

# Corporate Governance

## Hitachi's Approach

Hitachi not only strives to ensure the legality, soundness, and transparency of its business but also endeavors to respond rapidly to constantly changing economic and social conditions and efficiently conduct operations. We seek to increase corporate value by formulating and executing business strategies to enable the Group to demonstrate its collective strength, bolstering mutual collaboration within the Group, and improving management oversight of Group companies. We maintain and reinforce a management structure enabling us to fulfill our social responsibilities in line with the Corporate Governance Guidelines, formulated to provide a framework for corporate governance and direction for our reinforcement efforts.



### Our Impact on Society

No. of consolidated subsidiaries

Japan: **181** Outside Japan: **622**



### Our Performance

Ratio of non-Japanese directors

**36.4%**

## Basic Approach

Policy

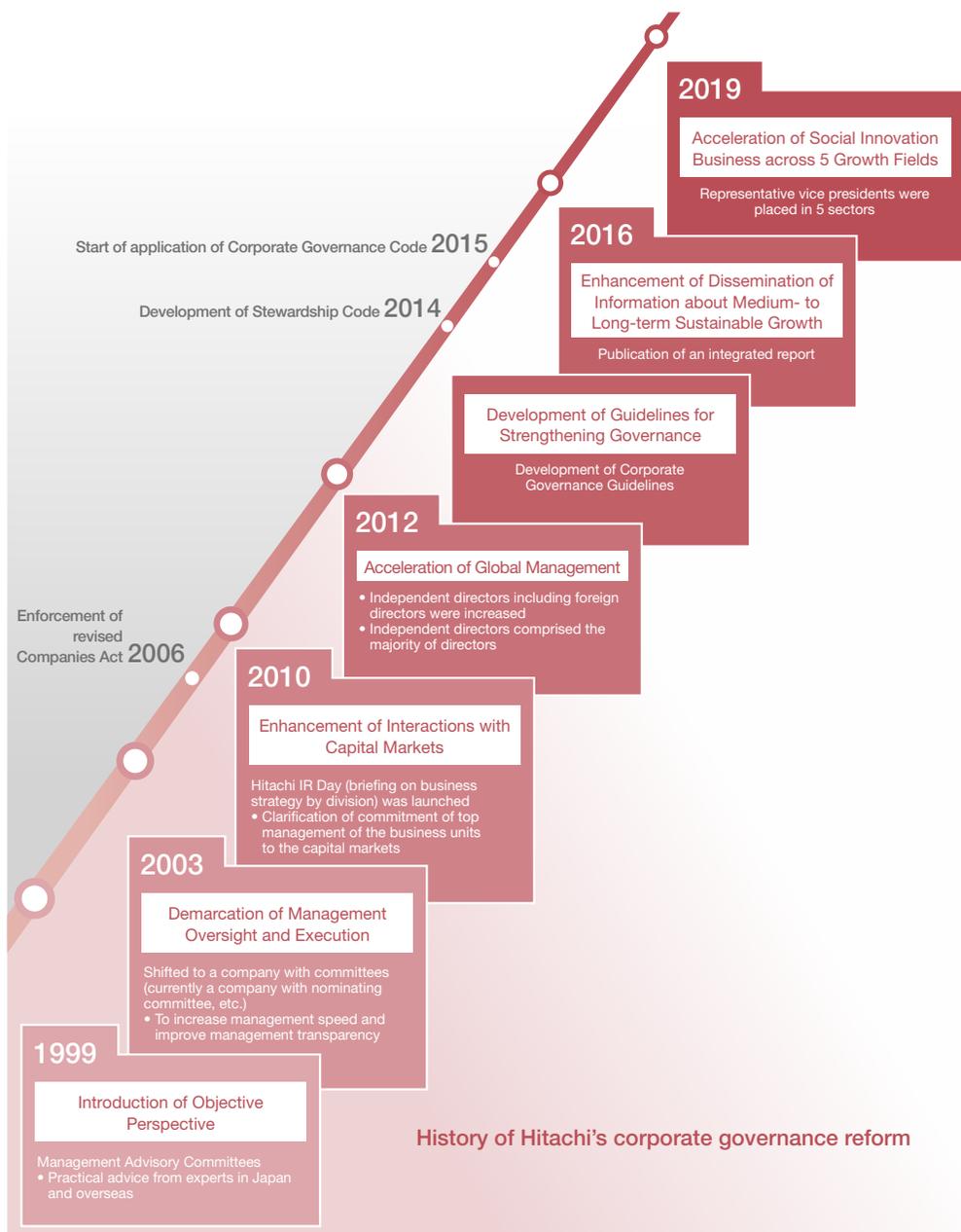
Hitachi is a company with nominating committee, etc. under the Companies Act of Japan. In June 2003, we changed our organizational design, separating the oversight of management from execution of management. By demarcating responsibilities for management oversight and those for the execution of business operations, Hitachi is working to create a framework for nimble operations, while making management highly transparent.

In June 2012, we ensured that 7 of the 13 members of our Board of Directors were independent directors\*1, and that some of these independent directors were non-Japanese. These changes will help us to establish management that reflects diverse global perspectives and strengthen our supervisory functions.

Starting in June 2015, Corporate Governance Code of Japan (the "Code") was applied to companies listed on Japanese stock exchanges. In 2012, Hitachi formulated and published Corporate Governance Guidelines as a set of enhancing principles and as a framework for corporate governance that includes criteria for determining the roles and composition of the Board of Directors, director appropriateness and the independence of independent directors.

Hitachi agrees with the basic approach of the Code, which is that the Code's appropriate implementation will contribute to the development and success of companies, investors and the Japanese economy as a whole through individual companies' self-motivated actions, so as to achieve sustainable growth and increase corporate value over the medium- to long-term. Moving forward, Hitachi will work to further strengthen corporate governance.

\*1 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.



## Implementing All of the Principles of the Corporate Governance Code

Objectives, Activities, and Achievements

We are implementing all of the principles of the Corporate Governance Code.

## Analysis and Evaluation of the Effectiveness of the Board of Directors

Objectives, Activities, and Achievements

The Company evaluates the effectiveness of its Board of Directors as a whole each year, in a continuous effort to maintain and improve its functions.

### Fiscal 2018 Evaluation Process

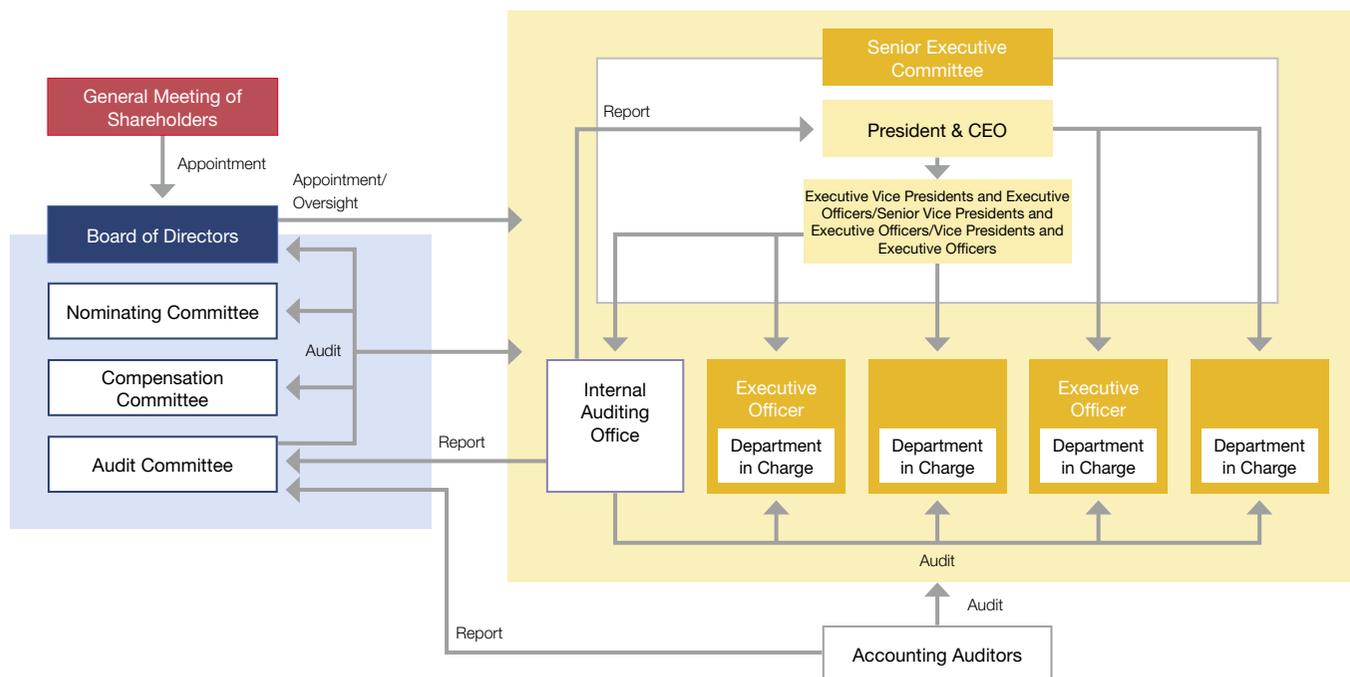
1. Questionnaire-based self-assessment for each director (February–March 2019)	Points of evaluation
	<ul style="list-style-type: none"> <li>Composition of Board of Directors: Member diversity, numbers and ratios of independent directors and inside directors, etc.</li> <li>Operation of Board of Directors: Meeting frequency, discussion time, proposal selection, role of chairperson, etc.</li> <li>Contribution: Contribution to management strategy formulation and other matters, member demonstration of experience and knowledge, etc.</li> <li>Status of committee activities: Composition, responsibilities and roles, collaboration with Board of Directors, etc.</li> <li>Operation supporting system: delivery of information e.g., provision of documents for the Board</li> </ul>
	2. Discussions held by independent directors (March 2019)
3. Discussion and review within the Board of Directors (May 2019)	<ul style="list-style-type: none"> <li>Independent directors held an exclusive meeting to discuss the effectiveness of the Board of Directors.</li> </ul>
	<ul style="list-style-type: none"> <li>The Board of Directors holds a discussion based on the results of the questionnaire-based self-assessment and discussions conducted in the exclusive meeting attended by independent directors, comparing these results to those of the previous year and considering the statuses of related initiatives. Through this discussion the Board of Directors analyzes and evaluates its overall effectiveness and identifies policies through which it can increase this effectiveness.</li> </ul>

### Evaluation Results and Future Initiatives

Overall evaluation in fiscal 2018	
Overall evaluation in fiscal 2018	Fiscal 2018 evaluations determined that membership in our Board of Directors was sufficiently diverse. They also indicated the Board of Directors' overall effectiveness was satisfactory due in part to its active discussions aimed at medium- to long-term growth in corporate value. Each director was found to have contributed his or her own knowledge to these discussions, which were primarily focused on points related to management strategy, including the Mid-term Management Plan.
Future initiatives	
Maintenance and improvement of Board of Director functions	<ul style="list-style-type: none"> <li>Determine the Company's medium- to long-term strategic direction and further contribute to the formulation of business strategies</li> <li>Raise contribution to CEO succession planning</li> <li>Conduct thorough and continuous monitoring of important matters</li> </ul>
Enhancement of support to operation of the Board of Director	<ul style="list-style-type: none"> <li>Continue to create opportunities to share information, including independent directors visit to Group locations</li> <li>Apply ingenuity to improve the design and content of documents and work to consistently provide them in advance</li> </ul>

## Corporate Governance Framework

Frameworks and Systems



Within the Board of Directors, there are 3 statutory committees—the Nominating Committee, the Audit Committee, and the Compensation Committee—with independent directors accounting for the majority of members of each committee. The Board of Directors meetings were held on 12 days during the fiscal year ended March 31, 2019, and the attendance rate of directors at these meetings was 96%. The attendance rates for each independent director were as shown in the table on the next page. To assist with the duties of the Board of Directors and each committee, staff who are not subject to orders and instructions from executive officers are assigned.

### (1) Nominating Committee

The Nominating Committee has the authority to determine proposals submitted to the general meeting of shareholders for the election and dismissal of directors. The Nominating Committee consists of 4 directors, 3 of whom are independent directors. The Nominating Committee meetings were held on 9 days during the fiscal year ended March 31, 2019.

### (2) Audit Committee

The Audit Committee has the authority to audit the execution of duties of directors and executive officers and to decide on proposals submitted to the general meeting of shareholders for the election and dismissal of accounting auditors. The Audit Committee consists of 5 directors, including 4 independent directors and 1 standing Audit Committee member. The Audit Committee meetings were held on 17 days during the fiscal year ended March 31, 2019.

### (3) Compensation Committee

The Compensation Committee has the authority to determine remuneration policies for directors and executive officers and remuneration for individuals (including amounts of remuneration) based on them. The Compensation Committee consists of 4 directors, 3 of whom are independent

## Board of Directors

Frameworks and Systems

The Board of Directors approves basic management policy for Hitachi Group and supervises the execution of the duties of executive officers and directors in order to sustainably enhance corporate value and shareholders' common interests. The basic management policy includes the Mid-term Management Plan and annual budget compilation. The Board of Directors focuses on strategic issues related to the basic management policy as well as other items to be resolved that are provided in laws, regulations, the Articles of Incorporation, and Board of Directors Regulations. The Board of Directors was made up of 11 directors, 2 of whom concurrently serve as executive officers. Hitachi aims to reinforce the oversight function of the Board of Directors, of which 8 independent directors, including non-Japanese, account for the majority, reflecting their global and diverse viewpoints. The term of office for directors is 1 year.

directors. The Compensation Committee meetings were held on 6 days during the fiscal year ended March 31, 2019.

The Board of Directors continuously supervises succession planning for the CEO. The CEO is appointed or dismissed in line with the proposal of the Nominating Committee in consideration of the matters: 1) that the candidate has the highest personal and professional ethics, integrity, insight, and leadership, and 2) that the candidate is believed to be the one most qualified to realize sustainable enhancement of the Company's corporate value and shareholders' common interests, with rich experience and a distinguished record in the area of corporate management.

Furthermore, Hitachi 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 directors, criteria for assessing the independence of independent directors, and rules on those serving concurrently as officers at other companies.



Corporate Governance Guidelines of Hitachi, Ltd.

### Attendance at Meetings of the Board of Directors by Independent Directors in the Fiscal Year Ended March 31, 2019

Name	Attendance / Number of days on which the meetings were held*1			
	Board of Directors	Nominating Committee	Audit Committee	Compensation Committee
Katsumi Ihara	100%	—	100%	100%
Cynthia Carroll	100%	100%	—	—
Joe Harlan	100%	—	—	—
George Buckley	100%	—	—	—
Louise Pentland	100%	—	—	—
Harufumi Mochizuki	⊙100%	⊙100%	100%	⊙100%
Takatoshi Yamamoto	100%	—	100%	100%
Hiroaki Yoshihara	92%	100%	⊙100%	—

\*1 Number of days during term of office during on which Board of Director meetings were held: 12 (9 in the cases of Mr. Ihara and Harlan)  
 Number of days during term of office on which Nominating Committee meetings were held: 9 (7 in the case of Mr. Yoshihara)  
 Number of days during term of office on which Audit Committee meetings were held: 17 (11 in the case of Mr. Ihara)  
 Number of days during term of office on which Compensation Committee meetings were held: 6 (5 in the case of Mr. Ihara)

⊙ Indicates role as board or committee chairperson

## Executive Officers

Frameworks and Systems

Executive officers decide on matters delegated to them by the Board of Directors and execute Hitachi's business affairs within the scope of assignments determined by the Board of Directors. As of the end of June, 2019, Hitachi has 39 executive officers.

## Senior Executive Committee

Frameworks and Systems

The Senior Executive Committee is a council to ensure that the President deliberately decides on important managerial matters, which may affect the business of Hitachi or the Hitachi Group, through discussion from diverse viewpoints. This committee consists of 12 members as of the end of June, 2019: the president and CEO, 6 executive vice president and executive officers, 4 senior vice president and executive officers, and 1 vice president and executive officer.

## Director and Executive Officer Compensation

Policy

### Basic Policy

- Compensation shall be such that it enables the Company to attract necessary personnel to achieve an improvement in corporate value through global business growth.
- Compensation shall be commensurate with roles and responsibilities of each Directors and Executive Officers.
- Compensation for Directors shall be such that it enables them to exercise functions of supervision of management effectively.
- Compensation for Executive Officers shall be such that it enables them to contribute to sustained improvement in corporate value through the execution of business and employs an appropriate balance between short-term performance and medium- and long-term performance.
- The level of compensation shall be determined taking into account compensation levels at other companies as well as economic and market trends.
- The Compensation Committee utilizes external experts to gain expert advice and an objective viewpoint, if necessary, for considering the details and amounts of compensation.

## Compensation to Executive Officers (FY2019)

Frameworks and Systems

### Compensation Structure

#### (1) Directors

Compensation for directors is basic remuneration as fixed pay. The amount of basic remuneration is decided by adjusting a basic amount to reflect full-time or part-time status, committee membership and position, and travel from place of residence, etc. A director concurrently serving as an executive officer is not paid compensation as a director.

#### (2) Executive Officers

Compensation for executive officers consists of basic remuneration as fixed pay, and short-term incentive compensation and medium- and long-term incentive compensation as variable pay. The basic amount of each type of compensations is set based on the ratio of 1:1:1 as the standard from compensation for the fiscal 2019, taking into account the composition of executive compensation for major global companies, in order to improve corporate value through the growth of global businesses. The higher position of executive officers holds, the higher proportion of variable pay is set to the total annual compensation.

If it is found that an executive officer has been engaged in misconduct during his/her term of office, compensation for executive officers that has been already paid shall be returned to the Company (clawback provision).

Please refer to Compensation to Directors and Executive Officers on P. 75–80 of *Annual Securities Report*.



Annual Securities Report

Total remuneration				
Fixed pay (Basic remuneration)	Variable pay			
	Short-term incentive compensation		Medium- and Long-term incentive compensation	
	Individual target-linked component	Performance-linked component		The shares of restricted stock
Company performance		Division performance		
Set according to the relevant position by adjusting that amount to reflect financial results and individual performance.	Varies according to the evaluation of the level of achievement of individual target for each executive officer determined based on his/her responsibility.	Evaluated referring to consolidated revenues, adjusted operating income, EBIT, and net income attributable to Hitachi, Ltd. stockholders in order to measure the level of achievement of consolidated financial forecasts disclosed to stakeholders, including shareholders and investors.	Evaluated referring to adjusted operating income and operating cash flows for each division, among other indicators, to measure the level of achievement of targets under the Midterm Management Plan and the annual budgets for divisions.	<ul style="list-style-type: none"> <li>The restriction on transfer shall be lifted if executive officers resign from all of the positions of the Company's executive officer, director, and corporate officer.</li> <li>With regard to one-half of granted shares of restricted stock, the number of shares whose transfer restriction is lifted shall be determined after ex-post evaluation in which the total shareholder return of Hitachi stock is compared to growth rate of TOPIX. Lifting of transfer restrictions shall apply to all granted shares if the TSR/TOPIX Growth Rate Ratio is 120% or more. Lifting of transfer restrictions shall apply to part of granted shares if the TSR/TOPIX Growth Rate Ratio is between 80% or more but less than 120%*1. Transfer restrictions shall not be lifted for any shares if the TSR/TOPIX Growth Rate Ratio is less than 80%. Shares whose transfer restrictions are not lifted shall be acquired by the Company without consideration.</li> </ul> <p>*1 Number of shares whose transfer restrictions are lifted = Number of granted shares × (TSR/TOPIX Growth Rate Ratio × 1.25) – 0.5)</p>

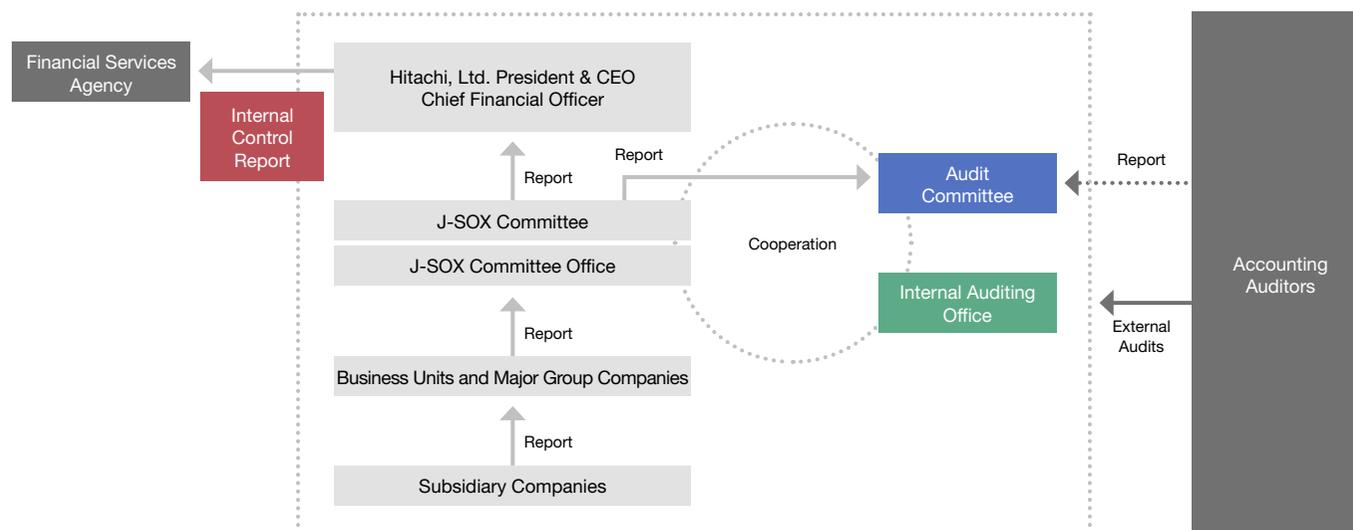
## Internal Control over Financial Reporting

### Frameworks and Systems

To ensure the reliability of its consolidated financial reporting, the Hitachi Group is establishing and implementing relevant internal controls. We evaluate their effectiveness by adhering to standards for the evaluation of internal controls related to financial reporting that are generally accepted as fair and reasonable.

Furthermore, we have established the J-SOX Committee with the goal of raising the effectiveness of these internal controls. This committee evaluates internal control effectiveness and establishes frameworks designed to improve and strengthen them.

### Internal Control Assessment Framework

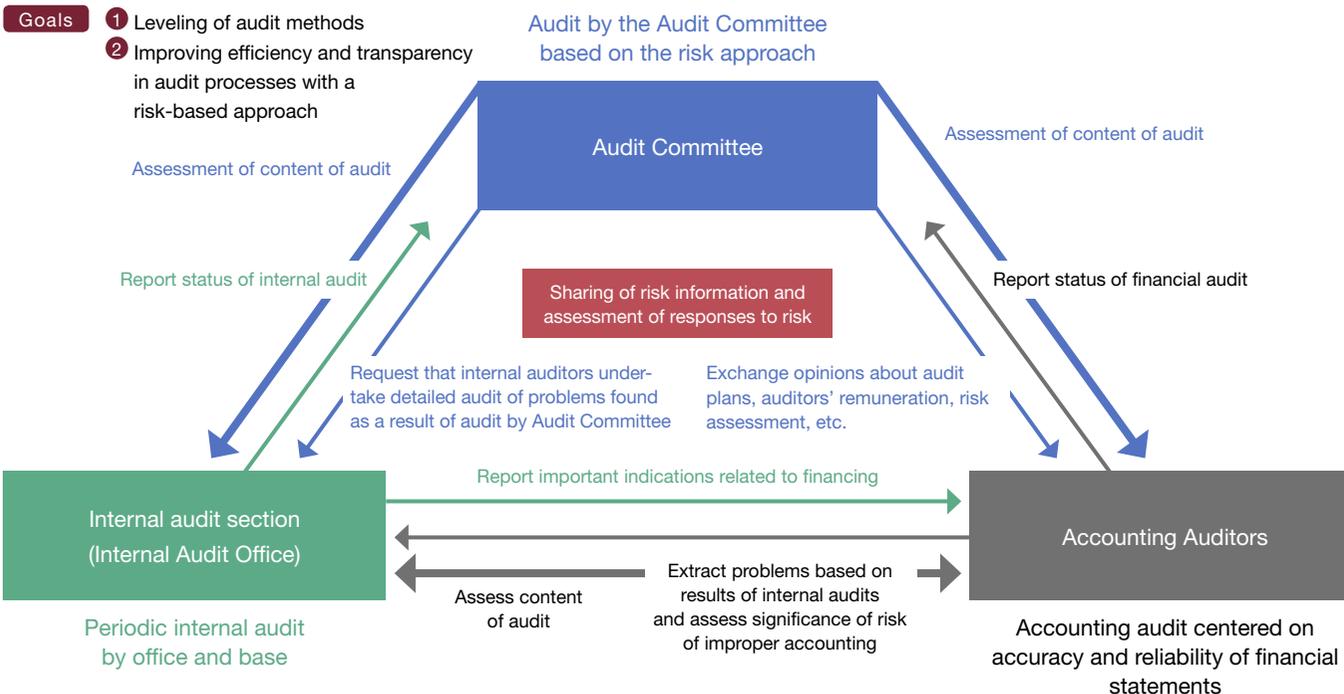


## Enhanced Collaboration Through Tripartite Audits

Frameworks and Systems

In pursuit of sustainable growth in corporate value, Hitachi's Audit Committee and internal audit section collaborate with third-party accounting auditors to strengthen its "tripartite auditing," which aims to increase the effectiveness of internal controls. Our Audit Committee takes the lead in this regard, as the three parties communicate closely to share risk information and assessments concerning risk response while securing transparency and ensuring appropriate checks and balances.

### Improving Internal Control Through a "Tripartite Audit" Function



## Building a More Effective and Efficient Auditing System

Frameworks and Systems

Our Audit Committee formulates audit plans in accordance with its risk-based approaches and conducts audits for each consolidated business unit. Audit Committee members meet directly with business unit heads before the internal audit section's audits are carried out. Then, these members inform the internal audit section about concerns and issues related to the implementation of business strategies aimed at achieving sustainable growth that require attention. At this time,

Hitachi also verifies matters that carry high levels of risk in terms of quality, measuring these risks through employee awareness surveys and thorough implementation of business strategies.

Hitachi's internal audit section performs regular internal audits at each business site and location. This section reports directly to the CEO and is independent from organizations that are subject to its audits. The internal audit section also formulates audit plans based on past audit records and the most recent business circumstances. Additionally, this section performs audits upon receiving direction from the Audit Committee, ensuring their effectiveness.

The internal audit section at Hitachi is responsible for confirming the legality and appropriateness of all business operations, including those related to accounting, production management, sales, purchasing, IT systems, compliance and personnel labor. Furthermore, employees are well versed in the ideas and policies of our management and, acting on behalf of our management team, confirm whether operations are being carried out based on these ideas and policies and if business strategies are being implemented in a way that will efficiently lead to sustainable growth.

To further raise audit effectiveness, we implemented a "executive auditor" system in each of our 5 growth sectors (IT, energy, industry, mobility, smart life) in April 2019. We also established internal control systems which are headed by

executive auditors who report to the vice presidents who manage each sector. Although these executive auditors do not act as legal agents under the Companies Act, they still assume responsibility for governance in each sector. They also function as a reporting line for statutory auditors at Hitachi subsidiaries who are legal agents under the Companies Act and are working to improve the efficiency of our internal control systems.

When conducting business audits, we use IT systems to expeditiously search for reference information contained within materials submitted prior to audit in an attempt to improve efficiency. We are currently building a system that will allow our internal audit section to share information with professional accounting auditors using the Lumada platform's data lake and expect it to be complete sometime in fiscal 2020. When reading audit reports submitted by the internal audit section, our CEO must be able to quickly understand the issues identified by these reports and make prompt judgments concerning whether immediate action is required. In the future, our internal audit section will continue to maintain its transparency and independence while working to improve audit efficiency as one member of our tripartite audit system.

Our accounting auditors perform audits that focus on the accuracy and reliability of our financial statements. First, they adopt a risk-based approach in response to the Group's overall financial status. Applying this approach, they then determine the scope and methods of the audit, formulate an audit plan and share opinions with the Audit Committee. Next, based on the audit plan, they perform audits on each of the 5 growth sectors and the business units that comprise them, enabling effective and efficient understanding of data related to Hitachi's finance department and each of its business segments. If, during the auditing process, our accounting auditors discover a degree of risk that could impact future financial statements significantly or issues that, even if monetarily small, could have a large qualitative effect, they share related information regarding these risks and issues and progress on response from related divisions with the Audit Committee and internal audit section. They also work to improve and raise the effectiveness of audits by submitting "management letters" containing points of concern and improvement suggestions through the accounting department. Recently, they have also been working to raise the efficiency of checks on the accuracy of numerical figures by using IT systems to investigate all cases, rather than performing test-checking through sampling.