To Our Shareholders

In November 2006, Hitachi announced a corporate strategy that has “collaborative creation and profits” as its central theme. The basic management policy of this corporate strategy is adopting a rigorous focus on a market-oriented approach and profit creation. Based on this basic policy, the goal is to establish a structure that consistently generates high profits.

In this endeavor, we will work to strengthen operations in targeted fields, grow the Social Innovation Business that leverages our strengths as a company, and continue implementing business reforms. Through steady execution of these measures, we are determined to meet your expectations.

Kazuo Furukawa
President, Chief Executive Officer and Director

Etsuhiko Shoyama
Chairman and Director

Fiscal 2006 Performance

Our operating environment remained strong overall in fiscal 2006, ended March 31, 2007. The U.S. economy continued to expand on the back of healthy consumer spending and exports. The economies of EU member countries were also generally strong due to growth in exports and capital investment in Germany, France, the U.K. and elsewhere. The Chinese economy sustained a high rate of growth, led by rising exports and a continued increase in investments in fixed assets. Other Asian economies were also strong, with India, for example, enjoying increased foreign investment and growing exports. The exports of ASEAN countries also expanded. The Japanese economy, meanwhile, remained on a moderate recovery path as production grew, driven by capital investment and exports.

In this buoyant economic environment, Hitachi’s consolidated revenues rose 8% year on year to ¥10,247.9 billion. Overseas revenues, paced by strong growth in the Information & Telecommunication Systems and Power & Industrial Systems segments, climbed 14%, as we worked to develop our businesses on a global basis.

There was a sharp deterioration in earnings, however. Although we strove to cut materials and other expenses and reduce costs by improving our monozukuri (manufacturing) capabilities, these efforts were not enough to compensate for a marked change in market conditions. Most telling were soaring prices for raw materials and much lower sales prices in the HDD (Hard Disk Drive), digital media and other fields. Further bringing down earnings was an increase in investments in development and marketing aimed at making our businesses stronger. We also incurred one-time charges in the form of repair costs for turbine damage at certain nuclear power plants in Japan and cost overruns in construction at an overseas thermal power plant, which weighed heavily on earnings in the Power & Industrial Systems segment. Consequently, consolidated operating income fell 29% to ¥182.5 billion. We recorded income before income taxes and minority interests of ¥202.3 billion and income before minority interests of ¥39.5 billion. Unfortunately, as a result, we recorded a net loss of ¥32.7 billion.

In terms of our financial condition, while we maintained the debt/equity (D/E) ratio (interest-bearing debt/(minority interests + stockholders’ equity)) under 0.80 at 0.76, which is one of our management targets, this ratio increased 0.08 of a point from March 31, 2006.

Regrettably, the annual cash dividend per share applicable to fiscal 2006 was ¥6.0, falling below the ¥11.0 paid for the previous fiscal year.
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New Corporate Strategy

In November 2006, we unveiled a new corporate strategy. Hitachi is now making a new start under a revitalized management structure guided by this strategy statement. This management policy has as its central theme “collaborative creation and profits,” through a rigorous focus on a market-oriented approach and profit creation across the Hitachi Group. The aim is to establish a structure that consistently generates strong profits. These goals will be achieved by strengthening operations in targeted fields, and growing the Social Innovation Business by leveraging Hitachi’s strengths. Strict application of the FIV (Future Inspiration Value) Rule*, our proprietary management indicator, will also be important to achieve highly profitable management. We will raise the bar in terms of monitoring the performance of businesses and managing risk as we advance business restructuring and reviews with an eye on the future.

The corporate strategy includes new initiatives. Under this strategy, we have broadly classified key fields in the Hitachi Group’s businesses as the Social Innovation Business—made up of Social Infrastructure, Industrial Infrastructure, Life Infrastructure and Information Infrastructure Businesses—and the Infrastructure Technology/Products Business. To build a business portfolio that generates stable, strong profits, Hitachi will maximize synergies between the Social Innovation Business, where the Hitachi Group has built up extensive experience and expertise in the area of social infrastructure systems, as well as leading-edge technologies and knowledge relating to information systems, and the Infrastructure Technology/Products Business, where Hitachi boasts unrivaled strengths in highly functional materials and other areas. Through this interplay of businesses, we believe that we can fully leverage the Hitachi Group’s strengths. In developing these businesses, we will continue to manage them in terms of their respective strengths and new value they create using FIV, while also giving consideration to factors such as their positioning in the Hitachi Group, so that we make the right management decisions.

To improve efficiency in managing consolidated subsidiaries and governance, we will review our equity relationships where necessary. Furthermore, we will work to realize “innovation by collaborative creation,” whereby businesses are developed in a mutually beneficial way with business partners to create new value. Another of our goals is to build an R&D system that directly links Hitachi’s strengths in R&D to the generation of profits—first-mover profits if you will.

Through steady execution of these initiatives, Hitachi aims to achieve a consolidated operating margin of 5% by fiscal 2009 and maintain a D/E ratio (including minority interests) of 0.8 or lower by strengthening our financial structure.

Based on this management policy, we are implementing various restructuring measures to ensure the growth of the Hitachi Group. In fiscal 2006, we agreed to a comprehensive strategic global alliance with GE to establish joint venture companies in the nuclear power business, which is expected to grow going forward. In the HDD business, we will partially consolidate and integrate production operations. Meanwhile, in flat-panel TVs, we have decided to establish production facilities in the Czech Republic and Malaysia. These are just some of the bold restructuring actions we have taken or are taking.

In Japan, we have taken steps to strengthen the car information systems business by making Clarion Co., Ltd. a subsidiary through a tender offer bid for its shares. We also subscribed to a tender offer from Nidec Corporation for the shares of Japan Servo Co., Ltd., selling our shares in this company. In another restructuring move, Hitachi Metals, Ltd. merged with subsidiary NEOMAX Co., Ltd.

Increasing Shareholder Value

In fiscal 2007, in line with our management policy, we will continue to grow the social innovation business and implement structural reforms to strengthen operations in targeted fields. Furthermore, to build a solid Group management structure, in addition to channeling management resources to operations in targeted fields, we plan to step up our drive to globalize our businesses and pursue further synergies throughout the Hitachi Group. By also increasing management efficiency through rigorous cost cutting, which includes actions to improve our monozukuri capabilities, we aim to improve earnings.

Hitachi’s corporate credo is to contribute to society through the development of superior, original technology and products. This credo is guiding us as we work to improve corporate value and thereby meet the expectations of all our stakeholders, including shareholders, customers and employees. By also contributing to the advancement of society, we believe that we can increase long-term shareholder value.

June 26, 2007

Etsuhiko Shoyama
Chairman and Director

Kazu Fukuoka
President, Chief Executive Officer and Director

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* FIV (Future Inspiration Value) Rule
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. Under this Rule, businesses that generate negative FIV for two consecutive years are designated as requiring caution. Furthermore, if a restructuring plan is not approved or positive FIV is not generated within two years of approval of a restructuring plan, we take bold measures.
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