
Industrial Products Business Unit Business Strategy

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- 1. Business Overview**
2. Review of 2015 Mid-Term Management Plan
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Establish strong industrial products business for providing values through products

Realize customer's growth potential

Provide values through products

Front

Regional Bases

Customer Segments(12BU)

Platform

Products

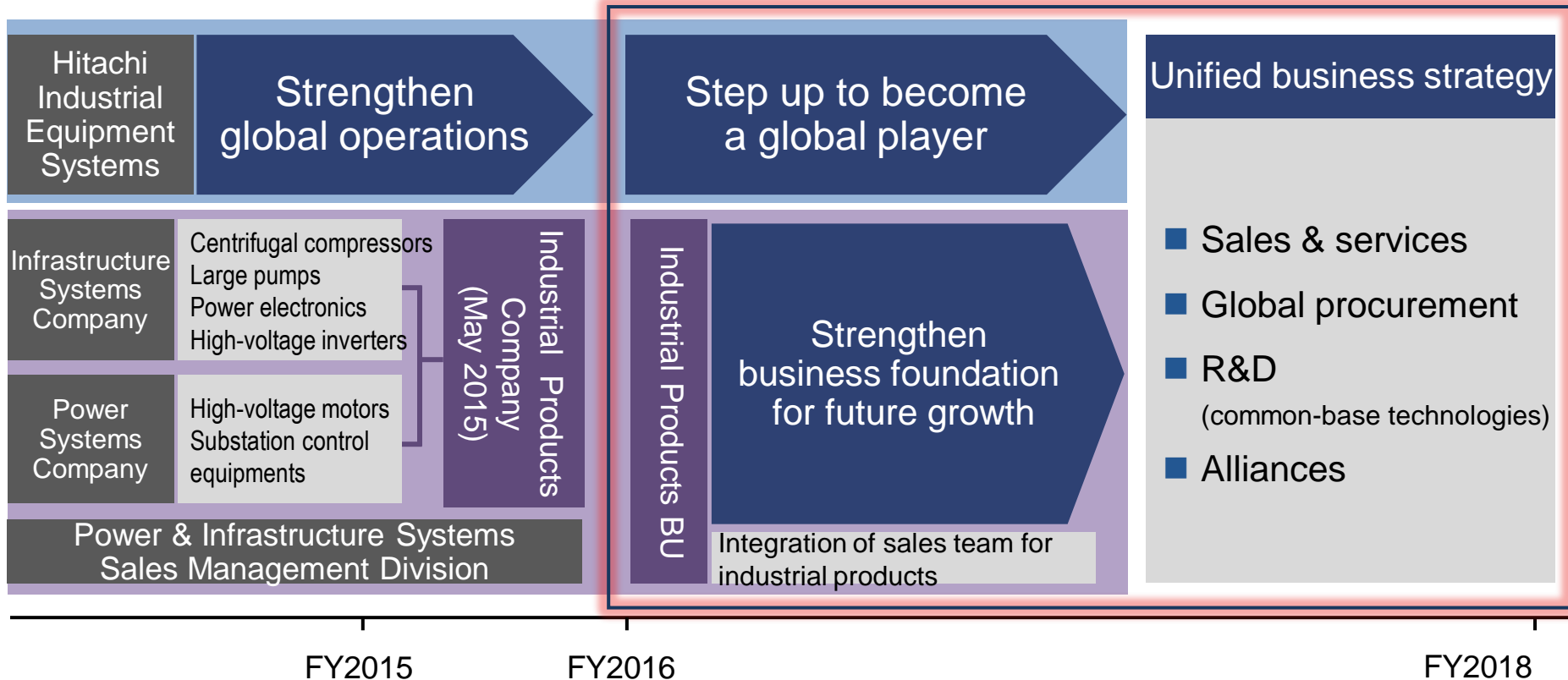
Industrial Products BU
Hitachi Industrial Equipment Systems

**Industrial products
business**

Group companies (products, components, materials, etc.)

1-2. Philosophy of the Industrial Products Business

Vision	Establish a strong products business for responding to the diverse industrial needs
Basic Policy	<ul style="list-style-type: none"> ■ Accelerate global growth strategy and strengthen business base ■ Focus strategic investments and resources on Priority & Enhancing Businesses ■ Expand products business by enhancing responsiveness for IoT market

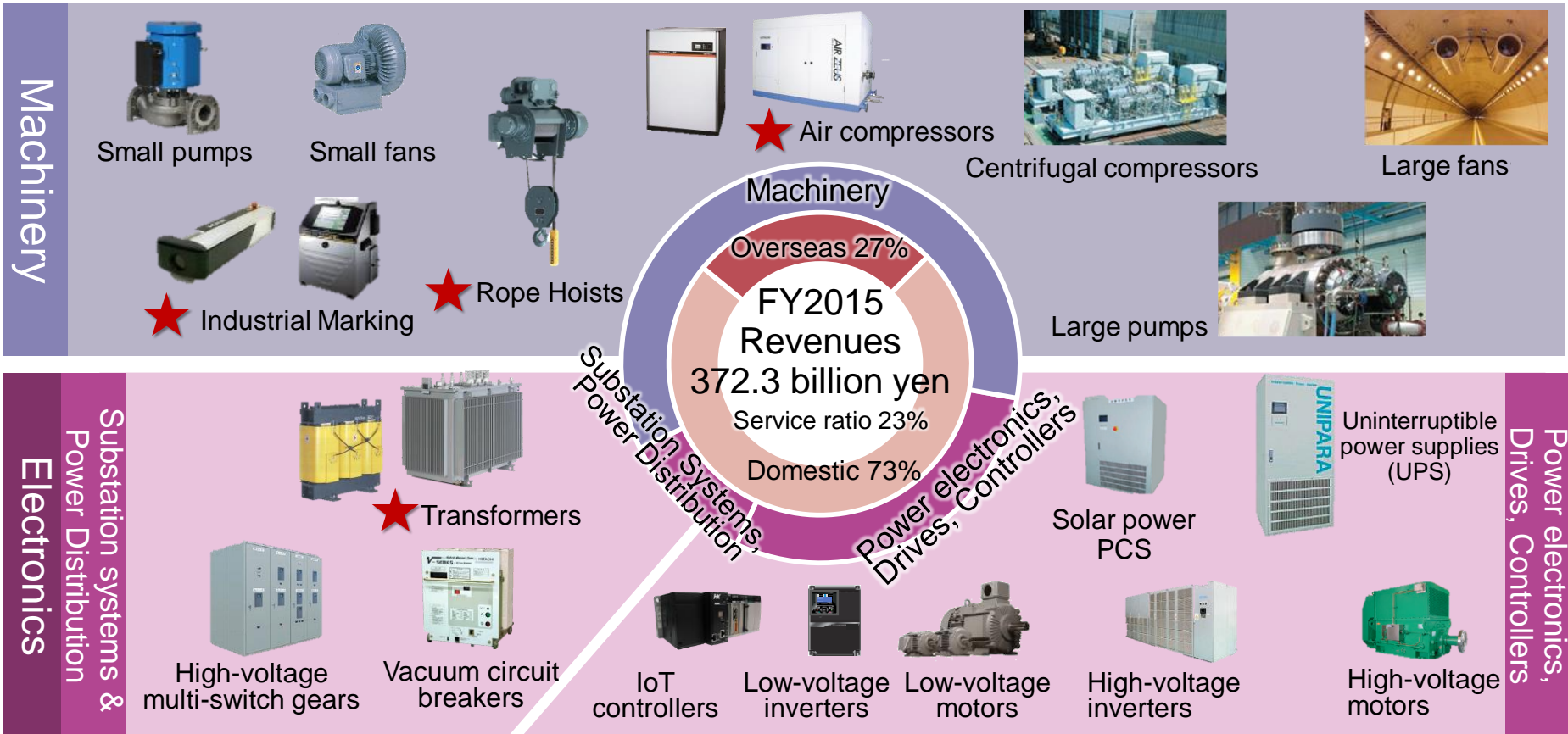


Strong products for responding to the diverse industrial needs

-- Providing high value added products created by the synergies between machinery and electronics --

Mass produced products

Build-to-order products



- Combined total of Hitachi Industrial Equipment Systems and Industrial Products BU before adjustment
- ★ Products with leading domestic market share: based on Hitachi research
- Power electronics (PCS, UPS), drives (motors, inverters) Industrial Marking: Industrial inkjet printers, etc. © Hitachi, Ltd. 2016. All rights reserved.

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2-1. Review of 2015 Mid-Term Management Plan (1) **HITACHI** Inspire the Next

	FY2015 result	Previous forecast*1	Variance	FY2018 target
Revenues	372.3 billion yen	381.8 billion yen	(9.5) billion yen	400.0 billion yen
Adjusted operating income ratio	2.1%	6.1%	(4.0)%	8.0%
EBIT ratio	1.3%	5.7%	(4.4)%	7.2%

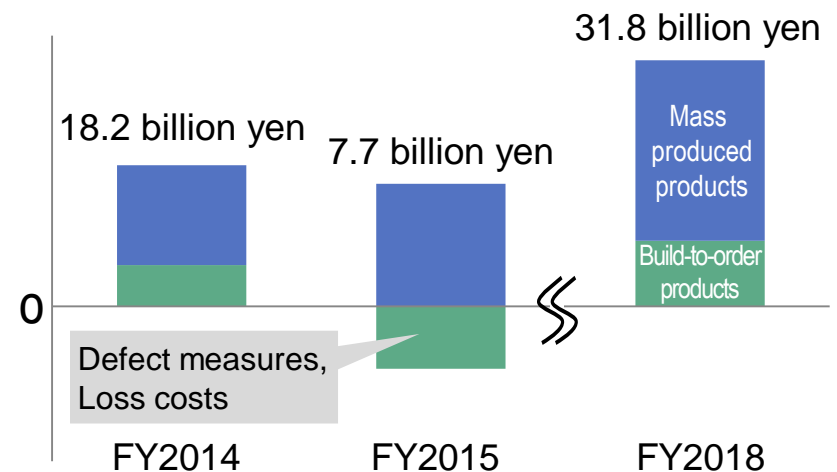
Reasons for revenue decline

- Significant revenue decline in build-to-order products over previous forecast
 - Decreasing demands in resource markets, lower sales prices due to fierce competition
 - Allocation of allowance for product defect measures, and loss costs

Improve business profitability of build-to-order products

- Improve profitability through structural reform (FY2015 → FY2018: 7.0 billion yen)
- Increase cost competitiveness
 - Cost reduction (FY2015 → FY2018: 6.7 billion yen)
 - Promote design standardization & product modularization
- Enhance project management
- Enhance quality control

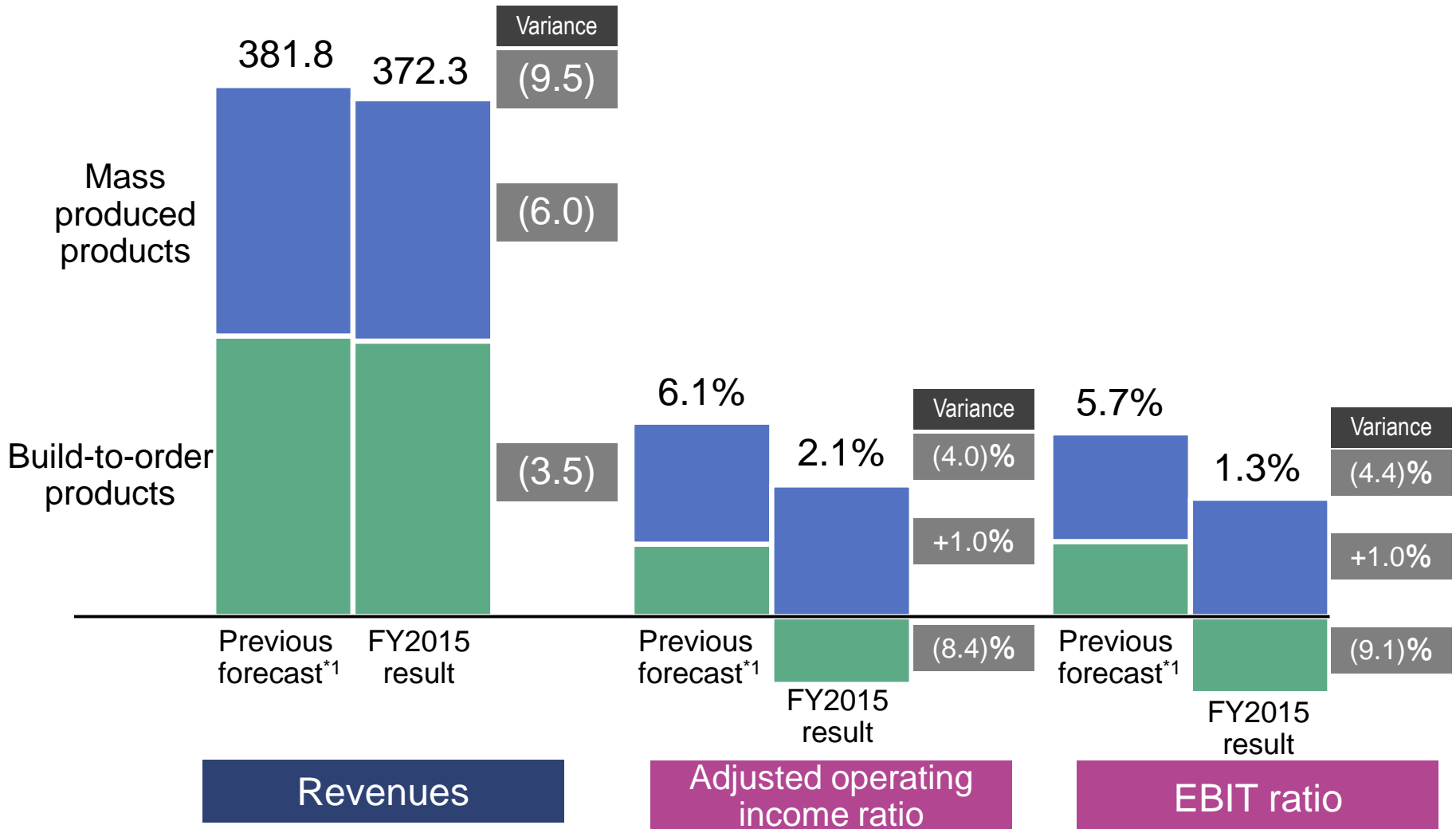
Breakdown of operating income



*1: As of June 11, 2015

2-2. Review of 2015 Mid-Term Management Plan (2) **HITACHI** Inspire the Next

Variance over previous forecast (Unit: Billion yen)



*1: As of June 11, 2015

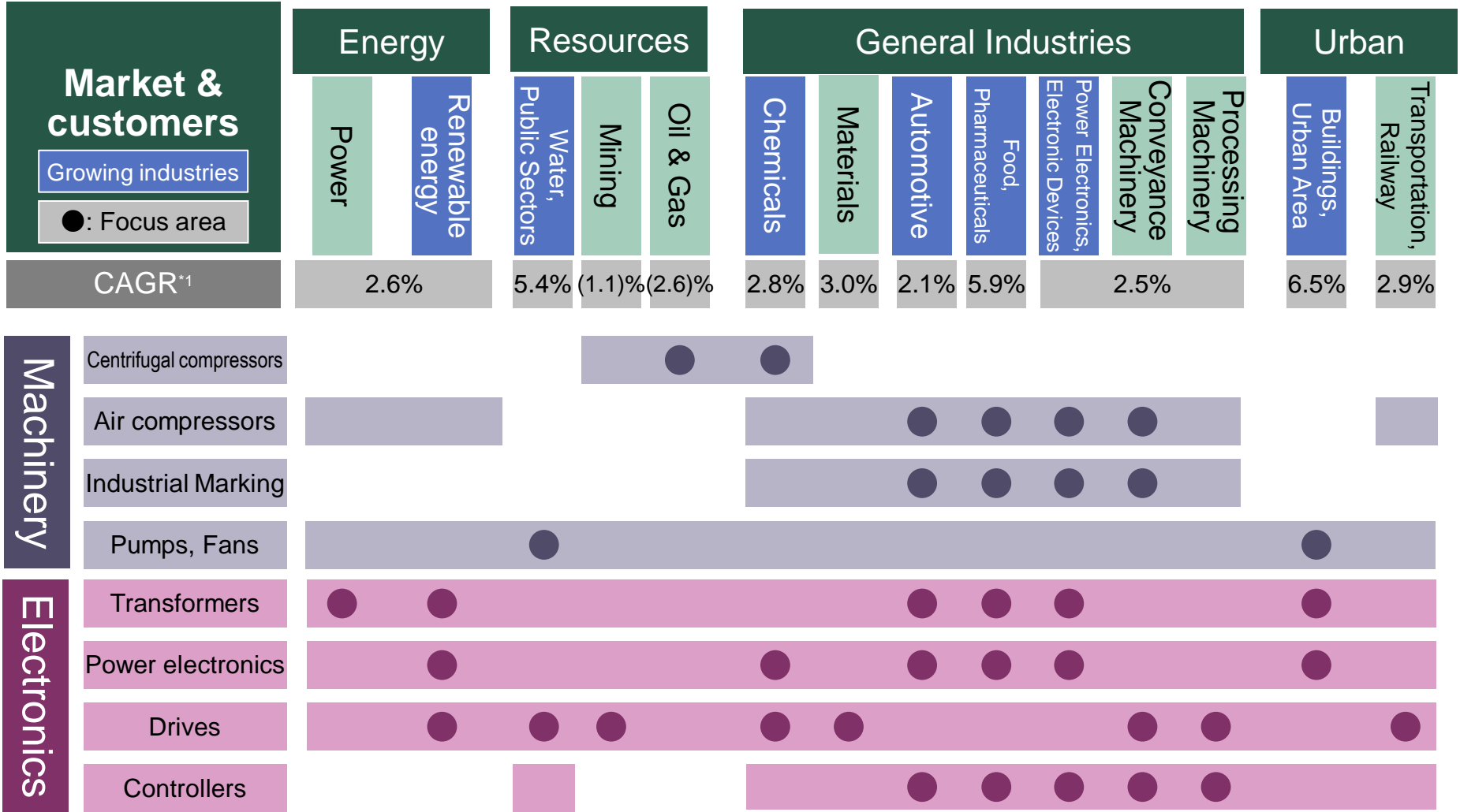
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3-1. Market Environment and Focus Area for Major Products

Globally supply key products that underpin the Social Innovation Business

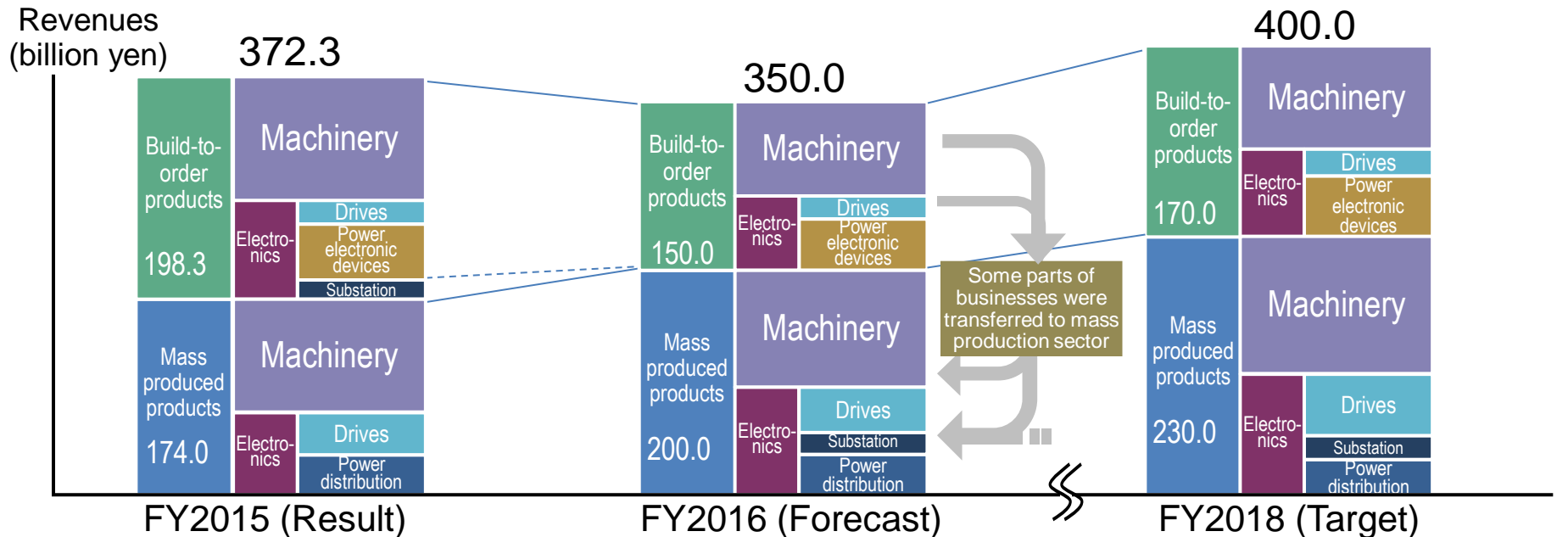


*1: 2015-2018 CAGR is based on the data of HIS/World Industry Service

3-2. Business Policy

Build-to-order production: Temporarily scale back under severe market environment, and strengthen business base for future regrowth
 Mass produced production: Increase share in growing industries, capture new markets and fields

	Market	Business policy
Build-to-order products	<ul style="list-style-type: none"> Continued downturn in core target markets such as energy and resources 	<ul style="list-style-type: none"> Improve profitability regardless of the weak economic conditions (optimize costs, expand after-sales service business) Strengthen profitability by introducing the concept of mass production
Mass produced products	<ul style="list-style-type: none"> Solid growth in food, pharmaceuticals, automotive and electronic components industries 	<ul style="list-style-type: none"> Accelerate global growth strategy (strengthen sales channels, expand business fields) Enhance IoT capabilities & expand whole business



3-3. Target Position

Prioritize businesses and accelerate global growth strategy

	Products	Target position
Priority Businesses	Air compressors, industrial marking, centrifugal compressors, transformers	To become a leading global player -- Expanding business fields --
Enhancing Businesses	Power electronics, drives, controllers	To become a global player -- Strengthening product competitiveness --

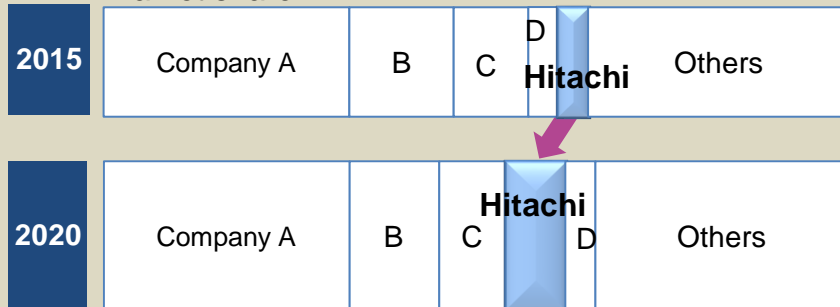
Focus on cyclical-type businesses among Priority Businesses

Note: Cyclical-type businesses (Recurring businesses that firm replacement demands for aftermarket exist, such as parts replacement)

Target position

Air compressors Global market size: 750 billion yen (2015)

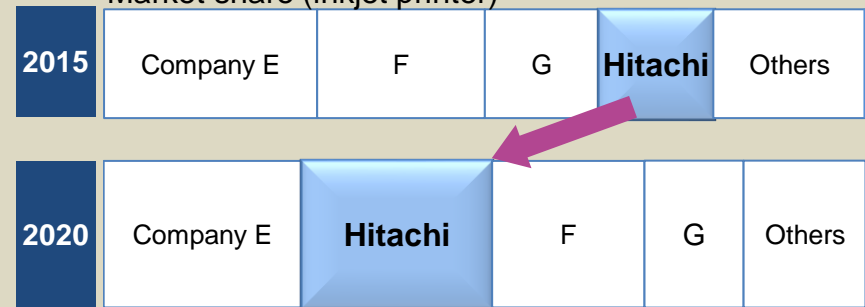
Market share



Strategy ■ Expand regional coverage
Enhance business deployment in Europe and Americas

Industrial Marking Global market size: 350 billion yen (2015)

Market share (inkjet printer)



Strategy ■ Expand business fields
Increase product portfolio from inkjet printer to laser printer and others

3-4. Growth Strategy (1) Global Business Expansion

Focus on priority regions & industries by products

Combine organic growth with strategic alliances

Accelerate global growth strategy

Business	Priority markets
Air compressors	Mexico (automotive), Myanmar (food), Japan (automotive)
Industrial marking	Europe, Americas (food, pharmaceuticals)
Centrifugal compressors	Middle East, Asia (chemicals)
Transformers	Myanmar (Power), Japan (renewable energy, energy conservation)
Power electronics	India, Asia (renewable energy), Japan (energy conservation)
Drive Controllers	Europe, Americas (automotive, conveyance)

Strengthen sales and service capabilities

- Foster sales and service personnel
- Expand sales network through alliances

Enhance product capabilities

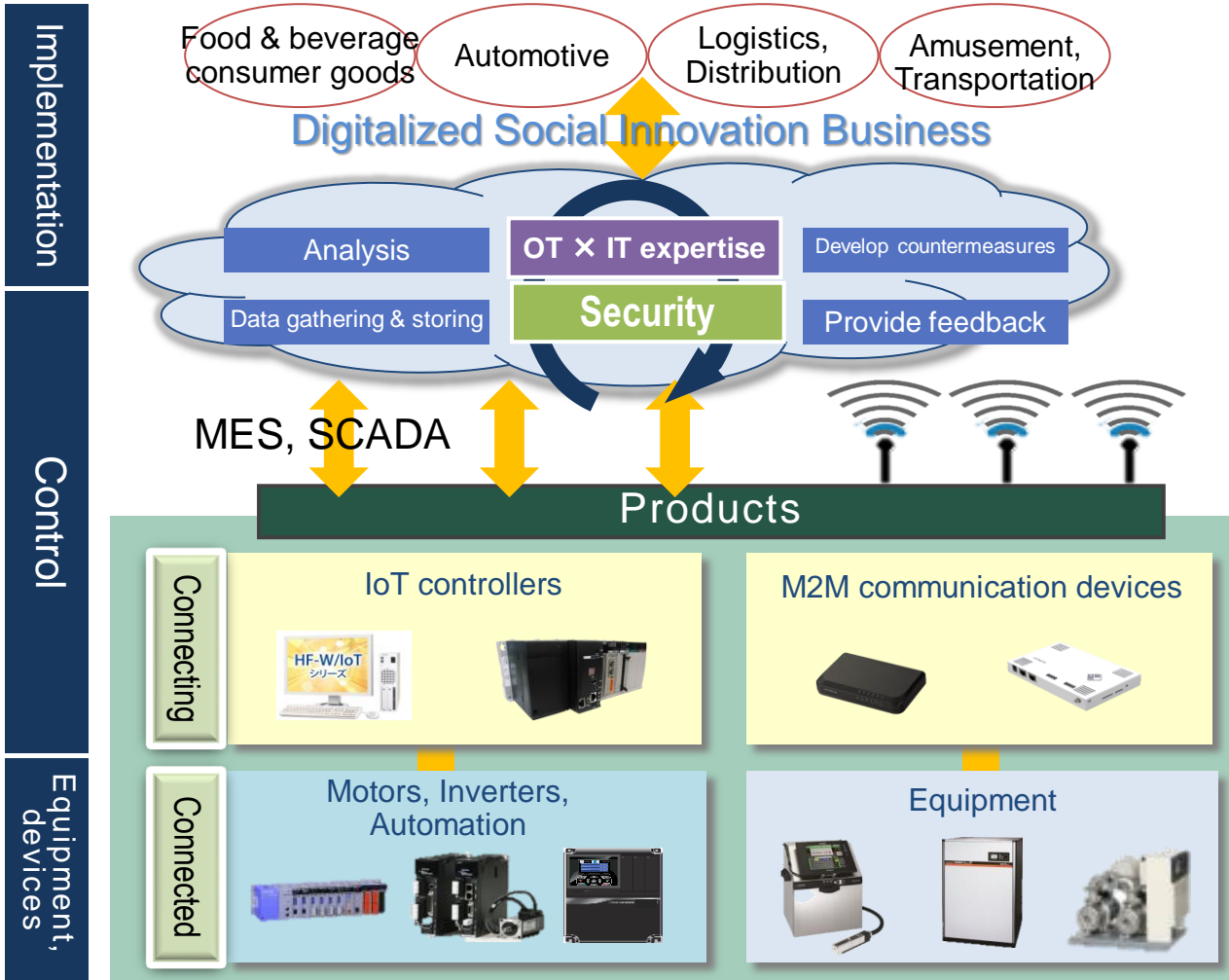
- Continuous launch of new products
- Enhance product lineup through alliances

Strengthen operation of consolidated subsidiaries established or acquired during 2015 mid-term management plan

- Sales and service subsidiaries
USA, Mexico, Germany, Italy, China
- Manufacturing and sales subsidiaries
India, China, Myanmar, Thailand, Malaysia

3-5. Growth Strategy (2) Enhance IoT Capabilities

Expand IoT enabled products



Innovation for manufacturing process and business management to connect manufacturing scene, business management and society

Fusion of information technology and control technology

Product offering for Digitalized Social Innovation Business

- Strengthen response to growing needs for data gathering & analysis, control, and open architecture
- Enhance and expand lineup of IoT enabled products

3-6. Strengthen Cost Strategy and Cash Generation **HITACHI** Inspire the Next

Execute business structure reform and improve business efficiency

SG&A

- Mass produced products
Improve annual sales per person and, reduce fixed cost ratio
- Build-to-order products
Reduce fixed cost and, enhance project management capability

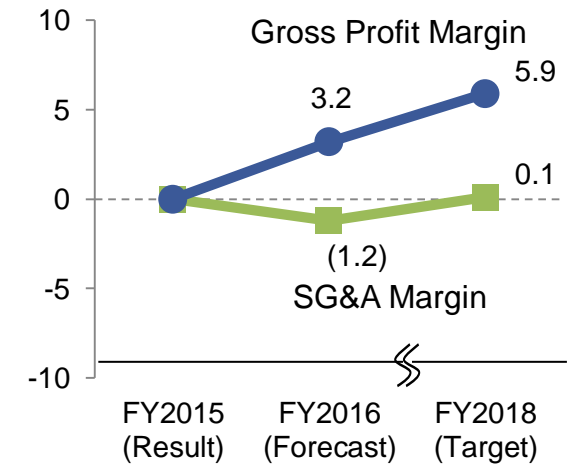
Gross Profit

- Reduce direct material cost
- Reinforce global procurement capability
- Build-to-order products: Promote design standardization and product modularization
- Enhance cost management through target costing for new product development process

Cash generation ability

- Mass produced products
 - Improve CCC through operating process reform (Reduce inventory, shorten lead time)
 - Promote visualization of global PSI (Deploy to regional HQs)
- Build-to-order products
 - Reinforce project process management centering on drastically reduced lead time

Improvement rate over FY2015



	FY2016 (Forecast)	FY2018 (Target)
CCC	111 days	105 days

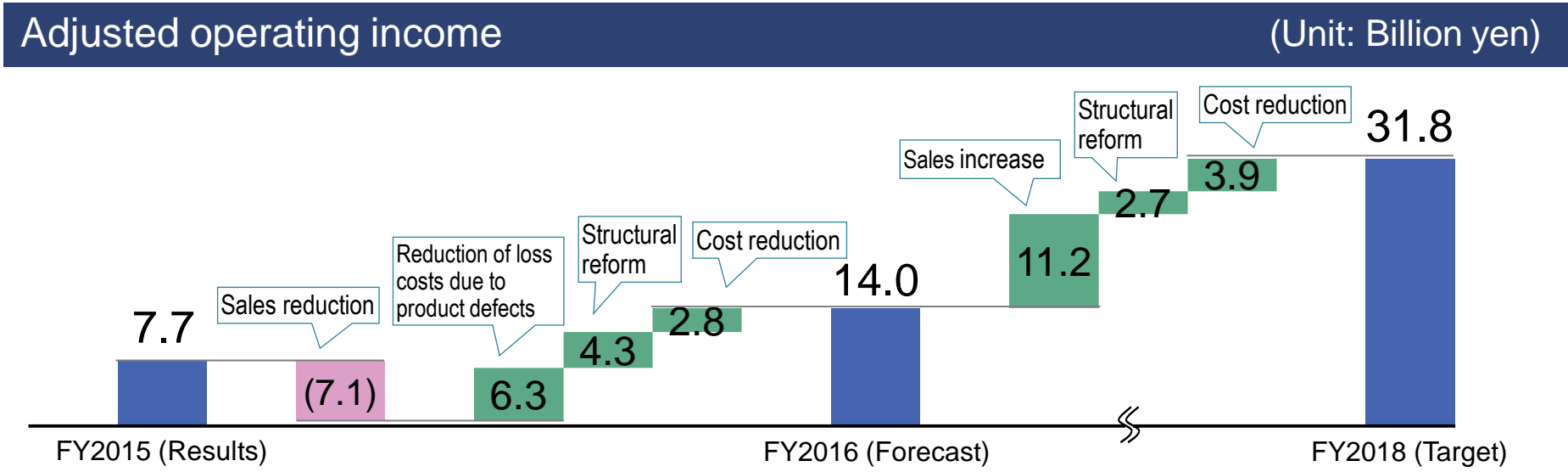
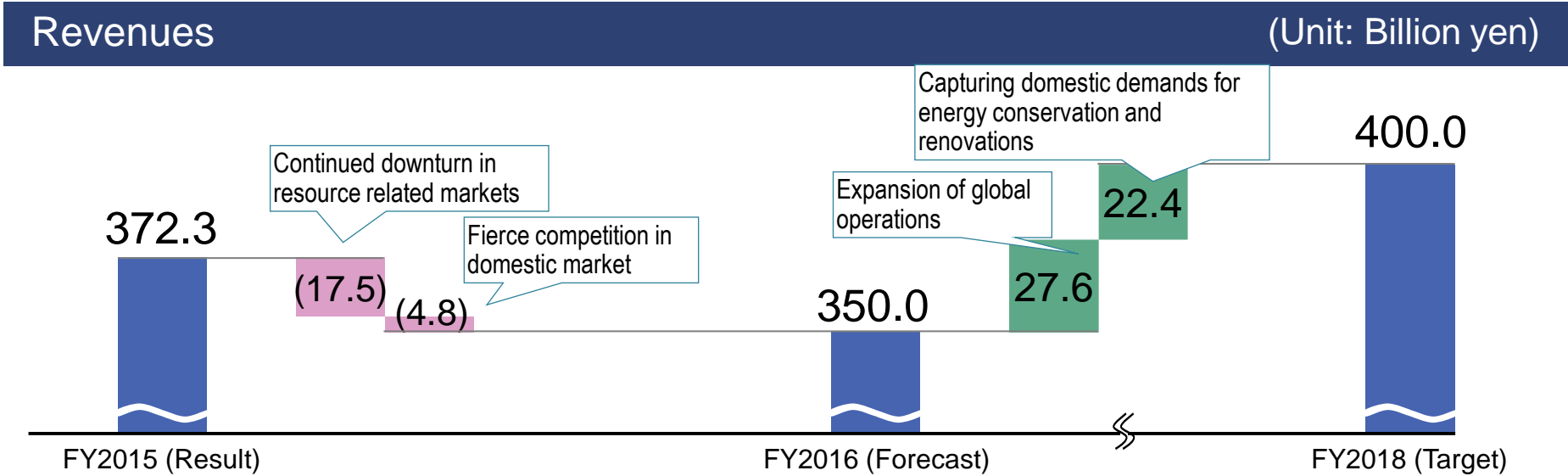
CCC: Cash Conversion Cycle
PSI:P(Production, Purchase), S(Sales), I(Inventory)

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4-1. Results and Forecast (1)

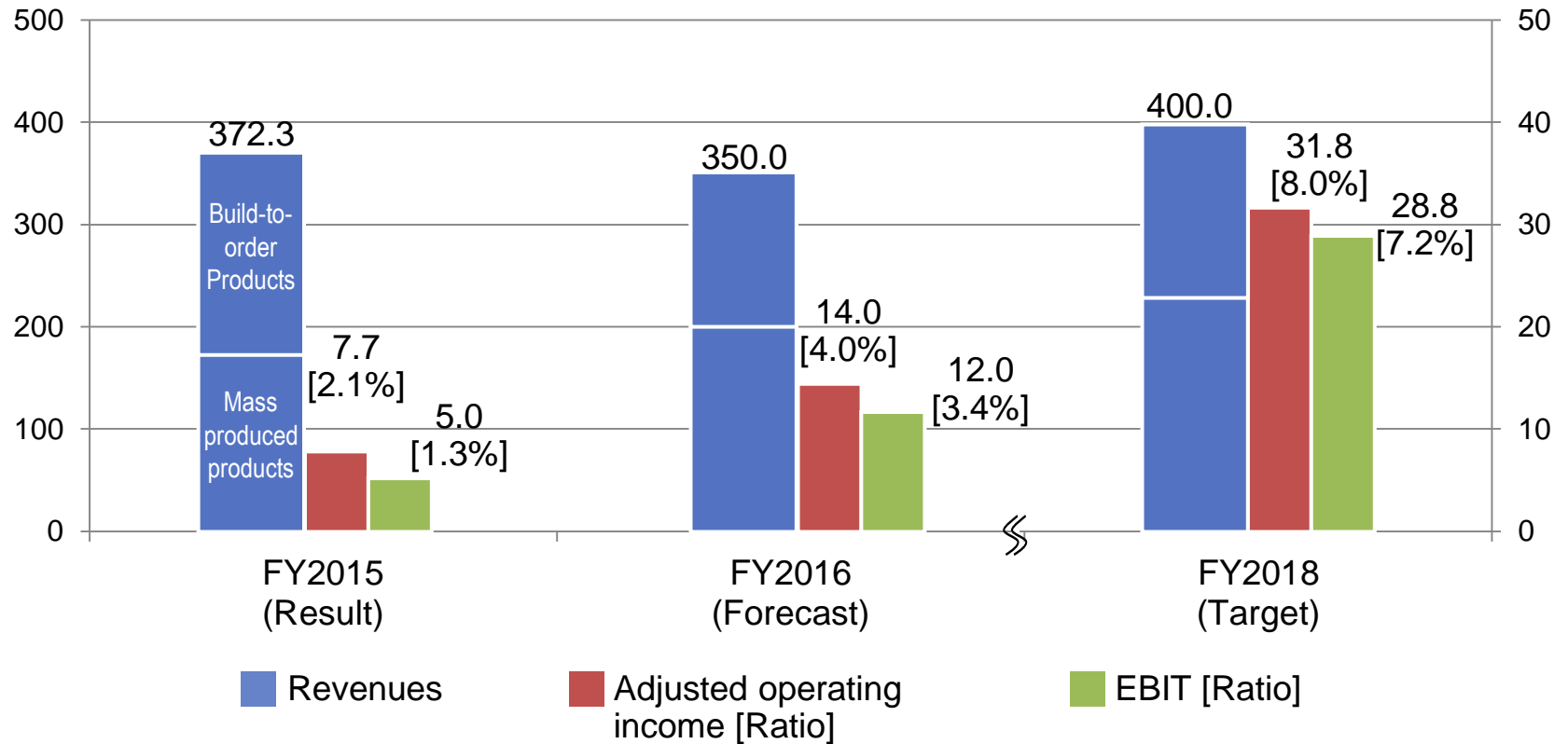


4-2. Results and Forecast (2)

	FY2015 (Result)	FY2016 (Forecast)	FY2018 (Target)
Overseas Revenue Ratio	27%	27%	30%

Revenues
(billion yen)

Adjusted operating income/
EBIT (billion yen)



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FY2018 Target

- Revenues 400.0 billion yen
Increase by 7.4% over FY2015
- Adjusted operating 8.0% [7.2%]
income ratio [EBIT ratio] Improve by 5.9% [5.9%] over FY2015

- Accelerate global growth strategy and strengthen business base
- Focus strategic investments and resources on Priority & Enhancing Businesses
- Expand products business by enhancing responsiveness for IoT market

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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;
- 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;
- credit conditions of Hitachi’s customers and suppliers;
- 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 associates and joint ventures 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 associates and joint ventures;
- 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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