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.

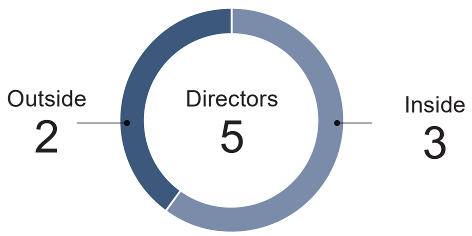
Overview of the Governance Structure

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	12
Independent Directors	
Number of Independent Directors	Two

Measures aimed at the enhancement of corporate governance

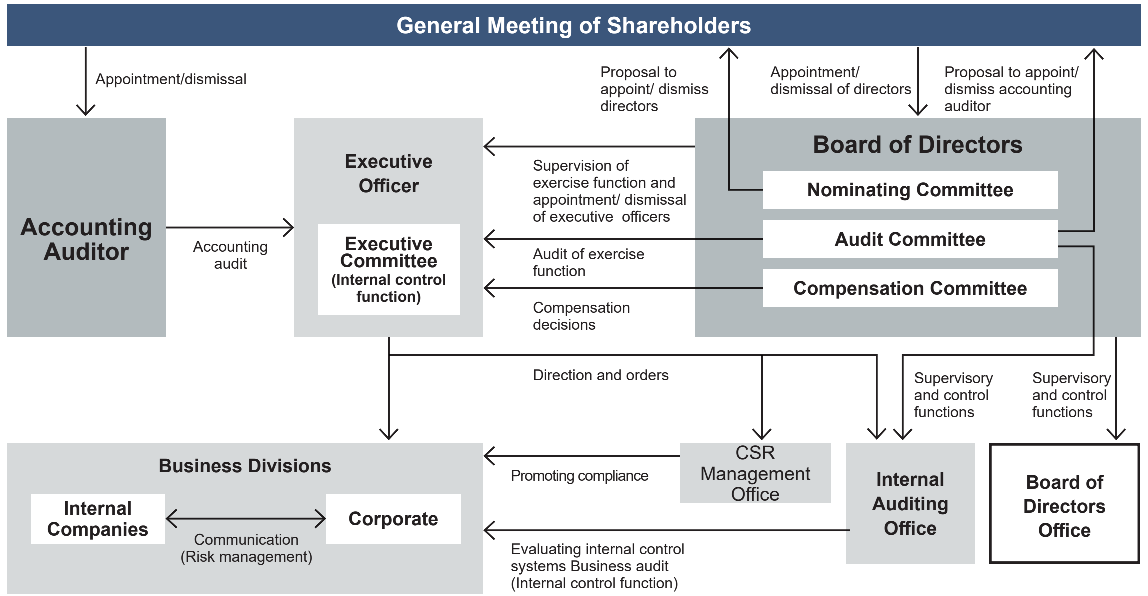
- Transition to a “company with a committee, etc.,” as defined in the Commercial Code (June 2003)
- Increase in the number of Outside Directors serving as Independent Directors from two to three (June 2016)

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 54 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. Seven 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
Teruyasu Omote, Engagement partner	Ernst & Young ShinNihon LLC
Hiroki Morimoto, 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 a consortium of companies led by Bain Capital 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 2021 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 interviews with Directors regarding the effectiveness of the Board of Directors in fiscal 2021. 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 discussed and evaluated based on the results of surveys and interviews conducted for each Director.

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) Process for deliberation of corporate direction and management strategy amid changing market and business environments and supervision of its execution
2) Establishment of a systematic risk management system and supervision of its operation
3) Diversity in the Directors' skills

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. The Board of Directors will continue to closely monitor its progress and effectiveness.

The Company conducted a survey and interviews with members of the Audit Committee regarding the committee's effectiveness in FY2021. At the May 2022 meeting of the Audit Committee, the committee discussed and evaluated its effectiveness based on the evaluation and opinions of each member obtained from the surveys and interviews.

The results confirmed that the effectiveness of the Audit Committee as a whole has been secured. Continuing from the previous fiscal year, tripartite auditing (by the Audit Committee, Internal Auditing Offace, and the Accounting Auditor) has been fundamentally performing well, with important discussions on quality assurance issues and internal controls being actively carried out and the methods of discussing internal audit findings with the executive side improving. On the other hand, we confirmed that there is room for further improvement as follows, including auditing functions in the area of overseas relationships and ways to strengthen in those relationships.

1) Ideal audit functioning, including in the Audit Committee
   Concerning information gathering, business management, and auditing of overseas subsidiaries, the Auditing Committee will strengthen supervision by closely exchanging information and collaborating with the Internal Auditing Office and the Accounting Auditor.
2) Follow-up of audits
   Auditing will continue to monitor corrective measures and measures taken by the executive component to prevent reoccurrence of quality assurance issues.

With an emphasis on the areas above, the Audit Committee will continue to focus on the progress and effectiveness of the measures to address them and increase the effectiveness of the committee.

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 21, 2022)

Note: Information regarding attendance at meetings held between April 2021 and March 2022 is provided.

Kenichi Nishiie
Director

Attendance at meetings
Board of Directors:
15/15 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:
15/15 meetings
Nominating Committee:
4/4 meetings
Audit Committee:
13/13 meetings
Compensation Committee:
5/5 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:
15/15 meetings
Nominating Committee:
4/4 meetings
Audit Committee:
13/13 meetings
Compensation Committee:
5/5 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:
15/15 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:
15/15 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 21, 2022)

Mitsuaki Nishiyama
Representative Executive Officer
Chairperson
President and Chief Executive Officer

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

Tony I. Cha
Vice President and Executive Officer
Chief Financial Officer
General Manager of Finance 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

Yoshihiro Anmo
Executive Officer
CIO (Chief Information Officer) & CDO (Chief Digital 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.

❶ 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.

A summary of how compensation is determined for Directors and Executive Officers is as follows.

1. Basic policy on determination of individual compensation for Directors and Executive Officers

(1) 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.

(2) 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. 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.

(3) 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 studying the details and amounts of compensation.

2. Summary of Compensation, etc.

(1) Directors
Compensation for Directors is comprised of a base compensation, which is a fixed compensation. This amount reflects factors such as their full-time or part-time status, committee memberships, and roles (positions). For Directors who also serve as Executive Officers, compensation as a Director is not paid.

(2) Executive Officers
(a) Compensation for Directors is comprised of a base compensation, which is a fixed compensation, and a term-end bonus, which is a performance-linked compensation.
(b) Base compensation of Executive Officers is determined individually in consideration of the degree of responsibility for Company management and for the performance of duties utilizing their extensive experience, knowledge, insight, and specialized management skills, etc., acquired from past experience.
(c) The term-end bonus for Executive Officers shall be linked to business results. A standard amount shall be set in accordance with factors such as the Executive Officer's position.
(d) Executive Officers shall be required to return compensation as necessary when it is determined they are involved in misconduct during their term of office.
The policy for determining compensation described above was established after a review conducted in May 2021 for the purpose of integrating the term-end bonus for Directors into the base compensation from the compensation, etc., of Directors to be elected at the Ordinary General Meeting of Shareholders to be held in June 2021. A summary of the policy before this review is as follows.
(i) 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.
(ii) 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.
(iii) Compensation paid by the Company consists of a base compensation and a term-end bonus.
(a) Base compensation: 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.
(b) Term-end bonus: Linked to the business performance of the Company.

In determining individual base compensation and term-end bonuses for Executive Officers, etc., for the term, 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.

❷ 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)	39	38	1	2
Executive Officers	486	318	168	11
Outside Directors and Officers	46	44	2	3

Notes: 1. Directors with concurrent post as Executive Officers are compensated as Executive Officers but not as Directors.

The total amount of compensation, etc., of persons whose total amount of compensation, etc., is 100 million yen or more is shown in the table below.

Name	Total amount of compensation, etc. (million yen)	Director/Executive Officer category	Company category	Total amount of compensation, etc., by type (millions of yen)	
				Base compensation	Term-end bonus
Mitsuaki Nishiyama	108	Executive Officers	Submitting company	60	48

(Notes) 1. Representative Executive Officer, Chairperson, President, and CEO Mitsuaki Nishiyama concurrently serves as a Director, but does not receive compensation as a Director.
2. The column "Term-end bonus" includes a 39 million yen provision of term-end bonuses carried over from the reserve for the current fiscal year. In addition, it shows the difference of 9 million yen between the provision of term-end bonus reserve for the previous fiscal year and the term-end bonus for the previous fiscal year that was actually paid during the current fiscal year.

❸ 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%	—	

❹ 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. In addition, non-financial indicators (integrity, health and safety, energy conservation, etc.) are included in the targets for each employee.

❺ 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 the term-end bonus, which is performance-linked compensation, etc., is determined by the Compensation Committee. A base amount* is set for each position and the amount to be paid individually is calculated according to the following formula.

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)	FY2020		FY2021	
	Target	Actual	Target	Actual
Revenues (Billions of yen)	756.7	761.6	850.0	942.7
AOI (Billions of yen)	4.4	(5.0)	34.0	26.8
ROIC (%)	△0.5%	△0.7%	3.9%	3.0%
CCC (Number of days)	86.3	89.1	85.8	82.9

(Note) ROIC = {Adjusted operating income × (1 - tax rate of 25%) + Equity Income in Affiliates } ÷ (Average favorable liabilities at the end of the period + Average capital at the end of the period)

*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.

❻ 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.

❼ Activities of the Compensation Committee

During fiscal 2021, the Compensation Committee held a total of five meetings and determined a policy on the determination of compensation, etc., for Directors and Executive Officers, and details of their individual compensation based on the policy. In terms of the meeting attendance of the Committee members, Directors who had been in service during the fiscal year under review attended all meetings of the Compensation Committee held during their terms of office.

Relationship with the Parent Company

The Company is a member of the Hitachi Group, centered around Hitachi, Ltd., the parent company. The parent company and its listed subsidiaries share the goal of increasing the value of the Group as a whole by strengthening the competitiveness of each company. Listed subsidiaries benefit from participating in measures that enhance their management bases. With regard to the management of listed subsidiaries, the autonomous creativity of each company is respected, and the involvement of the parent company is limited, except for matters resolved at the General Meeting of Shareholders. Each company makes management decisions by following its own decision-making procedures. For this reason, regarding the relationship with Hitachi, Ltd., while the business operations and transactions of the Company are conducted autonomously and independently of Hitachi, Ltd. and its Group companies, the Company has a close collaborative relationship with Hitachi, Ltd. and its Group companies through joint research and development and other initiatives. Effectively using shared management resources, the Company aims to provide high-quality products and services.

As for personnel relationships with Hitachi, Ltd., one Executive Officer of that company also serves as 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 two 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, 2022, 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 ten 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 conditions, currency fluctuations, rapid technological innovations, as well as changes in customer needs. At the Risk Management Committee, chaired by the Group Chief Risk Management Officer, a comprehensive review of the risks is conducted. Then, through discussions as appropriate at the Board of Directors, the Audit Committee, the Executive Committee, and other meeting bodies, measures against such risks are examined. The Risk Management Committee identifies and examines the Group's risks, identifies risks that may become management issues, and regularly monitors the conditions of the risks. In addition, each of the Group's sites has established 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.

(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 slowdown of the European economy due to the situation in Ukraine, the impact of semiconductor shortage on automobile production, and logistics disruptions, such as a shortage of containers caused by a rapid recovery in the international movement of goods and the prolonged supply chain disruption due to the COVID-19 pandemic, may cause a global economic slowdown. Such a development 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. While our plans incorporate the effects of slowdown in automobile production due to factors including the global shortage of semiconductors, further cutbacks or prolonged production slowdown by automobile manufacturers could impact the Group's operating results or financial situation. The automobile industry is also currently undergoing a period of transition from conventional internal combustion engines (ICE) to electrification (xEV*). To meet market needs, the Group is reinforcing its manufacturing lines, expanding 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 has a long-term slump, 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 experiences a long-term slump as railway investments by China, the largest market, stagnate, 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, and by social upheaval, such as conflicts between many 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 not only major natural disasters, strikes, deterioration of the political situation, or failure in its logistics capabilities, but also including social upheavals such as conflicts between many countries, the Group could be prevented from acquiring the necessary volume of raw materials. In addition, if it is confirmed that conflict minerals, child labor, or other problems lie behind the raw materials procured, it may be necessary to change raw materials or suppliers, affecting the production and supply of products. The Group is responding with efforts to reduce these risks by making procurement more stable by such measures as diversifying procurement sources. Our efforts also include sharing the "Hitachi Metals Group Sustainable Procurement Guidelines" with our procurement sources.

(4) 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.

(5) Risks associated with product quality

① Effects of the misconduct at issue

In April 2020, the Company identified cases of misconduct, including the misrepresentation of test results in inspection reports submitted to customers. Since then, the Company has examined the facts and causes of the misconduct. The results of the investigation confirmed that 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. For affected products, we are currently verifying their performance by analyzing the correlation between our actual inspection methods and the inspection methods agreed upon with our customers, confirming performance under the observation of our customers, and re-inspecting product samples stored by the Company. At present, no performance defects or safety issues have been found.

In April 2021, the Company established the Quality Compliance Committee as an advisory body to the Board of Directors to monitor the steady implementation of various measures to prevent recurrences of incidents, fundamentally review our quality assurance system, and further strengthen compliance. The committee is working with full commitment to prevent the recurrence of misconduct and restore the trust of customers, shareholders, and other stakeholders. However, depending on the progress of cases in question, the Group's operating results may be affected by a decline in confidence in the Group's products, the need for additional responses if new cases of misconduct are uncovered, losses including compensation for customers, and increase in expenditure to strengthen the quality control system.

②Non-compliant products and 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 products that do not meet the specifications agreed upon with customers (non-compliant products) or defective products. However, if non-compliant or defective products 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.

(6) 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. 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 to respond to the risk of climate change. Included are calls for decarbonized management, such as using non-greenhouse gas-producing renewable energy 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, in June 2021, the Group set the long-term goal of achieving carbon neutrality by 2050 (with the medium-term goal of reducing CO_2 emissions by 38% by FY2030 compared with FY2015). To achieve this goal, in addition to even greater efforts to reduce CO_2 emissions, the Group is considering efforts that go beyond emission reduction, such as recycling emitted CO_2. The Group also endorses TCFD recommendations and is committed to evaluating and disclosing the impact of climate change. 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.

(7) 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.

(8) Risks associated with M&As and business reorganization

The Group may acquire other companies, establish joint ventures, form strategic partnerships, sell businesses, 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, business reorganization, etc., 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 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 (1) external cyberattacks or other threats impede the functioning of these information systems, (2) services from an external service provider are interrupted, or (3) email is mis-sent or theft of equipment, etc., occurs, such confidential information may be disclosed through data breach or leak 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. In addition, the Group conducts security training every year through e-learning to deepen employees' understanding of the Group's information security measures. 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.

(10) 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.

(11) Risks associated with health and safety

Following the view that "prioritizing safety and health is above all else," the Group is pushing ahead the creation of safe and healthy 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. However, when an incident such as a work-related accident or violation of labor laws and regulations that affects employees, facilities, or equipment due to unforeseen circumstances occurs, not only could that cause serious damage to the lives or bodies of workers, but could also result in interruption of the Group's business activities, compensation for victims, or administrative penalties for labor law violations. Such results could affect the Group's operating results or financial situation. In response, the Group has established the Safety & Health Management Department as the organization to manage the health and safety of the Group. In addition, the Group continually implements health and safety education to improve employees' awareness of risks and managers' awareness of health and safety issues. The Group also invests in the implementation of essential safety measures for facilities, and promote Group-wide health management measures, such as prevention of lifestyle-related diseases and support for smoking cessation.

(12) 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 a major earthquake or other major natural disasters, such as storms and floods due to climate change. Even if the Group's facilities are not affected directly, its distribution, supply, or communications network could be thrown into turmoil. Furthermore, an outbreak of a previously unknown infectious disease, such as COVID-19, 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.

(13) 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 Group makes full use of large-scale capital investments to reap early effects. At the same time, when making new capital investment, the Group implements 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, 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.

(14) Risks associated with the relationship with the parent company

As of March 31, 2022, 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 green energy and mobility, digital systems and services, and connective industries. As of the date of submission of this Integrated Report, 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.

(15) 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 cash flow worsens, 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.

(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 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. In order to curb these risks, the Group investigates the patents of other companies in advance when conducting research, development, design, etc., and implements preventive measures and countermeasures. To deepen understanding of such risks, the Group also provides continuing education to its employees through various training programs.

(18) Risks associated with retirement benefit obligations

The Group bears large retirement benefit costs and obligations, which are determined by actuarial calculations. 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 assets. 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. Financial market downturns may reduce the expected rate of return due to reduced valuation of plan assets. Depending on circumstances, additional contributions to plan assets may be required. 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. In response, the Group's Retirement Benefits Committee meets regularly to deliberate and decide on appropriate investments based on advice from investment advisory firms on matters such as asset allocation and selection of investment projects.