

# Corporate Governance

## Corporate Governance

Hitachi, Ltd. and its 17 publicly owned group companies have adopted the Committee Systems under the Company Law of Japan. By demarcating responsibilities for management oversight and those for the execution of business operations, Hitachi is working to create a framework for quick business operation, while making management highly transparent by having four outside directors on the Board of Directors. In terms of the basic policy for corporate governance of the Hitachi Group, Hitachi, Ltd. Standards of Corporate Conduct is positioned as the basis for the Hitachi brand and CSR activities. Underpinned by this basic policy, Hitachi aims to foster shared values throughout the group as well as a shared understanding of the social responsibilities a corporation must fulfill. In accordance with this policy, some of Hitachi's directors and executive officers serve concurrently as directors and committee members at group companies. In addition, through 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 27, 2006, the Board of Directors was made up of 14 directors, four of whom are from outside Hitachi. Three directors serve concurrently as executive officers. A Board member to convene and preside over meetings of the Board of Directors does not concurrently serve as an executive officer. Executive officers execute Hitachi's business affairs and decide on matters pertaining to the same in accordance with the division of duties stipulated by resolutions of the Board of Directors.

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. The Board of Directors met on 11 separate occasions during the fiscal year ended March 31, 2006, and the attendance rate of directors at those meetings was 98%. The Nominating Committee, Audit Committee and Compensation Committee met 7, 13 and 7 times, respectively, during the fiscal year ended March 31, 2006. Full-time staff, who do not take orders from executive officers, have been assigned to assist the activities of the Board of Directors and these committees.

### (1) Nominating Committee

The Nominating Committee has the authority to decide on the particulars of proposals submitted to the General Meeting of Shareholders for the appointment and dismissal of directors. The Nominating Committee consists of five directors, three of whom are outside 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 accounting auditors. The Audit Committee consists of five directors: three outside directors and two other directors who are full-time Audit Committee members. Regarding the reliability of financial reports, the Audit Committee monitors the accounting auditors, and receives the audit plans of the accounting 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 accounting auditors and non-audit work performed by these auditors. Regarding collaboration with internal audit units, Audit Committee plans are prepared in coordination with the audit plans of the Internal Auditing Office, Hitachi's main organizational body in charge of internal audits. Furthermore, the results of internal audits conducted by the Internal Auditing Office are reported to the Audit Committee.

### (3) Compensation Committee

The Compensation Committee has the authority to determine remuneration policies for directors and executive officers and remuneration for individuals based on them. The Compensation Committee consists of five directors, three of whom are outside directors. The remuneration of executives is made up of a monthly salary and retirement allowance as well as a year-end allowance 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.

## Risk Management and Internal Audits

Regarding risk management, each division implements countermeasures, such as the formulation of rules and guidelines. Furthermore, internal audits are conducted to monitor and assess the status of business operations, including efficiency in the execution of day-to-day operations and legal compliance, 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 corporate governance listing standards (the "NYSE Standards"). 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 provided 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 defined under the Company Law of Japan (the "Company Law"). The Company Law defines an outside director as a director who is not and has not been an executive director (a representative director or a director who executes the Company's business), executive officer, 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 Company Law, 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 a majority of outside directors in accordance with the Company Law.

#### (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.