

Corporate Governance

Governance Report

Toyoaki Nakamura
Chairman of the Board



Under the Company's Fiscal 2015 Medium-Term Management Plan (the period from fiscal 2013 to fiscal 2015), we remodeled our business portfolio aimed at sustainable growth through multiple M&As, major investments and business restructuring, and expanded the Company's scale and business domains in the global market. However, factors such as sluggish growth in the global economy and increasing geopolitical risks have fueled uncertainty in the Company's operating environment. To address these situations, under the leadership of our President and Chief Executive Officer, we have enhanced our risk management by increasing the flexibility of rules for convening and operating Executive Committee meetings and strengthening the governance functions of our global regional headquarters. The Board of Directors has also implemented measures that contribute to risk governance.

In December 2015, we formulated and released our "Corporate Governance Guidelines" associated with the "Corporate Governance Code," which went into effect in June 2015. As the

Guidelines stipulate, we disclose high-quality information to all of our stakeholders in a timely manner, and reflect the objective evaluations and perspectives that we receive through constructive dialogue in our corporate activities in our management to achieve sustainable growth and increase our corporate value.

In June 2016, the Board of Directors analyzed and evaluated its effectiveness as a board of directors in a company with nominating committee, etc., based on the evaluations and opinions of individual Directors concerning the composition of Directors, decision-making process, level of contribution, and operation and support systems. Accordingly, the Board of Directors is deemed to have open and vigorous discussions to ensure its effectiveness. The Company will operate the Board of Directors by making use of the broad knowledge and experience of three Independent Outside Directors (including one woman) to further improve its effectiveness by increasing contributions to strategies, risk management and compliance, and to promote the creation of long-term value.

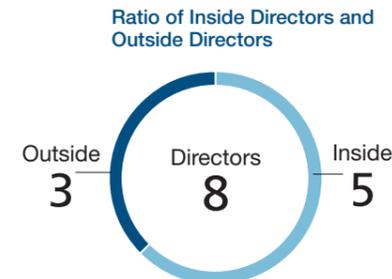
Basic Views on Corporate Governance

The underlying basis for corporate governance at the Company is to ensure transparent, sound and efficient management, meet the needs of our stakeholders, and increase corporate value. We believe this 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. Consequently, our corporate activities go beyond mere compliance with laws and internal regulations: they are also based on laws and corporate ethics, and recognize our role as a member of society.

The Company established the Code of Conduct for actions that describe the above details as specific standards of conduct for company executives and employees.

Overview of the Governance Structure



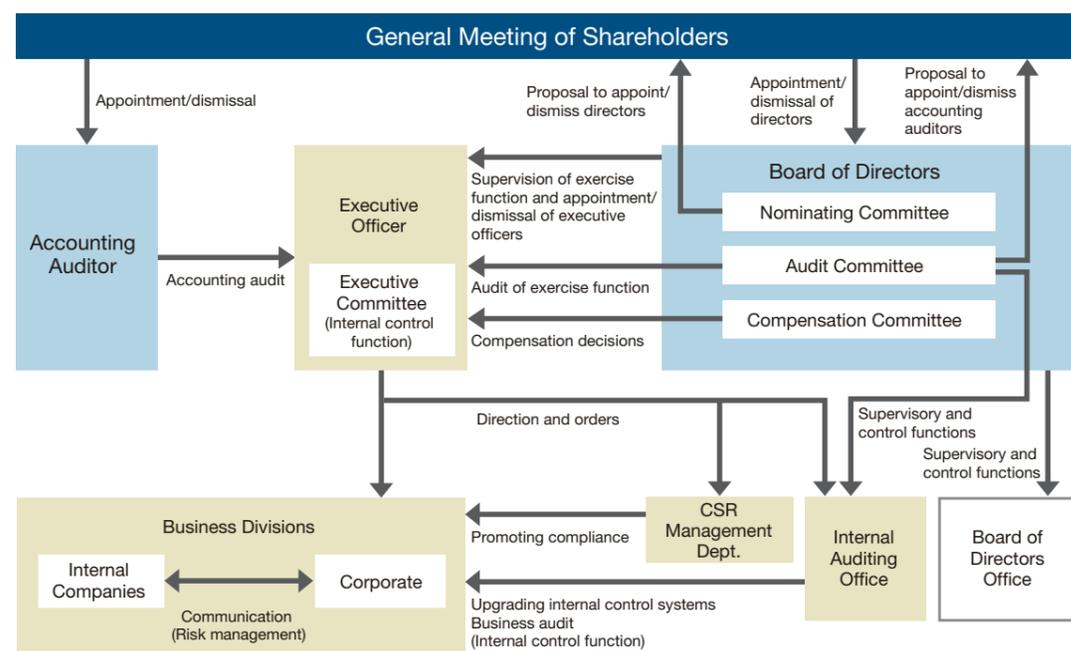
Organization System	
A Company with Nominating Committee, etc.	
Directors	
Number of Directors stipulated in the Articles of Incorporation	10
Term of office of Directors stipulated in the Articles of Incorporation	One year
Chairperson of the Board	Other Director
Number of Directors	Eight
Outside Directors	
Number of Outside Directors	Three
Number of Outside Directors designated as Independent Directors	Three
Committees	
Composition of Committees	The Nominating Committee, Compensation Committee, and Audit Committee
Number of Committee members	Four members on both the Nominating Committee and Compensation Committee, five members on the Audit Committee
Executive Officers	
Number of Executive Officers	12
Independent Directors	
Number of Independent Directors	Three

Measures aimed at the enhancement of corporate governance

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

Corporate Control System, etc., of the Company

Corporate Governance Structure



Membership composition of each committee and affiliations of chairpersons

Position	Name	Nominating Committee	Audit Committee	Compensation Committee
Chairman of the Board	Toyoaki Nakamura			
Outside Director	Masaru Igarashi	○	○	○
Outside Director	Toshiko Oka	○	○	○
Outside Director	Takashi Shimada	○	○	○
Director	Junichi Kamata		○	
Director	Hideaki Takahashi	◎		◎
Director	Toshitake Hasunuma		◎	
Director	Akitoshi Hiraki			

Note: ◎ Chairperson ○ Committee member

The Company has adopted the system of a company with nominating committee, etc. Under this system, the Company elects eight Directors (one of whom is a woman) including three Outside Directors, and has established the Nominating Committee, Audit Committee, and Compensation Committee, in accordance with the provisions of the Companies Act. The Nominating Committee and Compensation Committee each comprise four members (three of whom are Outside Directors). The Audit Committee comprises five members (three of whom are Outside Directors). Each committee member is appointed by resolution of the Board of Directors.

The Nominating Committee is the body with the authority to determine the contents of proposals for the General Meeting of Shareholders regarding the appointment and dismissal of Directors.

The Audit Committee audits the execution of duties by Directors and Executive Officers, and also has the authority to determine the content of proposals for the General Meeting of Shareholders regarding the appointment and dismissal of Accounting Auditor.

The Compensation Committee has the authority to formulate policies to determine the content of compensation for Directors and Executive Officers, as well as the content of individual compensation based on policies.

In addition, the Board of Directors Office has been established to assist the Board of Directors and the committees in executing their duties, at which persons in charge of the Board of Directors and committees have been placed.

The Audit Committee as an Audit Organization

The Audit Committee is composed of five committee members. The Audit Committee is in charge of auditing violations of laws and regulations or the Articles of Incorporation by Directors or Executive Officers, the appropriateness of management's judgments, the adequacy of internal control systems, and auditing accounting. A person in charge of the Audit Committee at the Board of Directors Office assists the Audit Committee in the execution of its duties. To ensure his/her independence from Executive Officers, the person in charge of the Audit Committee shall not concurrently serve in any

position at any other business operating division. The Audit Committee formulates annual audit implementation plans and auditing policies, and performs audits based on said plans and policies by hearing reports on important items and having Audit Committee members visit each office, etc., and each Group company to conduct audits as regular audits. In addition, special audits are conducted when any likelihood exists of violations of laws and regulations or the Articles of Incorporation by Directors or Executive Officers.

Accounting Auditors

The certified public accountants named in the table below conducted accounting audits for the Company. Under the direction of said certified public accountants, certified public accountants, certified public accountant assistants, and other personnel from Ernst & Young ShinNihon LLC

assisted with the execution of accounting audit duties.

Fifteen certified public accountants, one certified public accountant assistant, and 38 other personnel assisted with the Company's accounting audit duties.

Name of certified public accountant, etc.	Auditing firm of certified public accountant
Koichi Tsuji, Engagement partner	Ernst & Young ShinNihon LLC
Seiji Kuzunuki, Engagement partner	Ernst & Young ShinNihon LLC

Note: All members have conducted audits for seven or fewer consecutive years. Accordingly, the years are not listed.

Matters Relating to Directors and Executive Officers

Functions and Roles of Directors

The items to be resolved by the Board of Directors are defined by the Board of Directors Rules. They consist of items that are solely to be decided by the Board of Directors under the Companies Act (decisions regarding basic management policies, basic policies related to the maintenance of internal control systems and other policies, appointment and dismissal of Executive Officers, appointment and dismissal of the Representative Executive

Officer, etc.), as well as items concerning dividends from surplus, issuance of new shares and subscription rights to shares, the acquisition, loan, and disposal of assets in excess of a specified amount, debt guarantees, reorganization, etc. Decisions on items other than those mentioned above have been delegated to the President and Chief Executive Officer.

Outside Directors' Functions, Roles, and Their Relationship with the Company

Outside Directors act as members of the Board of Directors and members of the Nominating Committee, Audit Committee, and Compensation Committee. They 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 auditing functions, and efficiency of the Company's management.

The Company considers each Outside Director to be fully independent from the Company, and has registered all of these Directors with the Tokyo Stock Exchange as Independent Directors.

The Company has business dealings with a company for which Outside Director Mr. Masaru Igarashi formerly worked. However, the scale of the business is extremely small, and has been deemed to present no risk of impacting his independence under the standards of the Criteria for Independence of Outside Directors set forth in the Company's Corporate Governance Guidelines.

There are no items of note regarding Outside Directors Ms. Toshiko Oka and Mr. Takashi Shimada.

With respect to relationships between each Outside Director and the Company, the independence of each Outside Director is judged according to the "Criteria for Independence of Outside Directors" described below.

Criteria for Independence of Outside Directors

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 or who serves or has served within the last one year as an executing person (that is, an executive director, executive officer or employee; hereinafter the same) of a corporation that has received from the Company a payment of 2% or more of the entity's consolidated annual revenues for products or services in the most recent fiscal year;
- (2) a person who has paid the Company or who serves or has served within the last one year as an executing person of a corporation that has paid the Company 2% or more of its consolidated annual revenues for products or services in the most recent fiscal year;
- (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 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 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 brother 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:
 - (i) who falls under the items of the above (1) through (6);
 - (ii) who is, or has been within the last one year, an executing person of a subsidiary of the Company;
 - (iii) who is an executing person or non-executive director of a parent company of the Company;
 - (iv) who is an executing person of a brother company of the Company;
 - (v) who is, or has been within the last one year, an executing person of the Company; and
- (8) a person who has a risk of having material conflicts of interests with ordinary shareholders for reasons other than those stated above.

Career and Meeting Attendance of Directors

(as of June 23, 2016)

Note: Information regarding attendance at meetings held between June 2015 and May 2016 is provided.



Toyoaki Nakamura
Chairman of the Board

Attendance at meetings during fiscal 2015
Board of Directors: 14 out of 14 meetings

April 1975
Joined Hitachi, Ltd.
January 2006
General Manager of Finance Department I of Hitachi, Ltd.
April 2007
Representative Executive Officer, Senior Vice President and Executive Officer of Hitachi, Ltd.
June 2007
Representative Executive Officer, Senior Vice President and Executive Officer, and Director of Hitachi, Ltd.
June 2009
Representative Executive Officer, Senior Vice President and Executive Officer of Hitachi, Ltd.
June 2010
Outside Director of Hitachi Metals, Ltd. (resigned in June 2012)
June 2011
Outside Director of Hitachi High-Technologies Corporation (current position)

April 2012
Representative Executive Officer, Executive Vice President and Executive Officer of Hitachi, Ltd.
June 2012
Outside Audit & Supervisory Board Member of Sampo Japan Insurance Inc. (current name: Sampo Japan Nipponkoa Insurance Inc.)
April 2013
Director of Hitachi Consumer Electronics Co., Ltd.
Director of Hitachi Appliances, Inc.
May 2013
Director of Hitachi Consumer Marketing, Inc.
June 2015
Outside Director of Hitachi Metals, Ltd.
December 2015
Board Director, Chairperson of Hitachi Metals, Ltd.
April 2016
Associate of Hitachi, Ltd.
June 2016
Director of Hitachi, Ltd. (current position)
Chairman of the Board of Hitachi Metals, Ltd. (current position)

Reasons for appointment

The Company determined that Mr. Toyoaki Nakamura will contribute to the management of the Company as well as the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancement of their effectiveness, by reflecting his abundant experience and in-depth knowledge obtained as a corporate manager at Hitachi, Ltd. and its group companies, and working to build closer ties with other Hitachi Group companies; therefore, the Company appointed him as a Director.



Masaru Igarashi
Outside Director

Attendance at meetings during fiscal 2015
Board of Directors: —
(Appointed in June 2016)

April 1973
Joined Bridgestone Tire Co., Ltd. (current name: Bridgestone Corporation)
September 1981
Visiting Assistant Professor at the University of Utah
August 1982
Joined Suzuki Motor Co., Ltd. (current name: Suzuki Motor Corporation)
April 2003
General Manager, Automobile Engineering Administration Division II of Suzuki Motor Corporation
June 2003
Director of Suzuki Motor Corporation

December 2008
Director of Asanuma Giken Co, Ltd.
February 2009
Corporate Advisor of KPIT Cummins Infosystems Ltd. (current name: KPIT Technologies Ltd.) (current position)
July 2010
Representative of Global Dynamics Research Lab. (current position)
October 2010
Director of KPIT Infosystems Inc. (current position)
June 2016
Outside Director of Hitachi Metals, Ltd. (current position)

Reasons for appointment

The Company determined that Mr. Masaru Igarashi will contribute to the management of the Company as well as the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness, by reflecting his abundant experience and in-depth knowledge obtained as a corporate manager of an international manufacturing company in the automotive industry from a more objective standpoint as Independent Director; therefore, the Company appointed him as an Outside Director.



Toshiko Oka
Outside Director

Attendance at meetings during fiscal 2015
Board of Directors: —
(Appointed in June 2016)

April 1986
Joined Tohatsu Touche Ross Consulting (current name: ABeam Consulting Ltd.)
July 2000
Joined Asahi Arthur Andersen Ltd.
July 2002
Joined Deloitte Tohatsu Consulting Co., Ltd. (current name: ABeam Consulting Ltd.)
September 2002
Principal of Deloitte Tohatsu Consulting Co., Ltd.
April 2005
President and Representative Director of ABeam M&A Consulting Ltd.

June 2008
Outside Director of Netyear Group Corporation
June 2014
Outside Audit & Supervisory Board Member of Astellas Pharma Inc. (current position)
June 2015
Outside Audit & Supervisory Board Member of HAPPINET CORPORATION (current position)
April 2016
Partner of PwC Advisory LLC
June 2016
CEO of Oka & Company Ltd. (current position)
Outside Director of Hitachi Metals, Ltd. (current position)

Reasons for appointment

The Company determined that Ms. Toshiko Oka will contribute to the management of the Company as well as the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness, by reflecting her abundant experience and in-depth knowledge obtained as a corporate manager of major consulting firms from a more objective standpoint as Independent Director; therefore, the Company appointed her as an Outside Director.



Takashi Shimada
Outside Director

Attendance at meetings during fiscal 2015
Board of Directors: 14 out of 14 meetings
Nominating Committee: 5 out of 5 meetings
Audit Committee: 15 out of 15 meetings
Compensation Committee: 6 out of 6 meetings

April 1976
Joined The Boston Consulting Group
October 1987
Vice President of The Boston Consulting Group
January 1994
Vice President of Hiti Japan
November 1996
President of Walt Disney Television International Japan
July 1998
Vice President of A.T. Kearney
October 2005
Vice President of Medtronic, Inc. (current name: Medtronic plc) (current position)
Vice President of Medtronic Japan Co., Ltd.

Reasons for appointment

The Company determined that Mr. Takashi Shimada will contribute to the management of the Company as well as the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness, by reflecting his abundant experience and in-depth knowledge gained as a corporate manager at international companies in the medical device industry and other fields from a more objective standpoint as Independent Director; therefore, the Company appointed him as an Outside Director.

May 2008
President of Medtronic Japan Co., Ltd. (current position)
President of Medtronic Sofamor Danek, Co., Ltd. (current position)
May 2015
President of Covidien Japan Inc. (current position)
President of Nippon Covidien Inc. (current position)
June 2015
Outside Director of Hitachi Metals, Ltd. (current position)



Junichi Kamata
Director

Attendance at meetings during fiscal 2015
Board of Directors: 14 out of 14 meetings
Audit Committee: 15 out of 15 meetings

April 1978
Joined Hitachi Metals, Ltd.
January 2005
General Manager of Human Resources & General Administration Dept. of Corporate Business Center of Hitachi Metals, Ltd.
April 2008
Managing Officer, General Manager of Corporate Management Planning Office of Hitachi Metals, Ltd.
April 2011
Managing Officer, President of Piping Components Company of Hitachi Metals, Ltd.

Reasons for appointment

The Company determined that Mr. Junichi Kamata will contribute to the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness as a Board member, by reflecting his conversance and in-depth knowledge obtained through his experience in the human resources, financing, and corporate management planning of the Company as well as the experience as a head of business divisions and president of U.S. subsidiaries; therefore, the Company appointed him as a Director.

April 2012
Managing Officer, General Manager of Piping Components Division of Hitachi Metals, Ltd.
April 2014
Vice President and Managing Officer of Hitachi Metals, Ltd.
President & CEO of Hitachi Metals America, Ltd.
April 2015
Vice President and Managing Officer, Assistant to President of Hitachi Metals, Ltd.
June 2015
Director of Hitachi Metals, Ltd. (current position)



Hideaki Takahashi
Director

Attendance at meetings during fiscal 2015
Board of Directors: 14 out of 14 meetings
Nominating Committee: 3 out of 3 meetings
Compensation Committee: 6 out of 6 meetings

April 1978
Joined Hitachi, Ltd.
April 2005
President and Representative Director of Hitachi Building System Co., Ltd.
April 2007
Vice President and Executive Officer of Hitachi, Ltd.
April 2011
Representative Executive Officer, President and Chief Executive Officer of Hitachi Cable, Ltd.

Reasons for appointment

The Company determined that Mr. Hideaki Takahashi will contribute to the strengthening of the decision-making functions of the Board of Directors and enhancing their effectiveness, by sharing the information of business execution divisions at the Board of Directors as a Board member and reflecting his abundant experience and in-depth knowledge obtained as a corporate manager at Hitachi Ltd., a president of Hitachi Group companies, and since April 2014, as President and Chief Executive Officer of the Company; therefore, the Company appointed him as a Director.

June 2011
Representative Executive Officer, President and Chief Executive Officer, Director of Hitachi Cable, Ltd.
June 2013
Director of Hitachi Metals, Ltd.
July 2013
Representative Executive Officer and Executive Vice President, Director of Hitachi Metals, Ltd.
April 2014
Representative Executive Officer, President and Chief Executive Officer, Director of Hitachi Metals, Ltd. (current position)



Toshitake Hasunuma
Director

Attendance at meetings during fiscal 2015
Board of Directors: —
(Appointed in June 2016)

April 1977
Joined Hitachi, Ltd.
April 2004
General Manager of Finance Division of Information & Telecommunication Group of Hitachi, Ltd.
July 2006
Executive Audit Manager of Internal Auditing Office of Hitachi, Ltd.

Reasons for appointment

The Company determined that Mr. Toshitake Hasunuma will contribute to the strengthening of the decision-making and monitoring functions of the Board of Directors and enhancing their effectiveness as a Board member, by reflecting his conversance and in-depth knowledge obtained through his experience in the finance operations of Hitachi Ltd. over the years as well as the experience as a head of the Internal Auditing Office; therefore, the Company appointed him as a Director.

April 2010
General Manager of Internal Auditing Office of Hitachi, Ltd.
April 2016
Corporate Chief Manager of Internal Auditing Office of Hitachi, Ltd. (current position)
June 2016
Director of Hitachi Metals, Ltd. (current position)



Akitoshi Hiraki
Director

Attendance at meetings during fiscal 2015
Board of Directors: 14 out of 14 meetings

April 1985
Joined Hitachi Metals, Ltd.
June 2008
President and Director of Hitachi Setsubi Engineering Co., Ltd.
April 2010
Managing Officer, President of Specialty Steel Company, Deputy General Manager of Corporate Export Regulation Office of Hitachi Metals, Ltd.
April 2012
Vice President and Managing Officer, President of High-Grade Metals Company, General Manager of Specialty Steel Division, and Deputy General Manager of Corporate Export Regulation Office of Hitachi Metals, Ltd.

Reasons for appointment

The Company determined that Mr. Akitoshi Hiraki will contribute to the strengthening of the decision-making functions of the Board of Directors and enhancing their effectiveness, by sharing the information of business execution divisions at the Board of Directors as a Board member and reflecting his abundant experience and in-depth knowledge obtained as a president of Hitachi Group companies and General Manager of the Company's business divisions, and since April 2015, as Vice President and Executive Officer responsible for the management of the Company; therefore, the Company appointed him as a Director.

April 2015
Vice President and Representative Executive Officer, President of High-Grade Metals Company, and Deputy General Manager of Corporate Export Regulation Office of Hitachi Metals, Ltd.
June 2015
Vice President and Representative Executive Officer, President of High-Grade Metals Company, Deputy General Manager of Corporate Export Regulation Office, and Director of Hitachi Metals, Ltd.
January 2016
Vice President and Representative Executive Officer, General Manager of Technology, Research & Development Division, General Manager of Corporate Quality Assurance Division, and Director of Hitachi Metals, Ltd. (current position)

Business Execution System

Regarding business execution, the Board of Directors delegates a great deal of decision-making authority concerning business execution to Executive Officers to achieve prompt decision making. With the aim of ensuring that Executive Officers execute their duties efficiently and in compliance with laws and regulations and the Articles of Incorporation, Executive Officers organize the Executive Committee. This committee holds

discussions on certain important management matters that impact on the Company or the Group, and Executive Officers with sufficient authority make decisions. The Company has adopted an internal company system based on the decision that such a system is a good fit for the particular nature of the Company, which engages in multiple businesses with diverse products and markets.

Executive Officers (As of June 1, 2016)

Hideaki Takahashi
Representative Executive Officer
President and Chief Executive Officer
Overall Operations
General Management

Akitoshi Hiraki
Representative Executive Officer
Vice President and Executive Officer
Overall Operations
General Manager of Technology, Research & Development Division
General Manager of Corporate Quality Assurance Division

Masahiro Otsuka
Representative Executive Officer
Executive Officer
In charge of Corporate Administration
General Manager of Corporate Management Planning Division
General Manager of Corporate Export Regulation Office
Chief Compliance Officer

Hiroyuki Okada
Vice President and Executive Officer
In charge of Corporate Administration
Chief Financial Officer
General Manager of Finance Division
General Manager of Information Systems Division

Kenichi Nishiie
Vice President and Executive Officer
In charge of Corporate Administration
General Manager of Human Resources & General Administration Division
General Manager of Procurement & Value Engineering for Customers Division

Masashi Aisa
Executive Officer
In charge of Sales and Marketing
General Manager of Corporate Sales & Marketing Division

Ryoji Akada
Executive Officer
In charge of Business
President of Magnetic Materials Company
Deputy General Manager of Corporate Export Regulation Office

Shigekazu Suwabe
Executive Officer
In charge of Technology
Vice President of Technology, Research & Development Division

Takehisa Seo
Executive Officer
In charge of Business
President of High-Grade Metals Company
Deputy General Manager of Corporate Export Regulation Office

Eiji Nakano
Executive Officer
In charge of Business
Director & President & CEO of Hitachi Metals Foundry America, Inc.
Director & Chairman & CEO of Ward Manufacturing, LLC

Masato Hasegawa
Executive Officer
In charge of Business
President of High-Grade Functional Components Company
Deputy General Manager of Corporate Export Regulation Office

Kazuya Murakami
Executive Officer
In charge of Business
President of Cable Materials Company
Deputy General Manager of Corporate Export Regulation Office

Compensation for Directors and Executive Officers, etc.

The policies concerning the determination of compensation, etc., for Directors and Executive Officers state that “(1) Directors and Executive Officers assuming the management of the Company are compensated for executing management that enhances the Company’s corporate value and benefits stakeholders such as shareholders by determining management policies from a long-term perspective, and formulating and executing medium-term management plans and annual business budgets; (2) To motivate Directors and Executive Officers to exercise their respective management capabilities, know-how and skills to achieve satisfactory results, the compensation system shall reflect the Company’s short-term and medium- to long-term business performance and appropriate compensation shall be paid for outstanding achievements; (3) Compensation paid by the Company consists of base compensation and a term-end bonus.” The policy on base compensation is that it is to be “Determined individually in consideration of the degree of responsibility for Company management as a Director and/or Executive Officer and for

the performance of duties utilizing their extensive experience, knowledge, insight, and specialized management skills, etc., acquired from past experience. To secure appropriate human resources for the positions of Director and Executive Officer, compensation levels should be comparable to those of other companies.” The policy on a term-end bonus is that it is to be “Linked to the business performance of the Company.” Pursuant to the stipulations of the Companies Act, the Compensation Committee has established a policy to determine the amount of compensation, etc., for Directors and Executive Officers, and the amount of compensation, etc., for Directors and Executive Officers shall be decided by resolution of the Compensation Committee.

The total amount of compensation, etc., for each category of Director or Executive Officer, the total amount of compensation, etc., by type, and the number of Directors and Executive Officers who received compensation, etc., are as indicated in the table below.

Compensation, etc., for Directors and Executive Officers

Director/Executive Officer category	Total amount of compensation, etc.	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	Retirement benefits	
Directors (excluding Outside Directors)	103	93	10	—	4
Executive Officers	472	335	137	—	15
Outside Directors and Officers	45	38	6	—	7

Notes: 1. Amounts of less than one million yen are rounded off to the nearest million.
2. Directors with concurrent post as Executive Officers are compensated as Executive Officers but not as Directors.
3. No Director or Executive Officer received a total of ¥100 million or more in consolidated compensation, etc., during this fiscal year.

Relationship with the Parent Company

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

As for personnel relationships with Hitachi, Ltd., two relevant personnel, including one Director of that company, also serve as Directors of the Company. Through its expression of opinions and its participation in voting at meetings of the Company’s Board of Directors, Hitachi, Ltd. could have an influence on the determination of the 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, diversifying the opinions expressed in the deliberations of the Board of Directors. Therefore, the Company perceives that it is in a position to be able to make independent management judgments. None of the 12 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.

Internal Controls

Internal Audit Organization

The Company has an Internal Auditing Office that is in charge of internal audits. This Office formulates annual audit implementation plans and audit policies, and regularly conducts audits regarding the status of business execution and management of each office and Group company based on said plans and policies. Furthermore, it may conduct occasional audits when necessary, and issues recommendations

for improving operations, etc. It also notifies the President and Chief Executive Officer and the Audit Committee of audit implementation plans in advance, and reports the audit results to them. If necessary, it also carries out audits in collaboration with individual divisions in charge of the environment, safety, and systems within the Company.

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

The Audit Committee (1) receives explanations from the Accounting Auditor regarding audit implementation plans, and engages in consultation and adjustments when necessary; (2) receives audit result reports and engages in an exchange of opinions; and (3) in the event that the Accounting Auditor, during the course of executing its 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, receives reports on these matters. The Audit Committee receives reports from the Internal Audit division on its audit implementation plans and regularly examines monthly 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. Regarding matters required for the Audit Committee to execute its duties, as specified by the Board of Directors, the Internal Auditing Office of the Internal Audit division assists audits by the Audit Committee in accordance with the committee’s instructions and orders. The Internal Audit division is also in charge of maintaining and verifying internal controls, and reports the status of internal controls 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.

Risk Management

With respect to risk management, the Company prepared internal rules, guidelines, etc., for each corporate operating division regarding the risks related to compliance, antisocial forces, finance, procurement, environment, disasters, quality, information management, export control, etc. The Company also conducts education and enlightenment activities, audits on business operations, etc., and cooperates with the relevant internal company business divisions to avoid, prevent and manage these risks. A system has been established to minimize the impact of risks by having Directors and Executive Officers as well as relevant personnel quickly assess information and address emergencies based on the rules defined to convey such information to Executive Officers, Appointed Audit Committee Members and other relevant personnel in the event of an emergency situation that affects the Group. In fiscal 2015, the Company formulated a unified compliance program for the Hitachi Metals Group (“Hitachi Metals Global Compliance Program”) which includes the provisions for not only the prohibition of bribery but also the compliance with competition acts and the prevention of antisocial transactions.

We have also prepared business continuity plans (BCPs) at domestic sites envisaging the risks of a major earthquake or new influenza pandemic. At sites outside Japan, we have prepared BCPs envisaging the risks that give most cause for concern. We regularly conduct BCP drills and check and update

BCPs to ensure ongoing increases in their effectiveness.

By developing its risk management organization, the Hitachi Metals Group strives to avoid risk incidents and mitigate the impact of incidents that do occur. Nevertheless, it is possible that we may not be able to fully avoid or mitigate risks, so there could be repercussions affecting management performance and financial status.

The main risks that could possibly impact the management performance and financial status of the Hitachi Metals Group are as follows:

- Risks involving economic circumstances in the market, related to product demand
- Risks involving fluctuations in raw material prices
- Risks involving financing
- Risks involving fluctuations in exchange rates
- Risks involving fluctuations in securities prices
- Risks involving business expansion outside Japan
- Risks involving competitive advantage and the development and commercialization of new technologies and products
- Risks involving intellectual property rights
- Risks involving environmental regulations, etc.
- Risks involving product defects
- Risks involving legal and official regulations
- Risks involving earthquakes and other natural disasters, etc.
- Risks involving information security
- Risks involving pension payment liabilities
- Risks involving relations with the parent company
- Risks involving M&A
- Risks involving the Medium-term Management Plan