
Urban Planning and Development Systems Business Strategy

Hitachi IR Day 2014

June 12, 2014

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Infrastructure Systems Group

Hitachi, Ltd.

Urban Planning and Development Systems Business Strategy

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- 1. Business Overview**
2. Market Trends and Competitive Environment
3. Business Policy and Growth Strategy
4. Business Performance Trends

1-1. Business Overview

Elevator and escalator business(86%)

Manufacture, sales, installation, maintenance and modernization of elevators and escalators



Building-related services, etc.(14%)

Energy saving

Security

Cloud-based integrated Building management system



FY2013
Consolidated
Revenues
562.6 billion yen

Starting from the elevator and escalator business



Development of the building-related business

Energy saving (visualize, assess and control)

Security (monitoring cameras, room access control systems)

Building facility maintenance, modernization

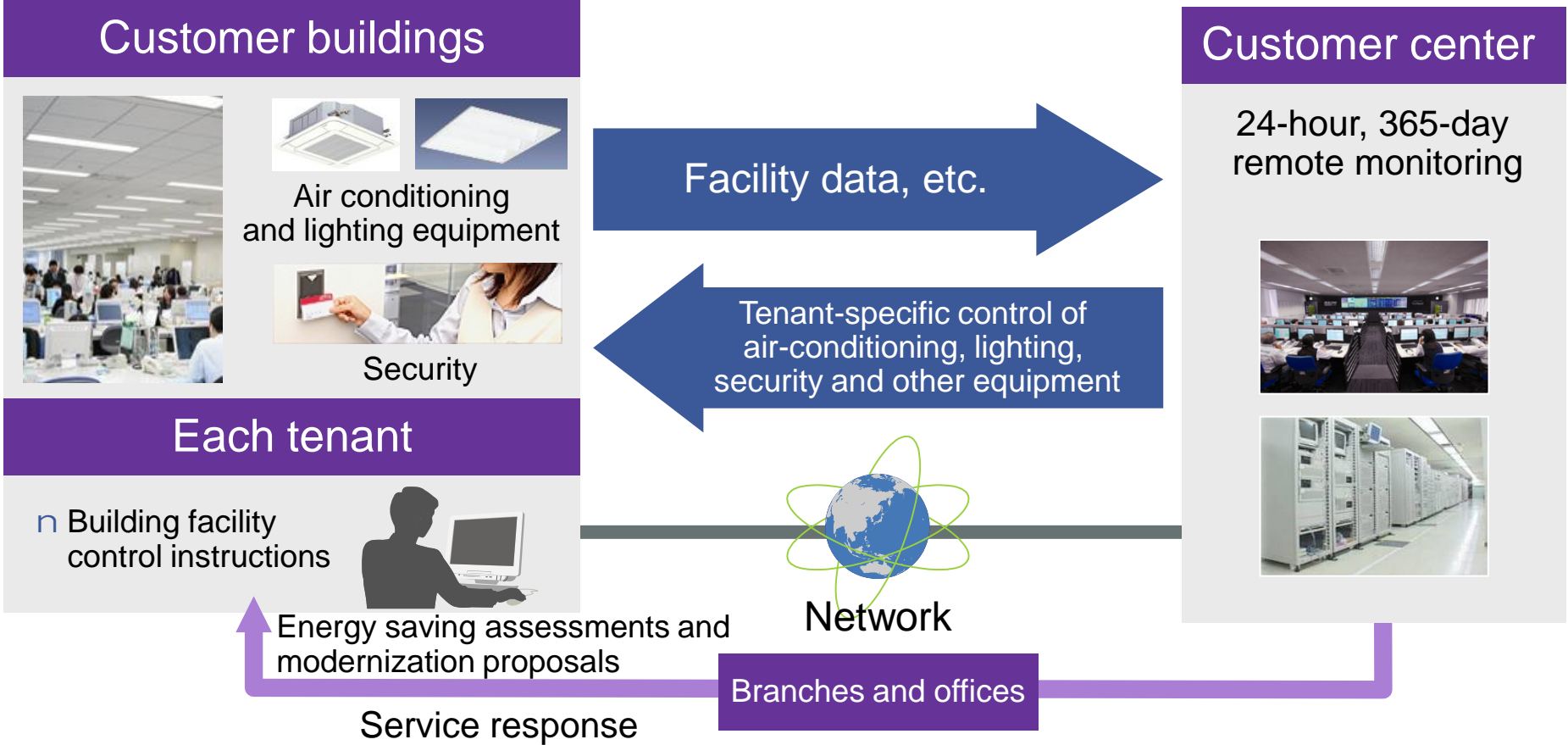


Provide whole building solution (Integration with IT)

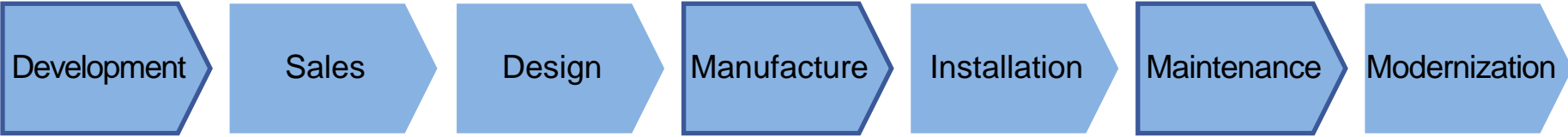
1-2. Business Overview

IT solution: cloud-based integrated building management system BIVALE

- n Developed a cloud-based system using existing service infrastructure
- n Enables remote, tenant-specific control of energy savings from Hitachi customer center



Value Chain of Urban Planning and Development Systems Company



Three Core Values

Development	n High-performance product development capabilities (Develop unrivaled products)
Manufacture	n Globally developed production structure (Supply products from optimal locations to global markets based on local production for local consumption)
Maintenance	n Industry-leading service infrastructure and high-value-added services (Remote monitoring, diagnosis and control using Big Data and preventive diagnosis technology)

1-4. Business Overview

Main Development, Manufacturing, Sales and Service Bases



Promote globalization centered on regional HQs

1-5. Order Record (FY2013)

Burj Al Shaya
65 floor / 40 floor twin towers
5-star hotel
37 ultra-high-speed and high-speed elevators, etc.



Kuwait



India



Nathani Heights
Hitachi's first ultra-high-speed elevator project in India
Luxury residential building
14 ultra-high-speed and high-speed elevators, etc.



Beijing WTC
Large mixed-use building with offices, a 5-star hotel, residences, etc.
121 ultra-high-speed and high-speed elevators, etc.



Ping An Finance Centre (Shenzhen)
Hitachi's tallest elevator project in China
115 floors; Building height: 660 m
76 ultra-high-speed and high-speed elevators, etc.



Singapore

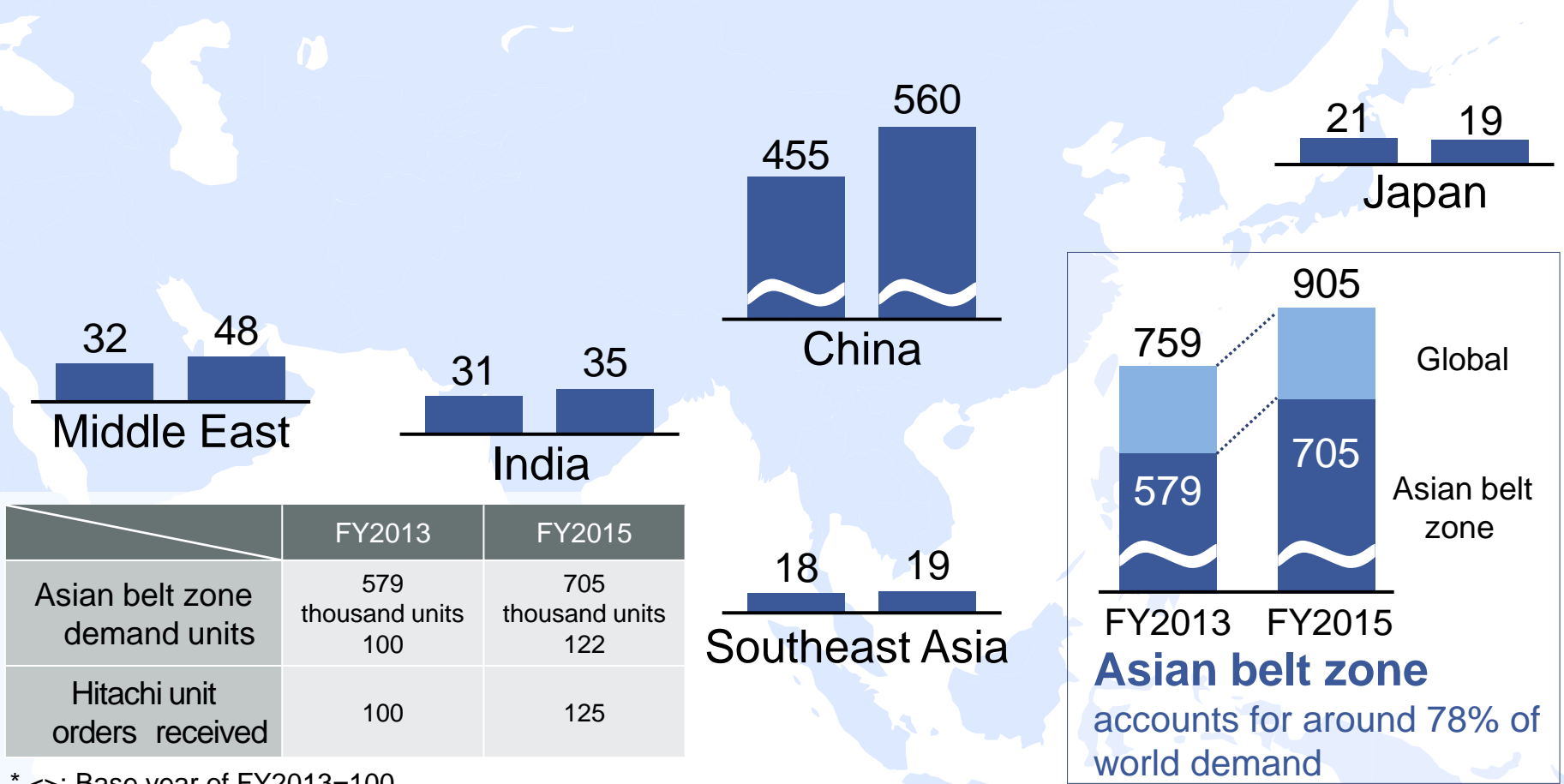
Tanjong Pagar
Mixed-use building including offices, a 5-star hotel, and residences
55 ultra-high-speed and high-speed elevators, etc.

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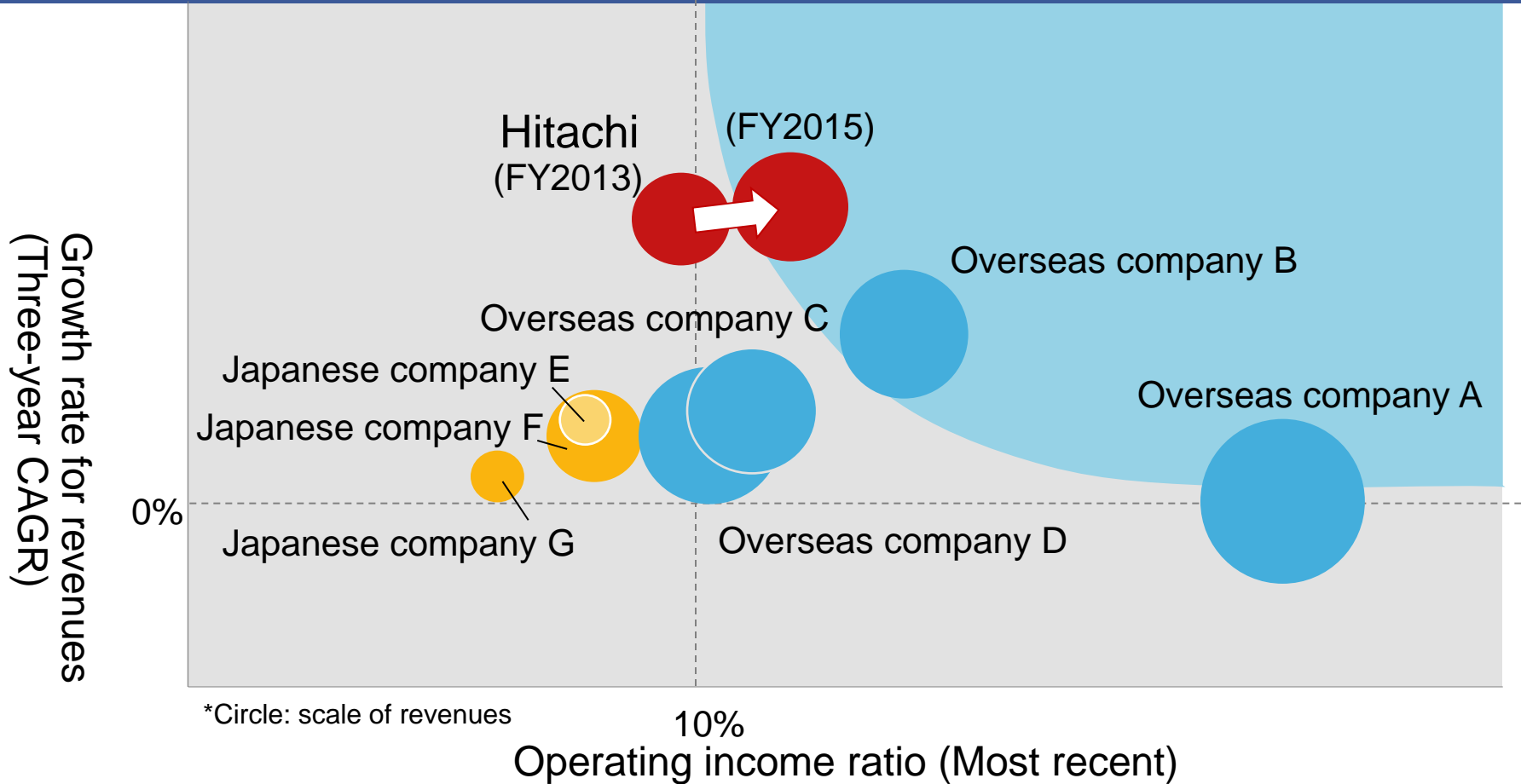
FY2013→FY2015 New Installation Market Trends (Thousand units, Hitachi estimates)



* <>: Base year of FY2013=100

Focus on business expansion in the Asian belt zone

Hitachi's Positioning (Elevators and Escalators) and Growth Targets



Become one of the world's top 3 in FY2015

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3-1. Business Policy and Growth Strategy

Overall global strategy

- Expand business scale centered on China, Southeast Asia and the Middle East (up to FY2015)
- Enter regions beyond the Asian belt zone (Europe and the U.S., etc.) (up to FY2020)

《 Market growth potential by region 》

Region	Market maturity index*	Market growth potential	Group	Key countries and regions	Business Policy
Japan	45 (Mainly services)	→	Base Market share: high	China, Japan, Singapore, Thailand, Hong Kong, Malaysia	<ul style="list-style-type: none"> Boost share of new installations Expand and strengthen service business (maintenance, modernization)
China	5 (Mainly new installations)	↗			
Southeast Asia	10 (Mainly new installations)	↗	Nurture Market share: low	India, Philippines, Vietnam	<ul style="list-style-type: none"> Expand and upgrade product lineups and enhance competitiveness Strengthen sales support for distributors Convert distributors into JVs
Middle East					
Europe and the U.S.	48 (Mainly services)	→	Develop	Indonesia, Myanmar, Turkey	<ul style="list-style-type: none"> Develop new sales routes Increase Hitachi's brand presence
				Europe and the United States	<ul style="list-style-type: none"> Explore alliances with partners

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

*maturity index = Elevators and escalators operation units/ New installation units (FY2012 results: Hitachi internal data)

Business policy: Revenues of 610.0 billion yen in FY2015

China

n Become No.1 in China

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

- n Expand sales in new installation market and expand and strengthen the sales and service network
- n Raise brand value by developing and introducing the world's No.1 products

Southeast Asia, India and the Middle East

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

Japan

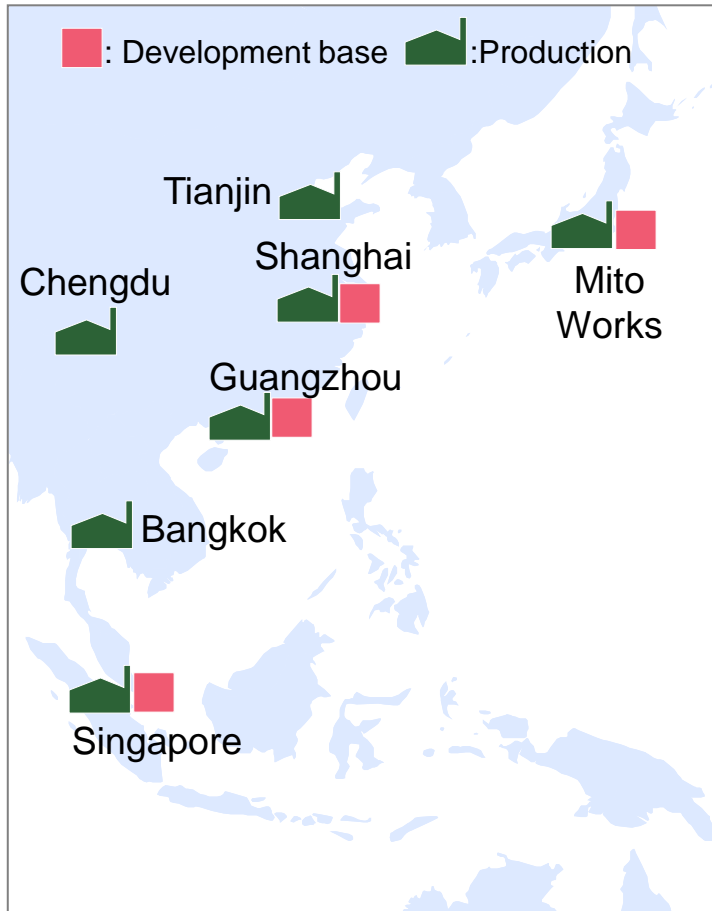
n Expand and strengthen the services business (maintenance, modernization)

Hitachi Smart Transformation Project

n Promote cost structure reform and strengthen cash flow management

Enhance collaboration among operations in Japan, China and Southeast Asia

- Establish highly efficient development, production and supply frameworks in line with market characteristics



Development	
Accelerate joint development in Japan, China, and Singapore	
Global models	Global development framework comprising four development bases
Low-cost models	
Cutting-edge technology	Establish in Japan and extend to new areas
Production	
Build a global manufacturing network based on local production for local consumption	
Common components	Centralized production in China
Structural components	Local production for local consumption
Premium models	Produce and export from Japan

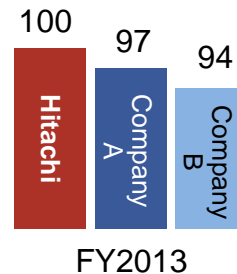
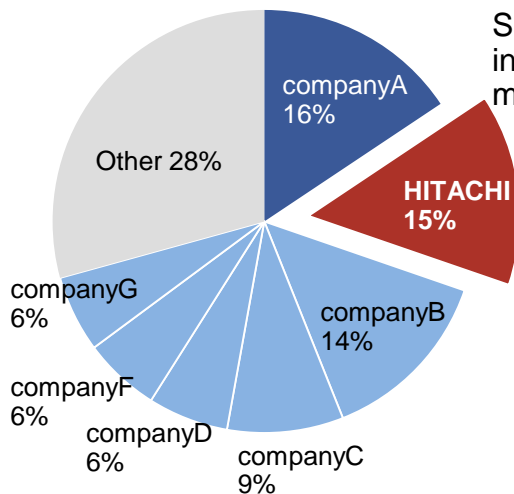
Expand sales in the new installation market and service business

- n Increase strategic partners
 - n Build win-win relationships with major real estate companies in China
 - No. of partners
FY2013: 35 companies
→ FY2015: 42 companies
- n Peer company comparison (FY2013: Hitachi internal data)

New Installation Market Share

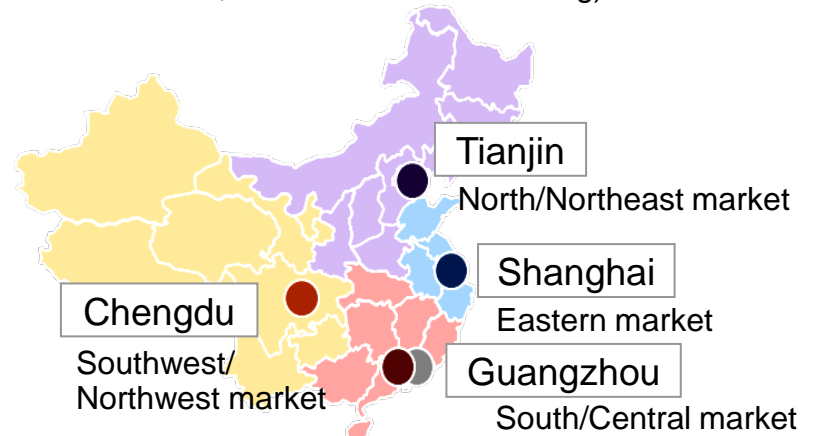
Sales share No.1

Sales of the top 3 companies in terms of new installation market share (Hitachi = 100)



New installation order received units: FY2013 67,000 units → FY2015 83,000 units

- n Expansion of sales and service network
 - n Achieve high efficiency through a four-area management system (Sales, distribution, installation, maintenance and training)



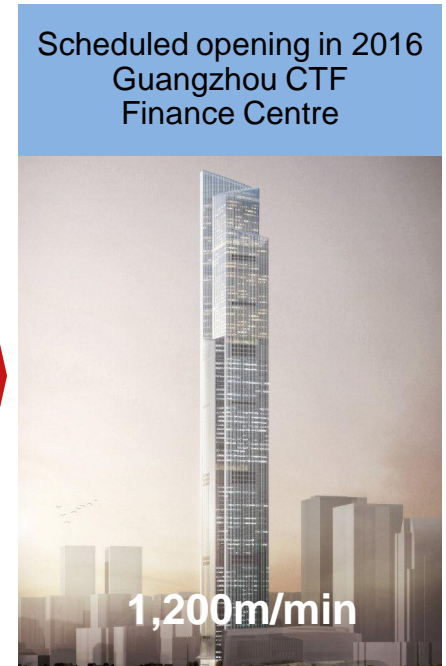
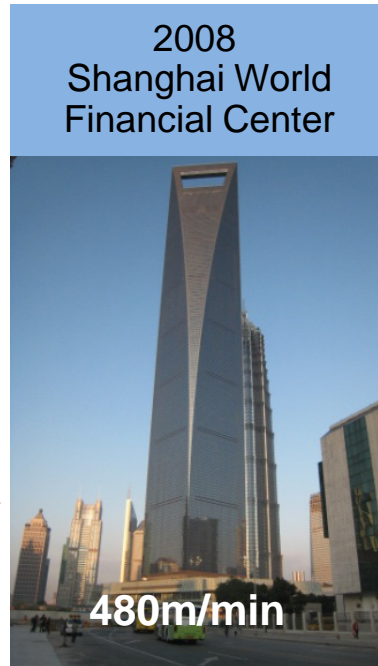
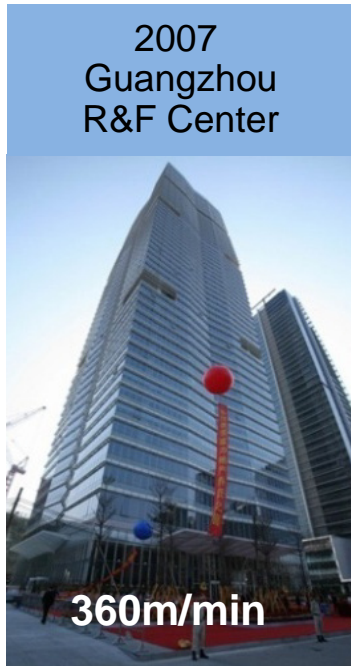
- n Boost share in prioritized regions by setting up more service bases
[Hitachi's bases: FY2013 70 bases → FY2015 90 bases]
- n FY2013: Completed expansion of Hitachi service bases to all provinces in China
- n Expand remote-monitored maintenance service to major customers
- n Promote manufacturer-provided maintenance services in response to changes in the law (Special Facility Safety Law)

3-5. Growth Strategy (China)

Raise brand value by developing and introducing the world's No.1 products

- Develop and launch the world's fastest elevators (1,200 m/min)
 - Achieve differentiation by extending ultra-high-speed technology into new areas (Space saving, ride comfort, safety devices)

Increases in elevator speed in major projects



Increase presence and expand business in the Chinese market

3-6. Growth Strategy (China)

Raise brand value by developing and introducing the world's No.1 products

- Opened a booth at one of the world's largest exhibitions (Presentation at the China International Elevator Exhibition)



Publicized engineering skills needed to achieve world's fastest elevator speed of 1,200 m/min

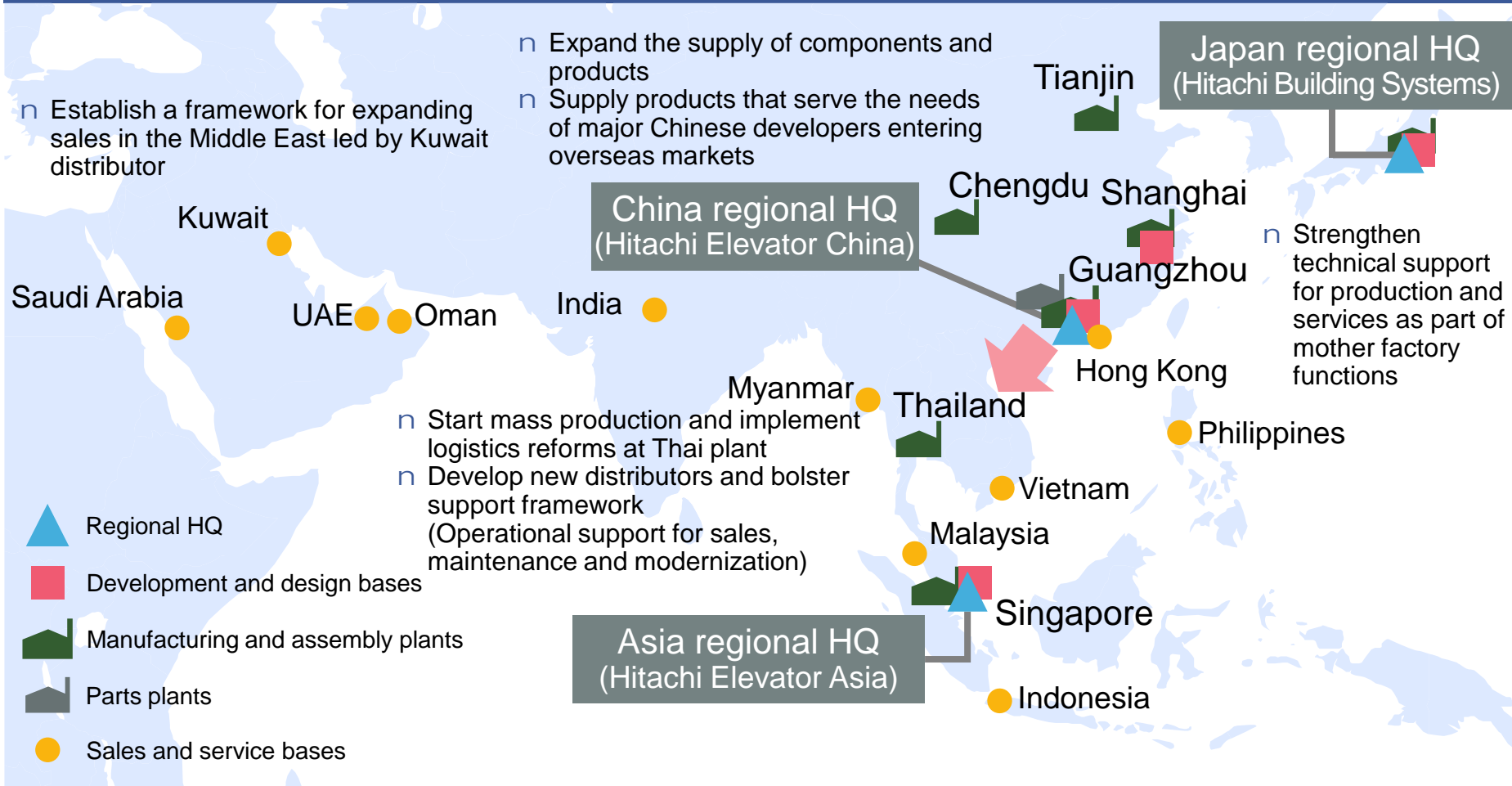
- | Drive and control technologies
- | Safety
- | Comfortable ride

Outline of exhibition
May 13-16, 2014 (4 days)
Participating companies: 629

Increase presence and expand business in the Chinese market

3-7. Growth Strategy (Asia)

Strengthen the platform for growth in the Asian region



New installation order received units: FY2013 1,900 units → FY2015 2,800 units

Integrate the elevator and escalator businesses in Japan

n Promote business structure reforms

n Integrating the elevator and escalator businesses in Japan from April 2014

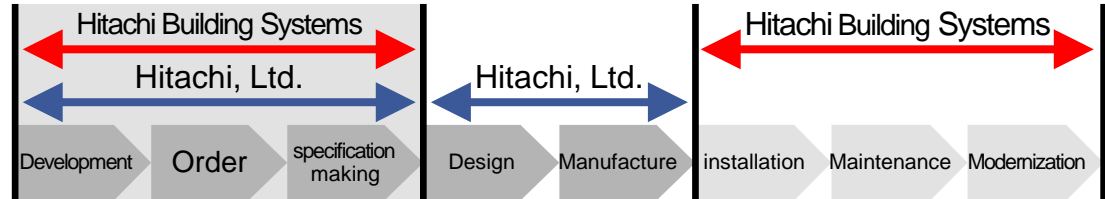
n Realignment of goals

n Speed up management

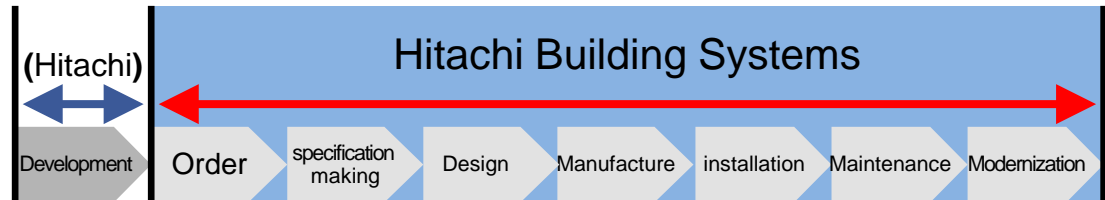
n Increase operational efficiency and reallocate resources

n Bolster global strategy (design and development)

《Previous framework》



《After realignment》



Strengthen the services business

- Shift management resources from equipment sales to the service business -

n Strengthen the modernization business

n Strengthen the modernization business (Energy conservation, seismic isolation)

n Shorten installation times by improving installation methods

n Enhance the maintenance business

n Refine preventive maintenance by improving predictive diagnosis precision, etc. (Launch new standard models, utilize Big Data)

Expand orders for modernization (FY2013 3,300 units à FY2015 5,000 units)

Strengthen the service business (global human resources development)



Exterior of the Global Training Center

- n Global Training Center completed and began operations in April (Training building for the operation and maintenance of elevators, escalators, and building facilities)
- n Use as a global education center to aid in the training of personnel in Japan and overseas for human resources development purposes



Mock-up training devices for elevator control panel

Elevator training facility

Mock-up devices developed in-house for a variety of models, from older ones to the latest models, have been installed.



Training facilities for remote monitoring and control systems

Building facility training devices

Facilities for remote monitoring and control systems for security and air conditioning devices, centered on BIVALE

Cost Structure Reforms

Production costs	<ul style="list-style-type: none"> n Raise production efficiency by centralizing production of common components n Expand applications of modular design
Direct materials costs	<ul style="list-style-type: none"> n Expand global procurement n Strengthen cost planning, and development and purchasing
Indirect costs	<ul style="list-style-type: none"> n Unify global IT platform n Promote improvements in indirect operations through business structure reforms in Japan

Estimated effect FY2011 - FY2015 total: 27.0 billion yen

Cash Flow Management Enhancement

Issues and Areas to Strengthen

Increase asset efficiency for increasing new installation sales in China

Earnings Improvement Initiatives

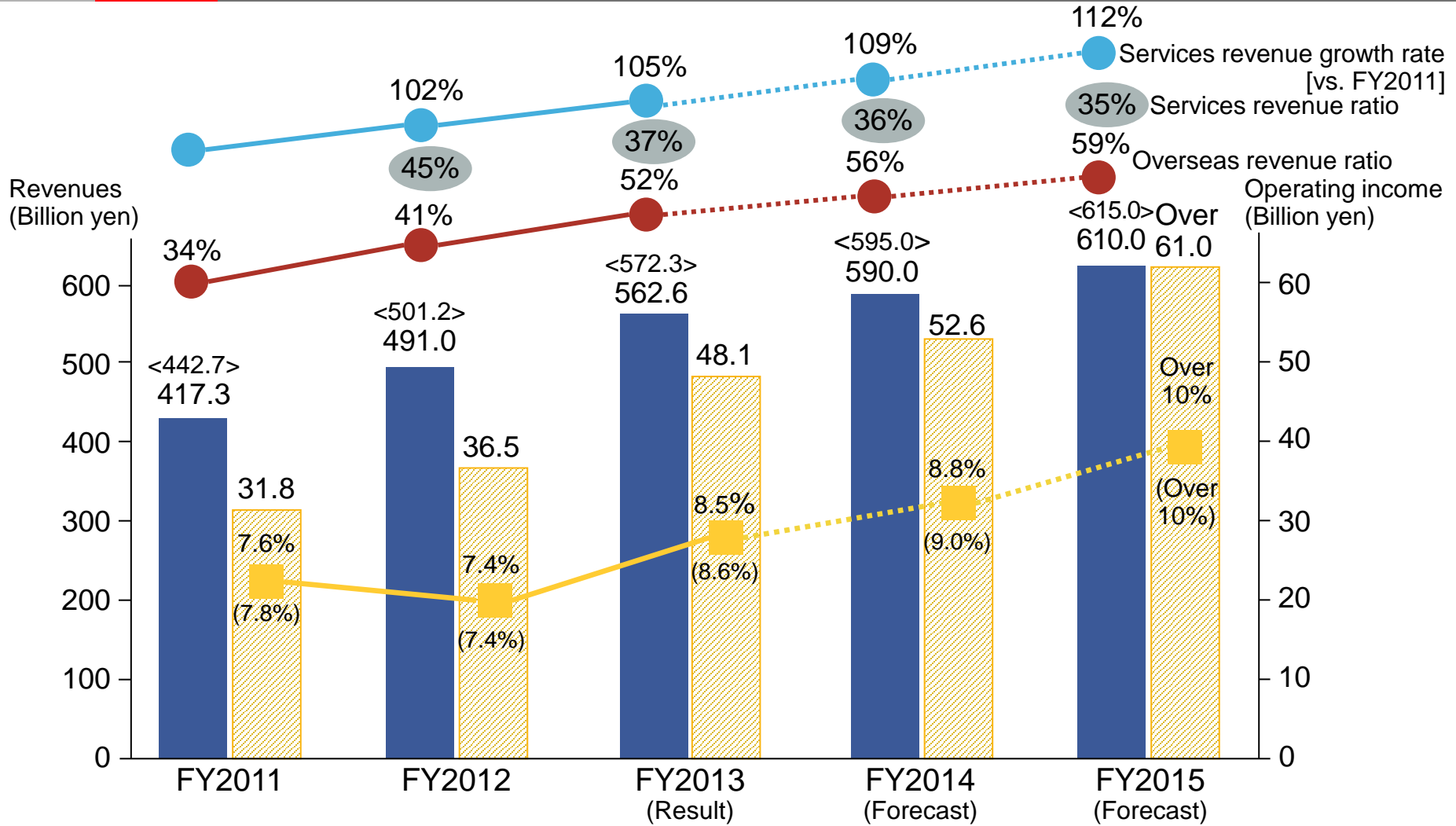
- n Improve number of days inventory on hand (FY2015: Improvement target in China 31 days (vs. FY2012))
- n Strengthen installation capabilities for coping with increased new installation sales

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4-1. Business Performance Trends [1]



■ Revenues < > Orders
 ■ Operating income
 ■ Operating income ratio *():EBIT * ratio

*EBIT: Earnings before interest and taxes

4-2. Business Performance Trends [2]

n Differences Between Current and Previous FY2015 Targets

Revenues

n FY2015 Previous target: 560.0 billion yen →
Current target: 610.0 billion yen

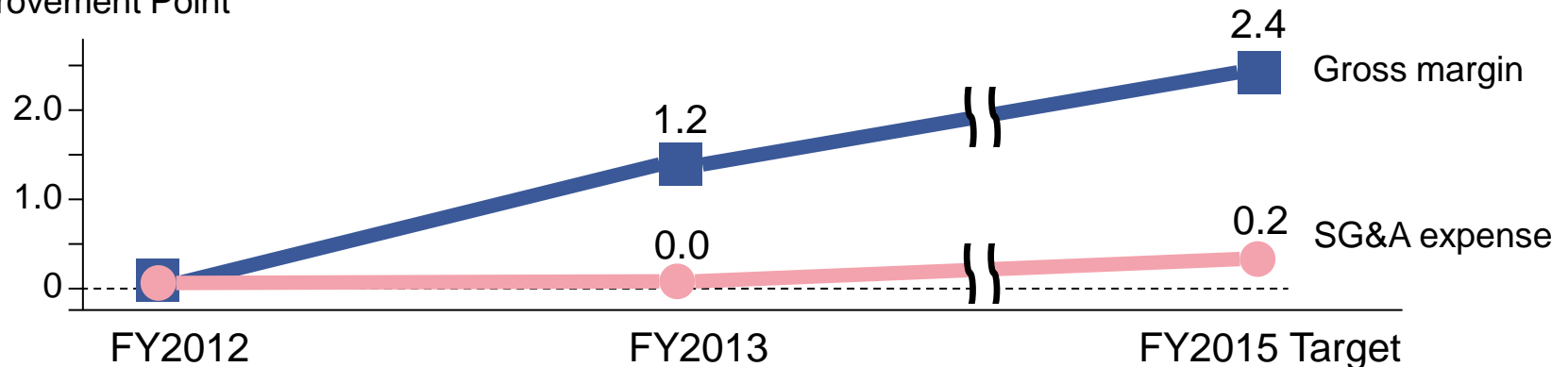
Operating income

n FY2015 Previous target: 56.0 billion yen →
Current target: over 61.0 billion yen

n Business plans are progressing largely on schedule, with the differences due mostly to the impact of exchange rate differences

n Improvements in gross margin and SG&A expense ratio

Improvement Point



FY2015 Targets

- n Revenues: 610 billion yen (overseas revenue ratio: 59%)
- n Operating income (EBIT) ratio: over 10%
- n Gross margin: 2.4 point improvement (vs. FY2012)
- n SG&A expense ratio: 0.2 point improvement (vs. FY2012)

**Aim to expand business further,
centered on overseas business,
and actively promote
the "Hitachi Smart Transformation Project"**

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- 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;
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- 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;
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- 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;
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- the potential for significant losses on Hitachi’s investments in equity method affiliates;
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- 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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