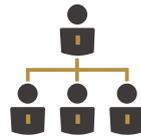


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Corporate Governance

GRI 103-2/103-3

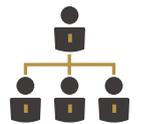
Relevant SDGs



Why

— Why it matters —

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.



Corporate Governance

What — What we are doing —	How — How we are doing it —						
<ul style="list-style-type: none"> •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 	<div style="background-color: #f0f0f0; padding: 5px; margin-bottom: 10px;">Policy and promotion structure</div> <p>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.</p> <div style="background-color: #333; color: white; padding: 2px; margin-bottom: 10px; text-align: center;">Achievements in FY 2021</div> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; padding: 5px;">Administrative performance of the Board of Directors</td> <td style="padding: 5px;">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.</td> </tr> <tr> <td style="padding: 5px;">Ensuring legality, soundness, and transparency of Hitachi's business</td> <td style="padding: 5px;">Analyzed and evaluated the effectiveness of the Board of Directors</td> </tr> <tr> <td style="padding: 5px;">Reviewing executive compensation systems</td> <td style="padding: 5px;"> <p>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.</p> <hr style="border-top: 1px dotted #000;"/> <p>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.</p> </td> </tr> </table>	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	Reviewing executive compensation systems	<p>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.</p> <hr style="border-top: 1px dotted #000;"/> <p>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.</p>
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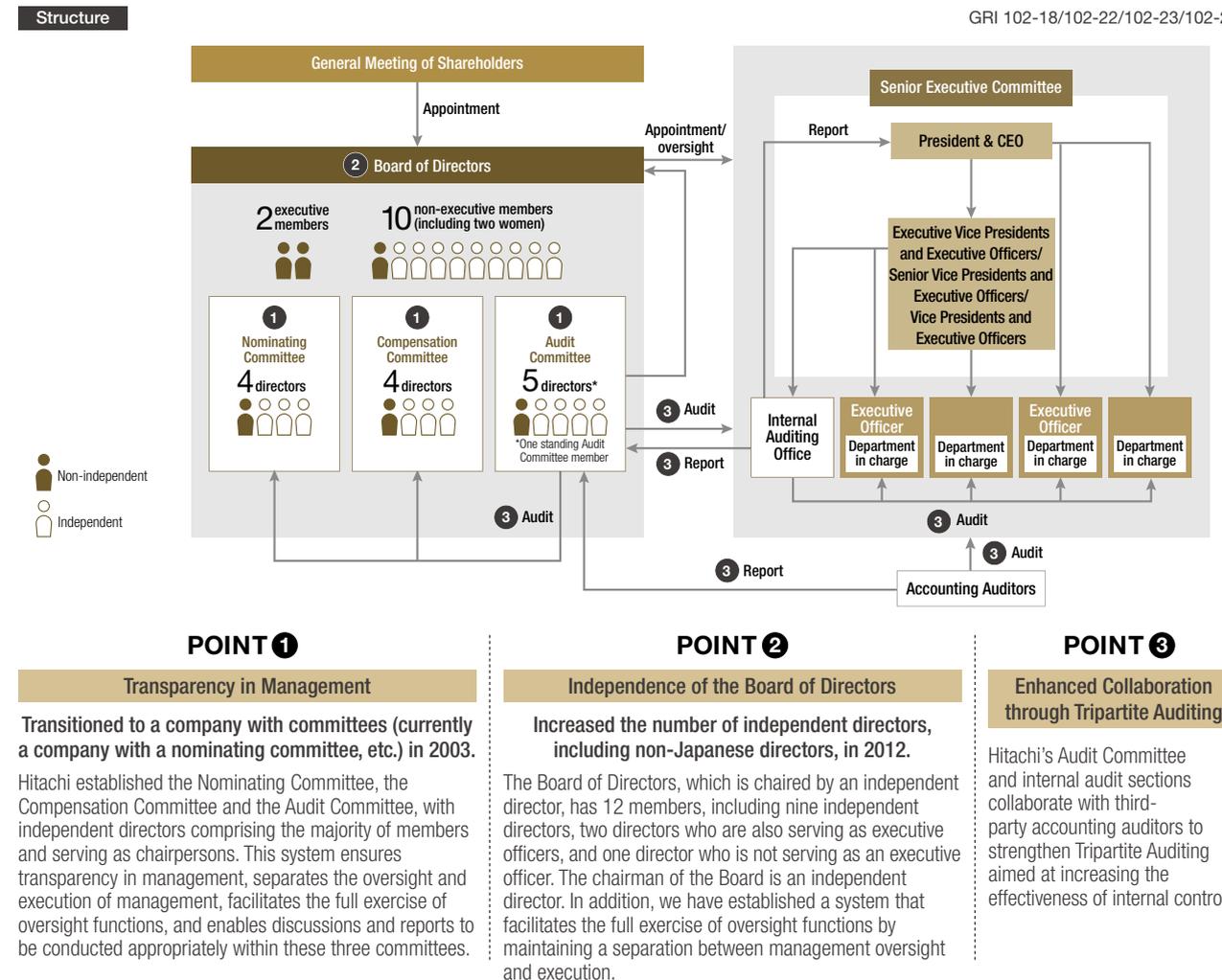
GRI 405-1

History of Hitachi's Corporate Governance Reform



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

GRI 102-18/102-22/102-23/102-24



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Experience, Knowledge and Capabilities Required for Directors

Approach

GRI102-24

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.

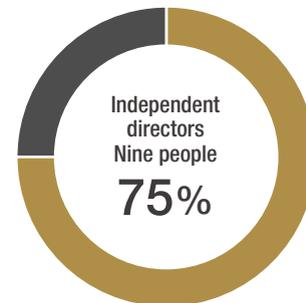
The experience, knowledge, capabilities and other qualities required for Hitachi directors are as follows.

Core Skills Core qualities that ensure management oversight efficiency and decision-making functions		Number of applicable directors	Professional Skills Expertise and experience that enhances discussions pertaining to the promotion of the Social Innovation Business		Number of applicable directors
Corporate management	Corporate management experience and knowledge	12 people	Governments and international organizations	Leadership experience in government, governmental agencies, international organizations or economic associations that facilitate an understanding of and response to regulations and social issues, as well as practical experience at educational institutions	4 people
Global business	Business experience outside Japan or management experience at a company that develops business globally	12 people	Legal affairs	Expertise and practical experience in legal affairs indispensable for global business and the development of new business	1 person
Risk management	Knowledge of risk assessment and management necessary to maintain operations	12 people	R&D and intellectual property	Expertise and practical experience in R&D or intellectual property facilitating the utilization of technology and the incorporation of new technologies	2 people
Finance and accounting	Knowledge and management experience pertaining to financial accounting necessary for medium- to long-term corporate value creation from a financial perspective	12 people	Digital	Practical experience in industrial fields vital for promoting digital transformation (DX) in the Social Innovation Business	4 people

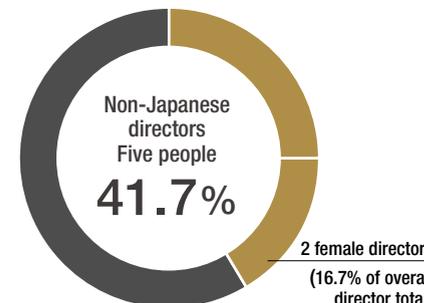
Board of Directors Composition (As of July 2022)

Structure **Activities**

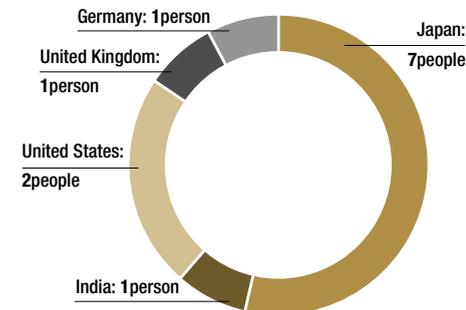
Independence
(ratio of independent directors)



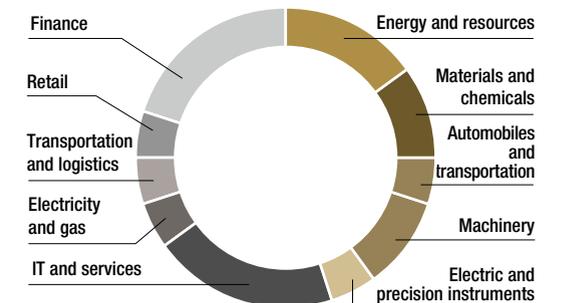
Diversity
(ratio of non-Japanese and female directors)



Diversity (by country of origin)



Industrial field



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Highly Experienced Directors

Structure

Activities

GRI102-24

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.

Name	Notes	Main industrial fields	Positions at Hitachi and responsibilities
Katsumi Ihara	Engaged in Sony Group management, possessing a wealth of experience and insight in the field of international corporate management.	Electric and precision instruments, finance	Independent director ● Nominating Committee chairman ● Audit Committee member ▲ Compensation Committee member
Ravi Venkatesan	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.	IT and services	Independent director
Cynthia Carroll	Possesses a wealth of experience and insight as a manager of large international corporations including Anglo American.	Materials and chemicals, energy and resources	Independent director ● Nominating Committee member
Ikuro Sugawara	Held a leading position in the Ministry of Economy, Trade and Industry, and possesses a wealth of experience and insight in the administrative field.	General industry	Independent director ● Audit Committee member
Joe Harlan	Possesses a wealth of experience and insight in international corporate management, including at the Dow Chemical Company.	Electricity and gas, energy and resources, materials and chemicals	Independent director ▲ Compensation Committee member
Louise Pentland	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.	IT and services, finance and retail	Independent director
Takatoshi Yamamoto	Possesses extensive insight into business and management in the fields of corporate analysis and international corporate management.	Finance	Independent director ▲ Compensation Committee chairman
Hiroaki Yoshihara	Possesses a high degree of professional knowledge and a wealth of experience in the fields of international corporate management, finance and accounting.	Finance, general industry	Independent director ● Nominating Committee member ● Audit Committee chairman
Helmuth Ludwig	Mainly engaged in Siemens Group management, possessing a wealth of experience and insight in international corporate management and the digital field in particular.	Machinery, manufacturing	Independent director ● Audit Committee member
Keiji Kojima	Engaged in R&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.	IT and services	Director, Representative Executive Officer, President & CEO ▲ Compensation Committee member
Hideaki Seki	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 these businesses.	Automobiles and transportation, machinery	Director ● Audit Committee member
Toshiaki Higashihara	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.	Transportation and logistics, IT and services, energy and resources	Director, Executive Chairman, Representative Executive Officer ● Nominating Committee member

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Administrative Performance of the Board of Directors

Structure **Activities**

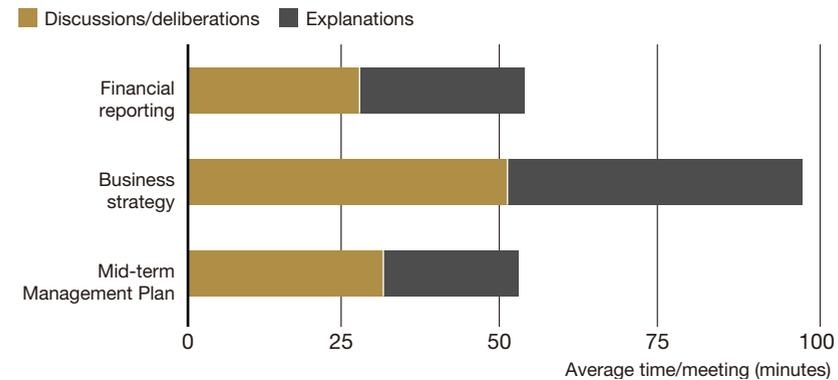
The Board of Directors approves basic management policy for the Hitachi Group and oversees the execution of the duties of executive officers and directors in order to sustainably enhance corporate value and the shareholders' common interests. The basic management policy includes the Mid-term Management 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.

▶ Board of Directors Meetings in Fiscal 2021

Fiscal 2021 Board of Directors Meeting Results	
Meetings held	Nine days
Average number of agenda items	7.5 per meeting
Average meeting length	3.5 hours (longest meeting 5.7 hours)

▶ Discussion of Major Themes



Providing Information to Independent Directors

Activities

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

Activities

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

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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

Activities

GRI102-24

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.

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Analysis and Evaluation of the Effectiveness of the Board of Directors

Activities

GRI 102-28

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)	<ul style="list-style-type: none"> ● Composition: Diversity on the Board, the number and proportion of Inside and Outside directors, etc. ● Visibility of responsibilities and roles of the Board ● Meeting operation: Meeting frequency, deliberation time, agenda setting, quality of deliberation, Chairman's role, etc. ● 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 Group Identity, risk factors, potential challenges and opportunities. ● Three committees: Composition, responsibilities and roles, coordination with the Board, etc. ● Supporting system for the Board: Provision of necessary information such as the Board materials, etc.
2. Discussions among independent directors (March 2022)	<ul style="list-style-type: none"> ● Independent directors had a meeting and discussed the Board effectiveness there referring to the Board's activities in each evaluation items set out in the above 1.
3. Discussions at the Board meeting (May 2022)	<ul style="list-style-type: none"> ● 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 2022.

Evaluation Results and Future Initiatives

Evaluation results

Overall evaluation in fiscal 2021	<ul style="list-style-type: none"> ● 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.
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Future initiatives

Further enhancement of corporate governance	<ul style="list-style-type: none"> ● 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.
Enhancement of the Board support system and improvement of practical issues in operations	<ul style="list-style-type: none"> ● 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

Activities

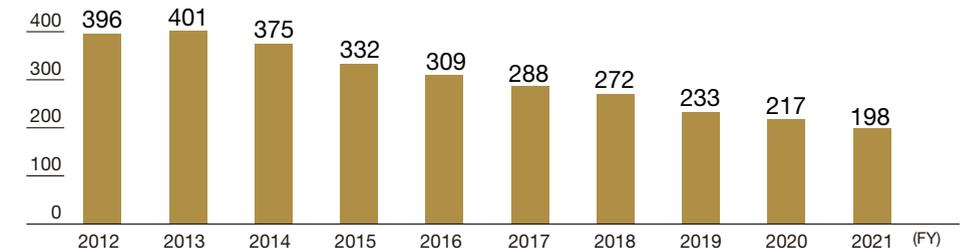
Policy on listed company strategic shareholdings

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 rationales 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*1
500



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	201,055	274,470
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*1 Total of listed and unlisted shares

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Director and Executive Officer Compensation

System GRI 102-35/102-36

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 fulltime 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)

https://www.hitachi.com/IR-e/library/stock/hit_sr_fy2021_4_en.pdf

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

	Sustainability Targets
Decarbonization	<ul style="list-style-type: none"> ● Efforts to realize carbon neutrality*1 in business sites (factories and offices) by fiscal 2030 ● Efforts to achieve carbon neutrality*1 by fiscal 2050 throughout the value chain
Resource efficiency	<ul style="list-style-type: none"> ● Efforts related to resource efficiency
Occupational health and safety	<ul style="list-style-type: none"> ● Zero fatal accidents ● Wellbeing initiatives
Product Quality	<ul style="list-style-type: none"> ● Efforts to enhance product quality

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

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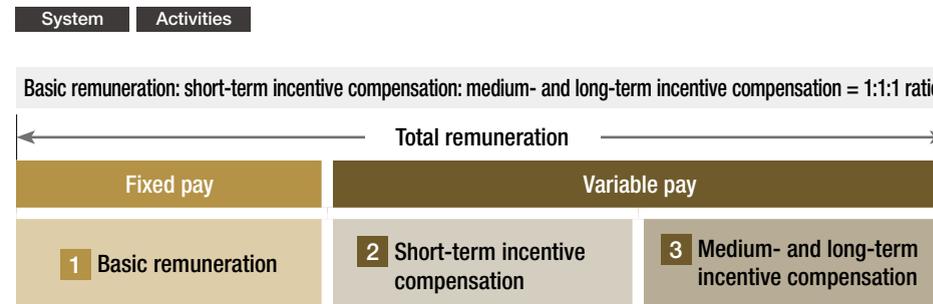
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Compensation to Executive Officers (Fiscal 2022)

GRI 102-35/102-36



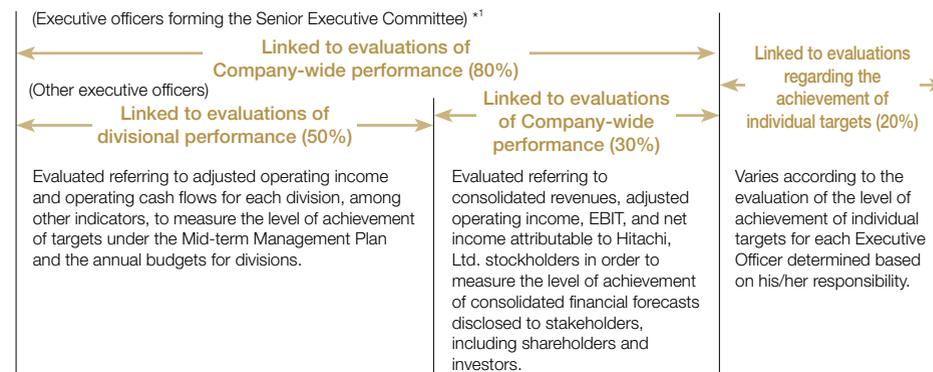
1 Basic remuneration

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.



*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.

3 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*1 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	Shares for which the transfer restrictions are lifted
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*2.
Less than 80%	No granted shares have transfer restrictions lifted.

*1 A system in which restricted stock compensation units are granted to the eligible persons, and over three years from the start of the business year in which the restricted stock compensation units were granted, one-third of the number of restricted stock compensation units granted is paid in each fiscal year that passes, as Hitachi stock or cash.

*2 Number of shares for which the transfer restrictions are lifted = Number of granted shares × {(TSR/TOPIX Growth Rate Ratio × 1.25) – 0.5}

Shares whose transfer restrictions are not lifted shall be acquired by Hitachi without consideration

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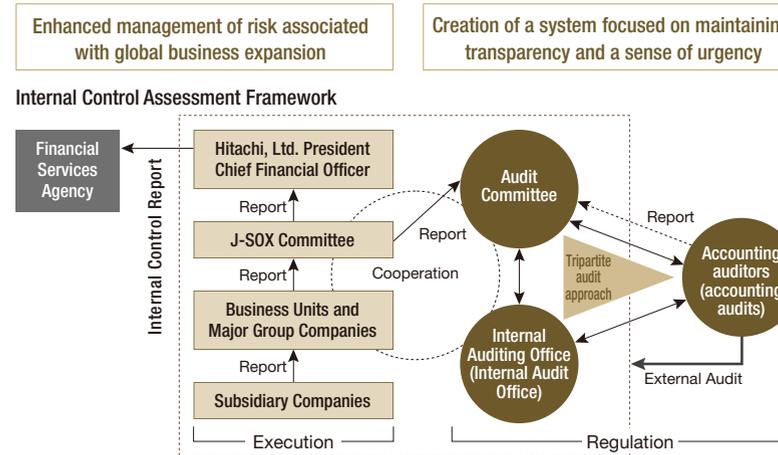
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Internal Control over Financial Reporting

Structure

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.

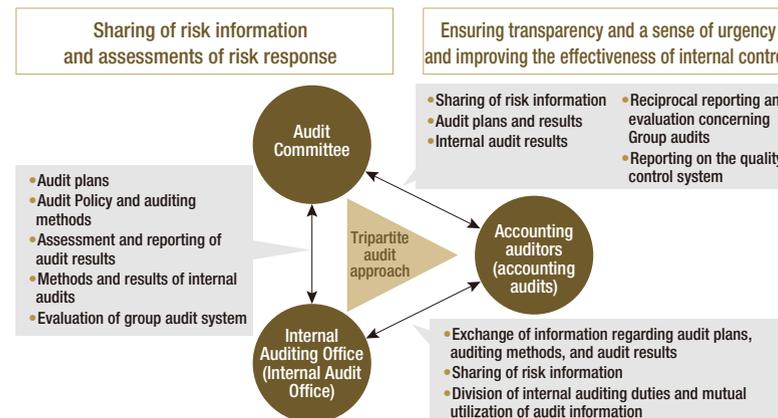
Furthermore, we have established the J-SOX Committee with the goal of raising the effectiveness of these internal controls. This committee evaluates internal control effectiveness and establishes frameworks designed to improve and strengthen them.



Enhanced Collaboration through Tripartite Audits

Structure

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

Structure

GRI 102-11/102-19

Audit Committee

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 through 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.

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Governance

Governance

➤ Corporate Governance

Executive Summary

– Corporate Governance

Business Ethics and Compliance

Risk Management

Information Management

Governance Data

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.