

**Hitachi Integrated Report 2018**  
Year ended March 31, 2018



# Hitachi Group Identity

The more than century-long history of Hitachi since its founding is built atop the Mission expressed by founder Namihei Odaira— “Contribute to society through the development of superior, original technology and products.” Based on continually honing its proprietary technologies, Hitachi has sought to fulfill this Mission by providing products and services that address societal issues as they have changed over time.

Hitachi’s philosophy of contributing to society and helping efforts to address societal issues is fully aligned with the Sustainable Development Goals (SDGs) adopted by the United Nations and the Society 5.0\* concept promoted by the Japanese government. Today and for the future, Hitachi aims through its wide-ranging business activities to resolve the issues of its customers and society in the quest to build a more dynamic world.

\* Society 5.0 expresses a new idea of society and related efforts to achieve this, as advocated by the Japanese government. The aim is to develop the economy while addressing societal issues by deploying AI, IoT, robots and other forms of advanced science and technology to make use of various data creating an affluent, human-centered society. The name refers to the evolution of a fifth form of society, continuing from the hunter-gatherer, agrarian, industrial, and information societies.



Hitachi Founder, Namihei Odaira



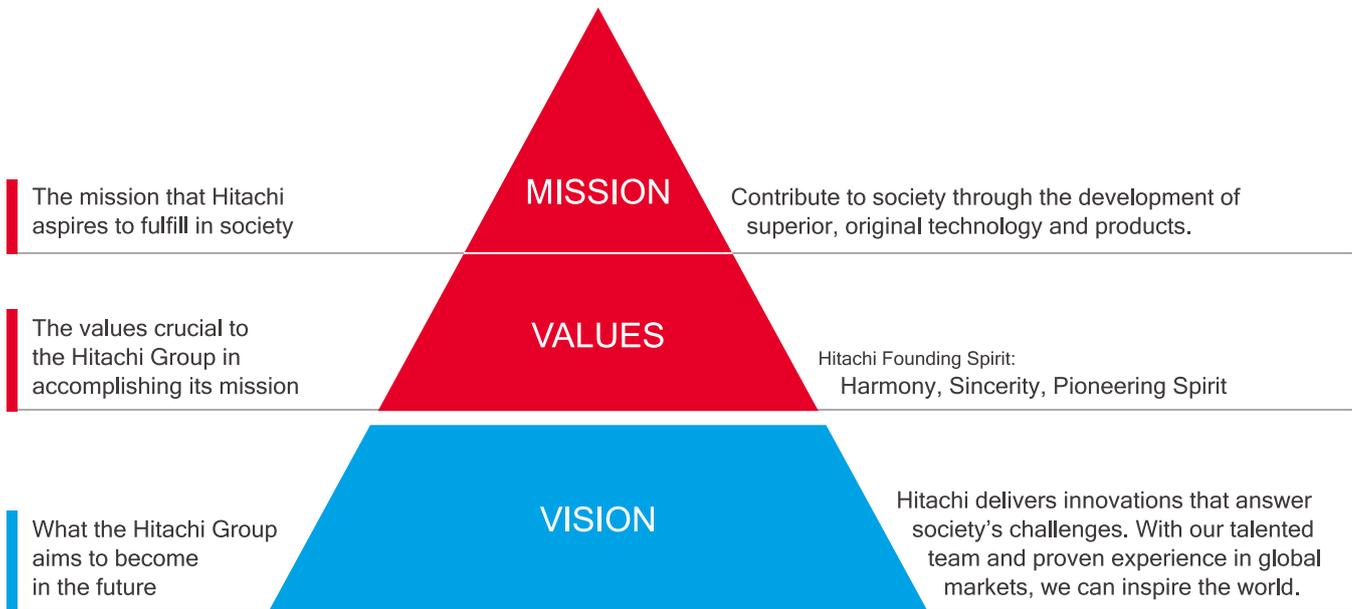
Repair shop when Hitachi was founded



The power station at the Hitachi mine (1916)

## Hitachi Group Identity

Originally set by Hitachi founder Namihei Odaira, the Mission has been carefully passed on to generations of employees and stakeholders throughout the company's 100-year history. The Values reflect the Hitachi Founding Spirit, which was shaped by the achievements of our company predecessors as they worked hard to fulfill Hitachi's Mission. The Vision has been created based on the Mission and Values. It is an expression of what the Hitachi Group aims to become in the future as it advances to its next stage of growth. The Mission, Values, and Vision are made to be shared in a simple concept: Hitachi Group Identity.



## MISSION

In 1910, Hitachi was founded as a mining machinery repair shop in Ibaraki Prefecture, Japan.

At a time when Japan was relying on imported products and technology, Hitachi founder Namihei Odaira formed a team that chose to rely on a different resource—themselves. With perseverance and enduring passion, the team created, developed, and delivered original products and technologies.

**The driving force behind the team was Odaira's noble belief: "Contribute to society through the development of superior, original technology and products."** This belief was the starting point for the Hitachi Group. Today, it forms Hitachi's Mission, which is the overarching concept of the Hitachi Group Identity.

## VALUES

### Hitachi Founding Spirit

#### Harmony

The willingness to respect the opinions of others and discuss matters in a manner that is thorough and frank, but fair and impartial, and once a conclusion has been reached, to cooperate and work together to achieve a common goal.

#### Sincerity

To act with a sense of ownership and honesty at all times and never pass the buck.

The spirit to meet society's expectations and generate credibility for Hitachi.

#### Pioneering Spirit

To work creatively, using novel approaches to enter new areas.

To always act as a pioneer within our areas of expertise and to have the passion to pursue higher goals beyond our capabilities.

# Our Innovation History

In every era, Hitachi has brought innovation to the issues society faces, in step with the economic, social and environmental changes of the times. Beginning with product development and manufacturing driven by independently developed technology, Hitachi has honed Operational Technology (OT) that moves production site equipment and systems throughout the manufacturing process. During periods of high growth, Hitachi engaged in the development of large-scale systems to support infrastructure, and was vigorously involved in the development of Information Technology (IT). What has emerged since is Hitachi's transformation into one of the world's most unique companies, defined by sophisticated OT and manufacturing technology, cutting-edge IT, and products known for high quality and reliability.

Digital technology is fundamentally changing the way the modern world is structured. Based on its strengths in OT, IT, and products, Hitachi aims to help address the issues faced by today's society through its Social Innovation Business, which supplies advanced social infrastructure systems. In this way, Hitachi is contributing to gains in people's quality of life, while helping to realize a sustainable society.

## 1910s-

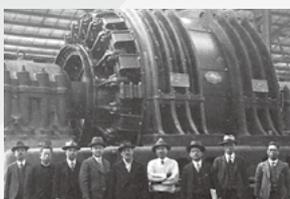
**Original manufacturing technology supports Japan's industrial base**



**1910**  
**Five-horsepower induction motor, Hitachi's first product**

**1933**  
**Steel mill motor operates safely for 32 years**

The 7,000-kW DC mill motor with an Ilgner control system to power rolled steel production that Hitachi supplied to the state-owned Yawata Steel Works in 1933 was the most advanced motor of its kind in the world at the time. It set a record of 32 years of accident-free operation.



## 1960s-

**Control technology and information systems to support social infrastructure in period of rapid economic growth**

### **Shinkansen high-speed railway technology**

In 1959, construction began on the Tokaido Shinkansen with the aim of creating the world's first high-speed railway capable of speeds up to 200 km/h. In 1962, based on the results from testing a prototype train on a model section of track, Hitachi produced the first 0-series rolling stock for the Shinkansen. A total of 212 cars were supplied by 1970. Hitachi was responsible for developing and designing the varied control equipment to support Shinkansen safety. On the passenger service side, in partnership with Japan National Railways, Hitachi also developed the MARS-1 ticketing and reservation systems, Japan's first online system. The system began operating in Tokyo from 1960. The MARS-101 system was later developed for full-scale online operation in 1964. The *Midori no Madoguchi* ticketing and reservation service started in 1965.



## 2010s-

**Digital solutions using the Internet of Things (IoT) and artificial intelligence (AI) contribute to realization of a sustainable society**



### **Integration of OT and IT at the Omika Works**

From its inception, Hitachi began developing electric motor control systems, switchboards and other OT equipment, and refining these technologies with customers in industries such as steel. In 1969, when Japan was experiencing years of fast economic growth, Hitachi set up the Omika Plant (now the Omika Works) as a specialist factory for the control systems business. With the development of IT, Hitachi integrated IT with the advanced OT cultivated over decades to drive the evolution of information control systems for supporting social infrastructure operations such as railways and electric power. In recent years, Hitachi has begun applying IoT to reform production processes, incorporating its acquired know-how into a range of digital solutions that mainly target customers in the manufacturing sector.



**1974**

### **HITAC M-series computers developed for large-scale information systems**

In the 1970s, Hitachi developed and supplied the high-powered computers needed to satisfy the social demands of the time for new ticket reservation and online banking systems. The IBM-compatible M-180 computer launched in 1974 was well received due to its combination of advanced power and functionality, enabling total systems to satisfy modern requirements.



**2004**

### **Virtual storage technology for the Internet age**

Rising Internet adoption led to rapid growth in the volume of data transmitted worldwide, in turn stimulating demand for safe and efficient technology to store vast amounts of data. Using world-first virtualization technology developed in-house, Hitachi created a way to integrate the capacity of multiple data storage units. This innovation improved the efficiency of data utilization and management significantly.



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### Disclaimer Regarding Forward-looking Statements

Certain statements regarding the future of the Company set forth in this Report may constitute "forward-looking statements," such as "plan," "outlook," and "strategy." Although forward-looking statements contained in this report are based upon what the Company has determined to be reasonable assumptions at the time of disclosure, actual performance and other results may differ materially from those anticipated in such statements. For the major factors regarding these differences, please see "Risk Factors" on Page 41 of this Report.

# Hitachi Integrated Report 2018 Editorial Policy

## Editorial Policy

During the preparation of the 2018 edition of this Report, Hitachi focused on presenting our stance of enhancing corporate value while addressing the challenges faced by our customers and society as our "Value Creation Model." Moreover, we prioritized conveying this concept and its background in the clearest manner possible through the messages from the directors and executive officers, and such. Likewise, we identified six goals from among the UN's Sustainable Development Goals (SDGs) to which we contribute through our business operations in general and five goals to which we contribute to the achievement of through our business strategies, thereby disclosing our initiatives for contributing to achieving the SDGs.

In preparing this Report, we relied on the International Integrated Reporting Framework established by the International Integrated Reporting Council (IIRC) as a reference.

## About the Cover Page

The cover page is designed in a way that combines Hitachi's focus business domains and colors that represent the five goals from among the 17 SDGs that Hitachi feels it can most significantly contribute to achieving through our business strategy.



## Boundary of Reporting

Period:	April 1, 2017 to March 31, 2018 (some activities detailed herein occurred after April 2018)
Companies:	Hitachi, Ltd. and its domestic consolidated subsidiaries
Boundary of Data:	Boundary of data indicated under each indicator <ul style="list-style-type: none"><li>• Social data: 880 companies, namely Hitachi, Ltd. and 879 consolidated subsidiaries</li><li>• Environmental data: 880 companies, namely Hitachi, Ltd. and 879 consolidated subsidiaries</li></ul> However, for environmental performance data associated with Hitachi's business operations, Hitachi, Ltd. and consolidated subsidiaries whose environmental load comprises 90% of the total (based on Hitachi calculations) are included.
Accounting Standard:	Unless otherwise noted, this report is prepared in accordance with U.S. GAAP through fiscal 2013 and with the International Financial Reporting Standards (IFRS) from fiscal 2014.

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## Strategy for Value Creation

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# Hitachi's Value Creation Model

Hitachi creates economic, social, and environmental value and contributes to the realization of a sustainable society by tackling a variety of social issues through its Social Innovation Business.

## Global Trends

- Acceleration of digitalization
- Era of uncertainty
- Paradigm shift

Object ▶ Thing

Possession ▶ Share

Closed ▶ Open

Specific optimization ▶ Total optimization

## Social Issues

- Energy and environmental issues
- Water scarcity
- Rapid urbanization
- Aging society
- Lack of infrastructure
- Security

## Customers

### Power and Energy

- Renewable energy
- Highly efficient energy management

### Industry, Distribution, and Water

- Providing a safe water environment
- Support for sustainable industry

Contribute to society through



Help address various social issues and contribute

Front-line

Platform

Products

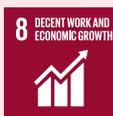
Contribute to society through

### Human Development & Intellectual Property

- Invest in people/Education/Intellectual property
- Human rights/Diversity
- Brand strategy

### Supply Chain Management

- Sustainable procurement



Hitachi Group Identity and Hitachi based on the corporate mission that has been

\* The guidelines for ethical behavior and decision-making shared by all executives and employees of the Hitachi Group. (revised in April 2018)  
<http://www.hitachi.com/corporate/about/conduct/>

## Realize a sustainable society and enhance the Company's value

### Economic Value (FY2017 results)

■ Revenue:

**9,368.6** billion yen

■ Adjusted operating income:

**714.6** billion yen

### Social Value

Safety and security, Zero accidents,  
Trusted products and services,  
Decent work and economic growth,  
Healthy and prosperous lives

### Environmental Value (FY2017 results)

■ Reduction in CO<sub>2</sub> emissions:

**33%** (base: FY2010)

■ Reduction in water usage per unit:

**32%** (base: FY2005)

#### Urban

- Making cities more safe and resilient
- Comfortable and environment-friendly mobility



#### Finance, Social, and Healthcare

- Support for advanced social and financial services
- Ensure healthy lives



### the Business Strategy

to society via Social Innovation Business

### Corporate Commitment

#### Environmental Strategy

- "Hitachi Environmental Innovation 2050"



#### Co-creation

- Promotion of various partnerships
- Collaborative R&D with stakeholders



#### Compliance, etc.

- Risk management
- Fair transactions
- Quality assurance
- Information security

Group Codes of Conduct,  
passed on since the Company's establishment\*



**HITACHI**  
Inspire the Next

A truly global company helping to realize a sustainable society

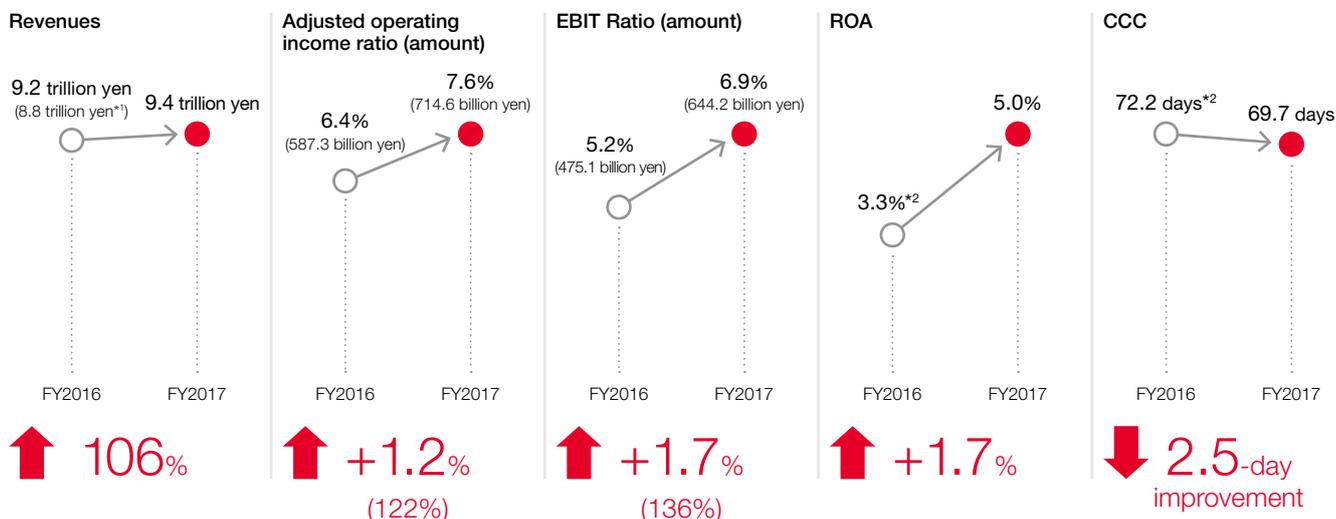
In my CEO Message in last year's Integrated Report, I made a commitment that Hitachi would accelerate future growth and I invited all stakeholders to "keep watching Hitachi as we shift into high gear to leap ahead" as "an Innovation Partner for the IoT era." Over the past year, we have made progress toward realizing our goals. We have downsized or exited unprofitable businesses while revising our business portfolio. At the same time, we have focused on globally developing the Social Innovation Business, based on digital technologies that utilize Lumada in ways that harness the strengths of Hitachi. We have also taken steps to accelerate the pace of collaborative creation in partnership with customers.

Our performance in fiscal 2017 set new records in profit terms, with adjusted operating income, EBIT, and net

income attributable to Hitachi, Ltd. stockholders all posting new highs. We made further progress in globalizing the business, with the ratio of revenues from overseas operations increasing to 50%. In addition, we achieved several of the 2018 Mid-term Management Plan targets for KPIs such as return on assets and cash conversion cycle (CCC) a full year ahead of target. These achievements demonstrate our efforts to satisfy market expectations.

However, we cannot be satisfied with these figures if we want Hitachi to be globally competitive. Having positioned fiscal 2018 as a year of evolution towards becoming a truly global enterprise, we are working to improve profitability and strengthen our business foundation so that we can establish a strong presence as an innovation partner for the IoT era.

Results (FY2016, FY2017)



\*1 Figures including YoY growth are adjusted to reflect continuing operations (for FY2016, revenues exclude Hitachi Transport System, Hitachi Capital, and Hitachi Koki (now Koki Holdings)).

\*2 Manufacturing, Services and Others

## Addressing emerging trends head on

Many people are aware of the changes that are currently transforming our world. For example, while accelerated digitalization brings greater convenience and affluence to our lives, threats relating to cyberattacks and information security are gradually increasing. Progressive globalization in fields such as economics and politics is causing the emergence of geopolitical risk and greater uncertainty in both these areas. In addition, we face multiple social challenges due to issues ranging from global environmental destruction and climate change to demographic aging in advanced economies and the rapid urbanization of developing countries. The global community faces a significant new challenge as these issues become increasingly complex and more deeply ingrained.

Against this backdrop of global transformation, the United Nations developed the Sustainable Development

Goals (SDGs) and the Japanese government has advocated the Society 5.0 concept. Acknowledging the future development of humanity will entail major change on a global scale. Hitachi views these trends as an opportunity to take the next leap forward through sincere efforts to achieve such goals. The reason we want to be a part of creating the affluent and sustainable society as envisioned in the SDGs and Society 5.0 concept, is that it aligns with the mission Hitachi has pursued since its foundation to “contribute to society through the development of superior, original technology and products.” At a time of growing uncertainty, we believe Hitachi’s origins in terms of contributing to society are imbued with greater significance, and this reaffirms our commitment to work closely with customers and other partners in utilizing technology to address societal issues.

## Harnessing Hitachi’s strengths in the Social Innovation Business

True to Hitachi’s origins and taking advantage of our best strengths and characteristics, the Social Innovation Business can expand our operations while helping to realize a sustainable society. One of Hitachi’s main strengths is the MONOZUKURI (manufacturing expertise) we have cultivated in a wide variety of fields through more than a century spent on continually developing such capabilities. Besides the breadth of our product range, this is seen in Hitachi’s abundant Operational Technology (OT) knowledge regarding the operation and maintenance of various products in different operational settings. The demands of today’s customers are becoming more complex and advanced: beyond simply purchasing a product, they are interested in, for example, globally developing the know-how their skilled engineers in Japan possess or boosting productivity at manufacturing sites engaged in high-mix, low-volume production. To develop the high value-added solutions for addressing such management issues, we need a deep understanding

—as a partner—of what happens across a range of sites and the related issues. It is in such situations where I believe Hitachi’s OT capabilities can play an extremely valuable role.

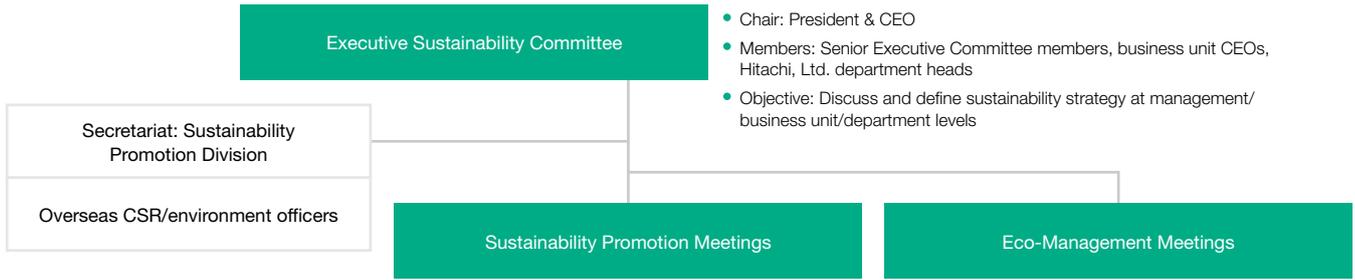
With more than 50 years’ involvement in the field, Hitachi also has extensive IT and front line knowledge. Applying the IT-related knowledge we have developed over this period we are creating optimized solutions using AI and other digital technologies to analyze all kinds of data. This is what we call “Lumada.” As new possibilities emerge with digital technology, our presence in OT, IT, and products, puts Hitachi in a superior position to utilize these digital capabilities to address a variety of real-world issues. In this way, Hitachi can be an innovation partner for the IoT era for customers. By utilizing the strengths of Hitachi, our aim is to avoid the threat of product commoditization by expanding into both solution- and service-based businesses to generate higher margins and steady earnings.

## Advancing sustainability management

In April 2017, in a move to ensure our business reflects global trends, we created the Executive Sustainability Committee to debate and make decisions on sustainability management for the Hitachi Group. I chair this committee, and its members include senior executives and Business Unit heads. By addressing the issues affecting global society as summarized in the SDGs, the Social Innovation

Business that Hitachi is promoting aims to realize a sustainable society and improve people’s quality of life. In line with this rationale, the Committee has lively discussions on creating and expanding opportunities for the Social Innovation Business within global markets, and on identifying related operational risks and mitigation measures.

## Sustainability Strategy Promotion Structure

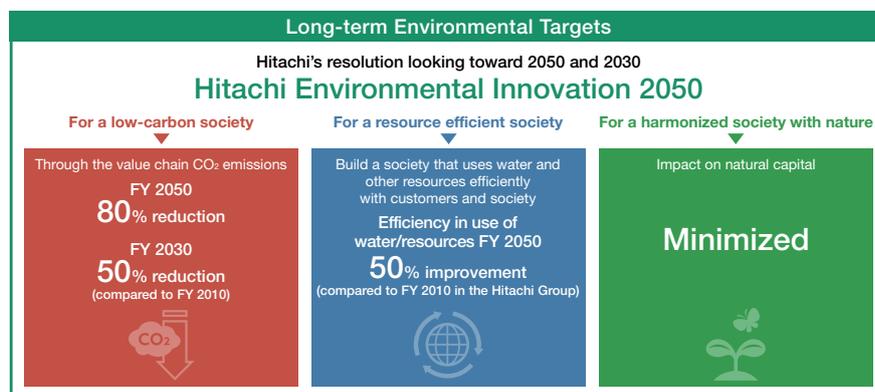


In April 2018, as core sustainability themes, the committee identified five goals from the 17 SDGs where Hitachi could make a major contribution through business activities, along with a further six goals where we could contribute based on all our activities as an enterprise. Hitachi's involvement in a wide range of business fields means we can make a substantial contribution to achieving the SDGs, and we are accelerating specific initiatives to achieve targets in the 11 areas we have identified.

For example, one of the goals where we plan to contribute through our business activities as an enterprise relates to climate change. With the Paris Agreement now in force, many countries and regions are working to realize a

low-carbon society. In Hitachi Environmental Innovation 2050, adopted in 2016, we have set quantitative goals for medium-term CO<sub>2</sub> emissions-reduction as part of long-term environmental targets. The Executive Sustainability Committee is examining deeply the issue of how to achieve these targets from the perspective of the CO<sub>2</sub> emissions caused by our own business activities, as well as those due to the products that we deliver.

In this way, through SDG-focused sustainability management practices across Hitachi, we hope to contribute on a global scale to realizing a more affluent society and improving quality of life for all.





An example of Hitachi's technology for the future, this communication robot helps to improve quality of life.

## Developing stronger competitiveness

Since it was established, Hitachi has focused on developing human capital based on a recognition that people are a major source of competitiveness. This has included setting up internal educational institutions to help employees acquire skills. Today, as Hitachi seeks to evolve into a truly global enterprise, we are focusing through our HR management on promoting diversity. People with detailed knowledge of the industrial structures and commercial customs used in different countries and markets are essential to the global development of our operations. To foster innovation, we also see the need to have a diverse range of talented people with differing values and perspectives working toward common goals.

Personally, I am determined that Hitachi makes tangible progress promoting diversity. In line with this, in November 2017 we set and publicly disclosed numerical targets for the ratios for both female and non-Japanese Executive Officers and Corporate Officers and the number of female managers in Hitachi, Ltd. One of the initiatives to achieve these targets with which I am personally involved is the Global Women's Summit, a series of events that bring together around 100 female employees from around the Hitachi Group worldwide for each event. These events aim to deepen awareness of leadership and career planning among female employees, while boosting motivation via

global networking opportunities. Since 2016, we have held events of this kind in various regions around the world. My discussions with female employees from countries around the world through these events spur my efforts to promote the globalization of Hitachi's business and cultivate greater diversity within our workforce.

We are also undertaking leadership development programs aimed at identifying and cultivating a diverse team of next-generation business leaders for the Hitachi Group. Besides senior executives, our independent outside directors are also actively involved in this HR development process aimed at building layers of leadership potential throughout the company.

R&D is another important source of competitiveness for Hitachi.

The mission to develop "superior, original technology" has made research and development a major focus of our activities from Hitachi's earliest days. In 2018, we celebrated the centenary of the establishment of the R&D Division. As we work to develop the Social Innovation Business globally, our R&D activities are focused on creating world-class technologies to support the business and on fostering innovation based on a collaborative creation approach with customers worldwide. We are looking to accelerate our collaborative creation efforts with customers by establishing Global Center for Social Innovation (CSI) facilities in North America, Europe, China, and the Asia-Pacific region. Our R&D operations are also actively involved in the development of new and upgraded Lumada-based digital solutions to drive the future growth of Hitachi.

Developing better products is another aspect of creating world-class technologies. In 2017, the ultra-high-speed elevators that we installed in a high-rise building in Guangzhou, China achieved the fastest speed ever

### Sustainability Strategy Promotion Structure

	End-FY2017 (actual)	FY2020 (target)
Executive and Corporate Officers Female	<b>2.5%</b>	<b>10%</b>
Non-Japanese	<b>6.4%</b>	<b>10%</b>
Number of female managers	<b>577</b>	<b>800</b>

recorded for an elevator. This product makes use of fluid analysis technology that we originally developed for rolling stock used on high-speed railways, the common aim being to transport passengers in comfort at world-beating speeds by minimizing noise and vibration. This example also illustrates how intra-Group synergies can help us hone a technical edge as part of developing and supplying products with an outstanding global reputation.

Elsewhere, we are actively partnering with universities, research institutions, and start-ups from around the world.

Guided by our vision to address social issues as part of supporting the realization of the Society 5.0 concept, we are accelerating open innovation activities with institutions such as the University of Tokyo, Kyoto University, and Hokkaido University.

At the same time, as part of our global approach to sustainability management, we must revisit a range of corporate activities from the perspective of trying to realize a sustainable society. To this end, in April 2018 we revised

the Hitachi Group Codes of Conduct to make it clear that all officers and employees of Hitachi Group companies bear the responsibility as global citizens to conduct business with higher aspirations. Guided by this principle, we are formulating and implementing rules and undertaking internal education programs across a range of corporate activities, including product safety and quality assurance programs; the construction of responsible supply chains that pay attention to human rights and environmental concerns; and our comprehensive compliance programs.

In fiscal 2018, we welcomed two new independent outside directors to the Board of Directors. Mr. Katsumi Ihara recorded various achievements in his former career at Sony. Mr. Joe Harlan has previously worked at senior levels for Dow Chemical, and has experience working in Japan as well. Utilizing the diverse wealth of experience and knowledge of our directors, we will look to entrench the growth of Hitachi by reflecting their helpful advice into our management.

## Achieving global growth through a focus on digital solutions

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Through recent discussions with customers and government representatives, I have sensed a positive response toward realizing our 2018 Mid-term Management Plan goal of being an innovation partner for the IoT era. To instill confidence in this notion, we are focusing in the first instance on training more front-line personnel and data scientists to help strengthen the Social Innovation Business globally. To expand our digital solutions business, we are training people to work in expert roles relating to interaction and negotiation with customers such as consulting, front-end or systems engineering, contract negotiation, and project finance. At the same time, we are investing to train and develop a global pool of data scientists. Specifically, we have set up training programs and established the Professional Community for researchers and practitioners from various fields. Our target is to increase the number of data scientists working in the Hitachi Group to 3,000 by fiscal 2021.

In April 2018, we also set up a new internal structure to facilitate the global supply of solutions developed for national markets. Executive Vice President and Executive Officer Keiichi Shiotsuka, who leads the Systems & Services Business, was appointed Head of the Social Innovation Business that utilizes Hitachi's digital technology. Hicham Abdessamad was appointed the CEO of Hitachi Global Digital Holdings Corporation, the holding company for Hitachi Vantara Corporation and Hitachi Consulting Corporation. Under this new structure, we will formulate and implement a strategy to strengthen our Lumada digital solutions by applying the cutting-edge technologies

being developed primarily for the Americas, along with our existing digital solutions-related expertise to drive the global expansion of the Social Innovation Business. The adoption of this structure should also help to accelerate Hitachi's global expansion by entrenching the shift from a product-centric business model to a new style of operations based on integrating digital technology solutions with services.

Lumada is the foundation of our rapidly expanding digital solutions business. Many customers have utilized it since we first introduced Lumada-based services in 2016. Revenues generated by Lumada operations exceeded 1 trillion yen for the first time in fiscal 2017 as it has grown steadily to become a central pillar of Hitachi's operations. One example of this is the Maintenance & Repair Service that we now offer industrial equipment manufacturers and other customers as a total support solution. This service began life as a collaborative creation with an overseas corporate customer, in which we developed a system to automatically propose optimized repair schedules for equipment based on the analysis of varied data. Going forward, we plan to develop this Lumada solution on a global basis.

In September 2018, we established the Lumada Center Southeast Asia in Thailand as part of strengthening our global set-up. In line with the Thai government's Thailand 4.0 vision that aims to establish the foundations for an advanced economy while promoting further economic growth, this center will be a base for the development of digital solutions based on collaborative creation with

customers across the Asia Pacific region. Going forward, Hitachi will accelerate the development of digital solutions using Lumada within ASEAN, with this center supporting our collaborative creation projects with customers and other partners.

Reflecting on the success of such initiatives, we are steadily expanding Hitachi's presence in digital solutions through collaborative creation with customers. I am confident this will be a major driver of the future growth of Hitachi's business.

## Reinforcing our business foundation to become a truly global enterprise

The 2018 Mid-term Management Plan contains clear commitments to improving profitability and strengthening cash flow generation. In fiscal 2017, we continued downsizing or exiting unprofitable businesses with an adjusted operating margin of less than 5%. Alongside this, we revised Hitachi's business portfolio by selling part of our equity stake in Hitachi Kokusai Electric Inc. and removing remaining operations from the scope of consolidation. In addition, we sold Hitachi's interests in ALAXALA Networks Corporation and the forged steel roll business.

In fiscal 2018, we are working to establish a more efficient business foundation by continuing to restructure operations, through reforms to indirect business processes, and by reducing the number of companies within the Hitachi Group. We are also promoting digital transformation from enhanced operational transparency, based on the collation or integration of management information.

We are also maintaining a clear focus on future growth by prioritizing investment in growth areas to drive the expansion of the business and targeting increased returns from asset allocation. Specific policies included sales of shares in publicly listed subsidiaries and measures to improve CCC. These steps helped us make incremental balance-sheet improvements. Going forward, we will focus on further strengthening cash generation, optimizing asset management, and selectively focusing investments in growth sectors. We are analyzing all our businesses closely based on their potential for expansion in global markets and return on assets. While focusing our investments on markets with growth potential and higher-margin businesses, we will seek to reallocate assets generating poor returns or reduce Hitachi's exposure to such businesses. Our aim is to accelerate our investments in the Social Innovation Business, having secured a stronger balance sheet and greater investment freedom.

## Hitachi Group forms 300,000-strong united team

It is no simple matter for Hitachi to become a truly global enterprise or to achieve a double-digit adjusted operating margin. However, we are making steady progress towards these goals and trying to speed up the actions needed to realize these ambitions.

More than anything, what gives me hope for the future is the changes being made by employees of Hitachi to support growth. My conviction is employee awareness within Hitachi and the attitude towards business processes have both changed significantly over the past few years. Since my appointment as CEO, we have undertaken a variety of policies. For example, introducing the Business Unit system has made employees more aware of the performance of their division and its cash-generation capabilities, which in turn has translated into improved divisional performance and greater individual pride in these achievements. We also have recruited many new employees, especially overseas, who are attracted to Hitachi by virtue both of our philosophy of contributing to society and by the prospects of our Social Innovation Business, which combines growth with efforts to create a sustainable society. These many new colleagues point to our success in communicating Hitachi's corporate

philosophy and culture to the world. I continue to hold town hall meetings so that I can communicate my thoughts about Hitachi's direction and goals directly to our employees around the world. I believe we can become even more powerful as a unified team working towards common goals if we can harness the diversity of over 300,000 individuals.

Looking ahead, I am confident we will continue to grow steadily and help realize a sustainable society based on multiple partnerships. Please keep watching Hitachi as we move in this direction.

September 2018



Toshiaki Higashihara  
President & CEO  
Hitachi, Ltd.

# Progress of the 2018 Mid-term Management Plan

In fiscal 2017, Hitachi posted record earnings\* in terms of adjusted operating income, EBIT, and net income attributable to Hitachi, Ltd. stockholders.

In fiscal 2018, through global expansion and other initiatives, Hitachi is targeting adjusted operating income and EBIT ratios of over 8%, respectively, and net income attributable to Hitachi, Ltd. stockholders of more than ¥400 billion.

\* Since introduction of consolidated accounting in fiscal year ended March 1987

## Overview of 2018 Mid-term Management Plan Initiatives

Designating fiscal 2017, the second year of the 2018 Mid-term Management Plan, as the year to “change gears toward growth,” Hitachi targeted global expansion through M&A while strengthening the Lumada business by increasing collaborative creation with customers. Business restructuring also continued through efforts to improve the earnings of unprofitable operations, including downsizing and withdrawal. In addition, over the two-year period ended March 31, 2018, Hitachi reorganized businesses generating revenues of around ¥1.5 trillion, focusing mainly on publicly listed subsidiaries. These efforts led to significant year-on-year improvements in earnings in fiscal 2017, of ¥127.3 billion for adjusted operating income, ¥169.0 billion for EBIT, and ¥131.7 billion for net income attributable to Hitachi, Ltd. stockholders. Other profitability and cash generation metrics improved, also, with the operating cash-flow margin rising to 7.8% and ROA increasing to 5.0%.

Fiscal 2018 is the final year of the plan. Positioned as the year of achieving the plan targets and becoming a globally integrated enterprise, it features measures to achieve specific targets and create further growth.



### • Continued business restructuring

#### ① Structural reforms

- Improvement (YoY) of ¥38.0 billion in adjusted operating income via downsizing and withdrawal from unprofitable businesses
- Withdrawal from large-scale industrial EPC\* business
- Gains from restructuring in FY2017: ¥15.0 billion (YoY)

#### ② Selection and concentration of businesses

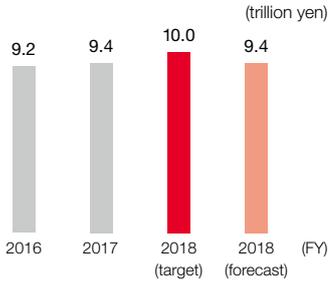
- Reorganization of businesses generating revenues of approx. ¥1.5 trillion over FY2016-2017

FY2016	FY2017
Logistics service (Hitachi Transport System)	Semiconductor manufacturing equipment, etc. (Hitachi Kokusai Electric)
Financial service (Hitachi Capital)	Passenger transportation service (Hitachi Dentetsu)
Electric tools (Hitachi Koki (now Koki Holdings Co., Ltd.))	Network devices (ALAXALA Networks)
Others (LCD Panel manufacturing equipment, etc.)	Forged steel roll business

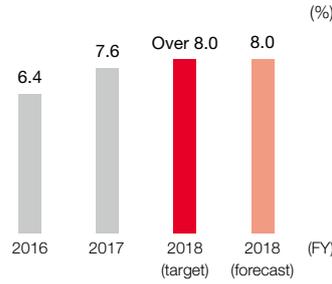
\* EPC: Engineering, Procurement and Construction

# Making Steady Progress

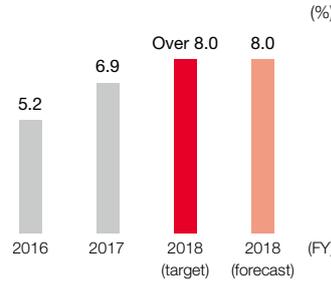
Revenues\*1



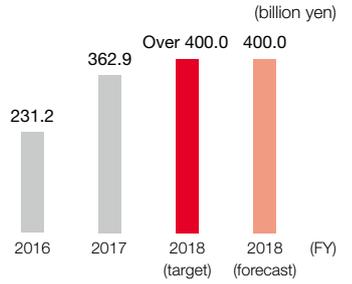
Adjusted Operating Income Ratio



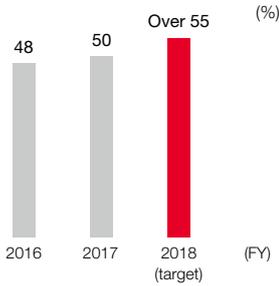
EBIT Ratio



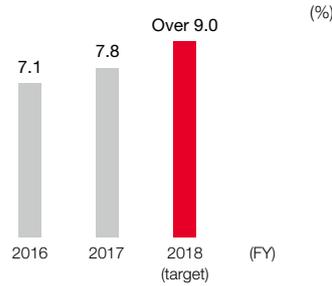
Net Income Attributable to Hitachi, Ltd. Stockholders



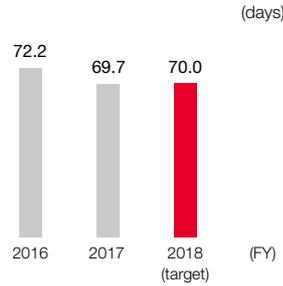
Global Business Expansion (Overseas Revenue Ratio)



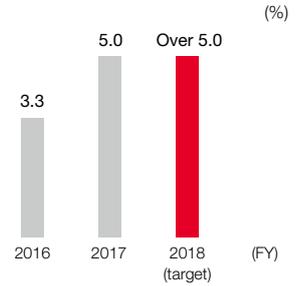
Stronger Cash-generating (Operating Cash-Flow Margin)\*2



CCC (Cash Conversion Cycle)



Asset Profitability Improvement (ROA)\*2 \*3



	2016	2017	2018 (forecast)	(FY)
Average FX Rate				
	JPY/USD	108	111	105
	JPY/EUR	119	130	130

\*1 Rounded to the nearest hundred billion.

\*2 Figures for Manufacturing, Services and Others.

\*3 Return on assets (ROA) = Net income / Total Assets (Average between the end of current fiscal year and the end of previous fiscal year) x 100.

## Global Business Expansion

Overall global revenues in FY2017 YoY: **113%**

**YoY: 113%**  
 FY2016 Revenues\* **0.85** trillion yen  
 FY2017 Revenues **0.96** trillion yen

**YoY: 114%**  
 FY2016 Revenues\* **0.91** trillion yen  
 FY2017 Revenues **1.04** trillion yen

**YoY: 108%**  
 FY2016 Revenues\* **1.09** trillion yen  
 FY2017 Revenues **1.18** trillion yen



- Railway
- Construction machinery
- High functional materials & components



- Elevators/Escalators
- Automotive products
- Construction machinery
- High functional materials & components



- Railway
- Industrial equipment/solutions
- IT products
- Construction machinery
- High functional materials & components



**YoY: 114%**  
 FY2016 Revenues\* **0.91** trillion yen  
 FY2017 Revenues **1.04** trillion yen

- Elevators/Escalators
- Automotive products
- Construction machinery

Regions except for those listed above (including Japan):

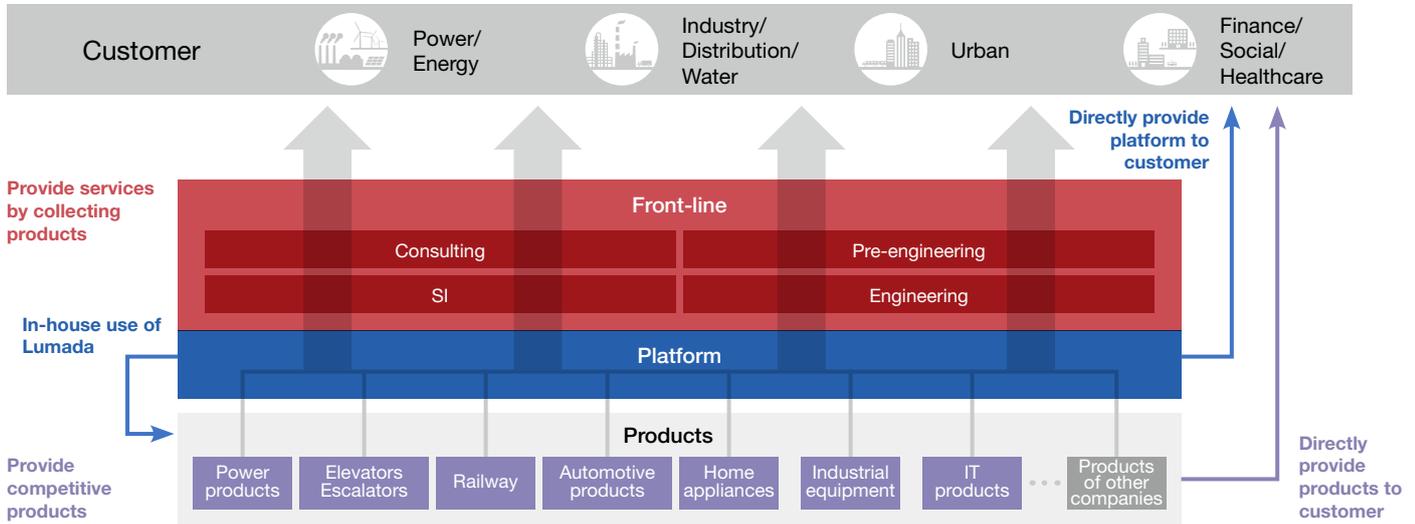
FY2016 Revenues\* **5.04** trillion yen  
 FY2017 Revenues **5.15** trillion yen

\* Figures reflecting adjustments based on currently existing businesses. (Revenues of Hitachi Transport System, Hitachi Capital, and Hitachi Koki were excluded from the actual result in FY2016)

# Toward Future Global Growth Using Digital Technology

The targeted model for Hitachi's future growth involves Front and Platform business divisions selecting products and supplying services in line with the changing needs of customers.

Product business divisions will focus on supplying globally competitive products.



## Policies for Growth

### Investments in Focused Business Fields

Our investments across all global regions (North America, Asia, China, and Europe) are targeted towards four business fields with the aim of expanding global operations, expanding digital service businesses, and responding to a sustainable society.

### Investment Direction

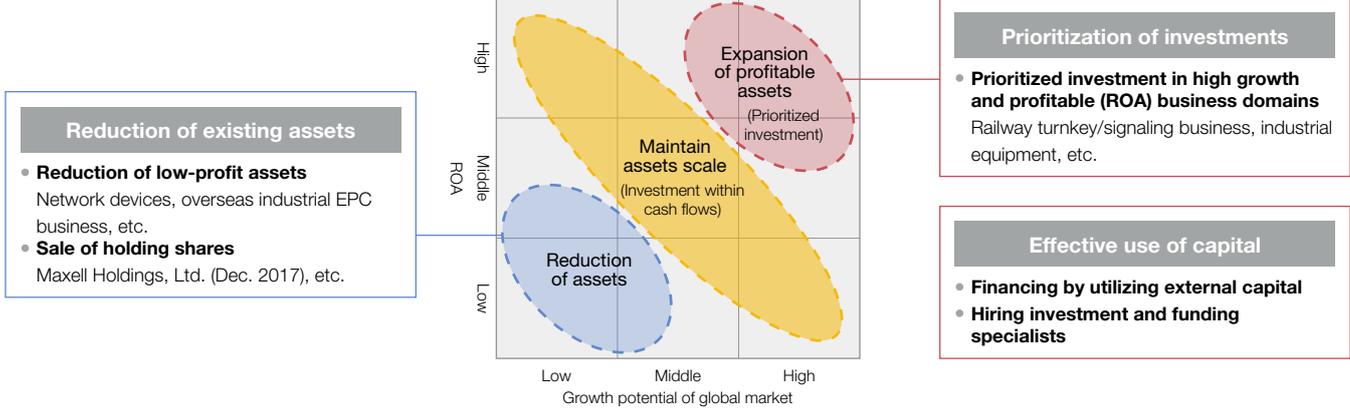
- **Expand global business:** Enhancement of regional sales channel, etc.
- **Expand digital service business:** Financial payment system, e-Government, etc.
- **Respond to sustainable society:** Carbon free (e.g. renewable energy, energy management, electric vehicles), etc.

	Power/ Energy	Industry/ Distribution/ Water	Urban	Finance/ Social/ Healthcare
Investment fields	<ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Distributed power solution</li> </ul>	<ul style="list-style-type: none"> <li>• Manufacturing solutions</li> <li>• Industrial equipment (North America/Asia)</li> </ul>	<p><b>Railway</b></p> <ul style="list-style-type: none"> <li>• Turnkey/signaling system</li> </ul> <p><b>Elevators/Escalators</b></p> <ul style="list-style-type: none"> <li>• New installations/maintenance (China/other countries &amp; regions of Asia)</li> </ul> <p><b>Automotive</b></p> <ul style="list-style-type: none"> <li>• Electric power trains, autonomous driving products</li> <li>• Mobility as a Service</li> </ul>	<p><b>Japan and global</b></p> <ul style="list-style-type: none"> <li>• Financial payment system (Asia)</li> <li>• e-Government (Asia)</li> </ul>

### Improvement of Asset Profitability

Led by the Investment Strategy Division established in April 2017, Hitachi is working to generate higher profits from assets by prioritizing investment in markets with growth potential and businesses that can generate higher ROA, and by downsizing or substituting existing assets through reduction of exposure to low-margin assets or the sale of equity holdings. In addition, Hitachi is working to make more effective use of capital, including financing efforts that utilize external capital.

**Direction of Assets Holdings**



**Growing the Social Innovation Business Using Digital Technology**

Hitachi's aim is to realize better quality of lives for people through the global supply of advanced social infrastructure using digital technology. In fiscal 2017, we laid the foundation to expand businesses that utilize digital technologies such as Lumada. Specific measures included construction of a global support set-up, front-line HR foundation, and the development of Lumada software to enable rapid, simple systems deployment. In fiscal 2018, we plan to accelerate the global supply of solutions through Hitachi Global Digital Holdings Corporation, which was established in April 2018.

➤ Please see "Expanding the Supply of Lumada Digital Solutions" (p. 18) for more details.

**Human Resources for Growth**

Hitachi is investing to strengthen human resources to realize growth through digital technology on a global scale. These efforts are underpinned by the appointment of three talented global executives to head up the relevant business units and group companies, along with our Chief Commercial Officers to provide specialized management expertise in North America, Europe, and Asia. In addition, we have recruited around 30 top-level managers from global firms in the IoT sector to manage operations in each field. We are also looking to strengthen Hitachi's capacity to create innovations through the recruitment of a diverse array of talent. As of April 1, 2018, the ratios of women and non-Japanese in executive and corporate officers within Hitachi, Ltd. were 2.5% and 6.4%, respectively. By fiscal 2020, we aim to increase each of these figures to 10%.

➤ Please see "Message from the Chief Human Resources Officer" (p. 31) for more details.

**R&D and New Business Creation**

As part of originating world-leading products and services, Hitachi is focused on the development of innovative technologies and the creation of new businesses. Specific areas of focus where we are increasing our investments in technical development include blockchain, autonomous driving, smart manufacturing, AI, and robotics. In March 2018, as part of a program aimed at creating disruptive technologies based on an open innovation approach, we invested in funds managed by the venture capital firm Geodesic Capital.

➤ Please see "Message from the Chief Technology Officer" (p. 35) for more details.

**Accelerate Management Speed, Improve Operational Efficiency**

As part of measures aimed further at improving profitability by strengthening the business foundation and reforming business processes, we are promoting measures for (1) increased efficiency of indirect operations, (2) reduced number of subsidiaries, and (3) digital transformation through increased visibility of management data. Through such measures, we aim to reduce costs by more than ¥100 billion by fiscal 2021.

Management issues	Improvement themes	Reform projects		
<div style="border: 1px solid green; padding: 5px; display: inline-block;">Increase speed</div>  <div style="border: 1px solid red; padding: 5px; display: inline-block;">Increase operational efficiency</div>	<ul style="list-style-type: none"> <li>• Simplify organizational structures</li> <li>• Reorganize system and rules</li> <li>• Reorganize work processes</li> <li>• Enhancement of compliance</li> <li>• Centralize management information</li> </ul>	Increased efficiency of indirect operations	Reduced number of subsidiaries	Increased visibility of management data
		●	●	●
		●		●
		●	●	
				●

# Expanding the Supply of Lumada Digital Solutions



To help realize a sustainable society, Hitachi is promoting global upscaling of the Social Innovation Business by increasing the supply of solutions that utilize digital technology based on collaborative creation with customers.

## 1. Digital Solution Supply Initiatives to Date

Hitachi's stated aim in the 2018 Mid-term Management Plan is to be "an Innovation Partner for the IoT Era" by embracing the digital revolution that is transforming society and industry. Since April 2016, Hitachi's operations have been divided along organizational lines into the three levels of "Front," "Platform," and "Product."

The rationale behind this move is to adopt a customer-centric business model to identify new markets for applications, rather than the conventional focus on supplying products. The aim of "Front" operations is to identify customer issues and to put in place a "Platform" that makes full use of OT and IT in a bid to efficiently provide relevant solutions, while the aim of "Product" operations is to supply highly competitive products.

In May 2016, Hitachi began supplying Lumada-based digital solutions to help address management issues linked to customer value chains.

Condensing the OT and IT expertise that Hitachi has accumulated over many years into a rich array of solutions, Lumada is a way of supplying customers with digital technology-derived innovations in a speedy and efficient manner. In practical terms, Hitachi is amassing Lumada customer cases through collaborative creation with customers as well as internal development of Lumada solutions within the Hitachi Group.

In both instances, a digital solution is created using Lumada to support the analysis of multiple types of variable data using AI or other big data analytical methods.

Based on existing customer cases, Hitachi is accelerating global upscaling of the supply of Lumada digital solutions by seeking to develop solution cores with generalized applicability to the needs of various customers.

In fiscal 2015, to expand collaborative creation through assignment of researchers to centers based close to customers while reinforcing innovative capabilities aimed at creating original technologies to satisfy market requirements, Hitachi established the Global Center for Social Innovation (CSI) as part of reforms to the Group's global R&D structure. The CSI focuses on collaborative creation in which researchers, designers and other Hitachi personnel work with customers on the development of digital solutions. Currently, there are CSI facilities in five key regions, with bases in Tokyo, North America, China, Europe, and Asia-Pacific (APAC). The collaborative creation process at these bases with customers, business partners, and other stakeholders is called "NEXPERIENCE." It involves finding multifaceted ways to visualize knowledge to facilitate smooth solution development, the utilization of IT tools, and a systematized co-creation methodology.

	FY2016 (result)		FY2017 (result)		FY2018 (forecast)
Billions of yen		Initial target*1		Initial target*1	
Revenues of Lumada business	<b>900.0</b>	950.0	<b>1,006.0</b>	1,050.0	<b>1,070.0</b>
Lumada core business*2	<b>120.0</b>	190.0	<b>230.0</b>	290.0	<b>310.0</b>
Lumada SI business*3	<b>780.0</b>	760.0	<b>776.0</b>	760.0	<b>760.0</b>

\*1 As released on Hitachi IR Day 2017 in June 2017

\*2 Service businesses where AI and analytics are utilized to convert customer data into valuable insights to help improve management indicators or offer solutions to business-related issues

\*3 Lumada core business-driven SI operations within the IoT field (industry/social infrastructure-related)

## 2. Global Development Initiatives

To support the development of the Social Innovation Business from a global perspective, Hitachi is looking to expand the provision of digital solutions by focusing on social issues that are specific to certain markets or regions.

### North America

In North America, Hitachi is focusing mainly on the business domains of Industry, Urban (including railways), and Finance.

In the Industry domain, the July 2017 acquisition of US air compressor manufacturer Sullair not only strengthened Hitachi's industrial equipment business, but also created opportunities to expand into digital solutions tailored to sectors such as manufacturing and mobility. For example, Hitachi has developed a service platform to automatically propose optimal repair work for various types of industrial machinery, based on combining Hitachi's strong track record and related know-how in the manufacture and maintenance of industrial machinery (OT) with AI or other digital technologies (IT). Hitachi plans to use this platform to expand sales of its Maintenance & Repair Service to various industrial machinery manufacturers.

In the Urban domain, Hitachi is supplying a wide range of railway products/systems and solutions, from rolling stock to signaling systems. This includes major metro projects in cities such as Miami and Baltimore. Going forward, in addition to supplying railway systems, Hitachi is working to secure orders for turnkey projects that include local construction and engineering as part of expanding the business in North America. Supplying digital solutions utilizing Lumada is another element of regional growth plans.

In the Finance domain, Hitachi established the Financial Innovation Laboratory in 2016 in Santa Clara, California, USA to undertake R&D into FinTech solutions using blockchain and other technologies. Through its involvement in joint research with Stanford University and in the Hyperledger project hosted by the Linux Foundation, Hitachi is working to develop and test practical FinTech solutions using cutting-edge analytical tools for credit scoring, while also contributing to the blockchain community and the development of commercial applications.

### Europe

In Europe, the key focus is on the Urban domain, primarily railways.

Hitachi is working to expand operations from product/system businesses such as rolling stock and signaling systems to include railway-related digital solutions. For example, dynamic headway solutions optimize train frequency in line with passenger demand, using predictions of passenger numbers based on people flow analysis. Hitachi is developing a solution of this type for the driverless Copenhagen Metro in Denmark.

### China

In China, the key focus is also on the Urban domain.

Hitachi plans to develop its Chinese operations by focusing on data-centric building service business where it has a presence in Japan, including round-the-clock remote monitoring of elevators and other building equipment and predictive maintenance based on the use of operational data to forecast breakdown probabilities.

### Asia

In Asia, Hitachi is focusing mainly on the Industry and Social Infrastructure domain.

In the Industry domain, Hitachi established the Lumada Center Southeast Asia in Thailand in September 2018 as a base for the development of the digital solutions business within the ASEAN region.

In the Social Infrastructure domain, in a collaborative creation project with Thailand Post, Hitachi is developing and testing a digital post service to enable users to receive notifications from public-sector institutions via a PC, smartphone or other device as part of creating a new service to provide information using the postal network. Elsewhere in the region, in April 2018, Hitachi formed Hitachi MGRM Net Ltd. following the acquisition of shares in Indian IT services provider MGRM Net Ltd. The new company will lead Hitachi's efforts to support the Indian government's "Digital India" initiatives including "e-Governance" and "e-Education" based on the digitalization of government services.

### 3. Systemic Investments to Support Global Expansion

Besides combining the digital solutions expertise cultivated to date with advanced technology to develop services with applications across a wide range of sectors, Hitachi is expanding the provision of digital solutions through Hitachi Global Digital Holdings Corporation, which was established in April 2018.

Interoperability with various systems and Lumada will be an important part of the global expansion of digital solutions. To this end, including participation in the Edgecross Consortium\*<sup>1</sup>, Hitachi is actively promoting collaborative creation projects with various stakeholders ranging from other companies to universities and other academic or research institutions.

As part of developing the human capital necessary for creating digital solutions, Hitachi has instituted a training program to cultivate data scientists with the required skills. To help foster conditions needed to create original expertise, Hitachi has also established the Professional Community for top-class researchers and practitioners from every field to share relevant knowledge.

Hitachi's target through these initiatives is to increase the number of data scientists working in the Hitachi Group worldwide from around 700 at present to 3,000 by fiscal 2021 to support further expansion of the digital solutions business.

\*1 A body established on November 29, 2017 with the aim of going beyond the basic framework of companies and industries to create new value in the field of edge computing through involvement in activities to support the IoT conversion of the manufacturing industry, the "Society 5.0" \*<sup>2</sup> plan advocated by the Cabinet Office, and the "Connected Industries" \*<sup>3</sup> concept promoted by the Ministry of Economy, Trade and Industry (METI)

\*2 A series of initiatives aimed at sharing and realizing the future vision of a "super smart society" in which there is high-level merging of cyberspace with the real world, as outlined by the Cabinet Office in the 5th Science and Technology Basic Plan

\*3 A conceptual vision for Japanese industry announced by METI in March 2017

To achieve the goal of being "an Innovation Partner for the IoT Era," Hitachi is working to upgrade its service business with the aim of evolving global supply capabilities for end-to-end solutions.

#### Copenhagen Metro Project

Hitachi is working with Metroselskabet, the public-sector infrastructure owner of the metro in the Danish capital Copenhagen, to test a dynamic headway solution to adjust the frequency of trains to real-time passenger demand. The solution will combine Hitachi's digital and IoT technologies with the train control systems of Ansaldo STS, a Hitachi subsidiary operating in the railway systems business.

Passenger demand on the Copenhagen Metro varies significantly depending on the time of day and any events occurring near the network. Moreover, the opening of a new line in 2019 is expected to result in a substantial increase in passenger numbers on the existing lines. The elimination of overcrowding in trains is a major issue.

Having used rolling stock and signaling systems supplied by the Hitachi Group for many years, Metroselskabet is an important Hitachi long-term partner. The advanced service provided by Hitachi for the Copenhagen Metro includes driverless trains that run 24 hours a day.

The dynamic headway solution automatically adjusts train frequency using the results of an analysis of changes in passenger numbers, visualizing congestion data collected from sensors located in each station. By easing congestion before it occurs, this provides a more satisfying transport experience for passengers. The system also helps the metro operator to reduce costs by adjusting train frequency to real-time changes in demand, contributing to energy savings along with higher efficiency.



**Feature: Four Focus Business Domains**

# An Innovation Partner for the IoT Era

Accelerating the Pace of Collaborative Creation with Customers in the Ever-Evolving Social Innovation Business

**Four Focus Business Domains**



**Power/Energy**

Main Products and Services

- Nuclear power generation systems
- Renewable energy power generation systems
- Transmission & distribution systems

**Industry/Distribution/Water**

Main Products and Services

- Manufacturing and logistics systems
- Water treatment systems
- Industrial machinery

**Urban**

Main Products and Services

- Elevators/Escalators
- Railway systems
- Automotive parts
- Air-conditioning equipment/ Consumer electronics

**Finance/Social/Healthcare**

Main Products and Services

- Systems for financial institutions
- IT systems for social infrastructure operators (power, transportation, other)
- Systems for public authorities
- Medical equipment and systems



# Power/Energy

In the Power/Energy domain, leveraging Hitachi's strengths in operational technology (OT), IT, and products, we provide power generation systems, transmission & distribution systems, and other solutions to a diverse range of customers across the energy value chain spanning production, distribution, and consumption. We are achieving social innovation by tackling issues in the constantly changing energy market, based on applying our extensive knowledge and advanced technology.

Kamisu Offshore Wind Farm No. 1  
Wind Power Ibaraki Co., Ltd.

## Future Growth Drivers of the Business

### Wind Turbines

Wind turbines are an excellent source of renewable energy that provide a solution to resource depletion and global warming, while also supplying energy to local or regional areas in ways that meet community needs and help realize a recycling-based sustainable society. Hitachi's downwind turbines are designed for harsh weather conditions with frequent bouts of high wind. They capture upward-blowing winds efficiently, and can also operate safely if a typhoon or storm causes a local blackout by switching to a free-yaw mode of operation to reduce wind load. Hitachi has supplied many turbines for wind farms in Japan. In 2018, based on this track record, we received an order to supply wind turbines for an offshore wind farm in Taiwan. Going forward, we will strive to meet customer needs by developing total solutions that use grid interconnection technology to distribute wind power in combination with high value-added maintenance services utilizing IoT.



Fukashiba Wind Power Station in Kashima Port  
Hitachi Wind Power Ltd.

### Nuclear Power Plants (ABWR\*)

The major advantage of nuclear power systems is lower environmental impact. Compared with fossil fuels, they can generate huge quantities of power safely from limited resources with substantially lower emissions of carbon dioxide, a significant factor in global warming. Hitachi was the main contractor in the construction of Chugoku Electric Power's Shimane Nuclear Power Station Unit 1, which began operating in 1974. It was the first commercial nuclear power system built entirely in Japan. As one of the world's leading manufacturers of nuclear power equipment, today we are involved in efforts to restart nuclear power plants in Japan based on new safety standards and in the reactor decommissioning program in Fukushima Prefecture.



Shimane Nuclear Power Station  
(Unit 3, under construction)  
The Chugoku Electric Power Co., Inc.

Overseas, we are involved in a project to build a new nuclear power station in the UK. Hitachi aims to make a broad contribution to realizing a safe and sustainable society through the maintenance and development of nuclear technology.

\* ABWR: Advanced Boiling Water Reactor

# Executive Vice President's Message

## Market-related Issues

As we work towards realizing a sustainable society, global markets for power and energy are undergoing a major transformation due to the “three Ds” of decarbonization, decentralization, and digitalization. For widespread adoption of wind power and other renewables as sources of base load power, we not only require systems that can cope with harsh natural conditions, but it is also essential to develop resilient power transmission and distribution infrastructure so that power generated from renewable sources can be delivered efficiently and reliably to residential and corporate users. Nuclear energy can generate large quantities of power with minimal environmental impact, irrespective of the weather. Provided we pay more attention to the safety aspects, we believe it has the potential to be a major future source of base load power in many parts of the world.

Recently, we have also seen moves to apply cutting-edge digital technology to facilitate more advanced maintenance and management of power generation systems. Decentralization is an important emerging trend, with regions taking advantage of local characteristics to develop distributed energy resources that generate power efficiently for local consumption as part of creating a recycling-based sustainable society.

## Where Hitachi Is Focusing

With over a century of experience in delivering world-class products, services, and solutions, Hitachi is contributing to industrial development and the realization of a sustainable society through the supply of low-emission and zero-emission power generation systems. To this end, we are looking to generate high returns as market leader by investing aggressively in growth sectors such as the non-carbon energy solutions business.

In the renewable energy sector, we aim to expand our wind turbines business globally, while also developing total solutions to deliver reliable power from the bulk power network to residential and other users at the edge of the grid. We are also applying IoT, data analytics, and other digital technology to develop innovative systems, including virtual power plants\* to support state-of-the-art power generation as well as more advanced facilities maintenance systems. Mixed energy distribution solutions that can integrate decentralized power sources with a large-scale power grid are another major focus for us.

In the nuclear energy sector, our primary emphasis is on fulfilling our social responsibility as a manufacturer of nuclear power equipment through our engagement in domestic initiatives. These include efforts to modify existing nuclear power plants to meet new safety standards ahead of restarts, and an active role in the decommissioning of reactors at the Fukushima Daiichi



**Toshikazu Nishino**

Executive Vice President and Executive Officer

Nuclear Power Station for Tokyo Electric Power Company Holdings, based on the lessons learned from the Great East Japan Earthquake. Overseas, in the UK, we are assessing the economic rationality as a private company for a project that involves the construction of a new nuclear power station, amid ongoing discussions with the British government.

## Our Future Mission and Role

A reliable supply of uninterrupted power is essential to the lifestyles and safety of consumers living in our modern, highly urbanized society. At Hitachi, we are committed to promoting collaborative creation with a range of customers across the energy value chain that can support reliable supplies of eco-friendly energy for the safety and peace of mind of users. We are also striving to provide new value through the utilization of digital technology.

## The Creation of Social Value

Finding ways to ensure the reliable and efficient supply of the energy essential to modern society while minimizing environmental impact is vital to an affluent and sustainable future. We aim to contribute to industrial development and the realization of a sustainable society by developing power generation systems to exploit renewables and other zero-emission energy sources, along with innovative solutions to support efficient on-demand supplies of energy.

\* A virtual power plant (VPP) is a technical solution for balancing power supply and demand. It uses energy management technology utilizing IoT to aggregate distributed energy resources such as storage batteries or power generation systems operated by households or factories, controlling the energy generated from these sources remotely to integrate them in a way that functionally emulates a power plant.

## SDG Focus



# Industry/Distribution/Water

In this domain covering the Social Infrastructure & Industrial Systems segment, Hitachi develops products and services such as industry/distribution solutions, water solutions, and industrial equipment. With a 108-year manufacturing history since Hitachi was founded in 1910, we can supply everything from products for the manufacturing workplace to control systems for facilities and business support IT systems. Our goal is to be the best solution partner for customers throughout industries worldwide.

## Future Growth Drivers of the Business

### Smart Manufacturing Solutions

Utilizing Lumada, our smart manufacturing solutions help customers in various manufacturing industries to increase production efficiency, automate production, develop more reliable quality, transfer skills, or address other production-related issues. Solution development often utilizes the high-efficiency production model established at the Omika Works, or systems are developed in collaborative creation with customers. We offer a wide range of solutions, from manufacturing site visualization and predictive equipment failure detection systems to debottlenecking support and production planning optimization. Reforming the manufacturing workplace using digital technology helps our customers become more competitive.



Monitoring System for the Progress and Operational Status developed in collaborative creation with Okuma Corporation

### Generating Post-acquisition Synergies with Sullair

In 2017, Hitachi acquired Sullair, a manufacturer of air compressors with operations in North America, China, and other countries. This move strengthened Hitachi's global air compressor business. Air compressors are an important source of power for various types of equipment used in factories, and this market is expected to grow in the future. The combination of the Sullair sales network with a range of products that incorporate Hitachi's high-level technical expertise in this field promises to help us expand this business globally. The acquisition will also support global expansion of Hitachi's overall business in the Industry/Distribution/Water domain by affording opportunities to supply Sullair customers with marking systems and other industrial equipment, as well as air compressors and digital solutions.



Town hall meeting at US factory of Sullair

## Executive Vice President's Message

### Market-related Issues

In the Industry/Distribution/Water domain, we supply products, systems, and services to a wide range of customers, mostly manufacturers but also firms in the retail and transport sectors.

Today, to tackle challenges such as declining working-age populations, increased workforce diversity, and supply chain globalization, manufacturers in Japan and other countries are looking to address urgent issues such as making operations more efficient or labor-saving, or ensuring the transfer of technical know-how. Faced with climate change, water shortages and other issues, reducing the environmental impact of operations is also of increasing concern. These structural shifts within industry and social issues are leading customers to focus not only on our tangible products, but also on intangible aspects such as the value that Hitachi can add to their business.

### Where Hitachi Is Focusing

In this domain, Hitachi can supply everything from industrial equipment for the manufacturing workplace (Products) to facility control systems (Operational Technology, OT) and IT systems to manage operations. Our aim is to be the best solution partner for customers based on our ability to supply the total package of products, OT, and IT.

We have begun offering smart manufacturing solutions that use Lumada, based on systems we have developed in collaborative creation with Daicel Corporation, Okuma Corporation, Daikin Industries and other customers for tackling manufacturing challenges such as increasing production efficiency or transferring technical know-how. We are reinforcing our lineup by developing unique products that incorporate amorphous motors with world-class efficiency. Our vision is to offer the best solutions to customers by understanding their issues based on Hitachi's more than a century of manufacturing heritage, and by developing value-added combinations of products, OT, and IT.

### Our Future Mission and Role

My objective is to scale up the business significantly through closer links between the various divisions that I lead. Including Group companies, the Industry/Distribution/Water domain spans different industrial sectors and customer bases of differing size. Starting from the systems and products offered by each of these companies, we are expanding the business by providing



**Masakazu Aoki**

Executive Vice President and Executive Officer

fully integrated Hitachi total solutions and services aimed at raising production efficiency or developing more sophisticated operations. Hitachi's acquisition in 2017 of the Sullair-branded air compressor business has also secured us new customer channels in North America and China. Our customers in the industry domain face the same issues worldwide. Leveraging our experience in Japan and Hitachi's strengths in products (manufacturing and production technology), OT (control/operational technology), and IT (technologies for data analysis and processing), we will develop the Social Innovation Business using our digital technology through approaches to a broad range of customers around the world.

### The Creation of Social Value

Solving issues for customers also helps to achieve the SDGs. We will contribute to realizing a sustainable society in which people can enjoy dynamic and comfortable lives worldwide through the supply of systems with low environmental impact and energy-saving products.

#### SDG Focus



# Urban

The Urban domain is composed of the four businesses of: Building systems (elevators and escalators) and Railway systems from the Social Infrastructure & Industrial Systems segment, Automotive systems (automotive products and car information systems), and Smart Life & Ecofriendly systems (home appliance and air-conditioning equipment). In this domain, our aim is to improve the Quality of Life for people worldwide by providing products and services that are essential for daily living.



## Future Growth Drivers of the Business

### Building Services for Advanced Lifestyle Support

Hitachi provides building services including round-the-clock remote monitoring of elevators and other equipment. We offer advanced IoT-based services that use collected operational data to formulate plans for parts replacement and other maintenance, and to predict when a breakdown might occur without needing an inspection by a service engineer. Going forward, in addition to accelerating the global development of the high-quality maintenance services that we have developed over many years, we plan to fine-tune building services by utilizing Lumada to collect and analyze a range of data, including operational data from building equipment and data on the flow of people inside buildings. These services include providing buildings guidance support using service robots, and enhancing the value of building facilities based on the analysis of those entering the building.



Building equipment is monitored remotely from a call center

### Railway Systems/Solutions for High Quality and Reliability

Hitachi is developing systems and solutions globally to support rail services of high quality and reliability as a provider of rolling stock and traffic management systems, along with fully integrated solutions that include project management. In the UK, we are applying advanced IoT-based maintenance services for the rolling stock of the Intercity Express Programme. With the Copenhagen Metro, we are testing a Dynamic Headway solution to adjust the frequency of train services automatically to the degree of crowding inside stations. Going forward, we will leverage Lumada technology to develop railway systems/solutions that deliver added value to our customers in innovative ways.

## Executive Vice President's Message

### Market-related Issues

In the Urban domain over which I preside, Hitachi is developing global businesses based on products that are highly familiar in daily life, including elevators, railways, automobiles, and home appliances. For consumers, these businesses form the public face of Hitachi.

Given the continued advance of urbanization around the world today, notably in Asia, we expect markets to continue expanding within the Urban domain.

Greater urbanization also brings with it a set of emerging issues that we will need to address proactively, including the demographic aging, energy supplies, and ensuring the safety and security of people in the face of growing threats from disasters and crime.

The common trends affecting the four major businesses within the Urban domain of elevators and escalators, railway systems, automotive products, and home appliances are captured in the acronym CASE\*.

First, we are seeing a significant move away from product ownership to usage models based on sharing. Second, there is a shift to autonomous operation—not only in automobiles, but also in many other products—that also places significant emphasis on the use of electronics as manufacturers focus on energy-efficient, low-carbon products. In addition, these products are increasingly connected using digital technology, which is enabling the development of new solutions for solving customer issues. While engaging with these trends directly, we are working to address various lifestyle-related issues in collaborative creation with customers.

\*CASE: Connected, Autonomous, Shared, Electric

### Where Hitachi Is Focusing

It goes without saying that digital technologies such as AI and IoT will hold the key to our addressing customer issues through the Social Innovation Business. At the same time, to expand the business globally in a cost-competitive way, we will also need to utilize digital technology to improve the efficiency of processes such as design and maintenance. For these reasons, I think digital technologies will be the most important growth driver in the Urban domain. Monitoring whatever is troubling customers in real time and providing appropriate solutions will require always-on connections to digital technology platforms. By collecting and analyzing the data from monitoring operations, we can determine where any problems exist in products and systems, and work out how to make improvements. For example, we are undertaking round-the-clock remote monitoring of elevators and other building equipment to collect operational data. Analysis of these data not only facilitates smart maintenance, but also allows us to provide services to help customers achieve goals such as optimizing the building power consumption.

Hitachi can also provide one-stop solutions to address customer challenges because we not only handle product design and manufacture as well as systems operation and control, but also build IT systems. For example, in the Railway systems business, Hitachi by itself can supply a fully integrated solution, from the manufacture of rolling stock and building traffic management and signaling systems, to maintenance services and the construction of ticketing systems. This can offer customers major advantages in terms of simplicity and efficiency compared with the complicated process of engaging multiple suppliers to build the system. In this way, our ability to combine OT (Operational Technology), IT, and products to connect customers to digital technology means we can create solutions that were never possible before. This is the original value Hitachi can



**Keiji Kojima**

Executive Vice President and Executive Officer

provide as an Innovation Partner for the IoT Era via collaborative creation with customers.

### Our Future Mission and Role

The Urban domain enables us to evolve into a well-known global enterprise as a leader in the development of bold new technologies that are a fine testament to Pioneering Spirit, one part of the Hitachi Founding Spirit. With a high proportion of overseas revenues and an array of global talent in positions of leadership, ours is the domain spearheading Hitachi's globalization. My mission is to utilize Lumada and other digital technologies to radically reinforce the competitiveness of our product range, while also further developing global markets that are expanding as urbanization progresses. Another critical part of my mission is to optimize our investment in the Urban domain and ensure that we make timely investments to generate synergies at the consolidated level.

### The Creation of Social Value

The Corporate Credo of Hitachi since its inception has been “Contribute to society through the development of superior, original technology and products.” As a company, we pursue not only financial targets, but also social contributions. In the Urban domain, based on our vision for next-generation urbanization, we will leverage digital technology to help achieve the SDG11 goal of sustainable cities and communities.

SDG Focus



# Finance/Social/Healthcare

In the Finance/Social domain, targeting customers in social infrastructure fields such as finance, electric power, and transport as well as customers in varied areas including the public sector, we develop and supply a broad range of IT services from consulting to systems integration, operation, maintenance, and support. In the Healthcare domain, there are three core businesses that we are developing by leveraging Hitachi's strengths in digital technology: Diagnostics and Clinical (including diagnostic imaging equipment and particle therapy systems), Testing and Reagents (including analytical systems), and Informatics (based on big data utilization). We are contributing to the growth of medical institutions and related health professionals as well as the realization of healthy, enriched lifestyles for people.

This domain also plays a central role in developing and promoting the use of platforms that provide across-the-board support to Hitachi's front operations, in the process driving the growth of the overall Lumada-based digital solutions business.

## Future Growth Drivers of the Business

### Solutions Group Utilizing AI, Big Data Analysis and Other Cutting-edge Digital Technologies

By combining the extensive business experience and know-how that Hitachi has acquired to date with cutting-edge digital technologies such as AI and Big Data analysis, we are offering Lumada-based solutions to customers across a variety of fields.

In the Finance domain, we support more advanced and efficient investigative screening of trading in equities by applying AI to analyze illicit transaction probabilities. Elsewhere, Hitachi analyzed medical big data by leveraging the analytical know-how we have cultivated in technology for forecasting healthcare expenditures, and we have developed a quantitative model to predict the possibility and length of hospitalization due to lifestyle-related diseases. This model can assist life insurers in reviewing broadening the scope of their customers who can take out insurance.

In the Social Infrastructure domain, we are supplying solutions to help deliver improved services for passengers and other end-users. We have been involved in the development of a service that distributes images of visualized people flows and related crowding phenomena inside stations in a timely manner, with people flow analysis technology utilizing images from monitoring cameras. We have also helped public transport operators optimize timetables in line with demand, based on analyzing and visualizing traffic volumes and transportation demand. In other initiatives to develop and build safe, secure, and comfortable urban infrastructure, we are supporting the development of advanced analytical tools for analyzing and predicting power demand and pricing trends in electricity retail markets with AI.

Going forward, Hitachi aims to engineer further evolution in the Social Innovation Business by supplying innovative Lumada-based digital solutions through collaborative creation with various stakeholders. In doing so, we hope to contribute to the realization of a society in which people around the world can live in safety, security, and comfort.



## Executive Vice President's Message



**Keiichi Shiotsuka**

Executive Vice President and Executive Officer

### Market-related Issues

In the Finance/Social/Healthcare domain, we are supplying innovative solutions to address various social issues, based on maximizing the strengths of Hitachi in digital technology. Examples include digital payments in the finance field and informatics in healthcare fields. In this domain, efforts are also directed toward undertaking the development of IoT platforms, and as a digital-centric business entity, we are playing a central role in promoting the expansion of Hitachi's overall digital solutions operations by encouraging the cross-sectoral utilization of Lumada.

Today, the connection of a wide range of things to the Internet enables access to knowledge gleaned from the analysis of vast quantities of data. This is causing a wave of digitalization to generate new value for society and businesses. Hitachi is required to create new business models and service models, and support dramatic improvements in productivity by leveraging our strengths in digital technology.

### Where Hitachi Is Focusing

Beyond the domains of Finance and Social Infrastructure, in both of which Hitachi has been supplying IT services for many years, we are also expanding our digital technology-based operations into the Healthcare domain. In these areas, working beyond Business Unit structures, we are helping a variety of customers to undertake digital transformations.

As well as developing new finance and insurance products based on the utilization of AI and big data, we

are also assisting customers with solutions to help ease congestion or improve the efficiency of logistics operations, and developing services aimed at improving the quality of healthcare or its operational efficiency. We also aim to create new value across industrial sectors by using digital technologies. For example, we facilitate smarter contracts or transactions via linkage of settlement systems with various commercial and logistical flows using blockchain technology.

Today's rapid pace of technological innovation means it is essential for us to hone solutions in partnership with customers based on identifying issues, formulating hypotheses, and testing solutions in a continuous, fast-paced cycle. We aim to help customers reinforce competitiveness and realize an affluent society, we generalize the Lumada customer case in various fields and utilize it throughout the whole of Hitachi for rapid development and supply of solutions.

### Our Future Mission and Role

My role is to take the lead in driving the growth of the Social Innovation Business and to generate growth in global markets by developing a mechanism for applying state-of-the-art digital technology across the entire Hitachi Group. I view our mission as the creation and timely market introduction of high value-added digital solutions using Hitachi's operational technology (OT), IT, and products. To this end, we recognize the importance of dynamically optimized HR assignments for our digital specialists so that we can strengthen the global delivery of these solutions.

### The Creation of Social Value

Even as digital technology has evolved these days, it is people who are originating ideas and creating value. Technology is merely a tool, and the aim of Hitachi's Social Innovation Business is to pursue improvements in the quality of life for people, focusing on people who live there. We hope to contribute not only to the growth of advanced countries, but also to the development of nations and regions where residents find it hard to access safe drinking water, food, or healthcare. And we create solutions that use digital technology to make the world a better place.

#### SDG Focus



## Foundation for Value Creation

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## Message from the Chief Human Resources Officer

We are promoting our HR strategy to expand the Social Innovation Business, based on the strategic promotion of diversity and inclusion policies. We are also upgrading management systems to become a truly global enterprise, including building an integrated HR platform.

**Hidenobu Nakahata**  
Senior Vice President  
Chief Human Resources Officer (CHRO)



### Human Capital Is a Critically Important Asset

In 1910, the same year that he founded Hitachi, Namihei Odaira set up the Apprenticeship Training School. This symbolic act illustrates our belief in human capital being one of the most critical assets in business. We benchmark Hitachi's human capital strategy and policies against those of a variety of global enterprises. I am exchanging opinions directly with my counterparts at such companies. Based on these discussions, I think that Hitachi is close to the level of major global players regarding our human resources strategy and personnel management framework.

If I were asked about the strengths of Hitachi in trying to grow in an increasingly commoditized world, my unwavering reply would be that we aim to realize sustainable growth

### Initiatives to Promote Diversity and Inclusion

Diversity and inclusion are the wellspring of innovation for Hitachi. We are building HR systems so we can evaluate the performance of each position and role using a common global standard. With the appointments of Mr. Alistair Dormer as Global CEO of our railway systems business and Dr. Brice Koch as the President of Hitachi Automotive Systems, Ltd., a diversity of viewpoints is reflected in decision-making processes at the senior management level. The ability to recognize diverse values and express different opinions is critical to the provision of optimal solutions that fully address the issues faced by our customers within an increasingly complex society. We will continue to promote diversity within management ranks.

Our global "Work Life Innovation" campaign, which includes work-style reforms in Japan, aims not merely to

by utilizing our human capital to create original value and innovation. In accelerating our management strategy of developing the Social Innovation Business globally using digital technology, two of the vital elements are developing the people who can understand customer and social issues precisely, and creating teams of people with diverse viewpoints, backgrounds, and abilities to work together towards common goals. For these reasons, my focus is on developing our human resources, including the next generation of leaders, through promotion of diversity and inclusion. We have also been focusing efforts on building a global personnel management system to support our human capital utilization.

reduce total working hours, but to create more flexible approaches to work to respect and cater to the values and differing lifestyles of our varied individual employees. We are creating work environments to enable individuals to maximize their abilities, based on practices such as telecommuting or working from a satellite office.

#### Diversity Targets for Hitachi, Ltd. (FY2020)

	End-FY2017 (actual)	FY2020 (target)
Executive and Corporate Officers		
Female	2.5%	10%
Non-Japanese	6.4%	10%
Number of female managers	577	800

## Reinforcing Efforts to Develop Next Generation of Leaders to Realize Sustainable Growth

In addition to Hitachi University, the Group's global e-learning management system, we have developed a variety of educational programs tailored to different jobs and positions. We are also focusing resources on selective training courses aimed at developing future managerial candidates at an early stage. In these courses, participants discuss what is necessary for the growth of Hitachi. The opportunity to generate ideas to present to senior management helps to cultivate the next generation of leaders— people with unique perspective and determination. In addition, we have identified a group of about 50 employees from around

the Hitachi Group with next-generation development potential. People in this "Future 50" group are selected on merit, regardless of age, gender, or nationality. They are given challenges to help expand their horizons and build their perspective, including tough assignments, different types of work, and internal and external training opportunities. The Future 50 group members receive one-on-one mentoring opportunities with outside directors to benefit directly from their extensive business experience and global perspective. Our aim is to change mindsets so we can develop people for important positions in the future.

## Creation of Integrated Personnel Management Platform

We have introduced systems since fiscal 2012 to help optimize the allocation of personnel to important positions within the Hitachi Group, including the Global Human Capital Database and Group-wide systems for grading personnel and managing performance. Since fiscal 2013, we have also conducted an annual survey of our global employees called "Hitachi Insights" to cultivate dynamic and supportive workplace conditions across the Group. With a response rate of more than 80%, the survey generates valuable feedback for business unit CEOs and other Hitachi Group managers. We also reflect the results in our personnel management to help promote greater employee engagement.

In January 2018, we began full-scale operation of our new HR Integrated Platform that brings together HR-related information and processes. I expect three benefits from the introduction of this platform. First, it will boost transparency.

Previously, we had no way of making timely assessments of the skills and capacities of the people working for Hitachi Group companies throughout countries and regions. Being able to see these things will upgrade our ability to assign personnel to appropriate work and to create individualized development programs. Second, by enabling all employees to input experience or skills into the system and access HR-related information online, the new platform reinforces the cultural shift within Hitachi toward greater individual empowerment. It should translate directly into greater development of those who are self-motivated to broaden their horizons by taking on new challenges at work. Finally, the new platform will boost speed and efficiency. For example, enhanced access to global data will help us assign the necessary personnel for new projects more quickly and efficiently, thus contributing to more timely project start-ups.

## Strategic Contribution of HR to the Realization of Society 5.0 and SDGs

Ever since it was founded, Hitachi's corporate philosophy of "contributing to society through development of superior, original technology and products" has embodied the values that are expressed in the SDGs.

Our strategy for human capital development is in line with the aim of the Social Innovation Business to address social issues. Its promotion can make a significant contribution to realizing the Japanese government's "Society 5.0" vision and achieving the SDGs. Most notably, in our personnel development and the promotion of diversity and inclusion policies, we are actively working to achieve Goals 4, 5, and 8.

### SDG focus



Hence, by reforming and developing our HR management platform and systems, and creating conditions to make effective use of them, Hitachi's diverse workforce will help realize sustainable growth while also contributing to the realization of the "Society 5.0" vision and the SDGs.

# Human Capital Development

## Diversity and Inclusion

### Diversity and Inclusion as the Wellspring of Our Innovation

Diversity is the wellspring of our innovation and our growth engine. Hitachi regards personal differences—gender, nationality, work history, age, sexual orientation, and philosophy—as facets of people's individuality. By respecting our employees' individualities and positioning them as an advantage, Hitachi frames its diversity and inclusion as conducive to both the individual's and the company's sustainable growth.

We have currently positioned and are promoting diversity management as a management strategy under the initiative slogan "Diversity for the Next 100." Specifically, this means promoting the creation of environments in which women and other members of our diverse human workforce are able to demonstrate their skills to the fullest extent in leadership and business management positions. Hitachi, Ltd. and 17 Group companies jointly operate the Advisory Committee and the Diversity Development Council to accelerate awareness across Hitachi as a whole, including support for diverse human resources and work-life management.

### Developing Women's Careers

Hitachi, Ltd. has created two key performance indicators (KPIs) to enable as many female employees as possible to take up leadership positions and to participate in management decision making. In fiscal 2013, Hitachi set a goal of promoting women to executive positions by fiscal 2015. In April 2015, the company appointed its first female corporate officer, a position equivalent to the executive level. Aiming to create diverse views and values to be reflected in our management, in fiscal 2017 we publicly announced our commitment to increasing the rate of female executive and corporate officers to 10% by fiscal 2020.\* With regard to the ongoing promotion of women to managerial positions, we are aiming to double, compared with fiscal 2012, the number of female managers to 800 by fiscal 2020.

In addition to reinforcing existing programs, we are introducing the Hitachi Group Women's Career Success Survey to visually highlight the level of progress made with the initiatives and any outstanding issues in each business unit while setting numerical targets for each unit. These

efforts demonstrate our commitment both internally and to the world to further advance women in the workplace and improve our diversity management.

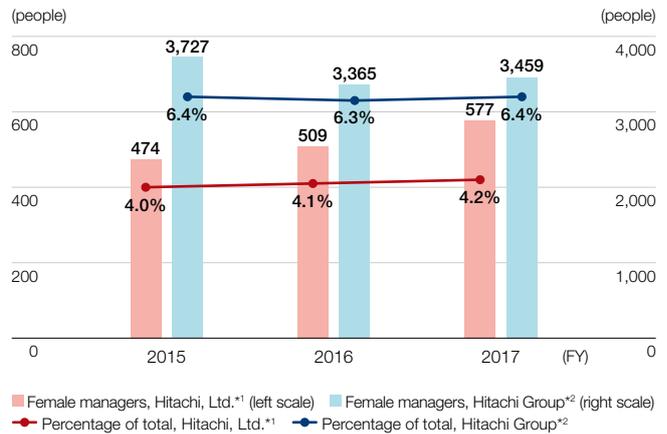
\* As another goal, Hitachi aims to achieve a 10% ratio of non-Japanese executive and corporate officers by fiscal 2020

#### SDG focus



**Finding solutions to customer and social issues, which are becoming more diverse and complex, requires the bringing together of human capital that possesses diverse values. Hitachi is engaged in maintaining working environments that enable the diverse members of its workforce to demonstrate their abilities.**

#### Number and Ratio of Female Managers



Note: Figures include section chiefs and above.

\*<sup>1</sup> "Female managers" in fiscal 2017 include managerial employees dispatched from Hitachi, Ltd. to non-Group companies and those accepted from non-Group companies by Hitachi, Ltd. Earlier figures include regular managerial employees dispatched to non-Group companies but exclude those accepted from non-Group companies.

\*<sup>2</sup> All full-time, regular female managers excluding those dispatched to non-Group companies. Figures for fiscal 2016 were restated following a reexamination of HR data.

#### Ratios for Female and Non-Japanese Executive and Corporate Officers (Hitachi, Ltd.)

	June 2017	June 2018
Number of female executive and corporate officers	<b>2</b>	<b>2</b>
Ratio of female executive and corporate officers	<b>2.4%</b>	<b>2.6%</b>
Number of non-Japanese executive and corporate officers	<b>3</b>	<b>5</b>
Ratio of non-Japanese executive and corporate officers	<b>3.7%</b>	<b>6.4%</b>

## Global Human Capital and New Generation Development

### Advancing Global Human Capital

Our Group-wide global human capital management strategy optimizes both human resources and organizational performance in pursuit of our goal of becoming an Innovation Partner for the IoT Era.

One part of that strategy has involved the building of a Global Human Capital Database, which enables us to fully ascertain the status of worldwide Group human capital

and to assess macro management data, such as the allocation of human resources. We have also introduced the Hitachi Global Grade system that applies to all managers in the Hitachi Group worldwide, using it as a common platform for job applications throughout the Group and as a common standard for assessing the value of management duties. In addition, we introduced Global Performance Management at Hitachi, Ltd. and at some Group companies

worldwide to link the individual and operational business goals, with the aim of promoting mutual sustained improvement and the growth of both individuals and businesses.

We are also working on talent development initiatives to drive global business growth. For example, in fiscal 2015 we implemented “Hitachi University,” a Group global common learning management system.

With regard to Hitachi Insights, the global employee survey that Hitachi conducts every year, we were able to receive roughly 170,000 responses from the around 200,000 employees who were sent the fifth survey in September 2017, and the overall evaluation resulted in an improvement for the fourth consecutive year.

### Occupational Health and Safety Framework for Promoting Health and Safety

Ensuring the health and safety of all employees is the basic principle underlining the Hitachi Group Health and Safety Policy. This policy is shared by all Hitachi Group companies around the world. Employees work together to create safe, secure work environments that aim to be accident-free.

Manufacturing and maintenance, the areas of business in which Hitachi is engaged, are particularly accident-prone lines of work, and we have around 34,000 employees performing work of this type in Japan. We promote a range of Group-wide occupational health and safety activities that include preventing workplace accidents by setting and applying minimum safety standards to be observed by Group manufacturers around the globe.

In Japan, a health and safety commission—composed of company representatives, labor-union officials, and employees—is convened every month. We have introduced the Hitachi Group Key Safety Management Designation System, under which initiative Group companies and business sites where serious work accidents have occurred are designated as priority safety management companies and business sites. Here, the potential for accidents is reduced by reviewing risk assessments, including the investigations of accident causes, and third parties are engaged to conduct safety issue diagnoses. In fiscal 2017, we recorded zero fatal workplace accidents in Japan and five in the rest of Asia.

In December 2015, revisions to Japan’s Industrial Safety and Health Act took effect, requiring businesses of 50 or more employees to put in place a stress-check system. We are proactively implementing stress checks at all business sites in Japan—even those employing fewer than 50 employees, are required to make efforts toward compliance—to promote awareness of stress among all employees. Group analysis results from these stress checks will also be used by workplace health and safety committee members, occupational healthcare workers,

### New Generation Development

Applying science and technology, the Hitachi Group and the Hitachi Global Foundation carry out science, technology, engineering, and mathematics (STEM) education, depending on the issues in local communities, to develop a new generation of human capital capable of addressing social challenges.

#### SDG focus



**For Hitachi, employees are an important entity underpinning the Company’s future and, at the same time, a driving force contributing to the achievement of the SDGs and realizing social change.**

and human resource departments to improve workplace environments. In combination, these efforts are expected to help prevent mental health issues and revitalize workplaces. Hitachi’s efforts in this area were recognized under the 2018 Certified Health and Productivity Management Organization Recognition Program, conducted by Japan’s Ministry of Economy, Trade and Industry, in the large enterprise category (White 500).

Hitachi Group Health and Safety Policy:

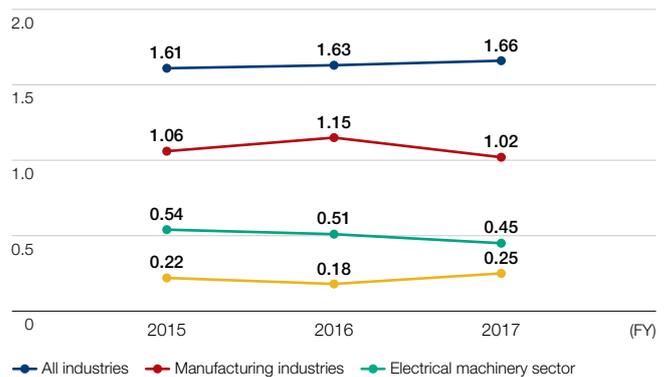
[https://www.hitachi.com/sustainability/download/pdf/en\\_sustainability2018\\_19.pdf](https://www.hitachi.com/sustainability/download/pdf/en_sustainability2018_19.pdf)

#### SDG focus



**We are primarily addressing SDGs in the recognition that it is indispensable for business management to develop environments in which the people working in the Hitachi Group can work safely and without anxiety about physical and mental health.**

### Occupational Accident Rates



\* Occupational accidents are defined as those involving fatality or work-time loss of one day or more. Hitachi Group figures for Japan, including Hitachi, Ltd., are for 240 Group companies in fiscal 2015; for 200 Group companies in fiscal 2016; and for 201 Group companies in fiscal 2017.

## Message from the Chief Technology Officer

The R&D Division celebrated its 100th anniversary in 2018. Inheriting Hitachi's corporate credo and founding spirit, our R&D operations support the goal of Hitachi being "an Innovation Partner for the IoT Era," while also driving the future growth of the company by addressing societal issues.

**Norihiro Suzuki**  
Vice President & Executive Officer  
Chief Technology Officer (CTO)



### R&D Initiatives Targeting Social Innovation Business Expansion

In fiscal 2015, to promote global R&D centered on collaborative creation with our customers, we established the Global Center for Social Innovation (CSI) in five key regions, setting up bases in Tokyo, North America, China, Europe, and Asia-Pacific (APAC). Using a systematized collaborative creation methodology called "NEXPERIENCE," CSI researchers share their vision directly with customers as part of a process of original value creation that ranges from identifying issues to testing solutions and creating practical business models. At the same time, positive

steps are being taken to help upgrade and expand digital solutions that employ Lumada.

I believe this process is creating positive feedback cycles, in which resolving customer issues helps us to reinforce Hitachi's core technologies while at the same time generating knowledge to support new business development based on accumulated customer cases. We are upgrading our focus on open innovation approaches as a way of expanding such initiatives globally, for example by building ecosystems that span industry, academia, and the government sector.

### R&D Investments for Enhanced Efficiency

Hitachi invests approximately 4% of revenues into R&D on the four focus business domains that drive the Social Innovation Business, as well as open innovation and other projects. I would emphasize the fact that our investment in open innovation in fiscal 2018 was over 60% higher than in fiscal 2015. The establishment of the CSI enables us to work

with customers from the research stage to develop the technology for products and services that address societal issues, thus boosting the efficiency of our R&D. Moreover, we are looking to make R&D even more efficient by shortening development time by leveraging AI and other digital technologies for our research work itself.

### Fiscal 2018 R&D Policies

Becoming a Global Innovation Leader to Drive Evolution Towards a Global Company	
Objectives	Policy Directives
Strengthen monetization capabilities to expand the Social Innovation Business	<b>Enhancing collaborative creation of global solutions</b> <ul style="list-style-type: none"> <li>• From individual solutions to connected industries</li> <li>• Focus on growth domains and regions</li> </ul>
Increase world-leading products and services	<b>Creating and focusing on world-leading technology</b> <ul style="list-style-type: none"> <li>• Create world-leading technology to support the Social Innovation Business</li> <li>• Accelerate open innovation</li> </ul>
Participate and engage with global community	<b>Promoting basic research to resolve societal issues</b> <ul style="list-style-type: none"> <li>• Accelerate creation of disruptive technology</li> <li>• Create vision to lead "Society 5.0"</li> </ul>

## Enhancing Collaborative Creation of Global Solutions

To drive the evolution of our collaborative creation efforts with customers, we are looking to develop new “Connected Industries” solutions that can generate greater value than those for individual solutions, and those that can connect a variety of solutions in different industries for multiple customers. One practical example of this is an initiative where small- and medium-sized customers in industrial sectors and financial institutions manage and share global supply chain information.

## Creating and Focusing on World-leading Technology

The R&D Group is also actively trying to create world-leading technology to support the Social Innovation Business. For example, our development of high-speed rolling stock and traffic management systems to enhance railway safety, comfort, and convenience is helping Hitachi’s business growth in Europe. Elsewhere, we are applying fluid analysis technology developed in the railway field to improve compartment design to help achieve the world’s fastest elevator. In the industrial sector, Hitachi has secured a world-first with the development and commercialization of a compact and energy-efficient amorphous motor-integrated oil-free scroll compressor. Going forward, we aim to develop world-leading technologies in fields such as blockchain, autonomous vehicles, smart manufacturing, AI, and robotics.

For the creation of world-leading technology, it is necessary to enhance the value offered by Hitachi’s OT, IT, and products with the utilization of digital technologies. For that, it is also important for us to strengthen our human capital. Aiming to increase the number of data scientists working throughout the Hitachi Group to at least 3,000 by fiscal 2021, we have

## Promoting Basic Research to Resolve Societal Issues

Communicating a vision for the future and creating disruptive technologies are both essential to resolving societal issues. Hitachi has established joint R&D centers with the University of Tokyo, Kyoto University, and Hokkaido University to develop visions to support realization of the “Society 5.0” concept. The laboratories established with these three institutions are focusing on different topics, namely urban planning and energy (Hitachi University of Tokyo Lab), issues facing society in 2050 (Hitachi Kyoto University Lab), and regional issues and food/health (Hitachi Hokkaido University Lab). Each lab is also responsible for related global communications. We are working to identify practical research topics within these initiatives, and converting research findings as a major source of potential business opportunities. Efforts to create disruptive technologies include a project to develop quantum computing with UK-based Cambridge University, and a regenerative medicine project based at the Kobe Biomedical Innovation Cluster. I see these initiatives helping to lay the foundation for Hitachi’s new businesses of the future.

Besides patent activities to reinforce product businesses, we are promoting novel intellectual property (IP) activities to support ecosystem construction. Our IP programs are incorporating data and other information assets to help

Utilization of a blockchain platform to digitize order-related information from customers to suppliers can improve the operational efficiency of procurement and inventory management, while also facilitating faster decisions by the financial institutions relating to aspects such as settlement and funding. By focusing on growth domains and societal issues across global regions, we are helping to expand the Social Innovation Business-related collaborative creation.

instituted a training program and established the Professional Community to support top-class researchers and practitioners from every field. In this online community initiative, the R&D Group plays a major role in driving the continued evolution of core technology development and value creation.

In addition to internal efforts to strengthen human capital, we are investing in the development of technology platforms through an open innovation R&D consortium, based on collaboration with research institutions, academia, open community partners, and start-ups both in Japan and overseas. Through our open community initiatives, we are actively involved in open-source projects and a consortium in fields such as blockchain and edge computing, and have also joined Hyperledger, a project sponsored by the Linux Foundation as well as the Edgex consortium. Through Geodesic Capital, a venture capital firm in which Hitachi owns an equity stake, we are also promoting collaboration with start-up ventures. We are accelerating the creation of world-leading technologies through such activities and initiatives.

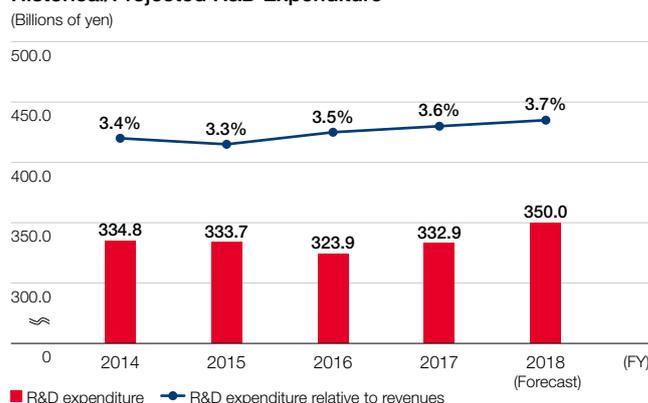
accelerate the development of digital solution businesses based on AI, analytics, and other digital platform technologies.

Through these R&D activities, I am confident that we will contribute to the growth of Hitachi and the SDG No.17 target “Partnership for the goals.”

### SDG Focus



### Historical/Projected R&D Expenditure



# Engaging in Responsible Procurement

In seeking to be a company that continually fulfills its social responsibility throughout the value chain, Hitachi strictly adheres to laws and regulations and acts in a moral and fair manner with all its business partners.

## Promoting CSR Procurement

### Creating and Sharing Procurement Policies

We base our procurement activities on the *Hitachi Guidelines for Procurement Activities*, while sharing global supply chain issues within the Group. All Group companies follow these guidelines. The guidelines were created in line with the United Nations Global Compact and include the elimination of discrimination in employment and occupation, the rejection of all forms of child and forced labor, and environmental protection activities. Suppliers are selected strictly in accordance with the *Hitachi Guidelines for Procurement Activities*.

A fully revised version of the *Hitachi Group CSR Procurement Guidelines* was released in fiscal 2016. This revision incorporates the provisions of the Hitachi Group Codes of Conduct and also makes references to version 5.1 of the Responsible Business Alliance (RBA, formerly called EICC) Code of Conduct, promulgated in January 2016. To ensure that the guidelines' provisions are strictly followed, we distribute the *Guidelines*

to the approximately 30,000 suppliers of Hitachi business units and Group companies, from whom we request acknowledgment of suppliers' understanding in writing. Tier 1 suppliers are further asked to confirm that tier 2 suppliers also follow the provisions in the guidelines.

We plan to revise these guidelines regularly in the future to ensure that they always reflect the demands of global society regarding corporate supply chain management.

**Guidelines for Procurement Activities:**

[http://www.hitachi.com/procurement/policy/\\_icsFiles/afiedfile/2018/06/07/guidelines.pdf](http://www.hitachi.com/procurement/policy/_icsFiles/afiedfile/2018/06/07/guidelines.pdf)

**CSR/Green Procurement:**

<http://www.hitachi.com/procurement/csr/green/index.html>

### Implementation of CSR Monitoring and Audits

To monitor how well Hitachi's CSR supply chain management philosophy has been adopted by our suppliers, since fiscal 2007 we have asked key suppliers to conduct CSR Monitoring (self-checks) using the *JEITA Supply Chain CSR Deployment Guidebook* and detailed checklists. After collecting and analyzing the results, we provide feedback for the business operations related to the suppliers, and then work with those involved in the operations to resolve issues related to the suppliers.

In fiscal 2017, we asked 131 suppliers inside and outside Japan to conduct CSR Monitoring and received survey replies from them. From fiscal 2017, all checklists were fully updated in accordance with the revisions made to the *Hitachi Group CSR Procurement Guidelines*. Based on the results of the survey, we have identified problematic labor-related trends, and we will promote measures to address such issues going forward.

Since July 2012, Hitachi, Ltd. has been auditing the manufacturing bases of its and Group companies' suppliers in China and the rest of Asia. In fiscal 2017, we conducted CSR audits of 18 suppliers. Our audits are based on the international SA8000 certification standard developed by Social

Accountability International (SAI), an American CSR evaluation institution. An RBA-recognized auditor checks suppliers' CSR initiatives from the perspectives of labor and human rights, health and safety, the environment, and ethics. No major infringements were found at the 18 suppliers audited in fiscal 2017, but some small areas needing improvement were noted, such as overtime work exceeding stipulated rules (14 suppliers), failure to conduct periodic inspections of machinery and equipment (12), and insufficient management of hazardous waste (7). The relevant suppliers were requested to submit improvement action plans, and Hitachi, Ltd., together with Group companies, will work with and advise the suppliers until they complete the planned improvements.



**We hope to contribute to the development of sustainable consumption and production patterns within society by addressing societal issues within our value chain.**

### Number of CSR Audits



## Respect for Human Rights

### Human Rights Due Diligence in Procurement

Our pledge under the Hitachi Group Human Rights Policy is to develop human rights due diligence mechanisms and implement them on an ongoing basis. Based on the results of the pilot programs undertaken with certain entities in fiscal 2014 across six countries in the ASEAN region under this policy, we have formulated a set of written guidelines for implementing human rights due diligence in collaboration with the US-based NPO Shift\*.

In fiscal 2015, we initiated human rights due diligence in the procurement divisions, whose activities are at risk of negatively impacting the human rights of workers in the supply chain and local communities. In fiscal 2017, we completely revised the questions on the check sheet used in supplier CSR monitoring (self-checks) to better grasp the issues related to workers' rights at suppliers, as well as health and safety and the environment. We also visited one of our suppliers in Malaysia with members of the US nonprofit organization BSR (Business for Social Responsibility) to conduct an assessment on migrant workers, who are socially vulnerable and often said to be exploited by forced labor. The assessment was based on interviews with managers of human resources and production divisions, recruitment agencies, and migrant workers, along with inspection of the factories and dormitories.

### Response to the Conflict Minerals Issue

The policy for procurement departments of Hitachi has always been and will continue to be to ensure that procurement activities do not result or aid in conflicts within the same region and that the armed groups described above do not benefit from those activities, while continuing responsible procurement activities of minerals that are not related to the conflicts in the region based on local laws. At the same time, we will continue to support the practice of due diligence based on the "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" among companies. With these in mind, Hitachi Group would like to request all of our suppliers to utilize the Conflict

Fiscal 2016 also saw the launch of human rights due diligence for human resources divisions at Hitachi. The operations in those divisions touch on many issues connected to human rights for employees, including working hours, employee treatment, and health and safety. Human rights risks for employees were assessed and prioritized, and mitigation strategies were explored. They also investigated grievance mechanisms, analyzing existing procedures and exploring ideas for improvement. Going forward, Hitachi will further promote human resources initiatives by its business units and Group companies.

Since fiscal 2014, Representative Executive Officer, President, and CEO Toshiaki Higashihara has sent an annual human rights message on Human Rights Day (December 10). In fiscal 2017, this was distributed via email to executives and employees at Hitachi, Ltd. and Group companies worldwide.

\* John Ruggie, former Special Representative of the Secretary-General on business and human rights, founded this NPO with the team that drafted the *UN Guiding Principles on Business and Human Rights*.

Hitachi Group Human Rights Policy:

[http://www.hitachi.com/sustainability/renew/pdf/human\\_rights\\_policy.pdf](http://www.hitachi.com/sustainability/renew/pdf/human_rights_policy.pdf)

Minerals Reporting Template developed by RBA/GeSI to continue checking the country of origin and supply chain of minerals, and also to procure from the CFS (Conflict Free Smelter)\* listed within.

\* A list of smelters who have been identified as "not being involved in the conflict within the same region" by the Responsible Minerals Initiative (RMI), an organization that was founded by the RBA/GeSI, which is a group that aims to solve the conflict minerals problem.

Hitachi Group Conflict Minerals Procurement Policy:

[http://www.hitachi.co.jp/procurement/csr/\\_icsFiles/afieldfile/2018/06/07/CM\\_PP\\_RE\\_E.pdf](http://www.hitachi.co.jp/procurement/csr/_icsFiles/afieldfile/2018/06/07/CM_PP_RE_E.pdf)



Respect for human rights is the foundation of all 17 SDGs. In working to achieve such goals, it is important that we mitigate any negative impacts related to human rights caused by our business activities throughout the value chain.

#### Distributed CEO's human rights message to

Fiscal 2015

Fiscal 2016

Fiscal 2017

Approx. 148,000 people

Approx. 156,000 people

Approx. 178,000 people

# Environment

In order to achieve its Environmental Vision, the Hitachi Group is actively working to reduce its overall environmental burden. To reduce its CO<sub>2</sub> emissions across its entire value chain, Hitachi aims to lower emissions not just at the production stage but also during use of sold products and services, which accounts for the vast majority of total emissions, by promoting low-carbon businesses.

## The Environmental Vision and Hitachi Environmental Innovation 2050

As climate change, resource depletion, ecosystem destruction, and other environmental issues grow more serious, companies face increasing demands and expectations to reduce the environmental burden of their business activities. The Paris Agreement, which came into force in 2016, sets ambitious targets, including a global long-term target of keeping global warming to below 2°C and efforts to limit the increase to 1.5°C. These targets are based on the *Fifth Assessment Report* of the Intergovernmental Panel on Climate Change (IPCC). Environmental targets have also been set in the Sustainable Development Goals (SDGs)—the centerpiece of the 2030 Agenda for Sustainable Development, adopted by the United Nations in 2015—whose Goal 13 reads: “Take urgent action to combat climate change and its impacts.”

In the light of these global demands and our own management policy, we created an Environmental Vision clearly stating our aim to both improve the quality of life and achieve a sustainable society from a long-term perspective, as well as to achieve a low-carbon society, a resource efficient society, and a harmonized society with nature by promoting environmental management. Looking toward 2030 and 2050, we also established long-term environmental targets called Hitachi Environmental Innovation 2050 that demonstrates our resolve to achieve the kinds of societies outlined in our Environmental Vision.

Our environmental strategy, centered on the Environmental Vision and our long-term environmental targets, is deliberated by the Executive Sustainability Committee, chaired by the President & CEO, and advanced by the Hitachi Group as a whole.

### Achieving a Low-Carbon Society

Hitachi has established a goal of reducing CO<sub>2</sub> emissions throughout its value chain by 50% by fiscal 2030 and 80% by fiscal 2050 (compared to fiscal 2010 levels).

A significant share of the CO<sub>2</sub> emissions from our value chain arises from the use of our products and services by our customers. To reduce these emissions and combat climate change, we are expanding our low-carbon businesses as outlined below.

We are also improving the environmental performance of products and services across the entire Hitachi Group to help address environmental challenges through the development and popularization of products and services with high environmental value. To track our progress, we use the reduction rate per product and service function of CO<sub>2</sub> emissions during usage as our index. At the same time, we continue to promote

**Environmental Vision**

**Hitachi will resolve environmental issues and achieve both a higher quality of life and a sustainable society through its Social Innovation Business in collaborative creation with its stakeholders.**

The aim of Hitachi's environmental management



**Low-Carbon Society**  
Climate Change Mitigation/Adaptation



**Resource Efficient Society**  
Saving and Recycling Resources



**Harmonized Society with Nature**  
Preservation of Ecosystems

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**Long-term Environmental Targets**

Hitachi's resolution looking toward 2050 and 2030

**Hitachi Environmental Innovation 2050**

**For a low-carbon society**

Through the value chain CO<sub>2</sub> emissions

FY 2050  
**80%** reduction

FY 2030  
**50%** reduction  
(compared to FY 2010)



**For a resource efficient society**

Build a society that uses water and other resources efficiently with customers and society

Efficiency in use of water/resources  
FY 2050  
**50%** improvement  
(compared to FY 2010 in the Hitachi Group)



**For a harmonized society with nature**

Impact on natural capital

**Minimized**



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**Environmental Action Plan**

**Set environmental action items and targets every 3 years in order to achieve the long-term targets**

environmentally conscious design of products and services at the design and development stage.

In addition, we remain focused on cutting direct emissions by the Hitachi Group during production by enhancing the efficiency of our factories and offices, advancing energy-saving measures, and introducing the use of renewable energy.

⌚ Please refer to the *Hitachi Sustainability Report 2018* for further details.

### Ratio of CO<sub>2</sub> Emissions at Each Stage of Hitachi Value Chain



## Responding to Climate Change Through Growth in “Low-Carbon Businesses”

As part of its efforts to address challenges posed by climate change, Hitachi is combining the strengths of its business units and Group companies through digital solutions built on the Lumada platform, and expanding its low-carbon businesses through co-creation with customers and partners.

To help achieve low-carbon energy supplies, we offer wind and other non-fossil energy systems. We also promote improvements in power distribution efficiency via the use of smart grids and related technology. To realize low-carbon spaces, we are striving to make buildings more efficient

through total solutions and reduce the energy requirements of factories via smart manufacturing. Through the development of more efficient railway systems and the promotion of increased adoption of automotive electric powertrains, we are providing highly efficient transportation methods in order to achieve low-carbon mobility. Our amorphous transformers and other low-carbon products contribute to increasing efficiency and reducing emissions throughout society. In these and many other ways, we are helping to realize a low-carbon society and promoting measures to address climate change.

### Low-Carbon Businesses: A Hitachi Focus

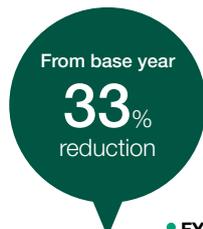
Achieving Low-Carbon Energy Supplies	Achieving Low-Carbon Spaces	Achieving Low-Carbon Mobility	Low-Carbon Products
<ul style="list-style-type: none"> <li>■ Non-fossil energy systems                             <ul style="list-style-type: none"> <li>• Wind energy systems</li> </ul> </li> <li>■ Smart grids                             <ul style="list-style-type: none"> <li>• Distributed power supply solutions</li> <li>• Energy management</li> </ul> </li> </ul>  <p>Wind energy systems</p>	<ul style="list-style-type: none"> <li>■ Offices                             <ul style="list-style-type: none"> <li>• Total solutions for buildings</li> <li>• Elevators</li> <li>• Escalators</li> </ul> </li> <li>■ Factories                             <ul style="list-style-type: none"> <li>• Smart manufacturing</li> </ul> </li> <li>■ Smart life &amp; ecofriendly systems                             <ul style="list-style-type: none"> <li>• Smart life business</li> <li>• Home appliances</li> </ul> </li> </ul>  <p>Elevators      Escalators</p>	<ul style="list-style-type: none"> <li>■ Railways                             <ul style="list-style-type: none"> <li>• Operation management/railway information systems</li> <li>• Rolling stock</li> </ul> </li> <li>■ Automobiles                             <ul style="list-style-type: none"> <li>• Electric powertrain systems (Storage batteries, motors, inverters, etc.)</li> <li>• Automobile components</li> </ul> </li> </ul>  <p>Rolling stock</p>	<ul style="list-style-type: none"> <li>■ Industrial equipment                             <ul style="list-style-type: none"> <li>• Amorphous transformers</li> <li>• Air compressors</li> <li>• Motors</li> </ul> </li> <li>■ High functional materials &amp; components                             <ul style="list-style-type: none"> <li>• Amorphous metal materials for transformers</li> <li>• Rare earth magnets</li> </ul> </li> </ul>  <p>Amorphous transformers</p>
Digital Solutions Built on Lumada Platform			

### SDG Focus



Hitachi promotes initiatives to minimize environment-related risks, principally climate change, and contribute to resolving environmental issues.

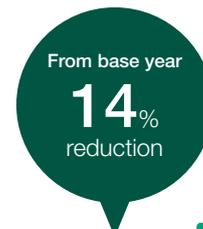
#### • Rate of Reduction in CO<sub>2</sub> Emissions from Use of Products and Services (Hitachi Group)



• **FY2010 (base year)**  $\frac{\text{CO}_2 \text{ emissions}}{\text{Function size}^*} = 100\%$ 
→
 • **FY2017**  $\frac{\text{CO}_2 \text{ emissions}}{\text{Function size}} = 67\%$

\* Major functions of products correlated to CO<sub>2</sub> emissions.

#### • Reduction in Per-Unit Energy Use by Factories and Offices (Hitachi Group)



• **FY2005 (base year)**  $\frac{\text{Energy used } 2.06 \text{ GL}^{*1}}{\text{Activity amount}^{*2}} = 100\%$ 
→
 • **FY2017**  $\frac{\text{Energy used } 2.00 \text{ GL}}{\text{Activity amount}} = 86\%$

\*1 Energy volume used both in and outside the organization (Scope 1 and 2).  
\*2 A value closely related to energy use at each business site (for example, production quantity, output, building floor space, and number of employees).

# Risk Management

## Advancing Risk Management on Multiple Fronts

Changes to our operating environment from such factors as the globalization of the economy and advances in and spread of information and communications technology (ICT) lead not only to the expansion of business opportunities but also to the diversification of risks to our operations.

We have built a diverse risk management system under which we carry out risk analysis to accurately gauge ongoing economic and social changes and use the insights gained to take preventive measures and ensure a rapid response to issues that may arise unexpectedly. Particularly in recent years, as a company deeply involved in infrastructure projects in countries and regions around the world, we take note of the discussions at meetings like the World Economic Forum on such international risks as the unending series of terrorist attacks, the increasing severity of abnormal weather conditions, global-scale climate change, and the growing scale and sophistication of cyberattacks. We are reinforcing business continuity plans (BCPs) and further tightening our information security to ensure the stable supply of our products and services and to prevent threats to our networks that could severely disrupt business operations. We will continue to reinforce our risk management on a Group-wide basis and make thoroughgoing efforts to minimize risks to society from our operations.

## Reinforcement of Risk Management System

The entire Hitachi Group is reinforcing its risk management system to address increasingly globalized and complex risks. Under the head of risk management at Hitachi, Ltd., each business operation assigns an executive as its risk management officer to manage risks mainly concerned with compliance, export control, disasters, and crime, and to respond adequately in coordination among the entire Group. Furthermore, Hitachi is building a comprehensive risk management system that contains standards and procedures to objectively evaluate different risks that may affect business.

## Risk Factors

We conduct business on a global scale across a broad range of business areas and utilize sophisticated, specialized technologies to carry out our operations. Therefore, we are exposed to risks attributable to the economic environment, risks inherent in individual industrial sectors and business lines, and risks related to our operations. Investment in our securities also involves risks. The following risks are based on the assumptions we consider reasonable as of the date this report was issued.

- Economic Trends
- Currency Exchange Rates Fluctuations
- Access to Liquidity and Long-term Financing
- Marketable Securities Risks
- Material and Component Procurement
- Estimates, Fluctuations in Cost and Cancellation of Long-term Contracts
- Credit Risks Arising from Business Transactions
- Supply and Demand Balance
- Rapid Technological Innovation
- Dependence on Specially Skilled Personnel
- Intense Competition
- Our Strategy to Strengthen Our Social Innovation Business
- Acquisitions, Joint Ventures, and Strategic Alliances
- Restructuring of Our Business
- Worsening of Business Performance of Equity-method Associates and Joint Ventures,
- Our Overseas Growth Strategies
- Overhaul of Cost Structure
- Intellectual Property
- Litigation and Regulatory Investigations
- Product Quality and Liability
- Significant Disasters and Similar Events
- Dependence on Information Systems
- Management of Confidential Information
- Employee Retirement Benefits
- Dilution of Your Shares by Issuances of Additional Shares

Please refer to the Company's annual securities report for the fiscal year ended March 31, 2018 for details of business and other risks.

<http://www.hitachi.com/IR-e/library/stock/index.html>

## Stable Provision of Products and Services

### Creating BCPs in Key Operations Worldwide

Given the close relation of our business to social infrastructure, we are enhancing our business continuity plans (BCPs) to ensure that the impact of risks does not disrupt our business and thereby significantly affect society. In December 2006, we issued the *Hitachi Group Guidelines for Developing Business Continuity Plans (Overview)* in Japanese. In fiscal 2010 this was translated into English and Chinese for distribution to all Hitachi Group companies worldwide to ensure our response readiness for large disasters and other risks.

When the Great East Japan Earthquake struck in March 2011, our BCPs enabled quick responses and swift decision making. However, issues emerged, including identification of secondary and other suppliers, cloud storage and multiplexing of production information, and the need to secure alternate transportation and fuel sources. Based on the lessons learned from this disaster, in October 2011 we released and distributed new versions of the *Hitachi Group Guidelines for Developing Business Continuity Plans* for individual departments to further improve our BCPs.

By the end of fiscal 2011, Hitachi Group operations in Japan had completed their preparation and review of BCPs for both large earthquakes and novel strains of influenza as appropriate to their operations.

On top of these efforts, Hitachi, Ltd. has held annual earthquake drills simulating a major seismic event at key operations in Japan since fiscal 1998. In March 2018, we held initial response drills at our headquarters under the direction of our head office general manager simulating a large earthquake in the Tokyo area, striving to promote understanding of each department's role and strengthen cooperation among departments.

As part of countermeasures against large earthquakes striking the Tokyo metropolitan area, in December 2017 we developed action plans including setting up substitute headquarters in the Kansai region in case our Tokyo headquarters cease to function temporarily due to such earthquakes.

Hitachi appointed personnel with responsibility for risk-response policies at its main overseas bases in fiscal 2013. By the end of that year, approximately 300 companies prepared BCPs with the goal of completing them for key operations. These BCPs are aimed at strengthening our ability to respond to business risks, including large disasters, novel strains of influenza, political instability, and social disruption, as well as acts of terrorism. Moving forward, we intend to further expand the scope of our BCPs.

### Creation of Procurement BCPs

We have a deep involvement in social infrastructures in places where the suppliers who are our business partners can be affected by major earthquakes and other natural disasters. These disasters can heavily impact not only our business operations and those of our suppliers but also society as a whole. To minimize this impact, the procurement divisions in business units and key Group companies in Japan have created procurement BCPs that (1) standardize and use generic parts to make procurement as flexible as possible; (2) cultivate multiple suppliers; (3) distribute production across several locations; (4) budget inventory strategically; and (5) consider substitute products. To see whether or not procurement BCPs would be effective, we held desktop exercises to discuss in a group what should be done during and after a disaster, making further improvements as a result.

In fiscal 2017, all major Group business sites with production lines (approximately 208 sites in total) took steps to maintain and strengthen the procurement BCPs they had created by the previous fiscal year, thereby contributing to the continuation of Hitachi's global operations.

### Improving Safety for Employees Sent to Dangerous Regions

Responding to the hostage incident in Algeria in January 2013, then President Hiroaki Nakanishi reinforced his policy in February 2013 of ensuring the safety of employees sent to countries and areas at higher risk. Survey missions of in-house and outside experts are now sent beforehand to areas at high risk of war, terrorism, and other threats. Even after employees are dispatched to such areas, we conduct additional local surveys every six months as a means of confirming the effectiveness of our safety policies. In fiscal 2017, with the threat of terrorism expanding around the world and infectious diseases spreading regionally, we introduced a range of safety measures, including providing timely alerts to employees. This underscores our commitment to ensuring the safety of our employees working around the globe.

Hitachi is also contributing to safety measures at other Japanese corporations operating outside Japan. To help enhance collaboration between the private and public sectors in this area, Hitachi executives participated in the Council for Public-Private Cooperation for Overseas Safety organized by Japan's Ministry of Foreign Affairs. Since 2014 Hitachi has taken part in public-private kidnap incident preparatory training exercises.

## Promoting Information Security

### Information Security Policies

The increased connections between things due to development of IoT are creating new value. At the same time, increasingly creative cyberattacks are widening their focus from traditional IT to include the IoT/OT field. Managing information security risks is one of the most critical issues for companies to minimize the risk of business disruption due to factors such as leaks of information or operational stoppages.

The development of the Social Innovation Business has highlighted for Hitachi the vital importance of information security governance as a key management issue. The Japan Business Federation's Declaration of Cyber Security Management that was published in March 2018 also placed emphasis on cyber security measures as a critical management challenge from the aspects of both value creation and risk management. Hitachi approaches the issue of information security governance based on the same concept.

### Information Security Set-up

At Hitachi, Ltd. the senior executive with ultimate authority and responsibility regarding the handling of information security and personal privacy issues is appointed by the President & CEO. Previously, the CIO\*1 oversaw information security.

In October 2017, in a move aimed at upgrading the governance of information security for the Group and to centralize the promotion of related measures, Hitachi established a new position of CISO\*2 to oversee promotion of information security for all Hitachi products and internal facilities. In fiscal 2017, the CISO role was performed by an executive vice president.

Chaired by the CISO, the Information Security Committee determines all policies and procedures for information security and personal information protection. These decisions are conveyed to all Hitachi Group business sites and companies, and are implemented by the relevant information security officers.

\*1 CIO: Chief Information Officer

\*2 CISO: Chief Information Security Officer

### Information Security Management

#### Global Information Security Management

Hitachi Group companies worldwide reinforce their information security in line with our Global Information Security Administration Rules, which conform to the international ISO/IEC 27001 standard. These rules are globally distributed from the parent company in Japan to Group companies worldwide. Other measures include the provision of shared security services and related support for information security by the regional headquarters in the Americas, Europe, Southeast Asia, China, and India.

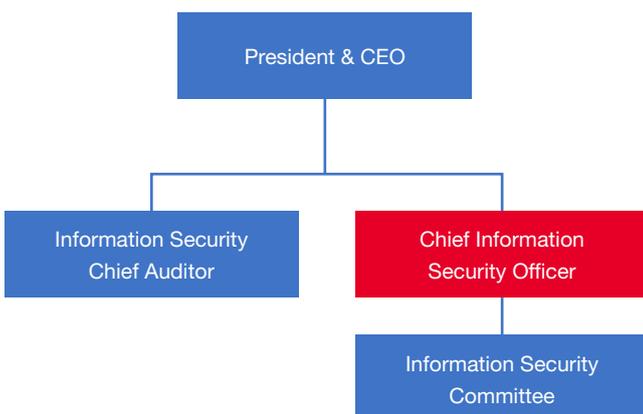
#### Security Monitoring

In Hitachi, the SOC\*1 monitors security on a 24/7 basis so cyberattacks can be detected and countermeasures initiated right away. The IRT\*2 collects and develops security-related data and manages the response to any security incidents.

\*1 SOC: Security Operation Center

\*2 IRT: Incident Response Team

### Information Security Promotion Set-up



Overseen by CIO until September 2017  
CISO position created in October 2017

## Preventing Confidential Information Leaks

Hitachi, Ltd. has formulated the Three Principles for Preventing Leakage of Confidential Information to ensure the utmost care is taken with such information and to prevent any leaks or other related incidents.

### Three Principles for Preventing Leakage of Confidential Information

- Principle 1 In principal, no Confidential Information shall be taken out of the Company's premises.
- Principle 2 Any person taking Confidential Information out of the Company's premises due to business necessity shall obtain prior approval from the Information Assets Manager.
- Principle 3 Any person taking Confidential Information out of the Company's premises due to business necessity shall put in place relevant and appropriate measures against information leakage.

Hitachi Group companies take the following IT steps to prevent information leaks: using encryption software and secure PCs; employing electronic document access control and expiration processing software; maintaining ID management and access control by building an authentication infrastructure; and filtering e-mail and visited websites. In response to cyber-attacks, we are creating multilayered controls to prevent leaks of information, including both entry and exit countermeasures.

We also review and investigate the information security status of suppliers based on our internal standards.

## Protecting Personal Information

Hitachi, Ltd. has established a personal information protection management system based on the Company's own Personal Information Protection Policy. Hitachi, Ltd. and 44 other Hitachi Group companies\* in Japan have received Privacy Mark accreditation.

No customer complaints or claims were received by Hitachi during fiscal 2017 relating to a breach of privacy or loss of data.

As shown by the EU's enforcement of the General Data Protection Regulation (GDPR) in May 2018, consumer privacy laws and regulations are evolving on a global basis. Hitachi is committed to monitoring these trends and taking any appropriate related measures.

\* As of May 31, 2018

## Information Security Audits

The Hitachi Group has developed its approach to security based on the "plan-do-check-act" (PDCA) cycle for its information security management system. We conduct annual information security and personal information protection audits at all Group companies and business units.

Information security audits are carried out by the Information Security Chief Auditor, an independent appointee by the president of Hitachi, Ltd. There are 221 Hitachi Group companies in Japan that conduct audits in the same way as Hitachi, Ltd., and all results are subject to review. For Hitachi Group companies outside Japan, we use a "common global self-check" approach.

An annual review of Personal Information Protection and Information Security Management is conducted as part of the voluntary inspection of business unit workplaces. We conduct monthly Confirmation of Personal Information Protection and Information Security Management assessments at 693 operations (as of March 2018) that handle important personal information. This regular control mechanism ensures ample safety management and implementation.

## Education on Information Security

Annual e-learning programs are held on information security and personal information protection for all directors, employees, and temporary employees. Nearly all of the roughly 40,000 employees of Hitachi, Ltd. participate in these programs. We also offer varied educational courses on information security with different goals tailored to specific target audiences. In 2012, we began simulation training to educate employees about e-mail phishing and other targeted malicious cyberattacks. In the exercise, employees are sent actual examples of malicious e-mails to heighten their awareness of security through direct experience.

## Cybersecurity: A Key Management Issue

Damage was caused to some Hitachi systems in May 2017 following an infection with WannaCry ransomware<sup>\*1</sup>. Treating this as a management issue, Hitachi is reinforcing cybersecurity measures based on the lessons learned from this incident.

### Initial Response to Ransomware Infection

The incident originated around 10 PM JST on May 12, 2017, when systems inside a datacenter began operating unreliably. An investigation for suspected systems failure proceeded, but it was not known at this initial stage that the cause was infection due to a software virus. Once ransomware infection was confirmed about an hour later, the information was reported promptly to the internal Incident Response Team (IRT) and work began to characterize the attack and assess related damage.

Shortly after 1 AM JST on May 13, the IRT concluded from its initial assessment that the incident was due to infection by WannaCry ransomware. This was reported to management, and countermeasures were initiated to prevent more widespread damage. Instructions for urgent countermeasures were developed for the entire Hitachi Group by around 5 AM JST. An Emergency Response Center was set up at Hitachi's head office at 9 AM JST. Work began to assess and repair the damage to systems, and to analyze the route of infection.

### Lessons from the Incident

Hitachi drew four lessons from the response to this ransomware infection incident.

First was the threat from cyberattacks that diffuse rapidly within a network. Equipment connected to the company intranet includes not only PCs, servers, and other office equipment, but also equipment used in product development, production facilities, and other OT equipment. In this case, damage spread due to rapid diffusion over the intranet after the virus had infected weak links in the security chain, including office equipment not automatically updated with security patches<sup>\*2</sup> as well as OT equipment that would not ordinarily be updated in this way.

The second lesson was the importance of thorough security measures for servers and other office equipment. The systems that were damaged by the infection were ones where security patches had not been installed in a timely manner because system operation precluded their necessary shutdown.

The third lesson related to the difficulties involved in security measures for OT equipment, which in many cases had been designed without considering the need to install security patches or undertake post-installation system updates.

The fourth lesson concerned the need to upgrade business continuity planning to combat the threat from cyberattacks. As with a natural disaster, the assumption with ransomware and other cyberattacks must be that there is no absolute safety, and the approach in an emergency should be to contain the damage and focus on how quickly operations can be restored. The BCPs must envision worst-case scenarios and stipulate related procedures and training so that frontline personnel are better prepared.

Besides the various technical aspects, the management response to this kind of issue must include a comprehensive risk assessment and related decision-making from a business continuity perspective.

The threats in the information security sphere continue to grow year after year, with increasingly sophisticated cyberattacks supplementing problems due to human error, internal misconduct, and changing business conditions, among other factors. The business impact when these incidents occur is significant. Going forward, viewing information security as a critical management issue, Hitachi will seek to reinforce cybersecurity measures and improve systems durability while maintaining an appropriate balance with organizational, misconduct, and system-related factors.

<sup>\*1</sup> Ransomware is a type of software virus that places restrictions on an infected computer before demanding monetary compensation in exchange for lifting these restrictions.

<sup>\*2</sup> Security patches are programs designed to rectify any faults or weaknesses that are discovered in computing software.

## Engaging with Climate-Related Risks and Opportunities

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Hitachi sees climate change risks and opportunities as important management issues. One governance mechanism that we established to address such risks and opportunities is the Executive Sustainability Committee, chaired by Hitachi's President & CEO, with other top executives serving as committee members. The committee develops business strategies to minimize risks and maximize opportunities from climate change in line with relevant global regulations and policy trends.

In 2017, the Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board in response to a request from the G20 Meeting of Finance Ministers and Central Bank Governors, published its recommendations seeking corporate disclosures of information about climate-related risks and opportunities. In June 2018, Hitachi announced its endorsement of the TCFD and is preparing its information disclosure based on its recommendations. As regards climate-related risks and opportunities, Hitachi is reviewing its risks in two categories, namely, (1) risks related to the transition to a low-carbon economy, and (2) risks related to the physical impact of climate change in accordance with the categories outlined in the new global TCFD recommendations. In terms of opportunities, we are positioning our contributions to the creation of a low-carbon society through enhanced energy-saving features of our products and services as a major opportunity, and are discussing how we can further expand it.

### Risks in Transitioning to a Low-Carbon Economy Policy and Legal

Carbon taxes, energy consumption taxes, emissions trading systems, and other measures may be newly introduced or further strengthened, representing risks impacting directly on management costs in addition to those incurred in complying with the environmental regulations and policies of countries and regions around the world.

To mitigate such risks, we have been reducing or minimizing cost burdens by enhancing production efficiency and introducing energy-saving measures. In fiscal 2017, our energy-saving investments totaled approximately 5.4 billion yen. Should our products fail to meet energy-efficiency standards and regulations, we will risk losing sales opportunities. In addition to strictly complying with existing standards and regulations, we will always endeavor to keep abreast of trends in laws and regulations and participate in the planning of new policies.

### Technology

To reduce CO<sub>2</sub> emissions caused by the use of our products and services by our customers, which make up a significant share of emissions in the value chain, we need new technology to achieve further energy-saving in our products and services.

Therefore, by applying Environmentally Conscious Design Assessments in the design and development stages of Hitachi products and services, we assess various environmental aspects at each stage of the product life cycle and strive to minimize environmental impact. In addition, by combining Hitachi's longstanding expertise in a wide range of social infrastructure technologies with OT (operational technology) and IT, we can provide optimal solutions that lead to the creation of new business opportunities.

### Market and Reputation

A company's approach to climate change issues influences stakeholders' evaluations, and changes to market values, such as placing great importance on climate change countermeasures, affects customers' choices of products and services. This may pose a risk to business continuity. Hitachi upholds long-term environmental targets of reducing CO<sub>2</sub> emissions throughout its value chain by 50% in fiscal 2030 and 80% in fiscal 2050 compared to fiscal 2010 levels. Measures to attain these goals include investing in new facilities and equipment with higher energy efficiency and targeting greater efficiency in production through digitalization.

### Risks Related to the Physical Impacts of Climate Change

#### Acute and Chronic

Climate-related physical risks include acute risks, such as increased severity of typhoons and floods, and chronic risks, including climate patterns that may cause the sea level to rise and chronic heat waves. Hitachi has a worldwide business presence and believes that disasters due to weather phenomena attributed to climate change, such as increasingly bigger typhoons and torrential rainfall, pose a risk to business continuity.

In order to minimize these risks, we take into consideration such factors as location and the possibility of damage from flooding when setting up a new plant or deciding on the deployment of equipment. We also use the *Hitachi Group Guidelines for Developing Business Continuity Plans* that outline measures to be taken in times of disaster to mitigate risks.

## Climate-Related Opportunities

### Resource Efficiency

Hitachi is promoting the efficient use of resources by reducing waste, recycling, and undertaking other measures. Also, for the efficient and sustainable use of natural resources, we are promoting efforts to minimize the amount of natural resources we use through improvements in production processes and resource-conserving designs.

### Energy Source

Hitachi proactively uses renewable energy for our factories and offices. In our factories, we are able to efficiently use the electricity supplied from photovoltaic power generation facilities, despite fluctuations in the amount of power generated, by monitoring and controlling energy usage on production lines and by using storage batteries. Also, we are promoting the adoption of renewable energy credits and the expanded deployment of internal carbon pricing and the self-consumption solar power generation. In our offices, too, we are enhancing the efficiency of lighting and air conditioning, as well as visualizing energy usage and optimizing the amount of energy used in the building as a whole through Building and Energy Management Systems (BEMS).\* In our business operations, we create new business opportunities, such as by actively providing renewable energy from wind power generation systems.

\* BEMS aim to optimize the internal environment of a building and its energy efficiency.

### Products, Services, and Markets

Products and services featuring innovative, energy-saving technology that can contribute to the mitigation and adaptation of climate change are viewed as having the potential to increase market value and revenue. Many of our products use energy, so we must enhance the efficiency of our products and services and facilitate low carbonization in order to contribute to resolving the issue of climate change. To this end, we are developing ultra-efficient products and low-carbon energy, as well as encouraging their use. We are also promoting the development of innovative devices and materials that contribute to reducing the environmental burden. In fiscal 2017, Hitachi's total investment in R&D was 332.9 billion yen, including sizable spending to reduce the environmental burden.

A company's approach to climate change issues influences stakeholders' evaluations and affects customers' choice of products and services. Hitachi not only meets the required standards and regulations for the energy efficiency of its products, but also develops and provides energy-saving products and services that go beyond the prescribed standards, thereby increasing opportunities to be chosen by customers.

### Resilience

We have devised a plan for vital functions to be maintained through the use of renewable energy and storage batteries if a power outage occurs in any of Hitachi's main factories.

In our business operations, we are providing disaster-prevention solutions to help various countries and regions deal with the rise in natural disasters. Hitachi uses sophisticated IT developed over the years to analyze and evaluate data pertaining to people's daily lives, meteorological and other natural trends, and the operation of social infrastructure, in promoting the provision of solutions conducive to responding to climate change.

# Compliance

**We carry out our business not only in full compliance with legal requirements but also in ways that ensure socially responsible conduct. Spreading understanding of this among all Hitachi employees is a fundamental management issue. As economic activity becomes increasingly borderless, there is a growing need for steps to eradicate bribery, corruption, and other illegal behavior while taking into consideration the characteristics of the countries and regions where we operate.**

**As a global company, we have put in place and expanded a coherent compliance structure across the entire Hitachi Group.**

## **Sharing Codes of Conduct and Compliance Approaches Throughout the Group**

### **Ensuring Awareness of the Hitachi Group Codes of Conduct**

Hitachi, Ltd. is a pioneer in developing business ethics. The company formulated the Hitachi, Ltd. Standards of Corporate Conduct in 1983, followed by the Hitachi Group Codes of Conduct in 2010 that the entire Group pledges to uphold. The Hitachi Group Codes of Conduct are available in 21 languages and shared among Hitachi Group employees throughout the world. In addition, an e-learning tool has been made available in Japanese and nine other languages, such as English and Chinese, showing appropriate behavior and presenting specific examples for use.

In April 2018, we revised the Hitachi Group Codes of Conduct based on our philosophy that corporate activities should meet the needs of the times, such as the SDGs, toward a sustainable society, human rights and building a work environment, and various types of crisis management.

**Hitachi Group Codes of Conduct**  
<http://www.hitachi.com/corporate/about/conduct/index.html>

### **Enhancing Our Compliance Framework**

In 2016, Hitachi reviewed compliance regulations and guidelines that had been set independently relating to such issues as competition law and the prevention of transactions with antisocial groups as well as bribery and corruption. These compliance regulations and guidelines have been reorganized into the Hitachi Global Compliance Program as a newly integrated system of rules under the Hitachi Group Codes of Conduct.

To implement this program, we have appointed a senior executive as the head of risk management for the entire Hitachi Group, to supervise management-level risk management executives from business units and key Group companies. Under this system, policies and measures are shared through the Compliance Management Conference, composed of these risk management executives. Each executive is assisted by a compliance manager who implements practical support measures.

Compliance heads have been appointed in 11 regions to support Group companies outside Japan, with responsibility for implementing education and sharing information as well as arranging consultation services with outside attorneys and other experts.

The internal audit section regularly conducts Group-wide reviews to verify compliance status across Group operations.

Composed of outside experts, the Advisory Committee has also been created to provide new compliance insights for proactive implementation within the Group.

### **Compliance Whistleblowing System**

Hitachi has instituted a Group-wide whistleblowing system under which reports go directly to the Company's Compliance Department or to an outside attorney. This system can be used not only by Hitachi employees, but also by temporary staff and business partners. Fiscal 2017 saw 360 reports throughout the Group. In each case, the relevant facts were investigated thoroughly and the results were provided to whoever made the initial report. Appropriate measures were taken, including remedial action where necessary. Going forward, we will continue to maintain and review the system, prioritizing the protection of whistleblowers.

In addition, we have implemented the Channel to the Board of Directors system to allow employees to directly report problems anonymously to Hitachi directors in cases where they see any illegality or extreme inappropriateness in business conduct by management.

### **Prevention of Antisocial Transactions**

To prevent any such relationships, our commitment never to engage in any kind of transactions with organized crime groups and other antisocial forces is laid out clearly in the Hitachi Group Codes of Conduct. As part of this policy stance, we insert antisocial force rejection clauses in our contracts with suppliers and business partners and conduct regular compliance checks. In addition, we try to eliminate any approaches from antisocial forces in partnership with the police and other external specialist institutions.

## Thorough Export Controls

The basis of our export control policy is the statement in the Hitachi Group Codes of Conduct that: “We will help maintain international peace and security through compliance with all applicable laws and regulations concerning import and export, and will operate appropriately based on internal rules and procedures.” We instituted the Corporate Regulations concerning Security Export Controls based on this policy to ensure strict export controls are maintained throughout the Hitachi Group, including all domestic and overseas Group companies.

At present, we host training sessions and workshops on export controls for all domestic and overseas Group companies, in addition to the annual implementation of an e-learning program in Japanese, English, and Chinese.

## Measures to Prevent Bribery and Corrupt Practices

In 2008, Hitachi established rules against bribery and corruption for the Hitachi Global Compliance Program, along with guidelines delineating specific spending thresholds for entertainment, gifts, and other arrangements. In 2016, we introduced a revised policy to explicitly forbid any facilitation payments for routine governmental action, and to clarify due diligence procedures for business partners. To ensure awareness of these rules and policies, we developed a global e-learning program on preventing bribery and corrupt practices, making it available in nine languages—including Japanese, English, and Chinese—for use by Group companies worldwide.

As the risks of bribery and corruption vary according to the nature of the business, the industry sector, the region of business, the counterparty, and other conditions, since fiscal 2013 Hitachi has conducted surveys of Group companies outside Japan (about 500 companies in fiscal 2017) concerning potential risk scenarios relating to bribery and corruption.

In fiscal 2017, there were no incidents in which Hitachi violated or was penalized under laws or regulations regarding bribery or corrupt practices.

## Preventing Violations of Fair Competition Laws

Hitachi engages in business based on the principles of conformance with the law and business ethics, and fair and open competition. For this reason, the Hitachi Global Compliance Program incorporates rules concerning competition law as well as related business standards and guidelines. In 2017, to enhance awareness of ethical principles and practices globally, we created a global version of our standards regarding contact with competitors based on the standards originally prepared for use in Japan.

Fiscal 2017 saw one incident where one of our Group companies was sanctioned and fined by the European Commission. This related to a cartel in the capacitor business that had already been identified by Japanese and US authorities

in 2016 and earlier. To prevent any recurrence, the Group company involved has already appointed a compliance head in each unit to conduct regular reviews of participating business associations and to promote education through sharing cases of violations within and outside Japan.

Eliminating competition law violations is among our top priorities for regaining trust. Going forward, we will continue our efforts to prevent such incidents recurring.

## Quality Assurance Initiatives

Based on the Corporate Mission of ‘contributing to society through the development of superior, original technology and products,’ Hitachi’s manufacturing ethos (monozukuri) places top priority on quality and reliability. To achieve this, we are working to strengthen quality assurance from the standpoints of organization and management, technology, and human resources in every process—from planning and development to design, manufacturing, delivery, and maintenance.

From fiscal 2016, to achieve the goals of our 2018 Mid-term Management Plan, we have been steadily working to improve service quality and product reliability, and to reduce losses arising from quality issues based on better quality management.

## Intensive Risk Assessment

Hitachi is committed to the delivery of safe products and services. We verify safety at every step, from development and production to sales and maintenance, and conduct risk assessments from a wide perspective in collaboration with related business units and research laboratories.

## Handling Product Accidents

When a product accident occurs, the division responsible acts swiftly to resolve the problem. For a severe accident, we report to government agencies in line with legal requirements and publish the incident information on our website and through other channels. Our systems are designed to ensure that appropriate action is taken swiftly at all companies throughout the Group.

## Global Quality Assurance Personnel Training in Asia

We undertake personnel training as part of maintaining Hitachi’s global quality standards. In China and Thailand, where many of the Group’s manufacturing sites are concentrated, we organize educational seminars aimed at improving our quality management technology. We also host conferences for quality assurance managers to raise quality awareness regarding Hitachi’s monozukuri craftsmanship, and to share information and best practices.

# Management System



## Independent Outside Directors\* As of June 30, 2018

### 01 Katsumi Ihara

2005 Executive Deputy President, Representative Corporate Executive Officer, Member of the Board, Sony Corporation  
 2009 Executive Deputy President, Corporate Executive, Sony Corporation  
 Executive Vice President, Representative Director, Sony Financial Holdings Inc.  
 2010 President, Representative Director, Sony Financial Holdings Inc.  
 2011 President, Representative Director, Sony Life Insurance Co., Ltd.  
 2015 Chairman, Director, Sony Life Insurance Co., Ltd. (Retired in June 2017)  
 2016 Chairman, Director, Sony Financial Holdings Inc. (Retired in June 2017)  
 2018 Director, Hitachi, Ltd.

### 02 Cynthia Carroll

1991 General Manager, Foil Products, Alcan Inc.  
 1996 Managing Director, Alughinish Alumina Ltd., Alcan Inc.  
 1998 President, Bauxite, Alumina and Speciality Chemicals, Alcan Inc.  
 2002 President & CEO, Primary Metal Group, Alcan Inc.  
 2007 CEO, Anglo American plc. (Retired in April 2013)  
 2013 Director, Hitachi, Ltd.

### 03 Joe Harlan

1999 Vice President and Chief Financial Officer, Lighting Business, General Electric Company (USA)  
 2001 Vice President, Corporate Financial Planning and Analysis, 3M Company (USA)  
 2002 President and Chief Executive Officer, Sumitomo 3M Ltd.  
 2004 Executive Vice President, Electro and Communications Business, 3M Company (USA)  
 2009 Executive Vice President, Consumer and Office Business, 3M Company (USA)  
 2011 Executive Vice President, Performance Materials, The Dow Chemical Company (USA)  
 2012 Executive Vice President, Chemicals, Energy and Performance Materials, The Dow Chemical Company (USA)  
 2014 Chief Commercial Officer and Vice Chairman, Market Business, The Dow Chemical Company (USA)  
 2015 Vice Chairman and Chief Commercial Officer, The Dow Chemical Company (USA) (Retired in August 2017)  
 2018 Director, Hitachi, Ltd.

### 04 George Buckley

1993 Chief Technology Officer, Motors, Drives and Appliances, Emerson Electric Company  
 1994 President, US Electrical Motors, Emerson Electric Company  
 1997 President, Mercury Marine Division and Corporate Vice President, Brunswick Corporation  
 2000 President and Chief Operating Officer, Brunswick Corporation, Chairman and Chief Executive Officer, Brunswick Corporation  
 2005 Chairman of the Board, President and Chief Executive Officer, 3M Company  
 2012 Executive Chairman of the Board, 3M Company (Retired in May 2012)  
 Chairman, Arle Capital Partners Limited (Retired in December 2015)  
 Director, Hitachi, Ltd.

### 05 Louise Pentland

1997 Admitted as a Solicitor (UK)  
 2001 Senior Legal Counsel, Nokia Networks, Nokia Corporation  
 2007 Vice President, Acting Chief Legal Officer and Head of IP Legal, Nokia Corporation  
 2008 Senior Vice President and Chief Legal Officer, Nokia Corporation  
 2009 Admitted to New York State Bar Association  
 2011 Executive Vice President and Chief Legal Officer, Nokia Corporation (Retired in May 2014)  
 2015 General Counsel, PayPal, eBay Inc. Director, Hitachi, Ltd.  
 Senior Vice President and Chief Legal Officer, PayPal Holdings, Inc.  
 2016 Executive Vice President, Chief Business Affairs and Legal Officer, PayPal Holdings, Inc. (currently in office)

### 06 Harufumi Mochizuki

Chair of the Nominating Committee  
 Chair of the Compensation Committee  
 2002 Director-General for Commerce and Distribution Policy, Minister's Secretariat,  
 Ministry of Economy, Trade and Industry of Japan ("METI")  
 2003 Director-General, Small and Medium Enterprise Agency, METI  
 2006 Director-General, Agency for Natural Resources and Energy, METI  
 2008 Vice-Minister of Economy, Trade and Industry of Japan  
 2010 Special Advisor to the Cabinet of Japan (Retired in September 2011)  
 Senior Advisor to the Board, Nippon Life Insurance Company (Retired in April 2013)  
 2012 Director, Hitachi, Ltd.  
 2013 President and Representative Director, Tokyo Small and Medium Business Investment & Consultation Co., Ltd. (Currently in office)

### 07 Takatoshi Yamamoto

1995 Managing Director, Morgan Stanley Japan Limited  
 1999 Managing Director and Vice Chairman, Tokyo Branch, Morgan Stanley Japan Limited  
 2005 Managing Director and Vice Chairman, UBS Securities Japan Co., Ltd.  
 2009 Managing Director, CASIO COMPUTER CO., LTD.  
 2011 Advisor, CASIO COMPUTER CO., LTD. (Retired in June 2012)  
 2016 Director, Hitachi, Ltd.

### 08 Hiroaki Yoshihara

Chair of the Audit Committee  
 1978 Joined Peat Marwick Mitchell & Co.  
 1996 National Managing Partner, the Pacific Rim Practice, KPMG LLP  
 1997 Board Member, KPMG LLP  
 2003 Vice Chairman and Global Managing Partner, KPMG International (Retired in April 2007)  
 2014 Director, Hitachi, Ltd.

\* As all of the outside directors meet the independence criteria defined by the Company and those provided by Japanese stock exchanges where the Company is listed, they are referred to as independent outside directors in this report.



**Directors** As of June 30, 2018

**09 Kazuyuki Tanaka**

1977 Joined Hitachi Chemical Company, Ltd.  
 2005 Executive Officer, Hitachi Chemical Company, Ltd.  
 2006 Senior Executive Director, Hitachi Media Electronics Co., Ltd.  
 Representative Director and President,  
 Hitachi Media Electronics Co., Ltd.  
 2008 Vice President and Executive Officer,  
 Hitachi Chemical Company, Ltd.  
 2009 Representative Executive Officer, President & Chief Executive Officer,  
 Hitachi Chemical Company, Ltd.  
 Director, Representative Executive Officer, President & Chief  
 Executive Officer, Hitachi Chemical Company, Ltd.  
 2016 Chairman of the Board, Hitachi Chemical Company, Ltd.  
 (Currently in office)  
 Director, Hitachi, Ltd.

**10 Hiroaki Nakanishi**

1970 Joined Hitachi, Ltd.  
 2003 Vice President and Executive Officer  
 2004 Senior Vice President and Executive Officer  
 2005 Chairman and Chief Executive Officer,  
 Hitachi Global Storage Technologies, Inc.  
 (Retired as CEO in March 2009)  
 2006 Executive Vice President and Executive Officer, Hitachi, Ltd.  
 (Retired in December 2006)  
 2009 Executive Vice President and Executive Officer, Hitachi, Ltd.  
 Chairman of the Board, Hitachi Global Storage Technologies, Inc.  
 (Retired in March 2010)  
 2010 President, Hitachi, Ltd., President and Director, Hitachi, Ltd.  
 2014 Chairman & CEO and Director, Hitachi, Ltd.  
 2016 Chairman of the Board and Representative Executive Officer,  
 Hitachi, Ltd.  
 2018 Chairman of the Board and Executive Officer, Hitachi, Ltd.

- Nominating Committee
- Audit Committee
- ▲ Compensation Committee
- ★ Representative Executive Officer

**11 Toyoaki Nakamura**

1975 Joined Hitachi, Ltd.  
 2006 General Manager, Finance Department  
 2007 Senior Vice President and Executive Officer  
 Senior Vice President, Executive Officer and Director  
 2009 Senior Vice President and Executive Officer  
 2012 Executive Vice President and Executive Officer  
 (Retired in March 2016)  
 2016 Director

**12 Toshiaki Higashihara**

1977 Joined Hitachi, Ltd.  
 2007 Vice President and Executive Officer (Retired in March 2008)  
 2008 President, Hitachi Power Europe GmbH  
 2010 President and Chief Executive Officer,  
 Hitachi Plant Technologies, Ltd.  
 President and Representative Director,  
 Hitachi Plant Technologies, Ltd.  
 2011 Vice President and Executive Officer, Hitachi, Ltd.  
 2013 Senior Vice President and Executive Officer, Hitachi, Ltd.  
 2014 President & COO, Hitachi, Ltd.  
 2015 President & COO and Director, Hitachi, Ltd.  
 2016 President & CEO and Director, Hitachi, Ltd.

Each Committee is composed of the following members (chair names underlined)

**Nominating Committee:**  
Harufumi Mochizuki, Cynthia Carroll, Hiroaki Yoshihara,  
Hiroaki Nakanishi

**Audit Committee:**  
Hiroaki Yoshihara, Katsumi Ihara, Harufumi Mochizuki,  
Takatoshi Yamamoto, Kazuyuki Tanaka,  
Toyoaki Nakamura

**Compensation Committee:**  
Harufumi Mochizuki, Katsumi Ihara,  
Takatoshi Yamamoto, Toshiaki Higashihara

# Executive Officers

As of June 30, 2018

## President & CEO



**Toshiaki Higashihara\***  
Overall management

## Executive Vice Presidents and Executive Officers



**Masakazu Aoki\***  
Assistant to the President (business for industry and distribution sectors, water business and industrial products business)



**Keiji Kojima\***  
Assistant to the President (building systems business, railway systems business, smart life & ecofriendly systems business and automotive systems business) and information security management



**Keiichi Shiotsuka\***  
Assistant to the President (systems & services business, healthcare business and defense systems business), systems & services business and social innovation business promotion



**Hideaki Takahashi\***  
Assistant to the President (cost structure reform and supply chain management), cost structure reform and supply chain management (MONOZUKURI and quality assurance)

## Senior Vice Presidents and Executive Officers



**Toshikazu Nishino\***  
Assistant to the President (nuclear energy business and power business)



**Shinichiro Omori**  
Cost structure reform and information technology strategies



**Yoshihiko Kawamura**  
Management strategies, investment strategies, and strategies for next-generation business



**Kenichi Kokubo**  
Regional strategies (China)



**Setsuo Shibahara**  
Services & platforms business



**Hideaki Seki**  
Building systems business



**Yoshitaka Tsuda\***  
Marketing & sales, regional strategies, and social innovation business promotion



**Alistair Dormer**  
Railway systems business



**Hidenobu Nakahata\***  
Corporate communications, legal matters, risk management, corporate auditing, and human capital



**Mitsuaki Nishiyama\***  
Finance and corporate pension system

## Vice Presidents and Executive Officers

**Keiichi Akino**  
Marketing & sales (business for financial institutions, government, public corporation and social infrastructure systems, healthcare business, and defense systems business)

**Jun Abe**  
Business for industry & distribution sectors

**Hitoshi Ito**  
Governments & external relations

**Kenji Urase**  
Water business

**Ryuichi Otsuki**  
Regional strategies

**Atsushi Oda**  
Power business

**Kohei Kodama**  
Legal matters, risk management, and corporate auditing

**Keizo Kobayashi**  
Industrial products business

**Norihiro Suzuki**  
Research & development

**Hidetoshi Takehara**  
Nuclear energy business

**Osamu Naito**  
Governments & external relations, CSR & environmental strategy, and executive support

**Katsuya Nagano**  
Business for government, public corporation, and social infrastructure systems

**Isao Narukawa**  
Marketing & sales (nuclear energy business and power business)

**Kentaro Masai**  
Supply chain management (MONOZUKURI and quality assurance)

**Yasushi Manabe**  
Marketing & sales (business for industry & distribution sectors, water business, building systems business, and railway systems business)

**Shinya Mitsudomi**  
Railway systems business

**Mamoru Morita**  
Management strategies

**Tsugio Yamamoto**  
Business for financial institutions

**Masaya Watanabe**  
Healthcare business

## Executive Officer

**Hiroaki Nakanishi**  
General

Note: Executive officers are listed by position and in Japanese alphabetical order within each grouping.  
\* Denotes executive officers who are representative executive officers.



Cynthia Carroll  
Independent Outside Director

Hiroaki Yoshihara  
Independent Outside Director

## Initiatives in Governance, Diversity and Leadership Development

Hitachi aims to earn the trust of customers and the broader public as a leading global innovation partner, based on the development of digital solutions and global business. Working from an objective standpoint, the independent outside directors play an important role in supporting this process. Outside directors Ms. Cynthia Carroll (“CC”) and Mr. Hiroaki Yoshihara (“HY”), both of whom are extensively involved in the ongoing transformation at Hitachi, discuss its unique approach to fostering talent and promoting good governance as part of realizing this mission.

## BUSINESS CONDITIONS AND CHALLENGES

### Q. What attracted you originally to become an independent outside director at Hitachi?

**HY:** The two reasons I originally joined the Board of Directors of Hitachi four years ago were the company's strong leadership and its positive momentum.

Prior to that, I was a member of the Board of Hitachi Global Storage Technologies (HGST) from 2008 until it was acquired by Western Digital in 2012. In common with Hitachi, HGST faced a financial and operational crisis during that period. Mr. Nakanishi, current Chairman and director of Hitachi, Ltd. and the CEO of HGST at that time, led an impressive and rapid transformation process that I witnessed first-hand. The

turnaround took HGST from being the industry's worst performer to its most profitable player.

Mr. Nakanishi later became president of Hitachi. When I was asked to join the Board of Hitachi in 2013, the company was demonstrating positive momentum in its own transformation process led by him and his strong executive team.

**CC:** I was also attracted to the strong leadership of Hitachi. I was highly impressed with the vision of the management, the ambition to develop a more competitive, globalized business, and the strong determination of

top management to leverage the company's historical legacy. The thinking was long-term, but at the same time, they were looking for alternative perspectives and experiences to help Hitachi scale new heights.

Hitachi is an iconic brand. It is a phenomenal enterprise, given its global reach and the sheer breadth of its products and services, which are supplied by around 850 subsidiaries. The broad scope of the business made it an especially attractive proposition for me.

### Q. In your view, what are the strengths of Hitachi and the challenges it faces in its global business development?

**HY:** Hitachi is blessed with many competitive advantages. The company is filled with many talented people, and we have a rich wealth of technological expertise. Most importantly, Hitachi's well-established corporate values of "Harmony, Sincerity, and Pioneering Spirit" have stood the test of time.

I think that good strategic execution has helped Hitachi to create strong positive momentum in recent years as we work to become a high-performing global enterprise.

**CC:** I agree that Hitachi has been successful in building momentum. We are more effective in ensuring that the decision-making is focused solidly on value creation.

To my mind, the fact that so many people spend their entire careers in this company is one of its strengths, because it reflects the tremendous loyalty and experience associated with the Hitachi name. In addition, the engineering and technical capabilities are phenomenal. Hitachi is unique, relative to other companies today, with its breadth and depth of young and long serving talent, in a position to build on the core values and established trust created over many decades.

**HY:** The direction we are taking is excellent, but speed is also vital. In that regard, I would like to see accelerated evolution in some aspects of business,

including faster rationalization of the business portfolio. Greater synergy between different parts of the business portfolio is another critical challenge, based on stimulating connectivity between business sectors.

That is partly what the Social Innovation Business is about. In my view, we should accelerate launching Social Innovation Business initiatives globally, while also deploying data and insight-driven strategies throughout the organization.



**CC:** Businesses today must be lightning-fast in their response to social change because of the greater speed of connecting in

the context of the twin trends of globalization and digitalization. We live in an age where products can rapidly become

commoditized, which means that we will often struggle to market or sell them using purely traditional approaches.

The core challenges faced by the business relate to innovation and commercialization. We need to be working in partnership with our customers and suppliers to develop products, services, and processes that represent original value.

In my opinion, we have all the capabilities to become a global leader in the industries where we compete but this takes collaboration within and across business boundaries.

## **CORPORATE GOVERNANCE REFORMS: DIVERSITY, LEADERSHIP, AND AUDIT INTEGRITY**

### **Q. What value is there in promoting diversity? What is Hitachi doing to increase diversity?**

**CC:** In general terms, I think diversity is critical to our future success. Diversity within an organization leads to diversity in terms of thinking and perspectives, as we always consider alternative approaches. Ultimately, it can lead to smarter business decisions and solutions.

In an area such as Social Innovation, if our products, services, and solutions are to meet the needs of a constantly evolving global society, we must understand that society in detail. For this reason, it is critically important for Hitachi to have a workforce that reflects society. Greater diversity in the workforce means that we have the right make-up of people to provide the necessary

alternative perspectives. Also, we cannot afford to leave out half the population if we want to develop the best global management talent.

**HY:** As CEO Higashihara has pointed out, I believe, actively targeting higher diversity enables Hitachi to develop better as a diversified global business. The company has set specific diversity targets, and we are making steady progress towards achieving them.

**CC:** To add some figures, women represent almost 17% of the Hitachi Group workforce, or roughly 44,000 people. Women are now about 27% of new hires, which is approximately double

the level that was being achieved in fiscal 2000. By these various indicators, I think we are making measurable progress.

The current target for Hitachi, Ltd. is to increase the number of female managers in Japan to 800 by fiscal 2020. Similarly, amongst executive and corporate officers, we are looking for 10% to be represented by both women and non-Japanese nationals by fiscal 2020—another major goal. This is quite an ambitious objective, but I think it demonstrates Hitachi's commitment to diversity.

**HY:** We also have measures in place to support the development and inclusion of women.

**CC:** Yes, I spoke at the Global Women's Summit in Las Vegas. Elsewhere, we hold diversity workshops such as the World Café Program, and we have a work-life balance month. Both are interesting initiatives, I think.

There is a lot of discussion inside Hitachi around supporting women who are working and raising children, for example by

adopting systems to allow flexible working hours, or using teleworking or virtual office arrangements. All these initiatives are managed within an overarching work style reform program called Work Life Innovation.

It's tremendously positive that we are considering these types of approaches to these kinds of issues. In addition,

Hitachi recognizes the importance of inclusion of men and women in the discussion about diversity as they together grow the culture internally.

**HY:** Cynthia has been addressing this issue extremely well for a long time. As the CEO of a leading global corporation, she is a role model in her own right.

## Q. How is Hitachi developing its next generation of leaders?

**CC:** Within the pipeline of management talent, we work to identify and meet regularly with high potential candidates who are being considered for leadership positions. We try to ensure such individuals are challenged and developed appropriately. If, for instance, they have not worked outside of Japan, we try to place them overseas. Similarly, opportunities are created to help them gain experience of working in more than one business unit.

A lot of thought goes into this aspect of human capital development and the HR team is doing a phenomenal job of ensuring that gaps in experience of future management talent within the organization are filled through redeployment or redirection of people. It's about developing people for future leadership positions. The Hitachi Group has built a fully integrated human capital management platform to provide a global talent management framework.

**HY:** As directors, we also contribute to this leadership development process directly. It is important for personal development to have professional mentors. It is also vital to create a systematic process that helps senior managerial candidates to visualize where they might want to be in three or five years.

I remember in my earlier career benefiting from this kind of mentoring when I was working for an organization with headquarters in New York and London. I am always grateful for the help that I received from mentors to help me direct my efforts appropriately in developing my technical and leadership skills. I think the processes we have in Hitachi are helping to foster exciting career development pathways within our management talent pool.

**CC:** The directors serving on the Nominating Committee take a lead in the human capital development process. I am also personally involved in mentoring management talent.

Having served on multiple nominating committees with various multinationals, my view is that Hitachi has adopted a uniquely valuable approach to talent and executive development. It is highly systematic and proactive when considering executive development and succession.

For example, I have one-on-one discussions with mentees where we talk about what is going on in their work, the related challenges, and how they think about their career.

As independent outside directors, we also take the opportunity to address the young talent inside Hitachi by giving speeches to select groups and hearing personal feedback. They can communicate their perceptions about what they might see as some of the roadblocks within Hitachi, and this leads into a discussion about how to confront challenges in different ways, or how we see the future. It's an unusual approach for a big multinational, but very valuable in my view.

## Q. What is special about Hitachi's audit processes?

**HY:** Hitachi uses a “tripartite audit” approach that demands strong, cohesive coordination between the Audit Committee, the Internal Auditing Office, and the outside auditing firm.

Basically, the Audit Committee leads a team whose goal is to identify and address the various risks. The three groups share and update the identified risk data. We also spend significant time on collaborative audit planning, audit progress updates, and final reporting for financial, operational, and management audits. It's a fully integrated approach.

We make sure we have complete access to necessary information and people to accomplish the audit objectives. With the Hitachi Group extending to around 850 subsidiaries operating worldwide, there are a multitude of risks to consider, both domestic and overseas. We are fortunate that the people in Hitachi are generally receptive and open-minded, so we only need to ask once to be provided with whatever information we need.

With such a complex picture to manage, the commitment of Audit Committee members to each other is that we maintain open and honest communication in all committee discussions. The members are also extremely active on a global basis so that we can better understand the global risks faced by the Hitachi Group. This means getting involved in onsite audits across different operational sites worldwide.



**CC:** The approach is rigorous, but at the same time, it is extremely open and transparent. I think people are relaxed and feel comfortable to come forward with issues, which is the best way to help mitigate risk on a continuous basis. Having served on several audit committees, I believe Hitachi's approach is top of the class.

**HY:** Before I joined the Hitachi Audit Committee, it was already regarded as one of the best in Japan. Collectively, though, we are determined to improve and refine every aspect of the auditing function to reinforce oversight on a continuous basis.

As part of continuous improvement, our finance and internal audit departments evaluate the performance of the outside auditor each year. In turn, the independent auditors evaluate the performance of Hitachi's finance and internal audit departments. We make sure everything is fair and open so that the evaluation feedback is beneficial for facilitating improvements by all parties

involved in audit processes.

We are also considering the implementation of AI/IT-based audit tools to improve audit effectiveness and efficiency by enabling people to focus on the judgment and assessment side, rather than just collecting information.

Moreover, we seek to strengthen the Audit Committee and the internal audit functions, both central and in business units and subsidiaries, by identifying and developing talented people for relevant positions.

Naturally, all these efforts are time-consuming. We spend a lot of time monitoring the progress of audits to guard against surprises. If points of difference arise in audits, which is something you cannot avoid proactively, we address issues or implement any necessary controls for risk mitigation straight away.

Together with the final reporting, all this means that we meet on many occasions through the year with people from the internal and external audit teams and from finance.

## FUTURE INITIATIVES

### Q. In what areas should Hitachi strengthen to be a leading global enterprise?

**HY:** As I mentioned earlier, I think Hitachi has built up momentum in becoming a leading global innovation partner for the IoT era in the markets where we choose to compete. Yet there is still some way to go in terms of globalization because around half of Hitachi Group's revenue is still in Japan and there are still tremendous opportunities overseas.

I think the key is to continue to execute the strategy of business portfolio rationalization, while working to shift the internal mindset from product-centric to more customer-centric and society-centric. We also need to

develop global management talent based on continuing to promote greater diversity.

**CC:** As I have already mentioned, the changing landscapes in markets mean that technologies are changing every minute. We need to continually update our fact bases and refresh our strategies, focusing on those businesses that are going to substantially add value over the long term. We need to be truly disciplined about spending money where value will be created. Everyone has a role to play in contributing to the bottom line. The market

dynamics necessitate being flexible, responsive, creative, efficient, and relentless in driving for performance. In addition, effectively marrying innovation and commercialization with the Social Innovation Business will be fundamental to Hitachi's value creation and ability to leapfrog our competitors. We are unique in our ability to combine infrastructure technologies with OT and IT applications and capitalize on the Hitachi brand, synonymous with leading edge technologies and engineering solutions.

### Q. Looking ahead, what is your main aim as an independent outside director?

**HY:** Our primary role is to continue providing strong management oversight to ensure all corporate objectives are achieved for the benefit of all Hitachi stakeholders.

Management is about making the tough decisions, and that is why oversight is so crucial.

Considering the volatility and uncertainty inherent in global business conditions, I think we must pay special attention to global risks. At the same time, we need to exert a positive influence on management to support the execution of high-quality global growth strategies.

Practicing open and honest communication during the Board and Committee discussions is another important element. Diversity and open

exchanges of ideas are essential for fostering a better environment to help manage the highly diversified business that is the Hitachi Group.

**CC:** I agree. As independent outside directors with an independent voice, our role is to lend support to the CEO and the executive team, to stimulate debate, to challenge, and to discuss opportunities, with the ultimate aim to enhance shareholder value in delivering on our performance commitments. We are also working to support One Hitachi, building a culture of innovation with partnerships across businesses and with customers to capture synergies and expertise globally.

I will continue to work to embed the global leadership mindset through my interactions with young talent and executive candidates, both men and women.

Hitachi has sound moral and good governance structures. With the right systems in place, we need to execute the correct business strategy while developing talent for today and the future so that we can deliver on our promises to our stakeholders with the ambition of becoming a global leader in our industries.

# Messages from Newly Appointed Independent Outside Directors

## Contributing to Hitachi

In a career that has spanned 40 years to date, I worked for Sony developing a range of businesses across global markets. Most of this time was spent in consumer electronics and financial services. Change is fierce in consumer electronics markets, and I gained a broad range of experience. For example, in the mobile phone sector where Sony had a joint venture with a major European communications handset maker, I was directly involved in the integration process. In the TV business, during the technology shift from cathode ray tubes to LCD, we had to restructure assets scattered in every region worldwide in a relatively short time. The experiences taught me about the need to anticipate paradigm shifts and major technological changes; about how to set management priorities; and how vital it is to make fast, timely decisions when companies are facing a period of necessary reform.

I am honored to receive the opportunity to serve as an independent outside director for Hitachi, a leader of

## An enterprise that creates new value

Hitachi is a unique global enterprise in its goal to be a leading innovation partner for the IoT era. The internal Group strengths in OT, IT, and Products enable Hitachi to develop integrated digital solutions. The global development of businesses across a wide range of sectors means it can create new value for many customers worldwide by helping to address a range of social or corporate management issues.

The strong leadership displayed by top management has driven transformation at Hitachi across different business sectors, producing noteworthy results. The Group as a whole is working diligently to achieve the goals of the 2018 Mid-term Management Plan. A sustained transformation will probably be required to turn Hitachi into a global force. Continuously

## My aspirations as a director

Hitachi clearly has the potential to be a leading company known worldwide for its excellence. The Mid-term Management Plan to fiscal 2021 will guide evolution towards this goal. I am extremely happy to become an independent outside director of Hitachi at a time when the discussion on how to achieve this is happening in earnest.

To realize further growth for Hitachi, as members of the Board of Directors, our role is to support the



Katsumi Ihara

corporate Japan. I am extremely sympathetic to Hitachi's business vision of applying technology and innovation to the solution of a variety of social issues. Hitachi is currently pursuing additional reforms to evolve into a major player in global markets. Using my experience and knowledge, I hope to provide Hitachi with useful management advice to target global growth.

revising the business portfolio while reinforcing overseas operations are needed so that Hitachi can generate the profits that are consistent with the success of attaining global enterprise status.

The Hitachi Group's highly diversified operations make it no easy task to grasp Hitachi's entire business. In my opinion, this increases the importance of explaining the corporate philosophy and business strategy to varied stakeholders clearly to gain their understanding and empathy. In this global environment, I believe that maintaining communication with many different stakeholders will help Hitachi to build greater enterprise value.

executive officers in our supervisory capacity. I will also be serving on the Audit Committee and the Compensation Committee. While serving on the Board or working in other roles, I hope to utilize my experience to provide various opinions and advice. As a member of a highly diverse and knowledgeable Board, my sincere wish is to contribute to Hitachi's continued growth and to further gains in enterprise value.

## Why I joined the Board of Directors of a trusted and iconic company

It was most gratifying to be asked to be a director of such a prestigious company as Hitachi with its long and successful history. The cultural power of Japan's processes and organization have helped produce one of the world's largest and most sophisticated economies. Having worked in Japan as an executive for GE and then for the former Sumitomo 3M venture, I was naturally aware that Hitachi is regarded as one of Japan's leading companies. I have immense respect for Japan's achievement in setting the de facto standard for quality and innovation.

My business background is in finance and commerce. I hope I can use my experience of working in Europe and Asia in various roles to help contribute to Hitachi's global development.

While corporate governance has evolved quite a bit over the past decade in Japan, I think the



Joe Harlan

increased presence of independent voices at Board level shows Hitachi is a company with an excellent governance structure. I have also been extremely impressed by the quality of the people who serve on Hitachi's Board of Directors. Naturally, I jumped at the opportunity to contribute to the company's continued growth as an outside director.

## In aspiring to global leadership, innovation and marketing are the keys to growth for Hitachi

Enterprises must grow to survive in the modern marketplace. Growth is essential because it leads to more business opportunities, more R&D investment, and better products, services, and solutions. Growth is also vital to provide investors with a return, because trying to shrink your way to success is not a good option.

Innovation in new applications and markets is the key to growing while also keeping the core business healthy. Hitachi has a culture and history of developing unique, differentiated products, services, and solutions that help their customers succeed.

One of the reasons I am so excited to be at Hitachi is the potential to combine its great product track record with the IoT platform "Lumada" to become a leading innovation partner of integrated products, services, and solutions that help link up customers' value chains. It often benefits the customer when one company provides a total solution, rather than having to deal with multiple vendors.

For example, it benefits a city if you can help provide a complete end-to-end transportation solution—not just the trains or rolling stock, but the

controls, signaling, ticketing machines, and related services as well.

Supported by its manufacturing and product development culture, Hitachi has a strong track record in serving customers in this way. And this approach is just as valid across different markets, from energy or water to railway, finance, and healthcare.

Marketing this great story to stakeholders—who include investors, shareholders, customers, and employees—is another vital element in generating continuous growth.

Over time, the success cultivated by great products and services, backed by an organization dedicated to innovative product development and delivered through high-quality sales and marketing, creates its own appeal. I think the aspiration to contribute to society through the development of superior, original technology and products, thereby fulfilling Hitachi's Mission, is also part of Hitachi's appeal. This is a story we need to tell repeatedly to potential customers in cities and countries around the world as we perpetuate our brand awareness.

## A strong desire to contribute to the growth of the enterprise

Growth is a challenge, and meeting that challenge means cultivating change within the organization. In my view, adding more independent voices to the discussion in the executive suite can only help to support constructive change for the benefit of all stakeholders.

Hitachi is undergoing a transformation. Having left a company that did transform, I see great potential for the business to grow using Hitachi's strengths in the integration of OT, IT, and products.

In my time as an independent outside director, I want to look at what Hitachi does commercially and provide insights into where we can move faster, be more agile, or have a better relationship with customers by focusing on core competencies. In this way, I hope that I can help Hitachi to develop and sell total solutions that are truly competitive in the marketplace.

I look forward to contributing to the development of Hitachi as a member of its Board of Directors.

# Corporate Governance

Hitachi and its listed subsidiaries are “Companies with Nominating Committee, etc.” defined under the Companies Act of Japan. By demarcating responsibilities for management oversight and those for the execution of business operations, Hitachi is working to create a framework for nimble operations, while making management highly transparent.

In addition, Hitachi is executing business strategies formulated to enable the Group to demonstrate its collective strengths. Moreover, some of Hitachi’s directors and executive officers serve concurrently as directors or executive officers at Group companies, thereby strengthening integrated management of the Group and improving management

oversight of Group companies. In these ways, Hitachi is working to increase corporate value.

Starting in June 2015, Japan’s Corporate Governance Code applies to companies listed on stock exchanges in Japan. Hitachi agrees with the basic approach of the Code, which is that the Code’s appropriate implementation will contribute to the development and success of companies, investors, and the Japanese economy as a whole through individual companies’ self-motivated actions so as to achieve sustainable growth and increase corporate value over the medium to long term. Moving forward, Hitachi will work to further strengthen corporate governance.

## Initiatives to Strengthen Corporate Governance

### 1 Realizing quick, highly transparent management

**Hitachi transitioned to a Company with Committee System (now called a Company with Nominating Committee, etc.) in June 2003.**

#### Major Aims

Make management highly transparent by demarcating responsibilities for management oversight and those for the execution of business operations

#### Composition of Each Committee (June 2018)



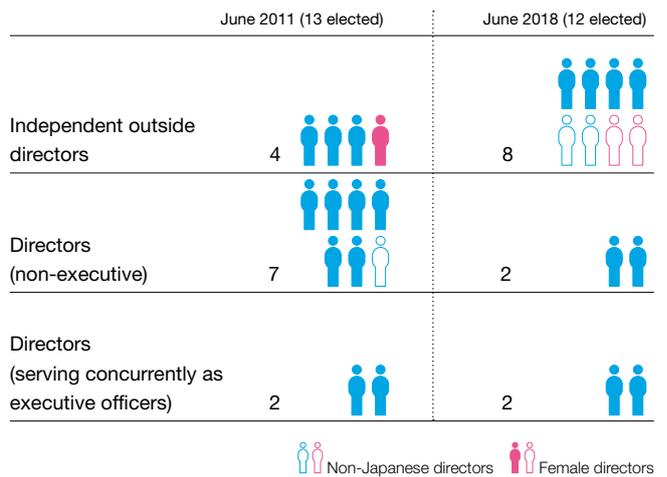
### 2 Accelerating global management and strengthening oversight function

**Increased number of independent outside directors including non-Japanese directors; independent outside directors became majority in June 2012.**

#### Major Aims

Reflect global, diverse viewpoints in management, further strengthen oversight function

#### Composition of Board of Directors



### 3 Appropriate implementation of the Corporate Governance Code

**Implementing all of the principles of the Corporate Governance Code** (based on form prior to June 2018 revision)

#### Analysis and Evaluation of the Effectiveness of the Board of Directors

The Company implements an evaluation of the effectiveness of the Board as a whole each year, in a continuous effort to maintain and improve the Board’s function.

#### Evaluation process

In evaluating the effectiveness of the Board of Directors in the fiscal year ended March 31, 2018, questionnaires were distributed to all Board members. Each member carried out a self-assessment of the Board regarding its composition,

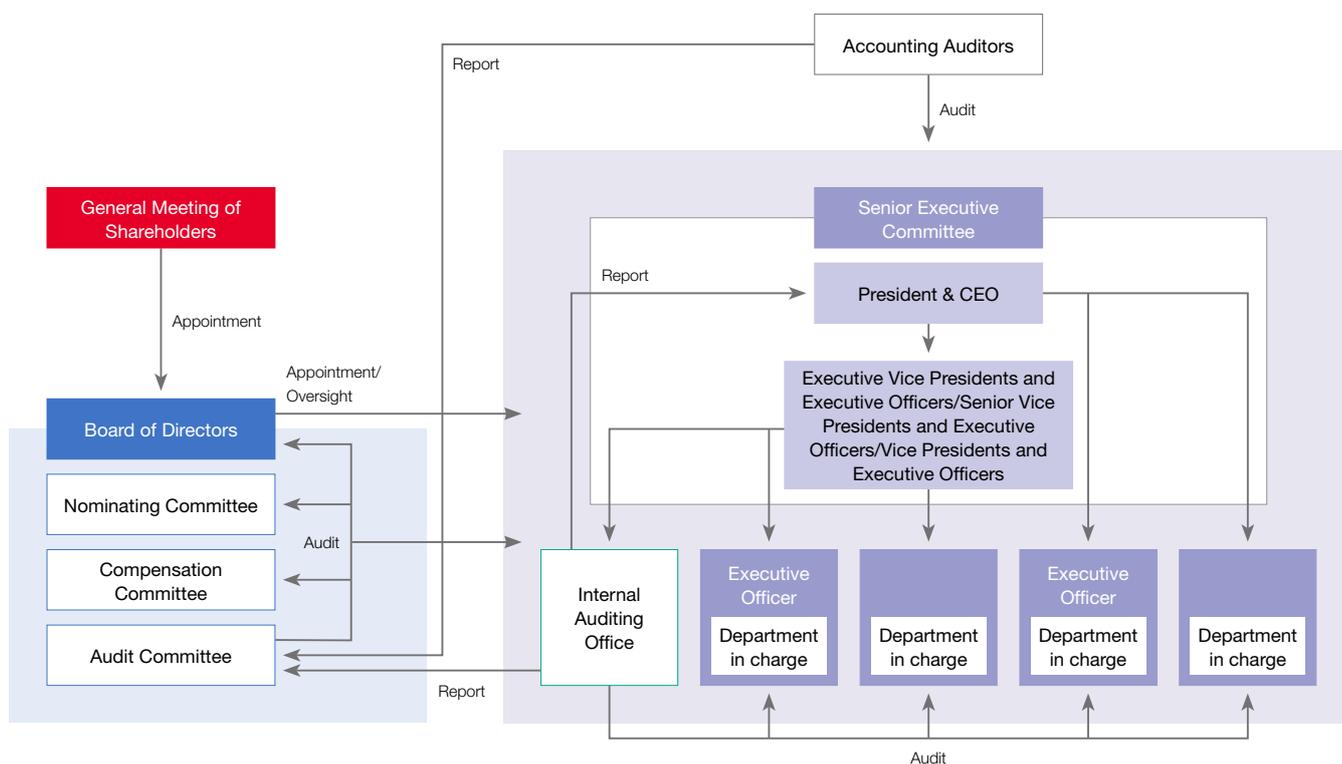
operation, contribution to the Company, activities of the three committees, support systems for the Board, etc. In addition, the Board's effectiveness was discussed at a meeting by independent outside directors. Based on the results of these evaluations and discussions, the Board analyzed and evaluated its effectiveness as a whole while considering a comparison with results for the fiscal year ended March 31, 2017 and measures taken for improvement and confirmed the policy on approaches to further improvement of the Board's effectiveness.

### Results of evaluation and future initiatives

The Board assessed that its members are diverse and make use of their knowledge and expertise to speak out, having vigorous discussions especially on matters related to business strategies such as the mid-term management plan toward mid/long-term corporate value growth. The Board, therefore, concluded that the effectiveness of the Board as a whole was being maintained.

With the aim to maintain and improve its functions, the Board confirmed that it will make efforts to further contribute to the determination of Hitachi's mid/long-term strategic direction and succession planning for the CEO, etc. It was also confirmed that the Company will make efforts to strengthen support for the Board's operations including the enhancement of information provision to make Board discussions more effective.

## Corporate Governance Framework



## Board of Directors

### Summary

- Independent outside directors comprise 8 of the 12 Board members.
- Each of the Nominating, Audit, and Compensation Committees has been established with independent outside directors in the majority.
- The extensive experience and insight of the independent outside directors in international business management and administration serve to strengthen the Board's supervisory function.

The Board of Directors approves basic management policy for the Hitachi Group and supervises the execution of the duties of executive officers and directors in order to sustainably enhance corporate value and shareholders' common interests. The basic management policy includes the Mid-term

Management Plan and annual budget compilation. The Board of Directors focuses on strategic issues related to the basic management policy as well as other items to be resolved that are provided in laws, regulations, the Articles of Incorporation, and Board of Directors Regulations. As of June 29, 2018, the

Board of Directors was made up of 12 directors, two of whom concurrently serve as executive officers. Hitachi aims to reinforce the oversight function of the Board of Directors, of which eight independent outside directors, including non-Japanese, account for the majority, reflecting their global and diverse viewpoints. The term of office for directors is one year.

Within the Board of Directors, there are three statutory committees—the Nominating Committee, the Audit Committee, and the Compensation Committee—with independent outside directors accounting for the majority of members of each committee. The Board of Directors meetings were held on 9 days during the fiscal year ended March 31, 2018, and the attendance rate of directors at these meetings was 97%. The attendance rates for each independent outside director were as shown in the table below. To assist with the duties of the Board of Directors and each committee, staff who are not subject to orders and instructions from executive officers are assigned.

The Board of Directors continuously supervises succession planning for the CEO. The CEO is appointed or dismissed in line with the proposal of the Nominating Committee in consideration of the matters: (1) that the candidate has the highest personal and professional ethics, integrity, insight, and leadership, and (2) that the candidate is believed to be the one most qualified to realize sustainable enhancement of the Company's corporate value and shareholders' common interests, with rich experience and a distinguished record in the area of corporate management.

#### Attendance at meetings of the Board of Directors by independent outside directors in the fiscal year ended March 31, 2018

Name	Attendance*	Attendance rate
Baba Kalyani	7 out of 9 days	78%
Cynthia Carroll	9 out of 9 days	100%
Sadayuki Sakakibara	8 out of 9 days	89%
George Buckley	9 out of 9 days	100%
Louise Pentland	9 out of 9 days	100%
Harufumi Mochizuki	9 out of 9 days	100%
Takatoshi Yamamoto	9 out of 9 days	100%
Philip Yeo	9 out of 9 days	100%
Hiroaki Yoshihara	9 out of 9 days	100%

\* Based on the number of days Board meetings were held during each independent outside director's term of office.

Furthermore, Hitachi formulated and published Corporate Governance Guidelines outlining the framework of corporate governance, such as the function and composition of the Board of Directors, qualifications for directors, criteria for assessing the independence of independent outside directors, and rules on those serving concurrently as officers at other companies.

#### Qualification for Independent Outside Directors and Criteria for Independence

In regard to the election of an independent outside director, Hitachi's Nominating Committee considers the following criteria for independence. In addition, the Committee also considers whether the independent outside director has outstanding character and insight and whether he or she has worked in a leadership position in such fields as business, law, administration, accounting, or education, or has experience at policy-making levels.

In regard to the independence of an independent outside director, the Company considers an independent outside director to be independent unless:

- His or her immediate family member is, or has been within the last three years, a director or an executive officer of the Company or any of its subsidiaries;
- He or she is currently an executive director, an executive officer, or an employee of a company that has made payments to, or received payments from, the Company for property or services in an amount that, in any of the last three fiscal years, exceeds 2% of any of the companies' consolidated gross revenues;
- He or she has received during any of the last three fiscal years more than ¥10 million in direct compensation for his or her service as a specialist in law, accounting, or tax, or as a consultant from the Company, other than director compensation; or
- He or she serves as an executive officer or director of a not-for-profit organization, and the Company's discretionary charitable contributions to the organization in any of the last three fiscal years are more than ¥10 million and 2% of that organization's annual gross revenues.

#### Concurrent Officer Positions at Other Companies

In order for directors to secure the time necessary to understand the Company's business and prepare for and attend Board of Directors meetings, the Company considers it desirable for its directors not to hold concurrent officer positions (director, corporate auditor, or executive officer) in more than four other listed companies.

#### (1) Nominating Committee

The Nominating Committee has the authority to determine proposals submitted to the general meeting of shareholders for the election and dismissal of directors. The Nominating Committee consists of four directors, three of whom are independent outside directors.

The Nominating Committee meetings were held on 8 days during the fiscal year ended March 31, 2018.

## (2) Audit Committee

The Audit Committee has the authority to audit the execution of duties of directors and executive officers and to decide on proposals submitted to the general meeting of shareholders for the election and dismissal of accounting auditors. The Audit Committee consists of six directors, including four independent outside directors and one standing Audit Committee member.

The Audit Committee meetings were held on 14 days during the fiscal year ended March 31, 2018.

## (3) Compensation Committee

The Compensation Committee has the authority to determine remuneration policies for directors and executive officers and remuneration for individuals (including amounts of remuneration) based on them. The Compensation Committee consists of four directors, three of whom are independent outside directors.

The Compensation Committee meetings were held on 4 days during the fiscal year ended March 31, 2018.

## Composition of the Board of Directors and each committee (as of June 29, 2018)

	Number of persons	Independent outside directors*	Directors	Chair
Board of Directors	12	8*	4	Independent outside director
Nominating Committee	4	3	1	Independent outside director
Audit Committee	6	4	2	Independent outside director
Compensation Committee	4	3	1	Independent outside director

\* Hitachi has issued notifications identifying all outside directors as independent outside directors to each of the stock exchanges in Japan where the Company is listed.

	Committee members
Nominating Committee	Harufumi Mochizuki (Chair), Cynthia Carroll, Hiroaki Yoshihara, Hiroaki Nakanishi
Audit Committee	Hiroaki Yoshihara (Chair), Katsumi Ihara, Harufumi Mochizuki, Takatoshi Yamamoto, Kazuyuki Tanaka, Toyoaki Nakamura
Compensation Committee	Harufumi Mochizuki (Chair), Katsumi Ihara, Takatoshi Yamamoto, Toshiaki Higashihara

## Executive Officers

Executive officers decide on matters delegated to them by the Board of Directors and execute Hitachi's business affairs within the scope of assignments determined by the Board of Directors. As of June 29, 2018, Hitachi has 35 executive officers.

## Senior Executive Committee

The Senior Executive Committee is a council to ensure that the President deliberately decides on important managerial matters, which may affect the business of Hitachi or the Hitachi Group, through discussion from diverse viewpoints. This committee consists of 12 members as of June 29, 2018: the President & CEO, five executive officers serving as executive vice presidents, five executive officers serving as senior vice presidents, and one executive officer serving as a vice president.

## Director and Executive Officer Compensation

### Basic Policy

- Compensation shall be sufficiently attractive to retain the personnel required to realize improvements in enterprise value through global business growth.
- Compensation shall be commensurate with the roles and responsibilities of directors and executive officers.
- Compensation for directors shall contribute to effective supervision of management.
- Compensation for executive officers shall provide incentives to contribute to sustained improvement in enterprise value through business execution, while striking an appropriate balance between short-term results and performance over the longer term.
- Compensation levels shall take into account remuneration at other companies, along with economic conditions and market trends.
- In considering the terms and amounts of compensation, the Compensation Committee shall seek objective advice as necessary from outside experts.

The Compensation Committee, of whose members more than half are independent outside directors, sets forth the policy on the determination of compensation details for directors and executive officers and, based on this policy, the amount of compensation, etc., of each director and executive officer,

pursuant to applicable provisions of the Companies Act.

Since fiscal 2008, the compensation structures for directors and executive officers have been revised to eliminate severance payments.

## Compensation Structure

### (1) Directors

Compensation for directors consists of basic remuneration and a year-end allowance.

#### ① Basic remuneration

Basic remuneration is decided by adjusting a basic amount to reflect full- or part-time status, committee membership and position, travel from place of residence, etc.

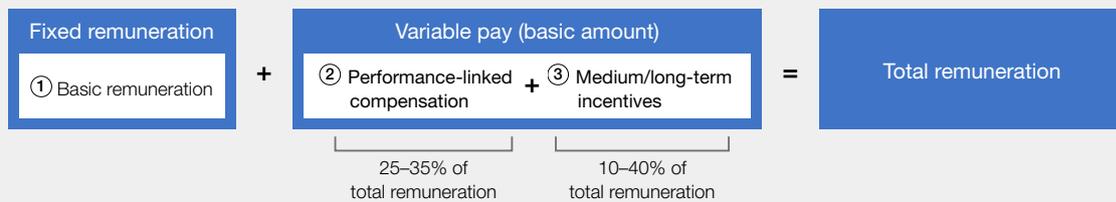
#### ② Year-end allowance

Year-end allowance is a predetermined amount equivalent to about 20% of the director's annual basic remuneration, but may be reduced depending on financial results.

A director concurrently serving as an executive officer does not receive any compensation as a director.

### (2) Executive officers

Compensation for executive officers consists of basic remuneration, performance-linked compensation, and medium- and long-term incentive compensation. The higher the position the executive officer holds, the higher the proportion of variable pay is as a portion of total annual compensation.

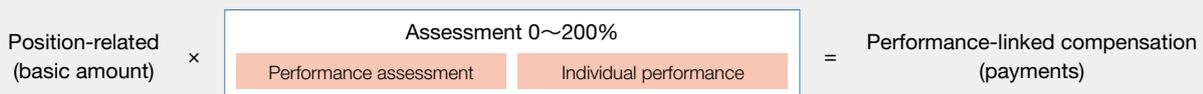


#### ① Basic remuneration

Basic remuneration is decided by adjusting a basic amount to reflect the results of an assessment. The basic amount is set in accordance with the relevant position.

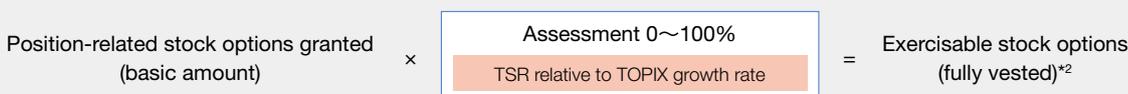
#### ② Performance-linked compensation

The performance-linked compensation is decided within the range of 0%–200% of the basic amount based on financial results and individual performance. The basic amount is set within the range of about 25%–35% of the total annual compensation of each executive officer in accordance with the relevant position.



#### ③ Medium- and long-term incentive compensation

Medium- and long-term incentive compensation is stock options as stock-based compensation, with share price conditions (stock acquisition rights with the strike price of ¥1). The number of stock acquisition rights to be granted is determined within the range of about 10%–40% of the total annual compensation of each executive officer in accordance with the relevant position. The number of stock acquisition rights that may be exercised will be determined within the range of 0%–100% of the stock acquisition rights granted in accordance with the conditions. The proportion of the assessment (0–100%) is determined by comparing the total shareholder return\*<sup>1</sup> for Hitachi stock against the rate of growth in the TOPIX benchmark. This is set to 0% if the TSR is less than 80% of the TOPIX growth rate, and reaches 100% once the TSR rises to at least 120% of the TOPIX growth rate, with intermediate results for figures in the 80%–120% range.



\*1 Total Shareholder Return (TSR) includes capital gains (due to share price movements) and income (dividends).

\*2 Stock options can no longer be exercised if fraud or other serious misconduct occurs during the term of office. Under a clawback provision, the Company can demand repayment of economic gains made from any options that have already been exercised if fraud or other serious misconduct is discovered during the term of office.

## Internal Control over Financial Reporting

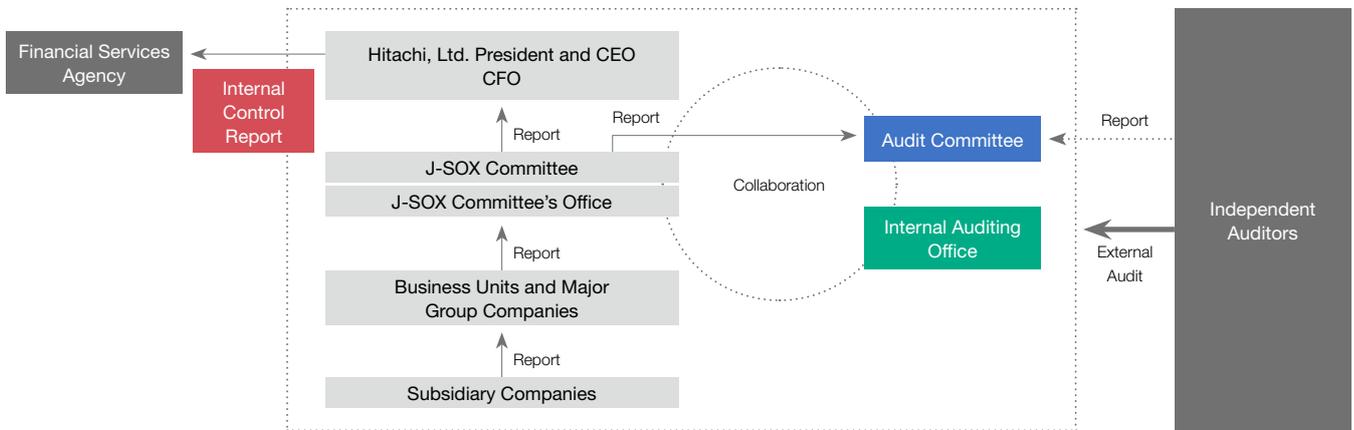
### Summary

- Under guidelines determined by the J-SOX Committee, internal controls ranging from those at the company level to business processes are all documented.
- Systems to enable objective assessments are also in place at Hitachi business units and major Group companies.

To ensure the reliability of consolidated financial reporting, the Group develops and uses control documents ranging from company-level to business process controls based on the guidelines determined by our J-SOX Committee. Business units within Hitachi, Ltd. and major Group companies have

developed mechanisms to objectively perform assessments. The J-SOX Committee office collects the results of the assessments performed by each business unit and company, and assesses the effectiveness of internal control throughout the entire Group.

### Hitachi Group Internal Control Assessment Framework



## Toward a More Integrated “Tripartite Audit” Function

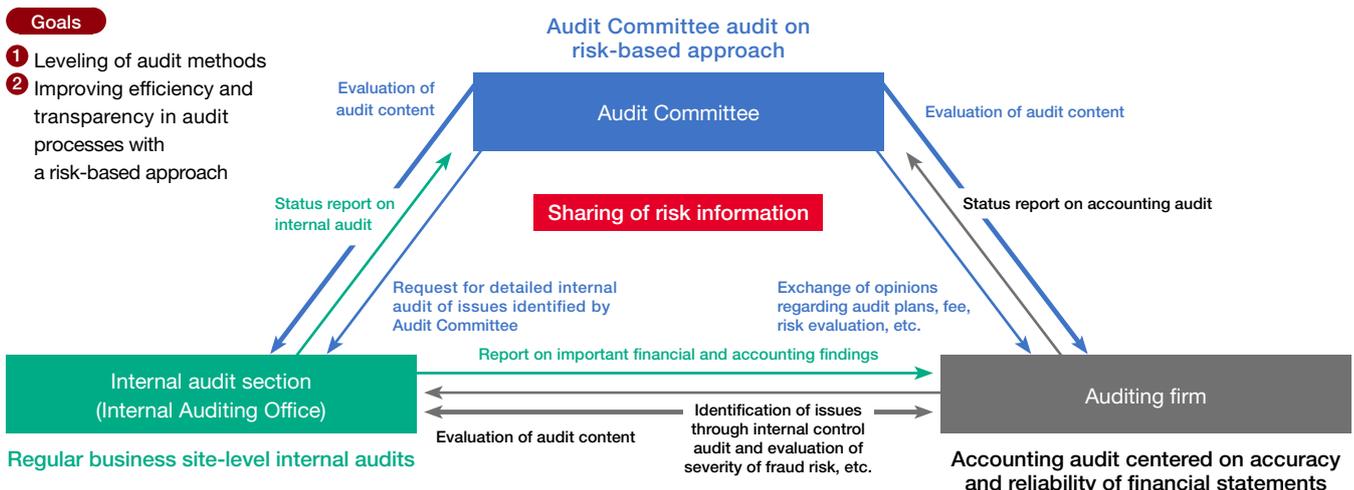
### Summary

- We are working to strengthen the “tripartite audit” function, which comprises the Audit Committee, the internal audit section, and the external auditing firm.

We are working to further enhance the effectiveness of the internal control exerted through the integrated work of a “tripartite audit” function comprising the Audit Committee; our internal audit sections, principally, the Internal Auditing Office; and external auditing firm. Through close

communication, the three functions share information about risks and evaluation of risk responses; ensure the audit process is transparent with appropriate checks and balances; and improve the effectiveness of internal control systems.

### Improving Internal Control through a “Tripartite Audit” Function



## Accountability

### Summary

- The “Hitachi IR Day” event has been held for eight years in a row.
- A total of around 600 meetings have been held with institutional investors and analysts in Japan and overseas.

In accordance with its disclosure policy, Hitachi is implementing the fair and appropriate disclosure of such information as management strategies and financial information. In addition, Hitachi is aggressively conducting dialogues through such means as meetings with shareholders and investors, investor relations (IR) events, and the general meeting of shareholders.

In fiscal 2017, in addition to quarterly financial results briefings and presentations on the progress made with the 2018 Mid-term Management Plan, we hosted the eighth consecutive “Hitachi IR Day” event, in which senior managers from each business presented business strategies and management policies under the plan.

Other IR events included a briefing on the original value being created in R&D divisions and a tour of the Omika Works as part of promoting better understanding of the Lumada business. Members of senior management also continued to visit institutional investors and analysts in North America, Europe, and Asia to explain their business strategies for realizing medium- to long-term growth. During the year, a total of around 600 such meetings with institutional investors and analysts were held in Japan and overseas. Hitachi also organized briefings to help individual investors gain a better

understanding of the company. The feedback gained from these IR events is reflected in management and business operations as part of efforts to build enterprise value.

We also post briefing materials and business performance as well as stock price trend charts in a timely manner on our IR website. Aiming to continuously enhance our information disclosure, we introduced a new responsive design on our website for improved browsing convenience from smartphones and tablets.

### Information for shareholders and investors

<http://www.hitachi.com/IR-e/>

### Disclosure Policy

<http://www.hitachi.com/IR-e/corporate/disclosure/index.html>

### Major information disclosure publications

Financial results/Quarterly financial results

Annual securities reports/Quarterly reports

Business reports/Interim business reports

Hitachi Group Integrated Report

Hitachi Group sustainability reports

## Results of Value Creation

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### Corporate Data / Stock Information p.88

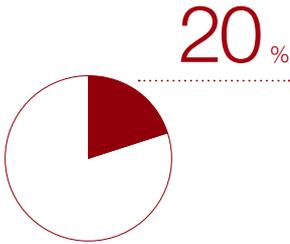
# Information & Telecommunication Systems

Hitachi provides IT services that address customers' diverse needs by combining Hitachi's extensive expertise in a diverse range of business fields, including financial services, with advanced information technology. Our services cover the entire life cycle of systems, ranging from consulting to system integration, operation, maintenance, and other support.

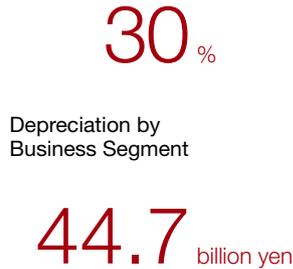


Flash Storage

Share of Revenues



Overseas Revenue Ratio



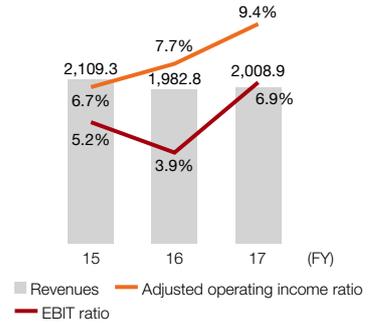
Capital Expenditure by Business Segment (Completion basis)



R&D Expenditure by Business Segment



Revenues and Profit (Billions of yen)



## Main Products and Services

Systems integration, consulting, cloud services, servers, storage, software, telecommunications & networks, ATMs

## Segment Performance

Revenues increased 1% to ¥2,008.9 billion, as compared with the year ended March 31, 2017, due mainly to higher revenues from system integration business in Japan and the impact of foreign currency translation.

Adjusted operating income increased ¥36.2 billion to ¥189.2 billion, as compared with the year ended March 31, 2017, due mainly to profitability improvement in system

integration business in Japan and the effect of structural reform for the IT platform & products business.

EBIT increased ¥62.8 billion to ¥139.2 billion, as compared with the year ended March 31, 2017, due mainly to a decrease in business structural reform expenses as well as the increase in adjusted operating income.

Examples of Digital Solutions

## Human Flow Visualization Utilizing CCTV

In a collaborative creation project with Tokyu Corporation, Hitachi has utilized Lumada technology to develop the "Eki-Shi Vision\*" monitoring service for gauging passenger congestion inside stations in real time based on CCTV (Closed-Circuit Television) footage.

As of the end of July 2018, the service covers 74 Tokyu Line stations, with plans to expand it to all stations on the Tokyu rail network (excluding the Kodomonokuni Line and the Setagaya Line) by the end of March 2019.

Analysis of images taken from CCTV using Hitachi's people flow analysis technology automatically detects whether people are moving or stopped.

Each human image is replaced with a human-shaped icon and the analysis results are sent at one-minute

intervals to the Tokyu Line smartphone app and cable TV feed. By providing information on station congestion level to help Tokyu rail network users choose whether to wait to take a train or take an alternative route if there is significant disruption, the service aims to relieve stress for users and enhance Tokyu rail network safety.

\* Eki-Shi Vision is a registered trademark of Tokyu Corporation.



Normal rush hour



Service disruption



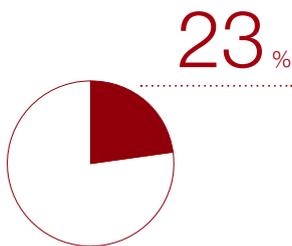
# Social Infrastructure & Industrial Systems

Hitachi has a long and proven track record of high reliability in supporting people's daily lives through such products and services as rolling stock and train management systems, power generation systems and transmission & distribution systems, elevators and escalators, and water solutions. It also offers industrial solutions and equipment to enhance the sophistication of manufacturing workplaces. Hitachi utilizes digital technologies to provide optimum solutions in addressing the issues and diversifying needs of customers worldwide.



Class 800 train for the Intercity Express Programme (IEP)

Share of Revenues



Overseas Revenue Ratio

43%

Capital Expenditure by Business Segment  
(Completion basis)

79.9 billion yen

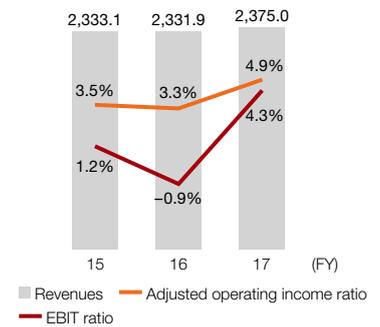
Depreciation by Business Segment

30.0 billion yen

R&D Expenditure by Business Segment

56.1 billion yen

Revenues and Profit  
(Billions of yen)



## Main Products and Services

Manufacturing and logistics systems, water treatment systems, industrial machinery, elevators, escalators, railway systems, nuclear and renewable energy power generation systems, transmission & distribution systems

## Segment Performance

Revenues increased 2% to ¥2,375.0 billion, as compared with the year ended March 31, 2017, despite lower revenues from the power & energy business and shrink of less profitable business in industry & distribution field. This mainly reflected increased revenues from the railway systems business for the U.K. and that in the industrial products business due to the acquisition of Sullair brand air compressor business.

Adjusted operating income increased ¥38.5 billion to ¥115.5 billion, as compared with the year ended March 31, 2017, due mainly to an improvement in profitability of

business for the industry & distribution field, power & energy business and industrial products business, despite a decrease in average sales price and an increase in procurement cost in elevators and escalators business in China.

EBIT was ¥101.2 billion, an improvement of ¥121.2 billion from the year ended March 31, 2017, because of the absence of impairment loss recognized in the preceding fiscal year in relation to the uranium enrichment business at an equity-method associate in the U.S.

Examples of Digital Solutions

## Smart Manufacturing Solutions

In recent years, amid rapidly changing business conditions, manufacturers need to develop greater competitiveness to respond to trends such as increasingly fierce global competition, more diverse user requirements, and digitalization. Hitachi is providing smart manufacturing solutions based on Lumada to help customers in the manufacturing sector address these major challenges. One example is the development of the high-efficiency production model established at Omika Works into Lumada solutions. Hitachi offers innovative solutions that contribute to higher manufacturing productivity through IoT-enabled visualization of manufacturing workplace and related

workflow, or the adoption of simulator to optimize production planning.

Hitachi is also developing solutions in collaborative creation with customers, such as initiatives to reinforce quality by building systems for detecting abnormal operator actions or facility operations at production sites using image-analysis technology. For customers focusing on skills transfer within the workforce, Hitachi is also building systems that use cameras and sensors to capture the expertise of veteran technicians in digital form as part of efforts to develop personnel and improve quality assurance.

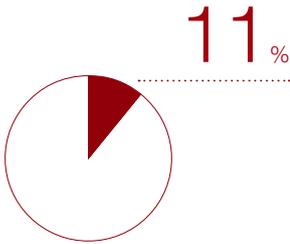
## Electronic Systems & Equipment

Drawing on the Hitachi Group's advanced technologies, Hitachi provides systems supporting the information society, including semiconductor manufacturing equipment, measurement and analysis equipment, broadcasting and video systems, wireless communications and information systems, and healthcare solutions that support healthy lifestyles.



Particle beam therapy

Share of Revenues



Overseas Revenue Ratio

59 %

Depreciation by Business Segment

14.7 billion yen

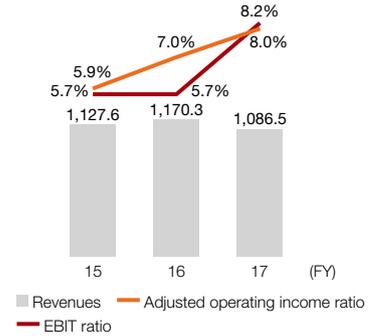
Capital Expenditure by Business Segment  
(Completion basis)

19.4 billion yen

R&D Expenditure by Business Segment

52.1 billion yen

Revenues and Profit  
(Billions of yen)



### Main Products and Services

Semiconductor manufacturing equipment, measurement and analysis equipment, advanced industrial products, medical equipment

### Segment Performance

Revenues decreased 7% to ¥1,086.5 billion, as compared with the year ended March 31, 2017, due mainly to the impact of deconsolidation of Hitachi Koki Co., Ltd. (now Koki Holdings Co., Ltd.) in the preceding fiscal year, despite higher sales of semiconductor manufacturing equipment at Hitachi Kokusai Electric Inc. and Hitachi High-Technologies Corporation.

Adjusted operating income increased ¥5.3 billion to ¥86.9 billion, as compared with the year ended March

31, 2017, due mainly to an increase in profit of Hitachi Kokusai Electric Inc. as a result of higher sales of semiconductor manufacturing equipment.

EBIT increased ¥22.0 billion to ¥88.8 billion, as compared with the year ended March 31, 2017, due mainly to the increased adjusted operating income as well as a decrease in business structural reform expenses of Hitachi Kokusai Electric Inc.

Examples of Digital Solutions

### Predictive Maintenance Service for Superconducting MRI Systems

Superconducting MRI systems use powerful superconducting magnets to image the brain or other internal organs. Costs can quickly mount up if these machines unexpectedly break down, due to the need to reschedule scans and undertake emergency repairs. Hitachi has developed AI technology to predict potential breakdowns months in advance by analyzing vast amounts of sensor data acquired from superconducting MRI systems. This

predictive maintenance service can help to reduce machine downtime, improving the efficiency of diagnostic procedures within the hospital and ensuring that patients can receive MRI scans with peace of mind. Going forward, Hitachi plans to expand predictive maintenance services to further improve the degree of machine utilization and hospital management by promoting greater utilization of digital data.

\* The Company transferred all shares of Hitachi Kokusai Electric Inc. stock owned by the Company on May 31, 2018, and then, the Company partially re-acquired shares of Hitachi Kokusai Electric Inc. stock on June 4, 2018. As a result, Hitachi Kokusai Electric Inc. turned into an equity-method associate of the Company.

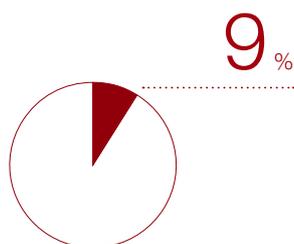
# Construction Machinery

Leveraging decades of technological expertise and know-how, Hitachi offers solutions that address the needs of a broad range of industries, including civil engineering and construction, building and structural demolition, and mining and excavation. Hitachi also handles the sale, servicing, and maintenance of hydraulic excavators and other construction machinery to provide integrated solutions globally.



Hitachi Construction Machinery's ultra-large hydraulic excavator and mining dump truck

Share of Revenues



Overseas Revenue Ratio

80 %

Depreciation by Business Segment

32.2 billion yen

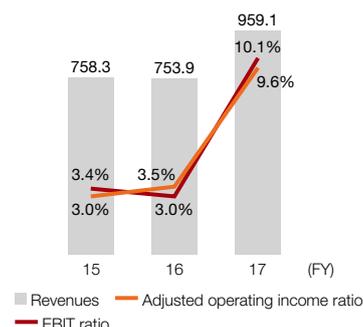
Capital Expenditure by Business Segment  
(Completion basis)

18.5 billion yen

R&D Expenditure by Business Segment

24.0 billion yen

Revenues and Profit  
(Billions of yen)



## Main Products and Services

Hydraulic excavators, wheel loaders, mining machinery

## Segment Performance

Revenues increased 27% to ¥959.1 billion, as compared with the year ended March 31, 2017, due mainly to increased sales in China and other overseas countries, the effect of corporate acquisitions in Australia and the U.S. conducted by Hitachi Construction Machinery Co., Ltd. in the preceding fiscal year, and the impact of foreign currency translation.

Adjusted operating income increased ¥66.2 billion to ¥92.5

billion, as compared with the year ended March 31, 2017, due mainly to the increased revenues because of higher sales and the effect of the corporate acquisitions.

EBIT increased ¥74.3 billion to ¥97.0 billion, as compared with the year ended March 31, 2017, due mainly to the increased adjusted operating income as well as an increase in profit of an equity-method associate.

### Examples of Digital Solutions

## Introduction of Integrated Energy/Facilities Data Management Service EMilia

In the Construction Machinery segment, Hitachi has deployed EMilia, an integrated management service for energy/facilities data management, at five production plants in Japan making hydraulic excavators and wheel loaders. EMilia is a Lumada solution that can realize benefits such as energy savings, improved operational efficiency and enhanced business continuity planning (BCP) through the centralized management of energy and facilities data from multiple sites. The EMilia system collects and visualizes power-related data from monitoring points on around 14,000 breakers installed on the roughly 1,000 pieces of capital equipment located in Hitachi Construction Machinery's domestic production plants. The analysis and management of power data at this level enables finer control, cutting peak power and realizing other savings through reductions in standby power consumption. In the future, Hitachi aims to develop EMilia to realize even smarter factories, based on the collection and analysis of production management

data relating to areas such as product manufacturing history and facilities maintenance. This promises not only to realize energy savings, but also to enable shorter production lead-times and predictive maintenance of onsite facilities, based on real-time understanding of the energy requirements of each machine, process and production line; the cost of production; and the incidence of emergency repairs.



The Tsuchiura Plant has installed EMilia

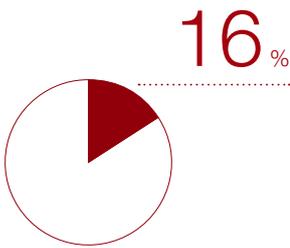
## High Functional Materials & Components

Hitachi draws on its wealth of technological expertise and know-how to provide a variety of materials and components—such as semiconductor- and display-related materials, synthetic resin products, specialty steels, magnetic materials, casting components, and wires and cables—that enable advanced functions in products for such sectors as autos, IT and consumer electronics, and industrial and social infrastructure. Business operations are focused in Asia, North America, and Europe.



Hitachi Metals' Nd-Fe-B "NEOMAX®" magnets

Share of Revenues



Overseas Revenue Ratio

59%

Depreciation by Business Segment

72.7 billion yen

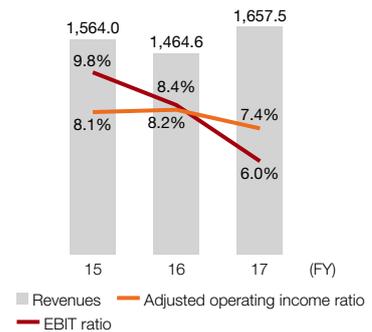
Capital Expenditure by Business Segment  
(Completion basis)

131.3 billion yen

R&D Expenditure by Business Segment

48.5 billion yen

Revenues and Profit  
(Billions of yen)



### Main Products and Services

Semiconductor and display-related materials, circuit boards and materials, automotive parts, energy storage devices, specialty steel products, magnetic materials and applications, functional components and equipment, wires, cables, and related products

### Segment Performance

Revenues increased 13% to ¥1,657.5 billion, as compared with the year ended March 31, 2017, due mainly to increased sales of electronics- and automotive-related products at Hitachi Metals, Ltd. and Hitachi Chemical Company, Ltd., the effect of acquisitions in Italy, etc. by Hitachi Chemical Company, Ltd., and the increase in sales price linked to higher raw material costs for Hitachi Metals, Ltd.

Adjusted operating income increased ¥1.9 billion to ¥121.8 billion, as compared with the year ended March 31, 2017, due mainly to increased revenues, despite of Hitachi Metals, Ltd. having a drop in profitability of heat-resistant exhaust

casting components business and aluminum wheels business, and rise in raw materials prices.

EBIT decreased ¥24.6 billion to ¥98.6 billion, as compared with the year ended March 31, 2017, due mainly to recognition of impairment loss at Hitachi Metals, Ltd. in relation to deteriorated profitability of the aluminum wheel business as well as absence of gain on business reorganization and others recorded in the previous fiscal year, and due to posting expenses related to competition law and others at Hitachi Chemical Company, Ltd.

### Examples of Digital Solutions

#### Data-Visualization Solution to Prevent Inventory Shortfalls in Businesses with Short Delivery Lead-Times and Seasonal Demand Patterns

To help prevent product lines running out of stock within a rapidly changing business environment, characterized by short delivery lead-times and seasonal demand volatility, Hitachi Chemical developed its own data-visualization solution. This case was registered as a Lumada customer case in October 2017. Collecting real-time data on orders, inventories, and shipments from every site, the solution integrates information across sites by using business

intelligence tools to show changes in volumes for every product in dashboard format. To ensure full transparency, the dashboard information is also continually displayed on monitors inside offices to promote early measures to mitigate the risk of product lines running out of stock. By supporting more appropriate production planning and inventory management, the solution is helping to eliminate such occurrences.

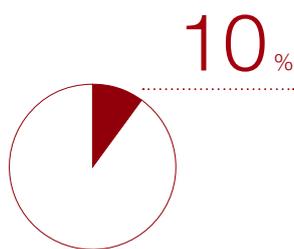
# Automotive Systems

To contribute to the realization of an affluent society by creating new value-added systems, products, and services through the harmonization of people, vehicles, and society, Hitachi is accelerating its technological development in the fields of environment and safety. We will further develop our Advanced Vehicle Control System, integrating our safety and information technologies with the Hitachi Group's social infrastructure services to meet society's needs for environmental conservation, accident elimination, and traffic congestion reduction.



Hitachi Automotive Systems' motor for a hybrid vehicle

Share of Revenues



Overseas Revenue Ratio

58%

Depreciation by Business Segment

43.6 billion yen

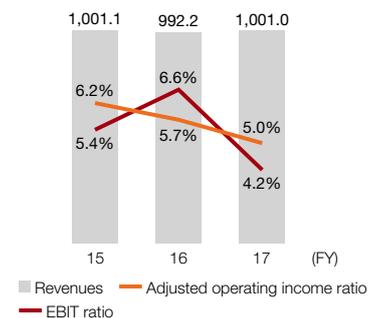
Capital Expenditure by Business Segment  
(Completion basis)

66.1 billion yen

R&D Expenditure by Business Segment

69.2 billion yen

Revenues and Profit  
(Billions of yen)



## Main Products and Services

Engine management systems, electric powertrain systems, drive control systems, car information systems

## Segment Performance

Revenues increased 1% to ¥1,001.0 billion, as compared with the year ended March 31, 2017, due mainly to increased sales in China, despite of sales decrease of car information systems business and demand decrease in North America.

Adjusted operating income decreased ¥6.7 billion to ¥49.5 billion, due mainly to profitability deterioration of

car information systems business and sales decrease in North America of Clarion Co., Ltd.

EBIT decreased ¥23.4 billion to ¥42.4 billion, as compared with the year ended March 31, 2017, due mainly to the decrease in adjusted operating income as well as absence of gain on sales and disposals of fixed assets in the preceding fiscal year.

Examples of Digital Solutions

## Wireless Update Solution for Automotive Software

Software penetration in automobiles has increased in recent years with the greater use of electronics. Timely post-manufacture updates to ECU\*1 automotive control software are increasingly needed, too, either for security purposes or adding new functionality to vehicles connected to infrastructure enhancements. The Hitachi Group offers a wireless solution for OTA\*2 software updates.

This solution involves the distribution of automotive software updates from a datacenter known as the OTA center.

The updated software is received by an onboard wireless receiver and transmitted to the ECU via a gateway board fitted with chips that have OTA software update control and security functions. In addition to this OTA software update solution, the Hitachi Group is actively developing other equipment and solutions to support wider commercialization of connected cars and other types of autonomous vehicles.

\*1 ECU: Electronic Control Unit

\*2 OTA: Over-the-Air

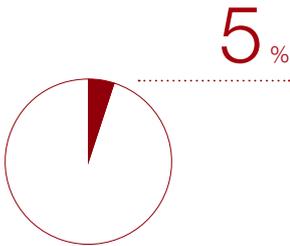
# Smart Life & Ecofriendly Systems

Hitachi provides solutions and services aimed at resolving lifestyle issues through its home appliances, lighting and housing equipment, refrigeration and air-conditioning products. Hitachi also contributes to the resolution of societal issues by helping reduce environmental impact and making an ongoing effort to improve products' energy efficiency.



Hitachi Appliances' large-capacity refrigerator

Share of Revenues



Overseas Revenue Ratio

19%

Depreciation by Business Segment

8.7 billion yen

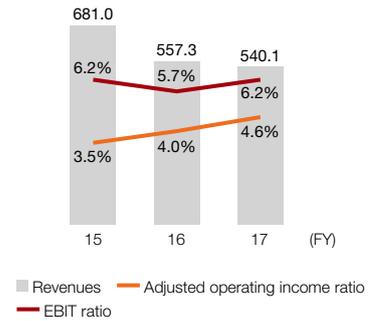
Capital Expenditure by Business Segment  
(Completion basis)

8.5 billion yen

R&D Expenditure by Business Segment

7.2 billion yen

Revenues and Profit  
(Billions of yen)



## Main Products and Services

Refrigerator, washing machine, vacuum cleaner, residential air conditioner, air-conditioning equipment

## Segment Performance

Revenues decreased 3% to ¥540.1 billion, as compared with the year ended March 31, 2017.

Adjusted operating income increased ¥2.6 billion to ¥25.1 billion, due mainly to effects of cost reduction and structural reform, despite the decline in revenues.

EBIT increased ¥1.5 billion to ¥33.3 billion, as compared

with the year ended March 31, 2017, due mainly to the increase in adjusted operating income and an increase in profit of an equity-method associate on air compressor business, despite the absence of gain on sales and disposals of fixed assets posted in previous fiscal year.

### Examples of Digital Solutions

## Exiida Remote Monitoring Service Provides IoT Solution for Air-Conditioning

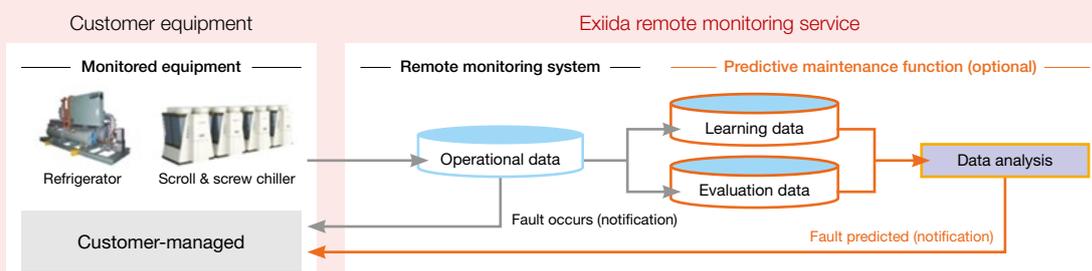
Since April 2018, Hitachi has been developing Exiida\*1 as a service business for creating new value and broadening the possibilities for air-conditioning, based on the utilization of various data and know-how relating to air-conditioning, heating, and cooling systems. This remote monitoring service for commercial refrigeration and scroll & screw chillers (including equipment for creating the chilled water used in office or factory air-conditioning systems) can enable predictive maintenance of such equipment by detecting reliable indicators of pending malfunctions, based on the application of machine learning over a certain period to

normal operating data collected from similar equipment. The aim of the service is to curtail opportunity losses for customers due to unexpected breakdowns in air-conditioning or other heating and cooling systems. Building on the equipment maintenance expertise amassed by Hitachi to date, Exiida data analysis is based on patented Hitachi technology that utilizes the LSC\*2 classification approach.

\*1 The name "Exiida" incorporates the elements of Expansion (as a prefix), Internet, Individuality and Data to express the concept of addressing the challenge of creating new value through the connection of Hitachi air-conditioning or other heating and cooling systems to the Internet.

\*2 LSC: Local Subspace Classifier (a type of classification protocol)

### Exiida Remote Monitoring Service (With Predictive Maintenance Function)



# 10-Year Financial Data

<b>U.S. GAAP</b>		Millions of yen						
For the year:	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	
Revenues	¥10,000,369	¥8,968,546	¥9,315,807	¥9,665,883	¥9,041,071	¥9,563,791	¥9,761,970	
Operating income	127,146	202,159	444,508	412,280	422,028	538,288	600,479	
EBIT (Earnings before interest and taxes)	(275,239)	77,815	443,812	573,218	358,015	585,662	551,018	
Net income (loss) attributable to Hitachi, Ltd. stockholders	(787,337)	(106,961)	238,869	347,179	175,326	264,975	241,301	
Cash flows from operating activities	558,947	798,299	841,554	447,155	583,508	439,406	447,348	
Cash flows from investing activities	(550,008)	(530,595)	(260,346)	(195,584)	(553,457)	(491,363)	(610,255)	
Free cash flows	8,939	267,704	581,208	251,571	30,051	(51,957)	(162,907)	
Cash flows from financing activities	284,388	(502,344)	(584,176)	(167,838)	(180,445)	32,968	250,335	
Cash dividends declared	9,971	-	36,133	36,727	47,690	50,711	57,944	
Capital expenditures (Property, plant and equipment)	788,466	546,326	556,873	649,234	742,537	849,877	848,716	
Depreciation (Property, plant and equipment)	478,759	441,697	382,732	360,358	300,664	329,833	349,614	
R&D expenditures	416,517	372,470	395,180	412,514	341,310	351,426	335,515	
At year-end:								
Total assets	9,403,709	8,964,464	9,185,629	9,418,526	9,809,230	11,016,899	12,395,379	
Property, plant and equipment	2,393,946	2,219,804	2,111,270	2,025,538	2,279,964	2,342,091	2,564,105	
Total Hitachi, Ltd. stockholders' equity	1,049,951	1,284,658	1,439,865	1,771,782	2,082,560	2,651,241	2,930,309	
Interest-bearing debt	2,820,109	2,367,143	2,521,551	2,396,454	2,370,079	2,823,049	3,354,616	
Yen								
Per share data:								
Net income (loss) attributable to Hitachi, Ltd. stockholders:								
Basic	¥(236.86)	¥(29.20)	¥52.89	¥76.81	¥37.28	¥54.86	¥49.97	
Diluted	(236.87)	(29.20)	49.38	71.86	36.29	54.85	49.93	
Cash dividends declared	3.0	-	8.0	8.0	10.0	10.5	12.0	
Total Hitachi, Ltd. stockholders' equity	315.86	287.13	318.73	382.26	431.13	549.02	606.87	
%								
Financial ratios:								
Operating income ratio	1.3	2.3	4.8	4.3	4.7	5.6	6.2	
EBIT ratio	-2.8	0.9	4.8	5.9	4.0	6.1	5.6	
Return on revenues	-7.9	-1.2	2.6	3.6	1.9	2.8	2.5	
Return on equity (ROE)	-48.9	-9.2	17.5	21.6	9.1	11.2	8.6	
Return on assets (ROA)	-8.0	-0.9	3.3	4.4	2.5	3.5	3.1	
D/E ratio (Including non-controlling interests) (times)	1.29	1.04	1.03	0.86	0.75	0.73	0.78	
Total Hitachi, Ltd. stockholders' equity ratio	11.2	14.3	15.7	18.8	21.2	24.1	23.6	

- Notes: 1 In order to be consistent with financial reporting principles and practices generally accepted in Japan, operating income is presented as total revenues less cost of sales and selling, general and administrative expenses. The Company believes that this is useful to investors in comparing the Company's financial results with those of other Japanese companies. Under accounting principles generally accepted in the United States of America, restructuring charges, net gain or loss on sales and disposal of rental assets and other property and impairment losses for long-lived assets are included as part of operating income.
- 2 The restructuring charges mainly represent special termination benefits incurred with the reorganization of our business structures and as the result of the Company and its subsidiaries reviewing and reshaping the business portfolio.
- 3 EBIT is presented as income before income taxes less interest income plus interest charges.
- 4 Effective from fiscal 2014, a part of the thermal power generation systems business is classified as a discontinued operation in accordance with the provision of ASC 205-20, "Presentation of Financial Statements—Discontinued Operations," which was not transferred to MITSUBISHI HITACHI POWER SYSTEMS, LTD. for the business integration in the thermal power generation systems with Mitsubishi Heavy Industries, Ltd. The results of the discontinued operation are reported separately from continuing operations. In line with this classification, "Revenues" and "Operating income" for fiscal 2013 are reclassified.
- 5 ROA (Return on Assets) = Net income / Total Assets (Average between the end of current fiscal year and the end of previous fiscal year) x 100

<b>IFRS</b>	Millions of yen				
For the year:	FY2013	FY2014	FY2015	FY2016	FY2017
Revenues	¥9,666,446	¥9,774,930	¥10,034,305	¥9,162,264	<b>¥9,368,614</b>
Adjusted operating income	604,798	641,325	634,869	587,309	<b>714,630</b>
EBIT	691,230	534,059	531,003	475,182	<b>644,257</b>
Net income attributable to Hitachi, Ltd. stockholders	413,877	217,482	172,155	231,261	<b>362,988</b>
Net cash provided by operating activities	306,777	451,825	812,226	629,582	<b>727,168</b>
Net cash used in investing activities	(550,179)	(612,545)	(730,799)	(337,955)	<b>(474,328)</b>
Free cash flows	(243,402)	(160,720)	81,427	291,627	<b>252,840</b>
Net cash provided by (used in) financing activities	228,840	233,206	(26,467)	(209,536)	<b>(321,454)</b>
Cash dividends declared	50,711	57,944	57,939	62,764	<b>72,417</b>
Capital expenditures (Property, plant and equipment)	491,170	431,201	528,551	377,545	<b>374,901</b>
Depreciation (Property, plant and equipment)	331,228	350,783	366,547	302,757	<b>265,413</b>
R&D expenditures	354,487	334,814	333,730	323,963	<b>332,920</b>
At year-end:					
Total assets	11,098,191	12,433,727	12,551,005	9,663,917	<b>10,106,603</b>
Property, plant and equipment	2,258,933	2,472,497	2,500,226	1,998,411	<b>2,124,827</b>
Total Hitachi, Ltd. stockholders' equity	2,668,657	2,942,281	2,735,078	2,967,085	<b>3,278,024</b>
Interest-bearing debt	3,033,985	3,557,356	3,604,455	1,176,603	<b>1,050,294</b>
				Yen	
Per share data:					
Earnings per share attributable to Hitachi, Ltd. stockholders:					
Basic	¥85.69	¥45.04	¥35.65	¥47.90	<b>¥75.19</b>
Diluted	85.66	45.00	35.62	47.88	<b>75.12</b>
Cash dividends declared	10.5	12.0	12.0	13.0	<b>15.0</b>
Total Hitachi, Ltd. stockholders' equity	552.62	609.35	566.48	614.56	<b>679.00</b>
				%	
Financial ratios:					
Adjusted operating income ratio	6.3	6.6	6.3	6.4	<b>7.6</b>
EBIT ratio	7.2	5.5	5.3	5.2	<b>6.9</b>
Return on revenues	4.3	2.2	1.7	2.5	<b>3.9</b>
Return on equity (ROE)	17.5	7.8	6.1	8.1	<b>11.6</b>
Return on assets (ROA)	5.0	2.9	2.4	3.0	<b>5.0</b>
D/E ratio (Including non-controlling interests) (times)	0.78	0.83	0.87	0.29	<b>0.23</b>
Total Hitachi, Ltd. stockholders' equity ratio	24.0	23.7	21.8	30.7	<b>32.4</b>

- Notes: 1 In order to be consistent with financial reporting principles and practices generally accepted in Japan, adjusted operating income is presented as total revenues less cost of sales and selling, general and administrative expenses. The Company believes that this is useful to investors in comparing the Company's financial results with those of other Japanese companies.
- 2 A part of the thermal power generation systems business is classified as a discontinued operation in accordance with the provision of IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations," which was not transferred to MITSUBISHI HITACHI POWER SYSTEMS, LTD. for the business integration in the thermal power generation systems with Mitsubishi Heavy Industries, Ltd. The results of the discontinued operation are reported separately from continuing operations.
- 3 From fiscal 2013, capital investment is stated exclusive of investment in lease assets classified as finance leases.
- 4 ROA (Return on Assets) = Net income / Total Assets (Average between the end of current fiscal year and the end of previous fiscal year) x 100

## 5-Year Non-Financial Data

<b>Human Capital Development</b>		FY2013	FY2014	FY2015	FY2016	FY2017
Number of employees	Consolidated	323,919	336,670	335,244	303,887	<b>307,275</b>
	Non-consolidated	33,500	31,375	37,353	35,631	<b>34,925</b>
Average service (years)* <sup>1</sup>		18.3	18.4	18.4	18.6	<b>18.8</b>
Turnover ratio (%) <sup>*1*2</sup>		1.4	1.4	1.3	1.5	<b>1.5</b>

<b>Diversity and Inclusion</b>		FY2013	FY2014	FY2015	FY2016	FY2017
Ratio of female employees (%) <sup>*1</sup>		16.6	16.3	16.5	16.8	<b>17.2</b>
Global ratio (number) of female managers <sup>*3</sup>		5.6	6.0	6.4	6.3	<b>6.4</b>
		(3,415)	(3,670)	(3,727)	(3,365)	<b>(3,459)</b>
Ratio (number) of female managers <sup>*4</sup>		3.8	3.7	4.0	4.1	<b>4.2</b>
		(418)	(434)	(474)	(509)	<b>(577)</b>
Employment ratio of people with disabilities (%) <sup>*5</sup>		2.02	2.03	2.08	2.11	<b>2.15</b>
Paid leave ratio (%) <sup>*1</sup>		64.7	64.3	65.3	68.1	<b>72.0</b>
Average overtime hours/month <sup>*1</sup>		13.5	12.2	11.9	12.8	<b>10.9</b>

<b>Global Human Capital</b>		FY2013	FY2014	FY2015	FY2016	FY2017
Number of non-Japanese employees <sup>*6</sup>		340	446	509	638	<b>708</b>

<b>Occupational Health and Safety<sup>*7</sup></b>		FY2013	FY2014	FY2015	FY2016	FY2017
Number of fatal accidents <sup>*1</sup>		1	1	2	1	<b>0</b>
Occupational accident rate <sup>*1</sup>		0.10	0.09	0.07	0.18	<b>0.17</b>
Occupational accident rate <sup>*8</sup>		0.14	0.27	0.22	0.18	<b>0.25</b>

### Scope of Data

\*1 Hitachi, Ltd.

\*2 Includes only voluntary resignations.

\*3 All full-time, regular female managers excluding those dispatched to non-Group companies.

\*4 "Female managers" in fiscal 2017 include managerial employees dispatched from Hitachi, Ltd. to non-Group companies and those accepted from non-Group companies by Hitachi, Ltd. Earlier figures include regular managerial employees dispatched to non-Group companies but exclude those accepted from non-Group companies.

\*5 Including Hitachi, Ltd. and 17 special subsidiaries and related Group companies. Data compiled on June 1 of each fiscal year (2.23 in fiscal 2018).

\*6 Employees at Hitachi, Ltd. as of the end of each fiscal year.

\*7 January to December each year.

\*8 195 Hitachi Group companies in Japan including Hitachi, Ltd. for 2013; 251 Hitachi Group companies in Japan including Hitachi, Ltd. for 2014; 240 Hitachi Group companies in Japan including Hitachi, Ltd. for 2015; 200 Hitachi Group companies in Japan including Hitachi, Ltd. for 2016; 201 Hitachi Group companies in Japan including Hitachi, Ltd. for 2017.

<b>Research and Development</b>		FY2013	FY2014	FY2015	FY2016	FY2017
Ratio of R&D expenditure to revenue (%)		3.7	3.4	3.3	3.5	<b>3.6</b>
Patent application ratio outside Japan (%)		59	59	59	57	<b>56</b>

### Scope of Data

Hitachi, Ltd. and consolidated subsidiaries (including variable interest entities).

Number of companies: FY2013: 948; FY2014: 996; FY2015: 1,057; FY2016: 865; FY2017: 880.

<b>Engaging in Responsible Procurement</b>		FY2013	FY2014	FY2015	FY2016	FY2017
Number of audits by external auditing organizations		16	20	20	20	<b>18</b>

<b>Environment</b>		FY2013	FY2014	FY2015	FY2016	FY2017
Rate of reduction in CO <sub>2</sub> emissions from use of products and services (base: FY2010) <sup>*1</sup> (%)		—	—	—	35	<b>33</b>
CO <sub>2</sub> emissions from factories and offices (kt-CO <sub>2</sub> )		4,165	4,128	3,895	4,577 <sup>*2</sup>	<b>4,663<sup>*2</sup></b>
Water use (million m <sup>3</sup> )		49.55	46.86	43.91	41.34 <sup>*2</sup>	<b>38.54<sup>*2</sup></b>
Waste and valuables generation (kt)		677	692	618	1,336 <sup>*2</sup>	<b>1,356<sup>*2</sup></b>
Atmospheric emissions of chemical substances (t)		4,216	4,415	3,615	4,380 <sup>*2*3</sup>	<b>4,223<sup>*2*3</sup></b>

### Scope of Data

Hitachi, Ltd. and consolidated subsidiaries.

Number of companies: FY2013: 948; FY2014: 996; FY2015: 1,057; FY2016: 865; FY2017: 880.

Environmental performance data associated with Hitachi's business operations: Hitachi Group companies whose environmental load comprises 90% of the total (based on Hitachi calculations); data for each fiscal year indicates performance within the given scope for the fiscal year.

\*1 New indicator established in fiscal 2016.

\*2 Figures include a materials company that has become a consolidated member of the Hitachi Group since fiscal 2016.

\*3 The management scope of chemical substances has been expanded from 41 to 50 substances since fiscal 2016.

### Independent Assurance of Environmental and Social Data

To enhance the reliability of the data disclosed in the *Hitachi Sustainability Report 2018*, we have received independent assurance of key environmental and social performance indicators by KPMG AZSA Sustainability Co., Ltd.

Please refer to the Third-Party Assurance Report on page 135 of the *Hitachi Sustainability Report 2018*.

<http://www.hitachi.com/sustainability/download/index.html>

# Operating and Financial Review

## Operating Results

### Summary

Years ended March 31:	Billions of yen		Percent change
	2017	2018	
Revenues	¥9,162.2	<b>¥9,368.6</b>	2%
EBIT	475.1	<b>644.2</b>	36%
Income from continuing operations, before income taxes	469.0	<b>638.6</b>	36%
Net income attributable to Hitachi, Ltd. stockholders	231.2	<b>362.9</b>	57%

### Analysis of Statement of Operations

Revenues increased 2% to ¥9,368.6 billion, as compared with the year ended March 31, 2017, despite the effect of the move to transform the business portfolio such as conversion of Hitachi Capital Corporation and Hitachi Transport System, Ltd., into equity-method affiliates and deconsolidation of Hitachi Koki Co., Ltd. (now Koki Holdings Co., Ltd.) in the year ended March 31, 2017. This increase was due mainly to higher revenues in the Construction Machinery segment, in which overseas sales increased mainly in China, and in the High Functional Materials & Components segment, in which sales of electronics- and automotive-related products increased.

Cost of sales increased 1% to ¥6,866.5 billion, as compared with the year ended March 31, 2017, and the ratio of cost of sales to revenues was 73%, a decrease of 1% from the year ended March 31, 2017. Gross profit increased 5% to ¥2,502.0 billion, as compared with the year ended March 31, 2017.

Selling, general and administrative expenses were ¥1,787.4 billion, which was the same level as for the year ended March 31, 2017, and the ratio of selling, general and administrative expenses to revenues was 19%, as compared with 20% for the year ended March 31, 2017.

Adjusted operating income increased by ¥127.3 billion to ¥714.6 billion yen, as compared with the year ended March 31, 2017. The increase was due mainly to higher profits owing to increased revenues in the Construction Machinery segment, profitability improvement for the industry & distribution field, the power and energy business, and the industrial equipment business in the Social Infrastructure & Industrial Systems segment. The increase was also attributable to higher profits in the Information & Telecommunication Systems segment owing to an improvement in the profitability of the system integration business in Japan and the effect of the structural reform implemented in the year ended March 31, 2017.

Other income decreased ¥88.6 billion to ¥12.0 billion and other expenses decreased ¥5.8 billion to ¥140.6 billion, as compared with the year ended March 31, 2017, respectively. The details are as follows. Net gain on sales and disposal of fixed assets worsened by ¥17.6 billion and turned to a loss of ¥2.5 billion, as compared with the year ended March 31, 2017. Impairment losses decreased ¥19.9 billion to ¥48.6 billion, as compared with the year ended March 31, 2017. This mainly reflected impairment losses on intangible assets, etc., in the Information &

Telecommunication Systems segment. Net gain on business reorganization and others decreased ¥71.5 billion to ¥9.7 billion, as compared with the year ended March 31, 2017, due mainly to the absence of the partial sale of the shares of Hitachi Transport System, Ltd. and the sale of Hitachi Koki Co., Ltd. shares recorded in the year ended March 31, 2017. Special termination benefits decreased ¥8.9 billion to ¥15.7 billion, as compared with the year ended March 31, 2017. Expenses related to competition law and others increased ¥7.5 billion to ¥14.2 billion, as compared with the year ended March 31, 2017.

Financial income (excluding interest income) was ¥7.0 billion, the same level as for the year ended March 31, 2017, and financial expenses (excluding interest charges) decreased ¥14.9 billion to ¥11.2 billion, as compared with the year ended March 31, 2017.

Share of profits of investments accounted for using the equity method was ¥62.4 billion, an improvement of ¥109.6 billion from the year ended March 31, 2017, for which an impairment loss for the uranium enrichment business at a U.S. equity-method associate was posted in the Social Infrastructure & Industrial Systems segment.

As a result of the foregoing, EBIT increased ¥169.0 billion to ¥644.2 billion, as compared with the year ended March 31, 2017.

Interest income increased ¥2.0 billion to ¥14.9 billion and interest charges increased ¥1.5 billion to ¥20.5 billion, as compared with the year ended March 31, 2017, respectively.

Income from continuing operations, before income taxes increased ¥169.5 billion to ¥638.6 billion, as compared with the year ended March 31, 2017.

Income taxes increased ¥6.5 billion to ¥131.7 billion, as compared with the year ended March 31, 2017, due mainly to increased income from continuing operations, before income taxes.

Loss from discontinued operations increased ¥10.0 billion to ¥16.0 billion, as compared with the year ended March 31, 2017.

Net income increased ¥152.8 billion to ¥490.9 billion, as compared with the year ended March 31, 2017.

Net income attributable to non-controlling interests increased ¥21.1 billion to ¥127.9 billion, as compared with the year ended March 31, 2017.

As a result of the foregoing, net income attributable to Hitachi, Ltd. stockholders increased ¥131.7 billion to ¥362.9 billion, as compared with the year ended March 31, 2017.

### Revenues by Geographic Area

The following is an overview of revenues attributed to geographic areas based on customer location.

Years ended March 31:	Billions of yen		Percent change
	2017	2018	
Japan	¥4,757.6	<b>¥4,643.0</b>	-2%
Overseas Revenues			
Subtotal	4,404.5	<b>4,725.5</b>	7%
Asia	1,860.7	<b>2,081.1</b>	12%
North America	1,144.0	<b>1,177.5</b>	3%
Europe	972.6	<b>964.4</b>	-1%
Other Areas	427.1	<b>502.3</b>	18%
Total Revenues	¥9,162.2	<b>¥9,368.6</b>	2%

## Japan

Revenues in Japan decreased 2% to ¥4,643.0 billion, as compared with the year ended March 31, 2017. This was due mainly to reduced revenues in the Social Infrastructure & Industrial Systems segment, etc. and due to the conversion of Hitachi Transport System, Ltd. and Hitachi Capital Corporation to equity-method associates in the previous fiscal year, despite increased revenues in the High Functional Materials & Components segment.

## Overseas

### (Asia)

Revenues in Asia increased 12% to ¥2,081.1 billion, as compared with the year ended March 31, 2017. This was due mainly to higher revenues in the Electronic Systems & Equipment segment, Construction Machinery segment, and High Functional Materials & Components segment, etc., despite reduced revenues as a result of the conversion of Hitachi Transport System, Ltd. and Hitachi Capital Corporation to equity-method associates.

### (North America)

Revenues in North America increased 3% to ¥1,177.5 billion, as compared with the year ended March 31, 2017. This was due mainly to the higher revenues in the Social Infrastructure & Industrial Systems segment gained by the industrial products business expansion by acquisition and higher revenues in the Construction Machinery segment, despite reduced revenues in the Electronic Systems & Equipment segment due to the impact of the deconsolidation of Hitachi Koki Co., Ltd.

### (Europe)

Revenues in Europe decreased 1% to ¥964.4 billion, as compared with the year ended March 31, 2017. This was due mainly to the impact of deconsolidation of Hitachi Koki Co., Ltd. and the conversion of Hitachi Capital Corporation to an equity-method associate. This decrease was almost partially offset by higher revenues in the Social Infrastructure & Industrial Systems segment, reflecting substantial sales growth in the railway systems business, and higher revenues in the High Functional Materials & Components segment due mainly to acquisitions.

### (Other Areas)

Revenues in other areas increased 18% to ¥502.3 billion, as compared with the year ended March 31, 2017. This was due mainly to higher revenues in Construction Machinery segment owing to acquisitions, etc.

As a result of the foregoing, overseas revenues increased 7% to ¥4,725.5 billion, as compared with the year ended March 31, 2017, and the ratio to total revenues was 50%, which was 2% increase as compared with the year ended March 31, 2017.

## Summary of Financial Condition, etc.

### Liquidity and Capital Resources

Our management considers maintaining an appropriate level of liquidity and securing adequate funds for current and future business operations to be important financial objectives. Through efficient management of working capital and selective investment in new plants and equipment, we are working to optimize the efficiency of capital utilization throughout our business operations. We endeavor to improve our group cash management by centralizing such management among us and our overseas financial subsidiaries. Our internal sources of funds include cash flows generated by operating activities and cash on hand. Our management also considers short-term investments to be an immediately available source of funds. In addition, we raise funds both in the capital markets and from Japanese and international commercial banks in response to our capital requirements. Our management policy is to finance capital expenditures primarily by internally generated funds and to a lesser extent by funds raised through the issuance of debt and equity securities in domestic and foreign capital markets. In order to flexibly access funding, we maintain our shelf registration with the maximum outstanding balance of ¥300.0 billion.

We maintain commitment line agreements with a number of domestic banks under which we may borrow in order to ensure efficient access to necessary funds. These commitment line agreements generally provide for a one-year term, renewable upon mutual agreement between us and each of the lending banks, as well as another commitment line agreement with a contract term of three years ending on July 29, 2019. As of March 31, 2018, our unused commitment lines totaled ¥503.2 billion, including those of ¥400.0 billion which the Company maintained.

We receive debt ratings from Moody's Japan K.K. (Moody's), Standard & Poor's Rating Japan (S&P), as well as Rating and Investment Information, Inc. (R&I). Our debt ratings as of March 31, 2018 were as follows:

Rating Company	Long-term	Short-term
Moody's	A3	P-2
S&P	A-	A-2
R&I	A+	a-1

With our current ratings, we believe that our access to the global capital markets will remain sufficient for our financing needs. We seek to improve our credit ratings in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain access to sufficient funding resources through the capital markets.

## Cash Flows

Years ended March 31:	Billions of yen	
	2017	2018
Net cash provided by operating activities	¥ 629.5	¥ 727.1
Net cash used in investing activities	(337.9)	(474.3)
Net cash used in financing activities	(209.5)	(321.4)
Effect of exchange rate changes on cash and cash equivalents	(16.1)	1.3
Change in cash and cash equivalents	65.9	(67.2)
Cash and cash equivalents at beginning of year	699.3	765.2
Cash and cash equivalents at end of year	¥ 765.2	¥ 697.9

### (Cash Flows from Operating Activities)

Net income in the year ended March 31, 2018 increased by ¥152.8 billion, as compared with the year ended March 31, 2017. Net cash outflow from a change in inventories increased by ¥158.4 billion, as compared with the year ended March 31, 2017. Net cash flow from a change in trade payables deteriorated by ¥13.6 billion. Net cash flow from a change in trade receivables improved by ¥244.0 billion. As a result, net cash outflow from changes in working capital decreased. As a result of the foregoing, net cash provided by operating activities was ¥727.1 billion in the year ended March 31, 2018, an increase of ¥97.5 billion compared with the year ended March 31, 2017.

### (Cash Flows from Investing Activities)

Net amount of investments related to property, plant and equipment\*1 was ¥406.4 billion, a decrease of ¥56.1 billion as compared with the year ended March 31, 2017. Proceeds from sales of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) decreased by ¥70.7 billion compared with the year ended March 31, 2017 for which partial sales of the shares of Hitachi Transport System, Ltd. and Hitachi Capital Corporation, and the sale of all shares of Hitachi Koki Co., Ltd. were conducted. Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) increased ¥65.8 billion, compared with the year ended March 31, 2017, due mainly to payment for the acquisition of "Sullair" air compressor business. As a result of the foregoing, net cash used in investing activities was ¥474.3 billion in the year ended March 31, 2018, an increase of ¥136.3 billion compared with the year ended March 31, 2017.

\*1 The sum of the purchase of property, plant and equipment, the purchase of intangible assets and the purchase of leased assets, less the proceeds from sale of property, plant, equipment and intangible assets, the proceeds from sale of leased assets and the collection of lease receivables

### (Cash Flows from Financing Activities)

The net cash outflow from a change in short-term debt decreased by ¥128.9 billion compared with the year ended March 31, 2017. Payments related to long-term debt\*2 in the year ended March 31, 2018 were ¥113.5 billion, as compared with ¥115.5 billion of proceeds related to long-term debt in the year ended March 31, 2017. As a result of the foregoing, net cash used in financing activities was ¥321.4 billion in the year ended March 31, 2018, an increase of ¥111.9 billion compared with the year ended March 31, 2017.

\*2 The proceeds from long-term debt, less the payments on long-term debt

As a result of the above items, as of March 31, 2018, cash and cash equivalents amounted to ¥697.9 billion, a decrease of ¥67.2 billion from March 31, 2017. Free cash flows, the sum of cash flows from operating and investing activities, were an inflow of ¥252.8 billion in the year ended March 31, 2018, a decrease of ¥38.7 billion from the year ended March 31, 2017.

### Assets, Liabilities, and Equity

As of March 31, 2018, total assets amounted to ¥10,106.6 billion, an increase of ¥442.6 billion from March 31, 2017. This was due mainly to the acquisition of "Sullair" air compressor business in the Social Infrastructure & Industrial Systems segment and corporate acquisitions undertaken by Hitachi Chemical Company, Ltd. in the High Functional Materials & Components segment. Cash and cash equivalents as of March 31, 2018 amounted to ¥697.9 billion, a decrease of ¥67.2 billion from the amount as of March 31, 2017.

As of March 31, 2018, total interest-bearing debt, the sum of short-term debt and long-term debt, amounted to ¥1,050.2 billion, a decrease of ¥126.3 billion from March 31, 2017 as a result of bond redemption and repayment of borrowings. As of March 31, 2018, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥121.4 billion, a decrease of ¥74.9 billion from March 31, 2017. As of March 31, 2018, current portion of long-term debt amounted to ¥117.1 billion, a decrease of ¥73.0 billion from March 31, 2017. As of March 31, 2018, long-term debt (excluding current portion), consisting mainly of debentures, and loans principally from banks and insurance companies, amounted to ¥811.6 billion, an increase of ¥21.6 billion from March 31, 2017.

As of March 31, 2018, total Hitachi, Ltd. stockholders' equity amounted to ¥3,278.0 billion, an increase of ¥310.9 billion from March 31, 2017. This is due mainly to posting net income attributable to Hitachi, Ltd. stockholders. As a result, the ratio of total Hitachi, Ltd. stockholders' equity to total assets as of March 31, 2018 was 32.4%, compared with 30.7% as of March 31, 2017.

Non-controlling interests as of March 31, 2018 were ¥1,233.6 billion, an increase of ¥103.7 billion from March 31, 2017.

Total equity as of March 31, 2018 was ¥4,511.6 billion, an increase of ¥414.6 billion from March 31, 2017. The ratio of interest-bearing debt to total equity was 0.23, compared with 0.29 as of March 31, 2017.

# Consolidated Statement of Financial Position

March 31, 2018 and 2017

	Millions of yen	
Assets	2017	2018
Current assets		
Cash and cash equivalents	¥ 765,242	¥ 697,964
Trade receivables	2,433,149	2,501,414
Inventories	1,225,907	1,375,232
Investments in securities and other financial assets	388,792	373,324
Other current assets	189,516	203,866
Total current assets	5,002,606	5,151,800
Non-current assets		
Investments accounted for using the equity method	691,251	743,407
Investments in securities and other financial assets	758,350	716,431
Property, plant and equipment	1,998,411	2,124,827
Intangible assets	919,201	1,054,370
Other non-current assets	294,098	315,768
Total non-current assets	4,661,311	4,954,803
Total Assets	¥9,663,917	¥10,106,603

Note: Changes in presentation have been made due to materiality of some accounts balances as a result of business reorganization and others. 'Investments in securities and other financial assets,' which were included in 'Other current assets' as of March 31, 2017, have been reclassified and presented separately. 'Lease receivables,' which were separately presented under current and non-current assets, have been included in 'Investments in securities and other financial assets' under current and non-current assets, respectively. 'Other financial liabilities,' which were separately presented under non-current liabilities, have been included in 'Other non-current liabilities.' The consolidated statement of financial position as of March 31, 2017 has been reclassified in order to reflect these changes in presentation.

	Millions of yen	
<b>Liabilities</b>	2017	2018
Current liabilities		
Short-term debt	¥ 196,357	¥ 121,439
Current portion of long-term debt	190,233	117,191
Other financial liabilities	274,270	254,735
Trade payables	1,402,233	1,536,983
Other current liabilities	1,657,766	1,765,046
Total current liabilities	3,720,859	3,795,394
Non-current liabilities		
Long-term debt	790,013	811,664
Retirement and severance benefits	635,684	575,156
Other non-current liabilities	420,366	412,718
Total non-current liabilities	1,846,063	1,799,538
Total Liabilities	5,566,922	5,594,932
<b>Equity</b>		
Hitachi, Ltd. stockholders' equity		
Common stock	458,790	458,790
Capital surplus	577,573	575,809
Retained earnings	1,793,570	2,105,395
Accumulated other comprehensive income	141,068	142,167
Treasury stock, at cost	(3,916)	(4,137)
Total Hitachi, Ltd. stockholders' equity	2,967,085	3,278,024
Non-controlling interests	1,129,910	1,233,647
Total Equity	4,096,995	4,511,671
Total Liabilities and Equity	¥9,663,917	¥10,106,603

# Consolidated Statement of Profit or Loss

Years ended March 31, 2018 and 2017

	Millions of yen	
	2017	2018
Revenues	¥ 9,162,264	¥ <b>9,368,614</b>
Cost of sales	(6,782,677)	<b>(6,866,522)</b>
Gross profit	2,379,587	<b>2,502,092</b>
Selling, general and administrative expenses	(1,792,278)	<b>(1,787,462)</b>
Adjusted operating income	587,309	<b>714,630</b>
Other income	100,742	<b>12,068</b>
Other expenses	(146,568)	<b>(140,686)</b>
Financial income	7,091	<b>7,005</b>
Financial expenses	(26,206)	<b>(11,243)</b>
Share of profits (losses) of investments accounted for using the equity method	(47,186)	<b>62,483</b>
EBIT (Earnings before interest and taxes)	475,182	<b>644,257</b>
Interest income	12,923	<b>14,928</b>
Interest charges	(19,014)	<b>(20,539)</b>
Income from continuing operations, before income taxes	469,091	<b>638,646</b>
Income taxes	(125,112)	<b>(131,708)</b>
Income from continuing operations	343,979	<b>506,938</b>
Loss from discontinued operations	(5,950)	<b>(16,020)</b>
Net income	¥ 338,029	¥ <b>490,918</b>
Net income attributable to:		
Hitachi, Ltd. stockholders	231,261	<b>362,988</b>
Non-controlling interests	106,768	<b>127,930</b>

# Consolidated Statement of Comprehensive Income

Years ended March 31, 2018 and 2017

	Millions of yen	
	2017	2018
Net income	¥338,029	<b>¥490,918</b>
Other comprehensive income (OCI)		
Items not to be reclassified into net income		
Net changes in financial assets measured at fair value through OCI	59,934	<b>1,530</b>
Remeasurements of defined benefit plans	46,086	<b>22,753</b>
Share of OCI of investments accounted for using the equity method	(1,887)	<b>3,302</b>
Total items not to be reclassified into net income	104,133	<b>27,585</b>
Items that can be reclassified into net income		
Foreign currency translation adjustments	(64,761)	<b>(8,042)</b>
Net changes in cash flow hedges	21,303	<b>5,703</b>
Share of OCI of investments accounted for using the equity method	1,166	<b>(45)</b>
Total items that can be reclassified into net income	(42,292)	<b>(2,384)</b>
Other comprehensive income (OCI)	61,841	<b>25,201</b>
Comprehensive income	¥399,870	<b>¥516,119</b>
Comprehensive income attributable to:		
Hitachi, Ltd. stockholders	299,397	<b>382,341</b>
Non-controlling interests	100,473	<b>133,778</b>

# Consolidated Statement of Changes in Equity

Years ended March 31, 2018 and 2017

Millions of yen

2017

	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total Hitachi, Ltd. stockholders' equity	Non-controlling interests	Total equity
As of March 31, 2016	¥458,790	¥586,790	¥1,609,761	¥ 83,543	¥(3,806)	¥2,735,078	¥1,390,492	¥4,125,570
Reclassified into retained earnings	-	-	10,486	(10,486)	-	-	-	-
Net income	-	-	231,261	-	-	231,261	106,768	338,029
Other comprehensive income (loss)	-	-	-	68,136	-	68,136	(6,295)	61,841
Cash dividends	-	-	(57,938)	-	-	(57,938)	(38,283)	(96,221)
Changes in treasury stock	-	(15)	-	-	(110)	(125)	-	(125)
Equity transactions and other	-	(9,202)	-	(125)	-	(9,327)	(322,772)	(332,099)
Total changes in equity	-	(9,217)	183,809	57,525	(110)	232,007	(260,582)	(28,575)
As of March 31, 2017	¥458,790	¥577,573	¥1,793,570	¥141,068	¥(3,916)	¥2,967,085	¥1,129,910	¥4,096,995

Millions of yen

2018

	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total Hitachi, Ltd. stockholders' equity	Non-controlling interests	Total equity
As of March 31, 2017	<b>¥458,790</b>	<b>¥577,573</b>	<b>¥1,793,570</b>	<b>¥141,068</b>	<b>¥(3,916)</b>	<b>¥2,967,085</b>	<b>¥1,129,910</b>	<b>¥4,096,995</b>
Reclassified into retained earnings	-	-	<b>16,428</b>	<b>(16,428)</b>	-	-	-	-
Net income	-	-	<b>362,988</b>	-	-	<b>362,988</b>	<b>127,930</b>	<b>490,918</b>
Other comprehensive income	-	-	-	<b>19,353</b>	-	<b>19,353</b>	<b>5,848</b>	<b>25,201</b>
Cash dividends	-	-	<b>(67,591)</b>	-	-	<b>(67,591)</b>	<b>(34,395)</b>	<b>(101,986)</b>
Changes in treasury stock	-	<b>(27)</b>	-	-	<b>(221)</b>	<b>(248)</b>	-	<b>(248)</b>
Equity transactions and other	-	<b>(1,737)</b>	-	<b>(1,826)</b>	-	<b>(3,563)</b>	<b>4,354</b>	<b>791</b>
Total changes in equity	-	<b>(1,764)</b>	<b>311,825</b>	<b>1,099</b>	<b>(221)</b>	<b>310,939</b>	<b>103,737</b>	<b>414,676</b>
As of March 31, 2018	<b>¥458,790</b>	<b>¥575,809</b>	<b>¥2,105,395</b>	<b>¥142,167</b>	<b>¥(4,137)</b>	<b>¥3,278,024</b>	<b>¥1,233,647</b>	<b>¥4,511,671</b>

# Consolidated Statement of Cash Flows

Years ended March 31, 2018 and 2017

	Millions of yen	
	2017	2018
<b>Cash flows from operating activities</b>		
Net income	¥ 338,029	¥ 490,918
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	415,183	364,432
Change in trade receivables	(196,824)	47,216
Change in inventories	(22,731)	(181,207)
Change in trade payables	111,589	97,923
Other	(15,664)	(92,114)
Net cash provided by (used in) operating activities	629,582	727,168
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(316,116)	(349,388)
Purchase of intangible assets	(101,034)	(90,924)
Purchase of leased assets	(292,943)	(3,263)
Proceeds from sale of property, plant and equipment, and intangible assets	52,208	27,448
Proceeds from sale of leased assets	14,539	9,628
Collection of lease receivables	180,726	-
Proceeds from sale (purchase) of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method), net	71,653	(64,936)
Other	53,012	(2,893)
Net cash provided by (used in) investing activities	(337,955)	(474,328)
Free cash flows	291,627	252,840
<b>Cash flows from financing activities</b>		
Change in interest-bearing debt	(118,314)	(218,409)
Dividends paid to stockholders	(57,935)	(67,568)
Dividends paid to non-controlling interests	(36,508)	(32,066)
Other	3,221	(3,411)
Net cash provided by (used in) financing activities	(209,536)	(321,454)
Effect of exchange rate changes on cash and cash equivalents	(16,164)	1,336
Change in cash and cash equivalents	65,927	(67,278)
Cash and cash equivalents at beginning of year	699,315	765,242
Cash and cash equivalents at end of year	¥ 765,242	¥ 697,964

# Corporate Data / Stock Information

As of March 31, 2018

## Corporate Name

Hitachi, Ltd. (Kabushiki Kaisha  
Hitachi Seisakusho)

## Number of Employees

307,275

## Accounting Auditor

Ernst & Young ShinNihon LLC

## URL

http://www.hitachi.com/

## Number of Shares Issued Common Stock

(including treasury stock)  
4,833,463,387 shares

## Investor Relations Contacts JAPAN

Hitachi, Ltd.  
6-6, Marunouchi 1-chome,  
Chiyoda-ku, Tokyo 100-8280  
TEL: +81-3-3258-1111  
E-mail: ir.info.hq@hitachi.com

## Principal Office

6-6, Marunouchi 1-chome,  
Chiyoda-ku, Tokyo 100-8280, Japan

## Number of Shareholders

335,411

## U.S.A.

Hitachi America, Ltd.  
50 Prospect Avenue,  
Tarrytown, NY 10591  
TEL: +1-914-333-2987  
E-mail: investor.info@hal.hitachi.com

## Founded

1910 (Incorporated in 1920)

## Administrator of Shareholders' Register

Tokyo Securities Transfer Agent  
Co., Ltd.  
6th Floor, NMF Takebashi Building,  
3-11, Kanda Nishiki-cho,  
Chiyoda-ku, Tokyo 101-0054, Japan

## U.K.

Hitachi Europe Ltd.  
Whitebrook Park,  
Lower Cookham Road,  
Maidenhead, Berkshire SL6 8YA  
TEL: +44-1628-585384

## Capital Stock

458,790 million yen

## Stock Exchange Listings

Tokyo, Nagoya

## 10 Largest Shareholders

Name	Number of Shares (shares)	Percentage of Total (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	315,175,000	6.53
Japan Trustee Services Bank, Ltd. (Trust Account)	289,061,315	5.99
Hitachi Employees' Shareholding Association	99,765,384	2.07
Nippon Life Insurance Company	93,264,995	1.93
Japan Trustee Services Bank, Ltd. (Trust Account 9)	92,858,000	1.92
State Street Bank West Client-Treaty 505234	92,679,162	1.92
Japan Trustee Services Bank, Ltd. (Trust Account 5)	91,756,000	1.90
The Dai-ichi Life Insurance Company, Limited*	71,361,222	1.48
Japan Trustee Services Bank, Ltd. (Trust Account 7)	70,797,000	1.47
Japan Trustee Services Bank, Ltd. (Trust Account 1)	68,201,000	1.41

\* The number of shares held by The Dai-ichi Life Insurance Company, Limited includes its contribution of 6,560,000 shares to the retirement allowance trust (the holder of said shares, as listed in the Shareholders' Register, is "Dai-ichi Life Insurance Account, Retirement Allowance Trust, Mizuho Trust & Banking Co., Ltd.").

## Ratings

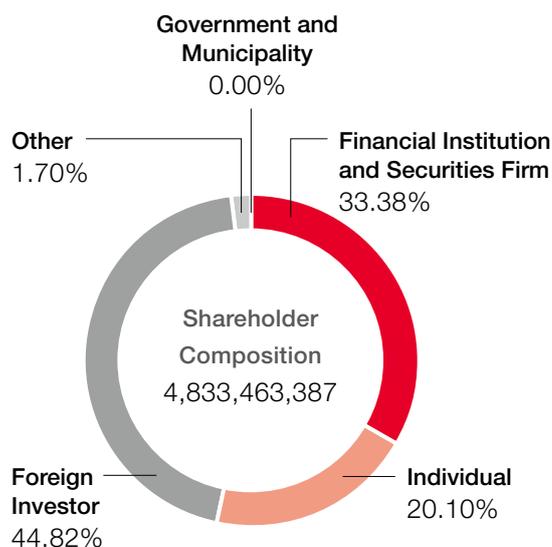
Rating Company	Long-term	Short-term
Moody's Japan K.K. (Moody's)	A3	P-2
Standard & Poor's Ratings Japan (S&P) *	A-	A-2
Rating and Investment Information, Inc. (R&I)	A+	a-1

\* On August 7, 2018, S&P raised Hitachi's long-term and short-term corporate debt ratings by a single notch, to "A" and "A-1," respectively.

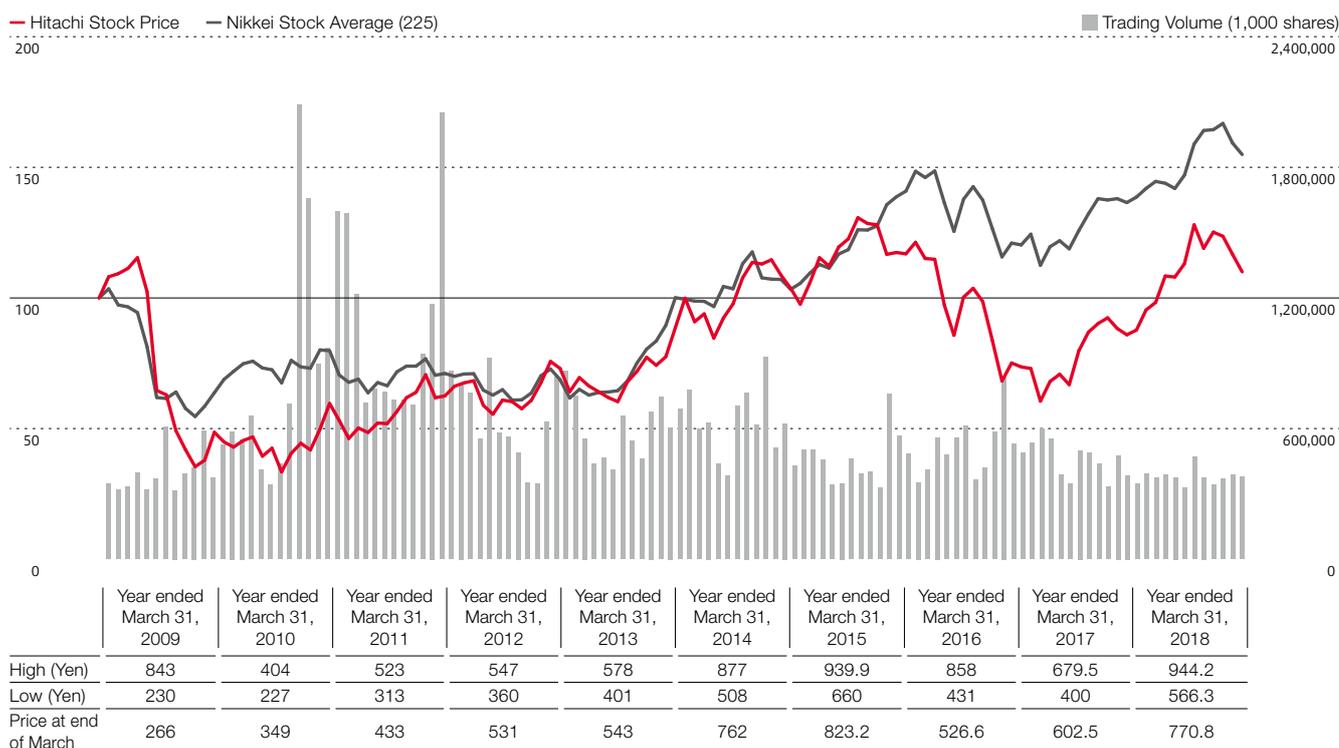
## Shareholder Composition

Class of Shareholders	Number of Shareholders	Share Ownership (shares)
● Financial Institution and Securities Firm	363	1,613,562,519
● Individual	330,471	971,762,712
● Foreign Investor	1,474	2,166,160,307
● Other	3,099	81,931,281
● Government and Municipality	4	46,568
Total	335,411	4,833,463,387

\* Treasury stock is included in "Other."



## Stock Price and Trading Volume



\*1 The closing price on March 31, 2008 equals 100.

\*2 Hitachi, Ltd. undertook a 1-for-5 reverse-split of the Company's common stock on October 1, 2018. The stock information in this report relates to data prior to the reverse stock split.

## Website Information

Detailed information is available on the Company's website.

### About Hitachi Group

<http://www.hitachi.co.jp/about/corporate/>  
(Japanese)

<http://www.hitachi.com/corporate/about/>  
(English)

### Investor Relations

<http://www.hitachi.co.jp/IR/>  
(Japanese)

<http://www.hitachi.com/IR-e/>  
(English)

### Sustainability

<http://www.hitachi.co.jp/sustainability/>  
(Japanese)

<http://www.hitachi.com/sustainability/>  
(English)