

Financial Strategy

In the Mid-term Management Plan 2024, we aim to achieve further advances in revenues and profitability and take additional steps to enhance our cash generation capability through organic business growth, shifting into a sustainable growth mode. To achieve Hitachi's growth through our financial capital strategy, we continue to work on three priority issues: (1) further strengthening cash generation capability and deepening ROIC management, (2) reducing WACC by utilizing appropriate levels of leverage within the bounds of appropriate financial discipline, and (3) increasing total shareholder return (TSR) by implementing shareholder return measures such as dividends and share buybacks.

Strengthening Cash Management

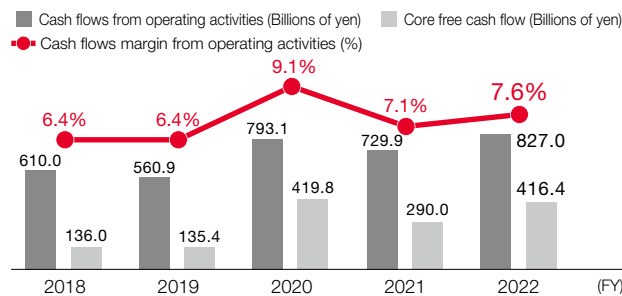
In the Mid-term Management Plan 2024, we promote initiatives to further strengthen cash generation capability. By reviewing business processes, we aim to achieve further business growth, improve profitability through cost reduction, and reduce loss costs through risk management. We also implement thorough cash management by strengthening the monitoring of working capital including early collection of accounts receivable and grasping the appropriate levels of inventories.

For cash generation, in addition to maximizing cash flows from operating activities, it is important to strictly focus on capital investment and cost reduction. With regard to capital investment, we will carefully monitor each item. We also promote the digitalization of cash management, including the visualization of the entire supply chain through the use of IT systems, etc.

By these measures, we aim to achieve a conversion rate (core free cash flow*1 ÷ net income) of 70-80% and a core free cash flow per share (CFPS) of 500 yen or more.

*1 Core free cash flow = Cash flows from operating activities - CAPEX

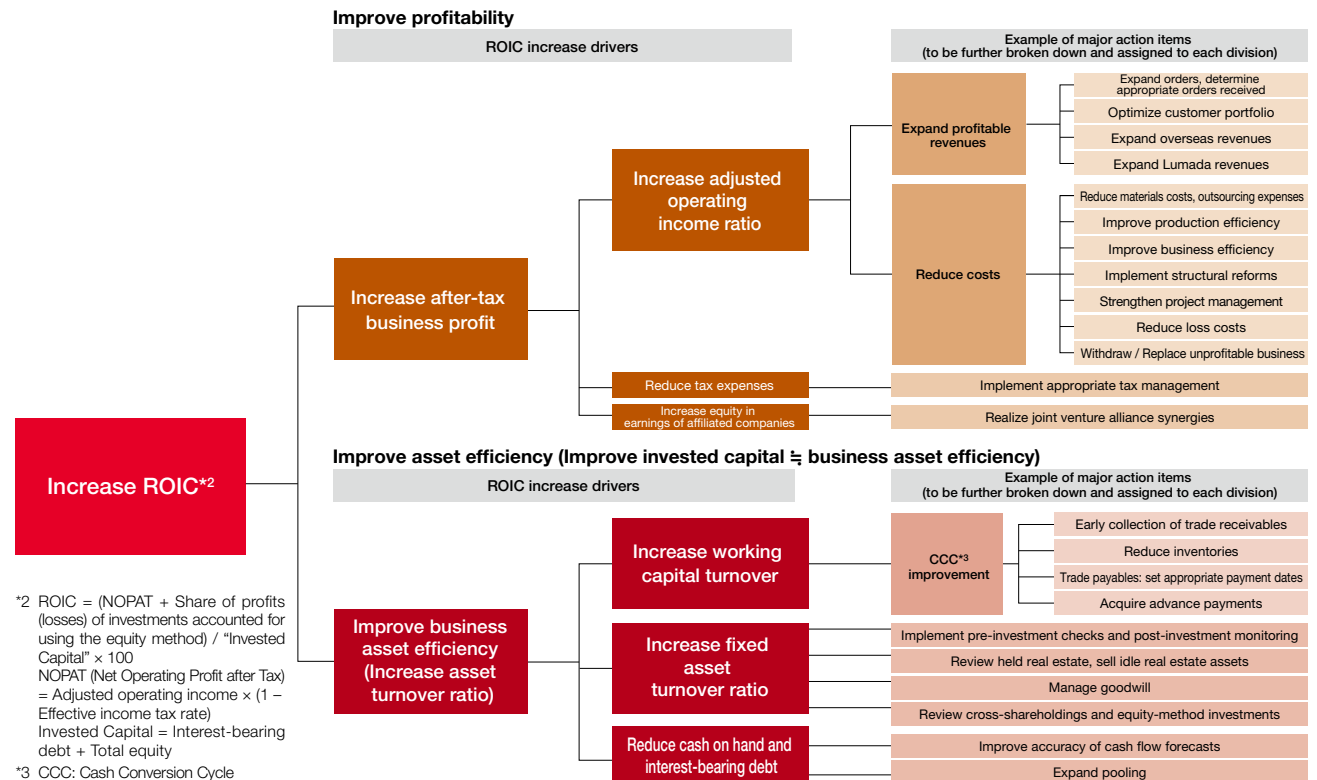
Cash flows trends



Progress on ROIC Management

Hitachi introduced return on invested capital (ROIC) as a KPI for business management from fiscal 2019 to accelerate management that emphasizes capital efficiency, with the aim of sustainably generating returns that exceed the weighted average cost of capital (WACC), which is the cost of raising invested capital. ROIC was 7.6% in fiscal 2022.

To achieve the 10% ROIC targeted in the Mid-term Management Plan 2024, we will further deepen ROIC management by utilizing the ROIC tree and taking concrete actions at the field level, such as the development of internal KPIs for each business and the formulating and reviewing of business strategies. Hitachi aims to increase its enterprise value by promoting management with an awareness of the cost of capital throughout the group.



*2 ROIC = (NOPAT + Share of profits (losses) of investments accounted for using the equity method) / "Invested Capital" × 100
 NOPAT (Net Operating Profit after Tax) = Adjusted operating income × (1 - Effective income tax rate)
 Invested Capital = Interest-bearing debt + Total equity

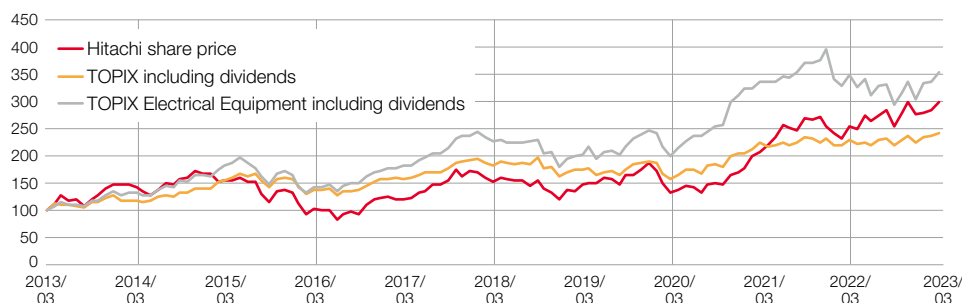
*3 CCC: Cash Conversion Cycle

▶ Financing and Capital Costs

Financing is carried out through the means deemed most appropriate (e.g., cash on hand, borrowings, and proceeds from the sale of assets), based on a variety of conditions, including the timing and amounts required by the business. When financing through borrowing and other forms of debt, we consider a D/E ratio of 0.5 times and a net debt/EBITDA ratio of 1.0 – 2.0 times as financial discipline. Regarding the cost of capital (hurdle rate) used for individual investment decisions, calculations and judgments are made on a case-by-case basis considering interest rates, country risks, and expected returns in the country where the investment will be made.

▶ Total Shareholder Return (TSR)

The following illustrates Hitachi's TSR, reflecting dividend and stock price fluctuations. We will continue to improve profitability and pay stable dividends, consider management and financial strategies to achieve TSR that exceeds the cost of shareholders' equity, and strive to increase shareholder value by conducting management that is conscious of stock prices.



	Past 1 Year	Past 3 Years		Past 5 Years		Past 10 Years	
	TSR	TSR	Annual TSR	TSR	Annual TSR	TSR	Annual TSR
Hitachi	20.0%	142.7%	34.4%	102.7%	15.2%	199.2%	11.6%
TOPIX (including dividends)	5.8%	53.4%	15.3%	31.8%	5.7%	142.1%	9.2%
TOPIX (electrical equipment)	1.6%	77.6%	21.1%	56.4%	9.4%	254.5%	13.5%

Note: The graph and table above show return on investment for investments made on March 31, 2013, taking into account dividends and stock prices as of March 31, 2023. Hitachi, Ltd. investment performance, including stock prices and dividends, is indexed using 100 as the investment amount as of March 31, 2013. The TSE Stock Price Index (TOPIX), which is a comparative indicator, is similarly indexed using data including dividends for electrical equipment.

▶ Ensuring Financial Stability

To ensure the stability of our financial base, we aim to maintain an A rating on issued instruments through appropriate financial discipline. Our cash generation capability is enhancing steadily, and our ratings are as shown in the table to the right.

Rating company	Long-term	Short-term
S&P Global Ratings Japan Inc.	A	A-1
Moody's Japan K.K. (Moody's)	A3	P-2
Rating and Investment Information, Inc. (R&I)	AA-	a-1+

As of August 2023

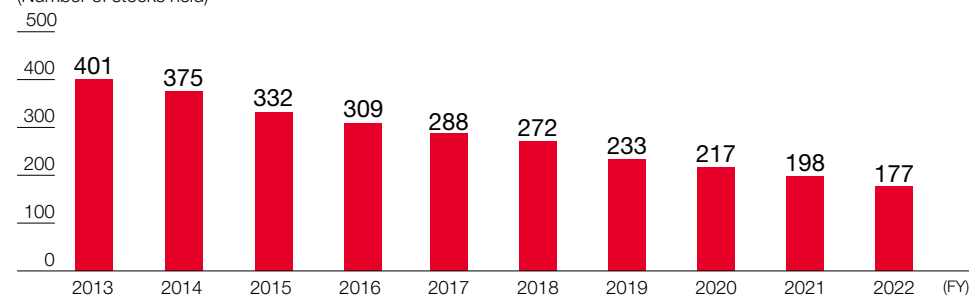
▶ Policy regarding Strategic Shareholdings

Hitachi's basic policy is not to acquire or hold shares of other companies except in cases where acquiring or holding such shares is necessary in terms of transactions or business relationships. We will promote reducing shares already held unless the significance or economic rationality of holding is confirmed.

The Board of Directors verifies the appropriateness of all stock holdings every year. In the verification, each individual stock is reexamined as to the purpose of holding the shares and whether benefits from holding shares are in line with capital efficiency targets. As the result of verification, we promote the sales of shares for which the significance or economic rationality of holding is not confirmed. In fiscal 2022, we reduced the number of shares held for nine listed stocks (total amount sold: 84,017 million yen). The ratio of policy regarding strategic shareholdings (total amount recorded on balance sheet) to net assets (consolidated basis) is 4.4% as of the end of fiscal 2022.

Strategic shareholding status

(Number of stocks held)*



Total amount recorded on balance sheet* (Millions of yen)

353,957	334,617	239,993	324,323	270,336	179,668	141,859	201,055	274,470	234,785
---------	---------	---------	---------	---------	---------	---------	---------	---------	---------

* Total of listed and unlisted shares