

PART I

Item 1. Description of Business

General

The Company was founded in 1910 as a small electric repair shop and was incorporated in 1920 under the laws of Japan. Over the years, Hitachi has broadened the horizon of its research as well as its business activities to develop a highly diversified product mix ranging from electricity generation systems to consumer products and electronics devices.

Hitachi has grown into Japan's largest diversified manufacturer of electronic and electrical products. With its diverse product lines, Hitachi maintains a significant presence in each of the major markets it serves, which together make Hitachi one of the world's largest manufacturers of electronic products. With its emphasis on research and development and its ability to combine a wide range of technologies, Hitachi continues to strive to provide the world with products that meet the changing needs of its customers.

In April 1999, Hitachi, Ltd. implemented fundamental management reforms to meet the escalating challenges of global competition. The reforms include, among other things, a new company officer system, reorganization of business units, simplifying its head office, and establishing an Advisory Board.

In November 1999, Hitachi launched a medium-term business plan defining the direction and goals of its businesses toward fiscal 2002. The aim of this plan is to evolve into a company offering truly helpful services and systems by using its wealth of knowledge and information technology. See "Item9. Management's Discussion and Analysis of Financial Condition and Results of Operations."

In June 2000, the Company introduced a stock option plan with approval at the ordinary general meeting of shareholders, as a measure intended to heighten the motivation of its directors and employees. See "Item12. Options to Purchase Securities from Registrant or Subsidiaries."

Main Products

Hitachi's business is highly diversified. For the purpose of reporting, the operations of Hitachi are classified into five industry segments: (1) Information Systems & Electronics, (2) Power & Industrial Systems, (3) Consumer Products, (4) Materials and (5) Services & Other.

Hitachi's major products and services offered in each segment are shown below.

(1) Information Systems & Electronics

Mainframe Computers, Software, Computer Terminals and Peripherals, Systems Integration, Personal Computers, Magnetic Disks, Telephone Exchanges, DVD Drives, Semiconductors, Display Tubes, Liquid Crystal Displays, Semiconductor Manufacturing Equipment, Test and Measurement Equipment, Medical Electronics Equipment

(2) Power & Industrial Systems

Nuclear Power Plants, Hydroelectric Power Plants, Thermal Power Plants, Control Equipment, Compressors, Rolling Mill Equipment, Plant Engineering and Construction, Elevators, Escalators, Air-Conditioning Equipment, Industrial Robots, Rolling Stock, Automotive Equipment, Construction Machinery

(3) Consumer Products

Room Air Conditioners, Refrigerators, Washing Machines, Microwave Ovens, Vacuum Cleaners, Heating Appliances, Kitchen Appliances, Lighting Fixtures, Television Sets, VCRs, Mobile Phones, Audiotapes, Videotapes, Batteries, Optical Storage Media, Floppy Disks

(4) Materials

Synthetic Resin Materials and Products, Printed Circuit Boards, Ceramic Materials, Special Steels, Rolls for Rolling Mills, Malleable Cast-Iron Products, Forged and Cast-Steel Products, Pipe Fittings, Wire and Cable, Copper Products, Rubber Products

(5) Services & Other

General Trading, Financial Services, Transportation, Property Management, Printing

Sales and Distribution

Hitachi distributes its products in Japan primarily through its own sales network. Hitachi also distributes some of its products through independent dealers. In most field sales offices, Hitachi's sales personnel specialize in the marketing of particular types of products.

International marketing is conducted through overseas sales subsidiaries, joint-venture companies and unaffiliated distributors. Also, certain types of equipment are sold to industrial companies in foreign markets on an OEM basis and marketed under the brand names of such industrial companies.

Overseas sales amounted to ¥2,344 billion in fiscal 1999, accounting for 29% of net sales. Foreign currency exchange rate fluctuations influence Hitachi's operating environment. A strong yen reduces the price competitiveness of products exported to foreign markets and diminishes profit by decreasing revenue when income from overseas product sales is converted to yen. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Hitachi's widespread customer base in domestic and overseas markets encompasses leading industrial companies, financial institutions, utilities, governments and individual customers. No material part of its business is dependent upon one or a few customers.

Segment Information

The following information is disclosed in accordance with the requirements of a ministerial ordinance under the Securities and Exchange Law of Japan. This information is not prepared in accordance with the requirements of United States generally accepted accounting principles or Statement of Financial Accounting Standards No.131, "Disclosures about Segments of an Enterprise and Related Information."

1. Industry Segment

	Year ended March 31 (Billions of yen)						
	1998		1999		2000		
Sales							
Information Systems & Electronics	¥	3,374	31%	3,107	31%	3,149	32%
Power & Industrial Systems		2,543	24	2,407	24	2,373	24
Consumer Products		928	9	897	9	905	9
Materials		1,474	14	1,339	14	1,346	13
Services & Other		<u>2,415</u>	<u>22</u>	<u>2,123</u>	<u>22</u>	<u>2,146</u>	<u>22</u>
Total		10,734	100%	9,873	100%	9,919	100%
Eliminations		<u>(2,317)</u>		<u>(1,896)</u>		<u>(1,918)</u>	
Net Sales	¥	<u>8,417</u>		<u>7,977</u>		<u>8,001</u>	
Operating Income (Loss)							
Information Systems & Electronics	¥	63	24%	(90)	- %	52	24%
Power & Industrial Systems		94	36	30	-	42	19
Consumer Products		(16)	(6)	(6)	-	20	9
Materials		66	26	28	-	50	23
Services & Other		<u>53</u>	<u>20</u>	<u>51</u>	<u>-</u>	<u>54</u>	<u>25</u>
Subtotal		260	100%	13	- %	218	100%
Eliminations and Corporate Items		<u>(51)</u>		<u>(47)</u>		<u>(44)</u>	
Total	¥	<u>209</u>		<u>(34)</u>		<u>174</u>	
Segment Assets							
Information Systems & Electronics	¥	2,434	26%	2,242	25%	2,255	25%
Power & Industrial Systems		2,312	25	2,243	25	2,219	25
Consumer Products		745	8	718	8	724	8
Materials		1,456	16	1,388	16	1,435	16
Services & Other		<u>2,257</u>	<u>25</u>	<u>2,289</u>	<u>26</u>	<u>2,318</u>	<u>26</u>
Subtotal		9,204	100%	8,880	100%	8,951	100%
Eliminations and Corporate Items		<u>947</u>		<u>836</u>		<u>886</u>	
Consolidated total	¥	<u>10,151</u>		<u>9,716</u>		<u>9,837</u>	
Depreciation & Amortization							
Information Systems & Electronics	¥	230	43%	218	41%	220	39%
Power & Industrial Systems		65	12	66	12	66	12
Consumer Products		47	9	48	9	45	8
Materials		82	15	83	15	79	14
Services & Other		<u>114</u>	<u>21</u>	<u>125</u>	<u>23</u>	<u>155</u>	<u>27</u>
Subtotal		538	100%	540	100%	565	100%
Eliminations and Corporate Items		<u>20</u>		<u>19</u>		<u>12</u>	
Consolidated total	¥	<u>558</u>		<u>559</u>		<u>577</u>	

	Year ended March 31 (Billions of yen)					
	1998		1999		2000	
Tangible & Intangible Asset Increase						
Information Systems & Electronics	¥ 277	39%	206	35%	228	38%
Power & Industrial Systems	75	11	61	10	65	11
Consumer Products	58	8	48	8	41	7
Materials	98	14	91	15	80	13
Services & Other	<u>197</u>	<u>28</u>	<u>187</u>	<u>32</u>	<u>189</u>	<u>31</u>
Subtotal	705	100%	593	100%	603	100%
Eliminations and Corporate Items	<u>10</u>		<u>(2)</u>		<u>14</u>	
Consolidated total	¥ <u>715</u>		<u>591</u>		<u>617</u>	

2. Geographic Segment

	Year ended March 31 (Billions of yen)					
	1998		1999		2000	
Sales						
Hitachi in Japan						
Sales to outside customers	¥ 6,636	68%	6,325	69%	6,411	69%
Sales to overseas subsidiaries (A)	<u>1,054</u>	<u>11</u>	<u>914</u>	<u>10</u>	<u>952</u>	<u>10</u>
Subtotal	7,690	79	7,239	79	7,363	79
Overseas subsidiaries						
Sales to outside customers	1,780	18	1,652	18	1,590	17
Sales to Hitachi in Japan (B)	<u>276</u>	<u>3</u>	<u>265</u>	<u>3</u>	<u>321</u>	<u>4</u>
Subtotal	<u>2,056</u>	<u>21</u>	<u>1,917</u>	<u>21</u>	<u>1,911</u>	<u>21</u>
Total	9,746	100%	9,156	100%	9,274	100%
Elimination of (A) and (B)	<u>(1,329)</u>		<u>(1,179)</u>		<u>(1,273)</u>	
Net Sales	¥ <u>8,417</u>		<u>7,977</u>		<u>8,001</u>	
Operating Income						
Hitachi in Japan	¥ 233	88%	3	31%	184	83%
Overseas subsidiaries	<u>32</u>	<u>12</u>	<u>7</u>	<u>69</u>	<u>39</u>	<u>17</u>
Subtotal	265	100%	10	100%	223	100%
Eliminations and Corporate Items	<u>(56)</u>		<u>(44)</u>		<u>(49)</u>	
Total	¥ <u>209</u>		<u>(34)</u>		<u>174</u>	
Segment Assets						
Hitachi in Japan	¥ 7,329	82%	7,222	83%	7,257	83%
Overseas Subsidiaries	<u>1,580</u>	<u>18</u>	<u>1,462</u>	<u>17</u>	<u>1,502</u>	<u>17</u>
Subtotal	8,909	100%	8,684	100%	8,759	100%
Eliminations & Corporate Items	<u>1,242</u>		<u>1,032</u>		<u>1,078</u>	
Consolidated total	¥ <u>10,151</u>		<u>9,716</u>		<u>9,837</u>	

3. Net Sales by Market

	Year ended March 31 (Billions of yen)					
	1998		1999		2000	
Domestic sales	¥ 5,805	69%	5,533	69%	5,657	71%
Overseas sales						
North America	882	10	839	11	767	10
Asia	1,051	13	895	11	898	11
Europe	532	6	540	7	485	6
Other Areas	147	2	170	2	194	2
Subtotal	<u>2,612</u>	<u>31</u>	<u>2,444</u>	<u>31</u>	<u>2,344</u>	<u>29</u>
Net Sales	¥ <u>8,417</u>	<u>100%</u>	<u>7,977</u>	<u>100%</u>	<u>8,001</u>	<u>100%</u>

- Notes:
1. Sales by segment include intersegment transactions.
 2. Geographic Segment is based on the locations of Hitachi's facilities where products or services are produced.
 3. Figures for Net Sales by Market are based on the locations of the customer to whom Hitachi's products or services are sold.

Hitachi conducts a broad and diverse range of businesses. Hitachi divides its operations into five segments that group products mainly on the basis of similarity in type, use, production method and marketing method. The five segments are Information Systems & Electronics, Power & Industrial Systems, Consumer Products, Materials and Services & Other. Each segment includes the Company's subsidiaries and affiliates engaged in related production, marketing and service activities.

(Information Systems & Electronics)

Products manufactured and sold by Hitachi in this segment include computers, semiconductors, communications equipment, display tubes and liquid crystal displays. This segment groups products with many common technological aspects, facilitating operations management. Computers and semiconductors form the nucleus of the segment.

Hitachi's computer business consists of hardware products, software and related services. Customers are business entities in various industries, national and local governments, and, to a lesser extent, individuals. Among the hardware products Hitachi offers, mainframes, servers and storage sub-systems are more significant than other products. In order to meet market requirements, these products need to be built to achieve high performance while meeting cost parameters of customers. Hitachi also develops and offers various software packages designed to enhance the productivity of customers. Consulting and system integration form the core of the solution business in which customized solutions are developed and offered to customers with Hitachi's hardware and software products, as well as other vendors' products, to deliver systems that help customers achieve their business objectives. The service business includes outsourcing in such areas as information processing and network operation. Over the medium term, in accordance with changing market requirements, Hitachi intends to expand its service business in growing areas, such as electronic commerce and content delivery.

The computer industry is extremely competitive. The speed of technology development in both hardware and software is very fast, and failure or delay to introduce the products or services that incorporate the latest technology would materially diminish Hitachi's market presence. Customers are highly sensitive to the cost effectiveness of their investments in information technology.

Semiconductors are used extensively in many industries, including computers, home appliances and automobiles. Hitachi's product line for semiconductors consists of microprocessors, system LSIs, DRAMs, other memory products such as flash memory, and other multi-purpose semiconductors. Hitachi is a world leader in developing and manufacturing advanced memory chips. Recently, Hitachi has been giving more emphasis to system LSIs which combine memories, microprocessors and other components on a single chip and are capable of performing complex tasks.

Two notable features of the semiconductor market are rapid technological changes and significant price fluctuations with changes in the supply-demand balance. Technology becomes obsolete in a very short period of time, and new industry standards for any product line may be established very quickly. Prices for DRAMs in particular are under pressure due to intense competition among companies with large production capacity that specialize in this market. The industry is responding to these circumstances by seeking ways to spread investment risks by setting up joint ventures or forming alliances.

Hitachi has established a significant presence in the markets served by this segment by having connected its R&D efforts to superior products such as Super TFT LCD and SH-4 RISC microprocessor. In accordance with changing market requirements, Hitachi has consolidated its semiconductor manufacturing bases and is selling non-strategic business such as semiconductor silicon crystal operations in an effort to redefine the scope of its operation. In December 1999, Hitachi established a joint-venture company with NEC Corporation which conducts all aspects of the DRAM business including development and marketing. In March 2000, Hitachi also established a joint-venture company with UMC of Taiwan which produces semiconductor products using next-generation wafers. In fiscal 1999, the segment accounted for 32% of total sales and 24% of operating income before eliminations and corporate items.

(Power & Industrial Systems)

In this segment, Hitachi manufactures and sells power plants, industrial machinery, transportation equipment, construction machinery and other products for power utilities and industry.

Power companies are the main customers of the power sector. In this sector, Hitachi must respond to customer demand for low-priced products with high added value. In addition, in recent years Hitachi has given high priority to environmental protection in its product design. The entry of independent power producers into the domestic electric power industry brought about by deregulation has put pressure on power companies to lower electricity prices. This causes more intense price competition among vendors to match lower electricity prices. Since the orders the sector receives are generally for large items with long delivery periods, certain of the proceeds from those orders are generally paid in advance to finance the production of the items.

The industrial systems sector covers products used in numerous industries and is strongly influenced by trends in public works spending and private-sector plant and equipment investment. Market demands focus primarily on low price, high added value and the capability of products to be integrated into systems. The number of product types is vast and production is frequently done in small lots or on order. The industry includes many small-to-medium-sized specialty manufacturers and competition for orders is fierce.

Hitachi optimizes its response to the needs and priorities of segment customers by strategically combining technologies from Hitachi's diverse fields of operation, especially from the technologies of Information Systems & Electronics. In fiscal 1999, the segment accounted for 24% of total sales and 19% of operating income before eliminations and corporate items.

(Consumer Products)

In this segment, Hitachi manufactures and sells products in two main categories: home appliances and consumer electronics. The former includes room air conditioners, refrigerators, washing machines and other appliances, while the latter comprises TVs, VCRs and other audio-visual products. All products have a broad range of customers dominated by general consumers.

Home electrical equipment manufacturers are responding to customer demand for low price and high added value by cutting costs and developing differentiated product lines. Success in this segment will also depend considerably on the development of products geared to advances in new multimedia-related markets.

In order to achieve low-cost production and have access to growing markets, Hitachi has expanded overseas production, especially in Southeast Asia. Hitachi also has introduced supply chain management to shorten lead times and hold minimum inventory. Hitachi is a well-recognized brand associated with high reliability and quality. In fiscal 1999, the segment accounted for 9% of total sales and 9% of operating income before eliminations and corporate items.

(Materials)

This segment includes fabricated chemical and metal products supplied as parts or materials to downstream manufacturers of mainly electric and electronic products. For example, Hitachi Chemical Co., Ltd. manufactures products based on its resin technology and serves industrial markets such as semiconductors, printed wiring boards and automobiles. Hitachi Metals, Ltd. manufactures and sells magnetic and electronic materials and parts. They include magnetic head parts for PC-related markets, and specialty steels such as materials for automobile engines and parts. Cable and wire products used for transmission of power and telephone signals are manufactured and sold by Hitachi Cable, Ltd., and also represent a part of the business conducted in this segment.

In every product sector, customers insist on high quality and high added value. Hitachi's strength in electronics technology has enabled it to command a strong position in the market for products in this segment. In fiscal 1999, the segment accounted for 13% of total sales and 23% of operating income before eliminations and corporate items.

(Services & Other)

This segment includes various businesses not covered by the other four segments. Hitachi has set up sales subsidiaries by region or by products. Hitachi also has many subsidiaries that were established to offer various functions related to its business operations internally, such as transportation, printing, and property management. Financial services, which originated in extending credit to purchasers of Hitachi products, has grown to become an integral part of this segment.

In fiscal 1999, the segment accounted for 22% of total sales and 25% of operating income before eliminations and corporate items.

Research and Development

Viewing research and development (R&D) activity as a key investment for the future, Hitachi conducts its R&D in broad areas from materials to production technology. Hitachi focuses on basic R&D with a long-term vision but also strives to harvest benefits by introducing new products.

Hitachi's R&D expenditures amounted to ¥511 billion in fiscal 1997, ¥497 billion in fiscal 1998 and ¥432 billion in fiscal 1999. The ratio of R&D expenditures to net sales remained at approximately 5 to 6% over these three years.

Hitachi is seeking growth in the Information Systems & Electronics segment and recognizes the importance of this segment as a source of new technologies that can be applied to other segments. Therefore, Hitachi puts emphasis on this segment in distributing R&D resources. In fiscal 1999, expenditures in the Information Systems & Electronics segment accounted for 65% of total R&D expenditure.

To achieve higher efficiency, Hitachi has reinforced the link between R&D activities and marketing activities under the control of each business operation while the focus on long-term research is maintained at independent corporate laboratories. Hitachi's global R&D activities include cooperation with universities and companies in the U.S. and Europe. For instance, Hitachi and Cambridge University developed a new generation semiconductor that enables instant recording and accessing of a massive amount of information, consuming very little power.

Competition

Hitachi is subject to intense competition in each of its businesses. Among its major competitors are some of the top-ranking industrial companies in Japan, U.S., Europe and Asia. Depending on the nature of the business, the competition is marked by rapid progress in technology or the need to reduce costs to meet customer requirements. In addition, Hitachi is facing more competition against companies that focus exclusively on specific market segments. See "Segment Information" for details of competition in each segment.

Raw Materials and Energy

Hitachi has many suppliers from which it purchases a variety of raw materials, and is not dependent on any single source of supply for any of its raw materials. In light of the fact that Japan produces very few of the raw materials Hitachi uses in its manufacturing processes, Hitachi monitors the availability of raw materials on a regular basis. There are currently no particular energy or raw material shortages that are likely to materially affect Hitachi's business.

Capital Expenditures

Capital expenditures in fiscal 1999 decreased by 6.8% from the preceding year, to ¥577 billion, with the largest share of the funds being directed to the Information Systems & Electronics segment. While Hitachi has maintained a selective attitude toward investment decisions, it has placed emphasis on strategically important products such as semiconductors and liquid crystal displays to be competitive in those product sectors.

Financing

Investment in property, plant and equipment is financed primarily by internally generated funds and to a lesser extent by funds raised by the issuance of debt and equity securities in domestic and foreign capital markets. Other funds required for inventory and other working capital investment are provided primarily by internally generated funds, advances from customers, short-term bank loans and issuance of commercial paper. Hitachi is not dependent on any single source of financing.

Labor Relations

As of March 31, 2000, the number of employees of Hitachi was 337,911. The activities of the Hitachi Workers Union and those unions representing the employees of certain domestic subsidiaries are organized under the Federation of All Hitachi Workers Union. Each company makes a collective bargaining agreement with its workers union. Under the agreements, all employees of the Company and its domestic subsidiaries that have labor unions, except management and a limited number of other employees, must become union members. The collective bargaining agreements are customarily for two-year terms and the present provisions, other than those relating to wages, extend to March 31, 2002. Hitachi considers its relations with the labor unions to be excellent and there have been no significant strikes or labor disputes in recent years.

Patents and Licenses

Hitachi holds numerous patents, trademark rights and copyrights. While Hitachi considers them to be valuable assets and important for its operations, it believes that its business is not dependent to any material extent upon any single patent, trademark right, copyright or any related group of such rights it holds.

Hitachi also has many licenses and technical assistance agreements covering a wide variety of products. They grant Hitachi the rights to use certain Japanese and foreign patents or the rights to receive certain technical information. Hitachi is not materially dependent on any single such agreement.

Hitachi has granted licenses and technical assistance to various companies located in Japan and overseas. In certain instances, Hitachi has entered into cross-licensing agreements with other major international electronics and electrical equipment manufacturers.

Merger

On May 11, 2000, Hitachi Credit Corporation, a 52.9% owned subsidiary, and Hitachi Leasing, Ltd., a 50.0% owned affiliate of the Company agreed to merge for the purpose of strengthening management and promoting business development in the area of financial services. The merger is expected to be effective in October 2000.

On May 15, 2000, Kokusai Electric Co., Ltd., a 21.8% owned affiliate of the Company, Hitachi Denshi, Ltd., a 63.8% owned subsidiary, and Yagi Antenna Co., Ltd., a 41.0% owned affiliate of the Company agreed to merge for the purpose of integrating and strengthening their wireless communication businesses. The merger is expected to be effective in October 2000.

Cautionary Statement

Statements in this annual report contain forward-looking statements which reflect management's current views with respect to certain future events and financial performance. Words such as "anticipate," "believe," "expect," "estimate," "intend," "plan," "project" and similar expressions which indicate future events and trends identify forward-looking statements. Actual results may differ materially from those projected or implied in the forward-looking statements and from historical trends. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate.

Factors that could cause actual results to differ materially from those projected or implied in any forward-looking statements include, but are not limited to:

- rapid technological change, particularly in the Information Systems & Electronics segment;
- uncertainty as to Hitachi's ability to continue to develop products and to market products that incorporate new technology on a timely and cost-effective basis and achieve market acceptance;
- fluctuations in product demand and industry capacity, particularly in the Information Systems & Electronics segment and the Consumer Products segment;
- exchange rates and their fluctuations between the yen and other currencies in which Hitachi makes significant sales or in which Hitachi's assets and liabilities are denominated, particularly between the yen and the U.S. dollar;
- uncertainty as to Hitachi's access to liquidity or long-term financing, particularly in the context of restrictions or availability of credit prevailing in Japan;
- uncertainty as to Hitachi's ability to implement measures to reduce the potential negative impact of fluctuations in product demand and/or exchange rates;
- general economic conditions and the regulatory and trade environment of Hitachi's major markets, particularly, the United States, Japan and elsewhere in Asia, including, without limitation, continued stagnation or deterioration of the Japanese or other East Asian economies, or direct or indirect restriction by other nations of imports;
- uncertainty as to Hitachi's access to, or protection for, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- Hitachi's dependence on alliances with other corporations in designing or developing certain products; and
- the market prices of equity securities in Japan, declines in which may result in write-downs of equity securities Hitachi holds.

These factors listed above are not exclusive and are not in addition to other factors that are stated or indicated elsewhere in this report, or in other materials published by the Company.