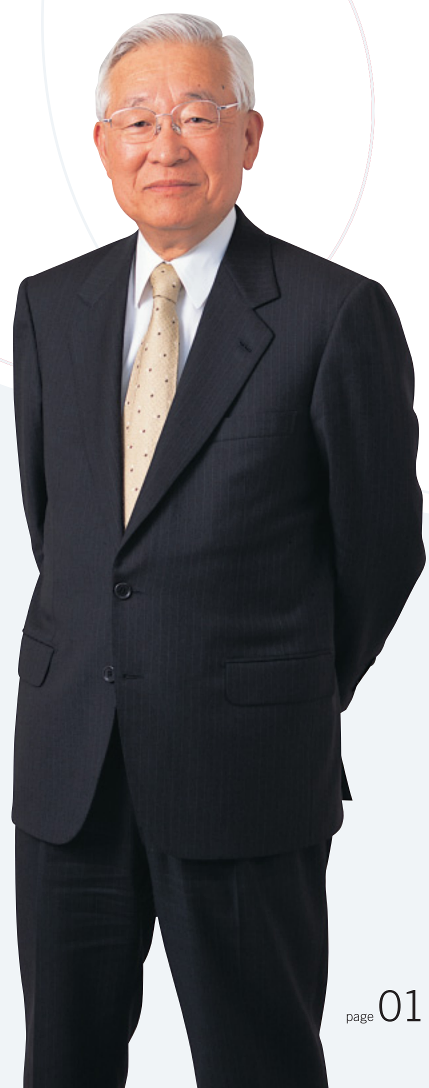
TO OUR SHAREHOLDERS

Your Company is making headway toward achieving a key goal of its medium-term management plan—positive FIV* in fiscal 2005. To drive medium- and long-term growth, Hitachi is actively pursuing business portfolio realignment while creating and nurturing new businesses that will support the Company in the future. We will advance these strategies guided by a corporate philosophy since our founding of contributing to society through technology and by ensuring that the Hitachi Group of the 21st century fulfills its corporate social responsibility.

* FIV (Future Inspiration Value):
FIV is Hitachi's economic value-added evaluation index in which the cost of capital is deducted from after-tax operating profit. After-tax operating profit must exceed the cost of capital to achieve positive FIV.



Etsuhiko Shoyama
President, Chief Executive Officer and Director

OPERATING RESULTS

Total revenues for fiscal 2003, ended March 31, 2004, rose 5% to ¥8,632.4 billion (US$81,438 million). Operating income climbed 21% to ¥184.8 billion (US$1,744 million) due mainly to improved earnings in the Electronic Devices, High Functional Materials & Components and Financial Services segments. A changed product mix and other actions have driven growth in products with a competitive edge, and we are steadily seeing the benefits of structural reforms.

Income before income taxes and minority interests increased 145% to ¥237.1 billion (US$2,237 million), partly due to gains on the sale of affiliates' shares. Although net income was above projections, at ¥15.8 billion (US$150 million), it was 43% lower year on year on account of a 277% increase in income taxes to ¥198.6 billion (US$1,874 million), which was the result of the sale of affiliates' shares and other factors.

Fiscal 2003 capital investment was ¥296.1 billion (US$2,794 million) and R&D expenditures were ¥371.8 billion (US$3,508 million), with 46% of this accounted for by the Information & Telecommunication Systems segment.

We saw a significant improvement in our financial position during fiscal 2003. Interest-bearing debt fell ¥343.0 billion to ¥2,497.5 billion (US$23,562 million) while stockholders' equity rose ¥314.9 billion to ¥2,168.1 billion (US$20,454 million). As a result, the stockholders' equity ratio improved 4.4 points to 22.6% and the debt/equity ratio, including minority interests, improved by 0.25 points from a year earlier to 0.84.

The annual cash dividend per share was raised from ¥6.0 in fiscal 2002 to ¥8.0 in fiscal 2003.

BUSINESS PORTFOLIO REALIGNMENT AND MEASURES TO RAISE EARNINGS

The key goal of "i.e.HITACHI Plan *II*," our current medium-term management plan launched in January 2003, is positive FIV in fiscal 2005, as I said at the start of this letter. Pivotal to reaching this goal are growth in targeted fields and the creation of new businesses to reshape our business portfolio, as well as other measures.

In fiscal 2005, we expect to be capable of generating consolidated operating income in excess of ¥400 billion on total revenues in the order of ¥9 trillion. This performance would give us a positive FIV in that year.

When we formulated this business plan, we assumed that we would realign around 20% of our business portfolio by fiscal 2005. We are now expecting that this will be around 10%. We have already realigned our semiconductor and hard disk drive (HDD) operations.

Actions are continuing to realign our business portfolio based on the basic stance that we must make individual businesses stronger. Through "i.e.HITACHI Plan *II*" we are setting Hitachi apart and bolstering our ability to compete by leveraging the collective strengths of the Hitachi Group. But all of our businesses must be strong to accomplish this goal. Reaching this goal while delivering competitive products and services and, as a result, generating high earnings, is what shareholders, customers, employees and other stakeholders expect of Hitachi. That's why, where we find it difficult to strengthen businesses on our own, we are choosing the optimal strategy that best serves the interests of your company. Measures include forming alliances, establishing joint ventures, acquisitions and divestitures.

This is precisely what we have done with our HDD business. In December 2002, we acquired IBM Corporation's HDD operations and later integrated them with our own. While this business recorded an operating loss in fiscal 2003, it moved into the black on a quarterly basis in the fourth quarter of the past fiscal year—earlier than we initially expected.

Semiconductor operations tell a similar story, underscoring the merits of our approach. We established joint venture companies, which are equity-method affiliates, raising competitiveness through business integration. In respect of DRAM operations, Elpida Memory, Inc., a joint venture established with NEC Corporation in 1999, is ramping up production capacity at a state-of-the-art fabrication facility and has bolstered its capabilities with respect to development and design technologies. And Renesas Technology Corp. was profitable in its first fiscal year. This company is a joint venture with Mitsubishi Electric Corporation formed in April 2003 to which we transferred most of our semiconductor operations, centering on system LSIs.

Other operations besides the HDD and semiconductor businesses have been targeted for realignment, too. In display operations, the focus has shifted from LCDs for the notebook PC market to small and medium-sized LCDs, particularly for mobile phones featuring higher resolution color displays, and LCDs for large flat screen TVs. These efforts to improve the product mix produced a marked improvement in earnings. Also of note is that Fujitsu Hitachi Plasma Display Limited, a joint venture established by Hitachi and Fujitsu Limited in 1999, has captured the top share in the plasma display panel industry and plans to bolster its production capacity moving forward. Fujitsu Hitachi Plasma Display is an equity-method affiliate of Hitachi.

In the home appliances sector of the consumer business, we have pushed ahead with structural reforms centered on reducing fixed expenses. Initiatives have included a substantial reduction in the size of our workforce in Japan accompanied by expansion of production overseas. A more competitive cost structure will be the result. In digital media products, we have reorganized and integrated production bases in Japan and overseas for existing AV products such as CRT TVs and VTRs. At the same time, we have shifted our focus to digital consumer electronics, leveraging close collaboration with Hitachi Group companies possessing superior technology in key components. Hitachi commands the leading share in plasma TVs in the Japanese market and has captured a world-leading share in optical disk drives.

And more actions have already been taken in fiscal 2004. In April 2004, we established a joint venture with Casio Computer Co., Ltd. to enhance the efficiency of new product development and strengthen other areas in our mobile phone operations. The new company is an equity-method affiliate. The same month, the magnetic materials business of Hitachi Metals, Ltd. was integrated with Sumitomo Special Metals Co., Ltd. to form NEOMAX Co., Ltd., which became a subsidiary.

Other actions have been announced. October 2004 will see Hitachi integrate its automated teller machine (ATM) and other information equipment businesses with those of Omron Corporation in a joint venture company that will become a subsidiary. We also plan to sell our entire stake in Hitachi Printing Solutions, Ltd., a subsidiary that develops, manufactures and sells printers, to Ricoh Company, Ltd. In another move also planned for October 2004, Hitachi plans to merge with equity-method affiliate TOKICO LTD. and subsidiary Hitachi Unisia Automotive, Ltd. as part of efforts to strengthen the automotive systems business with a view to generating sales of ¥1 trillion in fiscal 2010.

In addition to these initiatives, Hitachi has been advancing Corporate Innovation Initiative *II*. This includes the "Inspire A Businesses" strategy to strengthen targeted businesses and create new ones; Project C *II* to improve the efficiency of working capital; and Project D to reduce procurement costs. These and other measures are designed to improve our profitability.

MEASURE FOR CONTINUOUS GROWTH

Our “i.e.HITACHI Plan *II*” also incorporates elements that look further into the future. An integral element of the plan is to create and nurture new businesses that will support Hitachi’s medium- and long-term growth. Leading the way will be the Hitachi Group Headquarters. Established in April 2004, this internal organization is responsible for spearheading efforts to devise and execute management strategy for continuously raising the corporate value of the Hitachi Group. That will be done through capturing greater synergies within the Group along with other measures designed to ensure that we realize our full potential. Along with these actions, we will reinforce R&D in respect of both frontier and platform research. The former aims to cultivate future mainstay businesses, while the latter has a more immediate focus of increasing productivity and quickening the pace of product development throughout the Hitachi Group.

Hitachi is focusing on two targeted business domains—“New Era Lifeline Support Solutions,” which strengthen and fuse information system services and social infrastructure systems; and “Global Products Incorporating Advanced Technology,” which is centered on highly competitive hardware and software—to derive synergies while setting itself apart in the marketplace. These businesses have been designated as “Inspire A Businesses,” businesses that will drive our growth. Businesses where Hitachi can best leverage its strengths, in an environment where elemental technologies and markets now cut across several business groups, are also designated as “Inspire A Businesses.” Hitachi will take whatever steps are necessary to

TARGETED BUSINESS DOMAINS

EXAMPLES OF “NEW ERA LIFELINE SUPPORT SOLUTIONS” BUSINESSES

- Outsourcing business
- μ-chip solutions business
- Biomedical business
- SAN/NAS storage solutions business
- Railway systems business
- Urban redevelopment business

EXAMPLES OF “GLOBAL PRODUCTS INCORPORATING ADVANCED TECHNOLOGY” BUSINESSES

- HDD business
- Automotive systems business
- Digital consumer electronics business
- Battery business
- Semiconductor/LCD manufacturing and inspection equipment business

reinforce these businesses, including allocating resources and establishing an operating framework that facilitates collaboration among many businesses in the Hitachi Group. For example, Hitachi is making forward-looking investments in automotive systems, battery, biomedical and other businesses emboldened with enormous growth potential.

And Hitachi is continuing with measures designed to nurture employees and create new businesses, including the establishment of virtual venture companies by “corporate senior staff.” The objective is to turn venture companies into full-fledged businesses much in the same manner as Hitachi has done with μ-chip solutions, which capitalizes on the special features of our μ-chip, a small contactless Radio Frequency Identification IC chip.

BOLSTERING GLOBAL BUSINESSES

To bolster our competitiveness overseas and realize new growth, we are also concentrating resources on businesses and products where we can be one of the top three players in the global market. And to accelerate business development in global markets, including the expanding Chinese market, we are strengthening business structures that have close ties to the regions where we do business.

In the “Global Products Incorporating Advanced Technology” domain, we have strong positions in HDDs, optical disk drives, recording media and highly functional materials and components, key components and materials used in PCs, digital consumer electronics and other digital-related products. And we are growing plasma TVs, LCD projectors and other products. In the “New Era Lifeline Support Solutions” domain, our SAN/NAS storage solutions business is working to expand. Moreover, in the Power & Industrial Systems segment, we are seeing significant growth in construction machinery and are working to expand orders for coal-fired power generation facilities and railway systems.

IN CONCLUSION

Amid intensifying competition in world markets, we have our sights firmly set on the goal of being our customers’ “best solutions partner” by delivering competitive products and services that are of even greater value to them. We are determined to meet the expectations of our stakeholders, including shareholders, customers and employees, and society by strengthening individual businesses and becoming more competitive by drawing on all of the Group’s diverse resources. This will drive up the Hitachi Group’s corporate value and thus shareholder value. I have no doubt that we can achieve this.

June 24, 2004

Etsuhiko Shoyama

Etsuhiko Shoyama
President, Chief Executive Officer and Director