

# 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

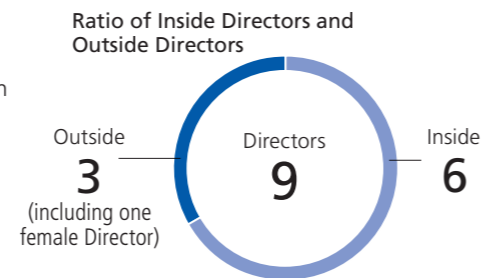
beyond simple financial disclosure, regularly publishing the details of individual business segments and medium-term management plans. We acknowledge that compliance is the linchpin of corporate governance. Nonetheless, our corporate activities go beyond mere compliance with laws and internal regulations,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

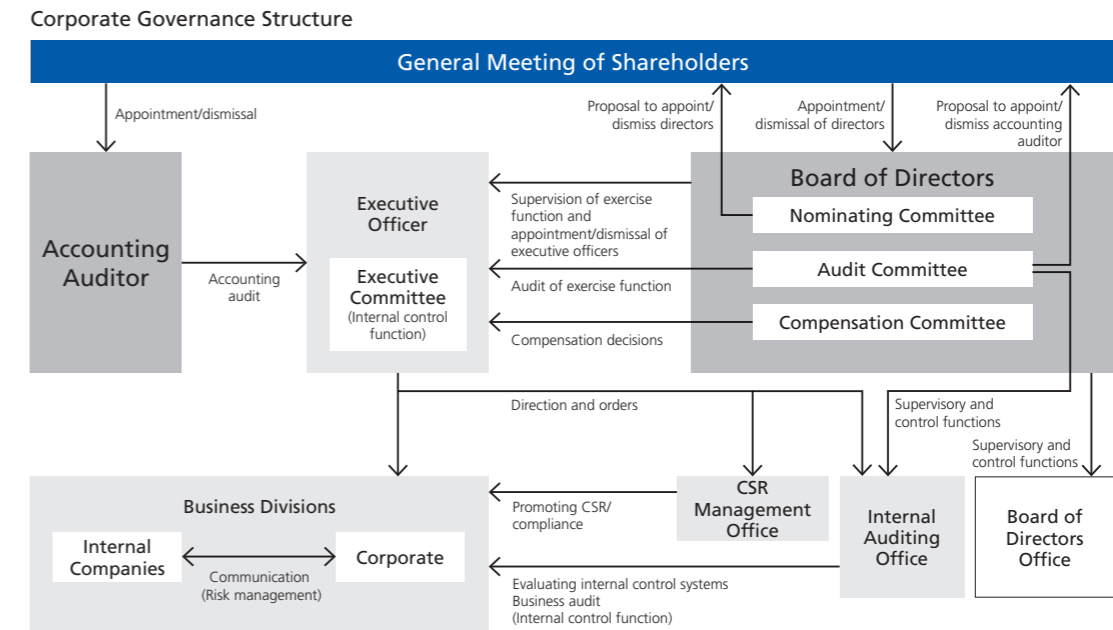
Organization System	
A Company with a nominating committee, etc.	
Directors	
Number of Directors stipulated in the Articles of Incorporation	10
Term of office of Directors stipulated in the Articles of Incorporation	One year
Chair of the Board of Directors	Chairperson of the Board (except when concurrently serving as President)
Number of Directors	Nine (including one female Director)
Outside Directors	
Number of Outside Directors	Three
Number of Outside Directors designated as Independent Directors	Three
Committees	
Composition of Committees	The Nominating Committee, Audit Committee, and Compensation Committee
Number of Committee members	Four members each on the Nominating Committee and Compensation Committee, and five members on the Audit Committee
Executive Officers	
Number of Executive Officers	14
Independent Directors	
Number of Independent Directors	Three

### Measures aimed at the enhancement of corporate governance

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



## Overview of Corporate Governance System, etc.



### Membership composition of each committee and affiliations of chairs

Position	Name	Nominating Committee	Audit Committee	Compensation Committee
Chairperson of the Board	Shinichiro Omori	◎	○	
Deputy Chairperson of the Board	Akitoshi Hiraki			
Director	Makoto Uenoyama	○	○	○
Director	Toshiko Oka	○	○	○
Director	Koichi Fukuo	○	○	○
Director	Katsuro Sasaka			
Director	Koji Sato			◎
Director	Toyoaki Nakamura			
Director	Kenichi Nishiie		◎	

Note: ◎ Chair ○ Committee member

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

The purpose of the Nominating Committee is to make decisions on matters relating to items concerning appointment and dismissal of Directors to be submitted at a General Meeting of Shareholders. The Committee is authorized to decide such

matters as well as to designate persons to be entitled to convene a Board of Directors meeting and persons to report about the status of the Committee's execution of duties to the Board of Directors from among its Committee members.

The purposes of the Audit Committee are to audit the execution of duties by Directors and Executive Officers and resolve issues such as matters relating to items concerning appointment, dismissal, and non-reappointment of the Accounting Auditor to be submitted at a General Meeting of Shareholders, in order for the Company's business to be operated lawfully and properly. The Committee is authorized to resolve such issues as well as to conduct policies for determination to dismiss or not to reappoint the Accounting Auditor or nominate persons to be entitled to convene a Board of Directors meeting from among its Committee members.

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

## The Audit Committee as an Audit Organization

The Audit Committee is composed of five 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, and 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. Seven certified public accountants and 25 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
Seiji Kuzunuki, 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 President and Chief Executive Officer.

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

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

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

The Company has business dealings with the companies for which Mr. Makoto Uenoyama and Mr. Koichi Fukuo have formerly worked. However, the transaction amounts with these companies during fiscal 2018 are substantially less than 1% of the consolidated revenues of the Company and each of those. Therefore, their former employment status is deemed to have no impact on their independence as Outside Directors.

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

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

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 26, 2019)

Note: Information regarding attendance at meetings held between June 2018 and May 2019 is provided.



**Shinichiro Omori**  
Chairperson of the Board

Attendance at meetings  
Board of Directors: —  
Nominating Committee: —  
Audit Committee: —  
(Appointed in June 2019)

Apr 1978 Joined Hitachi, Ltd.  
Sep 2008 General Manager of Corporate Procurement Division  
Apr 2012 Vice President and Executive Officer  
Director of Hitachi Automotive Systems, Ltd. (resigned in March 2016)  
Apr 2016 Senior Vice President and Executive Officer of Hitachi, Ltd. (resigned in March 2019)  
Director of Hitachi Appliances, Inc. (resigned in March 2017)  
Director of Hitachi Consumer Marketing, Inc. (resigned in March 2017)  
Jun 2017 Director of Hitachi Chemical Company, Ltd. (resigned in June 2018)  
Outside Director of Hitachi Capital Corporation (resigned in June 2019)  
Apr 2019 Associate of Hitachi Metals, Ltd.  
Jun 2019 Chairperson of the Board (current position)

### Reasons for appointment

The Company determined that Mr. Omori 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 as a corporate manager at Hitachi, Ltd. and its group companies as well as in-depth knowledge gained in procurement operations, cost restructuring, and governance of global companies.



**Akitoshi Hiraki**  
Deputy Chairperson of the Board

Attendance at meetings  
Board of Directors: 15/15 meetings  
Compensation Committee: 3/3 meetings

Apr 1985 Joined Hitachi Metals, Ltd.  
Jun 2008 President and Director of Hitachi Setsubi Engineering Co., Ltd. (resigned in March 2010)  
Apr 2010 Managing Officer, President of Specialty Steel Company, and Deputy General Manager of Corporate Export Regulation Office of Hitachi Metals, Ltd.  
Apr 2012 Vice President and Managing Officer, President of High-Grade Metals Company, General Manager of Specialty Steel Division, and Deputy General Manager of Corporate Export Regulation Office  
Apr 2015 Vice President and Representative Executive Officer, President of High-Grade Metals Company, and Deputy General Manager of Corporate Export Regulation Office  
Jun 2015 Vice President and Representative Executive Officer, President of High-Grade Metals Company, Deputy General Manager of Corporate Export Regulation Office, and Director  
Jan 2016 Vice President and Representative Executive Officer, General Manager of Technology, Research & Development Division, General Manager of Corporate Quality Assurance Division, and Director  
Apr 2017 Representative Executive Officer, President and Chief Executive Officer, and Director  
Apr 2019 Deputy Chairperson of the Board (current position)

### Reasons for appointment

The Company determined that Mr. Hiraki 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 gained as the head of the Company's Specialty Steel business, etc., as well as his thorough knowledge in the Group's operations gained in general management of the Company's operations as President and Chief Executive Officer of the Company.



**Makoto Uenoyama**  
Outside Director

Attendance at meetings  
Board of Directors: —  
Nominating Committee: —  
Audit Committee: —  
Compensation Committee: —  
(Appointed in June 2019)

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

### Reasons for appointment

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



**Toshiko Oka**  
Outside Director

Attendance at meetings  
Board of Directors: 15/15 meetings  
Nominating Committee: 8/8 meetings  
Audit Committee: 14/14 meetings  
Compensation Committee: 3/3 meetings

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

### Reasons for appointment

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



**Koichi Fukuo**  
Outside Director

Attendance at meetings  
Board of Directors: —  
Nominating Committee: —  
Audit Committee: —  
Compensation Committee: —  
(Appointed in June 2019)

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.



**Katsuro Sasaka**  
Director

Attendance at meetings  
Board of Directors:  
15/15 meetings

Apr 1980 Joined Hitachi Metals, Ltd.  
Apr 2013 General Manager of Finance Dept. of Finance Center  
Jun 2013 Deputy General Manager of Yasugi Works and President of HMY, Ltd. (resigned in March 2015)  
Apr 2015 Director and President of Hitachi Metals (China), Ltd. (resigned in March 2017)  
Apr 2017 Executive Officer, Deputy General Manager of Corporate Management Planning Division, and General Manager of Group Company Auditing Office of Hitachi Metals, Ltd. (resigned in March 2018)  
Jun 2018 Director (current position)

**Reasons for appointment**

The Company determined that Mr. Sasaka 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 accounting, finance and other areas obtained as a senior manager of the Company's finance and business planning operations as well as his thorough knowledge in the Group's operations gained as President, etc. of a subsidiary controlling business operations in China.



**Koji Sato**  
Director

Attendance at meetings  
Board of Directors: —  
Compensation Committee: —  
(Appointed in June 2019)

Apr 1987 Joined Hitachi Metals, Ltd.  
Jan 2011 President and Representative Director of Japan Aeroforge, Ltd. (resigned in June 2013)  
Oct 2014 General Manager of Metallurgical Research Laboratory of Hitachi Metals, Ltd.  
Jan 2016 General Manager of Yasugi Works  
Apr 2017 Executive Officer, President of Specialty Steel Company and Deputy General Manager of Corporate Export Regulation Office  
Apr 2018 Vice President and Executive Officer, President of Specialty Steel Company, General Manager of Technology, Research & Development Division and Deputy General Manager of Corporate Export Regulation Office  
Apr 2019 Representative Executive Officer, President and Chief Executive Officer  
Jun 2019 Representative Executive Officer, President and Chief Executive Officer, and Director (current position)

**Reasons for appointment**

The Company determined that Mr. Sato will contribute to the strengthening of the decision-making functions of the Board of Directors and enhancing their effectiveness, with his experience as the head of Specialty Steel business and Technology, Research & Development Division of the Company and his current position as President and Chief Executive Officer since April 2019 in general management of the Company's operations, by sharing the information of business execution divisions at a Board of Directors as a board member, and also by leveraging his abundant experience and in-depth knowledge obtained through aforementioned experiences.



**Toyoaki Nakamura**  
Director

Attendance at meetings  
Board of Directors:  
15/15 meetings

Apr 1975 Joined Hitachi, Ltd.  
Jan 2006 General Manager of Finance Department I  
Apr 2007 Representative Executive Officer, Senior Vice President and Executive Officer  
Jun 2007 Representative Executive Officer, Senior Vice President and Executive Officer, and Director  
Jun 2009 Representative Executive Officer, Senior Vice President and Executive Officer  
Jun 2010 Outside Director of Hitachi Metals, Ltd. (resigned in June 2012)  
Jun 2011 Director of Hitachi High-Technologies Corporation (resigned in June 2018)  
Apr 2012 Representative Executive Officer, Executive Vice President and Executive Officer of Hitachi, Ltd. (resigned in March 2016)  
Jun 2012 Outside Audit & Supervisory Board Member of Sompō Japan Insurance Inc. (currently Sompō Japan Nipponkoa Insurance Inc.) (resigned in June 2014)  
Apr 2013 Director of Hitachi Consumer Electronics Co., Ltd. (resigned in March 2014)  
Director of Hitachi Appliances, Inc. (resigned in March 2016)  
May 2013 Director of Hitachi Consumer Marketing, Inc. (resigned in March 2016)  
Jun 2015 Director of Hitachi Metals, Ltd. (Outside Director until June 2016) (current position)  
Dec 2015 Board Director, Chairperson  
Jun 2016 Director of Hitachi, Ltd. (current position)  
Chairperson of the Board of Hitachi Metals, Ltd.

**Reasons for appointment**

The Company determined that Mr. Nakamura 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 obtained as a corporate manager at Hitachi, Ltd. and its group companies, and working to build closer ties with other Hitachi Group companies.



**Kenichi Nishiie**  
Director

Attendance at meetings  
Board of Directors: —  
Audit Committee: —  
(Appointed in June 2019)

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  
Apr 2019 Associate  
Jun 2019 Director (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.

## 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 President 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 based on considerations from multiple angles. The Committee deliberates on certain important

management matters that impact the Company or the Group, and makes decisions regarding these matters. Also, as of April 1, 2019, the Company shifted its corporate structure from an internal company system to a business division system with the aim to further strengthen synergies between its businesses that share the same markets, customer needs and element technologies as well as to enhance cross-sectional functions and strengthen its strategic functions and governance.

## Executive Officers (As of April 1, 2019)

**Koji Sato**

Representative Executive Officer  
President and Chief Executive Officer  
Overall Operations  
General Management

**Hiroaki Nishioka**

Representative Executive Officer  
Vice President and Executive Officer  
In charge of Corporate Administration  
Chief Financial Officer  
General Manager of Finance Division

**Naohiko Tamiya**

Vice President and Executive Officer  
In charge of Corporate Administration  
General Manager of Human Resources  
& General Administration Division  
Chief Compliance Officer

**Kazuya Murakami**

Vice President and Executive Officer  
In charge of Business  
General Manager of Advanced  
Components & Materials Division  
Deputy General Manager of Corporate  
Export Regulation Office

**Hiroshi Watanabe**

Vice President and Executive Officer  
In charge of Business  
General Manager of  
Advanced Metals Division  
Deputy General Manager of  
Corporate Export Regulation Office

**Ryouji Akada**

Executive Officer  
In charge of Business  
Chairman and President of  
Hitachi Metals (China), Ltd.

**Norio Uemura**

Executive Officer  
In charge of Business  
Deputy General Manager of Advanced  
Components & Materials Division  
General Manager of Power Electronics  
Materials Business Unit

**Shigekazu Suwabe**

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

**Toru Taniguchi**

Executive Officer  
In charge of Business  
Deputy General Manager of  
Advanced Metals Division  
General Manager of  
Automotive Casting Business Unit

**Masato Hasegawa**

Executive Officer  
In charge of Technology and Corporate  
Administration  
General Manager of Technology, Research  
& Development Division

**Tomoyuki Hatano**

Executive Officer  
In charge of Business  
Director & President & CEO  
of Hitachi Metals America, Ltd.

**Kenji Hirano**

Executive Officer  
In charge of Business  
Deputy General Manager  
of Advanced Metals Division  
General Manager of Yasugi Works

**Hisaki Masuda**

Executive Officer  
In charge of Corporate Administration  
Deputy General Manager of Corporate  
Management Planning Division

**Toru Yamamoto**

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



Executive Officers

## 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 2018. 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 2019, the effectiveness of the Board of Directors was discussed and evaluated based on each Director's evaluations and opinions obtained from the survey and interviews. As a result, the Board of Directors has verified that effectiveness of the Board of Directors as a whole is ensured as agendas for the Board of Directors meetings are appropriately selected, business strategies and management issues are actively discussed, and important agendas are fully discussed in advance.

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

- 1) Timely follow-up of the progress on measures of strategy implementation and solutions to management issues,
- 2) Further expansion of opportunities to obtain information (on businesses and personnel) necessary for Directors to fulfill their roles, and
- 3) Enhancement of the governance system for the whole Group companies and business sites.

We will use the above findings for operation of the Board of Directors to further enhance its effectiveness in the future.

## Main Items Discussed by the Board of Directors in Fiscal 2018

- Progress of the safety measures
- Progress report on the responses to management issues
- Fiscal Year 2021 Medium-Term Management Plan
- Determination of Executive Officers, Representative Executive Officer, President and Chief Executive Officer, etc.
- Appointment of members who comprise the Nominating Committee, Audit Committee, and Compensation Committee
- Report on the status of execution of duties of the Nominating Committee, Audit Committee, and Compensation Committee
- Response to the Corporate Governance Code
- Conducting the evaluation of the effectiveness of the Board of Directors

## Compensation for Directors and Executive Officers, etc.

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

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

The Policies Concerning the Determination of Compensation, etc., for Directors and Executive Officers state that "(a) Directors and Executive Officers assuming the management of the Company are compensated for executing management that enhances the Company's corporate value and benefits stakeholders such as shareholders by determining management policies from a long-term perspective, and formulating and executing medium-term management plans and annual business budgets; (b) To motivate Directors and Executive Officers to exercise their respective management capabilities, know-how, and skills to achieve satisfactory results, the compensation system shall reflect the Company's short-term and medium- to long-term business performance and appropriate compensation shall be paid for outstanding achievements; (c) Compensation paid by the Company consists

of base compensation and a term-end bonus; and (d) To share interests with shareholders by holding treasury stock and thereby promote sustainable growth and the enhanced corporate value of the Company over the medium to long term, Directors and Executive Officers shall, as a general rule, contribute part of their compensation to the officers' shareholding association and acquire treasury stock until such stock reaches a certain number. The acquired stock shall be held continuously during the terms of office of Directors and Executive Officers and, as a general rule, one year after retiring from their posts." The policy on base compensation is that it is to be "Determined individually in consideration of the degree of responsibility for Company management as a Director and/or Executive Officer and for the performance of duties utilizing their extensive experience, knowledge, insight, and specialized management skills, etc., acquired from past experience. To secure appropriate human resources for the positions of Director and Executive Officer, compensation levels should be comparable to those of other companies." The policy on a term-end bonus is that it is to be "Linked to the business performance of the Company."

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

Director/Executive Officer category	Total amount of compensation, etc. (millions of yen)	Total amount of compensation, etc., by type (millions of yen)		Number of Directors and Executive Officers who received compensation, etc.
		Base compensation	Term-end bonus	
Directors (excluding Outside Directors)	77	67	10	6
Executive Officers	509	375	134	13
Outside Directors and Officers	53	45	8	3

Note: Directors with concurrent post as Executive Officers are compensated as Executive Officers but not as Directors.

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

Compensation for Directors and Executive Officers of the Company is comprised of a base compensation, which is a fixed compensation, and a term-end bonus, which is a performance-linked compensation. For performance-linked compensation for Executive Officers, the standard amount is set in a way that the percentage of performance-linked compensation to the total amount of compensation falls within a range of the ratios specified below according to the ranks of each Executive Officer to strengthen to the link between the business performance of the Company, considering the degree

of the responsibility of each Executive Officer for business execution. For performance-linked compensation for Directors, the standard amount is set in a way that the percentage of performance-linked compensation to the total amount of compensation falls within a range of ratios specified below in order for the Directors to fully execute the management-supervision function. Directors with a concurrent post as Executive Officers are paid a performance-linked compensation as Executive Officer, but are not paid a performance-linked compensation as Director.

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

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

The indicators for performance-linked compensation for fiscal 2018 are "revenues," "income before income taxes," and "cash flows from operating activities" on a consolidated basis as the Company has focused on growth and profitability in the Fiscal Year 2018 Medium-Term Management Plan.

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

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

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

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

\*1 The "corporate performance factor" is the sum of the degrees of achievement of corporate performance related indicators multiplied by the weight assigned for each indicator (0.3 for revenues, 0.5 for income before income taxes, and 0.2 for cash flows from operating activities), 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 actual "corporate performance factor" for fiscal 2018 was 0.47.

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

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

As the Company is a company with nominating and other committees, it sets forth the policy on the determination of compensation, etc. for each Director and Executive Officer in the Compensation Committee, with a majority of the members being independent Outside Directors, and determines the amount of individual compensation based on the policy. In

determining the compensation amounts, the Compensation Committee participates in a market survey on executive compensation each year and confirms that the compensation levels of the Company's Directors and Executive Officers are in an appropriate range compared to other companies of the similar size in Japan.

#### (vii) Activities of the Compensation Committee

During fiscal 2018, the Compensation Committee held a total of three 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

In principle, the business operations and transactions of the Company are conducted on an autonomous basis and are independent of Hitachi, Ltd., the parent company, and its group companies. In the implementation of its business operations, however, and as a member of the Hitachi Group, the Company has a close collaborative relationship with Hitachi, Ltd. and its group companies through joint research and development and other initiatives. Based on the effective use of shared management resources, the Company aims to provide high-quality products and services.

As for personnel relationships with Hitachi, Ltd., one Director and one Executive Officer of that company also serve as Directors of the Company. By expressing opinions and voting at meetings of the Company's Board of Directors, Hitachi, Ltd. could influence management policies and other aspects of the Company. Nevertheless, the Company perceives that it is in a

position to make independent management judgments, because it has appointed three Outside Directors who are designated as Independent Directors, based on the stipulations of the stock exchange on which the Company is listed, so that a wide variety of opinions can be reflected in the discussions of the Company's Board of Directors. No Executive Officers of the Company who perform executive duties are also Directors or Executive Officers of Hitachi, Ltd.

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

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

In principle, the Company shall not hold the shares of other companies as cross-shareholdings. The exception is if the Company believes these holdings contribute to the Company's corporate value. The Company would comprehensively take into consideration objectives of such holdings such as maintenance and strengthening of business relations, capital tie-ups, business alliances and joint development as well as associated returns and risks. The Company has been reducing such holdings through conducting an annual review of holding objectives by the Board of Directors on the significance of

holding and the cost of capital of such individual stock from qualitative and quantitative aspects. For other policies on our strategic shareholdings, please refer to Article 7. Policies Concerning Holding Shares of Other Companies as Strategic Shareholdings in the Corporate Governance Guidelines.

As of March 31, 2019, the number of strategic shareholdings was 26. 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 10 dedicated staff members) that is in charge of internal audits. The Internal Auditing Office formulates annual audit policies and audit implementation plans for internal audits on the Group. Based on these policies and plans, the office conducts on-site audits on the status of execution of the Company's offices and subsidiaries in Japan and overseas and business management over the course of three years in principle and also collaborates with the Audit Committee and the Accounting Auditor to promote tripartite cooperation in tripartite audit function. In addition to these audits, a special audit may be conducted upon special request, etc. of the

President and Chief Executive Officer. The Internal Auditing Office also reports to the President and Chief Executive Officer and the Audit Committee its audit implementation plans in advance, and reports the audit results mostly once in a month. In addition, the Internal Auditing Office holds an audit report meeting mostly once in a month to the person in charge of business at the respective business division and each department of the corporate division, and instructs those departments to implement improvements. If necessary, it also carries out on-site audits in collaboration with divisions in charge of the environment, safety, and systems within the Company.

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

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

The Company regards "promotion of tripartite audit function" as a paramount theme for the audit and supervision functions. The Audit Committee, the Accounting Auditor, and the Internal

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

### Risk Management

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

In fiscal 2018, for identifying and improving the issues associated with the application of the ongoing BCP, the Company was dedicated to preparing for large-scale BCP training in collaboration with the business sites of the Group in

Japan, and conducted the training in April 2019. The Company has constantly conducted training to respond to its safety confirmation system for cases of disaster.

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

- Risks involving economic circumstances in the market, related to product demand
- Risks involving fluctuations in raw material prices
- Risks involving financing
- Risks involving fluctuations in exchange rates
- Risks involving fluctuations in securities prices
- Risks involving business expansion outside Japan
- Risks involving competitive advantage and the development and commercialization of new technologies and products
- Risks involving intellectual property rights
- Risks involving environmental regulations, etc.
- Risks involving product flaws and defects
- Risks involving legal and official regulations
- Risks involving earthquakes and other natural disasters, etc.
- Risks involving information security
- Risks involving pension payment liabilities
- Risks involving relations with the parent company
- Risks involving M&A
- Risks involving securing appropriate human resources