

# **2012 Mid-term Management Plan**

## Progress and Prospects

May 10, 2012

Hiroaki Nakanishi

President

Hitachi, Ltd.

# 2012 Mid-term Management Plan

Progress and Prospects

## Contents

1. Opening
2. Progress Overview
3. Global Expansion of the Social Innovation Business
4. Strengthening the Management Base and Global Growth Strategies
5. As a Global Major Player

# 2012 Mid-term Management Plan

Progress and Prospects

## Contents

1. Opening
2. Progress Overview
3. Global Expansion of the Social Innovation Business
4. Strengthening the Management Base and Global Growth Strategies
5. As a Global Major Player

## One year after the earthquake: Reconstruction

- Building disaster-resistant urban functions
- Establish strong IT infrastructures
- Ensure power and accelerate diversification of power sources

## Responses to floods in Thailand: BCP\* measures

- Establishing risk management structures
- Maintaining infrastructure operations (data centers, etc.)
- Building a framework for procurement and production

Contribute to the creation of sustainable social infrastructures

Accelerate Social Innovation Business Strategies Execution

Global

Fusion

Environment

- Leverage Hitachi's strengths to promote a global growth strategy
- Focus business resources on the Social Innovation Business
- Strengthen the business structure to stabilize profitability

# 2012 Mid-term Management Plan

Progress and Prospects

## Contents

1. Opening
2. Progress Overview
3. Global Expansion of the Social Innovation Business
4. Strengthening the Management Base and Global Growth Strategies
5. As a Global Major Player

	FY2010	FY2011
Revenues	¥9,315.8 billion	¥9,665.8 billion
Operating income (ratio)	(4.8%) ¥444.5 billion	(4.3%) ¥412.2 billion
Net income attributable to Hitachi	¥238.8 billion	¥347.1 billion
D/E ratio*	1.03 times (Manufacturing, services and Others: 0.68 times)	0.86 times (Manufacturing, services and Others: 0.56 times)
Total Hitachi, Ltd. Stockholders' equity ratio	15.7% (Manufacturing, services and Others: 17.0%)	18.8% (Manufacturing, services and Others: 20.5%)

	FY2012 Target* <sup>1</sup>	FY2012 Forecast* <sup>2</sup>
Revenues	¥10,000 billion	¥9,100 billion
Operating income ratio	Over 5%	5.3%
Net income attributable to Hitachi	Consistently generate at least ¥200 billion	¥200 billion
D/E ratio* <sup>3</sup>	0.8 times or below	0.80 times (Manufacturing, services and Others: 0.50 times)
Total Hitachi, Ltd. Stockholders' equity ratio	20%	20.0% (Manufacturing, services and Others: 22.0%)

\*<sup>1</sup> As of June 9, 2011 (includes impact of HDD business transfer). Exchange ratio: 80 yen to the U.S. dollar and 110 yen to the euro.

\*<sup>2</sup> Exchange ratio: 75 yen to the U.S. dollar and 100 yen to the euro.

\*<sup>3</sup> Including non-controlling interests, and also including liabilities associated with the consolidation of securitized entities. © Hitachi, Ltd. 2012. All rights reserved.

## 2-3. Progress Overview [FY2012 Forecasts by Business Segment ]

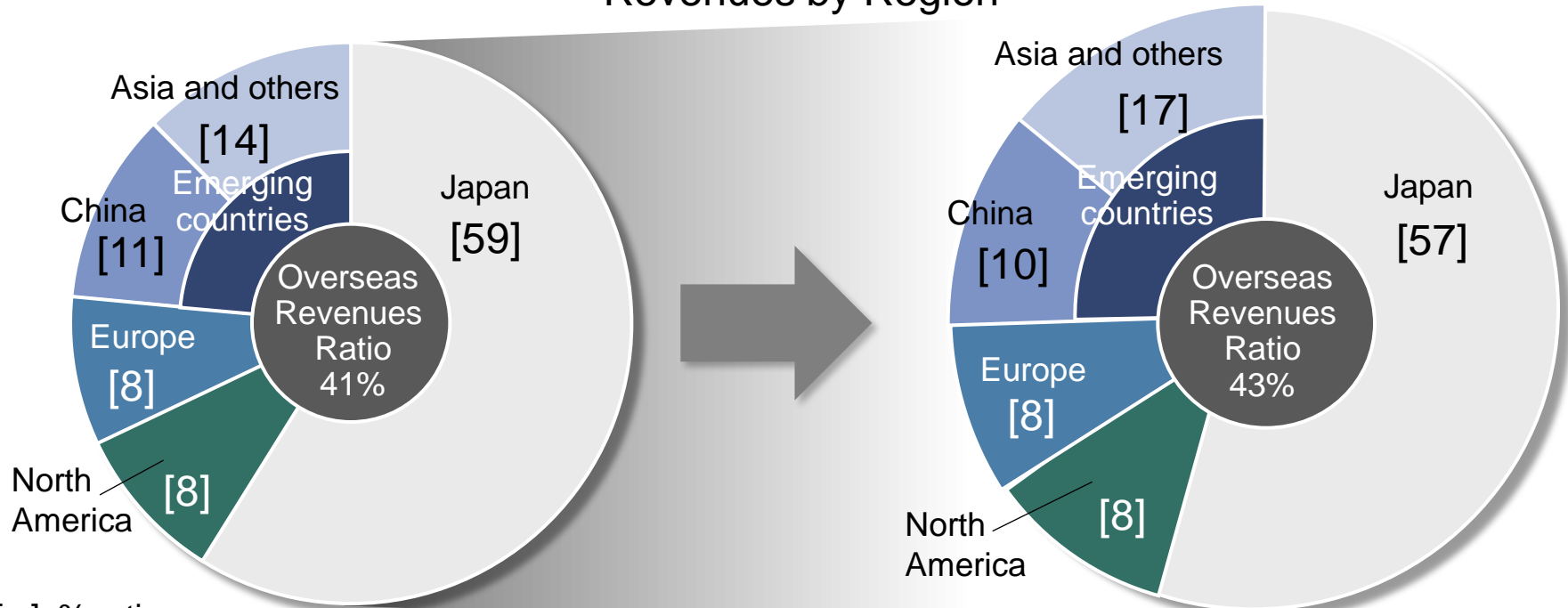
(Billion yen)

	Revenues	YoY	Operating income	YoY
Information & Telecommunication Systems	1,760.0	100%	120.0	+18.2
Power Systems	840.0	101%	22.0	+55.9
Social Infrastructure & Industrial Systems	1,230.0	102%	55.0	+5.8
Electronic Systems & Equipment	1,120.0	102%	52.0	+2.0
Construction Machinery	850.0	106%	82.0	+18.8
High Functional Materials & Components	1,450.0	101%	98.0	+20.9
Automotive Systems	800.0	99%	37.0	0
Digital Media & Consumer Products	830.0	97%	0	+10.9
Financial Services	320.0	91%	26.0	(4.2)
Others (including transport system, etc.)	1,150.0	67%	40.0	(32.7)
Eliminations & Corporate Items	(1,250.0)	—	(52.0)	(28.1)
<b>Total</b>	<b>9,100.0</b>	<b>94%</b>	<b>480.0</b>	<b>+67.7</b>

\*Effective from April 1, 2012, there has been a change in classifications of the Components & Devices Segment and Others segment following the abolishment of the Components & Devices Segment.



## Overseas Revenues Ratio Revenues by Region



[ ]: % ratio

**Headcount**

**FY2010\***

\*Includes impacts of transfer of small- to medium-sized display business and HDD business

**FY2012 Forecast**

212k	Japan	212k
100k [32%]	Overseas	125k [37%]
312k	Total	337k

# 2012 Mid-term Management Plan

Progress and Prospects

## Contents

1. Opening
2. Progress Overview
3. Global Expansion of the Social Innovation Business
4. Strengthening the Management Base and Global Growth Strategies
5. As a Global Major Player

## Social Innovation Business

- Reform management structures using market needs as the starting point

### Establish 5-Group Structure

(April 2012)

- Create new businesses through fusion of IT and social infrastructures
- Establish new Social Innovation Business Project Division

## Strengthen Management Base

- Strengthen financial position
- Execute cost structure reforms

### Stabilize Earnings

- Execute the Hitachi Smart Transformation Project
- Generate cash required for investments in growth

## Global Growth Strategies

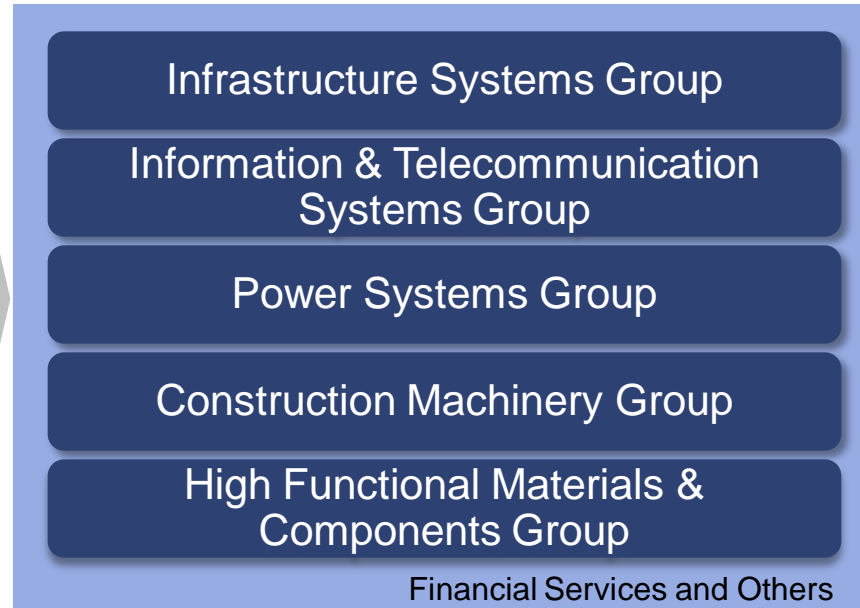
- Globalize corporate functions
- Accelerate business strategies in China

### Established Chief Executive Officer for Asia Pacific (April 2012)

- Expand business targeting ASEAN, Myanmar
- Expand sales in China (1.6times FY2010 levels)

### 1. Reform management structures from perspective of customers' & market needs

- Create new businesses and technologies from a customer perspective
- Anticipate changes in the market and the competition



Speed up decision-making

Optimize business portfolios

Establish structures to enhance global competitiveness

### 2. Create new businesses through fusion of IT and social infrastructures

#### Established New Social Innovation Business Project Division

- 1) Business proposals for growth regions and industries
- 2) Create new businesses, including new services

## Global expansion for the smart city business with demonstration models

### Global expansion of demonstration results

- **Smart city demonstration model**  
(Expand globally)

#### Overseas:

Hawaii, New Mexico  
Spain (Malaga), Singapore  
Guangzhou, Tianjin, Dalian

#### Japan:

Rokkasho-mura, Kashiwa-no-ha  
Yokohama



### Demonstration Model construction in Hawaii

- Agreement at Japan-US Summit (Nov. 2009)
- Started test demonstrations on the Hawaiian island of Maui (Nov. 2011)

### New technologies application

- Developing grid controls to simplify use of renewable energy
- EV\* management system

## Global growth in response to market needs

- Comprehensive compressor business contract with Saudi Aramco**  
 (First Japanese manufacturer to win) (June 2011)
- Collaborate with Dalian City and companies in Dalian**  
 Water processing projects (Nov. 2011)  
 Smart city projects  
 Completed MoU on water infrastructure business with Recycling Industry Model Industrial zone (March 2012)
- Start construction on elevator production base in Chengdu, China**  
 (March 2012)
- Full-scale startup for train manufacturing/maintenance business in UK**

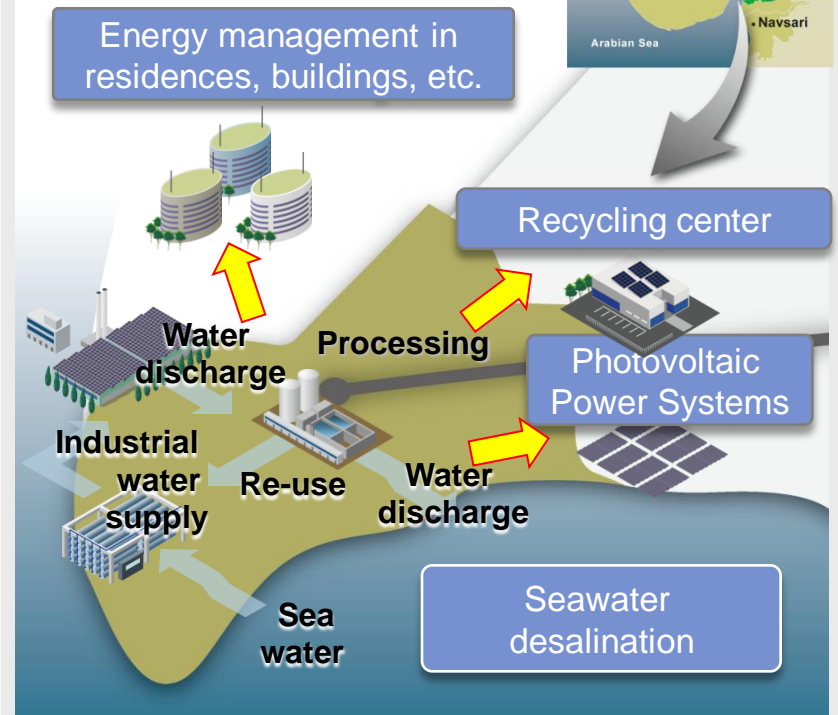
Intercity Express Programme (IEP) provided opportunity to promote global manufacturing

Base image: Northeast UK; scheduled to begin operations in 2015



- Development Agreement for Seawater Desalination Project in Dahej, India** (March 2012)

Smart community plan in Dahej coastal industrial Park



## Global business expansion through usage of Big Data technologies

### Dedicated Big Data market team

- **Established Smart Business Innovation Laboratory** (April 2012)  
Testing and proposing optimized systems to customers (Stream data processing, ultra high-speed databases, etc.)

### Expanding the storage business

- **BlueArc Corporation (U.S.) acquired** (Sept. 2011)
- **Shoden Data Systems Pty. (Ltd.) (South Africa) acquired** (Oct. 2011)



## Expanding global business fields

- **Collaboration with Founder (China) in cloud/smart city field** (Dec. 2011)
- **Partnership with Microsoft Japan to strengthen global cloud business** (April 2012)

## Accelerate global expansion of business

### Thermal power

Received order for supercritical pressure boiler from NTPC\*1 in India (April 2012)

### Nuclear power

Signed the Concession Agreement in Lithuania (March 2012)

### Wind power

Agreement on the assignment of Fuji Heavy industries wind turbine generator system business (March 2012)

### Power transmission

Signed a technical cooperation agreement with FGC UES\*2 in Russia (April 2012)

## Taeon Thermal power plant

Received order for No. 9 & No.10 units  
The highest power generation capacity in South Korea (1050 million W)



Layout of Taeon Thermal Power Plant of Korea Western Power Co. Ltd.

## Quick resolution on boiler material issues

Identified cause of welding cracks in boiler materials developed on a German national project; Completed tests on improvement methods (currently implementing improvements in actual plants)

## Strengthening business base

- 1) Transform cost structure
- 2) Strengthen project management
- 3) Reinforce sales targeting large overseas accounts



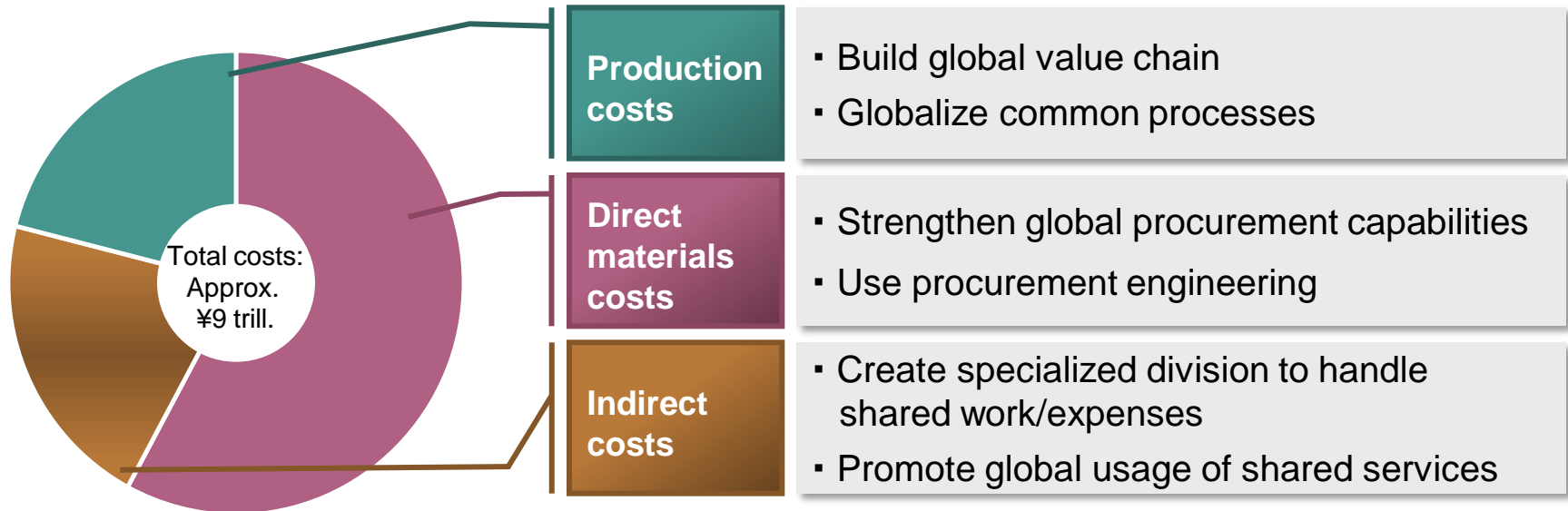
# 2012 Mid-term Management Plan

Progress and Prospects

## Contents

1. Opening
2. Progress Overview
3. Global Expansion of the Social Innovation Business
4. Strengthening the Management Base and Global Growth Strategies
5. As a Global Major Player

## Execute the Hitachi Smart Transformation Project (Overall 5% cost reduction)



### Overall costs

### Organizations

### Areas

Cost areas

- Production costs
- Direct material costs
- Indirect costs

5 business groups

All Hitachi Group business entities

Japan

China

Asia

India

U.S.

Europe

Global business strategies

IT strategies

HR strategies

### Improve profitability and strengthen the financial position

- Implement cost structure reforms
    - Execute the Hitachi Smart Transformation Project
  - Strengthen stockholders' equity by increasing net income
- 
- Minimize overall assets and increase efficiency
  - Generate cash for growth investments

- Net income:  
Consistently generate at least  
¥200 billion

- D/E ratio\*: 0.8times or below
- Total Hitachi, Ltd. Stockholders' equity ratio: 20%

\*Including non-controlling interests, and also including liabilities associated with the consolidation of securitized entities.

### Focus management resources

- Concentrate management resources on the Social Innovation Business
- Expand investments targeting key regions based on global strategies
- Optimize use of borderless human resources and increase efficiency

## Globalize corporate functions

- **Chief Executive Officer for Asia Pacific established** (Apr. 2012)
  - Accelerate opening of markets in China and other Asian regions
  - Promote alliances with close ties to specific regions
- **Strengthen planning, negotiation, and engineering functions**

## China Business Strategy 2015

- **Business expansion measures**
  - Strengthen partnering
  - Promote/Expand focus on localization
- **Increase China sales by 1.6 times (vs. FY2010)**

## Key target regions

### Strengthen/expand business in ASEAN region

- Expand / strengthen social / IT infrastructure business
- Promote/expand localization in Thailand, Indonesia, Vietnam, etc.

### Start up business in Myanmar

- Establishment of local office scheduled
- Capital foundations for social / IT infrastructure business
- Expand business fields by resolving issue of economic sanctions

# Global HR Strategies

Optimum and borderless use for human resources to increase efficiency

## Develop Global HR Management

### Complete to build HR Infrastructure in 2012

- Develop human resources database
- Develop Global Grading system based on job evaluation
- Standardize evaluation criteria for management
- Create HR management structures in key regions

## Strengthen capability to accelerate overseas business

### Accelerate diversification of human resources

- Hire human resources with global mindset
- Train local staff
- Develop / Recruit non-Japanese executives

Global Management Development Program  
staffing / training / job rotation

(Start in FY2012)

## Responding to globalized management

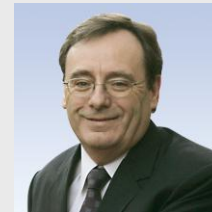
### ● Increase non-Japanese Directors: from 1 to 3\*

Utilize global perspective of new Directors in developing basic management policies:

- Extensive knowledge and experience in infrastructure related companies and organizations
- Extensive knowledge and experience in fostering global industry with a focus on ASEAN countries

\*Nominees for the Shareholders' meeting in June, 2012

New non-Japanese outside directors nominees



Mr. George Buckley



Mr. Philip Yeo

## Strengthening supervisory functions

### ● More than half of Directors to be outside directors:

7 of 13 nominees\* (2 non-Japanese outside directors)

[4 of 12 existing outside directors (no non-Japanese outside directors) ]

\*Nominees for the Shareholders' meeting in June, 2012

### ● Reduce Executive Officers in the Board by half:

FY2012: 1 nominee (Current: 2)

\* Hitachi has adopted a committee-based corporate governance system in June, 2003

## Hitachi Strives to Offer Value:

- Value created and shared with customers and partners
- Value that lasts for future generations
- Value based on our role and mission as a manufacturer

### Contributions to the environment (Targets by FY2025)

- Help to reduce annual CO<sub>2</sub> emissions to 100 million tons
- Make all Hitachi Group products Eco-Products<sup>\*1</sup>

### Respect for human rights

- Ensure activities in accordance with international frameworks
- Understand and respect different regional cultures and values

### Regional social contribution activities

- Mentor young Asian leaders
- Promote environmental literacy and education in the sciences

### Dialogues with stakeholders

- Dialogue with WBCSD<sup>\*2</sup> President Bakker
- Mutual understanding of issues in each country as well as business opportunities for Hitachi



\*1 Products that meet our criteria under the DfE (Design for Environment) assessment system

\*2 WBCSD: World Business Council for Sustainable Development

# 2012 Mid-term Management Plan

Progress and Prospects

## Contents

1. Opening
2. Progress Overview
3. Global Expansion of the Social Innovation Business
4. Strengthening the Management Base and Global Growth Strategies
5. As a Global Major Player



- **Execute growth strategies** Focus on key businesses and regions
- **Cost structure reforms** Execute the Hitachi Smart Transformation Project
- **Business model innovations** Organize structure to compete in the global arena
- **HR strategies** Optimum and global use for human resources
- **A company that grows with the region** Make social contributions and demonstrate respect for diversity

**Respond to global needs through  
the Social Innovation Business**

# 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, 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;
- the potential for significant losses on Hitachi’s investments in equity method affiliates;
- increased commoditization of information technology products and digital media-related products and intensifying price competition for such products, particularly in the Digital Media & Consumer Products segments;
- 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;
- 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 restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness and other 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 possibility of disruption of Hitachi’s operations by earthquakes, tsunamis or other natural disasters;
- 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.

**HITACHI**  
Inspire the Next