

Operating and Financial Review

Operating Results

Effective from April 1, 2013, the Company adopted earnings before interest and taxes ("EBIT"), which is presented as income before income taxes less interest income plus interest charges, as the measurement for the consolidated operating results.

Summary

Years ended March 31:	Millions of yen		Percent change
	2014	2013	
Total revenues	¥9,616,202	¥9,041,071	6%
EBIT	580,153	358,015	62%
Income before income taxes	568,182	344,537	65%
Net income	364,030	237,721	53%
Net income attributable to Hitachi, Ltd. stockholders	264,975	175,326	51%

Analysis of Statement of Operations

Total revenues increased 6% to ¥9,616.2 billion compared with the year ended March 31, 2013. This was due primarily to higher revenues in the Information & Telecommunication Systems segment mainly resulting from increased revenues from services business, and in the Social Infrastructure & Industrial Systems segment mainly resulting from strong performance of elevators and escalators in China. The increase in total revenues was also attributable to increased revenues in the Electronic Systems & Equipment, Automotive Systems, Digital Media & Consumer Products and Others (Logistics and Other services) segments. However, this increase was partially offset by decreased revenues in the Power Systems segment owing to the effects of the integration of the thermal power generation systems business into MITSUBISHI HITACHI POWER SYSTEMS, LTD., an equity-method affiliate. Our overseas revenues increased 17% to ¥4,312.7 billion compared with the year ended March 31, 2013, due primarily to higher revenues in Asia, North America and Europe.

Cost of sales increased 5% to ¥7,083.3 billion compared with the year ended March 31, 2013. The ratio of cost of sales to total revenues was 74%, a decrease of 1% compared with the year ended March 31, 2013.

Selling, general and administrative expenses increased 7% to ¥2,000.0 billion compared with the year ended March 31, 2013. The ratio of selling, general and administrative expenses to total revenues was 21%, which was approximately the same as in the year ended March 31, 2013.

Expenses related to competition law and others were posted in the amount of ¥76.8 billion in the year ended March 31, 2014. A breakdown of these expenses is as follows. We posted expenses of ¥19.0 billion in the Automotive Systems segment owing to the fact that Hitachi Automotive Systems, Ltd. has agreed with the United States Department of Justice to conclude a plea agreement regarding alleged violations of U.S. antitrust laws. In other cases, we posted expenses in relation to investigation in respect of alleged antitrust violations in Europe, certain civil disputes, occurring in connection with investigations and alleged antitrust violations in the U.S., and settlements of certain consequential losses involving dispute with customers.

Impairment losses for long-lived assets increased ¥10.5 billion to ¥33.7 billion, as compared with the year ended March 31, 2013. The Automotive Systems segment recognized impairment losses of ¥8.9 billion, due primarily to the battery businesses for automobiles projected lower-than-expected future income because of changes in market conditions. The Electronic Systems & Equipment segment recognized impairment losses of ¥6.4 billion, primarily due to the medical equipment business projected lower-than-expected future income because of severe market competition. The High Functional Materials & Components segment recognized impairment losses of ¥5.1 billion, due primarily to the deterioration of the profitability of the high-grade metal products and materials business because of decreased demand. The above impairment losses were determined on the basis of fair value estimates based primarily on discounted future cash flows.

Restructuring charges decreased ¥2.2 billion to ¥28.2 billion, as compared with the year ended March 31, 2013. In the year ended March 31, 2014, special termination benefits were ¥28.1 billion. This mainly consisted of special termination benefits expensed for rationalizing the workforce in the Information & Telecommunication Systems segment, for withdrawal from TV parts and other business in the Digital Media & Consumer Products segment, and for restructuring wires, cables and other relevant products business, which was undertaken to address the deterioration of the business environment, in the High Functional Materials & Components segment.

Interest income increased ¥0.9 billion to ¥14.1 billion, as compared with the year ended March 31, 2013.

Dividend income increased ¥1.7 billion to ¥8.1 billion, as compared with the year ended March 31, 2013.

Other income increased ¥156.8 billion to ¥183.1 billion, as compared with the year ended March 31, 2013. This increase was due primarily to an increase in the net gain on securities, which increased ¥155.8 billion to ¥173.1 billion, as compared with the year ended March 31, 2013. The net gain on securities mainly consisted of a gain associated with the transfer of the thermal power generation systems business.

Interest charges decreased ¥0.6 billion to ¥26.1 billion, as compared with the year ended March 31, 2013.

Loss on sale of stock of an affiliated company was posted in the amount of ¥5.9 billion in the year ended March 31, 2014.

Other deductions increased ¥5.2 billion to ¥7.7 billion, as compared with the year ended March 31, 2013.

Equity in net earning of affiliated companies in the year ended March 31, 2014 was ¥8.6 billion, as compared with net loss of ¥40.4 billion in the year ended March 31, 2013. This was due primarily to the fact that Renesas Electronics Corporation, which had reported losses in the year ended March 31, 2013, ceased to be our equity-method affiliate.

Income before income taxes increased ¥223.6 billion to ¥568.1 billion, and EBIT increased ¥222.1 billion to ¥580.1 billion, as compared with the year ended March 31, 2013.

Income taxes increased ¥97.3 billion to ¥204.1 billion due primarily to the increase in income before income taxes, as compared with the year ended March 31, 2013.

Net income increased ¥126.3 billion to ¥364.0 billion, as compared with the year ended March 31, 2013.

Net income attributable to noncontrolling interests increased ¥36.6 billion to ¥99.0 billion, as compared with the year ended March 31, 2013.

As a result of the foregoing, net income attributable to Hitachi, Ltd. stockholders increased ¥89.6 billion to ¥264.9 billion, as compared with the year ended March 31, 2013.

Operations by Segment

The following is an overview of results of operations by segment. Revenues for each segment include intersegment transactions.

Effective April 1, 2013, the Company changed its measurement of segment profitability from operating income, which is presented as total revenues less total cost of sales and selling, general and administrative expenses in order to be consistent with financial reporting principles and practices generally accepted in Japan, to EBIT. Accordingly, the amounts previously reported for the year ended March 31, 2013 have been restated in conformity with the new measure of segment profit or loss.

Effective April 1, 2013, the Company changed the name of "Others" to "Others (Logistics and Other services)."

(Information & Telecommunication Systems)

Revenues were ¥1,954.9 billion, an increase of 9% compared with the year ended March 31, 2013. This increase was due primarily to increased sales in the services business and of ATMs for the overseas market, as well as increased revenues from the storage solution business due to the effects of foreign exchange rate fluctuations.

Segment profit decreased 5% to ¥98.5 billion, as compared with the year ended March 31, 2013. This decrease was due primarily to increased restructuring charges, partially offset by the increase in profits from the services business due mainly to higher revenues.

(Power Systems)

Revenues were ¥777.3 billion, a decrease of 14% compared with the year ended March 31, 2013. This decrease was due primarily to the effect of the transfer of the thermal power generation systems business and a significant decline in revenues from preventive maintenance services for nuclear power generation systems.

Segment profit increased 409% to ¥152.9 billion, as compared with the year ended March 31, 2013. This increase was due primarily to posting a gain associated with the transfer of the thermal power generation systems business, partially offset by the decrease in operating income owing to lower revenues.

(Social Infrastructure & Industrial Systems)

Revenues were ¥1,446.6 billion, an increase of 10% compared with the year ended March 31, 2013. The increase was due primarily to higher sales of elevators and escalators in China and other markets, and higher revenues from the railway systems business for overseas markets.

Segment profit decreased 7% to ¥59.1 billion, as compared with the year ended March 31, 2013. This decrease was due primarily to the decrease in operating income owing to lower earnings from overseas projects in social infrastructure systems business, partially offset by the higher profits from elevators and escalators and in the railway systems business resulting from increased revenues.

(Electronic Systems & Equipment)

Revenues were ¥1,116.7 billion, an increase of 10% compared with the year ended March 31, 2013. This increase was due primarily to increased sales of semiconductor manufacturing equipments and medical analysis systems at Hitachi High-Technologies Corporation and increased sales of semiconductor manufacturing equipments at Hitachi Kokusai Electric Inc., as well as increased revenues at Hitachi Koki Co., Ltd. and Hitachi Medical Corporation.

Segment profit increased 62% to ¥52.6 billion, as compared with the year ended March 31, 2013. This increase was due primarily to the increase in operating income resulting from higher revenues and the effect of business restructuring.

(Construction Machinery)

Revenues were ¥767.3 billion, an increase of 1% compared with the year ended March 31, 2013. This increase was due primarily to higher sales of hydraulic excavators in Japan and China, partially offset by lower sales of mining machinery in North America, Asia and Oceania.

Segment profit increased 9% to ¥63.3 billion, as compared with the year ended March 31, 2013. This increase was due primarily to the increase in operating income resulting from the effect of foreign exchange rate fluctuations and progress with cost-cutting programs, partially offset by the absence of large gains on the sale of subsidiary shares due to business restructuring that were recorded in the year ended March 31, 2013.

(High Functional Materials & Components)

Revenues were ¥1,363.2 billion, an increase of 2% compared with the year ended March 31, 2013. This increase was due primarily to the higher sales of automotive- and electronics-related products, partially offset by lower demand for HDD-related products and the effect of the withdrawal from unprofitable businesses.

Segment profit increased 90% to ¥96.5 billion, as compared with the year ended March 31, 2013. This increase was due primarily to the increase in operating income resulting from higher revenues, the effect of cost-cutting programs and business restructuring for the wires and cables business, and the absence of write-offs of inventories associated with a decrease in raw material prices that were recorded at Hitachi Metals, Ltd. in the year ended March 31, 2013. This increased segment profit was also attributable to the decrease in restructuring charges for the wires and cables business, etc.

(Automotive Systems)

Revenues were ¥892.1 billion, an increase of 11% compared with the year ended March 31, 2013. This increase was due primarily to higher demand for automobile in overseas markets and the last-minute demand ahead of the scheduled consumption tax rate increase in Japan.

Segment profit decreased 86% to ¥4.9 billion compared with the year ended March 31, 2013. This decrease was due primarily to posting expenses related to competition law and others owing to the fact that Hitachi Automotive Systems, Ltd. has agreed with the United States Department of Justice to conclude a plea agreement regarding alleged violations of U.S. antitrust laws, and posting impairment losses for the battery businesses for automobiles, partially offset by the increase in operating income resulting from higher revenues and associated improvement in capacity utilization.

(Digital Media & Consumer Products)

Revenues were ¥890.8 billion, an increase of 9% compared with the year ended March 31, 2013. This increase was due primarily to the last-minute demand ahead of the scheduled consumption tax rate increase in Japan and higher sales of air-conditioning equipments both in Japan and overseas.

Segment loss worsened ¥2.0 billion to ¥2.9 billion, as compared with the year ended March 31, 2013. This was due primarily to the increase in restructuring charges, partially offset by increased operating income resulting from higher revenues.

(Others (Logistics and Other services))

Revenues were ¥1,233.6 billion, an increase of 11% compared with the year ended March 31, 2013. This increase was due primarily to increased revenues at Hitachi Transport System, Ltd. resulting from business expansion through the consolidation of Japanese and overseas companies, and increased revenues at Hitachi Maxell, Ltd. owing to the succession of the LCD projectors business.

Segment profit increased 44% to ¥48.1 billion, as compared with the year ended March 31, 2013. This increase was due primarily to the increase in operating income resulting from higher revenues and the effects of promoting cost-cutting programs, as well as decreased restructuring charges.

(Financial Services)

Revenues were ¥338.5 billion, a decrease of 1% compared with the year ended March 31, 2013. This decrease was due primarily to the absence of recording revenues related to a large cancellation in the year ended March 31, 2013, partially offset by higher revenues from the overseas business.

Segment profit increased 18% to ¥34.6 billion, as compared with the year ended March 31, 2013. This increase was due primarily to the increase in operating income resulting from higher earnings from the overseas business and higher earnings as a result of the decrease in credit costs in Japan, as well as decreased restructuring charges.

Revenues by Geographic Area

Years ended March 31:	Millions of yen		Percent change
	2014	2013	
Japan	¥5,303,474	¥5,355,119	-1%
Outside Japan	4,312,728	3,685,952	17%
Asia	2,063,567	1,711,141	21%
North America	910,274	804,057	13%
Europe	812,120	636,840	28%
Other Areas	526,767	533,914	-1%
Total	¥9,616,202	¥9,041,071	6%

(Japan)

Revenues in Japan were ¥5,303.4 billion, a decrease of 1% compared with the year ended March 31, 2013. This decrease was due primarily to the significant decrease in revenues in the Power Systems segment owing to the effects of the transfer of the thermal power generation systems business, and the decrease in revenues in the High Functional Materials & Components segment owing to the withdrawal from unprofitable businesses, partially offset by the increases in revenues in the Information & Telecommunications Systems, Electronic Systems & Equipment, Construction Machinery and Digital Media & Consumer Products segments, etc.

(Asia)

Revenues in Asia were ¥2,063.5 billion, an increase of 21% compared with the year ended March 31, 2013. This increase was due to the increases in revenues in all segments, including the Information & Telecommunication Systems segment, which reported higher sales of ATMs in China, the Social Infrastructure & Industrial Systems segment, which reported higher sales of elevators and escalators mainly resulting from the effects of foreign exchange rates fluctuations, and the Digital Media & Consumer Products segment, which reported higher revenues resulting from higher sales of air-conditioning equipments and the effects of the foreign exchange rates fluctuations.

(North America)

Revenues in North America were ¥910.2 billion, an increase of 13% compared with the year ended March 31, 2013. This increase was due primarily to the increase in revenues in the Information & Telecommunication Systems segment, resulting from the effects of the foreign exchange rates fluctuations, the Electronic Systems & Equipment, High Functional Materials & Components, Automotive Systems and Others (Logistics and Other services) segments, partially offset by the decrease in revenues in the Construction Machinery segment owing to the lower sales of mining machinery.

(Europe)

Revenues in Europe were ¥812.1 billion, an increase of 28% compared with the year ended March 31, 2013. This increase was due to the increases in revenues in all segments, including the Information & Telecommunication Systems segment, which reported increased revenues resulting from the effects of the foreign exchange rates fluctuations, the Social Infrastructure & Industrial Systems segment, which reported increased revenues from the railway systems business and the Construction Machinery segment, which reported increased revenues in the U.K.

(Other Areas)

Revenues in other areas were ¥526.7 billion, a decrease of 1% compared with the year ended March 31, 2013. This decrease was due primarily to the decrease in revenues in the Power Systems segment owing to the effects of the transfer of the thermal power generation systems business, and in the Construction Machinery segment owing to decreased sales of mining machinery in Australia, etc. However, this decrease was partially offset by the increased revenues in the Others (Logistics and Other services) segment due to the consolidation of a Turkish company by Hitachi Transport System, Ltd.

Liquidity and Capital Resources

Our 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 plants and equipment, we are working to optimize the efficiency of capital utilization throughout our business operations. We endeavor to improve our group cash management by centralizing such management among us and our overseas financial subsidiaries. Our internal sources of funds include cash flows generated by operating activities and cash on hand. Our management also considers short-term investments to be an immediately available source of funds. In addition, we raise funds both in the capital markets and from Japanese and international commercial banks in response to our capital requirements. Our management's policy is to finance capital expenditures primarily by internally generated funds and to a lesser extent by funds raised through the issuance of debt and equity securities in domestic and foreign capital markets. In order to flexibly access funding, we maintain our shelf registration with the maximum outstanding balance of ¥300.0 billion and issued the straight bonds of ¥60.0 billion on December 13, 2013 for the purpose of repaying short-term debts (commercial paper) and meeting demand for funds for growth of the Social Innovation Business.

We maintain commitment line agreements with a number of domestic banks under which we may borrow in order to ensure efficient access to necessary funds. These commitment line agreements generally provide for a one-year term, renewable upon mutual agreement between us and each of the lending banks, as well as another commitment line agreement with a contract term of three years and two months ending in July 2016. These committed credit arrangements are, in general, subject to financial and other covenants and conditions both prior to and after drawdown, the most restrictive of which require maintenance of minimum issuer rating or long-term debt ratings from Rating and Investment Information, Inc. (R&I) of BBB-. As of March 31, 2014, our unused commitment lines totaled ¥515.1 billion, including these of ¥400.0 billion which the Company maintained.

We receive debt ratings from Moody's Japan K.K. (Moody's), Standard & Poor's Rating Japan (S&P), as well as R&I. Our debt ratings as of March 31, 2014 were as follows.

Rating Company	Long-term	Short-term
Moody's	A3	P-2
S&P	A-	A-2
R&I	A+	a-1

With our current ratings, we believe that our access to the global capital markets will remain sufficient for our financing needs. We seek to improve our credit ratings 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.

Cash Flows

Years ended March 31:	Millions of yen	
	2014	2013
Net cash provided by operating activities	¥439,406	¥583,508
Net cash used in investing activities	(491,363)	(553,457)
Net cash provided by (used in) financing activities	32,968	(180,445)
Effect of exchange rate changes on cash and cash equivalents	49,574	58,449
Net increase (decrease) in cash and cash equivalents	30,585	(91,945)
Cash and cash equivalents at beginning of year	527,632	619,577
Cash and cash equivalents at end of year	¥558,217	¥527,632

(Cash Flows from Operating Activities)

Net income amounted to ¥364.0 billion in the year ended March 31, 2014, an increase of ¥126.3 billion compared to the year ended March 31, 2013, due primarily to increases in operating income and net gain on securities. In the year ended March 31, 2014, trade receivables increased by ¥308.4 billion due primarily to the increase in revenues, whereas in the year ended March 31, 2013, a decrease in trade receivables of ¥71.7 billion was recorded. Inventories increased by ¥70.7 billion in the year ended March 31, 2014, whereas a decrease in inventories of ¥7.8 billion was recorded in the year ended March 31, 2013. Compared with the decrease in payables of ¥187.6 billion in the year ended March 31, 2013, payables increased by ¥54.3 billion in the year ended March 31, 2014. As a result of the foregoing, the net cash provided by operating activities was ¥439.4 billion in the year ended March 31, 2014, a decrease of ¥144.1 billion compared with the year ended March 31, 2013.

(Cash Flows from Investing Activities)

A net sum of ¥561.0 billion in the year ended March 31, 2014 was recorded as investments related to property, plant and equipment, where the collection of investments in leases, the proceeds from disposal of property, plant and equipment and the proceeds from disposal of tangible assets and software to be leased were subtracted from the amount of the capital expenditures, the purchase of intangible assets and the purchase of tangible assets and software to be leased, an increase of ¥72.7 billion from the year ended March 31, 2013. In addition, purchase of investments in securities and shares of newly consolidated subsidiaries decreased by ¥84.1 billion and amounted to

¥87.5 billion, due mainly to the absence of stock acquisitions related to the acquisition of Horizon Nuclear Power Limited in the year ended March 31, 2013. Proceeds from sale of investments in securities and shares of consolidated subsidiaries resulting in deconsolidation increased by ¥42.1 billion and amounted to ¥122.8 billion in the year ended March 31, 2014, due mainly to selling a part of shares of Western Digital Corporation. As a result of the foregoing, the net cash used in investing activities was ¥491.3 billion in the year ended March 31, 2014, a decrease of ¥62.0 billion compared with the year ended March 31, 2013.

(Cash Flows from Financing Activities)

Net decrease in short-term debt in the year ended March 31, 2014 was ¥203.8 billion, whereas net increase of ¥74.6 billion was recorded in the year ended March 31, 2013. A net sum of ¥338.8 billion was recorded as proceeds related to long-term debt, where the payments on long-term debts were subtracted from the proceeds from long-term debt, an increase of ¥495.4 billion from the year ended March 31, 2013. As a result of the foregoing, the net cash provided by financing activities was ¥32.9 billion in the year ended March 31, 2014, whereas the net cash of ¥180.4 billion was used in financing activities in the year ended March 31, 2013.

As a result of the above items, as of March 31, 2014, cash and cash equivalents amounted to ¥558.2 billion, net increase of ¥30.5 billion from March 31, 2013. Free cash flows, the sum of cash flows from operating and investing activities, represented an outflow of ¥51.9 billion in the year ended March 31, 2014, whereas an inflow of ¥30.0 billion was recorded in the year ended March 31, 2013.

Assets, Liabilities and Equity

As of March 31, 2014, total assets amounted to ¥11,016.8 billion, an increase of ¥1,207.6 billion from March 31, 2013. This increase was due primarily to an increase in accounts receivables mainly resulting from increased revenues, an increase in the value of foreign currency-denominated assets resulting from the translation due to the depreciation of yen, an increase in the value of marketable securities in line with higher stock market prices, and the effects of the consolidation of NBL Co., Ltd. at Hitachi Capital Corporation for strengthening the financial services business. Total cash and cash equivalents and short-term investments as of March 31, 2014 amounted to ¥567.3 billion, an increase of ¥29.3 billion from the amount as of March 31, 2013.

As of March 31, 2014, total interest-bearing debt, which represents the sum of short-term debt, long-term debt and non-recourse

borrowings of consolidated securitization entities, amounted to ¥2,823.0 billion, an increase of ¥452.9 billion from March 31, 2013. This increase was due primarily to the issuance of straight bonds, the procurement of new long-term debt by the Company, and the effects of the consolidation of NBL Co., Ltd. at Hitachi Capital Corporation. As of March 31, 2014, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥647.2 billion, a decrease of ¥26.5 billion from March 31, 2013, due primarily to the repayment of commercial paper by the Company. As of March 31, 2014, long-term debt (excluding current portion), consisting mainly of debentures, debentures with stock acquisition rights, medium-term notes and loans principally from banks and insurance companies, amounted to ¥1,512.7 billion, an increase of ¥205.9 billion from March 31, 2013, due primarily to the issuance of straight bonds and the procurement of new long-term debt by the Company.

As of March 31, 2014, total Hitachi, Ltd. stockholders' equity amounted to ¥2,651.2 billion, an increase of ¥568.6 billion from March 31, 2013, due primarily to posting of net income attributable to Hitachi, Ltd. stockholders and a decrease in the accumulated other comprehensive loss resulting from the depreciation of yen and higher stock market prices. As a result, the ratio of total Hitachi, Ltd. stockholders' equity to total assets as of March 31, 2014 was 24.1%, compared with 21.2% as of March 31, 2013.

Noncontrolling interests as of March 31, 2014 was ¥1,201.2 billion, an increase of ¥104.4 billion from March 31, 2013.

The ratio of interest-bearing debt to total equity (the sum of total Hitachi, Ltd. stockholders' equity and noncontrolling interests) decreased to 0.73, compared with 0.75 as of March 31, 2013.