CFO Message / Financial Strategy

Investor Day (CFO Session)

Contributing to Increasing Corporate Value through Financial Strategies that Support Organic Growth

Under the Mid-term Management Plan 2024, we have achieved revenues and profit margin growth. In addition, we have improved cash efficiency and realized a significant increase in core FCF under the CF valued management directions. To support organic growth in each business sector, we will further strengthen cash generation, endorse disciplined growth investment, allocate capital in a way that balances growth and returns, continue to improve capital efficiency, and leverage the benefit of interactive dialogue with investors, contributing to an increase in corporate value.

Tomomi Kato
Senior Vice President and Executive Officer, CFO

Aspirations as CFO

Since joining Hitachi, I have had experience in various business areas, regions, and functions (IT, energy/ the United States, China, and Japan/ plants, sales subsidiary, and corporate). After being appointed Deputy CFO in 2022, I initiated Group-wide activities aligned with financial KPIs such as cash flow improvement of the Mid-term Management Plan 2024, and I am serving as CFO from fiscal 2024.

To provide each business sector that has shifted into organic growth phase with support to the fullest extent possible, we are utilizing opportunities for interactive dialogues with investors and focusing on the following four areas: enhancing cash generation capability, supporting growth strategies with disciplined investment, allocating capital for a balance between growth and shareholder returns, and continuously improving capital efficiency. In addition, we are financially contributing to the improvement of non-financial capital, including human and intellectual capital, which are the source of creative innovation and sustainable growth, to increase our corporate value.

Enhance Cash Generation Capability

We will achieve revenues and profit margin growth through the growth strategies outlined in the Mid-term Management Plan 2024. Under the cash flow valued directions, we expect to boost efficiency in converting profits to cash and a significant increase in core FCF. Looking at trends in cash flow generation, there has been a steady increase from 1.4 trillion yen during the Mid-term Management Plan 2018 to 2.1 trillion yen during the Mid-term Management Plan 2021. For the Mid-term Management Plan 2024, we expect to grow core FCF to 2.8 trillion yen, exceeding our initial target of 2.3 trillion yen.

We have designated four KPIs in relation to core FCF growth: revenues growth, profit margin, cash efficiency, and CFPS growth. Regarding revenues growth, we project a 10% CAGR in three sectors' revenues under the Mid-term Management Plan 2024. Adjusted EBITA margin is forecast to be in the double digits, rising to 11.5% for fiscal 2024. As a result of these two factors, absolute profit values and the

ratio of profit converted into cash are increasing. In concrete terms, we expect the rate to rise to 80% in fiscal 2024, up from 50% in fiscal 2021. Through this, we expect a 22% CAGR in CFPS, which is per-share core FCF.
We will work to further strengthen measures for even greater core FCF generation.
To increase three sectors' revenues and profit margin, in fiscal 2024 we are considering investments of one trillion yen in generative AI, manufacturing fields with high growth potential, and accelerating the servitization of our social infrastructure business.
In addition to revenues growth through capturing DX and GX demand, we are pursuing higher growth by focusing on core businesses such as data centers and semiconductor-related fields.

KPIs related to core FCF

Revenues growth (three sectors)
CAGR **10**%
Mid-term Management Plan 2024

Profit margin (Adj. EBITA)
9.9% FY2021 → **11.5**% FY2024

Cash efficiency (core FCF / net income)
50% FY2021 → **80**% FY2024

CFPS growth
CAGR **22**%
Mid-term Management Plan 2024

We aim to increase profit margin by expanding profitable businesses, chiefly Lumada, and improving performance through business portfolio restructuring. Furthermore, we will pursue more profitability by improving productivity with digital service and utilizing generative AI.
In the Mid-term Management Plan 2024, our cash efficiency has improved significantly as a result of improved cash collection for long-term projects and optimizing CAPEX based on framework agreements which agree fundamental framework for several contracts with customers. The shift to earlier cash receipts through the expansion of our digital service business will promote even greater cash efficiency.

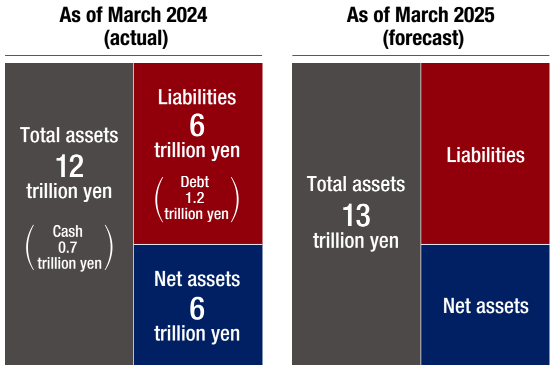
Key growth drivers of core FCF

Mid-term Management Plan 2024		Additional initiatives
Realize revenues harnessing DX/GX demand	+	Expand One Hitachi scope (data centers, semiconductors, batteries, and biotechnology)
Improve profit margin by profitable business (e.g. Lumada) and portfolio restructuring	+	Productivity improvement with digital service business and generative AI
Improve core FCF / net income conversion through cash improvements in long-term projects and optimizing CAPEX	+	Expand digital service business

Support for Disciplined Investment

As for necessary growth strategy investments, implementing a disciplined investment process in line with investment policies and investment return standards is crucial to increase the probability of a return on investment.
Regarding disciplined investment with bolt-on M&As reinforcing organic growth, we are using investment return standards of adjusted EBITA margin above 12% and an ROIC above 10%. Also, to further improve the success rate of M&A, by expanding the use of human resources in BUs and regions, we will strengthen M&A process risk management such as the processes of due diligence and investment evaluation.
For funding, as of the end of fiscal 2023, we achieved cash generation exceeding targets. The D/E ratio of 0.50x as a financial discipline has fallen to 0.20x. Therefore, we will be mindful of leveraging the funding capacity.

Discipline in leverage



	As of March 2024 (actual)	as of March 2025 (forecast)	Financial discipline
D/E ratio	0.20x	Expected to stay within the scope of financial discipline even after 1 trillion yen growth investment	0.50x
Net Debt/ EBITDA	0.38x		Within 1–2x

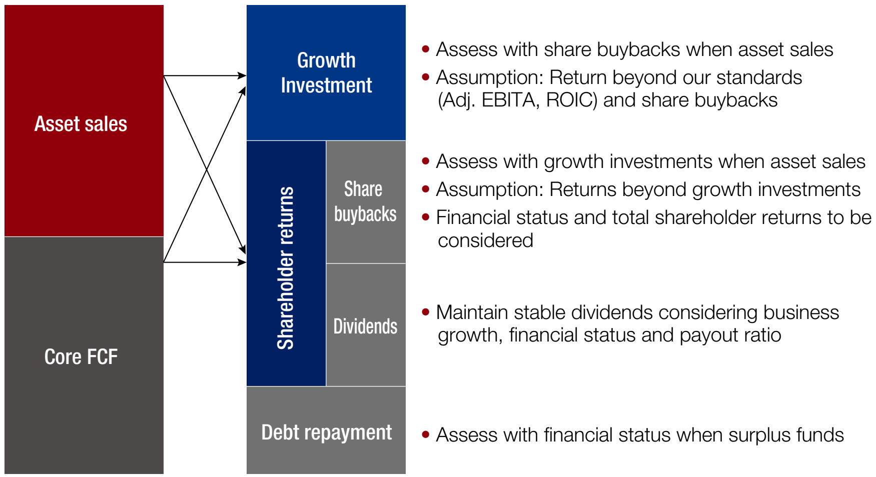
Evolution of Capital Allocation

Generated core FCF will be allocated in a balanced manner between growth investments and shareholder returns. The guideline of 50% of core FCF and net income put into growth investment and the other 50% allocated to shareholder returns will be applied for not a single year, but multiple years as ever. Under the Mid-term Management Plan 2024, we plan 2.8 trillion yen of generated cash, with one trillion yen to be allocated to shareholder returns and 1.8 trillion yen for growth investments.
At the occurrence of asset sales, we will comparatively assess share buybacks or growth investments from the perspective of optimizing investment return.
Regarding growth investments, our standards is whether the investment meets investment return criteria (adjusted EBITA margin above 12%, ROIC above 10%) and whether the return exceeds the return of the share buybacks.
In M&A, we are strategically exploring bolt-on acquisitions in digital, green, innovation, and other new growth opportunities.
In addition to keeping NPV (net present value) in the black, we will make decisions with assessing revenues growth, profit margins, the effect on cash flow, recovery periods of invested capital, degree of contribution to ROIC, and other factors.
Share buybacks will be conducted with the prerequisite that the return of share buybacks will exceed that of growth investments, and with consideration of financial status and total shareholder return levels. Share buybacks are being executed in a flexible manner based on the progress of asset sales and growth investments, with 200 billion yen implemented in fiscal 2022, 100 billion yen in fiscal 2023, and a planned 200 billion yen in fiscal 2024 under the Mid-term Management Plan 2024.
Dividends will be distributed in a stable manner in accordance with business growth, with consideration of financial conditions and the dividend payout ratio. Under the Mid-term Management Plan 2024, dividends of 129.1 billion yen were paid in fiscal 2022 and 144.5 billion yen in fiscal 2023.
Debt repayments can be carried out when a surplus of cash on hand occurs, based on financial status and comparison to growth investments and shareholder returns.

Continuous Effort in Capital Efficiency with Further Persuasion of ROIC Management

Since introducing ROIC as a business management indicator in fiscal 2019, by achieving returns exceeding WACC (weighted average cost of capital) and expanding the spread, we are accelerating management that emphasizes the improvement of capital efficiency.
ROIC has been steadily improving under the Mid-term Management Plan 2024. We aim to further improve returns, the numerator of ROIC, through the realization of new growth opportunities, the expansion of profitable businesses, and improvement of productivity. To optimize invested capital, the denominator of ROIC, in terms of asset efficiency, we are driving asset-light business models through cash generation and ROIC improvements stemming from asset sales. At the same time, we are taking into consideration how to balance capital efficiency, asset risk, and debt to optimize the equity ratio.

Cash allocation policy



ROIC elevation initiatives

Maximize returns	• Active new growth opportunities (One Hitachi) • Expand profitable businesses (Lumada, digital service business) • Improve productivity (utilizing generative AI)
Optimize invested capital	**Asset light** • Promote cash generation and an ROIC improvements by further asset sales and replacements for the sake of asset efficiency Scope: Low profit, low growth businesses, non-core assets Criteria: ROIC and rationality of possession **Optimize equity ratio** • Balance among capital efficiency, asset risks, and debt

Growth Driven by Both Financial and Non-financial Strategies

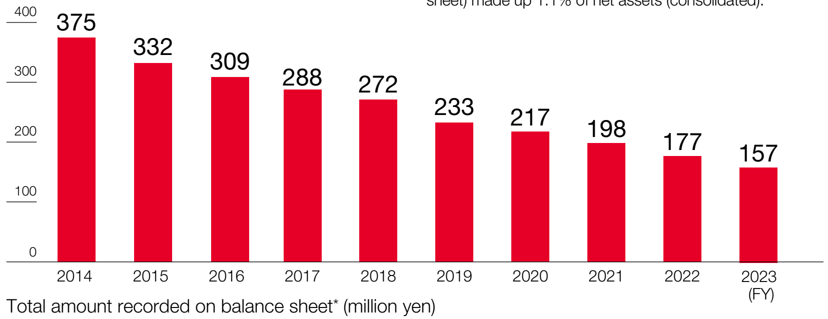
In our transformation journey to increase corporate value, Hitachi is making disciplined investments while also identifying emerging technologies at critical inflection points and generative AI. From a financial perspective, we are contributing to the enhancement of non-financial capital such as human and intellectual capital through the retention of digital talent from M&As, R&D backcasting investment in anticipation of future turning points, and collaboration with startups. Through these investments, we are continuing to build a portfolio leading to creative innovation with competitive strength. All sectors, corporate divisions, and local regions will collaborate to make swift decisions and conduct rapid responses, and we will increase corporate value in One Hitachi through both financial and non-financial strategies.

Roundtable conducted in FY2024

Strategic shareholding status

As of the end of FY2023, the ratio of strategic shareholdings (total amount recorded on the balance sheet) made up 1.1% of net assets (consolidated).

(Number of shares)*

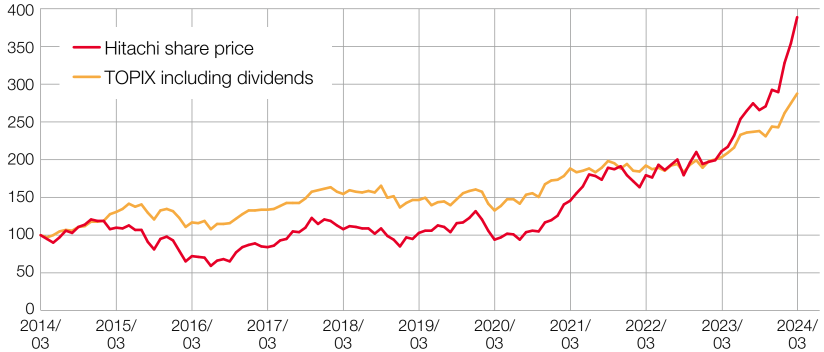


Total amount recorded on balance sheet* (million yen)

334,617	239,993	324,323	270,336	179,668	141,859	201,055	274,470	234,785	66,336

* Total listed and unlisted shares

Share price trends and TSR



	Previous year	Past three years		Past five years		Past 10 years	
	TSR	TSR	Annual TSR	TSR	Annual TSR	TSR	Annual TSR
Hitachi	94.2%	186.9%	42.1%	306.0%	32.3%	291.2%	14.6%
TOPIX (including dividends)	41.3%	52.5%	15.1%	96.2%	14.4%	188.6%	11.2%

Note: The graph and table show the investment return for an investment made at the end of March 2014, considering the dividends and share price at the end of March 2024. To measure the investment performance of Hitachi's share price including dividends, we set the investment value at the end of March 2014 at a numerical index of one hundred. The indexed data for TOPIX, the Tokyo Share Price Index, in the same way is served as a comparison index.

Policy regarding Strategic Shareholdings

Hitachi's basic policy is not to acquire or hold the shares of other companies except in cases where acquiring or holding such shares is necessary in terms of commercial transactions or business relationships. We will promote divesting such shares already held unless the significance or economic rationalities of holding are confirmed. The Board of Directors verifies the appropriateness of all such shareholdings every year. In the verification, each individual share is examined as to the purpose of holding the share and whether benefits from holding the share are in line with our capital efficiency targets. As a result of verification, we promote the divesture of the share for which the significance or economic rationality of holding is not confirmed.

Total Shareholder Return (TSR)

Hitachi's TSR, considering dividends and share price fluctuations, is as indicated at left. Through the implementation of shareholder return and the formation of appropriate share prices based on medium- and long-term business plans, Hitachi has identified improving total shareholder returns as an important managerial issue. Based on these policies, we will consider stable dividend payments and flexible share buybacks, and return profits obtained through business growth to our shareholders.