
FY2016-FY2018 Mid-Term Management Plan

June 6, 2016

 **Hitachi Capital Corporation**

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- 1. Review of 2015 Mid-Term Management Plan**
- 2. Framework of 2018 Mid-Term Management Plan**
- 3. Business Strategy**
(Growth Strategy/Strengthen Management Base)
- 4. Conclusion**

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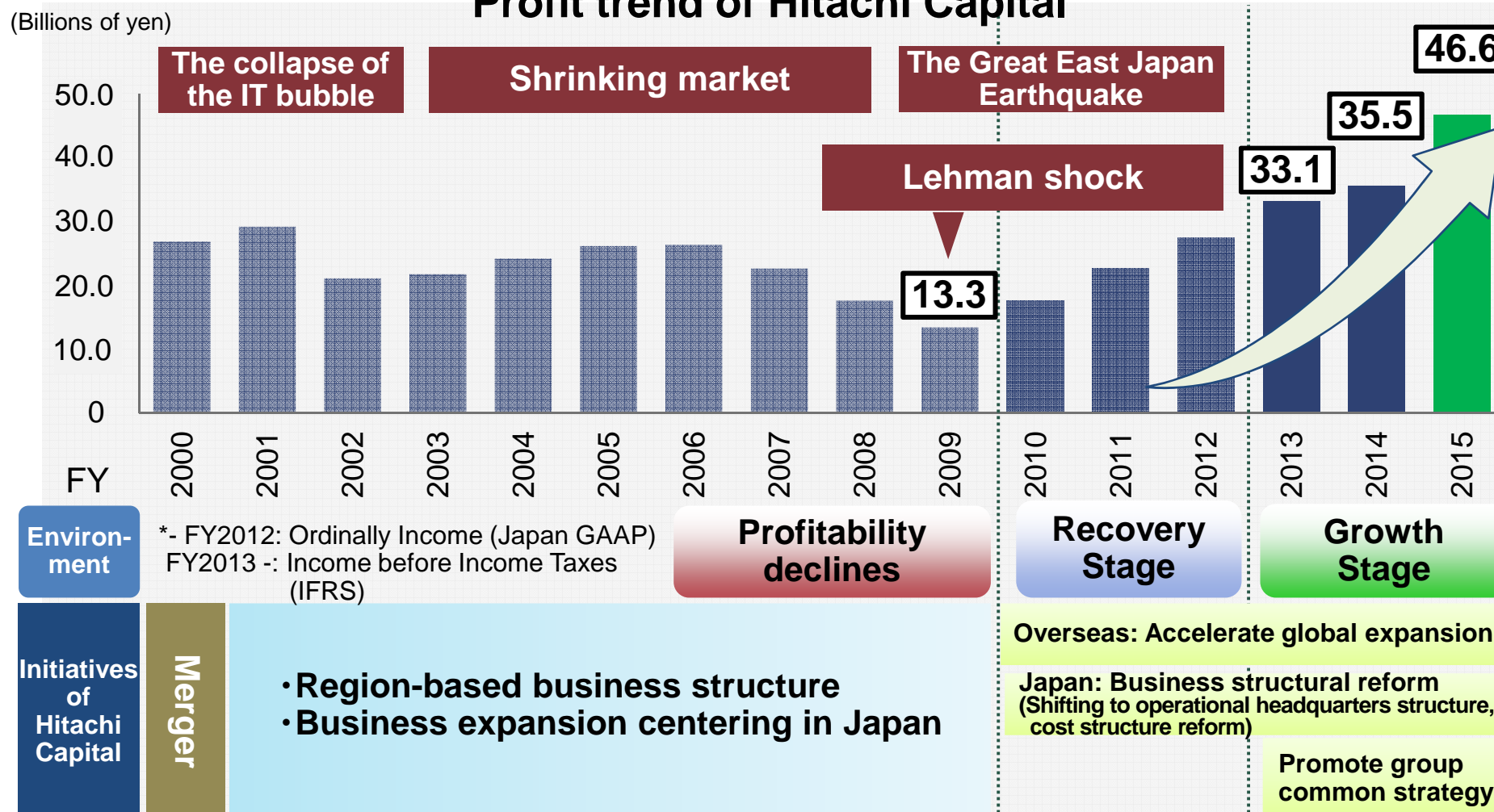
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1-1. Review of 2015 Mid-Term Management Plan: Changes in External Environment and Business Results

HITACHI
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Shift from a recovery stage to a growth stage
despite continued tough environment

“Profit trend of Hitachi Capital”



1-2. Review of 2015 Mid-Term Management Plan: Key management indicators

**Accomplished the target in the growth stage.
Achieved a record high for three consecutive years**

Profit before Tax
Original plan:
34.0 billion yen

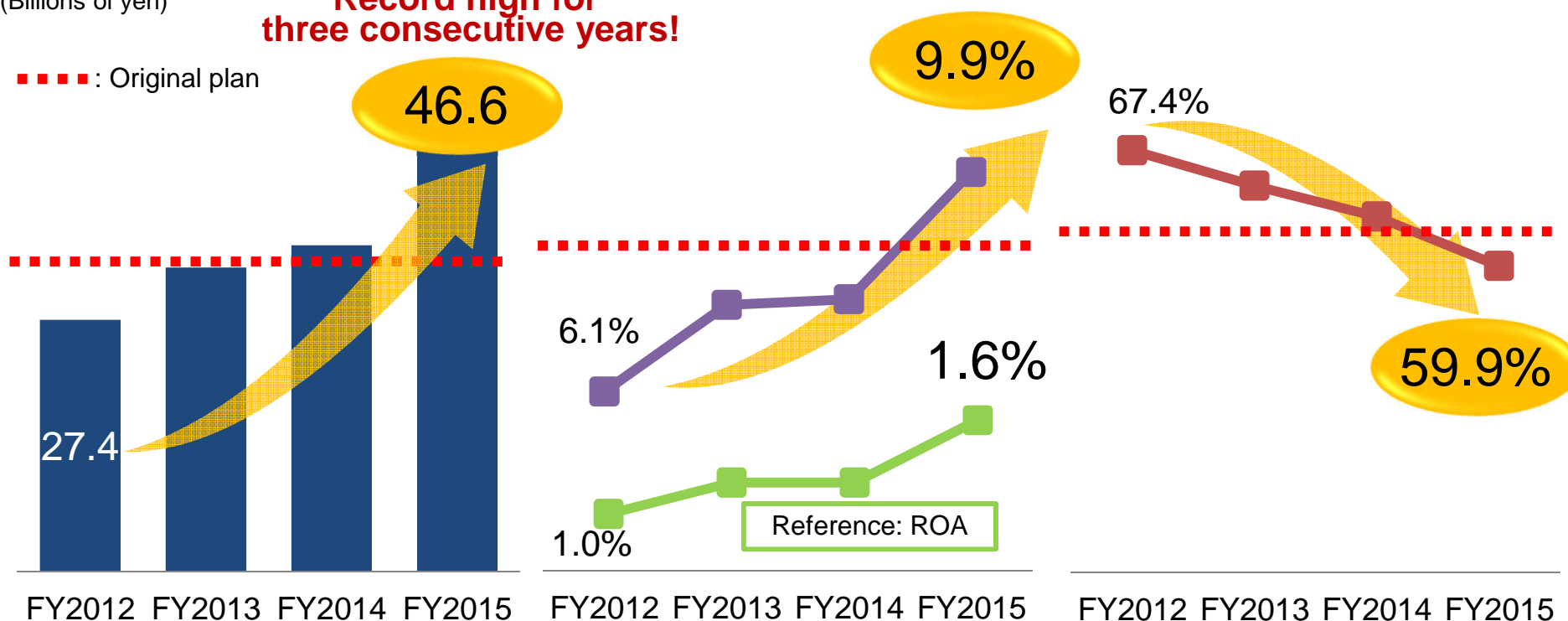
ROE
Original plan:
 $\geq 8\%$

OHR
Original plan:
 $< 63\%$

(Billions of yen)

**Record high for
three consecutive years!**

..... : Original plan



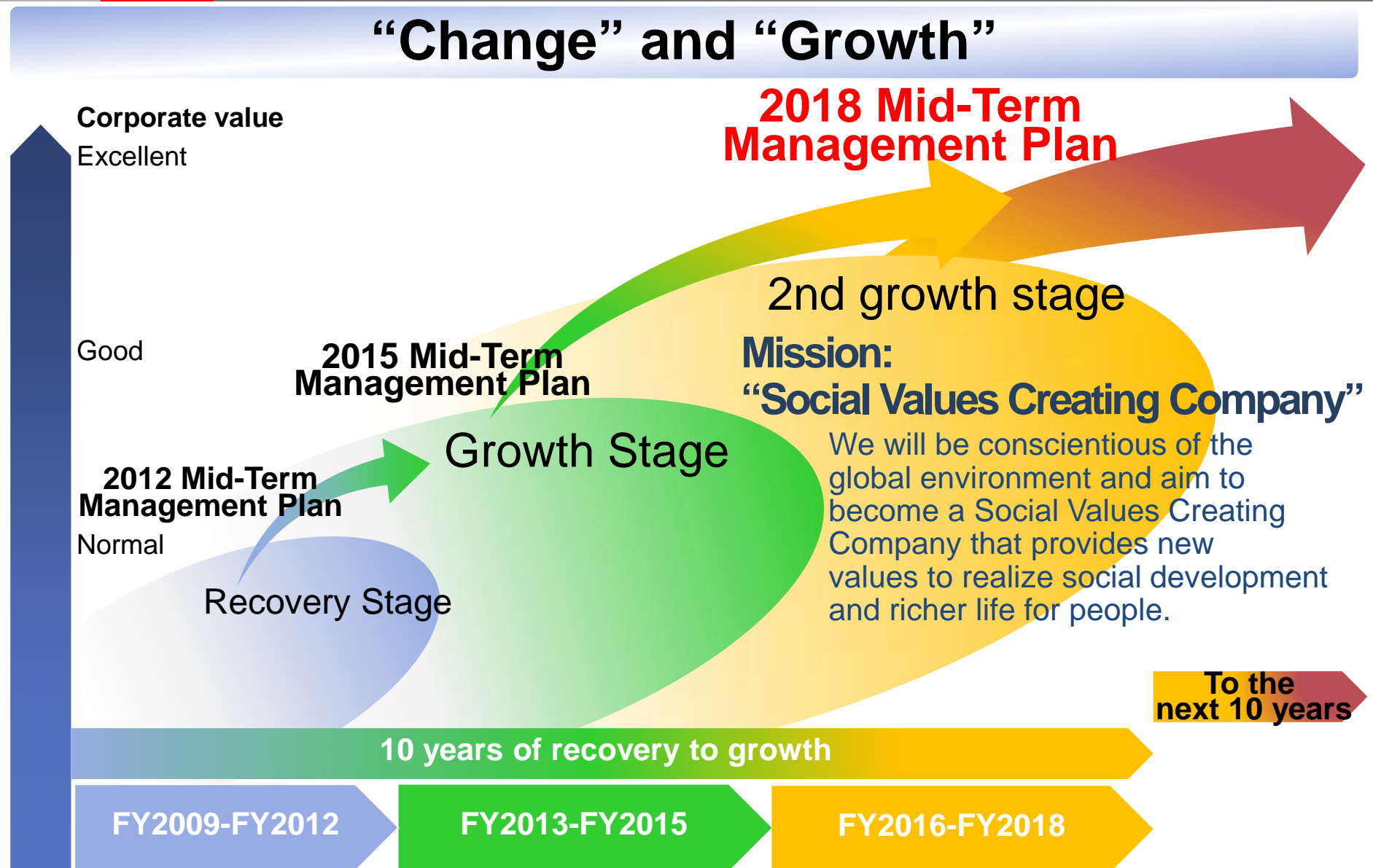
*Ordinary income (Japan GAAP) in FY2012

*OHR (overhead ratio) = SG&A (excluding bad debt expenses) / Gross profit

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2-1. Framework of 2018 Mid-Term Management Plan: **HITACHI** Positioning Inspire the Next



2-2. Framework of 2018 Mid-Term Management Plan: **HITACHI** Inspire the Next

Global Business: Continue double digit growth

“Maintain high and systematic growth”

- Risk control according to regional characteristics
- Diversify business portfolio to build a system insusceptible to external environments
- Overseas ratio in FY2018: 60% (profit before Tax)

Japan Business: Challenge to achieve 2% ROA

“Transition to growth stage through continuous change in business mix”

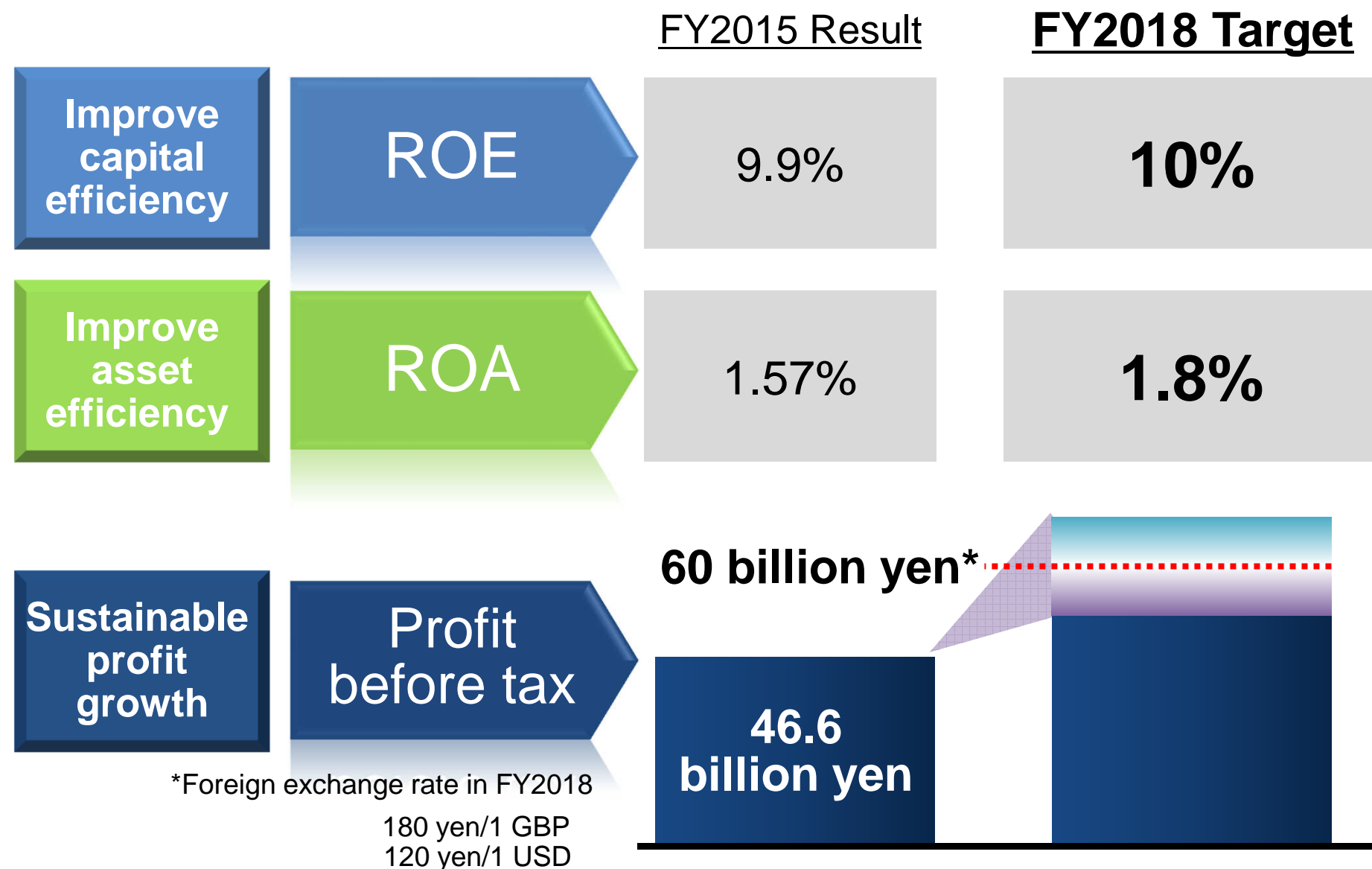
- Improve asset utilization by resetting focused sectors
- Strengthen back office capability that leads to the competitive advantage

Aggressive Investment: Highly-skilled professionals/ Aggressive IT investment/ Collaborate with Partners

- Execute strategic investment to support business growth (Business partner, M&A, IT investments, etc.)
 - ⇒ M&A: 300 billion yen in asset size
 - IT investment: 20 billion yen
 - Human resources investment:
 - Add 200 highly-skilled professionals

2-3. Framework of 2018 Mid-Term Management Plan: **HITACHI** Target

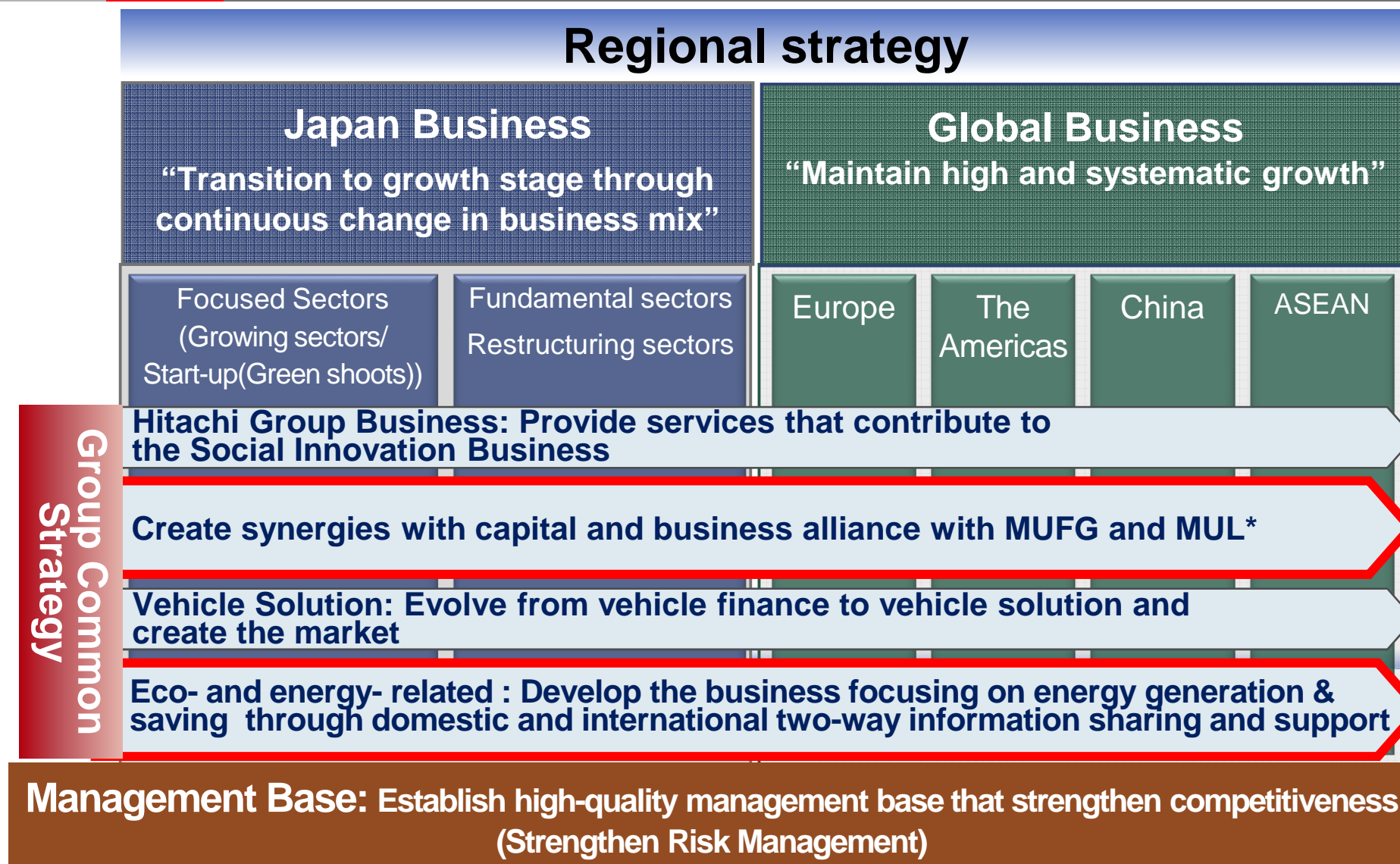
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3-1. Business Strategy: Business Map

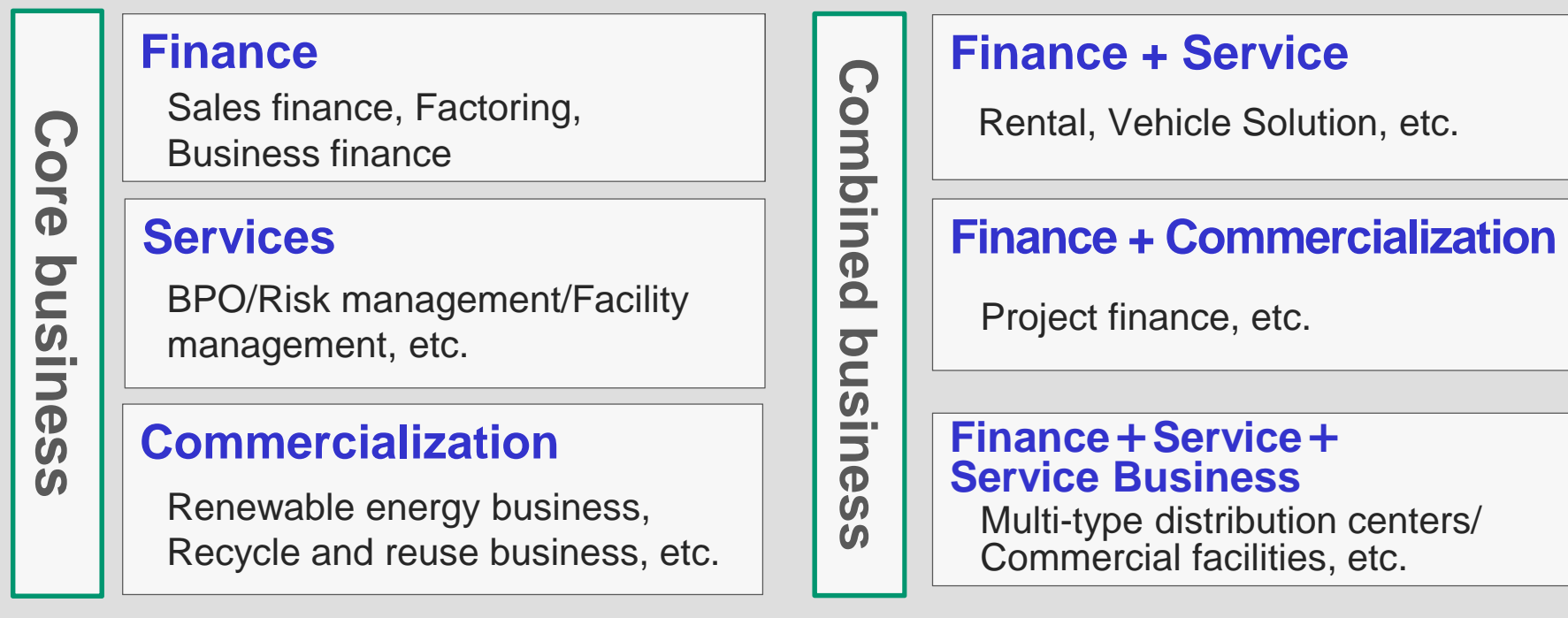


* MUFG: Mitsubishi UFJ Financial Group, Inc.
MUL: Mitsubishi UFJ Lease & Finance Company Limited

3-2. Business Strategy: Business Fields

■ Business Fields

Consists of Core business (finance/service/commercialization) and “Combined business” which is a combination of core businesses



Accelerate to strengthen core business and shift value-added “Combined Business” and generate “strength and uniqueness” by business enhancement

3-3. Business Strategy: Regional Strategy (Business Structure of FY2016)



3-4. Business Strategy: Regional Strategy (Overview)

| No. | Region | Basic policy | 2018 Mid-Term Management Plan Targets () : vs FY2015 |
|-----|--------------|---|---|
| 1 | Japan | Change business portfolio. Improve profitability by replacing and expanding focused sectors | <ul style="list-style-type: none"> • Profit growth rate: 8% • ROA: 1.9% (+0.6%) ⇒ Challenge 2% ! • Operating assets: 1.5 trillion yen (-10%) |
| 2 | The Americas | Expand business through strategic investment (M&A, human resources) | <ul style="list-style-type: none"> • Profit growth rate: over 20% • ROA: over 2.0% (+0.3%) • Operating assets: 360 billion yen (+60%) |
| 3 | Europe | Develop a platform business model as a base for stable growth | <ul style="list-style-type: none"> • Profit growth rate: 8% • ROA: over 2.5% • Operating assets: 750 billion yen (+20%) |
| 4 | China | Build high quality portfolio through strategic alliance | <ul style="list-style-type: none"> • Profit growth rate: 9% • ROA: over 2.0% • Operating assets: 400 billion yen (+30%) |
| 5 | ASEAN | Strengthen business bases toward mid- to long-term growth | <ul style="list-style-type: none"> • ROA: over 1.0% • Operating assets: 180 billion yen (+50%) |

* Profit growth rate: Average annual growth rate of profit before tax (FY2015 to FY2018)

3-5. Business Strategy: Region-Specific Approach (Japan (1))

Key Point

Improve profitability by replacing and expanding focused sectors

New growth strategies posted by the government

Major policies aiming at GDP ¥600 trillion

Aggressive development and promotion of export in agriculture, forestry, and fisheries sector

Realization of the fourth industrial revolution by making full use of robots/IT

Overcoming eco- and energy-related constraints and expanding investment

Utilization of the next-generation urban transportation system and self-driving technology

Institutional reforms for future investment
⇒ Opening of public service/assets to private sector

Food

Disaster prevention

PPP/PFI

Vehicle

IT, Security

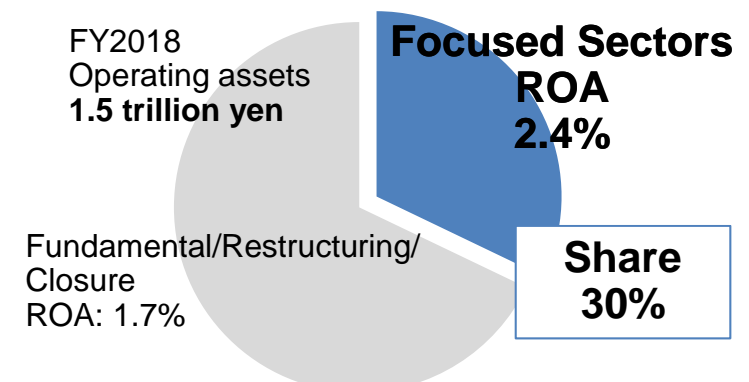
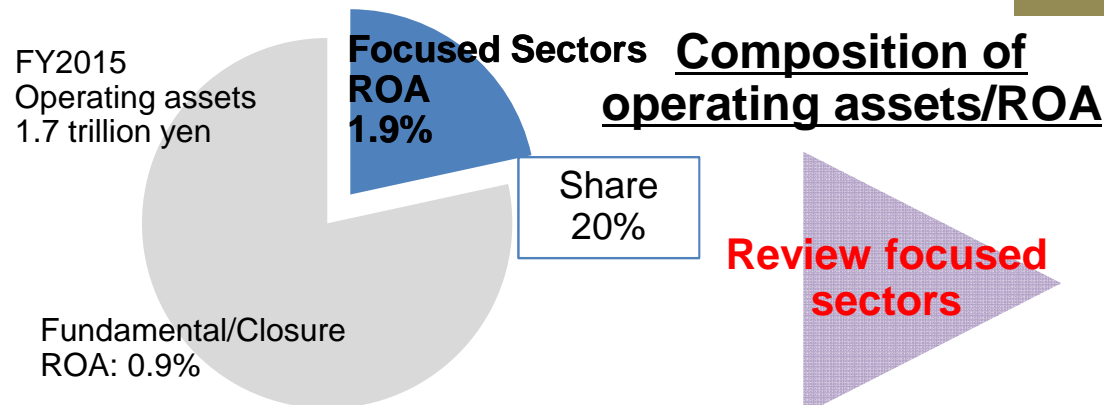
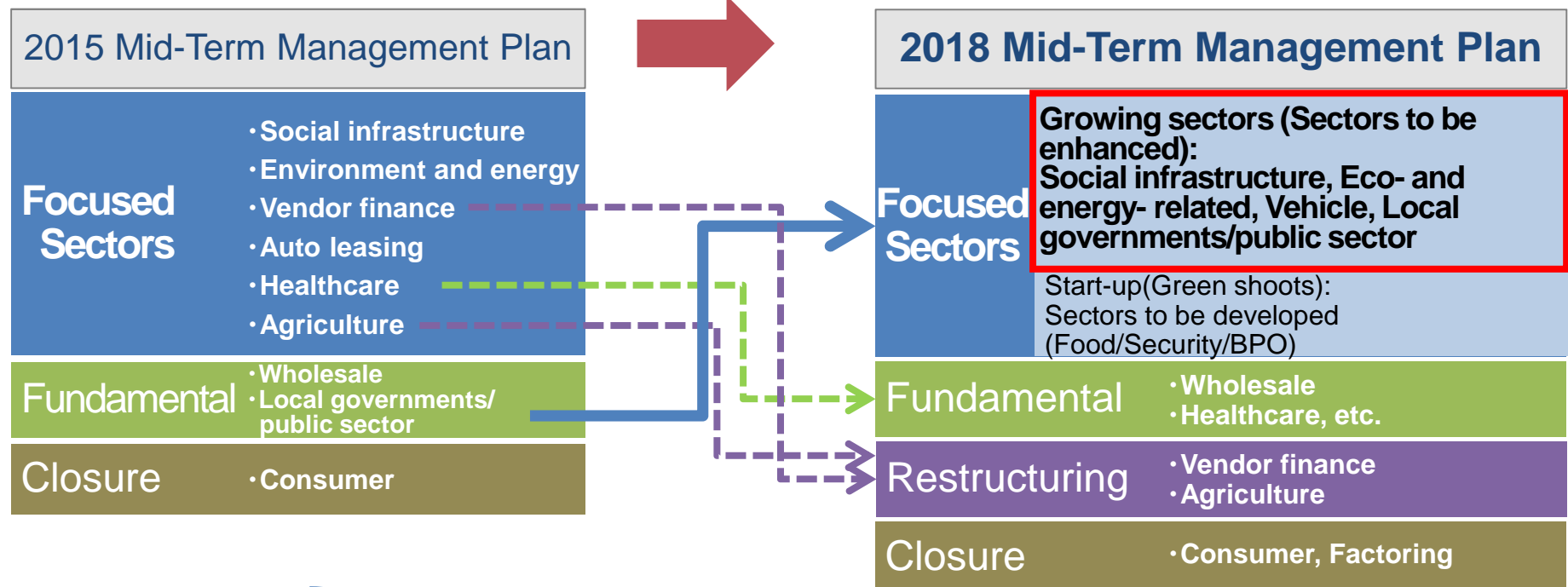
Energy

Infrastructure

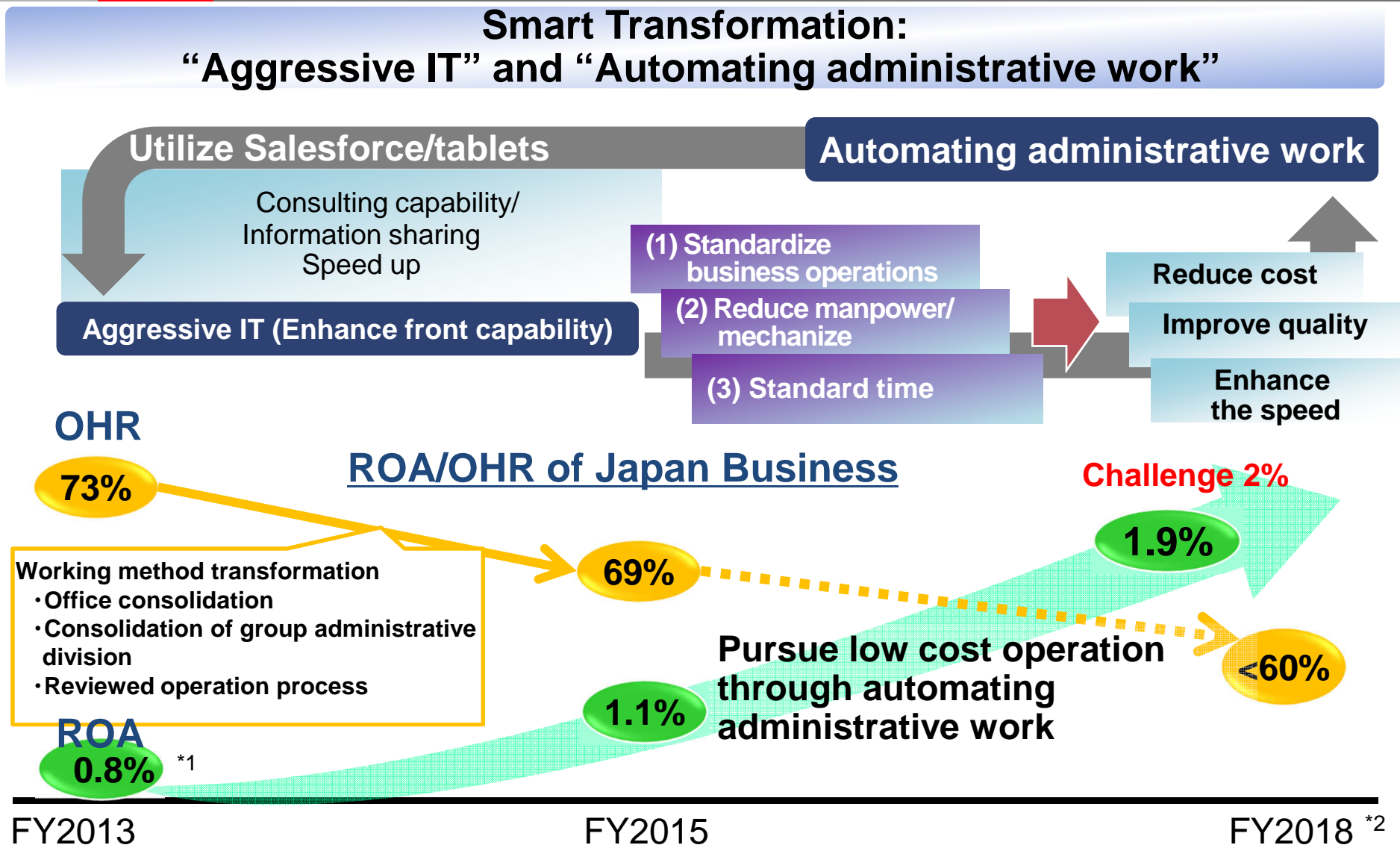
Pursue business expansion that contributes to regional revitalization by utilizing our strengths

3-5. Business Strategy: Region-Specific Approach (Japan (2))

Business expansion in growing sectors (sectors to be enhanced)



3-5. Business Strategy: Region-Specific Approach (Japan (3))



*1 Excluding gain from reversal of bad debt allowances.

*2 ROA and OHR of FY2018 exclude company-wide expenses, etc.

3-5. Business Strategy: Region-Specific Approach (Japan (4))

School air conditioning system development project



- Project to develop air conditioning system for elementary schools in Kobe city (PFI)
 - Utilize private funds to develop public facilities in collaboration with the Hitachi Group



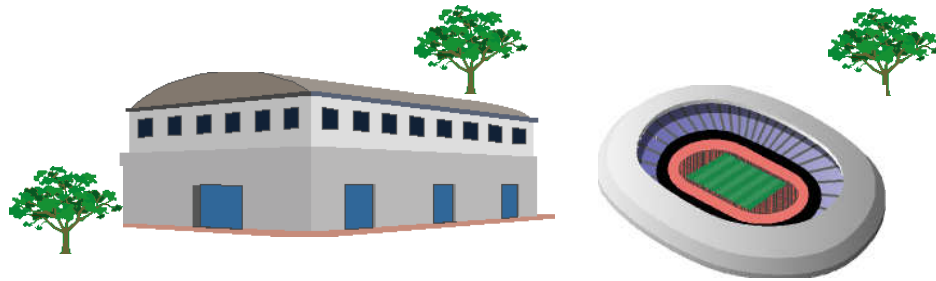
Security business for local governments

- Project to introduce LED, street lights and security camera
 - Participation in the concept of city with security (Osaka, Chiba Prefecture etc.)



3-5. Business Strategy: Region-Specific Approach (Japan (4))

Public facility development and management project



- City athletic center project in Kawanishi City, Hyogo Prefecture (PFI)
 - Tie-up with key account company (MIZUNO Corporation)
 - Create new business of gymnasiums/stadiums



“Start-up(Green shoots)” business (Food sector)

- Cultivate highly competitive “Food Business”
 - Participation in value chain through production/sale of strawberry (Okinawa Prefecture)
 - Scaling up and 6th industrialization in collaboration with partners



3-6. Business Strategy: Region-Specific Approach (The Americas)

Key Point

Expand business through
strategic investment (M&A, human resources)
as a growth driver

Environment

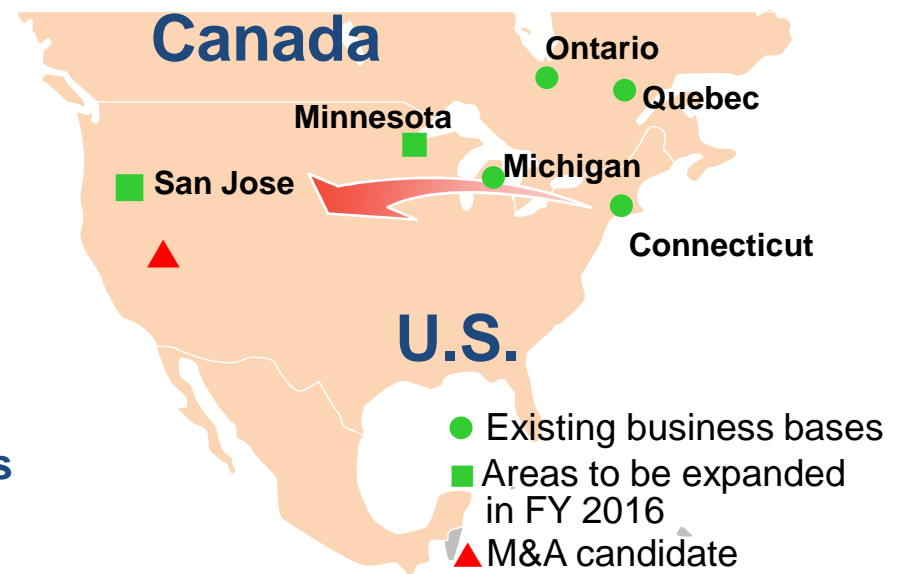
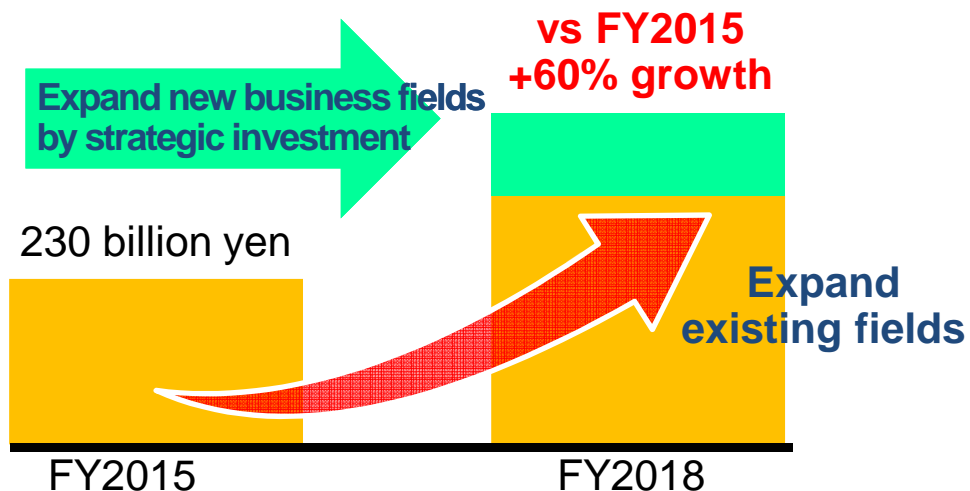
- US economy's growth is expected to continue
- Opportunities to expand business and acquire human resources as a result of competitors' business contraction

Horizontal expansion and
business field expansion in
a growing huge market

Changes in operating assets

■ New fields (healthcare, vehicle solution)

■ Existing fields (truck finance, factoring)



3-7. Business Strategy: Region-Specific Approach (Europe)

Key Point

**Develop a platform business model as
a base for stable growth**

Environment

- Risks of future environmental changes as a consequence of departure from EU
- Concerns over future rise of interest rates
- Increase in bad debts associated with an increase in consumer receivables

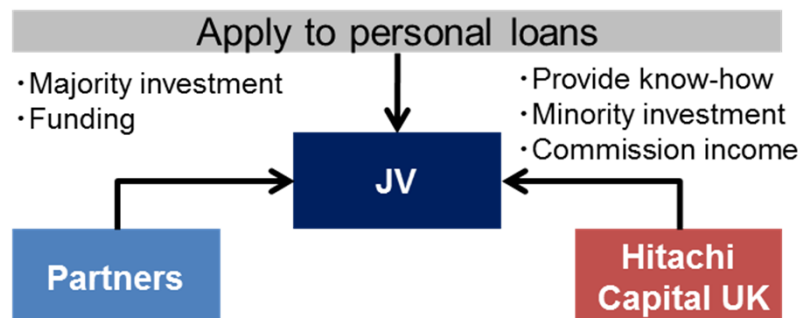
**Develop platform business model
utilizing business know-how
accumulated in consumer business**

Business expansion through e-commerce business

Enhance services for consumer business companies
(alliance with Amazon)

Service business in collaboration with partners

Platform business scheme

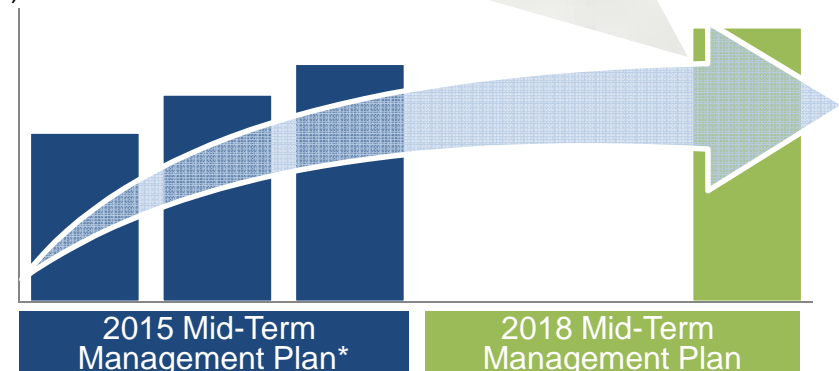


Changes in operating assets in the UK

Moderate increase due to
expansion of platform business

(Billions of yen)

600.0
400.0
200.0
0



*Calculated using the exchange rates used in
2018 Mid-Term Management Plan

3-8. Business Strategy: Region-Specific Approach (China)

Key Point

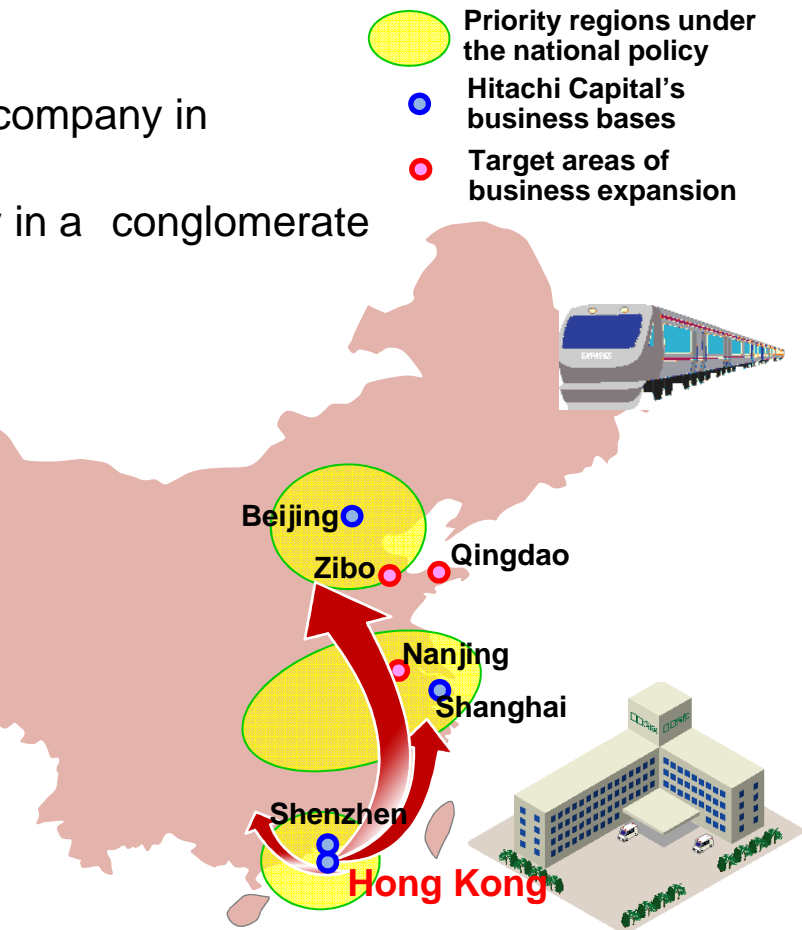
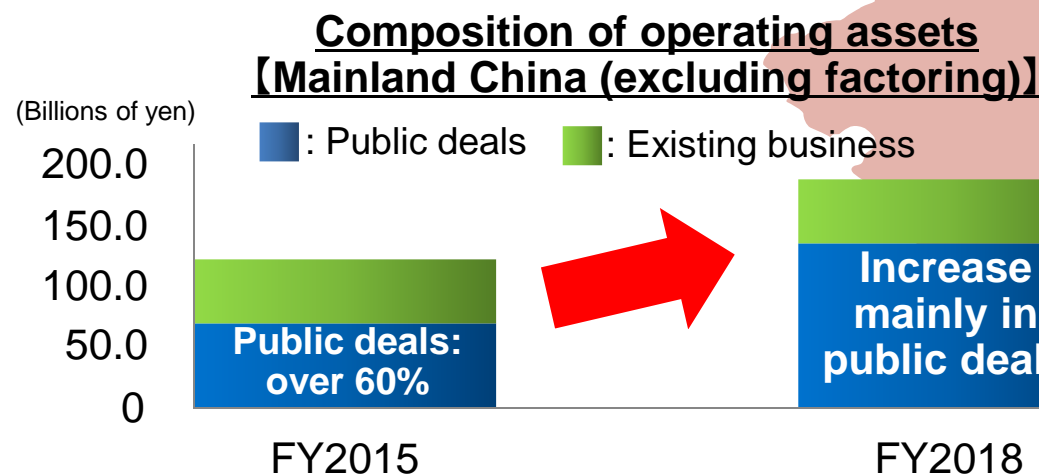
Build high quality portfolio through strategic alliance

■ Mainland China

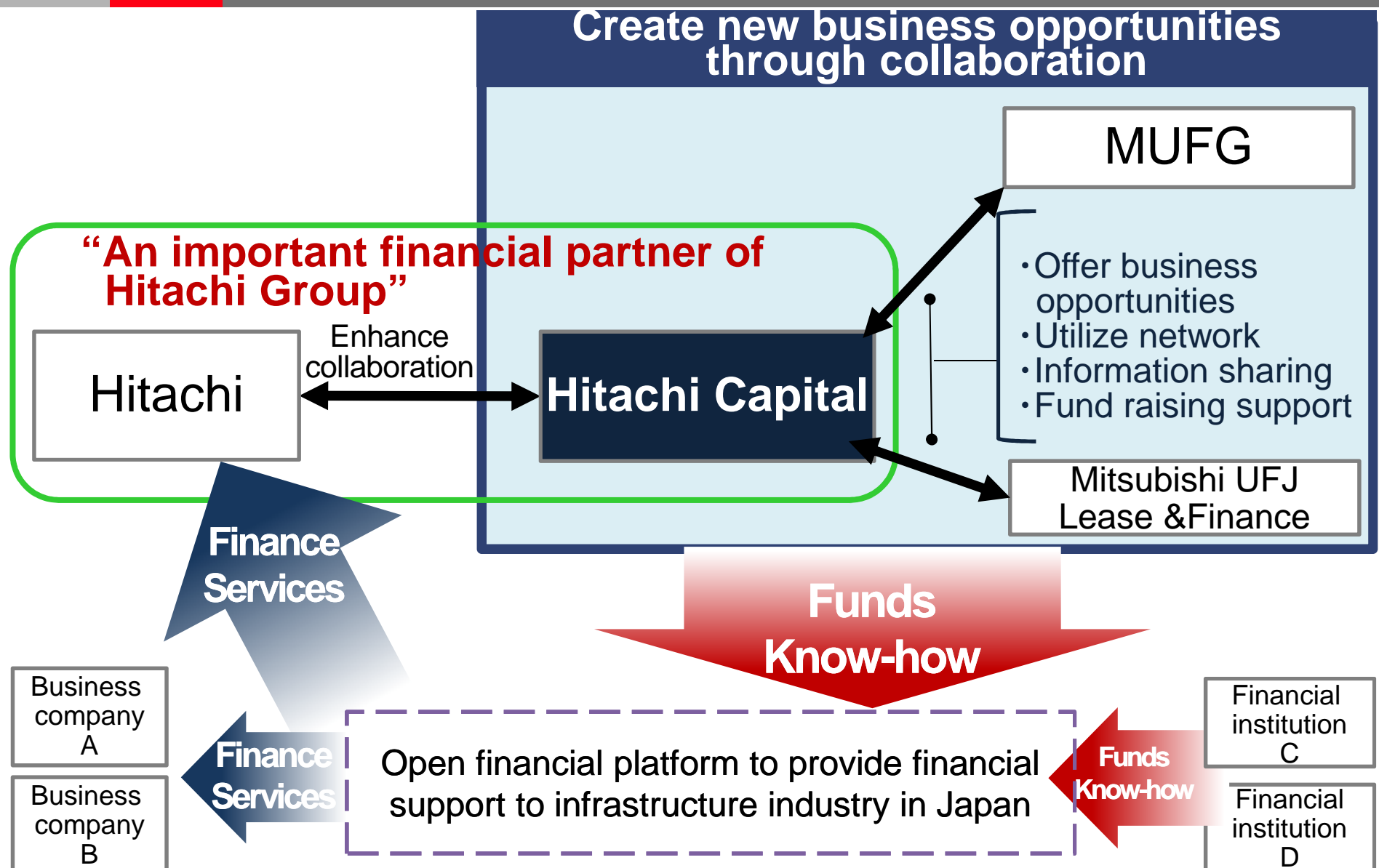
- Increase public projects through Hitachi business
- Capital participation in a government-affiliated leasing company in the priority regions under the national policy
- Alliance with state-owned enterprises/leasing company in a conglomerate

■ Hong Kong

Provide functions to Mainland China
(procurement, business investment functions, etc.)



3-9. Business Strategy: Partner Strategies (1)



3-9. Business Strategy: Partner Strategy (2)

■ Capital and business alliance with MUFG and MUL

Create new business opportunities through collaboration

Collaboration between the two leading companies in respective industries and mutual use of know-how of manufacturer-affiliated company and financial institution-affiliated company

[Japan]

Collaboration in eco- and energy- related, urban infrastructure, public facilities, and real estate

[Overseas]

Collaboration in North America, China and ASEAN, etc.

Further growth of Global Business

- Utilize MUFG's global network that will underpin the growth of our Global Business
- Constructing an open financial platform

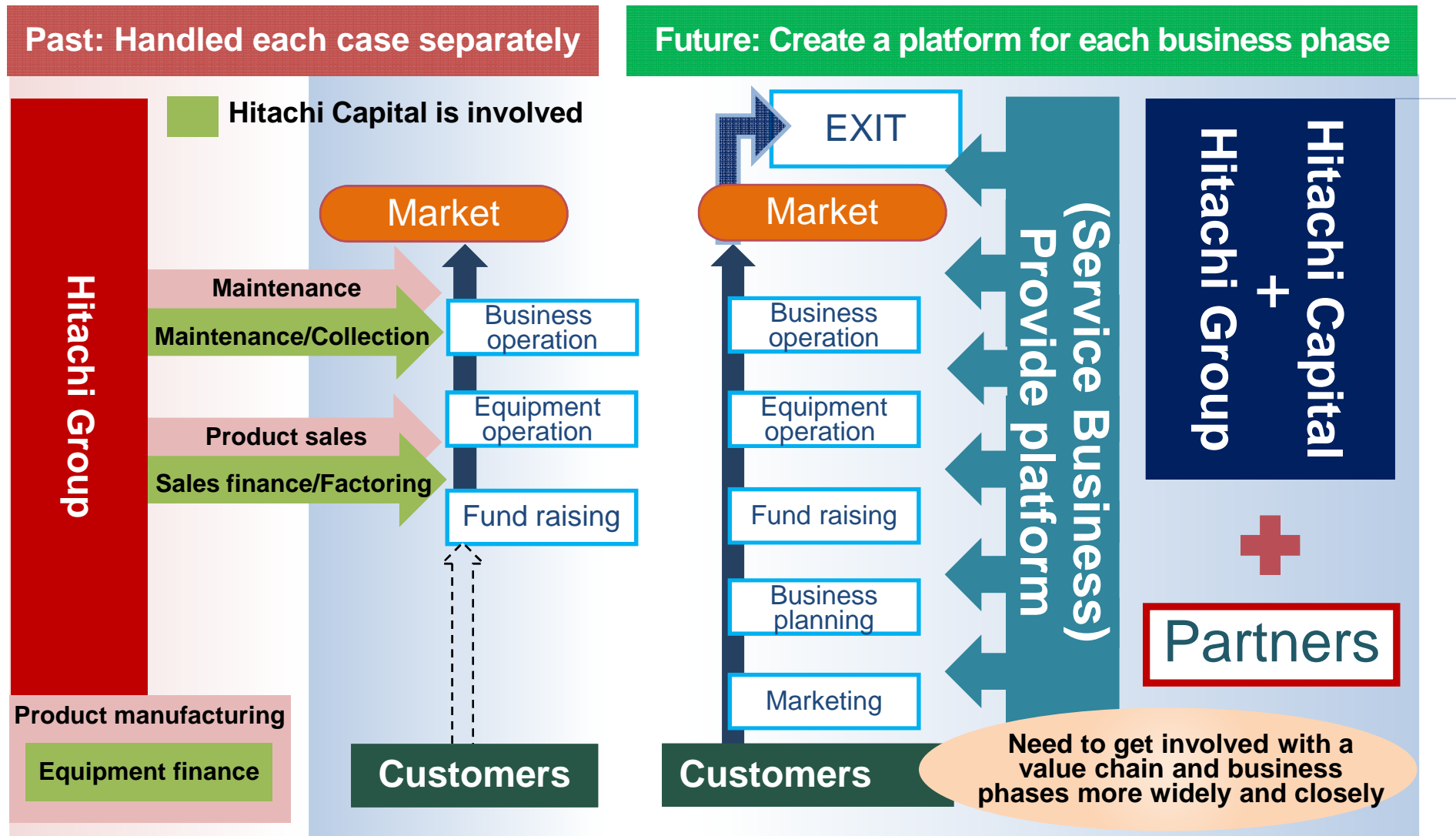
■ Strengthening collaboration with Hitachi Group

Strengthen our ability to provide solutions

- Provide advices from the early stage of projects
- Offer funding through means including equity and mezzanine financing

3-10. Business Strategy: Hitachi Group Business (1)

Pursue business opportunities for customers and create market together



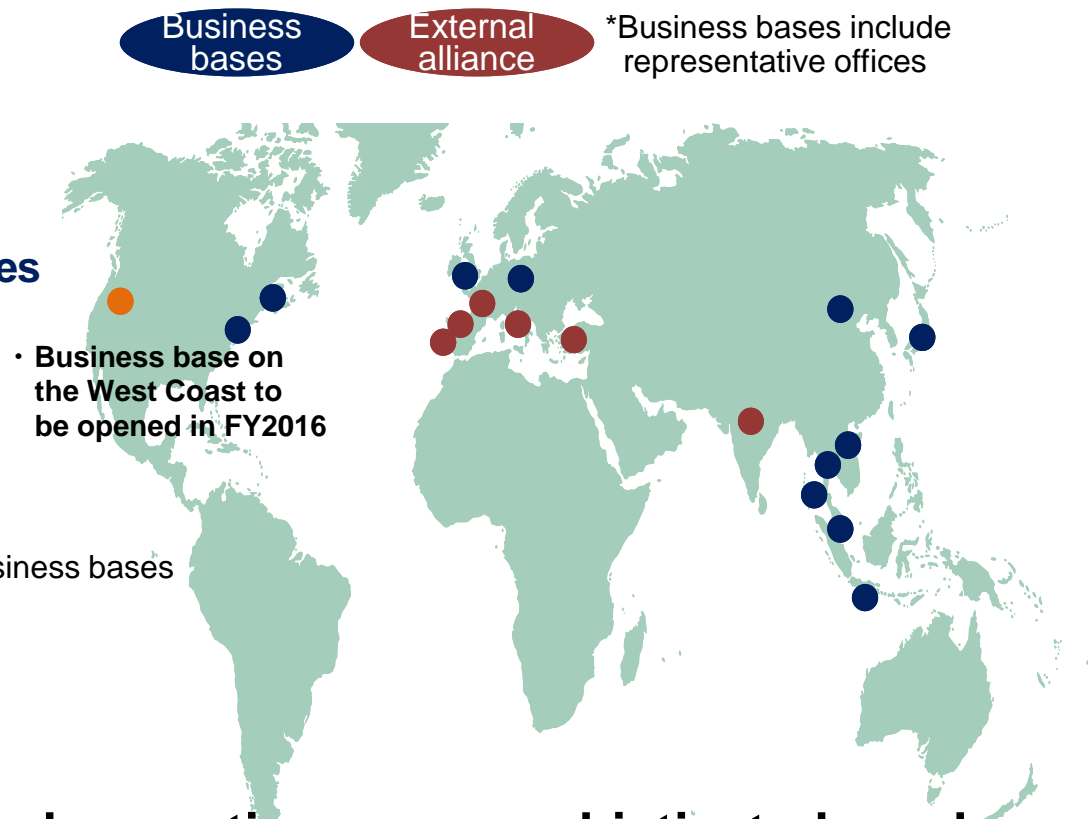
3-10. Business Strategy: Hitachi Group Business (2)

**Provide solutions contributing to social innovation business
and global development**

Major Initiatives

- **Collaboration with Hitachi Group's key accounts**
- **Energy**
 - ✓ Micro-grid business
 - ✓ Energy-management business
 - ✓ Power transmission/distribution business
 - ✓ Investment/asset holding/collection
- **Settlement business, Credit guarantees**
 - ✓ Electronically recorded monetary claims
 - ✓ Factoring
 - ✓ Settlement infrastructure
- **Public sector/local governments**
 - ✓ PPP/PFI
- **Cross-border financing, VMI**
 - ✓ Leasing/installments in countries without business bases
 - ✓ Trade finance
- **Managed services, ATM**
 - ✓ Asset holding, maintenance packaging
 - ✓ Investment

Business areas



Improve profitability by meeting more sophisticated needs
(Increase volume and enhance quality)

* VMI: Vendor Managed Inventory

3-11. Business Strategy: Vehicle Solution

Execute M&A worth 150 billion yen* mainly in Europe and the Americas



Promoting vehicle solution business
(FY2015)



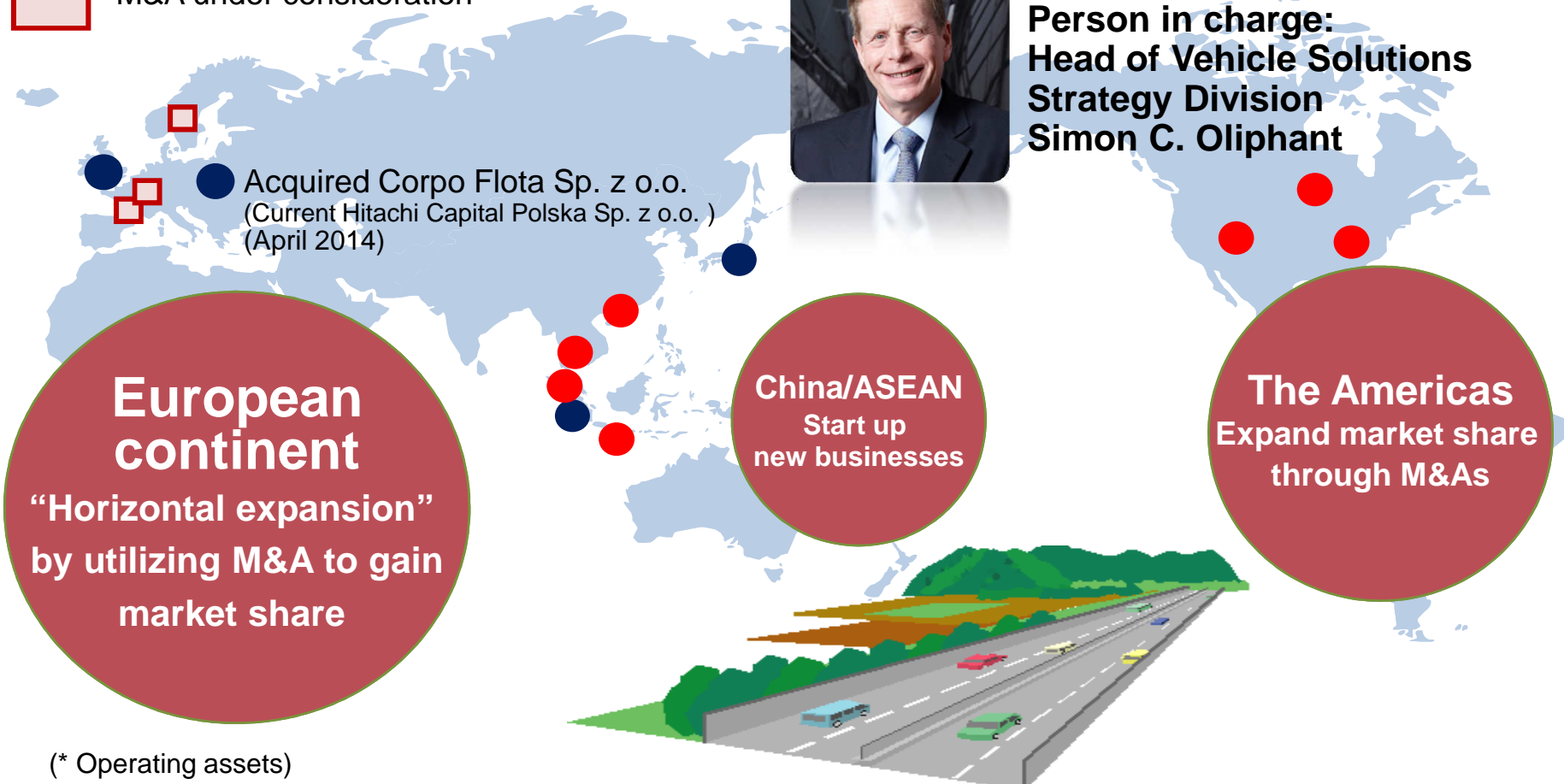
Plan to expand vehicle solution business
(2018 Mid-Term Management Plan)



M&A under consideration



Person in charge:
Head of Vehicle Solutions
Strategy Division
Simon C. Oliphant



(* Operating assets)

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4. Conclusion

| | | <u>FY2018 Target</u> | <u>FY2015 Result</u> |
|------------------------------------|-------------------|------------------------------|----------------------|
| Performance | ROE | 10% | 9.9% |
| | ROA | 1.8% | 1.6% |
| | Profit before Tax | Around 60 billion yen | 46.6 billion yen |
| Financial Indicators | Equity ratio | 11% | 10.9% |
| | Bond issue rating | Maintain high credit ratings | |
| Return to shareholders | Payout ratio | 30% | 30% |
| Overseas ratio (profit before tax) | | 60% | 55% |

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<http://www.hitachi-capital.co.jp/>

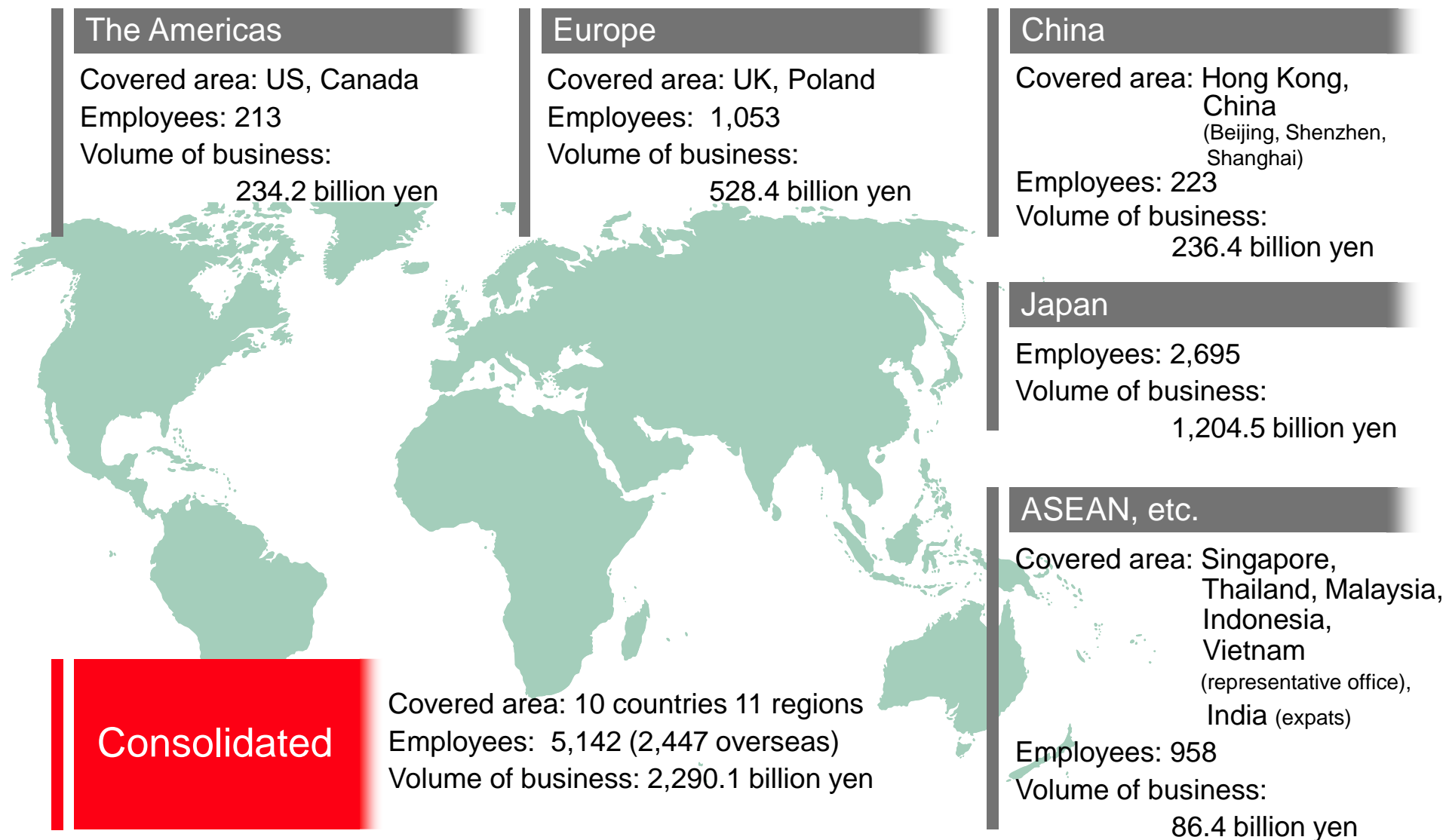
Note:

This document contains forward - looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed using information available at the time. Accordingly, forecasts may differ from actual results due to a variety of factors.

Appendix

| | | |
|--|---|--------------------|
| Company name | Hitachi Capital Corporation | |
| Representative | President & CEO: Seiji Kawabe | |
| Established | September 10, 1957 | |
| Capital | ¥9,983 million | |
| Consolidated results (FY2015) | Volume of business | ¥2,290,156 million |
| | Revenues | ¥365,354 million |
| | Profit before tax | ¥46,667 million |
| Credit ratings | S&P: A-, R&I: A+, JCR: AA- | |
| Consolidated subsidiaries | Japan 15, Overseas 19 (As of March 31, 2016) | |
| Stock listing | First Section of Tokyo Stock Exchange | |
| Major shareholders (As of March 31, 2016) | Hitachi Group (60.61%) -Hitachi, Ltd. (58.51%) -Hitachi High-Technologies Corporation (1.99%) | |

—Reference— Global Network



* Volume of business, employees: as of March 31, 2016

—Reference— Financial Highlights (consolidated)

| (Billions of yen) | FY2013 | FY2014 | FY2015 |
|---------------------------------------|-----------|-----------|-----------|
| Revenues | 342.6 | 356.2 | 365.3 |
| Gross profit | 105.3 | 119.3 | 130.0 |
| SG&A | 72.2 | 80.3 | 84.7 |
| (of which, bad debt-related expenses) | 3.7 | 5.0 | 6.8 |
| Profit before tax | 33.1 | 35.5 | 46.6 |
| Net income ^{*1} | 21.5 | 24.1 | 32.6 |
| Interest-bearing debt | 1,843.0 | 2,149.1 | 2,341.6 |
| Stockholders' equity ^{*2} | 298.2 | 325.2 | 335.5 |
| Total assets | 2,619.1 | 2,952.4 | 3,081.2 |
| Equity ratio ^{*3} | 11.4% | 11.0% | 10.9% |
| D/E ratio (times) | 6.0 | 6.4 | 6.7 |
| Earnings per share | ¥184.35 | ¥206.53 | ¥279.71 |
| Net assets per share ^{*4} | ¥2,551.93 | ¥2,782.37 | ¥2,870.33 |
| Payout ratio | 26.0% | 29.1% | 30.0% |
| ROE | 7.6% | 7.7% | 9.9% |
| ROA ^{*5} | 1.2% | 1.2% | 1.6% |
| Number of employees | 5,280 | 5,397 | 5,142 |

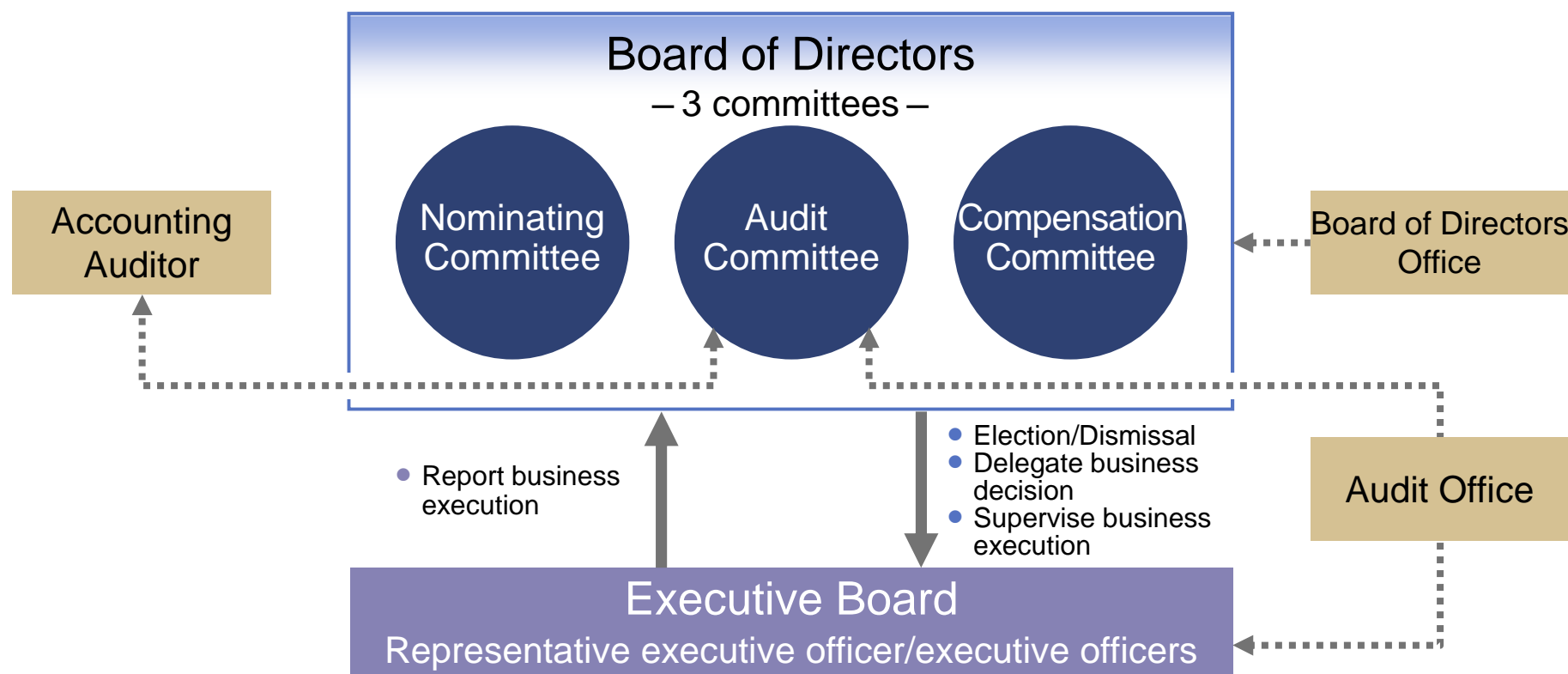
*1 Net income attributable to owners of the parent *2 Total equity attributable to owners of the parent *3 Equity attributable to owners of the parent ratio *4 Equity per share attributable to owners of the parent *5 ROA=Profit before tax / total operating assets

—Reference— Corporate Governance

Realize highly fair and transparent management by enhancing supervising functions

Committee System
Adopted June 2003

FY2015: 7 directors (including 3 independent external directors)
10 corporate officers (1 officer is also a director)
FY2016: 9 directors (including 4 independent external directors)
10 corporate officers (1 officer is also a director)*



**Appoint additional independent external director subject to a resolution
of General Meeting of Shareholders in June 2016***

* To be submitted to the General meeting of Shareholders in June 2016

—Reference— **Business strategy:**
Region-Specific Approach (ASEAN) **HITACHI**
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| | |
|--|--|
| Key Point | Strengthen business base toward mid- to long-term growth |
| Strengthen business bases | <ul style="list-style-type: none"> ■ Strengthen management structure by investing in human resources and IT ■ Strengthen credit/collection utilizing auto scoring model, etc. ■ Improve profitability by focusing on Smart Transformation Project ⇒ OHR (FY2018): 66% (Improve 10% vs FY2015) |
| Revenue structure reform | <ul style="list-style-type: none"> ■ Increase high-quality receivables by changing portfolio ■ Expand service business through the collaboration with each company |
| Singapore | Thailand |
| <ul style="list-style-type: none"> • Strengthen Vehicle Solution Business • Initiate eco- and energy- related business | <ul style="list-style-type: none"> • Expand new field (Vehicle Business) • Expand sales base (key accounts to be major companies) |
| Malaysia | Indonesia |
| <ul style="list-style-type: none"> • Expand sales base • Strengthen credit/collection function | <ul style="list-style-type: none"> • Strengthen credit/collection function • Strengthen corporate business |