Building Systems Business Unit Business Strategy
Hitachi IR Day 2018

June 8, 2018

Hideaki Seki
Senior Vice President and Executive Officer
CEO of Building Systems Business Unit
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

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

- **Building Services**: 31%
  - E&E maintenance services (Inspection, adjustment, replacing parts, remote monitoring)
  - Building equipment management services (Remote monitoring)

- **Sales and Manufacturing of E&E (Elevators and Escalators)**: 69%
  - Elevators
  - Escalators
  - Group control system
  - Moving sidewalks
  - New installation
  - Modernization

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

FY2017 revenues: 603.0 billion yen

ECO: Ratio of FY2017 revenues
E&E: Elevators and Escalators
HVAC: Heating, Ventilation, and Air Conditioning

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

<table>
<thead>
<tr>
<th></th>
<th>FY2015 (Results)</th>
<th>FY2016 (Results)</th>
<th>FY2017 (Results)</th>
<th>FY2018 (Forecast)</th>
<th>YoY</th>
<th>Against previous forecast *1</th>
<th>Against original target *2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (Billion yen)</td>
<td>650.9</td>
<td>585.8</td>
<td>603.0</td>
<td>580.0</td>
<td>(23.0)</td>
<td>(40.0)</td>
<td>(70.0)</td>
</tr>
<tr>
<td>Adjusted operating income ratio</td>
<td>10.3%</td>
<td>9.8%</td>
<td>8.3%</td>
<td>9.0%</td>
<td>+0.7%</td>
<td>(2.0%)</td>
<td>(2.0%)</td>
</tr>
<tr>
<td>EBIT ratio</td>
<td>10.8%</td>
<td>10.0%</td>
<td>8.2%</td>
<td>8.9%</td>
<td>+0.7%</td>
<td>(2.1%)</td>
<td>(2.1%)</td>
</tr>
</tbody>
</table>

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

EBIT: Earnings Before Interest and Taxes  O/R: Orders Received  *1 As of 8th June, 2017  *2 As of 1st June, 2016  *3 Against original targets excluding foreign exchange fluctuation and business transfer impact

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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

**E&E NI Market Trends***
(Thousand units)

<table>
<thead>
<tr>
<th></th>
<th>FY2016 (Results)</th>
<th>FY2017 (Results)</th>
<th>FY2018 (Forecast)</th>
<th>FY2021 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>880</td>
<td>910</td>
<td>920</td>
<td>975</td>
</tr>
<tr>
<td>Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia / Middle East</td>
<td>490</td>
<td>505</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>China</td>
<td>187</td>
<td>199</td>
<td>211</td>
<td>252</td>
</tr>
<tr>
<td>Japan</td>
<td>21</td>
<td>21</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

CAGR: 2.1%

**Hitachi Analysis on E&E Markets by Target Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia / Middle East</td>
<td>● NI demand growth in multiple countries (CAGR: 6.1%)</td>
</tr>
<tr>
<td>China</td>
<td>● Still over 50% of world’s NI market, but slow down in growth</td>
</tr>
<tr>
<td></td>
<td>● Expect shifts of growth driver to maintenance</td>
</tr>
<tr>
<td>Japan</td>
<td>● NI demand to gradually decrease (modernization demand to increase)</td>
</tr>
</tbody>
</table>

CAGR: Compound Annual Growth Rate  *Researched by Hitachi
1-5. Towards FY2021(2): Competition Strategy

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*

<table>
<thead>
<tr>
<th>Company</th>
<th>Operating income ratio (Latest)</th>
<th>Rate of revenues growth (Average over 5 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi</td>
<td></td>
<td>5%</td>
</tr>
<tr>
<td>Company B</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Company C</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Company D</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Company E</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

2. Key Strategies by Target Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia / Middle East</td>
<td>Growth responding to strong E&amp;E NI demand, improve profitability (shift in phase from investing in bases to reaping returns)</td>
</tr>
<tr>
<td>China</td>
<td>Improve profitability by expanding building service business, mainly with E&amp;E maintenance</td>
</tr>
<tr>
<td>Japan</td>
<td>As “global mother function”, promote development of building service utilizing data</td>
</tr>
</tbody>
</table>

* 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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Building Systems Business Unit
Business Strategy

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1. Business Overview and Analysis of Current Status
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3. Conclusion
2-1. World Trends and Social / Environmental Values

Business opportunities in social changes and challenges

Aging society
- Work style innovation
- Resolving labor shortages

Digitalization
- Creating innovative services

Urbanization
- Maintaining, improving facility value
- Solution for taller buildings

Globalization
- Global expansion of governments, corporations
- Strengthening urban infrastructure
- Social infrastructure development
- Reducing environmental load

Climate change

Elevators and escalators

Building services

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

SDGs: Sustainable Development Goals

Corresponding SDGs

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2-2. Basic Strategy

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

Customers

Provide solutions as services to customer

- Supplement labor shortages with service robots
- Analyze visitor information to increase facility value
- Realize comfortable and efficient mobile environments
- Optimize electricity consumption

Platform

IoT (remote monitoring)  AI / analytics  Robotics  ...

IoT platform Lumada

Product

E&E

HVAC / lighting  Security  Mobility / human flow

Supplement labor shortages with service robots

Provide competitive E&E products

OT: Operational Technology  AI: Artificial Intelligence
1. Market Environment

- Slow down in growth and rising competition since FY2015

   - Real GDP
   - Construction Investments
   - E&E NI market

   Year over year growth

   - 2016
   - 2017
   - 2018
   - 2019
   - 2020
   - 2021 (Fiscal Year)

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
2-4. China: Key Measures (1)

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

| Introduced to Chengdu factory (FY2017) | Collaboration among four factories in China (FY2018) | Global expansion (FY2019~) |

- 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)

- Malaysia Princess Bay
- Sihanoukville (Cambodia)
- Phnom Penh (Cambodia)
- Vientiane (Laos)
- Johor Bahru (Malaysia)
- Xi-hu International Hotel
- The Bridge
- Landmark

Improve profitability in China and grow business in Asia by fully utilizing production capacity in China
2-6. China: Key Measures (3)

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

- Charge-free maintenance contract and non-contract units
- Fare-paying maintenance contract units

Improve maintenance contract ratio and profitability by introducing remote monitoring service business
1. Market Environment

- Rapid urbanization
- Conglomerates and state-owned enterprises gaining presence
- Accelerating social infrastructure development
- Large urban development projects led by conglomerates
- Expanding building-related demand supported by economic growth
- 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

2. Hitachi’s Asia / Middle East Business 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.
2-8. Asia / Middle East:
Strengthening Business Structure

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

Change in number of bases in Asia / Middle East

<table>
<thead>
<tr>
<th></th>
<th>As of 31st March 2014</th>
<th>As of 31st March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>57</td>
<td>83</td>
</tr>
<tr>
<td>Asia</td>
<td>83</td>
<td>203</td>
</tr>
</tbody>
</table>

As "global mother function", deploy key technology, strengthen service support

Product supply flow
Component supply flow

Sales / Service
Manufacturing

Japan
Korea
China
(Total 4 factories)

Supply products
Supply components
(Planning)

Thailand
Cambodia
Vietnam
Philippines
Malaysia
Singapore

Sales / Service bases, develop product supply structure corresponding to growth in NI demand.

China
(Total 4 factories)

As of 31st March 2014
As of 31st March 2018
2-9. Asia / Middle East: Key Measures

E&E sales & manufacturing

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

<table>
<thead>
<tr>
<th>Elevators</th>
<th>Escalators</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deploy China-made model (FY2018)</td>
<td>Deploy global-unified model (FY2017)</td>
<td>Promote modular design Increase local procurement ratio</td>
</tr>
</tbody>
</table>

Building services

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

| Trial services commenced (3 countries) (FY2018) | Full-scale introduction (FY2019) | Expansion to other countries / regions |

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

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

<table>
<thead>
<tr>
<th>Demand (Thousand units)</th>
<th>FY2016 (Results)</th>
<th>FY2017 (Results)</th>
<th>FY2018 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>O/R units</td>
<td>100</td>
<td>146</td>
<td>183</td>
</tr>
</tbody>
</table>

Change in E&E Maintenance Sales (Index)

<table>
<thead>
<tr>
<th>FY2016 (Results)</th>
<th>FY2017 (Results)</th>
<th>FY2018 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>135</td>
<td>156</td>
</tr>
</tbody>
</table>

Enforcing standardization strategy and utilizing resources in China to expand business

Deploy global-unified model (FY2020)

Deploy China-made model (FY2018)

Promote modular design Increase local procurement ratio

Deploy China-made model (FY2018)
Develop cutting-edge technology, products and services and realize efficient business operation, led by Japan as “global mother function” through use of data.

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

**Building services**

- Develop new service, expand globally

**Solve labor shortages**

- Multilingual support for foreign tourists
- Efficient management

**Improve facility value**

- Improve customer service through visitor analysis

**Comfortable, efficient mobility**

- Smooth guidance to transport services
- Minimize waiting times

**Optimize electricity consumption**

- Manage electricity consumption and comfort level by usage

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

**Platform**

- IoT (remote monitoring)

**Robotics IT platform**

- Multilingual support for foreign tourists
- Efficient management

**AI / analytics**

- Improve facility value
- Comfortable, efficient mobility
- Optimize electricity consumption

**E&E**

- Building equipment

**Robots**

- Improve customer service through visitor analysis
- Smooth guidance to transport services
- Minimize waiting times

**Human flow**

- Manage electricity consumption and comfort level by usage

**Enterprise systems**

- Multilingual support for foreign tourists
- Efficient management

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

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2-11. Japan: Business Strategy / Key Measures(2)

**E&E sales & manufacturing**

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

<table>
<thead>
<tr>
<th>Year</th>
<th>FY2016 (Results)</th>
<th>FY2017 (Results)</th>
<th>FY2018 (Forecasts)</th>
<th>FY2021 (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>100</td>
<td>112</td>
<td>115</td>
<td>129</td>
</tr>
</tbody>
</table>

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

**E&E sales & manufacturing**

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

*As of June 2018, researched by Hitachi

**Promotion of key technology development and smart production reforms**

- Support productivity improvement efforts in Chinese factories utilizing IoT technology

**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

**Targets for modernization**
- Modernization completed
- 25 years or older: 31,500 units

**Modernization (Fiscal Year)**
- 1980
- 1985
- 1990
- 1995

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2-12. Cost Strategy and Strengthen Cash Generation

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

<table>
<thead>
<tr>
<th></th>
<th>FY2015 (Results)</th>
<th>FY2016 (Results)</th>
<th>FY2017 (Results)</th>
<th>FY2018 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SG&amp;A ratio</strong></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Gross profit margin</strong></td>
<td>FY2015 (Results)</td>
<td>38.6 days</td>
<td>42.6 days</td>
<td>42.6 days</td>
</tr>
</tbody>
</table>

**CCC**: Cash Conversion Cycle

<table>
<thead>
<tr>
<th></th>
<th>FY2015 (Results)</th>
<th>FY2016 (Results)</th>
<th>FY2017 (Results)</th>
<th>FY2018 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CCC</strong></td>
<td>44.2 days</td>
<td>38.6 days</td>
<td>42.6 days</td>
<td>42.6 days</td>
</tr>
</tbody>
</table>
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1. Business Overview and Analysis of Current Status
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### 3-1. Business Performance Trends

#### Orders received (Billion yen)
- FY2015 (Results): 626.2
- FY2016 (Results): 580.8
- FY2017 (Results): 583.9
- FY2018 (Forecast): 600.0

#### Overseas revenue ratio
- FY2015 (Results): 59%
- FY2016 (Results): 54%
- FY2017 (Results): 56%
- FY2018 (Forecast): 55%

#### Revenues (Billion yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Adjusted operating income</th>
<th>EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2015 (Results)</td>
<td>650.9</td>
<td>[57.3] [9.8%]</td>
<td>50.1 [8.3%]</td>
</tr>
<tr>
<td>FY2016 (Results)</td>
<td>585.8</td>
<td>[58.4] [10.0%]</td>
<td>49.3 [8.2%]</td>
</tr>
<tr>
<td>FY2017 (Results)</td>
<td>603.0</td>
<td>[58.4] [10.0%]</td>
<td>51.8 [8.9%]</td>
</tr>
<tr>
<td>FY2018 (Forecast)</td>
<td>580.0</td>
<td>[52.0] [9.0%]</td>
<td>51.8 [9.0%]</td>
</tr>
</tbody>
</table>

- Revenues
- Adjusted operating income [ratio]
- EBIT [ratio]
3-2. Summary

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

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- exchange rate fluctuations of the yen against other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated;
- uncertainty as to Hitachi’s ability to access, or access on favorable terms, liquidity or long-term financing;
- 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.

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