Financial Institutions Business Unit / Government & Public Corporation Business Unit
Business Strategy

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Tsugio Yamamoto
CEO of Financial Institutions Business Unit
CEO of Government & Public Corporation Business Unit
Hitachi, Ltd.
Financial Institutions Business Unit / Government & Public Corporation Business Unit
Business Strategy

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1. Business Overview and Market Environment
2. Growth Strategy
3. Business Performance Trends
4. Conclusion
1-1. Business Overview

**FY2015 Revenues**

- Financial Institutions BU
  - Overseas (Payment Services, etc.) 10%
  - Megabanks, etc. 36%
  - Regional Banks 26%
  - Insurance / Capital Markets 28%

- Government & Public Corporation BU
  - Overseas 1%
  - Government Offices 55%
  - Local Governments / Education 44%

**Strengths of the Financial Institutions BU / Government & Public Corporation BU**

- Management capabilities to successfully complete large-scale projects
- Customer base in the fields of banking, insurance and capital markets. Track record building large-scale mission-critical systems
- Track record building large-scale government systems that support Japanese social systems
# 1-2. Market Environment

## Financial Institutions

### Japanese Market
- While systems integration (SI) business is currently healthy due to the demand for mission-critical system revisions, etc., the market is gradually contracting.
- The reorganization of Japanese financial institutions will continue due to factors such as market contraction due to population decline.

### Global Market
- Major Japanese financial institutions are shifting investments to focus on Asia as a growth area.
- In Asia, regional financial institutions are experiencing growth and new financial needs are expanding.

## Government & Public Corporations

### Japanese Market
- Advancement of policy and government-led IT utilization (realization of a safe and secure society, vitalizing local economy, improved quality of life).
- Growing the Social Security and Tax Number System-related needs (Security measures and new services associated with future expansions in scope of use and the progress of public-private-partnership).

### Global Market
- Strengthened measures taken by the Japanese government to support exports, particularly to the APAC region.
  - Infrastructure export amount: 30 trillion yen by the year 2020 (3 times the amount of 2010).

## Services and Technology Needs

### Japanese Market
- Increased demand for new services which combines of finance and IT, such as FinTech, and the rise of emerging IT companies.
- Advancement in the utilization of cloud computing and OSS.

### Global Market
- IoT, big data, artificial intelligence, robotics and cybersecurity-related expenditures have increased in the national budget.

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OSS: Open Source Software
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Switch business portfolio to services and global areas while increase profitability positioning systems integration business as a base.
2-2. Key Measures (1): Financial Institutions BU

1. Launch financial innovation businesses

- Launch new FinTech-related service businesses utilizing cutting-edge IT (Artificial intelligence, big data, blockchain, etc.)
  - Accelerate FinTech-related R&D and collaborative creation with financial institutions (Take part in joint development projects for blockchain technologies, established Financial Innovation Laboratory in North America)
  - Launch financial channel solutions using cutting-edge devices such as smartphones
    - Hitachi Mobile Cash Card Service (launched December 2015)
    - Proposal of next-generation branch solutions tailored to the diverse branch strategies of financial institutions such as teller-less branches and streamlined suburban branches (self-high counter, remote teller, etc.)

2. Create new businesses through collaborative creation with customers

- Launch new financial service businesses through collaborative creation with customers in Japan and overseas
  - Joint research into the spread of cashless payment services in Vietnam (announced November 2015)

3. Expand global business focusing on Asia

- Asia expansion of payment service business focused on Indian ATM outsourcing business
- In-depth cultivation of Japanese and non-Japanese financial institutions through reinforced global operational structure
## 1. Sophisticate social infrastructure

- Develop increasingly sophisticated social infrastructure systems that respond to transportation, security and disaster-related needs by combining communication control technologies with IT
  - Information sharing and collaboration between staffs in the field utilizing footage, positional information collected from cameras, smart devices, vehicles etc. and map information

## 2. Expand service businesses

- Expand IT infrastructure services
  - Service-oriented IT infrastructure: Contribute to working style reforms such as telework by government workers
  - Data analytics cloud infrastructure: Combine technologies for building large-scale simulation systems with big data analytics to contribute to the sophistication of research analytics and R&D at research institutions and elsewhere

- Utilize cutting-edge technologies such as big data analytics and artificial intelligence to boost the efficiency of administrative affairs and improve the services offered to citizens

## 3. Expand global businesses

- Overseas expansion of ITS (Intelligent Transport System)
  (Utilize results of experimental proof conducted in Indonesia and Myanmar)

- Expand sales of security solutions utilizing finger vein authentication and image recognition technologies
  (China)
2-4. Key Measures (3): Common Measures
[Inter-industry Collaboration and Reinforcement of Base Businesses]

1. Utilize inter-industry services and IoT platform

- Create new services through service coordination utilizing the expertise of front BUs
  - New services utilizing payment functions in manufacturing, distribution, communications, healthcare and government, etc.
  - New services based on the private sector utilization of the Social Security and Tax Number (coordination of information in the areas of medical care, nursing care and healthcare, etc.)
- Collaborate with the Services & Platforms BU
  - Develop business services created by each front BU and take the initiative in utilizing IoT platform that accelerate the launch

2. Strengthen base businesses

- Secure firm orders for replacement projects
  - Leverage large-scale system development capabilities and skills in migrating mission critical systems to differentiate
- Increase productivity and profitability of application development
  - OSS utilization, more advanced development techniques
  - Reinforce ties with partner firms, expand utilization of Asia development bases
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## 3. Business Performance Trends

### Financial Institutions BU

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<tr>
<th></th>
<th>FY2015 (Results)</th>
<th>FY2016 (Forecast)</th>
<th>FY2018 (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders Received</td>
<td></td>
<td>370.0</td>
<td>385.0</td>
</tr>
<tr>
<td>(billions of yen)</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas Revenue</td>
<td>10%</td>
<td>12%</td>
<td>21%</td>
</tr>
<tr>
<td>Ratio</td>
<td></td>
<td></td>
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### Government & Public Corporation BU

<table>
<thead>
<tr>
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<th>FY2015 (Results)</th>
<th>FY2016 (Forecast)</th>
<th>FY2018 (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders Received</td>
<td></td>
<td>210.0</td>
<td>210.0</td>
</tr>
<tr>
<td>(billions of yen)*</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas Revenue</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Ratio</td>
<td></td>
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* From FY2016, the figures for orders received are the same as those for revenues to manage orders received as revenues
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<th>Government &amp; Public Corporation BU</th>
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<tbody>
<tr>
<td></td>
<td>FY2018</td>
<td>Vs. FY2015</td>
<td>FY2018</td>
</tr>
<tr>
<td>Revenues</td>
<td>385.0 billion yen</td>
<td>+5.2 billion yen</td>
<td>210.0 billion yen</td>
</tr>
<tr>
<td></td>
<td>+1%</td>
<td></td>
<td>+2%</td>
</tr>
<tr>
<td>Overseas Revenue Ratio</td>
<td>21%</td>
<td>+11%</td>
<td>3%</td>
</tr>
</tbody>
</table>
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 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;
- 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;
- credit conditions of Hitachi’s customers and suppliers;
- 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 and intensifying price competition for 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 acquisitions of other companies, joint ventures and strategic alliances and the possibility of incurring related expenses;
- 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 associates and joint ventures 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 associates and joint ventures;
- the possibility of disruption of Hitachi’s operations by natural disasters such as earthquakes and tsunamis, the spread of infectious diseases, and geopolitical and social instability such as terrorism and conflict;
- 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.