

Operating and Financial Review

Operating Results

Effective from April 1, 2015, the Power Systems segment has been integrated to the Social Infrastructure & Industrial Systems segment. Figures for the Social Infrastructure & Industrial Systems segment, including figures for the year ended March 31, 2015, reflect the new segmentation.

Summary

Years ended March 31	Billions of yen		Percent change
	2015	2016	
Revenues	¥9,774.9	¥10,034.3	3%
EBIT	534.0	531.0	-1%
Income from continuing operations, before income taxes	518.9	517.0	0%
Net income attributable to Hitachi, Ltd. stockholders	217.4	172.1	-21%

Analysis of Statement of Operations

Revenues increased 3% to ¥10,034.3 billion, as compared with the year ended March 31, 2015. This was due mainly to higher revenues in the Information & Telecommunication Systems, Social Infrastructure & Industrial Systems, High Functional Materials & Components and Automotive Systems segments, etc. This increase was partially offset by lower revenues in the Construction Machinery, Smart Life & Ecofriendly Systems and Others (Logistics and Other services) segments, etc.

Cost of sales increased 4% to ¥7,459.0 billion, as compared with the year ended March 31, 2015, and the ratio of cost of sales to revenues was 74%, which was the same level as the year ended March 31, 2015. Gross profit was ¥2,575.2 billion, which was the same level as the year ended March 31, 2015.

Selling, general and administrative expenses were ¥1,940.3 billion, which was the same level as the year ended March 31, 2015, and the ratio of selling, general and administrative expenses to revenues was 19%, as compared with 20% for the year ended March 31, 2015.

Other income increased ¥48.1 billion to ¥57.5 billion and other expenses decreased ¥25.9 billion to ¥141.8 billion, as compared with the year ended March 31, 2015, respectively. The details are as follows.

Net loss on sales and disposal of fixed assets decreased ¥12.3 billion to ¥4.4 billion, as compared with the year ended March 31, 2015.

Impairment losses increased ¥2.6 billion to ¥44.7 billion, as compared with the year ended March 31, 2015. This mainly consisted of impairment losses recognized for certain assets as a result of business portfolio restructuring in the Information & Telecommunication Systems segment.

Net gain on business reorganization and others was ¥55.2 billion, as compared with net loss of ¥55.0 billion in the year ended March 31, 2015. The net gain in the year ended March 31, 2016 was due mainly to posting a gain on sales of shares of UniCarriers Holdings Corporation by Hitachi Construction Machinery Co., Ltd. in the Construction Machinery segment and sales of shares of Hitachi Tool Engineering, Ltd. by Hitachi Metals, Ltd. in the High Functional Materials & Components segment as well as the reorganization of the air-conditioning systems business in the Smart Life & Ecofriendly Systems segment.

Restructuring charges increased ¥10.1 billion to ¥36.8 billion, as compared with the year ended March 31, 2015. This mainly consisted of expenses for business restructuring in the Information & Telecommunication Systems segment.

Expenses related to competition law and others decreased ¥3.5 billion to ¥22.3 billion, as compared with the year ended March 31, 2015.

Financial income (excluding interest income) increased ¥2.8 billion to ¥10.6 billion and financial expenses (excluding interest charges) increased ¥27.0 billion to ¥30.2 billion, as compared with the year ended March 31, 2015, respectively. This was due mainly to an increase in exchange loss from ¥23.9 billion to ¥26.5 billion, as compared with the year ended March 31, 2015.

Share of profits of investments accounted for using the equity method decreased ¥46.5 billion to ¥0.1 billion due mainly to deterioration of profitability of overseas equity-method associates, as compared with the year ended March 31, 2015.

EBIT decreased ¥3.0 billion to ¥531.0 billion, as compared with the year ended March 31, 2015.

Interest income decreased ¥0.5 billion to ¥12.0 billion and interest charges decreased ¥1.6 billion to ¥25.9 billion, as compared with the year ended March 31, 2015, respectively.

Income from continuing operations, before income taxes decreased ¥1.9 billion to ¥517.0 billion, as compared with the year ended March 31, 2015.

Income taxes increased ¥43.1 billion to ¥165.2 billion, as compared with the year ended March 31, 2015, due mainly to tax expense recognized for partial transfer of shares of Hitachi Transport System, Ltd. and Hitachi Capital Corporation.

Loss from discontinued operations increased ¥3.5 billion to ¥57.0 billion, as compared with the year ended March 31, 2015.

Net income decreased ¥48.6 billion to ¥294.7 billion, as compared with the year ended March 31, 2015.

Net income attributable to non-controlling interests decreased ¥3.3 billion to ¥122.5 billion, as compared with the year ended March 31, 2015.

As a result of the foregoing, net income attributable to Hitachi, Ltd. stockholders decreased ¥45.3 billion to ¥172.1 billion, as compared with the year ended March 31, 2015.

Operations by Segment

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

(Information & Telecommunication Systems)

Revenues increased 4% to ¥2,109.3 billion, as compared with the year ended March 31, 2015, due mainly to solid performances by the system solutions business centered on financial systems and higher revenues from the storage solutions business as a result of the effects of foreign exchange rate fluctuations.

Segment profit increased ¥3.0 billion to ¥109.1 billion, as compared with the year ended March 31, 2015, due mainly to higher profits in the system solutions business resulting from increased revenues. This increase was partially offset by lower profits in the platform business owing to the effect of reduction in capital investment by Japanese telecommunications carriers in the telecommunications & network business, to decreased demand for high-end storage in North America and to posting expenses related to business restructuring.

(Social Infrastructure & Industrial Systems)

Revenues increased 13% to ¥2,333.1 billion, as compared with the year ended March 31, 2015, due mainly to significantly increased revenues from the railway systems business resulting from the acquisition of relevant businesses from Finmeccanica S.p.A. and to solid performances by the power generation systems business and the elevators and escalators business.

Segment profit decreased ¥81.2 billion to ¥29.1 billion, as compared with the year ended March 31, 2015. This decrease was due mainly to increased losses from Middle Eastern projects in the infrastructure systems business, to a decrease in share of profits of investments accounted for using the equity method, to posting expenses related to business restructuring and currency exchange loss, and to the absence of net gain on business reorganization and others relating to Mitsubishi-Hitachi Metals Machinery, Inc. posted in the year ended March 31, 2015.

(Electronic Systems & Equipment)

Revenues were ¥1,127.6 billion, which was the same level as the year ended March 31, 2015. Hitachi High-Technologies Corporation posted higher revenues due mainly to higher sales of electron microscopes and clinical analyzers, and Hitachi Koki Co., Ltd. also posted higher revenues due mainly to higher sales of power tools in North America. These results were offset by lower revenues at Hitachi Kokusai Electric Inc., which was affected by a drop in post-earthquake reconstruction demand following Great East Japan Earthquake.

Segment profit increased ¥0.5 billion to ¥64.3 billion, as compared with the year ended March 31, 2015. This increase was due mainly to non-recurring gain posted for the shift to defined contribution pension plan at Hitachi High-Technologies Corporation, and to improved profit in the healthcare business resulting from the effect of business restructuring. Hitachi Kokusai Electric Inc. posted decreased profit owing to lower revenue, and Hitachi Koki Co., Ltd. also posted decreased profit owing to the effect of the foreign exchange rate fluctuations and economic slowdown in emerging countries and resource-producing countries.

(Construction Machinery)

Revenues decreased 7% to ¥758.3 billion, as compared with the year ended March 31, 2015, due mainly to sluggish market conditions in Asia, in particular China, as well as Oceania and Russia.

Segment profit decreased ¥34.7 billion to ¥25.8 billion, as compared with the year ended March 31, 2015, due mainly to lower revenues and to a higher proportion of compact models with lower profitability in the product mix owing to exhaust emission regulations in Japan and changes in product mix for China market. This decrease was also attributable to disposal of inventories, foreign exchange losses owing to the depreciation of emerging-market currencies, and posting expenses for business restructuring. This decrease was partially offset by net gain on business reorganization and others related to the sale of shares of UniCarriers Holdings Corporation.

(High Functional Materials & Components)

Revenues increased 2% to ¥1,564.0 billion, as compared with the year ended March 31, 2015. This increase was due mainly to the effects of the consolidation of Waupaca Foundry Holdings, Inc. by Hitachi Metals, Ltd. in November 2014 and of CSB Battery Co., Ltd. by Hitachi Chemical Company, Ltd. in January 2015, and to solid performances for automobile-related products. This increase was partially offset by the impact of slowdown in Chinese market and decreased demand for electronics-related products.

Segment profit increased ¥29.6 billion to ¥153.5 billion, as compared with the year ended March 31, 2015. This increase was due mainly to higher revenues, the effects of business restructuring and posting net gain on business reorganization and others related to the sale of a part of equity interest in Hitachi Tool Engineering, Ltd. by Hitachi Metals, Ltd.

(Automotive Systems)

Revenues increased 7% to ¥1,001.1 billion, as compared with the year ended March 31, 2015, due mainly to growth in sales driven by robust demand for automobiles in North America and China.

Segment profit increased ¥18.9 billion to ¥53.9 billion, as compared with the year ended March 31, 2015, due mainly to higher revenues, a decrease in expenses related to competition law and others, and a decrease in exchange loss.

(Smart Life & Ecofriendly Systems)

Revenues decreased 10% to ¥681.0 billion, as compared with the year ended March 31, 2015, due mainly to the effect of reorganization of the air-conditioning systems business. This decrease was partially offset by solid performance in the home appliances business such as refrigerators and washing machines.

Segment profit increased ¥7.4 billion to ¥41.9 billion, as compared with the year ended March 31, 2015, due mainly to the net gain on business reorganization and others related to the reorganization of the air-conditioning systems business, despite lower revenues.

(Others (Logistics and Other services))

Revenues decreased 2% to ¥1,252.7 billion, as compared with the year ended March 31, 2015, due mainly to lower revenues of optical disk drives business owing to weaker demand.

Segment profit decreased ¥10.4 billion to ¥40.6 billion, as compared with the year ended March 31, 2015, due mainly to expenses related to business restructuring in optical disk drives business, despite increased profits at Hitachi Transport System, Ltd resulting from improved profitability.

(Financial Services)

Revenues increased 3% to ¥365.3 billion, as compared with the year ended March 31, 2015, due mainly to solid performance in Japan and strong performance in overseas business, particularly in North America.

Segment profit increased ¥11.2 billion to ¥46.6 billion, as compared with the year ended March 31, 2015, due mainly to higher revenues, the absence of expenses related to business restructuring posted in the year ended March 31, 2015, and the effects of such business restructuring.

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
	2015	2016	
Japan	¥5,220.3	¥5,231.5	0%
Overseas Revenues			
Subtotal	4,554.5	4,802.7	5%
Asia	2,178.2	2,112.3	-3%
North America	1,064.1	1,280.3	20%
Europe	841.9	951.1	13%
Other Areas	470.2	459.0	-2%
Total Revenues	¥9,774.9	¥10,034.3	3%

Japan

Revenues in Japan were ¥5,231.5 billion, which was the same level as the year ended March 31, 2015. This was due mainly to higher revenues from the system solutions business centered on financial systems in the Information & Telecommunication Systems segment, and higher revenues from the power generation systems business and the infrastructure systems business in the Social Infrastructure & Industrial Systems segment, despite lower revenues in the High Functional Materials & Components and Automotive Systems segments, etc.

Overseas

Overseas revenues increased 5% to ¥4,802.7 billion, as compared with the year ended March 31, 2015, and the ratio to total revenues was 48%, compared with 47% for the year ended March 31, 2015.

(Asia)

Revenues in Asia decreased 3% to ¥2,112.3 billion, as compared with the year ended March 31, 2015. This was due mainly to lower revenues in the Smart Life & Ecofriendly Systems segment, which was affected by the reorganization of the air-conditioning systems business, and in the Construction Machinery segment mainly because of decreased sales particularly in China, despite higher revenues in the Automotive Systems and Social Infrastructure & Industrial Systems segments, etc.

(North America)

Revenues in North America increased 20% to ¥1,280.3 billion, as compared with the year ended March 31, 2015. This increase was due mainly to higher revenues in the High Functional Materials & Components segment as a result of the effects of the consolidation of Waupaca Foundry Holdings, Inc. by Hitachi Metals, Ltd., and in the Automotive Systems segment, despite lower revenues in the Construction Machinery and Others (Logistics and Other services) segments.

(Europe)

Revenues in Europe increased 13% to ¥951.1 billion, as compared with the year ended March 31, 2015. This increase was due mainly to higher revenues in the Social Infrastructure & Industrial Systems segment which reported increased revenues from the railway systems business, and in the Information & Telecommunication Systems segment, despite lower revenues in the Construction Machinery and Smart Life & Ecofriendly Systems segments.

(Other Areas)

Revenues in other areas decreased 2% to ¥459.0 billion, as compared with the year ended March 31, 2015. This decrease was due mainly to lower revenues in the Construction Machinery and Smart Life & Ecofriendly Systems segments, despite higher revenues in the Social Infrastructure & Industrial Systems segment which reported increased revenues from the railway systems business.

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 in July 2019. As of March 31, 2016, our unused commitment lines totaled ¥553.0 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, 2016 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	
	2015	2016
Net cash provided by operating activities	¥ 451.8	¥ 812.2
Net cash used in investing activities	(612.5)	(730.7)
Net cash provided by (used in) financing activities	233.2	(26.4)
Effect of exchange rate changes on cash and cash equivalents	68.5	(57.3)
Net increase (decrease) in cash and cash equivalents	141.0	(2.3)
Cash and cash equivalents at beginning of year	560.6	701.7
Cash and cash equivalents at end of year	¥ 701.7	¥ 699.3

(Cash Flows from Operating Activities)

Net income in the year ended March 31, 2016 decreased ¥48.6 billion, as compared with the year ended March 31, 2015. Changes in working capital in the year ended March 31, 2016 from collection of receivables, a decrease in inventories and changes in trade payables improved net cash flow by ¥148.3 billion, ¥160.6 billion and ¥16.4 billion, respectively. As a result of the foregoing, net cash provided by operating activities was ¥812.2 billion in the year ended March 31, 2016, an increase of ¥360.4 billion compared with the year ended March 31, 2015.

(Cash Flows from Investing Activities)

Proceeds from sales of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) increased by ¥16.2 billion as compared with the year ended March 31, 2015. Net amount of investments related to property, plant and equipment*¹ was ¥652.3 billion in the year ended March 31, 2016, an increase of ¥83.7 billion as compared with the year ended March 31, 2015. Purchase of investments in securities and other financial assets (including investments in subsidiaries and investments accounted for using the equity method) in the year ended March 31, 2016 was ¥196.6 billion, an increase of ¥43.7 billion as compared with the year ended March 31, 2015, due mainly to the acquisition of relevant businesses from Finmeccanica S.p.A. and the acquisition of Pentaho Corporation by Hitachi Data Systems Corporation. As a result of the foregoing, net cash used in investing activities was ¥730.7 billion in the year ended March 31, 2016, an increase of ¥118.2 billion compared with the year ended March 31, 2015.

*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)

Net cash outflow from a decrease in short-term debt increased by ¥206.7 billion as compared with the year ended March 31, 2015. Proceeds related to long-term debt*² in the year ended March 31, 2016 was ¥180.6 billion, a decrease of ¥25.4 billion as compared with the year ended March 31, 2015. As a result of the foregoing, net cash used in financing activities was ¥26.4 billion in the year ended March 31, 2016, an increase in net cash outflow of ¥259.6 billion compared with the year ended March 31, 2015.

*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, 2016, cash and cash equivalents amounted to ¥699.3 billion, net decrease of ¥2.3 billion from March 31, 2015. Free cash flows, the sum of cash flows from operating and investing activities, represented an inflow of ¥81.4 billion in the year ended March 31, 2016, an increase in net cash inflow of ¥242.1 billion from the year ended March 31, 2015.

Assets, Liabilities and Equity

As of March 31, 2016, total assets amounted to ¥12,551.0 billion, an increase of ¥117.2 billion from March 31, 2015. This was due mainly to the effect of the acquisition of the signaling systems and railway businesses of Finmeccanica S.p.A. and the acquisition of Pentaho Corporation by Hitachi Data Systems Corporation, and an increase in trade receivables associated with business expansion, especially for foreign markets, in the Financial Services segment. This increase was partially offset by the effect of reorganization of the air-conditioning systems business, decreases in the value of assets denominated in foreign currency owing to the appreciation of yen, the effect of lower stock price and the effect of inventory reduction. Cash and cash equivalents as of March 31, 2016 amounted to ¥699.3 billion, a decrease of ¥2.3 billion from the amount as of March 31, 2015.

As of March 31, 2016, total interest-bearing debt, the sum of short-term debt and long-term debt, amounted to ¥3,604.4 billion, an increase of ¥47.0 billion from March 31, 2015. As of March 31, 2016, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥871.4 billion, a decrease of ¥106.2 billion from March 31, 2015, due mainly to the repayment of commercial paper by the Company. As of March 31, 2016, current portion of long-term debt amounted to ¥651.5 billion, an increase of ¥167.9 billion from March 31, 2015. As of March 31, 2016, long-term debt (excluding current portion), consisting mainly of debentures, debentures with stock acquisition rights, medium-term notes and loans principally from banks and insurance companies, amounted to ¥2,081.5 billion, a decrease of ¥14.6 billion from March 31, 2015, due mainly to increased amount of debt maturing in the year ending March 31, 2017, despite higher demand for funds in line with business expansion in the Financial Services segment.

As of March 31, 2016, total Hitachi, Ltd. stockholders' equity amounted to ¥2,735.0 billion, a decrease of ¥207.2 billion from March 31, 2015, due mainly to a decrease in the accumulated other comprehensive income owing primarily to the appreciation of yen, lower stock prices, and lower interest rates, despite posting of net income attributable to Hitachi, Ltd. stockholders. As a result, the ratio of total Hitachi, Ltd. stockholders' equity to total assets as of March 31, 2016 was 21.8%, compared with 23.7% as of March 31, 2015.

Non-controlling interests as of March 31, 2016 was ¥1,390.4 billion, an increase of ¥36.4 billion from March 31, 2015.

Total equity as of March 31, 2016 was ¥4,125.5 billion, a decrease of ¥170.7 billion from March 31, 2015. The ratio of interest-bearing debt to total equity increased to 0.87, compared with 0.83 as of March 31, 2015.