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Governance

- Corporate Governance
- Business Ethics and Compliance
- Risk Management
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- Governance Data
Governance

Corporate Governance

Why

Hitachi believes that promoting sound and highly transparent management is essential to achieving sustainable growth of corporate value. To this end, we take the strengthening of corporate governance to be one of our most material management issues. We are working to develop and further strengthen our corporate governance system by such means as thoroughly separating management oversight from execution and establishing a system for prompt business execution.

What

- Implementing all of the principles of the Corporate Governance Code
- Conducting board meetings in a way that sustainably enhances corporate value and shareholders' common interests
- CEO appointment, dismissal, and succession plan
- Determining appropriate compensation for directors and executive officers
- Reflecting sustainability targets in the executive compensation evaluation
- Implementing internal controls over financial reporting
- Enhancing collaboration through tripartite audits
- Building a more effective and efficient auditing system

How

Policy and promotion structure

Hitachi, Ltd. adopted its current committee system in 2003 and has established an Audit Committee, Compensation Committee, and Nominating Committee. Independent directors chair these committees and comprise the majority of the members. The company has also created a system that enables sufficient exercise of supervisory functions by separating the execution and supervision of business management.

Administrative performance of the Board of Directors

To formulate the Mid-term Management Plan 2024, the Board of Directors held numerous discussions between executive officers and directors on the plan's direction and priority issues.

Ensuring legality, soundness, and transparency of Hitachi's business

Analyzed and evaluated the effectiveness of the Board of Directors.

In addition to environmental targets such as decarbonization and resource efficiency, we introduced quantitative and qualitative target setting for occupational health and safety and product quality in the compensation evaluation of all executive officers.

A restricted stock compensation unit system was introduced as compensation for non-Japanese executive officers and corporate officers, and the scope of the system was applied to executives at some Group companies.
Corporate Governance

History of Hitachi’s Corporate Governance Reform

- **Activities**
  - **1999**: Introduction of Objective Perspective Management Advisory Committees
  - **2003**: Demarcation of Management Oversight and Execution
  - **2006**: Enforcement of Companies Act
  - **2010**: Enhancement of Interactions with Capital Markets
  - **2012**: Acceleration of Global Management
  - **2014**: Began Application of Corporate Governance Code
  - **2015**: Enhanced Dissemination of Information about Medium-to Long-term Sustainability
  - **2016**: Published the Integrated Report
  - **2019**: Accelerated the Social Innovation Business across Five Growth Fields

Hitachi’s Corporate Governance Framework and Features (as of July 2022)

**Structure**

- **General Meeting of Shareholders**
- **Board of Directors**
  - 2 executive members
  - 10 non-executive members (including two women)
- **Audit Committee**
  - 5 members
- **Compensation Committee**
  - 4 members
- **Nominating Committee**
  - 4 members

**Activities**

- **1999**: Introduction of Objective Perspective Management Advisory Committees
- **2003**: Demarcation of Management Oversight and Execution
- **2010**: Enhancement of Interactions with Capital Markets
- **2012**: Acceleration of Global Management
- **2014**: Began Application of Corporate Governance Code
- **2015**: Enhanced Dissemination of Information about Medium-to Long-term Sustainability
- **2016**: Published the Integrated Report
- **2019**: Accelerated the Social Innovation Business across Five Growth Fields

**Hitachi’s Audit Committee** and internal audit sections collaborate with third-party accounting auditors to strengthen Tripartite Auditing aimed at increasing the effectiveness of internal controls.
Experience, Knowledge and Capabilities Required for Directors

Hitachi Directors need to have a wide range of experience and knowledge in the global and diverse fields that are worthy of leading Hitachi’s management to expand the Social Innovation Business globally, and have the qualities of a broad experience and expertise in management.

The experience, knowledge, capabilities and other qualities required for Hitachi directors are as follows.

<table>
<thead>
<tr>
<th>Core Skills</th>
<th>Number of applicable directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate management</td>
<td>12 people</td>
</tr>
<tr>
<td>Global business</td>
<td>12 people</td>
</tr>
<tr>
<td>Risk management</td>
<td>12 people</td>
</tr>
<tr>
<td>Finance and accounting</td>
<td>12 people</td>
</tr>
</tbody>
</table>

Professional Skills

<table>
<thead>
<tr>
<th>Professional Skills</th>
<th>Number of applicable directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governments and international organizations</td>
<td>4 people</td>
</tr>
<tr>
<td>Legal affairs</td>
<td>1 person</td>
</tr>
<tr>
<td>R&amp;D and intellectual property</td>
<td>2 people</td>
</tr>
<tr>
<td>Digital</td>
<td>4 people</td>
</tr>
</tbody>
</table>

Board of Directors Composition (As of July 2022)

Independence (ratio of independent directors)

Independent directors: Nine people
75%

Diversity (ratio of non-Japanese and female directors)

Non-Japanese directors: Five people
41.7%

Diversity by country of origin

- Japan: 7 people
- United States: 4 people
- United Kingdom: 1 person
- Germany: 1 person
- India: 1 person
- China: 1 person
- South Korea: 1 person
- Others: 3 people

Energy and resources
- Materials and chemicals
- Automobiles and transportation
- Electricity and gas
- IT and services
- Electric and precision instruments
- Retail
- Finance
- Transportation and logistics
**Highly Experienced Directors**

At Board of Directors, discussions are conducted from a variety of perspectives by directors possessing a wealth of experience and knowledge pertaining to management, legal affairs, accounting, capital markets, government agencies and digital initiatives at global corporations.

<table>
<thead>
<tr>
<th>Name</th>
<th>Notes</th>
<th>Main industrial fields</th>
<th>Positions at Hitachi and responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katsumi Ihara</td>
<td>Engaged in Sony Group management, possessing a wealth of experience and insight in the field of international corporate management.</td>
<td>Electric and precision instruments, finance</td>
<td>Independent director, Nominating Committee chairman, Audit Committee member, Compensation Committee member</td>
</tr>
<tr>
<td>Ravi Venkatesan</td>
<td>Possesses a wealth of experience and insight in international corporate management at Microsoft India and other companies, and in particular, the digital field and business in emerging markets.</td>
<td>IT and services</td>
<td>Independent director</td>
</tr>
<tr>
<td>Cynthia Carroll</td>
<td>Possesses a wealth of experience and insight as a manager of large international corporations including Anglo American.</td>
<td>Materials and chemicals, energy and resources</td>
<td>Independent director, Nominating Committee member, Audit Committee member</td>
</tr>
<tr>
<td>Ikuro Sugawara</td>
<td>Held a leading position in the Ministry of Economy, Trade and Industry, and possesses a wealth of experience and insight in the administrative field.</td>
<td>General Industry</td>
<td>Independent director, Audit Committee member, Compensation Committee member</td>
</tr>
<tr>
<td>Joe Harlan</td>
<td>Possesses a wealth of experience and insight in international corporate management, including at the Dow Chemical Company.</td>
<td>Electricity and gas, energy and resources, materials and chemicals</td>
<td>Independent director, Compensation Committee member</td>
</tr>
<tr>
<td>Louise Pentland</td>
<td>Attorney licensed in New York and the UK possessing a wealth of insight into corporate legal affairs and corporate governance cultivated through experience as a Legal Officer at PayPal Holdings and other large global corporations.</td>
<td>IT and services, finance and retail</td>
<td>Independent director</td>
</tr>
<tr>
<td>Takatoshi Yamamoto</td>
<td>Possesses extensive insight into business and management in the fields of corporate analysis and international corporate management.</td>
<td>Finance</td>
<td>Independent director, Compensation Committee chairman</td>
</tr>
<tr>
<td>Hiroaki Yoshihara</td>
<td>Possesses a high degree of professional knowledge and a wealth of experience in the fields of international corporate management, finance and accounting.</td>
<td>Finance, general industry</td>
<td>Independent director, Nominating Committee member, Audit Committee member</td>
</tr>
<tr>
<td>Helmuth Ludwig</td>
<td>Mainly engaged in Siemens Group management, possessing a wealth of experience and insight in international corporate management and the digital field in particular.</td>
<td>Machinery, manufacturing</td>
<td>Independent director, Audit Committee member</td>
</tr>
<tr>
<td>Keiji Kojima</td>
<td>Engaged in R&amp;D at Hitachi and its group companies, most recently in the Smart Life sector, possessing a wealth of experience and achievements, particularly in digital businesses related to Lumada global deployment.</td>
<td>IT and services</td>
<td>Director, Representative Executive Officer, President &amp; CEO, Compensation Committee member</td>
</tr>
<tr>
<td>Hidetoshi Sato</td>
<td>Engaged in managing Hitachi and group company elevator/escalator and automotive systems businesses, possessing a wealth of experience and achievements, including promoting the global expansion of those businesses.</td>
<td>Automobiles and transportation, machinery</td>
<td>Director, Audit Committee member</td>
</tr>
<tr>
<td>Toshiaki Higashihara</td>
<td>Engaged in managing a wide range of fields at Hitachi and its group companies, including the social infrastructure and electric power system businesses, possessing a wealth of experience and achievements that include promoting the global expansion of Hitachi Group business.</td>
<td>Transportation and logistics, IT and services, energy and resources</td>
<td>Director, Executive Chairman, Representative Executive Officer, Nominating Committee member</td>
</tr>
</tbody>
</table>
Administrative Performance of the Board of Directors

The Board of Directors approves basic management policy for the Hitachi Group and oversees the execution of the duties of executive officers and directors in order to sustainably enhance corporate value and the 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 the Board of Directors Regulations.

Fiscal 2021 was a year in which we formulated the next Mid-term Management Plan, with the Board of Directors holding numerous discussions between executive officers and directors on the plan’s direction and priority issues. At a Board meeting held in October 2021, then CEO Toshiaki Higashihara (currently Executive Chairman of the Board) provided a progress report on the 2021 Mid-term Management Plan, facilitating a common understanding among directors regarding issues that need to be strengthened in the next Mid-term Management Plan. This process was aimed at sharing Hitachi’s aspirations as a Company and examining specific plan details. In promoting the execution of management strategies, more time is spent discussing and deliberating than is used to explain quarterly financial reports and business strategies. As for GlobalLogic, which plays a major role in promoting Hitachi’s digital strategy, the Board of Directors is informed of the post-acquisition PMI plan and progress, and the status of promotion is shared on a regular basis. In terms of environmental initiatives, a report on Hitachi’s participation in COP26 and the revision of long-term environmental targets was provided, affirming Hitachi’s efforts toward the environment including carbon neutrality.

Providing Information to Independent Directors

The Board of Directors holds individual meetings and site visits to improve the effectiveness of the Board of Directors and increase opportunities for information sharing. Site visits were conducted on a limited basis in fiscal 2021 due to the impact of the COVID-19 pandemic, but through online participation in the Hitachi Social Innovation Forum, attendance at Internal Business Conference and Research Presentation Meeting held at research institutes, we provided opportunities to deepen understanding of the business and engage in dialogue with senior management and front-line employees.

Activities of the Three Committees

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 four directors, three of whom are independent directors. This committee determines director candidates, holds preliminary discussions concerning the appointment and dismissal of the CEO and receives advance reports on the selection and dismissal of executive officers.

In fiscal 2021, the Nominating Committee held meetings on 10 days.

Primary Activities

In addition to deciding upon the contents of proposals made concerning director appointments at the Annual General Meeting of Shareholders, the Nominating Committee confirmed and deliberated proposals for CEO appointments.
and confirmed receipt of a preliminary report on the executive officer system implemented in fiscal 2022. In addition, it promoted committee-related activities, including discussions and individual interviews aimed at developing candidates for future management and leadership positions.

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 currently consists of five directors, including four independent directors and one standing Audit Committee member.

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 wealth of knowledge concerning finance and accounting. In fiscal 2021, the Audit Committee held meetings on 15 days.

Primary Activities
The Audit Committee conducted activities that were focused on its priority matters for consideration, which included the strengthening of collaboration and the facilitation of information sharing under a “Tripartite Audit” (audit by the Audit Committee, internal audit and audit by accounting auditors), and auditing of the establishment and operation of internal control systems from the perspective of risk management and validity of execution of duties. In addition, a standing committee member worked to obtain information as needed in a timely and accurate manner, mainly by collaborating with the Internal Auditing Office, among other departments, and attending important internal meetings such as the Senior Executive Committee, and facilitated information sharing with other committee members.

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. Currently composed of four directors, including three independent directors, the committee strives to ensure objectivity, transparency, and fairness in the remuneration determination process. 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.

In fiscal 2021, the Compensation Committee held meetings on five days.

Primary Activities
The Compensation Committee determined remuneration amounts for individual directors and executive officers in accordance with established policies while verifying and reviewing the processes and results of appraisals for performance and individual targets tied to short-term incentive compensation for executive officers. 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, and decided upon policies covering remuneration for directors and executive officers in fiscal 2022.

CEO Appointment, Dismissal, and Succession Plan
After a preliminary report to the Nominating Committee, Hitachi’s Board of Directors decides upon the appointment and dismissal of executive officers with the goal of constructing an optimal business execution system for management. As stipulated in our Corporate Governance Guidelines, our basic policy concerning the CEO 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. Decisions regarding the appointment or dismissal of the CEO shall be made based on prior deliberations and proposals by the Nominating Committee.

Regarding our CEO Succession Plan, as the speed of change in the management environment 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. Accordingly, we are also concentrating on providing training for selected employees while targeting the early development of candidates for future management positions. Moreover, 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.
Analysis and Evaluation of the Effectiveness of the Board of Directors

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

Fiscal 2021 Evaluation Process

Points of evaluation

1. Questionnaire-based self-assessment by each director (February–March 2022)
   - Composition: Diversity on the Board, the number and proportion of Inside and Outside directors, etc.
   - Viability of responsibilities and roles of the Board
   - Meeting operation: Meeting frequency, deliberation time, agenda setting, quality of deliberation, Chairman’s role, etc.
   - Contribution: Contribution to strategy building and change of company culture, contribution to constructive discussions, utilization of Director’s knowledge and experience, discussions contribution to CEO succession plan, etc.
   - Understanding of the Company: Hitachi’s Group Identity, risk factors, potential challenges and opportunities.
   - Three committees: Composition, responsibilities and roles, coordination with the Board, etc.

2. Discussions among independent directors (March 2022)
   - Independent directors had a meeting and discussed the Board effectiveness there referring to the Board’s activities in each evaluation item set out in the above 1.

3. Discussions at the Board meeting (May 2022)
   - The Board analyzed and evaluated its effectiveness as a whole and confirmed the policy on approaches to further enhance the Board’s effectiveness based on the results of the preceding process, considering comparison to the evaluation results of the previous year and measures taken for improving its effectiveness in fiscal year 2022.

Evaluation Results and Future Initiatives

Evaluation results

Overall evaluation in fiscal 2021

- The Board assessed that Board members are diverse and make use of their knowledge and expertise to speak out, having vigorous discussions especially on matters related to business strategies such as the Mid-term Management Plan targeting the medium- to long-term growth of corporate value. The Board concluded that the effectiveness of the Board as a whole is maintained.

Future initiatives

- Provide opportunities to freely discuss corporate culture and the overall future of the business portfolio to deepen discussions.
- Discuss specific strategies including important themes (such as GX and DX) in each sector and BU to confirm consistency with the Mid-term Management Plan.
- Post COVID-19, increase opportunities for meetings with BU CEOs and others and restart Independent Director visits to Group sites.
- Further improve structure and content of materials for Board meetings and ensure provision of materials well in advance of meetings.

Policy regarding strategic shareholdings

Policy on listed company strategic shareholdings

Hitachi’s basic policy is not to acquire or hold other companies’ shares except in cases where acquiring or holding such shares is necessary in terms of transactions or business relationships. We will promote reducing shares already held unless significance of holding shares or economic rationale of holding are confirmed.

The Board of Directors verifies the appropriateness of all stock holdings every year. To this end, each individual stock was re-examined as to the purpose of holding the shares and whether benefits from holding shares are in line with target level of capital efficiency. As the result of verification, we promote the sales of shares for which significance of holding shares and economic rationale are not confirmed. In the fiscal year ended March 31, 2022, we reduced the number of shares held in 10 listed stocks (total amount sold: 47,750 million yen).

Strategic shareholding status

Number of stocks held

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td></td>
<td>396</td>
<td>401</td>
<td>375</td>
<td>332</td>
<td>309</td>
<td>288</td>
<td>272</td>
<td>233</td>
<td>217</td>
<td>198</td>
</tr>
</tbody>
</table>

Total amount recorded on balance sheet *1 (millions of yen)  

244,181 353,957 334,617 239,993 324,323 270,336 179,668 141,859 201,065 274,470

*1 Total of listed and unlisted shares
In fiscal 2021, Hitachi introduced evaluations that take environmental value into consideration in the executive compensation system for the first time with the aim of accelerating the creation of environmental value. All executive officers, including the CEO, set targets for environmental value and were evaluated for their achievement of individual targets.

From fiscal 2022, in addition to environmental targets such as decarbonization and resource efficiency, we introduced quantitative and qualitative target setting for occupational health and safety and product quality in the compensation evaluation of all executive officers to further advance sustainable management.

**Director and Executive Officer Compensation**

**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 the roles and responsibilities of each Director and Executive Officer.
- Compensation for Directors shall be such that it enables them to the management oversight functions 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 considering 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, 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 basic remuneration, short-term incentive compensation and medium- and long-term incentive compensation is set based on the ratio of 1:1:1 as the standard, 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 greater the proportion of variable pay is set to the total annual compensation.

If it is found that an executive officer has engaged in misconduct during their term of office, any compensation already paid shall be returned to the Company (clawback provision).

Please refer to Compensation to Directors and Executive Officers on page 96 of the Annual Securities Report (The 153rd Business Term)


**Reflecting Sustainability Targets in Executive Compensation Evaluation**

**System**

GRI 102-35/102-36

In fiscal 2021, Hitachi introduced evaluations that take environmental value into consideration in the executive compensation system for the first time with the aim of accelerating the creation of environmental value. All executive officers, including the CEO, set targets for environmental value and were evaluated for their achievement of individual targets.

From fiscal 2022, in addition to environmental targets such as decarbonization and resource efficiency, we introduced quantitative and qualitative target setting for occupational health and safety and product quality in the compensation evaluation of all executive officers to further advance sustainable management.

**Examples of Sustainability Targets Reflected in Fiscal 2022 Compensation Evaluations**

<table>
<thead>
<tr>
<th>Decarbonization</th>
<th>Resource efficiency</th>
<th>Occupational health and safety</th>
<th>Product Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efforts to realize carbon neutrality* in business sites (factories and offices) by fiscal 2030</td>
<td>Efforts related to resource efficiency</td>
<td>Zero fatal accidents</td>
<td>Efforts to enhance product quality</td>
</tr>
<tr>
<td>Efforts to achieve carbon neutrality* by fiscal 2050 throughout the value chain</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*1 Regarding fiscal 2030 and fiscal 2050 decarbonization targets, single-year targets are set Group-wide and for each BU.
### 5 Governance

#### Corporate Governance

##### Executive Summary

**Corporate Governance**

- **Executive Summary**

##### Business Ethics and Compliance

- **Risk Management**

##### Information Management

- **Governance Data**

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**Compensation to Executive Officers (Fiscal 2022)**

<table>
<thead>
<tr>
<th>System</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic remuneration</td>
<td>Short-term incentive compensation</td>
</tr>
</tbody>
</table>


1. **Basic remuneration**
   - Set according to the relevant position by adjusting that amount to reflect financial results and individual performance.

2. **Short-term incentive compensation**
   - The amount of short-term incentive compensation is decided within a range of 0 to 200% of a basic amount set according to the relevant position by adjusting that amount to reflect financial results and individual performance.

   - From fiscal 2022, we are also working to further strengthen accountability by linking the achievement of KPIs, including sustainability indicators specified in the Mid-term Management Plan, to the performance evaluation of executive officers.

   - The amount of short-term incentive compensation is decided within a range of 0 to 200% of a basic amount set according to the relevant position by adjusting that amount to reflect financial results and individual performance.

   - From fiscal 2022, we are also working to further strengthen accountability by linking the achievement of KPIs, including sustainability indicators specified in the Mid-term Management Plan, to the performance evaluation of executive officers.

3. **Medium- and long-term incentive compensation**

### Medium- and long-term incentive compensation

Shares of restricted stock were introduced in fiscal 2019 as compensation for Japanese executive officers and corporate officers (the executive positions next to Executive Officers) to promote management from a medium- and long-term perspective and to provide incentives to bring about a sustainable increase in enterprise value by further promoting senior management’s shared values with shareholders through the holding of shares during their term of office. In fiscal 2020, a restricted stock compensation unit system was introduced as compensation for non-Japanese executive officers and corporate officers. In fiscal 2021, the scope of the restricted stock compensation unit system was expanded to executives at some Group companies.

**Shares of restricted stock**

- The restriction on transfers 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 the granted shares of restricted stock, the number of shares for which the transfer restriction is lifted shall be determined after ex-post evaluation. In the ex-post evaluation, the total shareholder return (TSR) of Hitachi stock over the three years from the beginning of the fiscal year when the medium- and long-term incentive compensation is granted is compared to growth rate of TOPIX over the same period.

#### TSR/TOPIX growth rate

- 120% or more: Transfer restrictions are lifted for all granted shares.
- Between 80% or more but less than 120%: Transfer restrictions are lifted for part of granted shares.
- Less than 80%: No granted shares have transfer restrictions lifted.

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*1 The rates used for "other executive officers" apply when "executive officers forming the Senior Executive Committee" are in charge of sector or business unit.
Internal Control over Financial Reporting

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.

Enhanced Collaboration through Tripartite Audits

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. The three parties communicate closely to share risk information and assessments concerning risk response while securing transparency and ensuring appropriate checks and balances.

Building a More Effective and Efficient Auditing System

The Audit Committee formulates audit plans in accordance with risk-based approaches and conducts audits for each consolidated business unit. Cooperating with the internal audit section audits, Audit Committee members meet directly with business unit heads. These members share concerns and issues related to the implementation of business strategies aimed at achieving sustainable growth that require attention with the internal audit section. At that time, the committee 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.

Internal Audit Section

Hitachi’s internal audit section performs regular internal audits of each business unit, business division and subsidiary. This section reports directly to the President 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. In addition, this section performs audits while sharing information with 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 whether employees are well versed in the ideas and policies of management, whether operations are being carried out based on these ideas and policies, and whether business strategies are being implemented in a way that will efficiently lead to sustainable growth.
Accounting Auditors

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 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 the progress on a response from the 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 some IT systems to investigate all cases rather than performing test-checking through sampling.

Sector Corporate Auditor System

To further raise audit effectiveness, sector corporate auditors were assigned in each core business field (sector) in April 2019. Through this action, we expanded the internal control system spearheaded by chief auditors and enhanced collaboration with executive vice presidents managing each sector, as well as with the Audit Committee.

Although sector corporate auditors do not act as organs under the Companies Act, they still assume responsibility for governance in each sector. Statutory auditors, which function as organs at Hitachi subsidiaries under the Companies Act, also report to sector corporate auditors and work to improve the effectiveness of Hitachi’s internal control systems.

IT Utilization

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 enhancing a system that will allow our internal audit section to share information with professional accounting auditors using a data lake. When reading audit reports submitted to the President by the internal audit section, the President 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.
5 Governance

Business Ethics and Compliance

Why

With the globalization of the economy, overarching regulations and differences in governmental and economic frameworks, the importance of building a culture based on ethics, honesty and integrity are key.

Today more than ever, corporations are called upon to be ethical, fair and transparent in the way they do business. This obligation is rightly front and center in the minds of Hitachi’s stakeholders.

Additionally, with stricter regulations in countries and regions around the world regarding important business practices such as bribery prevention and adherence to competition laws, Hitachi has formulated in-house regulations in line with international standards and is sharing these regulations and enforcing strict compliance with them throughout the Group.

Business Ethics and Compliance

Why it matters

Why

Business Ethics and Compliance

What

What we are doing

Complying with Hitachi Group Codes of Conduct

Cultivating a Culture of Ethics and Compliance

Ethics and Compliance Risk Assessments

Enhancing the Hitachi Global Compliance Hotline

Preventing bribery and corrupt practices

Complying with competition laws

Carrying out strict export controls

Implementing thorough tax compliance

Policy and promotion structure

How

How we are doing it

The Hitachi Group Codes of Conduct (including the Hitachi Group Code of Ethics and Compliance) spell out decision-making procedures and actions for all Hitachi Group executives and employees. To promote compliance, the Hitachi Group Head of Ethics and Compliance leads the One Hitachi Compliance Program, a program for global compliance initiatives. We work together with the Ethics and Compliance representatives, located in group companies around the globe, to streamline business ethics standards to drive efficiencies and the effectiveness of the One Hitachi Compliance Program.

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Business Ethics and Compliance

Doing Business Ethically, Honestly and Transparently

Hitachi counts on employees – including supervisors, managers, leaders – and business partners to know and follow the ethical, legal, and policy requirements that apply to their jobs and for reporting any suspected violations of law or the Hitachi Group Codes of Conduct (including the Hitachi Group Code of Ethics and Compliance; the same shall apply hereafter) to help Hitachi create a work environment where everyone is empowered to speak up, and to perform at the highest standards. This is fundamental to consistently delivering excellence to our stakeholders, while complying with relevant laws and regulations.

Our focus on business ethics makes Hitachi stronger. It helps us attract, retain, and engage the best employees and select the right business partners. It protects our reputation and relationships with stakeholders. It helps us deliver on our Mission, Values and Vision—the Hitachi Group Identity.

Although the Compliance Division of Hitachi, Ltd. oversees the One Hitachi Compliance Program, which is a group-wide initiative to enhance compliance, doing what is right is everyone’s responsibility.

Additionally, we have formulated the Hitachi Group Sustainable Procurement Guidelines in which we request our procurement partners to share our commitment to doing business with the highest levels of ethics and integrity and complying with applicable laws and regulations, as well as to share our commitment to human rights.

Complying with the Hitachi Group Codes of Conduct

Hitachi has formulated the Hitachi Group Codes of Conduct, which all executives and employees across the entire Group pledge to uphold. The Hitachi Group Codes of Conduct is translated into more than 15 languages from Japanese and shared with Hitachi Group executive officers and employees around the world.

The Hitachi Group Codes of Conduct explains our standards as well as our legal and ethical responsibilities and provides guidance for expected behaviors. It covers a range of topics such as business ethics, conflicts of interest, fair competition, sustainability, human rights and care for our communities.

The Hitachi Group Codes of Conduct is posted on Group company intranet sites and the Hitachi, Ltd. website to ensure that it is known and practiced by all officers, employees and relevant stakeholders.

The Compliance Division will review annually the Codes to ensure its effectiveness and that legislative and regulatory updates as well as change in social conditions are reflected.

Note: Hitachi normally refers to its suppliers (including vendors or providers) as “procurement partners” who build business together on an equal footing.
Cultivating a Culture of Ethics and Compliance

**Target**
At Hitachi, we encourage employees to apply high ethical standards in their day-to-day work as we strive to build a highly ethical corporate culture. To measure and improve Hitachi's ethical culture, as part of the initiatives of the Ethisphere’s Business Ethics Leadership Alliance, we started conducting Ethisphere’s best-in-class the Ethical Culture & Perceptions Assessment in fiscal 2022 and 2023. The results of this assessment will be monitored and used to develop tailored KPIs to improve Hitachi's ethical culture. We aim to achieve a baseline score of 60 or above (out of 100) in fiscal 2022, the first year, and to improve the score in fiscal 2023 and each year thereafter.

**Activities**

The global ethics and compliance team develops and implements strategy and initiatives to drive an ethical culture throughout Hitachi’s 800+ Group companies. This is part of Hitachi’s effort to provide all employees with guidelines and resources that ensure they can understand and do what is right, make ethical decisions, and support compliance with company policies, procedures, and legal requirements.

**Business Ethics and Compliance Training**
Our annual ethics training on the Hitachi Group Codes of Conduct reinforces Hitachi’s commitment to business ethics and keeps all executive officers and employees (including part-time) informed and updated on our high ethical standards and obligations.

*Ethics and Compliance Risk Assessments*  
**Activities**
Hitachi conducts ongoing and comprehensive risk assessments including risks of bribery and corruption practices at our Group companies every three to four years to help assure that Hitachi’s Compliance Program effectively mitigates and manages top risks. In cases where these reviews identify necessary improvements, corrective measures are developed and implemented.

**Due Diligence of Third Parties**
From fiscal 2017, Hitachi Group has implemented a compliance due diligence program including the introduction of a third-party management system to identify reputational risks associated with bribery, corruption and other factors. This has prevented Hitachi from engaging with parties that have acted or are likely to act in a manner inconsistent with Hitachi’s ethical culture.

**Strengthening our Speak-up Culture**
Hitachi believes that a speak up/listen up culture—where employees are encouraged to raise concerns and feel confident that they can do so without fear of retaliation—is essential to early detection and prevention of ethical and regulatory problems.

We are committed to ensuring our employees feel safe to speak up, to share ideas, and to challenge how business is conducted without fear of retaliation. Employees may raise concerns and ask questions through their managers, a next-level manager or any other manager, Human Resources, Compliance or Legal team members, or using the Hitachi Global Compliance Hotline, our whistleblower system.

**Ethisphere’s Business Ethics Leadership Alliance**
Hitachi became a member of Ethisphere’s Business Ethics Leadership Alliance in October 2021. The Business Ethics Leadership Alliance (BELA) is a globally recognized organization leading companies collaborating to share best practices in governance, risk management and ethics. Hitachi receives access to the BELA Member Hub, a repository of resources provided by BELA companies that are intended to cultivate the exchange of ideas and inspire companies.
We encourage employees to seek guidance on ethics and business conduct questions and report possible violations of the Hitachi Group Codes of Conduct, company policy or the law.

Hitachi Global Compliance Hotline
(Whistleblower System)

The Hitachi Global Compliance Hotline is a 24/7, confidential and anonymous helpline and online reporting system. It is managed by an independent third party and is available to all Hitachi Group employees, contractors, business partners (including procurement partners) and other stakeholders who can seek guidance on ethics questions including human rights and harassment issues and report any concerns or actual or suspected breach of the Hitachi Group Codes of Conduct or any other improper or illegal conduct. Breaches of the Hitachi Group Codes of Conduct by any of Hitachi’s contracted third parties may also be reported.

Phone numbers for the Hitachi Global Compliance Hotline are available for all employees to speak to a representative in their native language. The phone lines are staffed by specially trained third-party representatives, with translators in more than 50 languages. Web-based reporting is also available to employees. Data supplied in a report is maintained on secure servers maintained by the third party who administers the hotline.

To efficiently address and resolve contacts to the Hitachi Global Compliance Hotline, we assign inquiries to a resource who is a subject matter expert. After a confidential review of the concern, the investigator determines which reports require an investigation. If an investigation is needed, an appropriate investigative resource is assigned. For concerns that are substantiated, disciplinary actions may be taken. Discipline comes in many forms from warnings to suspensions to termination.

In fiscal 2021, we received 1,023 reports from all Group companies worldwide.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Areas where whistleblowing cases occurred</th>
<th>1 HR issues (Labor management, travel expenses, commuting costs, etc.)</th>
<th>2 Harassment</th>
<th>3 Financial</th>
<th>4 Procurement</th>
<th>5 Competition law</th>
<th>6 Bribery</th>
<th>7 Others</th>
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<td>370</td>
<td>1,023</td>
</tr>
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</table>

Note: Hitachi normally refers to its suppliers (including vendors or providers) as “procurement partners” who build business together on an equal footing.
Governance

Anti-Bribery and Anti-Corruption

We require all employees and those with whom we do business to maintain the highest ethical standards in full compliance with all applicable anti-corruption laws. We have zero-tolerance for bribes, kickbacks or any other illegal business practices.

Hitachi has established the Hitachi Group Anti-Bribery and Anti-Corruption Policy, with associated rules, and clarified the standards and procedures concerning entertainment, gifts, and other arrangements provided to or received from public officials and non-public officials alike.

Under the Policy, when providing or accepting entertainment or gifts, or making donations or political contributions, executive officers and employees must not exceed the scope of actions permitted by anti-bribery laws and regulations and must comply with Hitachi’s internal rules. These indicate specific spending limits in terms of monetary value and the number of times that entertainment, gifts, and other arrangements may be provided to public officials. We also have policies banning facilitation payments and requiring due diligence procedures for business partners. With anti-corruption regulations growing stricter in recent years around the globe, we work hard to ensure that we remain in strict compliance with the US Foreign Corrupt Practices Act (FCPA) and all other relevant laws and regulations in the countries and regions where we do business.

 Achievements in Fiscal 2021

In fiscal 2021, we established the Standards for the Value Limits and Frequency of Entertainment and Gifts, applicable to Commercial Parties regarding Hitachi Group Gifts, Travel and Entertainment Protocol and revised the guidelines for the Hitachi Group Charitable Donations and Political Contributions Protocol. The revised guidelines include, the prohibition of donations for illegal profit acquisition and periodic risk assessments of the existing beneficiary based on a risk-based approach.

By doing business in accordance with such Protocols, Hitachi will develop fair and ethical business activities around the world.

Educational Activities for Preventing Bribery and Corrupt Practices

To ensure awareness of the stipulations on prevention of bribery and corruption spewed out in the internal Hitachi Group Anti-Bribery and Anti-Corruption Policy and Business Conduct, we offer teaching materials for use by Group companies worldwide.

Fair Competition

Hitachi engages in business in accordance with the law and with business ethics, and practicing fair and open competition. Business standards and guidelines related to these principles are included in the Hitachi Group Codes of Conduct as well as the internal Hitachi Group Fair Competition Policy. In fiscal 2021, we revised the guidelines for preventing cartel activity and improved the relevant forms based on the revised guidelines.

Educational Activities for Preventing Violations of Competition Law

Paralleling our initiatives to prevent bribery and corrupt practices, we are also rolling out global learning and development programs on competition law, while also ensuring compliance with all related rules, business standards, and guidelines. To enhance awareness of ethical principles and practices worldwide, we have issued a global version of our standards on contact with competitors.
Prevention of Antisocial Transactions and Money Laundering

*Approach*  
To cut off all relationships with antisocial forces, in the Hitachi Group Codes of Conduct, we have laid out provisions stating that we will never engage in antisocial transactions under any circumstances, and will refuse any improper demands and unfair deals. We conduct eligibility checks on all new as well as existing business partners. In Japan, we insert antisocial-force rejection clauses in contracts so that if it is determined that a business partner belongs to an antisocial force, we can promptly void the contract and end the relationship. The entire Hitachi Group acts decisively to eliminate approaches from antisocial forces in partnership with external specialist institutions (the National Center for Removal of Criminal Organizations or the police).

In fiscal 2020, we revised our rules, adding provisions on the prevention of money laundering in addition to the prevention of antisocial transactions, seeking to clarify Hitachi’s stance of not tolerating money laundering as well as to strengthen concrete initiatives. We establish these concrete initiatives to eliminate the possibility of involvement with persons or organizations engaged in money laundering or other illegal activities in and outside Japan. To that end, we conduct due diligence on all customers and business partners, including checking the sanctions lists of each country, checking payment details, and including clauses in business contracts to prevent money laundering and terrorist financing.

*Activities*

Hitachi's Tax Compliance Approach

*Approach*  
Under the Chief Financial Officer (CFO), Hitachi has built a system of tax governance designed to address tax risks associated with the globalization of its business, such as indications made by the tax authorities and tax-related legal proceedings in each country. Specifically, we have established tax-related rules for the purposes listed below.

To ensure thorough compliance with these rules, we are striving to raise awareness of them among all employees involved in tax management (filling and paying taxes, handling tax audits, and managing tax risk) and the handling of other tax-related matters.

1. Group companies strictly comply with all relevant laws and implement tax management when pursuing their business activities, bearing in mind such international tax-compliance standards as the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations of the Organisation for Economic Co-operation and Development (OECD), as well as that body’s Action Plan on Base Erosion and Profit Shifting (BEPS).

2. Group companies effectively, continually, and proactively manage tax-related issues in a manner befitting their status as socially responsible organizations, while maintaining Hitachi brand value and seeking to maximize shareholder value.

3. Group companies build sincere and positive relations of trust with the tax authorities in the regions where these companies do business, and strive to maintain and develop those relations.

In accordance with these rules, we have established rules on transfer pricing management for Group companies, seeking to identify and mitigate potential taxation risks related to transfer pricing in transactions with foreign-affiliated parties, and to help ensure compliance. As stated above, we are striving to raise awareness of these rules and ensure that they are followed.
Governance

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– Business Ethics and Compliance
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5

Tax Compliance Initiatives

Activities
By following the relevant tax-related rules applicable to the Group as a whole, Hitachi manages tax risks associated with globalization. For example, we are strengthening our risk management as well as compliance with laws and regulations by identifying and sharing indications made by the tax authorities and tax-related legal proceedings in each country. The results of our tax filings and tax audits in Japan are reported to the CFO, and we are continuously working to ensure appropriate tax reporting and prevent fraud. In preparing tax filings, we determine whether anti-tax haven legislation applies, and when it does, we reflect it properly in the tax filing to ensure that we make appropriate tax payments.

Hitachi follows rules for transfer pricing management and also manages transfer pricing in accordance with the OECD Transfer Pricing Guidelines and the laws and regulations on transfer pricing in each country or region where Group companies are located.

In the fiscal year ended March 31, 2022, we paid 248.4 billion yen*¹ in corporate income tax (68% in Japan and 32% outside Japan*²).

*1 Refer to income taxes paid in consolidated statements of cash flows of Hitachi, Ltd.
*2 Based on the percentage in the country-by-country report submitted to tax authorities

Violations of Laws and Regulation

Activities
GRI 205-3/206-1/419-1
In fiscal 2021, there were no incidents in which Hitachi was prosecuted or penalized by authorities for bribery, corrupt practices, competition law or export control. Regarding tax compliance, Hitachi acts in accordance with all applicable laws and regulations and did not receive any significant fines or nonmonetary sanctions for noncompliance with tax laws and regulations in fiscal 2021.
Governance

Corporate Governance

Business Ethics and Compliance

Risk Management

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Addressing Risks and Opportunities

Business Continuation Initiatives

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Risk Management

Social issues, including rapid advancements in digitalization and complex changes in political and economic situations occurring worldwide, along with environmental issues, including climate change, resource depletion, and major disasters, are bringing changes to the business environment that are difficult to predict. Hitachi monitors and analyzes this business environment, conducts risk management in terms of both responding to risks that should be anticipated and opportunities for further growth in light of social issues, Hitachi’s competitive advantage and management resources, and strives to create revenue opportunities while controlling risks.

Why it matters

GRI 103-2/403-2

Achievements in FY 2021

Strengthen risk management systems

Established a Risk Management Meeting that deliberates important matters related to Hitachi management within the Senior Executive Committee and selected top risks based on global risk trends.

Set up Six risk-specific working groups under the Risk Management Meeting; investment risks, business risks, crisis management, compliance, Group governance and regional risks, and each WG coordinates Group corporate functions across the organization while conducting activities to mitigate the respective risks.

Understand risks and opportunities and take appropriate action

Ascertained and appropriately responded to risks and opportunities related to investments (e.g., M&A, sale of assets, orders for projects) and assets held on the group’s consolidated balance sheet.

Implemented crisis and compliance management initiatives

Disclosed climate-related information based on the TCFD recommendations

Policy and promotion structure

In April 2022, a Risk Management Meeting that deliberates important matters related to Hitachi management was established within the Senior Executive Committee. Chaired by the CEO with the Chief Risk Management Officer (CRMO) as vice chair, the meeting discusses and makes decisions on important matters relating to companywide risks. By centrally managing the various risks faced by Hitachi, which has operations around the world, we are working to achieve a solid management foundation that is linked to growth strategy.
Governance

Business Continuation Initiatives

What — What we are doing —

- Strengthening Business Continuity Plans (BCPs)
- Improving the safety of employees sent to dangerous regions

How — How we are doing it —

Policy and promotion structure

To increase preparedness for major disasters and other risks across the entire Group worldwide, we have issued the Hitachi Group Guidelines for Developing Business Continuity Plans. We are strengthening our measures against COVID-19 and natural disasters as part of Pandemic and Natural Disaster BCPs, and the procurement divisions in business units and key Group companies in Japan have created procurement BCPs to minimize the impact of disasters that may occur.

Achievements in FY 2021

Continuously strengthening Pandemic and Natural Disaster BCPs
- Under the COVID-19 task force’s leadership, our regional headquarters around the world gathered local information as well as share information on the measures taken by Hitachi Group companies in their respective regions.
- Conducted an earthquake drill on the assumption that there is a mix of those who come to the office and those who work from home.

Continuously strengthening procurement BCPs
- Expanded the number of business sites utilizing the Procurement BCPs Management System for our procurement partners in Japan and to digitize information.

Continuously improving the safety of employees sent to dangerous regions
- Provided medical assistance for Hitachi Group employees outside Japan.
Addressing Risks and Opportunities

With the rapid advance of digitalization and complex developments in the political and economic landscape globally, the business environment is changing day by day. Hitachi monitors and analyzes this business environment, conducts risk management in terms of both responding to risks that should be anticipated and opportunities for further growth in light of social issues, Hitachi’s competitive advantage and management resources, and strives to create revenue opportunities while controlling risks.

Strengthening of the Risk Management Structure and Its Aims

In April 2022, a Risk Management Meeting that deliberates important matters related to Hitachi management was established within the Senior Executive Committee. Chaired by the CEO with the Chief Risk Management Officer (CRMO) as vice chair, the meeting discusses and makes decisions on important matters relating to company-wide risks. By centrally managing the various risks faced by Hitachi, which has operations around the world, we are working to achieve a solid management foundation that is linked to growth strategy.

Six risk-specific working groups have been set up under the Risk Management Meeting, investment risks, business risks, crisis management, compliance, group governance and regional risks. Each working group coordinates Group corporate functions across the organization while conducting activities to mitigate the respective risks.

For example, the Business Risks Working Group discusses risks and responses in the global supply chain. Since control of consolidated management is important for Hitachi as a group made up of more than 800 companies, we must also develop plans to disseminate and manage guidelines and policies. This is an area the Group Governance Working Group will discuss going forward. Addressing regional risks in an effort to review the roles of local subsidiaries and achieve overall optimization at global sites, we will ensure that Hitachi’s assets are utilized effectively.

Initiatives about investment risks, crisis management and compliance are introduced on the following pages.

Selecting Top Risks based on Global Risk Trends

In the Mid-term Management Plan 2024, we are utilizing knowledge from inside and outside the Group to collect and analyze information on the external environment surrounding Hitachi and select top risks through the Risk Management Meeting.

Specifically, we have organized major risks under classifications such as disasters, accidents and epidemic; geopolitics and geoeconomics; economics, finance and markets; sustainability; investment and orders for projects; and operations. We then assess and narrow down the risks from the perspectives of the nature of risk events, expected time period, likelihood of occurrence and seriousness when occurring, and select the top risks, such as the risk of a major natural disaster in Japan that may significantly impact Hitachi’s business. The six working groups consider and implement policies to respond to each of the top risks.
Addressing Investment Risks and Opportunities

To ascertain and appropriately respond to risks and opportunities related to investments (e.g., M&A, sale of assets, orders for projects), Hitachi has established a decision-making framework based on the following flowchart. Decision-making regarding individual investments (e.g., execution, business plan changes) is delegated from the Board of Directors as the highest level body to the head office Senior Executive Committee (which generally meets twice a month) or the relevant sector or business unit, based on the size and specifics of the matter. This facilitates flexible and appropriate decision-making. For important matters that fall under deliberation by the head office Senior Executive Committee, the Investment Strategy Committee working as its advisory body checks the risks, response measures for the matter from economic value perspectives such as profitability and cash flow as well as in terms of the impact on social value and environmental value.

Following deliberation, the Investment Strategy Committee delivers a report that includes approval or rejection recommendations to the Senior Executive Committee, of which the CEO is also a member.

After executing an investment, Hitachi regularly monitors the achievement of business objectives and plan while taking into account changes to the risk climate including the external environment. By generally having monitoring performed by the relevant business units, which are accountable for profits and closely associated with field operations, flexibility can be maintained, while head office can still become involved depending on the importance of the matter. For changes to business plans, business withdrawals, asset sales and other matters related to important investment targets, the head office Senior Executive Committee engages in similar deliberations to the initial investment stage. For investment targets whose business is not proceeding as planned, a framework has been established to deliberate the merits of continuing a business, including the prospects of withdrawal, in an effort to enhance capital efficiency.

Quantitative Understanding of Risks

Hitachi calculates expected maximum risks (Value at Risk) assumed by statistical methods according to the type of assets held on the group’s consolidated balance sheet.

We avoid missing out on growth opportunities by visualizing the capacity for growth investment, etc., considering consolidated net assets and other factors. We also engage in monitoring and hold discussions through the Risk Management Meeting to ensure that risks are not excessively unbalanced compared to Hitachi’s consolidated financial strength.

We also quantitatively analyze and understand the state of risks and profitability on a regional and per-sector basis.
Crisis Management Initiatives

Based on the selected top risks, the Crisis Management Working Group promotes the development of response measures, including crisis management structures, for each risk. By making preparations under normal conditions, we have put systems in place to respond swiftly in the event a risk does materialize.

Compliance Initiatives

The Compliance Working Group is made up of members from the Compliance Division, Sustainability Promotion Division, Corporate Quality Assurance Group and Safety and Health Management Division.

For major compliance-related risks falling under business ethics and compliance, environmental compliance, quality compliance, and health and safety (fatal and serious incidents, etc.), information on the measures implemented by each department under regular conditions (development of regulations, training, monitoring, audits, etc.) and the response methods implemented in the event of an emergency (communication with internal and external stakeholders including top management when a major risk has materialized, etc.) are linked and shared amongst member of the Working Group as management methods for the different risk areas. By pursuing a greater level of global collaboration, we will strive to raise the level of risk management in each field and mitigate various risks.

System - Activities

Three Hitachi Group companies, namely GlobalLogic, Hitachi Energy and Hitachi Vantara have sites in Ukraine. The safety and health of our employees and their families is the highest priority for the Hitachi Group. GlobalLogic, which has an engineering site in Ukraine, has approximately 7,500 employees (as of May 31, 2022). Based on the business continuity plan, top priority has been given to the safety of the site's employees and their families, and measures were taken to evacuate them to safe locations in Ukraine or out of the country. The company is now returning to normal operations with an operating rate of 96% as of May, and is working to maintain business continuity while ensuring safety.

Safety-First Risk Management

Three Hitachi Group companies, namely GlobalLogic, Hitachi Energy and Hitachi Vantara have sites in Ukraine. The safety and health of our employees and their families is the highest priority for the Hitachi Group. GlobalLogic, which has an engineering site in Ukraine, has approximately 7,500 employees (as of May 31, 2022). Based on the business continuity plan, top priority has been given to the safety of the site's employees and their families, and measures were taken to evacuate them to safe locations in Ukraine or out of the country. The company is now returning to normal operations with an operating rate of 96% as of May, and is working to maintain business continuity while ensuring safety.

Business Continuation Initiatives

Approach on Business Continuity Plans (BCPs)

**Approach**

Given the close relationship of our business to social infrastructure, we are enhancing our BCPs to ensure that the impact of risks does not disrupt our business and thereby significantly affect society. The Hitachi Group Guidelines for Developing Business Continuity Plans (Overview) and the Hitachi Group Guidelines for Developing Business Continuity Plans (By Department) were issued in Japanese and then translated into English and Chinese for distribution to all Hitachi Group companies to enhance preparedness for major disasters and other risks.

Regarding infectious diseases, we released the Hitachi Group Guidelines for Pandemic Influenza Preparedness in Japanese, English, and Chinese. In fiscal 2021, they served as a useful tool in dealing with the novel coronavirus (COVID-19) pandemic.

We have also appointed personnel with responsibility for risk-response policies at our main overseas bases. Around 300 Group companies outside Japan prepared BCPs to strengthen their ability to respond to business risks including major disasters, infectious diseases, political instability, social disruption, and acts of terrorism. We will reflect in our BCPs the current environment of significantly more people working from home and the experienced gained in the course of recent COVID-19 measures.

Formulation of BCPs

Since fiscal 2011, Hitachi, Ltd. and its Group companies in Japan have formulated BCPs for each business in preparation for major earthquakes, wind and flood damage, and novel strains of influenza. Each business unit regularly reviews its BCP and revises it as necessary to reflect the latest risk assessment results. Group companies outside Japan have formulated BCPs in light of risks of concern in their respective locations.

From fiscal 2022, we will strengthen our BCPs especially for infectious diseases such as COVID-19 and for mega-earthquakes.

Pandemic and Natural Disaster BCPs Initiatives

**Activities**

A COVID-19 task force, headed by the President & CEO of Hitachi, Ltd., was established at Group headquarters to provide instructions on preventive measures to Group companies. Similarly, each Group company formed its own task force to secure the safety of its employees and business continuity while helping to maintain the social infrastructure through their business operations. Our regional headquarters around the world gather local information as well as share information on the measures taken by Hitachi Group companies in their respective regions.

Hitachi, Ltd. is also strengthening its measures against natural disasters by conducting annual earthquake drills, which simulate a major seismic event. In fiscal 2017, we developed action plans including setting up substitute headquarters in the Kansai region in case our Tokyo headquarters temporarily ceases to function. From fiscal 2019 we have conducted drills that assume remote work. In such ways, we are making sure that our efforts are in line with reality.
Governance

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Business Ethics and Compliance
Risk Management
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  Addressing Risks and Opportunities
  – Business Continuation Initiatives
Information Management
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Procurement BCPs Initiatives

**Approach**

Hitachi is also working to enhance BCPs for procurement across Group companies worldwide so that the occurrence of incidents* does not disrupt business and have a significant impact on society.

To minimize the impact of disasters that may occur, the procurement divisions in business units and key Group companies in Japan do the following: (1) standardize and use generic parts to make procurement as flexible as possible; (2) cultivate multiple suppliers; (3) distribute production across several locations; (4) budget inventory strategically; and (5) consider and promote substitute products.

We also hold desktop exercises to check the effectiveness of procurement BCPs against earthquakes and to make further improvements hold group discussions about what should be done during and after such disasters.

We share these activities with procurement divisions in business units and key Group companies outside Japan as appropriate, making use of them in reviewing strategies in an effort to enhance procurement BCPs throughout the Group worldwide.

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* Incidents: Events that interrupt business operations, such as major earthquakes and other natural disasters

**Activities**

In January 2020, we introduced the Procurement BCPs Management System for our procurement partners in Japan to efficiently share information during disasters.

In fiscal 2021, we worked to expand the number of business sites utilizing the system and to digitize information to help shorten recovery time.

**Achievements in Fiscal 2021**

In January 2020, Hitachi, Ltd. undertook a range of measures to ensure the safety of its employees working around the globe. These included the timely provision of information by alerts on conflicts occurring around the world and also the COVID-19 pandemic as well as information from outside risk consultants contracted by Hitachi, Ltd. posted on its intranet. In addition, the company employed an outside specialist to provide medical assistance to Hitachi Group employees outside Japan.

Improving Safety for Employees Sent to Dangerous Regions

**Activities**

When sending employees to countries and areas at high risk of conflicts, terrorism, and other threats, we take all possible measures to ensure their safety. On-site surveys are also conducted by in-house and outside experts beforehand.

Hitachi, Ltd. is also contributing to safety measures at other Japanese corporations operating outside Japan. To help enhance collaboration between the private and public sectors in this area, we participate in the Council for Public-Private Cooperation for Overseas Safety organized by Japan’s Ministry of Foreign Affairs.

**Achievements in Fiscal 2021**

In fiscal 2021, Hitachi, Ltd. undertook a range of measures to ensure the safety of its employees working around the globe. These included the timely provision of information by alerts on conflicts occurring around the world and also the COVID-19 pandemic as well as information from outside risk consultants contracted by Hitachi, Ltd. posted on its intranet. In addition, the company employed an outside specialist to provide medical assistance to Hitachi Group employees outside Japan.
Governance

Even as the development of IoT creates new value, cyberattacks are growing increasingly sophisticated and widening in focus from traditional IT to encompass the IoT/OT field as well. The risks for corporations include leaks of information, operational stoppages, and even direct disruption to business, making information security one of the most critical issues companies face. Hitachi, in expanding its Social Innovation Business worldwide, has highlighted the importance of working to ensure cybersecurity as a key management issue and is engaged in information security governance efforts.

Also, amid rapidly expanding data use with the development of digital technologies, privacy risks are increasing as well. In working to provide a safe and secure social infrastructure system, Hitachi is prioritizing personal information protection efforts in order to realize the secure management of personal information entrusted to us by our customers, personal information related to business operations, and more.

Information Security

Why

Why it matters

Achievements in FY 2021

Disseminating Information Security Policy

Strengthening information security management

Implementing security monitoring

- Preventing information leaks
- Providing education programs on information security
- Conducting thorough personal information protection/information security audits and inspections
- Responding to personal data protection laws around the world
- Acquiring PrivacyMark certification
- Managing customer information
- Promoting privacy protection efforts by digital business divisions

Policy and promotion structure

Hitachi has established Information Security Policy to foster cybersecurity risk management. The Information Security Committee is chaired by the Chief Information Security Officer (CISO), who is the C-level executive with ultimate authority and responsibility regarding the handling of information security and personal privacy issues. The committee determines relevant policies and measures, while the information security heads at each Hitachi business unit and Group company promote workplace awareness and oversee the implementation of measures.

Strengthening information security management

Advanced the strengthening of information security governance worldwide, based on our rules for information security, established in compliance with the ISO/IEC 27001 standard, and furthermore enhanced with NIST SP 800-171 U.S. government standard.

Implemented IT countermeasures and activities to raise security awareness among employees in conjunction with promoting telecommuting.

Implemented measures to reduce security risks during deals/post-merger integration in conjunction with acquisitions and sales of companies.

Security monitoring

Enhanced cyber monitoring by using endpoint detection and response to monitor equipment operation, implemented authentication, and strengthened cyber monitoring.

Education on information security

Held e-learning programs on information security and personal information protection for all executive officers and employees (Hitachi, Ltd. attendance rate: 100%).

Thorough personal information protection/information security audits and inspections

Conducted personal information protection/information security internal audits at all Group companies and divisions (Annually).

Responding to personal data protection laws around the world

Formulated and put into effect from April 2022 a Group-wide internal code of conduct concerning protection of personal information, which takes into consideration international legal frameworks, such as the European General Data Protection Regulation (GDPR).

Acquiring third-party certification related to personal information protection

Acquired PrivacyMark certification for 37 Hitachi Group companies in Japan

Personal information leaks

Personal information leaks: 0
Information Security Policy

Hitachi considers one of its top management priorities to be information security governance to minimize the risk of business disruption such as leaks of information or operational stoppages due to cyberattacks.

As a global company, Hitachi regards cyber security risk as one of our management risks. Accordingly, we have formulated Information Security Policy in line with our corporate management policies and based on our cyber security risk management.

We have our data centers and other divisions certified by the ISMS Accreditation Center in accordance with the ISO/IEC 27001 Information Security Management System international standard. This certification has been received by seven divisions of Hitachi, Ltd. and 27 divisions of 23 Group companies.*¹

Information Security Policy

1. Formulating administrative rules for information security and ensuring their continual improvement
2. Protection and ongoing management of information assets
3. Legal and regulatory compliance
4. Education and training
5. Preventing incidents and taking action when they occur
6. Ensuring business processes are optimized within the corporate group

Framework for Promoting Information Security

At Hitachi, Ltd., the Chief Information Security Officer (CISO), who is the C-level executive with ultimate authority and responsibility regarding the handling of information security and personal privacy issues, oversees the promotion of information security for all Hitachi products, services, and internal facilities.

Chaired by the CISO, the Information Security Committee determines all policies and procedures for information security and personal information protection. Business Units (BU) and business sites establish information security promotion divisions, with the heads of the units and sites serving as information security officers. These divisions work to implement information security management in each workplace and provide relevant education to employees. This framework is also implemented at Group companies to promote information security across the Group through mutual cooperation.

*¹ As of September 30, 2021.
Information Security Management

**Activities**

Hitachi has established information security management based on ISO/IEC 27001 and has been working to strengthen information security by reviewing regulations with the U.S. government standards SP800-171 due to the intensifying cyberattacks in recent years. These rules are globally distributed by Hitachi, Ltd. and its Group companies. Other measures include actively promoting the use of shared security services and related support for information security provided by regional headquarters in the Americas, Europe, Southeast Asia, China, and India.

The Information Security Promotion Council and other bodies convey policies and procedures for information security and personal information protection determined by the Information Security Committee internally and to other companies in the Hitachi Group. Information security officers at business sites and Group companies ensure that these decisions are implemented in the workplace.

Details of our information security initiatives are contained in our Information Security Report.

**Achievements in Fiscal 2021**

As Hitachi promotes new workstyles based on telecommuting, the vulnerability posed by employees’ security awareness becomes a risk. Considering this threat, we are working to raise security awareness among our employees with an employee-centered approach alongside IT-based security measures. Also, given the vigorous acquisition and sale of companies in recent years, we keep an eye on the security conditions during deals/post-merger integration, and take measures to reduce security risks.

**Security Monitoring**

In Hitachi, the Security Operation Center (SOC) monitors security on an around-the-clock basis so global-scale cyberattacks can be detected and countermeasures initiated right away. The Incident Response Team (IRT) collects and develops threat intelligence*¹ and manages the response to any security incidents.

Cyberattacks become more sophisticated each year, with damage tending to increase as attacks slip past conventional detection and go undiscovered for longer periods. To counter this risk, we are working to enhance cyber monitoring by using endpoint detection and response to monitor equipment operation, as well as implementing authentication. We continue improving and strengthening our cyber monitoring environment using the latest technology.

**Preventing Information Leaks**

Hitachi takes the following IT steps to prevent information leaks: encrypting devices; using thin clients;*¹ employing electronic document access control and expiration processing software; maintaining ID management and access control by building an authentication infrastructure; and filtering e-mails and websites. In response to the recent spate of targeted e-mail attacks and other cyberattacks, we are participating in an initiative to share information between the private sector and the government. We are also enhancing various IT measures such as a defense in depth strategy.

To prevent leaks from our procurement partners, we review their information security measures based on Hitachi’s own standards before allowing them access to confidential information. We also provide tools to procurement partners for security education and for checking business information on computers. In addition, we require procurement partners to check and remove business information from personal computers.

*¹ Threat intelligence: An approach to countering cyberattacks using knowledge of new threats gathered from multiple sources of information on cyber security.

*¹ Thin client: A terminal with the minimum necessary software. Thin client computing significantly enhances cyber security by storing applications and data on the server.
**Governance**

**Education on Information Security**

**Training**

Hitachi holds annual e-learning programs on information security and personal information protection for all executive officers and employees. Approximately 35,000 employees at Hitachi, Ltd. take these programs, and the percentage of employees completing these programs reaches 100% every year (excluding those who cannot attend for reasons such as being on leave). The company offers a variety of courses that have different goals and are tailored to different target audiences, including new employees, new managers, and information system administrators. Hitachi, Ltd. also implement simulation training to educate employees about phishing attacks and other cyberattacks. Employees are sent deceptive e-mails as phishing simulations to heighten their awareness of security through direct experiences.

Educational programs from Hitachi, Ltd. are shared within the Group to provide Group-wide education on information security and personal information protection.

**Thorough Personal Information Protection/ Information Security Audits and Inspections**

**Activities**

The Hitachi has developed its approach to security based on the PDCA (plan-do-check-act) cycle for its information security management system that Hitachi, Ltd established. Hitachi conducts annual internal audits of personal information protection and information security at all Group companies and BUs.

The President & CEO of Hitachi, Ltd. appoints officers to conduct internal audits. These officers are not allowed to audit their own units, underlining our commitment to fairness and objectivity in auditing.

There are 169 Hitachi Group companies*¹ in Japan that conduct internal audits in the same way as Hitachi, Ltd., and all results are subject to confirmation by Hitachi, Ltd. Hitachi requires Group companies outside Japan to use a common global self-check approach to ensure Group-wide auditing and inspections. All BUs conduct annual self-inspections for Confirmation of Personal Information Protection and Information Security Management, and monthly inspections for operations that involve processing important personal information (740 registered operations as of March 2022). This regular control mechanism ensures ample safety management and implementation.

A dedicated internal security team at Hitachi, Ltd. conducts regular on-site assessments of the state of information security measures, and investigates external vulnerabilities in public-facing servers once every fourth quarter. In this way, Hitachi, Ltd. is working to reduce security risks by identifying discrepancies with self-checks.

*¹ Including partner companies that have submitted voluntarily
Personal Information Protection

**Personal Information Protection Policy**

Hitachi places great importance on protecting personal information that is entrusted to us by customers or related to our business operations. As a member of the global community, Hitachi commits to protecting personal information in accordance with a vision for personal information protection summarized as providing safety and trustworthiness, and recognizing the importance of individuals’ rights.

Hitachi, Ltd.’s Personal Information Protection Policy sets out its corporate philosophy and principles on personal information protection. The policy is disseminated to all executive officers and employees as well as being publicly available.

Hitachi has also established a personal information protection management system based on this policy. Through the rollout of the system, Hitachi is ensuring protection of personal information by such means as safe handling of personal information, educational programs for all employees, and periodic audits.

*Personal Information Protection Policy of Hitachi, Ltd.*
https://www.hitachi.com/privacy-e/

**Responding to Personal Data Protection Laws Around the World**

Approach

With the increasing risk of privacy violations in recent years due to the advent of the digital age following advances in IT and the globalization of socio-economic activities, lawmakers are actively seeking to create and modify relevant laws and legislation in countries and regions around the world. Hitachi ensures thorough global compliance with legal frameworks, continues to monitor related legal frameworks and social trends, and implements appropriate measures.

In Japan, Hitachi will report any leakage of personal information and notify affected individuals, as required by the Amended Act on the Protection of Personal Information. In the event that a leak could result in a situation that would harm the rights and interests of individuals, we will promptly report it to the Personal Information Protection Commission and notify the affected individual(s).

Hitachi, Ltd. has also formulated a Group-wide internal code of conduct concerning the protection of personal information, which takes into consideration international legal frameworks such as the European General Data Protection Regulation (GDPR), and put this code of conduct into effect from April 2022. Furthermore, each Group company is strengthening its system for protection of personal information, and is working to ensure thorough and appropriate protection of personal information on a global scale.

**PrivacyMark Certification**

Activities

Hitachi, Ltd. has received PrivacyMark* certification. The entire Hitachi Group is committed to personal information protection; 37 Hitachi Group companies in Japan have been granted the PrivacyMark as of March 31, 2022.

Hitachi also strives to safeguard personal information globally at Group companies outside Japan, based on each company’s personal information protection policy, and ensures that they comply with all applicable laws and regulations in each country and region as well as they respond the expectations of society at large. In addition, there were no cases of personal information leakage by Hitachi, Ltd. during fiscal 2021.

*PrivacyMark: A third-party certification established in April 1998 that is granted by the assessment body the Japan Information Processing Development Corporation to businesses that have taken appropriate security management and protection measures related to personal information.
Management of Customer Information

Activities

Hitachi has deployed customer relations management (CRM) systems, which allow us to collect and accurately manage customer and transaction information, in addition to use as a marketing tool. The data collected in these CRM systems enable us to formulate more effective sales strategies and offer collaborative solutions through cooperation by multiple business sites.

Privacy Protection Initiatives by Hitachi’s Digital Business Division

Approach

Under the Digital Systems & Services Sector, which drives our digital business, we have assigned a personal data manager to unify our handling of personal data, and established a privacy protection advisory committee to support risk assessments and develop countermeasures based on its knowledge and expertise of privacy protection. In accordance with the policies set by the committee, our employees implement privacy impact assessments for processes where personal data will be handled and take measures to prevent privacy violations.

https://www.hitachi.co.jp/products/it/bigdata/bigdata_ai/personaldata/privacy/index.html

P187 Thorough Personal Information Protection/Information Security Audits and Inspections
## Governance Data

### Corporate Governance

#### Leadership Demographics

<table>
<thead>
<tr>
<th></th>
<th>Unit</th>
<th>Gender</th>
<th>Nationality</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Directors*¹</td>
<td>12¹²</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Executive officers*¹</td>
<td>People</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Executive officers and corporate officers*¹</td>
<td>74</td>
<td>65</td>
<td>9</td>
</tr>
<tr>
<td>Ratios of female and non-Japanese executive officers and corporate officers</td>
<td>%</td>
<td>12.2</td>
<td>17.6</td>
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</tbody>
</table>

*¹ As of June 2022
*² Including 9 independent directors (seven from Japan and two from outside Japan)
## Business Ethics and Compliance

### Business Ethics and Compliance Training

<table>
<thead>
<tr>
<th>Reporting Boundary</th>
<th>Unit</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
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<tbody>
<tr>
<td>Number of participants of business ethics and compliance training*1</td>
<td>Hitachi Group</td>
<td>people</td>
<td>—</td>
<td>—</td>
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<td>—</td>
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<tr>
<td>Participation rate of business ethics and compliance training*2</td>
<td>Hitachi Group</td>
<td>%</td>
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*1 Disclosures began in fiscal 2021.

**Hitachi Global Compliance Hotline (Whistleblower System)**

<table>
<thead>
<tr>
<th>Reporting Boundary</th>
<th>Unit</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
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<tbody>
<tr>
<td>Number of compliance reports*3</td>
<td>Hitachi Group</td>
<td>Total Cases</td>
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<td>—</td>
<td>459</td>
<td>639</td>
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<td>(By category)</td>
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<td>HR issues (Labor management, travel expenses, commuting costs, etc.)</td>
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<tr>
<td>Harassment</td>
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<td>(By area)</td>
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<td>Europe (Including CIS)</td>
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<td>Middle East/North Africa</td>
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<td>Sub-Saharan</td>
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<tr>
<td>APAC (excluding Japan)</td>
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<td>Japan</td>
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*3 Disclosures of the total number of cases began in fiscal 2019 and the breakdown in fiscal 2021.