Business Results

1. Summary of Fiscal 2007 First Half Consolidated Business Results

(1) Business Environment

During the interim period, the global economy remained strong, underpinned by high economic growth in countries like China, despite disruptions in financial markets caused by the subprime loan problem. In the U.S. economy, although exports remained firm, backed by a weak dollar, housing investment was still soft and growth in consumer spending slowed. In the EU, economies of member states were generally strong, with Germany, France, the U.K. and others experiencing growth in exports and capital investment. The Chinese economy sustained a high rate of growth, led by rising exports and continued expansion in investment in fixed assets. Asian economies other than China were also buoyant, with India, for example, enjoying increased foreign investment and expanding internal demand. The exports of ASEAN countries also expanded.

The Japanese economy continued to grow, albeit moderately, driven by capital investment and exports, although the economy temporarily stalled with consumer spending lacking vitality.

(2) Business Results

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	5,280.4	11%	45,917
Operating income	121.6	513%	1,058
Income before income taxes and minority interests	136.0	427%	1,183
Income before minority interests	35.9	-	313
Net loss	(13.0)	-	(114)

Hitachi’s fiscal 2007 first-half consolidated revenues rose 11%, to 5,280.4 billion yen year on year. Revenues were higher year on year in the Information & Telecommunication Systems segment on growth in storage solutions, solutions for financial institutions and ATMs. The Power & Industrial Systems segment also recorded higher revenues, mainly on growth in power systems, including equipment for nuclear power plants in Japan and thermal power plants overseas, and railcars, elevators and escalators, automotive systems and construction machinery. The High Functional Materials & Components segment also saw revenues rise year on year due to strong results in products for automobiles and electronics.

Overseas revenues climbed 17%, to 2,284.9 billion yen. Revenues were higher year on year in all regions. The Information & Telecommunication Systems and Power & Industrial Systems segments grew in Asia, including China, and Europe.

Consolidated operating income soared 513%, to 121.6 billion yen, despite the loss of the Digital Media & Consumer Products segment and other segments. The overall result reflected a large increase in earnings in the Power & Industrial Systems segment owing mainly to the absence of lump-sum charges booked in the previous fiscal year to cost overruns in construction at an overseas thermal power plant and costs to cover repair for turbine damage at certain nuclear power plants. Also contributing to the much higher overall earnings were firm growth in the Electronic Devices, High Functional Materials & Components, and Logistics, Services & Others segments.

Other income increased 51%, to 59.0 billion yen, reflecting the sale of some shares in Hitachi-GE Nuclear Energy, Ltd. following its launching operations as well as improvements in gains on sale of real estate, exchange gains and equity in earnings recovery of affiliated companies. Other deductions increased 35% year on year, to 44.6 billion yen, chiefly due to the recording of an impairment loss relating to the decision to halt production on the old line at a plasma display panel production subsidiary, in a move intended to improve competitiveness in the business.

As a result, Hitachi recorded income before income taxes and minority interests of 136.0 billion yen, up 427% year on year. After income taxes of 100.1 billion yen, Hitachi posted income before minority interests of 35.9 billion yen. However, Hitachi recorded a net loss of 13.0 billion yen, although this was a 65.0 billion yen improvement on the interim net loss posted in the first six months of the previous fiscal year.

(3) Revenues and Operating Income (Loss) by Segment
Results by segment were as follows.

[Information & Telecommunication Systems]

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	1,254.5	9%	10,909
Operating income	12.4	(10%)	108

Information & Telecommunication Systems revenues rose 9%, to 1,254.5 billion yen. Software and services revenues were higher than the corresponding period of the previous year due to firm growth in software sales, especially middleware, in addition to growth in services, reflecting a strong performance in systems integration, particularly services for financial institutions, and expansion in outsourcing and consulting businesses. Hardware revenues also rose, the result of higher sales of HDDs, especially new products, disk array subsystems and ATMs.

Segment operating income declined 10% year on year, to 12.4 billion yen. Earnings in software and services rose mainly due to higher sales and stronger project management in services, in addition to solid earnings in software. In hardware, although HDD operations reported a loss, this was compensated for by healthy earnings in disk array subsystems and improved earnings in ATMs.

Note: HDD operations are conducted by Hitachi Global Storage Technologies (Hitachi GST), which has a December 31 fiscal year-end, different from Hitachi's March 31 year-end. Hitachi's results for the first half of fiscal 2007 include operating results of Hitachi GST for the period from January through June 2007.

[Electronic Devices]

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	643.3	0%	5,594
Operating income	25.8	7%	224

Electronic Devices revenues were 643.3 billion yen, almost the same as the first half of the previous fiscal year, as firm sales at Hitachi High-Technologies Corporation were negated by lower year-on-year sales in the display business as Hitachi prioritized resources to focus on small and medium-sized LCDs.

Operating income increased 7%, to 25.8 billion yen due mainly to improved profitability in the display business and strong earnings at Hitachi High-Technologies.

[Power & Industrial Systems]

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	1598.3	25%	13,899
Operating income	63.6	-	553

Power & Industrial Systems revenues climbed 25%, to 1,598.3 billion yen. One factor was growth in the power systems business due to higher sales of nuclear power plant equipment in Japan, and of coal-fired thermal power plant equipment with a lower environmental impact technology. The overall segment revenue growth also reflected growth in railcars and systems, strong sales of elevators and escalators and industrial equipment, and robust revenues at Hitachi Construction Machinery Co., Ltd. Growth in automotive systems, due in part to Clarion Co., Ltd. becoming a consolidated subsidiary in December 2006, also lifted overall segment performance.

The segment posted operating income of 63.6 billion yen, a 108.9 billion yen improvement on the previous fiscal year's interim result. There was a large improvement in earnings in the power systems business, as it moved back into the black. Besides higher sales, this was due to the absence of lump-sum charges booked in the previous fiscal year to cover cost overruns in construction at an overseas thermal power plant and to cover repair costs for turbine damage at certain nuclear power plants. Furthermore, in addition to increased earnings in automotive systems, Hitachi

Construction Machinery recorded robust earnings.

[Digital Media & Consumer Products]

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	728.0	(4%)	6,331
Operating loss	(50.8)	-	(442)

Digital Media & Consumer Products revenues decreased 4%, to 728.0 billion yen, despite growth in sales of room air conditioners, commercial-use air conditioners, washing machines and certain other products. The lower overall segment revenues reflected contraction in the projection TV business resulting from the shift to flat-panel TVs and lower sales in mobile phones, which recorded strong growth in the previous fiscal year due to an expanded lineup to meet demand associated with the introduction of phone number portability in Japan.

The segment recorded an operating loss of 50.8 billion yen, 16.3 billion yen more than the corresponding period of the previous fiscal year, due mainly to the effect on earnings in the flat-panel TV business of lower-than-expected sales and lower prices of large-screen TVs in the North American market. On a positive note, earnings remained strong in commercial-use air conditioners and improvement in room air conditioners.

[High Functional Materials & Components]

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	933.5	7%	8,118
Operating income	64.6	1%	562

High Functional Materials & Components revenues increased 7%, to 933.5 billion yen on the back of higher sales at Hitachi Metals, Ltd., principally in automotive-related products, and IT equipment- and digital electronics related products such as for LCDs; firm sales growth at Hitachi Chemical Co., Ltd., mainly in the semiconductor-related field; and increased sales at Hitachi Cable, Ltd., principally due to higher sales of wires and cables where the price of copper remained high relative to the previous fiscal year. There was also growth in sales of submarine optical fiber cables due to large orders.

Operating income was 64.6 billion yen, largely on a par with the fiscal 2006 interim result, due to firm earnings at Hitachi Metals, Hitachi Chemical and Hitachi Cable.

[Logistics, Services & Others]

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	618.7	1%	5,380
Operating income	10.7	35%	94

Logistics, Services & Others revenues were largely unchanged at 618.7 billion yen. Although sales rose at Hitachi Transport System, Ltd., due to expansion in third-party logistics business and large orders, certain overseas sales subsidiaries recorded lower sales.

However, the segment posted a 35% year-on-year increase in operating income, to 10.7 billion yen, the result of higher earnings at Hitachi Transport System stemming from improved efficiency in third-party logistics business and other factors.

[Financial Services]

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	222.3	(16%)	1,933
Operating income	12.9	(18%)	113

Financial Services revenues decreased 16%, to 222.3 billion yen.

Segment operating income declined 18%, to 12.9 billion yen, mainly on account of higher interest rates.

(4) Revenues by Market

The half year ended September 30, 2007

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Japan	2,995.4	6%	26,048
Outside Japan	2,284.9	17%	19,870
Asia	1,028.2	15%	8,941
North America	520.1	1%	4,523
Europe	506.9	33%	4,408
Other Areas	229.6	39%	1,997

Revenues in Japan were 2,995.4 billion yen, 6% higher than in the first six months of fiscal 2006.

Outside Japan, revenues climbed 17% as a whole year on year, to 2,284.9 billion yen, the result of growth in Europe and Asia, mainly China. As a result, the ratio of overseas revenues to consolidated revenues rose 2 percentage points to 43%.

(5) Capital Investment, Depreciation and R&D Expenditures
Capital investment on a completion basis, excluding leasing assets, rose 15%, to 274.9 billion yen, mainly due to investments in manufacturing facilities for equipment for power plant, railcars, construction machinery, HDD and plasma display operations.

Depreciation, excluding leasing assets, increased 24%, to 204.0 billion yen, reflecting the increase in capital investment and the change of accounting estimate of depreciation.

R&D expenditures, which were used to accelerate development capabilities primarily in automotive systems, digital media-related fields and HDD operations, increased 3%, to 208.8 billion yen, and corresponded to 4.0% of consolidated revenues.

2. Outlook for Fiscal 2007

Year ending March 31, 2008

	Billions of yen	Year-over-year % change	Millions of U.S. dollars
Revenues	10,500.0	2%	95,455
Operating income	290.0	59%	2,636
Income before income taxes and minority interests	300.0	48%	2,727
Income before minority interests	130.0	229%	1,182
Net income	40.0	-	364

In terms of the outlook for the global economy, Hitachi expects the pace of growth to slow in the U.S. economy, reflecting continued sluggishness in housing investment and consumer spending due to fallout from the subprime loan problem and the impact of soaring crude oil prices. On the other hand, European economies are expected to remain solid, supported mainly by capital investment and consumer spending. Furthermore, the Chinese economy is expected to maintain a high growth rate for the time being, although there are concerns surrounding rising prices for goods and the increase value of the yuan. Other Asian economies are projected to remain strong, driven by exports to China and other factors.

The Japanese economy, meanwhile, is forecast to remain on an expansionary, albeit moderate, course due to increasing exports to Asia and elsewhere and an upturn in industrial output following the end of a period of inventory adjustment, although capital investment is only expected to grow at a low rate and consumer spending lacks vigor. Persistently high prices for raw materials, fears of a credit crunch triggered by the subprime loan problem and other causes for concern have, however, conspired to create an unpredictable operating environment.

Under these circumstances, Hitachi is forecasting the results shown above for fiscal 2007, the same as those announced with fiscal 2006 consolidated financial results on May 16, 2007.

The Hitachi Group is executing a corporate strategy announced in November 2006 based on the themes of collaborative creation and profits. With a rigorous focus on a market-oriented approach and profit creation as the basic policy, the aim is to establish a structure that consistently generates high profits through the execution of key initiatives—increasing management efficiency through application of FIV* (Future Inspiration Value), Hitachi's original benchmark based on the estimated cost of capital; creation of a business portfolio with higher profitability; promotion of group management; and innovation in collaboration with partners and Hitachi Group companies.

In line with this management policy, Hitachi is working to build a business portfolio for stable, high profits by strengthening its social innovation business, which consists of social infrastructure, industrial infrastructure, life infrastructure and information infrastructure businesses. This will be supported by efforts to maximize synergies with the infrastructure technology/products business that underpins social innovation business operations. During the interim period, to strengthen the nuclear power business, Hitachi established new companies launched in June 2007 its operations of nuclear power businesses in the U.S. and Canada, and in Japan the following July, based on a global strategy agreement with GE in November 2006. In addition, in April 2007 Hitachi subscribed to Nidec Corporation's tender offer for the shares of Hitachi subsidiary Japan Servo Co., Ltd., and sold shares.

Moving forward, Hitachi will continue efforts to maximize group synergies. By taking full advantage of its management resources, such as R&D, marketing capabilities, personnel and its funding system in Hitachi Group, Hitachi will engage in collaborative creation with customers and create new businesses as well as strengthen targeted businesses. Also, Hitachi will strengthen purchasing power based on the group database worldwide, standardize and integrate business operations and take other steps to reduce procurement costs, business expenses, IT operational costs and other costs. Hitachi is implementing business restructuring measures aimed at building a high-earnings framework, and strengthening its financial position.

In HDD, flat-panel TV and other businesses where there are currently issues with profitability, Hitachi is implementing wide-ranging countermeasures to improve its development capabilities, cost competitiveness, marketing activities and other areas of its operations, with the aim of rapidly improving performance in these businesses.

In HDD operations, Hitachi is concentrating management resources on 2.5-inch, 3.5-inch and server products that maximize the advantages of perpendicular magnetic recording technology for high-capacity storage as it strengthens development capabilities. It is also determined to expand shipments of competitive new products. In addition, Hitachi continues to reform its development structure in a bid to strengthen technological capabilities. Actions in this context include continued optimization of manufacturing and development bases such as the closure of a plant in Mexico. Moreover, to speed up the pace of these reforms, Hitachi has revamped its management structure to create a more rigorously efficient and steadily faster-moving organization.

In flat-panel TV operations, Hitachi is endeavoring to increase its market share by quickly bringing attractive new products to market. This includes launching before the end of 2007 in Japan an ultra-thin LCD TV that is the world's thinnest at only 35mm. Hitachi is also concentrating production at the highly efficient third plant of the Miyazaki Works belonging to plasma display panel production subsidiary Fujitsu Hitachi Plasma Display Limited. By also suspending production at the second plant, Hitachi expects to improve production efficiency. Combined with ongoing efforts to cut materials expenses and fixed costs, Hitachi aims to improve earnings in its flat-panel TV business.

Projections assume exchange rates of 110 yen to the U.S. dollar and 155 yen to the euro for the second half of fiscal 2007.

(*) FIV is Hitachi's economic value-added evaluation index in which the cost of capital is deducted from after-tax operating profit. After-tax operating profit must exceed the cost of capital to achieve positive FIV.

3. Financial Position

As of September 30, 2007

	Billions of yen	Change from March 31, 2007	Millions of U.S. dollars
Total assets	10,738.7	94.4	93,380
Total liabilities	7,154.9	27.2	62,217
Interest-bearing debt	2,662.7	(24.7)	23,154
Minority interests	1,155.4	81.7	10,048
Stockholders' equity	2,428.2	(14.5)	21,116
Stockholders' equity ratio	22.6%	0.3 point deterioration	-
D/E ratio (including minority interests)	0.74 times	0.02 point improvement	-

Total assets as of September 30, 2007 were 10,738.7 billion yen, an increase of 94.4 billion yen from March 31, 2007. Interest-bearing debt decreased 24.7 billion yen, to 2,662.7 billion yen, as Hitachi repaid debt using surplus funds. Stockholders' equity decreased 14.5 billion yen from March 31, 2007 to 2,428.2 billion yen. As a result of these changes, the stockholders' equity ratio declined 0.3 of a point to 22.6%. The debt-to-equity ratio (including minority interests) improved 0.02 of a point to 0.74.

4. Cash Flows

The half year ended September 30, 2007

	Billions of yen	Year-over-year change	Millions of U.S. dollars
Cash flows from operating activities	378.5	201.0	3,292
Cash flows from investing activities	(424.9)	(117.2)	(3,695)
Free cash flows	(46.3)	83.8	(403)
Cash flows from financing activities	(30.5)	(152.5)	(266)

Operating activities provided net cash of 378.5 billion yen, an increase of 201.0 billion yen year on year, reflecting the improvement in net loss and progress in quickly collecting accounts receivable.

Investing activities used net cash of 424.9 billion yen, 117.2 billion yen more than in the fiscal 2006 interim period. This was mainly due to the purchase of shares in GE-Hitachi Nuclear Energy Holdings, LLC, which launched operations in June 2007, and increased investment in HDD manufacturing facilities.

Free cash flows, the sum of cash flows from operating and investing activities, were an outflow of 46.3 billion yen, 83.8 billion yen less than the fiscal 2006 interim period.

Financing activities used net cash of 30.5 billion yen, mainly for the substantial repayment of debt and payment of dividends.

The net result of the above items was a decrease of 72.8 billion yen in cash and cash equivalents during the first half of fiscal 2007, to 545.0 billion yen.

5. Trend of Cash Flow Index

	Year ended March 31, 2006	Half year ended September 30, 2006	Year ended March 31, 2007	Half year ended September 30, 2007
Shareholders' equity ratio (%)	25.0	23.4	22.9	22.6
Equity ratio based on market value (%)	27.7	22.3	28.6	23.7
Cash flow to interest-bearing debt ratio	3.5	14.7	4.4	7.0
Interest coverage ratio (times)	20.8	10.3	16.3	18.0

*Shareholder's equity ratio: Shareholders' equity / Total assets
*Equity ratio based on market value: Market capitalizations / Total assets
*Cash flow to interest-bearing debt ratio: Interest-bearing debt / Cash flows from operating activities
*Interest coverage ratio: Cash flows from operating activities / Interest charges

Note: Market capitalization is computed based on the number of issued shares, excluding treasury stock.

6. Basic Policy on the Distribution of Earnings and Fiscal 2007 and 2008 Dividends
Hitachi has positioned the expansion of overall profits for shareholders over the long term as an important management goal.

In the energy, information, social infrastructure and other industrial fields in which Hitachi's main business segments are active, ensuring competitiveness and increasing earnings amid rapid technological innovation and structural changes in markets requires substantial upfront investments, such as in the form of capital expenditures and research and development. For this reason, Hitachi sets dividends by taking into consideration a range of factors, including its financial condition, results of operations and payout ratio. This policy is motivated by the desire to ensure the availability of sufficient internal funds for reinvestment based on medium- and long-term business plans, as well as to ensure the stable growth of dividends.

Regarding the repurchase of its own shares, Hitachi has adopted a flexible stance toward supplementing dividends through share buybacks, viewing this as a measure for returning profits to shareholders. In doing so, it takes into consideration its business plans and financial condition, market conditions and other factors. Hitachi will repurchase its own shares on an ongoing basis in order to implement a flexible capital strategy, including business restructuring, to maximize shareholder value.

Based on the above policies, Hitachi plans to pay a dividend of 3 yen per share applicable to fiscal 2007 first half. The dividend for fiscal 2008 is still undecided.

7. Business Risk and Other Risks
The Hitachi Group is engaged in a broad range of business activities on a global scale. Furthermore, the Group uses highly sophisticated and specialized technologies and information to conduct these businesses. As a result, business activities are vulnerable to a diverse array of risk factors.

Major risk factors include, but are not limited to, economic trends in major markets; changes in foreign exchange rates; rapid technological innovations; intense competition; supply and demand balance; the procurement of raw materials and components; the ability to acquire companies, conduct mergers and form strategic alliances; progress in business restructuring; overseas business activities; recruiting activities; protection, maintenance and acquisition of intellectual property; litigation and other legal proceedings; product and service quality and liability; natural disasters and similar events; information security; governmental regulations; trends in capital markets; and retirement benefit liabilities.

Cautionary Statement

Certain statements found in this document 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 document.

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:

- increasing commoditization of information technology products, and intensifying price competition in the markets 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 change, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;
- fluctuations in rates of exchange for the yen and other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated, particularly between the yen and the U.S. dollar;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in product demand and/or exchange rates;
- general socio-economic and political conditions and the regulatory and trade environment of Hitachi’s major markets, particularly the United States, Japan and elsewhere in Asia, including, without limitation, a return to stagnation or deterioration of the Japanese economy, or direct or indirect restrictions by other nations on imports;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- uncertainty as to the results of litigation and 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 in Hitachi’s periodic filings with the U.S. Securities and Exchange Commission and in order materials published by Hitachi.

Corporate Strategy

This section has been omitted because there have been no major changes to the information disclosed by the Company on May 16, 2007 in a release titled “Hitachi Announces Consolidated Financial Results for Fiscal 2006.” This earnings release can be viewed at the following URL http://www.hitachi.com/New/cnews/070516.html