
Urban Planning and Development Systems Business Strategy

Hitachi IR Day 2015

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**Urban Planning and Development Systems Company
Power & Infrastructure Systems Group
Hitachi, Ltd.**

Urban Planning and Development Systems Business Strategy

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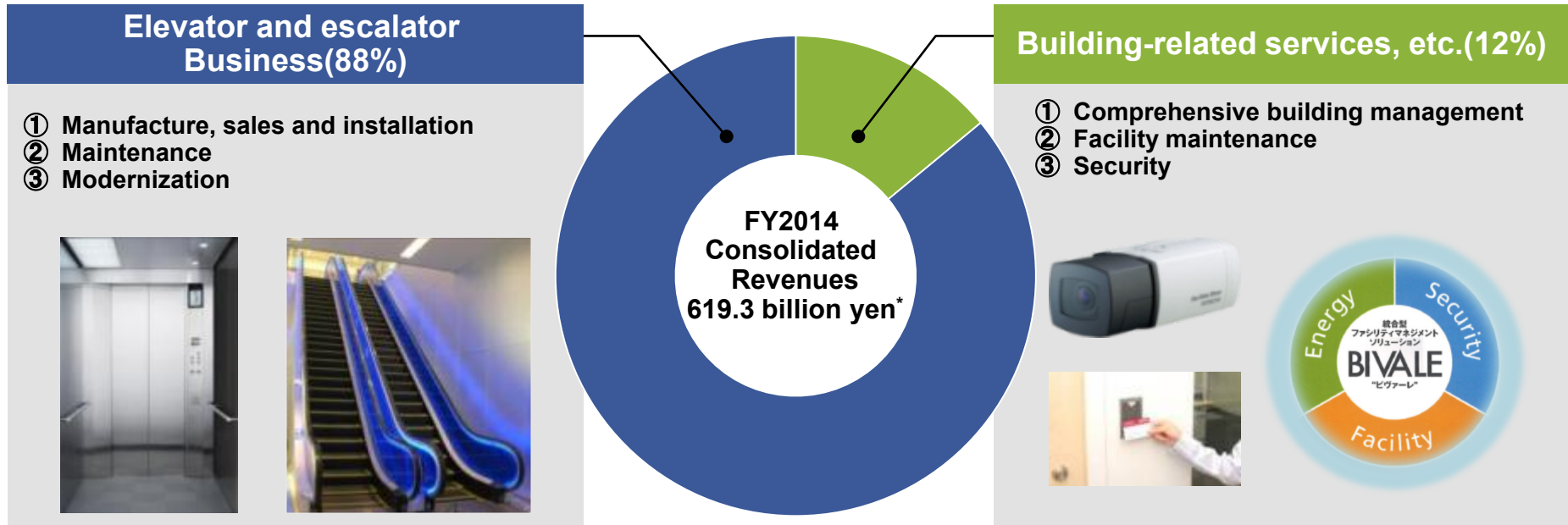
1. Business Overview

2. Market Trends and Growth Targets

3. Business Policy and Growth Strategy

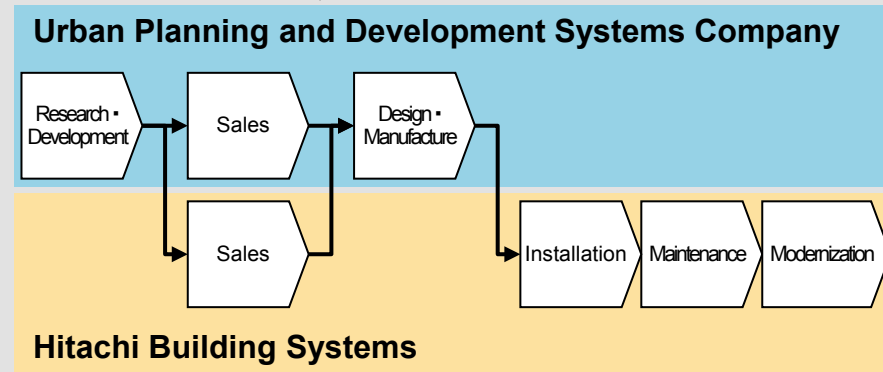
4. Conclusion

1-1. Business Profile

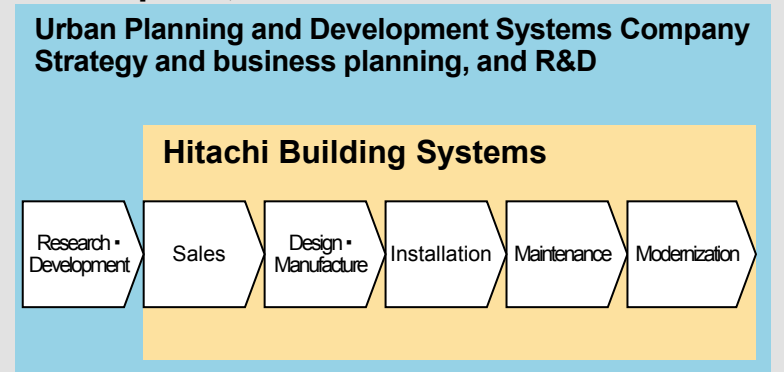


Strengthen the business structure through integrated management of manufacturing, sales and services

【Before March 31, 2014】



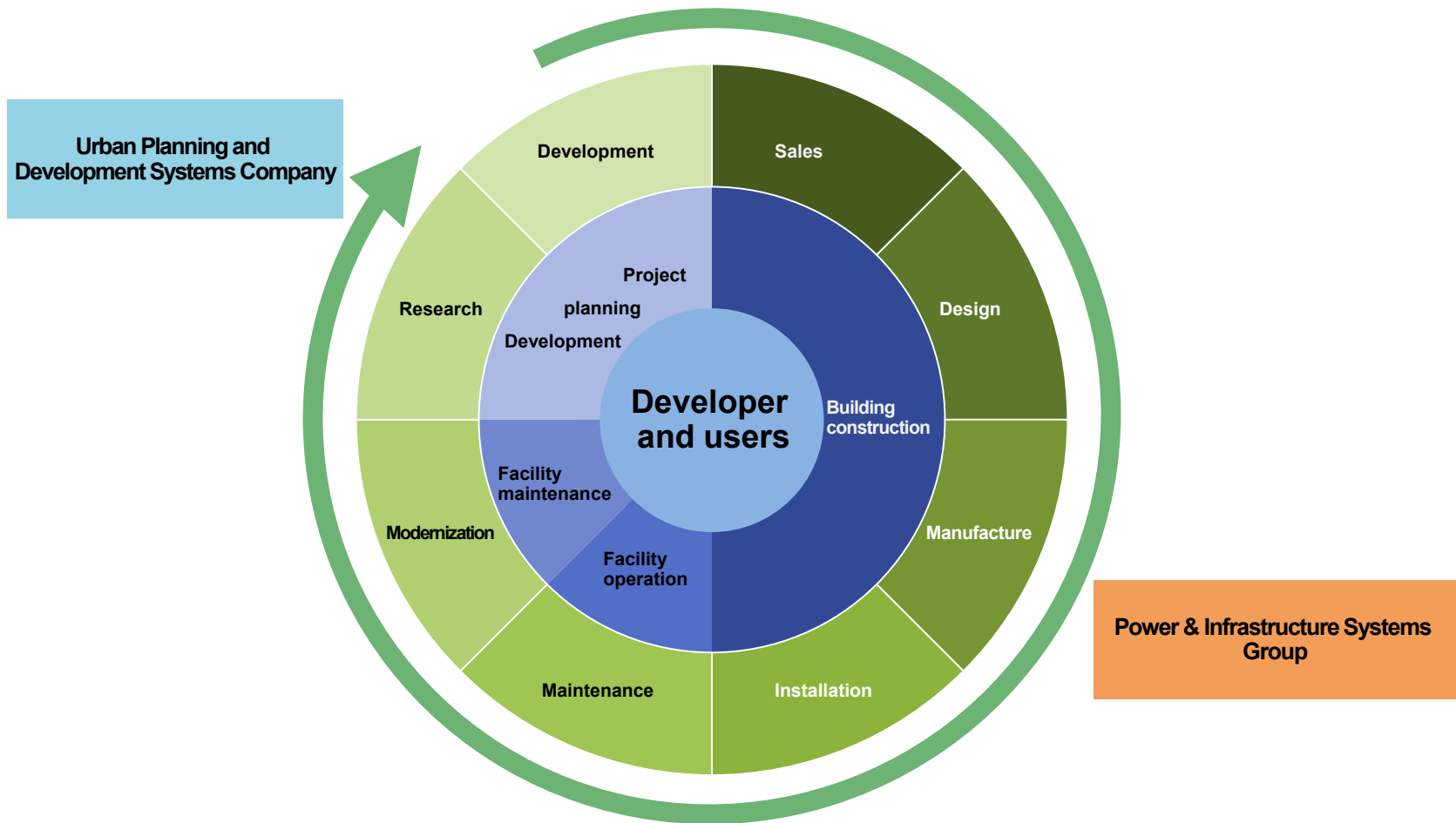
【After April 1, 2014】



* U.S. GAAP

Achieve steady growth through a cyclic value chain

- The elevator and escalator business has a cyclic value chain that is synchronized with the businesses of urban developers as well as building owners and users.



1-3. Capturing More Group Synergies

Collaboration on real estate services

Hitachi Urban Investment

- ① Collaborative creation with respect to real estate development with customers
- ② Collaborative creation of next-generation work styles

Hitachi Architects & Engineers

- ① Construction design and project management

Hitachi Capital Corporation

- ① Building, leasing service (Distribution industry)
- ② PFI business

Energy and facility-related collaboration

Hitachi Industrial Equipment Systems

- ① Sharing of customer information at an early stage
- ② Collaboration on energy management and remote monitoring of facilities

Infrastructure Systems Company

- ① Develop a common platform on building management service
 (Transferred development and manufacturing functions for energy and security from Urban Planning and Development Systems Company)

Hitachi Appliances

- ① Coordinate energy management and air conditioning devices
- ② Sharing of customer information at an early stage and strategic sales

Urban Planning and Development Systems Company

- General sales activities
- Technology integration

Collaborative creation of new business

Healthcare Company

- ① “Health and longevity” initiatives
- ② Provide information about hospitals, clinics, and life sciences, etc. and related matching services.

Information & Telecommunication Systems Company

- ① Create new services by integrating building-related services and IT [e.g., tenant management and other services]

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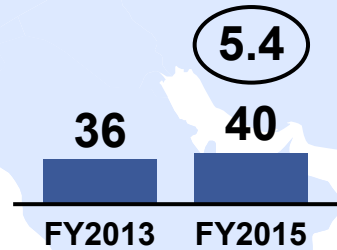
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2-1. New Installation Market Trends in the Global Escalator and Elevator Business

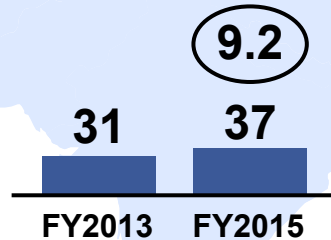
Global demand driven by China and other parts of Asia, and the Middle East region

(Thousand units, Hitachi estimates)

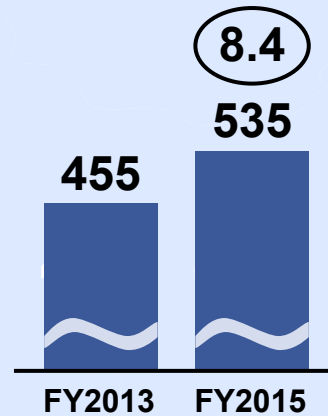
○ : CAGR(%)



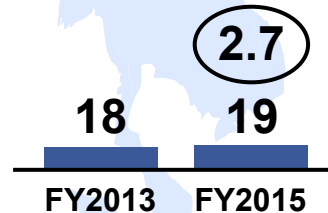
Middle East



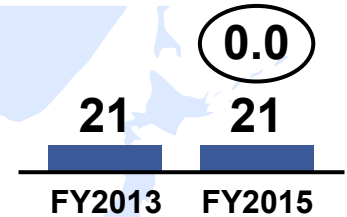
India



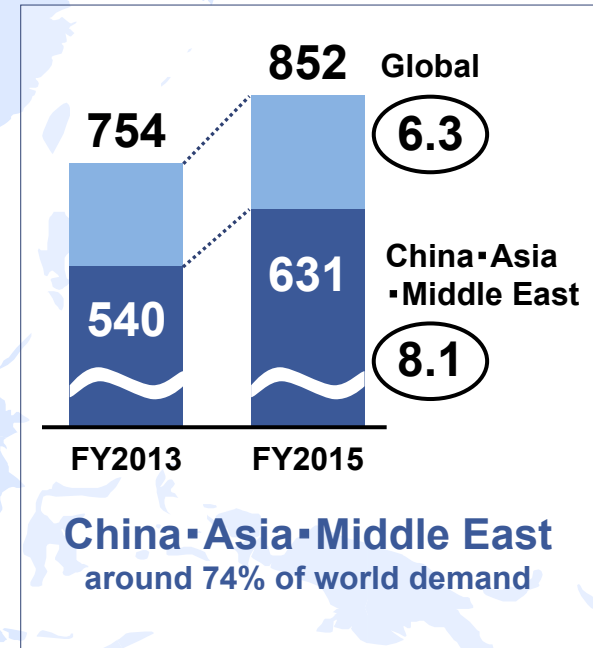
China



Southeast Asia



Japan



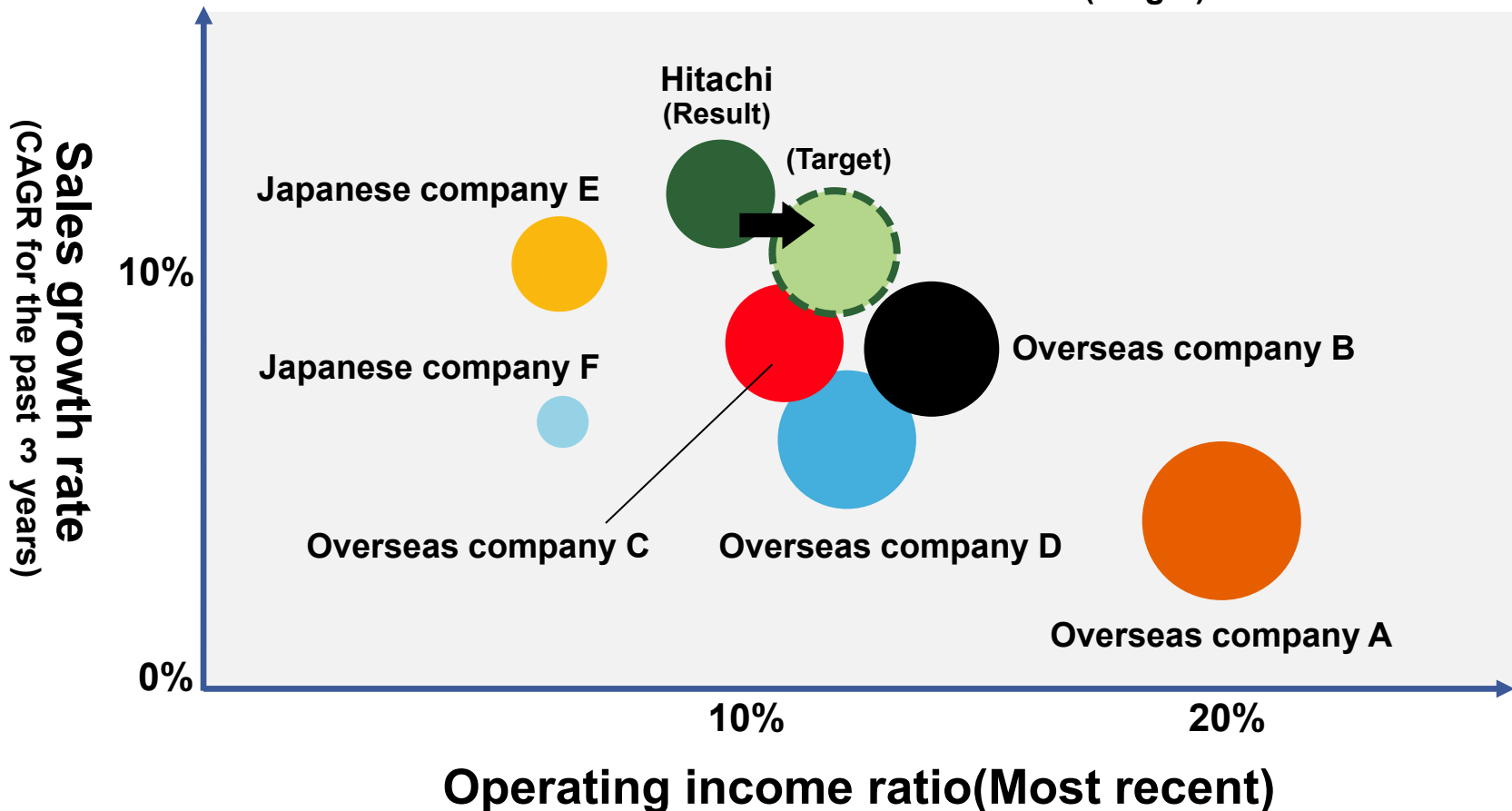
	FY2013	FY2015
New installation market for elevators and escalators in China and other parts of Asia and the Middle East	540 thousand units <100>	631 thousand units <117>
Hitachi unit orders received	<100>	<117>

< > : Base year of FY2013=100

Become a global major player through growing sales and improving profitability

(Result) : FY2012 - FY2014

(Target) : FY2015 - FY2018



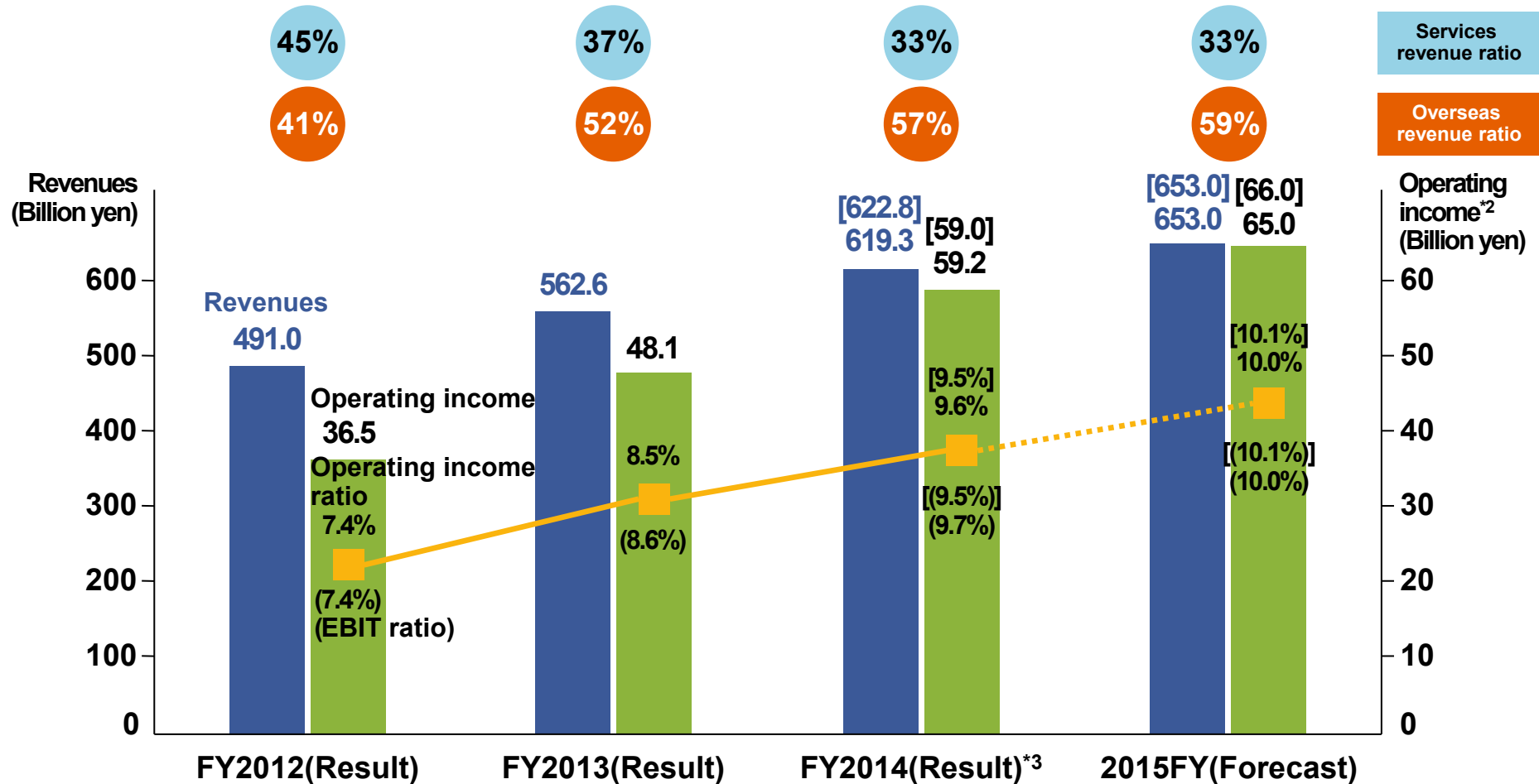
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3-1. FY2015 Performance Forecasts

On track to achieve the targets of the 2015 Mid-Term Management Plan based on continuous improvement in revenues and profitability*1



*1 Upper figure in bar graph:[IFRS] ,Lower figure in bar graph:US GAAP (From FY2014)

*2 "Operating income (ratio)" is presented as "Adjusted operating income (ratio)" in IFRS (an "Adjusted Operating Income" presented as revenues less cost of sales as well as selling, general and administrative expenses)

*3 Unaudited in IFRS

3-2. Differences from Previous Forecast

	Previous forecast*1			Result /Revised forecast			Difference from previous forecast*2	
	FY2014	FY2015	YoY	FY2014	FY2015	YoY	FY2014	FY2015
Revenues (Billion yen)	590.0	610.0	+20	619.3	653.0	+33.7	+29.3	+43.0
Operating income (Billion yen)	52.6	Over 61.0	+8.4	59.2	65.0	+5.8	+6.6	+4.0
Profitability	8.8%	Over 10%	+1.2	9.6%	10.0%	+0.4	+0.8	0.0

<Comparison with previous forecast>

FY2014(Result)	<ul style="list-style-type: none"> ● Revenues Higher due to foreign exchange effects and a strong performance by overseas businesses, especially in China ● Operating income Higher due to cost reduction, improved selling prices and increased revenues
FY2015(Forecast)	<ul style="list-style-type: none"> ● Revenues Almost same as previous forecast, except for increase based on foreign exchange effects ● Operating income As above

*1 As of June 12, 2014

*2 All figures are based on U.S. GAAP, as comparisons are with previous forecasts.

1. Intensively allocate investment and resources

- Intensively allocate business resources in key markets
- Strengthen cash flow management in mature markets

2. Strengthen Asian and Middle East businesses

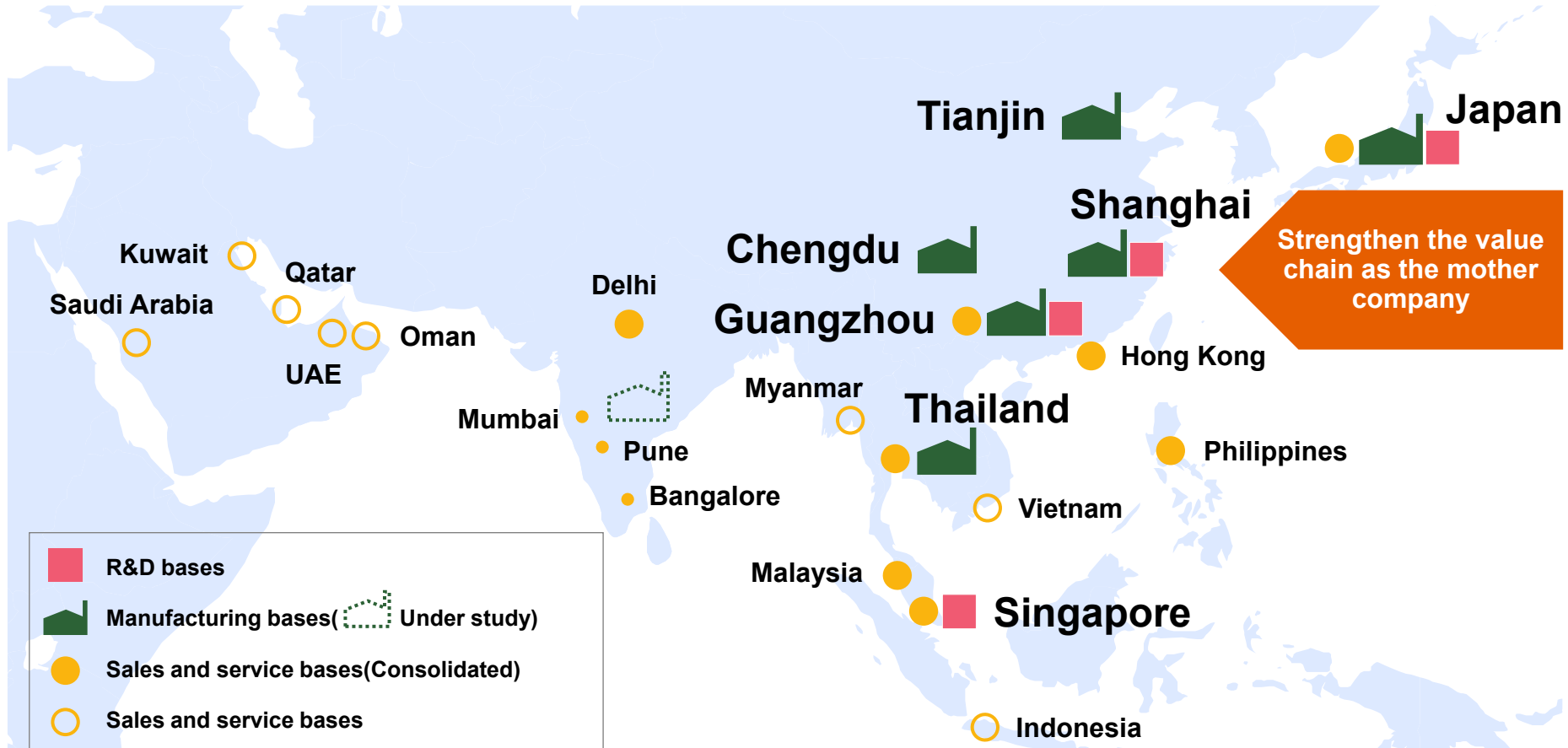
- Establish business base alongside Japan and China
- Expand business in India, that is a growing market
- Accelerate development of sales, installation, maintenance and production systems

3. Strengthen brand

- Promote world's fastest high-end elevators
- Differentiate products by enhancing safety and quality
- Regional branding through "One Hitachi"

3-4. Expand global footprint Strengthen mother factory functions

Establish a value chain as a basis for business strategy



3-5. Regional business strategy

Region	Sales strategy	Product and service business strategy
China	1. Maintain the No.1 position in China 2. Expand the maintenance business	
	<ul style="list-style-type: none"> ① Establish an integrated four areas management system ② Expand sales and service bases 	<ul style="list-style-type: none"> ① Develop and launch new models ② Improve the maintenance contract rate by expanding and upgrading bases
Asia• Middle East	1. Expand sales channels 2. Strengthen manufacturing 3. Enhance the Indian business	
	<ul style="list-style-type: none"> ① Establish bases and distributors at a faster pace ② Strengthen sales capabilities in India 	<ul style="list-style-type: none"> ① Develop and launch global standard models ② Support for improving the installation and maintenance capabilities of overseas companies and distributors (Set up GTC) ③ Strengthen manufacturing
Japan	1. Optimally allocate resources 2. Enhance products and services 3. Improve management efficiency	
	<ul style="list-style-type: none"> ① Improve operating efficiency by integrating management of the new installation and modernization business 	<ul style="list-style-type: none"> ① Expand and upgrade modernization products (delivery, menu) ② Increase efficiency of remote maintenance ③ Standardize elevator products

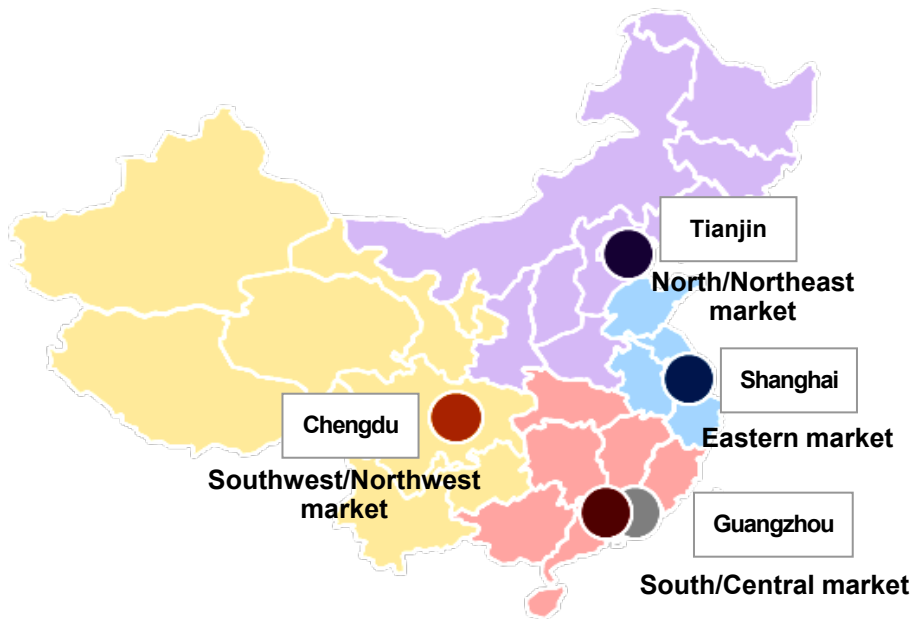
3-6. China Strategy

Maintain the No.1 position in China

Drive expansion across all aspects of business, from new installations to maintenance services

① Establish an integrated four area management system

- Deliver detailed area support by establishing new Parts Centers, Monitoring Centers and Training Centers centered on the four core plants



② Increase sales and service bases

- Strengthen regional sales capabilities

	FY2013	FY2015	FY2016~
Branch companies	70 companies	91 companies	Expand third level cities
Distributors	252 companies	323 companies	

- Increase maintenance sites
585→700 sites (FY2013→FY2015)

③ Strengthen brand

- Harness brand power backed by the world's fastest products
 - Promote technical capabilities and expand orders based on track record of delivering elevators featuring speeds of 1,200 m / min
- Increase strategic partners
 - Expand sales by strengthening relationships with the top 50 real estate companies in China



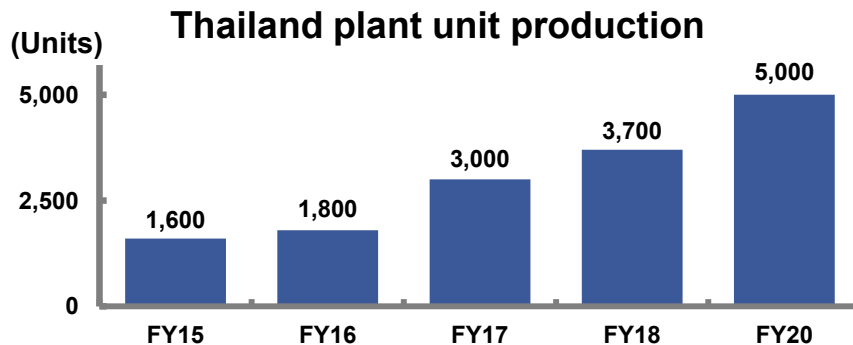
Guangzhou
CTF Finance Centre

3-7. Growth strategy in Asia and Middle East Based on market characteristics

Market	Business strategy	Key countries
Growing market	Expand new installation sales by increasing the number of bases	Thailand, Myanmar, Vietnam, India, UAE etc.
Mature market	Improve operating efficiency of maintenance and modernization business	Singapore, Malaysia, Hong Kong etc.

【Southeast Asia and the Middle East (Growing Markets)】

- ① Establish bases faster
 - Strengthen sales channels by converting distributors into JVs
 - Establish new bases faster (Myanmar, Vietnam and other countries)
- ② Strengthen product competitiveness
 - Develop and launch global standard models
 - Improve local installation and maintenance skills using Japanese human resources and expertise
- ③ Increase production capacity at Thailand plant



【India (growth market)】

- ① Strengthen sales capabilities
 - Target market: High- to upper-middle models
 - Strengthen sales bases (increase personnel, etc.)
- ② Strengthen product competitiveness
 - Increase market response capabilities by launching global standard models
- ③ Strengthen brand
 - Promote brand by high-end projects
 - Victory Valley (Construction to be completed at the end of 2015)
 - Luxury condominium towers up to 51 stories tall
 - Orders received for 53 elevators (including 11 high-speed elevators)



Optimally allocate resources in response to modernization and large-scale redevelopment

① Expand the modernization business

- Strengthen construction capacity by integrating resources
- Upgrade and expand lineups of modernization products
- Reduce total lead times through SCM reform

② Strengthen ability to respond to large-scale redevelopment projects in the Tokyo metropolitan area

- (Tentative name) New Hibiya Project
 - International arts and culture center and business collaboration hub (The National Strategic Economic Growth Area)
 - Orders received for 54 elevators and 25 escalators



New installations and modernization
in FY2015: over 10,000 units

Improve efficiency of elevator and escalator maintenance · Strengthen the services business

【Elevator and escalator maintenance】

① Increase efficiency of remote maintenance

- Promote the automation of regular inspection work
- Upgrade and expand the maintenance service menu through IP-based monitoring infrastructure
- Strengthen ability to respond to emergencies (earthquakes, etc.)

【Building-related services】

① Upgrade and expand systems products

- Expand sales of systems products centered on the core cloud-based integrated building management system BIVALE
- Synergies in the Hitachi Group

Global product development

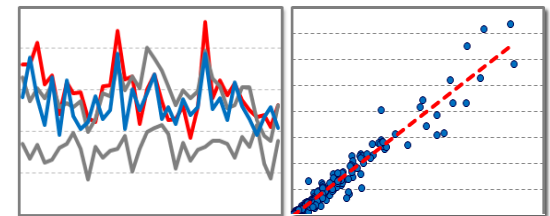
- ① Apply technology for developing the world's fastest elevators (1,200m/min.) to other models
 - Drive and control technology : High-power drive equipment, high-strength rope
 - Safety and ride comfort : Heat-resistant brakes, rectifier capsules, air pressure control equipment
- ② Develop global standard models
 - Provide common products and services globally
 - Establish a framework for producing and supplying the same products at all manufacturing bases



Rectifying capsule

Expand the services business by applying IT capabilities

- ① Progressive of preventive maintenance by utilizing Big Data
 - Predict optimal parts replacement periods and implement maintenance before breakdowns by amassing data on usage frequency and other parameters
- ② Create the Social Innovation Business by collaboration with the Hitachi Group
 - Consider an urban solution business targeting cities around the world by integrating IT capabilities developed in information and telecommunications with service infrastructure focused on buildings



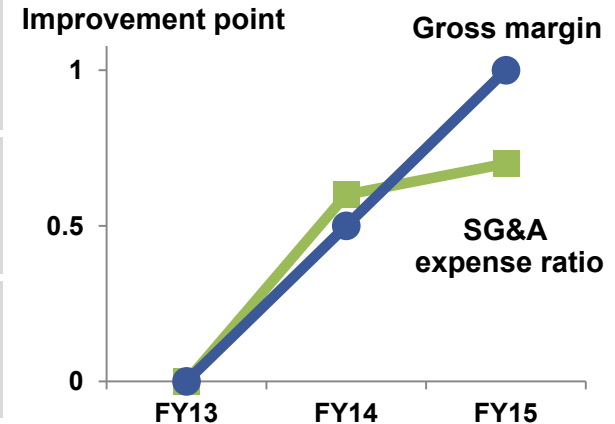
Accumulate data
on 130,000 units nationwide



Predict optimal maintenance
periods, etc.

Global cost structure reforms (improve the cost structure by promoting global standardization and common use)

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



Estimated effect FY2011 - FY2015 total: 25 billion yen*

Cash flow management enhancement

Issues	Enhancement measures	Enhance CCC		
		FY13 (Result)	FY14 (Result)	FY15 (Forecast)
Increase asset efficiency for increasing new installation sales in China	<ul style="list-style-type: none"> Improve inventory stock turnover days <ul style="list-style-type: none"> FY2015: Improvement target in China ⇒ Improve by 45 days (vs. FY2013) Strengthen installation capabilities for coping with increased new installation sales 	47.1 days	46.5 days	46.7 days

* US GAAP

CCC : Cash Conversion Cycle

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FY2015 Targets

Item	US GAAP	IFRS
Revenues	653Billion yen	653Billion yen
Overseas revenue ratio	59%	59%
Operating income ratio*	10.0%	10.1%
EBIT ratio	10.0%	10.1%
Hitachi Smart Transformation Project benefits(US GAAP)	<ul style="list-style-type: none"> ■ Gross margin: 1.0 point improvement (vs. FY2013) ■ SG&A expense ratio: 0.7 point improvement (vs. FY2013) 	

Aim to expand business further, centered on overseas business, and actively promote the “Hitachi Smart Transformation Project.”

* “Operating income ratio” is presented as “Adjusted operating income ratio” in IFRS (an “Adjusted Operating Income” presented as revenues less cost of sales as well as selling, general and administrative expenses)

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Factors that could cause actual results to differ materially from those projected or implied in any “forward-looking statement” and from historical trends include, but are not limited to:

- 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 and intensifying price competition for 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 acquisitions of other companies, joint ventures and strategic alliances and the possibility of incurring related expenses;
- 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 natural disasters such as earthquakes and tsunamis, the spread of infectious diseases, and geopolitical and social instability such as terrorism and conflict;
- 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.

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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