

Business Strategy of the Magnetic Materials Company

Hitachi Metals IR Day 2016

June 3, 2016

Hitachi Metals, Ltd.

Ryoji Akada

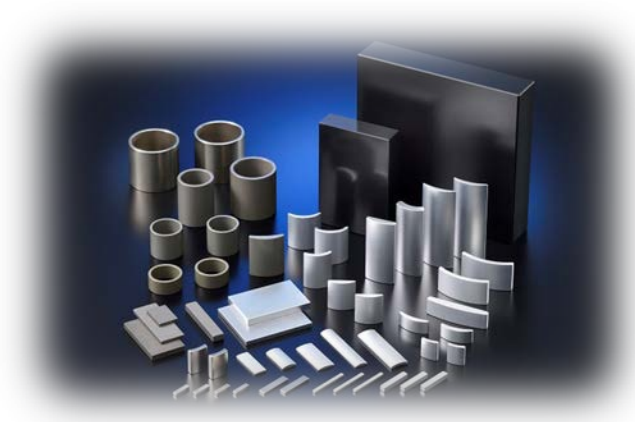
Executive Officer

President of the Magnetic Materials Company

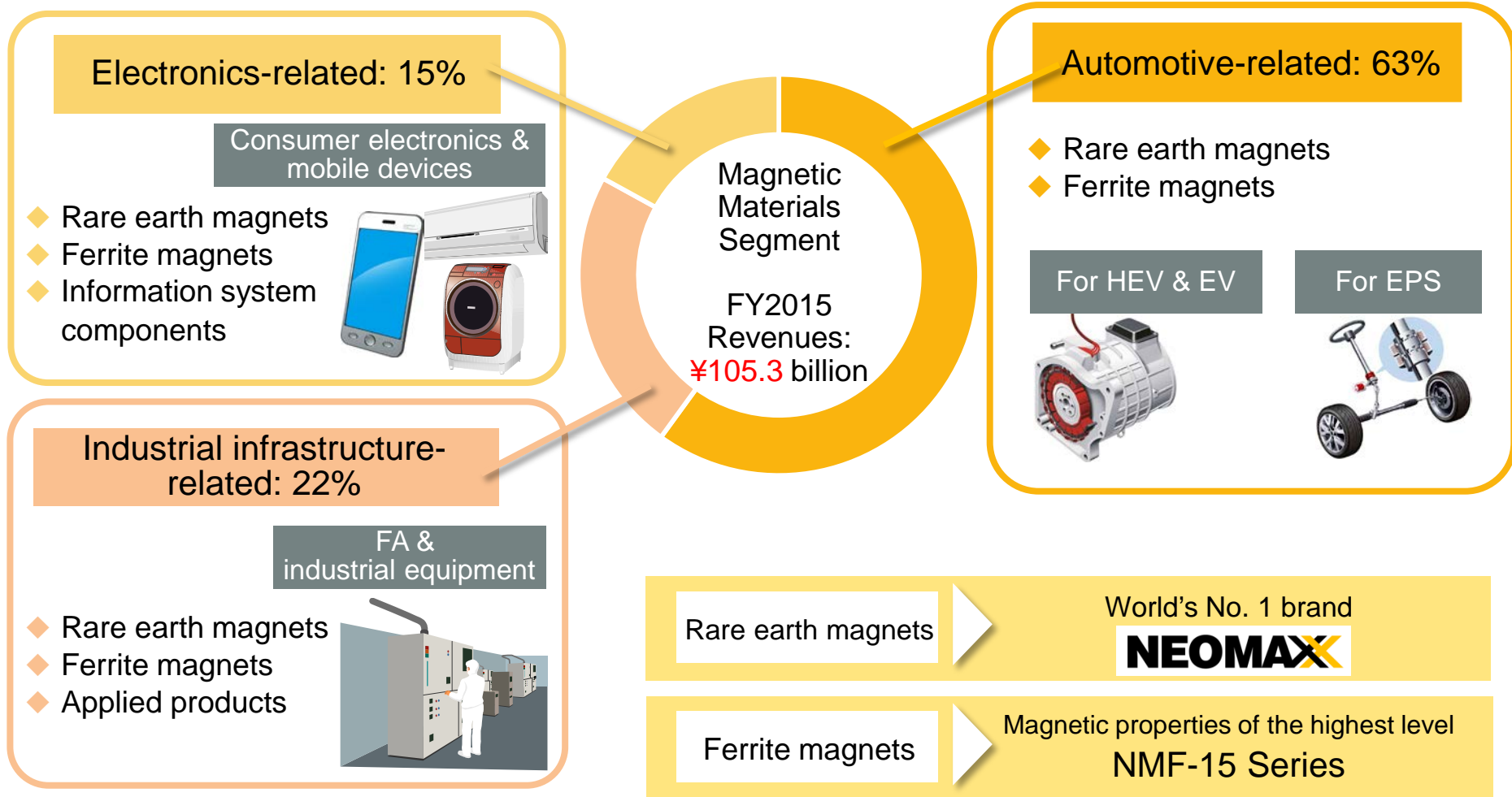
Business Strategy of the Magnetic Materials Company

[Table of Contents]

- 1. Business Overview**
2. Market Environment
3. Strategy and Action Plan
4. Trend in Business Results and Goals
5. Conclusion



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



Basic policy of the Magnetic Materials Company

Innovate *monozukuri* to pave the way for growth

- ◆ Strengthen global production sites
- ◆ Build innovative production lines

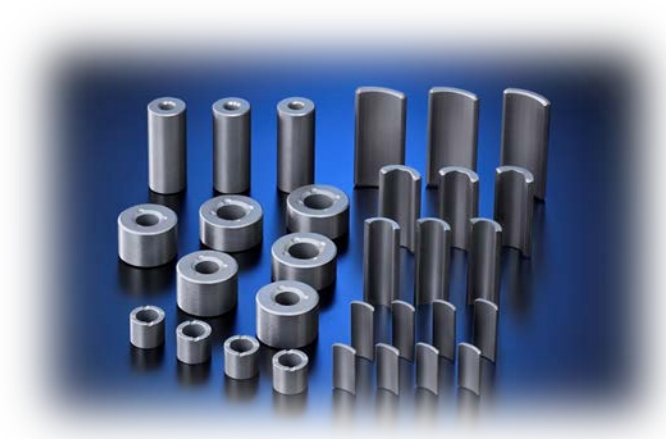
2018 Medium-Term Management Plan: Goals

	FY2015 Results (¥120 = US\$1)	FY2018 Goals (¥115 = US\$1)	Change vs. FY2015
Revenues	¥105.3 bn	¥132.0 bn	125%
Adjusted operating income	¥6.9 bn	¥17.0 bn	+¥10.1 bn
Adjusted operating margin	6.6%	12.9%	+6.3%
Overseas sales as a % of total sales	59%	67%	+8%

Business Strategy of the Magnetic Materials Company

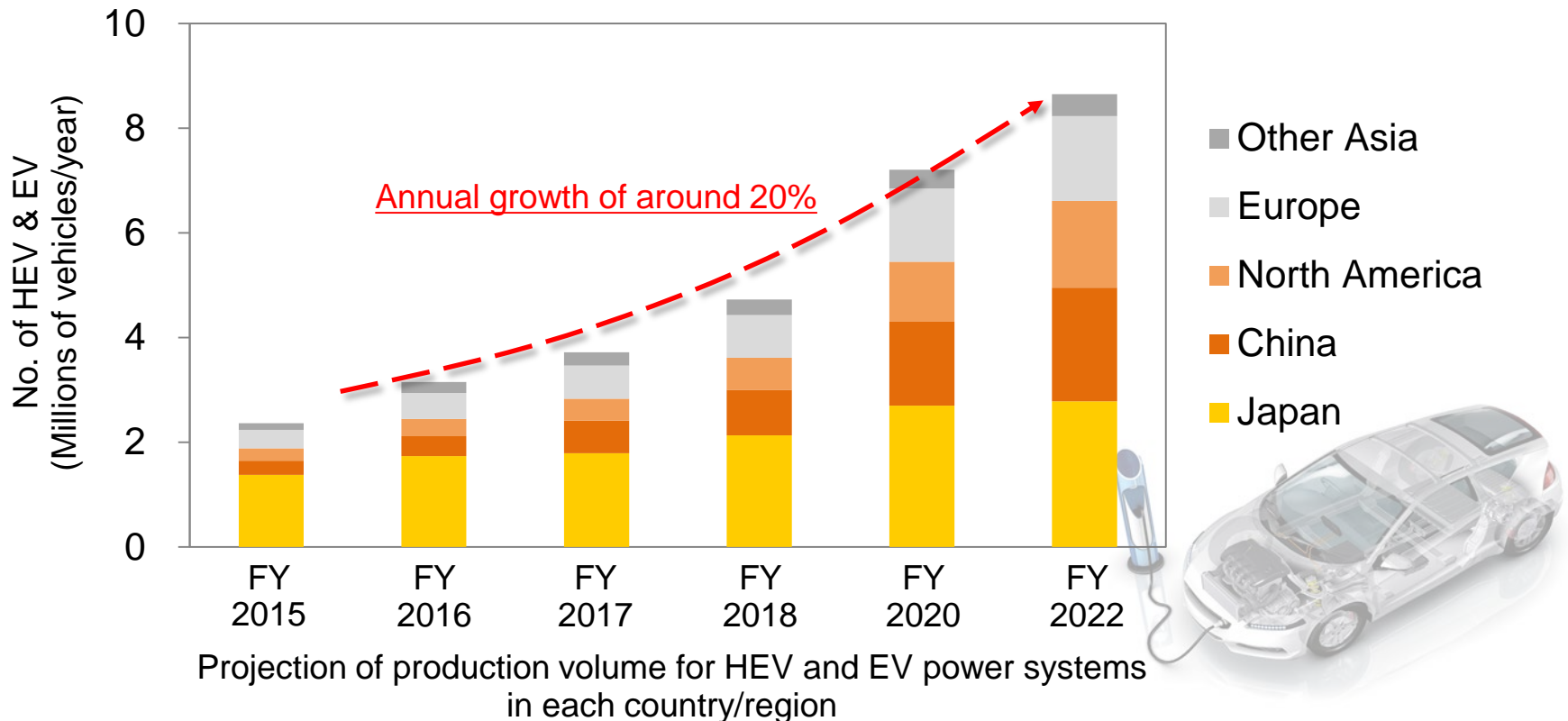
[Table of Contents]

1. Business Overview
- 2. Market Environment**
3. Strategy and Action Plan
4. Trend in Business Results and Goals
5. Conclusion



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.



* HEV indicates a full hybrid vehicle

Business Strategy of the Magnetic Materials Company

[Table of Contents]

1. Business Overview
2. Market Environment
- 3. Strategy and Action Plan**
4. Trend in Business Results and Goals
5. Conclusion



Rare earth magnet business

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.

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

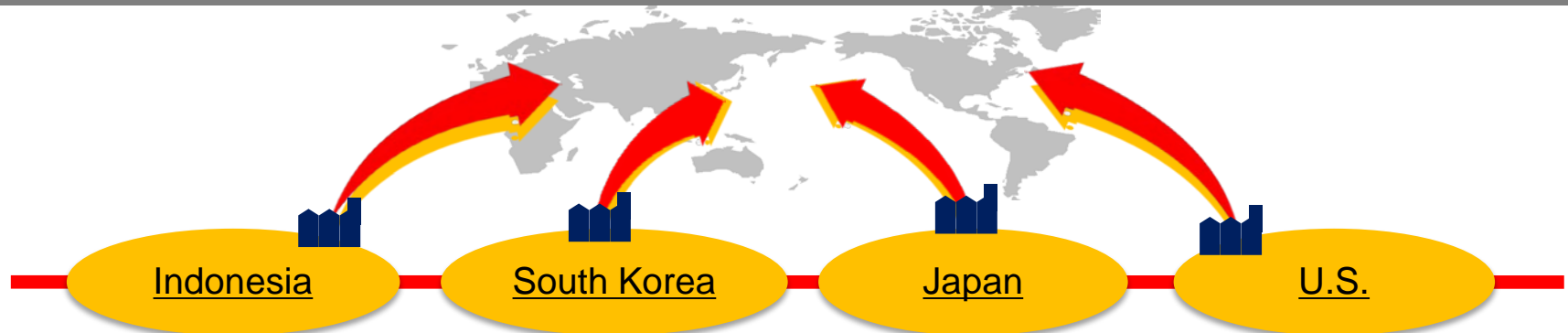
Improved material flow

Ferrite magnet business

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



Investment necessary to achieve innovation

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

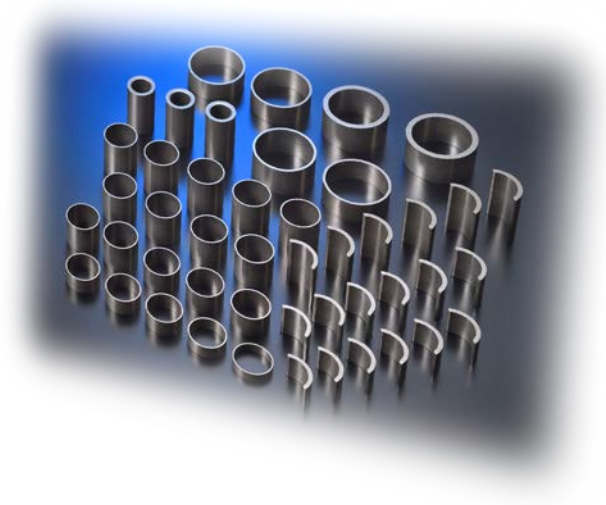


■ Capital Investment:
¥39 billion (cumulative total for FY2016-FY2018)

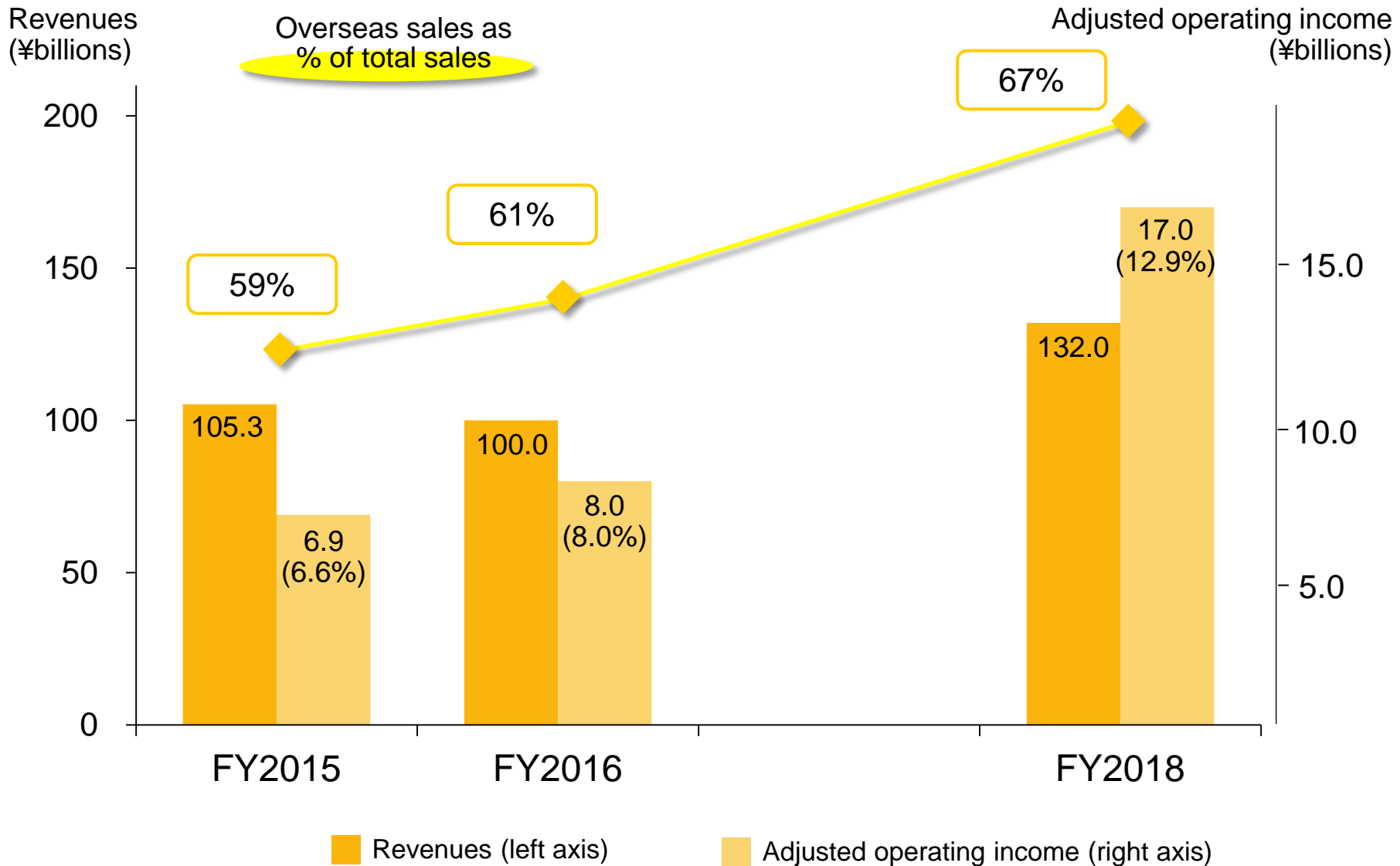
Business Strategy of the Magnetic Materials Company

[Table of Contents]

1. Business Overview
2. Market Environment
3. Strategy and Action Plan
- 4. Trend in Business Results
and Goals**
5. Conclusion

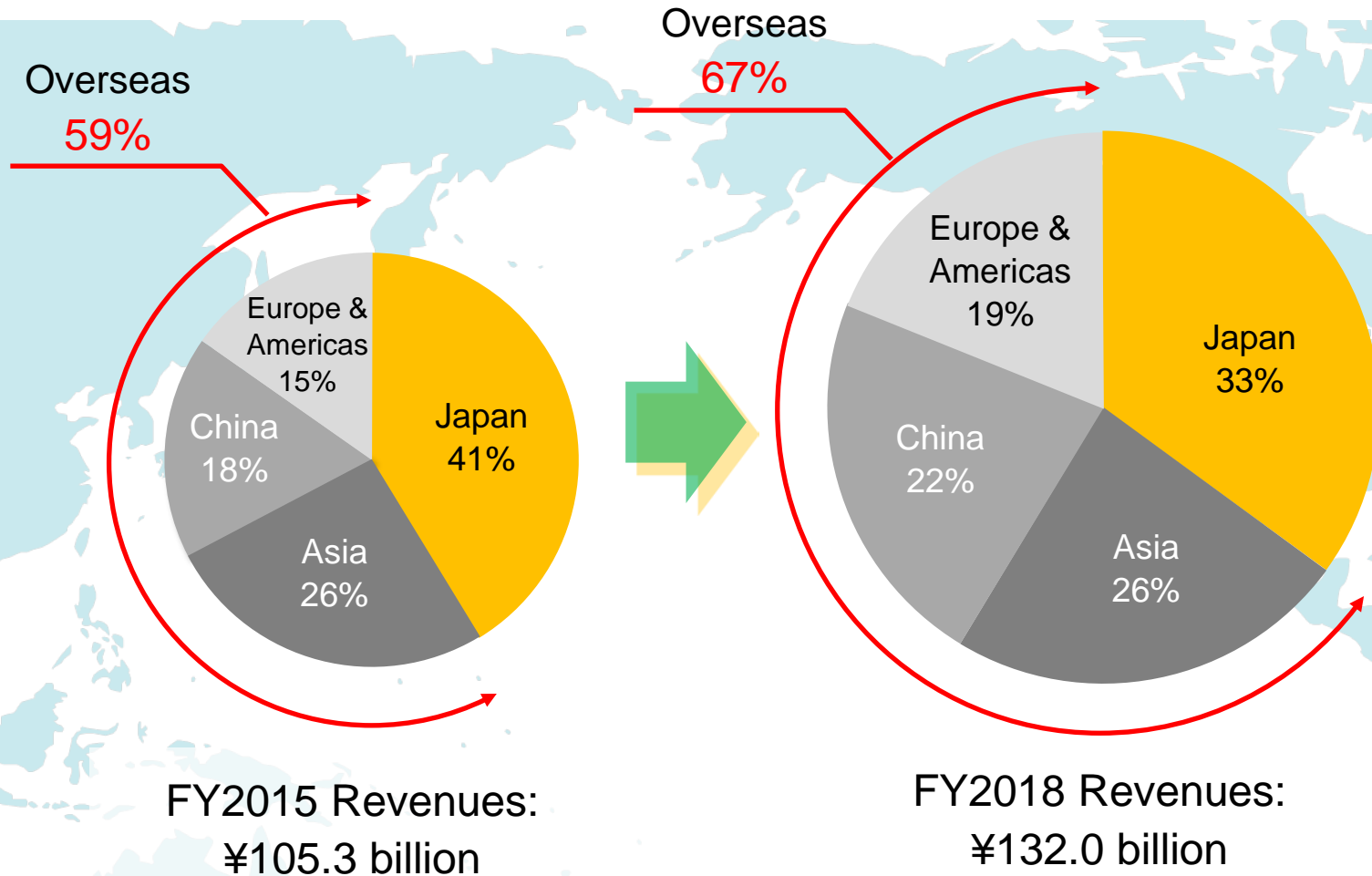


4-1. Trend in Business Results



4-2. Trend in Revenues by Region

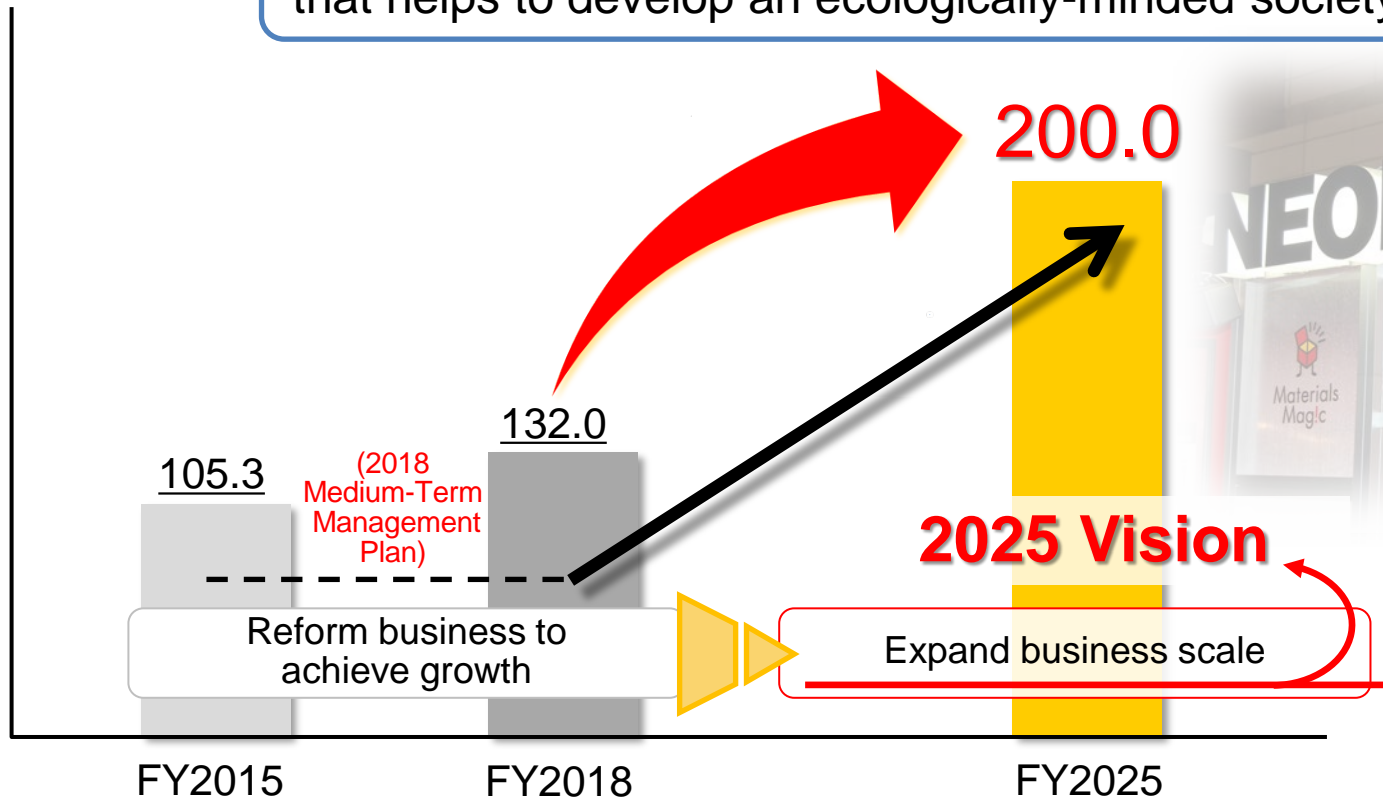
Expanding revenues in the Chinese, European, and U.S. markets



Achieving greater growth through innovation in the business base

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

Revenues (¥billions)



Business Strategy of the Magnetic Materials Company

[Table of Contents]

1. Business Overview
2. Market Environment
3. Strategy and Action Plan
4. Trend in Business Results
and Goals
- 5. Conclusion**



Magnetic Materials Company

Innovate *monozukuri* to pave the way for growth

FY2018 Plan	
Revenues	¥132.0 bn
Adjusted operating income (Adjusted operating margin)	¥17.0 bn (12.9%)
Overseas sales as % of total sales	67%

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



Materials Mag!c
Hitachi Metals