

## Operating and Financial Review

### Operating Results

The Company's consolidated financial statements have been prepared in conformity with IFRS since the year ended March 31, 2015. The figures in the year ended March 31, 2014 are also based on IFRS.

#### Summary

Years ended March 31:	Billions of yen		Percent change
	2014	2015	
Revenues	¥9,666.4	¥9,774.9	1%
EBIT*	691.2	534.0	-23%
Income from continuing operations, before income taxes	678.4	518.9	-24%
Net income attributable to Hitachi, Ltd. stockholders	413.8	217.4	-47%

\* EBIT represents earnings before interest and taxes, which is presented as income from continuing operations, before income taxes less interest income plus interest charges.

#### Analysis of Statement of Operations

Revenues increased 1% to ¥9,774.9 billion, as compared with the year ended March 31, 2014. This increase was attributable to increased revenues in every segment, particularly the Information & Telecommunication Systems, Social Infrastructure & Industrial Systems and High Functional Materials & Component segments, except for the Power Systems and Others (Logistics and Other services) segments.

Selling, general and administrative expenses increased 3% to ¥1,935.3 billion, as compared with the year ended March 31, 2014, and the ratio of selling, general and administrative expenses to revenues was 20%, which was the same level as the year ended March 31, 2014.

Other income decreased ¥199.1 billion to ¥9.4 billion and other expenses increased ¥3.2 billion to ¥167.7 billion, as compared with the year ended March 31, 2014. The details are as follows.

Net loss on sales and disposal of fixed assets increased ¥9.7 billion to ¥16.8 billion, as compared with the year ended March 31, 2014. This increase was due mainly to loss on disposal of fixed assets related to software in the Information & Telecommunication Systems segment.

Impairment losses decreased ¥1.0 billion to ¥42.1 billion, as compared with the year ended March 31, 2014. The Power Systems segment recognized impairment losses for the transmission & distribution equipment business.

Net loss on business reorganization and others in the year ended March 31, 2015 was ¥55.0 billion, as compared with net gain of ¥198.0 billion in the year ended March 31, 2014 owing to the effects of the integration of the thermal power generation systems business into MITSUBISHI HITACHI POWER SYSTEMS, LTD.

Restructuring charges was ¥26.6 billion, which was almost the same as the year ended March 31, 2014. This mainly consisted of special termination benefits expensed for the voluntary early retirement program to rationalize the domestic workforce at Hitachi Chemical Company, Ltd. in the High Functional Materials & Components segment.

Expenses related to competition law and others decreased ¥50.9 billion to ¥25.8 billion, as compared with the year ended March 31, 2014, despite posting expenses in relation to settlements of certain losses involving dispute with customers. This decrease was due mainly to the absence of expenses related to a plea agreement with the United States Department of Justice regarding alleged violations of U.S. antitrust laws in the Automotive Systems segment in the year ended March 31, 2014.

Financial income (excluding interest income) decreased ¥25.7 billion to ¥7.7 billion and financial expenses (excluding interest charges) increased ¥1.3 billion to ¥3.2 billion, as compared with the year ended March 31, 2014, respectively. This was due mainly to the loss on financial instruments measured at fair value through profit or loss ("FVTPL financial instruments") and exchange loss in the year ended March 31, 2015, while net gain on FVTPL financial instruments and currency exchange gain were recorded in the year ended March 31, 2014, respectively.

Share of profits of investments accounted for using the equity method increased ¥35.7 billion to ¥46.6 billion due mainly to profits of investments in MITSUBISHI HITACHI POWER SYSTEMS, LTD., as compared with the year ended March 31, 2014.

EBIT decreased ¥157.1 billion to ¥534.0 billion, as compared with the year ended March 31, 2014.

Interest income decreased ¥1.6 billion to ¥12.5 billion and interest charges increased ¥0.6 billion to ¥27.5 billion, as compared with the year ended March 31, 2014, respectively.

Income from continuing operations, before income taxes decreased ¥159.5 billion to ¥518.9 billion, as compared with the year ended March 31, 2014.

Income taxes decreased ¥24.4 billion to ¥122.0 billion, as compared with the year ended March 31, 2014, due mainly to deferred tax assets newly recognized in the year ended March 31, 2015.

Loss from discontinued operations increased ¥46.5 billion to ¥53.5 billion, as compared with the year ended March 31, 2014.

Net income decreased ¥181.5 billion to ¥343.4 billion, as compared with the year ended March 31, 2014.

Net income attributable to non-controlling interests increased ¥14.8 billion to ¥125.9 billion, as compared with the year ended March 31, 2014.

As a result of the foregoing, net income attributable to Hitachi, Ltd. stockholders decreased ¥196.3 billion to ¥217.4 billion, as compared with the year ended March 31, 2014.

## Operations by Segment

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

### (Information & Telecommunication Systems)

Revenues increased 5% to ¥2,034.0 billion, as compared with the year ended March 31, 2014, due mainly to solid performances by system solutions business centered on public systems and financial systems and higher revenues from storage solutions business as a result of the effects of foreign exchange rate fluctuations. This increase was also attributable to the positive impact of the consolidation of Prizm Payment Services Pvt. Ltd. in India and the establishment of Hitachi Systems Power Services, Ltd., both of which were implemented in March 2014. However, the increase in revenues was partially offset by decreased revenues in the telecommunications & network business owing to lower demand.

Segment profit decreased ¥8.9 billion to ¥106.0 billion, as compared with the year ended March 31, 2014. This decrease was due mainly to significantly lower profits in the telecommunications & network business and posting of loss on sales and disposal of fixed assets and impairment loss, which was partially offset by the effect of termination of unprofitable projects in the system solutions business.

### (Power Systems)

Revenues decreased 36% to ¥466.7 billion, as compared with the year ended March 31, 2014, due mainly to the effect of the transfer of the thermal power generation systems business. This decrease was partially offset by an increase in preventive maintenance services for nuclear power generation systems business.

Segment profit decreased ¥174.7 billion to ¥3.8 billion, as compared with the year ended March 31, 2014, due mainly to lower revenues. This decrease was also attributable to increased losses and posting impairment losses on property, plant and equipment in the transmission & distribution business, and the absence of net gain on business reorganization and others associated with the transfer of thermal power generation systems business in the year ended March 31, 2014. However, the decreased profit was partially offset by posting of share of profits of investments accounted for using the equity method for MITSUBISHI HITACHI POWER SYSTEMS, LTD.

(Social Infrastructure & Industrial Systems)

Revenues increased 6% to ¥1,599.5 billion, as compared with the year ended March 31, 2014. This was due mainly to higher sales in the elevators and escalators business mainly in China, the industrial equipment business, and the railway systems business in the U.K.

Segment profit increased ¥28.5 billion to ¥106.5 billion, as compared with the year ended March 31, 2014. This increase was due mainly to higher profits in the elevators and escalators business and the industrial equipment business associated with higher revenues, reduced effect of unprofitable overseas infrastructure projects that occurred in the year ended March 31, 2014 and posting of net gain on business reorganization and others related to Mitsubishi-Hitachi Metals Machinery, Inc.

(Electronic Systems & Equipment)

Revenues increased 1% to ¥1,131.6 billion, as compared with the year ended March 31, 2014. This increase was attributable to higher revenues at Hitachi Kokusai Electric Inc., resulting primarily from higher sales of semiconductor manufacturing equipment, and higher revenues at Hitachi Koki Co., Ltd., resulting from higher sales in Asia and North America and the effect of foreign exchange rate fluctuations. On the other hand, revenues at Hitachi High-Technologies Corporation decreased due mainly to winding down the LCDs manufacturing equipment business and lower sales of advanced industrial products and of mobile phones in the U.S., which was partially offset by higher sales of medical analysis systems and semiconductor manufacturing equipment.

Segment profit increased ¥11.4 billion to ¥63.7 billion, as compared with the year ended March 31, 2014. This increase was due mainly to increased revenues and the effects of business restructuring.

(Construction Machinery)

Revenues increased 2% to ¥815.7 billion, as compared with the year ended March 31, 2014. This increase was due mainly to the positive impact of foreign exchange rate fluctuations and higher sales of hydraulic excavators and other items in North America and Europe, partially offset by lower demand in China and Southeast Asia.

Segment profit decreased ¥2.5 billion to ¥60.5 billion, as compared with the year ended March 31, 2014. This decrease was due mainly to substantially lower sales in China and decline in profitability owing to changes in product mix.

(High Functional Materials & Components)

Revenues increased 10% to ¥1,529.4 billion, as compared with the year ended March 31, 2014. This increase was due mainly to the effects of the consolidation of Waupaca Foundry Holdings, Inc. by Hitachi Metals, Ltd. and solid performances for automobile products for overseas including North America and China and certain electronics-related materials.

Segment profit increased ¥19.7 billion to ¥123.9 billion, as compared with the year ended March 31, 2014. This increase was due mainly to higher revenues, posting gain on sale of shares of a consolidated subsidiary by Hitachi Metals, Ltd., the effect of cost reduction and an increase in exchange gain, partially offset by posting of restructuring charges associated with the voluntarily early retirement program implemented by Hitachi Chemical Company, Ltd.

(Automotive Systems)

Revenues increased 5% to ¥936.9 billion, as compared with the year ended March 31, 2014. This increase was attributable to robust demand in overseas automobile markets, such as North America and China.

Segment profit increased ¥31.5 billion to ¥35.0 billion, as compared with the year ended March 31, 2014, due mainly to the increased revenues and a decrease in expenses related to competition law and others.

(Smart Life & Ecofriendly Systems)

Revenues increased 1% to ¥754.2 billion, as compared with the year ended March 31, 2014. This increase was attributable to higher sales in overseas markets for the air-conditioning business and the home appliance business, partially offset by the decreased sales due to the effects of the consumption tax rate increase.

Segment profit increased ¥6.4 billion to ¥34.5 billion, as compared with the year ended March 31, 2014, due mainly to the increase in revenues.

**(Others (Logistics and Other services))**

Revenues decreased 12% to ¥1,274.2 billion, as compared with the year ended March 31, 2014. This decrease was attributable to the conversion of Hitachi Maxell, Ltd., which had been a consolidated subsidiary, into an equity-method affiliate, which was partially offset by increased revenues at Hitachi Transport System, Ltd. due mainly to launch of large-scale projects and the consolidation of domestic and overseas companies in the year ended March 31, 2014.

Segment profit increased ¥28.2 billion to ¥51.0 billion, as compared with the year ended March 31, 2014, despite lower revenues. This increase was due mainly to a decrease in expenses related to business restructuring and posting of gain on sales and disposal of fixed assets.

**(Financial Services)**

Revenues increased 4% to ¥356.2 billion, as compared with the year ended March 31, 2014. This increase was due mainly to strong performance in the overseas business, particularly in Europe.

Segment profit increased ¥2.6 billion to ¥35.4 billion, as compared with the year ended March 31, 2014, due mainly to the increase in revenues.

**Revenues by Geographic Area**

The following is an overview of revenues attributed to geographic areas based on customer location.

Years ended March 31:	Billions of yen		Percent change
	2014	2015	
Japan	¥5,310.3	¥5,220.3	-2%
Overseas Revenues Subtotal	4,356.1	4,554.5	5%
Asia	2,127.4	2,178.2	2%
North America	914.5	1,064.1	16%
Europe	772.6	841.9	9%
Other Areas	541.3	470.2	-13%
<b>Total Revenues</b>	<b>¥9,666.4</b>	<b>¥9,774.9</b>	<b>1%</b>

**Japan**

Revenues in Japan were ¥5,220.3 billion, a decrease of 2% compared with the year ended March 31, 2014. This decrease was due mainly to the decrease in revenues in the Power Systems segment owing to the effects of the integration of the thermal power generation systems business, and the decrease in revenues in the Others (Logistics and Other services) segment owing to the conversion of Hitachi Maxell, Ltd. into an equity-method affiliate, partially offset by the increases in revenues in the Information & Telecommunication Systems segment.

**Overseas**

Overseas revenues increased 5% to ¥4,554.5 billion, as compared with the year ended March 31, 2014, and the ratio to total revenues was 47%, compared with 45% for the year ended March 31, 2014.

**(Asia)**

Revenues in Asia were ¥2,178.2 billion, an increase of 2% compared with the year ended March 31, 2014. This increase was due mainly to the increases in revenues in the Social Infrastructure & Industrial Systems segment, which reported higher sales of elevators and escalators in China, and in the Information & Telecommunication Systems, High Functional Materials & Components and Smart Life & Ecofriendly Systems segment, partially offset by the decreases in revenues in the Power Systems, Construction Machinery and Others (Logistics and Other services) segments.

**(North America)**

Revenues in North America were ¥1,064.1 billion, an increase of 16% compared with the year ended March 31, 2014. This increase was due mainly to the increase in revenues in the High Functional Materials & Components segment as a result of the effects of the consolidation of Waupaca Foundry Holdings, Inc. by Hitachi Metals, Ltd., and in the Information & Telecommunication Systems, Construction Machinery and Automotive Systems segments, partially offset by the decreases in revenues in the Power Systems and Others (Logistics and Other services) segments.

**(Europe)**

Revenues in Europe were ¥841.9 billion, an increase of 9% compared with the year ended March 31, 2014. This increase was due mainly to the increases in revenues in the Social Infrastructure & Industrial Systems segment, which reported increased revenues from the railway systems business in the U.K., in the Electronic Systems & Equipment segment, which reported higher sales of semiconductor manufacturing equipment and medical analysis systems at Hitachi High-Technologies Corporation, and in the Financial Services segment, which reported increased revenues in the U.K.

**(Other Areas)**

Revenues in other areas were ¥470.2 billion, a decrease of 13% compared with the year ended March 31, 2014. This decrease was due mainly to the decrease in revenues in the Power Systems segment owing to the effects of the integration of the thermal power generation systems business, partially offset by the increase in revenues in the Construction Machinery segment due to increased sales of mining machinery in Africa and Australia, etc.

## 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, 2015, our unused commitment lines totaled ¥524.7 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, 2015 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:	Billions of yen	
	2014	2015
Net cash provided by operating activities	¥ 306.7	¥ 451.8
Net cash used in investing activities	(550.1)	(612.5)
Net cash provided by financing activities	228.8	233.2
Effect of exchange rate changes		
on cash and cash equivalents	51.8	68.5
Net increase in cash and cash equivalents	37.3	141.0
Cash and cash equivalents at beginning of year	523.3	560.6
Cash and cash equivalents at end of year	¥ 560.6	¥ 701.7

### (Cash Flows from Operating Activities)

Net income in the year ended March 31, 2015 decreased ¥181.5 billion to ¥343.4 billion, as compared with the year ended March 31, 2014. Increase in trade receivables in the year ended March 31, 2015 decreased ¥199.1 billion to ¥201.4 billion, as compared with the year ended March 31, 2014, due mainly to promoting collection. Increase in inventories in the year ended March 31, 2015 increased ¥74.0 billion to ¥116.3 billion, as compared with the year ended March 31, 2014. Decrease in trade payables was ¥18.0 billion in the year ended March 31, 2015, compared with the increase in trade payables of ¥33.7 billion in the year ended March 31, 2014. As a result of the foregoing, the net cash provided by operating activities was ¥451.8 billion in the year ended March 31, 2015, an increase of ¥145.0 billion compared with the year ended March 31, 2014.

**(Cash Flows from Investing Activities)**

A net sum of ¥568.6 billion in the year ended March 31, 2015 was recorded as investments related to property, plant and equipment, where the proceeds from sale of property, plant, equipment and intangible assets, the proceeds from sale of leased assets and the collection of lease receivables were subtracted from the amount of the purchase of property, plant and equipment, the purchase of intangible assets and the purchase of leased assets, a decrease of ¥39.0 billion from the year ended March 31, 2014. Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) increased by ¥57.3 billion and amounted to ¥152.8 billion, due mainly to the acquisition related to Waupaca Foundry Holdings, Inc. in the year ended March 31, 2015. Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) decreased by ¥8.0 billion and amounted to ¥121.6 billion in the year ended March 31, 2015. As a result of the foregoing, the net cash used in investing activities was ¥612.5 billion in the year ended March 31, 2015, an increase of ¥62.3 billion compared with the year ended March 31, 2014.

**(Cash Flows from Financing Activities)**

Net increase in short-term debt in the year ended March 31, 2015 was ¥136.9 billion, whereas net decrease of ¥66.2 billion was recorded in the year ended March 31, 2014. A net sum of ¥206.0 billion was recorded as proceeds related to long-term debt, where the payments on long-term debt were subtracted from the proceeds from long-term debt, a decrease of ¥192.2 billion from the year ended March 31, 2014. As a result of the foregoing, the net cash provided by financing activities was ¥233.2 billion in the year ended March 31, 2015, an increase of ¥4.3 billion from the year ended March 31, 2014.

As a result of the above items, as of March 31, 2015, cash and cash equivalents amounted to ¥701.7 billion, net increase of ¥141.0 billion from March 31, 2014. Free cash flows, the sum of cash flows from operating and investing activities, represented an outflow of ¥160.7 billion in the year ended March 31, 2015, a decrease of ¥82.6 billion from the year ended March 31, 2014.

**Assets, Liabilities and Equity**

As of March 31, 2015, total assets amounted to ¥12,433.7 billion, an increase of ¥1,335.5 billion from March 31, 2014. This increase was due primarily to increases in the value of assets denominated in foreign currency owing to the depreciation of yen, the acquisition of Waupaca Foundry Holdings, Inc. and increases in trade receivables resulting from increased revenues. Cash and cash equivalents as of March 31, 2015 amounted to ¥701.7 billion, an increase of ¥141.0 billion from the amount as of March 31, 2014.

As of March 31, 2015, total interest-bearing debt, the sum of short-term debt and long-term debt, amounted to ¥3,557.3 billion, an increase of ¥523.3 billion from March 31, 2014. As of March 31, 2015, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥977.7 billion, an increase of ¥202.1 billion from March 31, 2014, due mainly to the issuance of commercial paper by the Company. As of March 31, 2015, 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 ¥2,096.1 billion, an increase of ¥379.1 billion from March 31, 2014, due mainly to increased demand for investment funds to achieve growth in the Social Innovation Business, funding for the acquisition of Waupaca Foundry Holdings Inc., and higher demand for funds in line with business expansion in the Financial Services segment.

As of March 31, 2015, total Hitachi, Ltd. stockholders' equity amounted to ¥2,942.2 billion, an increase of ¥273.6 billion from March 31, 2014, due primarily to posting of net income attributable to Hitachi, Ltd. stockholders and an increase in the accumulated other comprehensive income owing primarily to the depreciation of yen. As a result, the ratio of total Hitachi, Ltd. stockholders' equity to total assets as of March 31, 2015 was 23.7%, compared with 24.0% as of March 31, 2014.

Non-controlling interests as of March 31, 2015 was ¥1,354.0 billion, an increase of ¥153.8 billion from March 31, 2014.

Total equity (the sum of total Hitachi, Ltd. stockholders' equity and non-controlling interests) as of March 31, 2015 was ¥4,296.3 billion, an increase of ¥427.5 billion from March 31, 2014. The ratio of interest-bearing debt to total equity increased to 0.83, compared with 0.78 as of March 31, 2014.