Hitachi Social Innovation is

POWERING GOOD

The challenges we face as a society are unprecedented, but so are the opportunities. Together, let's start powering good.

Let's call on our heritage, our spirit of collaboration and our technology to do better for generations to come.

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Hitachi Integrated Report 2019 Editorial Policy

Editorial Policy

While preparing the 2019 edition of the Report, we concentrated on explaining Hitachi’s vision moving forward, as well as the competitive advantages, strategies and business foundation we will utilize to achieve our vision. The report provides a look at Hitachi’s progress up until fiscal 2018 and discussing the results and challenges of noted measures.

We place a particular emphasis on including easy, understandable explanations regarding Hitachi’s goals of co-creation with customers and society to raise social, environmental and economic value, as well as achieve a sustainable society. These objectives are primarily aimed at accomplishing Hitachi’s vision of becoming a global leader in the Social Innovation Business, one of the central themes of its 2021 Mid-term Management Plan, which began in fiscal 2019.

When editing this Report, we ensured that it conforms to the International Integrated Reporting Council’s (IIRC’s) International Integrated Reporting Framework and the Ministry of Economy, Trade and Industry’s Guidance for Collaborative Value Creation.

About Cover Page

Hitachi is working to improve the quality of people’s lives by utilizing its many strengths, including some of the latest digital technology, within a wide range of business domains, primarily including social infrastructure, e.g., IT services, energy-related businesses, industrial systems and railway systems.

The cover of this report portrays several examples of Hitachi businesses that contribute to people’s lives.

About the Hitachi Group

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Business of the Hitachi Group

In April 2019, Hitachi announced its three-year 2021 Mid-term Management Plan, positioning IT, Energy, Industry, Mobility and Smart Life as growth sectors, assigning relevant business units to each of them. Hitachi is characterized by two strengths: The first is our ability to provide solutions that use digital technology to resolve issues facing customers and society through our cutting-edge IT and our operational technology (OT), which moves social infrastructure such as equipment and systems at production sites, railways and power plants. The second is our highly reliable and superior products. In these five sectors, Lumada will function as a platform that creates value from customers’ data and supports the rapid delivery of solutions.
The present world is said to be an era of volatility, uncertainty, complexity and ambiguity (VUCA), in which the future is difficult to predict. Looking around the world, we can see a wide variety of steadily approaching change that will have an impact on people’s lives, including climate change, resource shortages, demographic changes due to aging and problems related to urbanization.

Since its establishment, Hitachi has operated under the Mission expressed by its founder: “Contribute to society through the development of superior, original technology and products.” In accordance with this Mission, we have solved challenges facing society during each era through the development of social infrastructure technologies while raising people’s quality of life (QoL) and, in recent years, contributing to the achievement of a sustainable society.

Originally set by Hitachi founder Namihei Odaira, the Mission has been carefully passed on to generations of employees and stakeholders throughout the Company’s 100-year history. The Values reflect the Hitachi Founding Spirit, which was shaped by the achievements of our company predecessors as they worked hard to fulfill Hitachi’s Mission. The Vision has been created based on the Mission and Values. It is an expression of what the Hitachi Group aims to become in the future as it advances to its next stage of growth. The Mission, Values and Vision are made to be shared in a simple concept: Hitachi Group Identity.

Grounded in the Hitachi Group Identity, we will raise the social, environmental and economic value we provide to customers and aim to achieve a sustainable society by focusing on our Social Innovation Business.

In 1910, Hitachi was founded as a mining machinery repair shop in Ibaraki Prefecture, Japan. At a time when Japan was relying on imported products and technology, Hitachi founder Namihei Odaira formed a team that chose to rely on a different resource—themselves. With perseverance and enduring passion, the team created, developed, and delivered original products and technologies.

The driving force behind the team was Odaira’s noble belief: “Contribute to society through the development of superior, original technology and products.” This belief was the starting point for the Hitachi Group. Today, it forms Hitachi’s Mission, which is the overarching concept of the Hitachi Group Identity.

Our Social Innovation Business accelerates collaborative creation with customers using the latest digital technologies in a wide range of fields, including social infrastructure. It also solves various issues faced by society and customers by taking advantage of the Hitachi Group’s business bases; its total solutions, which combine the operational technology (OT), IT, products and systems it has cultivated over many years; digital solutions such as Lumada; and open innovation achieved through partnerships with operators worldwide.

In 1916, Hitachi employees proudly sit in front of a generator and a water turbine installed at the power station of the Hitachi mine.

Six years after its establishment, Hitachi employees proudly sit in front of a generator and a water turbine installed at the power station of the Hitachi mine. From this photo, we can distinctly feel their senses of accomplishment and fulfillment, as well as their hopes for the future.

However, shortly after the station started operating, the generator broke down due to defective parts, which had a serious impact on the operation of the mine, leading our founder, Namihei Odaira, to prepare an unofficial resignation.

The employees worked tirelessly to restore the generator and investigate the cause of the breakdown. In addition to problems involving the generator, our employees faced difficult issues every time they set about making products. They raised quality, cultivated technology and gained trust through their devoted and resolute work on solving each and every one of these issues. These efforts crystallized into Hitachi’s Founding Spirit, which remains alive and well to this very day.
Growth History

1910-1945 (founding period)

Challenges faced by Hitachi’s pioneers

- 1910 Founded as a repairing yard attached to Kuhara Mining Co., Ltd.’s Hitachi mine
- 1920 Split off independently as Hitachi, Ltd.
- 1934 Listed on the Tokyo Stock Exchange and established Hitachi Research Laboratory

Achievements produced through our original technologies and our adoption of new technologies

- Hitachi lost 40% of its production capacity due to war damage, and the war’s impact on the Hitachi factory, which lost 80% of its capacity, was particularly strong. Despite these setbacks, under Mr. Kurata, our second president, we grew into a company not only involved in energy businesses, such as hydroelectric and thermal power generation, but also in railways systems, social infrastructure, such as elevators and escalators, and consumer electronics. In particular, we created a mass production system and sales network using our “three sacred treasures,” TVs, refrigerators and washing machines, becoming a major player in the industry.

- At the Brussels World’s Fair in 1958 (in Belgium), Hitachi’s electron microscope won the grand prize, while its portable analog computer received first prize. By winning these awards, these products became symbolic of our capacity for developing original technologies and our ability to keep up with cutting-edge advancements by adopting new technologies.

1946-1960 (postwar reconstruction period)

Path to reconstruction

- 1947 Chikura Kurata becomes our 2nd president
- 1958 Won the grand prize at the World Exposition
- 1959 HITAC 301 computer is completed
- 1960 MAPS-1 seat reservation system is completed

Rapid progress toward becoming a comprehensive electrical machinery manufacturer

- Kenichiro Komai, who became our president in 1961, worked to strengthen our international competitiveness by proactively raising funds overseas. Under his direction, we focused on priority goals of strengthening our financial structure, raising production efficiency, enhancing sales and export systems, promoting technological development and improving training. In terms of operations, we made bold investments in growth sectors, including electronics and information devices, such as semiconductors and computers, nuclear power plants and control devices, while increasing our international competitiveness through proactive efforts to adopt new technologies. It was at this time that the “3C (color TVs, coolers [air conditioners], cars) Boom” occurred, spurring substantial growth for Hitachi in terms of home appliances and automotive parts. Thanks to this growth, Hitachi developed into a comprehensive manufacturer of electrical machinery.

1961-1970 (rapid growth period)

Fostering comprehensive strength

- 1961 Kenichiro Komai becomes our 3rd president
- 1964 The Tokaido Shinkansen and Tokyo Monorail cars are completed
- 1966 Development of metal oxide semiconductor (MOS) transistors

Together with society

School-based education that began with our founding

At the time of our founding, we were experiencing difficulty in securing orders due to the recession that occurred following the Russo-Japanese War. Working to acquire promising human resources and educate employees, we established the Apprenticeship Training School in 1910. This institution recruited human resources from all over Japan and trained them for two years. We often lost graduates from the school to competitors due to their high levels of education. Despite this, Mr. Odaira always stated that “Our goal should be to train talented technicians and industrialists.” The Apprenticeship Training School was renamed “Hitachi Industrial College” in 1928 and continues to operate under this name today. Each year, this institution produces human resources that handle manufacturing for the Hitachi Group.

The “Hitachi Car,” the world’s first vehicle for mass stomach screenings

In 1960, we launched the “Hitachi Car,” the world’s first vehicle for mass stomach screenings targeting the early detection of stomach cancer. Since then, Hitachi has developed medical equipment that has helped improve people’s health, including ultrasound systems, CT scanners and magnetic resonance imaging (MRI) systems.

For the development of electrical machinery industry

Since its founding, Hitachi has emphasized patents as an important indicator of a company’s technological capabilities. In September 1970, we decided to make our patents publicly available for sale to contribute to technological improvement throughout the industry. Newspapers throughout Japan reported this move as “the nation’s first full-scale public opening of patents,” making Hitachi a pioneer in technical exchange in the electrical machinery industry.
Hitachi’s restructuring

In the 1970s, the entire industry was forced to undergo major structural changes due to events that shocked the Japanese economy, such as the Nixon shock, the transition to a floating exchange rate system and the oil crises of 1973 and 1979. Hirokichi Yoshiyama, who became president of Hitachi in 1971, launched a policy of “tight management” in anticipation of changes in the industrial structure and a period of slow growth. Under his direction, Hitachi strengthened its business structure by restructuring factories and reducing overhead costs while focusing on the electronics-related business, which was an important growth sector at the time. Katsumi Mita, who was appointed president in 1981, promoted product planning based on market needs, rejecting policies aimed at pleasing every single individual. During his tenure, he emphasized the importance of expanding growth products designed to meet future needs.

As a result of this period of restructuring, we became a comprehensive electrical machinery manufacturer with well-balanced electrical equipment and machinery and electronics businesses.

Reorganization initiatives

In an era of global competition, the Japanese economy was hit by trade friction and a high yen rate and, suffering from the aftereffects of the collapse of the bubble economy, entered a long period of sluggish performance. During this period, Hitachi focused on restructuring its business. Under Tsutomu Kanai, who assumed the position of president in 1991, Hitachi implemented a Group-wide system aimed at speeding up management and integrating development, manufacturing and sales processes. During the tenure of Etsuko Shiyama, who took office as president in 1999, we formulated two Mid-term Management Plans: i.e. HITACHI Plan and i.e. HITACHI Plan II. Under these plans, we reviewed our business from the perspectives of consolidated management and global separation while actively engaging in M&A and business collaboration. Later, Kazuo Furukawa, who was appointed president in 2006, further implemented these reforms under his policy of “collaboration and profit management.” Hitachi became a company with more than 1,000 consolidated subsidiaries, and its Group companies expanded business through independent and creative management. However, Hitachi recorded its largest loss ever in fiscal 2008, due to rising crude oil and raw material prices and global financial instability.

Evolution of our Social Innovation Business

Takashi Kawamura was appointed chairman and president in 2009, as global economic growth further slowed. In 2010, which marked the 100th anniversary of our founding, Hitachi Nakanishi took over as president while Mr. Kawamura remained in the position of chairman. Under this leadership structure, we launched initiatives aimed at reviving the Hitachi Group and developing the Social Innovation Business. Further reforms were implemented and we introduced a Company system under the 2012 Mid-term Management Plan (FY2010-FY2012) in an effort to clarify responsibilities and authorities.

In 2012, we started a Group system that consolidated strongly related businesses into five groups (later six). We have also promoted business reforms, severing non-core businesses and performing restructuring. Through the 2018 Mid-term Management Plan (FY2016-FY2018), we have determined our business areas of focus and, with primary support from our Social Innovation Business, are aiming to become a leading global innovation partner for the IoT era and to transform into a comprehensive digital solutions company.

Social Contribution as a corporate citizen

Hitachi’s social contribution activities were inspired by the sentiments of its founder, Namihide Odaira. Mr. Odaira dedicated himself to his employees and to the development of the City of Hitachi, where we were founded. His spirit of social contribution was adopted by all employees and, under the establishment of seven charitable corporate foundations in Japan and overseas (now merged into the Hitachi Global Foundation), the Hitachi Global Foundation complements Hitachi’s social contribution activities by conducting initiatives with a wide range of aims, including the promotion of academic research, science and technology, the development of next-generation human resources and building multicultural, multi-regional, and diversity societies.

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Promoting STEM education as One Hitachi

With the rapid development of information technology using artificial intelligence (AI) and big data, the development of IT personnel has become a major issue. Under these circumstances, STEM education is being regarded as important around the world as an education method that aims to nurture human resources who are capable of using cutting-edge technologies, primarily including IT, to demonstrate their creativity, power of expression and problem-solving skills. Hitachi is conducting a variety of social contribution activities involving STEM education to develop next-generation human resources who will provide leadership in the future.

*STEM education: education in Science, Technology, Engineering and Mathematics.
In 2020, Hitachi will celebrate the 110th anniversary of its founding as a manufacturer of electrical machinery. One of the biggest turning points was the management crisis. The Company at the time posted the largest loss ever for a Japanese manufacturer, with stockholders’ equity of about ¥2–¥3 trillion being adversely impacted to fall at about ¥1 trillion. Hitachi had been called an “unsinkable giant” in the past, so how did things become so bad that it found itself being ridiculed as “unsinkable”?

Returning to Our Roots
Reaffirming Our Strengths Based on the Lessons of the Past

Hitachi will transform rapidly to achieve the innovations required by the times. Reaching a record high for the second consecutive year, fiscal 2018 adjusted operating income* at Hitachi came in at ¥754.9 billion, with the adjusted operating income ratio for the year meeting the Mid-term Management Plan target of 8%. Total Hitachi, Ltd. stockholders’ equity on the balance sheet during the period covered by the plan was up approximately ¥500 billion, backed by the Company improving its ability to generate cash. Having achieved a V-shaped recovery after recording losses of ¥787.3 billion in fiscal 2008, Hitachi is now moving into a new stage of development.

Toshiaki Higashihara
President & CEO

* Adjusted operating income is defined as total revenues less cost of sales and selling, general and administrative (SG&A) expenses.
Management Indicator. I believe the organizational overhaul allowed us
reduction in unnecessary costs, and we lifted on-site awareness of
measures aimed at spurring improvements in low-profit businesses,
identify the challenges and issues in each business. While enacting
company system into small business units, allowing us to clearly
organizational structure. This involved dividing up our large in-house
Our first move, launched in April 2016, was to overhaul our
adjusted operating income ratio target of 8% and the creation of a
the new plan. So what was the best way to achieve our minimum
targets in its 2015 Mid-term Management Plan, and we were
In terms of our growth strategy, we launched Lumada, which
the Society 5.0 initiative in Japan, to resolve through innovation the
social issues outlined in the United Nations Sustainable Development
Goals (SDGs). Hitachi's corporate philosophy for the past 109 years
has been to “contribute to society through the development of superior,
original technology and products” and if each of its 300,000
employees around the world can find satisfaction in resolving social
and environmental issues through advancing the Social Innovation
Business and broadening the field of related activities, I believe it
would surely contribute to continued growth for Hitachi. Of course, it
is important to improve economic value, but I also believe it is
important at the same time to improve social and environmental
value. We aim to pursue this goal based not only on leadership from
the top, but also through bottom-up participation from employees
who find real purpose in their work. If we can accomplish this, I
believe Hitachi will be all the stronger for it.

Exploring the Purpose of Our Business

I believe Hitachi will be all the stronger for it.

To apply that to today, if you spend more than half your
life at work, then it is through that work that you have the opportunity
to feel the happiness of people and society. It is through the job in
front of you that you can help people and society. In other words, I
think contributing to building social and environmental value is a
major driver behind our personal growth and our job satisfaction.

A Vision for a New Leap Forward

Aiming to be a Global Leader in the Social Innovation Business

The modern age has been called the era of VUCA (Volatility,
Uncertainty, Complexity, Ambiguity), where it is increasingly difficult
to predict the future. This is why it is important to maintain focus on what
creating greater value on a global scale as it moves into its next
growth stage.

A look around the world shows an unending series of changes
impacting people’s lives. These include resource shortages and
climate change, demographic changes brought on by the aging of
society, and the issues accompanying urbanization. Amid such
environment, there are growing efforts around the world, including
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pioneering spirit.” For historical perspective, Namihei Odaira, who founded Hitachi at age 36, noted that the motors and generators he repaired at the copper mines in what is now Hitachi City, Ibaraki Prefecture were all imported from abroad, and that Japanese industry could never develop if people in the country didn’t learn to make these devices on their own. With that idea, he founded Hitachi alongside a number of fellow engineers. I believe the founding of the Company was largely the result of Mr. Odaira’s desire to change Japan and contribute to the development of society and the country as a whole.

That kind of drive still exists in Hitachi today. Our focus is not only on economic value, revenues and income, but also on using innovation to resolve the many challenges facing society. We believe that Hitachi should be synonymous with Social Innovation Business, and with that kind of presence, we hope to widely contribute to society as a global leader. Even though times have changed, I believe the founder’s spirit continues to guide our management as part of Hitachi’s unchanging values.

I believe global leaders must have a clear vision of what they should be and that they should take the lead in creating history. I also believe employees should do more than just fulfill the goals of leadership and that they should also focus on how their work can contribute to improving social and environmental value. Wherever I engage in direct communication, I am continually pushing for this kind of shift in the mind-set of our employees. The approach is not based on instilling a sense of crisis, but rather on raising awareness of the importance of social and environmental contribution.

Expressing sentiments such as “today we were able to supply safe water to people in the area” and “we contributed to the treatment of cancer patients,” our 300,000 employees worldwide are well aware of their contributions to the environment and society, as well as their connection to society in their daily work. I believe that this builds motivation in our employees, and through the combined efforts of all, it contributes to the creation of higher social and environmental value, and ultimately economic value for the Company.

Charting a Path to Growth: Launching the 2021 Mid-term Management Plan

Realizing Our Three Values and Establishing Goals for the Future

Our 2021 Mid-term Management Plan, launched in April 2019, focuses on simultaneously improving social value, environmental value, and economic value, and establishes five business sectors (IT, energy, industry, mobility and smart life) for the creation of social innovation. To put it differently, these are areas in which Hitachi can make use of the technological know-how it has built up through its many years of developing social infrastructure. Moreover, in each of these business sectors, Lumada can be used as a common platform to achieve the goals of improving people’s quality of life (QoL) as well as corporate value at our client companies.

Strengthening Lumada, which can accelerate innovation, is key to growth moving forward. Indeed, the creation of multiple reusable solutions in each of the key business fields can lead to the resolution of issues that cross industry and geographic boundaries.

The image of toy blocks provides a good analogy for better understanding. As with the variety of colors and shapes of a child’s blocks coming together to form a unique structure, we can provide a variety of solutions, such as energy management, human flow simulations, and autonomous driving solutions, in a unique customized package to meet the specific needs each customer.

An example of this is the Copenhagen Metro project, for which Hitachi is supplying 24-hour driverless trains and related systems. The Dynamic Headway solution used in testing these systems focuses on train station congestion, using data from mounted sensors to measure fluctuations in the number of passengers arriving. Based on this information, the system then optimizes the number of trains in operation. Hitachi’s efforts are focused on solving customer issues by combining solutions such as human flow simulations, automated timetable generation, and operational management optimization as customizable blocks. Amid the trend toward growing urbanization, better public transportation is increasingly required to prevent traffic congestion and create comfortable public spaces, and given that the Copenhagen Metro project also optimizes operational efficiency and conserves energy, it is contributing to improvements in social, environmental and economic value.

Accelerating Innovation to Spur Growth

Building an Innovation Ecosystem with Lumada at Its Core

So the question now is how to strengthen and evolve Lumada. I believe this requires the building of an “innovation ecosystem” that accelerates collaboration with business partners, universities, research institutes, and customers around the world.

The Company is already working with research institutions and domestic universities such as the University of Tokyo to create solutions to social issues. As example is the “Hitachi The University of Tokyo Laboratory.” We are also focused on expanding these kinds of collaborative relationships to include overseas universities, research institutions, and customers. In April 2019, Hitachi launched the collaborative creation project Kyoso-no-Mori at its Central Research Laboratory, inviting customers and partners from all over the world to create new ideas alongside Hitachi researchers and designers.

We are also actively working on initiatives designed to contribute to the acceleration of innovation around the world. These efforts include acting as a supporting partner to start-ups as they create new innovations, and establishing a corporate venture capital fund.

We will continue to work toward improving the social, environmental, and economic value of our customers by creating an ecosystem for co-creation and establishing Lumada as the driving force behind the accelerated development of the Social Innovation Business.

Building a Global “Delivery” System

Front-Line Personnel with the Hitachi DNA Hold the Key to Success

After focusing on solutions to customer issues and assessing feasibility and profitability, the framework for building on Lumada’s foundation is now complete. There are already about 650 Lumada customer cases, and we believe this shared base will assist us in providing solutions that truly satisfy our customers. However, for the sake of our customers, I believe it is vital to develop front-line personnel who can provide even higher-added-value solutions. Hitachi’s collaborative efforts with its customers are not based on a vertical relationship, with one party acting above the other, but instead are based on side-by-side cooperation with the aim of improving social value. It’s important for those involved to always think with a sense of ownership and be at the forefront of discussions. If the direction of the organization or team is different, our employees will work together in line with the final decision in the spirit of “harmony”, leaving aside their previous opinions. Moreover, they will put forth their most “sincere” efforts for our customers and partners, and even should they fail, they will never give up on their “pioneering spirit.” I believe securing and fostering frontline personnel exhibiting these qualities is a key to our success.

By combining the common solutions accumulated through Lumada, we can customize solutions for customers in different parts of the world. Moreover, to strengthen our front-line human resources so that we can realize this kind of “innovation ecosystem,” we are not only training in-house employees, but also actively recruiting personnel from outside the Company. Given that cultures and business practices vary according to region and country, we are working to cultivate human resources in each of those areas. As an example, we have been able to secure human resources in areas such as California’s Silicon Valley who are not only talented and experienced, but share a deep commitment to harmony,
Aggressively Pursuing Growth Opportunities While Maintaining an Eye on Capital Costs

Hitachi will invest more aggressively in growth, including M&A, over the next three years from fiscal 2019 to fiscal 2021 as part of its effort to become a true global leader. More specifically, we target a total investment of ¥2.5 trillion during the period, including about ¥1 trillion for the already announced acquisition of ABB’s power grid business. Growth investment will be focused on the IT and industry sectors, where we will enact unprecedented investment in both human resources and R&D. To carry out large-scale investment, we will use financial leverage to reduce capital costs (WACC) and improve ROE, while at the same time fostering management awareness of capital efficiency by establishing return on invested capital (ROIC) as a new KPI.

Hitachi will also strengthen its business foundation to accelerate development of the Social Innovation Business. In addition to operational reforms based on data accumulated due to advancements in production systems and business processes, as well as the promotion of digital transformation by expanding the scope of Lumada’s in-house use, we are working to reduce fixed costs and improve efficiency in sales and indirect operations. Maintaining an awareness of what is appropriate for a global company, we will continue to work toward improving profitability, with a gross profit margin*2 target of 30% or higher and an SG&A ratio*3 target of under 20%.

I believe an acceleration in the Social Innovation Business requires Hitachi to further improve the level of trust it enjoys from society. With this in mind, we will promote compliance, quality assurance, and safety by utilizing digitalization and Lumada to reduce manual tasks.

Based on these efforts, our fiscal 2021 earnings targets include average annual revenues rising organically by more than 3%, an adjusted operating income ratio above 10%, and cumulative operating cash flow for the three years greater than ¥2.5 trillion. Moreover, we target ROIC of above 10%, with the overseas revenue ratio climbing from 51% at present to better than 60%.

I worked at the Omika Works in Ibaraki Prefecture for about 29 years after joining the Company in 1977. The plant was created in 1969 to house the combined control departments that were split off from the Hitachi and Kokubu plants, and for some time after I was assigned to the facility, there was still a lot of talk about from which of the original plants you came. That said, my time there allowed me to experience the creation of a shared culture, as gradual integration brought with it the spirit of building a “Greater Omika” plant. In my opinion, the more background diversity there is, the better. I believe human resources recruited from around the world will be instrumental in sharing Hitachi’s values and resolving the social issues impacting our customers. I have high expectations as well as great confidence in this effort.

*2  Gross profit margin: The percentage of gross profit to revenues.
*3  The SG&A ratio: Ratio of sales expenses, general and administrative expenses to revenues (SG&A expenses/Revenues).
Board of Directors' Activities that Make Us a Global Leader

In what ways is the Board of Directors at Hitachi, a company with nominating committee, etc., conducting managerial oversight?

Director Mochizuki: Hitachi’s directors may have richly diverse backgrounds, but they all are united in their focus on world-class governance. Based on my personal perception, if the executive officers were swords, the directors would function like a whetstone. We hold extensive discussions as if we were grinding swords against this whetstone until it wore down, thereby creating shimmering swords. I think it is an important vision for us as directors.

The Board of Directors narrows topics of discussions down to matters of key importance, including budgets, financial results, the Mid-term Management Plan, M&A and high-risk investments. Our discussions are focused, but lack accountability in terms of economic rationality.

Director Yoshihara: Additionally, in fiscal 2018, we made business judgements on important matters impacting the entire Company after holding active discussions within the Board of Directors and Audit Committee and hearing additional explanations from individual executive officers on an as-needed basis. These important matters included decisions regarding the acquisition of ABB’s Power Grids business and the suspension of the Horizon Project, a nuclear power plant construction project in the U.K. Every time it faces decisions like these, our Board of Directors conducts analyses and discussions concerning issues such as market trends, business strategies, acquisition prices, post-merger integration (PMI) processes and potential risk management.

Our Board of Directors is characterized by strictness that is unprecedented when it comes to Japanese companies, and I believe that this toughness had a significant impact on the improvement of our results. Hitachi manages multiple large-scale businesses, so it can be extremely difficult from the outside to figure out what kind of company it is. This means that analyzing Hitachi takes time, which reduces the amount of opportunity for people to become interested. It would be a waste for us to reduce our own level of opportunity to be positively evaluated by capital markets and would also be undesirable from a governance point of view. We have repeatedly discussed and asked executive officers what kind of company we would like to become and why we engage in the businesses we do. As a result, revisions to our portfolios have picked up speed over the past few years.

Next, please tell us about the activities of each committee. First, how does the Nominating Committee select director candidates?

Director Mochizuki: After thoroughly discussing the ideal composition for the Board of Directors based on considerations of management issues, we by to compose images of the individual candidates we believe to be necessary. We then request that external consulting companies compile a list of potential candidates based on these images and then hold discussions regarding this list. After narrowing down the number of potential candidates, 4 members of the Nominating Committee then hold interviews individually with each of them. The committee then discusses these results before finally drafting a list of final candidates, which is submitted to the General Meeting of Shareholders. Each member of the committee takes pride in Hitachi’s Board of Directors and participates in the establishment of its ideal vision. For these reasons, committee members sometimes have different opinions, regarding which they hold active and frank discussions.
Independent Director Dialogue

What about the selection and training of CEO candidates?

Director Mochizuki: The selection of the next CEO is the Board of Directors’ largest mission. The Nominating Committee deliberates concerning the succession plan after hearing reports from executive officers. First, while maintaining a common awareness regarding the qualifications that Hitachi requires from a CEO, the Nominating Committee first discusses what kind of human resources will be needed and at what time. Through discussions and individual coaching, the committee narrows down candidates for leadership positions, including CEO, from an untold pool of human resources that it attempts to review at the conclusion of each fiscal year for a period of several years. This process enables members of the Nominating Committee to understand the candidates while providing opportunities for candidates to acquire actual work experience through overseas assignments and involvement with various business units. Hitachi promotes diversity as a driver of growth, and the diversification of all levels of its management, in terms of nationality, gender and age, has picked up speed, particularly since Director Cynthia Carroll joined the Nominating Committee, bringing proactive initiatives along with her.

How does the Compensation Committee make decisions regarding remuneration?

Director Mochizuki: Our executive compensation comprises basic remuneration, short-term incentive compensation and medium- to long-term incentive compensation. We decide payment levels based on considerations of economic environment, market trends and levels at other companies. When deciding upon executive compensation that will objectively satisfy the needs of our management team, our finance department and our shareholders, we make every possible effort to avoid being arbitrary, as we believe that it is important for this compensation to lead to the desired results. This approach has helped maximize Hitachi’s corporate value. Based on this point of view, we have been promoting reforms for several years. In fiscal 2019, we increased the ratio of variable compensation to overall compensation. A distinguishing feature of this change is the reflection of personnel target evaluations in short-term incentive compensation. Additionally, we adopted a restricted stock compensation plan for executive officers with the goal of providing an incentive for our management team to work toward continuous growth in corporate value from a medium- to long-term point of view while sharing a common perspective with our shareholders. Eligibility for mid-term stock-based compensation incentives may be partially reduced depending on how total shareholder return measures up compared to the TOPIX growth rate.

We are continuously conducting reviews aimed at optimizing our systems as our management team becomes more diverse, with a growing number of foreign members, and faces changing management issues.

Please tell us about Hitachi’s tripartite audit approach, which involves close collaboration among the Audit Committee, the internal audit section and external third-party auditing firm.

Director Yoshihara: The establishment and maintenance of appropriate audit systems are extremely important matters for companies like Hitachi that are expanding businesses globally. The Audit Committee primarily identifies, assesses and deals with the various risks that face the entire Hitachi Group, which includes around 150 consolidated subsidiaries worldwide. To perform these activities, the Audit Committee, the internal audit section and external third-party auditing firm cooperate closely to perform their tripartite audit function. This cooperation is based on mutual trust, transparency and a shared sense of vigilance.

Moving forward, Hitachi will aim for further growth overseas. An increase in global growth opportunities also means a simultaneous relative increase in potential risk. For this reason, we must be more prepared than ever to actively and cautiously consider this varied range of risks. Accordingly, it will become important for us to further intensify our tripartite audit approach on a global scale. To enable all members of the Audit Committee to more accurately understand global risks, we will provide instructions concerning matters of priority to the internal audit section while gathering information from related business departments and proactively visiting important sites both in Japan and overseas, including those of acquired companies, to conduct inspections.

Other than through on-site inspections, how do you identify risks?

Director Yoshihara: Members of the committee also request that executive officers provide explanations regarding other projects that are deemed to carry a high degree of risk. In fiscal 2019, the committee requested explanations concerning scandals and information security, confirming the validity of response measures as well as progress on improvement efforts. When considering projects that have resulted in comparatively large-scale monetary losses, the committee receives explanations regarding the cause of these losses and response prevention measures.

As original measures, Audit Committee members hold audit reporting sessions targeting all corporate divisions and verify the status of initiatives aimed at raising the corporate value of back-office sections. At least once per year, responsible parties from around 20 divisions, including human resources, procurement, IT and brands, provide explanations concerning the execution of these initiatives to the committee, which, having gained an understanding of the issues these divisions face, provides operational advice as well as other support.

How does Hitachi’s tripartite audit approach differ from similar approaches employed at other companies with nominating committees, etc.?

Director Yoshihara: I cannot speak for what other companies are doing, but generally, I can say that no matter how magnificent the organizations and structures you build happen to be, when it comes to practical implementation, their abilities to perform tasks and the amount of enthusiasm they put into them often determine their true actual efficacy. The three parties that help Hitachi implement its tripartite audit approach continuously work earnestly to achieve ideal auditing that is more effective and efficient. All members of the tripartite audit team work to plan and implement audits in a manner that is respectuous and disciplined while remaining keenly aware of each other’s roles. Besides, we maintained our top management’s Tone at the Top approach; our management team, our finance department and other organizations that receive audits have a high levels of understanding and awareness regarding governance, which creates a very cooperative environment. Each year, the Audit Committee receives feedback from the internal audit section, the finance department and external auditing firm. It then holds discussions regarding this feedback and earnestly engages in initiatives aimed at further strengthening and improving Hitachi’s tripartite audit system and framework.

Could you explain your thoughts regarding future improvements to the Audit Committee?

Director Yoshihara: We are conducting a variety of ongoing initiatives aimed at enhancing the effectiveness and acuteness of the committee’s oversight function. For example, starting from the current fiscal year, we are appointing sector auditors who provide support by constructing tripartite audit frameworks for their individual sectors of responsibility. This support contributes to the further enhancement of our governance. We are also discussing the use of digital technology to raise the efficiency of our auditing operations, which require a great deal of time. Furthermore, we are continuously aiming to enhance our auditing function by working to uncover human resources with audit capabilities within the Hitachi Group.

At the same time, we hold training and brainstorming sessions targeting personnel throughout the Group who are involved with audits.

Looking Ahead

Finally, could you explain the key points of Hitachi’s governance? Also, please tell us about the challenges you will tackle and the points on which you will focus to meet targets in the 2021 Mid-term Management Plan.

Director Mochizuki: The executive officers and directors that make up our management share common values and work together to refine their abilities and maximize their performance as managers. I believe that this sharing of goals and teamwork define governance at Hitachi.

To become a global leader, we must always think about what is necessary and how to continuously generate sustainable income. In terms of meeting targets in the 2021 Mid-term Management Plan, the most important task facing the Board of Directors is to reliably follow up on and support the implementation and progress of the plan.

The Nominating Committee will aim to continuously adjust the composition of the Board of Directors in accordance with our management issues. As for our CEO succession plan, all members of the committee are focusing their full efforts toward selecting our next CEO. However, starting from this year, we have decided to strengthen the involvement of the entire Board of Directors by including directors who are not Nominating Committee members in the process. As the Compensation Committee has just implemented new compensation structures, we will continue to verify whether they have truly increased effectiveness and whether they contribute to our goal of becoming a global leader.

Director Yoshihara: Generally, when people talk about governance, we tend to pay attention to the compliance aspect (e.g., legal compliance). However, the essential purpose of compliance is to fulfill the expectations of the shareholders who have placed their trust in us and to raise our corporate value by practicing good management. Therefore, it goes without saying that Hitachi’s governance strategy must involve compliance countermeasures aimed at preventing issues such as anomalous transactions and illegal violations. However, from the perspective of global governance, our directors and executives must hold timely discussions with our management team when they make important decisions aimed at raising corporate value and participate in the process of implementing these decisions. The support and supervision our directors provide is essential toward making sure Hitachi is on track to success.

In our 2021 Mid-term Management Plan, we have identified three key challenges we must face to achieve our goal of becoming a true global leader. First, we must further strengthen our hiring and development processes to secure diverse human capital capable of furthering our environmental sustainability. Second, we must build a global ecosystem that will support our digital solutions business, which is primarily based in Lumada. Third, the Hitachi Group must continuously revise and accelerate the development of its business portfolio so that it will enable the Group to maximize its synergies on a global scale and function as one Hitachi.

We are currently experiencing an era of volatility, uncertainty, complexity and ambiguity (VUCA) in which changes occur daily and quickly and many opportunities and risks exist alongside each other. The Audit Committee is prioritizing further enhancement of our global risk management. For example, it is extremely important for us to work to reduce risk by strengthening our monitoring of business acquisitions. As an independent director, I will continue to support and supervise the management team in the execution of its duties in accordance with Hitachi’s founding corporate philosophy of contributing to society. These efforts will serve to assist Hitachi as it aims to raise the three values (social, environmental, economic) targeted in its 2021 Mid-term Management Plan and become a global leader of social innovation.

Director Mochizuki: Both the management environment and the issues facing our management are continuously changing at a dizzying pace. Under these conditions, ideal governance for Hitachi is continuously changing, presenting a perpetual challenge for its management. Moving forward, I will continue to support Hitachi in its goal of becoming a global leader by continuously working to improve the management of its Board of Directors and all of its committees, as well as the systems they decide upon, while maintaining a trial-and-error approach.
Comprehend social issues and global trends while identifying customer issues through collaboration with those same customers.

**Social issues**
- Climate change
- Issues concerning energy, water and other natural resources
- Population growth and urbanization
- Aging infrastructure
- Cybersecurity

**Global trends**
- Accelerating digitalization
- Appearance of geopolitical risks due to the globalization of politics and the economy
- Paradigm shift (shifting from possession to sharing, from objects to things and from closed to open strategies)

**Customer issues**
- Safety and security
- Reduction of energy consumption
- Response to diversifying consumer needs
- Improvement of productivity

**Value Creation Process**

**Hitachi Integrated Report 2019**

**The Hitachi Group Value Creation Story**

- Social value
  - Healthy lives and a safe, secure, comfortable and efficient society

- Environmental value
  - High-quality and environmentally-conscious manufacturing
  - Reduction of environmental burden through the value chain

- Economic value
  - Redistribution of added economic value to stakeholders

**Human capital**
- Number of female executive and corporate officers: 6%
- Number of non-Japanese executive and corporate officers: 25%
- Number of female managers: 335
- Number of male managers: 1,875

**Intellectual capital**
- Number of Lumada customer cases: over 200
- Number of unique industrial and business expertise

**Natural capital**
- Total energy input (in oil equivalent) 2.37 Gt
- Total CO2 emissions 4,463 Mt
- Total water input 37.02 million m³

**Financial capital**
- Total Hitachi, Ltd. stockholders’ equity: ¥3,262.6 billion
- Total Hitachi, Ltd. stockholders’ equity ratio: 33.9%
- Free cash flows: ¥447.1 billion
- TSFR over past 10 years: 200.6%
Creating a Workplace That Supports the Active Participation of a Diverse Workforce
(2) Promoting diversity among executives (diversity development measures)
(a) Promoting diversity among executive managers by diversifying the decision-making process.
(b) Held events such as the Global Women’s Summit to cultivate female leaders:
(c) Established the Hitachi Diversity Organization.

In fiscal 2018
(1) Improved stability of human resource-related information by introducing “HR Management Integrated Platform”:
(2) Stated Hitachi Academy in April 2019 to foster human resources that drive digital transformation.
(3) Promoted diversity among executives (diversity development measures)
(a) Promoted diversity among executive managers by diversifying the decision-making process.
(b) Held events such as the Global Women’s Summit to cultivate female leaders:
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Fiscal 2018 Results
(1) Number of human managers: 18,782 (73.0%)
(2) Ratio for female executive and corporate officers: Hitachi, Ltd.: 5.5%
(3) Number of highly profitable assets
(4) Restructuring or selling off unprofitable assets
• Promoting financial strategies with an eye toward capital costs
• Acquiring highly profitable assets
• Promoting financial strategies with an eye toward capital costs

Fiscal 2018 Targets
• ROA: 6.4%
• CCC: 33 days
• Operating cash flow margin: 8.5%
• D/E ratio: under 0.5 times
• Free cash flow margin: 8.6%

Building the Financial Base Necessary to Achieve Value Creation
(1) Enhanced profitability and generation of cash
(2) Improving capital efficiency
• Acquiring highly profitable assets
• Promoting financial strategies with an eye toward capital costs

The Hitachi Group Value Creation Story
Creating New Technologies and Business Models through Collaborative Creation
(1) Accelerating innovation
(a) Strengthening collaborative creation on a global basis
(b) Creating new value through open initiatives such as "Hitachi Open Lab" and corporate venturing
(c) Creating innovative new businesses by strengthening collaborative innovation
(2) Creating the world’s No. 1 technologies
(a) Focusing in innovation in the key sectors and businesses
(b) Strengthening intellectual properties that support the world’s No. 1 technologies
(3) Promoting R&D and intellectual property activities to resolve social issues
(a) Explores new business opportunities and disruptive technologies through open innovation
(b) Drive a culture to achieve “For Society,” an IP First strategy for the future
(c) Accelerate Innovation

A Global Leader in Production Efficiency and Quality
(1) Manufacturing
(a) Lead time reduction for Large Industrial products by enhancing SCM
(b) "Trainee" engineers
(c) Trained skilled workers
(d) Reduced time for participation in the 4th International Competition, with one silver medal, one bronze medal, and one nomination for excellence.
(e) "Training for New Generations"
(f) Conducted audits during visits to suppliers
(g) Hosted participants in the Hitachi CFI Leadership Program for South American countries.

Earning the Trust of Stakeholders
(1) Enhance feedback to management based on dialog with stakeholders (government, investors, shareholders, customers, employees, local communities)
(2) Strengthen human rights due diligence (HRDD) and CSR, green procurement
(a) Promoted R&D
(b) Strengthen supply chain management
(3) Promote social contribution activities
(a) Training, including CSR training and training for those in the younger global generation likely to be the future leaders
(4) Proactive engagement and disclosure of information
(a) Developed proactive disclosure styles of risk management

Achieving the targets set forth in the Environmental Action Plan for 2021 looking towards the Hitachi Environmental Innovation 2050 long-term environmental targets.
(1) Reduce CO2 emissions from the use of our products and services, expand Hitachi’s decarbonization business
(a) Reduction of CO2 emissions compared to FY2010: more than 25%
(b) Reduced CO2 emissions of factories and offices by introducing renewable energy and high-efficiency equipment
(c) Promoting shareholding activities for companies (Hitachi, Ltd.): 50%
(d) Enhance efficiency in the use of water
(e) Enhance efficiency in the use of resources, reduce and recycle waste materials
(f) Reduced risk in value creation and value generation per unit compared to FY2010: 12%

Guided by our Environmental Vision, we strive to create value while also contributing to the resolution of environmental issues to realize a low-carbon society, a resource efficient society and a harmonized society with nature.

Building Efficiency and Quality
(1) Manufacturing
(a) Lead time reduction for Large Industrial products by enhancing SCM
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Building the Financial Base Necessary to Achieve Value Creation
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(2) Improving capital efficiency
• Acquiring highly profitable assets
• Promoting financial strategies with an eye toward capital costs

Fiscal 2018 Targets
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**Value Creation Story**

Hitachi offers a host of solutions to the problems society faces. To develop these solutions, we maximize our strengths, OT, IT, products we have accumulated over the years, along with the technological capabilities, knowledge and know-how we have amassed through projects. Here, we introduce a global co-creation project in which Hitachi reduces CO2 emissions and helps resolve the issues customers face.

**“AI Captain” to Curtail Fuel Costs and Optimize Travel Routes**

Co-Creation with Stena Line, One of Europe’s Leading Shipping Lines, to Optimize Fuel Efficiency and Voyage Planning

Here, we introduce a flagship project that demonstrates how Hitachi is cultivating social innovation. For this project, Hitachi has partnered with ferry operator Stena Line to reduce ships’ fuel consumption costs and minimize environmental impact by introducing artificial intelligence (AI) technology.

**Integrating Digital Technologies and Hitachi’s Products**

Hitachi has created value by capitalizing on its three core competencies: operating technologies (OT), which the company has built up over more than a century of manufacturing; cutting-edge information technologies (IT), which have a solid track record dating back more than half a century; and products, which the company has developed and manufactured since the time of establishment based on its own technologies.

On top of these value sources, Hitachi has developed the Lumada IoT platform as a system for deriving value from data. Making use of its cutting-edge AI technology, the company is providing various solutions even in new fields and industries where it does not play a direct role.

In June 2018, Hitachi partnered with Stena Line, one of Europe’s largest ferry operators, to introduce AI and machine-learning in shipping.

In this project, although Hitachi does not manufacture the vessels themselves, it is developing an effective solution for Stena Line based on its solid understanding of IT requirements (such as edge-processing capabilities), its AI and machine-learning capabilities, and operating technologies developed and accumulated through the manufacture of other Hitachi products.

**Delivering Global Solutions through Collaboration with Customers**

Stena Line, which transports 7.6 million passengers, 1.7 million cars and 2 million cargo units each year, has taken on the huge challenge of becoming the world’s leading cognitive shipping company by 2021. To this end, optimizing fuel and voyage planning are two of the highest priorities. While shepherding ships from a voyage’s start to finish, crews are tasked with minimizing fuel consumption and respecting the expected time of arrival (ETA).

Fuel represents a major cost for shipping companies, so controlling consumption is a vital concern. Also, less fuel used means lower emissions. Stena Line is at the forefront of the shipping industry’s efforts to reduce its environmental footprint.

Accordingly, pursuing fuel efficiency and optimized shipping serves the dual purpose of improving financial performance and environmental impact. This is well in line with Stena Line’s vision of “Connecting Europe for a Sustainable Future”.

In 2017, Hitachi and Stena Line started discussing ways to improve operational performance through advances in artificial intelligence and machine learning. This collaborative project involved three Hitachi entities. The Social Innovation Business Unit, which has data scientists experienced in marine analytics, initiated discussion with the customer. Hitachi Consulting acted as a project management partner, providing data scientists with experience in data analytics and visualization. The Center for Social Innovation Europe’s Automotive and Industry Lab developed the core AI model for the project based on its vast experience in AI, deep/machine learning and general data analytics.

To develop a practical, feasible solution, Hitachi’s team has conducted multiple rounds of workshops to better understand the customer, potential problem areas and the operating environment. The team accessed historical shipping data, applying machine learning algorithms to generate insights on how to reduce fuel consumption. In these ways, the team sought to identify common characteristics of fuel-efficient operations and extrapolate these findings across the fleet.

The team discovered that weather conditions and the action of captains were major contributors to fuel consumption. Collaborating closely with Stena Line, Hitachi inspired Stena Line to create an AI-based technology that learns captains’ practices, such as operating parameters corresponding to low fuel consumption, and then recommends fuel-efficient operating parameters for upcoming trips.

With the help of AI, Stena Line’s captains can simultaneously consider several variables, such as currents, weather conditions, shallow water, and speed through water, all of which would be impossible to do manually. Once installed in a vessel, the crew monitors the ship and AI system, intervening only when necessary—such as reducing vessel speed due to traffic. The technology, dubbed AI Captain, recommends fuel-efficient voyage plans in terms of propulsion power and speed for given weather and environmental conditions (such as winds, sea current, waves and sea depth), as well as vessel characteristics (such as loading conditions and hull roughness). Initial trials of the AI-based model have been very successful and Stena Line’s current goal is to roll out AI across the entire fleet by 2021.

**Values Hitachi Delivers**

Modern-day society faces major changes and a host of challenges, from energy and environmental issues to water scarcity, rapid urbanization, an aging society, insufficient infrastructure and security needs. Amid these circumstances, Hitachi is committed to providing value to stakeholders by improving quality of life (QoL) and realizing a sustainable environment.

With the Stena Line Project, Hitachi has inspired Stena Line to create a cross-functional team that combines seamanship, mathematics and technology and to deliver social, environmental and economic value through AI and machine-learning.

Optimizing shipping reduces fuel consumption, lowering emissions of CO2, NOx, and SOx. Rather than replacing the captain and crew, the AI technologies aimed at extending their expertise to allow for better decision-making and execution.

In addition to social and environmental value, considering the success of AI Captain, Hitachi is developing a core solution that can be scaled across the industry, which could drive revenues and profit for Hitachi. The solution could also help Hitachi gain market recognition in a new business segment and to develop cutting-edge AI technology.

Going forward, Hitachi will keep providing innovative solutions and creating social, environmental and economic value.
In May 2019, Hitachi Rail STS S.p.A, a Hitachi subsidiary operating in the railway systems business, entered an agreement with Trentino Trasporti S.p.A to carry out proof of concept (PoC) of a new digital ticketing solution for the public transportation operated by Trentino Trasporti, including Trento-Malè-Mezzana Railway and buses in the vicinity of Trento, Italy. The digital ticketing, which uses smartphones as tickets, leverages the Hitachi Group’s experience in ticketing and digital technology.

With this solution, passengers install an app on their smartphones that allows position information to be read by vehicles (such as train cars and buses) and at waypoints (train stations and buses). The ticketing solution then determines when a person is using public transportation, automatically calculates the fare, and charges that fare to the passenger in a cashless transaction.

The solution allows passengers to ride multiple types of public transportation without the need for paper tickets or IC cards, making movement seamless and more convenient. For operators of public transportation systems, the system reduces the need for ticket machines, ticket wickets and other equipment, lowering equipment investment and maintenance costs. With this proof of concept, we are making travel more convenient for passengers by allowing them to seamlessly take multiple modes of public transportation in comfort.

Once the digital ticketing solution is approved by Trentino Trasporti and the service launches officially, Hitachi Rail STS will start selling tickets for the public transportation system, receiving a share of the revenues from ticket sales.

Ride a Train or a Bus, Using Only Your Smartphone

Hitachi Rail STA Starts Proof of Concept of a Digital Ticketing Solution for a Public Transportation Operator in Italy
**The Hitachi Group's Growth Strategy**

**History of Management Reforms and Hitachi's Mid-term Management Plans**

**2012 Mid-term Management Plan 2010-2012**
*Rebuilding Management Recovery*

**2015 Mid-term Management Plan 2013-2015**
*Building a Foundation for Growth The Swapping Out of Businesses*

**2018 Mid-term Management Plan 2016-2018**
*Achieving Growth in Social Innovation Utilizing Digital Technologies*

**Initiatives and Results**

- Consolidated businesses into six groups, focused on growth fields under an integrated system of operations, and accelerated management
- Strengthening competitiveness
- Hitachi's operating income ratio in fiscal 2012, the first year of the Mid-term Management Plan, fell short of the 5% target due to an association with a steep drop in material prices as well as the booking of structural reform costs and reduced capacity utilization amid economic slowdown in China and Europe. However, it improved to 4.7% thanks to cost structure reform, Hitachi's Smart Transformation Project, and in addition, after dropping to 11.2% in fiscal 2008, the stockholders' equity ratio recovered to 21.2% in fiscal 2012, while the D/E ratio fell from 4.6 in fiscal 2008 to 0.75 in fiscal 2012.
- **Challenges Ahead**
  - After booking its largest losses ever in fiscal 2008, Hitachi during the period covered by the 2015 Mid-term Management Plan substantially revised its business portfolio asahi to build a foundation for growth. The Company acquired Pentix, which develops and manufactures logic design analysis software, as part of its aim to strengthen and expand the global value chain in the logic design business area. In addition, Hitachi's mobile business for smartphones and small home appliances was also being restructured to strengthen cost competitiveness.
  - Hitachi's mobile business was sold in the fiscal 2015. In personnel evaluation systems, Hitachi introduced "Global Performance Management" as a mechanism under which compensation directly reflects performance assessments as well as the global common standards for pay levels. In fiscal 2015, the last year in the mid-term plan, the target was not achieved due to a delayed response to changing market conditions, including in the telecommunications and network services businesses, as well as delays due to results of management at a large overseas venture. Another factor contributing to underperformance was the weaker-than-expected increase in structural reform costs due to an accelerated in structural reforms following a drastically reduced capital allocation for the infrastructure systems, power distribution, and construction machinery businesses. However, ongoing reform increased WEC (the working part of the company) and its contribution of sales in the financial position as the company worked toward the establishment of a stable earnings base.

**Looking Back and the Challenges Ahead**

**Looking Back**

- After booking its largest losses ever in fiscal 2008, Hitachi during the period covered by the 2012 Mid-term Management Plan advanced the rebuilding of its business. The result of the automative systems business, the withdrawal from the fabrication of thesi panel TV business, and the transfer of this IT business to all six groups to a single company, and achieving an improvement profitability, allowing Hitachi to continue on the Social Innovation Business that is effectively leveraging the Company's strengths. In fiscal 2012, Hitachi's inorganic sales were focused on six groups and worked to speed up management through an integration of operations.

**Challenges Ahead**

- Hitachi's operating income ratio in fiscal 2012, the first year of the Mid-term Management Plan, fell short of the 5% target due to an association with a steep drop in material prices as well as the booking of structural reform costs and reduced capacity utilization amid economic slowdown in China and Europe. However, it improved to 4.7% thanks to cost structure reform, Hitachi's Smart Transformation Project, and in addition, after dropping to 11.2% in fiscal 2008, the stockholders' equity ratio recovered to 21.2% in fiscal 2012, while the D/E ratio fell from 4.6 in fiscal 2008 to 0.75 in fiscal 2012.

**2012 Mid-term Management Plan¹**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015(S)</th>
<th>2015(Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue or Sales (¥ billion)</td>
<td>9,160.0</td>
<td>9,388.0</td>
<td>9,426.8</td>
<td>10,123.0</td>
<td>10,105.0</td>
</tr>
<tr>
<td>Decreased revenue ratio (%)</td>
<td>4.9</td>
<td>4.9</td>
<td>4.5</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Adjusted operating income ratio (%)</td>
<td>9.9</td>
<td>9.9</td>
<td>9.7</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

**2015 Mid-term Management Plan¹**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<th>2015(Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue or Sales (¥ billion)</td>
<td>9,160.0</td>
<td>9,166.0</td>
<td>9,166.0</td>
<td>9,430.0</td>
<td>11,000.0</td>
</tr>
<tr>
<td>Decreased revenue ratio (%)</td>
<td>4.9</td>
<td>4.8</td>
<td>4.8</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Adjusted operating income ratio (%)</td>
<td>9.9</td>
<td>9.8</td>
<td>9.7</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

**2018 Mid-term Management Plan¹**

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2019(Target)</th>
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<td>Revenue or Sales (¥ billion)</td>
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<td>9.8</td>
<td>9.7</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

**Achieving Growth in Social Innovation Utilizing Digital Technologies**

**Looking Back**

- With the goal of strengthening front-line functions, including the number of sales, system engineers, and consultants, and creating a system of collaborative cooperation with our customers, Hitachi from fiscal 2016 moved from a product-specific company system to a three-level system, composed of front-line, platform, and product tiers. With the three-level system, Hitachi bolstered the management speed. Specifically, business units (BUs), which had been subdivided from the former in-house companies to develop and provide services closely to the customer and group companies, including sales subsidiaries, were positioned to each level. We also strengthened management project and worked to improve profitability at individual businesses. With the aim of enhancing on a global basis the front-line functions central to the Social Innovation Business, we acquired 100% stakes in Ansaldo STS (ITAL), which supplies signal equipment and control systems to 30 or more countries and regions, and Sullair, which manufactures, sells, and services air compressors to about 4,000 customers, mainly in North America. In December 2018, we signed an agreement for the acquisition of ABB's power grid business. The goal of each of these is the acquisition of a robust global sales network and the expansion of the Social Innovation Business. To add to this, we launched Lumada in May 2016. Lumada takes the essential technologies for delivering advanced solutions, including AI, analytics, security, robotics, and control technologies distributed across the company and applies them to a common platform, creating a system that comprehensively and organically leverages the resources of the entire Hitachi Group to quickly and flexibly create new innovations. Thanks to a steady increase in customer collaborations, Lumada business revenues are trending as planned and have already exceeded ¥1 trillion. Moreover, in addition to reorganizing our business portfolio, including selling off listed subsidiaries with little connection to the core Social Innovation Business, we continued to reform our cost structure, which contributed to the adjusted operating income ratio meeting our Mid-term Management Plan target and reaching a record level.

**Challenges Ahead**

- Accelerated innovation in key areas of focus
- Improved capital efficiency
- Accelerated innovation and active use of digital technologies with a focus on Lumada

**Lumada business revenues grew to about ¥1 trillion**
Outline of the 2021 Mid-term Management Plan

In May 2019, Hitachi announced its new Mid-term Management Plan, covering the three years from April 2019.

Key Points in Hitachi's New Mid-term Management Plan

Aiming to be a global leader in the Social Innovation Business, Hitachi is focused on moving into a “growth mode” during the period covered by the 2021 Mid-term Management Plan.

Hitachi will continue to advance the Social Innovation Business, placing an emphasis on improving social, environmental, and economic value for its customers.

We believe there are three factors that could accelerate growth. The first of these is aggressive investment, including in M&A. We are increasing investment 4x–5x from the previous Mid-term Management Plan to ¥2.0–¥2.5 trillion. Second, to ensure implementation of this kind of large-scale investment, we will, while maintaining financial discipline, utilize financial leverage, and improve management awareness of capital costs by introducing ROIC as a management indicator. Finally, we will expand our digital solutions offerings on a global scale, centered on Lumada, and accelerate innovation through enhanced collaboration with our customers.

Goals

- Improving the quality of people’s lives, raise customers’ corporate value and achieve a sustainable society
- Increasing the three values of social, environmental and economic by five-sector business and technology solutions

### Performance targets (consolidated)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Item</th>
<th>FY2018 results</th>
<th>FY2019 forecast</th>
<th>FY2021 targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>Adjusted operating income (adjusted operating income ratio)</td>
<td>¥2,125.0 billion (10.4%)</td>
<td>¥2,080.5 billion (10.3%)</td>
<td>¥2,050.0 billion (10.1%)</td>
</tr>
<tr>
<td>Energy</td>
<td>Adjusted operating income (adjusted operating income ratio)</td>
<td>¥75.0 billion (2.4%)</td>
<td>¥74.6 billion (2.4%)</td>
<td>¥74.8 billion (2.4%)</td>
</tr>
<tr>
<td>Industry</td>
<td>Adjusted operating income (adjusted operating income ratio)</td>
<td>¥100.2 billion (8.1%)</td>
<td>¥93.6 billion (7.6%)</td>
<td>¥143.6 billion (11.0%)</td>
</tr>
<tr>
<td>Mobility</td>
<td>Adjusted operating income (adjusted operating income ratio)</td>
<td>¥142.9 billion (8.8%)</td>
<td>¥142.9 billion (8.8%)</td>
<td>¥143.6 billion (11.0%)</td>
</tr>
<tr>
<td>Smart-Life</td>
<td>Adjusted operating income (adjusted operating income ratio)</td>
<td>¥91.0 billion (6.9%)</td>
<td>¥91.0 billion (6.9%)</td>
<td>¥91.0 billion (6.9%)</td>
</tr>
</tbody>
</table>

### Performance targets by sector

- **IT**
  - Adjusted operating income (adjusted operating income ratio)
  - ROIC
- **Energy**
  - Adjusted operating income (adjusted operating income ratio)
  - ROIC
- **Industry**
  - Adjusted operating income (adjusted operating income ratio)
  - ROIC
- **Mobility**
  - Adjusted operating income (adjusted operating income ratio)
  - ROIC
- **Smart-Life**
  - Adjusted operating income (adjusted operating income ratio)
  - ROIC

### Investment

- Aggressively Invest in Key Areas of Focus
  - IT, Energy, Industry, Smart-Life, Mobility

### ROIC

- Introduce ROIC to Boost Capital Efficiency
  - ROIC as part of our effort to improve management awareness of capital efficiency.

### Innovation

- Accelerate Innovation
  - We are promoting the expansion of our decarbonization business in line with our long-term environmental targets.

### Lumada

- Strengthen Lumada
  - We will use collaborative creation with our customers to expand the provision of digital solutions, centered on Lumada.
Capital Allocation Strategy

2018 Mid-term Management Plan
Achievements and Issues 2018

Profitability Improves, Leading Toward Further Growth in Corporate Value

Under the 2018 Mid-term Management Plan, Hitachi promoted structural reforms in unprofitable businesses, enhanced project management and engaged in other efforts aimed at improving profitability. The Company also disposed of assets with earnings not expected to generate a return on equity or invested capital and implemented measures aimed at improving the Cash Conversion Cycle (CCC). These efforts resulted in ROA, a financial indicator, reaching 6.2% (excluding the temporary impact of a nuclear power station project in UK), which exceeded the 5.0% target set for fiscal 2018. In addition, the D/E ratio, a measure of financial discipline, was maintained at a level well below 0.5 times. However, we recognize that there are further challenges to maximize corporate value.

Retained earnings increased, while the dividend payout ratio and labor’s share of income remained at the same level. To achieve further growth going forward, we must strategically allocate capital in investment areas.

To increase capital efficiency, we will further reduce assets not expected to meet investment capital, promote utilization of external capital markets using financial leverage, make an effort to understand risks according to changes in the business environment and attempt to strike a balance between efficiency and risk management.

Furthermore, we will promote management that is more aware of capital costs, engage in a financial strategy aimed at understanding risks according to changes in the business environment.

Measures Under the 2021 Mid-term Management Plan

Promoting ROIC Management with a Higher Awareness of Capital Costs

Under the 2021 Mid-term Management Plan, Hitachi Group will introduce Return on Invested Capital (ROIC) as a management indicator and promote the improvement of capital efficiency and the growth of highly profitable businesses through our management. ROIC is an indicator that evaluates returns generated by invested capital calculated by dividing business profit after taxes by invested capital. To increase returns, ROIC needs to exceed the weighted average cost of capital (WACC), which is the cost of raising invested capital.

Going forward, aiming for ROIC above 10%, we will strive to increase the difference between ROIC and WACC (ROIC spread) and increase shareholder value by strengthening profitability and reducing WACC through the use of financial leverage. To achieve this, we will improve adjusted operating income, while at the same time continuing to promote the disposition and sales of owning shares as well as real estate and other idle assets aimed at improving business asset efficiency with the aim of appropriately structuring reforms of unprofitable businesses and countermeasures to businesses with challenges.

Proactive Investment in Growth Areas

While promoting management with an awareness of capital costs, we will make large-scale growth investments of approximately ¥2.0 to ¥2.5 trillion over the next three years using financial leverage that targets an optimal capital structure. Of this amount, we have already announced the investment of ¥1 trillion in the ABB power grid business, and positioning IT and industry as priority investment areas, we will attempt to expand our digital solutions business focused on Lumada, while at the same time targeting growth by strengthening services and products required for the provision of solutions. In terms of regional strategies, we will make the necessary investments focusing on the North America and Asia-Pacific regions, making larger investments than ever before in an attempt to strengthen R&D and human resource development.

Basic investment policy

M&A
• Expand the digital solutions business while strengthening products and services and securing human resource development, which are efforts essential to providing solutions

R&D
• Strengthen development focused on AI (image analysis, voice recognition, machine learning, etc.), robotics, electrification and security to establish a Cyber Physical System (CPS)

Human resources
• Produce and strengthen human resources who can create new innovation using digital technology and provide optimal digital solutions to customers through external recruitment and internal human resource development.

The Hitachi Group’s Growth Strategy
Financial and Capital Strategy

The following is a summarized financial analysis of the Hitachi Group over the past five years.

- In addition to the adoption of IFRS as a management indicator, the strategic reorganization of Group companies has led to the realization of streamlined assets over the past five years.
- Specifically, this includes an approximately ¥2.5 trillion reduction in interest-bearing debt and an improvement in the D/E ratio from 0.83 to 0.23.
- Although the cumulative dividend payout ratio was below 30%, the total amount of dividends paid increased. Most of operating cash flow was used to repay debt.

Financial Analysis of Past Five Years

The Hitachi Group's Growth Strategy

As a result of the above, in terms of formulating strategy going forward, Hitachi will maintain an awareness of three issues:

1. Further improvements to profitability and capital efficiency through ROIC management.
2. Lowering WAACK using moderate leverage within appropriate financial discipline.
3. (3) Reducing capital costs and increasing Total Shareholder Returns (TSR) through the execution of rational shareholder return measures with consideration for share buybacks in addition to dividends.

Ensuring Financial Stability

Hitachi recognizes that ensuring the stability of our financial base is an important management issue in terms of realizing the growth investments (approximately ¥2.0–¥2.5 trillion over three years) and continuous return of profits targeted in the 2021 Mid-term Management Plan. To this end, we must maintain an average over the past three years.

Total shareholder returns (TSR) for Hitachi, Ltd., Over the Past 10 Years

Financial and Capital Strategies and Shareholder Returns Going Forward

Basic Approach to Funding Procurement

Funding procurement is conducted by the most appropriate means in light of a variety of conditions, including the timing and funding required for business. When procuring funds through borrowing, our financial discipline policy is to maintain a D/E ratio of less than 0.5 times an interest bearing debt/EBITDA ratio of less than 2.0 times.

Furthermore, over the next three years leading up to fiscal 2021, we plan to make large-scale growth investments of around ¥2.0–¥2.5 trillion, which will be procured through our own capital, borrowings and asset sales amounting to approximately ¥4.0–¥4.5 trillion.

Basic Approach to Capital Costs

Regarding the cost of capital (hurdle rate) used for individual investment decisions, calculations are made on a case-by-case basis in light of interest rates, country risks and the expected stock market returns in the country where the investment will be made.

Total Shareholder Returns (TSR) for Hitachi, Ltd., Over the Past 10 Years

Note: The graph and table above show returns on investment for investments made from the fiscal year ended March 31, 2009, taking into account dividends and stock prices as of the fiscal year ended March 31, 2019. Hitachi, Inc., investment performance, including stock prices and dividends, is intended using Yen as investment annual as of March 31, 2019. The TOPIX Stock Price Index (TPX), which is a volatility measure, is indicated instead of stock price including dividends for electrical equipment.

Total shareholder returns (TSR), including dividends and stock price, are shown above.

Looking at the past 10 years, the annual rate of return is 12.0%, which is higher than the market average (Tokyo Stock Price Index and Tokyo Stock Price Electrical Equipment Index). In the most recent fiscal year 2018, the market share price fell, resulting in almost the same negative return as the TOPIX. Also, although the stock price has entered an adjustment phase due to declines in business performance over the past five years in the fiscal year ended March 31, 2016, and March 31, 2017, the stock price recovered in line with stronger performance and TSR has exceeded the market average over the past three years.

Hitachi will continue efforts to improve shareholder value with management and financial strategies enabling us to realize a TSR that exceeds the cost of shareholders' equity.

As of August 31, 2019
Accelerate Innovation

**An R&D Strategy to Accelerate the Global Creation of Value**

For more than 100 years since the Company’s foundation, Hitachi’s R&D has been pursuing the Hitachi Mission – “Contribute to society though the development of superior, original technology and products” into practice, developing the most cutting-edge technologies and fostering innovations that ushered in the future. As part of our 2021 Mid-term Management Plan, Hitachi aims to become a global innovation leader advancing the realization of the United Nations’ Sustainable Development Goals (SDGs) and Society 5.0. Moreover, to contribute to enhancing social, environmental, and economic value for our customers, the Hitachi Group will invest ¥1.2 trillion in R&D to establish an ecosystem for driving innovation and enhance our core technologies to expand Lumada business during the three years covered by the Plan.

The strength of Hitachi’s R&D lies in its centralized ownership of the technology platforms and knowhow integral to the Hitachi Group’s operational technology (OT), IT, and products, as well as the five Hitachi sectors, allowing the Company to establish a value creation cycle that extends from collaborative creation to development, and further accumulation. Moreover, as Hitachi creates solutions that provide value to our customers, R&D efficiency continues to improve through the value creation cycle.

To become a global innovation leader advancing the realization of SDGs and Society 5.0

**Building an Innovation Ecosystem**

In the 2021 Mid-term Management Plan, we will accelerate open innovation where we will grow together with partners by using Hitachi’s technology platforms and knowhow, and bringing in external knowledge, as we work to create the three values of social, environmental, and economic value by raise peoples’ quality of life and customers’ corporate value.

To accomplish this, we are developing NEXPERIENCE, Hitachi’s original customer collaborative creation methodology to promote delivery of Lumada solutions. We expect to realize this through Kyōsō-no-Mori, the new research initiative launched from the Central Research Laboratory, and through stronger collaboration with industry-academia-government initiative and startups.

In April 2019, we established a new Corporate Venturing Office to promote collaboration with external startups, and in June established a corporate venture capital fund. By promoting investment in and collaborative creation with startups, especially in Europe and the US, we are bringing in disruptive technologies and business models.

**Creating Visions through Industry-Academia-Government Collaboration**

Joint laboratories were established with the University of Tokyo, Kyoto University, and Hokkaido University in 2016 for the purpose of creating value to resolve future societal issues. The Hitachi The University of Tokyo Laboratory holds open forums under the themes covering societal issues such as “urban planning” and “energy,” to publish books and policy proposals to share visions, as well as conducting verification trials in Matsuyama City, Ehime Prefecture, to resolve regional challenges. The Hitachi-Kyoto University Laboratory developed a “policy-proposing AI” focusing on issues in society in the year 2050m and is verification trials in Nagano Prefecture. The Hitachi-Hokkaido University Laboratory is also working on themes such as “regional issues” and “food and health.” Further, in 2018, we also signed a collaboration agreement with Tsinghua University to resolve future societal challenges in China.

Through such efforts, we hope to gain insight into future societal issues, and by innovation, we will communicate to the world new visions to achieve both the resolution of these challenges and and realizing economic development.

**Launching Kyōsō-no-Mori to Accelerate Collaborative Creation with Partners and Customers**

To foster an innovation ecosystem, Hitachi launched a new research and development initiative, Kyōsō-no-Mori, from the Central Research Laboratory in Kokubunji, Tokyo. The Company consolidated the customer collaboration functions of the Akasaka facility in Kokubunji, to facilitate agile development of value by deepening the fusion with cutting-edge research.

At the Kyōsō-no-Mori Opening Ceremony, a panel discussion was held on “smart city initiatives” with the ambassadors from Thailand and Australia participating in dialogue on the value and significance of smart city initiatives. Further, to generate ideas and accelerate innovation, ideathons*1 and hackathons*2 are being held both in and outside of Japan in areas such as FinTech and blockchain applications. In parallel, Hitachi is cooperating with Kokubunji City to evaluate local digital currencies, while in North America, the Company has started developing technology such as remote control for 5G solutions, and will continue to expand open innovation globally from Kyōsō-no-Mori.

**Strengthening Core Technologies Supporting Lumada**

In addition to promoting innovation through collaborative creation, we are focusing investment on the “5 sectors x Lumada,” Lumada core technologies and strengthening products, to expand Lumada business.

Lumada is being deployed in each sector. For the IT sector, we are focusing on data utilization solutions for financial, social, and public systems. In the financial area, we are working with state-owned banks in India for next-generation digital payment platforms and developing solutions based on next generation blockchain technology in North America. In the energy sector, we are aiming for a low-carbon or decarbonized society through system stabilization solutions suitable for introducing renewable energy. Meanwhile, in the industry sector, to realize the “smarterfication” of priority areas such as manufacturing, maintenance and logistics, we are working to promote collaboration with external startups, and in June established a corporate venture capital fund. By promoting investment in and collaborative creation with startups, especially in Europe and the US, we are bringing in disruptive technologies and business models.

successes that we are achieving through OT X IT X Products. In the mobility sector, “Dynamic Headway” which is currently undergoing field tests will be further advanced so that it can be provided to not only trains but also as an facility planning optimization solution for building facilities such as elevators. In the smart life sector, we are focusing on smart therapies, smart cities, and connected cars, including autonomous driving and software updates via Over The Air (OTA).
Accelerate Innovation

To strengthen Lumada core technologies, our efforts are directed towards realizing Lumada CPS (Cyber Physical System) which connects cyberspace with the real world, focusing on AI and audiovisual analytics, sensing, electrification, 5G, robotics and security.

The strength of Hitachi’s AI is that it development is based on equipment control technology, product design, and maintenance technology that the Hitachi Group has built-up over the years. For example, in predictive maintenance technology for industrial equipment, the AI visualizes the difference between a normal state or an abnormal state which could lead to material degradation or failure, from real-world operational data. This helps to determine whether there is a high probability of industrial equipment failure. This technology already has a good track record in Hitachi’s medical equipment and is being used in regions such as North America.

In the area of audiovisual analytics, video images from stations and buildings are analyzed in real time, allowing specific people to be searched in the area of audiovisual analytics, video images from stations and buildings are analyzed in real time, allowing specific people to be searched.

With regard to products, we are aiming to deliver world No. 1 equipment control technology, product design, and maintenance technology that the Hitachi Group has built-up over the years. For example, with inverter technology which is central to electrification, we have created and commercialized the world’s most efficient full SiC inverters for use in railway cars. For diagnostic and treatment systems, Hitachi has developed the world’s smallest particle accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan. Furthermore, we have realized accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan. Furthermore, we have realized accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan.

Creating Disruptive Technologies

Solving societal issues also requires the creation of disruptive technologies. In collaboration with the University of Cambridge in the UK and CEA-LETI in France, Hitachi has successfully demonstrated the world’s first silicon quantum bit*2 system which promising advantages for system integration for quantum computers. In the near future, we believe this will contribute to resolving complex societal issues. In 2017, the Hitachi established the Hitachi Kobe Laboratory in the Kobe Biomedical Innovation Cluster to achieve practical applications in regenerative medicine. The Laboratory has already created technologies contributing to a healthy society, including the world’s first successful automated culture of retinal cells derived from human iPSCs.

We are also actively participating in the open communities, contributing to open projects and consortiums in areas such as blockchain and edge computing. Also, through participation in organizations such as WEF-C4IR,*1 we are also actively involved in forming rules.

*1 Japan has the highest sensitivity (>100m)

*2 MEME transistor technology based on semiconductor device technology formed at the Central Research Laboratory. We are currently proceeding with water leakage detection field tests using this device. Such technologies will be key in realizing safety and security in smart cities.

With regard to products, we are aiming to deliver world No. 1 technology which is central to electrification, we have created and commercialized the world’s most efficient full SiC inverters for use in railway cars. For diagnostic and treatment systems, Hitachi has developed the world’s smallest particle accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan. Furthermore, we have realized accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan. Furthermore, we have realized accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan.

3. R&D Investment, Portfolio and R&D Structure

With the goal of enhancing competitiveness in the five core Social Innovation Business sectors, the Hitachi Group’s R&D investment amounts to about 4% of total revenue. Approximately ¥1 trillion was invested in R&D during the period covered by the 2018 Medium-term Management Plan and the aim is to increase this to ¥1.2 trillion during the 2021 Mid-term Management Plan. This includes corporate-led R&D investment focused on collaborative creation with our customers, global No. 1 technology, and exploratory research, as well as investment to accelerate the global development of Lumada business which is our engine for growth. To realize this, we are establishing a common digital platform for efficient global development, as well as enhancing our research resources worldwide.

R&D spending as a percentage of revenue fell due to portfolio restructuring, including the sale of select non-core businesses, and the fact that investment has been cautious focused on targeted areas.

With regard to products, we are aiming to deliver world No. 1 technology which is central to electrification, we have created and commercialized the world’s most efficient full SiC inverters for use in railway cars. For diagnostic and treatment systems, Hitachi has developed the world’s smallest particle accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan. Furthermore, we have realized accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan. Furthermore, we have realized accelerator for the treatment of cancer, and it is currently in operation at a heavy ion therapy center in Japan.
Accelerate Innovation

The Hitachi Group’s Growth Strategy

Human Resource Strategies Supporting Innovation Creation

With the goal of creating innovation and new value in the global and digital era, Hitachi is focused on securing and fostering a diverse workforce and the organizations capable of driving sustainable growth. We have established a firm relationship between employees and the Company by providing places of employment that offer a favorable work-life balance, focusing on worker safety and health, and respecting the basic rights of employees and ensuring equal opportunities. Hitachi is also proactively engaged with all its employees regarding compensation and career advancement.

Transforming Human Resources Management

The development of the Social Innovation Business requires us to actively investigate social and customer issues, and then cooperate with customers to create new solutions.

Hitachi is working to transform human resources management with the aim of placing the right person in the right position anywhere in the world. Clarifying through a global standard the role, responsibilities, and reporting lines of each position, and embracing a common understanding serves to accelerate the creation of a solid global structure for Hitachi. In addition, it fosters an organizational culture that recognizes and makes best use of its diverse and self-motivated individual workers.

The Transformation in Human Resources Management

Previously

- Homogenous organization centered on Japanese and male full-time employees
- Work styles sharing same locations and forms
- Domestic Individual companies
- Recency to rely only on training/job placements designed for long-term employment
- Job placements designed for extensive overtime
- Irrespective division of job duties

Optimally tailored HR programs and initiatives for individual companies and countries

Currently

- Providing high-quality products and systems mainly to meet the needs of domestic clients in Japan

Widening business scopes and areas to alleviate social concern, then providing common-existing services to meet these needs

- Practicable organization with diversity of roles, including nationality and gender

Job styles unconstrained by location or time

Global/Regional

- Employees plan their careers proactively and in consultation with managers, becoming important decision-makers

- Facilitating the development of a world-class workforce through effective and engaged work

- Ensuring more challenges and making reforms are promoted

Introduction of groupwide and global HR Management initiatives

Groupwide and global HR Management initiatives

- Global HR Database
- Global Talent Management
- Global Leadership Development
- Others

Launched global HR management

Global Human Resources Management

To create a global common platform for HR management, Hitachi has introduced a Global HR Database, as well as Hitachi Global Grade and Global Performance Management since 2012.

- Hitachi launched in full human capital management integrated platform in January 2018, centralizing processes and measures enacted to date. The three main benefits of this platform are as follows.

1. Improving Talent visibility

Until very recently, it was quite difficult to quickly get a handle on the skills and abilities of employees in a given country, region, or company. Improved visibility in this respect allows us to make appropriate placements and provide training suited to a particular individual, to find and develop future leaders, and facilitate better communication between managers and employees.

2. Strengthening the “I will” culture

The platform allows employees to enter their own experiences and skills, with all employees having access to that information at all times. This expands the likelihood of employees taking on challenges in work areas of interest, resulting in the creation of a workforce of proactive employees able to think and act for themselves.

3. Improving Speed and Efficiency

The use of global common data allows us to quickly and smoothly launch a new project by rapidly and efficiently placing the human resources necessary to that project.

2021 Human Resources Strategy

The mission of the human resources division is “contributing to the business through talent and the organization.” The division formulated its 2021 HR Strategy based on the goals of the 2021 Mid-term Management Plan announced in May 2019. The HR Strategy focuses on achieving growth throughout the world through a diverse workforce that is happy and proud to work at Hitachi and creating for all employees a safe and vibrant workplace that respects a wide range of diverse values.

Hitachi is committed to building a company where employees with different cultural backgrounds, as well as experiences and ways of thinking can work together. We aim to instill in all our employees around the world a shared sense of values, including the “Harmony, Simplicity, and Pioneering Spirit” values central to the Hitachi Group identity, with the “One Hitachi” idea crossing national, regional, and departmental borders and contributing to the betterment of society. We are also promoting measures aimed at the optimal placement of personnel through the visualization of HR data, the use of analytics based on accumulated data and HR technologies, and improved efficiency. Finally, we are focused on advancing initiatives for fiscal 2021 based on the four key concepts of Talent, Culture, Organization, and HR Transformation.

Human Resources Management Initiatives

- Global Human Resources Database
- Global Leadership Development
- Global Talent Management
- Other

Ensuring Fair Evaluations and Compensation

Aiming the ongoing globalization of business, there is an increased need to establish a global human resources system that ensures fair evaluations and compensation. In order to attract a diverse and highly engaged workforce, Hitachi is focused on building a consistent management system and accordingly follows a common “Global Compensation Philosophy” based on “maintaining market competitiveness,” “pay for performance,” and “ensuring transparency.”

We are developing a compensation system that is fair and competitive in the context of each country or region’s labor market, with an individual’s compensation determined after evaluation of their performance. Individual assessments are conducted annually to set each employee’s compensation, and feedback on their performance results is provided to inspire them to develop and grow even further.

We ensure compliance with the laws and regulations of each country in which we operate when determining compensation. Starting pay for new graduates in Japan—representing about half of all new graduates recruited each year across the Group’s global operations—was roughly 20% higher than the weighted average of Japan’s regional minimum wages.

Fostering the Next Generation of Leaders

In addition to Hitachi University, the Group’s global learning management system, we have developed a variety of educational programs tailored to different jobs and positions. We are also focused on 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 a 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 independent directors to benefit directly from their extensive business experience and global perspective. Our aim is to change mind-sets so that we can develop people for important positions in the future.
Accelerate Innovation

Strengthening Front-Line HR and Establishing a Digital HR Training Policy

Hitachi in April 2016 shifted to a business structure with strengthened front-line functions to accelerate collaborative creation with our customers as part of the drive to advance the Social Innovation Business. Hitachi’s technologies and know-how must be developed so that they can be provided as a service by front-line personnel, who are closest to our customers. With this in mind, we have strengthened the front-line talents we expect to drive the Social Innovation Business moving forward.

While there are a number of companies focused on achieving a digital transformation through digital technologies such as AI, IoT, and big data, one key challenge throughout the world is the shortage of data scientists specializing in data analysis. In addition to its digital solutions focusing on the fusion of OT (operational technology) and IT, Hitachi has launched measures to foster a digital workforce that can be expected to drive digital transformations.

With a target of increasing the number of data scientists to 3,000 by fiscal 2020, Hitachi’s strengthening of its data scientist workforce at group companies in Japan and overseas will allow us to further support our customers and drive the expansion in digital solutions.

Strengthening Front-Line HR and the Digital HR Training System

Before the 2016 start of the new front-line structure, discussions on bolstering front-line talents were initiated by a preparatory committee, which includes officers and business unit managers and was created in 2015. The committee defined front-line functions, roles, and personnel qualifications necessary to bolster the front-line workforce. Based on these discussions, the Company also identified the need to develop human resources, from leaders to practitioners, to promote the Social Innovation Business, and in 2016 created the Social Innovation Business Front Talent Development Program, consisting of four phases, as well as action learning, group training, and e-learnings programs. Phase 1 and Phase 2 focused on action learning using real-world projects for leaders expected to drive the collaborative creation business, with Phase 3 and Phase 4 focusing on employees in the Hitachi Group as a whole, including in regard to supporting diverse human resources and providing work-life management. The Advisory Committee implements to the fullest the Company’s diversity management policies, while the Diversity Development Council shares best practices and discusses specific diversity-related activities. Each committee meets every six months. Group companies and business groups/sites have also set up their own diversity-promotion organizations and projects, such as those to help develop women’s careers, to enhance initiatives geared to the challenges faced by individual workplaces. Hitachi from fiscal 2018 has broadened the sharing of diversity promotion policies across the entire group, with Group companies around the world working together to accelerate implementation.

Diversity & Inclusion

Diversity is the wellspring of innovation at Hitachi and our growth engine. Hitachi regards personal differences—gender, nationality, race, religion, background, age, and sexual orientation—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 will adapt to the diverse needs of our customers by using our diverse capabilities, our outstanding teamwork, and our extensive experience in the global market.

We are promoting diversity management as a key management strategy under the initiative slogan “Diversity for the Next 100.” We believe it important to share opinions and recognize diverse values if we are to provide optimal solutions based on an accurate understanding of the complex issues confronting society and our customers. With the goal of having members with different values on the same team sharing the same goals, we are working not only to secure and train a diverse workforce, but also to create an environment where each of these individuals can work to the best of their abilities.

Hitachi, Ltd., and 15 major group companies jointly operate the Advisory Committee and the Diversity Development Council, which focus on accelerating the promotion of diversity across the Hitachi Group as a whole, including in regard to supporting diverse human resources and providing work-life management. The Advisory Committee implements to the fullest the Company’s diversity management policies, while the Diversity Development Council shares best practices and discusses specific diversity-related activities. Each committee meets every six months. Group companies and business groups/sites have also set up their own diversity-promotion organizations and projects, such as those to help develop women’s careers, to enhance initiatives geared to the challenges faced by individual workplaces. Hitachi from fiscal 2018 has broadened the sharing of diversity promotion policies across the entire group, with Group companies around the world working together to accelerate implementation.

Diversity Activities and Developing Women’s Careers

With the goal of promoting participation in management decision-making by people with differing backgrounds and enabling as many female employees as possible to take up leadership positions, Hitachi, Ltd., has created two key performance indicators (KPIs) for the appointment of women in executive and managerial positions.

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. We will continue to promote this goal to ensure that diverse views and values will be reflected in our management. In November 2017, we publicly announced our commitment to increasing the rate of female executive and corporate officers to 10% by fiscal 2020. We are also working to promote more female employees to managerial positions, aiming to double the number of female managers to 800 by the end of fiscal 2020 compared with fiscal 2012. These efforts demonstrate our commitment both internally and to the world to improve our diversity management.

As part of our efforts in this area, we have been hosting since 2016 the Global Women’s Summit, inviting 100 or more female employees from Hitachi Group companies around the world. The event is held in different areas of the world and is focused on improving awareness in leadership and career planning, and to enhance motivation through the formation of a global support network. The day the summit is held features a message from President and CEO Toshiaki Higashihara, the participation of executives, and the exchange of opinions among the many female employees attending.

Number and Ratio of Female Managers

<table>
<thead>
<tr>
<th>Year</th>
<th>Female Managers, Hitachi, Ltd.</th>
<th>Female Managers, Hitachi Group*1</th>
<th>Percentage of Total, Hitachi, Ltd.*2</th>
<th>Percentage of Total, Hitachi Group*3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>73</td>
<td>2,000</td>
<td>3.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td>2014</td>
<td>244</td>
<td>4,727</td>
<td>6.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>2015</td>
<td>474</td>
<td>6,277</td>
<td>4.2%</td>
<td>2.9%</td>
</tr>
<tr>
<td>2016</td>
<td>509</td>
<td>6,537</td>
<td>4.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>2017</td>
<td>577</td>
<td>7,000</td>
<td>4.2%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2018</td>
<td>3,459</td>
<td>3,640</td>
<td>6.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>2019</td>
<td>6,338</td>
<td>4,000</td>
<td>6.8%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Note: Figures include section chiefs and above.

*1 “Female managers” in fiscal 2017 include managerial employees dispatched from Hitachi, Ltd. to non-Group companies and those accepted from non-Group companies by Hitachi, Ltd. Figures prior to fiscal 2016 exclude regular non-Group employees dispatched to non-Group companies who are not dispatched.

*2 “Female managers” in fiscal 2017 include managerial employees dispatched from Hitachi, Ltd. to non-Group companies and those accepted from non-Group companies by Hitachi, Ltd. Figures prior to fiscal 2016 exclude regular non-Group employees dispatched to non-Group companies who are not dispatched.

*3 “Female managers” in fiscal 2017 include managerial employees dispatched from Hitachi, Ltd. to non-Group companies and those accepted from non-Group companies by Hitachi, Ltd. Figures prior to fiscal 2016 exclude regular non-Group employees dispatched to non-Group companies who are not dispatched.
We are advancing reduction measures for CO₂ emissions during decarbonization. Expand our decarbonization business, utilizing IT and other innovative technologies. Hitachi Environmental Innovation 2050 sets targets for reducing CO₂ emissions to help the world meet the challenge of climate change. In response to global demands for a reduced environmental burden, we created a management strategy called the Environmental Vision, which declares, “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.” We aim to achieve a low-carbon society, a resource efficient society, and a harmonized society with nature in accordance with this Vision. To guide our efforts toward 2030 and 2050, in September 2016 we established long-term environmental targets called Hitachi Environmental Innovation 2050. To achieve these long-term goals, we have been updating our Environmental Action Plan every three years. We are strengthening and promoting our environmental activities under the Environmental Action Plan for 2021 (covering fiscal 2019-21), created in line with the 2021 Mid-term Management Plan.

The aim of Hitachi’s environmental management efforts is to improve the environmental performance of our value chain and contribute to global efforts to reduce CO₂ emissions. In the industrial sector, along with improving the overall efficiency of clients’ factories through the provision of high-efficiency industrial products, we are using IoT and AI to optimize entire factory operations and helping our customers reduce their CO₂ emissions.

Efforts to Achieve a Low-Carbon Society

Hitachi Environmental Innovation 2050 sets targets for reducing CO₂ emissions to help the world meet the challenge of climate change. In line with a scenario to keep the increase in global temperatures below 2°C, we have established reduction targets of 50% by fiscal 2030 and 80% by fiscal 2050 (compared to fiscal 2010 levels) throughout the value chain. Approximately 90% of the value-chain emissions of our products and services are emitted during production, transportation, use, disposal, and recycling. The remaining 10% result from the use of our products and services after they were sold. For this reason, reducing CO₂ emissions during the stage of use is crucial to reducing emissions across the value chain.

In light of heightened investor interest in the financial impact of climate change, in June 2018 we announced our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We are actively disclosing climate-related information in accordance with these recommendations and conducting dialogues with investors.

Expanding the Decarbonization Business to Address Climate Change

To help build a sustainable society through the Social Innovation Business, the 2021 Mid-term Management Plan cites the goal of simultaneously increasing social, environmental, and economic value for our customers by supplying solutions in the five sectors of IT, energy, industry, mobility, and smart life. It also sets a reduction target of more than 20% for our value-chain CO₂ emissions by fiscal 2021 compared to fiscal 2010.

We are utilizing Lumada to expand our decarbonization business. Through collaborative creation, we will help the world mitigate and adapt to climate change. In the IT sector, we are contributing to building a low-carbon society by transforming social systems and lifestyles by providing innovative digital solutions.

With regard to energy, we are contributing to CO₂ emission reductions through the provision of power generation systems using non-fossil energy, such as renewable energy and nuclear power, and creating smart grids that transmit and distribute power efficiently and stably and can optimize local supply and demand.
Strengthen Lumada

As society and business continue to generate more data, Hitachi’s Lumada acts as an engine that creates new value from these data and accelerates innovation. We launched the Lumada business in 2016, and its revenue has grown rapidly in three years, from ¥980.0 billion in fiscal 2016 to ¥1,127.0 billion in fiscal 2018. Under the 2021 Mid-term Management Plan, we are promoting measures aimed at expanding our business with the goal of achieving revenue of ¥1,600.0 billion.

Lumada creates value from customers’ data and drives digital innovation

Hitachi will develop a global Social Innovation Business that will improve the quality of people’s lives, raise corporate value for our customers and contribute to resolve social issues. We will accelerate innovation in each of the five business sectors, creating solutions that provide new value.

Lumada is a general term for the solutions, services and technologies that utilize Hitachi’s advanced digital technologies to create value from customers’ data and drive digital innovation. It is derived from the words “illuminate” and “data” and was created based on the idea of combining the strengths of the operational technology (OT), IT and products “illuminate” and “data” and was created based on the idea of combining the strengths of the operational technology (OT), IT and products to contribute to resolve social issues. We will accelerate innovation in each of the five business sectors, creating solutions that provide new value.

Lumada business model

The Lumada business provides value by analyzing business issues and combining Hitachi’s digital technologies to solve customer problems, with the lowest amount of customization as possible. In fiscal 2018, revenue in the Lumada business was ¥1,127.0 billion, and its adjusted operating income ratio had already exceeded 8%, the level of the entire Hitachi Group. Rather than relying merely on product sales, we will build a profit model based on value created through the provision of solutions, such as income from fees. To this end, Hitachi will leverage its strengths in OT x IT x Products to commoditize its expertise in various industries and operations. At the same time, we will make the shift to digital solutions that can be provided to a number of customers, thereby expanding the Lumada business. Furthermore, we will intensify our collaborate efforts to build new ecosystems with our customers and partners.

Lumada Revenues

<table>
<thead>
<tr>
<th></th>
<th>FY2018</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019 (Forecast)</th>
<th>FY2021 (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (¥ billion)</td>
<td>9,162.3</td>
<td>9,366.8</td>
<td>9,480.8</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Lumada revenues (¥ billion)</td>
<td>900.0</td>
<td>1,100.0</td>
<td>1,127.0</td>
<td>1,172.0</td>
<td>1,600.0</td>
</tr>
<tr>
<td>Share of total revenues (%)</td>
<td>10%</td>
<td>11%</td>
<td>12%</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

* Lumada revenue is included within Hitachi’s consolidated revenue.
* The IT sector comprises about 80% of Lumada revenue and the industrial sector accounts for about 20%.

Strengthening our overseas business structure

Currently, about 90% of Lumada business revenue comes from Japan. We are strengthening our overseas business structure, primarily in North America and Asia, with the goal of accelerating the global expansion of the Lumada business moving forward. In the future, we will continue to recruit new personnel while acquiring companies capable of collaborating with customers to produce digital solutions and investing in partners. These efforts will contribute to our goal of nearly doubling our number of relevant overseas personnel from its current level of 23,000 to 40,000.

As an example of collaboration with overseas partners, in January 2019, we established a joint venture with India’s largest state-owned commercial bank, State Bank of India (SBI). Through this venture, we aim to build a digital payment service platform for the next generation. By collaborating with SBI, which has about 400 million customers (equivalent to roughly one third of India’s population), we are analyzing and utilizing vast amounts of digital payment data obtained from point-of-sale POS systems, e-commerce and transportation fare payment systems in an effort to provide high value-added services in India.

Methodology and services aimed at accelerating collaboration with customers and partners

- Support ranging from the discovery of potential issues and strategic planning to value verification

(1) Issue analysis and hypothesis building through NEXPERIENCE, a collaborative creation process

Before creating innovation, one must first discover potential issues. However, corporate issues are becoming more complex as society globalizes and diversifies. When collaborating using Lumada, Hitachi uses NEXPERIENCE, its unique collaborative creation process, discover issues, propose solutions and verify value.

To solve a variety of issues through collaboration with customers, NEXPERIENCE combines the perspectives of service engineering researchers and designers and systematizes methods and IT tools that support the entire collaborative creation process. Specifically, NEXPERIENCE involves analyzing issues related to management and business operations through workshops with customers and partners and designing measures, such as new services and business, that solve these issues.
Strengthen Lumada

(2) Prototyping and value verification conducted through the Lumada Competency Center

If we can clarify issues facing customers and society, as well as hypothesized solutions, through NEXPERIENCE, we can use resources including the Lumada Competency Center to determine whether we are capable of solving these issues by using them to build solution prototypes that help us analyze whether proposed solutions will produce their intended results.

The Lumada Competency Center provides system testing environment services that support rapid prototyping conducted through the use and application of data and hypothesis verification. We support the speedy establishment of the system environments necessary for PoC* that follows hypothesis planning by offering a variety of services, including Pentaho, a data integration and analysis platform that is also Lumada’s core software; services with development and management tool environments that support agile development*; and Hitachi AI Technology/Hitachi’s own artificial intelligence technology.

Accumulation of industrial and operational expertise

- Quickly providing reliable digital solutions to customers’ management issues by utilizing our abundant cache of customer cases

(1) Customer cases

Hitachi has accumulated a wide range of industry and business expertise and knowledge in the form of Lumada customer cases with the goal of rapidly utilizing them to collaborate with customers in a variety of fields. Lumada customer cases are models of digital solutions that have created new value through collaborative creation with customers. Each customer case organizes elements such as how value was created using data and which technologies were applied in terms of artificial intelligence and analytics.

When promoting new collaborative creation with customers, Hitachi makes use of Lumada customer cases that fit customers’ management issues, as well as Lumada solutions based on an abundance of expertise, to establish appropriate mechanisms for each customer and swiftly achieve digital solutions that create true value.

(2) Customer cases that support the entire value chain

As of the end of March 2019, we have established more than 650 customer cases and are continuing to steadily expand this number. We are also pushing forward with our establishment of customer cases that can be used by customers to support efforts common to a wide variety of industries, such as predictive maintenance for equipment and devices. Examples include cases related to medical devices, power generation equipment, and other machinery equipment.

In the future, we will continue to conduct investment aimed at further strengthening our lineup of reusable solutions while working to solve customer problems throughout the value chain, including in management, sales, planning, design, procurement, manufacturing, logistics, and maintenance.

Customer Case Examples

<table>
<thead>
<tr>
<th>Customer Case</th>
<th>Industries</th>
<th>Goals and issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue/Loss simulation</td>
<td>Manufacturing industry</td>
<td>Manufacturing plan, inventory management</td>
</tr>
<tr>
<td>Streamlining of cybersecurity monitoring operations</td>
<td>Common across industries</td>
<td>Security enhancement</td>
</tr>
<tr>
<td>Digitalization of refined skills</td>
<td>Manufacturing industry</td>
<td>Improvement of product quality</td>
</tr>
<tr>
<td>Customer-centered marketing</td>
<td>Retail industry</td>
<td>Marketing</td>
</tr>
<tr>
<td>Improve credit analysis</td>
<td>Financial industry</td>
<td>Decision-making support</td>
</tr>
<tr>
<td>Inventory optimization</td>
<td>Wholesale, retail and manufacturing industries</td>
<td>Manufacturing plan, inventory management</td>
</tr>
<tr>
<td>Analysis of fan club member information</td>
<td>Service industry</td>
<td>Marketing</td>
</tr>
<tr>
<td>Crop growth analysis</td>
<td>Agriculture</td>
<td>Productivity improvement</td>
</tr>
<tr>
<td>Predictive maintenance</td>
<td>Common across industries</td>
<td>Preventive maintenance</td>
</tr>
<tr>
<td>Improvement of operating rates and fault diagnosis</td>
<td>Electricity, gas, heat and water supply industry</td>
<td>Facility management</td>
</tr>
<tr>
<td>Delivery optimization</td>
<td>Transportation industry</td>
<td>Delivery and transformation management</td>
</tr>
</tbody>
</table>

(3) Lumada customer cases

Overall optimization of production sites used for high-mix, low-volume production in the manufacturing industry

Collect and analyze various data on people and other elements of the production process to improve its efficiency

Customer needs are diversifying and digitalization is progressing at a rapid rate while global competition intensifies. These trends have resulted in demand for high-mix, low-volume production that reaches the same level of productivity as mass production through mass customization. Hitachi’s Omika Works handles controls systems manufactured for social infrastructure such as electric power, railways and water and sewage systems through high-mix, low-volume production, and, under these circumstances, faces the need to monitor the progress of production processes in real time. In response, the Omika Works installed about 80,000 RFID tags and approximately 450 RFID readers, collecting detailed data concerning the progress of work conducted by employees and the flow of goods. Furthermore, the Omika Works combined and shared a variety of information gathered by existing systems, including process and production management systems, and analyzed the movement of people and goods throughout its production site. This enabled the establishment of a more precise production plan.

Furthermore, the Omika Works improved the efficiency of its design process through the effective use of design assets and improved the precision of its production plans using a factory simulator. Through these efforts, the Omika Works established a high-efficiency

(3) Predictive maintenance for machinery and equipment

Collecting data from sensors installed in machinery and equipment to diagnose and detect issues, thereby avoiding failures and reducing maintenance costs

Failures and unplanned downtimes at facilities that compose our industrial and social infrastructures have a major impact not only on our businesses but also on society. Accordingly, we recognize the need to ensure the continuous and stable operation of these facilities, which requires proper equipment maintenance and quality control.

However, many operators do not have analysis methods despite having gathered data indicating the status of their equipment and resort to conducting analysis manually. This results in a large workload that prevents the proper use of valuable data.

With this customer case, we examine and analyze large volumes of data collected from sensors attached to equipment and detect signs of abnormalities. We also color code and display various information, including equipment operation statuses, relevant changes and indications of possible defects, making it easier to view and identify.

This will enable the customer to detect situations in which equipment statuses or product quality differ from the norm at an early stage, thereby preventing breakdowns and unplanned downtimes. As a result, we can expect to be able to reduce maintenance costs by raising equipment operation rates and ensuring the suitability of replacement parts.

Customer needs are diversifying and digitalization is progressing at a rapid rate while global competition intensifies. These trends have resulted in demand for high-mix, low-volume production that reaches the same level of productivity as mass production through mass customization. Hitachi’s Omika Works handles controls systems manufactured for social infrastructure such as electric power, railways and water and sewage systems through high-mix, low-volume production, and, under these circumstances, faces the need to monitor the progress of production processes in real time. In response, the Omika Works installed about 80,000 RFID tags and approximately 450 RFID readers, collecting detailed data concerning the progress of work conducted by employees and the flow of goods. Furthermore, the Omika Works combined and shared a variety of information gathered by existing systems, including process and production management systems, and analyzed the movement of people and goods throughout its production site. This enabled the establishment of a more precise production plan.

Furthermore, the Omika Works improved the efficiency of its design process through the effective use of design assets and improved the precision of its production plans using a factory simulator. Through these efforts, the Omika Works established a high-efficiency
**Strengthen Lumada**

### Raising credit analysis accuracy through the use of AI

Upon understanding customer income and financial conditions, it becomes necessary for financial institutions to predict future credit losses based on factors such as global economic trends. This requires high-level expertise. Mortgages have been particularly difficult to predict using conventional data analysis methods due to their long payback periods.

With this customer case, Hitachi utilizes internal data from financial institutions (e.g., card loans, mortgages), as well as external data (e.g., economic indicators, GIS information) using “Hitachi AI Technology” Prediction of Rare Case,” an artificial intelligence it developed in house to predict the occurrence of rare events, thereby ensuring highly accurate screenings. This allows for more detailed screenings, which we expect will allow loans to be granted to more customers than was previously possible.

One developmental effort involving this customer case is Hitachi’s May 2019 establishment of Davita Consulting Co., Ltd., a joint venture formed through collaboration with SBI Sumishin Net Bank, Ltd., that provides screening services using artificial intelligence. The company plans to provide screening services for various types of lending, including mortgages and card loans, to financial institutions including regional financial institutions.

### Development of an AI-based production planning system through collaborative creation with Suntory Beverage & Food Ltd.

In recent years, beverage manufacturers have faced the need for prompt and flexible product supply in response to diversifying consumer requirements and fluctuations in demand caused by changes in weather and climate. In addition to fulfilling these needs, it is necessary for these manufacturers for formulating optimal production plans that account for complex constraints, such as delivery times, production capacity and production and transportation costs. Suntory Beverage & Food Ltd. (“Suntory”) has been raising its production plans on the experience of responsible staff. However, creating plans that account for complicated restraints requires a high level of planning ability and a huge amount of time. Furthermore, production plans are drawn up for each area, which means that the most optimal conditions will differ for each location. For these reasons, Suntory has been unable to formulate an optimal plan that effectively utilizes all of its production resources.

Under these circumstances, Suntory and Hitachi have begun collaborative creation based on the concept of “Harmony between People and AI,” combining the former’s expertise regarding planning and the latter’s AI technology to develop a system that enables the creation of optimal production plans in the face of changing demand and complex constraints. We applied this system to production planning conducted at Suntory’s actual manufacturing bases and verified that it was possible to reduce the amount of work time put into planning from its previous average of approximately 40 hours per week to approximately 1 hour. Aiming to optimize its production plans throughout Japan, Suntory launched full-scale operation of this system in January 2019 and is currently working to build a stable supply system that can provide immediate response to fluctuating demand and to improve productivity by raising operational efficiency.
**Story of Value Creation in the IT Sector**

The use of digital technologies such as 5G, AI, IoT and robots is essential for companies aiming to continuously raise their corporate value amid dramatic environmental changes and a focus on digital transformation, or the revolutionization of corporate management through digital technology, is rising even further. In Japan, where the birthrate is rapidly declining and the population is aging at an alarming rate, IT-related market is expected to be necessary for improvement in productivity and work-style reforms.

**Results and Targets**

<table>
<thead>
<tr>
<th>FY2018 (Result)</th>
<th>FY2021 (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (¥ billion)</td>
<td>2,121.6</td>
</tr>
<tr>
<td>Overseas revenue ratio (%)</td>
<td>42%</td>
</tr>
<tr>
<td>Adjusted operating income (¥ billion)</td>
<td>230.1</td>
</tr>
<tr>
<td>Adjusted operating income ratio (%)</td>
<td>10.4%</td>
</tr>
<tr>
<td>EBIT (¥ billion)</td>
<td>213.6</td>
</tr>
<tr>
<td>EBIT ratio (%)</td>
<td>10.0%</td>
</tr>
<tr>
<td>ROIC</td>
<td>19.6%</td>
</tr>
</tbody>
</table>

**Principal Products and Services**

- **IT services**: Cloud service, Data analytics, IoT platform
- **Systems for social infrastructure**: Control systems, Water systems, Building management systems
- **IT functions commonly used for all industries**: Application development, Transport and communication carriers
- **Financial systems**: Mobile payment systems
- **Other services**: System integration and quality assurance

**Expansion of the Lumada Business**

The Lumada business will serve as a growth engine for all of Hitachi through the utilization of data and co-creation with customers and partners. The digital tools and wide-ranging industry and business expertise used to make this possible are being condensed into customer cases adjusted so they can be reused by many customers.

Lumada’s customer cases have been accumulated as “workplace knowledge” of “OT + IT + Products,” which Hitachi has refined through its customer-centered policies. By using Lumada as a starting point, we can minimize customization and develop and implement speedier solutions. Furthermore, the ability to expand Lumada into a wide range of areas, such as mobility, smart life, energy and industry, is a major factor that distinguishes Hitachi from its competitors.

We worked to expand digital solutions using Lumada during the three years covered by the 2018 Mid-term Management Plan, launching the business globally in 2016 and investing about ¥100 billion into the launch of related businesses. Currently, we have amassed more than 650 customer cases (as of the end of fiscal 2018), which are examples of co-creation with users. On the other hand, we must refine Lumada’s customer cases and the solutions that embody them on an ongoing basis as the management and business issues facing our customers continue to change constantly. As we move forward, we will strive to expand the Lumada business by accumulating new customer cases and solutions through co-creation with customers and partners.

Over the three years covered by the 2021 Mid-term Management Plan, we will continue to invest ¥150 billion in the Lumada business, which acts as the core of growth, and invest one trillion yen over the three years covered by the 2021 Mid-term Management Plan to accelerate global expansion.

**Collaborative Creation of Value within the IT Sector**

Lumada plays a core role in our efforts to provide social, environmental and economic value and to achieve social innovation. On the other hand, Hitachi cannot achieve objectives related to the SDGs and Society 5.0 on its own. We believe that these objectives can only be achieved through co-creation with a wide range of customers and partners.

For example, since 2017, we have been supporting the digitization of subsidy payment operations and other financial services offered by the state-owned Vietnam Post. In fiscal 2018, we expanded the scope of this digitization to include social security subsidy and pension payment operations and are currently promoting further expansion on a nationwide scale. Through this co-creation, Hitachi will combine its technologies with Vietnam Post’s services to improve the quality of people’s lives. We aim to help improve convenience for 6 million subsidy recipients starting in 2020.

Together with our customers and partners, we will form a Lumada-centered ecosystem that enables expertise, resources and skills to be shared while further accelerating social innovation.

**Accelerate customer innovation with advanced IT**

In the IT Sector, we will meet the expectations of customers in Japan and overseas with the power of digital technology, achieve a sustainable society and aim to become a top-class global solution provider. Moving forward, we aim to improve social value through advanced digital solutions operations in the financial and social infrastructure fields. At the same time, we will strive to create environmental value by raising environmental efficiency throughout the lifecycle of our products and services.

**Growth Strategies under the 2021 Mid-term Management Plan**

Digital transformation, which involves attempting to produce reforms in corporate management and business models, is receiving an increasing amount of attention. Under these conditions, mobile payment systems utilized in mobile phone networks, which have a global penetration rate of more than 100%, are becoming commonplace in people’s lives and are becoming gigantic infrastructures that generate large amounts of data every day. In addition, new discoveries and expansion are expected in a wide range of domains within the X-Tech (cross-technology) market, where FinTech, HR Tech and other digital technologies are used to develop new services in various fields and industries and transform industry structure itself. Furthermore, we anticipate growth in the information and communication technology-related market moving forward. Under these circumstances, we have steadily improved profitability and created the cash necessary for growth investment in the IT Sector by reinforcing front functions and manufacturing capabilities through reorganization of SI businesses; withdrawing from or concluding low-profit businesses such as the communication network equipment business; and reducing loss cost through thorough and enhanced project management. Moving forward, we will continue to expand the Lumada business, which acts as the core of growth, and invest one trillion yen over the three years covered by the 2021 Mid-term Management Plan to accelerate global expansion.

**Vision and Targets under the 2021 Mid-term Management Plan**

- **Accelerate customer innovation with advanced IT**
- **Growth Strategies under the 2021 Mid-term Management Plan**
  - Digital transformation, which involves attempting to produce reforms in corporate management and business models, is receiving an increasing amount of attention. Under these conditions, mobile payment systems utilized in mobile phone networks, which have a global penetration rate of more than 100%, are becoming commonplace in people’s lives and are becoming gigantic infrastructures that generate large amounts of data every day. In addition, new discoveries and expansion are expected in a wide range of domains within the X-Tech (cross-technology) market, where FinTech, HR Tech and other digital technologies are used to develop new services in various fields and industries and transform industry structure itself. Furthermore, we anticipate growth in the information and communication technology-related market moving forward. Under these circumstances, we have steadily improved profitability and created the cash necessary for growth investment in the IT Sector by reinforcing front functions and manufacturing capabilities through reorganization of SI businesses; withdrawing from or concluding low-profit businesses such as the communication network equipment business; and reducing loss cost through thorough and enhanced project management. Moving forward, we will continue to expand the Lumada business, which acts as the core of growth, and invest one trillion yen over the three years covered by the 2021 Mid-term Management Plan to accelerate global expansion.

**Principal Products and Services**

- **IT services**: Cloud service, Data analytics, IoT platform
- **Systems for social infrastructure**: Control systems, Water systems, Building management systems
- **IT functions commonly used for all industries**: Application development, Transport and communication carriers
- **Financial systems**: Mobile payment systems
- **Other services**: System integration and quality assurance

**Expansion of the Lumada Business**

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Over the three years covered by the 2021 Mid-term Management Plan, we will continue to invest ¥150 billion in the Lumada business and related projects, aiming to expand the use of Lumada in other sectors and to develop and expand the digital specialists/human capital essential to the acceleration of the Lumada business. In fiscal 2021, we will increase our number of digital specialists to 30,000.

**Collaborative Creation of Value within the IT Sector**

Lumada plays a core role in our efforts to provide social, environmental and economic value and to achieve social innovation. On the other hand, Hitachi cannot achieve objectives related to the SDGs and Society 5.0 on its own. We believe that these objectives can only be achieved through co-creation with a wide range of customers and partners.

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Together with our customers and partners, we will form a Lumada-centered ecosystem that enables expertise, resources and skills to be shared while further accelerating social innovation.
Story of Value Creation in the Energy Sector

The world’s energy demand continues to expand against a backdrop of population growth and economic development, as well as social innovation such as the recent expansion in the scale of data centers and the spread of electric vehicles. On the other hand, serious power shortages in developing countries remain a problem and one billion or more people are forced to live without electricity. Furthermore, movements to reduce CO2 emissions and decarbonize are picking up speed throughout the world in the midst of response to global climate change. Hitachi will respond to these issues with energy solutions that leverage the strengths of “OT × IT × Products” in business fields such as renewable energy and power grids.

![Image 308x205 to 554x322]

Vision and Targets under the 2021 Mid-term Management Plan

Provisioning energy solutions that contribute to a stable energy supply and efficient facility management

The energy business forms the core of the Social Innovation Business and contributes to the achievement of the SDGs. In the Energy Sector, we will provide energy solutions that make use of the strengths of “OT × IT × Products,” such as nuclear power generation systems, renewable energy generation systems, power grid systems for receiving and transmitting, transmitting and distributing electricity, predictive diagnostics for equipment and remote monitoring services. Providing these solutions will enable us to contribute to a stable energy supply for customers, efficient facility management and the cutting of CO2 emissions, as we work toward a low carbon or decarbonized society.

![Image 308x62 to 553x180]

Advanced Energy Systems

 Principal Products and Services

<table>
<thead>
<tr>
<th>Principal Products and Services</th>
<th>FY2018 Revenues ¥456.6 billion*1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy BU</td>
<td>Nuclear Energy BU</td>
</tr>
<tr>
<td>Nuclear power plant (58%)</td>
<td>Power grid (62%)</td>
</tr>
<tr>
<td>Reactor operators’ vehicles</td>
<td>Evaluation &amp; Training services</td>
</tr>
<tr>
<td>Substation, breakers, transformers</td>
<td>Renewable Energy Solutions (16%)</td>
</tr>
<tr>
<td>Remote operated vehicle casks</td>
<td>Waste water</td>
</tr>
<tr>
<td>Loaders</td>
<td>Nuclear fuel (38%)</td>
</tr>
<tr>
<td>Substation</td>
<td>Nuclear fuel (38%)</td>
</tr>
</tbody>
</table>

![Image 308x585] Unit 3, under construction

Business Strategies under the 2021 Mid-term Management Plan

Previously, in the Energy Sector, we have been converting our business portfolio in response to changes in the market environment surrounding energy while promoting the launch of high-value-added service businesses and the enhancement of the solution business. In the future, the power transmission and distribution market is expected to expand significantly both in Japan and globally against a backdrop of the spread of renewable energy and the expansion of distributed power supply. In response to these projections, we plan to acquire ABB’s power grid business during the first half of 2020. Digital technology is indispensable for the achievement of advanced energy management, and power grids are an area in which Hitachi can fully utilize its digital technology. Hitachi’s energy business had been primarily concentrated in Japan. However, we will accelerate global business expansion by utilizing the expertise and resources of the power grid business of ABB which has the largest share of the global power grid market. At the same time, we will also focus on strengthening and expanding our solution and service businesses using Lumada. In addition, Hitachi will continue to engage in initiatives aimed at providing a stable energy source through its nuclear energy business while using its advanced technological capabilities and abundant knowledge to contribute to the decommissioning of the Fukushima Daiichi Nuclear Power Plant. Furthermore, we will use these same attributes to promote construction that is compliant with new regulatory standards and aims to support the early resumption of operations at domestic nuclear power plants.

![Image 308x345]

The Chugoku Electric Power Company, Inc.’s Shihama Nuclear Power Station Unit 3, under construction

![Image 308x585] Ultra-high voltage gas insulated switchgear (UHV GIS)

Enhancement and Expansion of the Solution and Service Businesses Using Lumada

In the energy solution business, we received orders for a management platform for high-temperature parts for gas turbines used in privately owned industrial power generation equipment in 2019. This platform uses Lumada to improve the efficiency of inspection and maintenance work while raising the maintenance capabilities of operators. Following the acquisition of ABB’s power grid business, we will aim to develop solutions on a global scale by utilizing its customer base, engineering, technologies and systems.

Service business

In 2017, we concluded contracts in the service business with customers. Through these agreements, we will provide solutions that combine power generation systems with integrated energy and equipment management services to provide total solutions for energy conservation issues. Moving forward, we will combine Lumada with our abundant knowledge on maintenance capabilities and digital technologies to develop a variety of service solutions that improve the efficiency of inspection planning upgrade and accelerate maintenance and provide predictive diagnostics aimed at preventing failure, as well as remote monitoring.

Collaborative Creation of Value within the Energy Sector

Promotion of open innovation

Hitachi is promoting industry-academia collaboration in pursuit of new value creation in the Energy Sector. Targeting the realization of Society 5.0, we are working to create a new vision and produce new innovation at the “Hitachi the University of Tokyo Laboratory”, which we established with the University of Tokyo in 2015. In the Energy Sector, we are building a platform with the goal of simulating long-term energy supply and demand. These simulations will allow different renewable energy implementation methods to be evaluated and verified, enabling authorities to determine which method is most effective in terms of achieving the goals of the Paris Agreement. Hitachi will contribute to social, environmental and economic values by expanding its provision of energy solutions that utilize Lumada, including grid and renewable energy solutions, energy management solutions and energy conservation and decarbonization solutions. Furthermore, we will aim to contribute to the management of 20% of the world’s substations and the supply of stable energy to about 1.18 billion people.
### Vision and Targets under the 2021 Mid-term Management Plan

**“Increasing the efficiency of customers’ production and processing systems,” “providing safe and secure water environments” and “reducing CO2 emissions”**

In the Industry Sector, we aim to become the best solution partner for customers in the industrial field by utilizing our strengths in “Products × OT × IT.” Furthermore, we will create social and environmental value by customers in the industrial field by utilizing our strengths in “Products × OT × IT.”

**Growth Strategies under the 2021 Mid-term Management Plan**

As the world changes and customer needs diversify and become more high-level, we face various issues that arise between the workplace, management and the supply chain. In the Industry Sector, we recognize these issues as “boundaries.” By connecting cyber spaces and real spaces using digital technology, we will solve “boundary” issues and provide total seamless solutions that achieve overall optimization. The keys to achieving these goals are the Industry Sector, which is a business entity that simultaneously possesses products, OT and IT; the use of Lumada and robotic SI, which drives digital innovation; and the construction of seamless solutions that achieve overall optimization. The keys to achieving these goals are the Industry Sector, which is a business entity that simultaneously possesses products, OT and IT; the use of Lumada and robotic SI, which drives digital innovation; and the construction of seamless solutions that achieve overall optimization.

**Results and Targets**

<table>
<thead>
<tr>
<th>FY2018 Results</th>
<th>FY2021 Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT (¥ billion)/EBIT ratio (%)</td>
<td>8.4%</td>
</tr>
<tr>
<td>ROIC</td>
<td>39.3</td>
</tr>
<tr>
<td>FY2018 Results</td>
<td>FY2021 Targets</td>
</tr>
<tr>
<td>Industrial &amp; Distribution BU</td>
<td>60%</td>
</tr>
<tr>
<td>Water &amp; Environment BU</td>
<td>20%</td>
</tr>
<tr>
<td>Industrial Products Business</td>
<td>50%</td>
</tr>
<tr>
<td>Water supply and sewage, utility systems, etc.</td>
<td></td>
</tr>
<tr>
<td>Power distribution equipment, etc.</td>
<td></td>
</tr>
<tr>
<td>Air compressors</td>
<td></td>
</tr>
<tr>
<td>Mass-production business (32%)</td>
<td></td>
</tr>
<tr>
<td>Built-to-order business (18%)</td>
<td></td>
</tr>
<tr>
<td>ROIC</td>
<td>9.0%</td>
</tr>
<tr>
<td>Adjusted operating income (¥ billion)/Adjusted operating income ratio (%)</td>
<td>6.9%</td>
</tr>
<tr>
<td>Oversee revenue ratio (%)</td>
<td>30.2%</td>
</tr>
<tr>
<td>Revenue (¥ billion)</td>
<td>843.6</td>
</tr>
</tbody>
</table>

**Principal Products and Services**

- **Industrial Products Business**
  - Mass-production business (32%)
  - Built-to-order business (18%)
- **Water & Environment BU**
  - Water supply and sewage, utility systems, etc.
- **Industrial & Distribution BU**
  - Power distribution equipment, etc.
  - Air compressors

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<tr>
<td>Adjusted operating income (¥ billion)</td>
<td>470.5</td>
</tr>
<tr>
<td>Oversee revenue ratio (%)</td>
<td>30.2%</td>
</tr>
</tbody>
</table>

**Vision of the Industry Sector**

- **Maximize environmental value**
  - By supplying technology using AI or IT business
- **Maximize social value**
  - By contributing to the improvement of customers’ management and productivity

**Collaborative Creation of Value within the Industry Sector**

- **Total Seamless Solutions that Solve “Boundary” Issues**
  - In the Industry Sector, we will provide total seamless solutions while focusing on four next-generation solutions: (manufacturing, logistics, maintenance and utility) and connected products, thereby helping to improve the overall value of our customers’ businesses.

- **Data Modeling of Business Operations and 4M and the Optimization of Production Processes through Digital Twin Systems**
  - As the world changes and customer needs diversify and become more high-level, we face various issues that arise between the workplace, management and the supply chain. In the Industry Sector, we recognize these issues as “boundaries.” By connecting cyber spaces and real spaces using digital technology, we will solve “boundary” issues and provide total seamless solutions that achieve overall optimization. The keys to achieving these goals are the Industry Sector, which is a business entity that simultaneously possesses products, OT and IT; the use of Lumada and robotic SI, which drives digital innovation; and the construction of seamless solutions that achieve overall optimization.

**Strongening of OT Area through the Acquisition of the Robotic SI Business**

In the Industry Sector, we will strengthen and expand total seamless solutions that leverage the strengths of “Products × OT × IT” and accelerate and enhance global expansion in pursuit of further growth. Furthermore, we will aim to become a business entity that provides high added value by expanding recurring business*5 and improving capital efficiency.

**In Pursuit of Further Growth in the Industry Sector**

In the Industry Sector, we will strengthen and expand total seamless solutions that leverage the strengths of “Products × OT × IT” and accelerate and enhance global expansion in pursuit of further growth. Furthermore, we will aim to become a business entity that provides high added value by expanding recurring business*5 and improving capital efficiency.
The Hitachi Group’s Growth Strategy

Our Ideal under the 2021 Mid-term Management Plan

Providing People with Safe, Secure, and Comfortable Transportation Services

In the Mobility Sector, we deliver social value by providing people with safe, secure, and comfortable transportation services, and products and services for urban spaces such as buildings. At the same time, we create environmental value by realizing transportation services that have a low environmental impact and contribute to, for example, reducing CO2 emissions.

Growth Strategies under the 2021 Mid-term Management Plan

In the Building Systems Business Unit, we expand technologically advanced and competitive products and services, which include the world’s fastest elevator (according to our research as of September 2019) with the speed of 1,260 meters per minute, and Lumada solutions leveraging Hitachi Group’s robust resources on digital technologies such as Internet of Things (IoT) and artificial intelligence. Meanwhile, in the Railway Systems Business Unit, we realize the differentiation from other competitors by providing total solutions spanning the manufacture of rolling stock to operational control, IC ticketing and seat reservation system, and solutions utilizing IoT and digital technologies for operation optimization, driverless operation, and digital ticketing utilizing location information and other data to realize automatic payments via smartphones. In addition to further reinforcing services and solutions such as these, we will augment the value for customers and provide safe, secure, and comfortable transportation services.

In January 2019, we acquired Ansatis STS (now Hitachi Rail STS), an Italian leader in railway signaling systems, converting the company to a wholly owned subsidiary and integrating it. In addition to further enhancing our strength in the signaling and turnkey businesses, we expect this move to generate synergies through organizational optimization and increased production efficiency, allowing us to further expand our global operations.

Building Systems Business Unit

The market for elevators and escalators (E&E) is expected to continue expanding steadily. Particularly high rates of growth are expected in the Asian market, especially in India, which has the world’s second largest market scale. In the largest market, China, the expected growth area has shifted from new installation to maintenance and modernization of E&E. In Japan, the demand for E&E modernization is expanding and the expectation for new solutions leveraging digital technologies for workers and tenants in buildings is increasing. Against this backdrop, the Building Systems Business Unit has achieved growth globally based on its sophisticated products and technologies, which are exemplified by the top share (Hitachi research) of order received in fiscal 2018 by unit in China, the world’s largest market for new installation of E&E, accounting for more than 50% of the total. Going forward, we plan to combine manufacturing and sales of E&E with building services to realize business growth and increased profitability. To this end, we are stepping up investment centering on digitalization. Specifically, we are accelerating investment in a global control center that functions as a base for providing leading-edge building services, such as a sophisticated remote monitoring service which utilizes digital technologies and a solution which realizes efficient and comfortable movement by using sensors in buildings and analyzing the flow of people.

In addition, in Asia and Middle East, where demand for new installation of E&E is surging, we are deploying our sales and service bases, and expanding our business through maximizing the capacity utilization of factories in China and utilizing sophisticated maintenance and modernization technologies which we have developed in Japan.

Railway Systems Business Unit

Demand in the railway market is expected to expand throughout the world thanks to economic development. Growth, mainly for rolling stock, signaling system and control system, is expected in Europe, Middle East, Africa, and America.

In fiscal 2018, the Railway Systems Business Unit set records for rolling stock deliveries and orders, revenue and adjusted operating income ratio, highlighting our efforts to build a firm global business platform. In the future, we intend to move forward with rolling stock, signaling system and turnkey business as core businesses. We will also concentrate investment in digital technologies and IoT to enhance our competitiveness further. We are encouraging our Dynamic Headway, which optimizes operations based on demand, autonomous operation, and digital ticketing utilizing location information and other data to realize automatic payments via smartphones. In addition to further reinforcing services and solutions such as these, we will provide people around the world with products and services that are safe, secure, comfortable and environmentally friendly.
Story of Value Creation in the Smart Life Sector

While global economic development continues, societal issues such as global warming, traffic jams and accidents, aging and nursing care have become more prominent. Progress is being made on the development of technologies aimed at resolving these issues, including electrification, autonomous driving, AI, robotics and personalized medicine. This progress is giving rise to a variety of business opportunities. We are confident that IoT solutions related to daily life will be integrated within smart cities and will comprehensively support the lives of people living in urban areas. In fact, the global smart city market is expected to reach $2 trillion or more in 2025.

Principal Products and Services

By boosting business efficiency through scale expansion, raising research and development efficiency and improving operations through the use of Lumada, Hitachi Group can create innovative healthcare solutions by combining AI with our measurement and analysis technologies. Hitachi will develop healthcare business on the basis of a measurement and analysis technology portfolio, which the Research and Development Group of Hitachi and Hitachi High-Tech have built.

While global economic development continues, societal issues such as global warming, traffic jams and accidents, aging and nursing care have become more prominent. Progress is being made on the development of technologies aimed at resolving these issues, including electrification, autonomous driving, AI, robotics and personalized medicine. This progress is giving rise to a variety of business opportunities. We are confident that IoT solutions related to daily life will be integrated within smart cities and will comprehensively support the lives of people living in urban areas. In fact, the global smart city market is expected to reach $2 trillion or more in 2025.

Principal Products and Services

by boosting business efficiency through scale expansion, raising research and development efficiency and improving operations through the use of Lumada.
Addressing Risks and Opportunities

Hitachi’s 2021 Mid-term Management Plan, beginning in fiscal 2019, focuses on expanding our business while making the best use of the Company’s competitive advantages. In particular, we target investment for growth in select, focused areas over the three years through fiscal 2021 of ¥2.0–¥2.5 trillion, compared to investment of about ¥500 billion in the three years through fiscal 2018. We believe taking advantage of growth business opportunities and implementing aggressive management requires a solid risk management system.

Hitachi established the Investment Strategy Committee to strengthen investment risk management in 2017 and continues to work to better understand risk and take appropriate action. The Company in the same year established the Executive Sustainability Committee to focus on the company’s policies in regard to social and environmental issues. Our efforts in this area also included a move to identify issues that could be seen as business opportunities, as well as the negative effects on society and the environment from our business activities and the measures Hitachi is taking to address them.

Risk Management System

The business environment is changing day by day, impacted by the continued advance of information and communications technology, as exemplified by IoT, and geopolitical risks arising from complex shifts in political and economic conditions around the world. Hitachi aims to create new revenue opportunities while controlling risk. To do this, we maintain a clear understanding and analysis of the operating environment, taking into account social issues as well as our competitive advantages and management resources, and conduct risk management with an eye toward the many risks the Company should be prepared for as well as opportunities for growth.

Mobility solutions

Each year, we provide safe, secure, comfortable and environmentally friendly railway services to a total of 18.5 billion people throughout the world.
Understanding and Responding to Qualitative Risk

In regard to qualitative risk, including geopolitical risk, we maintain a focus on the global political and economic situation by taking advantage of research from external organizations, and use this information to analyze the potential risks and opportunities for Hitachi so that we may take action to improve our corporate value. In addition, the Investment Strategy Committee examines investment projects and large orders, taking into account future trends, allowing a quantitative understanding of the concentration of risks in a given country or sector relative to growth, limits the likelihood that opportunities for growth will be missed, while continued monitoring ensures that risks do not exceed management capabilities.

Moreover, analyzing risk by country and sector, while also taking into account future trends, allows a quantitative understanding of the concentration of risks in a given country or sector relative to growth.

Amid such a drastic change in the business environment, companies must have a clear understanding of opportunities and risks and take appropriate measures if they are to achieve sustainable growth over the long term.

Hitachi is able to gain a clear understanding of sustainability-related risks, and accordingly take appropriate action, thanks to the efforts of the Executive Sustainability Committee and other related committees.

We remain actively engaged in promoting our own sustainable growth while contributing to the realization of a sustainable society by seeking out business opportunities contributing to the resolution of important domestic and overseas issues, including those relevant to the UN Sustainable Development Goals (SDGs) and Society 5.0. (https://www.hitachi.com/sustainability/)

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 a wide range of risks related to our operations. The following risks are based on the assumptions we consider reasonable as of the date this report was issued.

For more information on business risks and other risks, please refer to our 150th Annual Securities Report https://www.hitachi.com/IR-e-library/stock/index.html

A Business Foundation that Supports Sustainable Growth

Hitachi Integrated Report 2019

Major Risks and Opportunities

The Flow of Quantitative Risk Assessment

Management strategy

Executive level

Periodic reporting

Group risk capacity

Comparison with risk tolerance

Amount of risk in the group

Quantify using statistical methods

Financial and non-financial data from within the group and information from outside organizations

Risk identification and analysis

Details on risks and opportunities

Risk factors

Fluctuations in product supply and demand, exchange rates and resource prices; insufficient raw materials, components

Rapid technological innovation

Securing human resources

Occupational health and safety

M&A, investment in new projects, etc.

Geopolitical risks

Tighter laws and regulations

Compliance

Product quality and responsibility

Climate change/ significant disasters

Information security

<table>
<thead>
<tr>
<th>Major risk factors</th>
<th>Details on risks and opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fluctuations in product supply and demand, exchange rates and resource prices; insufficient raw materials, components</td>
<td>• Price fluctuations, including for products, exchange rate impact and excess inventories • Exchange rate impact and price fluctuations, including for raw materials and components • Impact from significant disasters on supply chain</td>
</tr>
<tr>
<td>Rapid technological innovation</td>
<td>• Decreased competitiveness if development of cutting-edge technology, in application to product lines does not progress as expected • Reduction or elimination of existing market due to technological innovation</td>
</tr>
<tr>
<td>Securing human resources</td>
<td>• Impact on new hires and worker retention due to increased competition to hire and retain the highly skilled workers</td>
</tr>
<tr>
<td>Occupational health and safety</td>
<td>• Growth opportunities on the recruitment and retention of highly skilled workers that share the Hitachi vision</td>
</tr>
<tr>
<td>M&amp;A, investment in new projects, etc.</td>
<td>• M&amp;A aimed at strengthening the Social Innovation Business, investment in new projects, R&amp;D investment/exports, failure related to insufficient project management in large-scale orders</td>
</tr>
<tr>
<td>Geopolitical risks</td>
<td>• Impact on Hitachi’s overseas businesses due to global political, economic and social trends</td>
</tr>
<tr>
<td>Tighter laws and regulations</td>
<td>• Tighter laws and regulations in regard to investment, exports, and customs duties</td>
</tr>
<tr>
<td>Compliance</td>
<td>• Reduced trust and a decline in corporate value as a result of corporate behavior that deviates from social norms and violates laws, including inadequate business and anti-corruption activities</td>
</tr>
<tr>
<td>Product quality and responsibility</td>
<td>• Reduced trust and claims for damages due to defects or a deterioration in product and service quality as a result of the increased complexity of products or services, or the diversification of production site or suppliers</td>
</tr>
<tr>
<td>Climate change/ significant disasters</td>
<td>• Impact on business activities due to measures in line with the tightening of international regulations to cut greenhouse gas emissions and the depletion of energy and resources • Impact on business activities, from production to sales, due to significant disaster affecting major Hitachi facilities in Japan or overseas</td>
</tr>
<tr>
<td>Information security</td>
<td>• Expansion in the decarbonization business through offering climate-related solutions</td>
</tr>
</tbody>
</table>

Company actions

<table>
<thead>
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<th>Company actions</th>
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<tr>
<td>• Building close relationships with multiple suppliers</td>
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<tr>
<td>• Ensuring an appropriate response to changes in demand in each region by planning in a local production and local consumption model for products and services</td>
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<td>• Heightening resistance to business interruption risks by formulating BC/DR plans for domestic and major overseas facilities</td>
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<td>• Engaging in Responsible Procurement</td>
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<td>• Funding open innovation through industry-academia-government cooperation</td>
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<td>• Fostering an innovation ecosystem through the above</td>
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<td>• Accelerate Innovation</td>
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<td>• Accelerate Innovation</td>
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<td>• Securing the highly skilled global workers using a global common standard for persons</td>
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<td>• Securing and training the highly skilled workers through in-house educational systems, including Hitachi Academy and Hitachi University, the group’s global common learning management system</td>
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<td>• Regularly updating our understanding of global political and economic trends, analyzing the impact on our business, and safely implementing countermeasures on a group basis</td>
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<td>• Operating of personal information protection systems in line with Hitachi’s personal information protection policy</td>
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<td>• Identifying businesses subject to GDPR, assessing risk, implementing appropriate risk management measures, and in those cases, implementing worker training</td>
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<td>• Information Security</td>
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<td>• Implementing groupwide compliance programs and establishing the highest ethical standards in the Company’s Code of Conduct</td>
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<td>• Strengthening measures aimed at achieving the CO2 reduction targets in the Hitachi Environmental Management (SE)</td>
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Promoting Information Security

Information Security Policies

Connectivity is increasing as Internet of Things (IoT) technology develops, giving rise to new value. At the same time, increasingly intricate cyberattacks that previously targeted IT systems are widening their target range to include IoT and operational technology (OT). Managing information security risks is one of the most critical issues in companies that aim to minimize the risk of business disruption caused by factors such as leaks of information or operational stoppages.

Under these conditions, Hitachi is expanding its Social Innovation Business while practicing information security governance from the standpoint that efforts aimed at strengthening cyber security measures are a key management issue in terms of both value creation and risk management.

Information Security Framework

Previously at Hitachi, Ltd., the CIO*, assumed responsibility for, and authority over, the implementation and application of information security and personal privacy protection measures. The CIO was also responsible for the formulation of information tactics in line with management strategies, as well as IT investment policy. However, we appointed a new CISO* in October 2017 in an effort to strengthen and consolidate information security governance throughout the Hitachi Group. The CISO promotes information security for all of Hitachi’s products and internal facilities. The CISO also serves as chairperson of the Information Security Committee, which determines policies and measures related to information security and informs all Hitachi Group business sites and companies. Subsequently, these policies and measures are implemented in the workplace by information security officers.

Information Security Policies

1. SOC: Security Operation Center
2. CIO: Chief Information Officer
3. CISO: Chief Information Security Officer

Information Security Management

We have established Global Information Security Administration Rules that conform to the international ISO/IEC 27001 standard and are globally promulgating an ongoing information security management system to strengthen our information security management. Previously, these relevant policies had been distributed from the parent company in Japan to Group companies worldwide. However, starting in fiscal 2019, we have begun to further augment our security globally by stationing information security experts in the Americas, Europe, Southeast Asia and China.

Security Monitoring

At Hitachi, the SOC* monitors security 24/7, so cyberattacks can be detected and countermeasures initiated right away. The CSIRT* collects and develops security-related data and manages response to any security incidents.

Preventing Leaks of Confidential Information

At Hitachi, the SOC* monitors security 24/7 so cyberattacks can be detected and countermeasures initiated right away. The CSIRT* collects and develops security-related data and manages response to any security incidents.

Information Security Audits

Information security audits are independently carried out by the information security chief auditor, who is appointed by the president and CEO of Hitachi, Ltd. Hitachi Group companies in Japan conduct audits in the same way as Hitachi, Ltd., which reviews all results. For Hitachi Group companies outside Japan, we use a “common global self-check” approach. These audits and self-checks are conducted annually at all departments and Group companies.

Information Security Education

Hitachi holds annual e-learning programs concerning information security and personal information protection for all directors, employees and temporary employees. 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.

Specific measures aimed at preventing information leaks include PC encryption, access control and ID management through the establishment of an authentication infrastructure and the creation of multi-layered (entrance and exit) cyberattack defense measures.

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 its own Personal Information Protection Policy. Furthermore, Hitachi, Ltd. and 42 other Hitachi Group companies in Japan have received Privacy Mark accreditation and are working to safeguard personal information.

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’s GDPR initiatives include identifying which operations are impacted by GDPR, evaluating risks, implementing security management, and providing relevant training to all employees.

A Business Foundation that Supports Sustainable Growth

Fostering a Security Ecosystem aimed at Raising Cyber Security Resilience

Fostering a Security Ecosystem as a New Security Strategy

Recently, cyberattack techniques are becoming more sophisticated than ever before. Cyberattacks are also increasing in number and their range of targets is steadily expanding. Hitachi has launched a new strategy for responding to these threats. This strategy involves the construction of a security ecosystem.

The word “ecosystem” describes a state in which plants, animals and the environments in which they live depend on each other to maintain and preserve their own ecologies. As we applied this way of thinking to security, we came to the conclusion that mutual cooperation between departments, even if their operations do not appear to be related, with the common goal of conducting security activities will ultimately enable the maintenance and expansion of business activities throughout all of our organizations.

"Connection" [Tsu-Na-Ga-Ru] within the Security Ecosystem

1. Between Things

In Japan, Society 5.0*1 has been established as an ideal future society for which we should all aim. Once attained, this society will create new value and resolve social issues through a variety of connections. To make Society 5.0*2 and these connections a reality, our environment will become one in which things such as devices and systems connect with each other, as represented by the IoT.

In May 2017, Hitachi was infected by WannaCry ransomware*2. This infection was the result of testing equipment that was not maintained with an “awareness regarding the necessity of security countermeasures” and had an impact on all Hitachi locations worldwide. Although we had already been applying security countermeasures to internal IT environments, this incident taught us about the additional need for security countermeasures in production and manufacturing areas that had previously been insular.

Under these conditions, Hitachi has launched comprehensive global cybersecurity countermeasures (formulated principles and guidelines specific to each environment, etc.) that cover all types of environments as a wide range of things develop interconnectivity.

2. Between People and Organizations

Moving forward, all corporate business units must mutually cooperate to connect things that had previously been separate while also ensuring security. To support this goal, we are regulating adherence to countermeasures and are holding seminars and workshops targeting communication that transverses organizational and positional barriers. These efforts help us promote activities that connect people and organizations by reigniting awareness regarding individual roles and intensifying cooperation between employees working in the same environments.

3. Within Society

These connections will not be confined to Hitachi. We believe in the necessity of forming communities in which industry, academia and government working to promote cybersecurity transcend established frameworks to share important data, such as information regarding threats and issues faced when implementing countermeasures. Accordingly, Hitachi has proactively launched activities aimed at relating society. Examples of these activities include companies and organizations applying the expertise they acquire from the aforementioned communities to their own security management cycles and further expansion of data sharing.

Aiming to Raise Security Resilience throughout Society

In pursuit of Society 5.0*3 and to raise cybersecurity resilience*4, Hitachi will promote to foster a security ecosystem that encompasses society in its entirety, enabling people to live more safely and securely. We will construct this ecosystem through cooperation within the corporate world, as well as collaborations with industry, academia and government.

[2] “Ecology” is a concept in which plants, animals and the environments in which they live depend on each other to maintain and preserve their own ecologies.
[3] "Cybersecurity" is a type of computer attack that leaves certain systems or computer networks defenseless and exposes the insecurity of the compensation measures for their removal
[4] “Resilience: The ability of organizations to adapt to complex and changing environments (from JIS Q 22300, an industrial standard released by the Japanese Standards Association)"
Creating Safe and Secure Work Environments
As a corporate group with a globally developing business, we must deal with the management issue of creating healthy, safe and secure work environments at each and every work site. Hitachi believes that its organizational culture, which prioritizes safety, is an important foundation for creating corporate value and is working to establish a global health and safety system.

- Our Basic Policy and Promotion Framework
Ensuring the health and safety of all employees is the basic principle underlying the Hitachi Group Health and Safety Policy, which 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.

In April 2019, aiming to become an organization whose employees spontaneously promote safety activities with the direct participation of management, Hitachi, Ltd. established the Safety Management Division, which reports directly to the president on matters of safety management. This division will hold an annual Safety Strategy Congress, attended by safety officers from each Group company and representatives from each division. The congress will set budgets and objectives for company-wide safety strategy and review the structural situation of the Hitachi Group’s safety management systems, making them an opportunity for top management to share its own commitment to safety as the highest priority.

Furthermore, we hold a monthly “The Safety Strategy Promotion Council”, attended by safety department managers from each business unit and Group company. This meeting provides an opportunity for us to examine the promotional frameworks for safety activities and education in each division alongside standards to be shared across the Group.

Since 2012, the Hitachi Group Health and Safety Portal System has allowed every Hitachi Group company in Japan to track the occupational health and safety performance of the entire Hitachi Group. When a work-related accident occurs in Japan, depending on its level, the results of analysis on its causes and examples of countermeasures are registered in the system and shared with the entire Group as part of the knowledge base. Know-how gained in this way is used globally. By analyzing from many angles the detailed information about accidents gathered in the system, similar accidents can be prevented.

- Initiatives for Preventing Work-related Accidents
Based on the policy above, to prevent work-related accidents among our roughly 300,000 Group employees worldwide, we set and apply our own safety standards to be observed at manufacturing sites around the globe, where the risks of work-related accidents are high, as well as advancing health and safety measures tailored to the operations of individual companies. In particular, since the establishment in April 2019 of the Safety Management Division, we have worked to improve our safety measures in terms of both policy, by examining and improving our risk assessment frameworks, and technology, by using IT and digital technology to prevent accidents.

We had already introduced the Hitachi Group Key Safety Management Designation System, which promotes the improvement of safety measures and reinforcement of safety activities at Hitachi Group companies and business sites that have experienced serious work-related accidents. Under the leadership of top executives, these companies and business sites take on both management-driven and bottom-up initiatives to formulate specific plans, and the progress of these plans is monitored by safety officers, who also lead initiatives to prevent recurrence.

Additionally, because the risk of accident is higher for workers not yet accustomed to their work or environment, employees and temporary workers receive individual health and safety training and on-the-job training before work begins, to help prevent accidents by ensuring that they understand work procedures and dangers. At the same time, on occasions of business restructuring, we share the details of the health and safety management frameworks and initiatives of the organizations to be merged in advance, and, paying all due respect for the safety cultures on both sides, ensure that safety is always preserved during the execution of a smooth business launch.

In Japan, a health and safety commission—composed of business owners, labor union officials, and employees—is convened at each business site every month to discuss and share information related to such issues as work-related accident cause analysis and countermeasures and health and safety activities in light of the situation regarding employees who have taken sick leave.

This initiative allowed us to achieve zero fatal work-related accidents worldwide in 2018, but we have not yet eliminated accidents altogether. Taking an honest view of our present situation, we are continuously striving to improve our safety management system, making use of external consultants to bring in objective, third-party perspectives, improving our ability to determine the cause of accidents, and reviewing our risk assessments.

Occupational Health and Safety, Employee Health

Value Chain Responsibilities

- Achieving a Sustainable Value Chain
We are deeply involved in social infrastructures in areas where risks can affect society as a whole. We acknowledge our responsibility to minimize the impact of such risks. Also, the global expansion of our value chain means that we come into direct contact with diverse work environments, business customs and practices in a variety of countries and regions. Accordingly, we need to make a conscious effort to conduct business in a manner that respects the human rights of all people involved. Furthermore, we are reviewing business continuity plans (BCPs) and tightening our information security to ensure a stable supply of our products and services and to prevent threats to our networks that could severely disrupt business operations.

We also recognize that human rights are an important management priority. We work to ensure respect for the human rights of all of our stakeholders, including employees and individuals throughout our supply chain, in all countries and regions in which we conduct business. At the same time, we are quickly implementing and promoting detailed CSR production policies at all Group companies, as we procure products and services from suppliers and partners in a variety of countries and regions around the globe.

- Procurement BCPs Policies and Framework
To minimize heavily impact from disasters, the procurement divisions in business units and key Group companies 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) build 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 2018, all major Group business sites with production lines (approximately 210 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.

- CSR Procurement Policies and Framework
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. To ensure that the Hitachi Group CSR Procurement Guidelines’ provisions are strictly followed, we distribute 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. To procure parts and materials manufactured with reduced environmental impact, so that suppliers help to protect the environment, we led the industry in developing Green Procurement Guidelines. We have defined our basic position on procuring products and services from suppliers that do not have a negative impact on the global environment, as well as our requirements of suppliers, so that we can work together to promote green procurement.

Hitachi Group’s Global Safety Figures (Occurrence rate*2)

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<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
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<tbody>
<tr>
<td>North America</td>
<td>27.65</td>
<td>24.33</td>
<td>27.96</td>
</tr>
<tr>
<td>South and Central America</td>
<td>2.33</td>
<td>1.62</td>
<td>0.44</td>
</tr>
<tr>
<td>Asia (excluding India and China)</td>
<td>5.43</td>
<td>4.41</td>
<td>3.34</td>
</tr>
<tr>
<td>China</td>
<td>1.59</td>
<td>1.53</td>
<td>1.46</td>
</tr>
<tr>
<td>India</td>
<td>2.07</td>
<td>1.44</td>
<td>1.44</td>
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* Occurrence rate is the rate of workplace accidents per 1,000 directly or secondarily employed employees or work-time loss of one day or more.

Value Chain Responsibilities

Framework
CSR supply chain management and green procurement policies and initiatives are discussed within Hitachi’s Value Chain Integration Division, which is headed by the chief procurement officer (CPO) and reports directly to the president of Hitachi, Ltd. Policies and initiatives adopted after this discussion are shared throughout the Group through the Hitachi Group CSR/BCP Procurement Committees, which includes members from business units and CSR/BCP Procurement Committees at key Group companies.

Implementation of CSR Monitoring (Self-Checks)
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 JSITA Supply Chain CSR Deployment Guidebook and detailed checklists. After collecting and analyzing the results, we provide feedback for the business relations related to the suppliers, and then work with those involved in the operations to resolve issues related to the suppliers. In fiscal 2018 we asked 345 suppliers inside and outside Japan to conduct CSR monitoring (self-checks) and received survey replies from them.

Implementation of CSR Audits
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 2018, we conducted CSR and environment audits of 24 suppliers in China. For these audits, we engaged external evaluators such as the experienced CSR auditing company Intertek Certification.* No major infringements were found at all the suppliers audited, but some small areas needing improvement were noted. 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.

A Business Foundation that Supports Sustainable Growth
Human Rights Due Diligence in Procurement

Basic Policy
Hitachi believes that respecting human rights is our responsibility as a global company and indispensable in conducting business. To this end, in May 2013 we formulated the Hitachi Group Human Rights Policy. In this policy, we clarify our understanding of human rights as being, at a minimum, those outlined in the International Bill of Human Rights and the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work. This policy shapes Hitachi’s approach to meeting the responsibility to respect human rights, including implementing human rights due diligence* in line with the UNI Guiding Principles on Business and Human Rights, providing appropriate education to employees, adhering to laws and regulations in all the regions and countries where we operate, and seeking ways to honor the principles of international human rights when faced with conflicts between internationally recognized human rights standards and national laws.

* Human rights due diligence: An ongoing process to identify and assess potential and actual human rights negative impacts, take appropriate action to prevent or mitigate potential impacts, learn the effectiveness of actions to address impacts and communicate materially.

Starting in fiscal 2015, the Hitachi Group Procurement Division began implementing human rights due diligence based on the Hitachi Group Human Rights Policy. In fiscal 2017, we incorporated the results of human rights due diligence into the revision of our CSR procurement guidelines for suppliers while also thoroughly revising the questions on the check sheet used in supplier CSR monitoring (self-checks), to better grasp the issues.

Addressing the Risks of Child and Forced Labor
The Hitachi Group Codes of Conduct clearly express Hitachi’s firm stance against the use of child or forced labor aboard our supply chain. Hitachi’s CSR procurement guidelines for suppliers also clearly forbid the use of child labor or forced labor, as part of our efforts to raise awareness all along the supply chain.

In fiscal 2018 we assessed the risks of forced labor at about 100 offices of Hitachi Group companies located in seven Southeast Asian countries (Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam). The assessment was conducted with the cooperation of Veriti Southeast Asia (VSEA), an internationally active nonprofit organization, using a checklist for suppliers revised in fiscal 2017 based on the Responsible Business Alliance (RBA) Code of Conduct, formerly the Electronic Industry Citizenship Coalition (EICC).

Response to the Conflict Minerals Issue

Hitachi released a Conflict Minerals Procurement Policy in September 2013. Our Request to Our Suppliers, based on this policy, is published on our website as a clear statement of our position.

Based on these policies, each Hitachi business unit and Group company investigates its use of conflict minerals and reports the results to customers when requested.

Hitachi Group Conflict Minerals Procurement Policy:

Compliance

Thorough Compliance
As the economy becomes more global and corporate activities become more borderless, business activities spanning across countries and regions with different administrative and economic systems, trading practices and values are picking up. Globally shared initiatives and guidance are increasingly important in terms of conducting proper international business and preparing for all types of risks that could potentially hinder business activities.

Hitachi promotes business globalization in accordance with “Basics and Ethics,” and has established its own set of rules concerning important business practices, such as preventing bribery, ensuring fair competition and establishing tax compliance, that are compliant with widely recognized and approved international standards. We are also working to ensure thorough awareness and practice of these rules throughout the entire Group. We will respond appropriately to the demands of society while reviewing and updating these rules as needed based on an awareness that required corporate behavior and interpretations of standards and regulations continue to evolve due to ongoing global discussion concerning compliance.

Our Basic Policy and Promotion System
We established the Hitachi Group Codes of Conduct as a standard of behavior for the entire Group and have translated them from Japanese into 13 different languages, including English and Chinese, sharing them with employees throughout the world. Hitachi also works to foster a sound corporate culture in terms of awareness of corporate ethics and compliance and conducts related employee surveys throughout the Group annually.

In 2016, Hitachi reconstituted its rules and guidelines related to matters such as compliance with competition law and the prevention of transactions with antisocial groups, corruption and bribery, repackaging them into the Hitachi Global Compliance Program (HGCP), a system of regulations falling under the Hitachi Group Codes of Conduct. We are seamlessly implementing these rules at all business sites within Japan.

Strengthening Our Global Compliance Framework
To implement the HGCP, 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.

We also support Group companies outside Japan and have appointed compliance heads in 11 regions, responsible for implementing education and sharing information as well as arranging consultation services with outside attorneys.

Issues in the promotion of compliance measures are clarified through individual dialogue with business units and key Group companies, while the internal audit section regularly conducts Group-wide reviews to verify that each area of compliance is being appropriately operated. In cases where these reviews identify necessary improvements, corrective measures are swiftly implemented.

Hitachi, Ltd. also convenes an Advisory Committee of outside experts to gain new insights into compliance and apply them proactively in its own efforts.

Compliance Reporting System
Hitachi, Ltd. has instituted a Compliance Reporting System allowing reports to be made to the compliance section or directly to external lawyers to prevent illegal and unethical behavior, to promptly address infractions, and to enhance our ability to self-regulate. This system can be used not only by employees within the Hitachi Group but also by temporary staff and business partners, such as suppliers and distributors. In fiscal 2018, we received 462 reports from all Group companies in Japan and around the world. In addition, we have implemented the Channel to the Board of Directors system to allow Hitachi, Ltd. employees to directly report problems anonymously or under their real names to Hitachi directors in cases where they see any illegality or extreme inappropriateness in business conduct by division heads, executive officers, or other management personnel.

Response to Technical Intern Training Program Issues
In 2018, the Organization for Technical Intern Training conducted on-site inspections at Hitachi, Ltd. and 10 Group companies. These inspections identified violations of the Act on Proper Technical Intern Training and Protection of Technical Intern Trainees, and the relevant companies were provided with recommendations for improvement regarding intern training. Additionally, in September 2019, Hitachi, Ltd. received an order for improvement from Immigration Services Agency of Japan and Ministry of Health, Labour and Welfare, regarding the construction of its systems for carrying out proper technical intern training according to authorized plans. Companies that received recommendations or orders for improvement have already taken corrective measures. We have taken strict measures to ensure that no further violations will take place throughout the entire Group, such as constructing Group-wide policies, guidelines, and check systems for technical intern training, and we continue to strive to carry out appropriate technical intern training in accordance with relevant laws and the aims of the Technical Intern Training Program.
Quality Assurance

**Thorough Implementation of Quality Assurance**

Providing products and services that our customers can use with confidence, along with meeting the requirements and quality standards of our customers in order to achieve this, are important values shared by all our employees and codified in the Hitachi Group Codes of Conduct. To ensure that quality and reliability are maintained, we are strengthening our quality assurance activities from the perspectives of organization and management, technology, and human resources in every process—from planning and development to design, manufacturing, delivery, and maintenance.

**Quality Assurance Initiatives**

- **Maintaining the values of “Harmony”, “Sincerity”, and “Pioneering Spirit”**
  - “that comprise the Hitachi Founding Spirit, as well as adhering to “Basics and Ethics” and “Putting Right and Wrong before Profits and Losses”, we place great emphasis on “Sincerity” in quality assurance activities as part of earning trust in our products.

- **One integral aspect of this is our unique and longstanding practice of “Ochibo Hiroi” which means “gleaning” in English and involves learning from failure to further develop our technologies.** When an incident occurs, our executive officers take the lead in examining things from the customer’s perspective, not only investigating the technical causes but also thoroughly discussing the process, framework, and motivating factors leading up to occurrence, along with ways to prevent reoccurrence, in order to improve our product reliability and customer satisfaction.

**Framework for Quality Assurance**

To ensure full control over quality governance, we have separated the quality assurance division from the manufacturing division in every business unit (BU) and Group company, creating a framework for activity in which our customers’ safety and trust are the top priorities. Since fiscal 2018, in order to strengthen this framework further, we have reinforced the report lines from BU and Group company quality assurance divisions to the quality assurance division at our head office, independent from all business divisions, establishing systems for close information sharing between the two. We have also strengthened governance by giving greater authority to the quality assurance division at our head office.

**Policy Initiatives**

**Policies for Preventing Bribery and Corrupt Practices**

Preventing bribery and corrupt practices is a big challenge for a company today. In 2008 Hitachi established rules against bribery and corruption for the HGCP along with guidelines indicating specific spending thresholds for entertainment, gifts, and other arrangements provided to public officials. We have striven to ensure strict compliance with these rules. In 2016 we introduced a policy banning facilitation payments, which had not been explicitly regulated, along with revisions including clarification of due diligence procedures for business partners.

**Preventing Violations of Competition Law**

Hitachi engages in business based on the principles of conformance with the law and business ethics and fair and open competition, while at the same time ensuring that we comply with the HGCP’s rules concerning competition law and other 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. We have been providing a collection of case studies for workplace discussion to Group companies since 2012, and in 2018 we added case studies about competition law in three languages, Japanese, English, and Chinese, to raise employee awareness.

**Violations of Laws and Regulations**

In fiscal 2018, there were no incidents in which Hitachi violated or was penalized under laws or regulations regarding bribery or corrupt practices and competition.

**Tax Compliance Initiatives**

To ensure risk management for taxation in response to globalization, Hitachi follows relevant tax-related regulations applicable to the Group as a whole as well as rules for transfer pricing management. We also manage transfer pricing in accordance with the OECD Transfer Pricing Guidelines and the laws and regulations on transfer pricing in each country or region where Group companies are located.

**Eliminating violations of competition laws is among our top priorities for regaining trust, and so Hitachi will continue its efforts to prevent the recurrence of any such incident.**

**Accident Prevention Activities**

Under our approach of making prevention the duty of quality assurance, we are working beyond recurrence prevention and striving towards preventing accidents from occurring in the first place.

- Closely following the changes in a range of business activities, we anticipate quality issues on the horizon across the entire Group and plan our quality activities accordingly.
- As a part of these activities, we aim to increase trust in our embedded software even further by bringing the software development capabilities and expertise in strengthening trust of our solutions divisions to our product divisions (embedded software development divisions).

Furthermore, we are promoting the digitalization of test and inspection data and working to construct processes for acquiring, assessing and reporting on this data without manual intervention.

**Complying with Technical Laws**

We have created guidelines for assessment of technical laws and quality assurance systems, sharing them throughout the Group. The guidelines include information on the two themes of (1) clarifying product-specific laws (the product-specific laws map) and (2) regulatory compliance activities and continuous improvement of processes, based on our product compliance management system.

**Thorough Risk Assessment**

We conduct product safety risk assessment as well as testing worst-case scenarios—for example, deliberately setting a fire inside a consumer appliance to confirm that the fire will not spread outside it.

**Handling Product Accidents**

When a product accident occurs, the division responsible acts swiftly to resolve the problem and ensure absolute safety from the customer’s perspective. For an especially severe accident, we report to government agencies in line with legal requirements and publish the incident information on our website and through other channels. At the same time, we promptly submit a status report to top management, ensuring fast and appropriate action at all companies across the Group.

When we determine that retroactive action is necessary, we notify customers via newspaper advertising and websites in order to carry out the necessary repair or replacement program.
Climate-Related Information Disclosure (based on TCFD recommendations)

In June 2018, Hitachi announced its endorsement of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD, established by the Financial Stability Board (FSB), published its final report on information disclosure in June 2017 noting that investors needed more clarity in corporate disclosures on climate-related risks and opportunities and governance measures. The following contains key climate-related information in line with the TCFD’s recommendations.

**Governance**
Hitachi sees climate change and other environmental issues as important management issues. In September 2016, after discussions at the Board of Directors, we announced long-term environmental targets called Hitachi Environmental Innovation 2050 containing CO2 reduction targets for 2030 and 2050 that are in line with our Environmental Vision defining the goals of environmental management from a broader perspective.

In April 2017, we established the Executive Sustainability Committee, chaired by the president and CEO and staffed by other top executives, as the highest-ranking body to discuss and reach decisions on the Group’s sustainability strategy in accordance with our environment and business strategies. Members meet twice a year to discuss material environment-related policies and measures, including those in response to climate change, to share progress reports and achievements, and to set the course for further improvements and new initiatives.

We have adopted a committee system to separate the responsibilities for management oversight from the execution of business operations. Under this system, the Audit Committee of independent directors conducts an audit of sustainability-related business operations. Under this system, the Audit Committee of independent directors conducts an audit of sustainability-related business operations once a year. Reports on climate-related material issues are made to the committee by Hitachi executive officers.

**Strategy**
Wishing to fulfill our responsibilities as a global company in achieving a low-carbon society and taking note of the total CO2 reductions required globally, we have set in our long-term environmental targets called Hitachi Environmental Innovation 2050 CO2 reduction targets for the entire value chain of 50% by fiscal 2030 and 80% by fiscal 2050, compared to fiscal 2010.

Our 2021 Mid-term Management Plan, meanwhile, calls for reducing CO2 emissions throughout the value chain by more than 20% by fiscal 2021, compared to fiscal 2010.

**Climate-Related Risks and Opportunities**
As for climate-related risks, we have followed TCFD classification in considering (1) risks related to the transition to a low-carbon economy in the 2°C scenario and (2) risks related to the physical impacts of climate change in the 4°C scenario, which assumes that efforts to reduce global CO2 emissions have failed. Risks are categorized into short term (over the next three years from fiscal 2019 to 2021), medium term (through fiscal 2030), and long term (through fiscal 2050), according to when the risks may materialize.

<p>| Risks related to the transition to a low-carbon economy (mainly 2°C scenario) |</p>
<table>
<thead>
<tr>
<th>Category</th>
<th>Major risks</th>
<th>Time span</th>
<th>Main initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy and legal</td>
<td>Increased business risks from the introduction of carbon taxes, fuel/energy consumption taxes, emissions trading systems, and other measures</td>
<td>Short to long term</td>
<td>Acquire or mitigate increases in business costs, such as from carbon taxes, by further increasing energy efficiency and transport efficiency and promoting the use of non- or low-carbon energy sources</td>
</tr>
<tr>
<td>Technology</td>
<td>Loss of sales opportunities due to delays in technology development for products and services</td>
<td>Medium to long term</td>
<td>Contribute to reducing CO2 emissions by developing and marketing innovative products and services that lead to the achievement of long-term environmental targets and expanding the decarbonization business</td>
</tr>
</tbody>
</table>

<p>| Risks related to the physical impacts of climate change (4°C scenario) |</p>
<table>
<thead>
<tr>
<th>Category</th>
<th>Major risks</th>
<th>Time span</th>
<th>Main initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acute and chronic</td>
<td>Climate-related risks to business continuity, including increased severity of typhoons, floods, and droughts (acute risk) as well as rare sea level and chronic heat waves (chronic risk)</td>
<td>Short to long term</td>
<td>Take into account the possibility of flood damage when deciding on the location or equipment layout of a new plant. Measures tailored to the water risks of each manufacturing site will be determined in the future based on the results of a water risk assessment now being conducted</td>
</tr>
</tbody>
</table>

CO2 emissions during the use of our products and services by our customers account for 90% of total emissions in our value chain. This represents a business opportunity for us in the short, medium, and long-term, since developing and providing products and services that emit zero or very little CO2 during their use can satisfy customer needs and also help address social issues.

**Responsing to the Business Risks and Opportunities of Climate Scenarios**
We are examining the impact of the 2°C and 4°C scenarios for the businesses that have a relatively high likelihood of being affected by climate change.

**Strategies for 2°C/4°C Scenarios Based on TCFD Recommendations (abridged)**

<table>
<thead>
<tr>
<th>Target businesses</th>
<th>Railway systems</th>
<th>Automotive systems</th>
<th>Water systems</th>
<th>Power generation and power grids</th>
<th>IT systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses to future business risks and opportunities</td>
<td>Continue to strengthen the railway business, as global demand for railways will increase under either scenario</td>
<td>Enhance response to new markets, such as for electric vehicles, under the 2°C scenario, and also help address social issues</td>
<td>Strengthen provision of seawater desalination facilities and other water generation systems in response to increased water demand from global economic growth, urbanization, and population growth under either scenario</td>
<td>Continue to enhance responses to relevant markets in view of expected higher demand for non-fossil energy under either scenario</td>
<td>Continue to develop innovative digital technologies and enhance digital service solutions that generate new value in view of expected market expansion under either scenario</td>
</tr>
</tbody>
</table>

**Our Social Innovation Business** contributes to improving people’s quality of life and enhancing the value of our business customers. Utilizing our strengths in OT and IT as well as in energy technologies, we seek to help our users of products and services to reduce their CO2 emissions. Because we pay close attention to market trends and develop our business flexibly and strategically, we believe we have high climate resilience in the medium to long term under either the 2°C or 4°C scenario.

**Risk Management**
The Hitachi Group is engaged in many different businesses, with each having its own set of risks and opportunities. The impact of those pertaining to climate change is evaluated for each business unit and Group company in accordance with the Environmental Action Plan, updated every three years. The results are tabulated by the Sustainability Promotion Division of Hitachi, Ltd., and their importance is checked at Sustainability Promotion Meetings. Those risks and opportunities perceived as being particularly important for the Group as a whole are deliberated by the Executive Sustainability Committee, chaired by the president and CEO of Hitachi, Ltd.

**Metrics and Targets**
Our environmental activities are managed through the Environmental Action Plan, for which the indicators and targets are updated every three years, including those to measure and manage climate-related risks and opportunities.

The 2021 Mid-term Management Plan cites a reduction target of at least 20% for CO2 emissions across our value chain by fiscal 2021 compared to fiscal 2010. To achieve this goal, targets for each business unit and Group company were established in line with the 2021 Environmental Action Plan, and progress is being monitored on a Group wide basis. Total greenhouse gas emissions (Scope 1, Scope 2, and Scope 3) across the value chain are calculated based on GHG Protocol standards and have been published in the Hitachi Sustainability Report since fiscal 2013.

Total CO2 emissions can fluctuate greatly due to the restructuring of our operations, but given the nature of our business, some 90% of our emissions come from the use of sold products in Scope 3. Among our products and services featuring equivalent value, therefore, we give priority to providing customers and society with those that emit less CO2. At the same time, we will seek to further reduce CO2 emissions during production.

This section on “Climate-Related Information Disclosure (based on TCFD recommendations)” has been abridged due to space considerations. For a full discussion of our initiatives, refer to the Hitachi Sustainability Report 2019.

Corporate Governance

Hitachi is a company with a management committee, etc. under the Companies Act of Japan. In June 2003, we changed our organizational design, separating the oversight of management from execution of management. In doing so, we are working to create a framework for nimble operations, while making management highly transparent.

In June 2012, we ensured that 7 of the 13 members of our Board of Directors were independent directors*, and that some of these independent directors were non-Japanese. These changes will help us to establish management that reflects diverse global perspectives and strengthen our supervisory functions.

Starting in June 2015, Corporate Governance Code of Japan (the "Code") was applied to companies listed on Japanese stock exchanges. In 2012, Hitachi formulated and published Corporate Governance Guidelines as a set of enhancing principles and as a framework for corporate governance that includes criteria for determining the roles and composition of the Board of Directors, director appropriateness and the independence of independent directors.

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.

* The "Independent Directors" are the directors who fulfill the qualification requirements to be independent directors as provided for the Companies Act of Japan and also meet the independence criteria defined by the Company and those prescribed by Japanese stock exchanges where the Company is listed.

History of Hitachi's corporate governance reform

1999 Introduction of Objective Perspective

• Practical advice from experts in Japan and overseas

2003 Demarcation of Management Oversight and Execution

Devised a general meeting of shareholders and corporate governance overview which enables the board of directors to provide guidance on the capital market

2006 Enforcement of Companies Act

• Independent directors including foreign directors were independent of each other
• Independent directors comprised the majority of directors

2010 Enhancement of Interactions with Capital Markets

Hitachi's CEO briefing on business strategy by divestiture was held to enhance a better understanding of the management of the business units to the capital markets

2012 Development of Guidelines for Strengthening Governance

• Development of guidelines for strengthening governance

2014 Development of Stewardship Code

• Enforcement of stewardship code

2015 Enhancement of Dissemination of Information about Medium- to Long-term Sustainable Growth

• Representative vice presidents were placed in 5 sectors

2016 Acceleration of Social Innovation Business across 5 Growth Fields

• Application of social innovation business across 5 growth fields

2019 Basic Enforcement

• Practical advice from experts in Japan and overseas

Evaluation Results and Future Initiatives

Corporate Governance Framework

Implementing All of the Principles of the Corporate Governance Code

We are implementing all of the principles of the Corporate Governance Code.

Analysis and Evaluation of the Effectiveness of the Board of Directors

The Company evaluates the effectiveness of its Board of Directors as a whole each year, in a continuous effort to maintain and improve its functions.

Fiscal 2018 Evaluation Process

1. Questionnaire-based self-assessment for each director (February-March 2018)

Points of evaluation:
- Composition of Board of Directors: Member diversity, numbers and roles of independent directors and inside directors, etc.
- Operation of Board of Directors: Meeting frequency, discussion time, proposal selection, roles of chairperson, etc.
- Contribution: Contribution to management strategy formulation and other matters, member demonstration of experience and knowledge, etc.
- Status of committee activities: Composition, responsibilities and roles, collaboration with Board of Directors, etc.

Operation supporting system: delivery of information e.g., provision of documents for the Board

2. Discussions held by independent directors (March 2018)

- Independent directors held an exclusive meeting to discuss the effectiveness of the Board of Directors.

3. Discussion and review within the Board of Directors (May 2018)

The Board of Directors holds a discussion based on the results of the questionnaires-based self-assessment and discussions conducted in the exclusive meeting attended by independent directors, comparing these results to those of the previous year and considering the statuses of related initiatives. Through this discussion the Board of Directors analyzes and evaluates its overall effectiveness and identifies policies through which it can increase this effectiveness.

Evaluation Results and Future Initiatives

- The Board of Directors holds a discussion based on the results of the questionnaires-based self-assessment and discussions conducted in the exclusive meeting attended by independent directors, comparing these results to those of the previous year and considering the statuses of related initiatives. Through this discussion the Board of Directors analyzes and evaluates its overall effectiveness and identifies policies through which it can increase this effectiveness.

Future Initiatives

Maintenance and improvement of Board of Director functions

Determine the Company's medium- to long-term strategic direction and further contribute to the formulation of business strategies

Raise contribution to CEO succession planning

Conduct thorough and continuous monitoring of important matters

Enhancement of support to operation of the Board of Director

Continue to create opportunities to share information, including independent directors visit to Group locations

Apply ingenuity to improve the design and content of documents and work to consistently provide them in advance

A Business Foundation that Supports Sustainable Growth
Board of Directors

Summary
- Independent directors comprise 8 of the 11 Board members.
- Each of the Nominating, Audit, and Compensation Committees has been established with independent directors in the majority.
- Independent directors have extensive experience and insight in international business management and administration serve to strengthen the Board’s supervisory function.

The Board of Directors approves basic management policy for 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. The Board of Directors was made up of 11 directors, 2 of whom concurrently serve as executive officers. Hitachi aims to reinforce the oversight function of the Board of Directors, of which 8 independent directors, including non-Japanese, account for the majority, reflecting their global and diverse viewpoints. The term of office for directors is 1 year.

Within the Board of Directors, there are 3 statutory committees—the Nominating Committee, the Audit Committee, and the Compensation Committee—with independent directors accounting for the majority of members of each committee. The Board of Directors meetings were held on 12 days during the fiscal year ended March 31, 2019, and the attendance rate of directors at these meetings was 96%. The attendance rates for each independent director were as shown in the table on the right. 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.

(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 4 directors, 3 of whom are independent directors. The Nominating Committee meetings were held on 9 days during the fiscal year ended March 31, 2019.

(2) Audit Committee

The Audit Committee has the authority to audit the 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 5 directors, including 4 independent directors and 1 standing Audit Committee member. The Audit Committee meetings were held on 17 days during the fiscal year ended March 31, 2019.

(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 4 directors, 3 of whom are independent directors. The Compensation Committee meetings were held on 6 days during the fiscal year ended March 31, 2019. 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.

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 directors, and rules on those serving concurrently as officers at other companies.

Corporate Governance Guidelines of Hitachi, Ltd.

Attendance at meetings of the Board of Directors by independent directors in the fiscal year ended March 31, 2019

<table>
<thead>
<tr>
<th>Name</th>
<th>Board of Directors</th>
<th>Nominating Committee</th>
<th>Audit Committee</th>
<th>Compensation Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harurumi Ihara</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Curtis Carver</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>—</td>
</tr>
<tr>
<td>John Hiron</td>
<td>100%</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>George Buckley</td>
<td>100%</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Louise Pernott</td>
<td>100%</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Harurumi Ihara</td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>Takahashi Yamamoto</td>
<td>100%</td>
<td>100%</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Hasegawa Teruhiko</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

* Number of days during term of office on which Board of Directors meeting were held (39 in the case of Mr. Ihara and Harum)
* Number of days during term of office on which Nominating Committee meetings were held (17 in the case of Mr. Ihara and Harum)

Compensation Structure

(1) Directors

Compensation for Directors is basic remuneration as fixed pay. The amount of basic remuneration is decided by adjusting a basic amount to reflect full-time or part-time status, committee membership and position, and travel from place of residence, etc. A Director concurrently serving as an Executive Officer is not paid compensation as a Director.

(2) Executive Officers

Compensation for Executive Officers consists of basic remuneration as fixed pay, and short-term incentive compensation and medium- and long-term incentive compensation as variable pay. The basic amount of each type of compensation is set based on the ratio of 1:1:1 as the standard from compensation for the fiscal 2019, taking into account the composition of executive compensation for major global companies, in order to improve corporate value through the growth of global businesses. The higher position of Executive Officers holds, the higher proportion of variable pay is set to the total annual compensation. If it is found that an executive officer has been engaged in misconduct during his/her term of office, compensation for Executive Officers that has been already paid shall be returned to the Company (clawback provision).

Please refer to Compensation to Directors and Executive Officers on P.75-80 of Annual Securities Report.

Director and Executive Officer Compensation

Basic Policy
- Compensation shall be such that it enables the Company to attract necessary personnel to achieve an improvement in corporate value through global business growth.
- Compensation shall be commensurate with roles and responsibilities of each Directors and Executive Officers.
- Compensation for Directors shall be such that it enables them to exercise functions of supervision of management effectively.
- Compensation for Executive Officers shall be such that it enables them to contribute to established improvement in corporate value through the execution of business and employees an appropriate balance between short-term performance and medium- and long-term performance.
- The level of compensation shall be determined taking into account compensation levels at other companies as well as economic and market trends.
- The Compensation Committee utilizes external experts to gain expert advice and opinions where necessary, for considering the details and amounts of compensation.

Compensation to Executive Officers (FY2019)

<table>
<thead>
<tr>
<th>Total remuneration</th>
<th>Variable pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term incentive compensation</td>
<td>Medium- and Long-term incentive compensation</td>
</tr>
<tr>
<td>The amount of short-term incentive compensation is decided within the range of 0 to 200% of a basic amount set according to the relevant positions and that amount to reflect financial results and individual performance.</td>
<td>The shares of restricted stock are granted in order to promote management from a medium- and long-term perspective and to provide incentives to bring about a sustainable increase in enterprise value by further promoting senior management’s shared values with shareholders through the holding of shares during their term of office.</td>
</tr>
</tbody>
</table>

Compensation to Executive Officers (FY2019)

<table>
<thead>
<tr>
<th>Individual target-linked component</th>
<th>Performance-linked component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance-linked component</td>
<td>Company performance</td>
</tr>
<tr>
<td>Varies according to the level of achievement of individual target for each Executive Officer determined based on his/her responsibility.</td>
<td>Evaluated referring to consolidated revenues, adjusted operating income, EBIT, and net income attributable to Hitachi, Ltd. stockholders in order to measure the level of achievement of consolidated financial forecasts disclosed to stakeholders, including shareholders and investors.</td>
</tr>
</tbody>
</table>

The restriction on transfer shall be lifted if executive officers resign from all of the positions of the Company’s executive officer, director, and corporate officer. With regard to one-half of granted shares of restricted stock, the number of shares whose transfer restriction is lifted shall be determined after an ex-post evaluation in which the total shareholder return of Hitachi’s stock is compared to growth rate of TOPIX. Lifting of transfer restrictions shall apply to all granted shares if the TSR/TOPIX Growth Rate Ratio is 120% or more. Lifting of transfer restrictions shall apply to part of granted shares if the TSR/TOPIX Growth Rate Ratio is between 80% or more but less than 120% (*). Transfer restrictions shall not be lifted for any shares if the TSR/TOPIX Growth Rate Ratio is less than 80%. Shares whose transfer restrictions are not lifted shall not be acquired by the Company without consideration.

* Number of shares whose transfer restrictions are lifted

Effective shareholding ratio of executive officers
- Number of shares of individual executive officer’s holdings as of P.75 of Annual Securities Report.

Corporate Governance

A Business Foundation that Supports Sustainable Growth
Accounting Auditors

Hitachi Integrated Report 2019

regard, as the three parties communicate closely to share risk information and assessments concerning risk response while securing transparency.

In pursuit of sustainable growth in corporate value, Hitachi’s Audit Committee and internal audit section collaborate with third-party accounting evaluators to assess internal control effectiveness and establish frameworks designed to improve and strengthen them.

We evaluate their effectiveness by adhering to standards for the evaluation of internal controls related to financial reporting that are generally accepted as fair and reasonable.

A Business Foundation that Supports Sustainable Growth

Internal Control over Financial Reporting

To ensure the reliability of its consolidated financial reporting, the Hitachi Group is establishing and implementing relevant internal controls. We evaluate their effectiveness by adhering to standards for the evaluation of internal controls related to financial reporting that are generally accepted as fair and reasonable.

Furthermore, we have established the J-SOX Committee with the goal of raising the effectiveness of these internal controls. This committee evaluates internal control effectiveness and establishes frameworks designed to improve and strengthen them.

Internal Control Assessment Framework

Enhanced Collaboration through Tripartite Audits

In pursuit of sustainable growth in corporate value, Hitachi’s Audit Committee and internal audit section collaborate with third-party accounting auditors to strengthen its “tripartite auditing,” which aims to increase the effectiveness of internal controls. Our Audit Committee takes the lead in this regard, as the three parties communicate closely to share risk information and assessments concerning risk response while securing transparency and ensuring appropriate checks and balances.

Improving Internal Control through a “Tripartite Audit” Function

Leveling of audit methods
Improving efficiency and transparency in audit processes with a risk-based approach

Our Audit Committee formulates audit plans in accordance with its risk-based approach and conducts audits for each consolidated business unit. Audit Committee members meet directly with business unit heads before the internal audit section’s audits are carried out. Then, these members inform the internal audit section about concerns and issues related to the implementation of business strategies aimed at achieving sustainable growth that require attention. At this time, Hitachi also verifies matters that carry high levels of risk in terms of quality, measuring these risks through employee awareness surveys and thorough implementation of business strategies.

Hitachi’s internal audit section performs regular internal audits at each business site and location. This section reports directly to the CEO and is independent from organizations that are subject to its audits. The internal audit section also formulates audit plans based on past audit records and the most recent business circumstances. Additionally, this section performs audits upon receiving direction from the Audit Committee, ensuring their effectiveness.

The internal audit section at Hitachi is responsible for confirming the legality and appropriateness of all business operations, including those related to accounting, production management, sales, purchasing, IT systems, compliance and personnel labor. Furthermore, employees are well versed in the ideas and policies of our management and, acting on behalf of our management team, confirm whether operations are being carried out based on these ideas and policies and if business strategies are being implemented in a way that will efficiently lead to sustainable growth.

To further raise audit effectiveness, we implemented a “executive auditor” system in each of our 5 growth sectors (IT, Energy, Industry, Mobility, Smart Life) in April 2019. We also established internal control systems which are headed by executive auditors who report to the vice presidents who manage each sector. Although these executive auditors do not act as legal agents under the Companies Act, they still assume responsibility for governance in each sector. They also function as a reporting line for statutory auditors at Hitachi subsidiaries who are legal agents under the Companies Act and are working to improve the efficiency of our internal control systems.

When conducting business audits, we use IT systems to expediently search for reference information contained within materials submitted prior to audit in an attempt to improve efficiency. We are currently building a system that will allow our internal audit section to share information with professional accounting auditors using the Lumada platform’s data lake and expect it to be complete sometime in fiscal 2020. When reading audit reports submitted by the internal audit section, our CEO must be able to quickly understand the issues identified by these reports and make prompt judgments concerning whether immediate action is required. In the future, our internal audit section will continue to maintain its transparency and independence while working to improve audit efficiency as one member of our tripartite audit system.

Our accounting auditors perform audits that focus on the accuracy and reliability of our financial statements. First, they adopt a risk-based approach in response to the Group’s overall financial status. Applying this approach, they then determine the scope and methods of the audit, formulate an audit plan and share opinions with the Audit Committee. Next, based on the audit plan, they perform audits on each of the 5 growth sectors and the business units that comprise them, enabling effective and efficient understanding of data related to Hitachi’s finance department and each of its business segments.

In the auditing process, our accounting auditors discover a degree of risk that could impact future financial statements significantly or issues that, even if monetarily small, could have a large qualitative effect. They share related information regarding these risks and issues and progress on response from related divisions with the Audit Committee and internal audit section. They also work to improve and raise the effectiveness of audits by submitting “management letters” containing points of concern and improvement suggestions through the accounting department. Recently, they have also been working to raise the efficiency of checks on the accuracy of numerical figures by using IT systems to investigate all cases, rather than performing test-checking through sampling.

Dialogue with Shareholders and Investors

Hitachi, Ltd., believes in the importance of dialogue with a wide range of stakeholders, including institutional investors and analysts, and conducts extensive IR activities.

In fiscal 2018, we held quarterly results briefing sessions and a briefing on the progress of our 2018 Mid-term Management Plan. In addition, we held the Hitachi IR Day for the ninth consecutive year. At this IR event, the people in charge of individual businesses explained principal business strategies and management measures in line with the Mid-term Management Plan.

We also held a briefing by the R&D Division, which is the source of our value creation, and members of our management team visited institutional investors in North America, Europe and Asia, explaining our management strategies for achieving medium- to long-term growth. Including these visits, we held some 500 one-on-one meetings for institutional investors and analysts in Japan and overseas. We reflect the opinions we obtain through these IR activities into our management and business operation as we strive to enhance corporate value.

On our website that provides information for shareholders and investors, in a timely manner we post materials used in briefing sessions, as well as videos of these briefings, plus graphs showing operating performance and our share price. We are improving the responsiveness of our website (making browsing from smartphones and tablets more convenient) as part of an ongoing effort to enhance disclosure.

Information for shareholders and investors:

Disclosure Policy:
Management System

Independent Directors* At the end of the Annual General Meeting of Shareholders held in June 2019

Katsumi Ihara

Shinomiya: 1,089 shares

Years of Office as an Independent Director: 8 years

1997  Director, Hitachi, Ltd.
2002  Executive Vice President, Hitachi, Ltd.
2006  President, Hitachi Global Storage Technologies, Inc.
2010  President and Chief Executive Officer, Hitachi Plant Technologies, Ltd.
2016  President and Chief Executive Officer, Hitachi, Ltd.
2014  Chairman & CEO and Director, Hitachi, Ltd.
2007  Vice President and Executive Officer, Hitachi, Ltd.
1970  Joined Hitachi, Ltd.
Share ownership: 70,600 shares

Hiroaki Yoshihara

Shinomiya: 1,789 shares

Years of Office as an Independent Director: 3 years

2017  Adviser, Hitachi, Ltd.
2007  General Manager, Mansion Development Department
2005  General Manager, Mansion Business
2002  General Manager, Mansion Sales
2000  Manager, Mansion Marketing
1997  Joined Hitachi, Ltd.
Share ownership: 16,200 shares

Hiroaki Yoshihara

Shinomiya: 1,789 shares

Years of Office as an Independent Director: 3 years

2017  Adviser, Hitachi, Ltd.
2007  General Manager, Mansion Development Department
2005  General Manager, Mansion Business
2002  General Manager, Mansion Sales
2000  Manager, Mansion Marketing
1997  Joined Hitachi, Ltd.
Share ownership: 16,200 shares

Hirotaka Nakanishi

Shinomiya: 7,508 shares

Years of Office as an Independent Director: 2 years

2016  Second Vice President, Executive Officer, Hitachi, Ltd.
2013  Vice President, Hitachi, Ltd.
2011  Director, Hitachi, Ltd.
2009  Vice President, Hitachi, Ltd.
2007  Vice President, Hitachi, Ltd.
2004  Director, Hitachi, Ltd.
1977  Joined Hitachi, Ltd.
Share ownership: 1,800 shares

Toshiaki Higashihara

Shinomiya: 2,507 shares

Years of Office as an Independent Director: 2 years

1987  Adviser, Hitachi, Ltd.
2017  General Manager, Mansion Development Department
2007  General Manager, Mansion Development Department
2005  General Manager, Mansion Business
2002  General Manager, Mansion Sales
2000  Manager, Mansion Marketing
1997  Joined Hitachi, Ltd.
Share ownership: 7,700 shares

Cynthia Carroll

Shinomiya: 1,299 shares

Years of Office as an Independent Director: 8 years

2013  Director, Hitachi, Ltd.
2007  CEO, Anglo American plc. (Retired in April 2013)
2002  President & CEO, Primary Metal Group, Alcan Inc.
1998  President, Bauxite, Alumina and Speciality Chemicals, Alcan Inc.
1996  Managing Director, Aughinish Alumina Ltd., Alcan Inc.
1994  President, US Electrical Motors, Emerson Electric Company
1990  Vice President, US Electrical Motors, Emerson Electric Company
1985  Manager, US Electrical Motors, Emerson Electric Company
1978  Engineer, US Electrical Motors, Emerson Electric Company
1970  Joined Emerson Electric Company
Share ownership: 5,300 shares

George Buckley

Shinomiya: 1,299 shares

Years of Office as an Independent Director: 4 years

2011  Advisor, CASIO COMPUTER CO., LTD. (Retired in June 2012)
2005  Managing Director and Vice Chairman, Tokyo Branch, Morgan Stanley Japan Limited
2000  Director-General, Agency for Natural Resources and Energy, METI
1999  Director-General for Commerce and Distribution Policy, Minister’s Secretariat,
2002  Director-General for Commerce and Distribution Policy, Minister’s Secretariat
1997  Joined Hitachi, Ltd.
Share ownership: 7,700 shares

Louise Pentland

Shinomiya: 1,299 shares

Years of Office as an Independent Director: 4 years

2018  Director, Hitachi, Ltd.
2015  CEO, Primary Metal Group, Alcan Inc.
2007  President & CEO, Primary Metal Group, Alcan Inc.
2002  President, Bauxite, Alumina and Speciality Chemicals, Alcan Inc.
1998  President, Bauxite, Alumina and Speciality Chemicals, Alcan Inc.
1996  Managing Director, Aughinish Alumina Ltd., Alcan Inc.
1994  President, US Electrical Motors, Emerson Electric Company
1990  Vice President, US Electrical Motors, Emerson Electric Company
1985  Manager, US Electrical Motors, Emerson Electric Company
1978  Engineer, US Electrical Motors, Emerson Electric Company
1970  Joined Emerson Electric Company
Share ownership: 1,000 shares

Harufumi Mochizuki

Shinomiya: 1,299 shares

Years of Office as an Independent Director: 7 years

2013  Chairman of the Board, Hitachi, Ltd.
2007  Director-General for Commerce and Distribution Policy, Minister’s Secretariat,
2002  Director-General for Commerce and Distribution Policy, Minister’s Secretariat
2000  Director-General for Commerce and Distribution Policy, Minister’s Secretariat
1997  Joined Hitachi, Ltd.
Share ownership: 1,000 shares

Takatoshi Yamamoto

Shinomiya: 1,299 shares

Years of Office as an Independent Director: 3 years

2018  Director, Hitachi, Ltd.
2015  Vice Chairman and Chief Commercial Officer, The Dow Chemical Company
2014  Chief Commercial Officer and Vice Chairman, The Dow Chemical Company
2012  Executive Vice President, Chemicals, Energy and Performance Materials, The Dow Chemical Company
2011  Executive Vice President and Chief Financial Officer, The Dow Chemical Company
2010  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2009  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2008  Senior Vice President and Chief Financial Officer, The Dow Chemical Company
2007  Senior Vice President and Chief Financial Officer, The Dow Chemical Company
2006  Senior Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2005  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2004  Executive Vice President and Chief Financial Officer, The Dow Chemical Company
2003  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2002  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2001  Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
1999  Vice President and Chief Financial Officer, Lighting Business, General Electric Company
1997  Vice President and Chief Financial Officer, Lighting Business, General Electric Company
1996  General Manager, Edison Laboratory, General Electric Company
1995  Director, Edison Laboratory, General Electric Company
1993  Manager, Edison Laboratory, General Electric Company
1990  Manager, Edison Laboratory, General Electric Company
1985  Engineering, Edison Laboratory, General Electric Company
1980  Engineering, Edison Laboratory, General Electric Company
1975  Joined Hitachi, Ltd.
Share ownership: 1,000 shares

Takatoshi Yamamoto

Shinomiya: 1,299 shares

Years of Office as an Independent Director: 3 years

2018  Director, Hitachi, Ltd.
2015  Vice Chairman and Chief Commercial Officer, The Dow Chemical Company
2014  Chief Commercial Officer and Vice Chairman, The Dow Chemical Company
2012  Executive Vice President, Chemicals, Energy and Performance Materials, The Dow Chemical Company
2011  Executive Vice President and Chief Financial Officer, The Dow Chemical Company
2010  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2009  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2008  Senior Vice President and Chief Financial Officer, The Dow Chemical Company
2007  Senior Vice President and Chief Financial Officer, The Dow Chemical Company
2006  Senior Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2005  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2004  Executive Vice President and Chief Financial Officer, The Dow Chemical Company
2003  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2002  Executive Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
2001  Vice President, Corporate Financial Planning and Analysis, The Dow Chemical Company
1999  Vice President and Chief Financial Officer, Lighting Business, General Electric Company
1997  Vice President and Chief Financial Officer, Lighting Business, General Electric Company
1996  General Manager, Edison Laboratory, General Electric Company
1995  Director, Edison Laboratory, General Electric Company
1993  Manager, Edison Laboratory, General Electric Company
1990  Manager, Edison Laboratory, General Electric Company
1985  Engineering, Edison Laboratory, General Electric Company
1980  Engineering, Edison Laboratory, General Electric Company
1975  Joined Hitachi, Ltd.
Share ownership: 1,000 shares

Hiroaki Nakanishi

Shinomiya: 7,508 shares

Years of Office as an Independent Director: 2 years

2016  President & CEO and Director, Hitachi, Ltd.
2014  President & COO, Hitachi, Ltd.
2011  Vice President and Executive Officer, Hitachi, Ltd.
2010  President and Chief Executive Officer, Hitachi Plant Technologies, Ltd.
2009  Executive Vice President, Hitachi Plant Technologies, Ltd.
2007  Senior Vice President and Executive Officer, Hitachi, Ltd.
2005  Senior Vice President and Executive Officer, Hitachi, Ltd.
2004  Executive Vice President and Executive Officer, Hitachi, Ltd.
2001  Director, Hitachi, Ltd.
1997  Joined Hitachi, Ltd.
Share ownership: 1,800 shares

Toyoaki Nakamura

Shinomiya: 7,508 shares

Years of Office as an Independent Director: 3 years

2018  Executive Chairman and Representative Executive Officer, Hitachi, Ltd.
2016  President & CEO and Director, Hitachi, Ltd.
2014  President & CEO and Director, Hitachi, Ltd.
2012  President & CEO and Director, Hitachi, Ltd.
2010  President & CEO and Director, Hitachi, Ltd.
2008  President, Hitachi Power Systems Ltd.
2006  President and Chief Executive Officer, Hitachi, Ltd.
2004  Chairman, Hitachi Global Storage Technologies, Inc.
2002  General Manager, Mansion Development Department
2000  General Manager, Mansion Development Department
1997  General Manager, Mansion Development Department
1987  Adviser, Hitachi, Ltd.
1982  General Manager, Mansion Development Department
1977  Joined Hitachi, Ltd.
Share ownership: 1,800 shares

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

Nominating Committee: Harunumi Mochizuki, Cynthia Carroll, Hiroaki Yoshihara, Hiroaki Nakanishi

Audit Committee: Harunumi Mochizuki, Katsumi Ihara, Harunumi Mochizuki, Takatoshi Yamamoto, Toyoaki Nakamura

Compensation Committee: Harunumi Mochizuki, Katsumi Ihara, Takatoshi Yamamoto, Toshiaki Higashihara
**10-Year Financial Data**

**U.S. GAAP**

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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$9,668,546</td>
<td>$9,315,807</td>
<td>$9,685,883</td>
<td>$9,041,071</td>
<td>$9,563,791</td>
<td>$9,761,970</td>
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<tr>
<td><strong>Operating income</strong></td>
<td>202,159</td>
<td>444,508</td>
<td>412,280</td>
<td>422,028</td>
<td>558,288</td>
<td>620,479</td>
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<tr>
<td><strong>EBIT (Earnings before interest and taxes)</strong></td>
<td>77,815</td>
<td>443,812</td>
<td>573,218</td>
<td>356,015</td>
<td>585,862</td>
<td>551,018</td>
<td></td>
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</tr>
<tr>
<td><strong>Net income (loss) attributable to Hitachi, Ltd. stockholders</strong></td>
<td>(106,801)</td>
<td>238,869</td>
<td>347,179</td>
<td>175,326</td>
<td>264,975</td>
<td>241,301</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>798,299</td>
<td>844,554</td>
<td>447,155</td>
<td>583,508</td>
<td>430,406</td>
<td>447,348</td>
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<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td>(530,595)</td>
<td>(260,346)</td>
<td>(195,545)</td>
<td>(553,457)</td>
<td>(491,363)</td>
<td>(610,255)</td>
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<tr>
<td><strong>Free cash flows</strong></td>
<td>267,704</td>
<td>581,208</td>
<td>251,571</td>
<td>30,051</td>
<td>(51,967)</td>
<td>(162,870)</td>
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<tr>
<td><strong>Cash flow from financing activities</strong></td>
<td>(502,344)</td>
<td>(584,176)</td>
<td>(167,838)</td>
<td>(180,445)</td>
<td>32,968</td>
<td>(250,326)</td>
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<tr>
<td><strong>Cash dividends declared</strong></td>
<td>—</td>
<td>36,133</td>
<td>36,727</td>
<td>47,890</td>
<td>50,711</td>
<td>57,944</td>
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<tr>
<td><strong>Capital expenditures (Property, plant and equipment)</strong></td>
<td>546,326</td>
<td>568,873</td>
<td>649,243</td>
<td>742,537</td>
<td>847,877</td>
<td>848,716</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation (Property, plant and equipment)</strong></td>
<td>441,872</td>
<td>382,732</td>
<td>360,358</td>
<td>300,664</td>
<td>329,833</td>
<td>349,614</td>
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<tr>
<td><strong>R&amp;D expenditures</strong></td>
<td>372,470</td>
<td>395,180</td>
<td>412,514</td>
<td>341,310</td>
<td>351,426</td>
<td>335,515</td>
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**Per share data:**

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</thead>
<tbody>
<tr>
<td><strong>Earnings per share attributable to Hitachi, Ltd. stockholders:</strong></td>
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<tr>
<td>Basic</td>
<td>¥29.20</td>
<td>¥52.89</td>
<td>¥76.81</td>
<td>¥37.28</td>
<td>¥54.86</td>
<td>¥49.97</td>
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<tr>
<td>Diluted</td>
<td>(29.20)</td>
<td>49.38</td>
<td>71.86</td>
<td>36.29</td>
<td>54.85</td>
<td>49.93</td>
<td></td>
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</tr>
<tr>
<td><strong>EBIT (Earnings before interest and taxes)</strong></td>
<td>77,815</td>
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<td><strong>Net income (loss)</strong></td>
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<td>264,975</td>
<td>241,301</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EBIT ratio</strong></td>
<td>0.9</td>
<td>4.8</td>
<td>5.9</td>
<td>4.0</td>
<td>6.1</td>
<td>5.6</td>
<td></td>
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<tr>
<td><strong>Return on assets (ROA)</strong></td>
<td>5.0</td>
<td>2.9</td>
<td>2.4</td>
<td>3.0</td>
<td>5.0</td>
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<tr>
<td><strong>Return on equity (ROE)</strong></td>
<td>17.5</td>
<td>7.8</td>
<td>6.1</td>
<td>8.1</td>
<td>11.6</td>
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<tr>
<td><strong>Return on revenues</strong></td>
<td>4.3</td>
<td>2.2</td>
<td>1.7</td>
<td>2.5</td>
<td>3.9</td>
<td></td>
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</tr>
<tr>
<td><strong>Adjusted operating income ratio</strong></td>
<td>6.3</td>
<td>6.6</td>
<td>8.3</td>
<td>6.4</td>
<td>7.6</td>
<td></td>
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</tr>
<tr>
<td><strong>Adjusted operating income ratio</strong></td>
<td>7.2</td>
<td>5.5</td>
<td>5.3</td>
<td>5.2</td>
<td>6.9</td>
<td></td>
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<tr>
<td><strong>Return on equity (ROE)</strong></td>
<td>9.0</td>
<td>6.5</td>
<td>6.0</td>
<td>6.5</td>
<td>6.9</td>
<td></td>
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<tr>
<td><strong>Return on equity (ROE)</strong></td>
<td>3.3</td>
<td>2.9</td>
<td>2.4</td>
<td>3.0</td>
<td>5.0</td>
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<tr>
<td><strong>D/E ratio (Including non-controlling interests) (times)</strong></td>
<td>10.5</td>
<td>12.0</td>
<td>12.0</td>
<td>13.0</td>
<td>15.0</td>
<td></td>
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</tr>
<tr>
<td><strong>Capital expenditures (Property, plant and equipment)</strong></td>
<td>2,258,933</td>
<td>2,472,497</td>
<td>2,500,226</td>
<td>1,998,411</td>
<td>2,124,827</td>
<td>2,100,724</td>
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<td><strong>Depreciation (Property, plant and equipment)</strong></td>
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<td>329,833</td>
<td>349,614</td>
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</tbody>
</table>

**Notes:**
1. In order to be consistent with financial reporting principles and practices generally accepted in Japan, operating income is presented as total revenues less cost of sales and selling, general and administrative expenses. The Company believes that this is useful to investors in comparing the Company's financial results with those of other Japanese companies.
2. A part of the thermal power generation systems business is classified as a discontinued operation in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations,” which was not transferred to MITSUBISHI HITACHI POWER SYSTEMS, LTD., for the business integration in the thermal power generation systems with Mitsubishi Heavy Industries, Ltd. The results of the discontinued operation are reported separately from continuing operations.
3. In order to be consistent with financial reporting principles and practices generally accepted in Japan, adjusted operating income is presented as total revenues less cost of sales and selling, general and administrative expenses. The Company believes that this is useful to investors in comparing the Company's financial results with those of other Japanese companies.
4. R&D expenditures are calculated on the basis of revenues attributable to Hitachi, Ltd. stockholders.

**Data Section**

**Return on Assets (ROA)**

\[
\text{ROA} = \frac{\text{Net income}}{\text{Total Assets}} \times 100
\]

5. ROA (Return on Assets) = Net Income / Total Assets (Average between the end of current fiscal year and the end of previous fiscal year) x 100
### Segment Highlights

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<tr>
<td>Information &amp; Telecommunication Systems</td>
<td>2,086.9</td>
<td>2,065.9</td>
<td>225.2</td>
<td>199.2</td>
<td>210.9</td>
<td>139.2</td>
<td>210.9</td>
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<td>210.9</td>
<td>210.9</td>
<td>139.2</td>
<td>210.9</td>
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<td>Social Infrastructure &amp; Industrial Systems</td>
<td>2,375.0</td>
<td>2,539.8</td>
<td>151.3</td>
<td>101.2</td>
<td>(151.3)</td>
<td>151.3</td>
<td>101.2</td>
<td>(151.3)</td>
<td>151.3</td>
<td>101.2</td>
<td>(151.3)</td>
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<td>Electronic Systems &amp; Equipment</td>
<td>1,086.5</td>
<td>951.2</td>
<td>75.6</td>
<td>88.8</td>
<td>70.8</td>
<td>88.8</td>
<td>70.8</td>
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<td>Construction Machinery</td>
<td>959.1</td>
<td>1,033.7</td>
<td>92.5</td>
<td>97.0</td>
<td>104.5</td>
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<td>104.5</td>
<td>97.0</td>
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<td>97.0</td>
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<td>High Functional Materials &amp; Components</td>
<td>1,657.5</td>
<td>1,704.4</td>
<td>99.9</td>
<td>98.6</td>
<td>88.4</td>
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<td>Automotive Systems</td>
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<td>Smart Life &amp; Ecofriendly Systems</td>
<td>540.1</td>
<td>485.0</td>
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<td>29.5</td>
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<td>Others</td>
<td>557.7</td>
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<tr>
<td>Subtotal</td>
<td>10,166.1</td>
<td>10,285.6</td>
<td>702.3</td>
<td>622.6</td>
<td>461.3</td>
<td>622.6</td>
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<td>622.6</td>
<td>461.3</td>
<td>622.6</td>
<td>461.3</td>
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<tr>
<td>Corporate Items &amp; Eliminations</td>
<td>(817.5)</td>
<td>(805.0)</td>
<td>(12.3)</td>
<td>(0.3)</td>
<td>52.5</td>
<td>(0.3)</td>
<td>52.5</td>
<td>(0.3)</td>
<td>52.5</td>
<td>(0.3)</td>
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<tr>
<td>Total</td>
<td>9,348.6</td>
<td>9,480.6</td>
<td>714.6</td>
<td>644.2</td>
<td>513.9</td>
<td>644.2</td>
<td>513.9</td>
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### Reclassification of Segment

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<tr>
<td>New Business Segment</td>
<td>IT</td>
<td>Energy</td>
<td>Mobility</td>
<td>Smart Life</td>
<td>Hitachi High-Technologies</td>
<td>Hitachi Chemical</td>
<td>Hitachi Construction Machinery</td>
</tr>
<tr>
<td></td>
<td>Financial Institutions BU</td>
<td>Nuclear Energy BU</td>
<td>Industry</td>
<td>Healthcare BU</td>
<td>Hitachi Automotive Systems</td>
<td>Hitachi Metals</td>
<td>Hitachi Consumer Marketing</td>
</tr>
</tbody>
</table>
Electronic Systems & Equipment

Segment Performance
Revenues decreased 12% to ¥951.2 billion, as compared with the year ended March 31, 2018, due mainly to the effect of reorganization of Hitachi Kokusai Electric Inc., despite increased revenues at Hitachi High-Technologies Corporation owing to higher sales of clinical analyzers and semi-conductor processing equipment and increased revenues in healthcare business owing to higher sales of radiation therapy systems. EBIT decreased ¥18.0 billion to ¥70.8 billion, as compared with the year ended March 31, 2018, due mainly to the effect of reorganization of Hitachi Kokusai Electric Inc.

Adjusted operating income decreased ¥11.3 billion to ¥75.6 billion, as compared with the year ended March 31, 2018, due mainly to decreased adjusted operating income.

Construction Machinery

Segment Performance
Revenues increased 8% to ¥1,033.7 billion, as compared with the year ended March 31, 2018, due mainly to increased sales in overseas countries mainly in North America and Asia-Pacific.

Adjusted operating income increased ¥12.4 billion to ¥46.1 billion, as compared with the year ended March 31, 2018, due mainly to the effect of reorganization of Hitachi Kokusai Electric Inc.

High Functional Materials & Components

Segment Performance
Revenues increased 3% to ¥1,704.4 billion, as compared with the year ended March 31, 2018, due mainly to the effect of corporate acquisition by Hitachi Chemical Company, Ltd. and Hitachi Metals, Ltd., and sales price rise linked to higher raw material costs at Hitachi Metals, Ltd.

Adjusted operating income increased ¥21.8 billion to ¥99.9 billion, as compared with the year ended March 31, 2018, due mainly to decrease in demand for factory automation-related materials and materials for semiconductors and electronics products at Hitachi Metals, Ltd. and effects of changes in product mix at Hitachi Chemical Company, Ltd.

Automotive Systems

Segment Performance
Revenues decreased 3% to ¥971.0 billion, as compared with the year ended March 31, 2018, due mainly to sales decrease in China and North America and lower revenues from car information systems business.

Adjusted operating income increased ¥11.5 billion to ¥38.0 billion, as compared with the year ended March 31, 2018, due mainly to posting gain on sales of the shares of Clarion Co., Ltd. and others.
Smart Life & Ecofriendly Systems

Revenues decreased 10% to ¥485.0 billion, as compared with the year ended March 31, 2018, due mainly to decreased revenues both in Japan and overseas market. Adjusted operating income decreased ¥2.6 billion to ¥7.9 billion, due mainly to the decline in revenues. EBIT decreased ¥3.7 billion to ¥29.5 billion, as compared with the year ended March 31, 2018, due mainly to the decrease in adjusted operating income.

Analysis of Statement of Operations
Revenues increased 1% to ¥9,480.6 billion, as compared with the year ended March 31, 2018, despite the effect of conversion of Hitachi Kokusai Electric Inc. into an equity-method associate. This increase was due mainly to an increase in revenues in the Social Infrastructure & Industrial Systems segment owing to an increased revenues from the railway systems business for Europe, in the Construction Machinery segment where sales rose mainly in North America and Asia-Pacific, in the Information & Telecommunication Systems segment where the system integration business remained firm and in the High Functional Materials & Components segment where corporate acquisitions by Hitachi Chemical Company, Ltd. and Hitachi Metals, Ltd.

Cost of sales increased 1% to ¥6,964.6 billion, as compared with the year ended March 31, 2018, and the ratio of cost of sales to revenues was 73%, which was the same level as for the year ended March 31, 2018. Gross profit increased 1% to ¥2,515.9 billion, as compared with the year ended March 31, 2018.

Selling, general and administrative expenses decreased 1% to ¥1,761.0 billion, as compared with the year ended March 31, 2018, and the ratio of selling, general and administrative expenses to revenues was 19%, which was the same level as for the year ended March 31, 2018. Adjusted operating income increased by ¥430.3 billion to ¥754.9 billion, as compared with the year ended March 31, 2018. The increase was due mainly to higher profits owing to increased revenues and profitability improvement in the Information & Telecommunication Systems segment, the Social Infrastructure & Industrial Systems segment and the Construction Machinery segment. The increase was partially offset by decreased profits in the High Functional Materials & Components segment and the Automotive Systems segment.

Other income increased ¥194.3 billion to ¥206.3 billion and other expenses increased ¥301.9 billion to ¥442.6 billion, as compared with the year ended March 31, 2018, respectively. The details are as follows. Net gain on sales and disposal of fixed assets was improved by ¥20.9 billion and turned to gain of ¥18.4 billion, as compared with the year ended March 31, 2018. Impairment losses increased ¥296.3 billion to ¥344.9 billion, as compared with the year ended March 31, 2018. This mainly reflected impairment losses recognized as the result of the suspension of the UK nuclear power stations construction project in power and energy business. Net gain on business reorganization and others increased ¥174.8 billion to ¥184.6 billion, as compared with the year ended March 31, 2018, due mainly to net gain by selling shares of Hitachi Kokusai Electric Inc. stock, shares of Clarion Co., Ltd. stock in the Automotive Systems segment and a part of shares of Agilis Trains West (Holdings) Limited stock in the Social Infrastructure & Industrial Systems segment. Special termination benefits increased ¥6.6 billion to ¥22.3 billion, as compared with the year ended March 31, 2018. Expenses related to competition law and others decreased ¥12.5 billion to ¥1.7 billion, as compared with the year ended March 31, 2018.

Financial income (excluding interest income) increased by 6.6 billion to ¥13.6 billion and financial expenses (excluding interest charges) decreased ¥7.7 billion to ¥3.4 billion, as compared with the year ended March 31, 2018, respectively. Share of loss of investments accounted for using the equity method was ¥15.0 billion, a deterioration of ¥7.4 billion from the year ended March 31, 2018, due to an exchange loss at a foreign equity-method associate and impairment losses for investment on equity-method associates.

As a result of the foregoing, EBIT decreased ¥130.3 billion to ¥513.9 billion, as compared with the year ended March 31, 2018. Interest income increased ¥8.1 billion to ¥23.1 billion, as compared with the year ended March 31, 2018 and interest charges was ¥20.5 billion, which was the same level as for the year ended March 31, 2018. Income from continuing operations, before income taxes decreased ¥77.1 billion to ¥122.1 billion, as compared with the year ended March 31, 2018. Income from continuing operations, before income taxes decreased ¥77.1 billion to ¥122.1 billion, as compared with the year ended March 31, 2018. Income taxes increased ¥54.6 billion to ¥186.3 billion, as compared with the year ended March 31, 2018, despite of decreased income from continuing operations, before income taxes owing mainly to impairment losses recognized as the result of the suspension of the UK nuclear power stations construction project. This increase was due mainly to increased taxable income due to such impairment losses being non-deductible. Loss from discontinued operations decreased ¥6.8 billion to ¥9.1 billion, as compared with the year ended March 31, 2018. Net income attributable to Hitachi, Ltd. stockholders decreased ¥169.8 billion to ¥321.0 billion, as compared with the year ended March 31, 2018. Net income attributable to non-controlling interests decreased ¥23.4 billion to ¥96.4 billion, as compared with the year ended March 31, 2018. As a result of the foregoing, net income attributable to Hitachi, Ltd. stockholders decreased ¥140.4 billion to ¥222.5 billion, as compared with the year ended March 31, 2018.
Revenues by Geographic Area

The following is an overview of revenues attributed to geographic areas based on customer location.

<table>
<thead>
<tr>
<th>Region</th>
<th>Year ended March 31, 2018</th>
<th>Year ended March 31, 2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>¥4,644.5 billion</td>
<td>¥4,654.6 billion</td>
<td>0%</td>
</tr>
<tr>
<td>Overseas Revenues Subtotal</td>
<td>964.4 billion</td>
<td>925.6 billion</td>
<td>-4%</td>
</tr>
<tr>
<td>Asia</td>
<td>4,621.5 billion</td>
<td>4,725.5 billion</td>
<td>2%</td>
</tr>
<tr>
<td>North America</td>
<td>1,205.6 billion</td>
<td>1,207.6 billion</td>
<td>0%</td>
</tr>
<tr>
<td>Europe</td>
<td>964.4 billion</td>
<td>925.6 billion</td>
<td>-4%</td>
</tr>
<tr>
<td>Other Areas</td>
<td>502.3 billion</td>
<td>572.3 billion</td>
<td>14%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>¥5,368.6 billion</td>
<td>¥5,450.8 billion</td>
<td>1%</td>
</tr>
</tbody>
</table>

(Other Areas)

Revenues in other areas increased 14% to ¥572.3 billion, as compared with the year ended March 31, 2018. This was due mainly to higher revenues in the Social Infrastructure & Industrial Systems segment owing to revenues recognized for overseas EPC project for industry and distribution field.

As a result of the foregoing, overseas revenues increased 2% to ¥4,616.0 billion, as compared with the year ended March 31, 2018, and the ratio to total revenues was 51%, which was 1% increase as compared with the year ended March 31, 2018.

With our current ratings, we believe that our access to the global capital markets will remain sufficient for our financing needs. We seek to improve our credit ratings in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain access to sufficient funding resources through the capital markets.

Cash Flows

(Cash Flows from Operating Activities)

Net cash outflow from a change in trade payables increased by ¥114.0 billion, as compared with the year ended March 2018. Net cash inflow from a change in trade receivables and contract assets decreased by ¥45.4 billion, as compared with the year ended March 2018, Net cash outflow from a change in inventories decreased by ¥31.7 billion, as compared with the year ended March 2018.

As a result of the foregoing, net cash provided by operating activities was ¥161.0 billion in the year ended March 31, 2019, a decrease of ¥117.1 billion compared with the year ended March 2018.

(Cash Flows from Investing Activities)

Net amount of investments related to property, plant and equipment was ¥104.8 billion in the year ended March 2019, a decrease of ¥447.1 billion in the year ended March 2019.

Assets, Liabilities and Equity

As of March 31, 2019, total assets amounted to ¥9,626.5 billion, a decrease of ¥460.0 billion from March 31, 2018. This was due mainly to impairment losses recognized for the suspension of the UK nuclear power stations construction project, the conversion of Hitachi Kokusai Electric Inc. to an equity-method associate, and sales of shares of Clarion Co., Ltd. stock. Cash and cash equivalents as of March 31, 2019 amounted to ¥867.5 billion, an increase of ¥130.6 billion from the amount of March 31, 2018.

As of March 31, 2019, total interest-bearing debt, the sum of short-term and long-term debt, amounted to ¥1,004.7 billion, a decrease of ¥45.5 billion from March 31, 2018 as result of repayment of borrowings. As of March 31, 2019, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥111.0 billion, a decrease of ¥10.4 billion from March 31, 2018. As of March 31, 2019, current portion of long-term debt amounted to ¥186.2 billion, an increase of ¥8.0 billion from March 31, 2018. As of March 31, 2019, long-term debt (excluding current portion), consisting mainly of debentures, and loans principally from banks and insurance companies, amounted to ¥708.4 billion, a decrease of ¥103.1 billion from March 31, 2018.

As of March 31, 2019, total Hitachi, Ltd. stockholders’ equity amounted to ¥2,262.6 billion, a decrease of ¥15.4 billion from March 31, 2018. As a result, the ratio of total Hitachi, Ltd. stockholders’ equity to total assets as of March 31, 2019 was 33.9%, compared with 32.4% as of March 31, 2018.

Non-controlling interests as of March 31, 2019 was ¥1,151.8 billion, a decrease of ¥81.8 billion from March 31, 2018. Total as of March 31, 2019 was ¥4,144.0 billion, a decrease of ¥97.2 billion from March 31, 2018. The ratio of interest-bearing debt to total equity was 0.23 times, which was the same level as that of March 31, 2018.

Data Section
Consolidated Statement of Financial Position

March 31, 2019 and 2018

Millions of yen

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥ 807,593</td>
<td>¥ 697,064</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>—</td>
<td>2,501,414</td>
</tr>
<tr>
<td>Trade receivables and contract assets</td>
<td>—</td>
<td>2,399,933</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,355,733</td>
<td>1,356,762</td>
</tr>
<tr>
<td>Investments in securities and other financial assets</td>
<td>284,267</td>
<td>373,524</td>
</tr>
<tr>
<td>Other current assets</td>
<td>187,238</td>
<td>203,866</td>
</tr>
<tr>
<td></td>
<td>5,035,793</td>
<td>5,151,800</td>
</tr>
<tr>
<td>Total current assets</td>
<td>¥10,206,603</td>
<td>¥9,626,592</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>724,461</td>
<td>743,407</td>
</tr>
<tr>
<td>Investments in securities and other financial assets</td>
<td>568,349</td>
<td>716,431</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,055,695</td>
<td>2,124,927</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>960,016</td>
<td>1,054,370</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>381,288</td>
<td>315,768</td>
</tr>
<tr>
<td></td>
<td>5,035,793</td>
<td>5,151,800</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥10,106,603</td>
<td>¥9,626,592</td>
</tr>
</tbody>
</table>

**Liabilities**

Short-term debt | ¥ 257,792 | ¥ 185,250 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion of long-term debt</td>
<td>105,250</td>
<td>117,191</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>287,792</td>
<td>254,735</td>
</tr>
<tr>
<td>Trade payables</td>
<td>1,408,012</td>
<td>1,536,762</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>653,676</td>
<td>697,185</td>
</tr>
<tr>
<td>Advances received</td>
<td>553,510</td>
<td>511,872</td>
</tr>
<tr>
<td>Contract liabilities</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>438,289</td>
<td>516,679</td>
</tr>
<tr>
<td></td>
<td>3,605,560</td>
<td>3,705,384</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>¥321,022</td>
<td>¥321,022</td>
</tr>
</tbody>
</table>

**Non-current liabilities**

Long-term debt | ¥ 2,399,933 | ¥ 2,399,933 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement and severance benefits</td>
<td>526,588</td>
<td>575,156</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>371,451</td>
<td>412,718</td>
</tr>
<tr>
<td></td>
<td>3,280,480</td>
<td>3,280,480</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>¥321,022</td>
<td>¥321,022</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>¥642,044</td>
<td>¥642,044</td>
</tr>
</tbody>
</table>

**Total Assets** | ¥10,106,603 | ¥9,626,592 |

**Consolidated Statement of Profit or Loss**

Years ended March 31, 2019 and 2018

Millions of yen

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>¥9,368,614</td>
<td>¥9,460,819</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>¥6,865,522</td>
<td>¥6,964,639</td>
</tr>
<tr>
<td>Gross profit</td>
<td>2,502,092</td>
<td>2,515,180</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(1,787,462)</td>
<td>(1,787,000)</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>714,630</td>
<td>754,876</td>
</tr>
<tr>
<td>Other income</td>
<td>(107,765)</td>
<td>82,371</td>
</tr>
<tr>
<td>Other expenses</td>
<td>1,964,809</td>
<td>1,964,809</td>
</tr>
<tr>
<td>Financial income</td>
<td>7,005</td>
<td>13,053</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(3,459)</td>
<td>(3,459)</td>
</tr>
<tr>
<td>Income from continuing operations, before income taxes</td>
<td>206,577</td>
<td>205,316</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(131,708)</td>
<td>(186,344)</td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>74,869</td>
<td>169,972</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>(16,020)</td>
<td>(16,020)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>¥490,818</td>
<td>¥321,022</td>
</tr>
</tbody>
</table>

**Net income attributable to Hitachi, Ltd. stockholders** | ¥326,388 | ¥222,546 |

**Non-controlling interests** | ¥127,930 | ¥98,476 |

**Earnings per share from continuing operations, attributable to Hitachi, Ltd. stockholders**

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>¥392.52</td>
<td>¥375.93</td>
</tr>
<tr>
<td>Shares</td>
<td>8,208</td>
<td>8,208</td>
</tr>
</tbody>
</table>

**Earnings per share attributable to Hitachi, Ltd. stockholders**

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>¥382.92</td>
<td>¥365.80</td>
</tr>
<tr>
<td>Shares</td>
<td>8,208</td>
<td>8,208</td>
</tr>
</tbody>
</table>

Note: 1. Adjustments to certain items included in “Non-current assets” of the previous fiscal year had been included in “Current assets” in the current fiscal year.

**Consolidated Statement of Comprehensive Income**

Years ended March 31, 2019 and 2018

Millions of yen

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td>¥490,818</td>
<td>¥321,022</td>
</tr>
<tr>
<td><strong>Other comprehensive income (OCI)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items not to be reclassified into net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net changes in financial assets measured at fair value through OCI</td>
<td>1,530</td>
<td>(45,356)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(250,703)</td>
<td>(11,983)</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>3,302</td>
<td>(5,964)</td>
</tr>
<tr>
<td><strong>Total items not to be reclassified into net income</strong></td>
<td>27,585</td>
<td>(59,201)</td>
</tr>
<tr>
<td>Items that can be reclassified into net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(4,175)</td>
<td>(4,175)</td>
</tr>
<tr>
<td>Net changes in cash flow hedges</td>
<td>(20,526)</td>
<td>(20,526)</td>
</tr>
<tr>
<td>Share of OCI of investments accounted for using the equity method</td>
<td>(186,344)</td>
<td>(186,344)</td>
</tr>
<tr>
<td><strong>Total items that can be reclassified into net income</strong></td>
<td>(230,470)</td>
<td>(230,470)</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>13,693</td>
<td>13,693</td>
</tr>
<tr>
<td><strong>Other comprehensive income (OCI)</strong></td>
<td>25,201</td>
<td>(57,641)</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>¥516,119</td>
<td>¥263,381</td>
</tr>
</tbody>
</table>

Hitachi Integrated Report 2019
## Consolidated Statement of Changes in Equity

### Years ended March 31, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2019</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>¥458,790</td>
<td>¥577,573</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>¥1,793,570</td>
<td>¥1,914,068</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>¥2,206,085</td>
<td>¥3,129,010</td>
</tr>
<tr>
<td>Total equity</td>
<td>¥4,095,955</td>
<td></td>
</tr>
</tbody>
</table>

### Consolidated Statement of Changes in Equity

<table>
<thead>
<tr>
<th></th>
<th>As of March 31, 2019</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>¥458,790</td>
<td>¥575,809</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>¥1,793,570</td>
<td>¥2,105,395</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>¥2,207,024</td>
<td>¥1,233,647</td>
</tr>
<tr>
<td>Total equity</td>
<td>¥4,511,671</td>
<td></td>
</tr>
</tbody>
</table>

### Changes in equity

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reclassified into retained earnings</td>
<td>—</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>—</td>
</tr>
<tr>
<td>Dividends to Hitachi, Ltd. stockholders</td>
<td>—</td>
</tr>
<tr>
<td>Dividends to non-controlling interests</td>
<td>—</td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td>—</td>
</tr>
<tr>
<td>Sales of treasury stock</td>
<td>—</td>
</tr>
<tr>
<td>Changes in non-controlling interests</td>
<td>—</td>
</tr>
</tbody>
</table>

### Cumulative effects of changes in accounting policies

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual balance</td>
<td>—</td>
</tr>
</tbody>
</table>

### Changes in equity

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reclassified into retained earnings</td>
<td>—</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>—</td>
</tr>
<tr>
<td>Dividends to Hitachi, Ltd. stockholders</td>
<td>—</td>
</tr>
<tr>
<td>Dividends to non-controlling interests</td>
<td>—</td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td>—</td>
</tr>
<tr>
<td>Sales of treasury stock</td>
<td>—</td>
</tr>
<tr>
<td>Changes in non-controlling interests</td>
<td>—</td>
</tr>
</tbody>
</table>

### Notes

1. From the fiscal year ended March 31, 2019, the consolidated statement items were presented in detail.

2. Changes in presentation have been made due to materiality of some cash-flow items as a result of business reorganization and others. “Purchase of leased assets”, which was separately presented, has been included in “Purchase of property, plant and equipment” or “Purchase of intangible assets”. “Proceeds from sale of leased assets”, which were separately presented, have been included in “Proceeds from sale of property, plant and equipment”. The consolidated statement of cash flows for the year ended March 31, 2019 has been restated in order to reflect these changes in presentation.

## Consolidated Statement of Cash Flows

### Years ended March 31, 2019 and 2018

### Cash flows from operating activities

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>¥2,400,018</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>¥384,044</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>¥344,997</td>
</tr>
<tr>
<td>Income taxes</td>
<td>¥183,699</td>
</tr>
<tr>
<td>Share of (profit)/losses of investments accounted for using the equity method</td>
<td>—</td>
</tr>
<tr>
<td>Financial income and expenses</td>
<td>—</td>
</tr>
<tr>
<td>Net (gain)/loss on business reorganization and others</td>
<td>—</td>
</tr>
<tr>
<td>(Gain) loss on sale of property, plant and equipment</td>
<td>—</td>
</tr>
<tr>
<td>Change in trade receivables</td>
<td>—</td>
</tr>
<tr>
<td>Change in trade receivables and contract assets</td>
<td>—</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>—</td>
</tr>
<tr>
<td>Change in other assets</td>
<td>—</td>
</tr>
<tr>
<td>Change in trade payables</td>
<td>—</td>
</tr>
<tr>
<td>Change in retirement and severance benefits</td>
<td>—</td>
</tr>
<tr>
<td>Change in other liabilities</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥377,769</td>
</tr>
<tr>
<td>Interest received</td>
<td>—</td>
</tr>
<tr>
<td>Dividends received</td>
<td>—</td>
</tr>
<tr>
<td>Interest paid</td>
<td>—</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>—</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>¥410,025</td>
</tr>
</tbody>
</table>

### Cash flows from investing activities

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment and intangible assets</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of investments in subsidiaries and other financial assets</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from sale of treasury stock</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of shares of consolidated subsidiaries from non-controlling interests</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from partial sales of shares of consolidated subsidiaries to non-controlling interests</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
</tr>
<tr>
<td>Net cash provided by (used in) investing activities</td>
<td>¥162,872</td>
</tr>
</tbody>
</table>

### Cash flows from financing activities

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in short-term debt, net</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>—</td>
</tr>
<tr>
<td>Payments on long-term debt</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from payments from non-controlling interests</td>
<td>—</td>
</tr>
<tr>
<td>Dividends paid to Hitachi, Ltd. stockholders</td>
<td>—</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>—</td>
</tr>
<tr>
<td>Acquisition of common stock for treasury</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from sale of treasury stock</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of shares of consolidated subsidiaries from non-controlling interests</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from partial sales of shares of consolidated subsidiaries to non-controlling interests</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
</tr>
<tr>
<td>Net cash provided by (used in) financing activities</td>
<td>¥447,153</td>
</tr>
</tbody>
</table>

### Free cash flows

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from financing activities</td>
<td>—</td>
</tr>
<tr>
<td>Change in short-term debt, net</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>—</td>
</tr>
<tr>
<td>Payments on long-term debt</td>
<td>—</td>
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<tr>
<td>Proceeds from payments from non-controlling interests</td>
<td>—</td>
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<tr>
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<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
</tr>
<tr>
<td>Net cash provided by (used in) investing activities</td>
<td>—</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>¥765,242</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>¥807,593</td>
</tr>
</tbody>
</table>

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## 5-Year Non-Financial Data

### Human Capital Development

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>338,670</td>
<td>355,444</td>
<td>303,887</td>
<td>307,275</td>
<td>295,347</td>
</tr>
<tr>
<td>Consolidated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-consolidated</td>
<td>31,375</td>
<td>37,353</td>
<td>35,831</td>
<td>34,925</td>
<td>33,490</td>
</tr>
<tr>
<td>Average service (years)*1</td>
<td>18.4</td>
<td>18.4</td>
<td>18.6</td>
<td>18.8</td>
<td>19.0</td>
</tr>
<tr>
<td>Turnover ratio (%)**</td>
<td>1.4</td>
<td>1.3</td>
<td>1.5</td>
<td>1.5</td>
<td>1.6</td>
</tr>
</tbody>
</table>

### Diversity and Inclusion

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global ratio (number of female managers)**</td>
<td>16.3</td>
<td>16.5</td>
<td>16.8</td>
<td>17.2</td>
<td>17.8</td>
</tr>
<tr>
<td>Ratio (number of female managers)***</td>
<td>6.0</td>
<td>6.4</td>
<td>6.3</td>
<td>6.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Ratio of non-Japanese executive and corporate officers</td>
<td>2.4%</td>
<td>2.6%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Ratio of non-Japanese executive and corporate officers</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Ratio of non-Japanese executive and corporate officers</td>
<td>3.7%</td>
<td>6.4%</td>
<td>8.8%</td>
<td>8.8%</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

### Research and Development

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of R&amp;D expenditure to revenue (%)</td>
<td>3.4</td>
<td>3.3</td>
<td>3.5</td>
<td>3.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Patent application ratio outside Japan (%)</td>
<td>59</td>
<td>59</td>
<td>57</td>
<td>56</td>
<td>56</td>
</tr>
</tbody>
</table>

### Responsible Procurement, Status of CSR Procurement Policies

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR monitoring (self-check)</td>
<td>345 companies</td>
<td>350 companies</td>
<td>348 companies</td>
<td>345 companies</td>
<td>345 companies</td>
</tr>
<tr>
<td>CSR audits</td>
<td>24 companies</td>
<td>23 companies</td>
<td>23 companies</td>
<td>23 companies</td>
<td>23 companies</td>
</tr>
<tr>
<td>Supplier briefings</td>
<td>126 companies</td>
<td>126 companies</td>
<td>126 companies</td>
<td>126 companies</td>
<td>126 companies</td>
</tr>
</tbody>
</table>

### Environment

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of reduction in CO2 emissions from use of products and services (basis: FY2013)**</td>
<td>35</td>
<td>33</td>
<td>34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CO2 emissions from factories and offices (kt-CO2)***</td>
<td>4,128</td>
<td>3,895</td>
<td>4,577*2</td>
<td>4,631*2</td>
<td>4,470*2</td>
</tr>
<tr>
<td>Water use (million m3)**</td>
<td>4,886</td>
<td>4,391</td>
<td>4,134*3</td>
<td>3,804*3</td>
<td>3,702*3</td>
</tr>
<tr>
<td>Waste and valuables generation (dt)**</td>
<td>692</td>
<td>618</td>
<td>1,386*2</td>
<td>1,386*2</td>
<td>1,384*2</td>
</tr>
<tr>
<td>Atmospheric emissions of chemical substances (t)**</td>
<td>4,151</td>
<td>3,615</td>
<td>4,360*3</td>
<td>4,223*3</td>
<td>4,092*3</td>
</tr>
</tbody>
</table>

### Hitachi Group Business Operation Framework

### Keywords to Understand Hitachi Value Creation

**Society 5.0**

Society 5.0 expresses a new idea of society and related efforts to achieve this, as advocated by the Japanese government. The aim is to develop the economy while addressing societal issues by deploying AI, IoT, robots and other forms of advanced science and technology to make use of various data creating an affluent, human-centered society. The name refers to the evolution of a fifth form of society, continuing from the hunter-gatherer, agrarian, industrial, and information societies.

### Social Innovation Business

Our Social Innovation Business accelerates collaborative creation with customers using the latest digital technologies in a wide range of fields, including social infrastructures. It also solves various issues faced by society and customers by taking advantage of the Hitachi Group’s business bases; its total solutions, which combine the operational technology (OT), IT, products and systems it has cultivated over many years; digital solutions such as Lumada; and open innovation achieved through partnerships with operators and customers.

Hitachi strengths: OT x IT x Products

Hitachi works to provide solutions that utilize digital technology to resolve issues facing customers and society by applying its operational technology (OT), which boasts a track-record of more than 100 years; its information technology (IT), which has continued to develop for more than 50 years; and its products, which it has developed and manufactured using its own technology since its founding.

**Lumada Business**

Lumada is Hitachi’s advanced digital solutions, services, and technologies for turning customers’ data into insights to drive digital innovation. It is derived from the words “illuminate” and “data.” Customer cases refer to collaborative creation processes of the Lumada business, as well as those of which are models for the digital solutions that we have cultivated thus far. Lumada Solution Hub is a system that packages Lumada solutions and application development environments in forms that are easy to implement and provides them on cloud platforms.

**NEXPERIENCE**

This is a methodology for collaborative creation with customers advocated by Hitachi. It develops new businesses while visualizing various insights from multiple perspectives through workshops with customers. The approach comprises of "methods" for creating new businesses, "IT tools" that support the methods and "collaborative creation spaces for customers" that support discussions at workshops.
Corporate Name
Hitachi, Ltd. (Kabushiki Kaisha Hitachi Seisakusho)

URL
https://www.hitachi.com/

Principal Office
6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8280, Japan

Founded
1910 (Incorporated in 1920)

Capital Stock
458,790 million yen

Number of Employees
295,941

Number of Shares Issued
Common Stock (including treasury stock)
966,692,877 shares

Number of Shareholders
327,497

Administrator of Shareholders’ Register
Tokyo Securities Transfer Agent Co., Ltd.
6th Floor, NMF Takebashi Building, 3-11, Kanda Nishiki-cho, Chiyoda-ku, Tokyo 101-0054, Japan

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TEL: +1-914-333-2994

U.K.
Hitachi Europe Ltd.
Whitebrook Park, Lower Cookham Road, Maidenhead, Berkshire SL6 8YA
TEL: +44-1628-585384

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TEL: +81-3-3258-1111
E-mail: irinfo.hq@hitachi.com

U.S.A.
Hitachi America, Ltd.
50 Prospect Avenue, Tarrytown, NY 10591
TEL: +1-914-333-2994

About Hitachi Group
https://www.hitachi.co.jp/about/corporate/(Japanese)
https://www.hitachi.com/corporate/about/(English)

Sustainability
https://www.hitachi.co.jp/sustainability/(Japanese)
https://www.hitachi.com/sustainability/(English)

Website Information
Detailed information is available on the Company’s website.

About Hitachi Group
https://www.hitachi.co.jp/about/corporate/(Japanese)
https://www.hitachi.com/corporate/about/(English)

Investor Relations
https://www.hitachi.co.jp/IR/(Japanese)
https://www.hitachi.com/IR-e/(English)

Sustainability
https://www.hitachi.co.jp/sustainability/(Japanese)
https://www.hitachi.com/sustainability/(English)

Please allow me the opportunity to share a few words as the supervisor overseeing the publication of Hitachi Integrated Report 2019.

Since fiscal 2016, Hitachi has been publishing an integrated report with the goal of creating deeper understanding concerning how the Hitachi Group will create value over the medium to long term.

In the 2019 edition, our fourth edition, we introduce the visions and goals outlined in our new 2021 Mid-term Management Plan, which was announced in May 2019, as well as initiatives that aim to raise corporate value by achieving the plan’s goals. Our CEO has also included a signed message at the top of the report on behalf of our management team.

I hope that this integrated report will help stakeholders, including customers, shareholders and investors, to better understand the Hitachi Group and provide an opportunity for constructive discussion. Furthermore, we plan to enhance our disclosure and raise transparency moving forward, so please feel free to share any opinions you may have without reserve.

September 2019
Hidenobu Nakahata
Representative Executive Officer,
Senior Vice President and Executive Officer,
Head of Legal, Risk Management and Corporate Communications,
CHRO, General Manager of Human Capital Group, and Deputy Manager of Safety Management Division

10 Largest Shareholders

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Shares (shares)</th>
<th>Percentage of Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>71,017,400</td>
<td>7.35</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>61,402,500</td>
<td>6.36</td>
</tr>
<tr>
<td>Hitachi Employees’ Shareholding Association</td>
<td>20,694,676</td>
<td>2.14</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 9)</td>
<td>20,016,500</td>
<td>2.07</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>18,652,999</td>
<td>1.93</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 5)</td>
<td>17,676,200</td>
<td>1.83</td>
</tr>
<tr>
<td>STATE STREET BANK WEST CLIENT-TREATY 505254</td>
<td>16,620,297</td>
<td>1.72</td>
</tr>
<tr>
<td>STATE STREET BANK AND TRUST COMPANY 505001</td>
<td>15,466,269</td>
<td>1.60</td>
</tr>
<tr>
<td>JP MORGAN CHASE BANK 385151</td>
<td>15,016,920</td>
<td>1.56</td>
</tr>
<tr>
<td>STATE STREET BANK AND TRUST COMPANY 505223</td>
<td>14,728,535</td>
<td>1.53</td>
</tr>
</tbody>
</table>

Note: Treasury stock (1,086,667 shares) is not included in the calculation of “Shareholding Ratio.”

Ratings

<table>
<thead>
<tr>
<th>Rating Company</th>
<th>Long-term</th>
<th>Short-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor’s Ratings Japan (S&amp;P)</td>
<td>A</td>
<td>A-1</td>
</tr>
<tr>
<td>Moody’s Japan K.K. (Moody’s)</td>
<td>A3</td>
<td>P-2</td>
</tr>
<tr>
<td>Rating and Investment Information, Inc. (R&amp;I)</td>
<td>A1+</td>
<td>a-1+</td>
</tr>
</tbody>
</table>

*R&I changed its outlooks from A1+ to A and from a-1+ to a-1 in August 2018.

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<tr>
<td>Rating and Investment Information, Inc. (R&amp;I)</td>
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</tr>
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<td>a-1+</td>
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Publication of the Hitachi Integrated Report 2019

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Head of Legal, Risk Management and Corporate Communications,
CHRO, General Manager of Human Capital Group, and Deputy Manager of Safety Management Division

I hope that this integrated report will help stakeholders, including customers, shareholders and investors, to better understand the Hitachi Group and provide an opportunity for constructive discussion. Furthermore, we plan to enhance our disclosure and raise transparency moving forward, so please feel free to share any opinions you may have without reserve.

September 2019
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