Hitachi’s Flat-panel TV Business Strategy

April 18, 2007
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President & Chief Executive Officer, Consumer Business Group
Hitachi, Ltd.
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2. Global Market Trends
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1-1. Business Targets

Prioritize management resources and set Hitachi apart from other companies, particularly in plasma TVs

| FY2006 4Q | Profitability achieved on operating income basis (forecast) |
| FY2007    | Achieve positive operating income                           |
| FY2008    | Achieve positive FIV*                                       |

Reasons for Improvement
- Start of operations at 3rd plant of FHP**
- Strengthened presence in large (50- and 60-inch) plasma TVs
- Cost reductions

* 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.

** FHP: Fujitsu Hitachi Plasma Display Limited
1-2. FY2007 Profit Improvement Plan for Flat-panel TVs

Reasons for FY2006 loss:
- Inadequate response to falling prices (in terms of cost competitiveness and marketing)
- Poor capacity utilization prior to FHP’s 3rd plant coming on stream
- Inadequate product lineup and lack of distinctive products → Fall in gross profits

FY2007 Forecasts (FY basis)

- Estimated price reductions, Higher R&D expenses to add value to products, etc.
- Higher sales, Improved model mix (Expanded lineup, etc.)
- Reduced fixed costs, etc.

Percentage contribution to forecast FY2007 profit improvement:
- 60%
- 30%
- 10%
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2-1. Global Market Trends—1: Structural Change in TV Market

Source: JEITA* survey, unit base

* JEITA: Japan Electronics & Information Technology Industries Association
2-2. Global Market Trends—2: Forecast Demand for LCD TVs and Plasma TVs

Source: Hitachi survey

#### Share for 50-inch+ TVs (%)
- 19%
- 31%
- 41%
- 46%

#### Demand by Region for 50-inch+ TVs

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2006</th>
<th>FY2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td>U.S.</td>
<td>99</td>
<td>430</td>
</tr>
<tr>
<td>Europe</td>
<td>40</td>
<td>190</td>
</tr>
<tr>
<td>China</td>
<td>6</td>
<td>80</td>
</tr>
<tr>
<td>Other Asia</td>
<td>21</td>
<td>170</td>
</tr>
<tr>
<td>Total</td>
<td>180</td>
<td>920</td>
</tr>
</tbody>
</table>

Figures in parentheses represent share of total

Source: Hitachi survey
2-4. Global Market Trends—Summary

Demand

- Overall
  - Demand for flat-panel TVs is expected to outstrip CRT TV demand in FY2008
  - Demand for both plasma TVs and LCD TVs will continue growing
    <FY2006 vs. FY2010 Growth Rate>
    Plasma TVs: more than 2 times; LCD TVs: Close to 4 times

- Plasma TVs
  - A market of more than 20 million units in FY2010 (Limited number of manufacturers)
  - Significant growth in demand for 50-inch and larger models
    <FY2006 vs. FY2010 Growth Rate>
    Worldwide: approx. 5.1 times; Japan: approx. 3.6 times;
    North America: 4.3 times

- LCD TVs
  - 30- and 40-inch class LCD TVs will become mainstream products

Price

- Price reductions peaked in FY2006

* W/W: World Wide
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3-1. Sales Targets for Flat-panel TV Business

Targeting 20% market share for plasma TVs in FY2010 (30% for 50-inch+ plasma TVs)
3-2. Overall Policy

Concentrate Management Resources in Strategic Areas

Efficient investment strategy

Rigorous cost-cutting

Ensure quality and volume through “collaborative creation”

Product development

Production and SCM

Sales

Optimal business portfolio mix in terms of products and regions centered on plasma TVs

Stabilize earnings in flat-panel TV business
### 3-3. Investment Strategy

**Promote Efficient Investments**

| Development | • Channel investments into large screen products  
|             | → Differentiate and add value  
|             | Increase development personnel  
|             | FY2005 approx. 1,150 → FY2007 approx. 20% increase in personnel  
|             | • Optimize allocation of development resource in small and medium-size TVs through cooperation with other companies  
| Production | • Achieve accelerated return on investment by improving production efficiency  
|            | → Focus on profit-driven management and investments in rationalization  
|            | 1. Plasma TV  
|            | - Move from a 3-plant production framework to 5 plants worldwide (improve SCM, reduce costs)  
|            | 2. Plasma Panels  
|            | - Increase production capacity from 3.6 million units/year to 4.0 million units/year (rationalization investments)  
|            | - Achieve FY2010 plan target of 20% global market share with second and third plants at FHP  
|            | - Make decision on next plant in FY2008  
|            | 3. LCD TVs  
|            | - Global alliance with IPS Alpha Technology, Ltd.  
| Sales | • Prioritize resources  
|       | FY2007: Focus on North America and Japan  
|       | FY2008 onwards: Resume expansion in Europe and China  

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### 3-4. Cost Strategy

**Basic policy**
- Quickly capture benefits from vertical integration (October 2006～Integration of FHP development corps in Hitachi)
- Increase efficiency by cooperating with other companies
- Reduce cost of panels and finished products to offset lower prices
  - Reduce Materials expenses by 30%, targeting the growth area of 50-inch plasma TVs.

### FY2007 Specific Initiatives

<table>
<thead>
<tr>
<th>Area</th>
<th>Cost-reduction initiatives to achieve targets (no stone left unturned)</th>
</tr>
</thead>
</table>
| Materials expenses | • Aggressively promote head office project to lower materials expenses  
  - Central purchasing of core components, W/W Central purchasing of core components, expand local procurement worldwide |
| Panels           | • Aggressively promote Company-wide project to reform production  
  - (6 working groups, 190 people)  
  - Rationalize panel process, Improve production yield |
| SCM              | • Reduce logistics costs and shorten lead-times through worldwide SCM  
  - FY2007～Start operations at new flat-panel TV production facilities  
    (Czech Republic; Malaysia) |
| Fixed Costs      | Rigorously reduce costs at group headquarters, sales companies, etc.  
  - (by at least 10%/year) |

* FHP: Fujitsu Hitachi Plasma Display Limited
3-5. “Collaborative Creation” Strategy

Secure Quality and Volume Through “Collaborative Creation” With Other Companies

- Cooperation with Matsushita Electric Industrial Co., Ltd. in plasma display business (since February 2005)
  → Comprehensive collaboration in R&D, production, marketing and intellectual property
- Joint development and PR through Advanced PDP Development Center Corporation (established by panel companies)
  → Propose method for measuring moving picture resolution, promote advantages of plasma TVs
- Promote flat-panel TV electronic manufacturing services (EMS) to TV manufacturers in Europe and Asia
- Optimize allocation of development resources through greater cooperation with other companies

Capture Synergies in the Hitachi Group (Materials, components, finished products)

High level of production within the Hitachi Group*

- In-house production 70%
- External Procurement 30%

* Plasma TV W42-HR01

![Chart showing production sources](chart.png)
3-6. Overall Policy

Concentrate Management Resources in Strategic Areas

- Efficient investment strategy
- Rigorous cost-cutting
- Ensure quality and volume through “collaborative creation”

Product development
Production and SCM
Sales

Optimal business portfolio mix in terms of products and regions centered on plasma TVs

Stabilize earnings in flat-panel TV business
3-7. Product Development-1

Point
Achieve optimal business portfolio mix in terms of products and regions centered on plasma TVs

Basic Policy

- Establish the Hitachi brand as synonymous with large, flat-panel TVs
  1. Launch ultra-large 85-inch TVs (FY2008)
  2. 50-inch and larger TVs—bolster lineup in plasma TVs
  3. 40-inch class
     →Increase range of both plasma and LCD TV models
     →Launch LCD TVs in overseas markets

- Strengthen plan to add value to products
  1. Shift from TVs with built-in HDDs to TVs with iVDRs (removable HDDs)
  2. Improve moving picture performance further by incorporating Movie Frame Rate Converter
  3. Promote IPTV*, compatibility with home networks

* IPTV: Internet Protocol TV

<table>
<thead>
<tr>
<th>Models</th>
<th>FY2006</th>
<th>FY2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of models</td>
<td>50</td>
<td>70</td>
</tr>
<tr>
<td>Flat-panel TVs</td>
<td>36</td>
<td>40</td>
</tr>
<tr>
<td>Plasma TVs</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>50 inch+</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

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3-8. Product Development-2

April 2007 ~ Launch Flat-panel TV 01 Series

- **World first!**
  - “iV Pocket” compatible iVDR: removable hard disk drives
  - Movie Frame Rate Converter: for smoother reproduction of movie video

Value-added products that offer ease-of-use and high picture quality

- **iV Pocket**
  1. Enables hard disk capacity to be increased
  2. Each family member can have their own hard disk

- **Movie Frame Rate Converter**
  - A unique Hitachi feature that makes motion in video shot at 24 frames/second look more natural
Contribute to Future Core Businesses That Fuse Broadcasting and Communication

• Synergies with broadcasting- and communications-related businesses of the Hitachi Group
  – Utilize the Hitachi Group’s advantage of businesses in wide-ranging domains, from home equipment/terminals and system infrastructure to services, to promote initiatives aimed at wedding digital consumer electronics with services for the home.
  – Encourage cooperation between Hitachi’s Information & Telecommunication Systems Group and related group companies, etc.
  – April 2007 Start of a company-wide project

**Services**
- Service platform for companies
- iVDR-based services

**Systems**
- Servers/storage systems
- Network systems

**Home equipment/terminals**
- Digital consumer electronics
- Home servers and networks
- HDDs, optical disk drives

"Collaborative creation" with customers
Contribute to knowledge-based information society

Service businesses
Carriers, broadcasters, companies
Households

Provision of integrated, collaborative total solutions
3-10. Production and SCM-1

Production Framework Reform: Create 5-base Worldwide Production Framework (after completion)

Panel production (FHP*: Japan) ⇒ Supply all bases

From summer 2007
- Czech Plant
- Gifu Plant
- Mexico Plant

From spring 2007
- China Plant
- Malaysia Plant
- Panels
- Miyazaki Plant

* FHP: Fujitsu Hitachi Plasma Display Limited
3-11. Production and SCM-2

Establish SCM System in 5 Plants Worldwide (From Development Through Sales)

<table>
<thead>
<tr>
<th>Basic policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduce product inventories: No. of days inventory in all regions No more than 3 weeks</td>
</tr>
<tr>
<td>• Shorten lead-times: Time to supply panels to warehouses in all regions No more than 2 months</td>
</tr>
<tr>
<td>• Keep sales company and plant inventories to bare minimum</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Themes From 1H FY2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ascertain and chart actual sales, inventories and production information</td>
</tr>
<tr>
<td>• Realize flexible production for finished products (weekly reviews)</td>
</tr>
<tr>
<td>• Equalize panel production</td>
</tr>
<tr>
<td>• Promote VMI* and strengthen worldwide procurement functions</td>
</tr>
</tbody>
</table>

FY2007 Targets (FY2006=100)

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>U.S.</th>
<th>Europe</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of days inventory</td>
<td>50%</td>
<td>60%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>Production reform project benefits</td>
<td>80%</td>
<td>65%</td>
<td>30%</td>
<td>65%</td>
</tr>
</tbody>
</table>

* VMI (Vendor Managed Inventory): Stockless operations whereby the manufacturer manages the distributor’s inventory

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3-12. Worldwide Sales Strategy-1

Basic policy

- Global development → Greater focus on strong regions and accounts
- Strong market-driven framework at five production bases worldwide
  → Rigorous management of income and expenditure by region and account
    - Appoint person responsible for each region, delegate greater authority
  → Use outside human resources (Use more local personnel)

Organizational Reforms to Strengthen Market-driven Framework

<table>
<thead>
<tr>
<th>Region</th>
<th>Specific Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>• Integrate sales strategy, channel strategy and other strategies with Hitachi’s</td>
</tr>
<tr>
<td></td>
<td>(Integration of consumer business, including home appliances)</td>
</tr>
<tr>
<td>North</td>
<td>• More local personnel in management team (4 of the 5 top management to be local</td>
</tr>
<tr>
<td>America</td>
<td>hires)</td>
</tr>
<tr>
<td>Europe</td>
<td>• Employ top executive with extensive experience in local industry</td>
</tr>
<tr>
<td>China</td>
<td>• Rebuild organization centered on Japanese executives, increase local hiring of</td>
</tr>
<tr>
<td></td>
<td>marketing personnel</td>
</tr>
</tbody>
</table>
## Sales Strategy by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Sales Strategy</th>
<th>Specific initiatives</th>
<th>FY07 Unit Composition*</th>
</tr>
</thead>
</table>
| Japan    | Capture 40% share of plasma TV market with larger screens and products offering added value | • Capture market share of at least 50% in 50-inch or larger plasma TVs  
• Establish flat-panel TVs that record with HDDs and iVDRs  
• Energize regional stores and business routes | 30%                    |
| North America | Accelerate shift to 50-inch or larger TVs and expand sales                         | • Establish the Hitachi brand as synonymous with large, flat-panel TVs  
• Promote joint projects with leading trading companies  
• Open up new channels (High-end AV specialists) | 45%                    |
| Europe   | Prioritize resources for resuming expansion in FY2008                           | • Europe-wide sales system ⇒ Focus on certain regions  
• Secure materials by sales route and conduct sales promotions | 10%                    |
| China    |                                                                                  | • Aggressive strategy focused on 30 key cities                                        | 10%                    |
| Other Asia, etc. | Concentrate sales on growth regions (Russia, etc.)                             |                                                                                  | 5%                     |

* Unit composition of flat-panel TVs
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4-1. Business Targets-1: Sales Targets for Flat-panel TV Business

Targeting 20% market share for plasma TVs in FY2010 (30% for 50-inch+ plasma TVs)
4-2. Business Targets-2

| FY2006 4Q | Profitability achieved on operating income basis (forecast) |
| FY2007    | Achieve positive operating income                        |
| FY2008    | Achieve positive FIV*                                    |

Prioritize management resources and set Hitachi apart from other companies, particularly in plasma TVs

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- fluctuations in product demand and industry capacity, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products 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;
- rapid technological change, 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, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;
- 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;
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- general socio-economic and political conditions and the regulatory and trade environment of Hitachi’s major markets, particularly, the United States, Japan and elsewhere in Asia, including, without limitation, a return to stagnation or deterioration of the Japanese economy, or direct or indirect restriction by other nations on imports;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;
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