

Corporate Governance

[History of Hitachi's Corporate Governance Reform](#)

Hitachi views the expansion of long-term and overall returns to shareholders and investors as an important management objective. Hitachi maintain good relationships with a wide range of stakeholders, and we recognize that these relationships make up an important portion of our overall corporate value. Accordingly, we are striving to establish a system that will improve our corporate value primarily through the implementation of measures focused on promoting constructive dialogue. To advance these efforts effectively, we are working to improve our corporate governance by ensuring thorough separation between the oversight and execution of management, establishing a swift business execution system, and striving to achieve highly transparent management.

► Message from the Chairman of the Board

Transforming Governance: From Formality to Substance

Hitachi has implemented a series of management reforms, including portfolio changes, to become a global leader in the Social Innovation Business. These efforts were spurred by significant losses during the global financial crisis. One of the catalysts that enabled Hitachi to carry out these management reforms was governance reforms aimed at achieving world-class standards.

Specifically, the Hitachi Group has promoted the Social Innovation Business, and Directors and Executive Officers have the same vision. This includes a comprehensive reevaluation of the Board of Directors' composition and the operation of board meetings. By welcoming independent directors with diverse global perspectives, including those with experience as overseas CEOs, we transformed the Board into a forum for candid and vigorous discussions where Executive Officers are rigorously challenged. Proposals for M&A deals from Executive Officers were sometimes rejected after thorough discussion. Before undertaking significant acquisitions such as ABB's power grids business and GlobalLogic, and making Hitachi High-Tech a wholly owned subsidiary, we rigorously evaluated their potential to enhance corporate value. Post-acquisitions, an advisory board of independent directors oversees the integration process and monitors investments.

Hitachi's governance has transformed from formality to substance, thanks to the proactive efforts of Executive Officers in redefining the Board's composition and improving meeting efficiency. Directors have enthusiastically responded

to the suggestions from Executive Officers, who have genuinely embraced these recommendations.

Developing a Dynamic and Effective Board of Directors

Our Directors includes individuals with management experience at global organizations and expertise in various specialized fields. The Board is well-balanced, with nine of the 12 members being independent directors, including five non-Japanese individuals and two women.

The Board's effectiveness is evident in its deep involvement in formulating and reviewing the Mid-term Management Plan 2024. From the initial concept stage to finalization, the Board held five rounds of discussions with executives on business challenges and growth strategies. This iterative process is reflected in Hitachi's new business operation structure and the evolution of the Lumada strategy. We also engaged in forward-thinking discussions to backcast from 2050, beyond the three-year scope to fiscal 2024. Even after formulating the Mid-term Management Plan 2024, we have continued to discuss critical themes such as growth strategy, risk management, and human resource strategy.

With the expanding demand for DX and GX, we expect to meet the targets in the Mid-term Management Plan 2024. Improved cash generation and increasing shareholder return, coupled with positive evaluation from the capital markets, demonstrate the Board's effectiveness.

Given the breadth of Hitachi's businesses and the complexity of issues discussed at board meetings, finding individuals who can maintain the Board's high effectiveness is challenging, even on a global scale. Therefore, the



Katsumi Ihara

Chairman of the Board
and Nominating Committee

Nominating Committee creates and regularly updates a list of director candidates with a medium- to long-term perspective, interviewing likely prospects. Experience and skills are important, but the candidates' commitment to enhancing Hitachi's corporate value is crucial.

A deep knowledge of digital and environment fields is especially desirable for Hitachi's Directors. Our new independent director, Isabelle Deschamps, fully embodies this principle. Deschamps' extensive experience in legal affairs and corporate governance in global management, particularly in organizations renowned for their environmental focus, such as Unilever and Rio Tinto, makes her a valuable addition to our team.

As the Chairman of the Nominating Committee, I will continue to focus on acquiring top-level talent to maintain and enhance the effectiveness of the Board of Directors.

Strategic Priorities for the Board and Committees

As Hitachi shifts toward organic growth and transforms into a digital-centric company under the Mid-term Management Plan 2024, the Nominating Committee prioritizes developing CEO candidates with a medium- to long-term focus. Amid accelerating changes in the managerial environment, we are progressing with systems to globally select and cultivate management personnel capable of leading growth. Besides identifying candidates for the next CEO and the CEO thereafter, we are developing a group of executive candidates from younger talent called the "Future 50." These forward-thinking development mechanisms are designed to impart both quality and quantity to Hitachi's talent pool.

Given Hitachi's diverse business operations, investors might question the Company's diversification. However, the synergies, collaboration within the Hitachi Group, and co-creation with customers underscore its strategic strengths. All Hitachi businesses are inherently connected through the pervasive impact of digital technology, which fosters synergies and enables the pursuit of new growth

opportunities. Future CEOs must have the ability to cultivate and adapt this distinctive competitive advantage, effectively communicating its value to the capital markets comprehensively.

Another important aspect is the compensation system for Directors and Executive Officers, which serves as a growth engine. In fiscal 2023, the executive officers' compensation system was revised, and in fiscal 2024, a restricted stock unit (RSU) system was introduced for directors. These revisions aim to promote awareness and foster a mindset toward enhancing corporate value based on transparency and fairness, aligned with shareholders' perspectives. Goals based on materiality that promote sustainable management have also been integrated into the Executive Officer compensation system, in connection with the performance indicators specified in the Mid-term Management Plan 2024. To align viewpoints with the capital markets and strengthen connections to increase corporate value, we have introduced a framework for comparing our TSR to that of other global companies. In the year since the revised compensation system's introduction, Executive Officers have positively received it due to its high degree transparency. The comprehensive implementation of a pay-for-performance basis, which rewards contributions to growth and innovation, is essential for attracting accomplished global talent.

We continue to enhance internal control effectiveness



September, 2023: Board of Directors Meeting in Sweden

through the utilization of the Tripartite Audit*¹ and a triangular pyramidal monitoring system*². Monitoring global operations to maximize synergies as One Hitachi while improving efficiency will remain essential. To seize business opportunities in emerging areas such as generative AI and drive global growth, we recognize the heightened importance of compliance and risk management. We will persistently work on projects such as formulating a robust risk management framework for generative AI and effectively mitigating business risks arising from AI.

Driving Corporate Value through Strategic Governance

Evolving governance is instrumental in enhancing corporate value. The establishment of a disciplined environment through a highly independent board significantly contributes to the value creation. To foster transparent and effective governance, it is imperative to have directors who can offer constructive advice on Hitachi's management challenges and growth strategies. Moreover, we firmly believe that fostering high-quality discussions between executives and directors, while maintaining mutual respect, will greatly bolster Hitachi's growth and evolution.

Currently, Hitachi aims to capture new opportunities for high growth in areas such as data centers, semiconductor manufacturing, and services for social infrastructure businesses, driven by the emergence of generative AI, in addition to DX and GX. The Board of Directors' vital role is to support executives from a governance perspective, enabling Hitachi to demonstrate its holistic capabilities in these growth areas. Through high-quality discussions, we will enhance the effectiveness of the Board of Directors and further enhance corporate value.

*¹ Audit system based on cooperation and close communication among the Audit Committee, the Internal Audit Office, and the accounting auditor.

*² To strengthen the auditing system and functions, in addition to the current Tripartite Audit system, there is an oversight system, headed by the Audit Committee, that recognizes, supervises, and supports the resolution of material risks and issues in collaboration with headquarters and business unit administration.