

Report from Funding Frontline

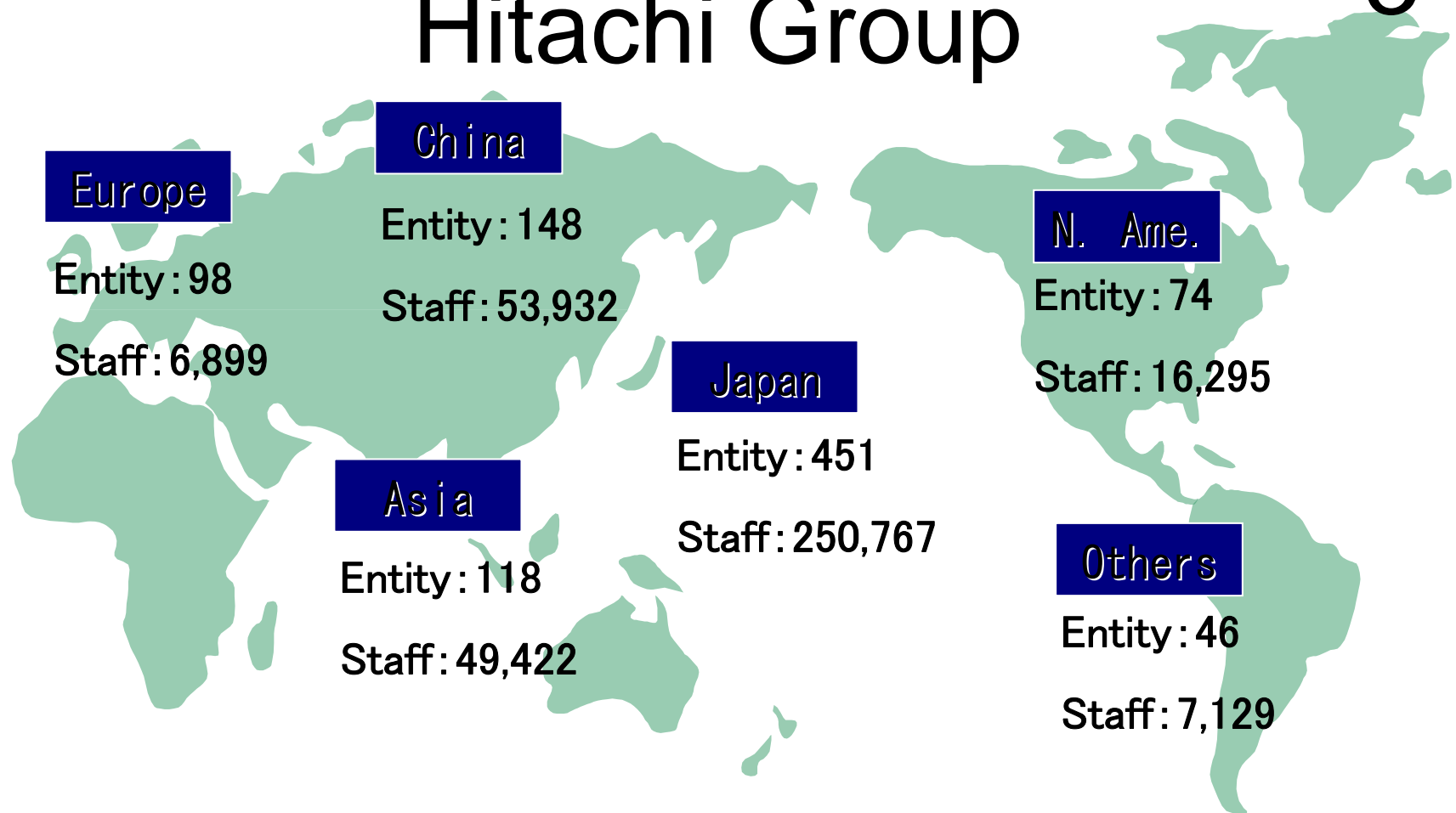
Hitachi International Treasury Ltd.

Takehiro Sueda

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- Hitachi's Global Scheme
- Europe VS. Asia
- Finance Subsidiary in Europe
- Finance Subsidiary in Asia
- Improving Global Scheme

Hitachi Group



Total Entity: 934 / Total Staff: 384,444

Hitachi's Finance Subsidiaries⁴

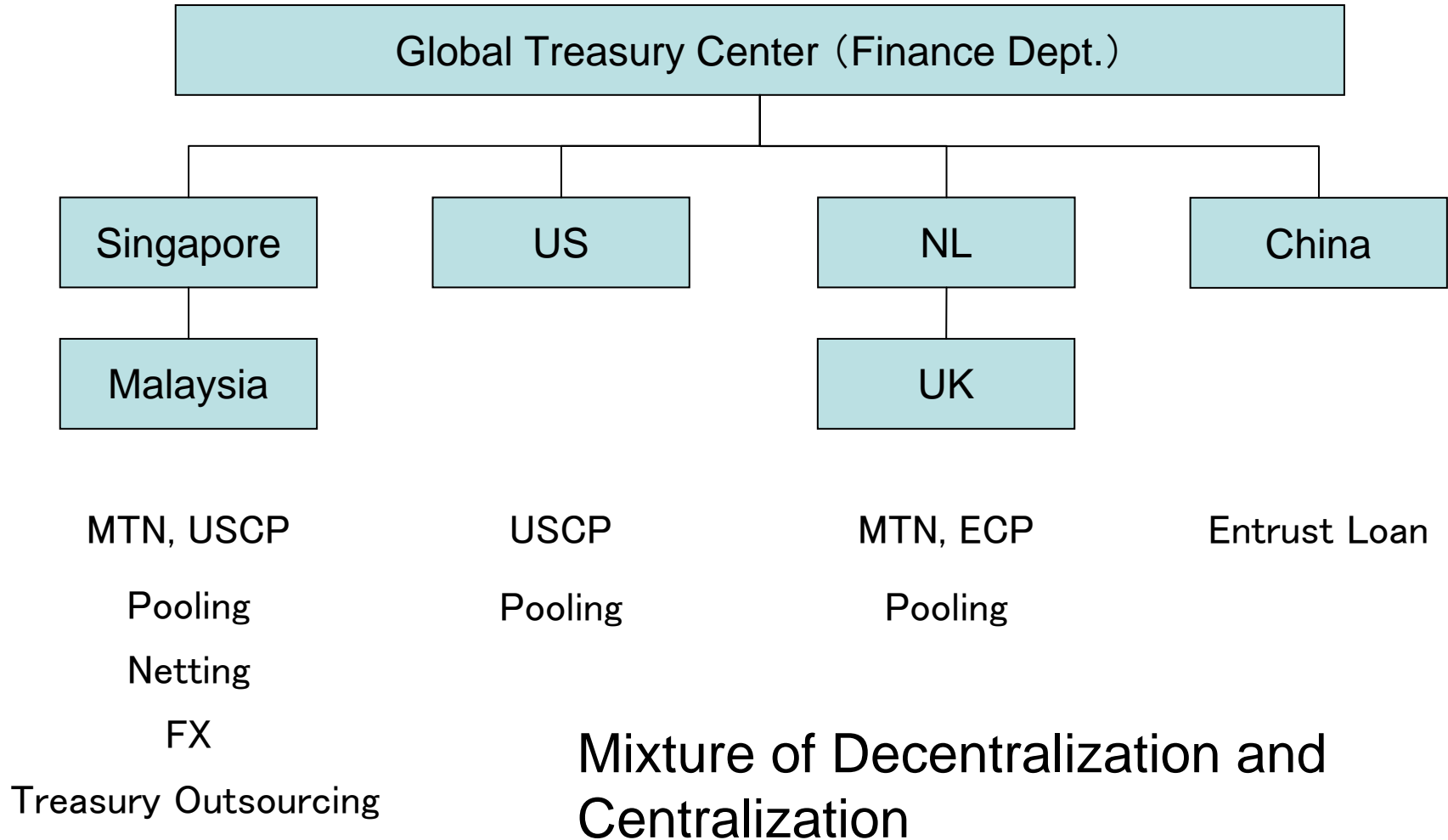

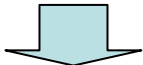


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Europe VS. Asia

<Europe>

- EU Expansion
 - EUR Convenience
 - No W/H TAX
- 
- Gross-Border & Multiple Currencies (EUR,GBP,USD,JPY)
- 
- Finance Subsidiary UK, NL

<Asia>

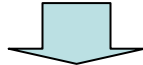
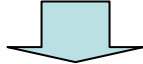
- No Union like EU
 - Unique Regulation
- 
- Country by Country Finance Arrangement
- 
- Singapore

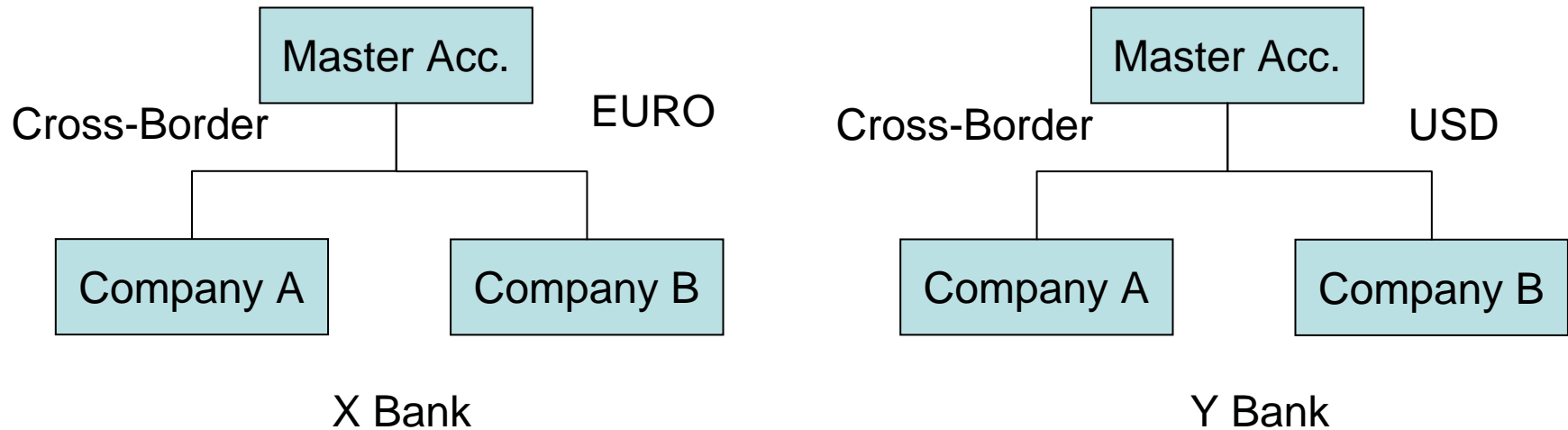
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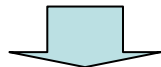
Finance Subsidiary in Europe⁸

- Cash Pooling
- General Expenses
- Transfer-Pricing & Thin-Cap in UK
- Tax Heaven for NL
- EMTN Problem

Pooling in Europe



- Multiple Currencies & Cross-Border (EUR, USD, GBP)
- Using Plural Banks by Currency
 - ① Bank Branch Network
 - ② Difficulty Changing Collection Account
 - ③ Keeping Bargaining Power
- Japanese Entities Tend to Use both Japanese & Non-Japanese Banks



How to Improve CMS Efficiency ?

Improving CMS Efficiency 10

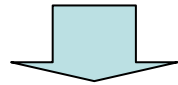
- Some Bank Hesitates System Upgrade
 - Making Contract at First Introduction
- Improving Bank Interface
 - Utilizing Swift Messages
 - Multiple Banking (Star Alliance ?)
- Netting, Payment Service
 - Platform for Shared Services

Finance Subsidiary in Europe¹¹

- Cash Pooling
- General Expenses
- Transfer-Pricing & Thin-Cap in UK
- Tax Heaven for NL
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General Expenses

- Payroll, Consulting Fee, Rent, etc.
- Tax
 - Transfer Pricing, Thin-Cap
- SOX (Accounting Audit < SOX Audit)
- EUR, GBP Appreciation




Finance Subsidiary should Face Difficulty

Finance Subsidiary in Europe¹³

- Cash Pooling
- General Expenses
- Transfer-Pricing & Thin-Cap in UK
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- EMTN Problem

Transfer Pricing in UK

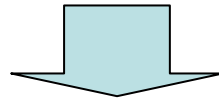
- Strict from 2004 (HMRC)
 - ① Including UK-UK Transaction
 - ② Obscure Thin-Cap Rule
(Case by Case)
Safe Harbor D:E=1:1
Unrealistic for Finance Subsidiary
 - ③ APA → Backfire ?

- HQ must Recognize the Total Risk

Finance Subsidiary in Europe¹⁵

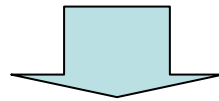
- Cash Pooling
- General Expenses
- Transfer-Pricing & Thin-Cap in UK
- Tax Heaven for NL
- EMTN Problem

Tax Heaven for NL

- Draft of 2007 Budget 24.5%
- Tax Heaven ?
- Finally 25.5%



Are We Happy ? Really ?



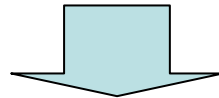
Interrupting Japanese Companies' Activity
Is It the Time to See the Law in a New Light ?

Finance Subsidiary in Europe¹⁷

- Cash Pooling
- General Expenses
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Euro Medium Term Note (EMTN)¹⁸

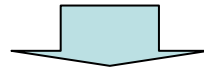
- Very Important Finding Source
- Not Only Long-Term BUT Short-Term
→ CP Works Only for Highest Rating
- London, Luxembourger, Singapore
- Need to Annual Update



After 2005, a lot of Problems for Update

EMTN Problem

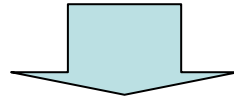
- EU Prospectus Directive
 - Summary between IFRS and Own GAAP
- Auditor won't Issue Comfort Letter
 - Negative Assurance
 - B/S, P/L Movement



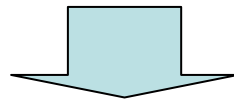
Most of Auditors won't Issue Comfort Letter
Based on ICMA Format

EMTN Problem

- No Comfort Letter
- Limit for Indemnity
(No Explanation at all)



All Parties Upset about Auditors Behavior

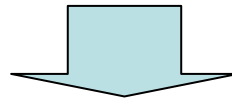


Issuer Makes Pseudo-Comfort Letter and
Give CFO Signature on that

EMTN

Since Issuer takes all Risk, There is No Auditor Role about EMTN Update.

In the Near Future, EMTN Update Process Should be Changed



The Most Important is to Fund Cheaper and Timely ! We won't Need Any Auditor in EMTN Process.

Summary

- Pooling Cross-Border & Multiple Currencies
- Expensive General Expenses
- Transfer Pricing & Thin-Cap Tax Heaven
- EMTN→Auditors Role

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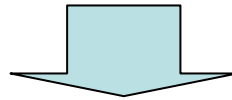
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Finance Subsidiary in Asia 24

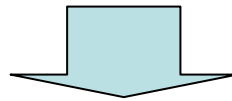
- Feature of Finance Environment
- Main Difficulty of Each Country
- Singapore FTC
- Finance Support for Indian Company
- Singapore FC KAI

Environment in Asia

- Regulation is Unique Country by Country
→ Difficulty about Domestic & Cross-Border
- W/H Tax、Currency Regulation、Group Finance



- Finance Scheme → Country by Country



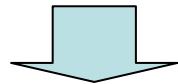
- Cross-Border → Re-Invoice is Available

Finance Subsidiary in Asia 26

- Feature of Finance Environment
- Main Difficulty of Each Country
- Singapore FTC
- Finance Support for Indian Company
- Singapore FC KAI

Main Difficulty of Country ²⁷

- Malaysia: Central Bank (Special License)
- Thailand: Regulation Uncertain、
Pooling → FBL Necessary Expensive ?
Setting up Finance Subsidiary Possible
- Hong Kong: Non Allowable Expense
- Indonesia: Difficult to Understand



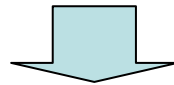
- Banks Play Important Role
→ Regulation Protect Banks

Finance Subsidiary in Asia 28

- Feature of Finance Environment
- Main Difficulty of Each Country
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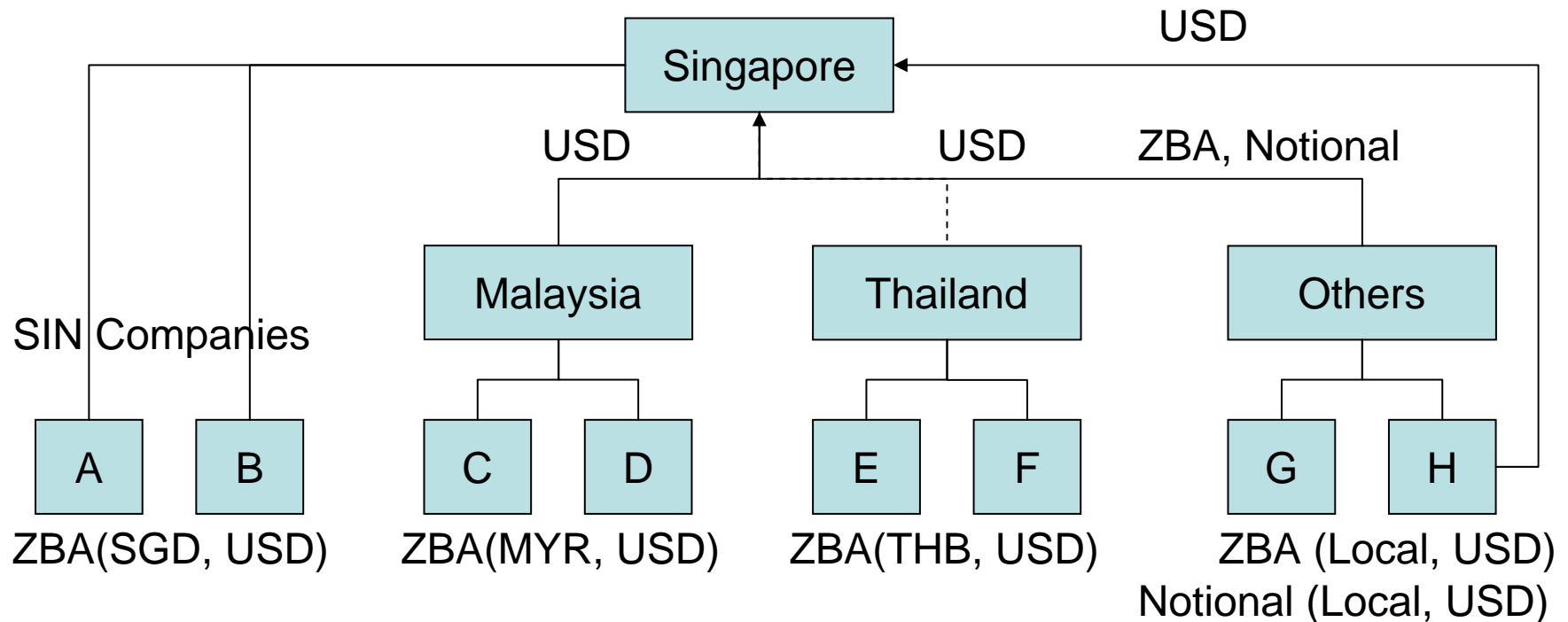
Singapore FTC

- FTC (Financial Treasury Centre)
→ MAS
- 10% Corporation Tax
- W/H Tax Waver
→ Concentrate Cash to Singapore



- Asian Finance Centre
- Singapore → India Business

Pooling Image



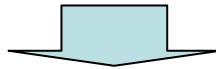
- Setting Up Pooling on the Country where You have a lot of Subsidiaries
- Hard Currency can be Concentrated Directly to Singapore Master Account like H Company
- Malaysia & Thailand → Possible to Set up Finance Subsidiary

Finance Subsidiary in Asia 31

- Feature of Finance Environment
- Main Difficulty of Each Country
- Singapore FTC
- Finance Support for Indian Company
- Singapore FC KAI

India Company

- ECB Finance was Frozen from 7th Aug.
→ Over 3 Year Loan
- Bank loan is Common
- Re-Invoicing is Possible



- Trade bet. Singapore and India
→ A lot of Advantage (CECA)

Singapore to India

- CECA (Comprehensive Cooperation Agreement)
- Doing Away with & Reducing Customs
→ Trade Advantage
- Investment from Singapore Advantage
→ No Dividend Tax in Singapore
→ Capital Gain Tax Waiver

Finance Subsidiary in Asia 34

- Feature of Finance Environment
- Main Difficulty of Each Country
- Singapore FTC
- Finance Support for Indian Company
- Singapore FC KAI

Singapore FC KAI

- Information Exchange & Drinking
- Japanese Finance Subsidiary
- Organizer : HITACHI
- Please Let that Know to Your Colleague

Summary

- Singapore should be Hub
- In case a lot of Subsidiaries in Malaysia or Thailand, Finance Subsidiary is Choice
- Very Few Subsidiary → Bank
- India Bank Borrowing → Bidding
- India Business → Singapore CECA

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Global Scheme

- W/H Tax → Brain Freeze ?
- Regulation → Good Excuse for Avoiding
New Job ?
- Treasury Otaku VS Traditional Japanese
General Accountant ?
- Excessive Concentration VS
Region by Region

Let's Pay W/H Tax ?

<Issue1>

W/H Tax = Cash Concentration Stop ?

→Negotiate with Tax Authority to Get
W/H Tax Refund Smoothly

→Cash Concentration > W/H Tax

Global Scheme

- W/H Tax → Brain Freeze ?
- Regulation → Good Excuse for Avoiding
New Job ?
- Treasury Otaku VS Traditional Japanese
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- Excessive Concentration VS
Region by Region

Challenging Regulations

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<Issue2>

- ① A lot of Subsidiaries in One Country
→ Challenge to get Special Approval
- ② Setting up Organization where Each Company's Opinion be Gathered
→ Most of All Companies have same Problem

Global Scheme

- W/H Tax → Brain Freeze ?
- Regulation → Good Excuse for Avoiding
New Job ?
- Treasury Otaku VS Traditional Japanese
General Accountant ?
- Excessive Concentration VS
Region by Region

Are you Treasury Otaku ? 43

<Issue3>

① Each Company Must Continue

Evaluating its Staff Training Program

→ General Accountant or Specialist

→ Employing Banker is not the Solution

② Yes, I'd like to be a Treasury Otaku

→ Treasury Specialist is Needed if

Company likes Excessive Concentration

Global Scheme

- W/H Tax → Brain Freeze ?
- Regulation → Good Excuse for Avoiding
New Job ?
- Treasury Otaku VS Traditional Japanese
General Accountant ?
- Excessive Concentration VS
Region by Region

Excessive Concentration

<Issue4>

①Condition Required

→Top-Down Approach

→Enough Resources

(A lot of Paid-Up Capital)

→London or Amsterdam ?

②De-Concentration Model

→Evaluate Cost Performance

→Re-Engineering

→Cooperation between HD and Finance Subs

Epilogue: Japan is a Candidate ?⁴⁶

- Asia : Regulation Problems
Europe : Expensive
- Japan : Regulation Problems & Expensive
- Poor Infrastructure for Corporate Finance
- Japan Global Treasury Centre ?
(Don't want to be OR Can't be ?)

Thank you so much indeed

Hitachi International Treasury Ltd.

Takehiro Sueda