## **Message from Outside Directors**



# Impressions of Hitachi's Corporate Governance

In my view, Hitachi's corporate governance is excellent. I joined the Board of Directors of Hitachi as an outside director in 2012. Currently, outside directors account for 9 of the 13 directors. In addition, 5 directors are from outside of Japan. I am most impressed that Hitachi is one of the few leading corporations in Japan in the promotion of diversity. In terms of their experience and cultures, the directors have a wide range of backgrounds and offer diverse opinions. There have been many opportunities for me to learn, and I believe that meetings of the Board of Directors are conducted in a manner that is highly meaningful.

Another distinctive feature of Hitachi is the close communication between the directors and the executive officers, who communicate freely and openly. At meetings of the Board of Directors, there are detailed business briefings by each Business Unit CEO and executive officers. In response, outside directors offer a broad range of opinions and views from their independent viewpoints. The President & CEO openly welcomes the comments of the outside directors and works to reflect those comments in management. The executives of Hitachi are aiming to increase shareholder

value through sustainable growth and to be a corporation in which all employees can work in a comfortable, secure environment.

### **Changes for Hitachi**

To accelerate the Social Innovation Business, from fiscal 2016 Hitachi made a major shift to a new system that emphasizes front businesses, which will implement marketing while maintaining close contact with customers. In addition, the Company has clarified its market-in approach. For example, the President & CEO and other executives will take a lead role in stepping up sales and marketing initiatives. That approach is also clear at meetings of the Board of Directors. Outside directors have been included in opportunities to meet with local customers and partners. These have included meetings of the Board of Directors in Delhi, India, in 2012; Washington, D.C., United States, in 2013; and London, United Kingdom, in 2015. These meetings were highly significant opportunities.

Hitachi also implements a market-in approach in regard to R&D, which will be the source of sustainable growth in the future. A new organizational system that supports front operations has already been placed into operation. I have visited

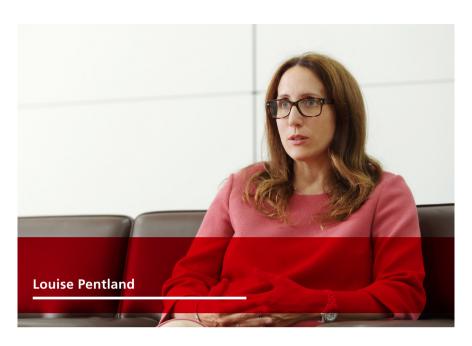
Hitachi's Central Research Laboratory twice. The majority of its research efforts have business potential, and I look forward to seeing the commercialization of these R&D results at an early stage.

#### **Globalization of Management**

Hitachi has strengths in advanced technologies and in the broad scope of its business fields, and the Company is rolling out initiatives in the Social Innovation Business on a global scale. The members of the Board of Directors have visited major offices and facilities in India, the United States, and the United Kingdom. In addition, we participated in the Hitachi Social Innovation Forum 2015, which was held in Las Vegas, Nevada. Working together with customers and partners, Hitachi provides a wide range of technologies and solutions globally. Based on my experience at these events, it is clear that Hitachi enjoys a wide range of business opportunities.

Hitachi is accelerating reforms to promote globalization of management. The Company's goal is to derive more than 55% of its revenue from overseas markets in fiscal 2018. Here the diversity of its human capital talent pool is key. It will be necessary to enhance the capabilities of individual employees while effectively utilizing human resource rotations across Japan and overseas markets. These efforts should include the active utilization of overseas global talent in postings at Hitachi headquarters in Japan.

Moreover, global markets are currently characterized by increasing uncertainty. In addition to strengthening services and products, Hitachi must take additional steps to improve profitability, such as reducing costs through further diversification of its procurement of parts and components. Customers are managing their operating expenditures within limited budgets, and accordingly Hitachi needs to step up the global provision of solutions and services that help customers resolve these challenges. I believe that this will provide opportunities to create new businesses and lead to future growth.



# Hitachi's Meeting of the Board of Directors

I became an outside director of Hitachi in June 2015, and my overall evaluation of our corporate governance is that it is very good. At Hitachi, executive officers aggressively incorporate the opinions of the Board of Directors into management activities. Hitachi has demonstrated a consistent, forward-looking approach that aims for further progress. Many Japanese companies have problems with rapid decision making, but one of Hitachi's distinctive strengths is the extremely fast pace of its management. For example, when I ask a question about a particular issue at a meeting, the answer to that question is always provided at the next meeting. The Company does not simply listen to the opinions of outside directors. They have a clear focus on actually incorporating those opinions into actions and drawing on them in management activities.

Hitachi has a global business involved in many diverse industries. This means the Company needs a board with a diverse makeup to enable both the skills and specialized focus that are needed to govern over a company like Hitachi. In that regard, the Board itself has broadened to become more diverse in culture and experience. One example is the increase in the number of outside directors who are not Japanese. There is a good degree of debate and multiple points of views from the diversity on the Board, which includes these directors with different backgrounds.

Maintaining a focus on the next three to five years and seeking to ensure Hitachi remains competitive are the most important themes that the Company is dealing with. If the management policies and organizational reforms that have been discussed in meetings of the Board of Directors over the past few years take firm hold, and Hitachi moves forward on that basis, then I believe that the Company is certain to be successful.

#### Hitachi's Strengths and Challenges

Hitachi has numerous strengths and those that are always top of mind for me are the global reach of the Company, the diversification of industries, the highly talented and skilled workforce, and the longevity of the talent pool within Hitachi as well as the leadership, including the Chairman of the Board and the President & CEO.

But with great strengths like these, the challenges can also seem not a few.

Maintaining margin growth with a 340,000-person workforce is no small feat. Hitachi has a wealth of talented, innovative human resources around the world, but it will be necessary for each individual to further enhance and leverage his or her skills.

No matter how a company reduces waste and increases efficiency, it is a continuous theme that the company must keep constant its efforts to overcome the competition. In this difficult environment, Hitachi needs to learn how to make quicker management decisions or completely change if the Company wants to lead rather than follow.

### **Expectations for Hitachi**

Hitachi needs to focus on steadily delivering on goals in the 2018 Mid-term Management Plan while increasing the speed of decision making and changing risks and challenges into opportunities.

Also, there are geopolitical changes that continue to occur and could sometimes affect the business of Hitachi. It will be necessary to focus not only on geopolitical risks but also on cultural risks. In preparation for these risks, Hitachi needs to further strengthen its cost competitiveness. To expand operations while reducing risk, it will be necessary to utilize overseas human resources, who have abundant knowledge of local markets, for top management positions, as in the case of British executive Mr.

Alistair Dormer, who was appointed as the CEO of the Railway Systems Business Unit.

As a legal specialist with experience in the management of global corporations, I will do my utmost to contribute to Hitachi. Through meetings of the Board of Directors, I would like to utilize my knowledge in a wide range of fields, such as corporate culture, organizational reform, and cost reductions, in Hitachi's management.