Financial Management

1 Financial Policy

Hitachi Metals, Ltd. (the "Company") makes growth investments and delivers appropriate returns of profits to shareholders over a long-term period to generate sustainable long-term growth. Management maintains a financial policy that aims to ensure a healthy and firm financial platform.

The Company thus builds on the reach of its diverse and distinctive businesses across various industries to invest strategically and flexibly, and to enhance investment and financial efficiency as well as profitability. At the same time, the Company accords top priority to accelerating the cash generation cycle to ensure a balanced financial position.

2 Shareholder Returns Policy

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 strengthening international competitiveness and enhancing the corporate value of the Company, to deliver appropriate returns of profits to shareholders over a long-term period in a business environment with evolving customer needs, technology, and globalization.

The internal reserves are to be used for the development and commercialization of new materials, incubation of new businesses, and expansion and streamlining of competitive product lines by examining future business developments. The Company purchases treasury stock as appropriate to implement an agile capital policy in accordance with its needs, financial condition, stock price levels, and other factors.

Using this policy as a base, in fiscal 2018, the Company declared annual dividends of ¥34.00 per share (interim dividends of ¥17.00 per share and year-end dividends of ¥17.00 per share), taking into account business performance for the current fiscal year, future business developments and prospects, and shareholders' expectations for dividends in an integrated manner.

Moreover, management currently plans to pay annual dividends of ¥34.00 per share (interim dividends of ¥17.00 per share and year-end dividends of ¥17.00 per share) in fiscal 2019.

In the years ahead, the Company will endeavor to enhance earnings and profitability while deploying financial strategies to boost capital efficiency, thereby increasing shareholder value.

3 Funding

In principle, the Company covers funding for growth investments with operating cash flows generated during the normal course of business and liquid funds. For other financing on a larger scale, the Company implements reliable and flexible methods to minimize opportunity losses for growth, including accessing financial and capital markets.

In the fiscal year ended March 31, 2019, the Company issued unsecured corporate bonds of ¥40 billion in December 2018, and the funds raised were primarily used for capital expenditures and repayments of borrowings to strengthen the platform for further growth.

4 Liquidity

Liquidity is a key component of the Company's overall financial management policy. For short-term obligations that have maturities of 12 months or less, the Company maintains sufficient liquidity to flexibly address unforeseen circumstances.

As of March 31, 2019, total liquid funds of the Company stood at ¥41.1 billion.

5 Interest-Bearing Debt

As of March 31, 2019, interest-bearing debt stood at ¥202.1 billion, an increase of ¥41.3 billion from the previous year. Short-term interest-bearing debt was ¥83.1 billion and long-term interest-bearing debt was ¥119.0 billion. The debt-to-equity ratio rose by 0.05 percentage point from the previous year to 0.34 percentage point as of March 31, 2019.

6 Ratings

The Company recognizes that maintaining a high, stable credit rating is essential for its management goal of maintaining adequate liquidity and flexibility in its financing policies and to reduce financing costs. Each year, the Company acquires a credit rating for long-term corporate bonds from Rating and Investment Information, Inc., a major credit agency in Japan. As of March 31, 2019, the Company received the rating "A+" for its long-term corporate bonds and unsecured corporate bonds.

7 Cash Flows

The Company aims to generate cash by increasing operating income, enhancing the profit rate, and reducing working capital.

With respect to net working capital (accounts receivable, inventories, accounts payable, and advances received), the Company has set the "working capital turnover period" as a performance indicator for enhancing capital efficiency, and the Company is striving to shorten it.

The Company pays particular attention to managing and reducing inventories. To that end, the Company clarified responsibilities for each inventory category. While manufacturing departments and procurement divisions control materials, manufacturing departments and business divisions oversee manufactured products, including work-in-process and finished products. Domestic and overseas sales companies collaborate with business divisions to look after transit inventories. Thus, the Company maintains a structure to optimally control and reduce inventories in consideration of future trends over the medium to long term. The Group strives to further cut back on inventories by properly and promptly managing inventories, based on accurate consolidated revenue forecasts, with the aim of reducing the number of working capital turnover days.

The Company adopted a Group cash pooling system to help manage its own working capital and that of its subsidiaries. In principle, consolidated subsidiaries in Japan procure funds through this system, rather than taking on external debt. By consolidating surplus funds and debts across the Group, the Company has better positioned itself to become more financially efficient. Group companies in the U.S. and China also use this cash pooling system, through which funds are centrally managed to enhance financial efficiency.

8 Investment Efficiency

The Company invests flexibly in key businesses to drive sustainable growth. Activities include mergers and acquisitions, upgrading and streamlining of plants and equipment, increasing production capacity, establishing new bases, and investments in employee welfare benefits. In this context, the Company differentiates between regular and strategic investments by taking investment decisions, returns, and other factors into account.

The Company places emphasis on cash flow in formulating strategic investment proposals, making decisions by using the present value (i.e., net present value) based on the discounted cash flow method, rate of return on investment capital, and payback period.