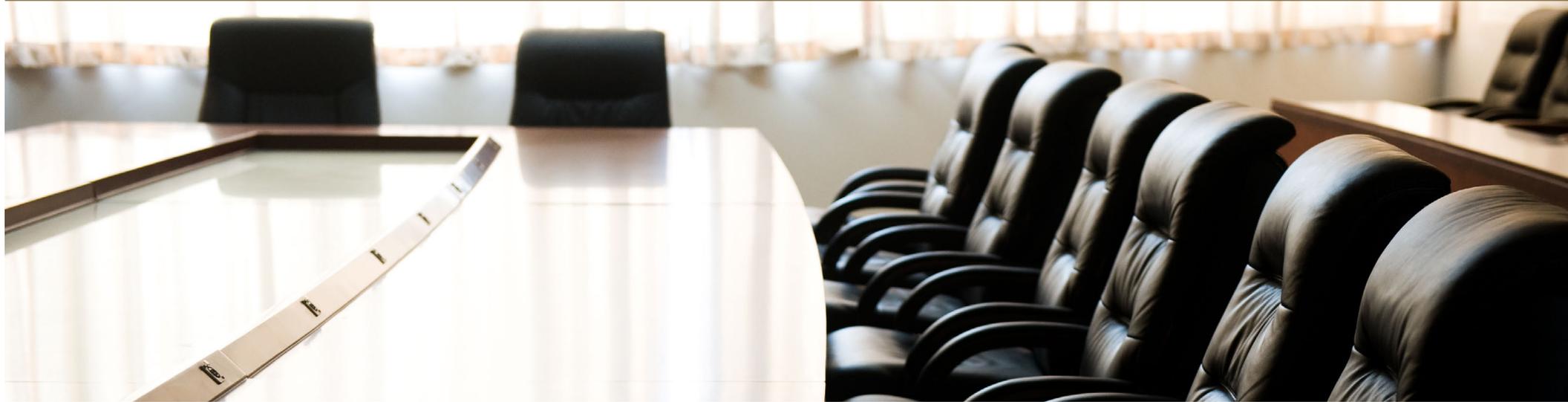


Corporate Governance



Why it matters

Hitachi views the expansion of long-term and overall shareholder returns as an important management objective. Hitachi and its Group companies maintain good relationships with a wide range of stakeholders, and we recognize that these relationships make up an important portion of our overall corporate value. Accordingly, we are striving to establish a system that will facilitate the maintenance of these relationships and improve our corporate value, primarily through the

implementation of measures focused on promoting constructive dialogue.

To advance these efforts effectively, we are working to improve our corporate governance by ensuring thorough separation between the oversight and execution of management, establishing a swift business execution system, and striving to achieve highly transparent management.

What we are doing

	Core initiatives	Goals and KPIs	Achievements in FY 2019
 <p>Corporate governance</p>	<ul style="list-style-type: none"> • Implement all of the principles of the Corporate Governance Code • Run board meetings to sustainably enhance corporate value and shareholders' common interests • Approve and dismiss the CEO and formulate succession plan • Implement internal control over financial reporting • Enhance collaboration through tripartite audits • Build a more effective and efficient auditing system 	<ul style="list-style-type: none"> • Ensuring legality, soundness, and transparency of Hitachi's business • Rapid response to economic and social conditions 	<ul style="list-style-type: none"> • Analyzed and evaluated effectiveness of the Board of Directors of fiscal 2018 • Implemented an "chief auditor" system in five sectors (IT, energy, industry, mobility, smart life) and built an internal control system spearheaded by chief auditors under the executive vice presidents managing each sector

Corporate Governance

History of Hitachi's Corporate Governance Reform

Structure Activities

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1999	Introduction of Objective Perspective	Management Advisory Committees ▶ Practical advice from experts in Japan and overseas
2003	Demarcation of Management Oversight and Execution	Shifted to a company with committees (currently a company with nominating committee, etc.) ▶ To increase management speed and improve management transparency
2006	Enforcement of Revised Companies Act	
2010	Enhancement of Interactions with Capital Markets	Hitachi IR Day (briefing on business strategy by division) was launched ▶ Clarification of commitment of top management of the business units to the capital markets
2012	Acceleration of Global Management	Independent directors, including foreign directors, were increased Independent directors comprised the majority of directors
2012	Development of Guidelines for Strengthening Governance	Development of Corporate Governance Guidelines
2014	Development of Stewardship Code	
2015	Start of Application of Corporate Governance Code	
2016	Enhancement of Dissemination of Information About Medium- to Long-term Sustainable Growth	Publication of an integrated report
2019	Acceleration of the Social Innovation Business Across Five Growth Fields	Executive vice presidents were placed in five sectors ESG Briefing session was held ▶ An independent director (chair of the Audit Committee) and the CEO shared their remarks

Implementing All of the Principles of the Corporate Governance Code

Policy

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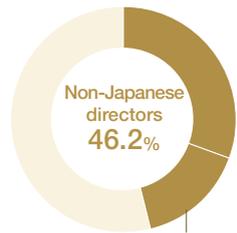
We are implementing all of the principles of the Corporate Governance Code.

Director Composition

Structure

■ Independence
(ratio of independent directors)

■ Diversity
(ratio of non-Japanese directors)



2 female directors
(15.4% of overall director total)

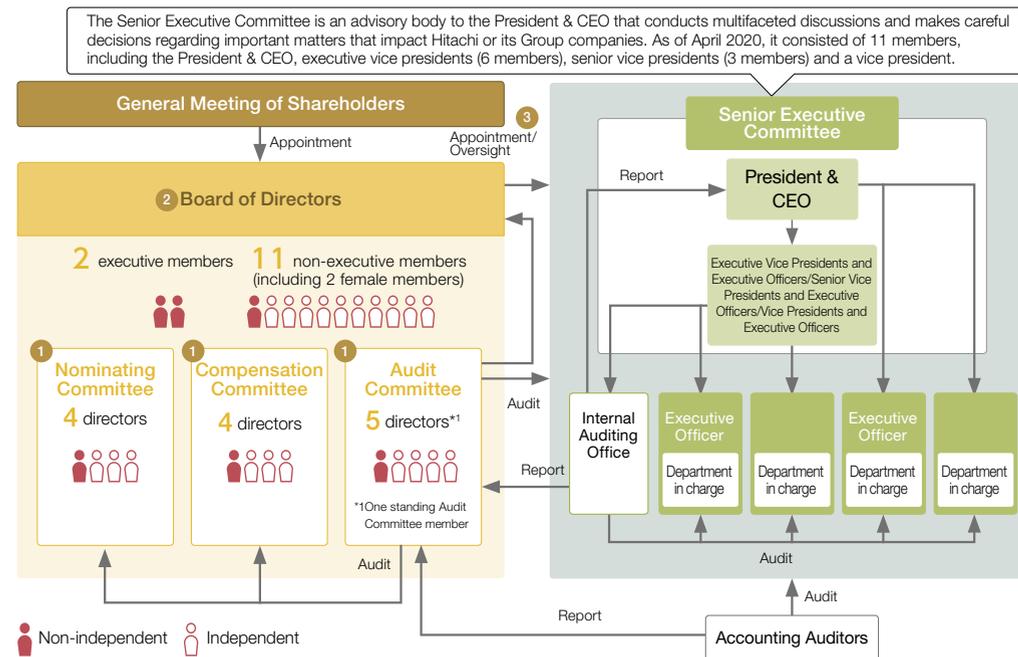
Directors with Abundant Experience

Hitachi has 13 directors, 6 of whom are non-Japanese and 2 of whom are female. This team of directors applies their abundant experience and knowledge related to the management of global companies, legal affairs, accounting, capital markets, government agencies, and the field of digital technology to facilitate discussions informed by a wide variety of perspectives.

Hitachi's Corporate Governance Framework and Its Features

Structure

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POINT 1 Transparency in Management

We became a company with committees (currently a company with a nominating committee, etc.) in 2003. We have established a Nominating Committee, a Compensation Committee and an Audit Committee, which are mostly made up of, and are chaired by, independent directors. The system we have in place to ensure transparency in management separates the oversight and execution of management, facilitates the full exercise of supervisory functions and enables discussions and reports to be conducted appropriately within these three committees.

POINT 2 Independence of the Board of Directors

We increased our number of independent directors, including non-Japanese directors, in 2012. Our Board of Directors, which is chaired by an independent director, has 13 members, including 10 independent directors, 2 directors who are also serving as executive officers and 1 director who is not serving as an executive officer. In addition, we have established a system that facilitates the full exercise of supervisory functions by maintaining separation between the oversight and execution of management.

POINT 3 Enhanced Collaboration Through Tripartite Audits

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.

Administrative Performance of the Board of Directors

Structure

Activities

The Board of Directors approves the basic management policy for the 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.

Within the Board of Directors, there are three statutory committees—the Nominating Committee, the Audit Committee, and the Compensation Committee—with independent directors accounting for the majority of members of each committee. Board of Directors meetings were held on 9 days during fiscal 2019, and the attendance rate of directors at these meetings was 98%. The attendance rates for each independent director were as shown in the table below. To assist with the duties of the Board of Directors and each committee, staff who are not subject to orders or instructions from executive officers are assigned.

Status of Board of Directors Meetings Held in Fiscal 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	89%	—	—	—
Harufumi Mochizuki	◎100%	◎100%	100%	◎100%
Takatoshi Yamamoto	100%	—	100%	100%
Hiroaki Yoshihara	100%	100%	◎100%	—

*1 Number of days during term of office on which Board of Directors meetings were held: 9.

Number of days during term of office on which Nominating Committee meetings were held: 8.

Number of days during term of office on which Audit Committee meetings were held: 15. Number of days during term of office on which

Compensation Committee meetings were held: 4.

Note: ◎Indicates role as board or committee chairperson.

Overseas Board of Directors Meetings and Panel Discussions Involving Experts

In principle, Hitachi holds a meeting of its Board of Directors annually in a foreign country that is deeply connected with its businesses. In December 2019, this meeting was held in the City of Zurich in the Swiss Confederation. As a side event, we also held a panel discussion involving representatives from the International Energy Agency (IEA), European power transmission and distribution companies, and Japanese scholars. This panel discussion increased the depth of understanding our directors and associates have concerning the “three Ds” (decarbonization, dispersion, and digitalization) and new power system trends, including the ongoing establishment of power grids in a wide range of regions and nations.



Analysis and Evaluation of the Effectiveness of the Board of Directors

Activities

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

Fiscal 2019 Evaluation Process

1. Questionnaire-based self-assessment by each director (February–March 2020)	<ul style="list-style-type: none"> Points of evaluation <ul style="list-style-type: none"> Composition of Board of Directors: Member diversity, numbers and ratios of independent directors and inside directors, etc. Clarification of the responsibilities and expected roles of the Board of Directors Operation of Board of Directors: Meeting frequency, discussion time, proposal selection, discussion content, role of chairperson, etc. Contribution: Contribution to management strategy formulation and changes in corporate culture, member demonstration of experience and knowledge, etc. Understanding regarding the company: Group identity, risk factors Status of committee activities: Composition, responsibilities and roles, collaboration with Board of Directors, etc. Operation supporting system: Delivery of information, e.g. provision of documents for the Board
2. Discussions held by independent directors (March 2020)	<ul style="list-style-type: none"> Independent directors held an exclusive meeting to discuss the effectiveness of the Board of Directors.
3. Discussion and review within the Board of Directors (June 2020)	<ul style="list-style-type: none"> The Board of Directors held 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 analyzed and evaluated its overall effectiveness and identified policies through which it can increase this effectiveness.

Evaluation Results and Future Initiatives

Overall evaluation in fiscal 2019	
Overall evaluation in fiscal 2019	Fiscal 2019 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"> The Board of Directors will continue to conduct discussions concerning business strategies for each sector. At the same time, it will discuss the progress of our Mid-term Management Plan as appropriate while accounting for circumstances surrounding COVID-19. We are strengthening collaboration between the Board of Directors and the Nominating Committee while further contributing to CEO succession planning (for example, expanding reports made to the Board of Directors through the Nominating Committee, enhancing coaching for successive and next-generation candidates).
Enhancement of operational support of the Board of Directors and improvement of its practical aspects	<ul style="list-style-type: none"> While accounting for circumstances surrounding COVID-19, we are improving our operational support system through the continuous sharing of information obtained through independent directors' visits to Hitachi Group business premises and event participation. We will achieve further improvements related to the composition and content of materials, as well as to their preliminary provision.

Administrative Performance of the Three Committees

Activities

Nominating Committee	Audit Committee	Compensation Committee
<p>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 four directors, three of whom are independent directors.</p> <p>It also determines director candidates and holds preliminary hearings concerning the appointment and dismissal of executive officers, including the CEO. In fiscal 2019, the Nominating Committee held meetings on eight days.</p>	<p>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 five directors, including four independent directors and one standing Audit Committee member.</p> <p>Hiroaki Yoshihara, the chairman of the Audit Committee, has been involved in accounting and other business practices at the KPMG Group for many years and possesses a considerable breadth of knowledge concerning finance and accounting.</p> <p>In fiscal 2019, the Audit Committee held meetings on 15 days.</p>	<p>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 these policies. Composed of four directors, including three independent directors, the committee strives to ensure objectivity, transparency, and fairness in the remuneration determination process.</p> <p>In addition, the Compensation Committee verifies and reviews details of the process used for determining remuneration for individuals, including assessments concerning basic remuneration amounts, evaluations of progress made toward individual targets, and performance appraisals that are tied to short-term incentive compensation.</p> <p>In fiscal 2019, the Compensation Committee held meetings on four days.</p>
<p>Primary Activities</p> <p>In addition to deciding upon the contents of the proposal made concerning director appointments at the Annual General Meeting of Shareholders, the Nominating Committee reviewed and confirmed the executive officer system implemented in fiscal 2020. In addition, it promoted committee-related activities including discussions and individual interviews aimed at developing candidates for future management and leadership positions.</p>	<p>Primary Activities</p> <p>The Audit Committee conducted activities that were focused on its priority matters for consideration, which included the enhancement of collaboration and the promotion of information through tripartite audits (involving the Audit Committee, internal audit sections, and accounting auditors), as well as the construction and operational evaluation of internal control systems based on perspectives concerning the adequacy of risk management and business execution. In addition, standing Audit Committee members established an understanding regarding timely and appropriate information through collaboration with internal audit sections and attendance at meetings of the Senior Executive Committee and other important internal conferences. Furthermore, they subsequently shared this information with other committee members.</p>	<p>Primary Activities</p> <p>The committee determined remuneration amounts for individual directors and executive officers in accordance with established policies while verifying and reviewing details of the processes applied when conducting performance appraisals tied to short-term incentive compensation for executive officers and evaluating progress made toward individual targets. In addition, the committee reviewed the executive compensation system while giving due consideration to compensation granted to managers at global companies and the goal of sharing value with shareholders. Furthermore, the committee decided upon policies covering remuneration for directors and executive officers in fiscal 2020, including the implementation of a restricted stock unit (RSU) compensation system for non-Japanese officers.</p>

CEO Appointment, Dismissal, and Succession Plan

Structure

102-24

Hitachi's Board of Directors decides upon the appointment and dismissal of executive officers, including the CEO, with the goal of constructing an optimal business execution system for management. Decisions regarding the appointment or dismissal of executive officers are based upon proposals made to the Nominating Committee, while decisions related to the position of CEO are made based on preliminary deliberations and proposals from the Nominating Committee. As stipulated in our Corporate Governance Guidelines, our basic policy concerning CEO appointments and dismissals requires that individuals serving in the position of CEO have extensive experience and achievements in the field of company management. They must also be considered optimally suited for conducting management aimed at achieving Hitachi's goals of continuously raising its corporate value and further serving the common interests of its shareholders.

Regarding our CEO Succession Plan, as the speed of change accelerates, we are striving to build a system that enables us to appropriately and promptly secure and develop (both internally and globally) necessary management personnel who will provide leadership that will allow us to realize our growth strategies. We are also concentrating on providing training for selected employees while targeting the early development of candidates for future management positions. Accordingly, we are developing next-generation leaders capable of acting authoritatively and resolutely by establishing forums where participants can discuss what is necessary for Hitachi's future growth and make recommendations to management.

In addition, we have identified a group of about 50 employees from around the Hitachi Group with next-generation development potential. People in this "Future 50" group are selected on merit, regardless of age, gender, or nationality. They are given challenges to help expand their horizons and build their perspectives through tough assignments, including different types of work and internal and external training opportunities. The Future 50 group members receive one-on-one mentoring opportunities with independent directors to benefit directly from their extensive business experience and global perspectives. Our aim is to change mindsets so that we can develop people for important positions in the future.



Director and Executive Officer Compensation

Policy System

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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 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, 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 compensation is set based on the ratio of 1:1:1 as the standard form of compensation, 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 the position an executive officer holds, the higher the proportion of variable pay in total annual compensation.

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

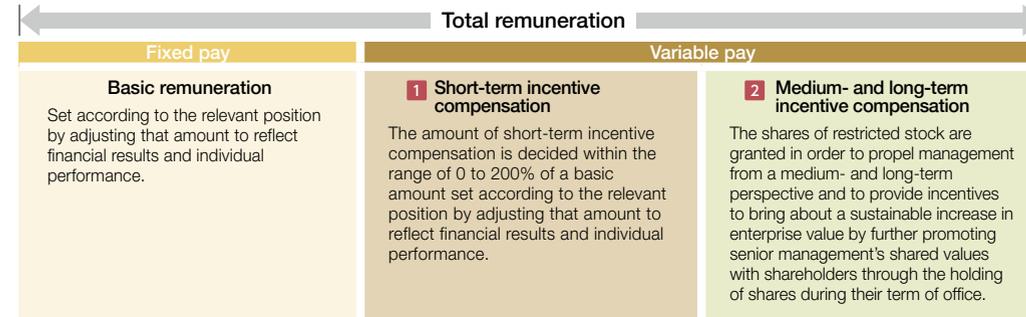
Please refer to Compensation to Directors and Executive Officers on pp. 93–98 of the Annual Securities Report (The 151st Business Term).

Compensation to Executive Officers (FY 2020)

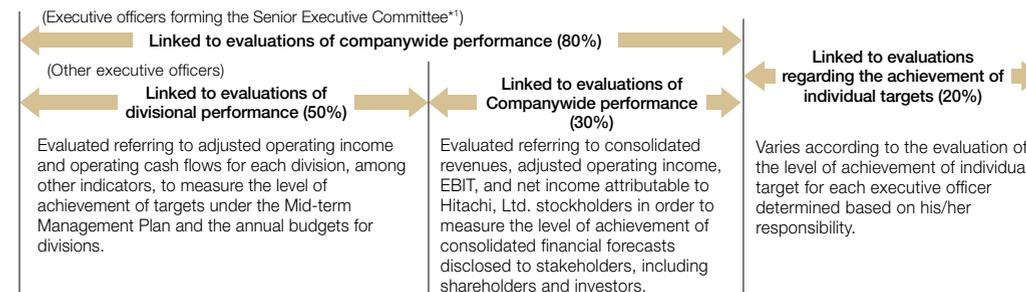
System

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Basic remuneration : short-term incentive compensation : medium- and long-term incentive compensation = 1:1:1 ratio



1 Short-term incentive compensation



*1 The rates used for "other executive officers" apply when "executive officers forming the Senior Executive Committee" are in charge of business units or businesses.

2 Medium- and long-term incentive compensation

The shares of restricted stock

- 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.
- 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 (both measured over the three years dating back to the beginning of the fiscal year during which corresponding medium- and long-term incentive compensation was issued). 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 80% or more but less than 120%.^{*2} 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.

*2 Number of shares whose transfer restrictions are lifted = Number of granted shares × ((TSR/TOPIX Growth Rate Ratio × 1.25) – 0.5)

Internal Controls over Financial Reporting

Structure

102-25

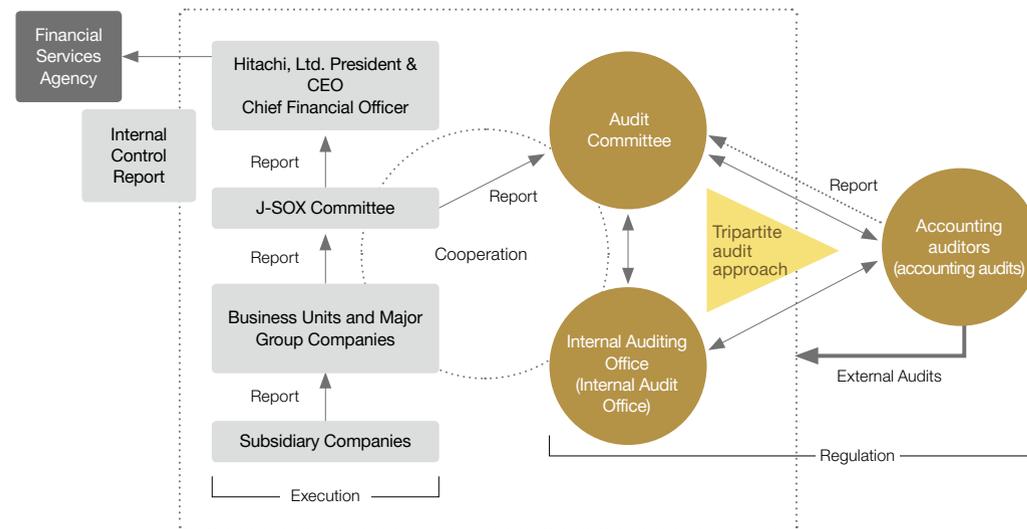
To ensure the reliability of its consolidated financial reporting, the Hitachi Group is establishing and implementing relevant internal controls. We evaluate their effectiveness by adhering to standards for the evaluation of internal controls related to financial reporting that are generally accepted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

Furthermore, we have established a 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.

Management of risk associated with global business expansion

Creation of a system focused on maintaining transparency and a sense of urgency

Internal Control Assessment Framework



Enhanced Collaboration through Tripartite Audits

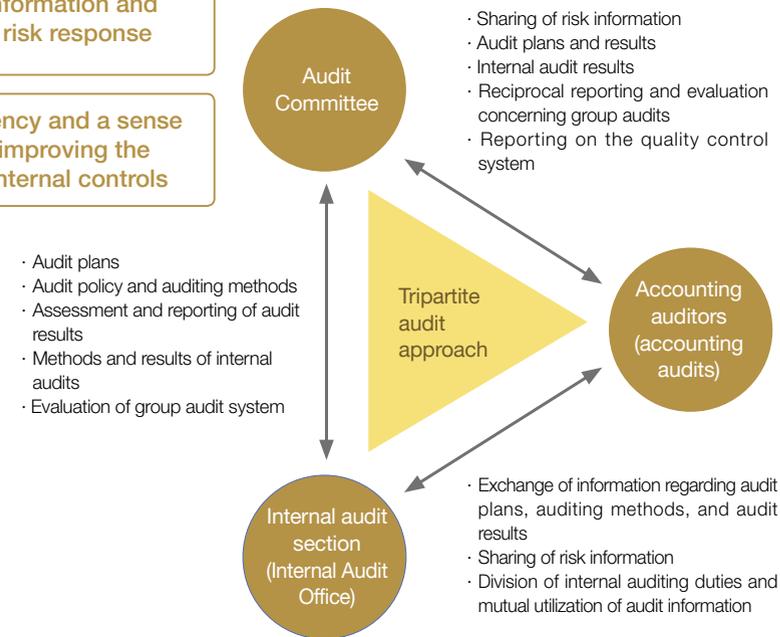
Structure

102-11

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.

Sharing of risk information and assessments of risk response

Ensuring transparency and a sense of urgency and improving the effectiveness of internal controls



Building a More Effective and Efficient Auditing System

Structure

102-25

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. These members then 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 human resources. Furthermore, acting on behalf of our management team, the internal audit section confirms that employees are well versed in the ideas and policies of our management, that their operations are being carried out based on these ideas and policies, and that business strategies are being implemented in a way that will efficiently lead to sustainable growth.

To further raise audit effectiveness, we implemented a "chief auditor system" in five sectors (IT, Energy, Industry, Mobility, Smart Life) in April 2019. Through this action, we built an internal control system spearheaded by chief auditors and enhanced collaboration with the executive vice presidents who manage each sector and with the Audit Committee.

Although these chief 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 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 five sectors and the business units they comprise, 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 information related to 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 finance 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.