

Interview with Management

Hitachi is determined to display its true collective strengths to create even higher value that only Hitachi can deliver. To achieve this goal, we will innovative by drawing on our wealth of experience, knowledge and expertise gained from our involvement in a broad range of business domains.

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

Q: Hitachi’s medium-term management plan, “i.e.HITACHI Plan II,” ended in fiscal 2005. How do you evaluate the company’s performance during the plan?

Chairman Shoyama: The key initiatives of “i.e.HITACHI Plan II” were to reshape our business portfolio, accelerate globalization and create new businesses. We set four specific goals for fiscal 2005 when the plan was launched in 2003: positive FIV*1, an operating margin of at least 5%, ROE of at least 8%, and maintaining a single-A grade long-term credit rating. During the three years of the plan, we strengthened operations in targeted fields and sped up global business development by executing a raft of structural reforms. We also improved the health of our balance sheet. Our debt/equity ratio at March 31, 2006 was 0.68 times. Not only was this 0.10 point lower than a year ago, it was better than our target of 0.80 times. Unfortunately, we fell short of our other targets, which are still in the process of improvement, except for our credit rating goal. In fiscal 2005, FIV was negative, and operating income and ROE were only 2.7% and 1.5%, respectively. I attribute this underperformance to an increase in up-front investments needed to bolster certain businesses and position them for the future, to surging raw materials prices and to falling sales prices in the digital media and other fields. I assure you, however, that these targets remain very much in our minds and that we are determined to achieve all of them as soon as possible. Our approach will be to continue bolstering and nurturing targeted businesses with future demand potential where we have made up-front investments, and to push through more structural reforms.

*1 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.

New Management Team

Q: A new management team took the reins at Hitachi in April 2006. What will be your role as chairman and what role will the president play?

Chairman Shoyama: The post of chairman as executive officer was established to further improve consolidated management of the Hitachi Group. I will work hand in hand with Mr. Furukawa to manage Hitachi based on shared responsibility. As chairman, I am responsible for devising basic strategy for management of the group. Mr. Furukawa will ensure that concrete actions are taken in accordance with this strategy.



Q: As Hitachi's new president, how do you intend to manage the company?

President Furukawa: Upon my appointment as president, I was reminded of the founding spirit of Hitachi, which is encapsulated by the words, "harmony," "sincerity" and "pioneering spirit." I have reaffirmed the importance of this spirit even today with three words that I hope will define my presidency: trust, challenge and leap forward. With respect to the founding spirit, I would like to single out pioneering spirit, which is at the heart of the will to take on challenges. To leap forward, we must rise to the challenge in three aspects of our operations: innovation, globalization and capturing synergies.

I believe that Hitachi should be an aggregate of businesses that underpin people's lives. That is, it should be an aggregation of social infrastructure, industrial infrastructure and life infrastructure, each combined with information infrastructures to produce synergies and create optimal value, what we call "uVALUE,^{*2}" for customers and society. In other words, Hitachi should be a business entity that utilizes its true collective strengths to add considerable value that only Hitachi can deliver through innovations from the combination of experience, knowledge and expertise drawn from a broad range of business areas.

From a medium-term perspective, I am convinced that the course of the business structural reforms under "i.e.HITACHI Plan II," was correct. This restructuring is producing results. We have also made progress with respect to consolidated management and strengthening of group governance. Looking ahead, though, we will redouble our efforts to achieve as soon as possible the goals that we failed to meet during the medium-term plan.

^{*2} uVALUE

uVALUE comprises the letter "u," which stands for ubiquitous, and the word "value." uVALUE is value created for customers in a ubiquitous information society by interconnecting business, lifestyles and communities. Hitachi is determined to create this value with customers as their "best solutions partner."

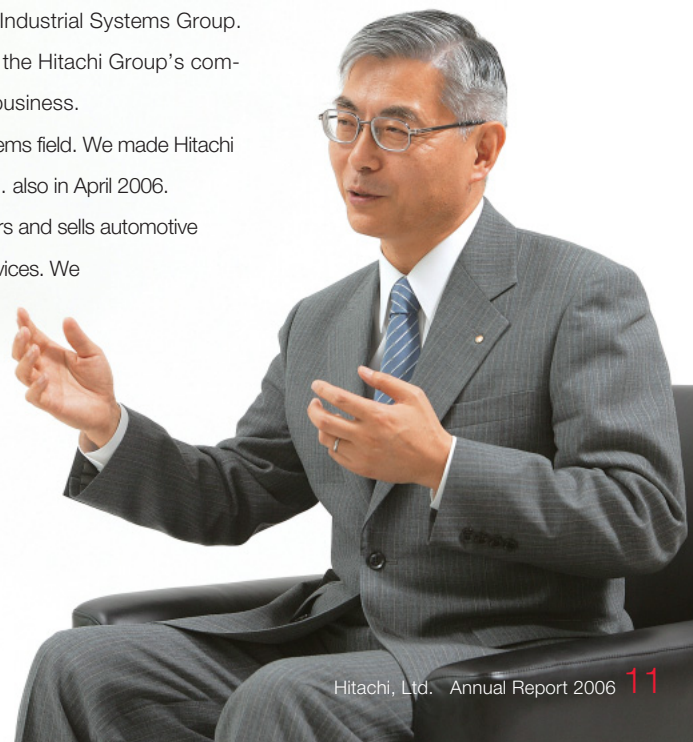
Business Structural Reforms and Globalization

Q: What progress has Hitachi made with business structural reforms?

Chairman Shoyama: Under "i.e.HITACHI Plan II," we implemented a host of structural reforms to make our businesses more competitive. In the past fiscal year, we announced three major initiatives, in particular.

One was the April 2006 formation of a company called Hitachi Plant Technologies, Ltd. through the merger of Hitachi Plant Engineering & Construction Co., Ltd., Hitachi Kiden Kogyo, Ltd. and Hitachi Industries Co., Ltd. with part of Hitachi, Ltd.'s Industrial Systems Group. This integration of resources was made to strengthen the Hitachi Group's competitiveness in the social and industrial infrastructure business.

The second major reform was in the automotive systems field. We made Hitachi Mobile Co., Ltd. a wholly owned subsidiary of Hitachi, Ltd. also in April 2006. Formerly a publicly owned company, Hitachi Mobile repairs and sells automotive components as well as provides related maintenance services. We made this move to create an integrated framework for automotive systems that extends from development to manufacturing through engineering services.



April 2006 also saw the formation of Hitachi Appliances, Inc. from a merger of Hitachi Air Conditioning Systems Co., Ltd. and Hitachi Home & Life Solutions, Inc. The former manufactures and constructs air conditioning systems, while the latter manufactures and sells home appliances. This merger has reinforced the comprehensive air conditioning business, which supplies products ranging from home to commercial systems on a global scale, as well as the all-electric housing business.

Moving forward, no business will be immune from structural reforms. We fully intend to conduct business restructuring and M&As whenever we believe such actions are required to put a business on a more competitive footing.

Q: What progress has been made in terms of developing Hitachi's businesses on a global basis?

President Furukawa: We are seeing our efforts in this regards bear fruit. Our HDD, SAN/NAS storage solutions, construction machinery, high functional materials and other businesses continue to grow steadily overseas. And ongoing measures are being taken to develop new products and bolster sales capabilities to capture a larger slice of the world market in the automotive systems and plasma TV businesses as well.

Our overseas revenues are steadily increasing. Overseas revenues in fiscal 2005 grew 11% year on year to ¥3,639.6 billion. As a share of total revenues, overseas revenues rose 2 percentage points to 38%.

We continue to conduct our businesses on a local basis in each region by using systems that dovetail with the respective markets. For example, 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. And in the power systems business, we have put in place frameworks in both the U.S. and Europe that locally integrate business activities related to thermal power plants.

To be even more competitive on the global stage, I believe that we must step up the pace of this globalization drive. We plan to expand and strengthen our businesses further on a global basis in a number of ways. One is through more cohesive collaboration between regional chief executives in North America, Europe and China and our business divisions. At the same time, we will improve total supply chain management to build a business infrastructure worldwide and take steps to make the Hitachi brand more powerful.

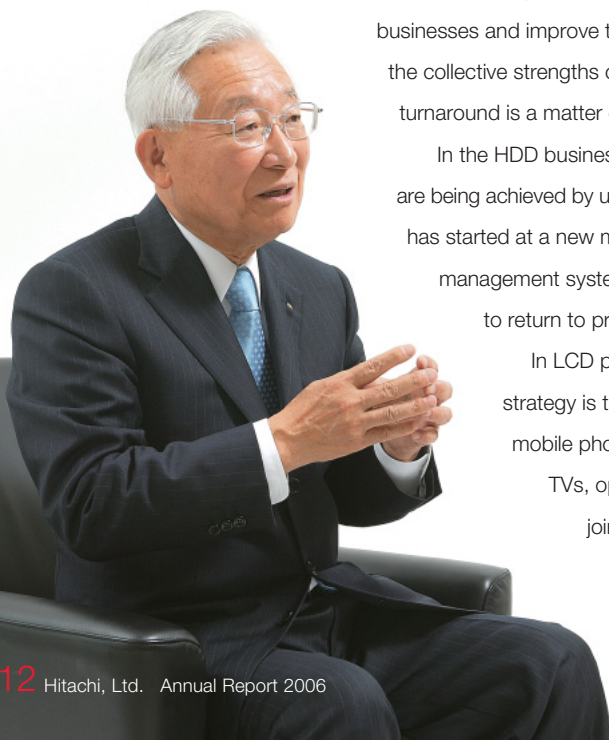
Reinforcing Targeted Businesses

Q: Your HDD, LCD panel and flat-panel TV businesses posted large losses in fiscal 2005. What sorts of initiatives do you plan to take to improve profitability in these businesses?

President Furukawa: We are making up-front investments in these businesses because we view them as being fulcrums of a ubiquitous information society. We are already implementing various initiatives to strengthen these businesses and improve their performance, including reinforcing manufacturing capabilities. We are mustering the collective strengths of the Hitachi Group to restore profitability as soon as possible. Achieving a quick turnaround is a matter of the highest priority for me.

In the HDD business, we are seeing tangible improvements in operating efficiency. These efficiency gains are being achieved by upgrading development capabilities, ramping up production capacity—mass production has started at a new manufacturing facility in China—and cutting costs. Building a total supply chain management system is also part of our improvement drive. With the gains we have made so far, we plan to return to profitability in the HDD business in the second half of fiscal 2006.

In LCD panels, we expect to move back into the black in fiscal 2006. In this business, our strategy is to focus on small and medium-sized LCDs, with the aim of increasing sales of LCDs for mobile phones, digital still cameras, portable games and other devices. Regarding large LCDs for TVs, operations started in May 2006 at equity-method affiliate IPS Alpha Technology, Ltd., a joint venture with Matsushita Electric Industrial Co., Ltd., Toshiba Corporation and other companies. We have transferred our business of LCDs for TVs to this company.



The flat-panel TV business is targeting a return to profitability as soon as possible. Drawing on the group's collective strengths, we plan to achieve this by using a vertically integrated business model, extending from display panels to TV sets. A number of concrete initiatives will be or have been taken to make this business more competitive. We have upgraded product development capabilities so that we can launch new models twice a year. Furthermore, a new plasma panel plant that will come on line in October 2006 will bolster output and our cost competitiveness. Taking a medium- to long-term viewpoint, we are also upgrading our sales capabilities by increasing investment in marketing to reinforce our brand and increase the number of sales channels.

Q: What other businesses do you expect to see grow significantly in the years ahead?

Chairman Shoyama: Hitachi is engaged in solutions businesses that underpin safe and secure lifestyles. One such business model centers on finger vein authentication technology for reliable subject verification. Hitachi's original technology is increasingly in demand. It is employed widely by banks in ATMs, and is also used in PC login systems and in offices and condominiums to control room access. There are of course many other applications.

Automotive systems also harbor great potential. We are working to strengthen our electric powertrain systems business for hybrid electric vehicles as well as car information systems. We will continue to expand the scope of the automotive systems business in response to the trend to equip automobiles with an ever-increasing variety of value-added functions.

We have designated around 30 businesses as "Inspire A Businesses." We plan to strengthen these businesses with the aim of nurturing and expanding mainstay businesses that will drive the growth of the Hitachi Group in the years ahead. Resources from across the group will be strategically funneled to these businesses. The synergies that we capture across the group in terms of development, production, sales, services and other areas will ensure that we win in the global marketplace—and nurture distinctive businesses that are number-ones in their respective industries.

Capturing Group Synergies

Q: One of Hitachi's cornerstone strategies is to capture group synergies. How are you doing this?

President Furukawa: The Hitachi Group conducts business activities in an extensive range of domains and possesses wide-ranging technological capabilities. On these points, I believe that we are unrivaled as a corporate group. By combining our expansive businesses and technologies, we are determined to capture business synergies that display our true collective strengths. We want to deliver solutions for the many types of issues facing customers and society. The scale of the Hitachi Group is also a key competitive advantage. Our size gives us access to large financial resources and pools of human talent, we have considerable purchasing power, and our IT infrastructure is extensive. We intend to fully utilize these group resources to improve our earnings. Other goals targeted by the Hitachi Group are strengthening CSR activities and further upgrading our internal control system and other aspects of our corporate governance structure. In this way, we are committed to increasing our corporate value from a long-term perspective as a corporate group that is even more trusted than it is today. In addition, we will strive to enhance "HITACHI" brand value, which is one of the most important resources supporting the competitiveness of the Hitachi Group.



Q: There are many publicly owned companies in the Hitachi Group. What is your strategy for taking group companies public? Also, please explain your capital structure policy.

Chairman Shoyama: I believe that the strength of group companies lies in their independence and originality. While respecting that, we also practice a policy of “strategically integrated management” so that we can draw on the collective strengths of the group. This policy hasn’t changed.

Based on this approach, we consider initial public offerings as an important strategy for companies that can expand their business and raise their corporate value by going public. We also strengthen certain businesses either through integration with businesses of Hitachi, Ltd. or other group companies, or by making them wholly owned subsidiaries. One example is the automotive systems business.

The approach we take depends on the characteristics of the business. We believe that strengthening businesses to shape them into their best form ultimately leads to the greatest shareholder value.

Maximizing Shareholder Value

Q: Many companies in Japan are implementing anti-takeover measures. What is Hitachi’s stance?

Chairman Shoyama: Our basic approach is to increase our corporate value by steadily improving our operating results. We don’t have any predetermined defense against a takeover. However, should a particular party try to acquire a large number of Hitachi shares, we will immediately take whatever measures we consider to be the most appropriate in the circumstances. This would include evaluating the takeover proposal with the help of experts outside Hitachi, and entering into discussions with the buyer. If a takeover bid has no advantages in terms of both Hitachi’s corporate value and for shareholders, we would quickly decide on and execute specific measures as deemed necessary.

Q: Finally, please tell us what measures Hitachi is taking to maximize shareholder value?

President Furukawa: The Hitachi Group’s current performance is by no means satisfactory. But by implementing the initiatives we have discussed in this interview, we are committed to driving a steady improvement in our operating results with an unwavering focus on profits by offering products and services demanded by customers and society.

Chairman Shoyama: The Hitachi Group’s founding credo is to contribute to society through the development of original technology and products. To excite and inspire our customers and society, we will draw on our true collective strengths to create even higher value. We believe that this will ultimately translate into higher shareholder value over the long term. We are keenly aware that a company is a member of society. We therefore fully recognize the need to continue ensuring that we conduct our business in conformity with laws and regulations while upholding the highest standards of ethics in management. We are also aware that our corporate social responsibility extends to conducting business with due consideration for the natural environment. I would like to thank shareholders and other investors for their support of Hitachi.

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