

## Foundation for Value Creation

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## Message from the Chief Human Resources Officer

We are promoting our HR strategy to expand the Social Innovation Business, based on the strategic promotion of diversity and inclusion policies. We are also upgrading management systems to become a truly global enterprise, including building an integrated HR platform.

**Hidenobu Nakahata**  
Senior Vice President  
Chief Human Resources Officer (CHRO)



### Human Capital Is a Critically Important Asset

In 1910, the same year that he founded Hitachi, Namihei Odaira set up the Apprenticeship Training School. This symbolic act illustrates our belief in human capital being one of the most critical assets in business. We benchmark Hitachi's human capital strategy and policies against those of a variety of global enterprises. I am exchanging opinions directly with my counterparts at such companies. Based on these discussions, I think that Hitachi is close to the level of major global players regarding our human resources strategy and personnel management framework.

If I were asked about the strengths of Hitachi in trying to grow in an increasingly commoditized world, my unwavering reply would be that we aim to realize sustainable growth

### Initiatives to Promote Diversity and Inclusion

Diversity and inclusion are the wellspring of innovation for Hitachi. We are building HR systems so we can evaluate the performance of each position and role using a common global standard. With the appointments of Mr. Alistair Dormer as Global CEO of our railway systems business and Dr. Brice Koch as the President of Hitachi Automotive Systems, Ltd., a diversity of viewpoints is reflected in decision-making processes at the senior management level. The ability to recognize diverse values and express different opinions is critical to the provision of optimal solutions that fully address the issues faced by our customers within an increasingly complex society. We will continue to promote diversity within management ranks.

Our global "Work Life Innovation" campaign, which includes work-style reforms in Japan, aims not merely to

by utilizing our human capital to create original value and innovation. In accelerating our management strategy of developing the Social Innovation Business globally using digital technology, two of the vital elements are developing the people who can understand customer and social issues precisely, and creating teams of people with diverse viewpoints, backgrounds, and abilities to work together towards common goals. For these reasons, my focus is on developing our human resources, including the next generation of leaders, through promotion of diversity and inclusion. We have also been focusing efforts on building a global personnel management system to support our human capital utilization.

reduce total working hours, but to create more flexible approaches to work to respect and cater to the values and differing lifestyles of our varied individual employees. We are creating work environments to enable individuals to maximize their abilities, based on practices such as telecommuting or working from a satellite office.

#### Diversity Targets for Hitachi, Ltd. (FY2020)

	End-FY2017 (actual)	FY2020 (target)
Executive and Corporate Officers		
Female	2.5%	10%
Non-Japanese	6.4%	10%
Number of female managers	577	800

## Reinforcing Efforts to Develop Next Generation of Leaders to Realize Sustainable Growth

In addition to Hitachi University, the Group's global e-learning management system, we have developed a variety of educational programs tailored to different jobs and positions. We are also focusing resources on selective training courses aimed at developing future managerial candidates at an early stage. In these courses, participants discuss what is necessary for the growth of Hitachi. The opportunity to generate ideas to present to senior management helps to cultivate the next generation of leaders— people with unique perspective and determination. In addition, we have identified a group of about 50 employees from around

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

## Creation of Integrated Personnel Management Platform

We have introduced systems since fiscal 2012 to help optimize the allocation of personnel to important positions within the Hitachi Group, including the Global Human Capital Database and Group-wide systems for grading personnel and managing performance. Since fiscal 2013, we have also conducted an annual survey of our global employees called "Hitachi Insights" to cultivate dynamic and supportive workplace conditions across the Group. With a response rate of more than 80%, the survey generates valuable feedback for business unit CEOs and other Hitachi Group managers. We also reflect the results in our personnel management to help promote greater employee engagement.

In January 2018, we began full-scale operation of our new HR Integrated Platform that brings together HR-related information and processes. I expect three benefits from the introduction of this platform. First, it will boost transparency.

Previously, we had no way of making timely assessments of the skills and capacities of the people working for Hitachi Group companies throughout countries and regions. Being able to see these things will upgrade our ability to assign personnel to appropriate work and to create individualized development programs. Second, by enabling all employees to input experience or skills into the system and access HR-related information online, the new platform reinforces the cultural shift within Hitachi toward greater individual empowerment. It should translate directly into greater development of those who are self-motivated to broaden their horizons by taking on new challenges at work. Finally, the new platform will boost speed and efficiency. For example, enhanced access to global data will help us assign the necessary personnel for new projects more quickly and efficiently, thus contributing to more timely project start-ups.

## Strategic Contribution of HR to the Realization of Society 5.0 and SDGs

Ever since it was founded, Hitachi's corporate philosophy of "contributing to society through development of superior, original technology and products" has embodied the values that are expressed in the SDGs.

Our strategy for human capital development is in line with the aim of the Social Innovation Business to address social issues. Its promotion can make a significant contribution to realizing the Japanese government's "Society 5.0" vision and achieving the SDGs. Most notably, in our personnel development and the promotion of diversity and inclusion policies, we are actively working to achieve Goals 4, 5, and 8.

### SDG focus



Hence, by reforming and developing our HR management platform and systems, and creating conditions to make effective use of them, Hitachi's diverse workforce will help realize sustainable growth while also contributing to the realization of the "Society 5.0" vision and the SDGs.

# Human Capital Development

## Diversity and Inclusion

### Diversity and Inclusion as the Wellspring of Our Innovation

Diversity is the wellspring of our innovation and our growth engine. Hitachi regards personal differences—gender, nationality, work history, age, sexual orientation, and philosophy—as facets of people's individuality. By respecting our employees' individualities and positioning them as an advantage, Hitachi frames its diversity and inclusion as conducive to both the individual's and the company's sustainable growth.

We have currently positioned and are promoting diversity management as a management strategy under the initiative slogan "Diversity for the Next 100." Specifically, this means promoting the creation of environments in which women and other members of our diverse human workforce are able to demonstrate their skills to the fullest extent in leadership and business management positions. Hitachi, Ltd. and 17 Group companies jointly operate the Advisory Committee and the Diversity Development Council to accelerate awareness across Hitachi as a whole, including support for diverse human resources and work-life management.

### Developing Women's Careers

Hitachi, Ltd. has created two key performance indicators (KPIs) to enable as many female employees as possible to take up leadership positions and to participate in management decision making. In fiscal 2013, Hitachi set a goal of promoting women to executive positions by fiscal 2015. In April 2015, the company appointed its first female corporate officer, a position equivalent to the executive level. Aiming to create diverse views and values to be reflected in our management, in fiscal 2017 we publicly announced our commitment to increasing the rate of female executive and corporate officers to 10% by fiscal 2020.\* With regard to the ongoing promotion of women to managerial positions, we are aiming to double, compared with fiscal 2012, the number of female managers to 800 by fiscal 2020.

In addition to reinforcing existing programs, we are introducing the Hitachi Group Women's Career Success Survey to visually highlight the level of progress made with the initiatives and any outstanding issues in each business unit while setting numerical targets for each unit. These

efforts demonstrate our commitment both internally and to the world to further advance women in the workplace and improve our diversity management.

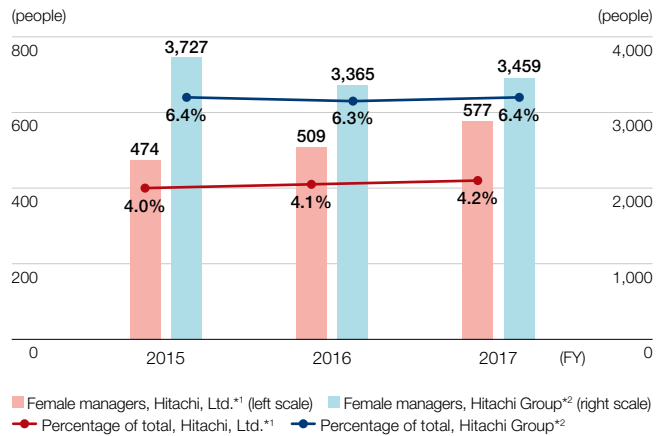
\* As another goal, Hitachi aims to achieve a 10% ratio of non-Japanese executive and corporate officers by fiscal 2020

#### SDG focus



**Finding solutions to customer and social issues, which are becoming more diverse and complex, requires the bringing together of human capital that possesses diverse values. Hitachi is engaged in maintaining working environments that enable the diverse members of its workforce to demonstrate their abilities.**

#### Number and Ratio of Female Managers



#### Ratios for Female and Non-Japanese Executive and Corporate Officers (Hitachi, Ltd.)

	June 2017	June 2018
Number of female executive and corporate officers	2	2
Ratio of female executive and corporate officers	2.4%	2.6%
Number of non-Japanese executive and corporate officers	3	5
Ratio of non-Japanese executive and corporate officers	3.7%	6.4%

## Global Human Capital and New Generation Development

### Advancing Global Human Capital

Our Group-wide global human capital management strategy optimizes both human resources and organizational performance in pursuit of our goal of becoming an Innovation Partner for the IoT Era.

One part of that strategy has involved the building of a Global Human Capital Database, which enables us to fully ascertain the status of worldwide Group human capital

and to assess macro management data, such as the allocation of human resources. We have also introduced the Hitachi Global Grade system that applies to all managers in the Hitachi Group worldwide, using it as a common platform for job applications throughout the Group and as a common standard for assessing the value of management duties. In addition, we introduced Global Performance Management at Hitachi, Ltd. and at some Group companies

worldwide to link the individual and operational business goals, with the aim of promoting mutual sustained improvement and the growth of both individuals and businesses.

We are also working on talent development initiatives to drive global business growth. For example, in fiscal 2015 we implemented “Hitachi University,” a Group global common learning management system.

With regard to Hitachi Insights, the global employee survey that Hitachi conducts every year, we were able to receive roughly 170,000 responses from the around 200,000 employees who were sent the fifth survey in September 2017, and the overall evaluation resulted in an improvement for the fourth consecutive year.

### Occupational Health and Safety Framework for Promoting Health and Safety

Ensuring the health and safety of all employees is the basic principle underlining the Hitachi Group Health and Safety Policy. This policy is shared by all Hitachi Group companies around the world. Employees work together to create safe, secure work environments that aim to be accident-free.

Manufacturing and maintenance, the areas of business in which Hitachi is engaged, are particularly accident-prone lines of work, and we have around 34,000 employees performing work of this type in Japan. We promote a range of Group-wide occupational health and safety activities that include preventing workplace accidents by setting and applying minimum safety standards to be observed by Group manufacturers around the globe.

In Japan, a health and safety commission—composed of company representatives, labor-union officials, and employees—is convened every month. We have introduced the Hitachi Group Key Safety Management Designation System, under which initiative Group companies and business sites where serious work accidents have occurred are designated as priority safety management companies and business sites. Here, the potential for accidents is reduced by reviewing risk assessments, including the investigations of accident causes, and third parties are engaged to conduct safety issue diagnoses. In fiscal 2017, we recorded zero fatal workplace accidents in Japan and five in the rest of Asia.

In December 2015, revisions to Japan’s Industrial Safety and Health Act took effect, requiring businesses of 50 or more employees to put in place a stress-check system. We are proactively implementing stress checks at all business sites in Japan—even those employing fewer than 50 employees, are required to make efforts toward compliance—to promote awareness of stress among all employees. Group analysis results from these stress checks will also be used by workplace health and safety committee members, occupational healthcare workers,

### New Generation Development

Applying science and technology, the Hitachi Group and the Hitachi Global Foundation carry out science, technology, engineering, and mathematics (STEM) education, depending on the issues in local communities, to develop a new generation of human capital capable of addressing social challenges.

#### SDG focus



**For Hitachi, employees are an important entity underpinning the Company’s future and, at the same time, a driving force contributing to the achievement of the SDGs and realizing social change.**

and human resource departments to improve workplace environments. In combination, these efforts are expected to help prevent mental health issues and revitalize workplaces. Hitachi’s efforts in this area were recognized under the 2018 Certified Health and Productivity Management Organization Recognition Program, conducted by Japan’s Ministry of Economy, Trade and Industry, in the large enterprise category (White 500).

Hitachi Group Health and Safety Policy:

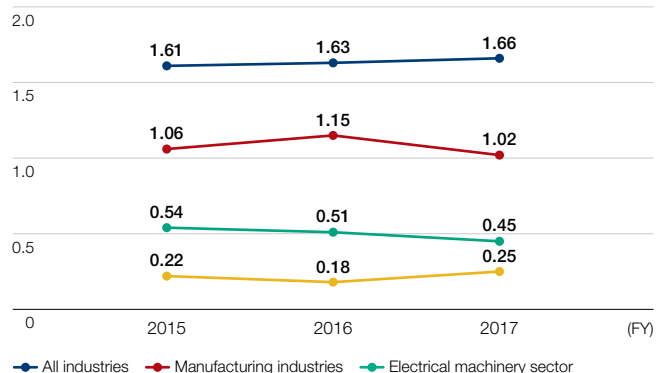
[https://www.hitachi.com/sustainability/download/pdf/en\\_sustainability2018\\_19.pdf](https://www.hitachi.com/sustainability/download/pdf/en_sustainability2018_19.pdf)

#### SDG focus



**We are primarily addressing SDGs in the recognition that it is indispensable for business management to develop environments in which the people working in the Hitachi Group can work safely and without anxiety about physical and mental health.**

### Occupational Accident Rates



\* Occupational accidents are defined as those involving fatality or work-time loss of one day or more. Hitachi Group figures for Japan, including Hitachi, Ltd., are for 240 Group companies in fiscal 2015; for 200 Group companies in fiscal 2016; and for 201 Group companies in fiscal 2017.

## Message from the Chief Technology Officer

The R&D Division celebrated its 100th anniversary in 2018. Inheriting Hitachi's corporate credo and founding spirit, our R&D operations support the goal of Hitachi being "an Innovation Partner for the IoT Era," while also driving the future growth of the company by addressing societal issues.

**Norihiro Suzuki**  
Vice President & Executive Officer  
Chief Technology Officer (CTO)



### R&D Initiatives Targeting Social Innovation Business Expansion

In fiscal 2015, to promote global R&D centered on collaborative creation with our customers, we established the Global Center for Social Innovation (CSI) in five key regions, setting up bases in Tokyo, North America, China, Europe, and Asia-Pacific (APAC). Using a systematized collaborative creation methodology called "NEXPERIENCE," CSI researchers share their vision directly with customers as part of a process of original value creation that ranges from identifying issues to testing solutions and creating practical business models. At the same time, positive

steps are being taken to help upgrade and expand digital solutions that employ Lumada.

I believe this process is creating positive feedback cycles, in which resolving customer issues helps us to reinforce Hitachi's core technologies while at the same time generating knowledge to support new business development based on accumulated customer cases. We are upgrading our focus on open innovation approaches as a way of expanding such initiatives globally, for example by building ecosystems that span industry, academia, and the government sector.

### R&D Investments for Enhanced Efficiency

Hitachi invests approximately 4% of revenues into R&D on the four focus business domains that drive the Social Innovation Business, as well as open innovation and other projects. I would emphasize the fact that our investment in open innovation in fiscal 2018 was over 60% higher than in fiscal 2015. The establishment of the CSI enables us to work

with customers from the research stage to develop the technology for products and services that address societal issues, thus boosting the efficiency of our R&D. Moreover, we are looking to make R&D even more efficient by shortening development time by leveraging AI and other digital technologies for our research work itself.

### Fiscal 2018 R&D Policies

Becoming a Global Innovation Leader to Drive Evolution Towards a Global Company	
Objectives	Policy Directives
Strengthen monetization capabilities to expand the Social Innovation Business	<b>Enhancing collaborative creation of global solutions</b> <ul style="list-style-type: none"> <li>• From individual solutions to connected industries</li> <li>• Focus on growth domains and regions</li> </ul>
Increase world-leading products and services	<b>Creating and focusing on world-leading technology</b> <ul style="list-style-type: none"> <li>• Create world-leading technology to support the Social Innovation Business</li> <li>• Accelerate open innovation</li> </ul>
Participate and engage with global community	<b>Promoting basic research to resolve societal issues</b> <ul style="list-style-type: none"> <li>• Accelerate creation of disruptive technology</li> <li>• Create vision to lead "Society 5.0"</li> </ul>

## Enhancing Collaborative Creation of Global Solutions

To drive the evolution of our collaborative creation efforts with customers, we are looking to develop new “Connected Industries” solutions that can generate greater value than those for individual solutions, and those that can connect a variety of solutions in different industries for multiple customers. One practical example of this is an initiative where small- and medium-sized customers in industrial sectors and financial institutions manage and share global supply chain information.

## Creating and Focusing on World-leading Technology

The R&D Group is also actively trying to create world-leading technology to support the Social Innovation Business. For example, our development of high-speed rolling stock and traffic management systems to enhance railway safety, comfort, and convenience is helping Hitachi’s business growth in Europe. Elsewhere, we are applying fluid analysis technology developed in the railway field to improve compartment design to help achieve the world’s fastest elevator. In the industrial sector, Hitachi has secured a world-first with the development and commercialization of a compact and energy-efficient amorphous motor-integrated oil-free scroll compressor. Going forward, we aim to develop world-leading technologies in fields such as blockchain, autonomous vehicles, smart manufacturing, AI, and robotics.

For the creation of world-leading technology, it is necessary to enhance the value offered by Hitachi’s OT, IT, and products with the utilization of digital technologies. For that, it is also important for us to strengthen our human capital. Aiming to increase the number of data scientists working throughout the Hitachi Group to at least 3,000 by fiscal 2021, we have

## Promoting Basic Research to Resolve Societal Issues

Communicating a vision for the future and creating disruptive technologies are both essential to resolving societal issues. Hitachi has established joint R&D centers with the University of Tokyo, Kyoto University, and Hokkaido University to develop visions to support realization of the “Society 5.0” concept. The laboratories established with these three institutions are focusing on different topics, namely urban planning and energy (Hitachi University of Tokyo Lab), issues facing society in 2050 (Hitachi Kyoto University Lab), and regional issues and food/health (Hitachi Hokkaido University Lab). Each lab is also responsible for related global communications. We are working to identify practical research topics within these initiatives, and converting research findings as a major source of potential business opportunities. Efforts to create disruptive technologies include a project to develop quantum computing with UK-based Cambridge University, and a regenerative medicine project based at the Kobe Biomedical Innovation Cluster. I see these initiatives helping to lay the foundation for Hitachi’s new businesses of the future.

Besides patent activities to reinforce product businesses, we are promoting novel intellectual property (IP) activities to support ecosystem construction. Our IP programs are incorporating data and other information assets to help

Utilization of a blockchain platform to digitize order-related information from customers to suppliers can improve the operational efficiency of procurement and inventory management, while also facilitating faster decisions by the financial institutions relating to aspects such as settlement and funding. By focusing on growth domains and societal issues across global regions, we are helping to expand the Social Innovation Business-related collaborative creation.

instituted a training program and established the Professional Community to support top-class researchers and practitioners from every field. In this online community initiative, the R&D Group plays a major role in driving the continued evolution of core technology development and value creation.

In addition to internal efforts to strengthen human capital, we are investing in the development of technology platforms through an open innovation R&D consortium, based on collaboration with research institutions, academia, open community partners, and start-ups both in Japan and overseas. Through our open community initiatives, we are actively involved in open-source projects and a consortium in fields such as blockchain and edge computing, and have also joined Hyperledger, a project sponsored by the Linux Foundation as well as the Edgex consortium. Through Geodesic Capital, a venture capital firm in which Hitachi owns an equity stake, we are also promoting collaboration with start-up ventures. We are accelerating the creation of world-leading technologies through such activities and initiatives.

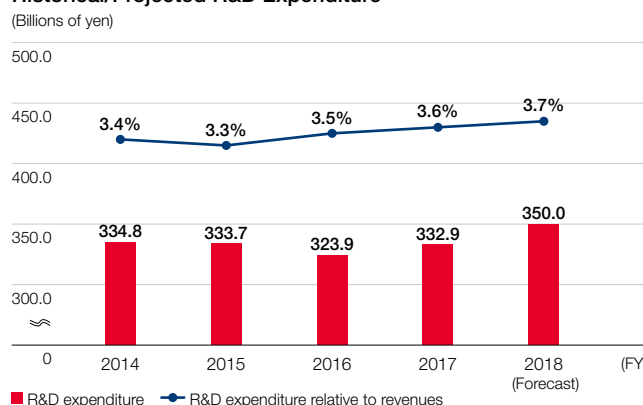
accelerate the development of digital solution businesses based on AI, analytics, and other digital platform technologies.

Through these R&D activities, I am confident that we will contribute to the growth of Hitachi and the SDG No.17 target “Partnership for the goals.”

### SDG Focus



### Historical/Projected R&D Expenditure



# Engaging in Responsible Procurement

In seeking to be a company that continually fulfills its social responsibility throughout the value chain, Hitachi strictly adheres to laws and regulations and acts in a moral and fair manner with all its business partners.

## Promoting CSR Procurement

### Creating and Sharing Procurement Policies

We base our procurement activities on the *Hitachi Guidelines for Procurement Activities*, while sharing global supply chain issues within the Group. All Group companies follow these guidelines. The guidelines were created in line with the United Nations Global Compact and include the elimination of discrimination in employment and occupation, the rejection of all forms of child and forced labor, and environmental protection activities. Suppliers are selected strictly in accordance with the *Hitachi Guidelines for Procurement Activities*.

A fully revised version of the *Hitachi Group CSR Procurement Guidelines* was released in fiscal 2016. This revision incorporates the provisions of the Hitachi Group Codes of Conduct and also makes references to version 5.1 of the Responsible Business Alliance (RBA, formerly called EICC) Code of Conduct, promulgated in January 2016. To ensure that the guidelines' provisions are strictly followed, we distribute the *Guidelines*

to the approximately 30,000 suppliers of Hitachi business units and Group companies, from whom we request acknowledgment of suppliers' understanding in writing. Tier 1 suppliers are further asked to confirm that tier 2 suppliers also follow the provisions in the guidelines.

We plan to revise these guidelines regularly in the future to ensure that they always reflect the demands of global society regarding corporate supply chain management.

**Guidelines for Procurement Activities:**

[http://www.hitachi.com/procurement/policy/\\_icsFiles/afiedfile/2018/06/07/guidelines.pdf](http://www.hitachi.com/procurement/policy/_icsFiles/afiedfile/2018/06/07/guidelines.pdf)

**CSR/Green Procurement:**

<http://www.hitachi.com/procurement/csr/green/index.html>

### Implementation of CSR Monitoring and Audits

To monitor how well Hitachi's CSR supply chain management philosophy has been adopted by our suppliers, since fiscal 2007 we have asked key suppliers to conduct CSR Monitoring (self-checks) using the *JEITA Supply Chain CSR Deployment Guidebook* and detailed checklists. After collecting and analyzing the results, we provide feedback for the business operations related to the suppliers, and then work with those involved in the operations to resolve issues related to the suppliers.

In fiscal 2017, we asked 131 suppliers inside and outside Japan to conduct CSR Monitoring and received survey replies from them. From fiscal 2017, all checklists were fully updated in accordance with the revisions made to the *Hitachi Group CSR Procurement Guidelines*. Based on the results of the survey, we have identified problematic labor-related trends, and we will promote measures to address such issues going forward.

Since July 2012, Hitachi, Ltd. has been auditing the manufacturing bases of its and Group companies' suppliers in China and the rest of Asia. In fiscal 2017, we conducted CSR audits of 18 suppliers. Our audits are based on the international SA8000 certification standard developed by Social

Accountability International (SAI), an American CSR evaluation institution. An RBA-recognized auditor checks suppliers' CSR initiatives from the perspectives of labor and human rights, health and safety, the environment, and ethics. No major infringements were found at the 18 suppliers audited in fiscal 2017, but some small areas needing improvement were noted, such as overtime work exceeding stipulated rules (14 suppliers), failure to conduct periodic inspections of machinery and equipment (12), and insufficient management of hazardous waste (7). The relevant suppliers were requested to submit improvement action plans, and Hitachi, Ltd., together with Group companies, will work with and advise the suppliers until they complete the planned improvements.



**We hope to contribute to the development of sustainable consumption and production patterns within society by addressing societal issues within our value chain.**

### Number of CSR Audits





## Respect for Human Rights

### Human Rights Due Diligence in Procurement

Our pledge under the Hitachi Group Human Rights Policy is to develop human rights due diligence mechanisms and implement them on an ongoing basis. Based on the results of the pilot programs undertaken with certain entities in fiscal 2014 across six countries in the ASEAN region under this policy, we have formulated a set of written guidelines for implementing human rights due diligence in collaboration with the US-based NPO Shift\*.

In fiscal 2015, we initiated human rights due diligence in the procurement divisions, whose activities are at risk of negatively impacting the human rights of workers in the supply chain and local communities. In fiscal 2017, we completely revised the questions on the check sheet used in supplier CSR monitoring (self-checks) to better grasp the issues related to workers' rights at suppliers, as well as health and safety and the environment. We also visited one of our suppliers in Malaysia with members of the US nonprofit organization BSR (Business for Social Responsibility) to conduct an assessment on migrant workers, who are socially vulnerable and often said to be exploited by forced labor. The assessment was based on interviews with managers of human resources and production divisions, recruitment agencies, and migrant workers, along with inspection of the factories and dormitories.

### Response to the Conflict Minerals Issue

The policy for procurement departments of Hitachi has always been and will continue to be to ensure that procurement activities do not result or aid in conflicts within the same region and that the armed groups described above do not benefit from those activities, while continuing responsible procurement activities of minerals that are not related to the conflicts in the region based on local laws. At the same time, we will continue to support the practice of due diligence based on the "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" among companies. With these in mind, Hitachi Group would like to request all of our suppliers to utilize the Conflict

Fiscal 2016 also saw the launch of human rights due diligence for human resources divisions at Hitachi. The operations in those divisions touch on many issues connected to human rights for employees, including working hours, employee treatment, and health and safety. Human rights risks for employees were assessed and prioritized, and mitigation strategies were explored. They also investigated grievance mechanisms, analyzing existing procedures and exploring ideas for improvement. Going forward, Hitachi will further promote human resources initiatives by its business units and Group companies.

Since fiscal 2014, Representative Executive Officer, President, and CEO Toshiaki Higashihara has sent an annual human rights message on Human Rights Day (December 10). In fiscal 2017, this was distributed via email to executives and employees at Hitachi, Ltd. and Group companies worldwide.

\* John Ruggie, former Special Representative of the Secretary-General on business and human rights, founded this NPO with the team that drafted the *UN Guiding Principles on Business and Human Rights*.

Hitachi Group Human Rights Policy:

[http://www.hitachi.com/sustainability/renew/pdf/human\\_rights\\_policy.pdf](http://www.hitachi.com/sustainability/renew/pdf/human_rights_policy.pdf)

Minerals Reporting Template developed by RBA/GeSI to continue checking the country of origin and supply chain of minerals, and also to procure from the CFS (Conflict Free Smelter)\* listed within.

\* A list of smelters who have been identified as "not being involved in the conflict within the same region" by the Responsible Minerals Initiative (RMI), an organization that was founded by the RBA/GeSI, which is a group that aims to solve the conflict minerals problem.

Hitachi Group Conflict Minerals Procurement Policy:

[http://www.hitachi.co.jp/procurement/csr/\\_icsFiles/afieldfile/2018/06/07/CM\\_PP\\_RE\\_E.pdf](http://www.hitachi.co.jp/procurement/csr/_icsFiles/afieldfile/2018/06/07/CM_PP_RE_E.pdf)



Respect for human rights is the foundation of all 17 SDGs. In working to achieve such goals, it is important that we mitigate any negative impacts related to human rights caused by our business activities throughout the value chain.

#### Distributed CEO's human rights message to

Fiscal 2015

Fiscal 2016

Fiscal 2017

Approx. 148,000 people

Approx. 156,000 people

Approx. 178,000 people

# Environment

In order to achieve its Environmental Vision, the Hitachi Group is actively working to reduce its overall environmental burden. To reduce its CO<sub>2</sub> emissions across its entire value chain, Hitachi aims to lower emissions not just at the production stage but also during use of sold products and services, which accounts for the vast majority of total emissions, by promoting low-carbon businesses.

## The Environmental Vision and Hitachi Environmental Innovation 2050

As climate change, resource depletion, ecosystem destruction, and other environmental issues grow more serious, companies face increasing demands and expectations to reduce the environmental burden of their business activities. The Paris Agreement, which came into force in 2016, sets ambitious targets, including a global long-term target of keeping global warming to below 2°C and efforts to limit the increase to 1.5°C. These targets are based on the *Fifth Assessment Report* of the Intergovernmental Panel on Climate Change (IPCC). Environmental targets have also been set in the Sustainable Development Goals (SDGs)—the centerpiece of the 2030 Agenda for Sustainable Development, adopted by the United Nations in 2015—whose Goal 13 reads: “Take urgent action to combat climate change and its impacts.”

In the light of these global demands and our own management policy, we created an Environmental Vision clearly stating our aim to both improve the quality of life and achieve a sustainable society from a long-term perspective, as well as to achieve a low-carbon society, a resource efficient society, and a harmonized society with nature by promoting environmental management. Looking toward 2030 and 2050, we also established long-term environmental targets called Hitachi Environmental Innovation 2050 that demonstrates our resolve to achieve the kinds of societies outlined in our Environmental Vision.

Our environmental strategy, centered on the Environmental Vision and our long-term environmental targets, is deliberated by the Executive Sustainability Committee, chaired by the President & CEO, and advanced by the Hitachi Group as a whole.

### Achieving a Low-Carbon Society

Hitachi has established a goal of reducing CO<sub>2</sub> emissions throughout its value chain by 50% by fiscal 2030 and 80% by fiscal 2050 (compared to fiscal 2010 levels).

A significant share of the CO<sub>2</sub> emissions from our value chain arises from the use of our products and services by our customers. To reduce these emissions and combat climate change, we are expanding our low-carbon businesses as outlined below.

We are also improving the environmental performance of products and services across the entire Hitachi Group to help address environmental challenges through the development and popularization of products and services with high environmental value. To track our progress, we use the reduction rate per product and service function of CO<sub>2</sub> emissions during usage as our index. At the same time, we continue to promote


**Environmental Vision**

**Hitachi will resolve environmental issues and achieve both a higher quality of life and a sustainable society through its Social Innovation Business in collaborative creation with its stakeholders.**

The aim of Hitachi's environmental management



**Low-Carbon Society**  
Climate Change Mitigation/Adaptation



**Resource Efficient Society**  
Saving and Recycling Resources



**Harmonized Society with Nature**  
Preservation of Ecosystems

**Long-term Environmental Targets**

Hitachi's resolution looking toward 2050 and 2030

**Hitachi Environmental Innovation 2050**

**For a low-carbon society**

Through the value chain CO<sub>2</sub> emissions

FY 2050  
**80%** reduction


FY 2030  
**50%** reduction  
(compared to FY 2010)



**For a resource efficient society**

Build a society that uses water and other resources efficiently with customers and society


Efficiency in use of water/resources  
FY 2050  
**50%** improvement  
(compared to FY 2010 in the Hitachi Group)



**For a harmonized society with nature**

Impact on natural capital

**Minimized**



**Environmental Action Plan**

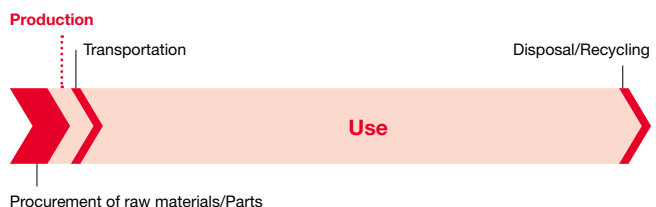
**Set environmental action items and targets every 3 years in order to achieve the long-term targets**

environmentally conscious design of products and services at the design and development stage.

In addition, we remain focused on cutting direct emissions by the Hitachi Group during production by enhancing the efficiency of our factories and offices, advancing energy-saving measures, and introducing the use of renewable energy.

⌚ Please refer to the *Hitachi Sustainability Report 2018* for further details.

### Ratio of CO<sub>2</sub> Emissions at Each Stage of Hitachi Value Chain







## Responding to Climate Change Through Growth in “Low-Carbon Businesses”

As part of its efforts to address challenges posed by climate change, Hitachi is combining the strengths of its business units and Group companies through digital solutions built on the Lumada platform, and expanding its low-carbon businesses through co-creation with customers and partners.

To help achieve low-carbon energy supplies, we offer wind and other non-fossil energy systems. We also promote improvements in power distribution efficiency via the use of smart grids and related technology. To realize low-carbon spaces, we are striving to make buildings more efficient

through total solutions and reduce the energy requirements of factories via smart manufacturing. Through the development of more efficient railway systems and the promotion of increased adoption of automotive electric powertrains, we are providing highly efficient transportation methods in order to achieve low-carbon mobility. Our amorphous transformers and other low-carbon products contribute to increasing efficiency and reducing emissions throughout society. In these and many other ways, we are helping to realize a low-carbon society and promoting measures to address climate change.

### Low-Carbon Businesses: A Hitachi Focus

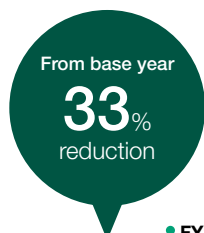
Achieving Low-Carbon Energy Supplies	Achieving Low-Carbon Spaces	Achieving Low-Carbon Mobility	Low-Carbon Products
<ul style="list-style-type: none"> <li>■ Non-fossil energy systems                             <ul style="list-style-type: none"> <li>• Wind energy systems</li> </ul> </li> <li>■ Smart grids                             <ul style="list-style-type: none"> <li>• Distributed power supply solutions</li> <li>• Energy management</li> </ul> </li> </ul>  <p>Wind energy systems</p>	<ul style="list-style-type: none"> <li>■ Offices                             <ul style="list-style-type: none"> <li>• Total solutions for buildings</li> <li>• Elevators</li> <li>• Escalators</li> </ul> </li> <li>■ Factories                             <ul style="list-style-type: none"> <li>• Smart manufacturing</li> </ul> </li> <li>■ Smart life &amp; ecofriendly systems                             <ul style="list-style-type: none"> <li>• Smart life business</li> <li>• Home appliances</li> </ul> </li> </ul>  <p>Elevators      Escalators</p>	<ul style="list-style-type: none"> <li>■ Railways                             <ul style="list-style-type: none"> <li>• Operation management/railway information systems</li> <li>• Rolling stock</li> </ul> </li> <li>■ Automobiles                             <ul style="list-style-type: none"> <li>• Electric powertrain systems (Storage batteries, motors, inverters, etc.)</li> <li>• Automobile components</li> </ul> </li> </ul>  <p>Rolling stock</p>	<ul style="list-style-type: none"> <li>■ Industrial equipment                             <ul style="list-style-type: none"> <li>• Amorphous transformers</li> <li>• Air compressors</li> <li>• Motors</li> </ul> </li> <li>■ High functional materials &amp; components                             <ul style="list-style-type: none"> <li>• Amorphous metal materials for transformers</li> <li>• Rare earth magnets</li> </ul> </li> </ul>  <p>Amorphous transformers</p>
Digital Solutions Built on Lumada Platform			

### SDG Focus



Hitachi promotes initiatives to minimize environment-related risks, principally climate change, and contribute to resolving environmental issues.

#### • Rate of Reduction in CO<sub>2</sub> Emissions from Use of Products and Services (Hitachi Group)



• **FY2010 (base year)**  $\frac{\text{CO}_2 \text{ emissions}}{\text{Function size}^*} = 100\%$ 
→
 • **FY2017**  $\frac{\text{CO}_2 \text{ emissions}}{\text{Function size}} = 67\%$

\* Major functions of products correlated to CO<sub>2</sub> emissions.

#### • Reduction in Per-Unit Energy Use by Factories and Offices (Hitachi Group)



• **FY2005 (base year)**  $\frac{\text{Energy used } 2.06 \text{ GL}^{*1}}{\text{Activity amount}^{*2}} = 100\%$ 
→
 • **FY2017**  $\frac{\text{Energy used } 2.00 \text{ GL}}{\text{Activity amount}} = 86\%$

\*1 Energy volume used both in and outside the organization (Scope 1 and 2).  
\*2 A value closely related to energy use at each business site (for example, production quantity, output, building floor space, and number of employees).

# Risk Management

## Advancing Risk Management on Multiple Fronts

Changes to our operating environment from such factors as the globalization of the economy and advances in and spread of information and communications technology (ICT) lead not only to the expansion of business opportunities but also to the diversification of risks to our operations.

We have built a diverse risk management system under which we carry out risk analysis to accurately gauge ongoing economic and social changes and use the insights gained to take preventive measures and ensure a rapid response to issues that may arise unexpectedly. Particularly in recent years, as a company deeply involved in infrastructure projects in countries and regions around the world, we take note of the discussions at meetings like the World Economic Forum on such international risks as the unending series of terrorist attacks, the increasing severity of abnormal weather conditions, global-scale climate change, and the growing scale and sophistication of cyberattacks. We are reinforcing business continuity plans (BCPs) and further tightening our information security to ensure the stable supply of our products and services and to prevent threats to our networks that could severely disrupt business operations. We will continue to reinforce our risk management on a Group-wide basis and make thoroughgoing efforts to minimize risks to society from our operations.

## Reinforcement of Risk Management System

The entire Hitachi Group is reinforcing its risk management system to address increasingly globalized and complex risks. Under the head of risk management at Hitachi, Ltd., each business operation assigns an executive as its risk management officer to manage risks mainly concerned with compliance, export control, disasters, and crime, and to respond adequately in coordination among the entire Group. Furthermore, Hitachi is building a comprehensive risk management system that contains standards and procedures to objectively evaluate different risks that may affect business.

## Risk Factors

We conduct business on a global scale across a broad range of business areas and utilize sophisticated, specialized technologies to carry out our operations. Therefore, we are exposed to risks attributable to the economic environment, risks inherent in individual industrial sectors and business lines, and risks related to our operations. Investment in our securities also involves risks. The following risks are based on the assumptions we consider reasonable as of the date this report was issued.

- Economic Trends
- Currency Exchange Rates Fluctuations
- Access to Liquidity and Long-term Financing
- Marketable Securities Risks
- Material and Component Procurement
- Estimates, Fluctuations in Cost and Cancellation of Long-term Contracts
- Credit Risks Arising from Business Transactions
- Supply and Demand Balance
- Rapid Technological Innovation
- Dependence on Specially Skilled Personnel
- Intense Competition
- Our Strategy to Strengthen Our Social Innovation Business
- Acquisitions, Joint Ventures, and Strategic Alliances
- Restructuring of Our Business
- Worsening of Business Performance of Equity-method Associates and Joint Ventures,
- Our Overseas Growth Strategies
- Overhaul of Cost Structure
- Intellectual Property
- Litigation and Regulatory Investigations
- Product Quality and Liability
- Significant Disasters and Similar Events
- Dependence on Information Systems
- Management of Confidential Information
- Employee Retirement Benefits
- Dilution of Your Shares by Issuances of Additional Shares

Please refer to the Company's annual securities report for the fiscal year ended March 31, 2018 for details of business and other risks.

<http://www.hitachi.com/IR-e/library/stock/index.html>

## **Stable Provision of Products and Services**

### **Creating BCPs in Key Operations Worldwide**

Given the close relation of our business to social infrastructure, we are enhancing our business continuity plans (BCPs) to ensure that the impact of risks does not disrupt our business and thereby significantly affect society. In December 2006, we issued the *Hitachi Group Guidelines for Developing Business Continuity Plans (Overview)* in Japanese. In fiscal 2010 this was translated into English and Chinese for distribution to all Hitachi Group companies worldwide to ensure our response readiness for large disasters and other risks.

When the Great East Japan Earthquake struck in March 2011, our BCPs enabled quick responses and swift decision making. However, issues emerged, including identification of secondary and other suppliers, cloud storage and multiplexing of production information, and the need to secure alternate transportation and fuel sources. Based on the lessons learned from this disaster, in October 2011 we released and distributed new versions of the *Hitachi Group Guidelines for Developing Business Continuity Plans* for individual departments to further improve our BCPs.

By the end of fiscal 2011, Hitachi Group operations in Japan had completed their preparation and review of BCPs for both large earthquakes and novel strains of influenza as appropriate to their operations.

On top of these efforts, Hitachi, Ltd. has held annual earthquake drills simulating a major seismic event at key operations in Japan since fiscal 1998. In March 2018, we held initial response drills at our headquarters under the direction of our head office general manager simulating a large earthquake in the Tokyo area, striving to promote understanding of each department's role and strengthen cooperation among departments.

As part of countermeasures against large earthquakes striking the Tokyo metropolitan area, in December 2017 we developed action plans including setting up substitute headquarters in the Kansai region in case our Tokyo headquarters cease to function temporarily due to such earthquakes.

Hitachi appointed personnel with responsibility for risk-response policies at its main overseas bases in fiscal 2013. By the end of that year, approximately 300 companies prepared BCPs with the goal of completing them for key operations. These BCPs are aimed at strengthening our ability to respond to business risks, including large disasters, novel strains of influenza, political instability, and social disruption, as well as acts of terrorism. Moving forward, we intend to further expand the scope of our BCPs.

### **Creation of Procurement BCPs**

We have a deep involvement in social infrastructures in places where the suppliers who are our business partners can be affected by major earthquakes and other natural disasters. These disasters can heavily impact not only our business operations and those of our suppliers but also society as a whole. To minimize this impact, the procurement divisions in business units and key Group companies in Japan have created procurement BCPs that (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 substitute products. To see whether or not procurement BCPs would be effective, we held desktop exercises to discuss in a group what should be done during and after a disaster, making further improvements as a result.

In fiscal 2017, all major Group business sites with production lines (approximately 208 sites in total) took steps to maintain and strengthen the procurement BCPs they had created by the previous fiscal year, thereby contributing to the continuation of Hitachi's global operations.

### **Improving Safety for Employees Sent to Dangerous Regions**

Responding to the hostage incident in Algeria in January 2013, then President Hiroaki Nakanishi reinforced his policy in February 2013 of ensuring the safety of employees sent to countries and areas at higher risk. Survey missions of in-house and outside experts are now sent beforehand to areas at high risk of war, terrorism, and other threats. Even after employees are dispatched to such areas, we conduct additional local surveys every six months as a means of confirming the effectiveness of our safety policies. In fiscal 2017, with the threat of terrorism expanding around the world and infectious diseases spreading regionally, we introduced a range of safety measures, including providing timely alerts to employees. This underscores our commitment to ensuring the safety of our employees working around the globe.

Hitachi 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, Hitachi executives participated in the Council for Public-Private Cooperation for Overseas Safety organized by Japan's Ministry of Foreign Affairs. Since 2014 Hitachi has taken part in public-private kidnap incident preparatory training exercises.

## Promoting Information Security

### Information Security Policies

The increased connections between things due to development of IoT are creating new value. At the same time, increasingly creative cyberattacks are widening their focus from traditional IT to include the IoT/OT field. Managing information security risks is one of the most critical issues for companies to minimize the risk of business disruption due to factors such as leaks of information or operational stoppages.

The development of the Social Innovation Business has highlighted for Hitachi the vital importance of information security governance as a key management issue. The Japan Business Federation's Declaration of Cyber Security Management that was published in March 2018 also placed emphasis on cyber security measures as a critical management challenge from the aspects of both value creation and risk management. Hitachi approaches the issue of information security governance based on the same concept.

### Information Security Set-up

At Hitachi, Ltd. the senior executive with ultimate authority and responsibility regarding the handling of information security and personal privacy issues is appointed by the President & CEO. Previously, the CIO\*1 oversaw information security.

In October 2017, in a move aimed at upgrading the governance of information security for the Group and to centralize the promotion of related measures, Hitachi established a new position of CISO\*2 to oversee promotion of information security for all Hitachi products and internal facilities. In fiscal 2017, the CISO role was performed by an executive vice president.

Chaired by the CISO, the Information Security Committee determines all policies and procedures for information security and personal information protection. These decisions are conveyed to all Hitachi Group business sites and companies, and are implemented by the relevant information security officers.

\*1 CIO: Chief Information Officer

\*2 CISO: Chief Information Security Officer

### Information Security Management

#### Global Information Security Management

Hitachi Group companies worldwide reinforce their information security in line with our Global Information Security Administration Rules, which conform to the international ISO/IEC 27001 standard. These rules are globally distributed from the parent company in Japan to Group companies worldwide. Other measures include the provision of shared security services and related support for information security by the regional headquarters in the Americas, Europe, Southeast Asia, China, and India.

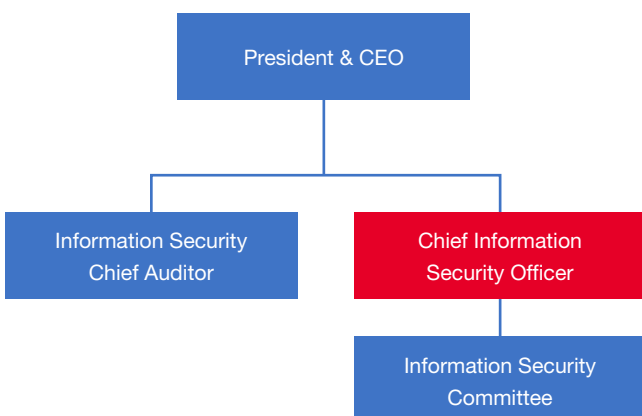
#### Security Monitoring

In Hitachi, the SOC\*1 monitors security on a 24/7 basis so cyberattacks can be detected and countermeasures initiated right away. The IRT\*2 collects and develops security-related data and manages the response to any security incidents.

\*1 SOC: Security Operation Center

\*2 IRT: Incident Response Team

### Information Security Promotion Set-up



Overseen by CIO until September 2017  
CISO position created in October 2017

## Preventing Confidential Information Leaks

Hitachi, Ltd. has formulated the Three Principles for Preventing Leakage of Confidential Information to ensure the utmost care is taken with such information and to prevent any leaks or other related incidents.

### Three Principles for Preventing Leakage of Confidential Information

- Principle 1 In principal, no Confidential Information shall be taken out of the Company's premises.
- Principle 2 Any person taking Confidential Information out of the Company's premises due to business necessity shall obtain prior approval from the Information Assets Manager.
- Principle 3 Any person taking Confidential Information out of the Company's premises due to business necessity shall put in place relevant and appropriate measures against information leakage.

Hitachi Group companies take the following IT steps to prevent information leaks: using encryption software and secure PCs; employing electronic document access control and expiration processing software; maintaining ID management and access control by building an authentication infrastructure; and filtering e-mail and visited websites. In response to cyber-attacks, we are creating multilayered controls to prevent leaks of information, including both entry and exit countermeasures.

We also review and investigate the information security status of suppliers based on our internal standards.

## Protecting Personal Information

Hitachi, Ltd. has established a personal information protection management system based on the Company's own Personal Information Protection Policy. Hitachi, Ltd. and 44 other Hitachi Group companies\* in Japan have received Privacy Mark accreditation.

No customer complaints or claims were received by Hitachi during fiscal 2017 relating to a breach of privacy or loss of data.

As shown by the EU's enforcement of the General Data Protection Regulation (GDPR) in May 2018, consumer privacy laws and regulations are evolving on a global basis. Hitachi is committed to monitoring these trends and taking any appropriate related measures.

\* As of May 31, 2018

## Information Security Audits

The Hitachi Group has developed its approach to security based on the "plan-do-check-act" (PDCA) cycle for its information security management system. We conduct annual information security and personal information protection audits at all Group companies and business units.

Information security audits are carried out by the Information Security Chief Auditor, an independent appointee by the president of Hitachi, Ltd. There are 221 Hitachi Group companies in Japan that conduct audits in the same way as Hitachi, Ltd., and all results are subject to review. For Hitachi Group companies outside Japan, we use a "common global self-check" approach.

An annual review of Personal Information Protection and Information Security Management is conducted as part of the voluntary inspection of business unit workplaces. We conduct monthly Confirmation of Personal Information Protection and Information Security Management assessments at 693 operations (as of March 2018) that handle important personal information. This regular control mechanism ensures ample safety management and implementation.

## Education on Information Security

Annual e-learning programs are held on information security and personal information protection for all directors, employees, and temporary employees. Nearly all of the roughly 40,000 employees of Hitachi, Ltd. participate in these programs. We also offer varied educational courses on information security with different goals tailored to specific target audiences. In 2012, we began simulation training to educate employees about e-mail phishing and other targeted malicious cyberattacks. In the exercise, employees are sent actual examples of malicious e-mails to heighten their awareness of security through direct experience.

## Cybersecurity: A Key Management Issue

Damage was caused to some Hitachi systems in May 2017 following an infection with WannaCry ransomware<sup>\*1</sup>. Treating this as a management issue, Hitachi is reinforcing cybersecurity measures based on the lessons learned from this incident.

### Initial Response to Ransomware Infection

The incident originated around 10 PM JST on May 12, 2017, when systems inside a datacenter began operating unreliably. An investigation for suspected systems failure proceeded, but it was not known at this initial stage that the cause was infection due to a software virus. Once ransomware infection was confirmed about an hour later, the information was reported promptly to the internal Incident Response Team (IRT) and work began to characterize the attack and assess related damage.

Shortly after 1 AM JST on May 13, the IRT concluded from its initial assessment that the incident was due to infection by WannaCry ransomware. This was reported to management, and countermeasures were initiated to prevent more widespread damage. Instructions for urgent countermeasures were developed for the entire Hitachi Group by around 5 AM JST. An Emergency Response Center was set up at Hitachi's head office at 9 AM JST. Work began to assess and repair the damage to systems, and to analyze the route of infection.

### Lessons from the Incident

Hitachi drew four lessons from the response to this ransomware infection incident.

First was the threat from cyberattacks that diffuse rapidly within a network. Equipment connected to the company intranet includes not only PCs, servers, and other office equipment, but also equipment used in product development, production facilities, and other OT equipment. In this case, damage spread due to rapid diffusion over the intranet after the virus had infected weak links in the security chain, including office equipment not automatically updated with security patches<sup>\*2</sup> as well as OT equipment that would not ordinarily be updated in this way.

The second lesson was the importance of thorough security measures for servers and other office equipment. The systems that were damaged by the infection were ones where security patches had not been installed in a timely manner because system operation precluded their necessary shutdown.

The third lesson related to the difficulties involved in security measures for OT equipment, which in many cases had been designed without considering the need to install security patches or undertake post-installation system updates.

The fourth lesson concerned the need to upgrade business continuity planning to combat the threat from cyberattacks. As with a natural disaster, the assumption with ransomware and other cyberattacks must be that there is no absolute safety, and the approach in an emergency should be to contain the damage and focus on how quickly operations can be restored. The BCPs must envision worst-case scenarios and stipulate related procedures and training so that frontline personnel are better prepared.

Besides the various technical aspects, the management response to this kind of issue must include a comprehensive risk assessment and related decision-making from a business continuity perspective.

The threats in the information security sphere continue to grow year after year, with increasingly sophisticated cyberattacks supplementing problems due to human error, internal misconduct, and changing business conditions, among other factors. The business impact when these incidents occur is significant. Going forward, viewing information security as a critical management issue, Hitachi will seek to reinforce cybersecurity measures and improve systems durability while maintaining an appropriate balance with organizational, misconduct, and system-related factors.

<sup>\*1</sup> Ransomware is a type of software virus that places restrictions on an infected computer before demanding monetary compensation in exchange for lifting these restrictions.

<sup>\*2</sup> Security patches are programs designed to rectify any faults or weaknesses that are discovered in computing software.



## Engaging with Climate-Related Risks and Opportunities

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Hitachi sees climate change risks and opportunities as important management issues. One governance mechanism that we established to address such risks and opportunities is the Executive Sustainability Committee, chaired by Hitachi's President & CEO, with other top executives serving as committee members. The committee develops business strategies to minimize risks and maximize opportunities from climate change in line with relevant global regulations and policy trends.

In 2017, the Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board in response to a request from the G20 Meeting of Finance Ministers and Central Bank Governors, published its recommendations seeking corporate disclosures of information about climate-related risks and opportunities. In June 2018, Hitachi announced its endorsement of the TCFD and is preparing its information disclosure based on its recommendations. As regards climate-related risks and opportunities, Hitachi is reviewing its risks in two categories, namely, (1) risks related to the transition to a low-carbon economy, and (2) risks related to the physical impact of climate change in accordance with the categories outlined in the new global TCFD recommendations. In terms of opportunities, we are positioning our contributions to the creation of a low-carbon society through enhanced energy-saving features of our products and services as a major opportunity, and are discussing how we can further expand it.

### Risks in Transitioning to a Low-Carbon Economy Policy and Legal

Carbon taxes, energy consumption taxes, emissions trading systems, and other measures may be newly introduced or further strengthened, representing risks impacting directly on management costs in addition to those incurred in complying with the environmental regulations and policies of countries and regions around the world.

To mitigate such risks, we have been reducing or minimizing cost burdens by enhancing production efficiency and introducing energy-saving measures. In fiscal 2017, our energy-saving investments totaled approximately 5.4 billion yen. Should our products fail to meet energy-efficiency standards and regulations, we will risk losing sales opportunities. In addition to strictly complying with existing standards and regulations, we will always endeavor to keep abreast of trends in laws and regulations and participate in the planning of new policies.

### Technology

To reduce CO<sub>2</sub> emissions caused by the use of our products and services by our customers, which make up a significant share of emissions in the value chain, we need new technology to achieve further energy-saving in our products and services.

Therefore, by applying Environmentally Conscious Design Assessments in the design and development stages of Hitachi products and services, we assess various environmental aspects at each stage of the product life cycle and strive to minimize environmental impact. In addition, by combining Hitachi's longstanding expertise in a wide range of social infrastructure technologies with OT (operational technology) and IT, we can provide optimal solutions that lead to the creation of new business opportunities.

### Market and Reputation

A company's approach to climate change issues influences stakeholders' evaluations, and changes to market values, such as placing great importance on climate change countermeasures, affects customers' choices of products and services. This may pose a risk to business continuity. Hitachi upholds long-term environmental targets of reducing CO<sub>2</sub> emissions throughout its value chain by 50% in fiscal 2030 and 80% in fiscal 2050 compared to fiscal 2010 levels. Measures to attain these goals include investing in new facilities and equipment with higher energy efficiency and targeting greater efficiency in production through digitalization.

### Risks Related to the Physical Impacts of Climate Change

#### Acute and Chronic

Climate-related physical risks include acute risks, such as increased severity of typhoons and floods, and chronic risks, including climate patterns that may cause the sea level to rise and chronic heat waves. Hitachi has a worldwide business presence and believes that disasters due to weather phenomena attributed to climate change, such as increasingly bigger typhoons and torrential rainfall, pose a risk to business continuity.

In order to minimize these risks, we take into consideration such factors as location and the possibility of damage from flooding when setting up a new plant or deciding on the deployment of equipment. We also use the *Hitachi Group Guidelines for Developing Business Continuity Plans* that outline measures to be taken in times of disaster to mitigate risks.

## Climate-Related Opportunities

### Resource Efficiency

Hitachi is promoting the efficient use of resources by reducing waste, recycling, and undertaking other measures. Also, for the efficient and sustainable use of natural resources, we are promoting efforts to minimize the amount of natural resources we use through improvements in production processes and resource-conserving designs.

### Energy Source

Hitachi proactively uses renewable energy for our factories and offices. In our factories, we are able to efficiently use the electricity supplied from photovoltaic power generation facilities, despite fluctuations in the amount of power generated, by monitoring and controlling energy usage on production lines and by using storage batteries. Also, we are promoting the adoption of renewable energy credits and the expanded deployment of internal carbon pricing and the self-consumption solar power generation. In our offices, too, we are enhancing the efficiency of lighting and air conditioning, as well as visualizing energy usage and optimizing the amount of energy used in the building as a whole through Building and Energy Management Systems (BEMS).\* In our business operations, we create new business opportunities, such as by actively providing renewable energy from wind power generation systems.

\* BEMS aim to optimize the internal environment of a building and its energy efficiency.

### Products, Services, and Markets

Products and services featuring innovative, energy-saving technology that can contribute to the mitigation and adaptation of climate change are viewed as having the potential to increase market value and revenue. Many of our products use energy, so we must enhance the efficiency of our products and services and facilitate low carbonization in order to contribute to resolving the issue of climate change. To this end, we are developing ultra-efficient products and low-carbon energy, as well as encouraging their use. We are also promoting the development of innovative devices and materials that contribute to reducing the environmental burden. In fiscal 2017, Hitachi's total investment in R&D was 332.9 billion yen, including sizable spending to reduce the environmental burden.

A company's approach to climate change issues influences stakeholders' evaluations and affects customers' choice of products and services. Hitachi not only meets the required standards and regulations for the energy efficiency of its products, but also develops and provides energy-saving products and services that go beyond the prescribed standards, thereby increasing opportunities to be chosen by customers.

### Resilience

We have devised a plan for vital functions to be maintained through the use of renewable energy and storage batteries if a power outage occurs in any of Hitachi's main factories.

In our business operations, we are providing disaster-prevention solutions to help various countries and regions deal with the rise in natural disasters. Hitachi uses sophisticated IT developed over the years to analyze and evaluate data pertaining to people's daily lives, meteorological and other natural trends, and the operation of social infrastructure, in promoting the provision of solutions conducive to responding to climate change.

# Compliance

**We carry out our business not only in full compliance with legal requirements but also in ways that ensure socially responsible conduct. Spreading understanding of this among all Hitachi employees is a fundamental management issue. As economic activity becomes increasingly borderless, there is a growing need for steps to eradicate bribery, corruption, and other illegal behavior while taking into consideration the characteristics of the countries and regions where we operate.**

**As a global company, we have put in place and expanded a coherent compliance structure across the entire Hitachi Group.**

## **Sharing Codes of Conduct and Compliance Approaches Throughout the Group**

### **Ensuring Awareness of the Hitachi Group Codes of Conduct**

Hitachi, Ltd. is a pioneer in developing business ethics. The company formulated the Hitachi, Ltd. Standards of Corporate Conduct in 1983, followed by the Hitachi Group Codes of Conduct in 2010 that the entire Group pledges to uphold. The Hitachi Group Codes of Conduct are available in 21 languages and shared among Hitachi Group employees throughout the world. In addition, an e-learning tool has been made available in Japanese and nine other languages, such as English and Chinese, showing appropriate behavior and presenting specific examples for use.

In April 2018, we revised the Hitachi Group Codes of Conduct based on our philosophy that corporate activities should meet the needs of the times, such as the SDGs, toward a sustainable society, human rights and building a work environment, and various types of crisis management.

**Hitachi Group Codes of Conduct**  
<http://www.hitachi.com/corporate/about/conduct/index.html>

### **Enhancing Our Compliance Framework**

In 2016, Hitachi reviewed compliance regulations and guidelines that had been set independently relating to such issues as competition law and the prevention of transactions with antisocial groups as well as bribery and corruption. These compliance regulations and guidelines have been reorganized into the Hitachi Global Compliance Program as a newly integrated system of rules under the Hitachi Group Codes of Conduct.

To implement this program, we have appointed a senior executive as the head of risk management for the entire Hitachi Group, to supervise management-level risk management executives from business units and key Group companies. Under this system, policies and measures are shared through the Compliance Management Conference, composed of these risk management executives. Each executive is assisted by a compliance manager who implements practical support measures.

Compliance heads have been appointed in 11 regions to support Group companies outside Japan, with responsibility for implementing education and sharing information as well as arranging consultation services with outside attorneys and other experts.

The internal audit section regularly conducts Group-wide reviews to verify compliance status across Group operations.

Composed of outside experts, the Advisory Committee has also been created to provide new compliance insights for proactive implementation within the Group.

### **Compliance Whistleblowing System**

Hitachi has instituted a Group-wide whistleblowing system under which reports go directly to the Company's Compliance Department or to an outside attorney. This system can be used not only by Hitachi employees, but also by temporary staff and business partners. Fiscal 2017 saw 360 reports throughout the Group. In each case, the relevant facts were investigated thoroughly and the results were provided to whoever made the initial report. Appropriate measures were taken, including remedial action where necessary. Going forward, we will continue to maintain and review the system, prioritizing the protection of whistleblowers.

In addition, we have implemented the Channel to the Board of Directors system to allow employees to directly report problems anonymously to Hitachi directors in cases where they see any illegality or extreme inappropriateness in business conduct by management.

### **Prevention of Antisocial Transactions**

To prevent any such relationships, our commitment never to engage in any kind of transactions with organized crime groups and other antisocial forces is laid out clearly in the Hitachi Group Codes of Conduct. As part of this policy stance, we insert antisocial force rejection clauses in our contracts with suppliers and business partners and conduct regular compliance checks. In addition, we try to eliminate any approaches from antisocial forces in partnership with the police and other external specialist institutions.

## Thorough Export Controls

The basis of our export control policy is the statement in the Hitachi Group Codes of Conduct that: “We will help maintain international peace and security through compliance with all applicable laws and regulations concerning import and export, and will operate appropriately based on internal rules and procedures.” We instituted the Corporate Regulations concerning Security Export Controls based on this policy to ensure strict export controls are maintained throughout the Hitachi Group, including all domestic and overseas Group companies.

At present, we host training sessions and workshops on export controls for all domestic and overseas Group companies, in addition to the annual implementation of an e-learning program in Japanese, English, and Chinese.

## Measures to Prevent Bribery and Corrupt Practices

In 2008, Hitachi established rules against bribery and corruption for the Hitachi Global Compliance Program, along with guidelines delineating specific spending thresholds for entertainment, gifts, and other arrangements. In 2016, we introduced a revised policy to explicitly forbid any facilitation payments for routine governmental action, and to clarify due diligence procedures for business partners. To ensure awareness of these rules and policies, we developed a global e-learning program on preventing bribery and corrupt practices, making it available in nine languages—including Japanese, English, and Chinese—for use by Group companies worldwide.

As the risks of bribery and corruption vary according to the nature of the business, the industry sector, the region of business, the counterparty, and other conditions, since fiscal 2013 Hitachi has conducted surveys of Group companies outside Japan (about 500 companies in fiscal 2017) concerning potential risk scenarios relating to bribery and corruption.

In fiscal 2017, there were no incidents in which Hitachi violated or was penalized under laws or regulations regarding bribery or corrupt practices.

## Preventing Violations of Fair Competition Laws

Hitachi engages in business based on the principles of conformance with the law and business ethics, and fair and open competition. For this reason, the Hitachi Global Compliance Program incorporates rules concerning competition law as well as related business standards and guidelines. In 2017, to enhance awareness of ethical principles and practices globally, we created a global version of our standards regarding contact with competitors based on the standards originally prepared for use in Japan.

Fiscal 2017 saw one incident where one of our Group companies was sanctioned and fined by the European Commission. This related to a cartel in the capacitor business that had already been identified by Japanese and US authorities

in 2016 and earlier. To prevent any recurrence, the Group company involved has already appointed a compliance head in each unit to conduct regular reviews of participating business associations and to promote education through sharing cases of violations within and outside Japan.

Eliminating competition law violations is among our top priorities for regaining trust. Going forward, we will continue our efforts to prevent such incidents recurring.

## Quality Assurance Initiatives

Based on the Corporate Mission of ‘contributing to society through the development of superior, original technology and products,’ Hitachi’s manufacturing ethos (monozukuri) places top priority on quality and reliability. To achieve this, we are working to strengthen quality assurance from the standpoints of organization and management, technology, and human resources in every process—from planning and development to design, manufacturing, delivery, and maintenance.

From fiscal 2016, to achieve the goals of our 2018 Mid-term Management Plan, we have been steadily working to improve service quality and product reliability, and to reduce losses arising from quality issues based on better quality management.

## Intensive Risk Assessment

Hitachi is committed to the delivery of safe products and services. We verify safety at every step, from development and production to sales and maintenance, and conduct risk assessments from a wide perspective in collaboration with related business units and research laboratories.

## Handling Product Accidents

When a product accident occurs, the division responsible acts swiftly to resolve the problem. For a severe accident, we report to government agencies in line with legal requirements and publish the incident information on our website and through other channels. Our systems are designed to ensure that appropriate action is taken swiftly at all companies throughout the Group.

## Global Quality Assurance Personnel Training in Asia

We undertake personnel training as part of maintaining Hitachi’s global quality standards. In China and Thailand, where many of the Group’s manufacturing sites are concentrated, we organize educational seminars aimed at improving our quality management technology. We also host conferences for quality assurance managers to raise quality awareness regarding Hitachi’s monozukuri craftsmanship, and to share information and best practices.

# Management System



## Independent Outside Directors\* As of June 30, 2018

### 01 Katsumi Ihara

2005 Executive Deputy President, Representative Corporate Executive Officer, Member of the Board, Sony Corporation  
 2009 Executive Deputy President, Corporate Executive, Sony Corporation  
 Executive Vice President, Representative Director, Sony Financial Holdings Inc.  
 2010 President, Representative Director, Sony Financial Holdings Inc.  
 2011 President, Representative Director, Sony Life Insurance Co., Ltd.  
 2015 Chairman, Director, Sony Life Insurance Co., Ltd. (Retired in June 2017)  
 2016 Chairman, Director, Sony Financial Holdings Inc. (Retired in June 2017)  
 2018 Director, Hitachi, Ltd.

### 02 Cynthia Carroll

1991 General Manager, Foil Products, Alcan Inc.  
 1996 Managing Director, Aughinish Alumina Ltd., Alcan Inc.  
 1998 President, Bauxite, Alumina and Specialty Chemicals, Alcan Inc.  
 2002 President & CEO, Primary Metal Group, Alcan Inc.  
 2007 CEO, Anglo American plc. (Retired in April 2013)  
 2013 Director, Hitachi, Ltd.

### 03 Joe Harlan

1999 Vice President and Chief Financial Officer, Lighting Business, General Electric Company (USA)  
 2001 Vice President, Corporate Financial Planning and Analysis, 3M Company (USA)  
 2002 President and Chief Executive Officer, Sumitomo 3M Ltd.  
 2004 Executive Vice President, Electro and Communications Business, 3M Company (USA)  
 2009 Executive Vice President, Consumer and Office Business, 3M Company (USA)  
 2011 Executive Vice President, Performance Materials, The Dow Chemical Company (USA)  
 2012 Executive Vice President, Chemicals, Energy and Performance Materials, The Dow Chemical Company (USA)  
 2014 Chief Commercial Officer and Vice Chairman, Market Business, The Dow Chemical Company (USA)  
 2015 Vice Chairman and Chief Commercial Officer, The Dow Chemical Company (USA) (Retired in August 2017)  
 2018 Director, Hitachi, Ltd.

### 04 George Buckley

1993 Chief Technology Officer, Motors, Drives and Appliances, Emerson Electric Company  
 1994 President, US Electrical Motors, Emerson Electric Company  
 1997 President, Mercury Marine Division and Corporate Vice President, Brunswick Corporation  
 2000 President and Chief Operating Officer, Brunswick Corporation, Chairman and Chief Executive Officer, Brunswick Corporation  
 2005 Chairman of the Board, President and Chief Executive Officer, 3M Company  
 2012 Executive Chairman of the Board, 3M Company (Retired in May 2012)  
 Chairman, Arle Capital Partners Limited (Retired in December 2015)  
 Director, Hitachi, Ltd.

### 05 Louise Pentland

1997 Admitted as a Solicitor (UK)  
 2001 Senior Legal Counsel, Nokia Networks, Nokia Corporation  
 2007 Vice President, Acting Chief Legal Officer and Head of IP Legal, Nokia Corporation  
 2008 Senior Vice President and Chief Legal Officer, Nokia Corporation  
 2009 Admitted to New York State Bar Association  
 2011 Executive Vice President and Chief Legal Officer, Nokia Corporation (Retired in May 2014)  
 2015 General Counsel, PayPal, eBay Inc. Director, Hitachi, Ltd.  
 Senior Vice President and Chief Legal Officer, PayPal Holdings, Inc.  
 2016 Executive Vice President, Chief Business Affairs and Legal Officer, PayPal Holdings, Inc. (currently in office)

### 06 Harufumi Mochizuki

Chair of the Nominating Committee  
 Chair of the Compensation Committee  
 2002 Director-General for Commerce and Distribution Policy, Minister's Secretariat, Ministry of Economy, Trade and Industry of Japan ("METI")  
 2003 Director-General, Small and Medium Enterprise Agency, METI  
 2006 Director-General, Agency for Natural Resources and Energy, METI  
 2008 Vice-Minister of Economy, Trade and Industry of Japan  
 2010 Special Advisor to the Cabinet of Japan (Retired in September 2011)  
 Senior Advisor to the Board, Nippon Life Insurance Company (Retired in April 2013)  
 2012 Director, Hitachi, Ltd.  
 2013 President and Representative Director, Tokyo Small and Medium Business Investment & Consultation Co., Ltd. (Currently in office)

### 07 Takatoshi Yamamoto

1995 Managing Director, Morgan Stanley Japan Limited  
 1999 Managing Director and Vice Chairman, Tokyo Branch, Morgan Stanley Japan Limited  
 2005 Managing Director and Vice Chairman, UBS Securities Japan Co., Ltd.  
 2009 Managing Director, CASIO COMPUTER CO., LTD.  
 2011 Advisor, CASIO COMPUTER CO., LTD. (Retired in June 2012)  
 2016 Director, Hitachi, Ltd.

### 08 Hiroaki Yoshihara

Chair of the Audit Committee  
 1978 Joined Peat Marwick Mitchell & Co.  
 1996 National Managing Partner, the Pacific Rim Practice, KPMG LLP  
 1997 Board Member, KPMG LLP  
 2003 Vice Chairman and Global Managing Partner, KPMG International (Retired in April 2007)  
 2014 Director, Hitachi, Ltd.

\* As all of the outside directors meet the independence criteria defined by the Company and those provided by Japanese stock exchanges where the Company is listed, they are referred to as independent outside directors in this report.

## Directors As of June 30, 2018

### 09 Kazuyuki Tanaka

1977 Joined Hitachi Chemical Company, Ltd.  
 2005 Executive Officer, Hitachi Chemical Company, Ltd.  
 2006 Senior Executive Director, Hitachi Media Electronics Co., Ltd.  
 Representative Director and President, Hitachi Media Electronics Co., Ltd.  
 2008 Vice President and Executive Officer, Hitachi Chemical Company, Ltd.  
 2009 Representative Executive Officer, President & Chief Executive Officer, Hitachi Chemical Company, Ltd.  
 Director, Representative Executive Officer, President & Chief Executive Officer, Hitachi Chemical Company, Ltd.  
 2016 Chairman of the Board, Hitachi Chemical Company, Ltd. (Currently in office)  
 Director, Hitachi, Ltd.

### 10 Hiroaki Nakanishi

1970 Joined Hitachi, Ltd.  
 2003 Vice President and Executive Officer  
 2004 Senior Vice President and Executive Officer  
 2005 Chairman and Chief Executive Officer, Hitachi Global Storage Technologies, Inc. (Retired as CEO in March 2009)  
 2006 Executive Vice President and Executive Officer, Hitachi, Ltd. (Retired in December 2006)  
 2009 Executive Vice President and Executive Officer, Hitachi, Ltd. Chairman of the Board, Hitachi Global Storage Technologies, Inc. (Retired in March 2010)  
 2010 President, Hitachi, Ltd., President and Director, Hitachi, Ltd.  
 2014 Chairman & CEO and Director, Hitachi, Ltd.  
 2016 Chairman of the Board and Representative Executive Officer, Hitachi, Ltd.  
 2018 Chairman of the Board and Executive Officer, Hitachi, Ltd.

### 11 Toyoaki Nakamura

1975 Joined Hitachi, Ltd.  
 2006 General Manager, Finance Department  
 2007 Senior Vice President and Executive Officer  
 2009 Senior Vice President, Executive Officer and Director  
 2012 Executive Vice President and Executive Officer (Retired in March 2016)  
 2016 Director

### 12 Toshiaki Higashihara

1977 Joined Hitachi, Ltd.  
 2007 Vice President and Executive Officer (Retired in March 2008)  
 2008 President, Hitachi Power Europe GmbH  
 2010 President and Chief Executive Officer, Hitachi Plant Technologies, Ltd.  
 President and Representative Director, Hitachi Plant Technologies, Ltd.  
 2011 Vice President and Executive Officer, Hitachi, Ltd.  
 2013 Senior Vice President and Executive Officer, Hitachi, Ltd.  
 2014 President & COO, Hitachi, Ltd.  
 President & COO and Director, Hitachi, Ltd.  
 2016 President & CEO and Director, Hitachi, Ltd.

Each Committee is composed of the following members (chair names underlined)

**Nominating Committee:**  
Harufumi Mochizuki, Cynthia Carroll, Hiroaki Yoshihara, Hiroaki Nakanishi

**Audit Committee:**  
Hiroaki Yoshihara, Katsumi Ihara, Harufumi Mochizuki, Takatoshi Yamamoto, Kazuyuki Tanaka, Toyoaki Nakamura

**Compensation Committee:**  
 Harufumi Mochizuki, Katsumi Ihara, Takatoshi Yamamoto, Toshiaki Higashihara

- Nominating Committee
- Audit Committee
- ▲ Compensation Committee
- ✦ Representative Executive Officer

# Executive Officers

As of June 30, 2018

## President & CEO



**Toshiaki Higashihara\***  
Overall management

## Executive Vice Presidents and Executive Officers



**Masakazu Aoki\***  
Assistant to the President (business for industry and distribution sectors, water business and industrial products business)



**Keiji Kojima\***  
Assistant to the President (building systems business, railway systems business, smart life & ecofriendly systems business and automotive systems business) and information security management



**Keiichi Shiotsuka\***  
Assistant to the President (systems & services business, healthcare business and defense systems business), systems & services business and social innovation business promotion



**Hideaki Takahashi\***  
Assistant to the President (cost structure reform and supply chain management), cost structure reform and supply chain management (MONOZUKURI and quality assurance)

## Senior Vice Presidents and Executive Officers



**Toshikazu Nishino\***  
Assistant to the President (nuclear energy business and power business)



**Shinichiro Omori**  
Cost structure reform and information technology strategies



**Yoshihiko Kawamura**  
Management strategies, investment strategies, and strategies for next-generation business



**Kenichi Kokubo**  
Regional strategies (China)



**Setsuo Shibahara**  
Services & platforms business



**Hideaki Seki**  
Building systems business



**Yoshitaka Tsuda\***  
Marketing & sales, regional strategies, and social innovation business promotion



**Alistair Dormer**  
Railway systems business



**Hidenobu Nakahata\***  
Corporate communications, legal matters, risk management, corporate auditing, and human capital



**Mitsuaki Nishiyama\***  
Finance and corporate pension system

## Vice Presidents and Executive Officers

**Keiichi Akino**  
Marketing & sales (business for financial institutions, government, public corporation and social infrastructure systems, healthcare business, and defense systems business)

**Jun Abe**  
Business for industry & distribution sectors

**Hitoshi Ito**  
Governments & external relations

**Kenji Urase**  
Water business

**Ryuichi Otsuki**  
Regional strategies

**Atsushi Oda**  
Power business

**Kohei Kodama**  
Legal matters, risk management, and corporate auditing

**Keizo Kobayashi**  
Industrial products business

**Norihiro Suzuki**  
Research & development

**Hidetoshi Takehara**  
Nuclear energy business

**Osamu Naito**  
Governments & external relations, CSR & environmental strategy, and executive support

**Katsuya Nagano**  
Business for government, public corporation, and social infrastructure systems

**Isao Narukawa**  
Marketing & sales (nuclear energy business and power business)

**Kentaro Masai**  
Supply chain management (MONOZUKURI and quality assurance)

**Yasushi Manabe**  
Marketing & sales (business for industry & distribution sectors, water business, building systems business, and railway systems business)

**Shinya Mitsudomi**  
Railway systems business

**Mamoru Morita**  
Management strategies

**Tsugio Yamamoto**  
Business for financial institutions

**Masaya Watanabe**  
Healthcare business

## Executive Officer

**Hiroaki Nakanishi**  
General

Note: Executive officers are listed by position and in Japanese alphabetical order within each grouping.  
\* Denotes executive officers who are representative executive officers.



Cynthia Carroll  
Independent Outside Director

Hiroaki Yoshihara  
Independent Outside Director

## Initiatives in Governance, Diversity and Leadership Development

Hitachi aims to earn the trust of customers and the broader public as a leading global innovation partner, based on the development of digital solutions and global business. Working from an objective standpoint, the independent outside directors play an important role in supporting this process. Outside directors Ms. Cynthia Carroll (“CC”) and Mr. Hiroaki Yoshihara (“HY”), both of whom are extensively involved in the ongoing transformation at Hitachi, discuss its unique approach to fostering talent and promoting good governance as part of realizing this mission.

## BUSINESS CONDITIONS AND CHALLENGES

### Q. What attracted you originally to become an independent outside director at Hitachi?

**HY:** The two reasons I originally joined the Board of Directors of Hitachi four years ago were the company's strong leadership and its positive momentum.

Prior to that, I was a member of the Board of Hitachi Global Storage Technologies (HGST) from 2008 until it was acquired by Western Digital in 2012. In common with Hitachi, HGST faced a financial and operational crisis during that period. Mr. Nakanishi, current Chairman and director of Hitachi, Ltd. and the CEO of HGST at that time, led an impressive and rapid transformation process that I witnessed first-hand. The

turnaround took HGST from being the industry's worst performer to its most profitable player.

Mr. Nakanishi later became president of Hitachi. When I was asked to join the Board of Hitachi in 2013, the company was demonstrating positive momentum in its own transformation process led by him and his strong executive team.

**CC:** I was also attracted to the strong leadership of Hitachi. I was highly impressed with the vision of the management, the ambition to develop a more competitive, globalized business, and the strong determination of

top management to leverage the company's historical legacy. The thinking was long-term, but at the same time, they were looking for alternative perspectives and experiences to help Hitachi scale new heights.

Hitachi is an iconic brand. It is a phenomenal enterprise, given its global reach and the sheer breadth of its products and services, which are supplied by around 850 subsidiaries. The broad scope of the business made it an especially attractive proposition for me.

### Q. In your view, what are the strengths of Hitachi and the challenges it faces in its global business development?

**HY:** Hitachi is blessed with many competitive advantages. The company is filled with many talented people, and we have a rich wealth of technological expertise. Most importantly, Hitachi's well-established corporate values of "Harmony, Sincerity, and Pioneering Spirit" have stood the test of time.

I think that good strategic execution has helped Hitachi to create strong positive momentum in recent years as we work to become a high-performing global enterprise.

**CC:** I agree that Hitachi has been successful in building momentum. We are more effective in ensuring that the decision-making is focused solidly on value creation.

To my mind, the fact that so many people spend their entire careers in this company is one of its strengths, because it reflects the tremendous loyalty and experience associated with the Hitachi name. In addition, the engineering and technical capabilities are phenomenal. Hitachi is unique, relative to other companies today, with its breadth and depth of young and long serving talent, in a position to build on the core values and established trust created over many decades.

**HY:** The direction we are taking is excellent, but speed is also vital. In that regard, I would like to see accelerated evolution in some aspects of business,

including faster rationalization of the business portfolio. Greater synergy between different parts of the business portfolio is another critical challenge, based on stimulating connectivity between business sectors.

That is partly what the Social Innovation Business is about. In my view, we should accelerate launching Social Innovation Business initiatives globally, while also deploying data and insight-driven strategies throughout the organization.





**CC:** Businesses today must be lightning-fast in their response to social change because of the greater speed of connecting in

the context of the twin trends of globalization and digitalization. We live in an age where products can rapidly become

commoditized, which means that we will often struggle to market or sell them using purely traditional approaches.

The core challenges faced by the business relate to innovation and commercialization. We need to be working in partnership with our customers and suppliers to develop products, services, and processes that represent original value.

In my opinion, we have all the capabilities to become a global leader in the industries where we compete but this takes collaboration within and across business boundaries.

## **CORPORATE GOVERNANCE REFORMS: DIVERSITY, LEADERSHIP, AND AUDIT INTEGRITY**

### **Q. What value is there in promoting diversity? What is Hitachi doing to increase diversity?**

**CC:** In general terms, I think diversity is critical to our future success. Diversity within an organization leads to diversity in terms of thinking and perspectives, as we always consider alternative approaches. Ultimately, it can lead to smarter business decisions and solutions.

In an area such as Social Innovation, if our products, services, and solutions are to meet the needs of a constantly evolving global society, we must understand that society in detail. For this reason, it is critically important for Hitachi to have a workforce that reflects society. Greater diversity in the workforce means that we have the right make-up of people to provide the necessary

alternative perspectives. Also, we cannot afford to leave out half the population if we want to develop the best global management talent.

**HY:** As CEO Higashihara has pointed out, I believe, actively targeting higher diversity enables Hitachi to develop better as a diversified global business. The company has set specific diversity targets, and we are making steady progress towards achieving them.

**CC:** To add some figures, women represent almost 17% of the Hitachi Group workforce, or roughly 44,000 people. Women are now about 27% of new hires, which is approximately double

the level that was being achieved in fiscal 2000. By these various indicators, I think we are making measurable progress.

The current target for Hitachi, Ltd. is to increase the number of female managers in Japan to 800 by fiscal 2020. Similarly, amongst executive and corporate officers, we are looking for 10% to be represented by both women and non-Japanese nationals by fiscal 2020—another major goal. This is quite an ambitious objective, but I think it demonstrates Hitachi's commitment to diversity.

**HY:** We also have measures in place to support the development and inclusion of women.

**CC:** Yes, I spoke at the Global Women's Summit in Las Vegas. Elsewhere, we hold diversity workshops such as the World Café Program, and we have a work-life balance month. Both are interesting initiatives, I think.

There is a lot of discussion inside Hitachi around supporting women who are working and raising children, for example by

adopting systems to allow flexible working hours, or using teleworking or virtual office arrangements. All these initiatives are managed within an overarching work style reform program called Work Life Innovation.

It's tremendously positive that we are considering these types of approaches to these kinds of issues. In addition,

Hitachi recognizes the importance of inclusion of men and women in the discussion about diversity as they together grow the culture internally.

**HY:** Cynthia has been addressing this issue extremely well for a long time. As the CEO of a leading global corporation, she is a role model in her own right.

## Q. How is Hitachi developing its next generation of leaders?

**CC:** Within the pipeline of management talent, we work to identify and meet regularly with high potential candidates who are being considered for leadership positions. We try to ensure such individuals are challenged and developed appropriately. If, for instance, they have not worked outside of Japan, we try to place them overseas. Similarly, opportunities are created to help them gain experience of working in more than one business unit.

A lot of thought goes into this aspect of human capital development and the HR team is doing a phenomenal job of ensuring that gaps in experience of future management talent within the organization are filled through redeployment or redirection of people. It's about developing people for future leadership positions. The Hitachi Group has built a fully integrated human capital management platform to provide a global talent management framework.

**HY:** As directors, we also contribute to this leadership development process directly. It is important for personal development to have professional mentors. It is also vital to create a systematic process that helps senior managerial candidates to visualize where they might want to be in three or five years.

I remember in my earlier career benefiting from this kind of mentoring when I was working for an organization with headquarters in New York and London. I am always grateful for the help that I received from mentors to help me direct my efforts appropriately in developing my technical and leadership skills. I think the processes we have in Hitachi are helping to foster exciting career development pathways within our management talent pool.

**CC:** The directors serving on the Nominating Committee take a lead in the human capital development process. I am also personally involved in mentoring management talent.

Having served on multiple nominating committees with various multinationals, my view is that Hitachi has adopted a uniquely valuable approach to talent and executive development. It is highly systematic and proactive when considering executive development and succession.

For example, I have one-on-one discussions with mentees where we talk about what is going on in their work, the related challenges, and how they think about their career.

As independent outside directors, we also take the opportunity to address the young talent inside Hitachi by giving speeches to select groups and hearing personal feedback. They can communicate their perceptions about what they might see as some of the roadblocks within Hitachi, and this leads into a discussion about how to confront challenges in different ways, or how we see the future. It's an unusual approach for a big multinational, but very valuable in my view.

## Q. What is special about Hitachi's audit processes?

**HY:** Hitachi uses a “tripartite audit” approach that demands strong, cohesive coordination between the Audit Committee, the Internal Auditing Office, and the outside auditing firm.

Basically, the Audit Committee leads a team whose goal is to identify and address the various risks. The three groups share and update the identified risk data. We also spend significant time on collaborative audit planning, audit progress updates, and final reporting for financial, operational, and management audits. It's a fully integrated approach.

We make sure we have complete access to necessary information and people to accomplish the audit objectives. With the Hitachi Group extending to around 850 subsidiaries operating worldwide, there are a multitude of risks to consider, both domestic and overseas. We are fortunate that the people in Hitachi are generally receptive and open-minded, so we only need to ask once to be provided with whatever information we need.

With such a complex picture to manage, the commitment of Audit Committee members to each other is that we maintain open and honest communication in all committee discussions. The members are also extremely active on a global basis so that we can better understand the global risks faced by the Hitachi Group. This means getting involved in onsite audits across different operational sites worldwide.



**CC:** The approach is rigorous, but at the same time, it is extremely open and transparent. I think people are relaxed and feel comfortable to come forward with issues, which is the best way to help mitigate risk on a continuous basis. Having served on several audit committees, I believe Hitachi's approach is top of the class.

**HY:** Before I joined the Hitachi Audit Committee, it was already regarded as one of the best in Japan. Collectively, though, we are determined to improve and refine every aspect of the auditing function to reinforce oversight on a continuous basis.

As part of continuous improvement, our finance and internal audit departments evaluate the performance of the outside auditor each year. In turn, the independent auditors evaluate the performance of Hitachi's finance and internal audit departments. We make sure everything is fair and open so that the evaluation feedback is beneficial for facilitating improvements by all parties

involved in audit processes.

We are also considering the implementation of AI/IT-based audit tools to improve audit effectiveness and efficiency by enabling people to focus on the judgment and assessment side, rather than just collecting information.

Moreover, we seek to strengthen the Audit Committee and the internal audit functions, both central and in business units and subsidiaries, by identifying and developing talented people for relevant positions.

Naturally, all these efforts are time-consuming. We spend a lot of time monitoring the progress of audits to guard against surprises. If points of difference arise in audits, which is something you cannot avoid proactively, we address issues or implement any necessary controls for risk mitigation straight away.

Together with the final reporting, all this means that we meet on many occasions through the year with people from the internal and external audit teams and from finance.

## FUTURE INITIATIVES

### Q. In what areas should Hitachi strengthen to be a leading global enterprise?

**HY:** As I mentioned earlier, I think Hitachi has built up momentum in becoming a leading global innovation partner for the IoT era in the markets where we choose to compete. Yet there is still some way to go in terms of globalization because around half of Hitachi Group's revenue is still in Japan and there are still tremendous opportunities overseas.

I think the key is to continue to execute the strategy of business portfolio rationalization, while working to shift the internal mindset from product-centric to more customer-centric and society-centric. We also need to

develop global management talent based on continuing to promote greater diversity.

**CC:** As I have already mentioned, the changing landscapes in markets mean that technologies are changing every minute. We need to continually update our fact bases and refresh our strategies, focusing on those businesses that are going to substantially add value over the long term. We need to be truly disciplined about spending money where value will be created. Everyone has a role to play in contributing to the bottom line. The market

dynamics necessitate being flexible, responsive, creative, efficient, and relentless in driving for performance. In addition, effectively marrying innovation and commercialization with the Social Innovation Business will be fundamental to Hitachi's value creation and ability to leapfrog our competitors. We are unique in our ability to combine infrastructure technologies with OT and IT applications and capitalize on the Hitachi brand, synonymous with leading edge technologies and engineering solutions.

### Q. Looking ahead, what is your main aim as an independent outside director?

**HY:** Our primary role is to continue providing strong management oversight to ensure all corporate objectives are achieved for the benefit of all Hitachi stakeholders.

Management is about making the tough decisions, and that is why oversight is so crucial.

Considering the volatility and uncertainty inherent in global business conditions, I think we must pay special attention to global risks. At the same time, we need to exert a positive influence on management to support the execution of high-quality global growth strategies.

Practicing open and honest communication during the Board and Committee discussions is another important element. Diversity and open

exchanges of ideas are essential for fostering a better environment to help manage the highly diversified business that is the Hitachi Group.

**CC:** I agree. As independent outside directors with an independent voice, our role is to lend support to the CEO and the executive team, to stimulate debate, to challenge, and to discuss opportunities, with the ultimate aim to enhance shareholder value in delivering on our performance commitments. We are also working to support One Hitachi, building a culture of innovation with partnerships across businesses and with customers to capture synergies and expertise globally.

I will continue to work to embed the global leadership mindset through my interactions with young talent and executive candidates, both men and women.

Hitachi has sound moral and good governance structures. With the right systems in place, we need to execute the correct business strategy while developing talent for today and the future so that we can deliver on our promises to our stakeholders with the ambition of becoming a global leader in our industries.

# Messages from Newly Appointed Independent Outside Directors

## Contributing to Hitachi

In a career that has spanned 40 years to date, I worked for Sony developing a range of businesses across global markets. Most of this time was spent in consumer electronics and financial services. Change is fierce in consumer electronics markets, and I gained a broad range of experience. For example, in the mobile phone sector where Sony had a joint venture with a major European communications handset maker, I was directly involved in the integration process. In the TV business, during the technology shift from cathode ray tubes to LCD, we had to restructure assets scattered in every region worldwide in a relatively short time. The experiences taught me about the need to anticipate paradigm shifts and major technological changes; about how to set management priorities; and how vital it is to make fast, timely decisions when companies are facing a period of necessary reform.

I am honored to receive the opportunity to serve as an independent outside director for Hitachi, a leader of

## An enterprise that creates new value

Hitachi is a unique global enterprise in its goal to be a leading innovation partner for the IoT era. The internal Group strengths in OT, IT, and Products enable Hitachi to develop integrated digital solutions. The global development of businesses across a wide range of sectors means it can create new value for many customers worldwide by helping to address a range of social or corporate management issues.

The strong leadership displayed by top management has driven transformation at Hitachi across different business sectors, producing noteworthy results. The Group as a whole is working diligently to achieve the goals of the 2018 Mid-term Management Plan. A sustained transformation will probably be required to turn Hitachi into a global force. Continuously

## My aspirations as a director

Hitachi clearly has the potential to be a leading company known worldwide for its excellence. The Mid-term Management Plan to fiscal 2021 will guide evolution towards this goal. I am extremely happy to become an independent outside director of Hitachi at a time when the discussion on how to achieve this is happening in earnest.

To realize further growth for Hitachi, as members of the Board of Directors, our role is to support the



Katsumi Ihara

corporate Japan. I am extremely sympathetic to Hitachi's business vision of applying technology and innovation to the solution of a variety of social issues. Hitachi is currently pursuing additional reforms to evolve into a major player in global markets. Using my experience and knowledge, I hope to provide Hitachi with useful management advice to target global growth.

revising the business portfolio while reinforcing overseas operations are needed so that Hitachi can generate the profits that are consistent with the success of attaining global enterprise status.

The Hitachi Group's highly diversified operations make it no easy task to grasp Hitachi's entire business. In my opinion, this increases the importance of explaining the corporate philosophy and business strategy to varied stakeholders clearly to gain their understanding and empathy. In this global environment, I believe that maintaining communication with many different stakeholders will help Hitachi to build greater enterprise value.

executive officers in our supervisory capacity. I will also be serving on the Audit Committee and the Compensation Committee. While serving on the Board or working in other roles, I hope to utilize my experience to provide various opinions and advice. As a member of a highly diverse and knowledgeable Board, my sincere wish is to contribute to Hitachi's continued growth and to further gains in enterprise value.

## Why I joined the Board of Directors of a trusted and iconic company

It was most gratifying to be asked to be a director of such a prestigious company as Hitachi with its long and successful history. The cultural power of Japan's processes and organization have helped produce one of the world's largest and most sophisticated economies. Having worked in Japan as an executive for GE and then for the former Sumitomo 3M venture, I was naturally aware that Hitachi is regarded as one of Japan's leading companies. I have immense respect for Japan's achievement in setting the de facto standard for quality and innovation.

My business background is in finance and commerce. I hope I can use my experience of working in Europe and Asia in various roles to help contribute to Hitachi's global development.

While corporate governance has evolved quite a bit over the past decade in Japan, I think the



Joe Harlan

increased presence of independent voices at Board level shows Hitachi is a company with an excellent governance structure. I have also been extremely impressed by the quality of the people who serve on Hitachi's Board of Directors. Naturally, I jumped at the opportunity to contribute to the company's continued growth as an outside director.

## In aspiring to global leadership, innovation and marketing are the keys to growth for Hitachi

Enterprises must grow to survive in the modern marketplace. Growth is essential because it leads to more business opportunities, more R&D investment, and better products, services, and solutions. Growth is also vital to provide investors with a return, because trying to shrink your way to success is not a good option.

Innovation in new applications and markets is the key to growing while also keeping the core business healthy. Hitachi has a culture and history of developing unique, differentiated products, services, and solutions that help their customers succeed.

One of the reasons I am so excited to be at Hitachi is the potential to combine its great product track record with the IoT platform "Lumada" to become a leading innovation partner of integrated products, services, and solutions that help link up customers' value chains. It often benefits the customer when one company provides a total solution, rather than having to deal with multiple vendors.

For example, it benefits a city if you can help provide a complete end-to-end transportation solution—not just the trains or rolling stock, but the

controls, signaling, ticketing machines, and related services as well.

Supported by its manufacturing and product development culture, Hitachi has a strong track record in serving customers in this way. And this approach is just as valid across different markets, from energy or water to railway, finance, and healthcare.

Marketing this great story to stakeholders—who include investors, shareholders, customers, and employees—is another vital element in generating continuous growth.

Over time, the success cultivated by great products and services, backed by an organization dedicated to innovative product development and delivered through high-quality sales and marketing, creates its own appeal. I think the aspiration to contribute to society through the development of superior, original technology and products, thereby fulfilling Hitachi's Mission, is also part of Hitachi's appeal. This is a story we need to tell repeatedly to potential customers in cities and countries around the world as we perpetuate our brand awareness.

## A strong desire to contribute to the growth of the enterprise

Growth is a challenge, and meeting that challenge means cultivating change within the organization. In my view, adding more independent voices to the discussion in the executive suite can only help to support constructive change for the benefit of all stakeholders.

Hitachi is undergoing a transformation. Having left a company that did transform, I see great potential for the business to grow using Hitachi's strengths in the integration of OT, IT, and products.

In my time as an independent outside director, I want to look at what Hitachi does commercially and provide insights into where we can move faster, be more agile, or have a better relationship with customers by focusing on core competencies. In this way, I hope that I can help Hitachi to develop and sell total solutions that are truly competitive in the marketplace.

I look forward to contributing to the development of Hitachi as a member of its Board of Directors.

# Corporate Governance

Hitachi and its listed subsidiaries are “Companies with Nominating Committee, etc.” defined under the Companies Act of Japan. By demarcating responsibilities for management oversight and those for the execution of business operations, Hitachi is working to create a framework for nimble operations, while making management highly transparent.

In addition, Hitachi is executing business strategies formulated to enable the Group to demonstrate its collective strengths. Moreover, some of Hitachi’s directors and executive officers serve concurrently as directors or executive officers at Group companies, thereby strengthening integrated management of the Group and improving management

oversight of Group companies. In these ways, Hitachi is working to increase corporate value.

Starting in June 2015, Japan’s Corporate Governance Code applies to companies listed on stock exchanges in Japan. Hitachi agrees with the basic approach of the Code, which is that the Code’s appropriate implementation will contribute to the development and success of companies, investors, and the Japanese economy as a whole through individual companies’ self-motivated actions so as to achieve sustainable growth and increase corporate value over the medium to long term. Moving forward, Hitachi will work to further strengthen corporate governance.

## Initiatives to Strengthen Corporate Governance

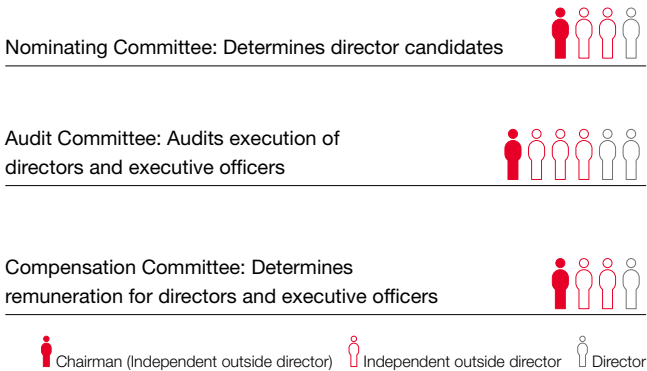
### 1 Realizing quick, highly transparent management

**Hitachi transitioned to a Company with Committee System (now called a Company with Nominating Committee, etc.) in June 2003.**

#### Major Aims

Make management highly transparent by demarcating responsibilities for management oversight and those for the execution of business operations

#### Composition of Each Committee (June 2018)



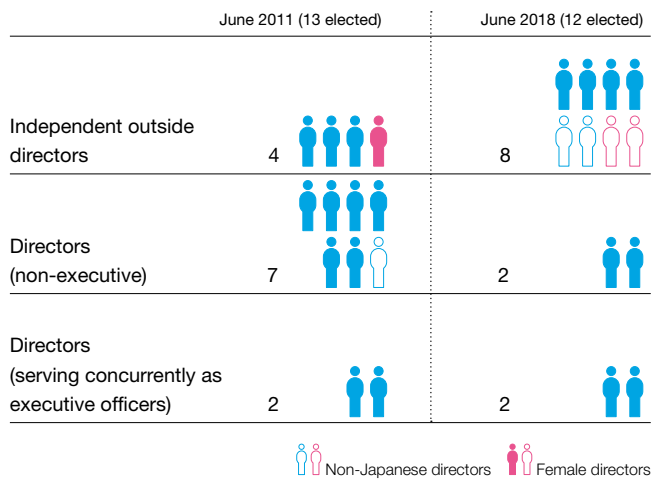
### 2 Accelerating global management and strengthening oversight function

**Increased number of independent outside directors including non-Japanese directors; independent outside directors became majority in June 2012.**

#### Major Aims

Reflect global, diverse viewpoints in management, further strengthen oversight function

#### Composition of Board of Directors



### 3 Appropriate implementation of the Corporate Governance Code

**Implementing all of the principles of the Corporate Governance Code** (based on form prior to June 2018 revision)

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

The Company implements an evaluation of the effectiveness of the Board as a whole each year, in a continuous effort to maintain and improve the Board’s function.

#### Evaluation process

In evaluating the effectiveness of the Board of Directors in the fiscal year ended March 31, 2018, questionnaires were distributed to all Board members. Each member carried out a self-assessment of the Board regarding its composition,

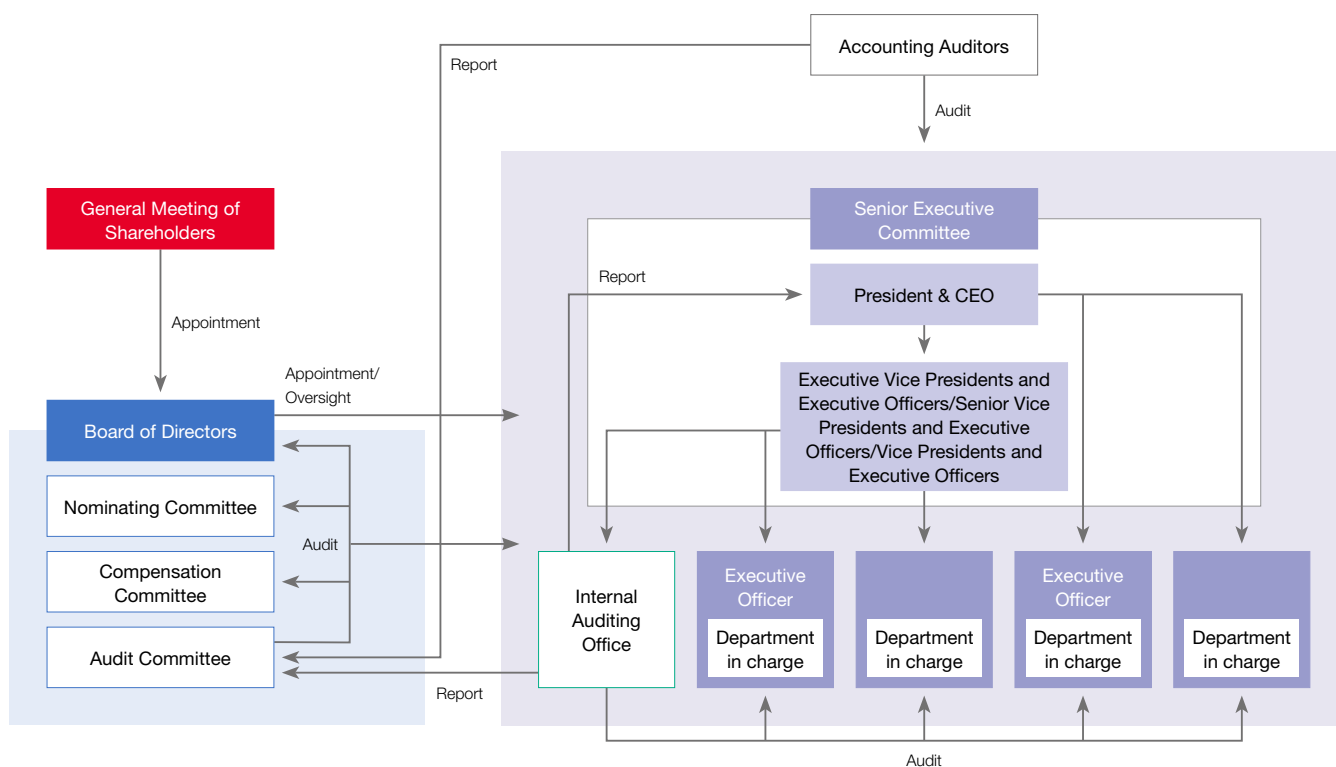
operation, contribution to the Company, activities of the three committees, support systems for the Board, etc. In addition, the Board's effectiveness was discussed at a meeting by independent outside directors. Based on the results of these evaluations and discussions, the Board analyzed and evaluated its effectiveness as a whole while considering a comparison with results for the fiscal year ended March 31, 2017 and measures taken for improvement and confirmed the policy on approaches to further improvement of the Board's effectiveness.

### Results of evaluation and future initiatives

The Board assessed that its 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 toward mid/long-term corporate value growth. The Board, therefore, concluded that the effectiveness of the Board as a whole was being maintained.

With the aim to maintain and improve its functions, the Board confirmed that it will make efforts to further contribute to the determination of Hitachi's mid/long-term strategic direction and succession planning for the CEO, etc. It was also confirmed that the Company will make efforts to strengthen support for the Board's operations including the enhancement of information provision to make Board discussions more effective.

## Corporate Governance Framework



## Board of Directors

### Summary

- Independent outside directors comprise 8 of the 12 Board members.
- Each of the Nominating, Audit, and Compensation Committees has been established with independent outside directors in the majority.
- The extensive experience and insight of the independent outside directors in international business management and administration serve to strengthen the Board's supervisory function.

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

Management Plan and annual budget compilation. The Board of Directors focuses on strategic issues related to the basic management policy as well as other items to be resolved that are provided in laws, regulations, the Articles of Incorporation, and Board of Directors Regulations. As of June 29, 2018, the



Board of Directors was made up of 12 directors, two of whom concurrently serve as executive officers. Hitachi aims to reinforce the oversight function of the Board of Directors, of which eight independent outside directors, including non-Japanese, account for the majority, reflecting their global and diverse viewpoints. The term of office for directors is one year.

Within the Board of Directors, there are three statutory committees—the Nominating Committee, the Audit Committee, and the Compensation Committee—with independent outside directors accounting for the majority of members of each committee. The Board of Directors meetings were held on 9 days during the fiscal year ended March 31, 2018, and the attendance rate of directors at these meetings was 97%. The attendance rates for each independent outside director were as shown in the table below. To assist with the duties of the Board of Directors and each committee, staff who are not subject to orders and instructions from executive officers are assigned.

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

#### Attendance at meetings of the Board of Directors by independent outside directors in the fiscal year ended March 31, 2018

Name	Attendance*	Attendance rate
Baba Kalyani	7 out of 9 days	78%
Cynthia Carroll	9 out of 9 days	100%
Sadayuki Sakakibara	8 out of 9 days	89%
George Buckley	9 out of 9 days	100%
Louise Pentland	9 out of 9 days	100%
Harufumi Mochizuki	9 out of 9 days	100%
Takatoshi Yamamoto	9 out of 9 days	100%
Philip Yeo	9 out of 9 days	100%
Hiroaki Yoshihara	9 out of 9 days	100%

\* Based on the number of days Board meetings were held during each independent outside director's term of office.

Furthermore, Hitachi formulated and published Corporate Governance Guidelines outlining the framework of corporate governance, such as the function and composition of the Board of Directors, qualifications for directors, criteria for assessing the independence of independent outside directors, and rules on those serving concurrently as officers at other companies.

#### Qualification for Independent Outside Directors and Criteria for Independence

In regard to the election of an independent outside director, Hitachi's Nominating Committee considers the following criteria for independence. In addition, the Committee also considers whether the independent outside director has outstanding character and insight and whether he or she has worked in a leadership position in such fields as business, law, administration, accounting, or education, or has experience at policy-making levels.

In regard to the independence of an independent outside director, the Company considers an independent outside director to be independent unless:

- His or her immediate family member is, or has been within the last three years, a director or an executive officer of the Company or any of its subsidiaries;
- He or she is currently an executive director, an executive officer, or an employee of a company that has made payments to, or received payments from, the Company for property or services in an amount that, in any of the last three fiscal years, exceeds 2% of any of the companies' consolidated gross revenues;
- He or she has received during any of the last three fiscal years more than ¥10 million in direct compensation for his or her service as a specialist in law, accounting, or tax, or as a consultant from the Company, other than director compensation; or
- He or she serves as an executive officer or director of a not-for-profit organization, and the Company's discretionary charitable contributions to the organization in any of the last three fiscal years are more than ¥10 million and 2% of that organization's annual gross revenues.

#### Concurrent Officer Positions at Other Companies

In order for directors to secure the time necessary to understand the Company's business and prepare for and attend Board of Directors meetings, the Company considers it desirable for its directors not to hold concurrent officer positions (director, corporate auditor, or executive officer) in more than four other listed companies.

#### (1) Nominating Committee

The Nominating Committee has the authority to determine proposals submitted to the general meeting of shareholders for the election and dismissal of directors. The Nominating Committee consists of four directors, three of whom are independent outside directors.

The Nominating Committee meetings were held on 8 days during the fiscal year ended March 31, 2018.

## (2) Audit Committee

The Audit Committee has the authority to audit the execution of duties of directors and executive officers and to decide on proposals submitted to the general meeting of shareholders for the election and dismissal of accounting auditors. The Audit Committee consists of six directors, including four independent outside directors and one standing Audit Committee member.

The Audit Committee meetings were held on 14 days during the fiscal year ended March 31, 2018.

## (3) Compensation Committee

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

The Compensation Committee meetings were held on 4 days during the fiscal year ended March 31, 2018.

## Composition of the Board of Directors and each committee (as of June 29, 2018)

	Number of persons	Independent outside directors*	Directors	Chair
Board of Directors	12	8*	4	Independent outside director
Nominating Committee	4	3	1	Independent outside director
Audit Committee	6	4	2	Independent outside director
Compensation Committee	4	3	1	Independent outside director

\* Hitachi has issued notifications identifying all outside directors as independent outside directors to each of the stock exchanges in Japan where the Company is listed.

	Committee members
Nominating Committee	Harufumi Mochizuki (Chair), Cynthia Carroll, Hiroaki Yoshihara, Hiroaki Nakanishi
Audit Committee	Hiroaki Yoshihara (Chair), Katsumi Ihara, Harufumi Mochizuki, Takatoshi Yamamoto, Kazuyuki Tanaka, Toyoaki Nakamura
Compensation Committee	Harufumi Mochizuki (Chair), Katsumi Ihara, Takatoshi Yamamoto, Toshiaki Higashihara

## Executive Officers

Executive officers decide on matters delegated to them by the Board of Directors and execute Hitachi's business affairs within the scope of assignments determined by the Board of Directors. As of June 29, 2018, Hitachi has 35 executive officers.

## Senior Executive Committee

The Senior Executive Committee is a council to ensure that the President deliberately decides on important managerial matters, which may affect the business of Hitachi or the Hitachi Group, through discussion from diverse viewpoints. This committee consists of 12 members as of June 29, 2018: the President & CEO, five executive officers serving as executive vice presidents, five executive officers serving as senior vice presidents, and one executive officer serving as a vice president.

## Director and Executive Officer Compensation

### Basic Policy

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

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

pursuant to applicable provisions of the Companies Act.

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

## Compensation Structure

### (1) Directors

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

#### ① Basic remuneration

Basic remuneration is decided by adjusting a basic amount to reflect full- or part-time status, committee membership and position, travel from place of residence, etc.

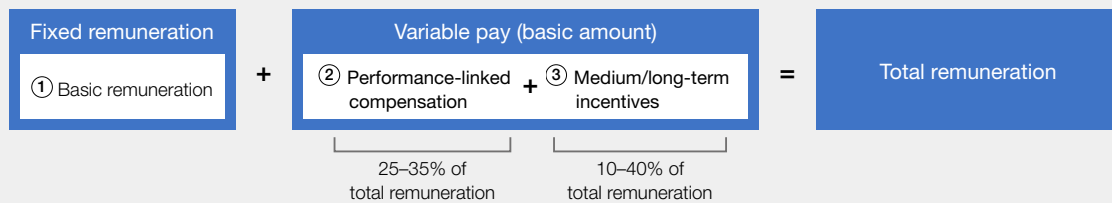
#### ② Year-end allowance

Year-end allowance is a predetermined amount equivalent to about 20% of the director's annual basic remuneration, but may be reduced depending on financial results.

A director concurrently serving as an executive officer does not receive any compensation as a director.

### (2) Executive officers

Compensation for executive officers consists of basic remuneration, performance-linked compensation, and medium- and long-term incentive compensation. The higher the position the executive officer holds, the higher the proportion of variable pay is as a portion of total annual compensation.

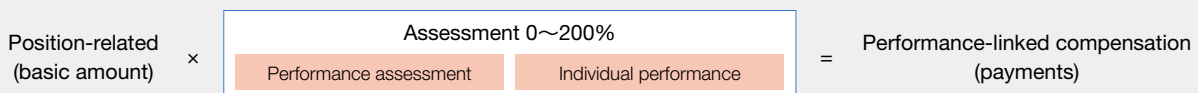


#### ① Basic remuneration

Basic remuneration is decided by adjusting a basic amount to reflect the results of an assessment. The basic amount is set in accordance with the relevant position.

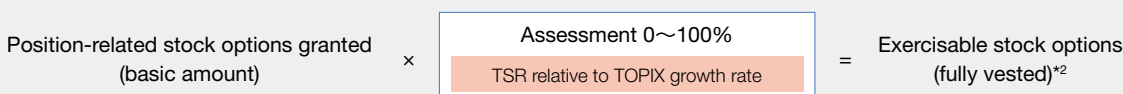
#### ② Performance-linked compensation

The performance-linked compensation is decided within the range of 0%–200% of the basic amount based on financial results and individual performance. The basic amount is set within the range of about 25%–35% of the total annual compensation of each executive officer in accordance with the relevant position.



#### ③ Medium- and long-term incentive compensation

Medium- and long-term incentive compensation is stock options as stock-based compensation, with share price conditions (stock acquisition rights with the strike price of ¥1). The number of stock acquisition rights to be granted is determined within the range of about 10%–40% of the total annual compensation of each executive officer in accordance with the relevant position. The number of stock acquisition rights that may be exercised will be determined within the range of 0%–100% of the stock acquisition rights granted in accordance with the conditions. The proportion of the assessment (0–100%) is determined by comparing the total shareholder return\*<sup>1</sup> for Hitachi stock against the rate of growth in the TOPIX benchmark. This is set to 0% if the TSR is less than 80% of the TOPIX growth rate, and reaches 100% once the TSR rises to at least 120% of the TOPIX growth rate, with intermediate results for figures in the 80%–120% range.



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

\*<sup>2</sup> Stock options can no longer be exercised if fraud or other serious misconduct occurs during the term of office. Under a clawback provision, the Company can demand repayment of economic gains made from any options that have already been exercised if fraud or other serious misconduct is discovered during the term of office.

## Internal Control over Financial Reporting

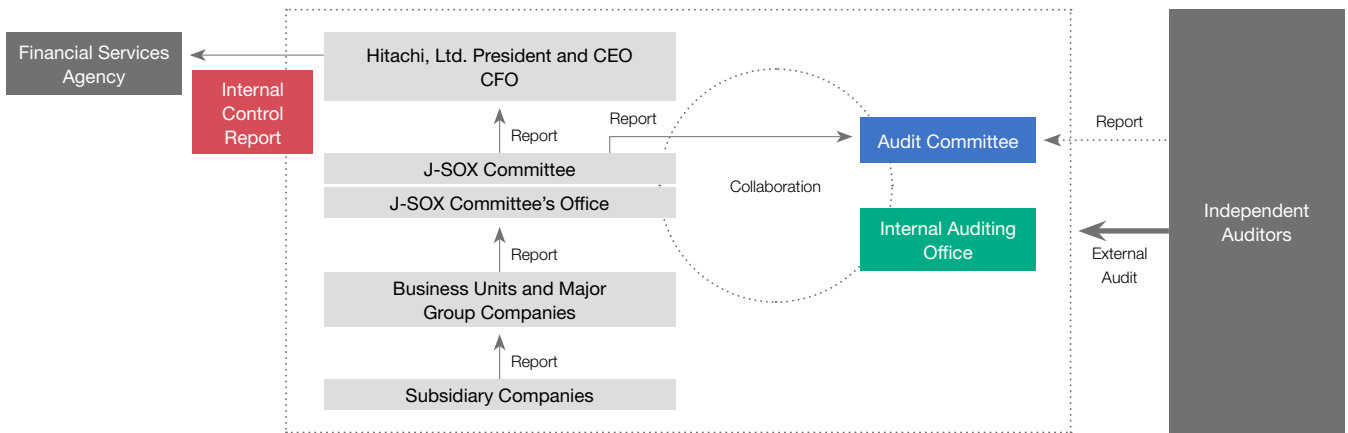
### Summary

- Under guidelines determined by the J-SOX Committee, internal controls ranging from those at the company level to business processes are all documented.
- Systems to enable objective assessments are also in place at Hitachi business units and major Group companies.

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

developed mechanisms to objectively perform assessments. The J-SOX Committee office collects the results of the assessments performed by each business unit and company, and assesses the effectiveness of internal control throughout the entire Group.

### Hitachi Group Internal Control Assessment Framework



## Toward a More Integrated “Tripartite Audit” Function

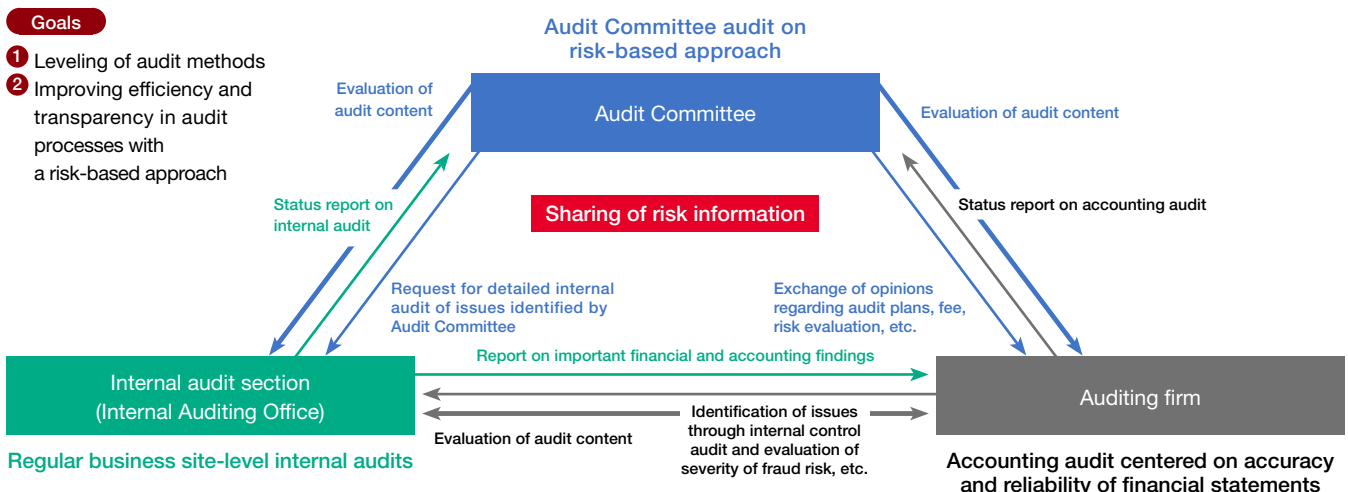
### Summary

- We are working to strengthen the “tripartite audit” function, which comprises the Audit Committee, the internal audit section, and the external auditing firm.

We are working to further enhance the effectiveness of the internal control exerted through the integrated work of a “tripartite audit” function comprising the Audit Committee; our internal audit sections, principally, the Internal Auditing Office; and external auditing firm. Through close

communication, the three functions share information about risks and evaluation of risk responses; ensure the audit process is transparent with appropriate checks and balances; and improve the effectiveness of internal control systems.

### Improving Internal Control through a “Tripartite Audit” Function



## Accountability

### Summary

- The “Hitachi IR Day” event has been held for eight years in a row.
- A total of around 600 meetings have been held with institutional investors and analysts in Japan and overseas.

In accordance with its disclosure policy, Hitachi is implementing the fair and appropriate disclosure of such information as management strategies and financial information. In addition, Hitachi is aggressively conducting dialogues through such means as meetings with shareholders and investors, investor relations (IR) events, and the general meeting of shareholders.

In fiscal 2017, in addition to quarterly financial results briefings and presentations on the progress made with the 2018 Mid-term Management Plan, we hosted the eighth consecutive “Hitachi IR Day” event, in which senior managers from each business presented business strategies and management policies under the plan.

Other IR events included a briefing on the original value being created in R&D divisions and a tour of the Omika Works as part of promoting better understanding of the Lumada business. Members of senior management also continued to visit institutional investors and analysts in North America, Europe, and Asia to explain their business strategies for realizing medium- to long-term growth. During the year, a total of around 600 such meetings with institutional investors and analysts were held in Japan and overseas. Hitachi also organized briefings to help individual investors gain a better

understanding of the company. The feedback gained from these IR events is reflected in management and business operations as part of efforts to build enterprise value.

We also post briefing materials and business performance as well as stock price trend charts in a timely manner on our IR website. Aiming to continuously enhance our information disclosure, we introduced a new responsive design on our website for improved browsing convenience from smartphones and tablets.

### Information for shareholders and investors

<http://www.hitachi.com/IR-e/>

### Disclosure Policy

<http://www.hitachi.com/IR-e/corporate/disclosure/index.html>

### Major information disclosure publications

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Financial results/Quarterly financial results

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Annual securities reports/Quarterly reports

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Business reports/Interim business reports

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Hitachi Group Integrated Report

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Hitachi Group sustainability reports