



Management Approach

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Corporate Governance Pursuing Management Transparency and Efficiency

## Corporate Governance

### Hitachi's Aims

“Sustainability management” is expected to play an array of roles in realizing a sustainable society, a key component of the Sustainable Development Goals (SDGs)—the centerpiece of the 2030 Agenda for Sustainable Development, adopted by the United Nations in 2015. We believe that meeting society’s expectations requires a corporate culture that unflinchingly contributes to the resolution of social issues through the creation of products and services and that ensures ethical and fair business activities.

We are cultivating a self-directed corporate culture where CSR perspectives are reflected in management decision making and a common identity is shared throughout the Hitachi Group. In addition to pursuing greater managerial transparency and efficiency, we have identified the main themes of this effort as sharing our Codes of Conduct and values throughout the Group and promoting multifaceted risk management. In these ways we are accelerating the development of corporate governance that incorporates CSR into our decision making and operations across our business activities.

#### Main Plans and Results

Policies	FY 2015 goals/plans	Results in FY 2015	Achievement level	FY 2016 goals/plans
· Instilling of the Hitachi Group Identity in employees	· Further instill the Hitachi Group Identity under an “autonomous decentralized global management” structure, raise employee awareness globally to realize the Hitachi Group Vision	· Implemented the brand awards “Inspiration of the Year Global Awards 2015” to promote understanding the Hitachi Group Identity and Hitachi brand; shared within the Hitachi Group video of the round table session with CEO Toshiaki Higashihara and the grand prix winners · Held brand-training sessions to gain employees’ understanding about the Hitachi brand · Held brand-training sessions in Europe, Southeast Asia, China, and India	★★★	· Realize the Hitachi Group Vision by further instilling the Group Identity in employees, raise employee awareness to achieve the 2018 Mid-term Management Plan (1) Provide training worldwide to promote understanding of the Hitachi Group Identity and the Hitachi brand value (2) Implement the brand awards “Inspiration of the Year Global Awards 2016”; foster and utilize brand ambassadors (3) Hold brand-training sessions
· Establishment of corporate ethics, strict compliance with laws and regulations	· Enhance Group-wide compliance framework globally	· Held Compliance Management Conference · Convened Advisory Committee · Revised Hitachi Global Compliance Program · Shared CEO’s message during Ethics and Compliance Month · Held Hitachi Group Compliance Conference · Appointed Regional Head of Compliance	★★★	· Enhance Group-wide compliance framework globally

★★★: Achieved   ★★: Partially achieved   ★: Not achieved

## Pursuing Management Transparency and Efficiency

### Hitachi's Approach

We not only strive to ensure the legality, soundness, and transparency of our business but also endeavor to respond rapidly to constantly changing economic and social conditions and efficiently conduct operations. At the same time we are bolstering management oversight and monitoring capabilities and clearly defining managerial responsibilities with a view to sustainably enhancing our corporate value by

forging ever-stronger corporate governance.

Worldwide social and environmental megatrends, such as population growth and climate change, have reached a point in recent years where they are having a bigger impact on corporate management decisions. As a global company that contributes to society through our Social Innovation Business, we are working to ensure that environmental and social issues are at the heart of decision making at the highest levels of corporate governance.



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**Corporate Governance**

**Driving Hitachi's Governance**

Hitachi, Ltd. has adopted the committee system, which has nominating, audit, and compensation committees.\*1 We aim to establish a framework for quick business operations and to realize highly transparent management by separating the responsibilities for management oversight from the execution of business operations. The majority of our Board of Directors are outside directors, including non-Japanese. Our goals are to reflect diverse and global viewpoints as well as to reinforce management supervisory functions. We have formulated and published Corporate Governance Guidelines outlining the framework of corporate governance, such as the function and composition of the Board of Directors, qualifications for outside directors, and the criteria for assessing the independence of outside directors.

\*1 A corporate governance system under the Companies Act of Japan, where a board of directors makes basic policy decisions and oversees the execution of business by executive officers, while the executive officers, appointed by the board of directors, execute the company's business affairs via a set of statutory committees.

Corporate Governance Guidelines

**Governance Structure of Hitachi, Ltd.**

The Board of Directors comprises a majority of outside directors and includes five non-Japanese directors, two of whom are women. This represents an effort to reflect global, diverse viewpoints in company management, as well as to reinforce management supervisory functions.



**A Business Structure for Collaborative Creation**

From fiscal 2016 we are transitioning from our existing product-specific in-house company system to a business structure that bolsters frontline functions to accelerate collaborative creation with customers and provide innovation through our services and products.

**Market-Specific Business Structure with Strengthened Frontline Functions**

Our new business structure consists of service-focused businesses that provide innovation as a service to our customers and product-focused businesses that furnish products, parts, and materials.

In the service-focused businesses, the service and platforms business unit provides a shared, open platform, and 12 front business units offer services in the power and energy, manufacturing and water, urban development, finance, public sector, and healthcare markets. The front business units have bolstered frontline functions such as sales, engineering, and consulting, while the service and platforms business unit offers a shared platform for aggregating and integrating technologies essential to providing advanced services, including artificial intelligence (AI), analytics, and control technologies, integrating them in a system enabling collaborative innovation with customers.

Our product-focused businesses present customers and front business units globally competitive products, parts, and materials.

Business units are directly operated by the president, while CEOs of individual business units have investment authority and responsibility for profit and earnings. They work in partnership with other business units, comprehensively and organically leveraging the resources of the entire Hitachi Group and creating innovations quickly and flexibly in order to provide optimum products and services to customers.

Our business model aims to sustainably create value. Through our Social Innovation Business it contributes to improving people's quality of life by addressing on an ongoing basis the issues society and our customers face.



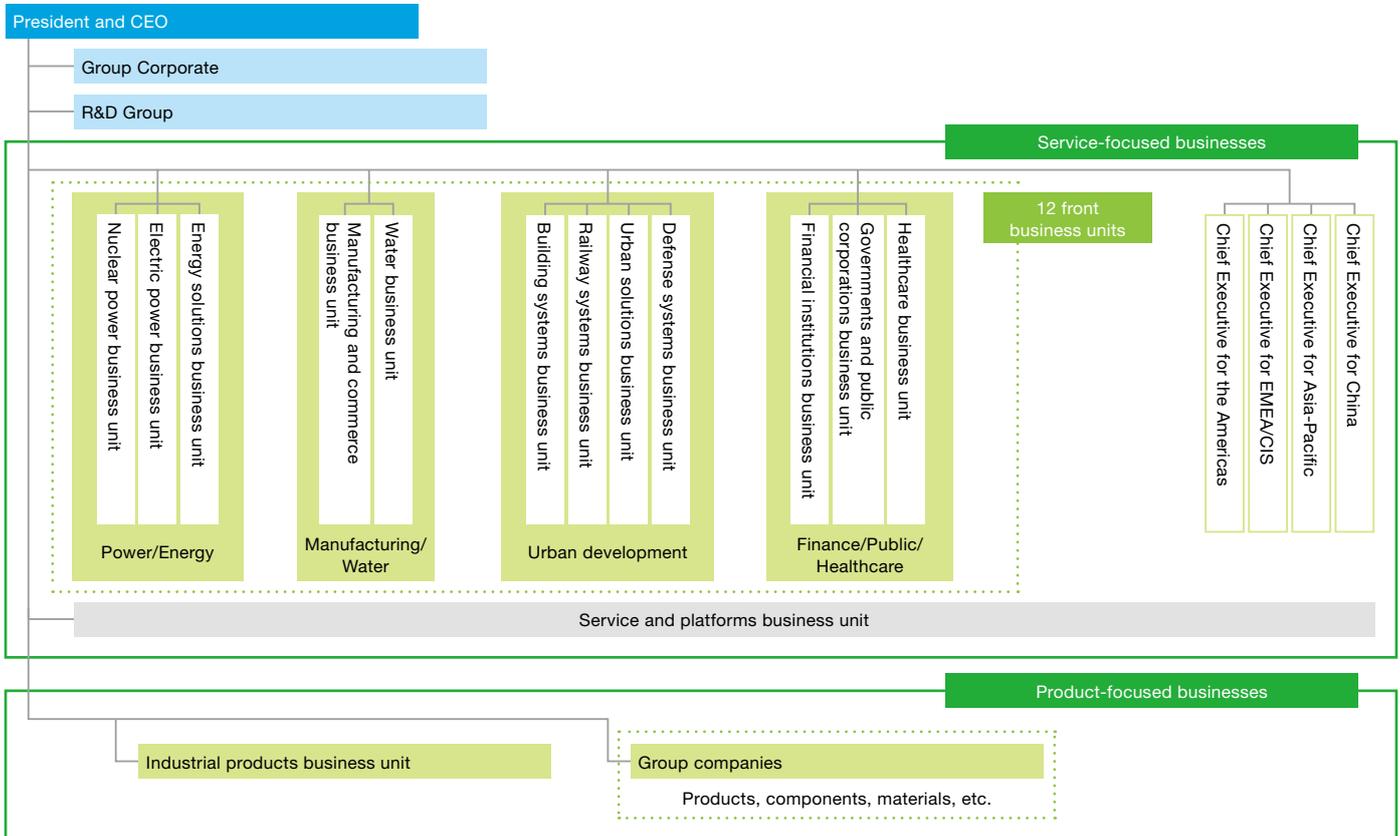
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**Fiscal 2016 New Business Structure**



Hitachi to Make a Transition to a Market-Specific Business Structure with Strengthened Frontline Functions

**Transition to a Global Management System**

To accelerate growth in the global market, Hitachi in April 2015 appointed regional chief executives in the four global regions of the Americas, China, the Asia-Pacific, and EMEA/CIS.\*1 In addition to creating regional growth strategies, promoting localization, and effectively utilizing management resources, the chief executives have authority to establish our Social Innovation Business in new business areas where growth is expected. The chief executives also advance our Social Innovation Business based on market needs, providing services and solutions that leverage our strengths. Toward the goal of thorough compliance, they promote coordinated global management of our operations and efficient allocation of our management resources. In this way, Hitachi provides innovation at the highest level and establishes firm governance as a global company.

In the Americas, a market that features world-leading IT innovations, big data analytics are providing new solutions in a variety of industries, including energy. In China, we have brought the direction of our Group operations in line with government initiatives for strengthening infrastructure networks and improving health presented in the Thirteenth

Five-Year Plan, and are also promoting our Social Innovation Business in developing countries. Social-infrastructure-related demand is very strong in the Asia-Pacific, where the aim is to collaborate with local partners in the region in developing our Social Innovation Business to solve issues common in urban areas. In the EMEA/CIS region, where innovations in manufacturing drive markets, the focus will be on rolling out our Social Innovation Business aimed at increasing efficiency in production and supply chains. In all these regions, the chief executives will act as regional “control towers,” developing and building solutions with Hitachi customers to resolve a variety of global issues that are becoming increasingly complex and borderless.

\*1 EMEA/CIS: Europe, the Middle East, Africa, and Commonwealth of Independent States.



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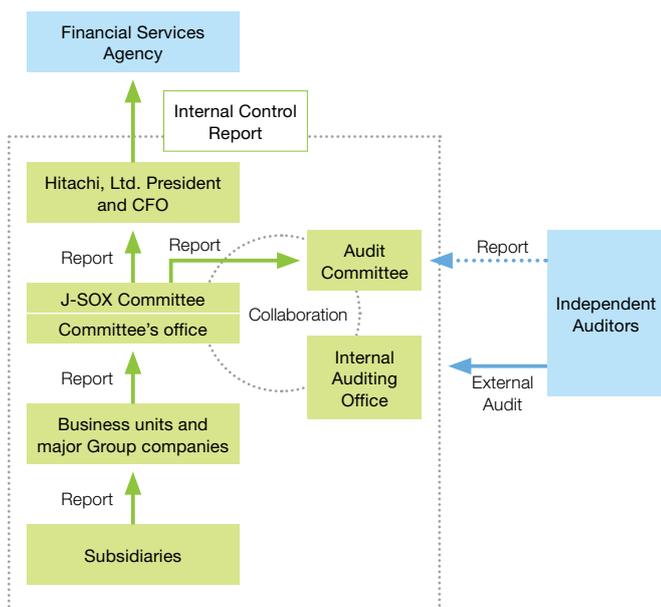
**Internal Control over Financial Reporting**

To ensure the reliability of consolidated financial reporting, every company develops and uses assessment documents for company-level controls, and business process controls based on the guidelines determined by our J-SOX Committee.\*1

Our business units and major Group companies have developed mechanisms to objectively perform assessments. Assessment results are reported to the J-SOX Committee's office to assess the effectiveness of internal control.

\*1 J-SOX: A system for the development of the internal control required under Japan's Financial Instruments and Exchange Act (FIEA) that ensure the reliability of financial reporting.

**Hitachi Internal Control Assessment System**



**Compensation for Directors and Executive Officers**

Compensation for each director and executive officer is determined by the Compensation Committee in accordance with the provisions of the Companies Act of Japan.

Compensation for directors consists of monthly remuneration and a year-end allowance. Compensation for directors is basically fixed.

Compensation for executive officers consists of monthly remuneration, a performance-linked component, and medium- and long-term incentive compensation. The higher the position that executive officers hold is, the higher the proportion of variable pay (the sum of the performance-linked component and the medium- and long-term incentive compensation, not including monthly remuneration as fixed pay) is as a portion of the total annual compensation. Monthly remuneration is decided by adjusting a basic amount to reflect the results of an assessment. The basic amount is set in accordance with the relevant position. The performance-linked component is decided by adjusting a basic amount to reflect financial results and individual performance. The basic amount is set within the range of about 25% to 35% of the total annual compensation of each executive officer in accordance with the relevant position. Medium- and long-term incentive compensation is in the form of stock options as stock-based compensation, with share price conditions (stock acquisition rights with the strike price of ¥1), with the number granted determined within the range of about 10% to 40% of the total annual compensation of each executive officer in accordance with the relevant position. As for expatriates, cash awards based on the value of Hitachi's share price with similar conditions are substituted for the stock options.

Beginning with compensation for fiscal 2008, the system for directors and executive officers was revised to abolish retirement allowances. The payment of retirement allowances to directors and executive officers due to the abolition of the retirement allowance system will be in an amount determined by the Compensation Committee at the time of the retirement of a relevant director or executive officer. The amount of compensation for directors and executive officers in fiscal 2015 is shown below.

**FY 2015 Compensation to Directors and Executive Officers**

Category	Recipients (number)	Total amount (millions of yen)
Directors (outside directors)	11 (8)	398 (280)
Executive officers	28	1,763
<b>Total</b>	<b>39</b>	<b>2,161</b>

\* The number of directors indicated excludes two directors who concurrently serve as executive officers.  
 \* Compensation to directors includes the monthly remuneration of one director who retired due to expiration of his term of office at the close of the 146th Annual General Meeting of Shareholders held on June 25, 2015.  
 \* In addition to the above, there are retirement allowances of 56 million yen for two executive officers who retired on March 31, 2016.