
2018 Mid-term Management Plan

May 18, 2016

Toshiaki Higashihara

President & CEO

Hitachi, Ltd.

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1. Summary of the 2015 Mid-term Management Plan and Direction for the Future

1.1 2015 Mid-term Management Plan: Results

	FY2013 (IFRS)	FY2014 (IFRS)	FY2015 (IFRS)	Initial Target*1 (US GAAP)
Revenues	9,666.4 billion yen	9,774.9 billion yen	10,034.3 billion yen	10,000.0 billion yen
(ratio) Adjusted operating income*2	(6.3 %) 604.7 billion yen	(6.6 %) 641.3 billion yen	(6.3 %) 634.8 billion yen	Over 7%
(ratio) EBIT*3	(7.2 %) 691.2 billion yen	(5.5 %) 534.0 billion yen	(5.3 %) 531.0 billion yen	Over 7%
Net income attributable to Hitachi, Ltd. stockholders	413.8 billion yen	217.4 billion yen	172.1 billion yen	Over 350.0 billion yen
(margin) Operating Cash Flow (Manufacturing, Services and Others)	(4.8 %) 460.8 billion yen	(6.1 %) 586.4 billion yen	(8.6 %) 843.1 billion yen	-
Free Cash Flow (Manufacturing, Services and Others)	73.1 billion yen	137.2 billion yen	324.4 billion yen	-

*1 Announced on May 16, 2013

*2 [Adjusted operating income] = [Revenues] – [Cost of sales] – [Selling, general and administrative expenses]

*3 EBIT (Earnings Before Interest and Taxes) is presented as income from continuing operations, before income taxes less interest income plus interest charges. © Hitachi, Ltd. 2016. All rights reserved.

1.2 Summary of the 2015 Mid-term Management Plan and Direction for the Future

Continuous investment in Social Innovation Evolution of Social Innovation using digital technology

- Lead reforms in society through Social Innovation
- Concentrate investment on Social Innovation

	FY2013-2015	As of May 2016
Acquisition	Sales increase: 0.6 trillion yen per year - Rail, IT analytics, payment, casting, etc.	-
Capital Alliance	Sales decrease: 0.9 trillion yen per year - Thermal power system, overseas air-conditioning system, etc.	Sales decrease: 1.1 trillion yen per year - Logistics, financial service, etc.

Countermeasures for shortfall in targets of 2015 Mid-term Management Plan

- Project management in overseas big projects : Focus on areas of specialty
- Delay in response to market change of network & telecommunication and storage : Acceleration of management

2. What to Achieve in the 2018 Mid-term Management Plan

2.1 Social Innovation Business ahead of the Times

Deliver innovations to customers and society through fusion of OT, IT, and products/systems



OT
Control · Operation

A circular image showing a worker in a blue hard hat and orange safety vest talking on a mobile phone. In the background, there is a complex industrial control room with various screens and data displays.



IT
Monitoring · Analyzing
· Forecasting

A circular image showing a digital dashboard with various data points, charts, and icons. The text 'IT Monitoring · Analyzing · Forecasting' is overlaid on the image.



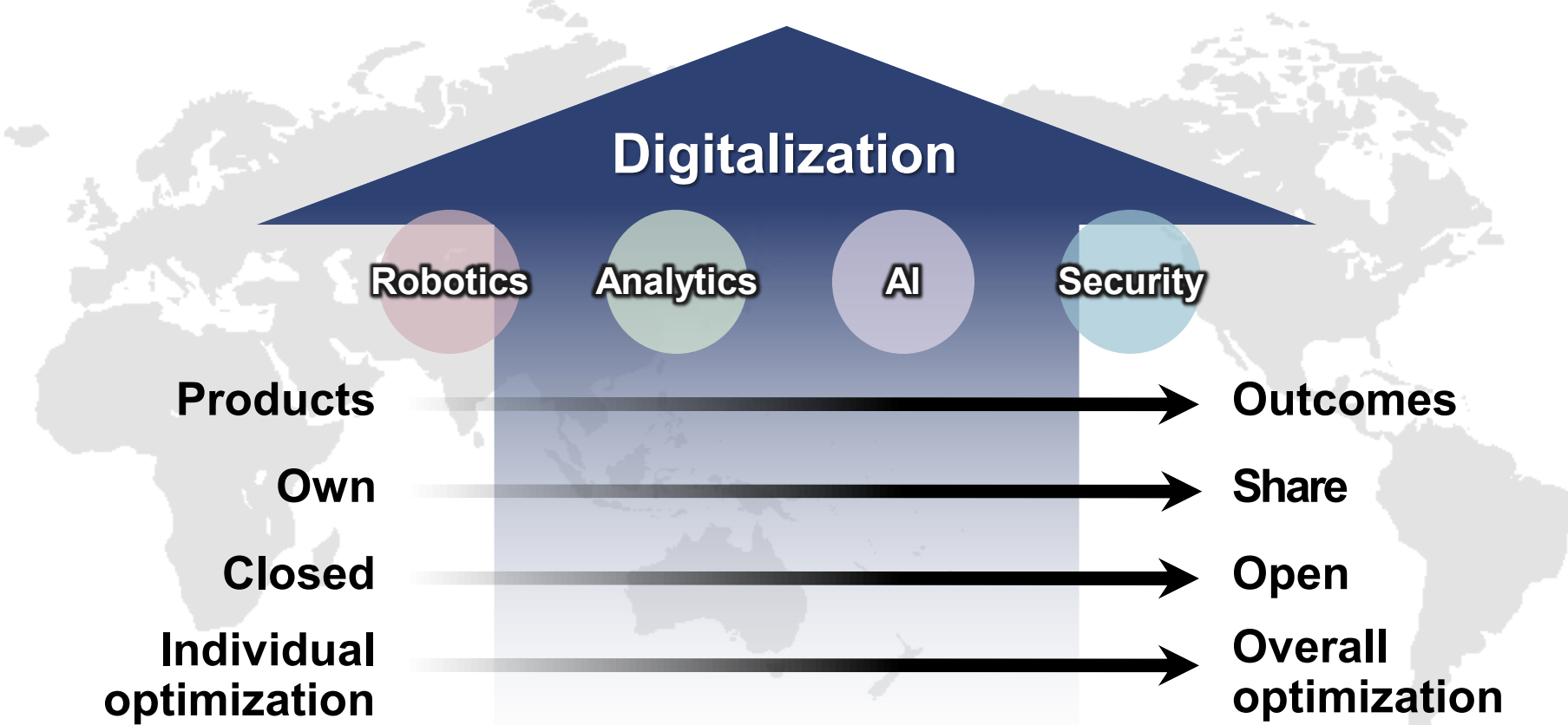
Products / Systems
Hardware · Materials · EPC · SI

A circular image showing a high-speed train in motion. The text 'Products / Systems Hardware · Materials · EPC · SI' is overlaid on the image.

OT: Operational Technology

Digitalization has accelerated the reorganization of industries and social infrastructures

Europe Industrie 4.0	China Made in China 2025	Japan Society 5.0	Asia Smart city	North America Industrial Internet
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2.3.1 Evolution of Social Innovation Business: Industry and Distribution

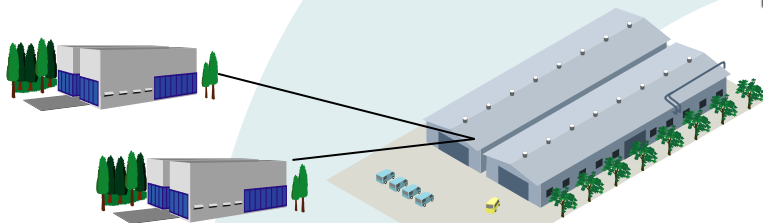
Innovate the whole industry and distribution structure ~Hitachi connects proven social innovations using digital technology~

Logistics Companies

Reduce waiting time for goods arrival
Minimize the impact of traffic jams

Record

- Smart logistics (China)
- Robot/AI warehouse (Japan)



Financial Institutions

Settlement by digital network
(FinTech)

Record

- Settlement solution (India)



Manufacturers, Suppliers

Manufacturing which does not lead to
excess inventory

Record

- Total supply chain management (China/Japan)
- ERP/MES collaborative operation (Japan)
- Predictive maintenance (Europe/Japan)



Distributors / E-commerce Providers

Securing goods which meet customers'
needs without any dead stock

Record

- Demand forecasting solutions (Japan)

Realize more convenient, comfortable and eco-friendly lifestyles ~Hitachi connects proven social innovations using digital technologies~

Buildings

Control elevator operation based on crowd flow

Record

- Building/elevator management (Japan)
- Energy management (Japan)
- Robot service (Japan)

Developers

Select store locations that contribute to increased sales
Operate office buildings achieving high occupancy rates

Record

- Store operation utilizing AI (Japan)
- Video surveillance (U.S.)
- Analysis of traffic amount (Vietnam)

Rail operators

Flexible operation diagram in response to change in passengers

Record

- Traffic control of Tokyo metropolitan area railway (Japan)
- IEP (U.K.)

Utility companies / Local governments

Supply energy in response to demand conditions

Record

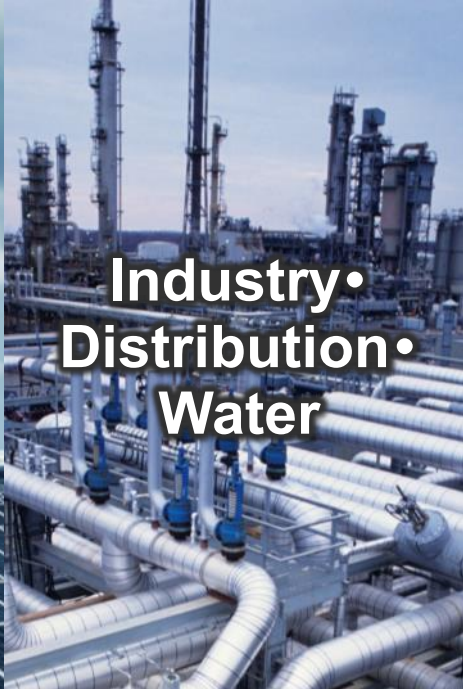
- Smart grid (Hawaii)
- Kashiwa-no-ha AEMS (Japan)



An Innovation Partner for the IoT Era

Accelerate collaborative creation with customers through the advanced Social Innovation Business

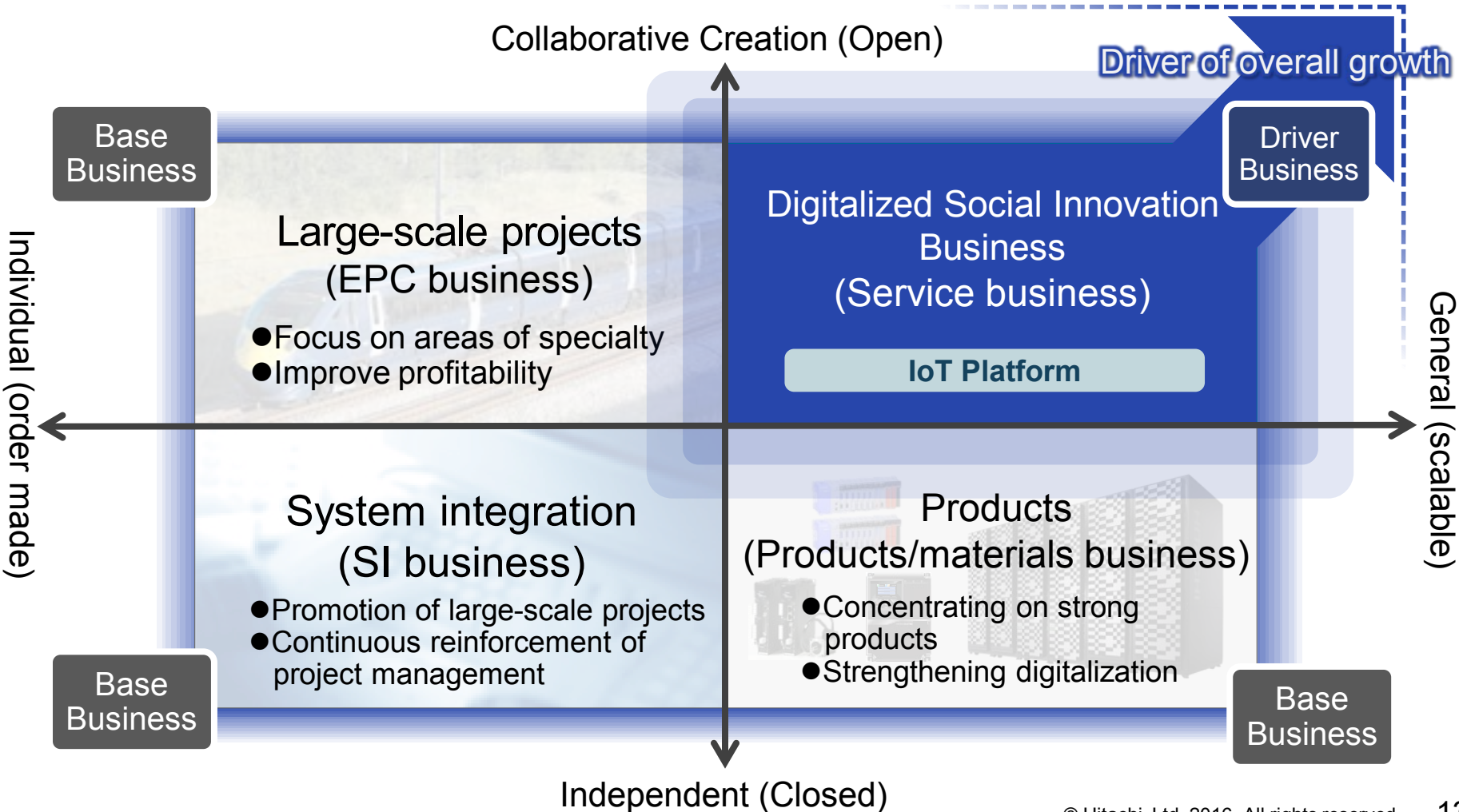
Four focus business domains



3. Strengthening the Social Innovation Business

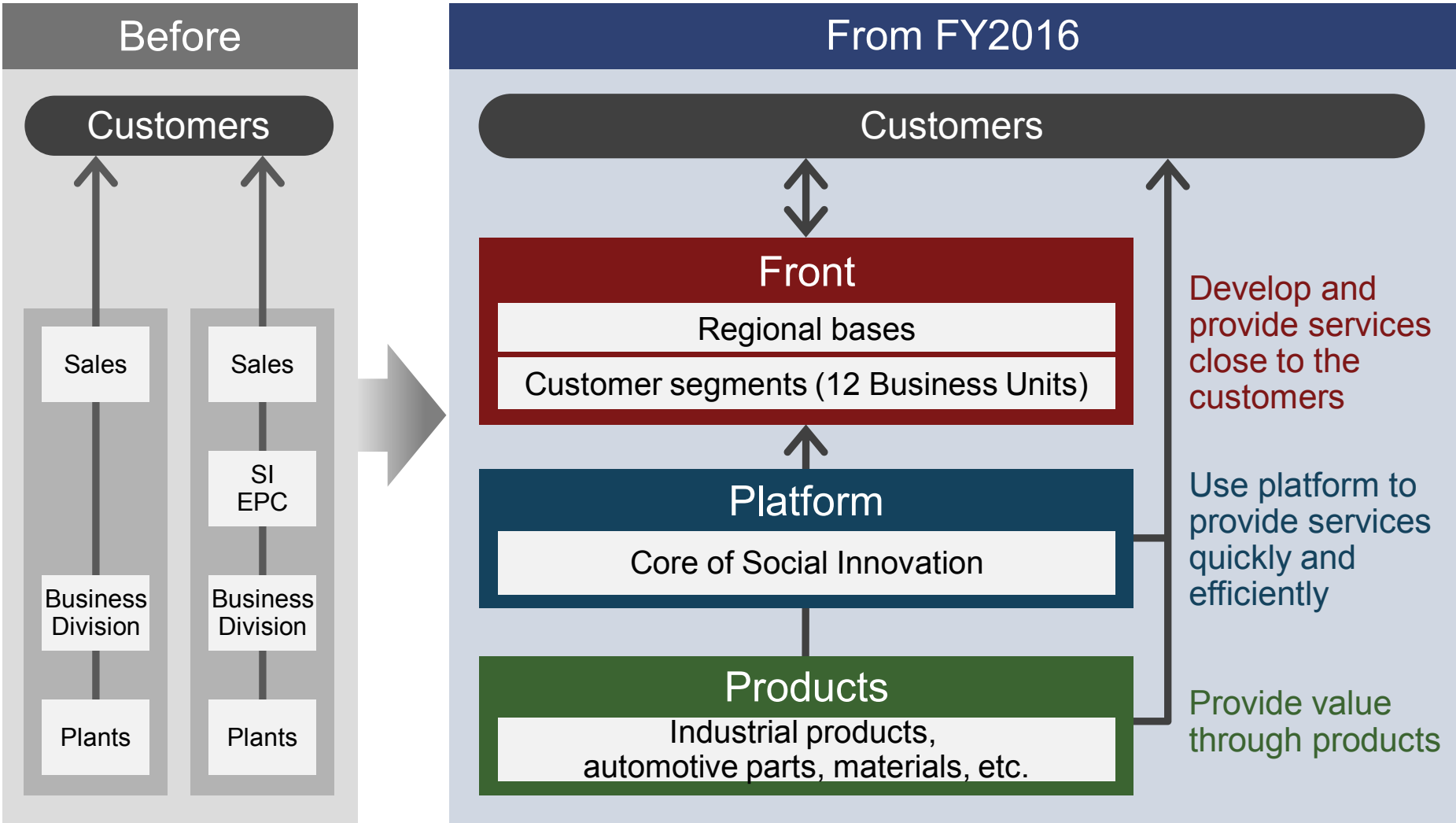
3.1 Advancing the Social Innovation Business to Next Stage

Strengthen products/material business, SI and EPC, and growth using digital technology
 Drive Hitachi's overall growth with digitalized Social Innovation



3.2 Accelerating the Social Innovation Business

The front delivers Hitachi's technologies and expertise to customers as services



Core of Social Innovation

Means for customers to enjoy digitalized innovation quickly and easily

Characteristics of Lumada

Lumada = illuminate data

1 Single Platform, Multiple Solutions

Realize solutions in various business fields
“Cross Domain Business EcoSystem”

2 Open

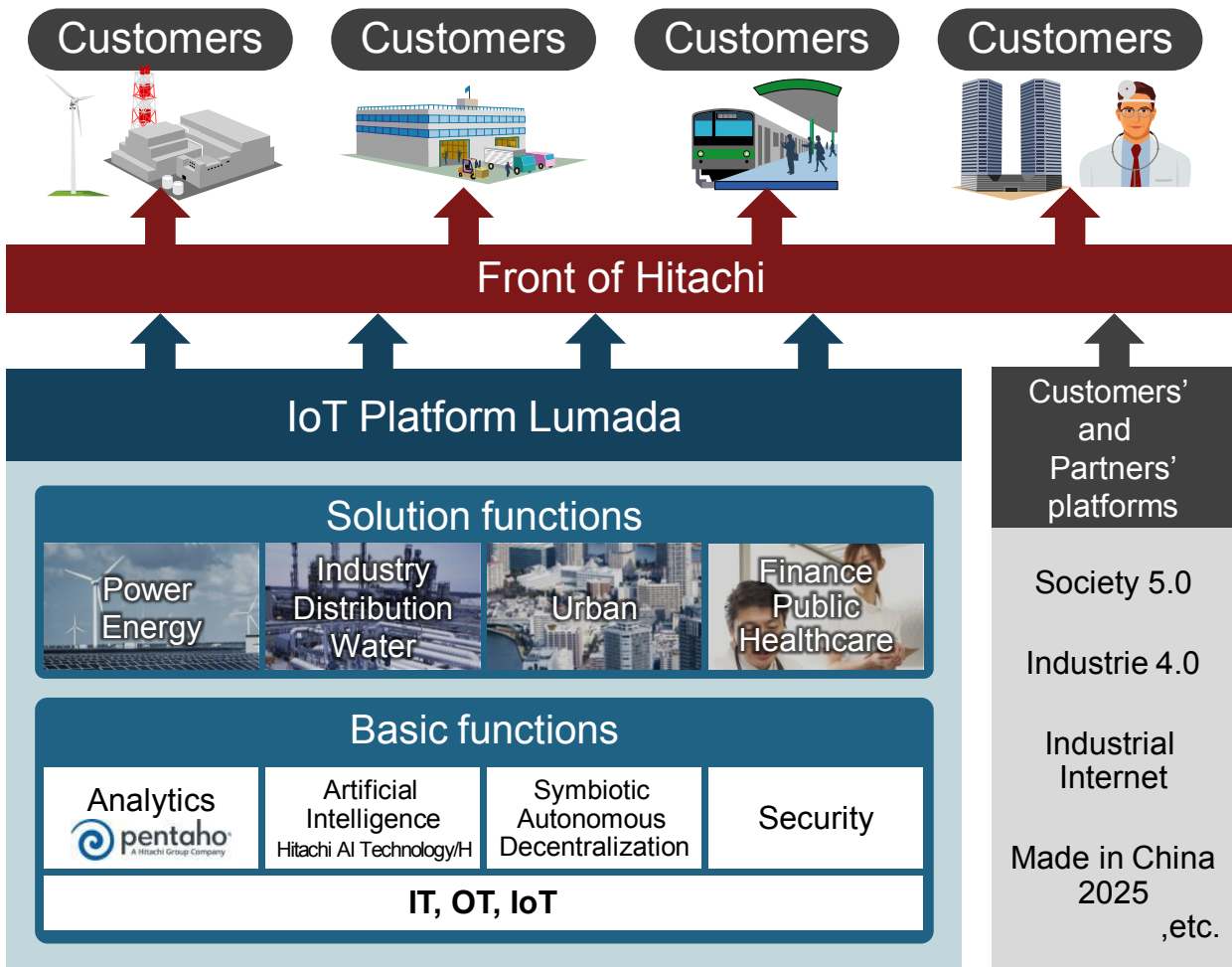
Open architecture available for partners

3 Adaptable

Easily connected to customers' assets
Graduated dilatation is possible
(Symbiotic Autonomous Decentralization)

4 Verified and Secure

Reliable technologies based on experiences in Social Innovation



Increase front manpower by 20,000

Business structure from FY2016

Customers

Front

Regional bases

Customers' segments (12BUs)

Platform

Core of Social Innovation

Products

Industrial products,
automotive parts, materials, etc.

110,000 (FY2015) → 130,000 (FY2018)
incl. an increase of 2,000 in platform staff
[component ratio 34% → 37%]

Japan: +3,000

Overseas: +17,000

Internal shift & new recruits

* Number of sales, SE, consultants and platform developers

- Expand overseas hiring
- Roll out the Social Innovation Business targeting the customers of acquired overseas companies
- Foster manpower through special training programs
→ 19,000 employees in 3 years (started March 2016)

Promoting R&D close to the customers

Business structure from FY2016

Customers

Front

Regional bases

Customers' segments (12BUs)

Platform

Core of Social Innovation

Products

Industrial products,
automotive parts, materials, etc.

[R&D structure from FY2015]

● Global Center for Social Innovation

Developing services in keeping with the needs of customers in each region

North America 100 Europe 70 China 115
Asia 65 Japan 200 [Total: 550 people]



● Center for Technology Innovation

Establishing Global No.1 Technologies (Platforms, products)

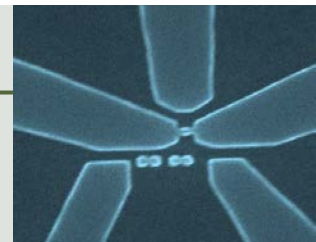
[Japan: 2,050 people]



● Center for Exploratory Research

Resolving future social issues

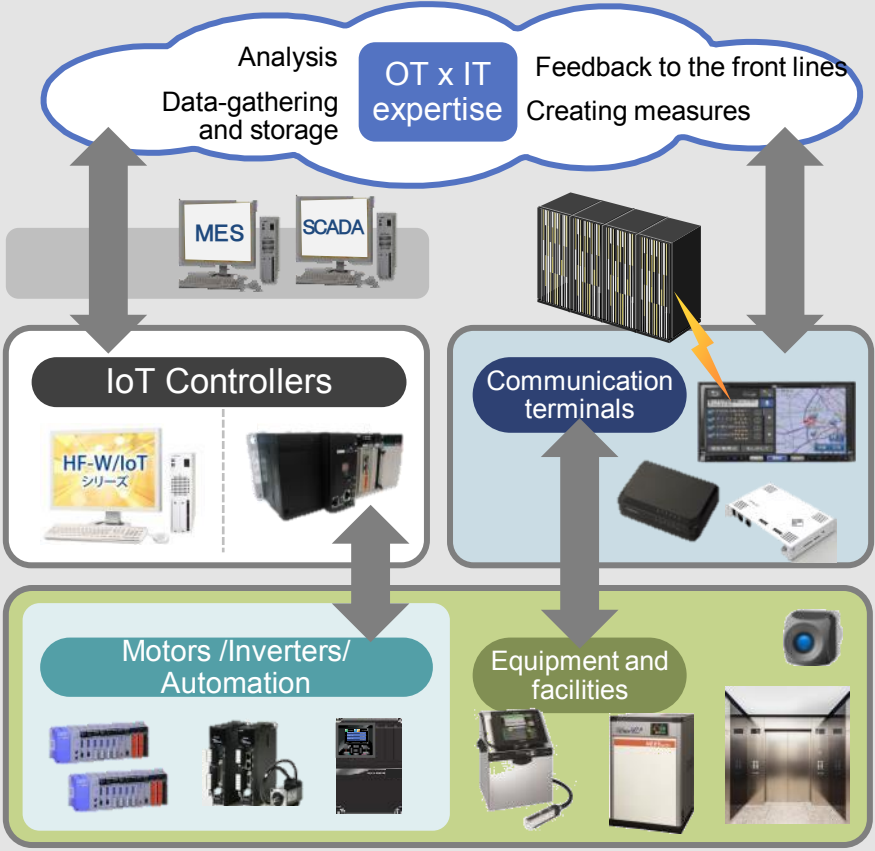
[Japan: 100 people]



3.6 Strengthening Products

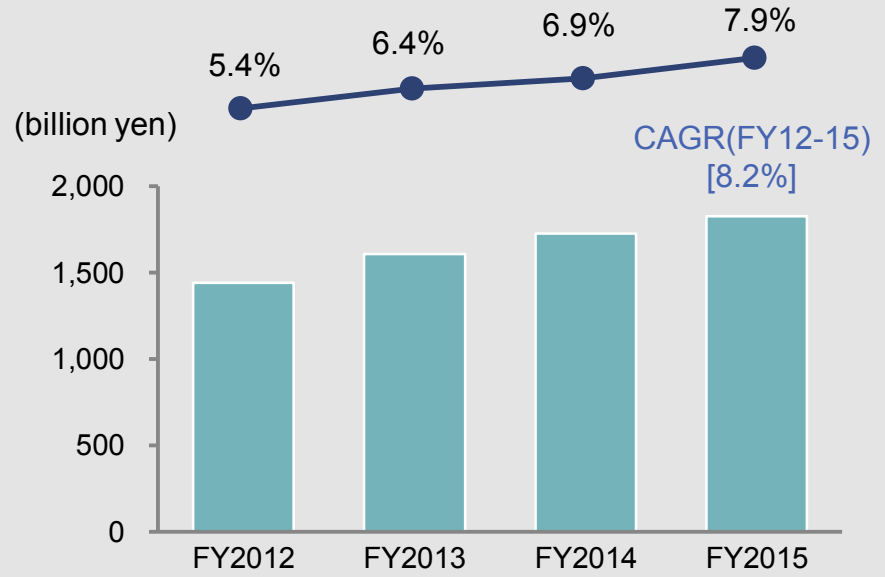
Expanding digitalized products that support innovation
Focusing on investing in globally competitive products

Strengthening digitally connected products



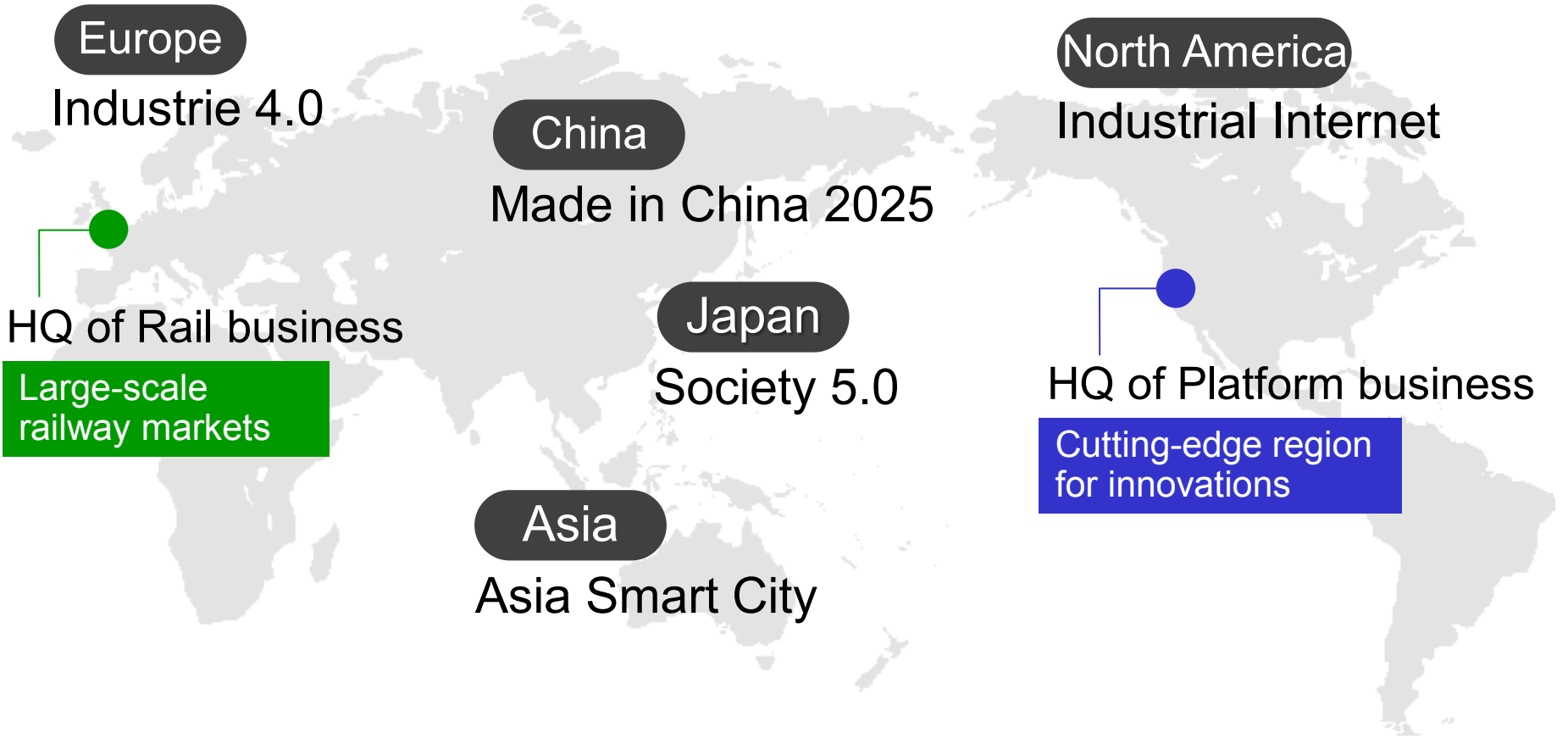
Focusing on globally competitive products

● Sales and adjusted operating income ratio of major products*



* Industrial products, automotive parts and elevators/escalators

Best response to innovation in industry and social infrastructure in each region



4. Strengthening the Management Base

Reform Hitachi's management base

Speed up
management

Rapid decision-making and quick execution
Reduce the layers of management

Expand global
business

Expand global partners and customers

Increase business
profitability

Judgment on low-profitability businesses
Evolution of Hitachi Smart Transformation

Invest in growth
businesses

**Investments totaling 1 trillion yen over three
years**
FY2013 - FY2015: 510.9 billion yen

Evolution of Hitachi Smart Transformation

Re-examine cost structures

Design target costs and reduce procurement costs / fixed costs
Redefine cost-related KPIs on a revenue basis

Increase efficiency of operating capital

Use IT to reduce production lead times and decrease inventory

Increase efficiency of investments and assets

Share production facilities among plants

Utilization of IoT Platform “Lumada” (AI, analytics and IoT)

**Speedily increasing profit through investment in products business
Concentrating investment in front to accelerate the Social Innovation**

[Record in 2015 Mid-term Management Plan]

Customers

Front

Platform

Products

- Concentrated investment in front
(Investment for growth and acquisition)

Record

- Rail signaling system
- ATM service

- In-house development
(Investment for development and acquisition)

Record

- Data analytics

- Investment selection
(Combination of growth investment, acquisition and capital alliance)

Record

- Casting business
- Overseas air-conditioning business

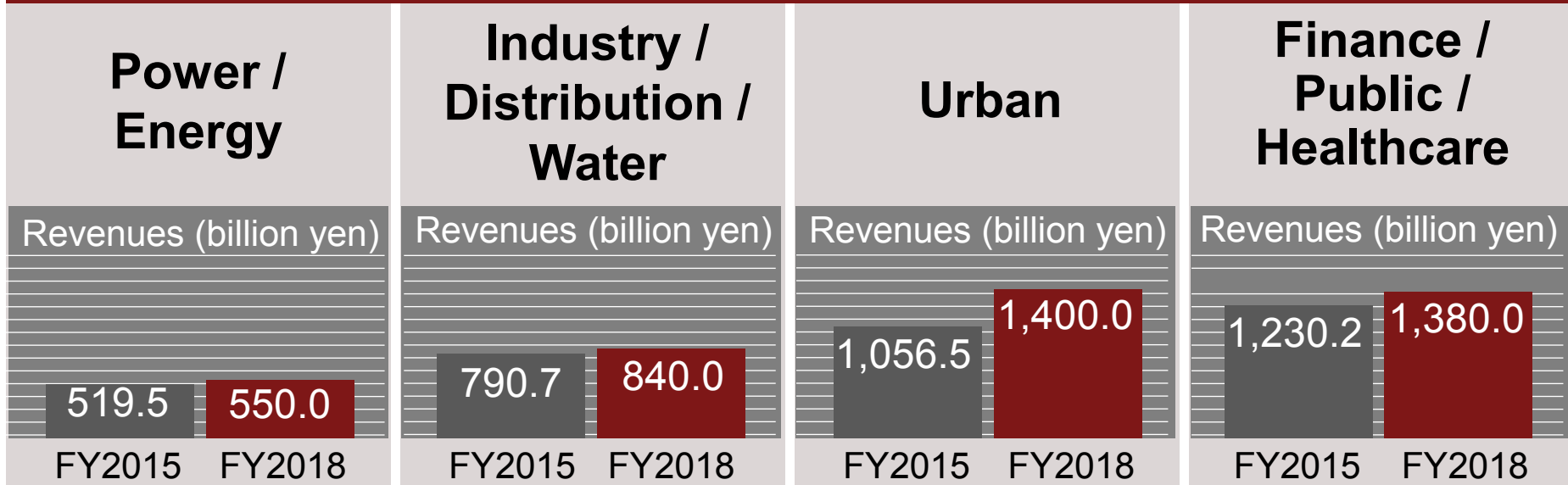
5. Moving Forward to 2018

5.1.1 Hitachi Group's Position in FY2018 (1)

Front develops and provides services to drive expansion of revenues and profits

Front revenue ratio FY2015 36% → FY2018 40%

Front Revenues: 3,596.9 → 4,000.0 billion yen | Target adjusted operating income ratio: 8%



Platform Revenues: 278.6 → 330.0 billion yen | Target adjusted operating income ratio: 11%

Products Revenues: 7,389.3 → 6,820.0 billion yen * | Target adjusted operating income ratio: 7%

* Figures for FY2018 reflect the conversion of Hitachi Transport System, Ltd. and Hitachi Capital Corporation into equity-method associates and joint ventures.

Strengthening focused areas for expansion of the Social Innovation Business

Front

Power / Energy

- Transition to distributed power supply utilizing IT
 - Microgrid, Regional energy management
 - Renewable energy
- Investment focus**
- Strengthening grid and engineering

Industry / Distribution / Water

- Use "Lumada" IoT platform to optimize value-chain for industry and distribution
- Investment focus**
- Strengthening engineering
 - Predictive Maintenance
 - Optimized Factory

Urban

- Improvement of Quality of Life in communities
 - From Rail as a Service to Outcome Delivery
- Investment focus**
- Development of urban solution
 - Expansion of the rail business area

Finance / Public / Healthcare

- FinTech / My-number
 - Healthcare Service (Platform)
- Investment focus**
- Strengthening healthcare informatics

Platform

Investment focus

Strengthening Lumada

Products

Investment focus

Expanding of Industrial products and materials businesses

5.1.3 Hitachi Group's Position in FY2018 (3)

Railway business grows substantially in Europe;
Businesses in North America also continues to grow
Growth by services and products utilizing digital technologies

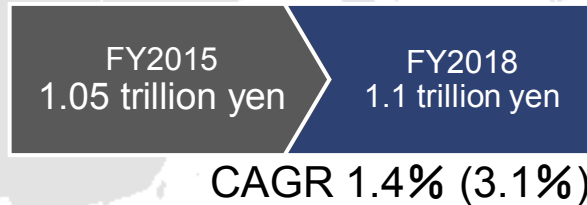
Europe

- Railway
- Nuclear power
- Energy



China

- Elevators/Escalators
- Healthcare
- Industry/Distribution



North America

- Energy
- Automotive parts, casting
- Healthcare



Asia

- Finance
- Industrial equipment



Overseas revenue ratio
FY2015 48% → FY2018 55%

Note 1) CAGRs in the brackets are based on figures for FY 2015 excluding revenues of Hitachi Transport Systems, Ltd. and Hitachi Capital Corporation

2) Regions except for those which are listed above (including Japan): FY2015 5.69 trillion yen → FY2018 5.07 trillion yen

5.2.1 2018 Mid-term Management Plan Targets (1)

		FY2015	FY2018 Targets
1	Front business expansion	Front revenue ratio 36%	Front revenue ratio 40%
2	Global business expansion	Overseas revenue ratio 48%	Overseas revenue ratio Over 55%
3	Strengthening cash-generating capability	Operating cash flow margin*1 8.6%	Operating cash flow margin*1 Over 9%
4	Improving asset profitability	ROA*1,2 2.6%	ROA*1,2 Over 5%

*1 Manufacturing, Services and Others

*2 ROA(Return on Asset) = [Net income] / [Total Asset (Average between the end of current fiscal year and the end of previous fiscal year)] x 100

5.2.2 2018 Mid-term Management Plan Targets (2)

	FY2015	FY2018 Targets
Revenues	10,034.3 billion yen	10,000.0 billion yen
Adjusted operating income ratio	6.3%	Over 8%
EBIT ratio	5.3%	Over 8%
Net income attributable to Hitachi, Ltd. stockholders	172.1 billion yen	Over 400.0 billion yen

* Foreign exchange rate assumption : 110yen/dollar, 120yen/euro

THE FUTURE IS OPEN TO SUGGESTIONS

Hitachi Social Innovation

**Delivering new value to society through
collaborative creation with our customers and partners**

Cautionary Statement

Certain statements found in this document may constitute “forward-looking statements” as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such “forward-looking statements” reflect management’s current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as “anticipate,” “believe,” “expect,” “estimate,” “forecast,” “intend,” “plan,” “project” and similar expressions which indicate future events and trends may identify “forward-looking statements.” Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this document.

Factors that could cause actual results to differ materially from those projected or implied in any “forward-looking statement” and from historical trends include, but are not limited to:

- economic conditions, including consumer spending and plant and equipment investment in Hitachi’s major markets, particularly Japan, Asia, the United States and Europe, as well as levels of demand in the major industrial sectors Hitachi serves, including, without limitation, the information, electronics, automotive, construction and financial sectors;
- exchange rate fluctuations of the yen against other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated, particularly against the U.S. dollar and the euro;
- uncertainty as to Hitachi’s ability to access, or access on favorable terms, liquidity or long-term financing;
- uncertainty as to general market price levels for equity securities, declines in which may require Hitachi to write down equity securities that it holds;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;
- the possibility of cost fluctuations during the lifetime of, or cancellation of, long-term contracts for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;
- credit conditions of Hitachi’s customers and suppliers;
- fluctuations in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;
- fluctuations in product demand and industry capacity;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in product demand, exchange rates and/or price of raw materials or shortages of materials, parts and components;
- increased commoditization of and intensifying price competition for products;
- uncertainty as to Hitachi’s ability to achieve the anticipated benefits of its strategy to strengthen its Social Innovation Business;
- uncertainty as to the success of acquisitions of other companies, joint ventures and strategic alliances and the possibility of incurring related expenses;
- uncertainty as to the success of restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness;
- uncertainty as to the success of cost reduction measures;
- general socioeconomic and political conditions and the regulatory and trade environment of countries where Hitachi conducts business, particularly Japan, Asia, the United States and Europe, including, without limitation, direct or indirect restrictions by other nations on imports and differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;
- uncertainty as to the success of alliances upon which Hitachi depends, some of which Hitachi may not control, with other corporations in the design and development of certain key products;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity-method associates and joint ventures have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- the possibility of disruption of Hitachi’s operations by natural disasters such as earthquakes and tsunamis, the spread of infectious diseases, and geopolitical and social instability such as terrorism and conflict;
- uncertainty as to Hitachi’s ability to maintain the integrity of its information systems, as well as Hitachi’s ability to protect its confidential information or that of its customers;
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its significant employee benefit-related costs; and
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel.

The factors listed above are not all-inclusive and are in addition to other factors contained in other materials published by Hitachi.

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