Growth is one of the most important management objectives in the Mid-term Management Plan 2024. We will optimally allocate cash brought from organic business growth, and generate further growth towards the future in conjunction with strengthening shareholder returns.

I was appointed CFO in April 2020, in the second year of the Mid-term Management Plan 2021. Through various measures implemented during the Mid-term Management Plan 2021, such as reorganizing the business portfolio, revising low-profit businesses and establishing ROIC management to raise capital efficiency, we have transformed our business structure into one that is able to increase profit in a stable fashion.

Hitachi aims to constantly achieve business growth and generate profits and cash by using its 10 trillion yen in assets as a base, but the contents of the assets that contribute to earnings change considerably over time. How we think assets structure to maximize profit and cash in a rapidly changing management environment now truly requires “an awareness of the times and resource allocation” on the part of management. We will continue working to build a financial base to support that.

Results of the Mid-term Management Plan 2021

During the Mid-term Management Plan 2021, we were forced to revise our numerical targets in a severe management environment that continues to this day, with the COVID-19 pandemic, unstable international environment, semiconductor shortages, sharply rising material prices, etc. Under these difficult conditions, we have recognized the need to go back to the basics of management and have given greater priority to increasing our resilience to exogenous impacts, such as by thickening liquidity on hand.

Meanwhile, we have been steadily working on existing management issues for some time and have proceeded with considerable boldness to deconsolidate listed subsidiaries, and shift to a business portfolio centered on digital and environmental businesses. The acquisition of GlobalLogic and the ABB power grids business (now Hitachi Energy) is indicative of this. In parallel with these initiatives, in order to achieve an operating income ratio at the 10% level across the board, we checked all businesses with using operating income ratio of 5% as a basis (half of the target operating income ratio), and pursued integration and optimization as
part of a review of low-profit businesses. We also responded by utilizing our relatively healthy balance sheet to undertake large-scale growth investments.

As a result of these activities, in fiscal 2021 adjusted operating income ratio stood at 7.2%, with net income attributable to Hitachi, Ltd. stockholders reaching a record high of 583.4 billion yen. In addition, I believe that our efforts to continue with our transformation even under this harsh environment have led to results, such as the cumulating 2.1 trillion yen in operating cash flow generated over three years.

**The Challenge of the Mid-term Management Plan 2024**

To become a leading global company, we will strive to (1) further improve profitability; (2) enhance the ability to generate cash; and (3) address the ongoing issue from the Mid-term Management Plan 2021 of boosting capital efficiency. Growth through Lumada is a pillar of improved profitability. Working from a base of the assets shifted with a focus on digital and environmental businesses, we will improve profitability by raising the proportion of our businesses that are service-oriented, such as maintenance, upkeep and recurring services in each sector. I believe we can also improve profitability by continuing to implement reviews of low-profit businesses.

Enhancing the ability to generate cash is a major challenge now that we have completed a round of major M&A activities and asset sales. Moving forward, we need to focus on measures to ensure that organic profits will lead to cash generation. Corporate and Hitachi’s business divisions are jointly operating a cash flow reform project. By further improving efficiency when profit recognized in profit and loss statements is converted into cash, we will achieve our Mid-term Management Plan 2024 target of core FCF totaling 1.4 trillion yen (cumulative total over three years). Key measures that make up the project include management that is cognizant of the marginal efficiency of funds, the introduction of best practices beyond business, improved cash conversion management, cash flow visualization, and a shift in the internal mindset away from profits on P/L statements towards an emphasis on cash flow.

We will also continue to work on ROIC as a KPI to improve capital efficiency. We are already using the ROIC tree to spread understanding internally, and this is leading to grassroots action at each workplace. This has also strengthened the understanding that businesses unable to cover their capital costs are damaging corporate value.

**Strengthening Risk Management**

Amid an increasingly uncertain global climate typified by the crisis in Ukraine, starting this fiscal year Hitachi developed a structure to comprehensively monitor both financial and non-financial risks. This means that as CFO, I have taken on the concurrent role of Chief Risk Management Officer (CRMO). We have been working to quantify investment and the other financial risks by using a statistical method known as a value-at-risk model, and are currently revising consolidated financial risks. This means that as CFO, I have taken on the concurrent role of Chief Risk Management Officer (CRMO). We have been working to quantify investment and the other financial risks by using a statistical method known as a value-at-risk model, and are currently revising consolidated financial risks from having more than 800 companies under the group umbrella and geographic risks from overseas expansion from the perspective of overall management. We will also consider a well-balanced approach to non-financial risks, from quality assurance and compliance to safety and BCP measures in the event of natural disasters.

**Enhancing Corporate Value through Dialogue with the Capital Markets**

I personally place an importance on dialogue with the capital markets. We should be accountable to the shareholders who have invested in Hitachi in terms of how we manage the business, and we must also demonstrate appropriate shareholder returns. Through dialogue with the capital markets, we often get comparisons with other companies, perspectives and insight from the capital markets, and advice of all kinds, making bilateral dialogue immensely productive. I believe that explaining the initiatives we will implement to achieve the performance targets outlined in the Mid-term Management Plan 2024 and steadily delivering on shareholder returns including share buybacks are an important part of building a relationship of trust with the capital markets.

Going forward, I think we will need to further consider how intangible assets such as human capital and intellectual property help improve corporate value, and link non-financial KPIs to financial value. I hope to lead efforts to shape a common language with the capital markets by exploring what factors of production affect the value (added value) of final goods and services, and considering the application of the concept of “factor endowment” in economics (a model to show the level of contribution that input resources such as capital and labor make in the creation of added value).