
Infrastructure Systems Business Strategy

Hitachi IR Day 2015

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Hitachi, Ltd.

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Infrastructure Systems Business Strategy

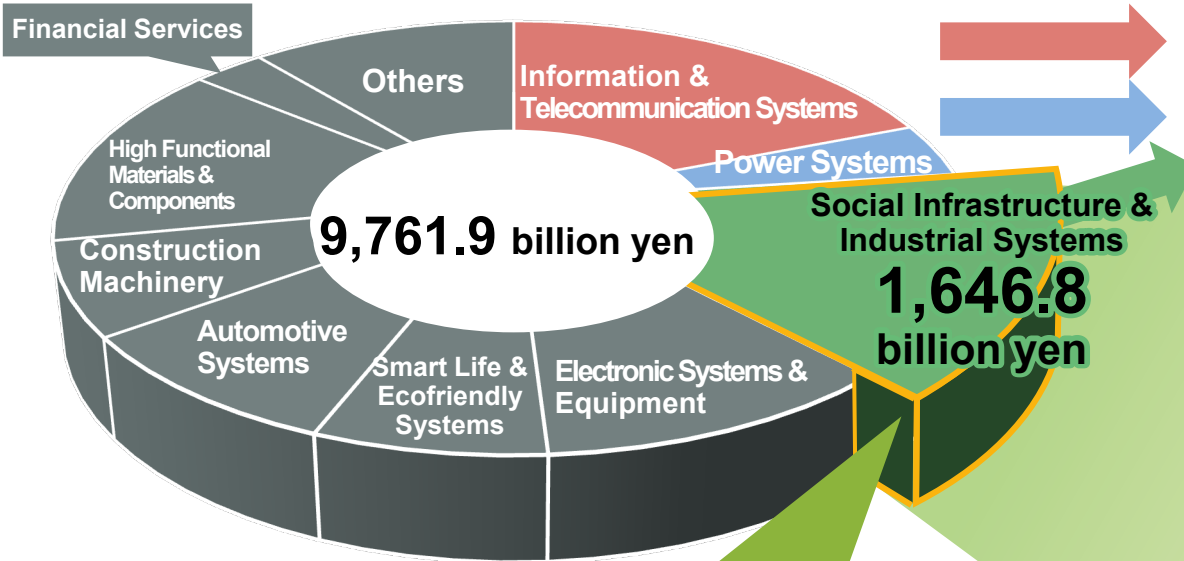
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- 1. Business Overview**
2. FY2015 Initiatives
3. Medium-to Long-term Strategy for Growth
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1-1. Positioning of Infrastructure Systems Business

Drive the Social Innovation Business, centered on Social Infrastructure & Industrial Systems

Hitachi's Consolidated Revenues (FY2014, US GAAP)



Provision of systems and components for the information, power and transportation fields
78.3 billion yen



Infrastructure business centered on Social Infrastructure & Industrial Systems Segment
712.6 billion yen



Infrastructure Systems Company, Hitachi Industrial Equipment Systems Co., Ltd.
790.9 billion yen*

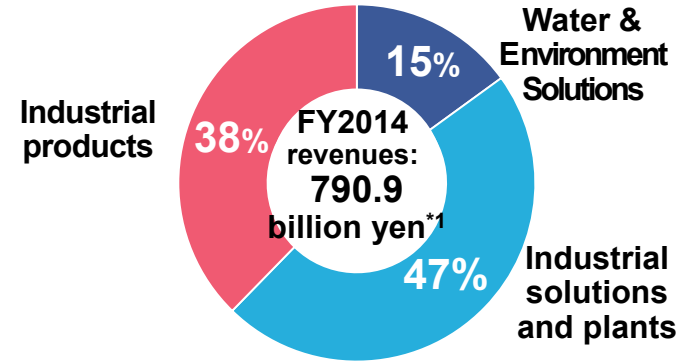
<p>Infrastructure Systems Business</p>	<p>Urban Planning and Development Systems Business</p>	<p>Rail Systems Business</p>
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* Excluding the portion transferred to Information & Telecommunication Systems Company

1-2. Business Activities and Portfolio

Become the best solutions partner by providing answers to business challenges faced by global customers

- Strengthen market-oriented and front-line functions through reorganization of solutions business
- Strengthen global competitiveness of product business by establishing Industrial Products Company



Figures for the three business domains represent ratios before deducting inter-business sales

Water & Environment solutions



Seawater desalination system



Monitoring and control



Water treatment plants

Industrial solutions and plants

Industrial plants



Production control systems



Security systems



Information and control platforms



Industrial products

Top share in Japan*2



Distribution transformers



Compressors



Ink-jet printers



UPS



Inverters



Motors



Large-sized components

*1 US GAAP, Excluding the portion transferred to Information & Telecommunication Systems Company
UPS : Uninterruptible Power Supply

*2 Hitachi 's estimate

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2-1. Progress of 2015 Mid-term Management Plan

	FY2013 (US GAAP)*1	FY2014*1			FY2015 (Forecast)		(US GAAP) [YoY]
		(US GAAP) [vs. previous forecast]	(IFRS)*2	(US GAAP)	(IFRS)		
Revenues	758.0 billion yen	790.9 billion yen	-17.5 billion yen	790.8 billion yen	816.7 billion yen	813.6 billion yen	+25.8 billion yen
operating income ratio*3 (EBIT ratio)	1.5% (1.9%)	3.1% (4.6%)	-1.4% (+0.2%)	3.7% (5.1%)	5.0% (4.5%)	5.3% (4.9%)	+1.9% (-0.1%)
Overseas revenue ratio	24%	28%	-1%	28%	29%	29%	+1%
Service revenue ratio	29%	29%	±0%	29%	29%	29%	±0%

FY2014 Status

- Increase in revenues of small products due to market expansion in high efficiency and energy conservation in Japan
- Decrease in revenues of large products and industrial solutions due to slowdown of oil and gas markets and economy in emerging countries
- Lower profitability of construction projects in the Middle East
- Cost increases due to delays in the process of development-type projects

*1 Excluding the portion transferred to Information & Telecommunication Systems Company

EBIT : Earnings before interest and taxes

*2 Unaudited

*3 "Operating income ratio" is presented as "Adjusted operating income ratio" in IFRS (an "Adjusted Operating Income" presented as revenues less cost of sales as well as selling, general and administrative expenses)

2-2. Differences Between the Previous Forecast

US GAAP

	FY2015 (Forecast)	Previous forecast*	Differences
Revenues	816.7 billion yen	959.1 billion yen	-142.4 billion yen
Operating income ratio	5.0%	6.9%	-1.9%
EBIT ratio	4.5%	6.7%	-2.2%

Main Reasons for Differences

① Downward revision of revenues

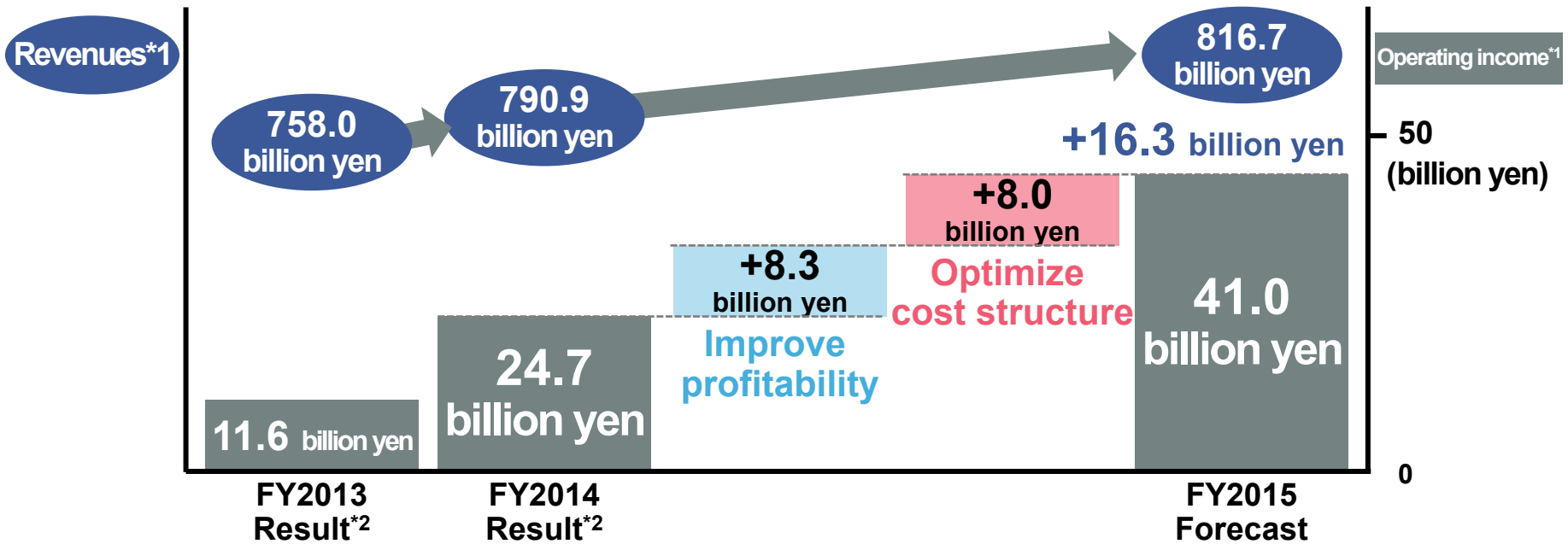
- Decrease in the orders received for overseas projects (strict selection of construction projects in the Middle East, slowdown of Japanese companies' overseas investments due to a weaker yen, etc.)
- Revised due to the turn down of Oil & Gas-related businesses which were initially forecasted to grow substantially

② Downward revision of operating income ratio

- Lower earnings due to the downward revision of revenues

2-3. FY2015 Initiatives

Focus on profitability in FY2015 and continue structural transformation in anticipation of next growth



FY2015 Initiatives

Improve profitability

Convert business portfolio and expand products' revenues

Optimize cost structure

Continue and strengthen the Hitachi Smart Transformation Project

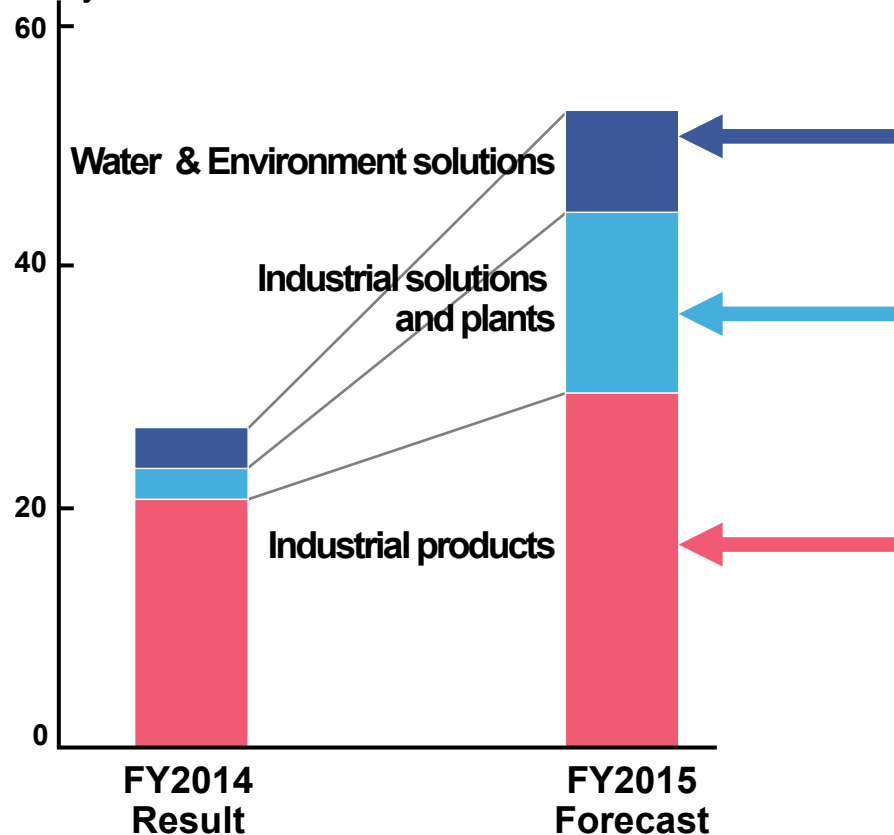
*1 US GAAP

*2 Excluding the portion transferred to Information & Telecommunication Systems Company

Convert business portfolio, expand products' revenues

Operating income *

billion yen



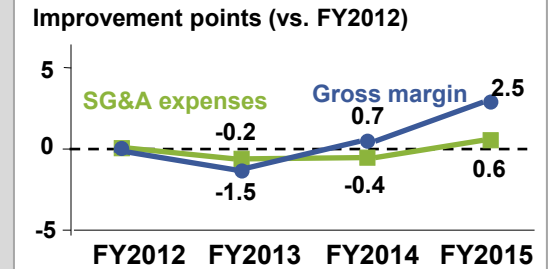
- **Provide value-added services to solve customer issues**
 - Water supply and sewerage in Japan (Turnkey proposals combining electrical facilities and machinery)
 - Support Japanese companies' business development overseas (co-generation, security)
- **Ensure profits are reaped from existing project orders**
 - Overseas water environment ODA projects (cooperation with overseas partners)
 - Bio pharmaceutical plants (shift from chemical plant field)
- **Strengthen response to risky projects**
 - Reduce high-risk construction projects in the Middle East
 - Strengthen "cold eye reviews" and "milestone checks"
- **Launch new products in growth markets in a timely manner**
 - High efficiency and energy conservation (Top Runner Energy Efficiency Standard motors, two-sided cooling UPS, amorphous transformers, compressors, etc.)
 - Safety and traceability (ink-jet printers, etc.)
- **Strengthen sales and services structure**

* US GAAP, before deducting inter-business sales

2-5. Optimization of Cost Structure

Continuously promote cost structure reform

- Add hub functions to important manufacturing, EPC*¹ and service bases to strengthen the global supply chain
- Expand overseas procurement and centralized purchasing and strengthen engineered sourcing to reduce the variable cost ratio
- Rightsize workforce, etc.



Concentrate resources and accelerate management through business structure reforms

- Improve operation efficiency in Group companies (integrated and reorganized in October 2013 and April 2014) (continuous)
- Strengthen individual products: Establish Industrial Products Company

Strengthen cash flow management

- Seamlessly improve efficiency of business processes end to end, ranging from quotations to services
- Implement cash flow management in individual projects and organization units

	FY2012 (Result)	FY2014 (Result)	FY2015 (Forecast)	FY2018 (Target)
CCC* ²	79.5 days	87.8 days	97.1 days	80.0 days

Cost reduction benefits through the Hitachi Smart Transformation Project

FY2015 forecast: 8 billion yen **FY2011 to FY2015 cumulative total: approx. 42 billion yen (previous forecast: approx. 42 billion)**

*1 EPC : Engineering, Procurement and Construction

*2 CCC : Cash Conversion Cycle

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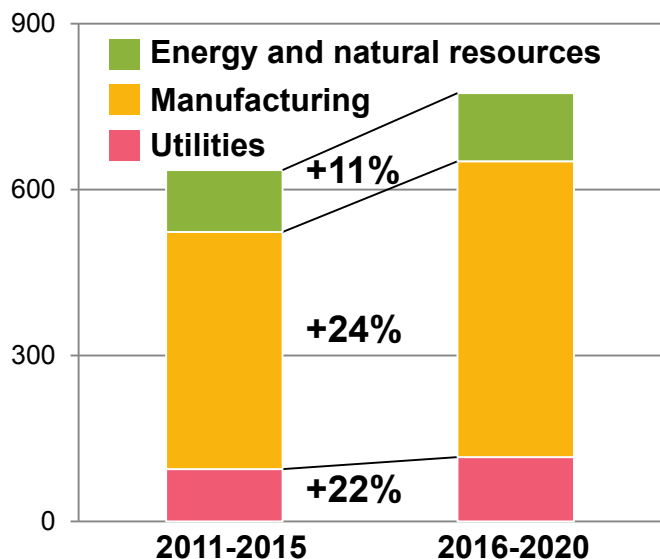
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The infrastructure market is estimated to recover from temporary slowdown in the medium to long-term future

(Trillion yen) Industrial capital expenditure forecast

Average annual investment amount



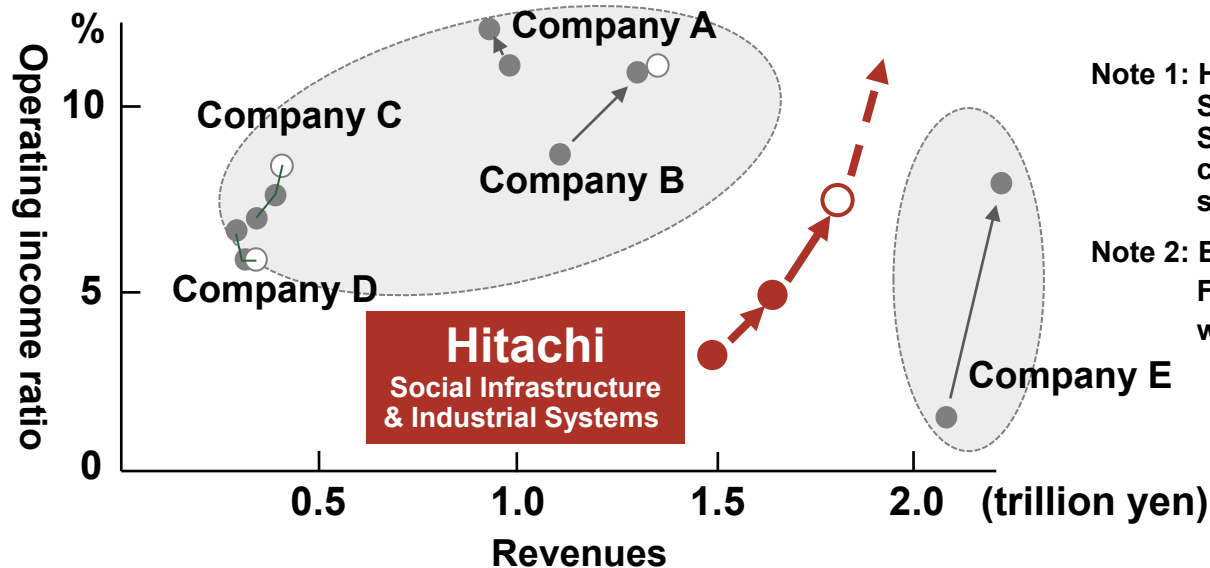
- Temporarily curbing of investment due to falling oil prices, economic slowdowns in emerging countries, etc.
- Restore investment in the medium and long terms

Core fields	Average annual investment growth rate	
	2011-2015	2016-2020
Oil & Gas	-0.3%	6.1%
Mining	1.3%	4.4%
Food & beverages	3.8%	5.7%
Chemicals & Materials	3.8%	5.0%
Pharmaceuticals	4.5%	5.7%
Industrial machineries	6.0%	4.0%
Water supply	1.6%	6.8%

Source: Hitachi's estimate based on IHS Global Insight data

Key fields	Business opportunities	
Energy and natural resources	Increase of needs for efficiency and overall optimization to expand production volume	Expansion in IoT utilization market For management issue solutions (2020: 350 trillion yen) Source: IDC
Manufacturing	Advanced system solutions in line with the interest in safety and security	
Utilities	Investment expansion in water, sewage, and industrial water infrastructure in response to economic growth and shortage of water resources	

Growth trajectory and consistent earnings from both solutions and products



Note 1: Hitachi represents figures of the Social Infrastructure & Industrial Systems Segment; other companies represent figures from similar segments

Note 2: Ellipses in diagram represent FY2013, FY2014, FY2015 (forecast, white)

Competition trends

- Reform business portfolio, focus on core businesses and establish a base earnings platform
- Create new markets and win orders for large projects through advanced technologies (IoT, robotics)

Hitachi's strengths

- Optimal proposals of IT & control systems, and equipment & products
- Track record of Collaborative Creation with the world's leading companies
- Advanced technology development capabilities such as artificial intelligence and data analytics, high functional materials

Aim to become global major player in the social & industrial infrastructure market

Develop business providing both total solutions and strong products capabilities to solve issues of growing customers in growth markets

Infrastructure systems business

**Solutions
business**

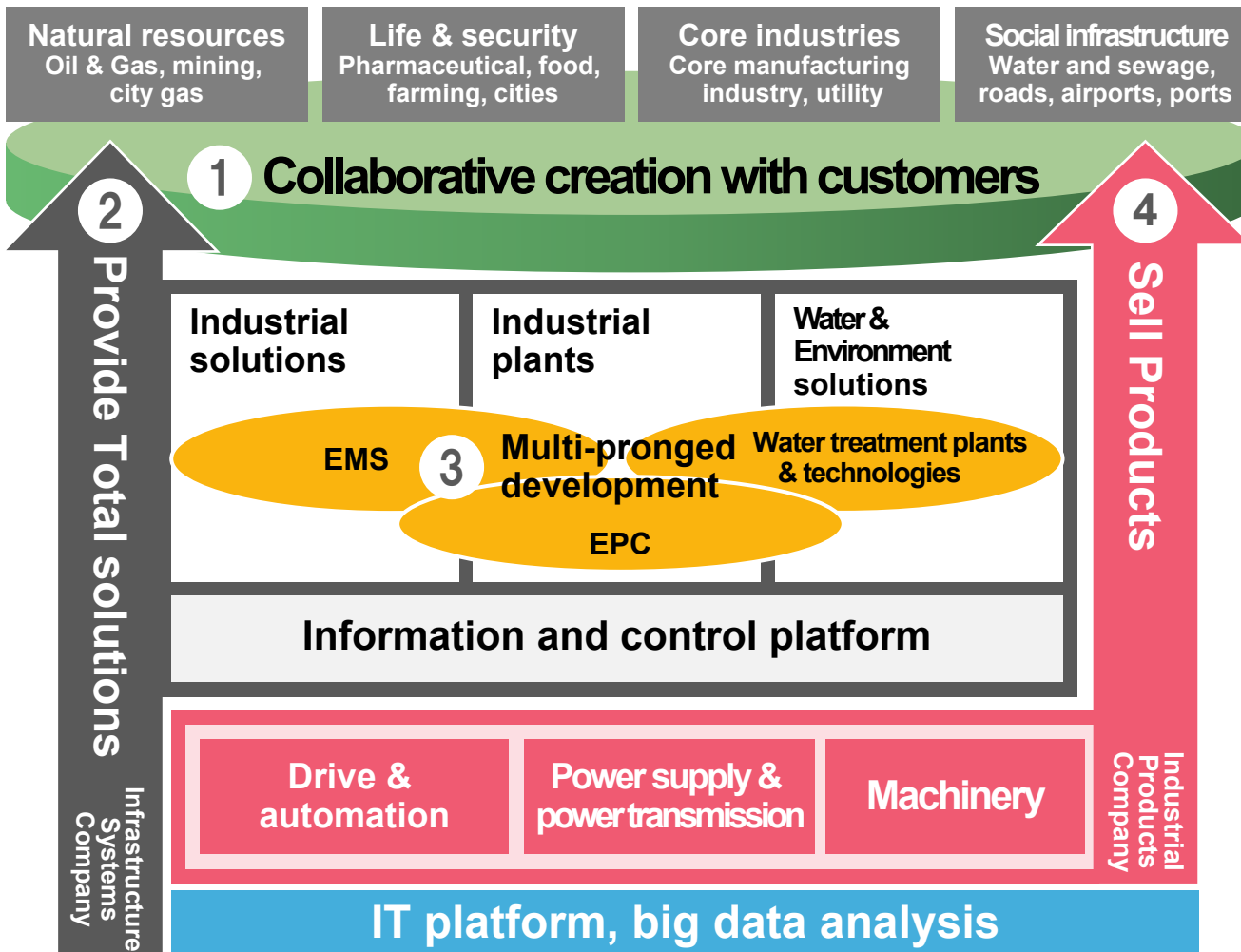
**Industrial products
business**

- **Concentrate resources and actively investment in growth markets**
 - Four fields : “natural resources,” “life & security,” “core industries,” and “social infrastructure”
- **Business development leveraging collaborative creation with customers, as well as strengths in IT, control and products**
 - “Collaborative creation with customers”, “Provide total solutions”
“Multi-pronged development ” “Sell Products”
- **Strengthen product business by establishing Industrial Products Company**

FY2018 (target): Revenues: 1 trillion yen Operating income ratio: 8%

3-1-4. Competitive Strategies

Business development leveraging collaborative creation with customers, as well as strengths in IT, control and products



- ① Create new business by collaborative creation with customers
- ② Provide total solutions
- ③ Multi-pronged development of products & solutions
- ④ Sell Products
 - Enhance product competitiveness
 - Expand sales channel and services platform

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Solve customers' issues by leveraging IT, control and manufacturing capabilities, and expertise

- Contribute to new-value creation and business model transformation through the Hitachi Group's collective strength

Customers' issues

- Management acceleration
- Global supply chain
- Improving productivity and quality
- New products, new services...

IT, Control, Manufacturing, R&D capabilities

- [Control]** Symbiotic autonomous decentralized platform
- [IT]** Data analytics, cloud platform
- [Manufacturing]** ... Intelligent products
- [R&D]** Artificial intelligence, simulation

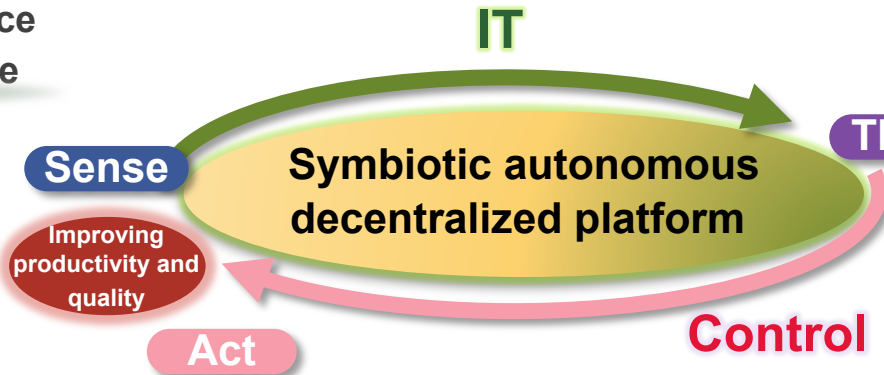
- Solve management issues through Sense (grasp), Think (extract cause, optimize), Act (instruct, control) by utilizing IoT

Production workplace
/social infrastructure

Operating data collection



Work monitoring



Improving productivity and quality

Real-time control Work instructions



Control Technologies
AR technologies
Wearable devices

Management

Diagnosis Cause extraction

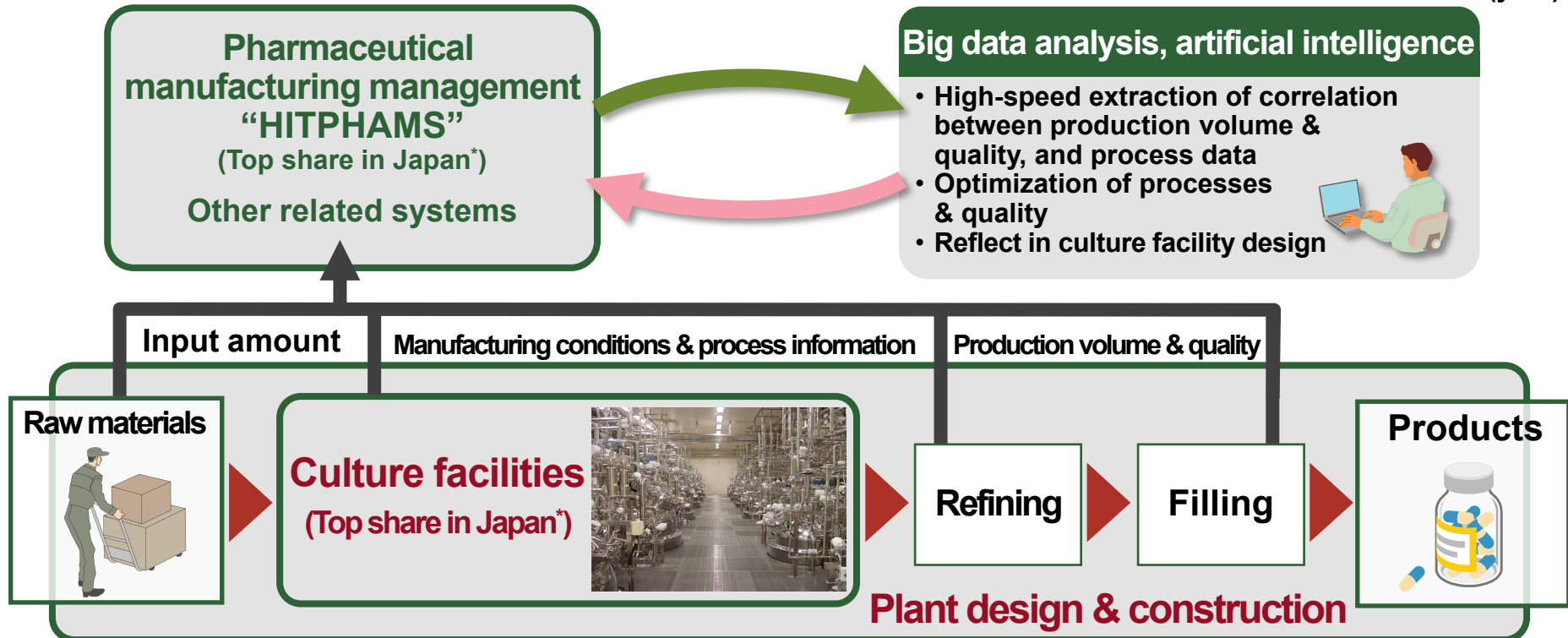
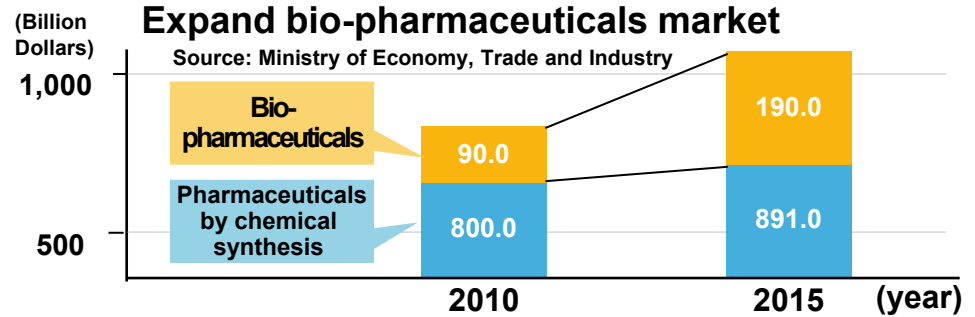
Production capacity, quality, cost
Energy, environmental burden
Resource distribution
Plan optimization



Pharmaceutical

Provide high-quality and high-reliability support for pharmaceutical manufacturing in the growing bio-pharmaceutical markets

- Accelerate development & mass production, improve efficiency and stabilize quality by utilizing “Culture facilities with IT” and “Big data analysis/Artificial intelligence”



* Hitachi 's estimate

3-2-3. Provide Total Solutions for Growth Field (2)

Mining

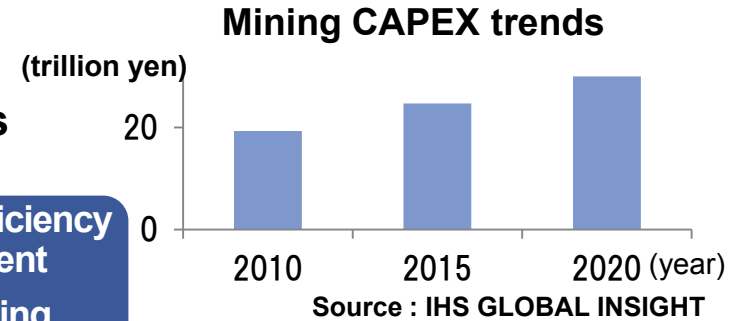
Support increased efficiency of overall mining operations from Pit to Port

- Propose total solutions that fuse IT with expertise in energy, railways, and industrial process control
- Develop wide-ranging products business that supports solutions

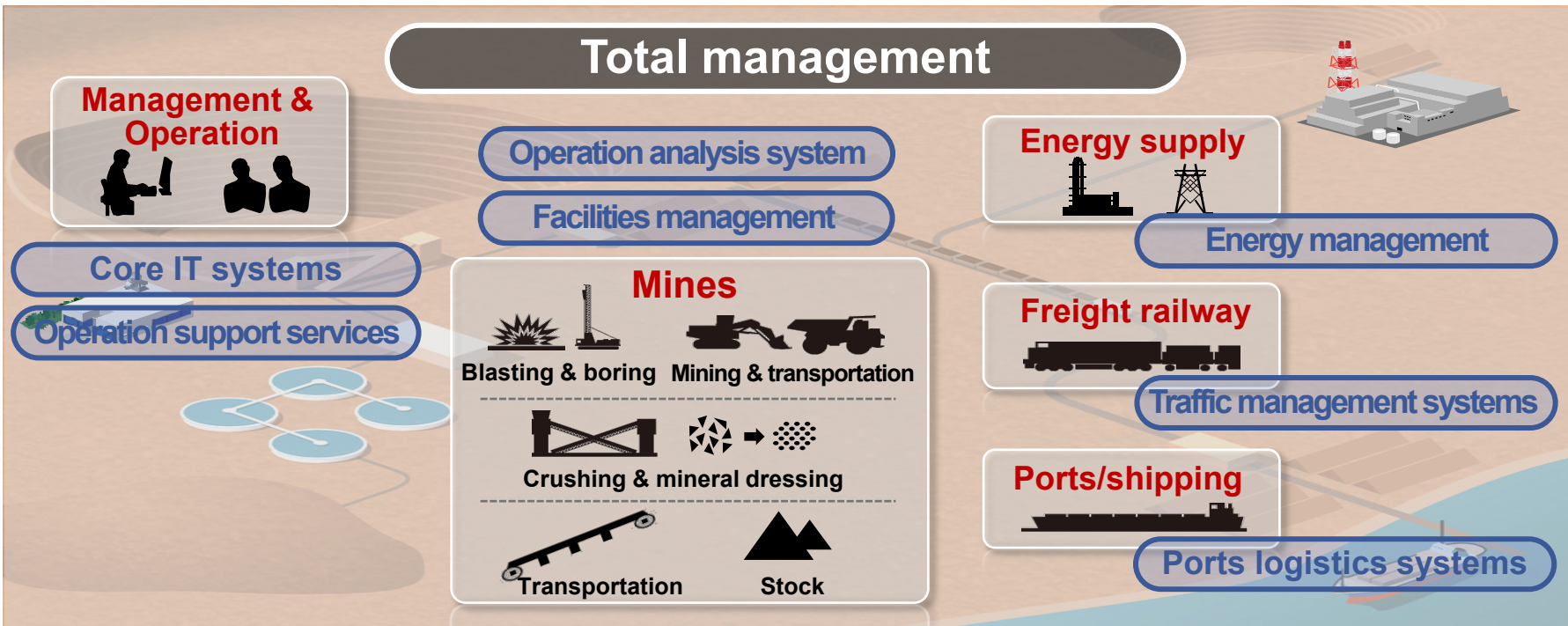
Overall optimization of management
(Production capacity, cost, resources)

Productivity & quality improvement
Maintenance optimization

Operational efficiency improvement
Energy saving



Total management

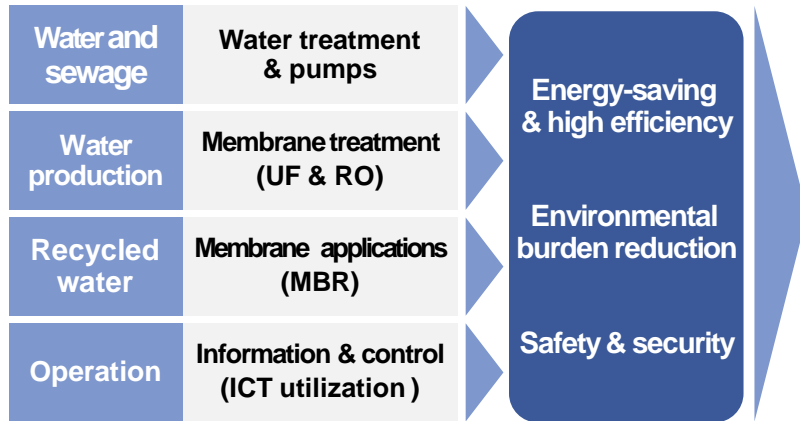


3-2-4. Multi-pronged development of core technologies & solutions into growth markets

Water Environment

Multi-pronged development of advanced water treatment technology

- Global business development leveraging outstanding technologies covering water and sewage, water production, recycled water and related operations



- Expand share in large government-field-projects

Water and sewage systems (for developing and emerging markets)

Large-scale seawater desalination "Mega-ton Water System" [NEDO demonstration FS]

Seawater desalination & wastewater recycling "RemixWater" [NEDO demonstration FS]

Efficient water supply systems (for water supply operation, water distribution control and water leak reduction)

- Development for industrial field

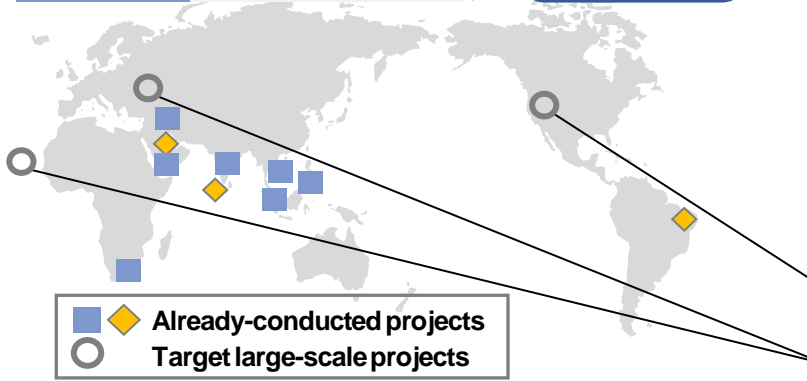
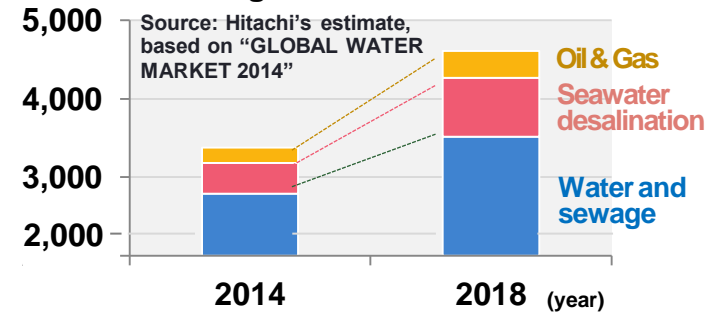
Small-scale seawater desalination (For island states resorts, FPSO)

Oil & gas water treatment (Oily water, crude oil process) [NEDO demonstration FS]

U.S.'s California drought countermeasures (Large-scale seawater desalination)

ODA projects (Cabo Verde seawater desalination, Ukraine sewage)

(billion yen) Size of target overseas water business market



■ ◆ Already-conducted projects
○ Target large-scale projects

UF: Ultrafiltration
RO: Reverse Osmosis

MBR: Membrane Bioreactor
FS: Feasibility Study

FPSO: Floating Production Storage and Offloading

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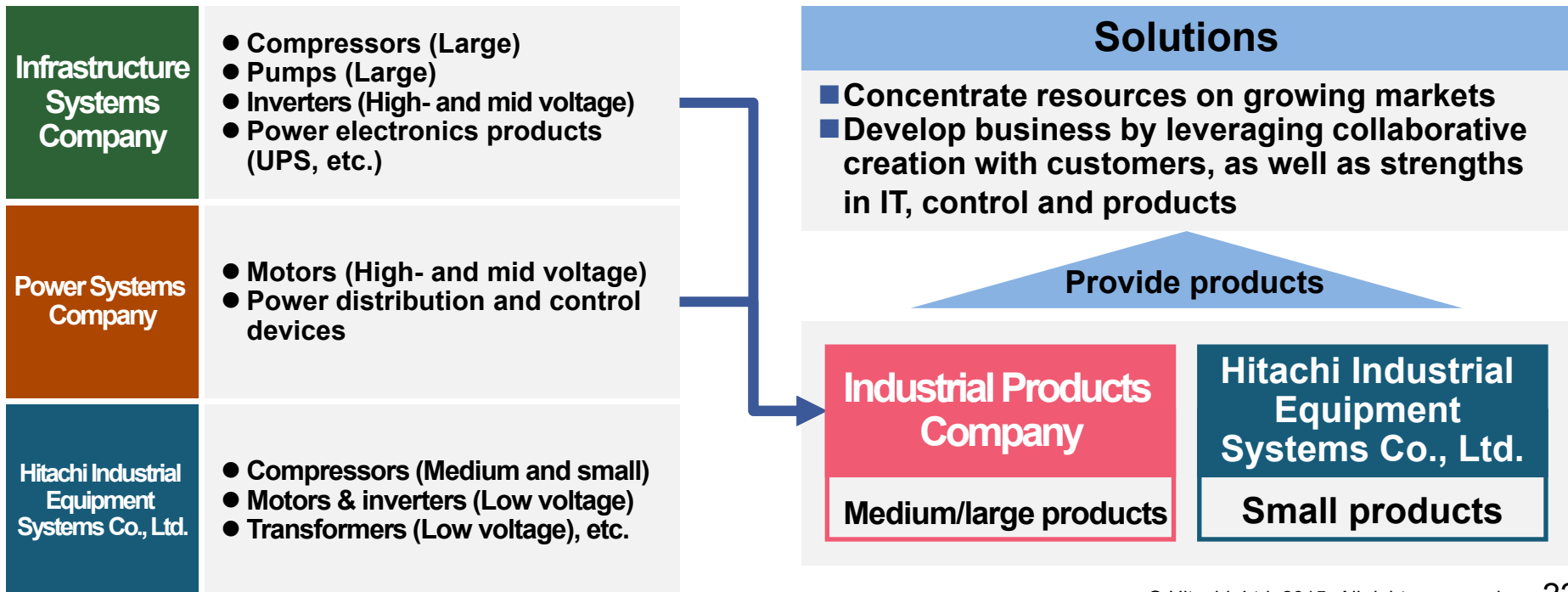
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Strengthening products business that supports the Social Innovation Business

Aims

- A strong business framework that can compete in the industrial field by products alone
- A business framework that generates stable earnings and cash
- Provide core products that support the solutions & services business

Reorganization



Strong products that meet a wide range of industrial needs

Natural resources

Oil & Gas, mining,
city gas

Life & security

Pharmaceutical, food,
farming, cities

Core industries

Core manufacturing
industry, utility

Social infrastructure

Water and sewage,
roads, airports

Industrial Products Company and Hitachi Industrial Equipment Systems Co., Ltd. - Integrated management and mutual collaboration -

Business fields

Drive & automation

Power supply & power transmission

Machinery

Motors, inverters (high & low voltage)
UPS, PCS, industrial-use PCs, PLC

Transformers,
variable control

Compressors, marking pumps,
air blowers, etc.

Products

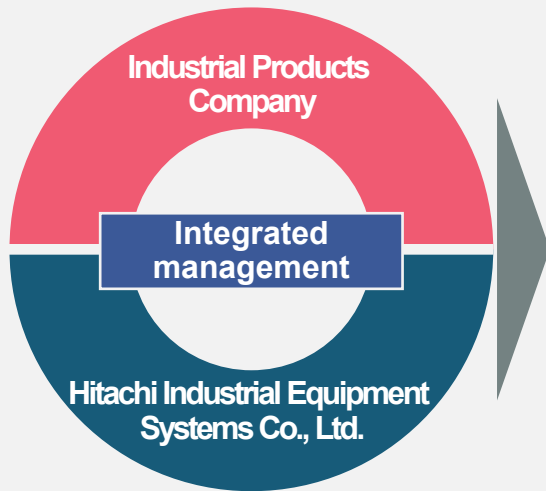


Bolster global competitiveness by unified operation of products business

Basic policy

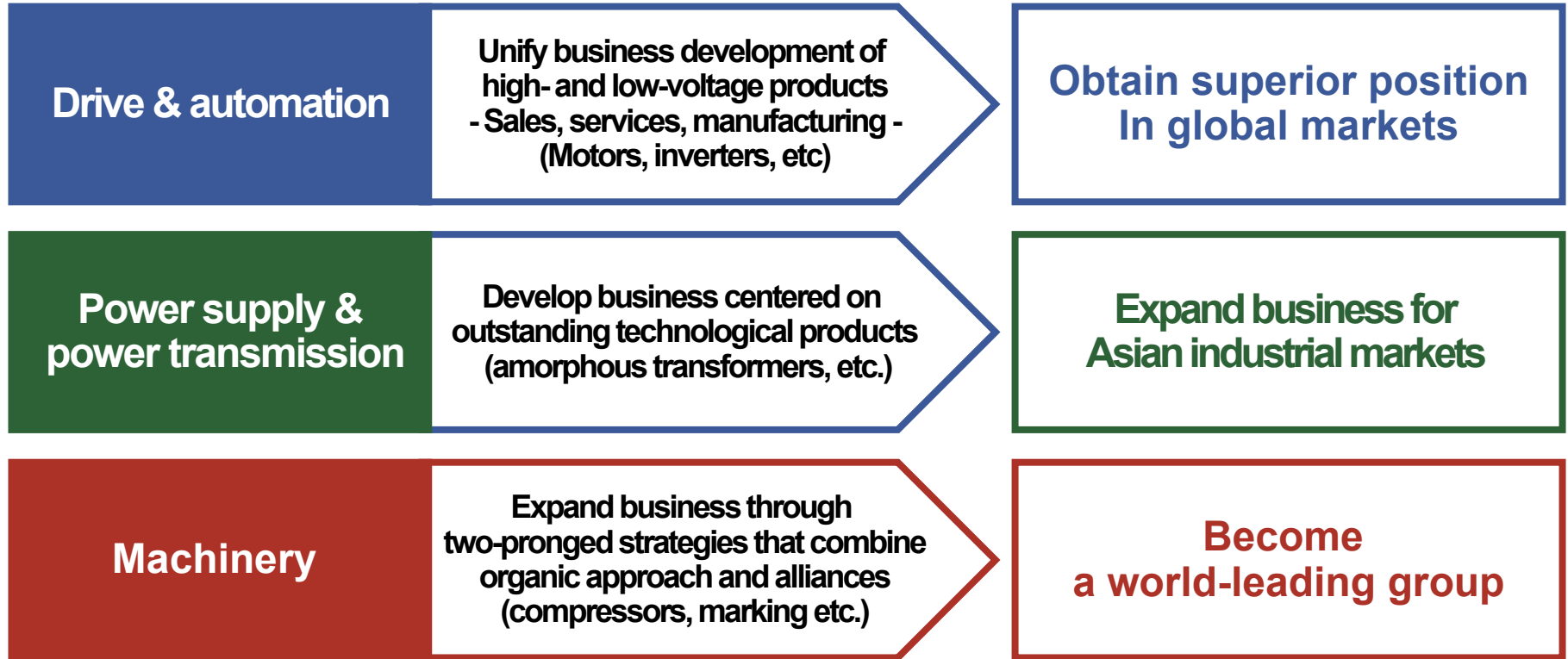
- Develop an integrated business strategy covering small to large products
- Prioritize strategic investment and resource allocation

Enhancement initiatives



- Strengthen product lineups that suit a wide range of markets
- Prioritize R&D strategy: Strengthen common platform technologies
(Drives, programmable logic controllers, compressors, marking, amorphous transformers, etc.)
- Optimize global manufacturing bases
(Japan, China, Southeast Asia, India)
- Unify the development of global sales & services
(Utilize sales channels of Hitachi Industrial Equipment Systems Co., Ltd. and strengthen front-line functions)
- Formulate alliance strategies from total-business viewpoint (Small, large, and high- and low-voltage products)

3-3-4. Industrial Products Business Targets (by product field)



FY2018 (targets): Revenues*: 500 billion yen

Operating income ratio*: 10%

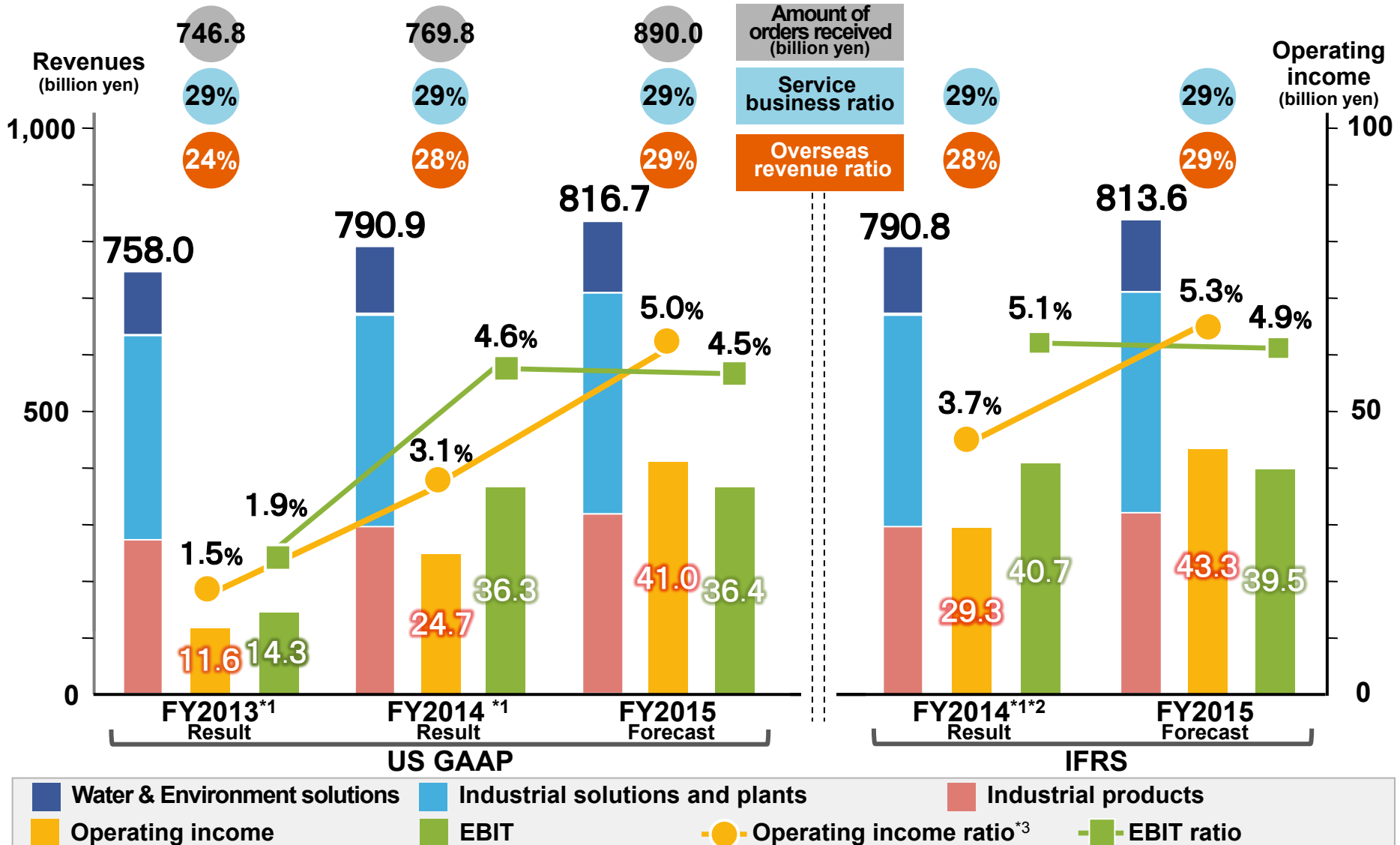
* Plain total of Industrial Products Company and Hitachi Industrial Equipment Systems Co., Ltd.

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4-1. Business Performance Trends



*1 Excluding the portion transferred to Information & Telecommunication Systems Company

*2 Unaudited

*3 "Operating income (ratio)" is presented as "Adjusted operating income (ratio)" in IFRS (an "Adjusted Operating Income" presented as revenues less cost of sales as well as selling, general and administrative expenses)

*4 Figures for the three business domains represent ratios before deducting inter-business sales

*5 A certain amount of orders received, revenues, EBIT and operating income of the Infrastructure Systems Company are included in the Information & Telecommunication Systems Company, the Power Systems Company and the Rail Systems Company

FY2015 Target

	US GAAP	IFRS
Revenues	816.7 billion yen	813.6 billion yen
Overseas revenue ratio	29.0%	29.1%
Operating income ratio*	5.0%	5.3%
EBIT ratio	4.5%	4.9%
Benefits from Hitachi Smart Transformation Project (US GAAP)	<ul style="list-style-type: none"> ■ Gross margin: 2.5 percentage point improvement (vs. FY2012) ■ SG&A expenses ratio 0.6 percentage point improvement (vs. FY2012) 	

FY2018 (Targets) Revenues 1 trillion yen Operating income ratio 8%

Become the best solutions partner for providing answers to business challenges faced by global customers

* "Operating income ratio" is presented as "Adjusted operating income ratio" in IFRS (an "Adjusted Operating Income" presented as revenues less cost of sales as well as selling, general and administrative expenses)

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.

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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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