

HITACHI LTD
Form 20-F/A
April 28, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
(Amendment No. 2)

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission file number: 1-8320

KABUSHIKI KAISHA HITACHI SEISAKUSHO

(Exact name of Registrant as specified in its charter)

Hitachi, Ltd.

Edgar Filing: HITACHI LTD - Form 20-F/A

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

6-6, Marunouchi 1-chome, Chiyoda-ku,

Tokyo 100-8280, Japan

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American depositary shares, or ADSs, each of which represents ten shares of common stock	New York Stock Exchange
Common stock without par value	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2007, 3,368,126,056 shares of common stock were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Edgar Filing: HITACHI LTD - Form 20-F/A

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer
Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

* Not for trading, but only for technical purposes in connection with the listing of the ADSs.

Table of Contents

TABLE OF CONTENTS

	Page
<u>EXPLANATORY NOTE</u>	1
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	2
<u>A. Operating Results</u>	2
<u>B. Liquidity and Capital Resources</u>	14
<u>C. Research and Development, Patents and Licenses, etc.</u>	16
<u>D. Trend Information</u>	17
<u>E. Off-balance Sheet Arrangements</u>	17
<u>F. Tabular Disclosure of Contractual Obligations</u>	18
<u>G. Critical Accounting Policies</u>	18
<u>SIGNATURES</u>	21
<u>EXHIBIT INDEX</u>	22

Table of Contents

EXPLANATORY NOTE

This Amendment No. 2 on Form 20-F/A has been filed by Hitachi, Ltd. (the Company) to amend the annual report on Form 20-F for the fiscal year ended March 31, 2007 filed on June 26, 2007. This amendment includes revisions and supplementary explanations regarding the Company's operating results for the fiscal year ended March 31, 2007 that is stated in Item 5. Operating and Financial Review and Prospects in such Form 20-F. The amendments reflect comments received from the staff of the Securities and Exchange Commission dated January 29, 2008 and the Company's response to such comments dated February 29, 2008. The Company does not intend to revise, update, amend or restate the information presented in any other items of such annual report on Form 20-F or reflect any events that have occurred after the filing of such annual report on Form 20-F. Among other things, forward-looking statements and risk factors contained in such annual report on Form 20-F have not been revised to reflect events, results or developments that have occurred or facts that became known to the Company after filing such annual report on Form 20-F, and such forward-looking statements and risk factors should be read in their historical context.

The principal changes are as follows:

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

Overview

The Company amends to include the discussion of the alliance with General Electric Company relating to their nuclear power systems business.

Fiscal 2006 Compared with Fiscal 2005

The Company amends its analysis of revenues and operating income by industry segment, among other things, Information & Telecommunication Systems, Electronic Devices, Power & Industrial Systems, and of line items of Impairment losses of long-lived assets, Other deductions and Income taxes on its statement of operations.

B. Liquidity and Capital Resources

Cash Flows

The Company amends to include the discussion of Other line item of cash provided by operating activities.

With the exception of the foregoing amendments, no part of the annual report on Form 20-F for the fiscal year ended March 31, 2007 filed on June 26, 2007 is being amended, and the filing of this Amendment No. 2 on Form 20-F/A should not be understood to mean that any other statements contained therein are true or complete as of any date subsequent to June 26, 2007.

Table of Contents

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

Overview

Hitachi provides highly diversified products and services and conducts business throughout the world. Hitachi's results of operations therefore are affected by various aspects of the economic environment, particularly capital investment in the private sector and consumer spending in Hitachi's main market sectors.

In fiscal 2006, the Japanese economy led by domestic demand expanded moderately due primarily to the increase of private-sector plant and equipment investment and export. Japan's GDP grew 2.0% in fiscal 2004, 2.4% in fiscal 2005 and 2.1% in fiscal 2006.

Outside Japan, in fiscal 2006, the economic environment was marked by the firm economic growth in the United States and in Europe, and the solid growth in Asia centered in China.

Overseas revenues, a significant part of which are denominated in U.S. dollars, were 36% of total revenues in fiscal 2004, 38% of total revenues in fiscal 2005 and 41% of total revenues in fiscal 2006. Hitachi conducts business in many foreign countries, and a portion of its assets and liabilities that are denominated in various currencies is exposed to risks from fluctuations in foreign currency exchange rates. In addition, Hitachi exports products and imports components and raw materials in local currencies, principally the U.S. dollar and the euro. Therefore, fluctuations in foreign currency exchange rates may affect Hitachi's financial results, which are reported in Japanese yen. The Japanese yen on average strengthened against the U.S. dollar during fiscal 2004, while during fiscal 2005 and 2006, the Japanese yen weakened. Hitachi employs forward exchange contracts and cross currency swap agreements to reduce the impact of foreign currency exchange rate fluctuations. In addition, to alleviate the adverse effects of foreign currency exchange rate fluctuations, when Hitachi believes it is appropriate, it seeks to manufacture outside Japan and procure materials and parts locally. Hitachi expects to finance foreign currency investments by foreign currency it has on hand. When the amount on hand is insufficient, Hitachi may enter into forward exchange contracts to reduce the impact of foreign currency exchange rate fluctuations. For additional information regarding foreign currency exchange rate fluctuations, see Item 4. Information on the Company B. Business Overview Sales and Distribution.

The business circumstances surrounding Hitachi have become increasingly challenging. Some of its businesses are in stagnant industries. In addition, globalization of markets and commoditization of electronic products is continuing to intensify price competition in the business sectors in which Hitachi competes. However, Hitachi's ability to close or sell unprofitable businesses may be limited, including due to a lack of demand in the M&A market for such businesses and the importance of preserving customer goodwill. A large portion of Hitachi's manufacturing is done domestically, which means that a strong yen reduces Hitachi's cost competitiveness. Hitachi is responding to these circumstances by closing or downsizing unprofitable operations where feasible, seeking joint ventures with competitors, reallocating employees from overstuffed businesses to growth businesses, and reorganizing the geographic allocation of its manufacturing facilities.

Hitachi has been implementing a variety of projects to enhance efficiency and restructure unprofitable operations, including a project aimed at reducing materials purchasing costs and a project aimed at improving turnover of assets. For a description of the charges associated with the restructuring measures, see Restructuring.

Hitachi is making an effort to realign its business portfolio, which may be implemented by exiting certain businesses that share fewer synergies with targeted businesses or have poor prospects for higher efficiency, increasing focus on targeted businesses and creating new businesses to achieve increased profitability. Hitachi uses an economic value-added evaluation index based on the cost of capital to make decisions with respect to exiting businesses, strengthening focus on targeted businesses, creating or incubating new businesses and making capital investments. Hitachi also aims to alter its corporate governance structure to improve the efficiency and transparency of management. Hitachi expects to pursue further growth in the global markets by identifying competitive businesses, developing alliances with its business partners and channeling management resources into those businesses. Hitachi also expects to continue to improve cash-flow management by increasing the efficiency of working capital use, making selective investments and further reducing procurement costs. In addition, Hitachi is implementing measures such as expanding fundamental research to create future core businesses and strengthening basic technologies for the group in order to pursue further growth throughout the group as a whole. See Item 4. Information on the Company A. History and Development of the Company and Item 6. Directors, Senior Management and Employees.

Table of Contents

In April 2003, the Company transferred its semiconductor operations centered in system LSIs to a new company incorporated jointly by the Company and Mitsubishi Electric to improve semiconductor competitiveness by permitting more flexible management and realizing synergies between the advanced technologies of the Company and Mitsubishi Electric. The new company, Renesas, is accounted for under the equity method by the Company. In July and August 2003, Hitachi sold most of its shares of Nitto Denko Corporation, or Nitto Denko, which was accounted for under the equity method by the Company, for approximately ¥140 billion. As a result, Nitto Denko is no longer an equity-method affiliate. In October 2004, the Company merged its equity-method affiliate, TOKICO LTD., and its wholly-owned subsidiary, Hitachi Unisia Automotive, Ltd., into itself, to strengthen its automotive products business due to synergies it seeks to realize through the integration of operations, including the sales and R&D functions of the three companies. In September 2005, the Company sold a portion of its shares of Elpida Memory. The Company previously had accounted for Elpida Memory under the equity method, however, as a result of this share sale, Elpida Memory is no longer an equity-method affiliate. In October 2006, the Company conducted a tender offer for shares of Clarion, which then became a consolidated subsidiary of the Company in December 2006, in order to strengthen Hitachi's car information systems business. The Company seeks to realize synergies from the transaction through Clarion's planning and development capabilities for its products, such as audio-visual and navigation systems, and its marketing capabilities in aftermarket services. In November 2006, the Company entered into a letter of intent with General Electric Company, or GE, expressing the intent of both parties to create a global alliance for their nuclear businesses to improve and expand their boiling water reactor technology offerings, aimed at achieving synergy in the areas of design, manufacture, construction, maintenance and engineering services. Subsequently, in May 2007, in order to implement the alliance, the Company entered into an agreement with GE to form companies in each of the U.S., Canada and Japan. Based on the agreement, the U.S. and Canadian companies were established in June 2007. Furthermore, the Company will transfer its nuclear power systems operations to the Japanese company in July 2007 by way of corporate split under the Company Law of Japan, and GE will invest in the Japanese company. Hitachi owns 40% of the U.S. and Canadian companies, with GE owning the remaining 60%, and the Company will own 80.01% of the Japanese company, which will be a consolidated subsidiary, with GE owning the remaining 19.99%. Although these transactions themselves have not immediately impacted Hitachi's results of operations or liquidity, Hitachi seeks through these transactions to strengthen its competitiveness in the global market and to increase market share and profitability in the future through synergy with GE. In the nuclear power systems business, integration and alliances are being implemented among large-scale nuclear power plant manufacturers, as illustrated by Toshiba Corporation's acquisition of Westinghouse Electric Company's nuclear power business. In this environment, Hitachi plans to strengthen and expand its nuclear power systems business throughout the world, including the U.S., through the alliance with GE. In particular, Hitachi hopes to create synergies with GE, including by utilizing GE's design of an advanced economic and simplified boiling water reactor, and by leveraging both companies' accumulated know-how and experience in the construction of nuclear power plants.

Hitachi's total revenues increased 5% in fiscal 2004, 5% in fiscal 2005 and 8% in fiscal 2006 on a year-on-year basis, respectively. Hitachi posted net income of ¥51,496 million in fiscal 2004 and ¥37,320 million in fiscal 2005, while posting a net loss of ¥32,799 million in fiscal 2006.

The analysis of revenues and operating income (loss) by industry and geographic segment and description of restructuring measures by industry segment mentioned below are based on the segmentation presented in accordance with a ministerial ordinance of the Securities and Exchange Law of Japan.

Although, pursuant to the exemption to foreign private issuers, Hitachi does not present segment information in accordance with the requirements of SFAS No. 131, Hitachi believes that this presentation may be useful in understanding Hitachi's results of operations. Revenues by segment include intersegment transactions which Hitachi makes adjustments for in calculating total revenues and operating income is not presented in the consolidated statement of operations. In order to be consistent with financial reporting principles and practices generally accepted in Japan, operating income (loss) is presented as total revenues less cost of sales and selling, general and administrative expenses. However, under U.S. GAAP, restructuring charges, net gain or loss on sale and disposal of rental assets and other property, impairment losses and special termination benefits are included as part of operating income (loss). See notes 17, 18 and 19 to the consolidated financial statements.

Table of Contents***Fiscal 2006 Compared with Fiscal 2005***

Summarized results of operations for fiscal 2006 and fiscal 2005 are shown below.

	Fiscal 2005	Fiscal 2006	Percent change
	(Millions of yen, except percentage data)		
Total revenues	9,464,801	10,247,903	+8%
Operating income	256,012	182,512	-29%
Income before income taxes and minority interests	274,864	202,338	-26%
Income before minority interests	120,516	39,524	-67%
Net income (loss)	37,320	(32,799)	%

Hitachi's total revenues in fiscal 2006 were ¥10,247,903 million, an increase of 8% from the preceding fiscal year. Overseas revenues increased 14% over the same period, to ¥4,154,276 million. Hitachi's cost of sales increased 9%, to ¥8,088,371 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in production costs due to a rise in material prices, the accrual of repair costs for broken turbine vanes in domestic nuclear power plants and additional costs of construction of a thermal power plant in the U.S. caused by inefficient project management. The ratio of cost of sales to total revenues increased 1% in fiscal 2006 compared to the preceding fiscal year, to 79%. Selling, general and administrative expenses increased 9%, to ¥1,977,020 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales activities. The ratio of selling, general and administrative expenses to total revenues was 19%, almost the same in fiscal 2006 as in the preceding fiscal year. Operating income, total revenues less cost of sales and selling, general and administrative expenses, decreased 29%, to ¥182,512 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in operating loss in Digital Media & Consumer Products and a decrease in operating income in Power & Industrial Systems and in Information & Telecommunication Systems, partially offset by an increase in operating income in Electronic Devices and High Functional Materials & Components, as analyzed below.

An analysis of revenues and operating income by industry segment is as follows. Revenues by segment include intersegment transactions which Hitachi makes adjustments for in calculating total revenues.

Information & Telecommunication Systems

Revenues increased 5%, to ¥2,472,227 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales in Hitachi's services businesses, such as Hitachi's solutions business, to governmental entities and domestic financial institutions due to their increased IT investments, an increase in sales of disk array subsystems due to Hitachi's competitive enterprise model products and the introduction of new mid-range model products and an increase in sales of HDDs for PCs and disk array subsystems due to increased demand for these products from consumers and business enterprises and increased production capacity of Hitachi.

Operating income decreased 29%, to ¥60,343 million, in fiscal 2006 compared to the preceding fiscal year due primarily to a decline in the unit price of HDDs caused by intense price competition and an increase in development costs of next generation telecommunications equipment and servers.

Operating losses in the HDD business had the greatest adverse impact on Hitachi's results. HDD shipment volumes increased 20%, to approximately 70 million units, and sales increased 14%, to ¥568.1 billion from the preceding fiscal year. However, operating losses amounted to ¥43.7 billion, an increase of ¥16.7 billion from the preceding fiscal year. This was largely due to a decline in average selling price caused by intensive price competition for 2.5-inch HDDs, a product segment where Hitachi is the market share leader. In addition to the severe pricing environment, delays in shipment of some new 3.5-inch models contributed to the losses and adversely impacted Hitachi's ability to achieve planned 2006 unit volumes.

Hitachi believes the HDD industry is facing rapid technological changes, such as the development of high capacity hard disk drives and increasing commoditization of old models. To maintain profitability in such an environment, Hitachi believes it is important to establish efficient development and manufacturing operations. Hitachi has therefore been contemplating various business reorganization measures, such as integration of several development and manufacturing facilities for magnetic heads and circular disks, closure of a certain manufacturing facility and a reduction in the size of its workforce. In addition, Hitachi made efforts to strengthen its R&D capability for the purpose of developing and introducing cost competitive products.

Table of Contents***Electronic Devices***

Revenues increased 7%, to ¥1,287,492 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of semiconductor and HDD-related manufacturing equipment due to increased investment by manufacturers, an increase in sales of small and medium-sized LCDs mainly for mobile phones, digital cameras, printers and in-vehicle equipment, such as navigation systems and indicator panels, due to Hitachi's increased sales efforts and an increase in sales of medical analysis equipment in the U.S. and Europe due to the introduction of new models, partially offset by a decrease in sales of large-sized LCDs due to Hitachi's downsizing of such business due to intense price competition.

Operating income increased 124%, to ¥45,755 million, in fiscal 2006 compared to the preceding fiscal year. The primary driver of this increase was an improvement in the LCDs business, which accounted for operating income of ¥0.5 billion in fiscal 2006, an increase of ¥23.3 billion from the operating loss of ¥22.8 billion in the preceding fiscal year. This increase was primarily due to the exit from the unprofitable large-sized LCDs business in a subsidiary of the Company, Hitachi Displays, Ltd., in the 1st quarter of fiscal 2006. Such exit of business was part of Hitachi's strategy to focus on small and medium-sized LCDs markets, which Hitachi expects will continue to benefit from expanded LCDs use for mobile phones, digital cameras, printers and car navigation systems. In addition, at Hitachi High-Technologies Corporation, a majority-owned subsidiary of the Company, sales of semiconductor manufacturing equipment increased due to capital expenditures by semiconductor manufacturers; sales of HDD manufacturing equipment also significantly increased due to active capital expenditures by Japanese manufacturers. As a result, revenues and operating income of Hitachi High-Technologies Corporation significantly increased. As a result of the foregoing, operating income of this segment significantly improved in fiscal 2006.

Power & Industrial Systems

Revenues increased 8%, to ¥3,022,299 million, in fiscal 2006 compared to the preceding fiscal year. This increase was due primarily to an increase in sales of construction machinery due to increased social infrastructure investment in domestic and overseas markets and due to increased demand for mineral mining machinery in overseas markets, an increase in sales of automotive products primarily a result of the acquisition of Clarion in December 2006 through a tender offer and increased sales of elevators and escalators in China due to increased construction, partially offset by the exclusion of the revenues of former Hitachi Air Conditioning Systems Co., Ltd., which have been included in Digital Media & Consumer Products since April 2006 as a result of its merger with former Hitachi Home & Life Solutions, Inc. in April 2006.

Operating income decreased 61%, to ¥36,391 million, in fiscal 2006 compared to the preceding fiscal year due primarily to a rise in prices of raw materials for products in the power systems sector, the accrual of repair costs for broken turbine vanes in domestic nuclear power plants and additional costs of construction of a thermal power plant in the U.S. caused by inefficient project management, partially offset by an increase in sales of construction machinery and a reduction in the production costs of automotive products due to increased local procurement.

Among other things, this decrease of operating income was significantly affected by the accrual of repair costs for broken turbine vanes in Hamaoka Nuclear Power Station No. 5 of Chubu Electric Power Co., Inc. and in Shika Nuclear Power Station No. 2 of Hokuriku Electric Power Company and additional costs for the construction of a thermal power plant in the U.S. related to measures required to reverse construction delays. The aggregate amount of these unexpected costs amounted approximately ¥80.0 billion. Hitachi expected to earn operating income in this segment in fiscal 2006. However, operating income amounted to only ¥36.3 billion, a decrease of approximately ¥60.0 billion compared to the initial forecast. The deviation from the forecast was the result of both positive and negative factors. The most significant positive factor was an increase in operating income of approximately ¥20.0 billion in Hitachi Construction Machinery Co., Ltd., a majority-owned subsidiary, as the result of robust demand for its products worldwide. The negative factors mostly related to the accrual of repair costs for broken turbine vanes at domestic nuclear power plants and the additional costs of construction for a thermal power plant in the U.S., which amounted to approximately ¥80.0 billion in the aggregate. The additional cost of construction of a thermal power plant in the U.S. consists most of the losses on certain long-term contracts stated in footnote 16.

Table of Contents

In light of the scale and nature of these costs, one of the most important management challenges Hitachi faces is to ensure that similar problems do not occur again, and Hitachi has been making concerted efforts to determine why these problems occurred and to implement the necessary solutions discussed below.

With respect to the accrual for repair costs of the broken turbines at domestic nuclear power plants, in the near term, the Company's Power Systems Group has been working with the research laboratories of the Company in cooperation with the electric companies to conduct an exhaustive investigation into the cause of the turbine damage. In addition, the Company established specialized offices to formulate the necessary solutions. For medium and long-term improvements, Hitachi plans to reinforce its technology development capabilities through the unified management of its research laboratories and the relevant sections in business departments as part of efforts to enhance the competitiveness and improve the reliability of its core products through specific programs intended to bolster R&D facilities; develop engineering tools; reduce costs through development process reforms; and shorten design and manufacturing lead times. Further, Hitachi plans to reinforce its system for winning new orders for overseas nuclear power plants and plans to develop next-generation nuclear power technologies.

With respect to the cost overruns at the U.S. thermal power plant construction project, Hitachi identified the following causes of the problem:

A large increase in costs arose from measures taken to reverse delays in construction processes, which were caused by the outflow of local construction workers and a sharp decline in Hitachi's construction work efficiency as a result of the increased demand for construction in connection with recovery efforts for Hurricane Katrina.

The number of construction processes increased more than expected, and the efficiency of local construction work deteriorated due principally to local construction companies' relative lack of experience in the construction of large-scale coal-fired thermal power plants and the difficulty in securing highly-skilled workers. These problems arose mainly because this kind of plant has not been built in the U.S. for many years.

In order to counter these problems, in the short-term, Hitachi plans to improve construction work efficiency by shifting orders for local construction work by local general contractors to direct ordering by its subsidiary and to establish a countermeasures unit to reinforce the local project management framework. This will include management of construction progress, detailed inspection of the construction processes, and real-time cost controls. In the medium and long-term, Hitachi plans to reinforce its overseas project management capabilities and risk management including enhancing estimates, contracts and engineering capabilities and plans to develop global businesses and conduct project management closely tied to each region by delegating responsibility to its overseas operating subsidiaries. In addition, the Company has established specialized offices to identify pressing issues and to reflect improvements in future activities.

Hitachi plans to develop its power systems business by reinforcing project management, enhancing cost reduction efforts at the various steps of the project such as procurement, design, manufacturing, inspection, shipment and work at local construction sites, and by carefully assessing the various risks of overseas projects.

Digital Media & Consumer Products

Revenues increased 15%, to ¥1,506,073 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of flat panel TVs that resulted from increased consumer demand reflecting a decline in unit prices, an increase in sales of mobile phones due to introducing new models, an increase in sales of refrigerators and washing machines and the inclusion of the revenues of former Hitachi Air Conditioning Systems Co., Ltd., the result of a merger with former Hitachi Home & Life Solutions, Inc. in April 2006. The revenues of former Hitachi Air Conditioning Systems Co., Ltd. have been included in Digital Media & Consumer Products since April 2006 and were previously included in Power & Industrial Systems.

An operating loss increased ¥22,664 million, to ¥58,435 million, from the preceding fiscal year due primarily to a decline in unit prices and an increase in marketing costs of flat panel TVs, a decline in profitability of room air conditioners due to a decline in sales in the domestic market caused by reduced popularity of products and to an increase in the costs of raw materials, and a decline in unit prices of DVD/HDD recorders to meet domestic consumers' needs.

Table of Contents

High Functional Materials & Components

Revenues increased 12%, to ¥1,794,506 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of wires and cables with increased sales prices resulting from the successful shifting of increased raw materials costs onto sales prices and an increase in sales of materials for semiconductors and of automotive related products due to increased demand in IT industries and by automobile manufacturers. Operating income increased 20%, to ¥132,399 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of above products together with their cost reduction.

Logistics, Services & Others

Revenues were ¥1,213,529 million in fiscal 2006, almost the same as in the preceding fiscal year due primarily to an increase in sales of third party logistics services due to increased demand for logistics outsourcing services coupled with Hitachi's increased sales efforts focused towards its existing and new clients, partially offset by a decrease in revenues by a U.S. sales subsidiary which resulted from the lack of a large order posted in fiscal 2005. Operating income increased 4%, to ¥20,233 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of third party logistics services together with their cost reduction, partially offset by a decline in profitability in a U.S. sales subsidiary.

Financial Services

Revenues decreased 3%, to ¥500,065 million, and operating income decreased 33%, to ¥23,534 million, in fiscal 2006 compared to the preceding fiscal year due primarily to a decrease in sales of and related gains on securitization of lease receivables.

An analysis of revenues and operating income by geographic segment is as follows. Revenues by segment include intersegment transactions which Hitachi makes adjustments for in calculating total revenues.

Revenues of the Company and its consolidated subsidiaries located in Japan increased 6%, to ¥8,284,229 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of construction machinery due to increased private sector investment, an increase in sales of materials for semiconductors and automotive related products due to increased investment by manufacturers and of flat panel TVs due to increased consumer demand reflecting a decline in unit prices. Operating income decreased 23%, to ¥212,316 million due primarily to the accrual of repair costs for broken turbine vanes in domestic nuclear power plants, additional costs of construction of a thermal power plant in the U.S. and a decline in unit prices and an increase in marketing costs of flat panel TVs.

Revenues of consolidated subsidiaries of the Company located in Asia (other than Japan) increased 24%, to ¥2,020,757 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of HDDs and LCDs due to increased demand from manufacturers reflecting increased IT investment and an increase in sales of elevators, escalators and construction machinery primarily in China due to its robust economy. Operating loss of ¥3,664 million was posted in fiscal 2006 compared to operating income of ¥6,727 million in the preceding fiscal year due primarily to a decline in the unit price of HDDs due to intense price competition.

Revenues of consolidated subsidiaries of the Company located in North America increased 11%, to ¥1,071,010 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of automotive products for automobile manufacturers reflecting increased consumer demand for vehicles, an increase in sales of flat panel TVs due to an increase in consumer demands reflecting a decline in unit prices, an increase in sales of construction machinery due primarily to increased demand in commercial facilities, construction and maintenance investment in highways and solid sales in the storage solutions business due to increased IT investment together with increased demand for Hitachi's differentiated technology. Operating income increased 8%, to ¥25,310 million from the preceding fiscal year due primarily to an increase in sales of construction machinery and an increase in sales of automotive products together with a reduction of procurement costs.

Revenues of consolidated subsidiaries of the Company located in Europe increased 25%, to ¥682,808 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in sales of construction machinery which resulted primarily from the introduction of new models of machinery and increased investments in housing and an increase in the storage solutions business resulting from increased IT investment together with increased demand for Hitachi's differentiated technology. Operating income increased 25%, to ¥23,312 million from the preceding fiscal year due primarily to an increase in sales of the above products.

Table of Contents

Revenues of consolidated subsidiaries of the Company located in Other Areas increased 32%, to ¥173,295 million and operating income increased 32%, to ¥8,647 million, in fiscal 2006 compared to the preceding fiscal year, due in part to an increase in sales of mineral mining machinery in Australia and Africa.

In fiscal 2006, Hitachi recorded impairment losses for long-lived assets in the amount of ¥9,918 million. The majority of the impairment losses were charged against long-lived property, plant and equipment in Japan. High Functional Materials & Components recognized an impairment loss of ¥4,351 million. This impairment loss was recognized mainly in connection with semiconductor material manufacturing equipment caused by the early termination of production of certain portable information devices by Hitachi's certain client, which resulted in Hitachi reducing the production and sales plans of such products, followed by a decrease in the expected profitability from such manufacturing equipment. Digital Media & Consumer Products recognized an impairment loss of ¥1,305 million. This impairment loss was recognized mainly in connection with certain electronic parts caused by a business closure by Hitachi's certain client, which resulted in Hitachi reducing production and sales plans of related products, followed by a decrease in the expected profitability from such manufacturing equipment. Electronic Devices recognized an impairment loss of ¥1,294 million. This impairment loss was recognized mainly in connection with manufacturing equipment for projection television tubes due to reduced production of projection TVs due to Hitachi's strategy of focusing on small and medium-sized LCDs, followed by a decrease in the expected profitability from such manufacturing equipment. These losses were determined based primarily on discounted future cash flows.

In fiscal 2006, Hitachi recorded restructuring charges of ¥3,983 million, associated primarily with the restructuring measures in High Functional Materials & Components and Information & Telecommunication Systems. See "Restructuring" in this Item.

Interest income increased 43%, to ¥25,914 million, in fiscal 2006 compared to the preceding fiscal year due primarily to increases in interest rates and to the interest rate swaps which overseas financial subsidiaries made for the purpose of hedging interest rate risks. Dividends income decreased 6% in fiscal 2006 compared to the preceding fiscal year, to ¥6,063 million.

Gains on sales of stock by subsidiaries or affiliated companies increased ¥11,641 million, to ¥12,034 million, in fiscal 2006 compared to the preceding fiscal year due primarily to the effect of a U.S. consolidated subsidiary becoming an equity method affiliate through a share sale by the Company when the U.S. company listed its shares.

Table of Contents

Other income decreased to ¥58,976 million in fiscal 2006 compared to ¥62,609 million in the preceding fiscal year because foreign exchange gains were lower due to changes in exchange rates.

Interest charges increased 14%, to ¥37,794 million, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in borrowings.

Other deductions increased to ¥31,466 million in fiscal 2006 compared to ¥3,639 million in the preceding fiscal year. The primary reason for this increase was that Hitachi had recorded approximately ¥30.0 billion gains on the sale of land and other property such as idle assets in several manufacturing sites in fiscal 2005 which did not recur in fiscal 2006. Net losses on the sale and disposal of rental assets and other property resulted from the normal disposal of manufacturing equipment, across each business unit in both fiscal years and, Hitachi does not plan to make any unusual property disposals or sales in the near future.

As a result of the foregoing, income before income taxes and minority interests decreased 26%, to ¥202,338 million, in fiscal 2006 compared to the preceding fiscal year.

Income taxes in relation to income before income taxes and minority interests in fiscal 2006 increased to ¥162,814 million compared to ¥154,348 million in the preceding fiscal year, which resulted in the effective tax rate of 80% in fiscal 2006 compared to 56% in the preceding fiscal year. For fiscal 2006, certain companies that had incurred cumulative losses in recent years were required to provide allowances against deferred tax assets for net operating loss carry forwards. These include the thermal power plants business and other. The subsidiary of the hard disk drive business, which experienced large losses, was also not able to record a deferred tax benefit for its losses since it is not subject to income tax in the country in which it is located. These were the largest factors contributing to the increase in the effective tax rate.

As a result, income before minority interests decreased 67%, to ¥39,524 million, in fiscal 2006 compared to the preceding fiscal year.

Minority interests decreased 13%, to ¥72,323 million, in fiscal 2006 compared to the preceding fiscal year due primarily to the deterioration in the business results of certain majority-owned subsidiaries, partially offset by firm business results of certain publicly-held subsidiaries such as Hitachi Construction Machinery Co., Ltd., Hitachi High-Technologies Corporation and publicly-held subsidiaries in High Functional Materials & Components.

As a result of the foregoing, Hitachi posted a net loss of ¥32,799 million in fiscal 2006, compared to a net income of ¥37,320 million in the preceding fiscal year.

Fiscal 2005 Compared with Fiscal 2004

Summarized results of operations for fiscal 2005 and fiscal 2004 are shown below.

	Fiscal 2004	Fiscal 2005	Percent change
	(Millions of yen, except percentage data)		
Total revenues	9,027,043	9,464,801	+5%
Operating income	279,055	256,012	-8%
Income before income taxes and minority interests	264,506	274,864	+4%
Income before minority interests	114,516	120,516	+5%
Net income	51,496	37,320	-28%

Hitachi's total revenues in fiscal 2005 were ¥9,464,801 million, an increase of 5% from the preceding fiscal year. Overseas revenues increased 11% over the same period, to ¥3,639,645 million. Hitachi's cost of sales increased 6%, to ¥7,387,744 million, in fiscal 2005 compared to the preceding fiscal year, and the ratio of cost of sales to total revenues increased 1% in fiscal 2005 compared to the preceding fiscal year, to 78%. Selling, general and administrative expenses increased 2%, to ¥1,821,045 million, in fiscal 2005 compared to the preceding fiscal year, while the ratio of selling, general and administrative expenses to total revenues decreased 1% in fiscal 2005 compared to the preceding fiscal year, to 19%. Operating income, total revenues less cost of sales and selling, general and administrative expenses, decreased 8%, to ¥256,012 million, in fiscal 2005 compared to the preceding fiscal year due primarily to a decrease in operating income in Digital Media & Consumer Products and Electronic Devices, partially offset by an increase in other industry segments, as analyzed below.

Table of Contents

An analysis of revenues and operating income by industry segment is as follows. Revenues by segment include intersegment transactions which Hitachi makes adjustments for in calculating total revenues.

Revenues in Information & Telecommunication Systems increased 4%, to ¥2,360,956 million, in fiscal 2005 compared to the preceding fiscal year. Sales from Hitachi's outsourcing business sectors increased, with the largest increase in the domestic private sector due to increased IT infrastructure investments in these business sectors that improved management efficiency and operating results, coupled with Hitachi's increased sales efforts. In addition, sales of HDDs increased on a worldwide basis due primarily to increased sales volume due to increased demand worldwide for IT investments, including HDDs for disk array subsystems and PCs. This increase in sales volume of HDDs for disk array subsystems and PCs was slightly affected by a decrease in sales of HDDs for servers due to a decline in sales volume resulting from low product yield ratios for HDDs for servers. Sales from Hitachi's overseas market storage solution business in private sectors also increased due to an increased demand for IT investment that improved management efficiency. Operating income increased 25%, to ¥84,687 million, in fiscal 2005 compared to the preceding fiscal year due primarily to an improvement in Hitachi's services business which resulted from a decrease in unprofitable projects and from an improvement in project management and an increase in disk array subsystems that resulted from an increase in sales due to strong demand for IT investment.

Revenues in Electronic Devices decreased 9%, to ¥1,204,407 million, in fiscal 2005 compared to the preceding fiscal year. This decrease was due primarily to a decrease in sales of large-sized LCDs caused primarily by a decline in unit prices and reductions in their production, partially offset by an increase in sales of small- and medium-sized LCDs, due to Hitachi's focus on small- and medium-sized LCDs as a result of a decline in profitability of large-sized LCDs due to intense price competition. Operating income decreased 45%, to ¥20,439 million, in fiscal 2005 compared to the preceding fiscal year due primarily to a decrease in profitability of all three sizes of LCDs which resulted from a decline in unit prices of each size of LCD due to intense price competition.

Revenues in Power & Industrial Systems increased 12%, to ¥2,805,169 million, in fiscal 2005 compared to the preceding fiscal year. The primary drivers of this increase were increases in sales of construction machinery, elevators and escalators mainly in China due to its robust economy, an increase in sales of construction machinery in North America due primarily to strong growth in investments in housing, investments in maintenance of highways and other public infrastructure and an increase in sales of automotive products due primarily to the merger with TOKICO LTD. in October 2004. Operating income increased 26%, to ¥92,552 million, in fiscal 2005 compared to the preceding fiscal year due primarily to increases in sales of construction machinery and an improvement in profitability in the industrial systems sector and in elevators and escalators due to Hitachi's cost reduction efforts in connection with fixed costs and production costs.

Revenues in Digital Media & Consumer Products increased 2%, to ¥1,305,658 million, in fiscal 2005 compared to the preceding fiscal year. This increase was due primarily to an increase in sales of flat panel TVs in the global market due to increased consumer demand, reflecting a decline in unit prices, coupled with Hitachi's increased sales promotion and an increase in sales of DVD-related products in the global market due to increased consumer demand coupled with the introduction of new models, partially offset by a decrease in sales of projection TVs mainly in North America due to a decline in production volume resulting from Hitachi's strategy to downsize the projection TV business to respond to a change in demand trends shifting from projection TVs to plasma TVs and a decrease in sales of room air conditioners due to intense price competition. An operating loss of ¥35,771 million was posted in fiscal 2005 compared to operating income of ¥8,694 million in the preceding fiscal year due primarily to a decline in profitability in DVD-related products, projection TVs and plasma TVs which resulted from a decline in the prices of each and an increase in costs of marketing activities mainly in digital media products.

Revenues in High Functional Materials & Components increased 6%, to ¥1,600,246 million, in fiscal 2005 compared to the preceding fiscal year due primarily to an increase in sales of materials for semiconductors and LCDs due to increased demand for IT related products, such as PCs and digital consumer products, and an increase in sales of automotive related products due to increased demand for vehicles in the global market. Operating income increased 26%, to ¥110,069 million, in fiscal 2005 compared to the preceding fiscal year due primarily to an increase in sales of materials for semiconductors and LCDs and automotive related products and the successful shifting of increased raw material costs onto sales prices relating to wires, cables and metal products, together with costs reduction efforts.

Table of Contents

Revenues in Logistics, Services & Others decreased 3%, to ¥1,214,784 million, in fiscal 2005 compared to the preceding fiscal year. Sales of logistics services increased due primarily to strong demand for logistics outsourcing services in the private sector, primarily in the domestic market, coupled with Hitachi's increased sales efforts with private sector clients and focusing on expanding its international business, while revenues by overseas sales subsidiaries decreased. Operating income increased 99%, to ¥19,511 million, compared to the preceding fiscal year due primarily to an increase in sales of logistics services and improvement in profitability of an European sales subsidiary due primarily to a reduction of procurement costs relating to digital media products.

Revenues in Financial Services decreased 2%, to ¥517,975 million, in fiscal 2005 compared to the preceding fiscal year due primarily to the downsizing in the automotive loans business due to Hitachi's focus on automotive leasing business, while the volumes of business in leases of information related equipment and home loans performed solidly. Operating income increased 13%, to ¥35,001 million, due primarily to a reduction of sales costs.

An analysis of revenues and operating income by geographic segment is as follows. Revenues by segment include intersegment transactions which Hitachi makes adjustments for in calculating total revenues.

Revenues of the Company and its consolidated subsidiaries located in Japan increased 3%, to ¥7,780,402 million, in fiscal 2005 compared to the preceding fiscal year, and operating income was ¥275,715 million in fiscal 2005, almost the same as in the preceding fiscal year. These results were primarily due to an increase in sales in the outsourcing business mainly to the private sector that resulted from increased IT investment, Hitachi's increased sales efforts and an increase in sales of materials for semiconductors and LCDs due to increased demand in IT related products, partially offset by a decline in sales of LCDs due to a decline in unit prices which resulted from intense price competition.

Revenues of consolidated subsidiaries of the Company located in Asia (other than Japan) increased 13%, to ¥1,632,391 million, in fiscal 2005 compared to the preceding fiscal year due primarily to an increase in sales of HDDs due to increased IT investment and an increase in sales of construction machinery, elevators and escalators due to strong demand in China reflecting its robust economy. Operating income decreased 76%, to ¥6,727 million, in fiscal 2005 compared to the preceding fiscal year due primarily to a decline in profitability of HDDs which resulted from a decline in unit prices due to intense price competition, partially offset by an increase in construction machinery, elevators and escalators due to an increase in their sales.

Revenues of consolidated subsidiaries of the Company located in North America increased 16%, to ¥964,094 million, due primarily to an increase in sales of construction machinery which resulted primarily from firm growth in investments in housing, investments in maintenance of highways and other public infrastructure, an increase in sales of HDDs due to increased demand for IT investment and an increase in sales of automotive related products due to increased consumer demands for vehicles. Operating income increased 130%, to ¥23,428 million, in fiscal 2005 compared to the preceding fiscal year due primarily to an increase in sales of construction machinery and an increase in operating income in automotive related products due to cost reduction efforts.

Revenues of consolidated subsidiaries of the Company located in Europe increased 11%, to ¥546,432 million and operating income increased 14%, to ¥18,702 million, in fiscal 2005 compared to the preceding fiscal year due primarily to an increase in sales of the storage solutions business that resulted from introducing new mid-range model products and to an increase in sales of construction machinery due to strengthened sales networks.

Revenues of consolidated subsidiaries of the Company located in Other Areas increased 26%, to ¥131,543 million, in fiscal 2005 compared to the preceding fiscal year. Operating income increased 101%, to ¥6,555 million, in fiscal 2005 compared to the preceding fiscal year.

In fiscal 2005, Hitachi recorded impairment losses for long-lived assets in the amount of ¥27,408 million. The majority of the impairment losses were recorded on long-lived property, plant and equipment in Japan and in the U.S. The material factors of impairment losses are as follows: ¥11,631 million of the total recorded impairment loss was recorded in Information & Telecommunication Systems mainly in connection with production lines of HDDs for servers and resulted primarily from decreased profitability in such products due to a decline in sales volume of such products caused by low product yield ratios; ¥7,265 million of the total recorded impairment loss was recorded in Electronic Devices and resulted primarily from a downsizing of large-sized LCDs operations due to a decline in profitability of such products in the domestic market caused by intense price competition and Hitachi's focus on small and medium-sized LCDs; ¥4,120 million of the total recorded impairment loss was recorded in High Functional Materials & Components mainly in connection with optical fiber manufacturing equipment, mainly used for domestic telecommunications, and fiber-optic submarine cable manufacturing equipment due to a decline in profitability of these products caused by declines in unit prices and market demand in the matured optical fiber telecommunications infrastructure.

Table of Contents

In fiscal 2005, Hitachi recorded restructuring charges of ¥4,429 million, associated primarily with the restructuring measures in Electronic Devices and High Functional Materials & Components. See Restructuring in this Item.

Interest income increased 35% in fiscal 2005 compared to the preceding fiscal year, to ¥18,170 million due primarily to an increase in interest rates. Dividends income increased 8% in fiscal 2005 compared to the preceding fiscal year, to ¥6,421 million.

Other income decreased from ¥67,024 million in fiscal 2004, to ¥63,002 million in fiscal 2005. The decrease is largely due to the absence of the gain from the issuance of stock by Elpida Memory, Inc. which was recorded in fiscal 2004. The major components of other income in fiscal 2005 were gains resulting from the sales of shares of Hitachi High-Technologies Corporation and Hitachi Systems & Services, Ltd.

Interest charges increased 14% in fiscal 2005 compared to the preceding fiscal year, to ¥33,265 million, due primarily to an increase in the issuance of commercial paper by Hitachi's financial subsidiaries.

Other deductions, mainly comprised of losses due to disposal of fixed assets, decreased from ¥11,796 million in the previous fiscal year to ¥3,639 million in fiscal 2005.

As a result of the foregoing, income before income taxes and minority interests increased 4%, to ¥274,864 million, in fiscal 2005 compared to the preceding fiscal year.

Income taxes in fiscal 2005 increased 3%, to ¥154,348 million, from ¥149,990 million in the preceding fiscal year, due to an increase in taxable income. Deferred tax increased due to the recognition of subsidiaries' loss carry forwards; however, valuation allowances were made for a substantial portion of these loss carry forwards. As a result, income before minority interests in fiscal 2005 increased 5%, to ¥120,516 million, from the preceding fiscal year.

Minority interests in fiscal 2005 increased 32%, to ¥83,196 million, from the preceding fiscal year due primarily to improvement as a whole in the business results of publicly-held subsidiaries, such as Hitachi Construction Machinery, Co., Ltd., Hitachi Chemical Co., Ltd. and Hitachi Metals, Ltd.

As a result of the foregoing, net income in fiscal 2005 decreased 28% from the preceding fiscal year, to ¥37,320 million.

Table of Contents**Restructuring**

The table below shows restructuring charges by major industry segment for fiscal 2004. Restructuring charges amounted to ¥4,429 million in fiscal 2005 and ¥3,983 million in fiscal 2006, of which the breakdown by industry segment is not shown because the amount charged to each segment is not material.

	Fiscal 2004 (Millions of yen)
Information & Telecommunication Systems	16,708
Electronic Devices	533
Power & Industrial Systems	2,428
Digital Media & Consumer Products	9,685
High Functional Materials & Components	3,945
Others	8
Total restructuring charges	33,307

Fiscal 2006 restructuring

For fiscal 2006, Hitachi recorded restructuring charges of ¥3,983 million. The restructuring charges included special termination benefits of ¥3,868 million for 554 employees. Payments of ¥4,931 million were made in fiscal 2006 and special termination benefits of ¥44 million were accrued as of March 31, 2007. The accrued amount is expected to be paid in the fiscal year ending March 31, 2008.

Restructuring charges mainly consist of special termination benefits for the early terminated employees of subsidiaries in High Functional Materials & Components and Information & Telecommunication Systems.

Fiscal 2005 restructuring

For fiscal 2005, Hitachi recorded restructuring charges of ¥4,429 million. The restructuring charges included special termination benefits of ¥2,786 million for 691 employees. Payments of ¥16,158 million were made in fiscal 2005 and special termination benefits of ¥1,106 million were accrued as of March 31, 2006. The accrued amount was paid in the fiscal year ended March 31, 2007.

Restructuring charges mainly consist of special termination benefits for certain former employees of subsidiaries in Electronic Devices who accepted early termination and losses on the disposal of fixed assets in High Functional Materials & Components.

Fiscal 2004 restructuring

For fiscal 2004, Hitachi recorded restructuring charges of ¥33,307 million, associated with restructuring measures primarily in Information & Telecommunication Systems, Digital Media & Consumer Products and High Functional Materials & Components. The restructuring charges included special termination benefits of ¥29,426 million for 3,714 employees. Payments of ¥15,939 million were made in fiscal 2004 and special termination benefits of ¥14,389 million were accrued as of March 31, 2005. The accrued amount was paid in the fiscal year ended March 31, 2006.

Information & Telecommunication Systems recorded restructuring charges of ¥16,708 million, consisting of special termination benefits in the amount of ¥16,666 million and a loss primarily on disposal of fixed assets in the amount of ¥42 million. The restructuring measures in this segment were implemented primarily by the Company and its domestic subsidiaries, in an effort to increase profitability by reducing fixed costs. Digital Media & Consumer Products recorded restructuring charges of ¥9,685 million, consisting of special termination benefits in the amount of ¥8,080 million and a loss primarily on disposal of fixed assets in the amount of ¥1,605 million. The restructuring measures in this segment were implemented primarily by the Company's digital media operations to reorganize business operations. These measures included introduction of an early retirement benefits program and reorganization of production bases for digital media products. High Functional Materials & Components recorded restructuring charges of ¥3,945 million, consisting of special termination benefits in the amount of ¥1,711 million and a loss primarily on disposal of fixed assets in the amount of ¥2,234 million. The restructuring measures in this segment were associated primarily with cable operations and magnetic materials operations, including introduction of an early retirement benefits program and reorganization of production bases for these products.

Table of Contents**B. Liquidity and Capital Resources**

The analysis made in this Item covers the three-year period from fiscal 2004 to fiscal 2006. Management considers maintaining an appropriate level of liquidity and securing adequate funds for current and future business operations to be important financial objectives. Through efficient management of working capital and selective investment in new plant and equipment, Hitachi is working to optimize the efficiency of capital utilization throughout its business operations. Hitachi endeavors to improve Hitachi group cash management by centralizing such management among the Company and its overseas financial subsidiaries. Hitachi's internal sources of funds include cash flows generated by operating activities and cash on hand. Management also considers short-term investments as an immediately available source of funds. In addition, Hitachi raises funds both from the capital markets and from Japanese and international commercial banks in response to its capital requirements. Management's policy is to finance capital expenditures primarily by internally generated funds and to a lesser extent by funds raised by the issuance of debt and equity securities in domestic and foreign capital markets.

In fiscal 2004, the Company raised a total of ¥170,000 million by means of syndicated loan agreements from domestic banks as funds for, among other purposes, redeeming the Company's 7th issue of unsecured convertible bonds that were due for redemption in September 2004. Further, the Company issued two series of convertible bonds (bonds with stock acquisition rights) in the aggregate amount of ¥100,000 million in October 2004. The bonds mature in five years with zero coupon rate. The procured funds were used primarily for raising funds for upfront investment, including investment in facilities and R&D for maintaining the medium-to-long term growth of Hitachi.

In fiscal 2005, the Company issued two series of unsecured straight bonds: (i) five-year bonds with a 0.7% coupon rate in an aggregate principal amount of ¥50,000 million, and (ii) ten-year bonds with a 1.56% coupon rate in an aggregate principal amount of ¥50,000 million. The Company issued these bonds for the purpose of redeeming the Company's 11th issue of unsecured straight bonds that was due for redemption in February 2006.

Hitachi relies for its liquidity principally on cash and other working capital as well as the issue of debentures, medium term notes and commercial paper, bank loans and other uncommitted sources of financing. While Hitachi maintains backup lines of credit to cover maturing commercial paper in the U.S. market, the aggregate amount of credit available under these credit lines is limited. At the end of fiscal 2006, the Company maintained commitment line agreements with a number of domestic banks under which the Company may borrow any amount it requires up to a total of ¥800,000 million in order to ensure efficient access to necessary funds. These commitment line agreements generally provide for a one through three year term, renewable upon mutual agreement between the Company and each of the lending banks. Certain of the Company's subsidiaries also maintain commitment line arrangements. Unused commitment lines for the Company and its subsidiaries totaled to ¥850,867 million as of March 31, 2007. The committed credit arrangements of the Company and its subsidiaries are, in general, subject to financial and other covenants and conditions prior to and after drawdown and require the borrower to represent, in connection with any borrowing under the agreement, that no material adverse change has occurred since certain dates.

At the end of fiscal 2006, the total of Hitachi's short-term debt, current portion of long-term debt and long-term debt amounted to ¥2,687,450 million, an increase of ¥268,406 million from at the end of fiscal 2005. The increase was due primarily to the issuance of the Company's commercial paper and an increase of borrowings at the Company and its consolidated subsidiaries. At the end of fiscal 2006, short-term debt totaled ¥894,393 million, consisting mainly of borrowings from banks and commercial paper, while long-term debt (excluding current portion) was ¥1,489,843 million, consisting mainly of debentures, debentures with stock acquisition rights, medium term notes and loans principally from banks and insurance companies. At the end of fiscal 2006, current portion of long-term debt totaled ¥303,214 million. A significant portion of Hitachi's long-term debt bears a fixed rate of interest. Hitachi's debt is not significantly affected by seasonal factors. In general, there are no material restrictions on Hitachi's use of borrowings. For further details including the maturity and interest rates, see note 9 to the consolidated financial statements.

Table of Contents

The Company's current debt ratings (long-term/short-term) are: A1/P-1 by Moody's; A-/A-2 by S&P and AA-/a-1+ by R&I. With its current ratings, the Company believes that its access to the global capital markets will remain sufficient for its financing needs. However, a downgrade of its debt ratings would likely increase the cost of debt finance by the Company. Hitachi seeks to maintain a stable credit rating in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain access to sufficient funding resources through the capital markets.

Transfers of funds from a subsidiary to a parent company in the form of a cash dividend are restricted under the Company Law and under regulatory requirements of certain foreign countries in which subsidiaries are located. Although some of the Company's subsidiaries are subject to such restrictions, Hitachi does not expect such restrictions to have a significant impact on the ability of Hitachi to meet its cash obligations.

Management believes that Hitachi's sources of liquidity and capital resources, including working capital, are adequate for its present requirements and business operations and will be adequate to satisfy its presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. Hitachi is seeking to ensure that its level of liquidity and access to capital resources continue to be maintained in order for Hitachi to successfully conduct its future operations in highly competitive markets.

Cash Flows

Summarized cash flows from operating, investing and financing activities for fiscal 2004, 2005 and 2006 are shown below.

	Fiscal 2004	Fiscal 2005	Fiscal 2006
	(Millions of yen)		
Net cash provided by operating activities	565,356	690,875	615,042
Net cash used in investing activities	(526,988)	(501,362)	(786,170)
Net cash provided by (used in) financing activities	(99,429)	(261,638)	121,259
Effect of exchange rate changes on cash and cash equivalents	5,380	21,665	9,480
Net decrease in cash and cash equivalents	(55,681)	(50,460)	(40,389)

Net cash provided by operating activities was ¥615,042 million, ¥690,875 million and ¥565,356 million in fiscal 2006, 2005 and 2004, respectively. The decrease in fiscal 2006 was due primarily to a net loss primarily resulted from an operating loss in Digital Media & Consumer Products, an increase in inventories due primarily to an increase in sales and an increase in price of raw materials, partially offset by a decrease in trade receivables in part as a result of an improved cash collections from customers and cash receipts from securitized receivables and, among other items, by an improvement of ¥67,671 million in the Other line of the cash flows from operating activities for fiscal 2006, from out-flows of ¥11,447 million in fiscal 2005 to in-flows of ¥56,224 million. This is mainly due to cash flows from the sale of trading securities amounting to ¥66.0 billion, which was completed to maintain liquidity in light of the recorded net loss. The increase in fiscal 2005 was due primarily to an increase in payables, partially offset by an increase in inventories of raw materials and construction machinery.

Net cash used in investing activities was ¥786,170 million, ¥501,362 million and ¥526,988 million in fiscal 2006, 2005 and 2004, respectively. The increase in fiscal 2006 was due primarily to an increase in investment in manufacturing equipment for HDDs, plasma display panels and automotive products, an increase in investments and purchases of subsidiaries' common stock, primarily the shares of Clarion and NEOMAX through tender offers, a decrease of cash inflows from collections of securitized lease receivables, and a decrease in proceeds from sales of investments and subsidiaries' common stock. The decrease in fiscal 2005 was due primarily to an increase of cash inflows from investments in leases as a result of securitizing lease receivables, partially offset by an increase of cash outflows for investments and purchases of subsidiaries' common stock as a result of the payment to IBM Corporation for the acquisition of its HDD business and a decrease of cash inflows as a result of the sale of investments and subsidiaries' common stock. As of March 31, 2007, Hitachi's capital commitments for the purchase of property, plant and equipment amounted to ¥103,809 million, which is expected to be funded primarily through internal sources of financing.

Table of Contents

Net cash provided by financing activities was ¥121,259 million in fiscal 2006, due primarily to an increase in the issuance of commercial paper, an increase in financing through straight bonds and borrowings, and a decrease in payments on long-term debt. Net cash used in financing activities was ¥261,638 million and ¥99,429 million in fiscal 2005 and 2004, respectively. These outflows in financing activities in fiscal 2005 and fiscal 2004 were chiefly due to Hitachi's efforts to reduce interest-bearing debt by improving cash management within the Company and its subsidiaries. The increase in fiscal 2005 was due primarily to a decrease of proceeds from long-term debt, partially offset by a decrease of payments on long-term debt due primarily to the redemption of the Company's 11th issue of unsecured straight bonds.

In fiscal 2006, the above activities decreased cash and cash equivalents by ¥40,389 million from fiscal 2005. Cash and cash equivalents at the end of fiscal 2006 amounted to ¥617,866 million, primarily held in Japanese yen, with a substantial portion of the remaining amount held in U.S. dollars.

Short-term investments, the change of which is classified as investing activities, are considered to be an immediately available source of funds. Short-term investments at the end of fiscal 2006 amounted to ¥33,986 million, a decrease of ¥128,770 million from at the end of fiscal 2005 due primarily to exchanges of short-term investments into cash. As a result of the foregoing, the total of cash and cash equivalents and short-term investments at the end of fiscal 2006 was ¥651,852 million, a decrease of ¥169,159 million from at the end of fiscal 2005.

Assets, Liabilities and Stockholders' Equity

At the end of fiscal 2006, total assets amounted to ¥10,644,259 million, an increase of ¥623,064 million from the end of fiscal 2005 due primarily to an increase in inventories primarily in construction machinery, HDDs and flat panel TVs due to expected increases in their sales and the effect of Clarion becoming a consolidated subsidiary in December 2006, partially offset by a decrease in cash due primarily to a tender offer for shares of NEOMAX conducted by Hitachi Metals and the effect of a U.S. consolidated subsidiary becoming an equity method affiliate due to a share sale by the Company when the U.S. company listed its shares.

At the end of fiscal 2006, the total of Hitachi's short-term debt, current portion of long-term debt and long-term debt amounted to ¥2,687,450 million, an increase of ¥268,406 million from at the end of fiscal 2005, due primarily to the issuance of commercial paper and an increase of borrowings. At the end of fiscal 2006, retirement and severance benefits amounted to ¥818,457 million, a decrease of ¥9,212 million from at the end of fiscal 2005, due primarily to the Company's special contribution to pension funds. At the end of fiscal 2006, minority interests amounted to ¥1,073,749 million, an increase of ¥36,942 million from the end of fiscal 2005, due primarily to the firm business results of publicly-held subsidiaries.

At the end of fiscal 2006, stockholders' equity amounted to ¥2,442,797 million, a decrease of ¥64,976 million from the end of fiscal 2005 due primarily to the posting of a net loss and payments of dividends. As a result, the ratio of stockholders' equity to total assets decreased 2% from the preceding fiscal year, to 23%. The ratio of the total of short-term debt and long-term debt to the total of stockholders' equity and minority interests became 0.76, a deterioration of 0.08 points from the end of fiscal 2005.

The Company and its subsidiaries assess foreign currency exchange rate risk and interest rate risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. Hitachi uses certain derivative financial instruments in order to reduce such risks. In principle, Hitachi does not enter into derivative financial instruments for speculation purposes. For additional information on financial instruments and derivative financial instruments, see notes 24 and 26 to the consolidated financial statements.

C. Research and Development, Patents and Licenses, etc.

Viewing research and development, or R&D, activity as a key investment for the future, Hitachi conducts its R&D in a number of areas from materials to production technology. Hitachi focuses on basic R&D with a long-term vision but also strives to achieve more immediate benefits by introducing new products.

Hitachi's R&D expenditures amounted to ¥388,634 million in fiscal 2004, ¥405,079 million in fiscal 2005 and ¥412,534 million in fiscal 2006. The ratio of R&D expenditures to total revenues was approximately 4% over these three years.

Hitachi recognizes the importance of the Information & Telecommunication Systems segment and the Electronic Devices segment as sources of new technologies that can be applied to other segments. Therefore, Hitachi places emphasis on these segments in allocating R&D resources. In fiscal 2006, total expenditures in the Information & Telecommunication Systems segment and the Electronic Devices segment accounted for 49% of total R&D expenditures.

Table of Contents

To achieve higher efficiency, Hitachi has reinforced the link between R&D activities and marketing activities under the control of each business operation while maintaining its focus on long-term research at independent corporate laboratories. Hitachi's global R&D activities include cooperation with universities and companies in the U.S. and Europe. Hitachi will reinforce R&D in the area of both frontier and platform research. The former aims to cultivate future mainstay businesses, while the latter has a more immediate focus of increasing productivity and quickening the pace of product development throughout Hitachi. Hitachi also focuses on leading-edge R&D for creating its future core businesses and on fundamental technologies for improving productivity and quality and lowering costs.

For information on Hitachi's patents and licenses, see Item 4. Information on the Company B. Business Overview Intellectual Property and Licenses.

D. Trend Information

In October 2004, the Company merged its equity-method affiliate, TOKICO LTD., into itself. As a result, the revenues of TOKICO LTD. beginning October 2004 have been included in Hitachi's consolidated statement of operations for fiscal 2004.

On June 15, 2006, Hamaoka Nuclear Power Station No. 5 of Chubu Electric Power Co., Inc. shut down due to turbine damage. As a precautionary measure, on July 5, 2006, Shika Nuclear Power Station No. 2 of Hokuriku Electric Power Company, which uses the same type of turbines, was shut down for an examination of the turbines and the examination revealed damage to the turbine vanes. The accrued amount of the repair costs was included in Hitachi's operating results for the fiscal year ended March 31, 2007 and was recorded as part of cost of sales. Although the Company cannot estimate specified damages at the present time, there can be no assurance that the Company could not be liable for repair costs or other damages incurred by Chubu Electric Power Co., Inc. and Hokuriku Electric Power Company.

In October 2006, the Company conducted a tender offer for shares of Clarion and acquired a controlling interest. Subsequently, Clarion became a consolidated subsidiary of the Company in December 2006. As a result, the revenues of Clarion beginning December 2006 have been included in Hitachi's consolidated statement of operations for fiscal 2006.

Factors that could cause actual results to differ materially from those expected or implied in any forward-looking statements in this section include, but are not limited to, rapid and significant declines in product prices and uncertainty as to Hitachi's ability to implement restructuring measures. In addition, see the Cautionary Statement at the beginning of this annual report and Item 3. Key Information D. Risk Factors for other examples of factors that could cause actual results to differ materially from those anticipated.

E. Off-balance Sheet Arrangements

Hitachi's off-balance sheet arrangements consist primarily of off-balance sheet Special Purpose Entities, or SPEs, used to securitize and sell certain trade and lease receivables. The purpose of such securitization transactions is to enable Hitachi to access the capital markets for liquidity.

In these securitizations, trade and lease receivables are sold to the SPEs which are in turn packaged mainly into asset-backed commercial paper by the SPEs for sale to third party investors. In certain securitizations, the SPEs may require Hitachi to retain residual interests subordinated to the investors. The SPEs and the investors have no recourse against Hitachi when debtors fail to pay trade and lease receivables when due. Accordingly, Hitachi's contingent liability exposure is limited to the retained subordinated residual interests.

No officers, directors or employees of Hitachi have any investments in the SPEs. The SPEs meet the accounting criteria for off-balance sheet treatment and are not consolidated under generally accepted accounting principles in the United States.

Edgar Filing: HITACHI LTD - Form 20-F/A

Hitachi uses the percentage-of-completion method to recognize revenue from sales of tangible products under long-term construction type arrangements, in connection with the construction of nuclear, thermal and hydroelectric power plants. Under the percentage-of-completion method, revenue from a sale is recognized in an amount equal to estimated total revenue from the sale multiplied by the percentage that costs incurred to date bear to estimated total completion costs based upon most recently available information. The use of percentage-of-completion method requires Hitachi to make significant assumptions about estimates of total contract costs, remaining costs to completion, total contract revenues, contract risks and other factors. Hitachi continually reviews these estimates and adjusts them as it deems necessary. Any anticipated losses on fixed price contracts are charged to operations when Hitachi is able to estimate such losses. Hitachi makes provisions for contingencies (e.g. performance penalty and benchmarking) in the period in which they become known to Hitachi under the specific terms and conditions of the relevant contract and are estimable by Hitachi.

Table of Contents***Impairment of Long-Lived Assets***

Hitachi reviews the carrying value of its long-lived assets held and used, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Hitachi performs the initial impairment review using estimates of undiscounted future cash flows. If the carrying value of the asset is considered impaired based upon the review, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its estimated fair value. In estimating, Hitachi uses available quoted market prices and present value techniques, if appropriate, based on the estimated future cash flow expected to result from the use of the assets and their eventual disposition. Although management believes that the estimates of future cash flows and fair value are reasonable, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations of the long-lived assets. Such unforeseen changes include, but not limited to, changes in production due to trends of supply and demand in the markets, rapid changes in selling prices of products or purchasing prices of material and component, unexpected technological innovation causing obsolescence of present products and unpredictable changes in business assumption relating to revision of an authorized business plan which result in changes in the extent or manner the long-lived assets are used.

Goodwill and Intangible Assets

All goodwill and other intangible assets with indefinite useful lives are not amortized but are tested for impairment in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, during the fourth quarter after the annual forecasting process is completed or between annual tests if an event occurs or circumstances change in a manner that would more likely than not reduce the fair value of these assets below their carrying value. Fair value for these assets is determined using a discounted cash flow analysis. The estimation of the fair value is based on various assumptions, including forecasted operational results set forth in Hitachi's authorized business plan, discount rates and perpetual growth rates. The forecasted operational results are based on currently available assumptions considered to be reasonable. However, actual results may differ materially from those projected because of factors such as economic trends in Japan, North America, Asia and other major markets where Hitachi does business, supply in excess of demand leading to a decline in selling prices or production operation, intense price competition or decreases in prices, a sharp rise in the purchasing prices of material and component and currency exchange rate fluctuations. Especially, digital media products are sensitive to decreases in prices, and therefore, an impairment loss may be incurred due to an unforeseeable change in the authorized business plan. Although management believes that the estimates of future cash flows and fair value are reasonable, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in the business environment could negatively affect the valuations and the amount of the impairment charge.

Deferred Tax Assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. The ultimate realization of Hitachi's deferred tax assets is dependent on whether Hitachi is able to generate future taxable income in specific tax jurisdictions during the periods in which temporary differences become deductible. Management has scheduled the expected future reversals of the temporary differences and projected future taxable income, including the execution of certain available tax strategies if needed, in making this assessment. Actual results may differ materially from forecasted operational results, which are the basis for projecting future taxable income, and be subject to adjustment because of factors such as economic trends in major markets where Hitachi does business, trends of supply and demand in the markets, prices of products and services, purchasing prices of material and component, currency exchange rate fluctuations and rapid technological innovation. As a result, the difference could negatively affect the amount of deferred tax assets and valuation allowances. The realizability of deferred tax assets is assessed for each taxable unit in each taxable jurisdiction, and the results of the assessment may differ from unit to unit due to different products or jurisdictions even if they operate same kind of business. Based on these factors, management believes that it is more likely than not that Hitachi will realize the benefits of these temporary differences, net of the existing valuation allowance as of March 31, 2007. However, the amount of deferred tax assets may be different if Hitachi does not realize estimated future taxable income during the carry forward periods as originally expected.

Table of Contents**Retirement Benefits**

Hitachi has a significant amount of employee retirement benefit costs which are developed from actuarial valuations. Inherent in these valuations are key assumptions in estimating pension costs including mortality, withdrawal, retirement, changes in compensation, discount rate and expected return on plan assets. Hitachi is required to estimate the key assumptions by taking into account various factors including personnel demographics, current market conditions and expected trends in interest rates. Hitachi determines the discount rate by looking to available information about rates implicit in return on high-quality fixed-income governmental and corporate bonds. Accordingly, the discount rate is likely to change from period to period based on these ratings. A decrease in the discount rate results in an increase in actuarial pension benefit obligations. Increases and decreases in the pension benefit obligation affect the amount of the actuarial gain or loss which is amortized into income over the service lives of employees. Changes in the key assumptions may have a material effect on Hitachi's financial position and results of operations. Management believes that estimation of the key assumptions is reasonable under the various underlying factors.

The table below shows the sensitivity to a change in discount rates and the expected rate of return on plan assets to pre-tax income and projected benefit obligation (PBO), holding all other assumptions constant.

	Effect on pre-tax income For the year ended March 31, 2008 (Millions of yen)	Effect on PBO As of March 31, 2007
Discount rates		
0.5% decrease	(8,748)	164,143
0.5% increase	8,811	(152,242)
Expected rate of return on plan asset		
0.5% decrease	(7,345)	
0.5% increase	7,345	

Allowance for Doubtful Accounts

Hitachi is required to estimate the collectibility of its trade receivable and investments in leases. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness of each customer. Such assessment includes an examination of factors such as business conditions, turnover of receivables and financial positions for significant customers. Significant changes in required reserves have been recorded in recent periods and may occur in the future due to the current market environment. Any deterioration in customers' credit ratings may adversely affect net income.

Investments in Securities

Hitachi holds various investments in securities and equity-method investments. A decline in fair value of securities and equity-method investments below carrying value that is deemed other than temporary results in a write-down of the carrying value to the fair value as a new cost basis. The amount of the write-down is included in earnings. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. Management regularly reviews each investment in securities and each equity-method investment for possible impairment based on criteria such as the extent to which the carrying value exceeds fair value, the duration the fair value has been below the carrying value and the financial condition of and specific prospects of the issuer. A decline in market prices or a change in the financial condition of an issuer could negatively affect the fair value of an investment in securities.

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 28, 2008

Hitachi, Ltd.
(Registrant)

By: /s/ Toshiaki Kuzuoka
Name: Toshiaki Kuzuoka
Title: Vice President and Executive Officer

21

Table of Contents

EXHIBIT INDEX

- 12.1 Certification of Chief Executive Officer or equivalent pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
- 12.2 Certification of Chief Financial Officer or equivalent pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
- 13.1 Certification of Chief Executive Officer or equivalent pursuant to Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 13.2 Certification of Chief Financial Officer or equivalent pursuant to Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code