

# **Information & Telecommunication Systems Business Strategy**

Hitachi IR Day 2012

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Hitachi, Ltd.**

# Information & Telecommunication Systems Business Strategy

## Contents

- 1. Business Overview and Outlook**
2. Market Trend and Business Policy
3. Measures for Focused Businesses
4. Strengthen System Solutions Business and Platform Business
5. Strengthen Business Structure
6. Conclusion

**Provide highly reliable social infrastructure systems**

**Collaborative creation with customers based on quality and trust**

## Services

IT services  
Data center  
Consulting

## System Solutions

Large-scale systems  
Highly reliable systems

## Integrated Platforms

Servers / Storage / Networks

Hardware  
Software

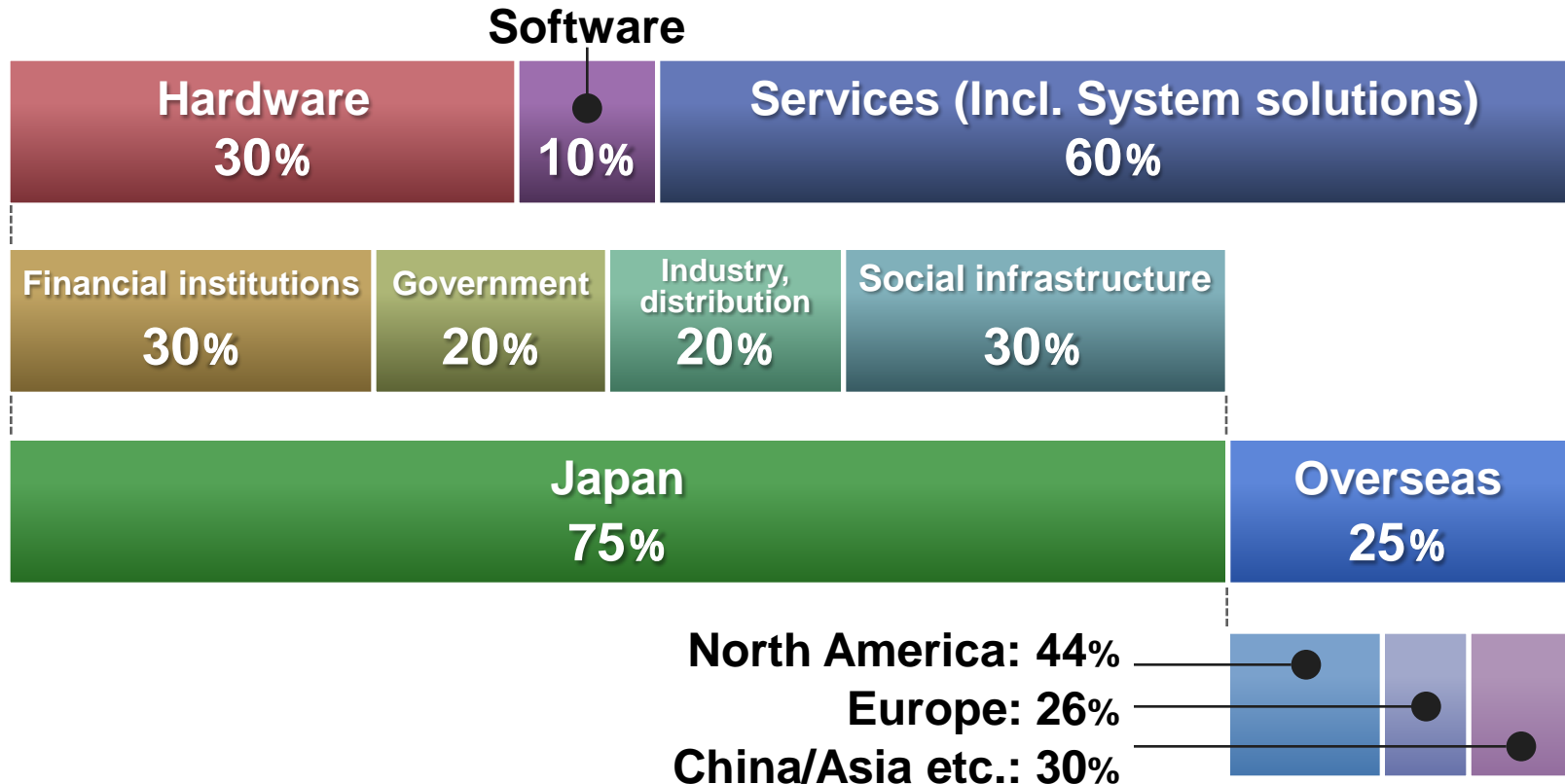
**Highly reliable cloud computing services,  
smart information and big data**

# 1-2 Business Overview

**Management vision** : Contribute to Social Innovation Business through collaborative creation with customers

**Business size FY2011 revenues:** ¥1,764.2 billion

## Revenue breakdown

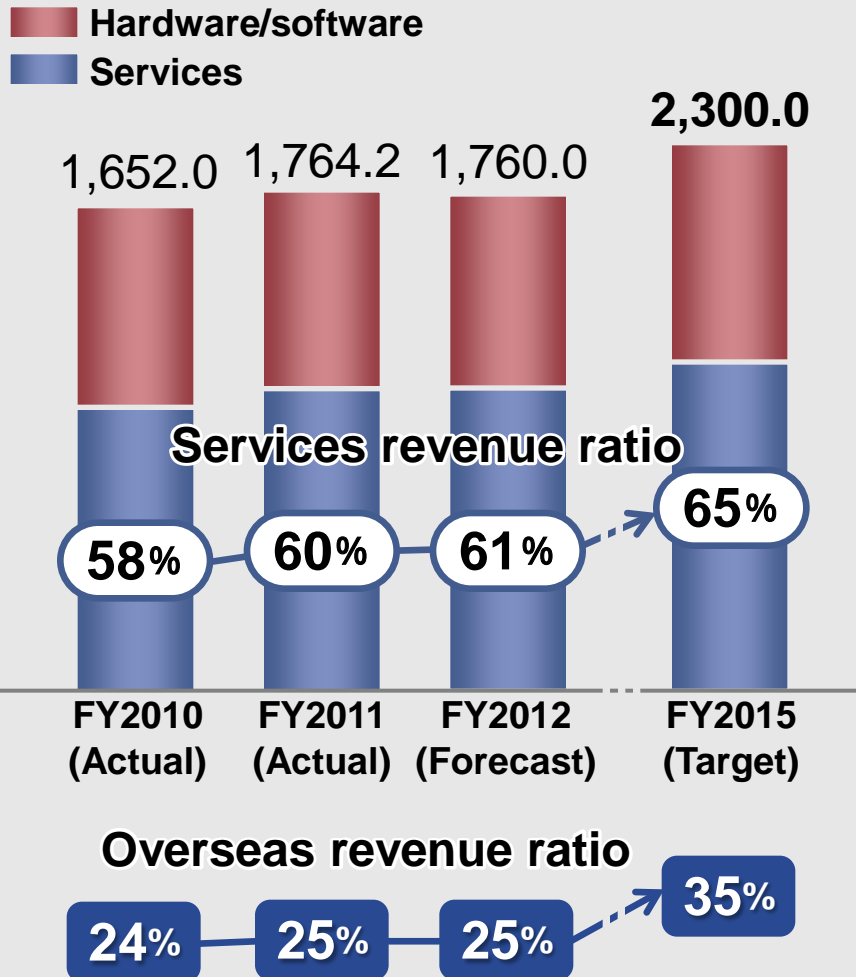


(Note) The percentages for the breakdown of Japan and overseas revenues are approximate figures.

# 1-3 FY2011 Results and FY2012 Forecasts

## (1) Revenues

### Revenues (Billion yen)



### FY2011 Summary

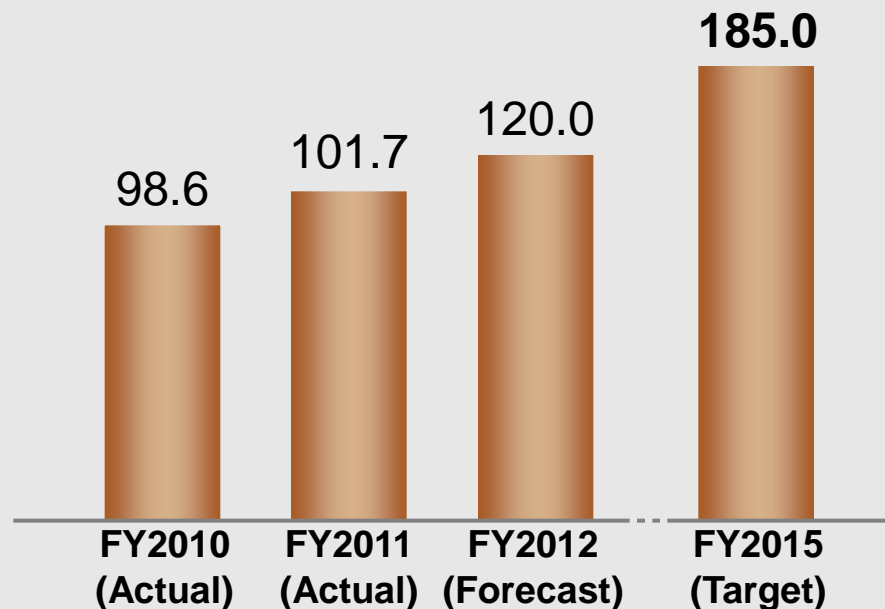
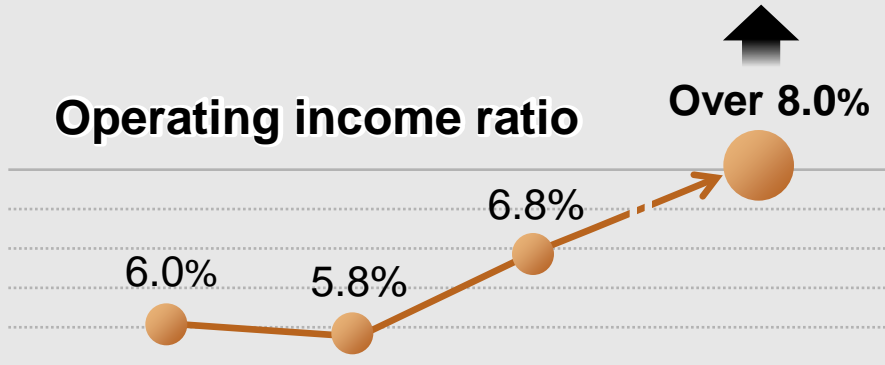
- Revenues rose due to increased sales from services in Japan, as well as sales in storage solutions and consulting overseas

### Outlook from FY2012

- We are aiming to expand revenues in the system solutions and platform businesses by focusing on “Highly Reliable Cloud Computing Services”, “Smart Information” and “Big Data related business.”

### Operating Income (Billion yen)

#### Operating income ratio



### FY2011 Summary

- Earnings rose mainly due to improved hardware profitability, notably in telecommunications & network systems.

### Outlook from FY2012

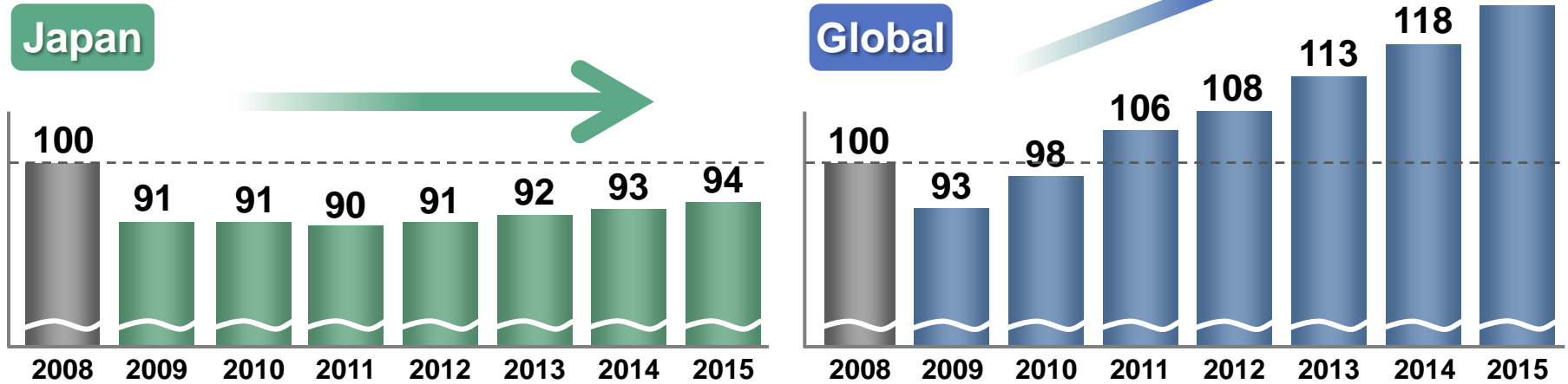
- We are aiming to create a highly profitable structure through the Hitachi Smart Transformation Project, and through rigorous project management in services and improvement on hardware profitability.

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## IT market Base year 2008=100



Source: IDC, June, 2012 "Worldwide Black Book Query Tool, Version1.1, 2012" (Except Client Systems, Feature Phones, Smartphones)

### Industry Trends

- | Seeking growth opportunities in global markets due to the slower domestic market
- | Greater use of big data and cloud computing services
- | Growing interest in BCP\* and data centers after the Great East Japan Earthquake

### Competitive Environment

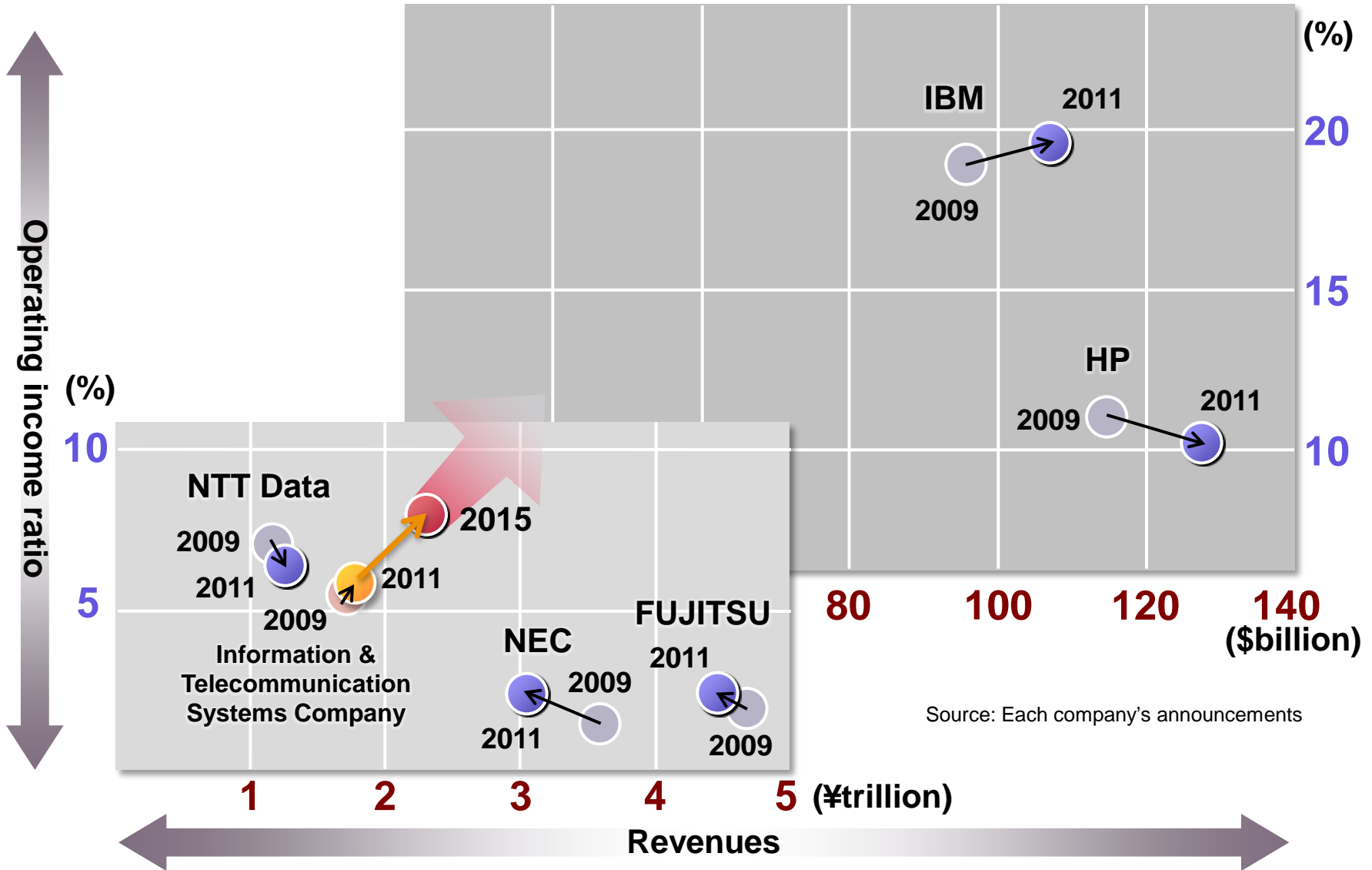
- | Trend to put more efforts in social infrastructure business
- | Focus on high-value-added software as well as greater investment on it
- | Emergence of new players in cloud computing business

\* BCP: Business Continuity Plan



# 2-2 Where we are at?

Transform into a global major player by expanding business in the social infrastructure field

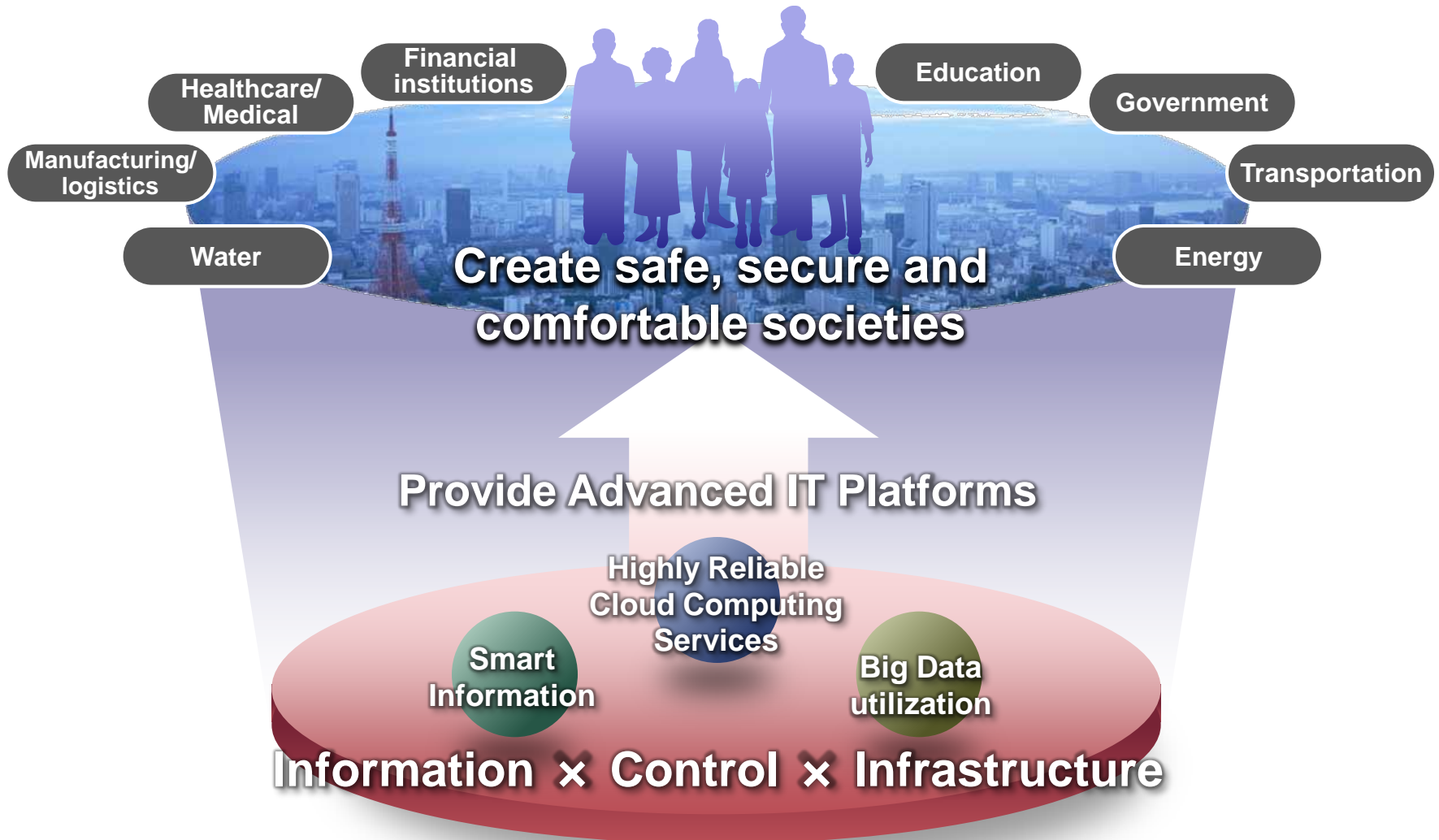


Source: Each company's announcements

## 2-3 Key Focus and Our Strength

Grow business out of leveraging fusion (information, control and infrastructure)

Contribution to safe, secure and comfortable social innovation supported by highly reliable systems



# 2-4 FY2015 Business Targets

## FY2015 Targets

Revenues: ¥2.3 trillion    Operating income ratio: Over 8%

Overseas revenue ratio: 35%    Services revenue ratio: 65%

**Be Globally Competitive**  
**in the information and telecommunication systems business field**

**Expand system  
solutions business**

- Continue to grow in the Japanese market by developing new business fields
- Strengthen business in key focus areas as growth driver
- Expand global business
- Generate higher earnings via the Hitachi Smart Transformation Project

**Expand platform  
business**

● Highly Reliable Cloud Computing business

● Smart Information business

● Big Data related businesses

**Key Focus**

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Set out to create highly reliable cloud computing services for social infrastructure systems and mission critical operations

Related revenues

**FY2012: ¥200 billion → FY2015: ¥500 billion**

Expanded adoption by various business segments, categories and applications as well as adoption for large-scaled mission critical systems

[Manufacturing / distribution, education, government, transportation, financial institutions, healthcare / medical care, water, energy, etc.]

[Energy visualization]

· Mori Building

[Energy visualization]

· TOKYO SKYTREE

[Private cloud services]

· Japan Tobacco (JT)

[Private cloud services]

· Hosei University

[Service provision platform]

· Hokkaido University

[Service provision platform]

· Gurunavi

[Consolidated tax filing]

· All Nippon Airways (ANA)

[Timetable creation]

· Hiroshima Electric Railway

[Service provision platform]

· Ministry of Land, Infrastructure, Transport and Tourism

[Private cloud services]

· Ministry of Foreign Affairs of Japan

[Service provision platform]

· Japan Meteorological Agency

[Shared cloud service for local governments]

· Okazaki City and Toyohashi City, Aichi Prefecture

Set out create highly reliable cloud computing services  
for social infrastructure systems and mission critical operations

Related revenues

**FY2012: ¥200 billion → FY2015: ¥500 billion**

Expanded adoption by various business segments, categories and applications  
as well as adoption for large-scaled mission critical systems

[Manufacturing/logistics, education, government, transportation, financial institutions,  
healthcare/medical care, water, energy, etc.]

Strengthen and expand businesses in global markets

[Business development for  
local corporations]

- Combine with strong storage solutions: Hitachi Data Systems

[Supporting Japanese companies  
for business development  
overseas]

- Cloud computing services: Microsoft Japan

[Alliance to expand business in Asia]

- Data center: Hi-Transcend Information Technology (Dalian)
- Cloud computing service for China: Founder Group

Provide optimized solutions in cooperation with Hitachi group companies

[Data center design, construction  
and operation services]

- Hitachi, Ltd. · Hitachi Systems
- Hitachi Plant Technologies
- Hitachi Building Systems
- Hitachi Architects & Engineers

[Crane Monitoring, Failure Diagnosis  
and Facilities Maintenance Service]

- Hitachi, Ltd. · Hitachi Solutions
- Hitachi Plant Technologies

## Expand IT business for social infrastructure and new business areas

Related revenues

→ **FY2015: ¥100 billion**

### Further develop the social infrastructure business

- Promote proposal-type businesses with “Information”, “control” and “infrastructure” for customers responsible for providing social infrastructure such as energy, water, and transportation
  - ... Propose information & telecommunication systems to customers together with the Infrastructure Systems Company
- Organizational adjustment to provide solutions for social infrastructure
  - ... Strengthen workforce (for business incubation, top-level consulting, SEs, etc.)
  - ... Put the task force team (April, 2012) in specializing social infrastructure to accelerate the business

### Track records and know-hows through demonstration trials and utilize them in actual projects

- Develop business in smart city demonstration trials in Japan and overseas
  - ... [Demonstration trials for isolated-island smart grid] Hawaii, U.S., etc.
- Use in actual projects in Guangzhou and Dalian, China and U.K. (e.g. TrainLink maintenance), etc.

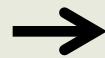
### Develop and expand core solutions

- ... Urban city (regional) management cloud, energy management cloud, maintenance cloud computing, Big data analysis and modeling service (by Smart Business Innovation Laboratory)  
Develop platforms for EAM<sup>\*1</sup> (asset management), GIS<sup>\*2</sup> (map information management), MDM<sup>\*3</sup> (meter data management), etc.

\*1 EAM : Energy Asset Management \*2 GIS : Geographic Information System \*3 MDM : Meter Data Management

Support customers' business expansion through big data utilization

Related revenues



**FY2015: ¥150 billion**

**Collaborative creation  
with customers**

Accumulate know-hows through  
collaborative projects  
Grow data meisters (experts)

**Create solutions**

Business operations    Application to systems  
Build and apply big data processing platform

**Establish  
new  
business  
model**

**Develop products and technologies**

## Promote collaborative business with customers and business partners

- Support customers' new business development, expand new businesses with business partners
- Use experience for urban planning, preventive maintenance, etc.

## Launch big data related services

- Support to find value propositions of customer's business by analyzing big data
  - ... Start providing data analytics meister services (June, 2012)
  - ... Centralize and strengthen human resources related to big data analysis (about 200 people belongs to the related projects)
- Provide infrastructure cloud and content cloud computing services

## Develop platform products and technologies for supporting big data utilization

- Offer Hitachi Unified Storage globally (April, 2012)
- Commercialize the results of joint R&D with the University of Tokyo regarding ultra-high-speed database engine (May, 2012)



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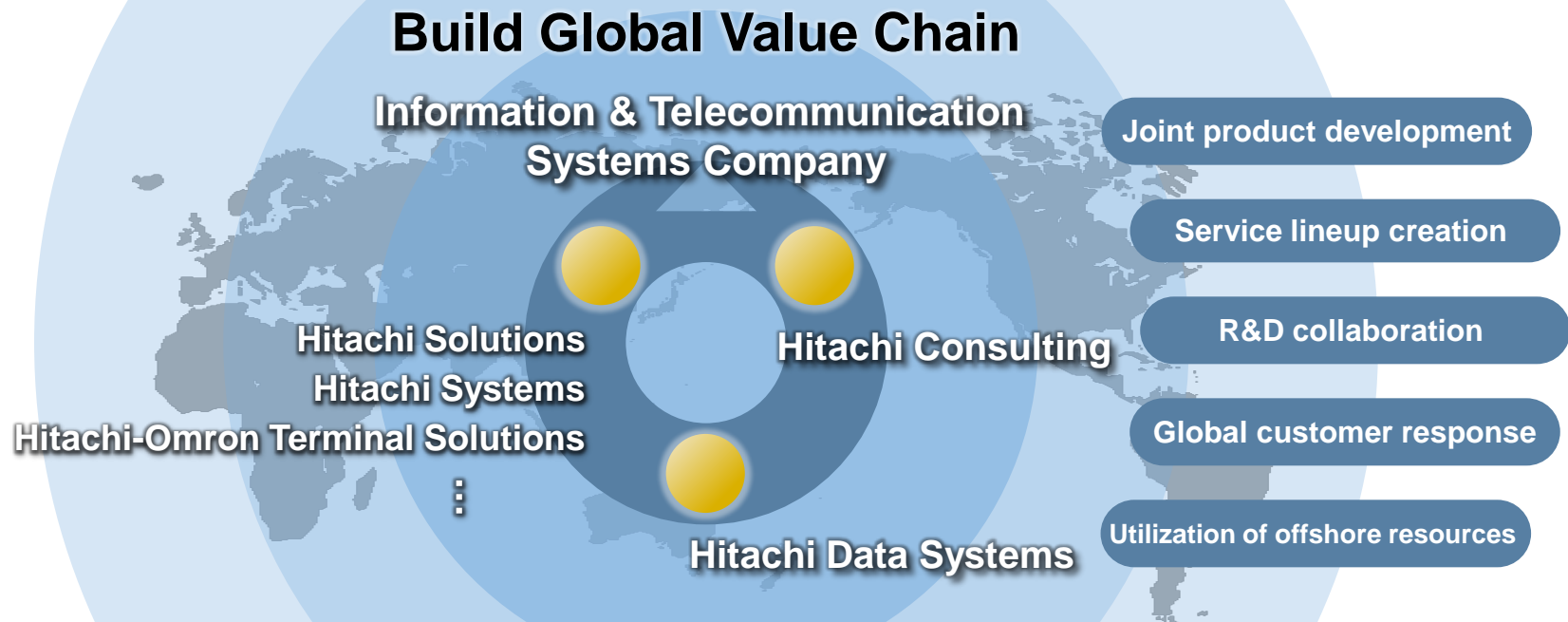
## Continuously grow in the Japanese market and expand business globally

### System solutions Business

Enhance business and improve efficiency through Group consolidated management  
Strengthen global business centered on Hitachi Consulting

### Platform Business

Bolster ability to meet customer needs through business structure integration  
Provide platform products for supporting focused areas



## Expand business and add value propositions via consolidation of in-house companies

### Continue to leverage business in the Japanese market “Aggressive sales”

- Accommodate needs of big customer accounts, steadily develop the major SI business
- New development to get into the cutting-edge technology area to meet customer needs
- Expand customer coverage by strengthening sales force, open up new business domains

### Strengthen global solutions business

- Further strengthen consulting business (by expanding specialized fields)
  - ... Expand scale of business through continuous M&A  
(Acquired PRIZIM Inc. in April, 2012, an environmental sustainability consulting firm)
- Expand solutions business leveraging global consulting networks
- Provide cross-border IT services in China, Southeast Asia and other Asian markets
  - ... Acquired eBworx Berhad in May, 2012, a Malaysian financial IT solutions company
  - Expand exposure in the Asian markets, and maximize business synergies with other offices in Asia

### Improve business efficiency and expand business opportunities by consolidating functions with in-house companies

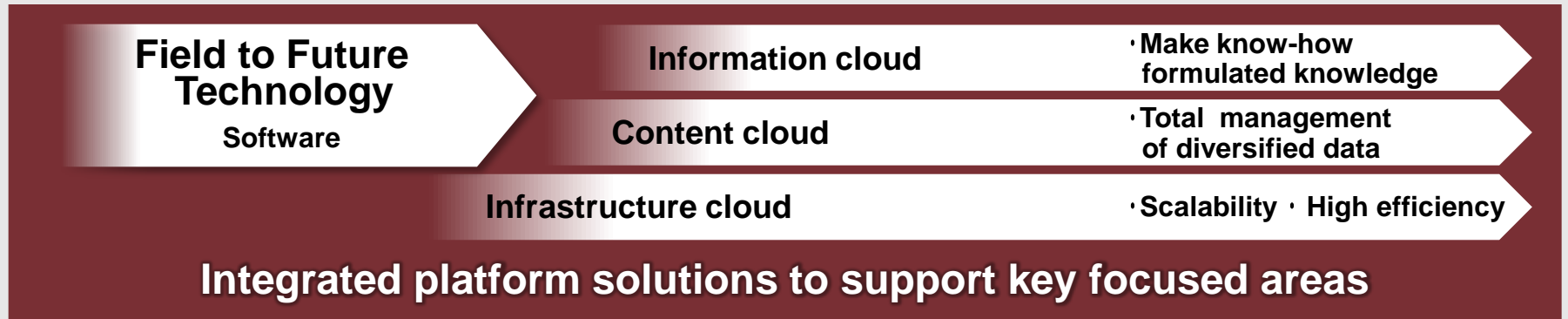
- Maximize customer response ability through role-sharing and eliminating overlapped operations
- Restructure in-house company businesses and streamline functions across various customer types
  - ... Hitachi Systems, a new company started in October, 2011 after two companies merged and restructured ERP\* business (March, 2012)

### Further improvement of project management

- Improve project management capabilities to cope with competition and customer demands change
  - ... Integrated certification systems for project managers (April, 2012), about 6,000 certified personnel in total

\* ERP : Enterprise Resource Planning

**Provide integrated platform solutions to support key focus areas and create value propositions with customers worldwide**



## Respond to market trend changes

- Organization to provide integrated platforms: Established IT Platform Division Group (April, 2012)
- Jointly developed the new product by Hitachi and Hitachi Data Systems: Hitachi Unified Storage (April, 2012)

## Further expand global collaboration

- Promote market-oriented R&D
- Build global value chains

## Product platform to back up content / information cloud

- Provide high-value-added software products
- Supply highly reliable telecommunications and network platform



# 4-4 Strengthen Business via Consolidated in-house companies

**Enhance synergies among in-house companies and leverage strengths of each company**

**Pursue synergies in and out Japan among Hitachi, Ltd. and Hitachi group companies**

- Joint proposals, solutions lineups sharing
- Develop businesses utilizing each company's customer bases and sales channels
- Role sharing and elimination of overlapped operations



**Expand business with advantages of each company's strength**

<b>Hitachi Solutions</b>	<b>Offer compound solutions leveraging core products and technologies</b>
<b>Hitachi Systems</b>	<b>Offer high-value-added services leveraging strengths in monitoring, operating and construction</b>
<b>Hitachi-Omron Terminal Solutions</b>	<b>Extend sales of ATMs, with the greater success in China, to the other Asian markets</b>
<b>Hitachi Data Systems</b>	<b>Increase profitability through business expansion and software / services business</b>
<b>Hitachi Consulting</b>	<b>Extend global network and enhance business portfolio</b>

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## Transform cost structure to compete with global companies

- Plan and execute drastic measures with “Simple”, “Slim” and “Best Practice” -

### [Business Structure Reforms]

- Optimize manufacturing venues and standardize product development
- Promote consolidated management by customer categories

### [Fixed Expense Structure Reform]

- Standardized work and IT system integration
- Promote shared services

### [Variable Expense Structure Reform]

- Expand use of offshore resources for software development
- Enhance centralized purchasing and global procurement

## Specific Measures

### (1) Optimize manufacturing bases

- Reform the value chain from product development to manufacturing to raise global competitiveness
- ... Optimize hardware-related manufacturing bases (FY2012)

### (2) Promote efficiency in the internal governance

- Improve efficiency with Hitachi group companies for raising corporate value and improving profitability
- ... Hitachi Solutions made Hitachi Business Solution a 100% subsidiary (March, 2012)

### (3) IT system integration

- Provide shared services of standardized system with small and medium-sized Hitachi group companies
- ... Pilot integrated system will be in experiment at some Hitachi group companies (FY2013), and gradually extend the system to other group companies

### (4) Expand use of offshore resources

- Reduce costs by extending the use of offshore resources from a concentration of software development to front-end (design) and back-end (testing) process as well
- ... Utilize China and India bases

## Enhance business bases for realizing information and telecommunications systems business to compete globally

### Improve Financial Structure

- Generate stable earnings to invest for business expansion with cost structure reforms
- Investment plan for FY2012: ¥160 billion
- R&D investment plan for FY2012: ¥90 billion

### R&D strategy to accelerate global growth

- Promote R&D along with business strategy spearheaded by global major six regions  
... China: Develop system management software products; North America: Develop next-generation integrated platforms
- Increase global R&D researchers from 150 (FY2012) to 300 (FY2015)

### Pursue improvement on quality and productivity by leveraging MONOZUKURI

- Share technology design platforms
- Enhance integrated project management with group companies

### Strengthen business continuity plan (BCP)

- Already formulated BCP for major business divisions and Hitachi group companies (FY2011)
- Integrated BCP operation across all in-house companies



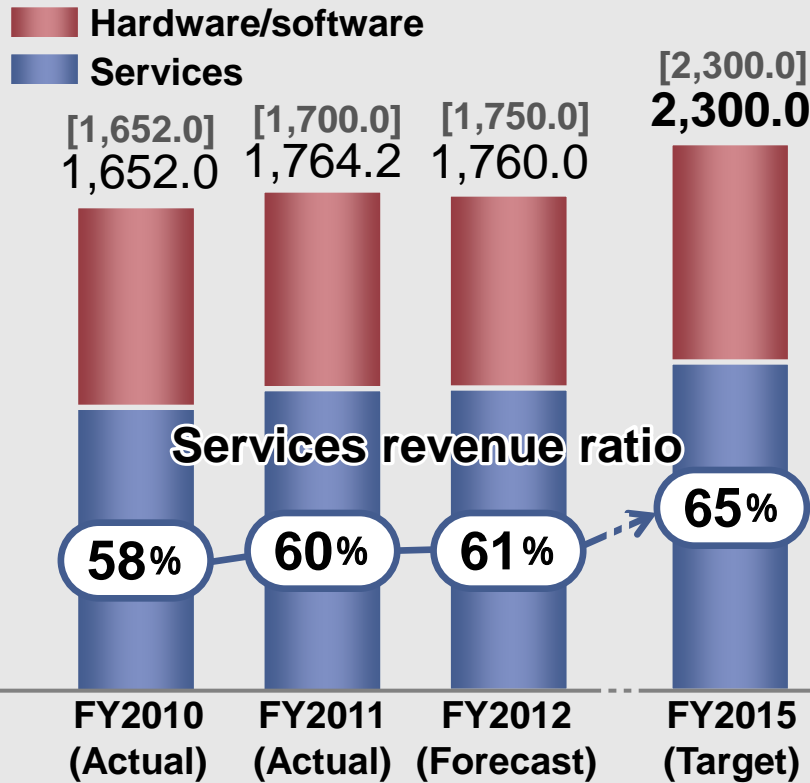
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# 6-1 Conclusion

## Revenue (Billion yen)

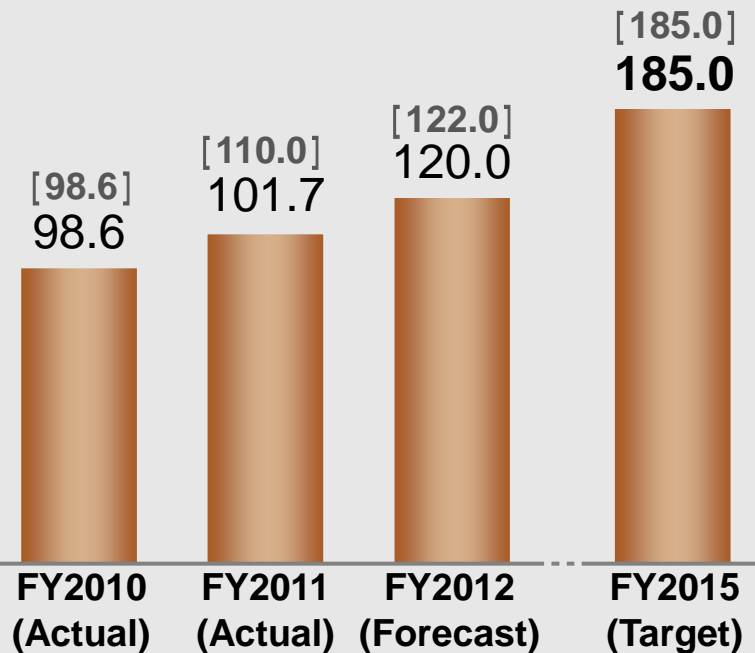
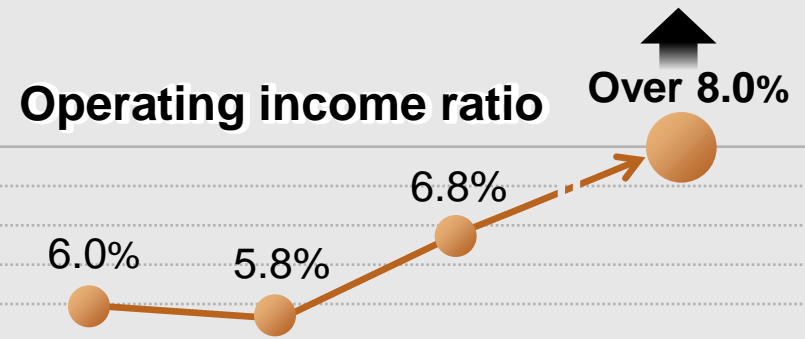


### Overseas revenue ratio



\* Figures shown in [ ] are disclosed at Hitachi IR Day 2011.

## Operating Income (Billion yen)



## FY2015 Targets

**Revenues: ¥2,300 billion, Operating income ratio: Over 8%**

**Overseas revenue ratio: 35%**

**Services revenue ratio: 65%**

# Human Dreams. Make IT Real.

We will launch innovations that make people's dreams come true through IT, through control technology, and through social infrastructure systems.

# 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, 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;
- the potential for significant losses on Hitachi’s investments in equity method affiliates;
- increased commoditization of information technology products and digital media-related products and intensifying price competition for such products, particularly in the Digital Media & Consumer Products segments;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;
- rapid technological innovation;
- the possibility of cost fluctuations during the lifetime of, or cancellation of, long-term contracts for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;
- fluctuations in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;
- fluctuations in product demand and industry capacity;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in product demand, exchange rates and/or price of raw materials or shortages of materials, parts and components;
- 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 restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness and other cost reduction measures;
- general socioeconomic and political conditions and the regulatory and trade environment of countries where Hitachi conducts business, particularly Japan, Asia, the United States and Europe, including, without limitation, direct or indirect restrictions by other nations on imports and differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;
- uncertainty as to the success of alliances upon which Hitachi depends, some of which Hitachi may not control, with other corporations in the design and development of certain key products;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity method affiliates have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- the possibility of disruption of Hitachi’s operations by earthquakes, tsunamis or other natural disasters;
- 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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