

Commitment of the President and Chief Executive Officer

We will create value with the aim of creating an affluent and sustainable future.

I thank you for the ongoing support you have given to the business of the Hitachi Kokusai Electric Group.

I would like to extend my deep sympathy to those who have been affected by the Kumamoto Earthquakes. I sincerely hope that affected areas will recover as soon as possible.

In fiscal 2015, although the U.S. economy remained steady, the global economy on the whole experienced continued uncertainty due to an economic slowdown in China and economic stagnation in emerging markets such as Brazil. The Japanese economy was on a slow recovery track, but business confidence deteriorated due to the strong yen and weak stock prices from the beginning of the year.

Under these circumstances, in addition to implementing various measures aimed at global expansion and at launching new businesses, the Group worked aggressively to boost orders in Japan and overseas.

Breaking down the business overview by segment, the Video and Communication Solutions segment*¹ saw a decrease in both revenues and operating income, due to the occurrence of unprofitable projects in addition to major changes in the market environment, such as the fading of reconstruction demand from the Great East Japan Earthquake in the domestic market, investment shifts in the defense sector and communications infrastructure, and an economic slump in emerging markets. As for the Thin Film Process Solutions segment*¹, despite a contraction in DRAM-related investment, the segment took steady orders for products against a backdrop of robust capital investment by semiconductor manufacturers in Asia, and the service businesses remained strong. As a result, the segment achieved record-high revenues. However, its operating income decreased from the high base set by aggressive prior investment.

During the period of the previous Medium-term Management Plan, the final year of which is fiscal 2015,

both segments pursued business structural reforms and were able to create products and systems that have captured a high market share. As a result, we achieved an operating income rate of more than 10% for two consecutive years in fiscal 2013 and fiscal 2014. However, in fiscal 2015, although we recorded our highest-ever revenues in the Thin Film Process Solutions*¹ segment, we failed to meet our targets in the Video and Communication Solutions*¹ segment because of rapid changes in the business environment and other factors.

As for the future outlook of the business environment surrounding our Group, it is expected that despite steady growth in the U.S. economy, the global economy on the whole will remain unpredictable in light of China's worrisome economic slowdown and the prolonged stagnation in resource prices. As for the Japanese economy, due to the saturation in reconstruction demand from the Great East Japan Earthquake, our related markets will enter a leveling-off phase. We will be exposed to increasingly fierce competition both domestically and internationally.

In this business environment, the Group has formulated a new Medium-term Management Plan. In our new Plan, we will strive to respond to the qualitative changes occurring in social infrastructure as well as the innovations in the semiconductor industry brought about by the arrival of the smart society. We will do this by leveraging the technologies that we have accumulated over the years, working in cooperation with the Hitachi Group, and engaging in "collaborative creation" projects with customers. Toward the goal of achieving an adjusted operating income*² rate of 12% in fiscal 2018, we will implement the measures set out below.

In the Video and Communication Solutions segment, centered on video and wireless technologies, we will shift our focus from system-type products to solutions businesses, with a plan to expand our global business and establish new businesses. We will also further strengthen the businesses related to our core competencies including Public Protection & Disaster Relief (PPDR) Systems and surveillance systems, and create new businesses through cooperation with the Hitachi Group as well as collaborative creation projects with customers. By working with the Hitachi Group, we will promote total-solution businesses, such as video security solutions and solutions for disaster prevention, disaster risk reduction, and risk management.

In the Thin Film Process Solutions segment, we will continue to enhance the vertical semiconductor manufacturing systems that make up our core business in order to create cutting-edge thermal processes as well as sophisticate product life cycle business. We will aim to expand our market share in the provision of mass-production lines for advanced devices by strengthening our capabilities to develop new vertical semiconductor manufacturing systems and new types of films. In an effort





to advance into new fields, we will develop treatment equipment for improving the film quality of wafers processed at low temperatures and will establish a new business based on work in this area as soon as possible. Furthermore, to further strengthen our service businesses, which have experienced steady growth, in addition to expanding our parts and retrofitting businesses, we will also expand the range of services we offer to support our customers' operations, such as diagnostic services to help customers prevent accidents and improve their processes.

As part of efforts to reinforce our business structure, we will continue to pursue cost structure reforms through the "Hitachi Smart Transformation Project," aiming to win the fierce global competition. Furthermore, to drive further growth of our business, we will aggressively promote efforts to increase product competitiveness and to develop new products and new business fields. As part of such efforts, we will actively conduct research and development in promising fields with high growth potential.

In its Corporate Statement, the Group stipulates the role it seeks to play to help realize a sustainable society as follows: "The Hitachi Kokusai Electric Group strives to realize a society of security, safety and happiness, creates value by applying advanced technologies, and pushes the boundaries of tomorrow." Realizing a safe and secure society by responding to natural disasters, crime, the threat of terrorism, and increased risks associated with transportation and industrial development—and pursuing technological innovation to that end—as well as supporting people everywhere to live happy and affluent lives are the major issues the Group seeks to address.

From a medium- to long-term perspective focused on achieving a sustainable society, the Group will, in accordance with the internationally recognized ISO 26000 guidelines, continue its efforts to: reduce environmental impacts resulting from production activities undertaken in implementing the business strategies mentioned above, respect human rights, pursue diversity in regard to employment and training, observe laws and regulations, and foster a clean corporate culture, as set out in the Hitachi Kokusai Electric Way and the Guidelines and Commitments. The Group has communicated related efforts to all directors and employees, as well as established an internal control system. The Group will also deepen dialogues with stakeholders in each region and promote "collaborative creation" to realize a sustainable future.

We sincerely ask for your continued guidance and support.

June 24, 2016

Kaichiro Sakuma
President and Chief Executive Officer

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*1 Looking to the future business direction of the Group, we have changed the segment names from fiscal 2016. "Video and Wireless Network" has been changed to "Video and Communication Solutions," and "Eco- and Thin Film Processing" has been changed to "Thin Film Process Solutions." The new names are used throughout this report.

*2 To appropriately express actual business conditions, from fiscal 2016 the Company uses adjusted operating income as a performance indicator. Adjusted operating income is calculated by subtracting the cost of sales plus selling, general and administrative expenses from revenue.