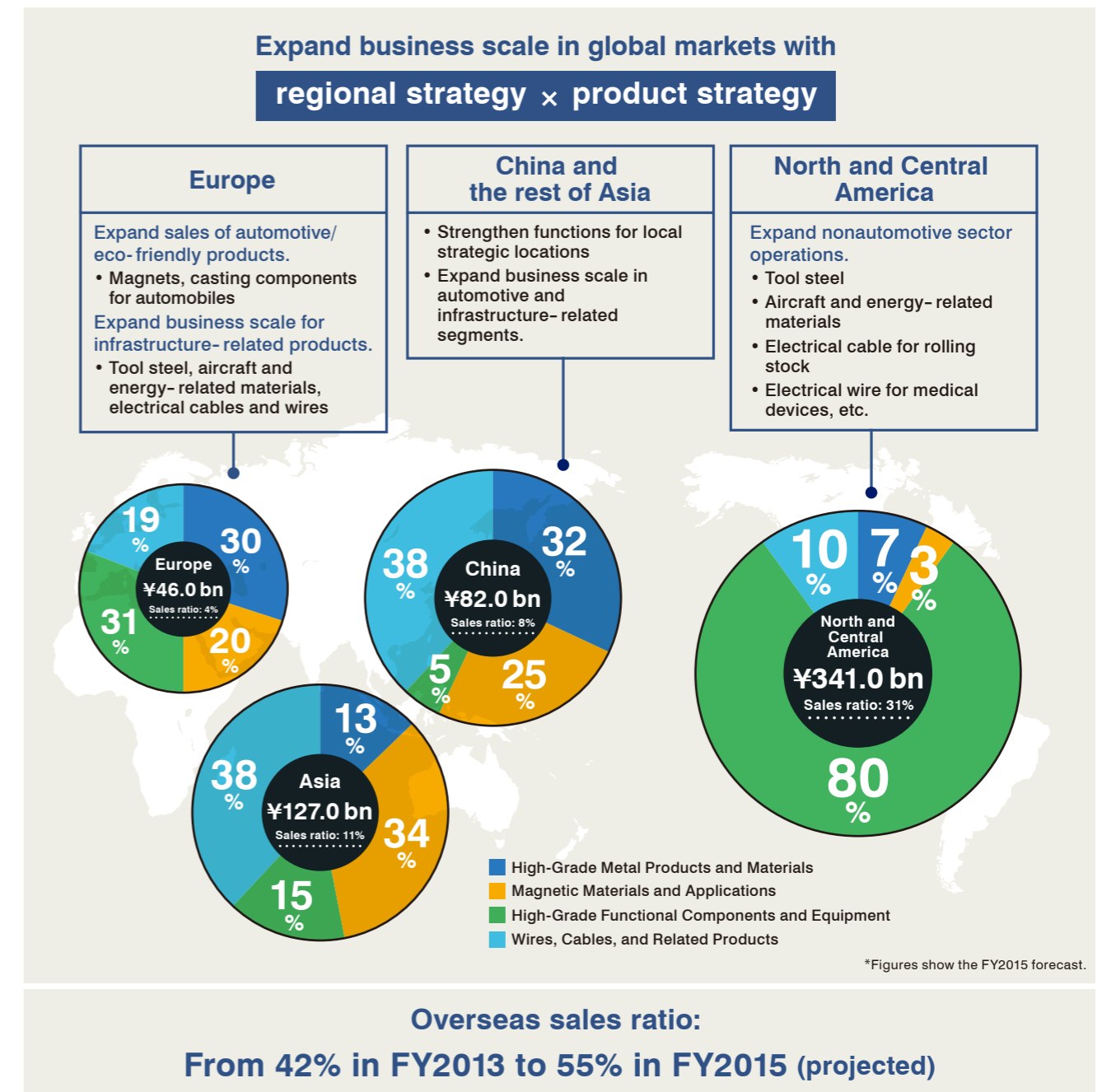
## 3 Policy on shareholder return

Generating sustainable, long-term returns to shareholders by increasing corporate value and increasing the profits available for dividends is the basic policy of Hitachi Metals. We strive to maintain a strong, stable financial structure that enables investment and manage the company in a manner that enables us to share that growth with our shareholders and all other stakeholders consistently, over the long-term.

Hitachi Metals takes a holistic view of a number of factors in determining shareholder return. These include investment in growth and internal reserves, as we improve the earning power of Hitachi Metals as a whole as well as our ability to generate cash.

The company paid annual dividends of 23 yen per share in fiscal 2014. The dividend payout ratio for fiscal 2014 was not high, due in part to temporary gains on the sale of subsidiary shares and other factors, as we worked to implement our growth strategy and restructure our business portfolio. We also intend to take the consolidated payout ratio into consideration in the future as we implement the Medium-Term Management Plan.

As we generate profits by achieving new growth, we will return profits to our shareholders while investing some of the cash acquired in growth.



## Challenge ourselves to meet higher targets in the next Medium-Term Management Plan

Hitachi Metals Group is now at a crucial turning point. Let us state clearly what we aim to be as a business by setting high targets that merit growth. Let us take appropriate risks and pursue our business proactively. May we clearly communicate our strategy and carry it out with a sense of speed. With “Change” and “Challenge” as keywords, we aim to be one of the top metal materials companies in the world. Let each of us go forward with a strong sense of awareness and challenge ourselves to meet higher targets.

Hideaki Takahashi  
President and Chief Executive Officer 高橋秀明