Information & Telecommunication Systems Business Strategy

June 9, 2010

Junzo Nakajima

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

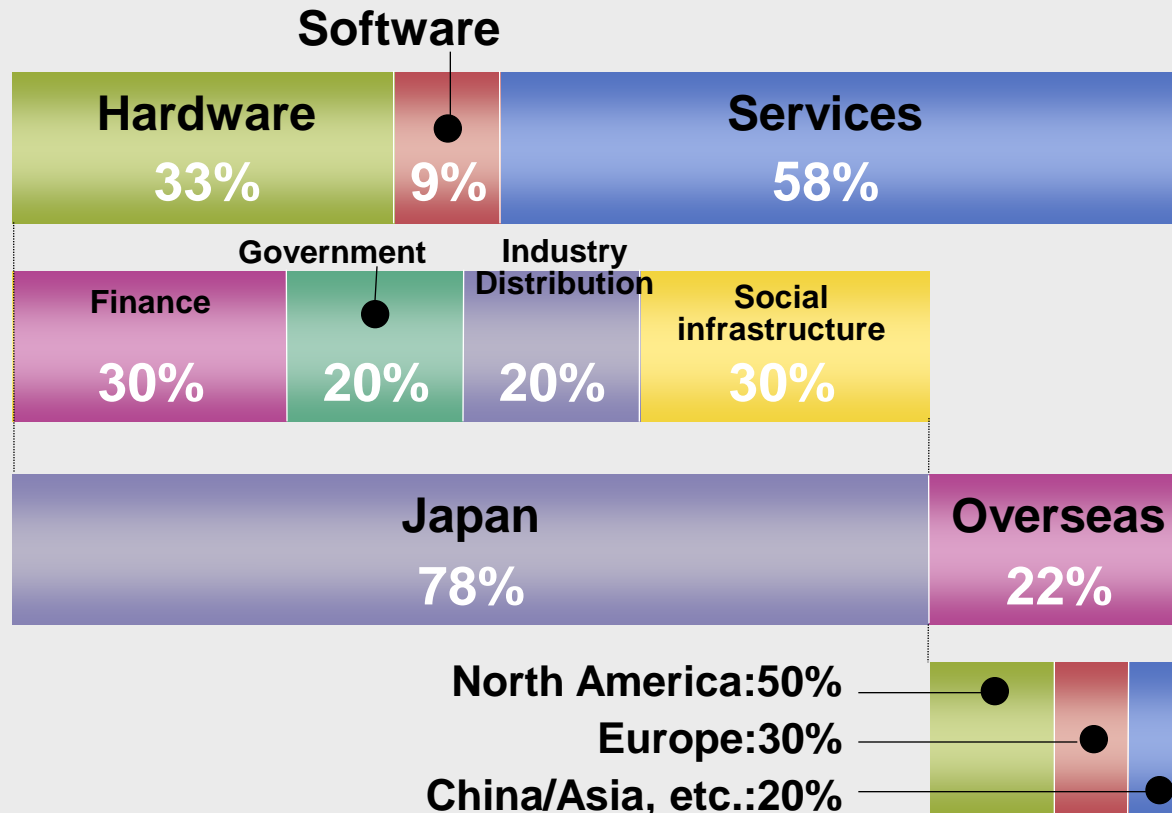# Information & Telecommunication Systems Business Strategy

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1. Business Overview and Outlook

1-1. Business Overview

Management vision Contribute to social innovation through collaborative creation with customers

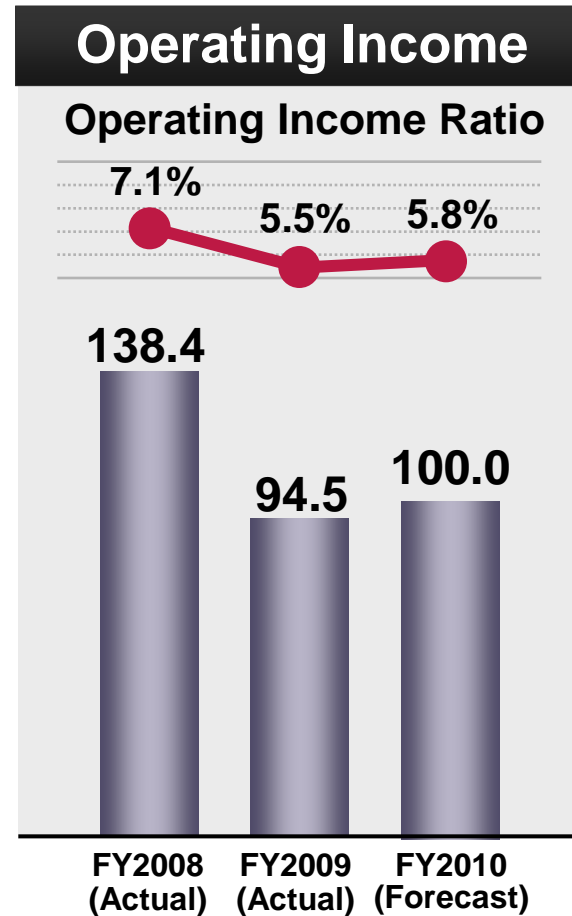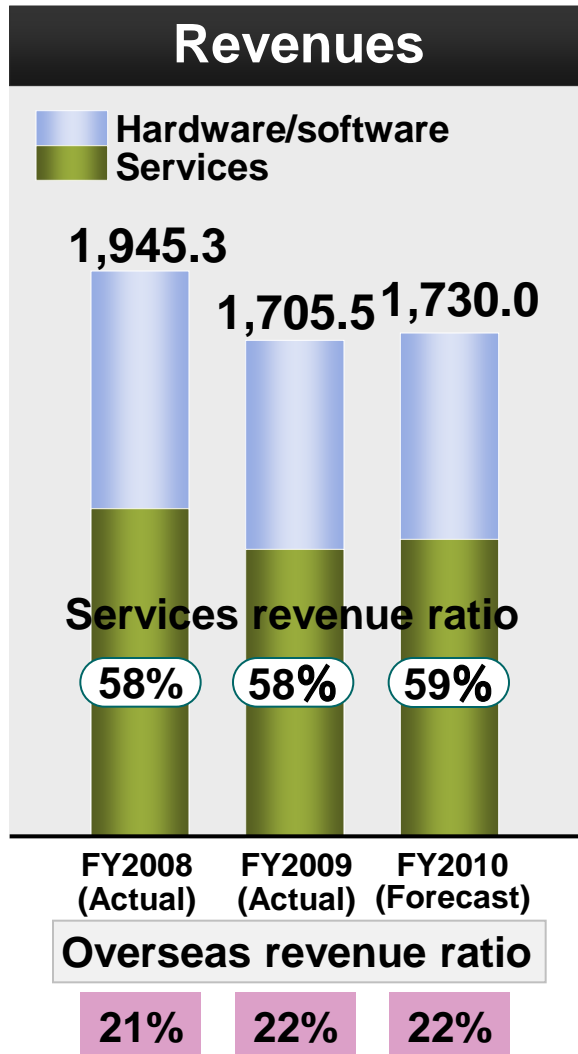**Business size** FY2009 revenues: ¥1,705.5 billion

Revenue breakdown

Software

Hardware 33%	9%	Services 58%

Finance 30%	Government 20%	Industry Distribution 20%	Social infrastructure 30%

Japan 78%	Overseas 22%

North America:50%
Europe:30%
China/Asia, etc.:20%

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

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1-2. FY2009 Results and FY2010 Forecasts

Aim to generate operating income of ¥100.0 billion on revenues of ¥1,730.0 billion in fiscal 2010 after results bottomed out in fiscal 2009.

(Billion yen)

Revenues

- Hardware/software
- Services

1,945.3
1,705.5
1,730.0

Services revenue ratio

| 58% | 58% | 59% |

| FY2008 (Actual) | FY2009 (Actual) | FY2010 (Forecast) |

Overseas revenue ratio

| 21% | 22% | 22% |

Operating Income

Operating Income Ratio

7.1%
5.5%
5.8%

138.4
94.5
100.0

| FY2008 (Actual) | FY2009 (Actual) | FY2010 (Forecast) |

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Information & Telecommunication Systems Business Strategy

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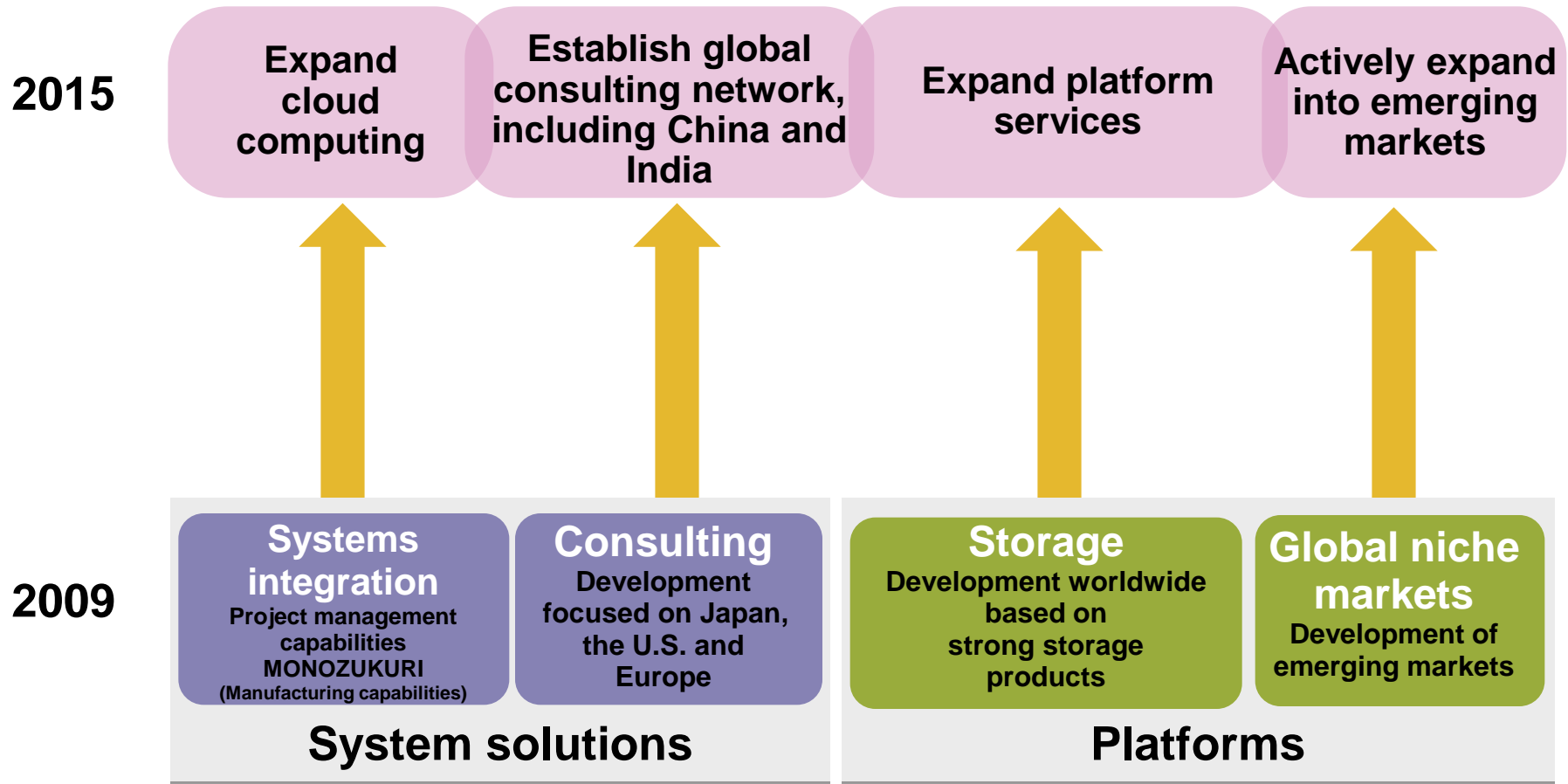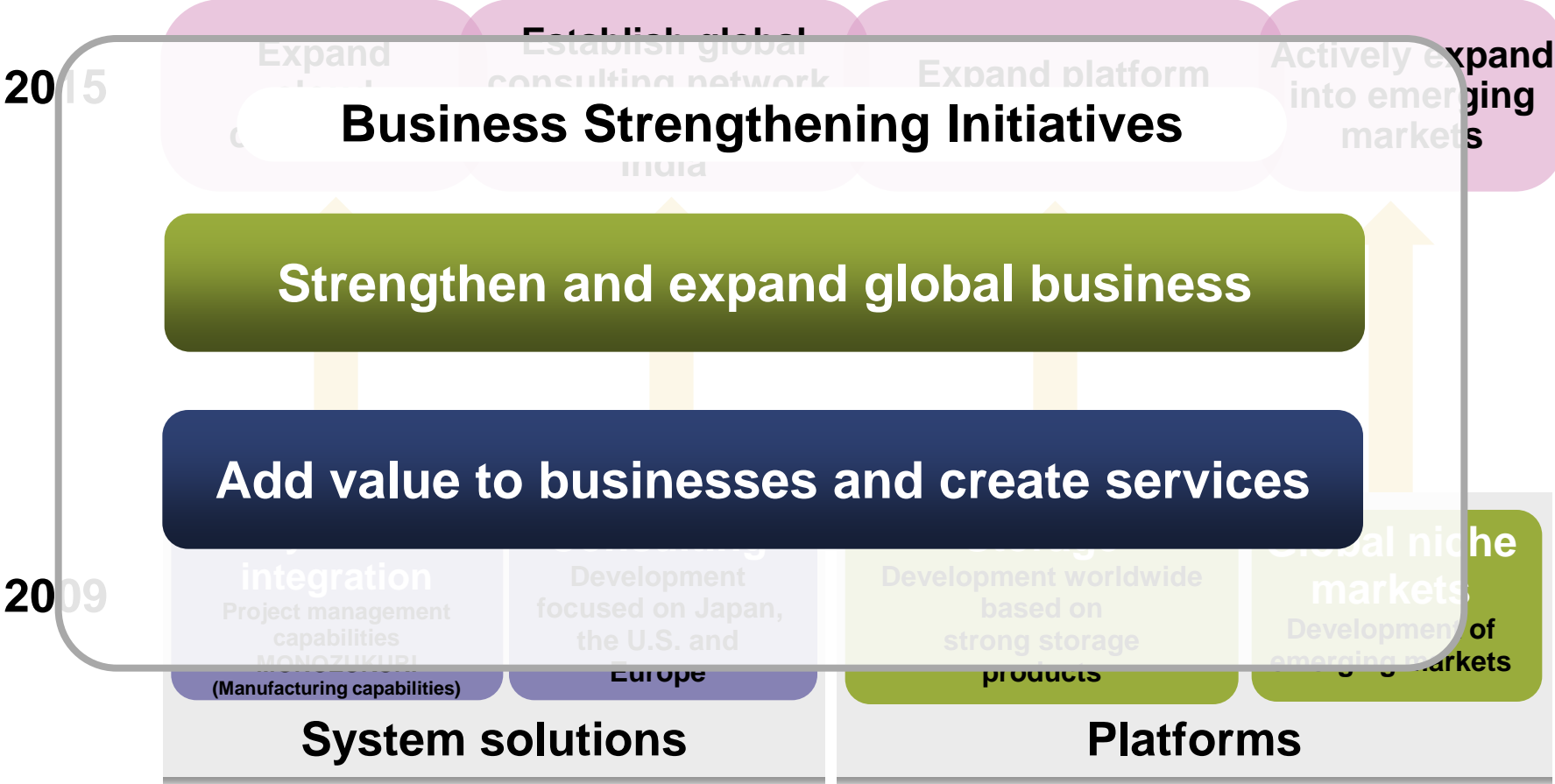| Economy	■ Emerging markets continue to grow, industrialized nations are expected to recover ■ Uncertain outlook due to credit worries in Europe
IT market	■ Saturated Japanese IT market ■ Recovering worldwide, driven by emerging markets
IT systems	■ Shift from "ownership" to "use" ■ Expanding use of IT in business and for social innovation ■ Growing environmental needs
IT vendors	■ Vertical integration by global major vendors ■ Strengthening social infrastructure solutions businesses ■ Enhancing global business responsiveness (M&As, using offshore resources)

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Transform into a global company capable of providing reliability and security in high-profile fields around the world as a solutions partner based on strong products and services

2015

- **Expand cloud computing**
- **Establish global consulting network, including China and India**
- **Expand platform services**
- **Actively expand into emerging markets**

2009

- **Systems integration**
  Project management capabilities
  MONOZUKURI
  (Manufacturing capabilities)
- **Consulting**
  Development focused on Japan, the U.S. and Europe
- **Storage**
  Development worldwide based on strong storage products
- **Global niche markets**
  Development of emerging markets

System solutions

Platforms

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Transform into a global company capable of providing reliability and security in high-profile fields around the world as a solutions partner based on strong products and services

2015

Expand

Establish global consulting network

Expand platform

Actively expand into emerging markets

Business Strengthening Initiatives

Strengthen and expand global business

Add value to businesses and create services

integration

Project management capabilities

MONOZUKURI

(Manufacturing capabilities)

Development focused on Japan, the U.S. and Europe

Development worldwide based on strong storage products

markets

Development of emerging markets

2009

System solutions

Platforms

Information & Telecommunication Systems Business Strategy

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**Strengthen and
expand global business**

**Add value to businesses and
create services**

Reinforce management base
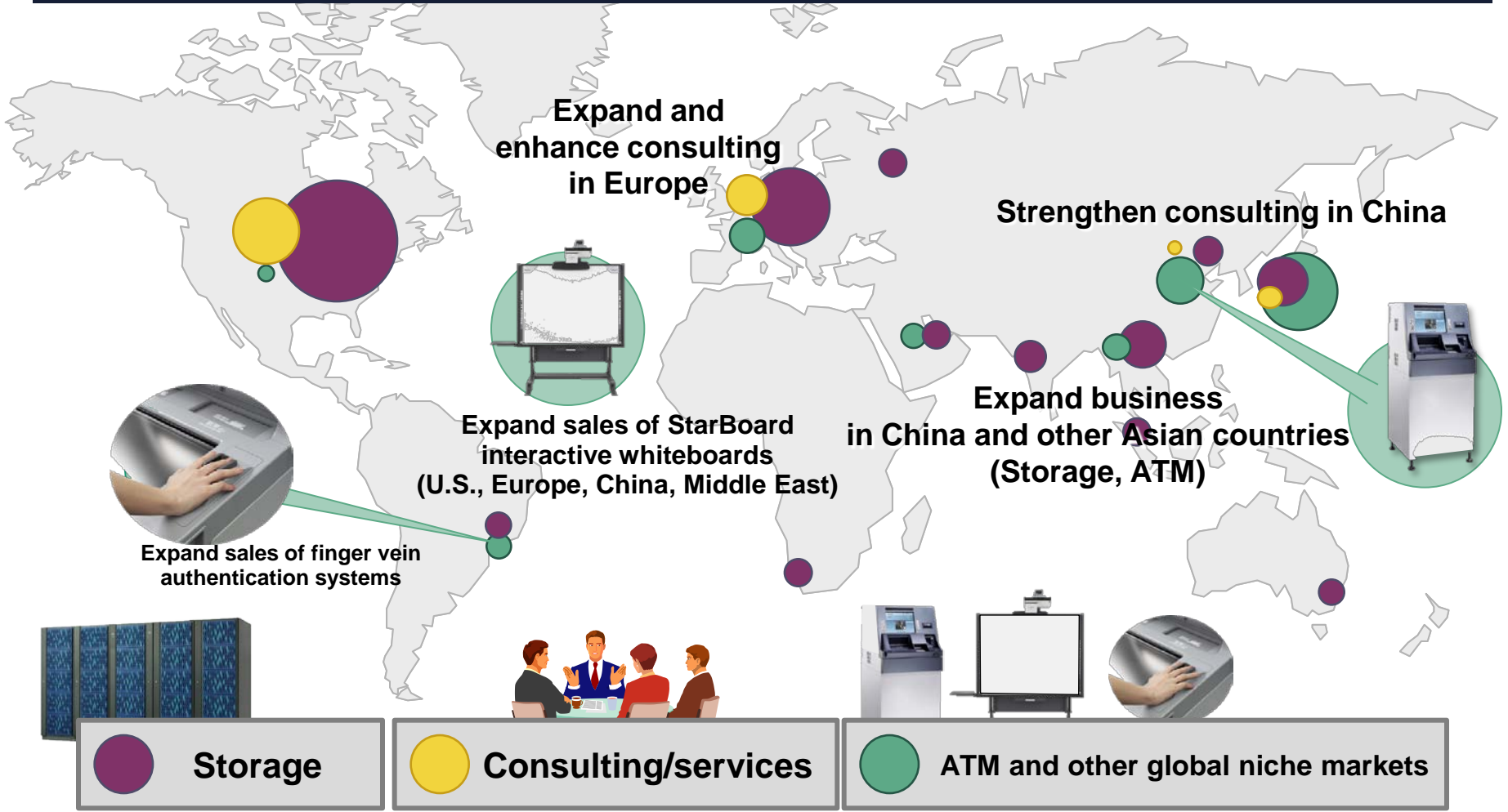
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**Strengthen and
expand global business**

**Add value to businesses and
create services**

Reinforce management base
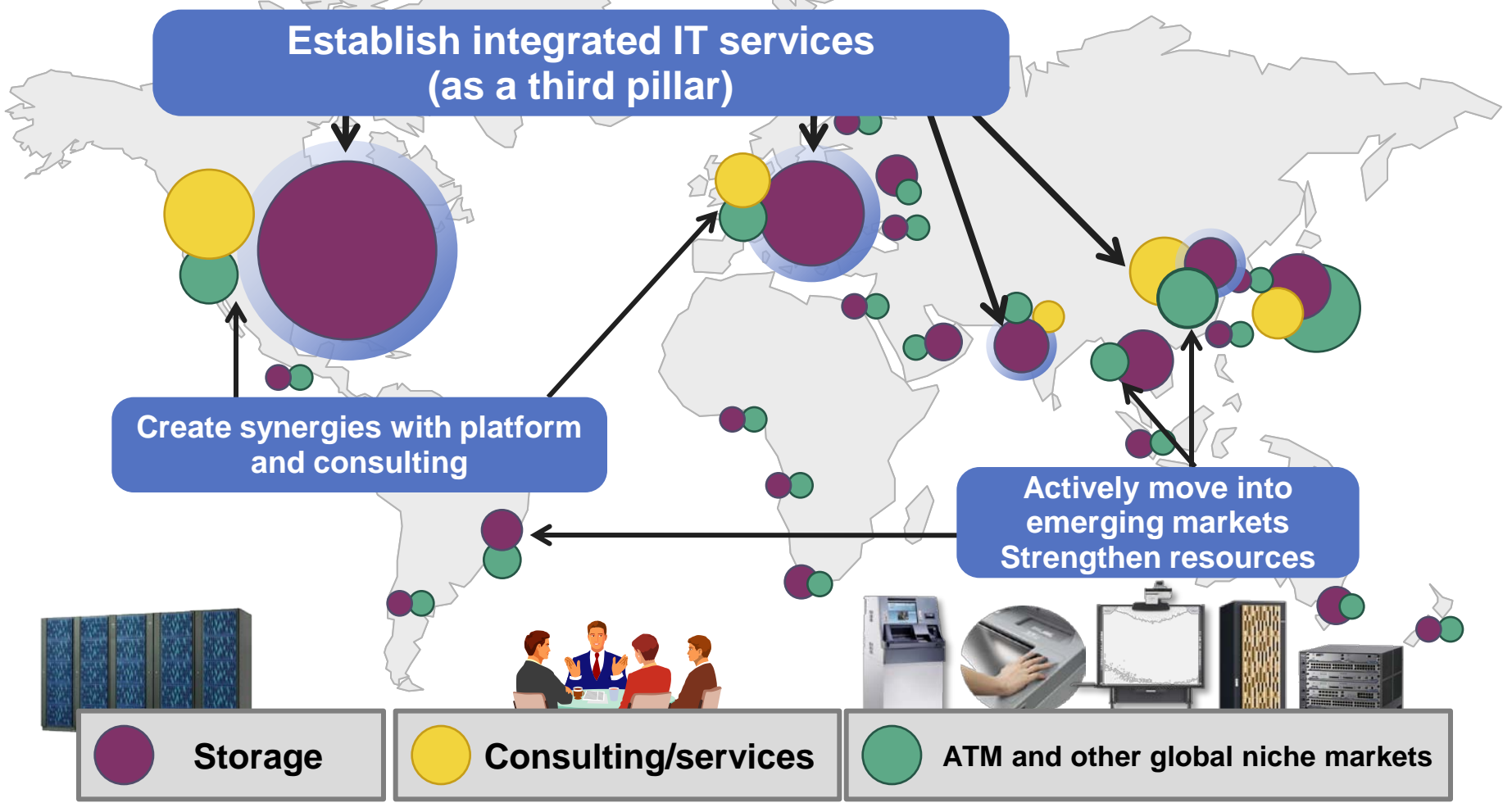
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- Global development centered on storage business
- Focused on establishing a consulting business base in the U.S. and Europe, developed ATM business in China

| Storage | Consulting/services | ATM and other global niche markets |
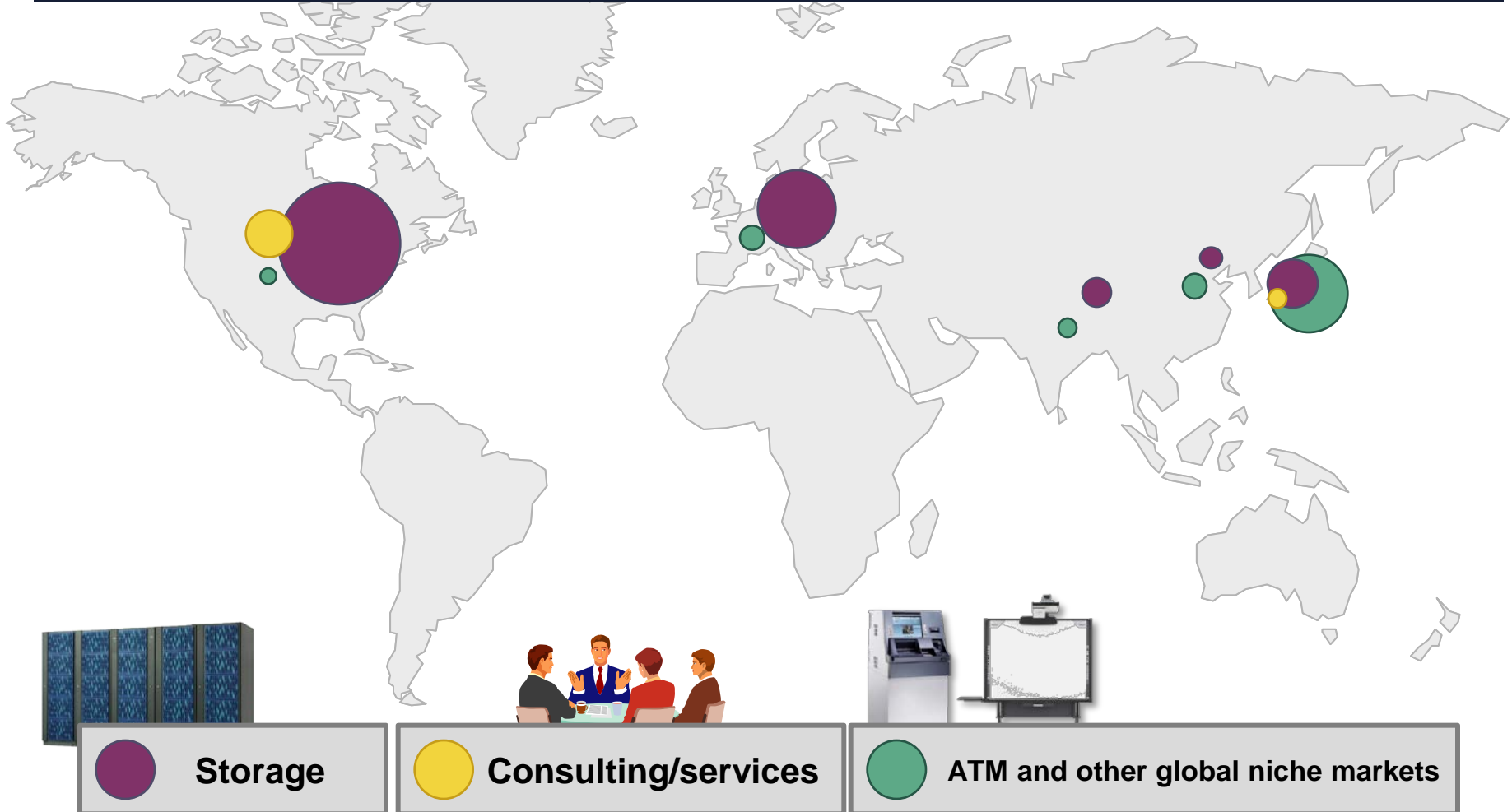
■ **Expand platform solutions business based on storage products**
■ **Strengthen consulting in China, etc., step up efforts in emerging nations**

Expand and enhance consulting in Europe

Strengthen consulting in China

Expand sales of StarBoard interactive whiteboards (U.S., Europe, China, Middle East)

Expand business in China and other Asian countries (Storage, ATM)

Expand sales of finger vein authentication systems

● **Storage**　● **Consulting/services**　● **ATM and other global niche markets**

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■ **Establish new business pillar alongside storage and consulting**
■ **Expand business in emerging markets**

Establish integrated IT services (as a third pillar)

Create synergies with platform and consulting

Actively move into emerging markets Strengthen resources

| | Storage | | Consulting/services | | ATM and other global niche markets |

FY2015 targets

Overseas revenues: ¥800.0 billion

Overseas revenue ratio: 35%

Key policies

■ **Expand business globally based on three pillars**

- ■ **Establish a third business pillar alongside storage and consulting**
- ■ **Conduct M&As**

■ **Expand business in emerging markets**

- ■ **Develop business based on strong products such as storage and ATMs**

■ **Develop a social infrastructure building business by harnessing the Hitachi Group's collective strengths**

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Platform solutions business centered on world-leading share[1] in storage products

Expand platform business centered on strong storage products

■ **Established leading position in markets**

・ **Captured top global share[1](approx. 30%) for 5 consecutive years in enterprise storage market**

・ **Commanded top share[2] for 14 straight years in the Japanese external storage market**

■ **Expand business by capturing market share in growth fields**

・ **Achieve double-digit growth in overseas revenues from midrange products(in FY2009)**

・ **Increased the software & services overseas revenue ratio (FY2007: 35% → FY2009: 45%)**

・ **Expanded business in emerging markets (2H FY2009 Asia-Pacific approx. 20% growth)**

・ **Strengthen position in file and contents management field (Developed medical, government-related and other markets)**

*1: Enterprise storage market, monetary basis (Hitachi calculation)
*2: May 2010 "Analysis of 2009 Japan Disk Storage Systems Market and 2010-2014 Forecasts" (J10510104), IDC Japan

Storage solutions business revenues	FY2009: ¥304.0 billion → FY2015: ¥400.0 billion

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Strengthen response to customer needs by establishing a global consulting network

■ **Strengthen global responsiveness by expanding and improving bases**

- ■ Reinforce structure in China and India
- ■ Expand the number of consulting bases
  (Now have 23 bases mainly in the U.S. and Europe)

■ **Pursue further growth**

- ■ Develop worldwide by sharing success stories and best practice from the U.S. and Europe
  - ▪ Won many orders for global accounting systems, etc. from major U.S. manufacturers, major global law firms, etc.
  - ▪ Leverage expertise in highly rated BI[*1], ERP and other fields in North America
- ■ Expand business by conducting M&As and forming alliances with partners

■ **Expand coverage of system lifecycle**

- ■ Expand AMO[*2] business and other management services in the U.S., Europe and China.

*1：Business Intelligence   *2: Application Management Outsourcing

Consulting business revenues	FY2009: ¥45.0 billion → FY2015: ¥130.0 billion

3-8. Third Business Pillar

Integrated IT services business based on know-how gained in data center business
(Next-generation, value-added data center services supporting everything
from platforms to application usage platforms)

Bolster business and customers bases through M&As

Nurture business toward global development in 2015; establish leading position in integrated IT services business through synergies with strong platform technologies/products, and consulting capabilities

Build up track record and know-how in eco-friendly data centers in preparation for full-scale business entry

■ **Europe: Signed partnership agreements (April 2010)**
- Development of high density data center: TELEHOUSE EUROPE (UK)
- Highly efficient data center deployment: Eco2dc initiative (Netherlands)

■ **China: Establish dedicated organization to promote the eco-friendly data center business**

Integrated IT services business revenues	FY2015: ¥260.0 billion

Expand business size leveraging strong products with a proven track record such as storage products and ATM, as well as distinctive technologies

Product strategy **Expand business by launching products that cater to regional needs**

■ **Storage: Continuously launch products for emerging markets and bolster sales channels**
■ **ATMs: Expand in India, Brazil and other regions leveraging top share in China***
■ **StarBoard interactive whiteboards: Pitch at IT infrastructure needs in the education sector**
  ・ Already supplied 120,000 units in over 70 countries, including the Middle East, Russia and other emerging markets
■ **Create markets utilizing distinctive technologies such as finger vein, RFID and sensor network.**

*Hitachi calculation

Regional strategy **Strengthen position in China, India and Brazil as priority markets**

■ **China: Strengthen ability to provide solutions for regional customers, in addition to strong products**
■ **India, Brazil: Create business opportunities through personnel assignments and strengthen framework**
■ **Draw on the Hitachi Group's collective strengths to target markets other than priority markets in social infrastructure building**
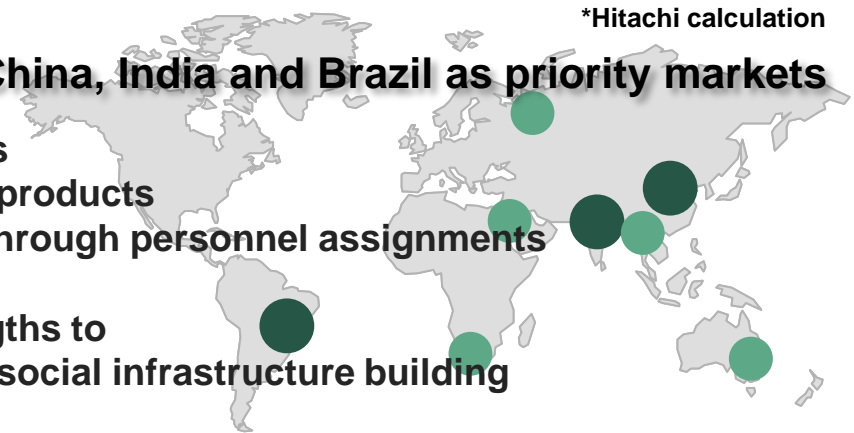
China/Asia revenues	FY2009: ¥75.0 billion → FY2015: ¥200.0 billion

Strengthen and
expand global business

**Add value to businesses and
create services**

Reinforce management base

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Best solutions partner in contributing to customer innovation

2015

2010s

2000s

1990s

1980s

Integrated IT services

Expand highly reliable cloud computing services

Create platform services

Add value to systems integration and service businesses

Establish global consulting network

Expand service range (Upstream consulting, strategic outsourcing)

Charge for SE services (Develop a solutions lineup)

Services associated with hardware (SE services, maintenance)

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FY2015 targets

Services revenues: ¥1,500.0 billion
Services revenue ratio: 65%

Key policies

■ **Expand highly reliable cloud computing services**

  ■ Expand private cloud, hybrid cloud computing services

■ **Expand platform services**

  ■ Expand services business centered on strong hardware

■ **Add value to the systems integration and services businesses**

  ■ Contribute to social innovation and business through the provision of best practice
  ■ Deepen collaborative creation with customers
  ■ Increase environmental value

■ **Establish a global consulting network**

  ■ Strengthen ability to cater to global corporations

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

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

Establish trustworthiness as mission critical systems
(Advanced reliability technology, security assurance, etc.)

Around 2015

Introduce and expand application in core enterprise systems

Create advanced hybrid cloud computing services, including linkage with existing systems and various cloud computing services

Expand introduction to enterprise information systems

Utilize public cloud, private cloud computing services

Develop and introduce highly reliable cloud computing technologies

Present

● Authentication (Security)
● Interaction platform (Software)
● Performance assurance (Servers, networks)
● Data protection (Storage)
● Integration and operation techniques

Related revenues	FY2012: ¥200.0 billion → FY2015: ¥500.0 billion

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Develop cloud computing business leveraging track record in providing cutting-edge services

■ "TWX-21," Japan's largest inter-company e-marketplace

- ■ Corporate members: Approx. ¥12 trillion/year in transactions by 40,000 companies (as of May 2010)
- ■ First to provide SaaS, providing as cloud platform based on service track record of 13 years
- ■ Added SaaS services for sharing environmental information for European REACH and other chemical substance management operations (July 2009)

■ "FINEMAX," joint online banking ASP service based on track record in integrating and operating highly reliable systems

- ■ For individuals: 2.5 million accounts at 29 financial institutions
- ■ For companies: Approx. ¥10.0 trillion in annual monetary transactions at 19 financial institutions

■ Created cloud computing business applications within Hitachi

- ■ Adopted cloud computing for Hitachi consolidated taxation solution Began offering SaaS-type consolidated taxation solution C-Taxconductor service (April 2010)

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Fusing Hitachi-developed core technologies and integration knowhow

Virtualization technology

- ■ Hitachi server virtualization technology: server processing performance assurance
- ■ Thin-provisioning for providing virtual storage capacity: Increase usage efficiency of large-capacity storage

Highly reliable network technologies

- ■ MPLS-TP: Ensure communication among networks

Systems operation and management technologies

- ■ Integrated systems operation and management JP1: Increase efficiency of cloud computing operation and management

Private cloud integration and operation techniques based on integration track record

- ■ Expand private cloud integration template, and integration and operation techniques (Drafted 2009)

Higher-level interaction technology for cloud computing services (Hybrid cloud)

- ■ Development of the Harmonious Cloud Framework, enables intersystem cooperation between Private and Public cloud platforms(Service launch scheduled on December 2010)

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■ Expand storage differentiation solutions

■ **Double-digit growth in service revenues overseas (FY2009)**
- Thin-provisioning for providing virtual storage utilizing Hitachi's proprietary virtualization technologies to maximize storage usage efficiency, including existing assets highly rated (Customer adoption rate approx. 50%)

■ **Provide new differentiated solutions**
- Managed services: Strengthen operation and management through onsite/remote site
- Contents cloud: Develop storage utilization solutions for contents data

■ Develop integrated platform aimed at reducing platform operation and maintenance costs

■ Refine server, storage and other virtualization technologies to reduce spiraling operating and management costs and improve level of service
- Automate increasingly labor intensive work
- Save power

Server-Related TCO*

(B$)

Power and air-conditioning expenses

200

Operation and management costs

100

Initial introduction costs

0

1997 1999 2001 2003 2005 2007 2009 2011 2013
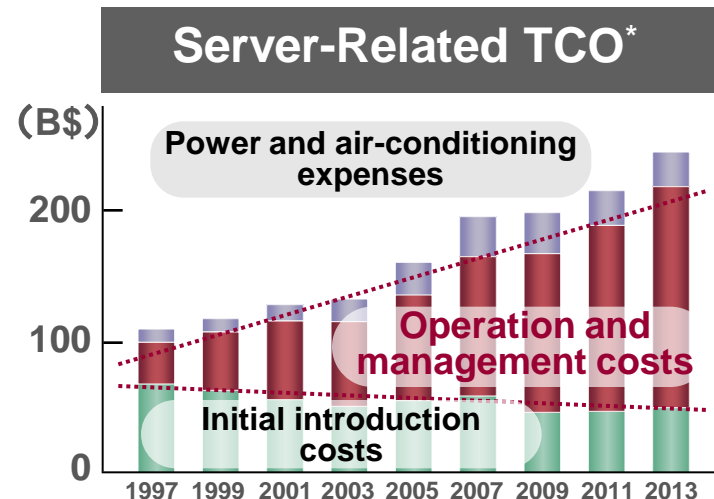
*Source: IDC, Three Data Centers-One Vision?, Doc # DR2010_T2_MB, March 2010

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Server business

■ **Develop globally to triple overseas server revenues (FY2010)**

- ■ Provide integrated platforms combining storage and servers
- ■ Develop with solutions and services centered on cloud computing services
  - Use servers to differentiate solutions such as file storage and contents cloud computing services

■ **Expand business to emerging markets, including China, Russia and South America**

Telecommunications networks business

■ **Expand global business in next-generation networks centered on HCTA[1]**

- ■ Next-generation mobile (LTE) business[2]
  - ・ Acquired LTE-related software assets (Dec. 2009), developing global sales partners
- ■ Optical access business
  - ・ Stepping up proposals to other companies leveraging track record introducing at North American CATV operator BHN[3]
- ■ Home ICT business
  - ・ Break into the home ICT market by cooperating with overseas communications carriers

[1] HCTA: Hitachi Communication Technologies America, Inc.
[2] LTE : Long Term Evolution
[3] BHN : Bright House Networks (North American CATV operator)

Contribute to social innovation and business through collaborative creation with customers

New business approaches and lifestyles leveraging IT   20XX

Major financial institution-related core systems   2009

NEXTBASE joint outsourcing service   2005
targeting regional financial institutions

FINEMAX joint online banking ASP service   1999

1997   TWX-21 inter-company e-marketplace

1988   Third-generation online banking system

1977   Second-generation online banking system

1970   Bullet train operation and management system

1969   Banking online system

1959   Seat reservation system

1959   Electronic computer

1937   Founding of Totsuka plant
(Production of telephones, switching equipment)

1910   Formation of Hitachi

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Ultra-upstream design techniques for systems development to satisfy and impress customers

Create systems that "understand, share and solve" customers' real problems

Ex Approach "Experience Oriented Approach"

Management | IT division | Hitachi | Business frontline

Collaborative creation spiral
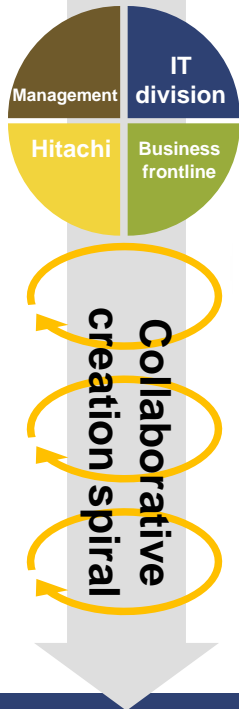
・**Form agreement through collaborative creation at each development stage**

Thorough workplace observation by specialists	**Understand workplace issues and desires**
Share the ideal business process flow in joint workshops with customers	**Decide on problem-solving strategies**
Create visual image of system by constructing hypotheses and using prototyping technology	**Visualize processes required until completion**
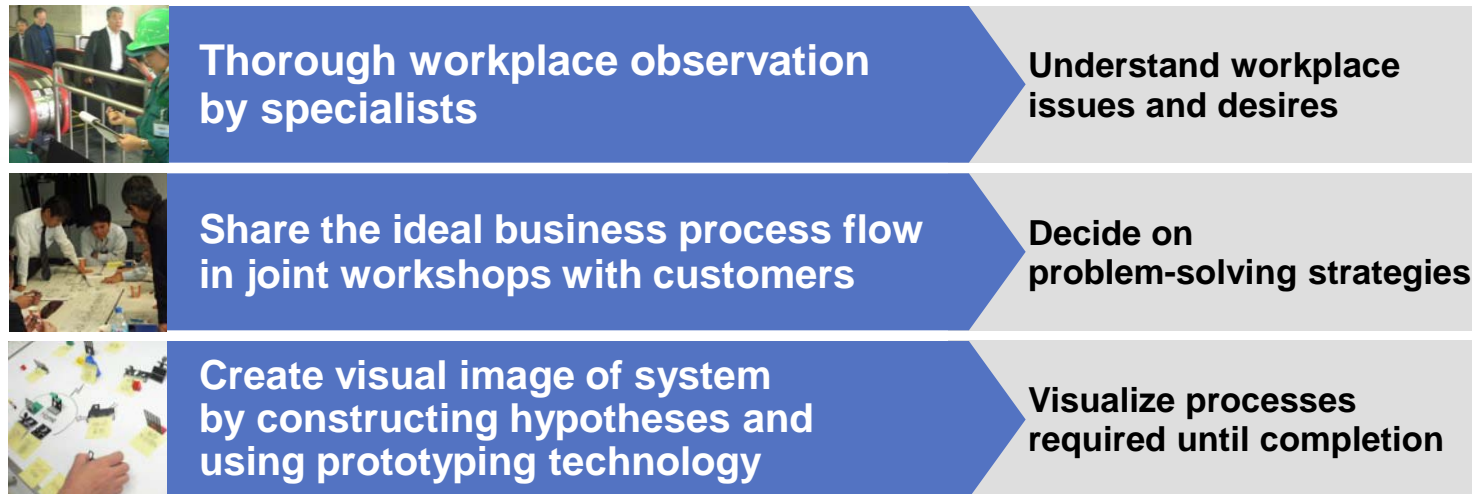
Create systems that respond to customers' needs at all organizational levels and share project successes at customers and Hitachi

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3-19. Create and Expand Fusion Business

Contribute to social innovation by fusing social infrastructure and information and telecommunications systems

Power systems Transportation Social infrastructure
- ■ Knowhow in power and transportation systems
- ■ Control-related technologies

Information
- ■ Business system knowhow
- ■ System development and project management capabilities
- ■ Highly reliable IT platforms

New business approaches and lifestyles using IT

Middleware for fusion field

IT platform
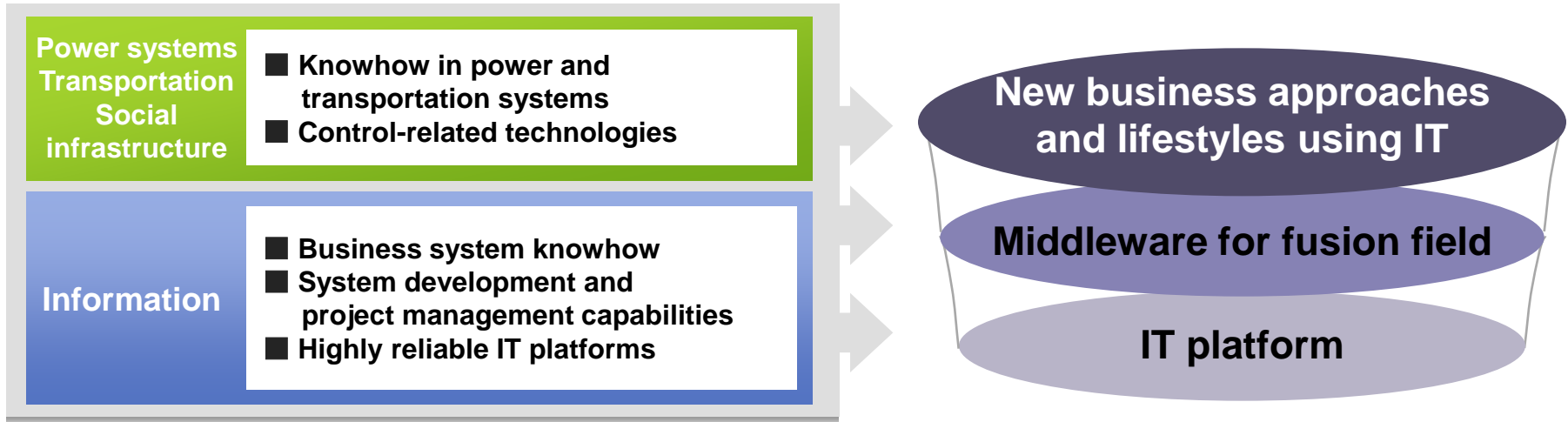
Develop and expand globally the eco-friendly data center business

- ■ **Provide one-stop services from consulting to equipment sales**
  - ▪ Energy-saving and "small footprint" modular data centers
- ■ **Develop in China after Europe**

Break into new markets leveraging Hitachi's collective capabilities

- ■ **Cooperate in development and construction of Sino-Singapore Tianjin Eco-City Project, an eco-friendly city**
  - ▪ Provide environmental solutions utilizing smart grids and other advanced technologies
- ■ **Participate in India's Delhi Mumbai Industrial Corridor project**

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Expand contribution to customers' environmental management and realization of a sustainable society

Hitachi's Environmental Vision 2025

Help reduce annual CO_2 emissions by 100 million tonnes by 2025 through Hitachi Group products

Prevention of Global Warming

Conservation of Resources

Preservation of Ecosystem

Towards a Sustainable Society

The Information & Telecommunications Company aims to curb emissions by 4 million tonnes per annum (FY2025)

Green of IT
IT Power-saving Plan

Decrease CO_2 emissions of IT equipment by 330,000 t
(Total reduction from FY2008 to FY2012)

Eco-friendly
Datacenter Project

Reduce electricity consumption up to 50% at data centers by 2012
(compared to fiscal 2007)

Green by IT

Share of revenues of Eco-Products 50% (FY2010)

GeoAction 100 Plan to contribute to the environment via IT

Prevention of Global warming
・Provide customers with CO_2 emissions information for hardware and solutions products (From July 2010)

Conservation of Resources
・ Strengthen product collection scheme (July 2010)

Preservation of Ecosystem
・Design for IT eco experimental village, etc.

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Servers

BladeSymphony
BS2000

Developed power supplies that achieve an industry-leading[1] conversion efficiency of 92%

Server integration using proprietary virtualization technology

80 PLUS GOLD

Green IT AWARD 2009

Green IT Award 2009 Committee special award

Operation and management software

JP1   Version 9

JP1

Supports more efficient operations and flexible operations in the cloud computing age

Storage

Hitachi Adaptable Modular Storage 2000 series

HDD drive rotational control according to usage frequency and power supply control in scalable disk arrays

Networks

AX6600S

Controls power supply according to online conditions

Green IT AWARD 2009

Green IT Award 2009
Director-General of Commerce and
Information Policy Bureau Award,
Ministry of Economy, Trade and Industry

BEST INTEROP グランプリ

Interop Tokyo 2009
Best of Show Award
Green IT Grand Prix

Hitachi is taking a comprehensive approach that extends to air-conditioning and power supplies, in addition to eco-friendly data centers and IT equipment.

Eco-friendly Datacenter Project CoolCenter50

Green IT Award 2008 Committee special award

Green IT AWARD 2008

Module-type data centers

Maximize cooling efficiency through optimal configuration of cooling units and IT equipment inside modules

Up to 67% reduction in air-conditioning power usage[2]
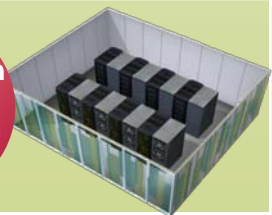
*1 Hitachi estimate as of May 31,2010
*2 Compared to conventional air-conditioning systems Hitachi estimate based on data in report from JEITA (Japan Electronics and Information Technology Industries Association), June 2009

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**Strengthen and
expand global business**

**Add value to businesses and
create services**

Reinforce management base

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> **Pursue business synergies and further increase corporate value on a consolidated basis**

Develop new customers and expand business scale by optimizing tasks among Hitachi Group companies

- ■ Provide one-stop solutions of value throughout the entire IT lifecycle
- ■ Group company restructuring: Establish Hitachi Solutions (Oct. 2010)
  (Merge Hitachi Software Engineering Co., Ltd. and Hitachi Systems & Services, Ltd.)

Strengthen operations

- ■ Optimally allocate resources, aggregate and share common functions, eliminate duplicate investment

- ■ Strengthen procurement ability through shared procurement strategy and measures, rigorously reduce materials expenses

- ■ Investment plan: ¥90.0 billion in FY2010 (Up 49% YoY)

Pursue improved quality and productivity by strengthening MONOZUKURI (Manufacturing capabilities) and increase customer satisfaction further

- ■ The Society of Project Management, awarded first "PM Application Prize" (November 2009)
- ■ Top in 9 of 15 categories in 12th Customer Satisfaction Survey, Nikkei Computer February 3, 2010 edition

(Top-placing categories) Thin client, Blade servers, network/system operation and management software, storage, UNIX servers, application servers, groupware/EIP/blog/SNS, IP telephony systems, PC servers

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Information & Telecommunication Systems Business Strategy

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4-1. Conclusion

FY2010 forecasts: Revenues of ¥1,730.0 billion, operating income of ¥100.0 billion

Revenues

Hardware/software
Services

(Billion yen)

2,300.0

1,850.0

1,730.0

Services revenue ratio

| 59% | 60% | 65% |

FY2010 (Forecast) | FY2012 (Target) | FY2015 (Target)

Overseas revenue ratio

22% → 23% → 35%

Operating Income, Operating Income Ratio

(Billion yen)

8%

7%

5.8%

185.0

130.0

100.0

FY2010 (Forecast) | FY2012 (Target) | FY2015 (Target)
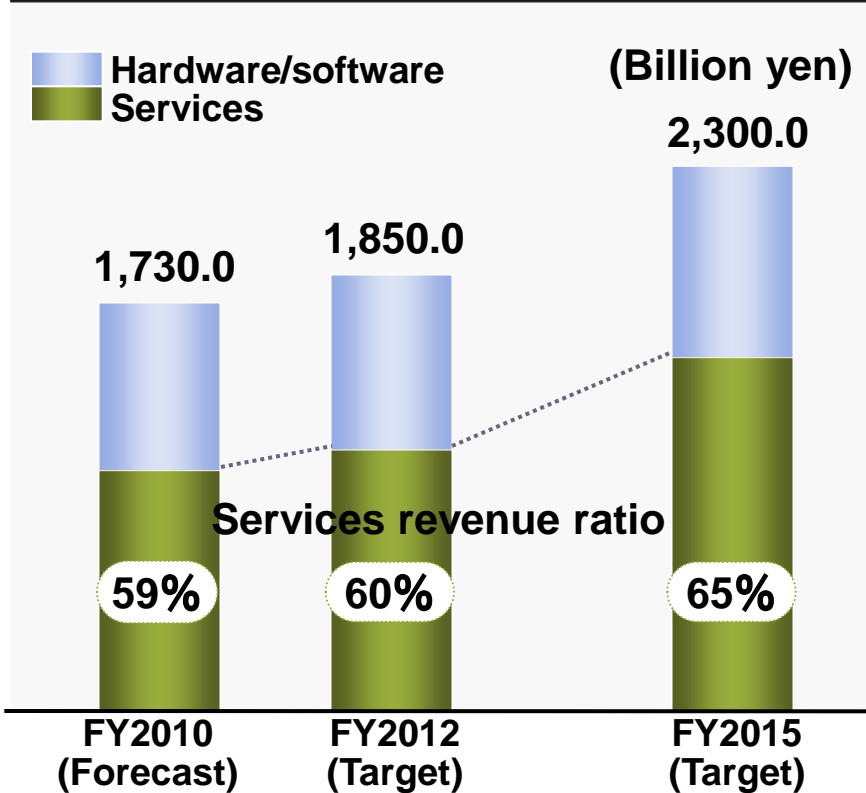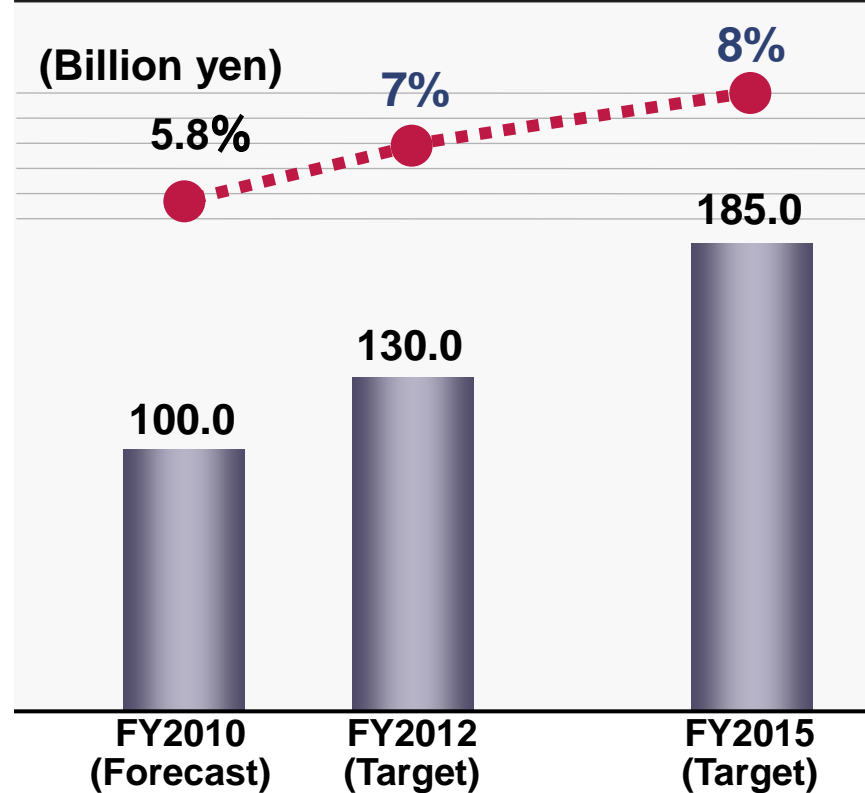
FY2015 Target

- **Revenues: ¥2,300.0 billion, operating income: 8%**

- **Overseas revenue ratio: 35%**

- **Services revenue ratio: 65%**

Transform into a global company capable of providing reliability and security in high-profile fields around the world as a solutions partner based on strong products and services

Cautionary Statement

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