



Building Systems Business Unit Business Strategy

Hitachi IR Day 2018

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Hitachi, Ltd.**

Building Systems Business Unit Business Strategy

Contents

- 1. Business Overview and Analysis of Current Status**
2. Business Strategy
3. Conclusion

1-1. Business Overview

FY2017 revenues
603.0
billion yen

Providing high-value-added products and services globally by utilizing data from E&E and other building equipment

31%

Building Services



Smart-building services



E&E maintenance services
(Inspection, adjustment, replacing parts, remote monitoring)

Building equipment management services
(Remote monitoring)

69%

Sales and Manufacturing of E&E (Elevators and Escalators)

Elevators

Group control system

Escalators

Moving sidewalks



New installation

Modernization

Building equipment from other BUs and other companies
(HVAC, lighting, security etc.)



1-2. Progress of the 2018 Mid-term Management Plan (1): FY2017 Results

Profitability decreased in FY2017 and FY2018 forecast updated due to competition in the Chinese E&E market pushing prices down

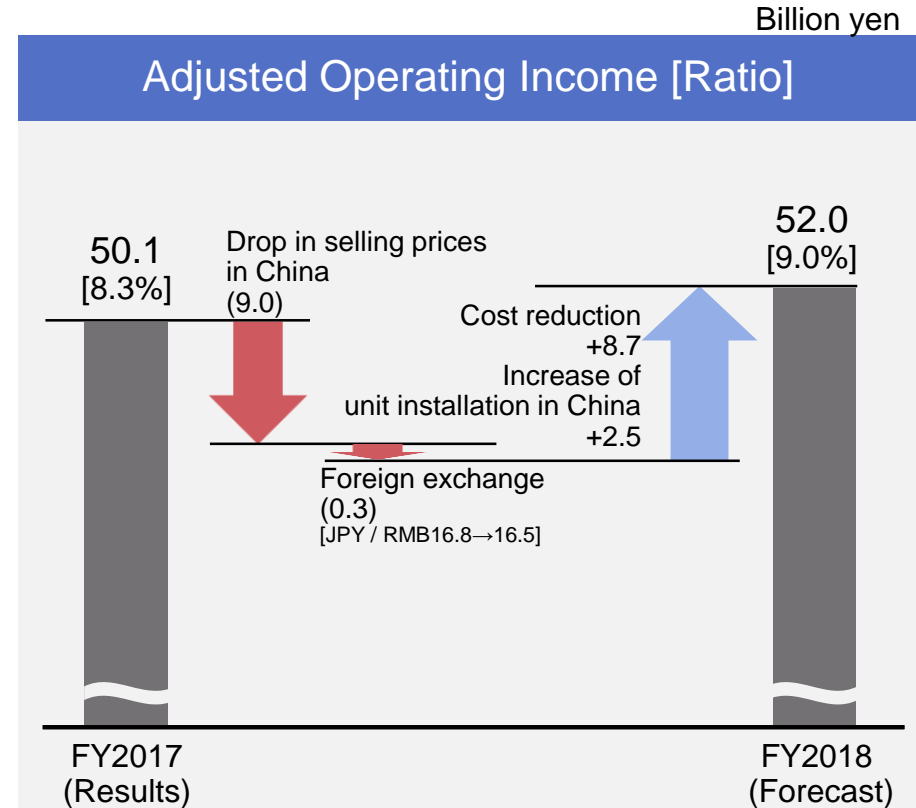
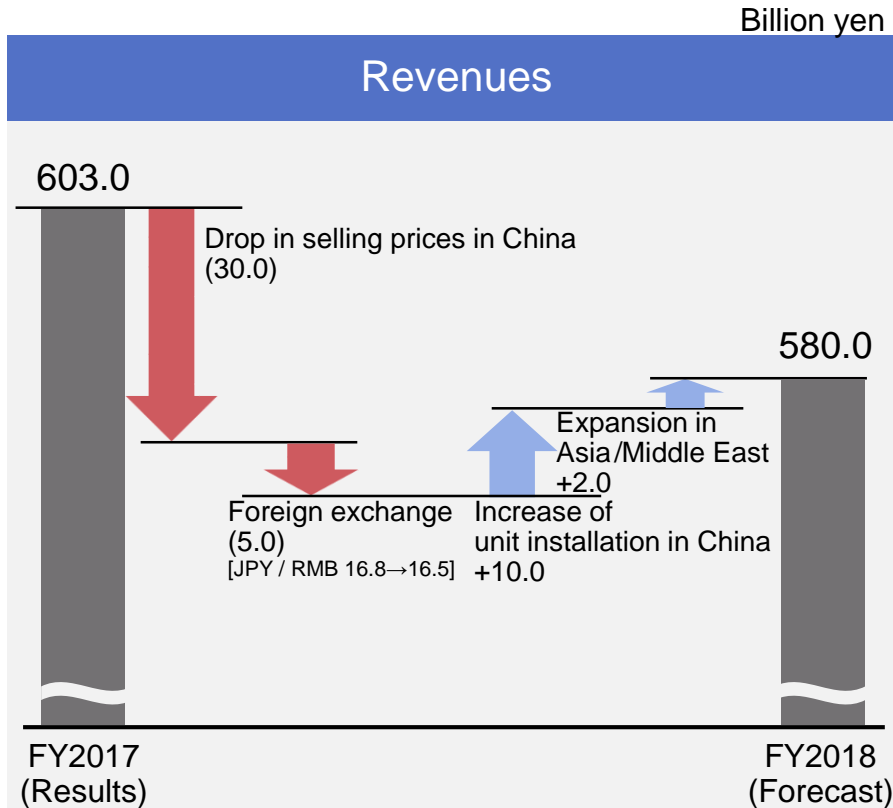
	FY2015 (Results)	FY2016 (Results)	FY2017 (Results)	FY2018 (Forecast)	YoY	Against previous forecast *1 Against original target *2
Revenues (Billion yen)	650.9	585.8	603.0	580.0	(23.0)	(40.0) (70.0) [(43.0)*3]
Adjusted operating income ratio	10.3%	9.8%	8.3%	9.0%	+0.7%	(2.0%) (2.0%) [(1.4%)*3]
EBIT ratio	10.8%	10.0%	8.2%	8.9%	+0.7%	(2.1%) (2.1%) [(1.5%)*3]

FY2017 Conditions

- China: Despite slowing E&E new installation demand, expanded O/R unit share; profitability decreased by intense pricing competition, rising material costs (e.g. steel)
- Japan: Revenues decreased with withdrawal from low-profit business (e.g. building management businesses); E&E business remains steady
- Asia / Middle East: Expanded sales bases, improved E&E O/R, improved profitability

1-3. Progress of the 2018 Mid-term Management Plan (2): FY2018 Outlook

Improve profitability year over year in FY2018 promoting cost reduction in the China business



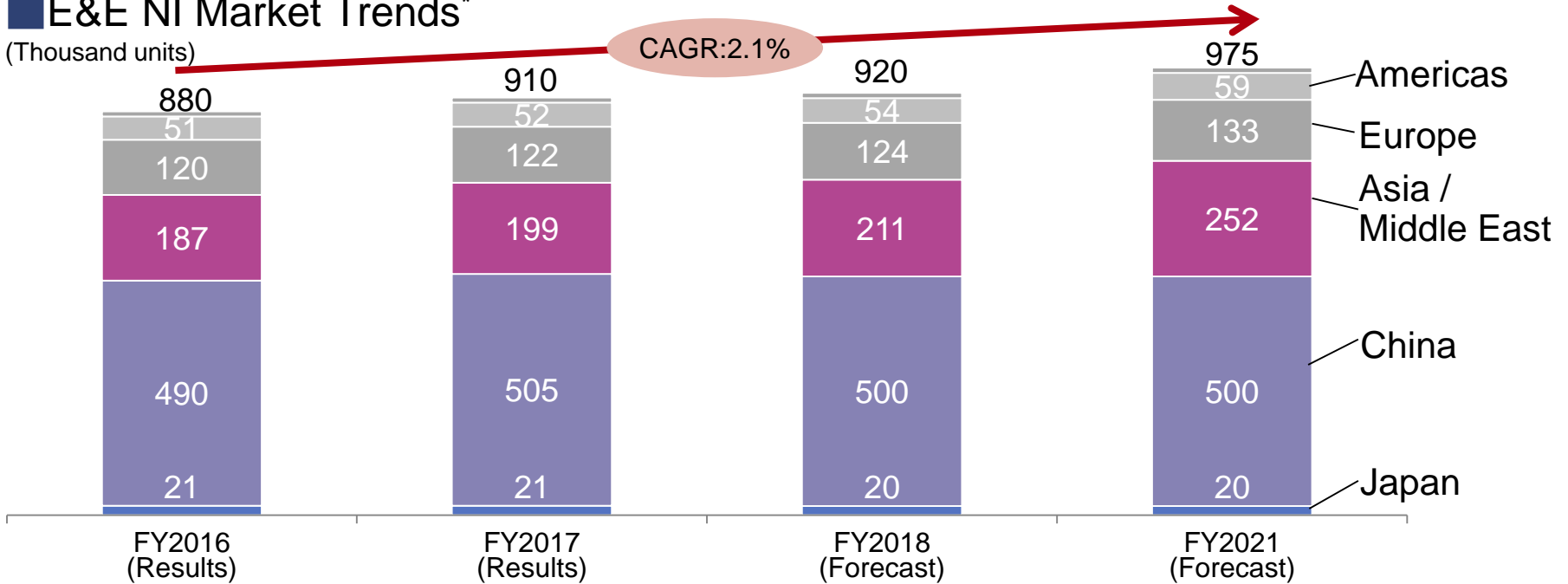
Comparison with FY2017 Results

Improving profitability by promoting drastic cost reduction measures and expanding O/R for increasing NI units, in order to recover from drop in selling prices in China and foreign exchange impacts

1-4. Towards FY2021(1): Market Trends

E&E NI Market Trends*

(Thousand units)



Hitachi Analysis on E&E Markets by Target Region

Asia / Middle East

- NI demand growth in multiple countries (CAGR: 6.1%)

China

- Still over 50% of world's NI market, but slow down in growth
- Expect shifts of growth driver to maintenance

Japan

- NI demand to gradually decrease (modernization demand to increase)

1. Evaluating Achievements and Direction for Future Growth

Past Achievements

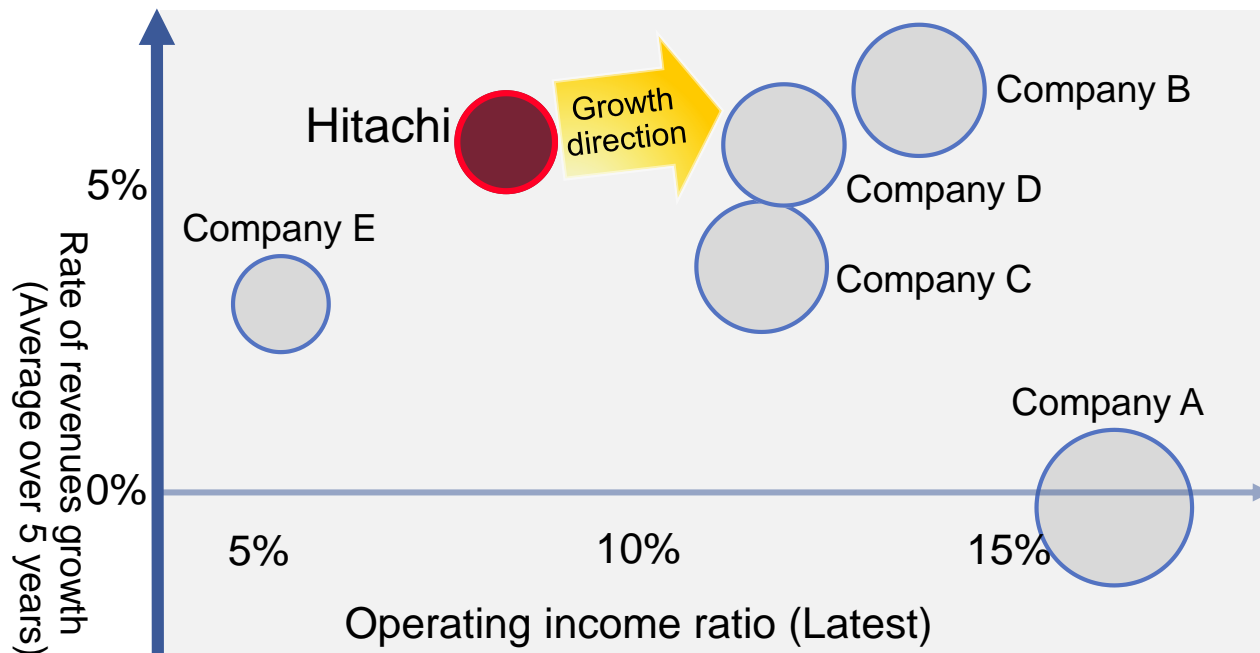
-Realized strong revenues growth with expansion of E&E NI business in China

Direction for Future Growth

-Improve profitability mainly with building service business utilizing data

-Continue consideration of M&A to supplement growth strategy in target regions and business areas

Our Position in the E&E Industry*



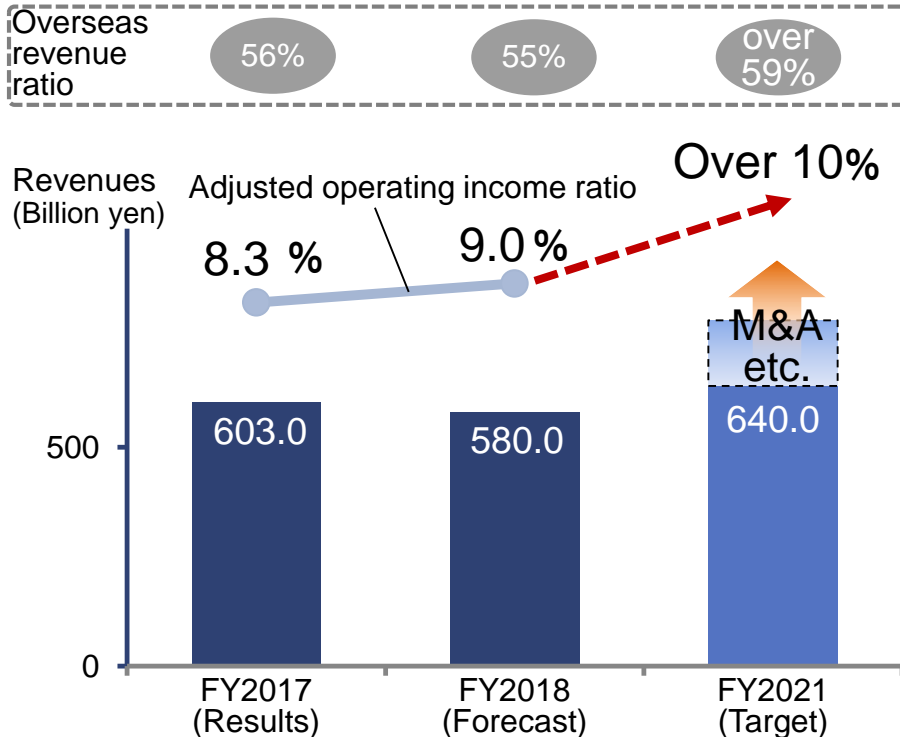
2. Key Strategies by Target Region

Asia / Middle East	Growth responding to strong E&E NI demand, improve profitability (shift in phase from investing in bases to reaping returns)
China	Improve profitability by expanding building service business, mainly with E&E maintenance
Japan	As “global mother function”, promote development of building service utilizing data

* Hitachi’s estimate of each company’s revenues (size of circle corresponds to revenues size); revenues growth based on average between FY2013 and FY2017

1-6. Towards FY2021(3): Business Targets

Expand business and improve profitability by accelerating overseas promotion of high-value-adding building service business utilizing data



Realize growth exceeding market trends*1 at over 5% / year*2

Realize strong growth, including consideration of non-continuous growth by M&A etc., in addition to organic growth

Overseas business expansion

revenues: over +60.0 billion yen*3

- China: Expand E&E maintenance business which has large growth potential (+30.0 billion yen)
- Asia / Middle East: Correspond to E&E NI demand growth (+30.0 billion yen)

Improve profitability

Adjusted operating income: over +12.0 billion yen*3

- Expand building service businesses, such as the creation of data-utilizing maintenance business overseas
- Accumulate cost reduction efforts through strict execution

Promote growth strategy, aim towards industry leader

*1 Average yearly growth prediction of E&E NI market (in units), FY2018-FY2021: +2.0% *2 Average yearly growth of revenues, FY2018-FY2021
*3 Compared to FY2018 forecast

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Social and Environmental Values

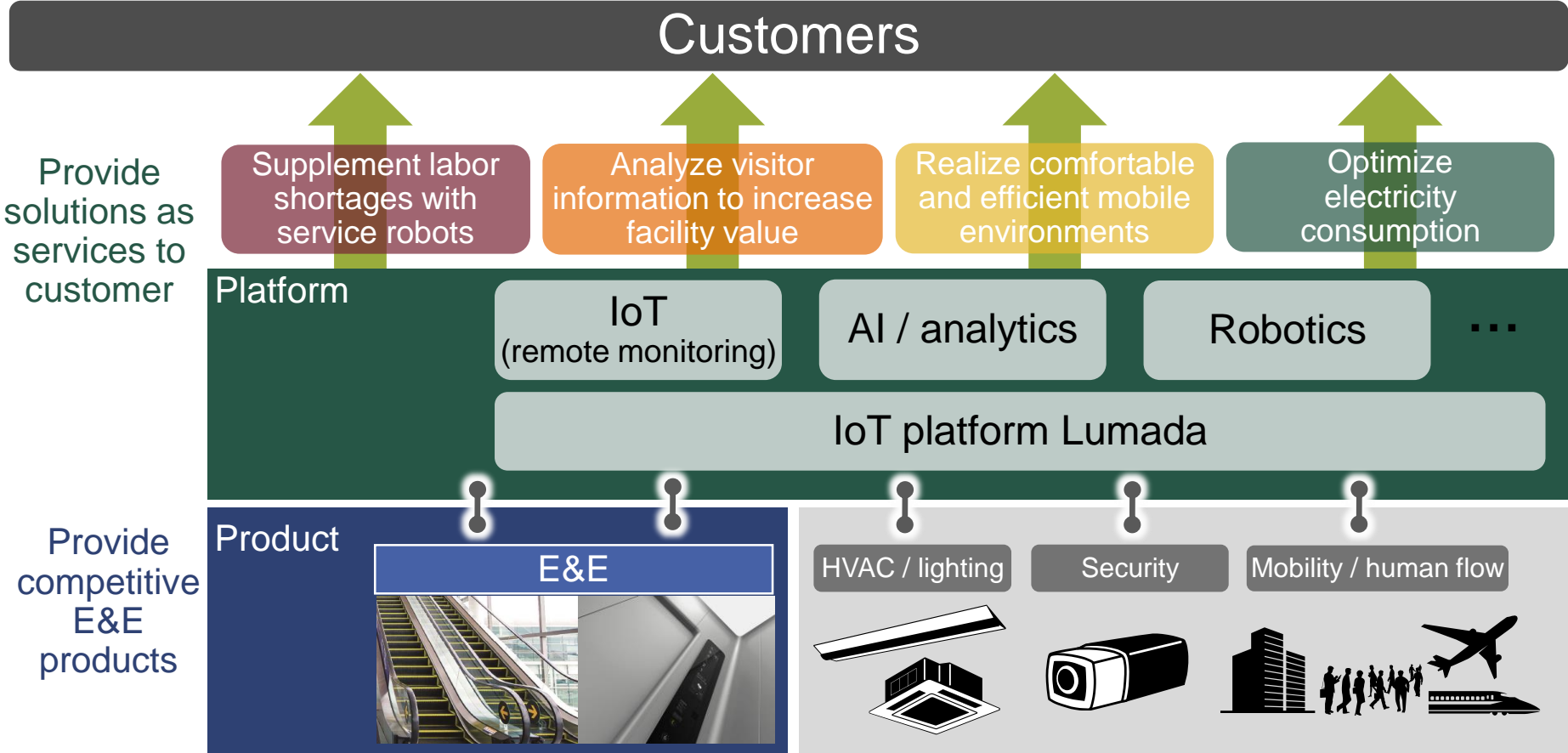
Contribution to sustainable urban development by providing products and services that realize safety, security, comfort, and reduce environmental load

Corresponding SDGs

<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	<p>13 CLIMATE ACTION</p>
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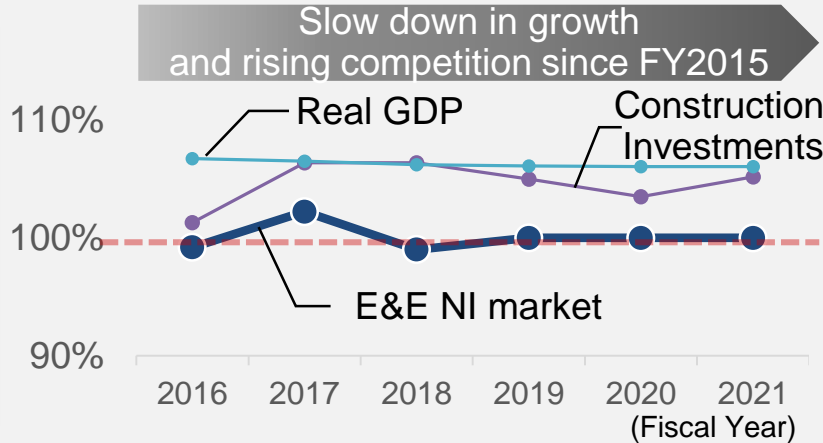
Utilizing data, provide fine-tuned building services globally

- Expand globally, utilizing 20 years of experience in Japan with IoT services for E&E and building equipment
- Provide new services combining OT × IT × Products utilizing the IoT platform Lumada



1. Market Environment

Year over year growth



Government policies

- New-Urbanization Plan
- China Manufacturing 2025
- Belt and Road Initiative

Business opportunities etc.

- Stable investment with urbanization
- Business shifts with IoT evolution
- Customers' expansion outside China

2. Hitachi's China Business Strategy

E&E sales & manufacturing

Building services

Market condition

- Over 50% of world's NI market, but slow down in growth
- Demand for E&E modernization to rise in coming years
- Low E&E maintenance contract ratio (potential for expansion in the maintenance business)

Strategy

- Improve profitability by acceleration of cost structure reforms
- Expand exports utilizing high production capacity
- Expand E&E maintenance business, improve profitability by data-utilizing maintenance (remote monitoring service)
- Establish new building service business

E&E
sales & manufacturing

Accelerating cost structure reforms

1. Reducing Material Costs

- Improve cost competitiveness: locate new suppliers through Hitachi group collaboration, revise specs, standardize, multiple purchases, review internal / external production

Strengthening joint / centralized purchase within Hitachi group

Joint / centralized purchase ratio (FY2017:55%→FY2018:69%)

2. Smart Production Reform

- Visualize production procedures for further efficiency in production utilizing Lumada
- Introduced to Chengdu factory (China), other factories to follow

Work analysis system

Data visualization, analysis

Visualize, analyze variability of working time by worker / model

Video linkage system

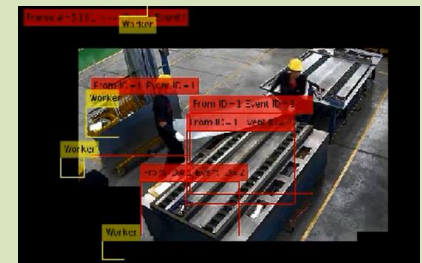
Working video linkage

Connect work records and video data to analyze work efficiency

Automatic video analysis system

Automatic video analysis

Automatically analyze video data, detect unnecessary procedures within worker flow and work down time



Offset impacts from price competition and increases in material cost by cost structure reforms throughout the value chain

2-5. China: Key Measures (2)

E&E
sales & manufacturing

Expand exports from China

- Expand exports aligned with strategic partners expanding overseas, such as to Asia
- Improve product competitiveness by introducing global unified model, standardized components (modular design)

Orders received projects from strategic partners (FY2016-FY2017)



Xi-hu International Hotel

Vientiane
(Laos)



Phnom Penh
(Cambodia)



Sihanoukville
(Cambodia)

Johor Bahru
(Malaysia)



Landmark



The Bridge



Malaysia Princess Bay

Improve profitability in China and grow business in Asia
by fully utilizing production capacity in China

2-6. China: Key Measures (3)

Building services

Expand E&E maintenance business and introduce new building service business

■ Shifting Our Business Model

Before

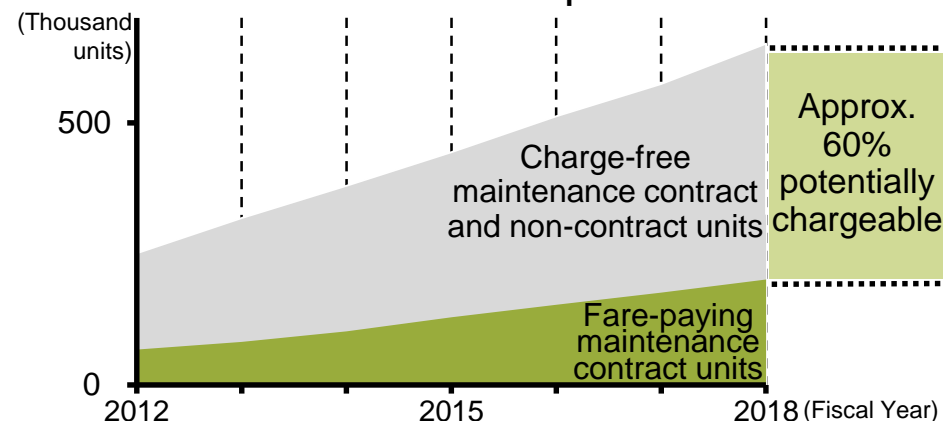
- Respond to growing E&E NI demand
- Low maintenance contract ratio
- Maintenance service relying on human resource capability

After

- Increase E&E maintenance units by responding to NI and modernization demand growth
- Improve maintenance contract ratio and profitability by introducing efficient remote maintenance service businesses
- Start introducing remote monitoring service for building equipment

- Efficient, differentiated maintenance by introducing E&E remote monitoring service
 - Establish service structure ready for full-scale deployment following legal framework enforcement
- Introduce remote monitoring system for building equipment and building security service
 - Plan to start offering a service to Japanese corporations in China

■ Hitachi E&E Units in Operation

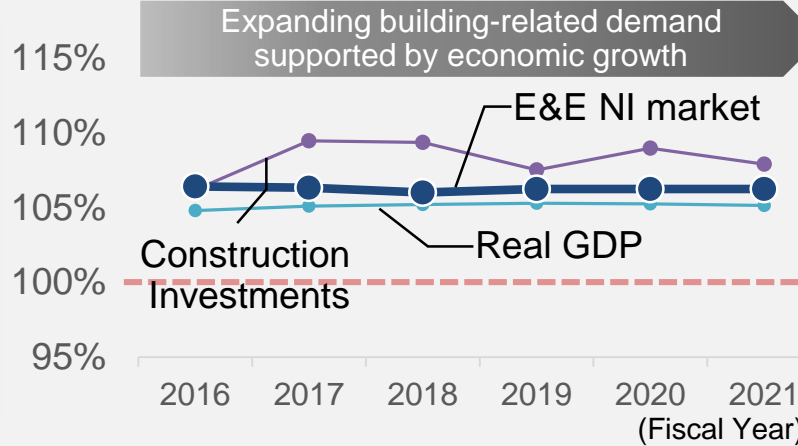


Improve maintenance contract ratio and profitability by introducing remote monitoring service business

2-7. Asia / Middle East: Market Environment and Strategy

1. Market Environment

Year over year growth



Social trends

- Rapid urbanization
- Conglomerates and state-owned enterprises gaining presence

Business opportunities etc.

- Accelerating social infrastructure development
- Large urban development projects led by conglomerates

2. Hitachi's Asia / Middle East Business Strategy

Market conditions

- Solid NI growth across region
- Growth in India, which holds about half of NI demand in Asia / Middle East region
- Matured NI demand and increase in modernization demand for certain countries / regions
- Increasing labor costs leading to demand in efficient management

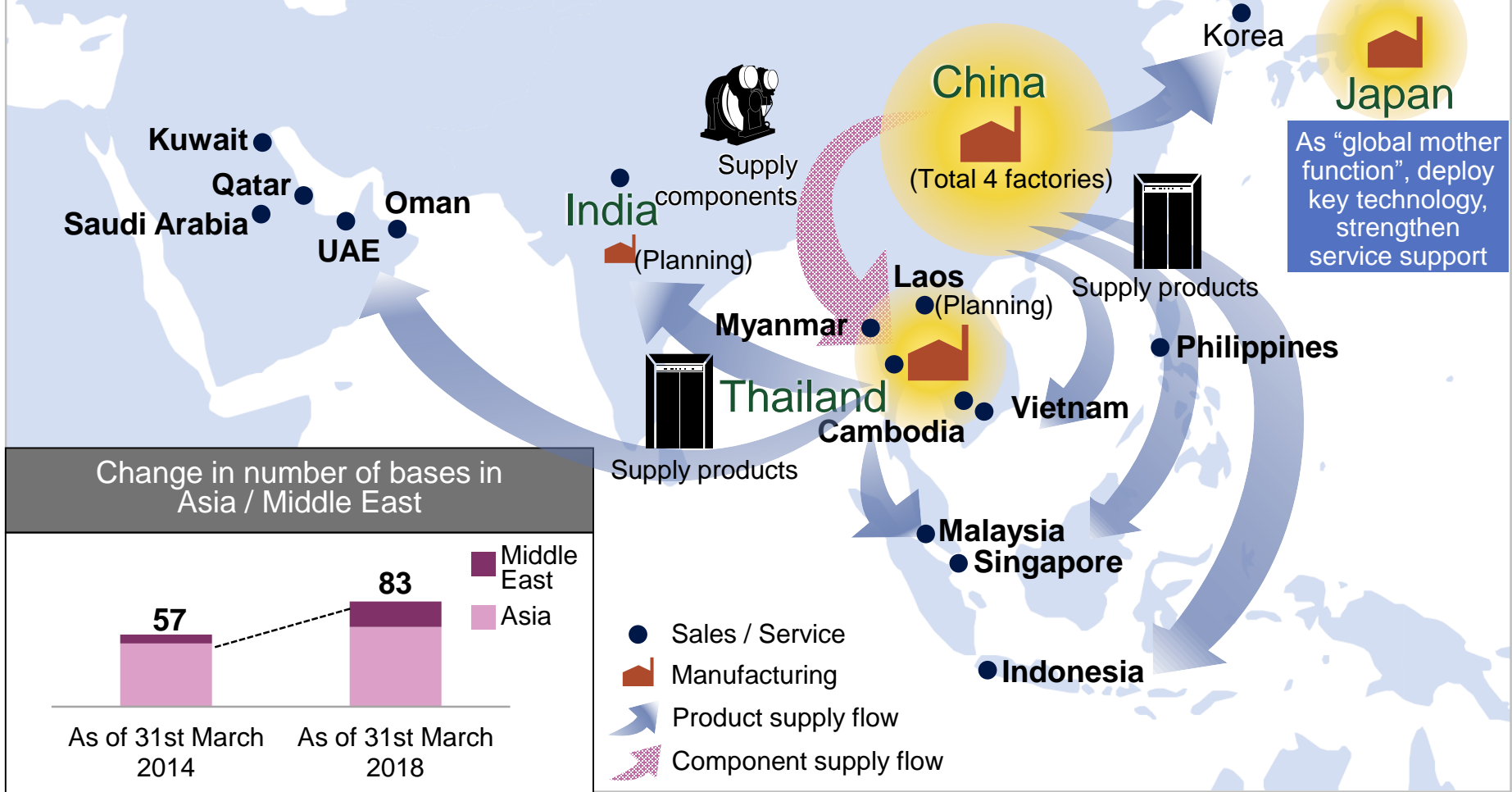
Strategy

- Respond to strong NI demand by enforcing standardization strategy and full utilization of resources in China
- Expand India business by commencing factory establishment
- Expand E&E maintenance business by introducing data utilizing maintenance service (remote monitoring service) etc.

E&E
Sales & manufacturing

Building services

Expand sales / service bases, develop product supply structure corresponding to growth in NI demand

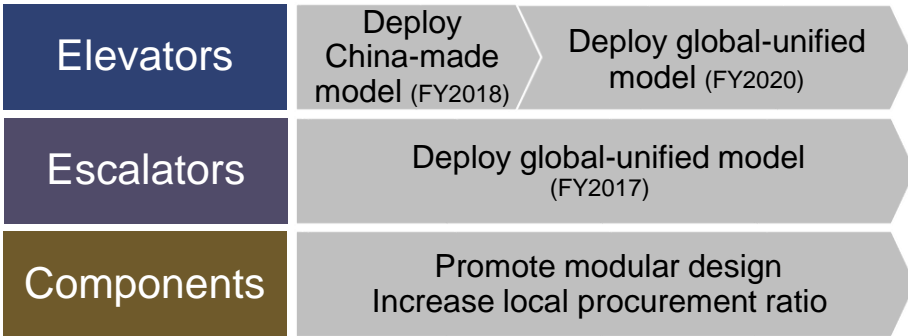


2-9. Asia / Middle East: Key Measures

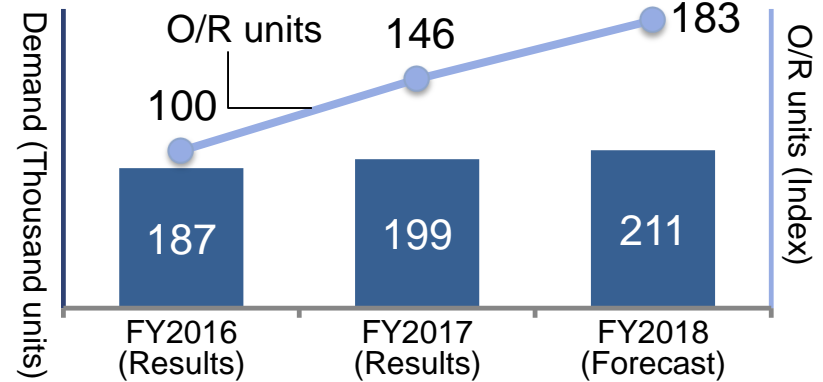
E&E sales & manufacturing

Enforcing standardization strategy and utilizing resources in China to expand business

- Increase competitiveness with standardized products / components, products from China



- Change in E&E NI Demand, O/R units



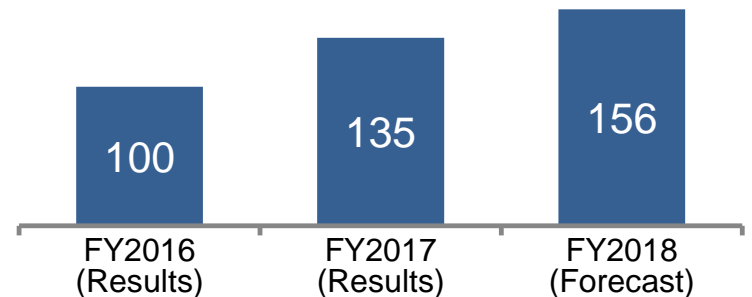
Building services

Expand E&E maintenance business by introducing remote monitoring service etc.

- Efficient, differentiated maintenance by introducing E&E remote monitoring service
 - Trial services commenced in Singapore, Thailand and India



- Change in E&E Maintenance Sales (Index)



- Enter maintenance / modernization service businesses for other brand E&E
 - Horizontal expansion of Temple Lifts (U.K.) know-how

2-10. Japan: Business Strategy / Key Measures(1)

Develop cutting-edge technology, products and services and realize efficient business operation, led by Japan as “global mother function” through use of data

Building services

Develop new service, expand globally

- Collecting and utilizing a broad range of building data, expand smart building service

Solve labor shortages

Improve facility value

Comfortable, efficient mobility

Optimize electricity consumption

-Multilingual support for foreign tourists
-Efficient management

-Improve customer service through visitor analysis

-Smooth guidance to transport services
-Minimize waiting times

-Manage electricity consumption and comfort level by usage

Customers (railway stations, airports, commercial / public facilities, hotels etc.)

Platform

IoT
(remote monitoring)

Robotics IT platform

AI / analytics

...

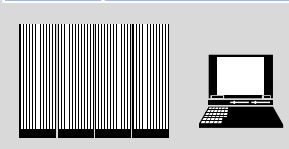
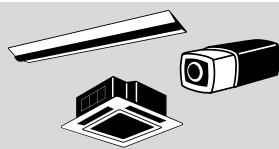
E&E

Building equipment

Robots

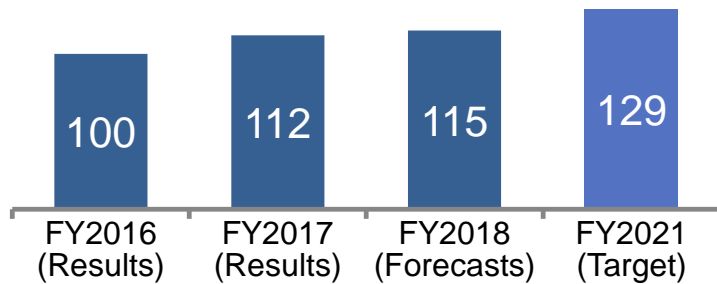
Human flow

Enterprise systems



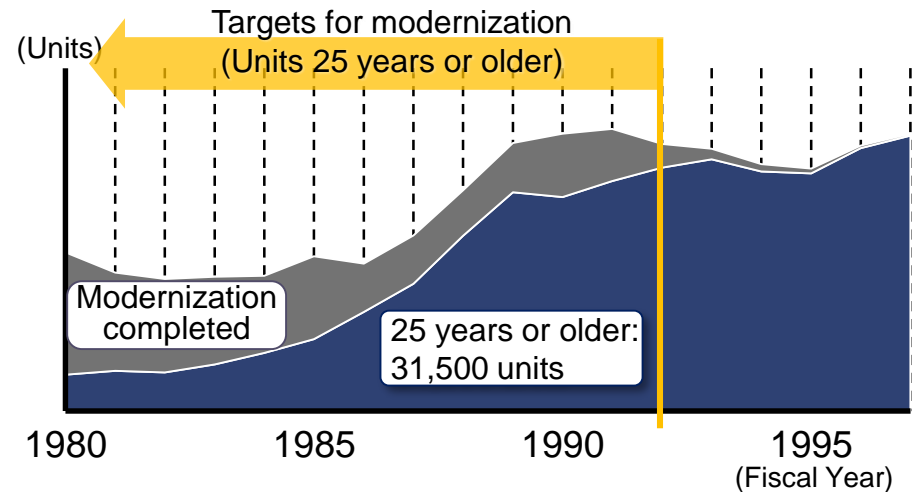
E&E sales & manufacturing **Strengthen E&E modernization capability**

- Increase remote monitoring units by continued introduction of new products and expanding O/R
- Change in E&E modernization O/R units (Index)



- Deploy Japanese technology, products and know-how globally
 - Demand gradually rising in Singapore, China

- Change in E&E modernization target units (Hitachi E&E units installed)
 - 31,500 Hitachi E&E units are 25 years or older, a target in general for modernization
 - Modernization target units will continue growing at thousands of units / year



E&E sales & manufacturing **Promotion of key technology development and smart production reforms**

- Development of world's fastest* 1,260m/m elevator, global deployment of key technology

- Support productivity improvement efforts in Chinese factories utilizing IoT technology

*As of June 2018, researched by Hitachi

Furthering Hitachi Smart Transformation

SG&A expense

- Reduce indirect material cost
- Reap operation reform effects of investments in IT etc.

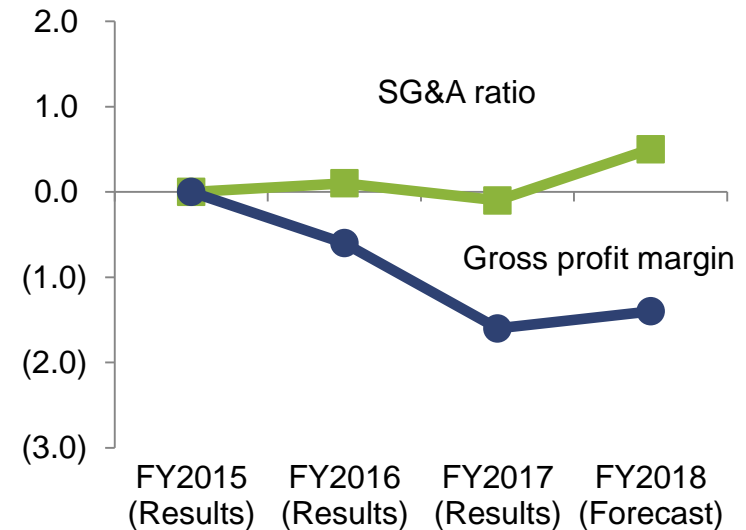
Gross profit

- Promote standardization for global product development and manufacturing
- Systematic management of production capacity for eliminating losses
- Introduce IoT remote monitoring for improving work efficiency
- Enforce strict QA to eliminate spoiled work

Cash generation

- Promote collection of account receivable
- Strengthen expense management, reduce inventory
- Select investment plan strictly and secure investment return

Improvement point



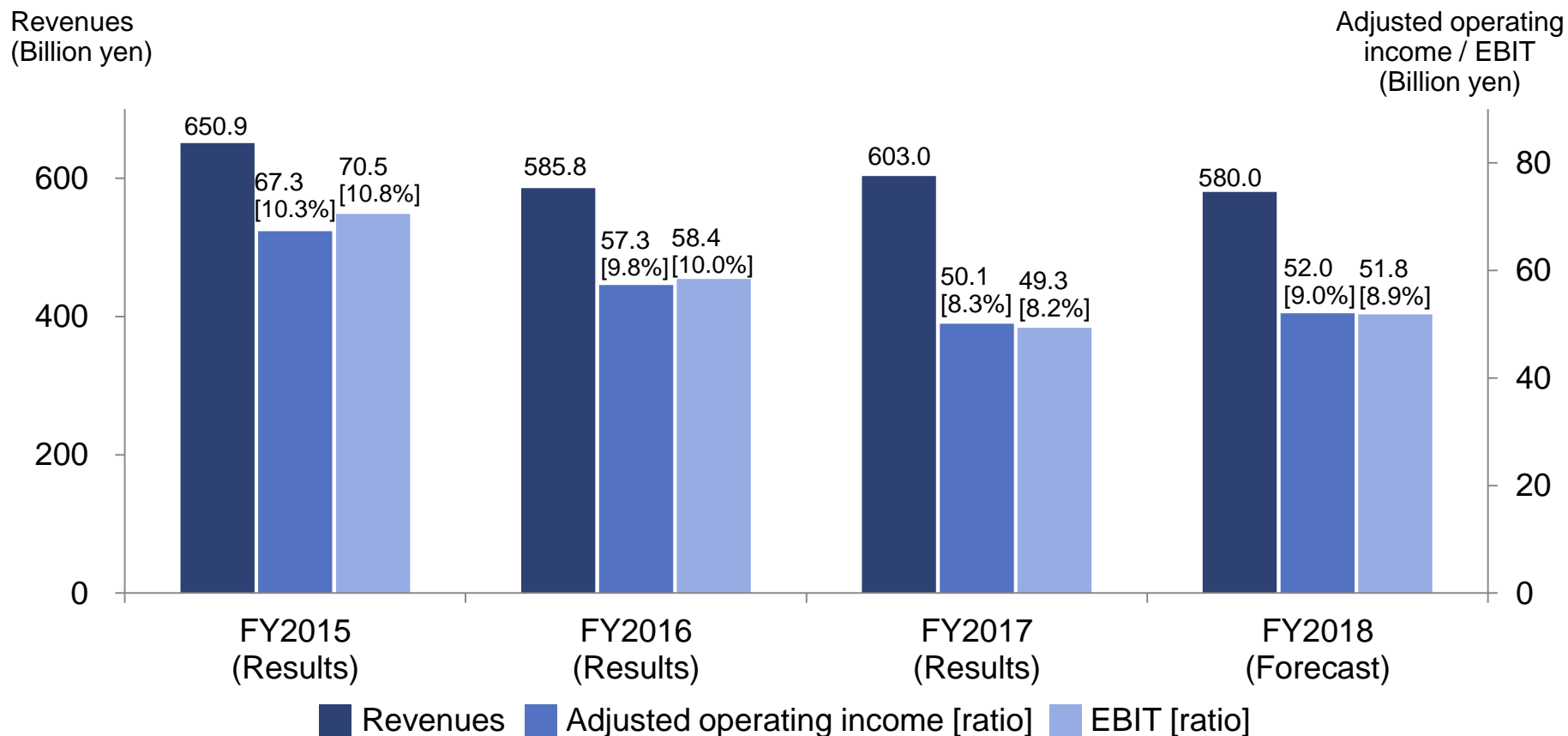
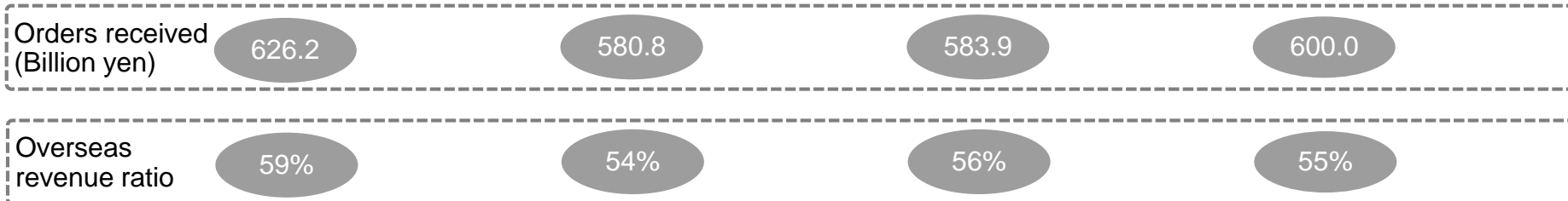
	FY2015 (Results)	FY2016 (Results)	FY2017 (Results)	FY2018 (Forecast)
CCC	44.2 days	38.6 days	42.6 days	42.6 days

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3-1. Business Performance Trends



Regrowth towards FY2021

High growth
exceeding
market trends

- Organic growth, mainly in China, Asia / Middle East
- Non-continuous growth with M&A etc.

CAGR in
revenues:
over +5%

Increasing
profitability

- Expand building service business
- Strictly enforce cost reduction

Adjusted
operating
income ratio:
over +10%

Expand business and improve profitability
mainly by the building service businesses
(e.g. data-utilizing maintenance)

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;
- 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 attract and retain skilled personnel;
- 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 access to, or ability to protect, certain intellectual property;
- 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.

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