Progress of 2015 Mid-term Management Plan

Progress until end of Fiscal 2014

GLOBAL

Global business expanded steadily, especially in the North American market
- Expanded financial solution services
  - Payment services, ATM (India, China)
- Gained first contract to provide “AI-200” commuter train (Europe)
- Launched demonstration of “CrystEna” energy storage system (North America)
- Expanded business in growing North American auto market
  - Expanded customer base for automotive cast products by acquiring Waupaca Foundry, Inc. (Hitachi Metals)

INNOVATION

O&M services revenue expanded
- Strengthened maintenance service by cloud remote monitoring system
- Expanded operation services of information business including BPO

TRANSFORMATION

Achieved cost reductions exceeding targets in Fiscal 2014
- Achieved cost reduction of 320 billion yen as a cumulative total for FY2014
- CCC (Manufacturing, Services and Others) is on par with the previous year, due to increased inventory resulting from changes in the market environment and concentration of sales at the end of the fiscal year
  (81.3 days in FY2013 → 81.5 days in FY2014)

Measures for Fiscal 2015

GLOBAL

Acceleration of global business development initiatives through the use of IT
- Business rollout in IoT market
  - Acquire Pentaho Corporation, which has advanced data analytics software technologies and an extensive customer base (North America)
- Expand solutions using IT (analytics)

Overseas revenue ratio (U.S. GAAP)

<table>
<thead>
<tr>
<th>FY2013 Result</th>
<th>FY2014 Result</th>
<th>FY2015 Forecast</th>
<th>Initial target</th>
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<tbody>
<tr>
<td>45%</td>
<td>47%</td>
<td>50%</td>
<td>Over 50%</td>
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GLOBAL

Strengthen measures aimed at increasing cash
- Reduction of cost of sales and SG&A* (+100 billion yen)
- Reduction of Cost of Sales
  Further cost reduction throughout the entire value chain / Improve operational efficiency, e.g., design and manufacturing operations
- Reduction of SG&A
  Review all aspects of fixed costs in Japan / Reduce indirect materials
- Improvement of CCC (Manufacturing, Services and Others) (5-day reduction, +130 billion yen)
  Review inventory assets / Improve cash flow / Improve cash management / Business process reforms

* SG&A: Selling, General & Administrative expenses

Additional information:
- China Smart Logistics
  - Provide comprehensive services to customers combining the Hitachi Group’s assets and capabilities through IT
  - Procurement Service: VMI Operation / Factoring
  - Procurement EDI Service: e-commerce for procurement business
  - Logistics Service: 3PL, JIT delivery
Reap benefits to achieve the targets of the 2015 Mid-term Management Plan and commence initiatives in anticipation of the next mid-term plan.

**Future plans of cost structure reform**

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<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
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<tbody>
<tr>
<td><strong>Cost structure reform</strong></td>
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<td><strong>Global SCM reforms</strong></td>
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<td>Modular design and globally decentralized design</td>
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<tr>
<td>Accelerate centralized purchasing</td>
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<td>Strengthen engineered sourcing</td>
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<td><strong>Global logistics reforms</strong></td>
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<tr>
<td>Centralize common operating expenses</td>
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<td></td>
<td></td>
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<tr>
<td><strong>Headquarters reforms / Group structure reforms</strong></td>
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<tr>
<td>Establish a business base to support the Social Innovation Business</td>
<td>Process-focused reforms</td>
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</table>

**CCC reforms**

**Establish a business base**

**Establish business base**

**Service revenues / Service revenues ratio (U.S. GAAP)**

- **Europe**
  - CAGR*: 6.4%
  - ¥3,100 billion (32%)
  - Over ¥4,000 billion (Over 40%)

- **China**
  - CAGR: 7.5%
  - ¥3,800 billion (38%)
  - Over ¥4,000 billion (Over 40%)

- **Asia**
  - CAGR: 5.4%
  - ¥3,400 billion (35%)
  - Over ¥4,000 billion (Over 40%)

- **North America**
  - CAGR: 16.2%
  - ¥4,000 billion (40%)
  - Over ¥4,000 billion (Over 40%)

**Cost reduction effects (U.S. GAAP)**

- **Single-year benefit (billion yen)**
  - FY2011: ¥35.0
  - FY2012: ¥110.0
  - FY2013: ¥220.0
  - FY2014: ¥320.0
  - FY2015: ¥420.0

- **Cumulative benefit (billion yen)**
  - FY2011: ¥420.0
  - FY2012: ¥1,060.4
  - FY2013: ¥1,240.0
  - FY2014: ¥2,260.0
  - FY2015: ¥3,480.0

**Overseas revenue (Billion yen)**

- **Europe**
  - CAGR*: 6.4%
  - FY2013: ¥759.7
  - FY2014: ¥844.7
  - FY2015: ¥860.0

- **China**
  - CAGR: 7.5%
  - FY2013: ¥1,073.6
  - FY2014: ¥1,157.2
  - FY2015: ¥1,240.0

- **Asia**
  - CAGR: 5.4%
  - FY2013: ¥989.9
  - FY2014: ¥1,059.4
  - FY2015: ¥1,100.0

- **North America**
  - CAGR: 16.2%
  - FY2013: ¥910.2
  - FY2014: ¥1,060.4
  - FY2015: ¥1,230.0

* CAGR: Compound Annual Growth Rate

**Production costs**

- Direct materials costs
- Indirect costs

**Establish business base**

**Process-focused reforms**

- Improve payment conditions
- Strengthen coordination between divisions, increase operational efficiency and improve accuracy
- Build a management visualization platform
- Establish a business base to support the Social Innovation Business
Hitachi toward Social Innovation Business

Hitachi is accelerating global business development initiatives in the Social Innovation Business, which identifies and resolves the problems faced by society and customers. These problems are growing more advanced and complex, and to address them Hitachi places high priority on front-line capabilities, which enable us to work side-by-side with customers in each industry and region to create solutions. Moreover, we believe that the realization of our future vision will require the establishment and reinforcement of three levels of capabilities. In addition to front-line function, these include analytics / control function (common platforms), which enables the realization of higher-value-added solutions through the use of big data and other initiatives, and product function, which supports solutions.

**Basic Approaches**

- Create innovation with customer-oriented approach
- Concentrate and strengthen front-line resources, including sales, consulting, and engineering
- Deliver solutions under regional autonomous management
- Unified development of IT / OT platforms to deliver Innovation as a Service
- Acquire technology base for innovation (Acquisition of Pentaho, etc.)
- Provide cutting-edge products, software and service that bring about innovation
- Provide globally-competitive products

**Customer**

"Front-line" Function
(Sales, Engineering, SI, Consulting)

- Healthcare
- Energy
- Finance
- Region (North America, China, etc.)

"Platform" Function
(Analytics, OT*)
(Common Platform)

- IT Platform Business
- OT Platform Business

* Operation Technology

"Product / Software / Service" Function
(Globally-Competitive Business)

- Industrial Products Business
- IT Products / Software Business
- O&M Service Business
Front-line capabilities by industry
- Establishing business entities for the provision of solutions — established healthcare and energy solutions companies and consolidated front-line capabilities
- Consolidating systems integration capabilities in the financial, public sector, and social fields — strengthened systems integration capabilities, such as by absorbing businesses in the financial, public sector, and social fields into Hitachi Solutions

Global Management
- Appointment of Chief Executives in four regions: the Americas, China, Asia-Pacific, and EMEA-CIS (Europe, Russia, Middle East, and others)
- Transition to system of "autonomous distributed global management" under which each region autonomously takes the lead in the Social Innovation Business and works to create value

Global Region | Countries / Regions covered | Chief Executive | Business areas
--- | --- | --- | ---
The Americas | North, Central, and South America | John Domme | Energy, Communications, Healthcare, Connected cars, Security
Europe / Russia / Middle East and other areas ("EMEA-CIS") | Europe, Russia-CIS, Middle East, Turkey, Africa | Klaus Dieter Rennert | Production / SCM, Energy, Healthcare
China | China | Kenichi Kokubo | Urban planning / development and building facility management, Finance, Healthcare, Smart logistics
Asia / Pacific | ASEAN, India, Oceania, Korea | Ichiro Iino | Healthcare, Finance, Developers and conglomerates

Global R&D
- Reorganized R&D structure in April 2015 to promote R&D from the customer’s perspective
- Established Global Center for Social Innovation to lead from the front with new solutions, working together with customers to visualize issues

Supply core products that support the Social Innovation Business

Consolidate our industrial products business

Strengthen and Optimization
- Strengthen product competitiveness
- Optimize sales, service, and production structures
- Invest in priority areas, etc.