



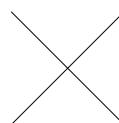
Independent Director* Dialogue

Harufumi Mochizuki

Chairman of the Board
Chair of the Nominating Committee
Chair of the Compensation Committee

Hiroaki Yoshihara

Chair of the Audit Committee



Board of Directors' Activities that Make Us a Global Leader

Board of Directors

In what ways is the Board of Directors at Hitachi, a company with nominating committee, etc., conducting managerial oversight?

Director Mochizuki: Hitachi's directors may have richly diverse backgrounds, but they all are united in their focus on world-class governance. Based on my personal perception, if the executive officers were swords, the directors would function like a whetstone. We hold extensive discussions as if we were grinding swords against this whetstone until it wore down, thereby creating shimmering swords. I think it is an important vision for us as directors.

The Board of Directors narrows topics of discussions down to matters of key importance, including budgets, financial results, the Mid-term Management Plan, M&A and high-risk investments. Our discussions are focused, but almost every member of the Board has something to say about each matter on the agenda, which frequently results in discussion regarding a single topic lasting more than an hour. This may be unique to Hitachi, but we sometimes hear explanations regarding important matters in advance at Audit Committee meetings, where we proactively make inquiries concerning matters we hold in question. Depending on the situation, we sometimes also ask for executive officers to make preparations at Board of Director meetings.

We also considered proposals from executive officers when forming the three-year 2021 Mid-term Management Plan that we announced in this May. We discussed these proposals on five occasions spanning an entire year, first focusing on their aims and then moving on to their main points before working on formulating drafts. This process gave depth to discussions regarding the

key elements of the mid-term management plan, which include global leadership; social, environmental and economic value; capital allocation; and capital cost. All related parties, including the Executive Vice Presidents, attended the meeting of the Board of Directors held on the day we announced the mid-term management plan, during which we discussed how we should inform individuals both inside and outside of the Company regarding the plan.

Director Yoshihara: Additionally, in fiscal 2018, we made business judgements on important matters impacting the entire Company after holding active discussions within the Board of Directors and Audit Committee and hearing additional explanations from individual executive officers on an as-needed basis. These important matters included decisions regarding the acquisition of ABB's Power Grids business and the suspension of the Horizon Project, a nuclear power plant construction project in the U.K. Every time it faces decisions like these, the Board of Directors conducts analyses and discussions concerning issues such as market trends, business strategies, acquisition prices, post-merger integration (PMI) processes and potential risk from a variety of perspectives. In the past, we have encouraged reconsideration of the projects that are inconsistent with our overall strategy or lack accountability in terms of economic rationality.

* The "Independent Directors" are the directors who fulfill the qualification requirements to be outside directors as provided for the Companies Act of Japan and also meet the independence criteria defined by the Company and those provided by Japanese stock exchanges where the Company is listed.

■ How was the Board of Directors involved in profitability improvement and business portfolio revision, two major themes of the 2018 Mid-term Management Plan?

Director Yoshihara: In fiscal 2018, the final year of the 2018 Mid-term Management Plan, we achieved both an adjusted operating income ratio of 8% and record-high profit. When excluding impact from the suspension of the Horizon Project, we also exceeded the plan's targets for net income attributable to Hitachi, Ltd. stockholders and ROA. Looking back on the three years covered by the plan, I realize that we achieved the targets we set for each year of the plan ("Prepare for growth" in fiscal 2016, "Change gears toward growth" in fiscal 2017 and "Achieve mid-term management plan to be a globally integrated enterprise" in fiscal 2018) and sense a very strong momentum.

However, these are just results. The Board of Directors holds discussions concerning topics such as whether the direction the Company is taking is in line with its vision of becoming a global leader or what is necessary to achieve this vision. When investment, including R&D expenditure, decreases, we conduct intense reviews to make sure that appropriate mid- to long-term growth strategies, including R&D strategies, are not being neglected, even for departments that are meeting their short-term targets. We also demand that even departments with particularly high results, such as adjusted operating income ratios of 8% or 10%, raise and meet their goals when they are being outperformed by global competitors. As for less profitable businesses, we routinely confirm their progress in terms of improving profitability. When businesses are continued despite not meeting targets for improved profitability, we conduct ongoing follow-ups concerning the reasons for their continuation, as well as future countermeasures.

Director Mochizuki: Even if we establish plans and implement them perfectly, external environments never conform to our expectations exactly. When faced with changes in business environment, how quickly we can react and how hard we work to meet our initial targets are important factors. Evaluations concerning this speed, time frames and results are primarily conducted by our independent directors, who have experience in managing global companies. Our Board of Directors is characterized by strictness that is unprecedented when it comes to Japanese companies, and I believe that this toughness had a significant impact on the improvement of our results.

Hitachi manages multiple large-scale businesses, so it can be extremely difficult from the outside to figure out what kind of company it is. This

means that analyzing Hitachi takes time, which reduces the amount of opportunity for people to become interested. It would be a waste for us to reduce our own level of opportunity to be positively evaluated by capital markets and would also be undesirable from a governance point of view. We have repeatedly discussed and asked executive officers what kind of company we would like to become and why we engage in the businesses we do. As a result, revisions to our portfolio have picked up speed over the past few years.

■ What is the background or the system that allows for frank and effective discussions?

Director Yoshihara: One reason cited for our ability to conduct frank and effective discussions is the management team's wonderful Tone at the Top approach. In particular, I feel that Executive Chairman Nakanishi and CEO Higashihara's Tone at the Top approaches are providing us with an environment that encourages frank and sincere discussions and enable quick access to information and people within Hitachi. Our top management's attitude of sincerely working together to create a bright future based on our fundamental principles regularly appears in their words and conduct. This attitude is what forms the cornerstone of good governance at Hitachi and encourages our independent directors to adopt attitudes that will spare no opportunity to support Hitachi's proper success.

Director Mochizuki: Hitachi's system of holding annual Board of Director meetings overseas in line with its goal of becoming a global leader may also be unique. The goals of these overseas meetings are for all directors to visit locations important to our global businesses together, provide local residents with a deeper understanding concerning our businesses and raise the awareness of local employees. During the previous fiscal year, we held this meeting in San Francisco, where we met with senior management from Hitachi Vantara and other Group companies to discuss overseas business strategies related to IT. We also invited experts on local circumstances and lecturers from organizations such as the World Economic Forum Center for the Fourth Industrial Revolution Japan (C4IR), who provided us with the opportunity to understand front-line trends.

Furthermore, we ensure that annual evaluations of the effectiveness of the Board's activities are done to completion by holding meetings in which independent directors discuss their results with the goal of improving them. Although the opinions of individual directors may vary, we feel a strong sense of unity in that we all share the desire to contribute to the success of Hitachi. I believe that this sense of unity is an essential component of the Board of Directors.

Three Committees

■ Next, please tell us about the activities of each committee. First, how does the Nominating Committee select director candidates?

Director Mochizuki: After thoroughly discussing the ideal composition for the Board of Directors based on considerations of management issues, we try to compose images of the individual candidates we believe to be necessary.

We then request that external consulting companies compile a list of potential candidates based on these images and then hold discussions

regarding this list. After narrowing down the number of potential candidates, 4 members of the Nominating Committee then hold interviews individually with each of them. The committee then discusses these results before finally drafting a list of final candidates, which is submitted at the General Meeting of Shareholders. Each member of the committee takes pride in Hitachi's Board of Directors and participates in the establishment of its ideal vision. For these reasons, committee members sometimes have different opinions, regarding which they hold active and frank discussions.

Independent Director Dialogue

■ What about the selection and training of CEO candidates?

Director Mochizuki: The selection of the next CEO is the Board of Directors' largest mission. The Nominating Committee deliberates concerning the succession plan after hearing reports from executive officers. First, while maintaining a common awareness regarding the qualifications that Hitachi requires from a CEO, the Nominating Committee first discusses what kind of human resources will be needed and at what time. Through discussions and individual coaching, the committee narrows down candidates for leadership positions, including CEO, from an unfixed pool of human resources that it attempts to revise at the conclusion of each fiscal year for a period of several years. This process enables members of the Nominating Committee to understand the candidates while providing candidates with the opportunity to learn a lot from the Nominating Committee. We do not limit our consideration to the next CEO but also consider subsequent CEOs in the near and more distant future. Accordingly, we work to train management from a mid- to long-term perspective as well, which we do through a variety of efforts, including awareness-raising activities. These activities include lectures conducted by independent directors targeting young employees referred to as the "Future 50."

Director Yoshihara: For sure, members of the Nominating Committee are deeply involved in Hitachi's leader development program. Committee members hold discussions with candidates for leadership positions regarding actual management issues and contribute to concrete training plans that involve the creation of opportunities for candidates to acquire actual work experience through overseas assignments and involvement with various business units. Hitachi promotes diversity as a driver of growth, and the diversification of all levels of its management, in terms of nationality, gender and age, has picked up speed, particularly since Director Cynthia Carroll joined the Nominating Committee, bringing proactive initiatives along with her.

■ How does the Compensation Committee make decisions regarding remuneration?

Director Mochizuki: Our executive compensation comprises basic remuneration, short-term incentive compensation and medium- and long-term incentive compensation. We decide payment levels based on considerations of economic environment, market trends and levels at other companies.

When deciding upon executive compensation that will objectively satisfy the corporate officers who receive it, we make every possible effort to avoid being arbitrary, as we believe that it is important for this compensation to lead to the desire to work toward maximizing Hitachi's corporate value. Based on this point of view, we have been promoting reforms for several years. In fiscal 2019, we increased the ratio of variable compensation to overall compensation. A distinguishing feature of this change is the reflection of personal target evaluations in short-term incentive compensation. Additionally, we adopted a restricted stock compensation system for executive officers with the goal of providing an incentive for our management team to work toward continuous growth in corporate value from a medium- to long-term point of view while sharing a common perspective with our shareholders. Eligibility for mid-term stock-based compensation incentives may be partially reduced depending on how total shareholder return measures up compared to the TOPIX growth rate.

We are continuously conducting reviews aimed at optimizing our systems as our management team becomes more diverse, with a growing number of foreign members, and faces changing management issues.

■ Please tell us about Hitachi's tripartite audit approach, which involves close collaboration among the Audit Committee, the internal audit section and external third-party auditing firm.

Director Yoshihara: The establishment and maintenance of appropriate audit systems are extremely important matters for companies like Hitachi that are expanding businesses globally. The Audit Committee primarily identifies, assesses and deals with the various risks that face the entire Hitachi Group, which includes about 800 consolidated subsidiaries worldwide. To perform these activities, the Audit Committee, the internal audit section and external third-party auditing firm cooperate closely to perform their tripartite audit function. This cooperation is based on mutual trust, transparency and a shared sense of vigilance.

Moving forward, Hitachi will aim for further growth overseas. An increase in global growth opportunities also means a simultaneous related increase in potential risk. For this reason, we must be more prepared than ever to verify and cautiously consider this varied range of risks. Accordingly, it will become important for us to further intensify our tripartite audit approach on a global scale. To enable all members of the Audit Committee to more accurately understand global risks, we will provide instructions concerning matters of priority to the internal audit section while gathering information from related business departments and proactively visiting important sites both in Japan and overseas, including those of acquired companies, to conduct inspections.

■ Other than through on-site inspections, how do you identify risks?

Director Yoshihara: Members of the committee also request that executive officers provide explanations regarding other projects that are deemed to carry a high degree of risk. In fiscal 2018, the committee requested explanations concerning scandals and information security, confirming the validity of response measures as well as progress on improvement efforts. When considering projects that have resulted in comparatively large-scale monetary losses, the committee receives explanations regarding the cause of these losses and recurrence prevention measures.

As original measures, Audit Committee members hold audit reporting sessions targeting all corporate divisions and verify the status of initiatives aimed at raising the corporate value of back-office sections. At least once per year, responsible parties from about 20 divisions, including human resources, procurement, IT and brands, provide explanations concerning the execution of these initiatives to the committee, which, having gained an understanding of the issues these divisions face, provides operational advice as well as other support.

■ How does Hitachi's tripartite audit approach differ from similar approaches employed at other companies with nominating committees, etc.?

Director Yoshihara: I cannot speak for what other companies are doing but, generally, I can say that no matter how magnificent the organizations and structures you build happen to be, when it comes to practical implementation, their

abilities to perform tasks and the amount of enthusiasm they put into them often determine their actual efficacy. The three parties that help Hitachi implement its tripartite audit approach continuously work earnestly to achieve ideal auditing that is more effective and efficient. All members of the tripartite audit team work to plan and implement audits in a manner that is respectful and disciplined while remaining keenly aware of each other's roles. Before, we mentioned our top management's Tone at the Top approach; our management team, our finance department and other organizations that receive audits have high levels of understanding and awareness regarding governance, which creates a very cooperative environment. Each year, the Audit Committee receives feedback from the internal audit section, the finance department and external auditing firm. It then holds discussions regarding this feedback and earnestly engages in initiatives aimed at further strengthening and improving Hitachi's tripartite audit system and framework.

■ Could you explain your thoughts regarding future improvements to the Audit Committee?

Director Yoshihara: We are conducting a variety of ongoing initiatives aimed at enhancing the effectiveness and efficiency of the committee's oversight function. For example, starting from the current fiscal year, we are appointing sector auditors who provide support by constructing tripartite audit frameworks for their individual sectors of responsibility. This support contributes to the further enhancement of our governance. We are also discussing the use of digital technology to raise the efficiency of our auditing operations, which require a great deal of time. Furthermore, we are continuously aiming to enhance our auditing function by working to uncover human resources with audit capabilities within the Hitachi Group. At the same time, we hold training and brainstorming sessions targeting personnel throughout the Group who are involved with audits.

Looking Ahead

■ Finally, could you explain the key points of Hitachi's governance? Also, please tell us about the challenges you will tackle and the points on which you will focus to meet targets in the 2021 Mid-term Management Plan.

Director Mochizuki: The executive officers and directors that make up our management share common targets and work together to refine their abilities and maximize their performance as managers. I believe that this sharing of goals and teamwork define governance at Hitachi.

To become a global leader, we must always think about what is necessary and continue to develop our governance sustainably. In terms of meeting targets in the 2021 Mid-term Management Plan, the most important task facing the Board of Directors is to reliably follow-up on and support the implementation and progress of the plan.

The Nominating Committee will aim to continuously adjust the composition of the Board of Directors in accordance with our management issues. As for our CEO succession plan, all members of the committee are focusing their full efforts toward selecting our next CEO. However, starting from this year, we have decided to strengthen the involvement of the entire Board of Directors by including directors who are not Nominating Committee members in the process. As the Compensation Committee has just implemented new compensations structures, we will continue to verify whether they have truly increased effectiveness and whether they contribute to our goal of becoming a global leader.

Director Yoshihara: Generally, when people talk about governance, we tend to pay attention to the compliance aspect (e.g., legal compliance). However, the essential purpose of compliance is to fulfill the expectations of the shareholders who have placed their trust in us and to raise our corporate value by practicing good management. Therefore, it goes without saying that Hitachi's governance strategy must involve compliance countermeasures aimed at preventing issues such as anomalous transactions and legal violations. However, from the perspective of true governance, our directors must hold timely discussions with our management team when they make important decisions aimed at raising corporate value and participate in the process of implementing these decisions. The support and supervision our

directors provide is essential toward making sure Hitachi is on track toward success.

In our 2021 Mid-term Management Plan, we have identified three key challenges we must face to achieve our goal of becoming a true global leader. First, we must further strengthen our hiring and development processes to secure diverse human resources capable of performing globally. Second, we must build a global ecosystem that will support our digital solutions business, which is primarily based in Lumada. Third, the Hitachi Group must continuously revise and accelerate the development of its business portfolio so that it will enable the Group to maximize its synergies on a global scale and function as One Hitachi.

We are currently experiencing an era of volatility, uncertainty, complexity and ambiguity (VUCA) in which changes occur daily and quickly and many opportunities and risks exist alongside each other. The Audit Committee is prioritizing further enhancement of our global risk management. For example, it is extremely important for us to work to reduce risk by strengthening our monitoring of overseas acquisitions. As an independent director, I will continue to support and supervise the management team in the execution of its duties in accordance with Hitachi's founding corporate philosophy of contributing to society. These efforts will serve to assist Hitachi as it aims to raise the three values (social, environmental, economic) targeted in its 2021 Mid-term Management Plan and become a global leader of social innovation.

Director Mochizuki: Both the management environment and the issues facing our management are continuously changing at a dizzying pace. Under these conditions, ideal governance for Hitachi is continuously changing, presenting a perpetual challenge for its management. Moving forward, I will continue to support Hitachi in its goal of becoming a global leader by continuously working to improve the management of its Board of Directors and all of its committees, as well as the systems they decide upon, while maintaining a trial-and-error approach.