The Advent of a Full-fledged Ubiquitous Information Society

Whenever, Wherever, Whatever, Whoever

The Ubiquitous Information Society

Energetic, Convenient, Worry-free, Exciting

e-Japan Strategy II
## What Customers Want From IT Vendors

### Changes in Government Policy
- IT as a national strategy
- Economic globalization
- Structural reforms and industrial rehabilitation
- The public’s perspective

### Changes in Corporate Management
- Focus on core businesses
- Pursue greater speed
- Emphasize ROIT
- Collaboration

### Changes in IT
- From ownership to use
- Growing use by individuals
- Broadband/mobile
- Becoming a societal lifeline

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### Dramatic Changes in Customer’s Expectations of IT Vendors

<table>
<thead>
<tr>
<th>Vision for Ubiquitous Information Society</th>
<th>Reduce fixed costs and change to variable cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global support</td>
<td>Strategic outsourcing</td>
</tr>
<tr>
<td>Proposals that address management issues</td>
<td>Seamless IT-based Platforms</td>
</tr>
</tbody>
</table>
Hitachi’s Information & Telecommunication Systems’ Brand Image in IT Market and Issues

An Industrialized Society
- Brand awareness
- Customer preferences
- Customer satisfaction
- Customer continuity

An Information-Oriented Society
- Brand awareness
- Customer preferences
- Customer satisfaction
- Customer continuity

An Ubiquitous Information Society
- Brand awareness
- Customer preferences
- Customer satisfaction
- Customer continuity
Create **uVALUE** through a value chain linking business, life and communities

- New lifestyles
  - Value for people’s lives
- New public services
  - Value for society
- New styles for businesses
- New public services
  - Value for society
- Life
- Communities
- Businesses

Value for management
True Collective Strengths (uVALUE-Chain Innovation)

- Create a value chain linking companies, people and the public sector
- Provide vertically integrated one-stop solutions
- Fuse diverse business know-how and information systems
- Corporate information systems
- Social infrastructure systems
- Life support systems
- Consulting
- Systems integration
- Maintenance, operation and services
- Manufacturing and sales know-how + IT
- Logistics and warehousing know-how + IT
- Financial and management know-how + IT
Provide a service platform supporting **uVALUE**

**Service Platforms**

*Harmonious Computing*

- Application framework
- Integrated middleware
- Servers, storage, networks and communications
- Ubiquitous access framework
- Ubiquitous access

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New Business Concept  uVALUE

**uVALUE**

- **Life**
- **Communities**
- **Businesses**

**Value**
Work with customers in a ubiquitous information society to create innovative forms of value incorporating customer input

**Process**
A process of creating innovative forms of value with customers by leveraging Hitachi’s collective strengths

**uVALUE Chain Innovation**

- Create a value chain linking companies, people and the public sector
- Provide vertically integrated one-stop solutions
- Fuse diverse business know-how and information systems

**Service Platform**
Service platform grounded on Hitachi products that incorporate advanced technologies

Harmonious Computing
1-8

**What We Aspire to Be in 2010**

Hitachi’s Information and Telecommunication underpins a ubiquitous information society

Value

- Urban development
- Automobiles
- Power and Industrial Systems
- Financial services
- Public
- Consumer

Process

- uVALUE

Service platform

- Harmonious Computing

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Contents

1. A New Business Concept - uVALUE
2. Fiscal 2003 Business Results Overview and Fiscal 2004 Forecasts
3. Business Policies and Targets for Achieving i.e.HITACHI Plan II
4. Key Strategies for Achieving i.e.HITACHI Plan II
5. Conclusion
2-1 Fiscal 2003 Net Sales

Net Sales (Consolidated)

Sales grew in storage business
Up 90% year on year

Strong performance in communications network business
Up 15% year on year

Firm results in outsourcing business
Services: Up 4% year on year

Summary

Fiscal 2003
Fiscal 2002

Year
Actual
Forecast
(Mar. 2004)
Forecast
(Oct. 2003)

Hardware
¥914.7 billion
¥984.9 billion
48%
52%

Software & services
¥1,235.0 billion
¥1,005.0 billion
55%
45%

Total
¥1,899.6 billion
¥1,899.6 billion
45%
52%

Composition ratio

¥2 trillion
¥2 trillion

Fiscal 2003
Actual
Forecast
(Mar. 2004)
Forecast
(Oct. 2003)

¥2,314.5 billion
¥2,240.0 billion
57%
55%

¥1 trillion
¥1 trillion

¥1,323.8 billion
¥990.6 billion
43%
57%

¥990.6 billion
¥984.9 billion
52%
52%

¥1 trillion
¥1 trillion

¥1,005.0 billion
¥1,005.0 billion
45%
45%

¥2,240.0 billion
¥2,240.0 billion
55%
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¥1 trillion
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¥914.7 billion
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52%

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¥2 trillion

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¥2,314.5 billion
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57%

¥1 trillion
¥1 trillion

¥1,323.8 billion
¥1,323.8 billion
43%
43%

¥990.6 billion
¥990.6 billion
57%
57%

¥1 trillion
¥1 trillion

¥914.7 billion
¥914.7 billion
48%
48%
Fiscal 2003 Operating Income

Operating Income (Consolidated)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>¥110.5 billion</td>
<td>¥100 billion</td>
<td>¥64.6 billion</td>
</tr>
<tr>
<td>¥49.9 billion</td>
<td>¥68.0 billion</td>
<td>¥69.9 billion</td>
</tr>
<tr>
<td>¥60.6 billion</td>
<td>¥13.6 billion</td>
<td>¥56.2 billion</td>
</tr>
</tbody>
</table>

Summary

Loss in HDD operations affected earnings

Hardware: Down 73% year on year

Some projects were unprofitable

Software & services: Down 7% year on year

Increase in pension-related and other expenses
Fiscal 2004 Forecasts

**Net Sales (Consolidated)**

- **Hardware**
  - Fiscal 2003 Actual: ¥1,323.8 billion (57%)
  - Fiscal 2004 Forecast: ¥1,350.0 billion (56%)

- **Software & services**
  - Fiscal 2003 Actual: ¥990.6 billion (43%)
  - Fiscal 2004 Forecast: ¥1,050.0 billion (44%)

**Operating Income (Consolidated)**

- **Hardware**
  - Fiscal 2003 Actual: ¥69.9 billion (39%)
  - Fiscal 2004 Forecast: ¥13.6 billion (20%)

- **Software & services**
  - Fiscal 2003 Actual: ¥56.2 billion (80%)
  - Fiscal 2004 Forecast: ¥70.0 billion (61%)
## Market Positions and Issues (By Products)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Servers</td>
<td>🟢 🟡</td>
<td>Establish strategy for servers for next term</td>
<td>△</td>
<td>• Early market launch of EBS (Enterprise Blade System)</td>
</tr>
<tr>
<td>Storage</td>
<td>🟢 🟡 (W/W)</td>
<td>Strengthen mid-range disk array subsystems and management software</td>
<td>◯</td>
<td>• Expand market share in mid-range disk array subsystems • Launch DLCM (Data Life Cycle Management)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduce loss in HDD operations</td>
<td></td>
<td>• Make HDD operations profitable • Break into and expand non-IT fields</td>
</tr>
<tr>
<td>Network</td>
<td>🟢 🟡</td>
<td>Expand overseas business focused on network products for IPv6</td>
<td>△</td>
<td>• Bolster router/switch operations • Promote fusion of communications and computing</td>
</tr>
<tr>
<td>Software</td>
<td>🟢 🟡</td>
<td>Make JP1 more competitive</td>
<td>◯</td>
<td>• Strengthen integrated middleware, centered on JP1 • Respond to open source software (OSS)</td>
</tr>
</tbody>
</table>

- 🟢: market share of at least 15%
- 🟡: market share of 5-15%

(Fiscal 2003, Hitachi estimates)
## Market Positions and Issues (By Business Categories)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public and social systems</td>
<td>□</td>
<td>Respond to local government consolidations and progress in e-government</td>
<td>⬤ Expand businesses related to e-Japan Strategy II ⬤ Strengthen services for the local government market</td>
</tr>
<tr>
<td>Financial information systems</td>
<td>□</td>
<td>Respond to the development of new financial products and greater demand for outsourcing</td>
<td>⬤ Enhance next-generation solutions ⬤ Introduce cutting-edge applications from Europe and the U.S.</td>
</tr>
<tr>
<td>Industrial and distribution systems</td>
<td>△</td>
<td>Expand package solutions and business for medium-sized and regional companies</td>
<td>⬤ Strengthen ability to serve medium-sized and regional companies ⬤ Support globalization of Japanese companies</td>
</tr>
</tbody>
</table>

### Fiscal 2004 Common Themes

- Consulting (proposal skills)
- Outsourcing (increase fee-based businesses)
- Project management/productive technology (improving solutions productivity & cutting costs)

- :market share of at least 15%
- :market share of 5-15% (Fiscal 2003, Hitachi estimates)
## Business Reforms (Hardware)

Leverage Hitachi’s strengths to implement selection and concentration of management resources while applying Hitachi’s collective strengths.

<table>
<thead>
<tr>
<th>Field</th>
<th>Strategic Products</th>
<th>Strategic Markets</th>
<th>Measures to Improve Competitiveness</th>
<th>Structural Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storage</td>
<td>• Enterprise array</td>
<td>W/W</td>
<td>• Internal development and acquisitions</td>
<td>Acquired management software company (Jun. 02)</td>
</tr>
<tr>
<td></td>
<td>• Mid-range array</td>
<td></td>
<td></td>
<td>Acquired IBM’s HDD operations (Jan. 03)</td>
</tr>
<tr>
<td></td>
<td>• HDDs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Servers</td>
<td>• POWER servers</td>
<td>Overseas (OEM),</td>
<td>• Internal development of key products for niche market sectors globally</td>
<td>Integrated server-related business divisions (Apr. 04)</td>
</tr>
<tr>
<td></td>
<td>• IA servers</td>
<td>Japan</td>
<td>For other products: Use alliances and source other companies’ products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mainframes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network</td>
<td>• 3G Base station for data communication systems</td>
<td>Japan, China, Europe, North America</td>
<td>• Internal development of key products for niche market sectors globally</td>
<td>Established Hitachi Communication Technologies (Oct. 02)</td>
</tr>
<tr>
<td></td>
<td>• PHS</td>
<td></td>
<td></td>
<td>Integrating operations with NEC (Oct. 04)</td>
</tr>
<tr>
<td></td>
<td>• IPv6 routers/switches</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terminals</td>
<td>• ATM/Retail shop terminals</td>
<td></td>
<td>• Strengthen competitiveness through joint ventures</td>
<td>Establishing Hitachi-Omron Terminal Solutions (Oct. 04)</td>
</tr>
<tr>
<td></td>
<td>• Cash modules</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCs</td>
<td>• Broadband/mobile PCs</td>
<td>Japan</td>
<td>• Focus on distinctive products</td>
<td>Amalgamated client PC businesses (Apr. 04)</td>
</tr>
<tr>
<td>Printers</td>
<td>• Large continuous-form laser beam printers</td>
<td>Japan</td>
<td>• Sell business to leading company/greater procurement from outside the company</td>
<td>Transferring Hitachi Printing Solutions to Ricoh (Oct. 04)</td>
</tr>
</tbody>
</table>
# Business Reforms (Software and Services)

Continuously execute structural reforms to optimize Hitachi Group operations

<table>
<thead>
<tr>
<th>Field</th>
<th>Measures to Improve Competitiveness</th>
<th>Structural Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting business</td>
<td>• Increase number of engineers with business know-how and IT skills</td>
<td>Established industry consulting company (EXSURGE; Jul. 02)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Established finance consulting company (FiRic; Apr. 04)</td>
</tr>
<tr>
<td>Outsourcing business</td>
<td>• Promote partnership-type businesses</td>
<td>Established UFJ &amp; Hitachi Systems (Oct. 02)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Established Hitachi Foods and Logistics Systems (Apr. 03)</td>
</tr>
<tr>
<td></td>
<td>• Consolidate human resources and technologies</td>
<td>Merged Hitachi Information Systems and Hitachi netBusiness (Apr. 04)</td>
</tr>
<tr>
<td>SI business</td>
<td>• Acquire knowledge of clients’ business operations</td>
<td>Established Hitachi Financial Information Systems Japan (May 01)</td>
</tr>
<tr>
<td></td>
<td>• Respond to markets in each region</td>
<td>Established Hitachi East Japan Solutions (Apr. 03)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Established Hitachi Chugoku Solutions (Dec. 03)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Established Hitachi Shikoku Solutions (Dec. 03)</td>
</tr>
<tr>
<td></td>
<td>• Strengthen operating base</td>
<td>Hitachi Systems &amp; Services IPO (Mar. 04)</td>
</tr>
<tr>
<td></td>
<td>• Meet demand for the provision of highly reliable, high-performance platforms</td>
<td>Established Hitachi Open Platform Solutions (Nov. 02)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Established Platform Solutions Division (Apr. 04)</td>
</tr>
<tr>
<td>Global business</td>
<td>• Focus on business fields where Hitachi has distinctive strengths</td>
<td>Strengthened business of Hitachi Consulting (established Oct. 00)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Received employees from Arthur Andersen’s IT consulting division (Jul. 02), etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Established Hitachi Beijing Tech Information Systems (Sept. 03)</td>
</tr>
<tr>
<td></td>
<td>• Steadily grow through operations of local companies</td>
<td>Established Hitachi Information System (Shanghai) (Jan. 02)</td>
</tr>
</tbody>
</table>
Market Trends to 2005

IT Market Forecast

**Japan IT Market**

<table>
<thead>
<tr>
<th>Year</th>
<th>Hardware</th>
<th>Software &amp; services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>-8.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2003</td>
<td>-2.6%</td>
<td>2.2%</td>
</tr>
<tr>
<td>2004</td>
<td>0.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>2005</td>
<td>12.5%</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

Source: IDC, Japan 7/2004 Japan IT Market

**World IT Market**

<table>
<thead>
<tr>
<th>Year</th>
<th>Hardware</th>
<th>Software &amp; services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>-4.8%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>2003</td>
<td>4.8%</td>
<td>5.0%</td>
</tr>
<tr>
<td>2004</td>
<td>5.2%</td>
<td>6.3%</td>
</tr>
<tr>
<td>2005</td>
<td>6.5%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>


- The Japanese IT market is staging a recovery, albeit moderate
- Growth is expected in the IT market for medium-sized companies in Japan
- Demand for outsourcing services is firm both in Japan and overseas

**Change in IT Investment Budgets by Fiscal 2004 Turnover (Y/Y)**

<table>
<thead>
<tr>
<th>Annual Turnover</th>
<th>Y/Y Change in IT Investment Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥50 billion and above</td>
<td>Increase</td>
</tr>
<tr>
<td>¥10 to ¥50 billion</td>
<td>Increase</td>
</tr>
<tr>
<td>Less than ¥10 billion</td>
<td>Increase</td>
</tr>
</tbody>
</table>


- Global IT market characterized by high growth in the Asian market, particularly in China

**2003-2005 CAGR**

<table>
<thead>
<tr>
<th>Period</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2005</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

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Business Policies of “Information & Telecommunication Systems“ for Achieving the Goals of “i.e. HITACHI Plan II”

- Make base Businesses More Competitive
- Establish a Strong Consolidated Group Management Base
- Create and Expand Highly Profitable New Businesses
- Nurture Global Business and Capture Leading Market Positions

- Hardware
- Components and modules
- Application software and middleware
- SI services
- Fee-based services
### Targets and Key Strategies

#### Targets: Fiscal 2005

<table>
<thead>
<tr>
<th>Operating Margin</th>
<th>New Businesses</th>
<th>Overseas Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least 7% overall; 10% for software and services</td>
<td>30% of net sales</td>
<td>At least 40% of net sales</td>
</tr>
</tbody>
</table>

#### Business Policies

- Nurture global business and capture leading market positions
- Make base businesses more competitive
- Create and expand highly profitable new businesses
- Establish a strong consolidated group management base
Global Business
Basic Policy for Global Business

- Capture a top position in the global storage business (HDDs + disk array subsystems + solutions)
- Develop globally a solutions business, centered on the outsourcing business
- Expand business in China

<table>
<thead>
<tr>
<th>Top Position</th>
<th>Niche Markets</th>
<th>New Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disk array subsystems</td>
<td>Optical access</td>
<td>Outsourcing</td>
</tr>
<tr>
<td>HDDs</td>
<td>3G Base station for data communication systems</td>
<td>EBS</td>
</tr>
<tr>
<td></td>
<td>ATMs</td>
<td>Routers/switches</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Regions</th>
</tr>
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<tbody>
<tr>
<td>North America</td>
</tr>
</tbody>
</table>

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Stake out top-tier global position

Market share goals ('06)

Disk array subsystems (Enterprise)
- 27% (1st)

Disk array subsystems (Mid-range)
- 6% (5th)

HDDs
- 20%* (2nd)

Disk array subsystems + HDD

Aspiring to become No. 1 in the world market overall by leveraging our position as a vertically integrated solutions vendor

Disk array subsystems: capacity base
Become a storage solutions vendor with a full lineup of products

Maintain and expand top share in enterprise disk array subsystems

Launch next-generation enterprise disk array subsystems to distance Hitachi farther from the competition

Expand share in mid-range disk array subsystems

Offer a full lineup of storage products, extending from high-performance disk array subsystems to near-line storage (low-priced) products

Strengthen ability to provide storage management software/solutions

Offer comprehensive DLCM* solutions, from applications down to hardware

*DLCM: Data Life Cycle Management
Become the best storage solutions partner in DLCM

**DLCM Concept**
- Establish optimal storage according to changes in the value of data over time
  - Reduce TCO
  - Increase ROIT
  - Create new value from “information” rights use

**Hitachi’s Powerful Technologies**
- A storage hardware base offering safety, high-speed data processing and reliable storage
- Seamless system introduction and construction using existing storage equipment
- Link with customers’ business systems using open API

**Value of data**

- **1st Tier**
  - Near-line storage (Mid-range disk array subsystems S-ATA low-priced storage)
  - Archive

- **2nd Tier**
  - Online storage (Enterprise/mid-range disk array subsystems)
  - Archive

- **3rd Tier**
  - Off-line storage (Magnetic tape library)

**Time**
Marketplace Dynamics and product strategy

Product strategy to meet new demands for IT & CE applications

Fast growing market volumes
- small form factors
growing the fastest

2003 – 2008 CAGR*
• 1-inch: 87%
• 1.8-inch: 56%
• 2.5-inch: 23%
• 3.5-inch ATA: 5%
• 2.5- & 3.5-inch enterprise: 4%

Brodest product portfolio
(1-inch, 1.8-inch, 2.5-inch & 3.5-inch)

• Shipping highest capacity 1-inch digital media (4GB)
• Industry’s first 7200RPM 2.5-inch HDD for notebooks
• Expanded temperature range for 2.5-inch HDDs for automotive environments
• Industry’s first 400GB 3.5-inch 7200RPM HDD
• World’s first 300GB 3.5-inch 10K RPM enterprise HDD


2003 - 2008 CAGR %
13 – 17% Hitachi estimates
10% IDC estimates

Units (M)

2003 2004 2005 2006 2007 2008
260 294 330 360 389 421

Fast growing market volumes
- small form factors

growing the fastest

2003 – 2008 CAGR*
• 1-inch: 87%
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• Expanded temperature range for 2.5-inch HDDs for automotive environments
• Industry’s first 400GB 3.5-inch 7200RPM HDD
• World’s first 300GB 3.5-inch 10K RPM enterprise HDD

Revenue Growth, Cost Reduction & Asset Efficiency

**Manufacturing Capacity Increase**
- **Mega Manufacturing Center in Shenzhen, China**
  - Total investment: up to $500 million
  - First phase: $200 million investment
    - 30+ million units / year
- **Expand Thailand HDD production capacity**
  - $200 million investment
  - Capacity to produce 60 million units / year
    (from current 30 million units / year)
- **Adding media manufacturing function to Shenzhen, China**
  - Begin manufacturing in 4Q2004*
  - Full production by 1H2006

**Cost Reduction**
- **Began transferring enterprise HDD manufacturing operations from Philippines to Singapore**
  - Transition continues through 2005
- **Cost reduction through improved assembly & test processes**
- **Cost reduction through improved yield, quality, time savings in problem solving**
- **Cost improvement focus on sourcing strategy, on-going negotiation, supplier suggestion and low-cost design actions**
- **Reduced fixed cost expense to revenue ratio**

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*Hitachi GST has a December 31 year-end. For example: Fiscal 2003 consolidated results for Hitachi, Ltd., the year ending March 31, 2004 includes Hitachi GST’s business result for its fiscal year ending December 31, 2003.
Storage solutions business (3) HDD business strategy

(iii) Business Plan

**FY2003 Minimize Losses**
- Focused on Hitachi & IBM cultural merger
- Profitable ahead of schedule (Original estimate: December; Result: September)

**FY2004 Expand Profitability**
- **Volume Growth**
  - Continue to grow Server share
  - Volume growth – CE / Mobile / Desktop
- **Contribute to Profit Margins**
  - Supply Chain & Productivity Gains
  - Combined procurement strength
- **Continuous Transformation**
  - Operational efficiency improvement for ease of doing business
  - Strengthen Development & productivity & quality

**FY05 -06 Enhance Profitability**
- **Contribution Margin**
  - R&D to deliver superior designs
  - Optimize strategic partnerships
  - Increased efficiency with common platforms

---

**Sales (Billion $)**
- FY2003: 4.2
- FY2004: 4.7
- FY2005: 5.1
- FY2006: 5.5

**Operating Margin**
- FY2003: (2%)
- FY2004: 4%
- FY2005: 6%
- FY2006: 6+%
Storage Business (4) Strategies to Expand HDD to CE Appliances

Target emerging CE market to expand HDD market share

- Ubiquitous HDD
  Intelligent HDD equipped with functions required for ubiquitous CE appliances
  - Encryption key, Identifier
  - (Tamper-resistant module)
  - Encrypted content
  - Encryption algorithms
  - CPU
  - Network
  - Outstanding Reliable Performance
    - High quality picture & stable throughput required for high-definition network data
    - 1.5 times to twice performance

- 400GB HDD Recorder
  - HDD + DVD recorder with 400GB large-capacity HDD
  - Encryption algorithms
  - CPU
  - Network
  - Stream manager
  - Plug & Play
  - Content protection and management
  - Remote agent
  - Encryption key, Identifier
  - Encrypted content
  - Tamper-resistant module
  - Stream manager
  - Plug & Play
  - Content protection and management
  - Remote agent

- VDR
  - High speed
  - Large capacity
  - Portable
  - PC/AV use
  - Mobile
  - Automobiles
  - Home CE appliances

Large-capacity mobile HDD for both PC/AV data
Strengthen the Global Outsourcing Business

Japanese companies are becoming more global

(Source: Earnings releases of 50 major Japanese manufacturing companies)

Fiscal 1999
Total sales (50 companies) ¥87 trillion
Overseas sales ¥46 trillion (53%)
Japan sales ¥41 trillion (47%)

Fiscal 2003
Total sales (50 companies) ¥104 trillion
Overseas sales ¥63 trillion (60%)
Japan sales ¥41 trillion (40%)

Customer Needs

- Business processes for worldwide use
- Highly reliable development and operation
- Offshore and onsite support
- Extensive improvements in cost efficiency

Global Outsourcing Division

Team up with specialist companies to support the global business development of successful Japanese companies

- Hitachi Consulting
  - Strengthen global management and business processes and consulting capabilities

- Consulting firms
  - Strengthen IT support both offshore and onsite

- Offshore companies

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### Establish and Expand Operating Base in China—a Strategic Market

**Basic Plan**
- Enter the Chinese information and communications infrastructure market with strong hardware
- Develop solutions in areas peripheral to hardware with local companies
- Leverage the competitiveness of China as a “factory of the world” in both hardware and software

<table>
<thead>
<tr>
<th>Field</th>
<th>Products/Activities</th>
<th>Main Entities for Promoting Business</th>
</tr>
</thead>
</table>
| Communications   | • IPv6, 3G Base station for data communication systems, optical access               | • Increasing staff in Hitachi China’s Promotion Division  
• Joining forces with Chinese vendors                                                             |
| Financial terminals | • ATMs                                                                     |                                                                                                                                               |
| Storage          | • Disk array subsystems                                                            | • Established Chinese subsidiary of Hitachi Data Systems (Jun. 03)                                                                 |
| Solutions        | • e-government                                                                      | • Established China CyberGovernment Square (Oct. 01)  
• Established Hitachi Beijing Tech Information Systems (Sept. 03)                                  |
|                  | • ERP (Websky)                                                                    | • Established Hitachi Information Systems (Shanghai) Co. (Jan. 02)                                                                 |
| Production Base  | • Local production                                                                 | • Decided to add local production base beginning in 2004, investing US$500 million                  |
| HDDs             | • Local development                                                                | • Established Beijing Hitachi Huasun Information Systems (Jul. 92)                                                                 |
| Software         | • Procurement from local companies                                                 | • Established China IP Promotion Headquarters (Apr. 03)                                                                                   |

**Plan to hold** China Hitachi Exhibition 2004 in Beijing, Shanghai and Guangzhou in October and November 2004
Basic Policy for Platform and Network Business
Basic Policy for Platform and Network Business

- Accelerate selection and concentration of resources on globally competitive hardware
- Become more competitive through development and business integration with peer companies
- Bolster integrated platforms business as these platforms become more utility-like

<table>
<thead>
<tr>
<th>In-house Focus</th>
<th>Specialization Through Separation</th>
<th>Collaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disk array subsystems</td>
<td>HDDs (acquired and integrated IBM’s HDD operations)</td>
<td>ATMs (OMRON)</td>
</tr>
<tr>
<td>Storage solutions</td>
<td>Communications equipment (Hitachi Communication Technologies)</td>
<td>Routers/switches (NEC)</td>
</tr>
</tbody>
</table>

Strategic Goals

- Strengthen integrated platforms business, starting with EBS*
  - Fuse communications and computing
  - Integrated middleware

* EBS: Enterprise Blade System

Harmonious Computing
Platform (1) **Harmonious Computing** Concept

- Provision of a service platform supporting uVALUE

**Ubiquitous information society**

**uVALUE**

**uValue-Chain Innovation**

**Service Platforms**

- Application framework
- Integrated middleware
- Servers, storage, networks and communications

**Harmonious Computing**

**Platform service solutions**

**Ubiquitous access framework**

**Ubiquitous access**

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## Platform (2) Technological Trends and Roadmap

### Open Platform Issues
- Greater management complexity
- Security

### Roadmap

<table>
<thead>
<tr>
<th>Era</th>
<th>1990</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servers</td>
<td>• MF</td>
<td>• UNIX servers</td>
</tr>
<tr>
<td>Networks</td>
<td>• Switching equipment</td>
<td>• IP routers</td>
</tr>
<tr>
<td>Storage</td>
<td>• DAS</td>
<td>• SAN/NAS</td>
</tr>
<tr>
<td>Middleware</td>
<td>• JP1 (Job management) • OpenTP1</td>
<td>• JP1 (Network management) • Cosminexus</td>
</tr>
</tbody>
</table>
4-14

Platform (3) Specific Strategy (i) Integrated Platform (EBS)

**EBS: Enterprise Blade System**

- A platform integrating storage, networks and middleware
- Raises system performance by using high-speed internal switches and I/Os

**Top Share in Japan (Fiscal 2006)**
Goal: 25% share of blade systems market

**Server modules**
- Intel Chip
- Linux/Windows

**Network modules**
- Web servers
- AP servers
- DB servers
- Standby servers
- RAID modules
- High-speed internal switches

**Business Plan**

(1) Hone competitive edge and expand server business by integrating powerful storage systems, advanced networks, reliable servers and high-performance middleware
(2) Dramatically cut operation and management costs through centralized management
CommuniMax—a solution that fuses communications and computing

- Video conferencing
- Instant messaging
- Top Share in Japan (Fiscal 2006) Goal: 20% share
- Provision of integrated middleware infrastructure (JP1, Cosminexus) (API sharing)
- Guaranteed network (GR/GS)
- Computer products
- Communications-related products
- Shared terminal interface with all products

Goals:
- Top Share in Japan (Fiscal 2006) Goal: 20% share
- 20% share

Communications Computing
- CRM and other business connections
- Top Share in Japan
- High quality
- Top 3

Provision of integrated middleware infrastructure
- (JP1, Cosminexus) (API sharing)
- Guaranteed network (GR/GS)
- Computer products
- Communications-related products
- Shared terminal interface with all products

Security:
- Tight security based on IPv6

Products:
- IP phones
- Wireless IP phones
- PCs

Groups:
- Groupware
Platform (3) Specific Strategy (iii) Integrated middleware

Maintain top share in Japan in 2006
Over 30%

Asset and software distribution management
Job management
Network management

Incorporate APPs*
Embedded in JP1
Upgrade storage functions

Web development environment (Cosminexus)
Database (HiRDB)
Storage management (JP1/HiCommand)

Top share in Japan in 2005
Next-generation integrated middleware
Top 3 worldwide in 2006

Note: APP: Application Program Product
System Solution Business
Basic Plan for System Solutions Business

- Accelerate shift of resources to service businesses
  - Strengthen upstream proposal skills
  - Strengthen outsourcing business
- Upgrade ability to serve growth markets
- Improve productivity and reduce costs in SI business

**Service Businesses**
- Consultation (business strategy, business processes, IT)
- Outsourcing

**Growth Markets**
- Medium-sized and regional companies
- Japanese companies developing business globally

**Productivity and Costs**
- Project management
- Productive technology
- Offshore

**Strategic Goals**
- Transform business model to cope with structural changes in markets

**uVALUE-Chain Innovation**

**Software and Services Business Operating Margin Target**

<table>
<thead>
<tr>
<th>FY</th>
<th>01 Act.</th>
<th>02 Act.</th>
<th>03 Act.</th>
<th>04 Est.</th>
<th>05 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Copyright © Hitachi, Ltd. 2004 All rights reserved.
Provide integrated services from consulting on business strategy to realizing customers’ IT capabilities
- Use advanced proposal ability to increase orders -

Enhance consulting ability for executives and planning division managers
- Enhance ability to provide services globally with Hitachi Consulting
- Strengthen ties with outside consulting firms

Enhance quality and number of IT/business process consultants
- Enhance quality and number of consultants through the certification system (from April 2004)
- Increase number to 1,000 in fiscal 2005 by turning top-level SEs into consultants
System Solutions [Specific Strategy]
(ii) Medium-Sized and Regional Companies

Improve ability to serve medium-sized and regional customers
- Fiscal 2005 target: Customer coverage ratio of 20% in Japan

Strengthen ties with affiliated vendors, sales companies and Hitachi Group companies
- Strengthen ability to identify and capture cooperative projects
- Expand product lineup by packaging the products of all companies

Upgrade SI support for sales companies
- Solutions consultation office, upgrade SCBANK
- Strengthen ties with SI companies

Enhance ability to provide solutions that respond to the needs of regional markets
- With reorganizations completed in the Tohoku, Chugoku and Shikoku regions, continue this process in other regions
System Solutions [Specific Strategy] (iii) Project Management

Generate high profits by improving project management ability
- Strengthen Groupwide -

Systematically nurture project managers
- Increase number of project managers (1,000 people in FY2005: unconsolidated basis)
- Expand certification system to Hitachi Group companies

Strengthen project management support through staff divisions
- Organizational support of management processes through staff divisions, including Engineering Support Division and Quality Assurance & Inspection Division, centered on Project Management Division

Promote advance management by making project management visible
- Develop tools and promote sharing of information
(iv) Strengthen Cost Competitiveness

Become more cost competitive in system solutions business
- Expand solutions production technology application and use overseas resources more -

Improve productivity of system solutions business by using “Solution-HIPACE”*
- Standardize business processes and acquire know-how by putting in place a solutions technology system
- Turn know-how into “solution components” that can be used effectively
  □ No. of components: Increase from 400 at present to 2000 in fiscal 2005
  Application rate : 20% of all solutions in fiscal 2005
  Productivity : Double productivity by fiscal 2005 compared to fiscal 2002

Make greater use of overseas resources
- Increase software development in China, India and other countries
  (2,700 people on a consolidated basis in fiscal 2005)

*A newly developed Hitachi solutions technology system
New Business
Basic Plan for New Businesses

- Turn new businesses that are now on a growth trajectory into base businesses
- Create new markets related to e-Japan Strategy II and reap the benefits
- Launch new businesses inspired by the uVALUE concept

**Future base Businesses**
- Outsourcing
- Security
- Platform solutions

**e-Japan Strategy II -related Businesses**
- Electronic storage of documents
- Lifestyle communities
- Traceability

**uVALUE Concept**
- Urban planning and development
- ITS
- Eco & PLM

**Strategic Goals**
Continuously review businesses to continue or exit, preserving business vitality
New Businesses (2) Future base Businesses (i) Outsourcing

Provide comprehensive services that tap the strengths of Hitachi Group companies

**Strategies**
- Expand business Groupwide (Hitachi Information Systems, etc.)
- Acquire business know-how through joint ventures with customers

**Sales**
- Fiscal 2003 Actual: ¥100.0 billion
- Fiscal 2005 Target: ¥180.0 billion

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Data Center</td>
<td>1,100</td>
<td>1,300</td>
</tr>
</tbody>
</table>
Provide one-stop solutions by bringing together the technologies of research laboratories and Hitachi Group companies and fusing cyber security and physical security.

Achievements

- Participated in national projects
  - Established the e-Japan Strategy II Promotion Office (Oct. 03)
  - Started R&D on an advanced network authentication platform for the Ministry of Public Management, Home Affairs, Posts and Telecommunications (Apr. 04)

Strategies

- Differentiate Hitachi’s solutions through powerful, unique products
- Lead the field in development to create technologies that become the de facto standard

<table>
<thead>
<tr>
<th>Fiscal 2003 Actual</th>
<th>Fiscal 2005 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥75.0 billion</td>
<td>¥150.0 billion</td>
</tr>
</tbody>
</table>

- Security-related
- Security systems

- Sales

Next-generation encryption
Digital watermarking
Authentication platforms

Finger pulse authentication
μ-chip

JP1
Hibun
New Businesses (2) Future base Businesses (iii) Platform Solutions

Strengthen ability to propose platform service solutions for integrating systems by collective strength of Hitachi Group companies

Achievements

- Established Hitachi Open Platform Solutions (Nov. 02)
- Established Platform Solutions Business Division (Apr. 04)

Strategies

- Offer one-stop solutions extending from proposals through estimation, design and construction, operation and maintenance
- Achieve virtualization by promoting integration of IT assets with, such as storage solutions including DLCM
New Businesses (3) e-Japan (i) Participating in e-Japan Strategy II

Hitachi is deeply involved in formulation and execution of the e-Japan Strategy II

**Expert Committee on IT Strategy Evaluation**
- Establish PDCA cycle
- Introduce outcome goals

**e-Japan Strategy II Acceleration Package**
- International IT policy
- Security enhancement
- Content
- IT regulatory reforms
- e-government and e-local government

**December 2003~**
Expert Committee on IT Strategy Evaluation:
Evaluation of IT strategy execution
Chairman: Etsuhiko Shoyama (President, Hitachi)

**July 2003**
e-Japan Strategy II announced

**November 2002~**
Expert Study Group Committee on Future IT strategy:
Strategy proposal by private-sector parties
Committee member: Isao Ono (Executive Vice President, Hitachi)

**Main Measures**
- Electronic storage of documents
- Lifestyle communities
- Traceability
- Online medical care
- New financing
- e-government
- Security
- New IT infrastructure
- e-learning
- International

**Target for Orders**
¥180.0 billion (Fiscal 2005)
New Businesses (3) e-Japan (ii) Electronic Storage of Documents

Provide integrated solutions from paper to electronic information

- Collection
- Processing, accumulation and use
- Storage and distribution
- Disposal

- Electronic storage of documents
- Document management
- Authentication services
- Storage of originals
- e-distribution
- Paper-based distribution

Document management know-how

Business know-how (Finance, etc.)

IT infrastructure technologies

Distribution, warehousing and storage, recycling
Offer new lifestyles by linking network-enabled household appliances with services

- Link with real services (financial, medical, etc.)
- Link with regions (local government, shopping precincts, etc.)
New Businesses (3) e-Japan (iv) Traceability

Identification of individual products with wireless IC tags

Total SCM

Total services, including distribution and facilities
New Businesses (4) uVALUE Concept Businesses
(i) Urban Planning and Development

True Collective Strengths

- Safe and secure cities
- Comfortable and convenient services
- Disaster-resistant cities
- Sustainable societies compatible with the environment

- Information and communications systems
- Urban planning and redevelopment
- Electric power systems
- Household appliances

IT-enabled condominiums / comprehensive building management
e-homes / e-communities
Town management system
Energy conservation / regional energy
New Businesses (4) uVALUE Concept Businesses (ii) ITS

True Collective Strengths

- Remote maintenance
- Advanced navigation
- Digital broadcasting services
- Networking

= Information and communications systems

Automobiles

Distribution

Broadcasting and communications

- Satellite
- Digital terrestrial broadcasting
- Mobile communications

Onboard information systems

Traffic management system

In-car network

Car control systems

ITS center
True Collective Strengths

- IT infrastructure technologies
  - The procurement, design and manufacturing know-how of an electrical equipment manufacturer
- Distribution, maintenance and recycling
- Take actions ahead of new global environmental regulations

Diagram:
- Traceability
  - Design
  - Procurement
  - Manufacturing
  - Distribution
  - Maintenance and recycling

Legend:
- Information and communications systems
- Household appliances
- Semiconductors
- Distribution

Quality management, including for chemicals
Hitachi Group underpins Ubiquitous Information Society

Value

Process

Service platform

Urban planning and redevelopment solutions
Automotive and telematics solutions
Power and Industrial Systems solutions
Financial solutions
Public solutions
Consumer solutions

Harmonious Computing

uVALUE

uVALUE·Chain Innovation
Consolidated Group management
Displaying the Group’s Collective Strengths

- Strengthen consolidated Group management
  - Hitachi and major Group companies adopted Committee System (Jun. 03)
  - Established Hitachi Group Headquarters (Apr. 04)

- Increase corporate value on a consolidated basis
  - Established Group Summit to create an optimal information and communications systems business (Jun. 04)

- Pursue business synergies
  - Hitachi, Ltd.: Overall Group supervision, large-scale projects, focus on new businesses
  - Hitachi Group companies: Focus on businesses in strongest fields and using competitive technologies
  - Enhancing technological strengths through adoption of common productive technology
  - Reducing costs through Groupwide procurement
Contents

1. A New Business Concept - uVALUE
2. Fiscal 2003 Business Results Overview and Fiscal 2004 Forecasts
3. Business Policies and Targets for Achieving i.e.HITACHI Plan II
4. Key Strategies for Achieving i.e.HITACHI Plan II
5. Conclusion
Achieving i.e.HITACHI Plan II

Create and Expand Highly Profitable New Businesses

Nurture Global Business and Capture Leading Market Positions

Make Base Businesses More Competitive

Establish a Strong Consolidated Group Management Base

Achieve i.e.HITACHI Plan II
New Business Concept  uVALUE

uVALUE

Life  Communities  Value
Work with customers in a ubiquitous information society to create innovative forms of value incorporating customer input

Businesses

uVALUE-Chain Innovation

Create a value chain linking companies, people and the public sector
Provide vertically integrated one-stop solutions
Fuse diverse business know-how and information systems

Service Platform
Service platform grounded on Hitachi products that incorporate advanced technologies

Harmonious Computing
Use collective strengths to raise the Hitachi Group’s Value

Widening Hitachi’s Customer Base

Use information and communication systems to link Hitachi products and services

- Transportation
- Buildings and condominiums
- Regional services
- Distribution
- Picture content services
- Digital household appliances
- Health maintenance services
- Nursing care
- Advanced medical equipment
- Financial services
- e-patient records
- Electric power
- Security
- e-government

uVALUE
This document contains forward-looking statements which reflect management’s current views with respect to certain future events and financial performance. Words such as “anticipate,” “believe,” “expect,” “estimate,” “intend,” “plan,” “project” and similar expressions which indicate future events and trends are used to assist readers in identifying these “forward-looking statements.” Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based on current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this document.

Factors that could cause actual results to differ materially from those projected or implied in any “forward-looking statement” and from historical trends include, but are not limited to:

- rapid technological change, particularly in the Information & Telecommunication Systems segment and Electronic Devices segment;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technology on a timely and cost-effective basis and to achieve market acceptance for such products;
- fluctuations in product demand and industry capacity, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;
- increasing commoditization of information technology products, and intensifying price competition in the market for such products;
- fluctuations in rates of exchange for the yen and other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated, particularly between the yen and the U.S. dollar;
- uncertainty as to Hitachi’s ability to access, or access on favorable terms, liquidity or long-term financing, particularly in the context of limited credit availability currently prevailing in Japan;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in product demand and/or exchange rates, general economic conditions and the regulatory and trade environment of Hitachi’s major markets, particularly, the United States, Japan and elsewhere in Asia, including, without limitation, continued stagnation or deterioration of the Japanese economy, or direct or indirect restriction by other nations on imports;
- uncertainty as to Hitachi’s access to, and ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- uncertainty as to the success of alliances upon which Hitachi depends, some of which Hitachi may not control, with other corporations in the design and development of certain key products; and
- uncertainty as to general market price levels for equity securities in Japan, declines in which may require Hitachi to write-down equity securities it holds.

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