

Urban Planning and Development Systems Business Strategy

Hitachi IR Day 2013

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Hitachi, Ltd.

Urban Planning and Development Systems Business Strategy

Contents

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

1-1. Business Overview

Elevator and Escalator Business (78%)

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



Building-related Services, etc. (22%)

Energy saving
Security



FY2012
Consolidated
Revenues
491 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

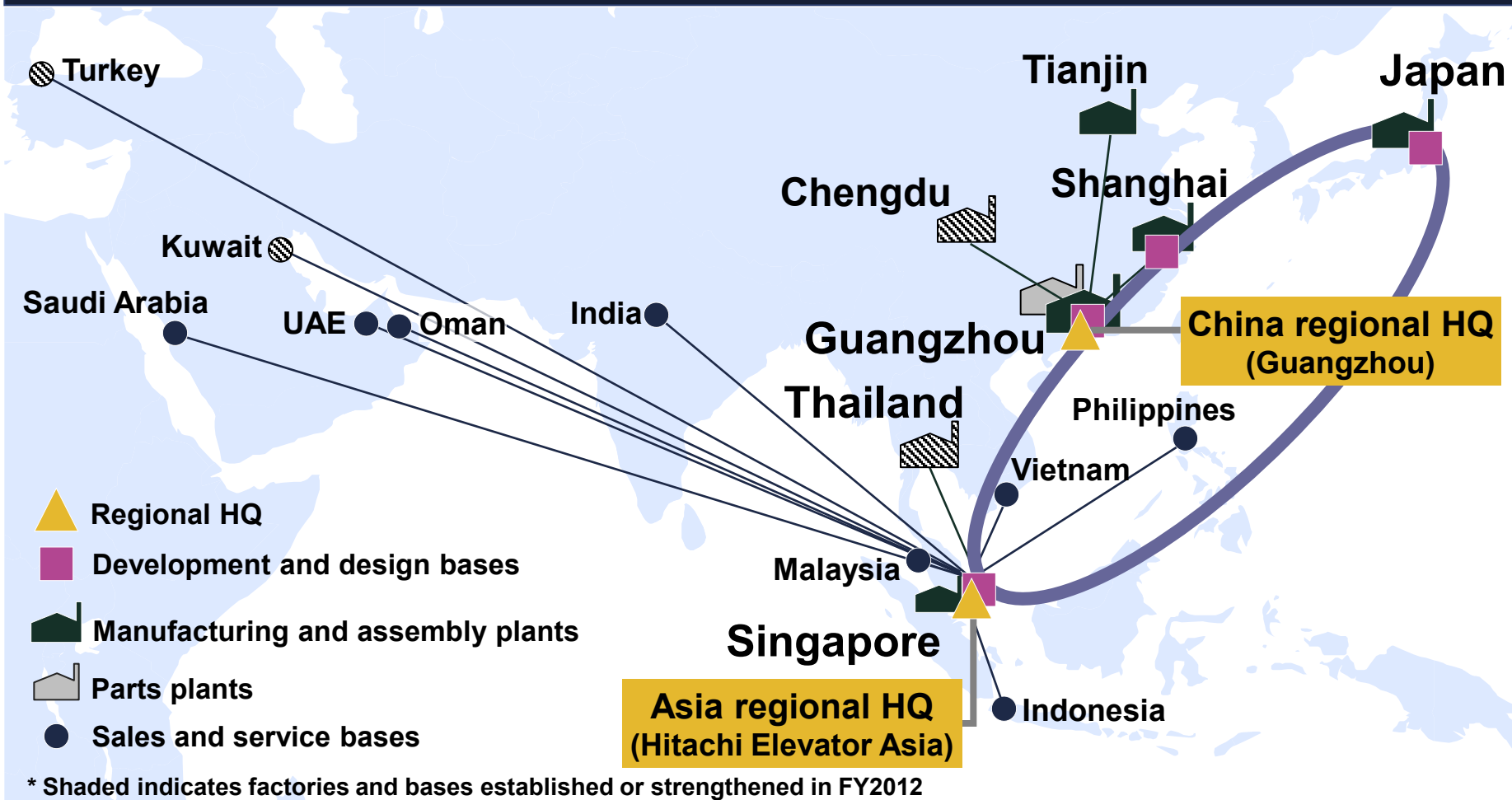
Value Chain of Urban Planning and Development Systems Company



Three Core Values

Development	<ul style="list-style-type: none">■ High-performance product development capabilities (Develop unrivaled products)
Manufacture	<ul style="list-style-type: none">■ Globally developed production system (Supply products from optimal locations to global markets based on local production for local consumption)
Maintenance	<ul style="list-style-type: none">■ Industry-leading service infrastructure and high-value-added services (remote monitoring, diagnosis and control using predictive diagnosis technology)

Main Development, Manufacturing, Sales and Service Bases



Promote globalization centered on regional HQs

1-4. Delivery Record (FY2012)

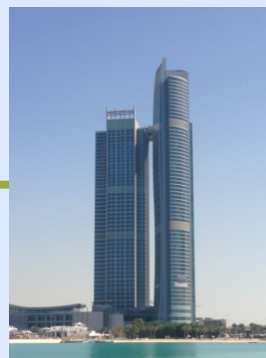
InterContinental Doha Hotel

59 floors, 220 m
12 high-speed elevators



Nation Towers

64 floors, 273 m
55 high-speed elevators



Taikoo Hui

40 floors, 212 m
102 ultra-high-speed and
high-speed elevators
and escalators



Doha
(Qatar)

Abu Dhabi
(UAE)

Guangdong
(China)

TCG Financial Centre

12 floors, 61 m
5 high-speed elevators, etc.



Mumbai
(India)

Manila
(Philippines)

Gramercy Residences

75 floors, 302 m
(The tallest building in the Philippines)
10 ultra-high-speed and
high-speed elevators



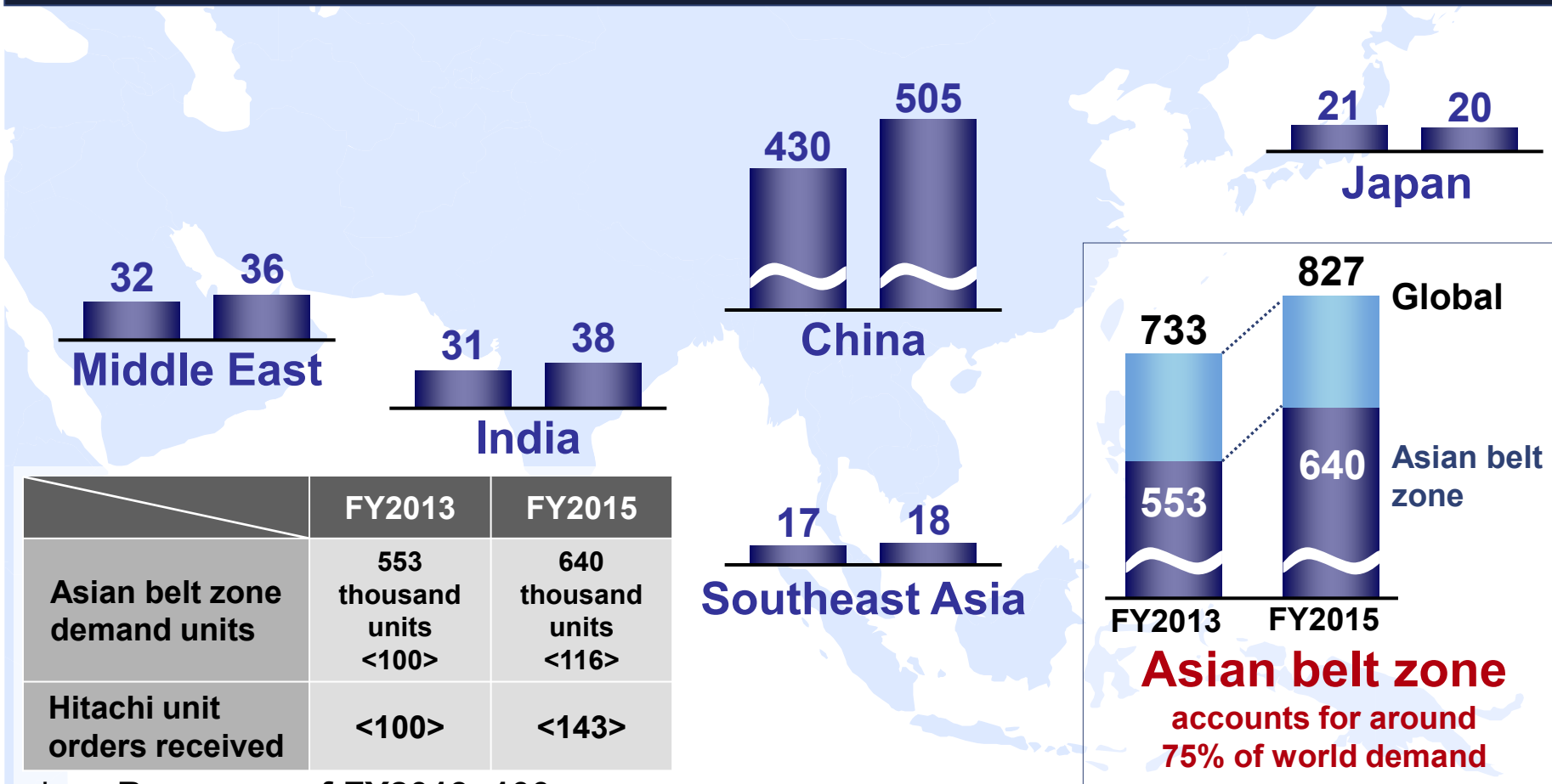
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2-1. Market Trends

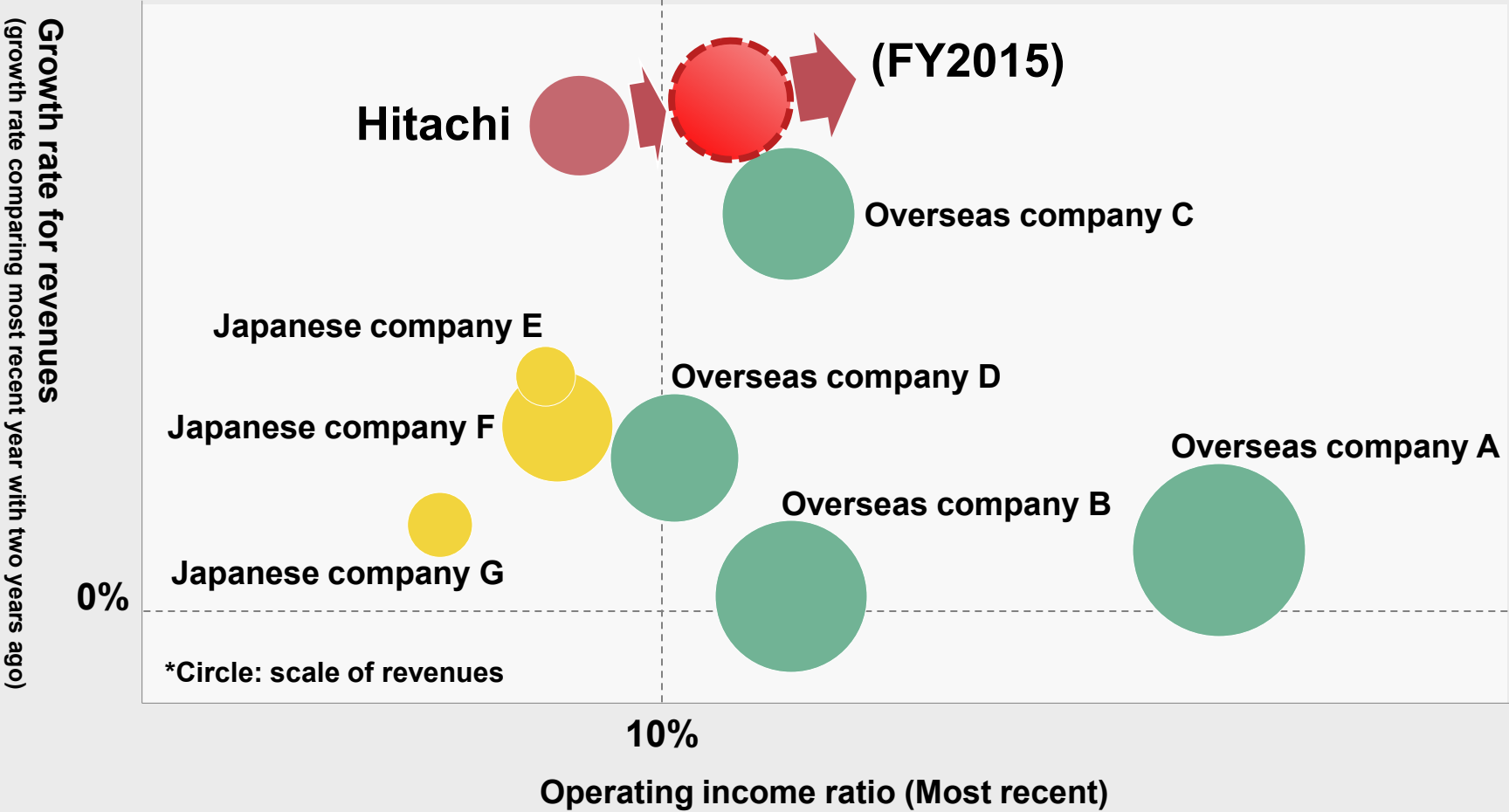
FY2013→FY2015 New Installation Market Trends (Thousand units, Hitachi estimates)



*<>: 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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Business policy: 13% global share in FY2015

China

- Quickly become No.1 in China
(No.1 in FY2014 in terms of market share, brand value and customer satisfaction)
 - Expand sales in new installation market and enhance production system
 - Raise brand value by developing and introducing the world's No.1 products

Southeast Asia, India and the Middle East

- Enhance production system, and expand business in India

New Regions

- Penetrate new markets by cooperating with local partners

Japan

- Expand and strengthen service business (maintenance, modernization)

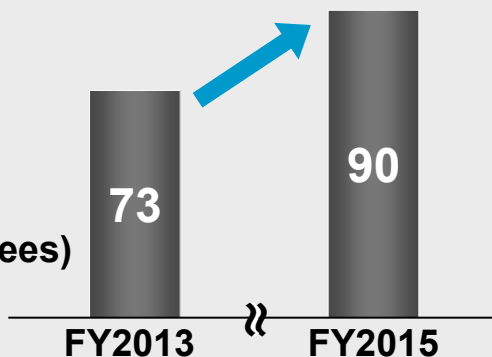
3-2. Growth Strategy (China)

Expand Sales in the New Installation Market (No.1 market share in FY2014)

■ Strengthen sales capabilities in inland areas and regional cities

■ Expansion of Sales and Service Network

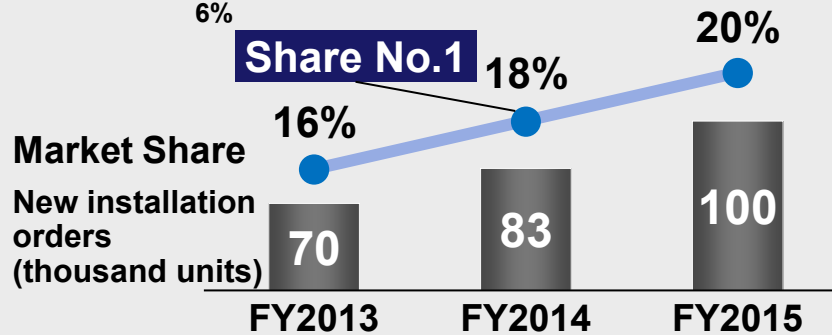
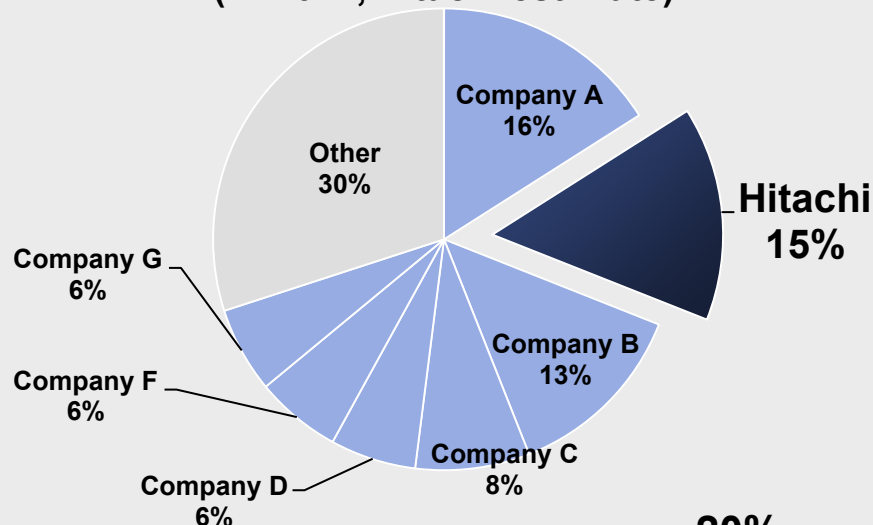
No. of branches and bases (including investees)



■ Win flagship projects (raise Hitachi's presence)

■ Develop and launch the world's fastest elevators (more than 1,000 m/min)

New Installation Market Share (FY2012, Hitachi estimate)



New installation order received units: FY2013 70,000 units → FY2015 100,000 units

Enhance Production System

- Increase production capacity to cope with sales expansion
 - Build new plants and lift capacity at existing bases to increase production capacity
- Locally produce ultra-high-speed elevators and increase in-house production



New Chengdu plant

Commenced production in March 2013
Respond to demand expansion in the Western region

New escalator plant (Guangzhou Science City)

Commenced production in April 2013
Expand escalator market share

New motor plant (Guangzhou Science City)

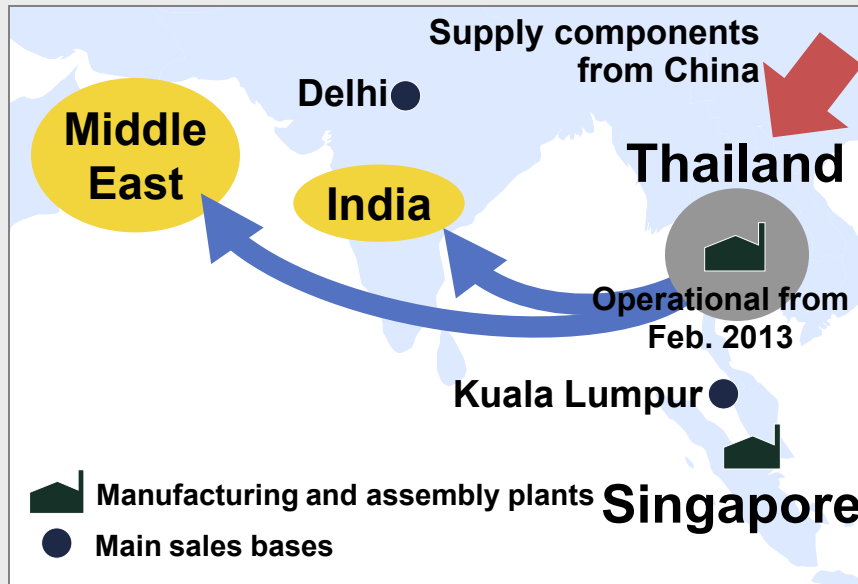
Commence production in July 2013
Rationalize and improve efficiency of production system through centralization

Production capacity: FY2013 70,000 units → FY2015 100,000 units

Enhance Production System and Expand Business in India

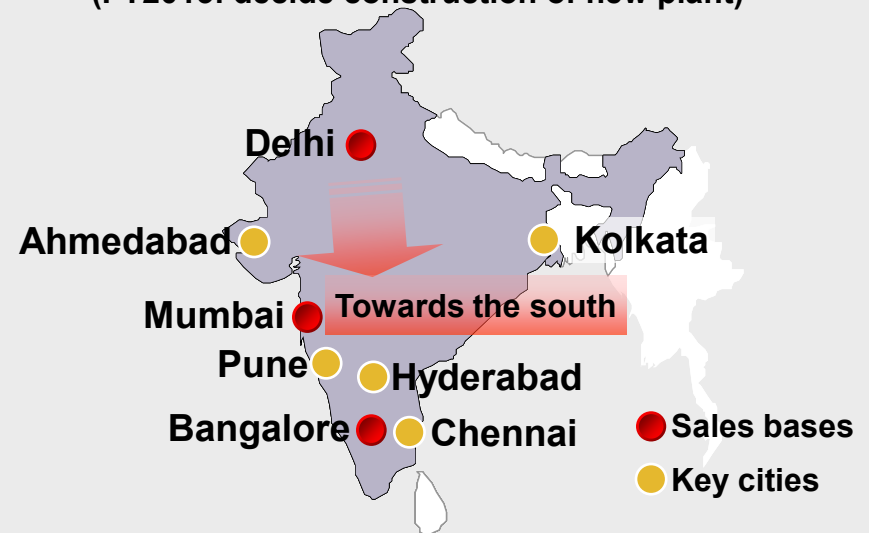
■ Enhance production system

- Centralize production by making the new Thai plant as the core plant
(Production capacity: FY2013 2,500 units → FY2015 5,000 units)
- Create global production and supply system



■ Expand business in India

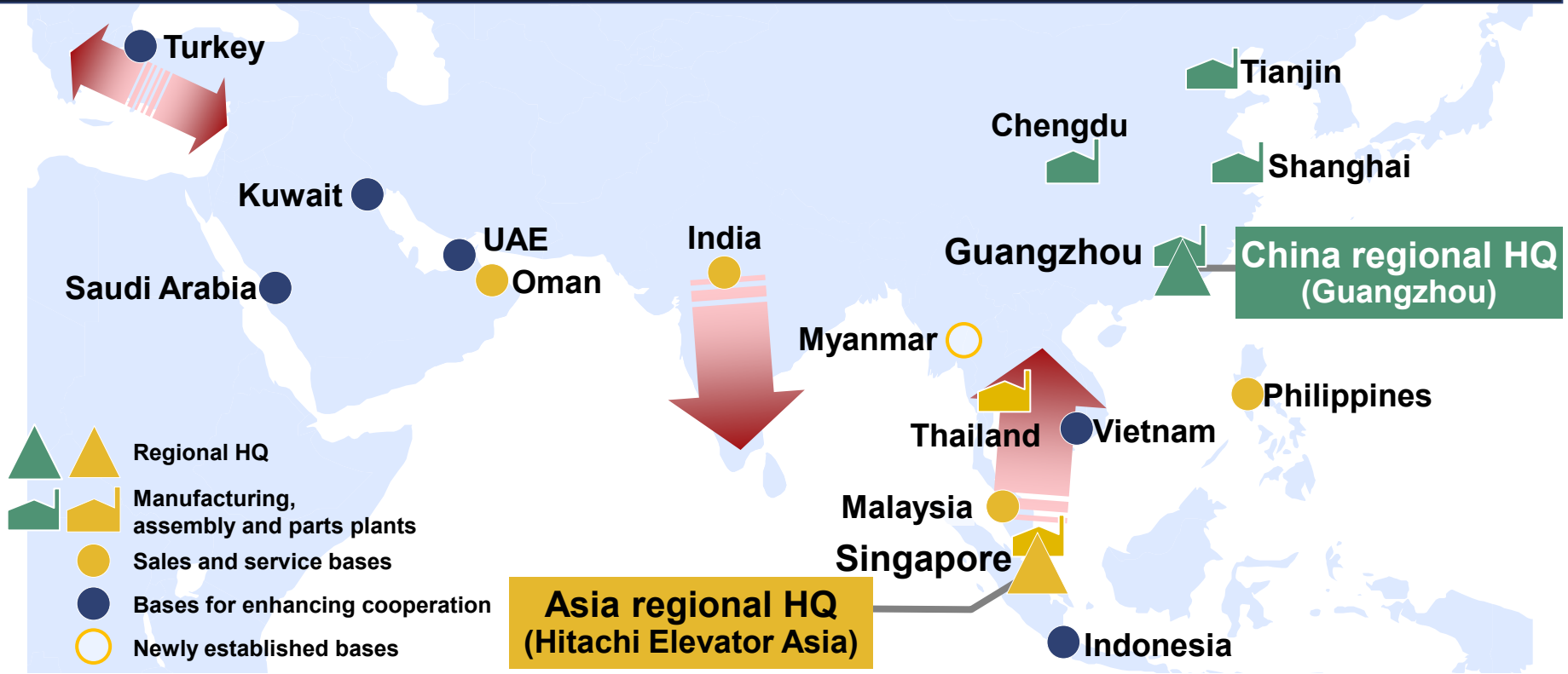
- Expand target customer base by introducing models specifically for the Indian market
- Investigate establishment of sales bases in the south of the country
- Investigating construction of an India plant (FY2013: decide construction of new plant)



New installation order received units: FY2013 2,300 units → FY2015 5,400 units

3-5. Growth Strategy (New Regions)

Penetrate New Markets by Cooperating with Distributors and Partners



**Enhance cooperation
in markets already entered**

■ Acquire equity interest or establish JVs

Explore new markets

- Step up efforts to capture demand for new installations in countries in the Mekong River Basin
- Look at entering Eastern Europe and Central Asia

Market Environment

- Modernization market is expanding due to increased number of aging elevators
- Increasing demand for repairing existing elevators to comply with the amended Building Standards Act and for energy efficiency

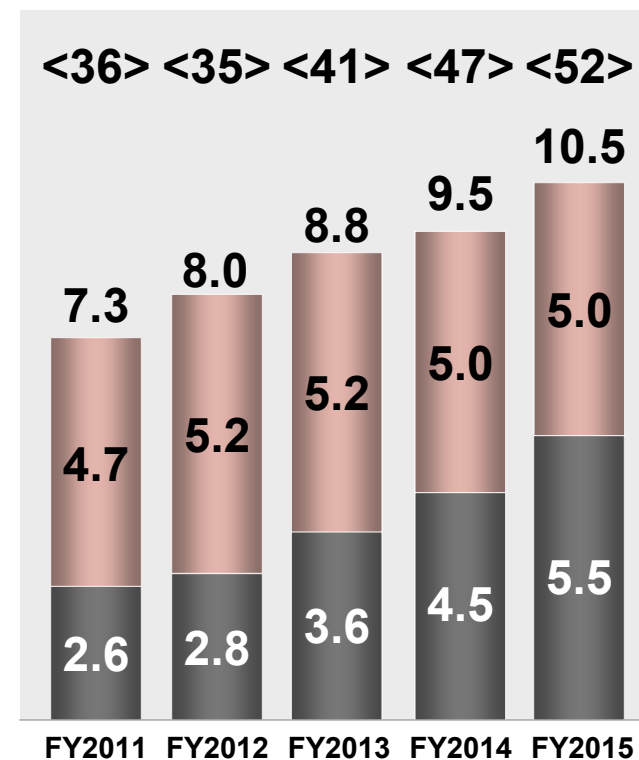
Business Strategy

- Evolve from equipment sales to service business -

- Strengthen modernization business
 - Expand modernization product lineup
 - Strategically launch products targeting energy saving, earthquake resistance, etc.
 - Shorten installation times by improving installation methods
- Enhance the maintenance business
 - Refine preventive maintenance by improving predictive diagnosis precision, etc. (utilize Big Data)

Hitachi's Elevators and Escalators Comparison of Modernization and New Installation Order Received Units

■ New installation <>Modernization ratio
 ■ Modernization *(Thousand units)



Expand orders for modernization (FY2013 3,600 units → FY2015 5,500 units)

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Globalize and reform business structure

- **Strengthen development capabilities to respond to market needs in each region**
- **Supply products from optimal locations to global markets based on local production for local consumption**
- **Bolster service business (overseas maintenance, modernization)**

Leverage global talent to lead business

- **Utilize global shared human resources management platform**
- **Optimize assignment through personnel rotation in Japan and overseas**
- **Promote participation in management of regional HQ employees**

Cost Structure Reforms

Production costs	<ul style="list-style-type: none">■ Raise production efficiency by centralizing production of common components■ Apply modular design
Direct materials costs	<ul style="list-style-type: none">■ Expand global procurement■ Strengthen cost planning and development purchasing
Indirect costs	<ul style="list-style-type: none">■ Unify global IT platform■ Reduce indirect manufacturing costs through improved operational efficiency

Estimated effect FY2011 – 2015 total : 10 billion yen

Cash Flow Management Enhancement

Issues and Areas to Strengthen

Increase asset efficiency corresponding to the increase of new installation sales in China

Earnings Improvement Initiatives

- Improve number of days inventory on hand
- Strengthen installation capabilities for coping with increased new installation sales

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5-1. FY2012 Result/FY2013 Forecast

(Billion yen)

	FY2012			FY2013	
	Previous forecast	Result	YoY	Forecast	YoY
Revenues (Overseas revenue ratio)	425.0 (36%)	491.0 (41%)	118% -	500.0 (50%)	102% -
EBIT*	33.3	36.4	112%	40.0	110%

Revenues

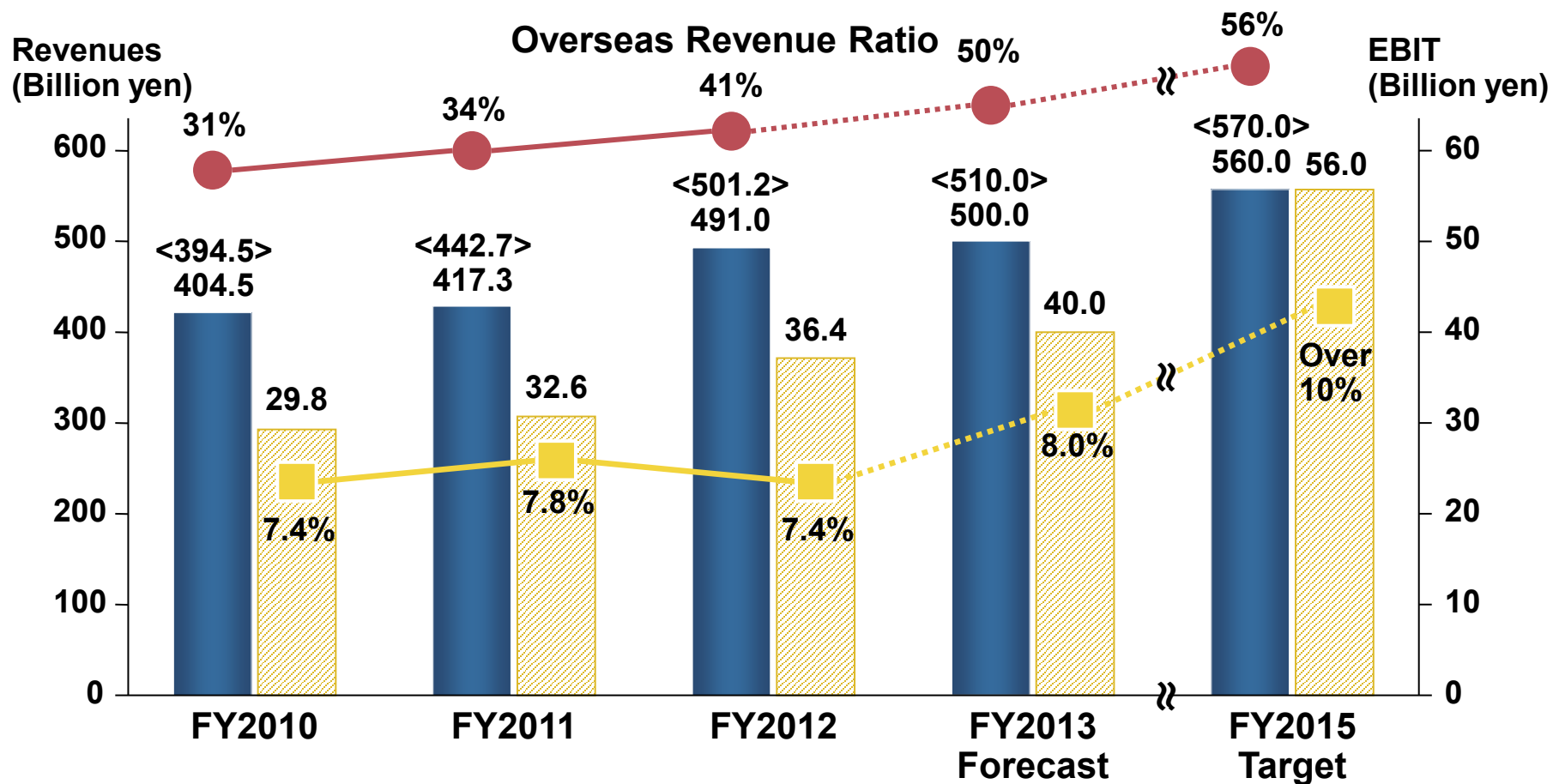
- Generated higher revenues in FY2012 as a whole due to strong performance of overseas elevator and escalator business, particularly in China
- Projecting higher revenues on expansion in the overseas elevator and escalator business, despite centralizing business in the Infrastructure Systems Company from FY2013 to strengthen building facility management business

EBIT

- Generated operating income from increased revenues in the overseas elevator and escalator business in FY2012
- Projecting higher income for FY2013

*EBIT: Earnings before Interest and Taxes

5-2. Business Performance Trends



FY2015 Targets

- **Revenues: 560 billion yen (overseas revenue ratio: 56%)**
- **EBIT (operating income) ratio: over 10%**
- **Gross margin: 1.1 point improvement (Vs. FY2012)**
- **SG&A expense ratio: 2.4 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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Certain statements found in this document may constitute “forward-looking statements” as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such “forward-looking statements” reflect management’s current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as “anticipate,” “believe,” “expect,” “estimate,” “forecast,” “intend,” “plan,” “project” and similar expressions which indicate future events and trends may identify “forward-looking statements.” Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this document.

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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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- the potential for significant losses on Hitachi’s investments in equity method affiliates;
- increased commoditization of information technology products and digital media-related products and intensifying price competition for such products, particularly in the Digital Media & Consumer Products segments;
- 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;
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- 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;
- uncertainty as to Hitachi’s ability to achieve the anticipated benefits of its strategy to strengthen its Social Innovation Business;
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- the possibility of disruption of Hitachi’s operations by earthquakes, tsunamis or other natural disasters;
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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.

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