

Financial and Capital Strategy

Financial Analysis of Past Five Years

The following is a summarized financial analysis of the Hitachi Group over the past five years.

- In addition to the adoption of CCC as a management indicator, the strategic reorganization of Group companies has led to the realization of streamlined assets over the past five years.
- Specifically, this includes an approximately ¥2.55 trillion reduction in interest-bearing debt and an improvement in the D/E ratio from 0.83 to 0.23.
- Although the cumulative dividend payout ratio was below 30%, the total amount of dividends paid increased. Most of operating cash flow was used to repay debt.

	(¥ billion)				
	FY2014	FY2015	FY2016	FY2017	FY2018
Revenues	9,774.9	10,034.3	9,162.2	9,368.6	9,480.6
Adjusted operating income	641.3	634.8	587.3	714.6	754.9
EBIT	534.0	531.0	475.1	644.2	513.9
Net income (loss) attributable to Hitachi, Ltd. stockholders	217.4	172.1	231.2	362.9	222.5
Total assets	12,433.7	12,551.0	9,663.9	10,106.6	9,626.5
Cash and cash equivalents	701.7	699.3	765.2	697.9	807.5
Total Liabilities	8,137.3	8,425.4	5,566.9	5,594.9	5,212.1
Interest-bearing debt	3,557.3	3,604.4	1,176.6	1,050.2	1,004.7
Total Equity	4,296.3	4,125.5	4,096.9	4,511.6	4,414.4
Non-controlling interests	1,354.0	1,390.4	1,129.9	1,233.6	1,151.8
Total Hitachi, Ltd. stockholders' equity	2,942.2	2,735.0	2,967.0	3,278.0	3,262.6
Total Hitachi, Ltd. stockholders' equity ratio	23.7%	21.8%	30.7%	32.4%	33.9%
D/E ratio (Including non-controlling interests) (times)	0.83	0.87	0.29	0.23	0.23
Capital expenditures (Completion basis)	431.2	528.5	377.5	374.9	414.7
Depreciation	350.7	366.5	302.7	265.4	271.6
R&D expenditures	334.8	333.7	323.9	332.9	323.1
Ratio to revenues	3.4%	3.3%	3.5%	3.6%	3.4%
Net cash provided by operating activities	451.8	812.2	629.5	727.1	610.0
Net cash used in investing activities	(612.5)	(730.7)	(337.9)	(474.3)	(162.8)
Free cash flows	(160.7)	81.4	291.6	252.8	447.1
Net cash provided by (used in) financing activities	233.2	(26.4)	(209.5)	(321.4)	(320.4)
Dividends to Hitachi, Ltd. stockholders*	55.5	57.9	57.9	67.5	77.2
Dividends to non-controlling interests*	32.5	39.5	38.2	34.3	42.9
Total cash dividends paid	88.1	97.4	96.2	101.9	120.2

* Those figures are reported in the Consolidated Statement of Changes in Equity presented on P.100.

As a result of the above, in terms of formulating strategy going forward, Hitachi will maintain an awareness of three issues:

(1) Further improvements to profitability and capital efficiency through ROIC management, (2) lowering WACC using moderate leverage within appropriate financial discipline and (3) reducing capital costs and increasing Total Shareholder Returns (TSR) through the execution of rational shareholder return measures with consideration for share buybacks in addition to dividends.

Ensuring Financial Stability

Hitachi recognizes that ensuring the stability of our financial base is an important management issue in terms of realizing the growth investments (approximately ¥2.0 –¥2.5 trillion over three years) and continuous return of profits targeted in the 2021 Mid-term Management Plan. To this end, we must maintain an A-rating on our corporate bonds and a D/E ratio of about 0.5 times.

The Hitachi Group's ability to generate cash has increased steadily over the past five years with improvements in our financial structure leading to ratings improvements as shown in the table on the right, with S&P upgrading its ratings from A- to A and from A-2 to A-1 in August 2018, and Moody's maintaining its rating of A3 and P-2, while R&I changed its ratings from A+ to AA- and a-1 to a-1+ in August 2019.

Rating Company	Long term	Short term
Standard & Poor's Ratings Japan (S&P)	A	A-1
Moody's Japan K.K. (Moody's)	A3	P-2
Rating and Investment Information, Inc. (R&I)	AA-	a-1+

As of August 31, 2019

Financial and Capital Strategies and Shareholder Returns Going Forward

Basic Approach to Funding Procurement

Funding procurement is conducted by the most appropriate means in light of a variety of conditions, including the timing and funding required for business. When procuring funds through borrowing, our financial discipline policy is to maintain a D/E ratio of less than 0.5 times and an interest bearing debt/EBITDA ratio of less than 2.0 times.

Furthermore, over the next three years leading up to fiscal 2021, we plan to make large-scale growth investments of around ¥2.0–¥2.5 trillion, which will be procured through our own capital, borrowings and asset sales amounting to approximately ¥4.0–¥4.5 trillion.

Basic Approach to Capital Costs

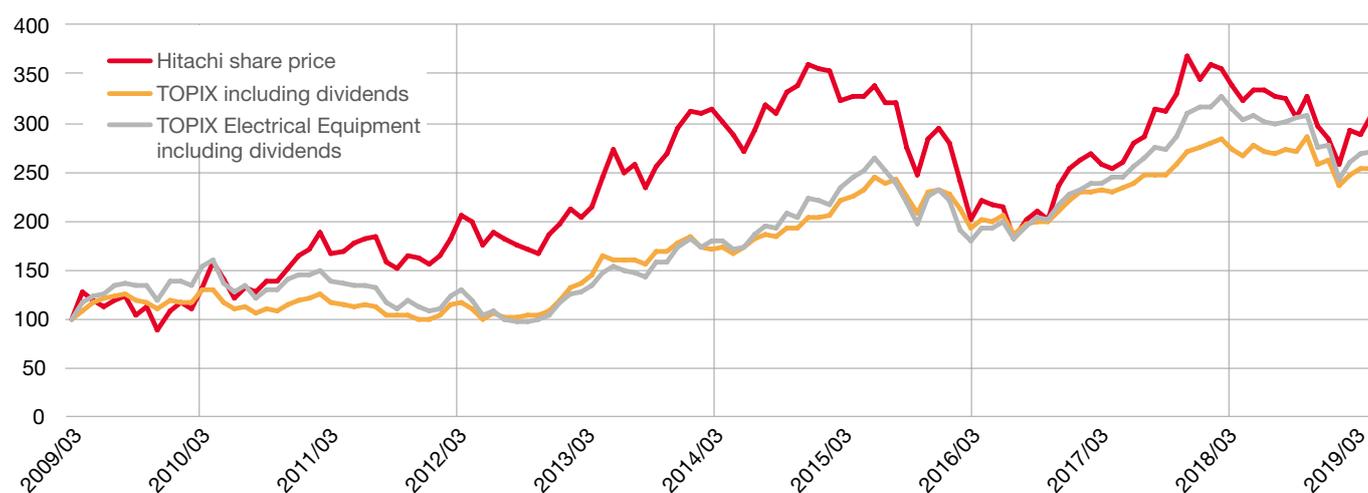
Regarding the cost of capital (hurdle rate) used for individual investment decisions, calculations are made on a case-by-case basis in light of interest rates, country risks and the expected stock market returns in the country where the investment will be made.

Basic Approach to Shareholder Returns

Returning profits to shareholders through the medium- to long-term enhancement of corporate value and ongoing dividends is an important management priority for Hitachi. With regard to dividends, our policy is to attempt to provide stable dividend growth, while ensuring funding necessary for investments. Under this policy, we make decisions based on overall consideration for performance trends, financial conditions, dividend payout ratios and other factors. Share buybacks are conducted flexibly to supplement dividends in accordance with funding demand and the business environment. Internal reserves are used for M&A, R&D, capital investments and other activities to ensure Hitachi's competitiveness and growth as a global company based on medium- to long-term strategies.

The total amount of shareholder returns over the next three years up to fiscal 2021 is planned to exceed levels in the previous three years.

Total Shareholder Returns (TSR) for Hitachi, Ltd., Over the Past 10 Years



	Past 1 Year	Past 3 Years		Past 5 Years		Past 10 Years	
	Cumulative/annual rate	Cumulative	Annual rate	Cumulative	Annual rate	Cumulative	Annual rate
Hitachi share price	-4.6%	44.9%	13.2%	3.3%	0.6%	209.6%	12.0%
TOPIX	-5.0%	26.2%	8.1%	47.1%	8.0%	153.3%	9.7%
TOPIX Electrical Equipment	-10.8%	40.9%	12.1%	51.3%	8.6%	170.6%	10.5%

Note: The graph and table above show return on investment for investments made from the fiscal year ended March 31, 2009, taking into account dividends and stock prices as of the fiscal year ended March 31, 2019. Hitachi, Ltd., investment performance, including stock prices and dividends, is indexed using 100 as investment amount as of March 31, 2009. The TSE Stock Price Index (TOPIX), which is a comparative indicator, is similarly indexed using data including dividends for electrical equipment.

Total shareholder returns (TSR), including dividends and stock price, are shown above.

Looking at the past 10 years, the annual rate of return is 12.0%, which is higher than the market average (Tokyo Stock Price Index and Tokyo Stock Price Electrical Equipment Index). In the most recent fiscal year 2018, the market share price fell, resulting in almost the same negative return as the TOPIX. Also, although the stock price has entered an adjustment phase due to declines in business performance over the past five years in the fiscal years ended March 31, 2016, and March 31, 2017, the stock price recovered in line with stronger performance and TSR has exceeded the market average over the past three years.

Hitachi will continue efforts to improve shareholder value with management and financial strategies enabling us to realize a TSR that exceeds the cost of shareholders' equity.