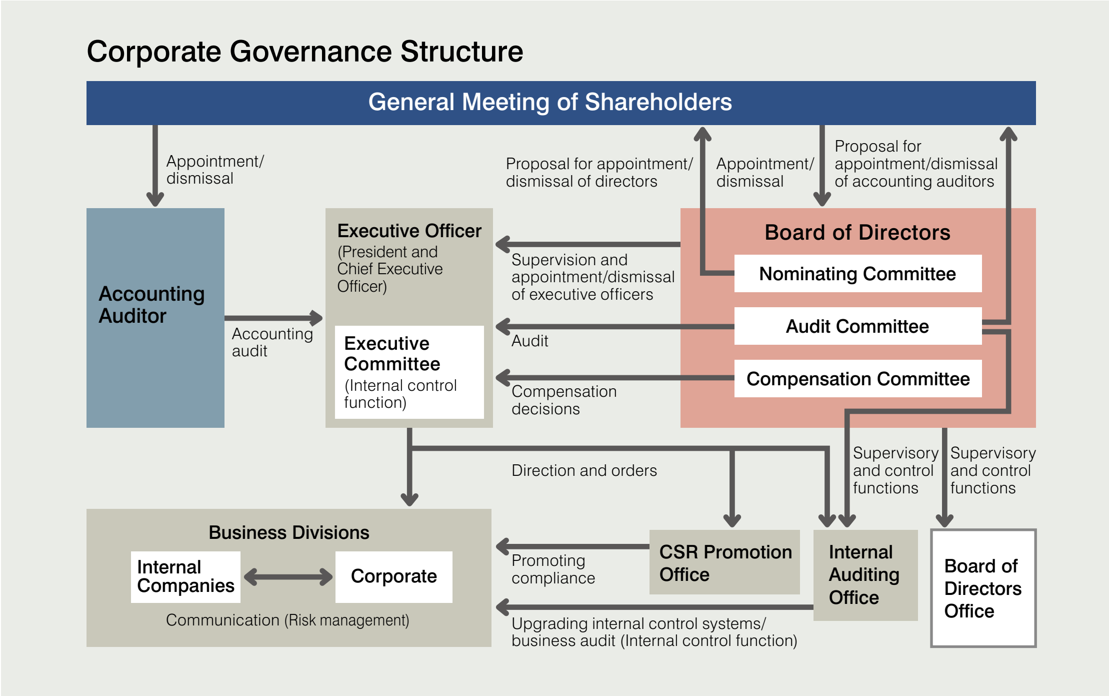
Corporate Governance and Compliance

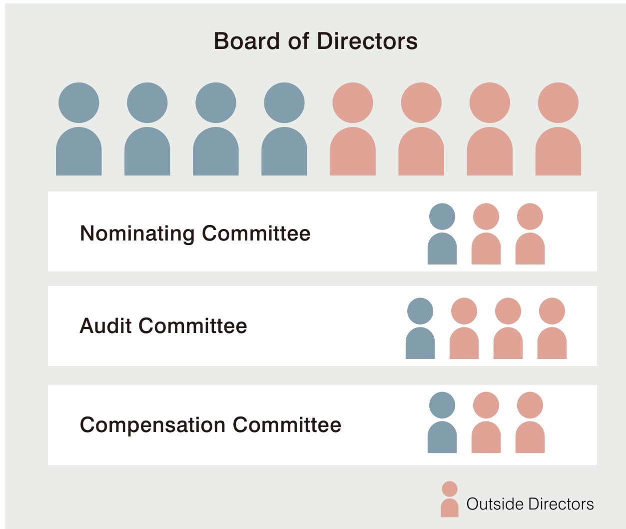


Fundamental Policy with Regard to Corporate Governance

Hitachi Metals counts corporate governance among its most important management priorities. Hitachi Metals believes that the basis of corporate governance is ensuring transparent, sound and efficient management, meeting stakeholder expectations, and increasing corporate value. To this end, we believe that we must build an organizational platform wherein 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 the Code of Conduct for Hitachi Metals Group Companies, which reflects these philosophies and provides a concrete basis to guide directors and employees in their actions.

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 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. The objective opinions provided by these outside directors enhance oversight functions and improve management transparency and efficiency. Under this system, four outside directors are elected to the Company's eight-member Board of Directors. Pursuant to the Corporate Law, the Company established the Nominating, Audit, and Compensation committees. Three of the Company's directors shall comprise the Nominating Committee (with two of three serving as outside directors); three of the Company's directors shall compose the Compensation Committee (with two of the three serving as outside directors); and four of the Company's directors shall comprise the Audit Committee (with three of the four serving as 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. 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. Hitachi Metals has established an Executive 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. In addition, the Company has adopted an internal company system and an 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 those on Group strategies for the Company as a whole, and managing officers are in charge of each business division.



Internal Control System

Hitachi Metals' internal control system is as described below.

1. Hitachi Metals has established an Executive 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.
2. Hitachi Metals has also established a Compliance Office with a Compliance Manager responsible for the development of a Companywide compliance system.
3. 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).
4. 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 the early discovery and correction of misconduct.
5. 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 effectiveness 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 coordinate with law enforcement and other specialist organizations.
6. Hitachi Metals has also established the Internal Auditing Office for conducting internal audits of business divisions 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.
7. When, from the perspective of Group management, it is necessary to make a deal or engage in other activities with the parent company, and when the interests of the parent company substantially conflict with those of other shareholders, the matter will be referred to the Board of Directors, and the Board of Directors will decide whether to engage in the activity in question. When candidates for the Board of Directors are chosen by the Nominating Committee, the committee should, in principle, choose at least one candidate for the Board who is independent of the parent company and who comes from outside the Company.
8. Hitachi Metals is implementing its internal control system for financial information based on a standard framework (COSO framework) in accordance with the requirements of Japan's Financial Instruments and Exchange Act. Regarding all items that must be reflected in financial reports, Hitachi Metals is implementing and verifying documented business processes.

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, and 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.

Overview of Agreements Pursuant to Article 427, Paragraph 1, of the Corporate Law

In accordance with its Articles of Incorporation, Hitachi Metals has entered into agreements with its outside directors, namely, Yasutoshi Noguchi, Hisashi Machida, Koji Tanaka and Toshikazu Nishino, to limit the liability for damages pursuant to Article 423, Paragraph 1, of the Corporate Law. The agreements limit compensation for damages to ¥12 million or an amount determined by laws and regulations, whichever is highest.

Internal Audits, Audit Committee Audits, and Accounting Audits

Internal Audit Organization

Hitachi Metals has set up the Internal Auditing Office, with four full-time staff members, 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. The Internal Auditing Office provides preliminary reports of its auditing plans and reports the results of audits to the chairman, the president and the Audit Committee. Actual audits are assigned to a Group company that supports internal auditing. This enables Hitachi Metals to combine the internal auditing and intergroup control auditing promoted by Hitachi, Ltd. while managing auditing activities with efficiency and focus. Actual audits are conducted in cooperation with Hitachi Metals' Environmental, Health and Safety, and Information Systems departments, as necessary.

Audit Committee Auditing Organization

The Audit Committee comprises four members, three of whom are outside directors. Two of the Audit Committee members have significant financial and accounting knowledge: Yasutoshi Noguchi, who was in charge of the financial department of another company, and Taiji Yamada, who was in charge of the accounting and financial departments at Hitachi Metals.
The Audit Committee deals with cases of directors or executive officers violating laws, regulations, or the Articles of Incorporation, and conducts audits of the suitability of management decisions and the effectiveness of internal control systems and accounting audits. The manager of the Audit Committee in the Board of Directors Office provides support for the execution of the Audit Committee's duties. To ensure that the manager of the Audit Committee is independent of executive officers, the manager of the Audit Committee cannot hold a concurrent position in another operational division. As a routine duty, the Audit Committee creates annual auditing plans and policies, which are used as a basis for debriefings on important matters and as a basis for conducting audits of each business division and Group company. In addition, the Audit Committee conducts special audits in the event that a director or executive officer is suspected of behaving in a manner that violates laws, regulations, or the Articles of Incorporation.

Coordination among Internal Audits, Audit Committee Audits, and Accounting Audits as well as the Relationships between Audits and the Internal Control Division

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. Also, the Internal Auditing Office provides support to the Audit Committee on the basis of instructions from the Audit Committee in matters that the Board of Directors has determined to be necessary to the performance of the duties of the Audit Committee. The Internal Audit Office is in charge of preparing and verifying the internal control system and of making reports on its progress in this matter to the Audit Committee. In addition to the Internal Audit Office, other corporate departments that handle finances, compliance, risk, etc., have responsibilities concerning internal control, and those departments provide regular reports on their activities to the Audit Committee.

Items with Regard to Outside Directors

Functions and Roles of Outside Directors

Four out of the Company's eight directors are outside directors.
Outside directors are well versed in the general rules of society and contribute to improvements in the transparency and soundness of the Board of Directors through their function to give advice to management, which is based on their ability to oversee executive officers from broader perspectives, as well as exercising their rich experience and high principles. They also serve as members of the Nominating, Audit and Compensation committees to further strengthen supervisory functions.

Standards and Policies Pertaining to the Independence of Outside Directors

Although the Company has set forth no standards regarding independence in relation to selecting outside directors, there is a policy that calls for appointing at least one outside director independent from the parent company. In accordance with this policy, the Company appointed two individuals—Yasutoshi Noguchi and Hisashi Machida—recognized to possess high degrees of independence based on their respective backgrounds and relations with the Company. They were also appointed as independent directors in accordance with the policies of the Tokyo Stock Exchange, Inc. and sent a notification to said stock exchange.

Relations between the Company and Outside Directors

Appointment Status of Outside Directors

To ensure spirited deliberations by the Board of Directors and other bodies, the number of directors is kept small. The Company likewise believes that maintaining a certain number of internal directors knowledgeable about the conditions of the Group's business contributes to positive deliberations by the Board of Directors and other bodies. Considering the composition of the committees, it is believed that the existing appointments of outside directors are appropriate.

Relations between the Company and Outside Directors

Outside director Yasutoshi Noguchi formerly served as an executive officer of Teijin Limited, as well as in the capacity of director and other positions with Infocom Corporation, a subsidiary of Teijin. During the current fiscal year, there were interactions between subsidiaries of the Company and these companies relevant to product sales. However, because the scale of these transactions is extremely small, it is the Company's judgment that they have exerted no impact on the independence of Mr. Noguchi as an outside director.

Outside director Hisashi Machida formerly served as a director and executive officer of NSK Ltd. During the current fiscal year, a relationship existed between subsidiaries of the Company and NSK relevant to product transactions and other activities. In addition, Mr. Machida currently serves as a specially appointed professor at the Shibaura Institute of Technology Graduate School of Engineering Management, and in the past held the post of research advisor at the University of Tokyo Institute of Industrial Science. During the current fiscal year, a relationship existed between subsidiaries of the Company and these universities relevant to product sales. In both cases, however, the scale of the transactions was extremely low, supporting the Company's judgment that they exerted no impact on the independence of Mr. Machida as an outside director.

Outside directors Koji Tanaka and Toshikazu Nishino currently serve as executive officers of Hitachi, Ltd., the Company's parent firm. During the current fiscal year, a relationship has existed between the Company and Hitachi, Ltd. relevant to continuing product transactions, the supply of services, technical transactions, loans and other transactions, concurrent service by certain officers, acceptance of employees on temporary loan and in other capacities, while a relationship likewise existed between subsidiaries of the Company and Hitachi, Ltd. relevant to product transactions and in other capacities.

In this regard, both outside directors Koji Tanaka and Toshikazu Nishino formerly served as directors of subsidiaries of Hitachi, Ltd. During the fiscal year under review, a relationship existed between the Company—including subsidiaries—and these subsidiaries of Hitachi, Ltd. relevant to product transactions and in other capacities.

Coordination among Audits by Outside Directors, Internal Audits, Audit Committee Audits, Accounting Audits and the Relationships between Audits and the Internal Control Division

Outside directors who are members of the Audit Committee maintain coordination as specified above in "Coordination among Internal Audits, Audit Committee Audits, and Accounting Audits as well as the Relationships between Audits and the Internal Control Division."

Officer Compensation

Policies with regard to determining compensation for directors and executive officers are as follows. 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 officers 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 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 shall be linked to performance. The Company revised the compensation system as of the fiscal year ended March 31, 2009, abolishing retirement benefits. In line with this revision to its compensation system, the Company decided to pay retirement benefits through March 31, 2008 to directors and executive officers through to their retirements. Pursuant to Companies Act provisions relating to companies with committees, the Compensation Committee formulated a policy for determining the individual compensation packages of directors and executive officers. Compensation to those directors and executive officers was determined through a resolution of the Compensation Committee.

The table below shows the total compensation for each type of officer, the total of each type of compensation, and the number of officers receiving each type of compensation.

Type of Officer	Total Compensation (in Millions of Yen)	Total of Each Type of Compensation (in Millions of Yen)			Number of Officers
		Basic compensation	Period-end bonus	Retirement compensation	
Director (excluding outside directors)	83	71	11	—	2
Executive officer	395	306	95	—	8
Outside officer	40	36	6	—	4

Notes: 1. Figures below ¥1 million have been rounded.
2. Directors who work as executive officers receive compensation as executive officers and do not receive compensation as directors.
3. In the current fiscal year, no one was awarded total compensation exceeding ¥100 million.

Certified Public Accountants Who Perform Accounting Audits

The Company's accounting audits are performed by the following certified public accountants (CPAs). 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 to perform audits of Hitachi Metals include 15 CPAs, 1 assistant CPA, and 23 other assistants.

CPA Name and Title	Accounting Auditor
Kiyomi Nakayama, Managing Partner	Ernst & Young ShinNihon
Masami Katakura, Managing Partner	Ernst & Young ShinNihon
Takayuki Ozaki, Managing Partner	Ernst & Young ShinNihon

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

Number of Directors and Resolving Issues of Election and Dismissal

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 the shareholders present, who must hold one-third or more of the total number of voting rights of the shareholders entitled to exercise voting rights that are not cumulative.

Matters from the General Meeting of Shareholders to Be Resolved by the Board of Directors and Matters That, According to the Articles of Incorporation, Are Not to Be Resolved at the General Meeting of Shareholders but by the Board of Directors

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). 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 Corporate Law.

Regarding the liabilities of directors and auditors pursuant to the former Commercial Code prior to transfer to the company-with-committees structure the Company adopted in June 2003, for the same reason, a resolution by the Board of Directors allowed an exemption from liability limits. A stipulation has been established within the Articles of Incorporation as an interim measure in this regard.

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.

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.

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. The terms and conditions of transactions with Hitachi, Ltd. and its Group companies are effectively determined after mutual discussion regarding market interests and market prices.

Regarding Hitachi Metals Techno, Ltd.—a listed subsidiary of Hitachi Metals—a business relationship exists relevant to product transactions, technical transactions, research and development cooperation and in other capacities on the foundation of maintaining the autonomy of that company. In the interest of maintaining the efficient management of Hitachi Metals Group companies, information exchanges are conducted upon the formulation of medium-term management plans, budgets and other business planning to an extent that does not compromise the autonomy noted, with cooperation likewise advanced in the establishment of internal controls and in other capacities.

In awareness 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.

In the event of the need to engage in transactions or other measures with Hitachi Metals Techno for which threats of substantial conflict exist between Hitachi, Ltd. and minority shareholders from the perspective of Group management and other standpoints, the matters identified shall be referred to the Board of Directors for decisions on their adoption or rejection. When the Nominating Committee is selecting director candidates, the policy in force is to select at least one outside director candidate to occupy a position independent from the parent company.

[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 Article 24-4-4 [1], Financial Instruments and Exchange Act)

June 25, 2014

Hitachi Metals, Ltd.

Kazuyuki Konishi
Chairman and Chief Executive Officer

Mitsuaki Nishiyama
Vice President and Executive Officer

1. Matters Pertaining to the Basic Framework of Internal Control over Financial Reporting

Kazuyuki Konishi, chairman and chief executive officer of Hitachi Metals, Ltd., and Mitsuaki Nishiyama, chief financial officer of Hitachi Metals, Ltd., are responsible for the preparation and implementation of internal control pertaining to the Company's financial reporting and, pursuant to the basic framework of internal control indicated in the "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, duly engaged in the preparation and implementation of internal control pertaining to financial reporting.
In this regard, the Company strives to achieve the objectives of internal control, within rational limits, by establishing organic links between the various basic elements of internal control, thereby enabling it to function as a unified whole. In view of this, there exists the possibility of failure to entirely prevent or ascertain the presence of falsified entries in financial reports through internal control pertaining to financial reporting.

2. Matters Pertaining to the Scope of Evaluation, Reference Date, and Evaluation Procedures

An evaluation of internal control pertaining to financial reporting was conducted using March 31, 2014 the final day of the fiscal year under review—as the reference date. The said evaluation was conducted in accordance with standards for the evaluation of internal control pertaining to financial reporting generally recognized as being fair and appropriate. For the said evaluation, assessments were made of internal control (Companywide internal control) exerting significant impact on the overall range of financial reporting on a consolidated basis. Based on the results of these assessments, screening was performed on operation processes to be targeted for evaluation. For the evaluation of the operation processes in question, the operation processes so screened were analyzed followed by the identification of essential points of control exerting significant impact on the reliability of financial reporting as well as the evaluation of the preparation and implementation status of the essential points of control in question, thereby assessing the validity of internal control. For the scope of the evaluation of internal control pertaining to financial reporting, with regard to the Company, its consolidated subsidiaries, and equity method affiliates, determinations of the scope deemed necessary were made from the perspective of the significance of the impact exerted on the reliability of financial reporting. The determinations of the significance of the impact exerted on the reliability of financial reporting took into consideration the gravity of both monetary and qualitative impact, with rational determinations made of the scope of the evaluation of internal control pertaining to operation processes taking into account the outcome of Companywide internal control evaluations targeting the Company and 96 of its consolidated subsidiaries and 2 equity method affiliates. Eighteen equity method affiliates were excluded from the scope of the Companywide internal control evaluation in view of their limited significance from both monetary and qualitative perspectives. With regard to the scope of the evaluation of internal control pertaining to operation processes, seven companies, together making up approximately two-thirds of consolidated net sales in the previous consolidated fiscal year when totaling net sales in the previous consolidated fiscal year for all business bases (after subtracting transactions between consolidated companies) in the order of bases for which the amounts are higher, have been treated as significant business bases. For the significant business bases so designated, addressed as targets for the evaluation were operation processes linked to net sales, accounts receivable, and inventory assets—accounting items that are significantly related to the Company's business objectives. Moreover, with regard to the scope of evaluation when likewise encompassing business bases other than the selected significant business bases, added to the evaluation targets as operation processes with high significance in view of their impact on financial reporting, were operation processes related to important accounting items accompanying estimates or forecasts and possessing a high possibility of entries of significant falsehoods as well as operation processes related to business or operations involving high-risk transactions.

3. Matters Pertaining to Evaluation Results

Based upon the aforementioned evaluation results, it is the judgment that the Company's internal control pertaining to financial reporting is valid as of the final day of the fiscal year under review.

4. Matters Warranting Additional Mention

There are no matters warranting additional mention.

5. Matters Warranting Special Mention

There are no matters warranting special mention.