

HITACHI LTD
Form 20-F
June 20, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(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, 2008

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.

(Translation of Registrant's name into English)

Japan

Edgar Filing: HITACHI LTD - Form 20-F

(Jurisdiction of incorporation or organization)

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

Tokyo 100-8280, Japan

(Address of principal executive offices)

Legal Division; +81-3-3258-1111; +81-3-4564-2148; 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8280, Japan

(Name, Telephone, Facsimile number and Address of Company Contact Person)

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, 2008, the number of outstanding shares of common stock was 3,368,126,056.

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

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

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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If Other has been checked in response to the previous question, 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

Table of Contents

CAUTIONARY STATEMENT

Certain statements found in this annual report may constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements reflect management's current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as anticipate, believe, expect, estimate, forecast, intend, plan, project and similar expressions which indicate future events and trends may identify forward-looking statements. Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the forward-looking statements and from historical trends. Certain forward-looking statements are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on forward-looking statements, as such statements speak only as of the date of this annual report.

Factors that could cause actual results to differ materially from those projected or implied in any forward-looking statement and from historical trends include, but are not limited to:

increased commoditization of information technology products and digital media related products and intensifying price competition for such products, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;

fluctuations in product demand and industry capacity, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;

uncertainty as to Hitachi's ability to continue to develop and market products that incorporate new technology on a timely and cost-effective basis and to achieve market acceptance for such products;

rapid technological innovation, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;

exchange rate fluctuation for the yen and other currencies in which Hitachi makes significant sales or in which Hitachi's assets and liabilities are denominated, particularly against the U.S. dollar and the euro;

increases in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum and synthetic resins;

uncertainty as to Hitachi's ability to implement measures to reduce the potential negative impact of fluctuations in product demand, exchange rate fluctuation and/or increases in the price of raw materials;

general socio-economic and political conditions and the regulatory and trade environment of Hitachi's major markets, particularly Japan, Asia, the United States and Europe, including, without limitation, a return to stagnation or a deterioration of the Japanese economy, direct or indirect restrictions by other nations on imports, or differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;

uncertainty as to Hitachi's access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;

Edgar Filing: HITACHI LTD - Form 20-F

uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity method affiliates have become or may become parties;

the possibility of incurring expenses resulting from any defects in products or services of Hitachi;

uncertainty as to the success of restructuring efforts to improve management efficiency and to strengthen competitiveness;

uncertainty as to the success of alliances upon which Hitachi depends, some of which Hitachi may not control, with other corporations in the design and development of certain key products;

uncertainty as to Hitachi's ability to access, or access on favorable terms, liquidity or long-term financing; and

uncertainty as to general market price levels for equity securities in Japan, declines in which may require Hitachi to write down equity securities it holds.

The factors listed above are not all-inclusive and are in addition to other factors contained elsewhere in this annual report and in other materials published by Hitachi.

Table of Contents

TABLE OF CONTENTS

	Page
<u>CERTAIN DEFINED TERMS, CONVENTIONS AND PRESENTATION OF FINANCIAL INFORMATION</u>	ii
<u>PART I</u>	1
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
<u>ITEM 3. KEY INFORMATION</u>	1
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	7
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	19
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	19
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	41
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	53
<u>ITEM 8. FINANCIAL INFORMATION</u>	54
<u>ITEM 9. THE OFFER AND LISTING</u>	56
<u>ITEM 10. ADDITIONAL INFORMATION</u>	57
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	66
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	72
<u>PART II</u>	73
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	73
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	73
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	73
<u>ITEM 16. [RESERVED]</u>	74
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	74
<u>ITEM 16B. CODE OF ETHICS</u>	74
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	75
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	75
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	75
<u>PART III</u>	77
<u>ITEM 17. FINANCIAL STATEMENTS</u>	77
<u>ITEM 18. FINANCIAL STATEMENTS</u>	147
<u>ITEM 19. EXHIBITS</u>	147
<u>SIGNATURES</u>	148
<u>EXHIBIT INDEX</u>	149

Table of Contents

**CERTAIN DEFINED TERMS, CONVENTIONS AND
PRESENTATION OF FINANCIAL INFORMATION**

Unless the context indicates otherwise, the term **Company** refers to Hitachi, Ltd. and the term **Hitachi** refers to the Company and its consolidated subsidiaries.

The Company's fiscal year ends on March 31. The fiscal year ended March 31, 2008 is sometimes referred to in this annual report as **fiscal 2007**, and other fiscal years may be referred to in a corresponding manner. References to years not specified as fiscal years are to calendar years.

The consolidated financial statements of Hitachi, except for segment information, have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Unless otherwise stated or the context otherwise requires, all amounts in such financial statements are expressed in Japanese yen.

References in this annual report to **yen** or **¥** are to Japanese yen, references to **US\$, \$** or **U.S. dollars** are to United States dollars and references to **ST£** are to United Kingdom sterling pounds.

References in this annual report to the **Financial Instruments and Exchange Law** or the **Financial Instruments and Exchange Law of Japan** are to the Financial Instruments and Exchange Law of Japan which became effective as of September 30, 2007 and other laws and regulations amending and/or supplementing the Financial Instruments and Exchange Law of Japan.

References in this annual report to the **Securities and Exchange Law** or the **Securities and Exchange Law of Japan** are to the former Securities and Exchange Law of Japan and other laws and regulations amending and/or supplementing the former Securities and Exchange Law of Japan which have been revised or abolished when the Financial Instruments and Exchange Law took effect.

References in this annual report to the **Company Law** or the **Japanese Company Law** are to the Japanese Company Law and other laws and regulations amending and/or supplementing the Japanese Company Law.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

The following selected consolidated financial information has been derived from Hitachi's consolidated financial statements as of each of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to Hitachi's consolidated financial statements, including the notes thereto, included in this annual report. Translation of dividend amounts into U.S. dollars is based on the noon buying rates for Japanese yen in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York at each respective payment date.

	Year ended March 31,				
	2004	2005	2006	2007	2008
	(Millions of yen, except per share amounts and number of shares issued)				
Total revenues	8,632,450	9,027,043	9,464,801	10,247,903	11,226,735
Income before income taxes and minority interests	237,149	264,506	274,864	202,338	324,782
Net income (loss)	15,876	51,496	37,320	(32,799)	(58,125)
Per common share:					
Net income (loss)					
Basic	4.81	15.53	11.20	(9.84)	(17.48)
Diluted	4.75	15.15	10.84	(9.87)	(17.77)
Cash dividends declared	8.00	11.00	11.00	6.00	6.00
	(\$0.074)	(\$0.105)	(\$0.094)	(\$0.051)	(\$0.057)
Cash and cash equivalents	764,396	708,715	658,255	617,866	560,960
Short-term investments	177,949	146,568	162,756	33,986	61,289
Total assets	9,590,322	9,736,247	10,021,195	10,644,259	10,530,847
Short-term debt and current portion of long-term debt	1,183,463	1,183,474	1,000,555	1,197,607	1,109,899
Long-term debt	1,314,102	1,319,032	1,418,489	1,489,843	1,421,607
Minority interests	798,816	921,052	1,036,807	1,073,749	1,142,508
Stockholders' equity	2,168,131	2,307,831	2,507,773	2,442,797	2,170,612
Common stock	282,032	282,033	282,033	282,033	282,033
Number of shares issued (thousand shares)	3,368,125	3,368,126	3,368,126	3,368,126	3,368,126

Note: See note 2(i) to the consolidated financial statements for information regarding accounting change.

Table of Contents

The following table provides the noon buying rates for Japanese yen in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. The average rate means the average of the exchange rates on the last day of each month during a fiscal year.

Year ended March 31, except month data	Yen exchange rates per U.S. dollar		
	Average	High	Low
2004	¥ 112.75		
2005	107.35		
2006	113.67		
2007	116.55		
2008	113.61		
December 2007		¥ 114.45	¥ 109.68
January 2008		109.70	105.42
February 2008		108.15	104.19
March 2008		103.99	96.88
April 2008		104.56	100.87
May 2008		105.52	103.01

On June 16, 2008, the yen exchange rate per U.S. dollar was 108.19 yen per \$1.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Hitachi operates in a broad range of business fields, conducts business on a global scale, and utilizes sophisticated specialized technologies to carry on its operations. It is therefore exposed to risks attributable to the economic environment, risks inherent in individual industrial sectors and business lines, and risks related to operations. Investments in Hitachi's securities also involve risks.

Although certain risks that may affect Hitachi's businesses are listed in this section, the list is not exhaustive. Hitachi's businesses may in the future also be affected by other risks that are currently unknown or that are not currently considered as significant as those described in this section. The items set forth in this section contain forward-looking statements as described in the Cautionary Statement in this annual report.

Certain of the risk factors that may affect Hitachi are set out below.

Risks Related to Economic Environment*Economic trends*

Decreases in consumer spending and private-sector plant and equipment investment due to economic downturns in Japan, Asia, North America, Europe and other major markets where Hitachi does business, or direct or indirect restrictions on imports by other nations, may negatively impact Hitachi's business results by reducing demand and increasing price competition for the products and services Hitachi offers. In addition, the adverse economic environment may result in increased risks of excess inventories and overcapacities, and further restructuring measures by Hitachi, which could involve associated expenses.

Currency exchange rate fluctuations

Edgar Filing: HITACHI LTD - Form 20-F

Since Hitachi conducts business in many foreign countries, the 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 raw materials in local currencies, principally the U.S. dollar and the euro. Therefore, fluctuations in foreign currency exchange rates affect Hitachi's financial results, which are reported in Japanese yen. A strong yen, for example, reduces the price competitiveness of products exported to foreign markets and diminishes profit by decreasing revenues. While Hitachi takes measures to reduce the risks from fluctuations in foreign currency exchange rates, there can be no assurance that such measures will succeed.

Table of Contents**Risks Related to Industrial Sectors and Business Lines*****Intense competition***

The industrial sectors and business lines in which Hitachi is engaged are experiencing increasingly intense competition. Hitachi competes with diverse competitors ranging from huge global corporations to specialized companies. Competitors are increasingly manufacturing products, including sophisticated electronic products, in low-cost jurisdictions. Low cost manufacturing and the globalization of the world markets have accelerated the commoditization of certain products, which has resulted in increasingly intense price competition for many of Hitachi's products. Products which are facing intense price competition or decreases in prices include computer-related products, such as hard disk drives, disk array subsystems and optical disk drives, semiconductors, liquid crystal displays, digital media products such as flat-panel TVs and home appliances. To succeed in this competitive environment, Hitachi believes that its products and services must be competitive in terms of price, engineering sophistication, quality and brand value and that such products and services must be introduced to the markets in a timely manner. Hitachi cannot be certain that the products or services that it offers will be competitive, and should such products or services fail to be competitive, Hitachi's business results may be negatively affected.

Rapid technological innovation

New technologies are rapidly emerging in the segments in which Hitachi does business, with the pace of technological innovation being especially notable in the fields of information systems, electronics and digital media. The development of new and advanced technologies, the continuous, timely and cost-effective incorporation of such technologies into products and services, and the effective marketing of such products and services are indispensable to remaining competitive. While introducing such products and services requires a significant commitment to research and development, there can be no assurance that Hitachi's research and development will be successful. Should Hitachi fail in its endeavors to develop and incorporate such advanced technologies into products and services, or achieve market acceptance for such products and services, the results of operations of related Hitachi businesses may be negatively impacted.

Material and component procurement

Hitachi's manufacturing operations rely on third parties for supplies of materials, parts, components and services of adequate quality and quantity and in a timely manner. External suppliers may have other customers and may not have sufficient capacity to meet all of the needs of such customers during periods of excess demand. Shortages of materials, parts, components and services may cause a sharp rise in their prices. Prices of certain raw materials, parts and components that Hitachi purchases, such as petroleum products, copper, aluminum and semiconductor memory chips, are extremely volatile. Increases in the price of petroleum and other materials, such as copper, steel and synthetic resins, are increasing Hitachi's production costs and may adversely affect its results of operations. Although, in general, Hitachi maintains multiple sources of supply and works closely with its suppliers to avoid supply-related problems, such problems including shortages and delays may occur, which could materially harm Hitachi's business.

Supply and demand balance

Oversupply in the markets in which Hitachi is involved may lead to a decline in sales prices and revenues and adversely affect Hitachi's performance. In addition, Hitachi may be forced to dispose of excess supply or obsolete equipment or reduce production to adjust to demand, which can cause Hitachi losses. For example, market demand for hard disk drives has been volatile, and unexpected decline in demand and oversupply could result in a sharp decline in unit prices of hard disk drives. The semiconductor industry and the liquid crystal display industry, in particular, are highly cyclical, and cyclical downturns are characterized by sharp declines in prices and overcapacity. These businesses conducted primarily by subsidiaries and affiliates of the Company may be negatively impacted by oversupply in the global markets.

Table of Contents**Risks Related to Operations*****Dependence on specially skilled personnel***

Hitachi believes it can continue to remain competitive only if it can maintain and secure additional people who are highly skilled in the fields of management and technology. However, the number of skilled personnel is limited and the competition for attracting and maintaining such personnel is intense, particularly in the information technology industry. Hitachi cannot ensure that it will be able to successfully attract new or maintain its current skilled personnel.

Acquisitions, joint ventures and strategic alliances

In every operating sector, Hitachi depends to some degree on acquisitions of other companies, joint ventures and strategic alliances with outside partners to design and develop key new technologies and products and to strengthen competitiveness. Such transactions are inherently risky, including because of the difficulties in integrating operations, technologies, products and personnel. Integration issues are complex, time-consuming and expensive and, without proper planning and implementation, could adversely affect Hitachi's business. The success of alliances may also be adversely affected by decisions or performance of alliance partners that Hitachi cannot control or by adverse business trends. Hitachi may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration or restructuring of acquired businesses. There can be no assurance that these transactions will be beneficial to Hitachi's business or financial condition. Even assuming these transactions are beneficial, there can be no assurance that Hitachi will be able to successfully integrate acquired businesses or achieve all or any of the initial objectives of these transactions.

Restructuring of business

Hitachi is continuing to restructure its business to improve management efficiency and strengthen competitiveness by increasing its focus on targeted businesses investment, research and development, closing unprofitable operations, divesting its subsidiaries and affiliated companies, reorganizing production bases and sales networks and reducing its workforce. There can be no assurance that Hitachi's efforts will be successful. In addition, significant costs may be incurred in connection with these efforts, including costs related to the restructuring of businesses, impairment losses on the disposal of fixed assets and losses related to the sale of securities, that may adversely affect Hitachi's financial results and condition. See Item 5. Operating and Financial Review and Prospects A. Operating Results Restructuring for additional information. Restructuring measures may be constrained or plans may not be implemented in a timely manner due to governmental regulations, employment issues and a lack of demand in the M&A market for businesses Hitachi may seek to sell. Moreover, Hitachi may not achieve all of the objectives of these actions.

Business activities in overseas markets

Hitachi seeks to expand its business in overseas markets as part of its business strategy. Through such overseas expansion, Hitachi aims to increase its revenues, reduce its costs and improve its profitability. Hitachi's overseas business activities may be adversely affected by various factors in foreign countries where it operates, including changes in regulations relating to investments, export, tariffs, antitrust, anti-bribery, consumer and business taxation, intellectual property, foreign trade and exchange controls, environmental and recycling requirements, differences in commercial and business customs such as contract terms and conditions, labor relations, public sentiment against Japan and other political and social factors as well as economic trends and currency exchange rate fluctuations. There can be no assurance that Hitachi will be able to achieve all or any of the initial aims of its strategy.

Intellectual property

Hitachi depends in part on intellectual property rights covering its products, product design and manufacturing processes. Hitachi owns or licenses a large number of intellectual property rights and, when Hitachi believes it is necessary or desirable, obtains additional licenses for the use of other parties' intellectual property rights. If Hitachi fails to protect, maintain or obtain such rights, its performance and ability to compete may be adversely affected. In addition, since intellectual property litigation is costly and unpredictable, Hitachi's efforts to protect its intellectual property rights or to defend itself against claims relating to intellectual property rights made by others, including employee-inventors, could impose considerable or unexpected expenses on Hitachi.

Table of Contents

Litigation and regulatory investigations

Hitachi faces risks of litigation and regulatory investigation and actions in connection with its operations. Lawsuits, including regulatory actions, may seek recovery of very large, indeterminate amounts or limit Hitachi's operations, and their existence and magnitude may remain unknown for substantial periods of time. A substantial legal liability or regulatory action could have a material adverse effect on Hitachi's business, results of operations, financial condition, cash flows, reputation and credibility. See Item 8. Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings for additional information.

Product quality and liability

Hitachi increasingly provides products and services utilizing sophisticated and complicated technologies, including but not limited to components of nuclear power stations. Reliance on external suppliers reduces Hitachi's control over quality assurance. There is a risk that defects may occur in Hitachi's products and services. The occurrence of such defects could negatively impact Hitachi's reputation for quality products, expose Hitachi to liability for damages caused by such defects and negatively impact Hitachi's ability to sell certain products. Even a single significant product defect, could materially and adversely affect Hitachi's business results of operations, financial condition and future business prospects. For example, there can be no assurance that the Company will not be liable for additional repair costs or other damages incurred by power companies due to the breakdown of the turbine vanes in the nuclear reactors at Hamaoka Nuclear Power Station and at Shika Nuclear Power Station. See Item 4. Information on the Company B. Business Overview Description of Industry Segments Power & Industrial Systems and Item 5. Operating and Financial Review and Prospects D. Trend Information.

Risks of natural disasters and similar events

Portions of Hitachi's facilities, including its research and development facilities, manufacturing facilities and the Company's headquarters, are located in Japan, where seismic activity is frequent. Large earthquakes or other significant natural disasters could have a negative impact on Hitachi's operating activities, results of operations and financial condition.

Information security

With the increased importance of information systems to Hitachi's operating activities, disruptions in such information systems, due to computer viruses and other factors, could have a negative impact on Hitachi's operating activities, results of operations and financial condition. Hitachi holds personal information, confidential information and information relating to the technology, R&D, production, marketing and business operations of Hitachi and its customers and clients in various forms such as information systems, digital storage media or papers. Although Hitachi seeks to protect the confidentiality of such information, any leakage of such information could have a negative impact on Hitachi's operating activities, results of operations, financial condition, reputation and credibility.

Governmental regulations

Hitachi's business activities are subject to various governmental regulations in countries where it operates, which include investment approvals, export regulations, tariffs, antitrust, anti-bribery, intellectual property, consumer and business taxation, foreign trade and exchange controls, and environmental and recycling requirements. Significant changes in such regulations may limit Hitachi's business activities or increase operating costs. In addition, the enforcement of such regulations, including the imposition of fines or surcharges for violation of such regulations, may adversely affect Hitachi's results of operations, financial conditions, cash flows, reputation and credibility. See Item 8. Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings for additional information.

Marketable securities risks

Hitachi owns marketable securities that are exposed to stock market risks. Declines in stock market prices may require Hitachi to write down equity securities that it holds, which may have an adverse effect on Hitachi's financial condition and results of operations.

Table of Contents***Access to liquidity and long-term financing***

Hitachi's primary sources of funds are cash flows from operations, borrowings from banks and other institutional lenders, and funding from the capital markets, such as offerings of commercial paper and other debt securities. A downgrade in Hitachi's credit ratings could result in increases in Hitachi's interest expenses and could have an adverse impact on Hitachi's ability to access the commercial paper market or the public and private debt markets, which could have an adverse effect on Hitachi's financial position and liquidity. Although Hitachi has access to other sources of liquidity, including bank borrowings, cash flows from its operations and sales of its assets, Hitachi cannot be sure that these other sources will be adequate or on terms acceptable to it if any adverse conditions arise. A failure of one or more of Hitachi's major lenders, a decision by one or more of them to stop lending to Hitachi or instability in the capital markets could have an adverse impact on Hitachi's access to funding.

Retirement benefits

Hitachi has a significant amount of employee retirement benefit costs which are derived from actuarial valuations based on a number of assumptions. Inherent in these valuations are key assumptions used in estimating pension costs including mortality, withdrawal, retirement, changes in compensation, discount rate and expected return on plan assets. Hitachi is required to make judgments regarding the key assumptions by taking into account various factors including personnel demographics, market conditions and expected trends in interest rates. Although management believes that its key assumptions are reasonable in light of the various underlying factors, there can be no assurance that the key assumptions will correspond to actual results. If the Company's key assumptions differ from actual results, the consequent deviation of actual pension costs from estimated costs may have a material adverse effect on Hitachi's financial condition and results of operations. A decrease in the discount rate results in an increase in actuarial pension benefit obligations. Increases and decreases in the pension benefit obligations affect the amount of the actuarial gain or loss which is amortized into income over the service lives of employees. In addition, the Company may change these key assumptions, such as the discount rate or the expected return on plan assets. Changes in key assumptions may also have a material adverse effect on Hitachi's financial condition and results of operations.

Risks Related to Hitachi's American Depositary Shares***Unit shares***

The Japanese Company Law allows companies to set one unit of shares for the purpose of exercising voting rights at the general meetings of shareholders. Under the articles of incorporation of the Company, one unit of the Company's shares is comprised of 1,000 shares, equivalent to 100 American Depositary Shares (ADSs). Each unit of the Company's shares has one vote. A holder who owns shares or ADSs, in other than multiples of 1,000 or 100, respectively, will own less than a whole unit (i.e., for the portion constituting fewer than 1,000 shares, or fewer than 100 ADSs). The articles of incorporation of the Company, in accordance with the Japanese Company Law, imposes significant restrictions on the rights of holders of shares constituting less than a whole unit, which include restrictions on the right to vote, to attend a shareholders meeting and to bring derivative actions. In addition, less than whole unit shares cannot be traded on Japanese stock markets. Under the unit share system, holders of the Company's shares constituting less than one unit have the right to require the Company to purchase their shares and the right to require the Company to sell them additional shares to create a whole unit of 1,000 shares. However, holders of the Company's ADSs are unable to withdraw underlying shares representing less than one unit and, as a practical matter, are unable to require the Company to purchase those underlying shares. The unit share system, however, does not affect the transferability of ADSs, which may be transferred in lots of any number of whole ADSs.

Foreign exchange fluctuations

Market prices for the ADSs may fall if the value of the yen declines against the dollar. In addition, the amount of cash dividends or other cash payments made to holders of ADSs will decline if the value of the yen declines against the dollar.

Rights of ADS holders

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining the Company's accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian agents, is the record holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying ADSs in accordance with the instructions of ADS holders and will pay the dividends and distributions collected from the Company as and to the extent provided in the deposit agreement. However, ADS holders will not be able to bring derivative actions, examine the Company's accounting books and records, or exercise appraisal rights through the depositary.

Table of Contents

The Company is incorporated in Japan with limited liability. A significant portion of the assets of the Company is located outside the United States. As a result, it may be more difficult for investors to enforce against the Company judgments obtained in U.S. courts predicated upon the civil liability provisions of the Federal securities laws of the United States or judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the Federal securities laws of the United States.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

The Company was founded in 1910 as a small electric repair shop and was incorporated as Hitachi, Ltd. (Kabushiki Kaisha Hitachi Seisakusho), a joint stock corporation, in 1920 under the laws of Japan. Its registered office is located at 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8280, Japan. The telephone number of the Company's principal executive office is +81-3-3258-1111.

Over the years, Hitachi has broadened the horizon of its research as well as its business activities to develop a highly diversified product mix ranging from electricity generation systems to consumer products and electronic devices. Hitachi has grown into one of Japan's largest diversified manufacturers of electronic and electrical products. With its diverse product lines, Hitachi maintains a significant presence in each of the major markets it serves, which together make Hitachi one of the world's largest manufacturers of electronic products. With its emphasis on research and development and its ability to combine a wide range of technologies, Hitachi continues to strive to provide the world with products that meet the changing needs of its customers.

In November 2006, Hitachi launched a new corporate strategy aiming to establish a business structure that consistently generates high profits, with the basic management policy of (i) rigorous business management using an economic value-added evaluation index based on the cost of capital, (ii) establishment of a business structure focusing on profitability, (iii) innovation by collaborations with business partners and utilizing internal R&D resources, (iv) strengthening overseas business and (v) creating synergies. The basic management policies are as follows:

Rigorous business management using an economic value-added evaluation index based on the cost of capital

With the strict application of the above evaluation index, the Company aims to constantly monitor and evaluate the performance of each Hitachi business in order to implement necessary reorganization measures, including the sale, divestiture or closure of businesses which do not satisfy the economic thresholds set by the evaluation index, in order to strengthen each business and to improve profitability.

Establishment of a business structure focusing on profitability

Utilizing technology, knowledge, experience and know-how relating to social and information infrastructure systems, Hitachi aims to provide products and services in response to the growing overseas social infrastructure market, such as power systems and railway systems, and seeks to expand its maintenance and services business based on such products. Hitachi also expects to further strengthen its social, industrial, life and information infrastructure business by channeling capital and management resources into strong businesses. Further, Hitachi seeks to maximize synergy between its products, components and materials businesses in which Hitachi has technological advantages and which constitute the basis of the above businesses.

Table of Contents

Innovation by collaborations with business partners and by utilizing internal R&D resources

Hitachi seeks to establish and utilize various alliances with business partners as a means of increasing sales of innovative products that can generate high profits. Hitachi expects it will also establish an R&D structure more clearly oriented toward increasing Hitachi's profitability by strengthening the alignment between business divisions and the R&D division and shortening the development period.

Strengthening overseas business

Hitachi aims to strengthen its competitiveness in overseas markets in which demands for social infrastructure are expanding. Hitachi aims to achieve such a goal by alliances with strategic overseas partners, reinforcing project management and risk assessment, strengthening solutions business and corporate brands, and through systematic human resource development.

Creating synergy

Hitachi will seek to improve its profitability by creating new value-added products and services utilizing technology, knowledge, experience and know-how among Hitachi's diversified business fields and by seeking synergy in administrative areas such as cost reducing activities utilizing Hitachi's management resources.

Under these policies, Hitachi has implemented various business measures in order to improve its profitability, including business reorganization to facilitate Hitachi's goal of maximizing growth by combining and utilizing the diverse management resources within Hitachi in the most effective and efficient ways.

Through the implementation of this strategy, Hitachi is striving to enhance its corporate governance structure in order to maximize its medium and long-term corporate value, reorganize its internal control system on a consolidated basis, implement multidisciplinary risk management, promote prompt information sharing systems and optimize share capital relationships among Hitachi group companies.

In November 2006, the Company entered into a letter of intent with General Electric Company, or GE, expressing both party's intent to create a global alliance for their nuclear businesses to improve and expand their boiling water reactor technology offerings, aiming at synergy in the area of design, manufacture, construction, maintenance and engineering services. Based on this alliance, in June 2007, the Company and GE established companies in the U.S. and Canada. In addition, the Company transferred its nuclear power systems operations to a newly created Japanese company in July 2007 by way of corporate split under the Company Law and GE invested in the Japanese company. The Company owns 40% of the U.S. and Canadian companies, with GE owning the remaining 60%, and the Company owns 80.01% of the Japanese company, which is a consolidated subsidiary, with GE owning the remaining 19.99%. See B. Business Overview Description of Industry Segments Power & Industrial Systems and Item 5. Operating and Financial Review and Prospects A. Operating Results Business Reorganization for more information.

Hitachi's capital expenditures for fixed assets on a completion basis were ¥969,087 million, ¥1,048,572 million and ¥954,706 million in fiscal 2007, 2006 and 2005. While Hitachi has maintained a selective attitude toward investment decisions, it has placed an emphasis on capital expenditures for strategically important products. Excluding the purchase of assets to be leased, a significant portion of capital expenditures have been directed toward information-related products, including large capital investments in manufacturing facilities to maintain or enhance competitiveness in those product sectors. The decrease in fiscal 2007 was primarily due to a decrease in capital expenditures in the hard disk drives and operating lease assets in financial services sector. The increase in capital expenditures in fiscal 2006 was primarily due to investments in manufacturing equipment for hard disk drives, construction machinery, elevators, escalators, plasma display panels and automotive-related materials and components made in response to increased demand for these products. In fiscal 2008, Hitachi expects to decrease its capital expenditures to approximately ¥950.0 billion due primarily to decreases in the areas of plasma display panels and hard disk drives. Hitachi expects capital expenditures in fiscal 2008 to be funded primarily through internal sources of financing and to be made primarily in Japan.

Table of Contents

B. Business Overview

Main Categories of Products and Services

Hitachi's business is highly diversified. Hitachi classifies its operations into seven industry segments based primarily along related assets and operations management lines, as well as on the similarity of products and services by type, use, production method and marketing method, as required by a ministerial ordinance under the Financial Instruments and Exchange Law of Japan. The industry segments and major categories of products and services offered in each segment as of March 31, 2008 are as follows:

Information & Telecommunication Systems. Systems integration, outsourcing services, software, hard disk drives (HDDs), disk array subsystems, servers, mainframes, personal computers, telecommunications equipment and ATMs;

Electronic Devices. Liquid crystal displays (LCDs), semiconductor manufacturing equipment, test and measurement equipment, medical electronics equipment and semiconductors;

Power & Industrial Systems. Nuclear power plants, thermal power plants, hydroelectric power plants, industrial machinery and plants, automotive products, construction machinery, elevators, escalators and railway vehicles;

Digital Media & Consumer Products. Optical disk drives, plasma TVs, LCD TVs, LCD projectors, mobile phones, room air conditioners, refrigerators, washing machines, information storage media, batteries and air-conditioning equipment for enterprises;

High Functional Materials & Components. Wires and cables, copper products, semiconductor materials, circuit boards and materials, organic and inorganic chemical products, synthetic resin products, display related materials, specialty steels, magnetic materials and components and high grade casting components;

Logistics, Services & Others. General trading, logistics and property management; and

Financial Services. Leasing, loan guarantees and insurance services.

Sales and Distribution

Hitachi distributes its products in Japan primarily through its own sales network. Hitachi also distributes some of its products through independent dealers. In most field sales offices, Hitachi's sales personnel specialize in the marketing of particular types of products.

International marketing is conducted through overseas sales subsidiaries, joint-venture companies and unaffiliated distributors. Also, certain types of equipment are sold to industrial companies in foreign markets on an original equipment manufacturing, or OEM, basis and marketed under the brand names of such industrial companies.

Overseas revenues amounted to ¥4,742.2 billion in fiscal 2007, accounting for 42% of total revenues. Foreign currency exchange rate fluctuations influence Hitachi's operating environment. A strong yen reduces the price competitiveness of products exported to foreign markets and diminishes profit by decreasing revenue when foreign currency income from overseas product sales is converted to yen. See Item 5. Operating and Financial Review and Prospects A. Operating Results.

Hitachi's widespread customer base in domestic and overseas markets encompasses leading industrial companies, financial institutions, utilities, governments and individual customers. No material part of its business is dependent upon one or a few customers.

Segment Information

Edgar Filing: HITACHI LTD - Form 20-F

Hitachi does not present segment information in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. Foreign issuers are presently exempted from these disclosure requirements for filings with the U.S. Securities and Exchange Commission, or the SEC, under the U.S. Securities Exchange Act of 1934, or the Exchange Act. However, Hitachi is required to disclose the segment information presented below in accordance with a ministerial ordinance under the Financial Instruments and Exchange Law of Japan. Hitachi believes that this presentation may be useful in understanding Hitachi's results of operations.

Table of Contents**Industry Segment**

	Year ended March 31,					
	2006		2007		2008	
	(Millions of yen, except percentage data)					
Revenues (note 1)						
Information & Telecommunication Systems	2,360,956	21%	2,472,227	21%	2,761,137	22%
Electronic Devices	1,204,407	11	1,287,492	11	1,293,517	10
Power & Industrial Systems	2,805,169	25	3,022,299	26	3,568,151	28
Digital Media & Consumer Products	1,305,658	12	1,506,073	13	1,504,692	12
High Functional Materials & Components	1,600,246	15	1,794,506	15	1,875,018	15
Logistics, Services & Others	1,214,784	11	1,213,529	10	1,271,465	10
Financial Services	517,975	5	500,065	4	445,400	3
Subtotal	11,009,195	100%	11,796,191	100%	12,719,380	100%
Eliminations and Corporate Items	(1,544,394)		(1,548,288)		(1,492,645)	
Total	9,464,801		10,247,903		11,226,735	
Operating Income (Loss) (note 2)						
Information & Telecommunication Systems	84,687	26%	60,343	23%	116,105	30%
Electronic Devices	20,439	6	45,755	18	54,046	14
Power & Industrial Systems	92,552	28	36,391	14	138,455	35
Digital Media & Consumer Products	(35,771)	(11)	(58,435)	(23)	(109,914)	(28)
High Functional Materials & Components	110,069	34	132,399	51	141,007	36
Logistics, Services & Others	19,511	6	20,233	8	27,870	7
Financial Services	35,001	11	23,534	9	25,481	6
Subtotal	326,488	100%	260,220	100%	393,050	100%
Eliminations and Corporate Items	(70,476)		(77,708)		(47,534)	
Total	256,012		182,512		345,516	
Segment Assets						
Information & Telecommunication Systems	1,844,979	17%	1,987,603	17%	1,906,166	17%
Electronic Devices	856,147	8	840,986	7	814,541	7
Power & Industrial Systems	2,474,327	23	2,728,817	24	3,075,509	27
Digital Media & Consumer Products	841,935	8	971,187	9	889,112	8
High Functional Materials & Components	1,363,833	13	1,503,733	13	1,525,754	13
Logistics, Services & Others	958,337	9	1,049,916	9	981,447	8
Financial Services	2,280,880	22	2,442,066	21	2,294,020	20
Subtotal	10,620,438	100%	11,524,308	100%	11,486,549	100%
Eliminations and Corporate Items	(599,243)		(880,049)		(955,702)	
Total	10,021,195		10,644,259		10,530,847	
Depreciation & Amortization						
Information & Telecommunication Systems	164,245	28%	183,057	30%	195,578	29%
Electronic Devices	50,504	9	42,549	7	40,625	6

Edgar Filing: HITACHI LTD - Form 20-F

Power & Industrial Systems	89,846	15	103,176	17	130,658	19
Digital Media & Consumer Products	49,517	9	53,280	9	69,192	10
High Functional Materials & Components	68,531	12	71,119	11	86,947	13
Logistics, Services & Others	28,584	5	30,150	5	31,717	5
Financial Services	129,129	22	131,425	21	125,796	18
Subtotal	580,356	100%	614,756	100%	680,513	100%
Eliminations and Corporate Items	9,541		7,242		7,093	
Total	589,897		621,998		687,606	

Table of Contents

	Year ended March 31,					
	2006	2007		2008		
	(Millions of yen, except percentage data)					
Tangible & Intangible Asset Increase						
Information & Telecommunication Systems	198,811	16%	230,193	17%	152,941	13%
Electronic Devices	39,271	3	37,196	3	30,688	2
Power & Industrial Systems	118,132	10	173,493	13	194,071	16
Digital Media & Consumer Products	46,169	4	87,244	6	95,698	8
High Functional Materials & Components	91,645	8	151,895	11	115,533	10
Logistics, Services & Others	29,136	2	34,937	3	48,256	4
Financial Services	684,109	57	642,016	47	570,316	47
Subtotal	1,207,273	100%	1,356,974	100%	1,207,503	100%
Eliminations and Corporate Items	(55,257)		(63,557)		(55,939)	
Total	1,152,016		1,293,417		1,151,564	

Geographic Segment (note 3)

	Year ended March 31,					
	2006	2007		2008		
	(Millions of yen, except percentage data)					
Revenues (note 1)						
Japan						
Outside customer sales	6,747,222	61%	7,010,181	57%	7,436,999	55%
Intersegment transactions	1,033,180	9	1,274,048	11	1,459,260	11
Total	7,780,402	70	8,284,229	68	8,896,269	66
Asia						
Outside customer sales	1,178,568	11	1,459,549	12	1,771,600	13
Intersegment transactions	453,823	4	561,208	4	637,719	5
Total	1,632,391	15	2,020,757	16	2,409,319	18
North America						
Outside customer sales	899,608	8	981,098	8	962,267	7
Intersegment transactions	64,486	1	89,912	1	123,841	1
Total	964,094	9	1,071,010	9	1,086,108	8
Europe						
Outside customer sales	519,042	5	645,354	5	826,188	6
Intersegment transactions	27,390	0	37,454	1	60,650	0
Total	546,432	5	682,808	6	886,838	6
Other Areas						
Outside customer sales	120,361	1	151,721	1	229,681	2
Intersegment transactions	11,182	0	21,574	0	39,841	0
Total	131,543	1	173,295	1	269,522	2
Subtotal	11,054,862	100%	12,232,099	100%	13,548,046	100%
Eliminations and Corporate Items	(1,590,061)		(1,984,196)		(2,321,311)	

Edgar Filing: HITACHI LTD - Form 20-F

Total	9,464,801		10,247,903		11,226,735	
Operating Income (Loss) (note 2)						
Japan	275,715	83%	212,316	80%	299,632	77%
Asia	6,727	2	(3,664)	(1)	33,020	8
North America	23,428	7	25,310	9	23,087	6
Europe	18,702	6	23,312	9	21,575	6
Other Areas	6,555	2	8,647	3	13,394	3
Subtotal	331,127	100%	265,921	100%	390,708	100%
Eliminations and Corporate Items	(75,115)		(83,409)		(45,192)	
Total	256,012		182,512		345,516	

Table of Contents

	Year ended March 31,					
	2006	2007		2008		
	(Millions of yen, except percentage data)					
Segment Assets						
Japan	7,894,858	75%	8,381,453	73%	8,472,391	73%
Asia	1,060,394	10	1,327,954	12	1,310,922	11
North America	616,631	6	668,202	6	674,970	6
Europe	840,866	8	935,087	8	968,552	8
Other Areas	98,752	1	116,157	1	159,048	2
Subtotal	10,511,501	100%	11,428,853	100%	11,585,883	100%
Eliminations and Corporate Items	(490,306)		(784,594)		(1,055,036)	
Total	10,021,195		10,644,259		10,530,847	

Revenues by Market (note 4)

	Year ended March 31,					
	2006	2007		2008		
	(Millions of yen, except percentage data)					
Domestic revenues	5,825,156	62%	6,093,627	59%	6,484,496	58%
Overseas revenues						
Asia	1,619,235	17	1,859,664	18	2,167,171	19
North America	968,957	10	1,057,389	10	1,023,713	9
Europe	748,480	8	869,022	9	1,073,877	10
Other Areas	302,973	3	368,201	4	477,478	4
Subtotal	3,639,645	38	4,154,276	41	4,742,239	42
Total	9,464,801	100%	10,247,903	100%	11,226,735	100%

Notes:

- Revenues by industry and geographic segments include intersegment transactions.
- 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. 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.
- Geographic segments are based on the location of Hitachi's facilities where products or services are produced.
- Figures for revenues by market are based on the locations of the customer to whom Hitachi's products or services are sold.

Description of Industry Segments

Hitachi classifies its operations into seven industry segments based primarily along related assets and operations management lines, as well as on the similarity of products and services by type, use, production method and marketing method.

Information & Telecommunication Systems

In this segment, Hitachi provides products and services, including hardware products, software and services business. Customers are business entities in various industries, national and local governments, and, to a lesser extent, individuals. Among the hardware products Hitachi offers, HDDs, disk array subsystems, servers and mainframes are more significant than other products. In order to meet market requirements, these products need to be built to achieve high performance while meeting the cost parameters of customers. Hitachi also develops and offers various software packages designed to enhance the productivity of customers. Systems integration, consulting and outsourcing form the core of the services business in which customized solutions are developed and offered to customers with Hitachi's hardware and software products, as well as other vendors' products, to deliver systems that help customers achieve their business objectives. This segment also provides telecommunications equipment and components such as switches and fiber optic components, which are delivered to customers in the data and telecommunication industries.

Table of Contents

The computer industry is extremely competitive. The speed of technology development in both hardware and software is very fast, and a failure to introduce, or a delay in the introduction of products or services that incorporate the latest technology would materially diminish Hitachi's market presence. Customers are highly sensitive to the cost effectiveness of their investments in information technology, which leads to intense price competition, particularly in hardware products.

In particular, in the HDDs business, Hitachi is trying to improve the profitability of Hitachi Global Storage Technologies, Inc., a wholly owned subsidiary of the Company. Hitachi expects that the HDDs market will continue to expand but also considers that the HDDs 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 that it is important to establish efficient development and manufacturing operations. Hitachi has therefore been implementing 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.

In software and services businesses, Hitachi aims to strengthen: (i) outsourcing services such as data center outsourcing services which entails the monitoring, operation and maintenance of information on behalf of clients, as well as strategic outsourcing services which provides comprehensive support for customers' information systems, including consulting, systems design, construction, operation and maintenance; and (ii) consulting services by bolstering the operational structure principally by increasing the number of consultants. Hitachi also aims to establish an efficient project management system by sales efforts to emphasize profitability, by utilizing an automatic application generator tool to increase the quality and productivity of research and development and by emphasizing cost management during the design and manufacture process to achieve profitability.

In fiscal 2007, this segment accounted for 22% of total revenues before eliminations and recorded operating income of ¥116.1 billion.

Electronic Devices

The Electronic Devices segment provides liquid crystal displays, or LCDs, semiconductor manufacturing equipment, test and measurement equipment and medical electronics equipment. A significant portion of Hitachi's semiconductor business was transferred to Renesas Technology Corp. (Renesas), jointly owned by the Company and Mitsubishi Electric Corporation, and which is accounted for under the equity method by the Company. That portion has not been included in this segment since fiscal 2003.

A significant portion of this segment business is conducted by Hitachi High-Technologies Corporation, a publicly-held subsidiary of the Company. Hitachi High-Technologies Corporation has two business aspects: (i) manufacturing and sale of manufacturing equipment of semiconductors, LCDs and HDDs, test and measurement equipment such as clinical analyzers, DNA sequencers and liquid chromatographs and other electronics-related equipment and (ii) sale of electronic components and advanced industrial materials.

The display business is highly competitive and characterized by significant price fluctuations with changes in the supply-demand balance. Due to its unfavorable business environment such as severe price competition, Hitachi exited from the unprofitable large-sized LCDs business conducted by a consolidated subsidiary, Hitachi Displays, Ltd. (Hitachi Displays), in the 1st quarter of fiscal 2006. Currently the large-sized LCDs business for flat-panel TVs is conducted in an equity method affiliate called IPS Alpha Technology, Ltd. (IPS Alpha). Further, in December 2007, the Company entered into a comprehensive alliance with Matsushita Electric Industrial Co., Ltd. (Matsushita) and Canon, Inc. (Canon), which anticipates the transfer of its LCD business to both Matsushita and Canon. Based on the alliance, in February 2008, Hitachi and Matsushita entered into an agreement relating to the future transfer of the large-sized LCDs business for flat-panel TVs conducted by IPS Alpha to Matsushita. Further, in February 2008, Hitachi and Canon entered into an agreement relating to the future transfer of the small and medium-sized LCDs business conducted by Hitachi Displays to Canon. Hitachi plans to continue to engage in R&D of LCD panels after the transfer of its LCDs business.

In fiscal 2007, this segment accounted for 10% of total revenues before eliminations and recorded operating income of ¥54.0 billion.

Table of Contents

Power & Industrial Systems

In this segment, Hitachi offers power plants, industrial machinery, automotive products, construction machinery, elevators, escalators, railway vehicles and other products and related services for power utilities and industry.

Power companies are the main customers of the power sector. In this sector, Hitachi must respond to customer demand for low-priced products with high added value. In addition, in recent years Hitachi has given high priority to environmental protection in its product design. The entry of independent power producers into the domestic electric power industry brought about by deregulation has put pressure on power companies to lower electricity prices. This causes more intense price competition among vendors to match lower electricity prices. Since the orders the sector receives are generally for large items with long delivery periods, a portion of the purchase price from those orders is generally paid in advance to finance the production of the items.

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 specific 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. See Item 5. Operating and Financial Review and Prospects D. Trend Information.

The Company plans to strengthen and expand its nuclear power systems business throughout the world, including the U.S., by utilizing the alliance with GE to improve and expand boiling water reactor technology offerings, and to benefit from synergy in the area of design, manufacturing, construction, maintenance and engineering services. Based on the alliance, in June 2007, the Company and GE established companies in the U.S. and Canada. In addition, the Company transferred its nuclear power systems operations to a newly created Japanese company in July 2007 by way of corporate split under the Company Law and GE invested in the Japanese company. The Company owns 40% of the U.S. and Canadian companies, with GE owning the remaining 60%, and the Company owns 80.01% of the Japanese company, which is a consolidated subsidiary, with GE owning the remaining 19.99%. These companies will construct and maintain nuclear power plants and provide related services. The Company expects that the nuclear power market will expand globally and believes that, by creating synergies with GE, this alliance will enable the Company to expand its nuclear power systems business throughout the world, utilizing GE's design engineering of an advanced economic and simplified boiling water reactor, and both companies' accumulated know-how and experience with the construction of nuclear power plants. See A. History and Development of the Company and Item 5. Operating and Financial Review and Prospects A. Operating Results Business Reorganization.

The industrial systems sector covers products used in numerous industries and is strongly influenced by trends in public works spending and private-sector plant and equipment investment. Market demands focus primarily on low price, high added value and the capability of products to be integrated into systems. The number of product types is vast and production is frequently done in small lots or on order. The industry includes many small-to-medium-sized specialty manufacturers and competition for orders is fierce.

In December 2006, the Company acquired a controlling interest in Clarion, a company that manufactures and sells car audio systems, car navigation systems, etc., making it a consolidated subsidiary of the Company, through a tender offer. Hitachi, with the expected synergy from these mergers and acquisitions, plans to strengthen the automotive products business in three areas: environmental systems such as fuel efficient vehicles and electric vehicles; safety systems such as vehicle movement management systems; and car information systems such as traffic information systems, navigation systems and damage/deterioration diagnosis systems.

Hitachi optimizes its response to the needs and priorities of segment customers by strategically combining technologies from Hitachi's diverse fields of operation, especially from technologies in the information systems and electronics field.

In fiscal 2007, this segment accounted for 28% of total revenues before eliminations and recorded operating income of ¥138.4 billion.

Table of Contents

Digital Media & Consumer Products

In this segment, Hitachi manufactures and sells products in two main categories: digital media products and home appliances. The former includes optical disk drives, flat-panel TVs, LCD projectors and mobile phones, while the latter comprises room air conditioners, refrigerators, washing machines and other appliances. All products have a broad range of customers dominated by general consumers.

Home electrical equipment manufacturers are responding to customer demand for low price and high added value by cutting costs and developing differentiated product lines. Success in this segment will also depend considerably on the development of products geared to advances in new multimedia-related markets.

In this segment, Hitachi is facing intense price competition caused by increasing product commoditization both in the digital media products business and home appliances business. Especially in digital media products such as flat-panel TVs, price reductions have been significant because of domestic and overseas competitors and increasing commoditization of old products. However, Hitachi expects the flat-panel TV market will continue to expand and considers flat-panel TVs to be one of its key products which Hitachi believes allow it to harness cutting-edge technologies to satisfy market needs faster than its competitors. Hitachi aims to improve the profitability of its flat-panel TVs business by developing and introducing new high value-added products such as ultra-thin flat-panel TVs; by restructuring its sales network in both domestic and overseas markets; by reducing production and fixed costs; and by increasing external sales of plasma display panels. See Item 5. Operating and Financial Review and Prospects A. Operating Results Fiscal 2007 Compared with Fiscal 2006 for more information.

In fiscal 2007, this segment accounted for 12% of total revenues before eliminations and recorded an operating loss of ¥109.9 billion.

High Functional Materials & Components

This segment includes fabricated chemical and metal products supplied as parts or materials to downstream manufacturers of mainly electric and electronic products. For example, Hitachi Chemical Co., Ltd. manufactures products based on its resin technology and serves industrial markets including semiconductor, liquid crystal display and automobile markets. Hitachi Metals, Ltd. manufactures and sells magnetic and electronic materials and parts. They include specialty steels such as materials for mobile phones and automobile engine parts. Hitachi Cable, Ltd. manufactures and sells electronic materials and components for semiconductors and mobile phones as well as cable and wire products used for the transmission of power and telephone signals.

As more products in this segment become more closely dependent upon and driven by electronics technological capabilities, Hitachi's strength in electronics technology is expected to provide Hitachi with an advantage in introducing new products. Since the portion of materials and components used for semiconductors, liquid crystal displays, mobile phones and other IT-related products has increased in recent years, business results in this segment have been significantly affected by the business climate of the IT industry.

In April 2004, the magnetic materials business of Hitachi Metals, Ltd. (Hitachi Metals), a publicly-held subsidiary of the Company, was combined with Sumitomo Special Metals Co., Ltd. to form a new company, NEOMAX Co., Ltd. (NEOMAX). The new company became a consolidated subsidiary of the Company as a result of the transaction. Further, in November 2006, Hitachi Metals conducted a tender offer for shares of NEOMAX, then merged NEOMAX into it in April 2007.

In fiscal 2007, this segment accounted for 15% of total revenues before eliminations and recorded operating income of ¥141.0 billion.

Logistics, Services & Others

This segment includes various businesses not covered by other segments, primarily consisting of sales from general trading, logistics and property management services conducted by consolidated subsidiaries of the Company. Hitachi has set up sales subsidiaries by region and by product. Hitachi also has many subsidiaries that were established to offer various services related to Hitachi's business operations internally, such as printing and food services.

Table of Contents

In fiscal 2007, this segment accounted for 10% of total revenues before eliminations and recorded operating income of ¥27.8 billion.

Financial Services

This segment was originated to extend credit to purchasers of Hitachi products. This segment currently provides leases, loan guarantees and insurance services and conducts business in the area of securitization.

In fiscal 2007, this segment accounted for 3% of total revenues before eliminations and recorded operating income of ¥25.4 billion.

Competition

Hitachi is subject to intense competition in each of its businesses. Among its major competitors are some of the top-ranking industrial companies in Japan, U.S., Europe and Asia. Depending on the nature of the business, the competition is marked by rapid progress in technology or the need to reduce costs to meet customer requirements. In addition, Hitachi is facing more competition against companies that focus exclusively on specific market segments. See Item 4. Information on the Company B. Business Overview Description of Industry Segments for details of competition in each segment.

Seasonality

Hitachi's revenues in Information & Telecommunication Systems segment and Power & Industrial Systems segment in the fourth quarter ending March 31 tend to be higher than those in other quarters due in part to the purchase customs of governmental agencies in Japan.

Sources of Supply

Hitachi purchases a wide variety of raw materials, parts and components from many suppliers in Japan and abroad. In general, Hitachi is not dependent on any single source of supply for its raw materials, parts and components. In light of the fact that Japan produces very few of the raw materials Hitachi uses in its manufacturing processes, Hitachi monitors the availability of raw materials on a regular basis. There are currently no particular shortages of energy, raw material, parts or components that are likely to materially affect Hitachi's business. Prices of certain raw materials, parts and components, such as petroleum products, copper, aluminum and semiconductor memory chips, that Hitachi purchases are volatile. Recent increases in prices of petroleum and other materials, such as copper, steel and synthetic resins, are increasing Hitachi's production costs, and may adversely affect its results of operations.

Intellectual Property and Licenses

Hitachi holds numerous intellectual property rights, including patents, trademarks and copyrights. Although Hitachi considers them to be valuable assets and important for its operations, it believes that its business is not materially dependent on any single patent, trademark, copyright or other intellectual property right that it holds.

Hitachi has many license and technical assistance agreements covering a wide variety of products. Some of these agreements grant Hitachi the rights to use certain Japanese and foreign patents or to receive certain technical information. Under certain other agreements, Hitachi has also granted licenses and technical assistance to various companies located in Japan or overseas. Additionally, in certain instances, Hitachi has entered into cross-license agreements with major international electronics and electrical equipment manufacturers. Hitachi believes that it is not materially dependent on any single such license or technical assistance agreement.

Government Regulations

Hitachi's business activities are subject to various governmental regulations in countries where it operates, which include investment approvals, export regulations, tariffs, antitrust, anti-bribery, intellectual property, consumer and business taxation, exchange controls, and environmental and recycling requirements.

For example, Hitachi is subject to various environmental regulations such as the Air Pollution Control Law of Japan, the Soil Contamination Countermeasures Law of Japan, and the Water Pollution Control Law of Japan, which are administered by the Ministry of the Environment of Japan, and Pollutant Release and Transfer Registers Law of Japan administered by the Ministry of Economy, Trade and Industry of Japan and the Ministry of the Environment of Japan. In order to comply with these laws, Hitachi has implemented various measures such as improving its production facilities, introducing chemical substance risk assessment system, monitoring use and emission of certain chemical substances and

cleaning up groundwater and soil as necessary.

Further, Hitachi has also worked to comply with the European Union directive, the Restriction of the use of certain Hazardous Substances in Electrical and Electronic Equipment effective since July 1, 2006, which requires the elimination of six chemicals specified in the directive: lead, hexavalent chromium, cadmium, mercury, polybrominated biphenyl and polybrominated diphenyl ether from electrical and electronic products marketed in the European Union member states. Hitachi achieved compliance with this directive in July 2006 and is making continued efforts to comply with it. In addition, Hitachi has worked to comply with the European Union directive, the Registration, Evaluation, Authorization, and Restrictions of Chemicals, effective since June 1, 2007, which requires manufacturers, users and importers of a broad range of chemical substances to register chemical substances exported to the European Union member states and to file reports and apply for authorization for the chemicals contained in their products. Hitachi has worked to identify chemical substances contained in its products to be registered by developing its database.

These regulations among others to which Hitachi is subject could become more stringent or additional regulations could be adopted in the future, which could cause Hitachi to incur additional compliance costs or limit its business activities. Further, a failure to comply with these regulations could result in fines or other penalties, which could adversely affect Hitachi's financial condition, results of operation, cash flows, reputation or credibility.

Table of Contents**C. Organizational Structure**

The table below shows major subsidiaries of the Company as of March 31, 2008. Ownership percentage of voting rights indicates voting rights owned by the Company and its subsidiaries.

Name of company	Country of incorporation	Ownership percentage of voting rights
Information & Telecommunication Systems		
Hitachi Communication Technologies, Ltd.	Japan	100.0%
Hitachi Electronics Services Co., Ltd.	Japan	100.0
Hitachi Information & Control Solutions, Ltd.	Japan	100.0
Hitachi Information Systems, Ltd.	Japan	51.9
Hitachi-Omron Terminal Solutions, Corp.	Japan	55.0
Hitachi Software Engineering Co., Ltd.	Japan	53.0
Hitachi Systems & Services, Ltd.	Japan	51.2
Hitachi Computer Products (America), Inc.	U.S.A.	100.0
Hitachi Computer Products (Europe) S.A.S.	France	100.0
Hitachi Data Systems Holding Corp.	U.S.A.	100.0
Hitachi Global Storage Technologies Netherlands B.V.	Netherlands	100.0
Electronic Devices		
Hitachi Displays, Ltd.	Japan	50.2%
Hitachi High-Technologies Corporation	Japan	51.7
Hitachi Medical Corporation	Japan	63.2
Hitachi Display Device (Suzhou) Co., Ltd.	China	100.0
Power & Industrial Systems		
Babcock-Hitachi Kabushiki Kaisha	Japan	100.0%
Clarion Co., Ltd.	Japan	64.0
Hitachi Building Systems Co., Ltd.	Japan	100.0
Hitachi Construction Machinery Co., Ltd.	Japan	51.1
Hitachi Engineering & Services Co., Ltd.	Japan	100.0
Hitachi-GE Nuclear Energy, Ltd.	Japan	80.0
Hitachi Industrial Equipment Systems Co., Ltd.	Japan	100.0
Hitachi Mobile Co., Ltd.	Japan	100.0
Hitachi Plant Technologies, Ltd.	Japan	69.8
Hitachi Via Mechanics, Ltd.	Japan	100.0
Hitachi Automotive Products (USA), Inc.	U.S.A.	100.0
Hitachi Elevator (China), Co., Ltd.	China	70.0
Hitachi Power Europe GmbH	Germany	100.0
Digital Media & Consumer Products		
Fujitsu Hitachi Plasma Display Limited	Japan	95.4%
Hitachi Appliances, Inc.	Japan	100.0
Hitachi Maxell, Ltd.	Japan	53.5
Hitachi Media Electronics Co., Ltd.	Japan	100.0
Hitachi Home Electronics (America), Inc.	U.S.A.	100.0
Shanghai Hitachi Household Appliances Co., Ltd.	China	60.0

Table of Contents

Name of company	Country of incorporation	Ownership percentage of voting rights
High Functional Materials & Components		
Hitachi Cable, Ltd.	Japan	53.2%
Hitachi Chemical Co., Ltd.	Japan	51.6
Hitachi Metals, Ltd.	Japan	55.7
Logistics, Services & Others		
Chuo Shoji, Ltd.	Japan	100.0%
Hitachi Life Corporation	Japan	100.0
Hitachi Transport System, Ltd.	Japan	59.0
Nikkyo Create, Ltd.	Japan	100.0
Hitachi America, Ltd.	U.S.A.	100.0
Hitachi Asia Ltd.	Singapore	100.0
Hitachi (China), Ltd.	China	100.0
Hitachi Europe Ltd.	U.K.	100.0
Financial Services		
Hitachi Capital Corporation	Japan	60.6%
Hitachi Insurance Services, Ltd.	Japan	100.0

Note: Fujitsu Hitachi Plasma Display Limited changed its name to Hitachi Plasma Display Limited on April 1, 2008.

D. Property, Plants and Equipment

Hitachi owns a significant portion of the land, plants, offices and other fixed assets necessary to conduct its business and a significant portion of Hitachi's land, plants, offices and other fixed assets are located in Japan. Hitachi considers its properties to be well maintained and believes its plant capacity is adequate for its current needs and future plans. Certain of Hitachi's properties such as land and buildings are subject to mortgages in respect of bonds and loans. The total outstanding balance of the secured loans as of March 31, 2008 was ¥43,004 million.

The following table describes the name of the Company office, division, group, center or subsidiary that is using the property, the location and area of the property, and in the case of plant property, the principal products produced there as of March 31, 2008. Hitachi believes the following offices, divisions, groups, centers and subsidiaries comprise its major lines of business:

Name of user of plants and offices	Location	Land area (Thousands of square meters)	Principal products
In Japan			
The Company:			
Automotive Systems	Kanagawa, etc.	2,614	Automotive products
Information & Telecommunication Systems	Kanagawa, etc.	764	Software, mainframes
Thermal & Hydroelectric Systems Division, etc.	Ibaraki	3,831	Power generating equipment, turbines
Research & Development Group	Tokyo, etc.	836	
Consumer Business Group	Kanagawa, etc.	1,018	Digital media related products
Sales Offices	Osaka, etc.	115	
Urban Planning and Development Systems	Ibaraki	528	Elevators, escalators
Head Office	Tokyo	790	
Transportation Systems Division	Yamaguchi	698	Railway vehicles

Table of Contents

Name of user of plants and offices	Location	Land area (Thousands of square meters)	Principal products
Subsidiaries:			
Hitachi Displays, Ltd.	Chiba	481	Liquid crystal displays
Yasugi Works, Hitachi Metals, Ltd.	Shimane	1,096	Special steels
Hitaka Works, Hitachi Cable, Ltd.	Ibaraki	956	Electronic materials and components
Tsuchiura Plant, Hitachi Construction Machinery Co., Ltd.	Ibaraki	5,534	Excavators
Kyoto Works, Hitachi Maxell, Ltd.	Kyoto	313	Magnetic recording media
Head Office, Hitachi Software Engineering Co., Ltd.	Tokyo	17	
Head Office, Hitachi Building Systems Co., Ltd.	Tokyo	165	
Yamazaki Works, Hitachi Metals, Ltd.	Osaka	187	Magnetic appliances
Yamasaki Works, Hitachi Chemical Co., Ltd.	Ibaraki	675	Electronic materials and components
Miyazaki Works, Fujitsu Hitachi Plasma Display Limited	Miyazaki	404	Plasma display panels
Outside of Japan			
Overseas subsidiaries:			
Hitachi Global Storage Technologies Netherlands B.V.	California, U.S.A., etc.	1,851	Hard disk drives
Hitachi Metals America, Ltd.	New York, U.S.A., etc.	2,594	Automotive components
Hitachi Construction Machinery (Europe) N.V.	Amsterdam, Netherlands	48	Excavators

Note: Fujitsu Hitachi Plasma Display Limited changed its name to Hitachi Plasma Display Limited on April 1, 2008.

For information on Hitachi's plan for capital investment for fiscal 2008, see A. History and Development of the Company in this Item.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**A. Operating Results*****Economic Environment***

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 such as Japan, Asia, the U.S. and Europe.

In fiscal 2007, the Japanese economy continued to grow moderately due primarily to the increase of exports. Japan's GDP grew 2.4% in fiscal 2005, 2.5% in fiscal 2006 and 1.6% in fiscal 2007.

Outside Japan, in fiscal 2007, growth in the U.S. economy slowed due to the effects of the deterioration of the sub-prime residential mortgage market. The European economy continued firm growth due to increases in capital investment and exports. The Asian economy showed robust growth centered in China.

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. For example, a large portion of Hitachi's manufacturing is done domestically, which means that a strong yen reduces Hitachi's cost competitiveness. The Japanese yen on average weakened against the U.S. dollar during

Edgar Filing: HITACHI LTD - Form 20-F

fiscal 2005 and 2006, while during fiscal 2007, the Japanese yen strengthened. 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 on such investments. For additional information regarding foreign currency exchange rate fluctuations, see Item 4. Information on the Company B. Business Overview Sales and Distribution.

Table of Contents

Oil and raw materials prices are rising globally. Increases in raw materials prices lead to increases in Hitachi's production costs and may adversely affect on Hitachi's profitability. Hitachi is working to reduce purchase costs by increasing centralized purchasing to realize volume discounts and by reducing the amount of raw materials used.

Business Strategy

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.

In order to establish a stable and highly profitable business structure, 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, by increasing its 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 its focus on targeted businesses, creating or incubating new businesses and making capital investments. Hitachi has been allocating its business resources to strong businesses and has also 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. 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.

Hitachi is also entering into alliances with important domestic and overseas business partners in order to improve its profitability and to develop new business areas through achieving expected synergies with these partners and Hitachi group companies. In addition, Hitachi is implementing measures such as expanding fundamental research to create future core businesses and strengthening basic technologies for the Hitachi group in order to pursue further growth throughout the Hitachi group.

Business Reorganization

In September 2005, the Company sold a portion of its shares of Elpida Memory, Inc. (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, a company that manufactures and sells car audio systems, car navigation systems, etc., 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 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 transferred its nuclear power systems operations to a newly created Japanese company in July 2007 by way of corporate split under the Company Law of Japan, and GE invested in the Japanese company. Hitachi owns 40% of the U.S. and Canadian companies, with GE owning the remaining 60%, and the Company owns 80.01% of the Japanese company, which is a consolidated subsidiary, with GE owning the remaining 19.99%. 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. 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 design of an advanced boiling water reactor and an economic and simplified boiling water reactor, which is the next-generation large-scale reactor of boiling water reactor, and by leveraging both companies' accumulated know-how and experience in the construction of nuclear power plants.

Table of Contents

In December 2007, the Company entered into a comprehensive alliance with Matsushita and Canon, which anticipates the transfer of its LCD business to both Matsushita and Canon. Based on the alliance, in February 2008, Hitachi and Matsushita entered into an agreement relating to the future transfer of the large-sized LCDs business for flat-panel TVs conducted by IPS Alpha to Matsushita. Further, in February 2008, Hitachi and Canon entered into an agreement relating to the future transfer of the small and medium-sized LCDs business conducted by Hitachi Displays to Canon. Hitachi plans to continue to engage in R&D of LCD panels after the transfer of its LCDs business.

Hitachi is responding to the challenging circumstances it faces by closing or downsizing unprofitable operations where feasible, seeking joint ventures with competitors, reallocating employees from overstaffed businesses to growth businesses, and reorganizing the geographic distribution of its manufacturing facilities. 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.

Note to Analysis of Revenues and Operating Income (Loss)

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 Financial Instruments 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. Operating income (loss) 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.

Fiscal 2007 Compared with Fiscal 2006**Summary**

	Fiscal 2006	Fiscal 2007	Percent change
	(Millions of yen, except percentage data)		
Total revenues	10,247,903	11,226,735	+10%
Operating income	182,512	345,516	+89%
Income before income taxes and minority interests	202,338	324,782	+61%
Income before minority interests	39,524	52,619	+33%
Net income (loss)	(32,799)	(58,125)	%

Hitachi's total revenues increased compared to the preceding fiscal year. Operating income significantly improved due to increases in operating income in most industry segments particularly in Power & Industrial Systems segment and Information & Telecommunication Systems segment, partially offset by an increase in an operating loss in Digital Media & Consumer Products segment. Income before income taxes and minority interests also increased due to an increase in operating income and an increase in net gain on sale of securities, partially offset by an increase in impairment of long-lived assets and an increase in restructuring charges. However, as a result of a significant increase in income taxes due primarily to an increase in the valuation allowance for deferred tax assets and an increase in minority interests due to the overall good performance of publicly-held subsidiaries, net loss increased compared to the preceding fiscal year. See Analysis of Statement of Operations, Operations by Industry Segment and Operations by Geographic Segment below for more detailed discussion.

Table of Contents***Analysis of Statement of Operations***

Hitachi's total revenues in fiscal 2007 were ¥11,226.7 billion, an increase of 10% from the preceding fiscal year due to increases in revenues in most industry segments particularly in Power & Industrial Systems segment and Information & Telecommunication Systems segment, partially offset by a decrease in revenues of Financial Services segment. See *Operations by Industry Segment* and *Operations by Geographic Segment* below for more detailed discussion. Overseas revenues increased 14% over the same period, to ¥4,742.2 billion, or 42% of total revenues. This was due primarily to overall revenue increases in Asia, particularly increases in sales of construction machinery and HDDs, and an increase in sales of construction machinery and posting sales of a coal-fired thermal power plant in Europe.

Hitachi's cost of sales increased 9%, to ¥8,777.6 billion, in fiscal 2007 compared to the preceding fiscal year. The ratio of cost of sales to total revenues decreased 1% in fiscal 2007 compared to the preceding fiscal year, to 78%. This improvement was primarily due to various cost reduction efforts and an improvement in profitability due to an increase in revenues, partially offset by the rise in raw material prices.

Selling, general and administrative expenses increased 6%, to ¥2,103.5 billion, in fiscal 2007 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 2007 as in the preceding fiscal year.

Operating income, total revenues less cost of sales and selling, general and administrative expenses, increased 89%, to ¥345.5 billion, in fiscal 2007 compared to the preceding fiscal year due to an increase in most industry segments, particularly significant improvement in Power & Industrial Systems segment and Information & Telecommunication Systems segment, partially offset by a significant increase in operating loss in Digital Media & Consumer Products segment. See *Operations by Industry Segment* and *Operations by Geographic Segment* below for more detailed discussion.

In fiscal 2007, Hitachi recorded impairment losses for long-lived assets in the amount of ¥87.5 billion, an increase of ¥77.6 billion from the preceding fiscal year.

Digital Media & Consumer Products segment recorded an impairment loss of ¥68.7 billion. This impairment loss was recognized mainly in connection with an impairment of plasma display panel production facilities due to a decline of their profitability and the amounts invested in such production facilities are expected to be irrecoverable. Such profitability decline resulted from intensified market competition followed by falling unit prices of plasma TVs, a larger decrease in sales volume in units than expected and restructured overseas sales activities as part of a re-evaluation of geographical strategies in response to this decrease in sales. In addition, the impairment loss also includes impairment of the value of patents in connection with plasma display panel technology, for which the future royalty income is expected to decrease more than expected and the amounts invested in such patents are expected to be irrecoverable. Power & Industrial Systems segment recorded an impairment loss of ¥9.2 billion. This impairment loss was recognized mainly in connection with an impairment of power generation facilities for electrical power sales business due to decline of profitability of such business that resulted from increased fuel prices and the amounts invested in such facilities are expected to be irrecoverable. High Functional Materials & Components segment recorded an impairment loss of ¥7.1 billion. This impairment loss was recognized mainly in connection with an impairment of the production facilities of chip-on-film products for use in LCD drivers that resulted from falling prices of such products due to oversupply following a decrease in demand for LCD panels and the amounts invested in such facilities are expected to be irrecoverable. These losses were determined based primarily on discounted future cash flows.

In fiscal 2007, Hitachi recorded restructuring charges of ¥18.1 billion, an increase of ¥14.1 billion from the preceding fiscal year, associated primarily with the restructuring measures in Information & Telecommunication Systems segment, Digital Media & Consumer Products segment and Power & Industrial Systems segment. See *Restructuring* in this Item.

Interest income increased ¥5.5 billion, to ¥31.5 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to a rise in the interest rate and an increase in interest income relating to installment sales of construction machinery business.

Table of Contents

Dividends income amounted to ¥6.0 billion in fiscal 2007, almost the same as the preceding fiscal year.

Gains on sales of stock by subsidiaries or affiliated companies amounted to ¥3.8 billion in fiscal 2007 due to the merger of Hitachi Metals and NEOMAX. This was a ¥8.1 billion decrease compared to the preceding fiscal year, when a gain of ¥12.0 billion was recorded due primarily to the sale of the Company's shares in a U.S. consolidated subsidiary engaged in optical components business when the U.S. company listed its shares and resulted in such subsidiary becoming an equity method affiliate.

Other income increased ¥64.7 billion, to ¥123.7 billion, in fiscal 2007, compared to the preceding fiscal year. Net gain on securities increased ¥32.4 billion, to ¥80.1 billion, in fiscal 2007 compared to the preceding fiscal year due to sale of shares of subsidiaries, including sale of a part of shares of Hitachi Displays to Canon in connection with the reorganization of the LCDs business, sale of a part of shares of Hitachi-GE Nuclear Energy, Ltd. to GE in connection with the alliance with GE regarding nuclear power systems business and sale of all shares of Hitachi Semiconductor Singapore Pte. Ltd. Gains on contribution of securities to employee retirement benefit trust amounted to ¥21.0 billion also contributed to the increase; the Company contributed certain shares to such trust in order to improve its pension financing and to increase its utilization of financial assets. Equity in earnings of affiliated companies also increased ¥11.2 billion, to ¥22.5 billion, in fiscal 2007 due to an overall improvement in business results of equity method affiliates.

Interest charges increased ¥4.6 billion, to ¥42.4 billion in fiscal 2007 compared to the preceding fiscal year due primarily to the effect of a rise in the interest rate.

Other deductions increased ¥6.2 billion, to ¥37.7 billion, in fiscal 2007 compared to the preceding fiscal year. Foreign exchange losses increased ¥25.3 billion, to ¥28.4 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to strengthening of the yen against the U.S. dollars. Net loss on sale and disposal of rental assets and other property decreased ¥16.3 billion, to ¥8.2 billion, in fiscal 2007 compared to the preceding fiscal year. While the gross amount of loss on disposal of fixed assets was almost the same as in the preceding fiscal year, a larger amount of gains on sale of idle lands by the Company and certain subsidiaries resulted in a reduction in the net loss.

As a result of the foregoing, income before income taxes and minority interests increased 61%, to ¥324.7 billion, in fiscal 2007 compared to the preceding fiscal year.

Income taxes in relation to income before income taxes and minority interests in fiscal 2007 increased ¥109.3 billion, to ¥272.1 billion, in fiscal 2007 compared to the preceding fiscal year, which resulted in the effective tax rate of 84% in fiscal 2007 compared to 80% in the preceding fiscal year. This was due primarily to a ¥62.0 billion increase in the valuation allowance for deferred tax assets of the Company related to Japanese local taxes following re-assessment of the realizability of deferred tax assets in line with lower earnings in the flat-panel TVs business. Further, certain overseas subsidiaries were not able to record a deferred tax benefit for their losses.

As a result, income before minority interests increased 33%, to ¥52.6 billion, in fiscal 2007 compared to the preceding fiscal year.

Minority interests increased 53%, to ¥110.7 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to firm business results of publicly-held subsidiaries such as Hitachi Construction Machinery Co., Ltd., publicly-held subsidiaries in High Functional Materials & Components segment and Hitachi High-Technologies Corporation.

As a result of the foregoing, Hitachi's net loss increased ¥25.3 billion, to ¥58.1 billion, in fiscal 2007 compared to the preceding fiscal year.

Table of Contents**Operations by Industry Segment**

	Revenues			Operating income		
	Fiscal 2006	Fiscal 2007	Percent change	Fiscal 2006	Fiscal 2007	Percent change
	(Millions of yen, except percentage data)					
Information & Telecommunication Systems	2,472,227	2,761,137	+12%	60,343	116,105	+92%
Electronic Devices	1,287,492	1,293,517	+0%	45,755	54,046	+18%
Power & Industrial Systems	3,022,299	3,568,151	+18%	36,391	138,455	+280%
Digital Media & Consumer Products	1,506,073	1,504,692	-0%	(58,435)	(109,914)	%
High Functional Materials & Components	1,794,506	1,875,018	+4%	132,399	141,007	+7%
Logistics, Services & Others	1,213,529	1,271,465	+5%	20,233	27,870	+38%
Financial Services	500,065	445,400	-11%	23,534	25,481	+8%
Subtotal	11,796,191	12,719,380	+8%	260,220	393,050	+51%
Eliminations and Corporate Items	(1,548,288)	(1,492,645)	%	(77,708)	(47,534)	%
Total	10,247,903	11,226,735	+10%	182,512	345,516	+89%

Information & Telecommunication Systems

Revenues increased 12%, to ¥2,761.1 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to increases in sales of services business and HDDs.

Revenues of services business increased by 15%, to ¥1,135.2 billion. This is primarily due to an increase in sales of system integration services as a result of active IT investment by domestic financial institutions. HDD shipment volume increased 28% to 89.5 million units, which resulted in a 15% increase in sales of HDDs compared to the preceding fiscal year, to ¥653.1 billion. A steady increase in demand for lap-top computers resulted in an increase in unit sales of 2.5 inch models, one of the core HDD products. Increasing demand also led to an increase in sales of 3.5 inch desk top models.

Operating income increased 92%, to ¥116.1 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to an increase in profit of services business and an improvement in the HDD business.

In the services business, operating income significantly increased as a result of sales efforts to emphasize profitability, of utilizing an automatic application generator tool to increase the quality and productivity of research and development and of emphasizing follow-up and cost management during the design and manufacture process to achieve profitability. Operating losses for HDDs decreased by ¥9.6 billion from ¥43.7 billion in the previous fiscal year to ¥34.1 billion due to stable prices in the latter half of fiscal 2007, an increase in sales of new more profitable products with high added value and a reduction of costs. This cost reduction was achieved by closing a certain production facility, integrating R&D and production facilities of circular disks and magnetic heads, reducing labor costs and reducing purchase costs of raw materials.

Electronic Devices

Revenues amounted to ¥1,293.5 billion in fiscal 2007, almost the same as in the preceding fiscal year.

In Hitachi High-Technologies Corporation, revenues were almost the same as in the preceding fiscal year. Sales of clinical analyzers increased through intensive sales efforts of new models of integrated clinical chemistry and immunochemistry analyzers due to solid demand in the U.S. and European markets. Sales of semiconductor manufacturing equipment also increased due to solid demand in overseas markets. These increases were offset by a decrease in sales of semiconductor devices, functional components and printer-related components due to a reduction in production volume of certain clients and a decrease in sales of optical components for LCD projectors due to a contraction of the rear projection TVs market.

In displays business, revenues were almost the same as in the preceding fiscal year. Revenues of large-sized LCDs for TVs decreased due to Hitachi's policy of focusing on small and medium-sized LCDs and exiting from the large-sized LCDs business for TVs conducted by Hitachi Displays, a subsidiary of the Company. Sales of large-sized LCDs for PCs and projection tubes decreased following downsizing as part of

Edgar Filing: HITACHI LTD - Form 20-F

Hitachi's business strategy. These decreases were offset by an increase in sales of small and medium-sized LCDs for devices like mobile phones and digital still cameras due to increased demand for high grade LCD panels in these products.

Table of Contents

Operating income increased 18%, to ¥54.0 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to an increase in sales of new models of clinical analyzers in the U.S. and European markets and various cost reduction efforts.

Power & Industrial Systems

Revenues increased 18%, to ¥3,568.1 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to increases in revenues of power systems business, automotive equipment and Hitachi Construction Machinery Co., Ltd.

Revenues in power systems business increased due primarily to sales posted in a nuclear power plant in Japan and a coal-fired thermal power plant in Germany. Sales of automotive equipment increased due primarily to an increase in revenues due to Clarion Co., Ltd. becoming a consolidated subsidiary in December 2006 and a production increase in the domestic automobile manufacturers for exports. Revenues of Hitachi Construction Machinery Co., Ltd. increased due to increased worldwide demand for construction machinery and mineral mining machinery.

In fiscal 2007, Hitachi did not record unexpected costs after recording unexpected costs in fiscal 2006, relating to 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 to overcome delays in the construction of a thermal power plant in the U.S. As a result, operating income increased 280%, to ¥138.4 billion, in fiscal 2007 compared to the preceding fiscal year.

Digital Media & Consumer Products

Revenues amounted to ¥1,504.6 billion in fiscal 2007, almost the same as the preceding fiscal year. Sales of projection TVs significantly decreased due to downsizing of such business and shifting focus to flat-panel TVs business. The sales volume of plasma TVs increased to 850 thousand units in fiscal 2007 compared to 770 thousand units in the preceding fiscal year while revenues decreased due to price reductions mainly in old models. These factors were partially offset by an increase in sales of room air conditioners in Europe, China and India and an increase in sales of air-conditioning equipment for enterprises in Japan, Europe and China.

Operating loss increased ¥51.4 billion, to ¥109.9 billion, in fiscal 2007 from the preceding fiscal year. This increase in loss was due primarily to an increase in loss of plasma TVs, partially offset by an improvement in the profitability of room air conditioners as sales increased.

Operating loss of plasma TVs increased due to decreases in sales prices in Japan, particularly those for older models, and decreases in sales prices in North America due to price competition reflecting consumer preference for low price models. In addition, Hitachi recognized costs related to a sell-off of inventories in connection with the restructuring of sales activities.

Flat-panel TVs business is experiencing severe price competition. However, demand for flat-panel TVs is growing in emerging markets such as China. Further, demand in developed countries is expected to grow, because flat-panel TVs have additional functionality as next generation information terminals. Hitachi seeks the profitability of flat-panel TVs by focusing on high value added products such as ultra-thin models, reducing production costs and fixed costs through reduction in the size of workforce, selecting domestic and overseas sales channels for consumers and reinforcing sales channels for business clients utilizing Hitachi's other business division's sales channel and expanding sales of plasma display panels to outside customers.

High Functional Materials & Components

Revenues increased 4%, to ¥1,875.0 billion, in fiscal 2007 compared to the preceding fiscal year. Revenues of Hitachi Chemical Co., Ltd. were almost the same as in the preceding fiscal year due primarily to an increase in sales of semiconductor related materials and automotive related components, partially offset by a decrease in sales of household and environmental equipment business due to the sale of such business to a third party in January 2008. Revenues of Hitachi Metals, Ltd. increased due primarily to an increase in sales of automotive- and IT-related electronics and information equipment and high grade casting components. Revenues of Hitachi Cable, Ltd. increased due primarily to an increase in sales of wires and cables as a result of solid demand and increased sales prices owing to a rise in copper prices and an increase in sales of fiber-optic submarine cable due to increased worldwide demand for telecommunication lines.

Table of Contents

Operating income increased 7%, to ¥141.0 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to a successful transfer of increased materials costs to sales prices and cost reduction efforts.

Logistics, Services & Others

Revenues increased 5%, to ¥1,271.4 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to an increase in sales of logistics outsourcing services due to new projects in domestic and overseas markets. Operating income increased 38%, to ¥27.8 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to an increase in logistics outsourcing services as sales increased and an effort to improve transportation efficiency, as well as an improved performance by a sales subsidiary in China.

Financial Services

Revenues decreased 11%, to ¥445.4 billion, while operating income increased 8%, to ¥25.4 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to a selective sales activities aimed at winning profitable orders, mainly in leasing business.

Operations by Geographic Segment

	Revenues			Operating income		
	Fiscal 2006	Fiscal 2007	Percent change	Fiscal 2006	Fiscal 2007	Percent change
	(Millions of yen, except percentage data)					
Japan	8,284,229	8,896,259	+7%	212,316	299,632	+41%
Asia	2,020,757	2,409,319	+19%	(3,664)	33,020	%
North America	1,071,010	1,086,108	+1%	25,310	23,087	-9%
Europe	682,808	886,838	+30%	23,312	21,575	-7%
Other Areas	173,295	269,522	+56%	8,647	13,394	+55%
Subtotal	12,232,099	13,548,046	+11%	265,921	390,708	+47%
Eliminations and Corporate Items	(1,984,196)	(2,321,311)	%	(83,409)	(45,192)	%
Total	10,247,903	11,226,735	+10%	182,512	345,516	+89%

Japan

Revenues increased 7%, to ¥8,896.2 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to an increase in nuclear power plant sales, Clarion Co., Ltd. becoming a consolidated subsidiary in December 2006 and an increase in sales of construction machinery business.

Operating income increased 41%, to ¥299.6 billion in fiscal 2007 compared to the preceding fiscal year. In fiscal 2007, Hitachi did not record unexpected losses after recording unexpected costs in fiscal 2006, relating to 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 to overcome delays in the construction of a thermal power plant in the U.S.

Asia

Revenues increased 19%, to ¥2,409.3 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to overall increases in sales especially in HDDs due to increased demand and in construction machinery due to increased demand in China.

Operating income amounted to ¥33.0 billion, in fiscal 2007 compared to an operating loss of ¥3.6 billion in the preceding fiscal year due to an improvement in profitability of HDDs and a significant increase in sales of construction machinery.

Table of Contents**North America**

Revenues increased 1%, to ¥1,086.1 billion, in fiscal 2007 compared to the preceding fiscal year due to an increase in sales of HDDs and the sale of a coal-fired thermal power plant in Canada, partially offset by a decrease in digital media related products due to a decline in unit prices of plasma TVs, downsizing of projection TVs and a decline in sales of construction machinery business resulting from a decrease in housing investment in the U.S.

Operating income decreased 9%, to ¥23.0 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to a decrease in profitability of plasma TVs and a decrease in profitability of construction machinery resulting from a decrease in sales.

Europe

Revenues increased 30%, to ¥886.8 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to an increase in construction machinery sales due to increased demand and the sale of a coal-fired thermal power plant in Germany.

Operating income decreased 7%, to ¥21.5 billion from the preceding fiscal year. The primary factor of this decrease was a decrease in the profitability of a coal-fired thermal power plant in Germany due to increased labor costs that resulted from an expanding construction market. Costs also increased due to time intensive work that was required to overcome construction schedule delays after an initial principal contractor in that project went bankrupt and had to be replaced by a new contractor.

Other Areas

Revenues increased 56%, to ¥269.5 billion and operating income increased 55%, to ¥13.3 billion, in fiscal 2007 compared to the preceding fiscal year due primarily to an increase in sales of mineral mining machinery in Australia and South Africa resulting from increased demand for the development of natural resources.

Fiscal 2006 Compared with Fiscal 2005**Summary**

	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 increased compared to the preceding fiscal year. However, operating income and income before income taxes and minority interests decreased due primarily to a decrease in operating income in Information & Telecommunication Systems segment and Power & Industrial Systems segment and an increase in operating loss in Digital Media & Consumer Products segment. In addition, income before minority interests significantly decreased as a result of an increase in income taxes due to providing allowances against deferred tax assets for net operating loss carry forwards in certain subsidiaries and an inability to record a deferred tax benefit in a subsidiary engaging in HDD business which had experienced large losses. As a result of the foregoing, Hitachi posted a net loss compared to net income in the preceding fiscal year. See Analysis of Statement of Operations, Operations by Industry Segment and Operations by Geographic Segment below for more detailed discussion.

Analysis of Statement of Operations

Hitachi's total revenues in fiscal 2006 were ¥10,247.9 billion, an increase of 8% from the preceding fiscal year. Overseas revenues increased 14% over the same period, to ¥4,154.2 billion. See Operations by Industry Segment and Operations by Geographic Segment below for more detailed discussion.

Table of Contents

Hitachi's cost of sales increased 9%, to ¥8,088.3 billion, 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 ¥1,977.0 billion, 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 ¥182.5 billion, 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. See [Operations by Industry Segment](#) and [Operations by Geographic Segment](#) below for more detailed discussion.

In fiscal 2006, Hitachi recorded impairment losses for long-lived assets in the amount of ¥9.9 billion. 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 ¥4.3 billion. 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 ¥1.3 billion. 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 ¥1.2 billion. 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 ¥3.9 billion, 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 ¥25.9 billion, 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 ¥6.0 billion.

Gains on sales of stock by subsidiaries or affiliated companies increased ¥11.6 billion, to ¥12.0 billion, 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.

Other income decreased to ¥58.9 billion in fiscal 2006 compared to ¥62.6 billion in the preceding fiscal year because foreign exchange gains were lower due to changes in exchange rates.

Interest charges increased 14%, to ¥37.7 billion, in fiscal 2006 compared to the preceding fiscal year due primarily to an increase in borrowings.

Other deductions increased to ¥31.4 billion in fiscal 2006 compared to ¥3.6 billion 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.

Table of Contents

As a result of the foregoing, income before income taxes and minority interests decreased 26%, to ¥202.3 billion, 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 ¥162.8 billion compared to ¥154.3 billion 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 ¥39.5 billion, in fiscal 2006 compared to the preceding fiscal year.

Minority interests decreased 13%, to ¥72.3 billion, 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 ¥32.7 billion in fiscal 2006, compared to a net income of ¥37.3 billion in the preceding fiscal year.

Operations by Industry Segment

	Revenues			Operating income		
	Fiscal 2005	Fiscal 2006	Percent change	Fiscal 2005	Fiscal 2006	Percent change
	(Millions of yen, except percentage data)					
Information & Telecommunication Systems	2,360,956	2,472,227	+5%	84,687	60,343	-29%
Electronic Devices	1,204,407	1,287,492	+7%	20,439	45,755	+124%
Power & Industrial Systems	2,805,169	3,022,299	+8%	92,552	36,391	-61%
Digital Media & Consumer Products	1,305,658	1,506,073	+15%	(35,771)	(58,435)	%
High Functional Materials & Components	1,600,246	1,794,506	+12%	110,069	132,399	+20%
Logistics, Services & Others	1,214,784	1,213,529	-0%	19,511	20,233	+4%
Financial Services	517,975	500,065	-3%	35,001	23,534	-33%
Subtotal	11,009,195	11,796,191	+7%	326,488	260,220	-20%
Eliminations and Corporate Items	(1,544,394)	(1,548,288)	%	(70,476)	(77,708)	%
Total	9,464,801	10,247,903	+8%	256,012	182,512	-29%

Information & Telecommunication Systems

Revenues increased 5%, to ¥2,472.2 billion, 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 ¥60.3 billion, 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

Edgar Filing: HITACHI LTD - Form 20-F

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.

Table of Contents

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.

Electronic Devices

Revenues increased 7%, to ¥1,287.4 billion, 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 ¥45.7 billion, 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 ¥3,022.2 billion, 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 ¥36.3 billion, 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. Losses on certain long-term contracts were comprised primarily of these additional costs of construction of a thermal power plant in the U.S. See note 16 to the consolidated financial statements.

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 ¥1,506.0 billion, 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.

Table of Contents

Operating loss increased ¥22.6 billion, to ¥58.4 billion, 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.

High Functional Materials & Components

Revenues increased 12%, to ¥1,794.5 billion, 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 ¥132.3 billion, 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 ¥1,213.5 billion 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 ¥20.2 billion, 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 ¥500.0 billion, and operating income decreased 33%, to ¥23.5 billion, 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.

Operations by Geographic Segment

	Revenues			Operating income		
	Fiscal 2005	Fiscal 2006	Percent change	Fiscal 2005	Fiscal 2006	Percent change
	(Millions of yen, except percentage data)					
Japan	7,780,402	8,284,229	+6%	275,715	212,316	-23%
Asia	1,632,391	2,020,757	+24%	6,727	(3,664)	%
North America	964,094	1,071,010	+11%	23,428	25,310	+8%
Europe	546,432	682,808	+25%	18,702	23,312	+25%
Other Areas	131,543	173,295	+32%	6,555	8,647	+32%
Subtotal	11,054,862	12,232,099	+11%	331,127	265,921	-20%
Eliminations and Corporate Items	(1,590,061)	(1,984,196)	%	(75,115)	(83,409)	%
Total	9,464,801	10,247,903	+8%	256,012	182,512	-29%

Japan

Revenues increased 6%, to ¥8,284.2 billion, 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 ¥212.3 billion 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.

Table of Contents**Asia**

Revenues increased 24%, to ¥2,020.7 billion, 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 ¥3.6 billion was posted in fiscal 2006 compared to operating income of ¥6.7 billion in the preceding fiscal year due primarily to a decline in the unit price of HDDs due to intense price competition.

North America

Revenues increased 11%, to ¥1,071.0 billion, 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 ¥25.3 billion 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.

Europe

Revenues increased 25%, to ¥682.8 billion, 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 ¥23.3 billion from the preceding fiscal year due primarily to an increase in sales of the above products.

Other Areas

Revenues increased 32%, to ¥173.2 billion and operating income increased 32%, to ¥8.6 billion, 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.

Restructuring

Restructuring charges amounted to ¥4.4 billion in fiscal 2005, ¥3.9 billion in fiscal 2006 and ¥18.1 billion in fiscal 2007, of which the breakdown by industry segment is not shown because the amount charged to each segment is not material.

Fiscal 2007 restructuring

For fiscal 2007, Hitachi recorded restructuring charges of ¥18.1 billion. The restructuring charges included special termination benefits of ¥15.6 billion for 7,801 employees. Payments of ¥6.3 billion were made in fiscal 2007 and special termination benefits of ¥8.9 billion were accrued as of March 31, 2008. The accrued amount is expected to be paid in the fiscal year ending March 31, 2009.

Information & Telecommunication Systems recorded restructuring charges of ¥7.2 billion, consisting primarily of special termination benefits for employees in the overseas subsidiaries engaging in the HDDs business and storage solutions business due to integration and closures of production facilities.

Digital Media & Consumer Products recorded restructuring charges of ¥4.0 billion, consisting primarily of special termination benefits for employees in the overseas subsidiaries engaging in flat-panel TVs business due to reorganization of sales operations.

Table of Contents

Power & Industrial Systems recorded restructuring charges of ¥2.8 billion, consisting primarily of special termination benefits for employees in the social and industrial infrastructure systems business in order to reduce fixed costs and to improve the profitability of such business.

Fiscal 2006 restructuring

For fiscal 2006, Hitachi recorded restructuring charges of ¥3.9 billion. The restructuring charges included special termination benefits of ¥3.8 billion for 554 employees. Payments of ¥4.9 billion were made in fiscal 2006 and special termination benefits of ¥44 million were accrued as of March 31, 2007. The accrued amount was paid in the fiscal year ended 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 ¥4.4 billion. The restructuring charges included special termination benefits of ¥2.7 billion for 691 employees. Payments of ¥16.1 billion were made in fiscal 2005 and special termination benefits of ¥1.1 billion 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.

B. Liquidity and Capital Resources

The analysis made in this Item covers the three-year period from fiscal 2005 to fiscal 2007. 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 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 ¥50.0 billion, and (ii) ten-year bonds with a 1.56% coupon rate in an aggregate principal amount of ¥50.0 billion. 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 2007, the Company maintained commitment line agreements with a number of domestic banks under which the Company may borrow any amount in order to ensure efficient access to necessary funds. Unused commitment lines for the Company totaled ¥690.0 billion as of March 31, 2008. 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 ¥742.5 billion as of March 31, 2008. 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.

Table of Contents

The Company's current debt ratings (long-term/short-term) as of March 31, 2008 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 2005, 2006 and 2007 are shown below.

	Fiscal 2005	Fiscal 2006	Fiscal 2007
	(Millions of yen)		
Net cash provided by operating activities	690,875	615,042	791,837
Net cash used in investing activities	(501,362)	(786,170)	(637,618)
Net cash provided by (used in) financing activities	(261,638)	121,259	(185,556)
Effect of exchange rate changes on cash and cash equivalents	21,665	9,480	(25,569)
Net decrease in cash and cash equivalents	(50,460)	(40,389)	(56,906)

Net cash provided by operating activities was ¥791.8 billion, ¥615.0 billion and ¥690.8 billion in fiscal 2007, 2006 and 2005, respectively. The increase in fiscal 2007 was due primarily to a reduction in the increase in inventories to ¥107.5 billion for fiscal 2007, which was ¥104.4 billion less than the preceding fiscal year due to efforts to improve inventory turnover. This improvement was partially offset by a slightly lower decrease in receivables of ¥47.8 billion, a decrease of ¥4.7 billion from the preceding fiscal year, and a lower increase in payables of ¥42.4 billion, a decrease of ¥62.5 billion from the previous fiscal year. The decrease in fiscal 2006 was mainly due to a net loss that resulted primarily 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. These decreases were partially offset by a decrease in trade receivables due in part to an improved cash collections from customers and cash receipts from securitized receivables and, among other items, by an improvement of ¥67.6 billion in the Other line of the cash flows from operating activities for fiscal 2006, from outflows of ¥11.4 billion in fiscal 2005 to inflows of ¥56.2 billion. 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.

Net cash used in investing activities was ¥637.6 billion, ¥786.1 billion and ¥501.3 billion in fiscal 2007, 2006 and 2005, respectively. The decrease of ¥148.5 billion in fiscal 2007 was due primarily to a decrease of ¥23.4 billion in capital expenditures due to selective investment and a decrease in investments for HDDs manufacturing equipment, a decrease of ¥75.6 billion in purchase of assets to be leased due to selective sales operations in leasing businesses, an increase of ¥91.6 billion in proceeds from sale of investments and subsidiaries common stock due primarily to sales of shares of Hitachi Displays, etc., partially offset by an increase of ¥85.0 billion in purchase of investments and subsidiaries common stock due primarily to investments to companies established with GE in North America. 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. As of March 31, 2008, Hitachi's capital commitments for the purchase of property, plant and equipment amounted to ¥75.4 billion, which is expected to be funded primarily through internal sources of financing.

Table of Contents

Net cash used in financing activities was ¥185.5 billion in fiscal 2007. The outflows in fiscal 2007 were primarily due to Hitachi's efforts to reduce interest-bearing debt, including repayment of commercial paper, partially offset by an increase in proceeds from debentures and long-term borrowings due to issuance of convertible bonds in a subsidiary and an increase in proceeds from a public offering by a subsidiary that raised funds for capital expenditures. Net cash provided by financing activities was ¥121.2 billion 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. The outflows in financing activities in fiscal 2005 were primarily due to Hitachi's efforts to reduce interest-bearing debt by improving cash management within the Company and its subsidiaries.

In fiscal 2007, the above activities decreased cash and cash equivalents by ¥56.9 billion from fiscal 2006. Cash and cash equivalents at the end of fiscal 2007 amounted to ¥560.9 billion, 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 2007 amounted to ¥61.2 billion, an increase of ¥27.3 billion from at the end of fiscal 2006 due primarily to an increase in available-for-sale securities. As a result of the foregoing, the total of cash and cash equivalents and short-term investments at the end of fiscal 2007 was ¥622.2 billion, a decrease of ¥29.6 billion from at the end of fiscal 2006.

Assets, Liabilities and Stockholders' Equity

At the end of fiscal 2007, total assets amounted to ¥10,530.8 billion, a decrease of ¥113.4 billion from the end of fiscal 2006 due primarily to a decrease in cash and cash equivalents due to repayments of loans and efforts to decrease in business property in order to improve cash flows.

At the end of fiscal 2007, the total of Hitachi's short-term debt, current portion of long-term debt and long-term debt amounted to ¥2,531.5 billion, a decrease of ¥155.9 billion from at the end of fiscal 2006. The decrease was due primarily to repayment of the Company's commercial paper of ¥100.0 billion and redemption of certain subsidiary's straight bonds. At the end of fiscal 2007, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥723.0 billion, a decrease of ¥171.3 billion from the end of fiscal 2006. At the end of fiscal 2007, 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 ¥1,421.6 billion, a decrease of ¥68.2 billion from the end of fiscal 2006. At the end of fiscal 2007, current portion of long-term debt amounted to ¥386.8 billion. 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.

At the end of fiscal 2007, minority interests amounted to ¥1,142.5 billion, an increase of ¥68.7 billion from the end of fiscal 2006, due primarily to the firm business results of publicly-held subsidiaries.

At the end of fiscal 2007, stockholders' equity amounted to ¥2,170.6 billion, a decrease of ¥272.1 billion from the end of fiscal 2006 due primarily to the posting of a net loss and an increase in accumulated other comprehensive loss due to an increase in loss of pension liability adjustments and a decrease of net unrealized holding gain on available-for-sale securities due to a decline in market share prices and a deterioration in foreign currency translation adjustments due to a strengthening of the yen. As a result, the ratio of stockholders' equity to total assets decreased 2% from the preceding fiscal year, to 21%. 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, almost the same as the ratio at the end of fiscal 2006.

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.

Table of Contents**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 ¥405.0 billion in fiscal 2005, ¥412.5 billion in fiscal 2006 and ¥428.1 billion in fiscal 2007. 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 2007, total expenditures in the Information & Telecommunication Systems segment and the Electronic Devices segment accounted for 47% of total R&D expenditures.

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

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 specific 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.

In fiscal 2006, Hitachi posted a net loss of ¥32.7 billion although revenues increased. Operating income and income before income taxes and minority interests decreased due primarily to a decrease in operating income in Information & Telecommunication Systems segment and Power & Industrial Systems segment, and an increase in operating loss in Digital Media & Consumer Products segment. In addition, income before minority interests significantly decreased as a result of an increase in income taxes due to providing allowances against deferred tax assets for net operating loss carry forwards in certain subsidiaries and an inability to record a deferred tax benefit in a subsidiary engaging in HDD business which had experienced large losses. As a result of the foregoing, Hitachi posted a net loss compared to net income in the preceding fiscal year. See Item 5. Operating and Financial Review and Prospects A. Operating Results Fiscal 2006 compared with Fiscal 2005 for more detailed discussion and analysis for these factors.

In fiscal 2007, Hitachi's net loss increased compared with fiscal 2006 although revenues increased. Operating income significantly improved due to increases in operating income in most industry segments particularly in Information & Telecommunication Systems segment and Power & Industrial Systems segment, partially offset by an increase in operating loss in Digital Media & Consumer Products segment. Income before income taxes and minority interests also increased due to an increase in operating income and an increase in net gain on sale of securities, partially offset by an increase in impairment of long-lived assets and an increase in restructuring charges. However, as a result of a significant increase in income taxes due primarily to an increase in valuation allowance for deferred tax assets and an increase in minority interests due to overall good performance of publicly-held subsidiaries, net loss increased compared to the preceding fiscal year. See Item 5. Operating and Financial Review and Prospects A. Operating Results Fiscal 2007 compared with Fiscal 2006 for more detailed discussion and analysis for these factors.

Table of Contents

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.

The amount of off-balance sheet arrangements as of March 31, 2008 is as follows:

	March 31, 2008 (Millions of yen)
Securitized lease receivables	676,858
Securitized trade receivables	644,911
Total	1,321,769

See notes 2(g) and 6 to the consolidated financial statements.

F. Tabular Disclosure of Contractual Obligations

The following tables show Hitachi's contractual obligations and other commercial commitments, including guarantees, as of March 31, 2008.

Contractual obligations	Total	Payments due by period			After 5 years
		Less than 1 year	1-3 years	3-5 years	
Total	2,045,210	491,900	798,628	363,254	391,428

Table of Contents

Other commercial commitments	As of March 31, 2008 (Millions of yen)
Lines of credit	593,115
Trade notes discounted and endorsed	8,769
Export receivables transferred with recourse	23,769
Guarantees	489,159
See note 16 to the consolidated financial statements.	

G. Critical Accounting Policies

The preparation of the consolidated financial statements of Hitachi in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. Management considers the accounting estimates discussed in this section to be critical accounting estimates for two reasons. First, the estimates require Hitachi to make assumptions about matters that are highly uncertain at the time the accounting estimate is made. Second, different estimates that Hitachi reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of Hitachi's financial condition, changes in financial condition or results of operations. Management believes the following represent Hitachi's critical accounting policies.

Revenue Recognition for Sales under Long-term Construction Arrangements

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.

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 are 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 in which the long-lived assets are used.

Table of Contents
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*, mainly 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 mainly 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 components 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 sufficient 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 components, 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 the 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, 2008. 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.

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.

Table of Contents

	Effect on pre-tax income	
	For the year ended March 31, 2009	Effect on PBO As of March 31, 2008
	(Millions of yen)	
Discount rates		
0.5% decrease	(8,611)	157,990
0.5% increase	8,656	(146,592)
Expected rate of return on plan asset		
0.5% decrease	(6,905)	
0.5% increase	6,905	
<i>Allowance for Doubtful Accounts</i>		

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.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management**

The Company has adopted the Committee System permitted as a form of corporate organization pursuant to the Company Law. Each company adopting the Committee System, including the Company, is required to (i) establish within its board of directors nominating, audit and compensation committees, a majority of the members of each of which must be outside directors, and (ii) appoint executive officers responsible for executing the business of such company. The Company Law defines an outside director as a director who is not and has not been an executive director (a representative director or a director who executes such company's business), executive officer, manager or any other employee of such company or its subsidiaries. Under the Committee System, a company is not allowed to have corporate auditors but is instead required to delegate auditing function responsibilities to its audit committee. For information regarding the Company's implementation of the Committee System, see C. Board Practices below.

Set forth below are the names of the Company's directors, or Directors, and executive officers, or Executive Officers, as of June 20, 2008. All Directors were elected at the Company's general meeting of shareholders held on June 20, 2008 for a term of one year. While the Chairman of the Board, Mr. Etsuhiko Shoyama, does not concurrently serve as an Executive Officer, two Directors, Mr. Kazuo Furukawa and Mr. Toyoaki Nakamura, do concurrently serve as Executive Officers. Five Directors, Ms. Yoshie Ota, Messrs. Mitsuo Ohashi, Akihiko Nomiyama, Kenji Miyahara and Tohru Motobayashi, are outside Directors who fulfill the qualification requirements as provided for in the Company Law. The term of office of all Executive Officers began from April 1, 2008 and will expire on March 31, 2009.

Table of Contents**Directors**

Name (Date of birth)	Current position (Principal	Business experience, including experience	
	position outside the Company, if any)	Date	in the Company, and functions
Etsuhiko Shoyama (Mar. 9, 1936)	Chairman of the Board	4/2007	Chairman of the Board
		4/2006	Chairman and Director
		6/2003	President, Chief Executive Officer and Director
		4/1999	President and Representative Director
		6/1997	Executive Vice-President and Representative Director
		6/1995	Senior Executive Managing Director
		6/1993	Executive Managing Director
		6/1991	Director
			General Manager, Consumer Electronics Division
		4/1959	Joined Hitachi, Ltd.
Kazuo Furukawa (Nov. 3, 1946)	Director*	6/2006	President, Chief Executive Officer and Director
		4/2006	President and Chief Executive Officer
		4/2005	Executive Vice President and Executive Officer
		4/2004	Senior Vice President and Executive Officer
		6/2003	Vice President and Executive Officer
		4/2003	President & CEO, Information & Telecommunication Systems
		4/1971	Joined Hitachi, Ltd.
Tadamichi Sakiyama (Jun. 13, 1941)	Director	6/2006	Director, Hitachi, Ltd.
		4/2006	Director, Hitachi Construction Machinery, Co., Ltd.
		6/2003	Executive Vice President, Executive Officer and Director, Hitachi Construction Machinery, Co., Ltd.
		4/2003	Executive Vice President and Representative Director, Hitachi Construction Machinery, Co., Ltd.
		6/2001	Board Director, Senior Vice President, Hitachi Construction Machinery, Co., Ltd.
		4/1999	General Manager, Internal Auditing Office
		4/1964	Joined Hitachi, Ltd.
Michiharu Nakamura (Sep. 9, 1942)	Director	6/2008	Director
		4/2007	Fellow
		4/2004	Executive Vice President and Executive Officer
		6/2003	Senior Vice President and Executive Officer
		4/2001	General Manager, Research & Development Group

Edgar Filing: HITACHI LTD - Form 20-F

Toyoaki Nakamura
(Aug. 3, 1952)

Director*

4/1967 Joined Hitachi, Ltd.

6/2007 Senior Vice President, Executive Officer
and Director

4/2007 Senior Vice President and Executive Officer

1/2006 General Manager, Finance Department I

4/1975 Joined Hitachi, Ltd.

Table of Contents

Name (Date of birth)	Current position (Principal	Business experience, including experience	
	position outside the Company, if any)	Date	in the Company, and functions
Yoshie Ota (Sep. 1, 1942)	Director (Advisor, Japan Institute of Workers Evolution)	6/2007	Director, Hitachi, Ltd.
		7/2005	Advisor, Japan Institute of Workers Evolution
		7/1998	Chairman, Japan Institute of Workers Evolution
		6/1995	Director-General, Women's Bureau, Ministry of Labour
		7/1994	Director-General, Minister's Secretariat, Ministry of Labour
		12/1991	Vice Governor of Ishikawa Prefecture
Mitsuo Ohashi (Jan. 18, 1936)	Director (Chairman of the Board, Showa Denko K.K.)	6/2007	Director, Hitachi, Ltd.
		3/2007	Chairman of the Board, Showa Denko K.K.
		1/2005	Chairman of the Board and Representative Director, Showa Denko K.K.
		3/1997	President (CEO) and Representative Director, Showa Denko K.K.
Akihiko Nomiyama (Jun. 15, 1934)	Director (Special Advisor, NIPPON MINING HOLDINGS, INC.)	6/2007	Director, Hitachi, Ltd.
		6/2006	Special Advisor, NIPPON MINING HOLDINGS, INC.
		6/2003	Chairman of the Board and Representative Director, NIPPON MINING HOLDINGS, INC.
		9/2002	President and CEO and Representative Director, NIPPON MINING HOLDINGS, INC.
Kenji Miyahara (Nov. 5, 1935)	Director (Senior Adviser, Sumitomo Corporation)	6/2007	Director, Hitachi, Ltd. Senior Adviser, Sumitomo Corporation
		6/2001	Chairman of the Board and Representative Director, Sumitomo Corporation
		6/1996	President and Chief Executive Officer and Representative Director, Sumitomo Corporation
Tohru Motobayashi (Jan. 5, 1938)	Director (Attorney at law)	4/2008	Partner, Ihara and Motobayashi
		6/2006	Director, Hitachi, Ltd.
		4/2002	President of the Japan Federation of Bar Associations (Retired in March 2004)
		6/1970	Partner, Mori Sogo Law Offices
		4/1963	Member of the Tokyo Bar Association
Takeo Ueno (Feb. 9, 1942)	Director (Senior Adviser, Hitachi Via Mechanics, Ltd.)	6/2007	Director, Hitachi, Ltd. Senior Adviser, Hitachi Via Mechanics, Ltd.
		6/2001	President and Representative Director, Hitachi Via Mechanics, Ltd.
		4/2000	

Deputy General Manager, Sales
Management Division
4/1964 Joined Hitachi, Ltd.

Table of Contents

Name (Date of birth)	Current position (Principal	Business experience, including experience	
	position outside the Company, if any)	Date	in the Company, and functions
Shungo Dazai (Jan. 20, 1939)	Director (Chairman of the Board, Hitachi Construction Machinery Co., Ltd.)	6/2008	Director, Hitachi, Ltd.
		4/2008	Chairman of the Board, Hitachi Construction Machinery Co., Ltd.
		4/2006	Chairman of the Board, Representative Executive Officer, Hitachi Construction Machinery Co., Ltd.
		6/2003	President, Chief Executive Officer and Director, Hitachi Construction Machinery Co., Ltd.
		4/2003	President and Chief Executive Officer, Hitachi Construction Machinery Co., Ltd.
Michihiro Honda (Oct. 13, 1942)	Director (Chairman of the Board, Hitachi Metals, Ltd.)	6/2007	Director, Hitachi, Ltd.
		6/2006	Chairman of the Board, Hitachi Metals, Ltd.
		6/2003	President, Chief Executive Officer and Director, Hitachi Metals, Ltd.
		6/2000	President and Representative Director, Hitachi Metals, Ltd.

Note: The Directors marked with * concurrently serve as Executive Officers. See Executive Officers below.

The members of each of the Company's committees are as follows:

Nominating Committee. Etsuhiko Shoyama (Chair), Yoshie Ota, Mitsuo Ohashi, Tohru Motobayashi, Kazuo Furukawa;

Audit Committee. Tadamichi Sakiyama (Chair), Yoshie Ota, Akihiko Nomiya, Kenji Miyahara, Michihiro Nakamura; and

Compensation Committee. Etsuhiko Shoyama (Chair), Akihiko Nomiya, Kenji Miyahara, Tohru Motobayashi, Kazuo Furukawa.
Executive Officers

Name (Date of birth)	Current position (Responsibility of	Business experience, including experience in	
	Executive Officer as authorized by the Board of Directors)	Date	the Company, and functions
Kazuo Furukawa (Nov. 3, 1946)	Representative Executive Officer	See	Directors above.
	President and Chief Executive Officer		
	(Overall management)		
Kazuhiro Mori (Oct. 7, 1946)	Representative Executive Officer	1/2007	Executive Vice President and Executive Officer
	Executive Vice President and Executive Officer (Social infrastructure business)	4/2006	

Edgar Filing: HITACHI LTD - Form 20-F

(power systems business and industrial systems business), quality assurance and production engineering)

Senior Vice President and Executive Officer
4/2004 Vice President and Executive Officer
6/2003 Executive Officer
2/1999 General Manager, Chubu Area Operation
4/1969 Joined Hitachi, Ltd.

Table of Contents

Name (Date of birth)	Current position (Responsibility of		Date	Business experience, including experience in the Company, and functions
	Executive Officer as authorized by the Board of Directors)			
Kunihiko Ohnuma (Dec. 4, 1946)	Representative Executive Officer Executive Vice President and Executive Officer (Industrial infrastructure business (automotive systems business), life infrastructure business (urban planning and development systems business and consumer business) and procurement)		4/2007	Executive Vice President and Executive Officer
			4/2006	Senior Vice President and Executive Officer
			4/2005	Vice President and Executive Officer
			6/2001	President and Representative Director, Hitachi Building Systems Co., Ltd.
			4/1971	Joined Hitachi, Ltd.
Junzo Kawakami (Jul. 29, 1944)	Representative Executive Officer Executive Vice President and Executive Officer (Infrastructure technology/products business, research & development and business incubation)		4/2007	Executive Vice President and Executive Officer
			4/2006	Senior Vice President and Executive Officer
			10/2004	Vice President and Executive Officer
			6/2003	President and Representative Director, TOKICO LTD.
			11/1982	Joined Hitachi, Ltd.
Manabu Shinomoto (Mar. 30, 1948)	Representative Executive Officer Executive Vice President and Executive Officer (Information infrastructure business (information & telecommunication systems business) and information technology)		4/2007	Executive Vice President and Executive Officer
			4/2006	Senior Vice President and Executive Officer
			6/2003	Vice President and Executive Officer
			4/2003	CEO, platform and network systems operation, Information & Telecommunication Systems
			7/1971	Joined Hitachi, Ltd.
Masahiro Hayashi (Apr. 11, 1946)	Representative Executive Officer Executive Vice President and Executive Officer (Sales operations, Hitachi group global business and corporate export regulation)		4/2007	Executive Vice President and Executive Officer
			4/2005	Vice President and Executive Officer
			6/2003	Executive Officer
			4/2003	CEO, system solutions operation, Information & Telecommunication Systems
			4/1969	Joined Hitachi, Ltd.
Naoya Takahashi (Oct. 17, 1948)	Senior Vice President and Executive Officer (Information & telecommunication systems business (services business (global) and platform systems business))		4/2007	Senior Vice President and Executive Officer
			4/2006	Vice President and Executive Officer
			4/2003	COO, Information & Telecommunication Systems
			4/1973	Joined Hitachi, Ltd.
Minoru Tsukada (Jan. 1, 1947)	Senior Vice President and Executive Officer (Corporate planning)		4/2006	Senior Vice President and Executive Officer
			6/2003	Vice President and Executive Officer
			4/2003	General Manager, Kansai Area Operation

Table of Contents

Name (Date of birth)	Current position (Responsibility of		Date	Business experience, including experience in the Company, and functions
	Executive Officer as authorized by the Board of Directors)			
Koichiro Nishikawa (Jul. 12, 1947)	Senior Vice President and Executive Officer (Business development)		4/2007	Senior Vice President and Executive Officer
			1/2006	Vice President and Executive Officer
			6/2003	Executive Officer
			4/2003	General Manager, Business Development
			4/1970	Joined Hitachi, Ltd.
Toyoaki Nakamura (Aug. 3, 1952)	Representative Executive Officer Senior Vice President and Executive Officer (Finance, corporate pension system, Hitachi group management and business development)		See	Directors above.
Shozo Saito (Nov. 5, 1945)	Senior Vice President and Executive Officer (Quality assurance, production engineering and power systems engineering)		4/2006	Senior Vice President and Executive Officer
			10/2004	Vice President and Executive Officer
			2/2004	Executive Officer
			6/2003	Vice President and Executive Officer
			4/2003	President & CEO, Power & Industrial Systems
			4/1970	Joined Hitachi, Ltd.
Tadahiko Ishigaki (Jan. 14, 1946)	Senior Vice President and Executive Officer (Hitachi group global business (Americas))		4/2006	Senior Vice President and Executive Officer, Hitachi, Ltd.
			2/2004	President and Representative Director, Hitachi Home & Life Solutions, Inc. (currently Hitachi Appliances, Inc.)
			6/2003	Vice President and Executive Officer
			4/2003	General Manager, Corporate Marketing
			4/1968	Joined Hitachi, Ltd.
Stephen Gomersall (Jan. 17, 1948)	Senior Vice President and Executive Officer (Hitachi group global business (Europe))		10/2006	Senior Vice President and Executive Officer, Hitachi, Ltd.
			10/2004	Chief Executive for Europe, Hitachi, Ltd.
			7/1999	British Ambassador to Japan (Retired in July 2004)
			9/1970	Joined U.K. Foreign and Commonwealth Office
Akira Maru (Nov. 8, 1948)	Vice President and Executive Officer (Power systems business)		5/2006	Vice President and Executive Officer
			4/2005	General Manager, Hitachi Works and Executive Vice President, Power Systems
			4/1971	Joined Hitachi, Ltd.
Koji Tanaka (Jan. 22, 1952)	Vice President and Executive Officer (Power systems business (Ibaraki Area and management improvement))		4/2007	Vice President and Executive Officer
			5/2006	General Manager, Hitachi Works, Power Systems
			4/1974	Joined Hitachi, Ltd.
Hitoshi Isa				

Edgar Filing: HITACHI LTD - Form 20-F

(Feb. 19, 1950)

Vice President and Executive Officer
(Power systems business (thermal power
systems business promotion))

4/2008 Vice President and Executive Officer
1/2007 Executive Vice President, Power Systems
4/1974 Joined Hitachi, Ltd.

Table of Contents

Name (Date of birth)	Current position (Responsibility of		Date	Business experience, including experience in the Company, and functions
	Executive Officer as authorized by the Board of Directors)			
Gaku Suzuki (May 12, 1947)	Vice President and Executive Officer (Industrial systems business)		8/2005 4/2004 4/1972	Vice President and Executive Officer General Manager, Transportation Systems Division, Industrial Systems Joined Hitachi, Ltd.
Hideaki Takahashi (Aug. 20, 1952)	Vice President and Executive Officer (Urban planning and development systems business)		4/2007 4/2005 4/1978	Vice President and Executive Officer, Hitachi, Ltd. President and Representative Director, Hitachi Building Systems Co., Ltd. Joined Hitachi, Ltd.
Junzo Nakajima (Feb. 8, 1949)	Vice President and Executive Officer (Information & telecommunication systems business (system solutions business))		4/2006 4/2005 5/1972	Vice President and Executive Officer COO, Information & Telecommunication Systems Joined Hitachi, Ltd.
Mitsuo Yamaguchi (May 27, 1948)	Vice President and Executive Officer (Information & telecommunication systems business (services business (global)))		4/2007 11/2006 4/1972	Vice President and Executive Officer CMO and COO, Information & Telecommunication Systems Joined Hitachi, Ltd.
Kazuhiro Tachibana (Nov. 6, 1946)	Vice President and Executive Officer (Consumer business (marketing))		4/2004 4/2002 4/1970	Vice President and Executive Officer CSO, Ubiquitous Platform Systems Joined Hitachi, Ltd.
Yasuhiko Honda (Jun. 25, 1948)	Vice President and Executive Officer (Automotive systems business)		4/2007 10/2005 4/1974	Vice President and Executive Officer General Manager, Electric Power Train Division, Automotive Systems Joined Hitachi, Ltd.
Eiji Takeda (Jan. 1, 1949)	Vice President and Executive Officer (Research & development)		4/2007 4/2005 4/1975	Vice President and Executive Officer President and Representative Director, Hitachi ULSI Systems Co., Ltd. Joined Hitachi, Ltd.
Takao Koyama (Dec. 11, 1948)	Vice President and Executive Officer (Sales operations (Kansai Area))		4/2007 4/2004 4/1971	Vice President and Executive Officer General Manager, Kanto Area Operation Joined Hitachi, Ltd.
Kenji Ohno (Jan. 3, 1951)	Vice President and Executive Officer (Human capital)		4/2007 6/2005 4/1974	Vice President and Executive Officer President and Representative Director, Hitachi Dentetsu Co., Ltd. Joined Hitachi, Ltd.
Toshiaki Kuzuoka (Nov. 3, 1954)	Vice President and Executive Officer (Legal and corporate communications, corporate brand and corporate auditing)		4/2007 4/2001 4/1978	Vice President and Executive Officer General Manager, Legal Division Joined Hitachi, Ltd.

Table of Contents

Name (Date of birth)	Current position (Responsibility of		Date	Business experience, including experience in the Company, and functions
	Executive Officer as authorized by the Board of Directors)			
Masao Hisada (Dec. 16, 1948)	Vice President and Executive Officer (Procurement and Hitachi group global business)		4/2007 4/2006 4/1972	Vice President and Executive Officer General Manager, Corporate Procurement Division Joined Hitachi, Ltd.
Koushi Nagano (Mar. 11, 1947)	Vice President and Executive Officer (Hitachi group global business (China))		4/2008 6/2005 4/1969	Vice President and Executive Officer President, Hitachi (China), Ltd. Joined Hitachi, Ltd.

There are no family relationships between any Director or Executive Officer and any other Director or Executive Officer of the Company. There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a Director or Executive Officer.

B. Compensation

The aggregate amount of compensation, including retirement allowances, by Hitachi during the fiscal year ended March 31, 2008 to all Directors and Executive Officers of the Company who served during that year was ¥2,465 million.

Compensation is commensurate with the ability required of, and the responsibilities to be borne by, the Company's Directors and Executive Officers, taking into consideration compensation packages at other companies.

Compensation for Directors consists of a monthly salary, a year-end allowance and a retirement allowance. Monthly salary is decided by making adjustments to basic salary that reflect full-time or part-time status, committee membership and position. Year-end allowance is a pre-determined amount equivalent to about twenty percent of the Director's annual income based on monthly salary, although this amount may be reduced depending on Company performance. Retirement allowance is an amount payable on retirement that is determined based on monthly salary and years of service (total years of service in the case of a Director who has served multiple terms as a Director) (the Director's Basic Retirement Amount). A Director concurrently serving as an Executive Officer is not paid compensation as a Director.

Compensation for Executive Officers consists of a monthly salary, a performance-linked bonus and a retirement allowance. Monthly salary is decided by adjusting a basic amount set in accordance with the relevant position to reflect the results of an assessment. The performance-linked bonus is payable in an amount of up to approximately thirty percent of the Executive Officer's annual income, adjusted based on the Company and individual performance. Retirement allowance is an amount payable on retirement, which is determined by the position held at retirement, the monthly salary of previous positions held and total years of service in such positions (the Executive Officer's Basic Retirement Amount).

In accordance with a resolution of the June 2003 ordinary general meeting of shareholders of the Company, the amount of retirement allowance for a Director or Executive Officer who was a Director or corporate auditor prior to the close of the meeting will include an allowance corresponding to the person's period of service as a Director or corporate auditor before the adoption of the Committee System. Retirement allowance may, through an assessment, be supplemented for distinguished service by an amount equivalent to up to thirty percent of the Director's Basic Retirement Amount or Executive Officer's Basic Retirement Amount. Depending on the circumstances, a Basic Retirement Amount may also be reduced.

Table of Contents

It was decided at the Compensation Committee meetings held on December 18, 2007 and March 26, 2008 that the compensation structure for Directors and Executive Officers will be re-examined starting with the compensation for fiscal 2008 and that the retirement allowance will be abolished.

At the June 2004 ordinary general meeting of shareholders, the shareholders of the Company approved a stock option plan. Pursuant to such approval, the Board of Directors set and approved the details of the plan. Under the plan, at the meeting of Board of Directors held in July 2004, the Company granted rights to subscribe for 1,237,000 shares of common stock of the Company to a total of 78 persons, including Directors, Executive Officers, corporate officers and fellows of the Company. At a subsequent meeting of Board of Directors held in September 2004, the Company granted rights to subscribe for 41,000 shares of common stock of the Company to a total of 7 persons, including an Executive Officer and corporate officers of the Company. The exercise prices of the rights were ¥782 per share and ¥705 per share, applicable to 1,237,000 shares and 41,000 shares, respectively, and the rights were exercisable from July 30, 2005 through July 29, 2008, and from October 2, 2005 through October 1, 2008, respectively.

At the June 2005 ordinary general meeting of shareholders, the shareholders of the Company approved a stock option plan. Pursuant to such approval, the Board of Directors set and approved the details of the plan under which rights to subscribe for 1,201,000 shares of common stock of the Company were granted to a total of 73 persons, including Directors, Executive Officers, corporate officers and fellows of the Company. The exercise price of the rights was ¥719 per share and the rights were exercisable from July 29, 2006 through July 28, 2009. See note 28 to the consolidated financial statements.

The significant terms of the Company's stock option plans are as follows:

A person granted stock acquisition rights may exercise his/her rights during the six months after his/her retirement from his/her position of Director, Executive Officer or as an employee.

A person immediately loses his/her granted stock acquisition rights if:

- he/she is imprisoned under Japanese law;
- he/she dies;
- he/she becomes a director, an executive officer, an auditor, an employee, a temporary employee, an advisor or takes similar position at another company against the Company's will;
- any other factors which deemed to be inappropriate to have the person exercise his/her stock acquisition rights have occurred;
or
- he/she notifies the Company by way of a written notice to waive his/her granted stock acquisition rights.

A person granted stock acquisition rights may not transfer his/her rights or offer them as collateral.

In the event the Company becomes a wholly owned subsidiary of another company by way of share-for-share exchange or share-transfer under the Company Law, the Company shall assign the obligation relating to the stock acquisition rights to the parent company; provided, however, only if such assignment of the obligation relating to the stock acquisition rights is approved by the general meeting of shareholders relating to the approval of such share-for-share exchange or share-transfer.

At a meeting of the Compensation Committee of the Company held on March 30, 2006, it was determined that stock options would not be granted in the future.

C. Board Practices

The Company adopts the Committee System permitted as a form of corporate organization pursuant to the Company Law. Each company adopting the Committee System, including the Company, is required to (i) establish within its board of directors nominating, audit and compensation committees, a majority of the members of each of which must be outside directors, and (ii) appoint executive officers responsible for executing the business of such company. The Company Law defines an outside director as a director who is not and has not been an executive director (a representative director or a director who executes such company's business), executive officer, manager or any other employee of such company or its subsidiaries. Under the Committee System, a company is not allowed to have corporate auditors, but is instead required to delegate auditing function responsibilities to its audit committee. Through the adoption of the Committee System and the resulting separation of business execution and supervision thereof, the Company hopes to improve the efficiency of its management and foster a thorough and transparent management system.

Table of Contents

The Company's articles of incorporation provide for a Board of Directors of not more than 20 members. All Directors are elected at a general meeting of shareholders and the current Directors were elected at the Company's June 20, 2008 general meeting of shareholders. The Company's articles of incorporation provide that, by resolution of the Board of Directors, a Director who convenes and presides over meetings of the Board of Directors shall be selected. The Directors are reelected each year, and not on a staggered basis. The term of office of Directors expires at the close of the ordinary general meeting of shareholders for the last business year that will end within one year after their election. A Director may serve any number of consecutive terms. The term of office of the Directors currently in office will expire at the close of the ordinary general meeting of shareholders to be held within three months from March 31, 2009.

Under the Committee System, the Board of Directors focuses on the functions of decision-making with respect to fundamental management policies and certain important matters prescribed by law, as well as supervision of execution by the Directors and Executive Officers of their respective duties. The Board of Directors has, by resolution, delegated to the Executive Officers most of its authority to make decisions with regard to the Company's business affairs.

The Nominating Committee is authorized to determine the particulars of proposals concerning the election and dismissal of Directors to be submitted to a general meeting of shareholders. As stated above, a majority of the members of the Nominating Committee must be outside Directors.

The Compensation Committee is authorized to establish a policy on the determination of the particulars of compensation for each Director and Executive Officer and to determine the particulars of compensation for each Director and Executive Officer in accordance with such policy. As stated above, a majority of the members of the Compensation Committee must be outside Directors.

The Audit Committee is authorized to audit the execution by the Directors and Executive Officers of their respective duties, to prepare its audit report and determine the particulars of proposals concerning the election, dismissal and non-retention of the Company's independent auditor to be submitted to the general meeting of shareholders. The Audit Committee has the statutory duty to examine the financial statements and business reports prepared by Executive Officers designated by the Board of Directors and to prepare its audit report. Pursuant to the Board of Directors regulations of the Company, the Audit Committee has the authority to pre-approve non-audit services provided by an independent auditor. As stated above, a majority of the members of the Audit Committee must be outside Directors. In addition, a member of the Audit Committee may not concurrently be an Executive Officer or a Director who is engaged in the business affairs of the Company or its subsidiaries, or any other employee of the Company's subsidiaries.

For a list of the members of each committee, see A. Directors and Senior Management above.

The Company's articles of incorporation provide for a maximum of 40 Executive Officers. All Executive Officers are appointed by the Board of Directors. Pursuant to the Company's articles of incorporation, the term of office of Executive Officers expires on the last day of the business year that ends within one year from their election. An Executive Officer may serve any number of consecutive terms. The term of office of the Executive Officers currently in office will expire on March 31, 2009.

Under the Committee System, Executive Officers have the power to make decisions on matters delegated to them by the Board of Directors. An Executive Officer executes the business affairs of the Company within the scope of assignment determined by the Board of Directors. From among the Executive Officers, the Board of Directors must appoint one or more representative Executive Officers. Each of the representative Executive Officers has the statutory authority to represent the Company generally in the conduct of its affairs. Pursuant to the Company's articles of incorporation, the Board of Directors must appoint a President who must also be a representative Executive Officer.

No Directors have service contracts with Hitachi providing for benefits upon termination of employment.

Table of Contents

Pursuant to the Company Law and the Company's articles of incorporation, the Company may, by resolution of the Board of Directors, exempt any Director and Executive Officer from liabilities to the Company arising in respect of his/her failure to execute duties to the extent provided in laws or regulations. In addition, the Company has entered into an agreement with each outside Director to limit such Director's liabilities to the Company arising in connection with a failure by such Director to execute his/her duties to the Company. The maximum aggregate amount of liability coverage under these agreements is in accordance with the Company Law.

D. Employees

The following tables show the number of full-time employees of Hitachi by industry and geographic segments as of March 31, 2006, 2007 and 2008.

Industry segment

	As of March 31,		
	2006	2007	2008
	(Number of employees)		
Information & Telecommunication Systems	90,382	98,257	99,964
Electronic Devices	27,173	28,859	27,349
Power & Industrial Systems	88,019	96,893	96,867
Digital Media & Consumer Products	31,334	36,249	35,752
High Functional Materials & Components	54,687	53,464	50,934
Logistics, Services & Others	28,481	29,258	29,851
Financial Services	4,166	3,914	3,941
Corporate	3,082	3,102	3,152
Total	327,324	349,996	347,810

Geographic segment

	As of March 31,		
	2006	2007	2008
	(Number of employees)		
Japan	223,636	227,800	226,828
Asia	79,230	93,827	90,687
North America	14,831	15,537	15,293
Europe	4,822	6,322	8,777
Other Areas	4,805	6,510	6,225
Total	327,324	349,996	347,810

In addition to the above, the average number of temporary employees for the fiscal year ended March 31, 2008 was 40,692.

The activities of the Hitachi Workers Union and those unions representing the employees of certain domestic subsidiaries are organized under the Federation of Hitachi Group Workers Unions. Each company in the Hitachi group has a collective bargaining agreement with its workers union. Under the agreements, all employees of the Company and its domestic subsidiaries that have labor unions, except management and a limited number of other employees, must become union members. The collective bargaining agreements are customarily for two-year terms and the present provisions, other than those relating to wages, extend to March 31, 2010. Hitachi considers its relations with the labor unions to be excellent and there have been no significant strikes or labor disputes in recent years.

E. Share Ownership

Edgar Filing: HITACHI LTD - Form 20-F

The following table shows the number of shares of common stock of the Company owned by the Directors and Executive Officers as of June 20, 2008. The total amount is 0.03% of total shares issued.

Table of Contents

Name	Position	Share ownership (Number of shares)
Etsuhiko Shoyama	Chairman of the Board	132,000
Kazuo Furukawa	President, Chief Executive Officer and Director	69,000
Tadamichi Sakiyama	Director	24,000
Michiharu Nakamura	Director	60,000
Toyoaki Nakamura	Senior Vice President, Executive Officer and Director	13,000
Yoshie Ota	Director	2,000
Mitsuo Ohashi	Director	1,000
Akihiko Nomiyama	Director	1,000
Kenji Miyahara	Director	1,000
Tohru Motobayashi	Director	21,750
Takeo Ueno	Director	38,000
Shungo Dazai	Director	13,150
Michihiro Honda	Director	13,000
Kazuhiro Mori	Executive Vice President and Executive Officer	28,000
Kunihiko Ohnuma	Executive Vice President and Executive Officer	26,100
Junzo Kawakami	Executive Vice President and Executive Officer	32,840
Manabu Shinomoto	Executive Vice President and Executive Officer	40,000
Masahiro Hayashi	Executive Vice President and Executive Officer	34,050
Naoya Takahashi	Senior Vice President and Executive Officer	33,000
Minoru Tsukada	Senior Vice President and Executive Officer	28,000
Koichiro Nishikawa	Senior Vice President and Executive Officer	53,150
Shozo Saito	Senior Vice President and Executive Officer	42,050
Tadahiko Ishigaki	Senior Vice President and Executive Officer	41,250
Stephen Gomersall	Senior Vice President and Executive Officer	1,000
Akira Maru	Vice President and Executive Officer	9,000
Koji Tanaka	Vice President and Executive Officer	22,000
Hitoshi Isa	Vice President and Executive Officer	32,000
Gaku Suzuki	Vice President and Executive Officer	18,000
Hideaki Takahashi	Vice President and Executive Officer	11,000
Junzo Nakajima	Vice President and Executive Officer	26,050
Mitsuo Yamaguchi	Vice President and Executive Officer	22,000
Kazuhiro Tachibana	Vice President and Executive Officer	29,000
Yasuhiko Honda	Vice President and Executive Officer	17,000
Eiji Takeda	Vice President and Executive Officer	30,000
Takao Koyama	Vice President and Executive Officer	20,000
Kenji Ohno	Vice President and Executive Officer	13,000
Toshiaki Kuzuoka	Vice President and Executive Officer	44,000
Masao Hisada	Vice President and Executive Officer	14,000
Koushi Nagano	Vice President and Executive Officer	14,000
Total		1,069,390

The aggregate number of shares that may be subscribed for under rights granted to the Directors and Executive Officers, listed above, pursuant to stock option plans approved in June 2004 and 2005 is 197,000 and 267,000 shares, respectively, and constitutes 0.01% of total shares issued. For additional information on the Company's stock option plan, see B. Compensation of this Item.

No Director or Executive Officer has different voting rights from any other shareholder of the Company's common stock.

Hitachi Employees' Shareholding Association owned approximately 96,631 thousand shares as of March 31, 2008, which amounted to 2.9% of total shares issued. The association consists of employees of the Company and certain of its subsidiaries. Membership in the association is voluntary.

Table of Contents**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

The following table provides information concerning shareholders holding more than five percent of the outstanding common stock of the Company as of March 31, 2008 based on the Company's share register. There has been no significant change in the percentage ownership of the Company's common stock by any major shareholder during the past three years.

Title of class	Name	Share ownership (Thousand shares)	Percentage of total shares issued
Common stock	NATS CUMCO (note)	309,706	9.2%
Common stock	State Street Bank and Trust Company	261,707	7.8%
Common stock	The Master Trust Bank of Japan, Ltd.	208,731	6.2%

Note: NATS CUMCO is the nominee name for the American Depositary Receipt (ADR) depositary.

Schedule 13G

In February 2008, the Company received from Brandes Investment Partners, L.P. a notice included on Schedule 13G filed on February 14, 2008 pursuant to Rule 13d-1(b) under the Securities Exchange Act of 1934. The notice indicated that neither Brandes Investment Partners, L.P. nor any of its affiliates owned shares for its own account and that the shares were held solely for investment purposes in the ordinary course of business and not with the purpose or effect of changing or influencing control. However, by virtue of Rule 13d-3 under the Act, Brandes Investment Partners, L.P. may be deemed to beneficially own 10,339,025 ADSs and 174,892,152 ordinary shares as of December 31, 2007, representing 8.3% of the Company's total issued shares at that time.

In February 2008, the Company received from Dodge & Cox a notice included on Schedule 13G filed on February 8, 2008 pursuant to Rule 13d-1(b) under the Securities Exchange Act of 1934. The notice indicated that Dodge & Cox did not own shares for its own account and that the shares were held solely for investment purposes in the ordinary course of business and not with the purpose or effect of changing or influencing control. However, by virtue of Rule 13d-3 under the Act, Dodge & Cox may be deemed to beneficially own 17,213,814 ADSs as of December 31, 2007, representing 5.1% of the Company's total issued shares at that time.

Report of Substantial Shareholdings under the Financial Instruments and Exchange Law of Japan

The following statements refer to reports of substantial shareholdings under the Financial Instruments and Exchange Law of Japan which the Company received. These filings represent reports on beneficial ownership of more than 5% of total issued voting shares under the Financial Instruments and Exchange Law of Japan (See Item 10. Additional Information B. Memorandum and Articles of Association Reporting of Substantial Shareholdings). The following statements only include reports from beneficial owners whom the Company recognizes to be held more than 5% of total issued voting shares of the Company.

In June 2008, the Company received a copy of a filing made to the Kanto Local Finance Bureau dated June 19, 2008 indicating that Brandes Investment Partners, L.P. owns 195,830,894 shares, representing 5.8% of the Company's total issued shares as of June 13, 2008, and that Brandes Investment Partners, L.P. did not own shares for its own account and that the shares were held solely for investment purposes in the ordinary course of business and not with the purpose or effect of changing or influencing control. The Company has not received any revision or update to the copy of the filing made to the Kanto Local Financial Bureau.

In July 2007, the Company received a copy of a filing made to the Kanto Local Finance Bureau dated July 18, 2007 indicating that Dodge & Cox owns 316,191,500 shares, representing 9.4% of the Company's total issued shares as of July 15, 2007, and that Dodge & Cox did not own shares for its own account and that the shares were held solely for investment purposes in the ordinary course of business and not with the purpose or effect of changing or influencing control. The Company has not received any revision or update to the copy of the filing made to the Kanto Local Financial Bureau.

Table of Contents

Major shareholders of the Company do not have different voting rights from any other shareholder of the Company's common stock.

As of March 31, 2008, approximately 23.9% of the Company's common stock was owned by 202 U.S. shareholders of record, in the aggregate, including the depositary's nominee as one shareholder of record.

The Company is not directly or indirectly owned or controlled by any other corporation, by any foreign country or by any other natural or legal person severally or jointly. To the knowledge of the Company, there are no arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

B. Related Party Transactions

To the knowledge of the Company, as of March 31, 2008, no person was the beneficial owner of more than 10% of any class of the Company's shares which might give that person significant influence over the Company. In addition, the Company is not directly or indirectly owned or controlled by, or under common control with, any enterprise.

Hitachi may enter into transactions with shareholders or potential large investors in the ordinary course of its business. Hitachi may also enter into transactions in the ordinary course of its business with certain companies over which Hitachi or its key management personnel may have a significant influence. Hitachi believes it conducts its business with these companies in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in Hitachi, or if Hitachi or its key management personnel did not have significant influence over them, as the case may be. None of these transactions is or was material to Hitachi or, to its knowledge, to the other party.

In fiscal 2007, the Company had business transactions with Mitaka Communication Systems Co., Ltd., of which a close relative of Mr. Mitsuo Yamaguchi, an executive officer of the Company, directly owns 55.0% of the voting rights. The Company purchased products from Mitaka Communication Systems Co., Ltd. in the aggregate amount of ¥16 million in fiscal 2007 and there was no balance on accounts payable as of March 31, 2008. The Company purchased the products in the ordinary course of its business and under the same terms as ordinary transactions. These transactions were not material to Hitachi, but may have been material to Mitaka Communication Systems Co., Ltd.

There are no outstanding loans (including guarantees of any kind) made by the Company or any of its subsidiaries to or for the benefit of Directors or Executive Officers of the Company except home loans extended to a Director and certain Executive Officers by a subsidiary of the Company engaged in the business of financial services. The aggregate outstanding balance of such loans to the Director and Executive Officers as of March 31, 2008 was ¥68 million, and the largest aggregate outstanding balance during fiscal 2007 was ¥72 million. Hitachi believes these loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Consolidated Financial Statements

See Item 17. Financial Statements.

Legal Proceedings

The Company, certain of its subsidiaries and its equity method affiliates are subject to a number of legal proceedings relating to alleged antitrust violations as follows.

In January 2007, the European Commission ordered the Company, Hitachi Europe Ltd. (Hitachi Europe), the Company's wholly owned subsidiary, and Japan AE Power Systems Corporation (AE Power), an equity method affiliate of the Company which was demerged and

Edgar Filing: HITACHI LTD - Form 20-F

succeeded to the gas insulated switchgear (GIS) operations of the Company, to pay a fine for infringement of EC antitrust rules regarding alleged antitrust violations relating to GIS equipment used at substations. In April 2007, the Company lodged an appeal with the Court of First Instance of the European Communities asking the court to annul the decision of the European Commission. The determination has not been rendered at present, but the Company accrued for the fine based on past judgments in the year ended March 31, 2007.

Table of Contents

In October 2006, Renesas Technology America, Inc. (Renesas America), a subsidiary of Renesas Technology Corp. (Renesas), an equity method affiliate of the Company which was demerged and succeeded to the semiconductor operations of the Company centered in system large scale integrations, and Hitachi America, Ltd. (Hitachi America), the Company's wholly owned subsidiary, received a grand jury subpoena in connection with the investigation conducted by the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to static random access memories.

In December 2006, the Company and Hitachi Europe received requests for information from the European Commission in respect of alleged antitrust violations relating to LCDs, and Hitachi Displays, Ltd. (Hitachi Displays), the Company's subsidiary which was demerged and succeeded to the LCDs operations of the Company, received a grand jury subpoena in connection with the investigation conducted by the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to LCDs. In addition, in December 2006, Hitachi Displays and IPS Alpha Technology, Ltd., an equity method affiliate of the Company which is engaging in large-sized LCDs business, received requests for information from the Fair Trade Commission of Japan in respect of alleged antitrust violations relating to LCDs.

In June 2007, the Company received requests for information from the European Commission in respect of alleged antitrust violations relating to DRAMs.

In September 2007, Hitachi America and Renesas America received a grand jury subpoena in connection with an investigation conducted by the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to flash memories.

In November 2007, Hitachi Electronic Devices (USA), Inc., a subsidiary of Hitachi Displays, received a grand jury subpoena in connection with the investigation conducted by the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to cathode ray tubes (CRTs). In addition, in November 2007, Hitachi Asia Ltd., a wholly owned subsidiary of the Company, and Hitachi Europe received requests for information from the European Commission in respect of alleged antitrust violations relating to CRTs. Further, in November 2007, Hitachi Canada Ltd., a subsidiary of the Company, received requests for information from the Canadian Competition Bureau in respect of alleged antitrust violations relating to CRTs.

The Company and the other named parties do not concede the alleged antitrust violations, the Company and the other named parties have cooperated with the above investigations. Depending upon the outcome of these investigations, fines or surcharge payments, the amount of which is uncertain, may be imposed on the named parties, including the Company. In addition, subsequent to these actions by the competent authorities, a number of class action lawsuits have been filed in the U.S. and Canada against the Company, certain of its subsidiaries and its equity method affiliates which are engaged in or had been engaged in semiconductors business, LCD business and CRT business. These complaints allege violations of various jurisdictions' antitrust, consumer protection and/or unfair competition laws and seek treble monetary damages, restitution, costs, interest and attorneys' fees for unspecified amounts. Depending upon the outcome of such legal proceedings, they may, either singly or in the aggregate, result in a material adverse effect on Hitachi's business, results of operations, cash flows, financial condition, reputation or credibility. Currently, the Company is unable to estimate the adverse effects, if any, that may result from these proceedings. Accordingly, no accrual for potential loss has been made.

In addition to the above, the Company, certain of its subsidiaries and its equity method affiliates are subject to several other legal and arbitration proceedings and claims which have arisen in the ordinary course of business and have not been finally adjudicated. However, based upon the information currently available to Hitachi, management of the Company does not expect the outcomes of these legal and arbitration proceedings and claims to have a material effect on Hitachi's financial condition, results of operations or cash flows.

Table of Contents

Dividend Policy

The Company views enhancement of the long-term and overall interests of shareholders as an important management objective. The industrial sector encompassing energy, information systems, social infrastructure and other primary businesses of the Company is undergoing rapid technological innovation and changes in market structure. This makes vigorous upfront investment in R&D and plant and equipment essential for securing and maintaining market competitiveness and improving profitability. Dividends are therefore decided based on medium-to-long term business plans while ensuring the availability of internal funds for reinvestment and the stable growth of dividends, with appropriate consideration of a range of factors, including the Company's financial condition, results of operations and dividend payout ratio.

The Company believes that the repurchase of its shares should be undertaken, when necessary, as part of its policy on distribution to shareholders to complement the dividend payout. In addition, the Company will repurchase its own shares on an ongoing basis in order to implement a flexible capital strategy, including business restructuring, to maximize shareholder value so far as consistent with the dividend policy. Such action will be taken by the Company after considering its future capital requirement under its business plans, market conditions and other relevant factors.

The Company declared a dividend of ¥6 per share in fiscal 2007.

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

The primary market for the Company's common stock is the Tokyo Stock Exchange, or the TSE. The common stock is traded on the First Section of the TSE and is also listed on four other Japanese stock exchanges: Osaka, Nagoya, Fukuoka and Sapporo. In the United States, the Company's ADSs are listed and traded on the New York Stock Exchange, or the NYSE, in the form of Certificated ADSs (ADRs) or Uncertificated ADSs. There may from time to time be a differential between the common stock's price on exchanges in Japan and the market price of the ADSs in the United States.

ADRs are issuable pursuant to the Second Amended and Restated Deposit Agreement dated as of December 14, 2007, or the Deposit Agreement, by and among the Company, Citibank, N.A. as depositary, or the Depositary, and the holders and beneficial owners of ADSs. Each ADS or ADR represents ten shares of common stock of the Company deposited under the Deposit Agreement with Mizuho Corporate Bank, Ltd., Tokyo, as agents of the depositary, or any successor or successors to such agent or agents.

The following table sets forth for the periods indicated the reported high and low sales prices of the Company's common stock on the TSE and the reported high and low sales prices of the Company's ADSs on the NYSE.

Fiscal year ended March 31,	TSE		NYSE	
	price per share of common stock (Yen)		price per ADS (U.S. Dollars)	
	High	Low	High	Low
2004	835	366	79.170	31.300
2005	850	627	81.350	57.450
2006	874	604	75.400	57.400
2007	936	644	79.760	55.740
2008	947	569	79.200	58.990

Table of Contents

	TSE		NYSE	
	price per share of common stock (Yen)		price per ADS (U.S. Dollars)	
	High	Low	High	Low
Fiscal year ended March 31, 2007				
1st quarter	888	709	76.570	61.750
2nd quarter	773	644	67.280	55.740
3rd quarter	747	650	62.560	56.570
4th quarter	936	753	79.760	61.920
Fiscal year ended March 31, 2008				
1st quarter	947	837	79.200	70.160
2nd quarter	917	675	76.130	59.000
3rd quarter	852	705	75.120	62.860
4th quarter	836	569	76.800	58.990
December 2007	852	767	75.120	68.180
January 2008	816	695	75.290	64.540
February 2008	836	755	76.800	71.340
March 2008	757	569	72.000	58.990
April 2008	710	581	67.930	59.550
May 2008	775	658	72.430	64.260

Notes:

- Prices per share of common stock are as reported by the TSE.
- Prices per ADS are based upon one ADS representing ten shares of common stock and are as reported by the NYSE via the NYSEnet system.

B. Plan of Distribution

Not applicable.

C. Markets

See A. Offer and Listing Details in this Item.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

Table of Contents

B. Memorandum and Articles of Association

Organization

The Company was incorporated in Japan under the former Commercial Code of Japan and is existing under the Company Law. It is registered in the commercial register (shogyo tokibo) maintained by the Tokyo Legal Affairs Bureau of the Ministry of Justice.

Objects and Purposes

Article 2 of the articles of incorporation of the Company provides that its purpose is to carry on the following businesses: manufacture and sale of electrical machinery and appliances; manufacture and sale of industrial machinery and appliances; manufacture and sale of rolling stock; manufacture and sale of telecommunication and electronic machinery and appliances; manufacture and sale of lighting and household machinery and appliances; manufacture and sale of optical and medical machinery and instruments; manufacture and sale of measuring and other general machinery and appliances; manufacture and sale of materials related to the products mentioned in any of the foregoing items; preparation and sale of software; preparation and sale of images, software and data related to multimedia; leasing and maintenance services of the products mentioned in any of the foregoing items; supply of electricity; telecommunication, information processing and information supply services, as well as broadcasting; undertaking of commercial transactions and payment transactions by utilizing the Internet; provision of results of research and development related to biotechnology; consulting on any of the foregoing items; licensing of industrial property rights and know-how; undertaking of engineering related to any of the foregoing items; design, supervision and undertaking of construction work; money lending, factoring, debt guarantee and investment advisory business; home health care service business, home health care support business and the operation of health care and nursing facilities under the Health Care Insurance Law; any and all businesses related to the foregoing items.

Directors

Under the Committee System, the Board of Directors focuses on the functions of decision-making with respect to fundamental management policies and certain important matters prescribed by law, as well as supervision of execution by the Directors and Executive Officers of their respective duties. The Board of Directors may, by resolution, delegate to the Executive Officers its authority to make decisions with regard to the Company's business affairs.

Under the Company Law, the adoption of a resolution of the Board of Directors requires a majority vote of the Directors present who must in turn constitute a majority of the Directors who are entitled to vote for the resolution. Any Director who has a conflict of interest or a vested interest with respect to any given resolution cannot participate in voting for the resolution. Under the Company Law, each Director must refrain from engaging in any business competing with the Company unless approved by the Board of Directors.

The Company Law provides that, under the Committee System, the Compensation Committee established within the Board of Directors determines matters relating to compensation for each Director and Executive Officer. A member of the Compensation Committee cannot participate in voting for any resolution relating to his/her own compensation.

There is no mandatory retirement age for the Directors required by the Company Law or the Company's articles of incorporation. No shares are required for a Director's qualification under the Company Law or the Company's articles of incorporation.

As a company that has adopted the Committee System, the Company has delegated to Executive Officers, by resolution of the Board of Directors, powers regarding the incurrence by the Company of a significant amount of debt.

Common Stock

Distribution of surplus

Under the Company's articles of incorporation, distribution of surplus through dividend payment, if any, will be made to shareholders of record as of March 31 and September 30 of each year and as of another record date for the purpose of distributing surplus. See Item 8. Financial Information A. Consolidated Statements and Other Financial Information Dividend Policy for additional information.

Table of Contents

Under the Company's articles of incorporation, the Company is not obligated to make distribution of surplus left unclaimed for a period of three years after the date on which it first became payable.

Voting rights

A shareholder is generally entitled to one vote per one unit of shares, as described in this paragraph and under "Unit share system" below. In general, under the Company Law, a resolution can be adopted at a general meeting of shareholders by a majority of the number of voting rights represented and entitled to vote at the meeting. The Company Law and the Company's articles of incorporation require the election of Directors annually, and a quorum of not less than one-third of the total number of voting rights of all the shareholders who are entitled to vote. The Company's shareholders are not entitled to cumulative voting in the election of Directors and the board is not staggered. A corporate shareholder whose voting rights are in turn more than one-quarter directly or indirectly owned by the Company does not have voting rights. The Company does not have voting rights with respect to its own shares. Shareholders may cast their votes in writing and may also exercise their voting rights through proxies, provided that those proxies are also shareholders who have voting rights. Shareholders may also cast their votes by electronic means in accordance with the Company's regulations on handling shares, etc.

The Company Law and the Company's articles of incorporation provide that a quorum of not less than one-third of the voting rights of the shareholders who are entitled to vote must be present at a shareholders' meeting to approve any material corporate actions such as: a reduction of the stated capital (with certain exceptions); amendment of the articles of incorporation; establishment of a 100% parent-subsidiary relationship by way of share exchange or share transfer; a dissolution, merger or consolidation; a company split; the transfer of the whole or an important part of the business; the taking over of the whole of the business of any other corporation; entering into an agreement for the leasing of entire business, entrustment of the management of the entire business or sharing the entire profit and loss with third parties; and any issuance of new shares at a "specially favorable" price (or any issuance of rights to subscribe for or acquire shares, or stock acquisition rights, with "specially favorable" conditions or of bonds or debentures with stock acquisition rights with "specially favorable" conditions) to persons other than shareholders. At least two-thirds of the voting rights represented at the meeting must approve these actions. Certain matters relating to rights of shareholders, such as those relating to voting rights and rights on distribution of surplus, are provided for in the Company's articles of incorporation, any amendment to which is generally subject to approval by a shareholders' meeting in the manner described above. See Item 19. Exhibits 1.1 Articles of Incorporation of Hitachi, Ltd., as amended on June 27, 2006 (English Translation) for additional information.

Issue of additional shares and pre-emptive rights

Holders of the Company's shares of common stock have no pre-emptive rights under its articles of incorporation. Authorized but unissued shares may be issued at such times and upon such terms as Executive Officers determine, subject to the limitations as to the issuance of new shares at a "specially favorable" price mentioned above. Executive Officers may determine that shareholders be given subscription rights to new shares, in which case they must be given on uniform terms to all shareholders as of a record date of which not less than two weeks' prior public notice must be given. Each of the shareholders to whom such subscription rights are given must also be given at least two weeks' prior notice of the date on which such rights expire.

Rights to subscribe for shares of common stock given to the shareholders are not transferable unless otherwise provided by the Company.

Pursuant to the Company Law, the Company may issue stock acquisition rights. Except where the issuance of stock acquisition rights would be on "specially favorable" terms, Executive Officers may determine the issuance of stock acquisition rights other than those for stock option purposes, which in contrast, must be approved by the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares, or alternatively, to transfer the necessary number of existing shares held by it.

Table of Contents

Liquidation rights

In the event of a liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses and taxes will be distributed among the holders of shares of common stock in proportion to the respective numbers of shares of common stock held by each of them.

Stock splits and allotment of shares without consideration

The Company, by determination of an authorized Executive Officer, may at any time split shares of common stock in issue or allot shares of common stock to its shareholders without consideration.

When Executive Officers determine to effect a stock split, the Company may amend its articles of incorporation without shareholder approval to increase the number of authorized shares in proportion to the stock split if the Company has only one class of outstanding shares; however, in case of share allotment without consideration, such an amendment of its articles of incorporation is not permitted without shareholder approval.

Generally, shareholders do not need to exchange share certificates for new ones following a stock split or allotment of shares without consideration; however, certificates representing the additional shares resulting from the stock split or allotment of shares without consideration will be issued to shareholders.

Before a stock split and an allotment of shares without consideration, the Company must give public notice of the stock split or the allotment of shares without consideration specifying the record date and the effective date for the stock split or the allotment of shares without consideration, not less than two weeks prior to the record date.

Promptly after the allotment of shares without consideration takes effect, the Company must send notice to each shareholder specifying the number of shares to which each such shareholder is entitled.

Unit share system

Pursuant to the Company Law, the Company has designated 1,000 shares as one unit of shares in the articles of incorporation. Under the unit share system, a shareholder is generally entitled to one voting right for each unit of shares. The Company may not issue share certificates for a number of shares not constituting a whole number of units unless the Company deems the issuance of such share certificates to be necessary for shareholders. Since transfers of less than one unit of the underlying shares of common stock are normally prohibited under the unit share system, under the Deposit Agreement currently in force, the right of ADS holders to surrender their ADSs and withdraw the underlying shares of common stock may only be exercised as to whole units of common stock.

Although the number of shares which constitute one unit is stipulated in the articles of incorporation, an authorized Executive Officer has the power to amend the articles of incorporation to reduce the number of shares which constitute one unit or abolish the unit share system. Pursuant to the Company Law, the number of shares constituting one unit, however, may not exceed 1,000.

A holder of shares representing less than one unit may at any time require the Company to purchase his/her shares. These shares will be purchased at (a) the closing price of the shares reported by the TSE on the day when the request to purchase is made or (b) if no sale takes place on the TSE on that day, the price at which sale of shares is effected on such stock exchange immediately thereafter. However, because holders of ADSs representing less than one unit are not able to withdraw the underlying shares from deposit, these holders will not be able to exercise this right as a practical matter.

The Company's articles of incorporation also provide that a holder of shares representing less than one unit may require the Company to sell any fractional shares it may have to such holder so that the holder can raise his/her fractional ownership up to a whole unit. These shares will be sold at (a) the closing price of the shares reported by the TSE on the day when the request to sell becomes effective or (b) if no sale takes place on the TSE on that day, the closing price at which sale of shares is effected on such stock exchange immediately preceding that day. However, because holders of ADSs representing less than one unit are not able to withdraw the underlying shares from deposit, these holders will not be able to exercise this right as a practical matter.

Table of Contents

Repurchase by the Company of its shares

The Company may repurchase shares of its common stock (i) by way of purchase on any Japanese stock exchange on which shares are listed or by way of tender offer (in either case pursuant to a resolution of a general meeting of shareholders), (ii) by way of purchase from a specific shareholder other than the Company's subsidiaries (pursuant to a special resolution of a general meeting of shareholders), or (iii) by way of purchase from the Company's subsidiary (pursuant to a resolution of the Board of Directors). In the case of (ii) above, any other shareholder may make a request directly to an Executive Officer, five days prior to the relevant general meeting of shareholders, to include such shareholder as a seller in the proposed purchase.

The authorization to purchase shares of its common stock pursuant to (i) above may also be granted by a resolution of the Board of Directors pursuant to the articles of incorporation of the Company.

Any such repurchase of shares of its common stock must satisfy certain requirements, including that, in the case of a repurchase described in (i) and (ii) above, the total amount of the purchase price may not exceed the distributable amount as of the date of repurchase available for distribution of surplus. The Company may hold the shares acquired in compliance with the provisions of the Company Law, and Executive Officers may generally dispose of or cancel such shares in accordance with the Company Law.

General Meeting of Shareholders

The Company normally holds its ordinary general meeting of shareholders within three months following the date of the end of the fiscal year in Tokyo. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks advance notice. Under the Company Law, notice of any shareholders' meeting must be mailed to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with the Company's regulations on handling shares, etc., at least two weeks prior to the date of the meeting. Under the Company Law, such notice may be given to shareholders by electronic means, with the consent by the relevant shareholders.

Generally, those shareholders of the Company registered as having rights on the register of shareholders and the register of beneficial shareholders as of the end of a given fiscal year are permitted to exercise their rights at the ordinary general meeting of shareholders concerning that fiscal year and those shareholders of the Company registered as having voting rights on the register of shareholders as of a record date properly fixed by the Company are permitted to exercise their rights at the extraordinary general meeting of shareholders.

Reporting of Substantial Shareholdings

The Financial Instruments and Exchange Law of Japan, as amended, requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued voting shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the Prime Minister of Japan within five business days a report concerning such shareholdings. A similar report must also be made in respect of any subsequent change of one percentage point or more in any such holding. For this purpose, shares issuable to such person upon exercise of any rights to subscribe for or acquire shares are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Copies of each such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed or (in the case of shares traded over-the-counter) the Japan Securities Dealers Association.

There is no provision in the Company's articles of incorporation that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company.

Corporate Governance Practices

The Company's ADSs are listed on the New York Stock Exchange (the "NYSE"). The Company is therefore required to comply with certain of the NYSE's corporate governance listing standards (the "NYSE Standards"), which were approved by the SEC in November 2003. As a foreign private issuer, the Company may follow its home country's corporate governance practices in lieu of most of the NYSE Standards. The Company's corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain NYSE listing and, in accordance with Section 303A.11 of NYSE's Listed Company Manual, a brief, general summary of those differences is provided as follows.

Table of Contents

Director independence

The NYSE Standards require a majority of the membership of NYSE-listed company boards to be composed of independent directors. The Company's Board of Directors consists of 13 members, five of whom are outside directors, as defined under the Company Law. The Company Law defines an outside director as a director who is not and has not been an executive director (a representative director or a director who executes such company's business), executive officer, manager or any other employee of such company or its subsidiaries.

Non-management directors' executive sessions

The NYSE Standards require non-management directors of NYSE-listed companies to meet at regularly scheduled executive sessions without management. Neither the Company Law nor the Company's articles of incorporation require the Company's non-management directors to hold such meetings.

Committee member composition

The NYSE Standards require NYSE-listed companies to have a nominating/corporate governance committee, audit committee and compensation committee that are composed entirely of independent directors. The Company's nominating committee, audit committee and compensation committee are composed of a majority of outside directors in accordance with the Company Law, while the Company's audit committee complies with the NYSE Standards.

Miscellaneous

In addition to the above differences, the Company is not required: to make its nominating, audit and compensation committees prepare a written charter that addresses either purposes and responsibilities or performance evaluations in a manner that would satisfy the NYSE's requirements; to acquire shareholder approval of equity compensation plans in certain cases, such as issuing stock acquisition rights as stock options without specially favorable conditions; to make publicly available one or more documents which purport to summarize all aspects of its corporate governance guidelines; or to adopt a code of business conduct and ethics for its directors, officers and employees that would comply fully with the NYSE's requirements.

C. Material Contracts

None.

D. Exchange Controls

The Foreign Exchange and Foreign Trade Law of Japan, as amended, and the cabinet orders and ministerial ordinances thereunder, or the Foreign Exchange Law, govern certain matters relating to the issuance of equity-related securities by the Company and the acquisition and holding of shares of common stock or ADSs representing such shares by exchange non-residents and by foreign investors as hereinafter defined. The Foreign Exchange Law currently in effect does not affect the right of an exchange non-resident to purchase or sell an ADS outside Japan.

Exchange non-residents are defined under the Foreign Exchange Law as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents, but branches and other offices located within Japan of non-resident corporations are regarded as residents of Japan.

Foreign investors are defined to be (i) individuals not resident in Japan, (ii) corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan and (iii) corporations of which (a) 50% or more of the shares are held by (i) and/or (ii) above, (b) a majority of officers consists of non-resident individuals or (c) a majority of the officers having the power of representation consists of non-resident individuals.

Table of Contents

Dividends and Proceeds of Sales

Under the Foreign Exchange Law, dividends paid on, and the proceeds of sales in Japan of, shares of common stock held by exchange non-residents in general may be converted into any foreign currency and repatriated abroad. The acquisition of shares of common stock by exchange non-resident shareholders by way of stock splits is not subject to any requirements under the Foreign Exchange Law.

Acquisition of Shares

Under the Foreign Exchange Law, acquisition of shares of a Japanese company listed on any Japanese stock exchange or traded on the over-the-counter market in Japan, or listed shares, by an exchange non-resident from a resident of Japan is generally not subject to a prior filing requirement.

In case a foreign investor acquires listed shares (whether from a resident of Japan or an exchange non-resident, from another foreign investor or from or through a designated securities company) and as a result of such acquisition the number of shares held directly or indirectly by such foreign investor (including shares held by persons who agree to act in concert with such foreign investor in connection with the exercise of shareholders' rights) would become 10% or more of the total outstanding shares of the company, the foreign investor is required to make a subsequent report on such acquisition to the Minister of Finance and other Ministers having jurisdiction over the business of the subject company, or the Competent Ministers. In certain exceptional cases, a prior filing is required and the Competent Ministers may recommend the modification or abandonment of the proposed acquisition and, if the foreign investor does not accept the recommendation, order its modification or prohibition. More specifically, such prior filing requirement is triggered if, among other things, the company, its subsidiary or any person over which the company has the power to determine such person's finance and business policies, is engaged in the manufacture of products related to arms, airplanes, nuclear power or space development, including the manufacturing of general purpose devices capable of being diverted for military use. Due to the nature of Hitachi's business, including its nuclear power system business that involves the manufacture of products related to nuclear power development and other businesses, this prior filing requirement is likely to apply to the acquisition of Hitachi shares.

The deposit of shares of common stock by an exchange non-resident of Japan, the issuance of ADSs in exchange therefor and the withdrawal of the underlying shares of common stock by an exchange non-resident upon surrender of ADSs are not subject to any requirements under the Foreign Exchange Law, except where as a result of such deposit or withdrawal the aggregate number of shares of common stock held by the depositary (or its nominee) or the holder surrendering ADSs, as the case may be, would be 10% or more of the total outstanding shares of common stock, in which event a subsequent reporting may be required as described above.

E. Taxation

Japanese Taxation

The discussion of Japanese taxation set forth below is intended only as a summary and does not purport to be a complete analysis or discussion of all the potential Japanese tax consequences that may be relevant to the ownership of the Company's shares or ADSs by a person who is not a resident of Japan.

A non-resident of Japan or a non-Japanese corporation is generally subject to a Japanese withholding tax on cash dividends. Stock splits and allotment of shares without consideration, in general, are not subject to Japanese withholding tax since they are characterized merely as an increase in the number of shares (as opposed to an increase in the value of the shares) from a Japanese tax perspective.

In the absence of any applicable treaty or agreement reducing the maximum rate of withholding tax, the standard rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20%. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of common stock of the Company) to shareholders who are non-Japanese corporations or Japanese non-resident individuals, except for any individual shareholder who holds 5% or more of the outstanding total of the shares issued by the relevant Japanese corporation, the aforementioned standard 20% withholding tax rate is reduced to (i) 7% for dividends due and payable on or after January 1, 2004 but on or before March 31, 2009 and (ii) 15% for dividends due and payable on or after April 1, 2009.

Table of Contents

Pursuant to the Convention Between the Government of the United States of America and the Government of Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, or the Treaty, (i) the withholding tax rate on dividends is generally 10% for portfolio investors (i.e. investors with the shareholding ratio of less than 10%) who are qualified U.S. residents eligible to enjoy treaty benefits and (ii) the dividends are exempt from Japanese taxation by way of withholding or otherwise for pension funds which are qualified U.S. residents eligible to enjoy treaty benefits, unless the dividends are derived from the carrying on of a business, directly or indirectly, by such pension funds. For Japanese tax purposes, a treaty rate generally supersedes the tax rate under domestic tax law. However, due to the so-called preservation doctrine under the Treaty, and/or due to the Special Measurement Law for the Income Tax Law, Corporation Tax Law and Local Taxes Law with respect to the Implementation of Tax Treaties, if the tax rate under domestic tax law is lower than the treaty rate (which is currently the case with respect to the treaty), the domestic tax rate applies (which, as discussed above, is currently 7% with respect to dividends paid on the Company's shares) or ADSs.

The amount of withholding tax imposed on dividends payable to the holders of the Company's shares or ADSs who reside in a country other than the United States is dependent upon the provisions of such treaties or agreements as may exist between such country and Japan.

Gains derived from the sale outside Japan of shares of common stock or ADSs representing shares of common stock in Japanese corporations by a non-resident of Japan or a non-Japanese corporation, or from the sale of the shares within Japan by a non-resident of Japan as an occasional transaction or by a non-Japanese corporation not having a permanent establishment in Japan, are in general not subject to Japanese income or corporation taxes. Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of common stock or ADSs as a distributee, legatee or donee.

United States Taxation

The following is a discussion of material U.S. federal income tax consequences of owning and disposing of the Company's shares of common stock or ADSs by U.S. holders (as defined below). The discussion applies only if a U.S. holder holds shares of common stock or ADSs as capital assets for U.S. federal income tax purposes and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as:

certain financial institutions;

insurance companies;

dealers and traders in securities or foreign currencies;

persons holding shares of common stock or ADSs as part of a hedge, straddle, conversion or other integrated transaction;

persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

persons liable for the alternative minimum tax;

tax-exempt organizations;

Edgar Filing: HITACHI LTD - Form 20-F

persons holding shares of common stock or ADSs that own or are deemed to own ten percent or more of the Company's voting stock;
or

persons who acquired shares of common stock or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation.

This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations and the Treaty, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. U.S. holders should consult their own tax advisors concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of shares of common stock or ADSs in their particular circumstances.

Table of Contents

If an entity that is classified as a partnership for U.S. federal income tax purposes holds shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships holding shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the shares or ADSs.

A U.S. holder is a beneficial owner of shares of common stock or ADSs that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. holder of ADSs will be treated as the owner of the underlying shares of common stock represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. holder exchanges ADSs for the underlying shares of common stock represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are released prior to delivery of shares to the Depositary (pre-release) may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain noncorporate U.S. holders. Accordingly, the analysis of the creditability of Japanese taxes and the availability of the reduced tax rate for dividends received by certain noncorporate U.S. holders, each described below, could be affected by actions taken by parties to whom ADSs are pre-released.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company (as discussed below).

Taxation of distributions

Distributions paid on shares of common stock or ADSs, other than certain pro rata distributions of common stock, will be treated as dividends to the extent paid out of the Company's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. holders as dividends. The amount of a dividend will include any amounts withheld by the Company or its paying agent in respect of Japanese taxes. The amount of the dividend will be treated as foreign source dividend income to a U.S. holder and will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to certain noncorporate U.S. holders in taxable years beginning before January 1, 2011 will be taxable at a maximum rate of 15%. Noncorporate U.S. holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at this favorable rate.

Dividends paid in yen will be included in a U.S. holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the dividends are received by such U.S. holder in the case of a U.S. holder of shares of common stock or by the Depositary in the case of a U.S. holder of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may have foreign currency gain or loss if the dividend is not converted into U.S. dollars on the date of its receipt.

Japanese income taxes withheld from cash dividends on shares of common stock or ADSs will be creditable against a U.S. holder's U.S. federal income tax liability, subject to applicable restrictions and limitations that may vary depending upon such holder's circumstances and the discussion above regarding concerns expressed by the U.S. Treasury. Instead of claiming a credit, a U.S. holder may elect to deduct such otherwise creditable Japanese taxes in computing such holder's taxable income, subject to generally applicable limitations under U.S. law. U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

Table of Contents

Sale or other disposition of shares or ADSs

For U.S. federal income tax purposes, gain or loss a U.S. holder realizes on the sale or other disposition of shares of common stock or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the holder held the shares of common stock or ADSs for more than one year. The amount of the U.S. holder's gain or loss will be equal to the difference between the holder's tax basis in the shares of common stock or ADSs disposed of and the amount realized on the sale or other disposition, determined in U.S. dollars. Such gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes.

Passive foreign investment company rules

The Company does not believe that it was a passive foreign investment company (PFIC) for U.S. federal income tax purposes for its tax year ending March 31, 2008. However, since PFIC status depends upon the composition of the Company's income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company were treated as a PFIC for any taxable year during which a U.S. holder held a share of common stock or an ADS, certain adverse tax consequences could apply to such holder.

Information reporting and backup withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless (i) the holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.

The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against its U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents filed by the Company with the SEC can be inspected at its public reference room located at 100 F Street, N.E., Washington D.C. 20549. The documents filed via the Electronic Data Gathering, Analysis, and Retrieval system can be also available for inspection on the SEC's website (<http://www.sec.gov>).

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Primary Market Risk Exposure

Hitachi is exposed to market risks from changes in foreign currency exchange rates, interest rates and market prices for equity securities. Hitachi seeks to manage these market risks by using derivative financial instruments. Hitachi does not employ derivative financial instruments for speculation purpose.

Edgar Filing: HITACHI LTD - Form 20-F

Hitachi is exposed to credit-related risks arising from the potential non-performance by counterparties to derivative and other financial instruments Hitachi uses to hedge its market risks. Most of the counterparties are internationally recognized financial institutions and contracts are diversified among a number of major financial institutions.

Table of Contents**Equity Price Risk**

Hitachi holds marketable securities which are subject to price risks arising from changes in market prices for such securities. Hitachi considers marketable securities classified as short-term investments to be highly liquid and present a relatively low equity price risk. Hitachi holds marketable securities classified as investments and advances as long-term investments.

The tables below provide information about the contractual maturities of available-for-sale securities and held-to-maturity securities and fair values of these market risk sensitive securities as of March 31, 2008 and 2007, regardless of the consolidated balance sheet classification as follows.

	Carrying amount as of March 31, 2008			Total	Fair value
	Contractual maturity date				
	Due after one				
	Due within one year	year through five years	Due after five years		
	(Millions of yen)				
Available-for-sale securities					
Equity securities				179,883	179,883
Debt securities	44,719	15,877	26,193	86,789	86,789
Other securities	11,280	37,225	10,090	58,595	58,595
Held-to-maturity securities	259	31	199	489	489

	Carrying amount as of March 31, 2007			Total	Fair value
	Contractual maturity date				
	Due after one				
	Due within one year	year through five years	Due after five years		
	(Millions of yen)				
Available-for-sale securities					
Equity securities				304,299	304,299
Debt securities	11,231	28,615	39,416	79,262	79,262
Other securities	2,048	4,897	19,683	26,628	26,628
Held-to-maturity securities	43	850	198	1,091	1,090

Foreign Currency Exchange Rate Risk and Interest Rate Risk

Hitachi has assets and liabilities which are exposed to foreign currency exchange rate risks and interest rate risks. Hitachi enters into forward exchange contracts, cross currency swap agreements and interest rate swaps for the purpose of hedging these risk exposures.

Foreign currency exchange rate risk

Hitachi mainly uses forward exchange contracts to manage foreign currency exchange exposures, primarily in the exchange of U.S. dollars and Euros into Japanese yen. These contracts, which typically mature within one year, are used primarily to hedge foreign currency denominated future net cash flows from trade receivables and payables recognized, and from forecasted transactions. In accordance with its internal policy, Hitachi measures by currency each month the amount and due date of future net cash flows. In accordance with the policy, a portion of net cash flows measured is covered using forward exchange contracts.

Hitachi enters into cross currency swap agreements to manage currency exchange rate risk relating to long-term debt denominated in foreign currencies. These cross currency swap agreements typically have maturities that mirror the underlying debt, which allows Hitachi to predict cash flows from such long-term debt. Hitachi believes these derivative financial instruments can be highly effective in hedging foreign currency denominated long-term debt against changes in foreign exchange rates.

Table of Contents

The tables below provide information on Hitachi's financial instruments that are sensitive to foreign currency exchange rates, including primary forward exchange contracts to sell U.S. dollars and Euros as of March 31, 2008 and 2007. The tables present the contract amounts in Japanese yen equivalents and weighted average contractual exchange rates by expected maturity dates. Cross currency swap agreements and the corresponding foreign currency denominated debt instruments are not included in the table below because all of Hitachi's foreign currency exposure in its cash flows are eliminated.

	Forward exchange contracts as of March 31, 2008			Estimated fair value
	Expected maturity date			
	2009	2010	Total	
	(Millions of yen)			
Forward exchange contracts				
(Pay US\$/receive ¥) contract amount	132,026		132,026	8,312
Average contractual exchange rate (¥/US\$)	105.98		105.98	
Forward exchange contracts				
(Pay Euro/receive ¥) contract amount	93,190		93,190	594
Average contractual exchange rate (¥/Euro)	157.56		157.56	
	Forward exchange contracts as of March 31, 2007			Estimated fair value
	Expected maturity date			
	2008	2009	Total	
	(Millions of yen)			
Forward exchange contracts				
(Pay US\$/receive ¥) contract amount	145,462		145,462	511
Average contractual exchange rate (¥/US\$)	117.20		117.20	
Forward exchange contracts				
(Pay Euro/receive ¥) contract amount	75,730		75,730	(1,438)
Average contractual exchange rate (¥/Euro)	153.34		153.34	

Interest rate risk

Hitachi's exposure to interest rate risk is related principally to its debt obligations, and the risk of increases in market interest rates that increase future cash outflow of interest payments due on such debt. To manage this risk, Hitachi typically enters into interest rate swaps. Hitachi mainly uses interest rate swaps in connection with long-term debt and medium-term notes. These interest rate swaps typically have the effect of converting variable interest rates on debt obligations to fixed-interest rates. Under these commonly referred to as receive-variable, pay-fixed interest rate swaps, Hitachi receives variable interest rate payments and makes fixed interest rate payments, thereby creating, from Hitachi's perspective, fixed-rate long-term debt.

Hitachi has long-term debt, including amounts due within one year, with fixed and floating interest rates. The tables below provide information on Hitachi's financial instruments that are sensitive to changes in interest rates, including debt obligations. For debt obligations, the tables below present principal cash flows in Japanese yen equivalents and related weighted average interest rates by expected maturity dates. The tables do not include information on short-term borrowings because the Company believes that its risk exposure to changes in interest rates on short-term borrowings is not significant. For interest rate swaps, the table below presents primary notional amounts by currency and weighted average pay/receive interest rate by expected maturity date. Notional amounts are used to calculate payments to be made and received under the contract. The tables present contract amounts in Japanese yen equivalents and weighted average contractual pay/receive rates by expected maturity dates.

Table of Contents

	Long-term debt as of March 31, 2008						Total	Estimated fair value
	Expected maturity date							
	2009	2010	2011	2012	2013	Thereafter		
	(Millions of yen, except rates)							
Fixed rate (notes and debentures):								
Yen debentures	88,915	65,500	106,390	10,000	40,000	139,982	450,787	453,466
Average interest rate	1.31%	1.36%	1.22%	1.22%	1.20%	1.12%	1.26%	
Yen convertible debentures		100,000				40,000	140,000	129,273
Average interest rate								
Yen medium term notes	69,128	63,515	30,632	3,928	6,200	28,831	202,234	200,707
Average interest rate	1.19%	1.33%	1.60%	1.75%	1.78%	1.86%	1.41%	
Floating rate (notes and debentures):								
Yen debenture	3,000						3,000	3,000
Average interest rate	2.22%						2.22%	
Yen medium term notes	23,991	10,440	5,790	2,844	10,303	8,985	62,353	62,353
Average interest rate	1.47%	1.06%	0.97%	1.06%	1.17%	1.76%	1.24%	
US\$ medium term notes	3,811	2,508		1,002			7,321	7,321
Average interest rate	2.80%	2.83%		2.80%			2.81%	
HK\$ medium term notes		1,294					1,294	1,294
Average interest rate		3.15%					3.15%	
Fixed and floating rate (loans):								
Loans, principally from Banks	190,639	286,663	58,000	142,117	114,701	130,111	922,231	916,637
Average interest rate	1.42%	1.67%	1.79%	1.72%	1.92%	1.96%	1.72%	

Weighted average floating rates are based on contractual interest rates as of March 31, 2008.

Table of Contents

	Long-term debt as of March 31, 2007						Total	Estimated fair value
	Expected maturity date							
	2008	2009	2010	2011	2012	Thereafter		
	(Millions of yen, except rates)							
Fixed rate (notes and debentures):								
Yen debentures	78,800	89,016	65,500	96,388	10,000	139,979	479,683	476,379
Average interest rate	1.28%	1.30%	1.35%	1.18%	1.15%	1.12%	1.26%	
Yen convertible debentures			100,000				100,000	94,534
Average interest rate								
Yen medium term notes	48,665	30,925	65,944	25,361	4,049	17,513	192,457	188,811
Average interest rate	1.09%	1.17%	1.23%	1.52%	1.59%	1.62%	1.22%	
Floating rate (notes and debentures):								
Yen debenture		3,000					3,000	3,000
Average interest rate		3.20%					3.20%	
Yen medium term notes	14,515	14,155	6,160	5,886	4,063	20,169	64,948	64,948
Average interest rate	0.89%	0.93%	0.98%	1.01%	1.13%	1.20%	0.98%	
US\$ medium term notes	1,181	3,542	2,950		1,181		8,854	8,854
Average interest rate	5.47%	5.47%	5.49%		5.46%		5.47%	
HK\$ medium term notes			1,506				1,506	1,506
Average interest rate			4.20%				4.20%	
Fixed and floating rate (loans):								
Loans, principally from Banks	153,513	221,718	211,084	29,017	136,051	175,106	926,489	916,624
Average interest rate	1.59%	1.64%	1.36%	1.48%	1.47%	1.57%	1.55%	

Weighted average floating rates are based on contractual interest rates as of March 31, 2007.

Table of Contents

	Interest rate swaps as of March 31, 2008						Total	Estimated fair value
	Expected maturity date							
	2009	2010	2011	2012	2013	Thereafter		
(Millions of yen, except rates)								
Notional amounts (Yen):								
Variable to fixed	16,140	107,128	3,750	2,500	60,000		189,518	(916)
Average pay rate	1.16%	1.12%	1.49%	1.48%	1.47%		1.26%	
Average receive rate	1.10%	1.06%	1.08%	1.07%	1.06%		1.08%	
Fixed to variable	8,500	12,002	7,000	1,000	2,000	15,000	45,502	(27)
Average pay rate	1.08%	1.16%	0.93%	0.95%	0.95%	0.96%	1.04%	
Average receive rate	1.63%	1.64%	1.45%	1.52%	1.57%	1.61%	1.58%	
Variable to variable		3,000	2,000	3,000	2,500	18,000	28,500	(27)
Average pay rate		0.88%	0.86%	0.86%	0.85%	0.85%	0.87%	
Average receive rate		1.45%	1.46%	1.47%	1.50%	1.52%	1.47%	
Notional amounts (US\$):								
Variable to fixed	17,534	2,808					20,342	(702)
Average pay rate	5.24%	4.94%					5.20%	
Average receive rate	3.13%	3.19%					3.14%	
Fixed to variable	9,178						9,178	(12)
Average pay rate	2.82%						2.82%	
Average receive rate	2.36%						2.36%	
Variable to variable				1,002			1,002	(24)
Average pay rate				2.39%			2.39%	
Average receive rate				4.99%			4.99%	
Notional amounts (ST£):								
Variable to fixed	62,521	47,482	19,262				129,265	(420)
Average pay rate	5.48%	5.52%	5.77%				5.52%	
Average receive rate	5.79%	5.78%	5.68%				5.78%	

Weighted average pay/receive rates are based on contractual interest rates as of March 31, 2008.

Table of Contents

	Interest rate swaps as of March 31, 2007						Total	Estimated fair value
	Expected maturity date							
	2008	2009	2010	2011	2012	Thereafter		
	(Millions of yen, except rates)							
Notional amounts (Yen):								
Variable to fixed	11,100	17,832	108,180	2,850	2,500	42,500	184,962	417
Average pay rate	1.14%	1.15%	1.09%	1.52%	1.52%	1.51%	1.21%	
Average receive rate	0.83%	0.82%	0.74%	0.79%	0.76%	0.76%	0.80%	
Fixed to variable	10,652	4,000	15,002	7,000	1,000	18,000	55,654	(277)
Average pay rate	1.38%	1.39%	1.25%	0.63%	0.65%	0.65%	1.13%	
Average receive rate	1.59%	1.72%	1.68%	1.45%	1.51%	1.55%	1.61%	
Variable to variable				2,000	3,000	22,500	27,500	(721)
Average pay rate				0.56%	0.56%	0.55%	0.56%	
Average receive rate				1.28%	1.30%	1.34%	1.29%	
Notional amounts (US\$):								
Variable to fixed	1,416	2,951	3,336				7,703	0
Average pay rate	4.85%	5.02%	4.93%				4.93%	
Average receive rate	5.38%	5.38%	5.36%				5.38%	
Variable to variable	4,989				1,181		6,170	29
Average pay rate	5.30%				5.14%		5.23%	
Average receive rate	5.38%				5.46%		5.41%	
Notional amounts (ST£):								
Variable to fixed	73,799	48,131	24,181	8,196			154,307	932
Average pay rate	4.99%	5.10%	5.42%	5.51%			5.09%	
Average receive rate	5.56%	5.55%	5.57%	5.58%			5.56%	

Weighted average pay/receive rates are based on contractual interest rates as of March 31, 2007.

Factors that could cause actual results to differ materially from those projected or implied in any forward-looking statements in this section include, but are not limited to, ability of counterparties to the financial instruments to perform contractual obligations; the general economic condition in the markets where financial assets Hitachi holds are traded; and the volatility of the market prices of securities, interest rates and foreign currency exchange rates. In addition, see Item 3. Key Information Risk Factors for other examples of factors that could cause actual results to differ materially from those projected or implied.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

Table of Contents

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2008, the Company, under the supervision and with the participation of the Company's management, including its President and Chief Executive Officer and principal financial officer performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). The Company's management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management's control objectives. Based on this evaluation, the Company's President and Chief Executive Officer and principal financial officer concluded that the Company's disclosure controls and procedures were designed to comply with all requirements provided for in Rule 13a-15(e) of the Securities Exchange Act of 1934 and to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and to ensure that material information relating to the Company and its consolidated subsidiaries, is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and its principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Company's management including its President and Chief Executive Officer and its principal financial officer concluded that the disclosure controls and procedures were effective at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transaction and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Edgar Filing: HITACHI LTD - Form 20-F

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2008. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on its assessment, the Company's management concluded that, as of March 31, 2008, the Company's internal control over financial reporting was effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting, which is included in Item 17. Financial Statements.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the fiscal year ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors of the Company has determined that Mr. Tadamichi Sakiyama qualifies as an audit committee financial expert within the meaning of the rules of the SEC. Mr. Sakiyama fulfills the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, which are applicable to members of a non-U.S. listed company's audit committee pursuant to Section 303A.06 of the NYSE Listed Company Manual.

ITEM 16B. CODE OF ETHICS

The Company has a code of ethics which applies to its Directors, Executive Officers, corporate officers and other executives which include its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, or the Covered Individuals, although not within the strict meaning of the current rules of the SEC. The Company believes that its code of ethics consists of written standards that are reasonably designed to deter wrongdoing and to promote, among other things, (i) honest and ethical conduct of the Covered Individuals, including the ethical handling of conflicts of interest between personal and professional relationships, (ii) full compliance by the Covered Individuals with applicable laws, rules and regulations, including securities-related laws, (iii) the taking of remedial and preventative actions by the Covered Individuals with respect to occurrences or likely occurrences of violations of laws, rules or regulations of which the Covered Individuals become aware, and (iv) accountability for violations of such laws, rules and regulations, including for violations by the Covered Individuals. The Company believes that this code of ethics, in conjunction with its other bylaws and customary practice, performs a function similar to that of a code of ethics within the meaning of the rules of the SEC. The Company continues to seek ways in which it can further promote ethical conduct by its Covered Individuals, including by considering ways in which to improve its code of ethics for such individuals.

Table of Contents**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES***Principal Accounting Fees and Services*

The following table shows fees for audit and other services rendered by Hitachi's principal accountant for fiscal 2006 and 2007.

	Fiscal 2006	Fiscal 2007
	(Millions of yen)	
Audit Fees	4,494	4,957
Audit-Related Fees	67	82
Tax Fees	124	108
All Other Fees	11	0
Total	4,696	5,147

Notes:

1. Audit Fees are fees for professional services for the audit of the annual financial statements or services that are normally provided by the principal accountant in connection with statutory and regulatory filings or engagements for those fiscal years. Audit-Related Fees are fees for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported as Audit Fees. Tax Fees are fees for professional services rendered for tax compliance, tax advice and tax planning. All Other Fees are fees for products and services not included in any of the other categories.

2. Ernst & Young ShinNihon served as Hitachi's principal accountant for fiscal 2006 and fiscal 2007.

Audit Committee Pre-approval Policies and Procedures

In compliance with applicable U.S. law and regulations, the Company's Audit Committee has established a policy and procedures regarding pre-approval of audit and permissible non-audit services provided by the Company's independent registered public accounting firm to ensure that the auditors will be independent of management.

Under the policy and procedures, audit and permissible non-audit services to be provided to the Company and its subsidiaries by the independent registered public accounting firm are required to be pre-approved by either the Audit Committee or an Audit Committee member to whom it has delegated authority. Audit services provided to the Company are required to be pre-approved by the Audit Committee. The designated Audit Committee member must report the pre-approval decisions to the Audit Committee meeting held after the decisions.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table sets forth, for each of the months indicated, the total number of shares purchased by the Company, the average price paid per share, the number of shares purchased as part of a publicly announced repurchase plan or program, the maximum number of shares or approximate Japanese Yen value that may yet be purchased under the plans or programs.

Edgar Filing: HITACHI LTD - Form 20-F

The Company currently does not have any publicly announced repurchase plans or programs. The purchases shown below include the purchase of less-than-one-unit shares from less-than-one-unit shareholders pursuant to the Company Law.

Table of Contents

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (Shares)	(b) Average Price Paid per Share (Yen)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (Shares)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (Shares)
April 1, 2007 - April 30, 2007	163,385	922.76		
May 1, 2007 - May 31, 2007	120,677	888.96		
June 1, 2007 - June 30, 2007	259,323	891.49		
July 1, 2007 - July 31, 2007	219,616	875.12		
August 1, 2007 - August 31, 2007	82,064	818.40		
September 1, 2007 - September 30, 2007	47,205	718.62		
October 1, 2007 - October 31, 2007	79,734	760.78		
November 1, 2007 - November 30, 2007	50,736	754.26		
December 1, 2007 - December 31, 2007	168,906	798.27		
January 1, 2008 - January 31, 2008	72,912	790.20		
February 1, 2008 - February 29, 2008	54,045	791.58		
March 1, 2008 - March 31, 2008	39,916	714.67		
Total	1,358,519	842.97		

Table of Contents

PART III

ITEM 17. FINANCIAL STATEMENTS

	Page Number
<u>Reports of Independent Registered Public Accounting Firm</u>	78
Consolidated Financial Statements of Hitachi, Ltd. and Subsidiaries:	
<u>Consolidated Balance Sheets as of March 31, 2008 and 2007</u>	81
<u>Consolidated Statements of Operations for the years ended March 31, 2008, 2007 and 2006</u>	83
<u>Consolidated Statements of Stockholders' Equity for the years ended March 31, 2008, 2007 and 2006</u>	84
<u>Consolidated Statements of Cash Flows for the years ended March 31, 2008, 2007 and 2006</u>	87
<u>Notes to Consolidated Financial Statements</u>	88
Schedule:	
<u>Schedule II Reserves for the years ended March 31, 2008, 2007 and 2006</u>	146

All other schedules are omitted as permitted by the rules and regulations of the SEC, as the required information is presented in the notes to consolidated financial statements, or the schedules are not applicable.

Financial statements of affiliates are omitted because none of these meets the 20% level tests.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Hitachi, Ltd.

We have audited the accompanying consolidated balance sheets of Hitachi, Ltd. and subsidiaries (the Company) as of March 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2008. Our audits also included the financial statement schedule listed in the index at Item 17. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company's consolidated financial statements do not disclose segment information required by Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information. Disclosure of segment information is required by U.S. generally accepted accounting principles.

In our opinion, except for the omission of segment information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi, Ltd. and subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 (i), Property, Plant and Equipment, effective April 1, 2007, the Company elected to change to the 250% declining balance depreciation method.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hitachi, Ltd.'s internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 20, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young ShinNihon

Tokyo, Japan

June 20, 2008

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Hitachi, Ltd.

We have audited Hitachi Ltd. s internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hitachi Ltd. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hitachi, Ltd. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on the COSO criteria.

Table of Contents

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Hitachi, Ltd. and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2008, and our report thereon dated June 20, 2008 stated that, except for the omission of segment information required by Statement of Financial Accounting Standards No.131,

Disclosures about Segments of an Enterprise and Related Information, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi, Ltd. and subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young ShinNihon

Tokyo, Japan

June 20, 2008

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Consolidated Balance Sheets****March 31, 2008 and 2007**

	Yen (millions)	
	2008	2007
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	560,960	617,866
Short-term investments (note 3)	61,289	33,986
Trade receivables:		
Notes (notes 6 and 16)	165,154	155,222
Accounts (note 6)	2,405,478	2,383,752
Allowance for doubtful receivables	(40,847)	(42,959)
Net trade receivables	2,529,785	2,496,015
Investments in leases (notes 5 and 6)	136,119	148,456
Inventories (note 4)	1,441,024	1,450,258
Prepaid expenses and other current assets (note 8)	672,578	687,554
Total current assets	5,401,755	5,434,135
Investments and advances, including affiliated companies (note 3)	1,042,657	1,049,724
Property, plant and equipment (note 5):		
Land	478,620	465,315
Buildings	1,848,105	1,842,904
Machinery and equipment	5,770,457	5,850,195
Construction in progress	93,137	96,008
	8,190,319	8,254,422
Less accumulated depreciation	5,536,401	5,565,445
Net property, plant and equipment	2,653,918	2,688,977
Other assets (notes 5, 7, 8 and 10)	1,432,517	1,471,423
Total assets	10,530,847	10,644,259

See accompanying notes to consolidated financial statements.

Table of Contents

HITACHI, LTD.
AND SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2008 and 2007

	Yen (millions)	
	2008	2007
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Short-term debt (note 9)	723,020	894,393
Current portion of long-term debt (notes 5 and 9)	386,879	303,214
Trade payables:		
Notes	66,265	85,282
Accounts	1,601,413	1,584,959
Accrued expenses (notes 10 and 16)	901,546	902,164
Income taxes (note 8)	101,599	87,354
Advances received	412,642	284,704
Other current liabilities (note 8)	559,535	525,474
Total current liabilities	4,752,899	4,667,544
Long-term debt (notes 5 and 9)	1,421,607	1,489,843
Retirement and severance benefits (note 10)	822,440	818,457
Other liabilities (note 8)	220,781	151,869
Total liabilities	7,217,727	7,127,713
Minority interests	1,142,508	1,073,749
Stockholders' equity:		
Common stock 3,368,126,056 shares issued for 2008 and 2007 (notes 9 and 11)	282,033	282,033
Capital surplus (note 11)	555,410	560,796
Legal reserve and retained earnings (note 12)	1,626,497	1,713,757
Accumulated other comprehensive loss (note 14)	(267,198)	(88,450)
Treasury stock, at cost (note 13)	(26,130)	(25,339)
Total stockholders' equity	2,170,612	2,442,797
Commitments and contingencies (note 16)		
Total liabilities and stockholders' equity	10,530,847	10,644,259

See accompanying notes to consolidated financial statements.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Consolidated Statements of Operations****Years ended March 31, 2008, 2007 and 2006**

	2008	Yen (millions) 2007	2006
Revenues:			
Product sales	10,262,690	9,271,456	8,486,190
Financial and other services	964,045	976,447	978,611
Total revenues	11,226,735	10,247,903	9,464,801
Cost of sales:			
Product sales	(8,080,728)	(7,392,146)	(6,683,759)
Financial and other services	(696,929)	(696,225)	(703,985)
Total cost of sales	(8,777,657)	(8,088,371)	(7,387,744)
Selling, general and administrative expenses	(2,103,562)	(1,977,020)	(1,821,045)
Impairment losses for long-lived assets (note 17)	(87,549)	(9,918)	(27,408)
Restructuring charges (note 18)	(18,110)	(3,983)	(4,429)
Interest income	31,501	25,914	18,170
Dividends income	6,031	6,063	6,421
Gains on sales of stock by subsidiaries or affiliated companies (note 20)	3,846	12,034	393
Other income (note 19)	123,755	58,976	62,609
Interest charges	(42,448)	(37,794)	(33,265)
Other deductions (note 19)	(37,760)	(31,466)	(3,639)
Income before income taxes and minority interests	324,782	202,338	274,864
Income taxes (note 8)	(272,163)	(162,814)	(154,348)
Income before minority interests	52,619	39,524	120,516
Minority interests	(110,744)	(72,323)	(83,196)
Net income (loss)	(58,125)	(32,799)	37,320
		Yen	
Net income (loss) per share (note 21):			
Basic	(17.48)	(9.84)	11.20
Diluted	(17.77)	(9.87)	10.84

See accompanying notes to consolidated financial statements.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity****Years ended March 31, 2008, 2007 and 2006**

	Yen (millions) 2008					
	Common stock (notes 9 and 11)	Capital surplus (note 11)	Legal reserve and retained earnings (note 12)	Accumulated other comprehensive loss (note 14)	Treasury stock, at cost (note 13)	Total stockholders equity
Balance at beginning of year	282,033	560,796	1,713,757	(88,450)	(25,339)	2,442,797
Increase (decrease) arising from equity transaction, net transfer of minority interest, and other		(5,457)	(9,186)	376		(14,267)
Comprehensive loss (note 14):						
Net loss			(58,125)			(58,125)
Other comprehensive loss, net of reclassification adjustments				(179,124)		(179,124)
Comprehensive loss						(237,249)
Cash dividends (note 12)			(19,949)			(19,949)
Acquisition of treasury stock (note 13)					(1,145)	(1,145)
Sales of treasury stock (note 13)		71			354	425
Balance at end of year	282,033	555,410	1,626,497	(267,198)	(26,130)	2,170,612
Comprehensive loss (note 14):						
Net loss						(58,125)
Other comprehensive loss arising during the year						(195,775)
Reclassification adjustments for realized net loss included in net loss						16,651
Comprehensive loss						(237,249)

See accompanying notes to consolidated financial statements.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity****Years ended March 31, 2008, 2007 and 2006**

	Yen (millions)					
	2007					
	Common stock (notes 9 and 11)	Capital surplus (note 11)	Legal reserve and retained earnings (note 12)	Accumulated other comprehensive loss (note 14)	Treasury stock, at cost (note 13)	Total stockholders equity
Balance at beginning of year	282,033	561,484	1,778,203	(95,997)	(17,950)	2,507,773
Increase (decrease) arising from equity transaction, net transfer of minority interest, and other		(3,293)	(3,329)	720		(5,902)
Comprehensive loss (note 14):						
Net loss			(32,799)			(32,799)
Other comprehensive income, net of reclassification adjustments				29,246		29,246
Comprehensive loss						(3,553)
Adjustment to initially apply SFAS No.158 (note 10)				(22,419)		(22,419)
Cash dividends (note 12)			(28,318)			(28,318)
Acquisition of treasury stock (note 13)					(12,000)	(12,000)
Sales of treasury stock (note 13)		153			748	901
Stock exchange for acquisition (note 13)		2,452			3,863	6,315
Balance at end of year	282,033	560,796	1,713,757	(88,450)	(25,339)	2,442,797
Comprehensive loss (note 14):						
Net loss						(32,799)
Other comprehensive income arising during the year						48,517
Reclassification adjustments for realized net gain included in net loss						(19,271)
Comprehensive loss						(3,553)

See accompanying notes to consolidated financial statements.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity****Years ended March 31, 2008, 2007 and 2006**

	Yen (millions) 2006					
	Common stock (notes 9 and 11)	Capital surplus (note 11)	Legal reserve and retained earnings (note 12)	Accumulated other comprehensive loss (note 14)	Treasury stock, at cost (note 13)	Total stockholders equity
Balance at beginning of year	282,033	565,360	1,779,198	(301,524)	(17,236)	2,307,831
Decrease arising from equity transaction, net transfer of minority interest, and other		(4,026)	(1,671)	(992)		(6,689)
Comprehensive income (note 14):						
Net income			37,320			37,320
Other comprehensive income, net of reclassification adjustments				206,519		206,519
Comprehensive income						243,839
Cash dividends (note 12)			(36,644)			(36,644)
Acquisition of treasury stock (note 13)					(1,058)	(1,058)
Sales of treasury stock (note 13)		150			344	494
Balance at end of year	282,033	561,484	1,778,203	(95,997)	(17,950)	2,507,773
Comprehensive income (note 14):						
Net income						37,320
Other comprehensive income arising during the year						221,157
Reclassification adjustments for realized net gain included in net income						(14,638)
Comprehensive income						243,839

See accompanying notes to consolidated financial statements.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Consolidated Statements of Cash Flows****Years ended March 31, 2008, 2007 and 2006**

	Yen (millions)		
	2008	2007	2006
Cash flows from operating activities (note 23):			
Net income (loss)	(58,125)	(32,799)	37,320
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	541,470	472,175	451,170
Amortization	146,136	149,823	138,727
Impairment losses for long-lived assets	87,549	9,918	27,408
Deferred income taxes	84,587	20,514	33,815
Equity in earnings of affiliated companies, net	(22,586)	(11,289)	(8,688)
Gain on sale of investments and subsidiaries common stock	(94,798)	(53,240)	(46,468)
Impairment of investments in securities	14,411	8,309	4,858
Loss on disposal of rental assets and other property	13,424	31,590	8,983
Income applicable to minority interests	110,744	72,323	83,196
(Increase) decrease in receivables	47,843	52,599	(94,078)
Increase in inventories	(107,546)	(212,028)	(107,069)
(Increase) decrease in prepaid expenses and other current assets	(32,763)	(80,172)	35,947
Increase in payables	42,453	104,987	107,271
Decrease in accrued expenses and retirement and severance benefits	(38,303)	(21,166)	(30,505)
Increase in accrued income taxes	12,841	18,623	2,047
Increase in other liabilities	61,041	38,470	44,060
Net change in inventory-related receivables from financial services	(11,392)	(9,819)	14,328
Other	(5,149)	56,224	(11,447)
Net cash provided by operating activities	791,837	615,042	690,875
Cash flows from investing activities (note 23):			
(Increase) decrease in short-term investments	(25,437)	25,054	1,104
Capital expenditures	(474,344)	(497,771)	(382,386)
Purchase of assets to be leased	(365,989)	(441,614)	(466,681)
Collection of investments in leases	311,321	318,063	419,956
Proceeds from disposal of rental assets and other property	63,067	43,982	80,718
Proceeds from sale of investments and subsidiaries common stock	161,442	69,842	99,717
Purchase of investments and subsidiaries common stock	(254,569)	(169,530)	(67,643)
Purchase of software	(126,453)	(123,876)	(121,983)
Other	73,344	(10,320)	(64,164)
Net cash used in investing activities	(637,618)	(786,170)	(501,362)
Cash flows from financing activities (note 23):			
Increase (decrease) in short-term debt, net	(200,018)	93,917	5,121
Proceeds from long-term debt	404,190	380,646	342,309
Payments on long-term debt	(381,069)	(309,204)	(551,265)
Proceeds from sale of common stock by subsidiaries	42,307	23,078	2,310
Dividends paid to stockholders	(19,889)	(28,243)	(36,509)
Dividends paid to minority stockholders of subsidiaries	(25,787)	(20,761)	(17,591)
Acquisition of subsidiaries common stock for treasury	(4,570)	(7,075)	(5,449)
Acquisition of common stock for treasury	(1,145)	(12,000)	(1,058)

Edgar Filing: HITACHI LTD - Form 20-F

Proceeds from sales of treasury stock	425	901	494
Net cash provided by (used in) financing activities	(185,556)	121,259	(261,638)
Effect of exchange rate changes on cash and cash equivalents	(25,569)	9,480	21,665
Net decrease in cash and cash equivalents	(56,906)	(40,389)	(50,460)
Cash and cash equivalents at beginning of year	617,866	658,255	708,715
Cash and cash equivalents at end of year	560,960	617,866	658,255

See accompanying notes to consolidated financial statements.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Nature of Operations

Hitachi, Ltd. (the Company) is a Japanese corporation, whose principal office is located in Japan. The Company's and its subsidiaries' businesses are diverse, and include information and telecommunication systems, electronic devices, power and industrial systems, digital media and consumer products, high functional materials and components, and other services including financial services and logistics services.

(2) Basis of Presentation and Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are necessary to conform them with accounting principles generally accepted in the United States of America. Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its majority-owned subsidiaries and all variable interest entities (VIEs) for which any of the Company and its consolidated entities is the primary beneficiary. A VIE is defined in Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51. This interpretation addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The consolidated financial statements include accounts of certain subsidiaries, whose fiscal years differ from March 31 by 93 days or less, to either comply with local statutory requirements or facilitate timely reporting. There have been no significant transactions, which would materially affect the Company's financial position and results of operations, with such subsidiaries during the period from their fiscal year-end to March 31. Intercompany accounts and significant intercompany transactions have been eliminated in consolidation.

Investments in corporate joint ventures and affiliated companies in which the Company has the ability to exercise significant influence over operational and financial policies generally through 20 to 50% ownership are accounted for using the equity method. Investments where the Company does not have significant influence are accounted for using the cost method.

(c) Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have initial maturities of three months or less when purchased to be cash equivalents.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Allowance for Doubtful Receivables

Allowance for doubtful receivables, including both trade receivables and investments in leases, is the Company's and subsidiaries' best estimate of the amount of probable credit losses in their existing receivables. The allowance is determined based on, but not limited to, historical collection experience adjusted for the effects of the current economic environment, assessment of inherent risks, aging and financial performance of debtors. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(e) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting standards (SFAS) No. 52, Foreign Currency Translation. Under this standard, the assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are excluded from the consolidated statements of operations and included in accumulated other comprehensive loss as part of stockholders' equity.

(f) Investments in Securities and Affiliated Companies

Equity securities that do not have readily determinable fair values, except for equity-method investments, are accounted for under the cost method. The Company classifies investments in equity securities that have readily determinable fair values and all investments in debt securities in three categories: held-to-maturity securities, trading securities and available-for-sale securities.

Held-to-maturity securities are debt securities that the Company has the positive intent and ability to hold to maturity. Trading securities are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. Available-for-sale securities are debt and equity securities not classified as either held-to-maturity securities or trading securities.

Held-to-maturity securities are reported at amortized cost. Trading securities are reported at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

A decline in fair value of any available-for-sale security, held-to-maturity security or cost-method investment below the cost basis or the amortized cost basis that is deemed to be other-than-temporary results in a write-down of the cost basis or the amortized cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings. On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates an available-for-sale security, a held-to-maturity security and a cost-method investment for possible impairment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. For certain cost-method investments for which it is not practicable to estimate the fair value, if an event or change in circumstances has occurred that may have significant adverse effect on the fair value of the investment, the Company estimates the fair value of the investments. Factors considered in determining whether an impairment of available-for-sale security or cost-method investment is other-than-temporary include: the length of time and extent to which the fair value of the investment has been less than cost, the financial condition and near-term prospect of the issuer, and the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Factors considered in assessing whether an impairment of a held-to-maturity security is other-than-temporary include the financial condition, business prospects and credit worthiness of the issuer.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the carrying amount of its ownership interests in equity-method investees for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include the achievement of business plan objectives and milestones including cash flow projections and the results of planned financing activities, the financial condition and prospects of each investee company, the fair value of the ownership interest relative to the carrying amount of the investment, the period of time during which the fair value of the ownership interest has been below the carrying amount of the investment and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive loss into earnings is determined by the average cost method.

(g) Securitizations

The Company and certain subsidiaries have a number of securitization programs. Under those programs, certain financial assets such as lease receivables, trade receivables and others are sold to Special Purpose Entities (SPEs) which are mainly funded through the issuance of asset-backed securities to investors. When a transfer of financial assets is eligible to be accounted for as a sale under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, the carrying amount of the financial assets is allocated based on relative fair values to the portions to be retained and sold. The Company and its subsidiaries recognize a gain or loss for the difference between the net proceeds received and the allocated carrying amount of the assets sold when the transaction is consummated. Initially recorded at allocated carrying amount in the period of securitizations, the amount of retained interests is subsequently recorded at fair value as of the balance sheet date in the same manner for the available-for-sale securities.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Fair values are based on the present value of estimated future cash flows which take into consideration various factors such as expected credit loss and others.

(h) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the specific identification method for job order inventories and generally by the average cost method for raw materials and other inventories.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Property, plant and equipment are principally depreciated by the declining-balance method, except for some assets which are depreciated by the straight-line method, mainly over the following estimated useful lives:

Buildings	
Buildings and building equipment	3 to 50 years
Structures	7 to 60 years
Machinery and equipment	
Machinery	4 to 13 years
Vehicles	4 to 7 years
Tools, furniture and fixtures	2 to 20 years

Effective April 1, 2007, the Company and its domestic subsidiaries elected to change the fixed-percentage-on-declining base application to the 250% declining balance application primarily for machinery and equipment used for manufacturing. Under the fixed-percentage-on-declining base application, the fixed percentage was a function of the estimated useful life of the asset and the estimated salvage value. Estimated salvage values were also reduced in connection with this change. This change resulted from changes in the pattern of usage of long-lived depreciable assets concluded by a study about such usage. The Company and its domestic subsidiaries believe that the new method is preferable because it better reflects the pattern of consumption of the future benefits derived from those assets and makes a better cost allocation to match revenues generated by those assets during their estimated useful lives.

In accordance with the Change in Accounting Estimate provisions of SFAS No. 154, Accounting Changes and Error Corrections, a replacement of Accounting Principles Board (APB) Opinion No. 20 and FASB Statement No. 3, the change in depreciation method is accounted for on a prospective basis from the beginning of the period of change and results for prior periods have not been restated.

The effect of the change was to reduce income before income taxes and minority interests by ¥38,379 million and increase net loss by ¥20,316 million, or ¥6.11 per share (basic) for the year ended March 31, 2008.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(j) Goodwill and Other Intangible Assets**

The Company tests goodwill and indefinite-lived intangible assets for impairment at least annually. The Company performs its annual impairment test mainly during the fourth quarter after the annual forecasting process is completed. Furthermore, goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company has certain operating segments and, in identifying the reporting unit for the purpose of testing goodwill for impairment, considers disaggregating those operating segments into economically dissimilar components based on specific facts and circumstances, especially the level at which performance of the operating segments are reviewed, how many businesses are included in the operating segments, and the economic similarity of those businesses. In assigning goodwill to reporting units, the Company considers which reporting units are expected to benefit from the synergies of the combination in a manner similar to how the amount of goodwill is recognized in a business combination. Fair value is estimated mainly using the expected present value of future cash flows. Intangible assets with finite useful lives are amortized over their respective estimated useful lives on either a straight-line basis or the method that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. The principal estimated useful lives are as follows:

Software	1 to 8 years
Software for internal use	2 to 10 years
Patents	4 to 8 years
Other	5 to 20 years

(k) Capitalized Software Costs

Costs incurred for computer software developed or obtained for internal use are capitalized and amortized on a straight-line basis over their estimated useful lives in accordance with Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. In addition, the Company and its subsidiaries develop certain computer software to be sold where related costs are capitalized after establishment of technological feasibility in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. The annual amortization of such capitalized costs is the greater of the amount computed using the ratio of each software's current year gross revenues to the total of current and anticipated future gross revenues or the straight-line method over the remaining estimated economic life of each software.

(l) Impairment of Long-lived Assets

The Company reviews the carrying value of long-lived assets or related group of assets to be held and used, including intangible assets with finite useful lives, for impairment whenever events or circumstances occur that indicate that the carrying value of the assets may not be recoverable. The assets are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying values. The impairment losses are measured as the amount by which the carrying value of the asset exceeds the fair value. In determining the fair value, the Company uses available quoted market prices and present value techniques, if appropriate, based on the estimated future cash flows expected to result from the use of the assets and their eventual disposition.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(m) Retirement and Severance Benefits

The Company accounts for retirement and severance benefits in accordance with SFAS No. 87, Employers Accounting for Pensions, and as described in note 10, on March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). Gains and losses included in accumulated other comprehensive loss are amortized using the straight-line method over the average remaining service period of active employees. Prior to the adoption of the recognition provisions of SFAS No. 158, unrecognized gains and losses were amortized using the straight-line method over the average remaining service period of active employees.

(n) Environmental Liabilities

The cost for environmental remediation liabilities are accrued when it is probable that the Company incurs environmental assessments or cleanup costs and the amounts can be reasonably estimated. The cost for liabilities are estimated based on the circumstance, the available information and current law, and the liabilities are not discounted to their present values.

(o) Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS No. 133 requires that all derivative financial instruments, such as forward exchange and interest rate swap contracts, be recognized in the financial statements as either assets or liabilities and measured at fair value regardless of the purpose or intent for holding them.

The Company designates and accounts for hedging derivatives as follows:

Fair value hedge: a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitments and the related derivatives are recorded in earnings if the hedge is considered highly effective.

Cash flow hedge: a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability. The changes in the fair value of the derivatives designated as cash flow hedges are recorded as other comprehensive income if the hedge is considered highly effective. This treatment is continued until earnings are affected by the variability in cash flows or the unrecognized firm commitment of the designated hedged item, at which point changes in fair value of the derivative are recognized in income.

Foreign currency hedge: a hedge of foreign-currency fair value or cash flow. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitments and the derivatives are recorded as either earnings or other comprehensive income if the hedge is considered highly effective. Recognition as earnings or other comprehensive income is dependent on the treatment of foreign currency hedges as either fair value or cash flow hedges.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company follows the documentation requirements as prescribed by the standard, which includes risk management objective and strategy for undertaking various hedge transactions. In addition, a formal assessment is made at the hedge's inception and periodically on an ongoing basis, as to whether the derivative used in hedging activities is highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting is discontinued for ineffective hedges, if any. Subsequent changes in the fair value of derivatives related to discontinued hedges are recognized in earnings immediately.

(p) Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

The Company offers multiple solutions to its customers' needs. Those solutions may involve the delivery or performance of multiple elements, such as products, services, or rights to use assets, and performance may occur at different points in time or over different periods of time. When one element is delivered prior to the other in an arrangement, revenue is deferred until the delivery of the last element, unless transactions are such that the delivered item has value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of the undelivered item, and delivery or performance of the undelivered item is considered probable and substantially in the control of the Company if the arrangement includes a general right of return relative to the delivered item. If all conditions described above are met, each element in an arrangement is considered a separate unit of accounting, and the arrangement consideration is allocated to the separate units of accounting based on the relative fair values provided that there is objective and reliable evidence of the fair values of all units of accounting in the arrangement. The Company allocates revenue for software arrangements involving multiple elements to each element based on its relative fair value, as evidenced by vendor specific objective evidence (VSOE), or in the absence of VSOE of the delivered elements, the residual method. VSOE is the price charged by the Company to an external customer for the same element when such an element is sold separately.

Product Sales:

Revenue from sales of products is recognized when title and risk of loss have been transferred to the customer depending upon the terms of the contract or arrangement with the customer. The Company's policy is not to accept product returns unless the products are defective. The conditions of delivery are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specification are not recorded as revenue. When the final payment is subject to customer acceptance, a portion of revenue for the amount of the final payment is deferred until an enforceable claim has become effective. Product warranties are offered on the Company's and certain subsidiaries' products (in certain cases separately priced) and a warranty accrual is established when sales are recognized based on estimated future costs of repair and replacement principally using historical experience of warranty claims.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Price protection is provided to retailers of the Company's consumer products business and others to compensate the customer retailers for a decline in the product's value due mainly to competition. Price protection granted to the customers is classified as a reduction of revenue on the consolidated statements of operations. In addition, it is the Company's policy to accrue reasonably and reliably estimated price adjustments at the later of the date at which the related sales are recognized, or the date at which price protection is offered. The estimate is made based primarily upon historical experience or agreement on the adjustment rate and the number of units that are subject to such adjustment (e.g., units in distribution channels).

Product revenues which are recognized upon delivery, installation or acceptance by the customer are information technology system products, construction equipment, displays, disk drives, televisions, air conditioners, batteries, magnetic tapes, high functional materials, cable products, automotive equipment, semiconductor manufacturing equipment, test and measurement equipment, railway vehicles, medical electronic devices, industrial machinery and equipment, elevators and escalators.

Revenue from sales of tangible products under long-term construction type arrangements, in connection with the construction of nuclear, thermal and hydroelectric power plants, are recognized under the percentage-of-completion method. Under the percentage-of-completion method, revenue is recognized as a percentage of estimated total revenue that incurred costs to date bear to estimated total costs after giving effect to estimates of costs to complete based upon the most recent information. Any anticipated losses on fixed price contracts are charged to operations when such losses can be estimated. Provisions are made for contingencies (i.e. performance penalty, benchmarking, etc.) in the period in which they become known pursuant to specific contract terms and conditions and are estimable. When reasonably dependable estimates of contract revenues and costs and the extent of progress toward completion do not exist, the completed-contract method of accounting is applied. A contract is complete when either acceptance by the customer is given or compliance with performance specification is achieved, whichever is appropriate under the relevant contractual terms.

The Company recognizes software revenue in accordance with the provisions of SOP 97-2, Software Revenue Recognition, as amended. Revenue from software consists of software licensing, customized software development and post contract customer support. Revenues from software license arrangements are recognized upon delivery of the software if evidence of the arrangement exists, pricing is fixed or determinable and collectibility is reasonably assured. Revenue from a software arrangement that requires significant production, modification or customization of software is recognized using the percentage-of-completion method provided that reasonably dependable estimates related to contract revenue, cost and the extent of progress toward completion exist. Otherwise, the completed-contract method is applied. Customization of software is considered substantially completed when an acceptance by the customer occurs. Revenue from post contract customer support is amortized over the period of the post contract customer support. Consulting and training services revenues are recognized when the services are rendered.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Service Revenues:

Service revenues from maintenance and distribution services are recognized upon completion of service delivery. Revenue from time-service contracts is recognized as services are rendered. Revenue from long-term fixed price service contracts such as support or maintenance contracts is recognized ratably over the contractual period. If historical data shows that the accrual of service cost is not fixed but the service is rendered in proportion to the accrual of the cost for the service, revenue is recognized based on the pattern of the cost accrual. Finance lease income is recognized at level rates of return over the term of the leases. Operating lease income is recognized on a straight-line basis over the term of the lease.

(q) Shipping and Handling Costs

Shipping and handling costs are expensed as incurred and included in selling, general and administrative expenses.

(r) Advertising

Advertising costs are expensed as incurred.

(s) Research and Development Costs

Research and development costs are expensed as incurred. Costs incurred in connection with the development of software products for sale or lease to others are accounted for in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed. Development costs incurred in the research and development of new software products and enhancements to existing products are expensed as incurred until technological feasibility has been established.

(t) Income Taxes

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, as of April 1, 2007, resulting in a cumulative effect of adoption of ¥3,667 million included in Increase (decrease) arising from equity transaction, net transfer of minority interest, and other in the consolidated statements of stockholders' equity as an adjustment to the opening balance of retained earnings.

Tax positions that are more likely than not to be sustained upon examination by tax authorities are recognized in the financial statements. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with tax authorities. Interest accrued related to unrecognized tax benefits and penalties are included in income taxes in the consolidated statements of operations.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Deferred income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

(u) Sales of Stock by Subsidiaries

The change in the Company's proportionate share of a subsidiary's equity resulting from issuance of stock by the subsidiary is recognized in the accompanying consolidated statements of operations.

(v) Consumption Tax

Consumption tax collected and remitted to taxing authorities is excluded from revenues, cost of sales and expenses in the consolidated statements of operations.

(w) Net Income Per Share

Net income per share is computed in accordance with SFAS No. 128, Earnings per Share. This standard requires a dual presentation of basic and diluted net income per share amounts on the face of the statements of operations. Under this standard, basic net income per share is computed based upon the weighted average number of shares of common stock outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

(x) Stock-Based Compensation

The Company and certain subsidiaries have stock-based compensation plans. Effective April 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. This statement requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. In adopting this statement, the Company applied the modified-prospective-transition method, and accordingly, results for prior periods have not been restated. Adoption of this statement had no material effect on the consolidated results of operations of the Company and subsidiaries, and their cash flows for the year ended March 31, 2007.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Prior to April 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. For the year ended March 31, 2006, the Company recognized no material stock-based compensation expense. SFAS No. 123 prescribed the recognition of compensation expense based on the fair value of options on the grant date and allowed continuous application of APB Opinion No. 25 if certain pro forma disclosures were made assuming hypothetical fair value method application. The Company elected to continue applying APB Opinion No. 25, however, the pro forma effect of applying SFAS No. 123 on net income and the per share information for the year ended March 31, 2006 is as follows:

	Yen (millions)
	2006
Net income as reported	37,320
Stock-based compensation expense included in reported net income	214
Stock-based compensation expense determined under SFAS No. 123	(440)
Net income pro forma	37,094
	Yen
Net income per share:	
Basic as reported	11.20
Basic pro forma	11.14
Diluted as reported	10.84
Diluted pro forma	10.78

(y) Disclosures about Segments of an Enterprise and Related Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the manner in which a public business enterprise is required to report financial and descriptive information about its operating segments. This standard defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets and other related information is required to be disclosed for each operating segment. Further, this standard requires the disclosure of information concerning revenues derived from the enterprise's products or services, countries in which it earns revenue or holds assets and major customers. However, certain foreign issuers are presently exempted from the segment disclosure requirements of SFAS No. 131 in filings with the United States Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, and the Company has not presented the segment information required to be disclosed in the footnotes to the consolidated financial statements based on the provisions of SFAS No. 131.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(z) Guarantees

The Company recognizes, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after December 31, 2002, in accordance with the FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, an interpretation of SFAS No. 5, 57, and 107 and rescission of FASB Interpretation No. 34.

(aa) Sabbatical Leave and Other Similar Benefits

The Company adopted the provisions of Emerging Issues Task Force (EITF) Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43* on April 1, 2007, with no material effect included in *Increase (decrease) arising from equity transaction, net transfer of minority interest, and other* in the consolidated statements of stockholders' equity as a cumulative-effect adjustment to the opening balance of retained earnings.

(ab) New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP 157-1) and FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 defers the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

The adoption of SFAS No. 157 for financial assets and financial liabilities and for non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) will not have a material effect on the Company's consolidated financial statements. The Company is currently evaluating the effect that SFAS No. 157 will have on the Company's consolidated financial statements beginning in the first quarter of fiscal year ending March 31, 2010 when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Earlier adoption is permitted, however, an entity must also adopt all of the requirements of SFAS No. 157 as of the adoption date. The adoption of SFAS No. 159 is not expected to have a material effect on the Company's consolidated financial statements.

In June 2007, the FASB ratified EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*. This Issue requires that nonrefundable advance payments for goods or services to be used or rendered in future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. EITF No. 07-3 is not expected to have a material effect on the consolidated financial position or results of operations of the Company and its subsidiaries.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. These statements will improve and simplify the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. SFAS No. 141 requires an acquiring entity in a business combination to recognize all the assets acquired, liabilities assumed and any noncontrolling interest in an acquiree at the full amount of their fair values as of the acquisition date. Also, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements and all the transactions for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions. These statements are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the effect of adopting these statements on the consolidated financial position and results of operations.

In May 2008, the FASB issued FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (including Partial Cash Settlement)*. This FSP requires that issuers of convertible debt instruments that may be settled in cash or other assets upon conversion should separately account for the liability and equity components in a manner that reflects the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The requirements must be applied retrospectively to all periods presented. The Company is currently evaluating the effect of adopting these statements on the consolidated financial position and results of operations.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(3) Investments in Securities and Affiliated Companies**

Short-term investments as of March 31, 2008 and 2007 are as follows:

	Yen (millions)	
	2008	2007
Investments in securities:		
Available-for-sale securities	55,999	13,279
Held-to-maturity securities	259	43
Trading securities	5,031	20,664
	61,289	33,986

Investments and advances, including affiliated companies as of March 31, 2008 and 2007 are as follows:

	Yen (millions)	
	2008	2007
Investments in securities:		
Available-for-sale securities	269,268	396,910
Held-to-maturity securities	230	1,048
Cost-method investments	54,898	72,190
Investments in affiliated companies	555,470	406,324
Advances and other	162,791	173,252
	1,042,657	1,049,724

The following is a summary of the amortized cost basis, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of available-for-sale securities by the consolidated balance sheets classification as of March 31, 2008 and 2007.

	Yen (millions)							
	2008			2007				
	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value
Short-term investments:								
Debt securities	44,801	4	86	44,719	11,260	3	32	11,231
Other securities	11,289	6	15	11,280	2,042	10	4	2,048
	56,090	10	101	55,999	13,302	13	36	13,279
Investments and advances:								
Equity securities	105,857	79,830	5,804	179,883	127,839	178,152	1,692	304,299
Debt securities	41,357	1,377	664	42,070	66,746	1,809	524	68,031
Other securities	47,387	253	325	47,315	24,103	649	172	24,580

Edgar Filing: HITACHI LTD - Form 20-F

194,601	81,460	6,793	269,268	218,688	180,610	2,388	396,910
250,691	81,470	6,894	325,267	231,990	180,623	2,424	410,189

101

(Continued)

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The following is a summary of gross unrealized holding losses on available-for-sale securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2008 and 2007.

	Yen (millions)							
	2008				2007			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses
Short-term investments:								
Debt securities	8,170	17	10,231	69			2,413	32
Other securities	95	15			96	4		
	8,265	32	10,231	69	96	4	2,413	32
Investments and advances:								
Equity securities	12,961	4,992	2,528	812	9,052	1,261	1,565	431
Debt securities	7,308	416	10,222	248	4,069	23	25,504	501
Other securities	3,330	223	1,001	102	2,703	82	4,516	90
	23,599	5,631	13,751	1,162	15,824	1,366	31,585	1,022
	31,864	5,663	23,982	1,231	15,920	1,370	33,998	1,054

Debt securities consist primarily of national, local and foreign governmental bonds, debentures issued by banks and corporate bonds. Other securities consist primarily of investment trusts.

The proceeds from the sale of available-for-sale securities for the years ended March 31, 2008, 2007 and 2006 were ¥38,264 million, ¥83,513 million and ¥60,969 million, respectively. The gross realized gains on the sale of those securities for the years ended March 31, 2008, 2007 and 2006 were ¥10,137 million, ¥43,267 million and ¥22,480 million, respectively, while gross realized losses on the sale of those securities for the years ended March 31, 2008, 2007 and 2006 were ¥107 million, ¥176 million and ¥482 million, respectively. In addition, during the year ended March 31, 2008, the Company contributed certain available-for-sale securities, with an aggregate fair value of ¥42,240 million, to a pension fund trust. Gross realized gain on the contribution for the year ended March 31, 2008 was ¥21,040 million, which has been included in other income in the accompanying consolidated statement of operations.

Trading securities consist mainly of investments in trust accounts. The portions of trading gains and losses for the years ended March 31, 2008, 2007 and 2006 that relate to trading securities still held at the balance sheet date were a loss of ¥144 million and gains of ¥2,684 million and ¥7,556 million, respectively, and were classified as other deductions for the year ended March 31, 2008 and other income for the years ended March 31, 2007 and 2006 in the consolidated statements of operations.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The contractual maturities of debt securities and other securities classified as investments and advances in the consolidated balance sheet as of March 31, 2008 are as follows:

	Yen (millions)		
	Held-to- maturity	Available- for-sale	Total
Due within five years	31	53,102	53,133
Due after five years through ten years	199	6,925	7,124
Due after ten years		29,358	29,358
	230	89,385	89,615

Expected redemptions may differ from contractual maturities because some of these securities are redeemable at the option of the issuers.

The aggregate carrying amounts of cost-method investments which were not evaluated for impairment as of March 31, 2008 and 2007 were ¥51,131 million and ¥68,741 million, respectively, mainly because it is not practicable to estimate the fair value of the investments due to lack of a market price and difficulty in estimating fair value without incurring excessive cost and the Company did not identify any events or changes in circumstances that might have had a significant adverse effect on their fair value.

The aggregate fair values of investments in affiliated companies, for which a quoted market price was available, as of March 31, 2008 and 2007, were ¥130,018 million and ¥190,632 million, respectively. The aggregate carrying amounts of such investments as of March 31, 2008 and 2007 were ¥94,971 million and ¥93,957 million, respectively.

As of March 31, 2008 and 2007, cumulative recognition of other-than-temporary declines in values of investments in certain affiliated companies resulted in the difference of ¥17,230 million and ¥15,190 million, respectively, between the carrying amount of the investment and the amount of underlying equity in net assets. In addition, as of March 31, 2008 and 2007, equity-method goodwill included in investments in certain affiliated companies aggregated ¥49,414 million and ¥5,062 million, respectively.

The major component of equity-method goodwill recorded during the year ended March 31, 2008 was related to the acquisition of the interests in GE-Hitachi Nuclear Energy Holdings, LLC.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Summarized combined financial information relating to affiliated companies accounted for by the equity method is as follows:

	Yen (millions)	
	2008	2007
Current assets	1,531,596	1,402,438
Non-current assets	1,141,798	1,012,226
Current liabilities	1,217,092	1,138,964
Non-current liabilities	367,009	338,384

	Yen (millions)		
	2008	2007	2006
Revenues	2,816,109	2,574,034	2,302,913
Gross profit	478,634	394,762	370,979
Net income	49,659	24,664	22,177

The balances and transactions with affiliated companies accounted for by the equity method are as follows:

	Yen (millions)	
	2008	2007
Trade receivables	137,345	144,610
Trade payables	86,690	85,517

	Yen (millions)		
	2008	2007	2006
Revenues	597,942	589,103	535,084
Purchases	412,682	379,772	315,356

(4) Inventories

Inventories as of March 31, 2008 and 2007 are summarized as follows:

	Yen (millions)	
	2008	2007
Finished goods	553,344	578,060
Work in process	665,106	637,536
Raw materials	222,574	234,662
	1,441,024	1,450,258

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(5) Leases**

The Company and certain subsidiaries are lessors of certain assets such as manufacturing machinery and equipment under financing and operating lease arrangements with terms ranging from 3 to 6 years, some of which are transacted with affiliated companies.

The amount of leased assets at cost under operating leases and accumulated depreciation as of March 31, 2008 amounted to ¥1,953,967 million and ¥1,526,354 million, respectively. The leased assets are depreciated using the straight-line method over their estimated useful lives.

The following table shows the future minimum lease receivables of financing and non-cancelable operating leases as of March 31, 2008 and the future minimum lease receivables of financing leases as of March 31, 2007:

Years ending March 31	Yen (millions) 2008	
	Financing leases	Operating leases
2009	152,222	71,528
2010	123,173	54,858
2011	91,933	36,752
2012	60,287	18,338
2013	35,326	7,932
Thereafter	63,849	13,422
Total minimum payments to be received	526,790	202,830
Amount representing executory costs	(24,467)	
Unearned income	(35,172)	
Allowance for doubtful receivables	(3,765)	
Net investment in financing leases	463,386	
Less current portion of net investment in financing leases, included in investments in leases	136,119	
Long-term net investment in financing leases, included in other assets	327,267	

	Yen (millions) 2007 Financing leases
Total minimum payments to be received	570,342
Amount representing executory costs	(27,188)
Unearned income	(38,357)
Allowance for doubtful receivables	(4,289)
Net investment in financing leases	500,508
Less current portion of net investment in financing leases, included in investments in leases	148,456

Long-term net investment in financing leases, included in other assets	352,052
--	---------

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The Company and certain subsidiaries lease certain buildings, manufacturing machinery and equipment used in their operations. The amount of leased assets at cost under capital leases as of March 31, 2008 and 2007 amounted to ¥41,017 million and ¥43,406 million, respectively, and accumulated depreciation as of March 31, 2008 and 2007 amounted to ¥22,151 million and ¥26,070 million, respectively. Amortization of assets under capital leases is included in depreciation expense.

In March 2006, a certain subsidiary sold its land for proceeds of ¥10,560 million, and entered into a lease back agreement for a portion of the land. The lease back is classified as an operating lease with a term of 25 years. The gain on the leased back portion in the amount of ¥2,736 million has been deferred and is being recognized over the lease term.

The following table shows the future minimum lease payments of capital and non-cancelable operating leases as of March 31, 2008:

	Yen (millions)	
	Capital leases	Operating leases
Years ending March 31		
2009	7,838	16,455
2010	6,516	12,549
2011	3,079	7,598
2012	2,053	6,345
2013	976	5,699
Thereafter	428	26,053
Total minimum lease payments	20,890	74,699
Amount representing executory costs	(519)	
Amount representing interest	(1,105)	
Present value of net minimum lease payments	19,266	
Less current portion of capital lease obligations	7,395	
Long-term capital lease obligations	11,871	

(6) Securitizations

For the years ended March 31, 2008, 2007 and 2006, Hitachi Capital Corporation and certain other financing subsidiaries sold primarily lease receivables to Special Purpose Entities (SPEs) and the SPEs issued asset-backed commercial paper to investors. The investors and the SPEs have no recourse to the subsidiaries' other assets for failure of debtors to pay when due. The subsidiaries retained servicing responsibilities and subordinated interests, but have not recorded a servicing asset or liability because the cost to service the receivables approximates the servicing income. The retained interests are subordinate to investors' interests. For the years ended March 31, 2008, 2007 and 2006, gains recognized on the sale of lease receivables amounted to ¥17,440 million, ¥17,475 million and ¥21,619 million, respectively.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The table below summarizes certain cash flows received from and paid to the SPEs during the years ended March 31, 2008, 2007 and 2006:

	Yen (millions)		
	2008	2007	2006
Proceeds from transfer of lease receivables	310,898	327,741	436,919
Servicing fees received	78	60	43
Purchases of delinquent or ineligible assets	(26,610)	(32,299)	(28,074)

Quantitative information about delinquencies, net credit losses, and components of lease receivables subject to transfer and other assets managed together as of and for the year ended March 31, 2008 is as follows:

	Total principal amount of receivables	Yen (millions)	Net credit losses
		Principal amount of receivables 90 days or more past due	
Total assets managed or transferred:			
Lease receivables	1,140,244	183	957
Assets transferred	(676,858)		
Assets held in portfolio	463,386		

As of March 31, 2008, the amount of the subordinated interests retained relating to these securitizations was ¥96,616 million.

Key economic assumptions used in measuring the fair value of the subordinated interests resulting from securitizations completed during the years ended March 31, 2008 and 2007 are as follows:

	2008	2007
Weighted average life (in years)	3.6	5.1
Expected credit loss	0.00-0.03%	0.00-0.03%
Discount rate	0.94-1.00%	1.28-1.41%

Key economic assumptions used in measuring the fair value of the subordinated interests as of March 31, 2008 are as follows:

	2008
Weighted average life (in years)	3.4
Expected credit loss	0.00-0.03%
Discount rate	0.80-1.00%

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The sensitivity of the current fair value of the subordinated interests to an immediate 10 and 20 percent adverse change in the assumptions are as follows:

	Yen (millions) 2008
Expected credit loss:	
Impact on fair value of 10% adverse change	(219)
Impact on fair value of 20% adverse change	(439)
Discount rate:	
Impact on fair value of 10% adverse change	(200)
Impact on fair value of 20% adverse change	(402)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the above table, the effect of a variation in a particular assumption of the fair value of the interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

For the years ended March 31, 2008, 2007 and 2006, the Company and certain subsidiaries sold trade receivables mainly to SPEs which securitized these receivables. In these securitizations, the Company and certain subsidiaries retained servicing responsibility. No servicing asset or liability has been recorded because the fees for servicing the receivables approximate the related costs. In addition, the Company and certain subsidiaries retained subordinated interests which were not material.

During the years ended March 31, 2008, 2007 and 2006, proceeds from the transfer of trade receivables were ¥1,097,778 million, ¥1,534,508 million and ¥1,361,784 million, respectively, and net losses recognized on those transfers were ¥5,913 million, ¥7,030 million and ¥2,445 million, respectively.

(7) Goodwill and Other Intangible Assets

Intangible assets other than goodwill acquired during the years ended March 31, 2008, 2007 and 2006 amounted to ¥167,397 million, ¥181,226 million and ¥190,207 million, respectively, and related amortization expense during the years ended March 31, 2008, 2007 and 2006 amounted to ¥146,136 million, ¥149,823 million and ¥138,727 million, respectively.

The main component of intangible assets subject to amortization was capitalized software. Amortization of capitalized costs for software to be sold, leased or otherwise marketed is charged to cost of sales. The amounts charged during the years ended March 31, 2008, 2007 and 2006 were ¥49,180 million, ¥58,043 million and ¥52,705 million, respectively.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Intangible assets other than goodwill included in other assets as of March 31, 2008 and 2007 are as follows:

	Yen (millions)					
	Gross carrying amount	2008 Accumulated amortization	Net carrying amount	Gross carrying amount	2007 Accumulated amortization	Net carrying amount
Amortized intangible assets:						
Software	511,091	402,858	108,233	467,829	363,280	104,549
Software for internal use	537,258	346,812	190,446	495,571	295,443	200,128
Patents	120,429	70,990	49,439	133,650	55,683	77,967
Other	120,168	83,951	36,217	119,446	75,466	43,980
	1,288,946	904,611	384,335	1,216,496	789,872	426,624
Indefinite-lived intangible assets	8,428		8,428	8,369		8,369

The following table shows the estimated aggregate amortization expense of intangible assets for the next five years.

	Years ending March 31	Yen (millions)
2009		112,701
2010		89,694
2011		65,450
2012		42,586
2013		23,077

The changes in the carrying amount of goodwill, which is included in other assets, for the years ended March 31, 2008 and 2007 are as follows:

	Yen (millions)	
	2008	2007
Balance at beginning of the year	148,431	64,210
Acquired during the year	26,154	85,250
Impairment loss	(7,448)	(1,743)
Translation adjustment and other	(8,098)	714
Balance at end of the year	159,039	148,431

The major components of goodwill recorded during the year ended March 31, 2007 were related to the acquisition of the noncontrolling interests in a subsidiary, NEOMAX Co., Ltd. and the interests in Clarion Co., Ltd.

Impairment losses are included in selling, general and administrative expenses in the consolidated statements of operations.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(8) Income Taxes**

Components of income (loss) before income taxes and minority interests, and income taxes attributable to continuing operations are as follows:

	Yen (millions)		
	2008		
	Domestic	Foreign	Total
Income before income taxes and minority interests	257,084	67,698	324,782
Income taxes:			
Current tax expense	140,262	47,314	187,576
Deferred tax expense (benefit)	88,720	(4,133)	84,587
	228,982	43,181	272,163

	Yen (millions)		
	2007		
	Domestic	Foreign	Total
Income (loss) before income taxes and minority interests	218,136	(15,798)	202,338
Income taxes:			
Current tax expense	108,962	33,338	142,300
Deferred tax expense (benefit)	28,735	(8,221)	20,514
	137,697	25,117	162,814

	Yen (millions)		
	2006		
	Domestic	Foreign	Total
Income before income taxes and minority interests	242,786	32,078	274,864
Income taxes:			
Current tax expense	99,753	20,780	120,533
Deferred tax expense	21,915	11,900	33,815
	121,668	32,680	154,348

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Significant components of income tax expense (benefit) attributable to continuing operations and other comprehensive income (loss), net of reclassification adjustments, for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Yen (millions)		
	2008	2007	2006
Continuing operations:			
Current tax expense	187,576	142,300	120,533
Deferred tax benefit (exclusive of the effects of other components listed below)	(64,422)	(25,298)	(5,716)
Change in valuation allowance	149,009	45,812	39,531
	272,163	162,814	154,348
Other comprehensive income (loss), net of reclassification adjustments:			
Minimum pension liability adjustments		15,540	75,306
Pension liability adjustments	(61,538)		
Net unrealized holding gain on available-for-sale securities	(39,318)	(7,204)	39,562
Cash flow hedges	205	474	985
	(100,651)	8,810	115,853
Adjustment to initially apply SFAS No.158		(16,847)	
	171,512	154,777	270,201

The Company and its domestic subsidiaries are subject to a national corporate tax of 30%, an inhabitant tax of between 17.3% and 20.7% and a deductible business tax between 3.8% and 10.1%, which in the aggregate resulted in a combined statutory income tax rate of approximately 40.6% for the years ended March 31, 2008, 2007 and 2006.

The Company adopted the consolidated taxation system in Japan effective from the year ended March 31, 2003. Under the consolidated taxation system, the Company consolidates, for Japanese tax purposes, all wholly-owned domestic subsidiaries.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Reconciliations between the combined statutory income tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are as follows:

	2008	2007	2006
Combined statutory income tax rate	40.6%	40.6%	40.6%
Equity in earnings of affiliated companies	(2.8)	(2.3)	(1.3)
Change in excess amounts over the tax basis of investments in subsidiaries and affiliated companies	1.7	7.6	0.2
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies	(7.9)	(0.4)	1.1
Expenses not deductible for tax purposes	4.0	9.0	5.4
Change in valuation allowance	45.9	22.6	14.4
Difference in statutory tax rates of foreign subsidiaries	2.2	2.8	(4.0)
Other	0.1	0.6	(0.2)
Effective income tax rate	83.8%	80.5%	56.2%

An increase in valuation allowance for the year ended March 31, 2008 resulted mainly from a decline in profitability in the plasma TV business. An increase in valuation allowance for the year ended March 31, 2007 resulted mainly from provisions recorded for anticipated losses on certain long-term contracts.

The tax effects of temporary differences and carryforwards that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2008 and 2007 are presented below:

	Yen (millions)	
	2008	2007
Total gross deferred tax assets:		
Retirement and severance benefits	352,826	303,134
Accrued expenses	251,898	243,383
Property, plant and equipment, due to differences in depreciation	41,974	34,335
Net operating loss carryforwards	157,346	136,497
Other	326,047	304,970
	1,130,091	1,022,319
Valuation allowance	(449,237)	(313,078)
	680,854	709,241
Total gross deferred tax liabilities:		
Deferred profit on sale of properties	(31,230)	(31,196)
Tax purpose reserves regulated by Japanese tax laws	(12,091)	(15,905)
Net unrealized gain on securities	(27,808)	(74,580)
Other	(42,362)	(30,621)
	(113,491)	(152,302)

Net deferred tax asset

567,363

556,939

112

(Continued)

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

In addition to the above, income taxes paid on net intercompany profit on assets remaining within the group, which had been deferred in accordance with Accounting Research Bulletin No. 51, Consolidated Financial Statements, as of March 31, 2008 and 2007 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)	
	2008	2007
Prepaid expenses and other current assets	25,771	23,550
Other assets	55,486	55,133
	81,257	78,683

Net deferred tax assets as of March 31, 2008 and 2007 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)	
	2008	2007
Prepaid expenses and other current assets	279,378	328,099
Other assets	335,153	277,232
Other current liabilities	(1,774)	(1,214)
Other liabilities	(45,394)	(47,178)
Net deferred tax asset	567,363	556,939

A valuation allowance was recorded against deferred tax assets for deductible temporary differences, net operating loss carryforwards and tax credit carryforwards, taking into account the tax laws of various jurisdictions in which the Company and its subsidiaries operate. The net changes in the total valuation allowance for the years ended March 31, 2008 and 2007 were an increase of ¥136,159 million and ¥30,783 million, respectively.

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which these deductible differences become deductible. Although realization is not assured, management considered the scheduled reversals of deferred tax liabilities and projected future taxable income, including the execution of certain available tax strategies if needed, in making this assessment. Based on these factors, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2008.

As of March 31, 2008, the Company and various subsidiaries have operating loss carryforwards of ¥426,997 million which are available to offset future taxable income, if any. Operating loss carryforwards of ¥274,307 million expire by March 31, 2013, ¥121,891 million expire by March 31, 2018, and ¥30,799 million expire in various years thereafter or do not expire.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Deferred tax liabilities have not been recognized for excess amounts over the tax basis of investments in foreign subsidiaries that are considered to be reinvested indefinitely, because such differences will not reverse in the foreseeable future and those undistributed earnings, if remitted, generally would not result in material additional Japanese income taxes because of available foreign tax credits. Determination of such liabilities is not practicable.

114

(Continued)

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(9) Short-term and Long-term Debt**

The components of short-term debt as of March 31, 2008 and 2007 are summarized as follows:

	Yen (millions)	
	2008	2007
Borrowings, mainly from banks	522,947	424,936
Commercial paper	149,461	414,010
Borrowings from affiliates	50,612	55,447
	723,020	894,393

The weighted average interest rate on short-term debt outstanding as of March 31, 2008 and 2007 was 0.8% and 0.6%, respectively.

The components of long-term debt as of March 31, 2008 and 2007 are summarized as follows:

	Yen (millions)	
	2008	2007
Unsecured notes and debentures:		
Due 2013, interest 0.72% debenture	80,000	80,000
Due 2010, interest 0.7% debenture	49,890	49,888
Due 2015, interest 1.56% debenture	49,982	49,979
Due 2008, interest 0.52% debenture	5,000	5,000
Due 2010, interest 0.74% debenture	5,000	5,000
Due 2008 2018, interest 0.32 2.78%, issued by subsidiaries	537,117	560,581
Unsecured convertible debentures:		
Series A, due 2009, zero coupon	50,000	50,000
Series B, due 2009, zero coupon	50,000	50,000
Due 2016 and 2019, zero coupon, issued by a subsidiary	40,000	
Loans, principally from banks and insurance companies:		
Secured by various assets and mortgages on property, plant and equipment, maturing 2008 2017, interest 1.85 5.4%	43,004	43,755
Unsecured, maturing 2008 2026, interest 0.6 5.74%	879,227	882,734
Capital lease obligations	19,266	16,120
	1,808,486	1,793,057
Less current portion	386,879	303,214
	1,421,607	1,489,843

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The aggregate annual maturities of long-term debt after March 31, 2009 are as follows:

	Years ending March 31	Yen (millions)
2010		536,068
2011		203,571
2012		161,658
2013		171,974
Thereafter		348,336
		1,421,607

Short-term and long-term debt above as of March 31, 2008 include secured borrowings of ¥61,778 million and ¥38,029 million, respectively, resulting from the transfer of financial assets which does not meet the criteria for a sale pursuant to SFAS No. 140 and is accounted for as secured borrowings with pledge of collateral.

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

Generally, the mortgage debenture trust agreements and certain secured and unsecured loan agreements provide, among other things, that the lenders or trustees shall have the right to have any distribution of earnings, including the payment of dividends and the issuance of additional capital stock, submitted to them for prior approval and also grant them the right to request additional securities or mortgages on property, plant and equipment.

In October, 2004, the Company issued Euroyen zero coupon convertible bonds. The bonds consist of ¥50,000 million series A zero coupon convertible bonds due 2009 and ¥50,000 million series B zero coupon convertible bonds due 2009. The bondholders are entitled to stock acquisition rights effective from November 2, 2004 to October 5, 2009. The initial conversion price was ¥1,009 per share for both bonds at which time the fair value of the Company's common stock was ¥686. In accordance with the terms of the debenture, the conversion price was adjusted to ¥822 on October 19, 2005 and on October 19, 2007 for series A zero coupon convertible bonds and on April 19, 2006 and on April 19, 2008 for series B zero coupon convertible bonds. During the conversion period, the bondholders may exercise the stock acquisition rights anytime after the closing price of the Company's shares at the Tokyo Stock Exchange on at least one trading day is 115 percent or more of the then applicable conversion price rounded down to the nearest yen. In addition, the bondholders are entitled, at their option, to require the Company to redeem the bonds at a redemption price of 100 percent of the principal amount on October 17, 2008. As of March 31, 2008, the Company maintained ¥690,000 million of unused commitment line with a number of domestic banks, which will be available for the Company to borrow any amount in order to obtain necessary funds to refinance the bonds if redeemed.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In September, 2007, Hitachi Metals Ltd. (the issuer), a subsidiary of the Company, issued ¥20,000 million Euroyen zero coupon convertible bonds due 2016 (the 2016 bonds) and ¥20,000 million Euroyen zero coupon convertible bonds due 2019 (the 2019 bonds) (together, the Bonds). In the case of the 2016 bonds, the bondholders are entitled to stock acquisition rights effective from September 27, 2007 to August 30, 2016 and the initial conversion price is ¥2,056 per share. In the case of the 2019 bonds, the bondholders are entitled to stock acquisition rights effective from September 27, 2007 to August 30, 2019 and the initial conversion price is ¥2,042 per share. The closing price of the shares on August 28, 2007, as reported by Tokyo Stock Exchange, was ¥1,344 per share. The stock acquisition rights may be exercised by the holder of the bonds during any particular calendar quarter only if the closing price of the shares for any 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is more than 120% of the conversion price. The Bonds also contain other embedded features, none of which were required to be bifurcated, such as the issuer's call option, the issuer's cash-settlement option, and the investors' put option. By giving notice to the bondholders on or after September 13, 2012 (in the case of the 2016 bonds), or on or after September 13, 2014 (in the case of the 2019 bonds), the issuer may acquire from all bondholders all of the relevant bonds under the cash-settlement option, and upon reacquiring the Bonds, the issuer is required to pay the bondholders cash equal to 100% of the principal amount and deliver common shares of the issuer with a fair value equivalent to the fair value of the stock acquisition rights. As for the put option, the bondholders are entitled, at their option, to require the issuer to redeem the Bonds at a redemption price of 100% of the principal amount on September 13, 2010 and September 13, 2013 (with respect to the 2016 bonds) and on September 13, 2011 and September 11, 2015 (with respect to the 2019 bonds).

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Retirement and Severance Benefits

(a) Defined benefit plans

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

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

In addition to unfunded defined benefit pension plans, the Company and certain subsidiaries make contributions to a number of defined benefit pension plans. The Company and certain subsidiaries adopted cash balance plans, and certain subsidiaries amended certain of their defined benefit plans to cash balance plans during the years ended March 31, 2008, 2007 and 2006.

Under the cash balance plans, each employee has a notional account which represents pension benefits. The balance in the notional account is based on principal credits, which are accumulated as employees render services, and interest credits, which are determined based on the market interest rates.

On March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 requires the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) represents the net unrecognized actuarial losses and unrecognized prior service costs. Prior to March 31, 2007, these amounts were netted against the plan's funded status in the consolidated balance sheet pursuant to the provisions of SFAS No. 87. These amounts are subsequently recognized as net periodic benefit cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that are not recognized as net periodic benefit cost in the same periods are recognized as a component of other comprehensive income (loss). Those amounts are subsequently recognized as a component of net periodic benefit cost on the same basis.

The incremental effects of adopting the provisions of SFAS No. 158 on the Company's consolidated balance sheet as of March 31, 2007 are presented in the following table. The adoption of SFAS No. 158 had no effect on the Company's consolidated statement of operations for the year ended March 31, 2007 or for any prior period presented, and it will not effect the Company's operating results in future periods. Had the Company not been required to adopt SFAS No. 158 as of March 31, 2007, it would have recognized an additional minimum liability pursuant to the provisions of SFAS No. 87. The effect of recognizing the additional minimum liability is included in the table below in the column labeled Before Application of SFAS No.158.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

	Yen (millions)		
	Before application of SFAS No.158	Adjustment	After application of SFAS No.158
Prepaid expenses and other current assets	676,287	11,267	687,554
Investments and advances, including affiliated companies	1,052,979	(3,255)	1,049,724
Other assets	1,418,075	53,348	1,471,423
Accrued expenses	870,107	32,057	902,164
Retirement and severance benefits	760,199	58,258	818,457
Minority interests	1,080,285	(6,536)	1,073,749
Accumulated other comprehensive loss	(66,031)	(22,419)	(88,450)

Net periodic benefit cost for the funded benefit pension plans and the unfunded lump-sum payment plans for the years ended March 31, 2008, 2007 and 2006 consists of the following components:

	Yen (millions)		
	2008	2007	2006
Service cost	71,577	72,648	74,131
Interest cost	56,079	55,888	56,166
Expected return on plan assets for the period	(44,911)	(40,253)	(34,045)
Amortization of prior service benefit	(23,627)	(18,571)	(17,381)
Recognized actuarial loss	58,326	56,388	67,678
Transfer to defined contribution pension plan	(1,611)	1,039	(87)
Derecognition of previously accrued salary progression due to transfer of substitutional portion			(5,956)
Recognition of deferred actuarial losses due to transfer of substitutional portion			26,193
Curtailment gain	(388)		
Employees contributions	(346)	(362)	(731)
Net periodic benefit cost	115,099	126,777	165,968
Difference between the obligations settled and the assets transferred due to transfer of substitutional portion			(30,593)
	115,099	126,777	135,375

Prior to the adoption of the recognition provisions of SFAS No.158, unrecognized prior service benefit and cost and unrecognized actuarial gain and loss were amortized using the straight-line method over the average remaining service period of active employees.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The estimated prior service cost and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during the year ending March 31, 2009 are as follows:

	Yen (millions)
Prior service benefit	(13,972)
Actuarial loss	70,532

The Employees Pension Fund (EPF) stipulated by the Japanese Pension Insurance Law is one of the defined benefit pension plans to which the Company and certain domestic subsidiaries had contributed. The pension plans under the EPF are composed of the substitutional portion of Japanese Welfare Pension Insurance and the corporate portion which is the contributory defined benefit pension plan covering substantially all of their employees and provides benefits in addition to the substitutional portion. The Company, certain subsidiaries and their employees had contributed the pension premiums for the substitutional portion and the corporate portion to each EPF. The plan assets of each EPF cannot be specifically allocated to the individual participants nor to the substitutional and corporate portions.

On June 15, 2001, the Japanese government issued a new law concerning defined benefit plans. This law allows a company, at its own discretion, to apply for an exemption from the future benefit obligation and return the past benefit obligation of the substitutional portion of the EPF to the government. In accordance with the new law, the Company and all the subsidiaries obtained approvals from the government for the exemption from the future benefit obligation and for the return of the past benefit obligation through March 31, 2006. Consequently, the Company and all the subsidiaries transferred the substitutional portion of each of their benefit obligations related to past service and the related portion of the plan assets of the EPF to the government by March 31, 2006.

The Company and certain subsidiaries accounted for the entire separation process as a single settlement transaction upon the completion of the transfer to the government in accordance with EITF Issue No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Reconciliations of beginning and ending balances of the benefit obligation of the funded defined benefit pension plans and the unfunded defined benefit pension plans and the fair value of the plan assets are as follows:

	Yen (millions)	
	2008	2007
Change in benefit obligation:		
Benefit obligation at beginning of year	2,262,258	2,230,300
Service cost	71,577	72,648
Interest cost	56,079	55,888
Plan amendments	(7,864)	(1,486)
Actuarial loss	11,192	15,038
Benefits paid	(128,182)	(125,370)
Acquisitions and divestitures	(10,587)	22,184
Transfer to defined contribution pension plan	(22,631)	(10,713)
Curtailment	(736)	
Foreign currency exchange rate changes	(11,529)	3,769
Benefit obligation at end of year	2,219,577	2,262,258
Change in plan assets:		
Fair value of plan assets at beginning of year	1,468,924	1,354,723
Actual return on plan assets	(142,979)	67,017
Employers' contributions:		
Cash	125,876	130,904
Available-for-sale securities	42,240	
Employees' cash contributions	346	1,211
Benefits paid	(93,236)	(88,857)
Acquisitions and divestitures	(5,385)	4,351
Transfer to defined contribution pension plan	(5,068)	(3,612)
Foreign currency exchange rate changes	(9,669)	3,187
Fair value of plan assets at end of year	1,381,049	1,468,924
Funded status	(838,528)	(793,334)

Amounts recognized in the consolidated balance sheets as of March 31, 2008 and 2007 are as follows:

	Yen (millions)	
	2008	2007
Other assets	20,277	57,180
Accrued expenses	(36,365)	(32,057)
Retirement and severance benefit	(822,440)	(818,457)

(838,528) (793,334)

121

(Continued)

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Amounts recognized in accumulated other comprehensive loss as of March 31, 2008 and 2007 consist of:

	Yen (millions)	
	2008	2007
Prior service benefit	(194,027)	(210,853)
Actuarial loss	611,645	473,548
	417,618	262,695

The Company and substantially all subsidiaries use their year-end as a measurement date. Weighted-average assumptions used to determine the year-end benefit obligations are as follows:

	2008	2007
Discount rate	2.5%	2.5%
Rate of compensation increase	2.7%	2.7%

Weighted-average assumptions used to determine the net periodic pension cost for the years ended March 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Discount rate	2.5%	2.5%	2.5%
Expected long-term return on plan assets	3.1%	3.0%	3.0%
Rate of compensation increase	2.7%	2.5%	2.9%

The expected long-term rate of return on plan assets is developed for each asset class, and is determined primarily on historical returns on the plan assets and other factors.

The accumulated benefit obligation was ¥2,116,141 million as of March 31, 2008 and ¥2,146,366 million as of March 31, 2007.

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets is as follows:

	Yen (millions)	
	2008	2007
Plans with accumulated benefit obligations in excess of plan assets:		
Accumulated benefit obligations	1,725,275	1,661,271
Plan assets	950,101	897,158
Plans with projected benefit obligations in excess of plan assets:		
Projected benefit obligations	1,915,720	1,868,066
Plan assets	1,056,915	1,017,552

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Asset allocations for the pension plans as of March 31, 2008 and 2007 and target asset allocation by asset category are as follows:

	2008	2007	Target allocation
Equity securities	34.1%	39.1%	34.5%
Debt securities	31.3	31.3	34.7
Investment trusts	12.6	14.0	13.2
Cash	13.8	7.1	8.7
Life insurance company general accounts	4.7	5.5	4.6
Other	3.5	3.0	4.3
	100.0%	100.0%	100.0%

The objective of the Company's investment policy is to ensure a stable return from the plans' investments over the long term, which allows the Company's and certain subsidiaries' pension funds to meet their future obligations. In order to achieve the above objective, a target rate of return is established, taking into consideration composition of participants, level of funded status, the Company's and certain subsidiaries' capacity to absorb risks and the current economic environment. Also, a target asset allocation is established to achieve the target rate of return, based on expected rate of return by each asset class, standard deviation of rate of return and correlation coefficient among the assets. The investments are diversified primarily into domestic and foreign equity and debt securities according to the target asset allocation. Rebalancing will occur if markets fluctuate in excess of certain levels. The Company and certain subsidiaries periodically review actual returns on assets, economic environments and their capacity to absorb risk and realign the target asset allocation if necessary.

The Company and its subsidiaries expect to contribute ¥107,565 million to their defined benefit plans for the year ending March 31, 2009.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

	Years ending March 31	Yen (millions)
2009		129,433
2010		128,820
2011		128,128
2012		132,444
2013		134,215
2014-2018		596,538

(b) Defined contribution plans

The Company and certain subsidiaries have a number of defined contribution plans. The amount of cost recognized for the Company's and certain subsidiaries' contributions to the plans for the years ended March 31, 2008, 2007 and 2006 were ¥15,749 million, ¥11,971 million and ¥11,776 million, respectively.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(11) Common Stock**

The Company has authorized issuance of 10 billion shares of common stock.

The number of issued shares and the amount of common stock for the years ended March 31, 2008, 2007, 2006 and 2005 are as follows:

	Issued shares	Yen(millions) Amount
Balance as of March 31, 2005, 2006, 2007 and 2008	3,368,126,056	282,033

Conversions of convertible debt issued subsequent to October 1, 1982 into common stock were accounted for in accordance with the provisions of the Japanese Commercial Code, the former Japanese Company Law, by crediting one-half of the conversion price to each of the common stock accounts and the capital surplus accounts.

(12) Legal Reserve and Retained Earnings, and Dividends

The Japanese Company Law provides that earnings in an amount equal to 10 percent of appropriations of retained earnings to be paid as dividends should be appropriated as a capital surplus or a legal reserve until the total of capital surplus and legal reserve equals 25 percent of stated common stock. In addition to transfer from capital surplus to stated common stock, either capital surplus or legal reserve may be available for dividends by resolution of the shareholders' meeting.

Dividends during the years ended March 31, 2008, 2007 and 2006 represent dividends declared during those years. On May 13, 2008, the Board of Directors approved a cash dividend for the second half of the year ended March 31, 2008 of ¥3.0 per share, aggregating ¥9,973 million. No provision has been made in the accompanying consolidated financial statements for this cash dividend.

Cash dividends per share for the years ended March 31, 2008, 2007 and 2006 were ¥6.0, ¥6.0 and ¥11.0, respectively, based on dividends declared with respect to earnings for the periods.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(13) Treasury Stock**

The Japanese Company Law (JCL) allows a company to acquire treasury stock upon shareholders' approval to the extent that sufficient distributable funds are available. If the Board of Directors' authority is stated in the articles of incorporation, a company is allowed to acquire treasury stock not upon shareholders' approval but Board of Directors' approval. In this connection, acquisition of treasury stock is allowed under the Company's articles of incorporation.

Pursuant to the provisions of the JCL, shareholders may request the company to acquire their shares less than a minimum trading lot as shares less than a minimum trading lot cannot be publicly traded and such a shareholder holding less than a minimum trading lot cannot exercise a voting right and other shareholders' rights except as provided in the JCL or the articles of incorporation. The JCL also states that a shareholder holding shares less than a minimum trading lot may request the company to sell its treasury stock, if any, to the shareholder up to a minimum trading lot if entitled under the articles of incorporation. In this connection, sale of treasury stock is allowed under the Company's articles of incorporation.

The changes in treasury stock for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

	Shares	Yen(millions) Amount
Balance as of March 31, 2005	36,549,222	17,236
Acquisition for treasury	1,440,676	1,058
Sales of treasury stock	(708,603)	(344)
Balance as of March 31, 2006	37,281,295	17,950
Acquisition for treasury	14,974,117	12,000
Sales of treasury stock	(1,265,158)	(748)
Stock exchange for acquisition	(8,023,820)	(3,863)
Balance as of March 31, 2007	42,966,434	25,339
Acquisition for treasury	1,358,519	1,145
Sales of treasury stock	(597,224)	(354)
Balance as of March 31, 2008	43,727,729	26,130

In April 2006, the Board of Directors approved the acquisition of treasury stock up to 6,500,000 shares of the Company's common stock for an aggregate acquisition amount not exceeding ¥5,000 million during May 2006. The Company acquired a total of 6,210,000 shares for ¥4,996 million during the period.

In December 2006, the Board of Directors approved the acquisition of treasury stock up to 30,000,000 shares of the Company's common stock for an aggregate acquisition amount not exceeding ¥20,000 million by the end of March 2007. The Company acquired a total of 7,200,000 shares for ¥5,817 million during the period.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(14) Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss, net of related tax effects, displayed in the consolidated statements of stockholders' equity is classified as follows:

	Yen (millions)		
	2008	2007	2006
Foreign currency translation adjustments:			
Balance at beginning of year	(20,906)	(43,426)	(90,904)
Other comprehensive income (loss), net of reclassification adjustments	(48,605)	21,764	48,435
Net transfer from (to) minority interests	289	756	(957)
Balance at end of year	(69,222)	(20,906)	(43,426)
Minimum pension liability adjustments:			
Balance at beginning of year		(145,903)	(242,672)
Other comprehensive income		22,030	96,808
Net transfer to minority interests		(37)	(39)
Transfer to pension liability adjustments		123,910	
Balance at end of year			(145,903)
Pension liability adjustments:			
Balance at beginning of year	(146,329)		
Other comprehensive loss, net of reclassification adjustments	(74,758)		
Net transfer from minority interests	80		
Transfer from minimum pension liability adjustments		(123,910)	
Adjustment to initially apply SFAS No.158 (note 10)		(22,419)	
Balance at end of year	(221,007)	(146,329)	
Net unrealized holding gain on available-for-sale securities:			
Balance at beginning of year	77,883	92,626	32,996
Other comprehensive income (loss), net of reclassification adjustments	(55,310)	(14,744)	59,624
Net transfer from minority interests	8	1	6
Balance at end of year	22,581	77,883	92,626
Cash flow hedges:			
Balance at beginning of year	902	706	(944)
Other comprehensive income (loss), net of reclassification adjustments	(451)	196	1,652
Net transfer to minority interests	(1)	0	(2)
Balance at end of year	450	902	706
Total accumulated other comprehensive loss:			

Edgar Filing: HITACHI LTD - Form 20-F

Balance at beginning of year	(88,450)	(95,997)	(301,524)
Other comprehensive income (loss), net of reclassification adjustments	(179,124)	29,246	206,519
Net transfer from (to) minority interests	376	720	(992)
Adjustment to initially apply SFAS No.158 (note 10)		(22,419)	
Balance at end of year	(267,198)	(88,450)	(95,997)

126

(Continued)

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The following is a summary of reclassification adjustments by each classification of other comprehensive income (loss) arising during the years ended March 31, 2008, 2007 and 2006 and the amounts of income tax expense or benefit allocated to each component of other comprehensive income (loss), including reclassification adjustments.

	Yen (millions)		
	2008		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive loss arising during the year:			
Foreign currency translation adjustments	(49,452)		(49,452)
Pension liability adjustments	(159,751)	65,529	(94,222)
Net unrealized holding gain on available-for-sale securities	(87,015)	35,113	(51,902)
Cash flow hedges	31	(230)	(199)
	(296,187)	100,412	(195,775)
Reclassification adjustments for realized net loss included in net loss:			
Foreign currency translation adjustments	847		847
Pension liability adjustments	32,516	(13,052)	19,464
Net unrealized holding gain on available-for-sale securities	(7,023)	3,615	(3,408)
Cash flow hedges	(372)	120	(252)
	25,968	(9,317)	16,651
Other comprehensive loss, net of reclassification adjustments:			
Foreign currency translation adjustments	(48,605)		(48,605)
Pension liability adjustments	(127,235)	52,477	(74,758)
Net unrealized holding gain on available-for-sale securities	(94,038)	38,728	(55,310)
Cash flow hedges	(341)	(110)	(451)
	(270,219)	91,095	(179,124)

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

	Yen (millions) 2007		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments	19,532		19,532
Minimum pension liability adjustments	39,469	(17,439)	22,030
Net unrealized holding gain on available-for-sale securities	14,230	(7,098)	7,132
Cash flow hedges	(173)	(4)	(177)
	73,058	(24,541)	48,517
Reclassification adjustments for realized net gain included in net loss:			
Foreign currency translation adjustments	2,232		2,232
Net unrealized holding gain on available-for-sale securities	(37,126)	15,250	(21,876)
Cash flow hedges	552	(179)	373
	(34,342)	15,071	(19,271)
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments	21,764		21,764
Minimum pension liability adjustments	39,469	(17,439)	22,030
Net unrealized holding gain on available-for-sale securities	(22,896)	8,152	(14,744)
Cash flow hedges	379	(183)	196
	38,716	(9,470)	29,246

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

	Yen (millions)		
	2006		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income arising during the year:			
Foreign currency translation adjustments	51,492		51,492
Minimum pension liability adjustments	160,654	(63,846)	96,808
Net unrealized holding gain on available-for-sale securities	120,305	(48,742)	71,563
Cash flow hedges	2,385	(1,091)	1,294
	334,836	(113,679)	221,157
Reclassification adjustments for realized net gain included in net income:			
Foreign currency translation adjustments	(3,057)		(3,057)
Net unrealized holding gain on available-for-sale securities	(20,096)	8,157	(11,939)
Cash flow hedges	239	119	358
	(22,914)	8,276	(14,638)
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments	48,435		48,435
Minimum pension liability adjustments	160,654	(63,846)	96,808
Net unrealized holding gain on available-for-sale securities	100,209	(40,585)	59,624
Cash flow hedges	2,624	(972)	1,652
	311,922	(105,403)	206,519

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(15) Pledged Assets**

As of March 31, 2008, the Company and certain subsidiaries pledged a portion of their assets as collateral primarily for bank loans as follows:

	Yen (millions)
Cash and cash equivalents	55
Short-term investments	19
Other current assets	3,633
Investments and advances	556
Land	5,261
Buildings	6,867
Machinery and equipment	8,131
Other assets	93
	24,615

In addition to the above, prepaid expenses and other current assets as of March 31, 2008 and 2007 include restricted cash of ¥7,043 million and ¥10,388 million, respectively, as a compensating balance for short-term borrowing arrangements.

(16) Commitments and Contingencies

The Company and its operating subsidiaries are contingently liable for loan guarantees to its affiliates and others in the amount of approximately ¥37,264 million as of March 31, 2008.

Hitachi Capital Corporation (HCC) and certain other financial subsidiaries provide guarantees to financial institutions for extending loans to customers of the subsidiaries. As of March 31, 2008, the undiscounted maximum potential future payments under such guarantees amounted to ¥451,895 million. The Company has accrued ¥7,966 million as an obligation to stand ready to perform over the term of the guarantees in the event the customer cannot make scheduled payments.

The subsidiaries provide certain revolving lines of credit to its credit card holders in accordance with the terms of the credit card business customer service contracts. Furthermore, the subsidiaries provide credit facilities to parties in accordance with the service agency business contracts from which temporary payments on behalf of such parties are made. In addition, the Company and HCC provide loan commitments mainly to affiliates.

The outstanding balance of these revolving lines of credit, credit facilities and loan commitments as of March 31, 2008 is as follows:

	Yen (millions)
Total commitment available	599,533
Less amount utilized	6,418
Balance available	593,115

A portion of these revolving lines of credit is pending credit approval and cannot be utilized.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The Company and certain subsidiaries have line of credit arrangements with banks in order to secure a financing source for business operations. The unused line of credit as of March 31, 2008 amounted to ¥742,522 million.

As of March 31, 2008, outstanding commitments for the purchase of property, plant and equipment were approximately ¥75,478 million.

It is a common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to subsequently discount such notes to banks or to transfer them by endorsement to suppliers in the settlement of accounts payable. As of March 31, 2008 and 2007, the Company and subsidiaries were contingently liable for trade notes discounted and endorsed in the following amounts:

	Yen (millions)	
	2008	2007
Notes discounted	4,063	4,405
Notes endorsed	4,706	4,945
	8,769	9,350

A certain subsidiary is contingently liable for the transfer of export receivables with recourse. As of March 31, 2008, the amount of transfer of export receivables with recourse was ¥23,769 million.

The Company and its subsidiaries provide warranties for certain of their products. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. The changes in accrued product warranty costs for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

	Yen (millions)		
	2008	2007	2006
Balance at beginning of year	82,316	81,450	74,046
Expense recognized upon issuance of warranties	38,420	53,994	59,550
Usage	(43,675)	(53,646)	(56,177)
Other, including effect of foreign currency translation	(3,346)	518	4,031
Balance at end of year	73,715	82,316	81,450

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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. A provision for the repair costs was accrued for the 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.

The Company and its subsidiaries make provisions for anticipated losses on long-term contracts, including changes in the estimates for such provisions, in the period in which they become evident. The effect of a change in the estimated provision for anticipated losses on certain long-term contracts was to increase consolidated net loss for the year ended March 31, 2007 by ¥70,915 million, or ¥21.28 per share (basic).

In January 2007, the European Commission ordered the Company and one of its affiliated companies to pay a fine for infringement of EC antitrust rules regarding alleged antitrust violations for the gas insulated switchgear equipment used at substations. In April 2007, the Company lodged an appeal with the Court of First Instance of the European Communities requesting the court to annul the decision of the European Commission. The determination has not been rendered at present, but the Company accrued the reasonably estimated amount for the fine in the year ended March 31, 2007.

In October 2006, a subsidiary and an affiliate of the Company in the U.S. received requests for information from the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to static random access memories.

In December 2006, the Company and a subsidiary in Europe received requests for information from the European Commission, a subsidiary in Japan received requests for information from the Antitrust Division of the U.S. Department of Justice and the Fair Trade Commission of Japan and an affiliate in Japan received a request for information from the Fair Trade Commission of Japan in respect of alleged antitrust violations relating to the liquid crystal displays.

In June 2007, the Company received requests for information from the European Commission in respect of alleged antitrust violations relating to dynamic random access memories.

In September 2007, a subsidiary and an affiliate of the Company in the U.S. received requests for information from the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to flash memories.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In November 2007, a subsidiary of the Company in the U.S. received requests for information from the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to cathode ray tubes. In addition, in November 2007, two subsidiaries in Asia and in Europe received requests for information from the European Commission. Further, in November 2007, a subsidiary in Canada received requests for information from the Canadian Competition Bureau.

The Company and these companies do not concede the alleged antitrust violations, but depending upon the outcome of these investigations, fines or surcharge payments, the amount of which is uncertain, may be imposed on them. In addition, subsequent to these actions by the competent authorities, a number of class action lawsuits have been filed against the Company and some of these companies in the U.S. and Canada. Depending upon the outcome of the above legal proceedings, there may be an adverse effect on the consolidated financial position or results of operations. Currently the Company is unable to estimate the adverse effect, if any. Accordingly, no accrual for potential loss has been made.

In addition to the above, the Company and certain subsidiaries are subject to several legal proceedings and claims which have arisen in the ordinary course of business and have not been finally adjudicated. These actions when ultimately concluded and determined will not, in the opinion of management, have a material adverse effect on the consolidated financial position or results of operations of the Company and subsidiaries.

(17) Impairment Losses for Long-Lived Assets

For the year ended March 31, 2008, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan. The Digital Media & Consumer Products division recognized a loss of ¥68,791 million primarily due to its plasma TV business for which the Company and certain subsidiaries have recognized losses for consecutive periods because of severe market competition accompanied by falling prices. These impairment losses included patents with lower-than-expected future license income. The Power & Industrial Systems division recognized a loss of ¥9,298 million primarily due to its electric power selling business whose profitability has deteriorated due to rising fuel prices. The High Functional Materials & Components division recognized a loss of ¥7,172 million primarily due to rapid falling prices of LCD drivers for which a subsidiary supplies material for the related semiconductors. The fair value estimates used to determine these losses were based primarily on discounted future cash flows.

For the year ended March 31, 2007, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan. The High Functional Materials & Components division recognized a loss of ¥4,351 million primarily due to a specific type of material for semiconductors that was projected to have lower production because of smaller demand in the market. The Digital Media & Consumer Products division recognized a loss of ¥1,305 million primarily due to a specific type of electronic parts that was projected to have lower production because of smaller demand in the market. The Electronic Devices division recognized a loss of ¥1,294 million primarily due to projection television tubes that were scheduled to reduce their production. The fair value estimates used to determine these losses were based primarily on discounted future cash flows.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

For the year ended March 31, 2006, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in the U.S. and Japan, which primarily consisted of ¥11,631 million in the Information & Telecommunication Systems division, ¥7,265 million in the Electronic Devices division and ¥4,120 million in the High Functional Materials & Components division. These losses were mainly the result of changes in the extent or manner the assets were used. The fair value estimates used to determine these losses were based primarily on discounted future cash flows.

(18) Restructuring Charges

Certain losses incurred in the reorganization of the Company's operations are considered restructuring charges. Components and related amounts of the restructuring charges, before the related tax effects, for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Yen (millions)		
	2008	2007	2006
Special termination benefits	15,676	3,868	2,786
Loss on fixed assets	2,434	115	1,643
	18,110	3,983	4,429

The Company and certain subsidiaries provided special termination benefits to those employees voluntarily leaving the companies. The accrued special termination benefits were recognized at the time voluntary termination was offered and benefits were accepted by the employees. An analysis of the accrued special termination benefits for the years ended March 31, 2008, 2007 and 2006 is as follows:

	Yen (millions)		
	2008	2007	2006
Balance at beginning of the year	44	1,106	14,389
New charges	15,676	3,868	2,786
Cash payments	(6,348)	(4,931)	(16,158)
Foreign currency exchange rate changes	(420)	1	89
Balance at end of the year	8,952	44	1,106

The following represent significant restructuring activities for the year ended March 31, 2008 by business line:

1. Information & Telecommunication Systems division restructured in order to strengthen its storage business on a global basis. The accrued special termination benefits expensed during the year ended March 31, 2008 amounted to ¥5,916 million. The liabilities for special termination benefits amounting to ¥2,304 million as of March 31, 2008 will be paid by March 2009. Total restructuring charges during the year ended March 31, 2008 amounted to ¥7,260 million.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

2. Digital Media & Consumer Products division restructured in order to reorganize the flat-panel TV business which is subject to severe market competition accompanied with falling prices. The accrued special termination benefits expensed during the year ended March 31, 2008 amounted to ¥3,903 million. The liabilities for special termination benefits amounting to ¥2,571 million as of March 31, 2008 will be paid by March 2009. Total restructuring charges during the year ended March 31, 2008 amounted to ¥4,095 million.
3. The Power & Industrial Systems division restructured in order to reorganize its plant construction business for reducing costs and improving profitability primarily in Japan. The accrued special termination benefits expensed during the year ended March 31, 2008 amounted to ¥2,836 million. The liabilities for special termination benefits amounting to ¥2,836 million as of March 31, 2008 will be paid by March 2009. Total restructuring charges during the year ended March 31, 2008 consisted only of special termination benefits.

The restructuring charges for the year ended March 31, 2007 mainly consist of special termination benefits for the early terminated employees of subsidiaries in the High Functional Materials & Components division and Information & Telecommunication Systems division.

The restructuring charges for the year ended March 31, 2006 mainly consist of special termination benefits for the early terminated employees of subsidiaries in the Electronic Devices division and loss on fixed assets in the High Functional Materials & Components division.

(19) Other Income and Other Deductions

The following items are included in other income or other deductions for the years ended March 31, 2008, 2007 and 2006.

	Yen (millions)		
	2008	2007	2006
Net gain on securities	80,129	47,687	46,402
Equity in earnings of affiliated companies	22,586	11,289	8,688
Net loss on sale and disposal of rental assets and other property	(8,246)	(24,611)	(3,107)
Exchange gain (loss)	(28,414)	(3,029)	4,000

The major components of net gain on securities for the year ended March 31, 2008 were related to sales of a part of shares of Hitachi Displays, Ltd. and Hitachi-GE Nuclear Energy, Ltd. and of all shares of Hitachi Semiconductor Singapore Pte. Ltd.

Other income for the year ended March 31, 2008 also includes a realized gain of ¥21,040 million on a contribution of available-for-sale securities to a pension fund trust.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) Sales of Stock by Subsidiaries or Affiliated Companies

In April 2007, Hitachi Metals, Ltd., a subsidiary which manufactures and sells high-grade metal products, and NEOMAX Co., Ltd., a subsidiary which manufactures and sells magnets and ceramics, conducted a merger in which Hitachi Metals, Ltd. was the surviving entity and NEOMAX Co., Ltd. was the acquired entity. Prior to the merger, Hitachi Metals, Ltd. opened its tender offer to acquire common shares of NEOMAX Co., Ltd. for the period from November 7, 2006 to December 11, 2006 for ¥2,500 per share. In April 2007, Hitachi Metals, Ltd. allocated 2 of its shares to 1 share of NEOMAX Co., Ltd. to acquire the shares of NEOMAX Co., Ltd. held by third parties in accordance with the terms and conditions of the tender offer. As a result, Hitachi Metals, Ltd. issued 9,389,202 shares of common stock to the shareholders of NEOMAX Co., Ltd. Since all the shares of Hitachi Metals, Ltd. were issued to third parties, the Company's ownership interest of common stock decreased from 56.6% to 55.1%. The Company did not recognize a deferred tax liability on this transaction.

In February 2007, Opnext, Inc., a subsidiary which designs and manufactures optical modules and components, issued 12,536,406 shares of common stock at \$15 per share to third parties in an initial public offering and the Company sold a portion of its investment in Opnext, Inc. As a result of the issuance of new shares and sale of the investment, the Company's ownership interest of common stock decreased from 67.3% to 43.9% at March 31, 2007 and the remaining investment is accounted for using the equity method. The Company provided a deferred tax liability on this gain.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(21) Net Income (Loss) Per Share Information**

The reconciliations of the numbers and the amounts used in the basic and diluted net income (loss) per share computations are as follows:

	2008	Number of shares 2007	2006
Weighted average number of shares on which basic net income (loss) per share is calculated	3,324,562,767	3,331,918,803	3,331,116,787
Effect of dilutive securities:			
Series A zero coupon convertible bonds			54,619,248
Series B zero coupon convertible bonds			49,554,013
Stock options	122,257	158,778	143,341
Number of shares on which diluted net income (loss) per share is calculated	3,324,685,024	3,332,077,581	3,435,433,389
		Yen (millions)	
	2008	2007	2006
Net income (loss) applicable to common stockholders	(58,125)	(32,799)	37,320
Effect of dilutive securities:			
Series A zero coupon convertible bonds			2
Series B zero coupon convertible bonds			2
Other	(948)	(92)	(77)
Net income (loss) on which diluted net income (loss) per share is calculated	(59,073)	(32,891)	37,247
		Yen	
Net income (loss) per share:			
Basic	(17.48)	(9.84)	11.20
Diluted	(17.77)	(9.87)	10.84

The net loss per share computations for the years ended March 31, 2008 and 2007 exclude all the convertible bonds because their effect would have been antidilutive. In addition, the net income (loss) per share computation excludes some stock options because their effect would have been antidilutive.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(22) Supplementary Income and Expense Information**

	Yen (millions)		
	2008	2007	2006
Shipping and handling costs	162,526	155,535	147,940
Advertising expense	45,823	53,577	52,175
Maintenance and repairs	84,122	82,902	82,786
Rent	143,369	146,139	149,241
Research and development expense	428,171	412,534	405,079

(23) Supplementary Cash Flow Information

	Yen (millions)		
	2008	2007	2006
Cash paid during the year for:			
Interest	42,468	38,712	31,584
Income taxes	174,735	123,677	118,486
Noncash investing and financial activities:			
Capitalized lease assets	5,488	6,056	5,206

The proceeds from the sale of securities classified as available-for-sale discussed in note 3 are included in both (increase) decrease in short-term investments and proceeds from sale of investments and subsidiaries common stock on the consolidated statements of cash flows.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(24) Derivative Instruments and Hedging Activities

Overall risk profile

The major manufacturing bases of the Company and its subsidiaries are located in Japan and Asia. The selling bases are located globally, and the Company and its subsidiaries generate approximately 40% of their sales from overseas. These overseas sales are mainly denominated in the U.S. dollar or Euro. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates.

The Company's financing subsidiaries in the U.K, the U.S. and Singapore issue variable rate medium-term notes mainly through the Euro markets to finance its overseas long-term operating capital. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates and interest rates.

The Company and its subsidiaries are also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations because most of the counterparties are internationally recognized financial institutions and contracts are diversified into a number of major financial institutions.

Risk management policy

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. It is the Company's principal policy that the Company and its subsidiaries do not enter into derivative financial instruments for speculation purposes.

Foreign currency exchange rate risk management

The Company and its subsidiaries have assets and liabilities which are exposed to foreign currency exchange rate risk and, as a result, they enter into forward exchange contracts and cross currency swap agreements for the purpose of hedging these risk exposures.

In order to fix the future net cash flows principally from trade receivables and payables recognized, which are denominated in foreign currencies, the Company and its subsidiaries on a monthly basis measure the volume and due date of future net cash flows by currency. In accordance with the Company's policy, a certain portion of measured net cash flows is covered using forward exchange contracts, which principally mature within one year.

The Company and its subsidiaries enter into cross currency swap agreements with the same maturities as underlying debt to fix cash flows from long-term debt denominated in foreign currencies. The hedging relationship between the derivative financial instrument and its hedged item is highly effective in achieving offsetting changes in foreign currency exchange rates.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Interest rate risk management

The Company's and certain subsidiaries' exposure to interest rate risk is related principally to long-term debt obligations. Management believes it is prudent to minimize the variability caused by interest rate risk.

To meet this objective, the Company and certain subsidiaries principally enter into interest rate swaps to manage fluctuations in cash flows. The interest rate swaps entered into are receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company and certain subsidiaries receive variable interest rate payments on long-term debt associated with medium-term notes and make fixed interest rate payments, thereby creating fixed interest rate long-term debt.

The Company and certain financing subsidiaries mainly finance a portion of their operations by long-term debt with a fixed interest rate and lend funds at variable interest rates. Therefore, such companies are exposed to interest rate risk. Management believes it is prudent to minimize the variability caused by interest rate risk. To meet this objective, the Company and certain financing subsidiaries principally enter into interest rate swaps converting the fixed rate to the variable rate to manage fluctuations in fair value resulting from interest rate risk. Under the interest rate swaps, the Company and certain financing subsidiaries receive fixed interest rate payments associated with medium-term notes and make variable interest rate payments, thereby creating variable-rate long-term debt.

The hedging relationship between the interest rate swaps and its hedged item is highly effective in achieving offsetting changes in cash flows and fair value resulting from interest rate risk.

Fair value hedge

Changes in fair value of both recognized assets and liabilities, and derivative financial instruments designated as fair value hedges of these assets and liabilities are recognized in other income (deductions). Derivative financial instruments designated as fair value hedges include forward exchange contracts associated with operating transactions, cross currency swap agreements and interest rate swaps associated with financing transactions.

Exchange gain for the years ended March 31, 2008 and 2006 includes a net gain of ¥4,142 million and a net loss of ¥2,373 million, respectively, which represent the component excluded from the assessment of hedge effectiveness. Net gain or loss excluded from the assessment of hedge effectiveness is not material for the year ended March 31, 2007. The sum of the amount of hedge ineffectiveness is not material for the years ended March 31, 2008, 2007 and 2006.

Interest charges for the years ended March 31, 2008, 2007 and 2006 include a net loss of ¥586 million and net gains of ¥601 million and ¥1,192 million, respectively, which represent the component excluded from the assessment of hedge effectiveness. The sum of the amount of hedge ineffectiveness is not material for the years ended March 31, 2008, 2007 and 2006.

Table of Contents

HITACHI, LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Cash flow hedge

Foreign currency exposure:

Changes in fair value of forward exchange contracts designated and qualifying as cash flow hedges of forecasted transactions are reported in accumulated other comprehensive income (AOCI). These amounts are reclassified into earnings in the same period as the hedged items affect earnings.

Exchange gain for the years ended March 31, 2008 and 2006 includes net gains of ¥1,591 million and ¥165 million, respectively, which represent the component excluded from the assessment of hedge effectiveness. Net gain or loss excluded from the assessment of hedge effectiveness is not material for the year ended March 31, 2007. Exchange gain for the year ended March 31, 2006 includes a net loss of ¥119 million which represents the component of hedge ineffectiveness. The sum of the amount of the hedge ineffectiveness is not material for the years ended March 31, 2008 and 2007.

It is expected that a net gain of approximately ¥2,239 million recorded in AOCI relating to existing forward exchange contracts will be reclassified into other income or other deductions during the year ending March 31, 2009.

As of March 31, 2008, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to the variability in future cash flows associated with foreign currency forecasted transactions is approximately 59 months.

Interest rate exposure:

Changes in fair values of interest rate swaps designated as hedging instruments for the variability of cash flows associated with long-term debt obligations are reported in AOCI. These amounts subsequently are reclassified into interest charges as a yield adjustment in the same period in which the hedged debt obligations affect earnings.

Interest charges for the years ended March 31, 2008, 2007 and 2006 include a net loss of ¥194 million and net gains of ¥99 million and ¥143 million, respectively, which represent the component excluded from the assessment of hedge effectiveness. Interest charges for the year ended March 31, 2008 include a net loss of ¥730 million which represents the component of hedge ineffectiveness. The sum of the amount of hedge ineffectiveness is not material for the years ended March 31, 2007 and 2006.

It is expected that a net loss of approximately ¥180 million recorded in AOCI related to the interest rate swaps will be reclassified into interest charges as a yield adjustment of the hedged debt obligations during the year ending March 31, 2009.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The contract or notional amounts of derivative financial instruments held as of March 31, 2008 and 2007 are summarized as follows:

	Yen (millions)	
	2008	2007
Forward exchange contracts:		
To sell foreign currencies	277,379	290,177
To buy foreign currencies	109,840	94,540
Cross currency swap agreements:		
To sell foreign currencies	48,736	110,815
To buy foreign currencies	206,392	138,888
Interest rate swaps	443,426	454,939
Option contracts	13,269	13,251

(25) Concentrations of Credit Risk

The Company and its subsidiaries generally do not have significant concentrations of credit risk to any counterparties nor any regions because they are diversified and spread globally.

(26) Fair Value of Financial Instruments

The following methods and assumptions are used to estimate the fair values of financial instruments:

Investments in securities

The fair value of investments in securities is estimated based on quoted market prices for these or similar securities.

Long-term debt

The fair value of long-term debt is estimated based on quoted market prices or the present value of future cash flows using the Company's and its subsidiaries' incremental borrowing rates for similar borrowing arrangements.

Cash and cash equivalents, Trade receivables, Short-term debt and Trade payables

The carrying amount approximates the fair value because of the short maturity of these instruments.

Derivative financial instruments

The fair values of forward exchange contracts, cross currency swap agreements, interest rate swaps and option contracts are estimated on the basis of the market prices of derivative financial instruments with similar contract conditions.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The carrying amounts and estimated fair values of the financial instruments as of March 31, 2008 and 2007 are as follows:

	Yen (millions)			
	2008		2007	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Investments in securities:				
Short-term investments	61,289	61,289	33,986	33,986
Investments and advances	269,498	269,498	397,958	397,957
Derivatives (Assets):				
Forward exchange contracts	12,325	12,325	1,077	1,077
Cross currency swap agreements	13,840	13,840	62	62
Interest rate swaps	636	636	1,660	1,660
Option contracts	70	70	10	10
Long-term debt	(1,808,486)	(1,793,317)	(1,793,057)	(1,770,776)
Derivatives (Liabilities):				
Forward exchange contracts	(977)	(977)	(1,606)	(1,606)
Cross currency swap agreements	(1,289)	(1,289)	(15,294)	(15,294)
Interest rate swaps	(3,520)	(3,520)	(1,186)	(1,186)
Option contracts	(25)	(25)	(591)	(591)

It is not practicable to estimate the fair value of investments in unlisted stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amounts of these investments at March 31, 2008 and 2007 totaled ¥54,898 million and ¥72,190 million, respectively.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(27) Merger and Acquisition**

On October 11, 2006, the Company signed a basic agreement with Clarion Co., Ltd. (Clarion) and decided to purchase additional shares of Clarion through a tender offer at ¥230 per share. The purchase price of ¥230 per share was determined by comprehensively taking into consideration the market price of Clarion common stock, Clarion's financial condition, future earnings prospects and a third party evaluation of the estimated value of Clarion stock, and included a premium of approximately 33 % over average share price of Clarion common stock traded on the First Section of the Tokyo Stock Exchange for the three month period immediately preceding October 10, 2006. As a result, the Company purchased a total of 139,108,174 shares for ¥31,994 million tendered in the period from October 25, 2006 through November 30, 2006, resulting in the Company's ownership increasing from 14.4% to 63.7%. Accordingly, the Company obtained control over Clarion and it became a consolidated subsidiary of the Company effective December 7, 2006.

Clarion manufactures and sells in-vehicle equipment such as car audio and car navigation systems. The Company has strategically targeted the automotive systems business and the purpose of the tender offer was to further expand its car information system business.

The amount assigned to each major asset and liability caption of Clarion at the acquisition date is as follows:

	Yen (millions)
Current assets	83,414
Non-current assets	50,558
Goodwill (not deductible for tax purposes)	22,620
Current liabilities	(61,063)
Non-current liabilities	(38,568)
Minority interests	(11,997)
Net assets previously acquired	(12,444)
Acquisition cost (including direct acquisition costs)	(32,520)

The results of operations of Clarion for the period from December 7, 2006 to March 31, 2007 are included in the accompanying consolidated statements of operations. On a pro forma basis, revenue, net income and the per share information of the Company with assumed acquisition dates for Clarion of April 1, 2006 and 2005 would not differ materially from the amounts reported in the accompanying consolidated financial statements as of and for the years ended March 31, 2007 and 2006.

Table of Contents**HITACHI, LTD.****AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(28) Stock Option Plans**

The Company and certain subsidiaries have stock option plans. Under the Company's stock option plans, non-employee directors, executive officers and certain employees have been granted stock options to purchase the Company's common stock. Under these stock option plans, options were granted at prices not less than market value at the date of grant and are exercisable from one year after the date of grant and expire four years after the date of grant. The Company and certain subsidiaries recognized no material stock-based compensation expense for the years ended March 31, 2008, 2007 and 2006.

The fair value of the Company's stock options is estimated using the Black-Sholes option pricing model under the following assumptions:

	2006
Expected volatility	37%
Expected dividends	1.6%
Expected term	4 years
Risk-free rate	1.26%
Grant-date fair value	¥172

During the years ended March 31, 2008 and 2007, the Company granted no stock option.

A summary of the Company's stock option plans' activity for the year ended March 31, 2008 is as follows:

	Stock options (shares)	Weighted- average exercise price (yen)	Weighted- average Remaining contractual term (year)	Aggregate intrinsic value (yen (millions))
Outstanding at beginning of year	1,828,000	721		
Exercised	(362,000)	659		
Forfeited	(280,000)	757		
Expired	(97,000)	561		
Outstanding at end of year	1,089,000	747	0.9	
Exercisable at end of year	1,089,000	747	0.9	

The exercise prices of the stock options outstanding as of March 31, 2008 are ¥782, ¥705 and ¥719.

The total intrinsic value of options exercised during the years ended March 31, 2008, 2007 and 2006 was ¥74 million, ¥45 million, ¥31 million, respectively. The total cash received as a result of stock option exercises for the years ended March 31, 2008, 2007 and 2006 was ¥238 million, ¥170 million and ¥130 million, respectively.

The Compensation Committee decided to cease granting stock options as part of the Company's compensation policy at the meeting held on March 30, 2006.

Table of Contents**Schedule II****HITACHI, LTD.****AND SUBSIDIARIES****Valuation and Qualifying Accounts****Years ended March 31, 2008, 2007 and 2006****(In millions of yen)**

	Balance at beginning of period	Charged to income	Bad debts written off	Balance at end of period
Year ended March 31, 2008				
Allowance for doubtful receivables	43,475	3,231	(5,803)	40,903
Year ended March 31, 2007				
Allowance for doubtful receivables	41,610	10,883	(9,018)	43,475
Year ended March 31, 2006				
Allowance for doubtful receivables	40,330	5,480	(4,200)	41,610

Table of Contents

ITEM 18. FINANCIAL STATEMENTS

Not applicable.

ITEM 19. EXHIBITS

Hitachi has filed the following documents as exhibits to this annual report.

- 1.1 Articles of Incorporation of Hitachi, Ltd., as amended on June 27, 2006 (English Translation)
(incorporated by reference to Exhibit 1.1 of Hitachi, Ltd.'s annual report on Form 20-F filed with the SEC on August 7, 2006 (file no. 001-08320))
- 1.2 Regulations on Handling Shares, etc. of Hitachi, Ltd., as amended on November 26, 2007 (English Translation)
- 1.3 Board of Directors Regulations of Hitachi, Ltd., as amended on April 1, 2007 (English Translation)
- 8.1 List of subsidiaries
See Item 4. Information on the Company C. Organizational Structure.
- 11.1 Code of Ethics for Directors and Executive Officers of Hitachi, Ltd., as amended on September 30, 2007 (English Translation)
- 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

Hitachi has not included as exhibits certain instruments with respect to its long-term debt. The total amount of long-term debt securities of the Company or its subsidiaries, authorized under any instrument does not exceed 10% of Hitachi's total assets. Hitachi hereby agrees to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of long-term debt of the Company or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.

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: June 20, 2008

Hitachi, Ltd.
(Registrant)

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

148

Table of Contents

EXHIBIT INDEX

- 1.1 Articles of Incorporation of Hitachi, Ltd., as amended on June 27, 2006 (English Translation)
(incorporated by reference to Exhibit 1.1 of Hitachi, Ltd.'s annual report on Form 20-F filed with the SEC on August 7, 2006 (file no. 001-08320))
- 1.2 Regulations on Handling Shares, etc. of Hitachi, Ltd., as amended on November 26, 2007 (English Translation)
- 1.3 Board of Directors Regulations of Hitachi, Ltd., as amended on April 1, 2007 (English Translation)
- 8.1 List of subsidiaries
See Item 4. Information on the Company C. Organizational Structure.
- 11.1 Code of Ethics for Directors and Executive Officers of Hitachi, Ltd., as amended on September 30, 2007 (English Translation)
- 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