

## PART IV

### Item 17. Financial Statements

#### Consolidated Financial Statements of Hitachi, Ltd. and Subsidiaries:

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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.



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### 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999. 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 accounting principles generally accepted in the United States of America.

The segment information required to be disclosed in financial statements under accounting principles generally accepted in the United States of America 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, 2000 and 1999, 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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2000 in conformity with accounting principles generally accepted in the United States of America. 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.

KPMG  
Tokyo, Japan  
May 17, 2000



Member Firm of  
KPMG International

HITACHI, LTD.  
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2000 and 1999

<u>Assets</u>	<u>Yen (millions)</u>		<u>Liabilities and Stockholders' Equity</u>	<u>Yen (millions)</u>	
	<u>2000</u>	<u>1999</u>		<u>2000</u>	<u>1999</u>
Current assets:			Current liabilities:		
Cash and cash equivalents	¥ 1,357,432	1,237,527	Short-term debt (note 6)	¥ 1,046,571	1,045,543
Short-term investments (note 2)	568,634	551,839	Current installments of long-term debt (note 6)	259,099	114,268
Trade receivables:			Trade payables:		
Notes	298,866	311,198	Notes	98,058	97,863
Accounts	1,927,549	1,900,371	Accounts	974,721	907,641
Allowance for doubtful receivables and unearned income	(22,197)	(25,943)	Total trade payables	1,072,779	1,005,504
Net trade receivables	2,204,218	2,185,626	Accrued expenses	706,647	694,399
Inventories (note 3)	1,416,878	1,470,847	Income taxes (note 5)	76,969	63,241
Prepaid expenses and other current assets (note 5)	366,617	415,815	Advances received	382,085	418,360
Total current assets	5,913,779	5,861,654	Employees' deposits	8,503	9,368
			Other current liabilities (note 5)	372,988	412,065
			Total current liabilities	3,925,641	3,762,748
Noncurrent receivables and restricted funds (note 4)	160,583	176,403	Long-term debt (note 6)	1,482,810	1,478,168
Investments and advances, including affiliated companies (note 2)	658,846	680,389	Retirement and severance benefits (note 7)	699,385	723,028
			Other liabilities (notes 5 and 8)	81,554	85,630
			Total liabilities	6,189,390	6,049,574
Property, plant and equipment (note 6):			Minority interests	771,596	758,115
Land	380,076	369,701			
Buildings	1,731,561	1,730,333	Stockholders' equity (note 2):		
Machinery and equipment	4,887,088	5,116,062	Common stock (notes 6 and 9)	281,738	281,735
Construction in progress	71,184	54,453	Capital surplus (note 9)	499,081	494,782
	7,069,909	7,270,549	Legal reserve (note 10)	106,885	105,905
Less accumulated depreciation	4,515,160	4,662,942	Retained earnings (notes 6 and 10)	2,066,085	2,083,936
Net property, plant and equipment	2,554,749	2,607,607	Accumulated other comprehensive income (loss) (note 11)	(77,577)	(58,065)
Other assets (note 5)	549,241	389,929	Total stockholders' equity	2,876,212	2,908,293
			Commitments and contingencies (note 12)		
	¥ <u>9,837,198</u>	<u>9,715,982</u>		¥ <u>9,837,198</u>	<u>9,715,982</u>

See accompanying notes to consolidated financial statements.

HITACHI, LTD.  
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended March 31, 2000, 1999 and 1998

	Yen (millions)		
	2000	1999	1998
Revenues:			
Net sales (note 4)	¥ 8,001,203	7,977,374	8,416,834
Interest income	35,380	40,178	41,084
Dividends received	6,662	7,060	8,881
Other income (note 14)	<u>30,059</u>	<u>1,144</u>	<u>112,255</u>
Total revenues	8,073,304	8,025,756	8,579,054
Costs and expenses:			
Cost of sales	5,898,756	6,052,345	6,230,044
Selling, general and administrative expenses (note 13)	1,928,083	1,959,103	1,977,783
Interest and discount charges	52,015	59,028	59,635
Other deductions (note 14)	<u>115,215</u>	<u>176,711</u>	<u>138,331</u>
Total costs and expenses	<u>7,994,069</u>	<u>8,247,187</u>	<u>8,405,793</u>
Income (loss) before income taxes and minority interests	79,235	(221,431)	173,261
Income taxes (note 5)	<u>47,502</u>	<u>108,449</u>	<u>142,693</u>
Income (loss) before minority interests	31,733	(329,880)	30,568
Minority interests	<u>14,811</u>	<u>7,036</u>	<u>25,556</u>
Net income (loss)	<u><u>16,922</u></u>	<u><u>(336,916)</u></u>	<u><u>5,012</u></u>
Net income (loss) per share (note 15):			
Basic	¥ <u>5.07</u>	<u>(100.94)</u>	<u>1.50</u>
Diluted	¥ <u>4.99</u>	<u>(100.94)</u>	<u>1.45</u>

See accompanying notes to consolidated financial statements.

HITACHI, LTD.  
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Consolidated Statements of Stockholders' Equity

Years ended March 31, 2000, 1999 and 1998

	Yen (millions)		
	2000	1999	1998
Common stock (notes 6 and 9):			
Balance at beginning of year	¥ 281,735	281,735	281,684
Conversion of convertible debentures	<u>3</u>	<u>-</u>	<u>51</u>
Balance at end of year	¥ <u>281,738</u>	<u>281,735</u>	<u>281,735</u>
Capital surplus (note 9):			
Balance at beginning of year	¥ 494,782	492,272	486,695
Conversion of convertible debentures	3,954	2,190	2,723
Increase arising from sale of subsidiaries' common stock and other	<u>345</u>	<u>320</u>	<u>2,854</u>
Balance at end of year	¥ <u>499,081</u>	<u>494,782</u>	<u>492,272</u>
Legal reserve (note 10):			
Balance at beginning of year	¥ 105,905	104,370	101,146
Transfers from retained earnings	1,271	1,591	3,310
Transfers to minority interests arising from conversion of subsidiaries' convertible debentures	(94)	(37)	(45)
Transfers to minority interests arising from sale of subsidiaries' common stock and other	<u>(197)</u>	<u>(19)</u>	<u>(41)</u>
Balance at end of year	¥ <u>106,885</u>	<u>105,905</u>	<u>104,370</u>
Retained earnings (notes 6 and 10):			
Balance at beginning of year as previously reported	¥ 2,044,425	2,406,253	2,447,391
Restatement (note 1(a))	39,511	37,633	36,098
Balance at beginning of year as restated	2,083,936	2,443,886	2,483,489
Net income (loss)	16,922	(336,916)	5,012
Cash dividends	(28,371)	(18,358)	(36,715)
Transfers to legal reserve	(1,271)	(1,591)	(3,310)
Transfers to minority interests arising from conversion of subsidiaries' convertible debentures	(2,291)	(727)	(1,668)
Transfers to minority interests arising from sale of subsidiaries' common stock and other	<u>(2,840)</u>	<u>(2,358)</u>	<u>(2,922)</u>
Balance at end of year	¥ <u>2,066,085</u>	<u>2,083,936</u>	<u>2,443,886</u>
Accumulated other comprehensive income (loss) (note 11):			
Balance at beginning of year	¥ (58,065)	(43,860)	(33,026)
Other comprehensive income (loss), net of reclassification adjustment	(19,090)	(14,603)	(10,878)
Transfers to minority interests arising from conversion of subsidiaries' convertible debentures	3	1	38
Transfers to minority interests arising from sale of subsidiaries' common stock and other	<u>(425)</u>	<u>397</u>	<u>6</u>
Balance at end of year	¥ <u>(77,577)</u>	<u>(58,065)</u>	<u>(43,860)</u>
Total stockholders' equity	¥ <u>2,876,212</u>	<u>2,908,293</u>	<u>3,278,403</u>
Comprehensive income (loss)(note 11):			
Net income (loss)	¥ 16,922	(336,916)	5,012
Other comprehensive income (loss) arising during the year	(19,183)	(18,364)	(10,878)
Reclassification adjustment	<u>93</u>	<u>3,761</u>	<u>-</u>
Total comprehensive income (loss)	¥ <u>(2,168)</u>	<u>(351,519)</u>	<u>(5,866)</u>

See accompanying notes to consolidated financial statements.

HITACHI, LTD.  
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Consolidated Statements of Cash Flows

Years ended March 31, 2000, 1999 and 1998

	Yen (millions)		
	2000	1999	1998
Cash flows from operating activities (note 17):			
Net income (loss)	¥ 16,922	(336,916)	5,012
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	541,253	547,022	550,393
Impairment loss for long-lived assets	9,310	2,740	35,504
Deferred income taxes	(67,179)	(12,187)	(6,383)
Gain on sale of investments and subsidiaries' common stock	(36,215)	(3,938)	(117,998)
Loss on disposal of rental assets and other property	19,921	69,996	12,078
Income applicable to minority interests	14,811	7,036	25,556
(Increase) decrease in receivables	(107,685)	(2,549)	13,175
(Increase) decrease in inventories	(26,273)	127,802	(53,703)
Increase in prepaid expenses and other current assets	(9,931)	(1,133)	(12,847)
Increase (decrease) in payables	78,728	(45,274)	(7,254)
Increase in accrued expenses and retirement and severance benefits	3,846	19,400	5,132
Increase (decrease) in accrued income taxes	15,884	(25,135)	(28,880)
Increase (decrease) in other liabilities	(41,385)	25,338	6,892
Other	39,443	16,677	(5,936)
Net cash provided by operating activities	451,450	388,879	420,741
Cash flows from investing activities (note 17):			
(Increase) decrease in short-term investments	(15,155)	153,382	49,462
Capital expenditures	(576,929)	(619,342)	(690,419)
Proceeds from disposition of rental assets and other property	133,806	26,427	32,334
Proceeds from sale of investments and subsidiaries' common stock	67,971	16,542	144,127
Purchase of investments and subsidiaries' common stock	(40,463)	(13,837)	(165,898)
Other	(4,821)	(13,721)	(7,932)
Net cash used in investing activities	(435,591)	(450,549)	(638,326)
Cash flows from financing activities (note 17):			
Increase (decrease) in short-term debt	43,155	(1,845)	97,057
Proceeds from long-term debt	315,408	375,344	279,866
Payments on long-term debt	(194,038)	(230,273)	(223,517)
Proceeds from sale of common stock by subsidiaries	9,046	701	7,423
Dividends paid to stockholders	(27,762)	(18,412)	(36,600)
Dividends paid to minority stockholders of subsidiaries	(12,033)	(11,722)	(11,838)
Purchase and retirement of common shares by subsidiaries	(7,946)	-	-
Net cash provided by financing activities	125,830	113,793	112,391
Effect of exchange rate changes on cash and cash equivalents	(21,784)	(14,136)	(5,215)
Net increase (decrease) in cash and cash equivalents	119,905	37,987	(110,409)
Cash and cash equivalents at beginning of year	1,237,527	1,199,540	1,309,949
Cash and cash equivalents at end of year	¥ 1,357,432	1,237,527	1,199,540

See accompanying notes to consolidated financial statements.

HITACHI, LTD.  
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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 accounting principles generally accepted in the United States of America. 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.

In the year ended March 31, 2000, the Company changed its method of carrying the investment in Nitto Denko Corporation (Nitto Denko), its 26.6% owned affiliated company, from cost to equity. This change resulted from the Company's ability to exercise significant influence over the operating policy of Nitto Denko due to changes in the nature of the relationship between Nitto Denko and the Company. As a result of this change and restatement of prior periods for comparison purpose, all of investment in Nitto Denko is now accounted for under the equity method for all periods presented.

(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).

HITACHI, LTD.  
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Notes to Consolidated Financial Statements

(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.

(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 60 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) Revenue Recognition

Sales and related cost of sales are generally recognized when products are shipped, and services are rendered. The Company's products are generally subject to installation and warranty, and the Company provides for the estimated future costs of installation, repair, and replacement in cost of sales when sales are recognized. Sales and related cost of sales under a certain long-term construction contract recognized under the percentage of completion method.

(i) 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.

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Notes to Consolidated Financial Statements

- (j) 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.
- (k) 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."
- (l) 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.
- (m) 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 ended 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.

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Notes to Consolidated Financial Statements

(n) 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 shall not be applied retroactively to the financial statements of prior periods. SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133 – an amendment of FASB Statement No. 133," issued in June 1999, defers the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. 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.

(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.

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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, 2000 and 1999 are as follows:

	<u>Yen (millions)</u>	
	<u>2000</u>	<u>1999</u>
Stockholders' equity as shown in the consolidated balance sheets	¥ 2,876,212	2,908,293
Gross unrealized holding gains on available-for-sale securities having the effect of increasing the following reported items:		
Short-term investments	63,800	53,840
Investments and advances	155,333	139,321
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)	(12,036)	(7,238)
Other assets (decrease)	(64,191)	(57,589)
Other current liabilities (increase)	(14,195)	(15,220)
Other liabilities (increase)	(164)	(471)
Net unrealized holding gain on available-for-sale securities held by affiliated companies	3,257	3,426
Transfer to minority interests	<u>(20,329)</u>	<u>(18,347)</u>
Net effect of implementation of SFAS No. 115	<u>111,475</u>	<u>97,722</u>
Stockholders' equity in accordance with U.S. generally accepted accounting principles	¥ <u>2,987,687</u>	<u>3,006,015</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, 2000 and 1999 were an increase of ¥13,753 million and a decrease of ¥13,691 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 ¥9,305 million and an increase of net income amounting to ¥7,151 million for the years ended March 31, 1999 and 1998, respectively.

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Notes to Consolidated Financial Statements

If SFAS No. 115 had been implemented in the body of the consolidated financial statements, the comprehensive income(loss) for the years ended March 31, 2000, 1999 and 1998 would have been ¥11,579 million, a loss of ¥355,884 million and a loss of ¥102,734 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, 2000 and 1999.

	Yen (millions)					
	2000			1999		
	Carrying amounts	Gross unrealized gains	Fair values	Carrying amounts	Gross unrealized gains	Fair values
Short-term investments:						
Equity securities	¥ 34,480	63,204	97,684	34,853	53,235	88,088
Bonds and debentures	175,126	406	175,532	159,681	412	160,093
Other securities	<u>102,502</u>	<u>190</u>	<u>102,692</u>	<u>106,338</u>	<u>193</u>	<u>106,531</u>
	312,108	63,800	375,908	300,872	53,840	354,712
Investments and advances:						
Equity securities	208,668	155,140	363,808	204,164	138,203	342,367
Bonds and debentures	87,230	175	87,405	98,253	973	99,226
Other securities	<u>14,846</u>	<u>18</u>	<u>14,864</u>	<u>23,996</u>	<u>145</u>	<u>24,141</u>
	310,744	155,333	466,077	326,413	139,321	465,734
	¥ <u>622,852</u>	<u>219,133</u>	<u>841,985</u>	<u>627,285</u>	<u>193,161</u>	<u>820,446</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, 2000, regardless of the consolidated balance sheet classification, are as follows:

	Yen (millions)
	2000
	Carrying amounts
Due within one year	¥ 179,098
Due after one year through five years	105,207
Due after five years	<u>95,399</u>
	¥ <u>379,704</u>

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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, 2000, 1999 and 1998 are ¥117,476 million, ¥123,647 million and ¥249,241 million, respectively, and gross realized gains included in income are ¥16,481 million, ¥14,168 million and ¥124,698 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, 2000 and 1999 are ¥239,070 million and ¥145,715 million, respectively. The aggregate carrying values of such investments as of March 31, 2000 and 1999 are ¥143,191 million and ¥151,738 million, respectively.

(3) Inventories

Inventories as of March 31, 2000 and 1999 are summarized as follows:

	Yen (millions)	
	2000	1999
Finished goods	¥ 364,553	403,632
Work in process	885,189	903,816
Raw materials	167,136	163,399
	¥ 1,416,878	1,470,847

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, 2000 and 1999 aggregated ¥288,270 million and ¥331,786 million, respectively.

(4) Noncurrent Receivables and Restricted Funds

Noncurrent receivables and restricted funds as of March 31, 2000 and 1999 are summarized as follows:

	Yen (millions)	
	2000	1999
Housing loans to employees	¥ 24,094	25,765
Trade receivables not due within one year, interest-bearing	27,854	45,104
Other receivables and restricted funds	108,635	105,534
	¥ 160,583	176,403

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

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The aggregated annual maturities of the noncurrent trade receivables after March 31, 2001 are as follows:

<u>Years ending March 31</u>	<u>Yen</u> <u>(millions)</u>
2002	¥ 17,478
2003	7,157
2004	1,982
2005	724
Thereafter	<u>513</u>
	¥ <u>27,854</u>

Sales on an installment contract basis for the years ended March 31, 2000, 1999 and 1998 totaled ¥11,736 million, ¥12,317 million and ¥19,796 million, respectively.

(5) Income Taxes

Income tax expense (benefit) attributable to income from operations for the years ended March 31, 2000, 1999 and 1998 consists of the following:

	<u>Yen (millions)</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Current	¥ 114,681	120,636	149,076
Deferred	<u>(67,179)</u>	<u>(12,187)</u>	<u>(6,383)</u>
	¥ <u>47,502</u>	<u>108,449</u>	<u>142,693</u>

The companies are subject to a number of taxes based on income. The aggregated normal tax rate for domestic companies was 41.8%, 47.4% and 51.1% in 2000, 1999 and 1998, respectively. In accordance with SFAS No. 109, the effect of a change in the normal tax rate on deferred tax assets, liabilities and related valuation allowance, that was charged to income, amounted to ¥58,489 million and ¥29,761 million for the years ended March 31, 1999 and 1998, respectively.

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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>2000</u>	<u>1999</u>	<u>1998</u>
Normal income tax rate	41.8%	(47.4)%	51.1%
Equity in earnings of associated companies	3.4	2.5	(0.4)
Adjustment of net gain (loss) on sale of subsidiaries' common stock	(8.1)	2.2	0.6
Expenses not deductible for tax purposes	14.6	9.6	7.0
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	21.3	41.5	1.0
Difference in statutory tax rates of foreign subsidiaries	(14.7)	10.3	4.2
Other	<u>1.7</u>	<u>(0.2)</u>	<u>(0.1)</u>
Effective income tax rate	<u>60.0%</u>	<u>49.0%</u>	<u>82.4%</u>

The significant components of deferred income tax benefit attributable to income from operations for the years ended March 31, 2000, 1999 and 1998 are as follows:

	<u>Yen (millions)</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Deferred tax benefit (exclusive of the effects of other components listed below)	¥ (84,085)	(173,071)	(40,800)
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>16,906</u>	<u>92,730</u>	<u>1,833</u>
	¥ <u>(67,179)</u>	<u>(12,187)</u>	<u>(6,383)</u>

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2000 and 1999 are presented below:

	Yen (millions)	
	2000	1999
Total gross deferred tax assets:		
Provision for retirement and severance benefits	¥ 207,686	206,273
Accrued expenses	88,791	108,723
Depreciation	32,336	33,385
Net operating loss carryforwards	201,836	174,784
Other	<u>246,922</u>	<u>182,393</u>
	777,571	705,558
Valuation allowance	<u>(142,839)</u>	<u>(131,504)</u>
	634,732	574,054
Total gross deferred tax liabilities:		
Deferred profit on sale of properties	(36,868)	(37,404)
Tax purpose reserves regulated by Japanese tax law	(37,008)	(35,898)
Other	<u>(6,284)</u>	<u>(10,961)</u>
	<u>(80,160)</u>	<u>(84,263)</u>
Net deferred tax assets	¥ <u>554,572</u>	<u>489,791</u>

Net deferred tax assets and liabilities as of March 31, 2000 and 1999 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)	
	2000	1999
Prepaid expenses and other current assets	¥ 169,612	237,707
Other assets	411,433	268,659
Other current liabilities	(13,587)	(3,736)
Other liabilities	<u>(12,886)</u>	<u>(12,839)</u>
Net deferred tax assets	¥ <u>554,572</u>	<u>489,791</u>

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, 2000 and 1999 was an increase of ¥11,335 million and ¥88,383 million, respectively.

As of March 31, 2000, the Company and various subsidiaries have net operating loss carryforwards for income tax purposes of ¥507,130 million which are available to offset future taxable income, if any. Most of these net operating loss carryforwards expire by 2005.

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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, 2000.

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, 2000 and 1999 is summarized as follows:

	<u>Yen (millions)</u>	
	<u>2000</u>	<u>1999</u>
Borrowings mainly from banks	¥ 840,468	784,710
Commercial paper	<u>206,103</u>	<u>260,833</u>
	¥ <u>1,046,571</u>	<u>1,045,543</u>

The weighted average interest rates on short-term debt outstanding as of March 31, 2000 and 1999 are 0.2% and 0.4%, respectively.

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Long-term debt as of March 31, 2000 and 1999 is summarized as follows:

	Yen (millions)	
	2000	1999
Mortgage debentures:		
Due 2002 - 2004, interest 2.1 - 2.8%, issued by a subsidiary	¥ 400	600
Unsecured notes and debentures:		
Due 2006, interest 3.45% debenture	200,000	200,000
Due 2000 - 2010, interest 0.2 - 7.0%, issued by subsidiaries	826,152	711,771
Unsecured convertible debentures:		
5th series, due 2002, interest 1.7%	28,822	28,827
6th series, due 2003, interest 1.3%	92,828	92,829
7th series, due 2004, interest 1.4%	218,471	218,471
Due 2001 - 2004, interest 0.5 - 4.4%, issued by subsidiaries	88,026	93,432
Loans, principally from banks and insurance companies:		
Secured by various assets and mortgages on property, plant and equipment, maturing 2000 - 2013, interest 1.68 - 6.25%	20,983	27,336
Unsecured, maturing 2000 - 2013, interest 0.66 - 6.91%	266,227	219,170
	1,741,909	1,592,436
Less current installments	259,099	114,268
	¥ 1,482,810	1,478,168

The aggregate annual maturities of long-term debt after March 31, 2001 are as follows:

Years ending March 31	Yen (millions)
2002	¥ 274,169
2003	190,227
2004	274,324
2005	287,900
Thereafter	456,190
	¥ 1,482,810

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The Company and a certain subsidiary provide their investment in certain subsidiaries as collateral for bank loans of ¥44,542 million. The collateralized number of shares and their fair values as of March 31, 2000 are as follows:

<u>Subsidiary name</u>	<u>Number of shares owned in thousand</u>	<u>Percent of ownership</u>	<u>Collateralized number of shares in thousand</u>	<u>Yen (millions) Fair value as of March 31, 2000</u>
Hitachi Software Engineering Co., Ltd.	33,267	53.2%	2,300	¥ 29,003
Hitachi Credit Corporation	63,097	52.9	12,500	22,938
Hitachi Maxell, Ltd.	51,805	52.5	6,400	16,192
Hitachi Powdered Metals Co., Ltd.	17,072	54.1	8,900	6,364

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 28,469,000 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 49,503,000 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.

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In accordance with Trustee agreements for the unsecured debentures due in 2003 and 2004 as mentioned above, the 1,480 thousand shares of investments in Hitachi Software Engineering Co., Ltd. held in trust. The fair value of the shares held in trust is ¥18,663 million as of March 31, 2000.

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.

(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, 2000, 1999 and 1998, the net periodic pension cost consists of service costs of ¥97,386 million, ¥147,234 million and ¥87,504 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.

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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, 2000, 1999 and 1998 totaled ¥63,401 million, ¥66,021 million and ¥71,431 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, 1999 and 1998 according to the actuarial funding method, based on the latest information available.

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

	Yen (millions)	
	1999	1998
The liability reserve calculated using:		
Aggregate cost method - discount rate at 5.5% and assumed rates of compensation increase at 1.1 - 2.4%	¥ (397,959)	(368,528)
Entry age normal cost method - discount rate at 4.5% and assumed rate of compensation increase at 3.8%	(541,297)	(494,238)
Fair value of plan assets, primarily fixed income securities and contract receivables from insurance companies	943,271	896,281
	¥ 4,015	33,515

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

	Yen (millions)	
	1999	1998
Liability reserve	¥ (517,861)	(463,983)
Fair value of plan assets	512,753	470,752
	¥ (5,108)	6,769

Prior service liabilities as of March 31, 1999 and 1998 amounted to ¥164,062 million and ¥207,746 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, 2000, 1999 and 1998 totaled ¥38,340 million, ¥40,623 million and ¥48,097 million, respectively.

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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.

(8) Other Liabilities

Other liabilities as of March 31, 2000 and 1999 consist of the following:

	Yen (millions)	
	2000	1999
Deferred tax liabilities	¥ 12,886	12,839
Long-term payables for property	66,435	70,244
Other	2,233	2,547
	¥ 81,554	85,630

(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, 2000, 1999 and 1998 are summarized as follows:

	Issued and outstanding shares	Yen (millions)
		Amount
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
Issued upon conversion of convertible debentures	5,471	3
Balance as of March 31, 2000	3,337,900,251	¥ 281,738

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.

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(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, 2000, 1999 and 1998 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 ¥3.0 per share totaling ¥10,013 million subsequently proposed by the Board of Directors in respect of the year ended March 31, 2000.

(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, 2000, 1999 and 1998.

(12) Commitments and Contingencies

As of March 31, 2000, outstanding commitments for the purchase of property, plant and equipment were approximately ¥54,417 million.

The Company and its operating subsidiaries are contingently liable for loan guarantees in the amount of approximately ¥37,592 million as of March 31, 2000. In addition, Hitachi Credit Corporation and its subsidiaries, financing subsidiaries, are the guarantors of consumer loans totaling ¥637,626 million as of March 31, 2000.

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, 2000 and 1999, the companies are contingently liable for trade notes discounted and endorsed in the following amounts:

	Yen (millions)	
	2000	1999
Notes discounted	¥ 5,170	6,493
Notes endorsed	<u>51,310</u>	<u>52,501</u>
	¥ <u>56,480</u>	<u>58,994</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.

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(13) Advertising

The Company expenses advertising costs as incurred. Advertising expense for the years ended March 31, 2000, 1999 and 1998, that was charged to income, amounted to ¥44,648 million, ¥44,695 million and ¥52,161 million, respectively.

(14) Other Income and Other Deductions

For the year ended March 31, 2000, the Company recorded a restructuring charge of ¥65,977 million as other deductions primarily associated with Information Systems & Electronics division and Materials division, including the integration, reorganization and streamlining of domestic and overseas subsidiaries. Included in this total are special termination benefits of ¥23,344 million, losses of ¥17,702 million on the sale or disposal of assets, impairment losses on machinery and equipment of ¥9,310 million and various other restructuring related charges of ¥15,621 million. The special termination benefits accrual of ¥18,545 million as of March 31, 2000, which are related to the voluntary termination of approximately 6,100 employees, is expected to be paid by March 31, 2001. The competitive market of hard disk drives caused its significant price decline during the year ended March 31, 2000. Under such situation, the Company recognized an impairment loss on the machinery and equipment mainly for the magnetic heads manufacturing, which are the main parts of hard disk drives, based on the comparison of the future net cash flows expected to be generated by the machinery and equipment and their carrying amounts. 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. Losses on the sale or disposal of assets amounted to ¥12,979 million in Information Systems & Electronics division and ¥3,895 million in Materials division.

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 had separated or been reallocated as of March 31, 1999, and the employee reduction or reallocation plan was substantially completed in the year ended 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, was paid in the year ended March 31, 2000.

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. The impairment losses are charged to income amounting to ¥35,504 million, which is included in "Other deductions" for the year ended March 31, 1998.

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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 deductoins" 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, 2000, 1999 and 1998 includes the net gain on sale of securities in the amount of ¥30,059 million, ¥1,144 million and ¥111,111 million, respectively.

(15) 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		
	2000	1999	1998
Weighted average number of shares on which basic net income (loss) per share is calculated	3,337,895,280	3,337,894,780	3,337,886,549
Effect of dilutive securities:			
5th series convertible debentures	28,473,510	-	28,482,154
Number of shares on which diluted net income (loss) per share is calculated	3,366,368,790	3,337,894,780	3,366,368,703
	Yen (millions)		
	2000	1999	1998
Net income (loss) applicable to common stockholders	¥ 16,922	¥ (336,916)	¥ 5,012
Effect of dilutive securities:			
5th series convertible debentures	325	-	264
Other	(463)	-	(378)
Net income (loss) on which diluted net income (loss) per share is calculated	¥ 16,784	¥ (336,916)	¥ 4,898
	Yen		
Net income (loss) per share:			
Basic	¥ 5.07	¥ (100.94)	¥ 1.50
Diluted	4.99	(100.94)	1.45

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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, 2000 and 1998 excludes 6th and 7th series convertible debentures because their effect would have been antidilutive.

(16) Supplementary Income Information

	Yen (millions)		
	2000	1999	1998
Taxes other than income taxes consist of the following:			
Property	¥ 36,251	36,286	35,565
Welfare	209,377	216,952	214,291
Other	<u>16,816</u>	<u>14,629</u>	<u>16,521</u>
	¥ <u>262,444</u>	<u>267,867</u>	<u>266,377</u>
Maintenance and repairs	¥ 100,903	97,469	110,776
Research and development expense	432,342	496,728	510,878
Provision for retirement and severance benefits and pension expense	203,893	246,750	189,225
Rent	202,420	192,144	188,836
Exchange loss	(34,292)	(22,463)	(35,562)

(17) Supplementary Cash Flows Information

	Yen (millions)		
	2000	1999	1998
Cash paid during the year for:			
Interest	¥ 52,046	61,935	56,742
Income taxes	98,797	145,771	178,136

Convertible debentures issued by the Company of ¥6 million and ¥100 million in 2000 and 1998, respectively, were converted into common stock. Convertible debentures issued by subsidiaries of ¥13,462 million in 2000, ¥5,915 million in 1999 and ¥7,050 million in 1998 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.

(18) 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.

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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, 2000 and 1999 are summarized as follows:

	<u>Yen (millions)</u>	
	<u>2000</u>	<u>1999</u>
Forward exchange contracts:		
To sell foreign currencies	¥ 188,200	222,882
To buy foreign currencies	22,070	6,357
Cross currency swap agreements:		
To sell foreign currencies	50,270	49,573
To buy foreign currencies	225,058	207,419

As discussed in note 12, as of March 31, 2000, the Company and its subsidiaries are liable for trade notes discounted and endorsed, which are ¥5,170 million and ¥51,310 million, respectively, and for loan guarantees in the amount of approximately ¥37,592 million. In addition, Hitachi Credit Corporation and its subsidiaries, financing subsidiaries, are the guarantors of consumer loans totaling ¥637,626 million as of March 31, 2000. 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.

(19) 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.

(20) 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.

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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.

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

		Yen (millions)			
		2000		1999	
		Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Investments in securities:					
Short-term investments	¥	568,634	632,434	551,839	605,679
Investments and advances		310,744	466,077	326,413	465,734
Derivatives (Assets):					
Forward exchange contracts		4,003	4,172	2,695	1,811
Cross currency swap agreements		19,223	42,217	11,199	3,184
Long-term debt		(1,741,909)	(1,843,702)	(1,592,436)	(1,636,704)
Derivatives (Liabilities):					
Forward exchange contracts		(254)	(121)	(931)	(327)
Cross currency swap agreements		(12,579)	(22,264)	(10,504)	(456)

Short-term investments as of March 31, 2000 and 1999 include investment in trust accounts totaling ¥256,526 million and ¥250,967 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, 2000 and 1999 totaled ¥60,882 million and ¥53,042 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, 2000 and 1999, based on various assumptions. Therefore, the Company believes that the estimated fair values may be of limited usefulness.

(21) Merger of Subsidiaries and Affiliates

In April 2000, the Company announced that Hitachi Credit Corporation, its 52.9% owned subsidiary, would merge with Hitachi Leasing, Ltd., 50.0% owned affiliated company on October 1, 2000. According to this merger, Hitachi Leasing, Ltd., whose investment had been carried on the equity method until the year ended March 31, 2000, will be consolidated as a subsidiary. If Hitachi Leasing, Ltd. and its subsidiaries had been consolidated as a subsidiary, total assets and total liabilities as of March 31, 2000 would have increased by approximately ¥859,291 million and ¥834,517 million, respectively.

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Furthermore, in February 2000, the Company also announced that Kokusai Electric Co., Ltd., its 21.8% owned affiliated company, would merge with Hitachi Denshi, Ltd., its 63.8% owned subsidiary, and Yagi Antenna Co., Ltd., its 41.0% owned affiliated company, on October 1, 2000. As a result of this merger, the investment in Kokusai Electric Co., Ltd., the continuing company, will be approximately 33% owned affiliated company whose investment will be accounted for under the equity method, and assets and liabilities of Hitachi Denshi, Ltd. will be omitted. Total assets and net assets of Hitachi Denshi, Ltd. and its subsidiaries as of March 31, 2000 amounted to approximately ¥62,885 million and ¥24,489 million, respectively.

(22) Stock Option Plans

In April 2000, the board of directors of the Company decided to propose the adoption of a stock option plan for certain its officers and employees at its shareholders' meeting to be held in June 2000. In accordance with the proposal, options to purchase the Company's common stock are granted at prices not less than market value at date of grant, are exercisable one year after the date of grant and expire five years after the date of grant. Under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," the Company will recognize no compensation expense related to employee stock options, as no options will be granted at a price below the market price on the day of grant.

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Reserves

Years ended March 31, 2000, 1999 and 1998

(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, 2000:						
Allowance for doubtful receivables	¥	17,233	(763)	-	(2,040)	14,430
Unearned income- installment financing		<u>8,710</u>	<u>-</u>	<u>(943)</u>	<u>-</u>	<u>7,767</u>
	¥	<u>25,943</u>	<u>(763)</u>	<u>(943)</u>	<u>(2,040)</u>	<u>22,197</u>
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>