FINANCIAL SECTION

CONTENTS

CONSOLIDATED BALANCE SHEETS

Hitachi, Ltd. and Subsidiaries
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 2)
Assets	**2003**	2002	**2003**
Cash and cash equivalents	**¥ 828,171**	¥1,029,374	**$ 6,901,425**
Short-term investments (note 3)	**186,972**	178,933	**1,558,100**
Trade receivables, net of allowance for doubtful receivables and unearned income–2003 ¥40,520 million ($337,667 thousand); 2002 ¥35,891 million:			
Notes (note 7)	**153,587**	204,855	**1,279,892**
Accounts (notes 4 and 7)	**1,903,640**	1,895,150	**15,863,667**
Inventories (note 5)	**1,187,529**	1,214,399	**9,896,075**
Prepaid expenses and other current assets (note 9)	**496,490**	457,392	**4,137,416**
Investment in leases (notes 6 and 7)	**437,076**	527,432	**3,642,300**
Investments and advances, including affiliated companies (note 3)	**726,442**	834,907	**6,053,683**
Property, plant and equipment (notes 6 and 10):			
Land	**445,283**	383,781	**3,710,692**
Buildings	**1,838,853**	1,748,509	**15,323,775**
Machinery and equipment	**5,709,409**	5,510,651	**47,578,408**
Construction in progress	**67,909**	97,790	**565,908**
	8,061,454	7,740,731	**67,178,783**
Less accumulated depreciation	**5,460,404**	5,226,307	**45,503,366**
Net property, plant and equipment	**2,601,050**	2,514,424	**21,675,417**
Other assets (notes 8 and 9)	**1,658,432**	1,058,788	**13,820,267**
	¥10,179,389	¥9,915,654	**$84,828,242**

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (note 2) 2003
Short-term debt (note 10)	**¥ 825,860**	¥ 833,838	**$ 6,882,167**
Current installments of long-term debt (notes 6 and 10)	**502,586**	366,083	**4,188,217**
Trade payables:			
Notes	**71,934**	92,799	**599,450**
Accounts	**1,140,130**	991,037	**9,501,084**
Accrued expenses	**799,211**	882,148	**6,660,092**
Income taxes (note 9)	**54,091**	60,518	**450,758**
Advances received	**252,861**	334,172	**2,107,175**
Other current liabilities (note 9)	**358,555**	324,670	**2,987,958**
Long-term debt (notes 6 and 10)	**1,512,152**	1,798,303	**12,601,267**
Retirement and severance benefits (note 11)	**1,932,646**	1,049,054	**16,105,383**
Other liabilities (note 9)	**124,573**	80,064	**1,038,108**
Total liabilities	**7,574,599**	6,812,686	**63,121,659**
Minority interests	**751,578**	798,744	**6,263,150**
Stockholders' equity:			
Common stock (notes 10 and 12)	**282,032**	282,032	**2,350,267**
Capital surplus (note 12)	**562,214**	527,010	**4,685,117**
Legal reserve (note 13)	**111,309**	110,751	**927,575**
Retained earnings (notes 10 and 13)	**1,655,029**	1,643,248	**13,791,908**
Accumulated other comprehensive loss (note 15)	**(755,525)**	(258,484)	**(6,296,042)**
Treasury stock (note 14)	**(1,847)**	(333)	**(15,392)**
Total stockholders' equity	**1,853,212**	2,304,224	**15,443,433**
Commitments and contingencies (note 16)			
	¥10,179,389	¥9,915,654	**$84,828,242**

CONSOLIDATED STATEMENTS OF INCOME

Hitachi, Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

			Millions of yen	Thousands of U.S. dollars (note 2)
	2003	2002	2001	**2003**
Revenues:				
Net sales (note 4)	**¥8,191,752**	¥7,993,784	¥8,416,982	**$68,264,600**
Interest income	**14,158**	22,481	32,428	**117,983**
Dividends received	**8,921**	6,134	9,641	**74,342**
Other income (note 17)	**23,658**	7,424	27,544	**197,150**
Total revenues	**8,238,489**	8,029,823	8,486,595	**68,654,075**
Costs and expenses:				
Cost of sales	**6,240,493**	6,184,396	6,155,023	**52,004,108**
Selling, general and administrative expenses	**1,798,292**	1,926,803	1,919,647	**14,985,767**
Interest charges	**34,338**	45,830	58,759	**286,150**
Other deductions (note 17)	**68,538**	458,866	29,511	**571,150**
Total costs and expenses	**8,141,661**	8,615,895	8,162,940	**67,847,175**
Income (loss) before income taxes and minority interests	**96,828**	(586,072)	323,655	**806,900**
Income taxes (note 9)	**52,662**	(71,114)	164,861	**438,850**
Income (loss) before minority interests	**44,166**	(514,958)	158,794	**368,050**
Minority interests	**16,299**	(31,121)	54,414	**135,825**
Net income (loss)	**¥ 27,867**	¥ (483,837)	¥ 104,380	**$ 232,225**

Net income (loss) per share (note 18):			Yen	U.S. dollars (note 2)
Basic	**¥8.31**	¥(144.95)	¥31.27	**$0.07**
Diluted	**¥8.19**	¥(144.95)	¥30.32	**$0.07**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Hitachi, Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

		Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2001	**2003**
Common stock (notes 10 and 12):				
Balance at beginning of year	**¥ 282,032**	¥ 281,754	¥ 281,738	**$ 2,350,267**
Conversion of convertible debentures	**–**	278	16	**–**
Balance at end of year	**¥ 282,032**	¥ 282,032	¥ 281,754	**$ 2,350,267**
Capital surplus (note 12):				
Balance at beginning of year	**¥ 527,010**	¥ 501,243	¥ 499,081	**$ 4,391,750**
Conversion of convertible debentures	**370**	359	1,069	**3,083**
Increase arising from issuance of common stock and other	**34,834**	25,408	1,093	**290,284**
Balance at end of year	**¥ 562,214**	¥ 527,010	¥ 501,243	**$ 4,685,117**
Legal reserve (note 13):				
Balance at beginning of year	**¥ 110,751**	¥ 109,815	¥ 106,885	**$ 922,925**
Transfers from retained earnings	**554**	978	2,971	**4,617**
Transfers to minority interests arising from conversion of subsidiaries' convertible debentures	**(24)**	(5)	(17)	**(200)**
Transfers from (to) minority interests arising from issuance of subsidiaries' common stock and other	**28**	(37)	(24)	**233**
Balance at end of year	**¥ 111,309**	¥ 110,751	¥ 109,815	**$ 927,575**
Retained earnings (notes 10 and 13):				
Balance at beginning of year	**¥1,643,248**	¥2,157,136	¥2,082,541	**$13,693,733**
Net income (loss)	**27,867**	(483,837)	104,380	**232,225**
Cash dividends	**(10,013)**	(28,373)	(28,371)	**(83,442)**
Transfers to legal reserve	**(554)**	(978)	(2,971)	**(4,617)**
Net transfer to minority interests arising from conversion of subsidiaries' convertible debentures	**(291)**	(64)	(347)	**(2,425)**
Net transfer from (to) minority interests arising from newly consolidated subsidiaries and other	**(5,228)**	(636)	1,904	**(43,566)**
Balance at end of year	**¥1,655,029**	¥1,643,248	¥2,157,136	**$13,791,908**
Accumulated other comprehensive loss (note 15):				
Balance at beginning of year	**¥ (258,484)**	¥ (188,446)	¥ 17,442	**$ (2,154,033)**
Other comprehensive loss, net of reclassification adjustments	**(495,861)**	(69,948)	(205,111)	**(4,132,175)**
Net transfer from (to) minority interests arising from conversion of subsidiaries' convertible debentures	**30**	1	(9)	**250**
Net transfer to minority interests arising from issuance of subsidiaries' common stock and other	**(1,210)**	(91)	(768)	**(10,084)**
Balance at end of year	**¥ (755,525)**	¥ (258,484)	¥ (188,446)	**$ (6,296,042)**
Treasury stock (note 14):				
Balance at beginning of year	**¥ (333)**	¥ –	¥ –	**$ (2,775)**
Acquisition for treasury	**(1,514)**	(333)	–	**(12,617)**
Balance at end of year	**¥ (1,847)**	¥ (333)	¥ –	**$ (15,392)**
Total stockholders' equity	**¥1,853,212**	¥2,304,224	¥2,861,502	**$15,443,433**
Comprehensive loss (note 15):				
Net income (loss)	**¥ 27,867**	¥ (483,837)	¥ 104,380	**$ 232,225**
Other comprehensive loss arising during the year	**(492,476)**	(114,912)	(194,560)	**(4,103,967)**
Reclassification adjustments for net loss (gain) included in net income (loss)	**(3,385)**	44,964	(10,551)	**(28,208)**
Comprehensive loss	**¥ (467,994)**	¥ (553,785)	¥ (100,731)	**$ (3,899,950)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Hitachi, Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (note 2)
	2003	2002	2001	**2003**
Cash flows from operating activities (note 20):				
Net income (loss)	**¥ 27,867**	¥ (483,837)	¥ 104,380	**$ 232,225**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	**480,274**	529,418	505,507	**4,002,283**
Impairment loss for long-lived assets	**8,474**	46,115	–	**70,617**
Deferred income taxes	**(35,526)**	(182,072)	12,505	**(296,050)**
Equity in earnings of affiliated companies	**15,803**	35,756	(2,559)	**131,692**
Gain on sale of investments and subsidiaries' common stock	**(54,849)**	(4,035)	(17,437)	**(457,075)**
Impairment of investment in securities	**65,828**	76,867	6,876	**548,567**
Loss (gain) on disposal of rental assets and other property	**(14,064)**	59,687	19,165	**(117,200)**
Income (loss) applicable to minority interests	**16,299**	(31,121)	54,414	**135,825**
(Increase) decrease in receivables	**2,280**	450,904	(72,035)	**19,000**
(Increase) decrease in inventories	**7,994**	261,229	(128,477)	**66,617**
(Increase) decrease in prepaid expenses and other current assets	**3,170**	(999)	(38,234)	**26,417**
Increase (decrease) in payables	**96,777**	(271,698)	95,855	**806,475**
Increase (decrease) in accrued expenses and retirement and severance benefits	**(71,969)**	70,813	8,171	**(599,742)**
Increase (decrease) in accrued income taxes	**(5,825)**	(48,174)	26,337	**(48,542)**
Increase (decrease) in other liabilities	**11,989**	(69,671)	(62,858)	**99,908**
Other	**91,996**	43,684	23,823	**766,633**
Net cash provided by operating activities	**646,518**	482,866	535,433	**5,387,650**
Cash flows from investing activities (note 20):				
(Increase) decrease in short-term investments	**(8,162)**	253,236	198,610	**(68,017)**
Capital expenditures	**(323,825)**	(429,835)	(463,585)	**(2,698,542)**
Purchase of assets to be leased	**(459,036)**	(444,931)	(532,142)	**(3,825,300)**
Collection of investment in leases	**411,522**	469,108	421,527	**3,429,350**
Proceeds from disposal of rental assets and other property	**142,973**	59,574	70,442	**1,191,442**
Proceeds from sale of investments and subsidiaries' common stock	**167,350**	55,354	50,473	**1,394,583**
Purchase of investments and subsidiaries' common stock	**(262,424)**	(129,527)	(125,473)	**(2,186,867)**
Purchase of software	**(152,492)**	(112,506)	(36,405)	**(1,270,766)**
Other	**(135,191)**	6,656	45,836	**(1,126,591)**
Net cash used in investing activities	**(619,285)**	(272,871)	(370,717)	**(5,160,708)**
Cash flows from financing activities (note 20):				
Decrease in short-term debt	**(12,490)**	(408,514)	(5,153)	**(104,084)**
Proceeds from long-term debt	**375,802**	573,373	518,872	**3,131,683**
Payments on long-term debt	**(547,759)**	(743,385)	(642,594)	**(4,564,658)**
Proceeds from sale of common stock by subsidiaries	**1,872**	42,466	13,342	**15,600**
Dividends paid to stockholders	**(9,973)**	(28,318)	(28,235)	**(83,108)**
Dividends paid to minority stockholders of subsidiaries	**(13,108)**	(13,401)	(15,739)	**(109,233)**
Acquisition of common stock for treasury	**(1,514)**	(333)	–	**(12,617)**
Net cash used in financing activities	**(207,170)**	(578,112)	(159,507)	**(1,726,417)**
Effect of exchange rate changes on cash and cash equivalents	**(21,266)**	15,888	18,962	**(177,217)**
Net increase (decrease) in cash and cash equivalents	**(201,203)**	(352,229)	24,171	**(1,676,692)**
Cash and cash equivalents at beginning of year	**1,029,374**	1,381,603	1,357,432	**8,578,117**
Cash and cash equivalents at end of year	**¥ 828,171**	¥1,029,374	¥1,381,603	**$ 6,901,425**

See accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Hitachi, Ltd. (the Company) and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are necessary to conform them with accounting principles generally accepted in the United States of America. Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and those of its majority-owned subsidiaries, whether directly or indirectly controlled. Intercompany accounts and significant intercompany transactions have been eliminated in consolidation. The investments in affiliated companies are accounted for using the equity 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 maturities of generally three months or less when purchased to be cash equivalents.

(d) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation." Under this standard, the assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are excluded from the consolidated statements of income and are reported in other comprehensive income.

(e) Investment in Securities

The Company classifies investments in securities that have readily determinable fair values and all investments in debt securities in three categories, such as 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 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.

A decline in fair value of any available-for-sale or held-to-maturity security below the amortized cost basis that is deemed to be other than temporary results in a write-down of the cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings.

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

(f) Securitization

The Company and certain subsidiaries have securitized certain financial assets such as lease receivables, trade receivables and others. In the securitization process, securitized assets are sold to Special Purpose Entities (SPE) which are funded through the issuance of asset-backed securities to the investors. When the Company and its subsidiaries sell the financial assets to the SPE in a securitization transaction, 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.

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.

(g) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the specific identification method for job order inventories and generally by the average method for raw materials and other inventories.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Property, plant and equipment are principally depreciated by the declining-balance method, except for some assets which are depreciated by the straight-line method, over the following estimated useful lives:

Buildings	
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

(i) Goodwill and Other Intangible Assets

Effective April 1, 2002, the Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Goodwill and intangible assets with indefinite useful lives are no longer amortized, but instead are tested for impairment at least annually in accordance with the provisions of this statement. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

(j) 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 addition, the Company and its subsidiaries develop certain computer software to be sold where related costs are capitalized after establishment of technological feasibility. Such capitalized costs are amortized based on the ratio of each software's expected future revenue to current year's revenue.

(k) Retirement and Severance Benefits

The Company accounts for retirement and severance benefits in accordance with SFAS No. 87, "Employers' Accounting for Pensions." Unrecognized gains and losses are amortized using the straight-line method over the average remaining service period of active employees.

(l) 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.

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.

(m) Revenue Recognition

Staff Accounting Bulletin (SAB) No. 101 expresses certain views of the United States Securities and Exchange Commission (SEC) in applying generally accepted accounting principles to revenue recognition in the financial statements. Under SAB No. 101, revenue is recognized when persuasive evidence of an arrangement exits, delivery has occurred or services are rendered, the sales price is fixed and determinable and collectibility is probable.

Revenue from sales of products is generally recognized upon shipment or delivery, which are considered to have occurred when the customer has taken title to the product and the risk and reward of ownership have been transferred. Revenue from services is recognized when services are rendered. Sales and related cost of sales under certain long-term construction contracts are recognized under the percentage of completion method. Income on financing leases is recognized by a method which produces a constant periodic rate of return on the outstanding investment in the lease. The Company's products are generally subject to warranty and the Company provides for the estimated future costs of repair and replacement in cost of sales when sales are recognized.

(n) Advertising

The Company expenses advertising costs as incurred.

(o) 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 loss 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.

(p) Sales of Stock by Subsidiaries

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

(q) Treasury Stock

Treasury stock is accounted for by the cost method.

(r) 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 statement of income. 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.

(s) Stock-based Compensation

As of March 31, 2003, the Company has two stock-based employee compensation plans, which are described more fully in note 25. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price not less than market value of the underlying common stock on the date of grant.

SFAS No. 123, “Accounting for Stock-based Compensation,” prescribes the recognition of compensation expense based on the fair value of options on the grant date and allows continuous application of APB No. 25 if certain pro forma disclosures are made assuming hypothetical fair value method application. The Company elected to continue applying APB No. 25, however, the pro forma effects of applying SFAS No. 123 on net income (loss) and the per share information for the years ended March 31, 2003, 2002 and 2001 were not material.

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

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” was issued in June 1997. This standard establishes standards for the manner in which a public business enterprise is required to report financial and descriptive information about its operating segments. This standard defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets and other related information is required to be disclosed for each operating segment. Further, this standard requires the disclosure of information concerning revenues derived from the enterprise’s products or services, countries in which it earns revenue or holds assets and major customers. This standard is effective for the Company’s fiscal year ended March 31, 1999. However, foreign issuers are presently exempted from the segment disclosure requirements of SFAS No. 131 in Securities Exchange Act filings with SEC, and the Company has not presented the segment information required to be disclosed in the footnotes to the consolidated financial statements under SFAS No. 131.

(u) New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations,” which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company is required and plans to adopt the provisions of SFAS No. 143 for the fiscal year beginning April 1, 2003. SFAS No. 143 will have no material impact on the consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies the FASB’s Emerging Issues Task Force (EITF) Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” SFAS No. 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination covered by EITF Issue No. 95-3, “Recognition of Liabilities in Connection with a Purchase Business Combination,” or with a disposal activity covered by SFAS No. 144. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and measured at fair value. The provisions of the statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this statement did not have a material effect on the Company’s financial position or results of operations.

In January 2003, FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.” This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. The interpretation applies immediately to variable interests in variable interest entities created and acquired after January 31, 2003. For variable interest in a variable interest entity created before February 1, 2003, the interpretation is applicable no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The application of this interpretation did not have a material effect on the Company’s consolidated financial statements for the year ended March 31, 2003 and is not expected to have a material effect for the year ending March 31, 2004.

2. 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 ¥120=U.S.$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2003. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

3. INVESTMENT IN SECURITIES

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 March 31, 2003 and 2002.

	Millions of yen							
	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value
				2003				2002
Short-term investments:								
Debt securities	**¥ 52,432**	**¥ 61**	**¥ 50**	**¥ 52,443**	¥ 62,114	¥ 48	¥ 51	¥ 62,111
Other securities	**47,897**	**5**	**57**	**47,845**	31,717	4	172	31,549
	100,329	**66**	**107**	**100,288**	93,831	52	223	93,660
Investments and advances:								
Equity securities	**115,999**	**51,951**	**8,772**	**159,178**	173,204	116,411	7,093	282,522
Debt securities	**117,394**	**606**	**2,484**	**115,516**	125,059	589	4,276	121,372
Other securities	**23,033**	**75**	**146**	**22,962**	36,741	234	872	36,103
	256,426	**52,632**	**11,402**	**297,656**	335,004	117,234	12,241	439,997
	¥356,755	**¥52,698**	**¥11,509**	**¥397,944**	¥428,835	¥117,286	¥12,464	¥533,657

	Thousands of U.S. dollars			
	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value
				2003
Short-term investments:				
Debt securities	**$ 436,933**	**$ 509**	**$ 417**	**$ 437,025**
Other securities	**399,142**	**41**	**475**	**398,708**
	836,075	**550**	**892**	**835,733**
Investments and advances:				
Equity securities	**966,659**	**432,925**	**73,100**	**1,326,484**
Debt securities	**978,283**	**5,050**	**20,700**	**962,633**
Other securities	**191,942**	**625**	**1,217**	**191,350**
	2,136,884	**438,600**	**95,017**	**2,480,467**
	$2,972,959	**$439,150**	**$95,909**	**$3,316,200**

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

The proceeds from sale of available-for-sale securities for the years ended March 31, 2003, 2002 and 2001 are ¥112,861 million ($940,508 thousand), ¥62,783 million and ¥167,923 million, respectively. The gross realized gains on the sale of those securities for the years ended March 31, 2003, 2002 and 2001 are ¥40,119 million ($334,325 thousand), ¥6,585 million and ¥10,525 million, respectively, while gross realized losses on the sale of those securities for the years ended March 31, 2003, 2002 and 2001 are ¥4,660 million ($38,833 thousand), ¥2,700 million and ¥460 million, respectively.

In addition, during the year ended March 31, 2001, certain subsidiaries contributed available-for-sale securities to pension fund trusts in the amount of ¥25,684 million. Gross realized gains on those contributions for the year ended March 31, 2001 were ¥15,651 million. For the years ended March 31, 2003, 2002 and 2001 the amount of the net unrealized holding gain or loss on available-for-sale securities that has been included in accumulated other comprehensive loss is a loss of ¥60,907 million ($507,558 thousand), ¥97,972 million and ¥61,073 million, respectively, and the amount of gains and losses reclassified out of accumulated other comprehensive loss is net gain of ¥5,999 million ($49,992 thousand), net loss of ¥74,842 million and net gain of ¥30,892 million, respectively.

Various held-to-maturity securities are held by certain subsidiaries. Securities classified as Short-term investments in the consolidated balance sheets amounted to ¥6,057 million ($50,475 thousand) and ¥4,866 million as of March 31, 2003 and 2002, respectively. Securities classified as Investments and advances amounted to ¥1,487 million ($12,392 thousand) and ¥6,151 million as of March 31, 2003 and 2002, respectively. Gross unrealized holding gains and losses of these securities were not material.

Trading securities classified as Short-term investments as of March 31, 2003 and 2002, which consist mainly of investments in trust accounts, are ¥80,627 million ($671,892 thousand) and ¥80,407 million, respectively.

The portions of trading losses for the years ended March 31, 2003, 2002 and 2001 that relate to trading securities still held at the balance sheet date are ¥437 million ($3,642 thousand), ¥2,356 million and ¥13,659 million, respectively.

The contractual maturities of debt securities and other securities classified as Investments and advances in the consolidated balance sheets as of March 31, 2003 are as follows:

			Millions of yen			Thousands of U.S. dollars
	Held-to-maturity	Available-for-sale	Total	Held-to-maturity	Available-for-sale	Total
			2003			**2003**
Due within five years	**¥1,380**	**¥ 43,935**	**¥ 45,315**	**$11,500**	**$ 366,125**	**$ 377,625**
Due after five years	**107**	**94,543**	**94,650**	**892**	**787,858**	**788,750**
	¥1,487	**¥138,478**	**¥139,965**	**$12,392**	**$1,153,983**	**$1,166,375**

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

The aggregate fair values of investments in affiliated companies based on the quoted market price as of March 31, 2003 and 2002 are ¥179,884 million ($1,499,033 thousand) and ¥241,589 million, respectively. The aggregate carrying amount of such investments as of March 31, 2003 and 2002 are ¥127,343 million ($1,061,192 thousand) and ¥167,805 million, respectively.

As of March 31, 2003, recognitions of other than temporary declines in values of investments in certain affiliated companies resulted in the difference of ¥25,061 million ($208,842 thousand) between the carrying amount and the amount of underlying equity in net assets. In addition, equity method goodwill of ¥11,145 million ($92,875 thousand) is included in investments in certain affiliated companies as of March 31, 2003 and 2002.

4. RECEIVABLES

The aggregated annual maturities of the long-term trade receivables after March 31, 2004 included in Trade receivables-Accounts are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥26,889	$224,075
2006	1,699	14,158
2007	1,299	10,825
2008	1,224	10,200
Thereafter	3,440	28,667
	¥34,551	$287,925

Sales on an installment contract basis for the years ended March 31, 2003, 2002 and 2001 totaled ¥14,618 million ($121,817 thousand), ¥17,647 million and ¥11,663 million, respectively.

5. INVENTORIES

Inventories as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished goods	**¥ 373,317**	¥ 347,391	**$3,110,975**
Work in process	**646,932**	711,226	**5,391,100**
Raw materials	**167,280**	155,782	**1,394,000**
	¥1,187,529	¥1,214,399	**$9,896,075**

Inventories include items associated with major contracts which, because of long-term processing requirements, have been or are expected to be performed over a period of more than 12 months. Those items as of March 31, 2003 and 2002 aggregated ¥40,585 million ($338,208 thousand) and ¥72,886 million, respectively.

6. LEASES

The Company and certain subsidiaries are the lessor of manufacturing machinery and equipment under financing and operating leasing arrangements with terms ranging from 3 to 6 years.

Machinery and equipment at cost under operating leases and accumulated depreciation as of March 31, 2003 amounted to ¥1,207,877 million ($10,065,642 thousand) and ¥895,013 million ($7,458,442 thousand), respectively. The leased assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

The following table shows the future minimum lease receivables of financing and non-cancelable operating leases as of March 31, 2003 and the future minimum lease receivables of financing leases as of March 31, 2002:

	Millions of yen		Thousands of U.S. dollars	
	Financing leases	Operating leases	Financing leases	Operating leases
Years ending March 31		**2003**		**2003**
2004	**¥177,413**	**¥ 53,566**	**$1,478,442**	**$ 446,383**
2005	**133,530**	**42,131**	**1,112,750**	**351,091**
2006	**87,493**	**28,651**	**729,108**	**238,758**
2007	**49,049**	**14,705**	**408,742**	**122,542**
2008	**22,291**	**4,910**	**185,758**	**40,917**
Thereafter	**26,462**	**5,876**	**220,517**	**48,967**
Total minimum payments to be received	**496,238**	**¥149,839**	**4,135,317**	**$1,248,658**
Amount representing executory costs	**(28,364)**		**(236,367)**	
Unearned income	**(25,591)**		**(213,258)**	
Allowance for doubtful receivables	**(5,207)**		**(43,392)**	
Net investment in financing leases	**¥437,076**		**$3,642,300**	

	Millions of yen
	Financing leases
	2002
Total minimum payments to be received	¥619,574
Amount representing executory costs	(42,205)
Unearned income	(43,056)
Allowance for doubtful receivables	(6,881)
Net investment in financing leases	¥527,432

Allowance for doubtful receivables is determined on the basis of loss experiences and assessment of inherent risks.

The Company and certain subsidiaries lease certain manufacturing machinery and equipment. The amount of leased assets at cost under capital leases as of March 31, 2003 and 2002 amounted to ¥32,669 million ($272,242 thousand) and ¥20,154 million, respectively, and accumulated depreciation as of March 31, 2003 and 2002 amounted to ¥14,231 million ($118,592 thousand) and ¥9,782 million, respectively.

In March 2003, the Company entered into a sale and lease back agreement for its headquarter land and building for a total proceeds of ¥40,000 million ($333,333 thousand). The lease back is classified as an operating lease with a term of thirty-eight months. A part of the gain on sale of ¥8,551 million ($71,258 thousand) which represents the present value of the minimum lease payments over the lease term has been deferred and will be recognized over the lease term.

The following table shows the future minimum lease payments of capital and non-cancelable operating leases as of March 31, 2003:

	Millions of yen		Thousands of U.S. dollars	
	Capital leases	Operating leases	Capital leases	Operating leases
Years ending March 31		2003		2003
2004	¥5,774	¥13,174	$ 48,116	$109,783
2005	4,976	10,868	41,467	90,567
2006	2,857	6,582	23,808	54,850
2007	2,293	3,132	19,108	26,100
2008	2,078	1,958	17,317	16,317
Thereafter	4,607	8,578	38,392	71,483
Total minimum lease payments	22,585	¥44,292	188,208	$369,100
Amount representing executory costs	(654)		(5,450)	
Amount representing interest	(1,864)		(15,533)	
Present value of net minimum lease payments	20,067		167,225	
Less current portion of capital lease obligations	5,136		42,800	
Long-term capital lease obligations	¥14,931		$124,425	

7. SECURITIZATION

For the years ended March 31, 2003 and 2002, Hitachi Capital Corporation (HCC), a financing subsidiary, transferred lease receivables. In these transactions, HCC sold mainly lease receivables to Special Purpose Entities (SPE), and the SPE issued asset-backed commercial papers to investors. The investors and the SPE have no recourse to HCC's other assets for failure of debtors to pay when due. HCC retained servicing responsibilities and subordinated interests, but has not recorded a servicing asset or liability since the cost to service the receivables approximates the servicing income. The retained interests are not material and subordinate to investor's interests. For the years ended March 31, 2003 and 2002, gains recognized on the transfer of lease receivables amounted to ¥8,278 million ($68,983 thousand) and ¥6,261 million, respectively.

The table below summarizes certain cash flows received from and paid to the SPE during the years ended March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Proceeds from transfer of lease receivables	**¥249,430**	¥252,210	**$2,078,583**
Servicing fees received	**27**	36	**225**
Purchases of delinquent or ineligible assets	**(8,174)**	(7,242)	**(68,117)**

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 year ended March 31, 2003 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Total principal amount of receivables	Principal amount of receivables 90 days or more past due	Net credit losses	Total principal amount of receivables	Principal amount of receivables 90 days or more past due	Net credit losses
			2003			**2003**
Total assets managed or transferred:						
Lease receivables	**¥819,937**	**¥950**	**¥1,720**	**$6,832,808**	**$7,917**	**$14,333**
Assets transferred	**(382,861)**			**(3,190,508)**		
Assets held in portfolio	**¥437,076**			**$3,642,300**		

For the years ended March 31, 2003 and 2002, the Company and certain subsidiaries sold trade receivables mainly through the SPE 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 receivable approximate the related costs. In addition, the Company and certain subsidiaries retained subordinated interests which were not material.

During the years ended March 31, 2003 and 2002, proceeds from transfer of trade receivables were ¥1,080,805 million ($9,006,708 thousand) and ¥482,831 million, respectively and losses recognized on those transfers were ¥2,965 million ($24,708 thousand) and ¥621 million, respectively.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," on April 1, 2002, the Company reassessed the useful lives of previously recognized intangible assets and completed an impairment test. No impairment loss was recognized.

Intangible assets excluding goodwill acquired during the year ended March 31, 2003 and related amortization expense amounted to ¥262,460 million ($2,187,167 thousand), and ¥86,095 million ($717,458 thousand), respectively. The main component of intangible assets subject to amortization was capitalized software.

Intangible assets excluding goodwill as of March 31, 2003 and April 1, 2002 are presented below:

	Millions of yen					
	March 31, 2003			April 1, 2002		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets						
Software	**¥288,066**	**¥169,239**	**¥118,827**	¥216,200	¥128,228	¥ 87,972
Software for internal use	**290,204**	**132,917**	**157,287**	191,539	107,100	84,439
Other	**153,130**	**47,997**	**105,133**	71,652	39,113	32,539
	¥731,400	**¥350,153**	**¥381,247**	¥479,391	¥274,441	¥204,950
Unamortized intangible assets	**¥ 13,603**	**¥ –**	**¥ 13,603**	¥ 8,165	¥ –	¥ 8,165

	Thousands of U.S. dollars		
	March 31, 2003		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	**$2,400,550**	**$1,410,325**	**$ 990,225**
Software for internal use	**2,418,367**	**1,107,642**	**1,310,725**
Other	**1,276,083**	**399,975**	**876,108**
	$6,095,000	**$2,917,942**	**$3,177,058**
Unamortized intangible assets	**$ 113,358**	**$ –**	**$ 113,358**

The changes in the carrying amount of goodwill for the year ended March 31, 2003 are as follows:

	Millions of yen				
	Balance at beginning of the year	Acquired during the year	Impairment loss	Translation adjustment and other	Balance at end of the year
Goodwill	**¥27,299**	**¥39,986**	**¥(4,235)**	**¥(2,733)**	**¥60,317**

	Thousands of U.S. dollars				
	Balance at beginning of the year	Acquired during the year	Impairment loss	Translation adjustment and other	Balance at end of the year
Goodwill	**$227,492**	**$333,217**	**$(35,292)**	**$(22,775)**	**$502,642**

The following table shows the estimated aggregate amortization expense for the next five years.

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥80,813	$673,442
2005	76,043	633,692
2006	65,633	546,942
2007	56,128	467,733
2008	48,909	407,575

The following tables show reconciliation of reported net income (loss), basic net income (loss) per share and diluted net income (loss) per share to the amounts adjusted to exclude the amortization expense of goodwill for the years ended March 31, 2003, 2002 and 2001:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Reported net income (loss)	**¥27,867**	¥(483,837)	¥104,380	**$232,225**
Goodwill amortization	–	785	307	–
Adjusted net income (loss)	**¥27,867**	¥(483,052)	¥104,687	**$232,225**

	Yen			U.S. dollars
	2003	2002	2001	**2003**
Reported basic net income (loss) per share	**¥8.31**	¥(144.95)	¥31.27	**$0.07**
Goodwill amortization	–	0.23	0.09	–
Adjusted basic net income (loss) per share	**¥8.31**	¥(144.72)	¥31.36	**$0.07**

	Yen			U.S. dollars
	2003	2002	2001	**2003**
Reported diluted net income (loss) per share	**¥8.19**	¥(144.95)	¥30.32	**$0.07**
Goodwill amortization	–	0.23	0.09	–
Adjusted diluted net income (loss) per share	**¥8.19**	¥(144.72)	¥30.41	**$0.07**

9. INCOME TAXES

Components, as either domestic or foreign, of income (loss) before income taxes and minority interests, and income taxes attributable to continuing operations are as follows:

	Millions of yen		
			2003
	Domestic	Foreign	Total
Income before income taxes and minority interests	**¥ 69,248**	**¥ 27,580**	**¥ 96,828**
Income taxes:			
Current tax expense	**76,782**	**11,406**	**88,188**
Deferred tax expense (benefit)	**(38,996)**	**3,470**	**(35,526)**
	37,786	**14,876**	**52,662**

	Thousands of U.S. dollars		
			2003
	Domestic	Foreign	Total
Income before income taxes and minority interests	**$ 577,067**	**$229,833**	**$ 806,900**
Income taxes:			
Current tax expense	**639,850**	**95,050**	**734,900**
Deferred tax expense (benefit)	**(324,967)**	**28,917**	**(296,050)**
	314,883	**123,967**	**438,850**

	Millions of yen		
			2002
	Domestic	Foreign	Total
Loss before income taxes and minority interests	¥(538,556)	¥ (47,516)	¥(586,072)
Income taxes:			
Current tax expense	100,698	10,260	110,958
Deferred tax benefit	(176,170)	(5,902)	(182,072)
	(75,472)	4,358	(71,114)

	Millions of yen		
			2001
	Domestic	Foreign	Total
Income before income taxes and minority interests	¥ 282,372	¥ 41,283	¥ 323,655
Income taxes:			
Current tax expense	134,639	17,717	152,356
Deferred tax expense	7,157	5,348	12,505
	141,796	23,065	164,861

Significant components of income tax expense (benefit) attributable to continuing operations and other comprehensive income (loss), net of reclassification adjustments, for the years ended March 31, 2003, 2002 and 2001 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Continuing operations:				
Current tax expense	**¥ 88,188**	¥ 110,958	¥ 152,356	**$ 734,900**
Deferred tax benefit (exclusive of the effects of other components listed below)	**(20,525)**	(263,449)	(892)	**(171,042)**
Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates in Japan	**27,993**	–	–	**233,275**
Change in valuation allowance	**(42,994)**	81,377	13,397	**(358,283)**
	52,662	(71,114)	164,861	**438,850**
Other comprehensive income (loss), net of reclassification adjustments:				
Minimum pension liability adjustments	**(333,700)**	(59,985)	(149,588)	**(2,780,833)**
Net unrealized holding gain on available-for-sale securities	**(27,878)**	(9,717)	(37,832)	**(232,317)**
Cash flow hedges	**(335)**	(646)	490	**(2,792)**
	(361,913)	(70,348)	(186,930)	**(3,015,942)**
	¥(309,251)	¥(141,462)	¥ (22,069)	**$(2,577,092)**

The Company and its domestic subsidiaries are subject to a national corporate tax of 30%, an inhabitant tax of between 17.3% and 20.7% and a deductible business tax between 5% and 10.08%, which in the aggregate resulted in a combined statutory income tax rate of approximately 41.8% for the years ended March 31, 2003, 2002 and 2001.

On March 31, 2003, a reduction of income tax rate for business tax was enacted in Japan, and is effective from April 1, 2004. With this adoption, the aggregated statutory income tax rate for domestic companies will be approximately 40.8% for the year ending March 31, 2005.

The Company adopted the consolidated taxation system effective from the year ended March 31, 2003. Under the consolidated taxation system, the Company have consolidated, for Japanese tax purpose, all wholly-owned domestic subsidiaries. A temporary 2% surtax for the period between April 1, 2002 through March 31, 2004 is assessed for adopting the consolidated taxation system. The aggregated statutory income tax rate for the consolidated group for tax purposes will be approximately 43.6% for the year ending March 31, 2004.

In accordance with EITF Issue No. 93-13, "Effect of a Retroactive Change in Enacted Tax Rates That Is Included in Income from Continuing Operations," the Company determined the tax effect of retroactive changes or changes in enacted tax rates on current and deferred tax assets and liabilities, and included the cumulative tax effect in the amount of ¥27,993 million ($233,275 thousand) in income from continuing operations for the year ended March 31, 2003.

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

	2003	2002	2001
Combined statutory income tax rate	**41.8%**	(41.8)%	41.8%
Equity in earnings of affiliated companies	**6.8**	2.6	(0.3)
Impairment of investments in affiliated companies	**10.8**	–	–
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies	**5.6**	0.5	0.0
Expenses not deductible for tax purposes	**12.9**	6.7	6.0
Enacted changes in tax laws and rates in Japan	**28.9**	–	–
Change in valuation allowance	**(44.4)**	13.9	4.1
Difference in statutory tax rates of foreign subsidiaries	**(9.1)**	5.0	(2.3)
Other	**1.1**	1.0	1.6
Effective income tax rate	**54.4%**	(12.1)%	50.9%

The tax effects of temporary differences and carryforwards that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2003 and 2002 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Total gross deferred tax assets:			
Retirement and severance benefits	**¥ 736,731**	¥ 387,345	**$ 6,139,425**
Accrued expenses	**183,990**	168,165	**1,533,250**
Property, plant and equipment, due to differences in depreciation	**34,521**	35,822	**287,675**
Net operating loss carryforwards	**288,113**	319,822	**2,400,942**
Other	**286,259**	271,332	**2,385,491**
	1,529,614	1,182,486	**12,746,783**
Valuation allowance	**(187,687)**	(239,965)	**(1,564,058)**
	1,341,927	942,521	**11,182,725**
Total gross deferred tax liabilities:			
Deferred profit on sale of properties	**(35,421)**	(35,795)	**(295,175)**
Tax purpose reserves regulated by Japanese tax laws	**(31,563)**	(33,728)	**(263,025)**
Net unrealized gain on securities	**(8,951)**	(42,517)	**(74,592)**
Other	**(32,702)**	(13,531)	**(272,516)**
	(108,637)	(125,571)	**(905,308)**
Net deferred tax asset	**¥1,233,290**	¥ 816,950	**$10,277,417**

In addition to the above, income taxes paid on net intercompany profit on assets remaining within the group, which had been deferred in accordance with Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” as of March 31, 2003 and 2002 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Prepaid expenses and other current assets	**¥12,269**	¥12,042	**$102,242**
Other assets	**63,951**	63,077	**532,925**
	¥76,220	¥75,119	**$635,167**

Net deferred tax assets as of March 31, 2003 and 2002 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Prepaid expenses and other current assets	**¥ 274,865**	¥237,209	**$ 2,290,542**
Other assets	**976,368**	595,588	**8,136,400**
Other current liabilities	**(5,454)**	(4,822)	**(45,450)**
Other liabilities	**(12,489)**	(11,025)	**(104,075)**
Net deferred tax asset	**¥1,233,290**	¥816,950	**$10,277,417**

Under the tax laws of various jurisdictions in which the Company and its subsidiaries operate, the valuation allowance was recorded against deferred tax assets for deductible temporary differences, net operating loss carryforwards and tax credit carryforwards. The net change in the total valuation allowance for the years ended March 31, 2003 and 2002 was a decrease of ¥52,278 million ($435,650 thousand) and an increase of ¥82,344 million, respectively.

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which these deductible differences become deductible. Although realization is not assured, management considered the scheduled reversals of deferred tax liabilities and projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2003.

As of March 31, 2003, the Company and various subsidiaries have operating loss carryforwards of ¥725,579 million ($6,046,492 thousand) which are available to offset future taxable income, if any. Operating loss carryforwards of ¥619,001 million ($5,158,342 thousand) expire by March 31, 2008, and ¥106,578 million ($888,150 thousand) expire in various years thereafter or do not expire.

10. SHORT-TERM AND LONG-TERM DEBTS

The components of short-term debt as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Borrowings not from affiliates, mainly from banks	**¥481,867**	¥647,886	**$4,015,559**
Commercial paper	**254,536**	139,239	**2,121,133**
Borrowings from affiliates	**89,457**	46,713	**745,475**
	¥825,860	¥833,838	**$6,882,167**

The weighted average interest rates on short-term debt outstanding as of March 31, 2003 and 2002 are 0.1% and 0.2%, respectively.

The components of long-term debt as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Mortgage debentures:			
Due 2004, interest 2.1%, issued by a subsidiary	**¥ 300**	¥ 400	**$ 2,500**
Unsecured notes and debentures:			
Due 2006, interest 3.45% debenture	**200,000**	200,000	**1,666,667**
Due 2003–2018, interest 0.028–5.92%, issued by subsidiaries	**748,581**	760,836	**6,238,175**
Unsecured convertible debentures:			
6th series, due 2003, interest 1.3%	**92,828**	92,828	**773,567**
7th series, due 2004, interest 1.4%	**218,471**	218,471	**1,820,592**
Due 2003–2008, interest 0.6–1.8%, issued by subsidiaries	**20,932**	35,566	**174,433**
Loans, principally from banks and insurance companies:			
Secured by various assets and mortgages on property, plant and equipment, maturing 2003–2011, interest 0.93–8.77%	**31,620**	14,692	**263,500**
Unsecured, maturing 2003–2015, interest 0.5225–7.04%	**681,939**	830,301	**5,682,825**
Capital lease obligations	**20,067**	11,292	**167,225**
	2,014,738	2,164,386	**16,789,484**
Less current installments	**502,586**	366,083	**4,188,217**
	¥1,512,152	¥1,798,303	**$12,601,267**

The aggregate annual maturities of long-term debt after March 31, 2004 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 508,283	$ 4,235,692
2006	413,699	3,447,492
2007	132,101	1,100,842
2008	161,082	1,342,350
Thereafter	296,987	2,474,891
	¥1,512,152	$12,601,267

The Company and its subsidiaries provide their investment in certain subsidiaries as collateral for bank loans of ¥14,240 million ($118,667 thousand).

The collateralized number of shares and their fair values as of March 31, 2003 are as follows:

Subsidiary name	Number of shares owned in thousand	Percent of ownership	Collateralized number of shares in thousand	Fair value as of March 31, 2003	
				Millions of yen	Thousands of U.S. dollars
Hitachi Capital Corporation	71,074	55.3%	13,000	¥17,602	$146,683
Hitachi Maxell, Ltd.	51,528	52.1	800	1,426	11,883
Hitachi Powdered Metals Co., Ltd.	17,072	53.3	4,700	2,637	21,975

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations.

Generally, the mortgage debenture trust agreements and certain secured and unsecured loan agreements provide, among other things, that the lenders or trustees shall have the right to have any distribution of earnings, including the payment of dividends and the issuance of additional capital stock, submitted to them for prior approval and also grant them the right to request additional security or mortgages on property, plant and equipment.

The unsecured convertible debentures due in 2003 are redeemable in whole or in part, at the option of the Company, from October 1, 1996 to September 30, 2002 at premiums ranging from 6% to 1%, and at par thereafter. The debentures are currently convertible into approximately 49,503,000 shares of common stock. Commencing September 30, 1999, the Company is required to make annual payments to the Trustee of ¥10 billion ($83 million) less the aggregate amounts of the debentures converted, repurchased or redeemed which have not been deducted before.

The unsecured convertible debentures due in 2004 are redeemable in whole or in part, at the option of the Company, from October 1, 1997 to September 30, 2003 at premiums ranging from 6% to 1%, and at par thereafter. The debentures are currently convertible into approximately 128,945,000 shares of common stock. Commencing September 30, 1999, the Company is required to make annual payments to the Trustee of ¥20 billion ($167 million) less the aggregate amounts of the debentures converted, repurchased or redeemed which have not been deducted before.

In accordance with Trustee agreements for the unsecured debentures due in 2003 and 2004 as mentioned above, the 16,977,000 shares of investments in Hitachi Software Engineering Co., Ltd. and the 48,401,000 shares of investments in Hitachi High-Technologies Co., Ltd. are held in trust. The fair values of the shares held in trust as of March 31, 2003 are ¥31,747 million ($264,558 thousand) and ¥81,749 million ($681,242 thousand), respectively.

Pursuant to the terms of the indentures under which the unsecured convertible debentures due in 2004 were issued, accumulated cash dividends (including interim dividends) paid by the Company for the fiscal years beginning after March 31, 1989 may not exceed accumulated net income in the audited consolidated statements of income for the fiscal years beginning after March 31, 1989 plus ¥65,000 million ($541,667 thousand) as long as these debentures are outstanding. In determining the accumulated cash dividends, interim cash dividends to be paid on and after April 1, 1990 are considered to be a part of the cash dividends of the previous fiscal year. As of March 31, 2003, the accumulated cash dividends and the accumulated net income including ¥65,000 million ($541,667 thousand), which are defined by the above terms, amounted to ¥419,072 million ($3,492,267 thousand) and ¥452,233 million ($3,768,608 thousand), respectively.

11. RETIREMENT AND SEVERANCE BENEFITS

(a) Defined benefit plans

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

Under unfunded defined benefit pension plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause.

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

In addition to unfunded defined benefit pension plans, the Company and certain of its subsidiaries contribute to each Employees Pension Fund (EPF) as is stipulated by the Japanese Welfare Pension Insurance Law and other pension plans. The pension plans under the EPF are composed of the substitutional portion of Japanese Welfare Pension Insurance and the corporate portion which is the contributory defined benefit pension plan covering substantially all of their employees and provides benefits in addition to the substitutional portion. The Company, certain of its subsidiaries and their employees contribute the pension premiums for the substitutional portion and the corporate portion to each EPF. The plan assets of each EPF cannot be specifically allocated to the individual participants nor to the substitutional and corporate portions.

The benefits for the substitutional portion are based on standard remuneration scheduled by the Welfare Pension Insurance Law and the length of participation. The benefits of the corporate portion are based on the current rate of pay and the length of service. Under EPF pension plans, the participants are eligible for these benefits after a one-month period of participation in the plan. EPF contributions and cost for the substitutional portion were determined in accordance with the open aggregate cost method (actuarial funding method) as stipulated by the Welfare Pension Insurance Law. Contributions and cost for the corporate portion were determined in accordance with the entry age normal cost method (actuarial funding method).

Net periodic benefit costs for the funded benefit pension plans and the unfunded lump-sum payment plans for the years ended March 31, 2003, 2002 and 2001 consist of the following components:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Service cost	**¥112,948**	¥110,173	¥117,104	**$ 941,233**
Interest cost	**97,161**	118,094	115,163	**809,675**
Expected return on plan assets for the period	**(71,679)**	(77,194)	(86,879)	**(597,325)**
Amortization of transition asset	**(421)**	(421)	(421)	**(3,508)**
Amortization of prior service (benefit) cost	**(10,115)**	(2,999)	218	**(84,291)**
Recognized actuarial loss	**107,478**	60,867	25,869	**895,650**
Transfer to defined contribution pension plan	**5,167**	3,807	–	**43,058**
Curtailment and settlement loss	**700**	1,823	–	**5,833**
Employees' contributions	**(16,558)**	(18,330)	(18,111)	**(137,983)**
Net periodic benefit cost	**¥224,681**	¥195,820	¥152,943	**$1,872,342**

Unrecognized transition asset, unrecognized prior service benefit and cost and unrecognized actuarial gain and loss are amortized using the straight-line method over the average remaining service period of active employees.

Reconciliations of beginning and ending balances of the benefit obligation of the funded defined benefit pension plans and the unfunded defined benefit pension plans and the fair value of the plan assets, and actuarial assumptions used at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥3,022,170**	¥3,016,520	**$25,184,750**
Service cost	**112,948**	110,173	**941,233**
Interest cost	**97,161**	118,094	**809,675**
Plan amendments	**(17,138)**	(23,110)	**(142,817)**
Actuarial loss	**681,822**	49,427	**5,681,850**
Benefits paid	**(223,946)**	(177,974)	**(1,866,216)**
Acquisitions and divestitures	**106,792**	(1,725)	**889,933**
Transfer to defined contribution pension plan	**(7,882)**	(72,476)	**(65,683)**
Curtailment and settlement	**(14,396)**	387	**(119,967)**
Foreign currency exchange rate changes	**(4,156)**	2,854	**(34,633)**
Benefit obligation at end of year	**3,753,375**	3,022,170	**31,278,125**
Change in plan assets:			
Fair value of plan assets at beginning of year	**1,767,560**	1,835,533	**14,729,667**
Actual return on plan assets	**(283,651)**	(108,453)	**(2,363,758)**
Employers' contributions	**121,036**	116,196	**1,008,633**
Employees' contributions	**16,558**	18,330	**137,983**
Benefits paid	**(141,917)**	(95,718)	**(1,182,642)**
Acquisitions and divestitures	**52,198**	(568)	**434,983**
Transfer to defined contribution pension plan	**(3,582)**	–	**(29,850)**
Settlement	**(9,634)**	–	**(80,283)**
Foreign currency exchange rate changes	**(4,894)**	2,240	**(40,783)**
Fair value of plan assets at end of year	**1,513,674**	1,767,560	**12,613,950**
Funded status	**(2,239,701)**	(1,254,610)	**(18,664,175)**
Unrecognized transition asset	**(831)**	(1,252)	**(6,925)**
Unrecognized prior service benefit	**(86,411)**	(74,277)	**(720,092)**
Unrecognized actuarial loss	**1,713,702**	786,913	**14,280,850**
Net amount recognized in the consolidated balance sheet	**¥ (613,241)**	¥ (543,226)	**$ (5,110,342)**
Amounts recognized in the consolidated balance sheet consist of:			
Prepaid benefit cost	**¥ 861**	¥ 3,974	**$ 7,175**
Accrued benefit cost	**(1,932,646)**	(1,049,054)	**(16,105,383)**
Intangible asset	**4,765**	735	**39,708**
Accumulated other comprehensive loss	**1,313,779**	501,119	**10,948,158**
Net amount recognized	**¥ (613,241)**	¥ (543,226)	**$ (5,110,342)**
Actuarial assumptions on a weighted-average basis:			
Discount rate	**2.5%**	3.7%	
Expected rate of return on plan assets	**3.7%**	3.9%	
Rate of compensation increase	**3.3%**	3.2%	

The components of the net periodic benefit cost are determined using the assumptions as of the beginning of the fiscal year, and the components of benefit obligation are determined using the assumptions as of the end of the fiscal year.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were ¥3,744,219 million ($31,201,825 thousand), ¥3,428,655 million ($28,572,125 thousand) and ¥1,503,085 million ($12,525,708 thousand), respectively, as of March 31, 2003, and ¥2,981,740 million, ¥2,739,092 million and ¥1,730,108 million, respectively, as of March 31, 2002.

On June 15, 2001, the Japanese government issued a new law concerning the defined benefit plan. This law allows a company, at its own discretion, to apply for an exemption from the future benefit obligation and return the past benefit obligation of the substitutional portion of the EPF to the government. Under the new law, a company may apply for the exemption from the future benefit obligation on or after April 1, 2002 and the return of the past benefit obligation on or after July 1, 2003. The past benefit obligation and the related pension assets will be returned to the government on or after September 1, 2003. In accordance with the new law, the Company and certain subsidiaries obtained an approval for the exemption from the future benefit obligation on or after April 2002 and will apply for the return of the past benefit obligation.

The Company's plans to return the substitutional portion of the EPF to the government had been considered in the actuarial assumptions. In January 2003, the FASB issued EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," which addresses accounting for the transfer of the substitutional portion of the EPF to the Japanese government. The EITF requires employers to account for the entire separation process of the transfer of the substitutional portion as a single settlement transaction upon the completion of the transfer to the government of the benefit obligation and related plan assets. In addition, the EITF requires employers to measure the obligation at current market rates of interest that could be obtained in a transaction with a third-party, nongovernmental entity to settle the obligation.

The Company and certain subsidiaries remeasured the substitutional portion of the benefit obligation at April 1, 2002 in accordance with EITF Issue No. 03-2. As a result of this remeasurement, the benefit obligation as of April 1, 2002 and net periodic benefit costs for the year ended March 31, 2003 increased by ¥283,084 million ($2,359,033 thousand) and ¥24,857 million ($207,142 thousand), respectively.

(b) Defined contribution plans

Certain subsidiaries have a number of defined contribution plans.

Effective December 31, 2001, the Company implemented a defined contribution plan allowing employees to transfer a portion of their unfunded defined benefit plans to the new defined contribution plan. The amount to be transferred to the new plan will be contributed over 8 years. The Company will make contributions in accordance with the plan provisions.

The amount of cost recognized for the Company's and certain subsidiaries' contribution to the plans for the years ended March 31, 2003 and 2002 were ¥6,895 million ($57,458 thousand) and ¥3,557 million, respectively.

12. COMMON STOCK

The Company has authorized for issuance 10 billion shares of common stock. The Japanese Commercial Code (JCC) had required designation of par value to all common stock at least 50% of new share issuance price, or the common stock par value prescribed by the JCC. Effective October 1, 2001, the JCC was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

Issued shares, changes in shares and the amount of common stock for the years ended March 31, 2003, 2002 and 2001 are summarized as follows:

		Millions of yen	Thousands of U.S. dollars
	Issued shares	Amount	Amount
Balance as of March 31, 2000	3,337,900,251	¥281,738	
Issued upon conversion of convertible debentures	31,606	16	
Balance as of March 31, 2001	3,337,931,857	281,754	
Issued upon conversion of convertible debentures	549,184	278	
Balance as of March 31, 2002	3,338,481,041	282,032	$2,350,267
Issued under exchange offerings	29,643,245	–	–
Balance as of March 31, 2003	**3,368,124,286**	**¥282,032**	**$2,350,267**

Issued shares under exchange offerings for the year ended March 31, 2003 include the issuance of 25,143,245 shares as discussed in note 24.

Conversions of convertible debt issued subsequent to October 1, 1982 into common stock were accounted for in accordance with the provisions of the JCC by crediting one-half of the conversion price to each of the common stock account and the capital surplus account.

13. LEGAL RESERVE AND CASH DIVIDENDS

The Japanese Commercial Code (JCC) had provided that earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash should be appropriated as a legal reserve until such reserve equals 25 percent of stated common stock. This legal reserve was not available for dividends but might be used to reduce a deficit by resolution of the shareholders or might be transferred to stated common stock by resolution of the Board of Directors.

Effective October 1, 2001, the JCC was amended to require earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash should be appropriated as a legal reserve until total additional paid in capital and legal reserve equals 25 percent of stated common stock. Either additional paid in capital or legal reserve may be available for dividends by resolution of the shareholders to the extent that the amount of total additional paid in capital and legal reserve exceeds 25 percent of stated common stock.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2003, 2002 and 2001 represent dividends resolved during those years and the related appropriations to the legal reserve. Provision had not been made in the accompanying consolidated financial statements for the dividend for the second half year of ¥3.0 ($0.025) per share, aggregating ¥10,094 million ($84,117 thousand), subsequently would be proposed by the Board of Directors at the ordinary general shareholders' meeting in respect to the year ended March 31, 2003.

Cash dividends per share for the years ended March 31, 2003, 2002 and 2001 are computed at ¥6.0 ($0.05), ¥3.0 and ¥11.0, respectively, based on dividends declared with respect to earnings for the periods.

14. TREASURY STOCK

The Japanese Commercial Code (JCC) had imposed certain restrictions on acquisition and disposal of treasury stock. Effective October 1, 2001, the JCC eliminated the provision of these restrictions and allowed acquisitions of treasury stock to the extent of funds appropriated by the resolution of the shareholders.

As of March 31, 2003, the Company held 3,216,077 shares of the Company's common stock as treasury stock as a result of acquisitions of shares from shareholders holding less than a trading lot (1,000 shares) upon request by the shareholder pursuant to the provisions of the JCC. The shareholders may request the Company to acquire their shares below a trading lot as any number of shares below a trading lot cannot be publicly traded and does not carry on a voting right.

In April 2003, the Board of Directors proposed to acquire up to 300,000,000 shares of the Company's common stock for aggregate acquisition price not exceeding ¥150,000 million ($1,250,000 thousand) as treasury stock for the period from the close of the ordinary general shareholders' meeting to the close of the next ordinary general shareholders' meeting, pursuant to the provisions of the JCC. This proposal is subject to an approval in the ordinary general shareholders' meeting on June 25, 2003.

At the ordinary general shareholders' meeting on June 26, 2002, the Company was approved to acquire up to 300,000,000 shares of its common stock for aggregate acquisition price not exceeding ¥300,000 million as treasury stock for the period from the close of the ordinary general shareholders' meeting to the close of the next ordinary general shareholders' meeting, pursuant to the provision of the JCC. In May 2003, based on this approval, the Company acquired it's own shares as indicated in note 26.

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss, net of related tax effects, displayed in the consolidated statements of stockholders' equity is classified as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Foreign currency translation adjustments:				
Balance at beginning of year	**¥ (38,012)**	¥ (57,647)	¥ (77,577)	**$ (316,766)**
Other comprehensive income (loss), net of reclassification adjustments	**(21,833)**	19,986	20,804	**(181,942)**
Net transfer from (to) minority interests arising from conversion of subsidiaries' convertible debentures	**7**	–	(3)	**58**
Net transfer to minority interests arising from issuance of subsidiaries' common stock and other	**(1,110)**	(351)	(871)	**(9,250)**
Balance at end of year	**¥ (60,948)**	¥ (38,012)	¥ (57,647)	**$ (507,900)**
Minimum pension liability adjustments:				
Balance at beginning of year	**¥(260,100)**	¥(182,936)	¥ –	**$(2,167,500)**
Other comprehensive loss	**(438,799)**	(77,338)	(182,936)	**(3,656,658)**
Net transfer from minority interests arising from conversion of subsidiaries' convertible debentures	**20**	–	–	**167**
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other	**(37)**	174	–	**(309)**
Balance at end of year	**¥(698,916)**	¥(260,100)	¥(182,936)	**$(5,824,300)**
Net unrealized holding gain on available-for-sale securities:				
Balance at beginning of year	**¥ 39,997**	¥ 51,041	¥ 95,019	**$ 333,308**
Other comprehensive loss, net of reclassification adjustments	**(35,082)**	(11,132)	(43,991)	**(292,350)**
Net transfer from (to) minority interests arising from conversion of subsidiaries' convertible debentures	**1**	1	(6)	**8**
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other	**(42)**	87	19	**(350)**
Balance at end of year	**¥ 4,874**	¥ 39,997	¥ 51,041	**$ 40,616**
Cash flow hedges:				
Balance at beginning of year	**¥ (369)**	¥ 1,096	¥ –	**$ (3,075)**
Other comprehensive income (loss), net of reclassification adjustments	**(147)**	(1,464)	1,012	**(1,225)**
Net transfer from minority interests arising from conversion of subsidiaries' convertible debentures	**2**	–	–	**17**
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other	**(21)**	(1)	84	**(175)**
Balance at end of year	**¥ (535)**	¥ (369)	¥ 1,096	**$ (4,458)**
Total accumulated other comprehensive loss:				
Balance at beginning of year	**¥(258,484)**	¥(188,446)	¥ 17,442	**$(2,154,033)**
Other comprehensive loss, net of reclassification adjustments	**(495,861)**	(69,948)	(205,111)	**(4,132,175)**
Net transfer from (to) minority interests arising from conversion of subsidiaries' convertible debentures	**30**	1	(9)	**250**
Net transfer to minority interests arising from issuance of subsidiaries' common stock and other	**(1,210)**	(91)	(768)	**(10,084)**
Balance at end of year	**¥(755,525)**	¥(258,484)	¥(188,446)	**$(6,296,042)**

The following is a summary of reclassification adjustments by each classification of other comprehensive income (loss) arising during the years ended March 31, 2003, 2002 and 2001 and the amounts of income tax expense or benefit allocated to each component of other comprehensive income (loss), including reclassification adjustments.

	Millions of yen		
	2003		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive loss arising during the year:			
Foreign currency translation adjustments	¥ (21,294)	¥ –	¥ (21,294)
Minimum pension liability adjustments	(744,779)	305,980	(438,799)
Net unrealized holding gain on available-for-sale securities	(54,607)	22,789	(31,818)
Cash flow hedges	(953)	388	(565)
	(821,633)	329,157	(492,476)
Reclassification adjustments for net loss (gain) included in net income:			
Foreign currency translation adjustments	(539)	–	(539)
Net unrealized holding gain on available-for-sale securities	(5,642)	2,378	(3,264)
Cash flow hedges	707	(289)	418
	(5,474)	2,089	(3,385)
Other comprehensive loss, net of reclassification adjustments:			
Foreign currency translation adjustments	(21,833)	–	(21,833)
Minimum pension liability adjustments	(744,779)	305,980	(438,799)
Net unrealized holding gain on available-for-sale securities	(60,249)	25,167	(35,082)
Cash flow hedges	(246)	99	(147)
	¥(827,107)	¥331,246	¥(495,861)

	Thousands of U.S. dollars		
	2003		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive loss arising during the year:			
Foreign currency translation adjustments	$ (177,450)	$ –	$ (177,450)
Minimum pension liability adjustments	(6,206,491)	2,549,833	(3,656,658)
Net unrealized holding gain on available-for-sale securities	(455,059)	189,909	(265,150)
Cash flow hedges	(7,942)	3,233	(4,709)
	(6,846,942)	2,742,975	(4,103,967)
Reclassification adjustments for net loss (gain) included in net income:			
Foreign currency translation adjustments	(4,492)	–	(4,492)
Net unrealized holding gain on available-for-sale securities	(47,016)	19,816	(27,200)
Cash flow hedges	5,892	(2,408)	3,484
	(45,616)	17,408	(28,208)
Other comprehensive loss, net of reclassification adjustments:			
Foreign currency translation adjustments	(181,942)	–	(181,942)
Minimum pension liability adjustments	(6,206,491)	2,549,833	(3,656,658)
Net unrealized holding gain on available-for-sale securities	(502,075)	209,725	(292,350)
Cash flow hedges	(2,050)	825	(1,225)
	$(6,892,558)	$2,760,383	$(4,132,175)

	Millions of yen		
	2002		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income (loss) arising during the year:			
Foreign currency translation adjustments	¥ 19,511	¥ –	¥ 19,511
Minimum pension liability adjustments	(132,882)	55,544	(77,338)
Net unrealized holding gain on available-for-sale securities	(97,342)	40,679	(56,663)
Cash flow hedges	(948)	526	(422)
	(211,661)	96,749	(114,912)
Reclassification adjustments for net loss (gain) included in net loss:			
Foreign currency translation adjustments	475	–	475
Net unrealized holding gain on available-for-sale securities	78,232	(32,701)	45,531
Cash flow hedges	(767)	(275)	(1,042)
	77,940	(32,976)	44,964
Other comprehensive income (loss), net of reclassification adjustments:			
Foreign currency translation adjustments	19,986	–	19,986
Minimum pension liability adjustments	(132,882)	55,544	(77,338)
Net unrealized holding gain on available-for-sale securities	(19,110)	7,978	(11,132)
Cash flow hedges	(1,715)	251	(1,464)
	¥(133,721)	¥ 63,773	¥ (69,948)

	Millions of yen		
	2001		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive income (loss) arising during the year:			
Foreign currency translation adjustments	¥ 18,990	¥ –	¥ 18,990
Minimum pension liability adjustments	(314,158)	131,222	(182,936)
Net unrealized holding gain on available-for-sale securities	(55,311)	22,759	(32,552)
Cash flow hedges	2,742	(804)	1,938
	(347,737)	153,177	(194,560)
Reclassification adjustments for net loss (gain) included in net income:			
Foreign currency translation adjustments	1,814	–	1,814
Net unrealized holding gain on available-for-sale securities	(19,652)	8,213	(11,439)
Cash flow hedges	(1,670)	744	(926)
	(19,508)	8,957	(10,551)
Other comprehensive income (loss), net of reclassification adjustments:			
Foreign currency translation adjustments	20,804	–	20,804
Minimum pension liability adjustments	(314,158)	131,222	(182,936)
Net unrealized holding gain on available-for-sale securities	(74,963)	30,972	(43,991)
Cash flow hedges	1,072	(60)	1,012
	¥(367,245)	¥162,134	¥(205,111)

16. COMMITMENTS AND CONTINGENCIES

The Company and its operating subsidiaries are contingently liable for loan guarantees to its affiliates in the amount of approximately ¥38,599 million ($321,658 thousand) as of March 31, 2003.

Hitachi Capital Corporation (HCC), a financing subsidiary of the Company, provides guarantees to financial institutions for extending loans to customers of HCC. As of March 31, 2003, the undiscounted maximum potential future payments under such guarantees amounted to ¥590,028 million ($4,916,900 thousand) of which ¥139,878 million ($1,165,650 thousand) is covered by consumer credit insurance. The Company has accrued ¥1,751 million ($14,592 thousand) as an obligation to stand ready to perform over the term of the guarantees.

HCC provides certain revolving lines of credit to its credit card holders in accordance with the terms of the credit card business customer service contracts. Furthermore, HCC provides 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 provides a loan commitment to an affiliated company.

The outstanding balance of the revolving lines of credits, credit facilities and a loan commitment as of March 31, 2003 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Total commitment available	¥664,634	$5,538,617
Amount utilized	(1,897)	(15,809)
Balance available	¥662,737	$5,522,808

A portion of the revolving lines of credit which are pending credit approval cannot be utilized.

The Company and certain of its subsidiaries hold line of credit arrangements with banks in order to secure source of working capital. The unused line of credit as of March 31, 2003 amounted to ¥147,042 million ($1,225,350 thousand).

As of March 31, 2003, outstanding commitments for the purchase of property, plant and equipment were approximately ¥30,214 million ($251,783 thousand).

The Company and its subsidiaries generally warrant its products over respective warranty periods. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. Change in accrued product warranty cost for the year ended March 31, 2003 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Balance at beginning of year	¥ 98,865	$ 823,875
Addition	26,740	222,833
Utilization	(20,987)	(174,891)
Other	679	5,658
Balance at end of year	¥105,297	$ 877,475

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 March 31, 2003 and 2002, the companies were contingently liable for trade notes discounted and endorsed in the following amounts:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Notes discounted	¥ 3,639	¥ 3,452	$ 30,325
Notes endorsed	24,924	33,062	207,700
	¥28,563	¥36,514	$238,025

The Company and certain subsidiaries are subject to several legal proceedings and claims which have arisen in the ordinary course of business and have not been finally adjudicated. These actions when ultimately concluded and determined will not, in the opinion of management, have a material adverse effect on the financial position and results of operations of the Company and certain subsidiaries.

17. OTHER INCOME AND OTHER DEDUCTIONS

Under the provision of SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" the Company and certain subsidiaries recognized impairment losses for the year ended March 31, 2003 in the amount of ¥8,474 million ($70,617 thousand). The majority of the impairment losses were recorded by the Company's Device Development Center, which provides semiconductor product development and design services. The significant decline in the demand for such development resulted from the Company's realignment of the semiconductor operations.

The impairment losses were measured as the amount by which the carrying amount of the assets exceeded their fair values. In calculating those fair values, the Company and certain subsidiaries used present value techniques based on the estimated future cash flows expected to result from the use of the assets and their eventual disposition.

In addition, the Company and certain subsidiaries recorded a net periodic benefit cost of ¥24,857 million ($207,142 thousand) which were generated as the result of adopting EITF Issue No. 03-2 "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" as shown in note 11.

As a part of Hitachi's corporate strategy to realign its organization to cope with the weak global demand for IT related products, intense price competition and continuous economic slow down in Japan, the Company and its subsidiaries reorganized their business structures and recorded restructuring charges of ¥140,433 million for the year ended March 31, 2002. The components of the restructuring charges were as follows:

1. Information & Telecommunication Systems division incurred ¥18,496 million in restructuring charges as the result of a weak demand in IT related products in its telecommunication systems business mainly in North America.
2. Electronic Devices division recorded ¥73,859 million in restructuring costs associated with the withdrawal from cathode ray tubes business for personal computers and realignment of the semiconductor business. The withdrawal from the cathode ray tubes business was related to the division's effort to realign its business to focus its corporate resources on the flat panel display operations. The restructuring cost of the semiconductor business was related to the reorganization of semiconductor product lines and semiconductor facilities, which were necessitated due to the intense competition and general overcapacity in the market. The restructuring charges mainly related to the disposal of property, plant and equipment.
3. Digital Media & Consumer Products division incurred ¥17,735 million in restructuring charges due to the general weakness in consumer demand. The restructuring occurred mainly at the overseas television manufacturing plants and sales network.
4. High Functional Materials & Components division recorded restructuring charges of ¥14,080 million due to the weak demand in its IT related products, particularly the demand for mobile telephone related parts. The restructuring charges mainly related to the disposal of property, plant and equipment.
5. Other divisions incurred restructuring charges of ¥16,263 million with the majority of the restructuring charges related to the disposal of property, plant and equipment.

In addition, the Company recorded a cost of ¥185,105 million primarily for special termination benefits. The special termination benefits accrual of ¥114,266 million as of March 31, 2002, which was related to the voluntary termination of approximately 10,100 employees, was paid by March 31, 2003.

Under the provision of SFAS No. 121 “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,” certain subsidiaries recognized impairment losses in the amount of ¥46,115 million. Impairment losses amounting to ¥37,442 million, which were classified as restructuring charges, resulted due mainly to the significant decline in demand and prices of semiconductor products.

For the year ended March 31, 2001, the Company recorded a restructuring charge of ¥8,814 million as other deductions, primarily associated with reorganization and streamlining of its domestic and overseas Consumer Products and Power & Industrial Systems divisions. Included in this total were special termination benefits of ¥5,275 million. The special termination benefits accrual of ¥2,371 million as of March 31, 2001, which was related to the voluntary termination of approximately 340 employees, was paid by March 31, 2002.

“Other deductions” for the years ended March 31, 2003 and 2002 and “Other income” for the year ended March 31, 2001 includes the net loss on securities in the amount of ¥660 million ($5,500 thousand) and ¥80,938 million and the net gain on securities in the amount of ¥9,334 million, respectively. In addition, ¥15,651 million of gross realized gains on contributions of available-for-sale securities to pension fund trusts is included in “Other income” for the year ended March 31, 2001. Equity in earnings of affiliated companies included in “Other deduction” for the years ended March 31, 2003 and 2002 and “Other income” for the year ended March 31, 2001 is a loss of ¥15,803 million ($131,692 thousand), ¥35,756 million and a gain of ¥2,559 million, respectively.

For the year ended March 31, 2003 net gain on sale and disposal of rental assets and other property, classified as “Other income,” amounted to ¥23,658 million ($197,150 thousand) while net loss on sale and disposal of rental assets and other property of ¥15,150 million and ¥7,776 million were included in “Other deductions” for the years ended March 31, 2002 and 2001, respectively.

18. NET INCOME (LOSS) PER SHARE INFORMATION

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

	Number of shares		
	2003	2002	2001
Weighted average number of shares on which basic net income (loss) per share is calculated	**3,351,624,705**	3,337,850,007	3,337,926,578
Effect of dilutive securities:			
5th series convertible debentures	–	–	28,442,656
6th series convertible debentures	–	–	49,502,986
7th series convertible debentures	–	–	128,944,696
Number of shares on which diluted net income (loss) per share is calculated	**3,351,624,705**	3,337,850,007	3,544,816,916

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Net income (loss) applicable to common stockholders	**¥27,867**	¥(483,837)	¥104,380	**$232,225**
Effect of dilutive securities:				
5th series convertible debentures	–	–	325	–
6th series convertible debentures	–	–	831	–
7th series convertible debentures	–	–	2,065	–
Other	**(402)**	–	(119)	**(3,350)**
Net income (loss) on which diluted net income (loss) per share is calculated	**¥27,465**	¥(483,837)	¥107,482	**$228,875**

	Yen			U.S. dollars
Net income (loss) per share:				
Basic	**¥8.31**	¥(144.95)	¥31.27	**$0.07**
Diluted	**8.19**	(144.95)	30.32	**0.07**

The net loss per share computation for the year ended March 31, 2002 excludes all series convertible debentures because their effect would have been antidilutive. The net income per share computation for the year ended March 31, 2003 excludes 6th and 7th series convertible debentures because their effect would have been antidilutive. In addition, 5th series convertible debentures were redeemed in March 2002.

19. SUPPLEMENTARY INCOME INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Research and development expense	**¥377,154**	¥415,448	¥435,579	**$3,142,950**
Advertising expense	**52,165**	55,075	50,940	**434,708**
Rent	**156,552**	155,237	148,463	**1,304,600**
Exchange (gain) loss	**18,262**	(7,424)	11,307	**152,183**

20. SUPPLEMENTARY CASH FLOWS INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Cash paid during the year for:				
Interest	**¥35,932**	¥ 52,881	¥ 50,073	**$299,433**
Income taxes	**94,013**	159,132	126,019	**783,442**

Convertible debentures issued by the Company of ¥556 million in 2002 and ¥32 million in 2001 were converted into common stock. Convertible debentures issued by subsidiaries of ¥4,728 million ($39,400 thousand) in 2003, ¥579 million in 2002 and ¥2,305 million in 2001 were converted into subsidiaries' common stock. Capital lease assets of ¥4,050 million ($33,750 thousand) in 2003, ¥3,874 million in 2002 and ¥4,672 million in 2001 were capitalized.

During the years ended March 31, 2003 and 2001, the Company acquired and integrated some of its subsidiaries and affiliates through exchange of equity securities procedure as shown in note 24.

The proceeds from sale of securities classified as available-for-sale discussed in note 3 are included in both "(Increase) decrease in short-term investments" and "Proceeds from sale of investments and subsidiaries' common stock" on the consolidated statements of cash flows.

21. 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 approximate 30% of their sales from overseas. These sales are mainly denominated in U.S. dollar or Euro. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rate.

The financing subsidiaries in London, New York and Singapore issue U.S. dollar denominated, 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 rate and interest rate.

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 policy that the Company and its subsidiaries do not enter into derivative financial instruments for any purpose other than hedging 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 their 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 debts to fix cash flows from long-term debts 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 its subsidiaries' exposure to interest rate risk is related principally to long-term debt obligations. These debt obligations expose the Company and its subsidiaries to variability in the future cash outflow of interest payments due to changes in interest rates. Management believes it is prudent to minimize the variability caused by interest rate risk.

To meet this objective, the Company and its subsidiaries principally enter into interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk. The interest rate swaps principally change the variable-rate cash flows on debt obligations to fixed-rate cash flows principally associated with medium-term notes by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company and its subsidiaries receive variable interest rate payments and make fixed interest rate payments, thereby creating fixed-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 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 and cross currency swap agreements associated with financing transactions.

The sum of the amount of the hedging ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003, 2002 and 2001, respectively.

Cash flow hedge

Foreign Currency Exposure

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

The sum of the amount of the hedging ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003, 2002 and 2001.

It is expected that approximately gains of ¥130 million ($1,083 thousand) of AOCI relating to existing forward exchange contracts will be reclassified into other income and other deductions during the year ending March 31, 2004.

As of March 31, 2003, 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 12 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 years ended March 31, 2003, 2002 and 2001 includes losses of ¥497 million ($4,142 thousand), gains of ¥667 million and losses of ¥1,357 million, respectively, which represents the component excluded from the assessment of hedge effectiveness.

During the year ending March 31, 2004, approximately losses of ¥476 million ($3,967 thousand) of AOCI related to the interest rate swaps are expected to be reclassified into interest charges as a yield adjustment of the hedged debt obligations.

The contract or notional amounts of derivative financial instruments held as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Forward exchange contracts:			
To sell foreign currencies	**¥187,093**	¥105,054	**$1,559,108**
To buy foreign currencies	**27,584**	15,489	**229,867**
Cross currency swap agreements:			
To sell foreign currencies	**51,789**	71,798	**431,575**
To buy foreign currencies	**128,717**	170,802	**1,072,642**
Interest rate swaps	**484,961**	606,847	**4,041,342**

22. CONCENTRATIONS OF CREDIT RISK

The Company and its subsidiaries generally do not have significant concentrations of credit risk to any counterparties nor any regions, because those are diversified and spread globally.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions are used to estimate the fair values of financial instruments:

Investment in securities

The fair value of investment 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 companies' incremental borrowing rates for similar borrowing arrangements.

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

The carrying amount approximates the fair value because of the short maturity of these instruments.

Derivative financial instruments

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

The carrying amounts and estimated fair values of the financial instruments as of March 31, 2003 and 2002 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2003		2002		**2003**	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Investment in securities:						
Short-term investments	**¥ 186,972**	**¥ 186,972**	¥ 178,933	¥ 178,933	**$ 1,558,100**	**$ 1,558,100**
Investments and advances	**299,143**	**299,138**	446,148	446,139	**2,492,858**	**2,492,817**
Derivatives (Assets):						
Forward exchange contracts	**668**	**668**	225	225	**5,567**	**5,567**
Cross currency swap agreements	**279**	**279**	3,456	3,456	**2,325**	**2,325**
Interest rate swaps	**1,921**	**1,921**	2,672	2,672	**16,008**	**16,008**
Long-term debt	**(2,014,738)**	**(2,064,192)**	(2,164,386)	(2,222,585)	**(16,789,483)**	**(17,201,600)**
Derivatives (Liabilities):						
Forward exchange contracts	**(1,333)**	**(1,333)**	(3,128)	(3,128)	**(11,108)**	**(11,108)**
Cross currency swap agreements	**(3,045)**	**(3,045)**	(7,778)	(7,778)	**(25,375)**	**(25,375)**
Interest rate swaps	**(3,853)**	**(3,853)**	(3,021)	(3,021)	**(32,108)**	**(32,108)**

It is not practicable to estimate the fair value of investments in unlisted common stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amounts of these investments at March 31,2003 and 2002 totaled ¥75,860 million ($632,167 thousand) and ¥73,639 million, respectively.

24. MERGER AND ACQUISITION

On May 28, 2002, the Company signed a share exchange agreement with Hitachi Unisia Automotive, Ltd., former UNISIA JECS Corporation (UJ), to assume full ownership of UJ by exchanging 0.197 shares of the Company's common stock for each share of UJ common stock outstanding. The Company and UJ obtained third party valuations of the respective share prices which were used as a basis in negotiating the share exchange ratio. On October 1, 2002, the Company issued 25,143,245 shares of common stock, in the amount of ¥23,635 million ($196,958 thousand) based on the quoted market price of ¥940 ($7.83) per share as of the announcement date, April 18, 2002, for exchange with the UJ registered shareholders as of September 30, 2002.

UJ manufactures automotive systems and components that support every area of basic vehicle function. The Company has strategically targeted the automotive products business and the purpose of making UJ a wholly owned subsidiary is to further expand this business.

The effects of the acquisition to the balance sheet as of October 1, 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 68,427	$ 570,225
Non-current assets	121,248	1,010,400
Goodwill	10,435	86,958
Current liabilities	(99,453)	(828,775)
Non-current liabilities	(76,120)	(634,333)
Net assets acquired	(23,635)	(196,958)
Net assets previously acquired	(902)	(7,517)

The results of operations of UJ for the period from October 1, 2002 to March 31, 2003 are included in the accompanying consolidated statements of income. On a pro forma basis, revenue, net income and the per share information of the Company, with assumed acquisition dates for UJ of April 1, 2002 and 2001, respectively, would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the years ended March 31, 2003 and 2002.

On December 31, 2002, the Company purchased a majority ownership in a company to which hard disk drive operations and related intellectual property portfolio had been transferred from International Business Machines Corp. (IBM) for a total cash purchase price, subject to adjustment, of ¥243,480 million ($2,029,000 thousand). This purchase price adjustment may reduce the purchase price and the amount of goodwill recorded upon acquisition. The purchase price is payable in three installments, of which the first installment payment was paid on December 31, 2002 with the remaining payments due in December 2003 and 2005.

On January 1, 2003, this company began operating as Hitachi Global Storage Technologies Netherlands B.V. (HGST). HGST offers full array of hard-disk and this acquisition will complement and expand the Company's product portfolio, production capacity, research and development and distribution channel globally.

Upon closing, the Company obtained full voting rights to HGST and, as a result, has consolidated all of its assets and liabilities in the consolidated balance sheet, with the remaining installment payments recorded as liabilities.

The effects of this purchase as of December 31, 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 106,357	$ 886,312
Non-current assets	184,326	1,536,050
Goodwill	13,653	113,771
Current liabilities	(24,737)	(206,141)
Non-current liabilities	(32,159)	(267,992)
Net assets acquired	(247,440)	(2,062,000)

The purchase price upon closing is as follows:

	Millions of yen	Thousands of U.S. dollars
Cash paid to IBM as of December 31, 2002	¥169,680	$1,414,000
Cash to be paid to IBM	73,800	615,000
Direct acquisition costs	3,960	33,000
Total purchase price	¥247,440	$2,062,000

In-process research and development assets amounting to ¥2,787 million ($23,224 thousand) have been acquired as part of the purchase and have been written off at the date of acquisition as these assets are considered as not having alternative use. The write-off has been recorded as selling, general and administrative expenses.

The results of operations of the acquired company on December 31, 2002 are included in the accompanying consolidated statements of income. On a pro forma basis, revenue, net loss and the per share information of the Company, with assumed acquisition dates of April 1, 2002 and 2001, respectively, are as follows:

	Unaudited		
	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Revenue	**¥8,541,202**	¥8,480,778	**$71,176,683**
Net loss	**(149,891)**	(529,055)	**(1,249,092)**

	Yen		U.S. dollars
	2003	2002	**2003**
Basic net loss	**¥(44.72)**	¥(158.50)	**$(0.37)**
Diluted net loss	**(44.84)**	(158.50)	**(0.37)**

On October 1, 2000, Hitachi Credit Corporation acquired all common stock of Hitachi Leasing, Ltd. in exchange for 13,386,240 shares of Hitachi Credit Corporation's common stock. Prior to this transaction, the ownership of Hitachi Credit Corporation, a core financial service business, and Hitachi Leasing, Ltd., a leasing and other corporate financing service business, were 53.4% and 50.0%, respectively. Consequently, the surviving entity changed its name to Hitachi Capital Corporation and became the Company's 53.0% owned subsidiary. The merger was accounted for using the purchase method and the Company consolidated Hitachi Leasing, Ltd. and its subsidiaries as if it had been merged effective April 1, 2000. The excess of purchase price over net assets acquired of the 50% interest in Hitachi Leasing, Ltd. not previously owned by the Company was not material.

The effects of the purchase to the balance sheet as of April 1, 2000 are as follows:

	Millions of yen
Cash and cash equivalent	¥ 49,768
Investment in leases	736,505
Other assets	73,018
Short-term and long-term debt	(743,985)
Other liabilities	(90,532)

On a pro forma basis, revenue, net income and the per share information of the Company, with the assumed acquisition of April 1, 1999, would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the year ended March 31, 2000.

On October 1, 2000, Kokusai Electric Co., Ltd. merged into Yagi Antenna Co., Ltd. and Hitachi Denshi, Ltd. and changed its name to Hitachi Kokusai Electric Inc. Prior to the merger, Kokusai Electric Co., Ltd. and Yagi Antenna Co., Ltd., manufacturers and distributors of wireless telecommunication equipment, were 26.7% and 40.9% owned affiliates of the Company. Hitachi Denshi Co., Ltd., a manufacturer and distributor of broadcasting and telecommunication equipment, was a 63.7% owned subsidiary of the Company. Kokusai Electric Co., Ltd. issued common stock in exchange for common stock of Yagi Antenna Co., Ltd. and Hitachi Denshi, Ltd. As a result, Hitachi Kokusai Electric Inc. became a 37.4% owned affiliate of the Company and is accounted for using the equity method. Total assets and net assets of Hitachi Denshi, Ltd. and its subsidiaries as of September 30, 2000 amounted to approximately ¥56,959 million and ¥23,237 million, respectively.

On October 31, 2000, Hitachi Consulting Corporation (former Experio Solutions Corporation (Experio)), a wholly owned subsidiary of the Company, acquired the e-business consulting department of Grant Thornton LLP for ¥15,674 million in cash. In addition, Experio issued its common stock valued at ¥1,601 million to the department partners in lieu of a cash payment, and accordingly became a 91.4% owned subsidiary of the Company. The acquisition was recorded under the purchase method and the results of operations of the acquired e-business consulting have been included in the consolidated financial statements since the date of acquisition. This transaction resulted in an excess of purchase price over net assets acquired of ¥15,895 million, which was amortized on the straight-line method over 10 years. The amortization has been terminated effective April 1, 2002, with the implementation of SFAS No. 142, "Goodwill and Other Intangible Assets."

The allocation of acquisition costs to the assets and liabilities acquired is as follows:

	Millions of yen
Assets acquired	¥ 2,009
Goodwill	15,895
Liabilities assumed	(263)
Common stock issued to department partners	(1,601)
Direct acquisition costs	(366)
Cash paid to Grant Thornton	(15,674)

On a pro forma basis, revenue, net income and the per share information of the Company with the assumed acquisition of April 1, 2000 and 1999 would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the years ended March 31, 2001 and 2000.

25. STOCK OPTION PLANS

The Company has two stock option plans under which non-employee directors and certain employees have been granted stock options to purchase the Company's common stock. Under these stock option plans, options were granted at prices not less than market value at the date of grant, are exercisable from one year after the date of grant and expire 5 years after the date of grant. Under APB No. 25, the Company recognized no compensation expense related to employee stock options for the years ended March 31, 2003, 2002 and 2001 as no options were granted at a price below the market price on the day of the grant.

A summary of stock option plans activity for the years ended March 31, 2003, 2002 and 2001 is as follows:

	2003		2002		2001		**2003**
	Stock options (shares)	Weighted-average exercised price	Stock options (shares)	Weighted-average exercised price	Stock options (shares)	Weighted-average exercised price	Weighted-average exercised price
Outstanding at beginning of year	**1,437,000**	**¥1,314**	527,000	¥1,451	–	¥ –	**$11**
Granted	**–**	**–**	1,090,000	1,270	527,000	1,451	**–**
Forfeited	**(272,000)**	**1,311**	(180,000)	1,451	–	–	**11**
Outstanding at end of year	**1,165,000**	**¥1,314**	1,437,000	¥1,314	527,000	¥1,451	**$11**

	2003	2002	2001
Weighted-average remaining contractual life	**3.1 years**	4.1 years	4.3 years
Options exercisable at end of year	**1,165,000 shares**	347,000 shares	–

The exercise prices of the stock options outstanding as of March 31, 2003 are ¥1,451 ($12.09) and ¥1,270 ($10.58).

In addition, in April 2003, the Board of Directors decided to propose the adoption of stock option plans for non-employee directors, executive officers and certain employees to general shareholders' meeting to be held in June 2003. In accordance with the proposals, options to purchase the Company's common stock less than 1,500,000 shares were granted at prices not less than market value at the date of grant, are exercisable from one year after the date of grant and expire 4 years after the date of grant.

26. SUBSEQUENT EVENTS

On April 1, 2003, Renesas Technology Corp., which focuses on system LSI (Large Scale Integration) operation, was incorporated through a corporate split procedure, where Semiconductor & Integrated Circuits operations of the Company and Mitsubishi Electric Corporation were spun-off. Renesas Technology Corp. was capitalized with ¥50,000 million ($416,667 thousand) through the issuance of 5,000,000 shares of common stock. The Company and Mitsubishi Electric Corporation received 2,750,000 shares and 2,250,000 shares, respectively. Renesas Technology Corp. is to be accounted for under the equity method by the Company as major decisions require consensus between the Company and Mitsubishi Electric Corporation in accordance with the joint venture agreement and assets and liabilities of the operations will be excluded from the consolidated balance sheet. Total assets and net assets of the operations as of April 1, 2003 amounted to approximately ¥596,118 million ($4,967,650 thousand) and ¥147,443 million ($1,228,692 thousand), respectively.

On April 28, 2003, the Company decided to issue up to ¥300,000 million ($2,500,000 thousand) of straight bonds by May 2005. On May 27, 2003, the Company issued ¥80,000 million ($666,667 thousand) of straight bonds with a 0.72% interest rate. These bonds, which are unsecured with interest payable semi-annually, are due May 27, 2013.

As indicated in note 14, at the ordinary general shareholders' meeting on June 26, 2002, the Company was approved to acquire up to 300,000,000 shares of its common stock for an aggregate acquisition price not exceeding ¥300,000 million as treasury stock pursuant to the Japanese Commercial Code. On April 28, 2003, the Company announced that it would acquire up to 80,000,000 shares of its common stock for an aggregate acquisition price not exceeding ¥30,000 million ($250,000 thousand). The share purchase is specifically limited to shares traded during the period from May 1 through May 30, 2003 on the Tokyo Stock Exchange. The Company acquired a total of 66,338,000 shares for ¥29,934 million ($249,450 thousand) during this period.