Financial Strategies

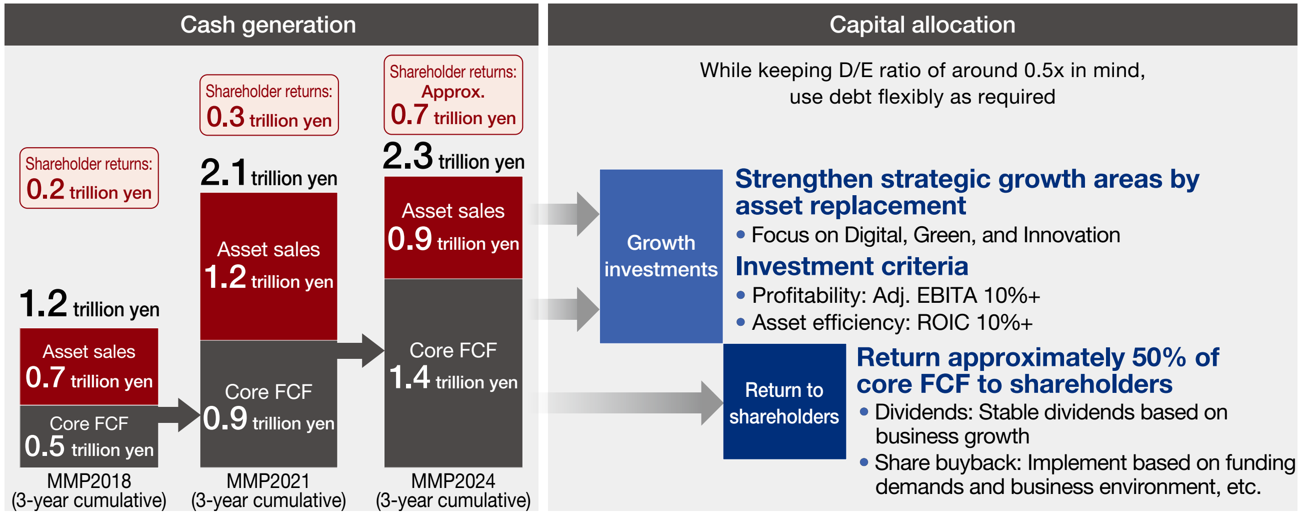
In the Mid-term Management Plan 2024, we will shift into growth mode, achieve further advances in revenues and profitability, and take additional steps to enhance our ability to generate cash through organic business growth. To achieve Hitachi's growth through a financial capital strategy, we will continue to work on four priority issues: (1) further improvements to earnings capabilities through ROIC management, (2) improved capital efficiency through higher business asset turnover, (3) reduced WACC utilizing appropriate levels of leverage within the bounds of appropriate financial discipline, and (4) improved total shareholder return (TSR) by implementing shareholder return measures that consider share buybacks in addition to dividends.

Strengthening Cash Management

In the Mid-term Management Plan 2024, we will step up efforts to ensure that cash can be generated organically by our own business. To strengthen cash management, we will revise business processes while improving accounts receivable collections, ascertaining the impact of strategic inventory, and enhancing monitoring.
The challenge of generating cash is about not only maximizing operating cash flow, but also optimizing capital investment. Hitachi makes capital investments totaling around 400 billion yen each year. Going forward, certain criteria will be applied to select these investments with greater care. Capital expenditures in tangible fixed assets such as machinery and equipment will be carefully examined one by one. In addition, we will promote the digitalization of cash management, including the visualization of the entire supply chain, by spreading IT to manufacturing sites as well.

Capital Allocation

Over the three years of the Mid-term Management Plan 2024, we will expand core FCF to 1.4 trillion yen through the operating cash flow earned from organic growth and the careful selection of capital investments. Combined with the cash gained from the sale of assets, we will allocate capital in a well-balanced fashion between growth investment in the areas of digital, green and innovation, and shareholder return.
Specifically, around half of core FCF will be allocated to shareholder return comprising dividends and share buybacks. The remaining core FCF and cash earned from the sale of assets will be allocated to the growth areas of digital, green and innovation. While targeting a D/E ratio of 0.5x as a guideline for financial discipline, we will also implement our strategy by utilizing debt as needed.

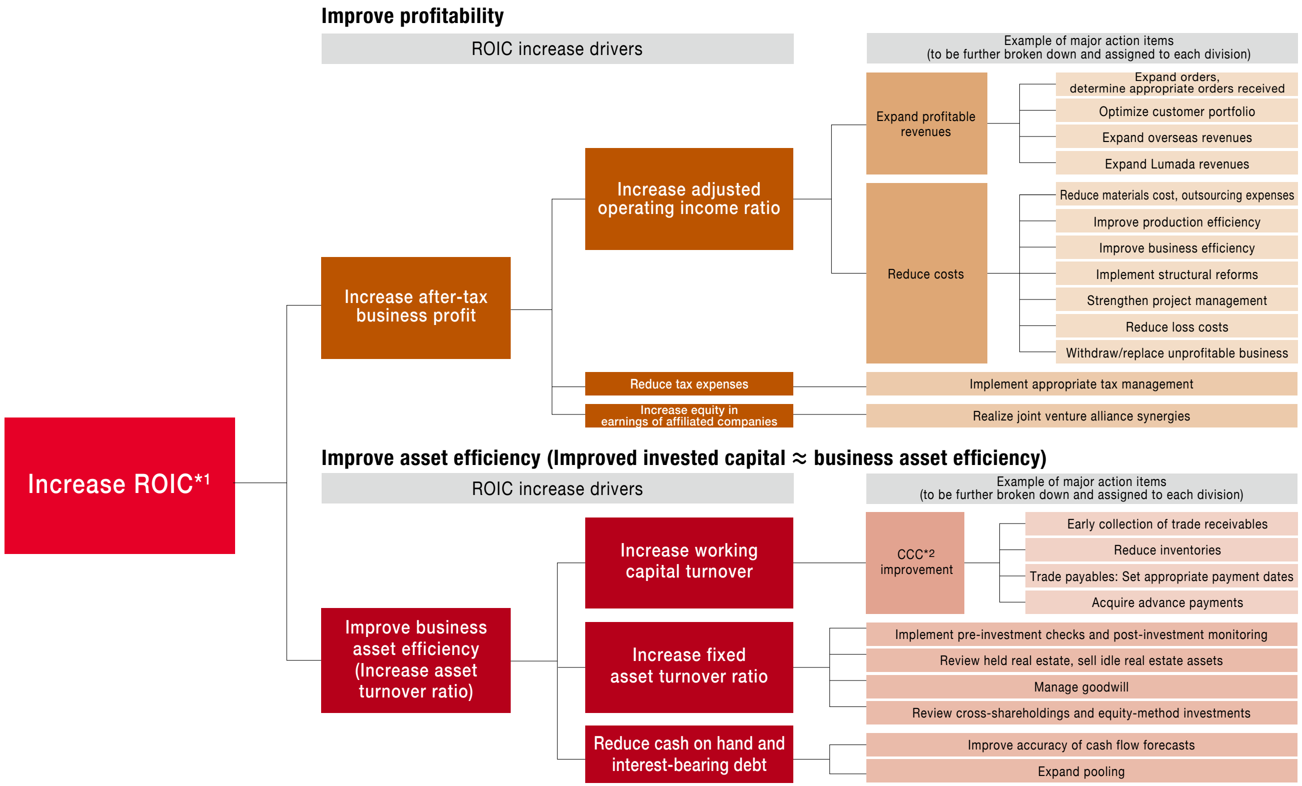


Basic Policy on Shareholder Returns

Returning profits to shareholders based on medium- and long-term business plans and achieving growth in total shareholder return (TSR) through the formation of appropriate stock prices are positioned as important management themes for Hitachi. Our policy is to provide stable dividends while securing the internal capital required to execute the R&D and capital investments that are essential to maintaining market competitiveness and increasing profits. Under this policy, we make decisions based on overall consideration of performance trends, financial conditions, and dividend payout ratios, among other factors.
In April 2022, we announced share buybacks of up to 200 billion yen. Going forward, we will issue stable dividends while also considering share buybacks, ensuring that the profits earned from business growth are properly returned to shareholders.

Progress on ROIC Management

In fiscal 2019, Hitachi introduced return on invested capital (ROIC) as a new corporate management index. ROIC indicates how much profit (after-tax business profit) can be generated on capital invested in a business. To improve ROIC and expand corporate value, returns must at a minimum exceed the weighted average cost of capital (WACC), which is the financing cost of the invested capital. Since introducing ROIC, we have promoted management that considers the cost of capital in addition to profitability throughout the group as a whole, and the ROIC tree has been tied directly to concrete actions at each workplace. Given a changing macroeconomic environment and other factors, we were unable to meet the 10% ROIC targeted in the Mid-term Management Plan 2021, but we have again declared this target in the Mid-term Management Plan 2024, and will further advance activities based on this target including action in each sector and business unit, revisions to business strategy itself, and other measures.



*1 ROIC = (NOPAT + Share of profits (losses) of investments accounted for using the equity method) / "Invested Capital" × 100
NOPAT (Net Operating Profit after Tax) = Adjusted operating income × (1 − Effective income tax rate), Invested Capital = Interest-bearing debt + Total equity
*2 CCC: Cash Conversion Cycle

Financing and Capital Costs

Financing is carried out through the means deemed most appropriate (e.g., cash on hand, borrowings, and gains from the sale of assets), based on a variety of conditions, including the timing and amounts required by the business. When financing through borrowing and other forms of debt, our financial discipline is to maintain a D/E ratio of less than 0.5 times and an interest-bearing debt/EBITDA ratio of less than 2.0 times. Regarding the cost of capital (hurdle rate) used for individual investment decisions, calculations and judgments are made on a case-by-case basis considering interest rates, country risks, and expected returns in the country where the investment will be made.

Ensuring Financial Stability

Ensuring the stability of the financial base is an important management issue for Hitachi. For this reason, we will continue our financial discipline policy of maintaining an A rating on issued instruments and a D/E ratio of less than 0.5 times. At the same time, we will ensure a return of profits with an awareness of shareholder returns, for example, through growth investments and continued increases in dividends. Our ability to generate cash is increasing steadily, and our ratings are as shown in the table below.

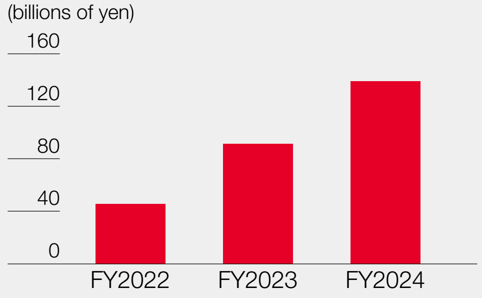
Rating company	Long-term	Short-term
S&P Global Ratings Japan Inc.	A	A–1
Moody's Japan K.K. (Moody's)	A3	P–2
Rating and Investment Information, Inc. (R&I)	AA-	a–1+

As of July 2022

Growth through the Digital Management Platform

To achieve global growth in the Social Innovation Business, improving the efficiency of management platform through digital technology is essential. As ABB's power grids business (now Hitachi Energy) and GlobalLogic, both acquired during the Mid-term Management Plan 2021, already possess global management platforms, we intend to deploy and utilize Hitachi Energy's advanced global operations platform for product-related businesses and GlobalLogic's advanced global operations platform for IT-related businesses within the Hitachi Group. We will work to build a common ERP across the entire Hitachi Group, utilize DX and Global Business Services (GBS), and implement a customer relationship management system (CRM). We will invest 80 billion yen to build out and introduce these systems by fiscal 2024.

Effects of Priority Measures



Priority Measures

ERP	**Sharing Management Data in Real Time** Utilizing the ERP system deployed globally by Hitachi Energy throughout the Hitachi Group will accelerate management decisions and promote reductions in costs associated with system usage, operations, maintenance and new developments. In fiscal 2021, we created a Groupwide common template based on Hitachi Energy's ERP system that commenced operations at Hitachi Channel Solutions bases in Thailand and Indonesia. In fiscal 2022, we will establish an office for the promotion of this common ERP system and accelerate the introduction and development of ERP at group companies.
DX	**Realizing Automated Operations and Predictive Management** Hitachi will realize predictive management and business process automation and sophistication based on ERP, CRM, data lakes and other information to enhance performance and improve the efficiency of indirect operations. Further, we will improve digital literacy among all employees to accelerate DX through the development of infrastructure and tools that expand the scope of in-house DX activities. In addition to the promoted utilization of data and automation of operations across all business divisions by fiscal 2021, from fiscal 2022, we plan to establish standard services and template platforms necessary for promoting DX in all operations and deploy them throughout the company with the ERP.
CRM	**Global Utilization of Account Information** We will deepen insights into new markets and enhance the utilization of sales activity information through the group-wide collection of market and customer information. Additionally, we will strengthen our customer approach in all areas through the promotion of coordinated customer support between business units and other measures. After the initial August 2022 launch of this platform in Japan, we plan to expand implementation to three companies: Hitachi Vantara, GlobalLogic and Hitachi Energy. The platform will be rolled out company-wide starting in fiscal 2023.
GBS	**SG&A Reduction by Operation Consolidation and Process Transformation** We will improve operational efficiency and productivity by building company-wide common management department operations (indirect operations such as human resources, finance, procurement, IT, etc.) as centralized shared services that can be used globally. At overseas bases and group companies, the shared service functions of Hitachi Energy and Hitachi Vantara will be applied. We have already introduced this concept to our regional companies such as those in North America, India, Europe and Asia. In Japan as well, we will expand shared service functions to standardize and consolidate business processes and have started to engage in pilots for process transformation.

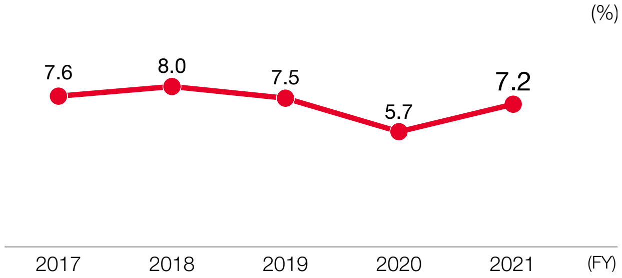
ERP: Enterprise Resources Planning

Financial Analysis of the Past Five Years

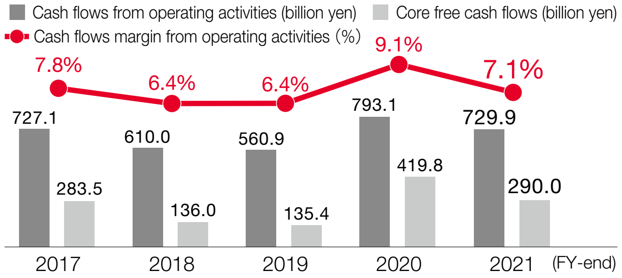
The following is a summarized financial analysis of the Hitachi Group for the past five years.

- The adjusted operating income ratio increased as a result of efforts to improve profitability. In fiscal 2020, despite the harsh business environment resulting from the COVID-19 pandemic, the profit ratio stayed above 5%.
- Despite fluctuations caused by business restructuring, efforts to improve profitability resulted in net income reaching a record high of approximately 600 billion yen in fiscal 2021.
- Efforts to strengthen cash management resulted in cash flows from operating activities rising to the level of approximately 800 billion yen.
- The payout ratio has remained between 20% and 30%, and the total of dividend payments has increased.

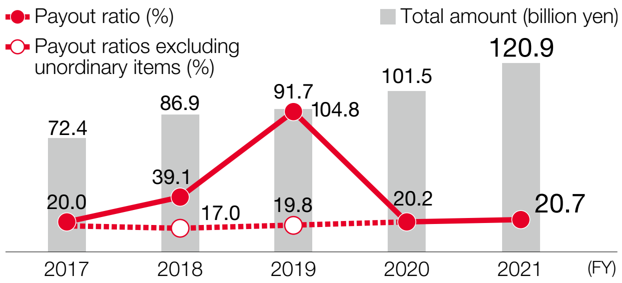
Adjusted operating income ratio



Cash flows

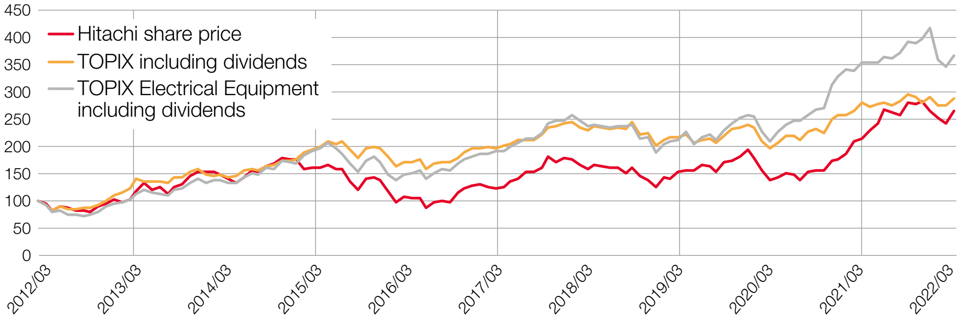


Trends in dividends



Total Shareholder Return (TSR)

The following illustrates Hitachi's TSR, with fluctuations in dividends and stock price reflected.
While continuing to improve profitability and distribute a stable dividend, Hitachi is making concerted efforts to increase shareholder value through management that is aware of its share price, based on business and financial strategies designed to improve TSR in excess of the cost of shareholders' equity.



	Past 1 Year	Past 3 Years		Past 5 Years		Past 10 Years	
	TSR	TSR	Annual TSR	TSR	Annual TSR	TSR	Annual TSR
Hitachi share price	+25.7%	+81.0%	+21.9%	+120.9%	+17.2%	+161.5%	+10.1%
TOPIX	+2.0%	+31.2%	+9.5%	+44.3%	+7.6%	+183.3%	+11.0%
TOPIX Electrical Equipment	+3.6%	+72.4%	+19.9%	+91.2%	+13.8%	+261.5%	+13.7%

Note: The graph and table above show return on investment for investments made from the fiscal year ended March 31, 2012, taking into account dividends and stock prices as of the fiscal year ended March 31, 2022. Hitachi, Ltd. investment performance, including stock prices and dividends, is indexed using 100 as the investment amount as of March 31, 2012. The TSE Stock Price Index (TOPIX), which is a comparative indicator, is similarly indexed using data including dividends for electrical equipment.