

Operating and Financial Review

Operating Results

Effective from April 1, 2016, the Company changed the name of the “Others (Logistics and Other services)” segment to the “Others” segment.

Summary

Years ended March 31:	Billions of yen		Percent change
	2016	2017	
Revenues	¥10,034.3	¥9,162.2	-9%
EBIT	531.0	475.1	-11%
Income from continuing operations, before income taxes	517.0	469.0	-9%
Net income attributable to Hitachi, Ltd. stockholders	172.1	231.2	34%

Analysis of Statement of Operations

Revenues decreased 9% to ¥9,162.2 billion, as compared with the year ended March 31, 2016. This was due mainly to lower revenues in the Information & Telecommunication Systems, High Functional Materials & Components, Smart Life & Ecofriendly Systems, Others and Financial Services segments. This decrease was partially offset by higher revenues in the Electronic Systems & Equipment segment.

Cost of sales decreased 9% to ¥6,782.6 billion, as compared with the year ended March 31, 2016, and the ratio of cost of sales to revenues was 74%, which was the same level as the year ended March 31, 2016. Gross profit decreased 8% to ¥2,379.5 billion, as compared with the year ended March 31, 2016.

Selling, general and administrative expenses decreased ¥148.0 billion to ¥1,792.2 billion, as compared with the year ended March 31, 2016, and the ratio of selling, general and administrative expenses to revenues was 20%, as compared with 19% for the year ended March 31, 2016.

Other income increased ¥43.2 billion to ¥100.7 billion and other expenses increased ¥4.6 billion to ¥146.5 billion, as compared with the year ended March 31, 2016. The details are as follows.

Net gain on sales and disposal of fixed assets improved by ¥19.5 billion, as compared with the year ended March 31, 2016, to a gain of ¥15.0 billion.

Impairment losses increased ¥23.8 billion to ¥68.5 billion, as compared with the year ended March 31, 2016. This mainly reflected impairment losses on software for sale and other intangible assets in the Information & Telecommunication Systems segment.

Net gain on business reorganization and others increased ¥26.1 billion to ¥81.3 billion, as compared with the year ended March 31, 2016, reflecting the partial sale of the shares of Hitachi Transport System, Ltd. in the Others segment and the sale of Hitachi Koki Co., Ltd. shares in the Electronic Systems & Equipment segment.

Special termination benefits decreased ¥20.8 billion to ¥24.6 billion, as compared with the year ended March 31, 2016.

Expenses related to competition law and others decreased ¥15.5 billion to ¥6.7 billion, as compared with the year ended March 31, 2016.

Financial income (excluding interest income) decreased ¥3.5 billion to ¥7.0 billion and financial expenses (excluding interest charges) decreased ¥4.0 billion to ¥26.2 billion, as compared with the year ended March 31, 2016.

Share of loss of investments accounted for using the equity method was ¥47.1 billion, a deterioration of ¥47.3 billion as compared with the year ended March 31, 2016, mainly reflecting the posting of an impairment loss in connection with the uranium enrichment business at an U.S. equity-method associate in the Social Infrastructure & Industrial Systems segment.

EBIT decreased ¥55.8 billion to ¥475.1 billion, as compared with the year ended March 31, 2016.

Interest income increased ¥0.8 billion to ¥12.9 billion and interest charges decreased ¥6.9 billion to ¥19.0 billion, as compared with the year ended March 31, 2016.

Income from continuing operations, before income taxes decreased ¥47.9 billion to ¥469.0 billion, as compared with the year ended March 31, 2016.

Income taxes decreased ¥40.0 billion to ¥125.1 billion, as compared with the year ended March 31, 2016, due mainly to recording tax expenses in the year ended March 31, 2016 in connection with the partial transfer of shares of Hitachi Transport System, Ltd. and Hitachi Capital Corporation.

Loss from discontinued operations decreased ¥51.1 billion to ¥5.9 billion, as compared with the year ended March 31, 2016.

Net income increased ¥43.2 billion to ¥338.0 billion, as compared with the year ended March 31, 2016.

Net income attributable to non-controlling interests decreased ¥15.8 billion to ¥106.7 billion, as compared with the year ended March 31, 2016.

As a result of the foregoing, net income attributable to Hitachi, Ltd. stockholders increased ¥59.1 billion to ¥231.2 billion, as compared with the year ended March 31, 2016.

Operations by Segment

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

(Information & Telecommunication Systems)

Revenues decreased 6% to ¥1,982.8 billion, as compared with the year ended March 31, 2016, due mainly to the negative impact of foreign currency translation causing lower sales from overseas subsidiaries and to lower sales from ATMs for overseas markets.

Segment profit decreased ¥32.6 billion to ¥76.4 billion, as compared with the year ended March 31, 2016, due mainly to the posting of business structural reform expenses, despite the effect of business structural reform centered on the telecommunications & network business, improvement in profitability of the social infrastructure-related information systems, among other positives.

(Social Infrastructure & Industrial Systems)

Revenues were ¥2,331.9 billion, which was the same level as the year ended March 31, 2016. This mainly reflected decreases in revenues in the elevators and escalators business due to the negative impact of foreign currency translation, and in the power and energy business because of the absence of a large project posted for the year ended March 31, 2016, despite substantial revenue growth in the railway systems business due to the acquisition of the businesses of AnsaldoBreda S.p.A. (excluding a part of its operations), the acquisition of Ansaldo STS S.p.A. (both of which are in Italy), and an increase in revenues for the U.K.

Segment loss was ¥19.9 billion, a deterioration of ¥49.1 billion from the year ended March 31, 2016, due mainly to the posting of an impairment loss regarding the uranium enrichment business of an equity-method associate in the U.S. and lower earnings in the elevators and escalators business because of the negative impact of foreign currency translation.

(Electronic Systems & Equipment)

Revenues increased 4% to ¥1,170.3 billion, as compared with the year ended March 31, 2016, due mainly to increased revenues at Hitachi Koki Co., Ltd. because of the acquisition of Germany-based metabo Aktiengesellschaft, despite a decrease in revenues at Hitachi Kokusai Electric Inc. mainly owing to lower sales of telecommunication equipment and video surveillance systems in Japan.

Segment profit increased ¥2.4 billion to ¥66.7 billion, as compared with the year ended March 31, 2016, due mainly to higher earnings at Hitachi High-Technologies Corporation due to firm sales of semiconductor production equipment and higher earnings at Hitachi Koki Co., Ltd. because of the increased revenues, despite a decrease in earnings at Hitachi Kokusai Electric Inc. mainly because of a decline in revenues and the posting of business structural reform expenses.

(Construction Machinery)

Revenues decreased 1% to ¥753.9 billion, as compared with the year ended March 31, 2016, due mainly to the negative impact of foreign currency translation caused by appreciation of the yen, despite the recovery of demand for hydraulic excavators in China and India.

Segment profit decreased ¥3.1 billion to ¥22.7 billion, as compared with the year ended March 31, 2016, due mainly to the absence of a gain on business reorganization and others related to the sale of shares of UniCarriers Holdings Corporation recorded for the year ended March 31, 2016, despite the effect of business structural reforms, decreases in business structural reform expenses and an improvement in exchange gain or loss.

(High Functional Materials & Components)

Revenues decreased 6% to ¥1,464.6 billion, as compared with the year ended March 31, 2016, due mainly to a fall in revenues at Hitachi Metals, Ltd. due to the negative impact of foreign currency translation causing a fall in sales from overseas subsidiaries and a decline in demand associated with the slower economies in China and emerging countries in Asia.

Segment profit decreased ¥30.2 billion to ¥123.3 billion, as compared with the year ended March 31, 2016, due mainly to the decrease in revenues and the absence of gains on business reorganization and others related to the sales of equity interest in Hitachi Tool Engineering, Ltd. by Hitachi Metals, Ltd. in the year ended March 31, 2016.

(Automotive Systems)

Revenues decreased 1% to ¥992.2 billion, as compared with the year ended March 31, 2016, due mainly to negative impact of foreign currency translation, despite sales growth particularly in North America and China, where demand for automobiles was firm.

Segment profit increased ¥11.8 billion to ¥65.8 billion, as compared with the year ended March 31, 2016, due mainly to posting of gain on sales and disposals of fixed assets despite the decline in revenues.

(Smart Life & Ecofriendly Systems)

Revenues decreased 18% to ¥557.3 billion, as compared with the year ended March 31, 2016, due mainly to the effect of reorganization of the air-conditioning systems business with an equity-method associate that is a joint venture with Johnson Controls Inc.

Segment profit decreased ¥10.1 billion to ¥31.8 billion, as compared with the year ended March 31, 2016, due mainly to the effect of a decline in revenues from the reorganization of the air-conditioning systems business and the absence of a gain on business reorganization and others in association with the reorganization of the air-conditioning systems business recorded in the year ended March 31, 2016.

(Others)

Revenues decreased 48% to ¥653.7 billion, and segment profit decreased ¥19.9 billion to ¥20.6 billion, as compared with the year ended March 31, 2016, respectively. This was due mainly to the conversion of Hitachi Transport System, Ltd. to an equity-method associate.

(Financial Services)

As Hitachi Capital Corporation was converted to an equity-method associate as of October 2016, there is no company which belongs to the Financial Services segment. Accordingly, only the results for the period in which said company was a consolidated subsidiary are recorded. As a result, revenues decreased 51% to ¥179.2 billion, and segment profit decreased ¥23.8 billion to ¥22.8 billion, as compared with the year ended March 31, 2016, respectively.

Revenues by Geographic Area

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

Years ended March 31:	Billions of yen		Percent change
	2016	2017	
Japan	¥ 5,231.5	¥4,757.6	-9%
Overseas Revenues Subtotal	4,802.7	4,404.5	-8%
Asia	2,112.3	1,860.7	-12%
North America	1,280.3	1,144.0	-11%
Europe	951.1	972.6	2%
Other Areas	459.0	427.1	-7%
Total Revenues	¥10,034.3	¥9,162.2	-9%

Japan

Revenues in Japan decreased 9% to ¥4,757.6 billion, as compared with the year ended March 31, 2016. This was due to lower revenues across all segments, particularly in the Others segment, reflecting the conversion of Hitachi Transport System, Ltd. to an equity-method associate and in the Financial Services segment in which Hitachi Capital Corporation was converted to an equity-method associate.

Overseas

Overseas revenues decreased 8% to ¥4,404.5 billion, as compared with the year ended March 31, 2016, and the ratio to total revenues was 48%, which was the same level as the year ended March 31, 2016.

(Asia)

Revenues in Asia decreased 12% to ¥1,860.7 billion, as compared with the year ended March 31, 2016. This was due mainly to lower revenues in the Social Infrastructure & Industrial Systems segment, reflecting reduced revenues in the elevators and escalators business, particularly in China, the Others segment in which Hitachi Transport System, Ltd. was converted to an equity-method associate, and the Smart Life & Ecofriendly Systems segment due to the reorganization of the air-conditioning systems business, despite higher revenues in the Electronic Systems & Equipment and the Construction Machinery segments.

(North America)

Revenues in North America decreased 11% to ¥1,144.0 billion, as compared with the year ended March 31, 2016. This was due mainly to lower revenues in the Information & Telecommunication Systems, High Functional Materials & Components and Others segments, despite higher revenues in the Social Infrastructure & Industrial Systems segment.

(Europe)

Revenues in Europe increased 2% to ¥972.6 billion, as compared with the year ended March 31, 2016. This was due mainly to higher revenues in the Social Infrastructure & Industrial Systems segment, reflecting substantial growth in the railway systems business, and the Electronic Systems & Equipment segment, in which Hitachi Koki Co., Ltd. recorded increased revenues due to the acquisition of metabo Aktiengesellschaft, despite lower revenues in the Others and the Financial Services segments, etc.

(Other Areas)

Revenues in other areas decreased 7% to ¥427.1 billion, as compared with the year ended March 31, 2016. This was due mainly to lower revenues in the Smart Life & Ecofriendly Systems and the Others segments, despite higher revenues in the Social Infrastructure & Industrial Systems segment, reflecting increased revenues in the railway systems business, and the Electronic Systems & Equipment segment, reflecting increased revenues by Hitachi High-Technologies Corporation.

Summary of Financial Condition, etc.

Liquidity and Capital Resources

Our management considers maintaining an appropriate level of liquidity and securing adequate funds for current and future business operations to be important financial objectives. Through efficient management of working capital and selective investment in new plants and equipment, we are working to optimize the efficiency of capital utilization throughout our business operations. We endeavor to improve our group cash management by centralizing such management among us and our overseas financial subsidiaries. Our internal sources of funds include cash flows generated by operating activities and cash on hand. Our management also considers short-term investments to be an immediately available source of funds. In addition, we raise funds both in the capital markets and from Japanese and international commercial banks in response to our capital requirements. Our management's policy is to finance capital expenditures primarily by internally generated funds and to a lesser extent by funds raised through the issuance of debt and equity securities in domestic and foreign capital markets. In order to flexibly access funding, we maintain our shelf registration with the maximum outstanding balance of ¥300.0 billion.

We maintain commitment line agreements with a number of domestic banks under which we may borrow in order to ensure efficient access to necessary funds. These commitment line agreements generally provide for a one-year term, renewable upon mutual agreement between us and each of the lending banks, as well as another commitment line agreement with a contract term of three years ending on July 29, 2019. As of March 31, 2017, our unused commitment lines totaled ¥599.0 billion, including these of ¥400.0 billion which the Company maintained.

We receive debt ratings from Moody's Japan K.K. (Moody's), Standard & Poor's Rating Japan (S&P), as well as Rating and Investment Information, Inc. (R&I). Our debt ratings as of March 31, 2017 were as follows.

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

With our current ratings, we believe that our access to the global capital markets will remain sufficient for our financing needs. We seek to improve our credit ratings in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain access to sufficient funding resources through the capital markets.

Cash Flows

Years ended March 31:	Billions of yen	
	2016	2017
Net cash provided by operating activities	¥ 812.2	¥ 629.5
Net cash used in investing activities	(730.7)	(337.9)
Net cash used in financing activities	(26.4)	(209.5)
Effect of exchange rate changes on cash and cash equivalents	(57.3)	(16.1)
Change in cash and cash equivalents	(2.3)	65.9
Cash and cash equivalents at beginning of year	701.7	699.3
Cash and cash equivalents at end of year	¥ 699.3	¥ 765.2

(Cash Flows from Operating Activities)

Net income in the year ended March 31, 2017 increased by ¥43.2 billion, as compared with the year ended March 31, 2016. Trade payables increased by ¥111.5 billion in the year ended March 31, 2017, as compared with the decrease of ¥1.6 billion in the year ended March 31, 2016. However, change in trade receivables and change in inventories decreased net cash flow by ¥143.7 billion and ¥67.0 billion, respectively. As a result of the foregoing, net cash provided by operating activities was ¥629.5 billion in the year ended March 31, 2017, a decrease of ¥182.6 billion compared with the year ended March 31, 2016.

(Cash Flows from Investing Activities)

Net amount of investments related to property, plant and equipment*¹ was ¥462.6 billion, a decrease of ¥189.7 billion as compared with the year ended March 31, 2016.

Proceeds from sale of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) increased by ¥111.1 billion compared with the year ended March 31, 2016, reflecting partial sales of the shares of Hitachi Transport System, Ltd. and Hitachi Capital Corporation, and the sale of all shares of Hitachi Koki Co., Ltd. Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) was ¥177.3 billion, a decrease of ¥19.3 billion compared with the year ended March 31, 2016, in which the acquisition of the businesses of AnsaldoBreda S.p.A. (excluding a part of its operations), the acquisition of Ansaldo STS S.p.A., and the acquisition of Pentaho Corporation were conducted. As a result of the foregoing, net cash used in investing activities was ¥337.9 billion in the year ended March 31, 2017, a decrease of ¥392.8 billion compared with the year ended March 31, 2016.

*1 The sum of the purchase of property, plant and equipment, the purchase of intangible assets and the purchase of leased assets, less the proceeds from sale of property, plant, equipment and intangible assets, the proceeds from sale of leased assets and the collection of lease receivables

(Cash Flows from Financing Activities)

The net cash outflow from a change in short-term debt increased by ¥164.0 billion compared with the year ended March 31, 2016. Proceeds related to long-term debt*² were ¥115.5 billion, a decrease of ¥65.1 billion compared with the year ended March 31, 2016. As a result of the foregoing, net cash used in financing activities was ¥209.5 billion in the year ended March 31, 2017, an increase in net cash outflow of ¥183.0 billion compared with the year ended March 31, 2016.

*2 The proceeds from long-term debt, less the payments on long-term debt

As a result of the above items, as of March 31, 2017, cash and cash equivalents amounted to ¥765.2 billion, net increase of ¥65.9 billion from March 31, 2016. Free cash flows, the sum of cash flows from operating and investing activities, represented an inflow of ¥291.6 billion in the year ended March 31, 2017, an increase in net cash inflow of ¥210.2 billion from the year ended March 31, 2016.

Assets, Liabilities and Equity

As of March 31, 2017, total assets amounted to ¥9,663.9 billion, a decrease of ¥2,887.0 billion from March 31, 2016. This was due mainly to the conversion of Hitachi Capital Corporation and Hitachi Transport System, Ltd. into equity-method associates and the sale of Hitachi Koki Co., Ltd. Cash and cash equivalents as of March 31, 2017 amounted to ¥765.2 billion, an increase of ¥65.9 billion from the amount as of March 31, 2016.

As of March 31, 2017, total interest-bearing debt, the sum of short-term debt and long-term debt, amounted to ¥1,176.6 billion, a decrease of ¥2,427.8 billion from March 31, 2016. As of March 31, 2017, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥196.3 billion, a decrease of ¥675.0 billion from March 31, 2016. As of March 31, 2017, current portion of long-term debt amounted to ¥190.2 billion, a decrease of ¥461.2 billion from March 31, 2016. As of March 31, 2017, long-term debt (excluding current portion), consisting mainly of debentures, and loans principally from banks and insurance companies, amounted to ¥790.0 billion, a decrease of ¥1,291.5 billion from March 31, 2016.

As of March 31, 2017, total Hitachi, Ltd. stockholders' equity amounted to ¥2,967.0 billion, an increase of ¥232.0 billion from March 31, 2016. This is due mainly to the posting of net income attributable to Hitachi, Ltd. stockholders, despite the impact of converting Hitachi Capital Corporation into an equity-method associate. As a result, the ratio of total Hitachi, Ltd. stockholders' equity to total assets as of March 31, 2017 was 30.7%, compared with 21.8% as of March 31, 2016.

Non-controlling interests as of March 31, 2017 was ¥1,129.9 billion, a decrease of ¥260.5 billion from March 31, 2016.

Total equity as of March 31, 2017 was ¥4,096.9 billion, a decrease of ¥28.5 billion from March 31, 2016. The ratio of interest-bearing debt to total equity was 0.29, compared with 0.87 as of March 31, 2016.