

# Hitachi

## Takes on Global Challenges

### Targeting Global Growth

---

- 11 SECTION 1: Message from the CFO (Chief Financial Officer)**  
Implementing Financial Strategies to Succeed in Global Markets
- 12 SECTION 2: Message from the CMO (Chief Marketing Officer)**  
Working with Customers to Identify Their Challenges and Provide Innovative Solutions
- 13 SECTION 3: Message from the CTO (Chief Technology Officer)**  
Fostering Innovation That Shapes the Future of Society through Customer-oriented R&D
- 14 SECTION 4: Message from the CTrO (Chief Transformation Officer)**  
Establishing a Globally Competitive Cost Structure through the Hitachi Smart Transformation Project
- 15 SECTION 5: Message from the CIO (Chief Information Officer)**  
Taking Aggressive Steps to Increase Management Efficiency and Achieve Business Growth through the Effective Use of IT
- 16 SECTION 6: Message from the Head of MONOZUKURI & Quality Assurance**  
Reinforcing the Foundation for Quality and Cost Competitiveness through MONOZUKURI Capabilities
- 17 SECTION 7: Message from the CPO (Chief Procurement Officer)**  
Strengthening Competitiveness across the Value Chain through Reforms Targeting Global Integrated Procurement Operations
- 18 SECTION 8: Message from the CHRO (Chief Human Resources Officer)**  
Achieving Worldwide Business Growth with Global Human Resources Management
- 19 SECTION 9: Message from the General Counsel**  
Supporting the Globalization of Hitachi with World-class Governance and Compliance

## SECTION 1

## Message from the CFO

Implementing Financial Strategies to Succeed  
in Global Markets

**Focusing on strategic investment to strengthen Hitachi's ability to generate cash and expand the Social Innovation Business.**

## Bolstering Cash Flow Management

In fiscal 2013, Hitachi achieved new record highs in operating income—¥532.8 billion—and in EBIT—¥580.1 billion. Nonetheless, we are aiming to reach the level of our overseas competitors in global markets, and accordingly we are not satisfied with this performance.

Hitachi currently faces a shortage of the funds needed to be highly competitive and record growth in global markets. The recent trend in large M&A transactions is toward cash deals instead of share exchanges, and Hitachi will need to secure sufficient cash to respond rapidly to these types of changes in the competitive environment. Accordingly, generating a high level of profits, building a stronger balance sheet, and strengthening cash generation capacity are urgent issues for Hitachi, and the Group has formulated measures to drive improvements in those areas.

Specifically, we are taking steps to improve the Cash Conversion Cycle, such as reducing the days working capital ratio. We are also striving to cut costs by shortening the lead time from order to delivery in order to reduce work in process and inventories. Moving forward, we will take further steps to increase cash. For example, by raising the precision of demand forecasting and responding in a timely manner to customer demand, we will shorten the accounts receivable collection period and reduce excess inventories. To steadily execute these types of measures, we are reforming the cost structure through the Hitachi Smart Transformation Project and boosting our cash generation capacity through the E2E (End-to-End) Supply Chain Project. These projects are being implemented on a Group-wide basis.

## Strategic Investment to Expand the Social Innovation Business

Under the 2015 Mid-term Management Plan, we are conducting aggressive strategic investment to expand the Social Innovation Business. We are carefully considering investment effectiveness, including not only capital and R&D expenditures but also M&A transactions implemented to rapidly secure management resources, such as customer service platforms and solution development capabilities. At the same time, we are maintaining a focus on the balance between implementing these investments, strengthening our financial position, and providing a return to shareholders.

In the Social Innovation Business, there are projects for which the periods are long and considerable amounts of time are required to recover the upfront investments. Going forward, we will strive to bolster our risk management, enhance the precision of project earnings forecasting, and establish a favorable cycle of strategic investment and cash generation. In these ways, Hitachi will achieve further growth.



**Toyoaki Nakamura**

Executive Vice President and Executive Officer,  
CFO

SECTION 2

## Message from the CMO

# Working with Customers to Identify Their Challenges and Provide Innovative Solutions

**Strengthening our sales and engineering teams to accelerate global growth in the Social Innovation Business.**



**Ryuichi Kitayama**

Senior Vice President and Executive Officer,  
CMO, and General Manager of Corporate  
Sales & Marketing Group

### Driving Top-Line Growth

Hitachi's 2015 Mid-term Management Plan includes the target of ¥10 trillion in revenues for the Hitachi Group, and sales teams and front-end engineers are responsible for driving progress toward the achievement of that target as well as further growth in the years ahead. To realize global growth, we will strengthen our sales forces and expand our engineering teams, which will cooperate closely with sales teams in each country and work to solve the challenges of our customers. In this way, Hitachi will enhance and strengthen its system for the proposal of solutions.

### Marketing and Sales Strategies Targeting Business Growth

Looking at specific regions, Hitachi has reaffirmed the position of China and North America as priority regions and will implement focused initiatives in these markets. China is an important region that accounts for about 10% of the revenues of the Hitachi Group. With ongoing urbanization and the development of the service industry, we expect the market in China to continue to record stable growth. Although some matters of concern exist in China, such as rising labor costs, we will take steps to strengthen our risk management system as we strive to contribute to the resolution of social challenges, including environmental problems and social infrastructure improvement.

Like China, North America accounts for about 10% of our total revenues. In the United States, there is a full-scale trend toward bringing manufacturing back to the domestic market. Sales of automotive products are expected to increase, and new businesses are being created in the IT and other sectors. In this advanced market, the members of the Hitachi Group will work together to expand solutions-related businesses, principally in IT and infrastructure.

In Japan, strategic IT investment is rising, centered on the financial sector. We also anticipate increased investment in social infrastructure as a part of national resilience projects, as well as higher demand for transmission and distribution systems due to electric power system reform. Moving forward, we will propose solutions for these domestic infrastructure rebuilding initiatives and actively respond to demand related to the overseas advances of our customers.

Moreover, Hitachi will take steps to accelerate the growth of its global customer base as a true business partner that can contribute to solving the challenges of customers. To that end, we will aggressively implement initiatives to attain top sales for clients with strong growth potential in the energy, natural resources, and infrastructure fields.

Hitachi's sales and marketing divisions will propose solutions to achieve top-line growth and will take the lead in markets around the world as the Hitachi Group works to expand the Social Innovation Business.

## SECTION 3

## Message from the CTO

## Fostering Innovation That Shapes the Future of Society through Customer-oriented R&amp;D

**We will push forward R&D to expand services and establish a global research network. In this way, we will use innovative technologies to address the challenges facing society.**

## Customer-Oriented R&amp;D

The Hitachi Group has approximately 5,000 people working in R&D and invests about 4% of consolidated revenues in R&D activities on an ongoing basis. With these resources, we are embarking on the R&D of technologies that will foster innovation. Through such innovation, we will shape the future of society.

To resolve the challenges facing customers through the use of innovative technologies, the most important task is to first identify and understand those challenges. To that end, we emphasize a customer-oriented approach and conduct R&D in locations close to markets and customers.

The 2015 Mid-term Management Plan includes objectives of more than 40% for the service revenue ratio and more than 50% for the overseas revenue ratio. For these objectives, we are focusing on two initiatives in particular. The first is the implementation of R&D activities targeting the expansion of services. It will be extremely challenging to raise the service revenue ratio from 32% in fiscal 2013 to more than 40% in fiscal 2015. To achieve that objective, we are bolstering technical development related to product services, which entail the provision of support throughout the entire product lifecycle, such as operation and maintenance. These initiatives include the use of big data analysis for the infrastructure facility failure predictive diagnosis system. In addition, to strengthen solutions for customers' issues as a service, we are focusing on technology development through such means as an ethnography survey by which we closely observe customers' operations and identify substantial issues.

The second initiative is the establishment of a global research network targeting the expansion of overseas business. We are aiming to expand our global customer base and to increase the overseas revenue ratio to more than 50%. To meet those objectives, we will promote R&D that is in line with local needs. Accordingly, we are expanding our overseas bases, such as the Big Data Research Laboratory in the United States, the European Nuclear Research Centre in the United Kingdom, and the European Rail Research Centre, also in the United Kingdom. In addition, we will support the development of solutions through global sharing of the most advanced technology from each region.

## Hitachi's Mission and R&amp;D

The Mission of the Hitachi Group is to "contribute to society through the development of superior, original technology and products." Conducting R&D into innovative technologies and services—and providing the results to customers in the form of products and services—is the foundation of the value provided to society by Hitachi. It is also the source of our growth potential.

To foster innovation around the world, we will not limit ourselves to conventional technical development. Rather, we will accelerate customer-oriented activities targeting the resolution of the challenges facing society.



**Keiji Kojima**

Vice President and Executive Officer,  
CTO, and General Manager of Research &  
Development Group

## SECTION 4

## Message from the CTRo

# Establishing a Globally Competitive Cost Structure through the Hitachi Smart Transformation Project

**Improving our earning power and cash generation capacity by reducing costs as well as drastically overhauling our business practices and organizational structure.**

## Transforming Hitachi through Cost Structure Reforms

To further enhance its position in global markets and keep pace with its competitors, Hitachi has been implementing the Hitachi Smart Transformation Project since 2011. This cost structure reform project is being implemented on a Group-wide basis. By drastically overhauling our previous business practices and organizational structure, we have been making steady progress toward our cost-reduction objective. In comparison with fiscal 2010, we aim to reduce costs by approximately ¥400.0 billion over the five years from fiscal 2011 to 2015.

This project extends beyond conventional cost reductions, which center on lowering costs in each division. It is also focused on improving earning power and cash generation capacity to advance Hitachi to the next stage of growth. To that end, we are overhauling business practices from the perspective of overall global optimization and implementing rigorous measures to increase the efficiency of operations and organizational structures.

Specifically, from the top down we are implementing shared initiatives that leverage the economies of scale of the Hitachi Group. These initiatives include IT platform consolidation, supply chain reforms, and global, centralized purchasing initiatives. From the bottom up, we are implementing advanced initiatives from the front lines, such as the use of modular design to reduce the numbers of parts and shorten production processes. These initiatives will be shared Group-wide.

In carrying out this project, the most important factor is transforming the mind-set of every Hitachi employee around the world. It is natural to have some hesitation about changing previous business practices, but for Hitachi to succeed in global competition, we must sweep away preconceived ideas and aggressively advance the Group's transformation.

## Advancing to the Next Stage of Growth through Full-Scale Process Reforms

In the first stage of the project, we promoted measures to make reductions in the areas of production costs, direct materials costs, and indirect costs. Through fiscal 2013, we achieved a cumulative total reduction of about ¥220.0 billion. Moving forward, in the second stage, we will further deepen and enhance measures in each cost area and implement full-fledged process reforms through the reevaluation of business processes from end to end. To optimize the entire value chain, from demand forecasting to development, marketing, design, procurement, production, sales, installation, and service, we will standardize and consolidate business practices and frameworks for each process and will rigorously eliminate any redundancies. We will also enhance our organizational structure to ensure that the Hitachi Group can make full use of its capabilities.

Through these measures, we will strongly drive increases in our ability to generate the cash that is necessary for investment in growth, and we will accelerate initiatives so that Hitachi can realize sustained growth as a truly global company.



**Tatsuro Ishizuka**

Executive Vice President and Executive Officer,  
CTRo, and Deputy General Manager of  
Smart Transformation Project Initiatives Division

## SECTION 5

## Message from the CIO

# Taking Aggressive Steps to Increase Management Efficiency and Achieve Business Growth through the Effective Use of IT

**Hitachi will work to further enhance its management by effectively using IT, not only to implement back-office functions but also to improve management decision making and operations.**

## IT's Role in Management

In corporate management, IT is a platform for increasing management efficiency and achieving business growth. As CIO, it is my duty to achieve both of these objectives through strategic IT investment.

To increase management efficiency, we are accelerating the process of reviewing and improving operations by using IT to visualize activities throughout the operational value chain, including order receipt, parts procurement, and management accounting. The Hitachi Group's business operations are expanding globally, and to respond rapidly to changes in the management environment we have developed an IT platform that utilizes cloud computing. In addition, we have established a Global Human Capital Database for the purpose of nurturing and utilizing Hitachi Group employees worldwide, who have a diverse range of skills.

We are also actively using IT to advance business growth. In the past, the data handled by IT systems was principally generated by corporate activities, such as business transactions and management actions. The central role of IT in business was the efficient processing of this type of information. Hitachi uses IT at a more advanced level. Through the analysis and evaluation of big data gathered and stored from sensors that monitor the operations of equipment and systems, Hitachi is advancing initiatives to resolve its own management and operational issues. In this way, the IT division, which was previously treated as a single administrative division, is being repositioned as a frontline unit that provides support to Hitachi's management.

The fact that IT is one of Hitachi's businesses is itself a strength in the use of IT within the Group. Moving forward, we will strive to leverage the full capabilities of IT to further enhance Hitachi's management.

## Boosting Cash Generation through the E2E Supply Chain Project

In fiscal 2013, we established the E2E (End-to-End) Supply Chain Project Division to boost cash generation. Through the E2E Supply Chain Project, the division will work to raise Hitachi's overall operational efficiency by reevaluating operational processes, such as demand forecasting and service provision, with an end-to-end perspective. In addition, the division will take steps to improve the Cash Conversion Cycle through the visualization of management information, such as cash receipts and disbursements. The cash generated by those improvements will then be used for growth investment.

We will aggressively implement initiatives to improve the Cash Conversion Cycle to the level of leading overseas companies by fiscal 2015. At the same time, we will coordinate these activities with the Hitachi Smart Transformation Project, a cost structure reform initiative.



**Shinjiro Iwata**

Executive Vice President and Executive Officer,  
CIO, and General Manager of End-to-End  
Supply Chain Project Division

SECTION 6

## Message from the Head of MONOZUKURI & Quality Assurance

# Reinforcing the Foundation for Quality and Cost Competitiveness through MONOZUKURI Capabilities

**Achieving highly efficient operations by accelerating the overseas shift of the value chain.**

### High-Quality Products at Low Cost

My mission is the prompt delivery of high-quality products that meet customer needs at low cost. From the viewpoint of MONOZUKURI (design, manufacture, or repair of products), Hitachi is advancing the shift of the value chain overseas bases—from demand forecasting, design, and procurement to manufacturing and service. We are taking steps to build the optimal design and production system and conduct manufacturing in the best location. In this way, we are enhancing the efficiency of our global operations.

In addition, the MONOZUKURI viewpoint is being used to bolster supply chain management through the E2E (End-to-End) Supply Chain Project. Hitachi is implementing this project on a Group-wide basis to strengthen cash generation. For example, we have introduced a cloud system that facilitates the optimization of product inventories based on demand forecasting data, and we have increased efficiency in logistics through the consolidation of warehouses. Through these efforts, we are improving cash flow by shortening lead times and reducing inventories.

### Strengthening MONOZUKURI Capabilities Globally with Modular Design and Production in the Best Location

To increase design efficiency and enhance cost competitiveness, we are promoting standardization in design and manufacturing through the introduction of modular design. The modular design method reduces the number of different parts and shortens product lead times by modularizing and standardizing parts. First, we develop a thorough understanding of the specifications of the product needed by the customer. We then conduct basic design in Japan, where we have a high level of technical skills, and detailed design at local bases in line with regional needs. We have already completed the application of modular design to eight products, and we have started to apply it to an additional 14 products. Design determines about 80% of manufacturing costs, and accordingly the introduction of modular design will enable Hitachi to efficiently provide products that meet customer needs.

In addition, in order to globalize manufacturing in the best location, we are making advances in the nurturing of overseas engineers, and enhancing operational efficiency by delegating authority to local design departments and rapidly implementing design that meets detailed needs in the local market. In Japan, Hitachi will strengthen its manufacturing bases and utilize them as “mother factories” to establish the technologies that the Company will use to mass-produce new products.

Some of these initiatives will not generate results for a long period of time, perhaps five to 10 years. Nonetheless, by continually and steadily implementing initiatives Hitachi will build a design and manufacturing system that can rapidly respond to changes in markets and customer needs. We are committed to MONOZUKURI backed by leading-edge technologies. Moving forward, we will make continued progress with MONOZUKURI that offers superior quality and cost competitiveness.

## Hiroshi Nakayama

Vice President and Executive Officer,  
Head of MONOZUKURI & Quality Assurance

## SECTION 7

**Message from the CPO**

# Strengthening Competitiveness across the Value Chain through Reforms Targeting Global Integrated Procurement Operations

## **Bolster its global competitiveness through Group-wide initiatives to accelerate reductions in direct materials costs.**

To provide products that meet the needs of markets and customers in terms of quality, delivery and cost, Hitachi needs to strengthen competitiveness across the global value chain by optimizing processes ranging from demand forecasting to design, manufacturing and service delivery.

The Corporate Procurement Division is working to respond rapidly to changes in the needs of markets and customers. To that end, the division is advancing reforms to implement Global Integrated Procurement Operations, which leverage optimal combinations of three axes—regions, businesses and products. In addition, the division is accelerating collaboration with business partners. In these ways, the Corporate Procurement Division will strive to contribute to gains in profitability and cash flow by reducing costs, centered on direct materials costs, and to support the generation of new value in the development of products and services.

Specifically, we set targets for production costs from the product design, development, and pre-order stages. On that basis, we work to implement “cost planning,” under which we develop specifications to achieve those targets and select products and business partners. We also take steps to expand and bolster “global procurement” and to augment “centralized purchasing.” To advance these initiatives, we must build close relationships with competitive business partners around the world, as well as with design, manufacturing and other divisions throughout the Hitachi Group. To that end, the Corporate Procurement Division is providing a range of proposals and consultations from the perspective of procurement and taking steps to strengthen its capabilities in “Procurement Engineering,” which will enhance the competitiveness of the Group’s value chain.

These initiatives have been positioned as one part of the Hitachi Smart Transformation Project, a cost structure reform project that the Company is implementing on a Group-wide basis. Accordingly, the Corporate Procurement Division is working on joint initiatives in close cooperation with other internal divisions, such as design, R&D, MONOZUKURI and quality assurance, and with Group companies that have specialized functions related to procurement activities. I believe that this aggressive advancement of procurement reform on a Group-wide basis is a major strength of the Hitachi Group in comparison with its competitors.

In fiscal 2014, to reinforce Hitachi’s progress toward the achievement of the 2015 Mid-term Management Plan, the Corporate Procurement Division will focus on implementing the planned initiatives and work to increase its overall competitiveness. As we strive to be a world-class procurement division, we will do our utmost to contribute to the overall growth of Hitachi’s businesses.



**Shinichiro Omori**

Vice President and Executive Officer,  
CPO, and General Manager of Corporate  
Procurement Division



SECTION 8

Message from the CHRO

# Achieving Worldwide Business Growth with Global Human Resources Management

**Building a strong organization to lead the growth of the Hitachi Group by maximizing the performance of diversified employees.**



**Hidenobu Nakahata**

Vice President and Executive Officer,  
CHRO, and General Manager of  
Human Capital Group

#### Globalization of the Management System and Human Resource Management

Human resource are the engine of Hitachi's growth, and under the 2015 Mid-term Management Plan, human resources play a central role in Hitachi's initiatives to advance the global development of the Social Innovation Business. Our most important challenge is the nurturing and utilization of human resources that are well versed in the frontline situation in each country and can provide solutions in local markets. To enable our highly skilled, diverse global talent around the world to work to their full potential, without regard to nationality, language or gender, we have commenced global human resource management. We are accelerating initiatives for leaders on a Group-wide, global basis, such as implementing standardized educational programs and rotations for candidates for Group management positions and aggressively advancing the appointment of non-Japanese executives.

#### Strengthening the Foundation for Leveraging Human Resources

These initiatives are supported by the Group-wide human resource management platform, and accordingly Hitachi has taken steps to strengthen this platform. First, in fiscal 2012, we completed a Global Human Capital Database, which contains information for about 250,000 Hitachi Group employees. In fiscal 2013, we completed Hitachi Global Grading, which ranks management positions on a common scale that applies to approximately 50,000 managers. As a result, we have established a platform that enables us to search among Group employees worldwide to find the people who are the best fit for a specific project and assign them to the optimal position. This framework enables Hitachi to respond rapidly to changes in the markets.

Also, in fiscal 2014 we are establishing Global Performance Management, which is a framework for goal management, evaluation, and coaching. We will strive to maximize the performance of employee and organizations by clearly linking the objectives of the Hitachi Group with those of individual employees and taking steps to reform work methods.

Going forward, we will endeavor to support Hitachi's business growth by using this platform to nurture and leverage human resources with diverse backgrounds and to establish strong organizations that can succeed in global competition.

## SECTION 9

## Message from the General Counsel

# Supporting the Globalization of Hitachi with World-class Governance and Compliance

**We strive to achieve highly transparent and trustworthy management through initiatives targeting a rigorous approach to corporate governance and compliance. These initiatives reflect an emphasis on diversity in governance and a global commitment to compliance.**

### Strengthening Corporate Governance to Address the Globalization of Management

In strengthening corporate governance, Hitachi is focusing on diversity. Hitachi has adopted the Committee System, which provides a clear separation of the management oversight and business execution functions. The Board of Directors, which is responsible for management oversight, includes the Nominating Committee, Audit Committee, and Compensation Committee, with outside directors accounting for the majority of members of each committee. With this governance structure, Hitachi increases management transparency and builds a decision-making framework that reflects a variety of viewpoints from inside and outside Hitachi. Since fiscal 2012, outside directors, including non-Japanese, have accounted for the majority of the members of the Board of Directors and brought global perspectives to the Board of Directors through active discussions based on diverse experience and expertise. We, Hitachi, held meetings of the Board of Directors in India in 2012 and in the United States in 2013 and discussed the business strategies for each region. Moving forward, the Board not only considers reports from the business execution side but also steps up its function as a venue for brainstorming about specific strategies. In these ways, the Board sets the course of Hitachi for increasing the corporate value of the Hitachi Group.

In advancing global business initiatives, the incorporation of diverse values has special meaning from a risk management perspective. Hitachi will continue working to reflect a wide variety of opinions in its management and striving to further enhance its corporate governance.

### Thorough Compliance on a Group-wide Basis

As the Hitachi Group is advancing global initiatives for its Social Innovation Business, in these endeavors, it is extremely important for the Group to secure the trust of its stakeholders in each country. In addition, taking a rigorous approach to compliance overseas is more important than ever before.

In fiscal 2009, the Hitachi Group formulated the Hitachi Global Compliance Program (HGCP) and has implemented auditing and employee education based on this program. The HGCP is designed to prevent corruption, which is the focus of strengthened regulations worldwide. Under the HGCP, employees in each country follow unified rules to prevent the occurrence of corruption, a major compliance risk. In addition, in 2010, the Hitachi Group established the Hitachi Group Codes of Conduct, which internalize ISO26000 and other international rules. In this way, the entire Hitachi Group shares a more stringent level of ethical values than the laws of each country. The Hitachi Group will continue to strengthen its compliance system, centered on the HGCP, and will rigorously implement the Hitachi Group Codes of Conduct.



**Toshiaki Kuzuoka**

Senior Vice President and Executive Officer,  
General Counsel & Head of Corporate Communication, and  
Head of Risk Management