

# High-Performance Materials Company Unparalleled in the World

## Opportunity to demonstrate our uniqueness and make major strides

In its long history of more than 100 years, the Hitachi Metals Group has undertaken numerous M&As to build a diversified business portfolio. Responding to increasingly sophisticated market needs, we have consistently created distinctive products that are rich in variety by developing technologies and products that reflect changing social issues. Hitachi Metals is a high-performance materials company unparalleled in the world for its ability to continuously create these technologies and products, which may seem to be unconnected at first glance, and attract diverse human resources in a uniquely harmonious way.

Today, demand for environment-friendly products is growing worldwide, as symbolized by the emergence of xEV\*1 in the automobile market, and development of new materials is accelerating year by year. This situation presents a major growth opportunity for the Hitachi Metals Group, which not only has numerous environment-friendly products but is also capable of consistently delivering new levels of value. The opportunity has truly arrived for Hitachi Metals to anticipate the changing market environment and social issues and demonstrate its unique strengths for making great strides.

\*1 General term for electric vehicles (EVs), hybrid electric vehicles (HEVs), and plug-in hybrid electric vehicles (PHEVs).



**Akitoshi Hiraki**

Representative Executive Officer,  
President and Chief Executive Officer

## Expansion of organic growth

Under our Fiscal Year 2018 Medium-term Management Plan, we are increasing organic growth with the aim of expanding the business globally while improving profitability. At the same time, we are undertaking continuous portfolio remodeling, including through M&As.

In fiscal 2016, the first year of the plan, we got off to a good start building a base for growth. Specifically, we worked to improve Groupwide productivity through the *monozukuri* innovation project. We also took measures to expand our business globally, including by establishing a joint venture with a Chinese company in the magnet business and introducing a rolling stock harness assembly line in the Czech Republic. In addition, we undertook business structural reforms, including spinning off our information systems business and transforming a joint venture in the copper products business into a wholly owned subsidiary.

In fiscal 2017, it is time to focus on expansion of organic growth by catching the wave of opportunity to reinforce our distinctive attributes. To this end, we will strengthen *monozukuri* in factories and boost marketing in sales to reap the gains from increased production. At the same time, we will expedite R&D on new technologies and products based on medium- to long-term perspectives.

## Reinforce production and marketing to reap gains from increased production

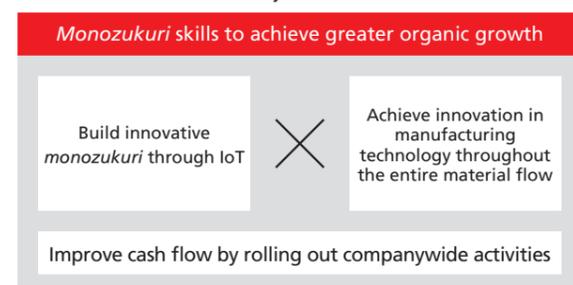
To make a company strong and expand its organic growth, the first prerequisite is to reinforce its factories (*monozukuri*) and marketing (sales) capabilities. Better *monozukuri* means increased production, the rewards of which can be reaped through stronger marketing.

Full deployment of our internal company system has enabled us to make speedy business decisions. However, a negative effect of the company system is that the Group has become too strongly aligned vertically, which limits our ability to mobilize Groupwide resources. Meanwhile, excessive reduction of fixed costs has had a restrictive effect even on necessary investments. As a result, the power of our factories (*monozukuri*), the source of our competitiveness as a manufacturer, has diminished slightly.

To strengthen our factories, our Technology, Research and Development Division, a corporate organization, spearheaded and launched the Corporate *Monozukuri* Innovation Project in fiscal 2016. Adopting cross-company, medium- and long-term perspectives, we are pursuing on-site reforms and manufacturing technology innovations, while actively introducing IoT\*2 and other advanced technologies, with the aim of acquiring top world-class *monozukuri* capabilities. So far, we have rolled out the project at five domestic bases, and each is showing positive results. Going forward, we will expand coverage laterally to include overseas factories.

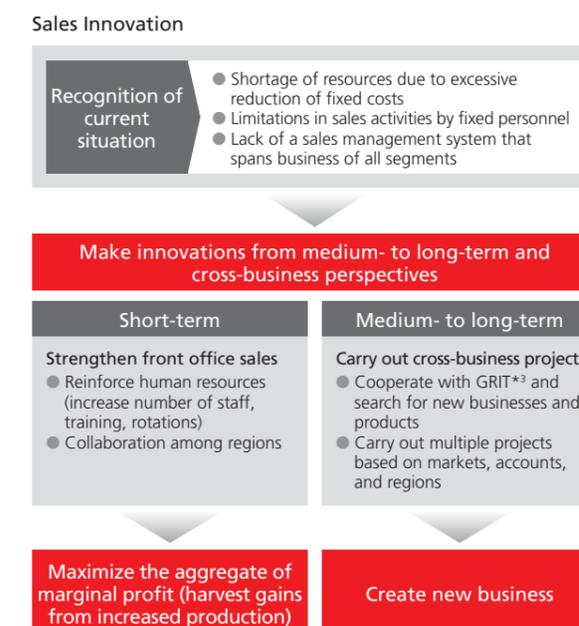
To strengthen marketing, the Business Activity & Marketing Division, also a corporate organization, led and launched the Business Activity Power Up Project in fiscal 2017. Under the internal company system, our sales and marketing teams also became too vertically aligned, making it difficult to offer cross-company proposals and ideas for developing new products that envisage future

### Monozukuri Innovation Project



needs. Under the project, we will start by expanding orders, which is a current priority. To this end, we will implement mindset reforms at our sales divisions, reassess our sales organization

and systems, and review our pricing strategy. In the process, we will strengthen our frontline sales force (front office sales) and strive to attract new orders by connecting our increased production prowess, made possible through *monozukuri* improvement, to profits (maximizing the aggregate of marginal profit). Then, in the medium to long terms, we will deploy Groupwide resources that transcend internal company lines to develop new products, tap new markets, and create new business, which will enable us to formulate futuristic product portfolio strategies.



\*2 IoT (Internet of things): Connecting various "things" (not just IT devices) to the Internet to establish mutual communication and thus enable automatic recognition, automatic control, remote measurement, and other tasks to be performed.  
 \*3 GRIT=Global Research & Innovative Technology center

## R&D innovation to create newer and newer technologies and products

In addition to strengthening factories and marketing, to expand organic growth we have to properly address market needs by pursuing R&D initiatives based on medium- to long-term perspectives to enable the creation of newer and newer technologies and products.

Many of our offerings are specialized products with specific applications, including products

that pursue their function to the utmost, until they can become immediately obsolete when the market changes through a shift in a technological trend. Through R&D innovation, we will establish a business structure that can adapt even in the event of a technological paradigm shift, by replacing the old with the new and pursuing new product development themes while paying attention to technologies that pose a threat to existing products.

In April 2017, we established the Global Research & Innovative Technology center (GRIT) as the R&D arm of the entire Group to pursue creation of new business. Construction of buildings at GRIT in Kumagaya City, Saitama Prefecture, is scheduled for completion in April 2018. At that time, we will consolidate our R&D functions, which are currently dispersed across multiple bases, and integrate advanced materials development and process development. We also actively promote collaborations with external research institutions and customers as forums to advance open innovation. By spearheading R&D aimed at making Hitachi Metals a genuine development-driven company, GRIT will help shape the Group's business strategies.

**Become a genuinely development-driven company**

Realize R&D that leads the business strategy

---

**Established GRIT (April 2017)**

- Integrate advanced materials development and process development (Magnetic Materials Research Laboratory and Production System Laboratory located in the same building)
- Promote open innovation
- Enhance functions as a human resources development institution
- Promote new business creation themes

グローバル技術革新センター

GRIT

Global Research & Innovative Technology center



## Acceleration of each company's action plan

Each of our internal companies will accelerate its action plan under the Fiscal Year 2018 Medium-term Management Plan in parallel with Groupwide initiatives.

The Specialty Steel Company, after implementing bold portfolio reforms under the previous medium-term management plan, is reinforcing its mainstay tool steel business. It has also established a system for generating stable earnings from environment-friendly products, such as piston ring materials and CVT belt materials. Under the Fiscal Year 2018 Medium-term Management Plan, it will promote the aircraft and energy businesses—earmarked as future growth drivers—while expanding its presence in the fields of electronics and batteries, notably cladding materials and soft magnetic components and materials, to respond to the emerging era of xEV.

Magnetic materials will become a new core business amid rapid growth in demand for xEV. In this context, the Magnetic Materials Company will introduce innovative production lines for neodymium magnets and ferrite magnets while expanding and upgrading its R&D system, to address customers' diversified needs. At the same time, it will generate synergies with battery materials (the Specialty Steel Company), enameled wire for high-efficiency motors (the Cable Materials Company), and other offerings.

Currently, revenue from our functional components is generated mainly by the cast iron business of Waupaca Foundry, Inc. in the United States. Going forward, the Functional Components Company will keep abreast of changing market needs, characterized by the trend toward lighter automobiles, while reinforcing its automobile casting components business and

developing new materials and composite materials.

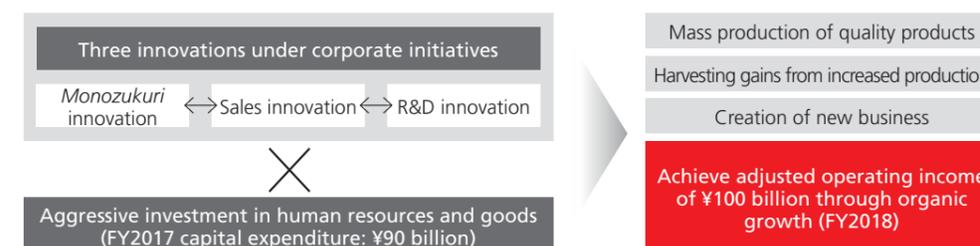
The Cable Materials Company will target business expansion in the three growth areas of rolling stock, medical devices, and automotive electronic components, while strengthening its foundation business, which accounts for a large share of revenue. In 2018, it will commission a new, high-efficiency continuous casting and rolling line using IoT technologies. By introducing new products that reflect technological innovations and changing needs, we will dramatically change the nature of this business.

## Capital strategies and shareholder returns

Through the aforementioned initiatives, under the Fiscal Year 2018 Medium-term Management Plan, we are targeting organic growth that will deliver ¥1 trillion in revenues and ¥100 billion in adjusted operating income in fiscal 2018. Over the three years of the plan, we aim to generate a total of ¥290 billion in cash flows from operating activities, which we will actively deploy for future growth through M&As and other investments.

In fiscal 2017, we plan to make capital expenditure of ¥90 billion, which is 1.5 times the level of the previous year. We will also allocate ¥20 billion to R&D expenses.

With respect to shareholder returns, our basic policy is to deliver appropriate returns of profits to shareholders over the long term by maximizing corporate value and increasing the amount of profits that can be paid as dividends. For a start, we will make proactive investments based on our growth strategies to expand our business, ensuring that these results are reflected in returns to shareholders, with a dividend payout ratio target of 25%. In fiscal 2016, we paid annual dividends of ¥26.00 per share, and we currently plan to pay ¥26.00 again in fiscal 2017.



## Creating new value and resolving social issues to improve corporate value

With its exceptional products, the Hitachi Metals Group aims to improve corporate value by delivering new levels of value for customers and helping resolve background social issues.

To this end, each and every employee will serve as a warrior fighting on the battle lines, as we foster a dynamic corporate culture as a "fighting group" (One Force for Change) able to demonstrate our strengths in tense situations. Taking advantage of our business diversity, we will achieve sustained growth by using innovation not found at other companies to create more and more distinctive products.

The Hitachi Metals Group will continue improving corporate value as a high-performance materials company unparalleled in the world. We ask that you look forward to that.



## Akitoshi Hiraki

Representative Executive Officer, President and Chief Executive Officer

Joined Hitachi Metals because of a strong desire to “freely conduct research into new materials.” Assigned to the Metallurgical Research Laboratory after studying neodymium magnets and nanocrystal materials at the Magnetic Materials Research Laboratory. Conducted research into sputtering target materials, an unknown field at that time, and was entrusted with their commercialization. Got overseas production on track for the first time in the specialty steel business, where Hitachi Metals was struggling with market development, combining real action and a refined management sense to cultivate core products at the Yasugi Works. Appointed president of Hitachi Setsubi Engineering Co., Ltd. (current name: Hitachi Power Solutions Co., Ltd.), a subsidiary of Hitachi, Ltd., at age 47. Called back two years later to spearhead bold growth strategies in the specialty steel business. Appointed CTO of Hitachi Metals in April 2015, and in April 2016 took leadership of *monozukuri* innovation and R&D innovation projects for one year. Has an unbridled belief in and passion for corporate-driven innovation in *monozukuri*, sales, R&D, and work style reform.

### Career highlights

- 1961 Born in Hyogo Prefecture
- 1985 Obtained Master's Degree, Graduate School of Metals and Materials Engineering, Osaka University
- 1985 Joined Hitachi Metals, Ltd.
- 1985 Conducted research into neodymium magnets and nanocrystal materials at the Magnetic Materials Research Laboratory
- 1988 Assigned to the Metallurgical Research Laboratory. Conducted research into sputtering target materials and entrusted with their commercialization
- 2001 Got overseas production on track for the first time in the specialty steel business, where Hitachi Metals was struggling with market development
- 2008 President and Director of Hitachi Setsubi Engineering Co., Ltd.
- 2010 Managing Officer, President of Specialty Steel Company, Deputy General Manager of Corporate Export Regulation Office of Hitachi Metals, Ltd.
- 2012 Vice President and Managing Officer, President of High-Grade Metals Company, General Manager of Specialty Steel Division, and Deputy General Manager of Corporate Export Regulation Office
- 2015 Vice President and Representative Executive Officer, President of High-Grade Metals Company, Deputy General Manager of Corporate Export Regulation Office, and Director
- 2016 Vice President and Representative Executive Officer, General Manager of Technology, Research & Development Division, General Manager of Corporate Quality Assurance Division, and Director
- 2017 Representative Executive Officer, President and Chief Executive Officer