

# Corporate Governance

## Hitachi's Aims: Developing Efficient and Transparent Corporate Governance



“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 unfailingly 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 management efficiency and transparency, 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.

## Fiscal 2016 Overview of Activities



In fiscal 2016, we made a Group-wide effort to enhance compliance, reorganizing our global compliance structure and expanding the Hitachi Global Compliance Program (HGCP). We are promoting further collaboration with our suppliers to strengthen our business continuity plans (BCPs) throughout the supply chain.

### Main Plans and Results

#### Sharing the Hitachi Group Identity

Policies	FY 2016 goals/plans	Results in FY 2016	Achievement level	FY 2017 goals/plans
Establishment of corporate ethics, strict compliance with laws and regulations	<ul style="list-style-type: none"> <li>Enhance Group-wide compliance framework globally</li> </ul>	<ul style="list-style-type: none"> <li>Appointed global compliance officers</li> <li>Held various compliance meetings and committee sessions and communicated CEO's message</li> <li>Expanded HGCP for Group-wide implementation</li> </ul>	★★★	<ul style="list-style-type: none"> <li>Enhance Group-wide compliance framework globally through deepening of the Hitachi Group Codes of Conduct and HGCP</li> <li>Fully launch global compliance structure</li> <li>Ensure thorough pursuit of business in line with expanded HGCP</li> <li>Further improvement of compliance reporting system</li> </ul>

Policies	FY 2016 goals/plans	Results in FY 2016	Achievement level	FY 2017 goals/plans
Instilling of the Hitachi Group Identity in employees	<ul style="list-style-type: none"> <li>Realize the Hitachi Group Vision by further instilling the Group Identity in employees, raise employee awareness to achieve the 2018 Mid-term Management Plan</li> <li>(1) Provide training worldwide to promote understanding of the Hitachi Group Identity and Hitachi brand value</li> <li>(2) Implement "Inspiration of the Year Global Award (YGA) 2016"; foster and utilize brand ambassadors</li> <li>(3) Hold brand-training sessions</li> </ul>	<ul style="list-style-type: none"> <li>Published the revised <i>Hitachi Brand Book</i></li> <li>Developed brand teaching materials in the Americas and held webinars</li> <li>Implemented IYGA 2016 (winners selected from among 212 entries)</li> <li>Issued <i>Hitachi Brand News</i></li> <li>Held brand training sessions</li> </ul>	★★★	<ul style="list-style-type: none"> <li>Make ongoing efforts to instill the Hitachi Group Identity (to enhance brand recognition and induce action)</li> <li>(1) Launch brand awards conferred by the president</li> <li>(2) Provide training worldwide to promote understanding of the Hitachi Group Identity and Hitachi brand value</li> <li>(3) Make use of the Hitachi Group Identity movie</li> </ul>

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

## Pursuing Management Efficiency and Transparency

### 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.

We give great importance to management efficiency and transparency and appropriate organizational control and are firmly maintaining and reinforcing a management structure enabling us to strengthen our efforts to fulfill our social responsibilities on multiple fronts, such as through proper information disclosure and tripartite audits.

### 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 independent 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 independent outside directors, and the criteria for assessing the independence of these directors.

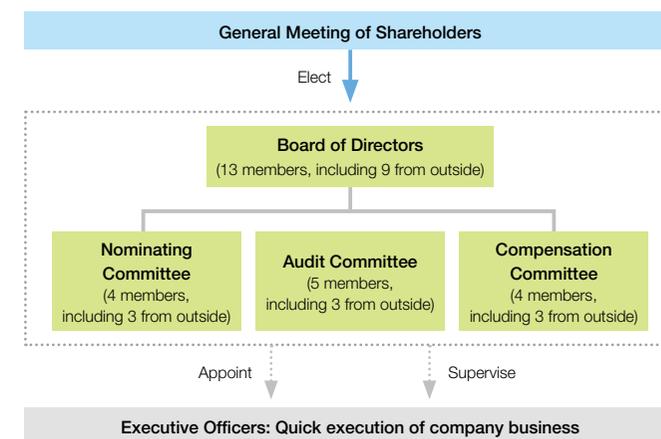
\*1 A corporate governance system under the Companies Act of Japan, where a board of directors makes basic policy decisions and oversees the execution of business by executive officers, while the executive officers, appointed by the board of directors, execute the company's business affairs via a set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



Corporate Governance Guidelines

#### ► Governance Structure of Hitachi, Ltd.

The Board of Directors comprises a majority of independent 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.



#### Strengthening Structures to Expand Our Social Innovation Business

In April 2016 we transitioned to a market-driven business structure with three levels—namely, “Front,” “Platform,” and “Products”—in order to accelerate collaborative creation with customers and develop value-creating innovations through services and products.

► **Strengthening Frontline Functions of Focus Business Domains**

Our frontline function businesses include 12 Front business units (BUs) with strengthened capabilities in sales, engineering, and consulting. These BUs target our four focus business domains of “power and energy”; “industry, distribution, and water”; “urban”; and “finance, public, and healthcare.” Each will provide innovation as a service to customers in their region, and we will create synergies in each focus domain in order to globally develop our digital-driven Social Innovation Business.

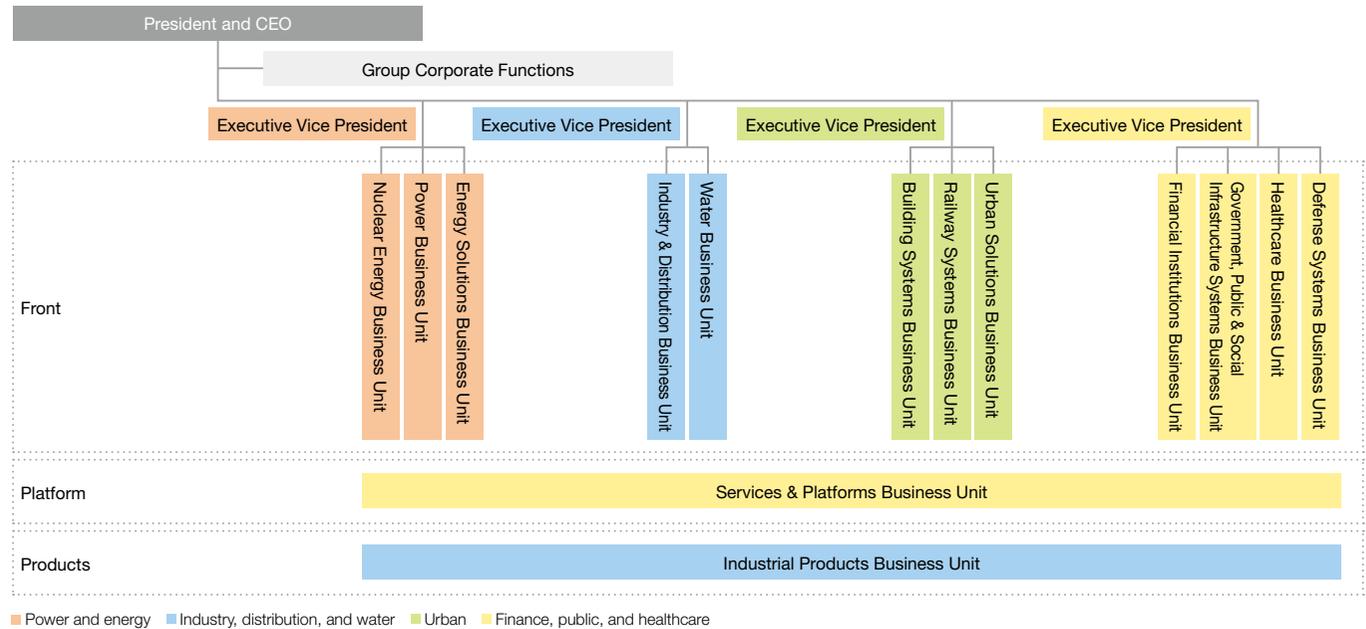
Our Services and Platforms Business Unit offers a shared platform aggregating and integrating technologies essential for advanced services, including artificial intelligence, analytics, and control technologies.

Our product-focused businesses include the companies within the Hitachi Group and our Industrial Products Business Unit. These provide customers and Front BUs with innovative, globally competitive products, parts, and materials, all while pursuing synergies as a Group.

Because BUs are under the direct control of the president, each unit’s CEO has investment authority and responsibility for profit and earnings. They work in partnership with other BUs, 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, we contribute to improving people’s quality of life by addressing on an ongoing basis the issues society and our customers face.

**Fiscal 2017 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 March 2017 the functions of the regional chief executives for the Americas, Asia-Pacific, and EMEA/CIS were revised, and their responsibilities were assumed jointly by the Social Innovation Business Division and the chairman and president of each regionally integrated 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 we are also promoting our Social Innovation Business developed for emerging economies. 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.

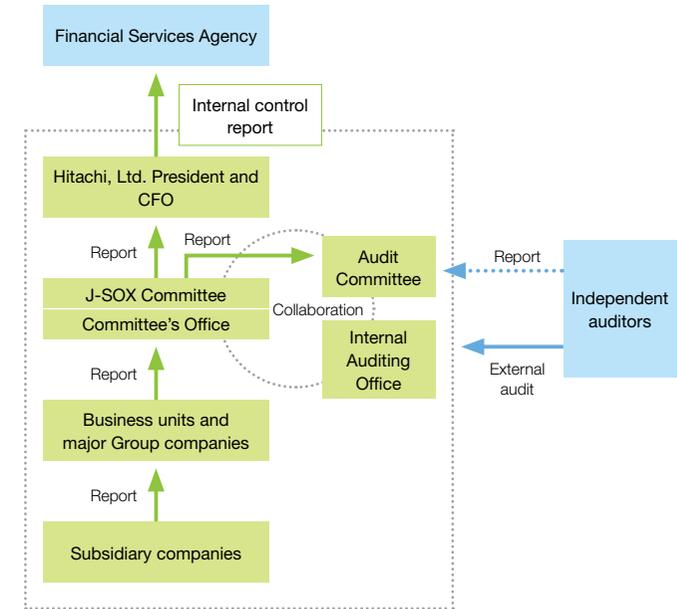
### Internal Control over Financial Reporting

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

Business units within Hitachi, Ltd. and major Group companies have developed mechanisms to objectively perform assessments. The J-SOX Committee office collects the results of the assessments performed by each business unit and company, and assesses the effectiveness of internal control across the entire Group.

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

### Hitachi Group Internal Control Assessment Framework

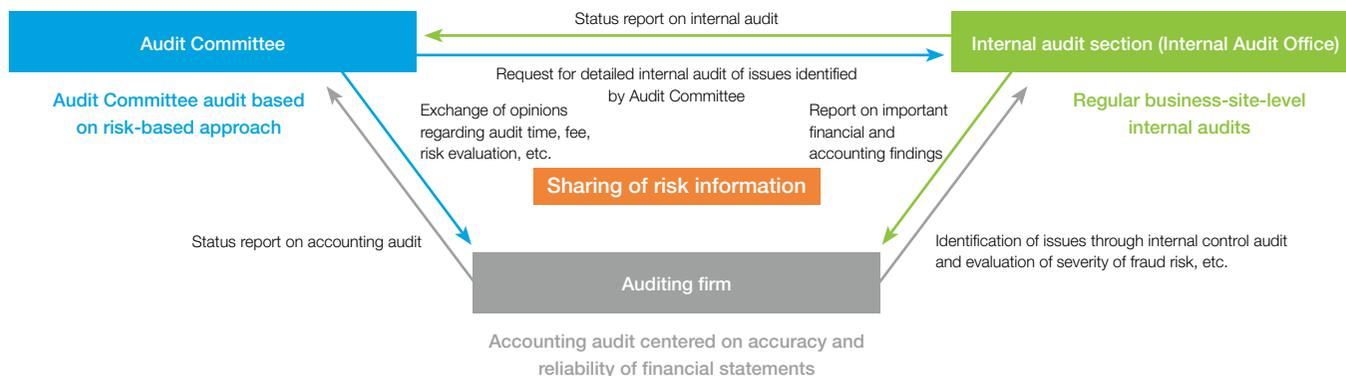


### Toward a Stronger “Tripartite Audit” Function

We are working to further enhance the effectiveness of the internal control exerted through the integrated work of a “tripartite audit” function comprising the Audit Committee; our internal audit sections, principally, the Internal Audit Office; and the external auditing firm. Through close communication, the three share information about risks and evaluation of risk responses, secure transparency in the audit process, and improve the effectiveness of internal control systems.

**Improving Internal Control Through a “Tripartite Audit” Function**

- Goals** 1 Leveling of audit methods 2 Improving efficiency and transparency in audit processes with a risk-based approach



**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.

(i) Directors

Compensation for directors consists of basic remuneration and a year-end allowance.

- Basic remuneration is decided by adjusting a basic amount to reflect full- or part-time status, committee membership and position, travel from place of residence, etc.
- Year-end allowance is a predetermined amount equivalent to about 20% of the director's annual basic remuneration, but may be reduced depending on financial results.

A director concurrently serving as an executive officer does not receive any compensation as a director.

(ii) Executive officers

Compensation for executive officers consists of basic remuneration, performance-linked compensation, and

medium- and long-term incentive compensation. The higher position the executive officer holds, the higher the proportion of variable pay (the sum of the performance-linked compensation and medium- and long-term incentive compensation, not including basic remuneration as fixed pay) is as a portion of total annual compensation.

- Basic 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 compensation is decided within the range of 0%–200% of the basic amount based on financial results and individual performance. The basic amount is set within the range of about 25%–35% of the total annual compensation of each executive officer in accordance with the relevant position.
- Medium- and long-term incentive compensation is stock options as stock-based compensation, with share price conditions (stock acquisition rights with the strike price of

¥1). The number of stock acquisition rights to be granted is determined within the range of about 10%–40% of the total annual compensation of each executive officer in accordance with the relevant position. The number of stock acquisition rights that may be exercised will be determined within the range of 0%–100% of the stock acquisition rights granted in accordance with the conditions. As for expatriates, cash awards based on the value of Hitachi's share price with similar conditions are substituted for the stock options.

The compensation structure for directors and executive officers was re-examined starting with compensation for the fiscal year ended March 31, 2009, and the retirement allowance was abolished. 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 for the fiscal year ended March 31, 2017, is as follows:

**FY 2016 Compensation to Directors and Executive Officers**

Category	Number of persons	Total amount (millions of yen)
Directors (independent outside directors)	14*1 (10)	383*2 (308*3)
Executive officers	33	2,569
<b>Total</b>	<b>47</b>	<b>2,953</b>

\*1 The number of directors indicated excludes two directors who concurrently serve as executive officers.

\*2 The amount of compensation to directors (excluding independent outside directors) includes the basic remuneration for two directors who retired due to expiration of their terms of office at the close of the 147th Annual General Meeting of Shareholders held on June 22, 2016.

\*3 The amount of compensation to independent outside directors includes the basic remuneration for one independent outside director who retired due to expiration of his term of office at the close of the 147th Annual General Meeting of Shareholders held on June 22, 2016.

## Sharing the Hitachi Group Identity

### Hitachi's Approach

We carry out our business not only in full compliance with legal requirements but also in ways that ensure socially responsible conduct. Spreading understanding of this among all Hitachi employees is a fundamental management issue. As economic activity becomes increasingly borderless, there is a growing need for steps to eradicate bribery, corruption, and other illegal behavior in accordance with conditions in the countries and regions where we have operations. As a global company, we are implementing a consistent compliance structure across the entire Hitachi Group.

In pursuing sustainable management, we give equal importance to value creation that contributes to the resolution of social issues. This is being advanced through the dissemination and sharing among all employees of the Hitachi Group Identity—an integrated set of principles spelling out our management vision, Codes of Conduct, and values.

As our operations expand across the globe, our supply chain, too, is globalizing at an accelerating pace. This demands that we fulfill our social responsibilities not only as a Group but also in working with business partners. We thus conduct compliance risk surveys in every region, in addition to implementing export-import controls and inspecting the content of transactions so as to ensure normative conduct—free of complicity in any illegal behavior—throughout the supply chain.

### Sharing Codes of Conduct and Compliance Approaches Throughout the Group

#### Ensuring Awareness of the Hitachi Group Codes of Conduct

Hitachi, Ltd. formulated the Hitachi Group Codes of Conduct as a common conduct code for the Hitachi Group in fiscal 2010. We issued the *Hitachi Group Codes of Conduct Handbook* in fiscal 2011 as a guidebook for all employees; as of March 2017, more than 260,000 copies have been distributed to employees in Japan. We ask managers to submit a written pledge to comply with the Hitachi Group Codes of Conduct. To deepen awareness of the codes throughout our global operations, we have produced an e-learning tool in Japanese and nine other languages, such as English and Chinese, showing appropriate behavior and presenting specific examples for use in Hitachi Group companies within and outside Japan.



Hitachi Group Codes of Conduct

#### Enhancing Our Compliance Framework

Based on the Hitachi Group Codes of Conduct, we have expanded the Hitachi Global Compliance Program. To comprehensively implement our compliance framework through this program, we have appointed a senior executive as the head of risk management for the entire Hitachi Group. Every business unit and key Group company also has an executive handling risk management, assisted by a compliance manager. We are

also supporting regional Group companies and have appointed compliance heads in 11 regions globally.

Under this system, policies and measures are shared through the Compliance Management Conference, composed of risk management executives from business units and key Group companies. In addition, all compliance managers meet regularly at the Hitachi Group Compliance Conference to provide information on compliance and to confirm implementation of required actions.

The Advisory Committee, consisting of outside experts, convenes regularly to exchange views on the state of compliance initiatives. The insights provided by committee members are utilized to improve policies and actions.

The internal audit section regularly conducts Group-wide reviews to verify that each area of compliance is being appropriately operated. In cases where the reviews identify necessary improvements, corrective measures are swiftly implemented.

Fiscal 2016 saw two incidents in the United States of plea agreements related to cartel activities, and one in Japan of a cease and desist order related to collusion. Hitachi takes these incidents very seriously and will continue strengthening its educational and institutional efforts to fight corruption and promote fair competition.

#### Compliance Reporting System

Hitachi has instituted a Group-wide whistleblowing system to prevent illegal and unethical behavior, to promptly address infractions, and to enhance our ability to self-regulate.

In this system, reports go directly to the Compliance Department at Hitachi, Ltd. or to an outside attorney. This system can be used not only by employees within the Hitachi Group, who are able to report issues through in-house channels, but also by temporary staff and suppliers. In addition, we have implemented the Channel to the Board of Directors system to allow employees to directly report problems anonymously to Hitachi directors. The facts related to all reports are subject to thorough investigation and checking, and people who have identified themselves in the reports are informed of the investigation results. We make every effort to appropriately deal with situations, including taking remedial action where necessary.

### Prevention of Antisocial Transactions

To cut off all relationships with organized crime groups and other antisocial forces, we observe the following three provisions laid out in the Hitachi Group Codes of Conduct, and we have established Regulations on Prevention of Antisocial Transactions covering the Group as a whole by adopting the basic policies stipulated in the Codes of Conduct:

1. We will have no relations whatsoever with antisocial forces such as organized crime groups, and we will never engage in antisocial transactions under any circumstances.
2. We will prevent antisocial transactions through self-inspection of our transactions.
3. We will oppose antisocial forces such as organized crime groups with firm resolve, and refuse any improper demands.

The entire Hitachi Group acts decisively to eliminate approaches from antisocial forces in partnership with, where necessary, external specialist institutions (the National Center for the Elimination of Boryokudan or the police). We include

antisocial force rejection clauses in contracts so that if it is determined that a business partner belongs to an antisocial group, we can promptly void the contract and break off the relationship.

### Thorough Export Controls

For basic export control policies, we have adopted the Hitachi Standards of Corporate Conduct, which state: "We shall help maintain international peace and security through compliance with trade-related laws and regulations." We established the Corporate Regulations Concerning Security Export Control based on this policy in 1987. We carry out strict export control practices in line with relevant laws and regulations, screening all goods and technologies intended for export against such factors as destination countries and regions as well as intended end use and end users. We provide guidance and educational support on the formulation of regulations as well as on the establishment of frameworks to Hitachi Group companies in Japan and around the world to ensure that all Group companies follow the same export control policies.

At present, as part of our educational program for all the Group companies, we host workshops on export control in addition to the annual implementation of an e-learning program in Japanese, English, and Chinese. Moving forward, we will continue to make an effort so that export control is thoroughly enforced throughout the Group.

 Measures to Prevent Bribery and Corrupt Practices

 Preventing Violations of Fair Competition Laws

## Sharing Values Throughout the Group

### Solidifying the Hitachi Group Identity

#### ▶ Instilling the Group Identity in Employees

To help us solve social issues through understanding and embodiment of the Hitachi Group Identity, our brand management must engage everyone in the Group. We use channels including our intranet to ensure that Group employees are clearly aware of what needs to be done to express the Group Identity. To promote understanding of the Hitachi Group Identity and the Hitachi brand, we launched the Inspiration of the Year Awards in fiscal 2003 to share activities within Hitachi that have demonstrated the Hitachi Group Identity and made an outstanding contribution to our brand value. In fiscal 2012, we began evaluating applications globally, renaming the program the Inspiration of the Year Global Awards. In fiscal 2016, the awards saw 212 applications from China, Europe/Africa, India, North America, Southeast Asia, and Japan. Outstanding activities from each region were highlighted on the intranet, and the president presented the awards at a ceremony held at our Tokyo headquarters.

To further instill the Hitachi Group Identity and promote understanding of the Hitachi brand among our employees globally, we held brand-training sessions utilizing the Hitachi Brand Book, a straightforward explanation of the Group Identity and Hitachi brand, and the Hitachi Vision Movie, a visual depiction of the Hitachi Group Vision. By raising employee awareness of the Hitachi Group Identity through these activities, we continue to strive to become a company that "delivers innovations that answer society's challenges."



## Advancing Risk Management on Multiple Fronts

### Hitachi's Approach

Changes to our operating environment from such factors as the globalization of the economy and advances in and spread of information and communications technology (ICT) lead not only to the expansion of business opportunities but also to the diversification of risks to our operations.

We have built a diverse risk management system under which we carry out risk analysis to accurately gauge ongoing economic and social changes and use the insights gained to take preventive measures and ensure a rapid response to issues that may arise unexpectedly.

Particularly in recent years, as a company deeply involved in infrastructure projects in countries and regions around the world, we take note of the discussions at meetings like the World Economic Forum on such international risks as the unending series of terrorist attacks, the increasing severity of abnormal weather conditions, global-scale climate change, and the growing scale and sophistication of cyberattacks.

We are reinforcing business continuity plans (BCPs) and further tightening our information security to ensure the stable supply of our products and services and to prevent threats to our networks that could severely disrupt business operations. We will continue to reinforce our risk management on a Group-wide basis and make thoroughgoing efforts to minimize risks to society from our operations.

### Risk Management

#### Reinforcement of Risk Management System

The entire Hitachi Group is reinforcing its risk management system to address increasingly globalized and complex risks.

Under Hitachi, Ltd.'s head of risk management, each business operation assigns an executive as its risk management officer to manage risks mainly concerned with compliance, export control, disasters, and crime, and to respond adequately in coordination among the entire Group. Furthermore, Hitachi is building a comprehensive risk management system that contains standards and procedures to objectively evaluate different risks that may affect business.

#### Stable Provision of Products and Services

##### Creating BCPs in Key Operations Worldwide

Given the close relation of our business to social infrastructure, we are enhancing our business continuity plans (BCPs) to ensure that the impact of risks does not disrupt our business and thereby significantly affect society. In December 2006, we issued the *Hitachi Group Guidelines for Developing Business Continuity Plans (Overview)* in Japanese. In fiscal 2010 this was translated into English and Chinese for distribution to all Hitachi Group companies worldwide to ensure our response readiness for large disasters and other risks.

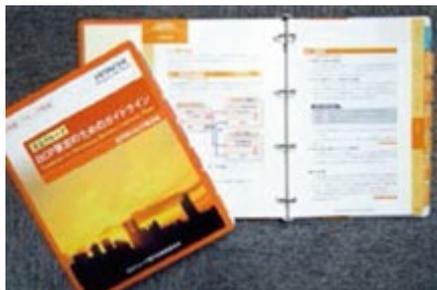
When the Great East Japan Earthquake struck in March 2011, our BCPs enabled quick responses and swift decision making. However, issues emerged, including identification of

secondary and other suppliers, cloud storage and multiplexing of production information, and the need to secure alternate transportation and fuel sources. Based on the lessons learned from this disaster, in October 2011 we released and distributed new versions of the *Hitachi Group Guidelines for Developing Business Continuity Plans* for individual departments to further improve our BCPs.

By the end of fiscal 2011, Hitachi Group operations in Japan had completed their preparation and review of BCPs for both large earthquakes and novel strains of influenza as appropriate to their operations.

On top of these efforts, Hitachi, Ltd. has held annual earthquake drills simulating a major seismic event at key operations in Japan since fiscal 1998. In March 2017, Hitachi Chemical held drills under the direction of its head office general manager, with managers at the head office and the Nabari Works striving to improve their risk management skills and identify possible areas for improvement in their BCPs.

Hitachi appointed personnel with responsibility for risk-response policies at its main overseas bases in fiscal 2013. By the end of that year, around 300 companies had prepared BCPs with the goal of completing them for key operations. These BCPs are aimed at strengthening our ability to respond to business risks, including large disasters, novel strains of influenza, political instability, and social disruption, as well as acts of terrorism. Moving forward, we intend to further expand the scope of our BCPs.



Hitachi Group Guidelines for Developing Business Continuity Plans (for individual departments).



Earthquake simulation drill.

### Creation of Procurement BCPs

We have a deep involvement in social infrastructures in places where the suppliers who are our business partners can be affected by major earthquakes and other natural disasters.

These disasters can heavily impact not only our business operations and those of our suppliers but also society as a whole. To minimize this impact, the procurement divisions in business units and key Group companies in Japan have created procurement BCPs that (1) standardize and use generic parts to make procurement as flexible as possible; (2) cultivate multiple suppliers; (3) distribute production across several locations; (4) budget inventory strategically; and (5) consider

substitute products. To see whether or not procurement BCPs would be effective, we held desktop exercises to discuss in a group what should be done during and after a disaster, making further improvements as a result.

In fiscal 2016, all major Group business sites with production lines (approximately 200 sites in total) took steps to maintain and strengthen the procurement BCPs they had created by the previous fiscal year, thereby contributing to the continuation of Hitachi's global operations.

### Improving Safety for Employees Sent to Dangerous Regions

Responding to the hostage incident in Algeria in January 2013, then President Hiroaki Nakanishi reinforced his policy in February 2013 of ensuring the safety of employees sent to countries and areas at higher risk. Survey missions of in-house and outside experts are now sent beforehand to areas at high risk of war, terrorism, and other threats. Even after employees are dispatched to such areas, we conduct additional local surveys every six months as a means of confirming the effectiveness of our safety policies. In fiscal 2016, with the threat of terrorism expanding around the world, we introduced a range of safety measures, including providing timely alerts to employees. This underscores our commitment to ensuring the safety of our employees working around the globe. Hitachi is also contributing to safety measures at other Japanese corporations operating outside Japan. To help enhance collaboration between the private and public sectors in this area, Hitachi executives participated in the Council for Public-Private Cooperation for Overseas Safety organized by Japan's Ministry of Foreign Affairs. Since 2014 Hitachi, Ltd. has taken part in public-private kidnap incident preparatory training exercises.

## Promoting Information Security

### Implementing Rigorous Information Security

Hitachi's chief information officer (CIO) is appointed by the company's president and has the authority and responsibility to implement and operate an Information Security Management System (ISMS). In fiscal 2016, the role of the CIO was performed by Hitachi's senior vice president and executive officer. The Information Security Committee, chaired by the CIO, determines policies and procedures for information security and personal information protection. The Information Security Promotion Council and other bodies convey decisions internally and to other companies in the Hitachi Group. Information security officers at business sites and companies ensure that these decisions are implemented in the workplace.

The Hitachi Group emphasizes two points in information security and personal information protection:

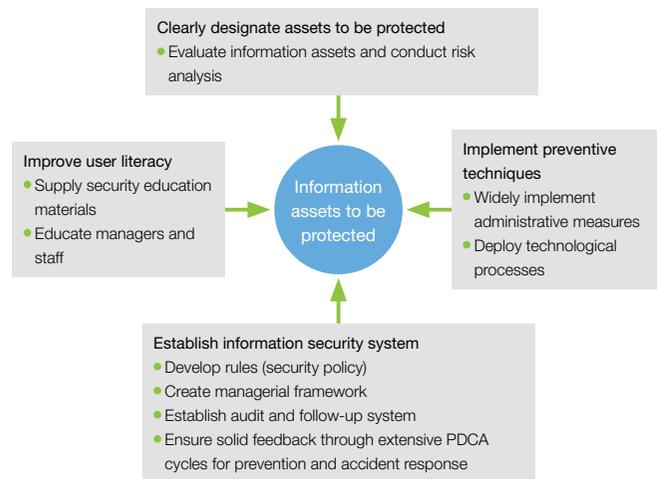
- (1) **Precautionary measures and prompt security responses**  
We classify assets to be secured and take safeguarding measures based on vulnerability and risk analyses. We also have an emergency manual for security breaches, based on the assumption that these are inevitable, and not just possible.
- (2) **Promoting stronger ethical and security awareness among data users**  
We have prepared a program tailored to Hitachi's various personnel levels and are working to raise the prevailing sense of ethics and security awareness through Group-wide e-learning. We are also conducting audits to identify and address problems early on.

Details, including a message from the CIO and a list of third-party assessments and certifications, are contained in *Information Security Report 2016*.



*Information Security Report 2016*

**Basic Approach to Information Security Governance**



**Education on Information Security**

Consistently maintaining information security requires all parties to continually develop their knowledge of information handling and to remain strongly aware of the issues. For this reason, we hold annual e-learning programs on information security and personal information protection for all directors, employees, and temporary employees.

Nearly all of the roughly 40,000 employees at Hitachi, Ltd. participate in these programs. We offer a variety of courses that have different goals and are tailored to different target audiences, including new employees, new managers, and information system administrators. In 2012, we also began simulation training to educate employees about the increasing trend toward malicious targeted e-mail attacks and other cyberattacks. Employees are sent examples of targeted e-mail to heighten their awareness of security through direct experience.

Our educational programs, available to Hitachi Group companies in Japan and other global regions, provide Group-wide education on information security and personal information protection.

**Preventing Information Leaks**

Hitachi, Ltd. has formulated the Three Principles for Preventing Leakage of Confidential Information to ensure the highest level of care for such information and to prevent leaks and other related incidents. Our policies ensure that if an incident does occur, damage is promptly minimized by contacting customers, reporting to government agencies, investigating causes, and acting to prevent any recurrence.

We take the following IT steps to prevent information leaks: using encryption software and secure PCs; employing electronic document access control and expiration processing software; maintaining ID management and access control by building an authentication infrastructure; and filtering e-mail and visited websites. In response to the recent spate of targeted e-mail attacks and other cyberattacks, we are participating in an initiative to share information between the private sector and the government. We are also enhancing our IT organization by adding more layers to our leak prevention procedures, including both entry and exit countermeasures.

To ensure the secure exchange of information with our suppliers, we review their information security measures based on Hitachi's own standards before allowing them access to confidential information. We have provided tools to suppliers (procurement partners) for security education and for checking business information on computers. In addition, we require suppliers to check and remove business information from personal computers to prevent leaks.

In the May 2017 global cyberattack, ransomware that functions like a network worm affected parts of Hitachi's in-house system, temporarily disabling the sending and receipt of e-mails. No information leaks were detected, however, and there was no damage to customers or other outside parties through e-mail sent from the Hitachi Group.



Damage Caused by Ransomware, and Status of Recovery

**Three Principles for Preventing Leakage of Confidential Information****Principle 1**

As a general principle nobody can take Confidential Information out of the Company's premises.

**Principle 2**

Any person taking Confidential Information out of the Company's premises due to business necessity shall obtain prior approval from the Information Assets Manager.

**Principle 3**

Any person taking Confidential Information out of the Company's premises due to business necessity shall put in place relevant and appropriate measures against information leakage.

**Global Information Security Management**

Hitachi Group companies worldwide reinforce their information security in line with our Global Information Security Administration Rules, which conform to the international ISO/IEC 27001 standard. These rules are distributed from the parent company in Japan to Group companies around the world. Other security measures include secure shared services and support from our regional headquarters in the Americas, Europe, Southeast Asia, China, and India.

**Thorough Information Security Audits and Inspections** ✓

The Hitachi Group has developed its approach to security based on the "plan-do-check-act" (PDCA) cycle for its information security management system. We conduct annual information security and personal information protection audits at all Group companies and business units.

The president of Hitachi, Ltd. appoints officers to conduct independent audits. These officers are not allowed to audit their own units, underlining our commitment to fairness and objectivity in auditing. There are 222 Hitachi Group companies in Japan that conduct audits in the same way as Hitachi, Ltd., and all results are subject to confirmation. For Hitachi Group companies outside Japan, we use a "common global self-check" approach to ensure Group-wide auditing and inspections. We implement Confirmation of Personal Information Protection and Information Security Management annually for the voluntary inspection of business unit workplaces. We conduct monthly Confirmation of Personal Information Protection and Information Security Management assessments at 654 operations (as of March 2017) that handle important personal information. This regular control mechanism ensures ample safety management and implementation.