
Building Systems Business Unit Strategy

Hitachi IR Day 2017

June 8, 2017

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Hitachi, Ltd.

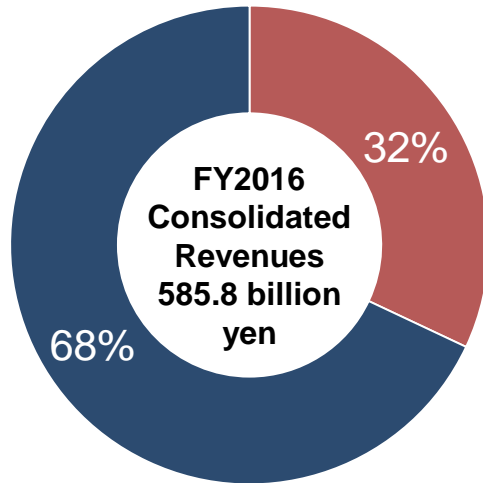
Building Systems Business Unit Strategy

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2. Management Strategy
3. Business Strategy
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1-1. Business Profile

1. Business Composition

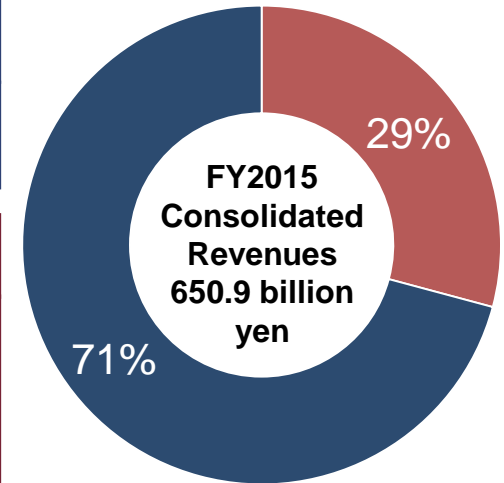


Manufacturing and Sales of Elevator & Escalator

- ① Sales, Manufacturing, Install
- ② Renewal(Modernization)

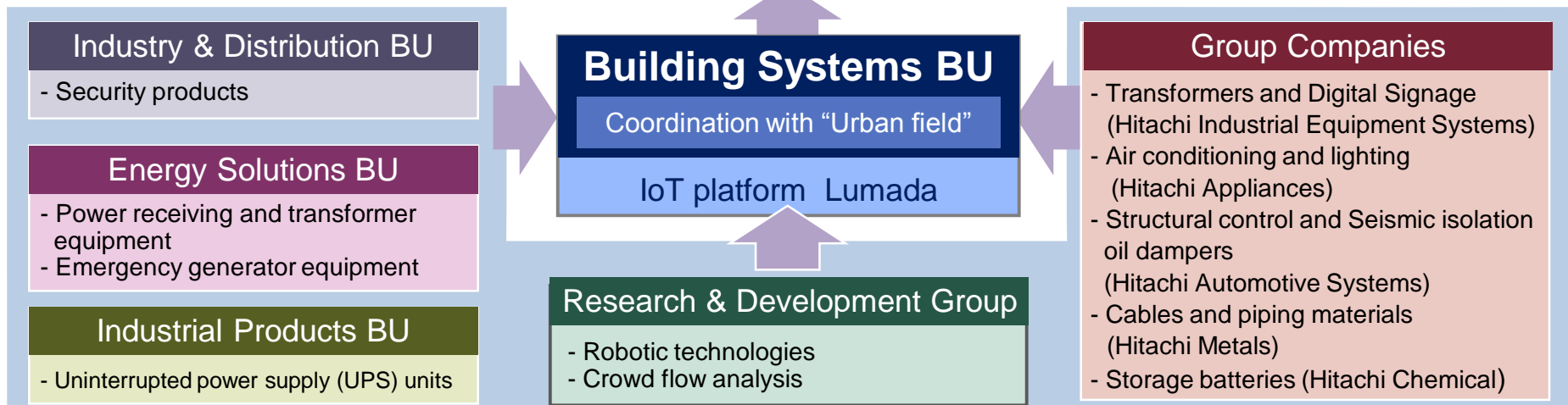
Building Solution Service

- ① Maintenance for Elevator & Escalator
- ② Comprehensive building management
- ③ Facility maintenance
- ④ Security system



2. Business Unit Positioning

Real estate, construction, railways, airports, finance, insurance, hotels, commercial facilities, hospitals, government offices, etc.



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Basic Policy

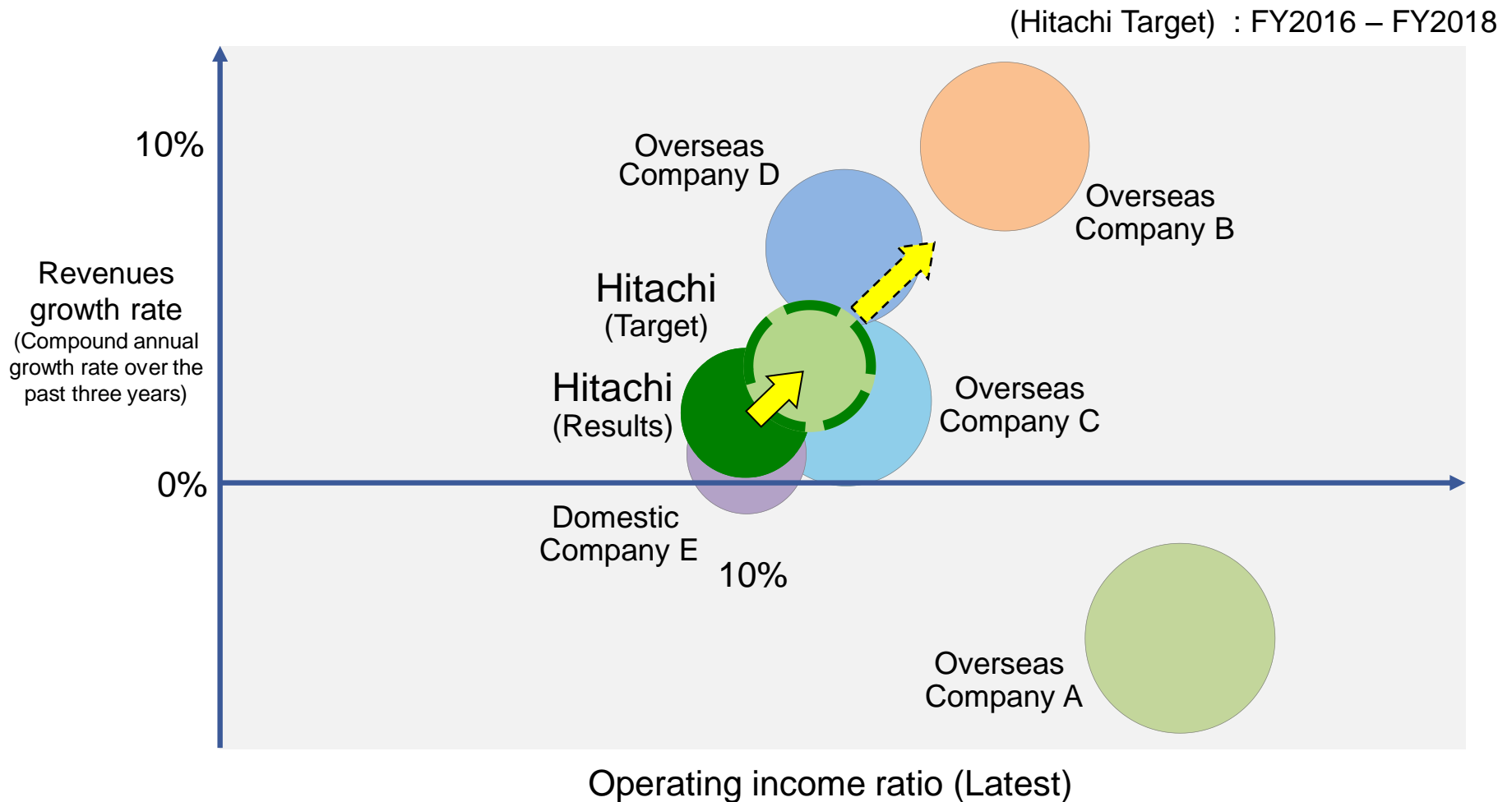
- Provide Comfortable Smart Mobility Service
(Expand Social innovation business)
- Develop the world's latest "HUMAN FRIENDLY"
products & services
(Caring and comforting customers)
- Promote service business based on "Fiduciary Duty"
(Services to meet customers' needs)

Management Strategy

- Smart management reform
(Compete and grow in global market)
- Global transformation
(Structure reform through reallocating
management resources globally)
- Digital transformation
(Utilizing IoT and AI technologies toward Industry 4.0)

2-2. Management Strategy [2] (Improve Hitachi's position)

Expand revenues and increase operating income ratio to become a global major player

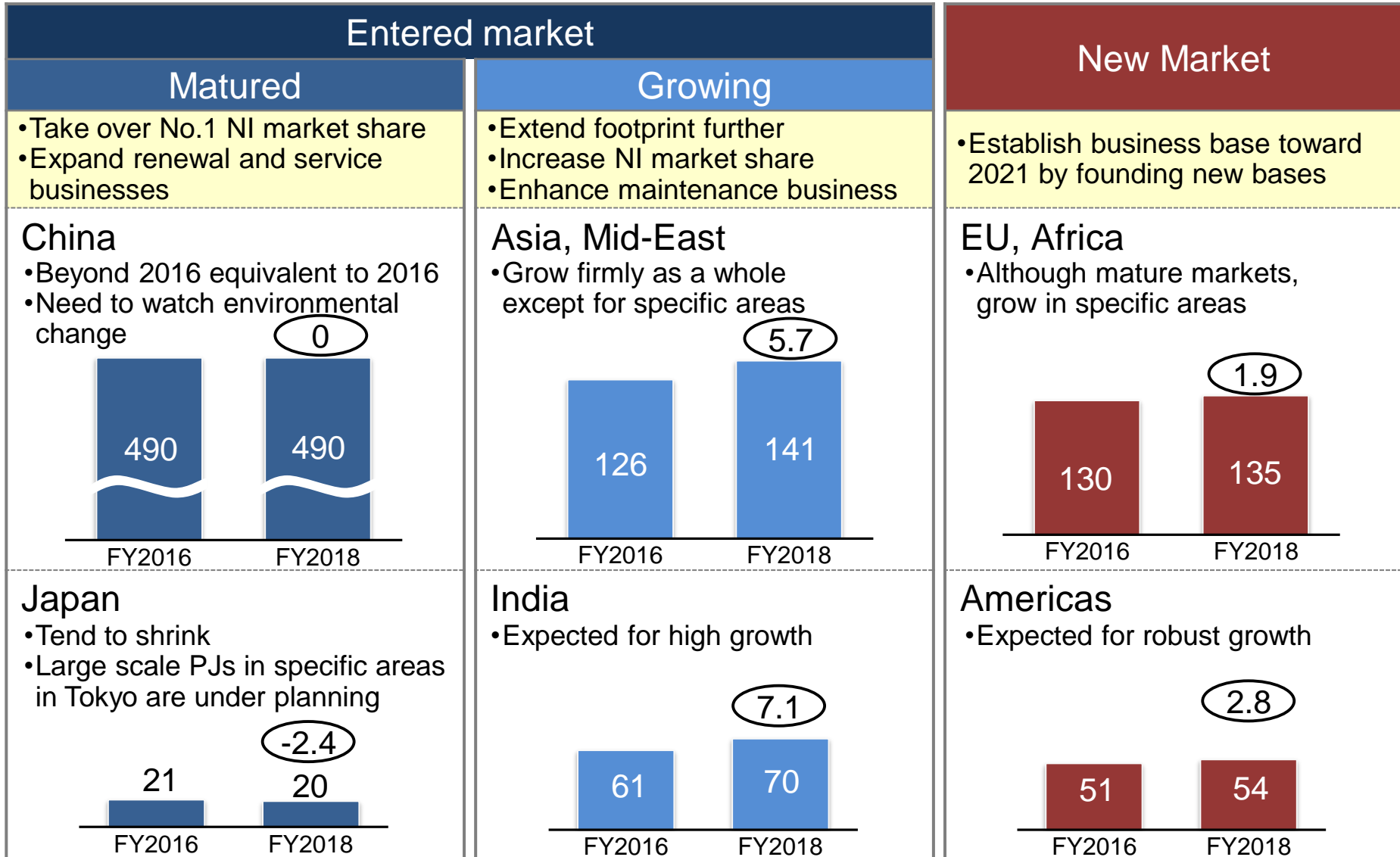


* Hitachi's estimate of each company's revenues (Size of circle indicates revenues size)

2-3. Management Strategy [3]

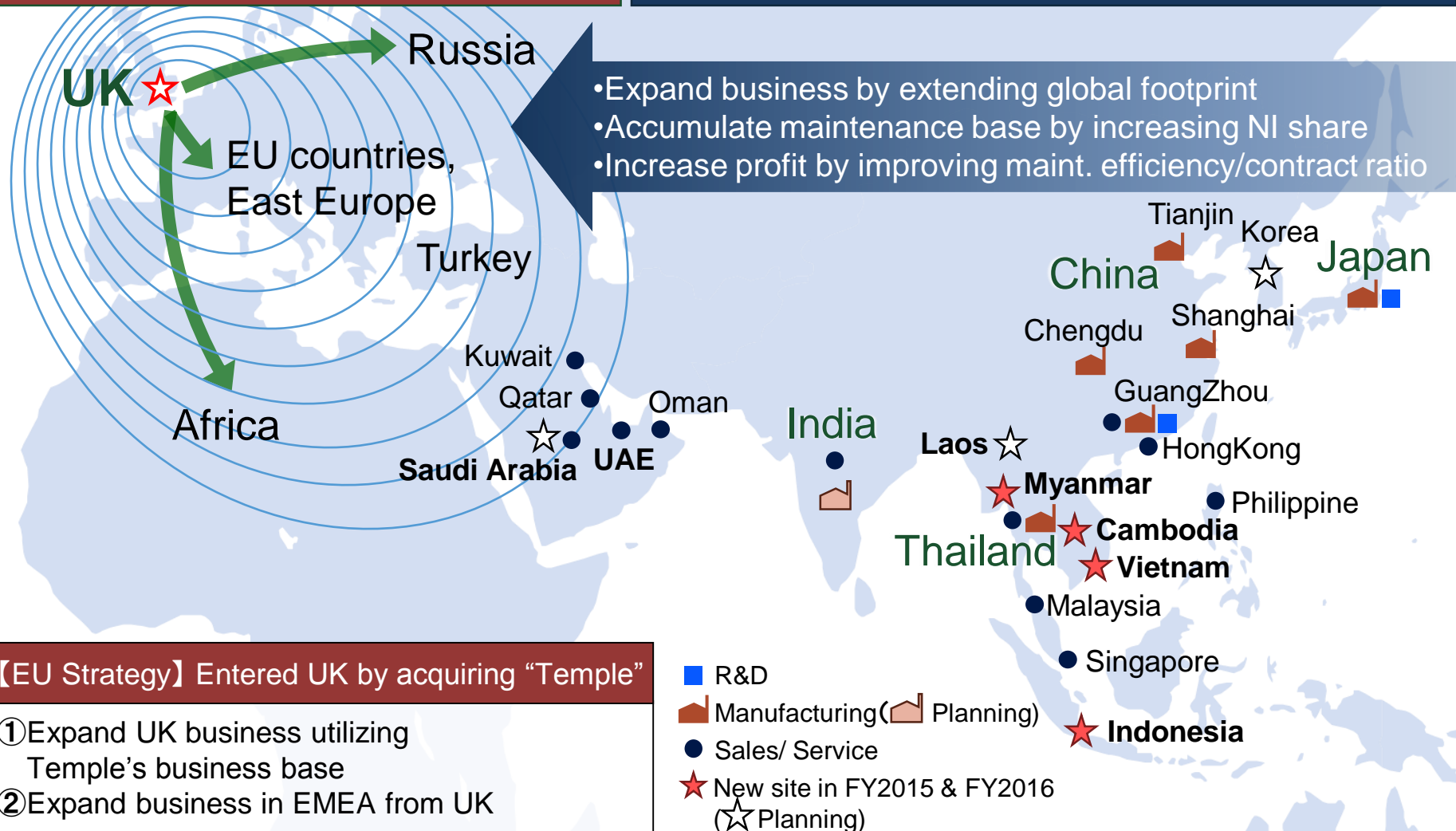
Execute business strategy for 3 markets

(thousand units) ○ : CAGR(%)



New market [EU area]

Entered market
[Progress westward: RCEP + Middle East]



- Expand business by extending global footprint
- Accumulate maintenance base by increasing NI share
- Increase profit by improving maint. efficiency/contract ratio

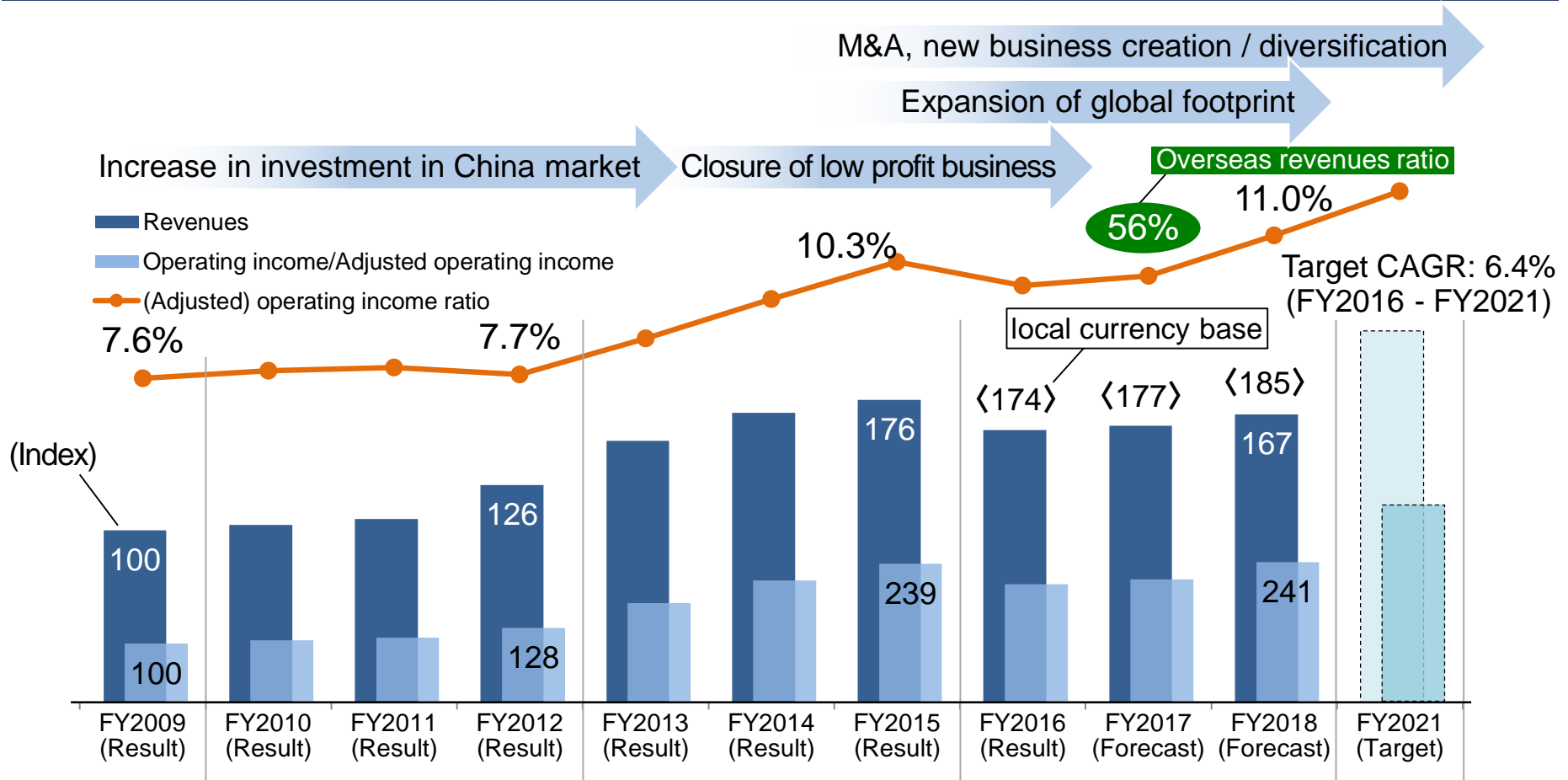
【EU Strategy】 Entered UK by acquiring “Temple”

- ① Expand UK business utilizing Temple’s business base
- ② Expand business in EMEA from UK

- R&D
- 🏠 Manufacturing (🏠 Planning)
- Sales/ Service
- ★ New site in FY2015 & FY2016 (☆ Planning)

2-5. Business performance trends and target

	FY2007-FY2009	FY2010-FY2012	FY2013-FY2015	FY2016-FY2018	Total
Cumulative Ope. Income	83.2 billion yen	96.7 billion yen	174.3 billion yen	184.9 billion yen	539.1 billion yen
(Index)	(100)	(116)	(209)	(222)	-



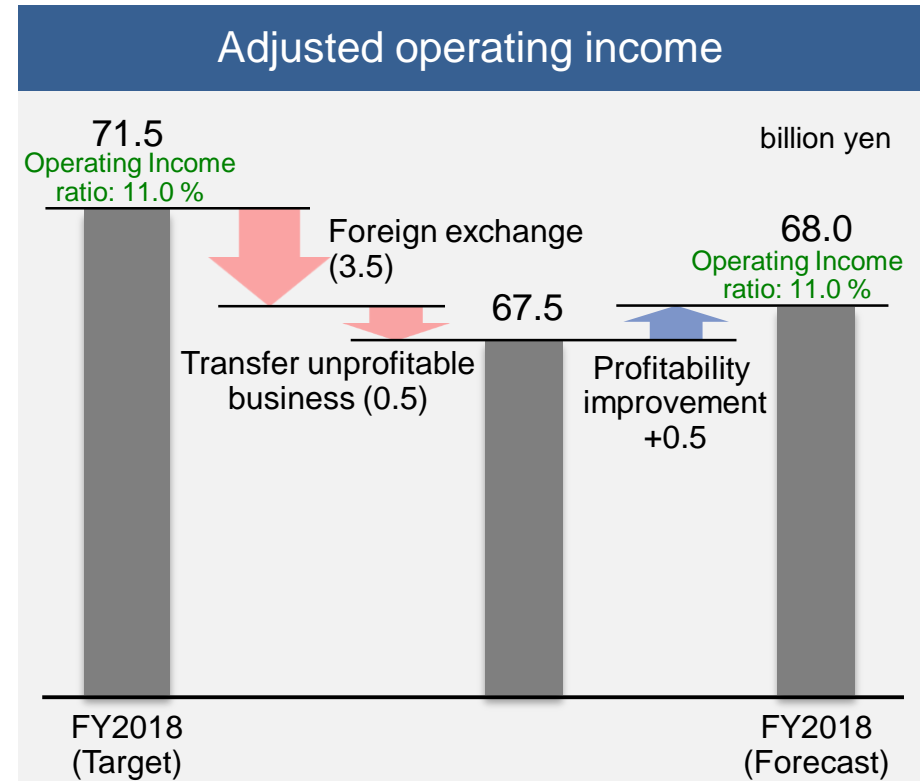
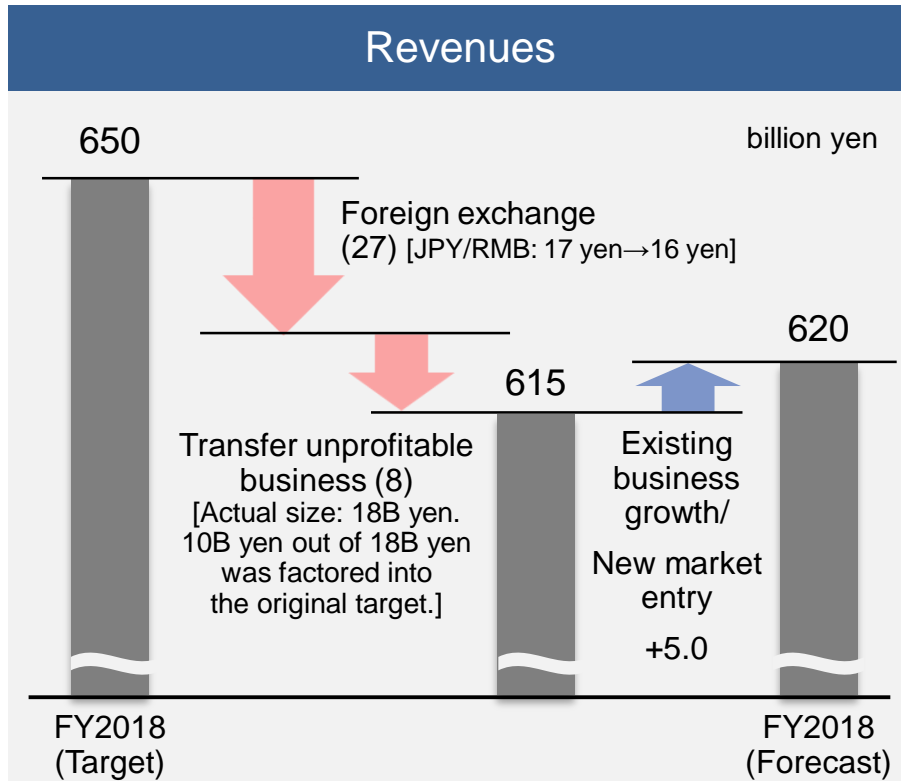
Before FY2014: U.S. GAAP, FY2015 and beyond: IFRS

Revenues and (adjusted) operating income shown as index value with FY2009 as base (100)

< >: When converted at same exchange rate as FY2015

2-6. Prospects of FY2018 Mid-term management plan and measures to manage foreign exchange impact

The targets are achievable, if the impact of foreign exchange in China is excluded



Measures to manage impact of foreign exchange

- (1) Minimize foreign exchange exposure
 - Maintain the balance of account receivables and payables in foreign currency
 - Hedge risks by exchange contracts
- (2) Expand product export from China
- (3) Accelerate cost reduction through promotion of global procurement

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Entered Market Business Strategy

Matured market [Target increase in revenues by FY 2021:50 billion yen]

(1) Take over No.1 new installation share (2)Expand Service Business

China	<ul style="list-style-type: none"> • Increase share in new installation market (Take over No.1 position) • Establish high efficiency business structure by utilizing IoT • Enhance Service business
Japan	<ul style="list-style-type: none"> • Increase share by securing large projects (Take over No.1 position) • Enhance renewal business (No.1 in Industry) • Expand Remote monitoring and improve efficiency by utilizing IoT

Growing Market [Target increase in revenues by FY 2021: 20 billion yen]

(1)Extend footprint further (2)Increase new installation share

Asia・Middle East	<ul style="list-style-type: none"> • Expand new installation order receive larger than market growth • Improve profitability by Increasing sales channels and new bases
India	<ul style="list-style-type: none"> • Expand business further by cooperation with local companies (Expand local production, local procurement, and sales channels)

New market business strategy (Focused Investment for FY 2021)

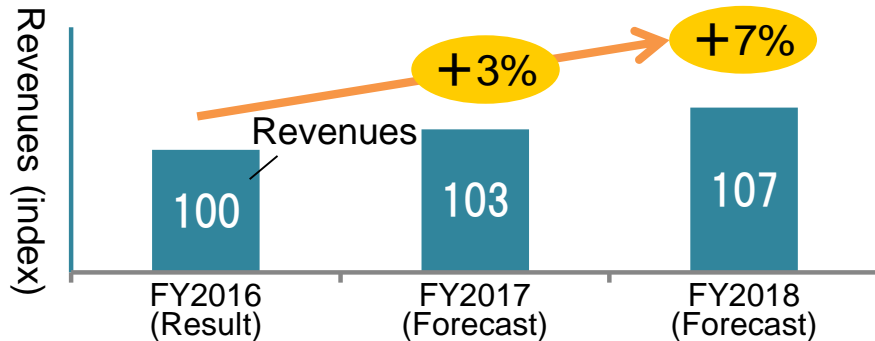
[Target increase in revenues: Not yet decided(More than 100 billion yen)]

(1) Expand new basis and create businesses for FY 2021

Europe, New Market	<ul style="list-style-type: none"> • Expand business in UK Market • Expand business in Europe and Africa from UK • Expand global footprint by M&A and business collaborations
Renewal Business	<ul style="list-style-type: none"> • Create Global renewal business by utilizing Japan's business know-how
New Business	<ul style="list-style-type: none"> • Create Digital solution business by utilizing Lumada

(1) China business expansion

【Revenues plan (Local currency)】



(1) China Business Strategy

- Take over No.1 New installation share
- Expand service business

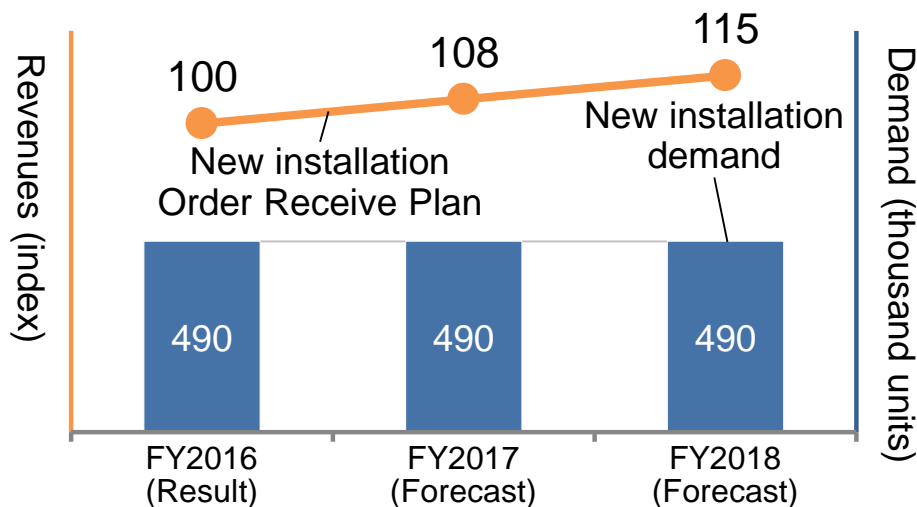
↓
Realize Expansion of Business Scale



【Spring City 66】

(2) New installation business strategy / Take over No.1 new installation market share

【New installation order receive plan (Units)】



Market Environment

- Beyond FY2016 equivalent to FY2016
- Price down continues due to competition

- (1) Expand new installation order receive
 - High-end • Mid-range • Large customer PJs
 - Develop and rollout of new price competitive products
- (2) Realize global No.1 Escalator business
- (3) Expand export business cooperated with RCEP region

3-3. China Business Strategy (Entered Matured Market)

(3) Maintenance business strategy / Improve service quality by Four-Region business structure

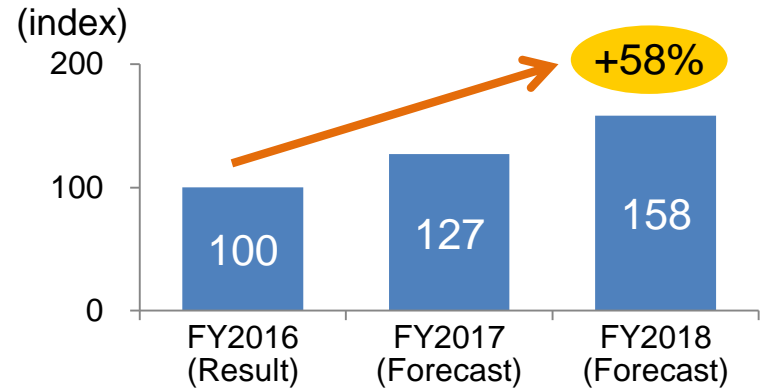
(1) Increase maintenance contract ratio by enhancing Maintenance sales structure

- 1) Increase maintenance sales persons (FY2016 148 persons → FY2017 300 persons)
- 2) PJ progress management by model branch

(2) Expand Remote monitoring system and improve efficiency

(3) Expand Parts sales business

【Chargeable maintenance Contract unit plan】



(4) Smart Production restructure / Improve efficiency and speed up decision making by IoT

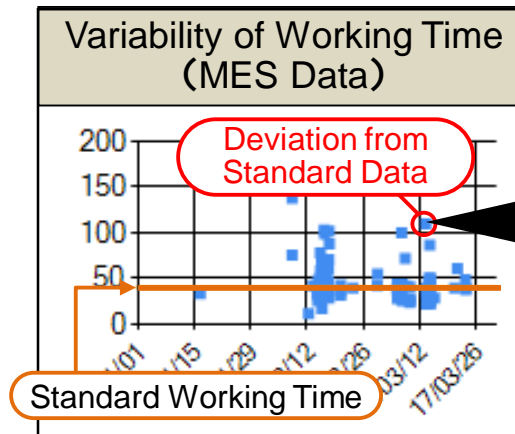
(1) "Smart Production" by Utilizing MES Data

- Improve efficiency and reduce cost by analyzing actual running data

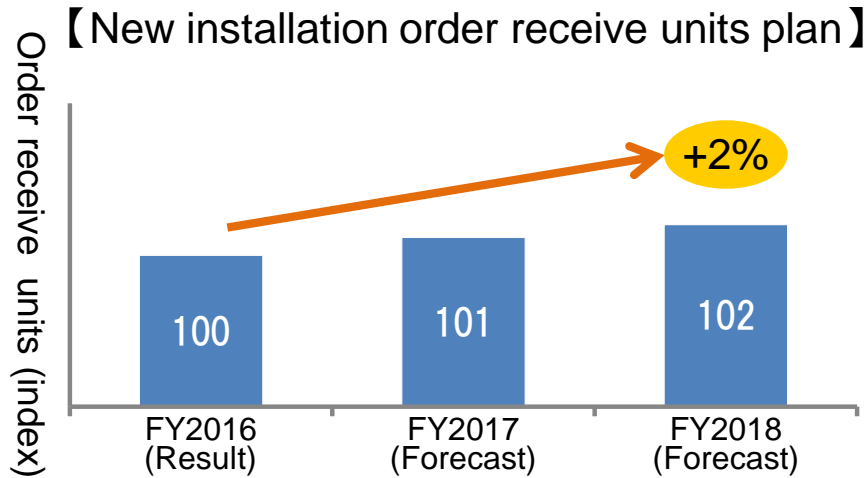
(2) "Smart Management" by centralized production sites management

- Speed up business decisions by centralized management of production information

【Improvement using Actual Data and Video】



(1) Expansion of New Installation Order Receive/ Take Over No.1 Share

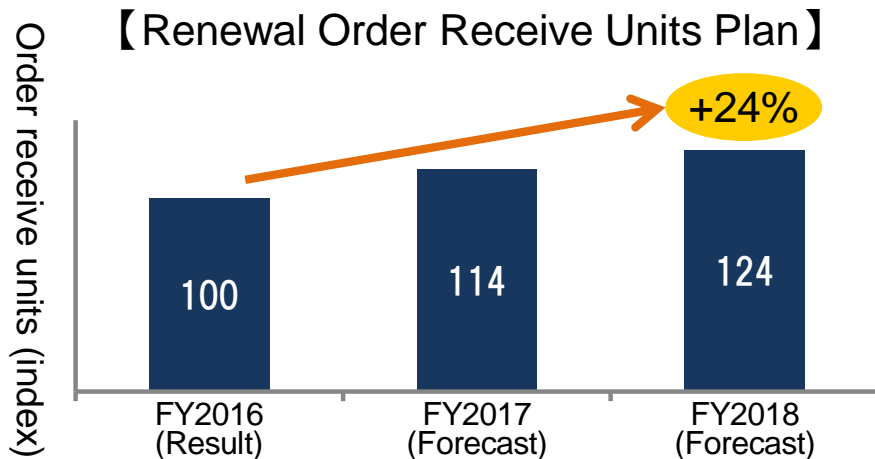


Market Environment

- Residential demand will gradually decrease
- Large scale PJs in specific areas in Tokyo are under planning

- (1) Take over No.1 share in Standard elevator market by improving cost competitiveness
- (2) Take over No.1 share in High-speed elevator market by receiving order in Capital region

(2) Reinforcement of renewal business/ Expansion of order receive units



Market Environment

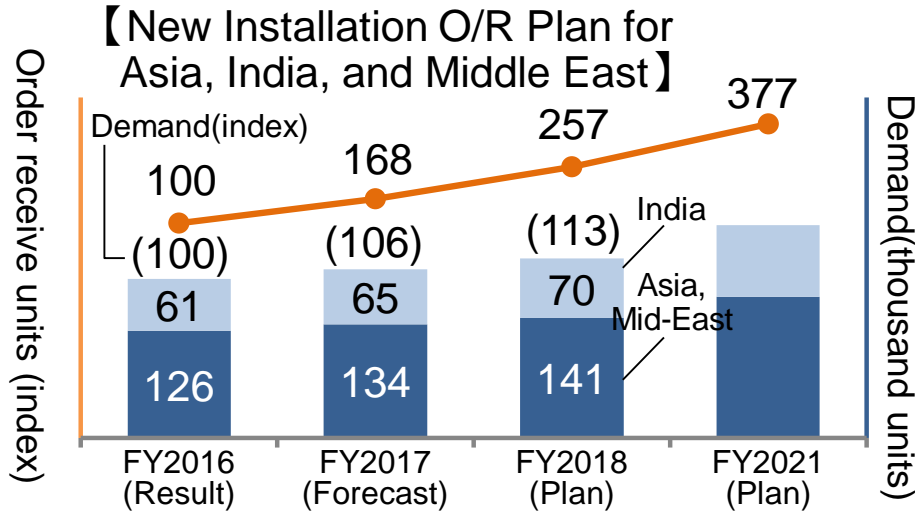
- Renewal demand* increase 5,000units/year

- (1) Expand order receive by new product
 - Introduce “Non continuous-stop Method” (G_Select+U)
- (2) Enhance installation ability
 - Develop by planned training and secure sufficient installation engineers

*Hitachi brand elevators more than 25 years old

3-5. Asia, India, Middle East Business Strategy (Entered Growing Market)

(1) Establish Asia, India, and Middle East Businesses/ Increase O/R by new product



(1) Launch Global standard model

- Launch Strategic model (MRL) for volume market zone (Sep./ 2016)
- Improve product competitiveness by development and rollout of new model(MR)



【Global Standard Model (MRL)】

(2) Sales Strategy / Training of Field Engineers

(1) Foundation of New Bases

- Myanmar : Oct. /2015
- Indonesia : Dec. /2015
- India (Chennai) : Jun. /2016
- Vietnam : Nov. /2016
- India (Ahmedabad) : Jan. /2017
- Cambodia : Mar. /2017
- Laos・South Korea : Under Planning

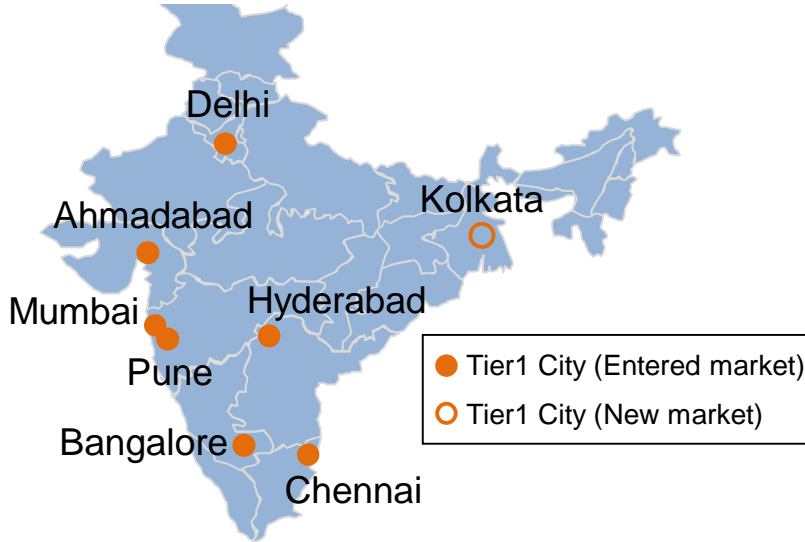
(2) Established Asia training center (January/ 2017)

- Train installation and maintenance engineers by organizing education systems by level



Improve Service Quality 【Asia Training Center】

(1) Enhance sales strategy / Strengthen sales and service network by expanding bases



- (1) Expand channel to all 8 Tier1 cities
 - Increase sales and service bases in entered market
 - Establish new sales base in new market (Dec./ 2017)
- (2) Enter major Tier 2 cities
 - Expand sales channel through cooperation with local companies

(2) Brand strategy / Expand O/R by strengthening product competitiveness

Strengthen brand in India market

- (1) Keep premium brand image
- (2) Receive luxury projects
- (3) Improve presence by receiving large projects



【 DLF CAMELLIAS 】

Enhance business with local companies

- (1) Enhance cost competitiveness with local production, local procurement (Jul./ 2017)
 - Local production with local company (Consider to establish own factory)

3-7. Growth Strategy for Renewal Business

(1) Create global renewal business utilizing business know-how accumulated in Japan

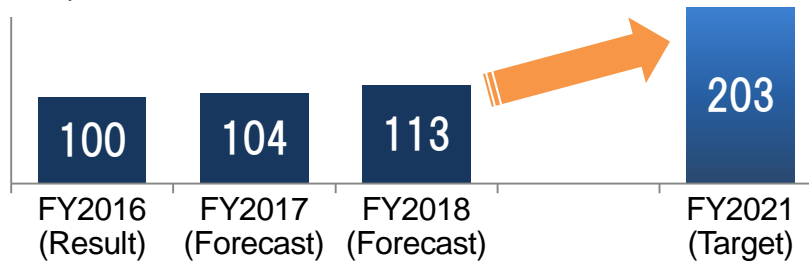
Market environment and renewal O/R plan

Measures for business expansion

China

- Increase in +20 years Hitachi EL/ES (2016:1,000 units→2021:13,800 units)

(Index)

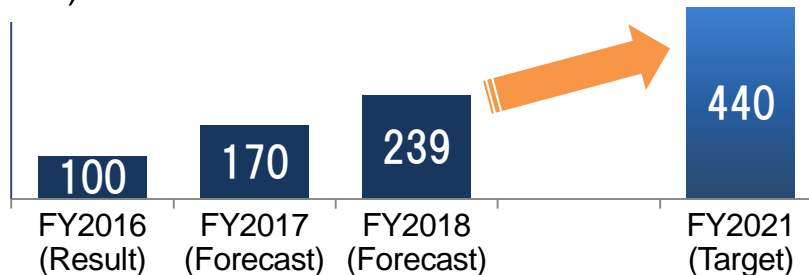


- (1) Establish business structure for the rapid market expansion
 - Develop products and establish operating structure utilizing business know-how accumulated in Japan
- (2) Develop and launch new products for Chinese market

Asia

- Expand business opportunities due to increase in non-renewal aging elevators

(Index)

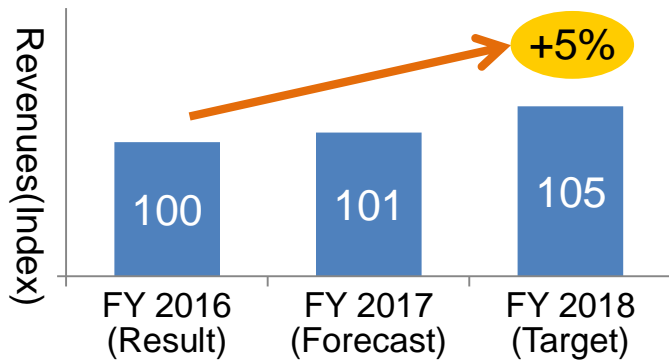


- (1) Expand O/R by selling Japanese control renewal products
 - Develop products based on Japanese control renewal products
- (2) Enhance cost competitiveness by local production

3-8. Growth Strategy for Maintenance Business

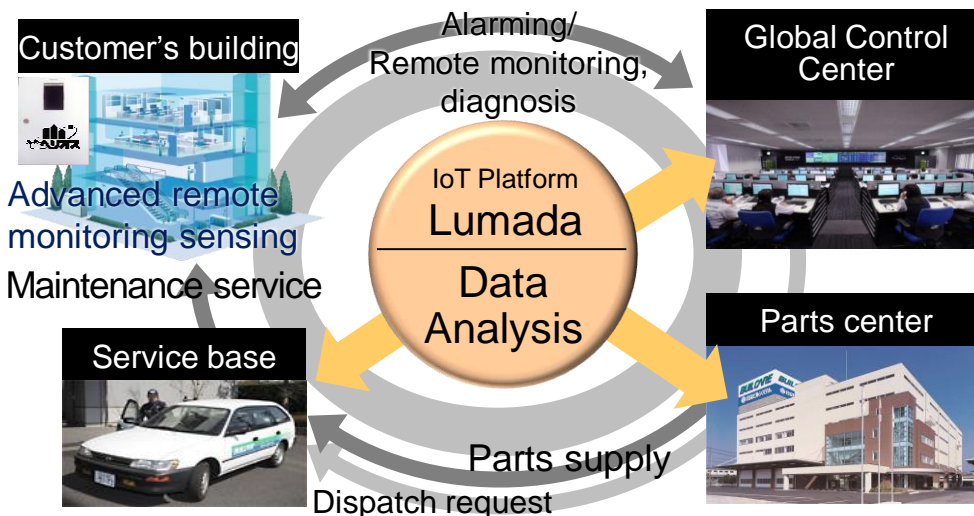
(1) Expand maint. biz corresponding footprint extension, Improve profitability by increasing ope. efficiency

【Maint. Business Revenues Plan】



Region/Country	Business Strategy by Region
Common	• Enhance maintenance service function by remote monitoring system
China	• Improve maintenance contract ratio by strengthening maintenance sales network
Asia, India, Middle East	• Introduce remote monitoring system • Expand parts sales business
Japan	• Improve earning capacity by expanding adoption of IoT and remote maintenance
Europe	• Expand business by providing maintenance service for other brand products

(2) Sophisticate services and increase efficiency utilizing IoT and AI technologies



- (1) Improve service efficiency by establishing global control center
- (2) Adopt IoT technology to Remote monitoring and maintenance system
- (3) Improve efficiency and sophisticate maintenance services utilizing AI
 - Optimize maintenance cycle
 - Realize High precision predictive maint.
 - Optimize parts stock

3-9. Hitachi's Strengths (Elements of Business)

(1) Customers in various industry and global sales network

Real estate, construction, railways, airports, finance, insurance, hotels, commercial facilities, hospitals, government offices, etc.

Facility management company

Continuous customers
 ▪ Japan: 70,000 companies
 ▪ China etc.: 30,000 companies

Partner company

(2) 1,500 Service network and maintenance engineering with high technical capabilities

Elevators/
Escalators

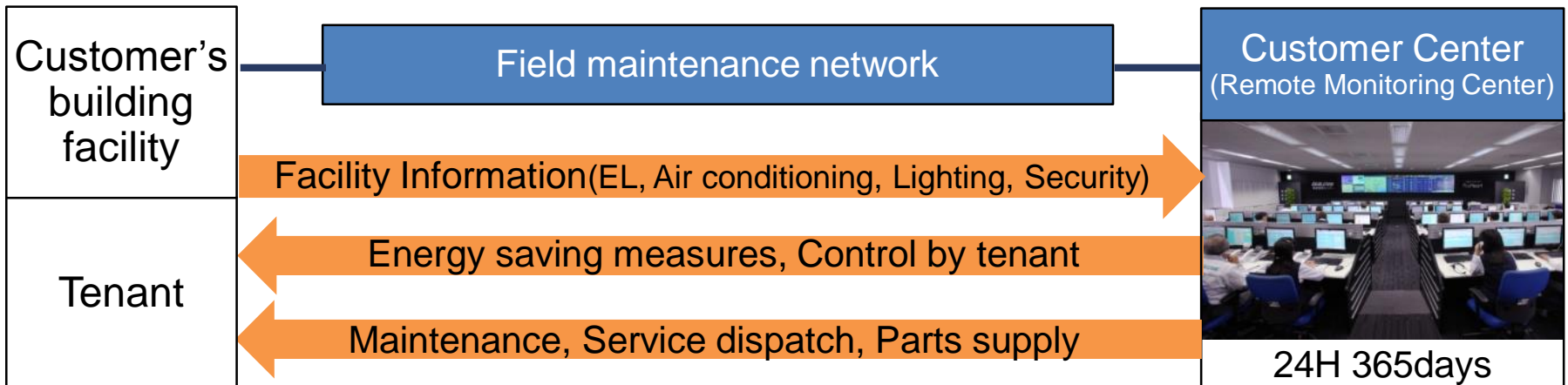
Air conditioning

Building Facility

A variety
of devises

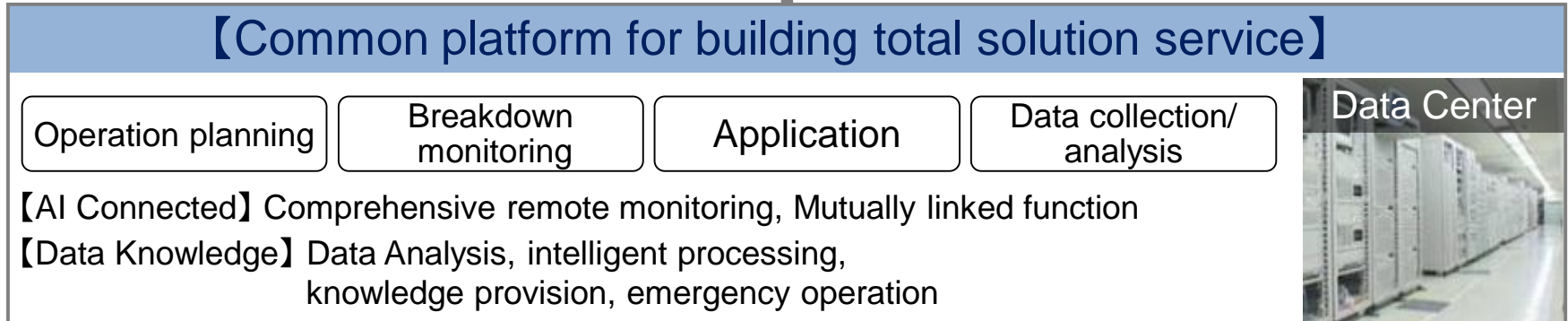
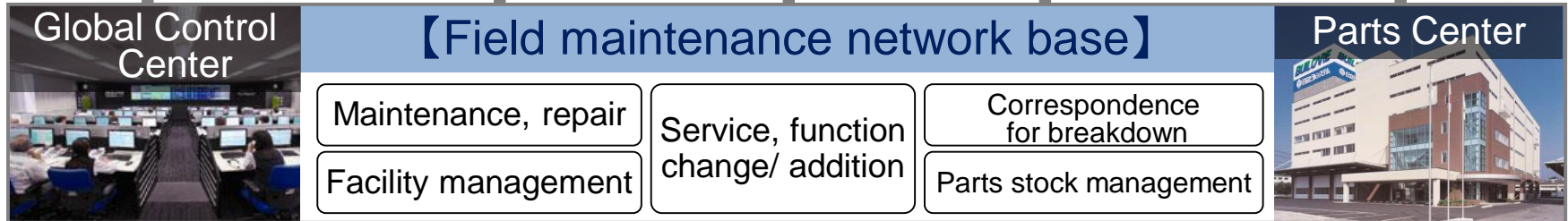
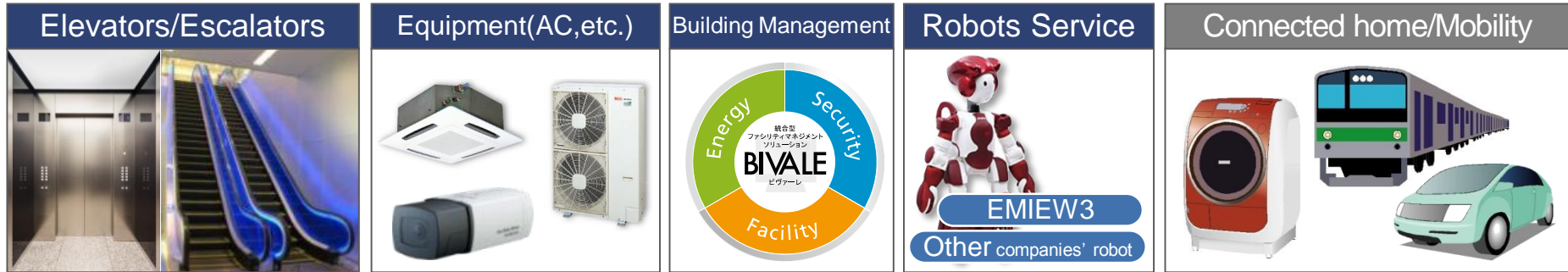
⟨lighting, security, camera, etc.⟩

(3) Technical capabilities of the fastest class elevator and key technologies of remote monitoring system etc.



3-10. Building Systems Business in near future

Establishing total building /facility management biz



Create digital solution business with Lumada

3-11. Expand business utilizing Key technologies

(1) Adopt the world's fastest elevator technologies to Hitachi's products



(1) Hitachi's elevator marked 1,260m/min, the world's fastest* speed

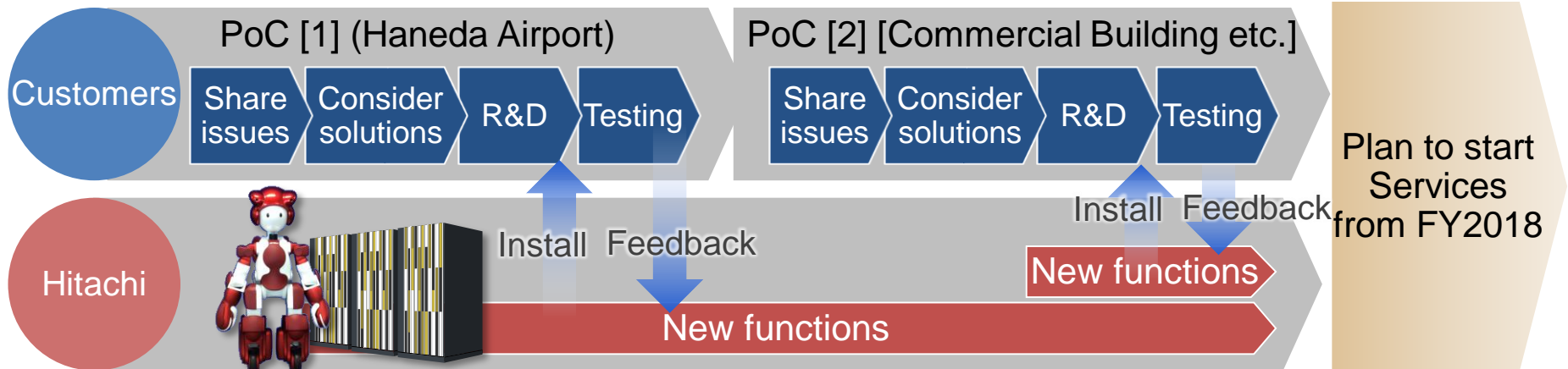
(2) Key technologies

- Drive and control technologies for 1,260m/min
- Safety features supporting ultra-high-speed
- Comfortability controlling vibration and air pressure changes



Adopt technologies to Hitachi's products

(2) Develop new service business utilizing AI & Robot technologies



* As of June 2017 researched by Hitachi, Actual operation speed at CTF Finance Center is 1,200m/min
PoC: Proof of Concept

Building Systems Business Unit Strategy

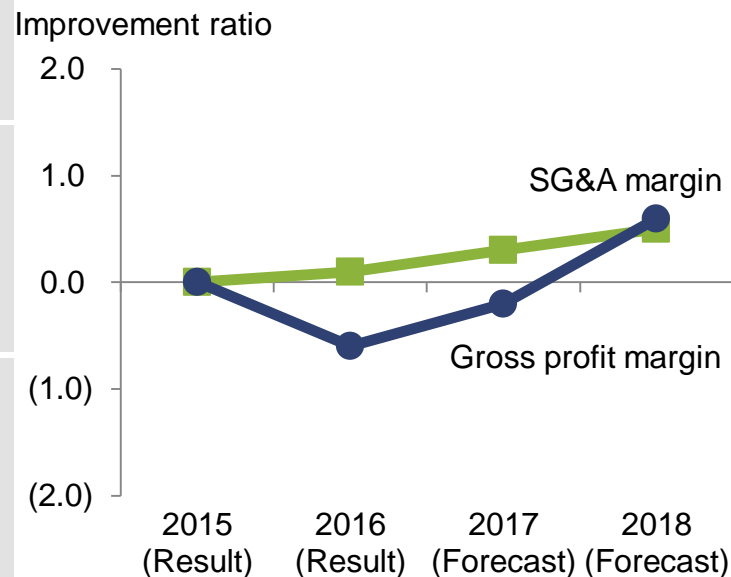
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4-1. Measures to improve cash generation and cost strategy

Cost structure reform and cash generation

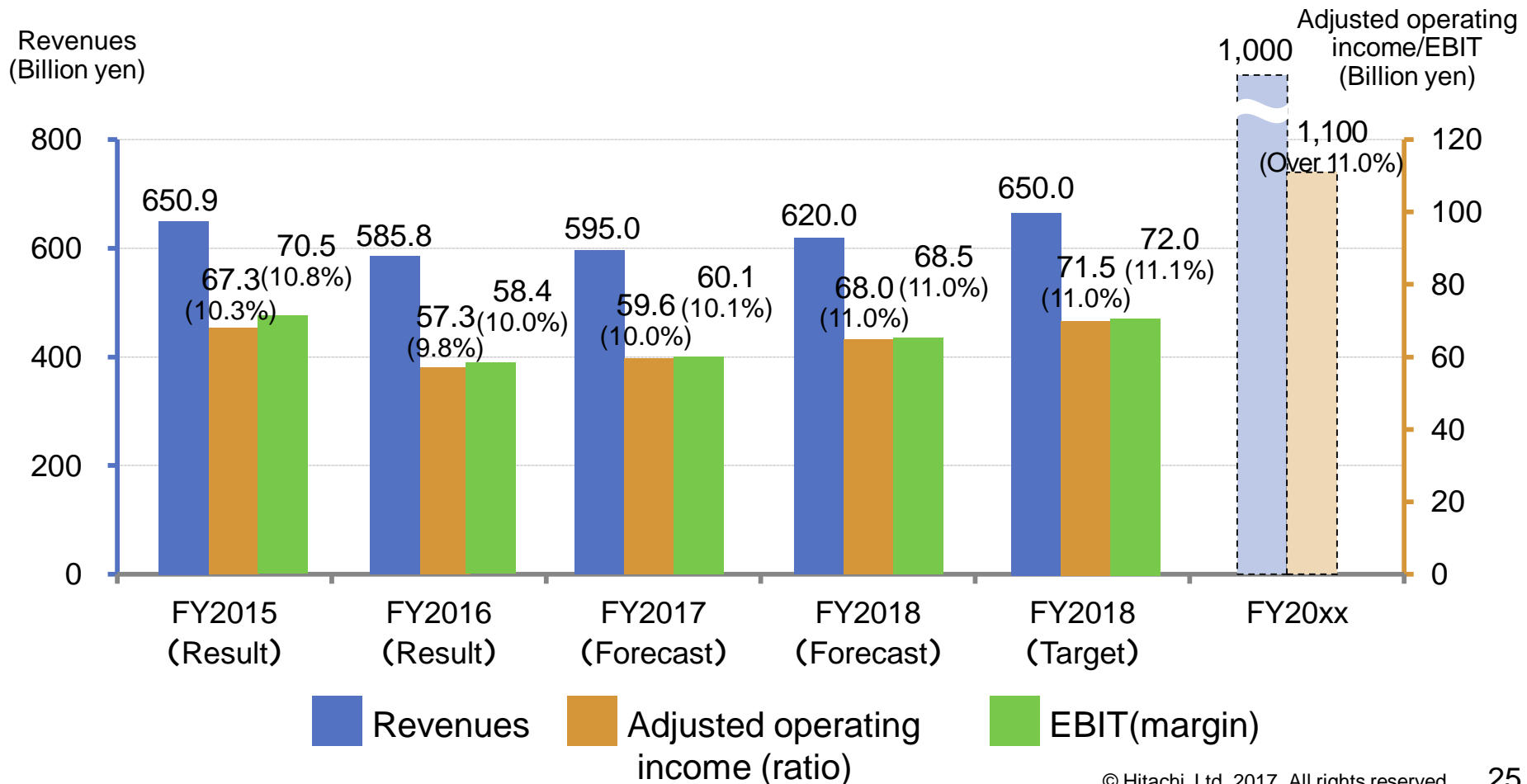
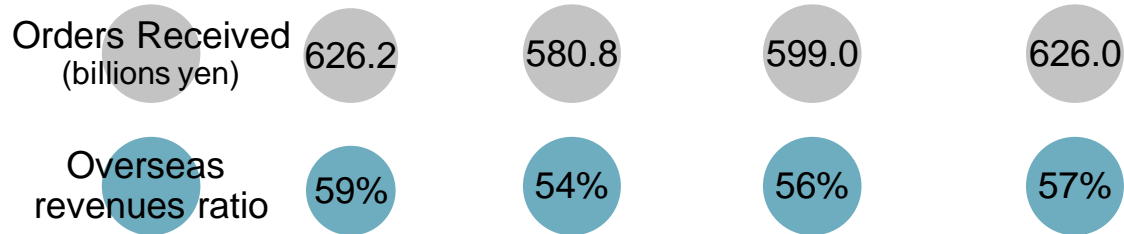
Common	<ul style="list-style-type: none"> Closure of low profit businesses with no key technologies
SG&A	<ul style="list-style-type: none"> Reduce indirect material cost Improve operational efficiency through Work style innovation
Gross Profit	<ul style="list-style-type: none"> Promote sales and cost reduction of global standard model Improve production efficiency through smart production reform Increase revenues from remote monitoring and maintenance utilizing IoT
Cash generation	<ul style="list-style-type: none"> Promote collection of account receivable and advance receipt Strengthen expense management, reduce inventory Select investment plan strictly and secure investment return



■ CCC

	2015 (Result)	2016 (Result)	2017 (Forecast)	2018 (Forecast)
CCC	44.2 days	38.6 days	45.7 days	45.0 days

4-2. Business performance trends



Cautionary Statement

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.

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;
- 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;
- 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;
- 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;
- credit conditions of Hitachi’s customers and suppliers;
- 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;
- 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;
- 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;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- 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 cost structure overhaul;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity-method associates and joint ventures have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- 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; and
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its employee benefit-related costs.

The factors listed above are not all-inclusive and are in addition to other factors contained in other materials published by Hitachi.

HITACHI
Inspire the Next

Received large projects

1. AL ASSIMA [Kuwait]

- 1) Largest scale complex building in Kuwait
- 2) 63 stories and 3 basement (Height: 345m)
- 3) 62 Elevators 62
(13 Ultra high-speed)
40 Escalators
- 4) Completion: 2020



2. Leeza SOHO, Beijing [China]

- 1) SoHo building(Office/ Residence) in Beijing
First Double-deck elevator in North China
region for Hitachi
- 2) 46 stories and
4 basement(Height: 240m)
- 3) 16 Elevators
(8 Ultra high-speed)
- 4) Completion: August 2018



3. Nihonbashi Muromachi 3 Chome Redevelopment [Japan]

- 1) Core PJ for “Nihonbashi Revitalizing Plan”
- 2) 26 stories and 3 basement
Floor space: 168,000m²
Height: 142m
- 3) 48 Elevators
(37 High-sped)
17 Escalator
- 4) Completion: March 2019



4. AEON MALL Cambodia No.2 [Cambodia]

- 1) 2nd shopping mall in Cambodia by AEON
- 2) 4 stories, Floor space: 167,000m²
(Inc. multi-stories car park)
- 3) 10 Elevators
26 Escalators
- 4) Opening:
2018 Summer

