

# CEO MESSAGE

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President & CEO



**In fiscal 2017, Hitachi shifts into high gear. Our Social Innovation Business will leverage our digital technology to create new value around the world.**

“What kind of company will Hitachi be ten years from now?”

My thoughts on this topic are clear: “Hitachi must be the kind of company whose very name is synonymous with innovation.”

*Hitachi delivers innovations that answer society’s challenges. With our talented team and proven experience in global markets, we can inspire the world. This is our Vision, and it is up to us to make it a reality—to help establish a sustainable global society through our business operations.*

## Shifting into high gear

Hitachi is currently moving forward with its 2018 Mid-term Management Plan, targeting fiscal 2018. In the first year of the plan, fiscal 2016, we enacted a range of reforms to lay a strong foundation for future growth. Strong organic growth in individual businesses drove revenues, adjusted operating income, EBIT, and net income attributable to Hitachi, Ltd. stockholders to levels exceeding the forecasts we announced at the beginning of the fiscal year. The company's ROA\* and free cash flow have improved, and all promises made to the market have been fulfilled.

### Fiscal 2016 Results and Fiscal 2017 Projections

	FY 2016	Billions of yen FY 2017 (plan)
Revenues	9,162.2	<b>9,050.0</b>
Adjusted operating income	587.3	<b>630.0</b>
Ratio to revenues	6.4%	<b>7.0%</b>
EBIT	475.1	<b>580.0</b>
Ratio to revenues	5.2%	<b>6.4%</b>
Net income attributable to Hitachi, Ltd. stockholders	231.2	<b>300.0</b>

Internal reforms included work on the selection and concentration of businesses. We made decisive progress on deconsolidating our three listed subsidiaries (Hitachi Transport System, Ltd., Hitachi Capital Corporation, and Hitachi Koki Co., Ltd.) and enacting structural reforms for less profitable businesses. We also continued our transition from a product-out organizational structure to a market-driven one, and our launch of the Lumada IoT platform will enable us to create enormous new value moving forward.

In fact, we are currently redesigning our entire business model around the axis of Lumada. Many businesses around the world provide consulting, products, or system integration (SI) separately, but we believe that only Hitachi can deliver full, end-to-end solutions, from exploring customer issues to constructing and maintaining actual systems.

Our shareholders tell us that they agree with this assessment of our strengths and our approach to reform. They are voicing their approval of our strategic direction and urging us to move swiftly toward realizing its potential. We are determined to live up to these expectations. In fiscal 2017, we will shift into high gear, accelerating our activities in a range of fields globally in order to leap ahead.

\* ROA (Return on assets) = Net income ÷ Total assets (Average between the end of the current fiscal year and the end of the previous fiscal year) x 100



## Optimizing our business portfolio with a redesigned balance sheet

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In Hitachi's last *Integrated Report*, I wrote of the clear distinction we saw between businesses to be reinforced and those to move away from, and promised that we would focus on leveraging our digital technology in our Social Innovation Business. To keep that promise, in fiscal 2016 we assessed which businesses we would need to move away from, including through divestitures of our listed subsidiaries. As we shift into high gear for fiscal 2017, we will remain focused on the synergies within the Hitachi Group and maintain a medium- to long-term perspective as our ambitious M&A initiatives add to our corporate value.

Our 2018 Mid-term Management Plan includes investment expenses of 1 trillion yen, nearly double the equivalent figure in the previous plan. We are proud of the superior human capital and technology that we already command, but one of our pressing challenges is to further strengthen our resources and develop maintenance businesses as opportunities expand and digitalization progresses in regions where we have not yet established a significant presence. This will be one of the issues informing our strategic M&A activity going forward.

Our acquisition of the US air compressor manufacturer Sullair in July 2017 is an excellent example of intra-Group synergy of this sort. Sullair has a customer base of around 4,000 companies, and we are now well positioned to offer these companies not only existing Hitachi products but also new digital solutions incorporating Lumada. To take another example, Hitachi's purchase of the UK elevator sales, installation, maintenance, and servicing company Temple Lifts Ltd. will allow us to strongly expand our elevator business, previously centered around China and Japan, into the United Kingdom and the rest of Europe—another step toward global growth.

Of course, if each business unit and company within the Group pursues its own profit and engages in its own M&A activity in isolation, this will not necessarily improve the efficiency of the balance sheet of the Group as a whole. Recognizing this, in April 2017 Hitachi established an Investment Strategy Division directly under the CEO to coordinate and optimize asset allocation and efficiency for all Hitachi businesses. This division will examine investment opportunities and set priorities in accordance with companywide strategies.

In this uncertain age, Hitachi will also strive to implement rigorous risk management responsive to global trends—for example, establishing an energy mix sensitive to geopolitical risks and environmental problems. Another high priority will be redesigning our balance sheet alongside continuous review of our portfolio to ensure they continue to meet current requirements.

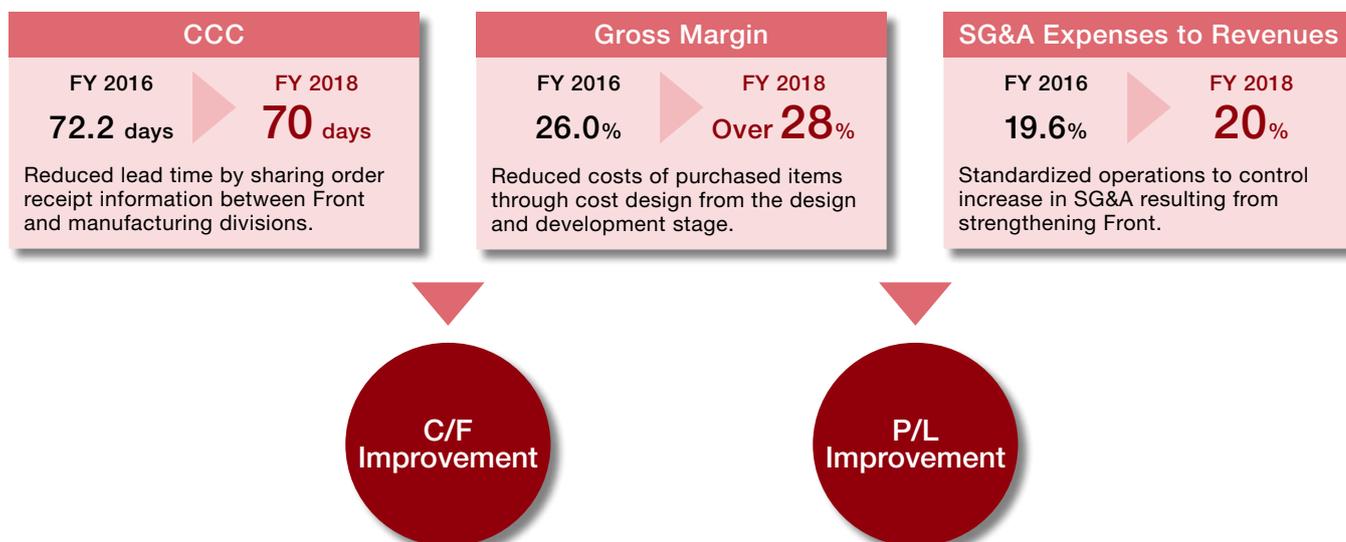
## Uniting the Hitachi Group for stronger cash-generating capability

Alongside these Group-wide efforts to optimize our business portfolio and redesign our balance sheet, I believe that the mindset of our employees regarding costs and cash is also vital to our ongoing development.

Hitachi has historically been steeped in a mindset oriented toward *monozukuri*, meaning awareness of issues such as the need to reduce manufacturing costs at the factory level. As a global company, however, we must earn and generate cash if we are to surpass our competitors. It did not seem to me that sufficient attention was paid to this within the company. To convey my focus in this area, I have been holding town hall meetings for employees at locations around the world. Three years have now passed since I became president, and I feel that my ideas have taken firm root throughout the company. As Hitachi prepares to shift toward its Social Innovation Business leveraging digital technology, it is gratifying to see a significant improvement in employee awareness of costs and cash—not to mention a new determination to pursue improvements in these areas.

Currently, with the Hitachi Smart Transformation Project, we are benchmarking our global competitors' cost structure targets for each business in order to plan ways to maximize our gross margin and optimize selling, general, and administrative (SG&A) expenses, and to improve our cash conversion cycle (CCC) across manufacturing, services, and other areas of our business. Moving forward, by leveraging digital technology through Lumada, we will advance our visualization and optimization of work processes across the entire Group, with the goal of further transforming cost structures and enhancing our cash-generation capabilities.

### Hitachi Smart Transformation Project



## Pursuing shareholder returns with stronger corporate governance

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This increased awareness of cash generation among Hitachi's employees can partly be attributed to the stronger structure of the Board of Directors. Our shareholders have come to take an increasing interest in governance in recent years, from the monitoring and auditing functions of the Board of Directors to its members' effectiveness and management transparency. We are proud of our proactive approach to corporate governance. In 2012, we established our guidelines three years before Japan's national Corporate Governance Code was released, and we continue to pursue meaningful improvement to our governance. For example, dismissal of the CEO and selection of a successor were added to the duties of the directors in 2016. Our independent outside directors come from many different countries and boast front-line experience in a range of fields. Naturally, they also hold Hitachi to global standards in areas such as profitability and strategy execution. Their observations during Board discussions are always stimulating, and they offer clear prescriptions to help Hitachi win globally—for example, executing certain initiatives more rapidly to address conditions at low-performing businesses. It is palpably clear that a positive cycle is being established, in which the Board's objectives are effectively communicated to the executive officers, including myself, who put those objectives into effect in business operations.

Regarding shareholder return, our 2018 Mid-term Management Plan pursues this alongside investment for future growth. The plan sets a hard goal of reaching 400 billion yen in annual net income in fiscal 2018. In addition to that steady expansion, we are pursuing cash-flow reform to achieve stable growth in the dividend per share as the core of our approach to generate shareholder return. In fiscal 2016, we introduced stock options as a part of compensation packages, allowing management to share the benefits and risks of stock-price movements even more closely with shareholders. Taking a medium- to long-term perspective, we aim to realize further sustainable improvements in corporate and shareholder value.

## Hitachi's sustainability management

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The task of a business has traditionally been to increase profits and give back to shareholders and society. On the other hand, businesses today are also expected to achieve symbiosis with society—to manage sustainability. In 2015, the United Nations identified 17 Sustainable Development Goals (SDGs)\* targeting the most pressing issues that face the global community. The following year, the groundbreaking Paris Agreement entered into force, aiming to enhance global efforts to mitigate climate change and its effects. Clearly, companies are being asked to play an ever-greater role in resolving global-scale issues through their business activities.

Hitachi's Social Innovation Business is exactly this—sustainability management through business activities, considering the human experience and the global environment from a long-term perspective and aiming to realize a sustainable society and improved quality of life. We will continue to lead in responding to the issues facing society through our Social Innovation Business as we actively contribute to achieving the SDGs and other global targets.

\* Adopted by the United Nations in September 2015, the SDGs consist of 17 goals and 169 targets.

## THE FUTURE IS OPEN TO SUGGESTIONS

“What is a ‘Social Innovation Business’?”

After we declared that we would focus on our Social Innovation Business, which combines our strengths in OT (operational technology), IT, and products, this became another question I was frequently asked by customers and shareholders. In the seven years since that announcement, our Social Innovation Business has chalked up a sustained and undeniable record of success. As we enter the IoT era, with digital technology and innovation already combining to transform the structure of business and manufacturing, our Social Innovation Business is attracting more attention than ever. OT has been one of Hitachi’s strengths since its founding. Our IT experience, too, has been cultivated for more than 50 years. Our Social Innovation Business fuses these with digital technologies like big data analysis and AI, arousing high expectations in the market. We see this as our past achievements and current initiatives bear fruit globally.

In April 2017, as part of building a medium- to long-term foundation for our Social Innovation Business, we established a Future Investment Division. Questions around how to improve our corporate value or how to develop the human capital to give us the leadership we will need in the future are vital, but they cannot be answered without an understanding of the tides of next-generation technology and social change, or an exploration of which fields Hitachi should strengthen its presence in over the longer term in response to these trends. The Future Investment Division was created to meet this challenge by considering such matters in a unified approach across multiple projects. Within the division, leaders from multiple projects including cutting-edge robotics and AI work alongside project members, creating the innovations and businesses needed to drive the company’s next generation while still upholding the “pioneer spirit” that has been part of Hitachi since the company’s founding.

Hitachi is a gathering of professionals with diverse experience, knowledge, skills, and ideas.

It is also a company with numerous businesses and product lines that make the world better. As CEO of Hitachi, by leveraging those strengths into One Hitachi, I will develop the company into one which always goes one step beyond when creating value.

The slogan of Hitachi’s current global brand campaign is THE FUTURE IS OPEN TO SUGGESTIONS. This represents our determination to contribute to building the future through open innovation arising from collaborative creation with our customers and partners.

I invite you to keep watching Hitachi as we shift into high gear to leap ahead.

August 2017



Toshiaki Higashihara  
President & CEO  
Hitachi, Ltd.

