Serving the World with Our Social Innovation Business

Results of 2012 Mid-term Management Plan and Outline of 2015 Mid-term Management Plan

In May 2013, Hitachi unveiled its 2015 Mid-term Management Plan, which aims to achieve growth and Hitachi’s transformation. In this special feature, we review the accomplishments made during the 2012 Mid-term Management Plan and discuss the initiatives under way at Hitachi to attain the management targets for fiscal 2015.

1. Results of the 2012 Mid-term Management Plan

In May 2010, Hitachi formulated the 2012 Mid-term Management Plan, and has implemented a variety of measures to achieve its objectives of “Growth Driven by the Social Innovation Business” and a “Solid Financial Base.”

Since then, Hitachi has been constantly transforming its business portfolio to attain “Growth Driven by the Social Innovation Business.” For example, in March 2012, Hitachi divested its hard disk drive (HDD) and small and medium-sized display businesses, which were exposed to market price volatility. In December 2012, Hitachi also decided to lower its stake in Renesas Electronics Corporation, its joint venture in the semiconductor business, via a share issue through third-party allotment.

In a bid to reinforce core businesses, we aggressively pursued tie-ups with business partners and M&A. In the information and telecommunication systems field, our solutions business offers efficient storage, search, analytical and utilization services for the Big Data market, which is projected to grow worldwide. In a move to enhance the global presence of this business, we welcomed as new members of the Hitachi Group a network storage company in the United States and a consulting company in the United Kingdom that is strong in the social infrastructure field including energy, mining and railways in September 2011 and January 2013, respectively. In the power systems field, Hitachi acquired a nuclear energy company in the United Kingdom in November 2012, and dissolved a joint venture in the transmission and distribution business, absorbing some of its operations in April 2012 in a move to reinforce the transmission and distribution business, an area that is
expected to see considerable demand going forward. In the thermal power generation systems business, Hitachi agreed to establish a joint venture with Mitsubishi Heavy Industries, Ltd. in January 2014 with the aim of turning it into a world-leading business.

For the purpose of accelerating global development of the Social Innovation Business, Hitachi switched to a six-region system for its global management structure with bases in North America, Europe, China, Asia, India and Japan that are responsible for planning and implementing management strategies as well as forging alliances within their region. Hitachi also created the post of Chief Executive Officer for Asia Pacific in April 2012, in view of the region’s prospects for economic growth. Moreover, Hitachi has been proactively developing markets in emerging countries, such as establishing a branch office in Myanmar in November 2012.

In April 2012, in order to more quickly focus on growth areas, Hitachi reorganized into five groups comprising the Information & Telecommunication Systems Group, Infrastructure Systems Group, Power Systems Group, Construction Machinery Group, and High Functional Materials & Components Group. By categorizing our broad range of products and systems by business according to the customers’ point of view, this reorganization has brought clarity and has also helped to optimize our business operations. Through these efforts, we aim to enhance our overall responsiveness as “One Hitachi” and thus maximize the value that we provide to customers.

During the three years of the plan, Hitachi focused on winning orders to expand the Social Innovation Business in addition to these reforms. Hitachi successfully acquired orders for major infrastructure projects overseas. In July 2012, Hitachi received a comprehensive order for the production, servicing and maintenance of 596 rail carriages over a 27.5-year period for the Intercity Express Programme (IEP) in the United Kingdom, and received an order for 280 additional carriages in July 2013. In January 2013, Hitachi signed a deal to supply water for 30 years from a seawater desalination project in the Dahej region of Gujarat, India. In the same month, the Company also received an order from a national oil company, Saudi Arabian Oil Company for the EPC (engineering, procurement and construction) of utility facilities for a major oil refinery. Through these and other projects, Hitachi is steadily advancing its global development.

In addition, the Company concentrated business resources on reinforcing the Social Innovation Business. During the three-year period from fiscal 2010 to fiscal 2012, the Social Innovation Business accounted for approximately ¥1.5 trillion, or 70%, of all capital expenditures (excluding the Financial Services segment) and around ¥1.1 trillion, or 60%, of total R&D expenditure (excluding the Financial Services segment).

With the aim of achieving a “Solid Financial Base,” in April 2011 we launched the Hitachi Smart Transformation Project to reform the cost structure. In addition to reducing basic costs, this project aims to create a cost structure that ensures global competitiveness through sweeping reviews of work methods and defining where we want the Group to be.

More specifically, deep-reaching cost structure reforms were implemented in the three areas of manufacturing costs, direct material costs and indirect costs. In terms of manufacturing costs, we are consolidating 28 printed circuit board manufacturing bases in Japan into five bases, and are
advancing initiatives across the Group to globalize the total value chain, from sales to design and
manufacturing. To reduce direct material costs, we have strengthened our global procurement
structure from 15 production bases to 25, including new bases in São Paulo and Johannesburg.
We have reduced indirect costs by making logistics operations within the Group more efficient and
reducing Group-wide indirect costs such as those of communications, travel and consumables. We
are also promoting shared services for back-office functions, accelerating these initiatives globally,
beginning in India and Asia.

In August 2012 Hitachi established the Smart Transformation Project Initiatives Division, with
mainly Executive Officers serving as project leaders to further speed up its initiatives.

As a result, costs were cut by about ¥35.0 billion in fiscal 2011 and, even more substantially, by
about ¥75.0 billion in fiscal 2012.

Hitachi has been stepping up its global efforts to foster and deploy human capital that will be the
engines of change. The Company has already created a database of its global human capital, and
finished a unified global grading system as a set of evaluation standards for human capital in man-
agement and higher-ranking positions. This system allows Group employees worldwide to build
borderless careers on the basis of appropriate evaluations. Furthermore, we have globally expanded
the Hitachi Group training program for senior management.

Overview of the 2012 Mid-term Management Plan

The table below shows Hitachi’s financial targets and results for the past three years under the 2012
Mid-term Management Plan.

<table>
<thead>
<tr>
<th></th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2012 Targets*1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>¥9,315.8 billion</td>
<td>¥9,665.8 billion</td>
<td>¥9,041.0 billion</td>
<td>¥10 trillion</td>
</tr>
<tr>
<td>Operating income ratio</td>
<td>4.8%</td>
<td>4.3%</td>
<td>4.7%</td>
<td>Over 5%</td>
</tr>
<tr>
<td>Net income attributable to Hitachi, Ltd. stockholders</td>
<td>¥238.8 billion</td>
<td>¥347.1 billion</td>
<td>¥175.3 billion</td>
<td>Consistently generate at least ¥200 billion</td>
</tr>
<tr>
<td>D/E ratio*2 (Manufacturing, services &amp; others)</td>
<td>1.03 times (0.68 times)</td>
<td>0.86 times (0.56 times)</td>
<td>0.75 times (0.47 times)</td>
<td>0.8 times or below</td>
</tr>
<tr>
<td>Total Hitachi, Ltd. stockholders’ equity ratio (Manufacturing, services &amp; others)</td>
<td>15.7% (17.0%)</td>
<td>18.8% (20.5%)</td>
<td>21.2% (23.2%)</td>
<td>20%</td>
</tr>
</tbody>
</table>

*1 As of June 9, 2011 (revised to reflect HDD business transfer), assumed exchange rates
*2 Including noncontrolling interests, and also including liabilities associated with the consolidation of securitized entities
In fiscal 2012, the final fiscal year of the plan, revenues totaled ¥9,041.0 billion, a decline of 6% compared with the previous fiscal year owing in part to the transfer of the hard disk drive business in the previous fiscal year. Although the operating income ratio, at 4.7%, fell short of our 5% target, operating income rose 2% year on year to ¥422.0 billion. Despite the transfer of the hard disk drive business in fiscal 2011, this increase was attributable to the disappearance of additional expenses incurred in fiscal 2011 for overseas thermal power generation systems in the Power Systems segment, and progress made with the Hitachi Smart Transformation Project. Income before income taxes and net income attributable to Hitachi, Ltd. stockholders fell 38% to ¥344.5 billion and 49% to ¥175.3 billion, respectively, which reflected the recording of substantial gains on the sale of marketable securities in the previous fiscal year. We achieved our targets with regard to financial position; the D/E ratio* improved 0.11 points from the end of the previous fiscal year to 0.75 times, and the total Hitachi, Ltd. stockholders’ equity ratio was 21.2%, an improvement of 2.4 percentage points from the end of fiscal 2011. Annual cash dividends were ¥10 per share, an increase of ¥2 per share from the previous fiscal year, in overall consideration of the Company’s financial condition and profit levels.

* Interest-bearing debt / [noncontrolling interests + total Hitachi, Ltd. stockholders’ equity]

2. 2015 Mid-term Management Plan

Creation of Hitachi’s Vision

The business environment surrounding the Hitachi Group has become more globalized on various fronts—politically, economically and culturally—with deepening connections to the world economy and society. Emerging countries have become a driving force in global economic expansion, but have also seen a crop of new challenges emerge amid changes in their social fabric. For instance, emerging countries in Asia are behind in modernizing their social infrastructure, including their power systems, water systems and transportation systems, as a consequence of rapid urbanization and population growth. Industrialized countries, meanwhile, are dealing with a variety of challenges, such as electricity shortages, aging social infrastructure and low birthrates amid a growing elderly population. These problems are waiting to be solved as society aims for sustainable development. Demand has been increasing for social infrastructure that enables comfortable lifestyles with safety and security. The world needs systems that efficiently manage and control energy for households, offices, buildings, factories and communities; technologies that stabilize power grids to facilitate the introduction of renewable energy such as wind and solar power; and systems that not only make water safe to use, but optimize water recycling with IT to protect the environment and ecosystems by efficiently managing limited water resources.
The Mission of the Hitachi Group is to “contribute to society through the development of superior, original technology and products.” We believe it is our duty to contribute directly to solving the problems and needs of society by providing sophisticated social infrastructure using IT, through the Social Innovation Business. To this end, we formulated the following Vision as a fresh expression of what the Hitachi Group aims to become in the future.

Hitachi delivers innovations that answer society’s challenges. With our talented team and proven experience in global markets, we can inspire the world.

The 2015 Mid-term Management Plan that we created and announced in May 2013 is a compilation of specific growth strategies designed to realize the Vision.

Overview of the 2015 Mid-term Management Plan

Under the 2015 Mid-term Management Plan, we define the Social Innovation Business as a business that identifies issues from the perspective of society and customers, and then generates innovations to solve these issues with solutions that combine products, services and highly sophisticated IT as “One Hitachi.” While focusing on the three management concepts of “Innovation,” “Global” and “Transformation,” Hitachi is shifting itself toward an approach that not only increases the competitiveness of individual products and systems, but also recognizes and takes ownership of the issues facing its customers in order to provide optimal solutions. We therefore aim to enhance our sales capabilities worldwide, expand our engineering functions and augment our services across a broad range of fields.

First, to enhance our sales capabilities worldwide, we established the Social Innovation Business Project Division in April 2012 as a global marketing organization. Through this division, Hitachi has stepped up marketing activities to focus particularly on proposing solutions to clients in the energy, natural resource and infrastructure fields that have become more prominent on the world market. A variety of collaborative initiatives have begun to emerge to create solutions that combine the products and IT expertise of the Hitachi Group, by applying its cutting-edge IT to identify, visualize, share and solve the management issues and operational problems faced by these clients.

With the aim of providing highly tailored solutions based on this approach to problem-solving, Hitachi has been upgrading and expanding engineering functions to better enable the creation of solutions for the problems we are taking ownership of alongside our customers. Hitachi strategically employs, fosters and optimally allocates human capital, building teams of experts attuned to financial arrangements, and local cultures, business customs and regulations as well as supply chain structures. As necessary, Hitachi partners with local companies and engages in M&A while working exhaustively to strengthen its front-end engineering capabilities.

By expanding its service platform using cloud computing and other cutting-edge IT resources as well as the control technologies it has developed, Hitachi is accelerating initiatives for creating
innovations alongside its customers. Through the analysis and evaluation of Big Data gathered and stored from sensors that monitor the operations of equipment and systems, Hitachi is able to transform this data into knowledge that is useful in making management decisions and improving operations. Hitachi is responding to the needs of its customers by broadening the scope of its services business from conventional maintenance services for products and systems to outsourcing and operations services as well as management support services. By expanding services which make maximum use of the strengths of advanced IT and Hitachi’s control technologies, Hitachi will work to solve customers’ issues.

These kinds of initiatives are already in motion. For example, Hitachi is providing infrastructure companies with solutions to help them reduce energy costs across multiple locations in North America. One customer, which had been paying several hundred million dollars a year in electricity charges, saved 20-30% on their electricity bills after Hitachi installed highly energy-efficient equipment and optimized operations. Under the business model arranged with these customers, Hitachi receives payments for a portion of these energy savings. This is a prime example of solutions for our customers’ management issues that Hitachi can provide as “One Hitachi,” by bringing together its financial services subsidiary to provide equipment leases and lighten the capital investment requirements of its customers.

In fiscal 2015, Hitachi plans to increase the ratio of service revenues to over 40% (from 30% in fiscal 2012), by building on the momentum of these initiatives around the world.

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**Solutions Examples**

*Energy Cost Saving Solution “Energy Saving as a Service”*

*With North American Infrastructure and Industrial Customers*

- **20-30%**
  Contributing to reduction in energy consumption

- **Find solutions through Hitachi’s consulting capabilities**
- **Deliver energy saving solutions as “One Hitachi”**

**Deliver Solutions as “One Hitachi”**

- Identify energy initiatives
- Technology to deliver savings
- Manage projects
- Fund energy initiatives

**Hitachi’s Broad Expertise**

- **Services**
  - Consulting
  - Financing

- **Products**
  - Air-Side Free Cooling
  - IT-Facility Linkage System
  - RelAssist Cooling
  - Highly Efficient Motors
  - LEDs
  - BEMS*1
  - CEMS*2

- **R&D**
  - Energy Management

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*1 Building Energy Management System
*2 Community Energy Management System
In research and development, Hitachi globally promotes open innovation with its customers via collaboration with local partners and R&D bases located nearby to assist in solving their problems. Recently, Hitachi has set up research centers specializing in rail systems in Europe, materials technology in China, and Big Data in the United States. These research centers are a driving force in the global development of the Social Innovation Business.

Through these measures, Hitachi aims to accelerate the global development of the Social Innovation Business and increase the overseas revenue ratio from 41% to over 50% within three years.

**FY2015 Target:**

Overseas Revenue Ratio 41% → Over 50%

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**Transformation**

To promote strong growth in the Social Innovation Business, Hitachi is building momentum for a comprehensive transformation of the entire Hitachi Group through efforts to improve the efficiency of global operations, deploy global human capital and reform the cost structure. By reinforcing the business structure, Hitachi aims to strengthen its ability to propose solutions around the world.

**Improving Efficiency in Global Operations**

The globalization of the world economy has made it essential that companies respond swiftly to market changes. In fiscal 2012, Hitachi was not always able to respond quickly to sudden changes in global markets, such as in electronics-related fields for example. Learning from this experience, Hitachi is working to unify global information on its procurement, manufacturing and sales activities; visualize this information; and use it to predict market trends. Essentially, Hitachi is rebuilding its supply chain management (SCM) to realize greater efficiencies in management and enable a swifter response to market trends. The Company is also leveraging its financial know-how to improve its balance sheet, such as by reducing working capital.
Deploying Global Human Capital

Using Hitachi’s global database of human capital and a worldwide grading system built to function as a common standard for employee evaluations, we are optimizing our allocation of global business leaders and enhancing our front-end engineering team. At the same time, we are also energetically engaging in employee rotation and carrying out human capital development programs. Through these efforts, we are building an organization that can win among global competition. In the storage solutions business and some other operations, Hitachi has already assigned non-Japanese people to top management positions, and will continue to proactively encourage foreigners to participate in management and promote diversity in human capital on a global basis.

In fiscal 2012, Hitachi added more outside Directors, who now constitute a majority of the Board of Directors, in order to reflect a more diverse range of opinions in management. In fiscal 2013, the Board welcomed Ms. Cynthia Carroll as a new outside Director. Of the 14 members of the Board of Directors, eight are outside Directors. The number of non-Japanese Directors was increased from three to four, and the number of women was increased from one to two. At meetings of the Board of Directors, members deliberate frankly about the direction of management from a global viewpoint, and their collective knowledge and wisdom is reflected in management.

Hitachi Smart Transformation Project

The Hitachi Smart Transformation Project, a cost structure reform project that began in fiscal 2011, is gearing up to enter its second phase and make deeper cuts to costs. In addition to accelerating efforts centered on cost structure reform in various fields, we are stepping up group structure reforms by reviewing functions and roles within our organization and eliminating redundant functions in a bid to create a simpler structure that can win on the global stage.

Hitachi has identified three cost categories. Namely, we are reducing production costs by reforming global SCM through the use of cloud computing, and promoting modular design to reduce the number of parts and shorten manufacturing processes. To reduce direct material costs, we are strengthening our overseas procurement and engineering capabilities while promoting the localization of quality assurance and R&D functions. We are also expanding aggregate purchasing, taking advantage of the merits of scale of the Hitachi Group. To lower indirect costs, we are expanding globally shared services through the standardization and outsourcing of indirect work such as finance and human capital. Furthermore, we are advancing consolidation of offices not only in Japan, but also in India, Asia, and around the globe to accelerate cost structure transformation in all areas.
Through these initiatives, Hitachi plans to reduce costs by a total of ¥290 billion from fiscal 2013 to fiscal 2015 and by a grand total of ¥400 billion over the five-year period starting in fiscal 2011.

Six-Group Structure Boosts Effectiveness of Management Structure

In April 2012, Hitachi reorganized its management structure to focus on the markets of five groups in order to reinforce its overall responsiveness from the standpoint of its customers and more quickly focus on growth areas. In April 2013, Hitachi added the Automotive Systems Group, creating the current six-group system. In the Infrastructure Systems Group, Hitachi Plant Technologies, Ltd. was absorbed by Hitachi, Ltd. in April 2013 in order to increase the Group’s ability to provide global solutions to clients.

The following graph shows target revenues and operating income ratios for the six groups in fiscal 2015. Hitachi aims to accelerate decision-making and optimize the business portfolio of each group to secure a position in which they can win among global competition. Going forward, Hitachi will operate according to a management structure centered on the six groups.
Management Targets of the 2015 Mid-term Management Plan

The management targets we have set for fiscal 2015 are as follows.

<table>
<thead>
<tr>
<th>FY2015 Targets*1</th>
<th>Average of FY2010-2012</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>¥10 trillion</td>
</tr>
<tr>
<td><strong>EBIT</strong> (Operating income) ratio</td>
<td>Over 7% (Over 7%)</td>
</tr>
<tr>
<td><strong>Net income attributable to Hitachi, Ltd. stockholders</strong></td>
<td>Over ¥350 billion</td>
</tr>
<tr>
<td><strong>Net income attributable to Hitachi, Ltd. stockholders per share</strong></td>
<td>Over ¥70</td>
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<tr>
<td><strong>Manufacturing, services &amp; others Total Hitachi, Ltd. stockholders' equity ratio</strong></td>
<td>Over 30%</td>
</tr>
<tr>
<td><strong>Overseas revenue ratio</strong></td>
<td>41% in FY2012 → over 50% in FY2015</td>
</tr>
<tr>
<td><strong>Service revenue ratio</strong></td>
<td>30% in FY2012 → over 40% in FY2015</td>
</tr>
</tbody>
</table>

*1 Assumed exchange rate: ¥90 to the U.S. dollar and ¥115 to the euro
*2 EBIT: Earnings before interest and taxes
*3 Including revenues of systems solutions

For fiscal 2015, Hitachi aims to achieve consolidated revenues of ¥10 trillion, an EBIT (earnings before interest and taxes) ratio and an operating income ratio of 7% or higher. Hitachi defined these numerical targets as the minimum goals to reach in order to achieve growth in the global market.

Hitachi has newly disclosed targets for EBIT and earnings per share (EPS). EBIT is a financial performance indicator that adds such items as equity-method gains and losses as well as gains and losses on marketable securities to operating income. Hitachi uses EBIT to reflect equity-method gains and losses, such as joint ventures established to strengthen global operations, in evaluating its structural reforms. These items are not captured in operating income. Hitachi also uses EPS as a key financial indicator of corporate value.

The Hitachi Group is making all-out efforts to achieve the targets of the 2015 Mid-term Management Plan though the steady execution of the measures described in this report. We seek further growth as we transform into a Hitachi that inspires the world through the Social Innovation Business and aim to increase Hitachi’s corporate value.