

Business Restructuring for the Coming Decade

April 2010 to March 2014

Moving Past the Great East Japan Earthquake and Accelerating the Growth Strategy

Hitachi High-Technologies achieved a turnaround in fiscal 2010 through business restructuring and other measures. In October 2011 the Long-Term Management Strategy (CS11) and Medium-Term Management Strategy 2013 were announced, marking the 10th anniversary of the company's establishment. Damage sustained by major facilities and group companies in the Great East Japan Earthquake in March of that year, combined with the sluggish economy, resulted in the second consecutive year of reduced revenue and profits. Hitachi High-Technologies undertook further management reform measures to enhance its business capabilities, getting back on the path toward growth and in fiscal 2013 recording its first increase in revenue and profits in three years.



Launch ceremony of Yamanashi Div., Hitachi High-Tech Instruments Co., Ltd.

Achieving a Turnaround to Get Back in the Black

In April 2010 President Obayashi, noting that it was time to “reap the fruit of the business restructuring,” called for the promotion of measures directed toward future expansion of business activities; acceleration of the growth strategy; strengthening of the business on a global scale; creation of new business opportunities; boosting operational efficiency through manufacturing reforms and strengthening the IT infrastructure; boosting consolidated business performance; improving cash flow management; and adhering to “the basics and the ethics.” Also, a Corporate Projects Center and New Business Development Dept. were established within the Corporate Strategy Division.

The Center's aim was to foster businesses, products, and services that would sow the seeds for future business expansion. The theme of “The first project” (support for pharmaceutical research) was also selected. Structural reforms related to the Naka Division led to a reorganization into companies engaged in product-related business and companies engaged in manufacturing. As part of an effort to integrate manufacturing, sales, and services related to semiconductor back-end equipment, Hitachi High-Technologies took over the die bonder business of Renesas Eastern Japan Semiconductor, Inc., assigning it to the Yamanashi Div. of Hitachi High-Tech Instruments Co., Ltd. Efforts to strengthen the business on a global scale included the absorption in May of Hitachi High-Technologies (China) Co., Ltd. by Hitachi High-Technologies (Shanghai) Co., Ltd. and the establishment in October of an electron microscope application lab in Maryland, U.S.A.

New activities included the first SPIRIT Meeting in June. These meetings were based on the idea that it is essential to create new strategies and business opportunities in order to ensure that the company achieves high growth, with an eye toward accelerating the growth strategy. They provided venues for the employees working to promote these goals to discuss themes such as “What are the shared values that we most cherish?” and “What is the essence of ‘high-tech?’” In all, 20 meetings were held and approximately 400 employees participated.

In July the second Executive Officers' Brainstorming Session (BS10) was held. It examined a diverse range of issues, including achieving an optimal worldwide business management system and strengthening the manufacturing system; R&D strategy and system building; and strengthening corporate functions. Also, a global IT investment plan totaling approximately ¥10 billion was announced in order to strengthen information systems.

In December, in recognition of its contribution to the molecular analysis of the Itokawa asteroid carried out as part of the Hayabusa project of the Japan Aerospace Exploration Agency (JAXA), Hitachi High-Technologies received the Award for Distinguished Service to the Project from the Minister of Education, Culture, Sports, Science and Technology and the Minister for Space Development.

The efforts mentioned above, combined with an emphasis on overall cost-cutting measures, enabled Hitachi High-Technologies to achieve a turnaround in performance.



SPIRIT Meeting



Trading Activities

COLUMN 4 **Expanding Worldwide Sales of Automotive Hard Disk Drives**

COLUMN 5 **Expanding Sales of SIM Cards to Japan's Leading Mobile Carrier**

The consolidated financial results for fiscal 2010 showed an increase in sales of 5.9% year-on-year to ¥653.4 billion, operating profit of ¥27.9 billion, and current net profit of ¥17.8 billion.

Overcoming the Effects of the 3/11 Great East Japan Earthquake

On March 11, 2011, a major earthquake of magnitude 9.0 struck Japan, followed by an enormous tsunami that inundated the eastern coastal region. The number of dead and missing exceeded 18,000. This event is known as the Great East Japan Earthquake.

Hitachi High-Technologies suffered the effects as well, with significant damage to the Naka Division, Ibaraki Branch Office, and Tohoku Branch Office, as well as to the facilities of subsidiaries in Ibaraki. In particular, the Naka Division sustained considerable damage to its buildings and manufacturing equipment. Thankfully, none of the employees were injured, but three family members of Hitachi High-Technologies personnel lost their lives in the disaster.

The damage to the Naka Division, Hitachi High-Technologies' largest manufacturing facility, was serious. Once again the company found itself facing a crisis.

Hitachi High-Technologies immediately established a Large-Scale Earthquake Countermeasures Headquarters (later renamed the Companywide Disaster Countermeasures and Recovery Headquarters) to ensure customer support while implementing full-scale efforts to assist the stricken facilities, assist suppliers, maintain distribution functions, and restore the information infrastructure. Thanks to this hard work the Naka Division was declared back in operation on April 1, with production of semiconductor measuring and test equipment and products related to scientific and medical systems already back to 90% of the former level. The ordeal provided Hitachi High-Technologies with invaluable experience in dealing with challenges such as earthquake damage and power supply instability.

At the time a new main building was under construction at the Naka Division. Designed to be quake resistant, its completion in November served as a symbol of the division's recovery and revival. As part of a business continuity plan utilizing the experience gained from the earthquake, a new production facility was established to manufacture medical and biological consumable products in Omuta, Fukuoka Prefecture.

In April 2011 Masao Hisada was appointed Representative Executive Officer, President, Chief Executive Officer, and Director. He stated his key priorities as follows: "I will do my utmost to enable Hitachi High-Technologies to overcome the effects of this earthquake, which is nothing less than a national disaster, and to steer us safely toward the 10th anniversary of the company's establishment. As we approach the milestone of 10 years of growth, I will lead the way as we embrace the challenge of staying at the cutting edge, work to create an open and global business, deepen our collaboration with customers, and advance at a faster pace than anticipated as a company that embraces CSR in the true sense."

Also in April an organizational system based on business groups was introduced alongside a horizontal organizational approach companywide for sales, R&D, and manufacturing; vertical business lines; and matrix management. Among



Mountainside building of the Naka Division, which sustained unprecedented damage



Main building of the Naka Division, which incorporates quake-resistant measures and is designed to encourage fusion of technology



Masao Hisada
Representative Executive Officer,
President, Chief Executive Officer,
and Director

Business Policies of Medium-Term Management Strategy

1. Establish a stable earnings base (maintain and strengthen core businesses, continue to reduce costs)
2. Strengthen business portfolio by investing resources in growth fields
3. Increase profitability by promoting solutions business
4. Promote environment-related business
5. Promote social innovation business in emerging markets

management personnel, the functions of corporate staff and business staff were separated; information systems personnel were reorganized and consolidated; and Corporate Marketing Group and Global Sales Strategy Departments were put in place. In the area of manufacturing, the Kasado Division was reorganized as the Kasado Design and Production Division, and the Naka Division as the Naka Manufacturing Division within the Corporate Manufacturing Strategy Group. The Flat Panel Display & Hard Disk Manufacturing Systems Sales Division and Fine Technology Products Business Group were merged to create the Fine Technology Systems Business Group.

Overseas, in April the name of Dalian Naka Instruments Co. Ltd. was changed to Hitachi Instruments (Dalian) Co. Ltd., the same month an application lab was established, and in June an analysis equipment development center was established as Hitachi High-Technologies' first offshore development facility, with the aim of anticipating customer requirements, based on local joint research and academic and business trends, and incorporating these insights into the development of new products. In October PT. Hitachi High-Technologies Indonesia was established, marking the culmination of market development efforts that began with the setting up of a Jakarta office in 1995.

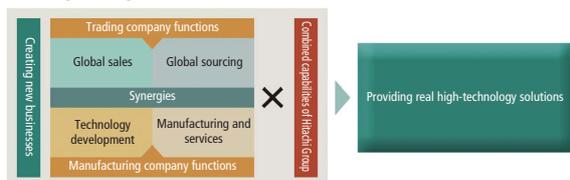
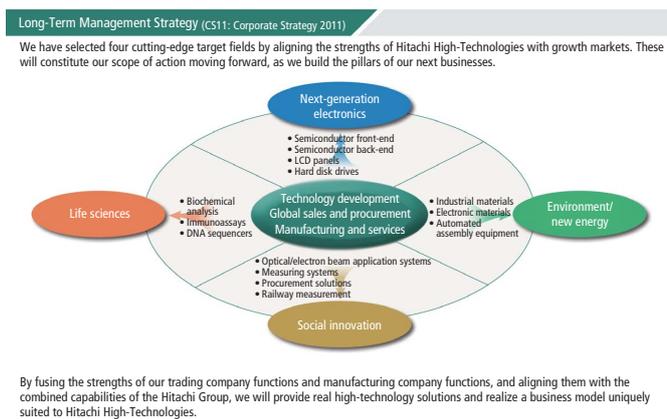
10 Years After the Company's Establishment, Looking to Further Progress

October 2011 marked the 10th anniversary of the establishment of Hitachi High-Technologies. On this occasion, the Long-Term Management Strategy (CS11: Corporate Strategy 2011) and Medium-Term Management Strategy 2013 were announced.

Looking ahead to the next 10 years, CS11 set forth "four target fields (next-generation electronics, life sciences, the environment/new energy, and social innovation)" and a strategic statement, "Leading the way for our customers' future as a fast-moving creator of cutting-edge business." It established the scope of action for implementing the strategy, identified areas of core competence, and set targets.

Building on the Hitachi High-Tech SPIRIT promoted during fiscal 2009 and the SPIRIT Meetings held in Japan and overseas, Hitachi High-Technologies adopted as its mission becoming "a company that embraces CSR in the true sense" through actions corresponding with the Hitachi High-Tech WAY, which integrates the Corporate Vision, CS11, and the Hitachi High-Tech SPIRIT.

The Medium-Term Management Strategy 2013 set as targets for fiscal 2013 "sales of ¥800 billion, operating profit of ¥50 billion, operating profit margin of 6.3%, current net profit of ¥31 billion, and return on equity of 10.7%." Initiatives to meet these targets were organized into five business policies, under which emphasis was to be focused on the key points of establishing an optimal worldwide business operations system, accelerating the global expansion of sales and manufacturing, accelerating the creation of new business opportunities, and promotion of schemes for creating new business opportunities.



Long-Term Management Strategy (CS11: Corporate Strategy 2011)

Reviewing the Business Portfolio to Stay on the Road to Growth

The consolidated financial results for fiscal 2011 reflect the sudden worsening of the economic climate due to factors such as power shortages resulting from the Great East Japan earthquake and the nuclear reactor incident that followed, flooding in Thailand, and the halt in the rise of the yen exchange rate. Sales were down 1.2% year-on-year to ¥645.9 billion, operating profit was down 8.7% to ¥25.5 billion, and current net profit was down 19.6% to ¥14.3 billion.

In April 2012 CS11 and the Medium-Term Management Strategy got underway, and business restructuring proceeded with reorganizations of the Industrial Materials Division, Electronic Materials Division, and Energy & Environmental Solutions Division. In line with the focus on developing new businesses and products, Hitachi High-Technologies purchased SII NanoTechnology Inc., a subsidiary of Seiko Instruments Inc., and in January 2013 Hitachi High-Tech Science Corporation was established.

The consolidated financial results for fiscal 2012 remained disappointing, partly due to the sluggish European economy and slowing growth in emerging economies such as China. Sales were down 13.7% year-on-year to ¥557.5 billion, operating profit was down 25.6% to ¥19 billion, and current net profit was down 14.7% to ¥12.2 billion.

To improve business performance, President Hisada called for efforts to strengthen the company's business portfolio, an acceleration of the creation of new business opportunities through an overriding emphasis on development, strengthening of the revenue structure, and thoroughgoing cash flow management.

Efforts at business restructuring included structural reforms in the LCD manufacturing equipment business and chip mounter business, where profitability had declined. In April 2013 the Fine Technology Systems Business Group was transferred to Hitachi High-Tech Engineering Service Corp., and the company name was changed to Hitachi High-Tech Fine Systems Corp.

In October analysis equipment design and sale functions were integrated into Hitachi High-Tech Science Corporation, and the design and manufacturing functions of the instruments business were integrated into Hitachi High-Tech Solutions Corp. The manufacturing subcontracting functions of Hitachi High-Tech Control Systems Corp. were consolidated at Hitachi High-Tech Manufacturing & Service Corp. The same October the logistics & manufacturing building of the Naka Manufacturing Division was completed, marking a significant milestone on the way to full recovery from the earthquake.

In June 2013 Kazuhiro Mori was appointed Outside Board Director and Chairman. Bringing with him an impressive record at Hitachi, Ltd. in sales development in power, transport, and the China and other Asia region, Chairman Mori put his focus on new efforts aimed at “customer-focused work, teamwork, and speeding up work.”

In the area of overseas development, Hitachi High-Technologies India Private Limited was established in April 2013 and Hitachi High-Technologies RUS Limited Liability Company in January 2014.

Due to coordinated management reforms and efforts to enhance business capabilities, the consolidated financial results for fiscal 2013 showed the first increase in revenue and profits in three years, with a 14.7% year-on-year increase in sales to ¥639.1 billion, a 60.6% increase in operating profit to ¥30.4 billion, and a 48.2% increase in current net profit to ¥18 billion.

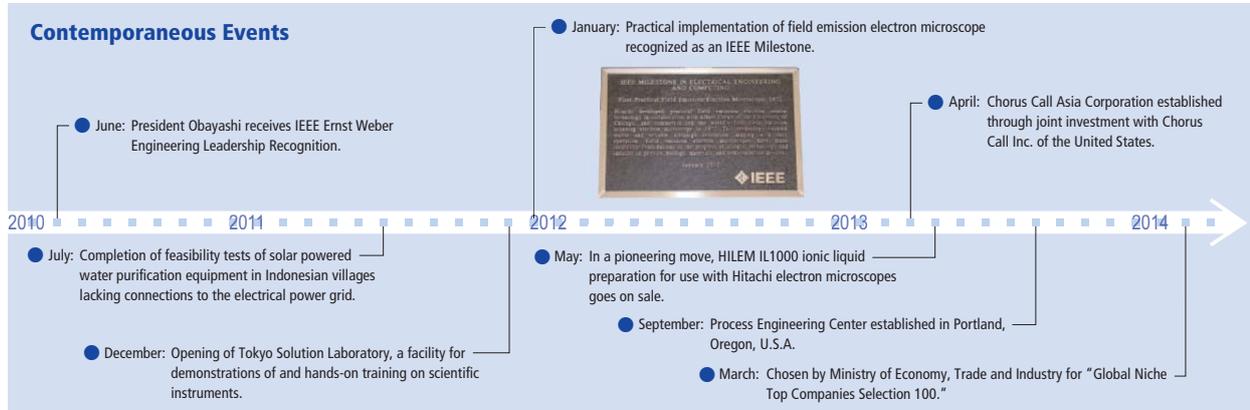


Kazuhiro Mori
Outside Board Director and
Chairman



Article in June 4, 2013, issue of *Nikkei Sangyo Shimbun* reporting reorganization of subsidiary businesses

Contemporaneous Events



COLUMN

Hitachi Instruments (Dalian) Co. Ltd.: Establishment of the First Offshore Development Center to Create Products for the Local Market

Hitachi Instruments (Dalian) Co. Ltd., established in 2003 as a local subsidiary to manufacture scientific analysis equipment, shipped products such as liquid chromatographs and spectrophotometers to Japan, Europe, and North America. In April 2011 the company name was changed to that currently in use, and in June Hitachi High-Technologies' first offshore development center was established there.

Seiya Kojima, President of Hitachi Instruments (Dalian) Co. Ltd. and the project leader in charge of setting up the development center, described its purpose as follows: "In China and other Asian countries experiencing remarkable growth there is increasing demand for analysis equipment for research, quality control, etc., in fields such as pharmaceuticals, food products, and the environment. Hitachi Instruments (Dalian) Co. Ltd. has established a development center to be able to respond rapidly and precisely to local needs. The goal is to reflect local needs, as determined from joint development with local customers, industry trends, etc., in the development of new products for the local market."

"The development staff working on new products was under the guidance of personnel from the Naka Division, but they lacked experience and the development work was slipping further and further behind schedule," explained Li Xin, a project leader at the development center who was with Hitachi Instruments (Dalian) since its establishment. "Nevertheless, we were determined to create products that Chinese companies and people would want to buy, and after about a year we completed the Primaide liquid chromatograph."

The Primaide, introduced in August 2012, was highly regarded for its excellent performance and quality, in spite of its low price. As expected, sales grew steadily, mainly in the Chinese market.

To further cultivate the market, the development center directed its efforts into offering a full range of peripheral devices and software to complement the Primaide, and to strengthening its links with sales agents in China. They then proceeded with the development of new products based on information on customer requirements gained through those efforts.

Moving forward, Hitachi Instruments (Dalian) is committed to making the most of the marketing capabilities of Hitachi High-Tech Science Corporation, maintaining a constant awareness of costs, further strengthening the development and manufacturing system, collaboration with leading enterprises, and system expansion (through development of custom devices, etc.).



Application testing lab