



2018 Mid-term Management Plan

Progress and Prospects

April 27, 2018

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1. 2018 Mid-term Management Plan and Achievement

An Innovation Partner for the IoT Era

Accelerate collaborative creation with customers
through advanced Social Innovation Business

Four Focus Business Domains



Power • Energy



**Industry •
Distribution •
Water**



Urban



**Finance •
Social •
Healthcare**

1.2 Business Performance

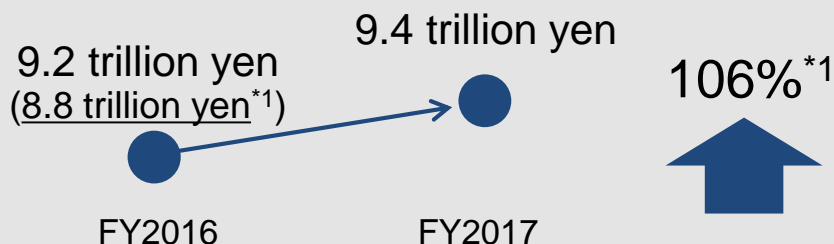
	FY2016 (Results)	FY2017		FY2018		
		(Forecast*)	(Results)	(Initial target)	(Forecast)	
Revenues	9,162.2 billion yen	9,300.0 billion yen	9,368.6 billion yen	10,000.0 billion yen	9,400.0 billion yen	
<i>ratio</i> Adjusted operating income	6.4% 587.3 billion yen	7.1% 660.0 billion yen	7.6% 714.6 billion yen	Over 8% Over 800.0 billion yen	8.0% 750.0 billion yen	
<i>ratio</i> EBIT	5.2% 475.1 billion yen	6.2% 580.0 billion yen	6.9% 644.2 billion yen	Over 8% Over 800.0 billion yen	8.0% 750.0 billion yen	
Net income attributable to Hitachi, Ltd. stockholders	231.2 billion yen	300.0 billion yen	362.9 billion yen	Over 400.0 billion yen	400.0 billion yen	
FX rate (Average)	U.S. Dollar	108 yen	111 yen	111 yen	110 yen	105 yen
	Euro	119 yen	126 yen	130 yen	120 yen	130 yen

* As of Jan., 2018

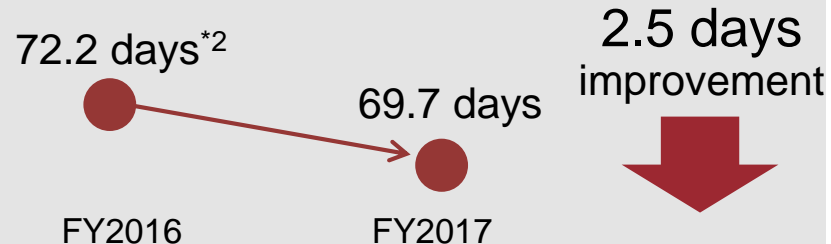
1.3 Business Performance (Change Gears toward Growth)

Improved business performance by global business expansion and continuous structural reforms

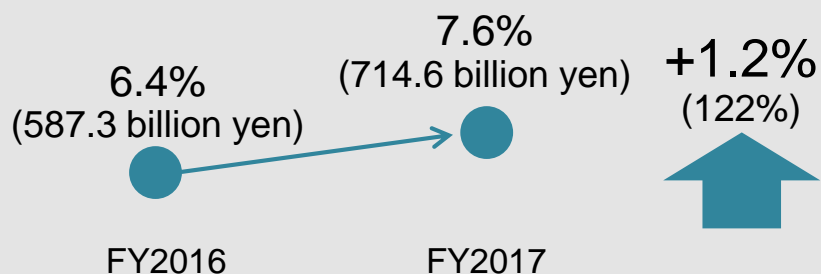
Revenues



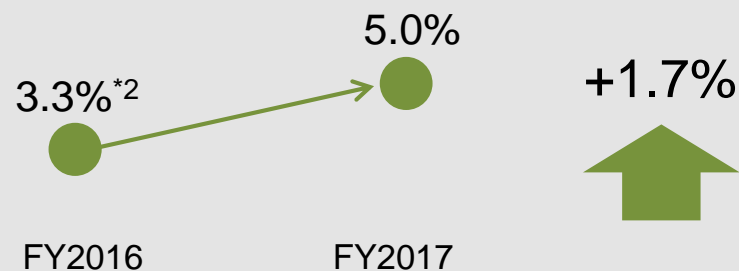
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Adjusted operating income ratio (amount)



ROA*3



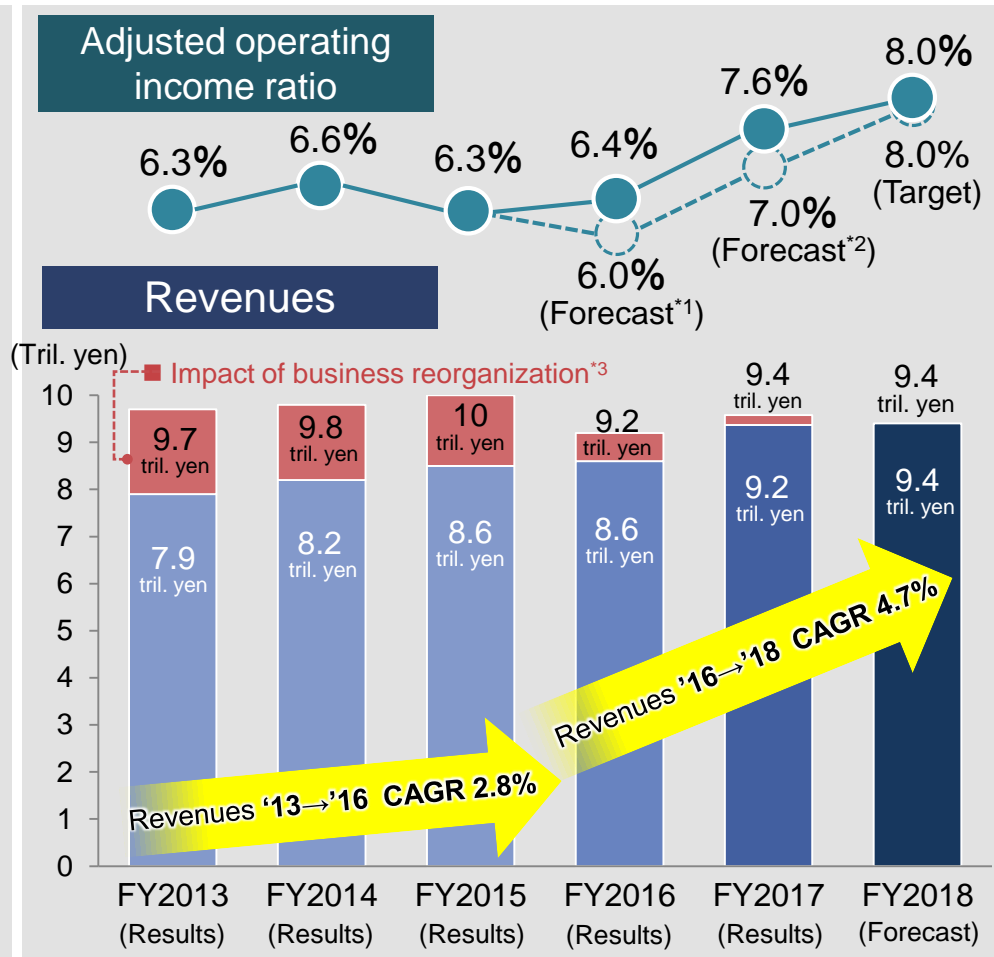
*1 Figures reflecting adjustments based on currently existing businesses. (Revenues of Hitachi Transport System, Hitachi Capital and Hitachi Koki were excluded from the actual result in FY2016) YoY is calculated using adjusted figures.

*2 Manufacturing, Services and Others

*3 ROA(Return on Asset) = [Net income] / [Total Asset (Average between the end of current fiscal year and the end of previous fiscal year)] x 100

Change gears toward growth to become a globally integrated enterprise

FY	Activities
2016	<ul style="list-style-type: none"> Prepare for growth 3-level structure (Front, Platform, Products) Introduced Business Unit system Improved low profit businesses and executed structural reforms Activated Lumada
	<ul style="list-style-type: none"> Change gears toward growth Expanded global business through M&As Enhanced Lumada Expanded collaborative creation
2017	<ul style="list-style-type: none"> Achieve mid-term plan To be a globally integrated enterprise Expand global business Expand digital business using Lumada
2018	<ul style="list-style-type: none"> Expand global business Expand digital business using Lumada



*1 As of May, 2016 *2 As of May, 2017

*3 Impact of business reorganization: Figures reflecting adjustments excluding revenues of reorganized businesses.

(Results of Hitachi Transport System, Hitachi Capital, Hitachi Koki, Hitachi Kokusai Electric, Hitachi Maxell, thermal power business and air conditioning business were excluded from the actual result. The elimination among inter-company transactions are not reflected.)



2. Progress in FY2017

Global growth through core businesses in each region

China

- Automotive products
- Elevators/ Escalators
- Construction machinery
- High functional materials & components

FY2016 Revenues* 0.91 trillion yen → FY2017 Revenues 1.04 trillion yen

YoY : 114%

N. America

- Railway
- Industrial equipment/ solutions
- IT products
- Construction machinery
- High functional materials & components

FY2016 Revenues* 1.09 trillion yen → FY2017 Revenues 1.18 trillion yen

YoY: 108%

Europe

- Railway
- Construction machinery
- High functional materials & components

FY2016 Revenues* 0.85 trillion yen → FY2017 Revenues 0.96 trillion yen

YoY: 113%

Asia

- Elevators/ Escalators
- Automotive products
- Construction machinery

FY2016 Revenues* 0.91 trillion yen → FY2017 Revenues 1.04 trillion yen

YoY : 114%

Overall global revenues
YoY : 113%

Regions except for those which are listed above (including Japan): FY2016 5.04 trillion yen → FY2017 5.15 trillion yen

* Figures reflecting adjustments based on currently existing businesses.

(Revenues of Hitachi Transport System, Hitachi Capital and Hitachi Koki were excluded from the actual result in FY2016)

Expanded global business in each region

Railway

Europe : Sales expansion by IEP* in the U.K., etc.

North America : Sales expansion through Hitachi Rail Italy and Ansaldo STS

- Began delivering rolling stocks for Miami Dade metro
- Received order for rolling stocks and signaling system for Baltimore metro (approx. 45.0 billion yen)

Industrial Equipment

North America : Acquisition of Sullair. Through the Sullair sales channel, began selling air compressors of Hitachi Industrial Equipment Systems

IT Products

North America : Strong sales for flash storage products

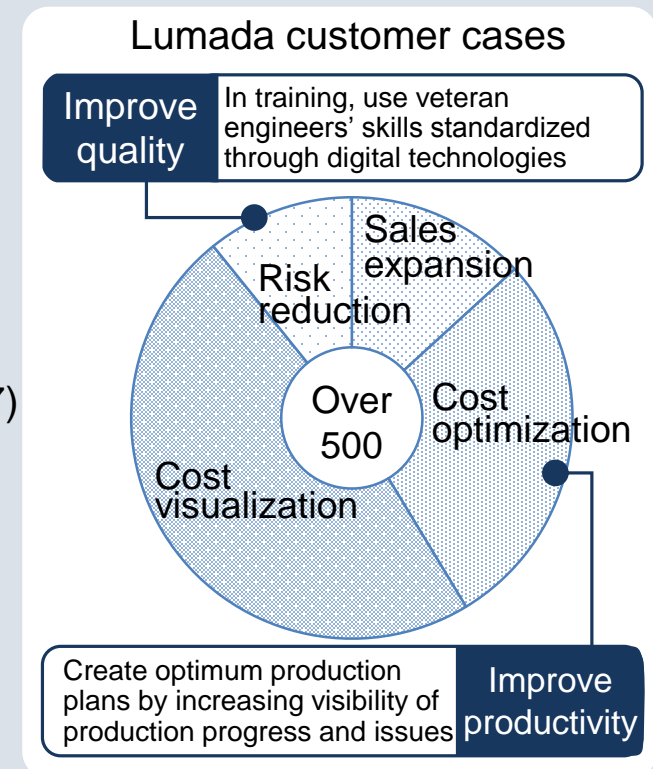
Construction Machinery

China : Sales expansion in response to the market recovery

* IEP: Intercity Express Programme, started commercial operation in Oct. 2017

Established a base for growth using digital technologies by enhancement of the front-line and Lumada

- Building global promotional structures and enhancement of the front-line
 - To promote global digital business, launched Hitachi Vantara (Sep., 2017)
Hitachi Global Digital Holdings (Apr., 2018)
 - CCOs*1 appointed in North America, Europe and Asia to enhance customer access
- Enhancement of Lumada and accumulating customer cases
 - Prepared a series of Lumada software for the fast and easy startup of systems
 - Accumulated over 500 customer cases*2 (over 300 customer cases added since the end of Mar., 2017)
- Inquiries increased, and collaborative creation with customers and new orders expanded
 - Number of inquiries:
Over 1,000 in Europe, U.S., China and APAC
 - Collaborative creation:
Penske Corporation, Yamato Transport, Vietnam Post, etc.



Improved profitability by continuing business structural reforms

Measures for business issues / Structural reforms

- Improved operating profits by approx. 38.0 billion yen (YoY) by downsize of and withdrawal from low profitable business
 - Withdrawal from large-scale industrial EPC* business
- Continuous structural reforms
 - Effect in FY2017 : 15.0 billion yen (YoY)

Selection and concentration of businesses

- Business restructuring in FY2016~FY2017
Revenue impact : approx. 1.5 trillion yen

FY2016	FY2017
Logistics service (Hitachi Transport System)	Semiconductor manufacturing equipment, etc. (Hitachi Kokusai Electric)
Financial service (Hitachi Capital)	Passenger transportation service (Hitachi Dentetsu)
Electric tools (Hitachi Koki)	Network device business (ALAXALA Networks)
Others (LCD Panel manufacturing equipment, etc.)	Forged steel roll business

Enhancement of MONOZUKURI* and quality assurance for business growth

MONOZUKURI

- Competitive cost structure and improved reliability by collaboration with alliance partner
 - Strengthen MONOZUKURI through collaboration with UMC Electronics (Apr., 2018~)
- Progress of MONOZUKURI by utilizing Lumada in Hitachi
 - Design efficiency improvement, short lead time, etc. : 115 in-house cases

Quality management

- Software reliability in response to progress of digitization
 - Apply quality control technique of the Systems & Services Business Division to other Business Units, etc.
- Quality assurance by digital technologies/IT
 - Automated data-linking without manual work to avoid human error, etc.

Replacement of assets by prioritization of investments and reduction of existing assets

Prioritization of investments

- Prioritized investment in high growth and profitable(ROA) business domains
 - Railway turnkey/signaling business, industrial equipment, etc.

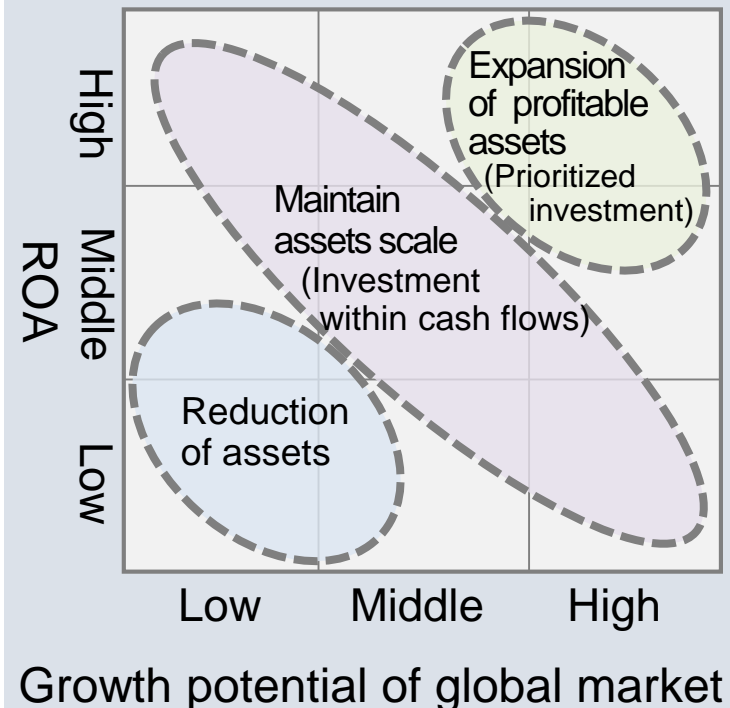
Reduction of existing assets

- Reduction of low-profit assets
 - Network devices, overseas industrial EPC business, etc.
- Sale of holding shares
 - Maxell (Dec., 2017), etc.

Effective use of capital

- Financing by utilizing external capital
- Hiring investment and funding specialists

【 Direction of assets holdings 】



2.7 Status of Mid-term Plan KPIs

**Achieved the target for ROA ahead of schedule
by proceeding growth plan in FY2016 - FY2017**

	FY2016 (Results)	FY2017 (Results)	FY2018 (Target)
Front business expansion (Front revenue ratio)	38%	39%	40%
Global business expansion (overseas revenue ratio)	48%	50%	Over 55%
Strengthening cash-generating capability (Operating cash flow margin)	7.1%*	7.8%	Over 9%
Improving asset profitability (ROA)	3.3%*	5.0%	Over 5%

* Manufacturing, Services and Others

3. Further Growth in Social Innovation Business

3.1 Business Environment Change and Social Innovation Business

Increasing demands of Social Innovation Business

The United Nations has adopted “Sustainable Development Goals” (SDGs) Realizing inclusive society and self-growth became new challenges for globally integrated enterprises



SDGs Market; US\$12 trillion
(Predicted figures by 2030)^{*1}

Resolving the world's social challenges and providing innovative structures for society and lives through Social Innovation Business



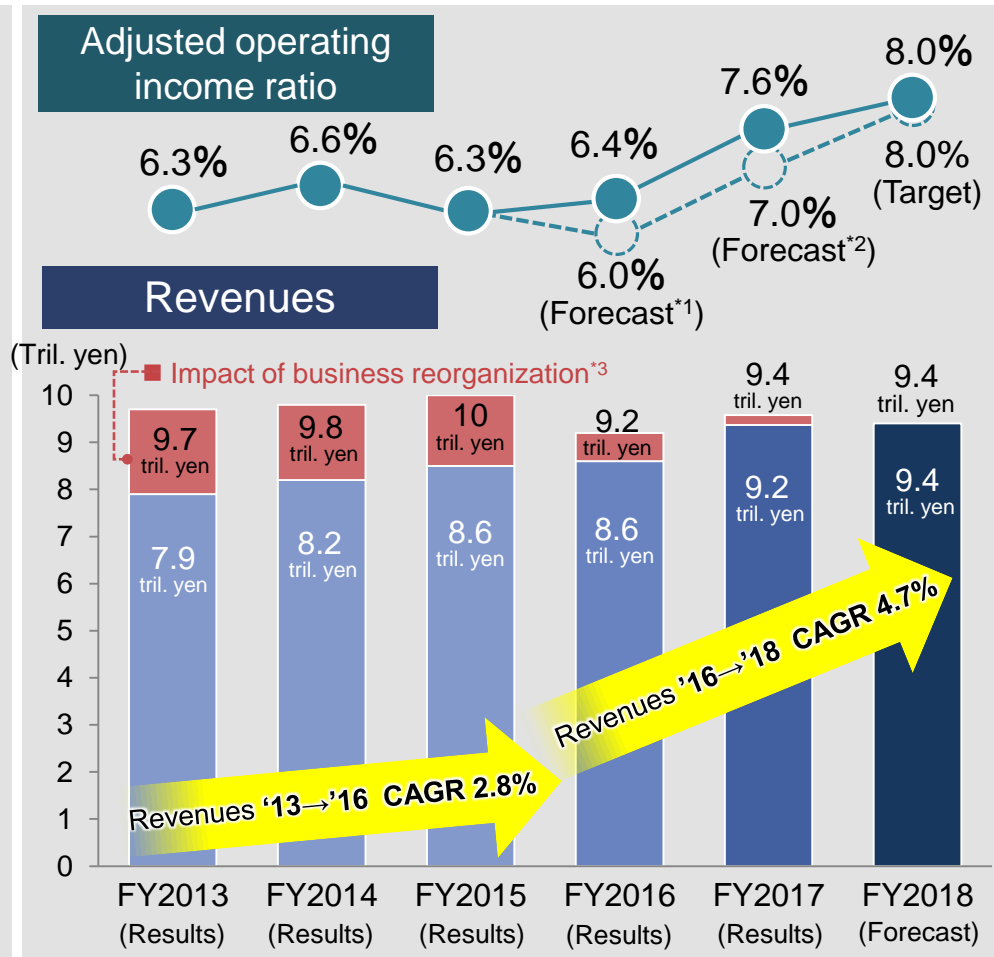
IoT Market; US\$1.1 trillion (2021)
(CAGR 14.4%)^{*2}

*1 BSDC “Better Business, Better World”

*2 (Ref.) IDC <https://www.idc.com/getdoc.jsp?containerId=prUS43295217>

Change gears toward growth to become a globally integrated enterprise

FY	Activities
2016	<ul style="list-style-type: none"> • Prepare for growth ● 3-level structure (Front, Platform, Products) ● Introduced Business Unit system ● Improved low profit businesses and executed structural reforms ● Activated Lumada
	<ul style="list-style-type: none"> • Change gears toward growth ● Expanded global business through M&As ● Enhanced Lumada ● Expanded collaborative creation
2018	<ul style="list-style-type: none"> • Achieve mid-term plan • To be a globally integrated enterprise ● Expand global business ● Expand digital business using Lumada



*1 As of May, 2016 *2 As of May, 2017

*3 Impact of business reorganization: Figures reflecting adjustments excluding revenues of reorganized businesses.

(Results of Hitachi Transport System, Hitachi Capital, Hitachi Koki, Hitachi Kokusai Electric, Hitachi Maxell, thermal power business and air conditioning business were excluded from the actual result. The elimination among inter-company transactions are not reflected.)

3.3.1 Hitachi's Objective of Social Innovation Business Using Digital Technologies

To be a No.1 innovation partner

- Top-level IoT platform as a base for digital technology: Lumada
- Collaborative creation with customers using OT x IT x Products
 - Inquiries increased, and collaborative creation with customers expanded (Accumulated over 500 customer cases in manufacturing, distribution/mobility, finance, etc.)



Building a shared vision with the customer



Creating new concepts, developing and demonstrating prototypes

Implementation

Sharing issues

Visualization

Designing business models

Testing and simulations

Collaborative creation methodology "NEXPERIENCE"

The dashboard displays various data points and charts, including a bar chart showing 'bdal share' over time, a pie chart showing 'Car' (70%) and 'Railway' (30%), and a line graph showing 'Cumulative cash flow' over 14 years. The line graph shows a sharp increase in cash flow starting around year 8, reaching approximately 5,000 1M USD by year 14. The pie chart shows 'Car' at 70% and 'Railway' at 30%. The bar chart shows 'bdal share' over time, with values ranging from 0 to 150,000. The dashboard also displays various other data points and charts, including a table with columns for '127M', '4,898T', '59.2%', '378K', '83.3', '25.1%', '1.43', and '37,99K'.

Safe and comfortable transport through digital technologies

Penske Corporation:
Transportation, Traffic service

Solution

Optimize vehicle management using
vehicle running data

Outcome

Improve the ratio of vehicles in operation



Yamato Transport: Home delivery

Solution

Visualize data collected from cars and
analyze drivers' behavior, etc.

Outcome

Realize safe delivery
by sophisticated driving training



Safe and comfortable transport through digital technologies

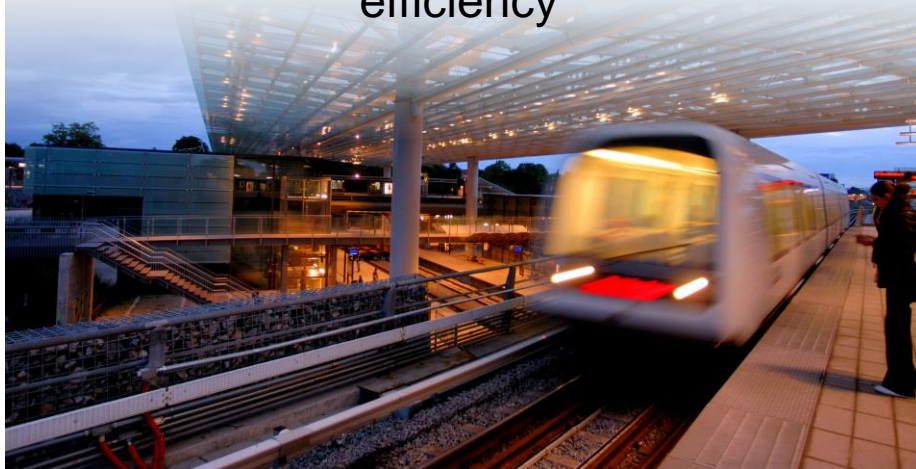
Copenhagen Metro: Transportation

Solution

Optimized train operation by people flow analysis, through Lumada

Outcome

Congestion easing, improvement of customer convenience and operational efficiency



Nishi-Nippon Railroad: Transportation

Solution

Analyze data on bus running records and loading history to optimize operation plans

Outcome

Improvement of operational efficiency and passengers' convenience



Transform manufacturing sites and supply chain with Lumada to respond to various demands from manufacturer clients

Improve productivity in manufacturing

● Co-creation example:
Okuma



● In-house example:
Omika Works in Hitachi



Issue

Improve efficiency of small volume, multiple item production

Solution

Optimize production plan by visualizing and analyzing production progress and operational status of facility

Outcome

Improve productivity, reduce lead time

In-plant (manufacturing)

Reduce lead time in manufacturing supply chain

Issue

Provide necessary items on time

Solution

Optimize manufacturing supply chain using digital technologies

Outcome

Reduce lead time

Procurement - manufacturing - distribution

3.4.1 Global Expansion of Social Innovation Business

Core Social Innovation Business in each region

Business Region	Financial/ Social solutions	Industrial equipment/ solutions	Elevators/ Escalators	Railway
North America	Financial SI	Industrial equipment (strengthen customer engagement in U.S.) Manufacturing solutions Mobility solutions		Railway systems/ turnkey
Asia	Financial/Social solutions (e-Government, non-cash payment)	Industrial equipment Manufacturing solutions	New installation, maintenance Digital solutions related building (Remote monitoring, etc.)	
China			New installation, maintenance Digital solutions related building (Remote monitoring, etc.)	
Europe				Railway systems/ digital solutions

Above businesses (scale of revenues: approx. 3 tril. yen) will drive global growth
(FY2018 → FY2021: Target CAGR 5-10%)

Expand global business using know-how in Japan

Financial

- Vietnam Post:
Digitization of financial services
(Jointly with Sumitomo Mitsui Banking Corporation)
 - Providing digitized pension payment system
 - Planning to expand to non-cash payment business



Social Infrastructure

- Digitization of administration services in India
 - Contribution to “Digital India”
 - Started up Hitachi MGRM Net* to develop and provide solutions and services



* Hitachi MGRM Net: Hitachi India acquired part of the shares in MGRM Net Limited, an Indian IT company, and changed the company name.

4. Management Base for Growth

Prioritize investment in core businesses in four focused domains

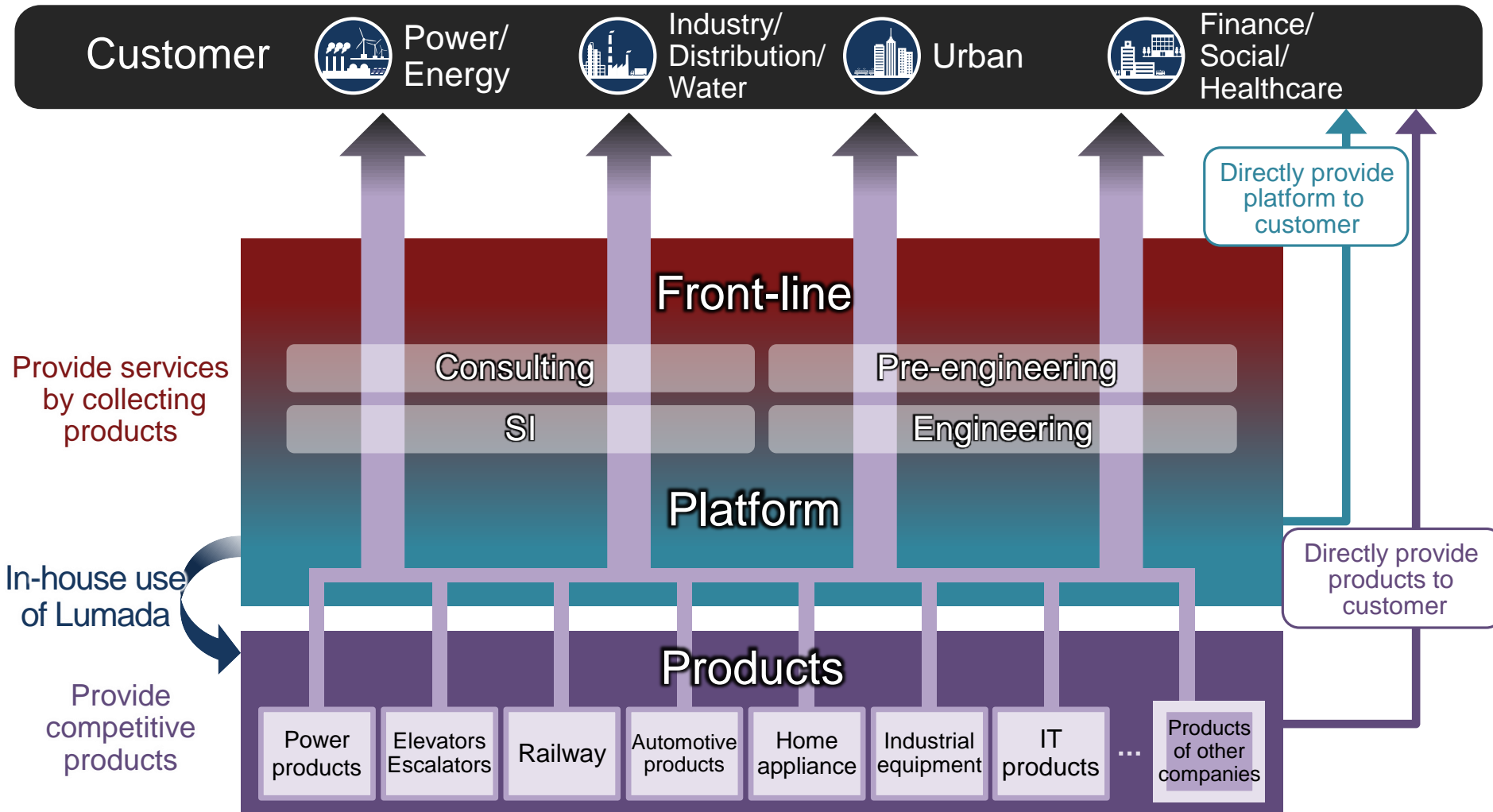
Investment Direction

- Expand global business: Enhancement of regional sales channel, etc.
- Expand digital service business: Financial payment system, e-Government, etc.
- Respond to sustainable society: Carbon free (e.g.: renewable energy, energy management, electric vehicles), etc.

	Power/Energy	Industry/ Distribution/Water	Urban	Finance/Social/ Healthcare
Investment fields	<ul style="list-style-type: none"> - Renewable energy - Distributed power solution 	<ul style="list-style-type: none"> - Manufacturing solutions - Industrial equipment (North America/Asia) 	<ul style="list-style-type: none"> [Railway] <ul style="list-style-type: none"> - Turnkey/signaling system [Elevators/Escalators] <ul style="list-style-type: none"> - New installations/maintenance (China/other countries & regions of Asia) [Automotive] <ul style="list-style-type: none"> - Electric power trains, autonomous driving products - Mobility as a Service 	<p>Japan and global</p> <ul style="list-style-type: none"> - Financial payment system (Asia) - e-Government (Asia)

4.2 Toward Future Global Growth Using Digital Technology

Front-line flexibly provides solutions suited for customers



Acquire talent leading global growth with digital technologies

Enhancement of global management and front-line

- Management executives:
 - Assigned three global talents to the top management in BU*¹ and group companies Railway Systems BU, Hitachi Automotive Systems, and Hitachi Global Digital Holdings
- Regional Front-line executives/staff:
 - Hired dedicated four experts as CCO*² of regional sales representative in North America, Europe, and Asia
 - Hired approx. 30 top-class experts in each business field from global IoT companies, etc.

Enhancement of innovation capabilities by hiring diverse human resources

- Assignment of officers including more women and non-Japanese personnel
 - Increase ratio from current*³ 2.5% of women and 6.4% of non-Japanese to 10% each by FY2020

Investments for creating No.1 products and services

Creation of global No.1 products and technologies by expansion of R&D investment

- Accelerate R&D from highly prioritized technologies

Focus field: Block-chain, autonomous driving, optimized factory, AI, robotics, etc.
(FY2017 R&D investment : 332.9 billion yen)

New business creation by responding to social/business trends

- Create new business in manufacturing and social infrastructure sector using “edge computing”

- Established a joint venture with FANUC and Preferred Networks (Apr., 2018)
- Participated in Edgex Consortium as a board company and promote construction of ecosystem

Creation of disruptive technology through open innovation

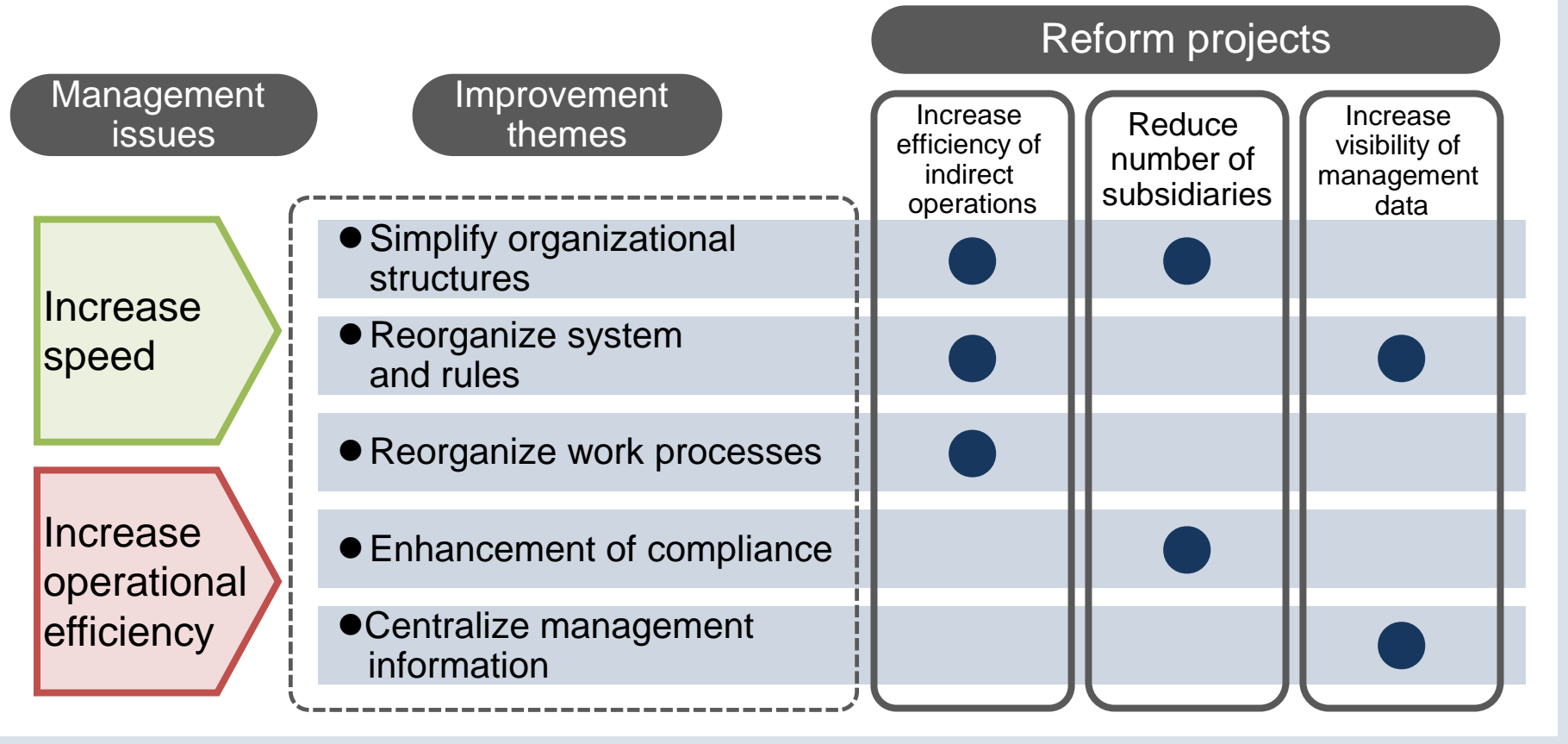
- Secure access for disruptive technology and new business area

Invested in a fund managed by venture capital Geodesic Capital (Mar., 2018)

4.5 Accelerate Management Speed, Improve Operational Efficiency

Improve profitability by reforming organization/rules/operation/IT

Assigned EVP, Mr. Takahashi as CTrO* to promote reform projects
Reduce the costs by more than 100.0 billion yen by FY2021



* CTrO: Chief Transformation Officer

Nuclear power business in U.K. (Horizon Project)

- Continue negotiations with U.K. government and related parties
- Completed GDA* on December, 2017

Thermal Power Project in South Africa

- Taking appropriate measures in the arbitration procedure

* Generic Design Assessment

5. Looking ahead to FY2021

**Hitachi provides
advanced social infrastructures
globally through digital solutions
for improved Quality of Life**

**Aim for further growth in
the 2021 Mid-term Management Plan
Adjusted operating income ratio: over 10%**

THE FUTURE IS OPEN TO SUGGESTIONS

Hitachi Social Innovation

**Delivering new value to society through
collaborative creation with our customers and 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,” “forecast,” “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 the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this document.

Factors 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 of the yen against other 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 continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;
- increased commoditization of and intensifying price competition for products;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- 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 socioeconomic 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.

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