

Hitachi Metals, Ltd.

News Release

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Reforming Our Management Structure

Introducing an Executive Officers Committee and Management Officers System as well as Reforming Our R&D Structure, etc.

Hitachi Metals has been implementing full-scale structural reforms since fiscal 1998 with the aims of maintaining its global competitiveness and achieving growth as a vigorous company. Recently, as part of the second phase of these structural reforms, Hitachi Metals has implemented measures that include reforms of its management structure. The following is a summary of the reforms being implemented by Hitachi Metals.

From fiscal 1998, Hitachi Metals began undertaking reforms to establish a structure capable of withstanding volatile changes in the market environment as well as to prepare for the start of full-fledged consolidated operations. These reforms are being implemented from the following perspectives.

1. Reduce the number of directors and increase the speed of decision making through reducing the member of directors and structural changes.
2. Strengthen competitiveness through the “selectivity and concentration” of business activities.
3. Maintain competitiveness by making large cost reductions.

During the first phase, we commenced full-scale reforms aimed at building a strong corporate structure. Measures implemented to the present include reducing the number of directors, rebuilding businesses, cutting the total number of staff, merging subsidiaries, and reducing interest-bearing debt.

During the current fiscal year, we have been unavoidably obliged to revise our anticipated business results downward owing to such factors as abrupt changes in the market environment. Nevertheless, by implementing a series of measures, we are restoring the function of our existing businesses as “cash cows.”

Nevertheless, we have yet to fully establish a structure needed for promoting a shift in our business activities toward growth fields, one of our principal tasks for the future. While working to restore the “cash cow” function of our existing businesses, it will also be necessary to acquire fast decision-making capabilities to build and commercialise an R&D structure capable of rapidly grasping and responding to market needs in electronics fields, where fluctuations in demand are extremely volatile and product cycles are fast.

With this in mind, as the second phase of our reforms, we have formulated a new corporate statement and implemented the following measures.

1. Reform the structure of our top management to further speed decision making.
2. Vigorously progress with the development of new products and technologies and revising our R&D framework with the aim of creating new businesses.
3. Revising our operational processes by leveraging IT such as implementing SCM, Knowledge Management and Concurrent Engineering.

Specific measures taken are as follows:

1. Reforming the structure of our top management

Hitachi Metals’ operations are composed of six business divisions—the Automotive Components Division, the Piping Components Division, the Roll Division, the Specialty Steel Division, the Electronic Materials Division, and the Environmental Engineering Division. Products and markets covered by these divisions span a wide range of fields and Hitachi Metals competes with specialist manufacturers in each of these fields. As a means of decision making for addressing the special characteristics of Hitachi Metals’ operations, we have determined the need to establish a framework for undertaking Companywide consolidated operations and for a “division” of decision making for “executing business activities in each division.” Therefore, on April 1, 2001, Hitachi Metals implemented specific strategies for strengthening independence and delegating authority in each business division as well as introduced an Executive Officers Committee and Management Officers System.

(1) Objective of reforms

1. Carry out professional operations in each business division, aim for independent and faster decision making that is unmatched by specialist companies with which we compete.
2. Create a structure, centered on the Company’s directors, for rationally determining the framework for overall consolidated operations as well as strengthen the allocation of management resources and strategic functions throughout the entire Company.

(2) Outline of reforms

1. Strengthening the independence of and delegating authority to business divisions

With a view toward the lifting of the consolidated tax returns system, Hitachi Metals will treat each business division as an independent company. In undertaking business activities, each division will carry out autonomous decision making and pursue continued development of its business activities. Concurrently, each division will bear responsibility for its own balance sheet, statement of income, cash flows, and other areas and will undertake necessary management monitoring as an independent company.

2. Introduction of the Executive Officers Committee and Management Officers System

The board of directors and the president will clarify the mission of each business division to the general managers of those divisions—who are in charge of the respective businesses of these divisions—and will delegate all necessary authority for executing business activities in each division. The general managers of each division will exercise this authority and shall have the title President of Division and will, in principle, be executive officers. Regarding areas not part of a division, among production plants, R&D laboratories, Company headquarters, and branch offices, a management officer shall be placed within any organization with an essential mission for carrying out Company operations, and the role of the officers shall be expanded.

3. Position of directors and executive officers

To delegate decision making, we are separating the functions of directors and executive officers. Directors will concentrate on determining the framework for Companywide operations and evaluating business divisions. We established a committee composed of internal directors to implement this function organizationally and systematically.

In addition, the core function of president within this organization will be 1) allocated to each division as a management resource and 2) viewed as an opportunity to create new businesses.

Regarding the simplification of our top management organization, from fiscal 1999, the number of directors was reduced 30%, to 15 directors. Moreover, by undertaking these reforms, we plan to strengthen our strategic decision making and speed up our business activities in each individual business category.

2. Revising our R&D Framework

Although Hitachi Metals, Ltd., holds a superior competitive position in the markets for its traditional business operations, the pace of technological advancement has accelerated greatly and, even in its principal field of electronics, the Company must now maintain the foresight to predict changing trends and develop new products and new technologies accordingly.

The creation of new products and new business operations is essential to the growth of Hitachi Metals in both its traditional fields of business and new areas. To achieve growth while evolving as a company requires a research and development policy with the ability to respond promptly to the changing times. To achieve this, we are implementing the following revisions to our R&D operations.

(1) Clear Definition of the Corporate and Divisional Functions of R&D Centers.

The functions of Hitachi Metals' four laboratories centers and two divisional development centers will be clearly delineated as either corporate laboratories or division laboratories. Corporate laboratories will handle Companywide product development and division laboratories will conduct product development on a divisional basis.

(2) The Positioning of Corporate Laboratories

The Corporate Engineering Division will be reorganized and technology centers and new business development centers will be established. This new organizational framework will promote the achievement of a 30% ratio of new product sales to net sales.

Corporate laboratories will work primarily through the new business development center to develop Companywide products in selected priority fields. In particular, such fields with high market growth potential as electronics and energy will be primary targets. Moreover, operations whose commercialization is prohibitive within certain business division boundaries, complex business divisions, and matters crucial to subsidiaries' operations will become the responsibility of the new business development center. Corporate laboratories will constitute a coherent organization that is able to grasp customer and market needs, conduct surveys and develop prototype products on a project basis, select target projects for development into new businesses, conduct trial mass production to assess the commercial viability of such new businesses, and establish mass production processes.

(3) The Positioning of Division Laboratories

Division laboratories will work with the R&D sections of business divisions to develop products on a divisional basis and strengthen decision making at the business division level as part of Hitachi Metals' initiatives for the decentralization of authority. These division laboratories will accelerate decision making during development as well as speed up the development process itself through direct linkage to the business division.

Through these initiatives, Hitachi Metals will increase its ratio of new product sales to overall net sales from the current 14% to 30%. While instituting an organization fully capable of adapting to the ever-changing electronics market, we will increase sales in such fields as electronics and redefine the concept of speed in research and development.

3. Revising Our Operational Processes by Leveraging IT

Hitachi Metals' various business fields all possess unique market environments and span a wide variety of products. The ability to respond swiftly to changes in the market environment and the raising of customer satisfaction are essential to maintain the competitive edge of each product in these rapidly changing markets. It is also crucial to bolster our basic foundation as a manufacturer by maintaining an organization that is capable of swift time-to-market and shortening lead times.

To achieve these ends, as well as reducing costs, improving productivity, and promoting the greater use of products with unique features or properties, Hitachi Metals is implementing the following Information Technology (IT) based structural revisions.

(1) **Implementing Supply Chain Management Along Divisional Product Strategy Lines.**

By implementing supply chain management, we will convert from "push" style production methods to "pull" style methods, which are more effective at responding swiftly to changing demands.

Thus, we will shorten product delivery lead times, rationalize inventories, improve cash flows, and achieve greater customer satisfaction.

Not limited merely to the area of electronics, this initiative will be implemented in all of Hitachi Metals' manufacturing plants and will enable the Company to respond quickly and accurately to market environments and customer needs.

(2) **Implementing Knowledge Management and Concurrent Engineering.**

Hitachi Metals will implement Concurrent Engineering, which integrates expert knowledge into design and development, and convert from traditional product development processes to technologies focused on development that leverages engineering techniques in design and development and such methods as 3D-CAD/CAM/CAE.*

Thus, we will reduce procedures within the development process that do not make optimum use of resources and shorten lead times, while promoting the handing down of technology and expertise and further enhancing product quality and reliability.

* CAD/CAM/CAE: Computer-Aided Design / Computer-Aided Manufacturing / Computer-Aided Engineering.

(3) **Establishing an Information Strategy Team**

Hitachi Metals will establish an Information Strategy Team to serve as a specialist organization to oversee the above IT-based operations process revisions.

By implementing the above initiatives, we will reform our traditional operations processes to enhance productivity through the use of IT and strive to establish highly efficient procedures that will lead to greater profitability.

In the months and years ahead, Hitachi Metals will concentrate its resources in growth products, the development of new products, and R&D operations to complete its structural reforms as well as strive to improve corporate results and strengthen the Company's corporate structure.