

# **Information & Telecommunication Systems Business Strategy**

Hitachi IR Day 2011

**June 16, 2011**

**Shinjiro Iwata**

**Senior Vice President and Executive Officer**

**President & CEO**

**Information & Telecommunication Systems Company**

**Hitachi, Ltd.**

# Information & Telecommunication Systems Business Strategy

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- 1. Business Overview and Outlook**
2. Growth Strategy
3. Strengthening Business Bases
4. Contribution towards Japan's Recovery
5. 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

## Platforms



**Servers/Storage/Networks**

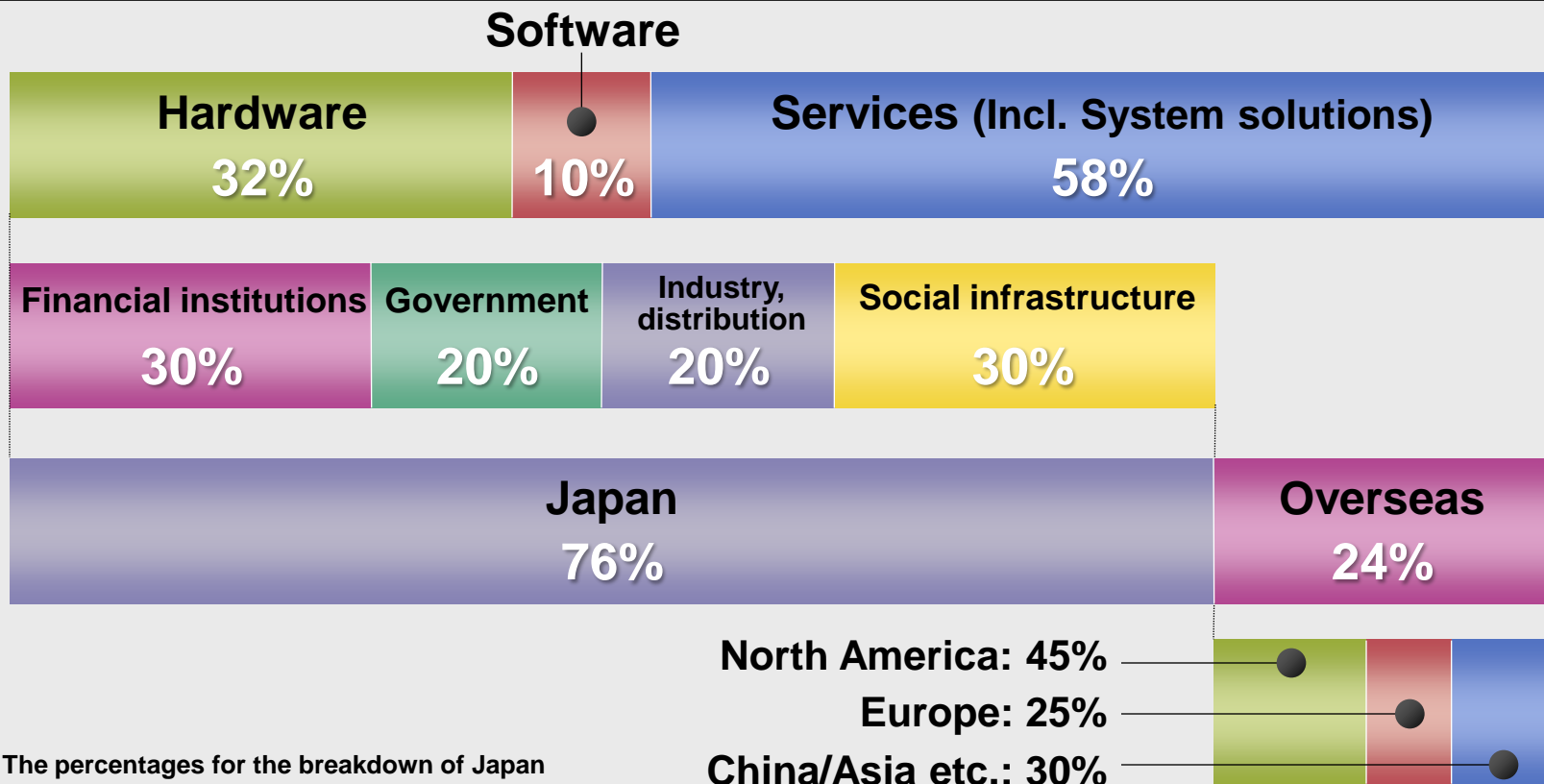
- Hardware
- Software

# Highly Reliable Cloud Computing Services

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

■ **Business size FY2010 revenues:** ¥1,652.0 billion

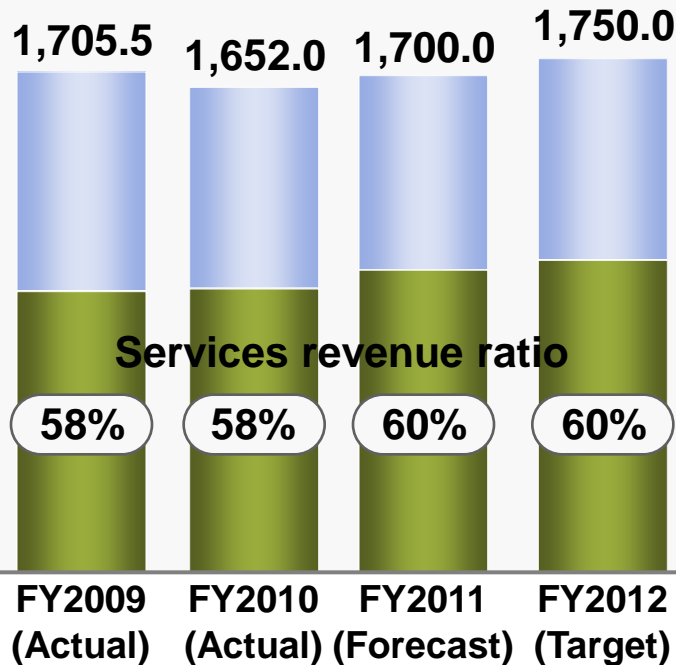
## Revenue breakdown



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

### Revenues (Billion yen)

Hardware/software  
Services



### Overseas revenue ratio

22%

24%

25%

25%

### FY2010 Summary

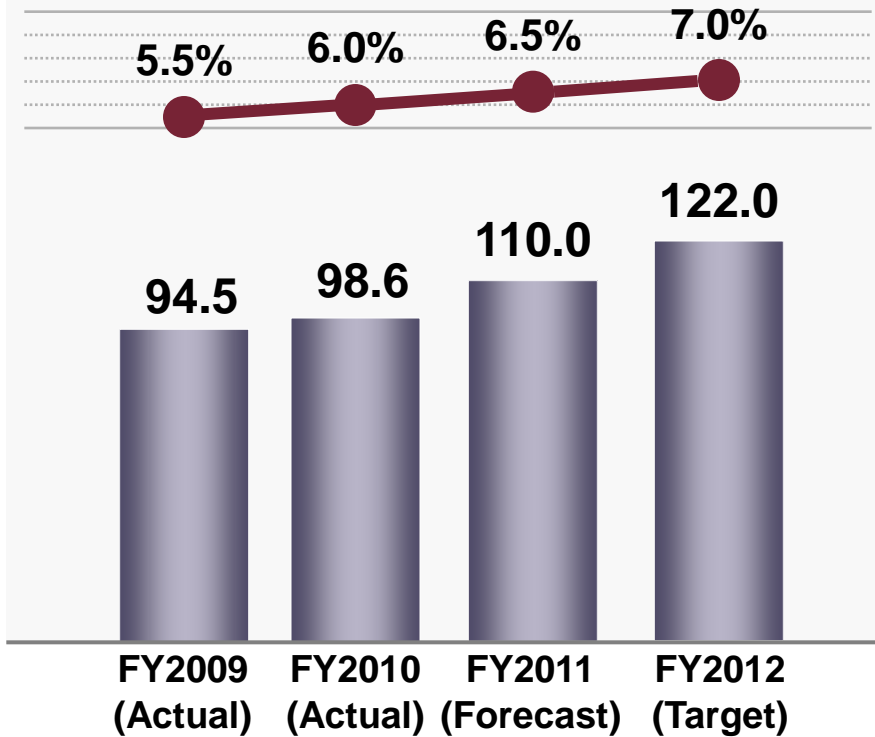
- Revenues declined reflecting impact of reduced IT investment in Japan, although storage solutions saw sales growth overseas.

### Outlook from FY2011

- Expect higher revenues due to greater consolidated management efficiency from Japanese group company mergers, capturing demand for data center services, and strong growth in overseas storage solutions business.

### Operating Income (Billion yen)

(Operating income ratio)



### FY2010 Summary

- Operating income rose due to better project management and cost cutting, etc., despite the impact of the Great East Japan Earthquake.

### Outlook from FY2011

- Expect higher operating income due to improved efficiency in consolidated group management, along with rigorous project management, use of offshore resources and cost cutting.

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## Economy

- Emerging markets expected to grow, slow recovery expected in industrialized nations
- Accelerating global competition, rise players from emerging nations

## IT market

- **Japan:**  
Recovery slow in 2011 due to earthquake etc., reductions in IT investment continue  
Market recovery expected in 2012 due to demand associated with relief and recovery efforts
- **Global:**  
Growth seen worldwide, driven by emerging markets

## IT systems

- Growing interest in BCP\* and data centers following the Great East Japan Earthquake
- Increasing adoption of IT as a service, full-fledged use of cloud computing
- Increasing need for large volume data utilization in business

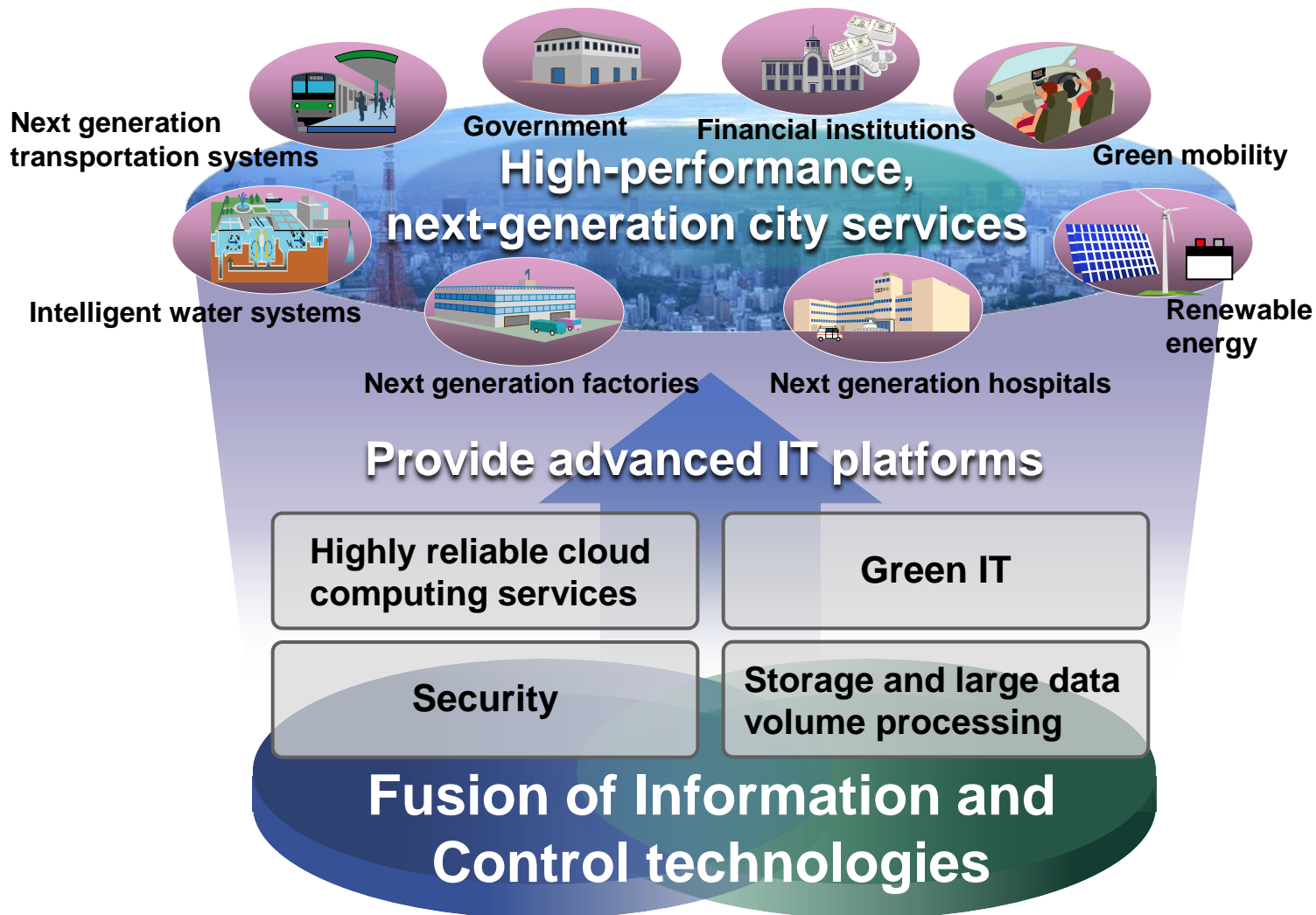
## IT vendors

- Vertical integration by global major vendors
- Strengthening social infrastructure solutions businesses
- Enhancing global business responsiveness (M&As, using offshore resources)

\* Business Continuity Plan



**Business growth based on Hitachi strengths of fusing "Information" and "Control"**  
- Create safe, secure, and comfortable social infrastructure supported by highly reliable systems -



**FY2015  
Targets**

**Revenues: ¥2.3 trillion**

**Operating income ratio: 8%**

**Overseas revenue ratio: 35%**

**Services revenue ratio: 65%**

## Leading company in Social Innovation Business

Global company recognized for its strong products and services

■ Strengthen and expand domestic businesses

■ Strengthen and expand global businesses

### Fields of future focus

■ Fused Businesses

■ High reliability cloud businesses

■ Services to allow easy use of mass data

## ■ Key policies

**Strengthen core domestic businesses, add value, shift to services**

**Development of new business areas**

**Achieve global growth by strengthening and expanding core domestic businesses and growing fields**

## Add value to businesses to expand core businesses in Japan

### Financial institutions

- **Expand into new areas through involvement from upstream operations**
  - Construct core systems and retailing systems for major companies
  - Expand highly reliable outsourcing services

### Government

- **Maintain competitive position by improving proposals for new services**
  - **Government systems:**  
capture orders for optimized and next-generation systems, rebuild large-scale systems
  - **Local government/academia:**  
increase cloud computing proposals

### Industry, distribution

- **Expand high-value-added services**
  - Strengthen ERP<sup>\*1</sup> solutions, large-scale outsourcing
  - Active focus on solutions for restoration and BCM<sup>\*2</sup> response

### Telecommunications

- **Expand businesses in high-growth business domains**
  - Expand sales of next-generation infrastructure products and business systems to telecom carriers
  - Expand business in the high-growth corporate network field

\*1 Enterprise Resource Planning

\*2 Business Continuity Management

**Add value to businesses to expand core businesses in Japan**

## **Efforts to expand business share Cultivate new business domains**

**Top in the below categories in 15th Customer Satisfaction Survey,  
Nikkei Computer August 18, 2010 edition**

**Hitachi, Ltd.**

- IT consulting, upstream design-related services (Maker division)
- System development-related services (Maker division)
- System operation-related services (Maker division)

**Hitachi Electronics Services Co., Ltd.**

- System operation-related services  
(Information services company division)

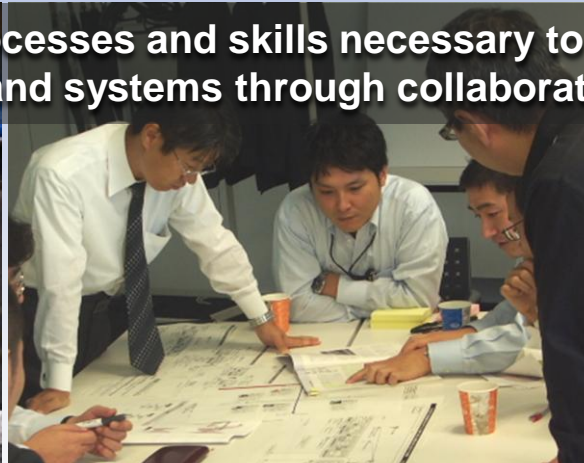


## Experience Oriented Approach (Ex Approach)

Method combining the processes and skills necessary to form consensus quickly  
Reform business processes and systems through collaborative creation with customers



Observe workplaces with specialists



Share ideal business process flows in joint workshops



Create visual image of systems by using prototyping technology

### Customer comments

"Now I see the importance of creating a visual image"

"There is now definitely less need to rethink things at the development stage"

Expanding scope to target a wide range of users, particularly the finance sector (A total 33 projects as of March 2011)

<Bank> Improve customer service at teller windows while improving operation efficiency

<Life insurance company>

Improve sales processes based on behavioral analysis of high-performing sales staff

Develop specialist staff (Approx. 140 as of March 2011)



**GOOD DESIGN  
AWARD 2010**

# 2-7 Creating Highly Reliable Cloud Computing Services

**Aim to create highly reliable cloud computing services for social infrastructure systems and mission critical operations**

Expand introduction to enterprise information systems

Introduce and expand application in core enterprise systems

Full-scale application in core corporate systems and social infrastructure systems

Present

Around 2015

Highly reliable cloud computing technologies (security, interaction platform, performance assurance, data protection, integration and operating techniques)

**Related revenues**

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

**Growing adoption of cloud computing by the corporate and government sectors for large-scale systems and core systems**

Sumitomo Mitsui Banking

Using private cloud storage service

Tokyo Gas

Approx. 12,000 group employees using SaaS\*1 type groupware

Kajima

First instance in Japan of fluid analysis system in construction projects shifting to cloud services

Ministry of Foreign Affairs of Japan

Integration of ministry IT infrastructure into a private cloud to allow centralized management\*\*

Japan Meteorological Agency

Applying PaaS\*2 in IT infrastructure of weather and disaster prevention information

Japan Tobacco

Using private cloud-type infrastructure environment services in 100 types of systems

\*1 Software as a Service \*2 Platform as a Service



## ■ Our strength: Provision of reliable cloud services

- Full support across all fields, including facilities, IT, service development and data center operation as a electric conglomerate
- Reflection of large-scale evaluation by utilization within the Hitachi group to the service

## ■ Expand and enhance highly reliable cloud computing services

- Establishment of a robust data center in Western Japan and virtualization of data centers
  - Plan to construct a third data center in Okayama
  - Cloud service interconnection, promotion of the integrated management between the data centers
- Strengthen BCM solutions
  - Create hybrid system combining customer's systems and Hitachi data center services
- Collaborative creation with partners; reinforcement of ability to offer services.
  - Promotion of the SaaS use by the open cloud market place.
  - Provision of the SaaS business infrastructure for the membership B to B market place

## ■ Reinforcement of the technology to produce the new value from cloud computing services

- Reinforcement of technologies to strengthen usability, search performance and analysis of vast volumes of data that exist in cloud databases
  - Joint development with the University of Tokyo of a super high-speed database engine
  - Development of technology to make use of mass data through the Hadoop/ grid computing



Create safe, secure, comfortable social infrastructure and provide greener, high-value services

Hitachi's next generation city : build a city with sustainable relationship between humans and the earth

## China

- Sino-Singapore Tianjin Eco-City: Create a model for an eco-city
- Guangzhou Knowledge City: A city built on knowledge-intensive industries
- Collaboration with Dalian City (China) in the field of recycling resources and low-carbon economy

## Other countries

- Verification experiment for isolated-island smart grid in Hawaii
- Smart community verification experiment in Spain

Participate from upstream stage in the city planning process

- Offer planning support using eco experience oriented approach

Provide full support from planning to operation and maintenance

Develop services businesses based on IT platforms



## Key policies

Expand business through the three pillars of growth and synergy generation

First Pillar	Create high added value in platform business ~"One Platform for All Data"~
Second Pillar	Expand global consulting network and business scale
Third Pillar	Realization of integrated IT services business

Aggressively promote overseas solutions business

Expand business in emerging markets

**By strengthening and expanding global business**  
**Overseas revenues: ¥800 billion,**  
**Overseas sales ratio: 35% (FY2015)**

## Business Vision: "Data Drives Our World" Add value to platform solutions supporting data utilization



- Shift from content cloud (collection and management of data) to information cloud (utilization of data)
- Pursue collaborative creation with customers through mass data analysis/utilization and create new businesses based on Hitachi's strengths in storage
- Capture market share in growth fields
  - Integrated platforms
  - Data analytics
  - Managed services
- Fortify and expand sales channels, further expand businesses in emerging markets

### FY2010 results

- Record revenue on a U.S. dollar basis (up 18% year over year)
- Large-scale storage: Maintained top-class worldwide market

Storage solutions business revenues

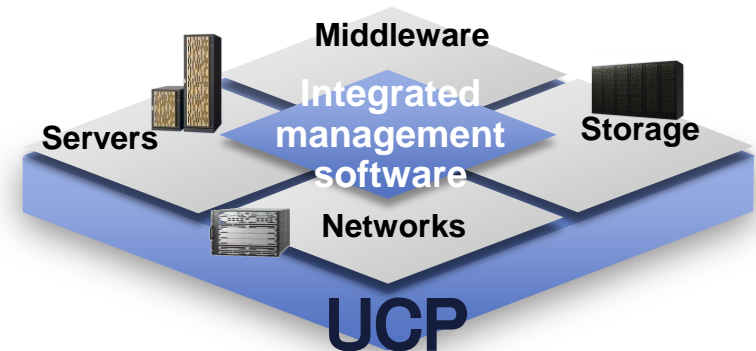
FY2010: ¥322 billion → FY2015: ¥400 billion

## Create new value through integrated platforms and mass data utilization

- Realization of long-term preservation of data, high-speed search and analysis
- Development of business fields that utilize mass data (Healthcare, compliance, video surveillance, e-mail, etc.)

### ■ Unified Compute Platform (UCP): Launched in North America in June 2011

- Roll out enhanced version in 2012



### ■ Launched Converged Data Center Solutions in June 2011

- Develop optimal solutions for cloud applications and specific operations

## Platform solutions business

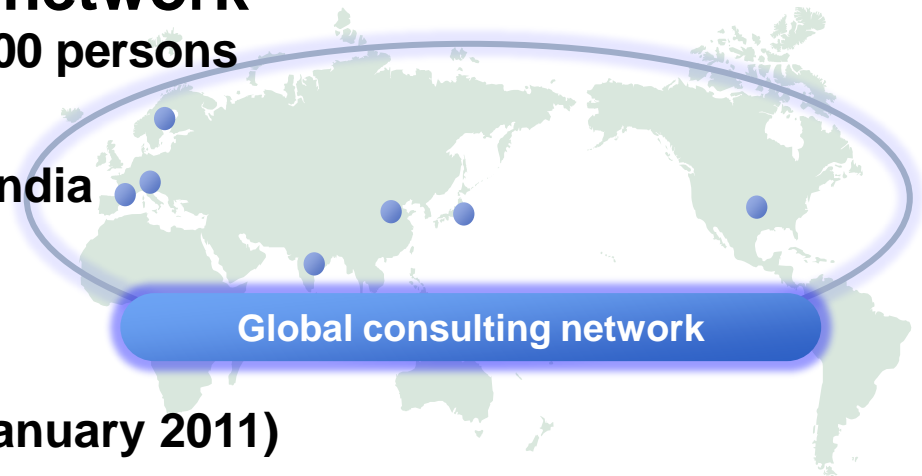
- Steadily expand server and networks businesses

## Expand global consulting business

### Expand global consulting network

39 bases, staffed by a little over 4,000 persons  
(as of the end of May, 2011)

- Established bases in China and India
- Acquired Sierra Atlantic (U.S.)  
(December 2010)
- Reinforce bases in Europe  
(Acquired Spanish company in January 2011)



### Use resources at Sierra Atlantic to boost portfolio

### Expand provision of services to global accounts

- Win large projects from major North American and Japanese companies, and large numbers of repeat orders

Consulting business revenues

FY2010: ¥40 billion → FY2015: ¥130 billion

## Expand business domains in global IT service field

Continue to look at M&As for bolstering business and customer bases

### Target

- Managed service business based on data centers
- Cloud computing business including SaaS/PaaS/IaaS\*

Third Pillar:  
Integrated IT Services  
Business

First Pillar:  
Platform Solutions  
Business

Second Pillar:  
Consulting Business

Integrated IT services business revenues FY2015: ¥260 billion

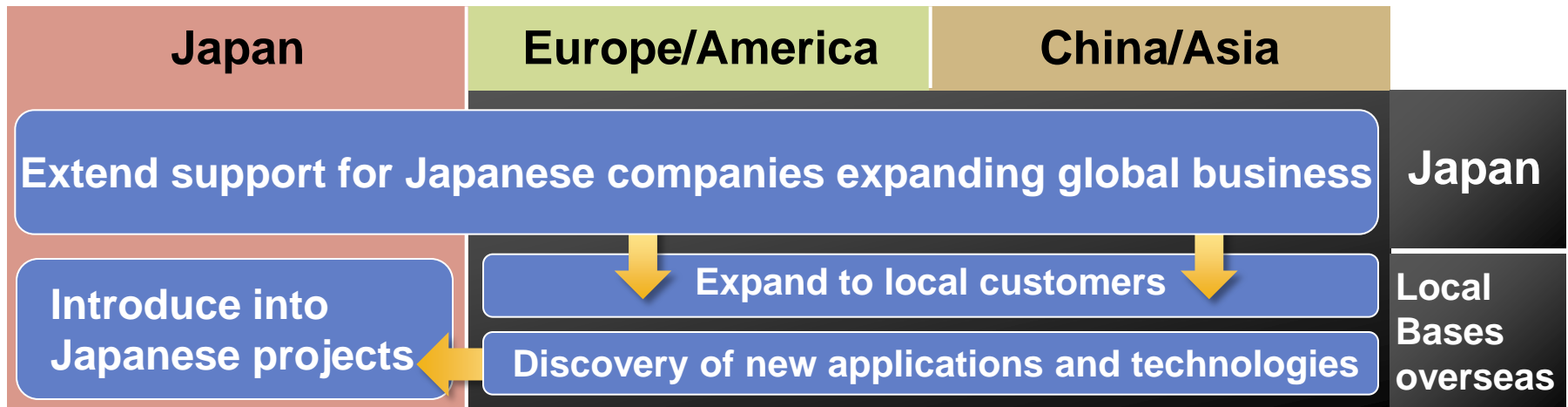
\* Infrastructure as a Service

Expand solutions business overseas, mainly targeting the finance and industry sectors

- **Extend greater support for Japanese companies expanding global business**
- **Expand business to global customers' local operations**
- **Introduce advanced U.S. and European technology into Japanese projects**

Solutions developed in Japan that have a proven domestic track record

- **Finance: risk management, channel solutions**
- **Industrial system: global SCM\*<sup>1</sup>, production control packages**
- **Government: ITS\*<sup>2</sup> systems, etc.**



\*1 Supply Chain Management

\*2 Intelligent Transport Systems

## Actively develop China, India and Brazil as priority markets

### China

- Promote commercialization (finance IT business\*, data centers and services, etc.) through alliances with local companies
- Cultivate regional customers
  - Establish consulting bases: win continuous orders from global accounts
  - Provide full support for environment-conscious data centers from planning to integration and operation
  - Established strategic partnership with Infohold (May 2011)

### India

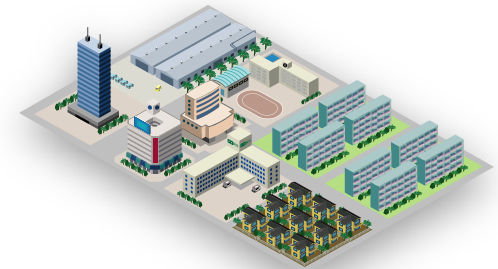
- Continue to actively target large government projects (e.g. infrastructure)

### Continue to develop markets with competitive platform products

Storage, ATMs, StarBoard interactive whiteboards, etc.

- Continue to foster growth in storage business in emerging economies (Brazil, etc.)
- Promote locally led product development: strengthen local R&D framework in China and India

\* Channel solutions, risk management solutions, etc



China/Asia revenues

FY2010: ¥100 billion → FY2015: ¥200 billion



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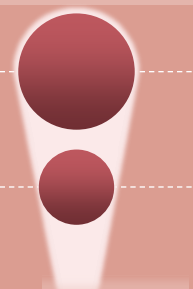
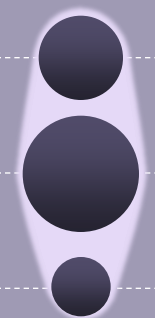
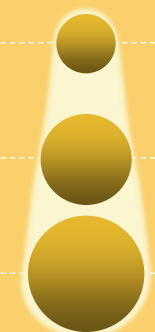
- **Raise efficiency of group consolidated management**
  - Synergy efforts arising from establishment of Hitachi Solutions\* in October, 2010
    - Orders up by ¥15.0 billion (FY2010)
    - Year-on-year sales increase of 10% (FY2011)
    - Provide compound solutions combining strong solutions
  - Share SI services (which make the most of the strengths of each company) according to type of industry / customer
- **Strengthen operations**
  - Cost cutting (Software/services, hardware, indirect materials)
  - Investment plan: FY2011 ¥100.0 billion
- **Pursue improved quality and productivity by strengthening manufacturing capabilities**
  - Standardization of hardware manufacturing processes and techniques
  - Reinforcement of consolidated project management
- **Strengthen business continuity**
  - Review BCP to prepare for future disasters, pandemics, and other risks

\* Formed by the merger of Hitachi Software Engineering and Hitachi Systems & Services

# 3-2 Strengthen company business management system

**Provision of optimal solutions for customers by maximizing customer leverage and satisfaction and improvement of efficiency**

- Hitachi Solutions, Ltd.: October, 2010 started operations
- Hitachi Systems, Ltd. (provisional name): To start operation in October, 2011 (Formed by the merger of Hitachi Electronics Services and Hitachi Information Systems )

		Hitachi, Ltd.	Hitachi Solutions, Ltd.	Hitachi Systems, Ltd.
<b>Mission</b>		IT services to realize social innovation business	Total solution utilizing system construction know-how	One-stop services using it's bases nationwide
Maximizing customer leverage and satisfaction	Large-scale system			
	Small and medium size scale system			
		<b>Maximize each company's strength / Synergy</b>		
<b>Advantages</b>		<ul style="list-style-type: none"> <li>•Correspondence power for large-scale customers</li> <li>•Global business bases</li> </ul>	<ul style="list-style-type: none"> <li>•Large-scale software development</li> <li>•Reliable system technology</li> </ul>	<ul style="list-style-type: none"> <li>•Operation and maintenance services</li> <li>•Network system construction</li> </ul>

## Global Environment Contribution Plan by IT

**Prevention of global warming**

**Carbon footprint project**

**Recycling and reuse of resources**

**Product collection promotion project**

- **Product collection center established (FY2010)**
- **Set up collection routes for rare earth metals and increase collection volume (FY2011)**

**Preservation of eco system**

**Nature Restoration Project**

- **Testing and study of IT utilization in ecosystem preservation via the "IT eco experimental village"  
Started in FY2011**



## Environment-Conscious Data Center Project

**Demonstration project at the Yokohama site (Bldg. 3) to demonstrate coordination of IT and facilities, and air conditioning technologies**

**Establish technology to halve data center power consumption (Compared to that consumed in 2007)**

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## Support customers' recovery and preparations for the future

### Reconstruction aid

#### Business continuity

- Establish new data centers or increase floor space (Okayama, Yokohama and other locations)
- Offer free diagnosis of business continuation risk
- Establish BCP, BCM solution promotion center

#### Reduction of power consumption

- Power saving at data centers
- Offer power saving solutions for offices and data centers

### Restoration support

- Special maintenance service, Free cloud service, etc.
  - Disaster reconstruction aid programs (13 free services\*)
- A disaster recovery team is dispatched to disaster area immediately after disaster strikes

\* As of the end of May, 2011

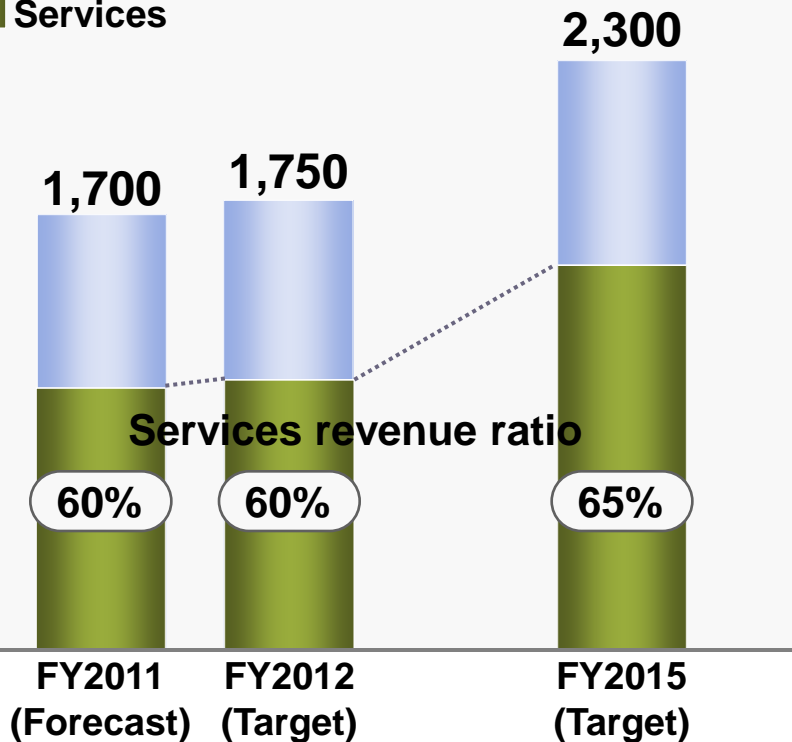
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## Revenues (Billion yen)

Hardware/software  
Services

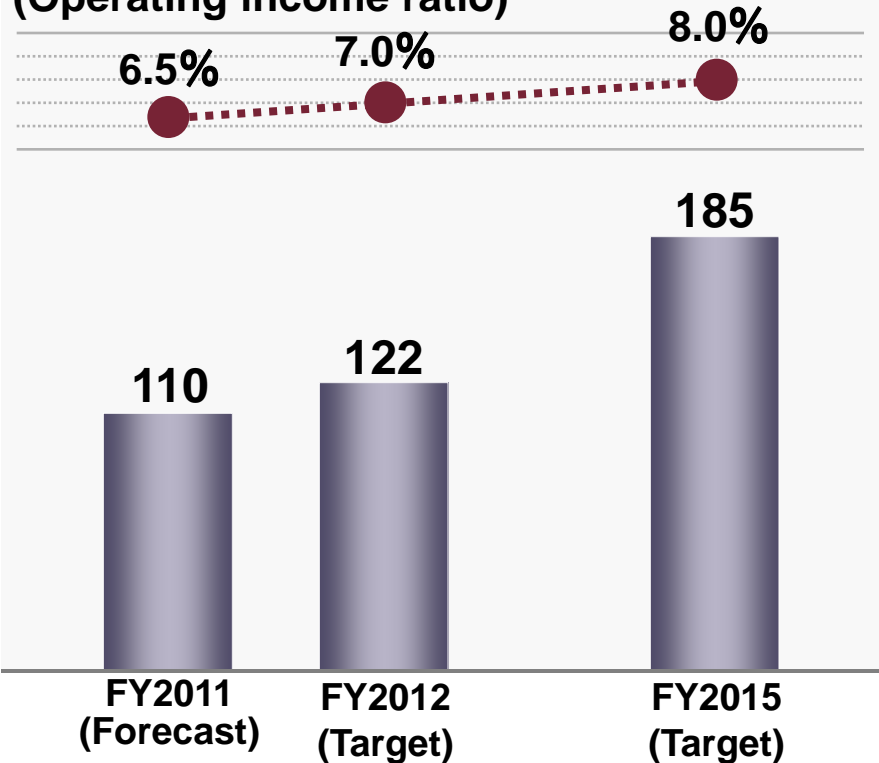


### Overseas revenue ratio



## Operating income (Billion yen)

(Operating income ratio)





### FY2015 Targets

- **Revenues: ¥2,300 billion**  
**Operating income ratio: 8%**
- **Overseas revenue ratio: 35%**
- **Services revenue ratio: 65%**

**Contribute to Social Innovation Business  
through collaborative creation with  
customers**

# 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 and 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 in Japan, 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 Components & Devices and 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 and synthetic resins 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 in Japan by earthquakes, tsunamis or other natural disasters, including the possibility of continuing adverse effects on Hitachi’s operations as a result of the earthquake and tsunami that struck northeastern Japan on March 11, 2011;
- 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 Hitachi’s periodic filings with the U.S. Securities and Exchange Commission and in other materials published by Hitachi.

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