Outline of the 2018 Mid-term Management Plan

Under the 2018 Mid-term Management Plan, Hitachi will accelerate collaborative creation with customers and partners through the advanced Social Innovation Business, with a focus on the trend toward digitalization that is significantly changing society and industry. Leveraging three strengths—operational technology, IT, and products/systems—we deliver innovations to society and customers.

Hitachi in 2018

An Innovation Partner for the IoT Era

Accelerating the Social Innovation Business

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

CUSTOMERS

Before

Sales

Business Division

Plants

SI*1
EPC*2

From FY2016

CUSTOMERS

FRONT

Regional bases

Customer segments (12 business units)

PLATFORM

Core of Social Innovation

PRODUCTS

Industrial products, automotive parts, materials, etc.

Develop and provide services close to the customers

Use platform to provide services quickly and efficiently

Provide value through products

*1 SI: System Integration
*2 EPC: Engineering, Procurement and Construction
Strengthening the Front and the R&D That Supports It

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

Increase front workforce by 20,000

110,000 (FY2015) → 130,000 (FY2018)
Including an increase of 2,000 in platform staff
(component ratio: 34% → 37%)
Japan: +3,000  Overseas: +17,000
* 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 workforce through special training programs
  → 19,000 employees in 3 years (started March 2016)

R&D structure

- 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
  (Japan: 2,050 people)

- Center for Exploratory Research
  Resolving future social issues (Japan: 100 people)

Core of Social Innovation IoT Platform “Lumada”

Means for customers to enjoy digitalized innovation quickly and easily

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

Characteristics of Lumada

Lumada = “Lum” in “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

Strengthening Products

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

Feedback to the front lines
Creating measures
OT × IT expertise
Analysis
Data-gathering and storage

Communication terminals
Equipment and facilities
IoT controllers
Motors / Inverters / Automation
Outline of the 2018 Mid-term Management Plan

Moving Forward to 2018 (Key Initiatives)

(1) Strengthening focused areas for expansion of the Social Innovation Business
(2) Front develops and provides services to drive expansion of revenues and profits

**FRONT**
Revenues: FY2015 3,596.9 billion yen ▶ FY2018 4,000.0 billion yen
Adjusted operating income ratio: FY2015 5.6% ▶ FY2018 8.0%

- Transition to distributed power supply utilizing IT
  - Microgrid, regional energy management
  - Renewable energy

**INVESTMENT FOCUS**
- Strengthening grid and engineering

**PLATFORM**
Investment focus: Strengthening Lumada
Revenues: FY2015 278.6 billion yen ▶ FY2018 330.0 billion yen
Adjusted operating income ratio: FY2015 8.4% ▶ FY2018 11.0%

**PRODUCTS**
Investment focus: Expanding industrial products and materials businesses
Revenues: FY2015 7,389.3 billion yen ▶ FY2018 6,820.0 billion yen*
Adjusted operating income ratio: FY2015 5.5% ▶ FY2018 7.0%

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

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(3) Accelerating the global rollout of the Social Innovation Business

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2015 (trillion yen)</th>
<th>FY2018 (trillion yen)</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railway</td>
<td>0.95</td>
<td>1.15</td>
<td>6.5% (10.2%)</td>
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<tr>
<td>Nuclear power</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>China</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elevators / Escalators</td>
<td>1.05</td>
<td>1.10</td>
<td>1.4% (3.1%)</td>
</tr>
<tr>
<td>Healthcare</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry / Distribution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Asia (except for China)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>1.05</td>
<td>1.22</td>
<td>4.9% (6.4%)</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>1.28</td>
<td>1.46</td>
<td>4.5% (5.6%)</td>
</tr>
<tr>
<td>Healthcare</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automotive parts, casting</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Overseas revenue ratio**
FY2015 48% ▶ FY2018 Over 55%

*1 CAGRs (Compound annual growth rates) in brackets are based on figures for FY2015 excluding revenues of Hitachi Transport System, Ltd. and Hitachi Capital Corporation
*2 Regions except for those that are listed above (including Japan): FY2015 5.69 trillion yen ▶ FY2018 5.07 trillion yen
Strengthening the Management Base

Management Acceleration for Growth and Profits

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

Strengthening Capability to Generate Cash

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)

Investment Policy

Speedily increase profit through investment in products business
Concentrate investment in front to accelerate the Social Innovation Business

Customers

- FRONT
  - Concentrated investment in front (Investment for growth and acquisition)
    - Record • Rail signaling systems • ATM services
- PLATFORM
  - In-house development (Investment for development and acquisition)
    - Record • Data analytics
- PRODUCTS
  - Investment selection (Combination of growth investment, acquisition and capital alliance)
    - Record • Casting business • Overseas air-conditioning business

2018 Mid-term Management Plan Targets

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2018 Targets*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>10,034.3 billion yen</td>
<td>10,000.0 billion yen</td>
</tr>
<tr>
<td>Adjusted operating income ratio</td>
<td>6.3%</td>
<td>Over 8%</td>
</tr>
<tr>
<td>EBIT ratio</td>
<td>5.3%</td>
<td>Over 8%</td>
</tr>
<tr>
<td>Net income attributable to Hitachi, Ltd. stockholders</td>
<td>172.1 billion yen</td>
<td>Over 400.0 billion yen</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2018 Targets*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front business expansion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Front revenue ratio</td>
<td>36%</td>
<td>40%</td>
</tr>
<tr>
<td>Global business expansion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas revenue ratio</td>
<td>48%</td>
<td>Over 55%</td>
</tr>
<tr>
<td>Strengthening cash-generating capability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating cash flow margin*1</td>
<td>8.6%</td>
<td>Operating cash flow margin*1</td>
</tr>
<tr>
<td>Improving asset profitability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA*1,2</td>
<td>2.6%</td>
<td>ROA*1,2</td>
</tr>
</tbody>
</table>

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

*1 Manufacturing, Services and Others
*2 ROA (Return on assets) = net income / Total assets (Average between the end of the current fiscal year and the end of previous fiscal year) × 100