

FINANCIAL SECTION

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CONSOLIDATED BALANCE SHEETS

Hitachi, Ltd. and Subsidiaries
March 31, 2004 and 2003

Assets	Millions of yen		Thousands of U.S. dollars (note 3)
	2004	2003	2004
Cash and cash equivalents	¥ 764,396	¥ 828,171	\$ 7,211,283
Short-term investments (note 4)	177,949	186,972	1,678,764
Trade receivables, net of allowance for doubtful receivables and unearned income of ¥43,287 million (\$408,368 thousand) for 2004 and ¥40,520 million for 2003			
Notes (note 8)	142,802	153,587	1,347,189
Accounts (notes 5 and 8)	2,043,727	1,903,640	19,280,443
Inventories (note 6)	1,123,406	1,187,529	10,598,170
Prepaid expenses and other current assets (note 10)	515,909	496,490	4,867,066
Investments in leases (notes 7 and 8)	451,753	437,076	4,261,821
Investments and advances, including affiliated companies (note 4)	908,962	726,442	8,575,113
Property, plant and equipment (notes 7 and 11):			
Land	419,846	445,283	3,960,811
Buildings	1,690,096	1,838,853	15,944,302
Machinery and equipment	4,899,239	5,709,409	46,219,236
Construction in progress	49,011	67,909	462,368
	7,058,192	8,061,454	66,586,717
Less accumulated depreciation	4,825,330	5,460,404	45,521,981
Net property, plant and equipment	2,232,862	2,601,050	21,064,736
Other assets (notes 9 and 10)	1,228,556	1,658,432	11,590,151
	¥9,590,322	¥10,179,389	\$90,474,736

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (note 3)
	2004	2003	2004
Short-term debt (note 11)	¥ 623,816	¥ 825,860	\$ 5,885,057
Current installments of long-term debt (notes 7 and 11)	559,647	502,586	5,279,689
Trade payables:			
Notes	67,581	71,934	637,556
Accounts	1,220,033	1,140,130	11,509,745
Accrued expenses	797,935	799,211	7,527,689
Income taxes (note 10)	78,438	54,091	739,981
Advances received	216,544	252,861	2,042,868
Other current liabilities (note 10)	347,060	358,555	3,274,151
Long-term debt (notes 7 and 11)	1,314,102	1,512,152	12,397,189
Retirement and severance benefits (note 12)	1,273,509	1,932,646	12,014,236
Other liabilities (note 10)	124,710	124,573	1,176,509
Total liabilities	6,623,375	7,574,599	62,484,670
Minority interests	798,816	751,578	7,536,000
Stockholders' equity:			
Common stock (notes 11 and 13)	282,032	282,032	2,660,679
Capital surplus (note 13)	551,690	562,214	5,204,623
Legal reserve (note 14)	109,163	111,309	1,029,839
Retained earnings (notes 11 and 14)	1,651,272	1,655,029	15,578,038
Accumulated other comprehensive loss (note 16)	(393,864)	(755,525)	(3,715,698)
Treasury stock, at cost (note 15)	(32,162)	(1,847)	(303,415)
Total stockholders' equity	2,168,131	1,853,212	20,454,066
Commitments and contingencies (note 17)			
	¥9,590,322	¥10,179,389	\$90,474,736

CONSOLIDATED STATEMENTS OF OPERATIONS

Hitachi, Ltd. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (note 3)
	2004	2003	2002	2004
Revenues:				
Product sales (note 5)	¥7,652,205	¥7,235,069	¥7,005,470	\$72,190,613
Financial and other services	980,245	956,683	988,314	9,247,595
Total revenues	8,632,450	8,191,752	7,993,784	81,438,208
Cost of sales:				
Product sales	(5,966,578)	(5,617,932)	(5,563,709)	(56,288,472)
Financial and other services	(743,576)	(622,561)	(620,687)	(7,014,868)
Total cost of sales	(6,710,154)	(6,240,493)	(6,184,396)	(63,303,340)
Selling, general and administrative expenses	(1,737,433)	(1,798,292)	(1,926,803)	(16,390,877)
Impairment losses for long-lived assets (note 18)	(26,085)	(8,474)	(46,115)	(246,085)
Restructuring charges (note 19)	(28,613)	–	(288,096)	(269,934)
Interest income	12,808	14,158	22,481	120,830
Dividends income	6,352	8,921	6,134	59,925
Other income (note 20)	142,010	23,658	7,424	1,339,717
Interest charges	(30,855)	(34,338)	(45,830)	(291,085)
Other deductions (note 20)	(23,331)	(60,064)	(124,655)	(220,104)
Income (loss) before income taxes and minority interests	237,149	96,828	(586,072)	2,237,255
Income taxes (note 10)	(198,655)	(52,662)	71,114	(1,874,104)
Income (loss) before minority interests	38,494	44,166	(514,958)	363,151
Minority interests	(22,618)	(16,299)	31,121	(213,377)
Net income (loss)	¥ 15,876	¥ 27,867	¥ (483,837)	\$ 149,774
Net income (loss) per share (note 21):				
Basic	¥4.81	¥8.31	¥(144.95)	\$0.05
Diluted	¥4.75	¥8.19	¥(144.95)	\$0.04

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Hitachi, Ltd. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (note 3)
	2004	2003	2002	2004
Common stock (notes 11 and 13):				
Balance at beginning of year	¥ 282,032	¥ 282,032	¥ 281,754	\$ 2,660,679
Conversion of convertible debentures	0	–	278	0
Balance at end of year	¥ 282,032	¥ 282,032	¥ 282,032	\$ 2,660,679
Capital surplus (note 13):				
Balance at beginning of year	¥ 562,214	¥ 527,010	¥ 501,243	\$ 5,303,906
Conversion of convertible debentures	943	370	359	8,896
Gains on sales of treasury stock	48	–	–	453
Increase (decrease) arising from issuance of subsidiaries' common stock, divestiture and other	(11,515)	34,834	25,408	(108,632)
Balance at end of year	¥ 551,690	¥ 562,214	¥ 527,010	\$ 5,204,623
Legal reserve (note 14):				
Balance at beginning of year	¥ 111,309	¥ 110,751	¥ 109,815	\$ 1,050,085
Net transfer from (to) retained earnings	(1,849)	554	978	(17,443)
Net transfer to minority interests arising from conversion of subsidiaries' convertible debentures	(108)	(24)	(5)	(1,019)
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other	(189)	28	(37)	(1,784)
Balance at end of year	¥ 109,163	¥ 111,309	¥ 110,751	\$ 1,029,839
Retained earnings (notes 11 and 14):				
Balance at beginning of year	¥1,655,029	¥1,643,248	¥2,157,136	\$15,613,481
Net income (loss)	15,876	27,867	(483,837)	149,774
Cash dividends	(19,990)	(10,013)	(28,373)	(188,585)
Net transfer from (to) legal reserve	1,849	(554)	(978)	17,443
Net transfer to minority interests arising from conversion of subsidiaries' convertible debentures	(1,189)	(291)	(64)	(11,217)
Net transfer to minority interests arising from changes in ownership interest in subsidiaries' common stock and other	(303)	(5,228)	(636)	(2,858)
Balance at end of year	¥1,651,272	¥1,655,029	¥1,643,248	\$15,578,038
Accumulated other comprehensive loss (note 16):				
Balance at beginning of year	¥ (755,525)	¥ (258,484)	¥ (188,446)	\$ (7,127,594)
Other comprehensive income (loss), net of reclassification adjustments	359,116	(495,861)	(69,948)	3,387,887
Net transfer from minority interests arising from conversion of subsidiaries' convertible debentures	1,413	30	1	13,330
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other	1,132	(1,210)	(91)	10,679
Balance at end of year	¥ (393,864)	¥ (755,525)	¥ (258,484)	\$ (3,715,698)
Treasury stock, at cost (note 15):				
Balance at beginning of year	¥ (1,847)	¥ (333)	¥ –	\$ (17,425)
Acquisition for treasury	(30,464)	(1,514)	(333)	(287,396)
Sales of treasury stock	149	–	–	1,406
Balance at end of year	¥ (32,162)	¥ (1,847)	¥ (333)	\$ (303,415)
Total stockholders' equity	¥2,168,131	¥1,853,212	¥2,304,224	\$20,454,066
Comprehensive income (loss) (note 16):				
Net income (loss)	¥ 15,876	¥ 27,867	¥ (483,837)	\$ 149,774
Other comprehensive income (loss) arising during the year	362,893	(492,476)	(114,912)	3,423,519
Reclassification adjustments for net loss (gain) included in net income (loss)	(3,777)	(3,385)	44,964	(35,632)
Comprehensive income (loss)	¥ 374,992	¥ (467,994)	¥ (553,785)	\$ 3,537,661

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Hitachi, Ltd. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (note 3)
	2004	2003	2002	2004
Cash flows from operating activities (note 23):				
Net income (loss)	¥ 15,876	¥ 27,867	¥ (483,837)	\$ 149,774
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	436,053	480,274	529,418	4,113,708
Amortization	117,561	86,095	69,210	1,109,066
Impairment losses for long-lived assets	26,085	8,474	46,115	246,085
Deferred income taxes	77,056	(35,526)	(182,072)	726,944
Equity in earnings of affiliated companies, net	(10,120)	15,803	35,756	(95,472)
Gain on sale of investments and subsidiaries' common stock . .	(137,925)	(54,849)	(4,035)	(1,301,179)
Impairment of investments in securities	12,893	65,828	76,867	121,632
Loss (gain) on disposal of rental assets and other property . . .	13,274	(14,064)	59,687	125,226
Income (loss) applicable to minority interests	22,618	16,299	(31,121)	213,377
(Increase) decrease in receivables	(187,545)	2,280	450,904	(1,769,293)
(Increase) decrease in inventories	(67,026)	7,994	261,229	(632,321)
(Increase) decrease in prepaid expenses and other current assets	(3,075)	3,170	(999)	(29,009)
Increase (decrease) in payables	145,234	96,777	(271,698)	1,370,132
Increase (decrease) in accrued expenses and retirement and severance benefits	109,152	(71,969)	70,813	1,029,736
Increase (decrease) in accrued income taxes	27,741	(5,825)	(48,174)	261,707
Increase (decrease) in other liabilities	5,276	11,989	(69,671)	49,774
Other	3,415	5,901	(25,526)	32,217
Net cash provided by operating activities	606,543	646,518	482,866	5,722,104
Cash flows from investing activities (note 23):				
(Increase) decrease in short-term investments	10,035	(8,162)	253,236	94,670
Capital expenditures	(289,753)	(323,825)	(429,835)	(2,733,519)
Purchase of assets to be leased	(520,388)	(459,036)	(444,931)	(4,909,321)
Collection of investments in leases	432,257	411,522	469,108	4,077,896
Proceeds from disposal of rental assets and other property	122,258	142,973	59,574	1,153,377
Proceeds from sale of investments and subsidiaries' common stock	301,553	167,350	55,354	2,844,840
Purchase of investments and subsidiaries' common stock	(110,837)	(262,424)	(129,527)	(1,045,632)
Purchase of software	(131,576)	(152,492)	(112,506)	(1,241,283)
Other	(84,102)	(135,191)	6,656	(793,415)
Net cash used in investing activities	(270,553)	(619,285)	(272,871)	(2,552,387)
Cash flows from financing activities (note 23):				
Decrease in short-term debt, net	(193,286)	(12,490)	(408,514)	(1,823,453)
Proceeds from long-term debt	460,144	375,802	573,373	4,340,981
Payments on long-term debt	(587,335)	(547,759)	(743,385)	(5,540,896)
Proceeds from sale of common stock by subsidiaries	9,984	1,872	42,466	94,188
Dividends paid to stockholders	(19,961)	(9,973)	(28,318)	(188,311)
Dividends paid to minority stockholders of subsidiaries	(13,714)	(13,108)	(13,401)	(129,377)
Acquisition of common stock for treasury	(30,464)	(1,514)	(333)	(287,396)
Proceeds from sales of treasury stock	197	–	–	1,858
Net cash used in financing activities	(374,435)	(207,170)	(578,112)	(3,532,406)
Effect of exchange rate changes on cash and cash equivalents	(25,330)	(21,266)	15,888	(238,962)
Net decrease in cash and cash equivalents	(63,775)	(201,203)	(352,229)	(601,651)
Cash and cash equivalents at beginning of year	828,171	1,029,374	1,381,603	7,812,934
Cash and cash equivalents at end of year	¥764,396	¥ 828,171	¥1,029,374	\$7,211,283

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Hitachi, Ltd. and Subsidiaries

1. NATURE OF OPERATIONS

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

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

(b) Principles of Consolidation

The consolidated financial statements as of and for the year ended March 31, 2004 include the accounts of the Company, its majority-owned subsidiaries and all variable interest entities (VIEs) for which any of the Company and its consolidated entities are the primary beneficiary. The consolidated financial statements as of March 31, 2003 and each of the two years then ended include the accounts of the Company and its majority-owned subsidiaries. The consolidated financial statements include accounts of certain subsidiaries, of which their fiscal year differs from March 31 by 93 days or less, to either comply with local statutory requirements or facilitate timely reporting. There have been no significant transactions, which would materially affect the Company's financial position and results of operations, with such subsidiaries during the period from their fiscal year-end to March 31. Intercompany accounts and significant intercompany transactions have been eliminated in consolidation.

A VIE is defined in Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51." This interpretation addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The application of this interpretation did not have a material effect on the Company's consolidated financial statements as of and for the year ended March 31, 2004.

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

(c) Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(d) Allowance for doubtful receivables

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

(e) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation." Under this standard, the assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the 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 operations and are accumulated and included in accumulated other comprehensive loss as part of stockholders' equity.

(f) Investments in Securities and Affiliated Companies

The Company classifies investments in securities that have readily determinable fair values and all investments in debt securities in three categories: held-to-maturity securities, trading securities and available-for-sale securities.

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

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

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 amortized cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the cost basis of an available-for-sale security for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include: the degree of change in the ratio of market prices per share to book value per share at the date of evaluation compared to that at the date of acquisition, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the fair value of an available-for-sale security relative to the cost basis of the investment, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors.

The Company evaluates the cost basis of a held-to-maturity security for possible impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer.

Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate.

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

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

(g) Securitizations

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

(h) Inventories

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

(i) Property, Plant and Equipment

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

(j) 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.

(k) Capitalized Software Costs

Costs incurred for computer software developed or obtained for internal use are capitalized and amortized on a straight-line basis over their estimated useful lives. In 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.

(l) Impairment of Long-lived Assets

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

(m) 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.

(n) 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.

(o) Revenue Recognition

The Company generally recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price is fixed and determinable and collectibility is probable. The Company adopted the consensus of the FASB Emerging Issue Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," during the year ended March 31, 2004. The impact of adopting the consensus was not material to the Company's results of operations.

The Company enters into transactions that include multiple element arrangements which may include any combinations of hardware products, related software products, installment and maintenance. When some elements are delivered prior to others in an arrangement, revenue is deferred until the delivery of the last service element, unless transactions are such that fair value of the undelivered elements is available, the functionality of the delivered element is not dependent on the undelivered elements and delivered elements represent the culmination of the earnings process. The Company allocates revenue on software arrangements involving multiple elements to each element based on its relative fair value, as evidenced by vendor specific objective evidence ("VSOE"), or in the absence of VSOE, the residual method. VSOE is the price charged by the Company to an external customer for the same element when such an element is sold separately.

Product Sales:

Revenue from sales of these products is recognized when title and risk of loss have been transferred to the customer. Depending upon the terms of the contract or arrangement with the customer, this may occur at the time of shipment, when installation is completed or upon the attainment of customer acceptance. The Company's policy is not to accept product returns unless the products are defective. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specification are not recorded as revenue. Product warranties are offered on the Company's and certain subsidiaries' products (in certain cases separately priced) and a warranty accrual is established when sales are recognized and is based on estimated future costs of repair and replacement principally using our historical experience of warranty claims.

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

Product revenues which are recognized upon shipment are IT system products, semiconductor manufacturing equipment, test and measurement equipments, construction equipment, displays, disk drives, televisions, air conditioners, batteries, magnetic tapes, high functional materials, cable products and automotive equipment. Revenues for railway vehicles are recognized upon acceptance or shipment, depending on contract terms. Product revenues that are recognized upon acceptance are medical electronic devices, industrial machinery and equipment, nuclear, thermal and hydroelectric power plants, and elevators and escalators.

Revenue from sales of tangible products under long-term construction type arrangements, principally in connection with the construction of nuclear, thermal and hydroelectric power plants, are recognized under the percentage-of-completion method. Under the percentage-of-completion method, revenue is recognized as a percentage of estimated total revenue that incurred costs to date bear to estimated total costs after giving effect to estimates of costs to complete based upon most recent information. Any anticipated losses on fixed price contracts are charged to operations when such losses can be estimated. Provisions are made for contingencies (i.e. performance penalty, benchmarking, etc.) in the period in which they become known pursuant to specific contract terms and conditions and are estimable.

The Company recognizes software revenue in accordance with the provisions of Statement of Position No. 97-2, "Software Revenue Recognition," as amended. Revenue from software consists of software licensing, customized software development and post contract customer support. Revenues from software license arrangements are recognized upon shipment of the software if evidence of the arrangement exists, pricing is fixed and determinable and collectibility is probable. Customized software revenue is recognized upon customer acceptance. Revenue from post contract customer support is amortized over the period of the post contract customer support. Consulting and training services are recognized when the services are rendered.

The Company's standard software license agreement provides for a limited warranty that the license will operate substantially in accordance with the functionality described in the documentation provided with the products. The standard software license does not provide for right of return. The Company provides for warranty at the time of revenue recognition using historical experience of warranty claims. To date such warranty provisions have been insignificant.

Service Revenues:

Service revenues from maintenance and distribution services are recognized upon completion of service delivery. Revenue from time service contracts is recognized as services are rendered. Revenue from long-term fixed price service contracts such as support or maintenance contracts is recognized ratably over the contractual period. Finance lease income is recognized at level rates of return over the term of the leases. Operating lease income is recognized on a straight-line basis over the term of the lease.

(p) Advertising

Advertising costs are charged to the statements of operations as incurred.

(q) Research and Development Costs

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

(r) Income Taxes

Deferred income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

(s) Sales of Stock by Subsidiaries

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

(t) Net Income Per Share

Net income per share is computed in accordance with SFAS No. 128, "Earnings per Share." This standard requires a dual presentation of basic and diluted net income per share amounts on the face of the statements of operations. Under this standard, basic net income per share is computed based upon the weighted average number of shares of common stock outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

(u) Stock-based Compensation

As of March 31, 2004, the Company has three stock-based employee compensation plans, which are described more fully in note 28. 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," and related interpretations. For the years ended March 31, 2004, 2003 and 2002, the Company recognized no compensation expense related to employee stock options.

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, 2004, 2003 and 2002 were not material.

(v) 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 was effective for the Company's fiscal year ended March 31, 1999. However, certain foreign issuers are presently exempted from the segment disclosure requirements of SFAS No. 131 in Securities Exchange Act filings with the 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.

(w) Guarantees

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

(x) Reclassifications

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

3. BASIS OF FINANCIAL STATEMENT TRANSLATION

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥106=U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2004. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

4. INVESTMENTS IN SECURITIES AND AFFILIATED COMPANIES

Short-term investments as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Investments in securities:			
Available-for-sale securities	¥ 94,788	¥100,288	\$ 894,227
Held-to-maturity securities	259	6,057	2,443
Trading securities	82,902	80,627	782,094
Short-term investments	¥177,949	¥186,972	\$1,678,764

Investments and advances, including affiliated companies as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Investments in securities:			
Available-for-sale securities	¥311,414	¥297,656	\$2,937,868
Held-to-maturity securities	1,070	1,487	10,094
Securities without readily determinable fair values	77,242	75,860	728,698
Investments in affiliated companies	389,295	237,024	3,672,594
Advances and others	129,941	114,415	1,225,859
Investments and advances, including affiliated companies	¥908,962	¥726,442	\$8,575,113

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, 2004 and 2003.

	Millions of yen							
	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value
	2004				2003			
Short-term investments:								
Debt securities	¥ 53,979	¥ 45	¥ 2	¥ 54,022	¥ 52,432	¥ 61	¥ 50	¥ 52,443
Other securities	40,766	43	43	40,766	47,897	5	57	47,845
	94,745	88	45	94,788	100,329	66	107	100,288
Investments and advances:								
Equity securities	89,450	90,245	1,162	178,533	115,999	51,951	8,772	159,178
Debt securities	112,288	521	951	111,858	117,394	606	2,484	115,516
Other securities	20,620	476	73	21,023	23,033	75	146	22,962
	222,358	91,242	2,186	311,414	256,426	52,632	11,402	297,656
	¥317,103	¥91,330	¥2,231	¥406,202	¥356,755	¥52,698	¥11,509	¥397,944

	Thousands of U.S. dollars			
	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value
2004				
Short-term investments:				
Debt securities	\$ 509,236	\$ 425	\$ 19	\$ 509,642
Other securities	384,585	405	405	384,585
	893,821	830	424	894,227
Investments and advances:				
Equity securities	843,868	851,368	10,962	1,684,274
Debt securities	1,059,321	4,915	8,972	1,055,264
Other securities	194,528	4,491	689	198,330
	2,097,717	860,774	20,623	2,937,868
	\$2,991,538	\$861,604	\$21,047	\$3,832,095

The following is a summary of gross unrealized holding losses on available-for-sale securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2004.

	Millions of yen				Thousands of U.S. dollars			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses
2004								
Short-term investments:								
Debt securities	¥ 1,820	¥ 2	¥ -	¥ -	\$ 17,170	\$ 19	\$ -	\$ -
Other securities	127	7	166	36	1,198	66	1,566	339
	1,947	9	166	36	18,368	85	1,566	339
Investments and advances:								
Equity securities	4,692	563	3,305	599	44,264	5,311	31,180	5,651
Debt securities	20,089	775	15,080	176	189,519	7,312	142,264	1,660
Other securities	990	5	588	68	9,340	47	5,547	642
	25,771	1,343	18,973	843	243,123	12,670	178,991	7,953
	¥27,718	¥1,352	¥19,139	¥879	\$261,491	\$12,755	\$180,557	\$8,292

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

The proceeds from sale of available-for-sale securities for the years ended March 31, 2004, 2003 and 2002 were ¥83,886 million (\$791,377 thousand), ¥112,861 million and ¥62,783 million, respectively. The gross realized gains on the sale of those securities for the years ended March 31, 2004, 2003 and 2002 were ¥33,887 million (\$319,689 thousand), ¥40,119 million and ¥6,585 million, respectively, while gross realized losses on the sale of those securities for the years ended March 31, 2004, 2003 and 2002 were ¥2,160 million (\$20,377 thousand), ¥4,660 million and ¥2,700 million, respectively.

For the years ended March 31, 2004, 2003 and 2002, the amount of the net unrealized holding gain or loss on available-for-sale securities that has been included in accumulated other comprehensive loss was a net gain of ¥67,265 million (\$634,575 thousand), a net loss of ¥60,907 million and a net loss of ¥97,972 million, respectively, and the amount of gains and losses reclassified out of accumulated other comprehensive loss was a net gain of ¥19,319 million (\$182,255 thousand), a net gain of ¥5,999 million and a net loss of ¥74,842 million, respectively.

Trading securities consist mainly of investments in trust accounts. The portions of trading gains and losses for the years ended March 31, 2004, 2003 and 2002 that relate to trading securities still held at the balance sheet date were a gain of ¥2,214 million (\$20,887 thousand), a loss of ¥437 million and a loss of ¥2,356 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, 2004 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
	2004			2004		
Due within five years	¥ 664	¥ 58,333	¥ 58,997	\$ 6,264	\$ 550,311	\$ 556,575
Due after five years	406	74,548	74,954	3,830	703,283	707,113
	¥1,070	¥132,881	¥133,951	\$10,094	\$1,253,594	\$1,263,688

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, 2004 and 2003 were ¥159,774 million (\$1,507,302 thousand) and ¥179,884 million, respectively. The aggregate carrying amount of such investments as of March 31, 2004 and 2003 were ¥114,636 million (\$1,081,472 thousand) and ¥127,343 million, respectively.

As of March 31, 2004 and 2003, cumulative recognition of other-than-temporary declines in values of investments in certain affiliated companies resulted in the difference of ¥28,379 million (\$267,726 thousand) and ¥25,061 million, respectively, between the carrying amount of the investment and the amount of underlying equity in net assets. In addition, equity method goodwill of ¥7,434 million (\$70,132 thousand) and ¥11,145 million, respectively, are included in investments in certain affiliated companies as of March 31, 2004 and 2003.

Summarized combined financial information relating to affiliated companies accounted for by the equity method is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets	¥1,372,889	¥ 727,744	\$12,951,783
Non-current assets	1,283,797	864,024	12,111,292
Current liabilities	1,251,814	601,162	11,809,566
Long-term liabilities	398,058	226,859	3,755,264

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Revenues	¥2,457,443	¥1,400,599	¥1,325,409	\$23,183,425
Gross profit	374,535	233,772	189,674	3,533,349
Net income (loss)	14,581	(29,841)	(102,165)	137,557

On April 1, 2003, Renesas Technology Corp. (Renesas), which focuses on system LSI (Large Scale Integration) operations, was incorporated through a corporate split procedure, where the Semiconductor & Integrated Circuits operations of the Company and Mitsubishi Electric Corporation were spun-off. Although the Company owns 55% of the voting stock of Renesas, the Company accounts for the investment under the equity method of accounting as Mitsubishi Electric Corporation has substantive participating rights per joint venture agreement. Total assets and net assets of the operations as of April 1, 2003 amounted to approximately ¥596,118 million (\$5,623,755 thousand) and ¥147,443 million (\$1,390,972 thousand), respectively.

5. RECEIVABLES

The aggregate annual maturities of the long-term trade receivables after March 31, 2005 included in Trade receivables-Accounts are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 7,094	\$ 66,924
2007	4,871	45,953
2008	1,135	10,708
2009	1,044	9,849
Thereafter	1,976	18,641
	<u>¥16,120</u>	<u>\$152,075</u>

Sales on an installment payment basis for the years ended March 31, 2004, 2003 and 2002 totaled ¥9,021 million (\$85,104 thousand), ¥14,618 million and ¥17,647 million, respectively.

6. INVENTORIES

Inventories as of March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods	¥ 333,337	¥ 373,317	\$ 3,144,689
Work in process	632,358	646,932	5,965,641
Raw materials	157,711	167,280	1,487,840
	<u>¥1,123,406</u>	<u>¥1,187,529</u>	<u>\$10,598,170</u>

Inventories include items associated with major contracts which require long-term processing performed for more than 12 months. These items as of March 31, 2004 and 2003 aggregated ¥45,860 million (\$432,642 thousand) and ¥40,585 million, respectively.

7. LEASES

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

Machinery and equipment at cost under operating leases and accumulated depreciation as of March 31, 2004 amounted to ¥1,304,476 million (\$12,306,377 thousand) and ¥995,192 million (\$9,388,604 thousand), respectively. The leased assets are recorded at cost and depreciated using the straight-line method over their estimate useful lives.

The following table shows the future minimum lease receivables of financing and non-cancelable operating leases as of March 31, 2004 and the future minimum lease receivables of financing leases as of March 31, 2003:

Years ending March 31	Millions of yen		Thousands of U.S. dollars	
	Financing leases	Operating leases	Financing leases	Operating leases
	2004		2004	
2005	¥192,180	¥ 68,680	\$1,813,019	\$ 647,924
2006	138,267	54,543	1,304,406	514,557
2007	88,080	36,932	830,943	348,415
2008	52,697	18,688	497,142	176,302
2009	22,023	8,311	207,764	78,406
Thereafter	17,587	10,354	165,915	97,679
Total minimum payments to be received	510,834	<u>¥197,508</u>	4,819,189	<u>\$1,863,283</u>
Amount representing executory costs	(28,936)		(272,981)	
Unearned income	(24,620)		(232,264)	
Allowance for doubtful receivables	(5,525)		(52,123)	
Net investment in financing leases	<u>¥451,753</u>		<u>\$4,261,821</u>	
	Millions of yen			
	Financing leases			
	2003			
Total minimum payments to be received	¥496,238			
Amount representing executory costs	(28,364)			
Unearned income	(25,591)			
Allowance for doubtful receivables	(5,207)			
Net investment in financing leases	<u>¥437,076</u>			

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, 2004 and 2003 amounted to ¥34,080 million (\$321,509 thousand) and ¥32,669 million, respectively, and accumulated depreciation as of March 31, 2004 and 2003 amounted to ¥16,655 million (\$157,123 thousand) and ¥14,231 million, respectively.

In March 2003, the Company entered into a sale and lease back agreement for its headquarter land and building for total proceeds of ¥40,000 million. The lease back is classified as an operating lease with a term of thirty-eight months. A portion of the gain on sale which represents the present value of the minimum lease payments over the lease term, has been deferred and is being recognized over the lease term. This deferral amounted to ¥8,551 million.

The following table shows the future minimum lease payments of capital and non-cancelable operating leases as of March 31, 2004:

Years ending March 31	Millions of yen		Thousands of U.S. dollars	
	Capital leases	Operating leases	Capital leases	Operating leases
		2004		2004
2005	¥ 4,418	¥ 9,097	\$ 41,679	\$ 85,821
2006	3,789	7,190	35,745	67,830
2007	2,632	4,217	24,830	39,783
2008	1,817	3,069	17,142	28,953
2009	1,654	1,944	15,604	18,340
Thereafter	2,145	5,268	20,236	49,698
Total minimum lease payments	16,455	<u>¥30,785</u>	155,236	<u>\$290,425</u>
Amount representing executory costs	(494)		(4,661)	
Amount representing interest	(1,178)		(11,113)	
Present value of net minimum lease payments	14,783		139,462	
Less current portion of capital lease obligations	(3,951)		(37,273)	
Long-term capital lease obligations	<u>¥10,832</u>		<u>\$102,189</u>	

8. SECURITIZATIONS

For the years ended March 31, 2004, 2003 and 2002, Hitachi Capital Corporation (HCC), a financing subsidiary, sold primarily lease receivables, to Special Purpose Entities (SPE), and the SPEs issued asset-backed commercial paper to investors. The investors and the SPEs 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 are subordinate to investor's interests. For the years ended March 31, 2004, 2003 and 2002, gains recognized on the sale of lease receivables amounted to ¥12,394 million (\$116,925 thousand), ¥8,278 million and ¥6,261 million, respectively.

The table below summarizes certain cash flows received from and paid to the SPEs during the years ended March 31, 2004, 2003 and 2002:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Proceeds from transfer of lease receivables	¥271,281	¥249,430	¥252,210	\$2,559,255
Servicing fees received	23	27	36	217
Purchases of delinquent or ineligible assets	(14,775)	(8,174)	(7,242)	(139,387)

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, 2004 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
			2004			2004
Total assets managed or transferred:						
Lease receivables	¥978,726	¥941	¥1,944	\$9,233,264	\$8,877	\$18,340
Assets transferred	(526,973)			(4,971,443)		
Assets held in portfolio	¥451,753			\$4,261,821		

For the years ended March 31, 2004, 2003 and 2002, the Company and certain subsidiaries sold trade receivables mainly to SPEs which securitized these receivables. In these securitizations, the Company and certain subsidiaries retained servicing responsibility. No servicing asset or liability has been recorded because the fees for servicing the receivables approximate the related costs. In addition, the Company and certain subsidiaries retained subordinated interests which were not material.

During the years ended March 31, 2004, 2003 and 2002, proceeds from the transfer of trade receivables were ¥1,006,164 million (\$9,492,113 thousand), ¥1,080,805 million and ¥482,831 million, respectively, and losses recognized on those transfers were ¥2,973 million (\$28,047 thousand), ¥2,965 million and ¥621 million, respectively.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets other than goodwill acquired during the years ended March 31, 2004 and 2003 amounted to ¥190,059 million (\$1,793,009 thousand) and ¥262,460 million, respectively, and related amortization expense during the years ended March 31, 2004 and 2003 amounted to ¥117,561 million (\$1,109,066 thousand) and ¥86,095 million, respectively. The main component of intangible assets subject to amortization was capitalized software. Amortization of capitalized computer software costs for software to be sold, leased or otherwise marketed is charged to cost of sales.

Intangible assets other than goodwill as of March 31, 2004 and 2003 are as follows:

	2004			2003		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Millions of yen						
Amortized intangible assets						
Software	¥335,808	¥218,972	¥116,836	¥288,066	¥169,239	¥118,827
Software for internal use . . .	326,745	151,955	174,790	290,204	132,917	157,287
Other	149,370	59,414	89,956	153,130	47,997	105,133
	¥811,923	¥430,341	¥381,582	¥731,400	¥350,153	¥381,247
Unamortized intangible assets	¥ 13,618	¥ -	¥ 13,618	¥ 13,603	¥ -	¥ 13,603

	2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Thousands of U.S. dollars			
Amortized intangible assets			
Software	\$3,168,000	\$2,065,774	\$1,102,226
Software for internal use . . .	3,082,500	1,433,538	1,648,962
Other	1,409,151	560,509	848,642
	\$7,659,651	\$4,059,821	\$3,599,830
Unamortized intangible assets	\$ 128,472	\$ -	\$ 128,472

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

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥100,201	\$945,292
2006	84,909	801,028
2007	69,404	654,755
2008	56,420	532,264
2009	44,831	422,934

The changes in the carrying amount of goodwill for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Balance at beginning of the year	¥60,317	¥27,299	\$569,028
Acquired during the year	10,003	39,986	94,368
Impairment loss	(3,623)	(4,235)	(34,179)
Transfer due to divestiture	(8,232)	–	(77,661)
Translation adjustment and other	(4,987)	(2,733)	(47,047)
Balance at end of the year, included in other assets	¥53,478	¥60,317	\$504,509

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, 2004, 2003 and 2002:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Reported net income (loss)	¥15,876	¥27,867	¥(483,837)	\$149,774
Goodwill amortization	–	–	785	–
Adjusted net income (loss)	¥15,876	¥27,867	¥(483,052)	\$149,774

	Yen			U.S. dollars
	2004	2003	2002	2004
Reported basic net income (loss) per share	¥4.81	¥8.31	¥(144.95)	\$0.05
Goodwill amortization	–	–	0.23	–
Adjusted basic net income (loss) per share	¥4.81	¥8.31	¥(144.72)	\$0.05

	Yen			U.S. dollars
	2004	2003	2002	2004
Reported diluted net income (loss) per share	¥4.75	¥8.19	¥(144.95)	\$0.04
Goodwill amortization	–	–	0.23	–
Adjusted diluted net income (loss) per share	¥4.75	¥8.19	¥(144.72)	\$0.04

10. 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		
	2004		
	Domestic	Foreign	Total
Income before income taxes and minority interests	¥211,000	¥26,149	¥237,149
Income taxes:			
Current tax expense	93,264	28,335	121,599
Deferred tax expense (benefit)	89,293	(12,237)	77,056
	¥182,557	¥16,098	¥198,655
	Thousands of U.S. dollars		
	2004		
	Domestic	Foreign	Total
Income before income taxes and minority interests	\$1,990,566	\$246,689	\$2,237,255
Income taxes:			
Current tax expense	879,849	267,311	1,147,160
Deferred tax expense (benefit)	842,387	(115,443)	726,944
	\$1,722,236	\$151,868	\$1,874,104
	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
	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)

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, 2004, 2003 and 2002 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Continuing operations:				
Current tax expense	¥121,599	¥ 88,188	¥ 110,958	\$1,147,160
Deferred tax expense (benefit) (exclusive of the effects of other components listed below)	35,714	(20,525)	(263,449)	336,925
Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates in Japan . . .	2,318	27,993	–	21,868
Change in valuation allowance	39,024	(42,994)	81,377	368,151
	198,655	52,662	(71,114)	1,874,104
Other comprehensive income (loss), net of reclassification adjustments:				
Minimum pension liability adjustments	259,788	(333,700)	(59,985)	2,450,830
Net unrealized holding gain on available-for-sale securities	19,154	(27,878)	(9,717)	180,698
Cash flow hedges	162	(335)	(646)	1,528
	279,104	(361,913)	(70,348)	2,633,056
	¥477,759	¥(309,251)	¥(141,462)	\$4,507,160

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 and 2002.

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

On March 31, 2003, amendments to local business tax law in Japan were enacted, resulting in the lower business tax rates. During the year ended March 31, 2004, additional minor changes in tax rates for business taxes were enacted in certain local administrative divisions of Japan. Those changes became effective on April 1, 2004. As a result, the aggregated statutory income tax rate for domestic companies will be approximately 40.6% for the year ending March 31, 2005.

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. The effect of these changes on the Company's deferred tax balances amounted to ¥2,318 million (\$21,868 thousand) and ¥27,933 million in income from continuing operations for the years ended March 31, 2004 and 2003, respectively.

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:

	2004	2003	2002
Combined statutory income tax rate	43.6%	41.8%	(41.8)%
Equity in earnings of affiliated companies	(1.9)	6.8	2.6
Impairment of investments in affiliated companies	1.4	10.8	-
Excess amounts over the tax basis of investments in affiliated companies	3.0	-	-
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies	12.6	5.6	0.5
Expenses not deductible for tax purposes	7.2	12.9	6.7
Enacted changes in tax laws and rates in Japan	1.0	28.9	-
Change in valuation allowance	16.5	(44.4)	13.9
Difference in statutory tax rates of foreign subsidiaries	(1.5)	(9.1)	5.0
Other	1.9	1.1	1.0
Effective income tax rate	83.8%	54.4%	(12.1)%

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, 2004 and 2003 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Total gross deferred tax assets:			
Retirement and severance benefits	¥ 478,559	¥ 736,731	\$ 4,514,707
Accrued expenses	184,521	183,990	1,740,764
Property, plant and equipment, due to differences in depreciation	30,442	34,521	287,189
Net operating loss carryforwards	157,958	288,113	1,490,170
Other	288,820	286,259	2,724,717
	1,140,300	1,529,614	10,757,547
Valuation allowance	(191,196)	(187,687)	(1,803,736)
	949,104	1,341,927	8,953,811
Total gross deferred tax liabilities:			
Deferred profit on sale of properties	(34,645)	(35,421)	(326,840)
Tax purpose reserves regulated by Japanese tax laws	(26,674)	(31,563)	(251,641)
Net unrealized gain on securities	(26,023)	(8,951)	(245,500)
Other	(28,558)	(32,702)	(269,415)
	(115,900)	(108,637)	(1,093,396)
Net deferred tax asset	¥ 833,204	¥1,233,290	\$ 7,860,415

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, 2004 and 2003 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Prepaid expenses and other current assets	¥10,673	¥12,269	\$100,689
Other assets	56,843	63,951	536,255
	¥67,516	¥76,220	\$636,944

Net deferred tax asset as of March 31, 2004 and 2003 is reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Prepaid expenses and other current assets	¥283,538	¥ 274,865	\$2,674,887
Other assets	572,982	976,368	5,405,490
Other current liabilities	(2,392)	(5,454)	(22,566)
Other liabilities	(20,924)	(12,489)	(197,396)
Net deferred tax asset	¥833,204	¥1,233,290	\$7,860,415

A valuation allowance was recorded against deferred tax assets for deductible temporary differences, net operating loss carryforwards and tax credit carryforwards, taking into account the tax laws of various jurisdictions in which the Company and its subsidiaries operate. The net change in the total valuation allowance for the years ended March 31, 2004 and 2003 was an increase of ¥3,509 million (\$33,104 thousand) and a decrease of ¥52,278 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 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, including the execution of certain available tax strategies if needed, 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, 2004.

As of March 31, 2004, the Company and various subsidiaries have operating loss carryforwards of ¥406,697 million (\$3,836,764 thousand) which are available to offset future taxable income, if any. Operating loss carryforwards of ¥355,426 million (\$3,353,075 thousand) expire by March 31, 2009, and ¥51,271 million (\$483,689 thousand) expire in various years thereafter or do not expire.

Deferred tax liabilities have not been recognized for excess amounts over the tax basis of investments in foreign subsidiaries that are considered to be reinvested indefinitely, since such temporary differences will not reverse in the foreseeable future and those undistributed earnings, if remitted, generally would not result in material additional Japanese income taxes because of available foreign tax credits. Also, prior to April 1, 2003, deferred tax liabilities had not been recognized for excess amounts over the tax basis of investments in affiliated companies as the effects to the Company's financial position and results of operations were not material.

11. SHORT-TERM AND LONG-TERM DEBT

The components of short-term debt as of March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Borrowings not from affiliates, mainly from banks	¥323,288	¥481,867	\$3,049,887
Commercial paper	216,671	254,536	2,044,066
Borrowings from affiliates	83,857	89,457	791,104
	¥623,816	¥825,860	\$5,885,057

The weighted average interest rate on short-term debt outstanding as of March 31, 2004 and 2003 was 0.1%.

The components of long-term debt as of March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Mortgage debentures:			
Due 2004, interest 2.1%, issued by a subsidiary	¥ -	¥ 300	\$ -
Unsecured notes and debentures:			
Due 2006, interest 3.45% debenture	200,000	200,000	1,886,793
Due 2013, interest 0.72% debenture	80,000	-	754,717
Due 2004–2018, interest 0.06–5.92%, issued by subsidiaries . . .	687,551	748,581	6,486,330
Unsecured convertible debentures:			
6th series, due 2003, interest 1.3%	-	92,828	-
7th series, due 2004, interest 1.4%	218,468	218,471	2,061,019
Due 2004, interest 1.7–1.8%, issued by subsidiaries	13,059	20,932	123,198
Loans, principally from banks and insurance companies:			
Secured by various assets and mortgages on property, plant and equipment, maturing 2004–2011, interest 0.85–5.75%	22,777	31,620	214,878
Unsecured, maturing 2004–2015, interest 0.4–5.71%	637,111	681,939	6,010,481
Capital lease obligations	14,783	20,067	139,462
	1,873,749	2,014,738	17,676,878
Less current installments	559,647	502,586	5,279,689
	¥1,314,102	¥1,512,152	\$12,397,189

The aggregate annual maturities of long-term debt after March 31, 2005 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 447,259	\$ 4,219,425
2007	204,430	1,928,585
2008	178,067	1,679,877
2009	149,355	1,409,009
Thereafter	334,991	3,160,293
	¥1,314,102	\$12,397,189

The Company and a subsidiary provide securities of collateral for bank loans of ¥1,276 million (\$12,038 thousand) in the form of equity interests in certain subsidiaries.

The collateralized number of shares and their fair values as of March 31, 2004 are as follows:

Subsidiary name	Number of shares owned in thousand	Percent of ownership	Collateralized number of shares in thousand	Fair values as of March 31, 2004	
				Millions of yen	Thousands of U.S. dollars
Hitachi Maxell, Ltd.	51,480	52.1%	400	¥ 646	\$ 6,094
Hitachi Powdered Metals Co., Ltd.	17,072	53.3	3,700	2,786	26,283

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that securities 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 securities or mortgages on property, plant and equipment.

The unsecured convertible debentures due in 2004 were 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 128,944,000 shares of common stock, based on a fixed conversion price not less than the fair market value of the Company's common stock on the date of issuance. Commencing September 30, 1999, the Company was required to make annual payments to a Trustee of ¥20 billion (\$189 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 convertible debentures due in 2004 as mentioned above, the 11,981,000 shares of investments in Hitachi Software Engineering Co., Ltd. and the 48,400,000 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, 2004 are ¥34,385 million (\$324,387 thousand) and ¥80,247 million (\$757,047 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 operations for the fiscal years beginning after March 31, 1989 plus ¥65,000 million (\$613,208 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, 2004, the accumulated cash dividends and the accumulated net income including ¥65,000 million (\$613,208 thousand), which are defined by the above terms, amounted to ¥439,059 million (\$4,142,066 thousand) and ¥468,109 million (\$4,416,123 thousand), respectively.

12. RETIREMENT AND SEVERANCE BENEFITS

(a) Defined benefit plans

The Company and its 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, Executive Officers 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 make contributions to a number of defined benefits pension plans. The Employees Pension Fund (EPF) stipulated by the Japanese Pension Insurance Law is one of the defined benefit pension plans to which certain domestic subsidiaries contribute. 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. 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).

The Company and certain subsidiaries amended their defined benefit plans to cash balance plans during the year ended March 31, 2004. Under the cash balance plans, each employee has a notional account which represents pension benefits. The balance in the notional account is based on principal credits, which are accumulated as employees render services, and interest credits, which are determined based on the market interest rates.

Net periodic benefit cost for the funded benefit pension plans and the unfunded lump-sum payment plans for the years ended March 31, 2004, 2003 and 2002 consists of the following components:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Service cost	¥107,002	¥112,948	¥110,173	\$1,009,453
Interest cost	78,493	97,161	118,094	740,500
Expected return on plan assets for the period	(32,863)	(71,679)	(77,194)	(310,028)
Amortization of transition asset	(368)	(421)	(421)	(3,472)
Amortization of prior service benefit	(13,423)	(10,115)	(2,999)	(126,632)
Recognized actuarial loss	151,567	107,478	60,867	1,429,877
Transfer to defined contribution pension plan	1,557	5,167	3,807	14,689
Derecognition of previously accrued salary progression due to transfer of substitutional portion	(17,215)	-	-	(162,405)
Loss on previously deferred actuarial losses due to transfer of substitutional portion	375,049	-	-	3,538,198
Curtailment and settlement loss	1,072	700	1,823	10,113
Employees' contributions	(9,735)	(16,558)	(18,330)	(91,840)
Net periodic benefit cost	641,136	224,681	195,820	6,048,453
Difference between the obligations settled and the assets transferred due to transfer of substitutional portion . . .	(411,621)	-	-	(3,883,217)
	¥229,515	¥224,681	¥195,820	\$2,165,236

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 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Change in benefit obligation:			
Benefit obligation at beginning of year	¥3,753,375	¥3,022,170	\$35,409,198
Service cost	107,002	112,948	1,009,453
Interest cost	78,493	97,161	740,500
Plan amendments	(115,859)	(17,138)	(1,093,009)
Actuarial loss	34,676	681,822	327,132
Benefits paid	(175,210)	(223,946)	(1,652,925)
Acquisitions and divestitures	(78,689)	106,792	(742,349)
Transfer to defined contribution pension plan	(19,329)	(7,882)	(182,349)
Transfer of substitutional portion	(850,697)	–	(8,025,443)
Curtailment and settlement	(6,801)	(14,396)	(64,160)
Foreign currency exchange rate changes	(9,177)	(4,156)	(86,576)
Benefit obligation at end of year	2,717,784	3,753,375	25,639,472
Change in plan assets:			
Fair value of plan assets at beginning of year	1,513,674	1,767,560	14,279,943
Actual return on plan assets	167,115	(283,651)	1,576,557
Employers' contributions	154,832	121,036	1,460,679
Employees' contributions	9,735	16,558	91,840
Benefits paid	(131,274)	(141,917)	(1,238,434)
Acquisitions and divestitures	(20,334)	52,198	(191,830)
Transfer to defined contribution pension plan	(8,621)	(3,582)	(81,330)
Transfer of substitutional portion	(421,861)	–	(3,979,821)
Settlement	–	(9,634)	–
Foreign currency exchange rate changes	(6,071)	(4,894)	(57,274)
Fair value of plan assets at end of year	1,257,195	1,513,674	11,860,330
Funded status	(1,460,589)	(2,239,701)	(13,779,142)
Unrecognized transition asset	(208)	(831)	(1,962)
Unrecognized prior service benefit	(190,667)	(86,411)	(1,798,745)
Unrecognized actuarial loss	1,021,527	1,713,702	9,637,047
Net amount recognized in the consolidated balance sheet	¥ (629,937)	¥ (613,241)	\$ (5,942,802)
Amounts recognized in the consolidated balance sheet consist of:			
Prepaid benefit cost	¥ 1,070	¥ 861	\$ 10,094
Accrued benefit cost	(1,273,509)	(1,932,646)	(12,014,236)
Intangible asset	4,727	4,765	44,595
Accumulated other comprehensive loss	637,775	1,313,779	6,016,745
Net amount recognized	¥ (629,937)	¥ (613,241)	\$ (5,942,802)

The Company and substantially all subsidiaries use their year-end as a measurement date. Weighted-average assumptions used to determine the year-end benefit obligations are as follows:

	2004	2003
Discount rate	2.5%	2.5%
Rate of compensation increase	3.1%	3.3%

Weighted-average assumptions used to determine the net periodic pension cost for the years ended March 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
Discount rate	2.5%	3.3%	3.9%
Expected long-term return on plan assets	3.7%	3.9%	4.3%
Rate of compensation increase	3.3%	3.2%	3.1%

Assumption concerning the expected long-term rate of return on plan assets is developed by each asset class, and is determined primarily on historical returns on the plan assets and other factors.

The accumulated benefit obligation was ¥2,514,233 million (\$23,719,179 thousand) as of March 31, 2004 and ¥3,438,066 million as of March 31, 2003.

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations	¥2,486,835	¥3,428,655	\$23,460,708
Plan assets	1,225,906	1,503,085	11,565,151
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	¥2,709,118	¥3,752,870	\$25,557,717
Plan assets	1,248,067	1,513,053	11,774,217

On June 15, 2001, the Japanese government issued a new law concerning 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. In accordance with the new law, the Company and certain subsidiaries obtained approvals from the government for the exemption from the future benefit obligation and for the return of the past benefit obligation through March 31, 2004. Consequently, the Company and certain subsidiaries transferred the substitutional portion of the benefit obligations related to past service and the related portion of the plan assets of the EPF to the government on or after December 2003.

The Company and certain subsidiaries accounted for the entire separation process of the transfer as a single settlement transaction upon the completion of the transfer to the government in accordance with EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Found Liabilities."

The Company's plans to return the substitutional portion of the EPF to the government had been considered in the actuarial assumptions. EITF Issue No. 03-2 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 the EITF. 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 and ¥24,857 million, respectively.

Asset allocations for the pension plans as of March 31, 2004 and 2003 are as follows:

	2004	2003
Equity securities	40.6%	44.0%
Debt securities	23.7	25.9
Cash	13.3	15.3
Life insurance company general accounts	8.4	5.5
Investment trusts	9.0	5.6
Other	5.0	3.7
	100.0%	100.0%

The objective of investment policy is to generate stable return on the investment over the long term, which enable the Company's and certain subsidiaries' pension funds to meet their future obligations. In order to achieve the above objective, a target rate of return is established, taking into consideration composition of participants, level of funded status, the Company's and certain subsidiaries' capacity to absorb risks and the current economic environment. Also, a target asset allocation is established to achieve the target rate of return, based on expected rate of return by each asset class, standard deviation of rate of return and correlation coefficient among the assets. The investments are diversified primarily into domestic and foreign equity and debt securities according to the target asset allocation. Rebalancing will occur if market fluctuates in excess of certain level. The Company and certain subsidiaries periodically review actual return on assets, economic environment and their capacity to absorb risk and realign the target asset allocation if necessary.

The Company and its subsidiaries expect to contribute ¥113,612 million (\$1,071,811 thousand) to their defined benefit plans for the year ending March 31, 2005.

(b) Defined contribution plans

The Company and certain subsidiaries have a number of defined contribution plans. The amount of cost recognized for the Company's and certain subsidiaries' contribution to the plans for the years ended March 31, 2004, 2003 and 2002 were ¥7,718 million (\$72,811 thousand), ¥6,895 million and ¥3,557 million, respectively.

13. 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 of at least 50% of the 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, 2004, 2003 and 2002 are summarized as follows:

	Issued shares	Millions of yen Amount	Thousands of U.S. dollars Amount
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	
Issued under exchange offerings	29,643,245	–	
Balance as of March 31, 2003	3,368,124,286	282,032	\$2,660,679
Issued upon conversion of convertible debentures	590	0	0
Balance as of March 31, 2004	3,368,124,876	¥282,032	\$2,660,679

Issued shares under exchange offerings for the year ended March 31, 2003 include the issuance of 25,143,245, in connection with the Hitachi Unisia Automotive, Ltd. acquisition shares as discussed in note 27.

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.

14. 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 the total of additional paid in capital and legal reserve equals 25 percent of stated common stock. Either additional paid in capital or the 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, 2004, 2003 and 2002 represent dividends declared during those years and the related appropriations to the legal reserve. A provision has not been made in the accompanying consolidated financial statements for the dividend for the second half year ended March 31, 2004 of ¥5.0 (\$0.05) per share, aggregating ¥16,490 million (\$155,566 thousand). This dividend will be reported by the Board of Directors at the ordinary general shareholders' meeting in respect to the year ended March 31, 2004.

Cash dividends per share for the years ended March 31, 2004, 2003 and 2002 were ¥8.0 (\$0.08), ¥6.0 and ¥3.0, respectively, based on dividends declared with respect to earnings for the periods.

15. TREASURY STOCK

Effective October 1, 2001, the Japanese Commercial Code (JCC) was amended to allow a company to acquire treasury stocks upon shareholders' approval to the extent that sufficient distributable funds are available while acquisition of a treasury stock had been prohibited prior to October 1, 2001. Effective September 25, 2003, the JCC was further amended to no longer require shareholders' approval but Board of Directors' approval to the extent that the Board of Directors' authority is stated in the article of incorporation. In this connection, the Company's Board of Directors intends to amend the related provisions of the articles of incorporation which is subject to a resolution in the ordinary general shareholders' meeting on June 24, 2004.

Pursuant to the provisions of the JCC, shareholders may request the Company to acquire their shares below a minimum trading lot (1,000 shares) as shares below a minimum trading lot cannot be publicly traded and do not carry a voting right. The JCC also provides for that a shareholder holding shares less than a minimum trading lot is entitled to requesting a company to sell its treasury stock, if any, to the shareholder up to a minimum trading lot, provided that sale of treasury stock is allowed under the article of incorporation. In this connection, the Company amended the related provisions of the articles of incorporation in the ordinary general shareholders' meeting on June 25, 2003.

The changes in treasury stock for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

	Shares	Millions of yen	Thousands of
		Amount	U.S. dollars
			Amount
Balance as of March 31, 2001	–	¥ –	
Acquisition for treasury	370,714	333	
Balance as of March 31, 2002	370,714	333	
Acquisition for treasury	2,864,577	1,514	
Balance as of March 31, 2003	3,235,291	1,847	\$ 17,425
Acquisition for treasury	67,199,843	30,464	287,396
Sales of treasury stock	(325,161)	(149)	(1,406)
Balance as of March 31, 2004	70,109,973	¥32,162	\$303,415

At the ordinary general shareholders' meetings on June 25, 2003 and June 26, 2002, the Company was authorized to acquire for treasury up to 300,000,000 shares of its common stock each year for an aggregate acquisition amount not exceeding ¥150,000 million and ¥300,000 million, respectively, during 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.

16. 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
	2004	2003	2002	2004
Foreign currency translation adjustments:				
Balance at beginning of year	¥ (60,948)	¥ (38,012)	¥ (57,647)	\$ (574,981)
Other comprehensive income (loss), net of reclassification adjustments	(34,275)	(21,833)	19,986	(323,349)
Net transfer from minority interests arising from conversion of subsidiaries' convertible debentures . . .	172	7	-	1,623
Net transfer to minority interests arising from issuance of subsidiaries' common stock and other . . .	(735)	(1,110)	(351)	(6,934)
Balance at end of year	<u>¥ (95,786)</u>	<u>¥ (60,948)</u>	<u>¥ (38,012)</u>	<u>\$ (903,641)</u>
Minimum pension liability adjustments:				
Balance at beginning of year	¥(698,916)	¥(260,100)	¥(182,936)	\$(6,593,547)
Other comprehensive income (loss)	366,707	(438,799)	(77,338)	3,459,500
Net transfer from minority interests arising from conversion of subsidiaries' convertible debentures . . .	1,190	20	-	11,226
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other . . .	1,483	(37)	174	13,991
Balance at end of year	<u>¥(329,536)</u>	<u>¥(698,916)</u>	<u>¥(260,100)</u>	<u>\$(3,108,830)</u>
Net unrealized holding gain on available-for-sale securities:				
Balance at beginning of year	¥ 4,874	¥ 39,997	¥ 51,041	\$ 45,981
Other comprehensive income (loss), net of reclassification adjustments	26,635	(35,082)	(11,132)	251,274
Net transfer from minority interests arising from conversion of subsidiaries' convertible debentures . . .	31	1	1	292
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other . . .	(41)	(42)	87	(387)
Balance at end of year	<u>¥ 31,499</u>	<u>¥ 4,874</u>	<u>¥ 39,997</u>	<u>\$ 297,160</u>
Cash flow hedges:				
Balance at beginning of year	¥ (535)	¥ (369)	¥ 1,096	\$ (5,047)
Other comprehensive income (loss), net of reclassification adjustments	49	(147)	(1,464)	462
Net transfer from minority interests arising from conversion of subsidiaries' convertible debentures . . .	20	2	-	189
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other . . .	425	(21)	(1)	4,009
Balance at end of year	<u>¥ (41)</u>	<u>¥ (535)</u>	<u>¥ (369)</u>	<u>\$ (387)</u>
Total accumulated other comprehensive loss:				
Balance at beginning of year	¥(755,525)	¥(258,484)	¥(188,446)	\$(7,127,594)
Other comprehensive income (loss), net of reclassification adjustments	359,116	(495,861)	(69,948)	3,387,887
Net transfer from minority interests arising from conversion of subsidiaries' convertible debentures . . .	1,413	30	1	13,330
Net transfer from (to) minority interests arising from issuance of subsidiaries' common stock and other . . .	1,132	(1,210)	(91)	10,679
Balance at end of year	<u>¥(393,864)</u>	<u>¥(755,525)</u>	<u>¥(258,484)</u>	<u>\$(3,715,698)</u>

The following is a summary of reclassification adjustments by each classification of other comprehensive income (loss) arising during the years ended March 31, 2004, 2003 and 2002 and the amounts of income tax expense or benefit allocated to each component of other comprehensive income (loss), including reclassification adjustments.

	Millions of yen		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
2004			
Other comprehensive income arising during the year:			
Foreign currency translation adjustments	¥ (42,535)	¥ –	¥ (42,535)
Minimum pension liability adjustments	619,719	(253,012)	366,707
Net unrealized holding gain on available-for-sale securities	66,059	(26,678)	39,381
Cash flow hedges	(722)	62	(660)
	642,521	(279,628)	362,893
Reclassification adjustments for net loss (gain) included in net income:			
Foreign currency translation adjustments	8,260	–	8,260
Net unrealized holding gain on available-for-sale securities	(21,599)	8,853	(12,746)
Cash flow hedges	722	(13)	709
	(12,617)	8,840	(3,777)
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments	(34,275)	–	(34,275)
Minimum pension liability adjustments	619,719	(253,012)	366,707
Net unrealized holding gain on available-for-sale securities	44,460	(17,825)	26,635
Cash flow hedges	0	49	49
	¥629,904	¥(270,788)	¥359,116

	Thousands of U.S. dollars		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
2004			
Other comprehensive income arising during the year:			
Foreign currency translation adjustments	\$ (401,274)	\$ –	\$ (401,274)
Minimum pension liability adjustments	5,846,406	(2,386,906)	3,459,500
Net unrealized holding gain on available-for-sale securities	623,198	(251,679)	371,519
Cash flow hedges	(6,811)	585	(6,226)
	6,061,519	(2,638,000)	3,423,519
Reclassification adjustments for net loss (gain) included in net income:			
Foreign currency translation adjustments	77,925	–	77,925
Net unrealized holding gain on available-for-sale securities	(203,764)	83,519	(120,245)
Cash flow hedges	6,811	(123)	6,688
	(119,028)	83,396	(35,632)
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustments	(323,349)	–	(323,349)
Minimum pension liability adjustments	5,846,406	(2,386,906)	3,459,500
Net unrealized holding gain on available-for-sale securities	419,434	(168,160)	251,274
Cash flow hedges	0	462	462
	\$5,942,491	\$(2,554,604)	\$3,387,887

	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)
	<u>(821,633)</u>	<u>329,157</u>	<u>(492,476)</u>
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
	<u>(5,474)</u>	<u>2,089</u>	<u>(3,385)</u>
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)
	<u>¥(827,107)</u>	<u>¥331,246</u>	<u>¥(495,861)</u>

	Millions of yen		
	2002		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Other comprehensive 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)
	<u>(211,661)</u>	<u>96,749</u>	<u>(114,912)</u>
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)
	<u>77,940</u>	<u>(32,976)</u>	<u>44,964</u>
Other comprehensive 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)
	<u>¥(133,721)</u>	<u>¥63,773</u>	<u>¥ (69,948)</u>

17. COMMITMENTS AND CONTINGENCIES

The Company and its operating subsidiaries are contingently liable for loan guarantees to its affiliates in the amount of approximately ¥34,184 million (\$322,491 thousand) as of March 31, 2004.

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, 2004, the undiscounted maximum potential future payments under such guarantees amounted to ¥597,113 million (\$5,633,142 thousand) of which ¥131,539 million (\$1,240,934 thousand) is covered by consumer credit insurance. The Company has accrued ¥4,124 million (\$38,906 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 and HCC provide loan commitments to its affiliates.

The outstanding balance of these revolving lines of credit, credit facilities and loan commitments as of March 31, 2004 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Total commitment available	¥632,713	\$5,968,990
Amount utilized	9,421	88,877
Balance available	¥623,292	\$5,880,113

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

The Company and certain of its subsidiaries hold line of credit arrangements with banks in order to secure a source of working capital. The unused line of credit as of March 31, 2004 amounted to ¥179,143 million (\$1,690,028 thousand).

As of March 31, 2004, outstanding commitments for the purchase of property, plant and equipment were approximately ¥26,526 million (\$250,245 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. The changes in accrued product warranty costs for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Balance at beginning of year	¥105,297	¥ 98,865	\$ 993,368
Expense recognized upon issuance of warranties	56,422	26,740	532,283
Payment of cash or in kind	(50,471)	(20,987)	(476,141)
Other, including effect of foreign currency translation	(3,474)	679	(32,774)
Balance at end of year	¥107,774	¥105,297	\$1,016,736

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, 2004 and 2003, the Company and subsidiaries were contingently liable for trade notes discounted and endorsed in the following amounts:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Notes discounted	¥ 3,839	¥ 3,639	\$ 36,217
Notes endorsed	15,592	24,924	147,094
	¥19,431	¥28,563	\$183,311

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.

18. IMPAIRMENT LOSSES FOR LONG-LIVED ASSETS

The Company and certain subsidiaries recognized impairment losses for long-lived assets for the years ended March 31, 2004, 2003 and 2002 in the amount of ¥26,085 million (\$246,085 thousand), ¥8,474 million and ¥46,115 million, respectively.

For the year ended March 31, 2004, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan, which primarily consisted of ¥13,391 million (\$126,330 thousand) in the Corporate division and ¥8,175 million (\$77,123 thousand) in the Information & Telecommunication Systems division. These losses, in part, were the result of change in the manner the assets were used.

For the year ended March 31, 2003, the majority of the impairment losses were recorded on the Company's Device Development Center, which develops semiconductor products, resulted from the Company's realignment of the semiconductor operations.

Certain subsidiaries recognized impairment losses for the year ended March 31, 2002 in the amount of ¥46,115 million. Impairment losses resulted due mainly to the significant decline in demand and prices of semiconductor products.

19. RESTRUCTURING CHARGES

Certain losses incurred in the reorganization of the Company's operations are considered as restructuring charges. Components and related amounts of the restructuring charges, before the related tax effects, for the years ended March 31, 2004, 2003 and 2002 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Special termination benefits	¥18,155	¥ –	¥185,105	\$171,274
Loss on fixed assets	10,458	–	51,316	98,660
Loss on disposal of inventories	–	–	19,451	–
Lease termination and business partner compensation	–	–	11,487	–
Cost incurred in association with employee termination including retraining and outplacement . .	–	–	7,404	–
Others	–	–	13,333	–
Total restructuring charges	¥28,613	¥ –	¥288,096	\$269,934

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 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 were effective for exit or disposal activities that were 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.

The Company and certain subsidiaries provided special termination benefits to those employees voluntarily leaving the Company. The accrued special termination benefits were recognized at the time voluntary termination was offered and benefits accepted by the employees. An analysis of the accrued special termination benefits for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Balance at beginning of the year	¥ –	¥114,266	¥ 2,371	\$ –
New charges	18,155	–	185,105	171,274
(employees to be terminated)	2,143	–	22,422	–
Cash payments	(17,247)	(114,213)	(73,252)	(162,708)
(employees actually terminated)	2,037	10,077	12,681	–
Foreign currency exchange rate changes	–	(53)	42	–
Balance at end of the year	¥ 908	¥ –	¥114,266	\$ 8,566

The following represent significant restructuring activities for the year ended March 31, 2004 by business line:

1. Power & Industrial Systems division restructured in order to address the general weakness in demand primarily in Japan. The accrued special termination benefits newly charged amounted to ¥1,414 million (\$13,340 thousand). The liabilities for special termination benefits in the amount of ¥715 million (\$6,745 thousand) will be paid by March 2005. Total restructuring charges consisted only of special termination benefits.

2. Digital Media & Consumer Products division restructured its consumer products plants and related distribution network in order to address the general weakness in consumer demand primarily, in Japan. The accrued special termination benefits newly charged amounted to ¥14,394 million (\$135,792 thousand). The liabilities for special termination benefits in the amount of ¥26 million (\$245 thousand) will be paid by March 2005. Total restructuring charges amounted to ¥17,760 million (\$167,547 thousand).
3. High Functional Materials & Components division restructured its semiconductor packaging materials operations because the business environment took a dramatic downturn in Japan. The accrued special termination benefits newly charged amounted to ¥2,347 million (\$22,142 thousand). The liabilities for special termination benefits in the amount of ¥167 million (\$1,575 thousand) will be paid by March 2005. Total restructuring charges amounted to ¥9,439 million (\$89,047 thousand).

For the year ended March 31, 2002, the Company and certain subsidiaries incurred restructuring charges in the amount of ¥288,096 million. The restructuring resulted from the Company'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 restructuring charges by major division are as follows:

	Millions of yen					
	IT Systems	Electronic Devices	Digital Media & Consumer Products	High Functional Materials & Components	Other	Total
Special termination benefits	¥45,294	¥46,301	¥21,510	¥11,613	¥60,387	¥185,105
Loss on fixed assets	2,220	25,695	7,485	10,321	5,595	51,316
Loss on disposal of inventories	14,548	1,902	1,410	275	1,316	19,451
Lease termination and business partner compensation	877	3,061	5,486	276	1,787	11,487
Cost incurred in association with employee termination including retraining and outplacement	678	2,210	2,318	894	1,304	7,404
Others	173	3,549	1,036	2,314	6,261	13,333
Total restructuring charges	¥63,790	¥82,718	¥39,245	¥25,693	¥76,650	¥288,096

Restructuring charges related to lease termination and business partner compensation, cost incurred in association with employee termination including retraining and outplacement, and others have been accrued as liabilities. The majority of the liabilities were paid by March 2002. In addition to the liabilities above, special termination benefits have been accrued as liabilities and were substantially paid by March 2003.

The following represent significant restructuring activities by business line:

1. Information & Telecommunication Systems ("IT Systems") division restructured its telecommunications business in North America. The exit strategy called for a complete exit except for the after-service business by March 2002. The decision came as the result of its major customer filing for bankruptcy and required liquidation of all financial assets and obligations of the business. As a result, the Company and certain subsidiaries disposed of inventories and fixed assets. The charges in connection with such restructuring amounted to ¥23,369 million, including the accrual of ¥9,342 million mainly for special termination benefits. The liabilities recognized were paid by March 2003.
2. Electronic Devices division decided to shut down several cathode ray tube monitor manufacturing plants and production lines in Japan, Singapore and Malaysia, and direct view color television product lines in North America. This decision was due to intense competition and general overcapacity in the market. The plan called for a complete exit from the business by the end of April 2002 and involved the Company and certain subsidiaries disposing of inventories and fixed assets. The charges in connection with such restructuring amounted to ¥30,412 million, and an accrual of ¥13,921 million for special termination benefits and ¥4,851 million mainly for cancellation penalties were made. The liabilities for special termination benefits were paid by March 2003 and the remaining liabilities were substantially paid by March 2002.

Semiconductor facilities and production lines were reorganized in Japan in response to a sharp decline in semiconductor product prices and general overcapacity in the market, was as the result of the decline in demand for semiconductor products used in PCs and mobile communications equipment. The reorganization plan included moving front-end production operations to newer lines to maximize efficiency and back-end production bases were consolidated, resulting in a fewer number of bases. The associated restructuring charges amounted to ¥45,510 million, including an accrual of ¥37,156 million. The liabilities for special termination benefits in the amount of ¥28,479 million were paid by March 2003, and the liabilities in the amount of ¥8,677 million incurred mainly for removal costs were substantially paid by March 2002.

3. Digital Media & Consumer Products division restructured its television manufacturing plants and related distribution network in order to address the general weakness in consumer demand. This restructuring was in response to the slow down of the global economy and general decline in color television prices. In order to strengthen its global competitiveness, the Company decided to consolidate its manufacturing operation and streamline its sales channels. As part of the restructuring effort within Asia, the Company decided to transfer color television product management, R&D and manufacturing capabilities, and vacuum cleaner production from Singapore to certain subsidiaries in China, Indonesia and Thailand. U.K. sales and manufacturing subsidiaries were liquidated in February 2002 in an effort to reorganize the European sales channel. The Company disposed of inventories and fixed assets in the process of implementing its restructuring measures. The charges in connection with such restructuring amounted to ¥9,581 million. The liabilities for special termination benefits in the amount of ¥3,634 million were paid by March 2002, and the liabilities for lease termination and others which amounted to ¥2,719 million were substantially paid by March 2002.
4. In High Functional Materials & Components division, the mobile telephone parts business was restructured as the result of weak demand for IT related parts and supplies. Restructuring measures taken included streamlining of the production lines in Japan and shutting down of manufacturing plants in Malaysia and Japan. The charges in connection with such restructuring amounted to ¥23,474 million, with ¥11,940 million accrued mainly for special termination benefits. The liabilities were paid by March 2003.
5. A restructuring charge of ¥76,650 million, of which ¥60,387 million represented special termination benefits was incurred in the other remaining businesses of the Company.

20. OTHER INCOME AND OTHER DEDUCTIONS

“Other income” for the year ended March 31, 2004 and “Other deductions” for the years ended March 31, 2003 and 2002 includes the net gain on securities in the amount of ¥130,175 million (\$1,228,066 thousand) and the net loss on securities in the amount of ¥660 million and ¥80,938 million, respectively. Equity in earnings of affiliated companies included in “Other income” for the year ended March 31, 2004 and “Other deductions” for the years ended March 31, 2003 and 2002 is a gain of ¥10,120 million (\$95,472 thousand) and losses of ¥15,803 million and ¥35,756 million, respectively.

For the year ended March 31, 2003, the Company and certain subsidiaries recorded a net periodic benefit cost of ¥24,857 million which was 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.”

For the years ended March 31, 2004 and 2003, net gain on sale and disposal of rental assets and other property, classified as “Other income,” amounted to ¥1,715 million (\$16,179 thousand) and ¥23,658 million, respectively, while net loss on sale and disposal of rental assets and other property of ¥15,150 million was included in “Other deductions” for the year ended March 31, 2002.

21. 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		
	2004	2003	2002
Weighted average number of shares on which basic net income (loss) per share is calculated	3,303,624,737	3,351,624,705	3,337,850,007
Effect of dilutive securities:			
6th series convertible debentures	-	-	-
7th series convertible debentures	-	-	-
Stock option	134,551	-	-
Number of shares on which diluted net income (loss) per share is calculated	3,303,759,288	3,351,624,705	3,337,850,007

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Net income (loss) applicable to common stockholders	¥15,876	¥27,867	¥(483,837)	\$149,774
Effect of dilutive securities:				
6th series convertible debentures	-	-	-	
7th series convertible debentures	-	-	-	
Other	(192)	(402)	-	(1,812)
Net income (loss) on which diluted net income (loss) per share is calculated	¥15,684	¥27,465	¥(483,837)	\$147,962

	Yen			U.S. dollars
	2004	2003	2002	2004
Net income (loss) per share:				
Basic	¥4.81	¥8.31	¥(144.95)	\$0.05
Diluted	4.75	8.19	(144.95)	0.04

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 years ended March 31, 2003 and 2004 excludes 6th and 7th series convertible debentures because their effect would have been antidilutive. In addition, 6th series convertible debentures were redeemed in September 2003.

22. SUPPLEMENTARY INCOME INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Research and development expense	¥371,825	¥377,154	¥415,448	\$3,507,783
Advertising expense	48,512	52,165	55,075	457,660
Rent	142,649	156,552	155,237	1,345,745
Exchange (gain) loss	17,484	18,262	(7,424)	164,943

23. SUPPLEMENTARY CASH FLOWS INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Cash paid during the year for:				
Interest	¥32,128	¥35,932	¥ 52,881	\$303,094
Income taxes	93,858	94,013	159,132	885,453

Convertible debentures issued by the Company of ¥1 million (\$9 thousand) in 2004 and ¥556 million in 2002 were converted into common stock. Convertible debentures issued by subsidiaries of ¥6,769 million (\$63,858 thousand) in 2004, ¥4,728 million in 2003 and ¥579 million in 2002 were converted into subsidiaries' common stock. Capital lease assets of ¥3,998 million (\$37,717 thousand) in 2004, ¥4,050 million in 2003 and ¥3,874 million in 2002 were capitalized.

The proceeds from sale of securities classified as available-for-sale discussed in note 4 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.

24. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Overall risk profile

The major manufacturing bases of the Company and its subsidiaries are located in Japan and Asia. The selling bases are located globally, and the Company and its subsidiaries generate approximately 35% of their sales from overseas. These overseas sales are mainly denominated in the U.S. dollar or Euro. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates.

The Company's financing subsidiaries in 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 rates and interest rates.

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

Risk management policy

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

Foreign currency exchange rate risk management

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

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

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

Interest rate risk management

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

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

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

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

Fair value hedge

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

Interest charges for the year ended March 31, 2004 include losses of ¥1,098 million (\$10,358 thousand) which represents the component excluded from the assessment of hedge effectiveness.

Cash flow hedge

Foreign currency exposure

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

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, 2004, 2003 and 2002.

It is expected that approximately ¥231 million (\$2,179 thousand) of gains recorded in AOCI relating to existing forward exchange contracts will be reclassified into other income and other deductions during the year ending March 31, 2005.

As of March 31, 2004, 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 50 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, 2004, 2003 and 2002 include losses of ¥356 million (\$3,358 thousand), losses of ¥497 million and gains of ¥667 million, respectively, which represents the component excluded from the assessment of hedge effectiveness. Interest charges for the year ended March 31, 2004 include losses of ¥257 million (\$2,425 thousand) which represents the component of the hedging ineffectiveness.

During the year ending March 31, 2005, approximately ¥33 million (\$311 thousand) of losses recorded in 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, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Forward exchange contracts:			
To sell foreign currencies	¥235,750	¥187,093	\$2,224,057
To buy foreign currencies	29,462	27,584	277,943
Cross currency swap agreements:			
To sell foreign currencies	23,896	51,789	225,434
To buy foreign currencies	132,842	128,717	1,253,226
Interest rate swaps	445,609	484,961	4,203,858
Option contracts	8,708	828	82,151

25. 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 they are diversified and spread globally.

26. 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 Company's and its subsidiaries' 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, interest rate swaps and option contracts 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, 2004 and 2003 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2004		2003		2004	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Investment in securities:						
Short-term investments . . .	¥ 177,949	¥ 177,949	¥ 186,972	¥ 186,972	\$ 1,678,764	\$ 1,678,764
Investments and advances . .	312,484	312,489	299,143	299,138	2,947,962	2,948,009
Derivatives (Assets):						
Forward exchange contracts	3,422	3,422	668	668	32,283	32,283
Cross currency swap agreements	1,961	1,961	279	279	18,500	18,500
Interest rate swaps	2,024	2,024	1,921	1,921	19,094	19,094
Option contracts	3	3	10	10	28	28
Long-term debt	(1,873,749)	(1,893,728)	(2,014,738)	(2,064,192)	(17,676,878)	(17,865,358)
Derivatives (Liabilities):						
Forward exchange contracts	(353)	(353)	(1,333)	(1,333)	(3,330)	(3,330)
Cross currency swap agreements	(8,610)	(8,610)	(3,045)	(3,045)	(81,226)	(81,226)
Interest rate swaps	(3,669)	(3,669)	(3,853)	(3,853)	(34,613)	(34,613)
Option contracts	(60)	(60)	(3)	(3)	(566)	(566)

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, 2004 and 2003 totaled ¥77,242 million (\$728,698 thousand) and ¥75,860 million, respectively.

27. 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 based on the quoted market price of ¥940 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
Current assets	¥ 68,427
Non-current assets	121,248
Goodwill	10,435
Current liabilities	(99,453)
Non-current liabilities	(76,120)
Net assets acquired	(23,635)
Net assets previously acquired	(902)

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 interest in a company to which the hard disk drive operations and related intellectual property portfolio had been transferred from International Business Machines Corp. (IBM) for a total cash purchase price (excluding acquisition costs) of ¥222,262 million, including certain purchase price adjustments subsequent to the initial purchase date. The purchase price and the amount of goodwill recorded upon acquisition may be reduced. The purchase price is payable in three installments, of which the first two installments were paid in the years ended March 31, 2003 and 2004, with the remaining payment due in December 2005.

On January 1, 2003, this company began operating as Hitachi Global Storage Technologies Netherlands B.V. (HGST). HGST offers a full array of hard disk drives and this acquisition will complement and expand the Company's product portfolio, production capacity, research and development and distribution channels 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 amounts assigned to each major asset and liability caption of HGST at the acquisition date are as follows:

	Millions of yen
Current assets	¥ 94,865
Non-current assets	184,326
Goodwill	15,138
Current liabilities	(35,948)
Non-current liabilities	(32,159)
Net assets acquired	(226,222)

The purchase price upon closing is as follows:

	Millions of yen
Cash paid to IBM in the year ended March 31, 2003 and 2004	¥180,251
Cash to be paid to IBM	42,011
Direct acquisition costs	3,960
Total purchase price	<u>¥226,222</u>

In-process research and development assets amounting to ¥2,787 million 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 beginning 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	
	2003	2002
Revenue	¥8,541,202	¥8,480,778
Net loss	(149,891)	(529,055)

	Yen	
	2003	2002
Basic net loss	¥(44.72)	¥(158.50)
Diluted net loss	(44.84)	(158.50)

28. STOCK OPTION PLANS

The Company has three stock option plans under which non-employee directors, executive officers 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 and are exercisable from one year after the date of grant and expire four or five years after the date of grant. The Company recognized no compensation expense related to employee stock options for the years ended March 31, 2004, 2003 and 2002.

A summary of stock option plans activity for the years ended March 31, 2004, 2003 and 2002 is as follows:

	2004		2003		2002		2004
	Stock options (shares)	Weighted- average exercise price	Stock options (shares)	Weighted- average exercise price	Stock options (shares)	Weighted- average exercise price	Weighted- average exercise price
Outstanding at beginning of year . . .	1,165,000	¥1,314	1,437,000	¥1,314	527,000	¥1,451	\$12
Granted	1,305,000	561	–	–	1,090,000	1,270	5
Forfeited	(276,000)	1,315	(272,000)	1,311	(180,000)	1,451	12
Outstanding at end of year	2,194,000	¥ 866	1,165,000	¥1,314	1,437,000	¥1,314	\$ 8

Weighted-average remaining contractual life	2.8 years	3.1 years	4.1 years
Options exercisable at end of year . .	889,000 shares	1,165,000 shares	347,000 shares

The exercise prices of the stock options outstanding as of March 31, 2004 are ¥1,451 (\$13.69), ¥1,270 (\$11.98) and ¥561 (\$5.29).

In addition, in April 2004, the Board of Directors decided to propose the adoption of stock option plans for non-employee directors, executive officers and certain employees to the general shareholders' meeting to be held in June 2004. In accordance with the proposals, up to 1,500,000 options to purchase of the Company's common stock will be granted at exercise prices not less than market value at the date of grant, and are exercisable from one year after the date of grant and expire four years after the date of grant.