
Infrastructure Systems Business Strategy

Hitachi IR Day 2014

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

June 12, 2014

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President & CEO
Infrastructure Systems Company
Infrastructure Systems Group
Hitachi, Ltd.

Infrastructure Systems Business Strategy

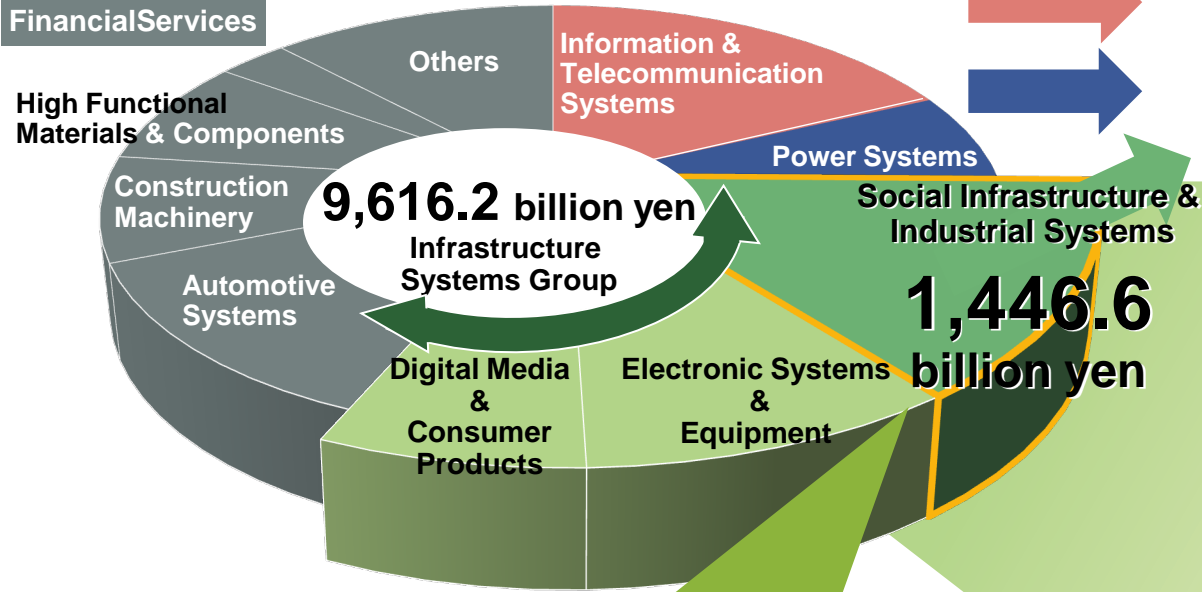
Contents

- 1. Business Overview**
2. Market Environment
3. Business Strategy
4. Business Performance

1-1. Position of Infrastructure Systems Business

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

Consolidated Revenues (FY2013)



Systems and components for information, power and transportation fields
178.1 billion yen

+

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

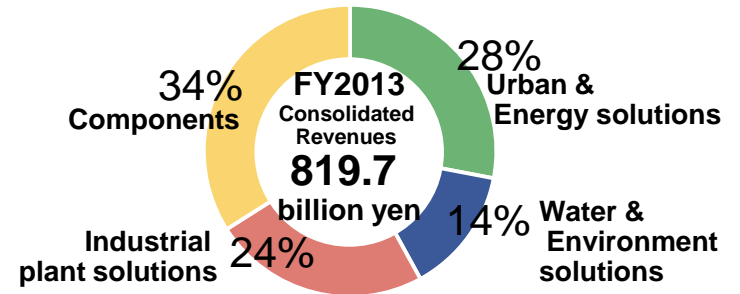
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Infrastructure Systems Company Hitachi Industrial Equipment Systems Co., Ltd.
819.7 billion yen

<p>Infrastructure Systems Business</p>	<p>Urban Planning and Development Systems Business</p>	<p>Rail Systems Business</p>
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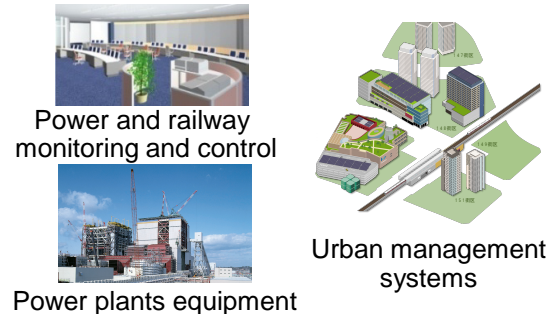
Become the best solutions partner by providing answers to business challenges faced by global customers

- Reorganize operations into four business domains in order to respond swiftly to market conditions and accelerate global business expansion
- Provide one-stop, total solutions ranging from components, systems, EPC and services

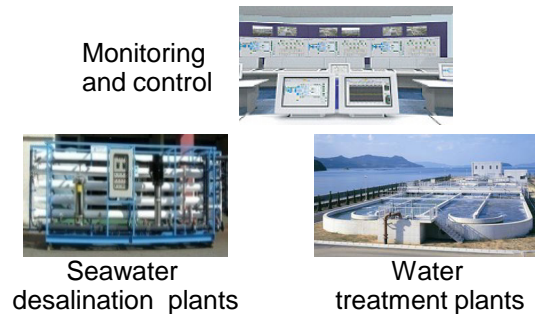


*Figures for the four business domains represent ratios before deducting inter-business sales

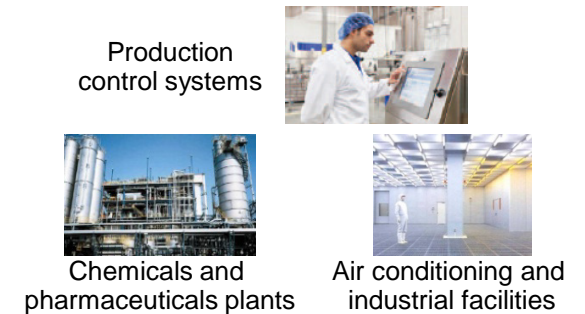
Urban & Energy solutions



Water & Environment solutions



Industrial plant solutions



Components



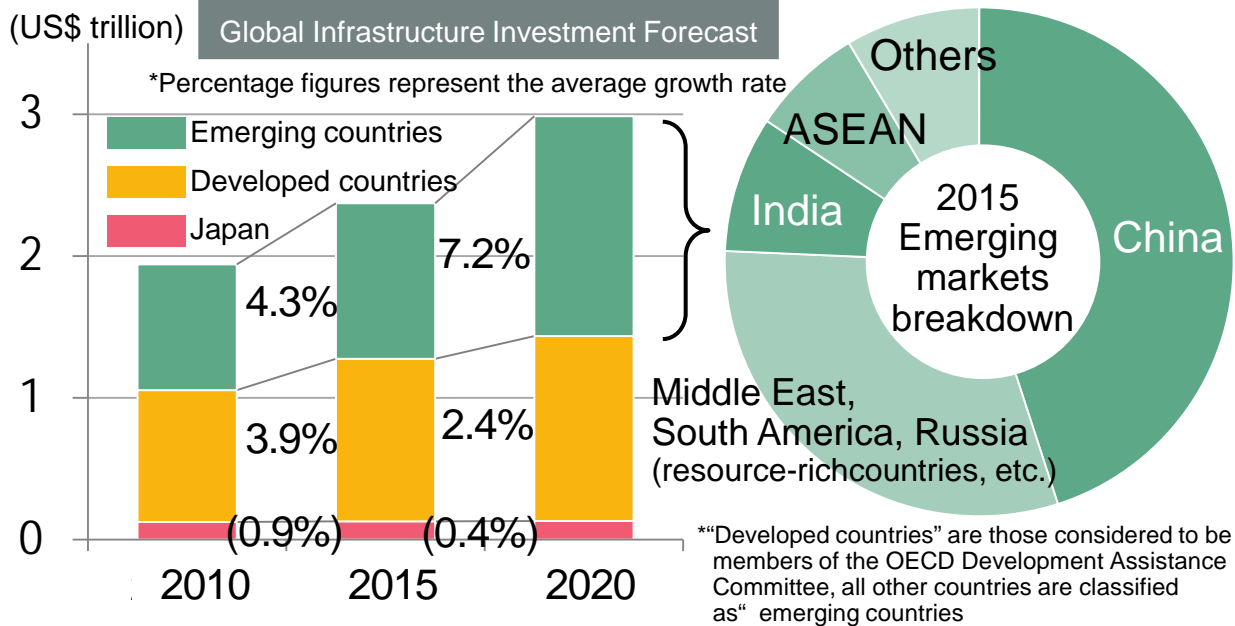
EPC : Engineering, Procurement and Construction UPS : Uninterruptible Power Supply

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The infrastructure market is expanding globally, mainly driven by emerging countries

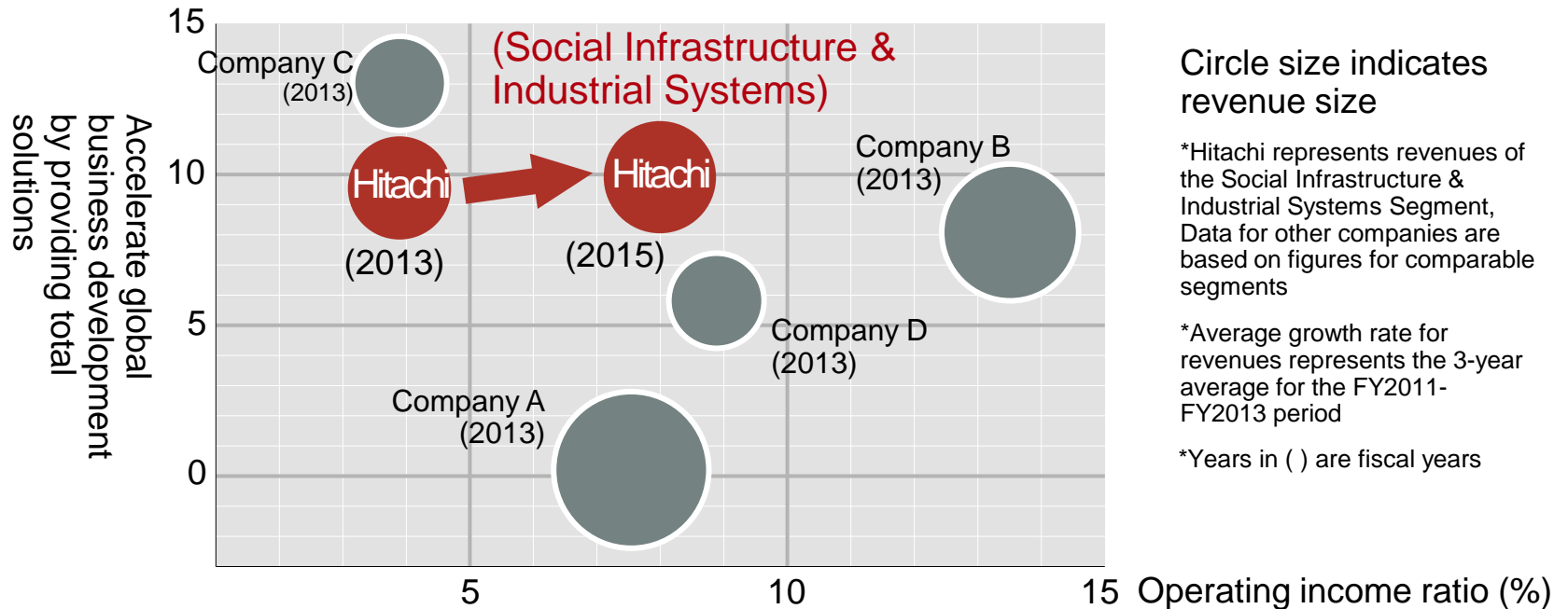


Average growth rate		
	2010 ~ 2015	2015 ~ 2020
China	3.7%	8.2%
Resource-rich countries	5.7%	4.6%
India	3.7%	13.5%
ASEAN	5.9%	4.9%
Others	2.6%	5.9%

Source: Prepared by Hitachi based on GLOBAL INSIGHT data

Location	Business Opportunities
Emerging countries	<ul style="list-style-type: none"> Resource-rich countries: Oil & gas and mining markets Asia (ASEAN), India, and China: Energy, water and industrial infrastructure markets in step with economic development
Developed countries	<ul style="list-style-type: none"> Energy saving and highly efficient products and solutions in response to the low-carbon society and environmental consideration
Japan	<ul style="list-style-type: none"> IT and capital investment in line with the introduction of new energy and electricity reforms Measures against aging infrastructure and disaster preparedness based on Japan's National Resilience Plan

Accelerate global business development by providing total solutions



Strengths

- ▢ Providing total solutions ranging from components, systems, EPC and services
- ▢ Covering a broad range of infrastructure business domains through cooperation with Hitachi Group companies

Initiatives

- ▢ Expand the service business and realize high profitability structure
- ▢ Strengthen the global supply chain to expand in emerging countries

Infrastructure Systems Business Strategy

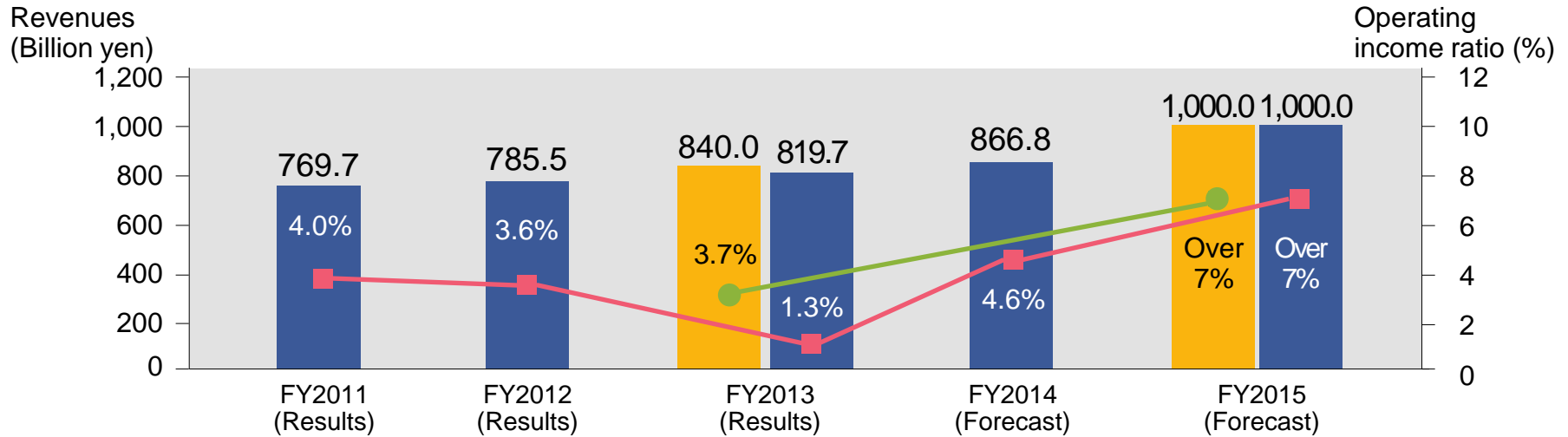
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3-1. Differences between Forecasts and Actual Results HITACHI Inspire the Next

■ Revenues (results and current forecasts)
 ■ Revenues (previously disclosed)
 ■ Operating income ratio (results and current forecasts)
 ● Operating income ratio (previously disclosed)

*Figures calculated based on previous disclosures

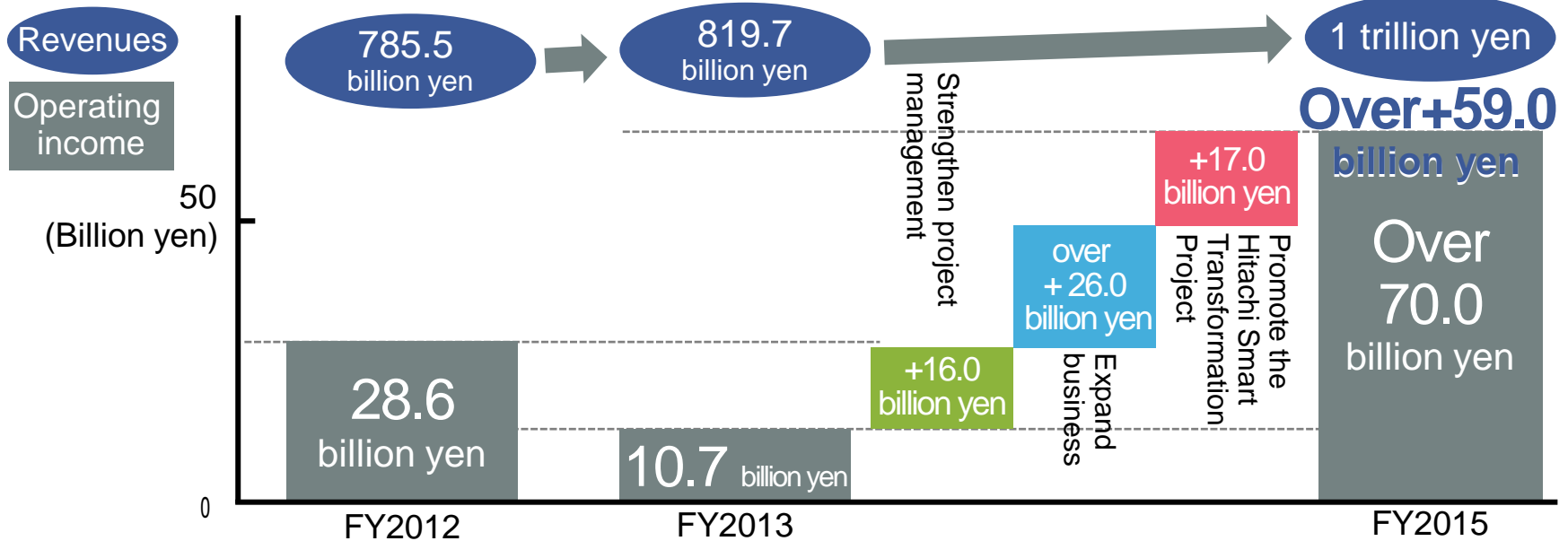


<Main reasons for differences>

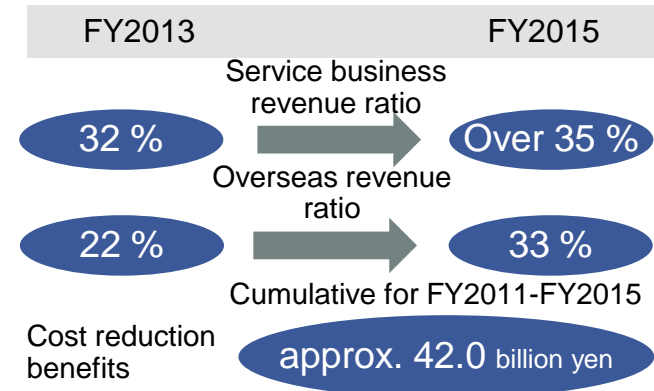
- I In FY2013, revenues and the operating income ratio were below target mainly due to a decline in project profitability
- I In FY2015, we aim to achieve our targets by developing business globally and expanding the service business, as we realize the benefits of the structural reforms carried out

3-2. Strategies for Achieving the 2015 Mid-term Management Plan Targets

Achieve FY 2015 targets by promoting growth strategies and structural reforms



- Reduce the risk of cost overrun by strengthening project management
- Expand business
 - Increase value added of businesses and accelerate global expansion (respond swiftly to market conditions and launch new solutions)
 - Expand business around strong components and services
- Further improve profitability by promoting the Hitachi Smart Transformation Project and active investment



3-3. Reduce the risk of a decline in profitability by strengthening project management

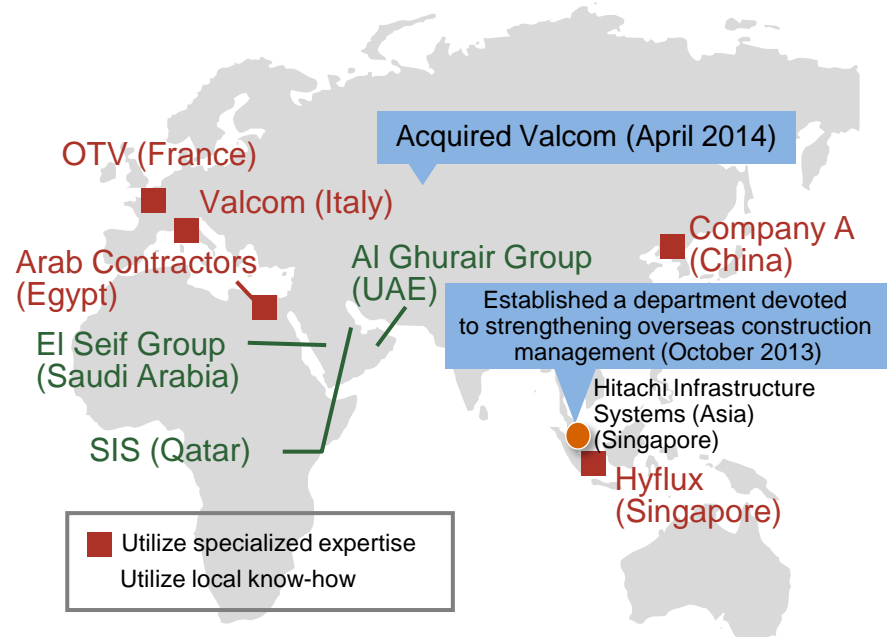
Remove risk by strengthening organizational capabilities and partnerships

Enhance the capabilities of project management organizations

- n Established a department devoted to project management (under the company president & CEO, August 2013)
- n Rigorously implement “cold eye reviews” prior to accepting orders
 - l Evaluate projects from a third-party (expert) perspective (estimated cost, risk, and profitability)
- n Strengthen phase gate management by appointing phase progress managers
- n Encourage the use of best practices internally and Strengthen the development of project management personnel (Project management tool, EPC know-how, project manager training programs, etc.)

Enhance the overseas EPC business platform

- n Established a department devoted to strengthening overseas construction management (October 2013 · located in Hitachi Infrastructure Systems (Asia), Singapore)
- n Utilize specialized expertise and local know-how through investments and partnerships



Increase value added of solutions and accelerate global expansion

Urban & Energy solutions

- n Expand business in the power system reforms market
- n Capture a greater share of new markets for urban solutions

Water & Environment solutions

- n Capture a greater share of the domestic water and sewage market and improve earnings
- n Promote large overseas projects and enter the oil and gas field

Industrial plant solutions

- n Expand the EPC business in growing Asian markets
- n Total engineering centered on IT and core technologies

Expand highly profitable businesses around strong components and services

Components

- n Develop markets for large components in resource-rich countries by tracking big accounts closely
- n Capture a greater share of small and medium-sized products that cater to high efficiency and energy savings
- n International business expansion of power electronics products across overseas locations

Services

- n Strengthen the lifecycle support business based on “IT combined with Infrastructure” technology
- n Expand service businesses that provide solutions for problems of customers

Expand technologies developed in the power and transportation infrastructures into new markets

Expand business in the power system reforms market

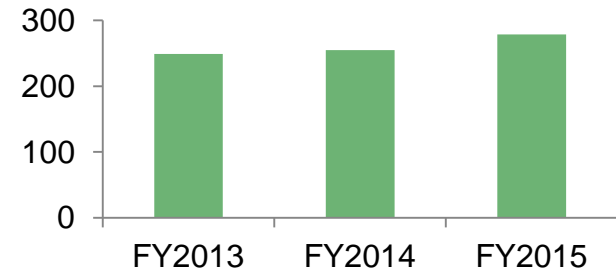
- n Focus on core systems
 - l Wide area system operation, Power trading, Grid stabilization systems
 - l Total solutions for gas and new energy
- n Utilize “Control combined with IT” developed through large-scale systems in the power, transportation and finance fields
- n Promote demonstration tests of grid stabilization systems in North America

Capture a greater share of new markets for urban solutions

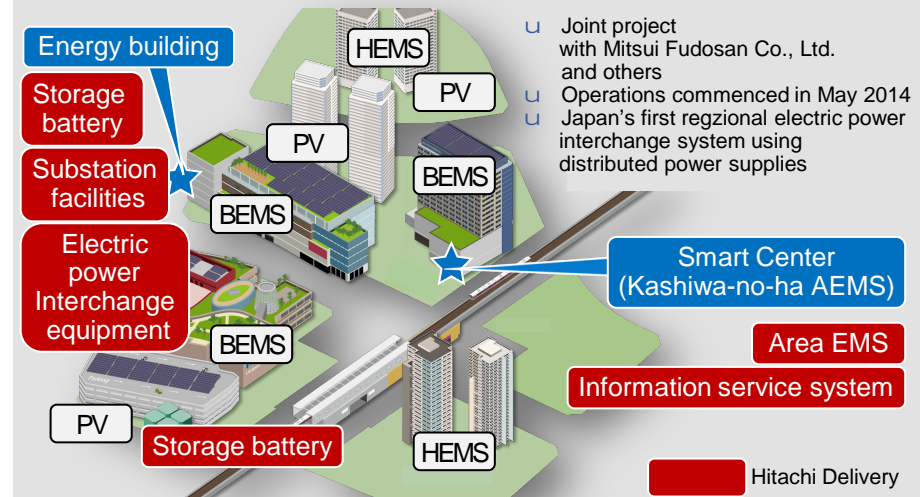
- n Combine Kashiwa-no-ha’s achievements and know-how to expand sales (community-wide, town-wide energy management)
- n Bring cloud-based integrated EMS “EMilia”* to market (October 2014)
- n Expand the gas cogeneration business to the growing Chinese market through collaboration
 - l Mitsubishi Heavy Industries, Ltd.: Supply gas engines
 - l Hitachi: Provide EPC and various services

FY2015 business targets
(Revenues/billion yen)

Revenues: approx. 270.0 billion yen
Operating income ratio: over 6%



Kashiwa-no-ha Smart City project



*EMilia : Energy and Facilities Management Services such as Offices, commercial buildings, factories, etc.
(Emilia the name of the EMS service by Hitachi to provide)
PV: Photo Voltaic EMS: Energy Management System

Building a solid domestic business base and take challenges to become a global water major

Increase domestic market share and enhance earnings

- n Increase market share and enhance earnings in the water and sewage treatment fields
 - l Turnkey proposals combining electrical facilities and machinery
 - l Upgrade existing facilities, PFIs and expand the comprehensive maintenance and management services business
- n Promote businesses which address Japan's National Resilience Plan

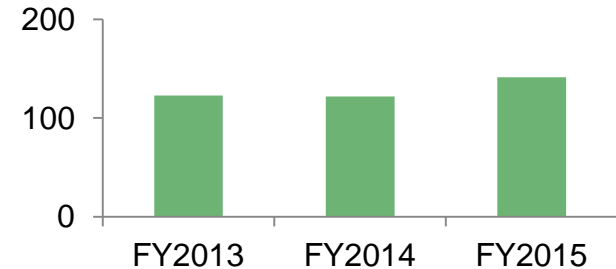
Expand overseas business

- n Win large ODA and PPP projects (Seawater desalination, water and sewage treatment, and service business, etc.)
 - l Cooperate with specialized manufacturers and partners
 - l Apply "Remix Water," an outstanding seawater desalination technology
- n Enter the oil and gas field
 - l Rapidly bring differentiated products to market (treatment equipment for oil field-produced water, RO equipment, injection pumps)
 - l Expand sales channels (strengthen collaboration with trading companies, etc.)

PFI: Private Finance Initiative PPP : Public-private partnership
RO: Reverse Osmosis O&M : Operation & Maintenance

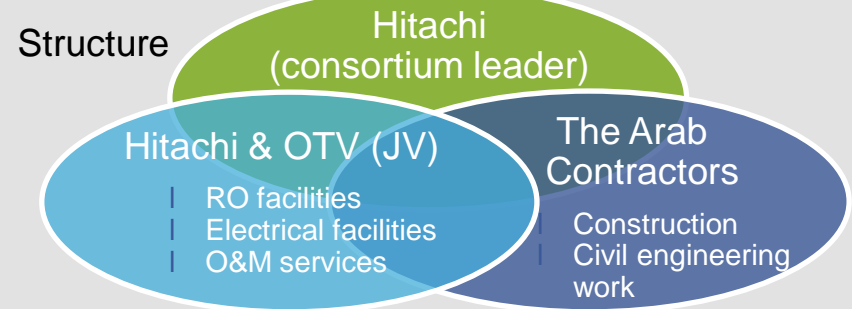
FY2015 business targets
(Revenues/billion yen)

Revenues: approx. 140.0 billion yen
Operating income ratio: over 6%



Basrah water supply improvement project, in Iraq

(Approx. 200,000 m³/day, scheduled to begin service in 2016, O&M for 5 years, order value approx. 25 billion yen)

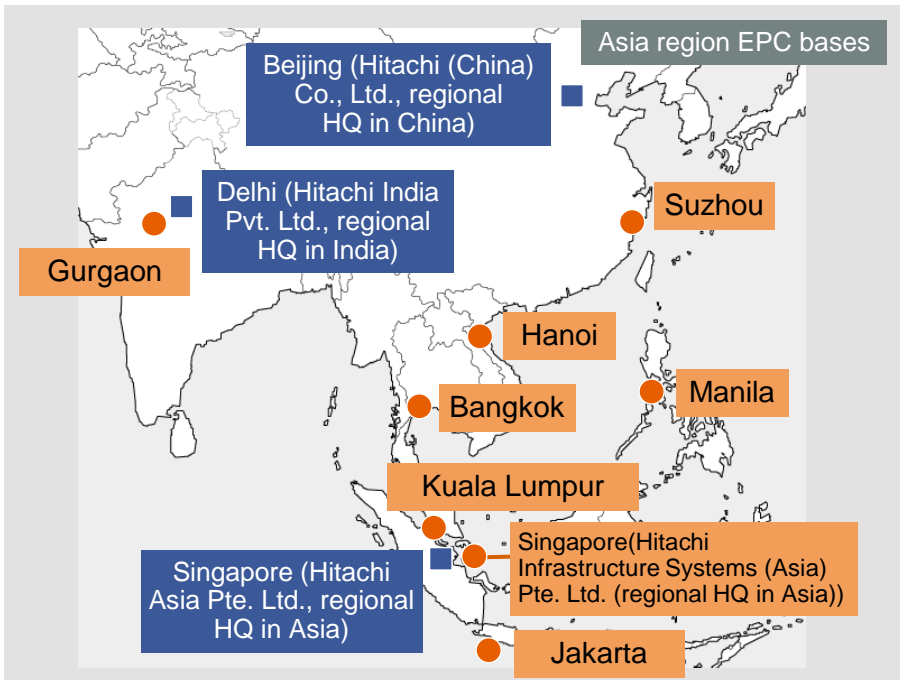


Provide total solutions through collaboration

Expand the total solutions business of industrial plant

Expand the EPC business in growing Asian markets

- Make customer-centric proposals in growth fields (Chemicals, pharmaceuticals, food, automobiles, data centers, etc.)
- Locally-led business development by regional headquarters (April 2014: Hitachi Infrastructure Systems (Asia) Pte. Ltd. Established)

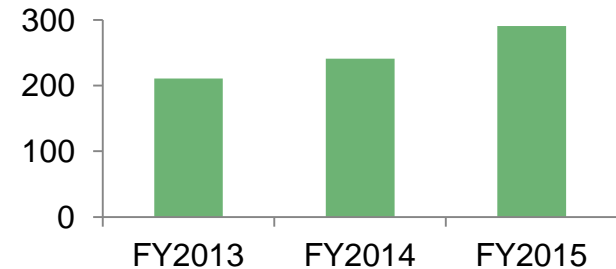


FY2015 business targets

Revenues: approx. 290.0 billion yen

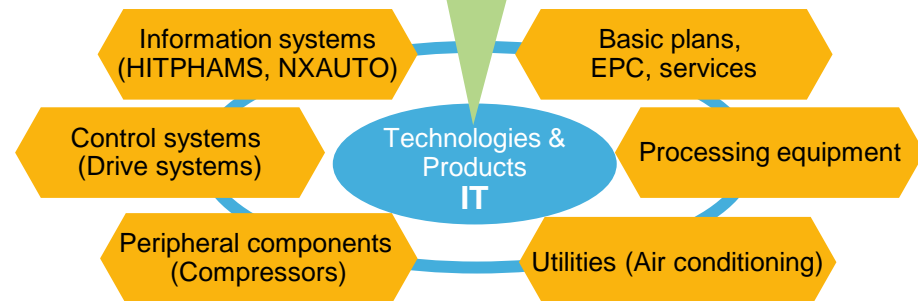
(Revenues/billion yen)

Operating income ratio: over 6%



One-stop shop based on core technologies, products and IT

Technologies & Products	<ul style="list-style-type: none"> Pharmaceuticals (simulation for fermentor design) Food (microbubble cleaning) Data centers (local air-conditioning systems)
IT	EMS, cloud services, and security



Expand into markets for large components in resource-rich countries by tracking big accounts closely

Initiatives with Saudi Aramco

- Solve issues related to equipment reliability and maintenance costs



- | Received first order for compressors (February 2001)
- | Signed comprehensive agreement for the supply of compressors with Saudi Aramco (June 2011)
- | Established maintenance service company (June 2012)

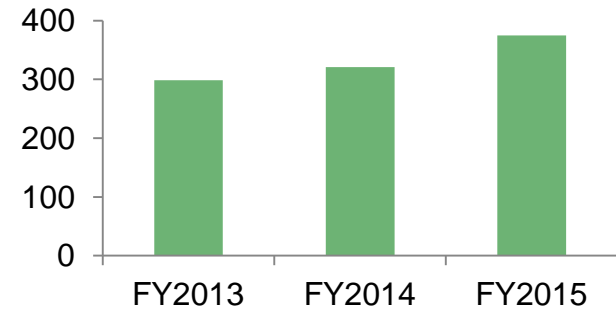
- Expanded the scope of maintenance services to third-party products (Canned motor pumps, May 2014)

FY2015 business targets

Revenues: approx. 370.0 billion yen

Operating income ratio: over 8%

(Revenues/billion yen)



Initiatives with Petrobras of Brazil

- Supported expansion of the offshore resource development business by providing solutions for floating operations (Small, lightweight package solutions, vibration resistance, environment resistance)

- | Received first order for installing compressors and a water treatment system for a FPSO unit (September 2011, for a private-sector oil company)
- | Established maintenance service company (December 2012)
- | Received an order for six compressors for a FPSO unit (January 2013)



FPSO : Floating Production Storage and Offloading FLNG : Floating Liquefied Natural Gas

Increase share of small and medium-sized products serving needs for high efficiency and energy savings

Globally expand key products

- Maintain top domestic share and globally expand business by launching a new compressor model

“Single Stage DSP Next Series”
(commenced sales in February 2014)



- Accelerate expansion in China and Asia by strengthening local sales channels for ultra-high-efficiency transformers

“Super Amorphous Zero”
(commenced sales in April 2014)



- Tackle the challenges of capturing the world’s top share of the ink jet printer market (Accelerate expansion in Europe and the U.S. by acquiring distributors and establishing a supply chain)

“Next-generation core IJP UX Series”
(commence sales in the second half of 2014)



PCS : Power Conditioning System

Address new environmental regulations

- Expand sales by satisfying the Top Runner Energy Efficiency Standards for highly efficient motors

“The Motor Neo100 Premium”
(commenced sales in January 2013)



Bring packaged products to market

- Strengthen one-stop responses to the growing new energy market
Cubicle-integrated PCS for new energy solutions

“BUY Electric Gateway”,
a salt-resistant
(commenced sales in November 2013)

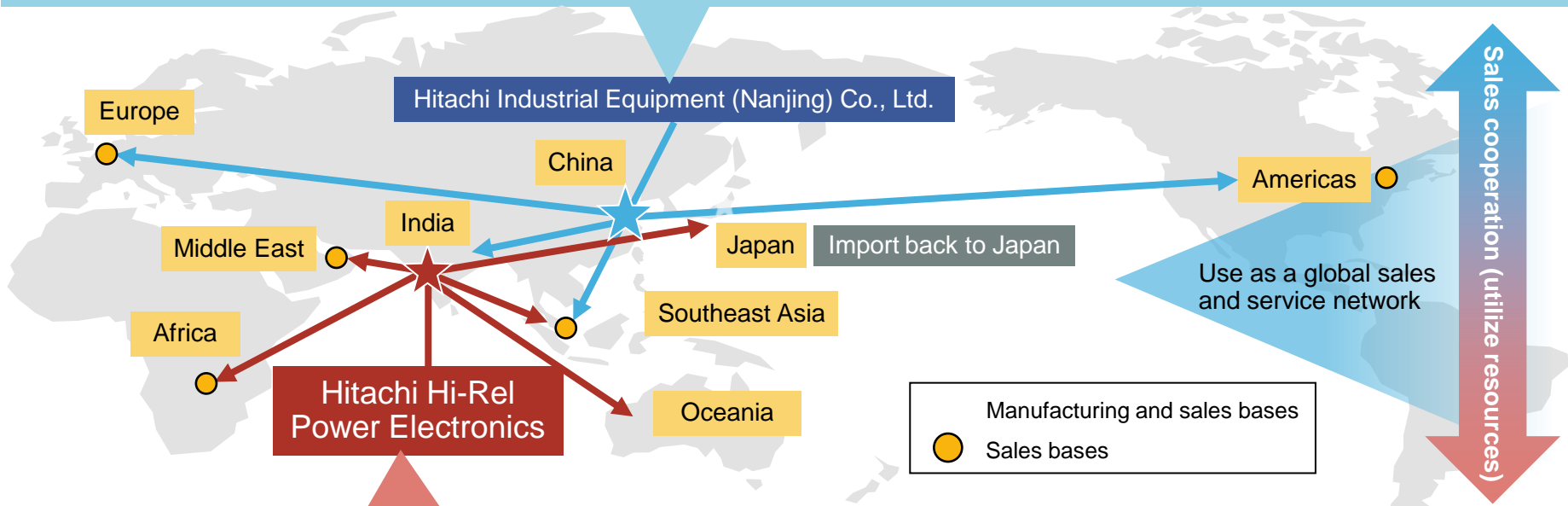


International business expansion of power electronics products from overseas locations

China/
Small and medium-sized inverters

- | Transfer and centralize manufacturing base to China for products shipped to European, African and Asian markets
- | Strengthen sales capabilities and expand the service business (Sales Agent:(approx. 300 distributors (FY2012) → approx. 380 distributors (FY2015))*
- | Expand business in India and Asia through sales cooperation with Hitachi Hi-Rel

*Total for Hitachi Industrial Equipment Systems Co., Ltd., including products other than inverters

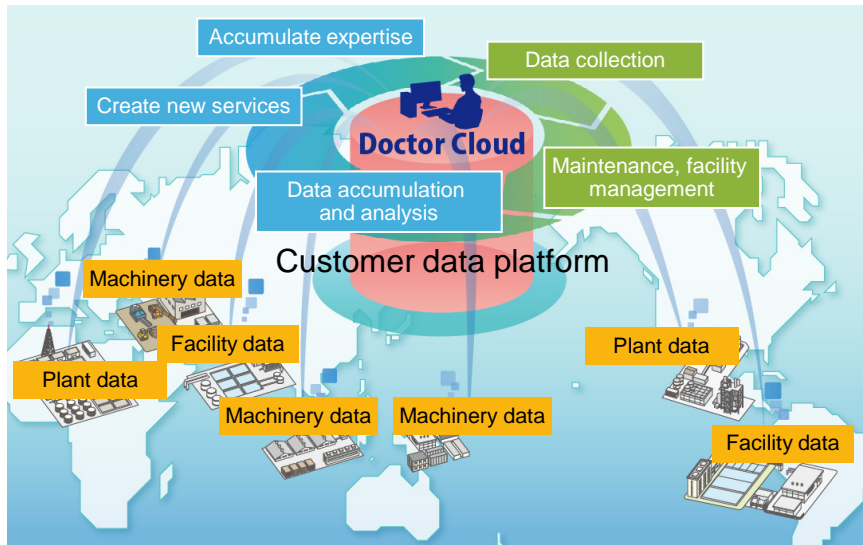


India/
Large inverters, UPS and PCS

- | India: Develop into a manufacturing, customization, and local procurement base for the Indian market and surrounding regions
- | Singapore: Expand UPS lineup to serve needs for developing data centers
- | Middle East: Expand sales of drive systems by selling them in combination with large compressors
- | Oceania & Africa: Enter the drive systems market in the mining field

Strengthen the lifecycle support business based on “IT combined with Infrastructure” technology

Plant equipment maintenance and facility management service “Doctor Cloud”



- n Shift from a facility and equipment supplier to a partner that solves issues facing customers
- n Enable total maintenance services according to the characteristics of a given plant
- n Create new businesses and reduce lifecycle costs through the use of Big Data

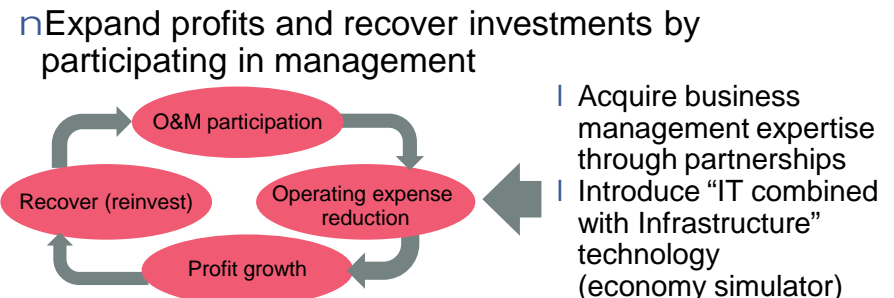
Applications

- | Cranes
- | Air compressors
- | Water treatment plants and facilities
- | Air conditioning facilities
- | Plant equipment
- | Urban and transportation infrastructure (planned)

Cloud-based integrated EMS service “EMilia”

- n Unified management of Energy and Facility Information of varying formats and scales, such as for buildings, plants, multiple sites and town blocks
 - n Big data analysis and diagnosis by partners
 - n Realizing the total operational optimization of energy, including the proposal of the equipment replacement
- BCP : Business Continuity Plan OPEX : Operating Expense

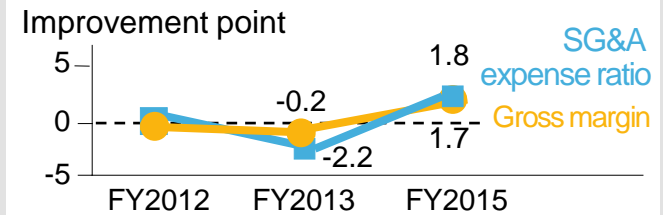
Services for solving customer issues



3-5. Further Improve Profitability by Promoting the Hitachi Smart Transformation Project

Promote continuous cost structure reform

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



Concentrate resources and expedite management through business structure reforms

- n Reorganized operations into four business domains (April 2014)
- n Realigned and integrated business into Group companies (October 2013 and April 2014)
- n Established overseas regional companies (April 2014)

Strengthening Cash Flow Management

- n Implement total value chain operational reforms (end to end), ranging from estimates to services
 - l Closely examine and improve contracts and business conditions via dedicated project management divisions
 - l Improve number of days of working capital by reducing lead times (promote modular design and cellular manufacturing)
- n Improve investment efficiency (prioritize investment and utilize Hitachi Capital to invest long-term in the service business)

(Benefits) FY2011-FY2015 (cumulative): 42.0 billion yen

3-6. Strategic Investments for Growth

Make strategic investments in key fields to achieve growth

Investments and loans

- n Strengthen engineering capabilities to expand the EPC business (partnerships and M&As with local and specialized companies)
- n Establish infrastructure operation service business companies to expand the global water business (establish a seawater desalination SPC in Dahej, India, etc.)
- n Strengthen overseas sales channels for small and medium-sized products (Europe, the U.S. and Asia) and implement other measures

Capital expenditures

- n Increase production facilities for key products (large compressors at Tsuchiura Works, etc.)
- n Strengthen the service business base (increase maintenance service facilities at Hitachi Saihati Engineering Services Co., Ltd. in Saudi Arabia, etc.)

**Investment scale in FY2013-FY2015
(including capital expenditures) Approx. 80.0 billion yen**

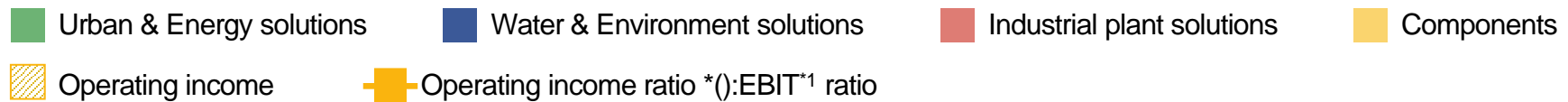
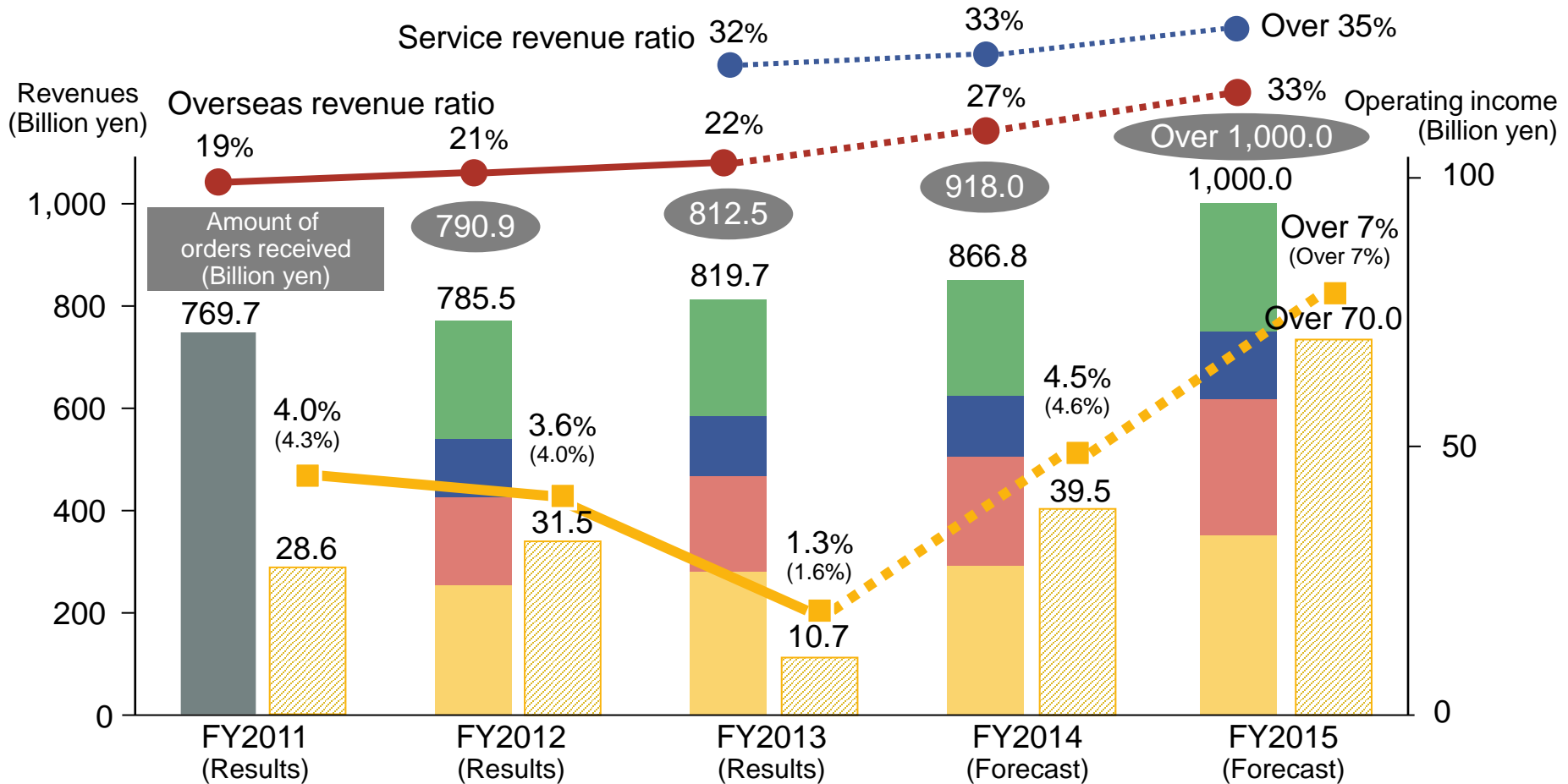
SPC : Specific Purpose Company

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4-1. Business Performance Trends



*1 EBIT: Earnings before interest and taxes

*2 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

*3 Figures for the four business domains represent ratios before deducting inter-business sales

FY2015 Targets

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

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

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;
- 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 information technology products and digital media-related products and intensifying price competition for such 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 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 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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