

Hitachi Smart Transformation Project

Hitachi IR Day 2013

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Hitachi Group Chief Transformation Officer
Hitachi, Ltd.**

Hitachi Smart Transformation Project

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1. Project Outline

2. Project Activities

3. Achieving the Targets of 2015 Mid-term Management Plan

Reform the cost structure across the entire Hitachi Group

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

Promote reforms as One Hitachi

- Transform the business structure for strengthening the solutions businesses
- Transform the cost structure to compete with global companies

Reforms not bound by precedents accumulated over the past 100 years at Hitachi

Cost structure issues

- Inefficiencies and redundancies of resources due to optimization at the individual level of multiple businesses
- High cost structure dependent on domestic resources
- Excessive focus on doing things internally

Reform measures

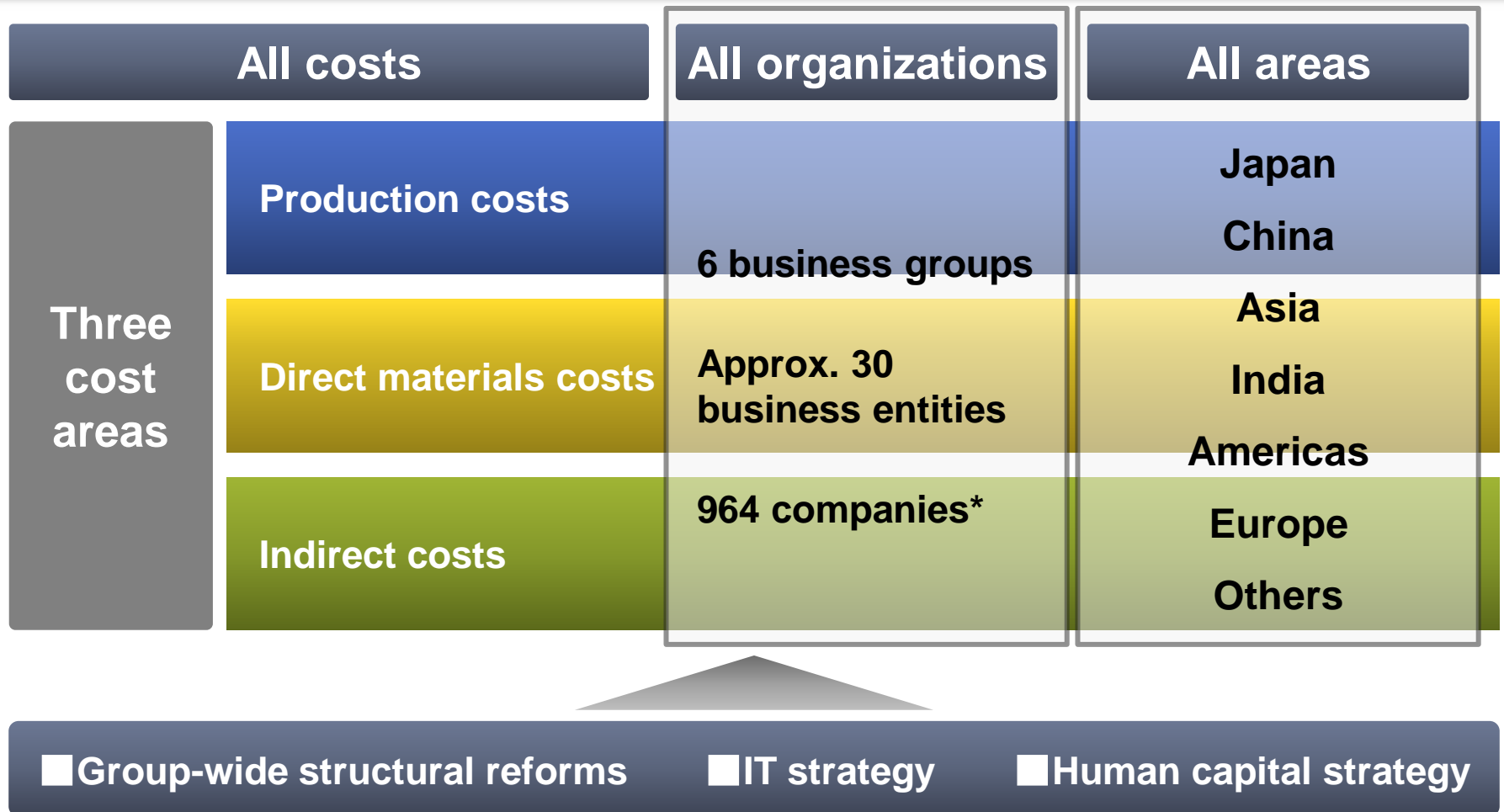
- Streamline business processes
- Strip out non-core indirect operations
- Reform organization and roles

Speed up cost structure reforms through activities across the entire Hitachi Group and cross-functional activities

- ① **Centralize all cost structure reform activities in the Smart Transformation Project**
- ② **Utilize economies of scale created by 964 Hitachi Group companies***
- ③ **Actively promote leading and best practices within the Hitachi Group**

*As of March 31, 2013

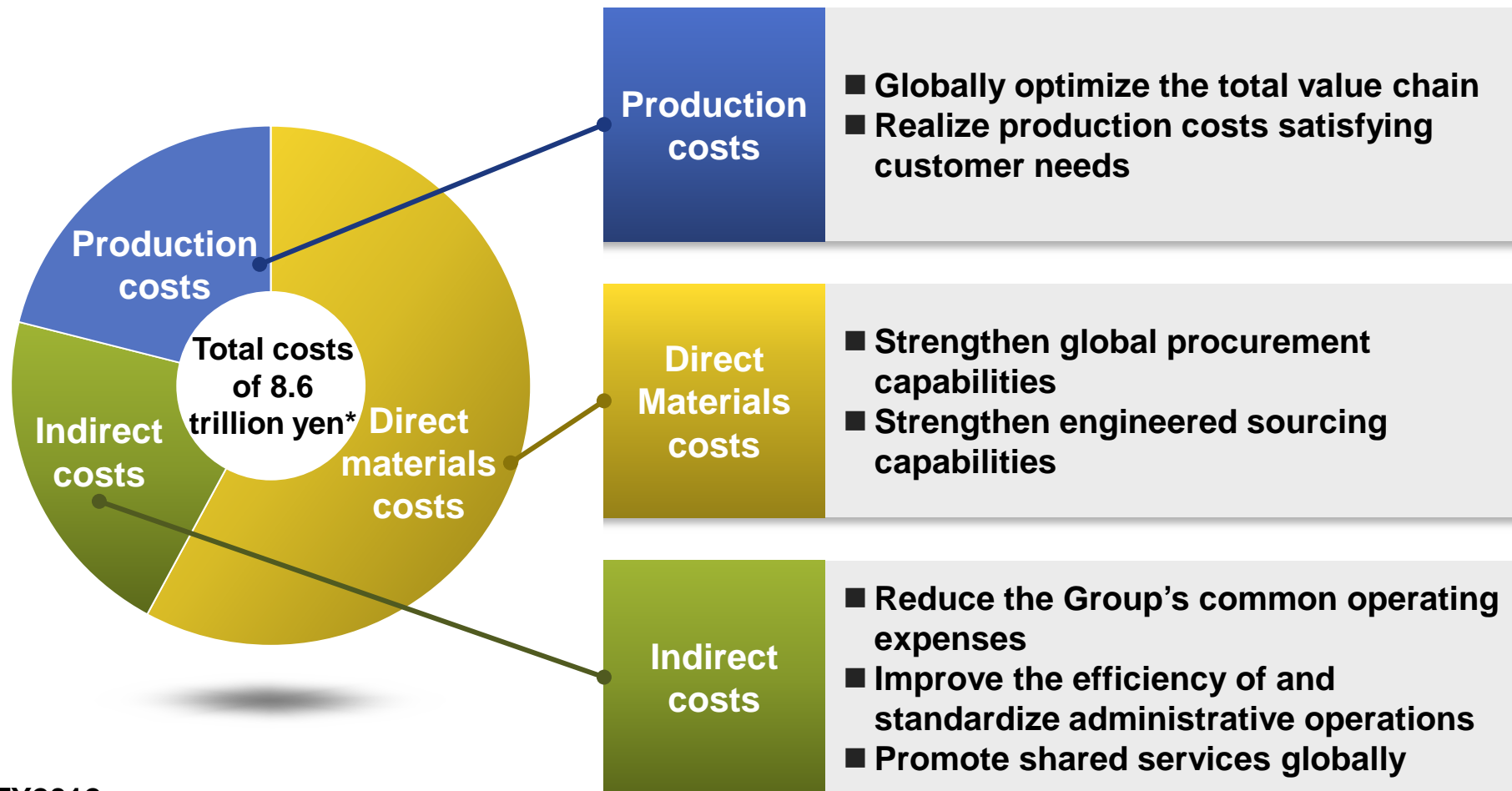
Hitachi Group common measures



*As of March 31, 2013

1-5. Target Areas and Main Activities

Promote activities in three cost areas—production, direct materials, and indirect costs—targeting total Hitachi Group costs of 8.6 trillion yen



*FY2012

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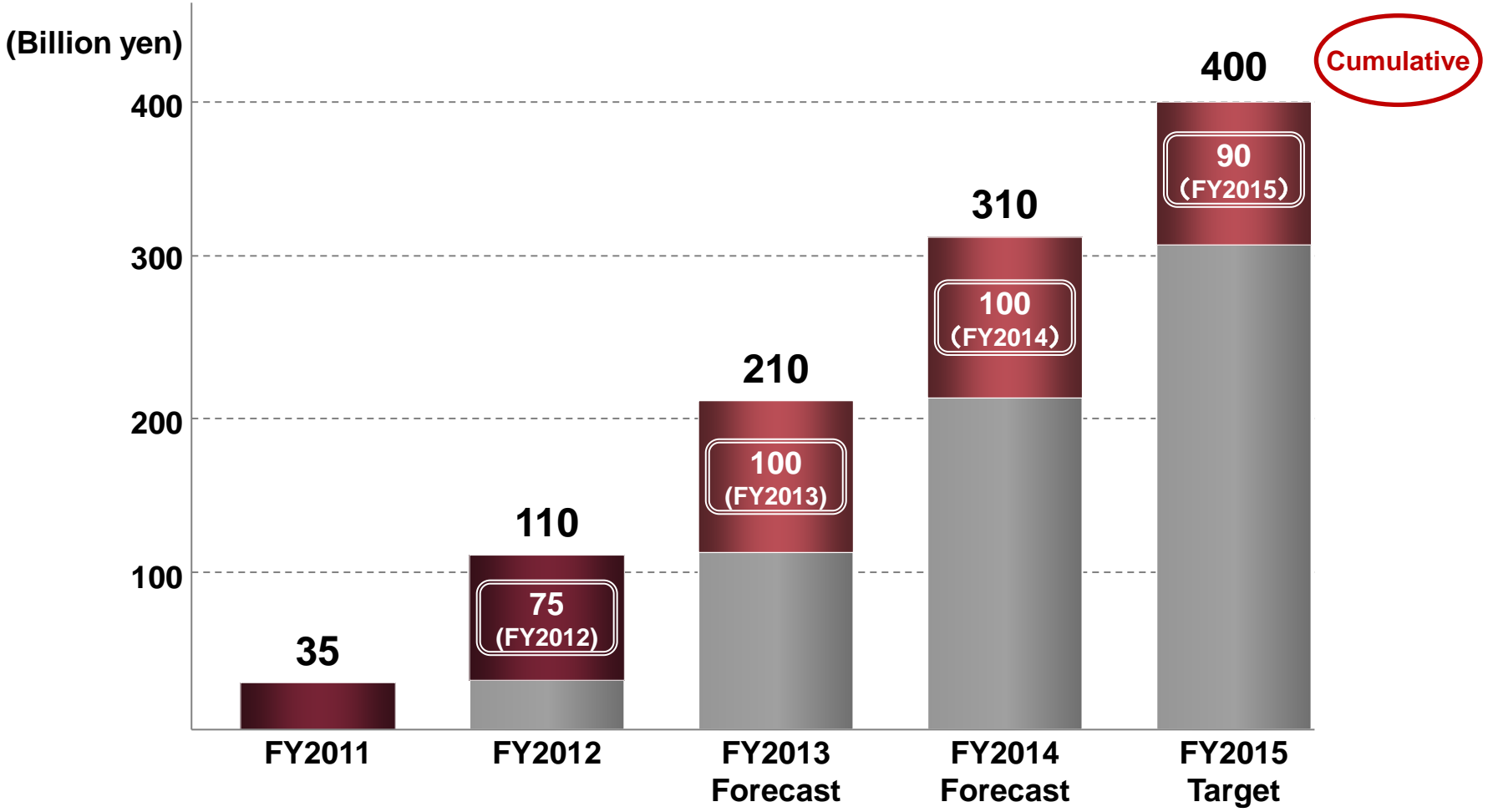
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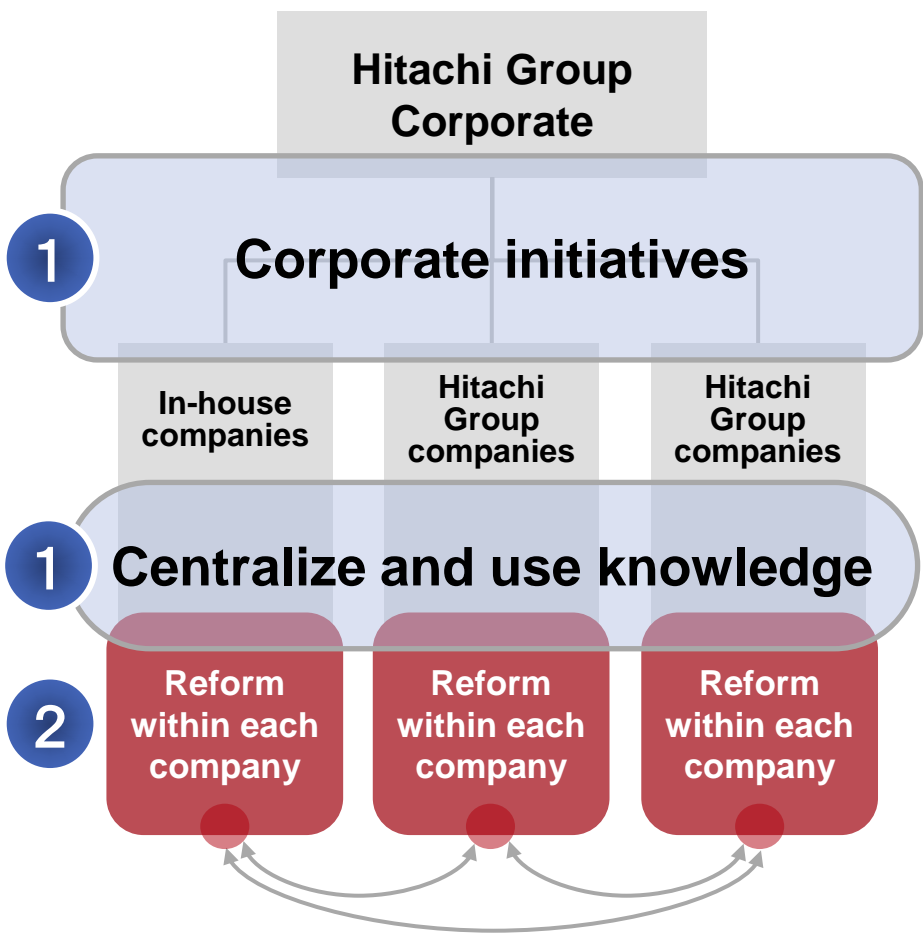
2-1. Cost Reduction Benefit Results and Targets

Transform cost structure to generate an EBIT* ratio of more than 7% in FY2015



*EBIT: Earnings before Interest and Taxes

Rigorously standardize common operations and mutually utilize knowledge inside the Hitachi Group



① Corporate initiatives

- Standardize and centralize
 - Promote global usage of shared services
 - Centralize common operating expenses by expense (logistics, facilities, etc.)
 - Create unified IT platform
- Extend leading reform practices at each company within the Hitachi Group

② Business entity initiatives

- Promote initiatives unique to each company according to the business environment
 - Optimize the value chain globally
 - Rigorously strengthen cost planning

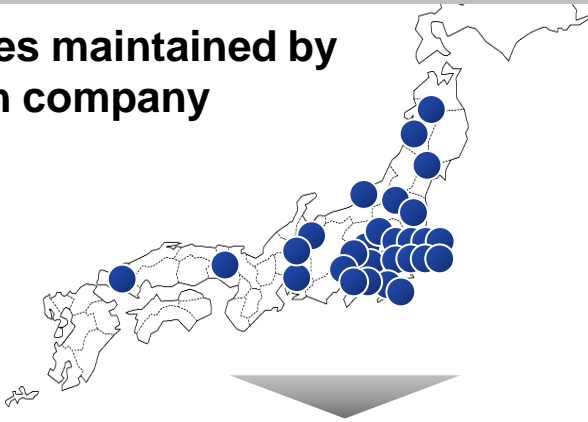
Implement measures for global standardization

Main Activities		Activity Overview
Production costs	SCM reforms	<ul style="list-style-type: none"> Centralize manufacturing bases Utilize a unified IT platform to visualize information on a global basis
	Promotion of modular design	<ul style="list-style-type: none"> Revamp the value chain from design through manufacturing
Direct Materials costs	Strengthening of global procurement capabilities	<ul style="list-style-type: none"> Increase global corporate procurement bases (Increased from 15 to 25) Established Hitachi China Materials Technology Innovation Center
	Strengthening of engineered sourcing capabilities	<ul style="list-style-type: none"> Promote measures to address much higher raw materials prices (develop rare earth-free products)
Indirect costs	Promote reduction of costs by type of expenses	<ul style="list-style-type: none"> Visualize and reduce costs
	Promote shared services	<ul style="list-style-type: none"> Use outsourcing for financial, indirect materials procurement and other operations
	Group structural reforms	<ul style="list-style-type: none"> Simplify the Group structure by eliminating redundant functions

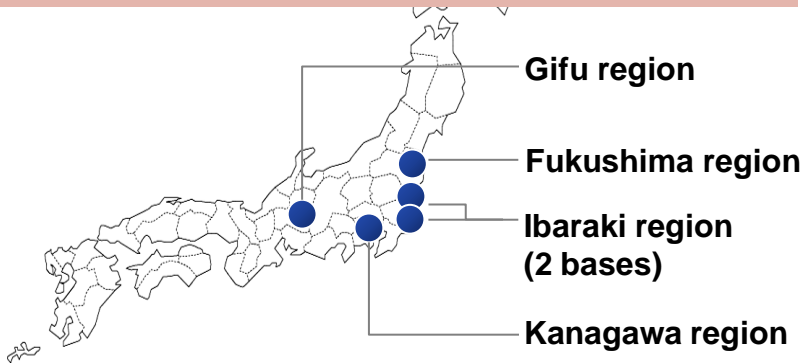
Centralize production bases for maximizing production efficiency

Pre-centralization: 28 bases (FY2012)

Bases maintained by each company



Post-centralization: 5 bases (FY2014)



Centralize printed circuit board production bases

- Centralize production to reduce costs
- Contribute to shortening development and prototype lead times

<Leading examples>

Started centralization in 3 companies

Toward Improved Efficiency

- Build production lines with high capacity utilization rates
- Reduce costs by integrating product certification processes, standardizing components, and centralizing purchasing
- Create cooperative structure, including BCM

BCM: Business Continuity Management

Realize global SCM based on the use of cloud services

Pre-centralization warehouses: 18 bases



Post-centralization: 6 bases



Global SCM Reform

<Examples of Reform at Company A in Europe>

- Unified inventory management, adjusted supply-demand
- Shortened supply lead time (4 months to 3 months)
- Increased shipment frequencies (once a month to several times a month)
- Centralized logistics bases (18 bases to 6 bases)

Extend Application to Other Products and Groups

- Initiated trials at 17 Group companies (from FY2012)
- Build a cloud-based common Group inventory management system

Strengthen ability to propose solutions to customers and respond to market changes

Apply modular design concept to design-production value chain

3S

Save
Standardization
Speed

Variation

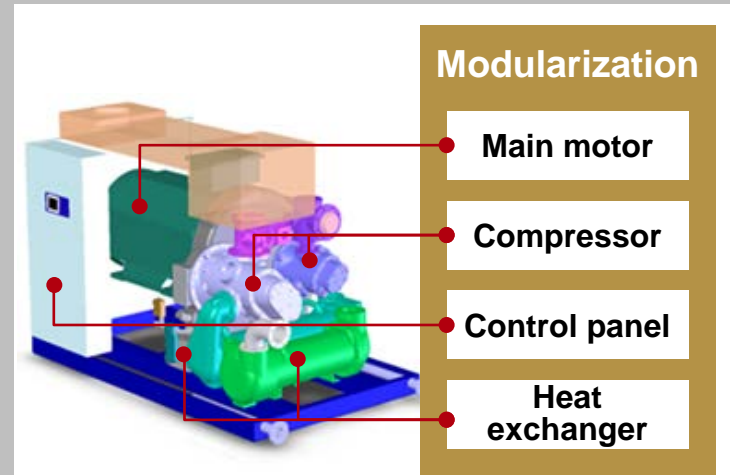
- Improve design efficiency
- Reduce number of manufacturing jigs and tools

- Reduce types of components making up products

- Quickly respond to customer needs (Shorten delivery time)

- Improve ability to respond to customer specifications

Oil-free screw compressors



Expand application to equipment for automobiles, construction, and power generation, etc.

Expand and increase corporate procurement sites for supporting expanded global procurement

- Strengthen ability to respond to projects, especially in emerging regions
- Bolster procurement network within China and Asia
- Promote locally led operations



Completed establishing corporate procurement sites in 25 cities (March 2013)

**Shift procurement functions overseas
to realize product quality assurance and high-efficiency procurement**

Enhance functions of overseas procurement bases

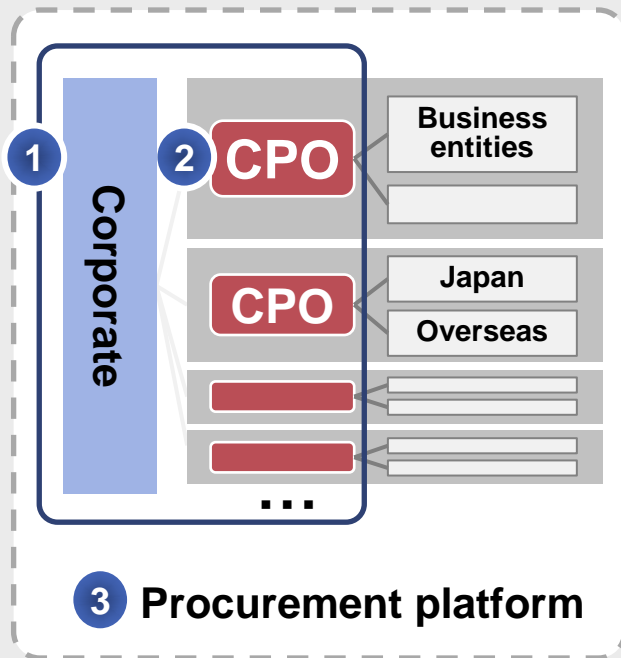
- **Assign procurement engineers overseas**
- **Assign inspectors and localize inspection operations**
- **Establish delivery and quality assurance divisions for eliminating procurement delivery delays**
- **Coordinate with Hitachi China Materials Technology Innovation Center (established April 2013)**



**Promote localization of purchasing, engineering,
delivery and quality assurance, and R&D functions**

Reform procurement organizations throughout the Hitachi Group

Standardize and share for reaping maximum benefits from centralization



- ① Maximize Group economies of scale
 - Centralized purchasing ratio: over 40% (FY2015)
 - ② Pursue and execute optimal procurement within the Hitachi Group
 - Reform costs from the standpoint of the value chain in each business
- CPO

Cross functional activities

Design Manufacturing Technology Procurement Construction
- ③ Raise operational efficiency and strengthen cost planning capabilities
 - Strengthen engineering sourcing capabilities (create 300-person structure)
 - Unify procurement-related information
 - Extend and enhance program for developing global human resources

CPO: Chief Procurement Officer

2-4. Indirect Costs (1): Global Shared Services

Rigorously standardize indirect operations and make full use of outsourcing

Target operations

Finance Human capital Procurement Others



Target regions

China Asia India Europe Americas Japan

- ① Launched global financial BPO in India (October 2012)
- ② Launched procurement BPOs in Japan and Asia (April 2013)



Launched procurement BPO center (Dalian)

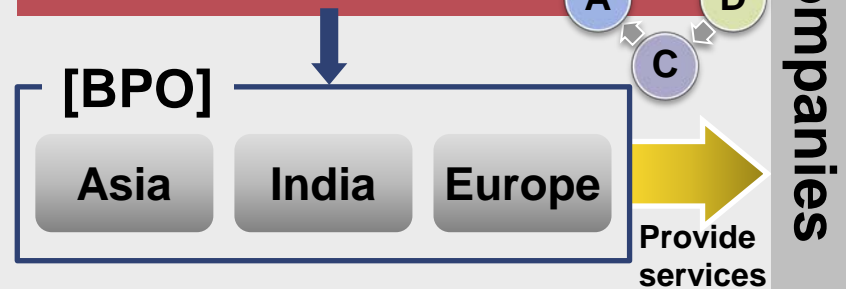
- ③ Launched new shared service for finance in Japan (April 2013)

Established dedicated organization
“Global Shared Service Promotion Office”
(June 2013)



Expand business reforms and global shared services

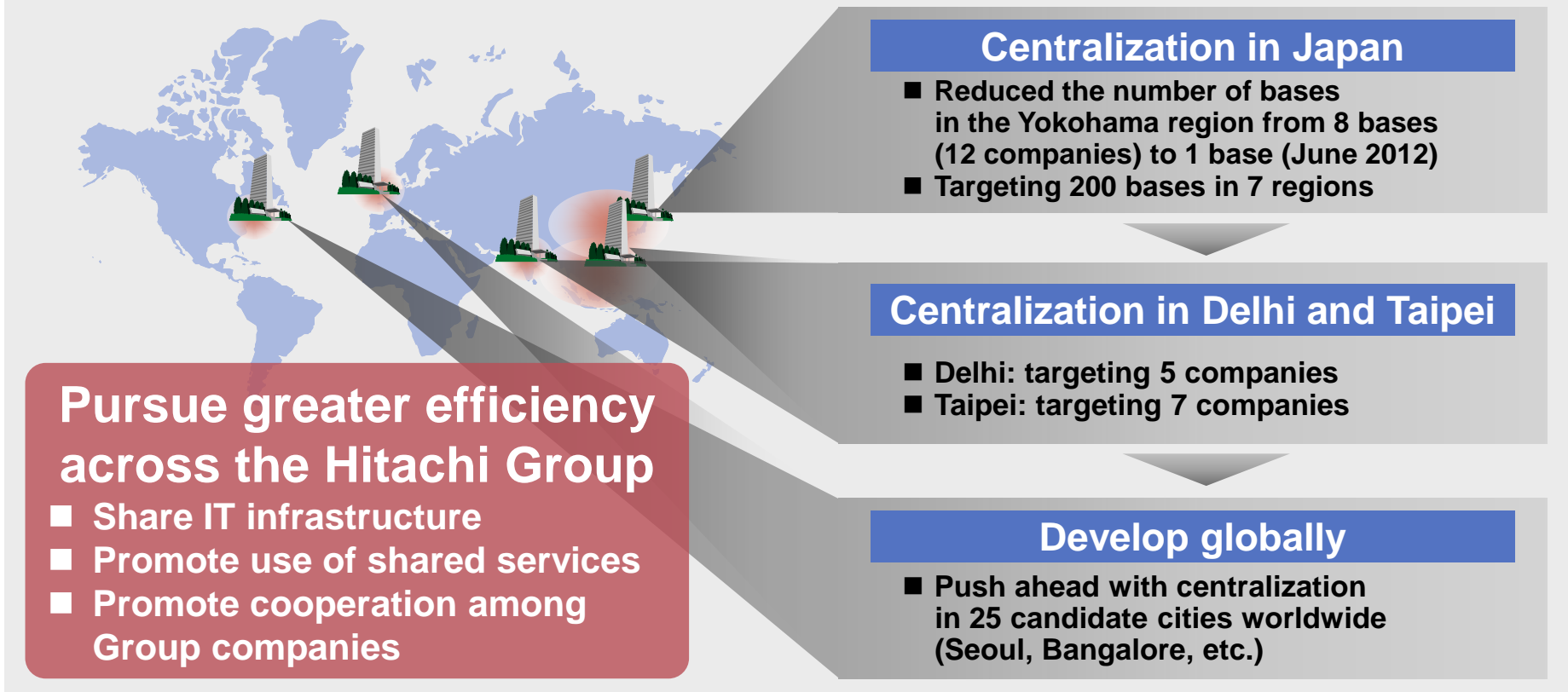
- Implement continuous business reforms
- Standardize and systemize work processes
- Actively utilize BPO



BPO: Business Process Outsourcing

Minimize expenses globally by reducing common operating expenses

Centralize offices, etc. in Japan and overseas: approx. 10% cost reduction*

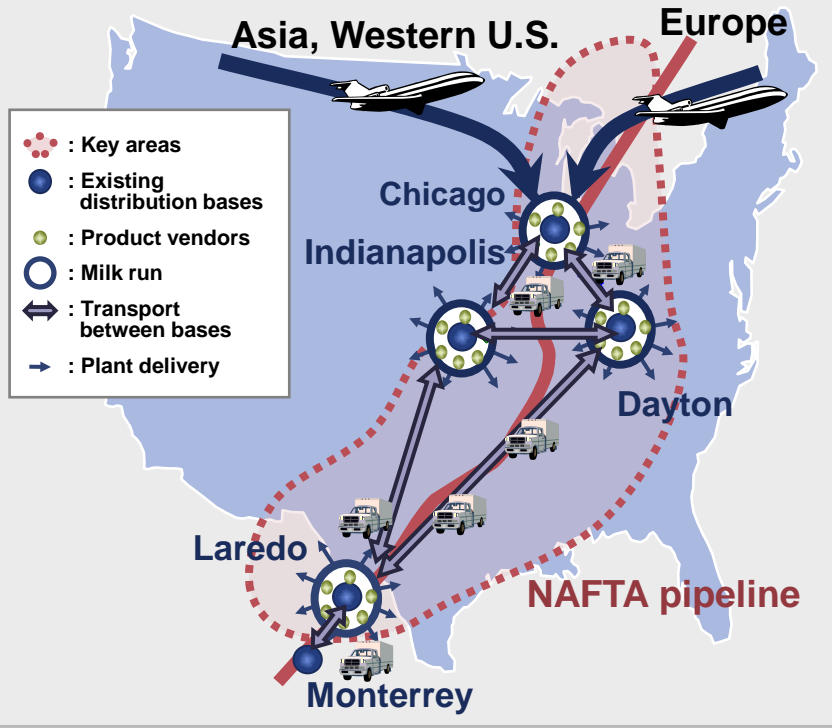


*Cumulative target through FY2015, compared with FY2010

2-4. Indirect Costs (3): Global Logistics Reforms

Share logistics platform on a Group and global basis:
approx. 10% cost reduction*1

Begin operating "Milk run"*2 method in North America

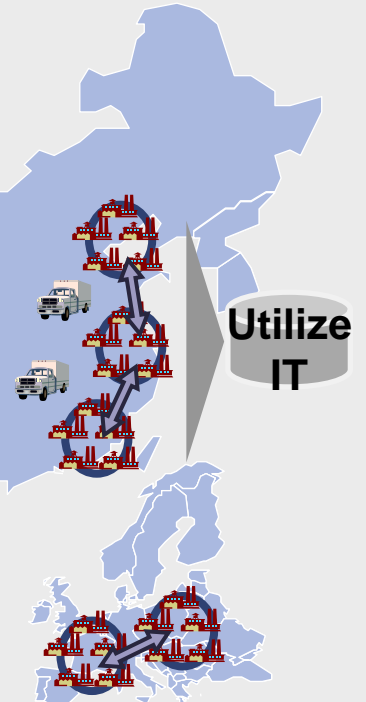


Extend to other regions

Extend to China

- Use know-how in Chinese market
- Share logistics platform on a Group basis
- Leverage IT to improve efficiency further

Extend to Europe, etc.



Reduce SCM costs by utilizing the Hitachi Group's information technologies

*1 Cumulative target through FY2015, compared with FY2010

*2 Milk run: a transport method for collecting freight from multiple bases using one vehicle

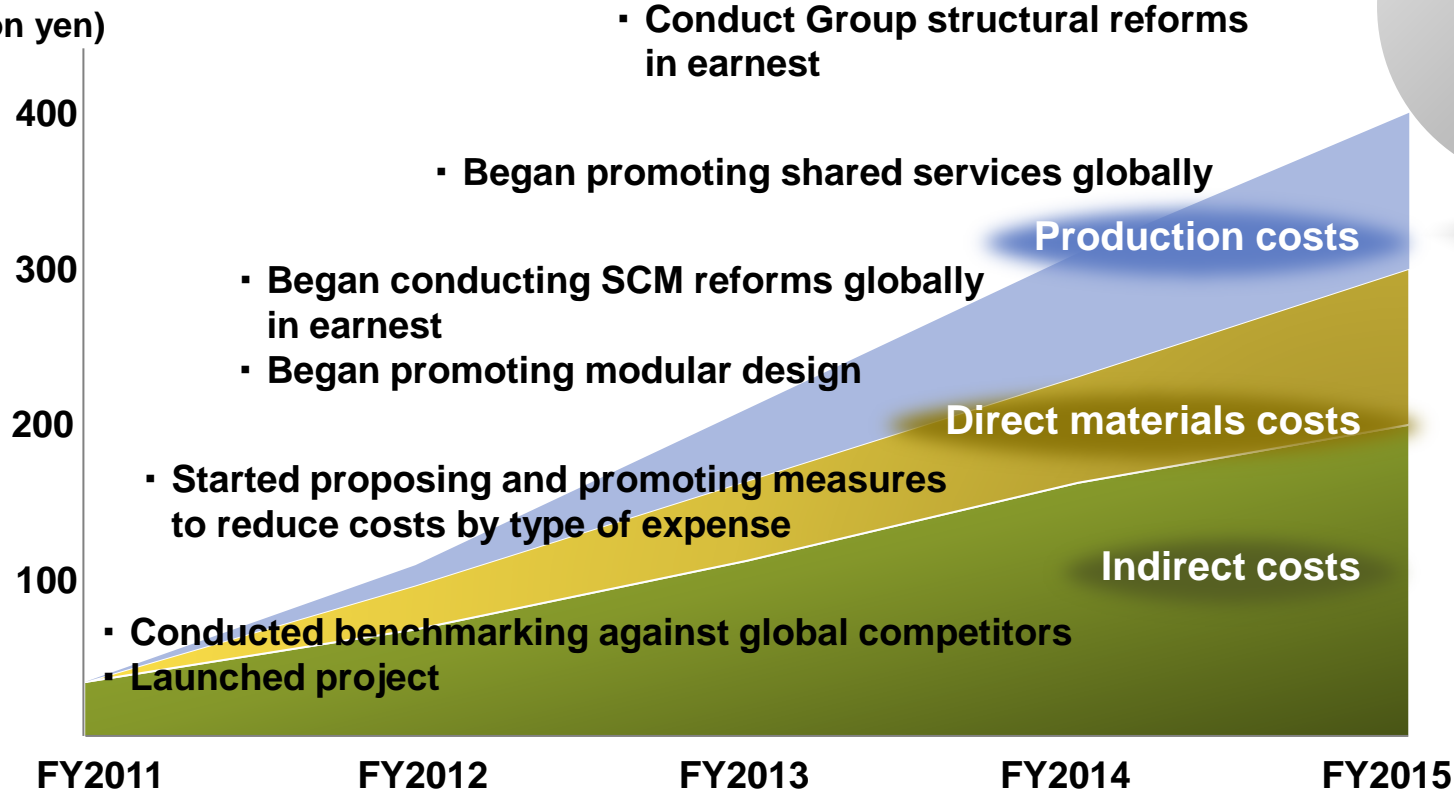
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Accelerate cost structure reforms to achieve targets of 2015 Mid-term Management Plan

(Billion yen)



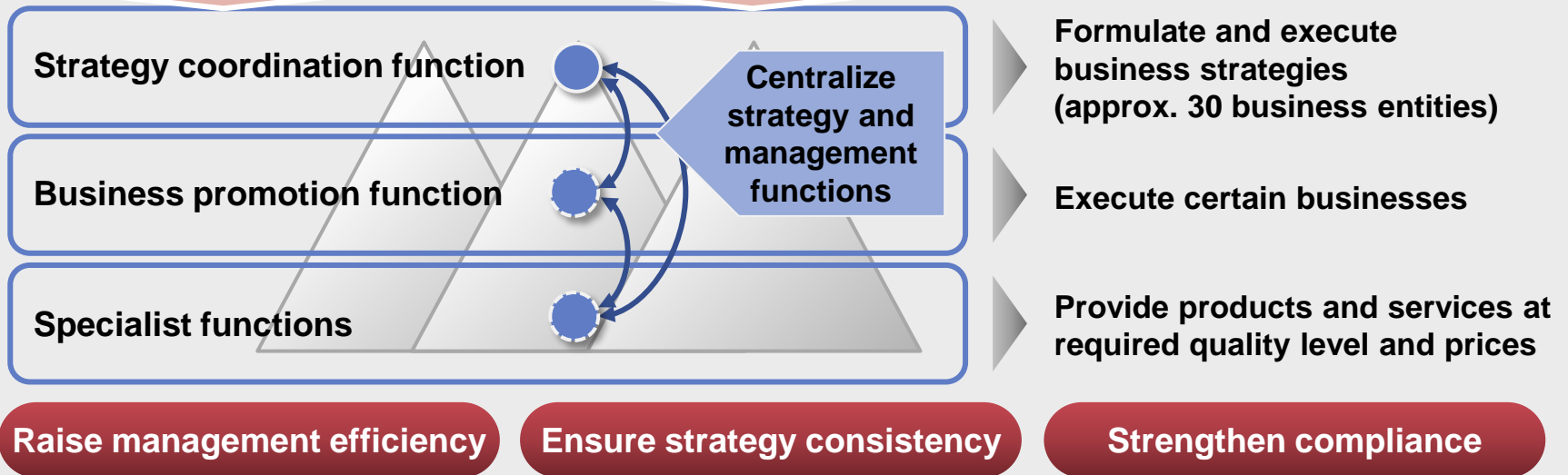
Serving the World
with Our Social
Innovation
Business

Realize reforms aimed at further improving the Group structure

Clarify functions and roles, realize speedy management

Review role of each organization

Reduce overlapping functions



[Existing cost reduction areas] +

Production costs

Direct materials costs

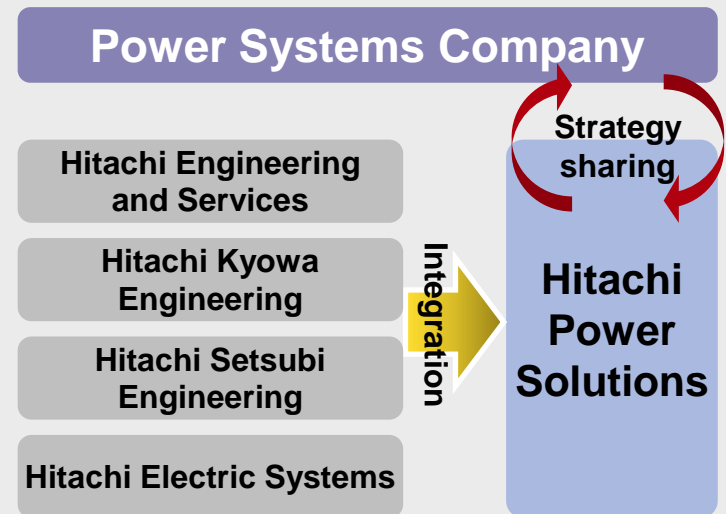
Indirect costs

Create leading examples and extend across the Hitachi Group

Main Group Structural Reforms

① Strengthen competitiveness through company integrations

- Share strategy with parent company, strengthen competitiveness of domestic businesses
 - Integrated four Power Systems Company subsidiaries (April 2013)

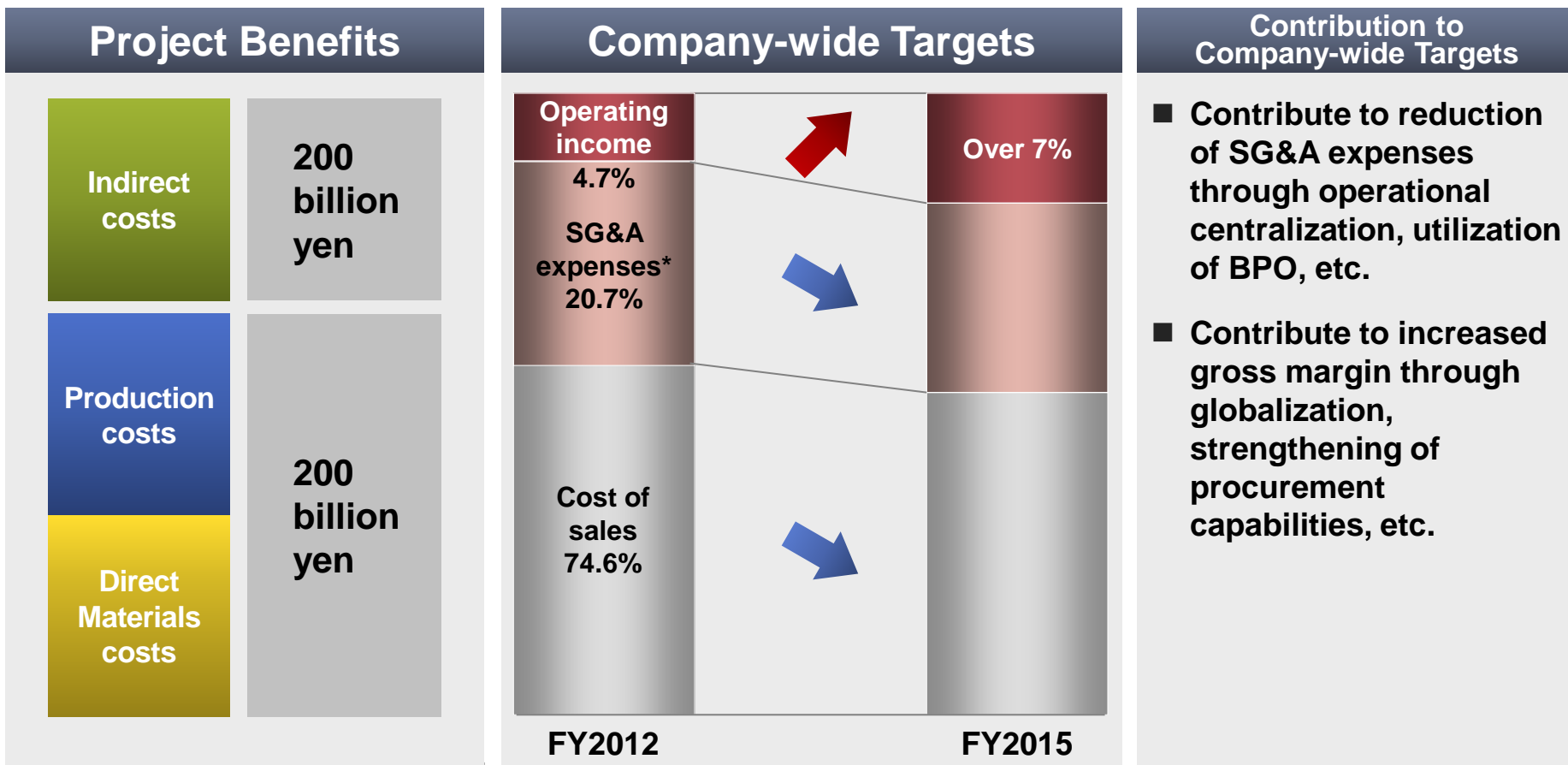


② Transfer and centralize functions to make stronger

- Accelerate globalization, strengthen solutions proposal capabilities
 - Transfer and integrate sales, business planning, and R&D functions of Hitachi Chemical subsidiaries in Hitachi Chemical
 - Transferred Hitachi Cable's logistics business to Hitachi Transport System (March 2013)

3-4. FY2015 Targets

Contribution to achievement of EBIT ratio of more than 7% through cost structure reforms that yield benefits of 400 billion yen



*SG&A expenses include R&D expenditures

Transform to a globally competitive cost structure

Hitachi Smart Transformation Project

HITACHI
Inspire the Next

そのやり方、
変えてみたらどう？

**「今までこうだった」は、
通用しない。**

今、私たちは、仕事のやり方をグローバル経営の観点で見直し、
さまざまな構造改革(スマートトランスフォーメーションプロジェクト)を推進しています。

このプロジェクトを進めるためには、何よりもみなさんの意識変革が必要です。
他部門や他企業との連携を今まで以上に促進するなど、
仕事のやり方を一人ひとりが見直してみてください。

日立を変えるのは、あなたです。
世界をリードする日立をグループ全員の力で創り上げていきましょう。

Hitachi Smart Transformation Project

HITACHI
Inspire the Next

Why should you change
the way of doing business ?

A time to leave the past behind us
The way it was - is not how it will be

Today, we are re-evaluating our current business practices from the global management point of view.
Our new strategy is called "Hitachi Smart Transformation Project" and is promoting various structural
reforms.

The key to success is each individual's awareness of this goal and changing their mindset.

We need to re-think our current practices and try something new. How about collaboration with another
division or even with another company ?

You will change Hitachi.

Let's rebuild Hitachi to be a world leader together.

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;
- 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 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.

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