

## III. Corporate Governance

### 1. Basic Approach

The underlying basis for corporate governance at Hitachi Metals 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. We established the Hitachi Metals Group Code of Conduct (posted on our corporate website at <https://www.hitachi-metals.co.jp/e/corp/corp15.html>) to give form to this perspective and establish specific standards of conduct for officers and employees.

The policy concerning compensation for directors and executive officers is that the Company shall compensate directors and executive officers for executing management that enhances the Company's corporate value and contributes to stakeholders by formulating, deciding, and implementing management policies, medium-term management plans, and annual budgets from a medium- to long-term perspective, and that the compensation system shall reflect the Company's performance over the short, medium, and long terms.

The Company has prescribed its framework for corporate governance in the Corporate Governance Guidelines (the "Guidelines") and the fundamental policy concerning the system of internal controls established by the Board of Directors based on the Companies Act. The Guidelines are posted on the Company's website (<https://www.hitachi-metals.co.jp/e/ir/ir-csr.html>). The details of the fundamental policy concerning the system of internal controls are disclosed in our annual securities reports.

### 2. Overview of the Corporate Governance Structure

(Supervisory System)

Hitachi Metals has adopted the system of a company with a nominating committee, etc. This system helps the Company to swiftly implement bold policies and measures as well as Companywide management that encompasses 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. Well versed in general societal matters and possessing extensive experience and advanced knowledge, these outside directors contribute to the strengthening of the decision-making and oversight functions as well as the improvement of management transparency, integrity, and efficiency. Under this system, the Company elects six directors, including one woman and three outside directors, and has established the Board of Directors, Nominating Committee, Audit Committee, and Compensation Committee, in accordance with the provisions of the Companies Act. In addition, the Board of Directors Office has been established and staffed to assist the Board of Directors and the committees in executing their duties. The purpose, authority, and names of the members of these organizations are described below, along with other details.

- (1) The purposes of the Board of Directors are to decide on the Company's business execution and to supervise the execution of duties by the directors and executive officers. The Board of Directors is authorized to make decisions on the matters specified by the Company's Articles of Incorporation and Board of Directors Rules, in addition to those specified by laws and regulations. The Board of Directors met 15 times in fiscal 2019. The directors serving during this fiscal year attended all meetings held during their terms of office, where they heard reports from executive officers and committees on the status of their execution of duties and made decisions on matters for which authority could not be delegated to executive officers under laws and regulations and the Articles of Incorporation, and critical matters specified by the Board of Directors Rules.

As of the end of June 2020, the Board of Directors consists of six directors (including three outside directors), as listed below.

Directors	Kenichi Nishiie	(Chair)
Directors	Makoto Uenoyama	(Outside)
Directors	Toshiko Oka	(Outside)
Directors	Koichi Fukuo	(Outside)
Directors	Chairperson, President and CEO	
Directors	Mamoru Morita	

- (2) The purpose of the Nominating Committee is to make decisions on matters relating to items concerning proposals on the 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 entitled to convene a Board of Directors meeting and persons to report on the status of the Committee's execution of duties to the Board of Directors from among its Committee members. The Nominating Committee met seven times in fiscal 2019. Directors serving during this fiscal year attended all meetings of the Nominating Committee held during their terms of office, where they determined candidates for outside directors, deliberated the executive officer system, and discussed plans for management successor development.

As of the end of June 2020, the Nominating Committee consists of four directors (including three outside directors), as listed below.

Directors	Koichi Fukuo	(Chair, Outside)
Directors	Makoto Uenoyama	(Outside)
Directors	Toshiko Oka	(Outside)
Directors	Chairperson, President and CEO	

- (3) 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 proposals on the appointment, dismissal, and non-reappointment of the Accounting Auditor to be submitted at a General Meeting of Shareholders, so as to ensure that the Company's business is operated lawfully and properly. The Committee is authorized to resolve such issues as well as to formulate policies for the determination to dismiss or not reappoint the Accounting Auditor or to nominate persons entitled to convene a Board of Directors meeting from among its members.

The Committee also has the authority to appoint committee members who may request reports on matters relating to the business of or the execution of duties on behalf of the Company or its subsidiaries and who may investigate the status of the operations and the financial status of the Company or its subsidiaries under Article 405 of the Companies Act. Further information on the Audit Committee, including its activities, is provided later in this document ("The Audit Committee as an Audit Organization").

As of the end of June 2020, the Audit Committee consists of four directors (including three outside directors), as listed below.

Directors	Makoto Uenoyama	(Chair, Outside)
Directors	Toshiko Oka	(Outside)
Directors	Koichi Fukuo	(Outside)
Directors	Kenichi Nishiie	

- (4) The purpose of the Compensation Committee is to determine the compensation and its components received by each director and executive officer. The Committee is authorized to decide such matters as well as to formulate policy on the determination of compensation and its components received by each director and executive officer. In addition, it designates persons entitled to convene a Board of Directors meeting and persons to report on the status of the Committee's execution of duties to the Board of Directors from among its members. The Compensation Committee met five times in fiscal 2019. Directors serving during this fiscal year attended all meetings of the Compensation Committee held during their terms of office, where they formulated policies on the determination of compensation and its components received by directors and executive officers, and determined compensation and its components for each director and executive officer accordingly.

As of the end of June 2020, the Compensation Committee consists of four directors (including three outside directors), as listed below.

Directors	Chairperson, President and CEO	(Chair)
Directors	Makoto Uenoyama	(Outside)
Directors	Toshiko Oka	(Outside)
Directors	Koichi Fukuo	(Outside)

#### (Business Execution System)

Regarding business execution, the Board of Directors delegates a great deal of decision-making authority concerning business execution to the 10 executive officers (all male) to achieve prompt decision-making. The Company has established the Executive Committee to ensure that the Chairperson makes decisions on and executes business operations in compliance with laws and regulations and the Articles of Incorporation, and does so efficiently. The Committee deliberates on important matters related to the decision of business delegated from the Board of Directors to the Chairperson, and then the Chairperson makes decisions regarding the matters. The Executive Committee consists of the Chairperson, the executive officers in charge of corporate administration, the executive officers in charge of sales, and the general managers of divisions. Other members may be appointed as necessary by the Chairperson who serves as the chair. In addition, on April 27, 2020, the Company disclosed in "Regarding the description of inappropriate numerical values in inspection reports for some products of the Company and its subsidiaries" that inspection reports for some special steel products and magnetic material products (ferrite magnets and rare earth magnets) manufactured by the Company or its subsidiaries which had been presented to our customers contained inappropriate values. Although the Company, an enterprise engaging in manufacturing, must absolutely avoid the occurrence of quality-related improper behavior, it occurred and caused a great inconvenience to our customers and other stakeholders. We are taking this situation extremely seriously. On April 27, 2020, the Company set up a special investigation committee consisting of outside experts which is investigating the facts and root causes from an objective point of view, and at the same time, our internal countermeasures headquarters is playing a central role to build an appropriate quality assurance system. In addition, in order to further promote reform in all aspects of management such as the organization and management systems, and to ensure objectiveness as well as fairness in investigating the facts and causes of this case and in considering as well as implementing measures based on the investigation, at the end of May 2020, several executive officers including the then President and one director who had been the President in the past retired. Furthermore, on June 1, 2020, the Chairperson started serving concurrently as the President in order to expedite decision-making, and a new executive officer was added to establish a new management structure. With a view to changing into a company that conducts fair and honest business under the new management structure, the Company will thoroughly investigate the facts and root causes of the improper behavior and execute reforms in all aspects of management.

#### (Internal Audit Organization)

The Company's Internal Auditing Office (with nine dedicated staff members) is in charge of internal audits. The Internal Auditing Office formulates annual audit policies and audit implementation plans for internal audits targeting the Group. Based on these policies and plans, the office conducts on-site audits on the status of management and business execution at the Company's offices and subsidiaries in Japan and overseas over the course of three years, in principle, and collaborates with the Audit Committee and the Accounting Auditor to promote tripartite cooperation for a tripartite audit function. In addition to these audits, a special audit may be conducted upon a special request of the Chairperson. The Internal Auditing Office also reports to the Chairperson and the Audit Committee about its audit implementation plans in advance, and generally reports the audit results once a month. In addition, the Internal Auditing Office in principle meets monthly with a representative of each relevant business division and each Corporate Administrative Division and gives instructions for implementing improvements. If necessary, it also carries out audits in collaboration with individual divisions in charge of the environment, safety, and systems within the Company.

#### (The Audit Committee as an Audit Organization)

The Audit Committee is in charge of auditing business execution by directors or executive officers in accordance with laws and regulations and the Articles of Incorporation, the appropriateness of management decisions, the adequacy of internal control systems, and the accounting audit. The execution of duties by the Audit Committee is assisted by a dedicated staff member at the Board of Directors Office. To ensure independence from executive officers, the dedicated staff member does not concurrently serve in any other 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 by its members visiting each facility, etc. and each subsidiary to conduct regular audits. In addition, the Audit Committee conducts special audits if it discovers potential violations of laws, regulations, or the Articles of Incorporation by the directors or the executive officers.

In fiscal 2019, the Audit Committee met 13 times, and every meeting was attended by all members. The following are the major items on the agenda for the Audit Committee meetings, at which the members hold substantive discussions and vigorously debate issues including governance and business challenges.

- (1) Reports and deliberations on the Accounting Auditor's audit plans, quarterly review results, and audit results
- (2) Reports on the Internal Audit division's audit policy, audit plans, and individual internal audit results, and reports and deliberations on the status of follow-up on the management and operational issues found through internal audits
- (3) Regarding internal controls over financial reporting, reports on the implementation policy and plans, and on the results of three rounds of evaluation of the effectiveness of internal controls, and discussions for enhancing the effectiveness of internal controls and improving management
- (4) Reports on the current issues faced by business execution divisions and their actions on these issues, and discussions for improving governance

The Audit Committee conducts a preliminary review of materials prepared in relation to priority items on the agenda for the Board of Directors meetings to foster effective discussions.

All members of the Audit Committee, who are outside directors, attend a session to exchange views with the Representative Executive Officer twice a year in order to share awareness of the current issues and other outstanding problems.

Full-time members of the Audit Committee mainly conduct the following activities.

- (1) Auditing business reports, checking statements of accounts, hearing from the Accounting Auditor on procedures and recommendations on critical issues, and reporting to the Audit Committee findings from business reports and observations on the audits conducted by the Accounting Auditor

(2) Conducting visiting audits of the Group's sites and subsidiaries in accordance with the above audit plans, informing the Internal Audit division and the Accounting Auditor of any issues detected through these audits, and reporting governance issues to the Board of Directors  
Through these activities, the Audit Committee strives to strengthen internal controls and improve the quality of operational performance.

Among the members of the Audit Committee, Mr. Makoto Uenoyama once served as a director in charge of accounting and finance at Panasonic Corporation, Ms. Toshiko Oka has obtained abundant experience and in-depth knowledge as corporate manager of a consulting firm, and Mr. Kenichi Nishiie once worked for the audit division of the Company and its subsidiary's finance division. Each of their career histories thus demonstrates their considerable expertise in finance and accounting.

(Accounting Auditor)

Accounting audits for fiscal 2019 were conducted by certified public accountants Mr. Takashi Ouchida and Mr. Teruyasu Omote, engagement partners of Ernst & Young ShinNihon LLC. The number of continuous years of conducting audits of the Company by these accountants has not exceeded seven. 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. Nine certified public accountants and 29 other personnel assisted with the Company's accounting audit duties.

(Coordination among the Audit Committee, Accounting Auditor, and Internal Audit Division)

The Audit Committee (1) receives explanations from the Accounting Auditor for the audit implementation plan, and discusses and coordinates the plan as necessary. In addition, the Committee (2) receives reports on audit results and exchanges opinions. Furthermore, (3) in the event that the Accounting Auditor, during the course of executing their duties, discovers misconduct or material facts in violation of laws and regulations or the Articles of Incorporation regarding the execution of duties by executive officers, the Committee receives reports on these matters. The Audit Committee receives reports from the Internal Audit division on its audit implementation plans and regularly examines reports. Furthermore, to promote collaboration between the Internal Audit division and the Audit Committee in auditing, the committee can instruct the Internal Audit division to (1) conduct a special audit of certain divisions deemed to be required by the Audit Committee, and (2) decide on critical audit items in audits conducted by the Internal Audit division. The Internal Auditing Office is also in charge of evaluating internal controls, and reports the status of such to the Audit Committee. Corporate divisions, etc., other than the Internal Audit division, in charge of finances, compliance, risk, and other areas also play a certain role in the Company's internal controls, and report the status of the execution of their duties to the Audit Committee.

Moreover, the Company considers the promotion of tripartite audit function to be its primary theme regarding audit and supervisory functions. The Company, therefore, ensures that the Audit Committee, the Accounting Auditor, and the Internal Audit division share the issues they have respectively detected, going a step beyond one-way evaluation of the Accounting Auditor from the Company's side, based on the evaluation standards for an accounting auditor, and promoting mutual checks and evaluation. In particular, the Company considers the risk detection function of the Accounting Auditor, which is an external institution, as an important aspect of overall risk detection for the Group. In order to reinforce that function, the Company is expanding mutual evaluations between the Accounting Auditor and the Company's finance divisions, the Internal Audit division, and 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 communication with the Audit Committee, senior management, the Internal Audit division and others; the audit quality control system; audit plans; the 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, the 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 its functions. The Company is also starting mutual evaluations between the Accounting Auditor and the finance divisions at its business offices and subsidiaries.

#### (Outside Directors' Functions and Roles)

Three of the Company's six directors, Mr. Makoto Uenoyama, Ms. Toshiko Oka, and Mr. Koichi Fukuo, are outside directors (as of the end of June 2020).

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

#### (Independence of Outside Directors)

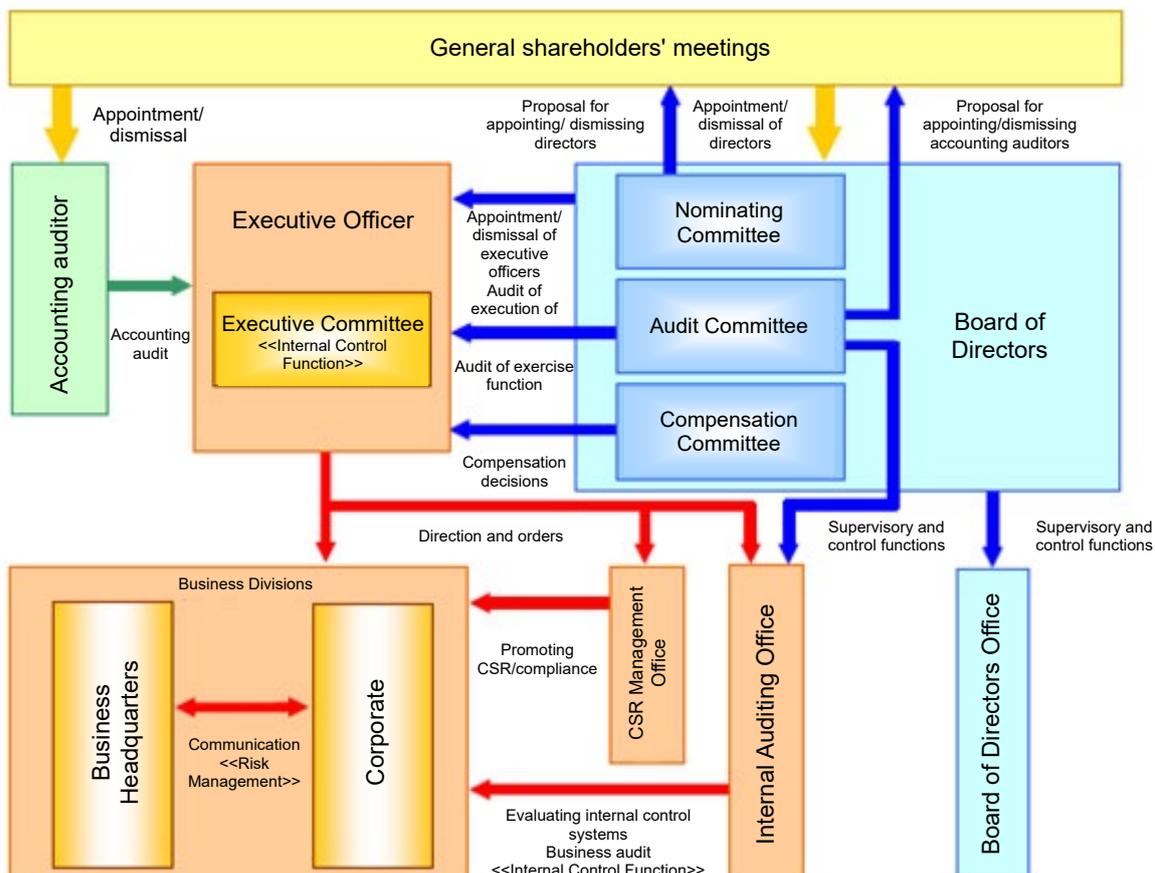
In nominating candidates for outside directors, the Nominating Committee shall consider that the candidate has the highest personal and professional ethics, integrity, and insights regardless of his or her nationality or gender; has abundant experience and in-depth knowledge in business management, law, administration, accounting, education, etc.; is well versed in social norms; and is expected to contribute to the strengthening of the decision-making and supervisory functions of the management of the Company as well as the enhancement of its effectiveness from a wide perspective. In addition, the Nominating Committee judges an outside director to be independent if he or she does not fall under any of the following items:

- (1) a person who has received from the Company a payment of 2% or more of the corporation's consolidated annual revenues for the provision of products or services in the most recent fiscal year or who serves or has served within the last one year as an executing person (that is, an executive director, executive officer, or employee) of the corporation;
- (2) a person who has paid the Company 2% or more of the Company's consolidated annual revenues for the provision of products or services in the most recent fiscal year or who serves or has served within the last one year as an executing person of a corporation;
- (3) an attorney, a certified public accountant, a licensed tax accountant, or a consultant who has received from the Company an annual payment of 10 million yen or more of monetary or other property benefits other than compensation for directors and executive officers within the last one year, or a person who is or has been within the last one year a member, a partner, an associate, or an employee of a law firm, an auditing firm, a tax accountant corporation, a consulting firm, or other professional advisory firm that has received from the Company a payment of 2% or more of the firm's consolidated annual revenues in the most recent fiscal year;
- (4) a person who serves or has served within the last one year as an officer of a not-for-profit organization that has received from the Company discretionary charitable contributions of monetary or other property benefits of 10 million yen or more, or 2% or more of that organization's annual gross revenues or ordinary income, whichever amount is higher, during the most recent fiscal year;
- (5) a person who serves or has served within the last one year as an executing person or a non-executive director of a parent company of the Company;
- (6) a person who serves or has served within the last one year as an executing person of a sister company of the Company;
- (7) a person who is a spouse or a relative within the second degree of kinship of a person (excluding a person who has or had no important position of the following) who falls under the items of the following:
  - 1) who falls under the items of the above (1) through (6);
  - 2) who is, or has been within the last one year, an executing person of a subsidiary of the Company;
  - 3) who is an executing person or non-executive director of a parent company of the Company;
  - 4) who is an executing person of a sister company of the Company;
  - 5) who is, or has been within the last one year, an executing person of the Company; and
- (8) a person who is at risk of having material conflicts of interests with ordinary shareholders for reasons other than those stated above.

There are no personnel relationships, transactional relationships, etc., that fall under any of the items in the criteria stated above, and no other special-interest relationships between any of the outside directors and the Company. 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.

## Corporate Governance Structure



### (Compensation, etc. for Directors and Executive Officers)

Pursuant to provisions of the Companies Act, the Compensation Committee formulated a policy for determining the individual compensation packages, etc., of directors and executive officers. A summary of the policy is as follows:

- (1) The directors and executive officers who manage the Company determine management policies from a long-term perspective, and formulate and execute medium-term management plans and annual budgets. By doing this, they enhance the corporate value of the Company and perform management that contributes to shareholders and other stakeholders, for which they are compensated.
- (2) 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 officers and to serve as a source of motivation.
- (3) Compensation paid by the Company shall consist of base compensation and a term-end bonus.
  - 1) Base compensation: Base compensation payments shall be determined on the basis of the individual director or executive officer's performance, reflecting their individual responsibility and the rich experience, knowledge, acumen, as well as specialist skills which they have so far obtained. In addition, compensation for directors and executive officers shall be consistent with levels paid by other companies.

- 2) Term-end bonus: A term-end bonus shall be linked to the business performance of the Company.
- (4) To share interests with shareholders by holding treasury stock and thereby promote sustainable growth and the enhanced corporate value of the Company over the medium to long term, directors and executive officers shall, as a general rule, contribute part of their compensation to the officers' shareholding association and acquire treasury stock until such stock reaches a determined number. The acquired stock shall be held continuously during the terms of office of directors and executive officers and, as a general rule, one year after retiring from their posts.

The value of compensation disclosed in the Annual Securities Report for the 83rd business term (April 1, 2019 to March 31, 2020) is as follows:

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)	116	98	1.8	7
Executive Officer	381	314	6.7	13
Outside directors and officers	53	46	7	5

Notes:

1. Directors who work concurrently as executive officers receive compensation as executive officers and do not receive compensation as directors.
2. In response to the significant decline in business performance for the current fiscal year, full-time directors and executive officers have returned part of their executive compensation for the latter half of the current fiscal year to clarify their management responsibilities.

(Relationship with the Parent Company)

The Company is a member of the Hitachi Group, for which the parent company is Hitachi, Ltd. In the Hitachi Group, the parent company and listed subsidiaries share the purpose of increasing the value of the entire Group through the strengthening of the competitiveness of each company, and the listed subsidiaries are allowed to enjoy benefits through participating in measures that contribute to strengthening their business base. Regarding the management of the listed subsidiaries, the independent originality of each is respected, the involvement of the parent company is limited except for matters to be submitted to the General Meeting of Shareholders, and management decisions are made based on each company's decision-making procedures. Therefore, as for the relationship with the parent company, the Company maintains autonomy in the business operations and transactions. At the same time, the Company has close collaborative relationships with the Hitachi Group companies through activities such as cooperation in research and development, and effectively uses the Hitachi Group's management resources to provide high-quality products and services.

Hitachi, Ltd., owns 53.5% of the total number of voting rights of the Company (including indirect ownership) as of the end of March 2020. As for personnel relationships, one director of Hitachi, Ltd., also serves as a director of the Company (as of the end of June 2020). Through its expression of opinions and participation in votes at meetings of the Board of Directors of the Company, Hitachi, Ltd., could have an influence on the determination of management policies and other aspects of the Company. Nevertheless, three outside directors have been appointed as independent directors according to the rules of the stock exchange to allow more diversified opinions to be reflected in

discussion at the Board of Directors. Therefore, it is our view that the Company is in a position to be able to make independent management judgments. 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. The Company has established rules stipulating internal procedures for deciding the terms of transactions, with the aim of ensuring appropriate operations related to transactions in general. All transactions such as sales of products and procurement of materials, etc., including those with Hitachi, Ltd., are conducted according to these rules. If the need arises to conduct transactions with Hitachi, Ltd., the Company's parent company, that could create a material conflict of interest with minority shareholders, the matter shall be referred to the Board of Directors and a decision made based on careful deliberation.

### **3. Internal Control System**

The Company's Board of Directors has established a fundamental policy concerning the system of internal controls pursuant to the Companies Act, and is developing an internal control system based on this policy. The details of the fundamental policy are disclosed in the annual securities reports, etc. Based on the fundamental policy regarding the establishment of the above-mentioned system for ensuring the appropriateness of business (internal control system), we are operating the systems described below to ensure the appropriateness of business. However, regarding some products of the Company and its subsidiaries, it was found that inappropriate numerical values were entered in an inspection report submitted to a customer, and the fact was announced in April 2020. In response to this problem, the Company has set up a special investigation committee consisting of outside experts to investigate the facts and root causes of this occurrence from an objective point of view. Meanwhile, an internal task force plays a central role in taking measures such as a review of the organization to secure effective quality audit and the development of an inspection system that eliminates human intervention and does not allow falsification. The Company is working to strengthen its quality assurance system in order to regain the trust of its customers. Going forward, taking into account the results of the investigation by the committee, the Company will be implementing preventive measures including further enhancing the framework of compliance and quality assurance.

#### ① Compliance

To foster a deeper understanding of compliance, the Company has prepared and distributed the CSR Guidebook to all officers and employees of the Group, and provides Groupwide compliance education in both lecture and e-learning formats, on a regular basis. In addition, the Company has set October of each year as Corporate Ethics Month, and holds compliance lectures delivered by outside instructors for management, as well as various other events to cultivate an awareness of compliance.

In fiscal 2019, we published a new edition of the CSR Guidebook that conforms to the Hitachi Metals Group Code of Conduct revised in the previous fiscal year, and that is completely revised to match the current situation. As an ongoing effort to strengthen compliance, the Company requires its employees in Japan and elsewhere to use a checklist to check their own overall awareness of compliance and adherence to laws and regulations.

#### ② Risk Management

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

In fiscal 2019, with the aim of preventing the spread of the COVID-19 infection, the Company is thoroughly managing hygiene within the Company's facilities and taking various measures such as arranging and enhancing an environment in which remote working can be carried out. In addition, the Company periodically conducts a drill for responding to the Group's system designed to confirm the safety of all employees during times of disaster. The system is actually used during disasters such as large typhoons.

③ Evaluation of the Effectiveness of Internal Controls over Financial Reporting

The Company has set up an Internal Controls Committee, chaired by an executive officer and its secretariat at the Internal Auditing Office, to enhance internal control functions within the Company. The secretariat formulates an evaluation policy every fiscal year and evaluates the development and implementation status of internal controls over financial reporting. The Internal Controls Committee reviews the evaluation results at its meetings (five meetings in fiscal 2019), and provides necessary instructions for the relevant divisions. The Committee's review results are reported to the Executive Committee and the Audit Committee.

④ Internal Audit

The Internal Auditing Office formulates annual audit policies and audit implementation plans for internal audits of the Group. Based on these policies and plans, the Office conducts audits on the status of management and business execution of the Company's offices and subsidiaries in Japan and overseas over the course of three years, in principle (in fiscal 2019, audits were conducted at the Company and 15 subsidiaries in Japan and overseas), and collaborates with the Audit Committee and the Accounting Auditor to promote tripartite cooperation for a tripartite audit function. In addition, special audits may be conducted based on orders of the president and chief executive officer and others. The Internal Auditing Office also reports to the President and the Audit Committee about its audit policies and audit implementation plans in advance, and reports audit results to them on a monthly basis, in principle. The Internal Auditing Office in principle meets monthly with a representative of each business division and each department of the corporate division and gives instructions for implementing improvements.

#### **4. Basic Approach and Development Status Regarding Elimination of Antisocial Forces**

Our policy is to take a resolute stance against antisocial forces that pose a threat to the order and safety of civil society, and cut off all ties with them. The following systems have been put in place to ensure the efficacy of this policy.

- (1) The compliance department will address risks involving antisocial forces, and an officer and a person in charge will be appointed for each business office. These people will collect and provide risk-related information, and explain response procedures for risk scenarios.
- (2) To ensure close liaison with the Tokyo Metropolitan Police Department and other police departments with jurisdiction, as well as with external agencies like Tokubouren, we will keep up visits and other links to build up information on antisocial forces. If there is the possibility of harm from such forces, we will promptly notify these agencies, consult with them, and act in partnership with them.
- (3) To eliminate antisocial transactions, we will work to enact rules on the prevention of such transactions, establish a system for the compliance department in all divisions to vet new trading partners, and introduce clauses for the elimination of gang activity from contracts and transaction terms. The compliance department will conduct internal audits to confirm the state of compliance.
- (4) To raise awareness among employees on how to handle antisocial forces, the Company distributes the Hitachi Metals Group CSR Guidebook which declares, "We absolutely refuse all contacts and demands from antisocial forces and groups," and strives to make all employees aware of the declaration.