



## **Financial Institutions Business Unit Business Strategy**

Hitachi IR Day 2017

**June 8, 2017**

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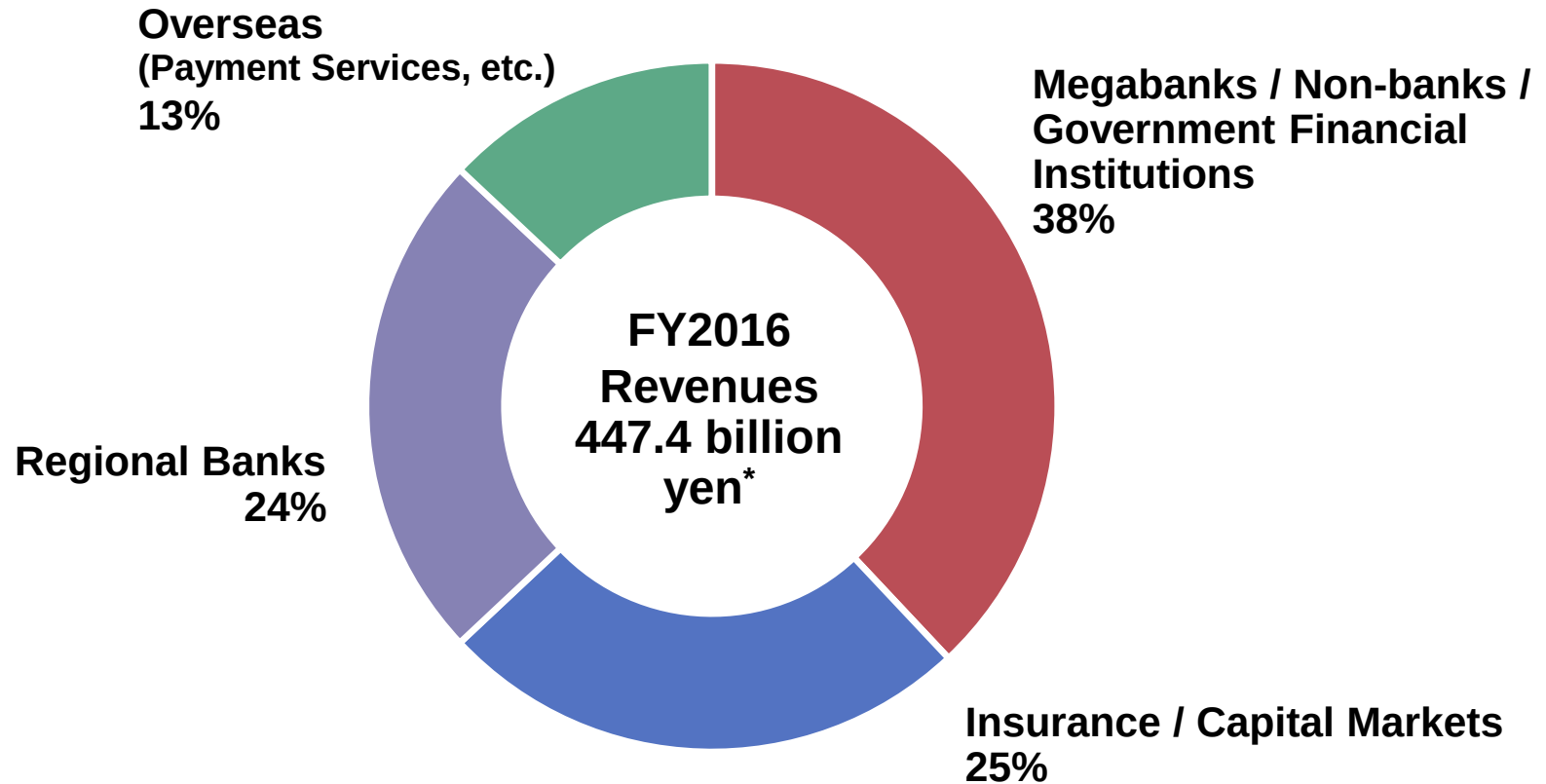
# Financial Institutions Business Unit Business Strategy

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- 1. Business Overview and Analysis of Current Status**
2. Business Strategy
3. Business Performance Trends
4. Conclusion

Promote the strengthening and expansion of global business positioning systems integration business for megabanks, insurance / capital markets and regional financial institutions as major sources of revenue



\* From April 1, 2017, Hitachi-Omron Terminal Solutions, Corp. is classified into the Financial Institutions Business Unit.  
The numerical values for FY2016 are shown both in old and new classifications.

## 1-2. Progress of 2018 Mid-term Management Plan\*1

- Steadily implement measures for achieving targets in the Mid-term Management Plan
- Accelerate systems and structures that can swiftly respond to overseas and Japan market changes

|              |          | FY2015<br>(Result)   | FY2016<br>(Result)   |                                         | FY2017<br>(Forecast) | FY2018<br>(Target)   |                         |
|--------------|----------|----------------------|----------------------|-----------------------------------------|----------------------|----------------------|-------------------------|
|              |          |                      |                      | Compared<br>with previous<br>forecast*2 |                      |                      | Compared<br>with FY2016 |
| Old Category | Revenues | 379.8<br>billion yen | 365.9<br>billion yen | (1%)                                    | -                    | -                    | -                       |
| New Category | Revenues | -                    | 447.4<br>billion yen | -                                       | 470.0<br>billion yen | 510.0<br>billion yen | +14%                    |

### Achievements in FY2016

- Steadily received orders for and implemented large-scale systems integration projects
- Received orders, developed technologies and promoted PoC for digital solutions that make use of data analytics, AI and other advanced IT

### Issues

- Swiftly address future changes in the market environments, such as contraction of the Japanese market
- Expand business in the global and digital solution fields as new sources of revenue
- Enhance the global service delivery system

\*1 From April 1, 2017, Hitachi-Omron Terminal Solutions, Corp. is classified into the Financial Institutions Business Unit.  
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\*2 As of June 1, 2016.

AI: Artificial Intelligence

PoC: Proof of Concept

- The financial IT market in Japan increases only moderately
- The global market expands remarkably and FinTech grows significantly

- Anticipated investment: Financial IT market  
(Index using 2015 as 100)

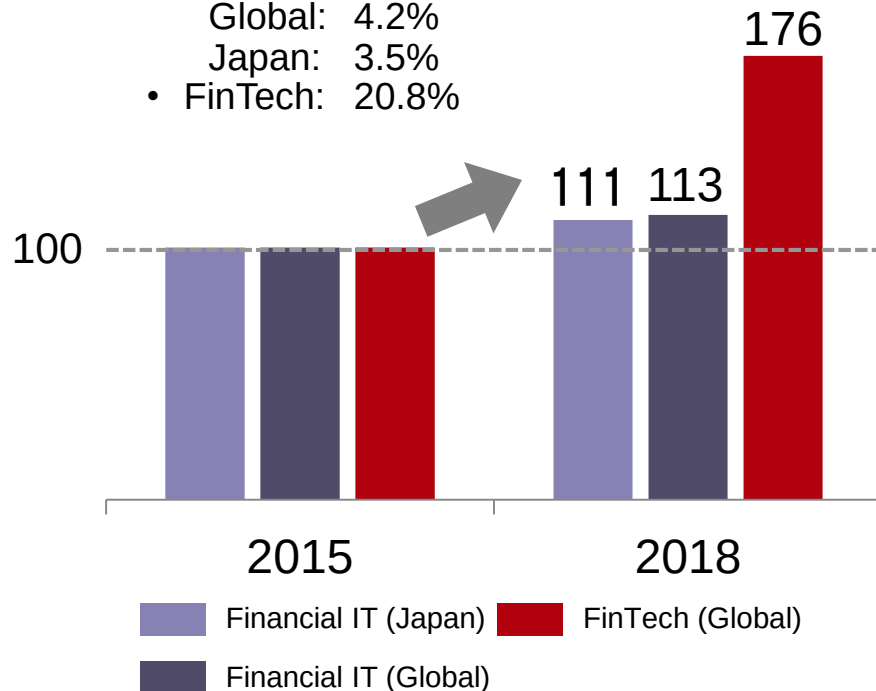
■ CAGR

- Financial IT:

- Global: 4.2%

- Japan: 3.5%

- FinTech: 20.8%



- Japanese Market

- The reorganization of Japanese financial institutions will continue due to factors such as market contraction linked to population decline
- System modernization is advancing
- Start of FinTech and other new services are being accelerated

- Global Market

- Major domestic financial institutions are shifting their investments to focus on overseas markets
- Asian market continues expanding
- Expansion possibilities for cashless payment services in countries that do not have a well-established payment infrastructure
- Financial deregulation and digitalization increases new entries and changes business models

- Service and Technical Needs

- The application scope of blockchain expands
- The sophistication and practical realization of AI technologies are proceeding rapidly
- Big data technologies are developing due to the broad use of IoT

CAGR: Compound Annual Growth Rate

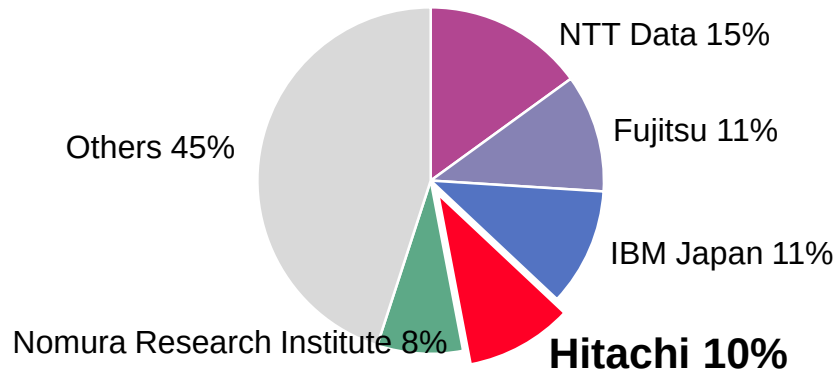
Source: Financial IT: Gartner, "Forecast: Enterprise IT Spending by Vertical Industry Market, Worldwide, 2015-2021, 1Q17 Update (Banking & Securities and Insurance, excl. Device, Internal Service and Telecom Service)," 27 April 2017 (in Japanese). Chart created by Hitachi based on Gartner Research.

FinTech: Calculated by Hitachi based on Banking Reports, "Five Banking Innovations from Five Continents", MarketResearch.com, February 2015.

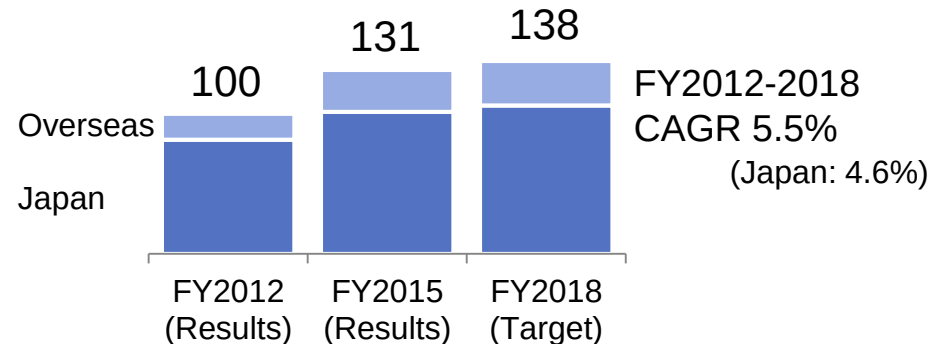
# 1-4. Competitive Position

**Aim to be a major global player leveraging the accumulated strengths in the systems integration business in Japan**

**Japan Financial IT Services Shares**  
(Excluding hardware and software)\*1



**Hitachi Financial Institutions BU Revenue Trends**  
(Index using FY2012 as 100)\*2



## Competition Trends

- Solution development and exploitation of customer needs are activated
- Development of services based on blockchain technologies and their standardization are promoted
- Global businesses are enhanced mainly in Asia

## Strengths of Hitachi

- Management capabilities to successfully complete large-scale projects
- Solid customer base in the fields of banking, insurance and capital markets
- Track record of modernization of mission-critical systems
- Ability to create new services that make use of Hitachi Group's its experience and knowledge in a wide range of business fields

\*1 Source: Market Share: IT Services 2016 (Banking & Securities, Insurance), Gartner, 19 April 2017 (Sorted by "All IT Services" and "Japan"), Chart created by Hitachi based on Gartner Research.

\*2 Past figures are for reference after retroactive adjustment to meet the FY2017 organizational structure. The figures in FY2012 are based on U.S. GAAP, and the figures in FY2015 and FY2018 are based on IFRS.

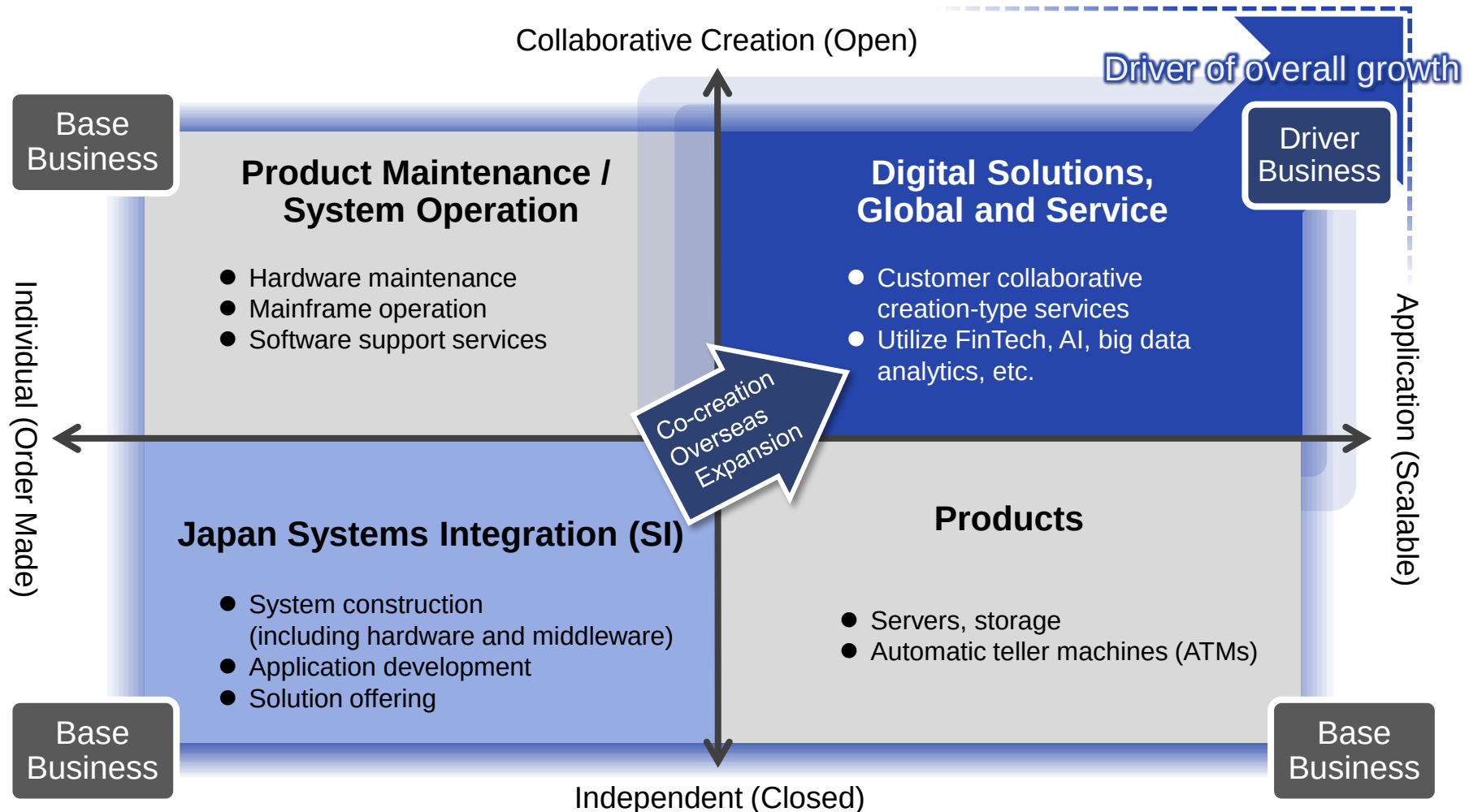
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**Expand digital solutions and global fields  
positioning systems integration business as a base**





1

### Systems Integration Business in Japan

- Ensure to obtain large-scale systems integration projects
- Improve productivity and profitability of application development
- Expand the solution / services business that meets new market needs

2

### Digital Solutions Business (FinTech-related services, etc.)

- Promote new services and collaborative business that contribute to customer business growth
- Utilize the IoT Platform Lumada (such as block chain and integrated certification platform)

3

### Global Business

- Create financial services and new solutions through collaboration with Japanese financial institutions
- Expand new payment service businesses that meet the needs of various countries by making use of the business and customer bases that have been accumulated in the ATM business

**Continuously strengthen both sales size maintenance / expansion and profitability improvement as the base business**

### **Ensure to obtain large-scale systems integration projects**

Differentiate by strength of capabilities of large-scale mission critical system integration and core system migration

- Core systems of major financial institutions
- Next-generation open core banking systems, etc.

### **Improve productivity and profitability of application development**

- Streamline development and work using other digital technologies such as AI
- Utilize OSS and DevOps, and sophisticate development methods
- Strengthen collaboration with partner companies and expand offshore / nearshore development

### **Expand the solution and managed service business that meets new market needs**

- Deploy next-generation channel solutions (such as self-operation) and promote the managed service business in collaboration with Hitachi-Omron Terminal Solutions
- Provide advanced IT and promote community activities (launch of next-generation consortium)

OSS: Open-source software

DevOps: Software development method in collaboration between Development and Operations

## 2-4. Growth Business: Digital Solution

- Focus on four fields where financial institutions are connected with customers to create new values (Big data / AI, Interface, Security and Financial Infrastructure)
- Promote new services and the customer collaborative creation business that combines know-how in Financial Institution BU and other BUs (New services utilizing payment functions in distribution, manufacturing, logistics, telecommunications, medical and government, etc.)
- Utilize the IoT Platform Lumada (Blockchain, integrated authentication infrastructure, etc.)

### Big Data / AI

- Adopted Hitachi AI Technology/H for stock lending operation at kabu.com Securities (announced in July 2016)
- Conducted collaborative research for utilizing medical big data with The Dai-ichi Life Insurance Company (announced in September 2016)
- Launched the lending service for small- and medium-sized companies that utilize big data in collaboration with Mizuho Bank (announced in March 2017)
- Employed robo-advisor service at The Chiba Bank (announced in March 2017)

### Interface

- Launched “Financial API Linkage Service” that realizes secure data linkage between financial institution systems and FinTech companies (announced in September 2016)

### Security

- Adopted a new branch system that utilizes the Public Biometric Infrastructure (PBI) at Yamaguchi Financial Group (announced in October 2016)

### Financial Infrastructure (Blockchain)

- Implemented proof of concept testing with The Bank of Tokyo-Mitsubishi UFJ for utilizing blockchain technology for check digitalization in Singapore (announced in August 2016)
- Launched a cloud service to provide blockchain technology environment (announced in May 2017)

## 2-4. Case 1: Expand Insurance Underwriting Range Based on Data Analytics

Analyze and utilize the big data possessed by life insurance companies to contribute to the expanded range of insurance underwriting

### Issues

- Provide insurance services to customers who were not eligible to be insured due to chronic diseases or medical history
- Sophisticate know-how regarding life insurance underwriting and payment, and accumulate and utilize medical knowledge



Insurance Medicine  
Specialists



Hitachi

**Utilize in Life Insurance Business**

### Expected Results

Sophisticate the life insurance business with approaches based on big data analytics and simulation

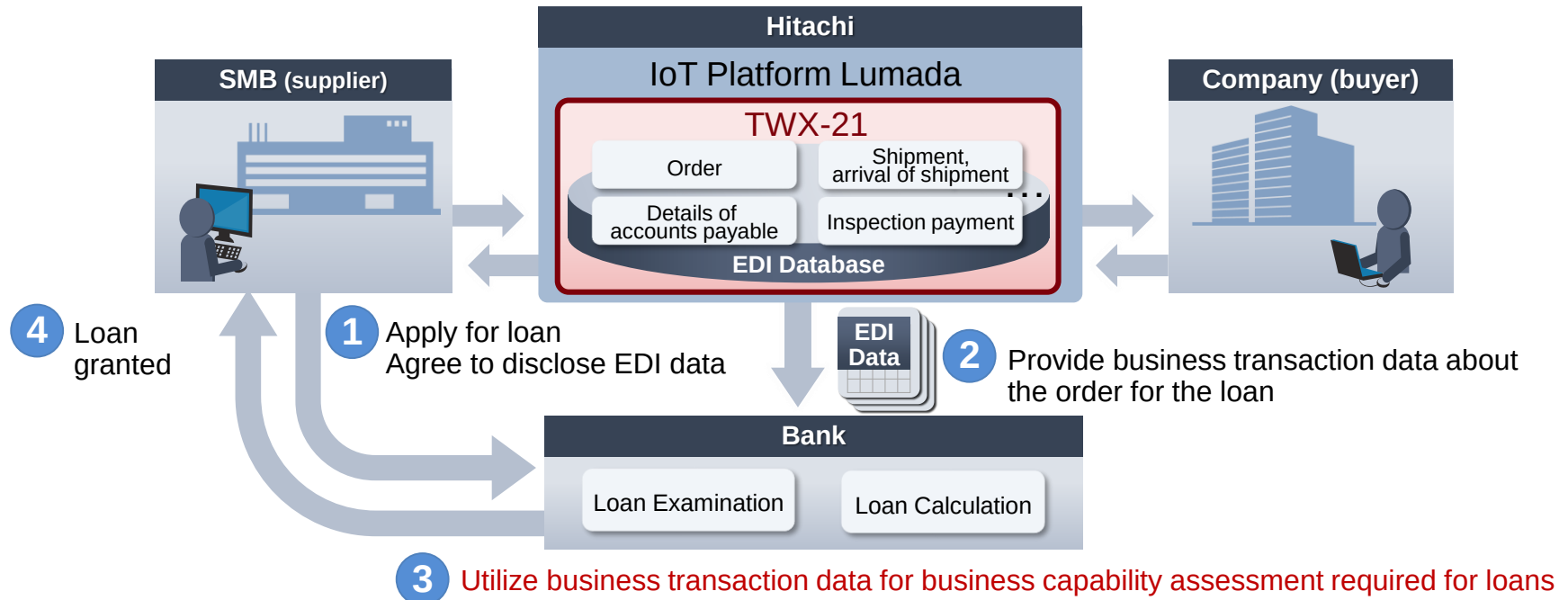
- Liberalize insurance underwriting standards
- Develop new insurance products
- Increase life insurance policyholders

## 2-4. Case 2: Lending Service Utilizing Big Data

Realized a new lending service that reduces workloads  
when small- and medium-sized companies apply for loans

### Issues

- Assist streamlining and diversification of financing by small- and medium-sized companies

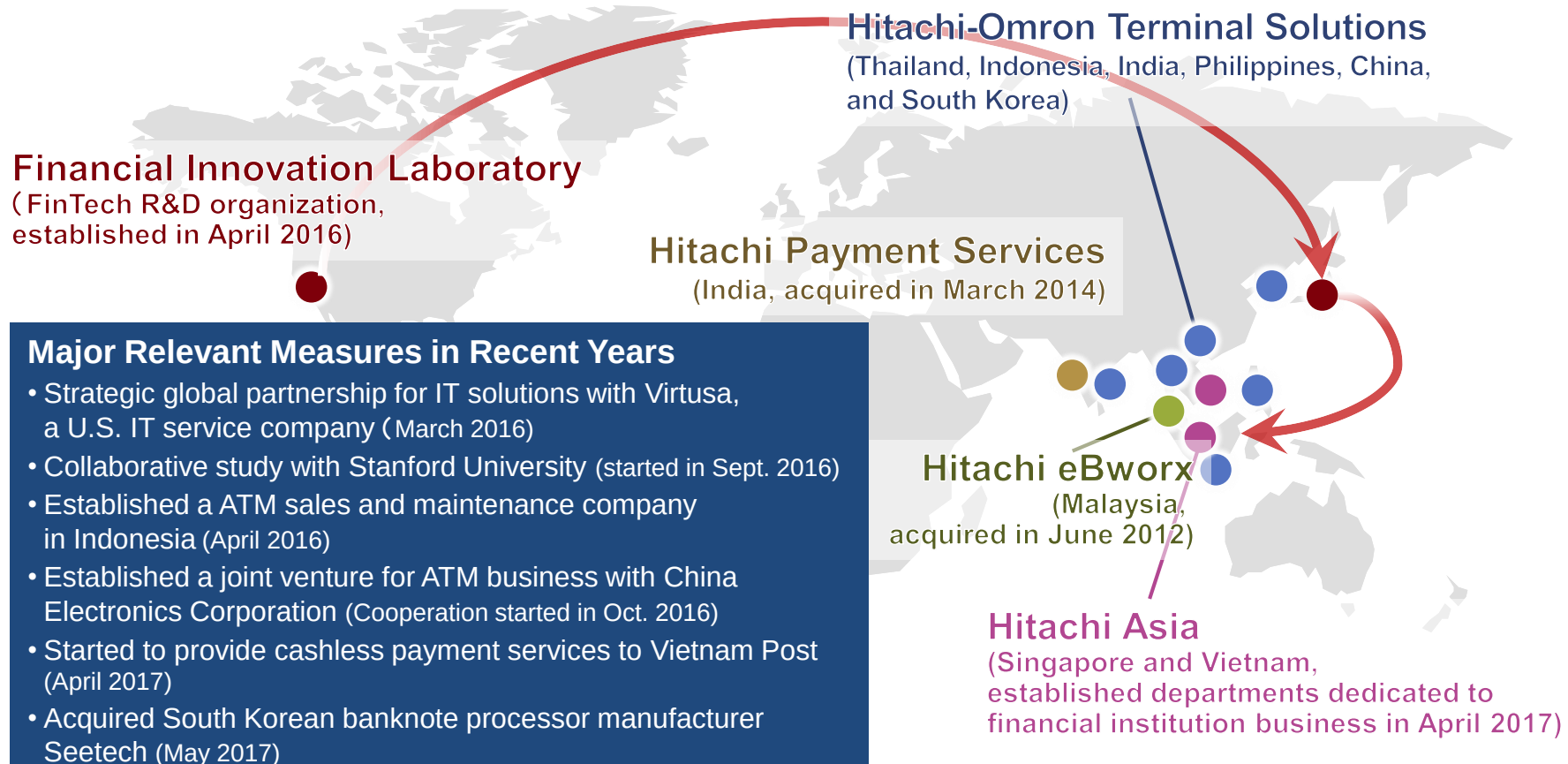


### Expected Results

- Simplify financing operations at companies (such as submitting business capability assessment materials)
- Improve credit management accuracy and shorten waiting period for a loan
- Streamline loan operations at banks

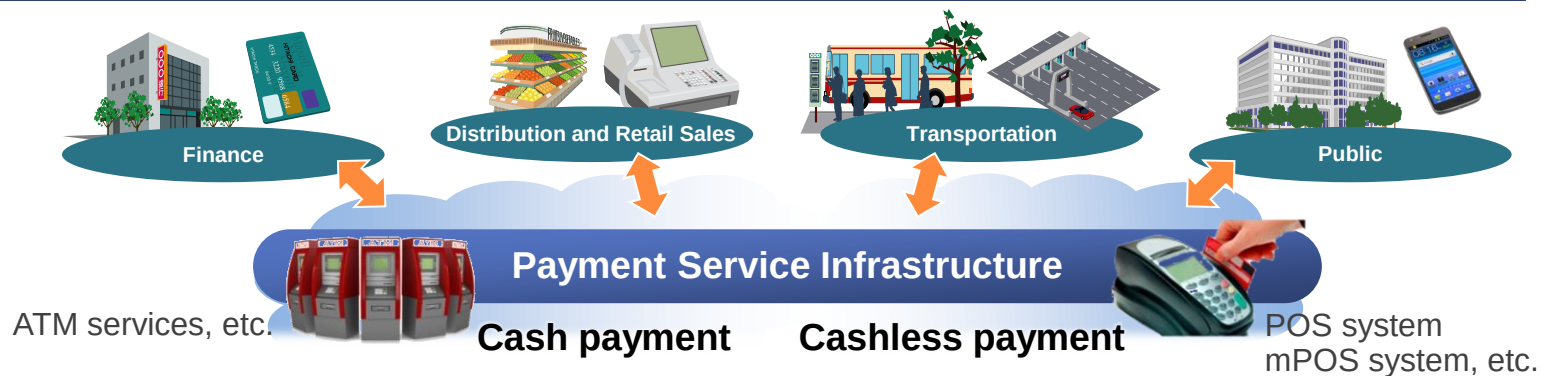
## 2-5. Growth Business: Global (1)

- Established departments dedicated to the financial institution business in Singapore and Vietnam, aiming to expand business for Japanese customers and local financial institutions in Asia
- Expand the global business that combines the key technologies of group companies
- Develop and expand new financial services and solutions that integrate cutting-edge technologies in Europe and the U.S.



# 2-5. Growth Business: Global (2): Expansion of Payment Field

|                  |                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cash Payment     | <ul style="list-style-type: none"><li>Expand ATM service business that combines the customer bases and technologies Group companies possess<ul style="list-style-type: none"><li>Acquired large scale project in India and promoted expansion to other countries</li></ul></li></ul>                                                                                                                  |
| Cashless Payment | <ul style="list-style-type: none"><li>Expand cashless payment infrastructures, such as online payment, and entered into the transportation payment field<ul style="list-style-type: none"><li>India: Started highway fare payment services using Electronic Toll Collection System (January 2017)</li><li>Sri Lanka: Received an order for a bus fare payment system (March 2017)</li></ul></li></ul> |



● : Regions and fields in which business has been deployed or under planning

|                                                                       | Finance                                 |                |                | Distribution and retail sales |                  |        | Transportation    | Public, etc.   |
|-----------------------------------------------------------------------|-----------------------------------------|----------------|----------------|-------------------------------|------------------|--------|-------------------|----------------|
|                                                                       | ATM services                            | Money transfer | Mobile banking | POS                           | Points, pre-paid | Wallet | IC cards, etc.    | IC cards, etc. |
| India                                                                 | Service expansion                       |                |                | Service expansion             |                  |        | Expand industries |                |
| Southeast Asia, etc.<br>(Sri Lanka, Thailand, Indonesia, and Vietnam) | Under planning<br>(Thailand, Indonesia) |                |                | Sri Lanka                     |                  |        |                   |                |
|                                                                       | Area expansion                          |                |                | Area expansion                |                  |        | Area expansion    |                |

POS: Point of Sales    mPOS: Mobile POS

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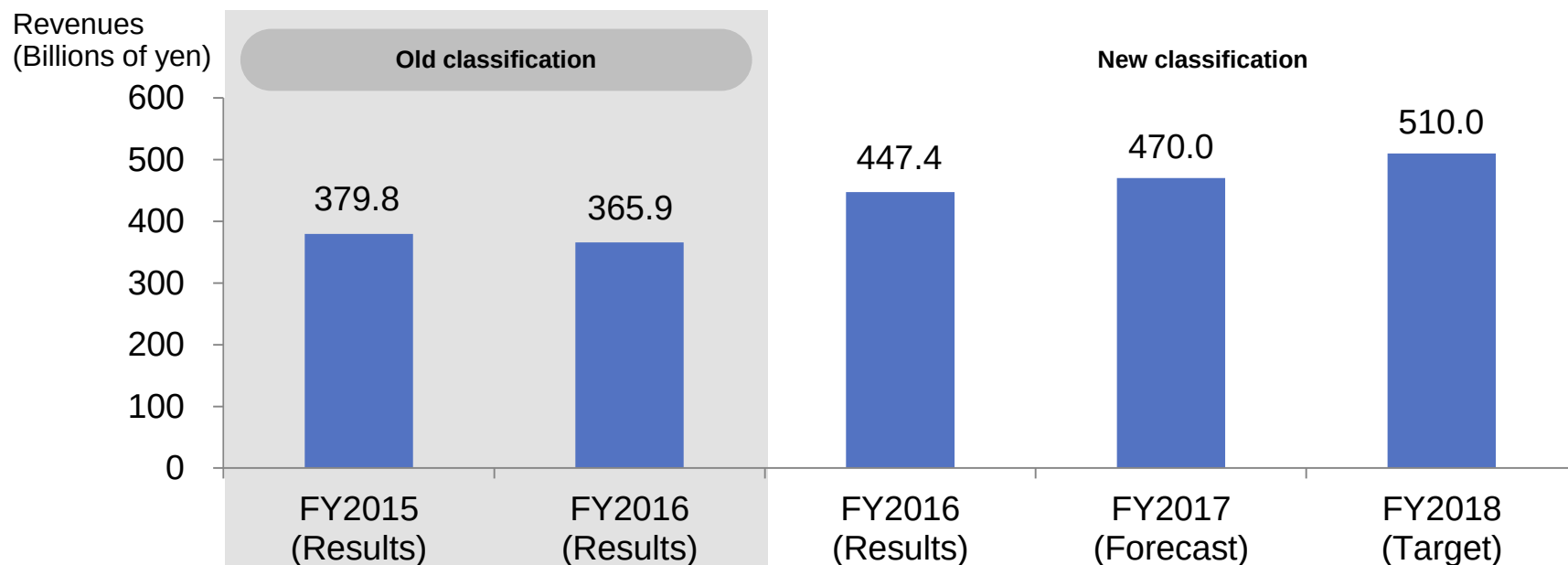
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### 3. Business Performance Trends\*1

|                                     | Old Classification |                   | New Classification |                   |                   |
|-------------------------------------|--------------------|-------------------|--------------------|-------------------|-------------------|
|                                     | FY2015 (Results)   | FY2016 (Results)  | FY2016 (Results)   | FY2017 (Forecast) | FY2018 (Target)   |
| <b>Orders Received*2</b>            | 458.2 billion yen  | 372.2 billion yen | -                  | 470.0 billion yen | 510.0 billion yen |
| <b>Overseas Revenue Ratio</b>       | 10%                | 9%                | 13%                | 19%               | 23%               |
| <b>Growth Field Revenue Ratio*3</b> | 25%                | 22%               | 28%                | 29%               | 33%               |



\*1 From April 1, 2017, Hitachi-Omron Terminal Solutions, Corp. is classified into the Financial Institutions Business Unit.

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\*2 To manage the orders received plan based on revenues, the forecast and target values are the same as the value of revenues.

\*3 Digital Solutions business (disclosed as "Financial IT Innovation business" on Hitachi IR Day 2016), Services business, and Overseas business.

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### FY2018 Target

|                             | FY2018            | Vs. FY2016                  |
|-----------------------------|-------------------|-----------------------------|
| Revenues                    | 510.0 billion yen | +62.5 billion yen<br>[+14%] |
| Overseas Revenue Ratio      | 23%               | +10%                        |
| Growth Fields Revenue Ratio | 33%               | +5%                         |

Switch business portfolio to digital solutions and global fields while increase profitability positioning systems integration business as a base

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;
- 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;
- 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;
- 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 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 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;
- 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;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- 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 cost structure overhaul;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights;
- 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 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; and
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its employee benefit-related costs.

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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