Value Creation Process

Comprehension of Issues and Trends

**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 shifts (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

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**Input**

**Human capital**
- Strengthen front-line and digital talents
- Promote diversity
- Establish a globally unified evaluation standard and training system for the development of human resources
- Consolidated number of employees (number of overseas employees): 295,000 (133,000)

**Intellectual capital**
- An IoT platform (Lumada) with more than 100 years’ worth of operational technology (OT) and more than 50 years’ worth of information technology (IT), and accumulated know-how
- Open innovation industry-academia-government cooperation
- R&D investment: ¥323.1 billion

**Manufacturing capital**
- Lead time reduction by enhancement of supply chain management

**Social capital**
- Establishment of NEXPERIENCE, a collaborative creation process
- Enhance disclosure of information to investors
- CSR audits of suppliers
- Improve dialogue between management and employees

**Natural capital**
- Total energy input (crude oil equivalent): 2.27 GL
- Raw material input: 4,403 kt
- Total water input: 37.02 million m³

**Financial capital**
At the start of the 2018 Mid-term Management Plan (April 1, 2016)
- Total Hitachi, Ltd., stockholders’ equity: ¥2,735.5 billion
- Total Hitachi, Ltd. stockholders’ equity ratio: 21.8%
- Free cash flows: ¥81.4 billion

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**Comprehend social issues and global trends while identifying customer issues through collaboration with those same customers**

**Accumulation of Lumada**

**Lumada platform** (system for converting data into value)

**Source of value (competitive advantage)**
- Extract widely applicable industrial and business expertise
- Accumulation of Lumada customer cases

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**Output**

**IT solutions**
**Energy solutions**
**Industry solutions**

Diverse partners (open innovation)

OT
- Operational technology with a track record of more than 100 years

IT
- Information technology with more than 50 years of history

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**Risk and Opportunity Management**
**Information Security**
**Standards on Occupational Safety**

**Accelerate Innovation**

**Financial and Capital Strategy**
**Capital Allocation Strategy**

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**Foundations supporting sustainable**
Comprehend social issues and global trends while identifying customer issues through collaboration with those same customers.

**Foundations supporting sustainable growth**

- Healthy lives and a safe, secure, comfortable and efficient society
- High-quality and environmentally conscious manufacturing
- Reduction of environmental burden through the value chain

**Simultaneously improve three types of customer value through five solutions**

- Mobility solutions
- Smart Life solutions
- Social capital
- Intellectual capital
- Manufacturing capital

**Output/Outcomes**

- **Human capital**
  - Ratio of female executive and corporate officers: 5%
  - Ratio of non-Japanese executive and corporate officers: 8.8%
  - Number of female managers: 635
- **Intellectual capital**
  - Number of Lumada customer cases: over 650
- **Manufacturing capital**
  - Lead time reduction 20% from order receiving to shipment for large industrial products. (Compared with FY2016)
- **Social capital**
  - Number of meetings with institutional investors and analysts: 550
  - Number of town hall meetings: 20
  - Number of suppliers who received CSR audits: 24
- **Natural capital**
  - Reduction in CO2 emissions through improved environmental performance of products and services: 34% compared with FY2010
  - Reduction in energy use per unit: 14% compared with FY2005
  - Reduction in water use per unit: 34% compared with FY2005
  - Reduction in waste and valuables generation per unit: 16% compared with FY2005
- **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
  - TSR* over past 10 years: 209.6%

*Total Shareholder Return. Return obtained from stock investments over a certain period of time; calculated as dividends+capital gains÷share price