

## 1. Financial Policy

Hitachi Metals makes growth investments and delivers consistently stable returns to shareholders to generate sustainable, long-term growth. Management maintains a financial policy that aims to ensure a healthy financial platform.

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

## 2. Shareholder Returns Policy

In keeping with its financial policy, Hitachi Metals recognizes that efforts to strengthen its financial platform, enhance profitability, and realize sustainable growth help increase enterprise value. The Company is committed to generating sustainable, long-term returns to shareholders as part of this process.

Hitachi Metals considers consolidated results and the above policies and commitments in paying cash dividends to its shareholders subject to its ability to consistently secure sufficient retained earnings for sustainable growth.

In the fiscal year ended March 31, 2014, the Company recorded an increase in sales and income, underpinned by the Company's effort for cost reductions (both manufacturing and expenses), foreign exchange gains, and a solid demand mainly for the automotive-, infrastructure-, and energy-related products. The Company paid interim dividends of ¥7 and year-end dividends of ¥10 per share, which consists of an ordinary dividend of ¥7 and a special dividend of ¥3 per share, resulting in annual dividends of ¥17. Accordingly, the dividend payout ratio on a consolidated basis was 17.8% and the return on equity (ROE) was 12.9% for the fiscal year.

Management plans to pay annual dividends of ¥20 per share in the fiscal year ending March 31, 2015.

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

## 3. Funding

In principle, the Group covers funding for growth investments with operating cash flows generated in the normal course of business with cash and cash equivalents. For other financing, Hitachi Metals flexibly accesses financial and capital markets to minimize opportunity losses.

As of March 31, 2014, interest-bearing debts stood at ¥176.0 billion, an increase of ¥30.1 billion from the previous year. The result is mainly attributable to an increase of ¥50.3 billion following the merger with Hitachi Cable, Ltd. as of July 1, 2013 offset by repayments of debts during the fiscal year.

## 4. Liquidity

Liquidity is a key component of Hitachi Metals' overall financial management policy. For short-term obligations, which have maturities of less than 12 months, Hitachi Metals maintains sufficient liquidity to flexibly address unforeseen circumstances.

As of March 31, 2014, total liquid funds of the Company stood at ¥95.5 billion. The amount consists of ¥45.3 billion in cash and deposits, ¥1.0 billion in short-term investments, and ¥49.2 billion in the group pooling cash deposits managed by Hitachi, Ltd., the parent company.

This cash pooling system, capped at ¥30.0 billion and established under contract with Hitachi, Ltd. provides Hitachi Metals with access to emergency liquidity. Hitachi Metals also maintains a commitment line of ¥40.0 billion from external financial institutions as part of efforts to secure financing under all circumstances.

## 5. Interest-Bearing Debt

As of March 31, 2014, interest-bearing debts stood at ¥176.0 billion, an increase of ¥30.1 billion from the previous year. Short-term interest-bearing debts were ¥82.6 billion, an increase of ¥38.3 billion from the previous year. Long-term interest-bearing debts were ¥93.4 billion, a decrease of ¥8.3 billion from the previous year. The debt-to-equity ratio improved by 0.1 percentage points to 0.48 percentage points as of March 31, 2014.

The Company is registered to issue corporate bonds to a maximum of ¥50 billion. As of March 31, 2014, the whole amount remained unused.

## 6. Ratings

Hitachi Metals recognizes that a high and stable credit rating is essential to maintain adequate liquidity and a selective, flexible financial policy. Each year, the Company acquires a credit rating from Rating and Investment Information, Inc. (R&I), a major credit agency in Japan. As of March 31, 2014, the Company received the rating "A" for its long-term corporate bonds. Further, as of March 3, 2014, the Company withdrew the rating for its commercial papers, which are not expected to be issued in the near future.

## 7. Cash Flows

Hitachi Metals aims to maintain an operating cash flow margin of at least 12%, working to generate cash by increasing operating income, enhancing profitability, and reducing working capital.

The Company pays particular attention to managing and reducing inventories. To that end, Hitachi Metals clarified responsibilities for each inventory category. Production departments and internal companies oversee manufactured products, including work-in-process and finished goods. Domestic and overseas sales companies collaborate with internal companies to look after transit inventories. The Company thus maintains a structure to optimally control and streamline inventories, reducing them over the medium to long term. The Group aims to make consolidated net sales forecasts more accurate and implement timely related measures to properly manage and rationalize inventories by reducing the number of working capital turnover days.

Hitachi Metals adopted a Group cash pooling system to help manage its own and subsidiaries' working capital. In principle, consolidated subsidiaries procure funds through this system rather than by taking on external debt. By consolidating surplus funds and financing requirements across the

Group, Hitachi Metals has better positioned itself to become more financially efficient. U.S. subsidiaries also use the cash pooling system, through which they are enhancing financial efficiency.

Hitachi Metals considers broad alternatives when funding strategic investments for overseas subsidiaries. Numerous options include Group companies implementing optimal financial management by choosing from funds generated through operating cash flows, debt funding from local financial institutions, parent company-guaranteed lending through financial institutions overseas, and equity finance through capitalization increases.

## 8. Investment Efficiency

Hitachi Metals invests flexibly in key businesses to drive sustainable growth. Activities include mergers and acquisitions, plant and equipment upgrades, initiatives to streamline operations and set up units to increase production capacity, and investments in employee welfare benefits. In this context, Hitachi Metals differentiates between regular and strategic investments, taking returns and other factors into account.

Hitachi Metals seeks a return on assets exceeding 10%, and accordingly formulates strategic investment proposals based on the present value of discounted cash flows and internal rates of return. Irrespective of existing and new investments, Hitachi Metals is committed to raising investment return margins and ensuring that investments swiftly bear fruit.