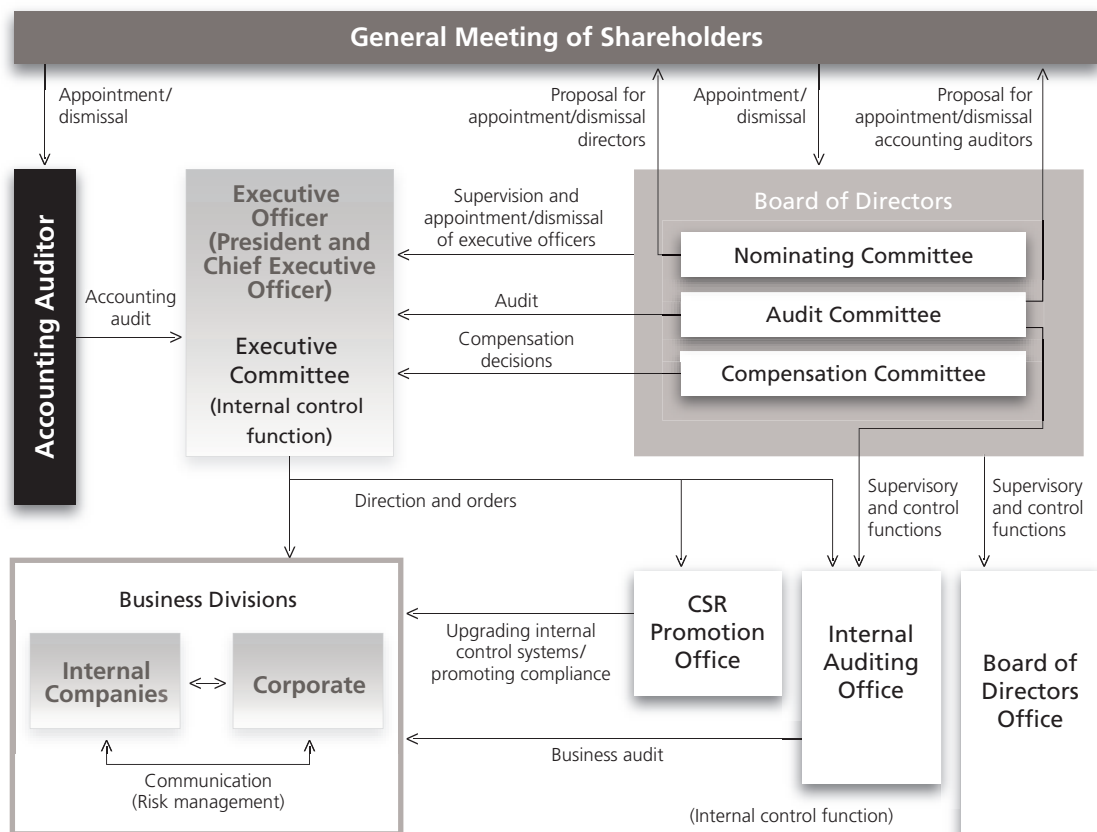


Corporate Governance and Compliance

Corporate Governance Structure



Fundamental Policy

Hitachi Metals counts corporate governance among its most important management priorities. Hitachi Metals believes that the basis of corporate governance is ensuring transparent and efficient management, meeting stakeholder expectations and increasing corporate value.

To this end, we believe that we must build an organizational platform where in management supervision and the execution of operations function effectively and are in balance. The Company also believes that the disclosure of high quality information in a timely fashion helps strengthen corporate governance. Based on these ideas we periodically disclose segment information and details of our medium-term management plan, in addition to our business results.

We acknowledge that compliance lies at the heart of corporate governance. As a responsible member of society, Hitachi Metals will comply with society's customs and ethics, while adhering to statutory regulations and in-house rules. For this purpose, we have formulated Hitachi Metals' Action Guidelines, which reflect these philosophies and provide a concrete basis to guide directors and employees in their actions.

Hitachi Metals' compensation system is linked to management's contribution to the wellbeing and prosperity of all stakeholders, and reflects the Company's performance in the short, medium and long term. Directors and executive officers formulate, determine and implement the Company's management policies from a medium- and long-term perspective, as well as medium-term management plans and annual budgets. By doing so, directors and executive officers are responsible for maximizing corporate value. Specific amounts of compensation are determined by the Compensation Committee.

Corporate Governance Structures Relating to Managerial Decisions, Management Organizations Relating to Executive and Supervisory Functions and Other Business Operations

• **Corporate Structure**

Hitachi Metals has adopted a company-with-committees system. This system helps the Company to swiftly implement bold policies and measures as well as Companywide management that encompass business reorganization and strategic investments. The Company has outside directors on its Board of Directors, who also serve on the Nominating, Audit and Compensation Committees. The objective opinions provided by these outside directors enhance oversight functions and improve management transparency and efficiency.

Under this system, three outside directors are elected to the Company's seven-member Board of Directors, with two of the three being advisors and executive officers of Hitachi, Ltd., Hitachi Metals' parent company. Pursuant to the Corporate Law, the Company established the Nominating, Audit and Compensation Committees. Five of the Company's directors shall comprise the Nominating and Compensation Committees, with three of the five being outside directors, and three of the Company's directors shall comprise the Audit Committee, with two of the three being outside directors. To facilitate the execution of duties of the Board of Directors and each committee, Hitachi Metals has set up a Board of Directors' Office and appointed a manager to the Board and to each committee. In accordance with the Company's Articles of Incorporation, there shall be no more than 10 directors. The election of directors at a general meeting of shareholders requires a majority vote by shareholders present, who must hold one-third or more of the total number of voting rights of shareholders entitled to exercise voting rights.

A substantial portion of the decision-making authority regarding the execution of operations of the Company has been delegated from the Board of Directors to executive officers in an effort to accelerate the decision-making process.

In addition, the Company has adopted an internal company system and an executive officer system in order to separate the Companywide strategic decision-making function from the management of individual businesses, as said systems are consistent with the varied products and markets of the diverse businesses that are characteristic of the Company. Under these systems, executive officers make strategic decisions including Group strategies for the Company as a whole, while managing officers are in charge of each business division.

Pursuant to Article 459 Paragraph 1 of the Corporate Law and in accordance with the Company's Articles of Incorporation, the payment of cash dividends from retained earnings shall be determined by a resolution of the Board of Directors and will not be subject to a resolution of the general meeting of shareholders unless otherwise stipulated by law. This is consistent with the decision-making process for the payment of cash dividends under the company-with-committees structure adopted by the Company in June 2003 as an interim measure pursuant to the Law Concerning the Rearrangement of the Relevant Laws upon Implementation of the Corporate Law (Law No. 87 of 2005).

• **Requirements for Extraordinary Resolutions at the General Meeting of Shareholders**

Pursuant to Article 309 Paragraph 2 of the Corporate Law and in accordance with the Company's Articles of Incorporation, the adoption of extraordinary resolutions at a general meeting of shareholders requires, in principle, a two-thirds majority vote by shareholders present, who must hold one-third or more of the total number of voting rights of shareholders entitled to exercise voting rights. The Company aims to facilitate the adoption of such resolutions by reducing the required quorum.

• **Internal Control System**

Hitachi Metals internal control system is as described below.

Hitachi Metals has established a Management Committee, attended by all executive officers, to ensure that executive officers efficiently execute business activities while complying with laws and regulations and the Company's Articles of Incorporation. Important business

issues that impact the Group as a whole are discussed at each Executive Committee meeting and determined by executive officers with the appropriate authority.

Hitachi Metals has also established a Compliance Office with a Compliance Manager responsible for the development of a Companywide compliance system.

In addition, the Company has set up the CSR Promotion Office to facilitate a Companywide approach to compliance, social contributions and corporate social responsibility (CSR).

Hitachi Metals established a Compliance Hotline for the Company's executive officers and employees to report facts related to incidents that violate laws or Company regulations through a specified channel without fear of reprisal. By adopting these systems, Hitachi Metals strives for early discovery and correction of misconduct.

The order and safety of civil society is constantly under threat from antisocial forces. Under these circumstances, Hitachi Metals will resolutely reject any and all contact with forces that work counter to the interests of society. In order to secure the efficacy of this policy, the Company has established a designated department charged with the responsibilities of managing information relating to antisocial forces; ensuring the Group does not engage in transactions that run counter to the interests of society; and developing relevant systems and countermeasures. Among a host of initiatives, this department will also coordinate with law enforcement and other specialist organizations.

Hitachi Metals has also established the Internal Auditing Office under the direct control of the President and Chief Executive Officer for conducting internal audits of each business division and Group companies to review the efficiency of their business activities and their level of compliance with laws, regulations and internal rules. The results of internal audits are reported to the President and the Audit Committee to confirm whether directives are correctly being carried out.

Before the Financial Instruments and Exchange Law (commonly referred to as "J-SOX") came into effect in Japan from fiscal 2008, Hitachi Metals had upgraded its internal control system for financial information based on standard frameworks, such as COSO for its financial data, and carried out the implementation and verification of all items that should be reflected in the Company's financial report based on the requirements of the Sarbanes-Oxley Act in the United States. Consistent with the Company's preexisting basic framework, and following evaluations by individual managers in fiscal 2008, the efficacy of Hitachi Metals' internal control system was confirmed as of March 31, 2009. Hitachi Metals has submitted an Internal Control Report (see page 38) to the Director General of the Kanto Finance Bureau in accordance with the Financial Instruments and Exchange Law.

• Risk Management System

The Company has formulated and established internal rules and guidelines for a risk management system concerning compliance, antisocial forces, finance, procurement, environmental issues, natural disasters, quality assurance, information and export control for each business division. All employees are educated in risk management and an audit is undertaken to ensure that internal companies and related operating divisions effectively prevent and manage overall risk. In addition, Hitachi Metals maintains legal counsel to receive professional advice relating to important matters of law.

• Internal Audits, Audit Committee Audits and Accounting Audits

Internal Audit Organization

Hitachi Metals has set up the Internal Auditing Office to handle internal audits. The Internal Auditing Office creates annual auditing plans and policies, which are used as a basis for regularly conducting audits of the business execution of each business division and Group company as well as current management conditions. When necessary, the Internal Auditing Office also conducts impromptu audits. The Internal Auditing Office then reports its findings and suggests operational corrections. While the actual audit is outsourced to a Hitachi Group

company engaged in such Groupwide commonly shared functions as auditing, audits are conducted in cooperation with the Company's Environmental, Health and Safety as well as Information Systems departments as considered necessary.

Audit Committee Auditing Organization

The Audit Committee conducts accounting audits and audits of the suitability of business decisions and the effectiveness of internal control systems, and deals with any cases of directors or executive officers that violate laws, regulations or the Articles of Incorporation. The manager of the Audit Committee in the Board of Directors Office provides support for the execution of the Audit Committee's duties. In order to ensure independence from executive officers, the manager of the Audit Committee cannot hold a concurrent position in another operational division.

As a routine duty, the Audit Committee formulates annual auditing plans and policies, which are used as a basis for debriefings on important matters and as a means for its visiting audits of each business division and Group company. In addition, the Audit Committee conducts special audits in the event a director or executive officer behaves in a manner that violates laws, regulations or the Articles of Incorporation.

Accounting Auditors

The Company's accounting audit is performed by the following certified public accountants. Furthermore, to facilitate the audit function, CPAs, assistant CPAs and other assistants of Ernst & Young ShinNihon shall be appointed as necessary by the CPAs specifically identified.

Assistants appointed for the work of auditing Hitachi Metals include nine CPAs, three assistant CPAs and 17 other assistants.

CPA Name and Title	Accounting Auditor
Kaoru Kashima, Managing Partner	Ernst & Young ShinNihon
Masami Katakura, Managing Partner	Ernst & Young ShinNihon

Note: All auditors have less than seven years of continuous auditing experience. Accordingly, pertinent information has been omitted.

Coordination among Internal Audits, Audit Committee Audits and Accounting Audits

The Audit Committee receives reports on auditing execution plans from accounting auditors and then deliberates and makes any necessary adjustments. In addition, the Audit Committee receives reports on the results of audits and hears opinions. Also, the Audit Committee receives reports from accounting auditors in the event of a discovery of grave violations of rules, regulations or the Articles of Incorporation by directors or executive officers.

In addition to receiving reports on the implementation of internal audits and regular monthly reports from the Internal Auditing Office, the Audit Committee may issue directives to the Internal Auditing Office to conduct a special audit of business divisions specified by the Audit Committee and add critical items to the audits performed by the Internal Auditing Office to enhance coordination with Audit Committee audits.

The Internal Auditing Office also provides support to the Audit Committee as directed in matters that the Board of Directors has determined to be in need of an audit.

• Personal Relationships with Outside Directors and the Company, Capital and Transaction Relationships and Other Interests

Among the Company's three outside directors, one is an adviser and one is an executive officer of Hitachi, Ltd., Hitachi Metals' parent company. Business relations between Hitachi Metals and Hitachi, Ltd. include the continued purchase or sale of each company's products, the provision of services, technological transactions and borrowing and lending for cash expenditures.

The remaining outside director is a director of Canon Inc. Currently, Hitachi Metals purchases finished and other goods from a subsidiary of Canon Inc. The aggregate purchase amount from the Canon Group as a proportion of both the Company's total purchases and net sales is immaterial.

- **Provision to Limit the Liability of Outside Directors**

In accordance with its Articles of Incorporation, Hitachi Metals has entered into limited liability agreements with three directors, namely, Toshiaki Ikoma, Takashi Hatchoji, and Junzo Kawakami pursuant to Article 423 Paragraph 1 of the Corporation Law. The agreements limit compensation for damages to ¥12 million or an amount determined by laws and regulations, whichever is highest.

- **Provisions under the Company's Articles of Incorporation Regarding the Decision Making Body and the Exemption from Liability for Damages of Directors and Executive Officers**

In order to enable directors and executive officers to fulfill their appointed roles in the execution of their business activities, Hitachi Metals' Articles of Incorporation allow the exemption from liability limits for damages under the law of directors (including former directors) and executive officers (including former executive officers), subject to a resolution of the Company's Board of Directors and pursuant to Article 423 Paragraph 1 of the Corporation Law.

- **Decision-Making Policy for the Granting of Incentives**

The Compensation Committee determines the amount, type and details of compensation provided to Hitachi Metals' directors and executive officers.

The Compensation Committee determines the policies concerning decisions on compensation in each of the following situations for directors and executive officers as well as the amount of compensation that each individual director and executive officer shall receive.

- Compensation shall be provided to directors and executive officers, who in fulfilling their management responsibilities, formulate and determine management policies from a long-term perspective and propose and implement medium-term management plans and annual budgets that contribute to expanding Hitachi Metals' corporate value and benefit shareholders and other interested parties.
- A compensation system shall be implemented that reflects the Company's performance over the short, medium and long terms. Compensation shall be provided for outstanding performance in an effort to take full advantage of the management expertise, skills and know-how of directors and executive offices and to serve as a source of motivation.
- Compensation paid by the Company shall be in the form of basic compensation and period-end bonuses.

Basic compensation payments: Basic compensation payments shall be determined on the basis of individual director and executive officer performance, reflecting individual responsibility, experience, knowledge, acumen and specialist skills. In addition, compensation shall be consistent with levels paid by other companies.

Period-end bonuses: Period-end bonuses shall be linked to performance.

**Circumstances that
Significantly Impact
Corporate Governance**

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

Regarding personnel, a Hitachi, Ltd. advisor and executive officer hold concurrent positions as outside directors of Hitachi Metals. This raises the possibility of their voicing opinions and participating in the voting process at meetings of the Company's Board of Directors and thereby influencing decisions relating to Hitachi Metals' management policies. In addition, Hitachi Metals' Board of Directors includes one director who holds the concurrent positions of director of Hitachi, Ltd. and outside director of another Hitachi Group company.

Notwithstanding the aforementioned, fewer than half of Hitachi Metals' directors hold concurrent positions at Hitachi, Ltd. and one appointed director has previous experience outside the Hitachi Group of companies. Hitachi Metals is therefore confident that this composition of directors reflects a good variety of opinions in Board of Directors' discussions, facilitating the maintenance of autonomy in business decisions. Hitachi Metals' five executive officers, who bear responsibility for the execution of operations, hold no concurrent positions as directors at either Hitachi, Ltd. or its Group companies. Hitachi Metals has accepted employees dispatched from Hitachi, Ltd. for the purpose of personnel exchange. None, however, have assumed influential posts at Hitachi Metals.

Hitachi Metals also conducts a range of transactions with Hitachi, Ltd. based upon the Hitachi Group pooling system. These include borrowing and lending as well as other activities. Hitachi Metals remains convinced, however, that its business activities are not significantly dependent on transactions with Hitachi, Ltd. and Hitachi Group companies. The terms and conditions of transactions with Hitachi, Ltd. and its Group companies are effectively determined after mutual discussion regarding common practices and market prices.

Conscious of the need to protect the interests of minority shareholders, particularly in connection with transactions involving majority shareholders, Hitachi Metals has formulated a set of rules that govern internal procedures relating to the determination of transaction terms and conditions. In this fashion, the Company strives to ensure that such transactions as the sale of products and purchase of materials are conducted in an appropriate and generally accepted manner. From a Group management perspective, in the event that a transaction with Hitachi, Ltd. has the potential to negatively impact the material interests of Hitachi, Ltd. and minority shareholders, generating the need for an alternative policy measure, that alternative policy measure will be put to the Company's Board of Directors and a decision made as to its adoption. When the Nominating Committee identifies a director candidate, at least one independent outside director candidate shall be identified from Hitachi, Ltd.

With respect to Hitachi Metals' relationship with Hitachi Tool Engineering, Ltd. and Hitachi Metals Techno, Ltd., both of which are listed companies, the business operations and transactions of each company are conducted on an autonomous basis. However, for the efficient management of Hitachi Metals Group companies, and to an extent that does not compromise the autonomy of each company, Hitachi Metals exchanges information with these companies when formulating its business plans, including its medium-term management plans and budget; collaborates in R&D, manufacturing and marketing; and cooperates with the two companies to maintain internal control.

[English Translation of the Internal Control Report Originally Issued in the Japanese Language]

This report certifies only that internal control over financial reporting was effective under the Financial Instruments and Exchange Law and that the annual report is not included in the scope of evaluation of internal control.

Internal Control Report

(Report under Section 24-4-4 of the Financial Instruments and Exchange Law)

June 18, 2009

Hitachi Metals, Ltd.

Nobuo Mochida

Representative Executive Officer

President, Chief Executive Officer

Hiromi Yoshioka

Representative Executive Officer

Senior Vice President, Chief Financial Officer

1. Basic Frameworks for Internal Control over Financial Reporting

We are responsible for the design and operation of internal control over financial reporting in accordance with basic frameworks for internal control indicated in "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control over Financial Reporting (Council Opinions)" issued by the Business Accounting Council.

In addition, internal control is conducted to achieve its goals, within reasonable limits, by combining respective basic elements organically and functioning in a unified manner. Therefore, there is a possibility that we will be unable to entirely prevent or find financial misstatements through internal control over financial reporting.

2. Scope and Procedures of Management Assessment

We evaluated the internal control over financial reporting as of March 31, 2009, which is the fiscal year-end, in accordance with standards for the evaluation of internal control over financial reporting generally accepted in Japan.

For the evaluation of internal control, we identified business processes affected by the results of performing an evaluation of a Companywide internal control that significantly affects consolidated financial reporting. For the evaluation of business processes, i) we gained an understanding of selected business processes, ii) identified risks and controls related to financial reporting for each processes chosen and iii) evaluated the effectiveness of control design and operation.

For the scope of evaluation of internal control, we based our determination on the material level of impact of internal control on the reliability of financial reporting for the Company, its all subsidiaries and affiliates. This materiality level was determined considering quantitative and qualitative impacts on the financial reporting. As a result, the scope of the evaluation of process-level controls was reasonably determined based on results of a Companywide evaluation performed for the Company and 75 of its consolidated subsidiaries. We have not included 11 of its equity-method affiliates in the scope of Companywide internal control because they had no material quantitative or qualitative impacts on financial reporting.

For the scope of the evaluation of process-level controls, five consolidated subsidiaries that comprise approximately two-thirds of consolidated net sales for the previous fiscal year were selected as "significant business entities." For the selection of business processes, all processes affecting net sales after the elimination of inter-company transactions, accounts receivable, and inventory accounts, that have significant relationship with the primary objectives of the business of significant entities, should be selected for evaluation. Moreover, other higher risk business processes and processes that affect significant accounts that involve management estimates and judgment must be evaluated.

3. Conclusions of Management Evaluation

We concluded that internal control over financial reporting was effective as of March 31, 2009.

4. Additional Statements

There are no additional statements that need to be appended.

5. Special Items

There are no special items that need to be noted.