

CEO Message

Hitachi is Constantly Growing Thanks to Our Employees and Technology Accelerating Transformation Through Mode Change for Growth

Hitachi is finishing up a decade-long structural reform and has begun moving towards sincere growth. I was determined when I became CEO in April 2022, during the launch of the Mid-term Management Plan 2024, to take the baton and continue Hitachi's transformation, emphasizing the history and values assembled by Hitachi since its founding.

We will continue to build a Hitachi that is always changing thanks to our employees and technology while also reconfirming our DNA of transformation that has led us to continue restructuring in accordance with social changes.

President & CEO

Keiji Kojima



Reconfirmation of History and Values for the Next Decade

Since its establishment in 1910, Hitachi has grown together with the development of society and the economy, operating under a foundational Mission set by founder Namihei Odaira: “Contribute to society through the development of superior, original technology and products.” With this guiding principle, we have resolved issues facing society through the development of technologies and products that support social infrastructure.

As a student, I visited Hitachi's Central Research Laboratory in Tokyo for the first time. I remember being impressed that Hitachi appreciated technology above all else, which made me decide to begin my career with the company as a researcher. I was heavily involved in database research during that time and once again realized the company's unique attitude towards valued technology. Hitachi's culture of superior performance and unparalleled functionality inspires me to never compromise. Hitachi has continued to grow while championing the ideas passed down from those who came before us. We proudly continue developing new technologies and pioneering services that support social infrastructure—that is, enhancing people's lives.

Hitachi is also an organization that can cope with social changes and continuously transform without fear. Our vision of being a Social Innovation Business as promoted by previous CEOs enabled us to come out of the red following the global financial crisis. To avoid future financial issues, we shifted back to the true DNA of Hitachi and continue to seek transformation and strategize to solve future social issues. Lumada is a great symbol of this as it was launched in 2016 to offer solutions that deal with the shift towards digitalization in society that we are experiencing today.

The Lumada concept started when I was CTO in 2014, when it was predicted that the Internet of Things would be the next big social trend. We created a business model framework that offers value by collaborating with customers and leveraging Hitachi's rich IT and OT (operational technologies) expertise and technologies. We called this system, inspired by the wisdom of Silicon Valley's cutting-edge people, “Lumada.” In addition to data analytics and the knowledge of AI specialists, we also incorporated cultural anthropology, experience design and a variety of other viewpoints to construct the concept of “people (customers).” Hitachi's Lumada was finally launched in 2016, not only as a system to run applications or software on platforms but also as a framework for co-creation too. In addition to expanding the Social Innovation Business, Hitachi took on the challenge of making a major transformation over the past decade and growing the Lumada business since 2016.

I believe there is a great resemblance between Hitachi and a tree that is constantly evolving. Hitachi's biggest strength is its ability to grow and transform to continuously solve social issues. In order for the tree to continue to grow without weakening, we must change our business, shedding light on Hitachi's branches and leaves, similar to the strategy we followed over the past decade. We have gone through that pruning. What kind of fruit will this tree produce? What sort of buds will become part of the new trunk? Instead of creating finite products that cannot be altered, Hitachi consistently co-creates solutions alongside society to meet current needs and improve quality of life. Hitachi's legacy is defined by the fruit—or results—of that tree. I believe it is vital for this tree to change forms along the way and for Hitachi to continue taking on new challenges.



▶ Hitachi's Central Research Laboratory

Established as a primary research laboratory in 1942. Through its establishment, comprehensive basic research on electron microscopes and more was strengthened from the study of prior developments and improvements directly linked to products and further progress was made in developing new products.

▶ Lumada

▶ P.24

▶ Experience Design

Designing around the user's experience value (experience).

Hitachi's Design Thinking

▶ <https://www.hitachi.com/rd/research/design/nexperience/design/>

The Mid-term Management Plan 2021 Has Ended and the Groundwork for Growth over the Last Decade is Complete

The emergence of COVID-19 greatly affected social and economic activity worldwide during the three years between fiscal 2019 and 2021 in the Mid-term Management Plan 2021. Since the second half of 2021, there have been shortages of semiconductors and the costs of materials have skyrocketed. In 2022, the prices of resources, including crude oil and natural gas, have kept increasing due to the Russia-Ukraine situation, which exposed us to new geopolitical risks.

The major social and economic changes caused by COVID-19 also affected Hitachi's management. Nonetheless, we were able to achieve an adjusted operating income ratio of 7.2% in fiscal 2021. Under these conditions, Hitachi has set the goal of achieving a sustainable society through the Social Innovation Business in the Mid-term Plan Management 2021 and has established a comprehensive plan to build a business foundation for global growth. We built a solid management system through continued efforts and initiatives to improve profitability and believe this was a significant accomplishment for the Mid-term Management Plan 2021. We also continue to establish a strong business foundation, pushing through with profitability improvements and structural improvements to achieve growth in the Social Innovation Business. To make Hitachi an even stronger global competitor, we acquired GlobalLogic and ABB's power grid business (now Hitachi Energy) while also deciding to sell publicly listed subsidiaries including Hitachi Chemical, Hitachi Metals, and Hitachi Construction Machinery. I believe another accomplishment was establishing goals during the groundwork for growth toward the Mid-term Management Plan 2024.

Mid-term Management Plan 2024—Mode Change for Growth in the Next Decade

We positioned the three years of the Mid-term Management Plan 2024 as a mode change for growth to create paths allowing continuous growth over the next decade while also valuing prior transformations. Through the power of innovations for the future of society and the creation of value by digital and green actions, we have changed our future course to focus mainly on growth.

"Creating a sustainable society through data and technology where each person can actively participate while also protecting the earth." People and the Earth are key in our vision for the future. Based on our innovation strategy for 2050, we will implement digital and green measures from the backcast approach to determine the next steps.

Additionally, in the Mid-term Management Plan 2024, we took on the challenge of adequately explaining the Lumada framework once again. There are four monetization models in Lumada, and we recently strengthened our ability to work from any model with the acquisition of GlobalLogic. We believe that Lumada can accelerate the process of problem solving and co-creation and we hope to demonstrate Hitachi's potential for further growth through expanding the business.



▶ GlobalLogic

A U.S.-based company acquired by Hitachi in July 2021. GlobalLogic is a leading company in the digital engineering service market.

▶ <https://www.globallogic.com/>

▶ Hitachi Energy

Hitachi acquired the power grid business from ABB, a heavy electric company in Switzerland, and began operations in July 2020. The company name was changed to its current name in October 2021. Hitachi Energy offers systems, products, and services of a leading global standard for the transmission-transformation of electric energy, including a high-voltage direct current (HVDC) system allowing for long-distance transmission of energy on a large scale and a microgrid allowing for highly reliable energy supply.

▶ <https://www.hitachienergy.com/us/en>

▶ Mid-term Management Plan 2024: Digital, Green, and Innovation

▶ P.22

Creating an Organization Where Our Employees and Technology Produce Innovations for Customers' Next Steps

Hitachi is committed to solving social issues of the future through both our employees and technology. We understand that the next step our customers want to take is focused on digital and green. Hitachi will solidly support these steps; Our Mid-term Management Plan 2024 will address all growth opportunities in these sectors and support in refining the customers' future decisions. It is vital to drive our business with technological advancement, insights and vision from a medium- to long-term perspective. We are already making strategic moves to refine our digital and green transformations through the acquisition of GlobalLogic and ABB's power grid business (now Hitachi Energy), and we are thinking beyond these transformations as we move forward.

While Hitachi has always valued research and development, it is essential to understand technological trends and how they differ from an innovation that changes the world. To convert technology into innovation, Hitachi believes it is imperative to foster human capital with vision, ideas and concepts and I will lead this growth by drawing from my experience in R&D. I am also confident that the strength of more than 300,000 employees in Hitachi will assist in delivering value to our customers and society. In order to respond to the various expectations and needs of society, we will create value and greater promotion of DEI (Diversity, Equity and Inclusion) and co-creation.

We have also been working to strengthen employee engagement to create a culture where each employee takes responsibility for solving social issues. We aim to be a company where employees are satisfied with their jobs and are proud to be a part. We will continue to be committed to including our employees in more significant discussions and consider what we can do together, as we are doing with PMI (Post-Merger Integration) to fully utilize the knowledge of our new colleagues at GlobalLogic and Hitachi Energy.

When I was transferred to a startup in Silicon Valley, I had the chance to see Hitachi from the outside. At that time, I was interviewing about 10 people every day to recruit human capital and I experienced firsthand how key leaders can flourish into outstanding and unique human capital and ultimately guide an organization in a unified direction.

It helped me understand the importance of harmony, where various human capital unites under one leader to work together, and the value of sincerity when facing customers and solving problems with integrity. Finally, the crucial role of having a pioneering spirit is to develop dedicated new customers.

It was a valuable opportunity for me to understand the true meaning of the Hitachi Founding Spirit of Harmony, Sincerity, and Pioneering Spirit and the role a leader should play. It was great to see Hitachi employees willing to work in different settings and fields because they have a willingness to grow. It is becoming even more important to make Hitachi a company people want to work for again.



- ▶ **DX**
Digital Transformation
- ▶ **GX**
Green Transformation
- ▶ **DEI (Diversity, Equity and Inclusion)**
▶ **P.41**

Dealing with Complex Global Risks

We are in an age where it is challenging to predict how the social and economic environment will change. To accelerate and grow the Social Innovation Business, Hitachi will not only collect information on potential upcoming risks, but also thoroughly prepare for and respond to them when they occur. It is often pointed out at meetings of the Board of Directors that it has become necessary not only to determine risks related to human rights, compliance, and other disasters, but also to prepare for comprehensive risk management due to the constant change in business environment that includes financial risks as well.

Since April 2022, Hitachi has established a global risk governance structure with the CFO taking on the role of CRMO in order to identify the risks that might affect us in the near future. For example, with the situation in Ukraine this year, we responded based on BCP, with the safety of our 7,000 GlobalLogic employees as our top priority. For Hitachi, having spread its business globally, it is essential to make risk management preparations to increase our resilience to various risks.

For a Stronger, Trusted Hitachi Through Dialogue with Stakeholders

As we promote our Social Innovation Business, Hitachi values the dialogue and co-creation with our diverse stakeholders, including customers, governments, municipalities, academic organizations, and research organizations, to accurately understand the various social problems in each country and region.

To accelerate and lead the initiatives towards decarbonization, a high-priority issue for society, Hitachi was inaugurated as a Principal Partner, supporting the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26) held in the U.K. in November 2021. Through discussions with our various stakeholders, including government officials and management from global companies, we have shown our role as an innovator in the field of climate change and our strong commitment to realizing a decarbonized society.

We feel that the capital markets have been very supportive in providing us counsel on management through dialogue with institutional investors. I realized that we could increase Hitachi's corporate value through co-creation with investors, just as we can realize value for customers and society through co-creation.

And from a sustainability management perspective, I believe that dialogue and engagement with a wide range of stakeholders is even more critical.

We have upheld a mode change for growth in the Mid-term Management Plan 2024 and we will be focused on generating cash during these three years as a result of implementing the plan. We will also expand our core free cash flows and enhance our shareholder returns by improving our earning power and streamlining our balance sheet. We are already planning a 200 billion yen buyback this fiscal year and we will continue to share the results of our growth with our stakeholders and make further contributions to social and environmental values.



▶ Risk Management Structure

▶ P.75

▶ Generating Cash

▶ P.45