

Q&A Summary: Hitachi Energy Investor Day 2025

Date: Thursday October 30, 2025, 17:00-19:30 GMT
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Question 1

Q1. I would like to ask about the newer technology, solid state transformers. With your partnership with NVIDIA, is this technology part of the products currently under development? Also, could you elaborate on the details of your collaboration with NVIDIA, and how you see growth opportunities not only in the grid but also within data center facilities?

A1. Beyond increased energy and power requirements, the key challenge with AI data centers compared to conventional ones are the new dynamics of GPUs, which start and stop in parallel, creating very short-term power bursts. This puts significant stress on both the internal and external (from an electrical perspective) infrastructure of the data center. We are partnering with NVIDIA, but also collaborating with all the major hyperscalers to develop solutions for these challenges, and are actively exploring how best to meet the needs of future AI data centers.

Hitachi Energy has been working on solid state transformer concepts for many years. These come with additional flexibility regarding size, weight and frequency, but require specific technologies that need to be compared with conventional solutions from a cost perspective.

Question 2

Q2. Not only from a technological perspective, but also from a financial standpoint, how can we have confidence in your ability to execute on your plans?

A2. Our consistent track record demonstrates reliable execution of what we committed to and clear results: We have doubled our revenue to over \$19 billion, carried out capital investments and improved profitability and margins. We also successfully implemented a global ERP system—a significant achievement given the scale and complexity. We have thoroughly prepared for growth by building a strong order backlog and maintaining an appropriate risk profile. Rather than over-investing in capacity, we expand only when there is a solid, bankable business case. This disciplined approach forms a robust foundation for our future projections, and we expect to continue growing by approximately \$2 billion per year.

Question 3

Q3. While I am satisfied with your past business growth, I wonder if your current capacity expansion plans are a bit conservative compared to government forecasts for electrification and renewable energy demand. Doesn't the extension of delivery times create opportunities for competitors?

A3. On one hand, capacity expansion is limited by several factors: For example, building a transformer factory requires winding machines, for which delivery times have increased. Especially for large transformers, it takes a lot of manual work for a winder, who needs to be trained two to three years before working independently and meeting quality standards. Some automation is possible, but despite large investments, capacity growth is limited.

On the other hand, while doing what we can to meet the demand, we expand only with a bankable business case, government or customer commitment, or framework agreement, rather than building empty capacity. The industry is recovering from decades of stagnation and past factory closures, so we are focused on meeting demand responsibly. Currently, we do not see significant risk from new players entering the market despite the growth, as all face similar challenges in securing capital, machinery, and talent.

Question 4

Q4. Isn't your outlook on renewables a bit too optimistic? Some major U.S. utilities have stopped pursuing offshore wind projects and are shifting to natural gas. How do you view this trend?

A4. We are optimistic about the outlook for the grid. Every country has to find its own way to supply the electricity it needs. Some are betting on renewables, some on gas, and others on nuclear—it has to be a mix. In any case, the demand is there, and there is definitely a need to expand the grid. In recent years, energy resilience, safety, and security have become much more important, and every country is investing in its own generation systems. Countries without oil, gas, or coal are investing in renewables to reduce their dependence on imports. India is a good example—they openly state that as long as they have enough wind and solar, they can reduce imports. Going forward, the grid will play an even bigger role than before, and interconnectivity between states and regions will become more important, both for security reasons and as an investment theme. It does not matter to us whether you use nuclear or renewables—the demand is there, and the grid needs to be expanded.

Question 5

Q5. Could you talk about the pricing environment you expect for new orders? While there is a very bullish demand outlook, Hitachi Energy is increasing in capacity, and so are your peers. You are also moving toward standardization. How do you think about pricing going forward?

A5. Pricing is a key topic, especially as costs and prices have risen for many

reasons. For example, transformers use a lot of commodities for which prices have gone up significantly, like copper, pulp and paper, and electrical steel. We are tackling this in two ways: First, we aim to find agreements with our customers on standardized equipment, which saves a lot of engineering costs if you don't need to design every transformer from scratch. In addition, this saves time, as you can produce much faster and cheaper if you can pre-order long lead items. Second, we are encouraging customers to move to framework agreements or capacity reservations, which usually come with an indexing system for key commodities such as copper. This approach ensures transparency and means that we do not take over the customer's risk, but leave price fluctuations to market principles.

Question 6

Q6. How does your collaboration with OpenAI impact Hitachi Energy? Also, what impact will the joint investment in SMRs (Small Modular Reactors) between the US and Japan have on your business going forward?

A6. Regarding OpenAI, we are collaborating in areas such as grid connections and transformers for these mega data centers. These have completely different energy consumption profiles; for example, a 2-gigawatt data center requires as much power as two nuclear plants, which is definitely a challenge. We are working closely with OpenAI and all the major hyperscalers, and have good relationships with them.

With regards to SMRs, we have been working on several ventures together with GE Vernova, developing SMRs. The first final investment decision (FID) was made recently in Canada, and we are watching the development.

Question 7

Q7. While future growth and margin expansion appear promising, what do you see as the biggest risks, and how are you addressing them?

A7. Input costs, inflation, and especially commodity volatility are major risks. General inflation can push up prices to the point where the affordability of our solutions comes into question. We cannot fully protect ourselves from commodity volatility, but on the supply side, we can manage risks. During COVID, we saw the impact that supply chain disruptions can have, so we have invested in IT to optimize and diversify our supply chain. Another risk is on the human side—we need to hire a net 5,000 new colleagues every year. At the moment, our IT platform enables us to handle this, and since our industry is doing well, we have no major issues finding talent. The bigger concern is on the customer side: Not all customers can raise the large amounts of capital needed, so a solid business case is essential. The financial markets are not always prepared to invest so much in a single industry. Technically, I don't see major risks, but macroeconomic factors and capital raising are real challenges.

Question 8

Q8. How important are the synergies with DSS for achieving your margin and revenue targets? Also, how difficult is it to scale the HMAX solution, which has already been implemented in Mobility, to other industries?

A8. While software solutions cannot be applied automatically to other areas, but require modification, HMAX is being adapted specifically for the Energy sector. We have leveraged the foundation of the Mobility business, and the DSS business to create internal synergies. To fully scale up, this will take time, and for our customers, each business case is unique. The difficulty of applying solutions varies by industry, and we are working with DSS for software implementation and AI-driven applications.

Question 9

Q9. Since transformers are not rotating equipment like turbines, does that mean there are fewer service opportunities? In which service areas do you expect to see growth?

A9. Transformers have a completely different service model compared to rotating equipment. Rotating equipment is very spare-part heavy and subject to a lot of wear and tear. In contrast, transformers do not require much maintenance, but monitoring is essential. A transformer failure is a major concern for customers due to long lead times and replacement efforts—if you have a backup transformer, it might mean a multi-week outage; without one, it could be years. Ensuring transformer uptime is critical for our customers, and we achieve this through monitoring solutions, lifetime extension activities, inspections, and rewinds. However, transformers service is only one piece of the overall power grid services portfolio; we also provide services for switchgear, extensions, upgrades, retrofits, and control system enhancements. The growth of our service business is driven by increasing grid complexity, the rise of new players like data centers, and the shortage of skilled personnel, making this a promising area for investment going forward.

Question 10

Q10. As the grid becomes more advanced and complex, how do you see the number of service points evolving in the future compared to today?

A10. Service growth is a promising investment area for two reasons. First, the world of the grid is becoming more complex and requires more service. Second, new players like data centers are increasing, and they typically do not want to operate service themselves—they have a “build it, own it, maintain it” culture and just want things to run, without worrying about the details. This is a completely different behavior from traditional utilities. On the other hand, we are facing not only aging infrastructure but also a shortage of skilled personnel. Many employees are retiring; for example, in the US, about 5,000 electricians retire every year, and not enough new talent is being trained. At the same time, utilities have to deliver three to four times more capex projects than before, so they are reallocating resources. Going forward, we are building a multi-layered service structure that combines

strong engineering competence centers and boots on the ground for rapid local response—even in smaller geographies, we need multiple locations to respond quickly. By combining global competence centers with local field presence, we are well positioned to support future growth.

Question 11

Q11. Regarding the acquisition of a stake in Shermco, was full ownership ever considered? Do you have plans to increase your shareholding in the future? Also, could you share your future capital investment strategy?

A11. No comment to the first two questions.

We have just entered a partnership with Blackstone, and are now developing our strategy together. For future capital investments, we have already highlighted several focus areas, such as the service business. We have announced an investment of \$1 billion in services by 2030, but will also invest in IT, people, and other areas. Further inorganic investment globally is an option, if suitable opportunities arise, beyond North America. We are also flexible in expanding our Capex on a case-by-case basis when there is a strong business case. I believe we have demonstrated that Hitachi Energy can make quick decisions and respond rapidly to good opportunities.

Question 12

Q12. Given the strong demand, it seems you have solid pricing power. Are there any regions or end markets where you've seen better terms and conditions recently? Any details that help us understand your margin improvements would be great.

A12. When it comes to terms and conditions, capacity reservation agreements are a clear improvement compared to the past, now securing partial funding and providing better future visibility. Regarding pricing, we now include price escalation formulas in contracts, meaning we know the margin at time of the order and agree with customers on a transparent formula that allows to adjust for commodity price changes. Advance and milestone payments are another important improvement that helps us provide the strong operational cash flow and working capital needed to invest in future capacity. This can be explained at the example of a framework agreement for over 20,000 transformers over eight years: One big advantage is standardization—we know exactly what to build, and while we may not always know when or where, the design and engineering are clear, we can order long-lead items in advance and benefit from bulk purchasing. This clear view of future demand makes things much easier, helps us optimize our internal supply chain and manage working capital and inventory more efficiently, allowing us to look ahead—up to six years in our case.

Question 13

Q13.I was just wondering—do you see significant differences in project margins or economics depending on the region or the type of end market?

A13.Of course there are differences, but they usually reflect the varying risk profiles. For example, our HVDC projects include components like high-voltage equipment and transformers, which are sourced internally and come with their own margin structures. This is why we aim for a global footprint; we do not always pursue the markets with the highest margins, but focus on developing every customer and region in a balanced way, as market dynamics can shift. For instance, the U.S. has recently shifted significantly away from offshore wind to other areas, and similar changes can happen elsewhere. Our goal is to maintain a strong presence across all markets while optimizing margins and continuing to support our customers.

Question 14

Q14.I have a question about your relationship with Hitachi. What have been the biggest benefits of being part of the Hitachi Group?

A14.For a company with \$16 billion in revenue, making a \$9 billion investment is typically not easy. Having the trust, financial strength, and strong investment discipline necessary to ensure the success of such an investment is a significant advantage. When we invested in a global SAP S/4HANA implementation, we received strong support from Hitachi.

In addition, Hitachi's software portfolio gives us access to programmers and software capabilities that would otherwise be difficult to obtain. It allows us to generate synergies not only on the financial side, but also in terms of our overall portfolio.

Question 15

Q15.What portion of Hitachi Energy's revenue is currently exposed to the data center market? Could you elaborate on the company's offerings for this sector, and what differentiates Hitachi Energy from competitors in terms of competitiveness?

A15.Data centers are a very fast-growing segment, and what we bring to the table is our expertise in grid access and a multi-dimensional approach. First, data centers today are much larger, which means they require a completely different level of grid connectivity. We typically have strong relationships with local utilities and understand their customer base and grid codes, giving us a clear advantage when supporting data center development in those areas. We can provide the necessary connection equipment and also collaborate with utilities to unlock additional grid capacity—sometimes by optimizing existing operations. Additionally, we have significantly standardized our data center solutions, which work in our favor. Thanks to our global footprint, we can deliver consistent products and quality across regions—whether you are building a data center in Australia, Malaysia, India, the U.S., Mexico, Canada, or Germany. We always have a factory nearby and a reliable supply chain to

ensure timely delivery.

Currently, revenue from data centers accounts for less than 10% of our total. By 2030, we aim to increase that share to above 10%.

Question 16

Q16.What is the partnership with Blackstone and investment in Shermco about, and what will come next?

A16.We are excited about our partnership with Blackstone. This collaboration brings together the financial strength of a leading private equity firm and the technological expertise of an industry leader. The reason we value this kind of financial backing is that the service sector requires expanded capabilities. Together with Blackstone, we're building a platform to scale up our service offerings—especially in regions and specific areas of North America where customer demand is growing.

This kind of business model could be replicated in other parts of the world—we are open to further expand both geographically and in terms of capabilities.

Question 17

Q17.You mentioned medium voltage in your presentation. Are you considering expanding your business into the medium voltage segment?

A17.First of all, we see significant growth potential on the high-voltage side, and executing on that alone is already a major undertaking. That being said, we believe the next wave of development will happen at the distribution management system level—at the grid edge. Battery storage and solar power are no longer limited to high-voltage infrastructure; many households are already actively using solar panels and batteries. Households are becoming “prosumers,” the grid behavior is fundamentally changing, and with the addition of electric vehicles, grid management is becoming increasingly complex and bidirectional. We are well-positioned, as we produce our own power semiconductors—essential for charging infrastructure, battery systems, inverters, and more. Of course, we are always exploring technologies and how we can further evolve, especially on the software and hardware fronts.

Question 18

Q18.In light of the growing political pressure, do you have any plans to increase your manufacturing investment in the UK? Additionally, what kind of support would you need from your customers and the government to move forward?

A18.We aim to be as local as possible, but ultimately, it depends on whether there is a bankable business case. Building a transformer factory takes around three years to become fully operational and requires an investment of approximately \$400–500 million. This is due to the need for a highly specialized facility, custom machinery, and the recruitment and training of several hundred skilled workers. It is a significant long-term commitment—

you cannot justify that level of investment to produce only five to ten transformers. A robust and sustained project pipeline over several years is essential to make it viable.

Question 19

Q19.How confident are you in maintaining your position as the industry leader? Besides Siemens Energy and GE Vernova, do you see any other competitors emerging as potential threats in the future?

A19.We are confident in our position, but we do not want to become arrogant. We are always keeping a close eye on market developments, but if you look at the growth projections, market positions do not tend to shift quickly. Building a transformer factory takes about three years to become operational, which requires significant investment in both capital and human resources, and a proven track record is essential. We are in a strong position at the moment, but are definitely continuing to monitor the situation closely.

End