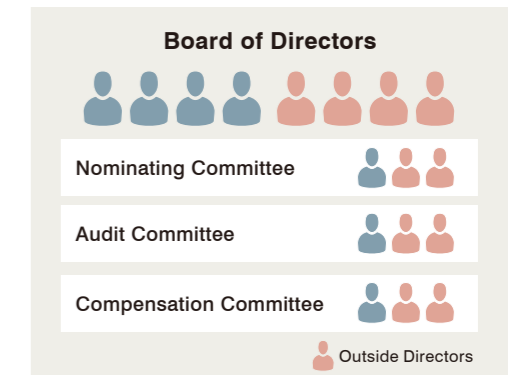


organization of the Audit Committee is located in the section titled “Audit Committee Auditing Organization.” To facilitate the execution of duties of the Board of Directors and each committee, Hitachi Metals has set up a Board of Directors Office and appointed a manager to the Board and to each committee. 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, 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.



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-designated-committees system. This system helps the Company to swiftly implement bold policies and measures as well as Companywide management that encompasses the 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 a broad range of experiences, these outside directors provide valuable management advice which serves to enhance oversight functions and improve management transparency, integrity 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); and three of the Company’s directors shall compose the Compensation Committee (with two of the three serving as outside directors). Information regarding the

Maintenance of a System of Internal Controls

The Hitachi Metals Board of Directors has approved and established a fundamental policy concerning the system of internal controls for the company, pursuant to the Companies Act, the specific contents of which are as follows.

- (1) **Matters in Ministry of Justice ordinances deemed necessary for performing the duties of the Audit Committee**
 - ① **Matters regarding support of the duties of the Audit Committee by directors and employees**
 - 1) The Audit Committee nominates standing Audit Committee members as necessary. When a standing Audit Committee member is not present or a standing Audit Committee member has not been appointed and the Audit Committee has requested that support be provided for duties, the Board of Directors will designate a director to fulfill those duties.
 - 2) An Audit Committee Manager will be assigned to the Board of Directors Office to provide support for the duties of the Audit Committee.
 - 3) The Audit Committee may issue directives to the Internal Auditing Office, which is under the jurisdiction of executive officers, to assist in the execution of Committee duties when this is deemed necessary for conducting audits.
 - ② **Matters regarding the independence of directors and employees noted in Provision ①, above, from executive officers and ensuring the effectiveness of instructions given to such directors and employees by the Audit Committee**
 - 1) The manager of the Audit Committee in the Board of Directors Office will not hold a concurrent position in another operational division. Appointment or dismissal of and disciplinary action taken in regard to the manager of the Audit Committee is carried out by executive officers upon consent of the Audit Committee or Audit Committee members designated by the Audit Committee (hereafter “designated auditors”). In addition, performance ratings and evaluations of the manager of the Audit Committee are conducted by executive officers after hearing the opinions from the Audit Committee or designated auditors.
 - 2) Appointment or dismissal of and disciplinary action taken in regard to the head of the Internal Auditing Office as well as personnel evaluations and assessments are carried out by executive officers after explaining the reasons for such actions to the Audit Committee or designated auditors.
 - 3) Employees assisting in the performance of duties of the Audit Committee will not take direction from executive officers.

③ **System for reporting to the company Audit Committee and protection from reprisals as a result of reporting**

- 1) Executive officers make the following reports to the Audit Committee:
Materials from Executive Committee meetings, documentation of decisions by executive officers, the Medium-Term Management Plan and budget proposals, monthly and quarterly financial reports, and operational audit reports from the Internal Auditing Office.
- 2) The Internal Auditing Office conducts audits of the management and operation of the company and its subsidiary companies (including overseas entities; the same shall apply hereafter) and reports its findings to the Audit Committee or designated auditors.
- 3) In the event that facts constituting serious damage to the company or which pose the risk of such are discovered, executive officers will immediately report such their findings to an Audit Committee member.
- 4) Executive officers and employees of the company, as well as directors, auditors, and employees of subsidiaries will submit reports to the Audit Committee through the designated auditors.
- 5) Hitachi Metals has established a system that enables persons who perform work for the company and its subsidiaries to report facts related to illegal or improper acts that violate the laws and regulations pertaining to the company and its subsidiaries (hereafter, "illegal or improper acts") through a specified channel (hereafter, "Compliance Hotline"), when discovered. Upon receiving a report on an illegal or improper act, the Compliance Hotline supervisor shall promptly report the facts to a designated auditor. A system has also been established to enable the reporting of illegal or improper acts directly to the Audit Committee. The company will ensure that anyone who has reported an illegal or improper act will not be subject to reprisal as a result of the report.

④ **Matters pertaining to the policy on prepayment or reimbursement procedures, and processing of other expenses or obligations that a member of the company Audit Committee incurs while performing duties**
The Board of Directors Office is responsible for the payment of expenses and other administrative processing arising in relation to the performance of duties by Audit Committee members, and will process those expenses and obligations swiftly, except when these are explicitly deemed unnecessary for the performance of the committee member's duties.

⑤ **Other systems in place to ensure the effectiveness of the Audit Committee audits**

- 1) Designated auditors may voice opinions concerning audit plans drawn up by the head of the Internal Auditing Office for the following fiscal year. The head of the Internal Auditing Office must submit a report audit plans formulated to the Audit Committee.
- 2) The Audit Committee or the designated auditors will exchange opinions with accounting auditors, executive officers, the head of the Internal Auditing Office, and officers responsible for other operational divisions.

(2) **Systems to ensure the performance of duties by executive officers of the company in compliance with the laws and regulations and the company's Articles of Incorporation**

- 1) Hitachi Metals has set forth guidelines on the conduct of business by the company and its subsidiaries to ensure compliance with the laws and regulations and the Articles of Incorporation, while adhering to social ethics.
- 2) The executive officers of Hitachi Metals have established the Executive Committee, which receives reports on and deliberates on matters considered to have a material impact on the corporate group, which consists of the company and its subsidiaries (hereafter, the "Hitachi Metals Group").
- 3) Hitachi Metals has established a Compliance Hotline. When a report of an illegal or improper act is received, the Compliance Office in charge of the Compliance Hotline will investigate the validity of the facts in the report, and, when deemed necessary, shall advise executive officers on appropriate corrective measures, and shall also take the necessary steps to prevent future recurrence.
- 4) The order and safety of civil society is constantly under threat from antisocial forces. It is the policy of the Hitachi Metals Group to resolutely reject any and all contact with forces that work counter to the interests of society. In order to ensure the effectiveness of this policy, the company has established a designated department charged with the responsibilities of managing information relating to antisocial forces, establishing a system for blocking transactions and taking other steps, and working to maintain close connections with the police and other external specialist institutions.

(3) **Other systems established in Hitachi Metals that ensure proper conduct of business by the company and the corporate group consisting of the parent company and subsidiaries of Hitachi Metals**

① **System for storing and managing information related to the duties of executive officers**

- 1) Each operating division stores and manages information pertaining to Executive Committee meetings, documentation of decisions by executive officers, and other documents relating to the duties of executive officers in accordance with company regulations on document storage and management.
- 2) Designated auditors may view, copy, and reproduce documents pertaining to the performance of duties by executive officers which are stored and managed by the respective operational divisions.

② **Regulations and other systems concerning management of loss risk for Hitachi Metals and its subsidiaries**

- 1) Company executive officers oversee the respective operational divisions they are in charge of and formulate internal rules and guidelines for risk management systems concerning compliance, antisocial forces, finance, procurement, environmental issues, natural disasters, quality assurance, information management, and export control, as necessary. They produce and distribute manuals, provide training, and conduct business audits to avoid, prevent, or control the risk of loss for the company. The company distributes these rules and guidelines to each subsidiary company after making necessary adjustments with regard to company size and other factors.
- 2) Executive officers receive reports on loss risks that have materialized in the company and its subsidiaries, and establish organizations for rapid response.
- 3) Executive officers of Hitachi Metals will issue directives to relevant operational divisions, and, when necessary, swiftly appoint a person to take charge of the response to loss risks that have arisen in the company and its subsidiaries.
- 4) Executive officers of the company will promptly inform the Audit Committee when a new risk of loss has arisen in the company and its subsidiaries.

③ **System to ensure efficient performance of duties by the executive officers of Hitachi Metals and the directors of its subsidiary companies**

The following systems have been established in addition to those outlined in (2)-2).

- 1) The company has set forth a fundamental policy on consolidated management of the Hitachi Metals Group.
- 2) The company Board of Directors determines the Medium-Term Management Plan and budget, and oversees business performance to strengthen the company's market competitiveness through systematic and strategic management of company business and enhance corporate value. Executive officers have established a budget and performance management system to ensure the effectiveness of such management. When drawing up the Medium-Term Management Plan and budget, the company and its subsidiaries exchange information and manage consolidated performance to create optimal strategies for each company, and for the Hitachi Metals Group as a whole.
- 3) The executive officers of Hitachi Metals have clearly designated the responsibilities and authorities of the persons responsible for each operational division, and have established internal rules to regulate procedures related to the execution of duties and the decision-making process.
- 4) Hitachi Metals steadfastly implements and verifies documented business processes for all items that should be reflected in financial reports, in cooperation with its parent company and subsidiaries.
- 5) Hitachi Metals appoints departments to oversee the management of subsidiaries, ensure that all are aware of the various measures taken, gather information, and support subsidiary business operations.

④ **Systems to ensure that the employees of Hitachi Metals and the directors and employees of subsidiaries perform their duties in compliance with the laws and regulations and with the Articles of Incorporation**
The following systems have been established in addition to those outlined in (2)-1), 3) and 4).

- 1) Hitachi Metals has also established a Compliance Office with a General Administrator of Compliance responsible for the development of a compliance system. The Representative Executive Officer of Hitachi Metals is charged with this role.
- 2) The executive officers of Hitachi Metals have established the Internal Auditing Office to conduct audits of management operations within the company and its subsidiaries. Hitachi Metals also assists its parent company and subsidiaries when the Internal Auditing Office of the parent company conducts audits of the business operations of the company and its subsidiaries to ensure proper conduct of business in the corporate group, which consists of the parent company and its subsidiaries. The company takes the

results of these audits into consideration in making improvements to business operations.

⑤ **System for reporting matters related to the performance of directors of subsidiaries to the company**

The following systems have been established in addition to those outlined in (2)-2), and (3)-③-5).

The company will dispatch directors and auditors to subsidiaries when necessary. Such directors and auditors will report the status of performance of their duties to the executive officers and designated auditors of Hitachi Metals.

⑥ **Other systems to ensure proper conduct of business in the company and the corporate group consisting of Hitachi Metals and its parent company and subsidiaries**

1) The company shall maintain a policy of autonomy from the parent company in business operations and transactions. When engaging in a transactions or other activities with the parent company that could pose a conflict of interest between the parent company and shareholders other than the parent company, the matter will always be referred to the Board of Directors, and the Board of Directors will decide whether to engage in the activity in question.

2) The company shall maintain a policy of operating impartially and at market prices when engaging in transactions with the parent company and subsidiaries.

3) To ensure proper business operations, subsidiary companies will employ the company's structure, adjusted for scale and other salient factors.

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, Kazuyuki Konishi, Keiji Kojima, Takashi Shimada, Toyoaki Nakamura, Hisashi Machida and Junichi Kamata, 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 seven 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 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 three members: Junichi Kamata, Takashi Shimada, and Hisashi Machida. Junichi Kamata who has experience in the accounting and financial departments at Hitachi Metals, is

considered to possess significant financial and accounting knowledge.

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 from the Company in relation to selecting the four outside directors, the Company appointed Takashi Shimada 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 directors Keiji Kojima and Toyoaki Nakamura 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. During the current fiscal year, a relationship existed between subsidiaries of the Company and the aforementioned companies relevant to product transactions and other activities.

Outside director Takashi Shimada has had no relations which would warrant special mention.

Furthermore, Toyoaki Nakamura currently serves as executive officer of a subsidiary of Hitachi, Ltd., and has formerly served as executive officer of a subsidiary of Hitachi, Ltd., and as an auditor of Sompo Japan Insurance Inc. (now Sompo Japan Nipponkoa Insurance Inc.).

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, 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)	67	51	9	—	4
Executive officer	327	239	88	—	8
Outside officer	44	37	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 14 CPAs, 1 assistant CPA, and 36 other assistants.

CPA Name and Title	Accounting Auditor
Kiyomi Nakayama, Managing Partner	Ernst & Young ShinNihon
Masami Katakura, Managing Partner	Ernst & Young ShinNihon
Seiji Kuzunuki, 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.

Furthermore, 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. 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.

[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 23, 2015

Hitachi Metals, Ltd.

Hideaki Takahashi
President and Chief Executive Officer

Hiroyuki Okada
Executive Officer

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

Hideaki Takahashi, president and chief executive officer of Hitachi Metals, Ltd., and Hiroyuki Okada, 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, 2015 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 97 of its consolidated subsidiaries. Fourteen 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, nine companies, together making up approximately two-thirds of consolidated net sales in the current consolidated fiscal year when totaling net sales in the current 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.