



# **2015 Mid-term Management Plan Progress and Prospects**

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# 1. Outline of 2015 Mid-term Management Plan

## 2015 Mid-term Management Plan

- Achieving Growth and Hitachi's Transformation -

### Innovation

Strengthen service businesses that maximize the utilization of IT and bring about innovation

### Global

Deliver Innovation to Customers and Society globally

### Transformation

Transform Hitachi:  
To deliver innovation by standardized and speedy operation



## 2. FY2014 Progress Overview

# 2.1 FY2014 Progress Overview and FY2015 Forecast **HITACHI** Inspire the Next

	FY2013 Actual (US GAAP)	FY2014 Actual (US GAAP)	FY2015 Forecast (US GAAP) (IFRS)*1	
Revenues*1	9,563.7B	9,761.9B	9,900.0B	9,950.0B
(Operating Income Margin) Operating Income	(5.6 %) 538.2B	(6.2 %) 600.4B	(6.7 %) 660.0B	(6.8 %) 680.0B*2
(EBIT Margin) EBIT*3	(6.1 %) 585.6B	(5.6 %) 551.0B	(6.6 %) 650.0B	(6.2 %) 620.0B
Net Income attributable to Hitachi, Ltd. Stockholders	264.9B	241.3B	330.0B	310.0B
[Breakdown] Continuing operations	270.4B	294.0B	334.0B	314.0B
Discontinued operations*4	▲5.5B	▲52.7B	▲4.0B	▲4.0B
Stockholder's Equity Ratio (Manufacturing, Service and others)	27.4 %	27.3 %	29 %	29 %

\*1 IFRS: International Financial Reporting Standards

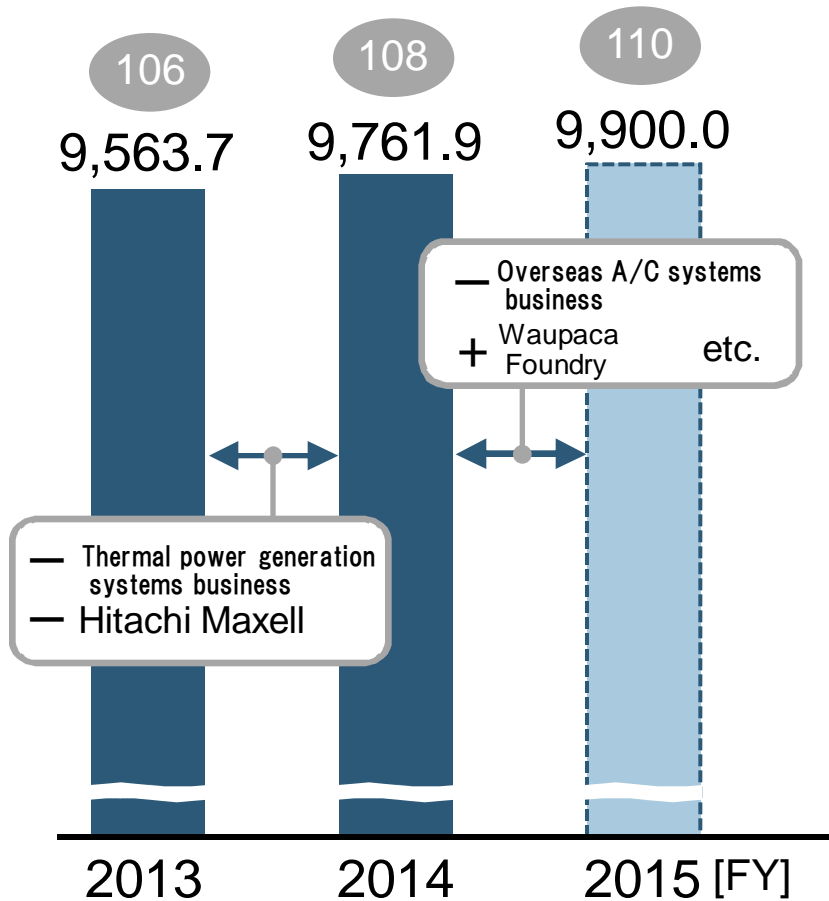
\*2 This column shows "operating income after adjustments." (an "Adjusted Operating Income" presented as revenues less cost of sales as well as selling, general and administrative expenses)

\*3 EBIT: Earnings Before Interest and Taxes (Net earnings before interest and payment interest adjustments)

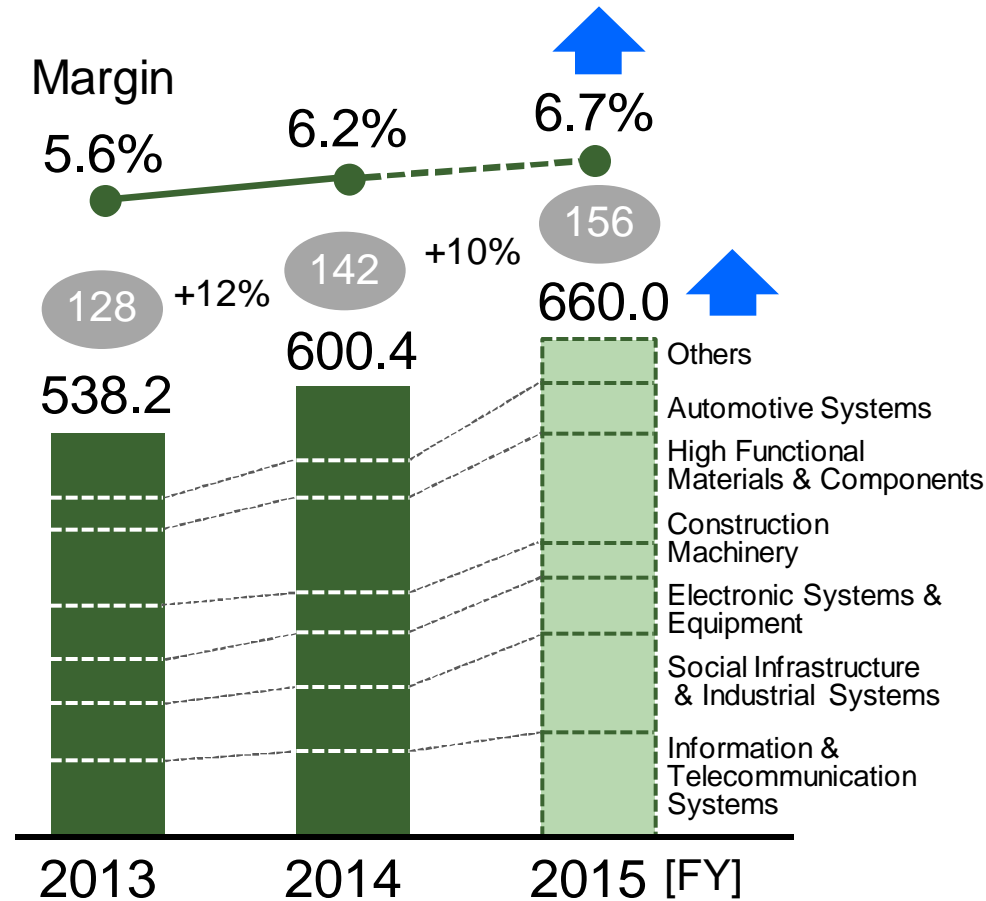
\*4 A part of the thermal power generation systems business is classified as a discontinued operation in accordance with the provision of ASC 205-20, "Presentation of Financial Statements - Discontinued Operations," which was not transferred to Mitsubishi Hitachi Power Systems, Ltd for the business integration in the thermal power generation systems with Mitsubishi Heavy Industries, Ltd. The results of the discontinued operation are reported separately from continuing operations. In line with this classification, the results of the business for the year ended March 31, 2014 are reclassified as the discontinued. 2014 have been reflected.

## Hitachi group: Stable increase in profitability

### Revenues [Billion yen]



### Operating Income [Billion yen]



● Growth index (FY2012 = 100)

## 2.3 FY2014 Progress Overview

### Results

- Stable increase in profitability: Operating income is increasing at a rate of more than 10% per year
- Expand global business:  
Business in North America is increasing
- Expand Social Innovation Business: Strengthen front-line capabilities, and support customers' growth

### Challenges

- Business structure reforms to anticipate changes in the market environment
  - IT Platform business (communication networks, servers)
  - T&D equipment business etc.
- Strengthen cash-generating capability
  - Although sales costs have decreased, CCC (manufacturing, services and others) are on par with the previous year

### Discontinued Operations

When Hitachi's thermal power generation systems business was integrated with MHI, some projects remained with Hitachi. A part of these projects have been wrapped up and are now recognized as "discontinued operations", so net losses of 52.7 billion yen were posted in FY2014.

\* CCC: Cash Conversion Cycle \* T&D: Transmission & Distribution

\* MHI: Mitsubishi Heavy Industries



### Business structure reforms

Execute business structure reforms with expenses on a scale of 50 billion yen in 1H FY2015 (expenses already incorporated), expecting performance improvement mainly from the following businesses in and after 2H FY2015.

#### ■ IT Platform Business

- From April, accelerate business structure reforms in the telecommunications business in response to reduced investments by domestic carriers.

⇒ Shift resources to growing business fields including IoT.

#### ■ T&D Business

- Accelerate structure reform of products business in response to intensified competition in the products market.

⇒ Strengthen cost competitiveness.

### Cash generation

Increase profit and cash, and improve CCC (manufacturing, services and others) by strengthening and reorganizing the Hitachi Smart Transformation Project.

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### 3. Execution of Growth Strategy and Measures in FY2015

## 3.1 Key Performance of Growth Strategy

		FY2015 Initial target	FY2015 Forecast
1	Global business expansion	Ratio of overseas revenues Over 50%	Ratio of overseas revenues 50%
2	Service business expansion	Ratio of service revenues Over 40%	Ratio of service revenues 38%
3	Cost reductions through the Hitachi Smart Transformation PJ	Cumulative cost reduction benefits 400 billion yen	Cumulative cost reduction benefits 420 billion yen

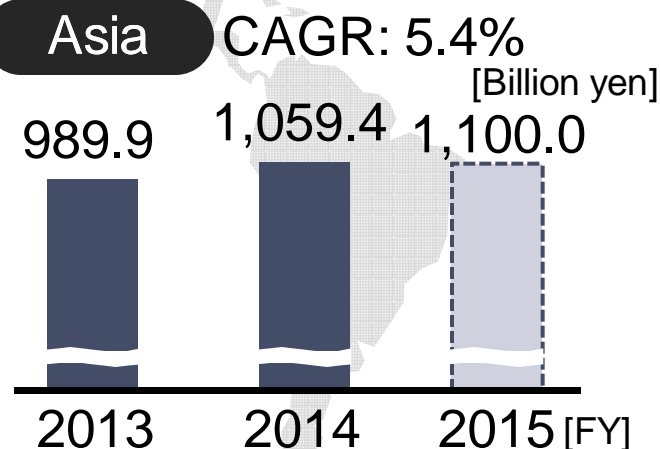
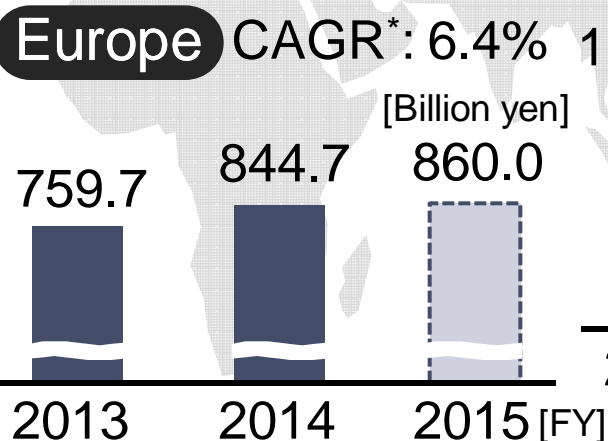
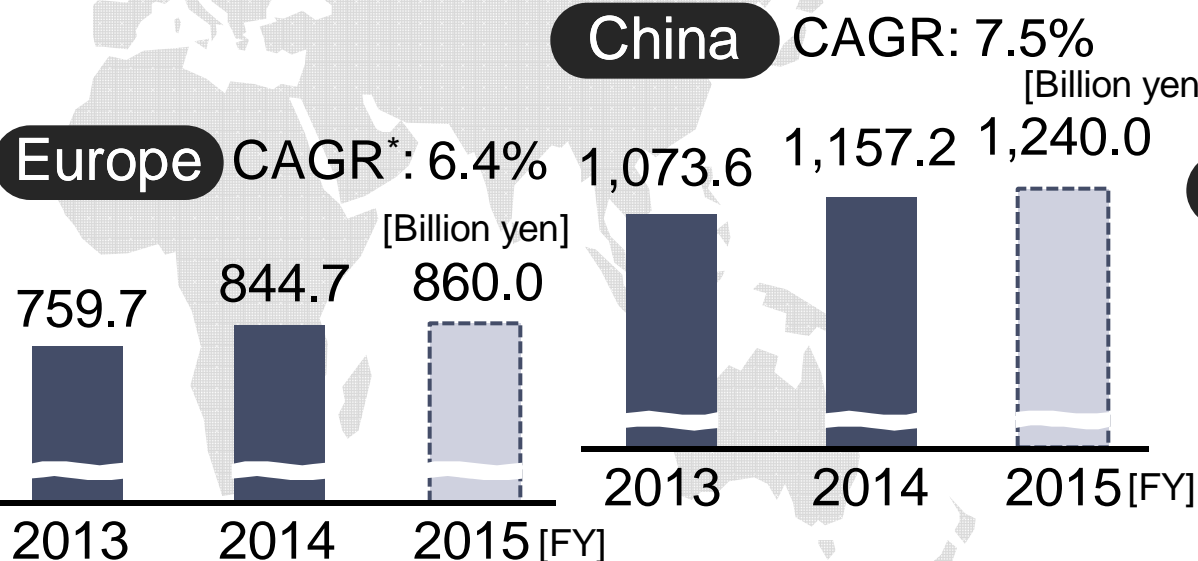
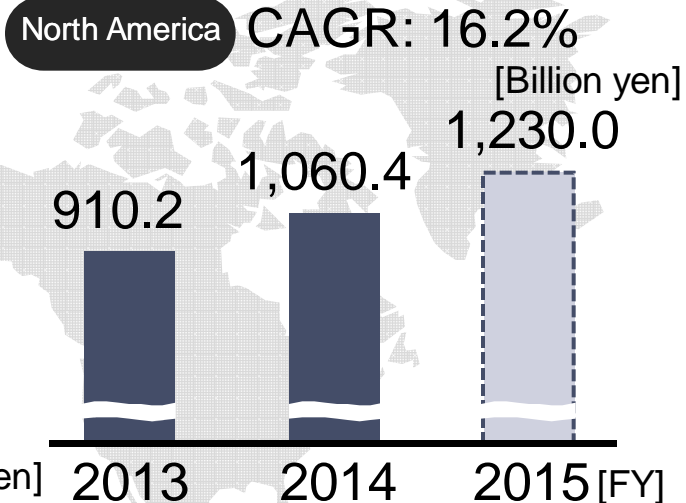
\*Cumulative cost reduction benefits: Cumulative five years, from FY2011 to FY2015

## 3.2 Global Business Expansion(1) 【Overview】

Global business is expanding steadily,  
especially in the North American market

Overseas revenue ratio (including other areas)

FY2013 Actual	FY2014 Actual	FY2015 Initial target	FY2015 Forecast
45%	47%	Over 50%	50%



\* CAGR: Compound Annual Growth Rate

# Global business is expanding steadily, especially in the North American market



## Progress until end of FY2014

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

## Measures for FY2015

- 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)

## O&M services revenue is expanding Strengthen profitable service business

### Service revenues ratio

FY2015 Initial target	FY2015 Forecast
<b>Over 40%</b>	<b>38%</b>

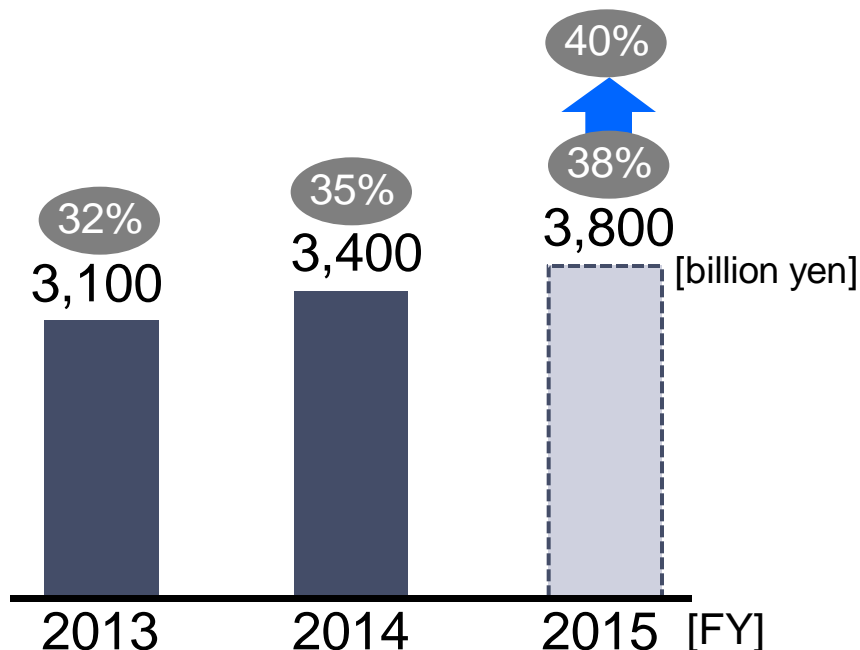
### Progress until end of FY2014

- Strengthened maintenance service by cloud remote monitoring system
- Expanded operation services of information business including BPO

### Measures for FY2015

- Expand long-term fee service business (Train and Energy)
- Utilize telecommunication technology in social infrastructure field  
⇒ Expand IoT service business
- Create new service business utilizing IT (analytics)

\* BPO: Business Process Outsourcing



● Service revenue ratio

\* O&M: Operation & Maintenance

# 3.3 Service Business Expansion(2) [China Smart Logistics]

Provide comprehensive services to customers combining the Hitachi Group's assets and capabilities through IT

**Procurement Service:** Hitachi High-Technologies  
Hitachi Capital

- VMI Operation
- Factoring

**Procurement EDI Service:** Information & Telecommunication Systems Company

- e-commerce for procurement business

**Logistics Service:** Hitachi Transport System, Infrastructure Systems Company

- 3PL, JIT delivery

- Seeking opportunity to develop market in Chinese manufacturing industry and e-commerce (Start with Japanese domestic manufacturing)
- Examining IT cost reduction effect through the Hitachi Smart Transformation Project in the Hitachi Group



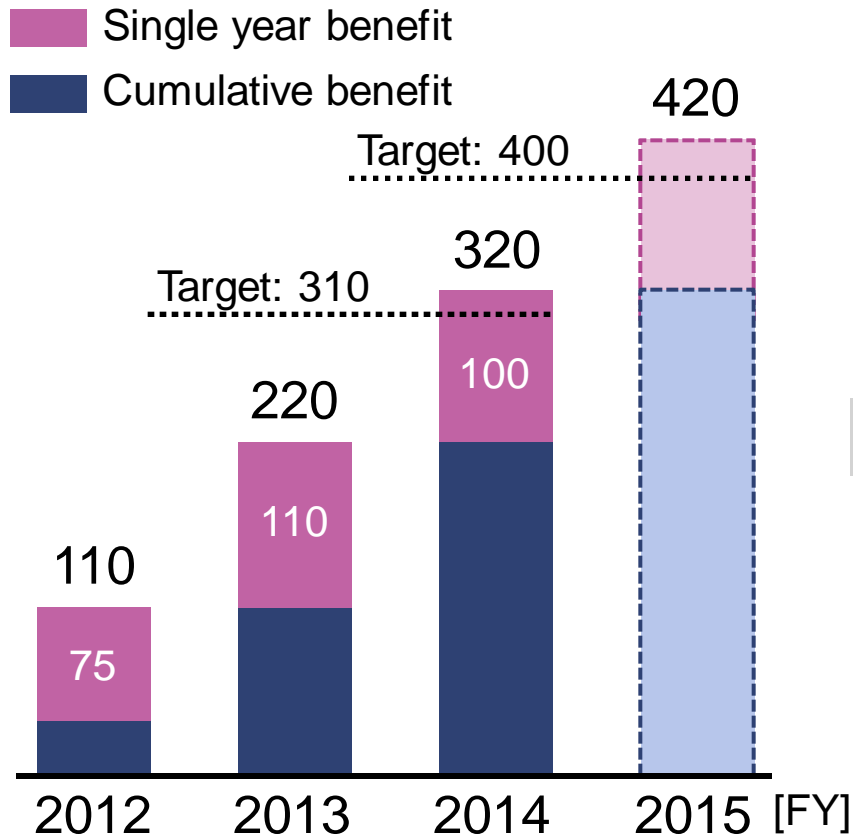
\* VMI: Vendor Managed Inventory \* EDI: Electronic Data Interchange

\* 3PL: 3rd Party Logistics, JIT: Just In Time

# 3.4 Cost Reductions Through the Hitachi Smart Transformation PJ(1) 【Overview】

Achieved cost reductions exceeding targets in FY2014  
In FY2015, strengthen measures aimed at increasing cash

## Cost reduction effects [billion yen]



\* SG&A: Selling, General and Administrative expenses

## Progress up to FY2014

- Achieved cost reduction goal of 310 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 FY2015

- To increase operating income and cash
  - ⇒ Reduction of SG&A and Cost of Sales + 100 billion yen
  - ⇒ CCC (manufacturing, services and others) 5-day reduction, + 130 billion yen

Consolidated Cash Flow (manufacturing, services and others)	
FY	FCF [billion yen]
2013	104.9
2014	132.7



### 3.4 Cost reductions through the Hitachi Smart Transformation PJ(2)

【Profitability & Cash-generation capability】

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## Key Measures in FY2015

### Reduction of Cost of Sales and SG&A (+100 billion yen)

#### Reduction of Cost of Sales

- Further cost reduction throughout the entire value chain
  - Promote strategic overseas procurement
  - Strengthen cost reductions in overseas businesses
- Improve operational efficiency; e.g., design and manufacturing operations

#### Reduction of SG&A

- Review all aspects of fixed costs in Japan
  - Accelerate shift to BPO in indirect operations
  - Review indirect operation organizations
  - Reduce IT operation costs
- Reduce indirect materials
  - Strengthen reductions in indirect materials overseas

### Improvement of CCC (manufacturing, services and others) (5-day reduction, +130 billion yen)

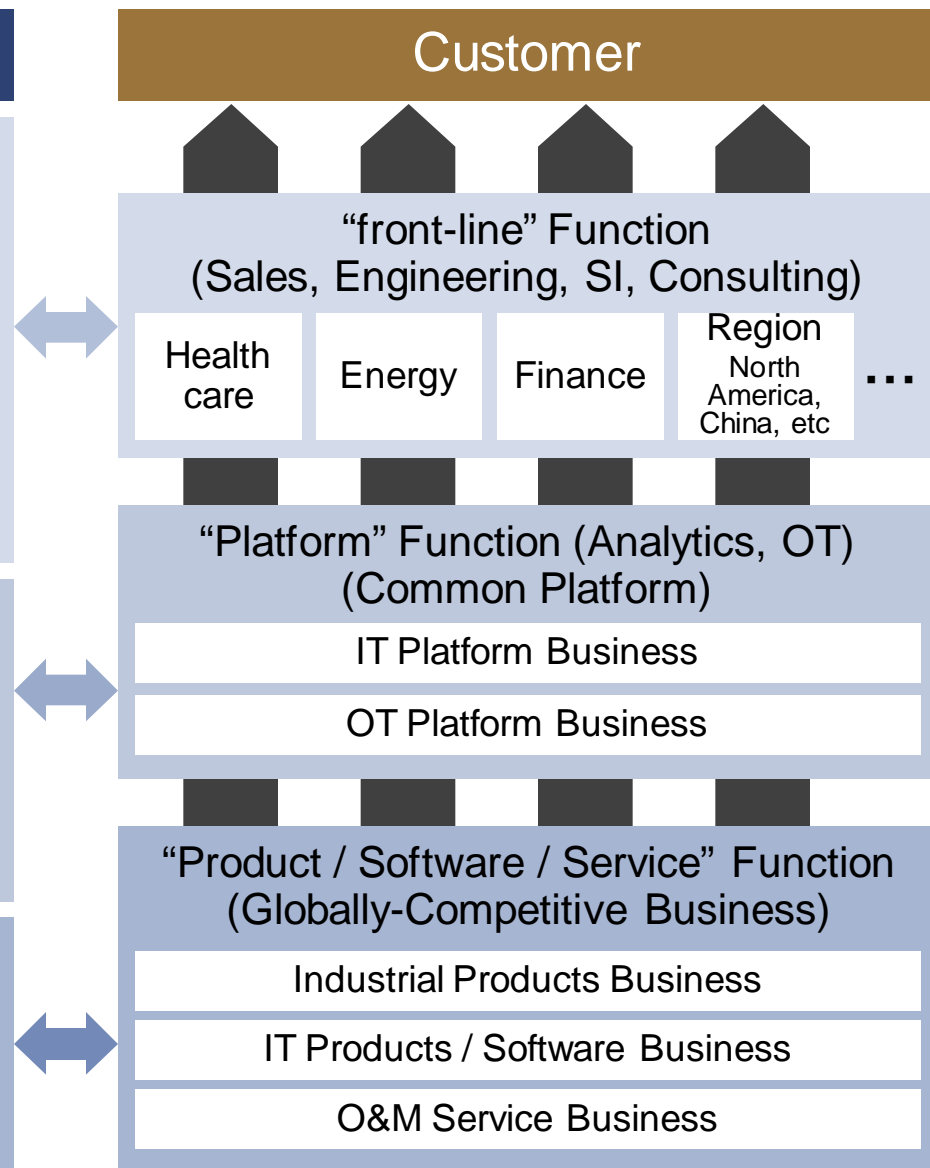
- Review inventory assets
  - Minimize the inventory asset balance throughout the entire global supply chain
- Improve cash flow
  - Improve cash flow in overseas projects
  - Use factoring effectively
- Improve cash management
  - Expand the use of IT
- Business process reforms
  - Reduce End-to-End lead time

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## 4. Toward Social Innovation Business

## 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



\* OT: Operation Technology

## 4.2 Expansion of Social Innovation Business(1) 【Mgt. & R&D】

# Promote management and R&D close to customers (front-line)

### Global Management

- Expand the Social Innovation Business by making management decisions in each region based on the market and customer needs
- Start with 4 regions: North America, Europe, China and Asia

North America

Energy, Telecommunications, Healthcare, Connected Car, Security

EMEA CIS

Manufacturing • SCM, Energy, Healthcare

China

Building • Urban, Finance, Healthcare, Smart Logistics

Asia Pacific

Healthcare, Finance, Developer, Conglomerate

### Global R&D

- Reorganized R&D structure
- Established the Global Center for Social Innovation to share issues and develop with customers (Tokyo, North America, China, Europe)

#### Global Center for Social Innovation

Create solution services by collaborating with global customers

#### Center for Technology Innovation

Create innovative products and technology

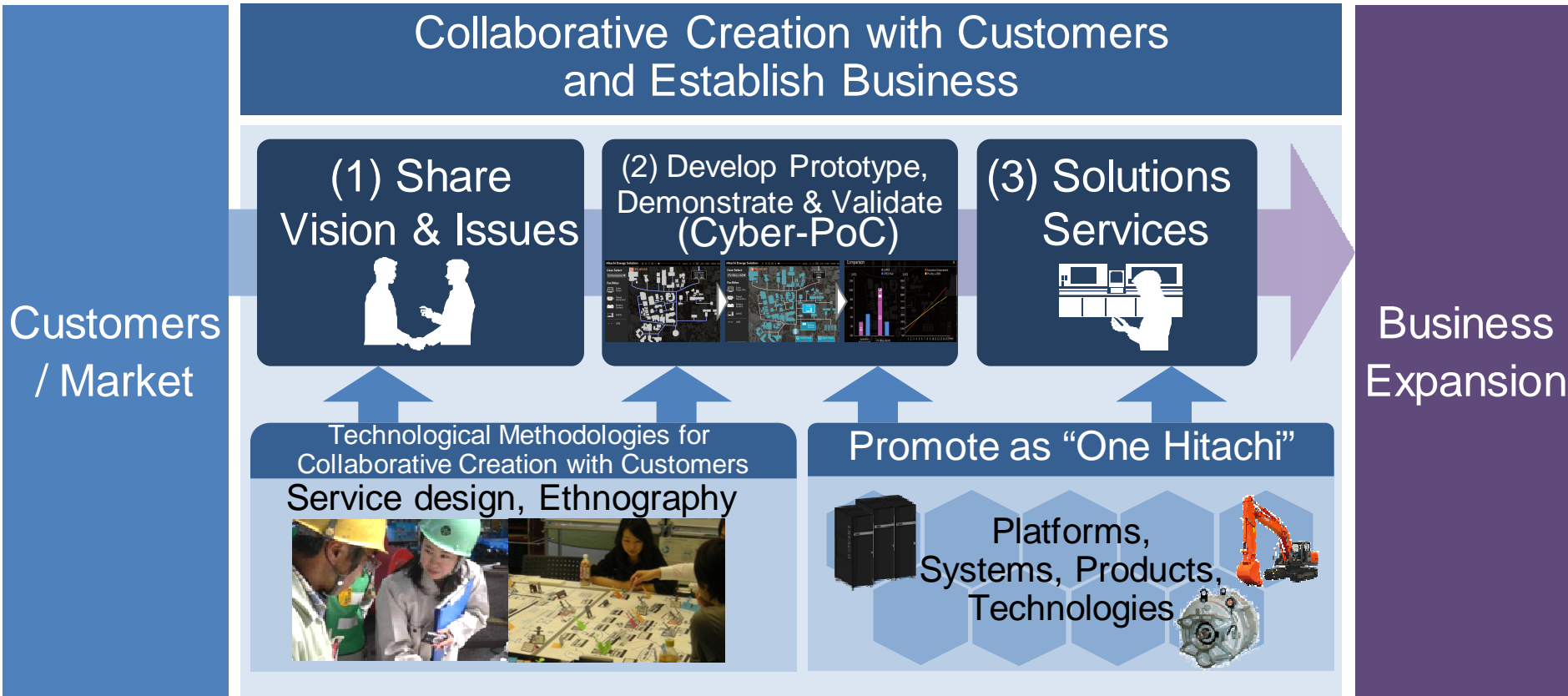
#### Center for Exploratory Research

Explore opportunities to drive innovation to the next level

## 4.2 Expansion of Social Innovation Business(2) [Cyber-PoC]

# Accelerate Global Collaborative Creation in the field of Social Infrastructure Business

- Innovate social infrastructure with customers.
- Projects ongoing with customers in the field of manufacturing, natural resources, financial services, and biotechnology.



# Create solutions close to customers (front-line)

## Strengthen front-line capabilities

- Consolidate SI capabilities in financial, public and social sectors
  - Strengthen SI capabilities by merging Hitachi Solutions, Ltd.'s business divisions for financial, public and social sectors
- Establish solution-delivering business groups
  - Establish Healthcare Company and Energy Solutions Company and consolidate front-line capabilities

## Collaborative creation with customers for value creation

- Business collaboration with Sunway Group
  - Agreed to collaborate in the field of energy management.
- Start up business creation projects jointly with customers in manufacturing and transportation fields

## Cultivate customers in the energy sectors



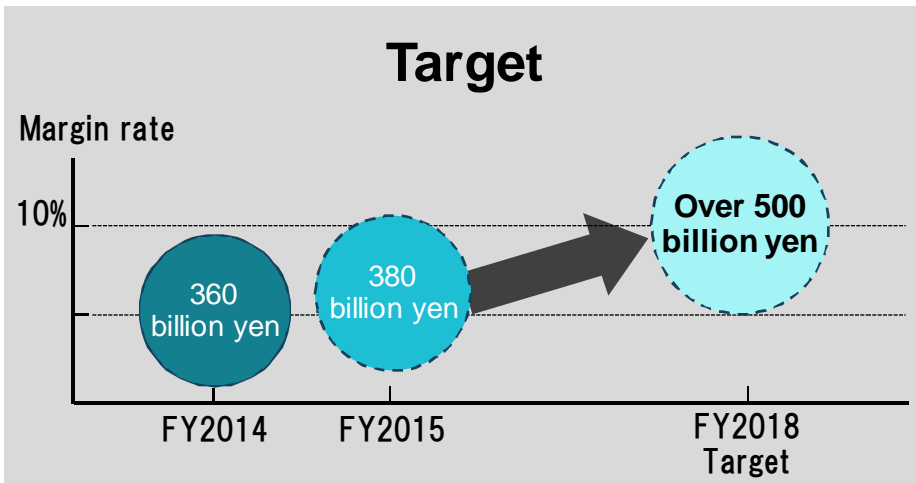
- Grid stabilizing solution in the U.S.
  - Demonstration Project on Storage Battery System "CrystEna"
- Solution responding to electricity market reform in Japan
  - System for Organization for Cross-regional Coordination of Transmission Operators
  - ABB: HVDC transmission
- Renewable Energy
  - Wind: 2.1MW (Akita), 5MW (Ibaraki)

## Supply core products that support the Social Innovation Business

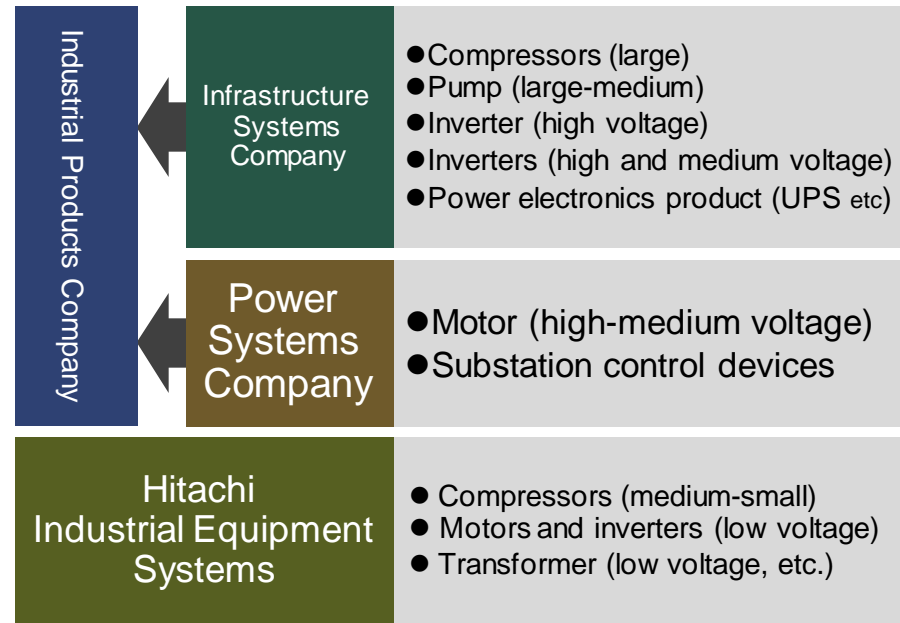
- Focus on industrial products business that support innovation
  - Cutting-edge products that are highly competitive in the global market
  - Key next generation products (ex. IoT)
  - Strengthen in-house products, and utilize alliance

### Consolidate our industrial products business

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



Note: ○ expresses sales scale  
Total with Industrial Products Company and Hitachi Industrial Equipments Systems



Acquire necessary resources (customer base, sales channel, technologies) for growth, optimize business portfolios and increase revenue

### Strengthen Front-line Function

- Prizm Payment Services: Finance (India)
- Stone Apple Solutions: Finance/Industry Customer (Asia)

### Strengthen Analytics

- Pentaho: Data analytics

### Strengthen Product / Service

- AnsaldoBreda / Ansaldo STS : Railway Business (Europe, Australia, etc)
- Waupaca Foundry: Casting (Automotive, etc.)

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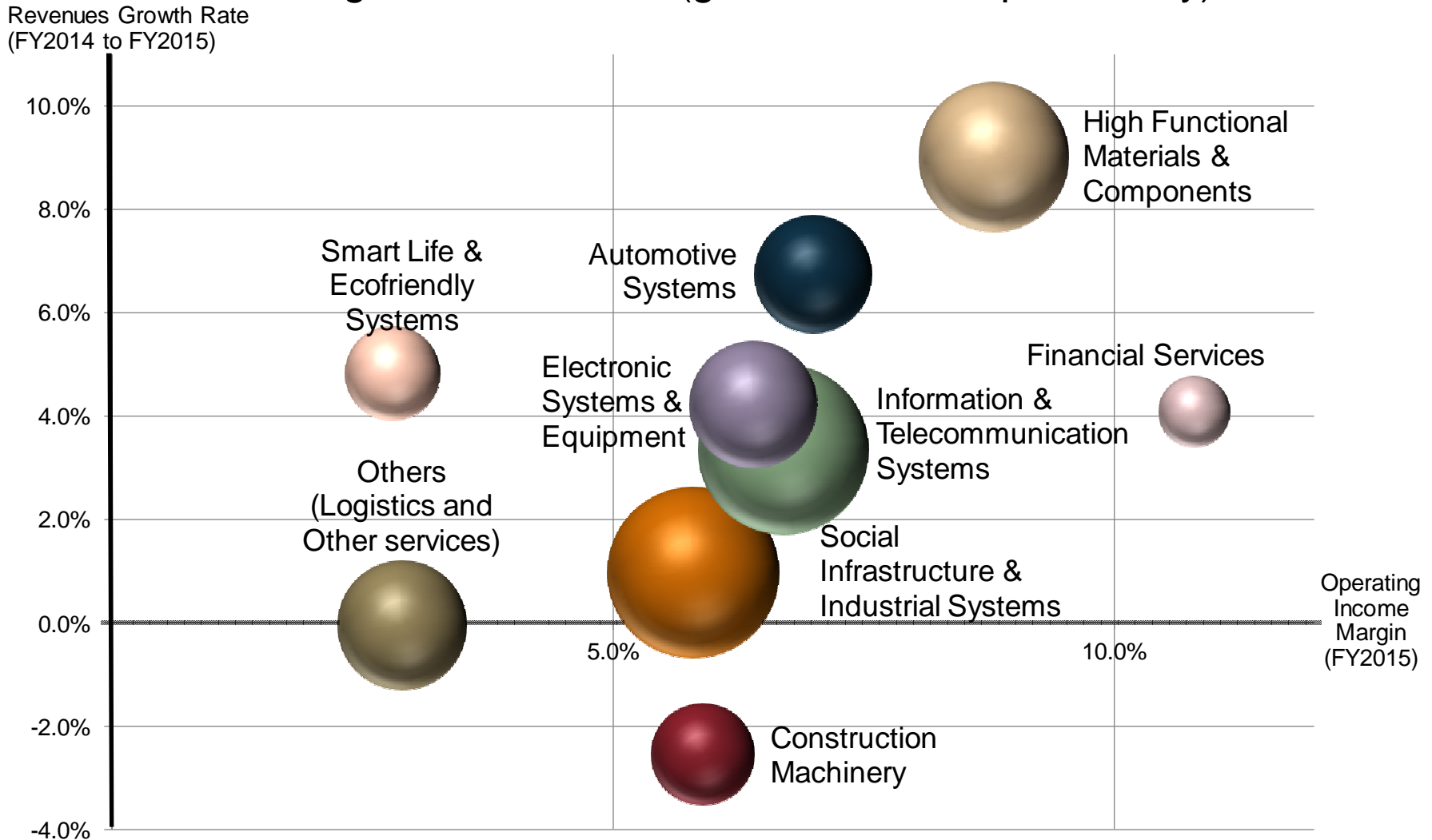
### Strengthen Service / Product (JV, Alliance)

- ABB (JV): High-voltage DC power transmission, etc
- Mitsubishi Heavy Industries (JV): Thermal power generation systems business
- Johnson Controls (JV) Air-conditioning systems business



# 4.5 Business Portfolio in FY2015

Each Segment in FY 2015(growth rate and profitability)



\* Smart Life & Ecofriendly Systems: Data after adjustment for effects of overseas Air-conditioning systems business

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## 5. FY2015 and Beyond

## 5. FY2015 and Beyond [US GAAP]

Solid execution of growth strategy and business restructuring  
Improve financial performance to meet goals set in 2015 Mid-term Management Plan

[JPY]	2015 Mid-term Plan (Initial target)	FY2013 (Actual)	FY2014 (Actual)	FY2015 (Forecast)
Revenues	10,000.0B	9,563.7B	9,761.9B	9,900.0B
EBIT Margin (Operating Income Margin)	Over 7.0 % (Over 7.0 %)	6.1 % (5.6%)	5.6 % (6.2%)	6.6 % (6.7 %)
Net Income attributable to Hitachi, Ltd. Stockholders	Over 350.0B	264.9B	241.3B	330.0B
Net Income attributable to Hitachi, Ltd. stockholders per share	Over 70	54.86	49.97	68.34
Stockholder's Equity Ratio (Manufacturing, Service and others)	Over 30 %	27.4 %	27.3 %	29 %



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Our Social Innovation Business**  
**SOCIAL INNOVATION - IT'S OUR FUTURE**

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- 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, including, without limitation, the information, electronics, automotive, construction and financial sectors;
- 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, particularly against the U.S. dollar and the euro;
- 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;
- 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;
- rapid technological innovation;
- 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;
- 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;
- 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;
- 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;
- uncertainty as to the success of cost reduction measures;
- 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 alliances upon which Hitachi depends, some of which Hitachi may not control, with other corporations in the design and development of certain key products;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity-method affiliates have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- the potential for significant losses on Hitachi’s investments in equity-method affiliates;
- 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;
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its significant employee benefit-related costs; and
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel.

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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