

Dynamic Hitachi Continues to Accelerate its Social Innovation Business Despite COVID-19



First, I would like to express my deepest sympathies to those suffering from COVID-19, as well as their families and other affected individuals. At the same time, please allow me to express my condolences to those whose family members have passed away due to this tragic disease. Furthermore, I would like to share my deep gratitude to everyone working to prevent the spread of COVID-19 and maintain social function.

Toshiaki Higashihara
President & CEO

T. Higashihara

Progress During the First Year of the 2021 Mid-term Management Plan

In fiscal 2019, Hitachi achieved an adjusted operating income ratio of 7.5% despite the impact of COVID-19. We achieved this result thanks to the success of profitability improvement measures implemented under our 2018 Mid-term Management Plan. Hitachi is immensely confident

and proud that, through continuous adaptation, we have successfully achieved a V-shaped recovery since fiscal 2008 and constructed a solid and unwavering earnings base in the face of COVID-19.

Co-Creation with Customers and Partners Around the World Enhances Digital Infrastructure

In last year's Integrated Report, Hitachi shared its aim to become a global leader in the Social Innovation Business through its 2021 Mid-term Management Plan. The term

“social innovation” was coined by Hitachi and refers to both the transformation of social and industrial infrastructure – such as railway, energy and water facilities – into more

sophisticated and intelligent social infrastructure through the use of digital technology and providing it to the public. As a leading company advancing the digital transformation (DX) of social infrastructure, Hitachi aims to help raise the quality of life (QoL) for people throughout the world and increase the value of its globally expanding client companies.

Digital technology is at the core of our Social Innovation Business; to enhance it, Hitachi is building an innovation

ecosystem with partners around the world and working to construct digital infrastructure at major global sites. In April 2019, we established “Kyōso-no-Mori,” a new research initiative for a generation of innovation within our Central Research Laboratory. Furthermore, in January 2020, we launched Hitachi Vantara, which will lead the development of digital solutions on a global scale.

Construction of a Globally Competitive Business Portfolio

To simultaneously increase social, environmental and economic value, our 2021 Mid-term Management Plan identifies five business sectors that underpin our Social Innovation Business (IT, Energy, Industry, Mobility and Smart Life). Under this plan, we are building a globally competitive business portfolio. We assess our global competitiveness based on whether our businesses can secure a leading market position. One major move we have made to secure a larger market share in the automotive systems industry specifically is the merger between Hitachi Automotive Systems, Ltd., and Keihin Corporation, Showa Corporation and Nissin Kogyo Co., Ltd., which are affiliates of Honda Motor Co., Ltd. The “electrification” of vehicles will be key as the automotive systems industry responds to tightening global environmental regulations. This merger will enable us to secure a top share of the global market for core parts used in electrification technology while also helping generate environmental value.

Overall, in fiscal 2019, we strengthened our North American business through measures such as our acquisition of JR Automation, a leading company in the U.S. robotic systems integration (SI) business. We made progress toward our goal of constructing a globally competitive business portfolio through tactics such as our decision to transfer our diagnostic imaging-related businesses to FUJIFILM Corporation. In December 2019, we reached a settlement with Mitsubishi Heavy Industries, Ltd., regarding a South African boiler construction project that was being handled by Mitsubishi Power, Ltd. (formerly Mitsubishi Hitachi Power Systems, Ltd.). By reaching this settlement, we resolved a long-standing management issue and took a significant step forward to accelerate the proactive management strategies previously mentioned.

Realigning Group Companies

We revised the capital policies of our group companies based on considerations for how to reorganize listed subsidiaries to compete on a global scale. Our general philosophy was that the subsidiaries capable of competing on a global scale should be retained within the Group, whereas those that were not should pursue their own growth. After conducting reviews of our subsidiary companies, we transferred Hitachi Chemical Co., Ltd., to Showa Denko K.K. in April 2020. Meanwhile, we converted Hitachi High-Tech Corporation into a wholly owned

subsidiary in May 2020, and I believe that Hitachi High-Tech's measurement and analysis technologies are the best in the world. We anticipate that our acquisition of Hitachi High-Tech will enable us to identify further synergies among our five business sectors; for example, promoting highly competitive clinical chemistry and automatic immunodiagnostic analyzers through our partnership with Roche Diagnostics and retaining data related to semiconductor manufacturing.

Thoughts on COVID-19, Employees and Future Management

Deep Gratitude Toward Employees

The first action Hitachi took when COVID-19 began in the world, was to establish an on-site emergency headquarters on January 27, 2020, to protect employees. We also donated computed tomography equipment to speed up medical examinations, with the aim of containing the virus's spread in China. In February, we established a system in Japan that prioritizes the health of employees and their families, our customers and our business partners, primarily by encouraging a work from home (remote work) model whenever possible. I am concerned about the

safety of employees for whom shifting to remote work is difficult, including staff working on the front lines at medical institutions, employees responsible for on-site system support and maintenance, and personnel who commute to workplaces to maintain administrative functions, such as expense processing and payment of salaries and other obligations. I am deeply grateful for their ongoing daily commitment to safety measures as they bravely continue to perform their work.

Our Ability to Respond to Change Will Strengthen Our Company

Now is the Time to Implement Cash-Positive Management and Adjust Our Policies to Prepare for a “New Normal”

COVID-19 has brought to light a number of large-scale social issues, including income inequality and hidden discrimination, as well as the challenges facing our own Company. In terms of corporate business administration, companies that maintain a measurable cash surplus during times of crisis have fared better than those that, in accordance with previous philosophies, are content with a minimal cash supply. In the short term, it is essential that we establish a solid cash management system that will not falter under any circumstances. To this end, Hitachi has secured liquidity of ¥1.3 trillion. My commitment to cash-positive management is not simply a product of the COVID-19 pandemic; we will continue to strengthen our cash management strategy to enable swift responses to a wide variety of future changes. COVID-19 has caused massive changes in people's lifestyles. I do not believe that the world ever completely returns to “normal” following a global event of this magnitude; however, this notion is not entirely negative. Changes are sometimes difficult but can also be viewed as opportunities, enabling us to accomplish things that were not previously possible.

Due to the spread of COVID-19, public focus has shifted to “remote,” “contactless” and “automation” – in other words, enabling processes to be conducted without human

involvement or intervention. These popular technologies can help resolve issues brought about by COVID-19. While promoting its Social Innovation Business, Hitachi has clarified issues and established procedures for finding their solutions. I believe that applying these procedures will enable people whose day-to-day routines have been impacted by COVID-19 to resume active lifestyles through new and unconventional methods. I am also convinced that COVID-19 will be a driving force for acceleration in the Social Innovation Business.

Hitachi has always been able to adapt to surrounding circumstances, but we will embrace agility and change even further in response to the global shifts caused by COVID-19. We will implement a business structure that is based on the “New Normal” conditions resulting from the pandemic. In addition, we will restructure the way our employees work while simultaneously striving to improve their productivity. To achieve this goal, we will implement a remote work model as well as shift to job-based human resource management. Hitachi's global employee base is growing, requiring the Company to clarify individual job descriptions. We currently plan to complete our shift to job-based human resource management by April 2021.

COVID-19 Has Highlighted a High Level of Employee Awareness Regarding Contributions to Society

Job Satisfaction Reforms Will Result in Major Changes at Hitachi

Incidentally, I do not believe that these changes and opportunities will come from other people; rather, I believe that positive, large-scale results will only be achieved once we have proactively seized upon relevant opportunities. In times of crises, such as current COVID-19, I consider it important to frequently converse with employees, and I have been sending messages to employees nearly every week since March. Employees have proactively shared their thoughts with me in response. Many of these replies contained positive messages, such as, “I feel like this is the time to make a positive contribution to the world” and, “I anticipate that this pandemic will lead to a variety of new ideas.” Our “Challenge to COVID-19” competition, which leverages submissions from our “Make a Difference!” internal idea contest, has generated a variety of splendid ideas from around the world. We have implemented those ideas that were immediately applicable and are sequentially reviewing other visionary proposals, with the ultimate goal of adopting them for practical use. Against the backdrop of COVID-19, many employees share my perspective that the time is ripe to solve social issues through innovation and, by doing so, contribute to society at large. Moreover, ideas from employees who are conscious of their connection to society and the importance of giving back are functioning as a driving force for Hitachi as a whole. Seeing this trend unfold has been emotionally moving for me.

For Hitachi to become a true global leader, each employee must be aware of his or her personal connection to society, as well as the importance of social and environmental value. In addition, our employees must all become capable of perceiving social and environmental issues as personally relevant. More relevant in this regard than “work-style reforms” are “job satisfaction reforms.” To relay a personal story: in 1995, as a member of Hitachi (since 1977), I became involved with work connected to the Autonomous decentralized Transport Operation control System (ATOS), a transport management system adopted by East Japan Railway Company for the Tokyo metropolitan



area. At the time, transportation management for many rail lines was still conducted by directors and station staff, who manually operated signal lamps and communicated using telephones. The main goal behind the adoption of the ATOS was to improve passenger service by increasing the efficiency of transportation management operations and providing train operating conditions in real time. For several years, I was responsible for installation work between the Kofu and Tokyo stations on the Chuo Line, and we encountered a series of problems at the beginning of the system's launch. At the time, when train delays and other related problems on the Chuo Line were announced on television, my family would apparently conclude that I would not be returning home that day. Now, the ATOS facilitates smooth travel by supporting safe and stable train operation on a large-scale rail network that transports about 14 million passengers per day. When working on this project, I drew a tremendous amount of motivation and job satisfaction from the fact that both my family and I understood how my efforts contributed to the betterment of society. Economic value is extremely important in terms of management. However, employees might feel an overwhelming amount of pressure if management overemphasizes a top-down approach when pursuing income targets. Our key to resolving this issue is to expand businesses that promote social and economic value on a global scale, while integrating and achieving balance between bottom-up approaches, such as “Make a Difference!,” and top-down approaches. I believe that these efforts will make the Hitachi Group even stronger.

The COVID-19 Pandemic Will Not Alter Our Investment Plans

Accelerate the Social Innovation Business While Responding to Issues

Some aspects of management have remained unchanged even during COVID-19, including our basic capital allocation policy. In the 2021 Mid-term Management Plan, we projected total funds of ¥4 trillion–¥4.5 trillion and have made no changes to our plan to use ¥2 trillion–¥2.5 trillion of this total for growth investment and the remaining ¥2 trillion for shareholder return and capital expenditure. We have already decided that ¥1.8 trillion of growth investment will be allocated to the acquisition of ABB's power grid business and other projects. Meanwhile, we plan to use the remaining ¥700 billion primarily to strengthen our front-line sales team in the IT sector, predominantly through M&A. In terms of shareholder returns, we have consistently raised dividends since I assumed my position as CEO in 2016. Moving forward, we will look into conducting share buybacks while maintaining a stable dividend payout ratio.

The COVID-19 pandemic has brought many issues into the spotlight. Operational risks associated with Hitachi's factories

have become particularly apparent. We've modified our supply chain in response to Great East Japan Earthquake and tragic flooding in Thailand in 2011 and have established a backup system for our production lines, as a significant number of our production processes are conducted across international borders. There is still more to be done, however. We must focus on optimizing the Hitachi Group as a whole as we build a supply chain system capable of flexible response. It's also important to stay abreast of evolving geopolitical risks, such as the impact of Brexit and trade friction between the United States and China.

As living environments change rapidly due to COVID-19, Hitachi is encountering an increasing number of opportunities to support its goal of creating social, environmental and economic value. Moving forward, COVID-19 will function as a major trigger, providing us with the impetus to further accelerate our Social Innovation Business.

Development of the Social Innovation Business

Package a Multitude of Solutions Generated Through Hitachi's IT, OT and Products and Roll Them Out Globally

Since 2016, Hitachi has utilized Lumada as a digital platform for providing value to its customers and has established frameworks for packaging individual solutions. In total, the Lumada platform has accumulated more than 1,000 customer cases. Our collaborative creation efforts in the U.S. to improve the operating efficiency of trucks are an illustrative example of our use of Lumada. These efforts have resulted in a mechanism that utilizes Lumada to collect data on automotive parts and other important factors using sensors built into trucks, detect signs of failure and recommend maintenance before breakdowns occur. I believe that only Hitachi, with its practical knowledge of devices and equipment, can create and leverage solutions like these. Hitachi has been manufacturing for 110 years and has

accumulated expertise on how customers use products, namely concerning operational technology (OT). Since 1960, we have supplemented this expertise with knowledge and skills related to IT used in banking, industry and other fields. Hitachi's status as a singular group possessing IT, OT and products expertise has afforded it a strength that other companies do not have and has led to solutions for a variety of issues. To share an example from our railways systems business: we delivered train cars and an unmanned operation control system to Denmark's Copenhagen Metro, but also endeavored to make the system more convenient by installing sensors on station platforms and field testing a solution that automatically adjusts train schedules based on the number of people waiting on platforms.

Hitachi provides solutions in five sectors: IT, Energy, Industry, Mobility and Smart Life. I believe that we can contribute to the construction of smart cities by combining the solutions we provide within these sectors. Let us examine an amusement park as a smaller-scale "smart city," for example. We would provide stable energy and mobility services that are essential for the park's operation. We would collect data using sensors built into the park's attractions, detect signs of failure and perform preventive

maintenance in addition to supporting stable water supply and reuse. Furthermore, we would conduct video analyses aimed at gauging the number of park visitors on line and ensuring social distancing. One of Hitachi's major goals is to platformize solutions such as these so that it can provide customer value globally in each of the five sectors mentioned earlier.

The Importance of Human-centric Innovation

Earlier, I mentioned that new needs around remote, contactless and automated solutions have arisen due to the COVID-19 pandemic. Moving forward, we will likely see growth in digital technology that provides solutions for the restraints and inconveniences placed on society due to the pandemic. Important in this regard is the creation of "human-centric" societies. Smartphones, the Internet and other modern technologies have dramatically changed our lives, and the belief that AI will play a role in innovation moving forward has become common. However, COVID-19 has taught us that humans, not technology, are at the center of these changes. As humans, we determine and shape our lifestyles based on the circumstances of

our specific environments; AI should never be able to replace our ability to make decisions about our lives. AI is programming at its core, so providing ethical training for engineers who create algorithms and other problem-solving operations, as well as making adjustments from a legal perspective, will be important tasks moving forward.

We must not forget the importance of a "human-centric" approach when considering innovation generated through AI. This approach supports the core policies of the Social Innovation Business, through which Hitachi is promoting adaptation to the "New Normal" brought about by COVID-19.

Human Resource Development and Revolutionary Changes to Mindsets

The Hitachi Group is Driven by its Founding Venture Spirit and an Empathetic Mindset

The ratio of Hitachi Group's domestic and overseas employees has shifted due to strategic decisions made to establish a more global business foundation, such as the acquisition of ABB's power grid business. Traditionally, the value of a company has been determined primarily based on quantitative factors, such as ROE. However, as we endeavor to fully establish our Social Innovation Business, we have come to believe in the relevance of qualitative value; in particular, we regard the value of human resource as extremely important.

Once our employees, who come from diverse backgrounds, have shared their opinions and held thorough discussions on a matter, they unite toward a common set of objectives. Because we find ourselves in uncertain times, I think it is important that we return to Hitachi's mission and values in pursuit of achieving a unified "One Hitachi." To truly achieve the "One Hitachi" vision, we must sympathize with the venture-company spirit through which founder Namihei Odaira and several engineers created Hitachi in 1910 and strive to achieve

unity based on the sharing and practical implementation of this founding spirit.

Hitachi currently has about 300,000 employees. I believe that the value of our human resource will greatly increase if they are able to view social issues and the interests of others, including our customers, as personal interests. People often pursue endeavors that are in their own self-interest; however, it is critical to consider the interests and needs of others as well. When our employees balance their own interests with a desire to help others, we elevate to demonstrating empathy.

Opportunities for Hitachi to Continue to Grow

Social and Environmental Value Through the Social Innovation Business

As Hitachi strives to simultaneously increase social, environmental and economic value, I feel as if these issues have grown in importance to our investors. In recent years, climate change in particular has become an urgent issue for humanity.

With the aim of increasing environmental value, Hitachi has declared that it will achieve carbon-neutral production by fiscal 2030. In January 2020, our Omika Works became the first factory operated by a Japanese company to be listed in the World Economic Forum Lighthouse as a “most advanced factory.” We will make our CO₂ reduction initiatives, particularly those applied during the manufacturing stage, more visible to customers, which will lead to subsequent environmental solutions. As soon as possible, I would like to transform Hitachi into an environmental leader in our industry.

Large-scale natural disasters are occurring more frequently around the world due primarily to climate change. Japan is no exception; this year, it is facing many cases of unexpected and abnormal weather. Circumstances like these underscore the urgent need for maintenance on aging social infrastructure. In response to the increased frequency of natural disasters, we will be required to update and tighten safety standards for infrastructure and equipment. The COVID-19 pandemic has also revealed that, overall,

To put it another way, empathy enables one to understand the feelings of others; this fosters a win-win mindset. I believe that this is precisely the frame of mind that the front-line sales team promoting our Social Innovation Business should have. Sharing happiness does not cause it to dwindle, but rather to grow. As we move forward, we will focus on developing human capital who are capable of perceiving social issues as personally relevant, passionately involving others and developing shared mindsets focused on achieving common targets.

Japan is far behind the rest of the world in terms of digitizing its public infrastructure. Along with other entities active in industrial circles, we are addressing this problem by discussing data architecture with the government. I believe that Hitachi, which is promoting the digital transformation of social infrastructure, is uniquely equipped to provide many solutions to these issues.

Social infrastructure, including power grids and railways, is also aging in North America and requires thorough inspection. In Europe, infrastructure must be assessed in accordance with environmental policies.

All of Hitachi's global employees have dedicated themselves to the advancement of the Social Innovation Business by considering social issues personally relevant. Moving forward, Hitachi will continue to adapt to surrounding circumstances as it implements efforts around the world aimed at improving people's QoL and raising value for client companies. I humbly ask for your continued support as we move forward.

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