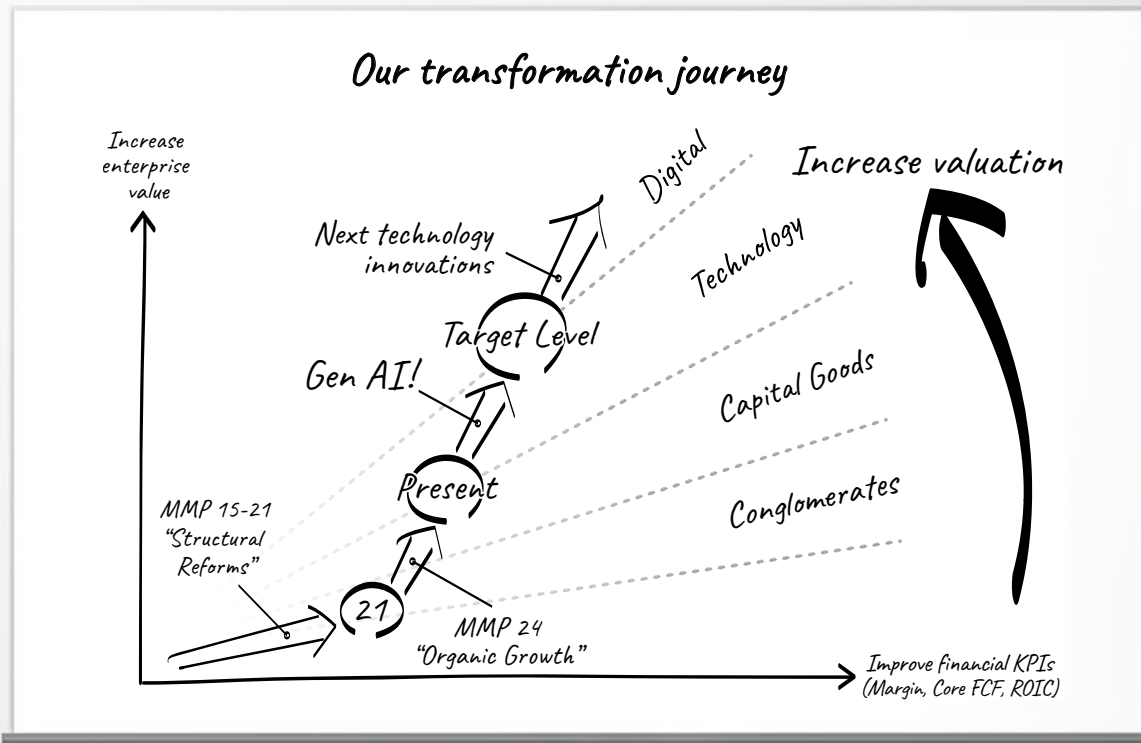


# CEO Message

## Accelerate the Evolution from a Conglomerate to a Digital-centric Social Innovation Company, Capturing Growth Opportunities to Enhance Corporate Value

President & CEO Keiji Kojima



## Transformation Journey into a Global Leader in the Social Innovation Business

Over the past decade, Hitachi has embarked on a transformation journey to become a global leader in the social innovation business.

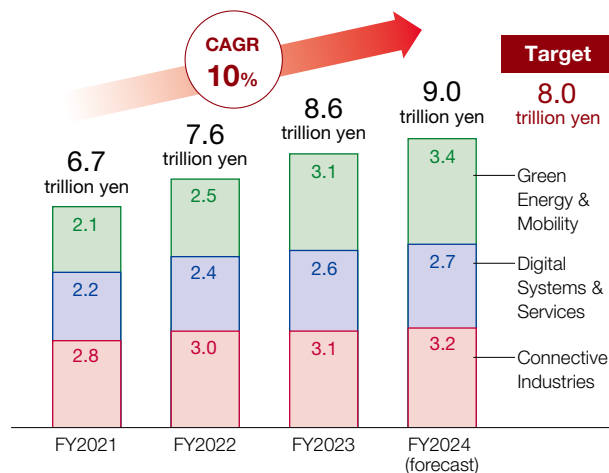
This transformation began with establishing a vision of “Social Innovation,” aiming to solve social challenges through customer co-creation, leveraging Hitachi’s strengths in “IT, OT and products.” Recognizing the need to accelerate digitalization to gain a competitive edge, “Lumada”  was launched in 2016. By placing Social Innovation at the core of our business, we have continually [transformed our business portfolio through the last three Mid-term Management Plan periods \(fiscal 2013–2021\)](#).

Through these structural reforms, we are making a significant shift toward organic growth under the current Mid-term Management Plan 2024. By expanding Lumada, we have evolved from a conglomerate stock, and our valuation is now between that of capital goods and technology stocks. We are accelerating this growth, transforming into a digital-centric company with aspirations of achieving a valuation comparable to that of global digital players.

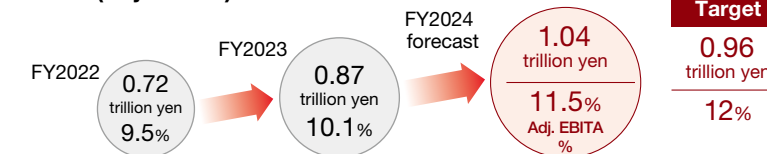
## Become a Company Always Striving for Growth

In the Mid-term Management Plan 2024, we have built a robust business portfolio centered around three key technology trends: “Digital,” “Green,” and “Connective.”  We have made a pivotal shift toward organic growth, pursuing top-line growth driven by DX and GX tailwinds, increasing profit margins through the expansion of the Lumada business, and stabilizing net income through [enhanced risk management](#).  Additionally, and more importantly, we have prioritized [cash generation](#).  As a result of these efforts, our key performance indicators (KPIs) are on track to

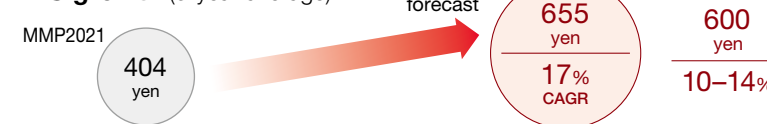
### Revenues growth



### Profits (Adj. EBITA)



### EPS growth (3-year average)



### Investment efficiency (ROIC)

Fiscal Year	FY2022	FY2023	FY2024 forecast	Target
ROIC (%)	7.6%	8.7%	9.5%	10%





meet our targeted financial structure: a revenues growth rate of 10%, adjusted EBITA margin of 11.5%, an ROIC of 9.5%, an EPS growth rate of 17%\*<sup>1</sup>, and core free cash flow of 1.5 trillion yen (3-year cumulative).<sup>\*2</sup> Furthermore, our focus on net income stability and cash generation has yielded positive results, with net income conversion<sup>\*3</sup> and cash conversion<sup>\*4</sup> rates exceeding 60% and 80%, respectively. We are allocating the generated cash to growth investment and shareholder returns, setting us on a trajectory of sustainable and organic growth.

\*1 Calculated based on the number of shares before the stock split (effective July 1, 2024)

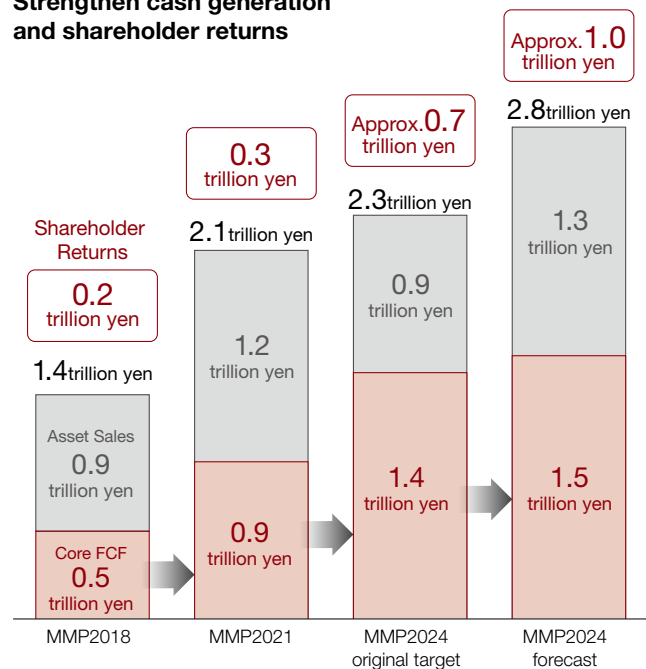
\*2 Revenues and Adj. EBITA margin are for three sectors. Growth rate is CAGR from FY2021 to FY2024

\*3 Net income / Adj. EBITA

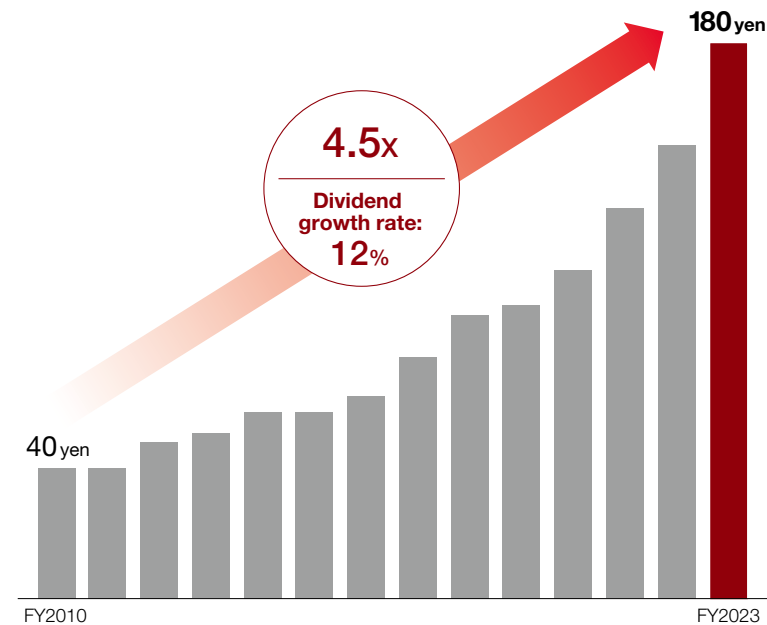
\*4 Core FCF / Net income

During the Mid-term Management Plan 2024, we have also embraced sustainable management.  Strong governance is the foundation for enhancing corporate value. Under a robust Board structure, we have aligned executive compensation with shareholder value,  in addition to achievement of the Mid-term Management Plan KPIs. By incorporating TSR growth against global peers into a reward metric, we established a growth-oriented incentive committed to enhancing corporate value. Transparency is also a key aspect of our governance, and we are actively engaging and communicating with stakeholders.



### Strengthen cash generation and shareholder returns



### Annual dividends per share\*<sup>5</sup> (resolution-basis)



\*5 Calculated assuming that the FY2018 share consolidation was implemented at the start of FY2010

We are also focusing on [environmental](#)  and human capital aspects, which are essential for global and sustainable growth. With increased GX demand, our contribution to CO<sub>2</sub> avoided emissions is projected to reach 153 million metric tons per year (three-year average), exceeding our target of 100 million metric tons. Additionally, we have made progress in reducing our CO<sub>2</sub> emissions toward achieving carbon neutrality by fiscal 2030, with a projected reduction of 74%, surpassing our target of 50%. In terms of [talent development](#),  we are on track to achieve our goal of 97,000 digital talent. Furthermore, our leadership team has become more globally diverse; we started fiscal 2024 with 22.9% of Executive Officers and two of four Executive Vice Presidents being non-Japanese.

With the increased cash resulting from improved business and management practices, we are now able to balance investments in new growth opportunities with shareholder returns. In the current Mid-term Management Plan, we have distributed dividends based on the enhanced cash generation, achieving an annual dividend growth rate of 12% over the past 13 years. Additionally, we continue to repurchase shares, having bought back 300 billion yen's worth in the past two fiscal years, with plans to repurchase 200 billion yen of shares in fiscal 2024.

We are continually enhancing our governance and management structures, maintaining accountability, and defining quantitative metrics. Our unwavering pursuit of growth, while avoiding complacency, will further enhance Hitachi's corporate value.

## The Significant Business Opportunities Unlocked by Generative AI and Digitalization

Generative AI, which emerged during the Mid-term Management Plan 2024, is a pivotal technological innovation for Hitachi's transformation journey. Its impact is so substantial that it can be likened to dividing IT history into "B.C." and "A.D.," unlocking tremendous opportunities both in the short term and the long run.

Despite the high expectation for generative AI to address various social challenges, its growth will not be exponential like that of the Internet era. There are physical constraints to its adoption, such as data centers and the substantial electricity required to operate the digital infrastructure. In addition, securing labor and resources for infrastructure construction is essential, yet increasingly challenging. It is crucial to harmonize the real and cyber aspects, as these physical constraints limit the pace of digital growth through generative AI. Hitachi will provide solutions aligned with the generative AI era through One Hitachi approach, leveraging the convergence of IT, OT and products.

In the short term, we are already witnessing significant opportunities and positive impacts on our business. Generative AI, for instance, is helping to resolve software development resource shortages and driving demand for data center-related systems and semiconductor production and inspection equipment. We will tackle the escalating power shortage while improving productivity and reducing the burden on frontline workers in various fields, such as power generation and substations, construction sites, and facility maintenance. By creating a model that coordinates and resolves the physical constraints associated with generative AI adoption, we can maximize its impact on society. Our relationships with key players, including power companies, construction firms, and hyperscalers, will position us advantageously. These substantial opportunities require collaboration across our three sectors: Digital, Green, and Connective. For example, when providing solutions utilizing generative AI, we need to align timing with relevant players such as hyperscalers and power companies, which operate with different business models. Our integrated growth strategy, leveraging the strength of these three sectors, can address data center demand and power shortages simultaneously while harmonizing the interplay of real-world and cyber elements.



Hitachi is promoting investments to respond to the rapid market growth driven by generative AI and other key trends. We plan to invest one trillion yen in fiscal 2024, anticipating significant results and setting the stage for continued growth in the next Mid-term Management Plan.

## Identify Key Technologies and Adapt Swiftly to Inflection Points

Hitachi's ongoing transformation is driven by our ability to identify and harness emerging technologies at critical inflection points. We are ready to leverage their potential while addressing the social challenges they present. As CEO, I am responsible for anticipating future trends, understanding the evolving technology landscape, and aligning our business and technology portfolio with these insights to strategically allocate resources and capitalize on growth opportunities.

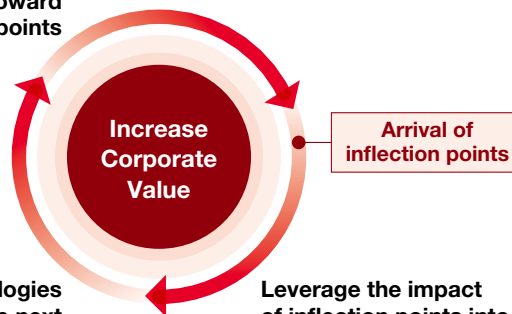
For instance, generative AI has the potential to revolutionize R&D productivity and accelerate the development of next-generation technologies, including quantum computing, anti-aging solutions, and nuclear fusion. To fully leverage these opportunities, we are strengthening our expertise in areas such as measurement, diagnostics, and cell culture, positioning ourselves for significant growth in these fields. Our collaboration with startups through corporate venturing and active engagement with global academia further enhances our foresight. Through backcast-oriented R&D and strategic M&A activities, we are well-prepared to seize growth opportunities as they arise.

As CEO, I provide guidance to ensure the alignment of our three sectors, indicating strategic directions such as "Let's focus on data centers next." Our corporate statement, "Inspire the Next," embodies the mindset of anticipating and meeting the evolving needs of our customers, a fundamental aspect of Hitachi's DNA and a key factor of our attractiveness.

To foster a global One Hitachi teamwork, it is crucial for our leaders to unify the diverse perspectives and aspirations of our employees. The same idea applies to newly acquired businesses, technologies, and personnel. If I were to put the "Harmony" from Hitachi's founding spirit—

### Refine the ability to respond quickly to social issues created by major inflection points

Adjust business portfolios  
with a view toward  
the next inflection points



Identify technologies  
that generate the next  
inflection points

Leverage the impact  
of inflection points into  
business opportunities

#### Identifying impactful technology and its effects

##### Open innovations

Resolve the next social issues through  
global ecosystems with academia

##### Corporate venturing

Invest in and collaborate with startups  
aiming to be the next "unicorns"

##### Back-casting R&D

Create breakthrough technologies  
by backcasting from the future

“Harmony,” “Sincerity,” and “Pioneering Spirit”—in modern wording, it would be “inclusive leadership.” It is the leadership to orchestrate diverse opinions from a higher perspective. By embracing this type of leadership, Hitachi can continue to thrive with the Social Innovation Business.

## Drive Value Creation through Deepened Governance

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To enhance corporate value over the long term, Hitachi is committed to disciplined growth investments and portfolio simplification under a robust governance structure.

We prioritize returns on growth investments, execute bolt-on M&A to support organic growth, and achieve early Hitachi Group synergies through strong post-merger integration. Strengthening investment risk management is integral to our growth model. Additionally, we swiftly execute necessary capital investments while avoiding overcapacity.

Recognizing that a complicated business portfolio poses significant risks, we consistently strive for simplification, ensuring alignment with the Lumada strategy. Asset divestments and joint ventures are prioritized for capital efficiency. Strong governance underpins our efforts to enhance corporate value, enabling us to set ambitious targets to become a digital-centric company and evolve to accelerate growth.

In our transformation journey to enhancing corporate value, dialogue with stakeholders including shareholders is more important than ever. We consistently incorporate insights from investors into swift and accurate execution to deliver results. As evaluations from capital markets rise, the demand for management speed and precision also increases. Therefore, we are deepening our governance and proactively capturing and mitigating risks. We will continue to reflect received advice in our management decisions and share the results of our growth as shareholder returns.

The fiscal 2024 is pivotal, as it marks the completion of our Mid-term Management Plan 2024 while continuing the acceleration of organic growth toward the next Mid-term Management Plan. We are committed to aggressively accelerating growth and aspire to become a global leader in the Social Innovation Business, contributing to a sustainable society.

