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

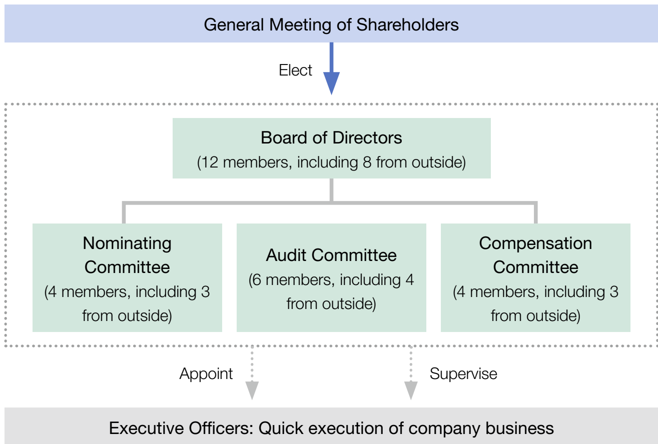
Hitachi, Ltd. has adopted the committee system, which has nominating, audit, and compensation committees.*1 We aim to establish a framework for quick business operations and to realize highly transparent management by separating the responsibilities for management oversight from the execution of business 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 four 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

Hitachi is continuing efforts to strengthen its business structures in order to accelerate collaborative creation with customers and develop value-creating innovations through services and products. In April 2016, we transitioned to a market-driven business structure with three levels—namely, "Front," "Platform," and "Products." Starting in April 2018, this structure has been reinforced to promote global development of digital solutions.

Strengthening Frontline Functions of Focus Business Domains

Our frontline function businesses include 10 Front business units (BUs) and other functions with strengthened capabilities in sales, engineering, and consulting. These functions target our four focus business domains of “power and energy”; “industry, distribution, and water”; “urban”; and “finance, social, 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 that handle product businesses 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.

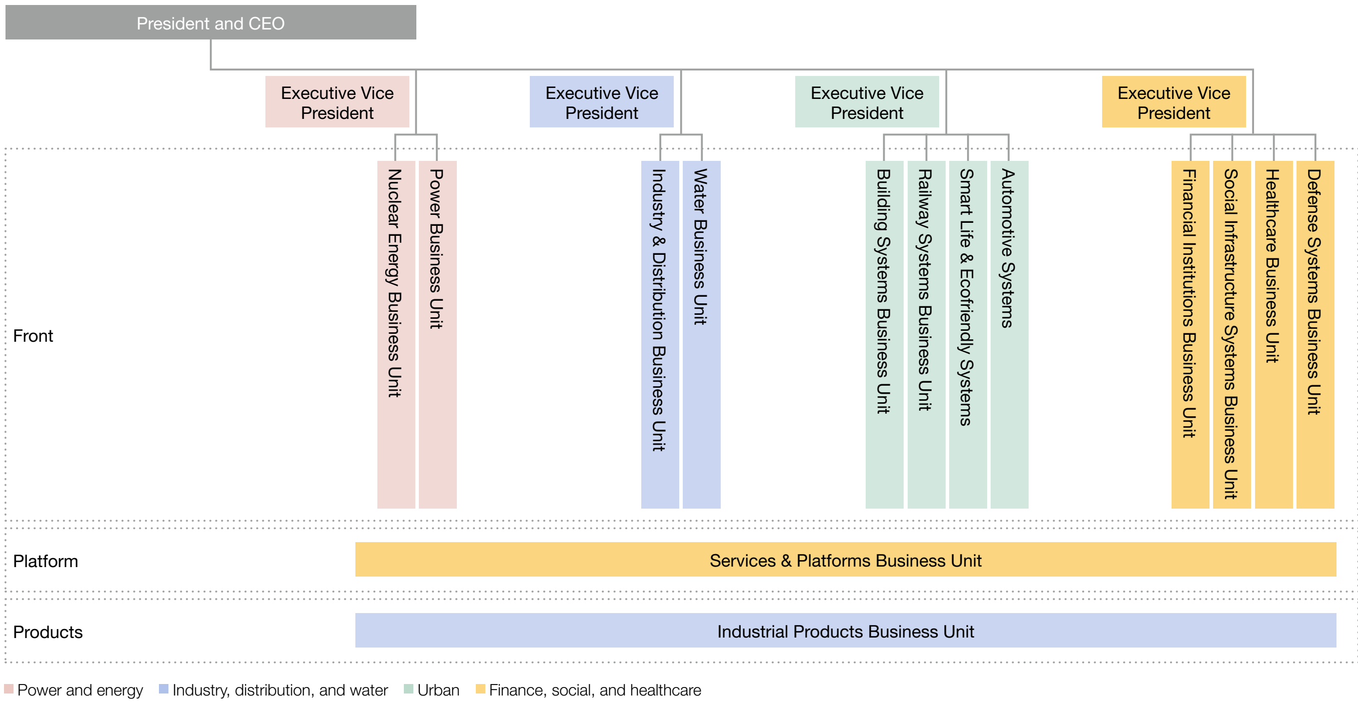
Because BUs are under the direct control of the president, each unit’s CEO has investment authority and responsibility for profit and earnings. They work in partnership with other BUs, comprehensively and organically leveraging the resources of the entire Hitachi Group and creating innovations quickly 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.

Strengthening Structures to Promote Digital Solutions

Digital solutions are a growth driver for the Social Innovation Business. To accelerate them globally, since April 2018 the executive vice president and head of the Systems & Services Business has held an additional role as head of the Social Innovation Business to supervise strategic planning for digital solutions as well as customer approach and new strategic projects. By placing the Social Innovation Business Division and Hitachi Digital Global Holdings under unified control and enhancing cooperation among the two as well as other business units, Hitachi aims to promote the use of digital technologies in the Social Innovation Business. Hitachi Global Digital Holdings has brought together under its umbrella Hitachi Vantara, which develops and provides IoT platforms and data analytics services, and the Hitachi Consulting Corporation, which is headquartered in the Unites States and provides consulting services.

Fiscal 2018 New Business Structure



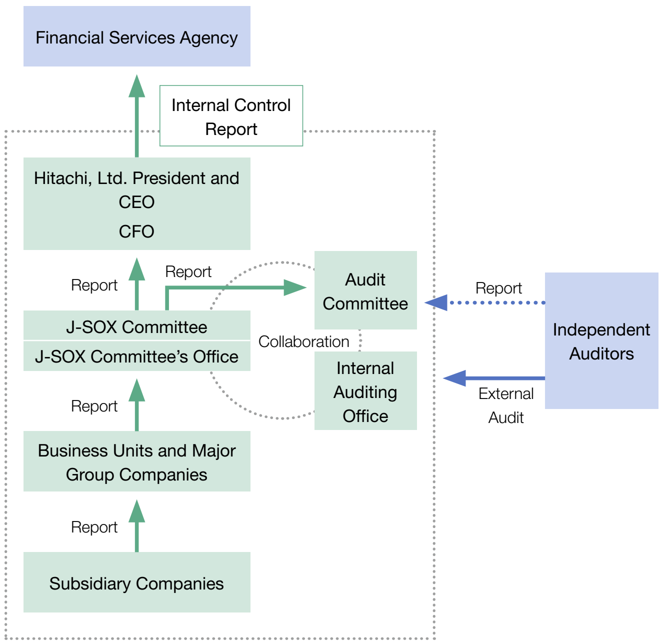
Hitachi to Make a Transition to a Market-Specific Business Structure with Strengthened Frontline Functions

Hitachi to Strengthen Business Structures for Global Expansion of the Social Innovation Business

Internal Control over Financial Reporting

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

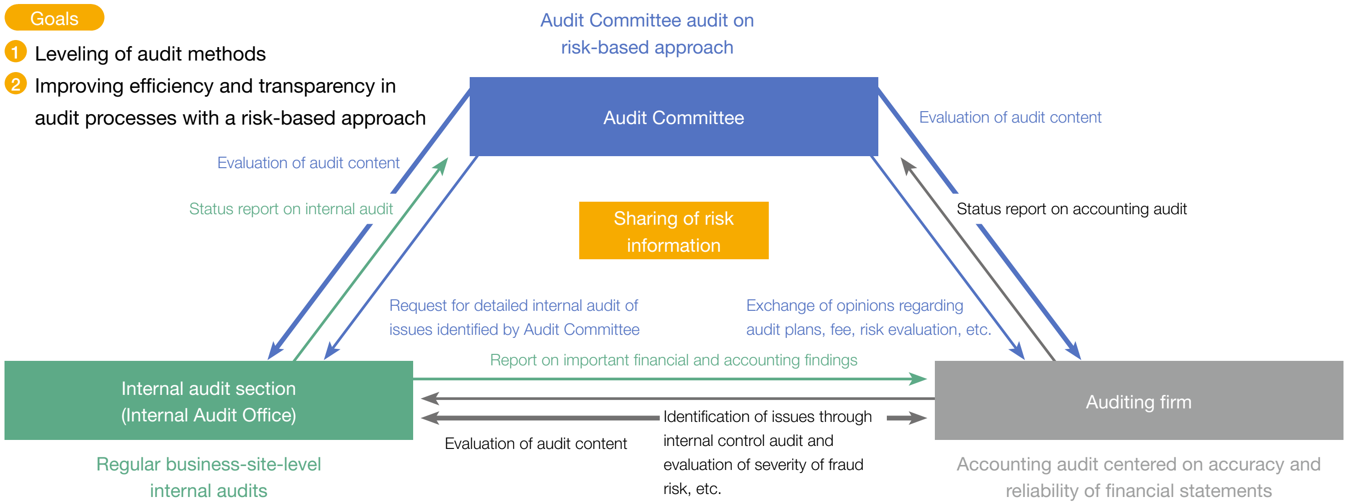
Hitachi Group Internal Control Assessment Framework



Toward a More Integrated "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 external auditing firm. Through close communication, the three functions share information about risks and evaluation of risk responses; ensure the audit process is transparent with appropriate checks and balances; and improve the effectiveness of internal control systems.

Improving Internal Control through a "Tripartite Audit" Function



Director and Executive Officer Compensation

The Compensation Committee, of whose members more than half are independent outside directors, sets forth the policy on the determination of compensation details for directors and executive officers and, based on this policy, the amount of compensation, etc., of each director and executive officer, pursuant to applicable provisions of the Companies Act.

Since fiscal 2008, the compensation structures for directors and executive officers has been revised to eliminate severance payments.

Basic Policy

- Compensation shall be sufficiently attractive to retain the personnel required to realize improvements in enterprise value through global business growth.
- Compensation shall be commensurate with the roles and responsibilities of directors and executive officers.
- Compensation for directors shall contribute to effective supervision of management.
- Compensation for executive officers shall provide incentives to contribute to sustained improvement in enterprise value through business execution, while striking an appropriate balance between short-term results and performance over the longer term.
- Compensation levels shall take into account remuneration at other companies, along with economic conditions and market trends.
- In considering the terms and amounts of compensation, the Compensation Committee shall seek objective advice as necessary from outside experts.

Compensation Structure

(1) Directors

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

① Basic remuneration

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.

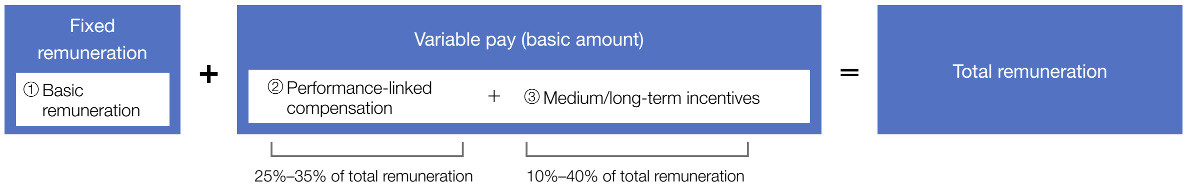
② Year-end allowance

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.

(2) 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 is as a portion of total annual compensation.

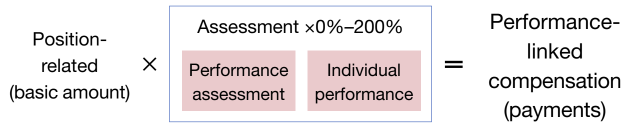


① Basic remuneration

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.

② Performance-linked compensation

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.



③ Medium- and long-term incentive compensation

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. The proportion of the assessment (0%–100%) is determined by comparing the total shareholder return*1 for Hitachi stock against the rate of growth in the TOPIX benchmark. This is set to 0% if the TSR is less than 80% of the TOPIX growth rate, and reaches 100% once the TSR rises to at least 120% of the TOPIX growth rate, with intermediate results for figures in the 80%–120% range.

Position-related stock options granted (basic amount) × Assessment 0%–100% (Relative to TOPIX growth rate) = Exercisable stock options (fully vested)*2

*1 Total Shareholder Return (TSR) includes capital gains (due to share price movements) and income (dividends).

*2 Stock options can no longer be exercised if fraud or other serious misconduct occurs during the term of office. Under a claw-back arrangement, the company can demand repayment of economic gains made from any options that have already been exercised if fraud or other serious misconduct is discovered during the term of office.

Directors or executive officers whose compensation from the company and its subsidiaries is not less than ¥100 million and the amount of their compensation are as listed at the following link:

Annual Securities Report (The 149th Business Term) (pp. 75–77)