

Strategy and Vision—Message from the CEO



Becoming a high-performance materials company supporting sustainable societies

We began operating under the new Fiscal Year 2021 Medium-Term Management Plan (covering fiscal 2019 through fiscal 2021) from April 2019.

By strengthening and expanding our “Only 1, No. 1” businesses and products, increasing synergies across businesses, and deepening collaboration with customers, the Hitachi Metals Group aims to be a high-performance materials company supporting sustainable societies.

Koji Sato

Representative Executive Officer,
President and Chief Executive Officer

March 1986	Completed master's course in metallurgy at the Kyoto University Graduate School of Engineering
April 1987	Joined Hitachi Metals, Ltd.
August 2002	Completed doctoral course in materials science at the University of California, Berkeley, Department of Materials Science and Engineering
January 2011	President and Representative Director of Japan Aeroforge, Ltd.
October 2014	General Manager of Metallurgical Research Laboratory of Hitachi Metals, Ltd.
January 2016	General Manager of Yasugi Works
April 2017	Executive Officer, President of Specialty Steel Company
April 2018	Vice President and Executive Officer, President of Specialty Steel Company, General Manager of Technology, Research & Development Division
April 2019	Representative Executive Officer, President and Chief Executive Officer (current position)

Koji Sato is highly experienced in metal materials, having served as General Manager of the Metallurgical Research Laboratory, General Manager of the Yasugi Works, and President of the Specialty Steel Company. Since October 2018, on his own initiative, he has been a driving force in Japan's cutting-edge metal materials development, working with Shimane University on its “Creation of global advanced metallic material base – Next Generation TATARA Project,” which was selected by the Cabinet Office as a recipient under its “Regional University and Local Industry Revitalization Grant Program.” He has also collaborated with the University of Oxford in the development of innovative special steel components in the pursuit of further possibilities in materials. With an unwavering belief that “The results of pursuing challenges are always successes and good opportunities for learning. Failure only happens when we lose hope,” our aim is to use “Only 1, No. 1” *monozukuri* to bring about social innovation through the resolution of customers' social issues, and for employees to perform their jobs with a sense of satisfaction, and to have Hitachi Metals share the dreams of its customers.

Management policies

We aim to be a company that meets the needs of society through innovation in materials.

Becoming a “best enterprise”

The Hitachi Metals Group aims to be a high-performance materials company supporting sustainable societies, and the Fiscal Year 2021 Medium-Term Management Plan lays out a vision of “Building People, Building Innovation, Building the Future.”

To achieve this vision, I consider it extremely important to provide employees, who are the foundation of the Company, with opportunities for both personal growth and rewarding social lives through participation in the management of the Company’s businesses. At the same time, we will use combinations of the Group’s creative technologies to strengthen our collaboration with customers, to create added value that leads to top market shares and high growth as we strengthen and expand our “Only 1, No. 1” businesses and products.

The integrated flow of combining creative technologies and strengthening collaboration with customers leads to innovation of new materials. Continuously repeating this process makes it possible to respond to the demands of society, a leading example of which are the Sustainable Development Goals (SDGs), and we believe that achieving a sustainable society will contribute to the creation of a future for all of society.

If the Hitachi Metals Group is able to continue to be a company where employees work with a sense of satisfaction and that customers believe shares their dreams, I am confident that we will be able to become the “best enterprise” as per our Corporate Creed regardless of various management indicators.

Wa sureba tsuyoshi

“Human resources” are of primary importance to a company. Hitachi Metals has a history of more than 100 years of bringing various companies together and accumulating unmeasurable expertise and challenges. Our Corporate Philosophy of “Wa sureba tsuyoshi” expresses our sense of value, and can be understood to mean that the diversity we have cultivated over our history is the source of our strength.

In 2017, the Hitachi Metals Group systematically incorporated its corporate culture and Good Practice Guidance as the Hitachi Metals WAY. Firmly instilling this



at Group companies around the world, carried out with vigor by every individual employee, will lead to our becoming the “best enterprise.” We will also continue to hire and employ female employees and non-Japanese employees in the pursuit of diversity in management, and will strive to ensure that diversity is further incorporated in our corporate DNA.

Steady progress in 12 steps, taking one at a time

Creating added value that is recognized by customers is the source of a company’s growth. The Fiscal Year 2021 Medium-Term Management Plan introduces management using ROIC as a new management indicator to improve asset efficiency. Approaching the plan’s three-year period as 12 quarterly steps, we will take one step at a time and steadily build up results. Then, as we create value that exceeds stakeholders’ expectations, we will gain their trust as a company that addresses the needs of society.

Recognition of issues as assumptions underlying the new Medium-Term Management Plan

Expanding collaborative relationships with customers in various business fields with “Only 1, No. 1” products and businesses

Looking beyond customers’ immediate needs

The Hitachi Metals Group believes that it can contribute to the global megatrend of society overall working toward a low-carbon society with environmentally friendly products in a variety of ways. In automotive materials, for example, in addition to having the top global share in products for internal-combustion engines, we have a diverse range of products to address the shift to xEVs*, including materials for drive motors, and are, therefore, addressing moves toward both clean engines and xEVs. We also have various materials and applied products that are contributing to smaller-sized, larger-capacity telecommunications equipment.

Even if the business unit for individual products is small, using the Hitachi Metals Group’s *monozukuri* capability to mass-produce “Only 1, No. 1” products enables us to provide diverse products across a wide range of industrial segments. We are collaborating more closely with customers in a range of business fields where we have similar perspectives, including developing products that will lead to the realization of a low-carbon society.

* xEVs: A general term for electric vehicles (EVs), hybrid electric vehicles (HEVs), and plug-in hybrid electric vehicles (PHEVs).

Selection and concentration

Changes in the external environment also present opportunities, but, at the same time, correct measures are needed in response to changes in demand from geopolitical risk and trade friction, and the decline and obsolescence of existing products from technological innovation. We have competitors around the world. We, therefore, consider it important to look constantly for selection and concentration in businesses and products, and, while thinking about how to grow in these areas, also considering the downsizing, withdrawal from, or spinning off of businesses that are deemed to be non-core.

Making full use of prior invested equipment

Under the previous Medium-Term Management Plan, we turned from a long period of minimal investment to make a series of major investments in what we correctly identified as growth markets. Nevertheless, because we made rapid and diverse capital investments at the same time, resources were dispersed, the plan was overly optimistic, and, as a result, staffing shortages emerged in terms of production technology. There were also market effects, including the drop in China-related demand, and delays in deploying the equipment purchased meant that the effects of the investments were not achieved as planned, and we fell short of our earnings targets, which was one of the reasons for the weakening of cash flow.

“Selection and concentration” and “making full use of prior invested equipment” are priority issues carried over from the previous Medium-Term Management Plan that we recognize as continuing to take priority under the Fiscal Year 2021 Medium-Term Management Plan.

Basic policy and key measures of the new Medium-Term Management Plan

Implementing five action plans to achieve the Fiscal Year 2021 Medium-Term Management Plan

The Fiscal Year 2021 Medium-Term Management Plan seeks to make the Hitachi Metals Group a high-performance materials company supporting sustainable societies by pursuing management strategies and programs to enhance further our strength of “Only 1, No. 1” *monozukuri* and new products. The plan sets final fiscal year targets of revenues of ¥960.0 billion, with adjusted operating income of ¥80.0 billion (for an adjusted operating margin of 8.3%), and ROIC of 7.7%.

The five action plans we will implement are shown on the following pages.

1 Concentrating resources on high-growth and high-revenue areas

Through selection and concentration, we are concentrating resources in high-growth and high-revenue areas, and collaborating with customers to bring "Only 1, No. 1" products to market. Areas we are growing include electrification, electric power, power electronics, aircraft, amorphous materials for motors, and fine powders for 3D molding. At the same time, we are restructuring businesses including casting components for automobiles and magnetic materials. In casting components for automobiles, we are pursuing synergies with the melting and casting technologies

developed in specialty steel. In magnetic materials, we are pursuing structure control technologies for magnets, while also offering solutions that combine soft magnetic material and cable material technologies. With regard to mergers and acquisitions, we are emphasizing the impact of being a trillion-yen company in terms of both size and synergies, and, at the same time, if there are businesses outside the Hitachi Metals Group that would be useful to society, we will carefully consider that course as well.

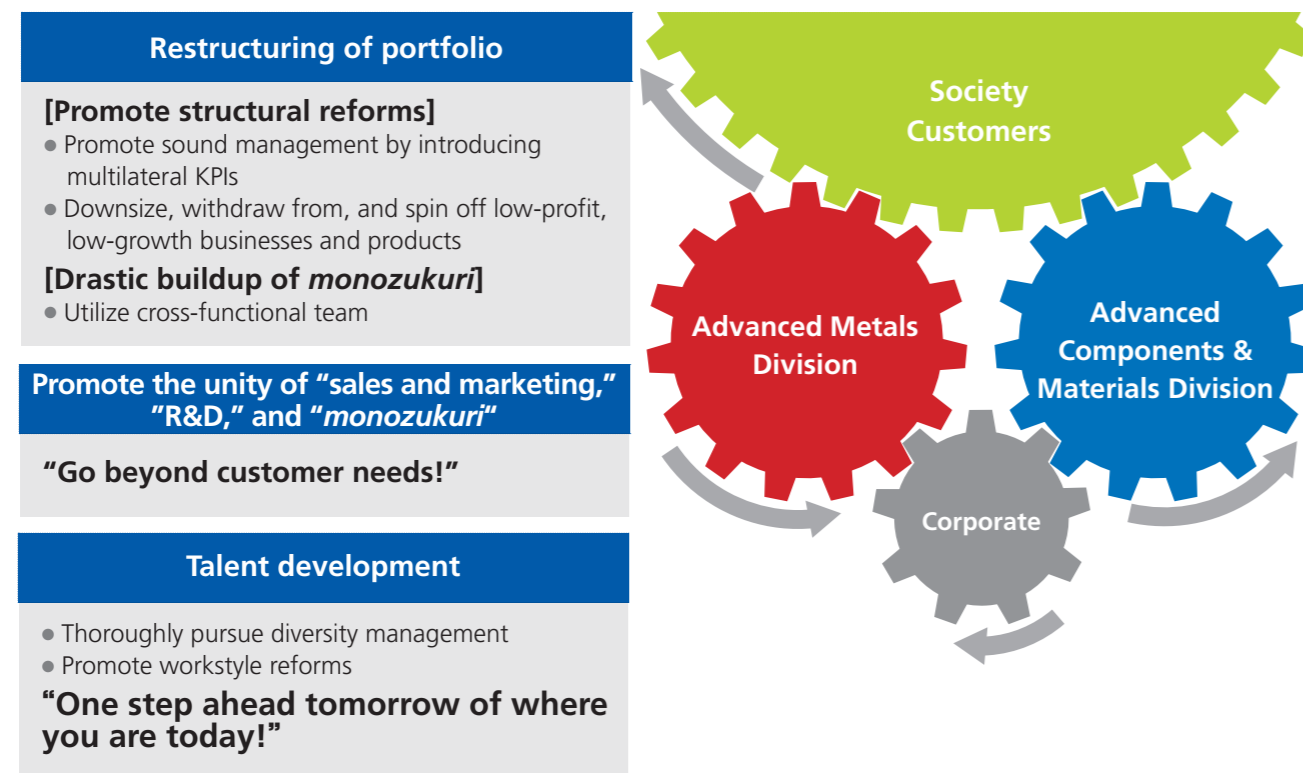
2 Maximizing synergies through organizational reforms

We are seeking to maximize synergies derived from organizational reforms. From fiscal 2019, we have transitioned our structure from four internal companies to two business divisions. With larger organizational units, we will use resources more efficiently and strengthen synergies between the specialty steel and functional components, and between the magnetic materials/power electronics and cable materials, and

related materials businesses. At the same time, we are strengthening corporate functions which support the business divisions to reinforce both the strategic planning function and corporate governance. Corporate functions are carried out by cross-functional teams, and, by reflecting corporate intent in organizational management, we expect each business to create solid value.

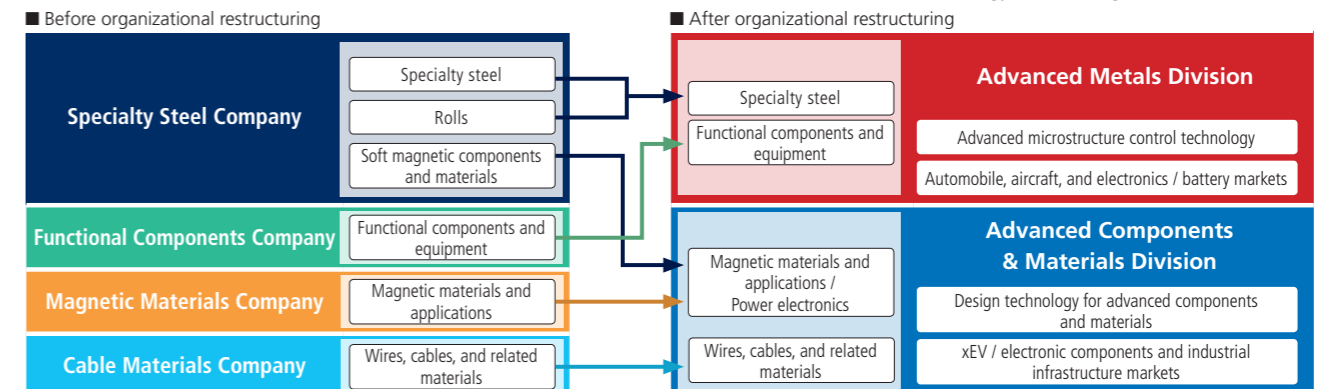
Accelerate the growth strategy under the division system!

Create innovation by three organizations working as a unit to strengthen the management and collaborative creation with customers



Shift from four-company organization to two-divisional organization

- Commonality among markets / customer needs / elemental technologies → maximize the synergy between segments
- Effective use of resources, enhance strategy function & governance



3 Making full use of prior invested equipment

Making full use of prior invested equipment is an important issue. During the three years covered by the previous Medium-Term Management Plan, we made historically large investments totaling ¥251.0 billion. This upfront investment will generate solid cash flow and underpin our return to growth. At the same time,

capital investment under the new Medium-Term Management Plan will be extremely selective. The amount of capital investment under the plan is ¥186.0 billion, of which ¥6.0 billion will be used to ensure intrinsic safety in work environments.

4 Strengthening front-line operations and create collaboratively with customers

To strengthen front-line operations, we are continuing with the Next-generation Automotive Components (NAC) Project, initiated in fiscal 2017 to address the growth of the xEV market. Part of this has been to strengthen cooperation across divisions by establishing an account marketing structure, and this has proven highly effective for making the most of our "Only 1, No. 1" products and expanding collaboration with customers. We have also launched a new Power Electronics Components (PEC) Project from fiscal 2019, and begun work to be sure to capture the growth in demand in the emerging area of power electronics materials.

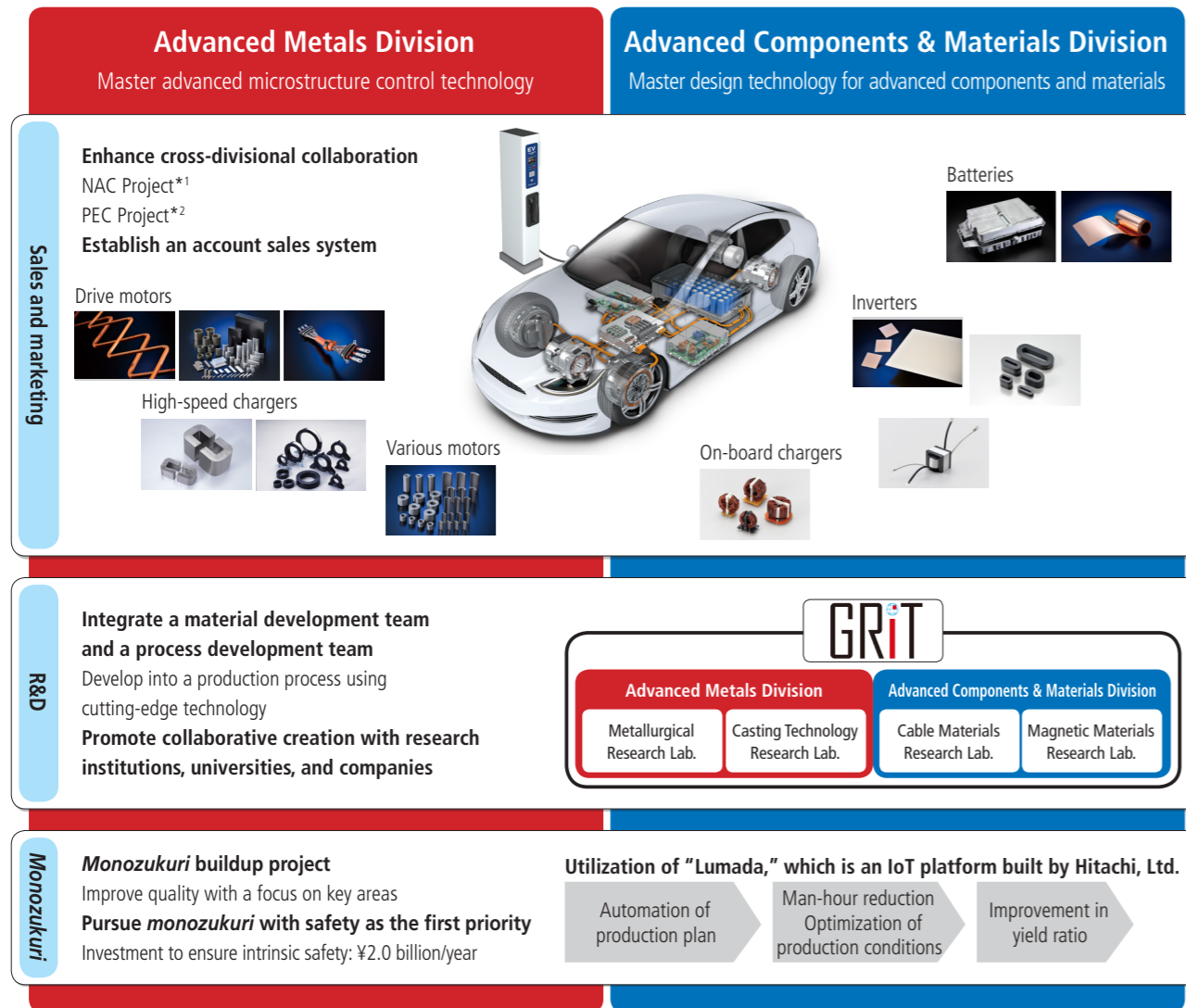
In terms of research and development, we see the integration of materials development and process development becoming increasingly important. Each business division has two division labs, which work together and also cooperate with the Global Research & Innovative Technology center (GRIT), the global technological innovation center that is the Companywide research and development organization. Bringing these together as a Companywide

technological development division leads to the sharing of information and reciprocal leveraging of underlying technologies, promoting qualitative and functional innovation and creating new products and businesses. GRIT is also the core entity for promoting collaboration with research and development institutions, universities, and companies.

In addition, we are enhancing synergies across manufacturing bases in Japan and around the world to reinforce *monozukuri*. We are making *monozukuri* capabilities at plants visible and creating indexes that can be compared, so that best practices can be implemented even when product groups or processes are different. We are also using Hitachi's Lumada platform to improve productivity. In addition, to pursue *monozukuri* with safety as the first priority, we are reemphasizing safety training and continuously making investments to ensure intrinsic safety.

Corporate-wide function between "sales and marketing," "R&D," and "monozukuri"

Collaboration with customers by strengthening front-line operations and realization of *monozukuri* that supports this collaboration



*1. Next-generation Automotive Components Project: Cooperation in marketing of next-generation vehicles

*2. Power Electronics Components Project: Cooperation in marketing of power electronics and electronic materials

5 Implementation of structural reforms and measures to build a stronger business base

Continuing to be a company that creates value for society involves more than simply pursuing sales volume; we will also continue to renovate our business portfolio to match our strengths with society's needs. This means downsizing, withdrawing from, or spinning off low-profit businesses and products where sufficient improvement cannot be expected, while also working to concentrate management resources and use them effectively, and growing "Only 1, No. 1" businesses and products. We have introduced management using return on invested capital (ROIC) as a new management indicator, and are working to shorten the Cash

Conversion Cycle (CCC) to reduce invested capital and reduce the risk of fluctuations in resource material prices, while at the same time working to understand our business results from multiple perspectives to improve cash flow and raise capital efficiency.

We are also working to promote diversity in management and workstyle reforms by hiring and training global human resources and promoting active participation by female employees, and, by making the most of the results of these programs, we will create a corporate culture with a strong sense of challenge through innovation.

Message to stakeholders

With each employee implementing the Hitachi Metals Group's Corporate Philosophy of "*Wa sureba tsuyoshi*," we will contribute to the realization of a sustainable society.

I like to say, "Our own preconceived notions are an impediment to growth." Now that we have broken down internal company boundaries with the transition to a business division structure, we have become able to see many issues that currently exist. On the front lines of marketing and plants and at corporate divisions, we are overcoming traditional organizational boundaries, engaging in thorough exchanges of opinions involving different viewpoints, and beginning to work with a clear awareness of the current situation, and, as a result, a streamlined, appropriate structure is taking shape.

Another thing I like to say is, "In *monozukuri* and marketing, logic alone is not enough – inner passion is most important." In *monozukuri*, it is very important to balance passion, logic, and ethics, and through passionate *monozukuri*, I want to provide customers with products that have soul. I also recognize that one of a CEO's jobs is to create an environment where all employees feel comfortable acting on their own

initiative. To do this, we need to "shake the tree" to make the fruit fall to the ground, and gather the wisdom of all employees on the table and from all of that wisdom extract the best solutions.

The Hitachi Metals Group has various different histories and backgrounds, and is a trillion-yen company that is a collection of diverse DNA. Currently, our business performance is struggling, but I see this as a period of preparing for new growth. Through "*Wa sureba tsuyoshi*," we have many "Only 1, No. 1" businesses and products, and the passion and strength to use them. Senior management is taking the initiative in spreading the word inside and outside the Company about Hitachi Metals' value and the "Only 1, No. 1" technologies and products that are extensions of that value, and in making a greater contribution to society's sustainable development by stimulating innovation in materials as a company that is indispensable to society.

