

Infrastructure Systems Business Strategy

Infrastructure Systems Company

Hitachi Industrial Equipment Systems Co., Ltd.

Hitachi IR Day 2013

June 13, 2013

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President & CEO

Infrastructure Systems Group and

Infrastructure Systems Company

Hitachi, Ltd.

Infrastructure Systems Business Strategy

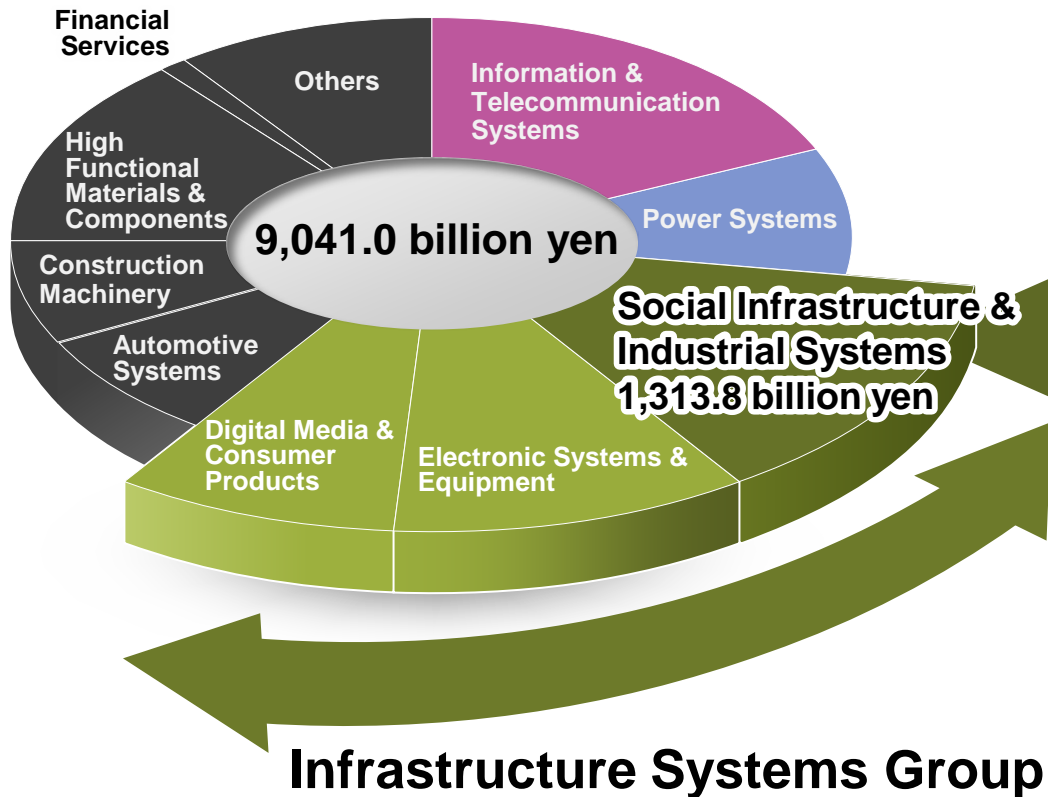
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- 1. Business Overview**
2. Market Environment
3. Performance Summary
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1-1. Position of Social Infrastructure & Industrial Systems Segment

Provide total systems for supporting social and industrial infrastructure

Consolidated Revenues (FY2012)



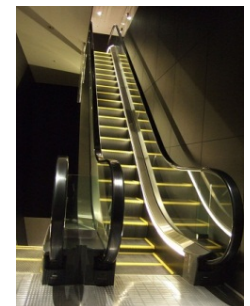
Infrastructure Systems Business



Rail Systems Business



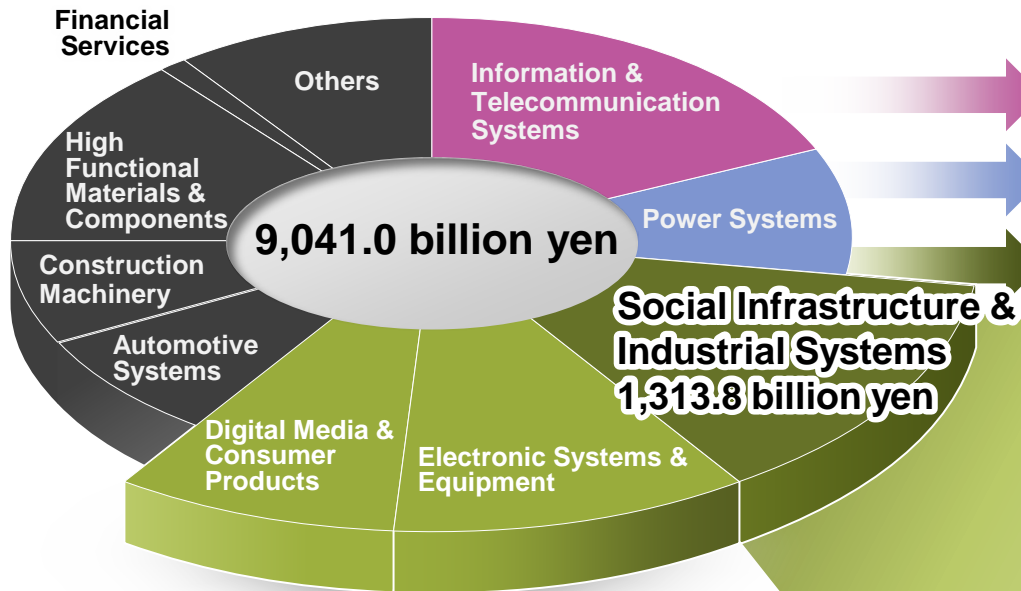
Urban Planning and Development Systems Business



1-2. Position of Infrastructure Systems Business

Drive the social infrastructure business, centered on Social Infrastructure & Industrial Systems

Consolidated Revenues (FY2012)



Infrastructure Systems Business

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

+

Infrastructure business centered on the Social Infrastructure & Industrial Systems Segment
617.3 billion yen

||

Infrastructure Systems Company
Hitachi Industrial Equipment Systems Co., Ltd.

785.5 billion yen

Expand total solutions for social infrastructure globally

Infrastructure solutions business

- Energy management systems
- Water environment systems
- Smart mobility

Plant systems business

- Chemicals and pharmaceuticals
- Air conditioning
- Oil&Gas
- Industrial components for steel plants

Solutions and services



Information systems

Engineering



Monitoring & control systems

Components



Controllers



Inverters



Motors

Top Share in Japan



Distribution transformers



Compressors



Ink-jet printers



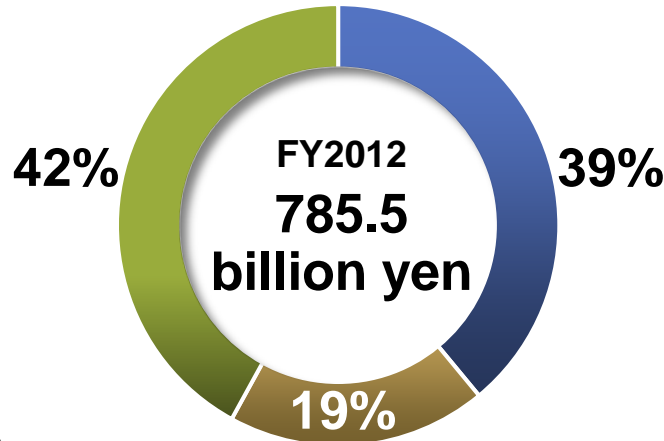
Operation and services



Design and construction



Large-sized components



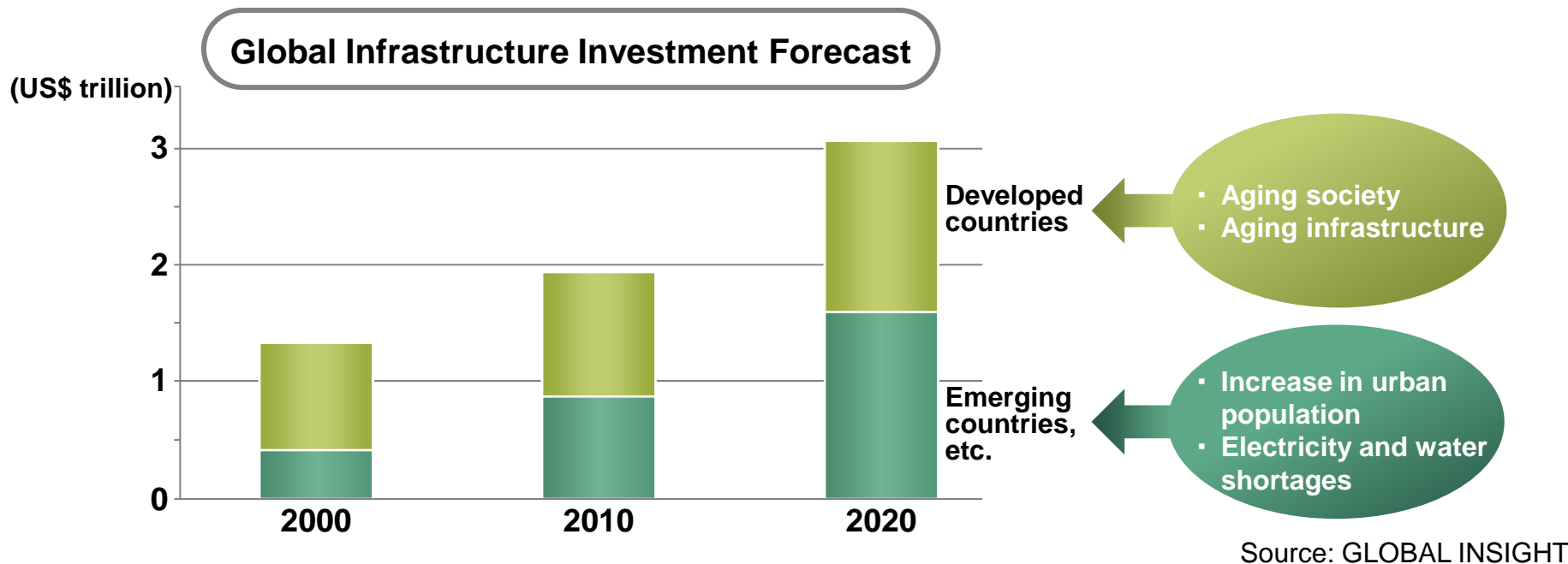
Components business

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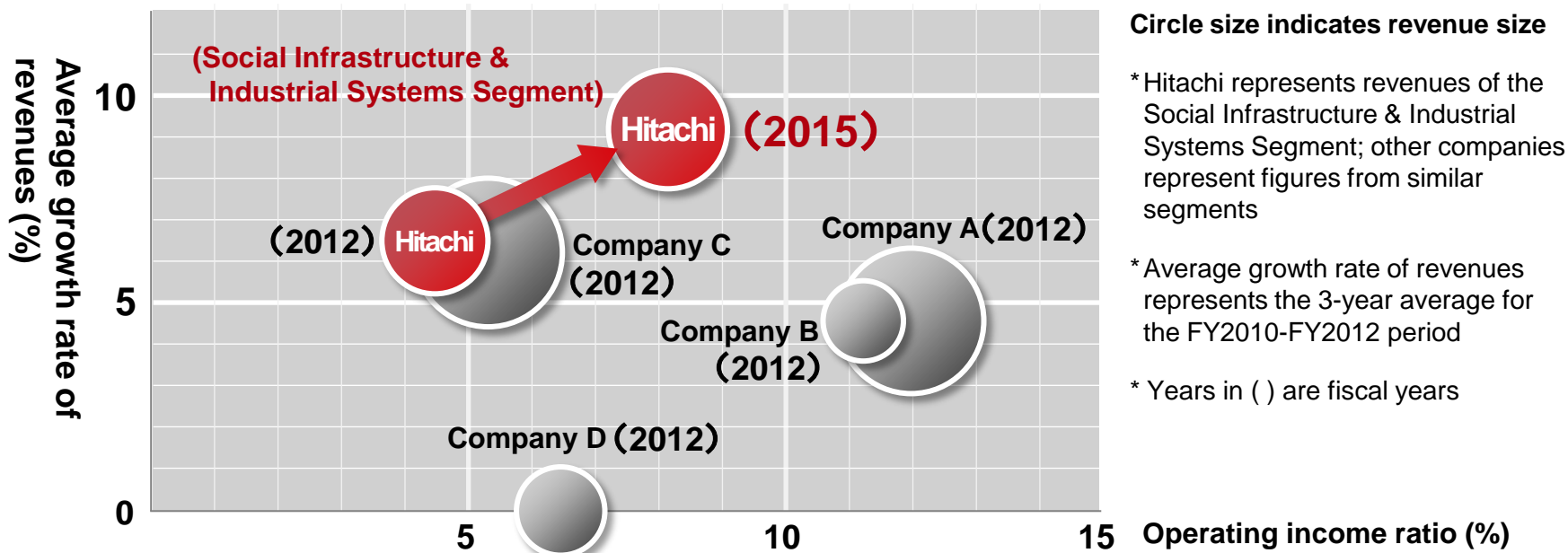
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Synchronized improvement of social infrastructure and plant development



	Business Opportunities	Growth rate (2000 → 2020)
Developed countries	Increased investment to rebuild and improve the efficiency of infrastructure	1.6 times
Emerging countries, etc.	Increased investment in social and industrial infrastructure such as natural resources, water, electricity and transportation	4.0 times

Realize growth by expanding service business and accelerate global business development



Strengths

- Provide total solutions from components to engineering, procurement and construction (EPC) and information and control systems
- Cover a broad range of infrastructure business domains through cooperation with Hitachi Group companies

Initiatives

- Expand service business to improve profitability
- Strengthen the global supply chain to expand in emerging countries

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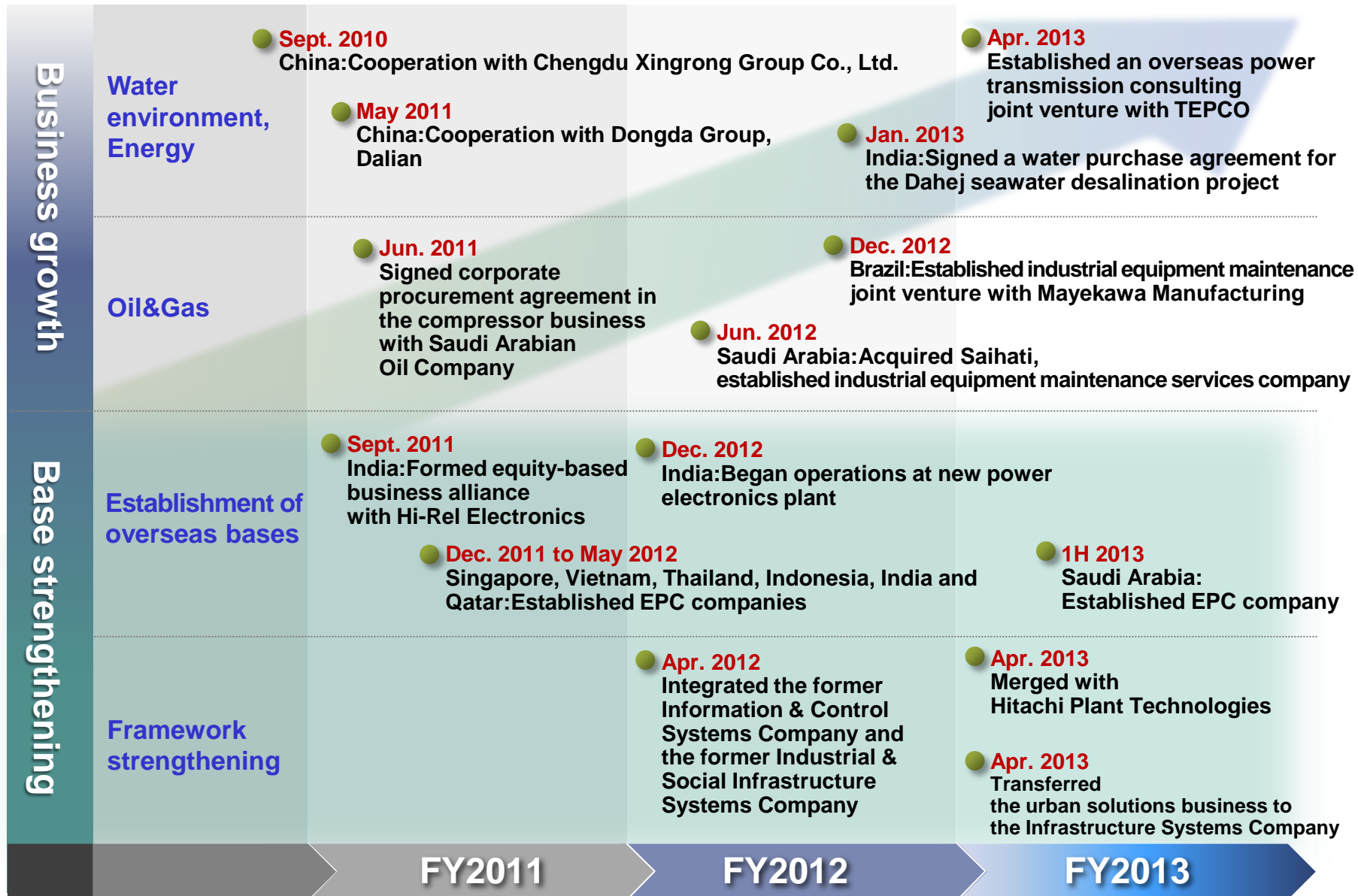
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3-1. Performance Summary(1) FY2012 Results

	FY2010 (Results)	FY2011 (Results)	FY2012 (Results)	FY2012 (Target as of June 2012)
Revenues	715.5 billion yen	769.7 billion yen	785.5 billion yen	790.0 billion yen
Overseas revenue ratio	17%	19%	21%	23%
EBIT (operating income)	16.8 billion yen (16.0 billion yen)	33.4 billion yen (30.7 billion yen)	31.1 billion yen (28.6 billion yen)	34.5 billion yen (32.7 billion yen)
EBIT ratio (operating income ratio)	2.3% (2.2%)	4.3% (4.0%)	4.0% (3.6%)	4.4% (4.1%)

The FY2012 overseas revenue ratio and EBIT (operating income) ratio were below target mainly due to reduction in capital expenditures on power systems in Japan and the temporary slowdown in the Chinese economy

3-2. Performance Summary(2) Strengthen base for growth



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4-1. Business Strategy

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

FY2015 Targets

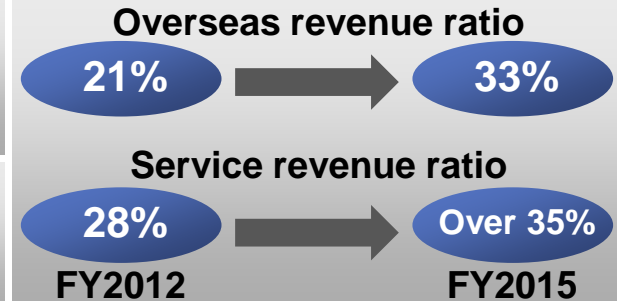
- Revenues: 1 trillion yen
- EBIT (operating income) ratio: over 7%

Growth drivers

Create customer value

Strengthen solutions capabilities

Expand service business



Establish growth platform

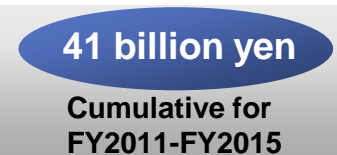
Implement operation reforms

Strengthen global supply chain

Strengthen management base (Hitachi Smart Transformation Project)



Cost reduction benefits



Investments for FY2013-FY2015
(including capital expenditures)

80 billion yen

Drive growth by strengthening solutions capabilities to provide answers to business challenges and expand service business

Achieving a sustainable society

Smart cities
Smart grids Smart mobility
Intelligent water systems

- Leading-edge expertise
- Experience

Respond to global customers' issues

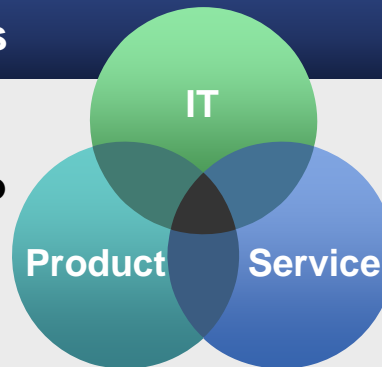
Energy-saving, business continuity, productivity enhancement, etc.

Strengthen solutions capabilities

- Apply demonstrated technologies
- Leverage distinctive technologies to expand into growth markets
- Provide total solutions with total engineering

Expand service business

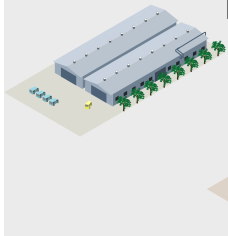
- Strengthen cloud-based lifecycle support business
- Expand infrastructure operation service business



4-2-2. Strengthen solutions capabilities(1) Apply demonstrated technologies

Provide heat and electricity energy management solutions for customers' energy-saving needs

Plants

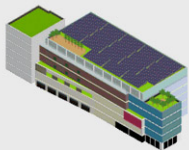


Buildings



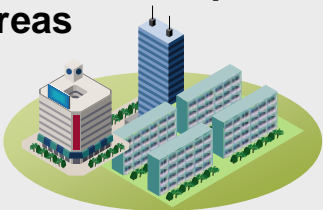
- Peak-time cuts and shifts (FEMS, BEMS)
- Environment and BCP (solar power generation, storage battery solutions)

Shopping malls



- Visualization of electrical usage for tenants
- ESCO services

Urban development areas



- Improve real estate values (area EMS, EV charging infrastructure)
- Solutions for various lifestyles (energy-saving guidance, reward point services)

Packaging of leading-edge technologies and know-how

Advanced Demonstration Projects

- Kashiwa-no-ha (area EMS)



Provided by Mitsui Fudosan Co., Ltd.

- Hawaii (Island smart grid)



- In-house (FEMS, BEMS)



FEMS : Factory Energy Management System BEMS : Building Energy Management System
BCP : Business Continuity Plan ESCO : Energy Service Company
EMS : Energy Management System EV : Electric Vehicle

4-2-3.

Strengthen solutions capabilities(2)

Leverage distinctive technologies to expand into growth markets

Provide total solutions in the chemical and pharmaceuticals fields

Growth Markets

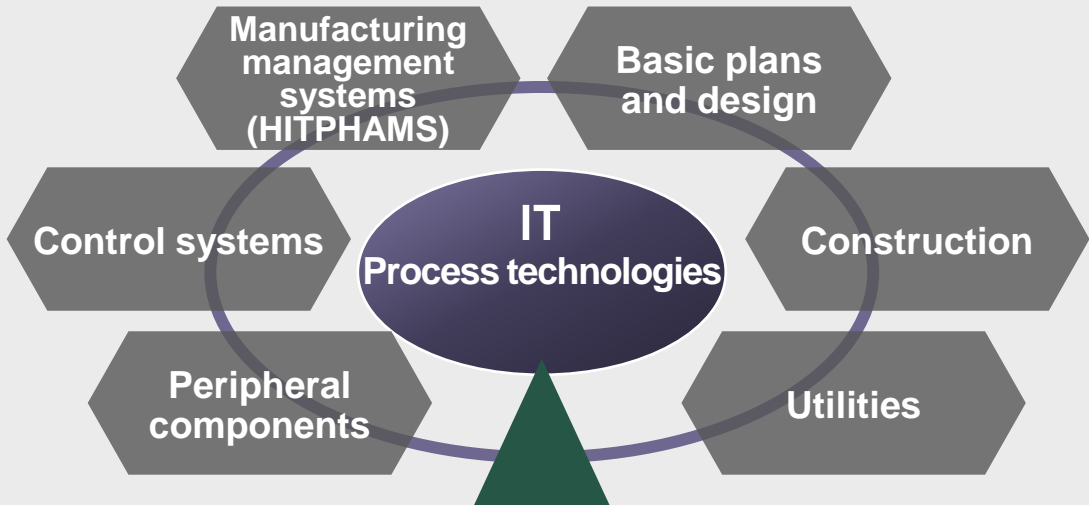
- High-functional materials, bioplastics
- Anti-body drugs, vaccine



High-functional plastics production facility



Total engineering



- High-viscosity plastic manufacturing technologies (chemical plants)
- Fermentor design simulation technologies (pharmaceutical plants)

Expand into growth markets in Japan and Asia

4-2-4.

Strengthen solutions capabilities(3)

Provide total solutions with total engineering

Provide one-stop solutions for plants and industrial parks of stable operation and energy-saving

Production systems

- Monitoring and control systems
- Processing equipments

Utilities

- Substations
- Amorphous transformers



FY2012 Energy Conservation Grand Prize*

- Air conditioning and water treatment systems
- Wind and solar power generation systems



Plants and industrial parks

Total engineering

- Consulting, design support
- Global procurement
- Project management
- Maintenance and management services

Power Equipment

Motor drive systems

- High-efficiency motors
- Industrial inverters
- Uninterrupted power supplies

Air Powered Systems

Compressors



* Sponsor: The Energy Conservation Center, Japan

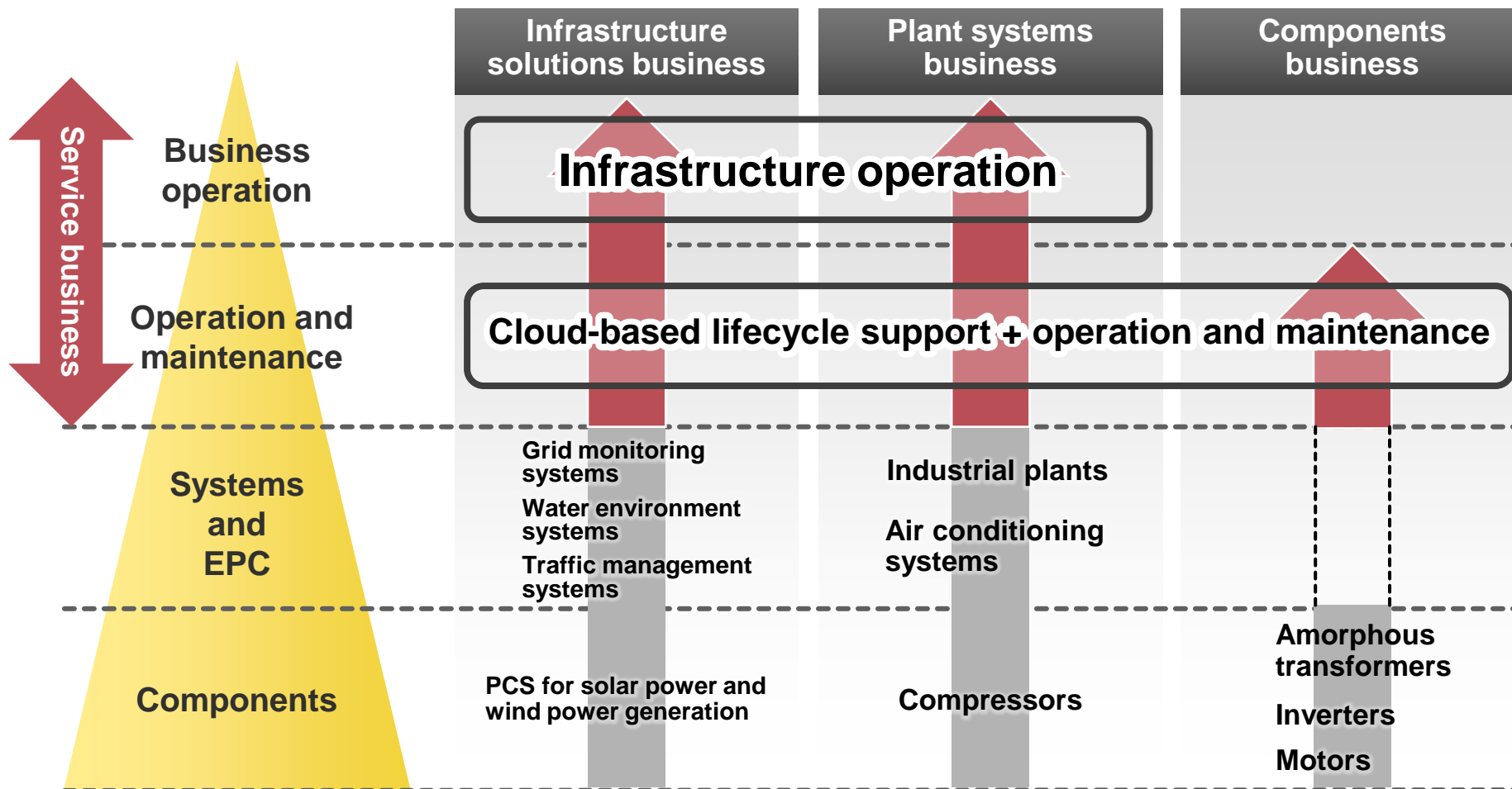
Accelerate global business development focusing on the Asian belt zone

4-2-5. Expand service business

Provide total services from operation and maintenance to business operation

Service revenue ratio

FY2012	FY2015
28%	Over 35%



PCS: Power Conditioning System

4-2-6. Expand service business(1) Strengthen cloud-based lifecycle support business

“IT × plant know-how” support for raising utilization rate and improving management efficiency of customers’ facilities

- Remote monitoring and diagnostics services for cranes (since December 2011), and air compressors (since April 2013)
- Comprehensive maintenance and management services for water purification and sewage treatment facilities (since April 2011)

Customer



Owners, site operators

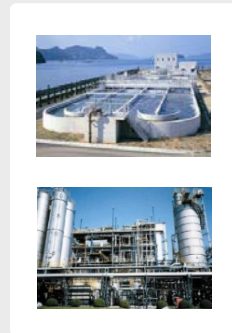
Improved utilization rate

Efficient plant and equipment operation

Sites



Components



Plants

- Remote monitoring
- Energy-saving and predictive diagnosis of faults
- Preventive maintenance, etc.



Hitachi Group

- Plant and product knowhow (manufacturing, EPC, maintenance)



- Big data utilization



- Highly reliable cloud computing services



Create a business model utilizing business operation company knowhow

Stable Earnings Model Expansion

- **BOO**
 - **Seawater desalination business**
(Dahej, India)
- **Profit sharing-type model**
 - **Water environment business**
(developed countries in Europe, North America and elsewhere)



Introduce IT and infrastructure technologies

- **Optimal management simulator for water resources**
- **Water leak detection, facility management systems, etc.**

Business operation knowhow

Partnership

- **Water environment field**
Cooperation with Hyflux (Singapore), which has a track record in large seawater desalination projects

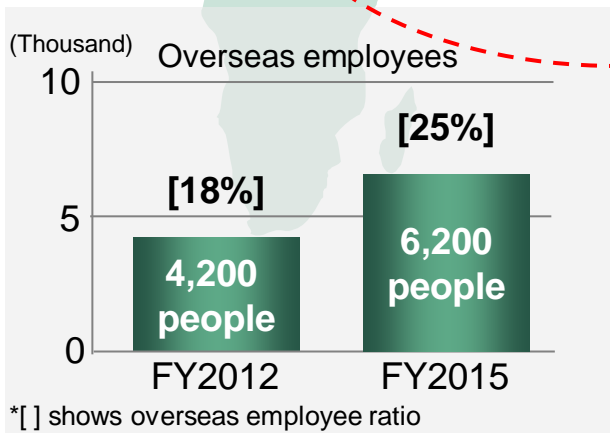
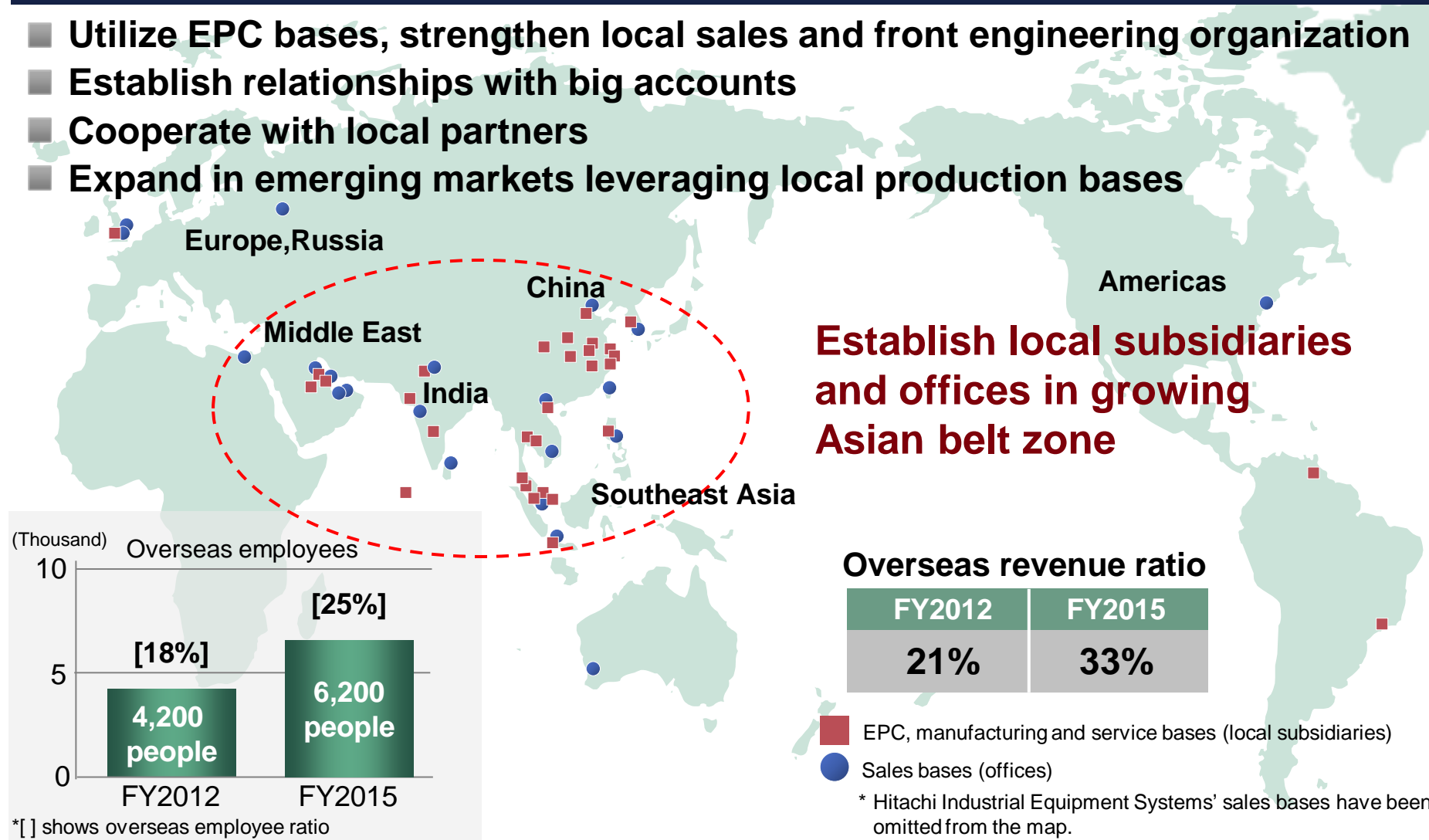


Concluded Water Purchase Agreement for Dahej seawater desalination project in India (January 2013)

- **Energy field**
Established a company with TEPCO, which has expertise related to planning, operating and maintaining power transmission facilities (April 2013)

Expand customer-centric businesses in growth markets

- Utilize EPC bases, strengthen local sales and front engineering organization
- Establish relationships with big accounts
- Cooperate with local partners
- Expand in emerging markets leveraging local production bases



4-3-2.

Establish relationships with big accounts

Expand the oil & gas solutions business by working collaboratively with big accounts within resource-rich countries

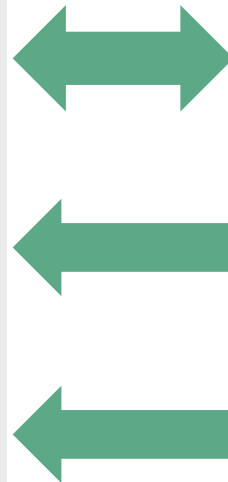
Saudi Arabian Oil Company

Saudi Arabian state-run oil company



Picture image

- Oil and gas production and refining
- Petrochemical product sales
- Urban development, etc.



Hitachi Group

- Signed corporate procurement agreement related to supply and service of compressors (June 2011)
- Won turn-key order for EPC utility facilities for large oil refinery (December 2012)
- Propose Hitachi Group's oil & gas- and infrastructure-related products and solutions

Extend business development to other resource-rich countries (Brazil, Russia, etc.)

4-3-3.

Strengthen global supply chain(2)
Expand in emerging markets leveraging local production bases

Increase production of power electronics products in India, and expand into growth markets

Export core modules,
license technologies



Hitachi Hi-Rel Power Electronics Pvt. Ltd.(India)



- Manufacture and sell high-voltage inverters, uninterruptible power supplies, solar power generation PCS, etc.
- Conduct R&D locally matching regional needs

Expand into the industrial plant and oil and gas markets through EPC bases

Drive robust cost structure reforms

2012
Mid-term
Management
Plan

Main initiatives

- Establish manufacturing, EPC and service bases to build a global supply chain
- Expand overseas procurement and centralized purchasing, strengthen engineered sourcing
- Reduce operating expenses, standardize workflow, and promote the use of shared services

Create synergies from organizational restructuring, in addition to existing initiatives

2015
Mid-term
Management
Plan

Main initiatives

- Centralize overlapping operations and resources, and improve efficiency
- Build an optimal business framework, including Group companies
- Reduce costs through modular design-based product reforms, and process reforms due to the application of standard work breakdown structure
- Nourish local staff and appoint locals to management positions, and promote localization

(Benefits) FY2011-FY2015 (cumulative): 41 billion yen

4-3-5. Strengthen Management Base(2) Strengthen Cash Flow Management

Issues and Areas to Strengthen

Improve operating cash flows

- Generate higher business earnings and accelerate globalization
- Improve number of days of working capital

Improve investment efficiency

- Improve investment efficiency
- Early return of investments

Earnings Improvement Initiatives

Expand service business to secure stable earnings and expand production and procurement in optimal locations globally

Reduce lead time by promoting modular design

Prioritize investments

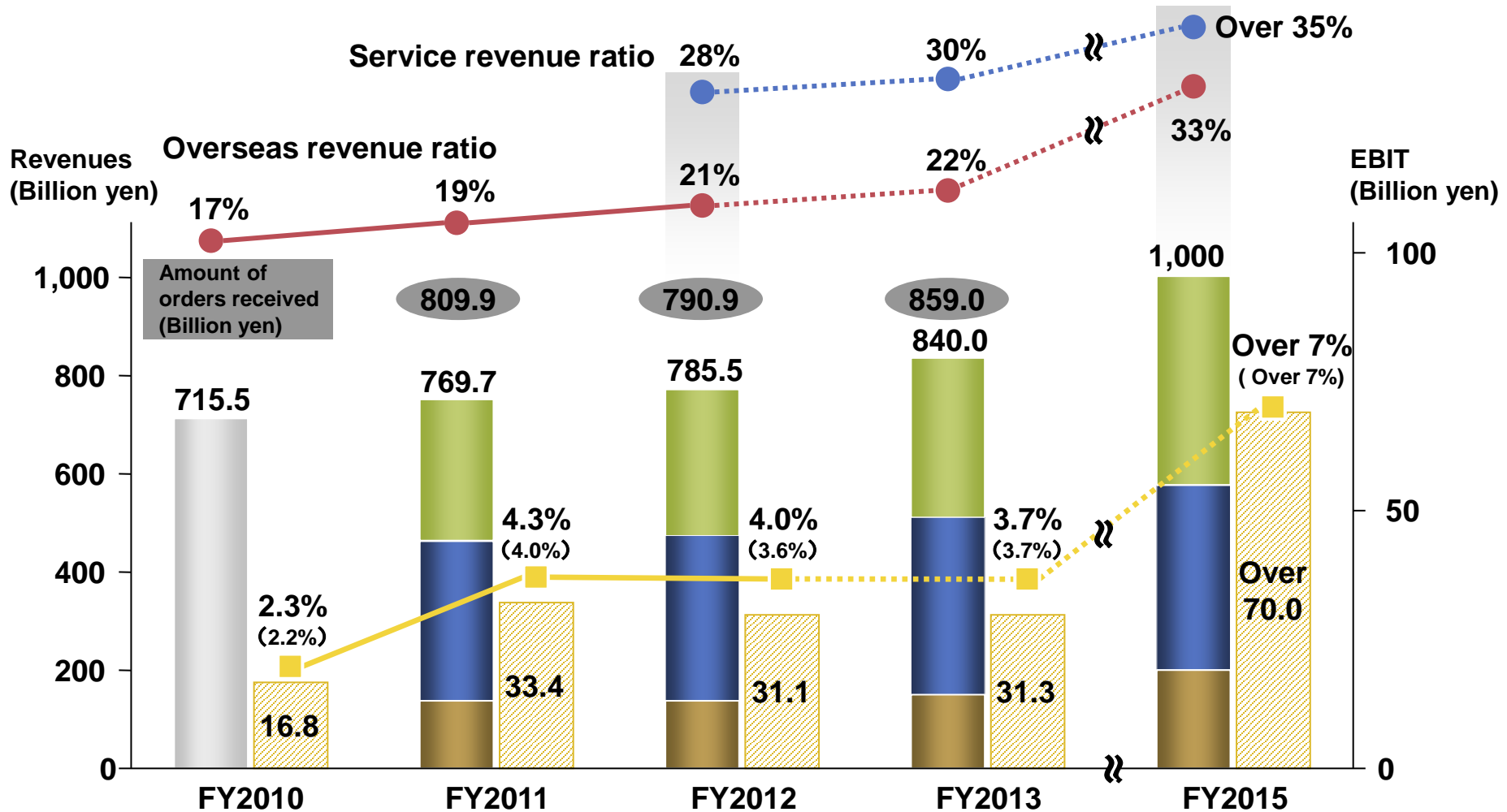
Utilize Hitachi Capital to invest in and recoup investments in long-term service business and increase efficiency

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5-1. Business Performance Trends



* 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 Targets

- Revenues: 1 trillion yen (overseas revenue ratio: 33%)
- EBIT (operating income) ratio: over 7%
- Gross margin: 1.7 point improvement (Vs. FY2012)
- SG&A expense ratio: 1.8 point improvement (Vs. FY2012)

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

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.

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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;
- 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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