

PART IV

Item 17. Financial Statements

Consolidated Financial Statements of Hitachi, Ltd. and Subsidiaries:

	<u>Page Number</u>
Independent Auditors' Report	37
Consolidated Balance Sheets as of March 31, 1999 and 1998	38
Consolidated Statements of Income for the years ended March 31, 1999, 1998 and 1997	39
Consolidated Statements of Stockholders' Equity for the years ended March 31, 1999, 1998 and 1997	40
Consolidated Statements of Cash Flows for the years ended March 31, 1999, 1998 and 1997	41
Notes to Consolidated Financial Statements	42

Schedule:

Independent Auditors' Report	37
Schedule II Reserves for the years ended March 31, 1999, 1998 and 1997	65

All other schedules are omitted as permitted by the rules and regulations of the Securities and Exchange Commission, 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.

Independent Auditors' Report

The Board of Directors and Stockholders
Hitachi, Ltd.:

We have audited the consolidated financial statements of Hitachi, Ltd. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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.

As more fully described in Note 2 to the consolidated financial statements, the Company has stated investments in certain debt and equity securities at the lower of cost or fair value as of March 31, 1999 and 1998. Such securities, in our opinion, should be stated at fair value and the resulting net unrealized holding gain be reported as a separate component of other comprehensive income (loss) in order to conform with United States generally accepted accounting principles.

The segment information required to be disclosed in financial statements under United States generally accepted accounting principles is not presented in the accompanying consolidated financial statements. Foreign issuers are presently exempted from such disclosure requirement in Securities Exchange Act filings with the United States Securities and Exchange Commission.

In our opinion, except for the effects of not stating investments in certain debt and equity securities at fair value and reporting the resulting net unrealized holding gain as a separate component of other comprehensive income (loss) as of March 31, 1999 and 1998, as discussed in the third paragraph of this report, and except for the omission of segment information, as discussed in the preceding paragraph, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of Hitachi, Ltd. and subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1999 in conformity with United States generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 (l) and 15 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," effective April 1, 1996.

KPMG
Tokyo, Japan
May 19, 1999

HITACHI, LTD.
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 1999 and 1998

<u>Assets</u>	<u>Yen (millions)</u>		<u>Liabilities and Stockholders' Equity</u>	<u>Yen (millions)</u>	
	<u>1999</u>	<u>1998</u>		<u>1999</u>	<u>1998</u>
Current assets:			Current liabilities:		
Cash and cash equivalents	¥ 1,237,527	1,199,540	Short-term debt (note 6)	¥ 1,045,543	1,103,217
Short-term investments (note 2)	557,359	713,672	Current installments of long-term debt (note 6)	114,268	214,064
Trade receivables:			Trade payables:		
Notes	311,198	374,592	Notes	97,863	132,159
Accounts	1,900,371	1,916,462	Accounts	907,641	944,112
Allowance for doubtful receivables and unearned income	(25,943)	(23,806)	Total trade payables	1,005,504	1,076,271
Net trade receivables	2,185,626	2,267,248	Accrued expenses	694,399	728,741
Inventories (note 3)	1,470,847	1,626,684	Income taxes (note 5)	63,241	89,715
Prepaid expenses and other current assets (note 5)	415,815	428,912	Advances received	418,360	395,674
Total current assets	5,867,174	6,236,056	Employees' deposits	9,368	20,750
			Other current liabilities (note 5)	412,065	411,745
			Total current liabilities	3,762,748	4,040,177
Noncurrent receivables and restricted funds (note 4)	176,403	195,546	Long-term debt (note 6)	1,478,168	1,287,532
Investments and advances, including affiliated companies (note 2)	635,358	653,786	Retirement and severance benefits (note 7)	723,028	682,871
			Other liabilities (notes 5 and 8)	85,630	92,494
			Total liabilities	6,049,574	6,103,074
Property, plant and equipment (note 6):			Minority interests	758,115	769,168
Land	369,701	363,771			
Buildings	1,730,333	1,703,708	Stockholders' equity (note 2):		
Machinery and equipment	5,116,062	5,074,698	Common stock (notes 6 and 9)	281,735	281,735
Construction in progress	54,453	99,755	Capital surplus (note 9)	494,782	492,272
	7,270,549	7,241,932	Legal reserve (note 10)	105,905	104,370
Less accumulated depreciation	4,662,942	4,595,800	Retained earnings (notes 6 and 10)	2,044,425	2,406,253
Net property, plant and equipment	2,607,607	2,646,132	Accumulated other comprehensive income (loss) (note 11)	(58,065)	(43,860)
Other assets (note 5)	389,929	381,492	Total stockholders' equity	2,868,782	3,240,770
			Commitments and contingencies (note 13)		
	¥ <u>9,676,471</u>	<u>10,113,012</u>		¥ <u>9,676,471</u>	<u>10,113,012</u>

See accompanying notes to consolidated financial statements.

HITACHI, LTD.
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended March 31, 1999, 1998 and 1997

	Yen (millions)		
	1999	1998	1997
Revenues:			
Net sales (note 4)	¥ 7,977,374	8,416,834	8,523,100
Interest income	40,178	41,084	37,632
Dividends received	7,659	9,469	8,638
Other income (note 15)	<u>1,144</u>	<u>111,176</u>	<u>41,561</u>
Total revenues	8,026,355	8,578,563	8,610,931
Costs and expenses:			
Cost of sales	6,052,345	6,230,044	6,250,895
Selling, general and administrative expenses (note 14)	1,959,103	1,977,783	1,975,039
Interest and discount charges	59,028	59,635	60,669
Other deductions (note 15)	<u>179,188</u>	<u>139,375</u>	<u>61,004</u>
Total costs and expenses	<u>8,249,664</u>	<u>8,406,837</u>	<u>8,347,607</u>
Income (loss) before income taxes and minority interests	(223,309)	171,726	263,324
Income taxes (note 5)	<u>108,449</u>	<u>142,693</u>	<u>138,495</u>
Income (loss) before minority interests	(331,758)	29,033	124,829
Minority interests	<u>7,036</u>	<u>25,556</u>	<u>36,498</u>
Net income (loss)	<u>(338,794)</u>	<u>3,477</u>	<u>88,331</u>
Net income (loss) per share (note 16):			
Basic	¥ <u>(101.50)</u>	<u>1.04</u>	<u>26.51</u>
Diluted	¥ <u>(101.50)</u>	<u>1.00</u>	<u>25.55</u>

See accompanying notes to consolidated financial statements.

HITACHI, LTD.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 1999, 1998 and 1997

	Yen (millions)		
	1999	1998	1997
Common stock (notes 6 and 9):			
Balance at beginning of year	¥ 281,735	281,684	278,178
Conversion of convertible debentures	-	51	3,506
Balance at end of year	¥ <u>281,735</u>	<u>281,735</u>	<u>281,684</u>
Capital surplus (note 9):			
Balance at beginning of year	¥ 492,272	486,695	480,718
Conversion of convertible debentures	2,190	2,723	5,931
Increase arising from sale of subsidiaries' common stock and other	320	2,854	46
Balance at end of year	¥ <u>494,782</u>	<u>492,272</u>	<u>486,695</u>
Legal reserve (note 10):			
Balance at beginning of year	¥ 104,370	101,146	95,377
Transfers from retained earnings	1,591	3,310	5,944
Transfers to minority interests arising from conversion of subsidiaries' convertible debentures	(37)	(45)	(51)
Transfers to minority interests arising from sale of subsidiaries' common stock and other	(19)	(41)	(124)
Balance at end of year	¥ <u>105,905</u>	<u>104,370</u>	<u>101,146</u>
Retained earnings (notes 6 and 10):			
Balance at beginning of year	¥ 2,406,253	2,447,391	2,404,388
Net income (loss)	(338,794)	3,477	88,331
Cash dividends	(18,358)	(36,715)	(36,625)
Transfers to legal reserve	(1,591)	(3,310)	(5,944)
Transfers to minority interests arising from conversion of subsidiaries' convertible debentures	(727)	(1,668)	(2,435)
Transfers to minority interests arising from sale of subsidiaries' common stock and other	(2,358)	(2,922)	(324)
Balance at end of year	¥ <u>2,044,425</u>	<u>2,406,253</u>	<u>2,447,391</u>
Accumulated other comprehensive income (loss) (note 11):			
Balance at beginning of year	¥ (43,860)	(33,026)	(58,589)
Other comprehensive income (loss), net of reclassification adjustment	(14,603)	(10,878)	25,449
Transfers to minority interests arising from conversion of subsidiaries' convertible debentures	1	38	87
Transfers to minority interests arising from sale of subsidiaries' common stock and other	397	6	27
Balance at end of year	¥ <u>(58,065)</u>	<u>(43,860)</u>	<u>(33,026)</u>
Total stockholders' equity	¥ <u>2,868,782</u>	<u>3,240,770</u>	<u>3,283,890</u>
Comprehensive income (loss):			
Net income (loss)	¥ (338,794)	3,477	88,331
Other comprehensive income (loss) arising during the year	(18,364)	(10,878)	25,449
Reclassification adjustment	3,761	-	-
Total comprehensive income (loss)	¥ <u>(353,397)</u>	<u>(7,401)</u>	<u>113,780</u>

See accompanying notes to consolidated financial statements.

HITACHI, LTD.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 1999, 1998 and 1997

	Yen (millions)		
	1999	1998	1997
Cash flows from operating activities (note 18):			
Net income (loss)	¥ (338,794)	3,477	88,331
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	547,022	550,393	543,560
Impairment loss for long-lived assets	2,740	35,504	44,289
Deferred income taxes	(12,187)	(6,383)	(61,099)
Gain on sale of investments and subsidiaries' common stock	(3,938)	(117,998)	(24,262)
(Gain) loss on disposal of rental assets and other property	69,996	12,078	24,200
Income applicable to minority interests	7,036	25,556	36,498
(Increase) decrease in receivables	(2,549)	13,175	(197,337)
(Increase) decrease in inventories	127,802	(53,703)	162,473
(Increase) decrease in prepaid expenses and other current assets	(1,133)	(12,847)	4,335
Increase (decrease) in payables	(45,274)	(7,254)	994
Increase (decrease) in accrued expenses and retirement and severance benefits	19,400	5,132	(3,428)
Decrease in accrued income taxes	(25,135)	(28,880)	(14,461)
Increase (decrease) in other liabilities	25,338	6,892	(98,271)
Other	18,555	(4,401)	(19,098)
Net cash provided by operating activities	388,879	420,741	486,724
Cash flows from investing activities (note 18):			
(Increase) decrease in short-term investments	153,382	49,462	(169,644)
Capital expenditures	(619,342)	(690,419)	(750,066)
Proceeds from disposition of rental assets and other property	26,427	32,334	49,075
Proceeds from sale of investments and subsidiaries' common stock	16,542	144,127	34,760
Purchase of investments and subsidiaries' common stock	(13,837)	(165,898)	(43,751)
Other	(13,721)	(7,932)	9,123
Net cash used in investing activities	(450,549)	(638,326)	(870,503)
Cash flows from financing activities (note 18):			
Increase (decrease) in short-term debt	(1,845)	97,057	60,490
Proceeds from long-term debt	375,344	279,866	201,985
Payments on long-term debt	(230,273)	(223,517)	(168,597)
Proceeds from sale of common stock by subsidiaries	701	7,423	5,305
Dividends paid to stockholders	(18,412)	(36,600)	(36,520)
Dividends paid to minority stockholders of subsidiaries	(11,722)	(11,838)	(10,599)
Net cash provided by financing activities	113,793	112,391	52,064
Effect of exchange rate changes on cash and cash equivalents	(14,136)	(5,215)	13,948
Net increase (decrease) in cash and cash equivalents	37,987	(110,409)	(317,767)
Cash and cash equivalents at beginning of year	1,199,540	1,309,949	1,627,716
Cash and cash equivalents at end of year	¥ 1,237,527	1,199,540	1,309,949

See accompanying notes to consolidated financial statements.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(a) Basis of Presentation

Hitachi, Ltd. (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 United States generally accepted accounting principles. 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 and those of its majority-owned subsidiaries, whether directly or indirectly controlled. Intercompany accounts and significant intercompany transactions have been eliminated in consolidation. The investments in affiliated companies are stated at their underlying equity value, and the appropriate portion of the earnings of such companies is included in consolidated income.

(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 maturities of generally three months or less when purchased to be cash equivalents.

(d) 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 income and are reported in other comprehensive income (loss).

(e) Short-term Investments and Investments and Advances

Investments in debt and equity securities classified as available-for-sale securities, which are included in short-term investments and investments and advances, are carried at the lower of cost or fair value. Investments in unlisted common stock owned less than 20% are carried at cost. Realized gains or losses are determined by the average method.

(f) 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 method for raw materials and other inventories.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Inventories include items associated with major contracts which, because of long-term processing requirements, have been or are expected to be performed over a period of more than 12 months. Those items as of March 31, 1999 and 1998 aggregated ¥331,786 million and ¥310,831 million, respectively. In general, income from such items is recognized at the time final shipments are made.

(g) 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, over the following estimated useful lives:

Buildings	3 to 50 years
Machinery and equipment	2 to 20 years

Effective April 1, 1998, the Company and its certain domestic subsidiaries changed their method of depreciation for buildings placed in service after April 1, 1998 to the straight-line method. The Company believes that the straight-line method more appropriately reflects its financial results by better allocating costs of new buildings over the useful lives of these assets. The change was applied on a prospective basis to buildings acquired after that date. The effect of this change on net loss for the year ended March 31, 1999 was not material.

(h) Income Taxes

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 expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. 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.

(i) Sales of Stock by Subsidiaries

The change in the Company's proportionate share of subsidiary equity resulting from issuance of stock by the subsidiaries is accounted for as an equity transaction.

(j) Derivative Financial Instruments

Gains or losses on valuation of foreign exchange contracts, forward exchange contracts and cross currency swap agreements, to hedge existing assets and liabilities denominated in foreign currencies, are recognized currently as "Other income" or "Other deductions." The resulting valuation assets or liabilities are included in "Other current assets" or "Other current liabilities."

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(k) Net Income (Loss) Per Share

Net income (loss) per share amounts are computed in accordance with SFAS No. 128, "Earnings per Share." This standard requires a dual presentation of basic and diluted net income (loss) per share amounts on the face of the statement of income. Under this standard, basic net income (loss) per share is computed based upon the weighted average number of shares of common stock outstanding during each year. Diluted net income (loss) 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.

(l) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Effective April 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This standard requires that the assets held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by such assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(m) Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Effective January 1, 1997, the Company implemented SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This standard provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996. The implementation of this standard did not have a material effect on the financial position and results of operations of the Company and subsidiaries.

(n) Comprehensive Income (Loss)

Effective April 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement establishes rules for the reporting and display of comprehensive income (loss) and its components. The Company's comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments and is represented in the consolidated statement of stockholders' equity. The adoption of this statement had no impact on the net consolidated income (loss) or stockholders' equity. Prior years' financial statements have been reclassified to conform to the SFAS No. 130 requirements.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," was issued in June 1997. This standard 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. This standard is effective for the Company's fiscal year ending March 31, 1999. However, foreign issuers are presently exempted from the segment disclosure requirements of SFAS No. 131 in Securities Exchange Act filings with the United States Securities and Exchange Commission (SEC), and the Company has not presented the segment information required to be disclosed in the footnotes to the consolidated financial statements under SFAS No. 131.

(p) New Accounting Standards

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued in June 1998 and requires that all derivatives be measured at fair value and recognized as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and its resulting hedge designation. This standard is effective for fiscal years beginning after June 15, 1999 and shall not be applied retroactively to the financial statements of prior periods. The Company is currently assessing the impact of implementing this statement. However, based on its limited use of derivative financial instruments, management does not anticipate that the adoption of this statement will have a material effect on the Company's financial position or results of operations.

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued Statement of Position (SOP) 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use," which requires that computer software costs for internal use be capitalized if certain criteria are met. This SOP is effective for fiscal years beginning after December 15, 1998, and is to be applied on a prospective basis to costs incurred on or after the date of adoption. Management does not anticipate that the adoption of this SOP will have a material effect on the Company's financial position or results of operations.

In April 1998, the AcSEC also issued SOP 98-5, "Reporting on the Cost of Start-Up Activities," which requires costs of start-up activities and organization costs to be expensed as incurred. This SOP is effective for fiscal years beginning after December 15, 1998, and the initial application of this SOP is to be reported as a cumulative effect of a change in accounting principle, if material. The Company's current accounting policies are consistent with this SOP, and therefore management does not believe that the effect of implementing this SOP will be material to the Company's financial position or results of operations.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(q) Reclassifications

In 1999, the Company changed the format of the consolidated statements of income from multi-step to single-step for the purpose of more appropriate presentation of its operational activities. The consolidated statements of income and related notes for the years ended March 31, 1998 and 1997 have been reclassified in conformity with the 1999 presentation.

(2) Investment in Securities

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," was issued in May 1993. SFAS No. 115 was effective for fiscal years beginning after December 15, 1993. Under this standard, investments in equity securities that have readily determinable fair values and all investments in debt securities are to be classified in three categories and accounted for as follows:

- Debt securities that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost.
- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of comprehensive income (loss) until realized.

Regarding the method of implementation of SFAS No. 115, the Company requested the SEC for special treatment, which allows the Company to provide the required SFAS No. 115 disclosure in a footnote to the consolidated financial statements, instead of implementing it in the body of the consolidated financial statements. The Company's request was based upon the following considerations:

(a) Most marketable equity securities in Hitachi's portfolio are semi-permanent investments for maintaining business relationships with investee companies, and management generally has no current plans to sell such securities. (b) The Company files its consolidated financial statements with both the SEC and the Ministry of Finance in Japan utilizing accounting principles generally accepted in the United States. If SFAS No. 115 were implemented, the comparability among Japanese companies' financial statements would be considerably reduced. Many Japanese companies prepare their consolidated financial statements utilizing accounting practices generally accepted in Japan which generally reflect historical cost accounting.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The SEC Division of Corporation Finance approved the Company's request in a letter dated August 16, 1993, with disclosures of the effect of its departure from SFAS No. 115 in a footnote to the consolidated financial statements, instead of implementing SFAS No. 115 in the body of the consolidated financial statements.

Consequently, the Company has decided not to implement SFAS No. 115 in the body of the consolidated financial statements, but disclose the effect of its departure from SFAS No. 115.

The Company and its subsidiaries classify their debt and equity securities as available-for-sale securities and such securities are carried at the lower of cost or fair value as discussed in note 1 (e). The amounts of variation on available-for-sale securities between the amounts appearing in the consolidated balance sheets and the amounts determined by reporting such securities at fair value as required by SFAS No. 115 as of March 31, 1999 and 1998 are as follows:

	<u>Yen (millions)</u>	
	<u>1999</u>	<u>1998</u>
Stockholders' equity as shown in the consolidated balance sheets	¥ 2,868,782	3,240,770
Gross unrealized holding gains on available-for-sale securities having the effect of increasing the following reported items:		
Short-term investments	139,988	142,768
Investments and advances	139,321	161,359
Tax effect of gross unrealized holding gains having the effect of increasing or decreasing the following reported items:		
Prepaid expenses and other current assets (decrease)	(8,390)	(11,639)
Other assets (decrease)	(57,589)	(75,765)
Other current liabilities (increase)	(50,078)	(55,855)
Other liabilities (increase)	(471)	(556)
Net unrealized holding gain on available-for-sale securities held by affiliated companies	2,913	2,370
Transfer to minority interests	<u>(18,347)</u>	<u>(19,071)</u>
Net effect of implementation of SFAS No. 115	<u>147,347</u>	<u>143,611</u>
Stockholders' equity in accordance with U.S. generally accepted accounting principles	¥ <u>3,016,129</u>	<u>3,384,381</u>

The changes in the net unrealized holding gain on available-for-sale securities that would have been included in other comprehensive income (loss) for the years ended March 31, 1999 and 1998 were decreases of ¥10,343 million and ¥96,007 million, respectively. The effect of the adjustment for an enacted change in tax rates in Japan that was in effect as of April 1, 1999 and 1998 that would have been recorded to deferred tax liabilities and assets related to the gross unrealized holding gains on available-for-sale securities was a decrease of the net loss amounting to ¥14,079 million and an increase of net income amounting to ¥10,071 million for the years ended March 31, 1999 and 1998, respectively.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As mentioned in Note 1 (n), the Company adopted SFAS No. 130 effective April 1, 1998. If SFAS No. 115 had been implemented in the body of the consolidated financial statements, the comprehensive loss for the years ended March 31, 1999, 1998 and 1997 would have been ¥349,640 million, ¥93,396 million and ¥6,509 million, respectively.

The following is a summary of the carrying amounts, gross unrealized holding gains and fair values of available-for-sale securities by the consolidated balance sheet classification at March 31, 1999 and 1998.

	Yen (millions)					
	1999			1998		
	Carrying amounts	Gross unrealized gains	Fair values	Carrying amounts	Gross unrealized gains	Fair values
Short-term investments:						
Equity securities	¥ 40,373	139,383	179,756	47,703	141,756	189,459
Bonds and debentures	159,681	412	160,093	195,411	640	196,051
Other securities	<u>106,338</u>	<u>193</u>	<u>106,531</u>	<u>224,792</u>	<u>372</u>	<u>225,164</u>
	306,392	139,988	446,380	467,906	142,768	610,674
Investments and advances:						
Equity securities	204,164	138,203	342,367	216,786	159,148	375,934
Bonds and debentures	98,253	973	99,226	90,787	1,955	92,742
Other securities	<u>23,996</u>	<u>145</u>	<u>24,141</u>	<u>23,436</u>	<u>256</u>	<u>23,692</u>
	326,413	139,321	465,734	331,009	161,359	492,368
	¥ <u>632,805</u>	<u>279,309</u>	<u>912,114</u>	<u>798,915</u>	<u>304,127</u>	<u>1,103,042</u>

Bonds and debentures consist mainly of national, local and foreign governmental bonds, debentures issued by banks and corporate bonds. Other securities consist mainly of trust funds.

The contractual maturities of bonds and debentures and other securities classified as available-for-sale as of March 31, 1999, regardless of the consolidated balance sheet classification, are as follows:

	<u>Yen (millions)</u>
	<u>1999</u>
	<u>Carrying amounts</u>
Due within one year	¥ 168,478
Due after one year through five years	132,030
Due after five years	<u>87,760</u>
	¥ <u>388,268</u>

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The proceeds from the sale of securities classified as available-for-sale for the years ended March 31, 1999, 1998 and 1997 are ¥123,647 million, ¥249,241 million and ¥98,172 million, respectively, and gross realized gains included in income are ¥14,168 million, ¥124,698 million and ¥30,640 million, respectively. For the purpose of determining gross realized gains, the cost of securities sold is determined by the average method.

The aggregate fair values of investments in affiliated companies based on the quoted market price as of March 31, 1999 and 1998 are ¥54,047 million and ¥78,568 million, respectively. The aggregate carrying values of such investments as of March 31, 1999 and 1998 are ¥106,707 million and ¥115,525 million, respectively.

(3) Inventories

Inventories as of March 31, 1999 and 1998 are summarized as follows:

	Yen (millions)	
	1999	1998
Finished goods	¥ 403,632	389,591
Work in process	903,816	1,050,116
Raw materials	163,399	186,977
	¥ 1,470,847	1,626,684

(4) Noncurrent Receivables and Restricted Funds

Noncurrent receivables and restricted funds as of March 31, 1999 and 1998 are summarized as follows:

	Yen (millions)	
	1999	1998
Housing loans to employees	¥ 25,765	28,825
Trade receivables not due within one year, interest-bearing	45,104	56,876
Other receivables and restricted funds	105,534	109,845
	¥ 176,403	195,546

Housing loans to employees are made with repayment terms ranging from 10 to 25 years.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The aggregated annual maturities of the noncurrent trade receivables after March 31, 2000 are as follows:

<u>Years ending March 31</u>	<u>Yen</u> <u>(millions)</u>
2001	¥ 29,837
2002	11,007
2003	3,213
2004	835
Thereafter	<u>212</u>
	¥ <u>45,104</u>

Sales on an installment contract basis for the years ended March 31, 1999, 1998 and 1997 totaled ¥12,317 million, ¥19,796 million and ¥27,786 million, respectively.

(5) Income Taxes

Income tax expense (benefit) attributable to income from operations for the years ended March 31, 1999, 1998 and 1997 consists of the following:

	<u>Yen (millions)</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Current	¥ 120,636	149,076	199,594
Deferred	<u>(12,187)</u>	<u>(6,383)</u>	<u>(61,099)</u>
	¥ <u>108,449</u>	<u>142,693</u>	<u>138,495</u>

The companies are subject to a number of taxes based on income. The aggregated normal tax rate for domestic companies was 47.4% in 1999 and 51.1% in 1998 and 1997. A reduction of income tax rates was enacted in Japan on March 31, 1999, and was effective from April 1, 1999. The aggregated normal tax rate for domestic companies is 41.8% for the year ending March 31, 2000.

Reconciliations between the normal income tax rate and the effective income tax rate as a percentage of income (loss) before income taxes and minority interests are as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Normal income tax rate	(47.4)%	51.1%	51.1%
Equity in earnings of associated companies	2.1	0.3	(1.3)
Expenses not deductible for tax purposes	9.6	7.0	5.3
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates in Japan	30.5	19.0	-
Change in valuation allowance	41.5	1.0	(1.9)
Difference in statutory tax rates of foreign subsidiaries	10.3	4.2	(1.5)
Other	<u>2.0</u>	<u>0.5</u>	<u>0.9</u>
Effective income tax rate	<u>48.6%</u>	<u>83.1%</u>	<u>52.6%</u>

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The significant components of deferred income tax benefit attributable to income from operations for the years ended March 31, 1999, 1998 and 1997 are as follows:

	Yen (millions)		
	1999	1998	1997
Deferred tax benefit (exclusive of the effects of other components listed below)	¥ (173,071)	(40,800)	(56,161)
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates in Japan	68,154	32,584	-
Change in valuation allowance	<u>92,730</u>	<u>1,833</u>	<u>(4,938)</u>
	¥ <u>(12,187)</u>	<u>(6,383)</u>	<u>(61,099)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 1999 and 1998 are presented below:

	Yen (millions)	
	1999	1998
Total gross deferred tax assets:		
Provision for retirement and severance benefits	¥ 206,273	221,827
Accrued expenses	108,723	105,376
Depreciation	33,385	42,660
Net operating loss carryforwards	174,784	57,980
Other	<u>182,393</u>	<u>211,519</u>
	705,558	639,362
Valuation allowance	<u>(131,504)</u>	<u>(43,121)</u>
	574,054	596,241
Total gross deferred tax liabilities:		
Deferred profit on sale of properties	(37,404)	(43,826)
Tax purpose reserves regulated by Japanese tax law	(35,898)	(42,737)
Other	<u>(10,961)</u>	<u>(30,190)</u>
	<u>(84,263)</u>	<u>(116,753)</u>
Net deferred tax assets	¥ <u>489,791</u>	<u>479,488</u>

Net deferred tax assets and liabilities as of March 31, 1999 and 1998 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)	
	1999	1998
Prepaid expenses and other current assets	¥ 237,707	251,857
Other assets	268,659	251,682
Other current liabilities	(3,736)	(8,216)
Other liabilities	<u>(12,839)</u>	<u>(15,835)</u>
Net deferred tax assets	¥ <u>489,791</u>	<u>479,488</u>

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Under the tax laws of various jurisdictions in which the Company and its subsidiaries operate, the valuation allowance was recorded against deferred tax assets for deductible temporary differences, net operating loss carryforwards and tax credit carryforwards. The net change in the total valuation allowance for the years ended March 31, 1999 and 1998 was an increase of ¥88,383 million and ¥727 million, respectively.

As of March 31, 1999, the Company and various subsidiaries have net operating loss carryforwards for income tax purposes of ¥443,839 million which are available to offset future taxable income, if any. Most of these net operating loss carryforwards expire by 2004.

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 entirely 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 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, 1999.

The Company has not provided for deferred income tax liabilities on undistributed earnings of foreign subsidiaries and affiliated companies that are considered to be reinvested indefinitely. Such undistributed earnings, if remitted, generally would not result in material additional Japanese income taxes because of available foreign tax credits.

(6) Short-term and Long-term Debt

Short-term debt as of March 31, 1999 and 1998 is summarized as follows:

	<u>Yen (millions)</u>	
	<u>1999</u>	<u>1998</u>
Borrowings mainly from banks	¥ 784,710	843,095
Commercial paper	<u>260,833</u>	<u>260,122</u>
	¥ <u>1,045,543</u>	<u>1,103,217</u>

The weighted average interest rates on short-term debt outstanding as of March 31, 1999 and 1998 are 0.4% and 1.0%, respectively.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Long-term debt as of March 31, 1999 and 1998 is summarized as follows:

	Yen (millions)	
	1999	1998
Mortgage debentures:		
Due 2000 - 2004, interest 2.1 - 4.9%, issued by subsidiaries	¥ 600	600
Unsecured notes and debentures:		
Due 2006, interest 3.45% debenture	200,000	200,000
Due 1999 - 2010, interest 0.2 - 7.0%, issued by subsidiaries	711,771	536,660
Unsecured convertible debentures:		
5th series, due 2002, interest 1.7%	28,827	28,827
6th series, due 2003, interest 1.3%	92,829	92,829
7th series, due 2004, interest 1.4%	218,471	218,471
Due 2000 - 2004, interest 0.5 - 4.4%, issued by subsidiaries	93,432	159,280
Loans, principally from banks and insurance companies:		
Secured by various assets and mortgages on property, plant and equipment, maturing 1999 - 2013, interest 1.19 - 6.57%	27,336	36,711
Unsecured, maturing 1999 - 2013, interest 1.08 - 7.75%	219,170	228,218
	1,592,436	1,501,596
Less current installments	114,268	214,064
	¥ 1,478,168	1,287,532

The aggregate annual maturities of long-term debt after March 31, 2000 are as follows:

Years ending March 31	Yen (millions)
2001	¥ 228,018
2002	244,766
2003	142,803
2004	246,895
Thereafter	615,686
	¥ 1,478,168

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loans of ¥18,985 million from a bank as of March 31, 1999 are secured by an investment in Hitachi Maxell, Ltd., a 52.65% (55,128 thousand shares) owned subsidiary. The 18,200 thousand shares in Hitachi Maxell, Ltd. are collateralized, and the fair value of the shares as of March 31, 1999 is ¥39,130 million.

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security 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 due the bank.

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 security or mortgages on property, plant and equipment.

The unsecured convertible debentures due in 2002 are redeemable in whole or in part, at the option of the Company, from April 1, 1995 to March 31, 2001 at premiums ranging from 6% to 1%, and at par thereafter. The debentures are currently convertible into approximately 28,474,000 shares of common stock.

The unsecured convertible debentures due in 2003 are redeemable in whole or in part, at the option of the Company, from October 1, 1996 to September 30, 2002 at premiums ranging from 6% to 1%, and at par thereafter. The debentures are currently convertible into approximately 49,504,000 shares of common stock. Commencing September 30, 1999, the Company is required to make annual payments to the Trustee of ¥10 billion less the aggregate amounts of the debentures converted, repurchased or redeemed which have not been deducted before.

The unsecured convertible debentures due in 2004 are redeemable in whole or in part, at the option of the Company, from October 1, 1997 to September 30, 2003 at premiums ranging from 6% to 1%, and at par thereafter. The debentures are currently convertible into approximately 128,945,000 shares of common stock. Commencing September 30, 1999, the Company is required to make annual payments to the Trustee of ¥20 billion less the aggregate amounts of the debentures converted, repurchased or redeemed which have not been deducted before.

Pursuant to the terms of the indentures under which the unsecured convertible debentures due in 2004 were issued, accumulated cash dividends (including interim dividends) paid by the Company for the fiscal years beginning after March 31, 1989 may not exceed accumulated net income in the audited consolidated statements of income for the fiscal years beginning after March 31, 1989 plus ¥65,000 million as long as these debentures are outstanding. In determining the accumulated cash dividends, interim cash dividends to be paid on and after April 1, 1990 are considered to be a part of the cash dividends of the previous fiscal year.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Retirement and Severance Benefits

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

Principal pension plans are unfunded defined benefit pension plans. Under the plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause. For the purpose of applying SFAS No. 87, "Employers' Accounting for Pensions," the projected benefit obligation which is made equal to the larger vested benefit obligation is recognized as the retirement and severance benefits on the accompanying balance sheets. The pension cost for the year is computed as the retirement and severance benefits paid plus or minus the change in the vested benefit obligation. For the years ended March 31, 1999, 1998 and 1997, the net periodic pension cost consists of service costs of ¥147,234 million, ¥87,504 million and ¥100,782 million, respectively.

Directors and certain employees are not covered by the programs described above. Benefits paid to such persons and meritorious service awards paid to employees in excess of the prescribed formula are charged to income as paid as it is not practicable to compute the liability for future payments since amounts vary with circumstances.

In addition to unfunded defined benefit pension plans, the Company and certain of its subsidiaries contribute to each Employees Pension Fund (EPF) as is stipulated by the Japanese Welfare Pension Insurance Law. 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 of its subsidiaries and their employees contribute 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.

The benefits for the substitutional portion are based on standard remuneration scheduled by the Welfare Pension Insurance Law and the length of participation. The benefits of the corporate portion are based on the current rate of pay and the length of service. Under EPF pension plans, the participants are eligible for these benefits after a one-month period of participation in the plan. EPF contributions and cost for the substitutional portion are determined in accordance with the open aggregate cost method (actuarial funding method) as stipulated by the Welfare Pension Insurance Law. Contributions and cost for the corporate portion are determined in accordance with the entry age normal cost method (actuarial funding method). The pension cost of the corporate portion for the years ended March 31, 1999, 1998 and 1997 totaled ¥66,021 million, ¥71,431 million and ¥51,491 million, respectively.

The Company decided not to apply accounting for single-employer defined benefit pension plans under SFAS No. 87 for those plans as the effects on the consolidated financial statements of the implementation of SFAS No. 87 are not significant. However, the following table summarizes the funded status for the EPF of the companies at March 31, 1998 and 1997 according to the actuarial funding method, based on the latest information available.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Funding status of the Company's plan is as follows:

	Yen (millions)	
	1998	1997
The liability reserve calculated using:		
Aggregate cost method - discount rate at 5.5% and assumed rates of compensation increase at 3.8 - 4.6%	¥ (368,528)	(333,897)
Entry age normal cost method - discount rate at 4.5% and assumed rate of compensation increase at 3.7%	(494,238)	(420,943)
Fair value of plan assets, primarily fixed income securities and contract receivables from insurance companies	896,281	767,440
	¥ 33,515	12,600

The fair value of plan assets and liability reserve of certain domestic subsidiaries' plans are as follows:

	Yen (millions)	
	1998	1997
Liability reserve	¥ (463,983)	(423,114)
Fair value of plan assets	470,752	422,453
	¥ 6,769	(661)

Prior service liabilities as of March 31, 1998 and 1997 amounted to ¥207,746 million and ¥276,320 million, respectively. It is the policy of the companies to amortize prior service costs over periods not exceeding 20 years by the interest or declining-balance method.

Contributions for the amortized portions of the prior service costs for the years ended March 31, 1999, 1998 and 1997 totaled ¥40,623 million, ¥48,097 million and ¥28,099 million, respectively.

The companies are not required to report by regulation the actuarial present value of either vested or nonvested accumulated plan benefits, and such information, therefore, is not available.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Other Liabilities

Other liabilities as of March 31, 1999 and 1998 consist of the following:

	Yen (millions)	
	1999	1998
Deferred tax liabilities	¥ 12,839	15,835
Long-term payables for property	70,244	75,821
Other	2,547	838
	¥ 85,630	92,494

(9) Common Stock

The Company has authorized for issuance 10 billion shares of common stock with a ¥50 par value. Issued and outstanding shares, changes in shares and the amount of common stock for the years ended March 31, 1999, 1998 and 1997 are summarized as follows:

	Issued and outstanding shares	Yen
		(millions) Amount
Balance as of March 31, 1996	3,329,138,508	¥ 278,178
Issued upon conversion of convertible debentures	8,657,497	3,506
Balance as of March 31, 1997	3,337,796,005	281,684
Issued upon conversion of convertible debentures	98,775	51
Balance as of March 31, 1998	3,337,894,780	281,735
Issued upon conversion of convertible debentures	-	-
Balance as of March 31, 1999	3,337,894,780	¥ 281,735

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 by crediting one-half of the conversion price to each of the common stock account and the capital surplus account.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Legal Reserve and Cash Dividends

The Japanese Commercial Code provides that earnings in an amount equal to at least 10% of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until such reserve equals 25% of stated common stock. This legal reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated common stock.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 1999, 1998 and 1997 represent dividends paid out during those years and the related appropriations to the legal reserve. The accompanying financial statements do not include any provision for the semi-annual dividend of ¥5.5 per share totaling ¥18,357 million subsequently proposed by the Board of Directors in respect of the year ended March 31, 1999.

(11) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) is composed of foreign currency translation adjustments. No income tax expense or benefit allocated to foreign currency translation adjustments is provided for the years ended March 31, 1999, 1998 and 1997.

(12) Pledged Assets

The Company provides its investment in Hitachi Credit Corporation, a 52.82% (63,077 thousand shares) owned subsidiary, and Hitachi Software Engineering Co., Ltd., a 57.83% (34,645 thousand shares) owned subsidiary, as collateral for an affiliated company's bank loan of ¥29,294 million. The collateralized number of shares and their fair values as of March 31, 1999 are as follows:

<u>Subsidiary name</u>	<u>Collateralized number of shares</u>	<u>Fair value as of March 31, 1999 Yen (millions)</u>
Hitachi Credit Corporation	12,500,000	¥ 29,375
Hitachi Software Engineering Co., Ltd.	8,000,000	32,960

(13) Commitments and Contingencies

As of March 31, 1999, outstanding commitments for the purchase of property, plant and equipment were approximately ¥39,216 million.

The Company and its operating subsidiaries are contingently liable for loan guarantees in the amount of approximately ¥37,533 million as of March 31, 1999. In addition, Hitachi Credit Corporation and its subsidiaries, financing subsidiaries, are the guarantors of consumer loans totaling ¥587,636 million as of March 31, 1999.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

It is 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, 1999 and 1998, the companies are contingently liable for trade notes discounted and endorsed in the following amounts:

	Yen (millions)	
	1999	1998
Notes discounted	¥ 6,493	12,347
Notes endorsed	<u>52,501</u>	<u>65,573</u>
	¥ <u>58,994</u>	<u>77,920</u>

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 financial position and results of operations of the Company and certain subsidiaries.

(14) Advertising

The Company expenses advertising costs as incurred. Advertising expense for the years ended March 31, 1999, 1998 and 1997, that was charged to income, amounted to ¥44,695 million, ¥52,161 million and ¥50,912 million, respectively.

(15) Other Income and Other Deductions

For the year ended March 31, 1999, the Company recorded a restructuring charge of ¥132,505 million as other deductions primarily associated with the integration, reorganization and streamlining of the operations, especially in the Information Systems & Electronics division, the Consumer Products division and the Power & Industrial Systems division. Included in this total are special termination benefits of ¥71,706 million, losses of ¥42,103 million on the sale or disposal of assets, principally property, plant and equipment and various other restructuring related charges of ¥18,696 million. The special termination benefits related to the voluntary termination of approximately 9,700 employees from the above divisions. Approximately 5,200 employees have separated or been reallocated as of March 31, 1999, and it is expected that the employee reduction or reallocation plan will be substantially completed in the year ending March 31, 2000. Accordingly, special termination benefits and severance pay of ¥48,126 million was paid during the year ended March 31, 1999 and ¥54,301 million, the remainder of the special termination benefits accrual for the year ended March 31, 1999, is expected to be paid by March 31, 2000.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As discussed in note 1 (l), the Company adopted the provisions of SFAS No. 121 in 1997. The prices of semiconductors, mainly 64-megabit DRAMs, which are the products of the Company's semiconductor business, have significantly decreased during the year ended March 31, 1998 due to a highly competitive market situation. As a result of these developments, the Company projected that the future business of those products would result in a net operating loss. Based on a comparison of the future net cash flows expected to be generated by the machinery and equipment to manufacture those products and their carrying amounts, the Company recognized an impairment of those assets. The present value of estimated future cash flows using a discount rate inherent to the Company was used as the fair value of those assets. Under similar conditions in 1997, the Company recognized an impairment loss of the machinery and equipment to manufacture 4-megabit and 16-megabit DRAMs in the year ended March 31, 1997. The impairment losses are charged to income amounting to ¥35,504 million and ¥44,289 million, which are included in "Other deductions" for the years ended March 31, 1998 and 1997, respectively.

In addition, the Company and subsidiaries recognized future lease payments which were not covered by the future net cash flows expected to be generated by the leased machinery and equipment to manufacture mainly 64-megabit DRAMs. Included in "Other deductions" for the year ended March 31, 1998 is a special charge of ¥14,287 million in relation to a one-time recognition of unrecoverable future lease payments under the noncancelable agreements.

Further, "Other deductions" for the year ended March 31, 1998 includes the liquidation loss of ¥31,828 million in connection with the Company's discontinuance of its DRAM manufacturing joint venture with Texas Instruments Inc. in the United States.

"Other income" for the years ended March 31, 1999, 1998 and 1997 include the net gain on sale of securities in the amount of ¥1,144 million, ¥111,111 million and ¥27,624 million, respectively.

(16) Net Income (Loss) Per Share Information

The reconciliation of the numbers and the amounts used in the basic and diluted net income (loss) per share computations is as follows:

	Number of shares		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Weighted average number of shares on which basic net income (loss) per share is calculated	3,337,894,780	3,337,886,549	3,331,566,990
Effect of dilutive securities:			
5th series convertible debentures	-	28,482,154	28,572,698
7th series convertible debentures	-	-	130,064,333
6th series convertible debentures	-	-	51,067,203
4th series convertible debentures	-	-	6,319,809
Number of shares on which diluted net income (loss) per share is calculated	<u>3,337,894,780</u>	<u>3,366,368,703</u>	<u>3,547,591,033</u>

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Yen (millions)		
	1999	1998	1997
Net income (loss) applicable to common stockholders	¥ (338,794)	¥ 3,477	88,331
Effect of dilutive securities:			
5th series convertible debentures	-	264	240
7th series convertible debentures	-	-	1,508
6th series convertible debentures	-	-	525
4th series convertible debentures	-	-	42
Other	-	(378)	-
Net income (loss) on which diluted net income (loss) per share is calculated	¥ (338,794)	¥ 3,363	90,646
	Yen		
Net income (loss) per share:			
Basic	¥ (101.50)	1.04	26.51
Diluted	(101.50)	1.00	25.55

The net loss per share computation for the year ended March 31, 1999 excludes all series convertible debentures because their effect would have been antidilutive. The net income per share computation for the year ended March 31, 1998 excludes 6th and 7th series convertible debentures because their effect would have been antidilutive.

(17) Supplementary Income Information

	Yen (millions)		
	1999	1998	1997
Taxes other than income taxes consist of the following:			
Property	¥ 36,286	35,565	34,244
Welfare	216,952	214,291	207,343
Other	14,629	16,521	16,797
	¥ 267,867	266,377	258,384
Maintenance and repairs	¥ 97,469	110,776	110,595
Research and development expense	496,728	510,878	503,508
Provision for retirement and severance benefits and pension expense	246,750	189,225	178,462
Rent	192,144	188,836	194,394
Exchange gain (loss)	(22,463)	(35,562)	7,152

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Supplementary Cash Flows Information

		<u>Yen (millions)</u>		
		<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash paid during the year for:				
Interest	¥	61,935	56,742	60,400
Income taxes		145,771	178,136	205,711

Convertible debentures issued by the Company of ¥100 million in 1998 and ¥7,004 million in 1997 were converted into common stock. Convertible debentures issued by subsidiaries of ¥5,915 million in 1999, ¥7,050 million in 1998 and ¥6,151 million in 1997 were converted into subsidiaries' common stock.

The proceeds from sale of securities classified as available-for-sale discussed in note 2 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.

(19) Financial Instruments, Derivative Financial Instruments and Risk Management

The Company and its subsidiaries operate globally, are exposed to market risk from changes in foreign currency exchange rates and interest rates and enter into financial instruments and derivative financial instruments for the purpose of reducing such risk. The Company and its subsidiaries do not hold or issue derivative financial instruments for the purpose of trading.

The Company and its subsidiaries are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are authentic financial institutions.

The contract or notional amounts of derivative financial instruments held as of March 31, 1999 and 1998 are summarized as follows:

		<u>Yen (millions)</u>	
		<u>1999</u>	<u>1998</u>
Forward exchange contracts:			
To sell foreign currencies	¥	222,882	281,191
To buy foreign currencies		6,357	13,689
Cross currency swap agreements:			
To sell foreign currencies		49,573	47,180
To buy foreign currencies		207,419	247,301

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As discussed in note 14, as of March 31, 1999, the Company and its subsidiaries are liable for trade notes discounted and endorsed, which are ¥6,493 million and ¥52,501 million, respectively, and for loan guarantees in the amount of approximately ¥37,533 million. In addition, Hitachi Credit Corporation and its subsidiaries, financing subsidiaries, are the guarantors of consumer loans totaling ¥587,636 million as of March 31, 1999. In relation to these, credit-related losses in the event of non-performance are not expected to be material. The Company and its subsidiaries sometimes require collateral of the counterparties for the purpose of reducing credit risk in appropriate cases.

(20) 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 those are diversified and spread globally.

(21) 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 investment 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 companies' 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 and cross currency swap agreements are estimated on the basis of the market prices of derivative financial instruments with similar contract conditions.

HITACHI, LTD.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The estimated fair values of the companies' financial instruments are as follows:

		Yen (millions)			
		1999		1998	
		Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Investments in securities:					
Short-term investments	¥	557,359	697,347	713,672	856,440
Investments and advances		326,413	465,734	331,009	492,368
Derivatives (Assets):					
Forward exchange contracts		2,695	1,811	727	583
Cross currency swap agreements		11,199	3,184	23,758	3,281
Long-term debt		(1,592,436)	(1,636,704)	(1,501,596)	(1,539,098)
Derivatives (Liabilities):					
Forward exchange contracts		(931)	(327)	(7,197)	(7,664)
Cross currency swap agreements		(10,504)	(456)	(41,277)	(21,220)

Short-term investments as of March 31, 1999 and 1998 include investment in trust accounts totaling ¥250,967 million and ¥245,766 million, respectively, which approximate fair value.

It is not practicable to estimate the fair value of investments in unlisted common stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amount of these investments at March 31, 1999 and 1998 totaled ¥53,042 million and ¥53,157 million, respectively.

These disclosures disregard management's intentions regarding the sale or settlement of its financial instruments and realizability of estimated fair values. Management does not intend to sell or settle most of its noncurrent financial instruments. Further, the fair value estimates are made as of March 31, 1999 and 1998, based on various assumptions. Therefore, the Company believes that the estimated fair values may be of limited usefulness.

HITACHI, LTD.
AND SUBSIDIARIES

Reserves

Years ended March 31, 1999, 1998 and 1997

(In millions of yen)

		Balance at beginning of period	Charged to income	Net decrease in unearned income	Bad debts written off	Balance at end of period
Year ended March 31, 1999:						
Allowance for doubtful receivables	¥	14,474	6,458	-	(3,699)	17,233
Unearned income- installment financing		<u>9,332</u>	<u>-</u>	<u>(622)</u>	<u>-</u>	<u>8,710</u>
	¥	<u>23,806</u>	<u>6,458</u>	<u>(622)</u>	<u>(3,699)</u>	<u>25,943</u>
Year ended March 31, 1998:						
Allowance for doubtful receivables	¥	13,485	3,756	-	(2,767)	14,474
Unearned income- installment financing		<u>9,818</u>	<u>-</u>	<u>(486)</u>	<u>-</u>	<u>9,332</u>
	¥	<u>23,303</u>	<u>3,756</u>	<u>(486)</u>	<u>(2,767)</u>	<u>23,806</u>
Year ended March 31, 1997:						
Allowance for doubtful receivables	¥	9,714	10,557	-	(6,786)	13,485
Unearned income- installment financing		<u>13,133</u>	<u>-</u>	<u>(3,315)</u>	<u>-</u>	<u>9,818</u>
	¥	<u>22,847</u>	<u>10,557</u>	<u>(3,315)</u>	<u>(6,786)</u>	<u>23,303</u>