

Hitachi Metals, Ltd.

Progress of Fiscal Year 2018 Medium-term Management Plan

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- 1. Summary & Overview of Initiatives for FY2017**
2. FY2018 Performance Targets
3. Business Environment & Vision
4. Action Plan

April 26, 2018

1-1. Summary of FY2017

(¥ billions) Profit margin in brackets	FY2016 Actual US\$1=¥108	FY2017 Actual US\$1=¥111	Year-on-Year
Revenues	910.5	988.3	+9%
Adjusted operating income	[7.2%] 66.0	[6.6%] 65.1	-0.9
EBIT	68.5	48.9	-19.6
Income before income taxes	66.0	47.0	-19.0
Net income*1	50.6	42.2	-8.4
ROE*2	9.4%	7.5%	-1.9%
ROA*3	4.9%	4.0%	-0.9%

- Implemented measures against three negative factors for profits (heat-resistant casting components, aluminum wheels, rise in raw materials prices) and expect the factors to be solved.
- Accelerated three company-wide initiatives (R&D, *monozukuri*, sales).
- Strengthened communication with stakeholders (town-hall style meetings: direct communication with more than 2,000 employees; increased direct dialogue opportunities with investors; aggressive sales by top management).

- Change in corporate culture:
Transparency and reliability of management, sharing of values, improved motivation of employees

A positive corporate culture that is oriented to the creation of new value

*1 Net income attributable to owners of parent

*2 Return on equity of shareholders of the parent company (ROE) = Net income attributable to shareholders of the parent company / Term-end equity of shareholders of the parent company x 100

*3 Return on total assets (ROA) = Net income attributable to shareholders of the parent company / Term-end total assets x 100

Made strategic investments aimed at expanding global business domains and strengthening the business base.

Organic growth
(from capital
investment & R&D)

- Established Corporate Research Lab, “GRIT” (Investment: approx. ¥10 billion)
(Opened April 2017; new building opened in April 2018)
- Expanded production capacity for precision casting turbine wheels
(Investment: more than ¥3 billion) (To start operation in FY2019)
- Increased production capacity for piston ring materials in Japan and China
(Investment: approx. ¥2.5 billion) (Started operation in 2H, FY2017)
- Integrated SH Copper Products and Hitachi Metals Neomaterial (April 2018)
- Expanded production capacity for clad metals at Tsuchiura Works
(Investment: approx. ¥7.5 billion) (To start operation in 2H, FY2018)
- Boosted production capacity for rolls for steel mills and structural cast steel products (Investment: approx. ¥3 billion) (To start operation in 2H FY2018)
- Introduced innovative production lines for magnetic materials
(Total investment amount: approx. ¥18 billion) (To start operation in 1H FY2018)
- Enhanced production capacity for FINEMET® (Capacity to be tripled by end of FY2018)
- Boosted production capacity for piping components, improved production efficiency
(Investment: approx. ¥3 billion) (To start operation in FY2018)

Made strategic investments aimed at expanding global business domains and strengthening the business base.

Continuous portfolio remodeling

- Reorganized piping components business (October 2017)
- Started to consider undertaking part of manufacturing processes of SiC power semiconductor wafers from ROHM Co., Ltd.
- Established the Power Electronics Materials Business Promotion Office (April 2018)

Growth through M&A

- Consolidated Hitachi Metals MMC Superalloy, and established Okegawa works (April 2018)
- Acquired Santoku Corporation (April 2018)

Strengthen the business base

- Improved inventory turnover rate and defect rate through the *Monozukuri* Innovation
- Reviewed the surcharge system and revised prices
- Strived to be nominated as various ESG indices (three indices selected by GPIF, the Nadeshiko Brand, etc.)

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■ Price revision

Corporate-led pricing that “maximizes the aggregate of marginal profit”

Review and expand application of the surcharge system (price revisions for products not covered by the system)

■ Early launch of investments and harvesting gains

Specialty Steel Products	10,000-ton class free forging press, clad materials, rolls for steel mills, etc.
Magnetic Materials and Applications	Innovative production line, acquisition of Santoku, etc.
Functional Components and Equipment	New casting line for piping components, etc.
Wires, Cables, and Related Products	New continuous casting & rolling line, innovative production lines for magnet wires, etc.
Corporate	Corporate Research Lab. Opening of new building for GRIT

The first year of “New Hitachi Metals”

(¥ billions) Profit margin in brackets	FY2017 Actual Assuming US\$1=¥111	FY2018 Plan Assuming US\$1 = ¥105
Revenues	988.3	1,020.0
Adjusted operating income	[6.6%] 65.1	[7.2%] 73.0
EBIT	48.9	67.0
Income before income taxes	47.0	64.5
Net income	42.2	48.0
ROE	7.5%	8.3%
ROA	4.0%	4.5%

- Exchange rate trend is for a stronger yen.
(FY2017 actual: ¥111/\$ → FY2018 forecast: ¥105/\$)
- Firm demand is expected to continue mainly in core products.
- Income is expected to increase due to price revision effects, improvement in profitability of underperforming businesses, and the harvesting of gains from increased production, despite an increase in fixed costs due to aggressive capital expenditure.

2-3. Revenues & Adjusted Operating Income by Segment

(¥ billions)		FY2017 Actual (US\$1=¥111)	FY2018 Plan (Assuming US\$1=¥105)	Year-on-Year
Specialty Steel Products	Revenues	290.6	320.0	+10%
	Adjusted operating income	27.9	31.0	+3.1
	Profit margin	9.6%	9.7%	+0.1%
Magnetic Materials and Applications	Revenues	106.1	115.0	+8%
	Adjusted operating income	9.6	7.5	-2.1
	Profit margin	9.0%	6.5%	-2.5%
Functional Components and Equipment	Revenues	360.1	345.0	-4%
	Adjusted operating income	11.8	17.0	+5.2
	Profit margin	3.3%	4.9%	+1.6%
Wires, Cables, and Related Products	Revenues	230.5	240.0	+4%
	Adjusted operating income	14.9	17.0	+2.1
	Profit margin	6.5%	7.1%	+0.6%
Others/ Adjustments	Revenues	1.0	0.0	—
	Adjusted operating income	0.9	0.5	—
Total	Revenues	988.3	1,020.0	+3%
	Adjusted operating income	65.1	73.0	+7.9
	Profit margin	6.6%	7.2%	+0.6%

Make strategic investments aimed at expanding global business domains and strengthening the business base.

	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Operating cash flow	¥89.4 billion	¥39.1 billion	¥110.0 billion
Investment amount	¥63.8 billion	¥91.8 billion	¥100.0 billion

	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Depreciation and amortization	¥43.0 billion	¥46.1 billion	¥55.0 billion
R&D (excluding business of info systems*)	¥15.6 billion	¥17.7 billion	¥21.0 billion

Switch to a cash-generating structure through steady implementation of the growth strategy

*Information systems business (transferred as of December 1, 2016)

■ Dividends

	Interim Dividends	Year-end Dividends	Annual Dividends
FY2015	¥13	¥13	¥26
FY2016	¥13	¥13	¥26
FY2017	¥13	¥13 (Forecast)	¥26 (Forecast)
FY2018	¥13 (Forecast)	¥13 (Forecast)	¥26 (Forecast)

■ Policy on Shareholder Return in the FY2018 Medium-term Management Plan



Achieve the balance between growth and shareholder return (Dividend payout ratio target: 30%)

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Market/technology trends

- Stricter environmental regulations and increase in needs for technology to respond the situation
- New services and technologies using IoT
- Accelerated evolution of materials technologies

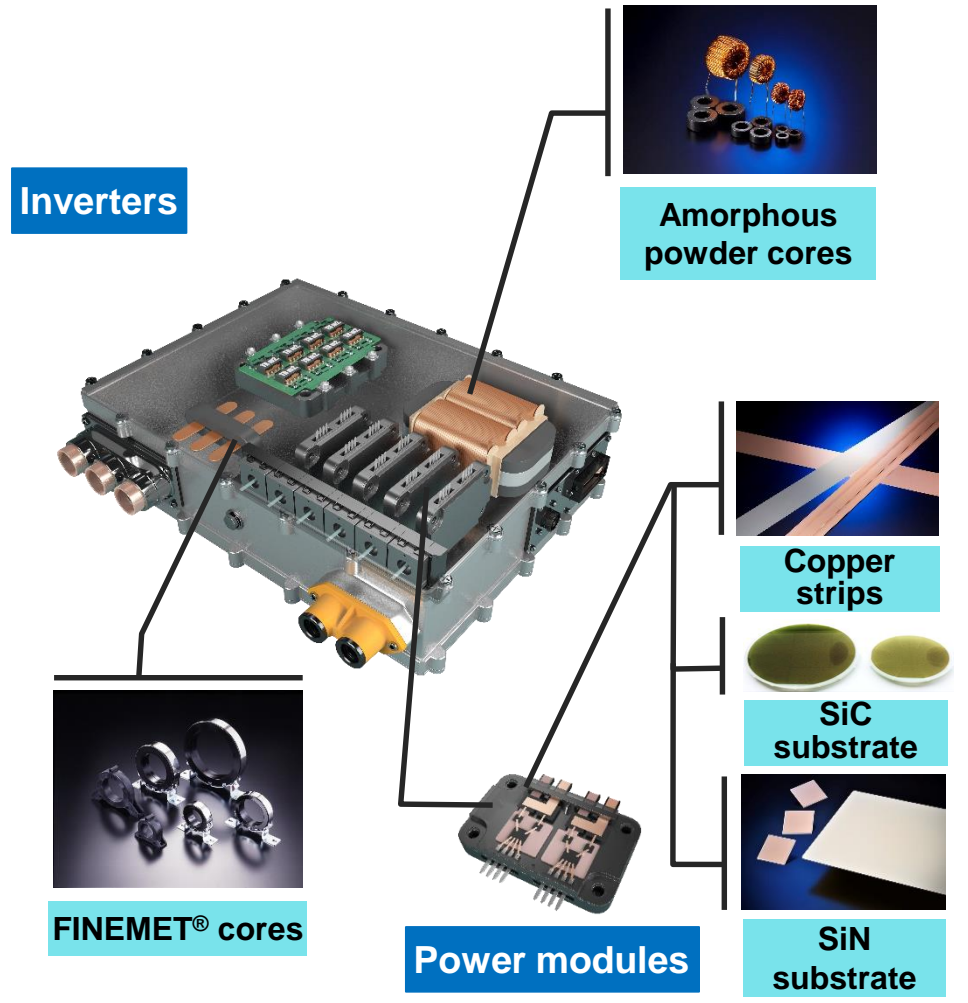
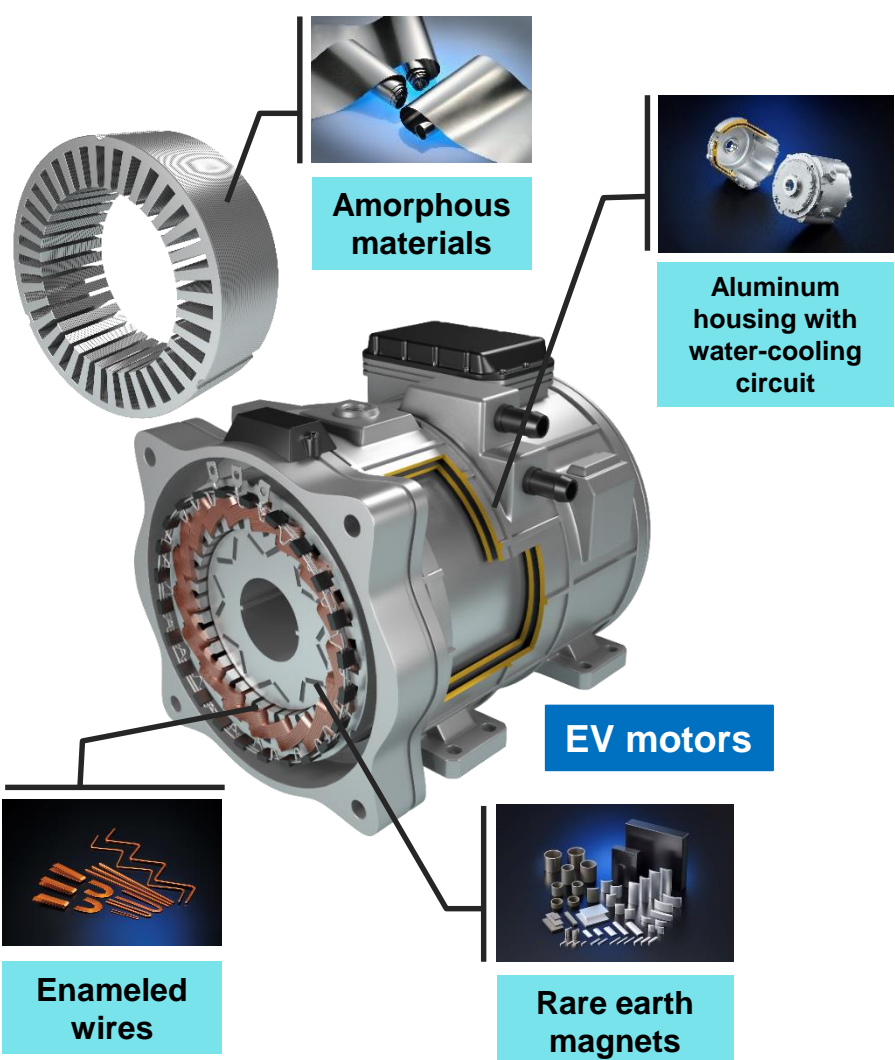
Features and strengths of Hitachi Metals

- Diverse business portfolio backed by historical performance
- High technological skills primarily in specialty items and environment-friendly products

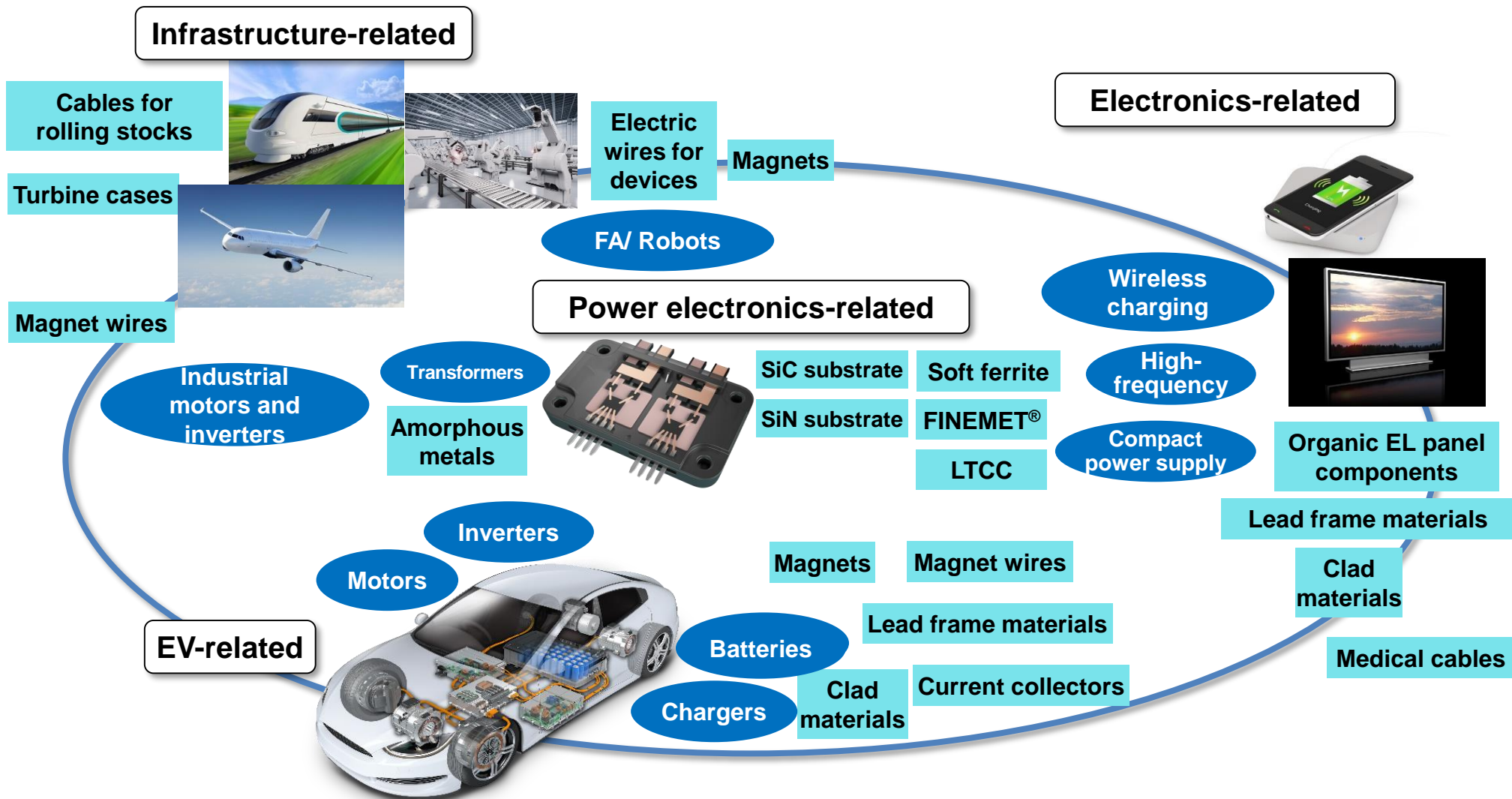


**Hitachi Metals' unique strengths
= Demonstrate the “conglomerate premium”**

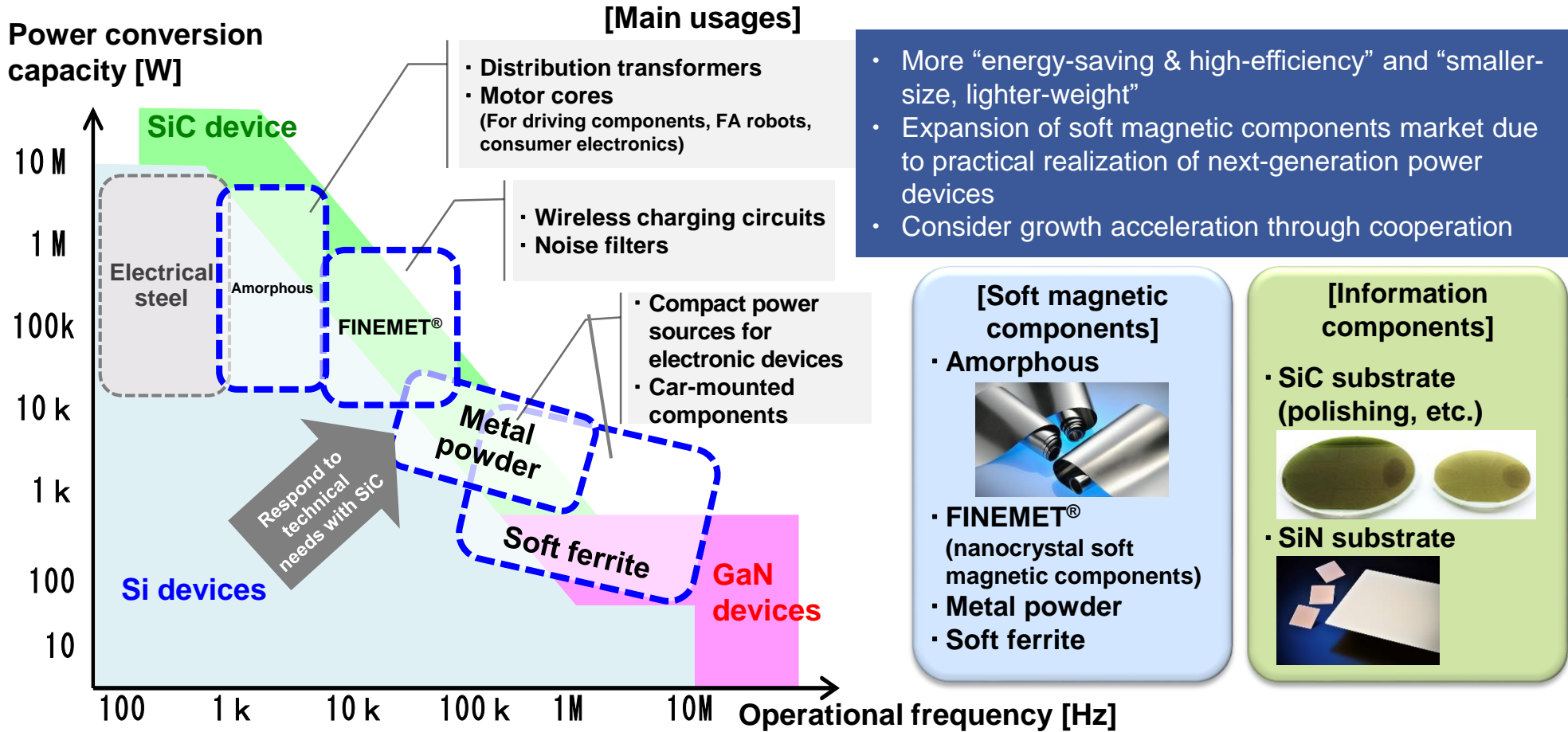
A total materials innovator that creates the future by materials



A total materials innovator that creates the future with materials



“Turn change into opportunities” Growth as the fifth pillar



¥36 billion (FY2017) ⇒ Aim for ¥100 billion

R&D (GRIT)

- Promote creation of new business with a view to threats and opportunities.
- Strengthen human resources development/education functions (sales divisions, group companies).
- Enhance the process of identifying and evaluating new technologies and R&D speed in cooperation with sales.



Sales

- Carry out multilayered proposal activities including top management, utilizing GRIT.
- Strengthen relationships with customers by establishing an account sales system.
- Carry out cross-sectional projects.



Monozukuri

- Carry out activities based on the two pillars of “GEMBA (workplace) Reforms” and “Technical Innovations.”
- Establish the GEMBA Innovation Management Division.
- Implement technological innovations for the entire materials flow using IoT.



A genuinely development-driven company

Mass production of quality






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Achieve global growth by focusing on “special steel”

Molds and tool steel		Develop new products using the 10,000-ton class press and expand sales.
Industrial equipment materials		Establish a stable supply system in response to the strong demand for internal-combustion engines for automobiles. Develop non-internal-combustion businesses (powder for 3D printers, semiconductor manufacturing device components, etc.).
Aircraft/energy-related materials		Shorten the time period for certification/mass production of aircraft engine components.
Alloys for electronic products		Promote large-scale investment for organic EL-related components and clad materials for batteries.
Rolls		Launch new facilities for casting rolls and construction components, and bring them up to full scale operation as earlier.

Aim for record profits by harvesting effects

Sales plan for the Specialty Steel Company
¥290.6 billion (FY2017 actual) ⇒ ¥320.0 billion (FY2018)

Establish a business base toward ¥200 billion in sales

Enhance production capacity

Start operation of innovative production lines



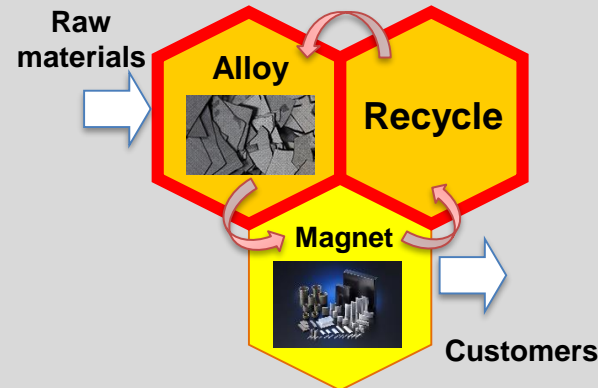
Neodymium magnets
(Launched Apr 2018)



Ferrite magnets
(Launched Feb 2018)

Unified management of the raw materials process

Establish an integrated production system by getting Santoku a subsidiary (April 2018)



Reduce the use of heavy rare earth

Deploy heavy rare earth-free magnets in various areas

(Adopt in vehicles, industry, and Consumer Electronics)



Reduce resource risks

Sales plan for the Magnetic Materials Company
¥106.1 billion (FY2017 actual) ⇒ ¥115.0 billion (FY2018)

Unprofitable business

Heat-resistant casting steel components



Productivity improvement measures
Price revision

End FY2017: Achieve profitability
FY2018: Transform to profit-making structure

Aluminum wheels



Productivity improvement measures
Renewal of management system

FY2017: Settle confusion
FY2018: Promote business stability

Piping components business

Cast fittings

Investment: Production efficiency improvement
(To be launched in FY2018)



Flexible piping system

Investment: 20% capacity enhancement
(To be launched in FY2018)



Solution business

Broad product line-up
Gas control/measuring technology
Maintenance support service

Optimization of product mix with a view toward future weight reduction

Aim for revenues of ¥70 billion by FY2021

Sales plan for the Functional Components Company
¥360.1 billion (FY2017 actual) ⇒ ¥345.0 billion (FY2018)

Expand growth areas to five and accelerate reforms toward a high-profit structure

Medium- to long-term measures in the additional two areas

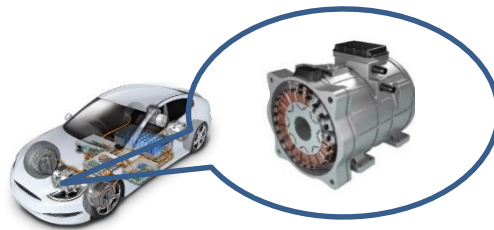
Equipment cables for FA/robots

Enhance production capacity to growth markets of Asia
(Enhanced facilities to be launched starting 4Q FY2018)



Magnet wires for EV

Early full-scale operation of new facilities
(Mass production of HiFC™ by the new continuous casting & rolling line and launch of innovative production lines)



Measures for the three areas

Rolling stocks



Sales expansion to China and Europe

Medical devices



Launch of composite products (cable + tube)

Automotive electronic components



Mass production of new cable components for EV

Sales plan for the Cable Materials Company
¥230.5 billion (FY2017 actual) ⇒ ¥240.0 billion (FY2018)

This document contains forward-looking statements, such as results forecasts, management plans and dividend forecasts, 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 Americas, 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 technologies**
- **Fluctuations in the status of product markets, exchange rates and international commodity markets**
- **Changes in the 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**