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Introduction of Stock Option Scheme as Stock-based Compensation

Tokyo, May 13, 2016 --- Hitachi, Ltd. (TSE: 6501, "Hitachi") resolved to introduce a policy to grant stock options as stock-based compensation (stock acquisition rights), with stock price conditions, to Executive Officers at the meeting of the compensation committee held today. Furthermore, Hitachi introduced a policy to grant similar stock options as stock-based compensation (stock acquisition rights) to Corporate Officers, the executive positions next to Executive Officers. The issuance of stock acquisition rights based on this policy is subject to decisions by President as to the subscription requirement and allotment of stock acquisition rights to each Executive Officer and Corporate Officer pursuant to authority delegated on delegation by a resolution of the Board of Directors.

1. Purpose of introducing stock option as stock-based compensation (stock acquisition rights)

Hitachi will introduce stock options as stock-based compensation with share price conditions as remuneration for the Executive Officers and Corporate Officers in order to propel the management from medium and long term perspective and motivate them to make more contributions to sustainable increase in enterprise value by having them share the benefits and risks of stock price fluctuation with shareholders.

2. Details of the stock options as stock-based compensation (stock acquisition rights)

(1) Class and number of shares to be issued upon exercise of stock acquisition rights

The class of shares to be issued upon the exercise of stock acquisition rights shall be common stock of the Company and the number of shares to be issued upon exercise of each stock acquisition right (hereinafter, the "Number of Shares to be Issued") shall be 100 shares.

However, if the Company implements a stock split (including gratis allotment of shares of common stock; the same shall apply to references to a stock split hereinafter) or a reverse stock split with respect to common stock of the Company after the date of allotment of the stock acquisition rights (the "Date of

Allotment”), the Number of Shares to be Issued with respect to the stock acquisition rights not exercised at that time will be adjusted based on following formula:

$$\begin{array}{lcl} \text{Number of Shares} & & \text{Number of Shares} \\ \text{to be Issued} & = & \text{to be Issued} \\ \text{after adjustment} & & \text{before adjustment} \end{array} \quad \times \quad \begin{array}{l} \text{Ratio of} \\ \text{stock split or} \\ \text{reverse stock split} \end{array}$$

In addition, if there is an unavoidable ground requiring an adjustment of the Number of Shares to be Issued, the Number of Shares to be Issued may be adjusted to the extent necessary by a resolution of the Board of Directors. Any fractions of less than one share resulting from the adjustment will be rounded down.

(2) Total number of stock acquisition rights

The maximum number of stock acquisition rights to be issued under the stock options as stock-based compensation in this fiscal year shall be 24,219.

(3) Amount to be paid upon allotment of stock acquisition rights

The amount to be paid upon allotment of one stock acquisition right will be equal to the fair value of the stock acquisition right as calculated at the Date of Allotment using Monte Carlo simulation. The remuneration, the amount of which shall be equal to the total amount to be paid upon allotment, shall be granted by Hitachi to the person to whom stock acquisition rights are allotted (“Stock Acquisition Right Holders”) and the person shall set off such remuneration claims against his/her obligation to pay the total paid-in amount of the stock acquisition rights upon allotment. As the amount to be paid upon allotment of stock acquisition rights is the fair value of stock acquisition rights, the allotment of stock acquisition rights shall not fall under an allotment at specially favorable conditions.

(4) Amount of assets to be contributed upon exercise of stock acquisition rights

The amount of assets to be contributed upon exercise of a stock acquisition right shall be the amount obtained by multiplying (i) the amount to be paid in per share to be delivered upon exercise of stock acquisition right (the “Exercise Price”) by (ii) Number of Shares to be Issued. The Exercise Price is one (1) yen.

(5) Exercise period of stock acquisition rights

The exercise period of stock acquisition rights shall be 30 years from the day immediately following the Date of Allotment.

(6) Conditions for the exercise of stock acquisition rights

(i) A Stock Acquisition Right Holder may exercise all the stock acquisition rights together only within 10 days (in case the last day is not a business day, the following business day) from the day immediately following the date on which he/she ceases to be an executive officer, a director or a corporate officer of the Company.

(ii) The number of stock acquisition rights which a Stock Acquisition Right Holder may exercise shall be determined based on the ratio of (i) the total shareholder return (the "TSR") for shares of Hitachi for three years from the beginning of the fiscal year in which the Date of Allotment falls (the "Waiting Period") to (ii) the TOPIX (Tokyo Stock Price Index) growth rate for the Waiting Period (the "TSR/TOPIX Growth Rate Ratio"), in accordance with the Details of Share Price Conditions in the Appendix.

- a. In case the TSR/TOPIX Growth Rate Ratio is 120% or more
All the stock acquisition rights allotted (the "Allotted Rights") may be exercised.
- b. In case the TSR/TOPIX Growth Rate Ratio is 80% or more but less than 120%
Only a part of the Allotted Rights may be exercised according to the degree of the TSR/TOPIX Growth Rate Ratio.
- c. In case the TSR/TOPIX Growth Rate Ratio is less than 80%
No Allotted Rights may be exercised.

(7) Restrictions on acquisition of stock acquisition rights through transfer

Acquisition of stock acquisition rights through transfer shall be subject to the approval of the Board of Directors.

(8) Other matters

Other matters related to stock acquisition rights shall be determined by the President pursuant to authority delegated by the Board of Directors.

About Hitachi, Ltd.

Hitachi, Ltd. (TSE: 6501), headquartered in Tokyo, Japan, delivers innovations that answer society's challenges. The company's consolidated revenues for fiscal 2015 totaled 10,034.3 billion yen (\$88.7 billion), and it had around 335,000 employees as of March 31, 2016. Hitachi is a global leader in the Social Innovation Business. Through collaborative creation, Hitachi is providing solutions to customers in a broad range of sectors, including Power / Energy, Industry / Distribution / Water, Urban Development, and Finance / Government & Public / Healthcare. For more information on Hitachi, please visit the company's website at <http://www.hitachi.com>.

[Appendix]

Details of Share Price Conditions

1. In case the ratio of Hitachi's TSR^{*1} to the TOPIX growth rate^{*2} (the "TSR/TOPIX Growth Rate Ratio")^{*3} is 120% or more:
All the Allotted Rights may be exercised.
2. In case the TSR/TOPIX Growth Rate Ratio is 80% or more but less than 120%:
Only a part of the Allotted Rights may be exercised according to the degree of the TSR/TOPIX Growth Rate Ratio^{*4}.
3. In case the TSR/TOPIX Growth Rate Ratio is less than 80%:
No Allotted Rights may be exercised.

$$*1 \quad \text{TSR} = \frac{(B - A) + C}{A}$$

where:

- A: The closing price for Hitachi's common stock on the Tokyo Stock Exchange on the first day (or if such day is non-business day of the Tokyo Stock Exchange, the business day immediately preceding such day) of the fiscal year in which the Date of Allotment falls
- B: The closing price for Hitachi's common stocks on the Tokyo Stock Exchange on the last day (or if such day is non-business day of the Tokyo Stock Exchange, the business day immediately preceding such day) of the fiscal year commencing two years after the fiscal year in which the Date of Allotment falls (provided if the Stock Acquisition Rights Holder retires from his/her position before the expiration of the Waiting Period, this shall be the date of such retirement (or if such retirement date is non-business day of the Tokyo Stock Exchange, the business day immediately preceding such day))
- C: The total amount of dividend per share of Hitachi's common stock from the beginning of the fiscal year in which the Date of Allotment falls to the last day of the fiscal year commencing two years after such fiscal year (or in case of retirement before the expiration of the Waiting Period, the date of such retirement)

*2 $\text{TOPIX growth rate} = D \div E$

where:

D: The closing price of TOPIX on the Tokyo Stock Exchange on the last day (or if such day is non-business day of the Tokyo Stock Exchange, the business day immediately preceding such day) of the fiscal year commencing two years after the fiscal year in which the Date of Allotment falls (if the Stock Acquisition Rights Holder retires from his/her position before the expiration of the Waiting Period, the date of such retirement (if such retirement date is non-business day of the Tokyo Stock Exchange, the business day immediately preceding such day))

E: The closing price of TOPIX on the Tokyo Stock Exchange on the first day (or if such day is non-business day of the Tokyo Stock Exchange, the business day immediately preceding such day) of the fiscal year in which the Date of Allotment falls

*3 $\text{TSR/TOPIX Growth Rate Ratio} = \text{TSR} \div \text{TOPIX growth rate}$

*4 Number of stock acquisition rights exercisable
= Number of Allotted Rights $\times \{(\text{TSR/TOPIX Growth Rate Ratio} \times 1.25) - 0.5\}$
Any fraction less than one stock acquisition right will be rounded down.

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