

HITACHI

# A revolution in culture and vision

HITACHI CAPITAL CORPORATION

ANNUAL REPORT

# 2002

Quality First



Hitachi Capital Corp.

# A Corporate Culture That Mirrors Customers' Needs

A culture rooted in growth, innovation and putting the customer first is the defining element of Hitachi Capital Corporation. The company serves a broad base of creditworthy corporate and individual customers with a diverse line of financial services in Japan and overseas. Hitachi Capital's core businesses are leasing, retail financial services, card services, securitization and outsourcing. By developing new forms of financial services, Hitachi Capital is steadily entering new

business domains and serving new customer segments.

To lay the groundwork for future growth, Hitachi Capital has set in motion a program aimed at fundamentally transforming its operations. At the heart of this drive is placing greater priority on the skills needed to attract and retain customers. In undertaking this challenge, the company is taking full advantage of its membership in the Hitachi Group by expanding business ties with group companies and employees.

## C O N T E N T S

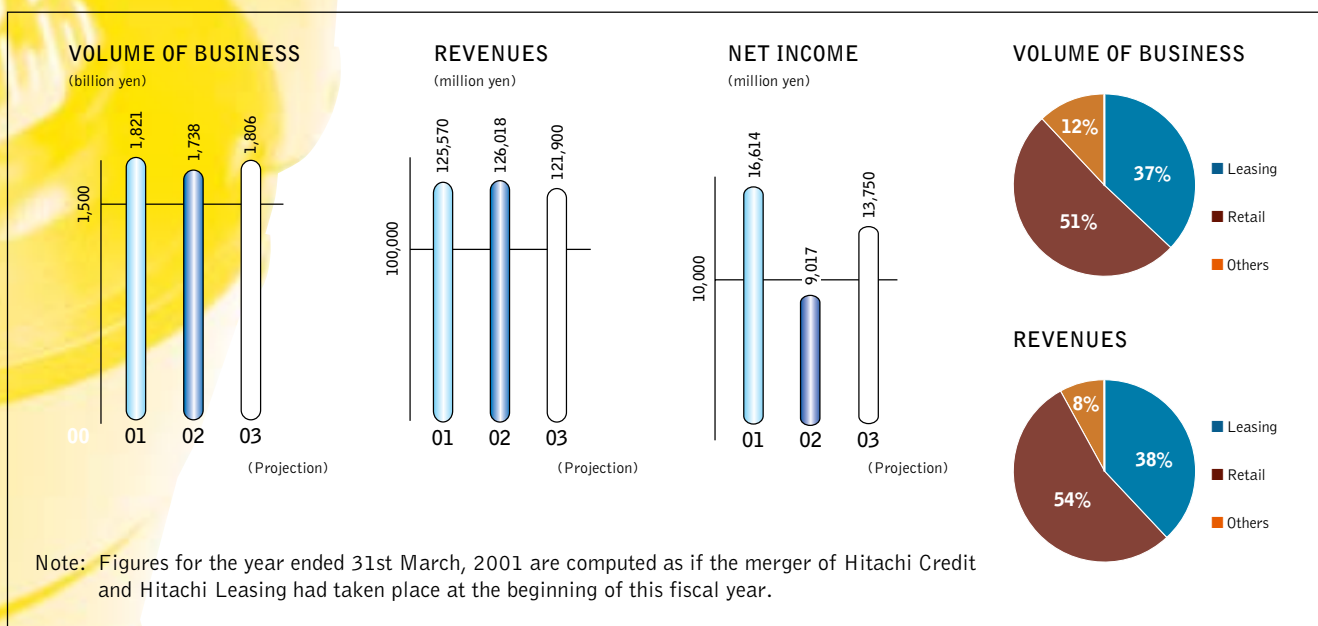
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# Financial Highlights

Hitachi Capital Corporation and Consolidated Subsidiaries  
Years ended 31st March, 2002 and 2001

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Volume of business . . . . .	<b>¥1,738,105</b>	¥1,595,151	<b>\$13,068,459</b>	\$11,993,617
Revenues . . . . .	<b>126,018</b>	109,794	<b>947,504</b>	825,519
Expenses . . . . .	<b>108,222</b>	83,778	<b>813,699</b>	629,910
Net income . . . . .	<b>9,017</b>	14,728	<b>67,797</b>	110,737
Total assets . . . . .	<b>2,078,630</b>	2,045,438	<b>15,628,797</b>	15,379,233
Stockholders' equity . . . . .	<b>227,759</b>	223,140	<b>1,712,474</b>	1,677,744
Cash dividends paid . . . . .	<b>4,563</b>	3,603	<b>34,308</b>	27,090
Per share (in yen and U.S. dollars):				
Net income . . . . .	<b>¥ 67.2</b>	¥116.6	<b>\$ 0.51</b>	\$ 0.88
Cash dividends paid and declared for the year . . . . .	<b>34.0</b>	33.0	<b>0.26</b>	0.25
Stockholders' equity . . . . .	<b>1,697</b>	1,663	<b>12.76</b>	12.50

- Notes: 1. U.S. dollar amounts in this report represent translations of yen, solely for the convenience of the reader, at the rate of ¥133=US\$1, the approximate exchange rate at 29th March, 2002.  
2. Stockholders' equity per share is based on the weighted average number of shares of common stock outstanding during the respective years (see Note 3 (j) for net income and dividends).  
3. Figures for the second half of the year ended 31st March, 2001 are for Hitachi Capital Corporation.



## FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of Hitachi Capital and its subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

Note: The volume of business figures in fiscal years prior to the year ended 31st March, 2002 have been revised to reflect the adoption of a new securitization scheme that is not included in the volume of business.

# Message From the President

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**This** annual report marks the completion of my first year as president of Hitachi Capital. We are now entering a new stage of our development. Worsening market conditions make it imperative to direct our energy to fulfilling a common set of goals. Without this focus, I believe this company will succumb to the tumultuous changes sweeping through our markets. This year's annual report, therefore, has an important goal: to explain the strategic direction in which I will lead this company, establishing a sound base for long-term success.

Much of my career was spent at Hitachi working in accounting and finance. During that time, I was guided by the following precept: "Operating results are a window to the true nature of a company. Financial reports must always present an accurate picture of a company's operations. Any inaccuracies will inevitably lead to mistaken decisions by management."

This principle continues to guide my actions as I take Hitachi Capital into the next stage of its development.

## **Consecutive Earnings Growth Record Comes to an End**

Hitachi Credit, one of our two predecessors, posted 15 years of consecutive earnings growth through the year ended 31st March, 2001. In the year ended 31st March, 2002, Hitachi Capital's reported revenues were up 14.8 percent to ¥126,018 million (US\$948 million) and operating income (income before income taxes prior to the deduction of one-time

expense) increased 8.6 percent to ¥29,145 million (US\$219 million), reaching our reduced estimate of ¥29,000 million that we announced in February 2002. On a pro forma basis, under which previous-year results include full-year contributions of both Hitachi Credit and Hitachi Leasing, revenues were up 0.4 percent, but operating income declined 3.3 percent.

Earnings were significantly affected by losses at overseas subsidiaries. In Singapore, we reexamined the activities of Hitachi Leasing (Singapore) Pte., Ltd. This led to the termination of contracts with a local agent and an audit of the corresponding receivables. As a result, we posted a charge of ¥6,670 million (US\$50 million) related to receivables where recovery is doubtful. Hitachi Leasing (Singapore) Pte., Ltd. is currently focusing its efforts exclusively on collecting as much of these receivables as possible. Applying lessons learned from this experience, we enacted sweeping revisions to our receivables management systems that make the reoccurrence of this type of problem highly unlikely. Furthermore, the loss at Hitachi Leasing (Singapore) Pte., Ltd. will have no effect on Hitachi Credit Singapore Pte. Ltd. as these two companies have no business ties.

At Hitachi Credit (U.K.) PLC, a loss of ¥1,800 million (US\$14 million) was recorded on the reduction of income earned following this company's withdrawal from supplying "buy now, pay later" installment credit product for personal computer purchases by individuals. This reduction occurred because of an adjustment in realized revenues due to

early settlements by customers that were greater than had been expected. As our withdrawal from this business and all related accounting measures have been completed, there will be no further charges. In line with U.K. accounting principles, Hitachi Credit (U.K.) PLC, has revised financial statements in prior years to reflect its withdrawal from this business.

These two events brought down our results in the past year. However, we have now put behind us two problems that had been holding back our progress. Hitachi Capital is therefore truly in a position to pursue long-term strategic goals from a new beginning.

Charges at these two subsidiaries and ¥2,879 million (US\$22 million) in impairment of securities totaled ¥11,349 million (US\$85 million). After these expenses and other items, reported net income fell 38.8 percent to ¥9,017 million (US\$68 million), declining 45.7 percent on a pro forma basis. Sadly, our continuous earnings growth record came to an end with a steep drop in net income.

Operating income was ¥16,736 million (US\$126 million) in the fiscal year's first half, but declined 25.9 percent to ¥12,409 million (US\$93 million) in the second half. I regard the second-half figure as an accurate representation of our profitability in today's challenging operating climate. As I foresee no meaningful change in market conditions, I am currently projecting operating income of ¥25,000 million (US\$188 million) and net income of ¥13,750 million (US\$103 million) in the fiscal year ending in March 2003.

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Following shareholder approval, the dividend per share applicable to the past fiscal year is to be increased ¥1 to ¥34 (US\$0.26), the seventh consecutive year in which we have raised the dividend.

### **The Fundamental Theme of Fiscal 2002— Attracting and Retaining Customers**

I believe that three strengths are essential for sustained growth at any company: new product development, powerful marketing initiatives and financial soundness. Our 15-year record of continuous growth in earnings was underpinned by two of these elements: marketing initiatives and financial soundness. We were able to leverage high credit ratings to offer competitive services that carried comparatively low interest rates for our customers. With interest rates in Japan now at virtually zero, our credit ratings translate into only a negligible advantage over our competitors. That means we are no longer immune from the intensely competitive forces in the financial services market.

Now, more than ever, we need to attract new customers by drawing on competitive strengths other than pricing. More important still, we must retain those customers by offering them a steady stream of irresistible services. Basically, that means we must conceive and provide financial services that are innovative and offer compelling reasons for customers to choose them. Achieving this level of performance is essential to our survival. This is precisely why I have made “attracting and retaining customers” the

company’s central goal for the current fiscal year. I am convinced that Hitachi Capital’s future growth hinges on our ability to accomplish this goal. Step one is, of course, attracting new customers. Only by offering new products and services, catering to a broad array of needs, can we do this.

Looking ahead, the primary sources of earnings will be such contract-based transactions as loans, leases and rentals. There are many opportunities for growth. In loans, for example, we are targeting home loans and digital home appliances. Leasing is in growing demand as companies place greater emphasis on cash flows. Here, our strengths mesh well with a number of market sectors: operating leases, private finance initiatives, financing for facilities on leased land and auto leases to individuals. Regarding rentals, we will tap expertise gained from our sizable computer rental business to create new categories of the rental market.

In this manner, Hitachi Capital will be channeling all its energy toward “attracting and retaining customers.” This represents nothing less than a new beginning for the company as we alter our strategic course. We are at a disadvantage relative to manufacturers, which can protect new products with patents. In financial services, most new ideas can be quickly imitated by competitors. But no company can imitate what is to become the core strength of Hitachi Capital: knowledge deeply rooted in a commitment to “attracting and retaining customers.” I believe this knowledge will be

the source of all our competitive strengths. Everything I do this year will be closely tied to the relentless accumulation of this knowledge. This fundamental goal will underpin the activities of the entire Hitachi Capital Group, and most of all our sales team, which is undoubtedly our most valuable asset. I am completely confident that we will accomplish our objectives. If we begin to see results of these efforts in the near term, I may even increase our estimates for the year's revenues and earnings. From a longer-term standpoint, I regard the process now beginning as the first step in setting the stage for fulfilling the ambitious goals we have set for ourselves when we celebrate our 50<sup>th</sup> anniversary in 2007.

### 50<sup>th</sup> Anniversary Goals

In 2002, Hitachi Capital is celebrating the 45<sup>th</sup> anniversary of the establishment of predecessor Hitachi Credit. This is an ideal time to set our sights on ambitious goals that can guide our next stage of development. Accordingly, we have set numerical targets that will make us a growth-focused organization. During the next five years, operating income is to double to ¥50,000 million (US\$376 million) as our workforce climbs from 3,500 to 5,000. We plan to double our market capitalization from the current ¥250,000 million (US\$1,880 million) to ¥500,000 million (US\$3,759 million). That translates into ¥100 million (US\$752 thousand) in market capitalization for each employee. I estimate that reaching these

targets will allow us to pay a dividend per share of ¥50 (US\$0.38). Furthermore, this performance would place us among Japan's most respected companies in terms of serving stakeholders and society.

Reaching these lofty goals mandates a sound beginning. The most critical issue for us during the first half of this fiscal year is clear: We must get off to a good start on each and every element of our growth strategy. After this six-month period, I plan to announce concrete actions and a schedule for making our 50<sup>th</sup> anniversary dreams come true. To allow investors to follow our progress even more closely, we will begin reporting results on a quarterly basis in this fiscal year.

I pledge that Hitachi Capital will retain an intent focus on these 50<sup>th</sup> anniversary goals. As we do so, we will be fundamentally altering our culture and many other elements that defined our predecessors for many years. I am confident that this process will prove rewarding for everyone with whom we come in contact.

June 2002



Kaichi Murata  
President

# A Discussion With the President

## Some investors are of the opinion that Hitachi Capital's post-merger earnings have fallen, after excluding merger-related cost savings. What is your response?



Investors should first understand that the decision to combine Hitachi Credit and Hitachi Leasing was reached more than two years ago. Since then, the operating environment has worsened dramatically. Any evaluation of our performance must take this into account. However, I would agree that our post-merger results indicate that we have not yet adapted to the changes in market conditions. More work and a new impetus are needed to complete the management and business structures required to fulfill the goals we announced two years ago.

In the past fiscal year, our performance was relatively strong in the first half. After September 11, results fell sharply. My background is in manufacturing. I am well aware of just how critical the situation is now in Japan's manufacturing sector. In fact, I believe Japan ranks among the losers in today's globally competitive markets. And a rapid turnaround in this situation is unlikely. Our forecast for even lower earnings in the fiscal year ending in March 2003 is based on this outlook.

In my opinion, our performance in the past fiscal year is an accurate reflection of this organization's current capabilities. My job is to change this. As president, my primary mission is leading a revolution in Hitachi Capital's corporate culture. This company must acquire the resilience to withstand the forces of change in our markets.

## In what direction will this revolution take Hitachi Capital?

When I became president in June 2001, one of my first acts was to explain the strategic direction of this company to our employees. At that time, I stated, "Hitachi Capital will become a mundane, low-profit company within two years if we remain on our present course. We must enact structural reforms now while we still have the necessary resources."

Until now, our core strength was a high credit rating backed by excellent asset quality. That kept our funding costs low. Our sales people could offer customers lower interest rates than our competitors could. Today, this no longer applies. Demand is weak. Interest rates in Japan are almost zero. Hitachi Capital can no longer survive merely by offering customers low interest rates. Winning demands that we go one more step. Non-price competition has become

the key to success. We need to excel in the quality of our products, our ability to offer a wider range of value-added services and to expand our customer base.

At the heart of this "one more step" is the ability to attract new customers while retaining our existing ones by supplying better services. There is no other way for Hitachi Capital to survive and win in today's markets.

### **Exactly what was done during the past year to begin fostering a new corporate culture at Hitachi Capital?**

The ability to stimulate new demand is fundamental in the financial services industry. By doing so, financial services will play a central role in the revitalization of Japan's economy.

This leads to the question of how Hitachi Capital should structure its business portfolio. To find the answer, I asked our directors in August 2001 to propose a growth strategy for the company. In November, we began a campaign that solicited ideas for original products and services capable of sparking demand. Our people submitted 1,214 ideas that were subsequently organized into about 60 themes. Project teams at a newly formed planning department are currently working on commercializing the most viable proposals. We began selling the first of these new services in June 2002.

### **Would you outline your plans for making Hitachi Capital more adept at attracting customers?**

My first target in the customer creation drive is the employees of Hitachi and Hitachi Group companies. This is a market that is unique to us. Providing loans, leases and other products in our own group's workplace offers many advantages: no excessive competition, low marketing costs and a low credit risk. We plan to tap know-how gained by serving Hitachi Group employees to extend workplace marketing to corporate groups with close ties to Hitachi. This process will yield more insights into B2B, B2E and B2C marketing that we will eventually use to begin serving the employees of companies of all kinds.

We plan to begin the full-scale development of the workplace market in about one year. This will naturally hurt our earnings this year due to expenses required during the start-up phase of this program. Investors should regard these expenses as investments in the building blocks that will make us a vibrant,



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highly profitable organization over the medium and long term. I am confident that we will begin seeing meaningful benefits from these investments within three to five years.

Within the Hitachi Group, I envision Hitachi Capital developing into an organization with functions similar to those of a bank. Today, only about 10 percent of the Hitachi Group's 300,000 employees in Japan do business with us. Offering bank-like services is essential if we are to raise this share.

**Auto financing are now the largest contributors to Hitachi Capital's revenues and earnings. What are the prospects for the development of other services into profit centers of this scale?**

Hitachi Capital is Japan's leading provider of leases and auto financing. Competition in both markets is heating up quickly. We urgently need more core businesses in order to attract and retain customers.



The auto business has been a key growth driver at Hitachi Capital for many years. We will continue to work hard to preserve and build on our position in this immense market. As we do so, though, we will be taking a new approach. In the past, we formed agreements with dealers to provide financing. We competed on the basis of our lower interest rates, an advantage that no longer exists. Winning today demands that we take the initiative in reaching out to customer directly. Auto leases promoted through workplace marketing are a perfect example of how we are translating this awareness into action.

Spearheading this initiative is a network of "My Car Lease" monitors who have been chosen from among Hitachi Capital employees. When the time comes to purchase a new car, the monitors encourage people to lease instead of buy. We are carefully studying the kinds of leases that are most appealing to individuals. Our plan is to use these leases initially to increase business with Hitachi Group employees. Since the average repurchasing cycle for cars is about five years, I believe there are ample opportunities for us to sell these leases to a large number of employees over the next several years.

Another high-potential business is housing-related financing. New sources of demand are emerging, notably for remodeling homes to meet the needs of aging residents. Demand for conventional home loans will also rise after Japan's government-backed housing loan system is no longer available. But the long repayment periods of mortgages make them very risky. To limit this risk, we will



begin by offering these loans only to Hitachi Group employees. Using retirement payments as collateral will further reduce risk. Our plans include the provision of home equity loans and loans for specific purposes in our lineup of financing options offered to workplace customers. As with housing loans, our focus on Hitachi Group employees, a highly creditworthy customer category, will enable us to limit risk and offer correspondingly low interest rates.

Other areas of interest are operating leases, private finance initiatives and financing for homes on leased land, all of which are components of structural reforms required by Japan's economy. We are determined to play an active role in promoting all three.

**The card business is an illustration of how Hitachi Capital can play a pivotal role in the operations of the entire Hitachi Group. What are your plans in this area?**

We have a highly sophisticated infrastructure in place for advanced card systems thanks in large part to funds provided during Hitachi Capital's many years of earnings growth. However, cards have not yet become a business that can cut across the entire Hitachi Group. Reaching this point will require an enormous effort from our people. To achieve the degree of focus needed to grow and improve profitability, we may reorganize card operations as a separate company.

**What are the implications of Hitachi Capital's growing role as the core provider of financial services within the entire Hitachi Group?**

Hitachi Capital was formed in 1957 specifically to support sales of Hitachi home appliances through the extension of credit to consumers. In the ensuing years, the company diversified its services lineup as the demands of consumers became more diverse. Currently, the leasing and retail sectors are positioned as our core businesses. Cards, securitization and outsourcing are being developed into new sources of growth. This gives us a strategically balanced business portfolio.

As Hitachi Capital developed, we preserved and deepened our ties with Hitachi and its many group companies. At the same time, we made a concerted effort to develop relationships with companies outside the Hitachi Group. Supporting this drive was our growing collection of skills in financial

technology and the marketing of financial services. In the process, Hitachi Capital acquired a distinctive corporate culture rooted in an uncompromising commitment to customer service, innovative thinking and asset quality.

Our mission, as the nucleus of the Hitachi Group's financial services business, will continue to shape our development. However, our overall objective is much broader: to consistently attract more customers from both inside and outside the Hitachi Group. I am determined to steadily increase revenues and earnings by implementing growth strategies that make full use of our many distinctive core competencies. Ultimately, I believe this is the best way in which we can contribute to the consolidated performance of the Hitachi Group. Our development will also play a part in restoring the health of Japan's economy, which has ended up a loser in today's global economic competition. I believe that providing such assistance is a vital mission of non-bank financial services companies like Hitachi Capital.

**As companies unwind cross shareholdings and investors seek investments offering the potential of higher returns, individuals are becoming an increasingly important participant in capital markets. Furthermore, these investors tend to place emphasis on dividends. What is your view of these trends and the need to manage with shareholders' interests in mind?**

We raised cash dividends by ¥1 to ¥34 per share for payments applicable to the fiscal year that ended on 31st March, 2002. I am confident that Hitachi Capital has the financial strength to support this dividend, and I am personally committed to maintaining it. We are now in a favorable operating environment in which companies like ours can offer services that replace many traditional activities of banks. At a time like this, I believe that a reduction in the dividend would be an indication of ineffective management.

We are fortunate in having operations grounded in many years of sound management practices. I think our solid foundation and excellent track record helped limit the decline in our share price last year. Publicly held companies need to reflect the interests of individual investors more when setting management policies. I believe that addressing the needs of these investors is critical to the efficient functioning of capital markets as well as to the ability of companies to tap these markets for funds.



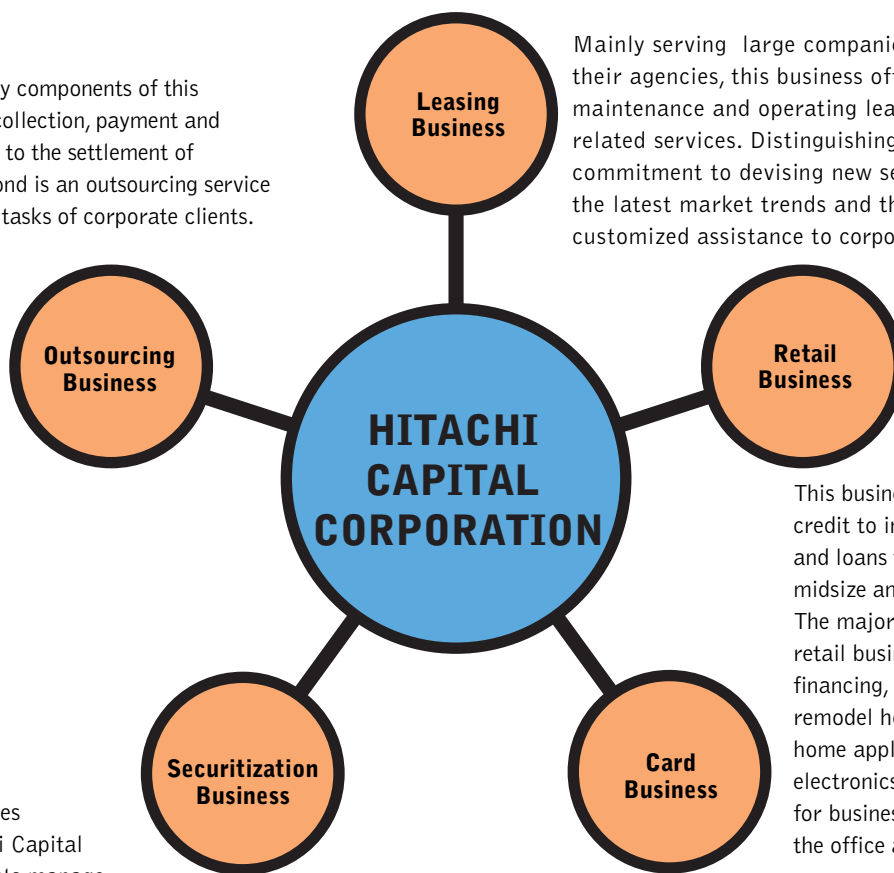
# At a Glance

## The Businesses of Hitachi Capital

The Hitachi Group's core provider of financial service, Hitachi Capital extends a diverse line of services to corporate and public-sector clients (B2B), their employees (B2E) and consumers (B2C). Activities are divided into five businesses. In each, the objective is to make constant refinements in specialized skills while building even closer bonds with other businesses and members of the worldwide Hitachi Capital Group. Pooling resources in this manner leads to still more services, thus catering to a steadily growing array of customer needs.

There are two primary components of this business. The first is collection, payment and other services related to the settlement of transactions. The second is an outsourcing service to handle the clerical tasks of corporate clients.

Securitization schemes structured by Hitachi Capital assist corporate clients manage receivables more efficiently. This business also includes the sales and arrangement of marketable securities and insurance products.



Mainly serving large companies, governments and their agencies, this business offers finance, maintenance and operating leases, rentals and related services. Distinguishing this business is a commitment to devising new services in step with the latest market trends and the ability to extend customized assistance to corporate customers.

This business provides shopping credit to individuals and leases and loans to middle-market, midsize and small companies. The major components of the retail business are automobile financing, loans to purchase or remodel homes, financing for home appliances and home electronics, and leases and loans for business equipment, both in the office and the factory.

Hitachi Capital serves companies and individuals with a variety of cards, some employing the latest advances in information and payment processing technology. Backed by an extensive infrastructure, Hitachi Capital issues IC, credit, debit, e-money and prepaid service cards.

# Directors and Officers

## BOARD OF DIRECTORS



**Masayoshi Hanabusa**  
Chairman and  
Representative Director



**Kaichi Murata**  
President and  
Representative Director



**Yoshitaka Aritoshi**  
Vice President and  
Director



**Yoshifumi Ishida**  
Senior Executive  
Managing Director



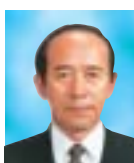
**Yasuo Ikari**  
Executive  
Managing Director



**Kimio Yokoyama**  
Executive  
Managing Director



**Masahisa Okuhara**  
Executive  
Managing Director



**Yosei Yamato**  
Executive  
Managing Director



**Takashi Furukawa**  
Executive  
Managing Director



**Takaaki Kubota**  
Executive  
Managing Director



**Kazuo Sato**  
Director

## CORPORATE AUDITORS

**Atsushi Washida**  
Corporate Auditor

**Koichi Hayashi**  
Corporate Auditor

**Yoshiki Yagi**  
Corporate Auditor

**Kazuhiro Tachibana**  
Corporate Auditor

## CORPORATE OFFICERS

**Yoshikazu Hirai**  
Senior Corporate Officer

**Yukio Shinya**  
Senior Corporate Officer

**Osamu Teshima**  
Senior Corporate Officer

**Soujiro Sakaguchi**  
Senior Corporate Officer

**Kenji Suzuki**  
Senior Corporate Officer

**Kazuo Takano**  
Senior Corporate Officer

**Seiji Nakamura**  
Senior Corporate Officer

**Masao Yamazaki**  
Corporate Officer

**Yutaka Yokoyama**  
Corporate Officer

**Hiroshi Tobita**  
Corporate Officer

**Hideyuki Iikura**  
Corporate Officer

**Yoshikazu Nakazawa**  
Corporate Officer

**Akio Ogura**  
Corporate Officer

**Yukio Ohki**  
Corporate Officer

**Yoshikatsu Saito**  
Corporate Officer

**Yukio Ueda**  
Corporate Officer

**Yasushi Matsushita**  
Corporate Officer

**Masatsugu Hori**  
Corporate Officer

**Kouji Ueda**  
Corporate Officer

## TOP MANAGEMENT AT SUBSIDIARIES

**Shinichi Urata**  
Okinawa Hitachi Capital Corp.

**Hiromitsu Kanai**  
Amic Services Corp.

**Masaki Kozaki**  
Hitachi Capital Data Services Co., Ltd.

**Matsuo Miyamoto**  
Nova Business Service Co., Ltd.

**Iwao Yoshihara**  
Hitachi Capital Auto Lease Corp.

**Ryoji Satoh**  
Hitachi Credit Securities Co., Ltd.

**Koichi Satoh**  
Hitachi Triple Win Corp.

**Toyoshige Miyase**  
Hitachi Leasing Rent, Ltd.

**Kazunori Koseki**  
Hitachi Leasing Service, Ltd.

**Mitsuhiro Okada**  
Sekisui Leasing Co., Ltd.

**David Anthony**  
Hitachi Credit (U.K.) PLC

**Simon Oliphant**  
Fleetlease (UK) Ltd.  
Trowbridge Vehicle Rentals Ltd.

**Denise Crossley**  
Credit Solutions (Northern) Ltd.

**Yoshiaki Sakurai**  
Hitachi Credit Insurance Corp. Ltd.  
Hitachi Credit Reinsurance Ltd.

**Yuichirou Shimada**  
Hitachi Credit America Corp.

**Yoshiaki Kobori**  
Hitachi Credit (Hong Kong) Ltd.

**Satoru Muranaka**  
Hitachi Credit Singapore Pte. Ltd.

**Yoshimichi Ohtani**  
Hitachi Leasing (Singapore) Pte., Ltd.

# Financial Section

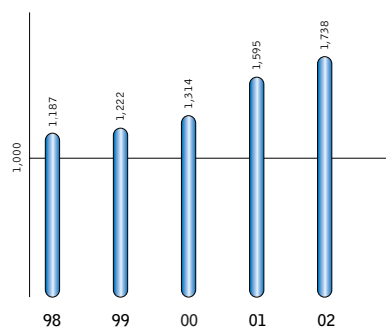
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# Management's Discussion and Analysis

## VOLUME OF BUSINESS

(billion yen)



Numerous factors combined to make fiscal 2002, the year ended 31st March, 2002, another extremely difficult period for the Japanese economy. Private-sector capital expenditures and consumer spending were weak, corporate and personal bankruptcies grew, and the unemployment rate climbed.

Amid these challenges, Hitachi Capital enhanced specialized skills and customer services in its five business sectors from the standpoints of the unique strengths and strategies of each one. The company also placed priority on attracting customers in new business fields and developing new products and services. Actions were taken as well to strengthen the company's financial position. High credit ratings supported low-cost capital market fund procurement activities and the securitization of assets and receivables helped reduce interest-bearing debt. The company continued to conduct a stringent risk management program by further refining a highly effective credit authorization and management system built on decades of experience.

## BUSINESS OVERVIEW

The volume of business increased 9.0 percent to ¥1,738,105 million (US\$13,068 million) in fiscal 2002, after adjusting the previous year's volume to reflect the adoption of a new securitization scheme that is not included in the volume of business.

## LEASING BUSINESS

Following the October 2000 merger that formed Hitachi Capital, leasing operations were realigned as a much broader business targeting primarily large companies and public-sector customers. Activities include finance leases, operating leases, rentals and related services. With a particular focus on the IT market, the leasing business devises new products as well as quality customized services to match customers' needs. In fiscal 2002, results were affected by a decline in capital expenditures at semiconductor manufacturing equipment and other negative factors. However, the merger caused leasing volume to increase 44.0 percent to ¥635,936 million (US\$4,781 million).

## RETAIL BUSINESS

The retail business incorporates financing for purchases by consumers and leases and loans extended to middle-market, midsize and small companies. To provide the best platforms for long-term growth in strategic market

sectors, three independent operating units have been established: the Automobile Business Development Dept. for automobile financing; the Housing Business Development Dept. for housing and home appliances; and the Business Equipment Development Dept. for office and manufacturing equipment. In January 2002, the Tokyo area sales division was reorganized as the Shutoken Company. Within this company, three regional head offices were set up for automobiles, business equipment and consumer products. These actions speed decision-making, allowing retail operations to respond more quickly to market trends. In March 2002, Hitachi Capital purchased 90 percent of the equity of Sekisui Leasing Co., Ltd., from Sekisui Chemical Co., Ltd. Hitachi Capital plans to draw on its expertise in financial services to spur more growth at Sekisui Leasing. This acquisition also created an alliance with Sekisui Chemical under which Hitachi Capital will provide a variety of financial services to this partner's group companies and employees.

Automobiles are the core market for Hitachi Capital's retail business. The company offers a comprehensive lineup of services extending from loans to leases. In July 2001, Nova Auto Lease Co., Ltd., a core provider of Hitachi Capital's automobile financing in Japan, was renamed Hitachi Capital Auto Lease Corp. In September, U.K. subsidiary Fleetlease (UK) Ltd. acquired Trowbridge Vehicle Rentals Ltd., a company that leases commercial vehicles, taking Hitachi Capital into this new market sector. Hitachi Capital will continue to utilize new types of automotive financial services to support growth in this important business.

In the housing field, agreements with Japanese home builders and home loans to Hitachi Group employees are supporting growth in the volume of business.

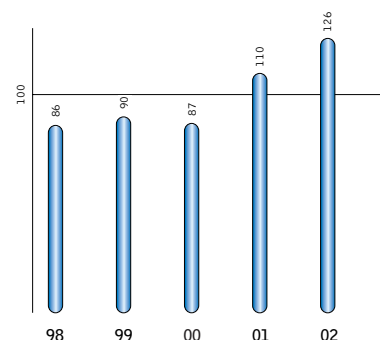
In fiscal 2002, retail volume decreased 4.3 percent to ¥895,312 million (US\$6,732 million). Housing-related volume increased, but lackluster consumer spending in Japan caused financing for automobiles and office equipment to fall.

## CARD BUSINESS

The card business is engaged in a variety of card-related services. In addition to conventional credit cards, Hitachi Capital issues multi-functional IC cards, debit cards, e-money, prepaid cards and other forms of making purchases. These services address the needs of both individuals and companies.

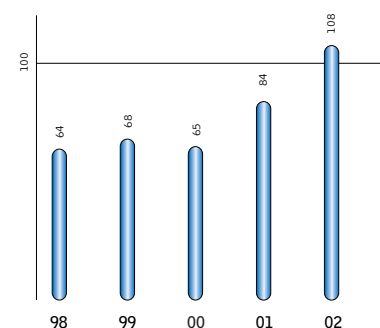
## REVENUES

(billion yen)



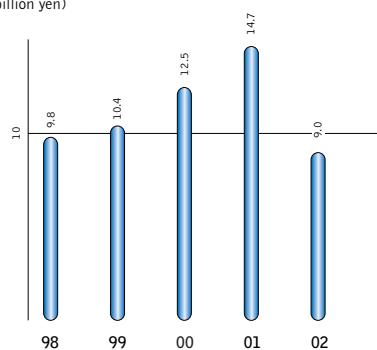
## EXPENSES

(billion yen)



## NET INCOME

(billion yen)



Growth in the card business is taking many forms. In September 2001, the card business enlarged its IC card lineup by participating in the Mondex electronic cash system. The same month, the company began accepting applications for its ETC Auto Card, a contact-free prepaid card used mainly for highway tolls. In October, the NOVA Corporate VISA Card made its debut in accordance with an alliance with Million Card Service Co., Ltd., now UFJ Card Co., Ltd. As of 31st March, 2002, there were about 499,000 Hitachi Capital issued cards in force, about 461,000 of which carry a Hitachi Capital brand. There were 254,000 NOVA cards, including 117,000 IC cards for Hitachi Group employees, and 181,000 P+ cards.

In fiscal 2002, card business volume increased 3.0 percent to ¥33,963 million (US\$255 million).

## SECURITIZATION BUSINESS

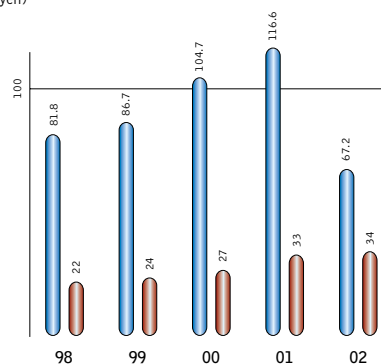
In this business, Hitachi Capital utilizes a variety of securitization schemes to assist customers procure funds and improve their financial positions. Another theme is the development and provision of new types of securitization and insurance methods. Hitachi Capital liquidized lease assets and receivables and trade receivables to streamline clients' balance sheets by quickly transforming these obligations into liquid assets.

This business includes new ventures as well. To expand the insurance business, Hitachi Credit (U.K.) established Hitachi Credit Reinsurance Ltd. in Ireland in July 2001. The company is a wholly owned subsidiary of Hitachi Credit (U.K.) with capital of €635,000.

While much progress has been made during the year, a decline in high-volume customers caused volume to fall 5.3 percent to ¥50,594 million (US\$380 million).

## NET INCOME AND CASH DIVIDENDS PER SHARE

(yen)



■ Net Income per Share  
■ Cash Dividends per Share

## OUTSOURCING BUSINESS

Companies rely on Hitachi Capital for a variety of assistance in outsourcing work to cut their personnel expenses and boost efficiency of specific tasks, such as bill collection. Through payment, collection and other services, other companies can benefit from Hitachi Capital's expertise in clerical tasks and ability to perform functions that are highly specialized. To create a sound base for future growth. The capital of subsidiary Hitachi Triple Win Corp., the primary provider of outsourcing services, was doubled to ¥700 million in July 2001. This increased Hitachi Capital's ownership to 57.1 percent.

In fiscal 2002, the volume of business decreased 6.6 percent to ¥129,893 million (US\$977 million) mainly because of a decline in payment and collection services provided for Hitachi Group companies.

Note that figures for the five businesses do not include intersegment eliminations.

## INCOME STATEMENT ANALYSIS

### REVENUES

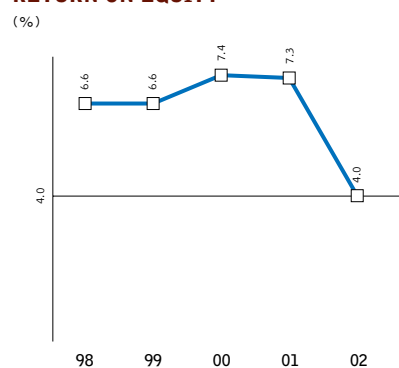
Revenues increased 14.8 percent to ¥126,018 million (US\$948 million). This is the result of a 16.7 percent increase in operating revenues to ¥123,458 million (US\$928 million), a 70.2 percent drop in interest and dividend income to ¥624 million (US\$5 million) and a 0.3 percent increase in other income to ¥1,936 million (US\$15 million). Non-consolidated revenues increased 13.0 percent to ¥93,597 million (US\$704 million).

By business segment, retail revenues decreased 2.6 percent to ¥69,941 million (US\$526 million), leasing revenues increased 50.1 percent to ¥49,646 million (US\$373 million) and other revenues increased 15.8 percent to ¥10,823 million (US\$81 million). The decline in retail revenues was attributable to a decrease of 9.6 percent in revenues from financing of information equipment to ¥41,383 million (US\$311 million). This more than offset a 9.6 percent increase in automobile financing revenues to ¥28,557 million (US\$215 million).

### EXPENSES

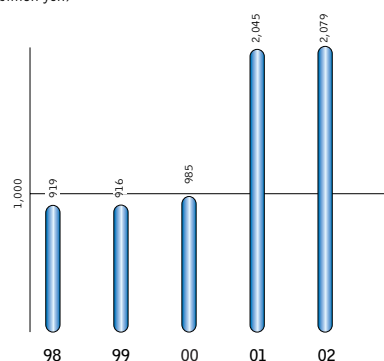
Operating expenses increased 29.2 percent to ¥108,222 million (US\$814 million). This was due to growth of 19.4 percent in selling, general and administrative expenses to ¥56,929 million (US\$428 million), 15.6 percent in financial costs to ¥34,872 million (US\$262 million) and 175.8 percent in other expenses to ¥16,421 million (US\$123 million). The largest components of other expenses are expenses of ¥8,470 million (US\$64 million) to cover losses at overseas businesses and ¥2,879 million (US\$22 million) for impairment of securities. The components of the overseas expenses were approximately ¥6,670 million (US\$50 million) at Hitachi Leasing (Singapore) and ¥1,800 million (US\$14 million) at Hitachi Credit (U.K.). Most impairment of securities was due to the write-down of an investment in Nissan Fire & Marine Insurance Co., Ltd.

### RETURN ON EQUITY



## TOTAL ASSETS

(billion yen)



## NET INCOME

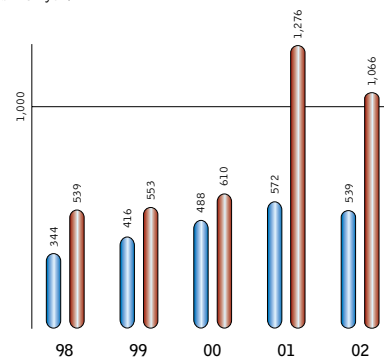
Income before income taxes and minority interests decreased 31.6 percent to ¥17,796 million (US\$134 million). The result was net income of ¥9,017 million (US\$68 million), 38.8 percent less than in fiscal 2001, and net income per share of ¥67.2 (US\$0.51). The return on average equity was 4.0 percent. Cash dividends applicable to the year were ¥34.0 per share, ¥1 more than in the prior fiscal year. This is the sum of an interim dividend of ¥16 and a year-end dividend of ¥18.

## CREDIT RISK MANAGEMENT

The high quality of Hitachi Capital's assets is the result of the company's large base of creditworthy customers and its implementation of a stringent risk management program. A computerized scoring system is used to evaluate credit applications. This ensures that strict credit standards are applied at all times and improves the ability of front-line sales personnel to approve or reject applications. After credit is extended, receivables are managed using behavioral scoring and an adaptive control system. Under this framework, even small amounts of nonperforming receivables can be accurately monitored so that prompt action can be taken. In this manner, Hitachi Capital is able to accurately monitor credit risk exposure while improving customer service by making quick decisions on credit applications.

## CAPITAL MARKET INSTRUMENTS AND INTEREST-BEARING LIABILITIES

(billion yen)



■ Capital Market Instruments  
■ Interest-Bearing Liabilities

## FINANCIAL POSITION

During fiscal 2002, total assets increased 1.6 percent to ¥2,078,630 million (US\$15,629 million). There was a ¥125,719 million decline in cash to ¥146,810 million (US\$1,104 million), mainly the result of debt reductions and an outflow of ¥60,001 million to the Hitachi Group's centralized cash management system. Trade receivables decreased ¥33,666 million to ¥526,076 million (US\$3,955 million) but equipment held for leases increased ¥110,321 million to ¥1,248,931 million (US\$9,390 million).

In liabilities, there was an increase of ¥289,516 million in obligation for securitization of lease receivables, representing one scheme that the company uses to sell lease receivables through special-purpose companies. There was a net decrease of ¥209,598 million in loans, commercial paper and bonds.

Stockholders' equity increased 2.1 percent to ¥227,759 million (US\$1,712 million), raising the equity ratio to 10.9 percent.

### INTEREST-BEARING DEBT

Interest-bearing debt was ¥1,066,360 million (US\$8,018 million) as of 31st March, 2002. During fiscal 2002, Hitachi Capital increased capital market procurement activities to reduce the substantial volume of loans brought to the company by predecessor Hitachi Leasing. As a result, there were net declines of ¥72,072 million in short-term borrowings to ¥47,875 million (US\$360 million) and 104,460 million in long-term loans to 479,784 million (US\$3,607 million). This raised capital market instruments to 51 percent of total debt compared to 45 percent at the end of March 2001 and 38 percent in October 2000 immediately after the merger. More reductions in debt are planned.

By July 2002, the company expects to bring total interest-bearing debt below ¥1,000,000 million through the securitization and sale of ¥24,800 million of housing loan receivables at Hitachi Capital and £200 million of installment receivables at Hitachi Credit (U.K.).

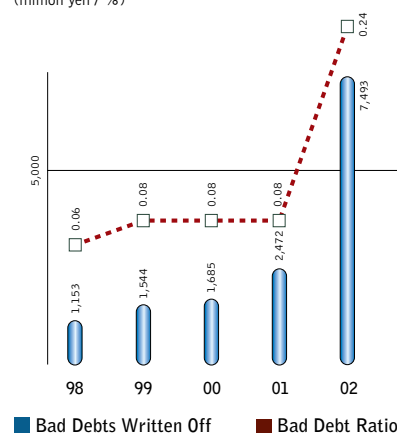
### ALLOWANCE FOR LOSSES ON RECEIVABLES AND GUARANTEES

There was a net increase of ¥1,647 million in the allowance for losses on receivables and guarantees to ¥23,766 million (US\$179 million). The largest component of this increase was a provision of ¥2,400 million for receivables at Hitachi Leasing (Singapore). There was a reversal of ¥2,900 million in loan guarantee reserves because of an increase in applicable receivables covered by insurance, one way in which the company is hedging credit risk.

Bad debts written off amounted to ¥7,493 million (US\$56 million), 0.24 percent of trade receivables, loan guarantees and lease rentals, which totaled ¥3,103,913 million (US\$23,338 million) as of 31st March, 2002. Excluding write-offs at Hitachi Leasing (Singapore), write-offs were 0.105 percent of total receivables, only slightly higher than in fiscal 2001.

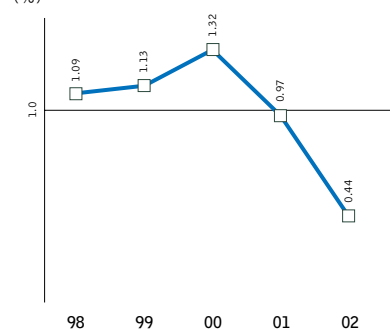
### BAD DEBTS WRITTEN OFF, BAD DEBT RATIO

(million yen / %)



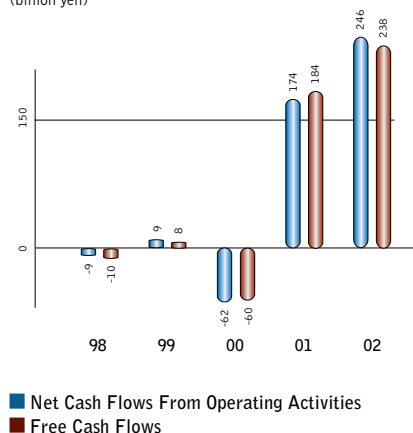
### RETURN ON ASSETS

(%)



### NET CASH FLOWS FROM OPERATING ACTIVITIES AND FREE CASH FLOWS

(billion yen)



### LIABILITIES FOR EMPLOYEES AND DIRECTORS RETIREMENT BENEFITS

Total liabilities for retirement benefits were ¥7,104 million (US\$53 million) as of 31st March, 2002, including ¥6,270 million (US\$47 million) for employees. To reflect current financial conditions, Hitachi Capital reduced the discount rate used to calculate these liabilities from 3.5 percent to 3.0 percent. As of 31st March, 2002, there were ¥59,912 million (US\$450 million) in projected benefit obligations and ¥33,229 million (US\$250 million) in plan assets. When the current method for accounting for retirement benefits was first introduced, there was a net loss of transition difference of ¥5,374 million (US\$40 million). This loss is being amortized in equal installments over a period of five years that began in April 2000. Although there was an arithmetic increase of ¥16,247 million in the net loss of transition difference, the revision in the discount rate and decline in yields on plan assets caused an increase of ¥8,311 million in fiscal 2002. This resulted in the recognition of retirement expenses amounting to ¥3,923 million (US\$29 million) in fiscal 2002.

### CASH FLOWS

Net cash provided by operating activities, increased 41.7 percent to ¥246,173 million (US\$1,851 million). This improvement was mainly attributable to an increase of ¥135,475 million in cash provided by asset backed securitization and growth in depreciation.

Net cash used in investing activities was ¥7,731 million (US\$58 million) compared with net cash provided of ¥10,499 million in fiscal 2001. The main reasons were the purchase of stock in Nissan Fire & Marine Insurance and a decline in proceeds from sale of investments in securities. As a result, free cash flow, which is the sum of cash flows from operating and investing activities, increased ¥54,258 million to ¥238,443 million (US\$1,793 million), a record high for Hitachi Capital.

Net cash used in financing activities increased ¥162,926 million to ¥305,018 million (US\$2,293 million). Most of this cash was used to repay loans as the company continues to focus on reducing interest-bearing debt.

The result was a net decrease of ¥65,746 million in cash and cash equivalents to ¥207,620 million (US\$1,561 million).

## Five-Year Summary

Hitachi Capital Corporation and Consolidated Subsidiaries  
Years ended 31st March

	In millions of Japanese yen, except per share data				
	2002	2001	2000	1999	1998
For the year:					
Volume of business . . . . .	<b>¥1,738,105</b>	¥1,595,151	¥1,314,201	¥1,222,095	¥1,186,759
Revenues . . . . .	<b>126,018</b>	109,794	87,434	89,717	85,641
Expenses . . . . .	<b>108,222</b>	83,778	65,012	67,873	63,841
Interest expense . . . . .	<b>32,463</b>	28,704	19,411	21,201	19,919
Interest coverage (times) . . . . .	<b>1.55</b>	1.91	2.16	2.03	2.09
Income before income taxes and minority interests . . . . .	<b>17,796</b>	26,016	22,422	21,844	21,800
Net income . . . . .	<b>9,017</b>	14,728	12,503	10,352	9,764
Cash dividends paid . . . . .	<b>4,563</b>	3,603	2,866	2,746	2,502
Bad debts written off . . . . .	<b>7,493</b>	2,472	1,685	1,544	1,153
Percent of trade receivables, loan guarantees and lease rentals . . . . .	<b>0.24%</b>	0.08%	0.08%	0.08%	0.06%
Per share (in yen):					
Net income (primary) . . . . .	<b>¥ 67.2</b>	¥ 116.6	¥ 104.7	¥ 86.7	¥ 81.8
Net income (diluted) . . . . .	<b>65.2</b>	112.0	99.9	82.7	78.0
Cash dividends paid and declared for the year . . . . .	<b>34.0</b>	33.0	27.0	24.0	22.0
Stockholders' equity . . . . .	<b>1,697</b>	1,663	1,501	1,336	1,274
At year-end:					
Trade receivables . . . . .	<b>¥ 526,076</b>	¥ 559,742	¥ 392,932	¥ 392,477	¥ 426,315
Deferred income . . . . .	<b>—</b>	—	31,561	30,591	16,086
Equipment held for leases . . . . .	<b>1,248,931</b>	1,138,610	412,353	352,515	315,611
Total assets . . . . .	<b>2,078,630</b>	2,045,438	984,576	915,773	919,243
Short-term and long-term bank loans . . . . .	<b>527,659</b>	704,191	122,524	137,096	195,268
Straight bonds, convertible bonds and commercial paper . . . . .	<b>538,701</b>	571,767	487,848	416,189	344,160
Stockholders' equity . . . . .	<b>227,759</b>	223,140	179,247	159,605	152,097
Loan guarantees outstanding . . . . .	<b>508,611</b>	673,196	637,622	587,631	545,828
Allowance for losses on receivables and guarantees . . . . .	<b>16,841</b>	14,514	10,327	9,340	8,633
Residual value reserves . . . . .	<b>6,926</b>	7,604	448	658	893
Number of employees . . . . .	<b>3,573</b>	3,496	2,842	2,883	2,945

Notes: 1. Interest coverage = (Income before income taxes and minority interests + Interest expense)/Interest expense

On 1st October, 2000, the operations of Hitachi Credit and Hitachi Leasing were combined with the merger.

Figures for the second half of the year ended 31st March, 2001 are for Hitachi Capital Corporation.

2. The volume of business figures in fiscal years prior to the year ended 31st March, 2002 have been revised to reflect the adoption of a new securitization scheme that is not included in the volume of business.

## Consolidated Balance Sheets

Hitachi Capital Corporation and Consolidated Subsidiaries  
31st March, 2002 and 2001

Assets	Japanese yen (millions)		U.S. dollars (thousands) (Note 2)	
	2002	2001	2002	2001
Current assets:				
Cash (Note 14) . . . . .	¥ 146,810	¥ 272,529	\$ 1,103,835	\$ 2,049,090
Trade receivables, including amounts maturing after one year (Note 6) . . . . .	526,076	559,742	3,955,459	4,208,586
Less: Allowance for losses on receivables and guarantees . . . . .	13,303	14,514	100,023	109,127
Net trade receivables . . . . .	512,773	545,228	3,855,436	4,099,459
Parent company deposit (Note 14) . . . . .	60,001	—	451,135	—
Short-term investments (Notes 5 and 14) . . . . .	975	4,922	7,331	37,008
Prepaid expenses and other current assets (Note 9) . . . . .	45,799	33,423	344,353	251,300
Total current assets . . . . .	766,358	856,102	5,762,090	6,436,857
Investments:				
Equipment held for leases, at cost less accumulated depreciation (Notes 3 (f) and 16)				
2002 — ¥1,667,460 million (\$12,537,293 thousand) . . . . .	1,248,931	1,138,610	9,390,459	8,560,977
2001 — ¥1,505,390 million (\$11,318,722 thousand)				
Investments in securities (Notes 4 and 5) . . . . .	6,240	4,023	46,917	30,248
Long-term loans, net of allowance for doubtful accounts				
2002 — ¥3,538 million (\$26,602 thousand) (Note 6) . . . . .	11,361	15,609	85,421	117,361
2001 — ¥0 million (\$0 thousand)				
Total investments . . . . .	1,266,532	1,158,242	9,522,797	8,708,586
Property and equipment, at cost less accumulated depreciation . . . . .	5,864	5,628	44,090	42,316
Other assets (Note 9) . . . . .	39,876	25,466	299,820	191,474
	¥2,078,630	¥2,045,438	\$15,628,797	\$15,379,233

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Japanese yen (millions)		U.S. dollars (thousands) (Note 2)	
	2002	2001	2002	2001
Current liabilities:				
Short-term bank loans (Note 7) . . . . .	¥ 47,875	¥ 119,947	\$ 359,962	\$ 901,857
Commercial paper . . . . .	65,604	114,046	493,263	857,489
Current portion of long-term debt (Note 7) . . . . .	201,342	207,368	1,513,850	1,559,158
Trade payables (Note 8) . . . . .	225,018	275,421	1,691,865	2,070,835
Accrued expenses . . . . .	14,321	13,918	107,677	104,647
Obligation for securitization of lease receivables . . . . .	190,569	72,737	1,432,850	546,895
Income taxes payable (Note 9) . . . . .	5,886	7,345	44,256	55,226
Other current liabilities (Note 9) . . . . .	40,569	40,598	305,029	305,246
Total current liabilities . . . . .	<u>791,184</u>	<u>851,380</u>	<u>5,948,752</u>	<u>6,401,353</u>
Long-term debt (Note 7) . . . . .	751,539	834,597	5,650,669	6,275,165
Retirement and severance benefits (Notes 3 (h) and 10) . . . . .	6,270	5,846	47,143	43,955
Retirement benefits for directors (Note 3 (h)) . . . . .	834	958	6,271	7,203
Long-term obligation for securitization of lease receivables . . . . .	288,599	116,915	2,169,917	879,060
Other fixed liabilities . . . . .	8,552	8,756	64,301	65,835
Total liabilities . . . . .	<u>1,846,978</u>	<u>1,818,452</u>	<u>13,887,053</u>	<u>13,672,571</u>
Minority interests . . . . .	3,893	3,846	29,270	28,918
Stockholders' equity (Note 11):				
Common stock:				
Authorized 280,000,000 shares; issued 134,190,884 shares in 2002 and 134,191,626 shares in 2001 . . . . .	9,460	9,460	71,128	71,128
Capital surplus . . . . .	45,449	45,449	341,722	341,722
Retained earnings (Note 11): . . . . .	172,780	168,559	1,299,098	1,267,361
Net unrealized holding gain on securities in investments . . . . .	354	431	2,662	3,241
Foreign currency translation adjustments . . . . .	(282)	(758)	(2,120)	(5,700)
Total stockholders' equity . . . . .	<u>227,761</u>	<u>223,141</u>	<u>1,712,490</u>	<u>1,677,752</u>
Less cost of 742 shares in 2002 and 318 shares in 2001 of treasury stock . . . . .	(2)	(1)	(16)	(8)
Total stockholders' equity . . . . .	<u>227,759</u>	<u>223,140</u>	<u>1,712,474</u>	<u>1,677,744</u>
	<u>¥2,078,630</u>	<u>¥2,045,438</u>	<u>\$15,628,797</u>	<u>\$15,379,233</u>

## Consolidated Statements of Income

Hitachi Capital Corporation and Consolidated Subsidiaries  
Years ended 31st March, 2002 and 2001

	Japanese yen (millions)		U.S. dollars (thousands) (Note 2)	
	2002	2001	2002	2001
<b>Revenues:</b>				
Operating revenues (Note 15) . . . . .	<b>¥123,458</b>	¥105,769	<b>\$928,256</b>	\$795,256
Interest and dividends income . . . . .	<b>624</b>	2,094	<b>4,692</b>	15,744
Other income . . . . .	<b>1,936</b>	1,931	<b>14,556</b>	14,519
	<b>126,018</b>	109,794	<b>947,504</b>	825,519
<b>Expenses (Note 15):</b>				
Selling, general and administrative expenses . . . . .	<b>56,929</b>	47,665	<b>428,038</b>	358,383
Financing costs . . . . .	<b>34,872</b>	30,160	<b>262,195</b>	226,767
Other expenses (Note 12) . . . . .	<b>16,421</b>	5,953	<b>123,466</b>	44,760
	<b>108,222</b>	83,778	<b>813,699</b>	629,910
Income before income taxes and minority interests . . . . .	<b>17,796</b>	26,016	<b>133,805</b>	195,609
Income taxes (Note 9) . . . . .	<b>8,816</b>	10,757	<b>66,286</b>	80,880
Minority interests . . . . .	<b>(37)</b>	531	<b>(278)</b>	3,992
Net income . . . . .	<b>¥ 9,017</b>	¥ 14,728	<b>\$ 67,797</b>	\$110,737
	Japanese yen		U.S. dollars (Note 2)	
<b>Per share (Note 3 (k)):</b>				
Net income (primary) . . . . .	<b>¥ 67.2</b>	¥ 116.6	<b>\$ 0.51</b>	\$ 0.88
Net income (diluted) . . . . .	<b>65.2</b>	112.0	<b>0.49</b>	0.84

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

Hitachi Capital Corporation and Consolidated Subsidiaries  
Years ended 31st March, 2002 and 2001

	Japanese yen (millions)		U.S. dollars (thousands) (Note 2)	
	2002	2001	2002	2001
<b>Common stock:</b>				
Balance at beginning of year . . . . .	¥ 9,460	¥ 7,650	\$ 71,128	\$ 57,519
Effect of merger . . . . .	—	669	—	5,030
Conversion of convertible debentures . . . . .	—	1,141	—	8,579
Balance at end of year . . . . .	<u>¥ 9,460</u>	<u>¥ 9,460</u>	<u>\$ 71,128</u>	<u>\$ 71,128</u>
<b>Capital surplus:</b>				
Balance at beginning of year . . . . .	¥ 45,449	¥ 42,879	\$ 341,722	\$ 322,399
Effect of merger . . . . .	—	1,431	—	10,759
Conversion of convertible debentures . . . . .	—	1,139	—	8,564
Balance at end of year . . . . .	<u>¥ 45,449</u>	<u>¥ 45,449</u>	<u>\$ 341,722</u>	<u>\$ 341,722</u>
<b>Retained earnings:</b>				
Balance at beginning of year . . . . .	¥168,559	¥128,718	\$1,267,361	\$ 967,804
Effect of merger . . . . .	—	27,031	—	203,241
Effect of newly consolidated subsidiaries following merger . . . . .	—	1,833	—	13,782
Effect of newly consolidated subsidiaries . . . . .	—	16	—	120
Net income for the year . . . . .	9,017	14,728	67,797	110,737
Cash dividends . . . . .	(4,563)	(3,603)	(34,308)	(27,090)
Directors' bonus . . . . .	(233)	(164)	(1,752)	(1,233)
Balance at end of year . . . . .	<u>¥172,780</u>	<u>¥168,559</u>	<u>\$1,299,098</u>	<u>\$1,267,361</u>
<b>Net unrealized holding gain on securities in investments:</b>				
Balance at beginning of year . . . . .	¥ 431	¥ —	\$ 3,241	\$ —
Net change during the year . . . . .	(77)	431	(579)	3,241
Balance at end of year . . . . .	<u>¥ 354</u>	<u>¥ 431</u>	<u>\$ 2,662</u>	<u>\$ 3,241</u>
<b>Foreign currency translation adjustments:</b>				
Balance at beginning of year . . . . .	¥ (758)	¥ —	\$ (5,700)	\$ —
Net change during the year . . . . .	476	(758)	3,580	(5,700)
Balance at end of year . . . . .	<u>¥ (282)</u>	<u>¥ (758)</u>	<u>\$ (2,120)</u>	<u>\$ (5,700)</u>
<b>Treasury stock:</b>				
Balance at beginning of year . . . . .	¥ (1)	¥ —	\$ (8)	\$ —
Increase in treasury stock . . . . .	(1)	(1)	(8)	(8)
Balance at end of year . . . . .	<u>¥ (2)</u>	<u>¥ (1)</u>	<u>\$ (16)</u>	<u>\$ (8)</u>
Total stockholders' equity . . . . .	<u>¥227,759</u>	<u>¥223,140</u>	<u>\$1,712,474</u>	<u>\$1,677,744</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Hitachi Capital Corporation and Consolidated Subsidiaries  
Years ended 31st March, 2002 and 2001

	Japanese yen (millions)		U.S. dollars (thousands) (Note 2)	
	2002	2001	2002	2001
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests . . . . .	¥ 17,796	¥ 26,016	\$ 133,805	\$ 195,609
Depreciation . . . . .	414,122	267,046	3,113,699	2,007,865
Loss on restructuring of overseas business . . . . .	8,470	—	63,684	—
Impairment of securities . . . . .	2,879	—	21,647	—
Interest and dividends income . . . . .	(624)	(2,094)	(4,692)	(15,744)
Interest expenses . . . . .	32,463	28,704	244,083	215,820
Loss (gain) on sale of securities . . . . .	2,341	(510)	17,602	(3,835)
Decrease (increase) in trade receivables . . . . .	52,770	(55,206)	396,767	(415,083)
Loss on sale of equipment for lease . . . . .	236	1,380	1,774	10,376
Acquisition of equipment for lease . . . . .	(549,306)	(360,973)	(4,130,120)	(2,714,083)
Proceeds from sale of equipment for lease . . . . .	46,977	39,075	353,211	293,797
Increase (decrease) in trade payables . . . . .	(52,786)	47,112	(396,887)	354,226
Cash provided by asset backed securitization . . . . .	971,596	836,121	7,305,233	6,286,624
Payment for asset backed securitization . . . . .	(684,629)	(651,175)	(5,147,586)	(4,896,053)
Increase in retirement and severance benefits . . . . .	427	57	3,211	429
Other . . . . .	(3,426)	7,543	(25,762)	56,714
Income taxes paid . . . . .	(13,133)	(9,410)	(98,744)	(70,752)
Net cash provided by (used in) operating activities . . . . .	246,173	173,686	1,850,925	1,305,910
<b>Cash flows from investing activities:</b>				
Purchase of short-term investments . . . . .	(4,310)	(5,105)	(32,406)	(38,383)
Proceeds from sale of short-term investments . . . . .	5,204	6,560	39,128	49,323
Purchase of investments in securities and subsidiaries' common stock . . . . .	(7,044)	—	(52,962)	—
Proceeds from sale of investments in securities . . . . .	966	7,152	7,263	53,774
Capital expenditure . . . . .	(3,203)	(1,754)	(24,083)	(13,188)
Proceeds from sale of capital assets . . . . .	27	1,879	203	14,128
Interest and dividends received . . . . .	629	1,879	4,729	14,128
Other . . . . .	—	(112)	—	(842)
Net cash provided by (used in) investing activities . . . . .	(7,731)	10,499	(58,128)	78,940
<b>Cash flows from financing activities:</b>				
Decrease in short-term bank loans . . . . .	(80,878)	(77,379)	(608,105)	(581,797)
Increase (decrease) in commercial paper . . . . .	(52,245)	14,546	(392,820)	109,368
Proceeds from long-term debt . . . . .	111,693	256,457	839,797	1,928,248
Payment of long-term debt . . . . .	(240,826)	(306,080)	(1,810,722)	(2,301,353)
Interest paid . . . . .	(37,668)	(25,381)	(283,218)	(190,835)
Dividends paid to stockholders . . . . .	(4,563)	(3,603)	(34,308)	(27,090)
Dividends paid to minority stockholders of subsidiaries . . . . .	(206)	(186)	(1,549)	(1,398)
Other . . . . .	(325)	(466)	(2,443)	(3,504)
Net cash used in financing activities . . . . .	(305,018)	(142,092)	(2,293,368)	(1,068,361)
<b>Effect of exchange rate changes on cash and cash equivalents . . . . .</b>				
	830	332	6,241	2,496
<b>Net increase (decrease) in cash and cash equivalents . . . . .</b>	<b>(65,746)</b>	<b>42,425</b>	<b>(494,330)</b>	<b>318,985</b>
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>273,366</b>	<b>175,647</b>	<b>2,055,383</b>	<b>1,320,654</b>
<b>Cash and cash equivalents increased by merger and newly consolidated subsidiaries . . . . .</b>	<b>—</b>	<b>55,294</b>	<b>—</b>	<b>415,744</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>¥ 207,620</b>	<b>¥ 273,366</b>	<b>\$ 1,561,053</b>	<b>\$ 2,055,383</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Hitachi Capital Corporation and Consolidated Subsidiaries

## (1) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by Hitachi Capital Corporation (the Company) and its domestic subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and those maintained by its foreign subsidiaries in conformity with those of the countries of their domicile.

In addition, the consolidated financial statements, including the notes to the consolidated financial statements, presented herein have been compiled from the consolidated financial statements filed with the Ministry of Finance (the MOF report) as required by the Securities and Exchange Law of Japan and, for the convenience of readers outside Japan, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

## (2) U.S. Dollar Amounts

The consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥133 to \$1, the approximate exchange rate at 29th March, 2002.

The inclusion of such dollar amounts does not imply that the assets and liabilities which originated in yen have been or could readily be converted, realized or settled in dollars at ¥133 to \$1 or at any other rate.

## (3) Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries which are directly controlled: Okinawa Hitachi Capital Corp., Amic Services Corp., Hitachi Capital Data Services Co., Ltd., Nova Business Service Co., Ltd., Hitachi Capital Auto Lease Corp., Hitachi Credit Securities Co., Ltd., Hitachi Triple Win Corp., Hitachi Leasing Rent, Ltd., Hitachi Leasing Service, Ltd., Hitachi Credit (U.K.) PLC, Fleetlease (UK) Ltd., Credit Solutions (Northern) Ltd., Hitachi Leasing Europe, Ltd., Hitachi Credit Insurance Corp. Ltd., Hitachi Credit America Corp., Hitachi Credit (Hong Kong) Ltd., Hitachi Credit Singapore Pte. Ltd., Hitachi Leasing (Singapore) Pte., Ltd., Hitachi Credit Reinsurance Ltd., which was established in July, 2001, and Trowbridge Vehicle Rentals Ltd. and Sekisui Leasing Co., Ltd., which were newly acquired and consolidated, are included in consolidated results for the year ended 31st March, 2002. All significant intercompany accounts have been eliminated in consolidation. The investments in affiliates are stated at its underlying equity value. The cost in excess of net assets acquired by the Company is being amortized using the straight-line method over five years in principle.

### (b) Volume of Business

Volume of business means the cash sales price of the goods plus the commission due from the customers (less the down payment in the case of purchases of installment receivables and loan guarantees where the Company and consolidated subsidiaries do not act as the sellers), and in the case of leases it means the total lease rentals receivable under the lease.

### (c) Recognition of Income

The Company and consolidated subsidiaries provide loan guarantee arrangements with banks and other financial institutions on behalf of customers who borrow funds necessary to purchase products. The commissions arising from such services are paid by the customers in full at the inception of the loans and are recognized as earned.

The Company and consolidated subsidiaries lease equipment to customers. Leases are classified as operating leases, and lease income from the lease contracts is recognized over the lease terms as it becomes due.

Lease cost, primarily depreciation, has been computed generally in proportion to the related lease income over the respective lease terms.

The Company and consolidated subsidiaries purchase installment receivables at the inception of the contracts between customers and the contracting retailers. In this type of arrangement, income, i.e., generally the difference between the installment sales price due from the customer and the cash sales price due to the contracting retailer, is deferred at the time of contract acquisition and recorded as earned when the monthly installments become due.

Customers who utilize installment credit facilities offered by the companies are charged commissions computed at a predetermined fixed rate according to the number of monthly installment payments. Income from installment credits is deferred at the time of contract acquisition and recorded as earned when the monthly installments become due.

### (d) Allowance for Losses on Receivables and Guarantees

Receivables are classified in five categories divided by arrear of each debtor and the allowance for losses on receivables has been provided for estimated provable bad debts by each category. In addition, an allowance has been provided for estimated provable losses arising from loan guarantees outstanding as of each balance sheet date as same method as receivables.

### (e) Short-term Investments and Investments in Securities

The Company has been adopted "Accounting Standards for Financial Instruments" issued by the Business Accounting Deliberation Council. Under this standard, securities are to be classified into one of following three categories and accounted for as follows:

- Securities that are generally used with the objective of generating profits on short-term differences in price are classified as trading securities and measured at fair value, with unrealized holding gains and losses included in earnings.
- Securities that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and measured at amortized cost.
- Securities classified as neither trading securities nor held-to-maturity securities are classified as other securities and measured

at fair value, with either unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of stockholders' equity until realized or unrealized holding losses included in earnings and unrealized gains excluded from earnings and reported as a net amount in a separate component of stockholders' equity until realized.

Trading securities are carried at fair value with unrealized holding gains and losses included in earnings. Held-to-maturity securities are amortized or accumulated to face value. Other securities with a fair value are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of stockholders' equity until realized. Other securities without a fair value are carried at cost. In computing realized gain or loss, cost of other securities was principally determined by the moving-average method.

#### **(f) Residual Value Reserves**

An allowance for losses on disposal of leased assets upon termination is included in accumulated depreciation. The Company provided for the allowance in the amount of ¥1,667 million (\$12,534 thousand) and appropriated to losses on disposal of leased assets in the amount of ¥2,387 million (\$17,947 thousand) for the period ended 31st March, 2002. As a result, the allowance included in accumulated depreciation was ¥6,926 million (\$52,075 thousand) at 31st March, 2002.

#### **(g) Income Taxes**

The Company has been adopted "Accounting Standards for Deferred Income Taxes" issued by the Business Accounting Deliberation Council. The standards require that deferred income taxes be accounted for under the asset and liability method. Under the asset and liability method deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

#### **(h) Retirement and Severance Benefits**

The Company has been adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council. Under this standard, allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets.

Retirement allowance for directors and corporate auditors have been made for the vested benefits to which they are entitled if they were to retire or sever immediately at the balance sheet date.

#### **(i) Foreign Currency Translation**

The Company has been adopted the revised "Accounting Standard for Foreign Currency Transaction" issued by the Business Accounting Deliberation Council. Under this standard, foreign currency transactions are translated into yen on the basis of the rates in effect at the transaction date or, if only the relation between a foreign currency transaction and related firm forward exchange contracts meets the criteria of hedge accounting as regulated in "Accounting Standards for Financial Instruments," those covered by firm forward exchange

contracts can be translated at such contracts rates. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except for those, as described above, translated at related contract rates. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to income as incurred.

The financial statements of the consolidated foreign subsidiaries are translated into the reporting currency of yen as follows: all assets and liabilities are translated at the rates of exchange in effect at the balance sheet date; stockholders' equity accounts are translated at historical rates; income and expenses are translated at an average of exchange rates in effect during the year; and a comprehensive adjustment resulting from translation of assets, liabilities and stockholders' equity is included in minority interests and, as "Foreign currency translation adjustments," a separate component of stockholders' equity.

#### **(j) Appropriation of Retained Earnings**

Cash dividends, transfers to legal reserve, and directors' bonuses are recorded in the financial year during which such appropriations of retained earnings are made.

#### **(k) Per Share Data**

Primary net income per share is based on the weighted-average number of shares of common stock outstanding during the respective years. On a diluted basis, both net income and shares outstanding are adjusted assuming conversion of the convertible bonds.

#### **(l) Financial Instruments**

The Company has been adopted "Accounting Standards for Financial Instruments" issued by the Business Accounting Deliberation Council. Under this standard, installment accounts receivable shall be recorded at fair value less related interest income.

#### **(m) Derivative Financial Instruments**

The Company has been adopted "Accounting Standards for Financial Instruments" issued by the Business Accounting Deliberation Council. Under this standard, in principle, net asset or liability arising from derivative financial transaction is measured at fair value, with unrealized gain or loss included in earnings. Hedging transaction, which meets the criteria of hedge accounting as regulated in "Accounting Standards for Financial Instruments," is accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as a liability or asset until gain or loss relating to the hedge object is recognized.

Net assets or liabilities arising from derivative financial transactions are measured at fair value, except for interest rate option contracts, which are accounted for using deferral hedge accounting. In addition, certain foreign currency swap transactions and certain interest rate swap transactions are accounted for using the allocation method and the special method, respectively, which are regulated in the standard. The allocation method requires recognized foreign currency receivables or payables covered by firm foreign currency swap transactions to be translated at such swap rates. Under the special method, interest rate swap transactions are accounted for as if the interest rates under those transactions were originally applied to underlying borrowings and debentures.

#### (4) Assets Deposited

At 31st March, 2002 and 2001, certain securities of ¥38 million (\$286 thousand) and ¥38 million (\$286 thousand), respectively,

were deposited as performance guarantees.

#### (5) Short-term Investments and Investments in Securities

The Company has been adopted "Accounting Standards for Financial Instruments," as discussed in note 3 (e).

As of 31st March, 2002, there is no trading securities in the consolidated balance sheet. As of 31st March, 2001 the Company and certain subsidiaries had trading securities of ¥3,782 million (\$28,436 thousand) as "Short-term investments" in the consolidated balance sheet,

with net unrealized holding loss of ¥114 million (\$857 thousand) that has been included in earnings during the year ended 31st March, 2001.

The following is a summary of the amortized cost basis, gross unrealized holding gains or losses and aggregate fair value of held-to-maturity securities and other securities by major security type as of 31st March, 2002 and 2001.

	Japanese yen (millions)			U.S. dollars (thousands)		
	Amortized cost basis	Gross gain (loss)	Aggregate fair value	Amortized cost basis	Gross gain (loss)	Aggregate fair value
	<b>2002</b>			<b>2002</b>		
Held-to-maturity securities						
with gross unrealized holding gains:						
Bonds and debentures . . . . .	¥ 39	¥ 2	¥ 41	\$ 293	\$ 15	\$ 308
	<u>¥ 39</u>	<u>¥ 2</u>	<u>¥ 41</u>	<u>\$ 293</u>	<u>\$ 15</u>	<u>\$ 308</u>
Other securities with gross unrealized holding gains:						
Equity securities . . . . .	¥ 454	¥686	¥1,140	\$ 3,413	\$5,158	\$ 8,571
	<u>454</u>	<u>686</u>	<u>1,140</u>	<u>3,413</u>	<u>5,158</u>	<u>8,571</u>
Other securities with gross unrealized holding losses:						
Equity securities . . . . .	3,365	(27)	3,338	25,301	(203)	25,098
Bonds and debentures . . . . .	1,000	(64)	936	7,519	(481)	7,038
	<u>4,365</u>	<u>(91)</u>	<u>4,274</u>	<u>32,820</u>	<u>(684)</u>	<u>32,136</u>
	<u>¥4,819</u>	<u>¥595</u>	<u>¥5,414</u>	<u>\$36,233</u>	<u>\$4,474</u>	<u>\$40,707</u>
	<b>2001</b>			<b>2001</b>		
Held-to-maturity securities						
with gross unrealized holding gains:						
Bonds and debentures . . . . .	¥ 38	¥ 3	¥ 41	\$ 286	\$ 22	\$ 308
	<u>¥ 38</u>	<u>¥ 3</u>	<u>¥ 41</u>	<u>\$ 286</u>	<u>\$ 22</u>	<u>\$ 308</u>
Other securities with gross unrealized holding gains:						
Equity securities . . . . .	¥ 632	¥759	¥1,391	\$ 4,752	\$5,707	\$10,459
Bonds and debentures . . . . .	—	—	—	—	—	—
	<u>632</u>	<u>759</u>	<u>1,391</u>	<u>4,752</u>	<u>5,707</u>	<u>10,459</u>
Other securities with gross unrealized holding losses:						
Equity securities . . . . .	127	(11)	116	955	(83)	872
Bonds and debentures . . . . .	1,000	(9)	991	7,519	(68)	7,451
	<u>1,127</u>	<u>(20)</u>	<u>1,107</u>	<u>8,474</u>	<u>(151)</u>	<u>8,323</u>
	<u>¥1,759</u>	<u>¥739</u>	<u>¥2,498</u>	<u>\$13,226</u>	<u>\$5,556</u>	<u>\$18,782</u>

The Company wrote down certain other securities to the fair value as a new cost basis and ¥2,878 million (\$21,639 thousand) of the write-down was included in earnings for the period ended 31st March, 2002.

It is not practicable to estimate the fair value of investments in non-marketable securities because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amount of these securities at 31st March, 2002 are not material. At 31st

March, 2001, the carrying amount of these securities classified as held-to-maturity securities and other securities were ¥760 million (\$5,714 thousand) and ¥1,798 million (\$13,519 thousand), respectively.

Information about the contractual maturities of held-to-maturity securities and other securities with contractual maturities at 31st March, 2002 is as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	
	Within one year	After one year through five years	Within one year	After one year through five years
	<b>2002</b>		<b>2002</b>	
Debt securities:				
Government bonds . . . . .	¥ -	¥39	\$ -	\$293
Other . . . . .	975	-	7,331	-
	<b>¥975</b>	<b>¥39</b>	<b>\$7,331</b>	<b>\$293</b>

### (6) Allowance for Losses on Receivables and Guarantees

The Company and consolidated subsidiaries provide loan guarantee arrangements on behalf of customers. The outstanding balance of such loan guarantees as of 31st March, 2002 and 2001 were ¥508,611 million (\$3,824,143 thousand) and ¥673,196 million (\$5,061,624 thousand), respectively.

Loan guarantees collateralized by insurance policies, which eliminate risk to the Company and consolidated subsidiaries, were included in

the above balances at 31st March, 2002 and 2001, in the amount of ¥7,395 million (\$55,602 thousand) and ¥11,768 million (\$88,481 thousand), respectively.

The Company and consolidated subsidiaries' credit loss experiences and the allowance for losses on receivables and guarantees provided for the years ended 31st March, 2002 and 2001, are summarized as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Balance at beginning of year . . . . .	¥14,514	¥10,327	\$109,127	\$ 77,647
Write-off against losses arising during the year . . . . .	(7,493)	(2,472)	(56,338)	(18,586)
Provision added to the allowance . . . . .	9,369	6,312	70,444	47,459
The effect of translation adjustments (Note 3 (i)) . . . . .	451	347	3,392	2,607
Balance at end of year:				
Losses on receivables . . . . .	13,741	8,514	103,316	64,015
Losses on guarantees . . . . .	3,100	6,000	23,309	45,112
	<b>¥16,841</b>	¥14,514	<b>\$126,625</b>	\$109,127

## (7) Short-term Bank Loans and Long-term Debt

The weighted average interest rates on short-term bank loans outstanding at 31st March, 2002 and 2001 are 2.9 percent and 2.7 percent, respectively.

Long-term debt at 31st March, 2002 and 2001, was summarized as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Unsecured convertible bonds payable in Japanese yen, due September 2004, interest 1.8 percent . . . . .	¥ 9,148	¥ 9,148	\$ 68,782	\$ 68,782
Unsecured bonds payable in Japanese yen, due from January 2003 to September 2011, interest from 1.33 to 4.15 percent . . . . .	230,000	220,000	1,729,323	1,654,135
Notes in U.S. dollars, due July 2002, interest 6.625 percent . . . . .	22,820	45,600	171,579	342,857
Unsecured bonds payable in Japanese yen (for specific institutional investors), due from March 2005 to December 2010, interest from 1.32 to 1.98 percent . . . . .	70,000	60,000	526,316	451,128
Unsecured bonds payable in euro yen, due from March 2003 to June 2004, interest LIBOR plus 0 – 5 b.p. . . . .	–	17,000	–	127,820
Unsecured bonds payable in Japanese yen (for specific institutional investors), due from January 2004 to January 2006, interest from 1.5 to 2.24 percent . . . . .	18,500	18,500	139,098	139,098
Medium-term notes payable issued by Hitachi Credit America Corp., in U.S. dollars due from June 2002 to August 2004, interest BBA LIBOR plus 25 – 44 b.p. . . . .	31,314	31,842	235,444	239,414
Medium-term notes payable issued by Hitachi Credit (U.K.) PLC, in euro-yen, due from August 2002 to December 2006, interest LIBOR plus 10 – 29 b.p. . . . .	90,231	54,596	678,429	410,496
Medium-term notes payable issued by Hitachi Leasing (Singapore) Pte., Ltd. in S.P. dollars due April 2002, interest 6mth. SOR plus 90 b.p. . . . .	1,084	1,034	8,150	7,774
Loans from banks and other financial institutions:				
Unsecured, maturing 2002—2015 and thereafter . . . . .	479,784	584,245	3,607,398	4,392,819
	<b>952,881</b>	1,041,965	<b>7,164,519</b>	7,834,323
Less current portion . . . . .	<b>201,342</b>	207,368	<b>1,513,850</b>	1,559,158
	<b>¥751,539</b>	¥ 834,597	<b>\$5,650,669</b>	\$6,275,165

The weighted average interest rates on long-term loans from banks and other financial institutions outstanding at 31st March, 2002 and 2001, shown above are 2.3 percent and 2.3 percent, respectively.

The aggregate annual maturities of long-term debt at 31st March, 2002 were as follows:

	Japanese yen (millions)	U.S. dollars (thousands)
Years ending 31st March:		
2004 . . . . .	¥206,140	\$1,549,925
2005 . . . . .	160,839	1,209,316
2006 . . . . .	134,504	1,011,308
2007 . . . . .	78,581	590,834
2008 and thereafter . . . . .	171,475	1,289,286
	<b>¥751,539</b>	<b>\$5,650,669</b>

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that securities and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset cash deposits against obligations due the bank.

- (a) The unsecured convertible bonds in Japanese yen due September, 2004, with a 1.8 percent coupon rate, are redeemable in whole or in part, at the option of the Company, from 1st October, 1996, to 30th September, 2003 at premiums ranging from 1 percent to 7 percent or at par thereafter, and were at 31st March, 2002, convertible into 5,547,604 shares of common stock at ¥1,649 per share.
- (b) Hitachi Credit America Corp. established a U.S.\$300 million medium-term-note lending program with the Company's guarantee in March, 1998. At 31st March, 2001, the Company

has extended a guarantee of U.S.\$300 million to \$400 million for this program.

The outstanding amount under the program was U.S.\$165 million as of 31st March, 2002.

- (c) Hitachi Credit (U.K.) PLC established a U.S.\$500 million medium-term euro-note lending program in October, 1998. At 31st March, 2001, the Company has extended a guarantee of U.S.\$500 million to \$1,000 million for this program.

The outstanding amount under the program was U.S.\$646 million as of 31st March, 2002.

- (d) The unsecured bonds payable in euro-yen were redeemed before their maturities.
- (e) Each balance is fixed in Japanese yen as the transactions have been hedged using forward exchange contracts or currency swap agreements.

## (8) Trade Payables

Trade payables at 31st March, 2002 and 2001, were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Notes payable . . . . .	¥ 14,741	¥ 23,372	\$ 110,835	\$ 175,730
Accounts payable . . . . .	210,277	252,049	1,581,030	1,895,105
	<u>¥225,018</u>	<u>¥275,421</u>	<u>\$1,691,865</u>	<u>\$2,070,835</u>

Trade payables represent amounts arising from purchases of installment receivables and from purchases of goods and property sold or leased by the Company and consolidated subsidiaries.

Generally, notes payable become due from 30 to 180 days after the date of issue. The most common terms of maturity are from 60 to 120 days.

## (9) Income Taxes

Income tax expense attributable to income from continuing operations for the years ended 31st March, 2002 and 2001 consists of the following:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Current . . . . .	¥11,547	¥11,818	\$ 86,820	\$88,857
Deferred . . . . .	(2,731)	(1,061)	(20,534)	(7,977)
	<u>¥ 8,816</u>	<u>¥10,757</u>	<u>\$ 66,286</u>	<u>\$80,880</u>

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a normal tax rate of approximately 42 percent for the year ended 31st March, 2002 and 2001.

Reconciliations between the normal statutory rate and the effective income tax rate as a percentage of income before income tax and minority interest are as follows:

	2002
Normal statutory rate . . . . .	41.8%
Per capita tax . . . . .	0.7
Expenses not deductible for tax purposes . . . . .	1.1
Difference in statutory tax rates of foreign subsidiaries . . . . .	5.0
Tax effect on investment in subsidiaries . . . . .	(11.3)
Change in valuation allowance . . . . .	8.5
Other . . . . .	3.7
Effective income tax rate . . . . .	49.5%

The effective tax rate reflected in the accompanying consolidated statements of income for the year ended 31st March, 2001 differs slightly from the normal statutory rate.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of 31st March, 2002 and 2001 are presented below:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
<b>Total gross deferred tax assets:</b>				
Depreciation . . . . .	¥ 7,981	¥ 5,771	\$ 60,008	\$ 43,391
Allowance for losses on receivables and guarantees . . . . .	4,819	3,966	36,233	29,820
Retirement and severance benefits . . . . .	810	774	6,090	5,820
Prepaid expenses . . . . .	327	359	2,459	2,699
Accrued business taxes . . . . .	504	572	3,789	4,301
Temporary difference of investment in subsidiaries . . . . .	2,352	—	17,684	—
Net operating loss carryforwards . . . . .	1,508	—	11,338	—
Other . . . . .	2,770	2,930	20,827	22,029
	<b>21,071</b>	14,372	<b>158,428</b>	108,060
Valuation allowance . . . . .	(1,508)	—	(11,338)	—
	<b>¥19,563</b>	¥14,372	<b>\$147,090</b>	\$108,060
<b>Total gross deferred tax liabilities:</b>				
Net unrealized holding gain on securities in investments . . . . .	(292)	(309)	(2,195)	(2,323)
Adjustment for liabilities at overseas subsidiaries . . . . .	(723)	(352)	(5,436)	(2,647)
	<b>(1,015)</b>	(661)	<b>(7,631)</b>	(4,970)
Net deferred tax assets . . . . .	<b>¥18,548</b>	¥13,711	<b>\$139,459</b>	\$103,090

Net deferred tax assets and liabilities as of 31st March, 2002 and 2001 are reflected in the accompanying consolidated balance sheets under the following captions:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Prepaid expenses and other current assets . . . . .	¥ 6,629	¥ 6,082	\$ 49,842	\$ 45,729
Other assets . . . . .	12,642	7,980	95,053	60,000
Other current liabilities . . . . .	(722)	(351)	(5,429)	(2,639)
Other fixed liabilities . . . . .	(1)	—	(7)	—
Net deferred tax assets . . . . .	<b>¥18,548</b>	¥13,711	<b>\$139,459</b>	\$103,090

### (10) Retirement and Severance Benefits

The Company and its domestic subsidiaries have a number of contributory and noncontributory pension plans to provide retirement and severance benefits to substantially all employees.

Principal pension plans are unfunded defined benefit pension plans. Under the plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause.

The liability under these plans is partially funded by contributions to trustee pension funds. Such contributions constitute the funding of the current costs of a portion of the liability of the plans.

In addition to the above plans, the Company and certain subsidiaries have contributory defined benefit pension plans (employees' pension fund stipulated by the Japanese Welfare Pension Insurance Law) covering substantially all employees.

The funded status of the Company's pension plans as of 31st March, 2002 and 2001 is summarized as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Projected benefit obligation . . . . .	¥(59,912)	¥(53,633)	\$(450,466)	\$(403,255)
Plan assets at fair value . . . . .	33,229	32,439	249,842	243,902
Funded status . . . . .	(26,683)	(21,194)	(200,624)	(159,353)
Unrecognized net loss of transition difference . . . . .	5,374	7,165	40,406	53,872
Unrecognized actuarial loss . . . . .	16,247	8,516	122,157	64,030
Unrecognized prior service cost . . . . .	379	407	2,850	3,060
Net amount recognized in the consolidated balance sheets . . . . .	¥ (4,683)	¥ (5,106)	\$ (35,211)	\$ (38,391)

Amounts recognized in the consolidated balance sheets consist of:

Prepaid benefit cost . . . . .	¥ 1,587	¥ 740	\$ 11,932	\$ 5,564
Accrued benefit cost . . . . .	(6,270)	(5,846)	(47,143)	(43,955)
	¥ (4,683)	¥ (5,106)	\$ (35,211)	\$ (38,391)

Net periodic benefit cost for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the

Company for the year ended 31st March, 2002 and 2001 consisted of the following components:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Service cost, net of participant contributions . . . . .	¥ 1,592	¥ 1,294	\$ 11,970	\$ 9,729
Interest cost . . . . .	1,877	1,828	14,113	13,744
Expected return on plan assets for the period . . . . .	(1,946)	(1,797)	(14,632)	(13,511)
Amortization of net loss of transition difference . . . . .	1,792	1,646	13,474	12,376
Amortization of actuarial loss . . . . .	580	—	4,361	—
Amortization of prior service cost . . . . .	28	15	210	113
Net periodic benefit cost . . . . .	¥ 3,923	¥ 2,986	\$ 29,496	\$ 22,451

Actuarial assumptions and the basis used in accounting for the Company's plans are principally as follows:

- Discount rates at 31st March, 2002 and 2001 are 3.0 percent and 3.5 percent, respectively.
- Expected rates of return at 31st March, 2002 and 2001 are 6.0 percent and 2.4 – 6.0 percent, respectively.
- Net loss of transition difference in the amount of ¥8,829 million (\$66,383 thousand) is amortized using the straight-line method over 5 years.
- Actuarial loss is amortized using the straight-line method over 7 to 19 years, which is within the estimated average remaining service years of employees.
- Prior service cost is amortized using the straight-line method over 7 to 19 years, which is within the estimated average remaining service years of employees.

## (11) Stockholders' Equity

At 31st March, 2002 and 2001, approximately 53 percent of the outstanding capital stock of the Company was owned by Hitachi, Ltd.

The Company has authorized for issuance 280 million shares of common stock. The Japanese Commercial Code (JCC) required designation of par value to all common stock at least 50 percent of new share issuance price, or the common stock par value prescribed by the JCC. Effective October 1, 2001, the JCC was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

JCC provided that earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until such reserve equals 25 percent of stated common stock. This legal reserve is not available for dividends but may be used to reduce a deficit by resolution of stockholders or may

be transferred to stated common stock by resolution of the Board of Directors.

Effective October 1, 2001, the JCC was amended to require earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until total paid in capital and legal reserve equals 25 percent of stated common stock. Either additional paid in capital or legal reserve may be available for dividends by resolution of the shareholders to the extent that the amount of total additional paid in capital and legal reserve exceeds 25 percent of stated common stock.

The Board of Directors, with subsequent approval of the stockholders, has made annual appropriations of retained earnings for various purposes, the accumulated balance of which is designated as "voluntary reserve" and is included in retained earnings in the

accompanying consolidated statements of stockholders' equity. Any disposition of such appropriations shall be at the discretion of the Board of Directors and stockholders.

JCC imposed certain restrictions on purchase and disposal of treasury stock. Effective October 1, 2001, the JCC eliminated the provision of these restrictions and allowed purchases of treasury stock to the extent of funds appropriated by the resolution of stockholders.

The accompanying financial statements do not include any provision

for the dividend of ¥18 (\$0.14) per share aggregating ¥2,415 million (\$18,158 thousand), or for related appropriations for directors' bonuses by the Company. The latter amounted to ¥110 million (\$827 thousand). Also not included was an appropriation of ¥92 million (\$692 thousand) for directors' bonuses by its subsidiaries. These appropriations received approval at the subsequent stockholders' meetings held in respect of the year ended 31st March, 2002.

## (12) Other Expenses

A loss of ¥8,470 million (\$63,684 thousand) on restructuring of overseas business and a loss of ¥2,879 million (\$21,647 thousand) on impairment of securities were included in "Other expenses" for the

period ended 31st March, 2002. A provision for losses on disposal of vehicles lease in the amount of ¥818 million (\$6,150 thousand) was included in "Other expenses" for the year ended 31st March, 2001.

## (13) Related Parties

Receivables from, payables to and transaction with the parent company at 31st March, 2002 and 2001, and for the years then ended were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Receivables — current	¥ 69,114	¥ 6,861	\$519,654	\$ 51,586
Receivables — non-current	678	511	5,098	3,842
Payables — current	24,852	21,531	186,857	161,887
Revenue	48,489	37,008	364,579	278,256
Purchases	108,423	281,819	815,211	2,118,940

## (14) Consolidated Statements of Cash Flows — Supplementary Information

For the purpose of the statements of cash flows, the Company considers all time deposits with original maturities of 3 months or less, which

can be withdrawn at the face amount at any time without any penalty, to be cash equivalents.

(a) Cash and cash equivalents at 31st March, 2002 and 2001, classified by account on the balance sheets were as follows:

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Cash on hand and at bank	¥146,810	¥272,529	\$1,103,835	\$2,049,090
Deposit money in the parent company	60,001	—	451,135	—
Short-term securities within 3 months, maturity	809	837	6,083	6,293
Cash and cash equivalents	¥207,620	¥273,366	\$1,561,053	\$2,055,383

(b) Hitachi Leasing Rent, Ltd., Hitachi Leasing Service, Ltd., Hitachi Leasing Europe, Ltd., Hitachi Leasing America, Ltd., and Hitachi Leasing (Singapore) Pte., Ltd., were newly

consolidated due to the merger with Hitachi Leasing, Ltd., during the year ended 31st March, 2001. Assets and liabilities of Hitachi Leasing, Ltd. and its subsidiaries are as follows:

	Japanese yen (millions)	U.S. dollars (thousands)
Current assets	¥210,140	\$1,580,000
Investments	728,819	5,479,842
Total assets	938,959	7,059,842
Current liabilities	346,606	2,606,060
Other liabilities	561,341	4,220,609
Total liabilities	907,947	6,826,669

Common stock was increased ¥669 million (\$5,030 thousand) and capital surplus was increased ¥1,431 million (\$10,759 thousand) due

to the merger on 1st October, 2000.

(c) Noncash financing activities:

Convertible bonds of ¥2,280 million (\$17,143 thousand) were converted into common stock during the year ended 31st March, 2001.

## (15) Segment Information

The segment information is shown below.

### (a) Industry Segment Information

As members of the Hitachi Group, the Company and consolidated subsidiaries provide a wide range of financial services to respond to the

various needs of manufacturing, commercial and consumer clients. Although there is a wide range of financial services, the Company and consolidated subsidiaries have been categorized in five industries.

	Japanese yen (millions)					
	Leasing	Retail	Others	Total	Elimination and/or corporate	Consolidated
	<b>2002</b>					
<b>Revenues:</b>						
Revenues for third parties . . . . .	¥ 49,643	¥ 69,851	¥ 4,964	¥ 124,458	¥ 1,560	¥ 126,018
Intersegment revenues . . . . .	3	90	5,859	5,952	(5,952)	–
<b>Total . . . . .</b>	<b>¥ 49,646</b>	<b>¥ 69,941</b>	<b>¥ 10,823</b>	<b>¥ 130,410</b>	<b>¥(4,392)</b>	<b>¥ 126,018</b>
<b>Expenses . . . . .</b>	<b>45,243</b>	<b>51,150</b>	<b>8,974</b>	<b>105,367</b>	<b>2,855</b>	<b>108,222</b>
<b>Income before income taxes and minority interests . . . . .</b>	<b>4,403</b>	<b>18,791</b>	<b>1,849</b>	<b>25,043</b>	<b>(7,247)</b>	<b>17,796</b>
<b>Assets . . . . .</b>	<b>¥1,122,958</b>	<b>¥844,043</b>	<b>¥119,191</b>	<b>¥2,086,192</b>	<b>¥(7,562)</b>	<b>¥2,078,630</b>
Depreciation . . . . .	313,067	99,857	60	412,984	1,138	414,122
Addition to tangible and intangible fixed assets . . . . .	369,384	181,351	94	550,829	1,680	552,509
	U.S. dollars (thousands)					
	Leasing	Retail	Others	Total	Elimination and/or corporate	Consolidated
	<b>2002</b>					
<b>Revenues:</b>						
Revenues for third parties . . . . .	\$ 373,256	\$ 525,195	\$ 37,324	\$ 935,775	\$ 11,729	\$ 947,504
Intersegment revenues . . . . .	22	677	44,053	44,752	(44,752)	–
<b>Total . . . . .</b>	<b>\$ 373,278</b>	<b>\$ 525,872</b>	<b>\$ 81,377</b>	<b>\$ 980,527</b>	<b>\$(33,023)</b>	<b>\$ 947,504</b>
<b>Expenses . . . . .</b>	<b>340,173</b>	<b>384,586</b>	<b>67,475</b>	<b>792,234</b>	<b>21,465</b>	<b>813,699</b>
<b>Income before income taxes and minority interests . . . . .</b>	<b>33,105</b>	<b>141,286</b>	<b>13,902</b>	<b>188,293</b>	<b>(54,488)</b>	<b>133,805</b>
<b>Assets . . . . .</b>	<b>\$8,443,293</b>	<b>\$6,346,188</b>	<b>\$896,173</b>	<b>\$15,685,654</b>	<b>\$(56,857)</b>	<b>\$15,628,797</b>
Depreciation . . . . .	2,353,887	750,805	451	3,105,143	8,556	3,113,699
Addition to tangible and intangible fixed assets . . . . .	2,777,323	1,363,541	707	4,141,571	12,632	4,154,203

i) Segment categories are defined according to business line and industry fields. (see "Management's Discussion and Analysis".)

Card business, Securitization business and outsourcing business are combined into "Others".

ii) ¥1,560 million (\$11,730 thousand) stated in the column of "Elimination and/or corporate" which belongs to the "Revenues" for third party, is "Interest and dividends income" in the head office.

iii) The amounts of ¥5,933 million (\$44,609 thousand) in the column of "Elimination and/or corporate" of "Expenses", are administrative expenses of the head office.

iv) The amount of ¥39,973 million (\$300,549 thousand) for "Elimination and/or corporate" of "Assets", is mainly extra cash for funding—cash, securities—, the long-term investment—, investment in securities— and assets belonging to the head office.

Japanese yen (millions)						
	Leasing	Retail	Others	Total	Elimination and/or corporate	Consolidated
2001						
<b>Revenues:</b>						
Revenues for third parties . . . . .	¥ 33,006	¥ 71,052	¥ 3,525	¥ 107,583	¥ 2,211	¥ 109,794
Intersegment revenues . . . . .	73	757	5,822	6,652	(6,652)	–
Total . . . . .	¥ 33,079	¥ 71,809	¥ 9,347	¥ 114,235	¥ (4,441)	¥ 109,794
<b>Expenses</b> . . . . .	27,149	50,955	7,162	85,266	(1,488)	83,778
<b>Income before income taxes and minority interests</b> . . . . .	5,930	20,854	2,185	28,969	(2,953)	26,016
Assets . . . . .	¥1,151,834	¥667,874	¥168,488	¥1,988,196	¥57,242	¥2,045,438
Depreciation . . . . .	159,324	106,894	39	266,257	789	267,046
Capital expenditures . . . . .	197,314	164,657	76	362,047	680	362,727
U.S. dollars (thousands)						
	Leasing	Retail	Others	Total	Elimination and/or corporate	Consolidated
2001						
<b>Revenues:</b>						
Revenues for third parties . . . . .	\$ 248,165	\$ 534,226	\$ 26,504	\$ 808,895	\$ 16,624	\$ 825,519
Intersegment revenues . . . . .	549	5,692	43,774	50,015	(50,015)	–
Total . . . . .	\$ 248,714	\$ 539,918	\$ 70,278	\$ 858,910	\$ (33,391)	\$ 825,519
<b>Expenses</b> . . . . .	204,128	383,120	53,850	641,098	(11,188)	629,910
<b>Income before income taxes and minority interests</b> . . . . .	44,586	156,798	16,428	217,812	(22,203)	195,609
Assets . . . . .	\$8,660,406	\$5,021,609	\$1,266,827	\$14,948,842	\$430,391	\$15,379,233
Depreciation . . . . .	1,197,925	803,714	293	2,001,932	5,933	2,007,865
Capital expenditures . . . . .	1,483,564	1,238,023	571	2,722,158	5,113	2,727,271

- i) Segment categories are defined according to business line and industry fields. (see "Management's Discussion and Analysis".)  
Card business, Securitization business and outsourcing business are combined into "Others".
- ii) ¥2,211 million (\$16,624 thousand) stated in the column of "Elimination and/or corporate" which belongs to the "Revenues" for third party, is "Interest and dividends income" in the head office.

- iii) The amounts of ¥4,890 million (\$36,767 thousand) in the column of "Elimination and/or corporate" of "Expenses", are administrative expenses of the head office.
- iv) The amount of ¥85,016 million (\$639,218 thousand) for "Elimination and/or corporate" of "Assets", is mainly extra cash for funding—cash, securities—, the long-term investment—, investment in securities— and assets belonging to the head office.

## (b) Geographic Segment Information

	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
<b>Revenues</b>				
Japan	¥ 99,204	¥ 85,593	\$ 745,895	\$ 643,557
Europe and North America	23,005	21,480	172,970	161,501
Other areas	3,824	2,721	28,752	20,461
Intersegment elimination	(15)	–	(113)	–
Consolidated total	¥ 126,018	¥ 109,794	\$ 947,504	\$ 825,519
<b>Expenses</b>				
Japan	¥ 76,264	¥ 61,985	\$ 573,414	\$ 466,053
Europe and North America	22,222	19,461	167,083	146,323
Other areas	9,751	2,331	73,315	17,534
Intersegment elimination	(15)	–	(113)	–
Consolidated total	¥ 108,222	¥ 83,778	\$ 813,699	\$ 629,910
<b>Income before income taxes and minority interests</b>				
Japan	¥ 22,940	¥ 23,608	\$ 172,481	\$ 177,504
Europe and North America	783	2,019	5,887	15,180
Other areas	(5,927)	390	(44,563)	2,925
Intersegment elimination	–	–	–	–
Consolidated total	¥ 17,796	¥ 26,016	\$ 133,805	\$ 195,609
<b>Assets</b>				
Japan	¥1,793,925	¥1,732,718	\$13,488,158	\$13,027,955
Europe and North America	245,102	263,417	1,842,872	1,980,579
Other areas	39,603	49,303	297,767	370,699
Intersegment elimination	–	–	–	–
Consolidated total	¥2,078,630	¥2,045,438	\$15,628,797	\$15,379,233

## (16) Lease Information

### Finance leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are generally accounted for by the method that is applicable to ordinary operating leases.

Certain key information about such lease contracts of the Company for the year ended 31st March, 2002 and 2001 is as follows:

#### (a) Lessee

- (i) Acquisition costs, accumulated depreciation and net balance of leased assets at 31st March, 2002 and 2001, if they had been capitalized:

	31st March, 2002			
	Acquisition cost	Japanese yen (millions) Accumulated depreciation	Net balance	U.S. dollars (thousands) Net balance
Furniture and equipment	¥1,365	¥724	¥641	\$4,820
Total	¥1,365	¥724	¥641	\$4,820

	31st March, 2001			
	Acquisition cost	Japanese yen (millions) Accumulated depreciation	Net balance	U.S. dollars (thousands) Net balance
Furniture and equipment	¥1,647	¥804	¥843	\$6,338
Total	¥1,647	¥804	¥843	\$6,338

(ii) Future lease payments (Includes non-accrued payments on underwritten leases at year end.)

	31st March			
	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Within one year . . . . .	<b>¥ 90,403</b>	¥102,364	<b>\$ 679,722</b>	\$ 769,654
Over one year . . . . .	<b>142,756</b>	183,811	<b>1,073,353</b>	1,382,038
Total . . . . .	<b>¥233,159</b>	¥286,175	<b>\$1,753,075</b>	\$2,151,692

(iii) Comparison of lease payments with depreciation and interest expense, if they had been capitalized:

	For the year ended 31st March			
	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Lease payments . . . . .	<b>¥396</b>	¥491	<b>\$2,977</b>	\$3,692
Depreciation . . . . .	<b>409</b>	478	<b>3,075</b>	3,594
Interest expense . . . . .	<b>22</b>	31	<b>165</b>	233

(b) Lessor

(i) Acquisition costs, accumulated depreciation and net balance of leased assets at 31st March, 2002 and 2001 included in equipment held for lease.

	31st March, 2002			
	Japanese yen (millions)		U.S. dollars (thousands)	
	Acquisition cost	Accumulated depreciation	Net balance	Net balance
Equipment held for lease . . . . .	<b>¥1,737,414</b>	<b>¥839,436</b>	<b>¥897,978</b>	<b>\$6,751,714</b>

	31st March, 2001			
	Japanese yen (millions)		U.S. dollars (thousands)	
	Acquisition cost	Accumulated depreciation	Net balance	Net balance
Equipment held for lease . . . . .	¥1,577,904	¥747,615	¥830,289	\$6,242,774

(ii) Future lease payments to be received (Includes non-accrued payments on underwritten leases at year end.)

	31st March			
	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Within one year . . . . .	<b>¥ 416,891</b>	¥ 404,806	<b>\$3,134,519</b>	\$3,043,654
Over one year . . . . .	<b>762,552</b>	765,998	<b>5,733,473</b>	5,759,384
Total . . . . .	<b>¥1,179,443</b>	¥1,170,804	<b>\$8,867,992</b>	\$8,803,038

(iii) Comparison of lease income with depreciation and interest income

	For the year ended 31st March			
	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Lease income . . . . .	<b>¥375,170</b>	¥238,969	<b>\$2,820,827</b>	\$1,796,759
Depreciation . . . . .	<b>332,622</b>	215,040	<b>2,500,917</b>	1,616,842
Interest income . . . . .	<b>27,201</b>	22,786	<b>204,519</b>	171,323

Operating leases

(a) Lessee

Future lease payments

	31st March			
	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Within one year . . . . .	<b>¥128</b>	¥168	<b>\$ 962</b>	\$1,263
Over one year . . . . .	<b>81</b>	211	<b>609</b>	1,587
Total . . . . .	<b>¥209</b>	¥379	<b>\$1,571</b>	\$2,850

(b) Lessor

Future lease payments to be received

	31st March			
	Japanese yen (millions)		U.S. dollars (thousands)	
	2002	2001	2002	2001
Within one year . . . . .	<b>¥ 64,684</b>	¥ 60,113	<b>\$ 486,346</b>	\$ 451,977
Over one year . . . . .	<b>129,981</b>	113,622	<b>977,301</b>	854,301
Total . . . . .	<b>¥194,665</b>	¥173,735	<b>\$1,463,647</b>	\$1,306,278

## (17) Financial Instruments

The Company and certain subsidiaries operate globally, are exposed to market risks arising from fluctuations in foreign currency exchange rates and interest rates. In order to manage those risks, the Company and certain subsidiaries enter into various derivative financial agreements, including forward exchange contracts, foreign currency swap agreements, interest rate swap agreements and interest rate option contracts. Forward exchange contracts and foreign currency swap agreements are utilized to manage risks arising from foreign currency receivables; foreign currency payables; and forecasted foreign currency transactions. Interest rate swap agreements and interest rate option contracts are utilized to manage interest rate risk for debts. The Company and its subsidiaries have no derivative financial instruments for trading purposes. In addition, the Company and its subsidiaries are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial

instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are authentic financial institutions.

The Company and its subsidiaries have also developed hedging policies to control various aspects of derivative financial transactions including authorization levels and transaction volumes. Based on this policy, the Company and its subsidiaries hedge, within certain scopes, risks arising from changes in foreign currency exchange rates and interest rates. The Company and its subsidiaries review periodically the effectiveness of all hedge policies to take account of the cumulative cash flows and any changes in the market

The estimated fair values of the derivative financial instruments, excluding certain instruments, which are accounted for using deferral hedge accounting, allocation method and special method by major instrument type as of 31st March, 2002 and 2001 are as follows:

	Japanese yen (millions)			U.S. dollars (thousands)		
	Notional amounts	Estimated fair values	Unrealized gains (losses)	Notional amounts	Estimated fair values	Unrealized gains (losses)
		2002		2002		
Interest rate swap agreements:						
Floating rate to fixed rate . . . . .	<b>¥7,282</b>	<b>¥ (46)</b>	<b>¥ (46)</b>	<b>\$54,752</b>	<b>\$ (346)</b>	<b>\$ (346)</b>
Floating rate to floating rate . . . . .	<b>250</b>	<b>-</b>	<b>-</b>	<b>1,880</b>	<b>-</b>	<b>-</b>
Interest rate and foreign currency swap agreements:						
Floating rate to fixed rate . . . . .	<b>9,469</b>	<b>(439)</b>	<b>(439)</b>	<b>71,195</b>	<b>\$(3,301)</b>	<b>(3,301)</b>
			<b>¥(485)</b>			<b>\$(3,647)</b>

	Japanese yen (millions)			U.S. dollars (thousands)		
	Notional amounts	Estimated fair values	Unrealized gains (losses)	Notional amounts	Estimated fair values	Unrealized gains (losses)
	2001			2001		
Interest rate swap agreements:						
Fixed rate to floating rate . . . . .	¥ 3,000	¥ 100	¥ 100	\$ 22,556	\$ 752	\$ 752
Floating rate to fixed rate . . . . .	20,689	(258)	(258)	155,556	(1,940)	(1,940)
Floating rate to floating rate . . . . .	750	—	—	5,639	—	—
			<u>¥(158)</u>			<u>\$(1,188)</u>

The fair values of derivative financial instruments are estimated on the basis of information obtained from third party financial institutions.

### (18) Commitment and Contingencies

The Company provides certain revolving lines of credit to its credit card holders in accordance with the terms of the credit card business customer service contracts. Credit facilities are provided to

parties to the service agency business contract from which temporary payments on behalf of such parties are made by the Company. The outstanding balance of the revolving lines of credits are as follows:

	Japanese yen (millions)	U.S. dollars (thousands)
	2002	2002
Total revolving lines of credit available . . . . .	<u>¥686,409</u>	<u>\$5,160,970</u>
Amount utilizes . . . . .	<u>70</u>	<u>526</u>
Balance available . . . . .	<u>¥686,339</u>	<u>\$5,160,444</u>

A portion of the revolving lines of credit which are pending credit approval cannot be utilized.

Contingent liabilities for guarantees of employee's housing loans amounted to ¥62 million (\$466 thousand) as of 31 March 2002.

## Independent Auditors' Report

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The Board of Directors and Shareholders  
Hitachi Capital Corporation

We have audited the consolidated balance sheets of Hitachi Capital Corporation and consolidated subsidiaries as of 31st March, 2002 and 2001 and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, all expressed in yen.

Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly the financial position of Hitachi Capital Corporation and consolidated subsidiaries at 31st March, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan, applied on a consistent basis.

The accompanying consolidated financial statements expressed in United States dollars have been translated into dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis described in Note (2) of the notes to the consolidated financial statements.



Shin Nihon & Co.  
Tokyo, Japan  
June 21, 2002

See Note (1) to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Hitachi Capital Corporation under Japanese accounting principles and practices.

# Corporate Data

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## CORPORATE NAME

Hitachi Capital Corporation

## FOUNDED

1957  
(incorporated in 1960)

## NUMBER OF EMPLOYEES

Consolidated: 3,573

## VOLUME OF BUSINESS

Leasing Business:	¥ 635,936 million
Retail Business:	¥ 895,312 million
Other Businesses:	¥ 214,450 million
Intersegment Elimination:	¥ (7,593) million
Total:	¥1,738,105 million

## COMMON STOCK

Authorized: 280,000,000 shares  
Issued: 134,191,626 shares

## STOCKHOLDERS

9,345  
(as of 31st March, 2002)

## STOCK LISTING

Tokyo Stock Exchange

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## HEAD OFFICE

15-12, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-8712, Japan  
Phone: +81-3-3503-2111  
Facsimile: +81-3-3580-7267  
<http://www.hitachi-capital.co.jp/>

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## REGIONAL HEAD OFFICES

### Shutoken Company Auto

2-26, Shimomiyabi-cho  
Shinjuku-ku, Tokyo 162-0822

### Honsha Dai-ichi

3-21, Koishikawa 1-chome  
Bunkyo-ku, Tokyo 112-8510

### Kanto

2-10, Uchi Kanda 1-chome  
Chiyoda-ku, Tokyo 101-0047

### Chubu

15-33, Sakae 3-chome  
Naka-ku, Nagoya, Aichi 460-0008

### Chugoku

5-25, Fukuromachi, Naka-ku  
Hiroshima, Hiroshima 730-0036

### Shutoken Company Business

2-26, Shimomiyabi-cho  
Shinjuku-ku, Tokyo 162-0822

### Honsha Dai-ni

3-21, Koishikawa 1-chome  
Bunkyo-ku, Tokyo 112-8510

### Kansai

11-7, Utsubo-honmachi 1-chome  
Nishi-ku, Osaka, Osaka 530-0004

### Tohoku

10-17, Ichiban-cho 2-chome  
Aoba-ku, Sendai, Miyagi 980-8545

### Hokkaido

3-11, Odori-Nishi, Chuo-ku  
Sapporo, Hokkaido 060-8624

### Shutoken Company Living

3-1, Nishi Shimbashi 3-chome  
Minato-ku, Tokyo 105-8712

### Honsha Dai-san

3-21, Koishikawa 1-chome  
Bunkyo-ku, Tokyo 112-8510

### Kyushu

1-35, Tenya-machi, Hakata-ku  
Fukuoka, Fukuoka 812-8605

### Hokushinetsu

2-37, Takaoka-machi  
Kanazawa, Ishikawa 920-8642

### Shikoku

1-5, Ban-cho 1-chome  
Takamatsu, Kagawa 760-8507

# Consolidated Subsidiaries

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## JAPAN

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**Okinawa Hitachi Capital Corp.**

9-1, Kumoji 2-chome, Naha  
Okinawa 900-0015, Japan

**Nova Business Service Co., Ltd.**

1-14, Uchi Kanda 1-chome  
Chiyoda-ku, Tokyo 101-0047, Japan

**Hitachi Triple Win Corp.**

7-1, Nishi Shimbashi 3-chome  
Minato-ku, Tokyo 105-0003, Japan

**Sekisui Leasing Co., Ltd.**

13-8, Nishitenman 4-chome  
Kita-ku, Osaka, Osaka 530-0047

**Amic Services Corp.**

22-10, Shimbashi 5-chome  
Minato-ku, Tokyo 105-0004, Japan

**Hitachi Capital Auto Lease Corp.**

22-10, Shimbashi 5-chome  
Minato-ku, Tokyo 105-0004, Japan

**Hitachi Leasing Rent, Ltd.**

1-17, Koishikawa 1-chome  
Bunkyo-ku, Tokyo 112-0002

**Hitachi Capital Data Services Co., Ltd.**

11-6, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-0003, Japan

**Hitachi Credit Securities Co., Ltd.**

15-12, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-0003, Japan

**Hitachi Leasing Service, Ltd.**

3-21, Koishikawa 1-chome  
Bunkyo-ku, Tokyo 112-8510

## EUROPE AND NORTH AMERICA

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**Hitachi Credit (U.K.) PLC**

Wallbrook Business Centre, Green Lane  
Hounslow, Middlesex TW4 6NW  
England

**Credit Solutions (Northern) Ltd.**

Techno Center Station Rd., Horsforth  
Leeds, Yorkshire LS18 5BJ, England

**Hitachi Leasing Europe, Ltd.**

Wallbrook Business Centre, Green Lane  
Hounslow, Middlesex TW4 6NW  
England

**Fleetlease (UK) Ltd.**

Kiln House 54A Kiln Road, Newbury  
Berkshire RG14 2HA, England

**Hitachi Credit Insurance Corp. Ltd.**

5th Floor, 25-28 Adelaide Road  
Dublin 2, Ireland

**Hitachi Credit America Corp.**

777 West Putnam Avenue, Greenwich  
CT 06830, U.S.A.

**Trowbridge Vehicle Rentals Ltd.**

Quarry House, Canal Road  
Trowbridge Wiltshire BA14 8QU  
England

**Hitachi Credit Reinsurance Ltd.**

5th Floor, 25-28 Adelaide Road  
Dublin 2, Ireland

## OTHER AREAS

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**Hitachi Credit (Hong Kong) Ltd.**

16th Floor, Wai Fung Plaza 664  
Nathan Road, Kowloon, Hong Kong

**Hitachi Credit Singapore Pte. Ltd.**

268, Orchard Road, #11-01  
Singapore 238856

**Hitachi Leasing (Singapore) Pte., Ltd.**

3 Killiney Road, #04-07  
Winsland House  
Singapore 239519

# Investor Information

## COMPOSITION OF STOCKHOLDERS (as of 31st March, 2002)

Financial Institutions	43,633,529	32.52%
Securities Companies	1,142,559	0.85%
Other Japanese Corporations	72,761,186	54.22%
Foreign Investors	8,251,000	6.15%
Japanese Individuals and Others	8,403,352	6.26%
<b>Total</b>	<b>134,191,626</b>	<b>100.00%</b>

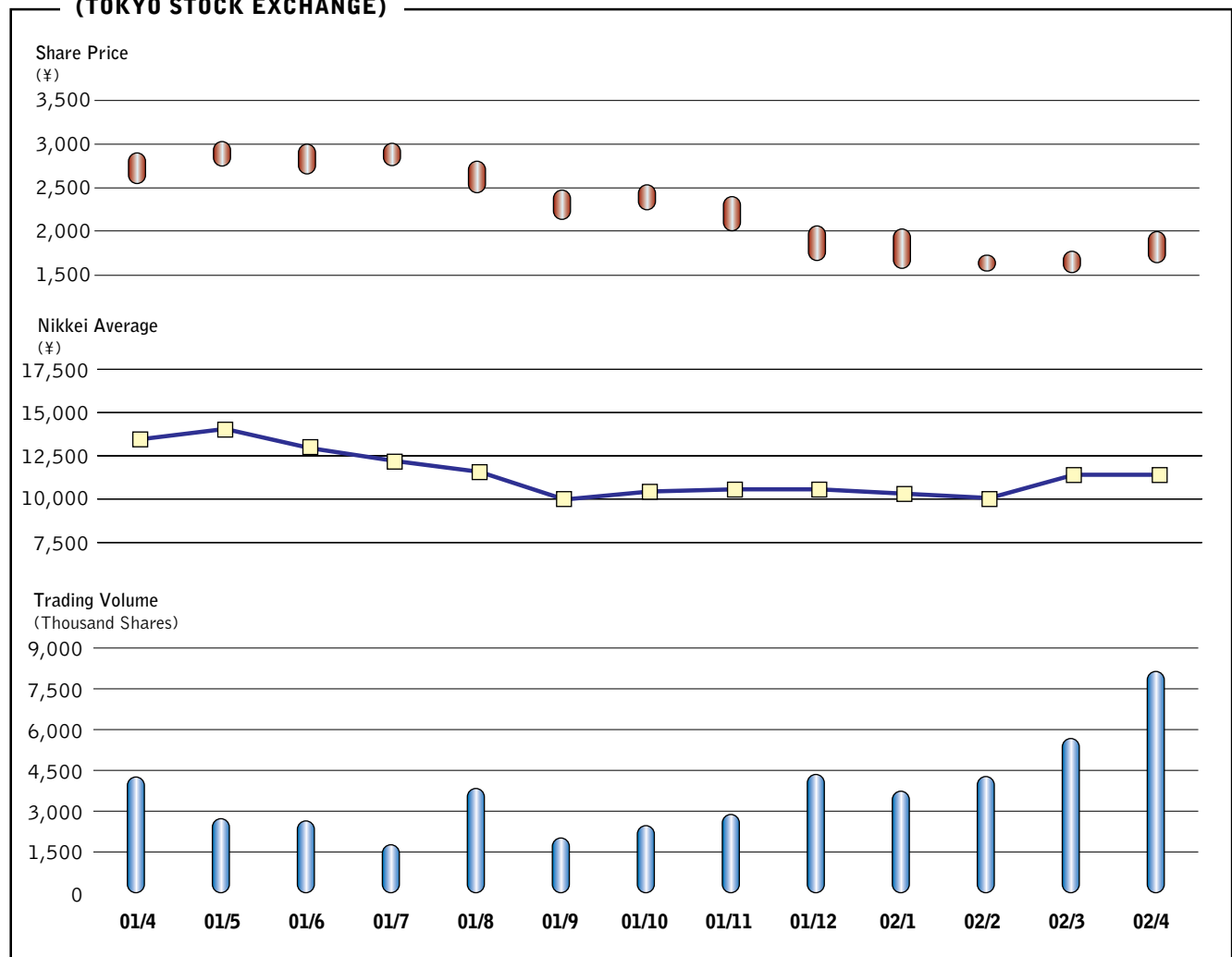
## NUMBER OF SHARES OWNED (as of 31st March, 2002)

Less than 100	5,778	0.00%
100 or more	1,536,500	1.15%
1,000 or more	6,107,093	4.55%
10,000 or more	7,129,332	5.31%
100,000 or more	19,464,982	14.51%
1,000,000 or more	99,947,941	74.48%
<b>Total</b>	<b>134,191,626</b>	<b>100.00%</b>

## MAJOR STOCKHOLDERS (as of 31st March, 2002)

Hitachi, Ltd. . . . . .	50.11%
Trust & Custody Services Bank, Ltd. . . . . .	5.23%
The Mitsubishi Trust and Banking Corporation . . . . .	5.09%
Japan Trustee Services Bank, Ltd. . . . . .	4.73%
Mitsui Asset Trust and Banking Company, Limited . . . . .	3.81%
UFJ Trust Bank Limited . . . . .	3.76%
Hitachi High-Technologies Corporation . . . . .	2.03%
Meiji Life Insurance Company . . . . .	1.22%
The Norinchukin Trust & Banking Co., Ltd. . . . . .	0.97%
Asad . . . . .	0.86%

### (TOKYO STOCK EXCHANGE)



 **Hitachi Capital Corporation**

15-12, Nishi Shimbashi 2-chome  
Minato-ku, Tokyo 105-8712, Japan  
Phone: +81-3-3503-2111  
<http://www.hitachi-capital.co.jp/>