Q&A Summary: Web Conference on Q2 FY2025 Earnings

Date	:	**Thursday October 30, 2025, 16:30-17:30 JST**	
Speaker	:	**Tomomi Kato**	**Senior Vice President and Executive Officer, CFO**
		Hiroaki Ono	**Deputy General Manager, Finance Division**
		Shinichiro Tamai	**Executive General Manager, Investor Relations Division**

Unless otherwise specified, all respondents are Mr. Kato

Questioner 1

Q. **Has the acquisition of Thales's railway signaling business and the evolution of HMAX led to any changes in the type/content, profitability, or size of booked orders?**
Orders in Q2 appear to have decreased, and I would like to know their impact to business performance as well as the timing thereof.

A. As having explained, the Mobility and Hitachi Energy businesses are inherently subject to large quarterly fluctuations depending on the presence or absence of large-scale projects. Although the Mobility's orders declined in the 1H FY2025 due to the recoil from large projects last year, the order backlog is steadily increasing, and we feel that demand is robust. I review large-scale projects before bidding as the chairperson of the Investment Strategy Committee, and my impression is that we are gaining order opportunities from all over the world, including the Americas, Asia, Europe, the Middle East, and India. Overseas, we also receive orders for services such as maintenance along with rolling stock, and profitability is very solid and steadily improving. In the medium- to long-term, we expect profit margins to improve as the backlog is fulfilled. In addition, orders for Mobility's HMAX solutions are increasing, raising the ratio of services. Furthermore, with the acquisition of Thales's railway signaling business, the ratio of vehicles to signaling systems has shifted from the previous 60%/40% to 40%/60%, with signaling systems now forming the larger part. We expect this to improve not only sales but also profitability. Based on these factors, I feel we are making steady progress toward the long-term targets presented at our Investor Day and other events.

Q. **You mentioned that the profitability of Hitachi Energy's order backlog continues to improve. Is the momentum/pace of this improvement consistent? If there is any trend of acceleration or deceleration, please provide the reasons.**

A. We constantly check the profitability of the order backlog as it is a crucial item for forecasting the future. It has been improving steadily, with no significant changes. We expect to see profit margin improvement as the backlog is converted into revenue over time.

Q. **Given your focus on high-growth block storage within the storage business, do you anticipate a shift toward revenue growth starting from the next fiscal year?**

A. Although details for the next fiscal year will be reviewed during the business planning at the end of this fiscal year, our current focus is on high-growth block storage, particularly in the mid-range. While revenue decreased year-on-year in Q1 and Q2 due to restrained customer investments, we are on a gradual recovery path. Therefore, we believe we can achieve year-over-year sales growth in the next fiscal year.

Questioner 2

Q. **Regarding the impact of US reciprocal tariffs, the projected impact on the full-year forecast for Adjusted EBITA and net income has improved. From the perspective of the external environment (such as restrained customer investment) and self-help efforts (such as price pass-through), what has changed since the Q1 announcement? What specific self-help efforts contributed to mitigating the tariff impact?**

A. The tariff situation is as described on slide 29. Upon closure of 1H, we now estimated that the risk will decrease compared to the Q1 timing, hence revised the full-year outlook; the impact on Adjusted EBITA from the previous (30.0) billion yen to (20.0) billion yen. We had anticipated two types of impacts: "direct impacts" from cost increases and "indirect impacts" from reduced sales opportunities. Since direct impacts can be grasped with some accuracy, they account for the majority of the tariff impact (that we factored into our risk projection). The direct impact is decreasing as price pass-through progresses. The indirect impact has also not materialized as much as we had anticipated in Q1. We revised the outlook upward particularly considering that the indirect impact was not as significant as expected. Price pass-through has been progressing with our customers' understanding, for which we are very grateful.

Q. There were also announcements regarding a partnership with OpenAI and an MOU with the U.S. Department of Commerce. We believe the investments in the U.S. associated with the Japan-U.S. summit will lead to opportunities in T&D and SMRs. What level of impact do you foresee from each of these announcements on business performance for this fiscal year and beyond?

A. Regarding Japan-U.S. investment, this week we signed an MOU with the U.S. Department of Commerce targeting the power grid business. This is to advance considerations for additional investments by Hitachi Energy to increase transformer production capacity in the U.S. and for local production of T&D grid-related equipment. This is separate from the over 1.0 billion U.S. dollar investment to expand production capacity announced in September, and we are considering additional investment to meet strong demand. We will further looking into it, so nothing specific has been decided. There is a time lag of several years from investment to production and shipment, so it would not impact our business next fiscal year. Realistically, it will likely impact performance during the management plan after Inspire 2027. For the power grid business, we have revised our market growth outlook, extending the growth period from the previous 2030 estimate to 2035. While this is long-term, we appreciate this as a business opportunity and intend to capitalize on it.
Mr. Tamai: Regarding OpenAI, as announced on October 21st, we have entered into a strategic partnership. In building next-generation AI infrastructure, we will contribute to three main areas. First, "outside" the data center, we will help efficiently supply the power needed for AI adoption, focusing on power transmission facilities. Second, "inside" the data center, we will leverage Hitachi Group's cooling and storage technologies to help accelerate AI infrastructure construction. Third, we will collaborate by mastering AI in the form of Hitachi's Lumada solutions, such as HMAX, utilizing OpenAI's cutting-edge technology to increase value we provide. This is a medium- to long-term partnership, and while it will not have an immediate positive impact this fiscal year, we expect it to be a future growth opportunity.

Questioner 3

Q. My understanding is that Hitachi Energy primarily operates in the upstream domain, focusing on ultra-high and high voltage areas, whereas data centers are located closer to downstream consumption zones. With the recent announcement related to data centers, does this indicate an entry into medium- and low-voltage areas, or is it considered an extension of your existing business? I would like to ask about the novelty of this initiative.

A. The voltage of equipment for data centers varies depending on whether a power source is newly established alongside them and also depends on the scale, so it cannot be generally categorized as medium or low voltage. We do receive orders for data centers, but for Hitachi Energy as a whole, the large base consists of grid reinforcement for replacing aging infrastructure, renewable energy integration, HVDC, etc. The impact is not yet large enough to change the overall structure. However, the data center area is an add-on factor to conventional demand growth drivers, and we have very high expectations.

Q. As AI permeates the U.S., some SaaS companies are experiencing damage to their business. Is GlobalLogic's U.S. business experiencing performance deterioration, such as a reduction in business or intensified price competition due to AI implementation? The recent sales decline was explained as "restrained customer investment," but are there any elements of being caught up in a structural deterioration of the industry?

A. GlobalLogic has been facing pricing pressure for the past one to two years. We believe the main factor is restrained customer investment, but as you pointed out, we view the customer's raised expectations for productivity improvement from AI utilization may be gradually becoming intermingled, although it is difficult to clearly separate the two. Amid this, we will build our technical capabilities in the growing AI services domain to drive growth and profitability. We announced the bolt-on acquisition of the German company synvert in September. We aim to continue these efforts to enhance our solution-delivery capabilities and increase profitability.

Q. Regarding growth investment: Recently, there has been an unusual mood where investment is welcomed. In this context, I would like to reconfirm Hitachi's basic stance on investment. Are you loosening your discipline in any way? Also, is the 500.0 billion yen in shareholder returns

sufficient for this fiscal year? As you execute growth investments, I want to confirm if there will be any changes to shareholder returns.

A. We have decided in Inspire 2027 to robustly pursue both organic investment and M&A. We will focus on and execute M&A in the digital and service fields that contribute to Lumada. Our basics are bolt-on acquisitions, but we may also make large-scale investments if opportunities arise. However, we have not changed our investment discipline: investments must be positive for the ROIC spread, even if it takes some time. As CFO, I promote growth investment, while as the chairperson of the Investment Strategy Committee, I maintain balance by upholding discipline.

Regarding the 500.0 billion yen in shareholder returns, the 300.0 billion yen share buyback will be completed within this fiscal year. After that, we will consider our financial condition, asset sales, and opportunities for growth investment, and if there are no growth investment opportunity, we will consider shareholder returns. We will maintain a flexible approach, especially concerning share buybacks.

Questioner 4

Q. **Regarding the OpenAI partnership, when you say "outside" the data center, does that specifically mean transmission and substation equipment, or transformers? Also, for "inside" the data center, you mentioned 800-volt direct current technology. I can't quite picture the business content or scale. Could you give us a sense of whether you expect to be involved in projects like OpenAI's Stargate in the next 2-3 years?**

A. **Mr. Tamai:** For "Outside" the data center, our contribution will be primarily through power transmission equipment. The equipment differs depending on the distance between the power generation site and the data center, but generated electricity cannot be transmitted directly to the data center, so transmission equipment such as switchgear must be used. This is already a growing field, and we signed the MOU anticipating further growth acceleration, representing a major opportunity for our core power grid business. As for the 800-volt direct current power supply architecture, it has not yet been commercialized; this is something we will develop going forward. Hitachi Energy's core competence is voltage conversion and DC/AC conversion, and we do in-house R&D and production of power semiconductors, which are key technologies. We also possess a wealth of products that handle voltages close to 800 volts, such as PCS, battery energy storage controls, and EV chargers. Furthermore, we have a top-class track record in delivering transformers for data centers and in projects that guarantee high-quality power supply. We believe significant opportunities exist.

Q. **Regarding domestic IT services, other companies have reported in their recent earnings announcements that orders are negative or in the low single digit year-on-year. In terms of project trends in domestic IT services, do you feel the market environment provides a sense of security looking toward the second half and next year? Given the situation in the U.S. where AI is impacting SaaS companies, do you see greater risk or opportunity?**

A. **Mr. Ono:** Our Front Business grew +13% YoY in Q2, and IT Service grew +3% YoY. Domestic DX and modernization projects continue to remain solid. We expect growth in the second half and into FY2026.

Mr. Kato: IT Service includes some overseas business, which is being affected by restrained customer investment. Therefore, in Q2 and the first half, it may appear weak due to the impact of the overseas business, but domestic DX and cloud-related projects are solid. We will continue to closely monitor the situation, including the overseas business.

Questioner 5

Q. **Regarding the power grid business, you mentioned it would grow until 2035. Could you please share the background, reasons, and your sense of the current demand situation? Also, given the MOU with the U.S. Department of Commerce, what are your expectations for the U.S. market and your view on market trends amid anticipated demand from AI and data centers?**

A. We review large projects like HVDC at the headquarter, and we truly feel there is strong demand all over the world, including North America, Asia, and Europe. We see the market will keep growing until 2035. The major factors are the replacement of aging equipment, grid stabilization associated with the introduction of renewable energy, and the addition of new demand, such as from data centers. Detailed planning for the U.S. Department of Commerce MOU are still to come, but demand in the U.S. market is extremely strong. We are increasing local production, but we still cannot make everything in the U.S. We need to build up our production capacity in the U.S., and it will likely be a project that embodies those expectations.

Questioner 6

Q. Regarding the structural reform of the storage business: You mentioned implementing cost reduction measures. What specific actions are you currently taking and will you take in the second half and heading into next year? As Hitachi aims for an overall Adjusted EBITA margin of 13-15%, what is the positioning of the storage business, which is unlikely to reach that margin? Will you be able to continue this business in the future?

A. The storage business's structural reform has three main points. First, concentrating management resources on focused areas, such as block storage, including the growing mid-range. Second, reducing and optimizing fixed costs. Third, optimizing the organization. In addition to these, we will also leverage alliances with other companies. Regarding the future of the storage business, although we are facing challenges at present, the market itself is promising. In data centers, data resides in storage, and how data is used in AI adoption is extremely important. We aim to build competitiveness through self-help efforts and alliances.

Q. What are the key messages from Hitachi Energy's Investor Day?

A. There were three main messages from Hitachi Energy's Investor Day. First, we revised our medium- and long-term targets upward based on a stronger assessment of medium- to long-term demand growth. Second, we updated the demand growth period, extending it from the previous 2030 to 2035. Third, we explicitly outlined the enhancement of the service business as the next pillar of growth. We will invest 1.0 billion U.S. dollar and add 5,000 personnel to strengthen the service business.
Mr. Tamai: To expand the service business, we will also leverage capabilities within Hitachi as "One Hitachi." We will strengthen digital-based service provision by using the key technologies and insights from HMAX, which was developed in Mobility. We are emphasizing the acceleration of digital service development by utilizing the capabilities of the entire Hitachi Group.

Questioner 7

Q. The discussions with OpenAI and the U.S. government seem long-term and have government backing, so we don't think the business risk is high. Hitachi Energy has historically been cautious about increasing capacity. Will this reduced risk make it easier to invest? Also, when will the service business begin to make a full-fledged contribution to performance? What is your competitive advantage in the service business?

A. Regarding Hitachi Energy's capital investment, while we anticipate medium- to long-term demand growth, we scrutinize actual investments strictly. We assess whether the investment can pay not only in the "most likely case" but also in the "worst case." As this business experienced low growth for a long time, Hitachi Energy is fully aware of this point. We plan investments while balancing risks and growth opportunities. We are also continuing to solidify future capital investments through framework agreements and other means. As for the service business, unlike hardware, it is something that grows gradually. We started sowing the seeds last year, taking various measures such as establishing a new service business division and investing in service-related companies. It would likely begin contributing to performance during the management plan after Inspire 2027. Although it takes time, the service business is important as underlying support for the business. Hitachi Energy's advantage is its "footprint," which is the largest in the industry, stemming from having operated in the number one position. We have been in the power industry for a long time and know the products and solutions well. Having the largest footprint will be a very strong asset for our future service business development.

Q. Strategically, there seems to be a rivalry between the pattern of hardware-oriented companies moving into software, and the pattern of software companies entering hardware, like SoftBank Group's acquisition of ABB's robotics business. How do you view this industry change?

A. We recognize that AI is becoming "Physical AI" and that robotics is growing. As for our stance, we do not make robots ourselves, but JR Automation in CI, has a factory robot line-building business. Regarding Physical AI, as explained the other day, it is a focus area within our business and a field where we can provide considerable added value in CI, in addition to Hitachi Energy and Mobility. There will likely be many areas of application, not only for products but also for improving the productivity and safety of maintenance services. In terms of our strengths, this means we possess IT, OT (Operational Technology), and products.

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