



HITACHI
Inspire the Next

A truly global company helping to realize a sustainable society

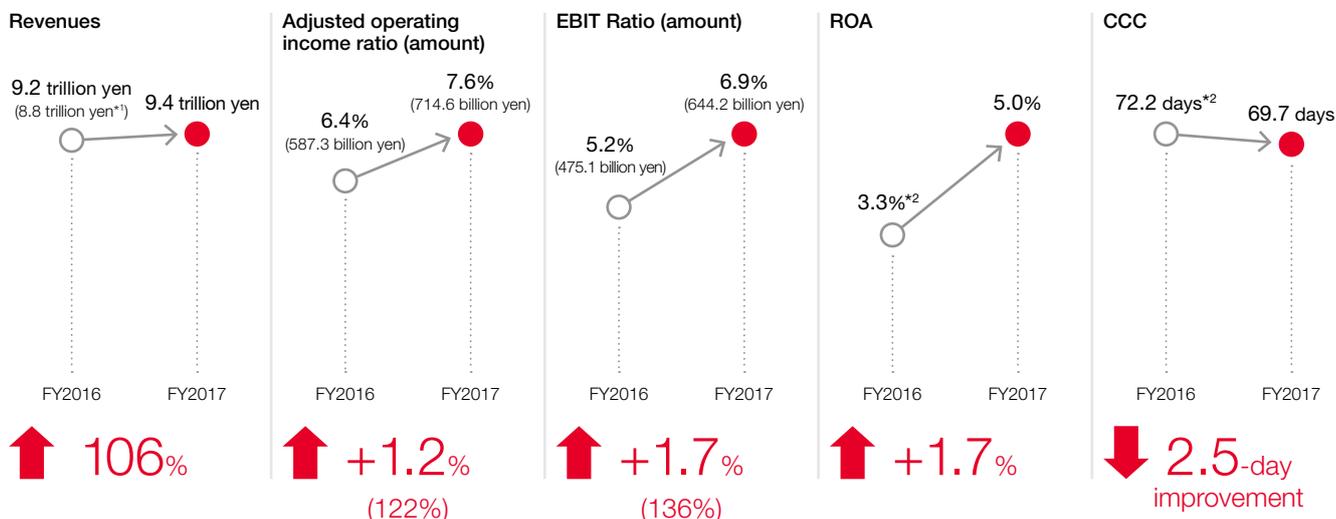
In my CEO Message in last year's Integrated Report, I made a commitment that Hitachi would accelerate future growth and I invited all stakeholders to "keep watching Hitachi as we shift into high gear to leap ahead" as "an Innovation Partner for the IoT era." Over the past year, we have made progress toward realizing our goals. We have downsized or exited unprofitable businesses while revising our business portfolio. At the same time, we have focused on globally developing the Social Innovation Business, based on digital technologies that utilize Lumada in ways that harness the strengths of Hitachi. We have also taken steps to accelerate the pace of collaborative creation in partnership with customers.

Our performance in fiscal 2017 set new records in profit terms, with adjusted operating income, EBIT, and net

income attributable to Hitachi, Ltd. stockholders all posting new highs. We made further progress in globalizing the business, with the ratio of revenues from overseas operations increasing to 50%. In addition, we achieved several of the 2018 Mid-term Management Plan targets for KPIs such as return on assets and cash conversion cycle (CCC) a full year ahead of target. These achievements demonstrate our efforts to satisfy market expectations.

However, we cannot be satisfied with these figures if we want Hitachi to be globally competitive. Having positioned fiscal 2018 as a year of evolution towards becoming a truly global enterprise, we are working to improve profitability and strengthen our business foundation so that we can establish a strong presence as an innovation partner for the IoT era.

Results (FY2016, FY2017)



*1 Figures including YoY growth are adjusted to reflect continuing operations (for FY2016, revenues exclude Hitachi Transport System, Hitachi Capital, and Hitachi Koki (now Koki Holdings)).

*2 Manufacturing, Services and Others

Addressing emerging trends head on

Many people are aware of the changes that are currently transforming our world. For example, while accelerated digitalization brings greater convenience and affluence to our lives, threats relating to cyberattacks and information security are gradually increasing. Progressive globalization in fields such as economics and politics is causing the emergence of geopolitical risk and greater uncertainty in both these areas. In addition, we face multiple social challenges due to issues ranging from global environmental destruction and climate change to demographic aging in advanced economies and the rapid urbanization of developing countries. The global community faces a significant new challenge as these issues become increasingly complex and more deeply ingrained.

Against this backdrop of global transformation, the United Nations developed the Sustainable Development

Goals (SDGs) and the Japanese government has advocated the Society 5.0 concept. Acknowledging the future development of humanity will entail major change on a global scale. Hitachi views these trends as an opportunity to take the next leap forward through sincere efforts to achieve such goals. The reason we want to be a part of creating the affluent and sustainable society as envisioned in the SDGs and Society 5.0 concept, is that it aligns with the mission Hitachi has pursued since its foundation to “contribute to society through the development of superior, original technology and products.” At a time of growing uncertainty, we believe Hitachi’s origins in terms of contributing to society are imbued with greater significance, and this reaffirms our commitment to work closely with customers and other partners in utilizing technology to address societal issues.

Harnessing Hitachi’s strengths in the Social Innovation Business

True to Hitachi’s origins and taking advantage of our best strengths and characteristics, the Social Innovation Business can expand our operations while helping to realize a sustainable society. One of Hitachi’s main strengths is the MONOZUKURI (manufacturing expertise) we have cultivated in a wide variety of fields through more than a century spent on continually developing such capabilities. Besides the breadth of our product range, this is seen in Hitachi’s abundant Operational Technology (OT) knowledge regarding the operation and maintenance of various products in different operational settings. The demands of today’s customers are becoming more complex and advanced: beyond simply purchasing a product, they are interested in, for example, globally developing the know-how their skilled engineers in Japan possess or boosting productivity at manufacturing sites engaged in high-mix, low-volume production. To develop the high value-added solutions for addressing such management issues, we need a deep understanding

—as a partner—of what happens across a range of sites and the related issues. It is in such situations where I believe Hitachi’s OT capabilities can play an extremely valuable role.

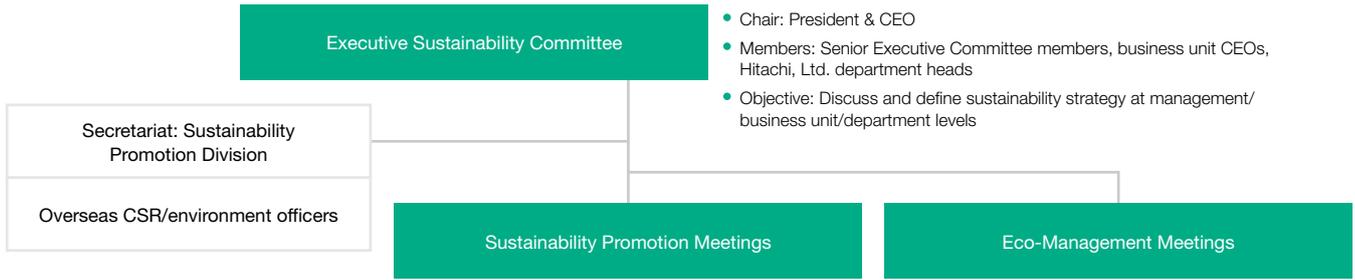
With more than 50 years’ involvement in the field, Hitachi also has extensive IT and front line knowledge. Applying the IT-related knowledge we have developed over this period we are creating optimized solutions using AI and other digital technologies to analyze all kinds of data. This is what we call “Lumada.” As new possibilities emerge with digital technology, our presence in OT, IT, and products, puts Hitachi in a superior position to utilize these digital capabilities to address a variety of real-world issues. In this way, Hitachi can be an innovation partner for the IoT era for customers. By utilizing the strengths of Hitachi, our aim is to avoid the threat of product commoditization by expanding into both solution- and service-based businesses to generate higher margins and steady earnings.

Advancing sustainability management

In April 2017, in a move to ensure our business reflects global trends, we created the Executive Sustainability Committee to debate and make decisions on sustainability management for the Hitachi Group. I chair this committee, and its members include senior executives and Business Unit heads. By addressing the issues affecting global society as summarized in the SDGs, the Social Innovation

Business that Hitachi is promoting aims to realize a sustainable society and improve people’s quality of life. In line with this rationale, the Committee has lively discussions on creating and expanding opportunities for the Social Innovation Business within global markets, and on identifying related operational risks and mitigation measures.

Sustainability Strategy Promotion Structure

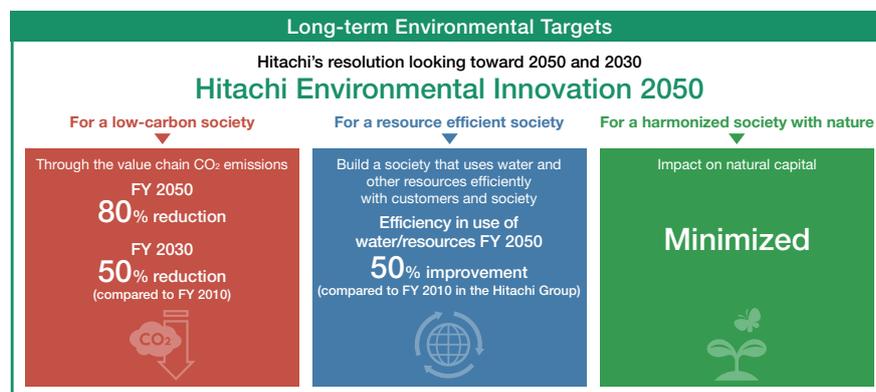


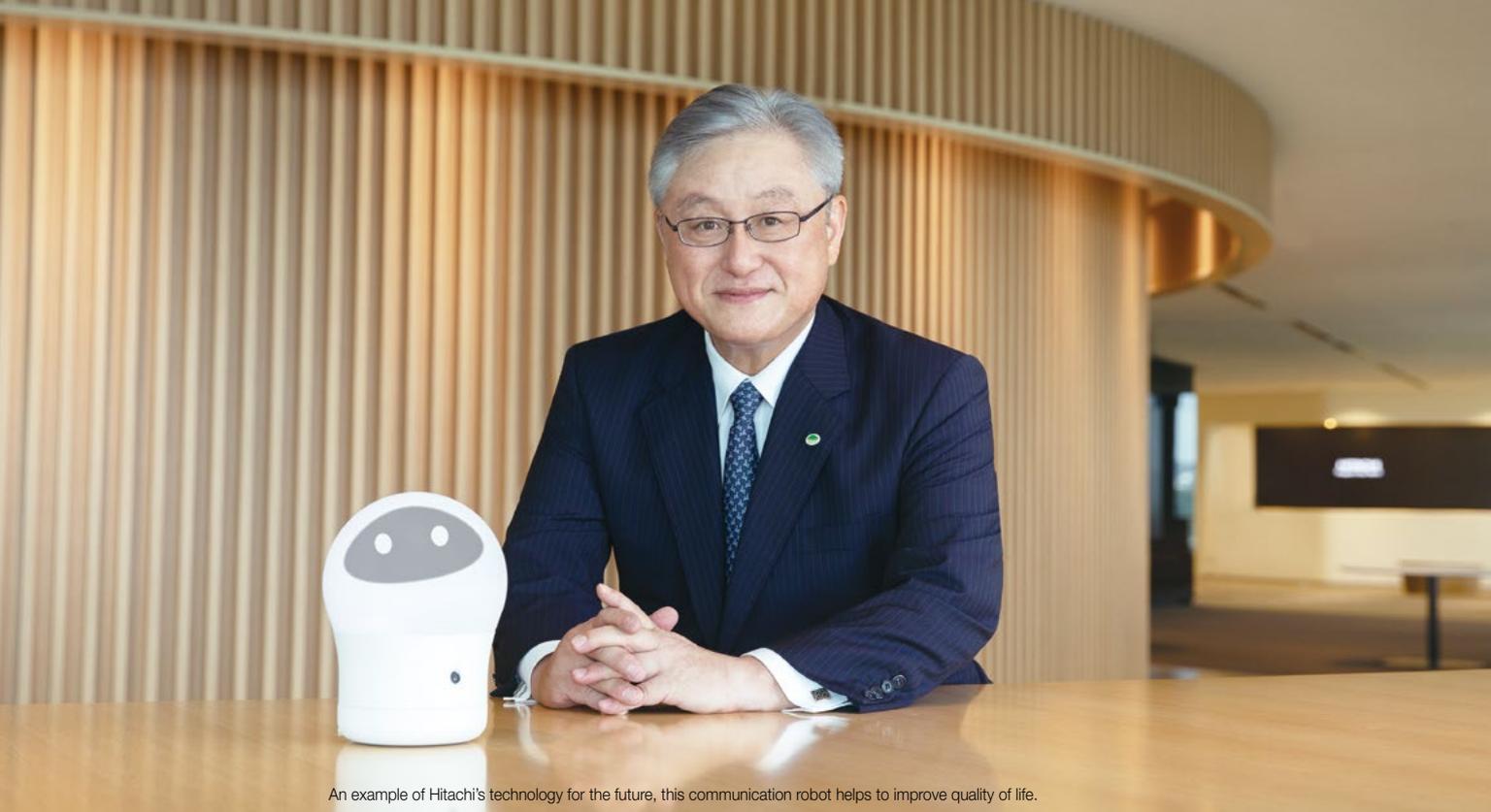
In April 2018, as core sustainability themes, the committee identified five goals from the 17 SDGs where Hitachi could make a major contribution through business activities, along with a further six goals where we could contribute based on all our activities as an enterprise. Hitachi's involvement in a wide range of business fields means we can make a substantial contribution to achieving the SDGs, and we are accelerating specific initiatives to achieve targets in the 11 areas we have identified.

For example, one of the goals where we plan to contribute through our business activities as an enterprise relates to climate change. With the Paris Agreement now in force, many countries and regions are working to realize a

low-carbon society. In Hitachi Environmental Innovation 2050, adopted in 2016, we have set quantitative goals for medium-term CO₂ emissions-reduction as part of long-term environmental targets. The Executive Sustainability Committee is examining deeply the issue of how to achieve these targets from the perspective of the CO₂ emissions caused by our own business activities, as well as those due to the products that we deliver.

In this way, through SDG-focused sustainability management practices across Hitachi, we hope to contribute on a global scale to realizing a more affluent society and improving quality of life for all.





An example of Hitachi's technology for the future, this communication robot helps to improve quality of life.

Developing stronger competitiveness

Since it was established, Hitachi has focused on developing human capital based on a recognition that people are a major source of competitiveness. This has included setting up internal educational institutions to help employees acquire skills. Today, as Hitachi seeks to evolve into a truly global enterprise, we are focusing through our HR management on promoting diversity. People with detailed knowledge of the industrial structures and commercial customs used in different countries and markets are essential to the global development of our operations. To foster innovation, we also see the need to have a diverse range of talented people with differing values and perspectives working toward common goals.

Personally, I am determined that Hitachi makes tangible progress promoting diversity. In line with this, in November 2017 we set and publicly disclosed numerical targets for the ratios for both female and non-Japanese Executive Officers and Corporate Officers and the number of female managers in Hitachi, Ltd. One of the initiatives to achieve these targets with which I am personally involved is the Global Women's Summit, a series of events that bring together around 100 female employees from around the Hitachi Group worldwide for each event. These events aim to deepen awareness of leadership and career planning among female employees, while boosting motivation via

global networking opportunities. Since 2016, we have held events of this kind in various regions around the world. My discussions with female employees from countries around the world through these events spur my efforts to promote the globalization of Hitachi's business and cultivate greater diversity within our workforce.

We are also undertaking leadership development programs aimed at identifying and cultivating a diverse team of next-generation business leaders for the Hitachi Group. Besides senior executives, our independent outside directors are also actively involved in this HR development process aimed at building layers of leadership potential throughout the company.

R&D is another important source of competitiveness for Hitachi.

The mission to develop "superior, original technology" has made research and development a major focus of our activities from Hitachi's earliest days. In 2018, we celebrated the centenary of the establishment of the R&D Division. As we work to develop the Social Innovation Business globally, our R&D activities are focused on creating world-class technologies to support the business and on fostering innovation based on a collaborative creation approach with customers worldwide. We are looking to accelerate our collaborative creation efforts with customers by establishing Global Center for Social Innovation (CSI) facilities in North America, Europe, China, and the Asia-Pacific region. Our R&D operations are also actively involved in the development of new and upgraded Lumada-based digital solutions to drive the future growth of Hitachi.

Developing better products is another aspect of creating world-class technologies. In 2017, the ultra-high-speed elevators that we installed in a high-rise building in Guangzhou, China achieved the fastest speed ever

Sustainability Strategy Promotion Structure

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

recorded for an elevator. This product makes use of fluid analysis technology that we originally developed for rolling stock used on high-speed railways, the common aim being to transport passengers in comfort at world-beating speeds by minimizing noise and vibration. This example also illustrates how intra-Group synergies can help us hone a technical edge as part of developing and supplying products with an outstanding global reputation.

Elsewhere, we are actively partnering with universities, research institutions, and start-ups from around the world.

Guided by our vision to address social issues as part of supporting the realization of the Society 5.0 concept, we are accelerating open innovation activities with institutions such as the University of Tokyo, Kyoto University, and Hokkaido University.

At the same time, as part of our global approach to sustainability management, we must revisit a range of corporate activities from the perspective of trying to realize a sustainable society. To this end, in April 2018 we revised

the Hitachi Group Codes of Conduct to make it clear that all officers and employees of Hitachi Group companies bear the responsibility as global citizens to conduct business with higher aspirations. Guided by this principle, we are formulating and implementing rules and undertaking internal education programs across a range of corporate activities, including product safety and quality assurance programs; the construction of responsible supply chains that pay attention to human rights and environmental concerns; and our comprehensive compliance programs.

In fiscal 2018, we welcomed two new independent outside directors to the Board of Directors. Mr. Katsumi Ihara recorded various achievements in his former career at Sony. Mr. Joe Harlan has previously worked at senior levels for Dow Chemical, and has experience working in Japan as well. Utilizing the diverse wealth of experience and knowledge of our directors, we will look to entrench the growth of Hitachi by reflecting their helpful advice into our management.

Achieving global growth through a focus on digital solutions

Through recent discussions with customers and government representatives, I have sensed a positive response toward realizing our 2018 Mid-term Management Plan goal of being an innovation partner for the IoT era. To instill confidence in this notion, we are focusing in the first instance on training more front-line personnel and data scientists to help strengthen the Social Innovation Business globally. To expand our digital solutions business, we are training people to work in expert roles relating to interaction and negotiation with customers such as consulting, front-end or systems engineering, contract negotiation, and project finance. At the same time, we are investing to train and develop a global pool of data scientists. Specifically, we have set up training programs and established the Professional Community for researchers and practitioners from various fields. Our target is to increase the number of data scientists working in the Hitachi Group to 3,000 by fiscal 2021.

In April 2018, we also set up a new internal structure to facilitate the global supply of solutions developed for national markets. Executive Vice President and Executive Officer Keiichi Shiotsuka, who leads the Systems & Services Business, was appointed Head of the Social Innovation Business that utilizes Hitachi's digital technology. Hicham Abdessamad was appointed the CEO of Hitachi Global Digital Holdings Corporation, the holding company for Hitachi Vantara Corporation and Hitachi Consulting Corporation. Under this new structure, we will formulate and implement a strategy to strengthen our Lumada digital solutions by applying the cutting-edge technologies

being developed primarily for the Americas, along with our existing digital solutions-related expertise to drive the global expansion of the Social Innovation Business. The adoption of this structure should also help to accelerate Hitachi's global expansion by entrenching the shift from a product-centric business model to a new style of operations based on integrating digital technology solutions with services.

Lumada is the foundation of our rapidly expanding digital solutions business. Many customers have utilized it since we first introduced Lumada-based services in 2016. Revenues generated by Lumada operations exceeded 1 trillion yen for the first time in fiscal 2017 as it has grown steadily to become a central pillar of Hitachi's operations. One example of this is the Maintenance & Repair Service that we now offer industrial equipment manufacturers and other customers as a total support solution. This service began life as a collaborative creation with an overseas corporate customer, in which we developed a system to automatically propose optimized repair schedules for equipment based on the analysis of varied data. Going forward, we plan to develop this Lumada solution on a global basis.

In September 2018, we established the Lumada Center Southeast Asia in Thailand as part of strengthening our global set-up. In line with the Thai government's Thailand 4.0 vision that aims to establish the foundations for an advanced economy while promoting further economic growth, this center will be a base for the development of digital solutions based on collaborative creation with

customers across the Asia Pacific region. Going forward, Hitachi will accelerate the development of digital solutions using Lumada within ASEAN, with this center supporting our collaborative creation projects with customers and other partners.

Reflecting on the success of such initiatives, we are steadily expanding Hitachi's presence in digital solutions through collaborative creation with customers. I am confident this will be a major driver of the future growth of Hitachi's business.

Reinforcing our business foundation to become a truly global enterprise

The 2018 Mid-term Management Plan contains clear commitments to improving profitability and strengthening cash flow generation. In fiscal 2017, we continued downsizing or exiting unprofitable businesses with an adjusted operating margin of less than 5%. Alongside this, we revised Hitachi's business portfolio by selling part of our equity stake in Hitachi Kokusai Electric Inc. and removing remaining operations from the scope of consolidation. In addition, we sold Hitachi's interests in ALAXALA Networks Corporation and the forged steel roll business.

In fiscal 2018, we are working to establish a more efficient business foundation by continuing to restructure operations, through reforms to indirect business processes, and by reducing the number of companies within the Hitachi Group. We are also promoting digital transformation from enhanced operational transparency, based on the collation or integration of management information.

We are also maintaining a clear focus on future growth by prioritizing investment in growth areas to drive the expansion of the business and targeting increased returns from asset allocation. Specific policies included sales of shares in publicly listed subsidiaries and measures to improve CCC. These steps helped us make incremental balance-sheet improvements. Going forward, we will focus on further strengthening cash generation, optimizing asset management, and selectively focusing investments in growth sectors. We are analyzing all our businesses closely based on their potential for expansion in global markets and return on assets. While focusing our investments on markets with growth potential and higher-margin businesses, we will seek to reallocate assets generating poor returns or reduce Hitachi's exposure to such businesses. Our aim is to accelerate our investments in the Social Innovation Business, having secured a stronger balance sheet and greater investment freedom.

Hitachi Group forms 300,000-strong united team

It is no simple matter for Hitachi to become a truly global enterprise or to achieve a double-digit adjusted operating margin. However, we are making steady progress towards these goals and trying to speed up the actions needed to realize these ambitions.

More than anything, what gives me hope for the future is the changes being made by employees of Hitachi to support growth. My conviction is employee awareness within Hitachi and the attitude towards business processes have both changed significantly over the past few years. Since my appointment as CEO, we have undertaken a variety of policies. For example, introducing the Business Unit system has made employees more aware of the performance of their division and its cash-generation capabilities, which in turn has translated into improved divisional performance and greater individual pride in these achievements. We also have recruited many new employees, especially overseas, who are attracted to Hitachi by virtue both of our philosophy of contributing to society and by the prospects of our Social Innovation Business, which combines growth with efforts to create a sustainable society. These many new colleagues point to our success in communicating Hitachi's corporate

philosophy and culture to the world. I continue to hold town hall meetings so that I can communicate my thoughts about Hitachi's direction and goals directly to our employees around the world. I believe we can become even more powerful as a unified team working towards common goals if we can harness the diversity of over 300,000 individuals.

Looking ahead, I am confident we will continue to grow steadily and help realize a sustainable society based on multiple partnerships. Please keep watching Hitachi as we move in this direction.

September 2018



Toshiaki Higashihara
President & CEO
Hitachi, Ltd.