

To Our Shareholders

In fiscal 2004, we reaped the benefits of past business structural reforms and initiatives to strengthen our businesses. This was underscored with higher sales and earnings. In fiscal 2005, the final year of “i.e.HITACHI Plan II,” our current medium-term management plan, we will work to raise our ability to generate higher earnings. At the same time, guided by our founding philosophy of contributing to society through technology, and mindful of our obligation to fulfill our corporate social responsibility (CSR), we will push through initiatives that will ensure the medium- and long-term development of the Hitachi Group. The ultimate goal is to raise long-term shareholder value.



Etsuhiko Shoyama
*President, Chief Executive Officer
and Director*

Fiscal 2004 Operating Results

In fiscal 2004, the year ended March 31, 2005, the global economy was generally strong, supported by growth in the U.S. In Japan, too, the economy was generally healthy throughout the fiscal year due to strength in exports and plant and equipment investment. On the downside, though, were rising inventories of electronic devices and slowing investment in plant and equipment for electronics-related products in the fiscal year's second half.

Under these circumstances, total consolidated revenues rose 5% year on year to ¥9,027.0 billion (US\$84,365 million), with revenues in Japan up 2% and overseas revenues rising 10%. This was our third successive year of top-line growth. One reason was the benefits of business reorganization. In addition, many segments posted higher revenues. Power & Industrial Systems segment revenues rose along with growth in construction machinery sales. The Digital Media & Consumer Products segment saw strong growth in plasma TVs and other products due to a buoyant digital consumer electronics market in the first half of fiscal 2004. In the High Functional Materials & Components segment, revenues rose mainly because of higher sales of components and materials for electronics- and automotive-related fields.

Operating income climbed 51% to ¥279.0 billion (US\$2,608 million), the result of sharply higher earnings in the Power & Industrial Systems, High Functional Materials & Components and other segments, as well as vigorous cost-cutting. The latter included reducing operating expenses, mainly materials and energy expenses, and strengthening hands-on skills and techniques for quality manufacturing. As with revenues, this was the third consecutive year of operating income growth. Income before income taxes and minority interests rose 12% to ¥264.5 billion (US\$2,472 million) and net income was up 224% to ¥51.4 billion (US\$481 million).

Fiscal 2004 capital investment (excluding leasing assets) rose 29% to ¥382.1 billion (US\$3,570 million), mainly due to investments related to increasing hard disk drive (HDD) output and transforming the product mix in the displays business. R&D expenditures increased 5% to ¥388.6 billion (US\$3,632 million) and represented 4.3% of revenues. The Information & Telecommunication Systems segment accounted for 42% of R&D expenditures.

Our financial position continued to improve. While interest-bearing debt was on a par with a year ago at ¥2,502.5 billion (US\$23,388 million) on March 31, 2005, stockholders' equity rose ¥139.7 billion to ¥2,307.8 billion (US\$21,569 million). As a result, the stockholders' equity ratio improved 1.1 point to 23.7%, and the debt/equity ratio (interest-bearing debt/(minority interests + stockholders' equity)) improved 0.06 point year on year to 0.78 times. This means that we achieved our medium-term management plan target of 0.8 times one year ahead of schedule.

The annual cash dividend per share was raised from ¥8.0 in fiscal 2003 to ¥11.0 in fiscal 2004.

“i.e.HITACHI Plan II” Medium-Term Management Plan

Under “i.e.HITACHI Plan II,” which ends in fiscal 2005, we have been reshaping our business portfolio, taking actions such as growing targeted fields and creating new businesses. These efforts have been aimed at setting Hitachi apart and bolstering our ability to compete by leveraging the aggregate strengths of the Hitachi Group, as a collection of strong businesses. Our focus has been on two business domains in particular—“New Era Lifeline Support Solutions,” which strengthen and fuse information system services and social infrastructure systems; and “Global Products Incorporating Advanced Technology,” which is centered on highly competitive hardware and software—to derive synergies while differentiating Hitachi in the marketplace. By generating high earnings through the delivery of competitive products and services, we are determined to meet the expectations of shareholders, customers, employees and other stakeholders.

A Focus on Targeted Fields

Our basic stance is that we must make individual businesses stronger. In this regard, we have restructured the Hitachi Group internally as well as entered alliances, formed joint ventures, and acquired and sold companies, among other actions. These actions continue to this day.

One business we are focusing on is automotive systems, which is where we can leverage the wide-ranging technologies of the Hitachi Group. In October 2004, Hitachi, Ltd. merged with equity-method affiliate TOKICO LTD. and subsidiary Hitachi Unisia Automotive, Ltd. to strengthen the ability to develop products in the engine management system and drive control system fields, as well as improve operating efficiency. In another move, we teamed up with subsidiaries Shin-Kobe Electric Machinery Co., Ltd. and Hitachi Maxell, Ltd. to establish Hitachi Vehicle Energy, Ltd. This new company was formed to develop and manufacture rechargeable lithium-ion batteries for hybrid electric vehicles. Moreover, in May 2005, we announced that we would be strengthening ties with Clarion Co., Ltd. in the Car Information Systems (CIS) field. This will be an extension of joint development projects with Clarion in the past.

We also reinforced businesses connected with flat-panel TVs, which are expected to see a surge in demand. In April 2005, we made Fujitsu Hitachi Plasma Display Limited (FHP) a subsidiary by acquiring part of Fujitsu Limited's stake in this company, which manufactures and sells plasma display panels (PDPs). This move unified business strategy in PDPs and plasma TVs as well as strengthened competitiveness in terms of price. In LCD panels for TVs, operations commenced in January 2005 at IPS Alpha Technology, Ltd., a joint venture Hitachi formed with Toshiba Corporation and Matsushita Electric Industrial Co., Ltd. IPS Alpha Technology is an equity-method affiliate of Hitachi. Plans call for the start of mass production at this company between July and September 2006.

In April 2004, Hitachi Metals, Ltd. merged its magnetic materials business with the same business of Sumitomo Special Metals Co., Ltd. to form NEOMAX Co., Ltd., which became a subsidiary. This merger was made to strengthen the magnetic materials business, where growth is forecast worldwide. Furthermore, in October 2004, Hitachi sold its entire stake in printer subsidiary Hitachi Printing Solutions, Ltd. to Ricoh Company, Ltd.

Past actions to reshape our portfolio are steadily producing results. Two semiconductor-related companies established with other companies saw their operating results improve in fiscal 2004. One was equity-method affiliate Renesas Technology Corp., a joint venture established in April 2003 with Mitsubishi Electric Corporation. The other was Elpida Memory, Inc., an equity-method affiliate established with NEC Corporation in 1999. Elpida Memory listed on the Tokyo Stock Exchange in November 2004.

Speeding Up Global Business Development

Bolstering its competitiveness overseas is another way Hitachi is driving growth. We are concentrating resources on businesses and products where we can be one of the top three players in the global market, as we look to accelerate the pace at which we develop our businesses globally.

In the "Global Products Incorporating Advanced Technology" domain, we have strong positions in HDDs, optical disk drives, recording media and highly functional materials and components. And we are growing plasma TVs, LCD projectors and other products. In the "New Era Lifeline Support Solutions" domain, our SAN/NAS storage solutions business is expanding steadily. Moreover, in the Power & Industrial Systems segment, sales of construction machinery and power systems are climbing, and we are working to capture more orders for railway systems and other products.

Overseas revenues rose 10% year on year in fiscal 2004, lifting the share of overseas revenues to total revenues by 2 points to 36%. Growth in sales to Asia was strong, particularly to China, where revenues jumped 25% from fiscal 2003.

The Hitachi Group aims to develop business in regions around the world as a “truly local company.” We have stationed full-time regional representatives in Europe, North America and China and have decided to promote locally led business development that takes into account the special characteristics of each region. From October through November last year, we staged the “Hitachi Exhibition—China 2004” in Beijing, Shanghai and Guangzhou. This exhibition was staged to promote understanding of the Hitachi Group’s innovativeness and collective strengths. In addition, in April 2005, we established Hitachi (China) Research & Development Corporation as an R&D base for supporting the development of Hitachi Group business in China.

Growing Targeted Fields, Creating New Businesses and Capturing Group Synergies

Besides aiming for growth in targeted fields, “i.e.HITACHI Plan II” also incorporates elements that look into the future. An integral part of the plan is to create and nurture businesses that will support Hitachi’s medium- and long-term growth.

Mainstay and new businesses that will drive our growth have been designated as “Inspire A Businesses.” For example, businesses where Hitachi can best leverage its strengths, in an environment where elemental technologies and markets now cut across several business groups, in particular have been designated as “Inspire A Businesses.” Hitachi will take whatever steps are necessary to reinforce these businesses to support their future development. This will include allocating resources and establishing an operating framework that facilitates collaboration among many businesses in the Hitachi Group. Furthermore, Hitachi is continuing with measures designed to nurture employees and create new businesses, including the establishment of virtual venture companies by “corporate senior staff.”

In the storage products business, we aim to be the overall number-one in the global marketplace as a vertically integrated solutions vendor with two key businesses. One is SAN/NAS storage solutions. Here we command a leading position in the high-end market. The other is HDDs, where demand is growing for use in digital consumer electronics and other products, in addition to IT applications. In the biomedical business, we are making up-front investments in R&D and other areas in fields such as imaging analysis and DNA diagnostics. In automotive systems, where we aim for high growth globally, we are strengthening business to create Intelligent Transport Systems (ITS). In the urban planning and development systems business, which centers on elevators and escalators, we intend to expand our solutions business utilizing IT, energy, security and other wide-ranging Hitachi Group management resources. In digital consumer electronic products, our strategy is to leverage vertical integration with LCDs, PDPs, optical disk drives and other core components to make our products more competitive.

R&D is another area we are beefing up. We will reinforce R&D in respect of both frontier research, and platform research that can be used by the whole Hitachi Group. The former aims to cultivate future mainstay businesses, while the latter has a more immediate focus of improving productivity and quality as well as quickening the pace of product development. Hands-on skills and techniques for quality manufacturing will also be reinforced through the passing down of technology through the WorldSkills Competition and in other ways.

In April 2004, we established the Hitachi Group Headquarters to improve management of the Group. This internal organization is at the center of our efforts to raise our earnings by capturing synergies using the size of the Hitachi Group and through other means. We have been successful on several fronts. Project C II, which was initiated to improve the efficiency of working capital, has been instrumental in reducing the number of days it takes to turn over inventory and accounts receivable from 79.3 days at March 31, 2003 to 74.4 days at March 31, 2005. Meanwhile, Project D, launched to reduce procurement costs, yielded year-on-year savings of ¥300.0 billion in fiscal 2004.

Improving Shareholder Value

In fiscal 2005, we are determined to increase earnings further. We will enforce measures to manage business risk and to counter factors pressuring our earnings. At the same time, we will vigorously promote further cost-cutting and other initiatives. We will also continue to nurture and reinforce businesses with up-front investments for future growth.

In the Information & Telecommunication Systems segment, project management will be strengthened on a group-wide basis and development capabilities will be upgraded to improve the profitability of HDDs. In Electronic Devices, ongoing efforts will target the realignment of our product lineup, mainly in respect of LCDs. The Power & Industrial Systems segment has posted lackluster earnings in recent years. However, with fiscal 2004 bringing a closure to actions to deal with unprofitable projects, we expect the segment as a whole to deliver a solid performance in fiscal 2005, paced by construction machinery and urban planning and development systems. In the Digital Media & Consumer Products segment, we will continue to unify PDP and plasma TV business strategy and make our products more price competitive. We are forecasting higher revenues and earnings again in fiscal 2005 due to these and other measures. The measures we will execute to raise earnings continue to target positive FIV*.

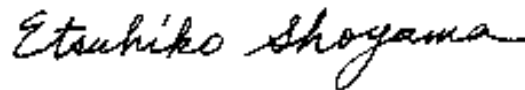
* FIV (Future Inspiration Value)

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

Hitachi will celebrate its 100th anniversary in 2010. With one eye on this important milestone, we will formulate a new management vision and strategy for the Hitachi Group and pursue business and technology portfolios that leverage the strengths of the Hitachi Group. The goal will remain higher earnings. In R&D, we have divided activities into three fields: Mechanical & Electrical, Electronics and Information. By strengthening technology platforms supporting core technologies in these three fields and through vertical integration of businesses and the black-boxing of technology, we will reinforce and nurture number-one businesses that make full use of the collective strengths of the Hitachi Group. In this way, we will continue to translate our philosophy of contributing to society through technology into concrete actions.

Hitachi aims to utilize the latest technologies to become our customers' "best solutions partner." Drawing on all of the Group's diverse resources and leveraging fully our unmatched, unique strengths, we are determined to become more competitive. This is how we will meet the expectations of our stakeholders, including shareholders, customers and employees, and society. And this is how we will drive an increase in the Hitachi Group's corporate value, and thus long-term shareholder value.

June 24, 2005



Etsuhiko Shoyama
President, Chief Executive Officer and Director