HITACHI

The Hitachi Metals Group Report 2021

Integrated Report

Materials Mag!c

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Information provided by the Hitachi Metals Group

Information on how the Hitachi Metals Group creates value and achieves sustainable growth	The Hitachi Metals Group Report (Integrated Report)				
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Financial information ← → Non-financial information

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 2020 (April 1, 2020–March 31, 2021)

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.

Environment
Social
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Guidance for Collaborative Value Creation

PART 1

Strategies

CONTENTS

Message from the President

We will strive to enhance corporate value and renew growth.

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
April 2021	Representative Executive Officer, Chairperson, President and Chief Executive Officer, (current position)

The Hitachi Metals Group is pursuing various measures to resolve management issues and regain a growth trajectory.

The Group’s business performance has been on a declining trend for several years, resulting in bottom-line losses in fiscal 2019 and 2020. Those were due to several factors, including large investments in multiple directions that we made mainly during the period of the previous Medium-Term Management Plan, which ended in fiscal 2018. Due to changes in the market environment and inadequate management resources during the start-up phase, however, we were unable to derive the investment benefits we initially anticipated. As a result, our cost structure deteriorated and our operational structure became vulnerable to changes in the business environment. Therefore, we announced a new Medium-Term Management Plan in October 2020, aimed at building a robust business structure for maintaining stable business activities even when the environment changes. On the basis of that plan, we are implementing various measures, including business structural reforms and inventory optimization. We will continue working relentlessly to transform our earnings foundation to allow us to secure resources for future growth investments.

In addition, we caused a great deal of anxiety and inconvenience to our customers and other related parties with the quality assurance issue announced in April 2020. All members of the Group have reflected deeply on the situation and will work to rebuild a corporate culture centered on “integrity” while steadily implementing measures to prevent any recurrence.

To accelerate these efforts toward transformation and growth, in April 2021, we decided to approve a tender offer for the Company’s shares from a consortium of companies led by Bain Capital (hereinafter, the “New Partners”). Committed to becoming a high-performance materials company that supports a sustainable society, we will promptly pursue bold reforms by fully deploying the resources of the New Partners.

Medium-Term Management Plan

We have since reviewed the Fiscal 2021 Medium-Term Management Plan, announced in April 2019. Under the revised plan, released in October 2020 (see pages 12–13), we will implement another round of cost structure reforms to improve our business performance at an early stage and transform our earnings foundation to allow us to secure resources for future growth investments. Under the new plan, we are targeting an adjusted operating margin of 8% and ROIC of 8% in fiscal 2022. We envision a robust business structure to permit continued business activities from a long-term perspective even when the business environment changes, without being limited to short-term profit improvement measures, and thus return the Group to a growth trajectory.

We have positioned fiscal 2020–2021 as a preparatory period called "Set to Grow" to build up our capabilities for a quantum leap forward. In fiscal 2020, we implemented business structural reforms, including withdrawing unprofitable products and consolidating and eliminating business sites. We also improved the yield rate through manufacturing reforms, optimized inventories, and reduced material costs and expenses through our cross-lateral corporate functions. In addition, we sought to optimize personnel costs in line with revenue.

In fiscal 2021, we will continue striving to reform our business structure, reduce costs and expenses, and optimize personnel expenses to transform and make our profit structure more resilient to demand fluctuations. At the same time, we will perform benchmark analyses of the global competitive environment for each business. On the basis of those analyses, we will accelerate business revitalization in each segment to form an optimal portfolio of growth and core businesses.

Through these efforts, the Group will build a business structure capable of generating investment funds for future growth. Our aim is to become a high-performance materials company that supports a sustainable society.

Quality assurance issue

We sincerely apologize once again to our customers for the great anxiety and inconvenience caused by the quality assurance issue we announced in April 2020 (see pages 8–11). Our products are widely used in such fields as those for automobiles, electronics, and industrial infrastructure, and we deeply regret any impact that the issue may have had on society. Placing top priority on addressing quality assurance issues, the Group will work as one to implement rigorous measures to prevent any recurrence and restore trust. Going forward, we will commit to thoroughly improving our quality assurance organizational structure and processes to the point where we can say quality is our major strength.

High-performance materials company that supports a sustainable society

As a corporate citizen, we will work proactively to achieve the Sustainable Development Goals (SDGs) in our quest to realize a sustainable society.

In terms of the environment, we recognize that addressing climate change is a pressing issue for all humankind. Accordingly, we are working to reduce CO_2 emissions from our business operations with the long-term goal of becoming carbon neutral by 2050. At the same time, we will foster the transition to a decarbonized society by developing and providing customers with advanced materials that help address climate change (see pages 44–45).

On the social front, we will step up efforts related to "health and safety" and "diversity," which are the foundations of our growth. In health and safety, we will hold Safety & Quality Meetings, led by top management, and emphasize basic safety for equipment and operations through risk assessments (see pages 46–47). As for diversity, we will share the values of our diverse human resources and mobilize their wisdom to drive our growth (see pages 48–49).

Accelerate transformation and growth through capital restructuring

With regard to capital restructuring (the tender offer for the Company's shares and the corporate consortium's participation in management), at present, the tender offer process is expected to move forward in late November 2021, once domestic and overseas competition regulators have completed various approval processes. We believe this restructuring will provide an excellent opportunity for the Group to accelerate its transformation and growth by, for example, enabling the Group to implement growth strategies without being constrained by the portfolio strategy of Hitachi, Ltd. Moreover, by becoming a non-listed company, we can plan strategies from a long-term perspective and implement bold reforms promptly, rather than focus on quarterly results, which a listed company must do. These are the major benefits of the capital restructuring. In addition, we believe we can respond more quickly and more professionally to rapid market changes by utilizing the global knowledge and networks of our New Partners to explore investment opportunities, obtain funding, and develop and implement growth strategies. We will fully deploy the resources of our New Partners to restore our competitiveness and profitability and thus achieve sustainable growth and increase corporate value.

In conclusion, this report is intended to provide investors and other stakeholders with an overview of the Group's initiatives to enhance corporate value and achieve renewed growth. To foster a better understanding of these initiatives, we have systematically compiled financial and non-financial information that we consider important for sustainable growth, in addition to details of our medium- and long-term management strategies. We strive to disclose information in an easy-to-understand manner by having all departments work together to consolidate and report under the Group's cross-organizational approach.

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

Improving Our Quality Control System

Message from the Chief Quality Officer (CQO)

Ryoichi Aita
Executive Officer
Chief Quality Officer (CQO)

We will be reborn as a company that maintains integrity and will continue striving to regain people's trust.

On April 27, 2020, the Company announced that it had discovered misrepresented test results in inspection reports submitted to customers for some products manufactured by the Company and its subsidiaries. We also announced the establishment of a special investigation committee of outside experts to confirm the facts and study the causes of the problem. The investigation confirmed the delivery of some products made by the Company and its subsidiaries that did not meet the specifications agreed upon with customers. These products included magnetic materials, specialty steel products, and automotive casting products. One cause was found to be misconduct that included rewriting the inspection results related to product characteristics agreed upon with customers. (The cases that initially identified misconduct and the investigation that then revealed misconduct are collectively referred to as the "Quality Assurance Issue." For details, please refer to "Results of investigation of the Quality Assurance Issue" below.)

It is truly regrettable that such misconduct affected multiple products and took place over a long time, and that we failed to draw on past cases at other companies as an opportunity to correct our own actions. We sincerely apologize once again for the inconvenience caused to our customers, shareholders, and other stakeholders.

The Group has currently set as its highest priority a comprehensive effort to implement measures to prevent any recurrence. Acutely aware that our products and services are used in a wide range of fields in society, we will continue striving to regain the trust of customers by being reborn as a company that maintains integrity in all aspects of its operations.

■ Results of investigation of the Quality Assurance Issue

In April 2020, the Company established a special investigation committee of outside experts to delve into the discovery of misrepresented test results in inspection reports about some products made by the Hitachi Metals Group. The committee spent around nine months confirming facts and identifying causes and announced the results in January 2021.

■ Summary of investigation results

The investigation, which covered all products manufactured by the Group, confirmed the following misconduct pertaining to magnetic materials, specialty steel products, and automotive casting products made since the 1980s.

- Rewriting of test results
- Inspections conducted using inconsistent methods or procedures
- Unimplemented inspections and diversion of converted values and past actual values
- 4M changes* made without customer approval

As a result of such misconduct, the delivery of products that did not meet the specifications agreed upon with customers was confirmed.

* 4M changes: including changes in manufacturing locations, manufacturing facilities, subcontractors, manufacturing processes, and materials ("4M" stands for "man, machine, material, and method")

■ Analysis of causes

The main causes of misconduct are as follows.

1. Causes of misconduct	2. Causes for continuation of misconduct
• Acceptance of orders without sufficiently verifying process capabilities, etc.	• Those involved found it difficult to make decisions about public disclosure of misconduct
• Lack of awareness about compliance with specifications agreed upon with customers and quality assurance	• It became difficult to be aware of the misconduct issue
• Pressure to win orders and meet deadlines	• The monitoring function for quality compliance risks was weak, making it difficult to identify the misconduct

Summary of Recurrence Prevention Measures Regarding the Quality Assurance Issue

With regard to the Quality Assurance Issue, we have formulated measures to prevent any recurrence based on recommendations from the special investigation committee.

1. Changes in awareness and behavior to emphasize quality

(1) Commitment by top management and Code of Conduct
We will clearly demonstrate our quality-oriented management commitment, both internally and externally, and top management itself will take the initiative in changing internal awareness and behavior. In our Corporate Creed, we will redefine our management commitment to integrity (sincerity and honesty) in all aspects of management and business, including compliance, and establish it as part of the Code of Conduct for each and every employee.

(2) Changes in awareness and behavior of all Group employees regarding quality assurance
We will promote employee awareness and behavioral changes with the following measures:
i) Re-establish quality assurance rules
ii) Strengthen quality compliance education

2. Drastically improve quality assurance organizational structure and strengthen its foundation

We will strengthen the governance of our quality assurance organizational structure with the following measures:

(1) Establish the new position of Chief Quality Officer (CQO)

(2) Ensure the independence of the Corporate Quality Assurance Division

(3) Clarify the roles and authority of the CQO and the head of the Corporate Quality Assurance Division

3. Improve quality control processes

We will create clear Groupwide bylaws related to each quality control process, including the treatment of abnormalities, cataloging, design reviews from the development stage to the mass production stage, and handle management of change, and will make the bylaws known to all employees. In addition, we will implement the following measures:

(1) Strengthen decision-making process for new orders
One cause of the issue was that we accepted orders under conditions that did not match our process and production capabilities. As a result, we have now created guidelines for specification agreements with customers and will ensure that they are thoroughly understood. We will also establish a system to continuously check and improve the process and production capabilities at each site to enable stable mass production. In addition, we will strengthen quality control by clarifying and reinforcing the role of the sales department—the point of contact for exchanging specifications with customers—in quality control.

(2) Build IT system to prevent conduct such as inaccurate rewriting of inspection results
We will invest approximately ¥10 billion to build a system that can automatically generate and manage inspection data appropriately, with minimal human involvement. We will incrementally introduce the system at each manufacturing site by around 2024. Between now and when the system is established and operational, we will take other measures such as stepping up monitoring by increasing the frequency and sample size of integrity audits.

4. Strengthen monitoring and whistle-blower systems for quality compliance

To ensure compliance with specifications agreed upon with our customers, we will establish the following second line and third line of defense in addition to the first line of defense, which is an internal control system for sales, product development, design, and manufacturing. In this way, we aim to improve the effectiveness of our whistle-blower system. We will also strive to conduct multifaceted analyses and evaluations of quality compliance risks while examining and implementing cross-divisional countermeasures. To this end, we will provide opportunities to discuss risk evaluation and countermeasures at management meetings and other forums. In addition, we will strengthen monitoring by the Audit Committee and the Board of Directors.

(1) Have the Corporate Quality Assurance Division review internal audits (integrity audits) as the second line of defense

(2) Have the Internal Auditing Office conduct audits of the Corporate Quality Assurance Division as the third line of defense

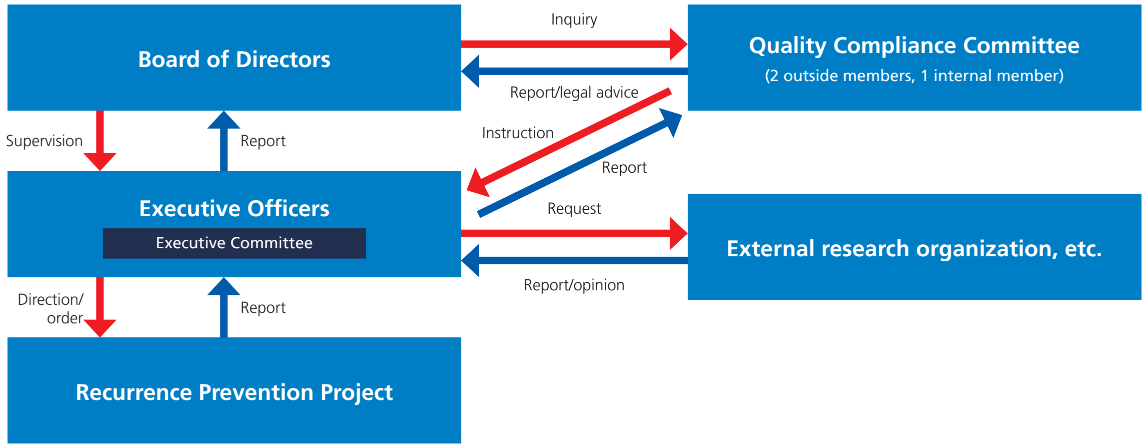
(3) Strengthen the whistle-blower system

In addition, on April 1, 2021, we established the Quality Compliance Committee, whose members include outside experts, to serve as an advisory body to the Board of Directors to solidify and enhance the effectiveness of measures taken by the Group to prevent any future recurrence (see page 10).

Quality Compliance Committee Established as Advisory Body to Board of Directors

On April 1, 2021, the Company established the Quality Compliance Committee, whose members include outside experts, as an advisory body to the Board of Directors for the purposes of strengthening measures to prevent any future recurrence of quality assurance problems in the Group and enhancing the effectiveness of those measures. The committee will conduct additional verification of areas not completed by the special investigation committee, implement recurrence prevention measures, verify the effects of measures, and obtain and provide legal advice.

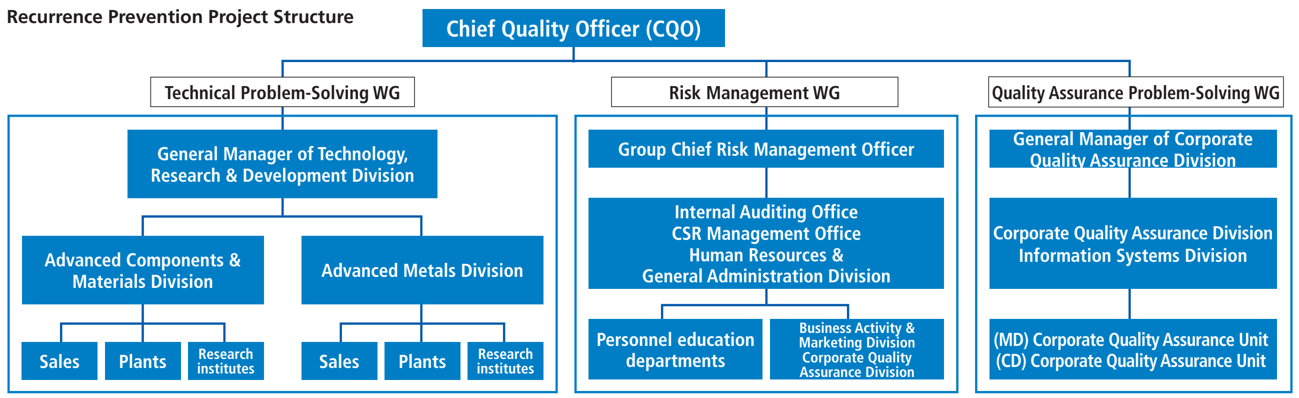
Relationships with Quality Compliance Committee



Implementing Measures by Recurrence Prevention Project to Prevent Recurrence

Under the direction and supervision of the Quality Compliance Committee, we have set up three working groups (WGs) to implement measures to prevent recurrence: the Technical Problem-Solving WG, Risk Management WG, and Quality Assurance Problem-Solving WG. Specifically, the Technical Problem-Solving WG investigates root causes from a technical perspective (a "why-why" analysis) and works to raise our process capacity through improvements in the "4Ms" (man, machine, material, method). The Risk Management WG adds "integrity" to our personnel evaluation criteria and provides quality compliance training. The Quality Assurance Problem-Solving WG is responsible for ensuring a secure inspection system and the like.

Recurrence Prevention Project Structure



Technical Problem-Solving WG:
- Conduct "why-why" analysis to determine the facts and implement countermeasures
- Grasp status of process capacity, yield rate, etc., and improve 4Ms to increase process capacity

Risk Management WG:
- Add "integrity" to personnel evaluation criteria
- Provide ongoing quality compliance education
- Plan and continue town hall-style meetings
- Have the Internal Auditing Office conduct audits of the Corporate Quality Assurance Division
- Have the sales departments strengthen quality control activities

Quality Assurance Problem-Solving WG:
- Make inspection systems secure
- Review quality assurance organizational structure
- Improve internal rules and guidelines

Implementation Status of Measures to Prevent Recurrence of Quality Assurance Problems

Reorganization of quality assurance organizational structure

Quality Assurance Problem-Solving WG

Under the supervision of the Chief Quality Officer (CQO), a position newly established in June 2020, employees in quality assurance departments have now been assigned to the Corporate Quality Assurance Division rather than each business division. This has enabled us to exercise proper checks and balances on the business divisions from the customer's perspective, independent of such pressures as delivery time and cost.

Quality Compliance Month (April 1–30, 2021)

Quality Assurance Problem-Solving WG

To ensure that the recent quality assurance issue is never forgotten, we have designated April of every year as Quality Compliance Month and will continue to develop and implement activities accordingly. In April 2021, we conducted quality compliance training, roundtable discussions on quality compliance issues, and self-checks of process inconsistency under the theme "Let's discuss our 'quality' again." It was a good opportunity to reconfirm the actions that the Group should take in the future.

Town hall-style meetings

Risk Management WG

We hold town hall-style meetings where senior management and employees communicate in a direct dialogue format to allow us to listen to the voices of front-line workers and reflect their feedback in our management policies. Since June 2020, these town hall-style meetings have mainly focused on quality assurance issues and have prompted lively exchanges of opinions.

4M normalization activity

Technical Problem-Solving WG

As part of our quality control activities, we are working to eliminate, reduce, and control unnecessary items, unnecessary conditions, and unnecessary requirements at *monozukuri* sites, with the aim of building "connected processes" that are free of abnormalities related to the 4Ms. In 2021, we applied this initiative to the Yasugi Works and Ibaraki Works and made on-the-spot improvements as much as possible to address the issues we noticed.

Making secure inspection systems

Quality Assurance Problem-Solving WG

Rather than using human intervention, where people manually write down measurement values from inspection processes on recording paper or input them into computers, we will build a system that automatically imports the values from measuring instruments into a computer, uses that data to automatically determine the pass/fail of the product, and automatically prepares a report for submission to the customer. To date, we have conducted detailed design assessments for the system at 28 sites in Japan.

Medium-Term Management Plan

Under the Fiscal 2021 Medium-Term Management Plan (fiscal 2019–fiscal 2021), setting fiscal 2021 (ending March 31, 2022) as the final fiscal year, the Group has embarked on various measures to "improve capital efficiency" and "concentrate resources on growth businesses." However, business conditions changed dramatically due to the subsequent increase in trade-related tensions between the U.S. and China and the resulting economic slowdown in China, and a decline in the global economy stemming from the spread of COVID-19 since early 2020.

For these reasons, we undertook a review and announced a revised plan in October 2020. Under the revised plan, we will implement another round of cost structure reforms to improve our business performance at an early stage and transform our earnings foundation to secure resources for future growth investments.

Under the plan, we have positioned fiscal 2020–2021 as a preparatory period for future growth with the slogan "Set to Grow—Building strength to make the leap," and we are targeting an adjusted operating margin of 8% and ROIC of 8% in fiscal 2022. To this end, we will reform our business structure by withdrawing unprofitable products and consolidating and eliminating business bases. We will also reform our cost structure by rigorously reducing costs and expenses and optimizing personnel expenses. In these ways, we will strive to transform and make our profit structure more resilient to demand fluctuations.

With respect to the Advanced Metals Division, in the Specialty Steel Products segment we will work to capture market recovery and reinforce our *monozukuri* capabilities in focused businesses, while in the Functional Components and Equipment segment we will work to improve profitability through business structure reforms (see page 14). Regarding the Advanced Components & Materials Division, in the Magnetic Materials and Applications/Power Electronics segment we will complete our plan to revitalize our magnetic materials business and expand our power electronics business. In the Wires, Cables, and Related Products segment, we will focus on expanding our business in five growth fields and improving profitability in core business fields (see page 15).

Reasons for Reviewing the Medium-Term Management Plan

Dramatic changes in business conditions due to the U.S.-China trade friction and COVID-19 since the Fiscal 2021 Medium-Term Management Plan was formulated and announced in April 2019

Further cost structure reforms are required for improving profits quickly.

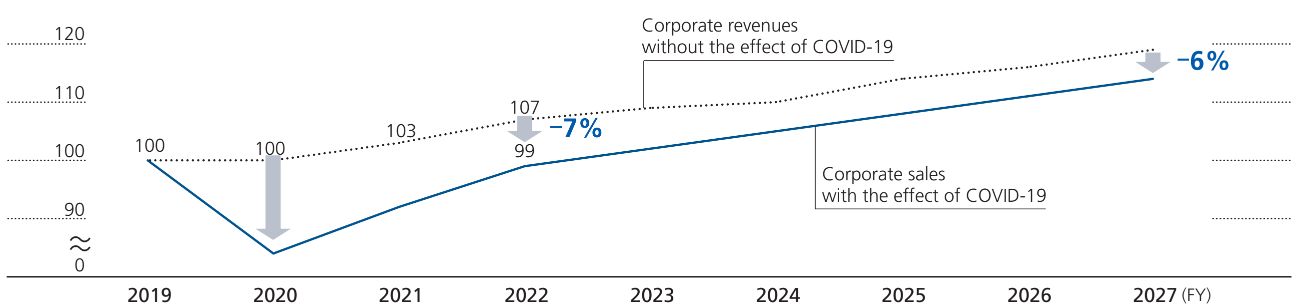
While "improvement of capital efficiency" and "concentration of resources into growth businesses" were listed, results have not been realized. Profitability has declined due to a decrease in revenues.

It is necessary to transform the profit base to secure investment funds for future growth.

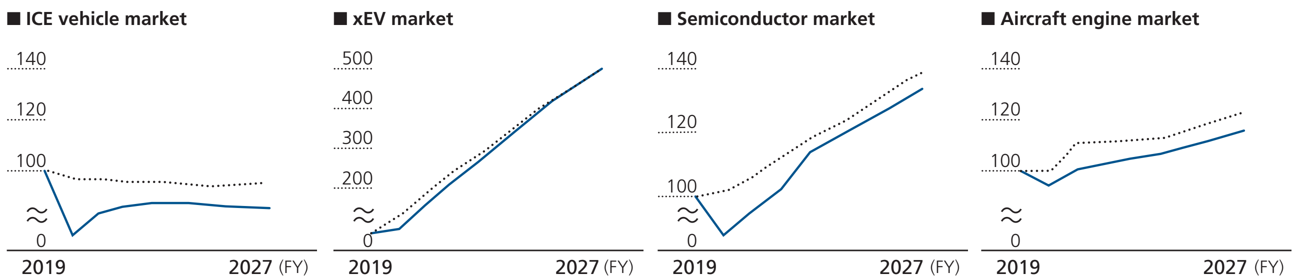
Estimated Impact of COVID-19

In comparison with our pre-COVID-19 assumption, we estimate the impact to be 7% in fiscal 2022 and remain in the 6%–7% range thereafter.

The effect of COVID-19 on corporate revenues forecast (relative value with FY2019 as 100)



Impact by major market (relative value with FY2019 as 100)



Note: The graphs are based on estimations by Hitachi Metals, Ltd. with reference to various sources.

Overview of Medium-Term Management Plan

FY2022 targets

Adjusted operating margin: 8%; ROIC: 8%

- Verify the impact of COVID-19 on each business
- Benchmark against competitors

- Build an earnings structure resilient to fluctuations in demand
- Lower break-even point by cutting costs

Build a business structure that can generate investment funds for future growth

Measures for cost structure reforms

Business structure reforms	Withdrawal of non-profitable products	Specialty Steel: Brass products, etc. (completed in March 2021) Functional Components and Equipment: Aluminum wheels (completed in September 2020)
	Consolidation and elimination of bases	Functional Components and Equipment: Closure and sale of Pennsylvania plant of Waupaca Foundry, Inc. (completed in February 2021) Integration of heat-resistant casting business into subsidiary (completed in April 2021)
Cost reduction Curtailment of expenses	•Yield improvement through *Monozukuri* Innovation Project and inventory optimization •Reduction of materials costs and expenses by leveraging corporate-wide horizontal functions •Curtailment of corporate expenses through workstyle reforms	
Optimization of human resource expenses	Optimization of workforce composition (natural attrition, optimization of temporary staff, implementation of early retirement recruitment)	

Advanced Metals

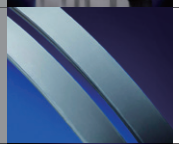
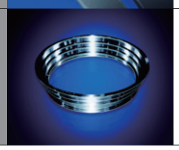
Specialty Steel Products

Capture market recovery and reinforce *monozukuri* capabilities in core businesses

In molds, tool steel, and industrial materials, we will improve cost competitiveness by strengthening the *monozukuri* capabilities of the Yasugi Works, our mother plant, and by shifting to high-value-added products. We will also establish a large-scale distribution base for molds and tool steel to improve the efficiency and service quality of distribution and processing. In aircraft- and energy-related materials, the spread of COVID-19 has delayed any recovery in demand. Nevertheless, we anticipate a recovery over the medium and long terms, and for this reason we will strive to acquire certification for aircraft engine components for new customers with a view to the timing of the market's recovery. In electronic materials, we will work to increase sales of products for growth markets, such as materials for organic EL panels and automotive batteries.

As for rolls, we will strive to maintain our domestic market share and expand sales in China, South Korea, the United States, and Europe.

Topics

Molds and tool steel		● Shift to high-value-added products ● Improve efficiency and services by establishing large-scale logistics center
Industrial equipment materials		● Shift to high-value-added products
Aircraft- and energy-related materials		● Promote new customer certification activities related to aircraft engine components and materials
Electronic materials		● Significantly increase sales of display components to address the spread of organic EL panels
Rolls		● Launch new products and expand international sales (China, South Korea, U.S., EU)

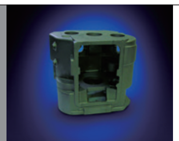
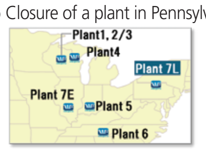
Functional Components and Equipment

Improve profitability through business structure reforms

In the Functional Components and Equipment segment, we are striving to improve profitability. To this end, we closed the Pennsylvania plant of Waupaca Foundry, which makes casting components for automobiles and other products, in August 2020. We will also make capital investments in horizontal molding equipment, automation, and other areas while reinforcing our business foundation by expanding heavy-duty fields, including those for commercial vehicles, construction machinery, agricultural machinery, and industrial equipment. As for castings components for automobiles, we terminated the production of aluminum wheels in September 2020.

Regarding heat-resistant casting components, we will strive to improve profitability by expanding applications for our new casting method and by promoting labor savings. For piping components, we will develop new products, such as pressure-type mass flow controllers, special alloy piping, and adsorption filters for water treatment, to improve profitability.

Topics

Waupaca	 	● Closure of a plant in Pennsylvania (Plant 7L)  ● Capital investment in horizontal molding, automation, etc. ● Expand the heavy-duty field (commercial vehicles, construction machinery, agricultural machinery, industrial equipment)
Automotive casting products		● Expand applications for new casting method for heat-resistant casting components and promote labor savings
Piping components		● Improve profitability by developing new products (pressure-type mass flow controllers, special alloy piping, and adsorption filters for water treatment)

Advanced Components & Materials

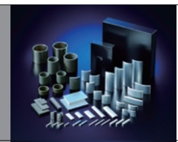
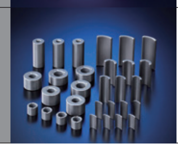
Magnetic Materials and Applications/Power Electronics

Complete plan to revitalize our magnetic materials and applications and expand our power electronics business

In the Magnetic Materials and Applications segment, we will implement our revitalization plan to consolidate and eliminate production bases while expanding overseas production to reduce manufacturing costs. Specifically, we will strengthen and expand our bases in China and the Philippines for producing rare earth magnets, and deploy our bases in South Korea and Indonesia for making ferrite magnets. In addition, we will develop saving technologies for heavy rare earth elements to construct low-cost processes.

In the Power Electronics segment, we will tap the xEV market with our FINEMET® Ribbons and Applications, and grow our business in scintillator materials for medical and security applications. We will also work to make SiN substrates, a new business, into our next growth pillar.

Topics

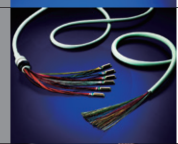
Rare earth magnets		● Reinforce production in China ● Introduce low-cost processes to reduce manufacturing costs
Ferrite magnets		● Strengthen production in Indonesia and South Korea
Soft magnetic materials and their applied products		● FINEMET® Ribbon application: Cultivate the xEVmarket through technologies for high-frequency areas
Ceramics products		● Scintillator materials: Achieve growth in medical and security-related applications ● SiN substrate: Make it a growth pillar in the age of xEVs

Wires, Cables, and Related Products

Extend business expansion in five growth fields and improve profitability in core fields

In the Wires, Cables, and Related Products segment, we will continue taking steps to strengthen and expand our business in five growth fields: railroads, medical devices, FA robots, magnet wire for xEV, and electronic components. In railroads, we will expand sales in China and Europe. In medical devices, we will expand our business in the catheter and endoscope markets. In FA robots, we will deploy refinement, weight reduction, and complexation technologies to differentiate ourselves from the competition. In magnet wire for xEV, we will focus on ensuring superiority through technology to cope with higher voltages. And in electronic components, we will expand our business, centered on electric parking brake harnesses, and reinforce our production operations in Thailand and Vietnam. Through these measures, we aim to raise the sales ratio of the five growth fields in the Wires, Cables, and Related Products segment from 42% in fiscal 2020 to 45% in fiscal 2022 and 51% in fiscal 2027. At the same time, we will continue working to improve the profitability of our core businesses by deploying our overseas manufacturing bases to reduce costs.

Topics

Rolling stock		● Promote sales in China and EU
Medical devices		● Expand business in the catheter and endoscope markets
FA robots		● Achieve differentiation through small-diameter, light-weight, and compounding technologies
Magnet wires for xEV		● Secure competitive advantage through high-voltage technology
Electronic components		● Achieve sustainable development by implementing global growth strategies
Core businesses		● Reduce costs by fully utilizing international manufacturers ● Withdraw from low-profit products

Message from the General Manager of the Finance Division

We will focus on maximizing free cash flow while maintaining ROIC in excess of the cost of capital.

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

The Hitachi Metals Group aims to achieve an adjusted operating margin of 8% and return on invested capital (ROIC) of 8% in fiscal 2022, as set forth in the Medium-Term Management Plan (see pages 12-15). We are focusing on improving capital efficiency by maintaining ROIC above the cost of capital (7.5%) and maximizing free cash flow.

In addition, we will reform our business structure by withdrawing from unprofitable products and consolidating and/or eliminating business sites, and reform our cost structure by thoroughly reducing costs and expenses while optimizing personnel expenses. Our aim is to transform our profit structure into one resilient to fluctuations in demand. Using benchmark analyses in the global competitive environment for each business, meanwhile, we will accelerate business metabolism in each segment to optimize our portfolio of growth and core businesses. Through the steady implementation of our Medium-Term Management Plan, we will pursue an early recovery in our business performance and promote transformation to a robust profit base that enables us to secure resources for future growth investments.

A tender offer for the Company's common stock (hereinafter, the "Tender Offer") by a corporate consortium centered on Bain Capital (hereinafter, the "New Partner") is planned for the future. Through the Tender Offer and a series of transactions scheduled to take place thereafter, the New Partner intends to make the Company its wholly owned subsidiary. As a result, the Company will withdraw from the Hitachi Group, and the Company's common stock will be delisted. After these transactions, by promoting reforms under the New Partner, we will speed up decision-making processes, obtain investment funds, and introduce external know-how. Our aim is to recover our competitiveness, regain profitability, and increase corporate value through renewed growth.

Improving capital efficiency

The Group's cost of capital is calculated at 7.5%, but ROIC is currently below that figure. To build an earnings structure resilient to fluctuations in demand, therefore, we will lower our break-even point by reducing costs and swiftly improve ROIC by increasing profits and reducing invested capital.

To increase profits, we will continue expanding our lineup of 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 decrease fixed costs. We will also continuously review our business portfolio by downsizing, withdrawing from low-profit, non-core businesses, and spinning them off.

To reduce the amount of capital invested, we are working to shorten the cash conversion cycle (CCC) by formulating optimal production plans using IoT and sharing best practices through personnel exchanges within the Group. 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 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, we launched the Reformed Human Resource Training Program to prepare human resources who will be *kaizen* (improvement) professionals. We are also implementing thorough management from the plant floor to inventories and warehousing. Despite our focus on inventory optimization, the actual CCC value for fiscal 2020 was 89.1 days, up 2.0 days from that of the previous year. This was due to significant declines in revenue and earnings, mainly in the first quarter, stemming from COVID-19. Other factors included increased production in the fourth quarter to address a greater-than-expected recovery in demand, as well as surging prices of raw materials.

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 fiscal 2021, 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 2020, net cash provided by operating activities amounted to ¥52.6 billion, down ¥53.4 billion from that of the previous year, due to the significant impact of the decline in profit. On the other hand, net cash provided by investing activities totaled ¥2.2 billion, up ¥58.7 billion year on year. This was due mainly to reductions of investments in response to the deterioration of our business performance, as well as proceeds from the sale of shares in former Mitsubishi Hitachi Tool Engineering, Ltd. (now MOLDINO Tool Engineering, Ltd.). As a result, free cash flow improved ¥5.3 billion, to plus ¥54.8 billion in fiscal 2020.

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, when the screening process before decision-making 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 in 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. As a measure to prevent recurrence of inappropriate quality practices, moreover, we will invest around ¥10 billion to build a system that can automatically generate and manage inspection data appropriately with minimal human involvement. We will introduce the system sequentially at each manufacturing site by around 2024.

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.

Balance sheet management

We are streamlining our balance sheet to improve our financial position and raise capital efficiency. During the year, we promoted 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 2020 stood at ¥972.2 billion, down 1% 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 0.4–0.5 times range) and retaining our A+ credit rating from Rating and Investment Information, Inc. (R&I).

In fiscal 2020, we reduced net interest-bearing debt (interest-bearing debt minus cash and cash equivalents) ¥49.2 billion from that of the end of the previous fiscal year. We achieved this by decreasing working capital through inventory reductions and other measures and improving investment cash flows to stabilize our funding base. As of March 31, 2021, the Company's long-term corporate and unsecured bonds were rated A+ by R&I.

Cash allocation

The Group's basic policy for determining the distribution of profits to shareholders is to comprehensively take 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.

For 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%.

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.

At its meeting on April 28, 2021, the Board of Directors resolved not to pay a year-end dividend for fiscal 2020 and interim and year-end dividends for fiscal 2021, in light of the planned Tender Offer for the Company's common stock by the New Partner.

* "Adjusted operating income" refers to operating income (as shown in the consolidated statement of income) excluding other income and other expenses. We use it as an indicator to show the actual state of management without the effects of business restructuring and the like.

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

We will rebuild our corporate culture and achieve a robust operational foundation to revitalize ourselves as a high-performance company that supports a sustainable society.

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

Rebuilding a corporate culture based on "integrity" to prevent a recurrence of problems related to quality assurance

After deep reflection on misconduct related to quality assurance, the Group has been reviewing its value system, including its Corporate Creed and Corporate Philosophy, as one of four pillars to prevent any recurrence. The new value system will focus on "integrity," which has been at the center of the system but was not explicitly stated, while we maintain the core of our commitment to quality mass production—in which our main products are industry leaders in both quality and quantity—and our Corporate Philosophy of *"Wa sureba tsuyoshi."* We plan to share and disseminate this information to our employees in conjunction with a company renaming following capital restructuring. We have also made changes to evaluation criteria for managers, including the addition of "integrity" in the competency and goal-setting items in the goal management system. We have also reviewed our awards system. In addition to the Technology Award and the Sales Award, we have established the new Quality Award to recognize employees who have helped strengthen compliance and improve quality.

Building a safety-oriented culture and quality assurance organizational structure

Believing in "prioritizing safety and health above all else," the Group has been working to build a safety-oriented culture. After a series of accidents in which employees were caught in equipment in November 2018, we have been promoting various disaster prevention measures. Specifically, we have been reinspecting facilities at all Group production sites and have assigned "red tags" to around 1,000 structures where fatal accidents could occur and "yellow tags" to about 12,000 structures susceptible to serious accidents. We have already completed countermeasures against facilities with red tags and are now addressing those with yellow tags. Specifically, we are implementing measures involving tangible factors, including mechanisms that prevent hands from getting caught in machines and safety devices that activate and turn off machines when a hand gets stuck. We are also taking steps involving intangible factors, such as video education sessions to ensure safe work and help employees pass on skills, and we are expanding our "Experiential Workshop" program, which gives employees a simulated experience of being caught in equipment or receiving an electrical shock. We are also investing in automation and other measures to prevent the recurrence of problems related to quality assurance.

Optimizing labor costs to build a robust operational foundation

Seeking to build a robust operational foundation, the Group is working to lower its break-even point by optimizing labor costs. Orders decreased significantly in the first half of fiscal 2020, partly due to the global spread of COVID-19, but demand is now recovering and our manufacturing sites are busy. Nevertheless, we plan to complete our labor cost optimization plan by March 2022 to create an operational foundation that will remain profitable even if sales fluctuate slightly over the medium and long terms, thus enabling employees to continue their work activities with peace of mind. We believe this will help us achieve sustainable growth and continue creating jobs well into the future.

Deepening communication with employees around the world

The Group has been working to deepen communication by such measures as, since fiscal 2020, expanding the scope of town hall-style meetings to include younger employees. Seeking to realize our Medium-Term Management Plan, which we reassessed in October 2020, we are currently revitalizing communication with employees around the world via web conferences with the aims of sharing and implementing management policies and strategies across the entire Group. Whenever an important business decision is made, top management explains the Group's ideas and plans in English or Japanese to employees in Japan, the United States, Europe, China, and the rest of Asia, and also holds question-and-answer sessions. In addition, questions and opinions received via the Group's intranet are shared among all executive officers to provide feedback to management.

Measures that consider workstyles in the post-COVID-19 world

As the impact of COVID-19 grows, the Group is fully introducing telecommuting at its Head Office and branch offices in major metropolitan areas to keep the number of employees going to work below 30%. We are also emphasizing safe, secure, and efficient workstyles at our factories. Initially, overtime hours increased temporarily due to delays in establishing an online environment, but with the support of our IT department, the situation is now improving, as employees become more accustomed to working online. In October 2020, meanwhile, we established the Post-COVID-19 Study Committee to review workstyles on the premise of a work attendance rate of 40% or less even after COVID-19, with a focus on telecommuting. The committee is also working to eliminate job transfers that separate family members, enhance workplace communication in online environments, support the development of telecommuting, and introduce online interviews with public health nurses.

Innovation through diversity

The Group is committed to creating innovation through diversity and inclusion not only for gender, nationality, and age but also for experience and mind-set. As a first step, we have been focusing on the advancement of women, and with advice from outside directors, we have been expanding and upgrading our structures, spearheaded by the Hitachi Metals Group Diversity Promotion Council. These efforts have been recognized by society as well. For example, we were selected as a Nadeshiko Brand, a company that encourages women's success in the workplace, by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. We also received 3-star Eruboshi Certification, which recognizes excellent companies on the basis of the Act on Promotion of Women's Participation and Advancement in the Workplace. Even in the post-COVID-19 era, we will pursue flexible workstyles unrestricted by time and location. Our aim is to provide environments where diverse human resources can produce better results, which will lead to the creation of innovation.

High-Performance Materials 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 high-performance materials to customers in a wide range of fields, such as those for automobiles and electric power.

Neodymium magnets: Contributing to popularization of xEVs

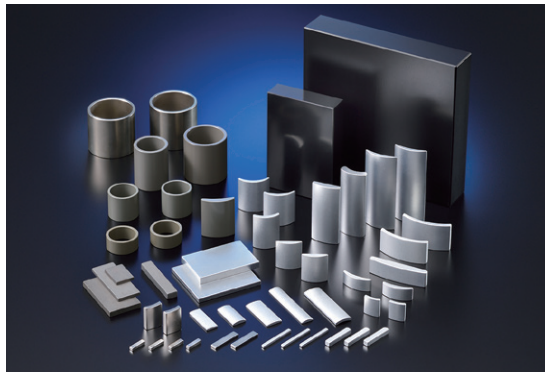
In 1982, our company (then called Sumitomo Special Metals) invented a neodymium magnet with a much stronger magnetic force than ordinary ferrite magnets. In general, a stronger magnetic force of a magnet means higher performance of the motor, which contributes to miniaturization and weight reduction. In light of technological advances in xEVs*1, neodymium magnets play a significant role, being indispensable for making motors smaller and lighter, thus increasing efficiency and saving energy. Boasting the world's strongest magnetic force among permanent magnets, NEOMAX® magnets are used in various fields, including those for 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*2 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 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®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® 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 AFFORDABLE AND CLEAN ENERGY 7.3; 11 SUSTAINABLE CITIES AND COMMUNITIES 11.6; 13 CLIMATE ACTION 13.1	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] Note: Based on the amount used and shipment volume for xEV applications 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]

Potential risk of business on society/environment	Response
Environmental destruction due to rare earth mining; poor working conditions	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.

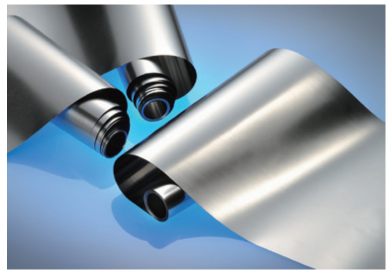
To solve this problem, the Hitachi Metals Group developed an amorphous alloy called Metglas®. Transformers using Metglas® as the core material consume around one-third of the power of those using conventional materials, such as magnetic steel sheets. We have been supplying this alloy since 2003. Amorphous 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_2 emissions*3 of around 50,000 tons*2 per year compared with those of conventional transformers. In March 2020, meanwhile, we announced the development of MaDC-A™, a new amorphous material that contributes to even higher efficiency in transformers.

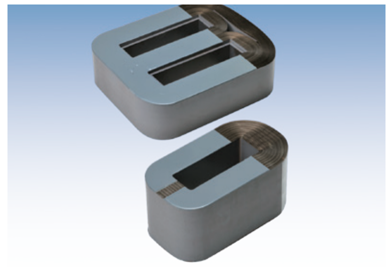
*3 Based on shipment volume and difference in transformer energy loss, according to Indian standards
For the CO_2 emission coefficient, we use IEA CO_2 emissions from fuel combustion (2017 world).

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_2 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 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_2 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® 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 AFFORDABLE AND CLEAN ENERGY 7.3; 13 CLIMATE ACTION 13.1	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_2 emission reduction of around 50,000 tons compared with transformers using grain-oriented magnetic steel sheets. [Customer value created]

Potential risk of business on society/environment	Response
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R&D

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 2020

In fiscal 2020, the Group made investments in R&D totaling ¥14.5 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)* is making progress.

Specialty Steel Products

- We developed ZHD® 492, a high-performance die-casting mold steel with both high-temperature strength and toughness, by combining an alloy design that brings out high-temperature strength with a structure control process according to steel grade. This product is expected to help reduce mold repair workloads and improve the productivity and quality of die-cast products by extending the heat crack life in applications with high heat load.
- We are developing steel mill materials to improve the performance of organic EL panels for wide-screen TVs, as well as smartphones and other small- and medium-sized devices, and to expand the number of models that use them. We are also stepping up development of cladding materials for automotive lithium-ion batteries and new fields. In fiscal 2021, we will start mass production of products developed in fiscal 2020.
- We developed additive manufacturing recipes for ADMUSTER®-C00P, a high-corrosion-resistant, high-strength metal powder alloy for 3D printers; ADMUSTER®-C21P, a high-corrosion-resistant, nickel-based alloy; ADMUSTER®-W285P, low-Co maraging steel; and iron-chromium-cobalt magnets. We look forward to providing additive manufacturing products using unique metal materials.

Functional Components and Equipment

- In Singapore, we started demonstration tests of a ceramic adsorption filter that prevents clogging and damage to reverse osmosis membranes used in seawater desalination and other applications. We verified the effectiveness of the system for not only seawater desalination but also some industrial wastewater recycling, and we expect it for help reduce the frequency of cleaning and replacement of reverse osmosis membranes. We are also confident that the system will help lower desalination costs and operating costs for water treatment plants.
- We developed the "Pressure-type MFC (PS200 series)," equipped with a new pressure sensor. The new pressure sensor has a double-diaphragm structure with a metal diaphragm in the pressure-receiving section and a semiconductor diaphragm in the pressure-detecting section. It is a precision fluid control device with high-corrosion resistance, reproducible performance, and long-term stability, and we expect it to be used in high-quality semiconductor-manufacturing equipment.

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

Topics: Development of Medical Silicone Cable with Excellent Sliding Properties and Chemical Resistance

Hitachi Metals has developed a new medical silicone cable that combines excellent sliding properties and chemical resistance by applying its proprietary surface treatment. This cable offers enhanced operability thanks to improvements to address surface tackiness, a disadvantage of silicone. We will recommend its application in medical devices that require frequent disinfection and sterilization, such as ultrasound diagnostic equipment, endoscopes, and catheters. We started mass production in early 2020, and the cable is being used in some medical devices.

Silicone, which has excellent chemical resistance, sterilization resistance, and biocompatibility, is widely used as a material for medical devices. When silicone is applied to the sheath (protective outer layer) of a cable, it provides high resistance to chemicals that disinfect the cable surface and can also be applied to high-pressure steam sterilization (autoclaving). With such excellent chemical and sterilization resistance properties, we expect our silicone cable to be applied to a wide range of medical devices in the future. In addition, medical devices used to diagnose patients with infectious diseases, such as COVID-19, need to be disinfected frequently, so we anticipate growth in demand for silicone cables with excellent chemical resistance. Due to its tacky surface, however, silicone tends to get contaminated by dust. It is also difficult for doctors to handle and causes discomfort when it touches a patient's skin.

The medical silicone cable we developed eliminates the problem of silicone's inherent tackiness. We achieved this by applying a proprietary surface treatment to the cable skin to deliver excellent sliding properties. To address the issue of declining sliding properties caused by repeated disinfection treatment, we designed the surface structure to withstand the stress caused by wiping with non-woven fabric impregnated with disinfectant solutions. Even after 10,000 test wipes using our evaluation method, we found that the silicone cable maintained sliding properties equivalent to or better than our PVC cables*. We also confirmed that it causes less discoloration than our PVC cables in various chemical solutions used in hospitals. We started mass production in early 2020 and are making prototype cables for various medical devices.

We will continue encouraging the adoption of our newly developed products in various medical devices. Our aim is to contribute to the evolution of advanced medical care by stepping up development of wires and cables for medical devices.

Medical silicone cable

* Cable using polyvinyl chloride as the protective outer layer

Magnetic Materials and Applications/Power Electronics

- We developed Hi-LoDe Lap™, a high-precision polishing technology for silicon carbide (SiC) substrates for power devices used in automobiles, trains, and industrial equipment, as well as Hi-LoDe Epi™, a low-defect SiC epitaxial film. We expect these technological advances to contribute to the miniaturization and higher efficiency of power semiconductor modules.
- We developed a high thermal conductivity silicon nitride substrate for mounting power semiconductor modules used in xEV inverters. It boasts a 30% improvement in thermal conductivity compared with our existing products and is suited for use as an insulating substrate for high-performance power semiconductors that require high reliability, such as Si-IGBT and SiC-MOSFET.

Wires, Cables, and Related Products

- We developed a cable for industrial robots that combines excellent bending resistance and signal transmission that satisfies the Category 6A standard. It will be used for robot vision in industrial robots, etc., and is expected to contribute significantly to labor saving and automation in factories.
- We developed a medical-use silicone cable that combines excellent sliding properties and chemical resistance. By applying a proprietary surface treatment to the surface of the silicone, we eliminated the issue of tackiness inherent in that material. Medical devices used to diagnose patients with infectious diseases need to be disinfected frequently, so we expect an increase in adoption of silicone cables with excellent chemical resistance.

Initiatives for the Environment

Environmental Vision/Basic Environmental Policies

The Hitachi Metals Group promotes a “Decarbonized Society,” “Resource Efficient Society,” and “Harmonized Society with Nature” as the three key pillars of its Environmental Vision. We aim to realize higher-quality lifestyles and a sustainable society by resolving environmental issues through collaboration with our stakeholders.

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.

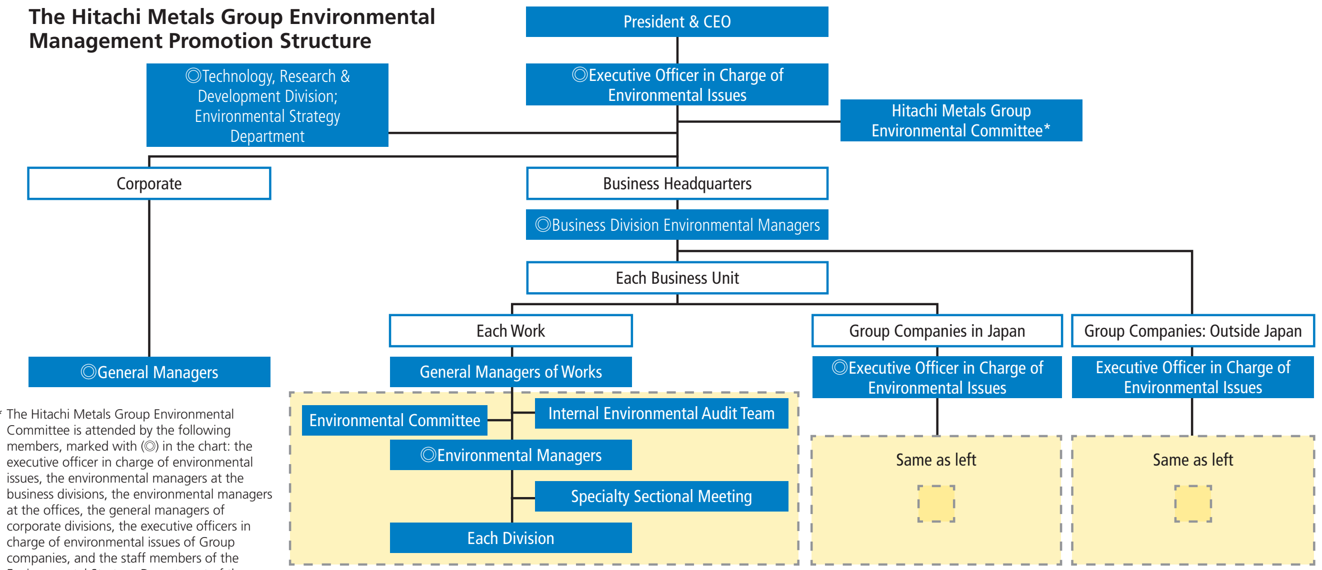
Slogans

- 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

Environmental management within the Hitachi Metals Group hinges on the Environmental Strategy Department of the Technology, Research & Development Division, which promotes environmental management activities in cooperation with business division environmental managers. The executive officer in charge of environmental issues at Hitachi Metals heads the Environmental Committee. Through this system, we are promoting environmental protection activities by applying voluntary environmental standards and establishing clear environment-related goals. We are also making continuous improvements by ensuring that our activities are appropriate and effective. Policies and targets related to environmental activities are reviewed and revised annually at the Hitachi Metals Group Environmental Committee. Reports on environmental activities are also made annually to the Board of Directors and Executive Committee.

The Hitachi Metals Group Environmental Management Promotion Structure



* The Hitachi Metals Group Environmental Committee is attended by the following members, marked with (◎) in the chart: the executive officer in charge of environmental issues, the environmental managers at the business divisions, the environmental managers at the offices, the general managers of corporate divisions, the executive officers in charge of environmental issues of Group companies, and the staff members of the Environmental Strategy Department of the Technology, Research & Development Division.

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 through fiscal 2021 are shown on the next page. In fiscal 2020, the spread of COVID-19 caused a drop in demand for our products. As a result, 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 ratios of CO_2 emissions and water usage per production unit. However, we achieved the targets for the improvement ratios of waste and valuables generation per production unit and the waste landfill rate.

In fiscal 2020, we also failed to meet the plan’s target for reducing energy consumption per production unit as stipulated by the Act on the Rational Use of Energy (Energy Efficiency Act), due to the reduced production volume. By formulating and promoting an energy efficiency plan including carbon neutrality that we are starting in fiscal 2021, we plan to achieve at least a 1% reduction in fiscal 2023 compared to the average over the past five years.

Results of Fiscal 2020 initiatives and fiscal 2021 plans

FY2020 initiatives (Planned)	FY2020 initiatives (Results)	FY2021 plans
• Conduct environmental education at the Head Office and each business office (ongoing)	• Conduct environmental auditor development training (once) • Conduct environmental e-learning (92% of employees)	• Conduct environmental auditor development training (once or more times) • Conduct environmental e-learning (100% of employees)
• Increase the sales ratio of key environmentally conscious products (24%)	• Increase the sales ratio of key environmentally conscious products (21.4%)	• Increase the sales ratio of key environmentally conscious products (25%)
• Reduce CO_2 emissions per production unit (6% compared with base year FY2010)	• Reduce CO_2 emissions per production unit (–2.3% compared with base year FY2010)	• Reduce CO_2 emissions per production unit (7% compared with base year FY2010)
• Improvement ratio of waste generation per production unit (13% compared with base year FY2010) • Waste landfill rate (13%)*	• Improvement ratio of waste generation per production unit (15.2% compared with base year FY2010) • Waste landfill rate (10.9%)	• Improvement ratio of waste generation per production unit (14% compared with base year FY2010) • Waste landfill rate (12%)
• Improvement ratio of water usage per production unit (24% compared with base year FY2010)	• Improvement ratio of water usage per production unit (12.2% 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

Initiatives to Address Climate Change Issues

As countries around the world accelerate their initiatives to address climate change based on the Paris Agreement, the Japanese government announced in October 2020 the policy goal of achieving effectively zero emissions of carbon dioxide (CO_2) and other greenhouse gases by 2050. Primarily for this reason, companies are increasingly being expected to work even more aggressively toward transitioning to a decarbonized society. Recognizing these expectations, the Hitachi Metals Group has set the following targets for CO_2 emissions.

CO_2 emissions*1 targets
Medium-term target: 38% reduction by fiscal 2030 (compared to fiscal 2015*2)
Long-term target: Aim for effectively zero emissions (carbon neutral) by fiscal 2050

*1: Absolute total value of Scope 1 (direct CO_2 emissions by the Company) and Scope 2 (indirect emissions from the use of electricity, heat, and steam supplied by other companies)
*2: CO_2 emissions in fiscal 2015: 2,779 thousand t-CO_2/year

The Group aims to be a “high-performance materials company that contributes to a sustainable society.” In addition to reducing CO_2 emissions from our own businesses, we believe that it is important to contribute to reducing CO_2 emissions in society by developing advanced materials and offering them to customers. Following this belief, we define key environmentally conscious products as those targeted for growth based on a management strategy that contributes significantly to resolving environmental issues such as climate change and resource recycling. We are promoting the expansion of revenue ratios from these products.

In addition, in June 2021, we endorsed the TCFD recommendations on disclosure of climate-change initiatives. We are promoting actions such as scenario analysis and verification of countermeasures regarding the impact of transition risks and physical risks to our businesses and finances, toward the implementation of information disclosure in compliance with the TCFD Framework in fiscal 2022.

Topics CO_2 reduction by introducing a forging and rolling planning system (Yasugi Works)

The Yasugi Works, which manufactures specialty steel products with large-scale equipment such as melting furnaces, 10,000 ton-class free forging presses, and high-speed radial forging machines, is striving to raise productivity and reduce CO_2.

Our hot-working sites, which employ 10,000 ton-class free forging presses, strive continuously to engage in improvement activities aimed at enhancing productivity (improving capacity utilization rates), reducing wasted heating time, etc.

The introduction of 10,000 ton-class free forging presses has improved the product performance and productivity of hot molds and tool steel, which are tending to become larger than ever before, and we have also made other improvements. As improvement measures, we have introduced a system that can manage the shutdown and repair of heating furnaces, as well as a system that can efficiently plan forging and rolling. Furthermore, to enhance the effects of these systems, we have also worked to efficiently recover exhaust heat by introducing a heating furnace with a regenerative burner system, and to improve thermal efficiency by applying heat-insulating material, along with other initiatives.

As a result, we have successfully improved the efficiency of putting steel ingots into our forging machines, including 10,000 ton-class free forging presses, and reduced the energy consumption ratio by up to 13.2% (compared with that of fiscal 2019). In addition, we reduced overall working site fuel costs by roughly ¥7.50 million per month and CO_2 emissions by 13,000 t-CO_2 per year.

10,000 ton-class free forging press

Financial/Non-Financial Highlights

Highlights of Fiscal 2020 (Figures in the lower rows indicate year-on-year increases/decreases.)

Revenues
¥761.6 billion

–13.6%

The decline was due to the impact of COVID-19.

Adjusted operating income*1
–¥5.0 billion

–¥19.4 billion

This was impacted by the decrease in revenues despite efforts to reduce fixed costs.

Adjusted operating margin
–0.7%

–2.3 percentage points

We are aiming for an adjusted operating margin of 8% in fiscal 2022.

EBIT
–¥49.2 billion

–¥10.8 billion

The decline was due to the decrease in adjusted operating income and the recording of an impairment loss.

Free cash flows
¥54.8 billion

+¥5.3 billion

The increase was due to careful selection of investments and proceeds from sale of entities accounted for using the equity method.

Capital expenditure
¥28.8 billion

–¥24.2 billion

We carefully selected and prioritized investments in production capacity expansion and rationalization to strengthen competitiveness.

R&D expenses
¥14.5 billion

–¥1.4 billion

We are continuously investing in R&D on advanced materials aimed at helping realize a sustainable society.

Inventories
¥170.1 billion

–¥9.8 billion

The decline was due to inventory control in response to demand in order to optimize inventories.

CCC*2
89.1 days

+2.0 days

The increase was due to a significant decline in revenues despite efforts to optimize inventories.

*1 Adjusted operating income = Revenues – Cost of sales – Selling, general and administrative expenses
*2 CCC = Working capital (Trade receivables + Inventories – Trade payables) ÷ Average daily revenue

Sales ratio of key environmentally conscious products
21.4%

+1.2 percentage points

Under our management strategy, "key environmentally conscious products" are defined as products that are targeted for growth and contribute significantly to resolving environmental issues such as climate change and the effective use of resources.

CO_2 emissions
1,995 thousand t-CO_2

–324 thousand t-CO_2

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

CO_2 emissions per unit
2.619 t-CO_2/million yen

–0.5 points

We are promoting energy conservation activities and fuel conversion.

Recycling rate
76.7%

+2.1 percentage points

Thanks to considerable progress in recycling at domestic offices, we will promote initiatives to raise recycling levels at overseas offices.

Water usage
11,349 thousand m^3

–837 thousand m^3

We are promoting effective use of water such as the introduction of high water-efficiency models when equipment is replaced.

Chemical substance emissions
88 tons

–147 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
50%

–3 percentage points

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

Occupational accident frequency*3
0.23

–0.04 point

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

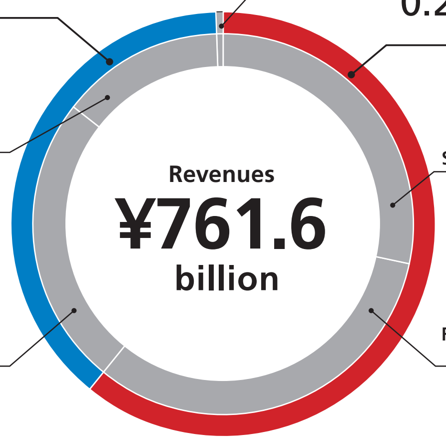
Number of employees receiving human rights-related training
6,623

–399

Under the Hitachi Metals Group Human Rights Policy, we provide all employees with the opportunity to participate in human rights-related training once every three years.

*3 Occupational accident frequency = Number of casualties due to occupational accidents ÷ Total actual working hours x 1,000,000 (calendar year)

Percentage of Fiscal 2020 Revenues by Segment*



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

Advanced Metals Division

Revenues
¥465.3 billion

Adjusted operating income
–¥12.0 billion

Advanced Components & Materials Division

Revenues
¥295.3 billion

Adjusted operating income
¥7.1 billion

Scope of Operations by Region in Fiscal 2020

Number of employees
28,620

–1,185

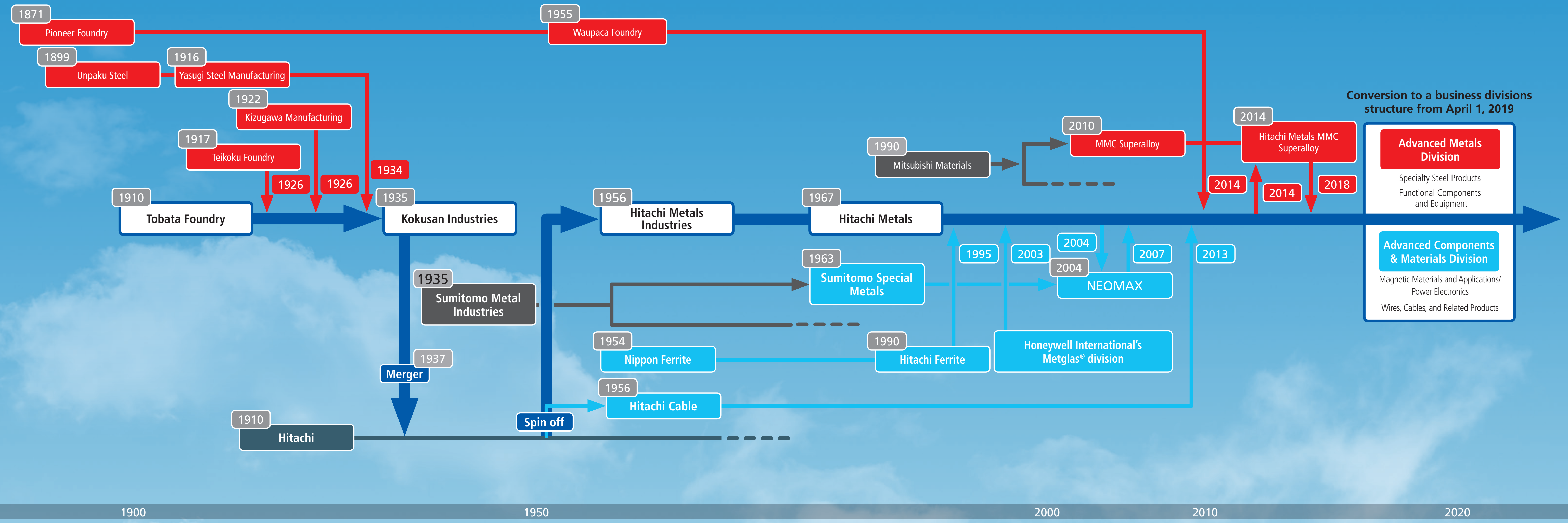
Overseas sales ratio
55%

+1 percentage point

Region	Revenues	Number of employees
Europe	¥35.4 billion	114
North America	¥207.1 billion	5,220
Japan	¥342.8 billion	15,810
China	¥72.3 billion	2,564
Other Asia	¥88.6 billion	4,912
Other	¥15.4 billion	—

Milestones in Creating Value

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.



Revenues

- Fiscal 1959: ¥14.0 billion (* Non-consolidated basis)
- Fiscal 1979: ¥260.9 billion
- Fiscal 1999: ¥463.5 billion
- Fiscal 2014: ¥1,004.4 billion
- Fiscal 2020: ¥761.6 billion

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 make 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.

PART 2

Foundation

CONTENTS

Message from the Chair of the Board of Directors

Kenichi Nishiie
Chair of the Board of Directors

First of all, we express our deepest apologies once again to shareholders and other stakeholders for the significant inconvenience caused by the quality assurance issues. The Board of Directors thinks the most important issues for the Group are the steady implementation of recurrence prevention measures, a fundamental review of the quality assurance organizational structure, and further reinforcement of compliance. Accordingly, we are committed to strengthening the Board's advisory and oversight functions. As part of this effort, in April 2021, we established the Quality Compliance Committee, which includes outside experts as members, as an advisory body to the Board of Directors. The new committee will conduct additional verification of areas not completed while strengthening measures to prevent any future recurrence and enhancing the effectiveness of those measures.

With respect to our Fiscal 2021 Medium-Term Management Plan, setting fiscal 2021 (ending March 31, 2022) as the final fiscal year, we have experienced dramatic changes in the business environment, including an economic slowdown in China and a decline in the global economy due to the spread of COVID-19. These conditions have caused our revenue and profitability to decline, making it difficult to achieve the targets of the plan. Accordingly, we reviewed the plan and in October 2020 announced a revised management plan that sets fiscal 2022 (ending March 31, 2023) as the final fiscal year. Under the new plan, we are working to make our profit structure more resilient to demand fluctuations while building an optimal portfolio of growth and core businesses. The Board of Directors will also focus on supervising completion of the plan.

To successfully implement these initiatives, it is extremely important to ensure the effectiveness of the Board of Directors. At the May 2021 meeting of the Board, therefore, we evaluated the effectiveness of the Board of Directors using the results of questionnaires to all Directors and interviews with them. As a result, we confirmed that the overall effectiveness of the Board was ensured with respect to setting agendas, discussing strategic directions, and conducting preliminary reviews of important agenda items. However, we also found room for further improvement in various areas. These include our systematic risk management system and oversight of its operation, the process of deliberating corporate direction and management strategies, and overseeing the implementation of such strategies amid changing market and business conditions, as well as diversity in the skills of Directors. Going forward, we will continue taking steps to further enhance the effectiveness of the Board of Directors by proactively incorporating the broad knowledge and diverse perspectives of Outside Directors. At the same time, we will closely monitor the progress and effectiveness of improvements and reinforcements related to quality assurance, which is the Group's most important issue, including the areas of organization, operation, and auditing. In addition, we will provide our full support to help the Group achieve renewed growth over the medium and long terms.

At its meeting on April 28, 2021, the Board of Directors expressed its approval of the tender offer for the Company's shares from a consortium of companies led by Bain Capital (hereinafter, the "New Partners"). It also resolved to recommend that our shareholders apply for the tender offer. Upon completion of the tender offer and a series of related transactions, the Company will separate from the Hitachi Group, and its common stock will be delisted. Under the guidance of the New Partners, we will formulate strategies from a long-term perspective and quickly pursue bold reforms to further enhance corporate value.

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.

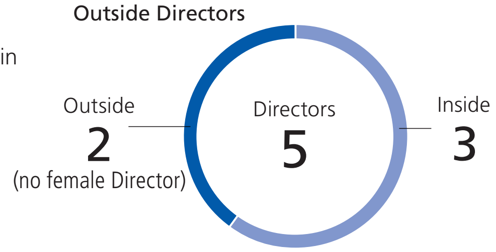
Overview of the Governance Structure

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	Five (no female Director)
Outside Directors	
Number of Outside Directors	Two
Number of Outside Directors designated as Independent Directors	Two
Committees	
Composition of Committees	The Nominating Committee, Audit Committee, and Compensation Committee
Number of Committee members	Three members each on the Nominating Committee, Audit Committee, and Compensation Committee
Executive Officers	
Number of Executive Officers	11
Independent Directors	
Number of Independent Directors	Two

Measures aimed at the enhancement of corporate governance

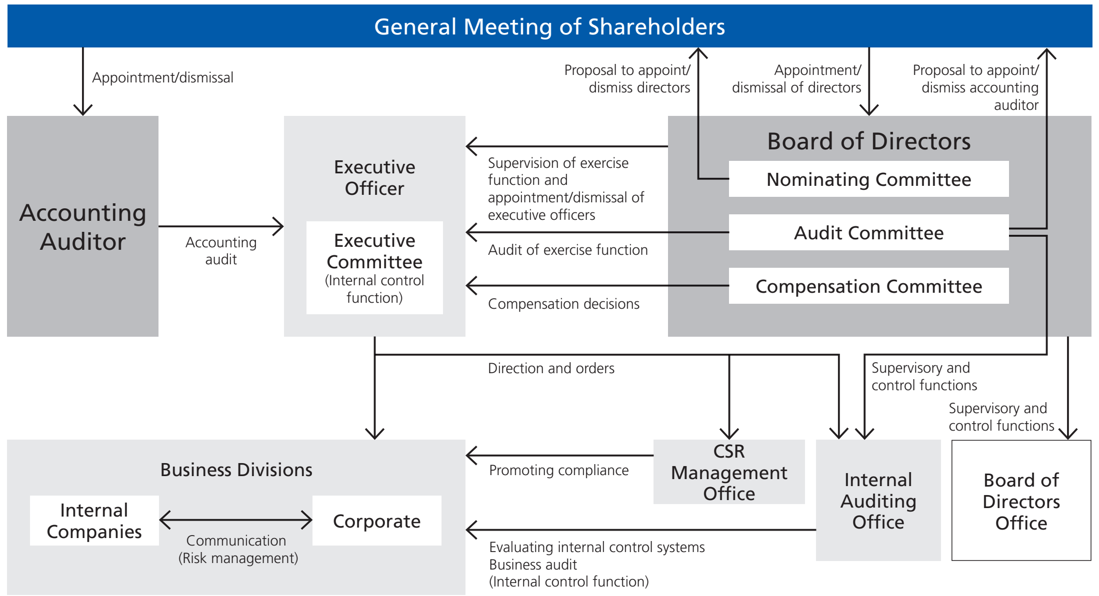
- Transition to a "company with a committee, etc.," as defined in the Commercial Code (June 2003)
- Increase in the number of Outside Directors serving as Independent Directors from two to three (June 2016)

Ratio of Inside Directors and Outside Directors



Overview of Corporate Governance System, etc.

Corporate Governance Structure



Membership composition of each committee and affiliations of chairs

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

Note: ◎ Chair ○ Committee member

The Company has adopted 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 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 the Nominating Committee, the Audit Committee, the Compensation Committee, and the Board of Directors. Under this system, five Directors (of whom two 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 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	○					○		○	○	
Koichi Fukuo Outside Director	Chair	○	Chair	○	○	○	○				○	
Mitsuaki Nishiyama	○		○	○				○			○	
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 three 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 53 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. Eight certified public accountants and 35 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 have 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.

In addition, with the decision to implement a series of transactions related to a tender offer by K.K. BCJ-52 for the Company's common stock, Outside Directors act as members of the Special Committee. The committee was established to eliminate arbitrariness in the Company's decision-making process, and examine and determine the pros and cons of the transactions, the appropriateness of the terms and conditions, and the fairness of the procedures, including the process for selecting the purchaser (partner), etc.

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 formerly worked. However, the transaction amounts with these companies during fiscal 2020 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.

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 decisions of business delegated by the Board of Directors to the Chairperson and Chief Executive Officer after deliberation at the Executive Committee.

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 2020. 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 2021, 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 its effectiveness as a whole is ensured, as agendas are appropriately set, discussions about the strategic direction are deepened, and important agendas are reviewed in advance.

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

1) Establishment of a systematic risk management system and supervision of its operation
2) Amid fluctuations of the market environment and business environment, deliberation on corporate direction, management strategy, and processes for supervising implementation of findings
3) Diversity in the Directors' skills
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, the executive component is improving and strengthening the quality assurance organizational structure, which includes its composition, operation, and audits, and we will closely monitor its progress and effectiveness.

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 18, 2021)

Note: Information regarding attendance at meetings held between April 2020 and March 2021 is provided.

Kenichi Nishiie
Director

Attendance at meetings
Board of Directors:
16/16 meetings
Audit Committee:
13/13 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:
16/16 meetings
Nominating Committee:
6/6 meetings
Audit Committee:
13/13 meetings
Compensation Committee:
6/6 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) (scheduled to resign in June 2021)
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. He will continue to play suitable roles as a member of the Nominating Committee, Audit Committee, and Compensation Committee from an objective standpoint in order for these committees to perform their functions. As the Chairperson of the Audit Committee, he is expected to lead the committee.

Koichi Fukuo
Outside Director

Attendance at meetings
Board of Directors:
16/16 meetings
Nominating Committee:
6/6 meetings
Audit Committee:
13/13 meetings
Compensation Committee:
6/6 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. He will continue to play suitable roles as a member of the Nominating Committee, Audit Committee, and Compensation Committee from an objective standpoint in order for these committees to perform their functions. We expect him to lead the Nominating Committee and the Compensation Committee by becoming the Chairperson of both committees.

Mitsuaki Nishiyama
Director

Attendance at meetings
Board of Directors:
13/13 meetings
Nominating Committee:
4/4 meetings
Compensation Committee:
5/5 meetings

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
Apr 2021 Representative Executive Officer, Chairperson, President and Chief Executive Officer 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 finance 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:
13/13 meetings

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. (currently Showa Denko Materials Co., 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 18, 2021)

Mitsuaki Nishiyama
Representative Executive Officer
Chairperson
President and Chief Executive Officer

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

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

Kazuya Murakami
Vice President and Executive Officer
General Manager of Advanced Components & Materials Division
Deputy General Manager of Corporate Export Regulation Office

Ryoichi Aita
Executive Officer
Chief Quality Officer

Yoshie Asaki
Executive Officer
General Manager of Procurement & Value Engineering for Customers Division
Chief Risk Management Officer

Toru Taniguchi
Executive Officer
General Manager of Advanced Metals Division
Deputy General Manager of Corporate Export Regulation Office

Hisaki Masuda
Executive Officer
General Manager of Corporate Management Planning Division

Kenji Minegishi
Executive Officer
Deputy General Manager of Advanced Components & Materials Division
General Manager of Magnetic Materials Business Unit

Hajime Murakami
Executive Officer
General Manager of Technology, Research & Development Division
General Manager of Global Research & Innovative Technology Center

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

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 Basic Policy on the Determination of Compensation, etc., for Each Director and Executive Officer states 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 the benefits of 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) The compensation system shall be commensurate with roles and responsibilities of each Director and Executive Officer. Compensation for Directors shall be such that it enables them to exercise functions of supervision of management effectively. Compensation for Executive Officers shall reflect the Company's short-term and medium- to long-term business performance and appropriate compensations shall be paid for outstanding achievements to motivate Executive Officers to exercise their respective management capabilities, management know-how, and skills to achieve satisfactory results; and (c) To secure appropriate human resources for the positions of Director and Executive Officer, compensation levels should be comparable to those of other companies. The Compensation Committee utilizes expert outside organizations to gain professional advice and objective viewpoints, if necessary, for deciding the details and amounts of compensation."

The "Basic Policy on the Determination of Compensation, etc., for Each Director and Executive Officer" was revised at the meeting of the Compensation Committee on May 13, 2021. As a result, the amount of compensation presented in "(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." below was paid based on the policy prior to revision. The details of the policy prior to revision state that: "(a) Directors and Executive Officers assuming 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 compensations shall be paid for outstanding achievements; and (c) Compensation paid by the Company consists of a base compensation and a term-end bonus." 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)	46	39	7	5
Executive Officers	354	276	78	17
Outside Directors and Officers	62	54	8	3

Notes: 1. Directors with concurrent post as Executive Officers are compensated as Executive Officers but not as Directors.
2. The base compensation for full-time Directors and Executive Officers was reduced as an emergency measure to improve business performance from October 2020 through March 2021. It was also reduced in relation to the matter of misconduct regarding the quality of products of the Company and its subsidiaries from January 2021 through March 2021.
3. The Special Committee consists of four members: three Independent Outside Directors, Mr. Makoto Uenoyama, Ms. Toshiko Oka (retired from the position of Director of the Company as of June 18, 2021), and Mr. Koichi Fukuo, who are independent of the tender offerer, Hitachi, Ltd., and the Company, and one outside expert to eliminate arbitrariness in the Company's decision-making process, and examine and determine the pros and cons of the transactions, the appropriateness of the terms and conditions, and the fairness of the procedures, including the process for selecting the purchaser (partner), etc., in the decision to implement a series of transactions related to the tender offer by K.K. BCJ-52 for the Company's common stock. Compensation received as a member of the Special Committee was added to the amount of base compensation for Outside Directors in the chart above. Ms. Toshiko Oka resigned as a member of the Special Committee on March 26, 2021, at her own request, from the perspective of avoiding any suspicion of a conflict of interest and ensuring the fairness of the transactions since there were concerns about conflicts of interest with the company for which she concurrently serves as a Director.

(iii) Policy on the determination of proportion of payments as performance-linked compensation and 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 of the total amount of compensation falls within a range of the ratios specified below according to the ranks of each Executive Officer to strengthen the link between the business performance of the Company, considering the degree of the responsibility of each Executive Officer for business execution. Compensation for Directors is only base compensation, which is fixed compensation, to contribute to the full execution of the management-supervision function. For Directors who also serve as Executive Officers, compensation as a Director is not paid.

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	100%	—	

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

The indicators for performance-linked compensation are "revenues," "adjusted operating income," "return on invested capital," and "cash conversion cycle" on a consolidated basis as we focus on growth, profitability, and management efficiency in the Fiscal 2021 Medium-Term Management Plan. Furthermore, non-financial targets are also included in the targets set for each Executive Officer.

(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 indicators for a term-end bonus, which is performance-linked compensation, are "revenues," "adjusted operating income (AOI)," "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 2021 Medium-Term Management Plan. The amount paid to each Director and Executive Officer is calculated with the formula shown below, based on the standard amount set by rank and decided after discussion by the Compensation Committee.

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 AOI, 0.15 for ROIC, and 0.15 for 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. However, for fiscal 2020, even if the targets are achieved, the amount paid will be 70% of the standard amount.

Index (consolidated)	FY2019		FY2020	
	Target	Actual	Target	Actual
Revenues (Billions of yen)	1,000.0	881.4	756.7	761.6
AOI (Billions of yen)	54.0	14.4	4.4	(5.0)
ROIC (%)	3.5	–5.0	–0.5	–0.7
CCC (Number of days)	84.2	87.1	86.3	89.1

Note: FY2019 ROIC = Net income attributable to shareholders of the parent company / (average of beginning and end-year interest-bearing debts + average of beginning and end-year equity attributable to shareholders of the parent company)
FY2020 ROIC = {Adjusted operating income × (1 – tax rate of 25%) + equity in earnings affiliates} / (average of beginning and end-year interest-bearing debts + average of beginning and end-year capital)

*2 Each "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 comprehensively considers consistency with the policy by referring to market data on executive compensation to determine if it is in line with the policy.

(vii) Activities of the Compensation Committee

During fiscal 2020, the Compensation Committee held a total of six 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 Director 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.

As announced on April 28, 2021, a tender offer, etc., for the common stock of the Company by K.K. BCJ-52 (hereinafter referred to as the "Tender Offer") is scheduled in the future, and the Company expressed its opinion, as of the same date, in favor of the Tender Offer, if it is initiated. K.K. BCJ-52 intends to make the Company its wholly owned subsidiary through the Tender Offer and a series of transactions to be conducted thereafter. As a result, the Company will be separated from the Hitachi Group and its common stock will be delisted.

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, 2021, the number of strategic shareholdings was 12. 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), which 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 a month. In addition, the Internal Auditing Office holds an audit report meeting mostly once a month with 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 has a discussion on and makes 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 share information on issues detected by each of them, and the Company promotes a "mutual check and balance system and mutual evaluation," taking a step further from a one-way evaluation from the Company to the Accounting Auditor based on the evaluation standards for Accounting Auditors. Notably, the Company considers the function of detecting risks by the Accounting Auditor as an external agency to be particularly important in the entire risk detecting process of the Group. To strengthen the said function, the mutual evaluation is implemented between the Accounting Auditor and the Company's finance division or the Internal Audit division or the Audit Committee, respectively. Specifically, based on the evaluation standards for accounting auditors defined by the Audit Committee, the Audit Committee performs a comprehensive evaluation considering the following major factors evaluated by the Company: the Accounting Auditor's communications with the Audit Committee, the senior management, the Internal Audit division and others; audit quality control system; audit plans; audit team; audit reports and quarterly review reports; and consistency between audit plans and audit hours as a basis of determining the amount of auditing compensation. The Accounting Auditor, on the other hand, evaluates basic operations of the finance division, the Internal Audit division, and the Audit Committee of the Company, handling of audit requirements, cooperation, risk recognition, activity status, resources and other factors, and reports the results to the relevant counterparties. The Company utilizes the above feedback to strengthen the Company's functions. In addition, the Company has started the mutual evaluation system between the finance divisions of the Company's facilities or subsidiaries and the Accounting Auditor.

Risk Management

With respect to risk management, each Executive Officer identifies and analyzes business risks including changes in political, economic, and social situations, currency fluctuations, rapid technological innovations, as well as changes in customer needs, examines measures against such risks, and reviews these measures whenever necessary through discussions at the Board of Directors, the Audit Committee, the Executive Committee, and other meeting bodies. In addition, each of the Group's sites has built a system to promptly share information that has become known regarding risks relating to compliance, antisocial forces, investment, finance, procurement, the environment, disasters, quality, information security, export control, legal affairs, etc., with each business division. Meanwhile, each corporate business division has prepared internal rules, guidelines, etc.; conducts education and enlightenment activities, preliminary checks, audits on business operations, etc.; and cooperates with the relevant business divisions to avoid, prevent, and manage risks.

On April 27, 2020, the Company announced that it had discovered conduct including the misrepresentation of test results in inspection reports submitted to customers of certain products manufactured by the Company and its subsidiaries and that the Company would establish a special investigation committee of outside experts. Since then, the Company has examined the facts and causes of the misconduct. The results of the committee's investigation, as detailed under "(7) Risks associated with product quality (i) Effects of the misconduct at issue," confirmed that the misconduct, such as rewriting the inspection results of the characteristics stated in the specifications agreed to with customers and the delivery to customers of products that did not meet the specifications agreed upon with the customer, had occurred with magnet products, specialty steel products, automotive casting products, etc., manufactured by the Company and its subsidiaries. Following the results of the committee's investigation, the Company will make every effort to prevent the recurrence of such a situation and work to rebuild trust with customers, shareholders, and other stakeholders by firmly implementing preventive measures, thoroughly reviewing its quality assurance organizational structure, and further enhancing its compliance framework.

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

■ 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, the impact of a semiconductor shortage on automotive production and logistics disruptions such as a potential shortage of containers caused by a rapid recovery in the international movement of goods 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.

(2) 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. In addition, as part of environmental measures centered on reducing CO_2 emissions, society is demanding the development of environmentally friendly technologies and products with lower environmental impact. Amid such circumstances, an inability to respond appropriately to these demands and delays in developing or commercializing environmentally friendly technologies and products may affect the operating results or financial situation of the Group. The Group will respond to these risks 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, while strategically advancing the development of technologies and products aimed at environmental measures.

(3) 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.

(4) 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. For this reason, 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.

(5) 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. The Group responds to this risk by continuously monitoring the political, economic, and social conditions of each region, analyzing the impact on the Group's business, and implementing measures for the Group as a whole.

(6) 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 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. The Group responds to this risk by having the Investment Committee review major investments beforehand and subsequently having the Executive Committee and the Board of Directors deliberate, from a multifaceted and whole-company perspective that includes conformity with business strategies and medium-term management plans, market and other trends, business risks, the appropriateness of technology and productivity improvement plans, and the appropriateness of investment amounts and investment plans. In addition, after an investment decision is made, the Group performs regular follow-ups, accelerating and changing investment plans, while tracking the market environment and internal situation.

(7) Risks associated with product quality

(i) Effects of the misconduct at issue

It was confirmed that the misconduct, such as rewriting the inspection results of the characteristics stated in the specifications agreed to with customers and the delivery to customers of products that did not meet the specifications agreed upon with the customer, had been conducted for magnet products, specialty steel products, automotive casting products, etc., manufactured by the Company and its subsidiaries. For products for which misconduct has been confirmed, the Company has been analyzing correlations between the inspection methods actually used by the Company and those agreed to with customers, confirmation of performance in the presence of customers, or reinspection of sample products stored at the Company. To date, no performance or safety problem has been found, and detailed investigations are still in progress at some bases.

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.

(8) Risks associated with M&As

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. The Group responds to these risks by employing outside advisers to analyze M&As from various perspectives, including market trends, strategies, acquisition price, the PMI process, and latent risks, as well as deliberations by the Executive Committee and the Board of Directors.

(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 the relationship with the parent company

As of March 31, 2021, Hitachi, Ltd., the Company's parent company, held 53.4% of the Company's voting shares 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 18, 2021, one of the five 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.

(11) Risks associated with information security

The usage and importance of information systems in the Group's business activities are increasing. 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. The Group works to strengthen its information security in order to protect this confidential information. However, if external cyberattacks or other threats impede the functioning of these information systems, or if services from an external service provider are interrupted, such confidential information may be disclosed without authorization. Therefore, the Group may be held liable for compensation for damages or be exposed to legal action, and the Group's operating results, financial situation, reputation, or trust may be affected.

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 information security has been expanded from the office automation environment to a wide range of business environments, including the production and manufacturing floors, and the Group is enhancing its Information Security Committee system by further strengthening participation by relevant divisions. The Group has also taken out insurance against information leaks, including cyberattacks. This insurance covers claims for compensation for damages in the event of an information leak.

(12) Risks associated with environmental regulations

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, reasonable use of energy, waste disposal, and soil and groundwater contamination, and these regulations have continued to become stricter over the years. Moreover, in addition to compliance with conventional environmental laws and regulations, recently there has been growing social demand for companies to take initiatives for decarbonized management, such as using renewable energy, which does not produce greenhouse gases, and managing greenhouse-gas emissions throughout the entire value chain, not just for business relationships with customers and suppliers. The Group has been working to reduce CO_2 emissions, including omitting excess processes, promoting the introduction of energy-efficient equipment, and converting to natural gas and LPG fuel. Moreover, to achieve carbon neutrality, the Group is considering efforts that go beyond emission reduction, such as recycling emitted CO_2, in addition to even greater efforts to reduce CO_2 emissions. Amid these major changes in the environment, the costs of procuring the materials, parts, and energy that the Group uses to manufacture its products may rise, and the costs of R&D investment and capital investment related to these initiatives may increase. 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 recognize and reduce the financial impact of environmental compliance.

(13) 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. The Group responds to these risks by employing outside advisers to analyze business reorganization from various perspectives, including market trends, strategies, sale prices, processes, and latent risks, as well as deliberations by the Executive Committee and the Board of Directors.

(14) 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.

(15) 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.

(16) 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.

(17) 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 COVID-19 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. In addition, to prevent the spread of COVID-19 infections among employees, the Company is working on initiatives including working from home, thorough adherence to mask-wearing in the office, maximum limits on attendance rates for each division, and regular management of employees' health.

(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.

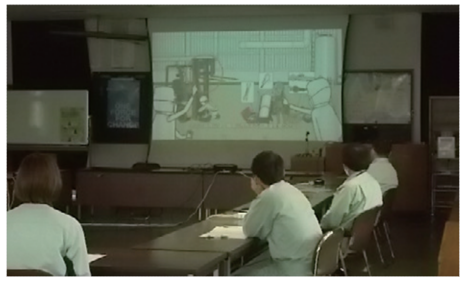
Health and Safety

Following 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.

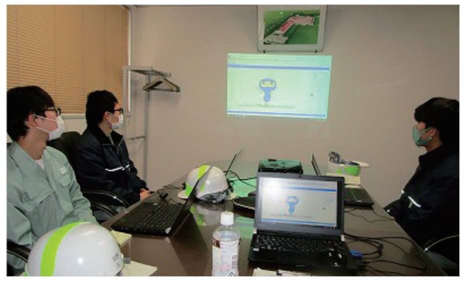
Instilling a Culture of Safety

In the Group's aim to instill a culture of safety, we have held the town hall-style meeting continuously since December 2018, where we communicate the policies and views on safety from the President and receive feedback from the Group workplaces. We hold town hall-style meetings to obtain a wide range of opinions to reflect in our management policies. In fiscal 2020, our executives started participating in the meetings. At our manufacturing sites, we have been promoting "2S-3F" (Sort Out, Set in Order, Fixed Item, Fixed Quantity, and Fixed Location) activities. We are now expanding the scope of this initiative to include safety activities and thus instill a culture of safety.

In November 2020, we started specialized level-based safety training for directors, business/plant managers, Group company presidents, production line managers, and staff in charge of safety. The following month, the President took the initiative in launching a monthly "Safety & Quality Meeting" to discuss the proliferation of a safety culture. The meeting was attended by division and plant managers and Group company presidents.



Education using a video-based health and safety training system



Education using a video-based health and safety training system

Increasing sensitivity to danger through *monozukuri* practical safety training

To improve employees' sensitivity to danger, we are installing equipment that gives employees a simulated experience of being caught in equipment or electrically shocked. In fiscal 2020, we installed such equipment at the Yasugi Works and Ibaraki Works. In addition to this equipment, we are promoting safety education throughout the Group to enhance our *monozukuri* practical safety training. We also plan to build a "*monozukuri* practical safety training facility" that will serve as the cornerstone for developing a safety-oriented culture. 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 that of 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 certifying employees required at each business office in accordance with its head count and size. The Guidelines have been implemented since fiscal 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

Under our Medium-Term Management Plan, we intend to make safety-related investments of ¥2 billion per year to improve facilities to ensure fundamental safety. In fiscal 2020, we gave top priority across the Group to safety measures against someone being caught in machinery. In fiscal 2021, we will continue prioritizing these safety measures. At the same time, we will conduct risk assessments aimed at implementing safety measures, starting with high-risk operations.

Health Management

The Group cares about 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."

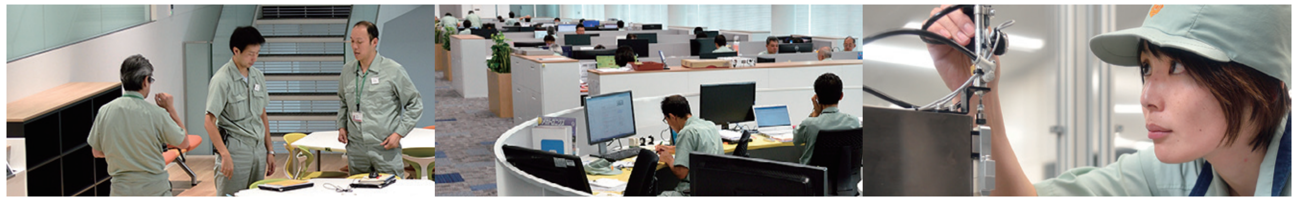
The "best enterprise" is a company that "every employee is motivated to work at." In order to be a company where employees dynamically harness their abilities with smiling faces every day and are able to perceive their own growth, it is first essential that each employee be healthy.

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.

Promotion of Diverse Human Resources

The Hitachi Metals Group positions the thorough pursuit of diversity and inclusion as an important management strategy and is working on various measures.



Hitachi Metals Basic Policy on Diversity Management

1. We regard differences in gender, nationality, culture, and so forth as unique qualities of the individual, and we ensure diversity through measures such as promoting the career development of women and utilizing global human resources. Such approaches allow us to promote innovation and enhance the flexibility and speed with which we respond to risks and changes.
2. We encourage the growth of the individual, enhance our ability to act as an organization, and reinforce the basis for sustained growth by engaging in active communication and the sharing of values.
3. We aim to become one of the world's top companies in metal materials by designating diversity as a driver of growth, as we transform ourselves into a globally competitive business and challenge ourselves to meet new targets.

Hitachi Metals Action Policy on Diversity Management

Cultivate a structure and environment in which all human resources can broaden their potential and play active roles

Recognizing that human resources are the source of our competitiveness, the Hitachi Metals Group has worked to enhance and strengthen its human resource development program, believing it is important to develop people of action with global perceptions at Hitachi Metals. Additionally, in our evaluation system, we are revising our seniority-based pay system and have incorporated "diversity management" as one of our manager evaluation metrics. We place great importance on the fact that our managers are responsible for providing their subordinates with equitable growth opportunities with an understanding of their values, limits due to life events and other causes, and backgrounds, and for getting them actively involved in various measures and initiatives.

In addition, we support exchanges among our diverse employees and the realization of diverse careers through human resource exchanges both inside and outside the Hitachi Group, the proactive hiring of experienced personnel, the utilization of the "My Challenge" internal free agent system, which allows employees who want to expand their potential to transfer across business divisions or job categories, and the introduction of leave to allow employees to accompany spouses on overseas assignments.

Human Resources as the Source of Competitiveness

The Hitachi Metals Group, which is moving ahead with global business expansion, recognizes human resources as the source of competitiveness. With this understanding, we will become a company where diverse human resources gather, test their opinions against others' views, and work with enthusiasm and pride.

Human Resource Development Programs

The Hitachi Metals Group is striving to enhance and strengthen its human resource development programs linking OJT and OFF-JT, so that employees can develop their expertise, enabling them to actively seek out challenges and take actions to achieve success or solve problems, and to become shining examples for the Company.

■ Nurturing the next generation of human resources

We identify at an early stage the human resources who will take responsibility for management in the next generation and enhance training programs for them. We complete cross-divisional personnel rotations and tough assignments, as well as training such as OFF-JT including external training.

■ Global recruitment and development of human resources

As our business rapidly globalizes, we are accelerating efforts at global regional headquarters in Europe, the U.S., China, and the rest of Asia, to employ and cultivate human resources who will be future executive candidates. We are also pushing ahead with the early cultivation of future executive candidates who can play active roles globally, through overseas business training and global training for employees in Japan, active hiring of foreign nationals, including international students, and promotion of locally hired staff at Group companies outside Japan into positions of responsibility.

Promoting the Participation and Advancement of Women in the Workplace

In August 2017, we announced that we would further promote the participation and advancement of women in the workplace, in support of the declaration of action by the "Male Leaders Coalition for Empowerment of Women," which is supported by the Cabinet Office. The President sent a message internally to the Hitachi Metals Group regarding our support. In his message, the President declared that developing the next generation of human resources was a key issue for him as the head of top management, and to this end, he would work to promote the participation and advancement of women. In this regard, he believes that without the participation and advancement of women, it is not possible to create a strong company where diverse human resources work with enthusiasm. He also declared that he would take the lead in further promoting the participation and advancement of women.

Policy on Promoting the Participation and Advancement of Women in the Workplace

1. Achieved targets for the hiring ratio of women among newly hired graduates (career-track positions)
Technical positions: 10% or more
Administrative positions: 40% or more

2. Support for retention
- Career support to eliminate concerns (providing training, opportunities for exchange among women, etc.)
- Awareness-raising for those in management-level positions
- Support for balancing work with childcare and nursing care, including Hitachi Group training
- Promotion of diverse workstyles through workstyle reform (a work-from-home system, satellite offices, etc.)

3. Promotion measures
- Achieved the target ratio of women in management-level positions: 2.0% in fiscal 2021
- Carried out individual development plans and training for selected employees

Main initiatives

- Held the Hitachi Metals Women's Forum (networking event for employees in career-track positions at Hitachi Metals)
- Corporate manager training and diversity training
- Survey and analysis of participation by women in the Hitachi Group
- Dispatched employees to Hitachi Group career training and seminars for support before maternity leave and upon returning to work
- Actively dispatched employees to events for cross-industry exchanges and external seminars for women in management-level positions
- Presented "papa aprons" to male employees and the spouses of female employees who have had children
- Held seminars for management-level employees who have female subordinates

Nadeshiko Brand
Each year, the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange jointly select for the Nadeshiko Brand those companies with a management strategy of striving to promote at a high level the participation and advancement of women in the workplace. Companies are selected according to industry, and Hitachi Metals was named for the steel category in fiscal 2017 and 2019.

Eruboshi Certification: Certification based on the Act on Promotion of Women's Participation and Advancement in the Workplace (Women's Participation Promotion Act)
The Eruboshi Certification is awarded by the Minister of Health, Labour and Welfare to companies that formulate and file action plans for the participation and advancement of women and carry out excellent initiatives to execute these plans. Companies are evaluated on a three-level scale, in accordance with the number of evaluation criteria they satisfy. In May 2020, Hitachi Metals was certified for Stage 3, having met all evaluation criteria.

Promoting Workstyle Reform

We believe that it is indispensable to create an environment where diverse employees can share different values and ideas, pursue highly productive workstyles and approaches to their jobs, and realize a sense of fulfillment and personal growth in their work. Accordingly, we have continued to steadily improve operational efficiency and promote and establish work with no restrictions on time or location by pursuing ICT measures, allowing all employees to have real job satisfaction and feel truly comfortable at work.

In fiscal 2020, the total of annual actual working hours of back-office workers was 2,028. Total working hours decreased significantly from those in fiscal 2016 (2,245), and highly productive workstyles are being instilled.

Main initiatives

- Promoted satellite offices, mobile work, a work-from-home system, a discretionary work system, and super-flex work
- Introduced a work-from-home system that eliminates the need to send employees on remote assignments away from their families by enabling employees to mainly work from home, if they desire
- Estimated working hours and provided workstyle training for managers
- Specified common Companywide rules for email and meetings, and enhanced ICT infrastructure such as file-sharing systems and communications tools
- Shared information related to operational improvements such as using RPA and shifting to paperless operations
- Standardized days off at Head Office and production factories

Composition of Workforce (Non-consolidated)

	FY2016	FY2017	FY2018	FY2019	FY2020
Number of employees	5,858	6,315	7,067	7,022	6,623
Male	5,241	5,654	6,277	6,215	5,826
Female	617	661	790	807	797
Ratio of female employees	10.5	10.5	11.1	11.5	12.0
Average age (years)	43.9	44.1	43.2	43.4	43.4
Average service (years)	21.0	21.7	18.4	18.8	20.1
Number of female managers	12	14	19	19	19
Employment ratio of people with disabilities*	2.40	2.31	2.21	2.26	2.27

*Including special subsidiaries

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, we began periodically auditing the operations of each overseas Group company as a measure to strengthen the ongoing governance under which the GPOs use procurement standards common to our overseas Group companies.

Responsible Mineral Procurement

In January 2013, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), out of concern that minerals mined in the Democratic Republic of the Congo (DRC) and surrounding countries could become fund sources for armed groups. The act designates the following four minerals (3TG) as conflict minerals: tantalum, tin, tungsten, and gold. In September 2013, the Hitachi Metals Group announced the Conflict Minerals Procurement Policy, which states that the Group has no intention of providing any benefit to armed groups and is committed to responsible procurement. Moreover, concerns have spread recently to the procurement of minerals originating in conflict regions other than the DRC and in areas with high risk of various illegal activities. The Hitachi Metals Group, in coordination with industry groups, is accelerating efforts group-wide to enhance the transparency of its supply chain.

To carry out responsible procurement, we conduct a survey using the Conflict Minerals Reporting Template (CMRT) and Cobalt Reporting Template (CRT), published by the Responsible Minerals Initiative (RMI), to specify the countries of origin and smelter of the minerals used in the supply chain, and request suppliers to procure minerals from certified conflict-free smelters (CFSs). Up to now, no cases of armed groups being funded or problematic uses of minerals have been found.

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 2020 as well, despite restrictions on movement due to the COVID-19 pandemic, we performed most mutual audits remotely for all offices and Group companies to monitor whether operations were being conducted in accordance with laws and regulations, as well as with Company regulations.

Green Procurement

In 1998, 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 6,623 employees, on a consolidated basis, receiving human rights-related training in fiscal 2020). 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.

Efforts to Strengthen Global Human Rights Risk Management

In April 2021, we established the Human Rights Risk Management Committee as part of our efforts to strengthen global human rights risk management. The Committee is conducting activities with a focus on its priority issues of forced labor and immigrant labor. We are currently surveying the labor management status at our major Group production bases in each country and plan to expand the scope of the survey to business partners (suppliers). We will promote sound management of human rights risks by evaluating the results of the surveys and taking appropriate measures.

	Millions of yen										Thousands of U.S. dollars (1USD=¥110.71)	Thousands of Euros (1EUR=¥129.80)
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2020	2020
FY	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	JGAAP	JGAAP	IFRS	
For the period												
Operating results:												
Revenues	¥761,615	¥881,402	¥1,023,421	¥ 988,303	¥ 910,486	¥1,017,584	¥1,004,373	¥807,794	¥535,779	¥556,914	$6,879,370	€5,867,604
Cost of sales	666,246	755,947	851,029	803,607	731,153	819,433	793,517	637,081	440,684	—	6,017,939	5,132,866
Selling, general and administrative expenses	100,346	111,072	120,965	119,566	113,350	122,090	126,446	106,851	74,016	—	906,386	773,082
Adjusted operating income	(4,977)	14,383	51,427	65,130	65,983	76,061	84,410	—	—	—	(44,955)	(38,344)
Other income	9,726	8,599	10,667	5,401	14,070	36,416	21,303	5,844	—	—	87,851	74,931
Other expenses	53,962	62,108	19,652	24,205	11,786	12,523	21,306	16,278	—	—	487,418	415,732
Operating income	(49,213)	(39,126)	42,442	46,326	68,267	99,954	84,407	53,428	21,079	44,867	(444,522)	(379,145)
Income before income taxes	(50,588)	(40,614)	43,039	46,985	66,016	96,233	86,391	55,820	17,230	36,414	(456,942)	(389,738)
Net income attributable to shareholders of the parent company	(42,285)	(37,648)	31,370	42,210	50,593	69,056	70,569	48,133	12,955	17,886	(381,944)	(325,770)
Cash flows:												
Cash flows from operating activities	52,586	105,958	66,582	39,133	89,391	115,742	108,983	99,171	62,975	3,008	474,989	405,131
Free cash flows	54,777	49,540	(29,665)	(35,947)	53,527	83,595	(4,767)	89,339	34,257	(18,761)	494,779	422,011
Increase (decrease) in cash and cash equivalents	56,986	1,255	(13,814)	(84,499)	19,111	41,271	(7,443)	61,765	6,136	(6,028)	514,732	439,029
Capital expenditure	28,806	53,019	95,389	91,786	63,843	59,602	51,474	31,987	26,688	24,300	260,193	221,926
Depreciation and amortization	50,407	55,180	50,901	46,138	43,039	42,927	39,917	33,762	24,219	27,544	455,307	388,344
Research and development	14,475	15,918	18,604	17,749	17,971	19,121	20,903	16,814	11,076	12,153	130,747	111,518
At the end of the period:												
Total assets	¥972,249	¥977,766	¥1,099,252	¥1,058,832	¥1,040,390	¥1,033,311	¥1,083,450	¥848,772	¥541,286	¥579,862	$8,781,944	€7,490,362
Interest-bearing debt	195,318	187,586	202,098	160,844	194,457	220,376	255,350	177,195	145,935	169,232	1,764,231	1,504,761
Equity (net assets)	492,118	522,853	595,211	570,192	548,746	504,675	476,176	382,840	259,865	240,395	4,445,109	3,791,356
Number of shares outstanding (thousands of shares)	428,904	428,904	427,569	427,572	427,576	427,579	427,601	427,657	365,420	352,430	—	—
	Yen										U.S. dollars	Euros
Earnings per share*1	¥ (98.90)	¥ (88.05)	¥ 73.37	¥ 98.72	¥ 118.32	¥ 161.50	¥ 165.02	¥ 116.79	¥ 36.20	¥ 50.75	$ (0.89)	€ (0.76)
Dividends per share	0.00	26.00	34.00	26.00	26.00	26.00	23.00	17.00	14.00	12.00	0.00	0.00
Net assets per share*2	1,145.26	1,216.92	1,375.16	1,316.08	1,254.89	1,159.70	1,090.64	870.36	684.96	625.04	10.34	8.82

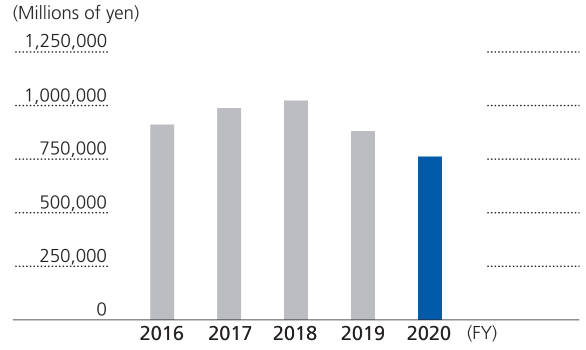
*1 Basic earnings per share
*2 Equity per share attributable to shareholders of the parent company

	Millions of yen										Thousands of U.S. dollars	Thousands of Euros
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2020	2020
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	JGAAP	JGAAP	IFRS	
Reference information:												
Total market value of stocks	¥779,021	¥486,999	¥549,855	¥537,886	¥667,874	¥496,420	¥788,924	¥628,228	¥321,935	¥362,298	$7,036,591	€6,001,703
Enterprise value (EV)	875,000	632,232	710,855	643,818	722,920	596,496	965,245	712,512	433,768	503,564	7,903,532	6,741,140
EBITDA	1,159	16,634	96,116	94,864	111,299	141,644	128,212	90,979	42,818	65,390	10,469	8,929
EBITDA margin (%)	0.2	1.9	9.4	9.6	12.2	13.9	12.8	11.3	8.0	11.7	—	—
EV/EBITDA ratio (times)	754.96	38.01	7.40	6.79	6.50	4.21	7.53	7.83	10.13	7.70	—	—

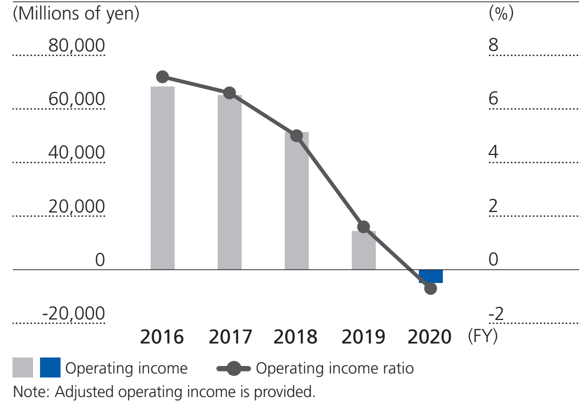
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
FY	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	JGAAP	JGAAP
Key financial indicators:										
Operating income ratio (%)	(6.5)	(4.4)	4.1	4.7	7.5	9.8	8.4	6.6	3.9	8.1
Operating cash flow margin (%)	6.9	12.0	6.5	4.0	9.8	11.4	10.9	12.3	11.8	0.5
ROS (%)	(5.6)	(4.3)	3.1	4.3	5.6	6.8	7.0	6.0	2.4	3.2
ROA (%)	(5.2)	(3.9)	4.0	4.5	6.4	9.1	8.9	8.0	3.1	6.6
ROIC (%)	(0.7)	1.7	5.3	5.8	7.0	9.6	11.1	6.8	3.2	7.2
ROE (%)	(8.4)	(6.8)	5.5	7.7	9.8	14.4	16.8	15.6	5.5	8.3
Total assets turnover (times)	0.78	0.90	0.93	0.93	0.88	0.98	0.93	0.95	0.99	0.96
Ratio of equity attributable to shareholders of the parent company (%)	50.4	53.2	53.5	53.1	51.6	48.0	43.0	43.9	46.2	38.0
D/E ratio (times)	0.40	0.36	0.34	0.29	0.36	0.44	0.55	0.48	0.58	0.77
Ratio of operating cash flow to debt (times)	3.71	1.77	3.04	4.11	2.18	1.90	2.34	1.79	2.32	56.26

Notes:
1. The Company has adopted the International Financial Reporting Standards (IFRS) for the Consolidated Financial Statements in the Annual Securities Report since the fiscal year ended March 31, 2015.
2. The translation of Japanese yen amounts into U.S. dollars and euros for the year ended March 31, 2021, has been made at the rates of ¥110.71=$1 and ¥129.80=€1, the exchange rates as of March 31, 2021.
3. Diluted earnings per share is not provided as Hitachi Metals, Ltd. had no dilutive common stock outstanding.
4. Interest-bearing debt represents the total of short-term debt, long-term debt and corporate bonds.
5. Earnings per share is calculated by dividing net income attributable to shareholders of the parent company (net income) by the average number of shares issued during the term, and equity per share attributable to shareholders of the parent company is calculated by dividing equity, which is total equity minus non-controlling interests/minority interests, by the number of shares outstanding at the end of the period.
6. EV represents the sum of total market value of stocks and net interest-bearing debt.
7. EBITDA refers to income before income taxes before deducting interest charges, depreciation and amortization.
8. EBITDA margin refers to EBITDA divided by revenues.
9. ROS refers to net income attributable to shareholders of the parent company divided by revenues.
10. ROA is computed as the income before income taxes divided by the average total assets (the average of the beginning and ending balance of the year).
11. Rate of ROIC [until FY2017] = Net income attributable to shareholders of the parent company / (average of beginning and end-year interest-bearing debts + average of beginning and end-year equity attributable to shareholders of the parent company)
Rate of ROIC [from FY2018] = [Adjusted operating income × (1 − tax rate of 25%) + (equity in earnings affiliates] / (average of beginning and end-year interest-bearing debts + average of beginning and end-year capital)
12. ROE is computed as the net income attributable to shareholders of the parent company divided by the average total equity excluding non-controlling interests/minority interests (the average of the beginning and ending balance of the year).
13. On July 1, 2013, the Company merged with Hitachi Cable, Ltd. On November 10, 2014, the Company acquired all shares of Waupaca Foundry Holdings, Inc., which held a 100% stake in Waupaca Foundry, Inc., making both companies its consolidated subsidiaries.

Revenues

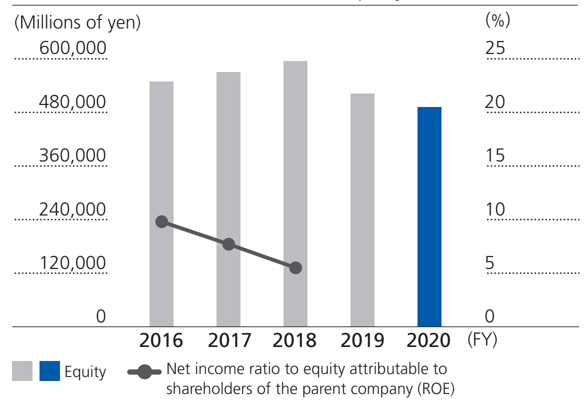


Operating Income/Operating Income Ratio

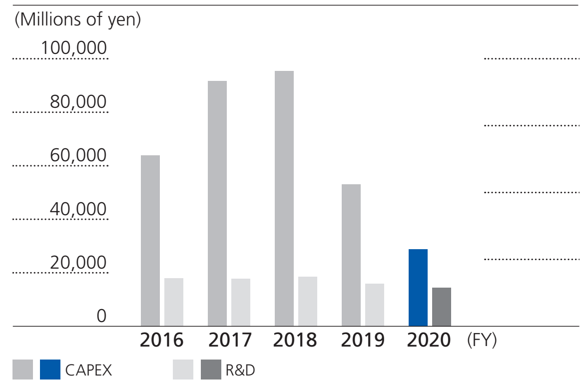


Note: Adjusted operating income is provided.

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



Capital Expenditure/
Research and Development Expenses



Non-Financial Data

FY	2020	2019	2018	2017	2016
Environmental e-learning attendance rate (%)	92	—	100	100	100
Environmental auditor development training sessions (times)	1	2	1	3	1
Sales of key environmentally conscious products (millions of yen)	163,004	178,479	213,980	207,002	184,325
Sales ratio of key environmentally conscious products (%)	21.4	20.2	20.9	20.9	20.2
Energy consumption converted into crude oil (kl/year)	915,129	1,035,053	1,109,813	1,121,565	1,077,236
CO_2 emissions (thousands of tons of CO_2/year)	1,995	2,319	2,630	2,778	2,673
CO_2 emissions per production unit (tons of CO_2/million yen)	2.619	2.631	2.570	2.811	2.935
Total waste and valuables generated (thousands of tons/year)	761	879	1,004	985	1,004
Waste and valuables generated per production unit (thousands of tons/million yen)	0.999	0.974	0.981	0.997	1.102
Recycling rate (%)	76.7	74.6	78.2	78.1	77.0
Recycling volume (tons)	568,586	641,068	768,687	766,454	740,946
Final disposal volume (tons)	172,688	218,456	214,763	214,827	220,701
Number of business offices achieving zero emissions (final disposal rate below 0.5%)	19	17	14	15	14
Water consumption (thousands of m^3)	11,349	12,186	13,391	13,849	14,551
Water consumption per production unit (thousands of m^3/million yen)	14.901	13.826	13.085	14.013	15.982
Amount of chemical substances released into the atmosphere (tons)	88	235	268	217	268
Percentage of positive engagement indicator evaluations in employee awareness surveys (%)	50	53	59	58	55
Overall positive response rate in employee awareness surveys (%)	46	53	57	57	56
Diversity recruitment ratio (%)	11	34	57	62	46
Ratio of women among newly hired graduates (career-track positions) (technical positions) (%)	8	10	12	10	0
Ratio of women among newly hired graduates (career-track positions) (administrative positions) (%)	33	36	38	50	30
Ratio of women in management positions (%)	1.5	1.4	1.5	1.4	—
Ratio of women in career-track positions (non-consolidated; full-time) (%)	5.3	4.8	4.7	—	—
Number of women in career-track positions (persons)	106	101	99	—	—
Total annual working hours (hours)	2,028	1,980	2,049	—	—
Occupational accident frequency	0.23	0.27	0.42	0.55	0.27
Number of employees (persons)	28,620	29,805	30,304	30,390	28,754
Number of employees (non-consolidated) (persons)	6,623	7,022	7,067	6,315	5,858
Number of employees (non-consolidated; male) (persons)	5,826	6,215	6,277	5,654	5,241
Number of employees (non-consolidated; female) (persons)	797	807	790	661	617
Average age (non-consolidated) (age)	43.4	43.4	43.2	44.1	43.9
Average years of service (non-consolidated) (years)	20.1	18.8	18.4	21.7	21.0
Number of female managers (non-consolidated) (persons)	19	19	19	14	12
Employment ratio of people with disabilities (non-consolidated) (%)	2.3	2.3	2.2	2.3	2.4
Investment in new safety-related construction for facilities (thousands of yen)	1,044,988	864,910	1,255,201	—	—
Attendance at human rights-related training (persons)	6,623	7,022	5,892	—	—
Number of Directors (persons)	5	6	9	8	8
Number of female Directors (persons)	0	1	1	1	1
Number of Outside Directors (persons)	2	3	3	3	3
Number of Independent Directors (persons)	2	3	3	3	3

*1. In Japan, the power company CO_2 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."
*2. As of fiscal 2011, the definition of "zero emissions" is a final disposal rate below 0.5%.
*3. Water usage per production unit = (water usage) ÷ (amount of activity: a number representing the scale of business activities, such as sales or production volume)
*4. The diversity recruitment ratio is the percentage of foreign nationals, women, and mid-career hires in planning divisions' hires (non-consolidated).
*5. Ratios of newly hired graduates show the year of hiring activity for each fiscal year. (For example, the hiring ratio for fiscal 2020 generally shows hiring activity targeting March 2021 graduates.)
*6. 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).
*7. Total annual working hours are the average annual working hours of back-office workers (non-consolidated; including managers and professionals).
*8. Occupational accident frequency = Number of casualties due to occupational accidents ÷ Total actual working hours x 1,000,000 (calendar year)

External ESG-Related Recognitions

2021 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

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

2021 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

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

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

S&P/JPX Carbon Efficient Index

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

2021 MSCI ESG Leaders Indexes Constituent

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

2020 Sompo Sustainability Index

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

FTSE4Good

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

NADE SHI KO BRAND 2020

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

Stock Information

Stock Status

(As of March 31, 2021)

Total number of shares issued	428,904,352
Total number of shares authorized	500,000,000
Number of shareholders	20,782 (including holders of shares less than one unit)

Shareholder Composition

(As of March 31, 2021)

Segment	Number of shareholders	Number of shares held (hundreds of shares)	Percentage of shares held
Financial institutions	44	584,981	13.66
Financial instruments business operators	39	80,271	1.87
Other domestic corporations	472	2,333,912	54.48
Foreign nationals	496	1,020,643	23.82
Individuals and others	16,787	264,385	6.17

Major Shareholders

(As of March 31, 2021)

Shareholders	Number of shares held (thousands of shares)	Percentage of shares held
Hitachi, Ltd.	228,221	53.38
The Master Trust Bank of Japan, Ltd. (Trust account)	16,019	3.75
Custody Bank of Japan, Ltd. (Trust account)	8,710	2.04
JPMPL Citigroup Global Markets Limited Col Equity	7,610	1.78
JAPAN SECURITIES FINANCE CO., LTD.	6,416	1.50
JP Morgan Chase Bank 385632	4,894	1.14
State Street Bank and Trust Company 505103	4,699	1.10
J.P. MORGAN SECURITIES PLC	4,420	1.03
Custody Bank of Japan, Ltd. (Trust account 7)	4,374	1.02
JP Morgan Chase Bank 380072	3,551	0.83

Listed Stock Exchange

(As of March 31, 2021)

Tokyo (First Section, Code 5486)

Credit Rating

(As of February 2021)

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

Shareholders' Memo

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

Corporate Data/Stock Price

Corporate Data

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

Stock Price Chart

FY	2016	2017	2018	2019	2020
Total Shareholder Return (Comparative index: TOPIX Total Return Index)	136.8% (114.7%)	112.8% (132.9%)	118.2% (126.2%)	107.8% (114.2%)	166.6% (162.3%)

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.