



# Hitachi Smart Transformation Project

Hitachi IR Day 2014

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**Executive Vice President and Executive Officer**  
**CTrO**

**Hitachi, Ltd.**

# Hitachi Smart Transformation Project

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- 1. Project Outline**
2. Project Progress
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## Transform Group structure into a globally competitive enterprise

### Achieving Growth and Hitachi's Transformation

**Conduct Hitachi Group structural reforms and enhancement measures**

Transformation

Hitachi Smart Transformation Project

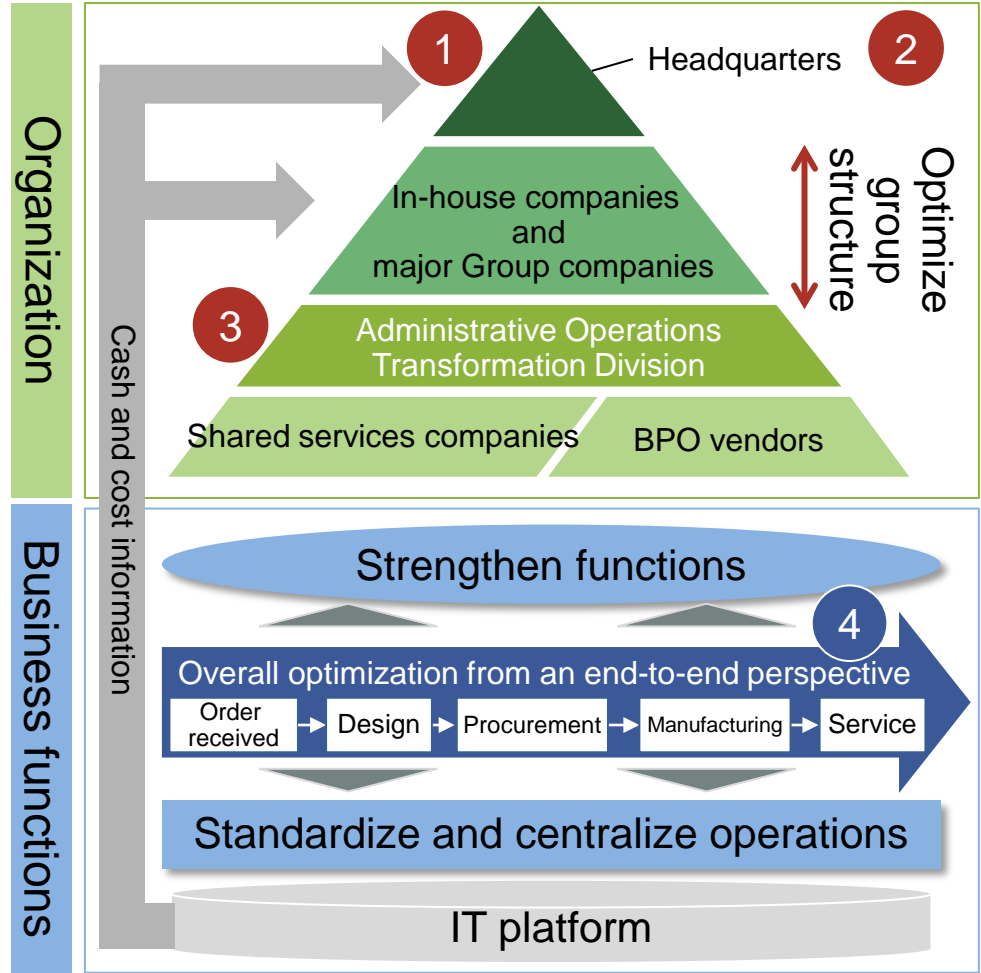
Transform into the ideal Hitachi	▶	Shift to an enterprise that generates cash to achieve growth
Cost		
Group, Business Structure		

**Grow the Social Innovation Business**

Innovation

Global

## Establish organization and business functions supporting global growth



Management contribution: accelerate decision-making

- I Establish management support base 1
- I Optimize group structure 2
  - Centralize common functions within the Group
  - Review intra-group transactions

Cost structure reform : streamline management and boost efficiency

- I Optimize overall operations from an end-to-end perspective 4
  - Further improve high-value-added operations
  - Standardize and centralize operations for higher efficiency
  - Improve IT platform
- I Implement low-cost common operations 3
  - Establish a division devoted to indirect operation reform
  - Rigorous use of shared services companies inside and outside Hitachi

## Promote reform and cooperation within the Group from an end-to-end perspective

Cost structure		Measures	Reform perspectives	
SG&A expenses	Marketing costs	Centralize back-office operations		
	Indirect operational costs	Promote global shared services		
	IT costs	Centralize servers and operations		
	Indirect materials costs	Logistics costs		Global logistics reforms
		Rent		Centralize group assets
Consumables costs, etc.		Promote centralized purchasing of indirect materials		
Cost of sales	Engineering costs	Expand MD applications and use of overseas sources	<b>Promote process-focused reforms</b> <ul style="list-style-type: none"> <li>  Establish processes from a global perspective</li> <li>  Higher efficiency of standard operations and use of outsourcing</li> <li>  Further improve high-value-added operations</li> </ul>	
	Production costs	Implement SCM reforms and centralize manufacturing bases		
	Direct materials costs	Promote global procurement and centralized purchasing		

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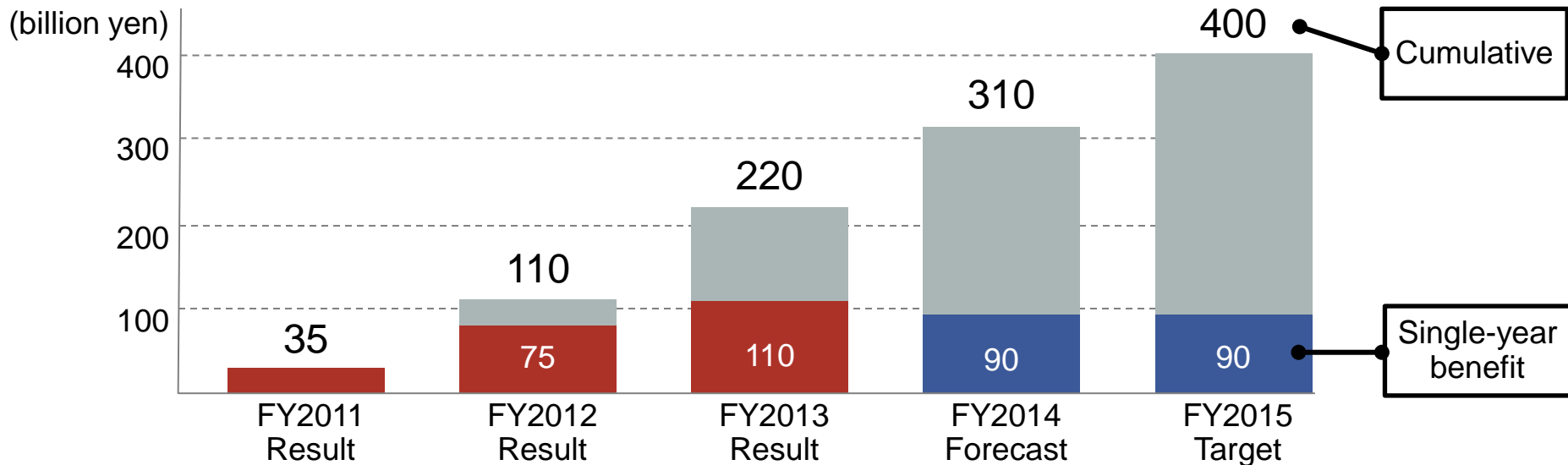
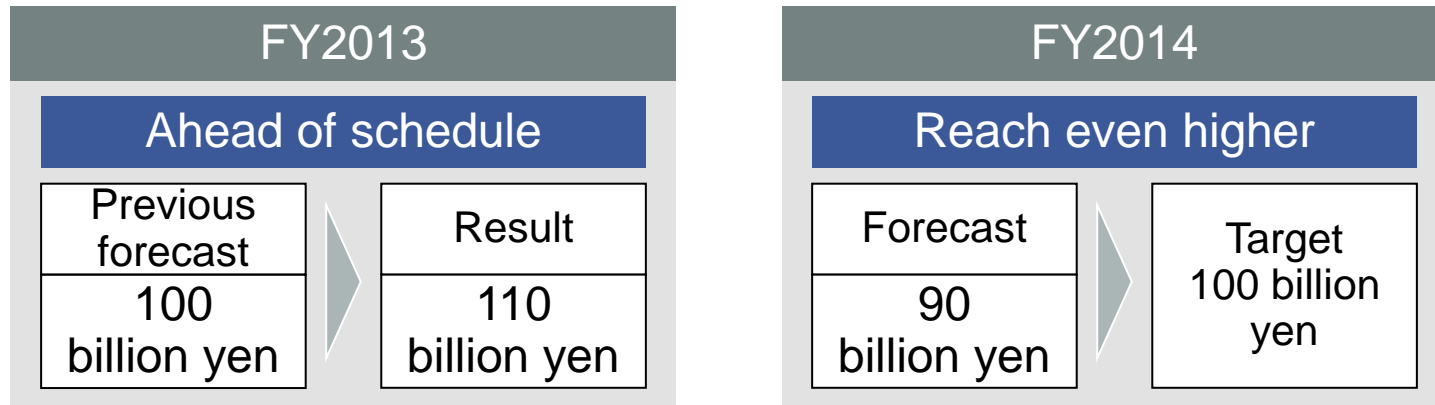
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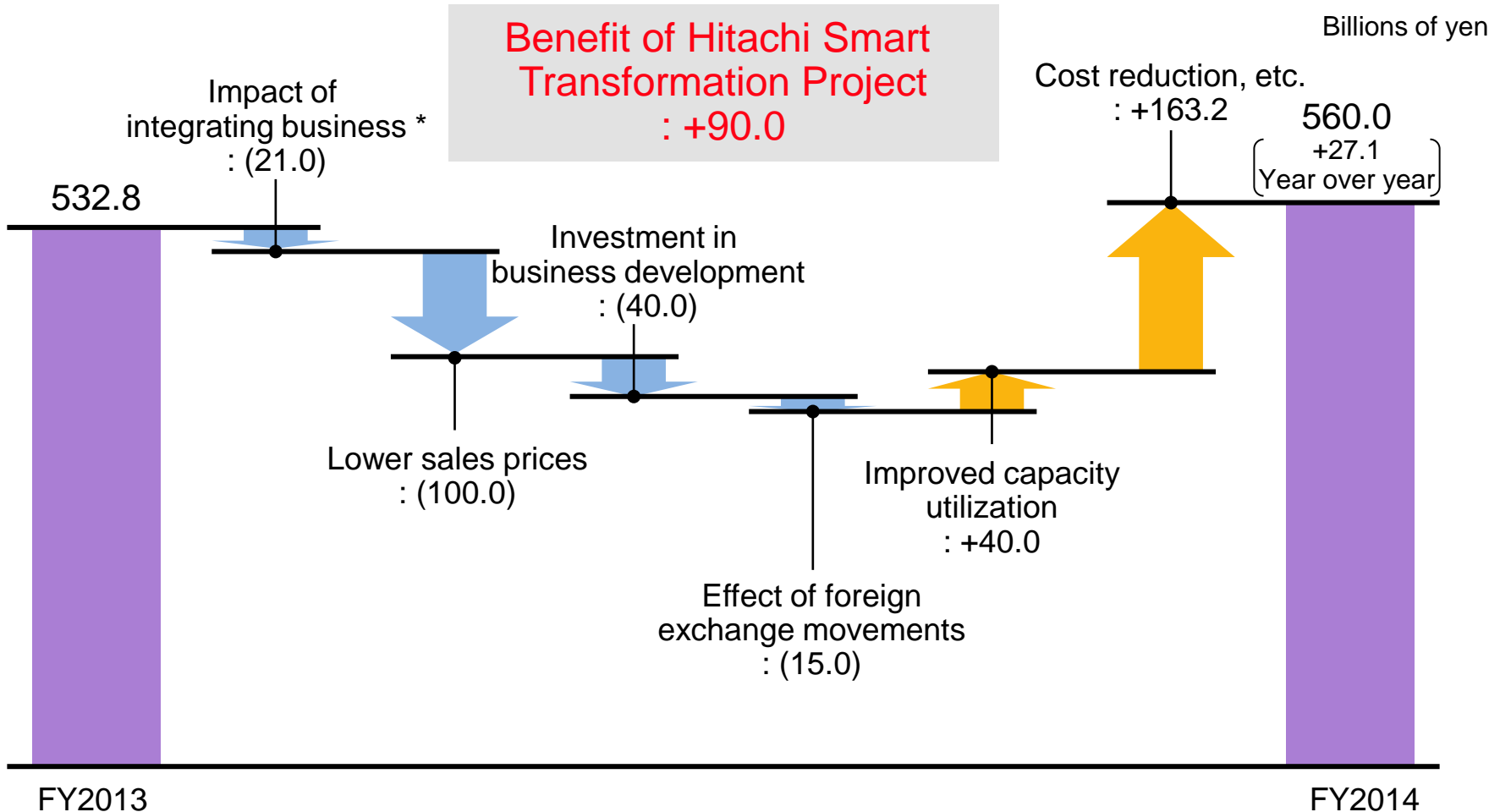
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# 2-1. Progress

Achieved cost reduction targets ahead of schedule to fulfill targets of 2015 Mid-term Management Plan



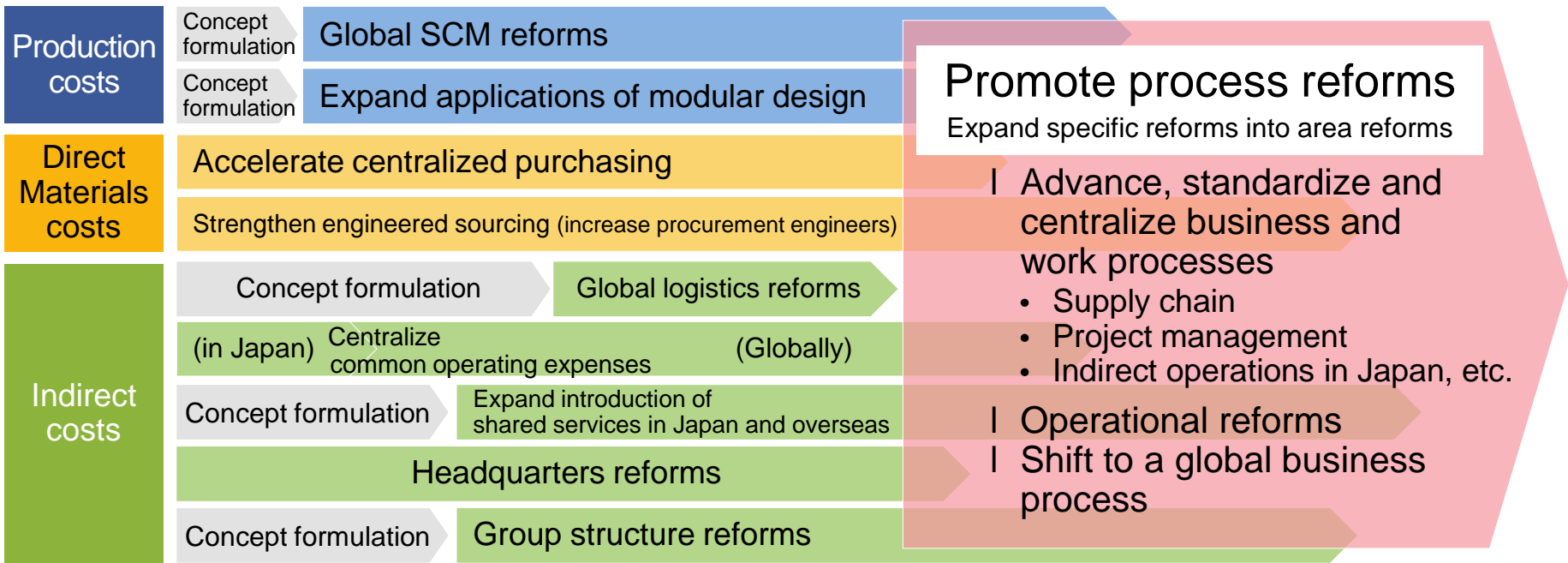
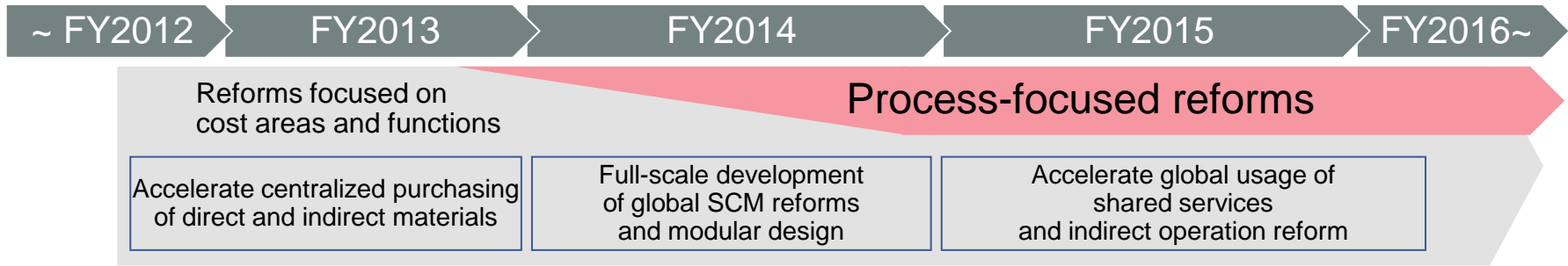
## Project benefits contributing to improved business results and the creation of growth investments



\* Impact of integrating the thermal power business, etc.



## Enhancing the project initiatives and reaping benefits to fulfill targets of the 2015 Mid-term Management Plan



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# 3-1. Steady progress on reforms by cost areas and functions **HITACHI** Inspire the Next

	Measures	KPI	Progress		
			FY2013	FY2014	FY2015 (Forecast)
Production cost reforms	Centralize printed circuit board production bases	Number of bases	23	16	8
	Global SCM reforms	Number of participating businesses	18/18	18/18	18/18
	Expand application of modular design	Number of participating businesses	9/17	17/17	17/17
Direct materials cost reforms	Strengthen global procurement	Global procurement ratio (%)	40	43	50
	Accelerate centralized purchasing	Centralized purchasing ratio (%)	34	39	Over 40
	Strengthen cost planning	Adoption ratio for cost planning of new products (%)	80	90	100
	Strengthen engineered sourcing	Number of procurement engineers	250	280	About 300

## Operational, business and work process reforms

### Production cost reforms

- | Globalize the value chain

### Indirect cost reforms

- | Introduce shared services to indirect operations
- | IT cost reforms

### Direct materials cost reforms

- | Build global procurement scheme

Cost of sales

SG&A

### Indirect cost reforms

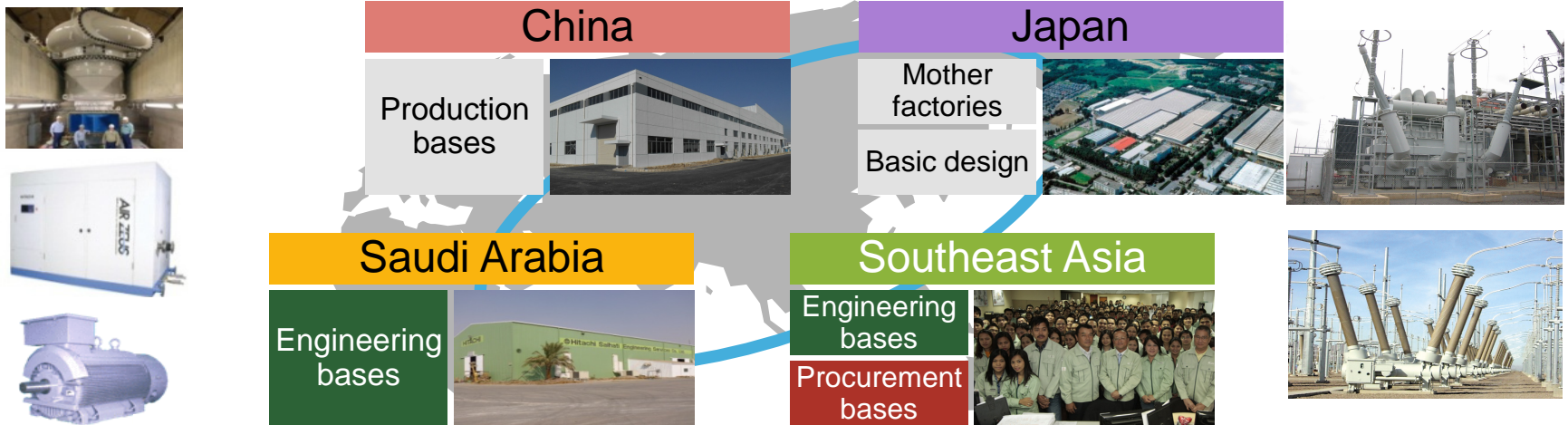
- | Global logistics reforms

### Group structural reforms

- | Group structural reforms
- | Intra-group transaction reforms

## Establish optimal global processes to swiftly respond to customers' business needs

Example of global production and supply systems



### Detailed engineering

- | Design of peripheral equipment and auxiliaries
- | Prepare purchasing specifications
- | Blueprint creation

1. Cut costs for design and procurement
2. Accelerate responses to customers
3. Shorten lead times

### Procurement

- | Procurement of peripheral equipment
- | Process management
- | Quality control (Respond to suppliers and customers)

- | Rebuild value chain from customers' perspective
- | Cost reductions

# 3-4. Build Global Procurement Scheme

Build a new global procurement scheme using professional functions within the Group

IPO

Focus on high-value-added operations

Transfer operations

Hitachi High-Technologies  
[Procurement management]

Conduct customs clearance, standardize operations and incorporate IT

Hitachi Capital  
[Payment]

Optimize payment periods

Hitachi Transport System  
[Logistics]

Conduct joint transportation and joint use of warehouses leveraging Hitachi Group's economic powerhouses

Procurement management and SCM costs cuttings, inventory reductions, and cash flow improvement

# 3-5. Global Logistics Reforms

Build a global logistics scheme to realize cost reductions and improve fund efficiency

Logistics expertise

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IT

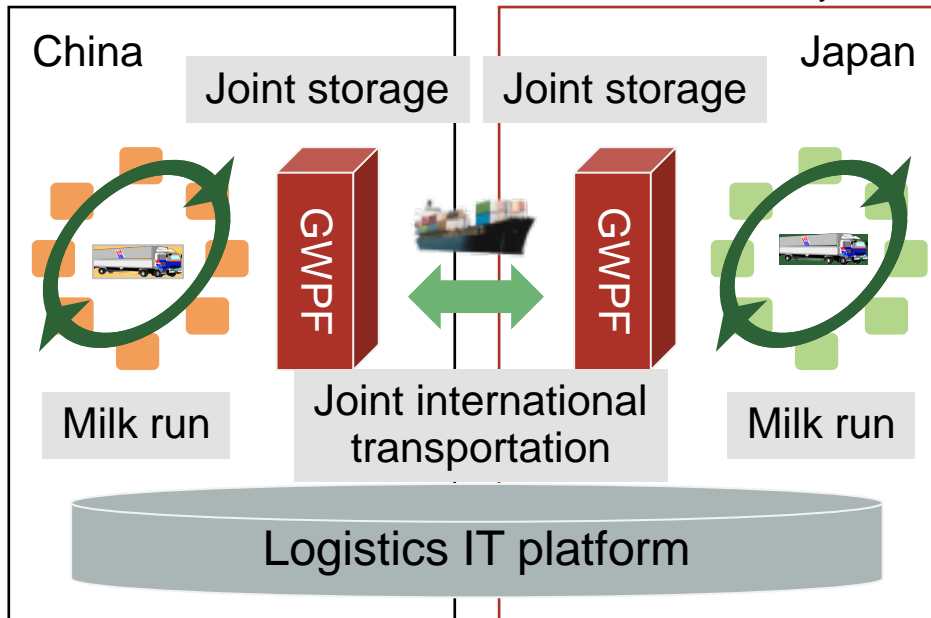
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Hitachi Group's economic powerhouses

Hitachi Transport System

Information & Telecommunication Systems Company

(Example: China bases -approx. 180 companies and approx. 70 factories)



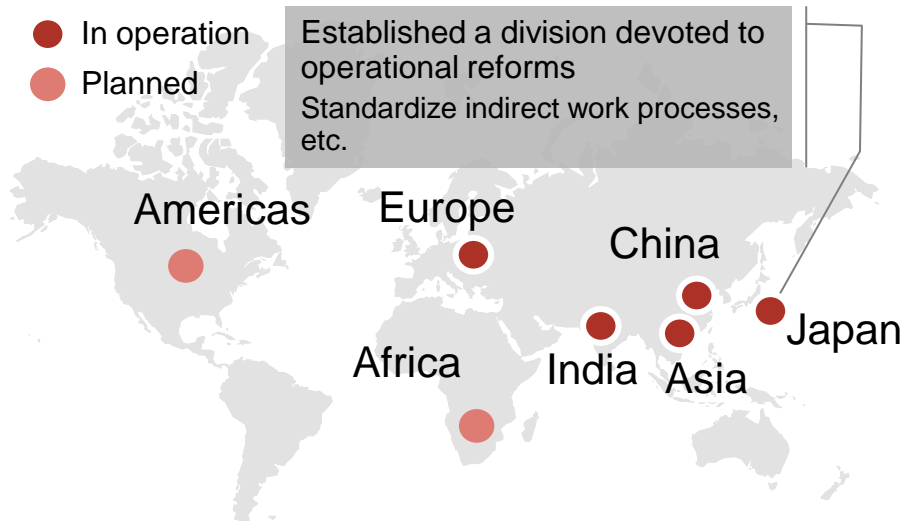
Scheduled to expand from China to Asia, and then to Europe

	Gate Way Plat Form (GWPF) <sup>*1</sup>	Milk run <sup>*2</sup>
Cost reduction	<p>Reduce transportation and storage expenses</p> <p>Joint storage, Joint international transportation</p>	<p>Reduce transportation expenses</p> <p>Transportation of mixed batches of freight (Improve the load factor)</p>
Improve fund efficiency	<p>Shorten lead times</p> <p>High-frequency shipments through the loading of mixed batches of freight</p>	<p>Reduce inventories</p> <p>High-frequency collection and delivery through the loading of small, mixed batches of freight</p>

\*1 Gate Way Plat Form : Storage, collection and delivery bases used jointly by the Group

\*2 Milk run : A logistics technique in which trucks make rounds to multiple bases for collection and delivery

## Expand the introduction of shared services to indirect operations globally



BPO center in India

### Promote BPO in overseas indirect operations

	China	Asia	India	Europe	Americas
Finance					
Human capital					
Procurement					

■ In operation by FY2013

■ Begin operation from FY2014 onward

### Standardize and promote BPO in domestic indirect operations

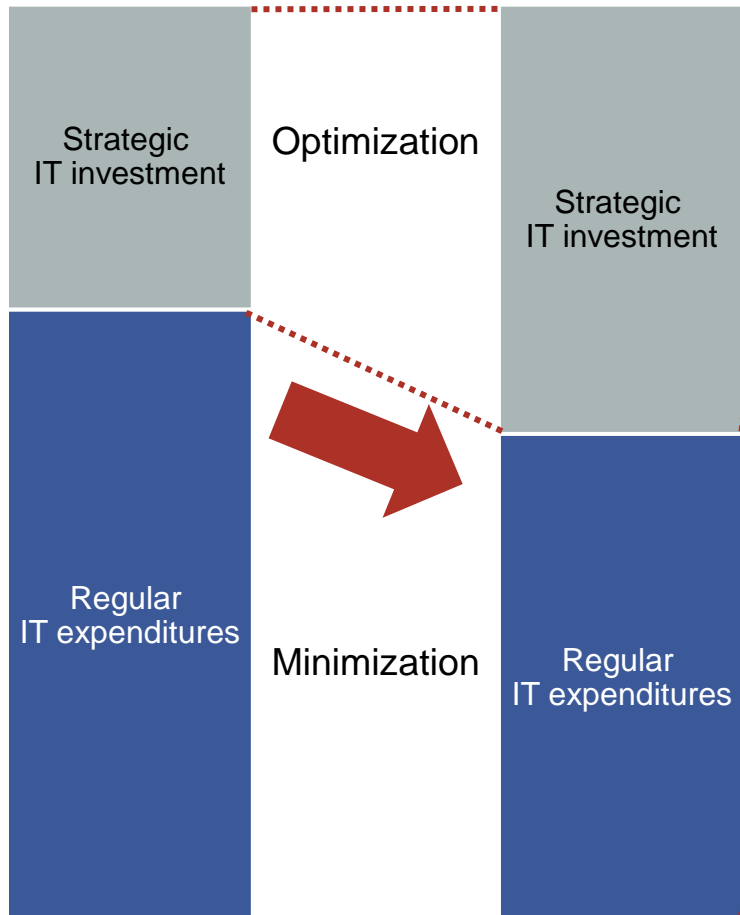
- ▶ Promote BPO in finance operations: October 2014 onward
- ▶ Centralize payroll calculation tasks: approx. 200,000 employees in Japan
- ▶ Promote BPO in procurement operations: expand mainly procurement operations for indirect materials



Reduce regular IT expenditures to secure funding for strategic IT investments that will aid growth

FY2011 (Result)

FY2015 (Forecast)

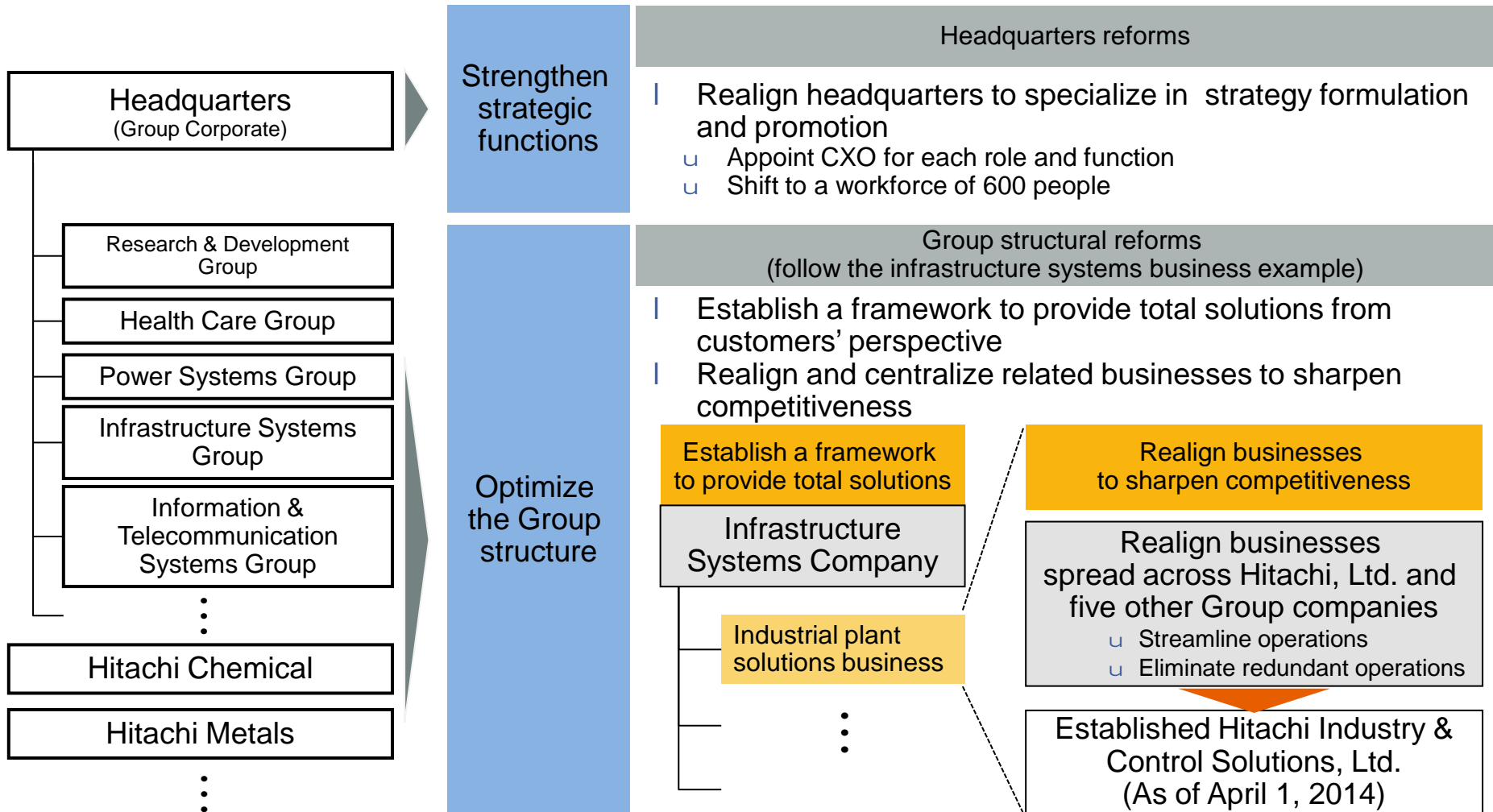


Priorities		Main measures
1	Improve software procurement conditions	<ul style="list-style-type: none"> <li>nPromote centralized purchasing of licenses</li> <li>nReduce communication-related expenses</li> </ul>
2	Optimize IT assets	<ul style="list-style-type: none"> <li>nExpand APM within the Group</li> <li>nIntegrate IT-related facilities and equipment</li> <li>nRationalize the testing and development environment</li> <li>nReduce communications and support costs by centralizing bases</li> </ul>
3	Modify sourcing formats	<ul style="list-style-type: none"> <li>nPromote centralization of internally managed operations within the Group (management of bases, call centers, etc.)</li> <li>nExpand the use of cloud services</li> <li>nBegin exploring the use of AMO</li> </ul>

APM : Application Portfolio Management AMO : Application Management Outsourcing

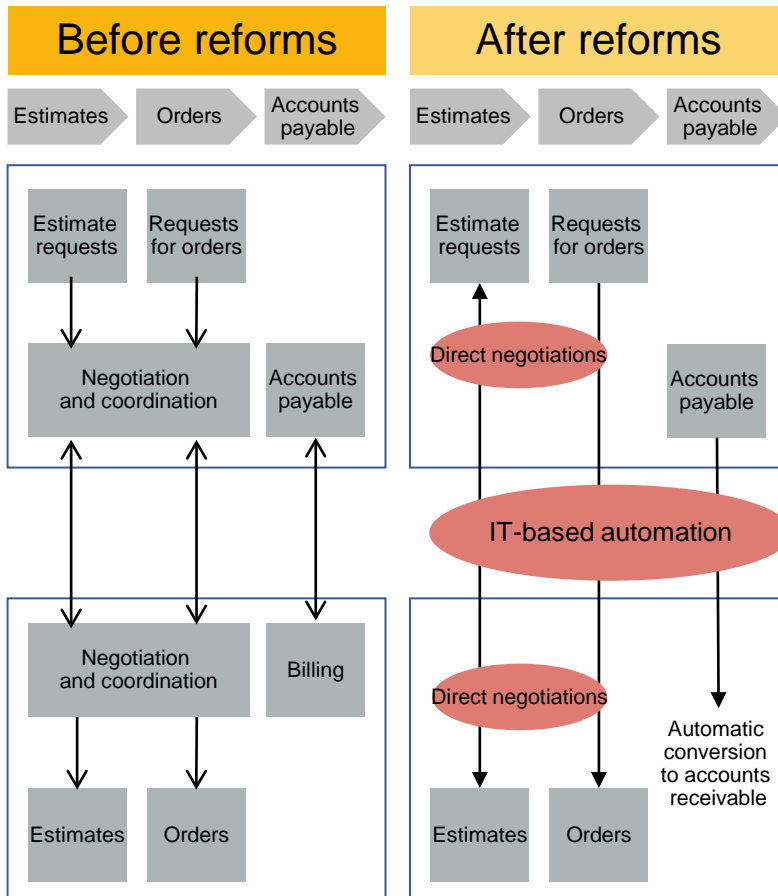
# 3-8. Group Structural Reforms

## Strengthen strategic Headquarters functions and optimize the Group structure to achieve growth as 'One Hitachi'



## Reallocate resources for intra-group transactions to resources for driving growth

### Intra-Group Transaction Reforms



Standardize transaction patterns  
Simplify work processes, IT-based automation  
Review the roles of related departments

Reduce the number of intra-group transaction steps

Reallocate resources to drive growth

- Enhance and expand customer service operations
- Concentrate on high-value-added operations

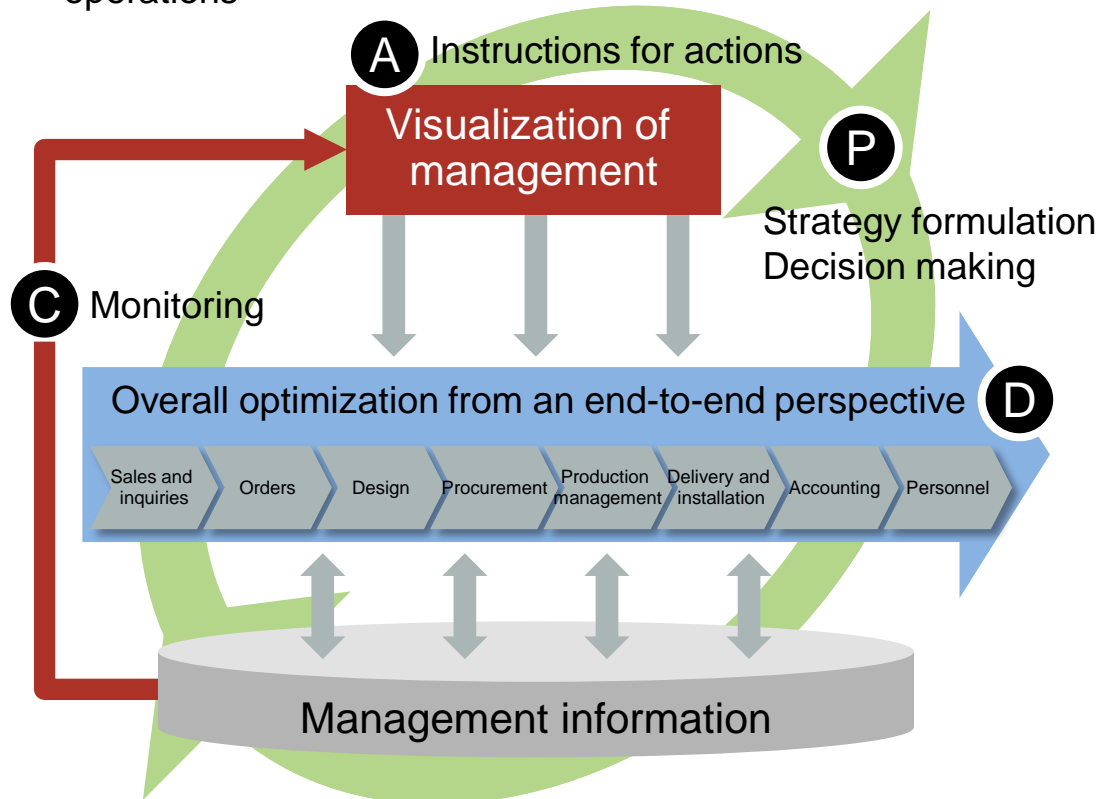
## Overall optimization of operational, business, and work processes using IT

### Vision

- | Achieve optimal operations according to business characteristics based on a Group-wide platform
- | Directly link management targets and frontline operations

### Themes ahead

Reforms focused on cost areas and functions will be henceforth reviewed by process for overall optimization, and the reforms will be implemented in teams



**1** Business structure and operational reforms to improve cash generation capacity

**2** Work process reforms from an end-to-end perspective

**3** Work style reforms using IT

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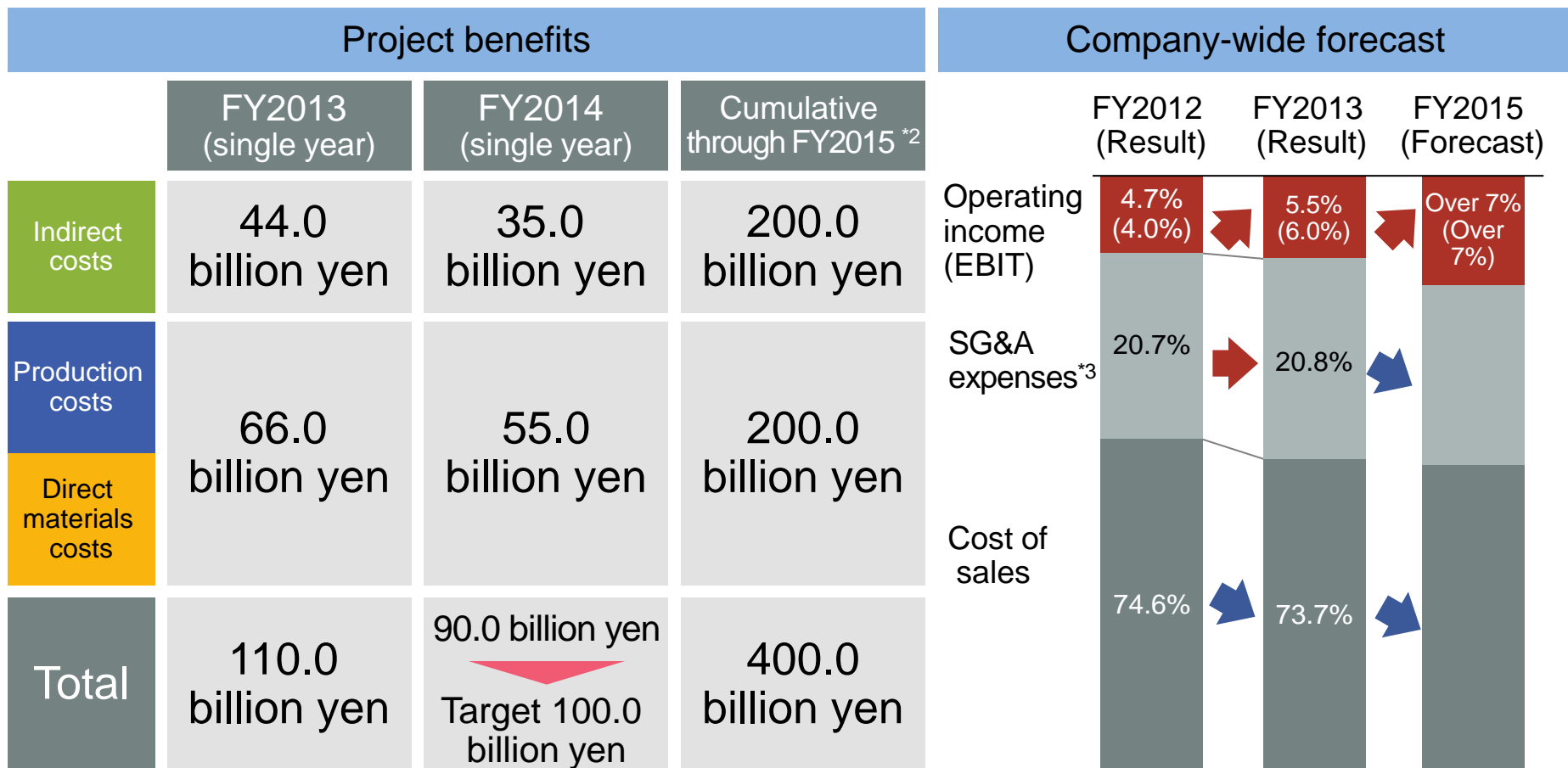
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# 4-1. FY2015 Targets

The Hitachi Smart Transformation Project will help the Hitachi Group to achieve a consolidated operating income (EBIT <sup>\*1</sup>) ratio of over 7%



\*1 EBIT: Earnings before interest and taxes

\*2 Cumulative through FY2015 vs. FY2010 \*3 SG&A expenses include R&D expenditures

# Improve earnings and cash generation capacity to advance to the next stage of growth

## Hitachi Smart Transformation Project



**HITACHI**  
Inspire the Next

Why should you change  
the way of doing business ?

A time to leave the past behind us  
The way it was - is not how it will be

Today, we are re-evaluating our current business practices from the global management point of view. Our new strategy is called "Hitachi Smart Transformation Project" and is promoting various structural reformations.  
The key to success is each individual's awareness of this goal and changing their mindset.

We need to re-think our current practices and try something new. How about collaboration with another division or even with another company ?

You will change Hitachi.

Let's rebuild Hitachi to be a world leader together.

## Hitachi Smart Transformation Project



**HITACHI**  
Inspire the Next

Let's discover more!  
Change has already begun.

Take another look around.  
Do you sense things are a little different from before?  
That is Smart Transformation.

Smart Transformation is not just about cost reduction.  
Smart Transformation is about changing the way we work.  
It's about making processes as efficient as possible, including those around you.  
It's about being able to collaborate with coworkers around the world, no matter where you are.  
This is the structure that will help us transform into the global company we strive for.

If you come across something in your daily work that you would like try changing,  
if you come across something you think is needed to work at a global level,  
by all means, share your insight with your colleagues and work together to put it into practice.

Do it to make Hitachi stronger.  
The person who will change Hitachi is you.

Smart Transformation Project Initiatives Division  
<http://www.hiweb.hitachi.co.jp/transformation/en>

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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