

HITACHI LTD
Form 6-K
December 27, 2007
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the month of December 2007

Commission File Number 1-8320

Hitachi, Ltd.

(Translation of Registrant's Name Into English)

6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8280, Japan

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

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If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____

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This report on Form 6-K contains the following:

1. Consolidated financial statements for the first half of the fiscal year ending March 31, 2008

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Hitachi, Ltd.
(Registrant)

Date December 27, 2007

By /s/ Masahiro Hayashi
Masahiro Hayashi
Executive Vice President and Executive Officer

Table of Contents**CONSOLIDATED BALANCE SHEETS**

Hitachi, Ltd. and Subsidiaries

September 30, 2007 and March 31, 2007

| | Millions of yen | | Thousands of |
|--|-------------------|-------------------|---|
| | September 30, | March 31, | U.S. dollars (note 3) September 30, |
| Assets | 2007 | 2007 | 2007 |
| Current assets: | | | |
| Cash and cash equivalents | 545,028 | 617,866 | 4,739,374 |
| Short-term investments (note 4) | 42,019 | 33,986 | 365,383 |
| Trade receivables, net of allowance for doubtful receivables- September 30, 2007 ¥43,819 million (\$381,035 thousand); March 31, 2007 ¥42,959 million: | | | |
| Notes (notes 7 and 13) | 154,764 | 154,406 | 1,345,774 |
| Accounts (note 7) | 2,150,950 | 2,341,609 | 18,703,913 |
| Investments in leases (note 7) | 146,001 | 148,456 | 1,269,574 |
| Inventories (note 5) | 1,619,904 | 1,450,258 | 14,086,122 |
| Deferred income tax assets | 321,558 | 328,099 | 2,796,156 |
| Prepaid expenses and other current assets | 383,160 | 359,455 | 3,331,826 |
| Total current assets | 5,363,384 | 5,434,135 | 46,638,122 |
| Investments and advances, including affiliated companies (note 4) | 1,163,663 | 1,049,724 | 10,118,809 |
| Property, plant and equipment (note 6): | | | |
| Land | 481,682 | 465,315 | 4,188,539 |
| Buildings | 1,878,516 | 1,842,904 | 16,334,922 |
| Machinery and equipment | 5,993,300 | 5,850,195 | 52,115,652 |
| Construction in progress | 114,018 | 96,008 | 991,461 |
| | 8,467,516 | 8,254,422 | 73,630,574 |
| Less accumulated depreciation | 5,703,375 | 5,565,445 | 49,594,565 |
| Net property, plant and equipment | 2,764,141 | 2,688,977 | 24,036,009 |
| Deferred income tax assets | 259,724 | 277,232 | 2,258,469 |
| Other assets (notes 7 and 8) | 1,187,823 | 1,194,191 | 10,328,895 |
| Total assets | 10,738,735 | 10,644,259 | 93,380,304 |

See accompanying notes to consolidated financial statements.

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| Liabilities and Stockholders Equity | Millions of yen | | Thousands of |
|--|------------------------|-------------------|----------------------|
| | September 30, | March 31, | U.S. dollars |
| | 2007 | 2007 | (note 3) |
| | | | September 30, |
| | | | 2007 |
| Current liabilities: | | | |
| Short-term debt | 852,781 | 894,393 | 7,415,487 |
| Current portion of long-term debt | 318,791 | 303,214 | 2,772,096 |
| Trade payables: | | | |
| Notes | 80,788 | 85,282 | 702,504 |
| Accounts | 1,532,080 | 1,584,959 | 13,322,435 |
| Accrued expenses | 889,645 | 902,164 | 7,736,043 |
| Income taxes | 83,115 | 87,354 | 722,739 |
| Advances received | 404,180 | 284,704 | 3,514,609 |
| Deferred income tax liabilities | 2,395 | 1,214 | 20,826 |
| Other current liabilities | 549,697 | 524,260 | 4,779,974 |
| Total current liabilities | 4,713,472 | 4,667,544 | 40,986,713 |
| Long-term debt | 1,491,156 | 1,489,843 | 12,966,574 |
| Retirement and severance benefits | 772,514 | 818,457 | 6,717,513 |
| Deferred income tax liabilities | 51,306 | 47,178 | 446,139 |
| Other liabilities | 126,530 | 104,691 | 1,100,261 |
| Total liabilities | 7,154,978 | 7,127,713 | 62,217,200 |
| Minority interests | 1,155,466 | 1,073,749 | 10,047,530 |
| Stockholders equity: | | | |
| Common stock (note 9) | 282,033 | 282,033 | 2,452,461 |
| Capital surplus (note 9) | 560,615 | 560,796 | 4,874,913 |
| Legal reserve and retained earnings | 1,686,188 | 1,713,757 | 14,662,504 |
| Accumulated other comprehensive loss: | | | |
| Foreign currency translation adjustments | (10,385) | (20,906) | (90,304) |
| Pension liability adjustments | (132,621) | (146,329) | (1,153,226) |
| Net unrealized holding gain on available-for-sale securities | 66,883 | 77,883 | 581,591 |
| Cash flow hedges | 1,466 | 902 | 12,748 |
| Treasury stock, at cost (note 10) | (25,888) | (25,339) | (225,113) |
| Total stockholders equity | 2,428,291 | 2,442,797 | 21,115,574 |
| Commitments and contingencies (note 13) | | | |
| Total liabilities and stockholders equity | 10,738,735 | 10,644,259 | 93,380,304 |

See accompanying notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF OPERATIONS**

Hitachi, Ltd. and Subsidiaries

Six months ended September 30, 2007 and 2006

| | Thousands of | | |
|---|-----------------|-------------|------------------|
| | Millions of yen | | U.S. dollars |
| | 2007 | 2006 | (note 3) 2007 |
| Revenues | 5,280,485 | 4,770,904 | 45,917,261 |
| Cost of sales | (4,112,063) | (3,799,045) | (35,757,070) |
| Selling, general and administrative expenses | (1,046,754) | (952,002) | (9,102,209) |
| Impairment losses for long-lived assets (note 15) | (18,257) | (1,327) | (158,757) |
| Restructuring charges (note 16) | (5,060) | (1,787) | (44,000) |
| Interest income | 14,969 | 11,336 | 130,165 |
| Dividends income | 3,856 | 2,913 | 33,531 |
| Gains on sales of stock by subsidiaries or affiliated companies (note 14) | 3,846 | | 33,444 |
| Other income (note 17) | 36,395 | 24,759 | 316,478 |
| Interest charges | (20,985) | (17,238) | (182,478) |
| Other deductions (note 17) | (373) | (12,700) | (3,243) |
| Income before income taxes and minority interests | 136,059 | 25,813 | 1,183,122 |
| Income taxes: | | | |
| Current | (83,147) | (62,732) | (723,017) |
| Deferred | (16,972) | 2,205 | (147,583) |
| Total income taxes | (100,119) | (60,527) | (870,600) |
| Income (loss) before minority interests | 35,940 | (34,714) | 312,522 |
| Minority interests | (49,000) | (43,372) | (426,087) |
| Net loss | (13,060) | (78,086) | (113,565) |
| | | Yen | U.S. dollars |
| Net loss per share (note 18): | | | (note 3) |
| Basic | (3.93) | (23.42) | (0.03) |
| Diluted | (4.06) | (23.44) | (0.04) |

See accompanying notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

Hitachi, Ltd. and Subsidiaries

Six months ended September 30, 2007 and 2006

| | Millions of yen 2007 | | | | | |
|--|-------------------------|--------------------|-----------------------------|--------------------------------|----------------------------|---------------------------------|
| | Common stock | Capital surplus | Legal reserve | Accumulated | Treasury stock, at cost | Total stockholders equity |
| | | | and retained earnings | other comprehensive loss | | |
| Balance at beginning of period | 282,033 | 560,796 | 1,713,757 | (88,450) | (25,339) | 2,442,797 |
| Decrease arising from equity transaction, net transfer of minority interest, and other | | (220) | (4,534) | (74) | | (4,828) |
| Comprehensive income: | | | | | | |
| Net loss | | | (13,060) | | | (13,060) |
| Other comprehensive income, net of reclassification adjustments: | | | | | | |
| Foreign currency translation adjustments | | | | 10,576 | | 10,576 |
| Pension liability adjustments | | | | 13,727 | | 13,727 |
| Net unrealized holding gain on available-for-sale securities | | | | (11,002) | | (11,002) |
| Cash flow hedges | | | | 566 | | 566 |
| Comprehensive income | | | | | | 807 |
| Cash dividends (note 11) | | | (9,975) | | | (9,975) |
| Acquisition of treasury stock | | | | | (782) | (782) |
| Sales of treasury stock | | 39 | | | 233 | 272 |
| Balance at end of period | 282,033 | 560,615 | 1,686,188 | (74,657) | (25,888) | 2,428,291 |

| | Millions of yen 2006 | | | | | |
|---|-------------------------|--------------------|-----------------------------|--------------------------------|----------------------------|---------------------------------|
| | Common stock | Capital surplus | Legal reserve | Accumulated | Treasury stock, at cost | Total stockholders equity |
| | | | and retained earnings | other comprehensive loss | | |
| Balance at beginning of period | 282,033 | 561,484 | 1,778,203 | (95,997) | (17,950) | 2,507,773 |
| Increase (decrease) arising from equity transaction, net transfer of minority interest, and other | | 744 | (1,851) | 11 | | (1,096) |
| Comprehensive loss: | | | | | | |
| Net loss | | | (78,086) | | | (78,086) |
| Other comprehensive loss, net of reclassification adjustments: | | | | | | |

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| | | | | | | |
|--|---------|---------|-----------|-----------|----------|-----------|
| Foreign currency translation adjustments | | | | 870 | | 870 |
| Minimum pension liability adjustments | | | | 128 | | 128 |
| Net unrealized holding gain on available-for-sale securities | | | | (11,241) | | (11,241) |
| Cash flow hedges | | | | (471) | | (471) |
| Comprehensive loss | | | | | | (88,800) |
| Cash dividends (note 11) | | | | (18,319) | | (18,319) |
| Acquisition of treasury stock | | | | | (5,590) | (5,590) |
| Sales of treasury stock | | 121 | | | 581 | 702 |
| Stock exchange for acquisition | | 2,452 | | | 3,863 | 6,315 |
| Balance at end of period | 282,033 | 564,801 | 1,679,947 | (106,700) | (19,096) | 2,400,985 |

Thousands of U.S. dollars (note 3)
2007

| | Legal reserve | | Accumulated | | Total | |
|--|---------------|-----------|-------------|---------------|----------------|--------------|
| | Common | Capital | and | other | Treasury | stockholders |
| | stock | surplus | retained | comprehensive | stock, at cost | equity |
| | | | earnings | loss | | |
| Balance at beginning of period | 2,452,461 | 4,876,487 | 14,902,234 | (769,130) | (220,339) | 21,241,713 |
| Decrease arising from equity transaction, net transfer of minority interest, and other | | (1,913) | (39,426) | (643) | | (41,982) |
| Comprehensive income: | | | | | | |
| Net loss | | | (113,565) | | | (113,565) |
| Other comprehensive income, net of reclassification adjustments: | | | | | | |
| Foreign currency translation adjustments | | | | 91,965 | | 91,965 |
| Pension liability adjustments | | | | 119,365 | | 119,365 |
| Net unrealized holding gain on available-for-sale securities | | | | (95,670) | | (95,670) |
| Cash flow hedges | | | | 4,922 | | 4,922 |
| Comprehensive income | | | | | | 7,017 |
| Cash dividends (note 11) | | | | (86,739) | | (86,739) |
| Acquisition of treasury stock | | | | | (6,800) | (6,800) |
| Sales of treasury stock | | 339 | | | 2,026 | 2,365 |
| Balance at end of period | 2,452,461 | 4,874,913 | 14,662,504 | (649,191) | (225,113) | 21,115,574 |

See accompanying notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Hitachi, Ltd. and Subsidiaries

Six months ended September 30, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars (note 3) 2007 |
|--|------------------|------------------|--|
| | 2007 | 2006 | |
| Cash flows from operating activities: | | | |
| Net loss | (13,060) | (78,086) | (113,565) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation | 265,796 | 228,078 | 2,311,270 |
| Amortization | 71,435 | 73,765 | 621,174 |
| Impairment losses for long-lived assets | 18,257 | 1,327 | 158,757 |
| Deferred income taxes | 16,972 | (2,205) | 147,583 |
| Equity in earnings of affiliated companies, net | (8,309) | (5,743) | (72,252) |
| Gain on sale of investments and subsidiaries common stock | (31,293) | (22,326) | (272,113) |
| Impairment of investments in securities | 4,708 | 2,459 | 40,939 |
| Loss on disposal of rental assets and other property | 1,048 | 9,925 | 9,113 |
| Income applicable to minority interests | 49,000 | 43,372 | 426,087 |
| Decrease in receivables | 323,244 | 179,067 | 2,810,817 |
| Increase in inventories | (193,189) | (274,363) | (1,679,905) |
| Increase in prepaid expenses and other current assets | (14,870) | (42,333) | (129,305) |
| Increase (decrease) in payables | (75,065) | 61,707 | (652,739) |
| Increase (decrease) in accrued expenses and retirement and severance benefits | (37,755) | 3,191 | (328,304) |
| Increase (decrease) in accrued income taxes | (9,043) | 334 | (78,635) |
| Increase (decrease) in other liabilities | 15,170 | (21) | 131,913 |
| Net change in inventory-related receivables from financial services | 2,761 | (3,794) | 24,009 |
| Other | (7,227) | 3,150 | (62,844) |
| Net cash provided by operating activities | 378,580 | 177,504 | 3,292,000 |
| Cash flows from investing activities: | | | |
| Decrease in short-term investments | 14,072 | 7,362 | 122,365 |
| Capital expenditures | (250,066) | (227,378) | (2,174,487) |
| Purchase of assets to be leased | (191,955) | (224,419) | (1,669,174) |
| Collection of investments in leases | 161,225 | 159,612 | 1,401,957 |
| Proceeds from disposal of rental assets and other property | 34,063 | 22,850 | 296,200 |
| Proceeds from sale of investments and subsidiaries common stock | 47,141 | 42,861 | 409,922 |
| Purchase of investments and subsidiaries common stock | (187,132) | (34,116) | (1,627,235) |
| Purchase of software | (57,590) | (50,044) | (500,783) |
| Other | 5,316 | (4,415) | 46,226 |
| Net cash used in investing activities | (424,926) | (307,687) | (3,695,009) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term debt, net | (76,713) | 108,033 | (667,069) |
| Proceeds from long-term debt | 196,580 | 233,287 | 1,709,391 |
| Payments on long-term debt | (168,008) | (183,538) | (1,460,939) |
| Proceeds on subsidiaries common stock | 41,713 | 671 | 362,722 |
| Dividends paid to stockholders | (9,947) | (18,252) | (86,496) |
| Dividends paid to minority stockholders of subsidiaries | (12,739) | (10,351) | (110,774) |
| Acquisition of subsidiaries common stock for treasury | (926) | (2,913) | (8,052) |

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| | | | |
|--|----------|---------|-----------|
| Acquisition of common stock for treasury | (782) | (5,590) | (6,800) |
| Proceeds from sales of treasury stock | 272 | 702 | 2,365 |
| Net cash provided by (used in) financing activities | (30,550) | 122,049 | (265,652) |
| Effect of exchange rate changes on cash and cash equivalents | 4,058 | 1,100 | 35,287 |
| Net decrease in cash and cash equivalents | (72,838) | (7,034) | (633,374) |
| Cash and cash equivalents at beginning of period | 617,866 | 658,255 | 5,372,748 |
| Cash and cash equivalents at end of period | 545,028 | 651,221 | 4,739,374 |

See accompanying notes to consolidated financial statements.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

(1) **Nature of Operations**

Hitachi, Ltd. (the Company) is a Japanese corporation, whose principal office is located in Japan. The Company's and its subsidiaries' businesses are diverse, and include information and telecommunication systems, electronic devices, power and industrial systems, digital media and consumer products, high functional materials and components, and other services including financial services and logistics services.

(2) **Basis of Presentation and Summary of Significant Accounting Policies**

(a) **Basis of Presentation**

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.

(b) **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company, its majority-owned subsidiaries and all variable interest entities (VIEs) for which any of the Company and its consolidated entities are the primary beneficiary. A VIE is defined in Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51. This interpretation addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The consolidated financial statements include accounts of certain subsidiaries, whose fiscal years differ from September 30 by 93 days or less, to either comply with local statutory requirements or facilitate timely reporting. There have been no significant transactions, which would materially affect the Company's financial position and results of operations, with such subsidiaries during the period from their half-year end to September 30. Intercompany accounts and significant intercompany transactions have been eliminated in consolidation.

Investments in corporate joint ventures and affiliated companies that are accounted for using the equity method primarily relate to 20% to 50% owned companies to which the Company has the ability to exercise significant influence over operational and financial policies of the investee company. Investments where the Company does not have significant influence are accounted for using the cost method.

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

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

(d) Allowance for Doubtful Receivables

Allowance for doubtful receivables, including both trade receivables and investments in leases, is the Company's and subsidiaries' best estimate of the amount of probable credit losses in their existing receivables. The allowance is determined based on, but not limited to, historical collection experience adjusted for the effects of current economic environment, assessment of inherent risks, aging and financial performance of debtors. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(e) 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 period. 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 operations and are accumulated and included in accumulated other comprehensive loss as part of stockholders' equity.

(f) Investments in Securities and Affiliated Companies

Equity securities that do not have readily determinable fair values, except for equity-method investments, are accounted for under the cost method. The Company classifies investments in equity securities that have readily determinable fair values and all investments in debt securities in three categories: held-to-maturity securities, trading securities and available-for-sale securities.

Held-to-maturity securities are debt securities that the Company has the positive intent and ability to hold to maturity. Trading securities are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. Available-for-sale securities are debt and equity securities not classified as either held-to-maturity securities or trading securities.

Held-to-maturity securities are reported at amortized cost. Trading securities are reported at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

A decline in fair value of any available-for-sale, held-to-maturity security or cost-method investment below the cost basis or the amortized cost basis that is deemed to be other-than-temporary results in a write-down of the cost basis or the amortized cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings. On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates an available-for-sale security, a held-to-maturity security and a cost-method investment for possible impairment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. For certain cost-method investments for which it is not practicable to estimate the fair value, if an event or change in circumstances has occurred that may have significant adverse effect on the fair value of the investment, the Company estimates the fair value of the investments. Factors considered in determining whether an impairment of available-for-sale security or cost-method investment is other-than-temporary include: the length of time and extent to which the fair value of the investment has been less than cost, the financial condition and near-term prospect of the issuer, and the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Factors considered in assessing whether an impairment of a held-to-maturity security is other-than-temporary include the financial condition, business prospects and credit worthiness of the issuer.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the carrying amount of its ownership interests in equity-method investees for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include the achievement of business plan objectives and milestones including cash flow projections and the results of planned financing activities, the financial condition and prospects of each investee company, the fair value of the ownership interest relative to the carrying amount of the investment, the period of time during which the fair value of the ownership interest has been below the carrying amount of the investment and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings is determined by the average cost method.

(g) Securitizations

The Company and certain subsidiaries have a number of securitization programs. Under those programs, certain financial assets such as lease receivables, trade receivables and others are sold to Special Purpose Entities (SPEs) which are mainly funded through the issuance of asset-backed securities to investors. When a transfer of financial assets is eligible to be accounted for as a sale under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, the carrying amount of the financial assets is allocated based on relative fair values to the portions to be retained and sold. The Company and its subsidiaries recognize a gain or loss for the difference between the net proceeds received and the allocated carrying amount of the assets sold when the transaction is consummated. Initially recorded at allocated carrying amount in the period of securitizations, the amount of retained interests is subsequently recorded at fair value as of the balance sheet date in the same manner for the available-for-sale securities.

Fair values are based on the present value of estimated future cash flows which take into consideration various factors such as expected credit loss and others.

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007****(h) 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 cost method for raw materials and other inventories.

(i) 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, mainly over the following estimated useful lives:

| | |
|----------------------------------|---------------|
| Buildings | |
| Buildings and building equipment | 3 to 50 years |
| Structures | 7 to 60 years |
| Machinery and equipment | |
| Machinery | 4 to 13 years |
| Vehicles | 4 to 7 years |
| Tools, furniture and fixtures | 2 to 20 years |

Effective April 1, 2007, the Company and its domestic subsidiaries elected to change the fixed-percentage-on-declining base application to the 250% declining balance application primarily for machinery and equipment used for manufacturing. Under the fixed-percentage-on-declining base application, the fixed percentage was a function of the estimated useful life of the asset and the estimated salvage value. Estimated salvage values were also reduced in connection with this change. This change resulted from changes in the pattern of usage of long-lived depreciable assets concluded by a study about such usage. The Company and its domestic subsidiaries believe that the new method is preferable because it better reflects the pattern of consumption of the future benefits derived from those assets and makes a better cost allocation to match revenues generated by those assets during their estimated useful lives.

In accordance with the Change in Accounting Estimate provisions of SFAS No. 154, Accounting Changes and Error Corrections, a replacement of Accounting Principle Board Opinion No. 20 and FASB Statement No. 3, the change in depreciation method is accounted for on a prospective basis from the beginning of the period of change and results for prior periods have not been restated.

The effect of the changes for the six months ended September 30, 2007 was to reduce income before income taxes and minority interests by ¥15,679 million (\$136,339 thousand) and increase net loss by ¥7,938 million (\$69,026 thousand), or ¥2.39 (\$0.02) per share (basic).

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007****(j) Goodwill and Other Intangible Assets**

The Company tests goodwill and indefinite-lived intangible assets for impairment at least annually. The Company performs its annual impairment test during the fourth quarter after the annual forecasting process is completed. Furthermore, goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company has certain operating segments and, in identifying the reporting unit for the purpose of testing goodwill for impairment, considers disaggregating that operating segment into economically dissimilar components based on specific facts and circumstances, especially the level at which performance of the operating segment is reviewed, how many businesses are included in the operating segment, and the economic similarity of those businesses. In assigning goodwill to reporting units, the Company considers which reporting units are expected to benefit from the synergies of the combination in a manner similar to how the amount of goodwill recognized in a business combination. Fair value is estimated using the expected present value of future cash flows. Intangible assets with finite useful lives are amortized over their respective estimated useful lives on either a straight-line basis or the method that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. The principal estimated useful lives are as follows:

| | |
|---------------------------|---------------|
| Software | 1 to 8 years |
| Software for internal use | 2 to 10 years |
| Patents | 4 to 8 years |
| Other | 5 to 20 years |

(k) Capitalized Software Costs

Costs incurred for computer software developed or obtained for internal use are capitalized and amortized on a straight-line basis over their estimated useful lives in accordance with Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. In addition, the Company and its subsidiaries develop certain computer software to be sold where related costs are capitalized after establishment of technological feasibility in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. The annual amortization of such capitalized costs is the greater of the amount computed using the ratio of each software's expected future revenue to current year's revenue or the straight-line method over the remaining estimated economic life of each software.

(l) Impairment of Long-lived Assets

The Company reviews the carrying value of long-lived assets or related group of assets to be held and used, including intangible assets with finite useful lives, for impairment whenever events or circumstances occur that indicate that the carrying value of the assets may not be recoverable. The assets are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying values. The impairment losses are measured as the amount by which the carrying value of the asset exceeds the fair value. In determining the fair value, the Company uses available quoted market prices and present value techniques, if appropriate, based on the estimated future cash flows expected to result from the use of the assets and their eventual disposition.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

(m) Retirement and Severance Benefits

The Company accounts for retirement and severance benefits in accordance with SFAS No. 87, *Employers' Accounting for Pensions*, and on March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R). Gains and losses included in accumulated other comprehensive loss are amortized using the straight-line method over the average remaining service period of active employees. Prior to the adoption of the recognition provisions of SFAS No. 158, unrecognized gains and losses were amortized using the straight-line method over the average remaining service period of active employees.

(n) Environmental liabilities

The cost for environmental remediation liabilities are accrued when it is probable that the Company incurs environmental assessments or cleanup costs and the amounts can be reasonably estimated. The cost for liabilities are estimated based on the circumstance, the available information and current law, and the liabilities are not discounted to their present values.

(o) Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. SFAS No. 133 requires that all derivative financial instruments, such as forward exchange and interest rate swap contracts, be recognized in the financial statements as either assets or liabilities and measured at fair value regardless of the purpose or intent for holding them.

The Company designates and accounts for hedging derivatives as follows:

Fair value hedge: a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitment and the derivatives are recorded in earnings if the hedge is considered highly effective.

Cash flow hedge: a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability. The changes in the fair value of the derivatives designated as cash flow hedges are recorded as other comprehensive income if the hedge is considered highly effective. This treatment is continued until earnings are affected by the variability in cash flows or the unrecognized firm commitment of the designated hedged item, at which point changes in fair value of the derivative is recognized in income.

Foreign currency hedge: a hedge of foreign-currency fair value or cash flow. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitment and the derivatives are recorded as either earnings or other comprehensive income if the hedge is considered highly effective. Recognition as earnings or other comprehensive income is dependent on the treatment of foreign currency hedges as fair value or cash flow hedges.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

The Company follows the documentation requirements as prescribed by the standard, which includes risk management objective and strategy for undertaking various hedge transactions. In addition, a formal assessment is made at the hedge's inception and periodically on an ongoing basis, as to whether the derivative used in hedging activities is highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting is discontinued for ineffective hedges, if any. Subsequent changes in the fair value of derivatives related to discontinued hedges are recognized in earnings immediately.

(p) **Revenue Recognition**

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price is fixed or determinable and collectibility is reasonably assured.

The Company offers multiple solutions to its customers' needs. Those solutions may involve the delivery or performance of multiple elements, such as products, services, or rights to use assets, and performance may occur at different points in time or over different periods of time. When one element is delivered prior to the other in an arrangement, revenue is deferred until the delivery of the last element, unless transactions are such that the delivered item has value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of the undelivered item, and delivery or performance of the undelivered item is considered probable and substantially in the control of the Company if the arrangement includes a general right of return relative to the delivered item. If all conditions described above are met, each element in an arrangement is considered a separate unit of accounting, and the arrangement consideration is allocated to the separate units of accounting based on the relative fair values provided that there is objective and reliable evidence of the fair values of all units of accounting in the arrangement. The Company allocates revenue on software arrangements involving multiple elements to each element based on its relative fair value, as evidenced by vendor specific objective evidence (VSOE), or in the absence of VSOE, the residual method. VSOE is the price charged by the Company to an external customer for the same element when such an element is sold separately.

Product Sales:

Revenue from sales of these products is recognized when title and risk of loss have been transferred to the customer depending upon the terms of the contract or arrangement with the customer. The Company's policy is not to accept product returns unless the products are defective. The conditions of delivery are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specification are not recorded as revenue. When the final payment is subject to customer acceptance, a portion of revenue for the final payment is deferred until an enforceable claim has become effective. Product warranties are offered on the Company's and certain subsidiaries' products (in certain cases separately priced) and a warranty accrual is established when sales are recognized based on estimated future costs of repair and replacement principally using our historical experience of warranty claims.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

Price protection is provided to retailers of the Company's consumer products business and others to compensate the customer retailers for a decline in the product's value due mainly to competition. Price protection granted to the customers is classified as a reduction of revenue on the consolidated statements of operations. In addition, it is our policy to accrue reasonably and reliably estimated price adjustments at the later of the date at which the related sales are recognized, or the date at which price protection is offered. The estimate is made based primarily upon historical experience or agreement on the adjustment rate and the number of units that are subject to such adjustment (e.g., units in distribution channels).

Product revenues which are recognized upon delivery to the customer are information technology system products, construction equipment, displays, disk drives, televisions, air conditioners, batteries, magnetic tapes, high functional materials, cable products, automotive equipment, semiconductor manufacturing equipment, test and measurement equipment, railway vehicles, medical electronic devices, industrial machinery and equipment, elevators and escalators.

Revenue from sales of tangible products under long-term construction type arrangements, in connection with the construction of nuclear, thermal and hydroelectric power plants, are recognized under the percentage-of-completion method. Under the percentage-of-completion method, revenue is recognized as a percentage of estimated total revenue that incurred costs to date bear to estimated total costs after giving effect to estimates of costs to complete based upon most recent information. Any anticipated losses on fixed price contracts are charged to operations when such losses can be estimated. Provisions are made for contingencies (i.e. performance penalty, benchmarking, etc.) in the period in which they become known pursuant to specific contract terms and conditions and are estimable. When reasonably dependable estimates of contract revenues and costs and the extent of progress toward completion do not exist, the completed-contract method of accounting is applied. A contract is complete when either acceptance by the customer is given or compliance with performance specification is achieved, whichever is appropriate under the relevant contractual terms.

The Company recognizes software revenue in accordance with the provisions of SOP 97-2, Software Revenue Recognition, as amended. Revenue from software consists of software licensing, customized software development and post contract customer support. Revenues from software license arrangements are recognized upon delivery of the software if evidence of the arrangement exists, pricing is fixed and determinable and collectibility is probable. Revenue from a software arrangement that requires significant production, modification or customization of software is recognized under the percentage-of-completion method provided that reasonably dependable estimates related to contract revenue, cost and the extent of progress toward completion exist. Otherwise, the completed-contract method is applied. Customization of software is considered substantially completed when an acceptance by the customer occurs. Revenue from post contract customer support is amortized over the period of the post contract customer support. Consulting and training services revenues are recognized when the services are rendered.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

Service Revenues:

Service revenues from maintenance and distribution services are recognized upon completion of service delivery. Revenue from time-service contracts is recognized as services are rendered. Revenue from long-term fixed price service contracts such as support or maintenance contracts is recognized ratably over the contractual period. If historical data shows that the accrual of service cost is not fixed but the service is rendered in proportion to the accrual of the cost for the service, revenue is recognized based on the pattern of the cost accrual. Finance lease income is recognized at level rates of return over the term of the leases. Operating lease income is recognized on a straight-line basis over the term of the lease.

(q) Shipping and handling costs

Shipping and handling costs are expensed as incurred and included in selling, general and administrative expenses.

(r) Advertising

Advertising costs are expensed as incurred.

(s) Research and Development Costs

Research and development costs are expensed as incurred. Costs incurred in connection with the development of software products for sale are accounted for in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed. Development costs incurred in the research and development of new software products and enhancements to existing products are expensed as incurred until technological feasibility has been established.

(t) 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 future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. 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. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

(u) Sales of Stock by Subsidiaries

The change in the Company's proportionate share of a subsidiary's equity resulting from issuance of stock by the subsidiary is recognized in the accompanying consolidated statements of operations.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

(v) **Net Income Per Share**

Net income per share is computed in accordance with SFAS No. 128, Earnings per Share. This standard requires a dual presentation of basic and diluted net income per share amounts on the face of the statements of operations. Under this standard, basic net income per share is computed based upon the weighted average number of shares of common stock outstanding during each year. Diluted net income 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 that then shared in the earnings of the Company.

(w) **Stock-based Compensation**

The Company and certain subsidiaries have stock-based compensation plans. In accordance with SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, the Company and certain subsidiaries recognize all share-based payments to employees, including grants of employee stock options, in the income statement based on their fair values.

(x) **Disclosures about Segments of an Enterprise and Related Information**

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, 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. However, certain foreign issuers are presently exempted from the segment disclosure requirements of SFAS No. 131 in filings with the United States Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, 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.

(y) **Guarantees**

The Company recognizes, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after December 31, 2002, in accordance with the FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of SFAS No. 5, 57, and 107 and rescission of FASB Interpretation No. 34.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Six months ended September 30, 2007

(z) New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the effect of adopting this statement on the consolidated financial position or result of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Earlier adoption is permitted, however, an entity must also adopt all of the requirements of SFAS No. 157 as of the adoption date. The Company is currently evaluating the effect of adopting this statement on the consolidated financial position or result of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. These statements will improve and simplify the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. SFAS No. 141 requires an acquiring entity in a business combination to recognize all the assets acquired, liabilities assumed and any noncontrolling interest in an acquiree at the full amount of their fair values as of the acquisition date. Also, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements and all the transactions for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions. These statements are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the effect of adopting these statements on the consolidated financial position or result of operations.

(aa) Reclassifications

Certain reclassifications have been made to prior period balances in order to conform to the current period presentations.

(3) Basis of Financial Statement Translation

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥115=U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of September 28, 2007. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007****(4) Investments in Securities and Affiliated Companies**

Short-term investments as of September 30, 2007 and March 31, 2007 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------------|-------------------|------------------------------|
| | September 30, 2007 | March 31, 2007 | September 30, 2007 |
| Investments in securities: | | | |
| Available-for-sale securities | 15,834 | 13,279 | 137,687 |
| Held-to-maturity securities | 859 | 43 | 7,470 |
| Trading securities | 25,326 | 20,664 | 220,226 |
| | 42,019 | 33,986 | 365,383 |

Investments and advances, including affiliated companies as of September 30, 2007 and March 31, 2007 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------------|-------------------|------------------------------|
| | September 30, 2007 | March 31, 2007 | September 30, 2007 |
| Investments in securities: | | | |
| Available-for-sale securities | 355,832 | 396,910 | 3,094,191 |
| Held-to-maturity securities | 230 | 1,048 | 2,000 |
| Securities without readily determinable fair values | 66,512 | 72,190 | 578,365 |
| Investments in affiliated companies | 566,144 | 406,324 | 4,922,992 |
| Advances and other | 174,945 | 173,252 | 1,521,261 |
| | 1,163,663 | 1,049,724 | 10,118,809 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**

The following is a summary of the amortized cost basis, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of available-for-sale securities by the consolidated balance sheets classification as of September 30, 2007 and March 31, 2007.

| | Millions of yen September 30, 2007 | | | Aggregate fair value |
|---------------------------|---------------------------------------|----------------|-----------------|-------------------------|
| | Amortized cost basis | Gross gains | Gross losses | |
| Short-term investments: | | | | |
| Debt securities | 15,090 | 6 | 120 | 14,976 |
| Other securities | 852 | 12 | 6 | 858 |
| | 15,942 | 18 | 126 | 15,834 |
| Investments and advances: | | | | |
| Equity securities | 130,867 | 158,346 | 1,375 | 287,838 |
| Debt securities | 44,364 | 1,390 | 418 | 45,336 |
| Other securities | 22,220 | 604 | 166 | 22,658 |
| | 197,451 | 160,340 | 1,959 | 355,832 |
| | 213,393 | 160,358 | 2,085 | 371,666 |

| | Thousands of U.S. dollars September 30, 2007 | | | Aggregate fair value |
|---------------------------|---|----------------|-----------------|-------------------------|
| | Amortized cost basis | Gross gains | Gross losses | |
| Short-term investments: | | | | |
| Debt securities | 131,217 | 52 | 1,043 | 130,226 |
| Other securities | 7,409 | 104 | 52 | 7,461 |
| | 138,626 | 156 | 1,095 | 137,687 |
| Investments and advances: | | | | |
| Equity securities | 1,137,974 | 1,376,922 | 11,957 | 2,502,939 |
| Debt securities | 385,774 | 12,087 | 3,635 | 394,226 |
| Other securities | 193,217 | 5,252 | 1,443 | 197,026 |
| | 1,716,965 | 1,394,261 | 17,035 | 3,094,191 |
| | 1,855,591 | 1,394,417 | 18,130 | 3,231,878 |

Millions of yen
March 31, 2007

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| | Amortized cost basis | Gross gains | Gross Losses | Aggregate fair value |
|----------------------------------|-------------------------|----------------|-----------------|-------------------------|
| Short-term investments: | | | | |
| Debt securities | 11,260 | 3 | 32 | 11,231 |
| Other securities | 2,042 | 10 | 4 | 2,048 |
| | 13,302 | 13 | 36 | 13,279 |
| Investments and advances: | | | | |
| Equity securities | 127,839 | 178,152 | 1,692 | 304,299 |
| Debt securities | 66,746 | 1,809 | 524 | 68,031 |
| Other securities | 24,103 | 649 | 172 | 24,580 |
| | 218,688 | 180,610 | 2,388 | 396,910 |
| | 231,990 | 180,623 | 2,424 | 410,189 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**

The following is a summary of gross unrealized holding losses on available-for-sale securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2007 and March 31, 2007.

| | Millions of yen September 30, 2007 | | | |
|---------------------------|---------------------------------------|-----------------|----------------------------------|-----------------|
| | Less than 12 months | | 12 months or longer Aggregate | |
| | Aggregate fair value | Gross losses | fair value | Gross Losses |
| Short-term investments: | | | | |
| Debt securities | | | 11,227 | 120 |
| Other securities | 103 | 6 | | |
| | 103 | 6 | 11,227 | 120 |
| Investments and advances: | | | | |
| Equity securities | 3,675 | 602 | 2,779 | 773 |
| Debt securities | 7,153 | 80 | 12,848 | 338 |
| Other securities | 3,412 | 94 | 1,826 | 72 |
| | 14,240 | 776 | 17,453 | 1,183 |
| | 14,343 | 782 | 28,680 | 1,303 |

| | Thousands of U.S. dollars September 30, 2007 | | | |
|---------------------------|---|--------|-------------------------|-----------------|
| | Less than 12 months Gross | | 12 months or longer | |
| | Aggregate fair value | losses | Aggregate fair value | Gross Losses |
| Short-term investments: | | | | |
| Debt securities | | | 97,626 | 1,043 |
| Other securities | 896 | 52 | | |
| | 896 | 52 | 97,626 | 1,043 |
| Investments and advances: | | | | |
| Equity securities | 31,956 | 5,235 | 24,165 | 6,722 |
| Debt securities | 62,200 | 696 | 111,722 | 2,939 |
| Other securities | 29,670 | 817 | 15,878 | 626 |
| | 123,826 | 6,748 | 151,765 | 10,287 |

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124,722 6,800 249,391 11,330

| | Millions of yen March 31, 2007 | | | |
|----------------------------------|-----------------------------------|-----------------|----------------------------------|-----------------|
| | Less than 12 months | | 12 months or longer Aggregate | |
| | Aggregate fair value | Gross losses | fair value | Gross Losses |
| Short-term investments: | | | | |
| Debt securities | | | 2,413 | 32 |
| Other securities | 96 | 4 | | |
| | 96 | 4 | 2,413 | 32 |
| Investments and advances: | | | | |
| Equity securities | 9,052 | 1,261 | 1,565 | 431 |
| Debt securities | 4,069 | 23 | 25,504 | 501 |
| Other securities | 2,703 | 82 | 4,516 | 90 |
| | 15,824 | 1,366 | 31,585 | 1,022 |
| | 15,920 | 1,370 | 33,998 | 1,054 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**

Debt securities consist primarily of national, local and foreign governmental bonds, debentures issued by banks and corporate bonds. Other securities consist primarily of investment trusts.

The proceeds from sale of available-for-sale securities for the six months ended September 30, 2007 and 2006 were ¥11,863 million (\$103,157 thousand) and ¥45,138 million, respectively. The gross realized gains on the sale of those securities for the six months ended September 30, 2007 and 2006 were ¥2,695 million (\$23,435 thousand) and ¥21,970 million, respectively, while gross realized losses on the sale of those securities for the six months ended September 30, 2007 and 2006 were ¥4 million (\$35 thousand) and ¥64 million, respectively.

Trading securities consist mainly of investments in trust accounts. Net unrealized holding gains on trading securities for the six months ended September 30, 2007 and 2006 were ¥3,017 million (\$26,235 thousand) and ¥6,838 million, respectively, and were classified as other income in the consolidated statements of operations.

The contractual maturities of debt securities and other securities classified as investments and advances in the consolidated balance sheet as of September 30, 2007 are as follows:

| | Millions of yen September 30, 2007 | | Total |
|--|---------------------------------------|--------------------|--------|
| | Held-to-Maturity | Available-for-sale | |
| Due within five years | 31 | 19,399 | 19,430 |
| Due after five years through ten years | 199 | 12,382 | 12,581 |
| Due after ten years | | 36,213 | 36,213 |
| | 230 | 67,994 | 68,224 |

| | Thousands of U.S. dollars September 30, 2007 | | Total |
|--|---|--------------------|---------|
| | Held-to-Maturity | Available-for-sale | |
| Due within five years | 270 | 168,686 | 168,956 |
| Due after five years through ten years | 1,730 | 107,670 | 109,400 |
| Due after ten years | | 314,896 | 314,896 |
| | 2,000 | 591,252 | 593,252 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**

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

The aggregate carrying amounts of cost-method investments which were not evaluated for impairment as of September 30, 2007 and March 31, 2007 were ¥63,097 million (\$548,670 thousand) and ¥68,741 million, respectively, mainly because it is not practicable to estimate the fair value of the investments due to lack of a market price and difficulty in estimating fair value without incurring excessive cost and the Company did not identify any events or changes in circumstances that might have had a significant adverse effect on their fair value.

The aggregate fair values of investments in affiliated companies, for which a quoted market price was available, as of September 30, 2007 and March 31, 2007 were ¥195,249 million (\$1,697,817 thousand) and ¥190,632 million, respectively. The aggregate carrying amounts of such investments as of September 30, 2007 and March 31, 2007 were ¥96,471 million (\$838,878 thousand) and ¥93,957 million, respectively.

As of September 30, 2007 and March 31, 2007, cumulative recognition of other-than-temporary declines in values of investments in certain affiliated companies resulted in the difference of ¥15,635 million (\$135,957 thousand) and ¥15,190 million, respectively, between the carrying amount of the investment and the amount of underlying equity in net assets. In addition, as of September 30, 2007 and March 31, 2007, equity-method goodwill included in investments in certain affiliated companies were ¥127,313 million (\$1,107,070 thousand) and ¥5,062 million, respectively.

(5) Inventories

Inventories as of September 30, 2007 and March 31, 2007 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------|-----------------------|-------------------|------------------------------|
| | September 30, 2007 | March 31, 2007 | September 30, 2007 |
| Finished goods | 586,361 | 578,060 | 5,098,791 |
| Work in process | 789,525 | 637,536 | 6,865,435 |
| Raw materials | 244,018 | 234,662 | 2,121,896 |
| | 1,619,904 | 1,450,258 | 14,086,122 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007****(6) Leases**

The Company and certain subsidiaries are lessors of certain assets such as manufacturing machinery and equipment under operating lease arrangements with terms ranging from 3 to 6 years, some of which are transacted with affiliated companies.

The amount of leased assets at cost under operating leases and accumulated depreciation as of September 30, 2007 amounted to ¥1,909,878 million (\$16,607,635 thousand) and ¥1,483,544 million (\$12,900,383 thousand), respectively. The leased assets are depreciated using the straight-line method over their estimated useful lives.

The following table shows the future minimum lease receivables of non-cancelable operating leases as of September 30, 2007:

| Years ending September 30 | Thousands of | |
|--|-----------------|------------------|
| | Millions of yen | U.S. dollars |
| 2008 | 76,128 | 661,983 |
| 2009 | 56,932 | 495,061 |
| 2010 | 38,156 | 331,791 |
| 2011 | 19,363 | 168,374 |
| 2012 | 8,327 | 72,409 |
| Thereafter | 12,954 | 112,643 |
| Total minimum payments to be received | 211,860 | 1,842,261 |

The Company and certain subsidiaries lease certain buildings, manufacturing machinery and equipment under operating lease arrangements.

The following table shows the future minimum lease payments of non-cancelable operating leases as of September 30, 2007:

| Years ending September 30 | Thousands of | |
|-------------------------------------|-----------------|----------------|
| | Millions of yen | U.S. dollars |
| 2008 | 17,659 | 153,556 |
| 2009 | 14,932 | 129,843 |
| 2010 | 9,267 | 80,583 |
| 2011 | 6,900 | 60,000 |
| 2012 | 6,024 | 52,383 |
| Thereafter | 27,931 | 242,878 |
| Total minimum lease payments | 82,713 | 719,243 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007****(7) Securitizations**

For the six months ended September 30, 2007 and 2006, Hitachi Capital Corporation and certain other financing subsidiaries sold primarily lease receivables to Special Purpose Entities (SPE) and the SPEs issued asset-backed commercial papers to investors. The investors and the SPEs have no recourse to the subsidiaries' other assets for failure of debtors to pay when due. The subsidiaries retained servicing responsibilities and subordinated interests, but have not recorded a servicing asset or liability because the cost to service the receivables approximates the servicing income. The retained interests are subordinate to investor's interests. For the six months ended September 30, 2007 and 2006, gains recognized on the sale of lease receivables amounted to ¥8,586 million (\$74,661 thousand) and ¥8,741 million, respectively.

The table below summarizes certain cash flows received from and paid to the SPEs during the six months ended September 30, 2007 and 2006:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------------|-----------------------|------------------------------|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 |
| Proceeds from transfer of lease receivables | 153,790 | 166,338 | 1,337,304 |
| Servicing fees received | 39 | 28 | 339 |
| Purchases of delinquent or ineligible assets | (15,524) | (16,734) | (134,991) |

Quantitative information about delinquencies, net credit losses, and components of lease receivables subject to transfer and other assets managed together as of and for the six months ended September 30, 2007 is as follows:

| | Millions of yen September 30, 2007 | | |
|--------------------------------------|--|---|----------------------|
| | Total principal amount of receivables | amount of 90 days or more past due receivables | Net credit losses |
| Total assets managed or transferred: | | | |
| Lease receivables | 1,169,849 | 700 | 441 |
| Assets transferred | (684,715) | | |
| Assets held in portfolio | 485,134 | | |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**

| | Thousands of U.S. dollars September 30, 2007 | | |
|--------------------------------------|---|-----------------------------|----------------------|
| | Principal | | |
| | Total principal | amount of receivables | |
| | amount of receivables | 90 days or more past due | Net credit losses |
| Total assets managed or transferred: | | | |
| Lease receivables | 10,172,600 | 6,087 | 3,835 |
| Assets transferred | (5,954,043) | | |
| Assets held in portfolio | 4,218,557 | | |

For the six months ended September 30, 2007 and 2006, the Company and certain subsidiaries sold trade receivables mainly to SPEs which securitized these receivables. In these securitizations, the Company and certain subsidiaries retained servicing responsibility. No servicing asset or liability has been recorded because the fees for servicing the receivables approximate the related costs. In addition, the Company and certain subsidiaries retained subordinated interests which were not material.

During the six months ended September 30, 2007 and 2006, proceeds from transfer of trade receivables were ¥684,720 million (\$5,954,087 thousand) and ¥762,891 million, respectively, and losses recognized on those transfers were ¥4,255 million (\$37,000 thousand) and ¥2,316 million, respectively.

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007****(8) Goodwill and Other Intangible Assets**

Intangible assets other than goodwill acquired during the six months ended September 30, 2007 and 2006 amounted to ¥76,797 million (\$667,800 thousand) and ¥76,379 million, respectively, and related amortization expense during the six months ended September 30, 2007 and 2006 amounted ¥71,435 million (\$621,174 thousand) and ¥73,765 million, respectively.

The main component of intangible assets subject to amortization was capitalized software. Amortization of capitalized costs for software to be sold, leased or otherwise marketed is charged to cost of sales. The amounts charged during the six months ended September 30, 2007 and 2006 were ¥22,951 million (\$199,574 thousand) and ¥29,328 million, respectively.

Intangible assets other than goodwill as of September 30, 2007 and March 31, 2007 are as follows:

| | Millions of yen | | | | | |
|------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | September 30, 2007 | | | March 31, 2007 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Amortized intangible assets: | | | | | | |
| Software | 487,095 | 383,351 | 103,744 | 467,829 | 363,280 | 104,549 |
| Software for internal use | 518,938 | 323,246 | 195,692 | 495,571 | 295,443 | 200,128 |
| Patents | 135,222 | 64,560 | 70,662 | 133,650 | 55,683 | 77,967 |
| Other | 124,003 | 81,054 | 42,949 | 119,446 | 75,466 | 43,980 |
| | 1,265,258 | 852,211 | 413,047 | 1,216,496 | 789,872 | 426,624 |
| Indefinite-lived intangible assets | 8,685 | | 8,685 | 8,369 | | 8,369 |

| | Thousands of U.S. dollars | | |
|------------------------------------|---------------------------|--------------------------|---------------------|
| | September 30, 2007 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Amortized intangible assets: | | | |
| Software | 4,235,609 | 3,333,487 | 902,122 |
| Software for internal use | 4,512,504 | 2,810,835 | 1,701,669 |
| Patents | 1,175,843 | 561,391 | 614,452 |
| Other | 1,078,287 | 704,817 | 373,470 |
| | 11,002,243 | 7,410,530 | 3,591,713 |
| Indefinite-lived intangible assets | 75,522 | | 75,522 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**

The changes in the carrying amount of goodwill for the six months ended September 30, 2007 and 2006 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------------|-----------------------|------------------------------|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 |
| Balance at beginning of the period | 148,431 | 64,210 | 1,290,704 |
| Acquired during the period | 21,273 | 1,469 | 184,983 |
| Impairment loss | (949) | (440) | (8,252) |
| Translation adjustment and other | (4,801) | 58 | (41,748) |
| Balance at end of the period, included in other assets | 163,954 | 65,297 | 1,425,687 |

(9) **Common Stock**

Issued shares of common stock as of September 30, 2007 and March 31, 2007 are as follows:

| | Issued shares |
|---|---------------|
| Balance as of March 31, 2007 and September 30, 2007 | 3,368,126,056 |

(10) **Treasury Stock**

The changes in shares of treasury stock for the six months ended September 30, 2007 and 2006 are summarized as follows:

| | Shares 2007 |
|----------------------------------|----------------|
| Balance as of March 31, 2007 | 42,966,434 |
| Acquisition for treasury | 892,270 |
| Sales of treasury stock | (395,023) |
| Balance as of September 30, 2007 | 43,463,681 |
| | Shares 2006 |
| Balance as of March 31, 2006 | 37,281,295 |
| Acquisition for treasury | 6,992,116 |

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| | |
|----------------------------------|-------------|
| Sales of treasury stock | (966,637) |
| Stock exchange | (8,023,820) |
| Balance as of September 30, 2006 | 35,282,954 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**(11) Dividends

| Decision | Class of shares | Cash dividends (Millions of yen) | Appropriation from | Cash dividends per share (Yen) | Vesting date | Effective Date |
|--|------------------------|---|---------------------------|--|---------------------|-----------------------|
| The Board of Directors on May 19, 2006 | Common stock | 18,319 | Retained earnings | 5.5 | March 31, 2006 | May 22, 2006 |
| The Board of Directors on September 15, 2006 | Common stock | 9,998 | Retained earnings | 3.0 | September 30, 2006 | December 1, 2006 |
| The Board of Directors on May 16, 2007 | Common stock | 9,975 | Retained earnings | 3.0 | March 31, 2007 | May 21, 2007 |
| The Board of Directors on October 31, 2007 | Common stock | 9,973 | Retained earnings | 3.0 | September 30, 2007 | November 26, 2007 |
| Decision | Class of shares | Cash dividends (Thousands of U.S. dollars) | Appropriation from | Cash dividends per share (U.S. dollars) | Vesting date | Effective date |
| The Board of Directors on May 16, 2007 | Common stock | 86,739 | Retained earnings | 0.03 | March 31, 2007 | May 21, 2007 |
| The Board of Directors on October 31, 2007 | Common stock | 86,722 | Retained earnings | 0.03 | September 30, 2007 | November 26, 2007 |

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007****(12) Pledged Assets**

As of September 30, 2007, the Company and certain subsidiaries pledged a portion of their assets as collateral for bank loans, trade payables and other liabilities as follows:

| | Millions of yen September 30, | Thousands of U.S. dollars September 30, |
|---------------------------|----------------------------------|---|
| | 2007 | 2007 |
| Cash and cash equivalents | 55 | 478 |
| Short-term investments | 19 | 165 |
| Other current assets | 3,889 | 33,817 |
| Investments and advances | 576 | 5,009 |
| Land | 6,736 | 58,574 |
| Buildings | 7,389 | 64,252 |
| Machinery and equipment | 8,137 | 70,757 |
| | 26,801 | 233,052 |

In addition to the above, prepaid expenses and other current assets as of September 30, 2007 include restricted cash of ¥7,826 million (\$68,052 thousand) as compensating balance for short-term borrowing arrangements.

(13) Commitments and Contingencies

The Company and its operating subsidiaries are contingently liable for loan guarantees to its affiliates in the amount of approximately ¥38,388 million (\$333,809 thousand) as of September 30, 2007.

Hitachi Capital Corporation (HCC) and certain other financial subsidiaries provide guarantees to financial institutions for extending loans to customers of the subsidiaries. As of September 30, 2007, the undiscounted maximum potential future payments under such guarantees amounted to ¥461,552 million (\$4,013,496 thousand). The Company has accrued ¥7,211 million (\$62,704 thousand) as an obligation to stand ready to perform over the term of the guarantees in the event the customer cannot make scheduled payments.

The subsidiaries provide certain revolving lines of credit to its credit card holders in accordance with the terms of the credit card business customer service contracts. Furthermore, the subsidiaries provide credit facilities to parties in accordance with the service agency business contracts from which temporary payments on behalf of such parties are made. In addition, the Company and HCC provide loan commitments mainly to affiliates.

The outstanding balance of these revolving lines of credit, credit facilities and loan commitments as of September 30, 2007 is as follows:

| Millions of yen | Thousands of |
|-----------------|--------------|
|-----------------|--------------|

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| | | U.S.dollars |
|----------------------------|----------------|------------------|
| Total commitment available | 669,645 | 5,823,000 |
| Less amount utilized | 23,464 | 204,035 |
| Balance available | 646,181 | 5,618,965 |

A portion of these revolving lines of credit is pending credit approval and cannot be utilized.

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**

The Company and certain subsidiaries have line of credit arrangements with banks in order to secure a financing source for business operations. The unused line of credit as of September 30, 2007 amounted to ¥750,350 million (\$6,524,783 thousand).

It is a 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 September 30, 2007 and March 31, 2007, the Company and subsidiaries were contingently liable for trade notes discounted and endorsed in the following amounts:

| | Millions of yen | | Thousands of |
|------------------|-----------------|-----------|---------------|
| | September 30, | March 31, | U.S. dollars |
| | 2007 | 2007 | September 30, |
| Notes discounted | 3,334 | 4,405 | 28,991 |
| Notes endorsed | 4,838 | 4,945 | 42,070 |
| | 8,172 | 9,350 | 71,061 |

The Company and its subsidiaries provide warranties for certain of their products. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. The changes in accrued product warranty costs for the six months ended September 30, 2007 and 2006 are summarized as follows:

| | Millions of yen | | Thousands of |
|---|-----------------|---------------|---------------|
| | September 30, | September 30, | U.S. dollars |
| | 2007 | 2006 | September 30, |
| Balance at beginning of the period | 82,316 | 81,450 | 715,791 |
| Expense recognized upon issuance of warranties | 14,565 | 25,586 | 126,652 |
| Usage | (20,858) | (24,881) | (181,374) |
| Other, including effect of foreign currency translation | 536 | (528) | 4,661 |
| Balance at end of the period | 76,559 | 81,627 | 665,730 |

On June 15, 2006, Hamaoka Nuclear Power Station No. 5 of Chubu Electric Power Co., Inc. shut down due to turbine damage. As a precautionary measure, on July 5, 2006, Shika Nuclear Power Station No. 2 of Hokuriku Electric Power Company, which uses the same type of turbines, was shut down for an examination of the turbines and the examination revealed damage to the turbine vanes. A provision for the repair costs was accrued for the year ended March 31, 2007 and was recorded as part of cost of sales. Although the Company cannot estimate specified damages at the present time, there can be no assurance that the Company could not be liable for repair costs or other damages incurred by Chubu Electric Power Co., Inc. and Hokuriku Electric Power Company.

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Notes to Consolidated Financial Statements

Six months ended September 30, 2007

The Company and its subsidiaries make provisions for anticipated losses on long-term contracts, including changes in the estimates for such provisions, in the period in which they become evident. The effect of a change in the estimated provision for anticipated losses on certain long-term contracts was to increase consolidated net loss for the year ended March 31, 2007 by ¥70,915 million, or ¥21.28 per share (basic).

In January 2007, the European Commission ordered the Company and one of its affiliated companies to pay a fine for infringement of EC antitrust rules regarding alleged antitrust violations for the gas insulated switchgear equipment used at substations. In April 2007, the Company lodged an appeal with the Court of First Instance of the European Communities requesting the court to annul the decision of the European Commission. The determination has not been rendered at present, but the Company accrued the reasonably estimated amount for the fine in the year ended March 31, 2007.

In November 2006, a subsidiary and an affiliate of the Company in the U.S. received requests for information from the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to static random access memories. In addition, in December 2006, the Company and a subsidiary in Europe received requests for information from the European Commission, a subsidiary in Japan received requests for information from the Antitrust Division of the U.S. Department of Justice and the Fair Trade Commission of Japan and an affiliate in Japan received a request for information from the Fair Trade Commission of Japan in respect of alleged antitrust violations relating to the liquid crystal displays.

In September 2007, a subsidiary and an affiliate of the Company received requests for information from the Antitrust Division of the U.S. Department of Justice in respect of alleged antitrust violations relating to flash memories.

The Company and these companies do not concede the alleged antitrust violations, but depending upon the outcome of these investigations, fines or surcharge payments, the amount of which is uncertain, may be imposed on them. In addition, subsequent to these actions by the competent authorities, a number of class action lawsuits have been filed against the Company and some of these companies in the U.S. and Canada. Depending upon the outcome of the above legal proceedings, there may be an adverse effect on the consolidated financial position or results of operations. Currently the Company is unable to estimate the adverse effect, if any. Accordingly, no accrual for potential loss has been made.

In addition to the above, 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 consolidated financial position or results of operations of the Company and subsidiaries.

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HITACHI, LTD. AND SUBSIDIARIES

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Six months ended September 30, 2007

(14) Sales of Stock by Subsidiaries or Affiliated Companies

In April 2007, Hitachi Metals, Ltd., a subsidiary which manufactures and sales high-grade metal products, and NEOMAX Co., Ltd., a subsidiary which manufactures and sales magnets and ceramics, conducted a merger in which Hitachi Metals, Ltd. was a surviving entity and NEOMAX Co., Ltd. was the acquired entity. Prior to the merger, Hitachi Metals, Ltd. opened its tender offer to acquire common shares of NEOMAX Co., Ltd. for the period from November 7, 2006 to December 11, 2006 for ¥2,500 (\$21.74) per share. In April 2007, Hitachi Metals, Ltd. allocated 2 of its shares to 1 share of NEOMAX Co., Ltd. to acquire the shares of NEOMAX Co., Ltd. held by the third parties in accordance with the terms and conditions of the tender offer. As a result, Hitachi Metals, Ltd. issued 9,389,202 shares of common stock in total to the shareholders of NEOMAX Co., Ltd. Since all the shares of Hitachi Metals, Ltd. were issued to the third parties, the Company's ownership interest of common stock decreased from 56.6% to 55.1%. The Company did not recognize deferred tax liability to this transaction.

(15) Impairment Losses for Long-Lived Assets

For the six months ended September 30, 2007, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan. The Digital Media & Consumer Products division recognized a loss of ¥15,520 million (\$134,957 thousand) primarily due to a halt of production on the obsolete plasma line and concentration on the other line with a highly efficient production system in order to improve competitiveness in its plasma TV business. The fair value estimates used to determine these losses were based primarily on discounted future cash flows.

For the six months ended September 30, 2006, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan. These losses were mainly the result of change in the extent or manner the assets were used and were determined based primarily on discounted future cash flows.

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007****(16) Restructuring Charges**

Certain losses incurred in the reorganization of the Company's operations are considered restructuring charges. Components and related amounts of the restructuring charges, before the related tax effects, for the six months ended September 30, 2007 and 2006 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|-----------------------|-----------------------|------------------------------|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 |
| Special termination benefits | 5,006 | 1,787 | 43,530 |
| Loss on fixed assets | 54 | | 470 |
| | 5,060 | 1,787 | 44,000 |

The Company and certain subsidiaries provided special termination benefits to those employees voluntarily leaving the companies. The accrued special termination benefits were recognized at the time voluntary termination was offered and benefits accepted by the employees. An analysis of the accrued special termination benefits for the six months ended September 30, 2007 and 2006 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------------|-----------------------|------------------------------|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 |
| Balance at beginning of the period | 44 | 1,106 | 383 |
| New charges (employees to be terminated) | 5,006 | 1,787 | 43,530 |
| Cash payments (employees actually terminated) | 3,122 | 197 | (7,078) |
| Cash payments (employees actually terminated) | (814) | (1,781) | (7,078) |
| Foreign currency exchange rate changes | 1,399 | 411 | |
| | (33) | | (287) |
| Balance at end of the period | 4,203 | 1,112 | 36,548 |

The restructuring charges for the six months ended September 30, 2007 mainly consist of special termination benefits for the early terminated employees of subsidiaries restructuring their manufacturing bases in Information & Telecommunication Systems division and High Functional Materials & Components division.

The restructuring charges for the six months ended September 30, 2006 mainly consist of special termination benefits for the early terminated employees of subsidiaries of High Functional Materials & Components division.

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The following items are included in other income or other deductions for the six months ended September 30, 2007 and 2006.

| | Millions of yen | | Thousands of |
|--|-----------------------|-----------------------|---------------------------------------|
| | September 30, 2007 | September 30, 2006 | U.S. dollars September 30, 2007 |
| Net gain on securities | 26,302 | 19,016 | 228,713 |
| Equity in earnings of affiliated companies | 8,309 | 5,743 | 72,252 |
| Net gain (loss) on sale and disposal of rental assets and other property | 191 | (8,203) | 1,661 |
| Exchange gain (loss) | 1,593 | (2,099) | 13,852 |

(18) Net Income (Loss) Per Share Information

The reconciliations of the numbers and the amounts used in the basic and diluted net loss per share computations for the six months ended September 30, 2007 and 2006 are as follows:

| | Number of shares | |
|---|-----------------------|-----------------------|
| | September 30, 2007 | September 30, 2006 |
| Weighted average number of shares on which basic net loss per share is calculated | 3,324,730,702 | 3,333,692,599 |
| Effect of dilutive securities: | | |
| Stock options | 220,937 | 183,049 |
| Number of shares on which diluted net loss per share is calculated | 3,324,951,639 | 3,333,875,648 |

| | Millions of yen | | Thousands of |
|--|-----------------------|-----------------------|---------------------------------------|
| | September 30, 2007 | September 30, 2006 | U.S. dollars September 30, 2007 |
| Net loss applicable to common stockholders | (13,060) | (78,086) | (113,565) |
| Effect of dilutive securities: | | | |
| Stock options | (450) | (56) | (3,913) |
| Net loss on which diluted net loss per share is calculated | (13,510) | (78,142) | (117,478) |

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| | Yen | | U.S. dollars |
|---------------------|--------|---------|--------------|
| Net loss per share: | | | |
| Basic | (3.93) | (23.42) | (0.03) |
| Diluted | (4.06) | (23.44) | (0.04) |

The net loss per share computations for the six months ended September 30, 2007 and 2006 exclude all the convertible bonds because their effect would have been antidilutive.

In addition, the net loss per share computation excludes some stock options because their effect would have been antidilutive.

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HITACHI, LTD. AND SUBSIDIARIES

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(19) Derivative Instruments and Hedging Activities

Overall risk profile

The major manufacturing bases of the Company and its subsidiaries are located in Japan and Asia. The selling bases are located globally, and the Company and its subsidiaries generate approximately 40% of their sales from overseas. These overseas sales are mainly denominated in the U.S. dollar or Euro. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates.

The Company's financing subsidiaries in the U.K, the U.S. and Singapore issue variable rate medium-term notes mainly through the Euro markets to finance its overseas long-term operating capital. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates and interest rates.

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

Risk management policy

The Company and its subsidiaries assess foreign currency exchange rate risk and interest rate risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. It is the Company's principal policy that the Company and its subsidiaries do not enter into derivative financial instruments for speculation purposes.

Foreign currency exchange rate risk management

The Company and its subsidiaries have assets and liabilities which are exposed to foreign currency exchange rate risk and, as a result, they enter into forward exchange contracts and cross currency swap agreements for the purpose of hedging these risk exposures.

In order to fix the future net cash flows principally from trade receivables and payables recognized, which are denominated in foreign currencies, the Company and its subsidiaries on a monthly basis measure the volume and due date of future net cash flows by currencies. In accordance with the Company's policy, a certain portion of measured net cash flows is covered using forward exchange contracts, which principally mature within one year.

The Company and its subsidiaries enter into cross currency swap agreements with the same maturities as underlying debt to fix cash flows from long-term debt denominated in foreign currencies. The hedging relationship between the derivative financial instrument and its hedged item is highly effective in achieving offsetting changes in foreign currency exchange rates.

Interest rate risk management

The Company's and certain subsidiaries' exposure to interest rate risk is related principally to long-term debt obligations. Management believes it is prudent to minimize the variability caused by interest rate risk.

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HITACHI, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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To meet this objective, the Company and certain subsidiaries principally enter into interest rate swaps to manage fluctuations in cash flows. The interest rate swaps entered into are receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company and certain subsidiaries receive variable interest rate payments on long-term debt associated with medium-term notes and make fixed interest rate payments, thereby creating fixed interest rate long-term debt.

The Company and certain financing subsidiaries mainly finance a portion of their operations by long-term debt with a fixed interest rate and lend funds at variable interest rates. Therefore, such companies are exposed to interest rate risk. Management believes it is prudent to minimize the variability caused by interest rate risk. To meet this objective, the Company and certain financing subsidiaries principally enter into interest rate swaps converting the fixed rate to the variable rate to manage fluctuations in fair value resulting from interest rate risk. Under the interest rate swaps, the Company and certain financing subsidiaries receive fixed interest rate payments associated with medium-term notes and make variable interest rate payments, thereby creating variable-rate long-term debt.

The hedging relationship between the interest rate swaps and its hedged item is highly effective in achieving offsetting changes in cash flows and fair value resulting from interest rate risk.

Fair value hedge

Changes in fair value of both recognized assets and liabilities, and derivative financial instruments designated as fair value hedges of these assets and liabilities are recognized in other income (deductions). Derivative financial instruments designated as fair value hedges include forward exchange contracts associated with operating transactions, cross currency swap agreements and interest rate swaps associated with financing transactions.

Exchange gain for the six months ended September 30, 2007 and 2006 includes a net gain of ¥1,132 million (\$9,843 thousand) and a net loss of ¥1,224 million, respectively, which represent the component excluded from the assessment of hedge effectiveness. The sum of the amount of hedge ineffectiveness is not material for the six months ended September 30, 2007 and 2006.

Interest charges for the six months ended September 30, 2007 and 2006 include a net loss of ¥136 million (\$1,183 thousand) and a net gain of ¥307 million, respectively, which represent the component excluded from the assessment of hedge effectiveness. The sum of the amount of hedge ineffectiveness is not material for the six months ended September 30, 2007 and 2006.

Cash flow hedge

Foreign currency exposure

Changes in fair value of forward exchange contracts designated and qualifying as cash flow hedges of forecasted transactions are reported in accumulated other comprehensive income (AOCI). These amounts are reclassified into earnings in the same period as the hedged items affect earnings.

Exchange gain for the six months ended September 30, 2007 and 2006 includes a net gain of ¥376 million (\$3,270 thousand) and a net loss of ¥426 million, respectively, which represent the component excluded from the assessment of hedge effectiveness. The sum of the amount of hedge ineffectiveness is not material for the six months ended September 30, 2007 and 2006.

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As of September 30, 2007, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to the variability in future cash flows associated with foreign currency forecasted transactions is approximately 58 months.

Interest rate exposure

Changes in fair values of interest rate swaps designated as hedging instruments for the variability of cash flows associated with long-term debt obligations are reported in AOCI. These amounts subsequently are reclassified into interest charges as a yield adjustment in the same period in which the hedged debt obligations affect earnings.

Interest charges for the six months ended September 30, 2007 include a net loss of ¥194 million (\$1,687 thousand) which represents the component of hedge ineffectiveness. The sum of the amount of hedge ineffectiveness is not material for the six months ended September 30, 2006.

The contract or notional amounts of derivative financial instruments held as of September 30, 2007 and March 31, 2007 are summarized as follows:

| | Millions of yen | | Thousands of |
|---------------------------------|-----------------------|-------------------|---------------------------------------|
| | September 30, 2007 | March 31, 2007 | U.S. dollars September 30, 2007 |
| Forward exchange contracts: | | | |
| To sell foreign currencies | 337,165 | 290,177 | 2,931,870 |
| To buy foreign currencies | 151,129 | 94,540 | 1,314,165 |
| Cross currency swap agreements: | | | |
| To sell foreign currencies | 100,451 | 110,815 | 873,487 |
| To buy foreign currencies | 179,563 | 138,888 | 1,561,417 |
| Interest rate swaps | 491,948 | 454,939 | 4,277,809 |
| Option contracts | 21,659 | 13,251 | 188,339 |

(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 investments in 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 Company's and its subsidiaries' incremental borrowing rates for similar borrowing arrangements.

Cash and cash equivalents, Trade receivables, Short-term debt and Trade payables

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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, cross currency swap agreements, interest rate swaps and option contracts are estimated on the basis of the market prices of derivative financial instruments with similar contract conditions.

Table of Contents**HITACHI, LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Six months ended September 30, 2007**

The carrying amounts and estimated fair values of the financial instruments as of September 30, 2007 and March 31, 2007 are as follows:

| | Millions of yen | | | |
|--------------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | September 30, 2007 | | March 31, 2007 | |
| | Carrying amounts | Estimated fair values | Carrying amounts | Estimated fair values |
| Investments in securities: | | | | |
| Short-term investments | 42,019 | 42,019 | 33,986 | 33,986 |
| Investments and advances | 356,062 | 356,062 | 397,958 | 397,957 |
| Derivatives (Assets): | | | | |
| Forward exchange contracts | 5,082 | 5,082 | 1,077 | 1,077 |
| Cross currency swap agreements | | | 62 | 62 |
| Interest rate swaps | 1,362 | 1,362 | 1,660 | 1,660 |
| Option contracts | 17 | 17 | 10 | 10 |
| Long-term debt | (1,809,947) | (1,783,414) | (1,793,057) | (1,770,776) |
| Derivatives (Liabilities): | | | | |
| Forward exchange contracts | (964) | (964) | (1,606) | (1,606) |
| Cross currency swap agreements | (13,409) | (13,409) | (15,294) | (15,294) |
| Interest rate swaps | (1,154) | (1,154) | (1,186) | (1,186) |
| Option contracts | (862) | (862) | (591) | (591) |

| | Thousands of U.S. dollars | |
|--------------------------------|---------------------------|--------------------------|
| | September 30, 2007 | |
| | Carrying amounts | Estimated fair values |
| Investments in securities: | | |
| Short-term investments | 365,383 | 365,383 |
| Investments and advances | 3,096,191 | 3,096,191 |
| Derivatives (Assets): | | |
| Forward exchange contracts | 44,191 | 44,191 |
| Cross currency swap agreements | | |
| Interest rate swaps | 11,843 | 11,843 |
| Option contracts | 148 | 148 |
| Long-term debt | (15,738,670) | (15,507,948) |
| Derivatives (Liabilities): | | |
| Forward exchange contracts | (8,383) | (8,383) |
| Cross currency swap agreements | (116,600) | (116,600) |
| Interest rate swaps | (10,035) | (10,035) |
| Option contracts | (7,496) | (7,496) |

It is not practicable to estimate the fair value of investments in unlisted stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amounts of these investments at September 30, 2007 and March 31, 2007 totaled ¥66,512 million (\$578,365 thousand) and ¥72,190 million, respectively.

Table of Contents**SEGMENT INFORMATION****Industry Segment**

Hitachi, Ltd. and Subsidiaries

Six months ended September 30, 2007 and 2006

| | Millions of yen | | Millions of U.S. dollars | |
|---|---------------------|---------------------|--------------------------|------------------|
| | 2007 (A) | 2006 (B) | 2007 | (A)/(B) × 100 |
| Revenues: | | | | |
| Information & Telecommunication Systems | 1,254,539 (21%) | 1,147,815 (20%) | 10,909 | 109% |
| Electronic Devices | 643,333 (11%) | 645,921 (11%) | 5,594 | 100 |
| Power & Industrial Systems | 1,598,343 (27%) | 1,280,816 (23%) | 13,899 | 125 |
| Digital Media & Consumer Products | 728,038 (12%) | 758,759 (14%) | 6,331 | 96 |
| High Functional Materials & Components | 933,580 (15%) | 870,283 (16%) | 8,118 | 107 |
| Logistics, Services & Others | 618,719 (10%) | 610,984 (11%) | 5,380 | 101 |
| Financial Services | 222,313 (4%) | 263,658 (5%) | 1,933 | 84 |
| Subtotal | 5,998,865 (100%) | 5,578,236 (100%) | 52,164 | 108 |
| Eliminations and Corporate Items | (718,380) | (807,332) | (6,247) | |
| Total | 5,280,485 | 4,770,904 | 45,917 | 111% |
| Operating Income (Loss): | | | | |
| Information & Telecommunication Systems | 12,455 (9%) | 13,873 (30%) | 108 | 90% |
| Electronic Devices | 25,814 (19%) | 24,088 (53%) | 224 | 107 |
| Power & Industrial Systems | 63,641 (46%) | (45,334) (-99%) | 553 | |
| Digital Media & Consumer Products | (50,866) | (34,468) | (442) | |

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| | (-37%) | (-75%) | | |
|--|-------------------|------------------|-------|------|
| High Functional Materials & Components | 64,637 (46%) | 63,886 (140%) | 562 | 101 |
| Logistics, Services & Others | 10,763 (8%) | 7,986 (17%) | 94 | 135 |
| Financial Services | 12,978 (9%) | 15,758 (34%) | 113 | 82 |
| Subtotal | 139,422 (100%) | 45,789 (100%) | 1,212 | 304 |
| Eliminations and Corporate Items | (17,754) | (25,932) | (154) | |
| Total | 121,668 | 19,857 | 1,058 | 613% |

- Notes:
1. Revenues by industry segment include intersegment transactions.
 2. SEGMENT INFORMATION is disclosed in accordance with a ministerial ordinance under the Financial Instruments and Exchange Law of Japan.
 3. In order to be consistent with financial reporting principles and practices generally accepted in Japan, operating income (loss) is presented as total revenues less cost of sales and selling, general and administrative expenses. The Company believes that this is useful to investors in comparing the Company's financial results with those of other Japanese companies. Under accounting principles generally accepted in the United States of America, restructuring charges, net gain or loss on sale and disposal of rental assets and other property, impairment losses and special termination benefits are included as part of operating income (loss). See the consolidated statements of operations and notes 15, 16 and 17 to the consolidated financial statements.
 4. The figures in this information are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥115=U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of September 28, 2007.

Table of Contents**Geographic Segment**

Hitachi, Ltd. and Subsidiaries

Six months ended September 30, 2007 and 2006

| | Millions of yen | | Millions of U.S. dollars | |
|---------------------------|-----------------|-----------|--------------------------|------------------|
| | 2007 (A) | 2006 (B) | 2007 | (A)/(B) × 100 |
| Revenues: | | | | |
| Japan | | | | |
| Outside customer sales | 3,468,331 | 3,259,141 | 30,159 | 106% |
| | (54%) | (57%) | | |
| Intersegment transactions | 716,648 | 616,076 | 6,232 | 116 |
| | (11%) | (11%) | | |
| Total | 4,184,979 | 3,875,217 | 36,391 | 108 |
| | (65%) | (68%) | | |
| Asia | | | | |
| Outside customer sales | 824,793 | 683,171 | 7,172 | 121 |
| | (13%) | (12%) | | |
| Intersegment transactions | 316,417 | 263,741 | 2,752 | 120 |
| | (5%) | (5%) | | |
| Total | 1,141,210 | 946,912 | 9,924 | 121 |
| | (18%) | (17%) | | |
| North America | | | | |
| Outside customer sales | 494,368 | 475,854 | 4,299 | 104 |
| | (8%) | (8%) | | |
| Intersegment transactions | 56,442 | 36,803 | 491 | 153 |
| | (1%) | (1%) | | |
| Total | 550,810 | 512,657 | 4,790 | 107 |
| | (9%) | (9%) | | |
| Europe | | | | |
| Outside customer sales | 383,292 | 282,533 | 3,333 | 136 |
| | (6%) | (5%) | | |
| Intersegment transactions | 29,669 | 15,159 | 258 | 196 |
| | (0%) | (0%) | | |
| Total | 412,961 | 297,692 | 3,591 | 139 |
| | (6%) | (5%) | | |
| Other Areas | | | | |
| Outside customer sales | 109,701 | 70,205 | 954 | 156 |
| | (2%) | (1%) | | |
| Intersegment transactions | 11,563 | 8,165 | 100 | 142 |
| | (0%) | (0%) | | |
| Total | 121,264 | 78,370 | 1,054 | 155 |
| | (2%) | (1%) | | |
| Subtotal | 6,411,224 | 5,710,848 | 55,750 | 112 |
| | (100%) | (100%) | | |

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| | | | | |
|----------------------------------|-------------|-----------|---------|------|
| Eliminations and Corporate Items | (1,130,739) | (939,944) | (9,833) | |
| Total | 5,280,485 | 4,770,904 | 45,917 | 111% |

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| | Millions of | | | |
|----------------------------------|-----------------------------|------------------|----------------------|------------------|
| | Millions of yen 2007 (A) | 2006 (B) | U.S. dollars 2007 | (A)/(B) × 100 |
| Operating Income (Loss): | | | | |
| Japan | 130,875 (91%) | 16,713 (37%) | 1,138 | 783% |
| Asia | (10,965) (-8%) | 561 (1%) | (95) | |
| North America | 3,641 (3%) | 15,900 (36%) | 32 | 23 |
| Europe | 13,701 (10%) | 8,228 (18%) | 119 | 167 |
| Other Areas | 6,279 (4%) | 3,563 (8%) | 54 | 176 |
| Subtotal | 143,531 (100%) | 44,965 (100%) | 1,248 | 319 |
| Eliminations and Corporate Items | (21,863) | (25,108) | (190) | |
| Total | 121,668 | 19,857 | 1,058 | 613% |

Revenues by Market

Hitachi, Ltd. and Subsidiaries

Six months ended September 30, 2007 and 2006

| | Millions of yen | | Millions of U.S. dollars | |
|---------------------------|---------------------------|---------------------------|-----------------------------|------------------|
| | 2007 (A) | 2006 (B) | 2007 | (A)/(B) × 100 |
| Domestic revenues | 2,995,490 (57%) | 2,820,304 (59%) | 26,048 | 106% |
| Overseas revenues: | | | | |
| Asia | 1,028,246 (19%) | 891,251 (19%) | 8,941 | 115 |
| North America | 520,172 (10%) | 514,264 (11%) | 4,523 | 101 |
| Europe | 506,970 (10%) | 380,362 (8%) | 4,408 | 133 |
| Other Areas | 229,607 (4%) | 164,723 (3%) | 1,997 | 139 |
| Subtotal | 2,284,995 | 1,950,600 | 19,869 | 117 |

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| | | | | |
|-------|-----------|-----------|--------|------|
| | (43%) | (41%) | | |
| Total | 5,280,485 | 4,770,904 | 45,917 | 111% |
| | (100%) | (100%) | | |