Part 4

Foundation

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Message from the Chair of the Board of Directors

Kenichi Nishiie
Chair of the Board of Directors

First, I would like to sincerely apologize to shareholders and other stakeholders for the significant inconvenience and concern caused by an incident that we disclosed in April 2020. This was related to our discovery that test results for some specialty steel products and the magnetic material products (ferrite magnets and rare earth magnets) manufactured by Hitachi Metals, Ltd. and its subsidiaries were misrepresented in inspection reports submitted to customers. On April 27, 2020, the Group established a special investigation committee consisting of outside experts who are currently conducting an objective investigation of the facts and root cause of the matter. We also set up an internal task force to spearhead efforts to build an appropriate quality assurance system. At the same time, as a top priority issue, the Board of Directors is strengthening its advisory and oversight capabilities. Furthermore, the Company is working to ensure objectivity and fairness in its investigation of the facts and cause of the incident, as well as in the examination and implementation of measures to address the matter in light of those findings. As a result, the Company renewed its management structure. Specifically, the president, several other executive officers, and a director who was previously the president of the Company, resigned on May 31, 2020. Meanwhile, to expedite decision-making, Mitsuaki Nishiyama, who was appointed the Representative Executive Officer and Chairperson in April 2020, assumed the concurrent position of President and Chief Executive Officer on June 1, 2020, and a new executive officer joined the management team on the same day. Under the new management structure, we will thoroughly investigate the facts and causes of the matter to transform ourselves into a company that conducts business fairly and honestly. At the same time, we will continue working on reforms in all aspects of management, including corporate governance.

With respect to the Fiscal Year 2021 Medium-Term Management Plan—our medium- to long-term strategy aimed at achieving renewed growth globally—we are using our new management structure to strengthen our earning power and improve capital efficiency. Specifically, we will reform our portfolio, promote cost structure reform, and enhance sales capabilities. However, the Group faces an extremely uncertain business climate due to the spread of COVID-19 in various regions of the world, bringing political, economic, and social turmoil in its wake.

We believe that the role of the Board of Directors will become even more important in this business environment. An evaluation of the Board's effectiveness conducted in May 2020 revealed that the Board, assisted by, among others, the Audit Committee, engages in proper discussions on strategic direction from multiple perspectives and fully discusses important agenda items in advance. As a result, the Board as a whole is deemed to be functioning effectively. Nevertheless, we recognize that there is room for improvement in some areas. These include oversight processes for formulating and implementing medium- to long-term strategies and budgets, confirming the PDCA cycle when addressing management issues, and sharing information about the succession plan for the CEO and the plan for developing executive officer candidates. We will continue actively incorporating the wide-ranging knowledge and diverse perspectives of our Outside Directors to increase the effectiveness of the Board of Directors and provide comprehensive backup for renewed growth in the medium and long terms.

We will also strive to disclose high-quality information to our stakeholders in a timely manner and reflect in our corporate activities their objective evaluations and views of our management, obtained through constructive dialogue. Under our new management structure, we will work tirelessly on business reforms. At the same time, we will strive to improve the Group's business performance, which has been unstable for several years, while overcoming the difficult COVID-19 situation and reinforcing our corporate strengths.

Corporate Governance

■ Basic Views on Corporate Governance

The underlying basis for corporate governance at the Company is to ensure transparent, sound, and efficient management meet the needs of our stakeholders, and increase corporate value. We believe increasing corporate value to be one of our most important management challenges. Accordingly, it is imperative that we create an organizational structure in which management oversight and business operations function effectively and in balance. We also believe that timely, high-quality information disclosure contributes to the improvement of corporate governance. In pursuit of this philosophy, we go beyond simple financial disclosure, regularly publishing the details of individual business segments and medium-term management plans. We acknowledge that compliance is the linchpin of corporate governance. Nonetheless, our corporate activities go beyond mere compliance with laws and internal regulations, extending to the role we must fulfill as a member of society, based on respect for social ethics and morality. The Company established the Hitachi Metals Group Code of Conduct for actions that describe the above details as specific standards of conduct for its executives and employees.

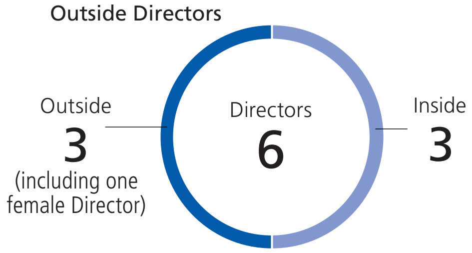
■ Overview of the Governance Structure

Organization System	
A Company with a nominating committee, etc.	
Directors	
Number of Directors stipulated in the Articles of Incorporation	10
Term of office of Directors stipulated in the Articles of Incorporation	One year
Chair of the Board of Directors	Other Director
Number of Directors	Six (including one female Director)
Outside Directors	
Number of Outside Directors	Three
Number of Outside Directors designated as Independent Directors	Three
Committees	
Composition of Committees	The Nominating Committee, Audit Committee, and Compensation Committee
Number of Committee members	Four members each on the Nominating Committee, Audit Committee, and Compensation Committee
Executive Officers	
Number of Executive Officers	10
Independent Directors	
Number of Independent Directors	Three

Measures aimed at the enhancement of corporate governance

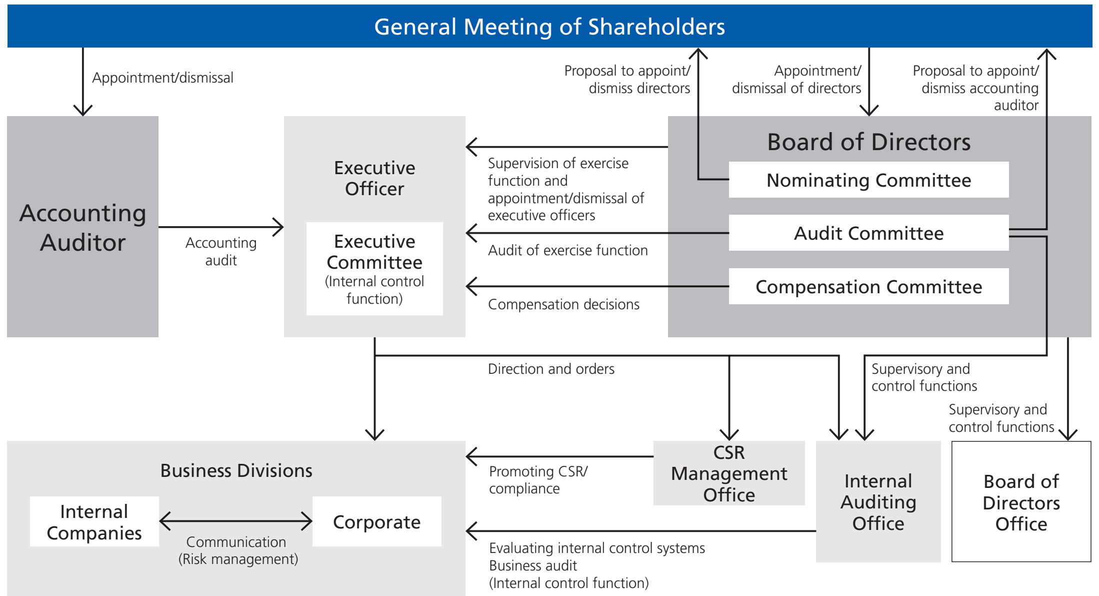
- Transition to a "company with a committee, etc.," as defined in the Commercial Code (June 2003)
- Increase in the number of Outside Directors serving as Independent Directors from two to three (June 2016)

Ratio of Inside Directors and Outside Directors



■ Overview of Corporate Governance System, etc.

Corporate Governance Structure



Membership composition of each committee and affiliations of chairs

Position	Name	Nominating Committee	Audit Committee	Compensation Committee
Director	Kenichi Nishiie		○	
Director	Makoto Uenoyama	○	◎	○
Director	Toshiko Oka	○	○	○
Director	Koichi Fukuo	◎	○	○
Director	Mitsuaki Nishiyama	○		◎
Director	Mamoru Morita			

Note: ◎ Chair ○ Committee member

The Company adopts the statutory organizational structure of a Company with a Nominating Committee, etc. This is because we concluded that this structure would contribute to the bold and speedy execution of measures relating to the Groupwide management, such as business restructuring and strategic investments, and also that the transparency, soundness, and efficiency of management would be effectively improved through strengthening the decision-making and supervisory functions by Outside Directors, who are well versed in social norms and have a broader perspective, abundant experience, and in-depth knowledge, in each of the Nominating Committee, the Audit Committee, the Compensation Committee, and the Board of Directors. Under this system, six Directors (of whom three are Outside Directors) have been appointed, and the Company has established the Board of Directors, Nominating Committee, Audit Committee, and Compensation Committee pursuant to the provisions of the Companies Act. Furthermore, the Company has established the Board of Directors Office to assist with the execution of duties by the Board of Directors and each Committee. The Board of Directors Office has persons in charge of the Board of Directors and each Committee.

The purpose of the Nominating Committee is to make decisions on matters relating to items concerning appointment and dismissal of Directors to be submitted at a General Meeting of Shareholders. The Committee is authorized to decide such matters as well as to designate persons to be entitled to convene a Board of Directors meeting and persons to report about the status of the Committee's execution of duties to the Board of Directors from among its Committee members.

The purposes of the Audit Committee are to audit the execution of duties by Directors and Executive Officers and resolve issues such as matters relating to items concerning appointment, dismissal, and non-reappointment of the Accounting Auditor to be submitted at a General Meeting of Shareholders, in order for the Company's business to be operated lawfully and properly. The Committee is authorized to resolve such issues as well as to conduct policies for determination to dismiss or not to reappoint the Accounting Auditor or nominate persons to be entitled to convene a Board of Directors meeting from among its Committee members. Moreover, under the Article 405 of the Companies Act of Japan, the Audit Committee is also authorized to appoint Committee members to be entitled to request reports about the business and matters relating execution of duties of the Company or its subsidiaries, and to investigate the status of their business operations and assets.

The purpose of the Compensation Committee is to determine the compensation and its details received by each Director and Executive Officer. The Committee is authorized to decide such matters as well as to determine policy on the determination of compensation and its details received by each Director and Executive Officer; also, it designates persons to be entitled to convene a Board of Directors meeting and persons to report about the status of the Committee's execution of duties to the Board of Directors from among its Committee members.

■ Directors' Skill Set

	Committees to which the Director belongs			Experience and Expertise								
	Nominating Committee	Audit Committee	Compensation Committee	Corporate Management	Manufacturing/ Technology/ Quality control	R&D	Sales/ Marketing	Accounting/ Finance/M&As	IT/ Digitalization	Legal affairs/ Risk management	Global management	Environment/ Society/Human resources
Kenichi Nishiie		○						○		○	○	○
Makoto Uenoyama Outside Director	○	Chair	○					○		○	○	
Toshiko Oka Outside Director	○	○	○	○				○		○	○	
Koichi Fukuo Outside Director	Chair	○	○	○	○	○	○				○	
Mitsuaki Nishiyama	○		Chair	○				○			○	
Mamoru Morita							○	○			○	

For nominations of candidates for the position of Director, to ensure the effectiveness of the management-supervision and decision-making functions of the Board, factors to be considered are the diversity in experience, expertise, etc., of the candidates, the composition ratio between Outside Directors and other Directors (Directors concurrently serving as Executive Officers and others), and other such matters.

■ The Audit Committee as an Audit Organization

The Audit Committee is composed of four committee members. The Audit Committee is in charge of auditing business execution by Directors or Executive Officers in accordance with laws and regulations or the Articles of Incorporation, the appropriateness of management's judgments, the adequacy of internal control systems, and accounting audit. The execution of duties by the Audit Committee is assisted by a person in charge of the Audit Committee at the Board of Directors Office. To ensure independence from Executive Officers, the person in charge of the Audit Committee does not concurrently serve in any position at any other business operating division. The Audit Committee formulates annual auditing policies and audit implementation plans, and performs audits based on said policies and plans by hearing reports on important items and having Audit Committee members visit each facility, etc., and each subsidiary to conduct audits as regular audits. In addition, the Audit Committee conducts special audits if it finds possibility of violations of laws and regulations or the Articles of Incorporation by the Directors or the Executive Officers.

Accounting Auditor

The Company's Accounting Auditor is Ernst & Young ShinNihon LLC. Audits have been continuously conducted for 52 years. The certified public accountants named in the table below conducted accounting audits. Under the direction of said certified public accountants, as necessary, certified public accountants, certified public accountant assistants, and other personnel from Ernst & Young ShinNihon LLC assisted with the execution of accounting audit duties. Nine certified public accountants and 29 other personnel assisted with the Company's accounting audit duties.

Name of certified public accountant, etc.	Auditing firm of certified public accountant
Takashi Ouchida, Engagement partner	Ernst & Young ShinNihon LLC
Teruyasu Omote, Engagement partner	Ernst & Young ShinNihon LLC

■ Matters Relating to Directors and Executive Officers

Functions and Roles of Directors

The items to be resolved by the Board of Directors are defined by the Board of Directors Rules. They consist of items that are solely to be decided by the Board of Directors under the Companies Act (decisions regarding basic management policies, basic policies related to the maintenance of internal control systems and other policies, appointment and dismissal of Executive Officers, appointment and dismissal of the Representative Executive Officer, etc.), as well as items concerning dividends from surplus, issuance of new shares and subscription rights to shares, the acquisition, loan, and disposal of assets in excess of a specified amount, debt guarantees, reorganization, etc. Decisions on items other than those mentioned above have been delegated to the Chairperson and Chief Executive Officer.

Outside Directors' Functions, Roles, and Their Relationship with the Company

Outside Directors act as members of the Board of Directors and members of the Nominating Committee, Audit Committee, and Compensation Committee. They possess extensive experience and advanced knowledge, are well versed in the general norms of society, and use their broad perspectives to contribute to the enhancement of decision-making and auditing functions, and efficiency of the Company's management.

The Company considers each Outside Director to be fully independent from the Company, and has registered all of these Directors with the Tokyo Stock Exchange as Independent Directors.

The Company has business dealings with the companies for which Mr. Makoto Uenoyama and Mr. Koichi Fukuo have formerly worked. However, the transaction amounts with these companies during fiscal 2019 are substantially less than 1% of the consolidated revenues of the Company and each of those. Therefore, their former employment status is deemed to have no impact on their independence as Outside Directors.

There are no items of note regarding Outside Director Toshiko Oka.

With respect to relationships between each Outside Director and the Company, the independence of each Outside Director is judged according to the Criteria for Independence of Outside Directors, mentioned below.

Business Execution System

Regarding business execution, the Board of Directors delegates a great deal of decision-making authority concerning business execution to Executive Officers to achieve prompt decision-making. The Company has established the Executive Committee to ensure that the Chairperson and Chief Executive Officer makes decisions on and executes business operations in compliance with laws and regulations and the Articles of Incorporation, as well as more efficiently. The Chairperson and Chief Executive Officer decides on important matters regarding the decision of the business delegated by the Board of Directors to the Chairperson and Chief Executive Officer after deliberation at the Executive Committee.

Also, the Company announced in "Misrepresentation of Test Results in the Inspection Reports with Respect to Certain Products of the Company and Its Subsidiaries," announced on April 27, 2020, that it discovered conduct including the misrepresentation of test results in the inspection reports submitted to customers of some specialty steel products and the magnetic material products (ferrite magnets and rare earth magnets) manufactured by the Company and its subsidiaries. The Company recognizes that misconduct related to quality, which should especially not occur at a company engaging in manufacturing, has occurred, and takes the fact that significant inconvenience may have been caused to customers and other concerned parties seriously. On April 27, 2020, the Company established a special investigation committee comprising outside experts. While this committee is objectively investigating the facts and root cause of the matter, the Company will work toward constructing an adequate quality assurance system under the leadership of an internal taskforce. In addition to the Company working on further transformation in all aspects of the management including organizational and administrative structures, multiple Executive Officers, including the President and one Director, who was previously President retired as of May 31, 2020 for the purpose of ensuring objectivity and fairness in the discussion and implementation of uncovering the facts related to the case and the cause of its occurrence, as well as preventive countermeasures concerning this matter. Furthermore, as a measure to expedite decision making, the Company transitioned to a new management structure effective June 1, 2020, under which the Chairperson and Chief Executive Officer will concurrently serve as President and work with new Executive Officers. Under this new management structure, we intend to be reborn as a company that conducts business with an open and honest attitude, and while taking exhaustive measures to explicate the particulars of the matter and the root cause, we will strive to reform the company in various aspects of management.

The Criteria for Independence of Outside Directors are provided in Article 15, Criteria for Independence of Outside Directors of the Corporate Governance Guidelines of Hitachi Metals, Ltd. The guidelines are posted on our corporate website (https://www.hitachi-metals.co.jp/e/ir/ir-csr.html).

Career and Meeting Attendance of Directors (as of June 23, 2020)

Note: Information regarding attendance at meetings held between June 2019 and May 2020 is provided.

Kenichi Nishiie
Director

Attendance at meetings
Board of Directors:
12/12 meetings
Audit Committee:
10/10 meetings

Apr 1979 Joined Hitachi Metals, Ltd.
Apr 2012 General Manager of Internal Auditing Office
Apr 2013 Deputy General Manager of Magnetic Materials Company and General Manager of Planning Dept.
Apr 2015 Representative Executive Officer, General Manager of Procurement Center and Corporate Export Regulation Office
Jan 2016 Representative Executive Officer, General Manager of Human Resources & General Administration Division, Procurement & Value Engineering for Customers Division and Corporate Export Regulation Office
Apr 2016 Vice President and Executive Officer, General Manager of Human Resources & General Administration Division and Procurement & Value Engineering for Customers Division
Apr 2017 Representative Executive Officer, Senior Vice President and Executive Officer and General Manager of Corporate Management Planning Division
Apr 2018 Representative Executive Officer, Senior Vice President and Executive Officer and General Manager of Corporate Management Planning Division and Group Company Auditing Office (resigned in March 2019)
Jun 2019 Director
Jun 2020 Chair of the Board of Directors (current position)

Reasons for appointment
The Company determined that Mr. Nishiie will contribute to the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness as a board member, by leveraging his abundant experience and in-depth knowledge in finance, accounting and other areas obtained as General Manager of the Audit Division, the head of Procurement, Human Resources & General Administration Division, and Corporate Management Planning Division of the Company, as well as his thorough knowledge in the Group's operations.

Makoto Uenoyama
Outside Director

Attendance at meetings
Board of Directors:
12/12 meetings
Nominating Committee:
5/5 meetings
Audit Committee:
10/10 meetings
Compensation Committee:
4/4 meetings

Apr 1975 Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)
Apr 2006 Executive Officer (in charge of Accounting)
Jun 2007 Director (in charge of Accounting and Finance)
Apr 2010 Managing Director (in charge of Accounting and Finance)
Jun 2012 Managing Executive Officer (resigned in March 2013)
Apr 2013 Corporate Adviser (resigned in March 2015)
Jun 2013 Outside Audit & Supervisory Board Member of SOHGO SECURITY SERVICES CO., LTD. (Standing Audit & Supervisory Board Member until June 2017) (current position)
Jun 2019 Outside Director of Hitachi Metals, Ltd. (current position)

Reasons for appointment
The Company determined that Mr. Uenoyama will contribute to the management of the Company as well as the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness, by reflecting his abundant experience and in-depth knowledge in finance and accounting areas obtained through his experience in the finance and accounting operations of Panasonic Corporation over the years as well as the experience as Director in charge of accounting and finance, from a more objective standpoint as Outside Director.

Toshiko Oka
Outside Director

Attendance at meetings
Board of Directors:
15/15 meetings
Nominating Committee:
7/7 meetings
Audit Committee:
13/13 meetings
Compensation Committee:
5/5 meetings

Apr 1986 Joined Tohmatsu Touche Ross Consulting Co., Ltd. (currently ABeam Consulting Ltd.)
Jul 2000 Joined Asahi Arthur Andersen Ltd.
Sep 2002 Principal of Deloitte Tohmatsu Consulting Co., Ltd. (currently ABeam Consulting Ltd.) (resigned in August 2012)
Apr 2005 President and Representative Director of ABeam M&A Consulting Ltd. (Chief Executive Officer of the company later reorganized and renamed as PricewaterhouseCoopers Deals Advisory LLC) (resigned in March 2016)
Jun 2008 Outside Director of Netyear Group Corporation (resigned in June 2016)
Jun 2014 Outside Audit & Supervisory Board Member of Astellas Pharma Inc. (resigned in June 2018)
Jun 2015 Outside Audit & Supervisory Board Member of HAPPINET CORPORATION (Outside Director since June 2019 (current position))
Apr 2016 Partner of PwC Advisory LLC (resigned in 2016)
Jun 2016 CEO of Oka & Company Ltd. (current position)
Outside Director of Hitachi Metals, Ltd. (current position)
Outside Director of Mitsubishi Corporation (resigned in June 2020)
Jun 2018 Outside Director of Sony Corporation (current position)
Jun 2020 Outside Director of ENEOS Holdings, Inc. (current position)

Reasons for appointment
The Company determined that Ms. Oka will contribute to the management of the Company as well as the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness, by reflecting her abundant experience and in-depth knowledge in corporate management and accounting and finance areas obtained through her consulting experience in M&A and the creation of management strategies over the years, as well as her experience as a corporate manager of a consulting firm and as an outside director of several companies, from a more objective standpoint as Outside Director.

Koichi Fukuo
Outside Director

Attendance at meetings
Board of Directors:
12/12 meetings
Nominating Committee:
5/5 meetings
Audit Committee:
10/10 meetings
Compensation Committee:
4/4 meetings

Apr 1978 Joined Honda Motor Co., Ltd.
Jun 2005 Operating Officer (in charge of quality and certification)
Jun 2010 Managing Officer
Apr 2014 Senior Managing Officer
Nov 2014 Executive Vice President and Director of Honda R&D Co., Ltd.
Apr 2015 President and Representative Director (resigned in March 2016)
Jun 2015 Senior Managing Officer and Director of Honda Motor Co., Ltd. (resigned in June 2016)
Jun 2018 Outside Director of Seven Bank, Ltd. (current position)
Jun 2019 Outside Director of Hitachi Metals, Ltd. (current position)

Reasons for appointment
The Company determined that Mr. Fukuo will contribute to the management of the Company as well as the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness, by reflecting his abundant experience and in-depth knowledge in the automobile industry, to which our products are mainly supplied, obtained as the head of quality and certification of Honda Motor Co., Ltd. and as a corporate manager of the company and its group companies, from a more objective standpoint as Outside Director.

Mitsuaki Nishiyama
Director

Attendance at meetings
Board of Directors: –
(Appointed in June 2020)

Apr 1979 Joined Hitachi, Ltd.
Apr 2008 General Manager of Finance Department I
Apr 2011 Executive Officer and CFO of Hitachi Cable, Ltd.
Jun 2012 Executive Officer, CFO, and Director
Apr 2013 Vice President and Executive Officer, CFO, CPO, and Director (resigned in June 2013)
Jul 2013 Vice President and Managing Officer, President of Cable Materials Company, and Deputy General Manager of Corporate Export Regulation Office of Hitachi Metals, Ltd.
Apr 2014 Vice President and Executive Officer, Chief Financial Officer, and General Manager of Finance Center, Human Resources & General Administration Center and Information Systems Center (resigned in March 2015)
Apr 2015 Vice President and Executive Officer of Hitachi, Ltd.
Jun 2015 Outside Director of Hitachi Transport System, Ltd. (resigned in June 2016)
Apr 2016 Representative Executive Officer, Senior Vice President and Executive Officer, and CFO of Hitachi, Ltd. (resigned in March 2020)
Apr 2020 Representative Executive Officer, Chairperson and Chief Executive Officer of Hitachi Metals, Ltd.
Jun 2020 Representative Executive Officer, Chairperson, President and Chief Executive Officer, General Manager of Advanced Metals Division and Director (current position)

Reasons for appointment
The Company determined that Mr. Nishiyama will contribute to the strengthening of the decision-making function of the Board of Directors and enhancing its effectiveness as a board member, by having him share information of business execution divisions with the Board of Directors and by leveraging his abundant experience and in-depth knowledge obtained as head of accounting division at Hitachi Ltd., as head of finance division and the Cable Materials business at the Company, and at the helm of executive management of the Company as Chairperson from April 2020 and Chairperson and President from June 2020.

Mamoru Morita
Director

Attendance at meetings
Board of Directors: –
(Appointed in June 2020)

Apr 1983 Joined Hitachi, Ltd.
Apr 2013 Board Director of Hitachi Industrial Equipment Systems Co., Ltd. (current position)
Apr 2015 General Manager of Strategy Planning Division of Hitachi, Ltd.
Director of Hitachi Asia Ltd. (resigned in March 2018)
Apr 2016 Vice President and Executive Officer of Hitachi, Ltd.
Director of Hitachi Research Institute (current position)
Apr 2019 Board Director of Hitachi Industrial Products, Ltd. (resigned in March 2020)
Jun 2019 Director of Hitachi Chemical Company, Ltd. (resigned in June 2020)
Apr 2020 Senior Vice President and Executive Officer of Hitachi, Ltd. (current position)
Director of Hitachi Global Life Solutions, Inc. (current position)
Jun 2020 Director of Hitachi Metals, Ltd. (current position)

Reasons for appointment
The Company determined that Mr. Morita will contribute to the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness, by having his abundant experience obtained as an executive manager at Hitachi Ltd. and its group companies and his in-depth knowledge related to management strategy reflected in the management of the Company.

Executive Officers (as of June 23, 2020)

Mitsuaki Nishiyama
Representative Executive Officer
Chairperson
President and CEO
Overall Management and Overall Operations
Chief Executive Officer
General Manager of Advanced Metals Division

Hiroaki Nishioka
Representative Executive Officer
Vice President and Executive Officer
In charge of Corporate Administration
Chief Financial Officer
General Manager of Finance Division
Deputy General Manager of Management Transformation Office

Naohiko Tamiya
Vice President and Executive Officer
In charge of Corporate Administration
General Manager of Human Resources & General Administration Division
Chief Risk Management Officer

Kazuya Murakami
Vice President and Executive Officer
In charge of Business and Technology
General Manager of Advanced Components & Materials Division
General Manager of Technology, Research & Development Division
Deputy General Manager of Corporate Export Regulation Office

Ryoichi Aita
Executive Officer
In charge of Technology and Corporate Administration
Chief Quality Officer

Shigekazu Suwabe
Executive Officer
In charge of Business
Deputy General Manager of Advanced Components & Materials Division
General Manager of Magnetic Materials Business Unit

Toru Taniguchi
Executive Officer
In charge of Business
Deputy General Manager of Advanced Metals Division
General Manager of Automotive Casting Business Unit
Deputy General Manager of Corporate Export Regulation Office

Hisaki Masuda
Executive Officer
In charge of Corporate Administration
General Manager of Corporate Management Planning Division
Deputy General Manager of Management Transformation Office

Kenji Minegishi
Executive Officer
In charge of Business
Deputy General Manager of Advanced Components & Materials Division
General Manager of Electric Wire & Cable Business Unit

Toru Yamamoto
Executive Officer
In charge of Sales
General Manager of Business Activity & Marketing Division

Analysis and Evaluation of the Effectiveness of the Board of Directors

The Company conducted a survey and individual interviews with Directors regarding the effectiveness of the Board of Directors in fiscal 2019. The main items on the survey included the composition of the Board, decision-making process, level of contributions, and operation and support systems.

At the Board of Directors meeting held in May 2020, the effectiveness of the Board of Directors was evaluated based on each Director's evaluations and opinions obtained from the survey and interviews. As a result, the Board of Directors has verified that effectiveness of the Board of Directors as a whole is ensured, as the strategic direction are discussed from various perspectives, and important agendas are also fully discussed in advance, including utilizing the Audit Committee.

On the other hand, the Company has recognized room for further improvement in discussion on the following matters:

1) Medium- to long-term strategy/budget formulation process and supervision process for its implementation,
2) Confirmation of PDCA cycle for implementation of management issues,
3) Provision of information to the Board of Directors regarding the CEO succession plan and executive officer candidate development plan, and
4) Management and support system (timely provision of necessary information).

We will use the above findings for operation of the Board of Directors to further enhance its effectiveness in the future. In addition, since the executive part is working to improve and strengthen the quality assurance system (policy, organization, operation, internal audit, etc.), we will closely monitor its response and progress.

■ Compensation for Directors and Executive Officers, etc.

(i) Details of the policy on the determination of the amounts of compensation, etc., for Directors and Executive Officers and the calculation methods thereof, and the determination method

The Compensation Committee, in accordance with the provisions of the Companies Act, sets forth the "Policies Concerning the Determination of Compensation, etc., for Directors and Executive Officers." The amounts of compensation, etc. for each Director and Executive Officer are determined by resolution of the Compensation Committee based on this policy.

The Policies Concerning the Determination of Compensation, etc., for Directors and Executive Officers state that "(a) Directors and Executive Officers assuming the management of the Company are compensated for executing management that enhances the Company's corporate value and benefits stakeholders such as shareholders by determining management policies from a long-term perspective, and formulating and executing medium-term management plans and annual business budgets; (b) To motivate Directors and Executive Officers to exercise their respective management capabilities, know-how, and skills to achieve satisfactory results, the compensation system shall reflect the Company's short-term and medium- to long-term business performance and appropriate compensation shall be paid for outstanding achievements; (c) Compensation paid by the Company consists of base compensation and a term-end bonus; and (d) To share interests with shareholders by holding treasury stock and thereby promote sustainable growth and the enhanced corporate value of the Company over the medium to long term, Directors and Executive Officers shall, as a general rule, contribute part of their compensation to the officers' shareholding association and acquire treasury stock until such stock reaches a certain number. The acquired stock shall be held continuously during the terms of office of Directors and Executive Officers and, as a general rule, one year after retiring from their posts." The policy on base compensation is that it is to be "Determined individually in consideration of the degree of responsibility for Company management as a Director and/or Executive Officer and for the performance of duties utilizing their extensive experience, knowledge, insight, and specialized management skills, etc., acquired from past experience. To secure appropriate human resources for the positions of Director and Executive Officer, compensation levels should be comparable to those of other companies." The policy on a term-end bonus is that it is to be "Linked to the business performance of the Company."

(ii) Total amount of compensation, etc. for each category of Directors or Executive Officers, total amount of compensation, etc. by type, and the number of Directors and Executive Officers who received compensation, etc.

Director/Executive Officer category	Total amount of compensation, etc. (millions of yen)	Total amount of compensation, etc., by type (millions of yen)		Number of Directors and Executive Officers who received compensation, etc.
		Base compensation	Term-end bonus	
Directors (excluding Outside Directors)	116	98	18	7
Executive Officers	381	314	67	13
Outside Directors and Officers	53	46	7	5

Notes: 1. Directors with concurrent post as Executive Officers are compensated as Executive Officers but not as Directors.
2. In order to clarify management responsibility in response to the significant decline in business results in fiscal 2019, full-time Directors and Executive Officers have repaid part of their executive compensation in the second half of fiscal 2019.

(iii) The policy on the determination of proportion of payments as performance-linked compensation and the other types of compensation, etc.

Compensation for Directors and Executive Officers of the Company is comprised of a base compensation, which is a fixed compensation, and a term-end bonus, which is a performance-linked compensation. For performance-linked compensation for Executive Officers, the standard amount is set in a way that the percentage of performance-linked compensation to the total amount of compensation falls within a range of the ratios specified below according to the ranks of each Executive Officer to strengthen to the link between the business performance of the Company, considering the degree of the responsibility of each Executive Officer for business execution. For performance-linked compensation for Directors, the standard amount is set in a way that the percentage of performance-linked compensation to the total amount of compensation falls within a range of ratios specified below in order for the Directors to fully execute the management-supervision function. Directors with a concurrent post as Executive Officers are paid a performance-linked compensation as Executive Officer, but are not paid a performance-linked compensation as Director.

Rank	Fixed compensation	Standard amount of performance-linked compensation	Total
Chairperson, President, and CEO	60%	40%	100%
Senior Vice President and Executive Officer, and Vice President and Executive Officer	67%–68%	32%–33%	
Executive Officer	70%	30%	
Director	86%–89%	11%–14%	

(iv) Indicators for performance-linked compensation and reasons for the selection of the indicators

The indicators for performance-linked compensation for fiscal 2019 are "revenues," "adjusted operating income," "return on invested capital (ROIC)," and "cash conversion cycle (CCC)" on a consolidated basis as we focus on growth, profitability, and management efficiency in the Fiscal Year 2021 Medium-Term Management Plan.

(v) Method for the determination of the amount of performance-linked compensation and target of the indicators for performance-linked compensation and actual results

The amount of a term-end bonus, which is a performance-linked compensation, to be paid to each Director and Executive Officer is calculated using the formula specified below based on the standard amount of performance-linked compensation set by rank. The Compensation Committee then discusses the results of calculation and finalizes them.

Amount of term-end bonus to be paid to each Director and Executive Officer = Standard amount of performance-linked compensation × ((Corporate performance factor*1 × Weight assigned for corporate performance factor) + (In-charge business factor*2 × Weight assigned for in-charge business factor) + (Individual target factor*2 × Weight assigned for individual target factor))

*1 The "corporate performance factor" is the sum of the degrees of achievement of corporate performance related indicators multiplied by the weight assigned for each indicator (0.3 for revenues, 0.4 for adjusted operating income, 0.15 for return on invested capital (ROIC) and 0.15 for cash conversion cycle (CCC)), where the degree of achievement of each corporate performance-related indictor is predetermined by the Company with a range from 0 to 2 so that the target for each indictor related to corporate performance is set as 1. The target and actual results of the "corporate performance factor" for the current fiscal year are as follows.

Index (consolidated)	Target	Actual results
Revenues	¥1,000.0 billion	¥881.4 billion
Adjusted operating income	¥54.0 billion	¥14.4 billion
Return on Invested Capital (ROIC)	3.5%	−0.5%
Cash Conversion Cycle (CCC)	84.2 days	87.1 days

*2 Each of the "in-charge business factor" and "individual target factor" is the sum of the degrees of achievement of the targets set for each Director and Executive Officer multiplied by the weight assigned for each target, where the degree of achievement of each target is predetermined by the Company with a range from 0 to 2 so that the target for each Director and Executive Officer is set as 1.

(vi) Name of the person with the authority to decide the compensation for Directors and Executive Officers, the details of such authority and the extent of its discretion, and an overview of the procedures of the Compensation Committee

As the Company is a company with nominating and other committees, it sets forth the policy on the determination of compensation, etc. for each Director and Executive Officer in the Compensation Committee, with a majority of the members being independent Outside Directors, and determines the amount of individual compensation based on the policy. In determining the compensation amounts, the Compensation Committee participates in a market survey on executive compensation each year and confirms that the compensation levels of the Company's Directors and Executive Officers are in an appropriate range compared to other companies of the similar size in Japan.

(vii) Activities of the Compensation Committee

During fiscal 2019, the Compensation Committee held a total of five meetings and determined a policy on the determination of compensation, etc., for Directors and Executive Officers, and details of their individual compensation based on the policy. In terms of the meeting attendance of the Committee members, Directors who had been in service during the fiscal year under review attended all meetings of the Compensation Committee held during their terms of office.

■ Relationship with the Parent Company

The Company is a member of the Hitachi Group, centered around Hitachi, Ltd., the parent company. The parent company and its listed subsidiaries share the goal of increasing the value of the Group as a whole by strengthening the competitiveness of each company. Listed subsidiaries benefit from participating in measures that enhance their management bases. With regard to the management of listed subsidiaries, the autonomous creativity of each company is respected, and the involvement of the parent company is limited, except for matters resolved at the General Meeting of Shareholders. Each company makes management decisions by following its own decision-making procedures. For this reason, regarding the relationship with Hitachi, Ltd., while the business operations and transactions of the Company are conducted autonomously and independently of Hitachi, Ltd. and its group companies, the Company has a close collaborative relationship with Hitachi, Ltd. and its group companies through joint research and development and other initiatives. Effectively using shared management resources, the Company aims to provide high-quality products and services.

As for personnel relationships with Hitachi, Ltd., one Executive Officer of that company also serves as Directors of the Company. By expressing opinions and voting at meetings of the Company's Board of Directors, Hitachi, Ltd. could influence management policies and other aspects of the Company. Nevertheless, the Company perceives that it is in a position to make independent management judgments, because it has appointed three Outside Directors who are designated as Independent Directors, based on the stipulations of the stock exchange on which the Company is listed, so that a wide variety of opinions can be reflected in the discussions of the Company's Board of Directors. No Executive Officers of the Company who perform executive duties are also Directors or Executive Officers of Hitachi, Ltd.

The Company also conducts a range of transactions with Hitachi, Ltd. based on the Hitachi Group's pooling system. These include borrowing and lending as well as other activities. The Company remains convinced, however, that its business activities are not significantly dependent on transactions with Hitachi, Ltd. The Company has adopted a policy that regulates transactions with Hitachi, Ltd. so that they are carried out in a fair manner, based on market prices.

■ Policies Concerning Holding Shares of Other Companies as Cross-Shareholdings

In principle, the Company shall not hold the shares of other companies as cross-shareholdings. The exception is if the Company believes these holdings contribute to the Company's corporate value. The Company would comprehensively take into consideration objectives of such holdings such as maintenance and strengthening of business relations, capital tie-ups, business alliances and joint development as well as associated returns and risks. The Company has been reducing such holdings through conducting an annual review of holding objectives by the Board of Directors on the significance of holding and the cost of capital of such individual stock from qualitative and quantitative aspects. For other policies on our strategic shareholdings, please refer to Article 7. Policies Concerning Holding Shares of Other Companies as Strategic Shareholdings in the Corporate Governance Guidelines.

As of March 31, 2020, the number of strategic shareholdings was 17. The number has decreased from 42 as of March 31, 2015, when the corporate governance code had yet to be implemented.

■ Internal Controls

Internal Audit Organization

The Company has the Internal Auditing Office (with nine dedicated staff members) that is in charge of internal audits. The Internal Auditing Office formulates annual audit policies and audit implementation plans for internal audits on the Group. Based on these policies and plans, the office conducts on-site audits on the status of execution of the Company's offices and subsidiaries in Japan and overseas and business management over the course of three years in principle and also collaborates with the Audit Committee and the Accounting Auditor to promote tripartite cooperation in tripartite audit function. In addition to these audits, a special audit may be conducted upon special request, etc. of the Chairperson and Chief Executive Officer. The Internal Auditing Office also reports to the Chairperson and Chief Executive Officer and the Audit Committee its audit implementation plans in advance, and reports the audit results mostly once in a month. In addition, the Internal Auditing Office holds an audit report meeting mostly once in a month to the person in charge of business at the respective business division and each department of the corporate division, and instructs those departments to implement improvements. If necessary, it also carries out on-site audits in collaboration with divisions in charge of the environment, safety, information system, and risk compliance within the Company.

Coordination in Internal Audits, Audits by the Audit Committee and Accounting Audits, and the Relationship of These Audits with the Internal Audit Division

The Audit Committee (a) receives explanations about audit implementation plans from the Accounting Auditor and makes a discussion on and adjustments to the details as needed, (b) receives reports on audit results and engages in an exchange of opinions with the Accounting Auditor, and (c) receives reports from the Accounting Auditor in cases where, as for the performance of duties by Executive Officers, they find any significant evidence of wrongful act or violation of related laws and regulations, or the Articles of Incorporation in the course of performing their duties. The Audit Committee also receives reports on audit implementation plans and periodic reports from the Internal Audit division. In addition, to promote coordination with audits performed by the Audit Committee, the Audit Committee may instruct the Internal Audit division to (a) conduct a special audit for any division that the Audit Committee deems necessary and (b) set key audit items for audits performed by the Internal Audit division. As specified by the Board of Directors, for matters required for the Audit Committee to execute its duties, the Internal Auditing Office of the Internal Audit division shall assist the Audit Committee in executing its duties in accordance with the Committee's instructions. Furthermore, the Internal Auditing Office is also in charge of assessment of internal control and reports the status to the Audit Committee. Moreover, besides the Internal Audit division, the corporate divisions, etc. in charge of finance, compliance, risks, and other areas also play certain roles in internal control and report the status of performance of their duties to the Audit Committee.

The Company regards "promotion of tripartite audit function" as a paramount theme for the audit and supervision functions. The Audit Committee, the Accounting Auditor, and the Internal Audit division mutually share information on issues detected by each of them, and the Company promotes a "mutual check and balance system and mutual evaluation," taking a step further from a one-way evaluation from the Company to the Accounting Auditor based on the evaluation standards for Accounting Auditors. Notably, the Company considers the function of detecting risks by the Accounting Auditor as an external agency is particularly important in the entire risk detecting process of the Group. To strengthen the said function, the mutual evaluation is implemented between the Accounting Auditor and the Company's finance division or the Internal Audit division or the Audit Committee, respectively. Specifically, based on the evaluation standards for accounting auditors defined by the Audit Committee, the Audit Committee performs a comprehensive evaluation considering the following major factors evaluated by the Company: the Accounting Auditor's communications with the Audit Committee, the senior management, the Internal Audit division and others; audit quality control system; audit plans; audit team; audit reports and quarterly review reports; and consistency between audit plans and audit hours as a basis of determining the amount of auditing compensation. The Accounting Auditor, on the other hand, evaluates basic operations of the finance division, the Internal Audit division, and the Audit Committee of the Company, handling of audit requirements, cooperation, risk recognition, activity status, resources and other factors, and reports the results to the relevant counterparties. The Company utilizes the above feedback to strengthen the Company's functions. In addition, the Company has started the mutual evaluation system between the finance divisions of the Company's facilities or subsidiaries and the Accounting Auditor.

■ Risk Management

With respect to risk management, each Executive Officer identifies and analyzes business risks including changes in political, economic, and social situations, currency fluctuations, rapid technological innovations, as well as changes in customer needs, examines measures against such risks, and reviews these measures whenever necessary through discussions at the Board of Directors, the Audit Committee, the Executive Committee, and other meeting bodies. In addition, each of the Group's sites has built a system to promptly share information that has become known regarding risks relating to compliance, antisocial forces, investment, finance, procurement, the environment, disasters, quality, information security, export control, legal affairs, etc., with each business division. Meanwhile, each corporate business division has prepared internal rules, guidelines, etc.; conducts education and enlightenment activities, preliminary checks, audits on business operations, etc.; and cooperates with the relevant business divisions to avoid, prevent, and manage risks. Furthermore, with regard to business continuity plans (BCPs), the Company has not only prepared the plans but also implements business continuity management (BCM) that periodically and continually improves BCPs in response to changes in the business structure or risks.

In fiscal 2019, the Group has been working on various measures such as developing and enhancing a teleworking environment to implement the ability to work from home with the aim of preventing the spread of the novel coronavirus disease (COVID-19). Moreover, the Company has been continuously conducting exercises for responding to the safety confirmation system in the event that a disaster occurs, and utilizes this system in the event of a disaster such as a large-scale typhoon.

As detailed under "(8) Risks associated with product quality (i) Effects of the misconduct at issue," the Group recently discovered misconduct including the misrepresentation of test results in the inspection reports of some products manufactured by the Company and its subsidiaries that were submitted to customers. The Company has established a special investigation committee comprising outside experts that is currently delving into the facts and causes of this misconduct. Concurrently with that investigation, under the leadership of an internal taskforce, the Company commenced revising the organization to ensure effective quality auditing and building an inspection system that prevents improper procedures from occurring by eliminating processes of human intervention, and the Company is working towards regaining the trust of its customers by implementing an adequate quality assurance system. Looking forward, when the investigation findings by the said committee are submitted, the Company will implement recurrence prevention measures such as further enhancing its compliance and quality assurance frameworks based on those findings.

The main risks that could possibly impact the management performance and financial status of the Hitachi Metals Group are as follows:

(1) Risks associated with product demand and market conditions

(i) Major potential risks by market segment

The Group conducts business in a wide range of market segments, including the automobile, industrial infrastructure, and electronics-related sectors. In addition, its businesses span many regions, including Japan, as well as the United States, China, the rest of Asia, and Europe. For these reasons, the Group's operating results and financial situation may be affected by trends in these markets and regions. Recently, in particular, in addition to "(ii) Impact of COVID-19," described below, the trade conflict between the United States and China, etc., may cause a global economic slowdown, which could affect demand for the Group's products. Presented below is a non-exhaustive list of the major potential risks, by market segment.

Automobile-related segment

- The Company offers a wide range of products in the automobile segment. The automobile industry is currently undergoing a period of transition from conventional internal combustion (engines) to electrification (xEV*). To meet market needs, the Group is reinforcing its manufacturing lines, expanding its product lineups, and taking other measures. However, if the shift to electrification (xEV) rapidly accelerates or is slower than expected, the operating results or financial situation of the Group may be affected.

*xEV refers to electric vehicles (EVs), hybrid electric vehicles (HEVs), and plug-in hybrid electric vehicles (PHEVs).

- With regard to molds and tool steel, manufacturers in China and emerging countries have been gaining power and are expected to enter the Japanese market. If competition intensifies, the operating results or financial situation of the Group may be affected. The Group is responding with efforts at differentiation from other companies, such as by launching high-performance products and strengthening its supply chain.

Industrial infrastructure segment

- Among aircraft and energy-related materials, the business for aircraft-related materials tends to depend on supplying specific customers and providing specific products. If demand in the aircraft industry slumps, the operating results or financial situation of the Group may be affected. The Group is responding by strengthening its business with engine manufacturers and introducing new next-generation products using specialized technologies.
- With regard to fittings for piping components, the Group mainly supplies products to gas-company customers. The liberalization of the gas industry is increasing competition, and if this competition further intensifies, the operating results or financial situation of the Group may be affected. The Group is responding with efforts at differentiation from other companies, including the early introduction of new types of fitting products.
- Regarding wires and cables, the Group is moving to local production of electric wires for rolling stock and is expanding its product lineup, etc., to increase business in the rolling stock segment, one of the Group's growth segments. If demand in the railway segment slumps—for instance, if China, the largest market, decreases its railway investments—the operating results or financial situation of the Group may be affected.

Electronics-related segment

While the Company offers a wide range of products in the electronics-related segment, customer needs and technologies in this segment are quickly changing. If rapid technological innovations occur and our response is delayed, the operating results or financial situation of the Group may be affected. In this regard, the Group is striving to respond promptly by grasping customer needs and technological innovations at an early stage, developing new products, and taking other measures.

(ii) Impact of COVID-19

The ongoing COVID-19 outbreak has lessened demand in the automobile, industrial infrastructure, and electronics-related segments, the core business areas of the Group. As a result, the Group's business is anticipated to be significantly more affected during fiscal 2020 than it was during fiscal 2019. With regard to the impact of COVID-19 on the business areas related to the Group, the Group anticipates that operations will gradually return to normal, starting in the third quarter of fiscal 2020. The Group also anticipates a certain level of impact on the results for the coming fiscal year. If the effects are greater or more prolonged than anticipated, the operating results or financial situation of the Group may be further affected.

The negative impact from COVID-19 for fiscal 2020 has been incorporated into the business results forecast: ¥100 billion for revenues and ¥40 billion for adjusted operating income.

(2) Risks associated with raw materials procurement

The Group utilizes a variety of raw materials in its production activities, including iron scrap and copper. These raw materials include many rare metals, which are produced in limited areas and by a limited number of suppliers. The prices of these raw materials vary greatly according to international supply and demand, as well as by the resource policies and other conditions in the producing countries. If the Group is unable to transfer high market prices to its sales prices in a timely manner, the operating results or financial situation of the Group may be affected. In addition, if the supply of these raw materials becomes tight or is delayed due to issues in the producing country, such as major natural disasters, strikes, a deterioration of the political situation, or a failure in its logistics capabilities, the Group could be prevented from acquiring the necessary volume of raw materials or obtaining these materials at a reasonable price. The Group is responding with efforts to reduce these risks by making procurement more stable by such measures as diversifying procurement sources.

(3) Risks associated with changes in foreign exchange rates

Since the Group imports raw materials from abroad and exports products manufactured in Japan overseas, fluctuations in exchange rates affect its transactions, assets, and liabilities denominated in foreign currencies. Although the Group strives to reduce the risk from exchange fluctuations in imports and exports denominated in foreign currencies through means such as foreign-exchange contracts and currency options, if a major change in exchange rates occurs, the operating results or financial situation of the Group may be affected. In this regard, the Group strives to reduce the risk from exchange fluctuations in imports and exports denominated in foreign currencies through means such as foreign-exchange contracts and currency options. In addition, when preparing its consolidated financial statements, the Group converts the financial statements of its overseas subsidiaries to yen, and fluctuations in exchange rates may affect the operating results or financial situation of the Group.

(4) Risks associated with the global expansion of businesses

To respond to the maturation of the Japanese market and the increase of customers overseas, the Group is expanding its businesses aggressively, including expanding into and exporting products to the United States, China, the rest of Asia, Europe, and other overseas markets.

To newly expand a business overseas requires the Group to make a large initial investment in manufacturing equipment and other capital, and, in most cases, substantial time is needed before operations commence. Developing a business overseas involves a number of inherent risks: (i) changes in laws and tax regulations; (ii) underdeveloped social systems and infrastructure; (iii) social turmoil, such as war, terrorism, riots, and the spread of infectious disease; and, (iv) other obstacles to overseas business activities caused by the economic, social, or political situation, such as trade-related tariffs, import restrictions, and protectionism. If these issues occur, they could form an obstacle to the Group's overseas business activities and may affect the operating results or financial situation of the Group.

(5) Risks associated with impairment losses on property, plant, equipment, and goodwill

To maintain and grow its businesses, and acquire new business opportunities, the Group must continuously make capital investments. In addition, it acquires the businesses of other companies and the like, as necessary. In particular, the Fiscal Year 2021 Medium-Term Management Plan indicates that the Group will make full use of the large-scale capital investment undertaken in its previous Medium-Term Management Plan and reap early effects. At the same time, when making new capital investment, the Group will implement selective capital investment that focuses on high-growth, high-revenue areas. In addition, the Group holds large amounts of fixed assets from previous capital investments and acquisitions of businesses from other companies, etc. Therefore, the Group could record an impairment loss on its current or future fixed assets, if it is unable to recover its investments due to changes in the external environment, etc. This may affect the operating results or financial situation of the Group.

(6) Risks associated with M&A

The Group may acquire other companies, establish joint ventures, form strategic partnerships, or take other such measures to develop new technologies and products in its business areas, become more competitive, or expand its business areas, etc. These measures include complex issues that require time and money for business operations and the incorporation of technologies, products, and personnel, and time may be required to achieve synergies. If such measures do not proceed according to plans, the initially anticipated effects may not be achieved. In addition, the effects of business partnerships may be adversely impacted by the decision-making and capabilities of the partner, which the Group cannot control, as well as by market trends. Furthermore, integration, restructuring of acquired businesses, post-acquisition operations, etc., related to these measures could incur large expenses for the Group and may affect its operating results or financial situation.

(7) Risks associated with business reorganization

The Group focuses its investment of management resources on businesses with high growth and high revenue, and continuously updates its portfolio through the sale, reorganization, restructuring, etc., of its businesses. These measures may not proceed as planned due to effects such as changes in the demand for a business that the Group is considering selling or adjustments to related stakeholder interests. Furthermore, temporary costs could result due to reorganization during the execution of such measures that may affect the operating results or financial condition of the Group.

(8) Risks associated with product quality

(i) Effects of the misconduct at issue

The Group discovered misconduct including the misrepresentation of test results in the inspection reports of some products manufactured by the Company and its subsidiaries that were submitted to customers. After discovering the misconduct, the Company informed the customers individually of the issue and has been discussing with them measures to address it. Although the effects in terms of product safety and performance arising from the misconduct are currently under investigation, there have been no customer demands for an immediate recall or replacement of products.

The Company has also established a special investigation committee comprising outside experts to objectively investigate the facts and causes of the matter, and the committee's investigation is ongoing.

Depending on the progress, the matter may affect the operating results or financial situation of the Group. Potential effects include a reduction in sales from a loss of trust in the Group's products; additional measures to be taken in response to the discovered misconduct; losses to be incurred including the costs of compensation to customers; and increased costs required to improve the quality control system.

(ii) Faulty or defective products

The Group's products include those requiring high credibility such as key safety components. The Group has established a strict quality control system for product manufacturing to prevent sending to the market any faulty or defective products or those that do not meet the specifications agreed on with customers. However, if faulty or defective products or those that do not meet the specifications agreed on with customers flow into the market and costs are incurred in the repair, replacement, recall, compensation for damages, or legal actions of the Group's products, the operating results or financial situation of the Group may be affected.

(9) Risks associated with financing activities

The Group's basic policy is to cover the funds needed to invest for growth with cash generated by businesses and cash on hand. However, to avoid missing growth opportunities, the Group also borrows from financial institutions and raises long-term financing from the capital markets. Therefore, if financing cannot be obtained under favorable terms due to a deterioration of the financial markets, if financing costs rise, or if it becomes infeasible to obtain funds flexibly due to a deterioration of the Group's performance, etc., the operating results or financial situation of the Group may be affected.

The Group strives to obtain stable financing through means such as concluding lending commitment agreements with financial institutions.

(10) Risks associated with securing talent

To stay competitive, the Group must continually secure the talented human resources needed to execute its businesses, but the pool of such talented human resources is limited. If the Group is unable to hire or retain such talent, or if the development of its human resources does not proceed according to plan, a shortage of the talent required to execute its businesses may result, thereby affecting the operating results or financial situation of the Group. The Group responds to this risk by striving to secure talent by restructuring its human resource system to enable diverse human resources to work actively at the Group and by promoting the development of talent by further enhancing and strengthening its human resource development program.

(11) Risks associated with the relationship with the parent company

As of March 31, 2020, Hitachi, Ltd., the Company's parent company, held 53.5% of the Company's voting shares (including a 0.5% indirect ownership rate) and has listed subsidiaries including the Company as well as a large number of affiliates in its corporate group. It carries out a wide range of business including the manufacture and sales of products and services across the fields of mobility, life, industry, energy, and IT. As of June 23, 2020, one of the six members of the Company's Board of Directors was concurrently serving as an Executive Officer of Hitachi, Ltd. The Company and Hitachi, Ltd. have ongoing transactions that include the trading of products and the provision of services, technology, and loans. It is the basic policy of the Company to participate actively in Hitachi, Ltd.'s operations within the Hitachi Group while maintaining the independence of its management, and to make maximum effective use of the Hitachi Group's R&D capabilities, brand, and other management resources among the Group. However, the Group's business development, etc., can be affected by the management strategies, etc., of Hitachi, Ltd.

(12) Risks associated with intellectual property rights

The Group holds a large number of intellectual property rights, exercises these rights, and grants licenses to other companies in accordance with its business strategy. Meanwhile, the Group respects the intellectual property rights of other companies and obtains their licenses when it is deemed necessary. If the exercise of rights or the granting or acquisition of licenses does not proceed as planned, the business execution or competitiveness of the Group could be affected. In addition, although the Group responds appropriately to legal action or other disputes relating to intellectual property rights by such means as coordination with outside attorneys or other experts, costs related to dispute settlements could be incurred and may affect the operating results or financial situation of the Group.

(13) Risks associated with competitiveness, and the development and commercialization of new technologies and products

Each of the Group's businesses has competitors that supply the same type of products as the Group. The markets for the Group's existing products may shrink due to changes in technology or the maturation of the market for some of the Group's products. As a result, the Group's competitiveness is affected by its competitive advantage in terms of price, quality, and delivery, and its ability to develop and commercialize new technologies and products. Consequently, an inability to respond appropriately to changes in technology or customer needs, and delays in developing or commercializing new technologies and products would have a negative impact on the Group's growth and revenue and may affect the operating results or financial situation of the Group. The Group responds to this risk by striving to develop and commercialize new technologies and products to maintain its competitive advantage and by doing its utmost to respond to changes in market conditions and customer needs by rapidly introducing new products to the market through co-creation with customers.

(14) Risks associated with environmental regulations

The customers with whom the Group transacts business are subject to environmental laws and a wide range of other regulations when they develop their businesses. These regulations have tended to become increasingly strict over time. In response, the Group may be forced to comply with regulations regarding the materials and parts it uses to manufacture its products and may incur costs in complying with customer demands. The Group's business is also subject to a wide range of environmental laws and regulations, as well as laws and regulations related to the Industrial Safety and Health Act, covering areas such as air pollution, water pollution, the use and handling of hazardous substances, rational use of energy, waste disposal, and soil and groundwater contamination. The Group has liability risks related to the environment and health and safety with respect to its past, present, and future business activities. Therefore, if the relevant laws and regulations become stricter and related costs are incurred, the operating results or financial situation of the Group may be affected. The Group strives to mitigate these environmental risks by complying with environmental laws and regulations within its environmental management structure, in accordance with the environmental management system ISO 14001:2015, and strives to identify and reduce the financial impact of environmental compliance.

(15) Risks associated with laws and regulations, and official regulations

The Group is subject to economic laws, related laws and regulations, and official regulations, including systems for commerce, trade, currency exchange, and taxation, in Japan and the countries where the Group does business. The Group strives to comply with these laws, regulations, and official regulations by maintaining and improving its internal control systems. However, if the Group is deemed to have violated such laws or regulations, it will be subject to administrative sanctions and could be held liable for compensation for damages in a civil lawsuit, etc., due to such violations. In addition, if these laws, regulations, or official regulations are amended, the cost of compliance could increase. Such administrative sanctions, compensation for damages, increases in compliance costs, etc., may affect the operating results or financial situation of the Group. The Group has responded to these risks by formulating the Hitachi Metals Group Code of Conduct, which stipulates rules and principles intended to assist officers and employees in making decisions and taking actions. This Code of Conduct was formulated to cultivate an awareness of compliance among all officers and employees and to ensure thorough legal compliance, and the Group is conducting its business activities based on the principle "obey the law and walk the path of virtue." Furthermore, the Hitachi Metals Global Compliance Program, which stipulates regulations for matters such as compliance with competition laws and bribery prevention, is in place at all companies throughout the Group. The Group prepares and distributes the CSR Guidebook to enhance understanding and works continuously to provide education through means such as training and e-learning.

(16) Risks associated with earthquakes and other natural disasters

The Group's business activities may be interrupted if its facilities are directly damaged or destroyed by an earthquake or other major natural disaster. Even if the Group's facilities are not affected directly, its distribution, supply, or communications network could be thrown into turmoil. Furthermore, an outbreak of a new strain of influenza or other unknown infectious disease could result in a disruption of the Group's business activities. Direct or indirect disruption of the execution of the Group's businesses due to such natural disasters or events could impede the Group's business activities and affect its operating results or financial situation. The Group responds to these risks by formulating a Business Continuity Plan (BCP) that accounts for major earthquakes and other disasters, and by continuously revising this plan and providing training on it. It has also established a safety confirmation system that verifies the safety of its employees and their families via the Internet, in the event of a disaster.

(17) Risks associated with information security

The usage and importance of information systems in the Group's business activities are increasing. Although the Group accordingly works to strengthen its information security, if external cyberattacks or other threats impede the functioning of these information systems, or if services from an external service provider are interrupted, the Group's business activities, operating results, or financial situation may be affected.

The Group retains and manages personal information obtained from its customers, as well as confidential information regarding the technologies, R&D, manufacturing, sales, and operating activities of the Group and its customers, in a variety of formats, including the use of external service providers. Although the Group manages this confidential information to ensure its protection, management may not function effectively due to an initially unforeseen situation. Therefore, if such information is disclosed without authorization, the Group may be held liable for compensation for damages or be exposed to legal action, which may affect the Group's operating results, financial situation, reputation, or trust.

The Group responds to these risks by taking security measures based on the severity and frequency of the risk, under the assumption that cyberattacks cannot be completely prevented. The scope of strengthening IT security has expanded from the office automation environment to the production and manufacturing floors, and the Group is enhancing its Information Security Committee system, including strengthening participation by relevant divisions, with goals that include responding to this increased scope. The Group has also acquired insurance against information leaks, including cyberattacks, which covers claims for compensation for damages in the event of an information leak.

(18) Risks associated with retirement benefit obligations

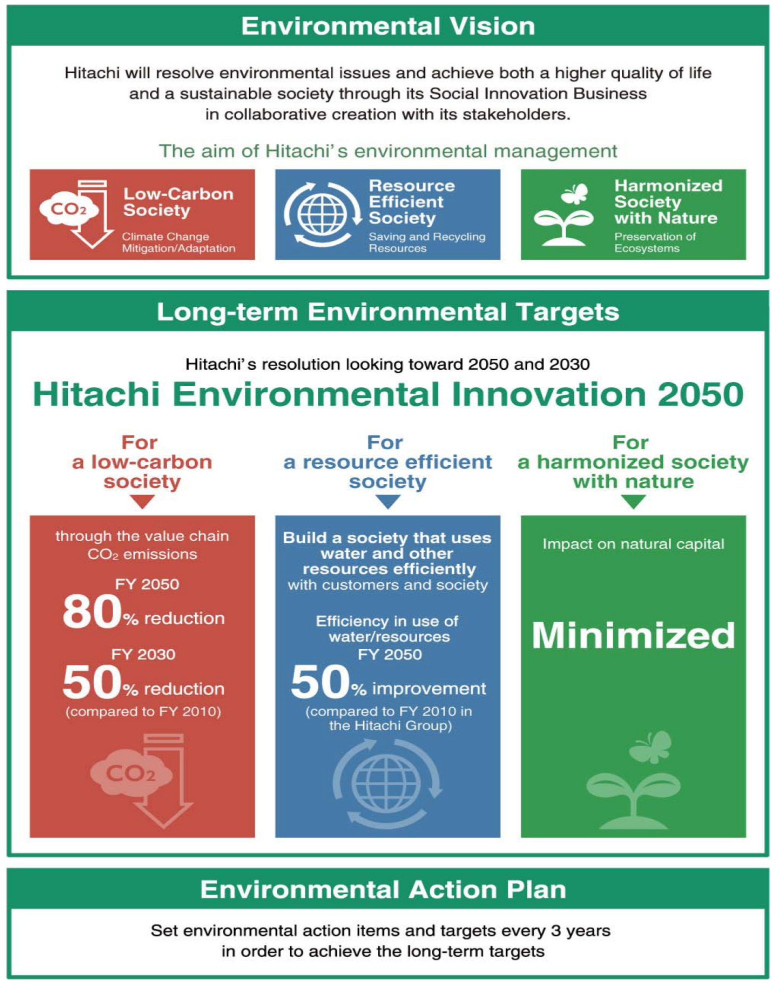
The Group bears large retirement benefit costs and obligations, which are determined by actuarial calculation. Evaluations of these costs include key assumptions on estimating pension costs, such as mortality rates, separation rates, retirement rates, changes in salary, discount rates, and expected rates of return on pension costs. The Group must estimate the major assumptions used in this assessment, taking into account many factors, such as the conditions of its workforce, current market conditions, and trends in future interest rates. Although we believe that the estimation of these major assumptions, based on underlying factors, is reasonable, there is no guarantee that the assumptions will match the actual results. Reductions in the discount rate will increase the actuarial retirement benefit obligations. For this reason, changes to the major assumptions may affect the operating results or financial situation of the Group.

Initiatives for Environment

Environmental Vision/Basic Environmental Policies

The Hitachi Metals Group promotes a low-carbon society, resource efficient society, and harmonized society with nature as the three key pillars of the Hitachi Group's Environmental Vision. We aim to realize both higher quality lifestyles and a sustainable society by resolving environmental issues through the social innovation business in collaboration with our stakeholders. In addition, we will fulfill our required role to achieve Hitachi's long-term environmental targets called Hitachi Environmental Innovation 2050.

The Hitachi Group's Environmental Vision



Hitachi Metals Group Basic Environmental Protection Policies

Philosophy
Hitachi Metals' Corporate Creed is to "contribute to society by being the best enterprise." In line with this, we regard it as crucial to ensure that humanity's shared environmental resources can be passed down to future generations in the best possible condition. Accordingly, throughout our operations we treat environmental considerations as an issue of the highest importance and strive actively to promote environmental protection efforts on both the global and local community levels.

Slogans
- With a deep awareness that environmental protection is a major issue for all humanity, fulfill social responsibilities by striving to establish a sustainable society in harmony with the environment regarding it as one of the essential aspects of corporate activity.
- Contribute to society by developing highly reliable technologies and products in response to needs for environmental protection and the limited natural resources.

Promotion Structure
To improve the functions of the environmental management structure and enhance environmental supervision, we established a Groupwide environmental management structure and administrative structure headed by the executive in charge of the environment. Through these entities, we are promoting environmental protection activities by establishing environmental standards and environmental impact reduction targets. We are also making continuous improvements by ensuring that our activities are appropriate and effective.

Hitachi Metals Group Action Plan

The Hitachi Metals Group advances activities based on three-year medium-term environmental plans.

The targets for the Medium-Term Environmental Plan for fiscal 2019 to fiscal 2021 are shown below. We conducted each activity in the plan to reduce our impact. During fiscal 2019, the impact of reduced production volume and other factors was greater than the effects of efforts to reduce the environmental impact. As such, we failed to meet the plan's targets for key environmentally conscious products and the improvement ratio of CO_2 emissions per production unit. However, we achieved the targets for the improvement ratios of waste generation per production unit and water usage per production unit.

The Topics section gives specific examples of activities that reduce the environmental impact.

Results of Fiscal 2019 initiatives and Fiscal 2021 plans

FY2019 initiatives (Planned)	FY2019 initiatives (Results)	FY2021 plans
• Conduct environmental education at the Head Office and each business office (ongoing)	• Conduct environmental auditor development training (twice)	• Conduct environmental auditor development training (once or more times)
• Increase the sales ratio of key environmentally conscious products (23%)	• Increase the sales ratio of key environmentally conscious products (20.2%)	• Increase the sales ratio of key environmentally conscious products (25%)
• Reduce CO_2 emissions per production unit (5% compared with base year FY2010)	• Reduce CO_2 emissions per production unit (1.4% compared with base year FY2010)	• Reduce CO_2 emissions per production unit (7% compared with base year FY2010)
• Improvement ratio of waste generation per production unit (12% compared with base year FY2010) • Waste landfill rate (14%)*	• Improvement ratio of waste generation per production unit (17% compared with base year FY2010) • Waste landfill rate (13.7%)	• Improvement ratio of waste generation per production unit (14% compared with base year FY2010) • Waste landfill rate (12%)
• Improvement ratio of water usage per production unit (22% compared with base year FY2010)	• Improvement ratio of water usage per production unit (22% compared with base year FY2010)	• Improvement ratio of water usage per production unit (26% compared with base year FY2010)

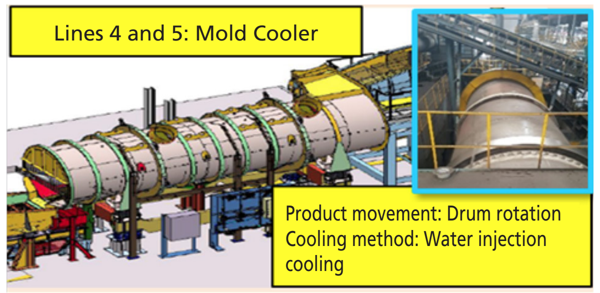
* Excludes household trash, hazardous waste, and waste landfilled on-site

Topics Initiatives to reduce CO_2 emissions

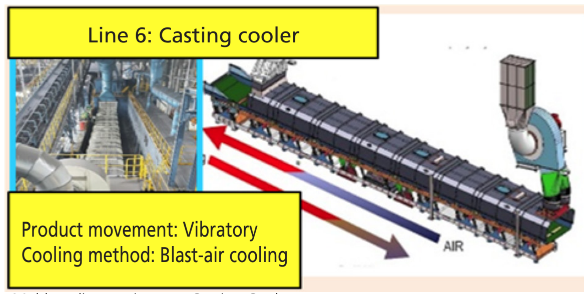
Energy-saving activities at the plant in South Korea

At Namyang Metals Co., Ltd. (Daegu), which mainly produces casting materials for automobile parts, the electricity for the induction furnaces that produce molten metal for casting accounts for more than 70% of the company's energy consumption. Namyang Metals is working continuously to make improvements, using such indicators as improvement of the annual operating ratio, improvement of the molten metal recovery rate, and reduction of the defect rate. As part of these efforts, in 2018, the company introduced new scrap preheating devices in five production lines. By using LPG, which is more energy efficient than electricity, scraps can be heated to the target temperature in a short time. In 2019, the company installed six new casting lines equipped with energy-efficient mold-cooling equipment (Casting Cooler), reducing energy costs by approximately 30%. The company has lowered the defect rate by changing the method of product movement from drum to vibration type, reducing collisions among products.


Scrap preheating equipment



Conventional mold-cooling equipment



Mold-cooling equipment: Casting Cooler

Health and Safety

Based on the view that "prioritizing safety and health above all else," the Hitachi Metals Group is pushing ahead the creation of safe workplaces at its manufacturing sites both in Japan and abroad, by instilling a culture of safety, creating safe organizations, and improving facilities to ensure fundamental safety. Additionally, we made the "Health Management Declaration" in June 2019, as we boost our creation of healthy workplaces throughout the Group.

Instilling a Culture of Safety

In the Group's aim to instill a culture of safety, we have held the "Town Hall Meeting" continuously since December 2018, where we communicate the policies and views on safety from the President and get feedback from the Group workplaces. In fiscal 2020, to obtain a wide range of opinions to reflect in our management policies, we will hold "Town Hall Meetings" in which executives take part.

■ Increasing sensitivity to danger through *monozukuri* practical safety training

We have installed equipment that gives employees a simulated experience of being caught in equipment, crushed by equipment, and electrically shocked at locations including our Kyushu Works and Okegawa Works, as well as the Suita Works of the Group company Hitachi Metals Neomaterial, Ltd., with the goal of making employees more sensitive to danger. We have launched a project to enhance our *monozukuri* practical safety training, and are moving forward plans for a "*monozukuri* practical safety training facility" to instill practical safety training throughout the Group, as well as to set the foundation for building a culture of safety. In fiscal 2020, we set up a new Safety Workshop at the Yasugi Works, where all employees undergo practical safety training. Our aim here is to foster personnel with a high level of safety awareness.

New Safety Workshop at Yasugi Works
The purpose of the workshop is to improve safety-related awareness among all employees.

Learning system that simulates being caught by rotating equipment
This system provides a firsthand experience of what it is like if fabric or strings are wrapped up in the rotating axis of machinery. Even a motor equivalent to a household electric fan can generate powerful pulling force when slowed down.

Virtual reality (VR) device
The device enables users to experience the hazards of various tasks virtually. Simulating occupational accidents helps increase employees' sensitivity to danger, leaving them with strong memories of their experiences.

Creating Safe Organizations

In April 2019, we newly created the Safety & Health Management Department, staffing up human resources in the safety division of the Human Resources & General Administration Division. The Health and Safety Promotion Department prepared the "Guidelines for Safe Organizations" defining such matters as the organizations and certified employees required at each business office in accordance with its head count and size. The Guidelines have been implemented since 2019.

■ Health and safety audits

In addition to confirming activities regarding the Hitachi Metals Group's key health and safety measures, as well as compliance with the Company's rules and related laws and regulations, we provide health and safety training to supervisors. In fiscal 2019, we started conducting health and safety audits of our business offices to confirm the status of key health and safety initiatives under our health and safety promotion plan, as well as the status of compliance with chemical-related laws and regulations. Drawing on recent accident-related trends, we also provided health and safety training to managers and supervisors that covered such topics as human error prevention and safety measures against someone being caught in spinning machinery or crushed by machinery.

Improving Facilities to Ensure Fundamental Safety

Our Fiscal Year 2021 Medium-Term Management Plan calls for investment of ¥2 billion per year on new safety-related construction with the aim of carrying out measures for improving facilities to ensure fundamental safety. In fiscal 2019, we invested ¥1.4 billion across the Group, with the top priority on safety measures against someone being caught in spinning machinery or crushed by machinery. In fiscal 2020, we will continue emphasizing such measures, while also conducting risk assessments aimed at implementing high-priority safety measures.

Health Management

The Group cares for the physical and mental health of its employees. For example, we conduct stress checks on all employees and take measures based on the results. We are also focused on creating a more dynamic working environment by eliminating overwork through workstyle reform.

We made the "Health Management Declaration" in June 2019. We regard our employees' health management as a management issue and reinforce health management measures Groupwide, advancing initiatives such as prevention of lifestyle diseases and supporting efforts to quit smoking.

In response to the COVID-19 pandemic, in January 2020, we set up a task force of representatives from our head office administrative division and our business divisions to ensure the speedy sharing of information. To eliminate the risk of infection, we limited overseas business travel, restricted domestic business travel at our head office and branches, and finally began curtailing office visits by employees and encouraging a shift to remote work. At the same time, we swiftly improved our personnel system for working from home and strengthened our IT environment.

Health Management Declaration

The Corporate Creed of Hitachi Metals, Ltd. is to contribute to society by being the "best enterprise."

The "best enterprise" is a company that "every employee is motivated to work at." In order to be a company where employees dynamically harness their abilities with smiling faces every day and are able to perceive their own growth, it is first essential that each employee be healthy.

Under the management policy that "Prioritizing safety and health above all else," we hereby declare that we will promote activities focused on employees' health, together with safety activities.

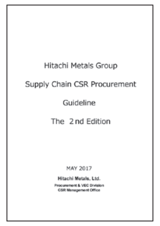
June 2019
Hitachi Metals, Ltd.

CSR-Conscious Procurement

The Hitachi Metals Group procures materials from suppliers in countries and regions around the world. Conscious of social responsibility and its impact, we have formulated our procurement policy with the aim of practicing fair and impartial procurement activities and, with the cooperation of many suppliers, engage in procurement that considers CSR.

Issuance of Hitachi Metals Group Supply Chain CSR Procurement Guideline

Hitachi Metals revised the Hitachi Metals Group Supply Chain CSR Procurement Guideline in May 2017 and published the revised version on its website. The Guideline encompasses a wide range of CSR concepts recognized as a company's social responsibility, including respect for human rights, consideration of the environment, fair trading and ethics, occupational health and safety, product quality and safety, information security, and social contributions. We distribute our CSR Procurement Guideline and checklist to major suppliers (excluding Hitachi Group companies) that account for 80% of the transaction amounts by business offices and affiliates in Japan, and confirm the compliance of each supplier. When a clear violation is discovered, a rule is put into place requiring correction. When starting a new business relationship, we request compliance with the Guideline, and, at the same time, we conduct corporate surveys on bribery risks based on the Hitachi Metals Global Compliance Program (HMGCP) to reinforce supplier reviews.



Hitachi Metals Group
Supply Chain CSR Procurement Guideline
The 2nd Edition, May 2017
Hitachi Metals, Ltd.
Procurement & VEC Division,
CSR Management Office

Response to Globalization

The Hitachi Metals Group strives to establish a global procurement network across Europe, North America, and Asia, while expanding its procurement base. We are working to support the optimization of procurement activities overall and reinforcement of *monozukuri*, while enhancing CSR risk management and increasing concentration and consolidation of purchasing across the Group. We have also set up Global Procurement Offices (GPOs) in four locations—Europe, the United States, Asia, and China—to seek excellent suppliers in order to carry out transparent procurement activities from optimal suppliers worldwide. In fiscal 2019, meanwhile, we launched a new measure to strengthen governance, under which the GPOs use procurement standards common to our overseas Group companies to periodically audit the operations of each overseas Group company.

To address the issue of conflict minerals, which has caused concerns about serious human rights violations, we are promoting "responsible mineral procurement" to make our supply chain more transparent, while conducting research to identify the countries where minerals originate and smelters. We request that our suppliers procure only from conflict-free smelters (CFSs)* and otherwise strive to practice responsible procurement.

* CFSs: Smelters certified "conflict free" by the Responsible Minerals Initiative (RMI)

Periodic Audits of Operations

Acquiring correct and legal knowledge of operations is indispensable during procurement transactions. We regularly assemble our procurement specialists at business offices for training about laws and regulations. Additionally, all offices and Group companies in Japan perform annual mutual audits of operations. The auditors are procurement managers from offices and Group companies, and executives from the Head Office. In fiscal 2019 as well, we performed mutual audits at all offices and Group companies to confirm that operations were being conducted in accordance with laws and regulations, as well as with Company regulations.

Green Procurement

In 1968, Hitachi Metals issued the "Green Procurement Guidelines" to share with our suppliers our views on environmental considerations, including the prevention of global warming, the recycling of resources, and the conservation of biodiversity and ecosystems. Since then, we have repeatedly revised these guidelines in response to the latest laws and chemical regulations and have notified our suppliers of those changes.

Procurement BCP Initiatives

We engage in procurement BCP activities as preparation against risks that could halt our business, including earthquakes, wind and flood damage, and other natural disasters, as well as new strains of influenza, fires, and power outages. We are working to minimize procurement risk by diversifying our sources of procurement, while asking our key suppliers to have their own BCP measures in place.

Respect for Human Rights

The Hitachi Metals Group stipulates respect for human rights in the Hitachi Metals Group Code of Conduct and the supplementary Hitachi Metals Group Human Rights Policy. Our basic stance is to respect and work to refrain from infringing on the rights of all persons involved in our business operations.

The Hitachi Metals Group Human Rights Policy in Practice

We formulated the Hitachi Metals Group Human Rights Policy in December 2013. This policy recognizes the human rights stated in the International Declaration of Human Rights and in the ILO (International Labour Organization) Declaration on Fundamental Principles and Rights at Work as the minimum levels of those rights. It clearly states that the Hitachi Metals Group pursues measures to observe the international principles of human rights. Specifically, we will implement human rights due diligence and appropriate education on the basis of the UN Guiding Principles on Business and Human Rights, together with strictly observing the laws of the regions and countries in which we do business.

Initiatives on Human Rights Due Diligence

Human rights due diligence refers to defining and assessing impacts on human rights, taking action to prevent and redress negative impacts, and continually validating the effects of that action. The Hitachi Metals Group will assess the actual and potential impact on human rights resulting from the business activities of the Company, our value chain, and develop countermeasures based on ranking human rights risks in terms of "seriousness" and the "likelihood of occurring."

We participate in human rights due diligence centered on Hitachi, Ltd. We study priorities and countermeasures, including assessments by the procurement division regarding the impact on human rights in our supply chain, and assessments by the human resources division regarding the impact on human rights of employees.

Human Rights Educational Activities and Harassment Prevention Efforts

We regularly use e-learning to conduct human rights education and training for each level of employee to systematically raise awareness of human rights (with 7,022 employees, on a consolidated basis, receiving human rights-related training in fiscal 2019). In addition, we established various harassment hotlines to incorporate the Hitachi Metals Group Human Rights Policy into all of our activities.

As our business activities expand rapidly on a global basis, we will enhance human rights awareness and support measures to prevent abuses of human rights based on differences of religion or nationality, the presence or absence of disabilities, gender, or other factors.

Financial Data

FY	2019 IFRS (Millions of yen)	2018 IFRS	2017 IFRS	2016 IFRS	2015 IFRS	2014 IFRS	2013 IFRS	2012 JGAAP	2011 JGAAP	2010 JGAAP	2019 IFRS Thousands of U.S. dollars (1USD=¥108.83)	2019 IFRS Thousands of Euros (1EUR=¥119.55)
For the period												
Operating results:												
Revenues	¥881,402	¥1,023,421	¥ 988,303	¥ 910,486	¥1,017,584	¥1,004,373	¥807,794	¥535,779	¥556,914	¥520,186	$ 8,098,888	€7,372,664
Cost of sales	755,947	851,029	803,607	731,153	819,433	793,517	637,081	440,684	—	—	6,946,127	6,323,271
Selling, general and administrative expenses	111,072	120,965	119,566	113,350	122,090	126,446	106,851	74,016	—	—	1,020,601	929,084
Adjusted operating income	14,383	51,427	65,130	65,983	76,061	84,410	—	—	—	—	132,160	120,309
Other income	8,599	10,667	5,401	14,070	36,416	21,303	5,844	—	—	—	79,013	71,928
Other expenses	62,108	19,652	24,205	11,786	12,523	21,306	16,278	—	—	—	570,688	519,515
Operating income	(39,126)	42,442	46,326	68,267	99,954	84,407	53,428	21,079	44,867	43,143	(359,515)	(327,277)
Income before income taxes	(40,614)	43,039	46,985	66,016	96,233	86,391	55,820	17,230	36,414	36,061	(373,188)	(339,724)
Net income attributable to shareholders of the parent company	(37,648)	31,370	42,210	50,593	69,056	70,569	48,133	12,955	17,886	22,204	(345,934)	(314,914)
Cash flows:												
Cash flows from operating activities	105,958	66,582	39,133	89,391	115,742	108,983	99,171	62,975	3,008	42,688	973,610	886,307
Free cash flows	49,540	(29,665)	(35,947)	53,527	83,595	(4,767)	89,339	34,257	(18,761)	18,081	455,205	414,387
Increase (decrease) in cash and cash equivalents	1,255	(13,814)	(84,499)	19,111	41,271	(7,443)	61,765	6,136	(6,028)	(9,645)	11,532	10,498
Capital expenditure	53,019	95,389	91,786	63,843	59,602	51,474	31,987	26,688	24,300	20,369	487,173	443,488
Depreciation and amortization	55,180	50,901	46,138	43,039	42,927	39,917	33,762	24,219	27,544	28,389	507,029	461,564
Research and development	15,918	18,604	17,749	17,971	19,121	20,903	16,814	11,076	12,153	12,224	146,265	133,149
At the end of the period:												
Total assets	¥977,766	¥1,099,252	¥1,058,832	¥1,040,390	¥1,033,311	¥1,083,450	¥848,772	¥541,286	¥579,862	¥529,869	$ 8,984,343	€8,178,720
Interest-bearing debt	187,586	202,098	160,844	194,457	220,376	255,350	177,195	145,935	169,232	149,822	1,723,661	1,569,101
Equity (net assets)	522,853	595,211	570,192	548,746	504,675	476,176	382,840	259,865	240,395	228,010	4,804,309	4,373,509
Number of shares outstanding (thousands of shares)	428,904	427,569	427,572	427,576	427,579	427,601	427,657	365,420	352,430	352,442	—	—
	Yen										U.S. dollars	Euros
Earnings per share*1	¥ (88.05)	¥ 73.37	¥ 98.72	¥ 118.32	¥ 161.50	¥ 165.02	¥ 116.79	¥ 36.20	¥ 50.75	¥ 63.00	$ (0.81)	€ (0.74)
Dividends per share	26.00	34.00	26.00	26.00	26.00	23.00	17.00	14.00	12.00	12.00	0.24	0.22
Net assets per share*2	1,216.92	1,375.16	1,316.08	1,254.89	1,159.70	1,090.64	870.36	684.96	625.04	591.51	11.18	10.18

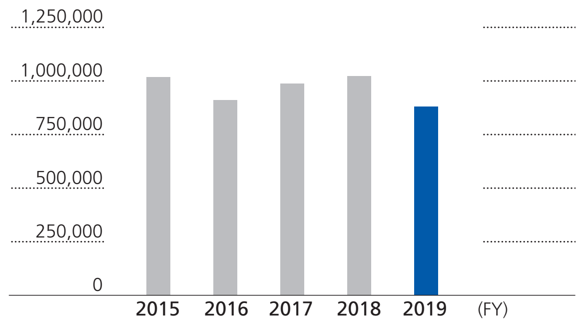
*1 Basic earnings per share
*2 Equity per share attributable to shareholders of the parent company

	2019 IFRS (Millions of yen)	2018 IFRS	2017 IFRS	2016 IFRS	2015 IFRS	2014 IFRS	2013 IFRS	2012 JGAAP	2011 JGAAP	2010 JGAAP	2019 IFRS Thousands of U.S. dollars	2019 IFRS Thousands of Euros
Reference information:												
Total market value of stocks	¥486,999	¥ 549,855	¥ 537,886	¥ 667,874	¥ 496,420	¥ 788,924	¥628,228	¥321,935	¥362,298	¥369,359	$ 4,474,855	€4,073,597
Enterprise value (EV)	632,232	710,855	643,818	722,920	596,496	965,245	712,512	433,768	503,564	485,187	5,809,349	5,288,427
EBITDA	16,634	96,116	94,864	111,299	141,644	128,212	90,979	42,818	65,390	65,723	152,844	139,138
EBITDA margin (%)	1.9	9.4	9.6	12.2	13.9	12.8	11.3	8.0	11.7	12.6	—	—
EV/EBITDA ratio (times)	38.01	7.40	6.79	6.50	4.21	7.53	7.83	10.13	7.70	7.38	—	—

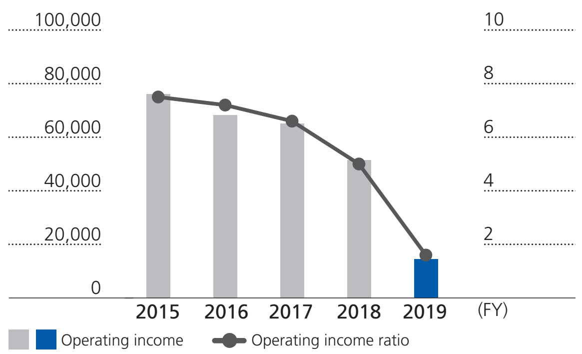
FY	2019 IFRS	2018 IFRS	2017 IFRS	2016 IFRS	2015 IFRS	2014 IFRS	2013 IFRS	2012 JGAAP	2011 JGAAP	2010 JGAAP
Key financial indicators:										
Operating income ratio (%)	–4.4	4.1	4.7	7.5	9.8	8.4	6.6	3.9	8.1	8.3
Operating cash flow margin (%)	12.0	6.5	4.0	9.8	11.4	10.9	12.3	11.8	0.5	8.2
ROS (%)	–4.3	3.1	4.3	5.6	6.8	7.0	6.0	2.4	3.2	4.3
ROA (%)	–3.9	4.0	4.5	6.4	9.1	8.9	8.0	3.1	6.6	6.9
ROIC (%)	1.7	5.3	5.8	7.0	9.6	11.1	6.8	3.2	7.2	7.2
ROE (%)	–6.8	5.5	7.7	9.8	14.4	16.8	15.6	5.5	8.3	11.0
Total assets turnover (times)	0.90	0.93	0.93	0.88	0.98	0.93	0.95	0.99	0.96	0.98
Ratio of equity attributable to shareholders of the parent company (%)	53.2	53.5	53.1	51.6	48.0	43.0	43.9	46.2	38.0	39.3
D/E ratio (times)	0.36	0.34	0.29	0.36	0.44	0.55	0.48	0.58	0.77	0.72
Ratio of operating cash flow to debt (times)	1.77	3.04	4.11	2.18	1.90	2.34	1.79	2.32	56.26	3.51

Notes:
1. The Company has adopted the International Financial Reporting Standards (IFRS) for the Consolidated Financial Statements in the Annual Securities Report since the fiscal year ended March 31, 2015.
2. The translation of Japanese yen amounts into U.S. dollars and euros for the year ended March 31, 2020, has been made at the rates of ¥108.83=$1 and ¥119.55=€1, the exchange rates as of March 31, 2020.
3. Diluted earnings per share is not provided as Hitachi Metals, Ltd. had no dilutive common stock outstanding.
4. Interest-bearing debt represents the total of short-term debt, long-term debt and corporate bonds.
5. Earnings per share is calculated by dividing net income attributable to shareholders of the parent company (net income) by the average number of shares issued during the term, and equity per share attributable to shareholders of the parent company is calculated by dividing equity, which is total equity minus non-controlling interests/minority interests, by the number of shares outstanding at the end of the period.
6. EV represents the sum of total market value of stocks and net interest-bearing debt.
7. EBITDA refers to income before income taxes before deducting interest charges, depreciation and amortization.
8. EBITDA margin refers to EBITDA divided by revenues.
9. ROS refers to net income attributable to shareholders of the parent company divided by revenues.
10. ROA is computed as the income before income taxes divided by the average total assets (the average of the beginning and ending balance of the year).
11. ROIC is computed as the net income attributable to shareholders of the parent company divided by the sum of the average total interest-bearing debt (the average of the beginning and ending balance of the year) and the average total equity attributable to shareholders of the parent company (the average of the beginning and ending balance of the year).
12. Rate of ROIC [until FY2017] = Net income attributable to shareholders of the parent company / (average of beginning and end-year interest-bearing debts + average of beginning and end-year equity attributable to shareholders of the parent company)
Rate of ROIC [from FY2018] = [Adjusted operating income × (1 − tax rate of 25%) + (equity in earnings affiliates)] / (average of beginning and end-year interest-bearing debts + average of beginning and end-year capital)
13. ROE is computed as the net income attributable to shareholders of the parent company divided by the average total equity excluding non-controlling interests/minority interests (the average of the beginning and ending balance of the year).
14. On July 1, 2013, the Company merged with Hitachi Cable, Ltd. On November 10, 2014, the Company acquired all shares of Waupaca Foundry Holdings, Inc., which held a 100% stake in Waupaca Foundry, Inc., making both companies its consolidated subsidiaries.

Revenues

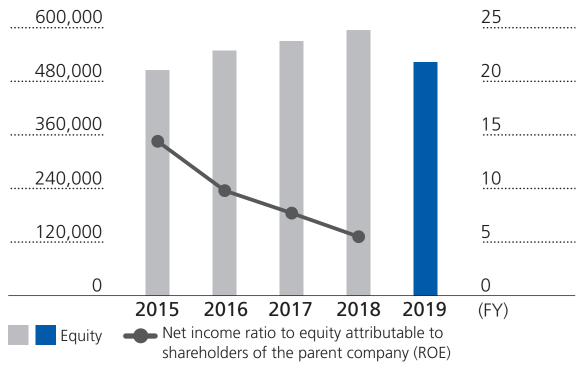


Operating Income/Operating Income Ratio

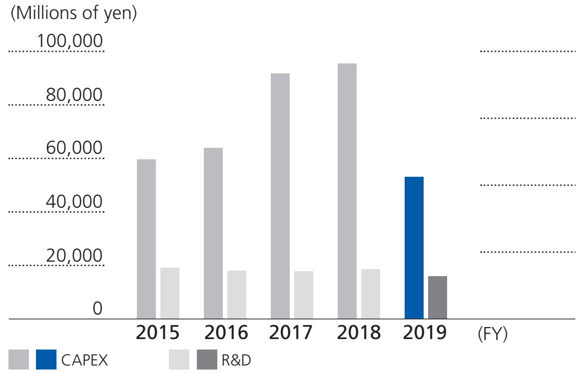


Note: Adjusted operating income is provided.

Equity/Net Income Ratio to Equity Attributable to Shareholders of the Parent Company (ROE)



Capital Expenditure/ Research and Development Expenses



Non-Financial Data

FY	2019	2018	2017	2016	2015
Environmental e-learning attendance rate (%)	—	100	100	100	100
Environmental auditor development training sessions (times)	2	1	3	1	1
Sales of key environmentally conscious products (millions of yen)	178,479	213,980	207,002	184,325	142,930
Sales ratio of key environmentally conscious products (%)	20.2	20.9	20.9	20.2	13.7
Energy consumption converted into crude oil (kl/year)	1,035,053	1,109,813	1,121,565	1,077,236	1,092,872
CO_2 emissions (thousands of tons of CO_2/year)	2,319	2,630	2,778	2,673	2,779
CO_2 emissions per production unit (tons of CO_2/million yen)	2.631	2.570	2.811	2.935	2.731
Total waste and valuables generated (thousands of tons/year)	879	1,004	985	1,004	1,014
Waste and valuables generated per production unit (thousands of tons/million yen)	0.974	0.981	0.997	1.102	0.996
Recycling rate (%)	74.6	78.2	78.1	77.0	73.8
Recycling volume (tons)	641,068	768,687	766,454	740,946	734,802
Final disposal volume (tons)	218,456	214,763	214,827	220,701	261,324
Number of business offices achieving zero emissions (final disposal rate below 0.5%)	17	14	15	14	22
Water consumption (thousands of m^3)	12,186	13,391	13,849	14,551	16,845
Water consumption per production unit (thousands of m^3/million yen)	13.826	13.085	14.013	15.982	16.554
Amount of chemical substances released into the atmosphere (tons)	235	268	217	268	—
Percentage of positive engagement indicator evaluations in employee awareness surveys (%)	53	59	58	55	53
Overall positive response rate in employee awareness surveys (%)	53	57	57	56	54
Diversity recruitment ratio (%)	34	57	62	46	42
Ratio of women among newly hired graduates (career-track positions) (technical positions) (%)	10	12	10	0	18
Ratio of women among newly hired graduates (career-track positions) (administrative positions) (%)	36	38	50	30	67
Ratio of women in management positions (%)	1.4	1.5	1.4	—	—
Ratio of women in career-track positions (non-consolidated; full-time) (%)	4.8	4.7	—	—	—
Number of women in career-track positions (persons)	101	99	—	—	—
Total annual working hours (hours)	1,980	2,049	—	—	—
Occupational accident frequency	0.27	0.42	0.55	0.27	0.31
Number of employees (persons)	29,805	30,304	30,390	28,754	29,157
Number of employees (non-consolidated) (persons)	7,022	7,067	6,315	5,858	5,966
Number of employees (non-consolidated; male) (persons)	6,215	6,277	5,654	5,241	5,339
Number of employees (non-consolidated; female) (persons)	807	790	661	617	627
Average age (non-consolidated) (age)	43.4	43.2	44.1	43.9	43.5
Average years of service (non-consolidated) (years)	18.8	18.4	21.7	21.0	20.6
Number of female managers (non-consolidated) (persons)	19	19	16	12	11
Employment ratio of people with disabilities (non-consolidated) (%)	2.3	2.2	2.3	2.4	2.3
Investment in new safety-related construction for facilities	864,910	1,255,201	—	—	—
Attendance at human rights-related training (persons)	7,022	5,892	—	—	—
Number of Directors (persons)	9	9	8	8	8
Number of female Directors (persons)	1	1	1	1	1
Number of Outside Directors (persons)	3	3	3	3	3
Number of Independent Directors (persons)	3	3	3	3	3

*1. The teaching methods and materials for environmental e-learning will be revised and implemented as new general environmental education starting in fiscal 2020. Environmental e-learning was suspended in fiscal 2019 to prepare for these revisions. As in other years, each business office is conducting general environmental education.
*2. In Japan, the power company CO2 emissions coefficient is based on the "power supplier emissions coefficient," announced by the Ministry of the Environment, while outside Japan, it is based on the 2008 IEA "country-specific conversion coefficient."
*3. As of fiscal 2011, the definition of "zero emissions" is a final disposal rate below 0.5%.
*4. Water usage per production unit = (water usage) ÷ (amount of activity: a number representing the scale of business activities, such as sales or production volume)
*5. The diversity recruitment ratio is the percentage of foreign nationals, women, and mid-career hires in planning divisions' hires (non-consolidated).
*6. Ratios of newly hired graduates show the year of hiring activity for each fiscal year. (For example, the hiring ratio for fiscal 2019 generally shows hiring activity targeting March 2020 graduates.)
*7. The ratio of women in management positions is the percentage of women in management and those working as professionals (non-consolidated; currently working as managers or professionals).
*8. Total annual working hours are the average annual working hours of back-office workers (non-consolidated; including managers and professionals).
*9. Occupational accident frequency = Number of casualties due to occupational accidents ÷ Total actual working hours x 1,000,000 (calendar year)

External ESG-Related Recognitions

2020 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

Included in the MSCI Japan ESG Select Leaders Index, a fundamental index for ESG investment.

2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

Included in the MSCI Japan Empowering Women Index, an index comprising companies from various industries with high scores for gender diversity.

Included in the FTSE Blossom Japan Index, an index of companies that demonstrate strong environmental, social, and governance practices.

S&P/JPX Carbon Efficient Index

Included in the new S&P/JPX Carbon Efficient Index, which focuses on the "E" (Environment) in ESG.

2020 MSCI ESG Leaders Indexes Constituent

The MSCI ESG Leaders Indexes comprise companies from various sectors that demonstrate strong ESG practices.

2020 Sompo Sustainability Index

Included as a target for investment in the SOMPO Sustainability Index, which is used to invest in companies that are rated highly for their ESG performance.

FTSE4Good

The FTSE4Good Index is an index of companies recognized for their environmental and social sustainability, and is used by various market participants when structuring sustainable investment products.

NADESHIKO BRAND 2020

Selected as a Nadeshiko Brand by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a company that "encourages women's success in the workplace."

Stock Information

Stock Status

(As of March 31, 2020)

Total number of shares issued	428,904,352
Total number of shares authorized	500,000,000
Number of shareholders	23,162 (including holders of shares less than one unit)

Shareholder Composition

(As of March 31, 2020)

Segment	Number of shareholders	Number of shares held (hundreds of shares)	Percentage of shares held
Financial institutions	55	615,839	14.37
Financial instruments business operators	33	30,827	0.72
Other domestic corporations	502	2,341,935	54.67
Foreign nationals	519	1,005,769	23.48
Individuals and others	19,134	289,461	6.76

Major Shareholders

(As of March 31, 2020)

Shareholders	Number of shares held (thousands of shares)	Percentage of shares held
Hitachi, Ltd.	226,233	52.91
The Master Trust Bank of Japan, Ltd. (Trust account)	18,634	4.36
Goldman Sachs & Co., Regular Account	15,164	3.55
Japan Trustee Services Bank, Ltd. (Trust account)	11,215	2.62
JP Morgan Chase Bank 385632	5,768	1.35
Japan Trustee Services Bank, Ltd. (Trust account 7)	4,770	1.12
Japan Trustee Services Bank, Ltd. (Trust account 5)	4,336	1.01
State Street Bank and Trust Company 505103	4,307	1.01
JP Morgan Chase Bank 385151	3,497	0.82
State Street Bank West Client Treaty 505234	3,236	0.76

Listed Stock Exchange

(As of March 31, 2020)

Tokyo (First Section, Code 5486)

Credit Rating

(As of August 2019)

Rating and Investment Information, Inc. (R&I)	Long-term Debt A+

Shareholders' Memo

- Fiscal year-end: March 31
- Record date for dividend: March 31 and September 30
- Method of public notices: Electronic public notice
- Number of shares per one unit: 100 shares
- Administrator of shareholder registry: Tokyo Securities Transfer Agent Co., Ltd. (Head Office)
  NMF Takebashi Building 6F,
  3-11 Kanda Nishikicho, Chiyoda-ku, Tokyo, Japan

Corporate Data/Stock Price

Corporate Data

Company name	Hitachi Metals, Ltd.
Head Office address	Shinagawa Season Terrace, 2-70, Konan 1-chome, Minato-ku Tokyo 108-8224, Japan Tel.: +81-3-6774-3001, Toll-free: 0800-500-5055 (in Japan)
Established	1956
Listed stock exchange	Tokyo (First Section)
Securities code	5486
URL	https://www.hitachi-metals.co.jp/e/

Stock Price Chart

FY	2015	2016	2017	2018	2019
Total Shareholder Return (Comparative index: TOPIX Total Return Index)	64.3% (89.2%)	87.5% (102.3%)	72.4% (118.5%)	75.8% (112.5%)	69.2% (101.8%)

Disclaimer regarding forward-looking statements

This report contains forward-looking statements about the Company and the Group, such as business plans, predictions, strategies, assumptions, and results forecasts. All such statements are based on analyses and judgments using information available when this report was prepared, and thus may include risks and uncertainties due to changing economic circumstances, market conditions, and the like. Please note the possibility that actual results may differ from the Company's forecasts. This report was compiled based on information deemed reliable by the Company. Accordingly, such information's accuracy and integrity cannot be guaranteed.