2021 Mid-term Management Plan

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Today, I would like to talk about the following 4 major points:

1. Will become a global leader in Social Innovation Business
2. Operate business to create three value propositions: improving customer’s social values, environmental values, and economic values.
3. Plan on more aggressive investment in select focused areas for further growth
   - 2.0~2.5 trillion yen investment for the next 3 years to come as opposed to 0.5 trillion yen for the 2018 Mid-term Management Plan
4. Strengthen corporate management system
   - Introducing ROIC and improving capital efficiencies

I am going to elaborate on more specific number targets for the 2021 Mid-term Management Plan.
First, I would like to talk about financial results of the 2018 Mid-term Management Plan.
Looking at performance in FY2018, adjusted operating income was the highest ever, at 754.9 billion yen, and we achieved our target of 8% for the adjusted operating income ratio.

Net income attributable to Hitachi, Ltd. stockholders and ROA exceeded our initial targets, if we exclude the impact from the suspension of the Horizon Project.

I believe that Hitachi has gone through recovery process from the deficit of 787.3 billion yen in FY2008.

I will lead our business to growth stage.
Next, I will talk about Hitachi’s vision.
First, I will talk about global megatrends surrounding us.

In the world today, various changes affect human life; for example, the problem of urbanization, aging, the accompanying issues of climate change and resource shortages.

Innovation is happening around the world to resolve these various social issues, as represented by the concept of Society 5.0 and Sustainable Development Goals, “SDGs.”
Hitachi has contributed to society by developing infrastructure related technologies since its foundation. That has become our corporate mission: “Contribute to society through the development of superior, original technology and products.”

Hitachi has continuously intended to serve for sustainable society by focusing on Social Innovation Business with our mission.

By promoting Social Innovation Business, in the 2021 Mid-term Management Plan, we will operate business to create three value propositions: improving customer’s social values, environmental values, and economic values.
What capabilities does Social Innovation Business need?

I believe the answer is the capability to connect the cyber and physical spaces and make them interact mutually, where professional knowledge and experiences matter most.
We have Lumada. Lumada can provide us with capability to make cyber-physical systems available. It can make the cyber and physical spaces interact mutually, as required to achieve Social Innovation Business.

Lumada has strengths to connect Operational Technologies, IT and products, and to accelerate innovation for customers. Hitachi has more than 100 years of experiences in Operational Technologies, more than 50 years of experiences in IT, and products that support them.

The name of “Lumada” comes from the words “illuminate” and “data”. This name reflects our mission to shed light on our customers’ data to provide insights valuable to their businesses. We have increased and accumulated many Lumada customer cases to date, and Lumada related revenue has exceeded over 1.0 trillion yen.

Lumada is one of our core businesses, with which we feel it very positive to be able to expand Social Innovation Business together with customers.
“Beyond Digital, Beyond Real”

Hitachi can expand Social Innovation Business together with partners throughout the world by connecting cyber and physical spaces to achieve valuable innovation for society.
Hitachi has defined five fields where it can increase customer’s social, environmental and economic values simultaneously: Mobility, Smart Life, Industry, Energy, and IT.

Increasing customer’s social, environmental and economic values through Hitachi’s solutions will improve the quality of life for people, and add values for customers.
In 2021 Mid-term Management Plan, we will make even more aggressive investments including M&As than ever before to achieve further growth, both organically and inorganically.

More specifically, we are planning to invest a total of 2.0 to 2.5 trillion yen, including the recently announced acquisition of ABB’s power grids business.

In order to enable this large scale investment, we will more proactively utilize financial leverage to reduce the weighted average cost of capital (WACC) and to enhance Return on Equity (ROE).

By introducing Return on Invested Capital (ROIC) as one of our key performance indicators, we will undertake upgraded financial disciplines with an awareness of capital efficiency.

We will also further invest in, and strengthen, areas such as R&D and human resource training.
Growth investments will mainly relate to the two sectors in addition to Energy sector while we continue to invest in Lumada.
Next, I would like to talk about enhancing the Lumada platform.

In the 2021 Mid-term Management Plan, we will evolve open innovations and further deepen co-creation with customers.

In terms of evolving open innovations, we launched the “Kyōsō-no-Mori” in April. Here, Hitachi will make the world talented researchers and designers available for the customers to evolve and implement collaborative creation activities.

Also, as we announced in April, we will establish a corporate venturing fund, to support the acceleration of innovation around the globe.

Through these activities, we will enhance Lumada as a driver that accelerates Social Innovation Business, and increase social values, environmental values, and economic values for the customers.
Next, I will explain our approach to strengthening the management base to accelerate Social Innovation Business.

In the 2021 Mid-term Management Plan, we will promote digital transformations that will expand the scope of Lumada activities within the company.
Specifically, we will bring about data-driven operational reforms by improving work processes and production systems, increase the efficiency of sales and indirect functions, and build structures that steadily generate profits.

Also, in order to accelerate Social Innovation Business through co-creation, we will need to further enhance social credibility.
To do this, we will leverage Lumada in safety and quality assurance as well, expand frameworks that require minimal human intervention, and use digital technologies to promote maximum safety, quality assurance, and compliance.
Now I would like to talk about Social Innovation Business, which will be achieved through the activities that I just described.
First, I will talk about mobility solutions.

Hitachi will provide with dynamic headway for flexible and automatic operations to be met with changes in demands and remote monitoring building solutions that enable safe and comfortable transport services for people through Lumada.

For example, we will provide safe, comfortable and environmentally-friendly railway services for 18.5 billion people worldwide per year.
Next, I will look at smart life solutions.

To enable the creation of cities that are more convenient and environmentally-friendly for anyone to live in, we will provide a variety of services, including smart cities, smart therapies, connected cars, and connected home electric appliances.

For example, by Providing with particle therapy systems, expanding the achievement of cancer treatment from 60,000 people to 80,000 people worldwide by 2021.
Next, let’s look at industry solutions.

We will provide a wide range of solutions, including smart logistics, smart maintenance, factory automation, and water leakage detection systems through Lumada that provides to collect data from products, analyze and control them optimally.

These solutions are used to improve the efficiency of the customer’s production and processing systems, and to provide safe, secure city water and sewage water systems.

For example, supplying with city water, sewage water, and seawater desalination technologies, we will provide safe, secure water environments for 70 million people worldwide per day.
Next, I will talk about energy solutions.

Hitachi will provide power grid solutions, energy management, and other solutions for the provision and management of stable, high-efficiency energy.

For example, we will manage 25% of the world’s transformer sub-stations worldwide, and supply stable energy such as electricity to 1.8 billion people.
Finally, I will talk about IT solutions.

Our goal is to accelerate the customer’s innovation using advanced information technologies.

For example, in Vietnam, we are working with The Vietnam Post to expand digital services involving the payment of public funds. From 2020, we will contribute to improving convenience for six million public fund recipients.

Also, by enhancing Lumada as the platform for these services, we will support and accelerate to provide digital solutions that are used to all five fields.
Now, I would like to talk about the targets laid out in the 2021 Mid-term Management Plan.
First, I will look at contributions to society and the environment.

As I explained earlier, we will provide safe, comfortable transportation services to a total of 18.5 billion people per year.

Also, using city water, sewage water, and seawater desalination technologies, we will provide clean water and sewage systems for 70 million people per day.

We will increase the number of data scientists within the Hitachi Group from 1,000 to over 3,000 to accelerate innovation.

In terms of the environment, as this slide represents, we will contribute through our business to protect the Earth’s limited resources.
Now, I will look at Hitachi’s financial targets.

We will aim for the annual organic growth rate of more than 3% in revenues, and adjusted operating income ratios of more than 10%.

Our target for cumulative operating cash flow over three years is more than 2.5 trillion yen.

As I already mentioned, because management will place a greater emphasis on capital costs, we have added Return on Invested Capital as a new key performance indicator, with a goal of more than 10% for this KPI.

We will strive to increase the overseas sales ratios from the current 51% to more than 60%.
“Powering Good”
This phrase expresses Hitachi’s determination to realize a sustainable society and will be our key message for the next three years.

Through Social Innovation Business, we will devote all of energy to achieving the good things that people around the world desire, like solving social issues and improving people’s Quality of Life.

Hitachi will promote “Powering Good” through Social Innovation Business, to brighten the world together with our partners.
Cautionary Statement

Certain statements found in this document may constitute "forward-looking statements" as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such "forward-looking statements" reflect management's current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as "anticipate," "believe," "expect," "estimate," "foresee," "intend," "plan," "project" and similar expressions which indicate future events and trends may identify "forward-looking statements." Such statements are based on currently available information and are subject to various risks and uncertainties 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 in 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 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 success of restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness;
- the potential for significant losses on Hitachi's investments in equity-method associates and joint ventures;
- general socio-economic 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.