

**HITACHI**

**The Hitachi Metals Group Report 2020  
Integrated Report**

**MISSION**  
**Corporate Creed**

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The origins of our company can be traced back more than one hundred ten years, and our main products have been standing at the top in each industry both qualitatively as well as quantitatively.

We devote ourselves to technology and aspire to contribute to society by being the best enterprise based on “*Wa sureba tsuyoshi*” our people possess and their loyalty to the company.

**VALUE**  
**Corporate Philosophy**

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## *Wa sureba tsuyoshi*

“*Wa*” refers to “individuals with different characters coming together to create harmony.” “*Tsuyoshi*” means “strength to accomplish the results we hope for.” “*Wa sureba tsuyoshi*” portrays our endeavor to work as one while improving ourselves individually in order to create the best possible company.

Mission/Value

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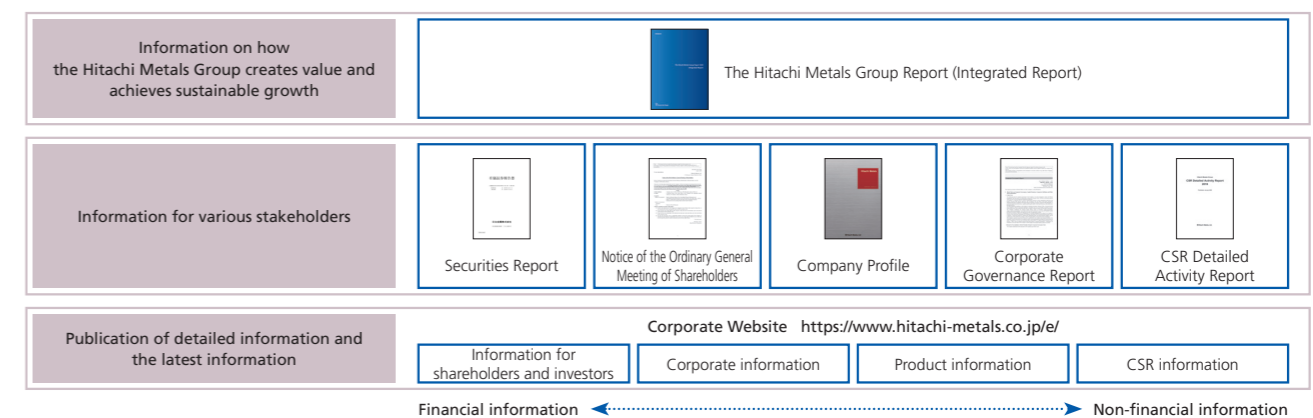
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Editorial Policy

From 2016 (Fiscal 2015 Report), we have released the Hitachi Metals Group Report (Integrated Report) for all stakeholders, including shareholders and other investors. The aim of the report is to deepen understanding among stakeholders about how the Group utilizes its strengths to create value for customers and achieve sustainable growth. This report was edited referencing the International Integrated Reporting Council's The International Integrated Reporting Framework and the Ministry of Economy, Trade and Industry's Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation. In addition to the Hitachi Metals Group Report (Integrated Report), we provide information to our various stakeholders as shown in the chart. We also periodically update our corporate website with the latest information, including detailed information and news releases.

Review Period

Fiscal 2019 (April 1, 2019–March 31, 2020)

Note: Where possible, the latest information is used at the time of publication.

Relevant Entities

Hitachi Metals, Ltd. and its consolidated subsidiaries

Note: In cases where information contained herein refers to a review period and/or relevant entities different from those stated above, this is pointed out accordingly.



## To Our Stakeholders



We will do our utmost to reform management under our new management structure.

Part 1

## Strategies

My name is Mitsuaki Nishiyama. I was appointed Representative Executive Officer, Chairperson, and Chief Executive Officer in April 2020 and assumed the added title of President in June 2020. In fiscal 2019, we worked hard to implement our Fiscal 2021 Medium-Term Management Plan, but our business was affected by difficult conditions in the automotive and aircraft markets, as well as the spread of COVID-19 at the end of the fiscal year. Amid ongoing business challenges, we established a new management structure. Under this structure, all employees will work together to promote management reform and do their utmost to build a foundation for recovery and future growth.

This report is a communications tool to help our stakeholders understand how we are working to enhance corporate value. It contains information on the Group, the Corporate Creed, and value creation process, together with a systematic compilation of financial and non-financial information deemed important for continuous growth. This report references various sources, including the "International Integrated Reporting Framework," published by the International Integrated Reporting Council (IIRC), and "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation," formulated by the Ministry of Economy, Trade and Industry. The report is intended to present the information prepared in close cooperation with our corporate divisions to consolidate our thinking across the Group in a way that is easy to understand.

We believe that this report will provide you useful information and deepen your understanding of the Hitachi Metals Group's initiatives.

### Mitsuaki Nishiyama

Representative Executive Officer, Chairperson, President, and CEO

March 1979 Faculty of Economics, Tohoku University, Japan  
 April 1979 Joined Hitachi, Ltd.  
 July 1990 Master of Business Administration (MBA), Georgia State University, USA  
 April 2008 General Manager of Finance Department I of Hitachi, Ltd.  
 April 2011 Executive Officer of Hitachi Cable, Ltd. (current name: Hitachi Metals, Ltd.)  
 June 2012 Executive Officer and Director of Hitachi Cable, Ltd.  
 April 2013 Vice President and Executive Officer and Director of Hitachi Cable, Ltd.  
 July 2013 Vice President and Managing Officer of Hitachi Metals, Ltd.  
 April 2014 Vice President and Executive Officer

April 2015 Vice President and Executive Officer, and General Manager of Finance Group of Hitachi, Ltd.  
 April 2016 Representative Executive Officer, Senior Vice President and Chief Financial Officer and General Manager of Finance Group of Hitachi, Ltd.  
 April 2020 Representative Executive Officer, Chairperson and Chief Executive Officer of Hitachi Metals, Ltd.  
 June 2020 Representative Executive Officer, Chairperson, President and Chief Executive Officer and General Manager of Advanced Metals Division (current position)

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## To Our Stakeholders

The operating environment for the Group is characterized by the continued spread of COVID-19 infections in various regions of the world, and the business outlook remains extremely uncertain due to political, economic, and social turmoil. The Group's main business areas—for automobiles, electronics, and industrial infrastructure—are facing severe slowdowns in demand, and the impact on business performance in fiscal 2020 is expected to be more significant than in fiscal 2019.

The year under review marked the beginning of the Fiscal 2021 Medium-Term Management Plan (FY2019–FY2021), designed to help the Group achieve renewed growth globally. However, we faced a changing business environment caused by the COVID-19 pandemic, as well as the revelation of improper quality control practices within the Group. In response, we will make all-out efforts to implement management reforms under our new management structure. At the same time, we will execute business structural reforms and aggressively shift management resources to businesses that are expected to generate solid earnings and growth. Through these efforts, we will strive to overcome our ongoing unfavorable business performances of the past several years and the current difficulties caused by the spread of COVID-19, and thus reinforce our corporate capabilities. Meanwhile, the Group's medium- to long-term objective—to be a company that fosters the development of society through innovative materials technology and products—remains unchanged. By building a sound quality assurance system and reforming our corporate culture, we will create innovations that help resolve issues faced by customers and society. Our aim is to be a high-performance materials company that supports a sustainable society.

### Improper quality assurance conduct and transition to new management structure

On April 27, 2020, we issued a press release titled “Misrepresentation of Test Results in the Inspection Reports with Respect to Certain Products of the Company and Its Subsidiaries.” In that press release, we announced our discovery that test results for some specialty steel products and magnetic materials products (ferrite magnets and rare earth magnets) manufactured by Hitachi Metals, Ltd. and its subsidiaries were misrepresented in inspection reports submitted to customers. As a company engaged in manufacturing, we take seriously this discovery of inappropriate behavior related to quality—the worst thing that can happen to a manufacturer—that greatly inconvenienced our customers and other relevant parties. On April 27, 2020, the Group established a special investigation committee of outside experts who are currently conducting an objective investigation into the facts and root cause of the matter. We also set up an internal task force to spearhead efforts to enhance our quality assurance system. The Company is making every effort to further improve its management, including its organization and control system, and to ensure objectivity and fairness in its investigation into the facts and causes of the incident, as well as in the examination and implementation of measures to address the matter in light of those findings. For these purposes, the Company decided to change its management team. Specifically, the president and other executive officers, as well as a director who was previously the president of the Company, resigned on May 31, 2020. To expedite decision-making, meanwhile, the chairperson assumed the concurrent position of president on June 1, 2020, and a new executive officer joined the

management team on the same day. Under this new management team, we will thoroughly investigate the facts and causes of the incident and implement reforms in every aspect of management with the intention of transforming ourselves into a company that conducts business fairly and honestly.

### Building a robust quality assurance system

We have set up a special committee to investigate the facts and causes of the aforementioned incident. Using its findings, we will further strengthen compliance and take other measures to prevent any reoccurrence. At the same time, to establish an appropriate quality assurance system as soon as possible to regain the trust of our customers, our internal task force is spearheading an organizational reassessment aimed at ensuring effective quality audits while implementing improvement measures that include eliminating manual processes and building an inspection system safeguarded against fraud. For divisions where inappropriate behavior is identified, we are introducing mechanisms to prevent human intervention and ensure the integrity of inspections that we do and test data that we obtain. In addition, we have launched a Companywide initiative aimed at automating inspection processes and protecting information. To prevent any reoccurrence of a similar incident and to restore trust, we will rigorously investigate the facts and causes of the incident while fundamentally reviewing our quality assurance system and further strengthening compliance.

### Fiscal 2021 Medium-Term Management Plan: Progress and achievements

Since starting business, the Group has contributed to society by providing distinctive products in multiple fields, including those for automobiles, industrial infrastructure, and electronics.

Recent years have seen dramatic changes in the global economic structure and the diversification of social needs, resulting in the successive creation of new technologies, products, and services. Furthermore, as indicated in the Sustainable Development Goals (SDGs), companies, as corporate citizens who constitute society, are under increasing pressure to take the initiative in helping realize a sustainable society. Also, in the materials industry, a key Group business domain, the speed of the development of new materials to address emerging needs is accelerating annually.

Our mission is to implement our Corporate Creed to become “the best enterprise.” Recognizing this mission and the aforementioned circumstances, we formulated and are implementing the Fiscal 2021 Medium-Term Management Plan, which will end in fiscal 2021. In the second half of fiscal 2019, meanwhile, we launched the “Hitachi Metals Transformation,” a set of management reforms, and on April 1, 2020, we established the Management Transformation Office as our command center for such reforms. Under my leadership in this office, we are working to strengthen our earnings power and improve capital efficiency by promoting portfolio and cost structural reforms while strengthening our sales capabilities.

The aim of the Fiscal 2021 Medium-Term Management Plan is to become

## To Our Stakeholders

a “high-performance materials company that supports a sustainable society” by promoting management strategies and measures under our vision of “building people, building innovation, and building the future.” To this end, we provide our human resources, who form the foundation of the Group, with opportunities to find a balance between growth through their work and fulfillment in their social lives. At the same time, we will leverage our strengths through co-creation with our customers while strengthening and expanding our “Only 1, No. 1” businesses and products to deliver innovation in materials. By accumulating a track record of such innovations, we will help realize a sustainable society and shape a bright future for society as a whole.

The Hitachi Metals Group will continue meeting the expectations of stakeholders in its quest to achieve sustained growth. We look forward to your ongoing support.

### Five action plans of Fiscal 2021 Medium-Term Management Plan: Progress and achievements

#### A. Concentrating resources on high-growth and high-profit areas

We will develop products and expand businesses in response to market and technological trends, such as the electrification and motorization of automobiles, concentrating management resources on high-growth, high-profit areas while pursuing continuous portfolio renewal.

##### Fiscal 2019 progress and achievements

- We enhanced our global production system (at our bases in Vietnam and Thailand) for electric parking brake (EPB) harnesses to meet the growing need for electric vehicles.
- We concluded an agreement to transfer all the Company’s holdings in Mitsubishi Hitachi Tool Engineering, Ltd. (now MOLDINO Tool Engineering, Ltd.) to Mitsubishi Materials Corporation (transfer completed on April 1, 2020).

#### B. Maximizing synergies through organizational reforms

We will transition from a four-company organization to a two-division organization, a change that will enable us to concentrate resources and make quicker decisions, focusing on core future-oriented markets and businesses and strengthening synergies between the businesses. We will also reinforce cross-organizational functions by enhancing corporate departments and by activating human resource exchanges between business divisions to strengthen both our strategic functions and corporate governance.

##### Fiscal 2019 progress and achievements

- We transitioned to a two-division organization (April 2019).

#### C. Strengthening front-line operations and co-creating with customers

We will strengthen front-line functions (sales and R&D) and quickly bring to market “Only 1, No. 1” businesses and products that combine the Group’s unique technologies through co-creation with customers, to address changing markets and customer needs and achieve powerful growth.

##### Fiscal 2019 progress and achievements

- We developed high-power-density enhancement technology for on-board chargers with Germany-based Fraunhofer IISB (see page 37).
- Our “super-extra-fine copper alloy wires and applied products” were chosen as the winner of the “Awards from Commissioner of the Japan Patent Office” in the Kanto Region Invention Award 2019.
- Our MaDC-F<sup>TM</sup> series of soft ferrite cores for high-frequency Mn-Zn power supplies was chosen as the winner of the “Environment-, Resource- and Energy-related Components Award” at the “CHO” MONOZUKURI (“super” production) Innovative Parts and Components Award 2019.
- We established the AM Solution Center to strengthen our metal additive manufacturing business.
- We established the “Hitachi Metals–Oxford UTC of Metallurgy” with the University of Oxford (United Kingdom).

#### D. Making full use of large-scale capital investments

We will take full advantage of large-scale capital investments made under the previous medium-term management plan and reap the benefits at an early stage, while allocating new capital investments to carefully selected high-growth, high-profit areas.

##### Fiscal 2019 progress and achievements

- The Ibaraki Works started full-scale operation of a continuous casting and rolling line, strengthened core products, and established a system for mass production of HiFC<sup>®</sup> high-performance pure copper (a new material).
- Hitachi Metals Wakamatsu, Ltd. started casting and processing equipment operations to produce cast rolls for hot strip mills and structural cast steel products.
- Hitachi Metals Neomaterial, Ltd. started full-scale operations using equipment (pressing machines, rolling machines, etc.) for producing clad metals, demand for which is expanding in such fields as electric vehicles and mobile devices.

#### E. Decisively implementing structural reforms and measures to strengthen the management base

The Management Transformation Office will take the lead in promoting the “Hitachi Metals Transformation” to strengthen earnings power and improve capital efficiency through portfolio restructuring, cost restructuring, and reinforcement of sales capabilities.

Departments responsible for business execution will downsize or withdraw from low-profit businesses and products that are not expected to improve sufficiently to concentrate and more effectively utilize management resources. We will also introduce management with return on invested capital (ROIC) as a new performance indicator and seek to reduce invested capital, by shortening the cash conversion cycle (CCC) and other means, to improve cash flow and asset efficiency.

In addition, we will create an innovative and challenging corporate culture by promoting and maximizing the effectiveness of diversity management and workstyle reforms through measures that include recruiting and developing global human resources and facilitating the advancement of women.

##### Fiscal 2019 progress and achievements

- The CCC figure for fiscal 2019 was 87.1 days, down 3.6 days from that of the previous year, and free cash flow totaled ¥49,540 million, up ¥79,205 million from that of the previous year.
- Hitachi Metals was selected as a “Fiscal 2019 Nadeshiko Brand.”



## Message from the General Manager of the Finance Division



We are stepping up our focus on “selection and concentration in investment” and “raising capital efficiency” with the aims of achieving an early recovery in earnings.

### Hiroaki Nishioka

Vice President and Representative Executive Officer  
Chief Financial Officer  
General Manager of the Finance Division

#### ■ Emphasizing “selection and concentration in investment” and “raising capital efficiency”

Under the Fiscal Year 2021 Medium-Term Management Plan, the Hitachi Metals Group emphasizes “selection and concentration in investment” and “raising capital efficiency.” In terms of investment, we are extremely selective while also making full use of upfront capital investments made under the previous Medium-Term Management Plan. Through the introduction of return on invested capital (ROIC)\* to raise capital efficiency, we strive to maximize operating cash flows.

However, fiscal 2019, the first year of the medium-term plan, saw rapid changes in the business environment. As trade friction between the United States and China intensified in the first half of the fiscal year, economic growth in China continued to slow due to the effects of the trade friction and weakened domestic demand. The downturn in the Chinese economy, which

had been a driving force in the global economy, had a significant impact, with business confidence worsening worldwide, particularly in Japan, Europe, and emerging economies in Asia. The Hitachi Metals Group also experienced declining demand in its main businesses, including automobiles, factory automation/robotics, and electronics. As a consequence, sales and adjusted operating income in all business segments fell below levels of the previous year. We also reassessed the future expected profitability of our magnetic materials business in response to changes in the business environment and booked a significant impairment loss of ¥42.6 billion, resulting in the largest net loss in our history. Since February 2020, moreover, COVID-19 infections have been spreading rapidly around the world, causing serious impacts on economic activity. We can only conclude that the world economy has entered a phase of major contraction.

Under these circumstances, we believe it is vital to more powerfully emphasize “selection and concentration in investment” and “raising capital efficiency” to ensure that we reap the benefits of our investments. In addition to emergency performance measures taken in fiscal 2019, we will implement “Hitachi Metals Transformation,” a management transformation plan aimed at achieving an early recovery and raising capital efficiency to build a more robust operational foundation.

As of March 31, 2020, the Group had cash and cash equivalents of ¥42.4 billion on a consolidated basis, as well as ¥40 billion in unused committed lines of credit with multiple financial institutions. We also made use of the Hitachi Group’s cash pooling system to secure adequate liquidity.

The spread of COVID-19 continues, making it difficult to predict when the pandemic will end and how much impact it will have on global social and economic activities. Against this background, the Group reorganized its operations on June 1, 2020. Under our new system, we will look to fundamentally reassess our business structure. Therefore, we have not yet set quantitative targets for the Fiscal Year 2021 Medium-Term Management Plan, although we will adhere to its basic policies and accelerate our efforts accordingly.

\*ROIC: Net income attributable to shareholders of the parent company ÷ (Average of beginning and end-year interest-bearing debt ÷ Average of beginning and end-year equity attributable to shareholders of the parent company)

#### Optimal Management of Invested Capital

Inventory optimization	Groupwide project by the Technology, Research & Development Division
	Select areas for improvement and incorporate them into concrete action and follow-up
Introduction of ROIC	Implement internal awareness-raising campaign to improve capital efficiency
	Incorporate “ROIC reverse tree” concept into each business and administrative level

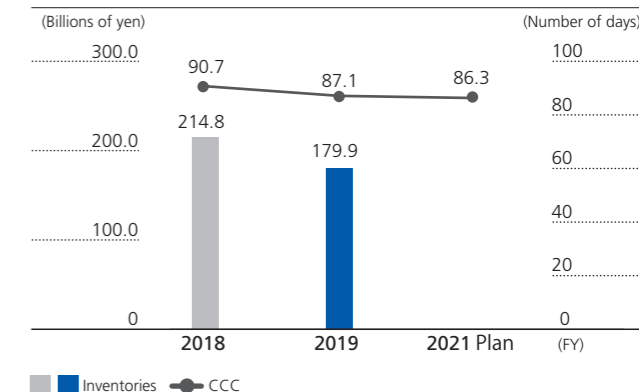
#### ■ Increasing ROIC management effectiveness to raise capital efficiency

We calculate that our cost of capital is 7.5%, and Groupwide ROIC is currently below that figure. For this reason, we will steadily implement our “Hitachi Metals Transformation” plan and aim to quickly improve ROIC by increasing profits and reducing invested capital.

To increase profits, we will continue expanding our high-value-added products and growth businesses while deploying IoT technologies to deliver *monozukuri* innovations that will improve product quality and reduce costs. In addition, we will use information technology to streamline administrative operations and thereby reduce fixed costs. We will also continuously review our business portfolio by downsizing, withdrawing from low-profit, non-core businesses, and spinning them off.

We are working to reduce invested capital by formulating optimal production plans, using IoT to shorten the cash conversion cycle (CCC), and conducting personnel exchanges to share best practices. Under the Group’s inventory management system, manufacturing sites and procurement departments are responsible for material inventories, manufacturing sites and business divisions are responsible for production inventories of work in process and products, and domestic and overseas sales companies and business divisions are responsible for distribution inventories. Going forward, we will strengthen our cross-lateral

#### Inventories and CCC



corporate functions to build a system for swift and accurate inventory management based on sales forecasts. At the same time, we will aim to further shorten the CCC with additional inventory reductions. Meanwhile, in cooperation with the IE Master system of Hitachi, Ltd., we launched the Reformed Human Resource Training Program to train human resources who will be *kaizen* (improvement) professionals. We are also implementing thorough management from the plant floor to inventories and warehousing. Despite a decline in net sales, the actual CCC value for fiscal 2019 was 87.1 days, down 3.6 days from that of the previous year, thanks to our focus on inventory optimization.

Some of our businesses currently have ROIC figures that are significantly higher than their cost of capital, others that are earmarked for steady improvement, and others that will be lower in the short term due to the need for upfront investments. For this reason, we believe it is important to ensure that each business unit is managed with a focus on ROIC. By setting ROIC targets based on the profits and invested capital of each business segment, we are working to swiftly improve ROIC for the Group as a whole. In addition, in fiscal 2019, we conducted an ROIC awareness campaign to promote understanding of ROIC among individual front-line employees and encourage them to participate in raising ROIC by improving their daily work. In fiscal 2020, we will increase the effectiveness of ROIC-focused management by incorporating it into each action plan for management reform.

### ■ Improving cash flows

We are working to boost free cash flow by expanding profits, improving working capital efficiency, and making highly selective investments in priority areas. In fiscal 2019, net cash provided by operating activities amounted to ¥106.0 billion, up ¥39.4 billion from that of fiscal 2018. This was due largely to improvements in

working capital efficiency. On the other hand, net cash used in investing activities totaled ¥56.5 billion, down ¥39.8 billion year on year. This was due mainly to reductions of investments in response to the deterioration of our business performance. As a result, free cash flow improved ¥79.2 billion, to plus ¥49.5 billion in fiscal 2019.

### ■ Clarifying the investment decision-making process

We have rebuilt our processes and criteria for capital investment. For capital investments made by business divisions, corporate divisions participate from a preliminary review stage, and the advance screening process and responsibilities of the screening division manager are clearly laid out. Going forward, we will review and strengthen management of the decision-making process for small investments, whose decisions have traditionally been delegated to business units.

In addition to upgrading equipment and streamlining, increasing production capacity, establishing new centers, and investing for safety, we invest in mergers and acquisitions and the like. Ordinary investments and strategic investments are separately defined and classified in terms of investment decision-making, recovery of investment, and other aspects. Proposals for strategic investments emphasize cash flow, and investment decisions are based on a current valuation using discounted cash flow (net present value, or NPV), ROIC, and the investment recovery period.

#### Cash Flows

	FY2018 Results	FY2019 Results	Change
Cash flow from operating activities	66.6	106	39.4
Cash flow from investing activities	(96.3)	(56.5)	39.8
Free cash flows	(29.7)	49.5	79.2

### ■ Balance sheet management

We are streamlining our balance sheet to improve our financial position and raise capital efficiency. We are also promoting structural reform by shortening the CCC to reduce working capital, using the Hitachi Group's cash pooling system (CPS) to consolidate surplus funds and borrowings across the Group, and adopting a selection and concentration policy. Total assets at the end of fiscal 2019 stood at ¥977.8 billion, down 11% year on year.

Our basic policy is to source funds needed for growth-oriented investments from cash generated by businesses and cash on hand. To avoid missing growth opportunities, however, we will engage in flexible fund procurement with a view toward maintaining or reducing our debt-equity ratio (currently in the 0.3–0.5 times range) and retaining our A+ credit rating.

In fiscal 2019, we used funds generated by the reduction of net working capital (reduction in trade receivables and inventories) mainly for capital investments to strengthen our platform for growth and to repay long-term debt to stabilize our funding base. As of March 31, 2020, the Company's long-term corporate and unsecured bonds were rated A+ by Rating and Investment Information, Inc. (R&I).

### ■ Cash allocation

The Group's basic policy for determining the distribution of profits to shareholders is to take comprehensively into account the operating environment, business results, and future business outlook, together with the need to retain internal reserves for medium- and long-term growth.

In terms of enhancing shareholder value, we aim to distribute profits with a balance between shareholder returns and share price increases through business growth, with a view toward increasing total shareholder return (TSR). Under the new Medium-Term Management Plan, we will target business growth to achieve higher

share prices, concentrating resources in high-profit, high-growth areas, implementing structural reforms, and strengthening our operational foundation. We will also work to ensure stable dividends with a target payout ratio of 30%. Our TSR in fiscal 2019 was 69.2%, which is below the TOPIX benchmark.

We recognize that share buybacks are an effective way to return profits to shareholders. At present, however, we consider it reasonable to invest for strategic growth with high returns, and for this reason we will focus on business growth and expansion through strategic growth-oriented investments in R&D and high-value-added product areas.

## Message from the General Manager of Human Resources & General Administration Division

**We promote organizational and cultural reforms to restore the Hitachi Metals' strength and make it "the best enterprise."**

**Naohiko Tamiya**

Vice President and Executive Officer,  
General Manager of Human Resources & General Administration Division

### A company that helps motivate diverse human resources to work

The Human Resources & General Administration Division is responsible for spearheading the "organizational and cultural reforms" that represent the foundation of the Hitachi Metals Group's management transformation project. We emphasize the "employee engagement figure" as one of our human capital strategy KPIs. However, this figure declined in fiscal 2019, reflecting the Group's deteriorating performance. Engagement means ensuring that individual employees understand the Company's strategies, have a positive outlook for the future, and work autonomously to produce results, allowing them to feel a sense of satisfaction and accomplishment in their work. For this reason, I believe that making employees more engaged through organizational and cultural reforms and making people feel motivated to work at Hitachi Metals will lead to a turnaround in our business results and help realize our Corporate Creed of being "the best enterprise."

### Using communication to change the quality of thoughts and actions

The "Organization's Core Theory of Success," proposed by Dr. Daniel Kim of the Massachusetts Institute of Technology, shows that improvement in the quality of relationships between people leads to improvement in the quality of their thoughts and actions, resulting in a "good cycle" that allows for continued positive outcomes. On the other hand, companies that pursue only improved financial results tend to enter a "bad cycle" of

organizational exhaustion and deteriorating interpersonal relationships, leading instead to poorer financial results. I feel that Hitachi Metals had fallen into such a bad cycle. To return to a "good cycle," we need to improve the quality of relationships between top management, executives, and employees, as well as between workers and supervisors on the front lines. The first step in achieving organizational and cultural reforms is to work on improving the "quality of these relationships."

### Town hall meetings for young employees held at all offices

In the first two quarters of fiscal 2019, the Group posted a significant year-on-year decline in adjusted operating income due to decreases in demand, an impairment loss, and other factors. As a result, we reported a ¥41.0 billion net loss attributable to shareholders of the parent company, an extremely unfortunate result. In response, we began holding town hall meetings in December 2019 for young employees in their 20s to 30s at all Hitachi Metals Group companies and worksites to further improve the "quality of relationships." Prior to that, we had held town hall meetings whereby top management visited managers of departments and sections at each business site, but we concluded that neither the quantity nor the quality of such communication was sufficient to overcome our crisis. With this in mind, we asked all executive officers to separately visit sites for town hall meetings, enabling us to cover all the sites more quickly. We also expanded the target audience to include younger employees. Each town hall meeting lasted about 90 minutes and included

presentations and Q&A sessions on the Group's current situation and management transformation project. Feedback from surveys of participants revealed that they gained a good understanding of what the Company was trying to achieve and appreciated that management was serious about explaining things to them. We also received good responses from the executive officers. At its meeting in January 2020, the Executive Committee decided to create "visual representations" of the measures and progress of our management transformation project. It also decided to continue dialogue by having every executive officer interact directly with employees to help them better understand the project.

### Improving the quality of relationships in the workplace to achieve organizational and cultural reforms

To achieve organizational and cultural reforms, we need to help individual employees understand the meaning of their jobs and motivate them more. We must also foster a culture in which supervisors carefully nurture their subordinates in order to grow together. At present, the Hitachi Metals Group has an interview system as a means of communication between supervisors and subordinates in the workplace. However, we are not utilizing this system properly. This may be part of the problem we are facing with respect to quality assurance. To revitalize communication in the workplace, we will consider and implement training to improve the goal-setting and coaching skills of managers, expand the scope and implementation of goal management interviews, and introduce "360-degree evaluations" for managers. Our aim here is to improve the "quality of relationships" in the workplace. Meanwhile, to encourage employees to think about their own careers independently, we will promote various training programs, such as job-posting systems to provide Company-sponsored opportunities for employees to study and work abroad as trainees, and introduce a new system for proposing business.

In addition, we will continue providing antiharassment training, which is fundamental to diversity management, and improve our IT environment to promote "workstyle reforms." We will also strengthen our occupational safety systems to achieve "intrinsic safety" in work environments.

### Fostering management personnel with a view toward medium- and long-term growth

To achieve sustainable growth, we need to develop human resources from the long-term perspectives of our Corporate Creed. The Hitachi Metals Group selects candidates for president and executive officer, taking into account the results of discussions by the Nomination Committee. We then send the candidates to training sessions where they work hard with leaders from inside and outside the Hitachi Group.

All of us, from top management to employees, are highly motivated to produce management reforms aimed at restoring the Hitachi Metals' strength and ensuring its sustainable development.

### Future workstyles and countermeasures to COVID-19

In January 2020, when it was confirmed that the number of people infected with COVID-19 was increasing, we set up a task force of representatives from our head office administrative division and our business divisions to ensure that information was quickly shared.

To eliminate the risk of infection, we first placed limitations on overseas business travel, then restricted domestic business travel at our head office and branches, and finally began asking employees to curtail office visits and encouraged a shift to remote work. By swiftly improving our personnel system for working from home and strengthening our IT environment, we achieved a high level of employee satisfaction, and the remote work system remained in place as of September 2020.

With a view toward the post-COVID future, we are aiming to build new ways of working at Hitachi Metals, not simply to prevent infections but also to improve productivity and better utilize our diverse human resources. To this end, we will set up various working groups to identify problems and consider ways to enhance our office, environmental, and IT systems, with the aim of identifying new ways of working. We will then consider and promote specific countermeasures, such as establishing new Company systems and rules, and reviewing business flows within each division.



# Financial/Non-Financial Highlights

## Highlights of Fiscal 2019 (Figures in the lower rows indicate year-on-year increases/decreases)

Revenues  
**¥881.4 billion**  
 -13.9%

The decline was due to a decrease in demand, especially for mainstay products, as well as the impact of falling raw material prices and structural reform measures.

Adjusted operating income\*<sup>1</sup>  
**¥14.4 billion**  
 -72.0%

Despite efforts to reduce fixed costs, this was the result of weakness in our main markets, as well as production adjustments aimed at optimizing inventories.

Adjusted operating margin  
**1.6%**  
 -3.4 percentage points

As a medium- to long-term guideline, we are aiming for an adjusted operating margin of 10%.

EBIT  
**-¥38.4 billion**  
 -¥83.7 billion

This was due to an impairment loss of ¥42.9 billion in the Magnetic Materials and Applications segment.

Free cash flows  
**¥49.5 billion**  
 +¥79.2 billion

This was due to an increase in operating cash inflows stemming from improvement in working capital efficiency, as well as a decrease in investment cash outflows owing to carefully selected investments in priority areas.

R&D expenses  
**¥15.9 billion**  
 -¥2.6 billion

While concentrating resources on high-growth and high-profit fields, we are continuously investing in R&D on advanced materials that contribute to sustainable growth.

ROIC\*<sup>3</sup>  
**1.7%**  
 -3.6 percentage points

As a medium- to long-term guideline, we are aiming for ROIC that exceeds the cost of capital (7.5%).

ROE\*<sup>2</sup>  
**-6.8%**  
 -12.3 percentage points

This was due to a net loss attributable to shareholders of the parent company of ¥37.6 billion stemming from an impairment loss in the Magnetic Materials and Applications segment.

CCC\*<sup>4</sup>  
**87.1 days**  
 -3.6 days

Despite a decline in revenues, we focused on optimizing inventories.

Sales ratio of key environmentally conscious products  
**20.2%**  
 -0.7 percentage points

Our objective is to improve revenue from sales of "key environmentally conscious products." Our target sales ratio for these products is 23%.

CO<sub>2</sub> emissions  
**2,319 thousand t-CO<sub>2</sub>**  
 -311 thousand t-CO<sub>2</sub>

This was due to a decline in production volume, our emphasis on energy conservation activities, and switching to alternative fuel sources.

CO<sub>2</sub> emissions per unit  
**2.631 t-CO<sub>2</sub>/million yen**  
 +2.4 points

Although we promoted energy conservation and fuel switching, the energy consumption ratio per production unit increased due to lower capacity utilization stemming from the decline in production volume.

Recycling rate  
**74.6%**  
 -3.6 percentage points

Factors here included lack of progress of recycling efforts at overseas operations.

Water usage  
**12,186 thousand m<sup>3</sup>**  
 -1,205 thousand m<sup>3</sup>

This was due to the introduction of high water-efficiency models when equipment was replaced.

Chemical substance emissions  
**235 tons**  
 -33 tons

We continue to focus on alternative paint materials and other measures to address the amount of solvents in our paints.

Percentage of positive engagement indicator evaluations in employee awareness surveys  
**53%**  
 -6 percentage points

We have set a goal of 60% for positive engagement indicator evaluations in our employee awareness surveys.

Occupational accident frequency\*<sup>5</sup>  
**0.27**  
 -0.15 point

We established the Health and Safety Promotion Department and are pursuing various initiatives, including formulating the "Guidelines for Safe Organizations."

Number of employees receiving human rights-related training  
**7,022**  
 +1,040

We regularly use e-learning to conduct human rights education and training for each level of employee to systematically raise awareness of human rights.

\*<sup>1</sup> Adjusted operating income = Revenues - Cost of sales - Selling, general and administrative expenses

\*<sup>2</sup> ROE = Net income attributable to shareholders of the parent company ÷ Average of beginning and end-year equity attributable to shareholders of the parent company × 100

\*<sup>3</sup> ROIC = Net income attributable to shareholders of the parent company ÷ (Average of beginning and end-year interest-bearing debt + Average of beginning and end-year equity attributable to shareholders of the parent company)

\*<sup>4</sup> CCC = Working capital (Trade receivables + Inventories - Trade payables) ÷ Average daily revenue

\*<sup>5</sup> Occupational accident frequency = Number of casualties due to occupational accidents ÷ Total actual working hours × 1,000,000 (calendar year)

## Percentage of Fiscal 2019 Revenues by Segment\*

### Advanced Components & Materials Division

37.4%

Magnetic Materials and Applications/Power Electronics

13.2%

Wires, Cables, and Related Products

24.2%

Revenues  
**¥881.4 billion**

Other

0.2%

Advanced Metals Division

62.4%

Specialty Steel Products

28.4%

Functional Components and Equipment

34.0%

### Advanced Metals Division

Revenues  
**¥550.3 billion**

Adjusted operating income  
**¥4.6 billion**

### Advanced Components & Materials Division

Revenues  
**¥330.1 billion**

Adjusted operating income  
**¥8.1 billion**

\* As of April 1, 2019, soft magnetic and materials and applied products were transferred from the Specialty Steel Products segment to the Magnetic Materials and Applications segment, and the name of the Magnetic Materials and Applications segment was changed to the Magnetic Materials and Applications/Power Electronics segment.

\* Division results are simple totals prior to eliminations for intersegment transactions.

## Scope of Operations by Region in Fiscal 2019

Number of employees

**29,805**

-499

Overseas sales ratio

**54%**

-2 percentage points

### Europe

Revenues **¥44.5 billion**  
 Number of employees **159**

### China

Revenues **¥63.4 billion**  
 Number of employees **3,077**

### North America

Revenues **¥245.3 billion**  
 Number of employees **7,253**

### Other Asia

Revenues **¥102.8 billion**  
 Number of employees **5,538**

### Japan

Revenues **¥405.4 billion**  
 Number of employees **13,778**

### Other

Revenues **¥20.0 billion**  
 Number of employees **—**

# Fiscal 2019 Performance Overview

## Fiscal 2019 Performance

### Revenues

Revenues declined 13.9% year on year, to ¥881.4 billion, due to several factors. These included a decrease in demand, particularly for our core products, the impact of falling raw material prices (price slide system), and structural reforms in the Functional Components and Equipment segment.

### Adjusted operating income

Adjusted operating income fell ¥37.0 billion year on year, to ¥14.4 billion. Despite efforts to reduce fixed costs and the like, our performance was affected by contraction in the electronics and semiconductor-related markets, less demand for various types of manufacturing equipment and machine tools, and declining sales of new vehicles. We also significantly adjusted production to address declining demand and optimize inventories as part of measures to improve management efficiency.

### Operating loss

In fiscal 2019, we reported an operating loss of ¥39.1 billion, an ¥81.6 billion decline compared with operating income in fiscal 2018. This was due primarily to a ¥42.6 billion impairment loss in the Magnetic Materials business (reported under "Other expenses") in the second quarter of the year, stemming mainly from changes in the business environment and our reassessment of the future profitability of the rare earth magnet business.

### Performance by product category

#### Automobiles

Demand for many key products declined due to falling vehicle sales globally.

#### FA and robotics

Our performance was affected by ongoing weak demand for rare earth magnets and wire materials, as well as the absence of a recovery in demand.

#### Smartphones

We enjoyed an increase in sales of cladding materials.

#### Semiconductors

We completed customer-side inventory adjustments for both copper- and nickel-based materials, but no strong recovery occurred.

### Measures implemented to improve management efficiency

#### Free cash flow

We reported free cash flow of ¥49.5 billion, up ¥79.2 billion from that of fiscal 2018. This was mainly due to a ¥34.9 billion year-on-year decline in inventories stemming from production adjustments, as well as investment restraint.

#### Reduction of fixed costs and others

We reduced fixed costs by ¥24.2 billion year on year.

### Impact of COVID-19

Despite a decrease in demand in our automotive businesses in China and North America, as well as a decline in capacity utilization at related manufacturing facilities, the overall impact of COVID-19 on fiscal 2019 results was limited.

### Fiscal 2019 Results

	(Billions of yen, unless otherwise stated)		
	FY2018 US\$1 = ¥111	FY2019 US\$1 = ¥109	YoY
Revenues	1,023.4	881.4	-13.9%
Adjusted operating income*1	51.4	14.4	-37.0
Adjusted operating margin (%)	5.0	1.6	-3.4
EBIT	45.3	(38.4)	-83.7
Net income (loss) attributable to shareholders of the parent company	31.4	(37.6)	-69.0
Total assets	1,099.3	977.8	-121.5
Equity attributable to shareholders of the parent company	588.0	520.3	-67.7
D/E ratio (times)	0.34	0.36	0.02
ROIC*2 (%)	5.3	1.7	-3.6
ROE (%)	5.5	-6.8	-12.3
CCC*3 (days)	90.7	87.1	-3.6
Overseas sales ratio (%)	56	54	-2
Operating cash flow	66.6	106.0	39.4
Investing cash flow	(96.3)	(56.5)	39.8
Capital expenditure	95.4	53.0	-42.4
Free cash flow	(29.7)	49.5	79.2
Depreciation and amortization	50.9	55.2	4.3
R&D expenses	18.6	15.9	-2.7

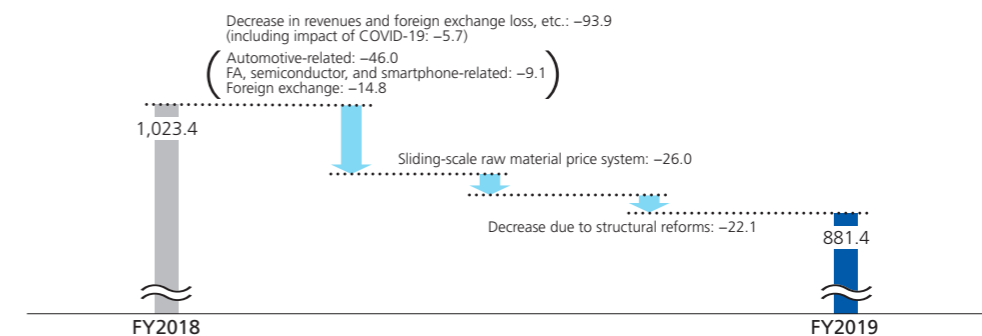
\*1 Adjusted operating income = Revenues – Cost of sales – Selling, general and administrative expenses

\*2 ROIC = Net income attributable to shareholders of the parent company ÷ (Average of beginning and end-year interest-bearing debt + Average of beginning and end-year equity attributable to shareholders of the parent company)

\*3 CCC = Working capital (Trade receivables + Inventories – Trade payables) ÷ Average daily revenue

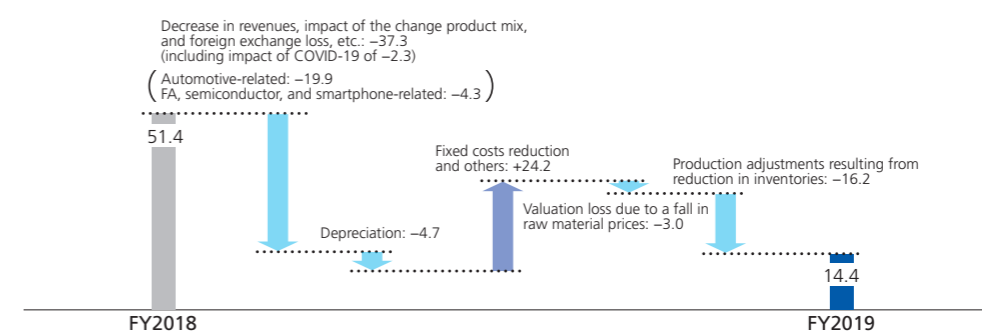
### Factors Behind Increase/Decrease in Revenues (Year-on-Year)

(Billions of yen)



### Factors Behind Increase/Decrease in Adjusted Operating Income (Year-on-Year)

(Billions of yen)



## Fiscal 2020 forecasts

COVID-19 infections continue to spread, with enormous repercussions across the global economy. We expect the impact on our business to be more significant than it was in fiscal 2019, a reflection of severely stagnated demand in the automotive, electronics, and industrial infrastructure sectors, which are the Group's main business domains. In related

business areas, we believe that the impact of COVID-19 will remain to some extent throughout fiscal 2020, although we will gradually begin to return to normal operations in the third quarter. We project that COVID-19 will have a ¥100 billion negative impact on revenues and a ¥40 billion negative impact on adjusted operating income in fiscal 2020.

### Fiscal 2020 Performance Forecasts

(Assumed exchange rate: US\$1=¥105)

	Disclosed forecast	Excluding impact of COVID-19
Revenues (Billions of yen)	750.0	850.0
Adjusted operating income (loss) (Billions of yen)	(5.0)	35.0
Adjusted operating margin (%)	-0.7	4.1
Income (loss) before income taxes (Billions of yen)	(15.0)	
Net income (loss) attributable to shareholders of the parent company (Billions of yen)	(12.0)	
ROIC	—	

## Advanced Metals

### Basic Policy of Fiscal 2021 Medium-Term Management Plan

Two issues remained unresolved at the completion of the Fiscal 2018 Medium-Term Management Plan: "Increased inventories" and "a delay in reaping the benefits of large-scale investments made at our domestic production sites." Our new Fiscal 2021 Medium-Term Management Plan recognizes these issues. Under the plan, we will generate synergies between businesses and engage in co-creation with customers with the aim of becoming the "No. 1 company in high-performance advanced metals."

### Fiscal 2019 Performance

#### ■ Specialty Steel Products

Sales of molds and tool steel decreased year on year, due to declining demand in international markets, especially China, as well as inventory adjustments, including ones in our domestic supply chain. Despite an increase in sales of rolls to Japanese customers, sales of injection molding machine parts decreased due to a sharp decline in demand in the third quarter of the fiscal year.

Sales of industrial equipment decreased year on year, reflecting a decline in demand for automobile-related products. Sales of aircraft- and energy-related materials increased due to rises in demand for those materials.

Despite increases in sales of organic EL panel-related components and clad materials for smartphones and batteries, overall sales of electronic materials decreased year on year, due to a decline in demand for semiconductor package components.

Adjusted operating income declined year on year, due primarily to decreasing demand for molds, tool steel, industrial materials, and other mainstay products, as well as falling prices of raw materials and a decline in work-in-process on the back of shrinking market demand.

#### ■ Functional Components and Equipment

Sales of automotive castings declined year on year due to several factors, including an ongoing decline in demand for light trucks and passenger cars in North America. In addition, demand for castings for commercial vehicles, construction

machinery, and agricultural machinery, which was relatively strong through the second quarter, declined from the third quarter, while demand in Asia was also down. Another factor was the spread of COVID-19 at the end of the fiscal year. Sales of heat-resistant exhaust castings decreased year on year, mainly reflecting a decline in sales of new vehicles and more meticulous order selections among customers seeking to improve earnings. Following a decision to withdraw from the aluminum wheel business, the Company sold a U.S. consolidated subsidiary that manufactured aluminum wheels in March 2019. We are also making progress, as planned, to end production in Japan by September 30, 2020.

Among piping components, sales of pipe fittings to both domestic and international customers remained mostly unchanged year on year. Sales of semiconductor manufacturing equipment decreased year on year due to delays in some capital investment projects, resulting in a decline in overall sales of piping components.

Adjusted operating income declined due to several factors. These included falling demand for automotive castings in North America, a key market, ongoing sluggish sales of semiconductor-manufacturing equipment, and the suspension of operations by major customers in response to the COVID-19 outbreak.



Clad materials



Castings and fittings

		FY2019 results
Specialty steel products	Revenues	¥250.6 billion
	Adjusted operating income	¥5.5 billion
	Adjusted operating margin	2.2%
	ROIC	1.9%
Functional components and equipment	Revenues	¥299.7 billion
	Adjusted operating loss	¥0.9 billion
	Adjusted operating margin	-0.3%
	ROIC	—
Total*	Revenues	¥550.3 billion
	Adjusted operating income	¥4.6 billion
	Adjusted operating margin	0.8%
	ROIC	0.8%

\*Simple sum before eliminating intersegment revenues

## Advanced Components & Materials

### Basic Policy of Fiscal 2021 Medium-Term Management Plan

Under our Fiscal 2021 Medium-Term Management Plan, we will work to address the megatrends of urbanization, the declining birthrate and aging population, serious environmental problems, and technological advances. Having identified key growth areas—automobiles, factory automation (FA) and robots, medical devices, and rolling stock—we will focus on "reaping the benefits of investments," "concentrating our resources," and "generating synergies between businesses."

### Fiscal 2019 Performance

#### ■ Magnetic Materials and Power Electronics

In magnetic materials, sales of rare earth magnets for industrial machinery-related applications were impacted by a sharp decline in demand for FA equipment and robots, while demand for automotive electronic components was also down. In addition, overall sales of magnetic materials including ferrite magnets declined year on year due to lower sales of automotive electronic components.

In power electronics materials, we reported an increase in sales of soft magnetic materials and their applied products for use in electrical vehicles. However, sales of amorphous metals for use in transformers and some components for consumer products declined. Meanwhile, we enjoyed an increase in demand for ceramics products for use in automotive electronic components and medical and security-related devices. As a result, overall sales of power electronics remained mostly unchanged from those of the previous year.

Adjusted operating income declined due to a decrease in demand for magnetic materials. We incurred an impairment loss in the magnetic materials business, stemming mainly from changes in the business environment and our reassessment of the future profitability of the rare earth magnet business. As a result, operating income declined year on year.

#### ■ Wires, Cables, and Related Products

In this segment, we enjoyed an increase in sales of medical tubes and cables on the back of higher demand. However,

sales of electric wires and cables for rolling stock decreased as large-scale projects entered the off-season, and sales of magnet wires decreased due to falling demand for both automotive and industrial applications. Demand for electric wires and cables for devices, mainly for FA/robot applications, also fell. As a result, overall sales of wires, cables, and related products decreased year on year.

In automotive components, demand for both automotive electronic components and brake hoses decreased due to a decline in new vehicle unit sales globally.

Adjusted operating income decreased due mainly to lower demand.

		FY2019 results
Magnetic materials and power electronics	Revenues	¥116.8 billion
	Adjusted operating income	¥1.4 billion
	Adjusted operating margin	1.2%
	ROIC	0.9%
Wires, cables, and related products	Revenues	¥213.3 billion
	Adjusted operating income	¥6.7 billion
	Adjusted operating margin	3.1%
	ROIC	5.0%
Total*	Revenues	¥330.1 billion
	Adjusted operating income	¥8.1 billion
	Adjusted operating margin	2.5%
	ROIC	2.5%

\*Simple sum before eliminating intersegment revenues



Medical cables and tubes



SiN substrates

## Value creation

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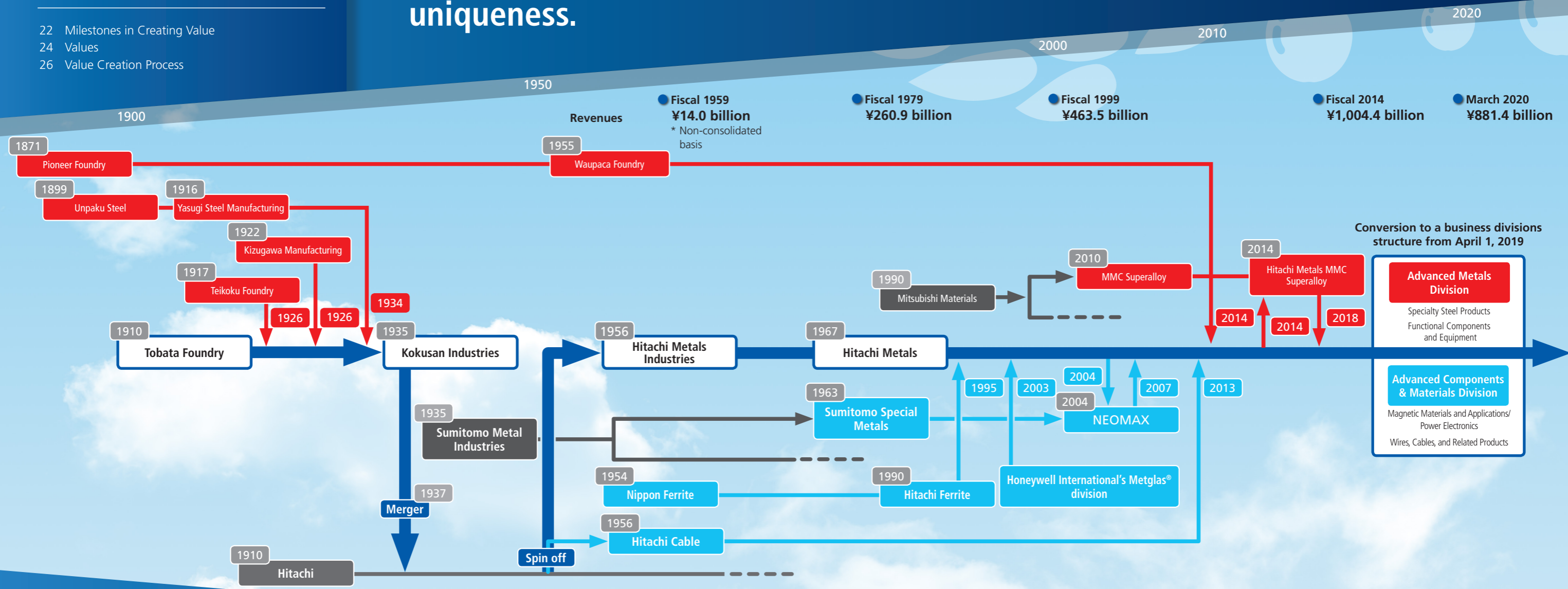
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## Milestones in Creating Value

# Diversity is the embodiment of Hitachi Metals' uniqueness.

Over our more than 100-year history, the Hitachi Metals Group has continued to grow through a succession of mergers and acquisitions. Through this process, we created the diverse technologies, products, and business portfolios that are the source of our competitiveness, and this diversity is the embodiment of "Hitachi Metals' uniqueness." Operating

in the field of materials, which is undergoing drastic technological change, we will build on and strengthen the diversity that we have cultivated throughout our history, to continue to be a company that is indispensable to customers and society.

**1910 Tobata Foundry**

At a time when a modernizing Japan relied on imports for almost all of its industrial goods, Yoshisuke Ayukawa acquired malleable cast iron manufacturing technology and established Tobata Foundry, the predecessor of Hitachi Metals. In 1911, the company began manufacturing Gourd brand-black heart malleable cast iron pipe joints. The company later began to produce products for other uses including shipbuilding, railways, and spinning machines, and orders grew steadily as the superior quality of these products was recognized. Business areas were diversified through mergers with Teikoku Foundry, which at the time was producing steel for steel rolling, Kizugawa Manufacturing, a producer of fittings, and steelmaker Yasugi Steel Manufacturing.

**1935 Kokusan Industries**

As the business expanded to cover heavy industries in general, Tobata Foundry changed its name to Kokusan Industries.

**1956 Hitachi Metals Industries**

Hitachi transferred its metals business with five originally Tobata Foundry plants (Tobata, Fukagawa, Kuwana, Wakamatsu, and Yasugi) to establish Hitachi Metals Industries.

**1967 Hitachi Metals**

Hitachi Metals Industries changed its name to Hitachi Metals. Through creative *monozukuri* and proactive mergers and acquisitions, the Company went through a succession of changes and grew to become one of the world's leading materials manufacturers. Today, the Company provides technologies and services that are contributing to the shift in automobiles to electric vehicles, and advances in industry, infrastructure, and electronics around the world.

**1995 Hitachi Ferrite**

Merged with Hitachi Ferrite in 1995 to strengthen the soft magnetic materials business in response to increased demand for noise reduction in automobiles and electronics.

**2003 Honeywell International Inc.'s Metglas® division**

Acquired the Metglas® (amorphous metal materials) division of Honeywell International of the United States. Strengthened the soft magnetic materials division as demand in the electronics segment grew for size and weight reductions, energy conservation, and electromagnetic noise reduction.

**2007 NEOMAX**

Established through the merger of the magnetic materials and applications operations of Hitachi Metals and Sumitomo Special Metals to manufacture high-performance neodymium magnets and ferrite magnets widely used in motors for automotive equipment and home appliances. With demand for automotive-use motors expected to grow, the merger was carried out in 2007 to integrate the magnetic materials businesses and increase synergies.

**2013 Hitachi Cable**

Merged with Hitachi Cable, the Hitachi Group's electric wires and cable business, in 2013. As the pace of movement toward a low-carbon society accelerated, the merger was intended to create synergies in terms of technologies and sales in the automotive, electronics, and industrial infrastructure segments.

**2014 Waupaca Foundry**

Made Waupaca Foundry, the world's largest manufacturer of automotive-use castings with an overwhelming share of the U.S. market, a subsidiary in 2014. Expanded our business to become the world's largest supplier of iron castings.

**2014 Hitachi Metals MMC Superalloy**

Made MMC Superalloy, with extensive experience and technological capabilities in aircraft parts, a subsidiary with a view toward global growth in core industries including aircraft and energy. Hitachi Metals' Okegawa Works established in April 2018.

# Value that only we can create

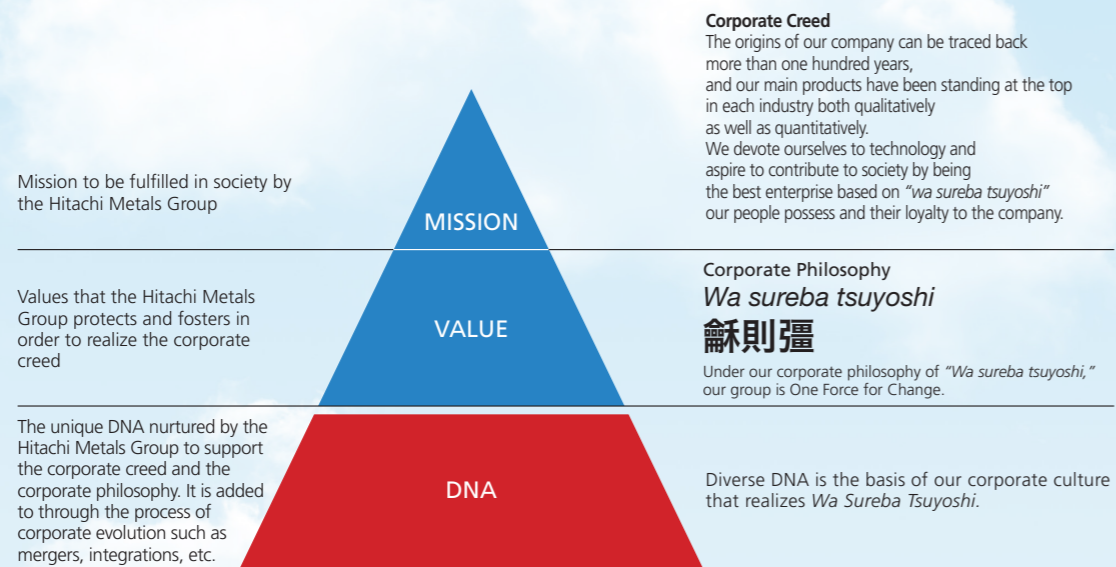
Our DNA has been cultivated over our more than 100-year history. The Hitachi Metals Group's DNA consists of the distinctive technologies and products of all of the companies in the Hitachi Metals Group and the unique human resources that create them.

By further integrating our diverse DNA with the common value represented by our Corporate Philosophy of "*Wa sureba tsuyoshi*," we are paving a unique path for growth that other companies cannot match.

To achieve this growth, our mission is to implement our Corporate Creed to become the "best enterprise."

## Hitachi Metals WAY

The Hitachi Metals WAY is based on the Hitachi Metals' Good Practice Guidance and standards for decision-making, systematically incorporating the Corporate Creed (Mission), Corporate Philosophy (Value), and our diverse DNA that are the embodiment of Hitachi Metals' uniqueness.



## Corporate Creed

The Hitachi Metals Group aims to be the "best enterprise" by "mass-producing high-quality materials"\*<sup>1</sup> with our major products leading the industry in terms of both quality and quantity, with attention to technology as a "genuinely development-driven company"\*<sup>2</sup> where all employees come together to create synergies. Using a large tree as an example, the Hitachi Metals Group's DNA (a tree's roots—diverse human resources, technologies, and products) passes through our Corporate Philosophy (tree trunk—common sense of values) to reach fruition as our Corporate Creed (flowers and fruit—technologies, products, and services). By growing as a "tree" that provides the flowers and fruits that meet the needs of society and individuals, we will achieve our Corporate Creed of being the "best enterprise."

\*<sup>1</sup> Advanced *monozukuri* that provides both "quality" and "quantity" in products and services that resolve issues for customers and society.

\*<sup>2</sup> A company that carries out research and development guided by business strategies that embody the needs of customers around the world and paves the way to the future.

## Corporate Philosophy

Our Corporate Philosophy is our diverse DNA brought together as a common sense of values, or, to use the example of the Hitachi Metals Group as a large tree, our Corporate Philosophy plays the role of the trunk. Creative and diverse human resources, technologies, and products (with a "strong individuality") form a platform that is essential for the Hitachi Metals Group's growth, and, without this, cohesiveness innovation will not occur. Based on our Corporate Philosophy of "*Wa sureba tsuyoshi*," we bring together diverse "strong individuality" to create successive innovation that other companies cannot match, and use those achievements to provide products and services that resolve issues for individuals and society.

## DNA

Our DNA consists of the distinctive technologies and products of all companies in the Hitachi Metals Group, and the unique, talented human resources who create them. Using the example of the Hitachi Metals Group as a large tree, our DNA would be the roots.

With many roots over a wide area, we will be able to obtain more nourishment as the roots grow stronger, and overcome changes in the operating environment and continue to grow. The diversity incorporated in our DNA is the growth driver that is our strength.

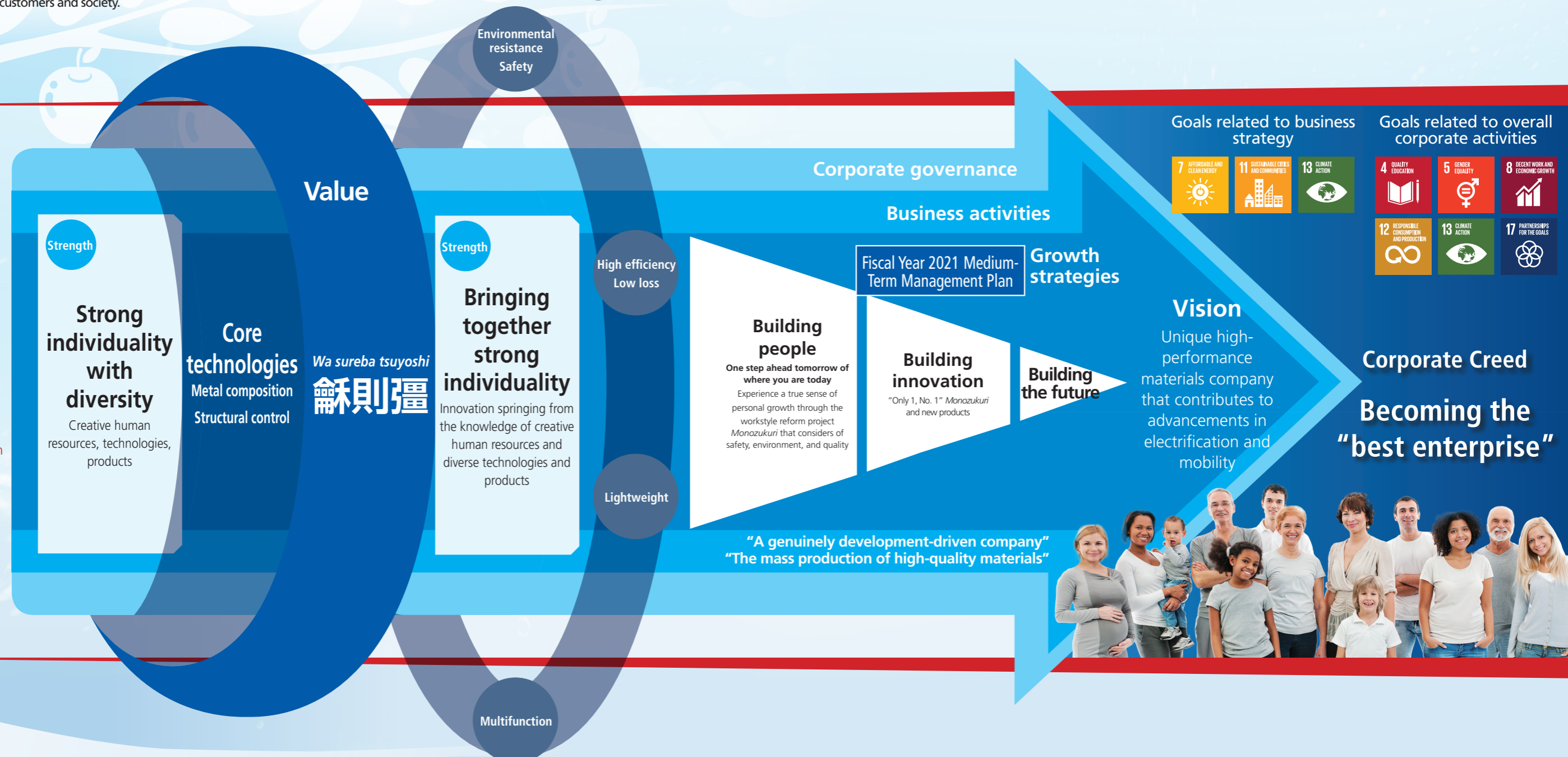
# Value Creation Process

Our strength lies in the “strong individuality” of our creative, diverse human resources, technologies, and products, and we create innovation that brings together the “strong individuality” embodied in our Corporate Philosophy of “*Wa sureba tsuyoshi*.” Using this strength, we are addressing the materials-related needs of customers based on global megatrends and market needs, to become a high-performance materials company supporting sustainable societies. By pursuing a growth strategy supported by corporate governance based on the principle of “obey the law and walk the path of virtue” and business activities as “a genuinely development-driven company” engaged in the “mass production of high-quality materials,” we will work to become the “best enterprise” that contributes to society’s sustainable development by continuing to be a company that is indispensable to customers and society.

Global megatrends	
Climate change	Lack of energy and resources
Urbanization	Demographic changes
Technological advances including in information technology	
Measures for environmental regulation	Increased need for energy conservation
	Increased need for mobility

Market needs		
Automotive (electric vehicles)	Electronics (Internet of Things, and semiconductors and displays)	Infrastructure-related (aircraft, railways)

## Needs for materials



**DNA**  
DNA cultivated over more than 100-year history  
(addition and maturation through process of evolution including mergers and acquisitions)

**Strength**  
**Strong individuality with diversity**  
Creative human resources, technologies, products

**Core technologies**  
Metal composition  
Structural control

*Wa sureba tsuyoshi*  
**韋則彊**

**Strength**  
**Bringing together strong individuality**  
Innovation springing from the knowledge of creative human resources and diverse technologies and products

High efficiency  
Low loss

Lightweight

Multifunction

**Building people**  
One step ahead tomorrow of where you are today  
Experience a true sense of personal growth through the workstyle reform project *Monozukuri* that considers of safety, environment, and quality

Fiscal Year 2021 Medium-Term Management Plan

**Building innovation**  
“Only 1, No. 1” *Monozukuri* and new products

**Building the future**

“A genuinely development-driven company”  
“The mass production of high-quality materials”

Corporate governance

Business activities

Growth strategies

Goals related to business strategy



Goals related to overall corporate activities



**Vision**

Unique high-performance materials company that contributes to advancements in electrification and mobility

**Corporate Creed**  
**Becoming the “best enterprise”**



## Addressing business risks

Changes in the external environment				
Lower profits from high resource prices	Intensified competition from rise of Chinese and emerging-market manufacturers	Lower competitiveness from strengthening yen	Increased costs from higher expectations for quality	Loss of standing for existing products from technological innovation

## Examples of Products That Help Realize a Sustainable Society

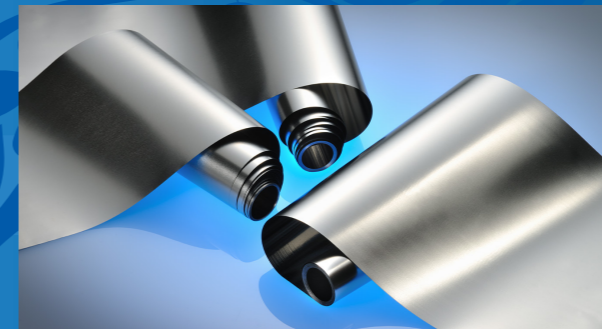
Our global environment faces many challenges, including rising sea levels and intensifying storms and floods resulting from climate change, as well as the depletion of resources and the loss of biodiversity. To address these challenges, we are pursuing environmental activities all over the world. The Hitachi Metals Group focuses on the development of key environmentally conscious products. At the same time, we contribute to realizing a sustainable society by providing key environmentally conscious products to customers in a wide range of fields, such as those for automobiles and electric power.

### Part 3



## Technology and R&D

### For the electric power industry



Metglas® amorphous alloy ribbon



### For the automobile industry



NEOMAX® neodymium magnets



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## SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

In 2015, the United Nations adopted a set of 17 Sustainable Development Goals (SDGs) as part of a universal action plan aimed at ending poverty, protecting the planet, and ensuring peace and prosperity for all people by 2030.

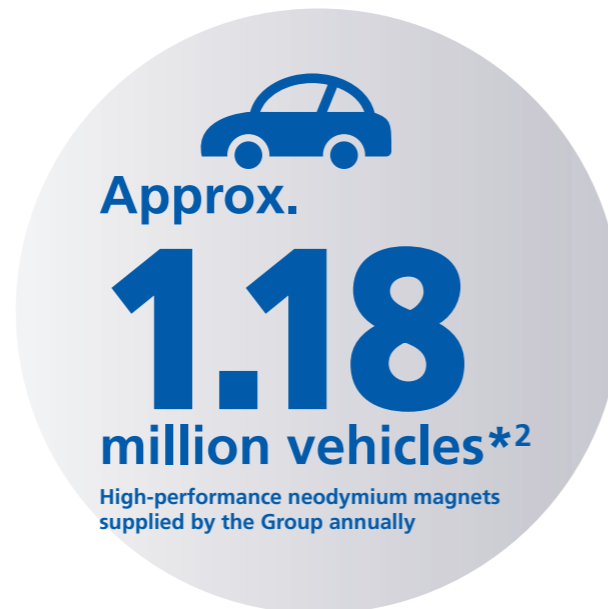


### ■ Neodymium magnets: Contributing to popularization of xEVs

In 1982, our company (then called Sumitomo Special Metals) invented a neodymium magnet with a much stronger magnetic force than ordinary ferrite magnets. In general, a stronger magnetic force of the magnet means higher performance of the motor, which contributes to miniaturization and weight reduction. In light of technological advances in xEVs\*<sup>1</sup>, neodymium magnets play a significant role, which are indispensable for making motors smaller and lighter, thus increasing efficiency and saving energy. Boasting the world's strongest magnetic force among permanent magnets, NEOMAX<sup>®</sup> magnets are used in various fields, including automobiles, IT, home appliances, industry, medical devices, and environment and energy. Currently, we are focusing on increasing our presence in the automotive market, which is undergoing transformation due to advances in connectivity, automated driving, and electrification. Supplying high-performance neodymium magnets for around 1.18 million vehicles\*<sup>2</sup> annually, we contribute to higher efficiency and downsizing of xEV drive motors and generators.

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

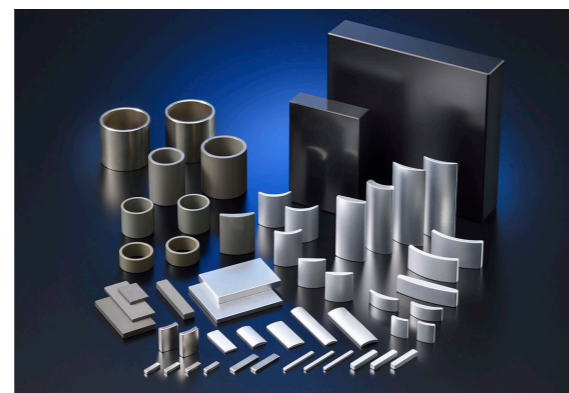
\*2 Based on the Fiscal Year 2021 Medium-Term Management Plan



### ■ Sustainable use of rare earth materials

Neodymium magnets are expected to find more widespread use as companies work to realize an energy-efficient society. These magnets consist mainly of neodymium, iron, and boron, a composition that is vulnerable to heat and whose magnetic properties deteriorate when the temperature exceeds around 80°C. Therefore, it is necessary to add dysprosium (Dy) and terbium (Tb), which are heavy rare earth elements.

Neodymium and heavy rare earth elements are indispensable materials for the evolution of magnets, but since they are derived from natural resources, there are risks in terms of procurement stability and costs. Because it is difficult to reduce the amount of neodymium, which is the basic composition of the magnets, the Group has been developing the NEOMAX<sup>®</sup>F Series since 2014, reducing the amount of heavy rare earth elements while maintaining heat resistance. By limiting the use of rare earth elements, we contribute to their sustainability.



NEOMAX<sup>®</sup> neodymium magnets

#### Rare earth magnet business

We produce neodymium rare earth magnets (neodymium magnets), which are indispensable for advances in miniaturization, weight reduction, and operational and energy efficiency. They are used in motors in such fields as automobiles, IT, home appliances, industry, medical devices, and environment and energy. In the automotive field, they are used in xEV drive motors and generators.

	Contribution to SDGs	Value created
Environmental value	7.3 11.6 13.1	<p>We provide high-performance rare earth magnets for xEV applications in order to improve fuel efficiency, reduce vehicle exhaust emissions, and enhance operational efficiency and miniaturization of xEV drive motors and generators, stemming from replacement of internal combustion engines with xEV motors. (Approximately 1.18 million vehicles/year equivalent) [Customer value created]</p> <p>Note: Based on the amount used and shipment volume for xEV applications</p> <p>Developing magnets that require less heavy rare earth resources (less heavy rare earth magnets) will reduce the use of such resources. [In-house value created]</p>
Potential risk of business on society/environment	Environmental destruction due to rare earth mining; poor working conditions	Response Procure from companies that care for the environment and working conditions

### ■ Amorphous alloys: Contributing to energy efficiency of power transformers

Transmission energy gets lost as electricity travels from the power plant to factories and homes. High-voltage electricity sent from the power plant is converted to low-voltage electricity by transformers. However, transformers not only consume power during the conversion, but also when in standby mode.

To solve this problem, the Hitachi Metals Group developed an amorphous alloy called Metglas<sup>®</sup>. Transformers using Metglas<sup>®</sup> as the core material consume around one-third of the power of those using conventional materials, such as magnetic steel sheets. We have been supplying this alloy since 2003. Amorphous alloys have excellent soft magnetic properties due to their lack of crystal structure, which makes it possible to suppress power loss in standby mode. The Group has provided core materials for 480,000 amorphous transformers, contributing to a reduction in CO<sub>2</sub> emissions\*<sup>3</sup> of around 50,000 tons\*<sup>2</sup> per year compared with those of conventional transformers. In March 2020, meanwhile, we announced the development of MaDC-A<sup>™</sup>, a new amorphous material that contributes to even higher efficiency in transformers.

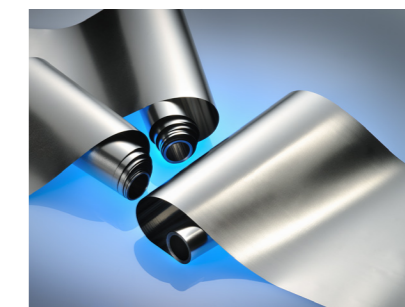
\*3 Based on shipment volume and difference in transformer energy loss, according to Indian standards  
For the CO<sub>2</sub> emission coefficient, we use IEA CO<sub>2</sub> emissions from fuel combustion (2017 world).



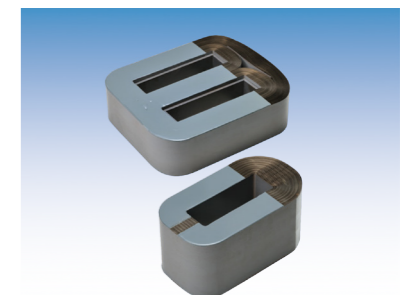
### ■ Targeting a global proliferation rate of 30% for high-efficiency amorphous transformers

Amorphous alloys are used in transformer cores to help save energy and reduce CO<sub>2</sub> emissions. However, the initial costs are higher than those for conventional transformers, and standards and regulations related to enhancing transformers' energy efficiency are inadequate. For these reasons, the global proliferation rate for amorphous core transformers is only 14%, according to our research. The Hitachi Metals Group is working to develop materials aimed at reducing the initial costs. Also, we are seeking to establish appropriate evaluation benchmarks through lobbying activities targeting governments, electric power providers, and electric transmission companies, while providing our expertise to amorphous transformer manufacturers. Our goal is to achieve a global proliferation rate of 30%, which will lead to reductions in CO<sub>2</sub> emissions of more than 4.6 million tons per year, equivalent to the emissions of 32 coal-fired power plants (each with a 1 million-kilowatt capacity).

Since amorphous alloys can also help enhance the energy efficiency of products other than transformers, we anticipate a significant emergence in demand. We will work to minimize environmental impacts in more domains by developing new production and processing procedures for amorphous alloys.



Metglas<sup>®</sup> amorphous alloy ribbon



High-frequency transformer core

#### Soft magnetic materials business

We produce soft magnetic materials used in energy-saving transformers and noise suppression components in industrial and electronic equipment.

	Contribution to SDGs	Value created
Environmental value	7.3 13.1	<p>Compared with transformers using conventional materials, such as grain-oriented magnetic steel sheets, the no-load loss (standby power) of those using amorphous alloys is low, at around one-third. We provide high-efficiency amorphous transformer materials that can significantly reduce power conversion loss (used in around 480,000 transformers). This translates to an annual CO<sub>2</sub> emission reduction of around 50,000 tons compared with transformers using grain-oriented magnetic steel sheets. [Customer value created]</p>
Potential risk of business on society/environment	—	Response —



## Aiming to Be a “Genuinely Development-Driven Company”



In April 2017, the Hitachi Metals Group opened the Global Research & Innovative Technology center (GRIT), a reflection of its principle to “promote research, development, and innovation for the future, to become a genuinely development-driven company.” In April 2018, we opened a new facility within GRIT consisting of a research building and an experimental building. We will continue to invest in R&D on advanced materials that foster sustainable growth and contribute to society. At the same time, we will deploy AI, materials informatics, and other digital technologies to shorten product development periods.



### Main R&D achievements in fiscal 2019

In fiscal 2019, the Group made investments in R&D totaling ¥15.9 billion and achieved the following results. We will contribute to advances in weight reduction and fuel and energy efficiency of products in fields related to industrial infrastructure, electronics, and automobiles, where electrification (xEV)\*1 is making progress.

#### Specialty Steel Products

- The Group developed MVF-5X, a new Mo alloy with high corrosion resistance and the high adhesion properties needed for high-performance thin-film devices and the low stress and flex resistance needed for flexible substrates. This product is expected to be used as a foundation film for ensuring the adhesion of functional thin films and as a cap film to protect surfaces.
- The Group developed SLD®-f, a prehardened die steel\*2 with a 60 HRC-level hardness (versatile hardness of cold press dies) to which the cutting process can be directly applied when dies are produced. This product has the characteristics needed for die steel and is expected to open up new possibilities in the production of dies.
- The Group developed Tribec®SC, a physical vapor deposition (PVD) coating with improved erosion resistance and corrosion resistance using thick-film coating and blocking layers. The application of Tribec®SC to die casting and injection molding dies can be expected to increase the useful lives of dies.

#### Functional Components and Equipment

- The Group developed electrically operated segment ball valves with a variable opening/closing speed function that enables high-speed openings and closings. By combining the torque characteristics of these valves with those of electric motors inside actuators, users can set a minimum time of one second or a maximum time of 16 seconds for openings or closings.

#### Magnetic Materials and Applications

- The Group developed MaDC-A™, a magnetic domain control Fe-base amorphous alloy that can contribute to size and weight reduction and higher efficiency of distribution transformers. This product features approximately 25% less core loss than the Group's conventional products and is expected to reduce environmental impacts.
- The Group developed the MaDC-F™ series\*3 of soft ferrite cores for high-frequency power supplies. The cores are made of Mn-Zn soft magnetic materials that enable the reduction of core losses (energy losses) even in high-frequency environments. Accordingly, they are expected to help prevent performance degradation of servers, adapters, and EV power supplies and power transformers.
- The Group developed a high-power-density technology for on-board chargers (OBCs)\*4-5 for installation in EVs and plug-in hybrid electric vehicles (PHEVs). A prototype OBC incorporating this technology operated successfully at a high-output density of 3.8 kW/L (details on page at right).

#### Wires, Cables, and Related Products

- The Group developed EN wires with improved identifiability and thin-wall three-layer wires that incorporate multilayer simultaneous extrusion molding technology. Here, we used our original formulation technologies to lessen the diameter and weight compared to those in conventional EN wires, thus contributing to saving space and energy.

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

\*2 Moderately quenched steel materials for dies (featuring lower heat treatment costs, shorter delivery time, and no deformation from the quenching process, as no heat treatment is needed)

\*3 Received the Environment-, Resource- and Energy-related Components Award at the “CHO” MONOZUKURI (“super” production) Innovative Parts and Components Award 2019

\*4 AC/DC converter used to convert AC voltage to DC voltage and charge EV and PHEV batteries

\*5 The OBC prototype uses the soft magnetic materials of Hitachi Metals and the circuit technology of the Fraunhofer Institute for Integrated Systems and Device Technology IISB of Germany to achieve both high output and miniaturization.

### Open innovation for advances in output and compactness of in-vehicle chargers

The Hitachi Metals Group established the Global Research & Innovative Technology center (GRIT) to create a framework for promoting medium- to long-term research across the entire Group. By emphasizing cross-departmental projects and open innovation through collaboration between the research arm of our business headquarters and GRIT, we aim to create new levels of value. Below, we introduce examples of prototype development through open innovation aimed at increasing the output and miniaturization of in-vehicle chargers, including those of EVs.

#### ■ Addressing problems of on-board chargers

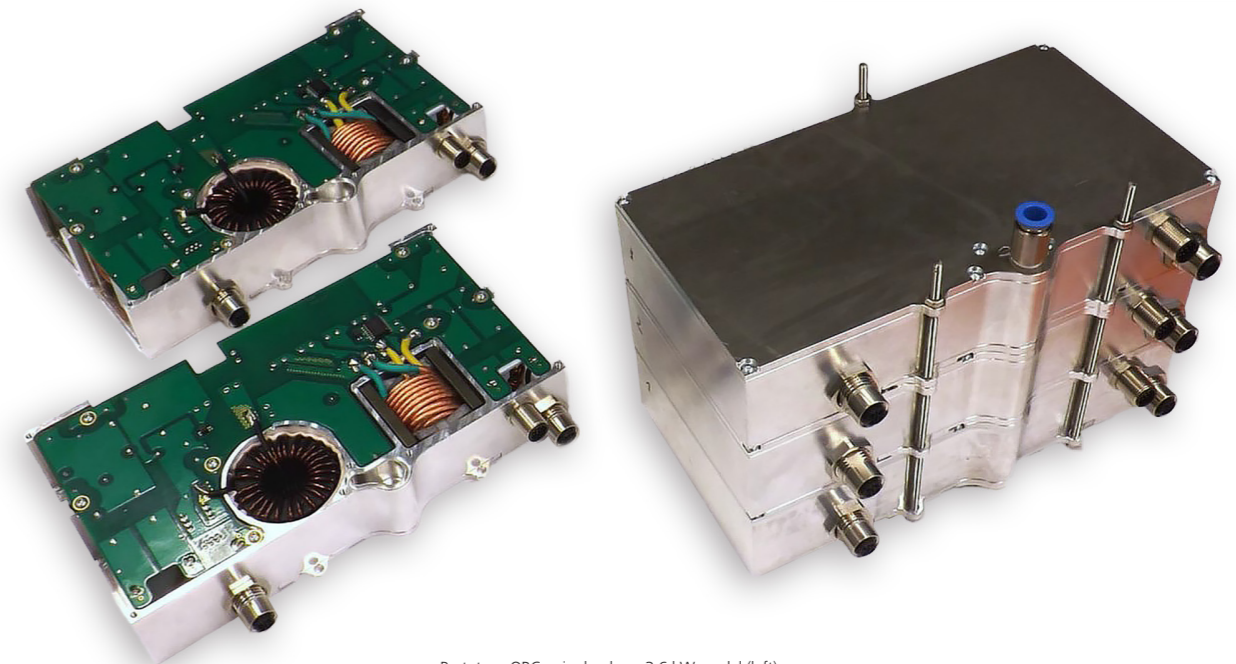
Charging batteries for such things as EVs requires conversion of alternating current (AC) to direct current (DC), and on-board chargers (OBCs), which serve as AC/DC converters, need to have high output to charge batteries in a short time. They also need to be compact to save space inside the vehicle. Since there is a trade-off between high output and the miniaturization of OBCs, achieving both has been a longstanding challenge. As a manufacturer of soft magnetic materials, the Hitachi Metals Group constantly looks for ways to help resolve problems. With the OBC issue in mind, we started working with the Fraunhofer Institute for Integrated Systems and Device Technology IISB (Fraunhofer IISB), the largest applied research institute in Europe.

#### ■ World's highest levels of output and miniaturization

Together with Fraunhofer IISB, we applied silicon carbide (SiC) to semiconductors and used a combination of our soft magnetic materials—which permit both miniaturization and high-frequency drive—and Fraunhofer IISB's circuit technology to develop a high-output, compact OBC prototype. In April 2019, we announced our development of an OBC that can independently operate at 3.8 kW/L, which is the world's highest output density. Moreover, up to six units can be connected in parallel to achieve outputs as high as 22 kW. This type of flexibility will lead to significant reductions in OBC design time and cost. By sharing the data obtained from such open innovation with our OBC-manufacturing customers, we will contribute to the practical application and widespread use of high-output, compact OBCs.

#### Soft magnetic materials used in OBC prototype

- **Section of input/output noise filter**  
Common-mode choke coils made with the FT-3K50T (Finemet®) nanocrystal alloy
- **Rectifier/power factor correction circuits**  
Choke coils made with the HLM50 series of amorphous powder cores
- **AC/DC converter**  
Isolation transformer (with integrated resonant inductor) made with ML29D low-loss soft ferrite core material



Prototype OBCs: single-phase 3.6 kW model (left) and three-phase 11 kW model (right)

## Message from the Chair of the Board of Directors



**Kenichi Nishiie**  
Chair of the Board of Directors



## Foundation

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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

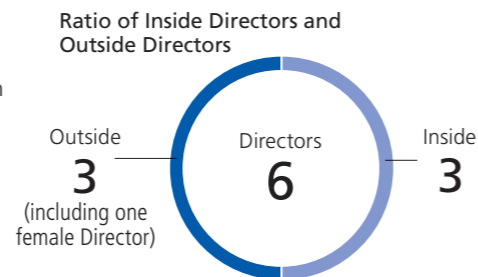
beyond simple financial disclosure, regularly publishing the details of individual business segments and medium-term management plans. We acknowledge that compliance is the linchpin of corporate governance. Nonetheless, our corporate activities go beyond mere compliance with laws and internal regulations, 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

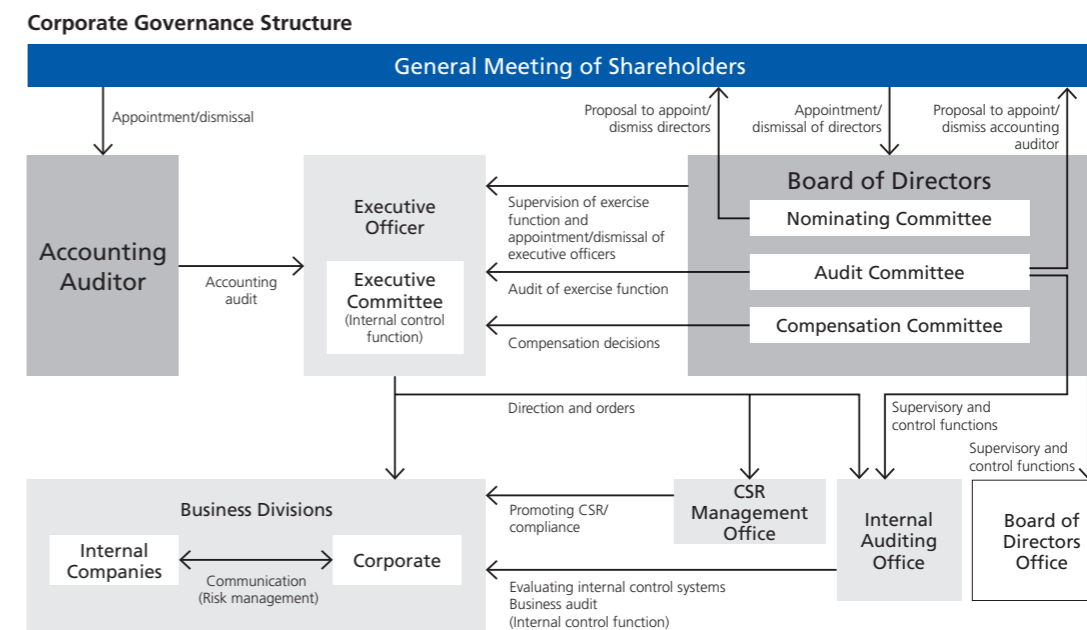
Organization System	
A Company with a nominating committee, etc.	
Directors	
Number of Directors stipulated in the Articles of Incorporation	10
Term of office of Directors stipulated in the Articles of Incorporation	One year
Chair of the Board of Directors	Other Director
Number of Directors	Six (including 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)



## Overview of Corporate Governance System, etc.



### 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 indicator is predetermined by the Company with a range from 0 to 2 so that the target for each indicator 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

## ■ 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

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.

(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**

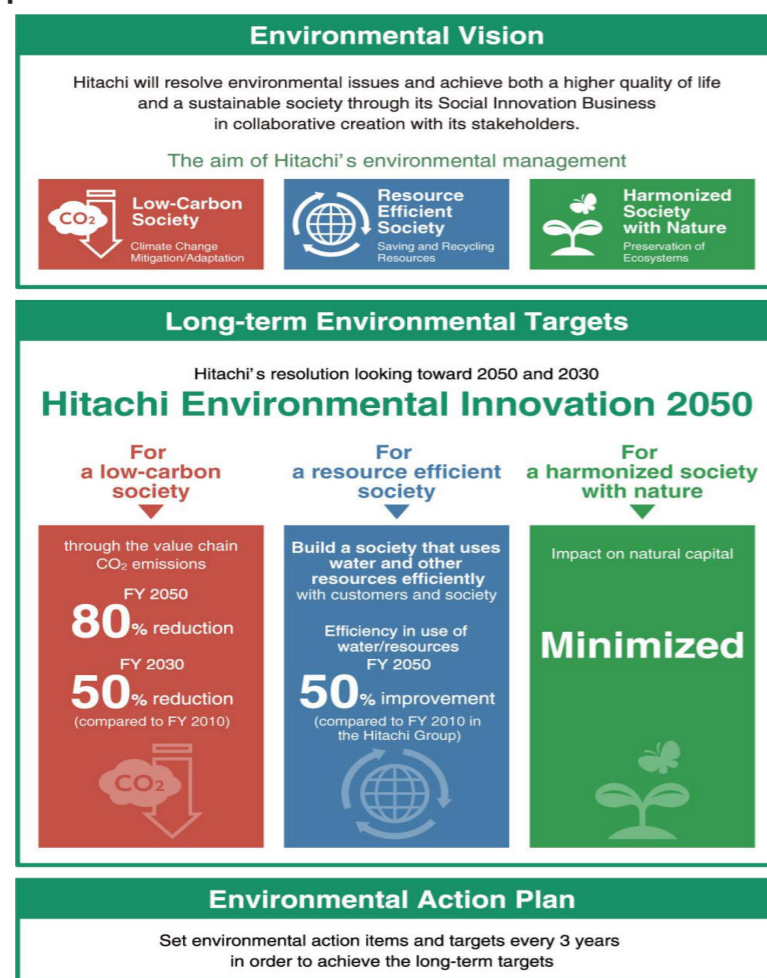
The Group bears large retirement benefit costs and obligations, which are determined by actuarial calculation. Evaluations of these costs include key assumptions on estimating pension costs, such as mortality rates, separation rates, retirement rates, changes in salary, discount rates, and expected rates 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<sub>2</sub> 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 <sub>2</sub> emissions per production unit (5% compared with base year FY2010)	• Reduce CO <sub>2</sub> emissions per production unit (1.4% compared with base year FY2010)	• Reduce CO <sub>2</sub> emissions per production unit (7% compared with base year FY2010)
• Improvement ratio of waste generation per production unit (12% compared with base year FY2010)	• Improvement ratio of waste generation per production unit (17% compared with base year FY2010)	• Improvement ratio of waste generation per production unit (14% compared with base year FY2010)
• Waste landfill rate (14%)*	• Waste landfill rate (13.7%)	• 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<sub>2</sub> emissions

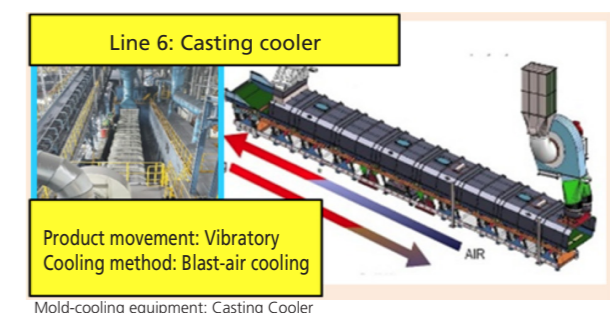
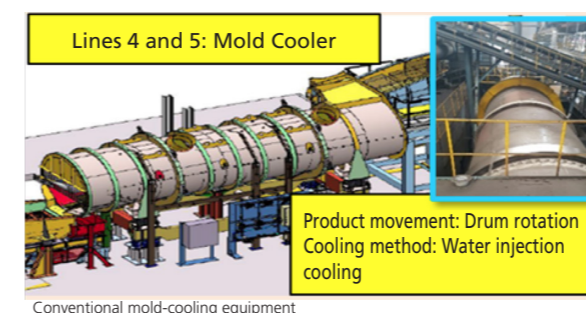
#### Energy-saving activities at the plant in South Korea

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 vibratory type, reducing collisions among products.



Scrap preheating equipment



## 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.



## 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 <sub>2</sub> emissions (thousands of tons of CO <sub>2</sub> /year)	2,319	2,630	2,778	2,673	2,779
CO <sub>2</sub> emissions per production unit (tons of CO <sub>2</sub> /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 <sup>3</sup> )	12,186	13,391	13,849	14,551	16,845
Water consumption per production unit (thousands of m <sup>3</sup> /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 CO<sub>2</sub> 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.



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

### 2020 MSCI ESG Leaders Indexes Constituent

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



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.

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



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.



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."

THE INCLUSION OF Hitachi Metals, Ltd. IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF Hitachi Metals, Ltd. BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that Hitachi Metals, Ltd. has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

## 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)
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### Credit Rating

(As of August 2019)

Rating and Investment Information, Inc. (R&I)	Long-term Debt A+
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### 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	<a href="https://www.hitachi-metals.co.jp/e/">https://www.hitachi-metals.co.jp/e/</a>

### Stock Price Chart



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

 **Hitachi Metals, Ltd.**