
Information & Telecommunication Systems Business Strategy

Hitachi IR Day 2014

June 12, 2014

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**Executive Vice President and Executive Officer
President & CEO
Information & Telecommunication Systems Group
and Information & Telecommunication Systems Company
Hitachi, Ltd.**

Information & Telecommunication Systems Business Strategy

Contents

- 1. 2015 Mid-term Management Plan**
2. Business Policy
3. Strengthening Global Services Business
4. Strengthening Management Foundation and Progress of the Hitachi Smart Transformation Project
5. Business Performance Trends and FY2015 Targets

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

	FY2013*1 (Results)	FY2014*1 (Forecast)	FY2015*1 (Forecast)
Revenues	1,934.9 billion yen	1,950.0 billion yen	2,100.0 billion yen
Operating income (EBIT*2)	106.5 billion yen (96.3 billion yen)	136.0 billion yen (126.0 billion yen)	200.0 billion yen (190.0 billion yen)
Overseas revenue ratio	30%	33%	35%
Service revenue ratio	62%	64%	Over 65%

*1 Effective on April 1, 2014, Hitachi Information & Control Solutions and Ibaraki Hitachi Information Service (both companies merged and changed its corporate name to Hitachi Industry & Control Solutions on April 1, 2014), which were previously included in the "Information & Telecommunication Systems", have been included in the "Social Infrastructure & Industrial Systems".

Figures since FY2013 are based on the new segment classification.

*2 EBIT : Earnings before interest and taxes

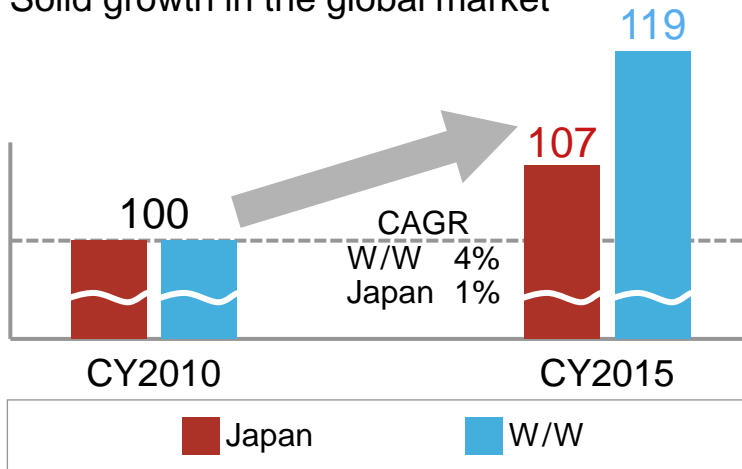
1-2. Market Trends and Target Position

Market trends

- n Accelerated paradigm shift in utilizing services
 - l Changes in target markets and the competitive environment
- n Intensifying competition in the social infrastructure business
 - l Increasing market participation through various players

n Prediction

Solid growth in the global market

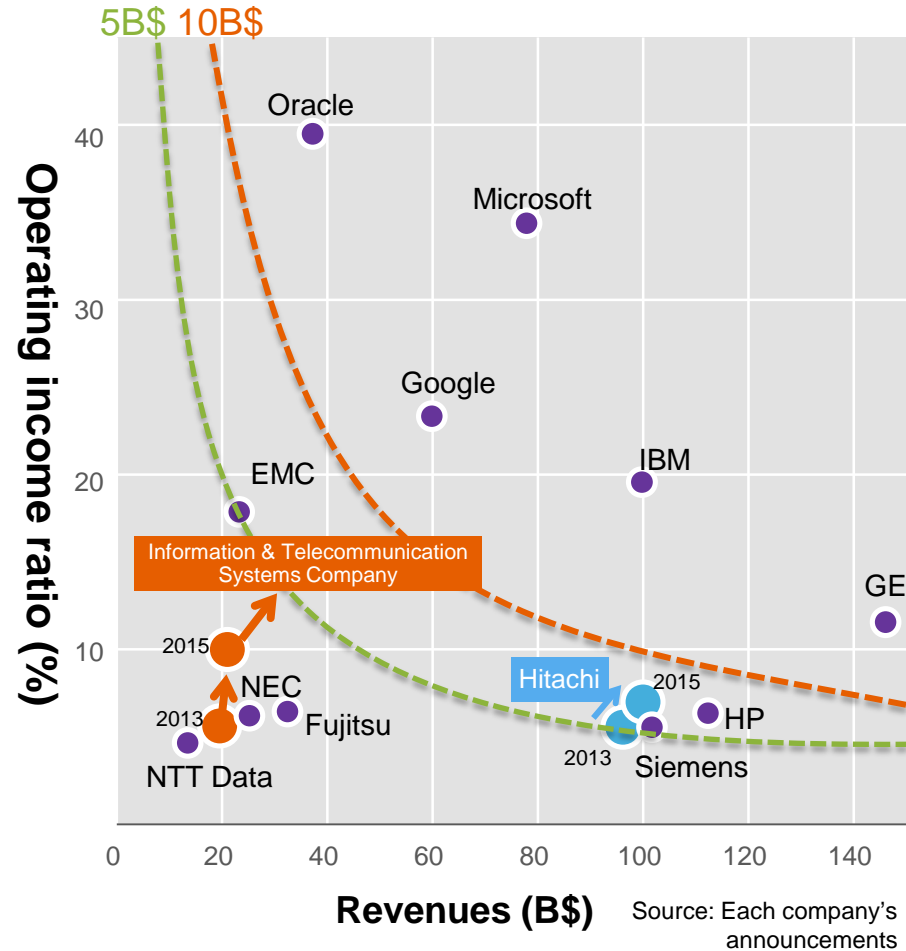


Source: IDC, May 2014 "Worldwide Black Book Query Tool, Version 1, 2014"
(Based on data excluding Client Systems, Feature Phones, Smartphones)

n Target Position: Global major player

Expand revenue and enhance profitability

Operating income:



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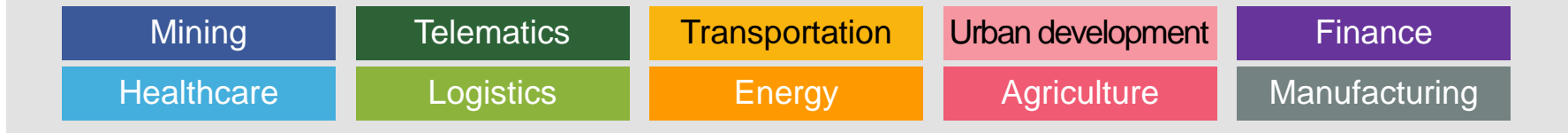
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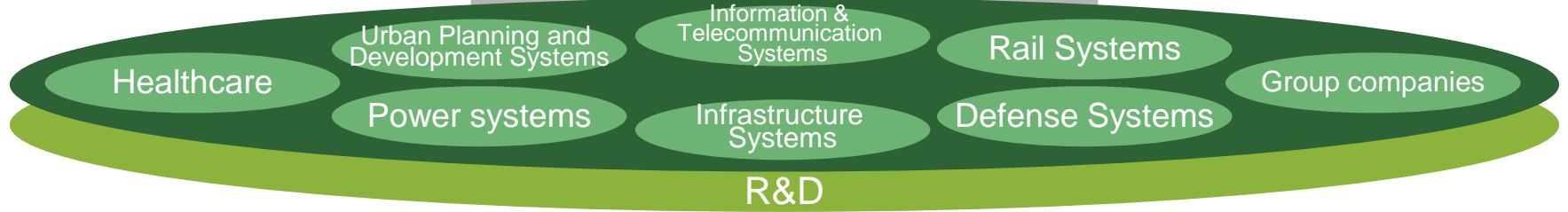
Lead Social Innovation Business by IT and provide customer value through “One Hitachi”



Strengthen solution capabilities

- Consulting
- IT Services
- SI
- Software
- Integrated platforms, Cloud
- Storage, servers & networks

Bolster the IT services platform



Transform the business portfolio with high value-added services business

- Expand the software and services business based on the strong product capabilities of Hitachi Data Systems
- Lead Social Innovation Business through upstream consulting with Hitachi Consulting

Expand earnings of global services business

Develop services for the entire value chain

Expand operation services, etc.

Adding greater value

Expand platform services

Bolster customer-centric marketing

Build mission-critical systems for supporting social infrastructure

Establish a foundation for adding greater value

Cultivate global markets and new customers in the Social Innovation Business

Create customer value centered on IT

Service revenue ratio
62% (FY2013) → Over 65% (FY2015)

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Strengthen initiatives in the Social Innovation Business

Expand innovation by utilizing information

- n **Promote the Social Innovation Business by leveraging the strengths of Hitachi Group businesses**
 - l Promoting Proof of Concept projects such as healthcare, etc.
- n **Expand R&D bases – realizing innovation**
 - l Expand Big Data Research Laboratory: Denmark Big Data Research Laboratory (To be established in 1H FY2014)

Expand capabilities for providing solutions

- n **Bolster consulting capabilities for BI and data analysis**
 - l Acquired U.K. company*1 (Hitachi Consulting)
- n **Expand services capabilities through consolidated company management**
 - l Entered IT market in India: Acquired Indian company*2 (Hitachi Systems)
 - l Strengthen Microsoft Dynamics business: Acquired U.S. and Canadian companies*3 and established new Indian company*4 (Hitachi Solutions)



Realize new customer value through “One Hitachi”

*1 Information Management Group Limited (April 2014) *2 Micro Clinic India Pvt. Ltd. (March 2014)

*3 Customer Effective, Inc. in U.S. (April 2014) and two companies under Ideca Group Inc. in Canada (December 2013)

*4 Hitachi Solutions India Pvt. Ltd. (July 2013)

Further improvement of quality and reliability in Japanese market

Execute risk control from upstream by strengthening project management

- n Addressed most of the unprofitable projects in FY2013, control steadily

Implement Large SI projects

- n Realize innovation through projects building core systems
 - l Concluded a basic agreement on building next generation core systems with The Shizuoka Bank, Ltd. (Jan. 2014)
 - l Adopted next generation open account package at The Keiyo Bank, Ltd. (May 2014)
 - l Provide cloud services for core enterprise systems at Sompo Japan Insurance Inc. (March 2014)
 - l Systems development associated with the introduction of the Social Security and Tax Number System and unification of employees pension systems

Expand services business domains

- n Strengthen operation services encompassing entire information systems
 - l Provide services leveraging Hitachi's strength in stable operations and know-how in social infrastructure systems, including power systems
 - Established Hitachi Systems Power Services, Ltd. (March 2014)

Expand services across the entire value chain by innovation

Globally expand services across the entire value chain

Financial Channel Solutions

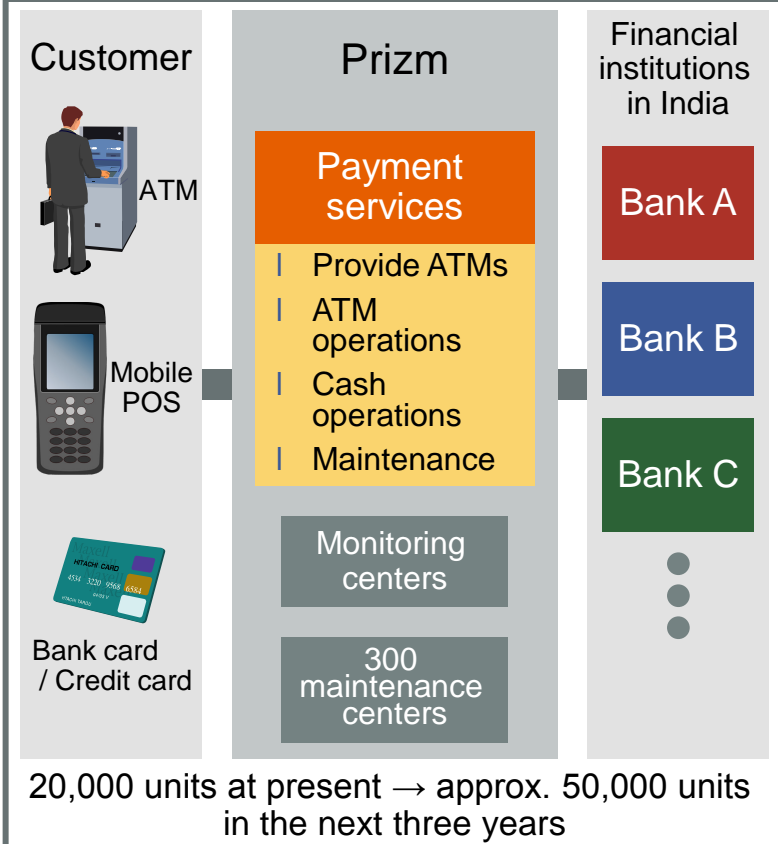
Expand value chain in ATM equipment business

- Provide one-stop service from facility/module to maintenance services

Provide payment services business

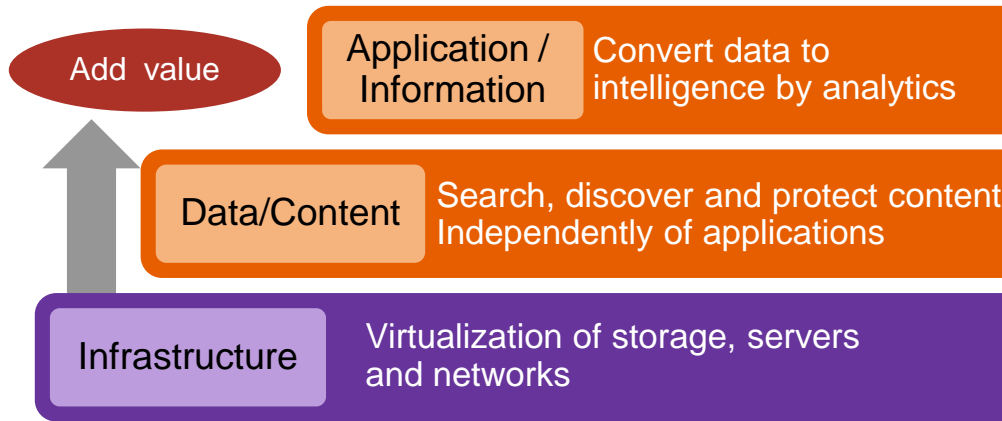
- Prizm Payment Services Pvt. Ltd. in India
 - Provide ATM and POS outsourcing services
 - Offer ATM services for banks and develop joint-use type ATM services
 - Plan to expand from India to various Asian countries
- Established Payment Services Division (April 2014)

Payment services through Prizm



Globally provide services based on customer bases and know-how

Added greater value to storage platforms that have a global customer base by software and services



n **Storage services**

- | Hitachi Cloud Services
- | Managed services

n **Content archive solutions**

Hitachi Content Platform Anywhere

n **High-speed data access platforms**

Hitachi Advanced Data Binder Platform

n **Private cloud integrated platforms**

Hitachi Unified Compute Platform

n **Storage platforms**

n **Storage solutions business revenues**

- | 439.0 billion yen (FY2013) → 480.0 billion yen (FY2015)
- | Software & services revenue ratio: over 50% (FY2015)

Enterprise storage platform

n **Launched Hitachi Virtual Storage Platform G1000 (April 2014)**

- | Tripled the data access performance compared with former Hitachi products
- | Non-disruptive migration with newly developed virtualization technology



Hitachi Virtual Storage Platform G1000

Support customers' business innovation by converting data to intelligence by analytics

Invest in realizing new customer value

Strengthened R&D, consulting and service provision bases via consolidated company management

Main progress since FY2013

I European Big Data Lab

(U.K.) (October 2013)

I Denmark Big Data Research Lab

(1H FY2014)

n Strengthen consulting business in the U.K.

- Acquired BI consulting company in the U.K. (April 2014)

I U.S. Big Data Research Lab

(April 2013)

n Strengthen Microsoft Dynamics business

• Acquired IT companies in the U.S. and Canada (April 2014/ December 2013 / Hitachi Solutions)

I Brazil R&D Division

(June 2013)

n Strengthen services for social infrastructure

Launched Hitachi Systems Power Services, Ltd. (March 2014)

n Strengthen financial channel solutions

- Made Prizm Payment Services Pvt. Ltd. a wholly owned subsidiary (March 2014)
- Hitachi eBworx Sdn. Bhd. in Malaysia established a local subsidiary in Indonesia (May 2014)

n Strengthen services business in Asia

- Established a joint venture with Malaysian IT company Sunway Technology Sdn. Bhd. (April 2013 / Hitachi Systems)
- Acquired Indian IT company Micro Clinic India Pvt. Ltd. (March 2014 / Hitachi Systems)
- Established Hitachi Solutions India Pvt. Ltd. (Microsoft Dynamics business) (July 2013 / Hitachi Solutions)

Europe

North America

South America

Japan

Asia

Accelerate business in targeted areas by setting up a control center for global services business in North America

3-6. Global Business Plan

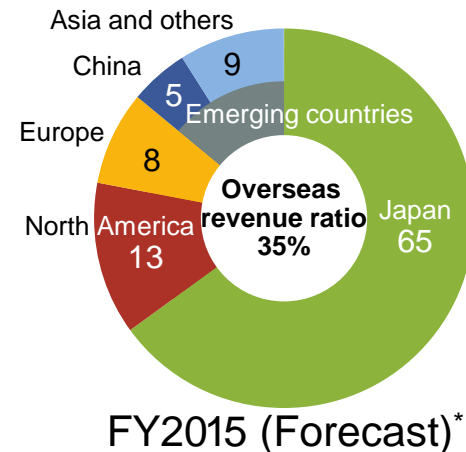
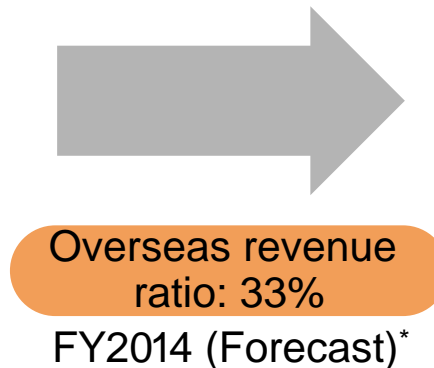
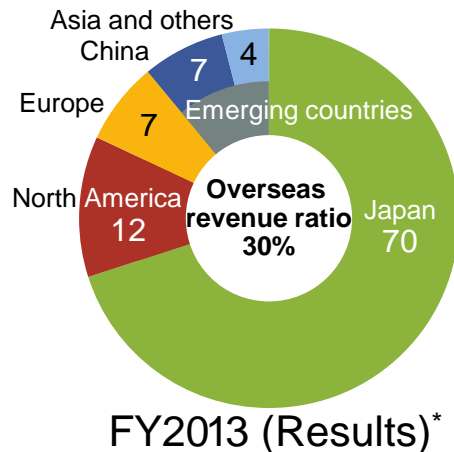
Expand provision of solutions and pioneer the Social Innovation Business centered on Hitachi Data Systems and Hitachi Consulting

- North America and Europe: Continue investments for strengthening provision of solutions
- China: Expand solutions business by strengthening approach via "One Hitachi"
- Asia: Expand provision of services through alliances and promote collaborative creation with global Japanese companies

588.4 billion yen

Overseas revenue

735.0 billion yen



56,200

Japan

56,300

18,700 [25%]

Overseas

21,700 [28%]

74,900

Total

78,000

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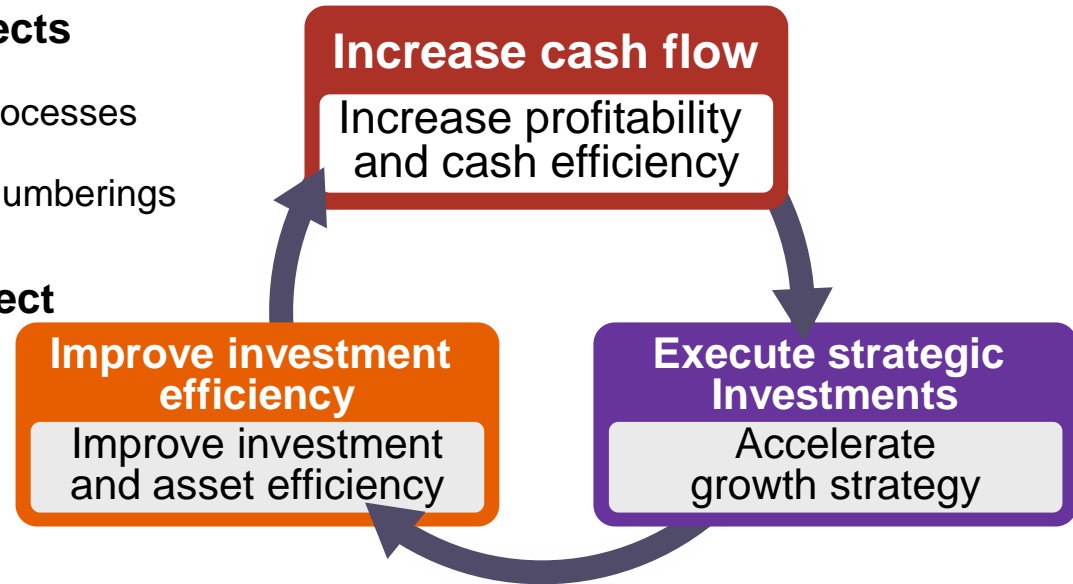
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Strengthen cash flow management

- n **Improve business efficiency by implementing SCM reform projects**
 - l Promote E2E transformation projects
 - l Promote standardization of production processes and raise production efficiency
 - l Reduce types of components and unify numberings
- n **Make steady progress on the Hitachi Smart Transformation Project**
- n **Increase investments in growth fields**
- n **Implement collaborative creation with domain experts**
 - l R&D, PoC, M&A
- n **Focus on strategic investment projects**
- n **Effectively utilize assets and reduce total assets**



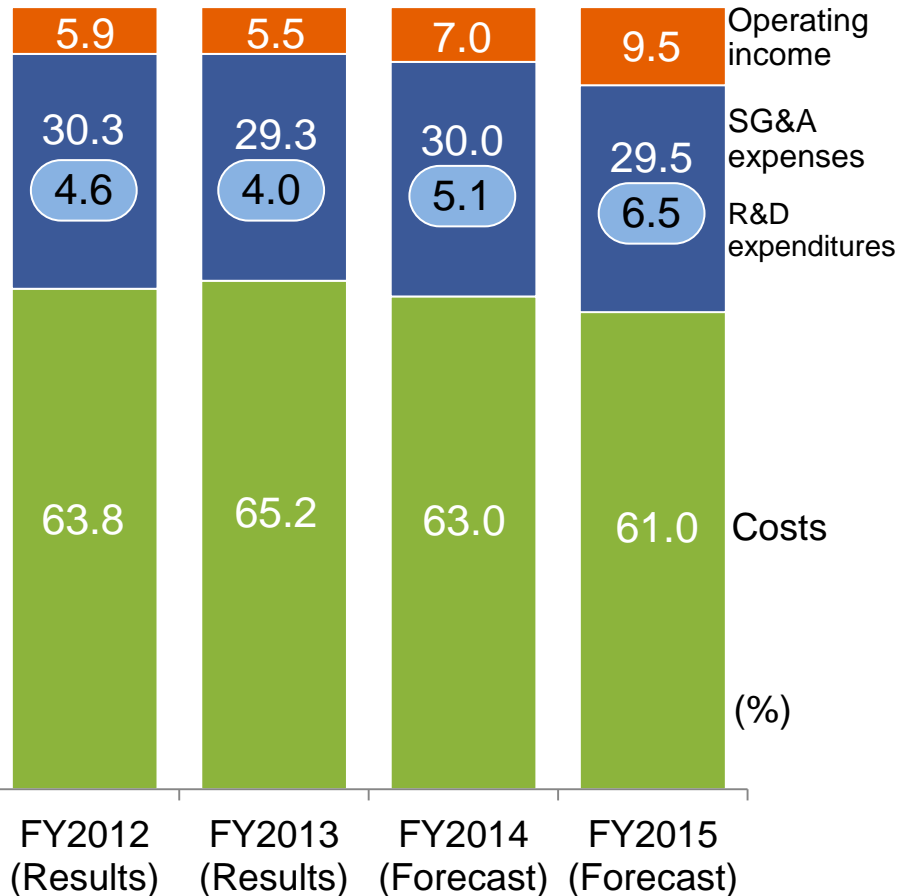
E2E : End to End
PoC : Proof of Concept

Strengthen Management Structure

- n **Strengthen human resource portfolio management on a consolidated basis**
 - l Continuously strengthen training of experts and optimally assign for global expansion of services
- n **Transform business schemes to respond to changes in customers' business environments**

4-2. Progress of the Hitachi Smart Transformation Project HITACHI Inspire the Next

Earnings structure*



Progress

SG&A

- n **FY2013 SG&A expenses improved year over year**
 - Progress in indirect operation reforms
- n **Accelerate optimization within the Hitachi Group**
 - Simplify transactions and integrate IT systems

Costs

- n **Steady reductions in manufacturing and direct procurement costs** (Launched Hitachi Information & Telecommunication Manufacturing, Ltd. (October 2013))
- n **Accelerate cost reduction for SI**
 - Reform the resource portfolio
 - Increase internal production rates

Cost reduction effect

FY2013 (Result): 16.0 billion yen (from FY2012)
FY2014 (Forecast): 15.0 billion yen
FY2015 (Forecast): 22.0 billion yen
➔ **FY2011~FY2015 total: 65.0 billion yen**

Cost reduction and cash generation for strategic investments

SG&A: Selling, general and administrative expenses

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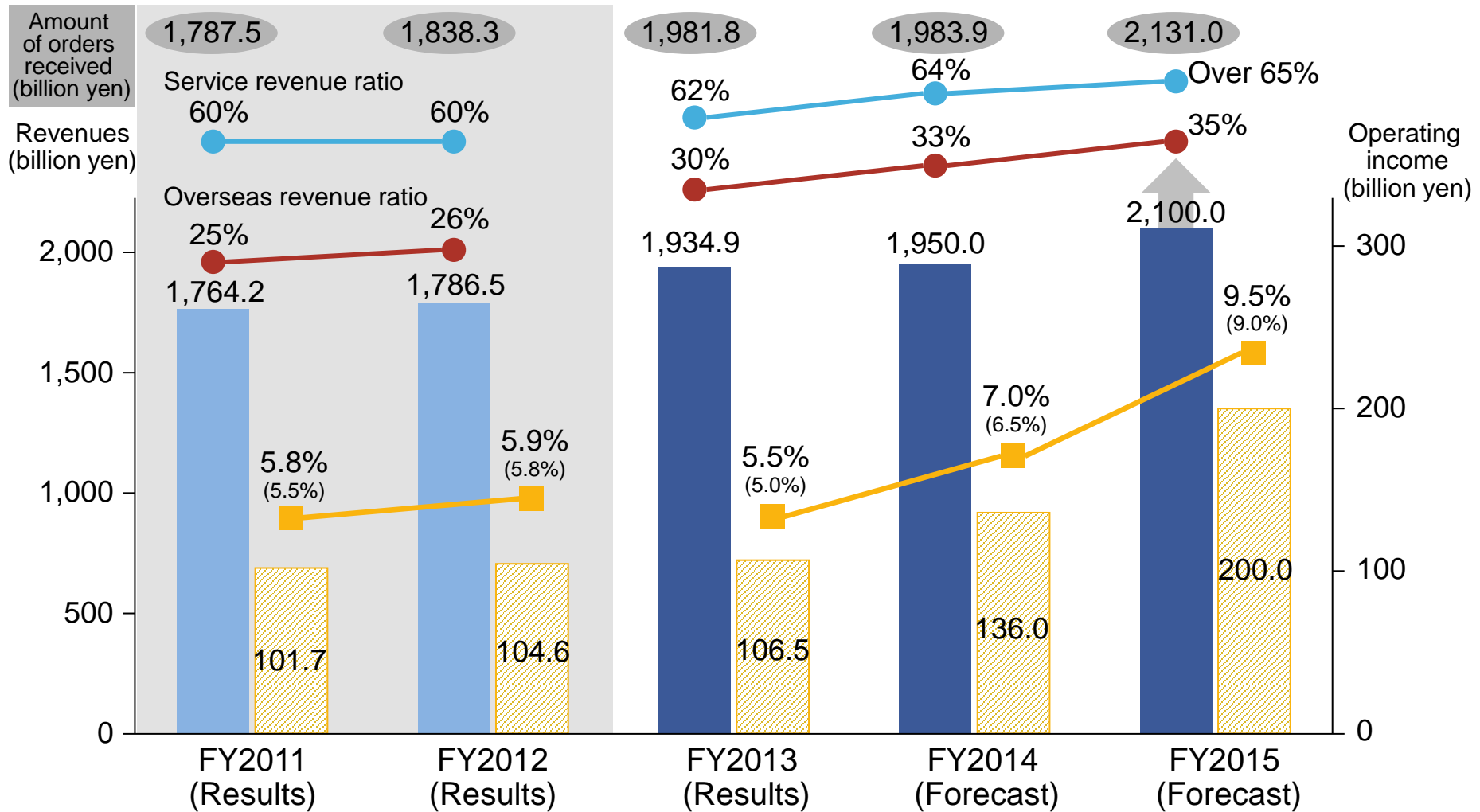
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5-1. Business Performance Trends*

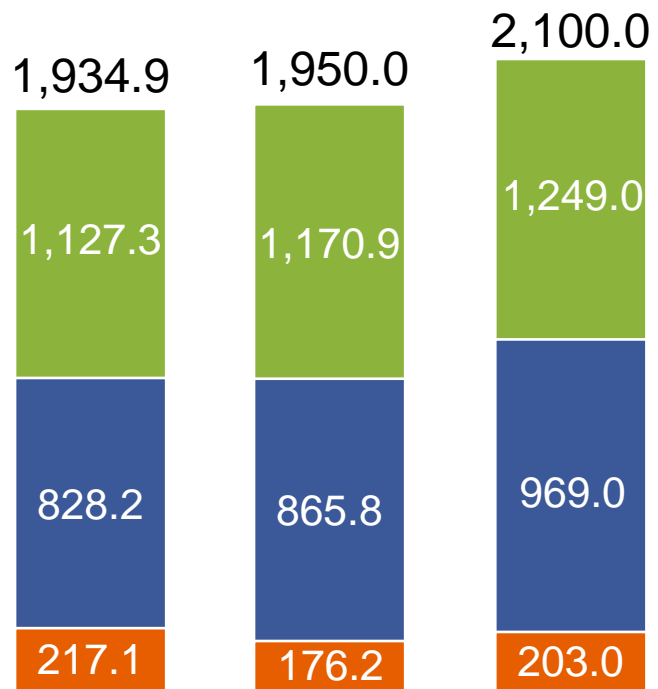


■ Revenues
 ■ Operating income
 ■ Operating income ratio (EBIT ratio)

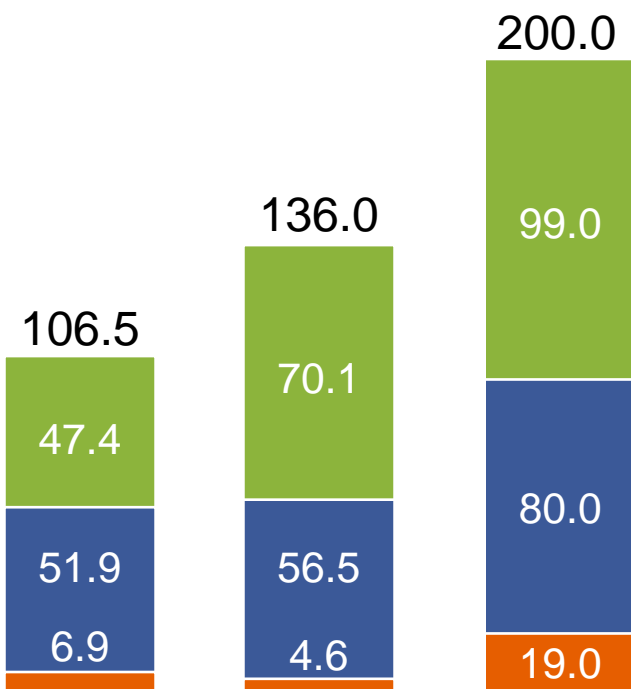
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5-2. FY2015 Business Plan*

Revenues by segments (billion yen)



Operating income by segments (billion yen)



Eliminations & others (237.6) (263.0) (321.0)

Eliminations & others 0.1 4.5 2.0

System solutions Platform Telecommunication

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FY2015 Targets

- n Revenues: 2,100.0 billion yen
(Overseas revenue ratio 35%)
- n Operating income (EBIT) ratio: 9.5% (9.0%)
- n Gross margin: 2.8 point improvement (from FY2012)
- n SG&A expenses ratio: 0.8 point improvement
(from FY2012)

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

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;
- 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 information technology products and digital media-related products and intensifying price competition for such 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 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 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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