
Hitachi Smart Transformation Project

Hitachi IR Day 2015

June 11, 2015

Shinjiro Iwata

**Executive Vice President and Executive Officer
CTrO**

Hitachi, Ltd.

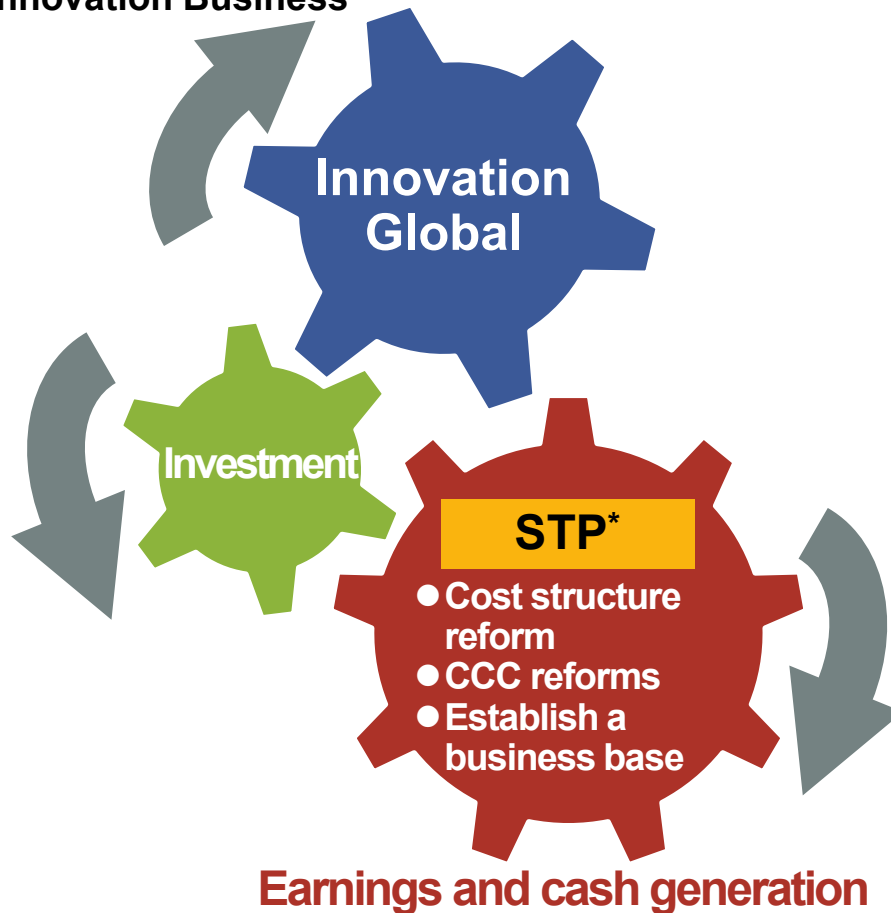
Hitachi Smart Transformation Project

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- 1. Hitachi Smart Transformation Project Outline**
2. Progress of Hitachi Smart Transformation Project
3. Specific Activities to Achieve the Targets of 2015
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Strengthen earnings power and cash generation capacity to achieve growth

Drive business growth by strengthening the Social Innovation Business



STP* objective

Cost structure reform

- Sustained cost reductions of over 100.0 billion yen per year
- Optimize the SG&A expense ratio

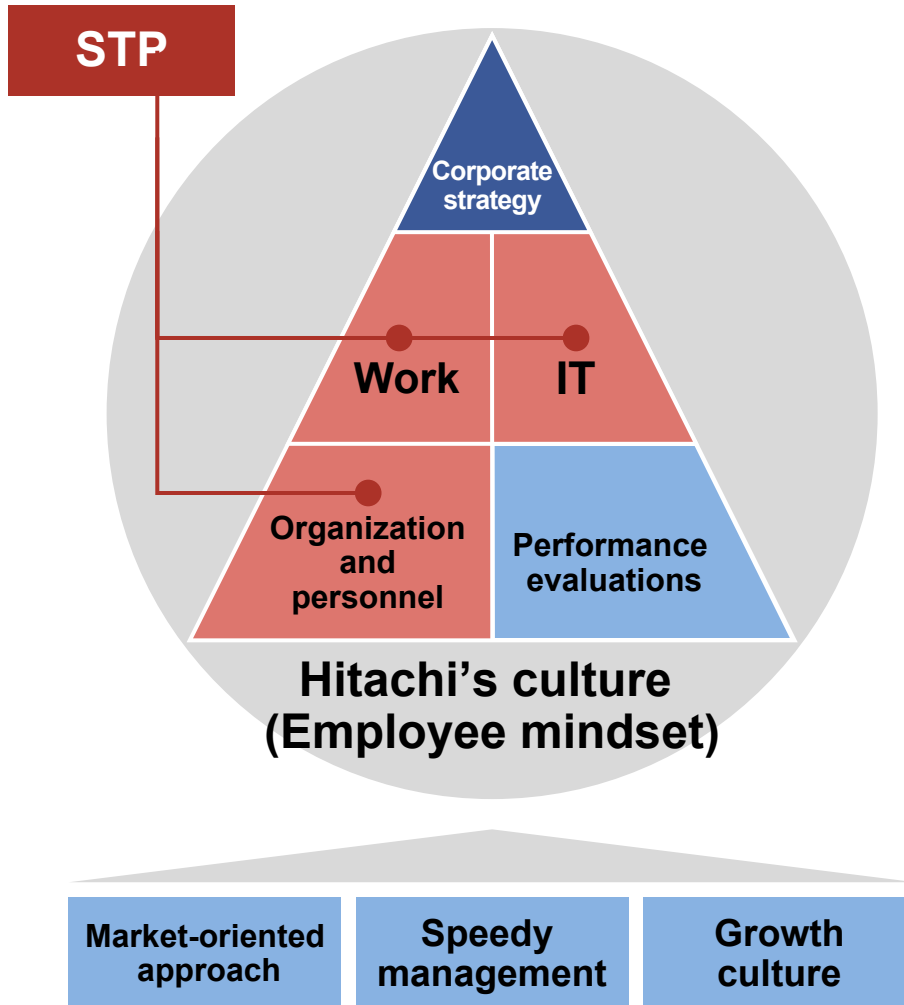
CCC reforms

- Transform to operations aimed at cash generation
- Shorten lead times in each business to maximize operating efficiency

Establish a business base

- Build organizations, operations and IT that will support the Social Innovation Business

Far-reaching reforms to business base, guided by Hitachi's strategy to strengthen its Social Innovation Business



Simplicity

Work

Establish and streamline standard work processes

Organization and personnel

Achieve an optimal organization and personnel mix

Transparency

Work

Cost and cash visualization

IT

Develop IT as a management platform for the Hitachi Group, considering M&As, etc.

Productivity

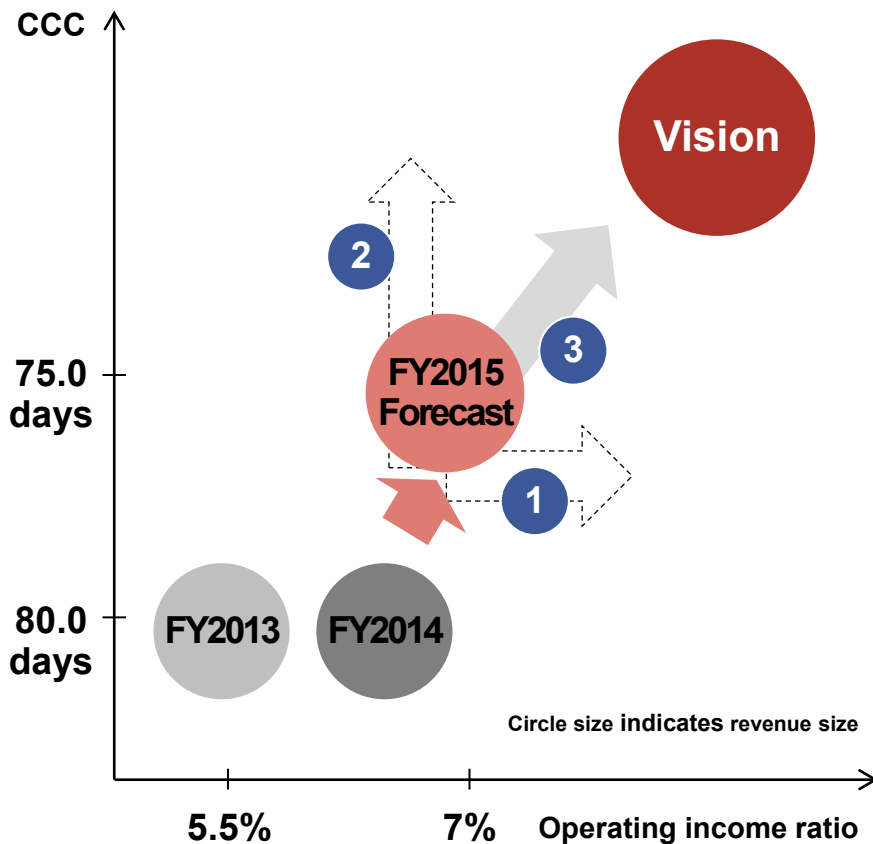
Work

Establish operations that successfully create value

Organization and personnel

An organization that creates businesses by collaborative creation with customers and by strengthening customer service capabilities

Transform to a globally competitive structure



1	Cost structure reform	Benefits of STP 420.0 billion yen or more*¹
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2	CCC*² reforms	CCC:76.5 days
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3	Establish a business base	
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*1 Cumulative from FY2011
*2 Manufacturing, services and others

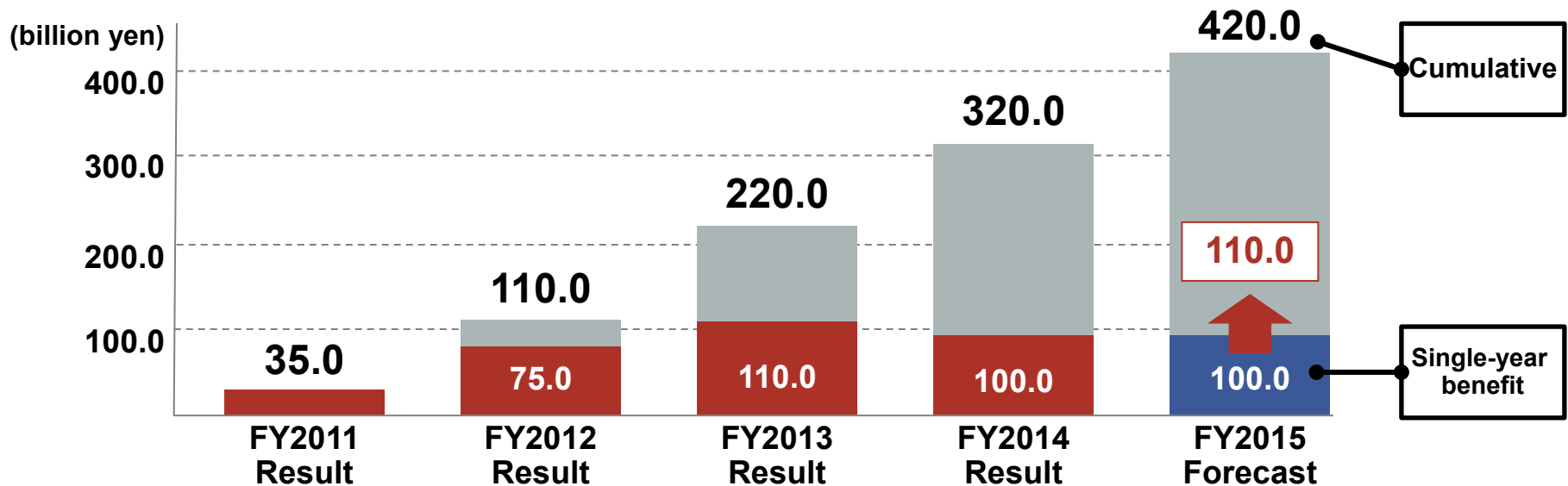
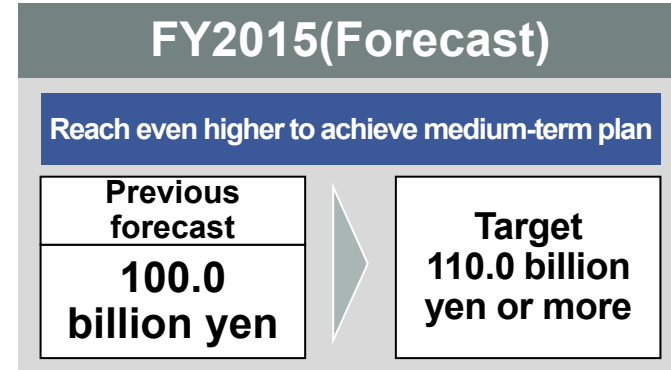
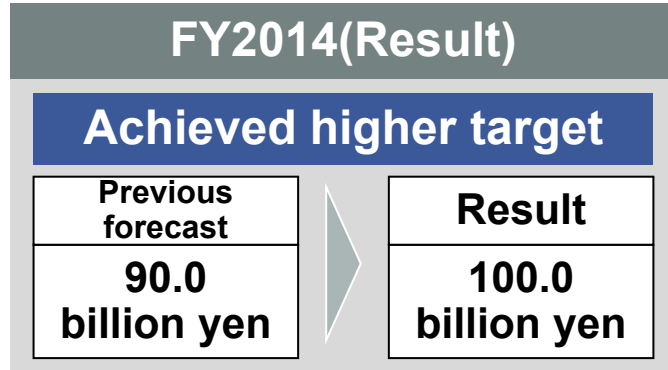
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2-1. Progress of Hitachi Smart Transformation Project (Project Benefits)

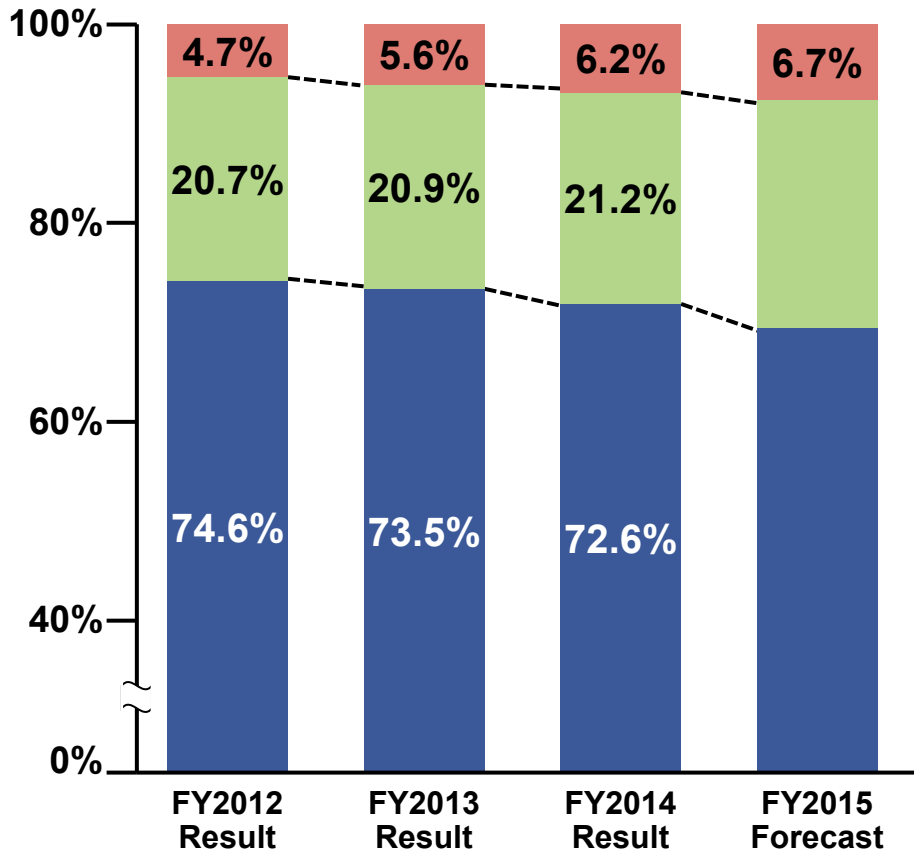
**Steady execution to deliver project benefits
of 420.0 billion yen or more**



2-2. Progress of Hitachi Smart Transformation Project (Cost Structure)

Focus on reducing SG&A expenses while continuing to reduce cost of sales

Operating income
SG&A *
Cost of sales



Reduce cost of sales

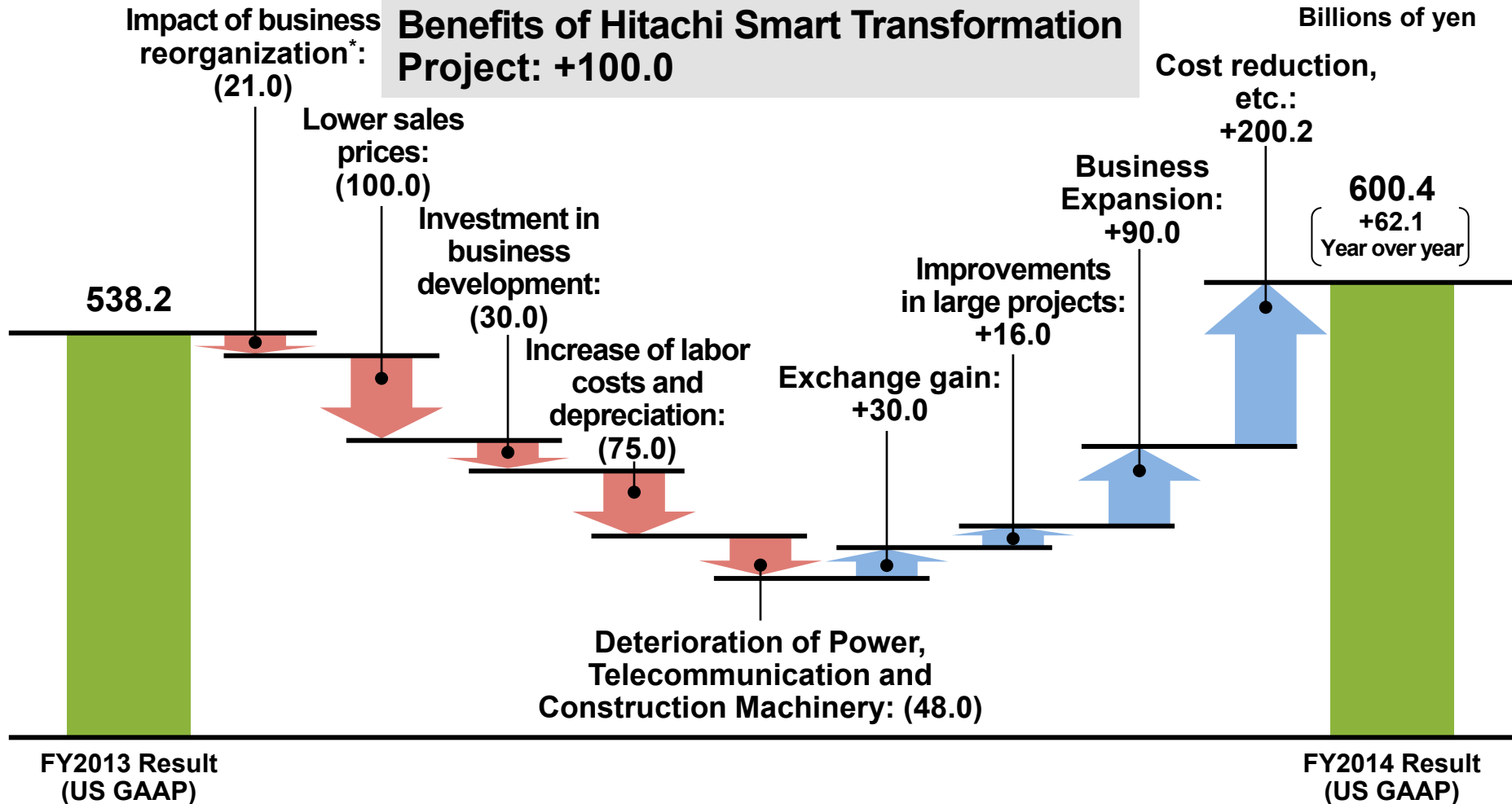
- Design and achieve cost of sales to attain ideal cost of sales
 - Incorporate cost into the planning stage
 - Strengthen collaborative creation with suppliers and other partners
- Refine and streamline design and other operations

Reduce SG&A expenses

- Comprehensively review fixed costs in Japan
 - Right size workforce in Japan
 - Accelerate BPO in back-office operations
 - Optimize IT costs
- Reduce indirect materials in Japan and overseas
 - Rigorously reduce indirect materials overseas

2-3. Factors for Change in Operating Income (FY2013 → FY2014)

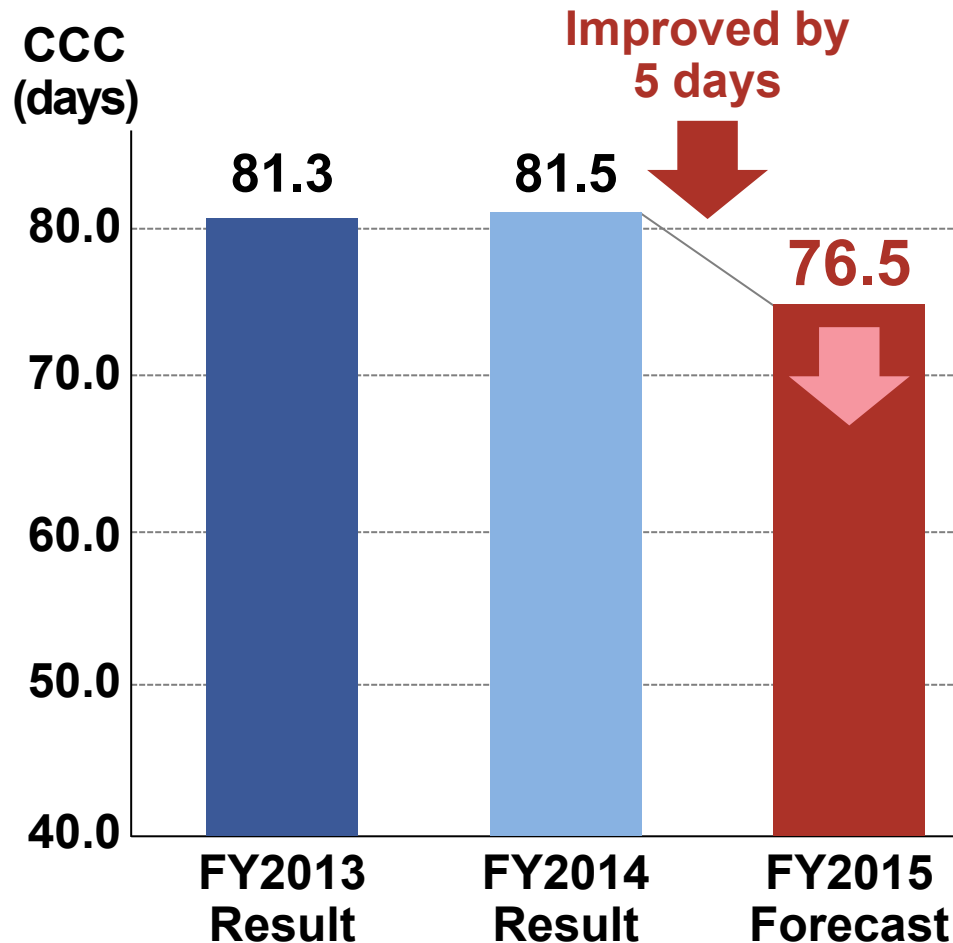
Project benefits contributing to improved business results and the creation of growth investments



* the integration of the thermal power generation systems business with Mitsubishi Heavy Industries, Ltd., and the conversion of Hitachi Maxell, Ltd into an equity-method affiliate

2-4. Progress of Hitachi Smart Transformation Project (CCC (Manufacturing and Services, etc.))

Strengthen cash generation capacity by revising work processes from end to end



Improve inventory turnover days

- Accelerate development of modular design and parts standardization
- Step up inventory design at a faster pace
- Rigorously shorten lead times

Improve accounts receivable/payable turnover days

- Refine deposit and withdrawal management methods
- Strengthen cash flow management of overseas projects
- Expand the use of electronically recorded monetary claims

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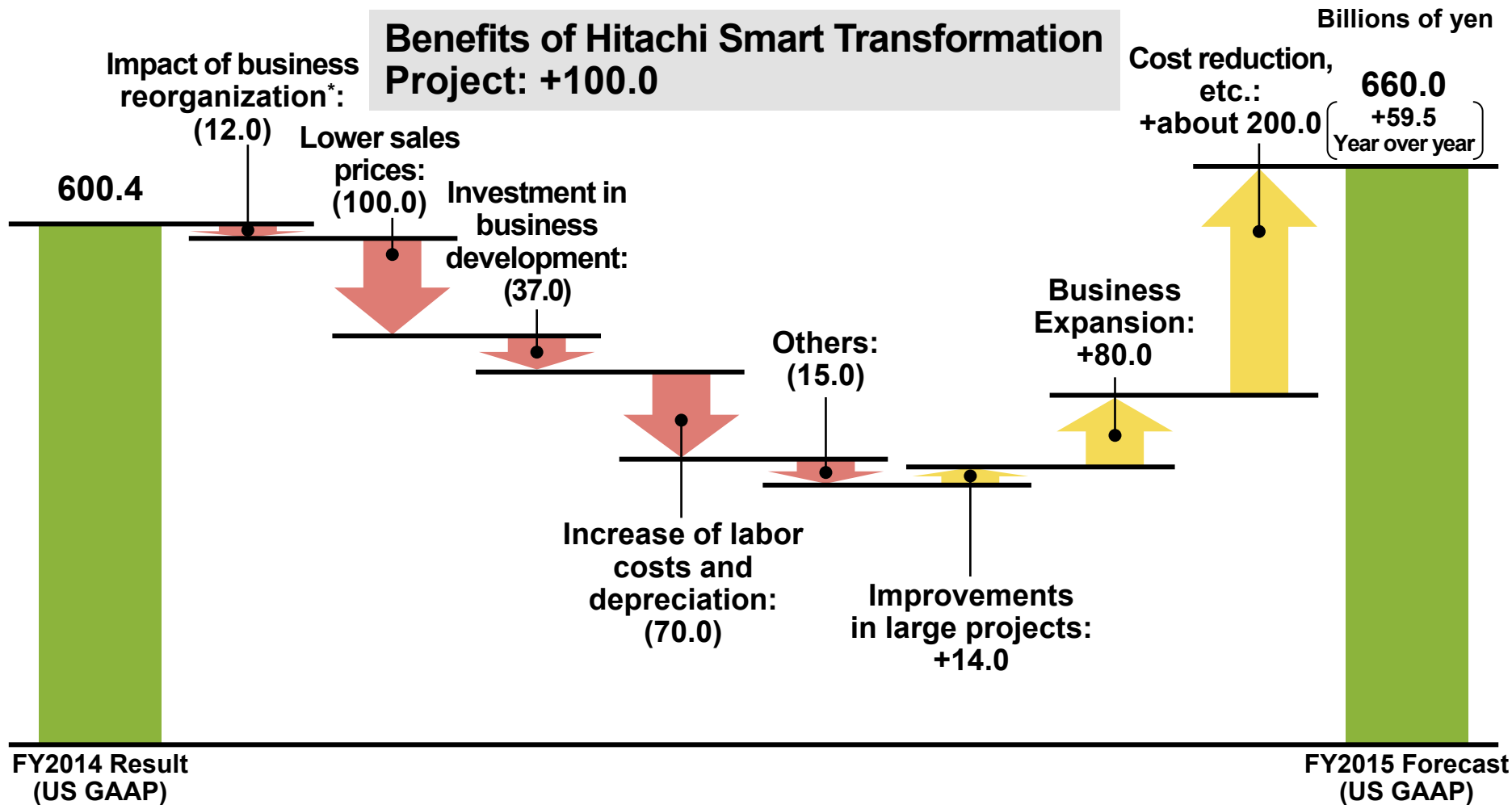
3-1. Priorities for Driving the Project Forward

Achieve further transformation to establish a business structure that can stay on top of changes in the operating environment

			Priorities	
STP activities	Cost structure reform	● Reduce cost of sales	<ul style="list-style-type: none"> Strengthen ability to reduce cost of sales in anticipation of changes in the operating environment Strengthen project management 	3-3 3-4
		● Reduce SG&A expenses	<ul style="list-style-type: none"> Optimize the global workforce 	3-5
	CCC reforms	● Reduce inventories	<ul style="list-style-type: none"> Establish a core value chain that can instantly adapt to supply-demand dynamics 	3-6
		● Improve accounts receivable/payable turnover	<ul style="list-style-type: none"> Strengthening cash flow management 	3-7
	Establish a business base to support growth	● Work process reforms	<ul style="list-style-type: none"> Establish operations and IT services to support the Social Innovation Business 	3-8
		● Develop a global IT platform		3-9

3-2. Scenario for Achieving the Targets of 2015 Mid-term Management Plan (Operating Income)

Ensure achievement of operating income target by resolutely implementing Smart Transformation activities

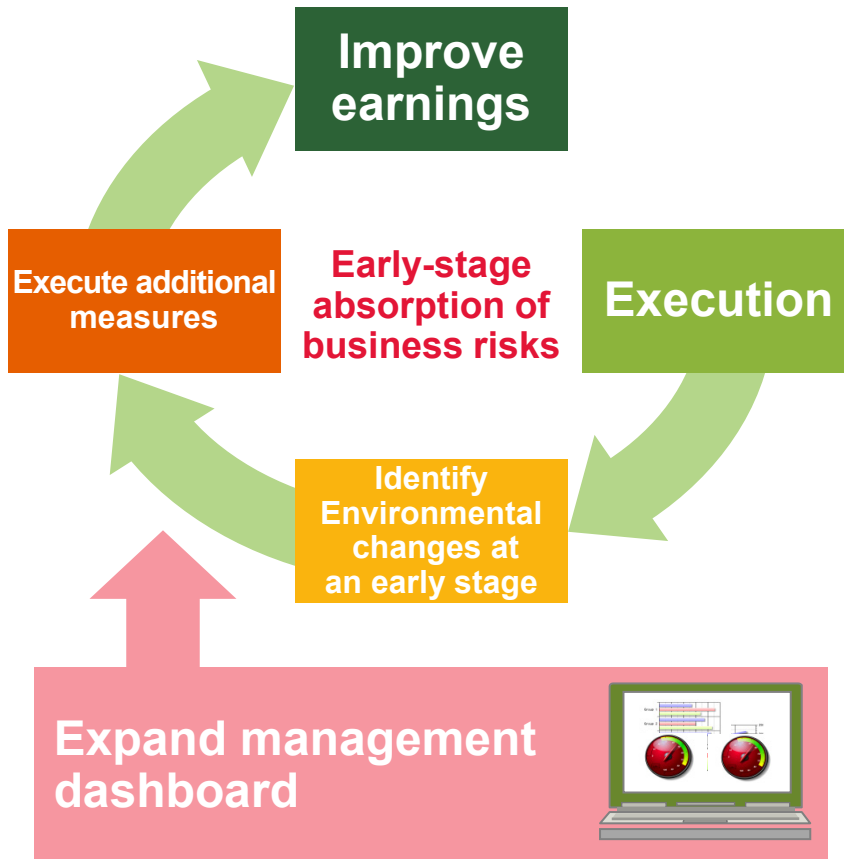


* Impact from air conditioning business reorganization

3-3. Strengthen Ability to Reduce Cost of Sales in Anticipation of Changes in the Operating Environment

Accelerate speed of management cycle to achieve further improvements in profitability

Management cycle



Strengthen response capabilities for changing business environment

- Rigorous scenario preparation and rolling that can instantly adapt to management decision-making
- Identify revenues and costs at an early stage and rapidly execute additional reductions by item
- Expand management dashboard making use of Hitachi IT technologies

Increase amounts of cost reductions to achieve target costs

Curb risks & secure earnings by strengthening PM

Activities to strengthen PM & EPC infrastructure

Concentrate PM expertise based on past examples of successes and failures



Develop PM strengthening measures across the Group

Cultivate project managers

- Train global project leaders

Share PM platform

- Develop across best practices internally

Implement project support

- PM support by a specialist team

Concrete examples of development

Cultivate project managers

Training of PM human resources (19 courses)

Basic literacy education

Study examples of successes and failures

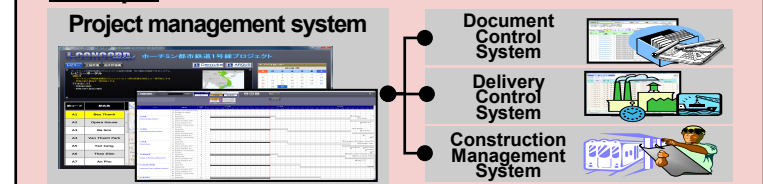
Introduce insights from inside and outside Hitachi



Share PM platform

Develop proven internal best practices across other departments

Example



Implement project support

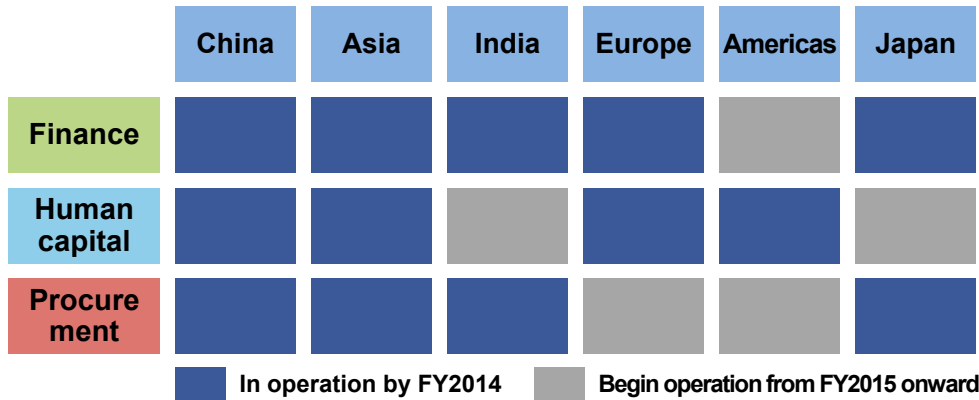
Start PM support by an internal specialist team (Vietnam urban transportation project, etc.)

3-5. Optimize the Global Workforce

(Expand Global Usage of Shared Services)

Establish a global BPO platform for back-office operations

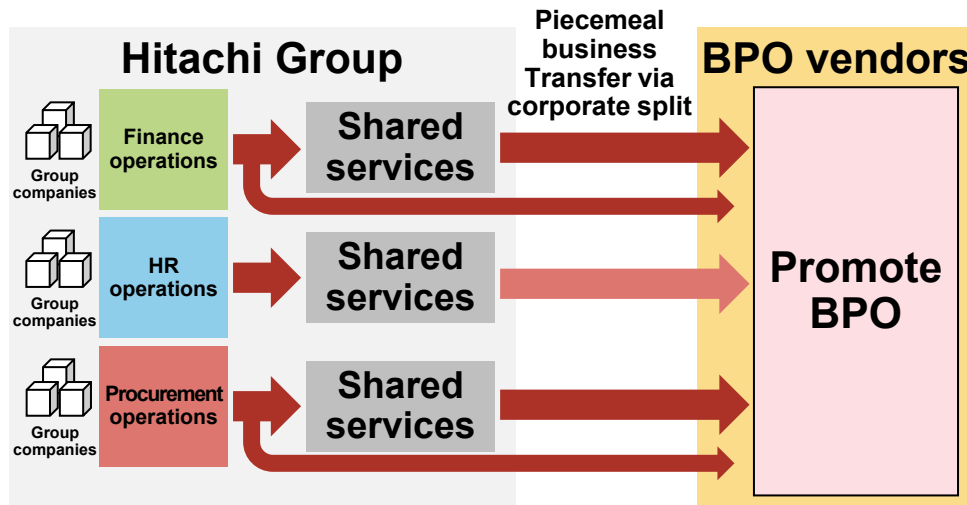
<Progress on promoting BPO in back-office operations>



Overseas back-office operations

- Expand BPO to new cost areas and geographic regions
 - Expand BPO in finance operations
 - Commence BPO in payroll calculation tasks

<Centralization scheme for back-office operations in Japan>

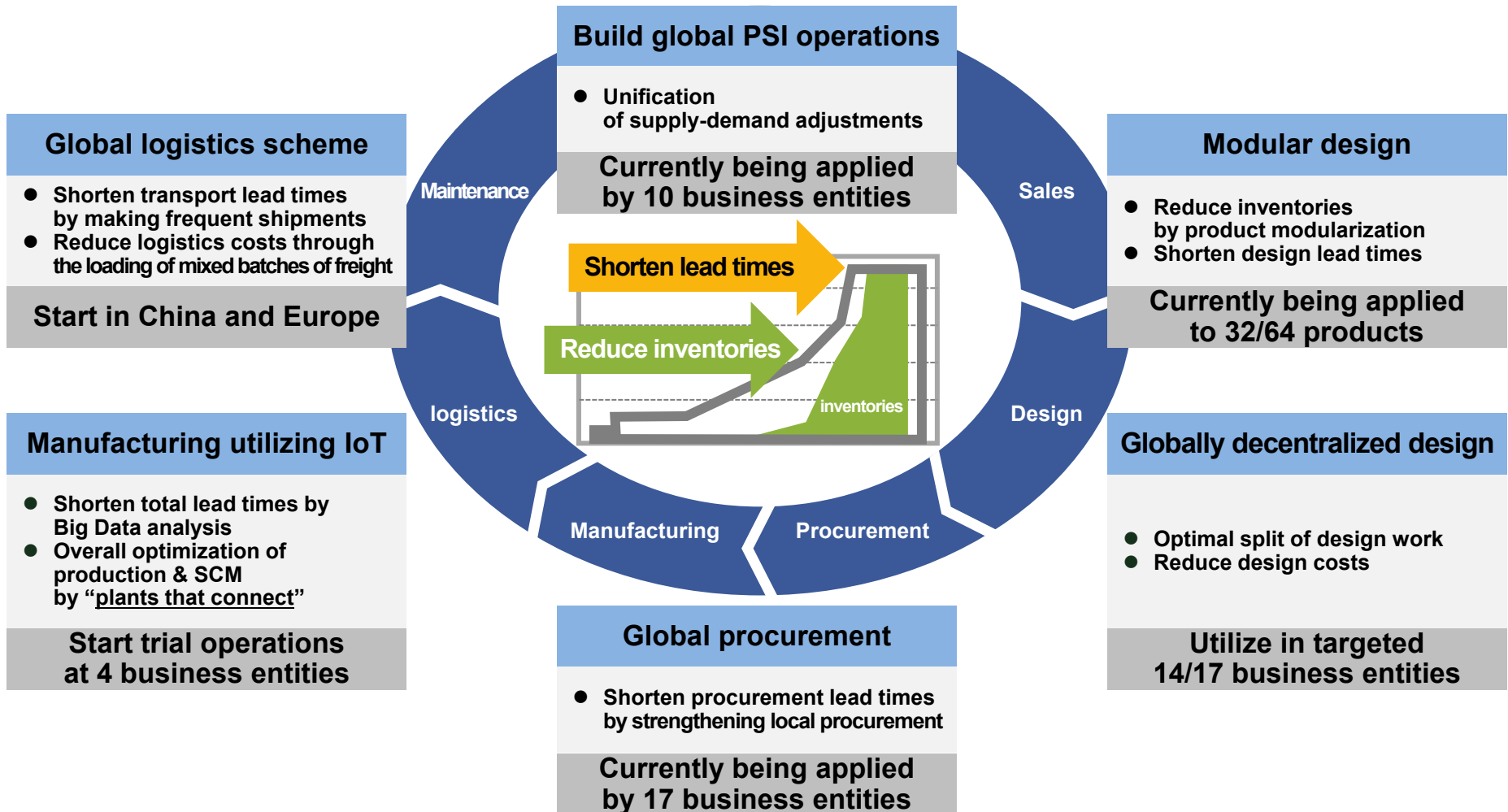


Back-office operations in Japan

- Finance** Transfer some of the businesses of Group shared services companies to BPO vendors via corporate splits and share transfers
- Human capital** Expand the scope of operations to be centralized in Group shared services companies (177 companies, 190,000 employees)

3-6. Establish a core value chain that can instantly adapt to supply-demand dynamics

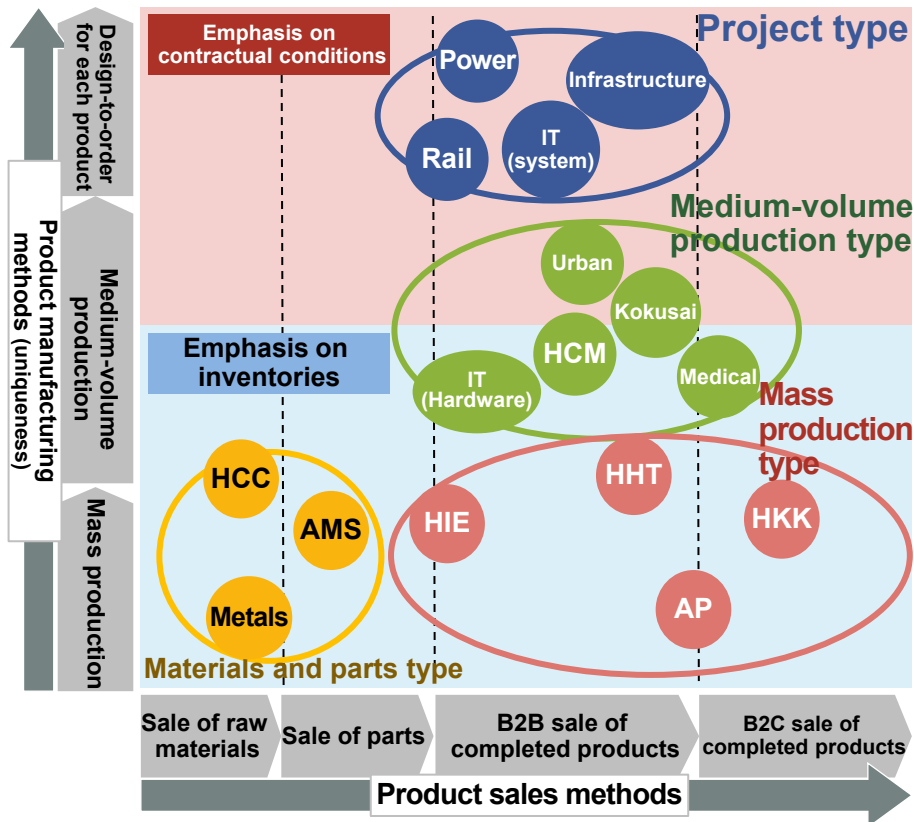
Shorten total lead times by linking to function-based measures from an end-to-end perspective



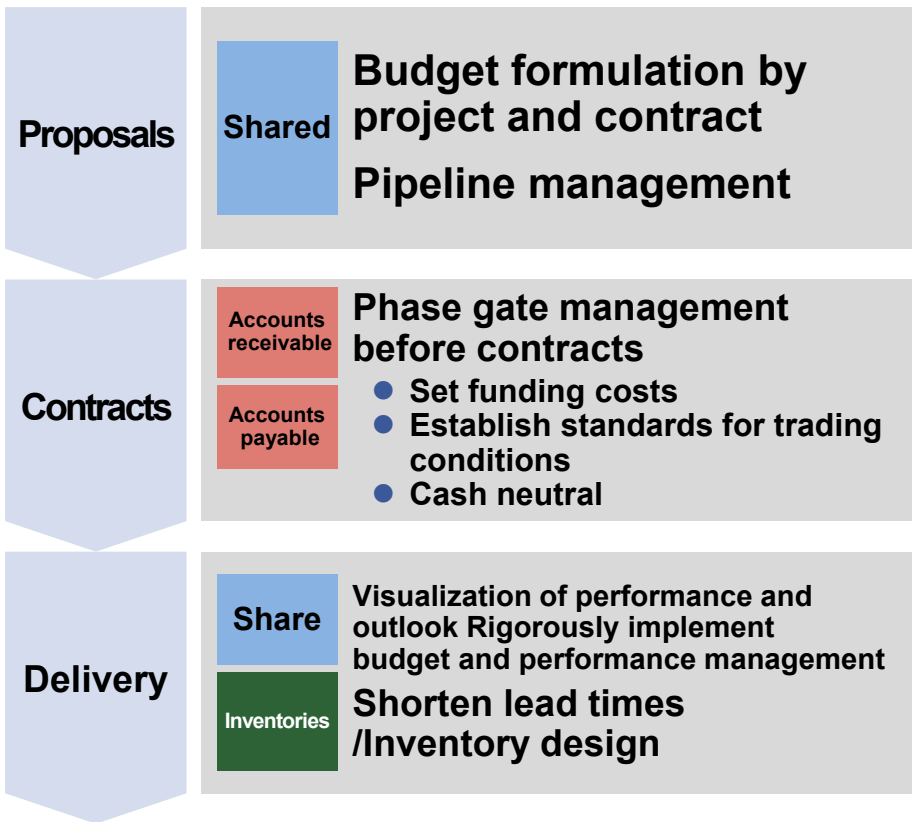
PSI : Production, Sales and Inventory
SCM : Supply Chain Management

Strengthen cash generation capacity by improving working capital efficiency

Strengthen cash management by business model



PDCA activities to improve cash(example: project type)

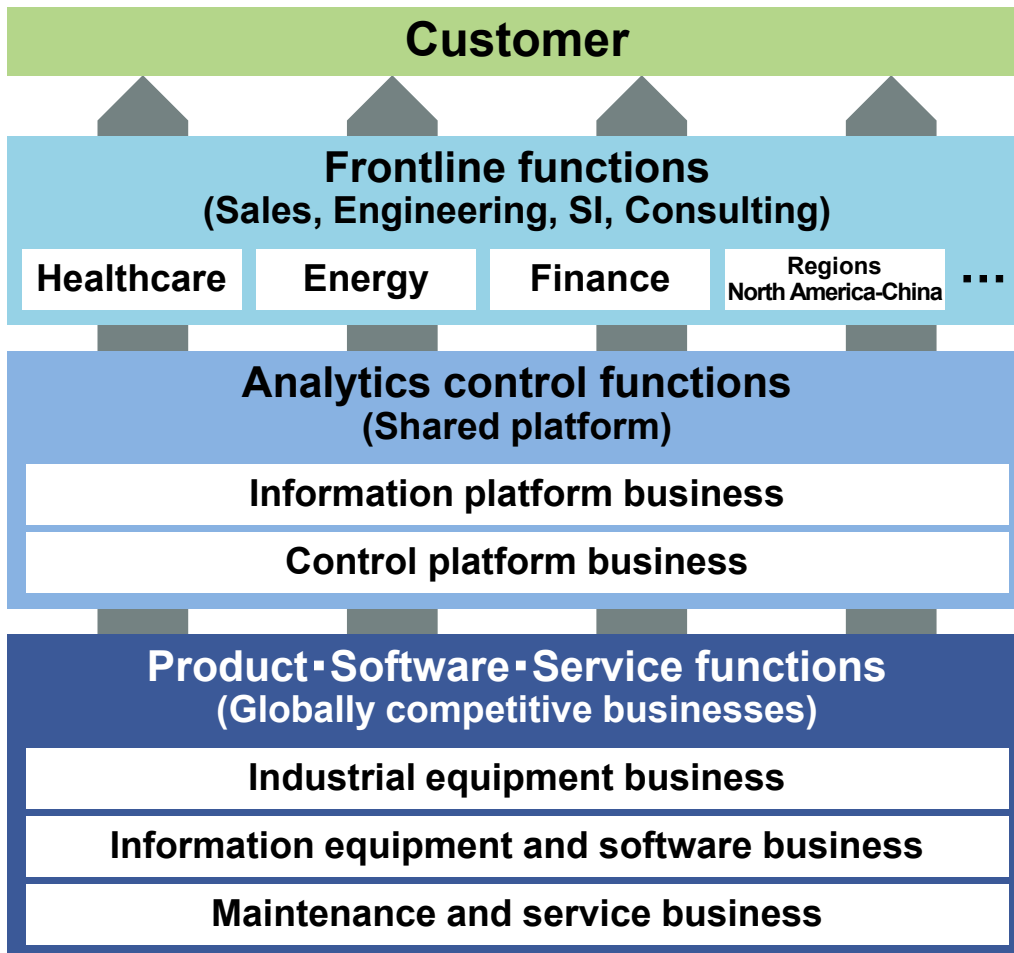


Power : Power Systems Company Rail : Rail Systems Company HCM : Hitachi Construction Machinery Co., Ltd. HKK : Hitachi Koki Co., Ltd. HCC : Hitachi Chemical Co., Ltd.
 Infrastructure : Infrastructure Systems Company Urban : Urban Planning and Development Systems Company Medical : Hitachi Medical Corporation HIE : Hitachi Industrial Equipment Systems Co., Ltd. Metals : Hitachi Metals, Ltd.
 IT : Information & Telecommunication Systems Company Kokusai : Hitachi Kokusai Electric Inc. HHT : Hitachi High-Technologies Corporation AP : Hitachi Appliances, Inc.

3-8. Establish Operations and IT Services to Support the Social Innovation Business (Market-Oriented Organization)(1)

Implement a conceptual framework for a business base that realizes highly efficient, market-oriented management on a global scale

Towards a market-oriented organization



Main items to consider

Work

- Standardize work processes and procedural rules
 - Standard work processes from an overall optimization perspective
 - Prepare estimates faster/strengthen project management

Organization /headcount

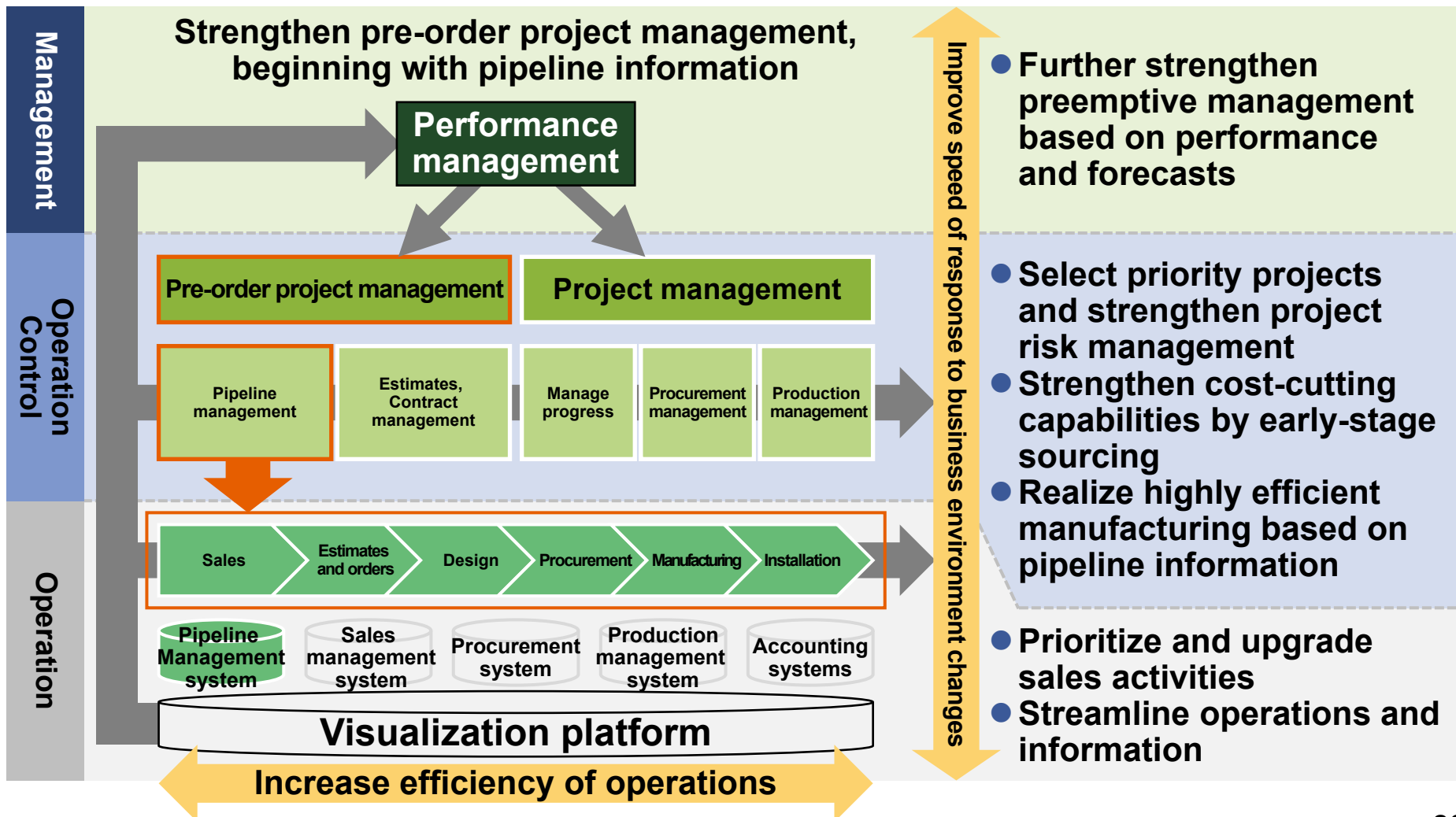
- Clarify the scope of authorization and responsibility
 - Roles and reporting lines of each organization
 - Authorization of estimates at frontline organizations, etc.

IT

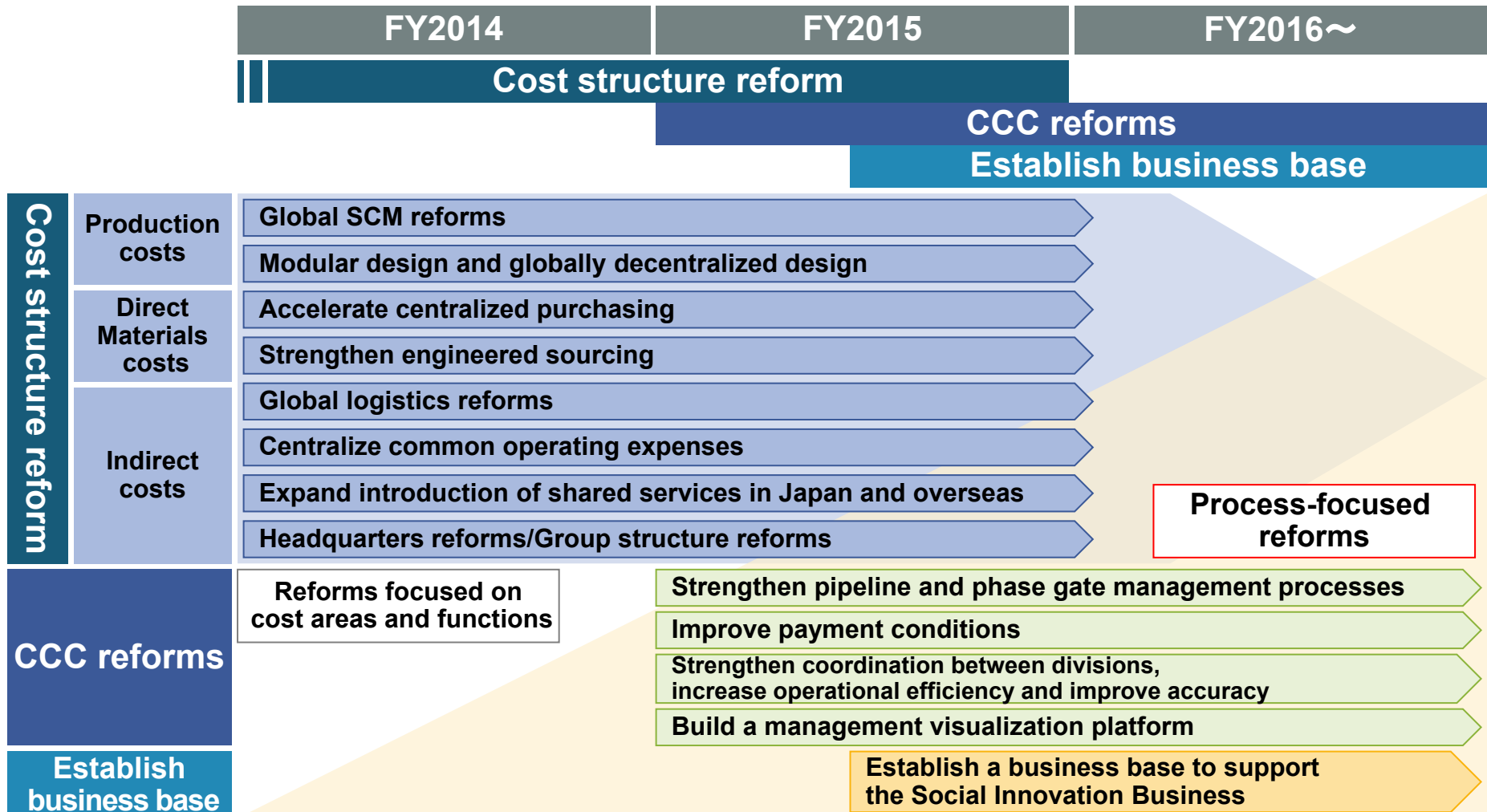
- Build a shared IT platform to support operations

3-9. Establish Operations and IT Services to Support the Social Innovation Business (Market-Oriented Organization)(2)

Integrated management of performance and operations beginning with project pipeline management



Reap benefits to achieve the targets of the 2015 Mid-term Management Plan and commence initiatives in anticipation of the next mid-term plan



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4-1. FY2015 Targets

Reap project benefits in step with changes in the business environment to achieve the targets of the 2015 Mid-term Management Plan

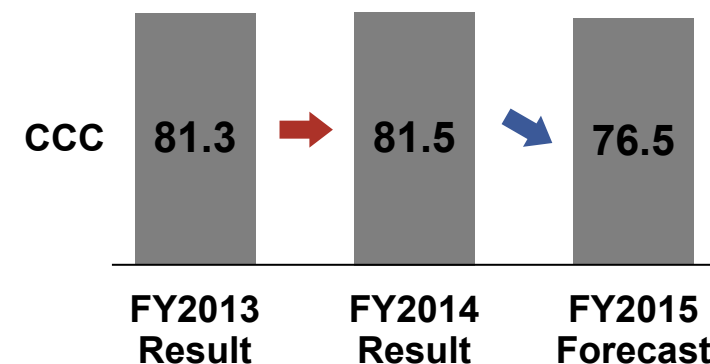
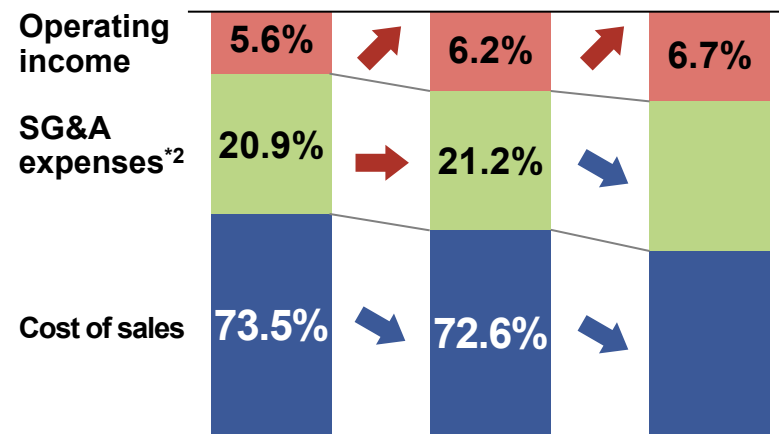
Project benefit

	FY2014 (single year)	FY2015 (single year)	Cumulative through FY2015*1
Indirect costs	40.0 billion yen	45.0 billion yen	195.0 billion yen
Production costs	60.0 billion yen	55.0 billion yen	225.0 billion yen
Direct Materials costs			
Subtotal	100.0 billion yen	100.0 billion yen	420.0 billion yen
Total (Addition due to business Risk)		100.0 billion yen +α	420.0 billion yen +α

*1 Cumulative through FY2015 vs. FY2010

*2 SG&A expenses include R&D expenditures

Company-wide forecast



In Conclusion

A time to leave the past behind us

The way it was – is not how it will be

Today, we are re-evaluating our current business practices from the global management point of view. Our new strategy is called "Hitachi Smart Transformation Project" and is promoting various structural reformations. The key to success is each individual's awareness of this goal and changing their mindset.

We need to re-think our current practices and try something new. How about collaboration with another division or even with another company?

You will change Hitachi.

Let's rebuild Hitachi to be a world leader together.



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In Conclusion

Let's discover more!

Change has already begun.

Take another look around. Do you sense things are a little different from before? That is Smart Transformation.

Smart Transformation is not just about cost reduction. Smart Transformation is about changing the way we work. It's about making processes as efficient as possible, including those around you. It's about being able to collaborate with coworkers around the world, no matter where you are. This is the structure that will help us transform into the global company we strive for.

If you come across something in your daily work that you would like try changing, if you come across something you think is needed to work at a global level, by all means, share your insight with your colleagues and work together to put it into practice.

Do it to make Hitachi stronger. The person who will change Hitachi is you.



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Hitachi Smart Transformation Project

HITACHI
Inspire the Next

From "better for me" to "better for EVERYONE"



With optimization throughout, toward a "better" Hitachi.

It's been two and a half years or so since we launched the Smart Transformation project. Thanks to your understanding and engagement, we are steadily producing results.

To further grow the Hitachi Group we want everyone to be intently conscious of Smart Transformation's emphasis going forward: continuing the positive activities we have built to date and, the starting point of our Smart Transformation effort, re-evaluating business processes, namely, re-evaluating anew our day-to-day work and approach with a view for "optimization throughout."

Learn what your colleagues are doing. Promote collaboration. You will be building the framework that will enable the Hitachi Group to be competitive on a global level.

Do not be attached to the old way of doing things.

Do not be boxed in by department or company framework.

One by one, we each need to ask ourselves what we can do to make things better for everyone. And take the next step.

Turn toward the uncharted territory that opens before us. The person who will build the new Hitachi is YOU.

Smart Transformation Project Initiatives Division
<http://www.hitachi.com/jp/transformation/en>

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;
- rapid technological innovation;
- 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;
- 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 affiliates 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 affiliates;
- 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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