2021 Mid-term Management Plan
Progress and Prospects

May 29th, 2020
Toshiaki Higashihara
President & CEO
Hitachi, Ltd.
Today’s Key Messages


2. Accelerating the Social Innovation Business and strengthening “cash management,” “global operational renovations,” and “securing and development of human capital”

3. Committing to “FY2030 Carbon Neutrality,” in support of our goal to become a leader in creating environmental values

<Recognition of current situation>

- Real GDP growth rate of each country in Q2 2020 will decrease by more than 15%
- FY2020 revenues of Hitachi are forecasted to decline by approximately 1 trillion yen (vs. FY2019)
Growth through Social Innovation Business

Improving the Quality of Life and adding values for customers

Social values

Environmental values

Economic values

Mobility solution

Smart Life solution

Industry solution

Energy solution

IT solution

Product

Product

Product

Product

Product
Achievements in FY2019
## 1.1 Achievements in FY2019

### Strengthening digital business (Lumada)
- Strengthened digital solutions platforms (Transformation into the new Hitachi Vantara: Jan. 2020)

### Transformation of the business portfolio
- Strengthened North American industrial business: Entry into the robotics system integration business
- Working toward goal of securing a larger market share (No. 1-3) in the auto parts space
  - Acquired Chassis Brakes International (Oct. 2019)
- Reorganized listed subsidiaries, etc.
  - Transferred Hitachi Chemical to Showa Denko (Apr. 2020)
  - Made Hitachi High-Tech a wholly-owned subsidiary (May 2020)
- Transfer of diagnostic imaging-related business to Fujifilm (announced Dec. 2019)

### Response to management issue
- South Africa project: Reached a settlement with Mitsubishi Heavy Industries (Dec. 2019)

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1.2 Results for FY2019

**Adjusted operating income ratio**

- **Consolidated Total**
  - 2016: 6.4%
  - 2017: 7.1%
  - 2018: 7.8%
  - 2019: 8.0%

- **5 Sectors Total**
  - 2016: 5.9%
  - 2017: 7.6%
  - 2018: 8.0%
  - 2019: 8.9%

**Revenues**

<table>
<thead>
<tr>
<th>Year</th>
<th>Consolidated Total</th>
<th>Listed subsidiaries Total</th>
<th>5 Sectors Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016</td>
<td>9.2 trillion yen</td>
<td>3.5 trillion yen</td>
<td>5.7 trillion yen</td>
</tr>
<tr>
<td>FY2017</td>
<td>9.4 trillion yen</td>
<td>3.5 trillion yen</td>
<td>5.9 trillion yen</td>
</tr>
<tr>
<td>FY2018</td>
<td>9.5 trillion yen</td>
<td>3.5 trillion yen</td>
<td>6.0 trillion yen</td>
</tr>
<tr>
<td>FY2019</td>
<td>8.8 trillion yen</td>
<td>3.1 trillion yen</td>
<td>5.6 trillion yen</td>
</tr>
</tbody>
</table>

**Operating Cash Flow**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY2016 (Result)</th>
<th>FY2017 (Result)</th>
<th>FY2018 (Result)</th>
<th>FY2019 (Result)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016</td>
<td>629.6 billion yen</td>
<td>727.2 billion yen</td>
<td>610.0 billion yen</td>
<td>Over 700.0 billion yen</td>
</tr>
</tbody>
</table>

*1 Excluding the impacts of COVID-19 and the settlement of the South Africa project, etc.
Accelerating the Social Innovation Business
2.1 Accelerating the Social Innovation Business

Solving issues caused by COVID-19 through Social Innovation Business

“Human-centric”: Human needs accelerate innovations

“Societal changes” brought about by COVID-19

Remote  Contactless  Automation

Social Innovation Business

Co-creation and digital technologies

OT  ×  IT  ×  Products

OT: Operational Technology
## 2.2 Business opportunities (business field)

**Strengthening the business in areas where changes are occurring**

<table>
<thead>
<tr>
<th>Focused Business Fields</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IT</strong></td>
</tr>
<tr>
<td>- Focusing on digital transformation and cloud in the data economy (Data-driven value creation in government, railways, energy, medical care, etc.)</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
</tr>
<tr>
<td>- Digitization of the grid</td>
</tr>
<tr>
<td>- Promotion of efficient power consumption (Data center, EV)</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
</tr>
<tr>
<td>- Optimization of the distribution and manufacturing supply chain</td>
</tr>
<tr>
<td>- Automation and electrification of production</td>
</tr>
<tr>
<td><strong>Mobility</strong></td>
</tr>
<tr>
<td>- Digital railway operation and maintenance business</td>
</tr>
<tr>
<td><strong>Smart Life</strong></td>
</tr>
<tr>
<td>- Life science fields (Vaccine(RNA), biomedicine, regenerative medicine, etc.)</td>
</tr>
<tr>
<td>- Expanding market share in focused auto parts (EV)</td>
</tr>
</tbody>
</table>

RNA: Ribonucleic Acid  EV: Electric Vehicles
2.3 Business opportunities (region)

Understanding the “required values” in each region

Europe
- Eco-friendly grids/
  Digital urban transportation

Japan
- National resilience/
  Society 5.0

North America
- Smart Industry/
  Digital urban transportation/
  Data economy

China
- Aging population and nursing care/
  E-commerce

Asia
- Urban modernization/
  Digital social infrastructure
2.4 Business opportunities (digital field)

- Solving issues through customer co-creation
- Scaling solutions to each region with Lumada
- Expanding values through ecosystems globally

Aim for 1.6 trillion yen sales of the Lumada business overall in FY2021

Value creation platform in cloud (Lumada Solution Hub)

| Solutions | Over 1,000 customer cases accumulated |

Co-creation/Digital technologies → Connecting systems

Customers → Hitachi → Partners
## 2.5 Current status of the Social Innovation Business

### Business fields

- Development in diverse business fields, based on IT, OT and products
  - IT: 27%
  - Smart Life: 27%
  - Mobility: 14%
  - Industry: 10%
  - Energy: 5%
  - Listed subsidiaries and others: 17%

### Regions

- **Global footprint**
  - Japan: 52%
  - North America: 13%
  - Europe: 10%
  - China: 10%
  - ASEAN/India, etc.: 10%
  - Others: 5%

### Business cycles

- Businesses with different periods from order receipt to payment
  - Short-term (less than 1 yr.): 38%
  - Mid-term (1-2 yrs.): 54%
  - Long-term (several yrs.): 8%

### Expansion of service businesses

1. Component ratio of consolidated revenues forecast for FY2020
2. Component ratio of consolidated revenues result for FY2019
3. Component ratio of revenues of 5 sectors for FY2019

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FY2020 Management Policy
### 3.1 FY2020 management policy

#### Growing in a society with COVID-19

<table>
<thead>
<tr>
<th>Strengthening items</th>
<th>Continuing items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening the cash management</td>
<td>Completing the PMI</td>
</tr>
<tr>
<td>Implementing further global operational renovations</td>
<td>Transforming the business portfolio</td>
</tr>
<tr>
<td>Securing and developing human capital</td>
<td>Investments for future growth</td>
</tr>
</tbody>
</table>
3.2 Strengthening the cash management

Rapid response to societal and economic changes caused by COVID-19

1. Securing liquidity (1.3 trillion yen)
   - Cash and cash equivalents as of the end of FY 2019: 812.3 billion yen
   - Maintaining commitment line of 500 billion yen

2. Strengthening operating cash flow generation
   - Securing the business opportunities
   - Reducing working capital including inventories and executing global operational renovations

3. Managing investment cash flow carefully
   - Reviewing the priorities of capital investments and other investments
   - Execution of asset sales (real estate, stocks, etc.)
3.3 Implementing the global operational renovations

Introducing a new work style (working from home as a standard) and accelerating global operational renovations

Gross margin 30%, SG&A 20%

Work style reform/Remote work
- Redefining the work styles and creating the required environments
- Review and digitization of business processes
- Global shared services

Cost reduction through global operational renovations (on going)
- Reforming sales and indirect operations
- Manufacturing transformation
- Reduction in the number of companies and consolidation of offices

Digital Transformation

SG&A: Selling, General and Administrative expenses
3.4 Securing and development of human capital

- **Engagement of 300,000 employees**
  - Encouragement and empowerment
  - Awareness of social engagement and social values

- **Promoting work styles for diverse human capital**
  - Introducing a new work style (working from home as a standard)
  - Transition to job-oriented human capital management

- **Securing and developing human capital who can lead social innovations globally**

  (The number of digital talents: 30,000 in FY2019 → Over 37,000 in FY2021)
Creating social values and environmental values
4.1 Creating social values and environmental values: activities and achievements

**IT**
- Contributing to economic development in India
  - Payment services
  - Over 0.4 bill. people

**Energy**
- Supplying stable energy
  - Managing transformer sub-stations
  - 1.8 bill. people (cumulative total)

**Industry**
- Facilitating an environment for clean water
  - City water and sewage systems
  - 70 mill. users/day (cumulative total)

**Mobility**
- Providing safe and comfortable transportation services
  - Railway services
  - 18.5 bill. riders/yr. (cumulative total)

**Smart Life**
- Contributing to QoL of people
  - External diagnostics (e.g., blood testing)
  - 20 bill. tests/yr.
4.2 Leading in environmental values

Solving environmental issues through Social Innovation Business and achieving both a better quality of life and a sustainable society

**Decarbonized society**
- Reducing the CO₂ emissions throughout the value chain
  - FY2021: Over 20% reduction (vs. FY2010)
  - FY2030: 50% reduction
  - FY2050: 80% reduction

**Resource efficient society**
- Building a water and resource recycling society
  - FY2021: Over 26% improvement
  - FY2050: Over 50% improvement (vs. FY2010, in the Hitachi Group)

**Main activities**
- Reducing CO₂ emissions from usage of products, services, factories and offices
- Reducing freshwater use and promoting the use of recycled water
- Using recycled materials and reducing waste
4.3 Realization of FY2030 Carbon Neutrality

“Realizing carbon neutrality in our own production by FY2030” to accelerate the creation of environmental value throughout our business

FY2030 Carbon Neutrality Commitment

- Re-examine product design/processes
- Energy saving in manufacturing facilities
- Utilizing renewable energy facilities and renewable energy
FY2020 forecasts and 2021 Mid-term Management Plan targets
5. **FY2020 forecasts and 2021 Mid-term Management Plan targets**

<table>
<thead>
<tr>
<th>FY2020 Forecasts</th>
<th>2021 Mid-term Management Plan Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td><strong>The annual growth rate for revenues</strong></td>
</tr>
<tr>
<td>7.08 trillion yen</td>
<td>Over 3%</td>
</tr>
<tr>
<td><strong>Adjusted operating income ratio</strong></td>
<td><strong>Adjusted operating income ratio</strong></td>
</tr>
<tr>
<td>5.3%</td>
<td>Over 10%</td>
</tr>
<tr>
<td><strong>Net income attributable to Hitachi, Ltd. stockholders</strong></td>
<td><strong>Operating cash flow</strong></td>
</tr>
<tr>
<td>335 billion yen</td>
<td>Over 2.5 trillion yen</td>
</tr>
<tr>
<td><strong>Operating cash flow</strong></td>
<td><strong>Return on invested capital (ROIC)</strong></td>
</tr>
<tr>
<td>500 billion yen</td>
<td>Over 10%</td>
</tr>
<tr>
<td><strong>Return on invested capital (ROIC)</strong></td>
<td></td>
</tr>
<tr>
<td>5.7%</td>
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</table>

FY2020 forecasts are estimated based on the demand forecast of each business.

To be updated in the future based on the following circumstances:
- Changes in the COVID-19 situation
- Acquisition of ABB's power grids business
- Business integration with Keihin, Showa and Nissin Kogyo
Hitachi Social Innovation is POWERING GOOD
Cautionary Statement

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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;
- 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;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- 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 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 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 access to, or ability to protect, certain intellectual property;
- 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.