

1 Financial Policy

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

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

2 Shareholder Returns Policy

The Company's basic dividend policy is to determine profit distributions to shareholders and internal reserves by comprehensively assessing the business environment, future business developments, and business performance. Management's primary commitment is to generate robust growth over a medium- to long-term period, by strengthening international competitiveness and enhancing the corporate value of the Company, to deliver appropriate returns of profits to shareholders over a long-term period in a business environment with evolving customer needs, technology, and globalization.

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

Using this policy as a base, in fiscal 2017, we declared annual dividends of ¥26.00 per share (interim dividends of ¥13.00 per share and year-end dividends of ¥13.00 per share), taking our business performance and other factors into consideration.

Moreover, management currently plans to pay annual dividends of ¥34.00 per share (interim dividends of ¥17.00

per share and year-end dividends of ¥17.00 per share) in fiscal 2018.

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

In the fiscal year ended March 31, 2018, the funds generated by an increase in earnings or changes in working capital were primarily allocated to capital expenditure aimed at strengthening the platform to achieve further growth. During the fiscal year, the Company made certain repayments of long-term debt to ensure its funding stability.

4 Liquidity

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

As of March 31, 2018, total liquid funds of the Company stood at ¥54.9 billion.

5 Interest-Bearing Debt

As of March 31, 2018, interest-bearing debt stood at ¥160.8 billion, a decrease of ¥33.6 billion from the previous year. Short-term interest-bearing debt was ¥54.6 billion, and long-term interest-bearing debt was ¥106.3 billion. The debt-to-equity ratio fell by 0.07 percentage point from the previous year, to 0.29 percentage point, as of March 31, 2018.

6 Ratings

Hitachi Metals recognizes that maintaining a high, stable credit rating is essential for its management goal of maintaining adequate liquidity and flexibility in its financing policies and to reduce financing costs. Each year, the Company acquires a credit rating for long-term corporate bonds from Rating and Investment Information, Inc., a major credit agency in Japan. As of March 31, 2018, the Company received the rating "A+" for its long-term corporate bonds and unsecured corporate bonds.

7 Cash Flows

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

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

The Company pays particular attention to managing and reducing inventories. To that end, Hitachi Metals clarified responsibilities for each inventory category. While manufacturing departments and procurement divisions control materials, manufacturing departments and internal companies oversee manufactured products, including work-in-process and finished products. Domestic and overseas sales companies collaborate with internal companies to look after transit inventories. Thus, the Company maintains a structure to

optimally control and reduce inventories in consideration of future trends over the medium to long term. The Group strives to further cut back on inventories by properly and promptly managing inventories, based on accurate consolidated revenue forecasts, with the aim of reducing the number of working capital turnover days.

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

8 Investment Efficiency

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

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