
Building Systems Business Unit Business Strategy

Hitachi IR Day 2016

June 1, 2016

Hiroshi Sato

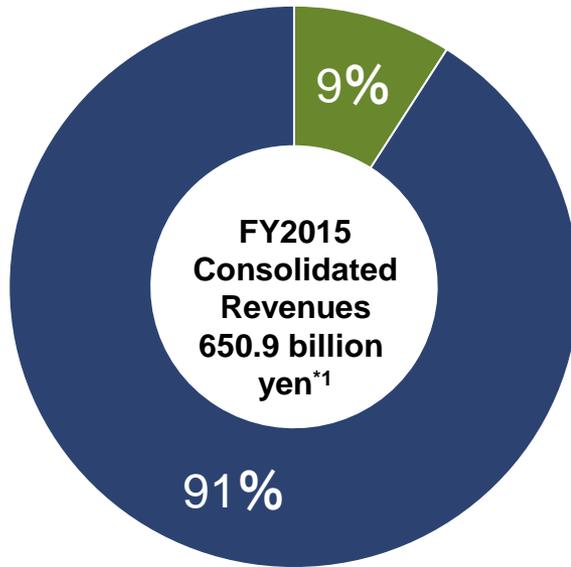
Senior Vice President and Executive Officer,
CEO of Building Systems Business Unit
Hitachi, Ltd.

Building Systems Business Unit Business Strategy

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2. Market Environments
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1. Business Composition



Elevator & Escalator Business

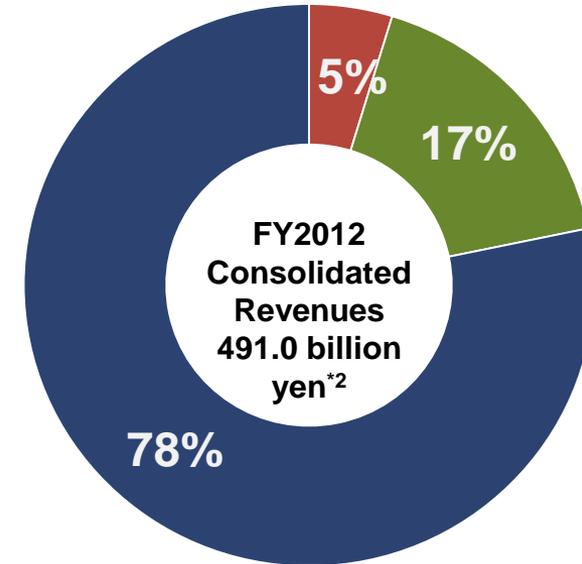
- (1) Sales, manufacturing and installation
- (2) After-sales maintenance
- (3) Renewal (modernization)

Building Solutions & Services Business

- (1) Comprehensive building management
- (2) Facility maintenance
- (3) Security management

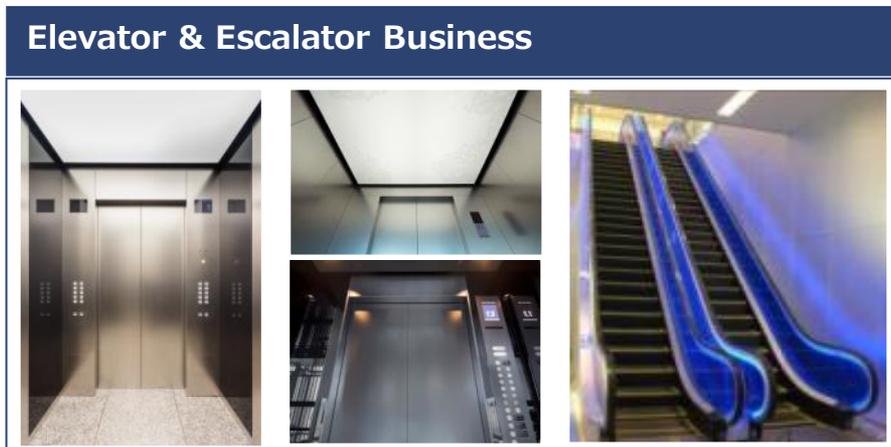
Urban Solutions & Service Business

- (1) Development and manufacturing functions for security and energy businesses



→ Transferred to current Industry & Distribution BU in FY2013

2. Business Activities

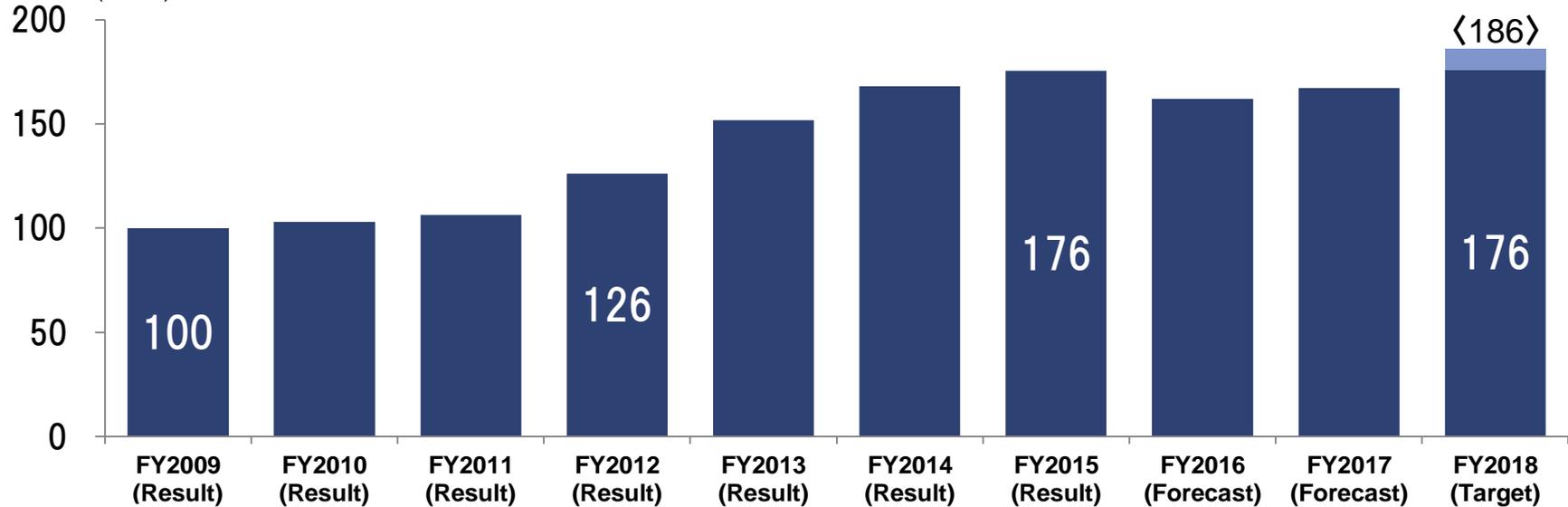


*1 IFRS *2 US GAAP

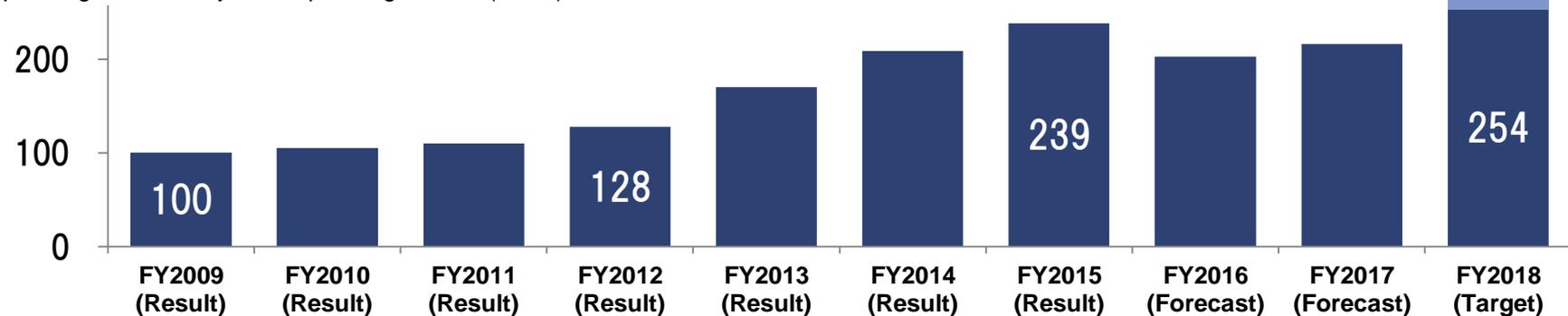
1-2. Business Performance Trends of Building Systems Business

	FY2007-FY2009	FY2010-FY2012	FY2013-FY2015	FY2016-FY2018	Total
Aggregate Operating Income	83.2 billion yen	96.7 billion yen	174.3 billion yen	189.8 billion yen	544.0 billion yen

Revenues(Index)



Operating Income/ Adjusted Operating Income (Index)



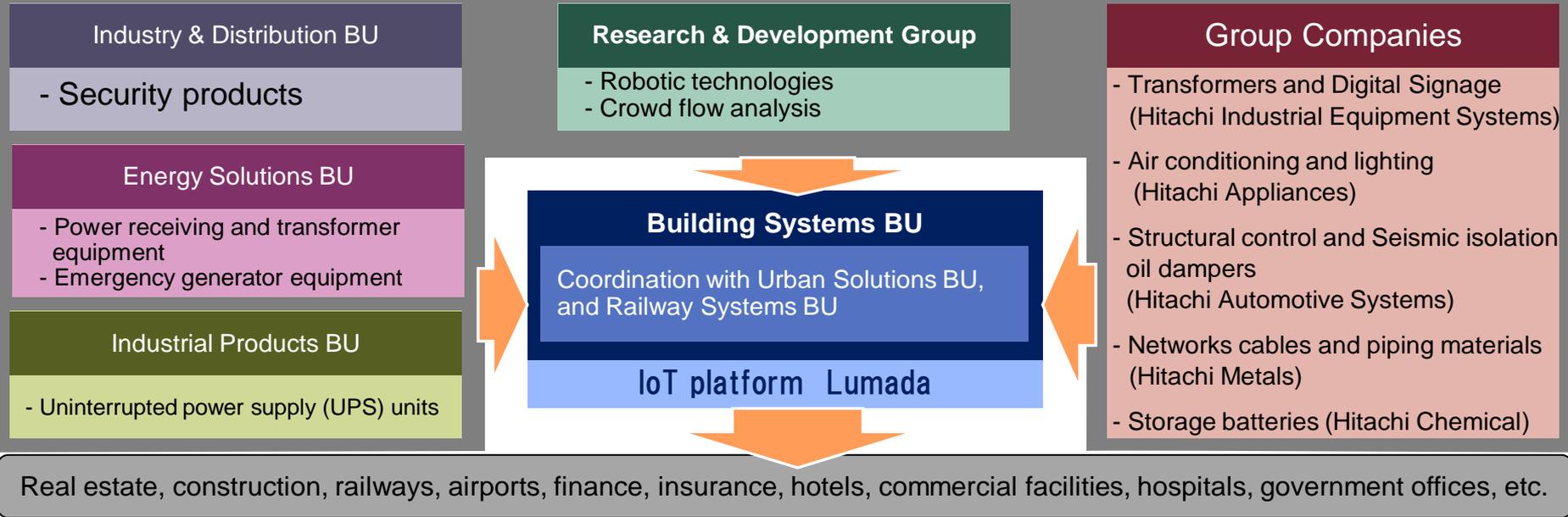
Up to FY2014: US GAAP, FY2015 and onwards: IFRS

Revenues and operating income/ Adjusted operating income shown as index values with FY2009 as the base (100)

< >: When converted at same exchange rate as FY2015

1-3. Business Unit Positioning

Total Solutions of Building Systems BU



[Example:] Lead the world in contributing a customer's smart city by coordinating with each BU



1-4. Review of 2015 Mid-term Management Plan

	FY2015 Results (a)	Previous Forecast ^{*1} (b)	Deviation (c)=(a)-(b)	(Reference) 2015 Mid-term Management Plan Initial Target ^{*2}
Revenues	650.9 billion yen	653.0 billion yen	(2.1) billion yen	560.0 billion yen
Adjusted Operating Income Ratio	10.3%	10.1%	+0.2%	Over 10%
EBIT Ratio	10.8%	10.1%	+0.7%	Over 10%

Accomplishments and Future Challenges

- Achieved main business performance targets of the 2015 Mid-Term Management Plan
- Adapted to environmental changes in the Chinese market
- Expanded Hitachi Group products and services sales to Building Systems BU customers

- (1) Enhance growth strategy in Asia, the Middle East and India
- (2) Create new service businesses

*1 As of June 11, 2015

*2 As of June 13, 2013, US GAAP

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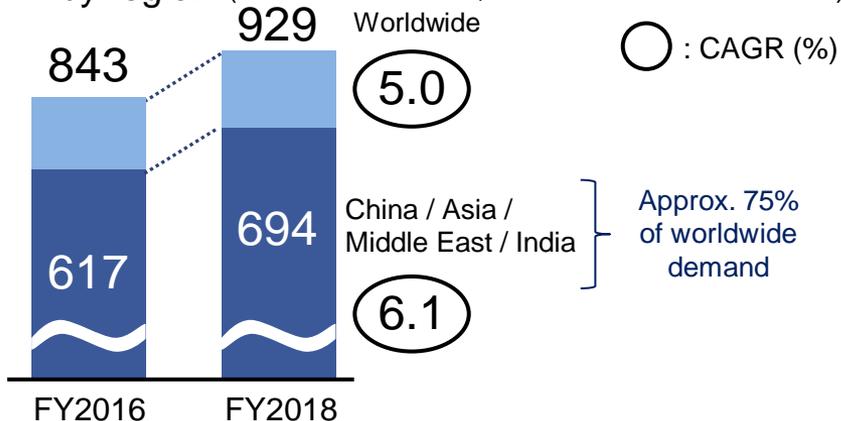
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2-1. Global Elevator & Escalator Division: New Installation Market Trends

China, Asia, Middle East, and India Driving Global Demand

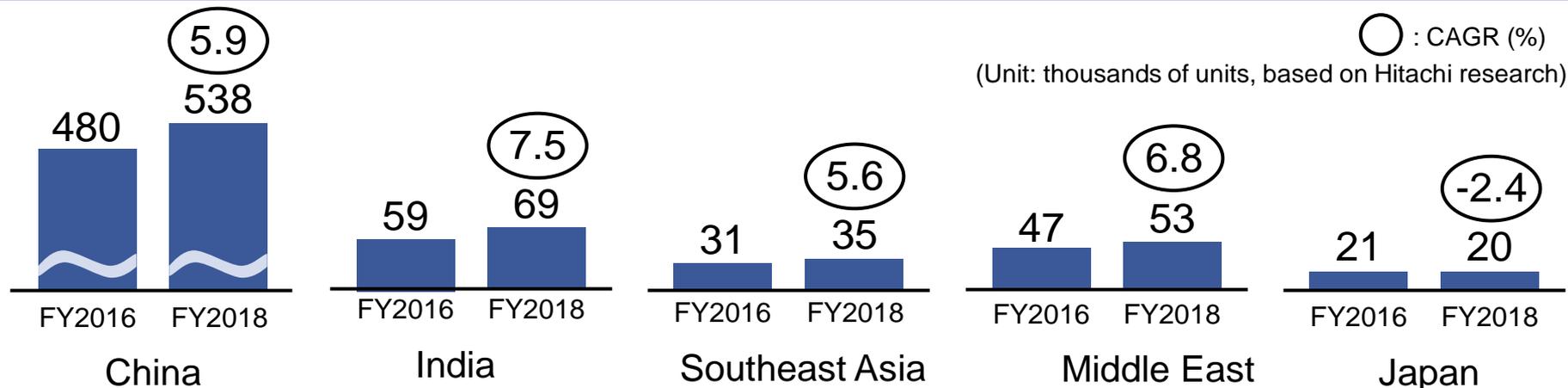
■ Comparison of demand for new installation by region (thousands of units, based on Hitachi research)



■ Target to grow faster than the market

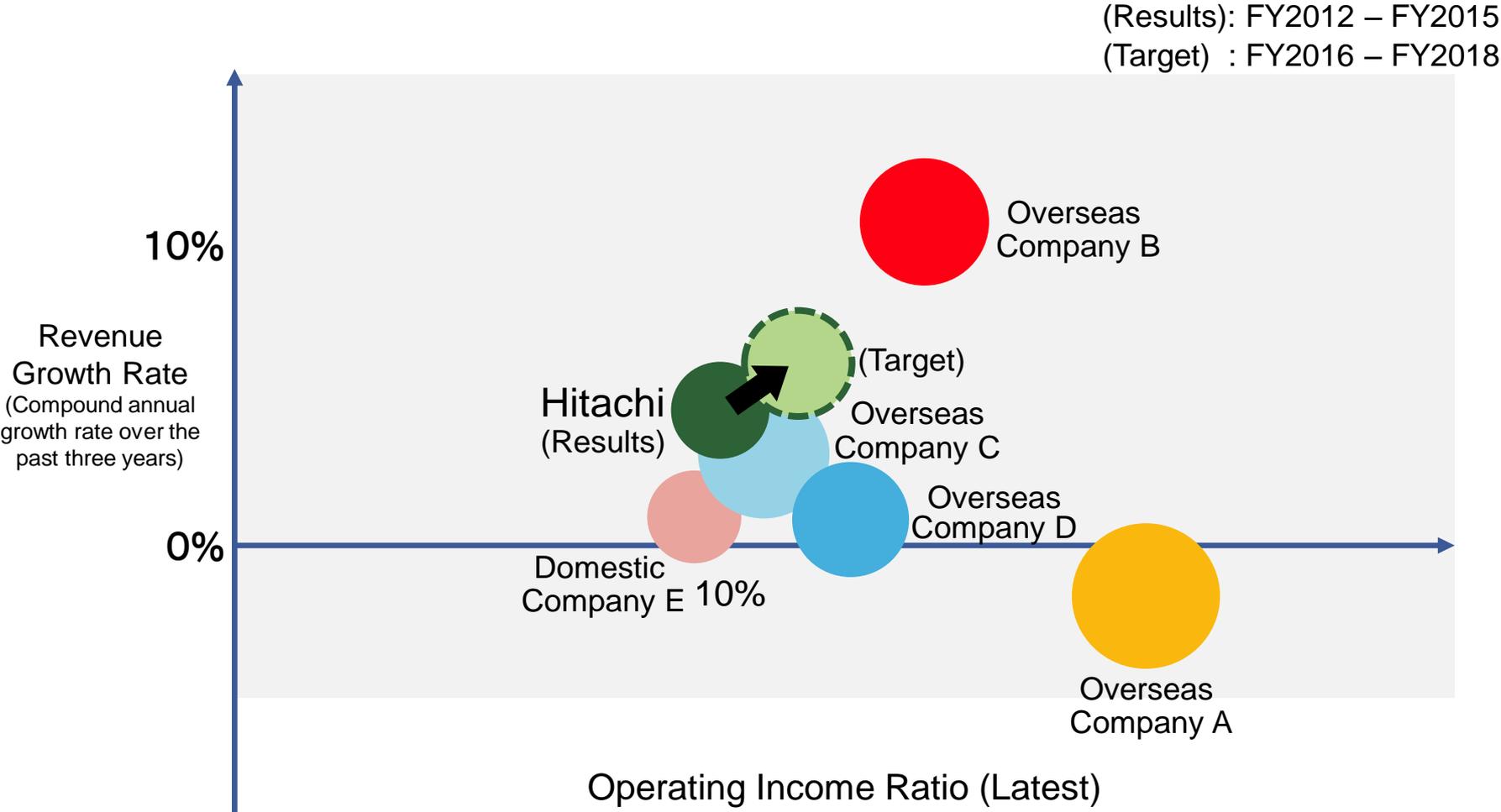
	FY2016	FY2018	CAGR (FY2016 → FY2018)
Hitachi Unit Orders (Index)	100	119	9.1%
China / Asia / Middle East / India Market for New Elevator & Escalator Sales	617,000 units	694,000 units	6.1%

New Installation Demand by Region



2-2. Positioning (Elevators & Escalators) and Growth Target

Pursue expanded revenues and higher income ratio with the aim of becoming a global major player



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

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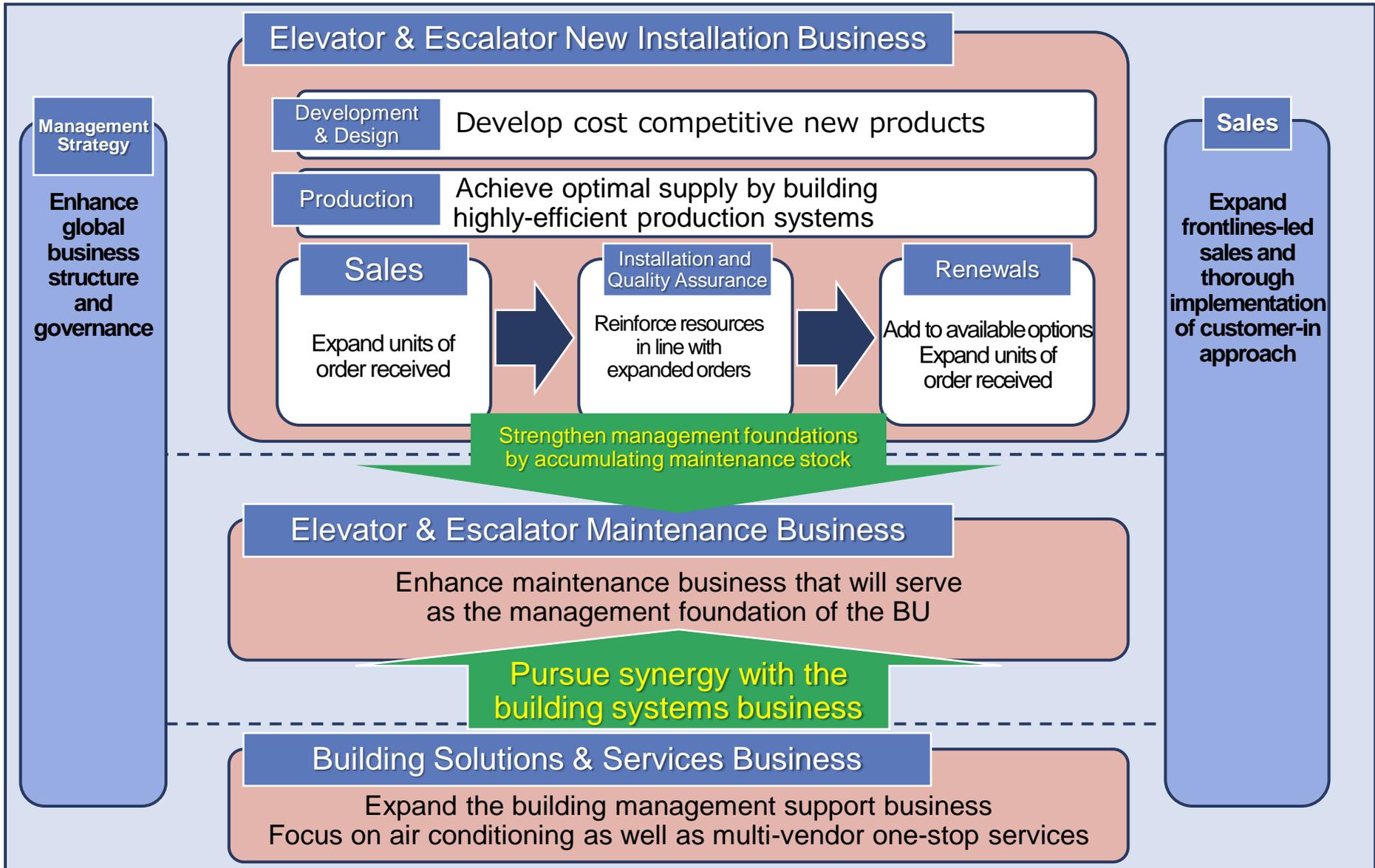
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Expand Social Innovation Business by providing
Comfortable Smart Mobility Service

Develop and provide the world's latest products & services
that are "HUMAN FRIENDLY"

Promote service business based on
the concept of "Fiduciary Duty"

3-2. Business Operating Structure and Mission



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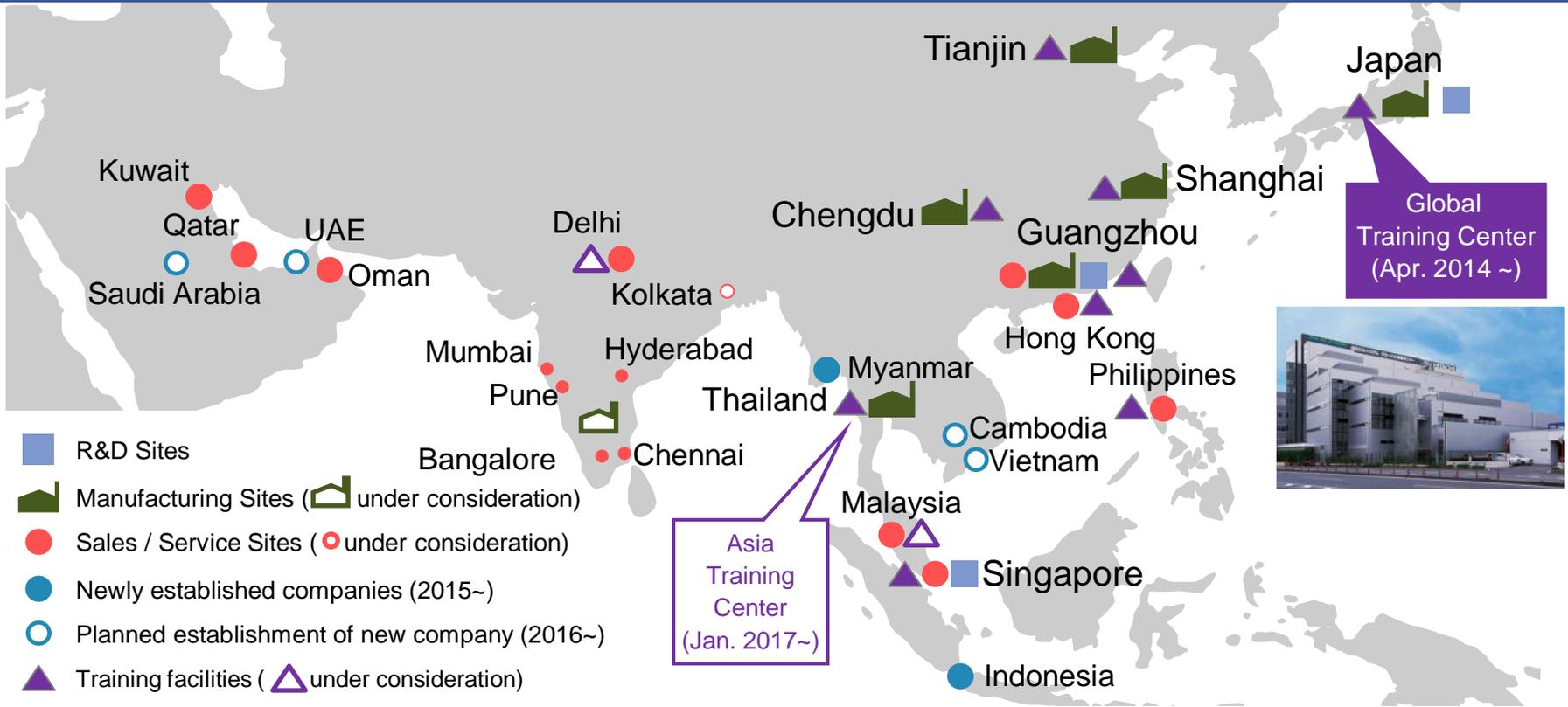
4-1. Business Strategy by Region

Region	Policy
China	<ul style="list-style-type: none">(1) Expand presence in the world's largest market for new installation(2) Establish solid business base<ul style="list-style-type: none">- Promote cost structure reforms- Strengthen installation and maintenance businesses by establishing the four-regional operation structure(3) Launch new businesses<ul style="list-style-type: none">- Renewal business, solution business
Asia Middle East India	<ul style="list-style-type: none">(1) Develop global standard models and expand global footprint(2) Strengthen and expand business in Indian market, the second largest in the world(3) Reinforce human resource development in line with the rapid business launch
Japan	<ul style="list-style-type: none">(1) Expand presence in new installation market(2) Expand renewal business(3) Develop new products and technologies in coordination with research laboratories<ul style="list-style-type: none">- The world's fastest elevator*- Consider new services that utilize robotic technologies- Deploy crowd flow analysis technologies in elevators

* As of May 2016, Hitachi research

4-2. Expand Global Footprint

Enhance the Development of Field Personnel to Coincide with Expanded Global Footprint



[Unified Global Human Resource Development]

- (1) Enhance training in basic safety skills at skills training center in each country (Apr. 2016 ~)
- (2) Implement systematic construction and maintenance training through the newly-established Asia Training Center (Jan. 2017 ~)

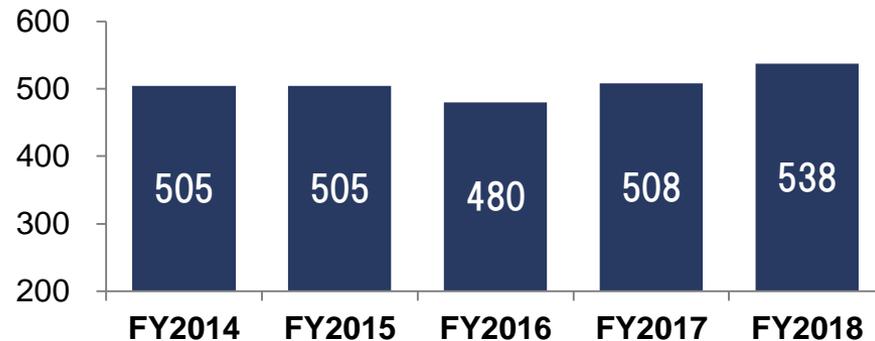
[Enhanced Training Structure through Stationing of Japanese experts]

- (1) China: Station Japanese trainers in the four regions
- (2) Asia: Station Japanese trainers (installation, maintenance, quality assurance, etc.) in each country

Continual Business Expansion that Responds to Changes in the Market Environment

[New installation Market demand]

(Unit: Thousands of units)



- In FY2016, inventory adjustments, etc. will lead to negative growth year over year
- From FY2017 onwards, the market is expected to rebound in step with an expanding GDP growth rate (However, as there are also forecasts of a delayed market recovery, market trends will be watched carefully.)

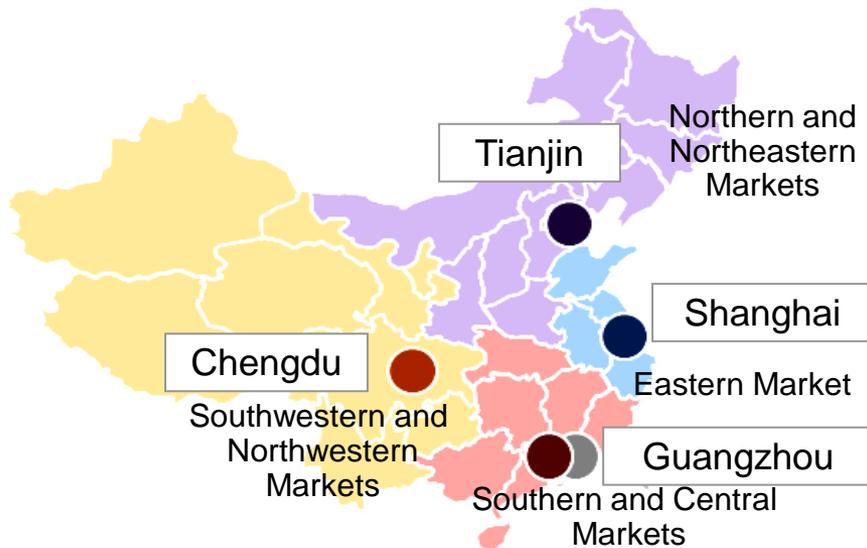
[Re-growth of the New Installation Market]

- (1) Launch price competitive products
 - Launch low-cost models targeting the volume zone in the market (Oct. 2016)
- (2) Bolster sales promotion structure through the development of showrooms (Guangzhou; Mar. 2016, Tianjin: 2017)
- (3) Strengthen export business to Asia
 - Incorporate overseas expansion projects of strategic partners

[Cost Structure Reforms]

- (1) Build a business structure that is resilient to market fluctuations
 - Short-term: Thorough product cost reductions
 - Medium-to-long-term: Careful selection of investments, enhanced human resource strategy
Expanded adoption of IoT to manufacturing
- (2) Reinforce business structure through global resource consolidation
 - Consolidation of Japanese and Chinese escalator business

Strengthen Finely-tuned Service Framework with Adoption of Four-region Structure



[Expand Maintenance Business]

- (1) Improve contract ratio by executing regional maintenance strategy
 - Establish model branches for each region
 - Accelerate execution by increasing the number of Japanese trainers
- (2) Expand maintenance parts business
- (3) Reinforce attractiveness of services and promote business streamlining through introduction of remote monitoring

Maintain and Expand Scale of Business through Launch of New Businesses

- (1) Expand renewal business
 - Promote renewal of Japan-made aged elevators
- (2) Consider launch of solution business
 - Create human-friendly services
 - Consider applying building-related solutions to Chinese customers



Establish Presence in Asia / Middle East / India

[Asia and Middle East]

(1) Expand global footprint

- Change strategy from distributor sales
(Vietnam, Saudi Arabia, UAE, etc.)
- Accelerate market entries (Cambodia, etc.)
- Consider expanding sales channels

(2) Strengthen handling of global customers

- Accommodate customers accelerating global expansion through dedicated sales

[India]

(1) Product strategy

- Develop mid-range segment by utilizing image as a luxury brand
- Expand orders in the volume zone by launching new models

(2) Consider shifting to local production

- Expand scope of local procurement
- Consider local production with local partners

Measures to Reinforce Business to Coincide with Expanded Global Footprint

[Development and Launch of Global Standard Models]

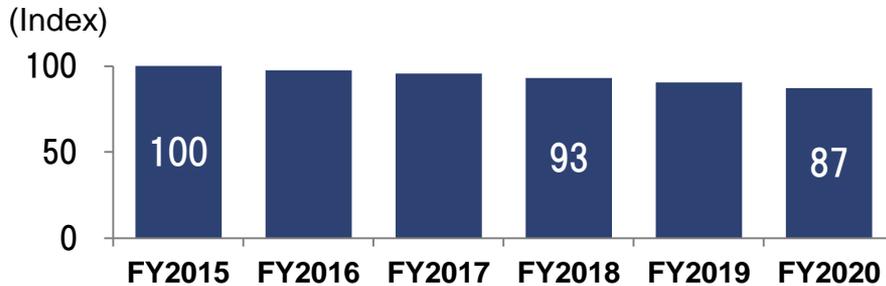
- (1) Bolster cost competitiveness through modularization
- (2) Apply functional safety systems

[Strengthened Framework and Human Resource Development]

- (1) Reinforce global business framework and governance
- (2) Enhance human resource development
 - Thorough training for management level human resources

Further Bolster Presence in New Installation Market

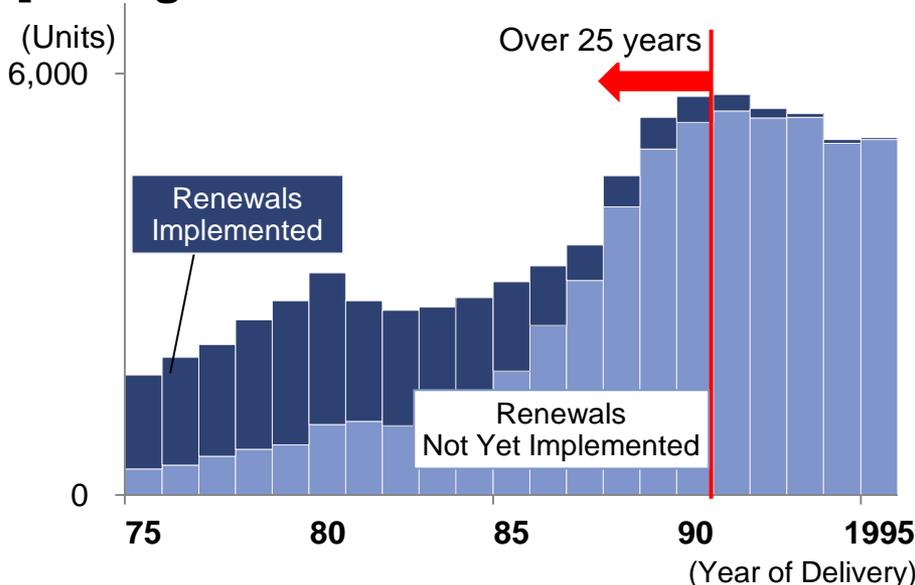
[Index of New Installation Market Demand (Standard Elevators)]



- (1) Expand orders of standard elevators
- (2) Expand orders of high-speed elevators for large-scale projects in the Tokyo Metropolitan area

Expand Renewal Business

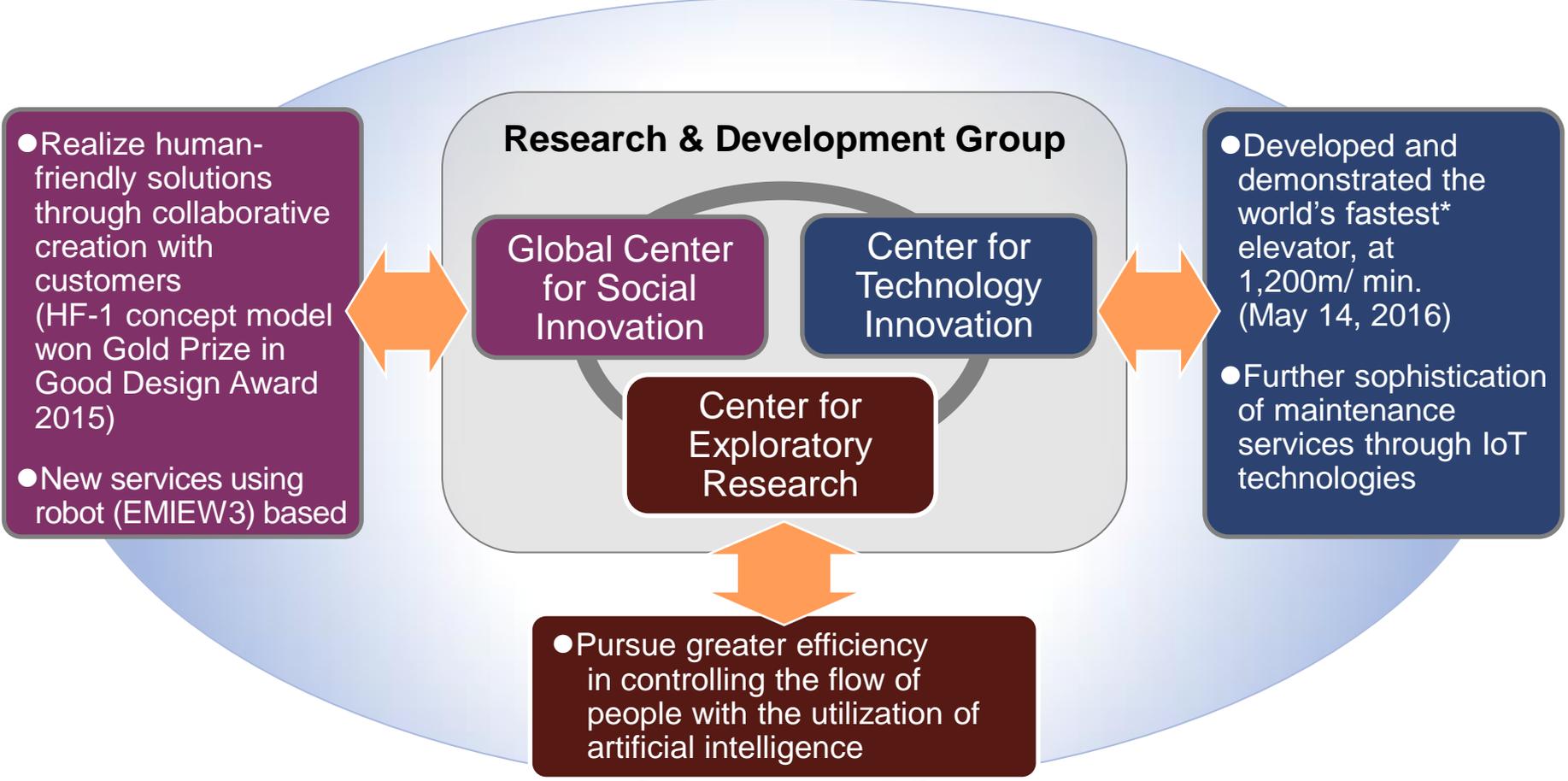
[Change in Installations of Hitachi Elevators]



- (1) Expand scope of application for flagship renewal products and establish new installation methods
 - Release products for customized elevators
 - Shorten installation period for replacing hydraulic elevators
- (2) Increase market share in large-lot renewal projects
 - Strengthen efforts to secure orders for transportation projects

Develop and Provide the World's Latest HUMAN FRIENDLY Products & Services

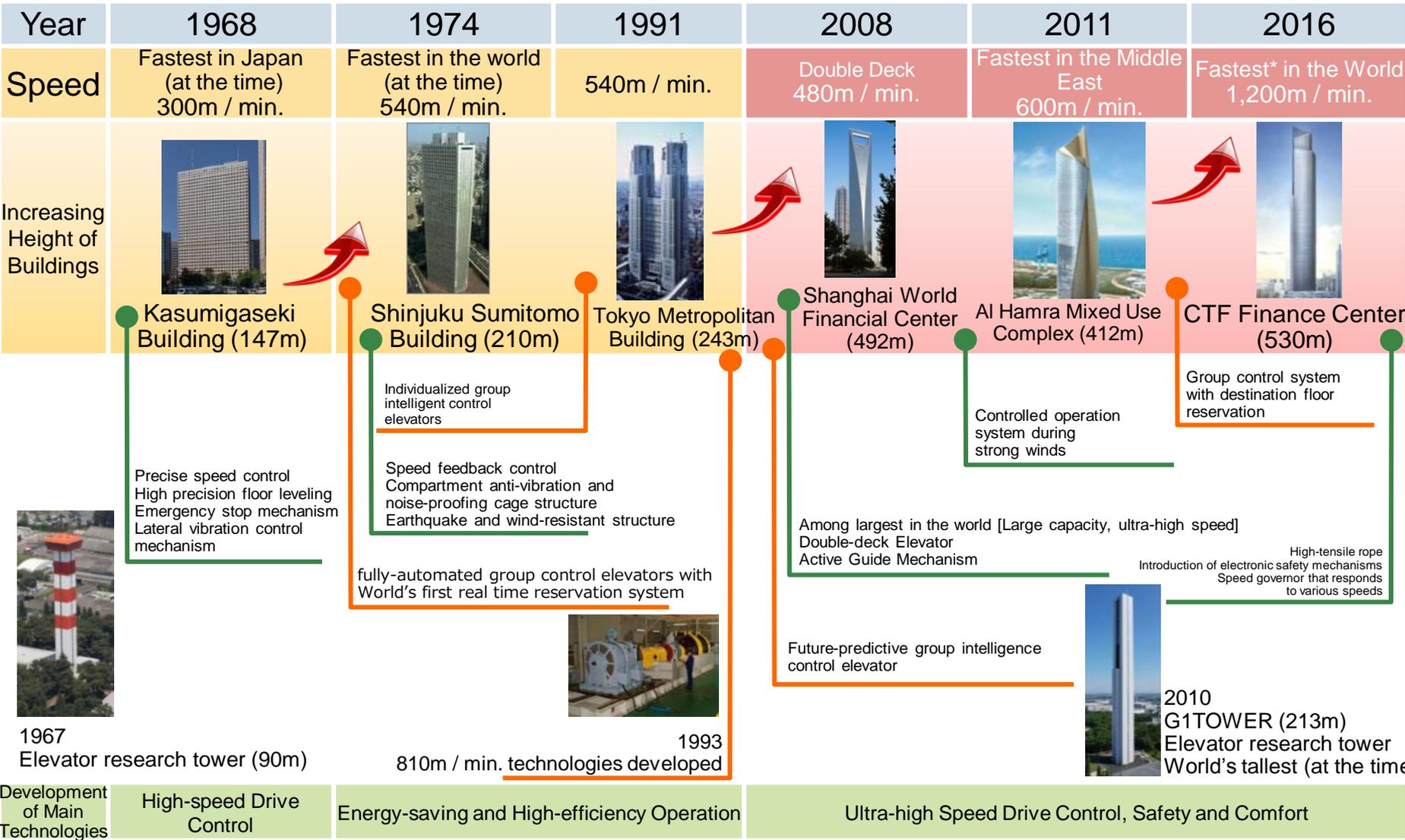
- (1) Utilize cutting-edge technologies in coordination with the Research & Development Group
- (2) Consider new businesses through collaboration with Building Systems BU customers



* As of May 2016, Hitachi research

4-8. The History of Increasingly Fast Hitachi Elevators

Changes in Hitachi Technologies and the History of High-rise Buildings



1967
Elevator research tower (90m)



1993
810m / min. technologies developed



2010
G1TOWER (213m)
Elevator research tower
World's tallest (at the time)

* As of May 2016, Hitachi research

4-9. Developing the World's Fastest Elevator Technologies

Achieving the World's Fastest Elevators*1 and Re-purposing Cutting-edge Technologies for High-speed and Standard Elevators



Demonstrated the world's fastest elevators(1,200m / min.) at CTF Finance Center (May 14, 2016)

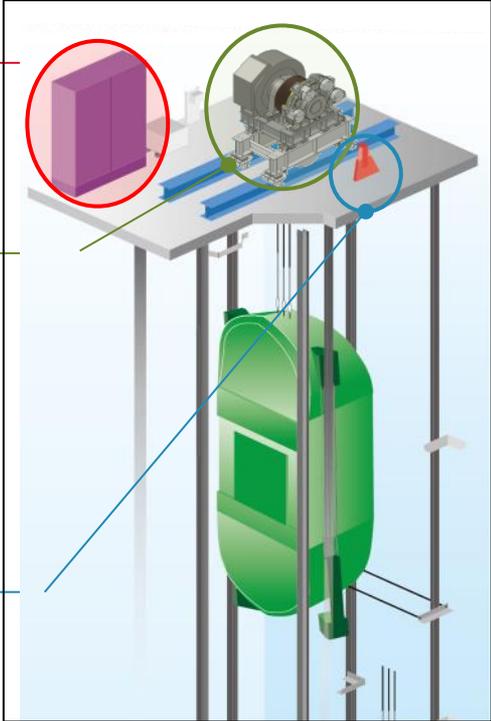
Completion of construction in Autumn 2016

Control Panel applicable to electronic safety system



Electronic Safety Mechanisms (Governors, etc.)

Traction machine and high-tensile rope



Applying of cutting-edge technologies to high-speed and standard elevators

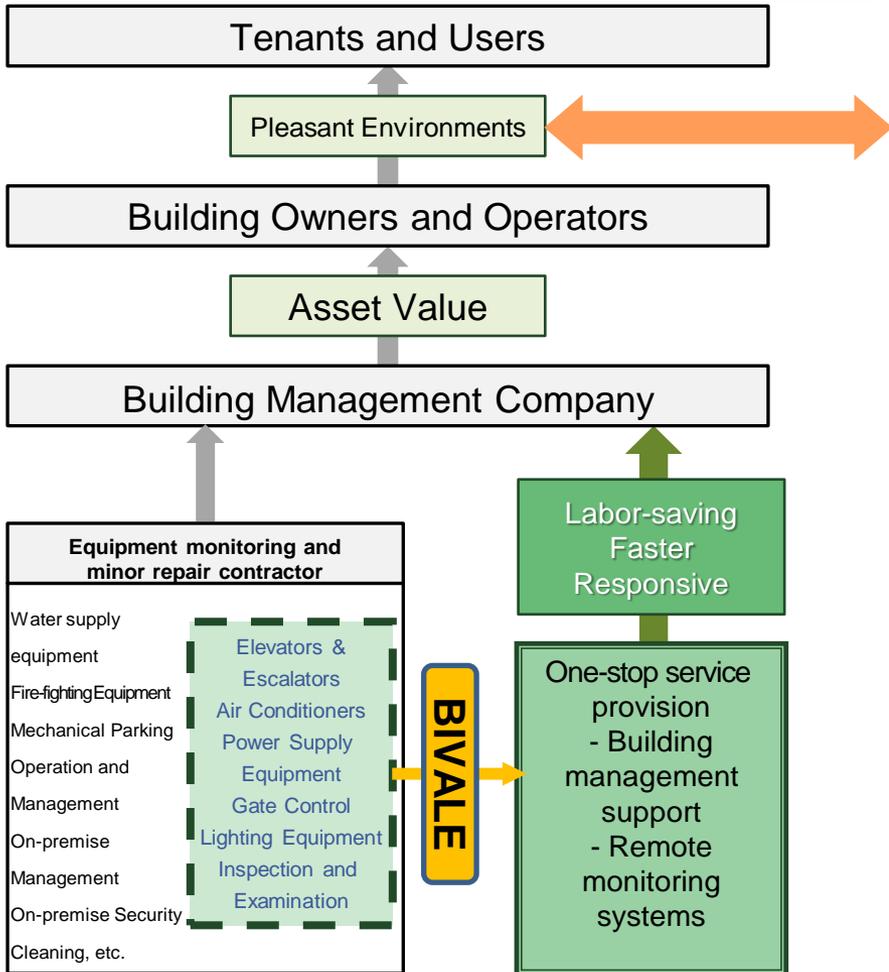
- Decreasing the size of equipment for long travel height(300 meters and higher) elevators through the application of newly-developed high-tensile rope
- Reducing installation space and introducing electronic safety mechanisms (with EN*2/GB*3 certification)

Win "BEST TECHNICAL PAPER" prize in HIGH TECH AWARD, held by the international congress named ELEVCON at Madrid (May 10 to 12, 2016)

*1 As of May 2016, Hitachi research *2 European Norm *3 Chinese national standards

Creating Services that Maximize Synergy with the Elevator & Escalator Business

[Business Model for Building Solutions & Services]



[Extension of Services with Utilization of Robots]



EMIEW3

- Capable of self-propulsion
- Look / speak / listen
- Dialogue control
- Recognizes people and environments
- Business knowledge

Achieve the **Human-friendly** solution that is welcoming people and enhances the value of customer facilities

[Example of Utilization]

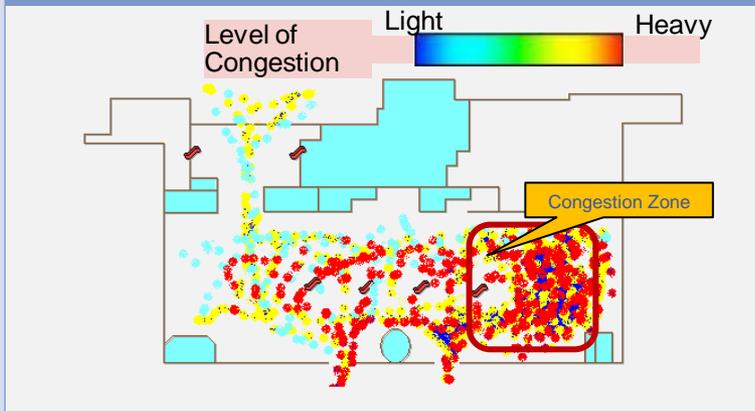
- Coordinates with surveillance cameras to search for lost children and track suspicious Individuals
- Provides customer guidance and interpretation at large-scale facilities

4-11. Consideration of Businesses Utilizing New Technology (Crowd Flow Analysis)

Detect People's Movements from Surveillance Camera Footage to Analyze Crowd Flow and Apply findings to the Service Business

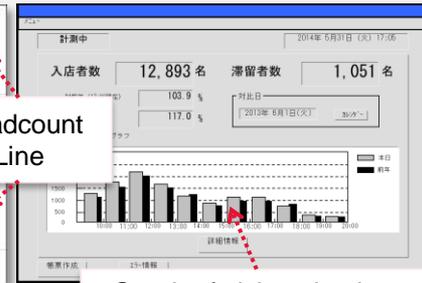
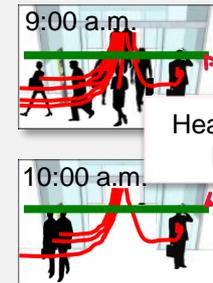
Example of Applying Crowd Flow Analysis

Usage Scenario 1: Ascertaining the degree of congestion within a facility



Usage Scenario 2: Counting Visitor Numbers

(1) Camera Footage (2) Sample Admin Screen



Item	Details	Example of Service
Peace of mind	- Detecting people accumulating in specific areas	- Ensuring safety by discovering suspicious persons or articles
Safety	- Detecting tailgating through security gates	
Comfort	- Confirming congestion levels at airports, stations, etc.	- Ensuring safety and improving services by providing information and guidance based on circumstances
Convenience	- Confirming waiting status in an elevator lobby - Ascertaining traffic flow lines at a shopping center	- Shortening waiting times by controlling elevator operation - Higher profitability by supporting the creation of sales floor layout plans

Major Overseas Projects

1. Shenzhen Center (China)

- (1) Double-deck Elevators 18 units
- (2) Building complex
(Height: 376m)
- (3) 57 Elevators
12 escalators
- (4) Delivery : Feb. 2017



2. Ho Chi Minh City Urban Railway Line 1 (Vietnam)

- (1) Vietnam's first urban railway construction
Railway Systems BU received orders,
including 17 train sets, telecommunication systems,
and other facilities
- (2) 32 elevators
31 escalators
(Hitachi's first order
for escalators in Vietnam)
- (3) Delivery : May 2017 (Elevators & Escalators)



Major Projects in Japan

1. Nihonbashi 2-chome Area Redevelopment Project

- (1) Redevelopment of Nihonbashi 2-chome area neighboring
Takashimaya, which is an important cultural property
- (2) 2 High-rise complex building
- (3) 54 Elevators
(36 High-speed elevators)
2 escalators
- (4) Delivery : Jun. 2018



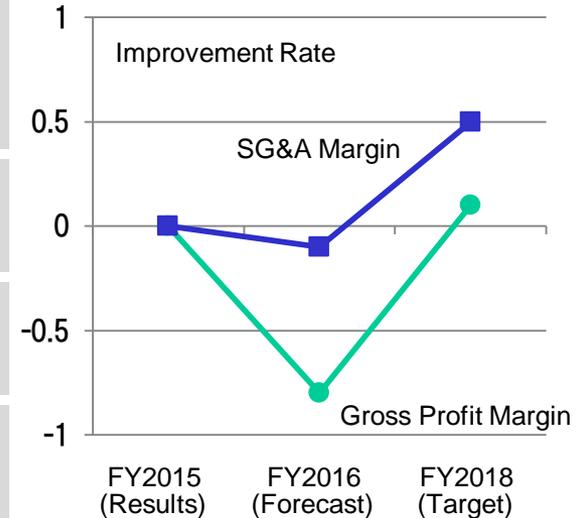
2. New Construction of Japan Travel Bureau Building

- (1) First project to deliver "HF-1" elevators, the elevator
that has a concept of "Human Friendly"
- (2) Memorial development for
100th anniversary of its foundation
- (3) 1 elevator
- (4) Delivery : Aug. 2016



Achieving Low-cost Structure

Common Strategy		<ul style="list-style-type: none"> Strengthen global development and procurement structure Promote expansion of cost planning activities Promote measures to reduce indirect costs
Strategy by Region	Japan	<ul style="list-style-type: none"> Focus on highly-profitable system businesses and withdrawal from unprofitable businesses Launch attractive maintenance services
	China	<ul style="list-style-type: none"> Promote of cost structure reforms through project team Optimize production network and expand consolidated purchasing
	Asia Middle East	<ul style="list-style-type: none"> Launch Global standard models Optimize production in respond to expanded orders



Bolstering Ability to Generate Cash Flow

Issues	Improvement Measures
Generate funds for developing highly profitable global business framework	<ul style="list-style-type: none"> Expand sales and enhance profitability Improve working capital efficiency

	FY2015 Results	FY2016 Forecast	FY2018 Target
CCC	44.2 days	48.0 days	46.0 days

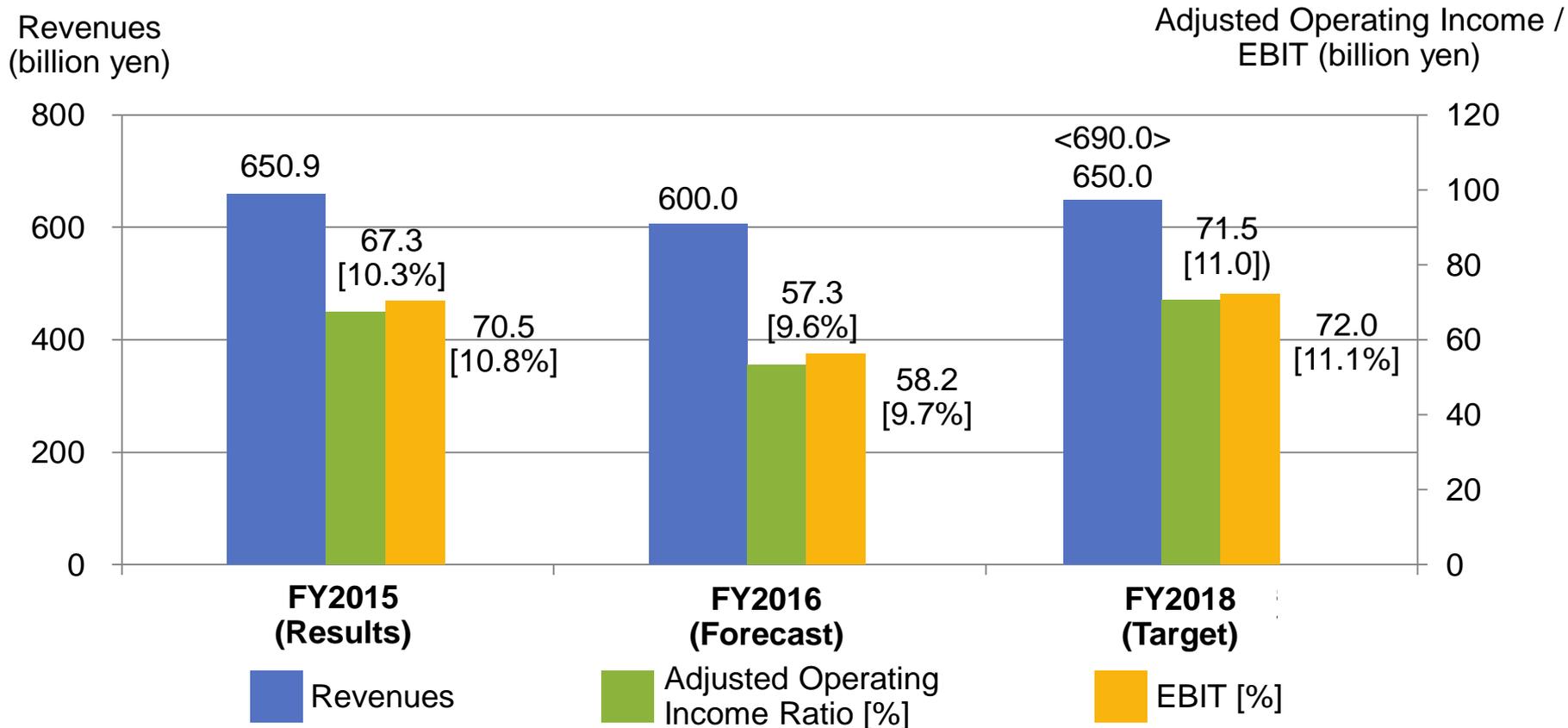
SG&A: Selling, general and administrative expenses
 CCC: Cash Conversion Cycle

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5-1. Business Performance Trends



< >: When converted at same exchange rate as FY2015

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FY2018 Target

- Revenues 650 billion yen (Vs. FY2015 100%)
- Adjusted operating income ratio 11.0% (Vs. FY2015 +0.7%)
- EBIT ratio 11.1% (Vs. FY2015 +0.3%)

Although reduced revenues are expected in FY2016 due to a worsening of the Chinese market, losses will be recovered through more competitive products, the accumulation of maintenance stock and the promotion of cost structure reforms, with the aim of an operating income ratio of over 11% in FY2018.

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, 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;
- 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 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 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 potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- 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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