October 29, 2019

To whom it may concern:

Company Name: Hitachi Metals, Ltd.
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Name of Parent Company: Hitachi, Ltd.
Name of Representative: Toshiaki Higashihara
Representative Executive Officer, President & CEO
(Code: 6501; Tokyo Stock Exchange, Nagoya Stock Exchange)

Notice Concerning the Recording of Impairment Losses, Revisions to Operating Forecast for the Year Ending March 31, 2020 and Revisions to Dividend Forecast

Hitachi Metals, Ltd. (hereinafter, “the Company”), hereby announces that it has posted impairment losses in the financial results for the six months ended September 30, 2019 (April 1, 2019 through September 30, 2019), which were released today, and that it has revised its consolidated operating forecast for the year ending March 31, 2020 (April 1, 2019 through March 31, 2020), which was released on July 26, 2019, as detailed below.
The Company also announces that it has resolved at its Board of Directors’ meeting held today to pay dividends from surplus with September 30, 2019 as the record date and that it has revised the year-end dividend forecast for the year ending March 31, 2020, as outlined below.

1. Recording of Impairment Losses

(1) Details

The Company posted impairment losses amounting to ¥42,581 million in other operating expenses for the magnetic materials and applications business as a whole during the six months ended September 30, 2019, which was due mainly to the changes in operating environment of the rare earth magnet business and the subsequent review of the expected future profitability of the magnetic materials and applications business.

(2) Background Behind the Recording of Impairment Losses and Future Outlook

The Company has positioned the magnetic materials and applications business as one of its core businesses in the xEV*1 era, and has worked to strengthen the business through aggressive research and development, improvement of manufacturing capabilities, establishment of a global business structure, and advanced capital investment.
At present, however, there has been a significant decline in demand in industrial fields such as FA and robots mainly for the rare earth magnet business, which is persisting longer than expected. In the automotive field, while use of xEVs has become widespread, cost is becoming more important. Although the Company has implemented various measures to strengthen its businesses as described above, the effects of these measures have not been fully and speedily demonstrated amid a rapidly changing business environment and intensifying competition. As a result, impairment losses were recorded due to a decline in expected profitability of the business compared with the prior fiscal year.
The Company is currently implementing structural reforms to make its magnetic materials and applications business more cost-competitive. In order to improve business efficiency, the Company has decided to close several sites and is considering integrating the remaining sites. In addition, the company will further strengthen our global structure centered on overseas manufacturing bases in China and the Philippines, and use Hitachi Metals’ proprietary technologies to further improve our manufacturing capabilities that balance quality improvement with cost competitiveness. Through these measures, the Company will revive the magnetic materials and applications business as soon as possible.

*1 xEV: A general term for electric vehicles (EVs), hybrid electric vehicles (HEVs), and plug-in hybrid electric vehicles (PHEVs).

2. Revisions to Consolidated Operating Forecast

(1) Revisions to Consolidated Operating Forecast for the Year Ending March 31, 2020
(April 1, 2019 through March 31, 2020)

	Revenues	Adjusted Operating Income*2	Income before Income Taxes	Net Income attributable to Shareholders of the Parent Company	Earnings per Share (Basic)
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A) (Released on July 26, 2019)	1,000,000	54,000	38,000	28,500	66.66
Revised forecast (B)	895,000	14,000	(43,500)	(47,000)	(109.92)
Difference (B)－(A)	(105,000)	(40,000)	(81,500)	(75,500)	—
Percentage change (%)	(10.5)	(74.1)	—	—	—
(Reference) Operating results for the previous fiscal year ended March 31, 2019	1,023,421	51,427	43,039	31,370	73.37

*2 In order to give a true view of the condition of the Group's business without the effects of business restructuring etc., the Group shows "adjusted operating income" which is the operating income excluding non-operating income and expenses, and extraordinary income and losses. Adjusted operating income is a unified profit indicator for the Hitachi Group, including Hitachi, Ltd.

(2) Reasons for the Revisions and Future Outlook

Currently, there are growing concerns over a slowdown in the future, mainly due to increasing trade disputes between the United States and China, the subsequent slowdown of the Chinese economy, and policy uncertainties in many countries.
Looking at the Company's business areas in particular, the deterioration in demand conditions in the automobile and FA / robot industries as well as the electronics field has become more severe and prolonged than expected at the beginning of the year. Thus, the revenues are going to be lower than our previous operating forecast for the year ending March 31, 2020, in order to mainly address a decrease in demand.
Additionally, the Company is making a major production adjustment in order to address a decrease in demand and to optimize inventories. Furthermore, a decline in raw material prices caused a valuation loss on inventories, and large capital expenditures up to the previous fiscal year weighed on profitability by increasing fixed costs. Therefore, the adjusted operating income is going to be significantly lower than our previous operating forecast for the year ending March 31, 2020.
In addition to the lower adjusted operating income comparing to our forecast, as described in "1. Recording of Impairment Losses," the Company posted impairment losses as other operating expenses during the six months ended September 30, 2019; so the income before income taxes and net income attributable to shareholders of the parent company are going to be significantly lower than our previous operating forecast for the year ending March 31, 2020.
Because of these reasons above, the Company has revised our previous operating forecast for the year ending March 31, 2020, including revenues, adjusted operating income, income before income taxes, and net income attributable to shareholders of the parent company.

The Company has embarked on a fundamental reform of its business structure in recognition of the fact that a significant decline in adjusted operating income and a net loss are likely to be recorded for the year ending March 31, 2020, which is a serious challenge to the Company's management structure with clawing back part of the compensation paid to directors and executive officers to define clearly the responsibilities of the business operation.
The Company will reduce fixed costs as an emergency measure for the current fiscal year. The Company also has a policy to reduce the number of employees in the Group as a whole in accordance with revenues and to furlough some work sites mainly at domestic locations. In addition, the Company will incentivize employees to use the early retirement system for managers and professionals (the timing for retirement is tentatively scheduled at the end of March 2020). In addition, we will carefully select capital expenditures and reduce them to 80% of the initial forecast. We will also proceed with the disposal of investments already made through early assessment of business strategies and future prospects. In addition, we will reduce R&D and repair costs that are not urgent and improve efficiency by promoting the *Monozukuri* Innovation Project. As a result of these measures, we will aim to reduce fixed costs by ¥18.5 billion from the previous fiscal year. In addition, we will accelerate the "selection and concentration" of our non-core, low-profit businesses by advancing the decision to sell them.

We are also working to improve cash flow and capital efficiency under our current Medium-Term Management Plan for the Fiscal Year 2021 (fiscal years 2019 to 2021). ROIC (return on invested capital) has been introduced as a management indicator, and appropriate management of invested capital has been strengthened as a company-wide project. As one of the measures, shortening CCC (working capital days) is being promoted. As a result of these efforts, while free cash flow had been negative for two consecutive years until the previous fiscal year, it is expected to turn positive in fiscal 2019 and then improve significantly.

In terms of reviewing the medium- to long-term our performances, we have recognized it had invited the significant drop of our profitability that we had not implemented the structural improvement on ordinary times and had invested aggressively encompassing our business pursuits. Thus, the Company is attempting to management reform at present; through enhancing communications between the Board and Executive Officers such as cooperating closely, they will share important business challenges speedily and organize a framework to be able to discuss functioning strategies. Also, the Company will launch the seven kinds of managerial innovation projects which will be handled by Executive Officers as leaders. The projects will have functions to quicken business solution, and facilitate and increase the transparency of the decision-making process; also the projects will enhance the business management by multiphasic KPIs. Specifically, the Company will take measures to reform its cost structure. Specifically, we will strengthen mutually-linked management and administration of key management resources, such as capital investment, inventories, manufacturing/R&D, and fixed costs, in order to maximize the “selection and concentration” of management resources and the reaping of positive effects in accordance with our Company-wide management strategy.

The Company will implement the urgent measures consistently to improve in the performance and accomplish the fundamental management reforms, including of corporate culture and management, and promote the management strategies which strengthen our forte “’Only 1, No. 1’ *Monozukuri* & Newly Developed Products,” which are based on the Medium-term Management Plan for Fiscal 2021.
In order to implement this strategy, we will aim to become a high-performance materials company supporting sustainable societies.

3. Revisions to Dividends from Surplus (Interim Dividends and Year-End Dividends)

(1) Dividends from Surplus with September 30, 2019 as the Record Date

	Determined amount	Most recent dividend forecast (released on July 26, 2019)	Previous fiscal year’s interim dividends (Year ended March 31, 2019)
Record date	September 30, 2019	September 30, 2019	September 30, 2018
Dividends per share	13.00 yen	17.00 yen	17.00 yen
Total dividends	5,558 million yen	—	7,269 million yen
Effective date	November 29, 2019	—	November 28, 2018
Source of dividends	Retained earnings	—	Retained earnings

(2) Revisions to Year-End Dividend Forecast for the Year Ending March 31, 2020

	Annual dividends		
	Interim dividends	Year-end dividends	Total
Previous forecast (released on July 26, 2019)	17.00 yen	17.00 yen	34.00 yen
Revised forecast		13.00 yen	26.00 yen
Current fiscal year’s dividends (Year ending March 31, 2020)	13.00 yen		
Previous fiscal year’s dividends (Year ended March 31, 2019)	17.00 yen	17.00 yen	34.00 yen

(3) Reasons for the Revisions

The Company’s basic dividend policy is to determine profit distributions to shareholders and internal reserves by comprehensively assessing the business environment, future business developments, and business performance. Management’s primary commitment is to generate robust growth over a medium- to long-term period, by enhancing the corporate value of the Company, to deliver appropriate returns of profits to shareholders over a long-term period in a business environment. The Company also strives to maintain a stable dividend with a target payout ratio of 30%.

With regard to the dividends from surplus for the year ending March 31, 2020, the Company has regrettably decided to reduce its interim dividends for the six months ended September 30, 2019 by ¥4.00 to ¥13.00 per share from the previous forecast of ¥17.00 per share, taking into account its operating forecast for the current fiscal year among other factors. The Company has also revised its year-end dividend forecast to ¥13.00 per share, down ¥4.00 from the previous forecast of ¥17.00 per share. As a result, the Company plans to pay annual dividends of ¥26.00 (down ¥8.00) per share for the year ending March 31, 2020.