

# Operational Reform and Rapid Growth

April 2004 to March 2008

## Updated Top Profit Six Years Running after Integration of Hitachi High-Technologies

The world economic situation was marked by a strong U.S. economy and remarkable progress in emerging nations such as China. The Japanese economy was also strong, pushed forward by exports to Asia and other factors. Then in 2007 the U.S. economy entered a slowdown, the yen gained strength against the dollar, and crude oil prices rose, creating fears that the business climate would worsen. As Hitachi High-Technologies entered the third year since its establishment an Operational Reform Project was launched, based on the Corporate Vision, aiming to achieve further rapid growth.

### Themes of Operational Reform Project

- Strengthening the system for developing new businesses
- Strengthening the ability to draft medium- and long-term business strategy in our product sections
- Responsibility for business promotion
- Selection and concentration
- Strengthening our ability to develop products
- Integration and reorganization of the group's trading companies
- Consolidation of information system business
- Consolidation of contract analysis business
- Review of division of roles among the group's manufacturing companies
- Merger of overseas sales and maintenance services companies
- Rationalization of distribution
- Broader-based regional strategy and revitalization of sales facilities in Japan
- Strengthening of sales capabilities
- Expansion of global strategy and overseas business
- Review of management operations and streamlining
- Improvement of performance evaluation standards

### Maximizing Value through Resolute Consolidated Management

The Operational Reform Project was launched in April 2004. In the three years since the integration of Hitachi High-Technologies business performance had shown steady growth, but the project was intended to provide a systematic review of problems that had become apparent during that period and to strengthen operations in their core essentials. It extended to all aspects of the company's operations with nothing being off-limits.

In October, three years after the founding of Hitachi High-Technologies, President Hayashi spoke on the theme of "Aiming for Further Rapid Growth on the Third Anniversary of Hitachi High-Technologies." He urged continued efforts to realize the Corporate Vision through "putting the customer first and on-the-spot decision-making," "creating a corporate culture characterized by aiming for high targets," and "being a communicative, bright and open company." At the same time, he called for "maximizing value through resolute consolidated management" by implementing the Operational Reform Project. The goal was to maximize the total value of the corporate group by pursuing resolute consolidated management while respecting the individuality of each of the companies composing the group. He stated that to achieve this it was important to clarify the mission of each group company and create a system to match it, and he announced a policy of optimization of group companies.

### Becoming Stronger by Strengthening the Essentials: Aiming for Further Rapid Growth

The main thrust of the Operational Reform Project involved concentrating resources on four core businesses (semiconductor manufacturing and evaluation equipment, life science-related devices, information and industrial systems, and trading operations), developing a more muscular management organization, and optimizing the corporate group overall.

In April 2004 the Flat Panel Display & Hard Disk Manufacturing Systems Sales Division and Nanotechnology Products Business Group were newly established. In addition, Hitachi High-Technologies acquired all the stock of Hitachi Electronics



Shonan Division of Hitachi High-Tech Electronics Engineering Co., Ltd., which was an industry leader in the LCD and Hard Disk manufacturing systems fields



# Trading Activities

## COLUMN 2 Plasma TV Back Cover Business

Engineering Co., Ltd. and made it a subsidiary. (In April 2006 Hitachi High-Tech Electronics Engineering underwent an absorption-type merger with Hitachi High-Technologies and was reorganized as the Fine Technology Products Business Group.) These moves were taken to expand the product lineup of the semiconductor manufacturing and evaluation equipment business while also incorporating the LCD manufacturing and evaluation equipment business and hard disk manufacturing and evaluation equipment business. In particular, the LCD manufacturing equipment business of Hitachi High-Tech Electronics Engineering would end up making a substantial contribution to the bottom line of the corporate group as a whole as a result of rapid growth in the market for LCD televisions and LCD displays.

In April 2005 a Marketing & Planning Division was newly established within the Business Group to provide strengthened medium- and long-term strategic decision-making capabilities, and a CDB (Cross-Division Business) Development Group was added to promote new businesses arising from company-wide synergies.

Organizational and systemic reforms aimed at a more muscular management organization included the launch in June 2004 of a new wage and treatment system and systemic unification efforts such as the revisions to the retirement allowance and pension system in September of the same year. These laid the groundwork for a more dynamic corporation. To strengthen regional strategic functions within Japan, a new Regional Branch Office for West Japan Area and a same office for Kanto Area were established in April 2005. In addition to consolidating the functions of the regional branch offices, this move was designed to enable the generation and implementation of planning proposals tailored to local characteristics and needs. Also, measures were taken to strengthen cash flow management.

Back in April 2004 a project to obtain certification under the ISO 9001 quality management system was launched. By July the following year the Head Office sales operations had been certified, and in July 2006 certification of all sales facilities in Japan had been completed. In April 2005 a CSR & Environmental Promotion Department was established, tasked with issuing annual reports on Corporate Social Responsibility (CSR) in addition to the environmental reports Hitachi High-Technologies had been issuing since 2002. In July 2004 an Internal Control (COSO) Promotion Project was launched.

In the area of group optimization, group companies in Japan were reorganized in order to concentrate resources. In April 2004 Nissei Electronics, Ltd. and Nissei Engineering Inc. were merged to form Hitachi High-Tech Trading Corp., and in July Instruments Technology Co., Ltd. and Hitachi Naka Instruments Co., Ltd. were merged to form Hitachi High-Tech Manufacturing & Service Corp. Then, in June 2007, Hitachi High-Tech DE Technology Co., Ltd. and Hitachi High-Tech Instruments Service Co., Ltd. merged to form Hitachi High-Tech Engineering Service Corp.

To enhance business mobility, Hitachi High-Technologies absorbed Nissei Science, Ltd. in 2005, Hitachi High-Tech Electronics Engineering Co., Ltd. in 2006, and Hitachi High-Tech Science Systems Corp. in 2007. During this period the trend toward having the names of all group companies begin with “Hitachi High-Tech” advanced, clearly showing the orientation toward group management.

As part of efforts to better organize and strengthen group companies overseas, in April 2005 the branch offices in Seoul, South Korea, and Taipei, Taiwan, were incorporated locally (as Hitachi High-Technologies Korea Co., Ltd. and Hitachi High-Technologies Taiwan Corp., respectively) and their sales systems strengthened. In May 2005 the trading company Hitachi High-Technologies (Shanghai) Co., Ltd. was established as a wholly owned subsidiary of Hitachi High-Technologies Hong Kong Limited, and in July



Article in May 27, 2005, evening edition of Nihon Keizai Shimbun announcing policy of not reducing R&D spending even when profits decline



Annual reports on Corporate Social Responsibility 2005

Hitachi High-Technologies (China) Co., Ltd. was established. Subsequently, the Vietnam Branch Office (April 2006) and Moscow Branch Office (April 2007) opened their doors.

In April 2005, with the aim of a unified operation system integrating overseas sales and services functions, Hitachi High Technologies America, Inc. merged with Hitachi Electronics Engineering (America), Inc., which had been undertaking sales and services of magnetic disk manufacturing and inspection equipment. In April 2006, in Europe, Asia, and China, eight maintenance and services companies were merged with core companies in their regions. Then, in October 2007, the London Branch Office was made a branch of Hitachi High-Technologies Europe GmbH, and in 2008 Hitachi High Technologies America, Inc. was made a wholly owned subsidiary.

## Moving to a New Stage Five Years after the Company's Establishment: Attaining High Profitability

Business performance grew substantially thanks to efforts such as the Operational Reform Project. Sales and profits reached new highs in the consolidated financial statement for fiscal 2004, with operating profit of ¥30 billion and current net profit of ¥15 billion. Sales declined slightly in fiscal 2005 as the market entered a period of adjustment, but operating profit nevertheless grew to ¥36 billion and current net profit to ¥19.2 billion.

In 2006, which marked the fifth anniversary of the establishment of Hitachi High-Technologies, a “medium-term management plan” to run through fiscal 2008 was announced with the aim of moving to a new stage of rapid growth. It set ambitious targets of ¥1 trillion in consolidated sales and ¥50 billion in consolidated operating profit, and set as a challenge “attaining high profitability exceeding the market growth rate.”

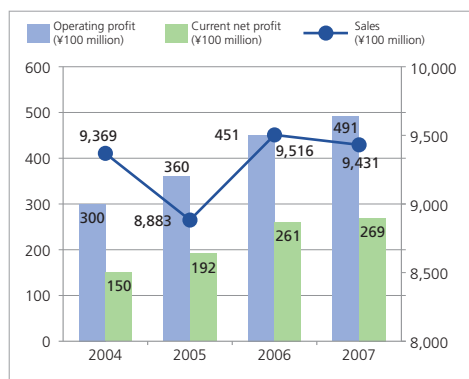
Goals under this basic policy were, with regard to the company's products, “to strengthen R&D to develop excellent products more quickly” and, with regard to the company trading operations, “to develop a new business model by adopting a medium- to long-term outlook and investing in operations.”

Previously, in May 2005, a new factory had been built at the Naka Division, and production of wafer fault detection equipment was moved from the Saitama Division of Hitachi High-Tech Electronics Engineering to the Naka Division. Hitachi High-Tech Electronics Engineering subsequently become the Fine Technology Products Business Group of Hitachi High-Technologies, and in April 2007 a new factory building to produce LCD manufacturing and inspection equipment for eighth-generation and later LCD panels was completed at the Saitama Division.

In another example of the aggressive investment in key fields that took place during this period, in February 2008 Hitachi High-Tech Instruments Co., Ltd. built a new factory for chip mounters in Kumagaya, Saitama Prefecture.

Now the focus was on achieving further rapid growth.

In April 2007 Hidehito Obayashi assumed the post of Representative Executive Officer, President, Chief Executive Officer, and Director. To meet the targets of the medium-term management plan he stressed that Hitachi High-Technologies must be “deliberate in council, and decisive in action,” carefully examining market trends and responding with effective measures in rapid succession. In other words, speed and agility were key, and management should emphasize speed and a hands-on, on-site perspective. Also important were strengthening consolidated management, value creation and value recovery, and ensuring that Hitachi High-Technologies is acknowledged as a force to be reckoned with by the



Business performance (fiscal 2004 to 2007)



Wafer inspection equipment manufacturing site at new factory of Naka Division (Building E)

competition. Two key slogans were “adhere to basics and ethics” and “right and wrong before profit and loss.”

Business performance was reported in the consolidated financial statement for fiscal 2006 as sales of ¥951.6 billion, operating profit of ¥45.1 billion, and current net profit of ¥26.1 billion, and in the consolidated financial statement for fiscal 2007 as sales of ¥943.1 billion, operating profit of ¥49.1 billion, and current net profit of ¥26.9 billion. This meant that new sales records had been set the past six years running, and that sales and operating profit were very close to the targets of ¥1 trillion and ¥50 billion, respectively.

### Blossoming Technical Skill Recognized by “Contemporary Master Craftsman” and “World Skills Competition” Awards

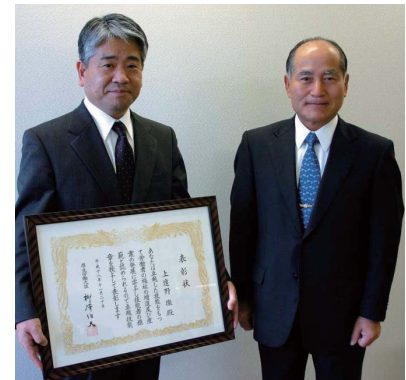
Exceptional technical skill is essential to the manufacturing of cutting-edge products. Hitachi High-Technologies encourages the attainment and handing down of high-level technical skills through programs such as technical training courses and on-the-job training.

These efforts bore fruit in November 2006 when Toru Katouno of the Naka Division received the Contemporary Master Craftsman Award (metalworking machine tool operator category) from the Ministry of Health, Labor and Welfare. Employees of Hitachi High-Technologies have also regularly been medalists at the WorldSkills Competition, an event that provides an opportunity for young technicians to compete with their peers from around the world. At the 38th WorldSkills Competition held in Helsinki, Finland, in June 2005 Kazutoshi Onuki became the first entrant from the Naka Division to win a gold medal (in the mechanical engineering and CAD category) in 32 years. Mr. Katouno and Mr. Onuki were both also selected to receive the Monozukuri Nippon Grand Award from the Prime Minister of Japan.

Three entrants from Hitachi High-Technologies competed in the 39th WorldSkills Competition held in November 2007 in Shizuoka, Japan. All three made impressive showings, with Akira Fujimoto and Akitomo Ebine winning gold medals (in the CNC turning and CNC milling categories, respectively), and Komei Osuga winning bronze (in the mechanical engineering and CAD category).



Corporate advertisement featuring WorldSkills Competition medalists. It was intended to highlight the high level of technological skill at Hitachi High-Technologies and the ways it is being put to use in cutting-edge products. (From left, Kazutoshi Onuki, Akira Fujimoto, the S-9380 II CD-measurement SEM, Akitomo Ebine, and Komei Osuga.)

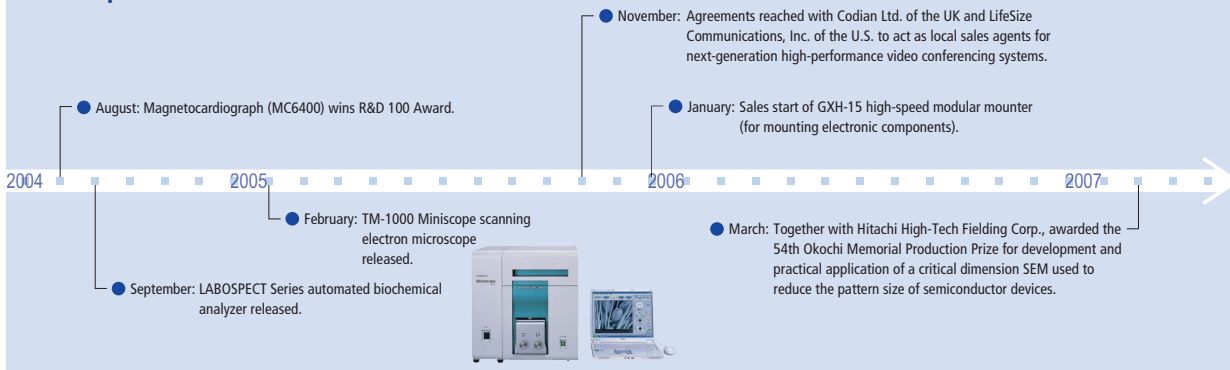


Toru Katouno (left) with his Contemporary Master Craftsman award and President Hayashi (right)



Kazutoshi Onuki being honored as the first entrant from the Naka Division to win a gold medal at the WorldSkills Competition in 32 years. (Mr. Onuki is in the center, holding the bouquet.)

## Contemporaneous Events



## Evolution of the Hitachi High-Technologies Brand Identity

In the years since the establishment of Hitachi High-Technologies in October 2001 the company's brand identity has undergone subtle changes.

Following the company's establishment, the corporate logo underwent various adjustments until the Hitachi High-Technologies corporate name logo was adopted in April 2003.

In April 2008 rules for use were adopted for the company's Japanese slogan, which can be rendered in English as "Bringing the Cutting Edge to the Forefront," and in April 2009 the English corporate name logo was changed. Use outside the company of the corporate message (now identity message) "Creative Minds. Innovative Solutions." started in April 2013.

In April 2014 the decision was made to utilize the valuable asset represented by the "One Hitachi" brand and to adopt the Hitachi Group corporate brand logo\* for Hitachi High-Technologies worldwide. At the same time, the wording of the English corporate logo, "Hitachi High-Tech," was adopted as the company's unified identity. In October 2014 "hitachi-hightech.com" was adopted globally as the domain name of the internet website and in all corporate email addresses.

### ● Evolution of the Hitachi High-Technologies brand identity

	Japan (Japanese)	Japan (English)	Overseas
April 2003 Hitachi High-Technologies corporate name logo adopted.			
April 2008 Rules for use of corporate slogan adopted.	最先端を、最前線へ。		
April 2009 English corporate name logo changed.			
April 2013 Start of external use of corporate message.	Creative Minds. Innovative Solutions.		
April 2014 Brand identity adopted.			

- Global unified domain name of internet website and all corporate email addresses

[hitachi-hightech.com](http://hitachi-hightech.com)

- Global unified display for corporate tools and marketing tools

Corporate tools (business cards, etc.)	Marketing tools (advertisements, etc.)	Products

(There are some exceptions, such as GDKK and HHS-EL.)

- Corporate tool example
- Marketing tool example



\* Hitachi Group corporate brand logo (CS logo)



## COLUMN

### Vigorous Development of LCD and Hard Disk Manufacturing and Inspection Equipment through Continuous Efforts in the Midst of an IT Slump

Hitachi High-Tech Fine Systems Corp. grew out of Hitachi Electronics Engineering Co., Ltd., which was established in 1965. Hitachi Electronics Engineering supported the development and design of manufacturing equipment for the production facilities of Hitachi, Ltd. in Totsuka, Odawara, Musashi, Takasaki, and other locations. In the 1970s they expanded their focus to include manufacturing and inspection equipment for hard disks and semiconductor devices, and they began direct sales of such products in the 1980s. Since then they have branched out into manufacturing and inspection equipment for LCD panels as well.

Board Director Haruyoshi Kato, Head of the Industrial Infrastructure Div., describes those times as follows: "In 2001 capital investment related to semiconductor devices and hard disks was down sharply due to a slump in the IT market, and the LCD market had not yet taken off. Hitachi Electronics Engineering found itself in a tough situation. In spite of this, we continued to develop manufacturing and inspection equipment to support hard disks using the new perpendicular magnetic recording method as well as manufacturing and inspection equipment for large-format LCD panels."

In April 2004 the company joined the Hitachi High-Tech Group and its name was changed to Hitachi High-Tech Electronics Engineering Co., Ltd. It was during this period that the products developed during the tough times came into full flower.

LCDs became the dominant type of flat panel display, and anticipated growth in the sales of LCD televisions led to a sudden increase in orders for manufacturing and inspection equipment for LCD panels. Demand for

hard disk manufacturing and inspection equipment also grew rapidly, as factors such as the appearance in 2003 of Hitachi Global Storage Technologies and the emergence of the information appliances market led to a flood of large orders, many from manufacturers overseas. In fiscal 2006 sales of LCD and hard disk related equipment approached ¥80 billion, and this growth contributed in a significant way to the profitability of the Hitachi High-Tech Group overall.

Looking back, Eiichi Okamoto of the Industrial Infrastructure Div., who lead sales efforts at the time, characterized the situation in this way: "In the hard disk field our RQ Series media inspection machines and our NS Series optical inspection machines for glass and aluminum panels sold well, and in the LCD field our equipment for washing and developing color filters, lithography machines, and module assembly machines capable of accommodating large-format panels, which were increasing in size every year, were very successful, eventually capturing over 60% of market share in the industry."

Subsequently, the company endeavored to deal with intensifying competition on a global scale, to strengthen the foundations of its business, and to expand its business into new fields. Today Hitachi High-Tech Fine Systems is making the most of the technology built up over the years to launch new businesses, expanding its railway inspection business and extending its business overseas in the social infrastructure field, and expanding its automation equipment business and branching out into industrial inkjet printers in the industrial infrastructure field.



RQ9000/RQ7800 Series media inspection machine



LE0200SD large-format glass panel lithography machine