
Information & Telecommunication Systems Business Strategy

November 29, 2013

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Information & Telecommunication Systems Company

Information & Telecommunication Systems Group

Hitachi, Ltd.

Contents

- 1. 2015 Mid-term Management Policy and Results/Forecasts Outline**
2. Hitachi's Comprehensive Capabilities in the Social Innovation Business
3. Transforming a Business Portfolio with Growth Potential
4. Developing the Global Business Structure
5. Business Targets
6. Conclusion

FY2013 1H Results

- **Revenues:** Increased due to higher sales in services and ATMs, and foreign currency fluctuations impact, etc.
- **Operating income:** Increased due mainly to the higher revenues and progress with cost-cutting programs, despite lower profitability resulting from some unprofitable projects

FY2013 Full-Year Forecasts

- **Revenues:** Raised forecast due to strong services revenues, foreign currency fluctuations impact, etc.
- **Operating income:** Largely on track to achieve full-year forecasts, as expect to have addressed most unprofitable projects in the current fiscal year

	FY2013 1H	Year over year change	FY2013	Year over year change
Revenues	884.7 billion yen	106%	1,860.0 billion yen	104%
Operating income (Operating income ratio)	31.3 billion yen (3.5%)	+4.1 billion yen	120.0 billion yen (6.5%)	+15.3 billion yen

Become a global major player by 3Gs (Growth, Global and Group)

1. Hitachi's Comprehensive Capabilities in the Social Innovation Business

- Enhance Group collaboration for displaying “One Hitachi” strengths
- Strengthen upstream approaches using frontline expertise
- Utilize IT for supporting global business operations

2. Transforming a business portfolio with growth potential

- Strengthen priority fields
- Expand global businesses
- Strengthen services businesses

3. Developing the global business structure

- Strengthen global operations and human resources
- Promote the Hitachi Smart Transformation Project
- Strengthen cash flow management

1-3. Management Targets (Overview)

	FY2012	FY2013 Forecasts	FY2015 Targets
Revenues	1,786.5 billion yen	1,860.0 billion yen	2,100.0 billion yen
EBIT* (Operating income) margin	5.8% (5.9%)	5.9% (6.5%)	9.8% (10.0%)
Overseas revenue ratio	26%	31%	35%
Services revenue ratio	60%	63%	over 65%

**Expanding global businesses and strengthening services businesses
toward achieving FY2015 targets**

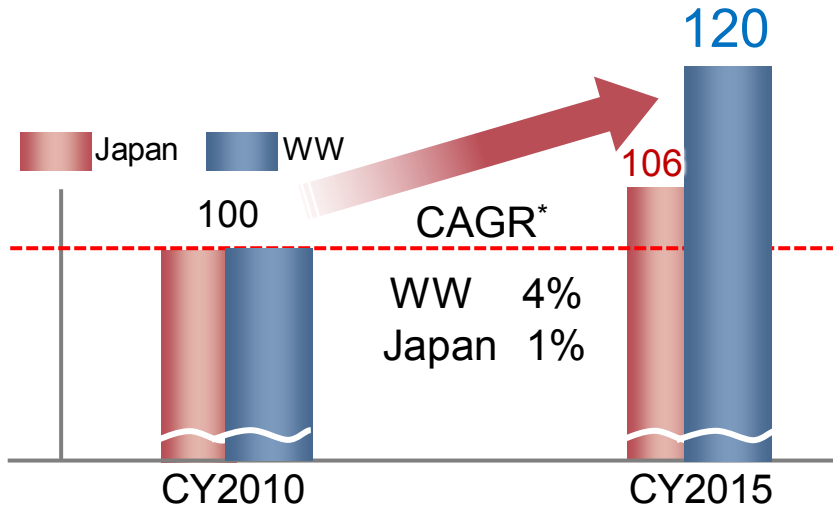


Contents

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3. Transforming a Business Portfolio with Growth Potential
4. Developing the Global Business Structure
5. Business Targets
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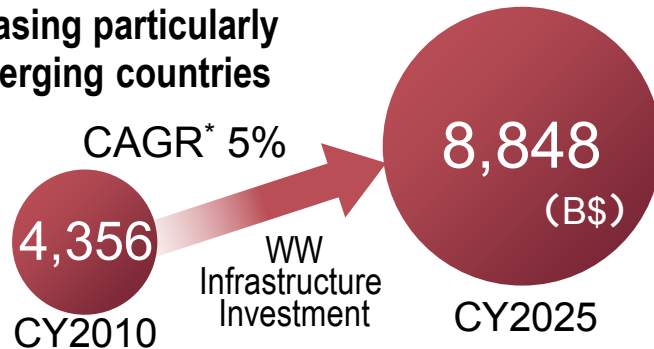
2-1. IT's role in the Social Innovation Business (1)

● Growing global IT market



Source: IDC, October 2013 "Worldwide Black Book Query Tool, Version3, 2013"
(Based on data excluding Client Systems, Feature Phones, Smartphones)

● Social infrastructure investment increasing particularly in emerging countries

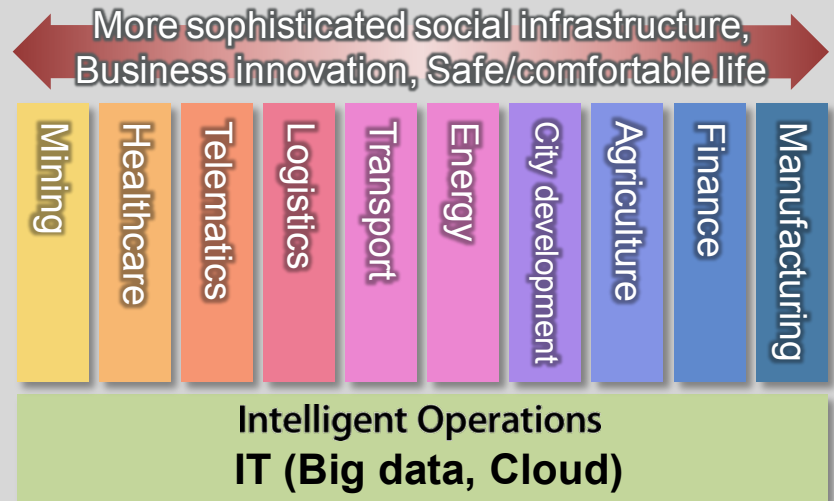


Source: Calculated by the Hitachi Research Institute using data from the IHS Global Insight

Major countries and regions for global development



Drive Social Innovation Business with "IT"



* CAGR: Compound Annual Growth Rate

More advanced society driven by valuable data

Business innovation

Advancing social infrastructure

Safe/Comfortable Living

Utilize information / Total engineering

Front areas

Back areas



People

Management, Marketing
Communication

- Feedback
- Analysis prediction
- Visualization
- Accumulation
- Data collection

Intelligence

Information

Data

IT



OT*1

Business know-how
Control technology



Enterprise Social
SNS, Mobile



Utilization of information
M2M*2

*1 OT: Operation Technology *2 M2M: Machine-to-Machine

Support the creation of a society in which each person can live healthily and safe

Social changes / customer needs

- Pre-medical
(prevention and early discovery)
- Post-medical
(home medical treatment and care)
- Medical expense reductions
- Provision of integrated medical services

Hitachi's initiatives

- Use IT to get more out of healthcare data for prevention, treatment and care
- Support the delivery of health management and disease prevention services
- Support the development of new medicine, health foods, etc.

Launched Proof of Concept projects with NHS GM (October 2013)

- NHS GM*: Improve disease-prevention services
 1. Integrate management of treatment history
(facilitate collaboration among multiple medical institutions)
 2. Develop program for improving lifestyles to prevent diabetes

Linking Hitachi's IT and know-how with the NHS GM

- Utilize Big Data analysis techniques from prevention to treatment
- Build a secure integrated healthcare platform



Improve the level of agriculture by effectively utilizing data about growing agricultural production

Social changes / customer needs

- Declining number of farm workers
- Declining food self-sufficiency rate
- Food crisis caused by population growth and abnormal climate

Hitachi's initiatives

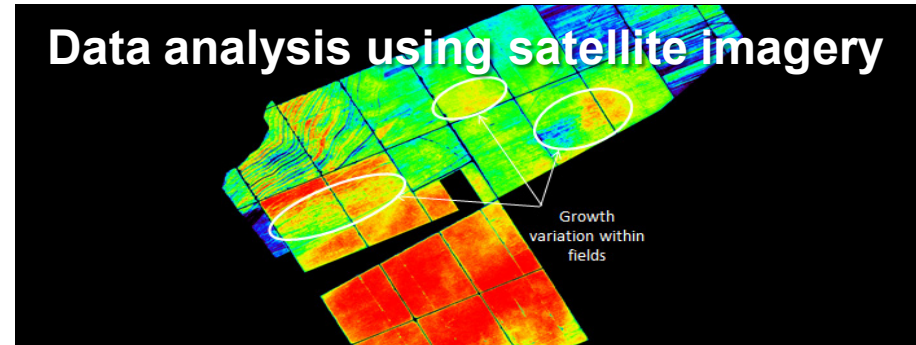
- Get more out of data on growing food with IT (sensors, satellites, etc.)
- Support production and facility management with IT

Solution examples

- Cooperation with agricultural venture **GRANPA Co., Ltd.**
(Capital Investment by Hitachi (May 2013))
 - Dome-type cultivation facilities
 - Using sensors to automatically regulate the growing environment



- Cooperation with **Mitsui & Co., Ltd.** in precision agriculture
(Examining commercial viability)
 - Targeting grain crops in Brazil and elsewhere
 - Use satellite image analysis to ascertain growing status



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Key fields to lead growth

1. Expand global businesses

- Overseas revenue ratio: 26% (FY2012) → 35% (FY2015)

2. Strengthen services businesses

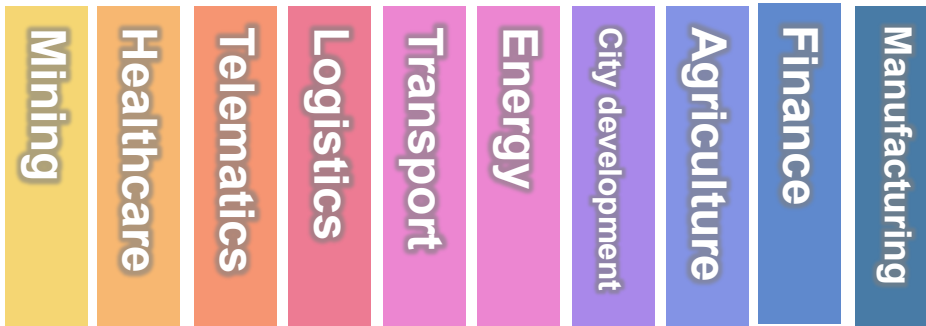
- Service revenue ratio: 60% (FY2012) → over 65% (FY2015)

3. Strengthen priority fields

- Smart information
- Big Data
- Highly reliable cloud computing
- Security

3-2. Global Business Expansion (1)

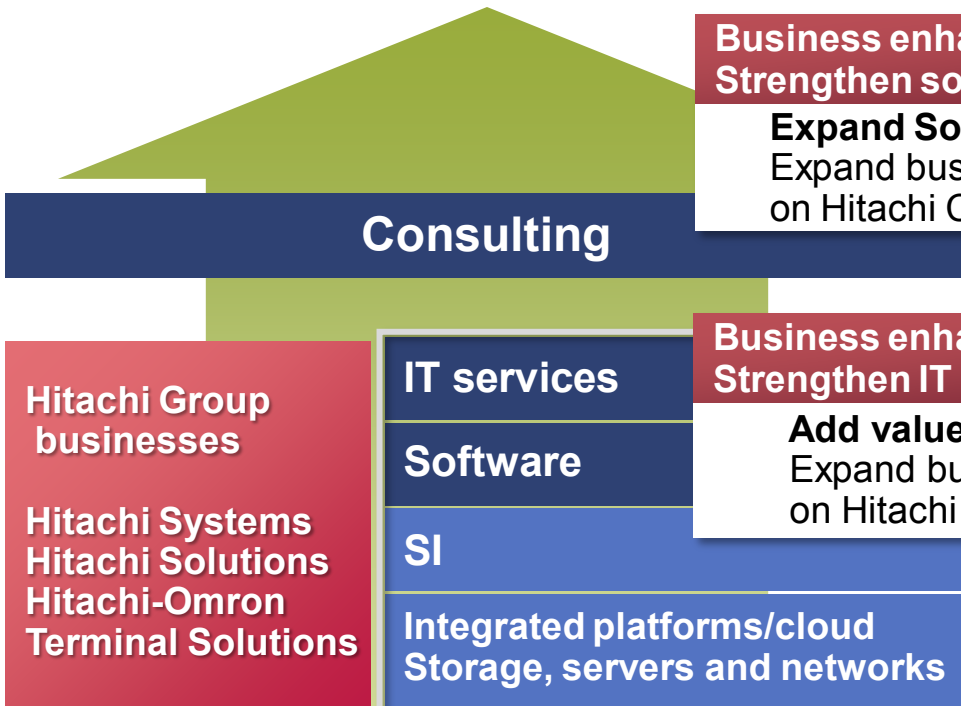
Deliver customer value as One Hitachi



Increase revenues to 2,100 billion yen in FY2015

Business target:

Overseas revenue ratio
26% (FY2012) → 35% (FY2015)



Business enhancement initiative (1)
Strengthen solutions proposal capabilities

Expand Social Innovation Business
Expand business domains centered on Hitachi Consulting

Business enhancement initiative (2)
Strengthen IT services platform

Add value with software and IT services
Expand business scale centered on Hitachi Data Systems

Operating income ratio
Target: 10%

+4% or more
FY2015

6.5%
FY2013

5.9%
FY2012

3-3. Global Business Expansion (2)

Business enhancement initiative (1) Strengthen solutions proposal capabilities

Promote centered on
Hitachi Consulting

1. Develop financial channel solutions targeting growth markets

- Concluded agreement to acquire Prizm Payment Services (November 2013)

2. Strengthen R&D and consulting to drive the Social Innovation

- Business Established Hitachi Global Center for Innovative Analytics (June 2013)
- Strengthen synergies with consulting companies (Celerant Consulting, etc.)



Expand
business
domains

Business enhancement initiative (2) Strengthen IT services platform

Promote centered on
Hitachi Data Systems

1. Provide advanced solutions that add value to data

- Began providing Hitachi Content Platform Anywhere (June 2013)
- Began providing Hitachi Cloud Services (June 2013)

2. Expand business scale in integrated platform solutions

- Expanded Hitachi Unified Compute Platform lineup (October 2013)
- Expand provision of managed services



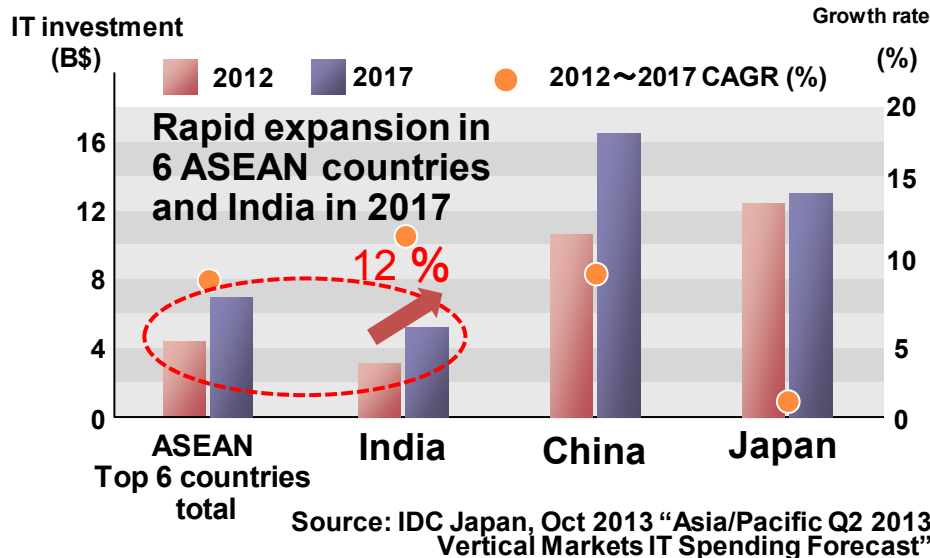
Establish
high-profit
structure

Expand business through Indian company acquisition

1. Utilize ATM track record in China to lead the financial channel market
2. Quickly expand business through acquisition of Indian payment service company

No.1 share*

ASEAN, India and China Banking Sector IT Investment



Accelerate penetration of financial systems in Asia

- Deliver ATMs in China, ASEAN countries, etc.
- Lead the industry in cash deposit and cash recycling ATMs
- Utilize IT know-how targeting enterprises

Package required services for development

- Cash payment services
- Non-cash payment services
- Payment service platforms
- Customer/alliance partner systems

Concluded agreement to acquire Prizm Payment Services (November 25, 2013)

Plan to acquire Prizm Payment Services, a provider of comprehensive payment services, extending from the provision of ATMs and card payment terminals to operational services, in India

Strengthen frontline-focused R&D and consulting

Promote open innovation and strengthen Consulting to help solve customers' issues

Conduct the world's most-advanced R&D by linking systems and products with IT and cloud services

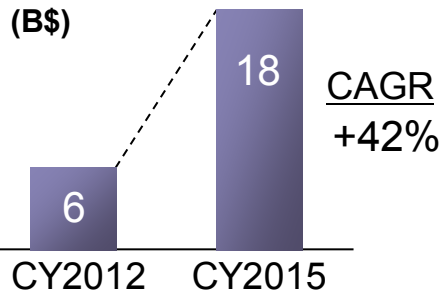
Expanding innovation collaborating bases globally



Lead the world in data management services

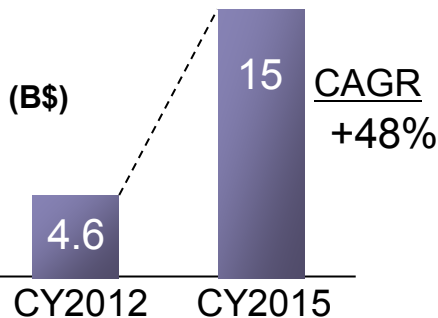
1. Provide advanced solutions that add value to data
2. Expand business scale into integrated platform solutions

Cloud Service Market (IaaS)



Source: Made by Hitachi, Ltd. based on Gartner, Nov 2013 "Forecast: IT Services, 2011-2017, 3Q13 Update"

Vertically Integrated Platform Market



Source: IDC, Nov 2012 "Worldwide Converged Systems 2012-2016 Forecast: Adoption Fueled by Faster Time-to-Market Demands" (#237979)

Integrated platform solutions

● Storage services

- Cloud storage services: Hitachi Cloud Services
- Managed services
(Currently operating data more than 50 PB)
 - End-to-end platform solutions
 - Won orders from major global companies such as BMW

● Content management middleware

- Content archive solutions
Hitachi Content Platform Anywhere (June 2013)

● Integrated platforms (Integrated PF)

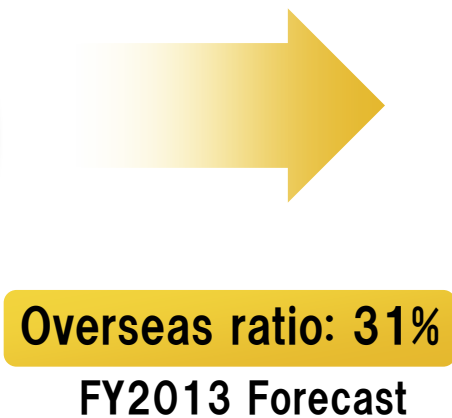
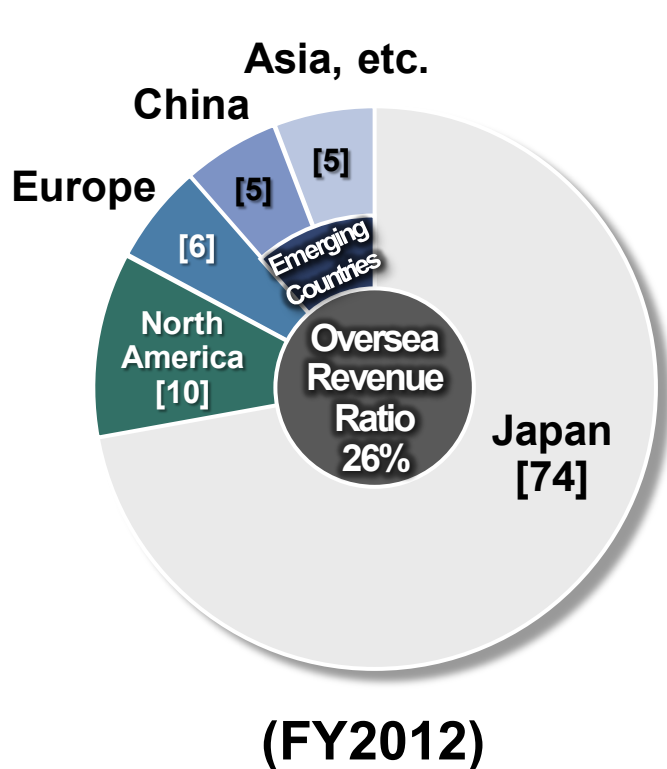
- Integrated PFs for private clouds
Strengthen lineup of Hitachi Unified Compute Platform (October 2013)
 - Won orders from Accadis, oXya and others

3-7. Expand Global Businesses (Business Plan)

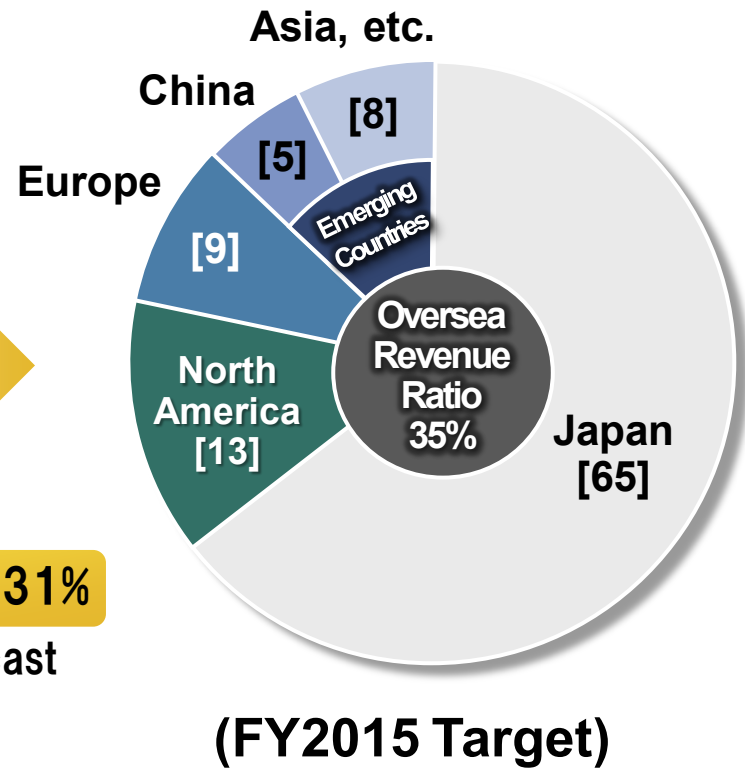
458.1 billion yen

Overseas revenue

735.0 billion yen



[] : % ratio



56,100	Japan headcount	55,000
15,400 [22%]	Overseas headcount	20,000 [27%]
71,500	Total headcount	75,000

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Increase service revenue ratio

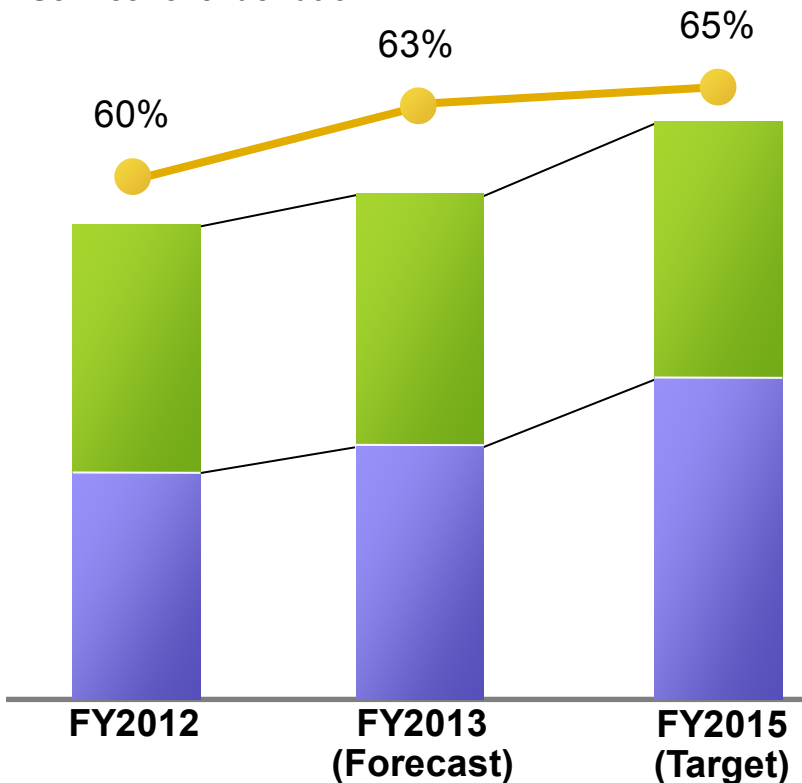
1. Increase profitability in system integration services in Japan
2. Expand business domains in management support services, operation services and product services

● Service Revenue Composition ● Business target:

Service revenue ratio

service revenue ratio

60% (FY2012) → over 65% (FY2015)



● System integration services (Japan)
Strengthen project management

● Management support services
Consulting, analytics

● Operation services
Outsourcing

● Product services (Maintenance)

Expanding demand in Japan

Finance

Increasing opportunities to replace existing large-scale systems

Government

Increasing opportunities to make proposals due to Abenomics-based public works spending, the Social Security and Tax Number System, etc.

Manufacturing and logistics

Increasing investment in cloud-based services and new service expansion, etc.

Social infrastructure

Increasing opportunities to make proposals in the Big Data utilization field

Steadily acquisition of orders

- Strengthen proposal capabilities in response to customer needs
- Rightsize workforce

Strengthen project management (pursue even greater quality and efficiency)

New customers

Package application

Advancing estimates

New fields

(1) Improve upstream operations

- Eliminate vagueness in contracts and service details
- Strengthen proposal capabilities for customers

(2) Strengthen system design capabilities

- Improve the skills of quality assurance experts to respond to new technologies and new fields

Bolster outsourcing services

Provide “Monozukuri (manufacturing) techniques”, “OT” and “IT” - strengths of Hitachi - on an outsourcing basis

Operations services

- **Services encompassing entire information systems**
- **Value provided to customers**
 - “Stable operations”
 - “enhanced competitiveness using IT”
 - “more time to focus on core businesses” and “cost reductions”

Expansion of Hitachi’s business domains

- **Provide comprehensive high-quality, highly reliable information systems services**
- **Improve efficiency in development and operations**

Concluded share transfer agreement with TEPCO for strategic business alliance relating to information systems services

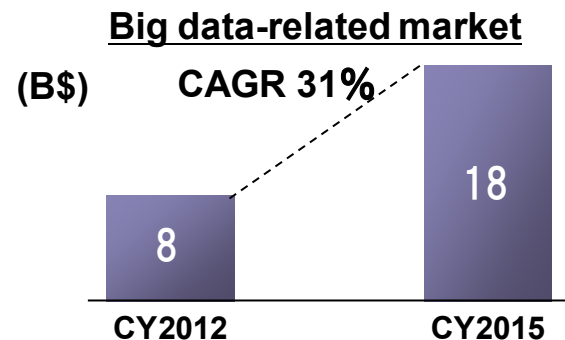
Hitachi Systems Power Services, Ltd. (new company)

Corporate split of operational services and some other operations from Tokyo Electric Power Company’s information subsidiary TEPCO Systems Corporation
Hitachi and Hitachi Systems plan to acquire shares in the new company in March 2014

Create new customer value and business opportunities utilizing big data

● New value created from data

- Integration of customer information systems and user information from other types of businesses
Analysis of automobile probes and vehicle information, and utilization of SNS data
- Innovation in smartphone and carrier communication network technologies



Source: IDC, Dec 2012 "Worldwide Big Data Technology and Services 2012-2016 Forecast" (#238746)

Expanding big data analytics market

Hitachi Group integration solutions

Transferred the CIS* Division from Hitachi Automotive Systems to the Information & Telecommunication Systems Company (April 2013)

● Automobile-related business know-how and insight

- Hitachi Automotive Systems, Clarion, etc.

● Proven IT platform in car information services

- Big data utilization platform, cloud platform, analysis techniques

Smart mobility services

Car information services

Global telematics

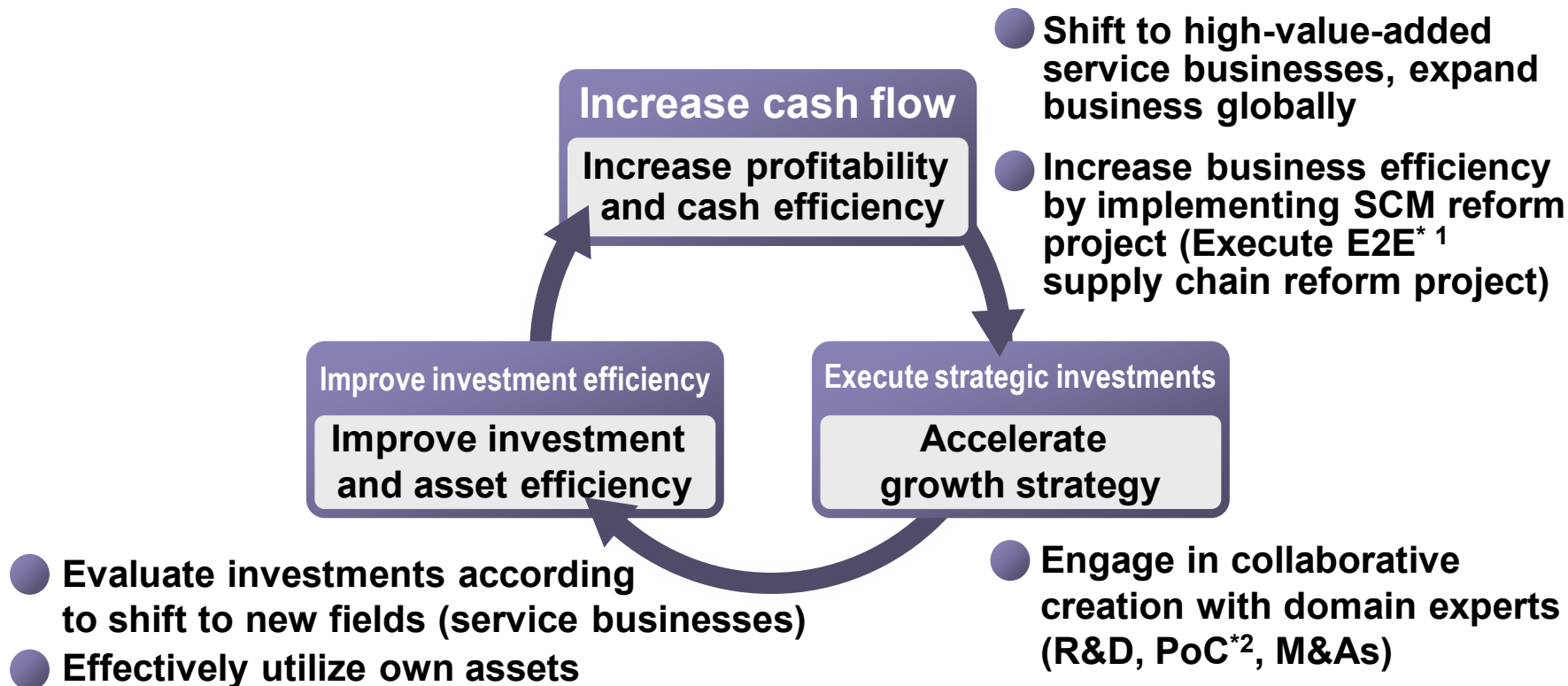
SNS-based smart mobility services

New service: Began providing Hitachi Data Processing and Distribution Service for Telematics (May 2013)

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Cash flow management

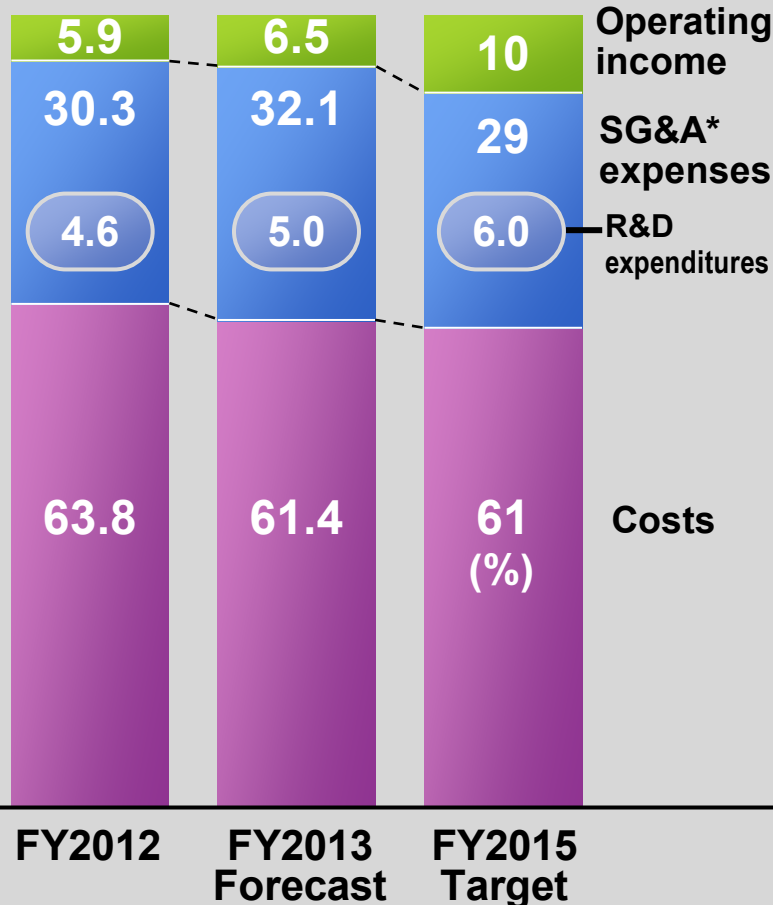


Hitachi Smart Transformation Project

Steady cost reductions → FY2015 53.0 billion yen (FY2013~FY2015 total)

Consistent cost reduction toward FY2015 targets

Target earnings structure



* SG&A: Selling, general and administrative expenses

Hitachi Smart Transformation Project Progress

- | | |
|-----------------|--|
| SG&A | <ul style="list-style-type: none"> ● Strengthen consolidated management:
Integrate sales organizations (October 2013) ● Reduce administration works:
Simplify internal transactions within Hitachi Group |
| Costs | <ul style="list-style-type: none"> ● Reduce manufacturing costs:
Launched Hitachi Information & Telecommunication Engineering, Ltd. (October 2013) ● Curtail direct material costs |

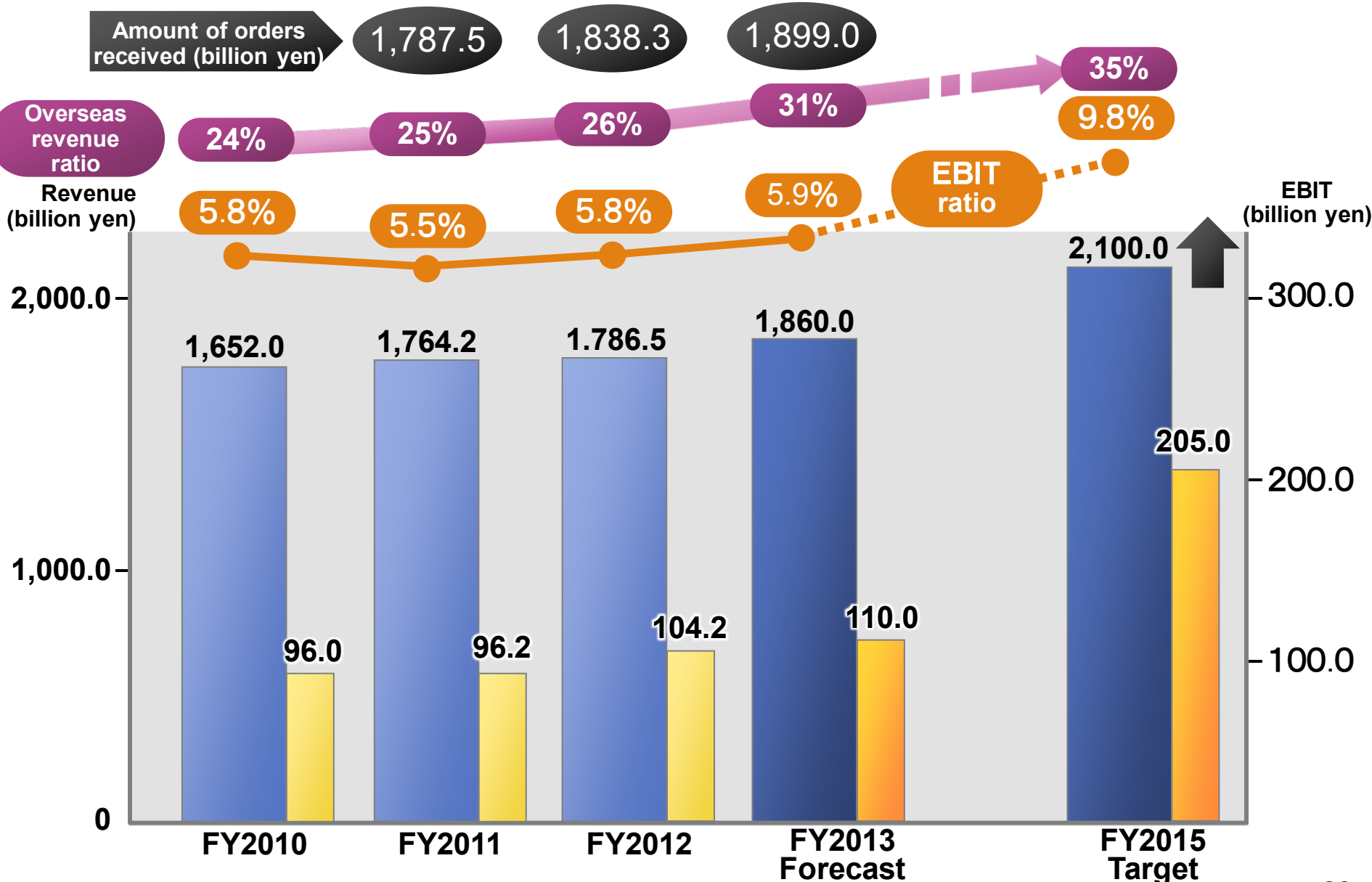
Cost reduction effect

FY2013-1H: 10.0 billion yen
FY2013: 16.0 billion yen (from FY2012)
FY2015: 53.0 billion yen (from FY2012)
→ FY2011~2015 total: 65.0 billion yen

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5-1. Performance Targets



FY2015 Targets

- **Revenues: 2,100.0 billion yen**
(overseas revenue ratio: 35%)
- **EBIT (Operating income) ratio: 9.8% (10%)**
- **Gross margin:**
2.8 point improvement (from FY2012)
- **SG&A expense ratio:**
1.3 point improvement (from FY2012)

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**Become a global major player by 3Gs
(Growth, Global and Group)**

HITACHI
Inspire the Next