

III. Corporate Governance

1. Basic Views

The underlying basis for corporate governance at Hitachi Metals (the “Company”) is to ensure transparent, sound, and efficient management, meet the needs of our stakeholders, and increase corporate value. We believe increasing corporate value to be one of our most important management challenges.

Accordingly, it is imperative that we create an organizational structure in which management supervision and business execution both function effectively and are balanced. 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 businesses and medium-term management plans.

We acknowledge that compliance is the linchpin of corporate governance. Because of this, we must go beyond mere compliance with laws and internal regulations, extending to the role we must fulfill as a member of society while staying aware of the corporate activities that we engage in, based on respect for social ethics and morality.

The Company established the “Hitachi Metals Group Codes of Conduct” (<https://www.hitachi-metals.co.jp/e/corp/corp15.html>), which materializes the above details and serves as specific standards to guide its Directors, Executive Officers, and employees on what is the appropriate conduct.

Directors and Executive Officers are compensated for executing management that enhances the Company’s corporate value and benefits stakeholders by formulating, determining, and executing management policies from a medium- to long-term perspective, medium-term management plans, and annual business budgets, and the compensation system reflects the Company’s short-term and medium- to long-term business performance.

The Company’s corporate governance framework is established in the Corporate Governance Guidelines (the “Guidelines”) and the basic policy on the internal control system determined by the Board of Directors based on Japan’s Companies Act. An overview of this basic policy is provided in “IV. Matters Related to Internal Control System, 1. Basic Views on Internal Control System and Progress of System Development” in our Corporate Governance Report. Furthermore, the Guidelines are also provided on the Company’s website (<https://www.hitachi-metals.co.jp/e/ir/ir-csr.html>).

2. Overview of the Corporate Governance Structure

(Status of Supervisory System)

The Company adopts the statutory organizational structure of a company with Nominating Committee, etc. This is because we concluded that this structure would contribute to the bold and speedy execution of measures relating to the Group-wide management, such as business restructuring and strategic investments, and also that the transparency, soundness and efficiency of management would be effectively improved through strengthening the decision-making and supervisory functions by Outside Directors, who are well versed in social norms and have a broader perspective, abundant experience and in-depth knowledge, in each of the Nominating Committee, the Audit Committee and the Compensation Committee, and the Board of Directors. Under this system, five Directors (of which two are Outside Directors) have been appointed, and the Company has established the Board of Directors, Nominating Committee, Audit Committee and Compensation Committee pursuant to the provisions of the Companies Act of Japan. Furthermore, the Company has established the Board of Directors Office to assist with the execution of duties by the Board of Directors and each Committee. The Board of Directors Office has persons in charge of the Board of Directors and each Committee. The purpose, authority, names of constituent members and other details of each organ are as follows.

(1) The Board of Directors is an organ with purposes to make decisions on the Company’s business execution and supervise the execution of duties by Directors and Executive Officers, and is

authorized to decide matters provided in the Articles of Incorporation of the Company and the Board of Directors Rules as well as in laws and regulations. In fiscal 2020, the Board of Directors held a total of 16 meetings, and Directors, who had been in service during fiscal 2020, attended all the meetings held during terms of their office, received reports from Executive Officers and each Committee about the status of their execution of duties and made decisions on matters that cannot be delegated to Executive Officers pursuant to the provisions of laws and regulations and the Articles of Incorporation as well as on important matters provided in the Board of Directors Rules, and so forth.

As of the filing date of this document, the Board of Directors consists of the following five Directors (of which two are Outside Directors):

Kenichi Nishiie, Director (Chairperson of the Board) Mitsuaki Nishiyama, Director
Makoto Uenoyama, Director (Outside Director) Mamoru Morita, Director
Koichi Fukuo, Director (Outside Director)

- (2) The purpose of the Nominating Committee is to make decisions on matters relating to items concerning election and dismissal of Directors to be submitted at a General Meeting of Shareholders. The Committee is authorized to decide such matters as well as to designate persons to be entitled to convene a Board of Directors meeting and persons to report about the status of the Committee's execution of duties to the Board of Directors from among its Committee members, and others. In fiscal 2020, the Nominating Committee held a total of six meetings, and Directors, who had been in service during fiscal 2020, attended all the meetings held during terms of their office, determined candidates for Directors and reviewed the executive officer system, and discussed the succession plan for corporate managers, and so forth.

As of the filing date of this document, the Nominating Committee consists of the following three Directors (of which two are Outside Directors):

Koichi Fukuo, Director (Chairperson/Outside Director)
Makoto Uenoyama, Director (Outside Director)
Mitsuaki Nishiyama, Director

For policies and procedures of the Nominating Committee in determining candidates for Directors, please refer to "I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information," "1. Basic Views," "[Disclosure Based on the Principles of Japan's Corporate Governance Code]," "[Principle 3-1] Full Disclosure" (iv) in our Corporate Governance Report. The Corporate Governance Report is available from the Company's website (<https://www.hitachi-metals.co.jp/e/ir/ir-csr.html>).

- (3) The purposes of the Audit Committee are to audit the execution of duties by Directors and Executive Offices and resolve issues such as matters relating to items concerning appointment, dismissal and non-reappointment of the Accounting Auditor to be submitted at a General Meeting of Shareholders, in order for the Company's business to be operated lawfully and properly. The Committee is authorized to resolve such issues as well as to determine policies for determination to dismiss or not to re-appoint the Accounting Auditor; nominate persons to be entitled to convene a Board of Directors meeting from among its Committee members; and others. Moreover, under the Article 405 of the Companies Act of Japan, the Audit Committee is also authorized to appoint Committee members to be entitled to request reports about the business and matters relating execution of duties of the Company or its subsidiaries, and to investigate the status of their business operations and assets. For the status of the Audit Committee's activities and others, please refer to "(Status of the Audit Committee as an Audit Organization)" later in this document.

As of the filing date of this document, the Audit Committee consists of the following three Directors (of which two are Outside Directors).

Makoto Uenoyama Director (Chairperson/Outside Director)
Koichi Fukuo Director (Outside Director)
Kenichi Nishiie Director

(4) The purpose of the Compensation Committee is to determine the compensation and its details for each Director and Executive Officer. The Committee is authorized to decide such matters as well as to determine policy on the determination of compensation, etc., for each Director and Executive Officer; designate persons to be entitled to convene a Board of Directors meeting and persons to report about the status of the Committee's execution of duties to the Board of Directors from among its Committee members; and others. In fiscal 2020, the Compensation Committee held a total of six meetings, and Directors, who had been in service during fiscal 2020, attended all the meetings held during terms of their office to determine policy on the determination of compensation, etc., for each Director and Executive Officer, and the compensation and the details of their individual compensation based on that policy.

As of the filing date of this document, the Compensation Committee consists of the following three Directors (of which two are Outside Directors).

Koichi Fukuo Director (Chairperson, Outside Director)

Makoto Uenoyama Director (Outside Director)

Mitsuaki Nishiyama Director

For policies and procedures of the Compensation Committee in determining compensation for Directors and Executive Officers, please refer to "I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information," "1. Basic Views," "[Disclosure Based on the Principles of Japan's Corporate Governance Code]," "[Principle 3-1] Full Disclosure" (iii) in our Corporate Governance Report. The Corporate Governance Report is available from the Company's website (<https://www.hitachi-metals.co.jp/e/ir/ir-csr.html>).

(Status of Business Execution System)

Regarding business execution, the Board of Directors delegates a great deal of decision-making authority concerning business execution to the 11 executive officers (10 males and one female) to achieve prompt decision-making. The Company has established the Executive Committee to ensure that the Chairperson makes decisions on and executes business operations in compliance with laws and regulations and the Articles of Incorporation, and does so efficiently. The Committee deliberates on important matters related to the business delegated from the Board of Directors to the Chairperson, and then the Chairperson makes decisions regarding the matters. The Executive Committee consists of 11 executive officers, as listed below.

Mitsuaki Nishiyama	Representative Executive Officer; Chairperson, President and CEO
Hiroaki Nishioka	Representative Executive Officer; Vice President and Executive Officer
Naohiko Tamiya	Vice President and Executive Officer
Kazuya Murakami	Vice President and Executive Officer
Ryoichi Aita	Executive Officer
Yoshie Asaki	Executive Officer
Toru Taniguchi	Executive Officer
Hisaki Masuda	Executive Officer
Kenji Minegishi	Executive Officer
Hajime Murakami	Executive Officer
Toru Yamamoto	Executive Officer

(Status of Internal Audit Organization)

The Company has the Internal Auditing Office (with nine dedicated staff members) that is in charge of internal audits. The Internal Auditing Office formulates annual audit policies and audit implementation plans for internal audits on the Group. Based on these policies and plans, the office conducts on-site audits on the status of execution of the Company's offices and subsidiaries in Japan and overseas and business management over the course of three years in principle and also collaborates with the Audit Committee and the Accounting Auditor to promote tripartite cooperation in tripartite audit function. In addition to these audits, a special audit may be conducted upon special request, etc. of the Chairperson. The Internal Auditing Office also reports to the Chairperson and the Audit Committee its audit implementation plans in advance, and report the audit results mostly once in a month. In addition, the Internal Auditing Office holds an audit report meeting mostly once in a month to the person in charge of business at the respective business division and each department of the corporate division, and suggests those departments to implement improvements. If necessary, it also carries out on-site audits in collaboration with divisions in charge of the environment, safety, information systems and risk compliance within the Company.

(Status of the Audit Committee as an Audit Organization)

The Audit Committee is in charge of auditing business execution by Directors or Executive Officers in accordance with laws and regulations or the Articles of Incorporation, the appropriateness of management's judgments, the adequacy of internal control systems, and accounting audit. The execution of duties by the Audit Committee is assisted by a person in charge of the Audit Committee at the Board of Directors Office. To ensure independence from Executive Officers, the person in charge of the Audit Committee does not concurrently serve in any position at any other business operating division. The Audit Committee formulates annual auditing policies and audit implementation plans, and performs audits based on said policies and plans by hearing reports on important items and having Audit Committee members visit each facility, etc., and each subsidiary to conduct audits as regular audits. In addition, the Audit Committee conducts special audits if it finds possibility of violations of laws and regulations or the Articles of Incorporation by the Directors or the Executive Officers.

In fiscal 2020, the Audit Committee held a total of 13 meetings, and all the Committee members attended all the meetings. Main agendas for the Audit Committee meetings were as shown below. The Audit Committee engaged in essential discussions and actively discussed governance and management issues.

- (i) Reporting and discussions on the Accounting Auditor's audit plans, the results of its quarterly review, and its audit results
 - (ii) The Internal Audit Division's audit policies and plans, reporting on the results of respective internal audits, and reporting and discussions on the status of follow-up on the management and operational challenges identified over the course of internal audit
 - (iii) Policies and plans for promoting internal control over financial reporting; reporting on the results of evaluation on the effectiveness of internal control (three times); and discussion towards improving the effectiveness on internal control and business management
 - (iv) Reporting on challenges that business execution divisions currently face and the status of their efforts to address such challenges, and discussions towards improving the corporate governance
- Also, the Audit Committee conducts a pre-review of materials concerning the important agendas for the Board of Directors meetings to ensure effective discussions.

Further, all the Audit Committee members who are Outside Directors engage in an exchange of opinions with the President twice a year to align their recognitions about the challenges, etc. that the Company currently faces.

The Chairperson of the Audit Committee and full-time Audit Committee members engage primarily in the following activities:

- (i) Audit the business report, verify the financial statements, etc., hearing from the Accounting Auditor on procedures and views about important issues, and report to the Audit Committee on findings concerning the business report and views on the Accounting Auditor's auditing
- (ii) Conduct on-site audits of the Group's facilities and subsidiaries based on the audit implementation plans stated above; report the issues detected through such on-site audits to the Internal Audit Division and the Accounting Auditor; and report challenges in the context of corporate governance to the Board of Directors

Through a wide range of activities mentioned above, the full-time Audit Committee members have been committed to strengthening the Company's internal control and improving the quality of business execution. Of the Audit Committee members, Mr. Makoto Uenoyama has served as director in charge of accounting and finance at Panasonic Corporation; and Mr. Kenichi Nishiie has experience having worked in the audit division of the Company and the finance division of the Company's subsidiary in the past. Based on such facts, each member above has a substantial expertise in finance and accounting.

(Status of the Accounting Auditor)

Certified public accountants who conducted accounting audits for the Company in fiscal 2020 were Mr. Takashi Ouchida, Engagement partner, and Mr. Teruyasu Omote, Engagement partner, from Ernst & Young ShinNihon LLC. The consecutive number of years they have audited has not exceeded seven years. Under the direction of said certified public accountants, as necessary, certified public accountants, certified public accountant assistants, and other personnel from Ernst & Young ShinNihon LLC assisted with the execution of accounting audit duties. Eight certified public accountants and 35 other personnel assisted with the Company's accounting audit duties.

(Cooperation among Audit Committee, Accounting Auditor, and Internal Audit Division)

The Audit Committee (1) receives explanations about audit implementation plans from the Accounting Auditor and carries out a discussion on and adjustments to the detail as needed, (2) receives reports on audit results and engages in an exchange of opinions with the Accounting Auditor, and (3) receives reports from the Accounting Auditor in cases where, as for the performance of duties by Executive Officers, they find any significant evidence of wrongful act or violation of related laws and regulations, or the Articles of Incorporation in the course of performing their duties. The Audit Committee also receives reports on audit implementation plans and periodic reports from the Internal Audit Division. In addition, to promote coordination with audits performed by the Audit Committee, the Audit Committee may instruct the Internal Audit Division to (1) conduct a special audit for any division that the Audit Committee deems necessary and (2) set key audit items for audits performed by the Internal Audit Division. As specified by the Board of Directors, for matters required for the Audit Committee to execute its duties, the Internal Auditing Office of the Internal Audit Division shall assist the Audit Committee in executing its duties in accordance with the Committee's instructions. Furthermore, the Internal Auditing Office is also in charge of assessment of internal control and reports the status to the Audit Committee. Moreover, besides the Internal Audit Division, the corporate divisions, etc. in charge of finance, compliance, risks, and other areas also play certain roles in internal control and report the status of performance of their duties to the Audit Committee. The Company regards "promotion of tripartite audit function" as a paramount theme for the audit and supervision functions. The Audit Committee, the Accounting Auditor, and the Internal Audit Division mutually share information on issues detected by each of them, and the Company promotes a "mutual check and balance system and mutual evaluation," taking a step further from a one-way evaluation from the Company to the Accounting Auditor based on the evaluation standards for Accounting Auditors. Notably, the Company considers the function of detecting risks by the Accounting Auditor as an external agency is particularly important in the entire risk detecting process of the Group. To strengthen the said function, the mutual evaluation is implemented between the Accounting Auditor and the Company's finance division or the Internal Audit Division or the Audit Committee, respectively. Specifically, based on the evaluation standards for accounting auditors defined by the Audit Committee,

the Audit Committee performs a comprehensive evaluation considering the following major factors evaluated by the Company: the Accounting Auditor's communications with the Audit Committee, the senior management, the Internal Audit Division and others; audit quality control system; audit plans; audit team; audit reports and quarterly review reports; and consistency between audit plans and audit hours as a basis of determining the amount of auditing compensation. The Accounting Auditor, on the other hand, evaluates basic operations of the finance division, the Internal Audit Division, and the Audit Committee of the Company, handling of audit requirements, cooperation, risk recognition, activity status, resources and other factors, and reports the results to the relevant counterparties. The Company utilizes the above feedback to strengthen the Company's functions. In addition, the Company carries out mutual evaluations between the finance divisions of the Company's facilities or subsidiaries and the Accounting Auditor.

(Functions and Roles of Outside Directors)

Two out of five Directors of the Company, Mr. Makoto Uenoyama and Mr. Koichi Fukuo are Outside Directors. The Outside Directors carry out activities as constituent members of the Board of Directors and as members (and as Chairperson after the 84th Ordinary General Meeting of Shareholders) of each of the Nominating Committee, Audit Committee, and Compensation Committee. The Outside Directors are considered to be well versed in social norms and to have abundant experience and in-depth knowledge. They are also considered to be able to contribute to the strengthening of the decision-making function and supervisory function as well as the improvement of efficiency in the Company's management through applying their broader perspective.

Furthermore, with respect to the Tender Offer for the Company's common stock by K.K. BCJ-52 and the decision to implement a series of transactions related to the Tender Offer, from the standpoint of increasing corporate value and benefitting general shareholders, Outside Directors fulfill their roles expected by the Company as members of the Special Committee by examining and determining the pros and cons of the transactions, the appropriateness of the terms of the transactions, and the fairness of the procedures, including the process of selecting the purchaser (partner), etc., from a more objective perspective.

(Independence of Outside Directors)

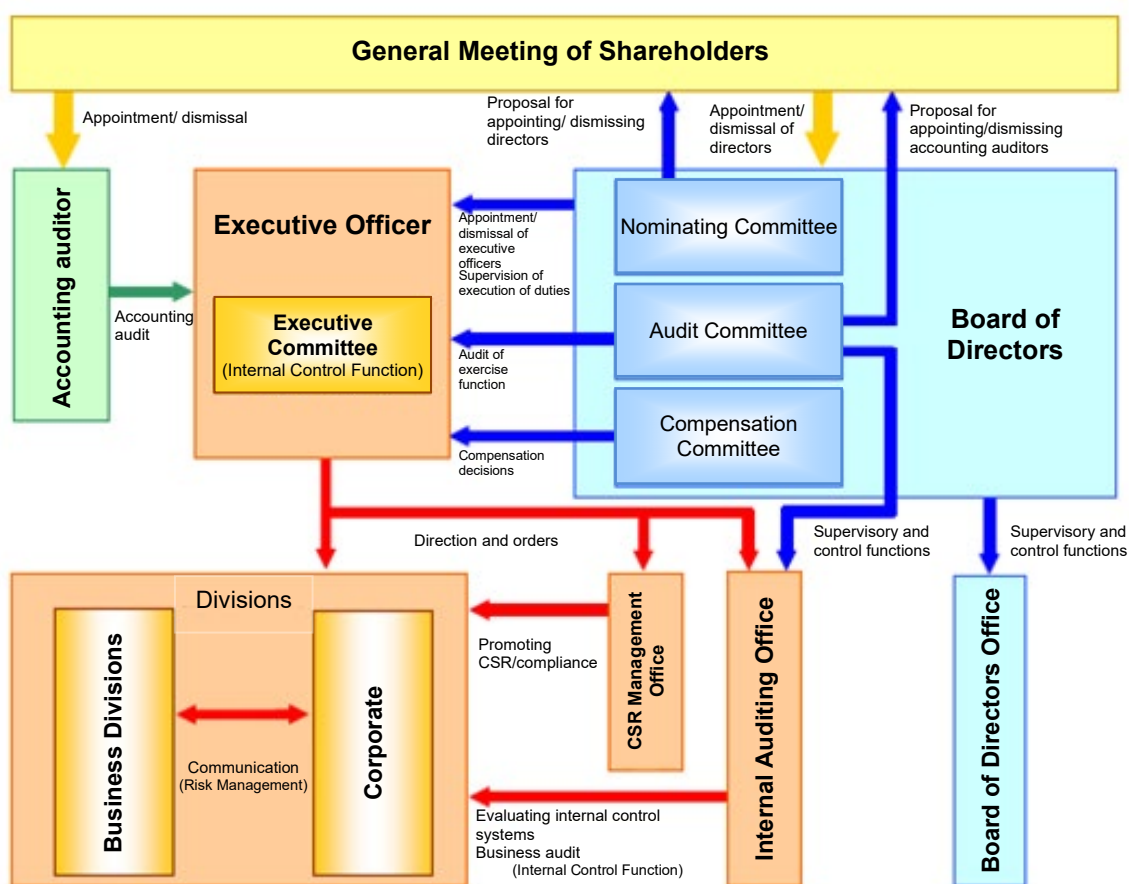
The Nominating Committee of the Company judges an outside director to be independent if he or she does not fall under any of the following items:

- (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 2% or more of its consolidated annual revenues for products or services in the most recent fiscal year or who serves or has served within the last one year as an executing person of the corporation;
- (3) an attorney, a certified public accountant, a certified tax accountant or a consultant who has received from the Company an annual payment of 10 million yen or more of monetary or other property benefits other than compensation for Directors and Executive Officers within the last one year, or a person who is or has been within the last one year a member, a partner, an associate or an employee of a law firm, an auditing firm, a tax accountant corporation, a consulting firm or other professional advisory firm that has received from the Company a payment of 2% or more of the firm's consolidated annual revenues in the most recent fiscal year;
- (4) a person who serves or has served within the last one year as an officer of a not-for-profit organization that has received from the Company discretionary charitable contributions of monetary or other property benefits of 10 million yen or more, or 2% or more of that organization's annual gross revenues or ordinary income, whichever amount is higher, during the most recent fiscal year;

- (5) a person who serves or has served within the last one year as an executing person or a non-executive director of a parent company of the Company;
- (6) a person who serves or has served within the last one year as an executing person of a sister company of the Company;
- (7) a person who is a spouse or a relative within the second degree of kinship of a person (excluding a person who has or had no important position of the following) who falls under the items of the following:
 - 1) who falls under the items of the above (1) through (6);
 - 2) who is, or has been within the last one year, an executing person of a subsidiary of the Company;
 - 3) who is an executing person or non-executive director of a parent company of the Company;
 - 4) who is an executing person of a sister company of the Company;
 - 5) who is, or has been within the last one year, an executing person of the Company; and
- (8) a person who has a risk of having material conflicts of interests with ordinary shareholders for reasons other than those stated above.

All Outside Directors qualifying as Independent Directors are designated by the Company as Independent Directors.

Corporate Governance Structure



(Compensation for Directors and Executive Officers)

The Basic Policy on the Determination of Compensation, etc., for each Director and Executive Officer set forth by the Compensation Committee is as follows:

- (1) Directors and Executive Officers assuming the management of the Company are compensated for executing management that enhances the Company's corporate value and the benefits of 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) The compensation system shall be commensurate with roles and responsibilities of each Director and Executive officer. Compensation for Directors shall be such that it enables them to exercise functions of supervision of management effectively. Compensation for Executive Officers shall reflect the Company's short-term and medium- to long-term business performance and appropriate compensations shall be paid for outstanding achievements in order to motivate Executive Officers to exercise their respective management capabilities, or management know-how and skills to achieve satisfactory results.
- (3) In order to secure appropriate human resources for the positions of Director and Executive Officer, compensation levels should be comparable to those of other companies. The Compensation Committee utilizes outside experts to gain expert advice and an objective viewpoint, if necessary, for deciding the details and amounts of compensation.

The "Basic Policy on the Determination of Compensation, etc., for each Director and Executive Officer" was revised at the meeting of the Compensation Committee held on May 13, 2021. As a result, the amount of compensation presented in "Supplementary Explanation" in "Compensation for Directors and Executive Officers" in the Corporate Governance Report was paid based on the policy prior to revision. The details of the policy prior to revision are as follows:

- (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) In order 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 compensations shall be paid for outstanding achievements.
- (3) Compensation paid by the Company consists of a base compensation and a term-end bonus.
 - 1) Base compensation: Determined individually as consideration for the degree of responsibility for Company management as Director and/or Executive Officer and for the performance of duties utilizing their extensive experience, knowledge, insight, specialized management skills, etc., acquired from past experience. In order to secure appropriate human resources for the positions of Director and Executive Officer, compensation levels should be comparable to those of other companies.
 - 2) Term-end bonus: Linked to the business performance of the Company. If it is found that an executive officer has been engaged in misconduct during his/her term of office, the Company demands, as necessary, return of paid compensation from the executive officer.

Total amount of compensation, etc. by each category of position, total amount of compensation, etc. by type and number of recipients disclosed in the annual securities report for the 84th business term (from April 1, 2020 to March 31, 2021) are as follows:

Category of Position	Total amount of Compensation, etc.	Base Compensation	Term-end Bonus	Number of Recipients
Directors (excluding Outside Directors)	¥46 million	¥39 million	¥7 million	5
Executive Officers	¥354 million	¥276 million	¥78 million	17
Outside Directors	¥62 million	¥54 million	¥8 million	3

Notes:

1. Directors with concurrent post as Executive Officers are compensated as Executive Officers but not as Directors.
2. The base compensation for full-time Directors and Executive Officers was reduced as an emergency measure to improve business performance from October 2020 to March 2021. It was also reduced in relation to the matter of misconduct regarding the quality of products of the Company and its subsidiaries from January 2021 to March 2021.
3. Compensation received as a member of the Special Committee, which consists of four members: three Independent Outside Directors, Mr. Makoto Uenoyama, Ms. Toshiko Oka (retired from the position of Director of the Company as of June 18, 2021), and Mr. Koichi Fukuo, who are independent of the Tender Offeror, Hitachi, Ltd. and the Company, and one outside expert for the purpose of eliminating arbitrariness in the Company's decision-making process, examining and determining the pros and cons of the transactions, the appropriateness of the terms of the transactions, and the fairness of the procedures, including the process of selecting the purchaser (partner), etc., in the decision to implement a series of transactions related to the Tender Offer for the Company's common stock by K.K. BCJ-52, was added to the amount of base compensation for Outside Directors in the chart above. Ms. Toshiko Oka resigned as a member of the Special Committee on March 26, 2021, at her own request, from the perspective of avoiding any suspicion of a conflict of interest and ensuring the fairness of the transactions since there are concerns over conflicts of interest with the company for which she concurrently serves as Director.

(Special Circumstances Which May Have Material Impact on Corporate Governance)

The Company is a member of the Hitachi Group, centered around Hitachi, Ltd., the parent company. Within the Hitachi Group, the parent company and the listed subsidiaries all share the common objective of improving the Group's overall value through strengthening the competitiveness of each company, and the listed subsidiaries are able to reap the benefits derived through participating in measures contributing to the strengthening of the business base. Moreover, with respect to management relating to listed subsidiaries, so that each company's autonomy and originality is fully respected and the parent company's involvement in such management is limited except in cases where matters are required to be put before each company's general meeting of shareholders, the management decisions of those subsidiaries are carried out pursuant to the respective company's decision making processes. Accordingly, the Company aims to maintain close cooperation with the group companies through R&D collaboration while remaining independent in its business operations and transactions with Hitachi, Ltd. and by using the Company's management resources effectively, the Company seeks to provide high-quality products and services.

With regard to personal relationship with Hitachi, Ltd., one Executive Officer of Hitachi, Ltd. concurrently serves as Director of the Company. The Company may encounter circumstances where, through the participation in statements of opinion and resolutions at the Company's Board of Directors, Hitachi, Ltd. could influence the determination of management policies, etc. of the Company. However, two Outside Directors, who have been designated as Independent Directors in accordance with the regulations of the stock exchange on which the Company is listed, assumed office, and a more diverse range of opinions can be reflected when carrying out deliberations at the Board of Directors; therefore, it is recognized that the Company is in a position where independent management judgments can be made. Executive Officers who execute business of the Company have not concurrently served as Director and Executive Officer of Hitachi, Ltd. With regard to the business relationship with Hitachi, Ltd., the Company does have loan agreements, etc. with Hitachi, Ltd. under the Hitachi Group Pooling Scheme, but the business activities of the Company are not heavily dependent on transactions with Hitachi, Ltd. The Company adopted the policy that regulates transactions with Hitachi, Ltd. to be fairly carried out, based on market prices.

As announced on April 28, 2021, a tender offer, etc. for the common stock of the Company by K.K. BCJ-52 (hereinafter referred to as the "Tender Offer") is scheduled in the future, and the Company expressed its opinion, as of the same date, in favor of the Tender Offer, if it is initiated. K.K. BCJ-52 intends to make the Company its wholly-owned subsidiary through the Tender Offer and a series of transactions to be conducted thereafter. As a result, the Company will be separated from the Hitachi Group and its common stock will be delisted.

(Note) K.K. BCJ-52 is a wholly owned subsidiary of G.K. BCJ-51 (the "Parent Company of Tender Offeror"), which was established on April 23, 2021 for the primary purpose of holding all of the shares of the Company as well as controlling and managing the business activities of the Company. As of April 28, 2021, the investment funds advised by Bain Capital Private Equity, LP and its group (hereinafter collectively referred to as "Bain Capital") indirectly owns all of the equity of the Parent Company of Tender Offeror; however, the Parent Company of Tender Offeror will accept investments from the funds managed, operated, and provided with information by Japan Industrial Partners, Inc. (hereinafter referred to as "JIP"), an investment fund for which Bain Capital provides investment advice, as well as the funds operated by Japan Industrial Solutions Co., Ltd. (hereinafter referred to as "JIS," the investments by those funds collectively referred to as "Investments") after the expiration date of the period for the purchase, etc. of the Tender Offer and before the commencement date of settlement for the Tender Offer. After such Investments, the funds provided with investment advice by Bain Capital, the funds managed, operated, and provided with information by JIP, and the funds operated by JIS will indirectly own the entire outstanding shares of the Parent Company of Tender Offeror.

3. Basic Views on Internal Control System and Progress of System Development

The Company resolved its basic policy on the internal control system pursuant to the Companies Act at a meeting of the Board of Directors, and is now implementing this system. The specific details of this basic policy are as follows:

1. Requirements Stipulated in Ordinance of the Ministry of Justice for the Execution of Duties by the Audit Committee of the Company
 - (1) Matters concerning Directors and Employees to Assist with the Duties of the Company's Audit Committee
 - 1) The Audit Committee shall appoint full-time Audit Committee members as needed.
 - 2) The Board of Directors shall have a Director who does not hold the concurrent position as an Executive Officer to assist with the duties of the Audit Committee as needed.
 - 3) To assist with the duties of the Audit Committee, the Board of Directors Office shall have a person in charge of the Audit Committee.
 - 4) The Audit Committee may, when necessary for performing audits, have the Internal Audit Division under the responsibility of Executive Officers assist with the execution of duties of the Audit Committee.
 - (2) Matters to Ensure the Independence of Directors and Employees Referred to in the Above Item (1) from Executive Officers, as well as the Effectiveness of Instructions of the Company's Audit Committee Given to the Said Directors and Employees
 - 1) The person in charge of the Audit Committee at the Board of Directors Office shall not concurrently serve in any position at any other business operating division. Appointment, dismissal and disciplinary action regarding the person in charge of the Audit Committee are carried out by the Executive Officers with the consent either of the Audit Committee or an Audit Committee member appointed by the Audit Committee (in the following, "Appointed Audit Committee Member"). Personnel assessment and appraisal of the person in charge of the Audit Committee are performed by the Executive Officers taking into account the opinion of either the Audit Committee or an Appointed Audit Committee Member.
 - 2) Appointment, dismissal, disciplinary action and personnel assessment and appraisal regarding the head of the Internal Audit Division are performed by the Executive Officers. The reasons for any of these actions shall be explained in advance either to the Audit Committee or to an Appointed Audit Committee Member.
 - 3) Persons who assist with the duties of the Audit Committee shall not be subject to orders and instructions of the Executive Officers when providing such assistance.
 - (3) Systems for Reporting to the Company's Audit Committee and Systems to Ensure Prohibition of Disadvantageous Treatments of a Person Who Made Such Reports
 - 1) Executive Officers shall submit the following documents to the Audit Committee:
Executive Committee meeting materials, documents for approval by the Executive Officers, medium-term management plan and budget deliberation materials, monthly and quarterly financial statements, and the operational audit reports from the Internal Audit Division
 - 2) The Company's Internal Audit Division shall conduct audits on the business operations of the Company and its subsidiaries (including foreign entities; the same shall apply hereinafter), and report the audit results to the Audit Committee or the Appointed Audit Committee Members.
 - 3) If Executive Officers detect any fact likely to cause substantial detriment to the Company, they shall immediately report such fact to the Audit Committee members.
 - 4) Any reports by the Company's Executive Officers and employees as well as its subsidiaries' Directors, Auditors and employees to the Audit Committee shall be made by reporting to the Appointed Audit Committee Members.
 - 5) The Company shall introduce an internal reporting system that enables persons engaged in operations for the Company, any of its subsidiaries, or any trading partner of the aforementioned companies to report illegal or improper acts of the Company or its subsidiaries (hereafter, "illegal or improper acts") through an externally established reporting channel. Upon receiving notice of receipt of a report, the person responsible for the division in charge of the internal reporting system shall promptly report the

facts to the Appointed Audit Committee Members. Moreover, the Company shall establish a system to enable the reporting of discovered illegal or improper acts directly to the Audit Committee.

- 6) The Company shall ensure that anyone who makes a report to the Audit Committee will not receive disadvantageous treatment for making the report.

(4) Matters Concerning the Policy on Prepayment or Reimbursement Procedures and Other Treatments of Expenses or Debt that Are Incurred in the Course of Executing the Duties of the Company's Audit Committee Members

The Board of Directors Office shall be responsible for the payment of expenses and other administrative operations arising in relation to the execution of duties by the Audit Committee members, and shall process the payments of those expenses and debt promptly, except when these are explicitly found to be unnecessary for the execution of the committee member's duties.

(5) Other Systems to Ensure the Effective Execution of Audits by the Company's Audit Committee

- 1) When the head of the Internal Audit Division formulates the audit plan for the next fiscal year, Appointed Audit Committee Members may state their opinions on the contents of such audit plan. The head of the Internal Audit Division should report the formulated audit plan to the Audit Committee.
- 2) The Audit Committee or Appointed Audit Committee Members shall engage in an exchange of opinions with the accounting auditor, Executive Officers, head of the Internal Audit Division and persons in charge of business operating divisions.

2. Systems to Ensure the Compliance of the Execution of Duties by the Company's Executive Officers with Laws and Regulations and the Articles of Incorporation

- 1) The Company shall establish and communicate a code of conduct in order to assure compliance with laws and regulations and the Articles of Incorporation and adherence to social norms in the course of business activities of the Company and its subsidiaries.
- 2) The Company's Executive Officers shall organize the Executive Committee, which deliberates and/or receives reports on management matters considered to have a material impact on the Company or the corporate group consisting of the Company and its subsidiaries (the "Hitachi Metals Group").
- 3) The Company shall introduce an internal reporting system that enables persons engaged in operations for the Company, any of its subsidiaries, or any trading partner of the aforementioned companies to report illegal or improper acts through an externally established reporting channel. Upon receiving notice of receipt of a report, the division in charge of the internal reporting system shall investigate the related facts, and when deemed necessary, request the Company's Executive Officers to examine appropriate corrective measures, and take the necessary steps to prevent future recurrence. The Company shall also ensure that anyone who makes such a report will not receive disadvantageous treatment for making the report.
- 4) The Hitachi Metals Group has a policy of taking a firm stance against antisocial forces that pose a threat to the order and safety of civil society, and cut off all ties with them. In order to ensure the effectiveness of this policy, the Hitachi Metals Group shall establish a responsible division, create systems for managing relevant information, preventing relevant transactions and implementing other measures with respect to antisocial forces, and work closely with external specialized agencies such as the police department.

3. Other Systems Established at the Company to Ensure Appropriate Operations by the Company and the Corporate Group Consisting of the Company, the Parent Company and Subsidiaries of the Company

- (1) Systems for the Retention and Management of Information Related to the Execution of Duties by the Company's Executive Officers
 - 1) Executive Committee meeting documents, documents for approval and any other documents related to the execution of duties by Executive Officers shall be retained and managed at the respective business operating divisions in accordance with internal rules on document retention and management.
 - 2) Appointed Audit Committee Members may inspect, transcribe or copy the documents related to the execution of duties by Executive Officers that are retained and managed at the respective business operating divisions.

- (2) Rules and Other Systems for Managing the Risk of Loss of the Company and its Subsidiaries
- 1) The Company shall have the Hitachi Metals Group Chief Risk Management Officer as the chief compliance and risk management officer in the Hitachi Metals Group.
 - 2) With respect to risks of loss related to compliance, antisocial forces, investments, finance, procurement, environment, disasters, quality, information management, export control, legal affairs, etc., the Company's Executive Officers shall direct respective business operating divisions, and as needed, establish internal rules and guidelines, etc., prepare and distribute manuals, provide training, and perform operational audits in order to avoid, prevent, and manage risks of loss to the Company. The Company shall provide these internal rules, etc. to its subsidiaries, and cause them to establish their own internal rules, etc. equivalent to those of the Company according to the scale of operations, etc.
 - 3) The Company's Executive Officers shall establish an organization that receives reports on and promptly handles the risk of loss realized in the Company and its subsidiaries.
 - 4) In order to handle the risk of loss arising in the Company and its subsidiaries, the Company's Executive Officers shall direct to the relevant business operating divisions as needed, and promptly appoint persons in charge of handling such risks.
 - 5) The Company's Executive Officers shall immediately report to the Audit Committee if any risk of loss is realized in the Company and its subsidiaries.

(3) Systems to Ensure the Efficient Execution of Duties of Executive Officers of the Company and Directors of its Subsidiaries

In addition to Item 2. 2), the following systems are established.

- 1) The Company shall stipulate basic policies for consolidated group management to maximize the group corporate value of the Hitachi Metals Group.
- 2) The Company's Board of Directors shall, in order to strengthen the Company's market competitiveness and to enhance corporate value by way of strategic and systematic operation of the Company's business activities, determine medium-term management plans and budgets, and manage business results of the Company. In order to ensure the effectiveness of such management efforts, Executive Officers shall establish systems for budget and business results management. The Company shall mutually share with its subsidiaries the information in formulating consolidated medium-term management plans and consolidated budgets in an effort to optimize strategies not only at individual level but also at group-wide level and manage consolidated performance.
- 3) The Company's Executive Officers shall establish internal rules that clearly define the authorities and responsibilities of persons in charge of each business operating division and control the procedures for decision-making and the execution of duties.
- 4) The Company shall ensure consistent execution and verification of documented business operation processes with respect to all information to be incorporated in financial reporting with its parent company and subsidiaries.
- 5) The Company shall establish a division in charge of the management of subsidiaries to communicate business policies and measures, collect information and support subsidiaries' business operations.

(4) Systems to Ensure Compliance of Employees of the Company as well as Directors and Employees of its Subsidiaries in Executing Their Duties with Laws and Regulations and the Articles of Incorporation

In addition to Items 2. 1), 3), 4) and 3. (2) 1), the following systems are established.

The Company's Executive Officers shall establish the Internal Audit Division to conduct audits of business operations of the Company and its subsidiaries. In addition, the Company shall cooperate with the Internal Audit Division of its parent company when the division conducts audits on the business operations of the Company and its subsidiaries to ensure appropriate operations of the corporate group consisting of the parent company and its subsidiaries. The Company shall review the results of these audits and make improvements to its business operations.

(5) Systems for Reporting Matters Relating to the Execution of Duties by Directors of Subsidiaries to the Company

In addition to Items 2. 2) and 3. (3) 5), the following systems are established.

The Company shall dispatch its Directors and Auditors to its subsidiaries as needed. Such Directors and Auditors shall report on the status of execution of their duties to the Company's Executive Officers or the Appointed Audit Committee Members if requested from them.

- (6) Other Systems to Ensure Appropriate Operations of the Company as well as the Corporate Group Consisting of the Company, its Parent Company and Subsidiaries
- 1) It is a policy of the Company in its business operations and transactions to remain independent of the parent company. In case of transactions between the Company and its parent company or implementing policies and measures that may arise risk of a material conflict of interest between the parent company and shareholders other than the parent company, the matter shall be determined subject to review by the Board of Directors without fail.
 - 2) It is a policy of the Company to carry out fair transactions with the parent company and subsidiaries based on market prices.
 - 3) The Company shall cause its subsidiaries to establish systems according to their scale of operations, etc. based on the systems of the Company, in order to ensure the appropriateness of their operations.

Based on the above basic policies for establishing the systems, etc. to ensure appropriate operations (internal control system), the Company implements the systems as follows.

For compliance, based on the principle of "obeying the law and walking the path of virtue," the Company has established the "Hitachi Metals Group Codes of Conduct" as the basis for judgment and behavior that should be followed by all Hitachi Metals Group officers and employees, and we have created a "CSR Guidebook" in order to deepen understanding of compliance, which has been distributed to all officers and employees of the Group. Compliance training is regularly conducted group-wide in lecture and e-learning formats. The Company has established an internal reporting system, prioritizing the protection of whistleblowers, aimed at early detection and improvement of inappropriate problems in corporate activities, and striving to prevent recurrence. The Company also conducts various events in every October, stating the month as the "Corporate Ethics Month" to raise employees' awareness towards compliance, including compliance training by external instructors for management executives.

During fiscal 2020, as a measure to prevent the recurrence of misconduct related to quality in particular, the Company strengthened governance of the quality assurance system by appointing a Chief Quality Officer (CQO) who is a dedicated Executive Officer for quality, ensuring the independence of the Quality Assurance Division. In addition, with the aim of raising awareness and reforming behavior with an emphasis on quality, the Company disseminated messages by management executives, continued to hold town hall meetings, adopted company rules for the "Company-Wide Quality Activity Philosophy," and established quality assurance-related rules such as the "Hitachi Metals Group Corporate Ethics and Compliance Code" that complements the "Hitachi Metals Group Codes of Conduct," as well as conducting quality compliance training. Also, as a measure of strengthening the internal reporting system, the Company has newly introduced a whistleblower system in which an outside contractor serves as the collection agent for whistleblower reporting for the purpose of preventing concealment of whistleblower information by Company officers and preventing disadvantageous treatment of whistleblowers.

In April 2021, the "Quality Compliance Committee" was established as an advisory body to the Board of Directors, including outside experts as members, with the aim of strengthening future recurrence prevention measures and enhancing effectiveness of the measures. Under this committee, the Company will conduct additional verification of portions that were not completed in the investigation of the Special Investigation Committee, implement recurrence prevention measures, and verify the effects.

For risk management, each Executive Officer identifies and analyzes business risks including changes in political, economic and social situations, currency fluctuations, rapid technological innovations, as well as changes in customer needs, examines measures against such risks, and reviews these measures whenever necessary through discussions at the Board of Directors, the Audit Committee, the Executive Committee and other meeting bodies. In addition, the Company avoids, prevents and manages the risks by ensuring each site of the Group companies develop systems to immediately share information of materialized risks relating

to compliance, antisocial forces, investments, finance, procurement, the environment, disasters, quality, information security, export control, legal affairs, etc. with respective business divisions in charge, as well as ensuring each corporate administrative division prepare internal rules, guidelines, etc., conduct education and enlightenment activities, preliminary checks, audits on business operations, etc. and cooperate with the relevant internal business divisions. In addition to ongoing formulation of, training for and review of BCPs assuming large-scale of earthquake etc., the Company established a safety confirmation system for confirming the safety of employees and their families via the internet in the event of a disaster.

Continuing from the previous fiscal year, during fiscal 2020, in order to prevent the spread of COVID-19 infections, the Company worked on initiatives including working from home, thorough adherence to mask-wearing while in the office, setting maximum limits on attendance rates for each division, and managing the health of employees on a regular basis.

Regarding misconduct related to quality, the monitoring function for quality compliance risk did not function adequately, and it was unable to fully grasp the possibility of misconduct or the occurrence of misconduct as a problem, which we believe is one of the main factors for misconduct continued. Therefore, the Company has put forward strengthening monitoring related to quality compliance as one measure to prevent recurrence, and will implement the following: (1) in addition to the first line of defense, which is the internal control system for sales, development, design, and manufacturing, also review the second line of defense, which is internal audits (integrity audits) by the Corporate Quality Assurance Division, and conduct audits of the Corporate Quality Assurance Division by the Internal Auditing Office, which is the third line of defense, (2) establish a process whereby the Audit Committee expresses opinions regarding the results of the aforementioned audits by the Corporate Quality Assurance Division and the Internal Auditing Office in (1), and in the event that improvement is required, follow up on how improvement was carried out, and establish an operational system for confirmation from an objective point of view, and (3) regarding details of risk management activities conducted by the Corporate Quality Assurance Division and Chief Quality Officer (CQO), information will be regularly shared among management executives, the suitability and necessity of cross-divisional measures will be discussed, and made the subject of internal audits.

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

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

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