Medium-Term Management Plan

Under the Fiscal 2021 Medium-Term Management Plan (fiscal 2019–fiscal 2021), setting fiscal 2021 (ending March 31, 2022) as the final fiscal year, the Group has embarked on various measures to “improve capital efficiency” and “concentrate resources on growth businesses.” However, business conditions changed dramatically due to the subsequent increase in trade-related tensions between the U.S. and China and the resulting economic slowdown in China, and a decline in the global economy stemming from the spread of COVID-19 since early 2020.

For these reasons, we undertook a review and announced a revised plan in October 2020. Under the revised plan, we will implement another round of cost structure reforms to improve our business performance at an early stage and transform our earnings foundation to secure resources for future growth investments.

Under the plan, we have positioned fiscal 2020–2021 as a preparatory period for future growth with the slogan “Set to Grow—Building strength to make the leap,” and we are targeting an adjusted operating margin of 8% and ROIC of 8% in fiscal 2022. To this end, we will reform our business structure by withdrawing unprofitable products and consolidating and eliminating business bases. We will also reform our cost structure by rigorously reducing costs and expenses and optimizing personnel expenses. In these ways, we will strive to transform and make our profit structure more resilient to demand fluctuations.

With respect to the Advanced Metals Division, in the Specialty Steel Products segment we will work to capture market recovery and reinforce our *monozukuri* capabilities in focused businesses, while in the Functional Components and Equipment segment we will work to improve profitability through business structure reforms (see page 14). Regarding the Advanced Components & Materials Division, in the Magnetic Materials and Applications/Power Electronics segment we will complete our plan to revitalize our magnetic materials business and expand our power electronics business. In the Wires, Cables, and Related Products segment, we will focus on expanding our business in five growth fields and improving profitability in core business fields (see page 15).

Reasons for Reviewing the Medium-Term Management Plan

Dramatic changes in business conditions due to the U.S.-China trade friction and COVID-19 since the Fiscal 2021 Medium-Term Management Plan was formulated and announced in April 2019

Further cost structure reforms are required for improving profits quickly.

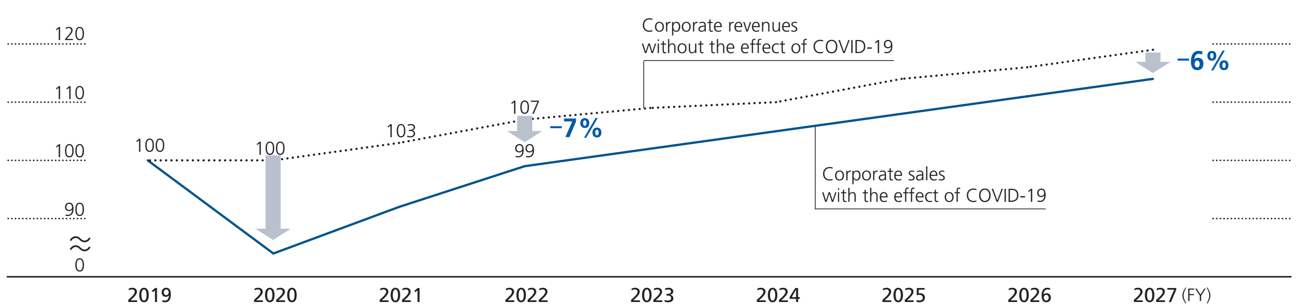
While “improvement of capital efficiency” and “concentration of resources into growth businesses” were listed, results have not been realized. Profitability has declined due to a decrease in revenues.

It is necessary to transform the profit base to secure investment funds for future growth.

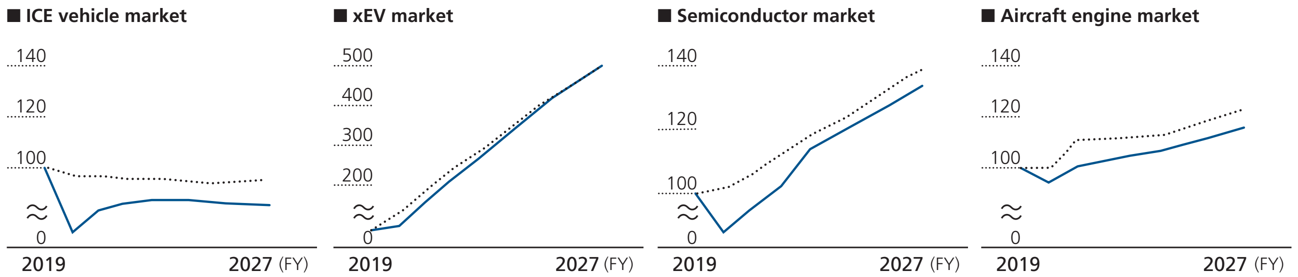
Estimated Impact of COVID-19

In comparison with our pre-COVID-19 assumption, we estimate the impact to be 7% in fiscal 2022 and remain in the 6%–7% range thereafter.

The effect of COVID-19 on corporate revenues forecast (relative value with FY2019 as 100)



Impact by major market (relative value with FY2019 as 100)



Note: The graphs are based on estimations by Hitachi Metals, Ltd. with reference to various sources.

Overview of Medium-Term Management Plan

FY2022 targets

Adjusted operating margin: 8%; ROIC: 8%

- Verify the impact of COVID-19 on each business
- Benchmark against competitors

- Build an earnings structure resilient to fluctuations in demand
- Lower break-even point by cutting costs

Build a business structure that can generate investment funds for future growth

Measures for cost structure reforms

Business structure reforms	Withdrawal of non-profitable products	Specialty Steel: Brass products, etc. (completed in March 2021) Functional Components and Equipment: Aluminum wheels (completed in September 2020)
	Consolidation and elimination of bases	Functional Components and Equipment: Closure and sale of Pennsylvania plant of Waupaca Foundry, Inc. (completed in February 2021) Integration of heat-resistant casting business into subsidiary (completed in April 2021)
Cost reduction Curtailment of expenses	• Yield improvement through *Monozukuri* Innovation Project and inventory optimization • Reduction of materials costs and expenses by leveraging corporate-wide horizontal functions • Curtailment of corporate expenses through workstyle reforms	
Optimization of human resource expenses	Optimization of workforce composition (natural attrition, optimization of temporary staff, implementation of early retirement recruitment)	

Advanced Metals

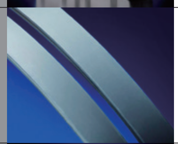
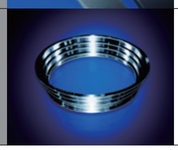
Specialty Steel Products

Capture market recovery and reinforce *monozukuri* capabilities in core businesses

In molds, tool steel, and industrial materials, we will improve cost competitiveness by strengthening the *monozukuri* capabilities of the Yasugi Works, our mother plant, and by shifting to high-value-added products. We will also establish a large-scale distribution base for molds and tool steel to improve the efficiency and service quality of distribution and processing. In aircraft- and energy-related materials, the spread of COVID-19 has delayed any recovery in demand. Nevertheless, we anticipate a recovery over the medium and long terms, and for this reason we will strive to acquire certification for aircraft engine components for new customers with a view to the timing of the market's recovery. In electronic materials, we will work to increase sales of products for growth markets, such as materials for organic EL panels and automotive batteries.

As for rolls, we will strive to maintain our domestic market share and expand sales in China, South Korea, the United States, and Europe.

Topics

Molds and tool steel		• Shift to high-value-added products • Improve efficiency and services by establishing large-scale logistics center
Industrial equipment materials		• Shift to high-value-added products
Aircraft- and energy-related materials		• Promote new customer certification activities related to aircraft engine components and materials
Electronic materials		• Significantly increase sales of display components to address the spread of organic EL panels
Rolls		• Launch new products and expand international sales (China, South Korea, U.S., EU)

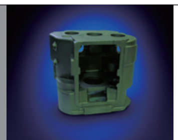
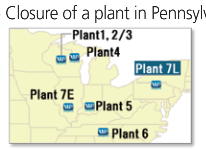
Functional Components and Equipment

Improve profitability through business structure reforms

In the Functional Components and Equipment segment, we are striving to improve profitability. To this end, we closed the Pennsylvania plant of Waupaca Foundry, which makes casting components for automobiles and other products, in August 2020. We will also make capital investments in horizontal molding equipment, automation, and other areas while reinforcing our business foundation by expanding heavy-duty fields, including those for commercial vehicles, construction machinery, agricultural machinery, and industrial equipment. As for castings components for automobiles, we terminated the production of aluminum wheels in September 2020.

Regarding heat-resistant casting components, we will strive to improve profitability by expanding applications for our new casting method and by promoting labor savings. For piping components, we will develop new products, such as pressure-type mass flow controllers, special alloy piping, and adsorption filters for water treatment, to improve profitability.

Topics

Waupaca	 	• Closure of a plant in Pennsylvania (Plant 7L)  • Capital investment in horizontal molding, automation, etc. • Expand the heavy-duty field (commercial vehicles, construction machinery, agricultural machinery, industrial equipment)
Automotive casting products		• Expand applications for new casting method for heat-resistant casting components and promote labor savings
Piping components		• Improve profitability by developing new products (pressure-type mass flow controllers, special alloy piping, and adsorption filters for water treatment)

Advanced Components & Materials

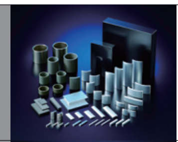
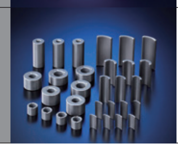
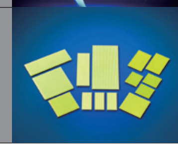
Magnetic Materials and Applications/Power Electronics

Complete plan to revitalize our magnetic materials and applications and expand our power electronics business

In the Magnetic Materials and Applications segment, we will implement our revitalization plan to consolidate and eliminate production bases while expanding overseas production to reduce manufacturing costs. Specifically, we will strengthen and expand our bases in China and the Philippines for producing rare earth magnets, and deploy our bases in South Korea and Indonesia for making ferrite magnets. In addition, we will develop saving technologies for heavy rare earth elements to construct low-cost processes.

In the Power Electronics segment, we will tap the xEV market with our FINEMET® Ribbons and Applications, and grow our business in scintillator materials for medical and security applications. We will also work to make SiN substrates, a new business, into our next growth pillar.

Topics

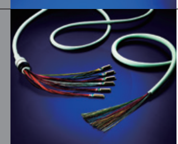
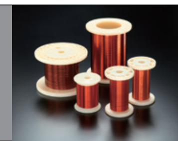
Rare earth magnets		• Reinforce production in China • Introduce low-cost processes to reduce manufacturing costs
Ferrite magnets		• Strengthen production in Indonesia and South Korea
Soft magnetic materials and their applied products		• FINEMET® Ribbon application: Cultivate the xEVmarket through technologies for high-frequency areas
Ceramics products		• Scintillator materials: Achieve growth in medical and security-related applications • SiN substrate: Make it a growth pillar in the age of xEVs

Wires, Cables, and Related Products

Extend business expansion in five growth fields and improve profitability in core fields

In the Wires, Cables, and Related Products segment, we will continue taking steps to strengthen and expand our business in five growth fields: railroads, medical devices, FA robots, magnet wire for xEV, and electronic components. In railroads, we will expand sales in China and Europe. In medical devices, we will expand our business in the catheter and endoscope markets. In FA robots, we will deploy refinement, weight reduction, and complexation technologies to differentiate ourselves from the competition. In magnet wire for xEV, we will focus on ensuring superiority through technology to cope with higher voltages. And in electronic components, we will expand our business, centered on electric parking brake harnesses, and reinforce our production operations in Thailand and Vietnam. Through these measures, we aim to raise the sales ratio of the five growth fields in the Wires, Cables, and Related Products segment from 42% in fiscal 2020 to 45% in fiscal 2022 and 51% in fiscal 2027. At the same time, we will continue working to improve the profitability of our core businesses by deploying our overseas manufacturing bases to reduce costs.

Topics

Rolling stock		• Promote sales in China and EU
Medical devices		• Expand business in the catheter and endoscope markets
FA robots		• Achieve differentiation through small-diameter, light-weight, and compounding technologies
Magnet wires for xEV		• Secure competitive advantage through high-voltage technology
Electronic components		• Achieve sustainable development by implementing global growth strategies
Core businesses		• Reduce costs by fully utilizing international manufacturers • Withdraw from low-profit products