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# Information & Telecommunication Systems Business Strategy

Hitachi IR Day 2015

**June 11, 2015**

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President & CEO**

**Information & Telecommunication Systems Group  
and Information & Telecommunication Systems Company  
Hitachi, Ltd.**

# Information & Telecommunication Systems Business Strategy

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- 1. Market Environment and Target Position**
2. Progress of 2015 Mid-term Management Plan
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# 1-1. Market Environment and Target Position

## Environmental changes

- Slowing growth in IT market\*, intensification of global competition, recovery of IT services demand in Japan
- Shift to services, expansion of collaboration with and participation in different industries
  - IT hardware vendors have to make a paradigm shift
- Customer value shifts to upper level, beyond IT category
- Accelerating digitization changes IT positioning and core competence
  - Knowledge of "IT X Infrastructure" become a source of strength

## Exchange rate fluctuations

- From prolonged yen appreciation to rapid depreciation
- Euro being weak (vs. Japanese yen, vs. U.S. dollar, etc.)

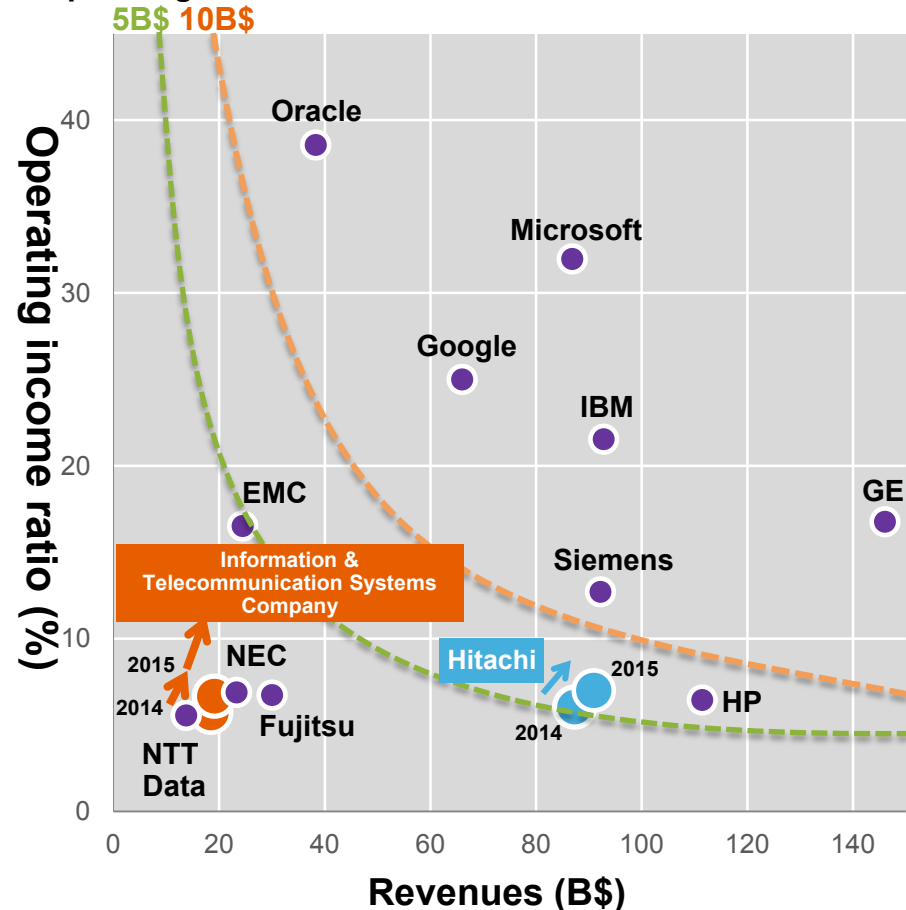
## Market expansion in Social Innovation Business/IoT

- Expansion of customer needs, activation in markets
- Expansion of competition and collaboration with a variety of players

## Target Position

**Expand revenue and enhance profitability aiming to become a major global player**

Operating income:



Source : Each company's financial announcements for FY2014

\* CAGR (2014-2018): WW 4.0%, Japan 1.6%

Source : IDC, May 2015 "Worldwide Black Book Query Tool Version 1 2015"  
(Based on data excluding Client Systems, Feature Phones, Smartphones)

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# 2-1. Progress of 2015 Mid-term Management Plan

	FY2013 (US-GAAP)	FY2014 (Results)		FY2015 (Forecast)		Year over year (US-GAAP)
		(US-GAAP)	(IFRS)*1	(US-GAAP)	(IFRS)	
Revenues	1,934.9 billion yen	2,032.1 billion yen	2,034.0 billion yen	2,100.0 billion yen	2,100.0 billion yen	+67.8 billion yen [103%]
EBIT (Operating income*2)	96.3 billion yen (106.5 billion yen)	93.6 billion yen (116.2 billion yen)	106.0 billion yen (135.1 billion yen)	132.0 billion yen (140.0 billion yen)	144.0 billion yen (158.0 billion yen)	+38.3 billion yen (+23.7 billion yen)
EBIT ratio (Operating income ratio*2)	5.0% (5.5%)	4.6% (5.7%)	5.2% (6.6%)	6.3% (6.7%)	6.9% (7.5%)	+1.7 points (+1.0 point)
Overseas revenue ratio	30%	33%	33%	36%	36%	+3 points
Service revenue ratio	62%	64%	64%	Over 65%	Over 65%	+ over 1 point

\*1 Unaudited

\*2 "Operating income" is presented as "Adjusted operating income" in IFRS (an "Adjusted Operating Income" presented as revenues less cost of sales as well as selling, general and administrative expenses)

## 2-2. Differences from Previous Forecast

Revised FY2015 plan because of delays in transforming to a profitable cost structure although having planned to achieve increase in operating income/EBIT by revenue growth and reform of the business portfolio

### [US-GAAP]

	FY2015 (Forecast)	Previous forecast*	Differences
Revenues	2,100.0 billion yen	2,100.0 billion yen	±0.0 billion yen
Operating income (Operating income ratio)	140.0 billion yen [6.7%]	200.0 billion yen [9.5%]	(60.0) billion yen [(2.8) points]
EBIT (EBIT ratio)	132.0 billion yen [6.3%]	190.0 billion yen [9.0%]	(58.0) billion yen [(2.7) points]

### [Major backgrounds of differences between operating income and EBIT]

- Decreased revenues from Japanese telecommunications carriers in the telecommunications & network business
- Shrunk demand for platform products such as servers and software in Japan
- Delay in the improvement of project profitability in social systems field
- Increasing investment in the Social Innovation Business (Big Data utilization, etc.)


\* Previous forecast announced on June 12, 2014

### Achievements

- **Service revenue is steadily increasing**
  - Continued to win large SI projects and improved profitability of SI business
  - Expanded development of services business globally, including Southeast Asia
- **Strengthened Social Innovation Business**
  - Implemented priority investments and business reorganization
  - Acquired Pentaho that possesses core technologies for Big Data utilization platform

### Issues

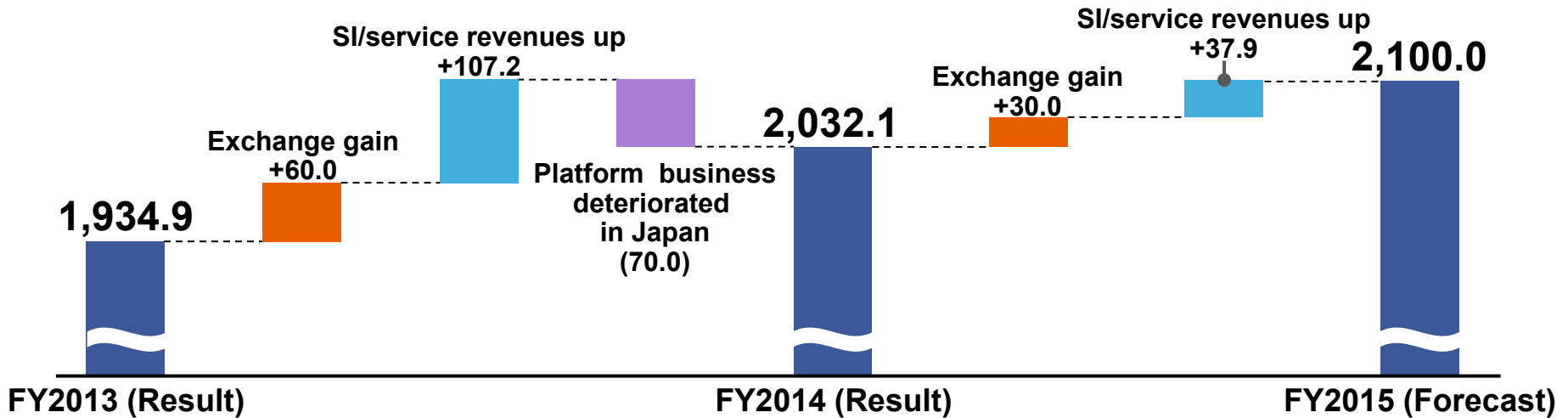
- **Delayed in structural transformation of telecommunications & network business due to misunderstanding of market trends**
- **Delayed transformation of platform business portfolio, especially in Japan**
- **Overseas revenues flat on a local currency basis, and further enhancement needed**

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- **Revenues increased, but still challenges existing to achieve global competitive profitability**
  - **Accelerate structural reforms based on reflection on delayed response in the past to the business environment/market changes**

# 2-4. Factors for Changes in Performances (FY2013-2015)

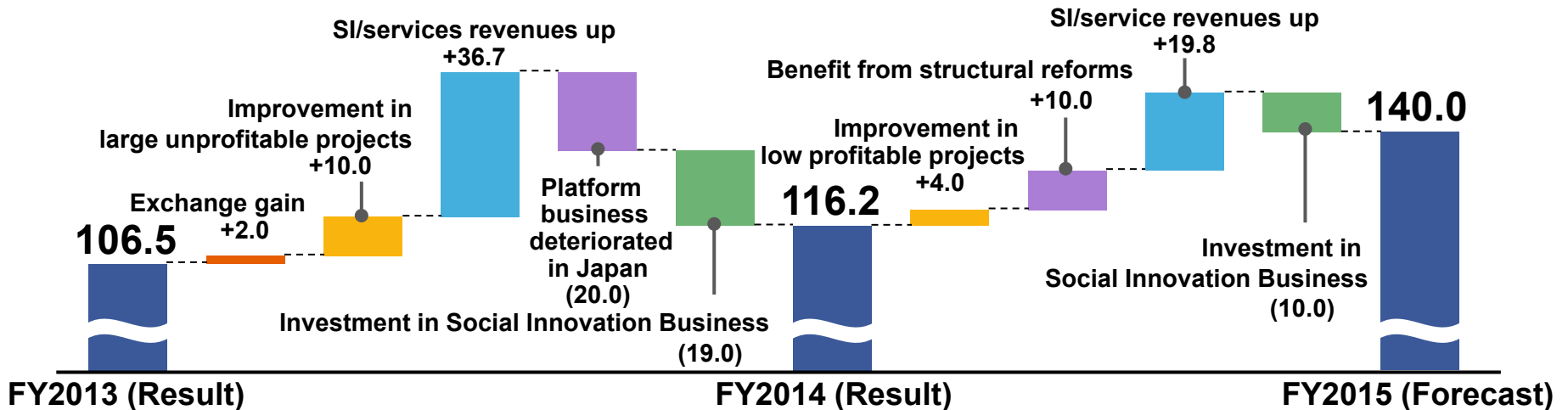
## Revenues

Billion yen



## Operating income

Billion yen





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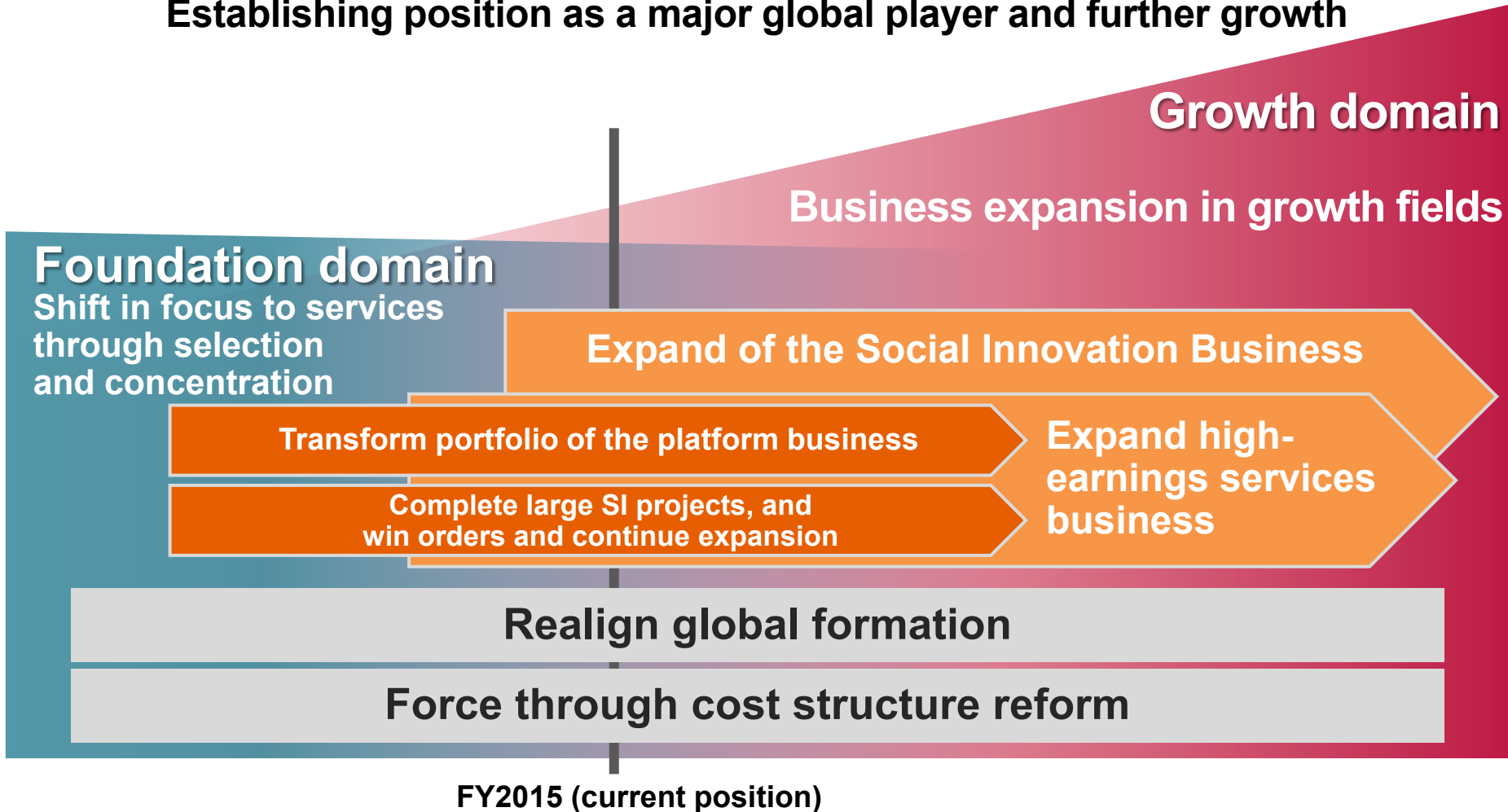
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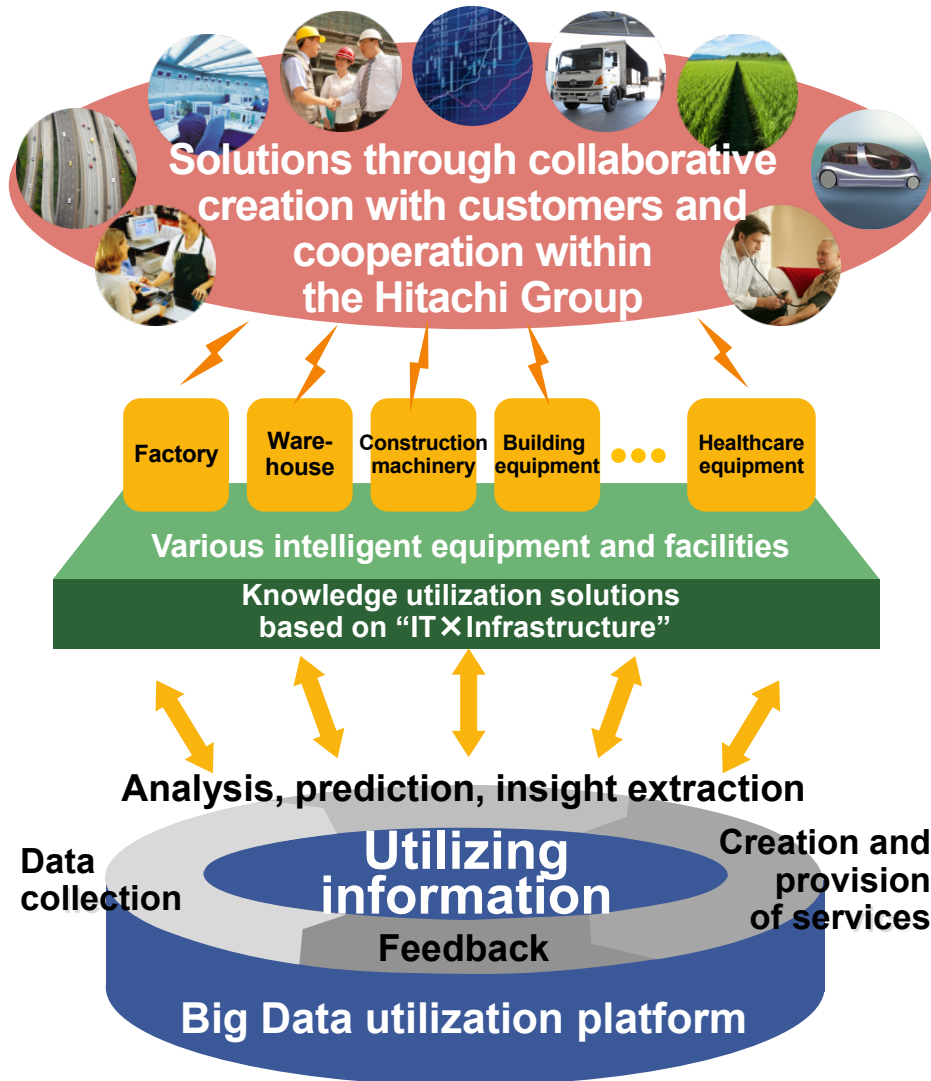
# 3-1. Business Policy and Vision

Continue growth, establish a business model with earnings power, and generate steady earnings by completing business portfolio transformation

Establishing position as a major global player and further growth



## Expand services business with focus on Big Data utilization and IoT



### Knowledge accumulation and utilization by organizations across the Hitachi Group

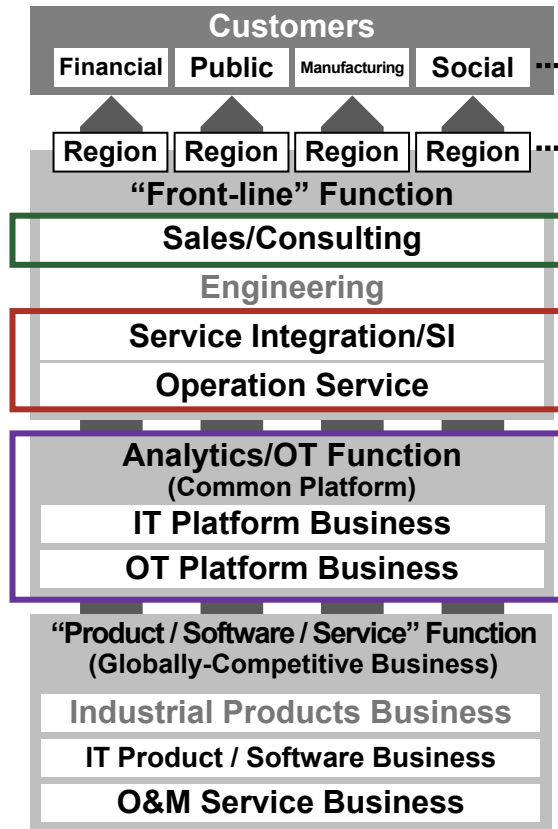
- Strengthen business structure of Social Innovation Business Promotion Division
  - Established Symbiotic Autonomous Decentralization Promotion Division (April 2015)
- Commercialization and horizontal development leveraging expertise with Social Innovation Business Promotion Division

### Provide solutions leveraging the strengths of "IT x Infrastructure," and promote collaborative creation with customers

- Expand response in focused fields (Healthcare, etc.)
  - Expand workforce of Smart Information Systems Division
- Strengthen IoT business leveraging telecommunications and network technologies
  - Established a division specialized in IoT Platform
  - Global development by Hitachi Data Systems

# 3-2. Expansion of the Social Innovation Business (2)

Secure investment resources maximizing operating cash flows, and continue priority investments in core fields



## Core investments up to FY2014

### Strengthen upstream consulting

Celerant

IMG

- Consulting by industry sectors
- Big Data analytics / Knowledge utilization (BI, data analytics, etc.)

### Strengthen IT services

- IT services in emerging countries (Southeast Asia, India, etc.)

Sierra

eBworx

Sunway

Prizm

Micro Clinic

Stone Apple

- SAP cloud services, managed services (linkage with service platform)

oXya

- Cloud service for specific industrial sector

Hitachi Systems Power Services

### Acquire analytics technology and expertise

Pentaho

- Strengthen Big Data utilization platform

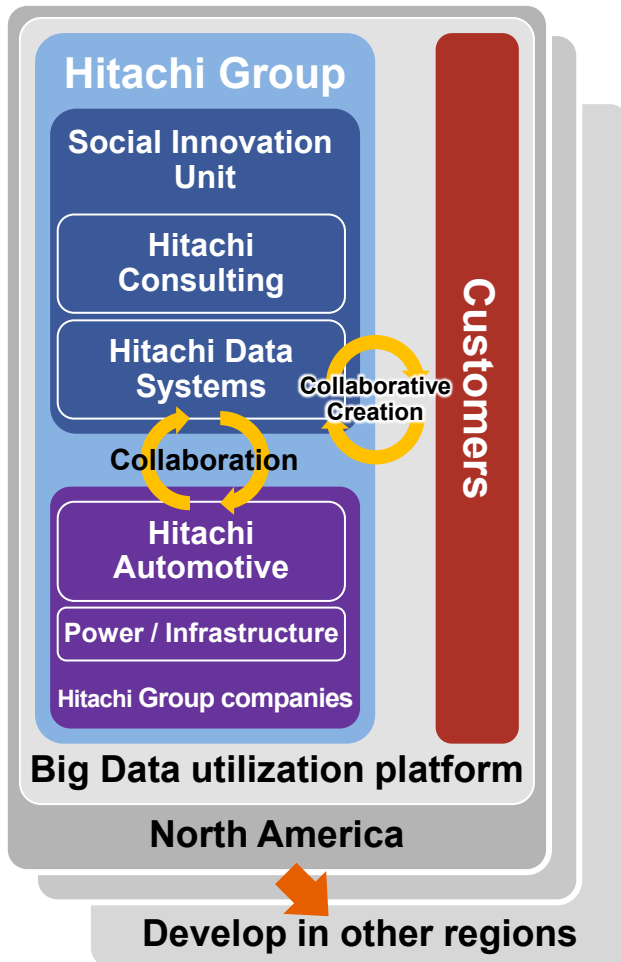
## FY2015 Investment Policy

- Execute priority investments to expand Social Innovation Business
- Expand business leveraging acquired companies and Hitachi Group-wide utilization

Cumulative investment in Social Innovation Business (FY2013 - FY2015) **220.0 billion yen**

## Expand the Social Innovation Business centered on new management structure in North America

### Model for promoting Social Innovation Business



#### Established Social Innovation Unit (North America) (April 2015)

- Consolidate related organizations of Hitachi Data Systems and Hitachi Consulting
  - Create synergies and accelerate development as a core of the business

#### Strengthen Big Data utilization platform and expand utilization

- Strengthen as common platform of Social Innovation Business
  - Leverage Pentaho's data integration/analysis/visualization technology, and software
  - Creative collaboration with customer, and knowledge accumulation by expanding utilization of Hitachi Group companies

#### Strengthen development of global services business by "One Hitachi"

- Develop and provide services suited to each region based on the localization of the North American model
  - Expand global development of services business for focused industries
- Utilize bases of Hitachi Data Systems, Hitachi Consulting, etc

Operating in over 140 countries and regions worldwide  
Headcount: approx. 6,800

Bases in 26 countries worldwide  
Headcount: approx. 6,500

## Complete large SI projects and acquire new projects by strengthening front-line

Establish operations structure that unites front-line and MONOZUKURI, and flexible utilization of human resources

- **Strengthen industry-specific capabilities and share expertise in an integrated manner from front-line to MONOZUKURI**
  - Concentration of resources and integrated operations by realignment of Hitachi Solutions, Ltd. (financial/public/social system sectors)
  - Transferred the information systems business for power/transportation sectors from Infrastructure Systems Company to Information & Telecommunications Systems Company and enforce project management
  - Utilize system engineers who have expertise of reliable system integration for telecommunications carriers in the social system sector
- **Maximize organizational capabilities by flexibly realigning human resource portfolio in step with changes in the market**

**Strengthen front-line by transferring approx. 4,500 employees**  
(approx. 4,000 from Hitachi Solutions, and approx. 500 from Infrastructure Systems Company)

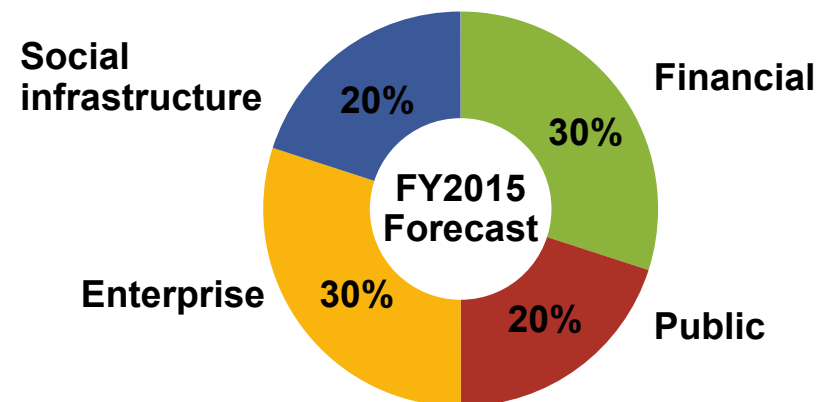
## Complete large SI projects and expand share

- **Financial: large-scale systems (megabanks, regional banks, insurance companies, etc.)**
- **Public: unified pension system, the Social Security and Tax Number System, etc.**
- **Social infrastructure: electricity deregulation projects, etc.**

## Reform of human resources portfolio

- **Bolster human resources in services through business portfolio reform**

## Revenue composition\*

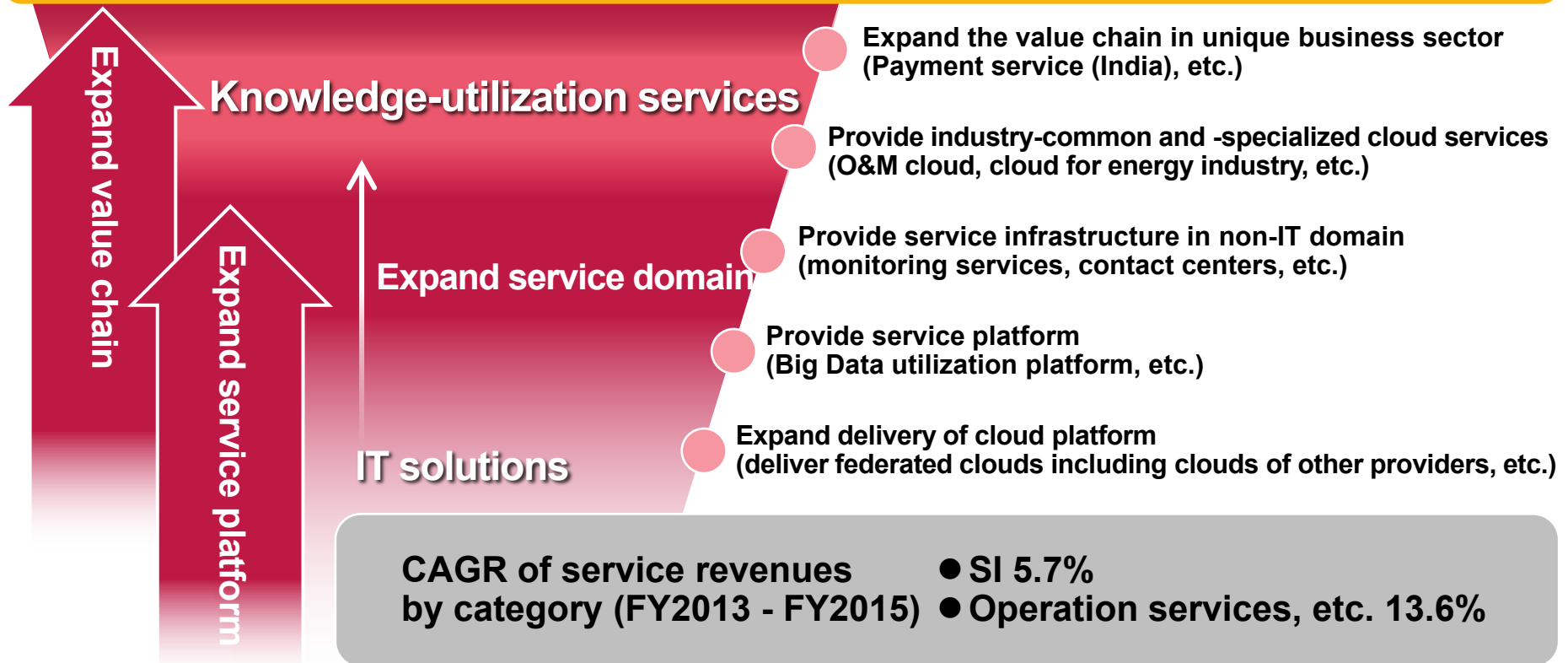


\* System Solutions Business, approximate estimate

## Expand highly profitable services business

- Expand service domain by a market-driven approach
- Expand service development globally
  - Strengthen the foundation for providing services in Southeast Asia

Create services to realize new value, expand services that solve customer issues



## Strengthen services platform

FY2014

### Services

- Development of Big Data-related PoC\*1
- Solutions for public safety and telecommunications

### Products

#### <Growth fields>

- Big Data processing middleware
- IoT solutions
- Integrated platform
- Server
- Software
- Telecommunications & network products
- Storage

Shorten time-to-market by M&As

Focus resources on growth fields

Structural reforms

FY2015

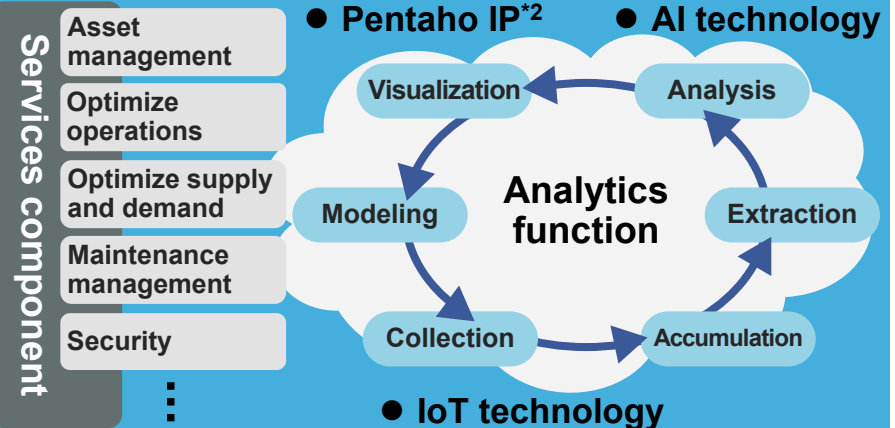
### Services

- Expand IoT-related business/ Social Innovation Business
- Expand global solutions

Pentaho

oXya

### Services platform



### Products

Select and concentrate in response to market

\*1 PoC: Proof of Concept  
\*2 IP: Intellectual Property



# 3-4. Acceleration of Platform Business Portfolio Reform (2)

## Execute structural reforms

FY2015 expenses:  
approx. 10 billion yen

### Strengthening measures

- Add high-value through software and focus development on distinctive function
- Build services platform for Hitachi Group's Social Innovation Business
- Strengthen global business by leveraging Pentaho and oXya

### Optimization measures

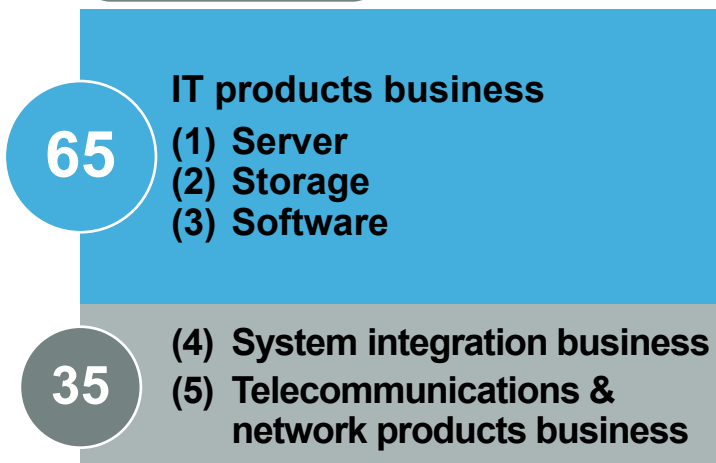
- Select and concentrate on core product development
- Optimize businesses in Japan

Telecommunications: Narrow down focus areas in step with reduced investment by Japanese telecommunications carriers  
Servers: Review product lineup in step with changes in market  
Software: Shift resources to high value-added domains

## Business structure

Continue optimal operations in line with market changes

FY2014



FY2015

Focus resources on growth fields



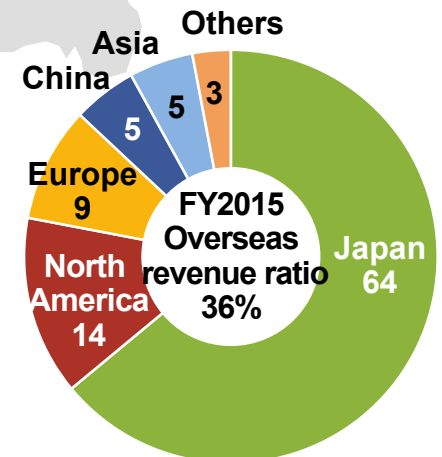
# 3-5. Global Business Plan

Establish autonomous decentralized global management structure by developing North American model to other regions



### Major Social Innovation Businesses (including PoC)

- Oil & Gas
- Financial
- Energy
- Agriculture/Food
- Telecom
- Healthcare
- Mining
- Public
- Logistics



	FY2013 (Results)	FY2014 (Results)	FY2015 (Forecast)
<b>Overseas revenues</b>	<b>588.9 billion yen</b>	<b>671.0 billion yen</b>	<b>762.0 billion yen</b>
<b>Overseas headcount</b>	<b>18,700</b>	<b>21,900</b>	<b>24,500</b>

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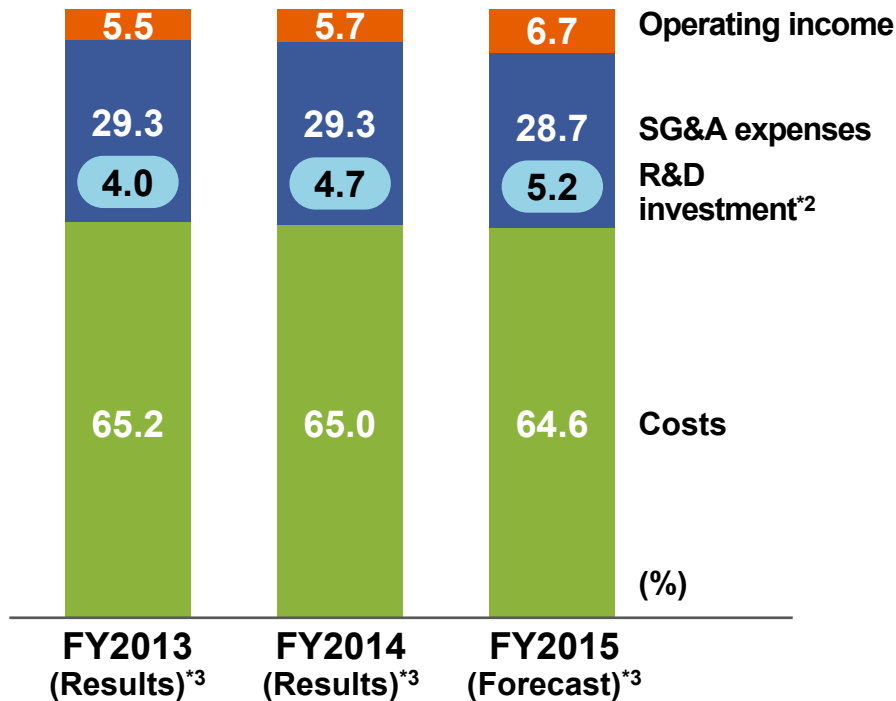
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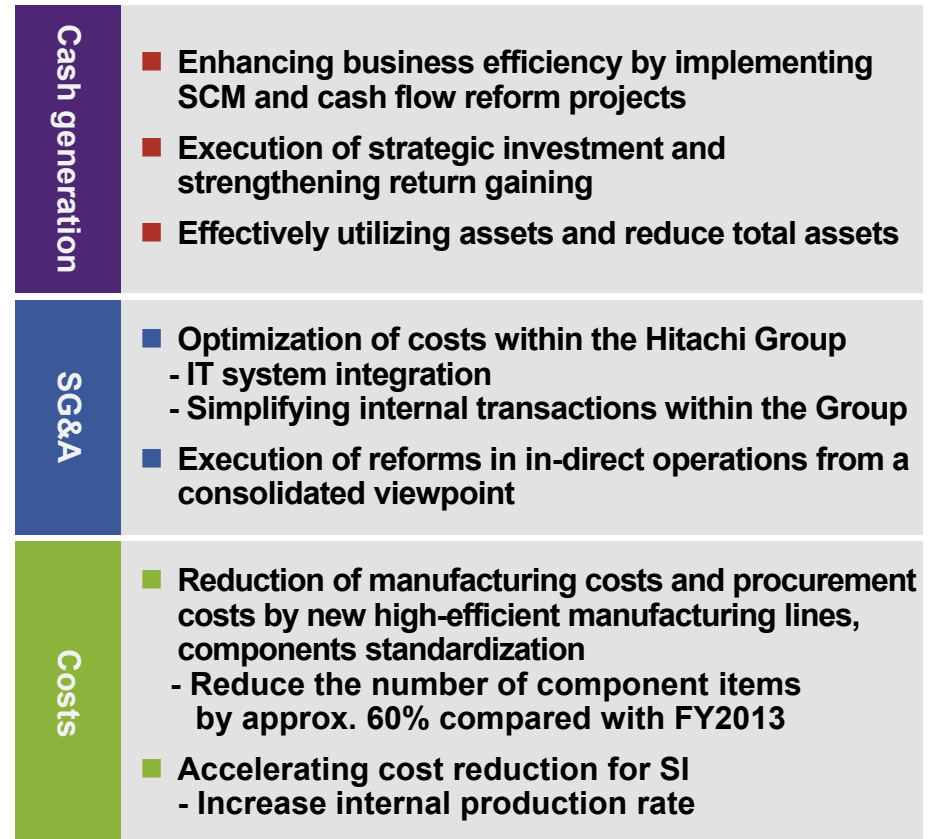
# 4-1. Hitachi Smart Transformation Project

Cost reduction effect: FY2015 (Forecast) 22.5 billion yen / FY2011-2015 total 65.0 billion yen\*1

## Earnings structure



## Progress



## CCC\*4 improvement\*1

FY2012 (Result)	FY2013 (Result)	FY2014 (Result)	FY2015 (Forecast)
68.1 days	67.0 days	66.2 days*5	62.2 days

\*1 US-GAAP

\*2 R&D investment = R&D expenditure and Social Innovation Business investment

\*3 Calculated on the assumed foreign exchange rates as of June 2013

\*4 CCC (Cash Conversion Cycle)

\*5 Excluding temporary factors. The figure on a nominal basis is 67.5 days.

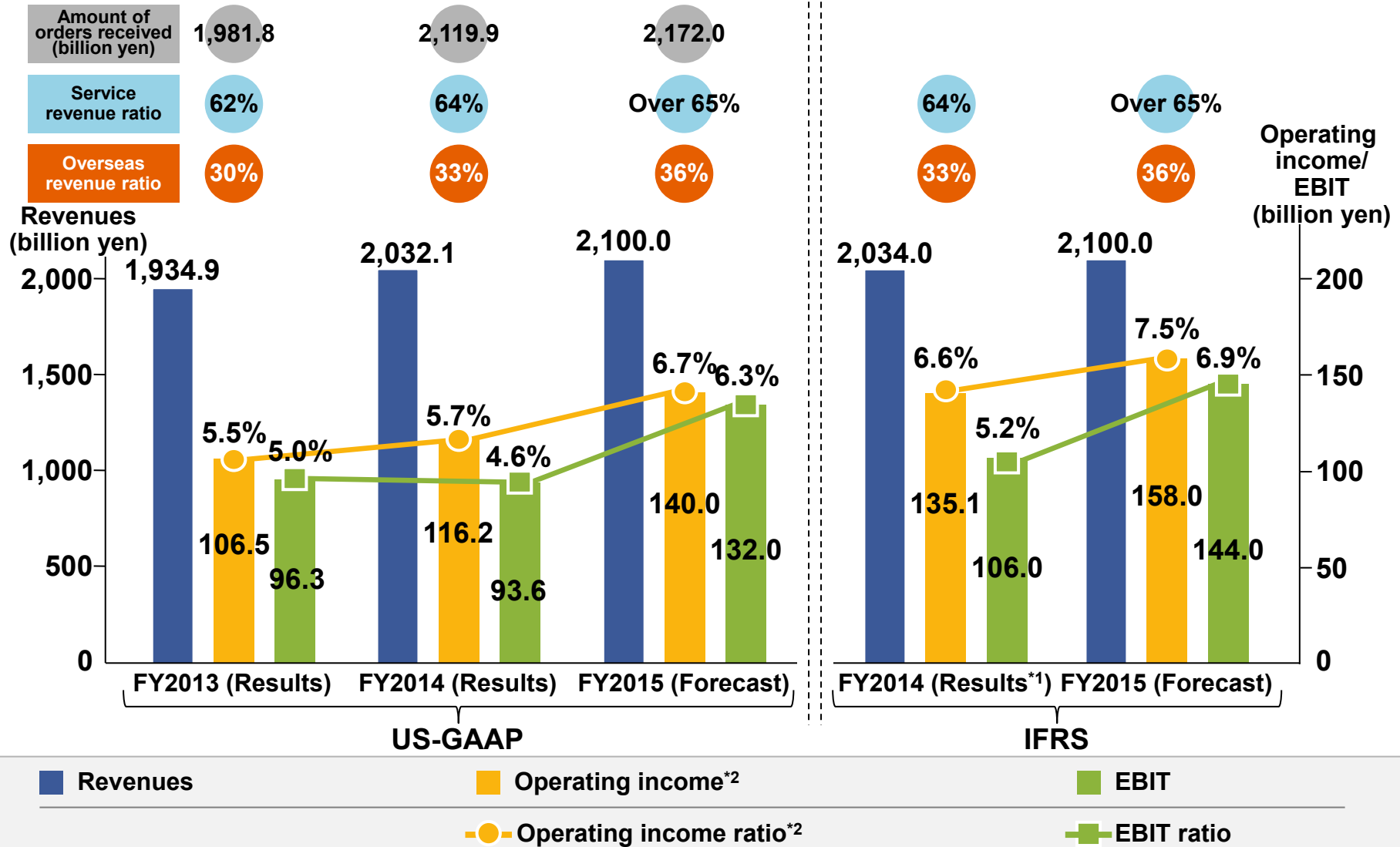
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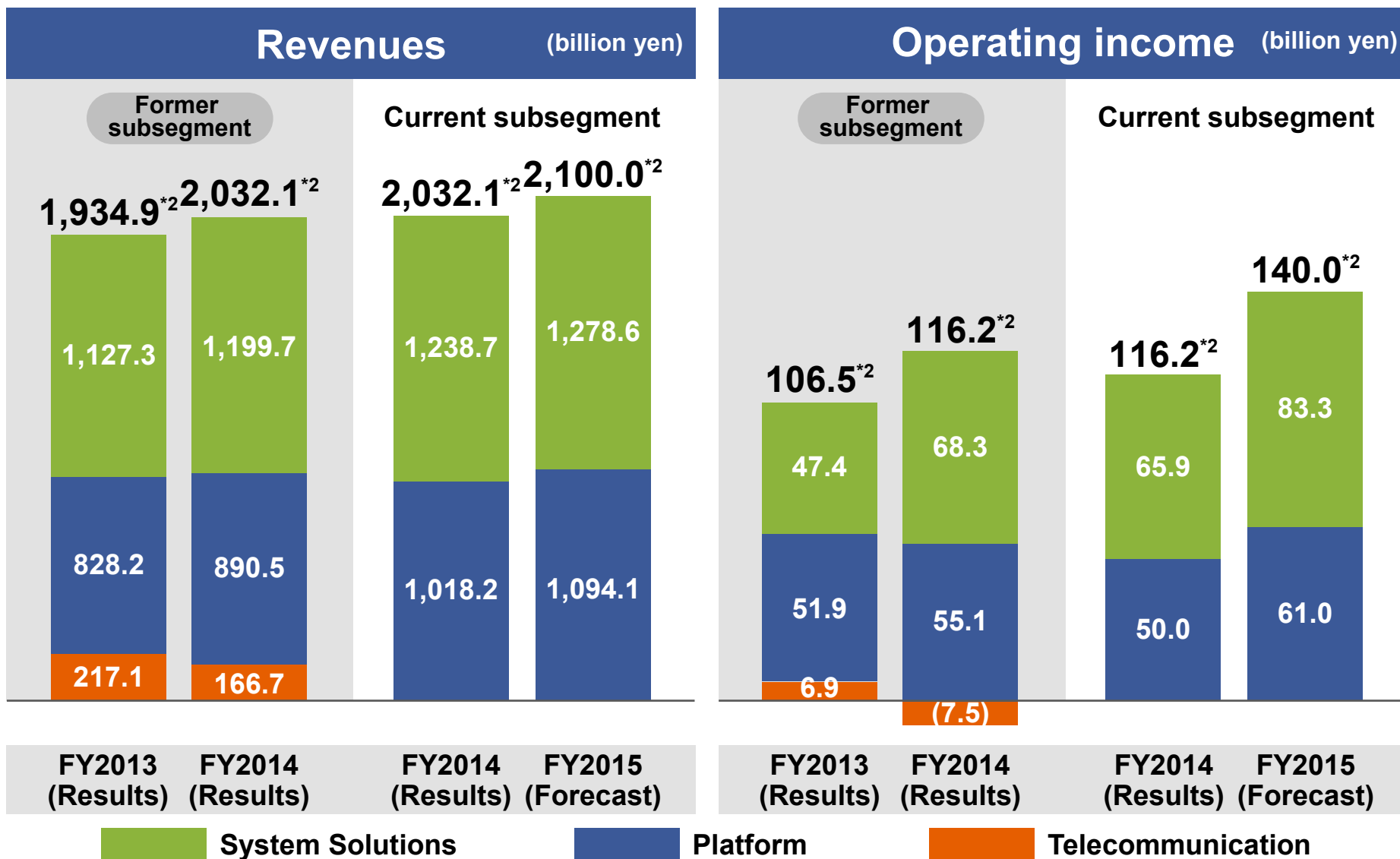
# 5-1. Performance Trends



\*1 Unaudited

\*2 "Operating income" is presented as "Adjusted operating income" in IFRS (an "Adjusted Operating Income" presented as revenues less cost of sales as well as selling, general and administrative expenses)

# 5-2. Performance Trends by Subsegment\*1 [US-GAAP]



\*1 See note concerning subsegment composition (page 26)

\*2 The difference from the sum total of each sub-segment is Eliminations & Others

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## FY2015 Plan

	US-GAAP	IFRS
Revenues	2,100.0 billion yen	2,100.0 billion yen
Overseas revenue ratio	36%	36%
Operating income*	140.0 billion yen	158.0 billion yen
Operating income ratio*	6.7%	7.5%
EBIT ratio	6.3%	6.9%
Benefit from Hitachi Smart Transformation Project (US-GAAP)	<ul style="list-style-type: none"> <li>■ Gross margin: 0.8 points decrease (from FY2012)</li> <li>■ SG&amp;A expenses ratio: 1.6 points improvement (from FY2012)</li> </ul>	

**Continue growth, establish a business model with earnings power,  
and generate steady earnings  
by completing business portfolio transformation**

\* "Operating income" is presented as "Adjusted operating income" in IFRS (an "Adjusted Operating Income" presented as revenues less cost of sales as well as selling, general and administrative expenses)

## ■ Company names

The official names of the companies referred to in this material are the following.

**Celerant: Celerant Consulting Investments Limited**

**IMG: Information Management Group Limited**

**Sierra: Sierra Atlantic, Inc.**

**Sunway: Sunway Technology Sdn Bhd (Established a joint venture Hitachi Sunway Information Systems Sdn. Bhd.)**

**Prizm: Prizm Payment Services Pvt. Ltd. (presently Hitachi Payment Services Pvt. Ltd. )**

**eBworx: eBworx Berhad (presently Hitachi eBworx Sdn. Bhd. )**

**Stone Apple: Stone Apple Solutions Pte. Ltd.**

**Micro Clinic: Micro Clinic India Pvt. Ltd. (presently Hitachi Systems Micro Clinic Pvt. Ltd. )**

## ■ Subsegment

[Former subsegment]

**System Solutions : System integration, sales, maintenance and related services of software, hardware for financial, public and enterprise sectors, consulting, etc.**

**Platform : Sales, maintenance and related services for software, server and storage, etc.**

**Telecommunication : Sales, maintenance and related services for telecommunication equipment and software, etc.**

[New subsegment]

**System Solutions : System integration, sales, maintenance and related services of software, hardware for financial, public, and enterprise and social infrastructure (power, rail, telecommunication, etc.) sectors, consulting, etc.**

**Platform : Sales, maintenance and related services for software, server and storage, telecommunication & network equipment, etc.**

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- 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;
- 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;
- 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 affiliates 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 affiliates;
- 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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