

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.

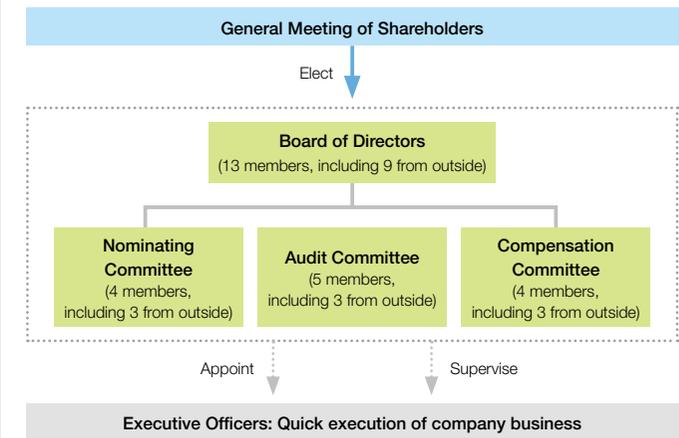
*1 A corporate governance system under the Companies Act of Japan, where a board of directors makes basic policy decisions and oversees the execution of business by executive officers, while the executive officers, appointed by the board of directors, execute the company's business affairs via a set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

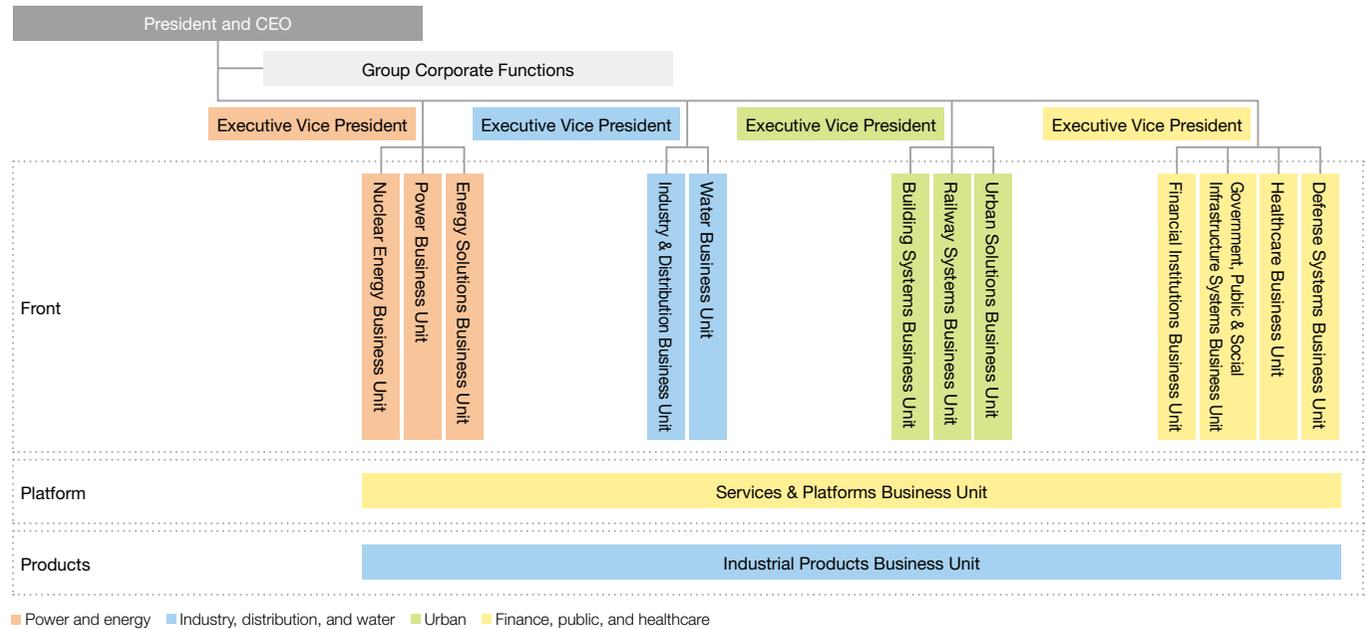
Our Services and Platforms Business Unit offers a shared platform aggregating and integrating technologies essential for advanced services, including artificial intelligence, analytics, and control technologies.

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.

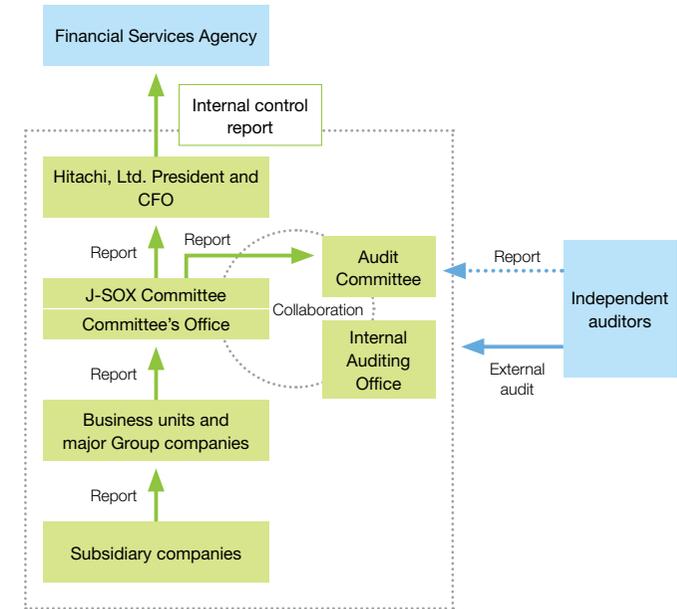
Internal Control over Financial Reporting

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

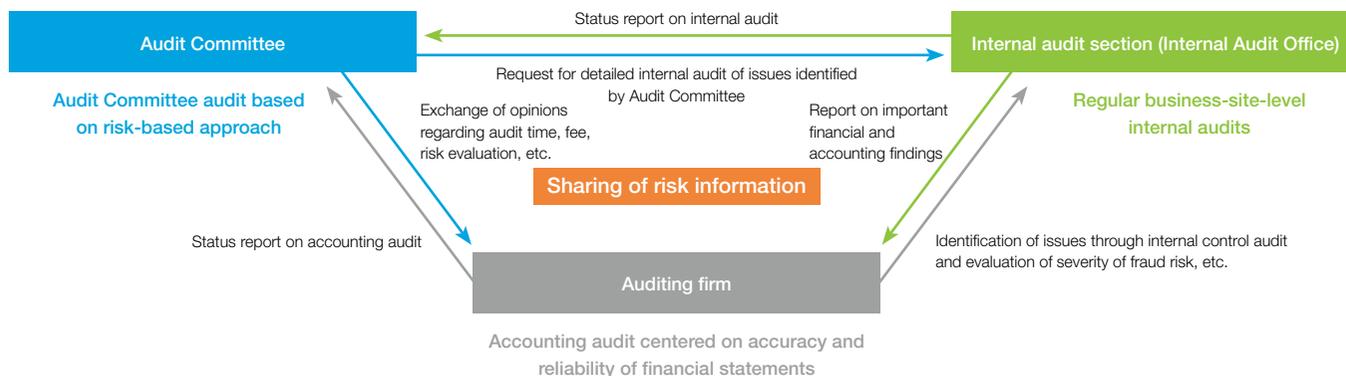


Toward a Stronger “Tripartite Audit” Function

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
Total	47	2,953

*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.