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Cost Structure Reform and Strategies for Seven Businesses toward Achieving “2015 Mid-term Management Plan” Goals

Tokyo, June 12, 2014 – Hitachi, Ltd. (TSE: 6501) today announced its cost structure reform and strategies for seven businesses toward achieving the goals of its “2015 Mid-term Management Plan.” On May 12, 2014, Hitachi announced a progress of the “2015 Mid-term Management Plan.” The primary goals of this mid-term management plan are to promote achieving growth and Hitachi’s transformation driven by Social Innovation Business.

■ Cost Structure Reform: Hitachi Smart Transformation Project

1. Cost Reduction Results and Forecasts

(Cumulative through FY2015 vs. FY2010)

[Billions of yen]

	FY2011 Result	FY2012 Result	FY2013 Result	FY2014 Forecast	FY2015 Forecast
Cost Reduction Benefits	35.0	110.0	220.0	310.0	400.0

2. Project Goal

“Establish organization and business functions supporting global growth”

3. Project Advancement: Promote process reforms

Develop the reform from an end-to-end perspective, which was mainly promoted by cost areas and functions, into operational, business and work process reforms in order to contribute to the next stage of growth by improving earnings and cash generation capacity

< New measures of process reforms >

[1] Globalize the value chain

- Establish optimal global processes to swiftly respond to customers’ business needs (global production and supply systems)

[2] Build global procurement scheme

- Build a new global procurement scheme using professional functions within the Group

- [3] Global logistics reforms
 - Build a global logistics scheme to realize cost reductions and improve fund efficiency
- [4] Introduce shared services to indirect operations
 - Expand the introduction of shared services to indirect operations globally
- [5] IT cost reforms
 - Reduce regular IT expenditures to secure funding for strategic IT investments that will aid growth
- [6] Group structural reforms
 - Strengthen strategic Headquarters functions and optimize the Group structure to achieve growth as ‘One Hitachi’
- [7] Intra-group transaction reforms
 - Reallocate resources for intra-group transactions to resources for driving growth

■ **Strategies for Seven Businesses**

1. Healthcare Business

1-1. FY2013 Results, Forecasts for FY2014 and FY2015, and Targets for FY2018

[Billions of yen]

	FY2013 Results	FY2014 Forecasts	FY2015 Forecasts	FY2018 Targets
Revenues	326.7	335.0	360.0	600.0
Operating income (EBIT ⁽¹⁾) ratio	6.3% (5.2%)	5.4% (5.4%)	7.2% (7.2%)	-
Overseas revenue ratio	57%	60%	61%	65%
Service revenue ratio	21%	21%	24%	35%

(1) EBIT: Earnings before interest and taxes

1-2. Hitachi’s Mission for Healthcare

“Satisfying the diversified healthcare needs at all stages of the entire care cycle through IT and medical technologies”

1-3. Business Strategy

(1) Healthcare IT

- [1] Data platform service
 - Storage and effective use of healthcare data through a vendor-neutral archive
- [2] Preventive services
 - Assist insurers with the prevention of lifestyle-related diseases and the onset of serious diseases

(2) Hospital and Community Healthcare Solutions

- Provide services that optimize the entire care cycle in community healthcare
- Expand services globally in India, China, Vietnam and other countries based on the track record in Japan
- Total outsourcing of hospital energy supply and facility operations and management
- Hitachi will own the utility facilities and will supply the necessary amount of steam and cold and hot water for air conditioning and power

(3) Therapy Equipment

[1] Particle beam therapy business

- High-precision spot scanning technology
- Smaller size and higher precision treatment systems

[2] X-ray therapy business

- Strengthen therapy systems and treatment plan software lineup

(4) Diagnostic Equipment

[1] Ultrasound systems

- Expand and enhance equipment for each clinical department and the lineup of ultrasonic probes
- Develop excellent applications for each disease (elastography, RVS (Real-time Virtual Sonography), etc.)

[2] MRI units

- A full lineup up to 3 Tesla
- Bolster diagnostic applications for each disease
- Expand applications of open MRI units

(5) Hitachi Medical's Business Strategy

[Billions of yen]

	FY2013 Results	FY2014 Forecasts	FY2015 Forecasts
Revenues	171.1	180.0	190.0
Overseas revenue ratio	37.9%	42.8%	-
Operating income (Japan GAAP)	4.2	4.5	9.5

[1] Medium- and long-term initiatives leveraging Healthcare Group synergies

- Become a global major player in ultrasound and MRI systems
- Establish a competitive edge by strengthening the development of core components

[2] Highlights of progress on the Hitachi Smart Transformation Project

< Production Costs >

- Centralized production of Hitachi Medical and Hitachi Aloka Medical at the Suzhou plant (first half of FY2013)
- Introduced new production information systems (FY2014: Mobarra, Kashiwa; FY2015: Suzhou)

< Direct Material Costs >

- Promoted global sourcing through collaboration between Hitachi, Ltd. and Hitachi (China) Ltd. (from FY2012: commenced with 16-slice CT systems)

< Indirect Costs >

- Closure and consolidation of domestic sales offices (launched in FY2011, with consolidation of 19 bases and closure of 5 bases)
- Promoted reforms of indirect operations by introduction of shared services (FY2013: overseas sales companies, FY2014: Hitachi Medical Head Office)

Cumulative cost reduction benefits from FY2011 to FY2015:

10.0 billion yen

2. Information & Telecommunication Systems Business

2-1. FY2013 Results, and Forecasts for FY2014 and FY2015 ⁽²⁾

[Billions of yen]

	FY2013 Results	FY2014 Forecasts	FY2015 Forecasts
Revenues	1,934.9	1,950.0	2,100.0
Operating income (EBIT) ratio	5.5% (5.0%)	7.0% (6.5%)	9.5% (9.0%)
Overseas revenue ratio	30%	33%	35%
Service revenue ratio	62%	64%	Over 65%
Amount of orders received	1,981.8	1,983.9	2,131.0

(2) Effective on April 1, 2014, Hitachi Information & Control Solutions and Ibaraki Hitachi Information Service (both companies merged and changed its corporate name to Hitachi Industry & Control Solutions on April 1, 2014), which were previously included in the "Information & Telecommunication Systems", have been included in the "Social Infrastructure & Industrial Systems". Figures since FY2013 are based on the new segment classification.

2-2. Management Policy

“Become a global major player by 3Gs (Growth, Global and Group)”

2-3. Business Policy

“Lead Social Innovation Business by IT and provide customer value through ‘One Hitachi’”

2-4. Business Strategy

(1) Add Value to Global Services Business

- Strengthen initiatives in the Social Innovation Business
- Further improvement of quality and reliability in Japanese market
- Globally expand services across the entire value chain
- Added greater value to storage platforms that have a global customer base by software and services
- Invest in realizing new customer value

2-5. Cost Structure Reform (Hitachi Smart Transformation Project)

- (1) SG&A (Selling, general and administrative expenses)
 - FY2013 SG&A expenses improved year over year
(Progress in indirect operation reforms)
 - Accelerate optimization within the Hitachi Group
(Simplify transactions and integrate IT systems)
- (2) Costs
 - Steady reductions in manufacturing and direct procurement costs
(Launched Hitachi Information & Telecommunication Manufacturing, Ltd.
(October 2013))
 - Accelerate cost reduction for SI
(Reform the resource portfolio, increase internal production rates)

**Cumulative cost reduction benefits from FY2011 to FY2015:
65.0 billion yen**

2-6. Cash Flow Management

- (1) Increase cash flow
 - Improve business efficiency by implementing SCM reform projects
 - Make steady progress on the Hitachi Smart Transformation Project
- (2) Execute strategic Investments
 - Increase investments in growth fields
 - Implement collaborative creation with domain experts
- (3) Improve investment efficiency
 - Focus on strategic investment projects
 - Effectively utilize assets and reduce total assets

3. Infrastructure Systems Business ⁽³⁾

3-1. FY2013 Results, and Forecasts for FY2014 and FY2015

[Billions of yen]

	FY2013 Results	FY2014 Forecasts	FY2015 Forecasts
Revenues	819.7	866.8	1,000.0
Operating income (EBIT) ratio	1.3% (1.6%)	4.5% (4.6%)	Over 7% (Over 7%)
Overseas revenue ratio	22%	27%	33%
Service revenue ratio	32%	33%	Over 35%
Amount of orders received	812.5	918.0	Over 10,000

(3) The Infrastructure Systems Business figures are the simple sum of two companies: the Infrastructure Systems Company and Hitachi Industrial Equipment Systems Co., Ltd. A certain amount of revenues, operating income, EBIT and amount of orders received of the Infrastructure Systems Company is included in the Information & Telecommunication Systems Company, the Power Systems Company and the Rail Systems Company.

3-2. Business Policy

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

3-3. Business Strategy

- (1) Increase value added of solutions and accelerate global expansion
 - [1] Urban & Energy Solutions Business
 - Expand business in the power system reforms market
 - Capture a greater share of new markets for urban solutions
 - [2] Water & Environment Solutions Business
 - Capture a greater share of the domestic water and sewage market and improve earnings
 - Promote large overseas projects and enter the oil and gas field
 - [3] Industrial Plant Solutions Business
 - Expand the EPC business in growing Asian markets
 - Total engineering centered on IT and core technologies
- (2) Expand highly profitable businesses around strong components and services
 - [1] Components Business
 - Develop markets for large components in resource-rich countries by tracking big accounts closely
 - Capture a greater share of small and medium-sized products that cater to high efficiency and energy savings
 - International business expansion of power electronics products across overseas locations
 - [2] Service Business
 - Strengthen the lifecycle support business based on "IT combined with Infrastructure" technology
 - Expand service businesses that provide solutions for problems of customers

3-4. Cost Structure Reform (Hitachi Smart Transformation Project)

- (1) Promote continuous cost structure reform
 - Establish manufacturing, EPC and service bases to build a global supply chain
 - Expand overseas procurement and centralized purchasing, strengthen engineered sourcing
 - Standardize workflow and promote the use of shared services
- (2) Concentrate resources and expedite management through business structure reforms
 - Reorganized operations into four business domains (April 2014)

- Realigned and integrated business into Group companies (October 2013 and April 2014)
- Established overseas regional companies (April 2014)

**Cumulative cost reduction benefits from FY2011 to FY2015:
42.0 billion yen**

3-5. Cash Flow Management

- Implement total value chain operational reforms (end to end), ranging from estimates to services
- Improve investment efficiency (prioritize investment and utilize Hitachi Capital to invest long-term in the service business)

4. Rail Systems Business

4-1. FY2013 Results, Forecasts for FY2014 and FY2015, and Targets for FY2016

[Billions of yen]

	FY2013 Results	FY2014 Forecasts	FY2015 Forecasts	FY2016 Targets
Revenues	168.2	154.0	200.0	240.0
Operating income (EBIT) ratio	4.5% (3.9%)	4.0% (2.4%)	7.5% (6.5%)	9-10% (8.0%)
Overseas revenue ratio	35%	44%	53%	65%
Amount of orders received ⁽⁴⁾	152.4	400.0	180.0	-

(4) Excluding maintenance contracts in UK.

4-2. Business Policy

“Hitachi Rail Systems to contribute broadly to global society with world-class rail technologies which has been developed with Japanese customers”

4-3. Business Strategy

(1) Global

- Implementing new global organisation
- Expand existing bases further (Japan, UK, and China)
- Actively develop market presence/localisation (India, Brazil, and Southeast Asia)

(2) Transformation

[1] Reshape business portfolio

- Expand services businesses, increase sales of signalling/traffic management systems and expand the turnkey business

[2] Expand and enhance product portfolio

- Global A-train, global signalling systems, next-generation inverters

(3) Innovation

[1] Total rail solutions

- Propose total rail systems by linking infrastructure control systems and IT systems
- Rail energy management systems concept
(GREEN: Green Rail Ecological Environment toward the Next generation)

4-4. Cost Structure Reform (Hitachi Smart Transformation Project)

- Further develop local manufacturing bases (UK, China and others)
- Establish optimised global logistics
- Enhance ERP

Cumulative cost reduction benefits from FY2011 to FY2015:

9.0 billion yen

4-5. Cash Flow Management

- Reduction of lead time
- Vendor Managed Inventory (VMI)
- Global supply chain management
- Strategic investment with high return
- Intensive post-investment monitoring

5. Urban Planning and Development Systems Business

5-1. FY2013 Results, and Forecasts for FY2014 and FY2015

[Billions of yen]

	FY2013 Results	FY2014 Forecasts	FY2015 Forecasts
Revenues	562.6	590.0	610.0
Operating income (EBIT) ratio	8.5% (8.6%)	8.8% (9.0%)	Over 10% (Over 10%)
Overseas revenue ratio	52%	56%	59%
Service revenue ratio	37%	36%	35%
Amount of orders received	572.3	595.0	615.0

5-2. Business Policy

“Reinforce Asian business platform by strengthening the services business in base markets and by developing new markets, with the aim of becoming a major global player”

5-3. Business Strategy

[1] China

- Become No.1 in China (No.1 in terms of sales scale, market share, brand value and customer satisfaction)

[2] Southeast Asia, India and the Middle East

- Strengthen the business base to drive growth in the Asian region

[3] Japan

- Expand and strengthen the services business (maintenance, modernization)

5-4. Cost Structure Reform (Hitachi Smart Transformation Project)

(1) Production costs

- Raise production efficiency by centralizing production of common components
- Expand applications of modular design

(2) Direct materials costs

- Expand global procurement
- Strengthen cost planning, and development and purchasing

(3) Indirect costs

- Unify global IT platform
- Promote improvements in indirect operations through business structure reforms in Japan

Cumulative cost reduction benefits from FY2011 to FY2015:

27.0 billion yen

5-5. Cash Flow Management

- Improve number of days inventory on hand
(FY2015: Improvement target in China 31 days (vs. FY2012))
- Strengthen installation capabilities for coping with increased new installation sales

6. Power Systems Business

6-1. FY2013 Results, Forecasts for FY2014 and FY2015, and Targets for FY2020

[Billions of yen]

	FY2013 Results	FY2014 Forecasts	FY2015 Forecasts	FY2020 Targets
Revenues	777.3	520.0	520.0	800.0
EBIT ratio	19.7%	4.0%	8.5%	15.0%
Overseas revenue ratio	40%	21%	19%	41%
Service revenue ratio	28%	30%	31%	32%
Amount of orders received	641.0	470.0	480.0	-

6-2. Business Policy

“Become a major global player that is increasingly competitive around the world”

6-3. Business Strategy

- (1) Execute global growth strategy
 - Strengthen global operations (Make progress as a local player)
 - Leverage abundant experience in EPC management (Thermal Power & Nuclear Power → Transmission & Distribution and Renewable Energy)
- (2) Transform into a strong, high-earning business
 - Accelerate promotion of Hitachi Smart Transformation Project

6-4. Strategy by Businesses

- (1) Nuclear Power Business: Expand global business by utilizing world-class safety technologies

[Billions of yen]

	FY2013 Result	FY2014 Forecast	FY2015 Forecast	FY2020 Target
Revenues	110.0	120.0	140.0	280.0

- Japan: Strengthen initiatives to improve safety and trust as a base load electric power source
- Overseas: Steadily advance projects using technology accumulated in Japan and expand to other countries with nuclear power plans
- Overall: Train medium- and long-term personnel and advance projects by strengthening engineering capabilities

(2) Transmission & Distribution Business: Expand business by strengthening global operations [Billions of yen]

	FY2013 Result	FY2014 Forecast	FY2015 Forecast	FY2020 Target
Revenues	70.0	80.0	100.0	200.0

- Expand components business by extending global production framework
- Expand systems business by leveraging global engineering framework

(3) Renewable Energy Business: Strengthen business by maintaining the top share in the wind power market and securing orders in the solar power market

[Billions of yen]

	FY2013 Result	FY2014 Forecast	FY2015 Forecast	FY2020 Target
Revenues	70.0	80.0	90.0	150.0

[1] Wind Power Systems

- Aim to increase share in Japan (currently 48%) → over 50%
- Develop 5MW offshore wind turbines
- Overseas development based on domestic performance

[2] Photovoltaic Power Systems

- Increase EPC orders against the backdrop of abundant results
- Strengthen competitiveness of world-class PCS
- Propose solutions and expand services

6-5. Cost Structure Reform (Hitachi Smart Transformation Project)

(1) Production Costs

- Upgrade production technologies of global manufacturing bases
- Strengthen development capabilities in core production technology at mother factories

(2) Direct Materials Costs

- Rebuild global supply chain and expand overseas procurement ratio
FY2012: 11% (Excluding thermal power business) → FY2015: 21%

(3) Indirect Costs

- Introduce and develop shared Group services for overseas Group companies
- Re-evaluate, reduce and streamline back-office operations

Cumulative cost reduction benefits from FY2011 to FY2015:

53.0 billion yen

6-6. Cash Flow Management

- Strengthen project management and improve profitability
- Further visualize and strengthen grasp of dynamics of inventories and procurement costs
- Strengthen cash flow management

7. Automotive Systems Business

7-1. FY2013 Results, and Forecasts for FY2014 and FY2015

[Billions of yen]

	FY2013 Results	FY2014 Forecasts	FY2015 Forecasts
Revenues	892.1	940.0	1,000.0
Operating income (EBIT) ratio	5.3% (0.6%)	6.4% (6.4%)	7.0% (7.0%)
Overseas revenue ratio for global customer bases ⁽⁵⁾	53%	57%	60%

(5) Customer bases that install automotive components in finished vehicles. This is different from overseas revenues in the consolidated accounts.

7-2. Business Policy

“Evolve into a highly reliable global supplier in the environment and safety fields by making automobiles smarter through advanced electronics and electronic drive and control technologies”

7-3. Business Strategy

(1) Customer Strategy

- Expand business faster than the market growth rate
- Globalization and business expansion through cross-selling

(2) Regional Strategy

- A global footprint aimed at local production for local consumption
- Strengthen regional management and expand business around new sites

(3) Product Strategy

- Contributing to build attractive automobiles
- Expand business through innovative, high value-added products
- Develop technologies eyeing automatic driving

7-4. Cost Structure Reform (Hitachi Smart Transformation Project)

(1) Global quality reforms

- Full-scale roll out of the global quality integrated management system
- Foster the culture needed for highly reliable manufacturing (Ochibo-hiroi Spirit (learning from mistakes))

(2) Global production reforms

- Production and indirect material cost reforms
(global production reform project, logistics reforms)
- Develop concurrent engineering
(improve development efficiency and reduce overall workload)

(3) Global procurement reforms

- Strengthen procurement engineering
(overseas VEC (Value Engineering for Customers))
- Use more pure local materials
(step up efforts to find vendors in emerging countries)

7-5. Cash Flow Management

(1) Improve operating cash flows

- Bolster global TSCM (Total Supply Chain Management) and overseas business expansion (Raise inventory turnover)
- Enhance services and solutions businesses (after sales and industrial)
- Reduce development man-hours through advances in simulation technology
(Reduce by 50% from FY2012 → FY2015)

(2) Improve investment efficiency

- Shorten lead times for product launches by expanding global standard automated production lines (currently applied to suspension lines)
- (Japan, U.S., China) Internalize production facilities through the use of global industrial equipment team
(Internal production value increased 2.4 times from FY2012 →FY2015)

About Hitachi, Ltd.

Hitachi, Ltd. (TSE: 6501), headquartered in Tokyo, Japan, delivers innovations that answer society's challenges with our talented team and proven experience in global markets. The company's consolidated revenues for fiscal 2013 (ended March 31, 2014) totaled 9,616 billion yen (\$93.4 billion). Hitachi is focusing more than ever on the Social Innovation Business, which includes infrastructure systems, information & telecommunication systems, power systems, construction machinery, high functional materials & components, automotive systems, healthcare and others. For more information on Hitachi, please visit the company's website at <http://www.hitachi.com>.

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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 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.

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