

## To Our Shareholders



Etsuhiko Shoyama  
*Chairman and Director*

Kazuo Furukawa  
*President and Director*

In fiscal 2005, the year ended March 31, 2006, the world economy remained healthy as a whole. This partly reflected strength in the U.S. economy, despite the impact of sharply higher crude oil prices and other factors. Furthermore, China's economy maintained strong growth, mainly on the back of domestic demand driven by capital investment. Moreover, Asian economies were supported by expanding exports and other factors. In Japan, the economy remained strong as higher corporate earnings and an improving job and wage environment fueled growth in plant and equipment investment and consumer spending.

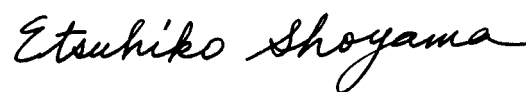
In these circumstances, total consolidated revenues rose 5% year on year to ¥9,464.8 billion. While revenues in Japan edged up only 1%, overseas revenues climbed 11% as Hitachi expanded the global reach of its businesses. On the earnings front, operating income fell 8% to ¥256.0 billion, the result of higher investments in R&D and marketing to strengthen businesses, soaring materials prices and falling sales prices in the digital media and other fields. These factors negated efforts to reduce costs by reducing procurement costs and operating expenses as well as by strengthening manufacturing capabilities. Net income dropped 28% year on year to ¥37.3 billion. On the other hand, there was an improvement in the debt/equity ratio (interest-bearing debt/(minority interests + stockholders' equity)) of 0.10 point from March 31, 2005 to 0.68 times. The annual cash dividend per share applicable to fiscal 2005 was unchanged at ¥11.0.

We are determined to improve earnings in fiscal 2006. Actions will include concentrating R&D and marketing investments on targeted business fields, strengthening our business infrastructure worldwide to accelerate the pace of global business expansion, capturing group synergies, and enhancing operating efficiency by rigorously reducing costs, including actions to bolster manufacturing capabilities. At the same time, we will step up efforts with regard to businesses we have high hopes for in the future and where we have been making up-front investments.

Hitachi will celebrate its 100th anniversary in 2010. Guided by our founding credo to contribute to society through the development of original technology and products, we will innovate by combining our wealth of experience, knowledge and expertise gained from our involvement in a broad range of business domains to display our true collective strengths. Our aim is to create even higher value that will truly excite and inspire our customers and society.

In this way, we will meet the expectations of all our stakeholders, including shareholders, customers and employees, and contribute to the advancement of society. Through this process we believe that we can increase long-term shareholder value.

June 27, 2006



Etsuhiko Shoyama  
Chairman and Director



Kazuo Furukawa  
President and Director