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.

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Chief Financial Officer
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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

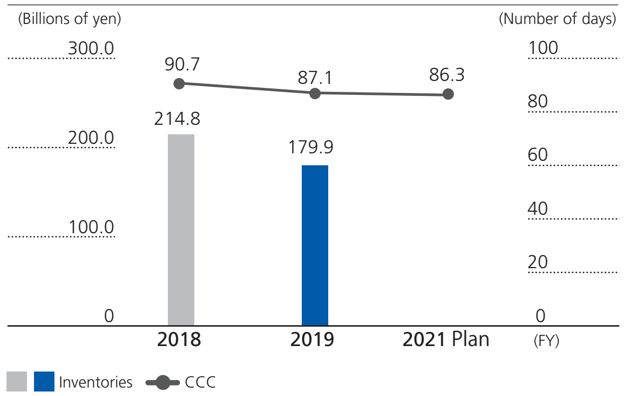
Increasing ROIC management effectiveness to raise capital efficiency

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.