

To Our Stakeholders



We will do our utmost to reform management under our new management structure.

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)

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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

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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-FTM 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.”

