

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE

Hitachi, Ltd. and its 18 publicly owned Group companies in June 2003 adopted the Committee System, a management system that was made possible by the revised Japanese Commercial Code, in a move made to strengthen corporate governance. By demarcating responsibilities for management oversight and those for the execution of business operations, Hitachi's aim was to establish an executive system that facilitates speedy business operations and a high degree of transparency.

Through this, Hitachi is working to create an agile framework for the execution of core strategies contained in the "i.e.HITACHI Plan II" medium-term management plan, while making management highly transparent by adding four outside directors to the Board of Directors. Furthermore, Hitachi directors and executive officers serve concurrently as directors and committee members at Group companies. At the same time, through the Group Management Committee, established when the Committee System was adopted, and the Hitachi Group Headquarters, established in April 2004, Hitachi is strengthening integrated management of the Group, improving management oversight of Group companies and executing business strategies formulated to enable the Hitachi Group to demonstrate its collective strengths. The goal is higher corporate value.

## BOARD OF DIRECTORS

The Board of Directors determines basic management policies and supervises executive officers in the performance of their duties while entrusting to executive officers considerable authority to make decisions with respect to Hitachi's business affairs. As of June 24, 2004, the Board of Directors was made up of 14 directors, four of whom are from outside Hitachi. Three directors serve concurrently as executive officers. Chairman of the Board, Tsutomu Kanai, however, does not concurrently serve as an executive officer. Within the Board of Directors, there are three statutory committees—the Nominating Committee, Audit Committee and Compensation Committee—with outside directors accounting for the majority of members of each committee. In addition, Hitachi established the Group Management Committee of its own accord. Following the adoption of the Committee System, the Board of Directors had met on nine separate occasions through March 31, 2004, and the attendance rate of directors at those meetings was 98%. The Nominating Committee, Audit Committee and Compensation Committee met three, seven and three times, respectively, during the fiscal year ended March 31, 2004.

### (1) Nominating Committee

The Nominating Committee has the authority to decide on proposals submitted to the General Meeting of Shareholders for the appointment and dismissal of directors.

### (2) Audit Committee

The Audit Committee audits the performance of directors and executive officers and has the authority to decide on proposals submitted to the General Meeting of Shareholders for the appointment and dismissal of independent auditors. Regarding the reliability of financial reports, the Audit Committee monitors the independent auditors, and receives the audit plans of the independent auditors in advance to ensure that these auditors are not influenced by executive officers. Moreover, the prior approval of the Audit Committee is required with respect to the remuneration of the independent auditors and non-audit work performed by these auditors.

### **(3) Compensation Committee**

The Compensation Committee has the authority to determine remuneration policies for directors and executive officers and set remuneration for individuals based on them. The remuneration of executives is made up of a monthly salary and retirement allowance as well as a year-end bonus for directors and a performance-linked bonus for executive officers. The remuneration of directors is thus generally fixed, but the performance-linked bonus for executive officers is decided based on the Company's and an individual's personal performance. While Hitachi also grants stock options as an incentive to raise the enterprise value, the Company's remuneration system for executives predominantly involves the payment of remuneration in the form of cash.

### **(4) Group Management Committee**

As a voluntarily established body that monitors and provides advice with respect to management of the Hitachi Group as a whole, the Group Management Committee complements the oversight functions of and decision-making on basic management policy of the Board of Directors. The Group Management Committee is made up of two divisions. Division 1 receives reports on various matters from the Hitachi Group's publicly listed companies for the purpose of improving the monitoring of Group companies. Division 2 deliberates on the medium-term direction of Group management and offers its views to the Board of Directors.

Regarding risk management, each division implements countermeasures, such as the formulation of rules and guidelines. Furthermore, to ensure greater efficiency in the execution of day-to-day operations and compliance, internal audits are conducted to monitor business operations so that improvements can be made. Moreover, to ensure strict legal compliance, Hitachi has various committees and a whistle-blower system.

#### ***The New York Stock Exchange Corporate Governance Listing Standards***

Hitachi's ADSs are listed on the New York Stock Exchange (the "NYSE"). Hitachi is therefore required to comply with the NYSE's new corporate governance listing standards (the "NYSE Standards"), which were approved by the SEC in November 2003. As a foreign private issuer, Hitachi is not required to follow several of the NYSE Standards. Hitachi's corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain an NYSE listing and, in accordance with Section 303A.11 of NYSE's Listed Company Manual, a brief, general summary of those differences is as follows:

(a) Director independence

The NYSE Standards require a majority of the membership of NYSE listed company boards to be composed of independent directors. Hitachi's Board of Directors consists of 14 members, four of whom are "outside directors," as required under the Commercial Code of Japan (the "Commercial Code"). The Commercial Code defines an outside director as a director (i) who does not execute the company's business, (ii) has never been an executive director (a director who executes the company's business), executive officer, manager or any other employee of the company or its subsidiaries, and (iii) who is not an executive director or executive officer of its subsidiaries or a manager or any other employee of the company or its subsidiaries.

(b) Non-management directors' executive sessions

The NYSE Standards require non-management directors of NYSE listed companies to meet at regularly scheduled executive sessions without management. Neither the Commercial Code, nor Hitachi's Board of Directors Regulations require Hitachi non-management directors to hold such meetings.

(c) Committee member composition

The NYSE Standards require NYSE listed companies to have a nominating/corporate governance committee, audit committee and compensation committee that are composed entirely of independent directors. Hitachi's nominating committee, audit committee and compensation committee are composed of majority of outside directors in accordance with the Commercial Code.

(d) Miscellaneous

In addition to the above differences, Hitachi is not required to make its nominating, audit and compensation committees prepare a written charter that addresses either purposes and responsibilities or performance evaluations in a manner that satisfies the NYSE's requirements, make publicly available one or more documents which purport to summarize all aspects of its corporate governance guidelines, or adopt a code of business conduct and ethics for its directors, officers and employees that complies fully with the NYSE's requirements.

# BOARD OF DIRECTORS

(As of June 24, 2004)



Tsutomu Kanai



Etsuhiko Shoyama



Yoshiki Yagi



Kotaro Muneoka



Takashi Miyoshi



Ginko Sato



Hiromichi Seya



Akira Chihaya



Toshiro Nishimura



Isao Uchigasaki



Takashi Kawamura



Yoshiro Kuwata



Hiroshi Kuwahara



Masayoshi Hanabusa

**CHAIRMAN OF THE BOARD**    **Tsutomu Kanai<sup>(1)(3)</sup>**

**DIRECTORS**

- \* **Etsuhiko Shoyama<sup>(1)(3)</sup>**    *Representative Executive Officer  
President, Chief Executive Officer and Director*
- Yoshiki Yagi<sup>(2)</sup>**
- Kotaro Muneoka<sup>(2)</sup>**
- \* **Takashi Miyoshi**    *Senior Vice President, Executive Officer and Director*
- Ginko Sato<sup>(1)(2)</sup>**    *President, Japan Association for the Advancement of Working Women*
- Hiromichi Seya<sup>(1)(2)(3)</sup>**    *Senior Corporate Advisor, Asahi Glass Co., Ltd.*
- Akira Chihaya<sup>(3)</sup>**    *Representative Director and Chairman of the Board,  
Nippon Steel Corporation*
- Toshiro Nishimura<sup>(1)(2)(3)</sup>**    *Founder, Senior Council, Nishimura & Partners*
- \* **Isao Uchigasaki**    *Hitachi Group Executive Officer and Director*
- Takashi Kawamura**
- Yoshiro Kuwata**
- Hiroshi Kuwahara**
- Masayoshi Hanabusa**

\* Denotes directors who serve concurrently as executive officers.

Numbers in parentheses beside names show committee membership: <sup>(1)</sup>Nominating Committee, <sup>(2)</sup>Audit Committee, and <sup>(3)</sup>Compensation Committee. Italicized numbers in bold type show committee chairmen.

# EXECUTIVE OFFICERS



Etsuhiko Shoyama



Katsukuni Hisano



Isao Ono



Michiharu Nakamura



Kazuo Furukawa



Hiroaki Nakanishi



Takashi Hatchoji



Takashi Miyoshi

## REPRESENTATIVE EXECUTIVE OFFICER PRESIDENT, CHIEF EXECUTIVE OFFICER AND DIRECTOR

**Etsuhiko Shoyama**

## REPRESENTATIVE EXECUTIVE OFFICERS EXECUTIVE VICE PRESIDENTS AND EXECUTIVE OFFICERS

**Katsukuni Hisano** *Automotive Systems Business*  
**Isao Ono** *Sales Operations, Information & Telecommunication Systems Business and Digital Media Business*  
**Michiharu Nakamura** *Research & Development, Business Incubation and Corporate Export Regulation*

## SENIOR VICE PRESIDENTS AND EXECUTIVE OFFICERS

**Kazuo Furukawa** *Information & Telecommunication Systems Business*  
**Hiroaki Nakanishi** *Hitachi Group Global Business and Business Development*  
**Takashi Hatchoji** *Hitachi Group Legal and Corporate Communications, Corporate Auditing and Human Resources*

## SENIOR VICE PRESIDENT, EXECUTIVE OFFICER AND DIRECTOR

**Takashi Miyoshi** *Finance and Corporate Pension System*

## VICE PRESIDENTS AND EXECUTIVE OFFICERS

**Takuya Tajima** *Sales Operations*  
**Shigeharu Mano** *Power Systems Business*  
**Kazuhiro Mori** *Industrial Systems Business*  
**Yoshito Tsunoda** *Urban Planning and Development Systems Business*  
**Manabu Shinomoto** *Platform and Network Systems Business*  
**Kazuhiro Tachibana** *Digital Media Business*  
**Taiji Hasegawa** *Automotive Systems Business*  
**Minoru Tsukada** *Sales Operations (Kansai Area)*  
**Makoto Ebata** *Group Management*  
**Iwao Hara** *Human Resources*

## EXECUTIVE OFFICERS

**Masaharu Sumikawa** *Power & Industrial Systems Business and Production Engineering*  
**Shozo Saito** *Power Systems Engineering*  
**Yasuo Sakuta** *Intellectual Property*  
**Takao Suzuki** *Sales Operations (Chugoku Area)*  
**Koichiro Nishikawa** *Business Development*  
**Masahiro Hayashi** *System Solutions Business*

## HITACHI GROUP EXECUTIVE OFFICER AND DIRECTOR

**Isao Uchigasaki** *Hitachi Group Management Strategy*