

## Messages from Independent Outside Directors

### Contributing to Hitachi

Hitachi is a global company with operations all around the world. My tasks as a member of the Board of Directors are to learn and to give whatever input I can on the issues that we face. Each country, and each company, has a unique DNA. As a businessman and entrepreneur, I am always excited to learn these things. I have long had respect for Japanese companies and how they have grown into international businesses. Hitachi is one example of such a business, making it interesting for me to see firsthand how the company works while providing input from my own perspective on the areas that I know well—India, Europe, and North America.

### Facing Challenges with Multiple Strengths

Every company faces challenges today, and Hitachi is no exception. There is a high level of disruption in technology and the digital space that touches every business. Major sociopolitical change is taking place across the spectrum in every country; these winds of change are affecting business like never before. There are also crises and flashpoints all over what has become a very multipolar world. All of this places tremendous strain on companies as they determine what talent they need to create for the future and how to direct it.

Hitachi faces a particularly broad range of challenges. The company is involved in some fields, such as automotive systems and construction machinery, that could be described as low-risk but feature high volatility related to technology change. In other areas, like the nuclear power and railway businesses, projects can run for decades, involving governments and making it harder to see where costs will be 15 years down the road. All of these different challenges require very different management

approaches. The task, therefore, is to put the right people, the right governance, and the right level of risk analysis and mitigation in place.

I believe that Hitachi has multiple strengths to help it face these varied challenges. First is the bandwidth of its technologies and capabilities in terms of products and processes. For instance, many companies are involved in IoT development now, but what Hitachi is doing with Lumada is ahead of the game.

Second is its strong management team. Hitachi handles corporate governance very well. There is plenty of openness, with board members and executive officers able to express their opinions freely. The company also has outside board members from different countries, as well as female directors, making it a trendsetter of sorts as well as a good corporate governance example.

Third, Hitachi has the ability to recognize how the world is changing and to take actions to stay ahead of those changes, rather than simply reacting to them after the fact. We've had plenty of forward-looking discussion about Brexit and the US presidential election, for example, as something that could impact Hitachi's businesses.

### Finding the Right Way Forward

This tremendous volume of discussion is one of Hitachi's key tools to prepare it to meet the challenges of the times. The Hitachi Board carries out a lot of discussion, taking a systematic approach to risk management and ensuring that there is analysis available on all areas where risk is involved. This analysis generates options for the company, allowing it to get a feel for the business environment, the risks, and the growth opportunities. Of course, Hitachi is involved in hundreds of different businesses, and it would be very difficult for any one person to understand it all, but frequent and detailed discussions let us get a more comprehensive feel of the business environment.

On the level of its local operations around the world, Japanese managers used to run global operations, but Hitachi is now changing to place more operations in local managers' hands. All it takes is some cultural adjustments and an open mindset. Hitachi is certainly headed in the right direction.



Baba Kalyani



Takatoshi Yamamoto

### Hitachi's Challenge, My Mission

Including my time as a financial analyst, I have been an observer of Hitachi's management for more than 30 years. Hitachi's performance has wavered at times, but the company is now entering a new stage, aiming to become a truly major global player and an "Innovation Partner for the IoT Era." Although it is one of Japan's leading enterprises, in terms of profitability Hitachi is not yet excelling. To rank among the competition as a truly global player, Hitachi must realize sustainable growth of enterprise value by strengthening its earnings ability. All executive officers from the CEO down must understand the concept of enterprise value, including from an ESG perspective; management decisions must be based on a clear, ongoing estimation and evaluation of current and future value. As an independent outside director, my mission is to use my long professional experience in corporate analysis in the capital markets to help Hitachi's management develop sustainable enterprise value and improve its corporate governance.

### Further Strengthening Corporate Governance

I regard Hitachi's corporate governance highly. In 2016, Hitachi increased management transparency further by explicitly including dismissal of the CEO and selection of a successor among the responsibilities of the board of directors in its corporate governance guidelines. Nevertheless, in the course of supervising and auditing Hitachi over the past year as an outside director and a member of the Audit Committee, I noted opportunities for further improvement.

The first is audit structure. Hitachi encompasses almost 900 Group companies, including those newly consolidated through mergers and acquisitions, and it makes roughly half of its revenue outside Japan. For the efficient and appropriate auditing of such a large and diverse enterprise, further structural improvements are necessary. Hitachi's "tripartite audit" function, made up of the Audit Committee, the Internal Auditing Office, and an auditing firm, is top-class within Japan, but in 2017 Hitachi began working to establish tripartite audits for each Group company as part of constructing a

unified audit structure for the entire Group, including overseas entities. Hitachi will need to mitigate various risks as it continues to strengthen its audit structure.

The second area is verifying that executive officers reflect board-level discussions in both their actions and the results achieved. By monitoring and verifying how board discussions influence Hitachi's operations, the company's directors will be able to ensure the effectiveness of the board on which they serve. We independent outside directors must construct better means of assurance in this area.

### A Roadmap to Become a Truly Global Player

To make Hitachi a truly global player that satisfies diverse stakeholders, and to develop ways to further increase its enterprise value, the following five points are vital: (1) bold and swift management decision-making and execution, including an ongoing review of the Group's business portfolio; (2) improved capital and asset efficiency; (3) higher profitability to meet global standards; (4) improved coordination and administration for mergers and acquisitions and major projects; and (5) more effective use of Hitachi's diverse and global human capital by management, including development of the next generation of executive officers.

Achieving the goals of the 2018 Mid-term Management Plan will be an important milestone, but when considering the company's long-term development, Hitachi must look beyond this plan. Hitachi is at a significant juncture, and whether it can become a truly major global player depends on which path it now follows. As a director, I will continue to monitor and supervise Hitachi closely, contributing all that I can to the realization of that goal and to the improvement of the company's enterprise value.