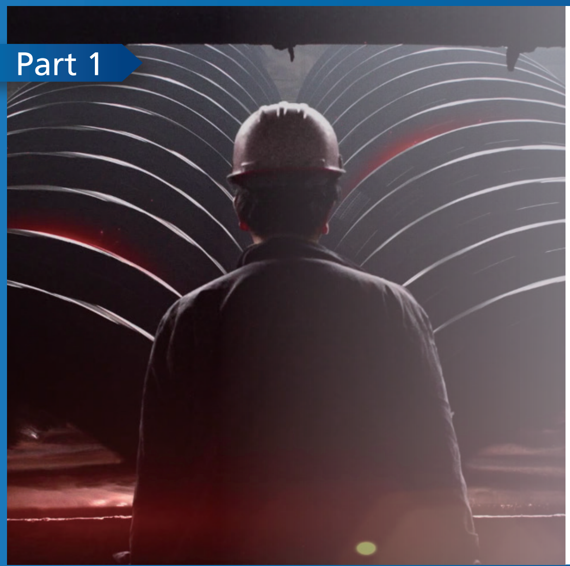
Part 1



Strategies

CONTENTS

To Our Stakeholders

My name is Mitsuaki Nishiyama. I was appointed Representative Executive Officer, Chairperson, and Chief Executive Officer in April 2020 and assumed the added title of President in June 2020. In fiscal 2019, we worked hard to implement our Fiscal 2021 Medium-Term Management Plan, but our business was affected by difficult conditions in the automotive and aircraft markets, as well as the spread of COVID-19 at the end of the fiscal year. Amid ongoing business challenges, we established a new management structure. Under this structure, all employees will work together to promote management reform and do their utmost to build a foundation for recovery and future growth.

This report is a communications tool to help our stakeholders understand how we are working to enhance corporate value. It contains information on the Group, the Corporate Creed, and value creation process, together with a systematic compilation of financial and non-financial information deemed important for continuous growth. This report references various sources, including the "International Integrated Reporting Framework," published by the International Integrated Reporting Council (IIRC), and "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation," formulated by the Ministry of Economy, Trade and Industry. The report is intended to present the information prepared in close cooperation with our corporate divisions to consolidate our thinking across the Group in a way that is easy to understand.

We believe that this report will provide you useful information and deepen your understanding of the Hitachi Metals Group's initiatives.

Mitsuaki Nishiyama
Representative Executive Officer, Chairperson, President, and CEO

March	1979	Faculty of Economics, Tohoku University, Japan
April	1979	Joined Hitachi, Ltd.
July	1990	Master of Business Administration (MBA), Georgia State University, USA
April	2008	General Manager of Finance Department I of Hitachi, Ltd.
April	2011	Executive Officer of Hitachi Cable, Ltd. (current name: Hitachi Metals, Ltd.)
June	2012	Executive Officer and Director of Hitachi Cable, Ltd.
April	2013	Vice President and Executive Officer and Director of Hitachi Cable, Ltd.
July	2013	Vice President and Managing Officer of Hitachi Metals, Ltd.
April	2014	Vice President and Executive Officer
April	2015	Vice President and Executive Officer, and General Manager of Finance Group of Hitachi, Ltd.
April	2016	Representative Executive Officer, Senior Vice President and Chief Financial Officer and General Manager of Finance Group of Hitachi, Ltd.
April	2020	Representative Executive Officer, Chairperson and Chief Executive Officer of Hitachi Metals, Ltd.
June	2020	Representative Executive Officer, Chairperson, President and Chief Executive Officer and General Manager of Advanced Metals Division (current position)

To Our Stakeholders

The operating environment for the Group is characterized by the continued spread of COVID-19 infections in various regions of the world, and the business outlook remains extremely uncertain due to political, economic, and social turmoil. The Group's main business areas—for automobiles, electronics, and industrial infrastructure—are facing severe slowdowns in demand, and the impact on business performance in fiscal 2020 is expected to be more significant than in fiscal 2019.

The year under review marked the beginning of the Fiscal 2021 Medium-Term Management Plan (FY2019–FY2021), designed to help the Group achieve renewed growth globally. However, we faced a changing business environment caused by the COVID-19 pandemic, as well as the revelation of improper quality control practices within the Group. In response, we will make all-out efforts to implement management reforms under our new management structure. At the same time, we will execute business structural reforms and aggressively shift management resources to businesses that are expected to generate solid earnings and growth. Through these efforts, we will strive to overcome our ongoing unfavorable business performances of the past several years and the current difficulties caused by the spread of COVID-19, and thus reinforce our corporate capabilities. Meanwhile, the Group's medium- to long-term objective—to be a company that fosters the development of society through innovative materials technology and products—remains unchanged. By building a sound quality assurance system and reforming our corporate culture, we will create innovations that help resolve issues faced by customers and society. Our aim is to be a high-performance materials company that supports a sustainable society.

Improper quality assurance conduct and transition to new management structure

On April 27, 2020, we issued a press release titled "Misrepresentation of Test Results in the Inspection Reports with Respect to Certain Products of the Company and Its Subsidiaries." In that press release, we announced our discovery that test results for some specialty steel products and magnetic materials products (ferrite magnets and rare earth magnets) manufactured by Hitachi Metals, Ltd. and its subsidiaries were misrepresented in inspection reports submitted to customers. As a company engaged in manufacturing, we take seriously this discovery of inappropriate behavior related to quality—the worst thing that can happen to a manufacturer—that greatly inconvenienced our customers and other relevant parties. On April 27, 2020, the Group established a special investigation committee of outside experts who are currently conducting an objective investigation into the facts and root cause of the matter. We also set up an internal task force to spearhead efforts to enhance our quality assurance system. The Company is making every effort to further improve its management, including its organization and control system, and to ensure objectivity and fairness in its investigation into the facts and causes of the incident, as well as in the examination and implementation of measures to address the matter in light of those findings. For these purposes, the Company decided to change its management team. Specifically, the president and other executive officers, as well as a director who was previously the president of the Company, resigned on May 31, 2020. To expedite decision-making, meanwhile, the chairperson assumed the concurrent position of president on June 1, 2020, and a new executive officer joined the management team on the same day. Under this new management team, we will thoroughly investigate the facts and causes of the incident and implement reforms in every aspect of management with the intention of transforming ourselves into a company that conducts business fairly and honestly.

Building a robust quality assurance system

We have set up a special committee to investigate the facts and causes of the aforementioned incident. Using its findings, we will further strengthen compliance and take other measures to prevent any reoccurrence. At the same time, to establish an appropriate quality assurance system as soon as possible to regain the trust of our customers, our internal task force is spearheading an organizational reassessment aimed at ensuring effective quality audits while implementing improvement measures that include eliminating manual processes and building an inspection system safeguarded against fraud. For divisions where inappropriate behavior is identified, we are introducing mechanisms to prevent human intervention and ensure the integrity of inspections that we do and test data that we obtain. In addition, we have launched a Companywide initiative aimed at automating inspection processes and protecting information. To prevent any reoccurrence of a similar incident and to restore trust, we will rigorously investigate the facts and causes of the incident while fundamentally reviewing our quality assurance system and further strengthening compliance.

Fiscal 2021 Medium-Term Management Plan: Progress and achievements

Since starting business, the Group has contributed to society by providing distinctive products in multiple fields, including those for automobiles, industrial infrastructure, and electronics.

Recent years have seen dramatic changes in the global economic structure and the diversification of social needs, resulting in the successive creation of new technologies, products, and services. Furthermore, as indicated in the Sustainable Development Goals (SDGs), companies, as corporate citizens who constitute society, are under increasing pressure to take the initiative in helping realize a sustainable society. Also, in the materials industry, a key Group business domain, the speed of the development of new materials to address emerging needs is accelerating annually.

Our mission is to implement our Corporate Creed to become "the best enterprise." Recognizing this mission and the aforementioned circumstances, we formulated and are implementing the Fiscal 2021 Medium-Term Management Plan, which will end in fiscal 2021. In the second half of fiscal 2019, meanwhile, we launched the "Hitachi Metals Transformation," a set of management reforms, and on April 1, 2020, we established the Management Transformation Office as our command center for such reforms. Under my leadership in this office, we are working to strengthen our earnings power and improve capital efficiency by promoting portfolio and cost structural reforms while strengthening our sales capabilities.

The aim of the Fiscal 2021 Medium-Term Management Plan is to become a "high-performance materials company that supports a sustainable society" by promoting management strategies and measures under our vision of "building people, building innovation, and building the future." To this end, we provide our human resources, who form the foundation of the Group, with opportunities to find a balance between growth through their work and fulfillment in their social lives. At the same time, we will leverage our strengths through co-creation with our customers while strengthening and expanding our "Only 1, No. 1" businesses and products to deliver innovation in materials. By accumulating a track record of such innovations, we will help realize a sustainable society and shape a bright future for society as a whole.

The Hitachi Metals Group will continue meeting the expectations of stakeholders in its quest to achieve sustained growth. We look forward to your ongoing support.

Five action plans of Fiscal 2021 Medium-Term Management Plan: Progress and achievements

A. Concentrating resources on high-growth and high-profit areas

We will develop products and expand businesses in response to market and technological trends, such as the electrification and motorization of automobiles, concentrating management resources on high-growth, high-profit areas while pursuing continuous portfolio renewal.

Fiscal 2019 progress and achievements

- We enhanced our global production system (at our bases in Vietnam and Thailand) for electric parking brake (EPB) harnesses to meet the growing need for electric vehicles.
- We concluded an agreement to transfer all the Company's holdings in Mitsubishi Hitachi Tool Engineering, Ltd. (now MOLDINO Tool Engineering, Ltd.) to Mitsubishi Materials Corporation (transfer completed on April 1, 2020).

B. Maximizing synergies through organizational reforms

We will transition from a four-company organization to a two-division organization, a change that will enable us to concentrate resources and make quicker decisions, focusing on core future-oriented markets and businesses and strengthening synergies between the businesses. We will also reinforce cross-organizational functions by enhancing corporate departments and by activating human resource exchanges between business divisions to strengthen both our strategic functions and corporate governance.

Fiscal 2019 progress and achievements

- We transitioned to a two-division organization (April 2019).

C. Strengthening front-line operations and co-creating with customers

We will strengthen front-line functions (sales and R&D) and quickly bring to market "Only 1, No. 1" businesses and products that combine the Group's unique technologies through co-creation with customers, to address changing markets and customer needs and achieve powerful growth.

Fiscal 2019 progress and achievements

- We developed high-power-density enhancement technology for on-board chargers with Germany-based Fraunhofer IISB (see page 37).
- Our "super-extra-fine copper alloy wires and applied products" were chosen as the winner of the "Awards from Commissioner of the Japan Patent Office" in the Kanto Region Invention Award 2019.
- Our MaDC-F™ series of soft ferrite cores for high-frequency Mn-Zn power supplies was chosen as the winner of the "Environment-, Resource- and Energy-related Components Award" at the "CHO" MONOZUKURI ("super" production) Innovative Parts and Components Award 2019.
- We established the AM Solution Center to strengthen our metal additive manufacturing business.
- We established the "Hitachi Metals–Oxford UTC of Metallurgy" with the University of Oxford (United Kingdom).

D. Making full use of large-scale capital investments

We will take full advantage of large-scale capital investments made under the previous medium-term management plan and reap the benefits at an early stage, while allocating new capital investments to carefully selected high-growth, high-profit areas.

Fiscal 2019 progress and achievements

- The Ibaraki Works started full-scale operation of a continuous casting and rolling line, strengthened core products, and established a system for mass production of HiFC® high-performance pure copper (a new material).
- Hitachi Metals Wakamatsu, Ltd. started casting and processing equipment operations to produce cast rolls for hot strip mills and structural cast steel products.
- Hitachi Metals Neomaterial, Ltd. started full-scale operations using equipment (pressing machines, rolling machines, etc.) for producing clad metals, demand for which is expanding in such fields as electric vehicles and mobile devices.

E. Decisively implementing structural reforms and measures to strengthen the management base

The Management Transformation Office will take the lead in promoting the "Hitachi Metals Transformation" to strengthen earnings power and improve capital efficiency through portfolio restructuring, cost restructuring, and reinforcement of sales capabilities.

Departments responsible for business execution will downsize or withdraw from low-profit businesses and products that are not expected to improve sufficiently to concentrate and more effectively utilize management resources. We will also introduce management with return on invested capital (ROIC) as a new performance indicator and seek to reduce invested capital, by shortening the cash conversion cycle (CCC) and other means, to improve cash flow and asset efficiency.

In addition, we will create an innovative and challenging corporate culture by promoting and maximizing the effectiveness of diversity management and workstyle reforms through measures that include recruiting and developing global human resources and facilitating the advancement of women.

Fiscal 2019 progress and achievements

- The CCC figure for fiscal 2019 was 87.1 days, down 3.6 days from that of the previous year, and free cash flow totaled ¥49,540 million, up ¥79,205 million from that of the previous year.
- Hitachi Metals was selected as a "Fiscal 2019 Nadeshiko Brand."

Message from the General Manager of the Finance Division

We are stepping up our focus on "selection and concentration in investment" and "raising capital efficiency" with the aims of achieving an early recovery in earnings.

Hiroaki Nishioka
Vice President and Representative Executive Officer
Chief Financial Officer
General Manager of the 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 emphasizes "selection and concentration in investment" and "raising capital efficiency." In terms of investment, we are extremely selective while also making full use of upfront capital investments made under the previous Medium-Term Management Plan. Through the introduction of return on invested capital (ROIC)* to raise capital efficiency, we strive to maximize operating cash flows.

However, fiscal 2019, the first year of the medium-term plan, saw rapid changes in the business environment. As trade friction between the United States and China intensified in the first half of the fiscal year, economic growth in China continued to slow due to the effects of the trade friction and weakened domestic demand. The downturn in the Chinese economy, which had been a driving force in the global economy, had a significant impact, with business confidence worsening worldwide, particularly in Japan, Europe, and emerging economies in Asia. The Hitachi Metals Group also experienced declining demand in its main businesses, including automobiles, factory automation/robotics, and electronics. As a consequence, sales and adjusted operating income in all business segments fell below levels of the previous year. We also reassessed the future expected profitability of our magnetic materials business in response to changes in the business environment and booked a significant impairment loss of ¥42.6 billion, resulting in the largest net loss in our history. Since February 2020, moreover, COVID-19 infections have been spreading rapidly around the world, causing serious impacts on economic activity. We can only conclude that the world economy has entered a phase of major contraction.

Under these circumstances, we believe it is vital to more powerfully emphasize "selection and concentration in investment" and "raising capital efficiency" to ensure that we reap the benefits of our investments. In addition to emergency performance measures taken in fiscal 2019, we will implement "Hitachi Metals Transformation," a management transformation plan aimed at achieving an early recovery and raising capital efficiency to build a more robust operational foundation.

As of March 31, 2020, the Group had cash and cash equivalents of ¥42.4 billion on a consolidated basis, as well as ¥40 billion in unused committed lines of credit with multiple financial institutions. We also made use of the Hitachi Group's cash pooling system to secure adequate liquidity.

The spread of COVID-19 continues, making it difficult to predict when the pandemic will end and how much impact it will have on global social and economic activities. Against this background, the Group reorganized its operations on June 1, 2020. Under our new system, we will look to fundamentally reassess our business structure. Therefore, we have not yet set quantitative targets for the Fiscal Year 2021 Medium-Term Management Plan, although we will adhere to its basic policies and accelerate our efforts accordingly.

*ROIC: Net income attributable to shareholders of the parent company ÷ (Average of beginning and end-year interest-bearing debt + Average of beginning and end-year equity attributable to shareholders of the parent company)

Optimal Management of Invested Capital

Inventory optimization	Groupwide project by the Technology, Research & Development Division
	Select areas for improvement and incorporate them into concrete action and follow-up
Introduction of ROIC	Implement internal awareness-raising campaign to improve capital efficiency
	Incorporate "ROIC reverse tree" concept into each business and administrative level

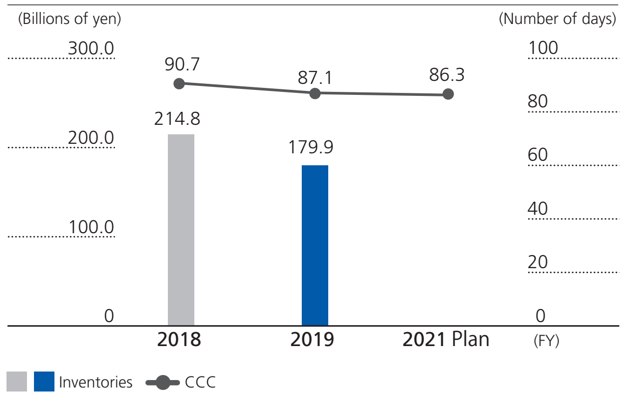
Increasing ROIC management effectiveness to raise capital efficiency

We calculate that our cost of capital is 7.5%, and Groupwide ROIC is currently below that figure. For this reason, we will steadily implement our "Hitachi Metals Transformation" plan and aim to quickly improve ROIC by increasing profits and reducing invested capital.

To increase profits, we will continue expanding our high-value-added products and growth businesses while deploying IoT technologies to deliver *monozukuri* innovations that will improve product quality 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 low-profit, non-core businesses, and spinning them off.

We are working to reduce invested capital by formulating optimal production plans, using IoT to shorten the cash conversion cycle (CCC), and conducting personnel exchanges to share best practices. Under the Group's inventory management system, manufacturing sites and procurement departments are responsible for material inventories, manufacturing sites and business divisions are responsible for production inventories of work in process and products, and domestic and overseas sales companies and business divisions are responsible for distribution inventories. Going forward, we will strengthen our cross-lateral

Inventories and CCC



corporate functions to build a system for swift and accurate inventory management based on sales forecasts. At the same time, we will aim to further shorten the CCC with additional inventory reductions. Meanwhile, in cooperation with the IE Master system of Hitachi, Ltd., we launched the Reformed Human Resource Training Program to train human resources who will be *kaizen* (improvement) professionals. We are also implementing thorough management from the plant floor to inventories and warehousing. Despite a decline in net sales, the actual CCC value for fiscal 2019 was 87.1 days, down 3.6 days from that of the previous year, thanks to our focus on inventory optimization.

Some of our businesses currently have ROIC figures that are significantly higher than their cost of capital, others that are earmarked for steady improvement, and others that will be lower in the short term due to the need for upfront investments. For this reason, we believe it is important to ensure that each business unit is managed with a focus on ROIC. By setting ROIC targets based on the profits and invested capital of each business segment, we are working to swiftly improve ROIC for the Group as a whole. In addition, in fiscal 2019, we conducted an ROIC awareness campaign to promote understanding of ROIC among individual front-line employees and encourage them to participate in raising ROIC by improving their daily work. In fiscal 2020, we will increase the effectiveness of ROIC-focused management by incorporating it into each action plan for management reform.

Improving cash flows

We are working to boost free cash flow by expanding profits, improving working capital efficiency, and making highly selective investments in priority areas. In fiscal 2019, net cash provided by operating activities amounted to ¥106.0 billion, up ¥39.4 billion from that of fiscal 2018. This was due largely to improvements in working capital efficiency. On the other hand, net cash used in investing activities totaled ¥56.5 billion, down ¥39.8 billion year on year. This was due mainly to reductions of investments in response to the deterioration of our business performance. As a result, free cash flow improved ¥79.2 billion, to plus ¥49.5 billion in fiscal 2019.

Clarifying the investment decision-making process

We have rebuilt our processes and criteria for capital investment. For capital investments made by business divisions, corporate divisions participate from a preliminary review stage, and the advance screening process and responsibilities of the screening division manager are clearly laid out. Going forward, we will review and strengthen management of the decision-making process for small investments, whose decisions have traditionally been delegated to business units.

In addition to upgrading equipment and streamlining, increasing production capacity, establishing new centers, and investing for safety, we invest in mergers and acquisitions and the like. Ordinary investments and strategic investments are separately defined and classified in terms of investment decision-making, recovery of investment, and other aspects. Proposals for strategic investments emphasize cash flow, and investment decisions are based on a current valuation using discounted cash flow (net present value, or NPV), ROIC, and the investment recovery period.

Cash Flows

	FY2018 Results	FY2019 Results	Change
Cash flow from operating activities	66.6	106	39.4
Cash flow from investing activities	(96.3)	(56.5)	39.8
Free cash flows	(29.7)	49.5	79.2

Balance sheet management

We are streamlining our balance sheet to improve our financial position and raise capital efficiency. We are also promoting structural reform by shortening the CCC to reduce working capital, using the Hitachi Group's cash pooling system (CPS) to consolidate surplus funds and borrowings across the Group, and adopting a selection and concentration policy. Total assets at the end of fiscal 2019 stood at ¥977.8 billion, down 11% year on year.

Our basic policy is to source funds needed for growth-oriented investments from cash generated by businesses and cash on hand. To avoid missing growth opportunities, however, we will engage in flexible fund procurement with a view toward maintaining or reducing our debt-equity ratio (currently in the 0.3–0.5 times range) and retaining our A+ credit rating.

In fiscal 2019, we used funds generated by the reduction of net working capital (reduction in trade receivables and inventories) mainly for capital investments to strengthen our platform for growth and to repay long-term debt to stabilize our funding base. As of March 31, 2020, the Company's long-term corporate and unsecured bonds were rated A+ by Rating and Investment Information, Inc. (R&I).

Cash allocation

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

In terms of enhancing shareholder value, we aim to distribute profits with a balance between shareholder returns and share price increases through business growth, with a view toward increasing total shareholder return (TSR). Under the new Medium-Term Management Plan, we will target business growth to achieve higher share prices, concentrating resources in high-profit, high-growth areas, implementing structural reforms, and strengthening our operational foundation. We will also work to ensure stable dividends with a target payout ratio of 30%. Our TSR in fiscal 2019 was 69.2%, which is below the TOPIX benchmark.

We recognize that share buybacks are an effective way to return profits to shareholders. At present, however, we consider it reasonable to invest for strategic growth with high returns, and for this reason we will focus on business growth and expansion through strategic growth-oriented investments in R&D and high-value-added product areas.

Message from the General Manager of Human Resources & General Administration Division

We promote organizational and cultural reforms to restore the Hitachi Metals' strength and make it "the best enterprise."

Naohiko Tamiya
Vice President and Executive Officer,
General Manager of Human Resources & General Administration Division

A company that helps motivate diverse human resources to work

The Human Resources & General Administration Division is responsible for spearheading the "organizational and cultural reforms" that represent the foundation of the Hitachi Metals Group's management transformation project. We emphasize the "employee engagement figure" as one of our human capital strategy KPIs. However, this figure declined in fiscal 2019, reflecting the Group's deteriorating performance. Engagement means ensuring that individual employees understand the Company's strategies, have a positive outlook for the future, and work autonomously to produce results, allowing them to feel a sense of satisfaction and accomplishment in their work. For this reason, I believe that making employees more engaged through organizational and cultural reforms and making people feel motivated to work at Hitachi Metals will lead to a turnaround in our business results and help realize our Corporate Creed of being "the best enterprise."

Using communication to change the quality of thoughts and actions

The "Organization's Core Theory of Success," proposed by Dr. Daniel Kim of the Massachusetts Institute of Technology, shows that improvement in the quality of relationships between people leads to improvement in the quality of their thoughts and actions, resulting in a "good cycle" that allows for continued positive outcomes. On the other hand, companies that pursue only improved financial results tend to enter a "bad cycle" of organizational exhaustion and deteriorating interpersonal relationships, leading instead to poorer financial results. I feel that Hitachi Metals had fallen into such a bad cycle. To return to a "good cycle," we need to improve the quality of relationships between top management, executives, and employees, as well as between workers and supervisors on the front lines. The first step in achieving organizational and cultural reforms is to work on improving the "quality of these relationships."

Town hall meetings for young employees held at all offices

In the first two quarters of fiscal 2019, the Group posted a significant year-on-year decline in adjusted operating income due to decreases in demand, an impairment loss, and other factors. As a result, we reported a ¥41.0 billion net loss attributable to shareholders of the parent company, an extremely unfortunate result. In response, we began holding town hall meetings in December 2019 for young employees in their 20s to 30s at all Hitachi Metals Group companies and worksites to further improve the "quality of relationships." Prior to that, we had held town hall meetings whereby top management visited managers of departments and sections at each business site, but we concluded that neither the quantity nor the quality of such communication was sufficient to overcome our crisis. With this in mind, we asked all executive officers to separately visit sites for town hall meetings, enabling us to cover all the sites more quickly. We also expanded the target audience to include younger employees. Each town hall meeting lasted about 90 minutes and included presentations and Q&A sessions on the Group's current situation and management transformation project. Feedback from surveys of participants revealed that they gained a good understanding of what the Company was trying to achieve and appreciated that management was serious about explaining things to them. We also received good responses from the executive officers. At its meeting in January 2020, the Executive Committee decided to create "visual representations" of the measures and progress of our management transformation project. It also decided to continue dialogue by having every executive officer interact directly with employees to help them better understand the project.

Improving the quality of relationships in the workplace to achieve organizational and cultural reforms

To achieve organizational and cultural reforms, we need to help individual employees understand the meaning of their jobs and motivate them more. We must also foster a culture in which supervisors carefully nurture their subordinates in order to grow together. At present, the Hitachi Metals Group has an interview system as a means of communication between supervisors and subordinates in the workplace. However, we are not utilizing this system properly. This may be part of the problem we are facing with respect to quality assurance. To revitalize communication in the workplace, we will consider and implement training to improve the goal-setting and coaching skills of managers, expand the scope and implementation of goal management interviews, and introduce "360-degree evaluations" for managers. Our aim here is to improve the "quality of relationships" in the workplace. Meanwhile, to encourage employees to think about their own careers independently, we will promote various training programs, such as job-posting systems to provide Company-sponsored opportunities for employees to study and work abroad as trainees, and introduce a new system for proposing business.

In addition, we will continue providing antiharassment training, which is fundamental to diversity management, and improve our IT environment to promote "workstyle reforms." We will also strengthen our occupational safety systems to achieve "intrinsic safety" in work environments.

Fostering management personnel with a view toward medium- and long-term growth

To achieve sustainable growth, we need to develop human resources from the long-term perspectives of our Corporate Creed. The Hitachi Metals Group selects candidates for president and executive officer, taking into account the results of discussions by the Nomination Committee. We then send the candidates to training sessions where they work hard with leaders from inside and outside the Hitachi Group.

All of us, from top management to employees, are highly motivated to produce management reforms aimed at restoring the Hitachi Metals' strength and ensuring its sustainable development.

Future workstyles and countermeasures to COVID-19

In January 2020, when it was confirmed that the number of people infected with COVID-19 was increasing, we set up a task force of representatives from our head office administrative division and our business divisions to ensure that information was quickly shared.

To eliminate the risk of infection, we first placed limitations on overseas business travel, then restricted domestic business travel at our head office and branches, and finally began asking employees to curtail office visits and encouraged a shift to remote work. By swiftly improving our personnel system for working from home and strengthening our IT environment, we achieved a high level of employee satisfaction, and the remote work system remained in place as of September 2020.

With a view toward the post-COVID future, we are aiming to build new ways of working at Hitachi Metals, not simply to prevent infections but also to improve productivity and better utilize our diverse human resources. To this end, we will set up various working groups to identify problems and consider ways to enhance our office, environmental, and IT systems, with the aim of identifying new ways of working. We will then consider and promote specific countermeasures, such as establishing new Company systems and rules, and reviewing business flows within each division.

Financial/Non-Financial Highlights

Highlights of Fiscal 2019 (Figures in the lower rows indicate year-on-year increases/decreases)

Revenues
¥881.4 billion

-13.9%

The decline was due to a decrease in demand, especially for mainstay products, as well as the impact of falling raw material prices and structural reform measures.

Adjusted operating income*1
¥14.4 billion

-72.0%

Despite efforts to reduce fixed costs, this was the result of weakness in our main markets, as well as production adjustments aimed at optimizing inventories.

Adjusted operating margin
1.6%

-3.4 percentage points

As a medium- to long-term guideline, we are aiming for an adjusted operating margin of 10%.

EBIT
-¥38.4 billion

-¥83.7 billion

This was due to an impairment loss of ¥42.9 billion in the Magnetic Materials and Applications segment.

Free cash flows
¥49.5 billion

+¥79.2 billion

This was due to an increase in operating cash inflows stemming from improvement in working capital efficiency, as well as a decrease in investment cash outflows owing to carefully selected investments in priority areas.

R&D expenses
¥15.9 billion

-¥2.6 billion

While concentrating resources on high-growth and high-profit fields, we are continuously investing in R&D on advanced materials that contribute to sustainable growth.

ROIC*3
1.7%

-3.6 percentage points

As a medium- to long-term guideline, we are aiming for ROIC that exceeds the cost of capital (7.5%).

ROE*2
-6.8%

-12.3 percentage points

This was due to a net loss attributable to shareholders of the parent company of ¥37.6 billion stemming from an impairment loss in the Magnetic Materials and Applications segment.

CCC*4
87.1 days

-3.6 days

Despite a decline in revenues, we focused on optimizing inventories.

*1 Adjusted operating income = Revenues – Cost of sales – Selling, general and administrative expenses
*2 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
*3 ROIC = Net income attributable to shareholders of the parent company ÷ (Average of beginning and end-year interest-bearing debt + Average of beginning and end-year equity attributable to shareholders of the parent company)
*4 CCC = Working capital (Trade receivables + Inventories – Trade payables) ÷ Average daily revenue

Sales ratio of key environmentally conscious products
20.2%

-0.7 percentage points

Our objective is to improve revenue from sales of "key environmentally conscious products." Our target sales ratio for these products is 23%.

CO_2 emissions
2,319 thousand t-CO_2

-311 thousand t-CO_2

This was due to a decline in production volume, our emphasis on energy conservation activities, and switching to alternative fuel sources.

CO_2 emissions per unit
2.631 t-CO_2/million yen

+2.4 points

Although we promoted energy conservation and fuel switching, the energy consumption ratio per production unit increased due to lower capacity utilization stemming from the decline in production volume.

Recycling rate
74.6%

-3.6 percentage points

Factors here included lack of progress of recycling efforts at overseas operations.

Water usage
12,186 thousand m^3

-1,205 thousand m^3

This was due to the introduction of high water-efficiency models when equipment was replaced.

Chemical substance emissions
235 tons

-33 tons

We continue to focus on alternative paint materials and other measures to address the amount of solvents in our paints.

Percentage of positive engagement indicator evaluations in employee awareness surveys
53%

-6 percentage points

We have set a goal of 60% for positive engagement indicator evaluations in our employee awareness surveys.

Occupational accident frequency*5
0.27

-0.15 point

We established the Health and Safety Promotion Department and are pursuing various initiatives, including formulating the "Guidelines for Safe Organizations."

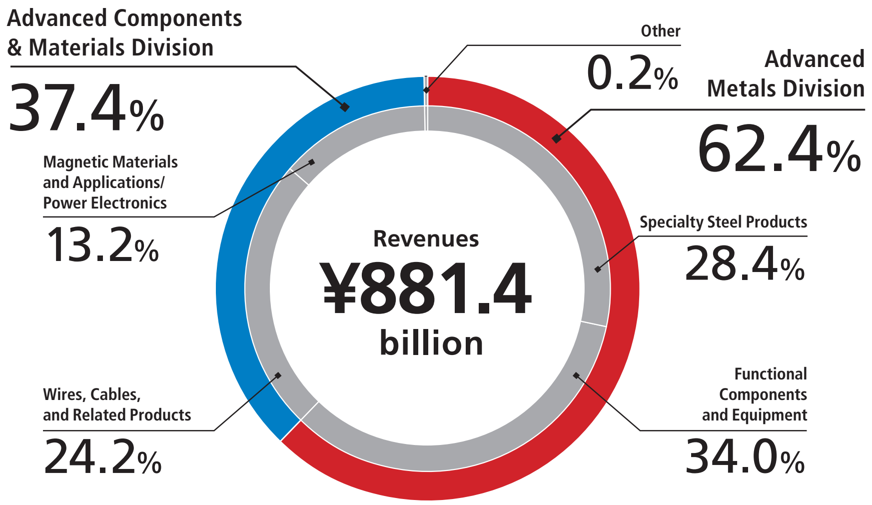
Number of employees receiving human rights-related training
7,022

+1,040

We regularly use e-learning to conduct human rights education and training for each level of employee to systematically raise awareness of human rights.

*5 Occupational accident frequency = Number of casualties due to occupational accidents ÷ Total actual working hours x 1,000,000 (calendar year)

Percentage of Fiscal 2019 Revenues by Segment*



Advanced Metals Division

Revenues
¥550.3 billion

Adjusted operating income
¥4.6 billion

Advanced Components & Materials Division

Revenues
¥330.1 billion

Adjusted operating income
¥8.1 billion

* As of April 1, 2019, soft magnetic and materials and applied products were transferred from the Specialty Steel Products segment to the Magnetic Materials and Applications segment, and the name of the Magnetic Materials and Applications segment was changed to the Magnetic Materials and Applications/Power Electronics segment.
* Division results are simple totals prior to eliminations for intersegment transactions.

Scope of Operations by Region in Fiscal 2019

Number of employees
29,805

-499

Overseas sales ratio
54%

-2 percentage points

Region	Revenues	Number of employees
Europe	¥44.5 billion	159
North America	¥245.3 billion	7,253
Japan	¥405.4 billion	13,778
China	¥63.4 billion	3,077
Other Asia	¥102.8 billion	5,538
Other	¥20.0 billion	—

Fiscal 2019 Performance Overview

Fiscal 2019 Performance

Revenues

Revenues declined 13.9% year on year, to ¥881.4 billion, due to several factors. These included a decrease in demand, particularly for our core products, the impact of falling raw material prices (price slide system), and structural reforms in the Functional Components and Equipment segment.

Adjusted operating income

Adjusted operating income fell ¥37.0 billion year on year, to ¥14.4 billion. Despite efforts to reduce fixed costs and the like, our performance was affected by contraction in the electronics and semiconductor-related markets, less demand for various types of manufacturing equipment and machine tools, and declining sales of new vehicles. We also significantly adjusted production to address declining demand and optimize inventories as part of measures to improve management efficiency.

Operating loss

In fiscal 2019, we reported an operating loss of ¥39.1 billion, an ¥81.6 billion decline compared with operating income in fiscal 2018. This was due primarily to a ¥42.6 billion impairment loss in the Magnetic Materials business (reported under "Other expenses") in the second quarter of the year, stemming mainly from changes in the business environment and our reassessment of the future profitability of the rare earth magnet business.

Performance by product category

Automobiles

Demand for many key products declined due to falling vehicle sales globally.

FA and robotics

Our performance was affected by ongoing weak demand for rare earth magnets and wire materials, as well as the absence of a recovery in demand.

Smartphones

We enjoyed an increase in sales of cladding materials.

Semiconductors

We completed customer-side inventory adjustments for both copper- and nickel-based materials, but no strong recovery occurred.

Measures implemented to improve management efficiency

Free cash flow

We reported free cash flow of ¥49.5 billion, up ¥79.2 billion from that of fiscal 2018. This was mainly due to a ¥34.9 billion year-on-year decline in inventories stemming from production adjustments, as well as investment restraint.

Reduction of fixed costs and others

We reduced fixed costs by ¥24.2 billion year on year.

Impact of COVID-19

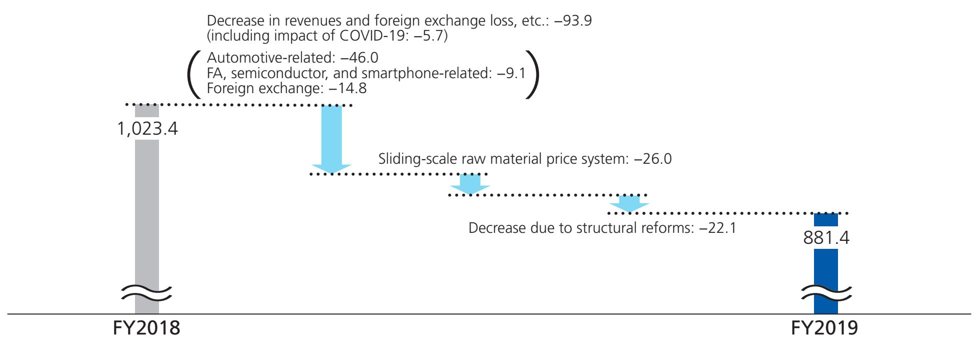
Despite a decrease in demand in our automotive businesses in China and North America, as well as a decline in capacity utilization at related manufacturing facilities, the overall impact of COVID-19 on fiscal 2019 results was limited.

Fiscal 2019 Results (Billions of yen, unless otherwise stated)

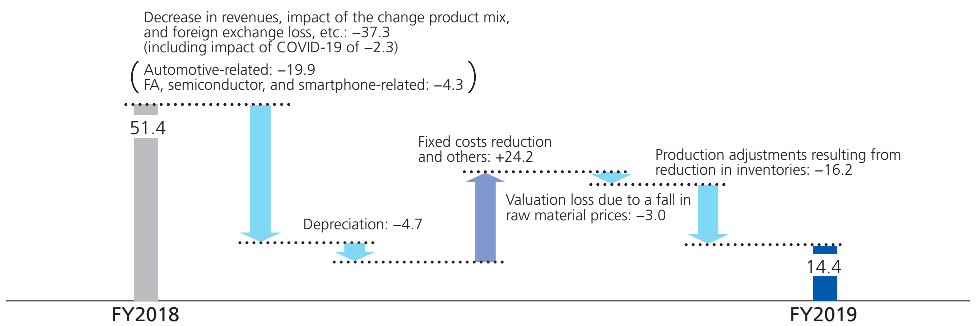
	FY2018 US$1 = ¥111	FY2019 US$1 = ¥109	YoY
Revenues	1,023.4	881.4	−13.9%
Adjusted operating income*1	51.4	14.4	−37.0
Adjusted operating margin (%)	5.0	1.6	−3.4
EBIT	45.3	(38.4)	−83.7
Net income (loss) attributable to shareholders of the parent company	31.4	(37.6)	−69.0
Total assets	1,099.3	977.8	−121.5
Equity attributable to shareholders of the parent company	588.0	520.3	−67.7
D/E ratio (times)	0.34	0.36	0.02
ROIC*2 (%)	5.3	1.7	−3.6
ROE (%)	5.5	−6.8	−12.3
CCC*3 (days)	90.7	87.1	−3.6
Overseas sales ratio (%)	56	54	−2
Operating cash flow	66.6	106.0	39.4
Investing cash flow	(96.3)	(56.5)	39.8
Capital expenditure	95.4	53.0	−42.4
Free cash flow	(29.7)	49.5	79.2
Depreciation and amortization	50.9	55.2	4.3
R&D expenses	18.6	15.9	−2.7

*1 Adjusted operating income = Revenues − Cost of sales − Selling, general and administrative expenses
*2 ROIC = Net income attributable to shareholders of the parent company ÷ (Average of beginning and end-year interest-bearing debt + Average of beginning and end-year equity attributable to shareholders of the parent company)
*3 CCC = Working capital (Trade receivables + Inventories − Trade payables) ÷ Average daily revenue

Factors Behind Increase/Decrease in Revenues (Year-on-Year) (Billions of yen)



Factors Behind Increase/Decrease in Adjusted Operating Income (Year-on-Year) (Billions of yen)



Fiscal 2020 forecasts

COVID-19 infections continue to spread, with enormous repercussions across the global economy. We expect the impact on our business to be more significant than it was in fiscal 2019, a reflection of severely stagnated demand in the automotive, electronics, and industrial infrastructure sectors, which are the Group's main business domains. In related business areas, we believe that the impact of COVID-19 will remain to some extent throughout fiscal 2020, although we will gradually begin to return to normal operations in the third quarter. We project that COVID-19 will have a ¥100 billion negative impact on revenues and a ¥40 billion negative impact on adjusted operating income in fiscal 2020.

Fiscal 2020 Performance Forecasts

(Assumed exchange rate: US$1=¥105)

	Disclosed forecast	Excluding impact of COVID-19
Revenues (Billions of yen)	750.0	850.0
Adjusted operating income (loss) (Billions of yen)	(5.0)	35.0
Adjusted operating margin (%)	−0.7	4.1
Income (loss) before income taxes (Billions of yen)	(15.0)	
Net income (loss) attributable to shareholders of the parent company (Billions of yen)	(12.0)	
ROIC	—	

Advanced Metals

Basic Policy of Fiscal 2021 Medium-Term Management Plan

Two issues remained unresolved at the completion of the Fiscal 2018 Medium-Term Management Plan: "Increased inventories" and "a delay in reaping the benefits of large-scale investments made at our domestic production sites." Our new Fiscal 2021 Medium-Term Management Plan recognizes these issues. Under the plan, we will generate synergies between businesses and engage in co-creation with customers with the aim of becoming the "No. 1 company in high-performance advanced metals."

Fiscal 2019 Performance

Specialty Steel Products

Sales of molds and tool steel decreased year on year, due to declining demand in international markets, especially China, as well as inventory adjustments, including ones in our domestic supply chain. Despite an increase in sales of rolls to Japanese customers, sales of injection molding machine parts decreased due to a sharp decline in demand in the third quarter of the fiscal year.

Sales of industrial equipment decreased year on year, reflecting a decline in demand for automobile-related products. Sales of aircraft- and energy-related materials increased due to rises in demand for those materials.

Despite increases in sales of organic EL panel-related components and clad materials for smartphones and batteries, overall sales of electronic materials decreased year on year, due to a decline in demand for semiconductor package components.

Adjusted operating income declined year on year, due primarily to decreasing demand for molds, tool steel, industrial materials, and other mainstay products, as well as falling prices of raw materials and a decline in work-in-process on the back of shrinking market demand.

Functional Components and Equipment

Sales of automotive castings declined year on year due to several factors, including an ongoing decline in demand for light trucks and passenger cars in North America. In addition, demand for castings for commercial vehicles, construction machinery, and agricultural machinery, which was relatively strong through the second quarter, declined from the third quarter, while demand in Asia was also down. Another factor was the spread of COVID-19 at the end of the fiscal year. Sales of heat-resistant exhaust castings decreased year on year, mainly reflecting a decline in sales of new vehicles and more meticulous order selections among customers seeking to improve earnings. Following a decision to withdraw from the aluminum wheel business, the Company sold a U.S. consolidated subsidiary that manufactured aluminum wheels in March 2019. We are also making progress, as planned, to end production in Japan by September 30, 2020.

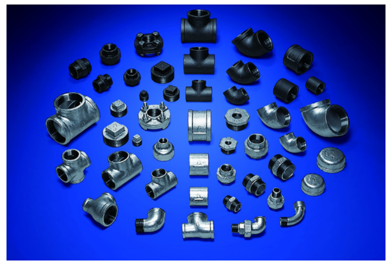
Among piping components, sales of pipe fittings to both domestic and international customers remained mostly unchanged year on year. Sales of semiconductor manufacturing equipment decreased year on year due to delays in some capital investment projects, resulting in a decline in overall sales of piping components.

Adjusted operating income declined due to several factors. These included falling demand for automotive castings in North America, a key market, ongoing sluggish sales of semiconductor-manufacturing equipment, and the suspension of operations by major customers in response to the COVID-19 outbreak.

		FY2019 results
Specialty steel products	Revenues	¥250.6 billion
	Adjusted operating income	¥5.5 billion
	Adjusted operating margin	2.2%
	ROIC	1.9%
Functional components and equipment	Revenues	¥299.7 billion
	Adjusted operating loss	¥0.9 billion
	Adjusted operating margin	–0.3%
	ROIC	—
Total*	Revenues	¥550.3 billion
	Adjusted operating income	¥4.6 billion
	Adjusted operating margin	0.8%
	ROIC	0.8%

*Simple sum before eliminating intersegment revenues


Clad materials


Castings and fittings

Advanced Components & Materials

Basic Policy of Fiscal 2021 Medium-Term Management Plan

Under our Fiscal 2021 Medium-Term Management Plan, we will work to address the megatrends of urbanization, the declining birthrate and aging population, serious environmental problems, and technological advances. Having identified key growth areas—automobiles, factory automation (FA) and robots, medical devices, and rolling stock—we will focus on "reaping the benefits of investments," "concentrating our resources," and "generating synergies between businesses."

Fiscal 2019 Performance

Magnetic Materials and Power Electronics

In magnetic materials, sales of rare earth magnets for industrial machinery-related applications were impacted by a sharp decline in demand for FA equipment and robots, while demand for automotive electronic components was also down. In addition, overall sales of magnetic materials including ferrite magnets declined year on year due to lower sales of automotive electronic components.

In power electronics materials, we reported an increase in sales of soft magnetic materials and their applied products for use in electrical vehicles. However, sales of amorphous metals for use in transformers and some components for consumer products declined. Meanwhile, we enjoyed an increase in demand for ceramics products for use in automotive electronic components and medical and security-related devices. As a result, overall sales of power electronics remained mostly unchanged from those of the previous year.

Adjusted operating income declined due to a decrease in demand for magnetic materials. We incurred an impairment loss in the magnetic materials business, stemming mainly from changes in the business environment and our reassessment of the future profitability of the rare earth magnet business. As a result, operating income declined year on year.

Wires, Cables, and Related Products

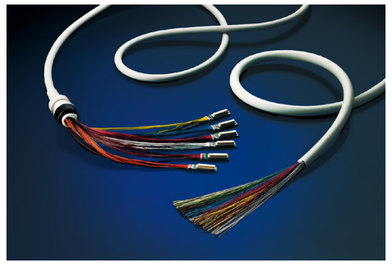
In this segment, we enjoyed an increase in sales of medical tubes and cables on the back of higher demand. However, sales of electric wires and cables for rolling stock decreased as large-scale projects entered the off-season, and sales of magnet wires decreased due to falling demand for both automotive and industrial applications. Demand for electric wires and cables for devices, mainly for FA/robot applications, also fell. As a result, overall sales of wires, cables, and related products decreased year on year.

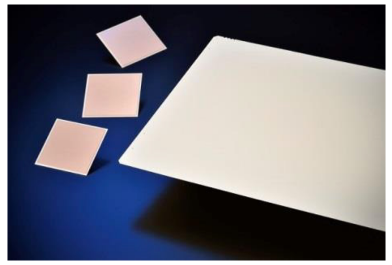
In automotive components, demand for both automotive electronic components and brake hoses decreased due to a decline in new vehicle unit sales globally.

Adjusted operating income decreased due mainly to lower demand.

		FY2019 results
Magnetic materials and power electronics	Revenues	¥116.8 billion
	Adjusted operating income	¥1.4 billion
	Adjusted operating margin	1.2%
	ROIC	0.9%
Wires, cables, and related products	Revenues	¥213.3 billion
	Adjusted operating income	¥6.7 billion
	Adjusted operating margin	3.1%
	ROIC	5.0%
Total*	Revenues	¥330.1 billion
	Adjusted operating income	¥8.1 billion
	Adjusted operating margin	2.5%
	ROIC	2.5%

*Simple sum before eliminating intersegment revenues


Medical cables and tubes


SiN substrates