



April 27, 2020

To whom it may concern:

Company Name: Hitachi Metals, Ltd.  
Name of Representative: Mitsuaki Nishiyama  
Chairperson  
(Code: 5486; First Section of the Tokyo Stock Exchange)  
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### **Misrepresentation of Test Results in the Inspection Reports with Respect to Certain Products of the Company and Its Subsidiaries**

Hitachi Metals, Ltd. (hereinafter, the “Company”) has recently initially discovered conduct including misrepresentation of test results in the inspection reports submitted to customers of some of the specialty steel products and the magnetic material products (ferrite magnets and rare earth magnets) manufactured by the Company and its subsidiaries. We hereby report as follows with respect to the facts currently known and the measures to be taken.

We sincerely apologize for the significant inconvenience we may have caused to our customers and other concerned parties.

We will promptly establish a special investigation committee comprising outside experts that will conduct a full investigation into the facts and root cause of this matter, and we will make every effort to prevent the recurrence of such matter and to regain our customers’ trust, including by conducting a thorough review of our quality assurance system and further enhancement of our compliance framework.

#### **1. Overview of the Conduct at Issue Regarding Specialty Steel Products.**

##### **(1) Overview of the Subject Products**

Specialty steel is a steel product containing special materials such as chromium and nickel and is mainly used as a material for processing jig and automobile components. As far as we are aware, 14 products (counted by product type) may have been affected by the conduct at issue, and these products have been delivered to approximately 30 customers.

##### **(2) Overview of the Conduct at Issue**

Following the information provided to the Company in January 2020 regarding potential improper conduct related to the specialty steel products manufactured at the Yasugi Plant, the Company initially discovered that there had been such conduct in part of the specialty steel business.

The principal conduct related to specialty steel products that we have initially discovered to date include, among others: misrepresentation of test results in the inspection reports submitted to the customers; and delivery of products that had been manufactured by processes different from those presented to the customers.

The Company is continuing its investigation to verify further details of such conduct.

## **2. Overview of the Conduct at Issue Regarding Magnetic Material Products**

### **(1) Overview of the Subject Products**

#### **A. Ferrite Magnets**

Ferrite magnets are products containing iron oxide as their main material and are mainly used in motors for automotive electric parts such as wipers and power windows, as well as in motors for home appliances such as air conditioners. As far as we are aware, approximately 580 products (counted by part number) may have been affected by the conduct at issue, and these products have been delivered to approximately 70 customers, including auto-parts manufacturers.

#### **B. Rare Earth Magnets**

Rare earth magnets are products containing rare earth (such as neodymium) as their main material and are mainly used in motors for automotive electric parts such as electrical power steering and in motors for factory automation and robots. As far as we are aware, with respect to ring type rare earth magnets, approximately 270 products (counted by part number) may have been affected by the conduct at issue, and these products have been delivered to approximately 50 customers, including auto-parts manufacturers. With respect to square type rare earth magnets, approximately 100 products (counted by part number) may have been affected by the conduct at issue, and these products have been delivered to approximately 20 customers, including auto-parts manufacturers.

### **(2) Overview of the Conduct at Issue**

#### **A. Ferrite Magnets**

During the course of investigation in response to the information provided to the Company regarding the specialty steel products, on March 20, 2020, the Company initially discovered that the test results were misrepresented in the inspection reports that had been submitted to the customers of some of the ferrite magnets manufactured at the Kumagaya Plant.

The principal conduct related to ferrite magnets includes misrepresentation of the measured values relating to magnetic properties (e.g. the Br value showing remanence, or the strength of magnetic force, and the Hc value showing coercivity), when the measured values obtained in the inspection tests during the manufacturing process did not fall within the specifications required for specific customers. Those values were modified in certain instances so that they fell within the required specifications, and then submitted to the customers.

The Company has engaged in further investigation into the facts since March 20, and initially discovered that there had also been similar conduct at NEOMAX KYUSHU Co., Ltd., one of the Company's subsidiaries, and the Company's overseas subsidiaries.

The Company is continuing its investigation to verify further details of such conduct.

#### **B. Rare Earth Magnets**

During the investigation carried out by the Company since March 20, 2020, the Company initially discovered that tests results were also misrepresented in the inspection reports that had been submitted to the customers of some of the rare earth magnets manufactured at the Kumagaya Plant, the Saga Plant and NEOMAX KINKI Co., Ltd., one of the Company's subsidiaries.

The principal conduct related to rare earth magnets that has been initially discovered includes: failure to carry out inspection of certain magnetic properties that was required in the manufacturing process, combined with misrepresentation of test results stated in the inspection reports as falling within the specifications required for specific customers; and misrepresentation of the measured values relating to magnetic properties, when the measured values obtained in the inspection tests during the manufacturing process did not fall within the required

specifications of the customers. In the latter instance, the measured values were modified in certain instances so that they fell within the required specifications and then submitted to the customers.

The Company is continuing its investigation to verify further details of such conduct.

### **3. Safety Implications, etc.**

The Company is currently not aware of any safety or performance issues caused by the conduct at issue. The Company is continuing its investigation in this regard.

### **4. Measures to Be Taken**

After initially discovering the conduct, the Company has individually informed the customers of the conduct at issue and has been discussing with them measures to address the issue. The Company will continue to make good-faith efforts in this regard. In addition, the Company will establish a special investigation committee comprising outside experts as of today, which will objectively investigate into the facts and root cause of the matter.

Concurrently, the Company will work towards regaining the trust of its customers by urgently implementing an adequate quality assurance system and, taking into account the results of the investigation by the committee, the Company will implement measures to prevent recurrence of the issue, including by further enhancing its compliance framework.

#### **Special Investigation Committee Members**

Chairperson	Mr. Toshihiko Itami (Advisor at Nagashima Ohno & Tsunematsu, ex-Superintending Prosecutor at Osaka High Public Prosecutors Office)
Committee member	Mr. Takayoshi Tao (Partner at Nagashima Ohno & Tsunematsu)
Committee member	Mr. Daisuke Fukamizu (Partner at Nagashima Ohno & Tsunematsu)

### **5. Impact on Business Performance**

The impact of this matter on the Company's business performance is currently unknown. We will duly disclose any information that needs to be disclosed with respect to the impact of the matter on the business performance.

In the press release "Notification Regarding the Announcement of Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (Postponement)" dated April 13, 2020, the Company disclosed that the announcement of financial results for the fiscal year ended March 31, 2020 is expected to be made from mid-May 2020 onwards. The Company does not expect that this matter will cause any further delay on the expected date of the announcement of these financial results.

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