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Recognition of Social Responsibility Realizing Sustainable, Innovative Management

Recognition of Social Responsibility

Hitachi's Aims

We are actively advancing our CSR activities to meet society's expectations based on an accurate perception of the impact of our operations on society and our social responsibilities. We are contributing to the resolution of social issues through our Social Innovation Business, which combines advanced IT with infrastructure technologies developed over many years, and are conducting dialogue with all our stakeholders to identify and contribute to the identification of social issues. In addition, we are promoting collaborative creation with stakeholders to resolve those issues and achieve the sustainable growth of society by fulfilling our social responsibilities. We are creating both economic and social value by aligning our CSR activities with our Mid-term Management Plan to realize the Hitachi Group Vision.

Realizing Sustainable, Innovative Management

Hitachi's Approach

Trends in Society and Hitachi Group Identity

Society is today undergoing great changes and faces a range of challenges, from environmental issues and natural resource and energy constraints to poverty, inequality in education, diseases, and population concentration in cities. Hitachi's Corporate Credo is to contribute to society through the development of superior, original technology and products. We created our Group Vision in May 2013, at the start of the 2015 Mid-term Management Plan, with the aims of delivering innovations that help to answer society's challenges and of building a safe, secure, comfortable, and fair society.

The Group Vision indicates the path to the next stage of growth. We draw on the ethics and values that Hitachi has developed over the past 100 years—encapsulated in

our Corporate Credo and Founding Spirit—while continuously considering the next generation. We look ahead to the longer term, while promoting corporate activities informed by sensitivity to the needs of a changing society. Our Mid-term Management Plan is the action plan we define to realize this vision; by integrating our management and CSR strategies, we seek to enhance the effectiveness of this approach.

The implementation of our plan is a way for us to fulfill our responsibilities as a good corporate citizen through robust, diverse governance; the pioneering spirit and strong ethical stance of our employees; and operations that help address environmental and other issues. We comply with the laws of all countries in which we operate and pursue our activities in line with the Hitachi Group Codes of Conduct.



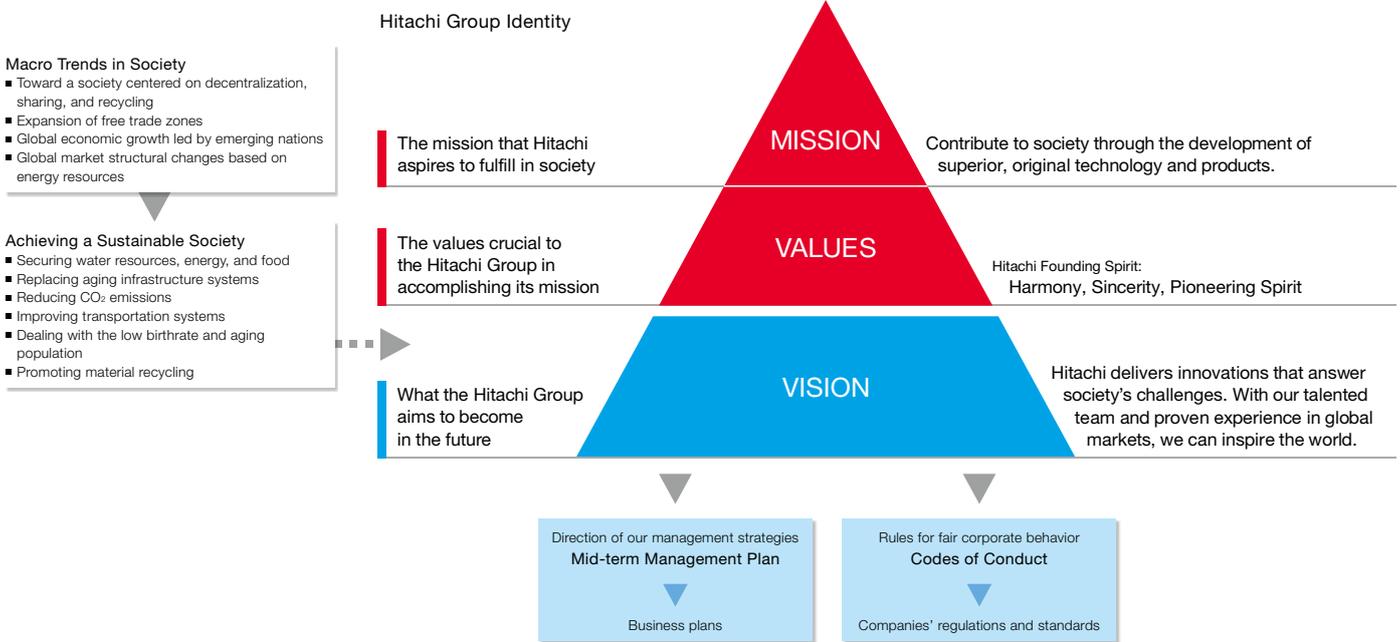
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Trends in Society and Hitachi Group Identity



Hitachi's Social Innovation Business

We work with stakeholders to recognize issues society and our customers face, including global environment problems, and are contributing to the resolution of social issues through our Social Innovation Business, which combines advanced IT with infrastructure technologies developed over many years.

In May 2016, we formulated our 2018 Mid-term Management Plan, which will culminate in fiscal 2018. Under the plan, we aim to become an Innovation Partner for the IoT Era centered on our Social Innovation Business, seeking to expand the sales ratio of frontline operations that develop and deploy services meeting the diverse needs of global society to 40% and to increase our overseas sales ratio as a whole to 55%. We will expand our frontline

operations by evolving and enhancing our Social Innovation Business through digital technology and promoting it overseas in the focus business domains of power and energy; industry, distribution, and water; urban; and finance, public, and healthcare.

We will continue to provide optimum solutions to society's issues with advanced network technologies that are capable of connecting social infrastructure, products, and people.

Social Innovation Business

2018 Mid-term Management Plan

Focus Business Domains and Key Initiatives



Power/Energy

Transition to distributed power supply utilizing IT

- Microgrid, regional energy management
- Renewable energy

Investment Focus

- Strengthening Grid and Engineering



Industry/ Distribution/Water

Use "Lumada"^{*1} IoT platform to optimize value chains for industry and distribution

Investment Focus

- Strengthening Engineering
- Predictive Maintenance
- Optimized Factory



Urban

Improvement of quality of life in communities

From rail as a service to outcome delivery

Investment Focus

- Development of Urban Solutions
- Expansion of the Rail Business Area



Finance/Public/ Healthcare

FinTech, My Number Healthcare service (platform)

Investment Focus

- Strengthening Healthcare Informatics

*1 Hitachi's open and highly versatile IoT solution platform using software technology to obtain new information from integrating and analyzing data and running simulations.



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2015 Mid-term Management Plan and Material Issues for Hitachi

The 2015 Mid-term Management Plan focused on the three themes of “Innovation,” “Global,” and “Transformation,” and we have used our Social Innovation Business to achieve growth and transformation.

Achieving the plan’s goals required improvements in not only our financial activities but also non-financial performance aimed at addressing Hitachi’s material issues. We set targets for non-financial activities related to key management policies and carried out these activities from fiscal 2013.

Management Focus	Material Issues for Hitachi	
	Fiscal 2013–15 Targets	Fiscal 2015 Results
Innovation: Strengthen services and achieve innovation	Sustainable Business	
	Expand R&D centers	Promoted R&D in 7 regions globally (as of June 2015)
	Increase R&D staff by 500 people	Launched Global Centers for Social Innovation as part of R&D framework with 200 staff in Japan, 350 overseas
	Strengthen Open Innovation	Demonstration experiments of prototypes: 74 (27 in fiscal 2014)
	Caring for the Environment	
	Eco-Product sales ratio: 90%	95%
Global: Grow as a company providing Social Innovation Business solutions worldwide	Diversity Management	
	Diversity among directors	Outside directors: 9 Non-Japanese: 5 (of which 2 are women) (as of June 2015, out of 13 directors)
	Female senior executives	Appointed female head of CSR and Environmental Strategy Division as senior executive-level director on April 1, 2015
	Female managers (Hitachi, Ltd.) Fiscal 2020 target: 1,000 women	474 women
	Respect for Human Rights	
	Implement due diligence in the field of “business and human rights”	Procurement division began conducting human rights due diligence based on due diligence guidelines
	Public Policy Initiatives	
	Engage in dialogue with government officials	Participated in policy councils
	Provide forums for stakeholder dialogue	Four events held in India, Australia, Europe, and China
	Transformation: Achieve Hitachi Smart Transformation marked by global standards and speedy, responsive management	Diversity Management
Promotion of global human capital management strategy		Expanded the range of employees directly sent the results of the global employee survey with the goal of promoting communication with team members and applying the results toward concrete action plans



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Innovation Management

Research and Development Direction

To become an “Innovation Partner for the IoT Era,” Hitachi is accelerating collaborative creation with customers to advance its Social Innovation Business in four business domains—power and energy; industry, distribution, and water; urban; and finance, public, and healthcare.

The Research & Development Group has been setting the pace in collaborative creation with customers, evolving from R&D that generates new technology to that which drives innovation and leads to new growth.

R&D is being pursued under the following directives to create business innovation amid uncertainty.

- (1) Create service businesses by accelerating collaborative creation
- (2) Build up technology platforms for Service & Product business growth
- (3) Challenge future societal issues through open innovation

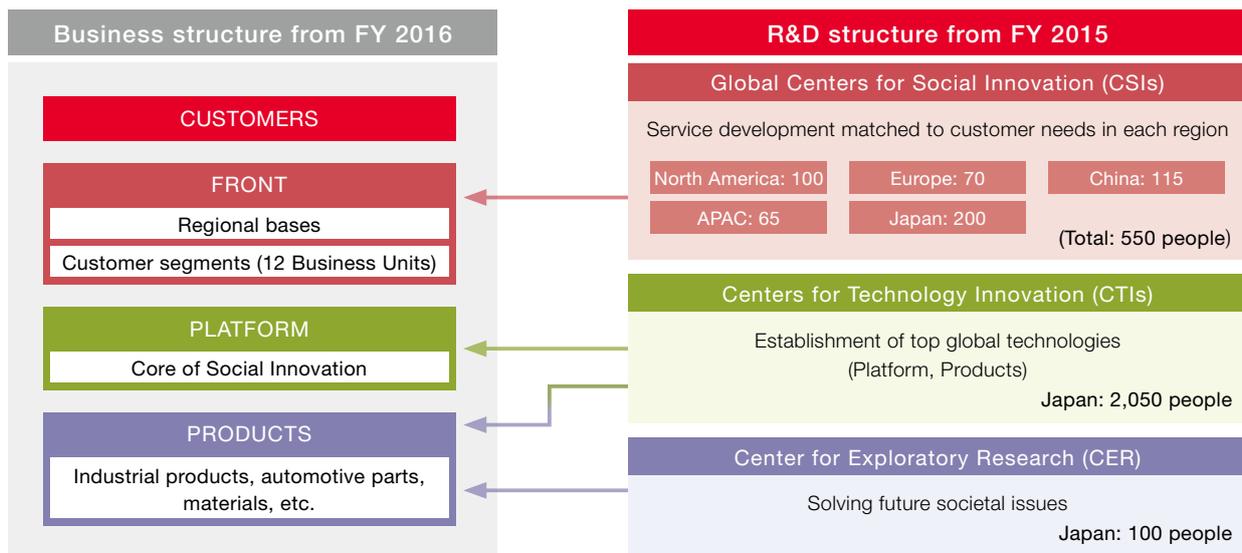
Hitachi will contribute to resolving increasingly global and complex societal issues through the Social Innovation Business.

Linking Customer-Driven R&D to New Business

To accelerate collaborative creation with customers, the Research & Development Group reconfigured itself as a more customer-driven research organization in April 2015. The three research laboratories in Japan—the former Central Research Laboratory, Hitachi Research Laboratory, and Yokohama Research Laboratory—were realigned together with the Design Division and overseas research centers to form four Global Centers for Social Innovation (CSIs), nine Centers for Technology Innovation (CTIs), and the Center for Exploratory Research (CER) to support the new business structure. In April 2016, Hitachi transitioned to a new business structure consisting of service and product business groups, supported by R&D, to expand the Social Innovation Business.

Under the new business structure, the CSIs collaborate with the 12 Front business units (BUs) and regional centers to develop services to meet the needs of customers in each region. The CTIs coordinate with the BU responsible for the core of Social Innovation and the Product BUs supporting services with their highly competitive key components to establish world-leading technologies. As a global and open laboratory, the CER works with various research institutions to conduct cutting-edge research to realize solutions to future societal issues and to tie this to future Social Innovation Business.

Research & Development Group Structure



Accelerating Collaborative Creation with Customers Worldwide

Hitachi’s Social Innovation Business is expanding globally. The CSIs are located in five key regions—Tokyo, the Asia-Pacific (APAC), North America, China, and Europe—with researchers assigned close to their customers to facilitate collaborative creation. To be able to better serve the needs of customers in each region, about 350 of the

approximately 550 researchers in the CSIs are non-Japanese.

CSI-Tokyo focuses on collaborative creation of solutions with customers using methodologies developed through design and service research.

At CSI-APAC, data science, machine learning, and software engineering are used to create energy, transportation, and urban solutions in collaboration with customers.



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CSI-North America is building a big-data analytics platform to collaboratively create advanced solutions in such areas as energy, communications, finance, and healthcare with customers.

CSI-China conducts collaborative creation to develop such products as elevators and ATMs in order to realize solutions for the Chinese government’s industrial policies including “Made in China 2025,” promoting growth in the manufacturing sector, and a low-carbon society.

CSI-Europe is participating in the creation of new markets through standardization activities led by Europe, addressing challenges faced by a matured society by developing solutions together with key institutions.

Communication with customers was also enhanced in fiscal 2015 by the increased participation of the Research & Development Group in various external events, such as the regional Hitachi Social Innovation Forums in Japan, North America, and EMEA, as well as the Hitachi Technology Forum in China.

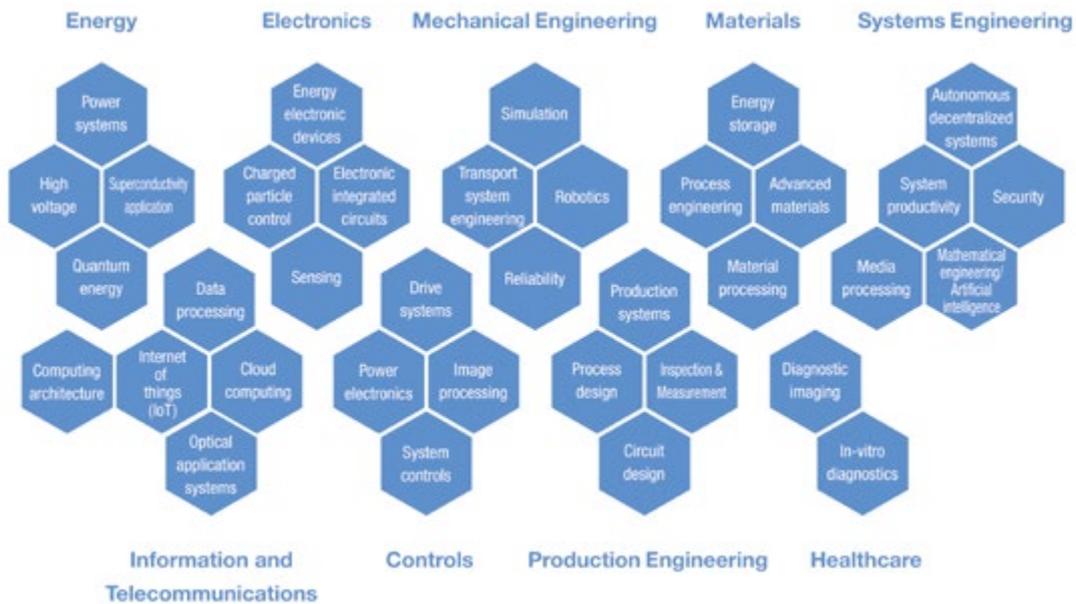
Building Up Technology Platforms for Business Growth

In its history, which spans 100 years, Hitachi has continued to pursue technology development in a broad range of areas—from information and telecommunications, electric power systems, and industrial machinery to transportation and urban development—producing many different types of products to meet customer expectations and contribute to society.

The CTIs are innovating technology through product development. By accumulating know-how in this way, they have established 36 technology platforms in nine technologies: Energy, Electronics, Mechanical Engineering, Materials, Systems Engineering, Information and Telecommunications, Controls, Production Engineering, and Healthcare.

Through the application and free combination of these 36 technology platforms beyond the boundaries of a given product or technological field, innovative products and services are generated, providing greater value to customers.

36 Technology Platforms in 9 Areas of Technology



Promoting Open Innovation

An open R&D environment is maintained in collaboration with research institutes and universities both within and outside of Japan and customers to proceed with innovative technology development that cannot be achieved by Hitachi alone. To date, Hitachi has established the Hitachi Cambridge Laboratory at the University of Cambridge in 1985 to pursue research in fundamental physics and pioneer innovations in future computing, devices, and materials, and a joint research laboratory within the Shanghai Jiao Tong University, China, in fiscal 2012 to conduct research on metallurgical materials. In fiscal 2015, the CER became the

hub for open innovation, creating the seeds for the next Social Innovation Business. In June 2016, joint research laboratories were established within the University of Tokyo, Kyoto University, and Hokkaido University to work toward the realization of the “Super Smart Society” (Society 5.0)*1 proposed by the Japanese government. Through collaborative creation with each university, Hitachi seeks insights into future societal challenges and proposes visions and innovations to realize solutions that both resolve those challenges and contribute to economic development. Furthermore, in fiscal 2015, research collaboration was conducted with 85 research institutes outside of Japan and



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233 within Japan. Collaboration with researchers outside of Japan is being further strengthened through such programs as the Hitachi Research Visit Program (HiVIPS), established in 1985 to invite researchers to work for a fixed term in the labs in Japan.

*1 Super Smart Society: A vision proposed by the government of Japan for a new type of society that will be led by innovations in science and technology, following on from the hunter-gatherer, pastoral-agrarian, industrial, and information societies.

R&D Ethics Reviews

In September 2000, Hitachi established an ethical review committee to review the handling of information from human genome analysis. It was the first such committee to be established by a private company in Japan. We instituted this because we were handling information from human genome analysis. The majority of the committee members are external experts, and the committee meets two or more times a year. The original ethical guidelines were prepared based on the "Ethical Guidelines for Human Genome/Gene Analysis Research" from the Ministry of Education, Culture, Sports, Science, and Technology and the "Ethical Guidelines for Clinical Research" from the Ministry of Health, Labor, and Welfare; these guidelines remain in effect today.*1

All Hitachi business divisions and Group companies whose activities require review are expected to show a high level of corporate social responsibility and to maintain high ethical standards among their researchers and staff.

*1 On October 1, 2015, the Ethical Guidelines for Clinical Research of the Hitachi ethical review committee were changed to the Ethical Guidelines for Medical and Health Research Involving Human Subjects.

R&D Planning and Budget

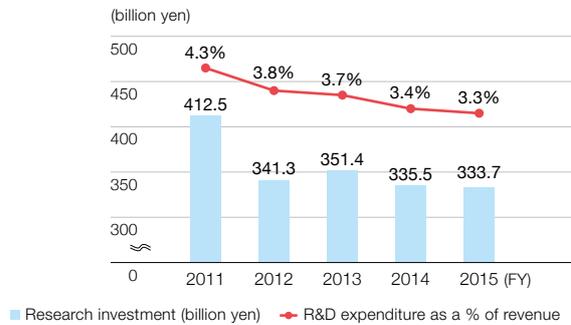
R&D investment by the Hitachi Group is equivalent to about 4% of revenue, of which approximately 20% is used in the Research & Development Group. Research categories can be divided into Sponsored Research, Advanced Sponsored Research, and Frontier and Platform Research. Sponsored and Advanced Sponsored Research are financed by business units or Group companies, and are based mainly on business roadmaps from business unit initiatives. Frontier and Platform Research is based on mid- to long-term technology plans led by the Research & Development Group. The aim of Sponsored or Advanced Sponsored Research is to expand and grow core businesses, targeting practical application within three to five years. Frontier and Platform Research aims to strengthen customer collaborative creation and technical platforms and to create new businesses.

In fiscal 2016, investment in Frontier and Platform Research focused on digital solutions (Social Innovation Business using digital technology) as a driver of growth across the Group in the 2018 Mid-term Management Plan.

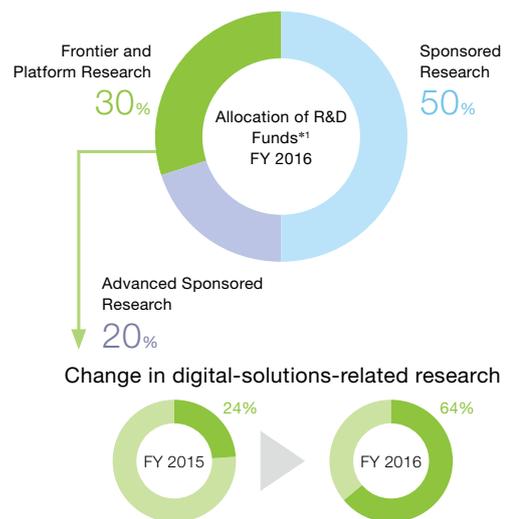
Hitachi will continue to pursue R&D aligned with corporate strategy in order to contribute to the expansion and accelerated global deployment of our businesses.

Key Indicators

• R&D Expenditure (Hitachi Group)



• Allocation of Research & Development Group Funds



*1 Roughly 20% of total Hitachi Group R&D expenditure.

Intellectual Property

Actions in the Intellectual Property Field

Intellectual property (IP) is a key element of Hitachi's business strategy. We protect the innovations emerging from our R&D, as well as the Hitachi brand, on the basis of these IP rights, while providing remuneration and incentive awards for inventors.

Building a Global Patent Portfolio

One of the IP activities supporting our global operations is developing a global patent portfolio to ensure worldwide protection for innovations emerging from our R&D and to prevent other companies from using our technologies without authorization. The portfolio also enables us to demonstrate the advantages of those technologies to customers, as well as to provide patent licenses to other companies. We boosted our patent application ratio outside Japan from 47% in fiscal 2009 to 59% in fiscal 2015. We will continue to efficiently build and maintain our global patent portfolio.



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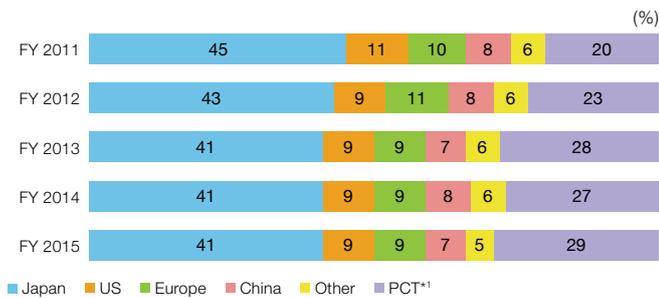
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In tandem with efforts to globalize our R&D centers, we are also globalizing our IP hubs. We currently have IP offices in New York and Santa Clara, California, in the United States, Beijing and Shanghai in China, and Munich in Germany to protect the innovations generated through R&D activities outside Japan.

Another key issue is developing globally minded IP human resources. Since fiscal 1964, Hitachi's Intellectual Property Division has operated an international job training system, sending trainees to IP law firms and Group companies in Europe and the United States and to study abroad. In fiscal 2015, four trainees went to the United States, two to Germany, and one to the United Kingdom.

Key Indicators

• Patent Application Ratios by Country or Region



*1 International applications filed for Patent Cooperation Treaty coverage.

Respect for Intellectual Property

We respect the intellectual property rights (IPRs) of others, as we expect them to respect ours. We follow the Hitachi Group Codes of Conduct and conduct preliminary searches of others' patents when undertaking R&D on new products and technologies in order to avoid IPR infringements. For IPRs that belong to others, we obtain licenses from IPR holders before we use the IP. As our Social Innovation Business expands and opportunities for collaborative creation with customers and partners increase, we carefully handle IP acquired from other parties. If any company is found to have infringed Hitachi's IPRs, we encourage the counterparty to acquire the necessary license and take legal action if necessary.

Hitachi Group Codes of Conduct, 5.3: Management and Preservation of Company Assets

Anti-Counterfeiting Activities

Protecting the Hitachi brand is crucial for supporting our global operations. We operate a rigorous regime against such infringements as making and selling counterfeit goods carrying the Hitachi brand and illegally applying for or registering trademarks similar to the Hitachi brand.

Until recently, the bulk of counterfeit goods were manufactured in China, but over the past several years manufacturing methods and sales routes have become more sophisticated and diverse. In 2015, for example, counterfeit goods operations were successfully raided in UAE and Vietnam as a result of our approaching local authorities. With the growth in trade over the Internet, anti-counterfeit measures for the Internet are also increasingly important.

It is important to teach general consumers not to buy them in order to eliminate counterfeit goods. Hitachi conducts ongoing consumer awareness activities to eliminate counterfeit goods.

Reward System for Employee Inventions

We motivate employees in the R&D field with an ample reward system for new inventions. To make this reward system as fair and transparent as possible, we set standards to evaluate inventions and disclose these standards to employees. We also have a mechanism for receiving inquiries about the rewards, as well as opinions on the reward system.

We have set up a special division within the Intellectual Property Division to plan and operate this system. An internal Invention Management Committee made up of R&D, legal affairs, personnel management, and IP experts ensures that the system operates effectively across the whole Group. The system includes an invention information channel to promote communication between inventors and the business divisions implementing the resulting patents. Inventors can ask the business divisions for information about patent implementation and check the evaluation standards used to calculate the rewards for their inventions. To ensure transparency and inventor satisfaction, we also set up an Arbitration Committee for Invention Rewards with the same composition as the Invention Management Committee. Inventors can appeal to this committee if they disagree with the amount they have been awarded.

From fiscal 2005, we have also given President's Awards to the top 100 inventors. Since fiscal 2006, we have also awarded the top 50 young inventors (under 35 years old) based on patent application rewards received within five years of their joining Hitachi.