Message from the General Manager of Finance Division

We are raising capital efficiency by making full use of prior invested equipment and investing selectively, while also emphasizing maximization of operating cash flow.

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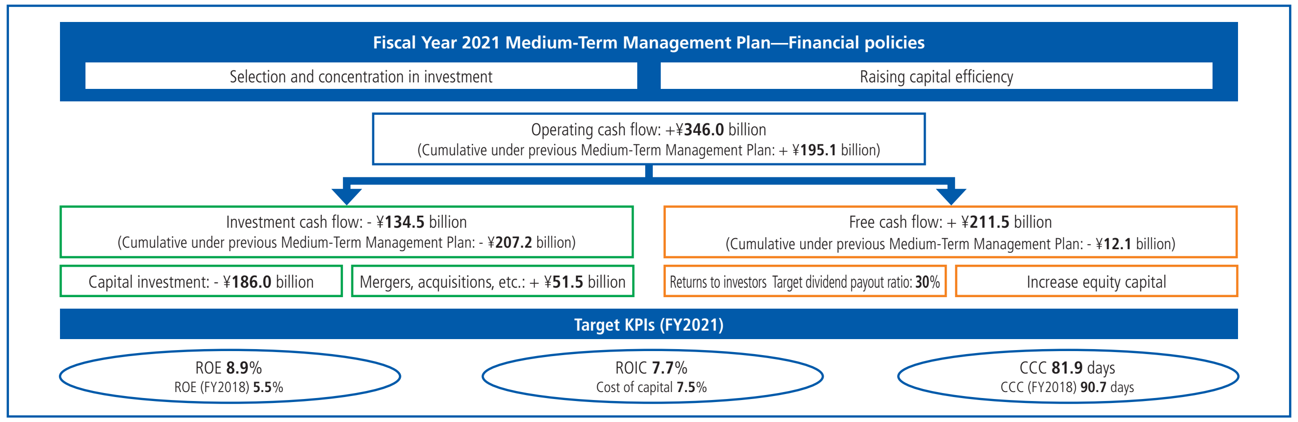
General Manager of Finance Division



Emphasizing selection and concentration in investment and raising capital efficiency

Under the Fiscal Year 2021 Medium-Term Management Plan, the Hitachi Metals Group will emphasize "selection and concentration in investment" and "raising capital efficiency." In terms of investment, we will be extremely selective while also making full use of prior invested equipment purchased under the previous Medium-Term Management Plan. We have also introduced return on invested capital (ROIC)*[1] to raise capital efficiency, and will emphasize the maximization of operating cash flow.

The Fiscal Year 2021 Medium-Term Management Plan aims for a cumulative three-year operating cash flow of ¥346.0 billion (the cumulative result under the Fiscal Year 2018 Medium-Term Management Plan was +¥150.9 billion). On the other hand, we are forecasting roughly -¥134.5 billion (previous cumulative result: +¥72.7 billion) for investment cash flow, which includes ¥186.0 billion (- ¥65.0 billion) of highly selective investment in priority areas. As a result, we expect a significant improvement in cumulative free cash flow for the three-year period under the Fiscal Year 2021 Medium-Term Management Plan, to +¥211.5 billion (from +¥223.6 billion).

With regard to raising capital efficiency, we will continuously review our business portfolio by expanding high-value-added products and growth businesses and withdrawing from or spinning off low-profit, non-core businesses*[2], while also working to shorten the Cash Conversion Cycle (CCC)*[3] to 81.9 days (an 8.8-day reduction from fiscal 2018) and thoroughly implementing effective inventory management.

Through these measures, we are aiming for ROE*[4] of 8.9% and ROIC of 7.7%, above the 7.5% cost of capital*[5].

*1. Return on invested capital (ROIC): Net income attributable to owners of the parent company ÷ (Average of beginning and end-year interest-bearing debt + Average of beginning and end-year equity attributable to the parent company)
*2. Non-core businesses: Group businesses that are not sufficiently efficient
*3. Cash Conversion Cycle (CCC): Working capital (Trade receivables + Inventories -Trade payables) ÷ Daily average revenues
*4. Return on equity (ROE): Net income attributable to shareholders of the parent company ÷ Average of beginning and end-year equity attributable to shareholders of the parent company x 100
*5. Calculated using a capital asset pricing model and share price profit margin, and taking into consideration results at peers.

Using ROIC as an index to raise capital efficiency

We calculate that the Group's cost of capital is 7.5%, and, currently, the Companywide ROIC is below the cost of capital, so we need to raise ROIC by increasing profit and reducing invested capital.

To increase profit, we will continue to expand high-value-added products and growth businesses, improve product quality through *monozukuri* innovation using the Internet of Things (IoT), and reduce costs. In addition, we will use information technology to streamline administrative operations and thereby reduce fixed costs. We will also continuously review our business portfolio by downsizing, withdrawing from, and spinning off low-profit, non-core businesses.

We are working to reduce invested capital by formulating optimal production plans using the IoT to shorten the Cash Conversion Cycle and conducting personnel exchanges to share best practices. In addition, we have launched the Reformed Human Resource Training Program in cooperation with Hitachi's IE Master system, to train human resources who will be *kaizen* (improvement) professionals, and implement thorough management from the plant floor to inventories and appropriate warehousing.

We aim to raise ROIC through these initiatives, but, currently, we have businesses where ROIC is significantly higher than the cost of capital, other businesses that are set for steady improvement, and other businesses requiring upfront investment where ROIC will be below the cost of capital over the short term. We, therefore, consider it important to instill management using ROIC by business division and main product group. Setting ROIC targets by business division and main product group based on the unit's profit and invested capital will lead to Groupwide improvement in ROIC.

In addition, the Corporate Management Planning Division and Finance Division are jointly holding an ROIC awareness caravan, and, with the strong commitment of Board members, we are promoting an understanding of ROIC among all ground-level employees so that they can participate in raising ROIC through improvements in their daily operations.

Clarifying the investment decision-making process

We are reconstructing our processes and criteria for capital investment. For capital investment carried out by business divisions, corporate divisions participate from the advance study stage, with the advance screening process and responsibilities of the manager of the screening division clearly laid out.

In addition to equipment upgrades and streamlining, production capacity increases, establishment of new centers, and investments for safety, investments include mergers and acquisitions, and ordinary investment and strategic investment are separately defined and classified in terms of investment decision-making, recovery of investment, and other aspects. Proposals for strategic investment emphasize cash flow, and investment decisions are based on a current valuation using discounted cash flow (net present value [NPV]), ROIC, and the period for recovering the investment.

Balance sheet management

The new Medium-Term Management Plan includes the streamlining of the balance sheet to improve our financial position and raise capital efficiency. With structural reforms through the improvement of working capital by shortening the Cash Conversion Cycle, use of the Hitachi Group's cash pooling system, and selection and concentration, we are forecasting total assets of ¥1,030.0 billion as of the end of fiscal 2021 (a 6.3% reduction from the end of fiscal 2018).

In addition, our basic policy is to cover the funds needed to invest for growth from cash generated by businesses and cash on hand. We have few apparent growth opportunities, however, we are looking to maintain our current debt-equity ratio of approximately 0.3x to 0.5x or less and our credit rating at A+, and will engage in flexible fund procurement.

Cash allocation

The Group's basic policy for determining the distribution of profit to shareholders is to take comprehensively into account the operating environment, business results, and the future business outlook, together with the retention of internal reserves for medium- to long-term growth.

In terms of enhancing shareholder value, we look to increase total shareholder return (TSR) and aim to distribute profit with a balance between a higher share price through business growth and returns to shareholders. Under the new Medium-Term Management Plan, we will concentrate resources in high-profit, high-growth areas, carry out structural reforms, and strengthen the management base for business growth that leads to a higher share price, while maintaining a stable dividend with a target payout ratio of 30%.

In addition, we recognize that purchases of treasury stock are a useful way to provide returns to shareholders, but, at this time, we consider it rational to invest for strategic growth with high returns, and are, therefore, emphasizing business growth and expansion through strategic investments for growth in research and development and in high-value-added product areas.