
2018 Mid-term Management Plan

Progress and Prospects

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Toshiaki Higashihara

President & CEO

Hitachi, Ltd.

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1. 2018 Mid-term Management Plan

An Innovation Partner for the IoT Era

Accelerate collaborative creation with customers through Advanced Social Innovation Business

Four Focus Business Domains



Power • Energy



**Industry •
Distribution •
Water**



Urban



**Finance •
Public •
Healthcare**



2. Progress in FY2016

2.1 FY2016 Business Performance

	FY2015 (Results)	FY2016		FY2017 (Forecasts)	FY2018 (Targets)	
		(Original plan*)	(Results)			
Revenues	10,034.3 billion yen	9,000.0 billion yen	9,162.2 billion yen	9,050.0 billion yen	10,000.0 billion yen	
ratio Adjusted operating income	6.3% 634.8 billion yen	6.0% 540.0 billion yen	6.4% 587.3 billion yen	7.0% 630.0 billion yen	Over 8.0% Over 800.0 billion yen	
ratio EBIT	5.3% 531.0 billion yen	5.0% 450.0 billion yen	5.2% 475.1 billion yen	6.4% 580.0 billion yen	Over 8.0% Over 800.0 billion yen	
Net income attributable to Hitachi, Ltd. stockholders	172.1 billion yen	200.0 billion yen	231.2 billion yen	300.0 billion yen	Over 400.0 billion yen	
FX rate (Average)	U.S. Dollar Euro	120 yen 133 yen	110 yen 120 yen	108 yen 118 yen	110 yen 115 yen	110 yen 120 yen

* As of May 2016

Business reorganization for growth of Social Innovation Business

Business Structural Reforms

- **Business Restructuring (One-time loss: approx. 96 billion yen)**
 - Closure, Reduction and Improvement of low profitability business (e.g. Communication products, Overseas Plant EPC*¹)
[Operating income improved by approx. 40 billion yen YoY]
- **Impairment loss related to uranium enrichment business of GE-Hitachi Nuclear Energy: approx. 66 billion yen**

Selection & Concentration of Businesses

- **Reorganization**

Business Field	Revenues* ²	Date of reorganization
Logistics Service (Hitachi Transport System)	680.4	May, 2016
Financial Service (Hitachi Capital)	365.3	October, 2016
Power Tools (Hitachi Koki)	141.6	March, 2017
Semiconductor manufacturing / video communications equipment (Hitachi Kokusai Electric)	180.7	April, 2017 Agreement of share transfer
Others (LCD Panel, etc. Manufacturing Equipment Business / Security Service)	19.5	-
Total	1,387.5	

Promoted empowerment of growing businesses

Railway

- Smooth progress in integration of Hitachi Rail Italy and continued collaboration with Ansaldo STS
- Rail business is planned to grow globally with CAGR over 10%

Financial

- Utilizing emerging technologies, such as block chain in Asia market
- Steady growth of SI business for financial sector in Japan

Industrial

- Expanding the business of products and digital solutions through the customer channels in North America, obtained through Sullair acquisition

Building

- Completed the development of standardized elevator for Asia and the Middle East
- Business expansion by strengthening the sales and maintenance bases in Asia, the Middle East, and Europe

Power

- Developed and started trial operation of 5.2MW off-shore wind power generation system
- Accelerated the expansion of wind power business in Japan and Asia

Established IoT platform to drive the Social Innovation Business

Launch of the Lumada IoT platform

- One of the world's most advanced IoT platforms
- Development team comprised of top talent in the IoT field
 - 270 members, mainly in the U.S.
- Accumulated insights obtained through Collaborative Creation with customers
 - 203 cases
- Insights incorporated into reusable software
 - Enhancing the solution core
- CLO* responsible for the use of IoT platform appointed in each business

Examples of cases



Railway Automotive Water Banks Manufacturing Construction ...

Continue expansion of cases through collaborative creation with customers

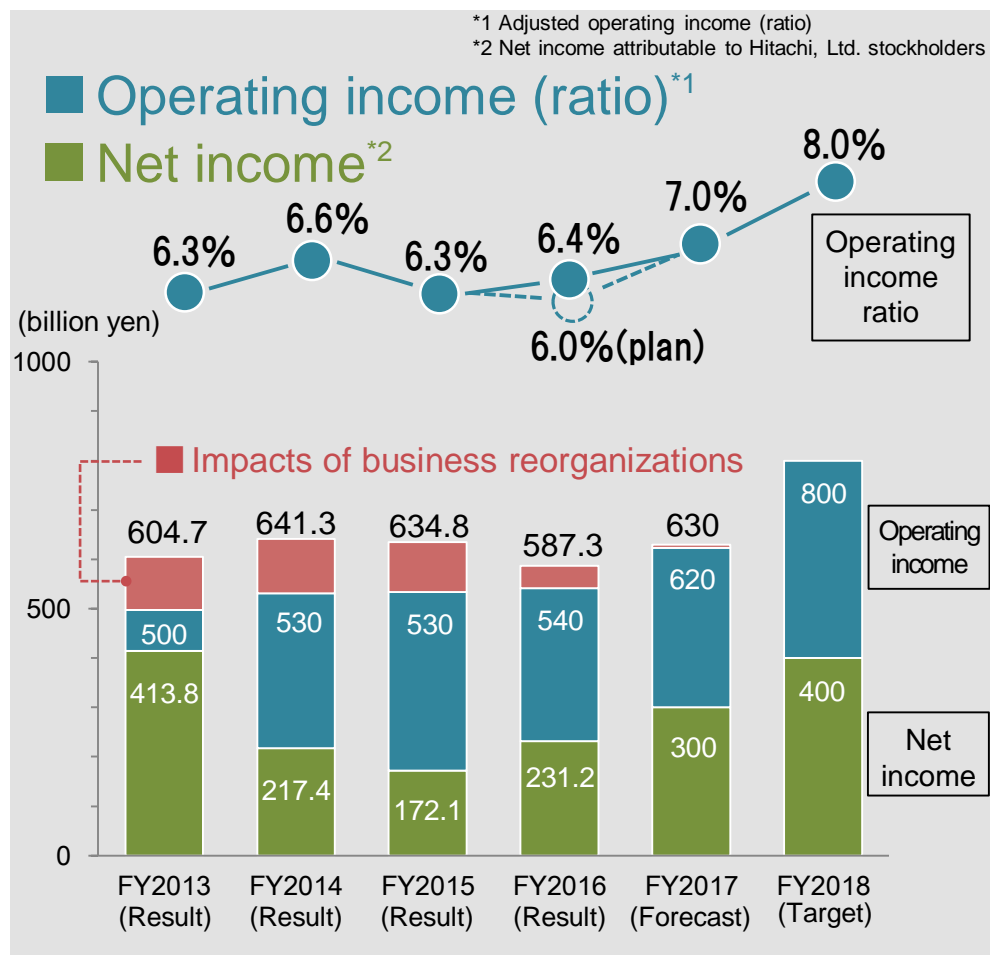
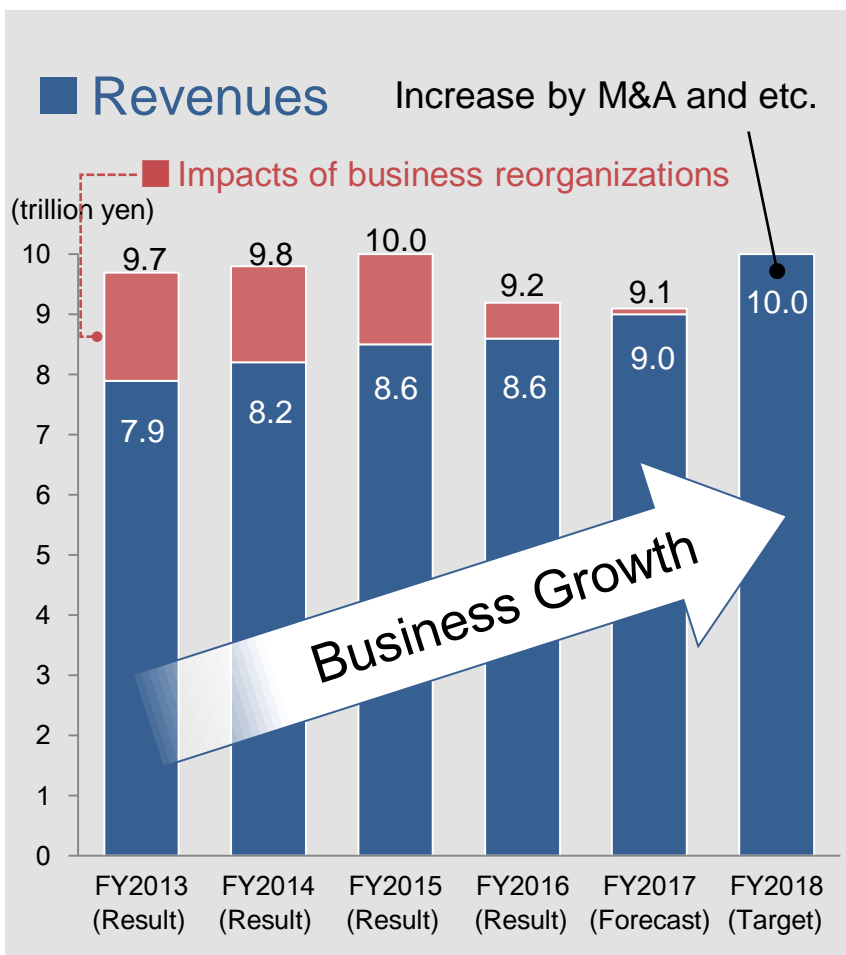
Lumada Business Revenues (billion yen)	FY2016 (Result)	FY2017 (Forecast)	FY2018 (Target)
	900	950	1,050

Consider additional large-scale investment to increase revenue and profit

* CLO: Chief Lumada Officer

2.3.1 Business Growth Plan (1)

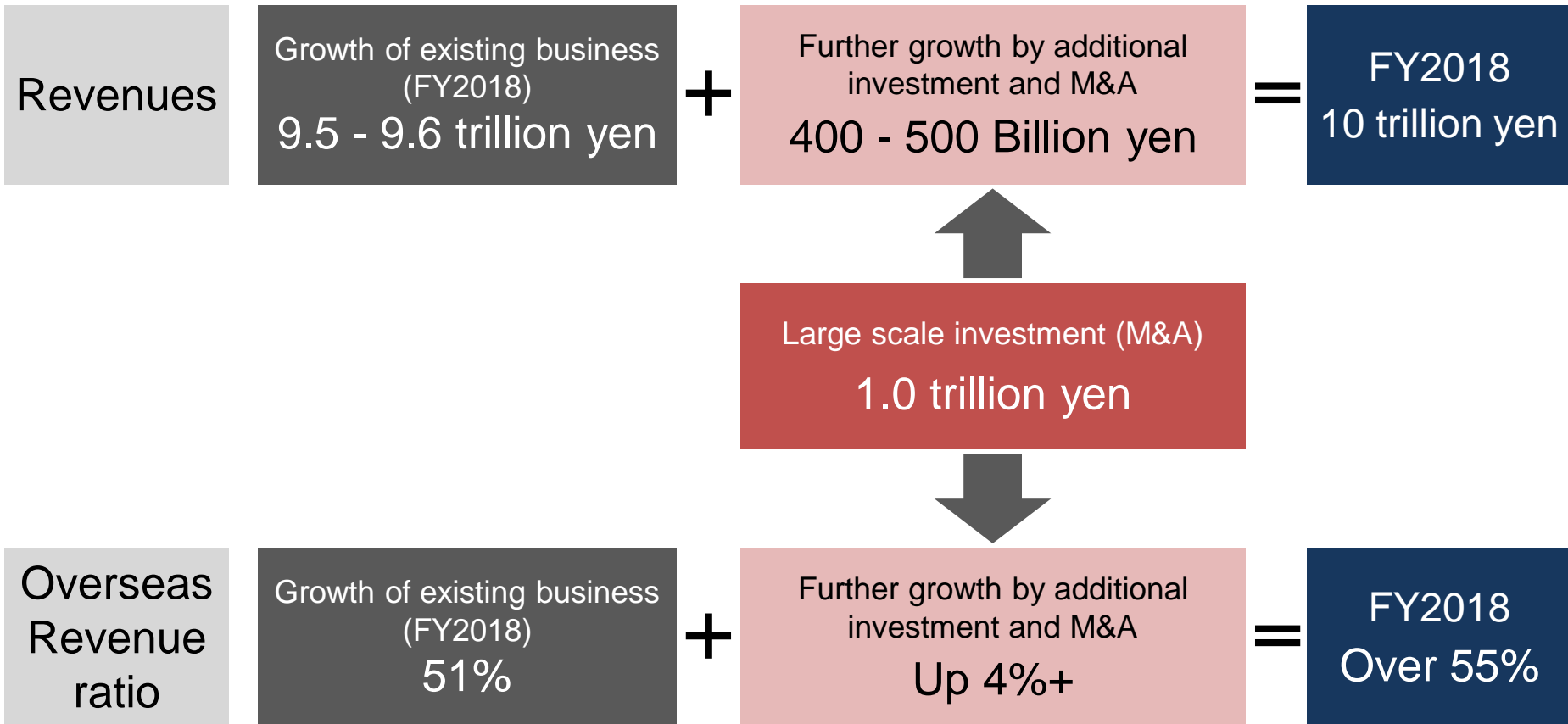
Increase revenues and profits through growth of Social Innovation Business



Note: Figures shown for revenues and adjusted operating income from FY2013 to FY2017 reflect adjustments based on existing businesses in FY2018 (Results of Hitachi Transport Systems, Hitachi Capital, Hitachi Koki, Hitachi Kokusai Electric, Hitachi Maxell, the air conditioning business, and the thermal power generation business were excluded actual results from FY2013 to FY2017. The elimination among inter-company transactions are not reflected.)

2.3.2 Business Growth Plan (2)

Accelerate further growth by large scale investment



3. Further Growth in Social Innovation Business

- **Further Strengthening Digital and Lumada**
- **Strengthening the Front on a Global Basis**
- **Growth strategies in Four Focus Business Fields**

Opportunities for Hitachi's Social Innovation Business are expanding

The United Nations has adopted “Sustainable Development Goals” (SDGs), and promoted it through many global companies.



SDGs Market; US\$12 Trillion (Predicted figures by 2030)^{*1}

Resolving the world's social challenges and providing innovative structures for society and lives through Social Innovation Business

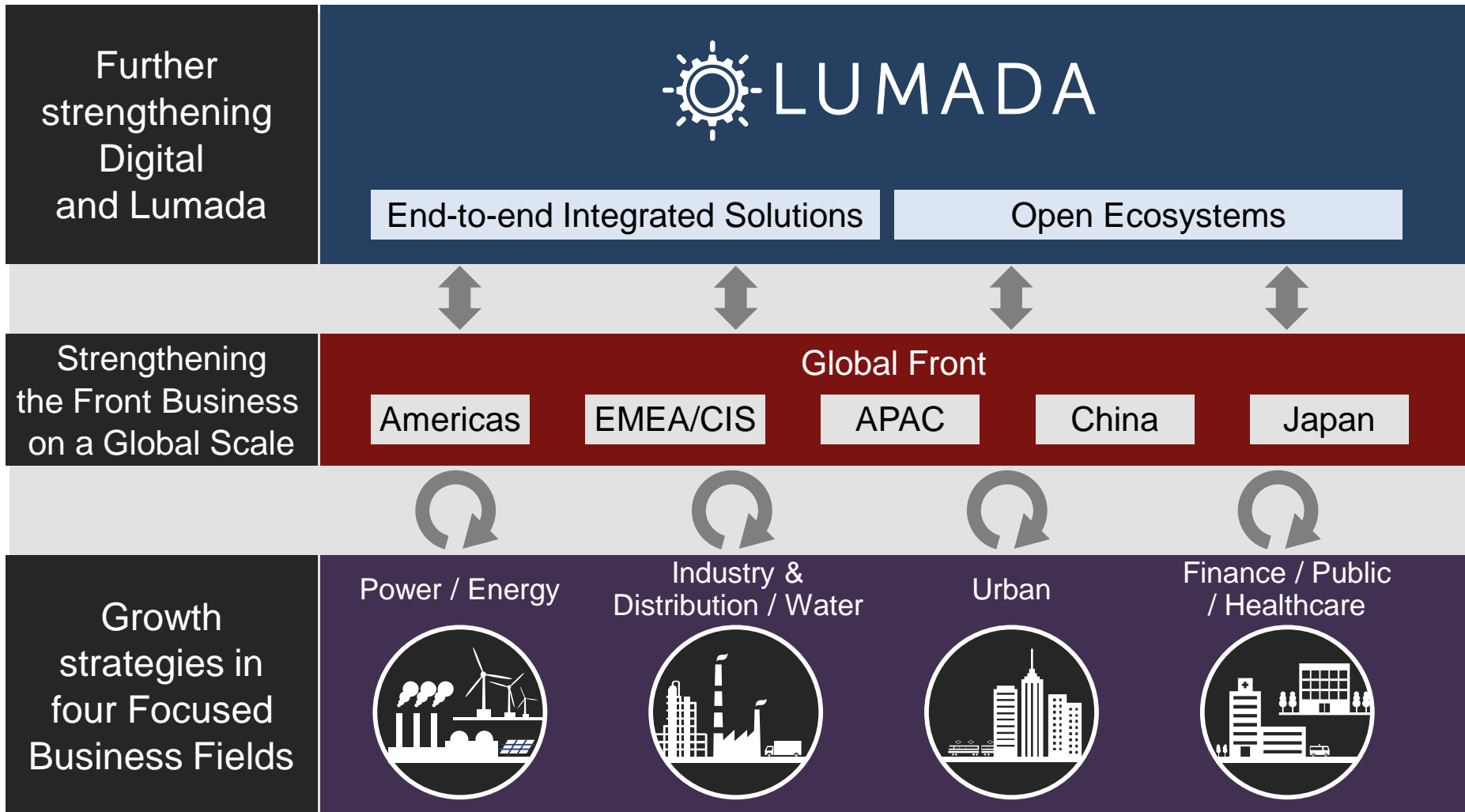


Digital Market; US\$1.29 Trillion (2020) (CAGR 15.6%)^{*2}

*1 BSDC “Better Business, Better World”

*2 IDC “Worldwide Semiannual Internet of Things Spending Guide”

Growing Social Innovation Business, Driven by Lumada



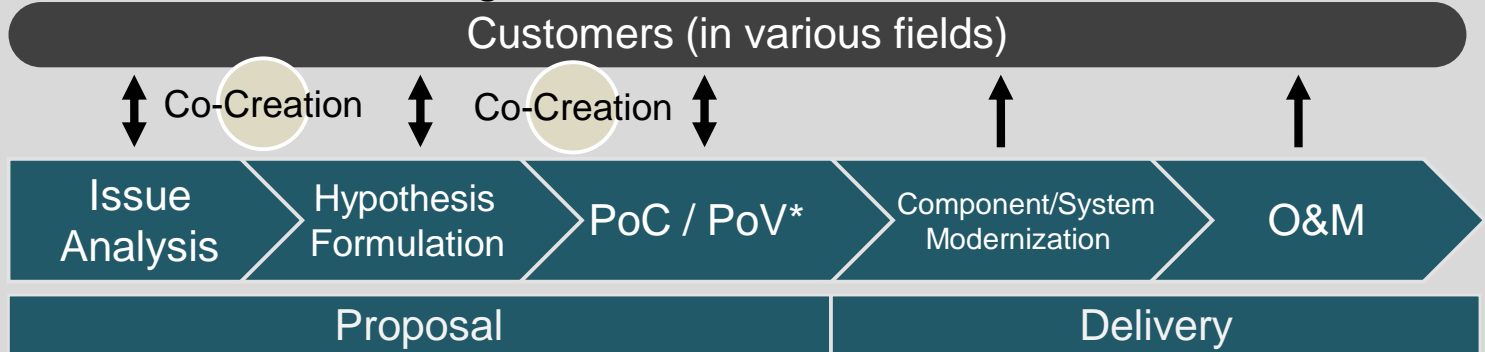
3.3.1 Growth Measures (1)

Further strengthening digital and Lumada

Further expansion of Digital Solutions Business by Enhancing Lumada

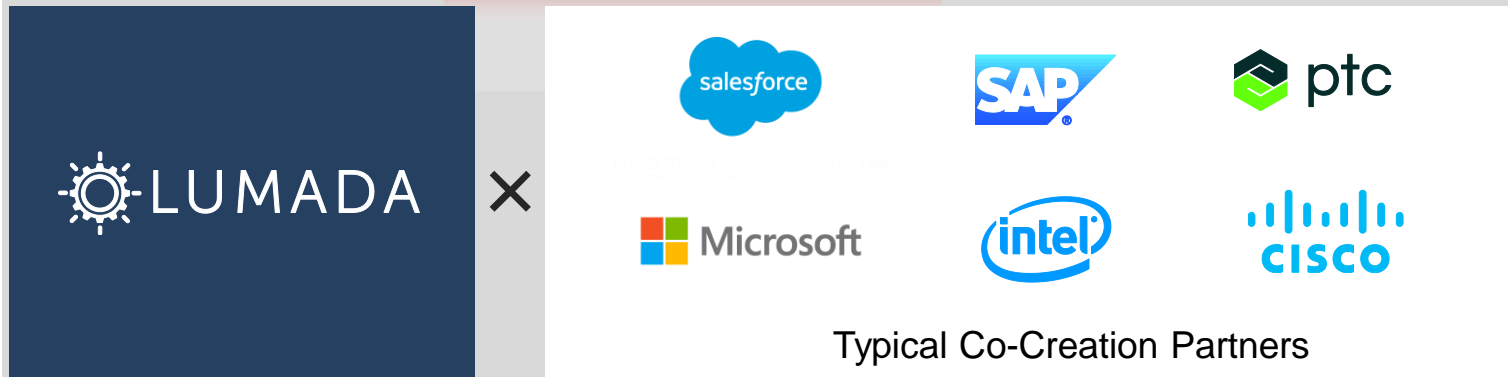
End-to-end
Integrated
Solutions

Providing optimal solution based on the understanding of issues through co-creation with customers



Open
Ecosystems

Providing value rapidly to customers through co-creation with partners



* PoC / PoV : Proof of Concept / Proof of Value

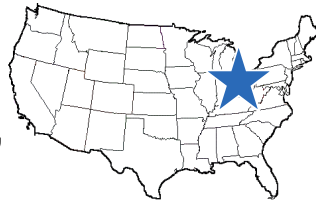
Urban : Connected Vehicle Solutions



Expanding existing technical and marketing partnerships to an Innovation Partner through joint engagements on multiple co-innovation projects in the United States

Penske Corporation

Head Office
- Bloomfield Hills,
Michigan



Description of main operations
- Diversified, on-highway,
transportation services

Subsidiaries

- Retail Automotive
- Truck Leasing

Operating Vehicles: 240,000 +
Service Locations: 1,000 +

- Logistics
- Professional Motorsports, etc.

Penske-Hitachi Co-innovation Concept

Challenges

- Improving vehicle uptime, safety, and compliance
- Helping keep customers well-informed about their vehicles



HITACHI

Co-innovation

Vehicle Data
Operational Expertise

Big Data Analytics
Artificial Intelligence

Industry : Digital Solution for Quality Management



[Co-creation case with Daicel]

Connecting image analysis data and manufacturing execution management systems (facilities data)

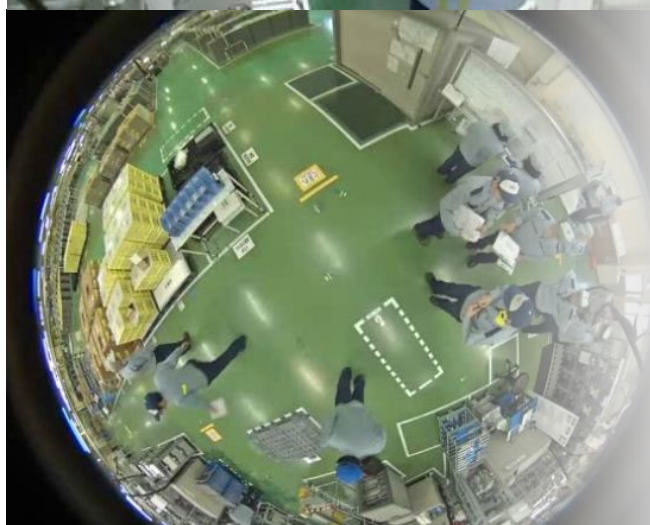


Issues

- Enhancing quality on a global scale

Solution

- Connect image analysis systems and manufacturing execution management systems at Daicel's Harima plant, to improve quality assurance efficiency, and hereafter develop for global sites



Value /
Outcomes

Trend monitoring and preventative measures using image data
Preventing defects before they occur

Urban : Rail Maintenance in UK

Providing the trains that are needed when they are needed, in keeping with service requirements specified by the railway operating companies

Issues

- Challenges that come with an older railway
- Increasing the reliability and safety of railways

Solution

- Remote monitoring and next-generation maintenance based on analysis of unusual sensor data and type of fault
- Extend the cycle of parts replacements and optimize the stock and supply chain

Value / Outcomes

On-time, secure and comfortable operation, enhancing QoL* of users, and economic revitalization

Financial : Digital Settlements (FinTech)

Demonstrating secure financial services
to create new cross-border settlement services

Issues

- Evolution of digital technologies and increasing security risks
- Ensuring the global competitiveness of financial institutions (increased efficiency, service development)

Solution

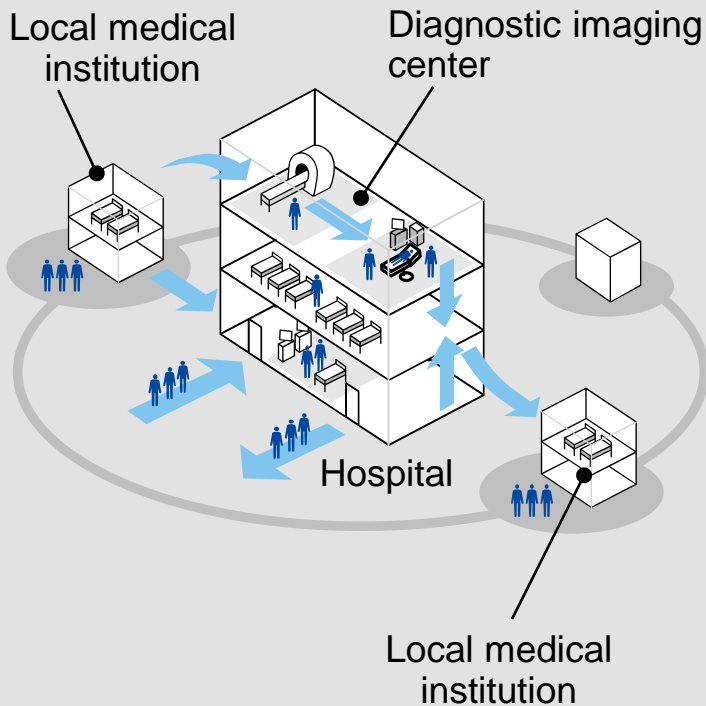
- Verification tests using frameworks for the development of FinTech services by Singapore authorities
- Development of future FinTech services, including electronic checks

Value / Outcomes

Identify issues in the use of
block chain technologies
(in the future)

Healthcare : Hospital Management Support in China

Provide secure medical services by increasing efficiency of hospital operations/management utilizing Hitachi's operational know-how, IT and medical devices



Issues

- Improvement in the efficiency of hospital management
- Improvement for the quality of medical treatment

Solution

- Operational support at diagnostic imaging center (Provide Medical devices such as PET*1, MRI*2 and know-how)
- Reduction of operational costs utilizing IT (e.g. Central purchasing)
- Increase the number of patients in cooperation with local medical institutions

Value / Outcomes

Improvement of local healthcare quality
Increase in hospital profits

*1 PET: Positron Emission Tomography *2 MRI: Magnetic Resonance Imaging

3.4.1 Growth Measures (2)

Strengthening the Front on a global scale

Accelerate global expansion of Social Innovation Business

Business organization

Customers

Global Front

Platform

Product

- **Establishment of global front**
 - Establish “global front”, management organization to accelerate global expansion of Social Innovation Business (April 2017)
- **Employment of human resources**
 - Employ human resources such as consultant/SE/maintenance personnel etc. (FY2016 results: domestic 1,000 staff, Overseas 1,000 staff)
- **Training for human resources**
 - Accelerate development of staff and increase global front staff by building global certification system
- **Strengthening front function by M&A**
 - Business growth through M&As to strengthen front function

Target: Customer channels/Maintenance sites/Product business, etc.

3.4.2 Growth Measures (2)

Strengthening the Front on a global scale

Business growth by empowering front line through investment

Effects of Ansaldo STS acquisition

- Business collaboration proceeding smoothly as planned
- Acquired customers in global railway market
- Growing by adding products (rolling stock, equipment, signaling systems) and digital solutions on railway turn-key solutions

Aims of Sullair acquisition

- Entry to prospective North America market and acquisition of Sullair's customer base and sales network (US customers: 4,000)
- Enhance the line-up of products (Air-compressor, marking device)
- Provide digital solutions, such as optimized factory and SCM* renovation to Sullair's customers as next step

Investment track records in global front line empowerment

Ansaldo STS (Italy)	(March 2016)	Entry to turn-key business and expansion of global businesses
Kurt & Kurt (Turkey)	(Announced Dec. 2016)	Sales expansion for medical devices in Europe and the Middle East
Sullair (US)	(Announced April 2017)	Acquisition of customer channel and business expansion in the U.S.
Temple Lifts (UK)	(Announced April 2017)	Entry to lift maintenance business in Europe

* SCM : Supply Chain Management

3.5.1 Growth Measures (3)

Growth strategies in four key business fields

Focus on four business fields, Consider Growth Strategies and Investments

Power / Energy



Industry & Distribution / Water



Urban



Finance / Public / Healthcare



Strategy & Investment

- Electric power reforms (Japan)
- Distributed Power / Renewable Energy

- Plant optimization using digital technologies
- Rebuilding supply chains by digital technologies

- QoL enhancement (Urban / Mobility / Home digitalization)
- Further growth of product business

- Growth in keeping with changes in technologies and markets (financial)
- Support for “My-Number”

Hitachi's Business

- Power
- Nuclear Energy
- Energy Solution

- Industry/Distribution
- Water
- Industrial Products

- Urban solutions
- Rail
- Elevators/Escalators
- Automotive parts
- Smart Life & Eco-friendly Systems (Home Appliances)

- Systems for Financial Sector
- Systems for Public and Social Infrastructure Sector
- Healthcare
- Defense Systems

3.5.2 Growth Measures (3)

Growth strategies in four key business fields

Strengthen investment strategy toward the next stage of growth

Focusing investment and improving asset profitability are essential for the growth by Social Innovation Business

Role of Investment Strategy Division (established on April 2017)

- Focused investment (M&A, capital expenditure, R&D, sales investment, etc.) on growing business fields
- Re-design the balance sheet
- Strengthen project finance

3.5.2 Growth Measures (3)

Growth strategies in four key business fields

Business creation investment beyond the existing business field

Role of Future Investment Division (established on April 2017)

- In charge of investment and business start-up to grow by social innovation, in addition to growth of individual business and associate business group
- Aim at fast business start-ups, promoting open innovation with external institutes / ventures

[Projects and Leaders]

Robotics / AI



Kaori Kashimura

Urban mobility



Seiichiro Nukui

Healthcare
informatics



Asako Koike

Infrastructure
maintenance



Masahiko Hasegawa

Security



Yuichiro Nakaya

4. Strengthening the Management Base

Strengthening the management base to achieve business growth

Speed up management

- Accelerate decision making under Business Unit system

Expand global business

- Investment to acquire sales channels and partners
- Empower global front line

Increase business profitability

- Identify low profitability businesses, and implement countermeasures
- Promote Hitachi Smart Transformation Project
- Improve investment efficiency and ROA

Invest in growth businesses

- Make “strategic investments” and “investments toward future,” on a total scale of 1 trillion yen
- Formulate and execute strategies in each of four focus business fields

Improving business performance by Hitachi Smart Transformation Project

Hitachi Smart Transformation Project

- **CCC*1**

FY2016 **72.2** days → FY2018 **70** days

...Reduce lead time by sharing order receipt information between Front and manufacturing divisions

- **Gross Margin**

FY2016 **26.0%** → FY2018 Over **28.0%**

...Reduce costs of purchased items through cost design from the design and development stage

- **SG&A*2**

FY2016 **19.6%** → FY2018 **20%**

...Control an increase in SG&A, resulting from strengthening Front, through standardization of operations



C/F
improvement



P/L
improvement

*1 CCC : Cash Conversion Cycle (Manufacturing, Services and Others)

*2 SG&A : Selling, General and Administrative expenses

Continue close collaborations with stakeholders inside and outside of the company

Horizon Project (Nuclear Power Project in UK)

- Activities going according to plan
- Prospect the Final Investment Decision in 2019

Thermal Power Project in South Africa

- Continue close collaboration with Mitsubishi Hitachi Power Systems toward project completion
- Continue discussions with Mitsubishi Heavy Industries

5. Preparing for 2018

5.1.1 Goal of the Hitachi Group (1)

Front drives growth in sales and earnings

Front revenue ratio FY2016 38% → FY2018 40% (Target)

Front

Revenues (billion yen):
3,521.3 → 4,000.0

Adjusted operating income ratio:
8% (FY2018 target)

Power / Energy

Revenues (billion yen)

495.7

590.0

FY2016

FY2018

Industry & Distribution / Water

Revenues (billion yen)

703.0

770.0

FY2016

FY2018

Urban

Revenues (billion yen)

1,083.8

1,320.0

FY2016

FY2018

Finance / Public / Healthcare

Revenues (billion yen)

1,238.6

1,460.0

FY2016

FY2018

Platform/ Products*

Revenues (billion yen):
6,714.5 → 7,160.0

Adjusted operating income ratio:
8% (FY2018 target)

* "Products" includes Automotive Systems business and Smart Life & Eco-friendly Systems business

5.1.2 Goal of the Hitachi Group (2)

Global business expansion

Europe

- Railway
- Nuclear energy
- Energy

FY2016 Revenue **0.97** trillion yen → FY2018 Revenue **1.15** trillion yen

China

- Elevators / escalators
- Healthcare
- Construction machinery

FY2016 Revenue **0.93** trillion yen → FY2018 Revenue **1.1** trillion yen

N. America

- Automotive parts
- Industrial products
- Urban mobility

FY2016 Revenue **1.14** trillion yen → FY2018 Revenue **1.46** trillion yen

Asia

- Finance(FinTech)
- Industrial products

FY2016 Revenue **0.93** trillion yen → FY2018 Revenue **1.22** trillion yen

Overseas Revenue Ratio

FY2016 (Result) **48%** → FY2018 (Target) **55%**

Note: Regions except for those which are listed above (including Japan): FY2016 5.18 trillion yen → FY2018 5.07 trillion yen

5.2.1 Mid-term Management Plan Targets (1)

	FY2016 Results	FY2018 Targets
Front business expansion (Front revenue ratio)	38%	40%
Global business expansion (overseas revenue ratio)	48%	Over 55%
Strengthening cash-generating capability (Operating cash flow margin ^{*1})	7.1%	Over 9%
Improving asset profitability (ROA ^{*1,2})	3.3%	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 Mid-term Management Plan Targets (2)

	FY2015 (Results)	FY2016		FY2017 (Forecasts)	FY2018 (Targets)	
		(Original plan*)	(Results)			
Revenues	10,034.3 billion yen	9,000.0 billion yen	9,162.2 billion yen	9,050.0 billion yen	10,000.0 billion yen	
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FX rate (Average)	U.S. Dollar Euro	120 yen 133 yen	110 yen 120 yen	108 yen 118 yen	110 yen 115 yen	110 yen 120 yen

* As of May 2016

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;
- 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;
- 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;
- 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 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;
- 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;
- 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;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- 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 cost structure overhaul;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights;
- 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 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; and
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its employee benefit-related costs.

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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