Operating and Financial Review

1 Operating Results

Summary

Years ended March 31:	2018	2019	Percent change
	¥billion		
Revenues	¥9,368.6	**¥9,480.6**	1%
Adjusted operating income	714.6	**754.9**	6%
EBIT	644.2	**513.9**	-20%
Income from continuing operations, before income taxes	638.6	**516.5**	-19%
Net income attributable to Hitachi, Ltd. stockholders	362.9	**222.5**	-39%

Analysis of Statement of Operations

Revenues increased 1% to ¥9,480.6 billion, as compared with the year ended March 31, 2018, despite the effect of conversion of Hitachi Kokusai Electric Inc. into an equity-method associate. This increase was due mainly to an increase in revenues in the Social Infrastructure & Industrial Systems segment owing to an increased revenues from the railway systems business for Europe, in the Construction Machinery segment where sales rose mainly in North America and Asia-Pacific, in the Information & Telecommunications Systems segment where the system integration business remained firm and in the High Functional Materials & Components segment owing to corporate acquisitions by Hitachi Chemical Company, Ltd. and Hitachi Metals, Ltd.

Cost of sales increased 1% to ¥6,964.6 billion, as compared with the year ended March 31, 2018, and the ratio of cost of sales to revenues was 73%, which was the same level as for the year ended March 31, 2018. Gross profit increased 1% to ¥2,515.9 billion, as compared with the year ended March 31, 2018.

Selling, general and administrative expenses decreased 1% to ¥1,761.0 billion, as compared with the year ended March 31, 2018, and the ratio of selling, general and administrative expenses to revenues was 19%, which was the same level as for the year ended March 31, 2018.

Adjusted operating income increased by ¥40.3 billion to ¥754.9 billion, as compared with the year ended March 31, 2018. The increase was due mainly to higher profits owing to increased revenues and profitability improvement in the Information & Telecommunication Systems segment, the Social Infrastructure & Industrial Systems segment and the Construction Machinery segment. The increase was partially offset by decreased profits in the High Functional Materials & Components segment and the Automotive Systems segment.

Other income increased ¥194.3 billion to ¥206.3 billion and other expenses increased ¥301.9 billion to ¥442.6 billion, as compared with the year ended March 31, 2018, respectively. The details are as follows. Net gain on sales and disposal of fixed assets was improved by ¥20.9 billion and turned to gain of ¥18.4 billion, as compared with the year ended March 31, 2018. Impairment losses increased ¥296.3 billion to ¥344.9 billion, as compared with the year ended March 31, 2018. This mainly reflected impairment losses recognized as the result of the suspension of the UK nuclear power stations construction project in power and energy business. Net gain on business reorganization and others increased ¥174.8 billion to ¥184.6 billion, as compared with the year ended March 31, 2018, due mainly to net gain by selling shares of Hitachi Kokusai Electric Inc. stock, shares of Clarion Co., Ltd. stock in the Automotive Systems segment and a part of shares of Agility Trains West (Holdings) Limited stock in the Social Infrastructure & Industrial Systems segment. Special termination benefits increased ¥6.6 billion to ¥22.3 billion, as compared with the year ended March 31, 2018. Expenses related to competition law and others decreased ¥12.5 billion to ¥1.7 billion, as compared with the year ended March 31, 2018.

Financial income (excluding interest income) increased by 6.6 billion to ¥13.6 billion and financial expenses (excluding interest charges) decreased ¥7.7 billion to ¥3.4 billion, as compared with the year ended March 31, 2018, respectively.

Share of loss of investments accounted for using the equity method was ¥15.0 billion, a deterioration of ¥77.4 billion from the year ended March 31, 2018, due to an exchange loss at a foreign equity-method associate and impairment losses for investment on equity-method associates.

As a result of the foregoing, EBIT decreased ¥130.3 billion to ¥513.9 billion, as compared with the year ended March 31, 2018.

Interest income increased ¥8.1 billion to ¥23.1 billion, as compared with the year ended March 31, 2018 and interest charges was ¥20.5 billion, which was the same level as for the year ended March 31, 2018.

Income from continuing operations, before income taxes decreased ¥122.1 billion to ¥516.5 billion, as compared with the year ended March 31, 2018.

Income taxes increased ¥54.6 billion to ¥186.3 billion, as compared with the year ended March 31, 2018, despite of decreased income from continuing operations, before income taxes owing mainly to impairment losses recognized as the result of the suspension of the UK nuclear power stations construction project. This increase was due mainly to increased taxable income due to such impairment losses being non-deductible.

Loss from discontinued operations decreased ¥6.8 billion to ¥9.1 billion, as compared with the year ended March 31, 2018.

Net income decreased ¥169.8 billion to ¥321.0 billion, as compared with the year ended March 31, 2018.

Net income attributable to non-controlling interests decreased ¥29.4 billion to ¥98.4 billion, as compared with the year ended March 31, 2018.

As a result of the foregoing, net income attributable to Hitachi, Ltd. stockholders decreased ¥140.4 billion to ¥222.5 billion, as compared with the year ended March 31, 2018.

Revenues by Geographic Area

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

Years ended March 31:	2018	2019	Percent change
	¥billion		
Japan	¥4,643.0	**¥4,664.5**	0%
Overseas Revenues Subtotal	4,725.5	**4,816.0**	2%
Asia	2,081.1	**2,019.5**	-3%
North America	1,177.5	**1,205.6**	2%
Europe	964.4	**1,018.5**	6%
Other Areas	502.3	**572.3**	14%
Total Revenues	¥9,368.6	**¥9,480.6**	1%

Japan

Revenues in Japan was ¥4,664.5 billion, which was the same level as the year ended March 31, 2018. This was due mainly to increased revenues in the Information & Systems segment, the High Functional Materials & Components segment and the Construction Machinery segment, which offset decreased revenues in the Electronic Systems & Equipment owing to the effect of business reorganization of Hitachi Kokusai Electric Inc.

Overseas

(Asia)

Revenues in Asia decreased 3% to ¥2,019.5 billion, as compared with the year ended March 31, 2018. This was due mainly to reduced revenues in the Electronic Systems & Equipment segment owing to the effect of business reorganization of Hitachi Kokusai Electric Inc. and in the Automotive Systems segment, despite higher revenues in the Social Infrastructure & Industrial Systems segment owing to sales growth in the building systems business in China and in the Construction Machinery segment.

(North America)

Revenues in North America increased 2% to ¥1,205.6 billion, as compared with the year ended March 31, 2018. This was due mainly to the higher revenues in the Construction Machinery segment, the Social Infrastructure & Industrial Systems segment and the High Functional Materials & Components segment, despite reduced revenues in the Information & Systems segment and the Automotive Systems segment, etc.

(Europe)

Revenues in Europe increased 6% to ¥1,018.5 billion, as compared with the year ended March 31, 2018. This was due mainly to higher revenues in the Social Infrastructure & Industrial Systems segment, reflecting sales growth in the railway systems business, the Construction Machinery segment and the Information & Systems segment.

(Other Areas)

Revenues in other areas increased 14% to ¥572.3 billion, as compared with the year ended March 31, 2018. This was due mainly to higher revenues in the Social Infrastructure & Industrial Systems segment owing to revenues recognized for overseas EPC project for industry and distribution field.

As a result of the foregoing, overseas revenues increased 2% to ¥4,816.0 billion, as compared with the year ended March 31, 2018, and the ratio to total revenues was 51%, which was 1% increase as compared with the year ended March 31, 2018.

2 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, 2019, our unused commitment lines totaled ¥465.0 billion, most of which is the balance of unused loans.

We receive debt ratings from Moody's Japan K.K. (Moody's), S&P Global Rating Japan Inc. (S&P), as well as Rating and Investment Information, Inc. (R&I). Our debt ratings as of March 31, 2019 were as follows.

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

*R&I changed its rating from A+ to AA- and a-1 to a-1+ in August 2019.

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

(Cash Flows from Operating Activities)

Net cash outflow from a change in trade payables increased by ¥114.0 billion, as compared with the year ended March 31, 2018. Net cash inflow from a change in trade receivables and contract assets* decreased by ¥45.4 billion, as compared with the year ended March 31, 2018. Net cash outflow from a change in inventories decreased by ¥31.7 billion, as compared with the year ended March 31, 2018.

As a result of the foregoing, net cash provided by operating activities was ¥610.0 billion in the year ended March 31, 2019, a decrease of ¥117.1 billion compared with the year ended March 31, 2018.

* Due to the implementation of IFRS 15, "change in trade receivables" is presented as "change in trade receivables and contract assets" from the year ended March 31, 2019.

(Cash Flows from Investing Activities)

Net amount of investments related to property, plant and equipment* was ¥410.6 billion in the year ended March 31, 2019. This net sum increased by ¥4.1 billion compared with the year ended March 31, 2018. Proceeds from sale 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, 2019 increased by ¥128.7 billion, as compared with the year ended March 31, 2018, due mainly to the sale of shares of Clarion Co., Ltd. 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, 2019 decreased by ¥170.7 billion, as compared with the year ended March 31, 2018, in which expenses related to acquiring Sullair business were paid.

As a result of the foregoing, net cash used in investing activities was ¥162.8 billion in the year ended March 31, 2019, a decrease of ¥311.4 billion compared with the year ended March 31, 2018.

* The sum of the purchase of property, plant and equipment and the purchase of intangible assets, less the proceeds from sale of property, plant and equipment, and intangible assets.

(Cash Flows from Financing Activities)

Net cash outflow related to purchase of shares of consolidated subsidiaries from non-controlling interests increased by ¥155.7 billion, due mainly to the additional acquisition of shares of Ansaldo STS S.p.A. Proceeds related to short-term debt in the year ended March 31, 2019 were ¥3.7 billion, as compared with ¥104.8 billion of payments related to short-term debt in the year ended March 31, 2018. Net cash outflow related to long-term debt* in the year ended March 31, 2019 decreased by ¥67.6 billion, as compared with the year ended March 31, 2018.

As a result of the foregoing, net cash used in financing activities was ¥320.4 billion in the year ended March 31, 2019, a decrease of ¥1.0 billion compared with the year ended March 31, 2019.

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

As a result of the foregoing, as of March 31, 2019, cash and cash equivalents were ¥807.5 billion, an increase of ¥109.6 billion from March 31, 2018. Free cash flows, the sum of cash flows from operating and investing activities, were an inflow of ¥447.1 billion in the year ended March 31, 2019, an increase of ¥194.3 billion from the year ended March 31, 2018.

Assets, Liabilities and Equity

As of March 31, 2019, total assets amounted to ¥9,626.5 billion, a decrease of ¥480.0 billion from March 31, 2018. This was due mainly to impairment losses recognized for the suspension of the UK nuclear power stations construction project, the conversion of Hitachi Kokusai Electric Inc. to an equity-method associate, and sales of shares of Clarion Co., Ltd. stock. Cash and cash equivalents as of March 31, 2019 amounted to ¥807.5 billion, an increase of ¥109.6 billion from the amount as of March 31, 2018.

As of March 31, 2019, total interest-bearing debt, the sum of short-term debt and long-term debt, amounted to ¥1,004.7 billion, a decrease of ¥45.5 billion from March 31, 2018 as a result of repayment of borrowings. As of March 31, 2019, short-term debt, consisting mainly of borrowings from banks and commercial paper, amounted to ¥111.0 billion, a decrease of ¥10.4 billion from March 31, 2018. As of March 31, 2019, current portion of long-term debt amounted to ¥185.2 billion, an increase of ¥68.0 billion from March 31, 2018. As of March 31, 2019, long-term debt (excluding current portion), consisting mainly of debentures, and loans principally from banks and insurance companies, amounted to ¥708.4 billion, a decrease of ¥103.1 billion from March 31, 2018.

As of March 31, 2019, total Hitachi, Ltd. stockholders' equity amounted to ¥3,262.6 billion, a decrease of ¥15.4 billion from March 31, 2018. As a result, the ratio of total Hitachi, Ltd. stockholders'equity to total assets as of March 31, 2019 was 33.9%, compared with 32.4% as of March 31, 2018.

Non-controlling interests as of March 31, 2019 was ¥1,151.8 billion, a decrease of ¥81.8 billion from March 31, 2018.

Total equity as of March 31, 2019 was ¥4,414.4 billion, a decrease of ¥97.2 billion from March 31, 2018. The ratio of interest-bearing debt to total equity was 0.23 times, which was the same level as that of March 31, 2018.