History of Management Reforms and Hitachi's Mid-term

2012 Mid-term Management Plan 2010-2012

Rebuilding Management
Recovery

2015 Mid-term Management Plan 2013-2015

Building a Foundation for Growth
The Swapping Out of Businesses

Initiatives and Results

2012 Mid-term Management Plan

(1) Creating a product-specific system with clear lines of responsibility and authority
- Clarified responsibility and authority through introduction of an in-house company system
- Consolidated businesses into six groups, focused on growth fields under an integrated system of operations, and accelerated management

(2) Rebuilding or withdrawing from unprofitable businesses
- Automotive systems business: Rebuilt through structural reform
- Flat-panel TV business: Ceased in-house production
- HDD business: Sold off after rebuilding

(3) Strengthening cost competitiveness
- Launched Hitachi Smart Transformation Project
- Expanded centralized purchasing and global procurement
- Consolidated and optimized production base placement

2015 Mid-term Management Plan

(1) Promoting the Social Innovation Business on a global basis by strengthening front-line functions
- Expanded service businesses using digital technologies
- Strengthened digital capabilities through the acquisition of Pentaho

(2) Reviewing non-core businesses
- Thermal power business: Established joint-venture firm with Mitsubishi Heavy Industries
- Air conditioning business: Established joint-venture firm with Johnson Controls
- Batteries business: Hitachi Maxell relisted, with Hitachi drawing down its stake in the company

(3) Promoting the globalization of Hitachi
- Shifted rail business headquarters to the UK
- Launched Global Performance Management to more effectively utilize global human resources

Looking Back and the Challenges Ahead

2012 Mid-term Management Plan

Looking Back

After booking its largest losses ever in fiscal 2008, Hitachi during the period covered by the 2012 Mid-term Management Plan advanced the rebuilding of its business. The rebuilding of the automotive systems business, the withdrawal from the internal manufacturing of flat-panel TV business, and the transfer of the HDD business all served to improve profitability, allowing Hitachi to concentrate on the Social Innovation Business that so effectively leverages the Company's strengths. In fiscal 2012, Hitachi consolidated operations into six strong groups and worked to speed up management through an integration of operations.

Hitachi's operating income ratio in fiscal 2012, the final year of the Mid-term Management Plan, fell short of the 5% target due to write-off associated with a sharp drop in material prices, as well as the booking of structural reform costs and reduced capacity utilization amid economic slowdown in China and Europe. However, it improved to 4.7% thanks to cost structure reforms, Hitachi Smart Transformation Project, in line with the Smart Transformation Project. In addition, after dropping to 11.2% in fiscal 2008, the stockholders' equity ratio recovered to 21.2% in fiscal 2012, while the D/E ratio narrowed to 0.75x over the same period, indicating a clear improvement in Hitachi's financial position as the company worked toward the establishment of a stable earnings base.

Challenges Ahead

- Further improvements in business profitability
- Strengthening the service businesses
- Global business development and establishing a management base that makes that possible

2015 Mid-term Management Plan

Looking Back

Hitachi during the period covered by the 2015 Mid-term Management Plan substantially revised its business portfolio as if sought to build a foundation for growth. The Company acquired Pentaho, which develops and markets big data analytics software, as part of its aim to strengthen and expand the global value chain in big data utilization, while also removing from consolidation its thermal power, air-conditioning, and batteries businesses. In addition, Hitachi moved its rail business headquarters to the UK as part of its effort to promote the globalization of the Company, appointing Alistair Dormer, currently serving as executive vice president, as the global CEO of the Company's rail business. In personnel evaluation systems, Hitachi introduced "Global Performance Management" as a mechanism under which compensation directly reflects personal performance assessments as well as the global common standards for job roles.

In fiscal 2015, the last year in the mid-term plan, the target was not achieved due to a delayed response to changing market conditions, including in the telecommunication and networks business, as well as losses due to insufficient management at a large overseas project. Another factor contributing to underperformance was the greater-than-expected increase in structural reform costs due to an acceleration in structural reforms following a deterioration in the market environment for the infrastructure systems, power distribution, and construction machinery businesses. However, operating income reached ¥600 billion, with the operating income ratio at 6%, signaling stability in the profitability and an improved ability to generate cash.

Challenges Ahead

- Accelerate management's speed to more quickly respond to changes in the market environment
- Strengthen project management
- Take action regarding unprofitable businesses

	2012 Mid-term Management Plan[*1]				2015 Mid-term Management Plan[*1]			
	2010	2011	2012	2012 (target)	2013	2014	2015	2015 (target)
Revenues (¥ billion)	9,315.8	9,665.8	9,041.0	10,000.0	9,563.7	9,774.9	10,034.3	10,000.0
Overseas revenue ratio (%)	43	43	41	—	45	47	48	More than 50%
Adjusted operating income (¥ billion)	444.5	412.2	422.0	—	538.2	641.3	634.8	—
Adjusted operating income ratio (%)	4.8	4.3	4.7	More than 5%	5.6	6.6	6.3	More than 7%
EBIT (¥ billion)	443.8	573.2	358.0	—	585.6	534.0	531.0	—
EBIT margin (%)	4.8	5.9	4.0	—	6.1	5.5	5.3	More than 7%
Net income (loss) attributable to Hitachi, Ltd. stockholders (¥ billion)	238.8	347.1	175.3	200.0 level	264.9	217.4	172.1	More than 350.0
Total Hitachi, Ltd. stockholders' equity (%)	15.7	18.8	21.2	20	24.1	23.7	21.8	More than 30%[*2]
Return on assets (%)	3.3	4.4	2.5	—	3.5	2.9	2.4	—
Return on equity (%)	17.5	21.6	9.1	—	11.2	7.8	6.1	—
D/E ratio (Including non-controlling interests) (times)	1.03	0.86	0.75	Less than 0.8 times	0.73	0.83	0.87	—
Operating cash-flow margin (%)	9.0	4.6	6.5	—	4.6	4.6	8.1	—

*1 The above figures are prepared in accordance with U.S. GAAP through fiscal 2013 and with the International Financial Reporting Standards (IFRS) from fiscal 2014.
*2 Manufacturing and services, etc.

Management Plans

2018 Mid-term Management Plan
2016-2018

Achieving Growth in Social Innovation
Utilizing Digital Technologies

(1) Transforming into a three-level structure, composed of front-line, platform, and product tiers
- Introduced business unit system

(2) Strengthening of global front-line functions
- Bolstered global front-line operations through acquisitions (Ansaldo STS, Sullair)

(3) Launching Lumada to expand the digital solutions business
- Launched Lumada
- Established Hitachi Vantara to deliver digital solutions
- Lumada business revenues grew to about ¥1 trillion

(4) Conducting an ongoing review of company businesses
- Logistics business: Partial sell-off of Hitachi Transport System stock
- Financial services business: Partial sell-off of Hitachi Capital stock
- Power tools business: Sell-off of Hitachi Koki
- SPE business: Partial sell-off of Hitachi Kokusai Electric stock
- Automotive systems business: Sell-off of Clarion

Looking Back

With the goal of strengthening front-line functions, including the number of sales, system engineers, and consultants, and creating a system of collaborative cooperation with our customers, Hitachi from fiscal 2016 moved from a product specific company system to a three-level system, composed of front-line, platform, and product tiers. With the three-level system, Hitachi bolstered the management speed. Specifically, business units (BUs), which had been subdivided from the former in-house companies to develop and provide services closely to the customer, and group companies, including listed subsidiaries, were positioned to each level. We also strengthened project management and worked to improve profitability at individual businesses. With the aim of enhancing on a global basis the front-line functions central to the Social Innovation Business, we acquired 100% stakes in Ansaldo STS, which supplies signal equipment and control systems to 30 or more countries and regions, and Sullair, which manufactures, sells, and services air compressors to about 4,000 customers, mainly in North America. In December 2018, we signed an agreement for the acquisition of ABB's power grid business. The goal of each of these is the acquisition of a robust global sales network and the expansion of the Social Innovation Business.
To add to this, we launched Lumada in May 2016. Lumada takes the essential technologies for delivering advanced solutions, including AI, analytics, security, robotics and control technologies distributed across the company and applies them to a common platform, creating a system that comprehensively and organically leverages the resources of the entire Hitachi Group to quickly and flexibly create new innovations. Thanks to a steady increase in customer collaborations, Lumada business revenues are trending as planned and have already exceeded ¥1 trillion. Moreover, in addition to reorganizing our business portfolio, including selling off listed subsidiaries with little connection to the core Social Innovation Business, we continued to reform our cost structure, which contributed to the adjusted operating income ratio meeting our Midterm Management Plan target and reaching a record level.

Challenges Ahead

- Aggressive investment in key areas of focus
- Improved capital efficiency
- Accelerated innovation and active use of digital technologies with a focus on Lumada

	2018 Mid-term Management Plan[*1]			
	2016	2017	2018	2018 (target)
Revenues (¥ billion)	9,162.2	9,368.6	9,480.6	10,000.0
Overseas revenue ratio (%)	48	50	51	More than 55%
Adjusted operating income (¥ billion)	587.3	714.6	754.9	—
Adjusted operating income ratio (%)	6.4	7.6	8.0	More than 8%
EBIT (¥ billion)	475.1	644.2	513.9	—
EBIT margin (%)	5.2	6.9	5.4	More than 8%
Net income (loss) attributable to Hitachi, Ltd. stockholders (¥ billion)	231.2	362.9	222.5	More than 400.0
Total Hitachi, Ltd. stockholders' equity (%)	30.7	32.4	33.9	—
Return on assets (%)	3.0	5.0	3.3	More than 5%
Return on equity (%)	8.1	11.6	6.8	—
D/E ratio (Including non-controlling interests) (times)	0.29	0.23	0.23	Less than 0.5 times
Operating cash-flow margin (%)	6.9	7.8	6.4	More than 9%