

V. Intellectual Property

1. Patents

1.1. IP Management System and Portfolio

1.1.1. Intellectual Property Group

Intellectual Property Group's motto is to create intellectual property value. Our activity-goal is to contribute to business growth. The IP Group is made up of an IP Development & Management Division, an IP Business Division, and Headquarter Staff. IP Development & Management Division consists of nine product technology sections at six offices. (See Figure 5.1) The offices take charge of obtaining patent and design rights.

IP Business Division consists of licensing, trademark, and copyright sections. In Asia it is particularly important to strengthen brand protection and to manage trade secrets. So on April 1, Hitachi established the

Intellectual Property Maintenance Center, which brings together trademark rights, Measures against Counterfeit Products, and trade secret management under one organization.

1.1.2. Group Intellectual Property scheme

From April 2004, a Group intellectual property scheme was established to strengthen Group businesses and the technology base. The scheme bundles the patent rights of the Hitachi Ltd. with the patent rights of each Group company as a means of joint enforcement to third parties and defense against third party attack.

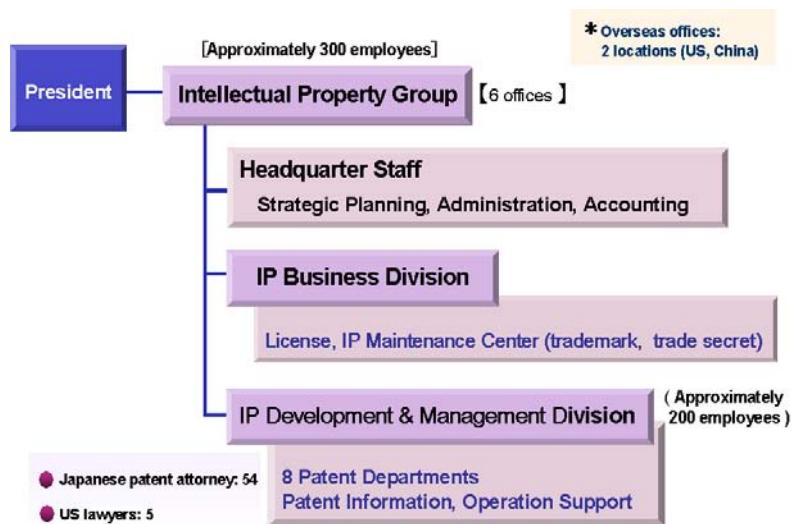


Figure 5.1 Organization of Intellectual Property Group

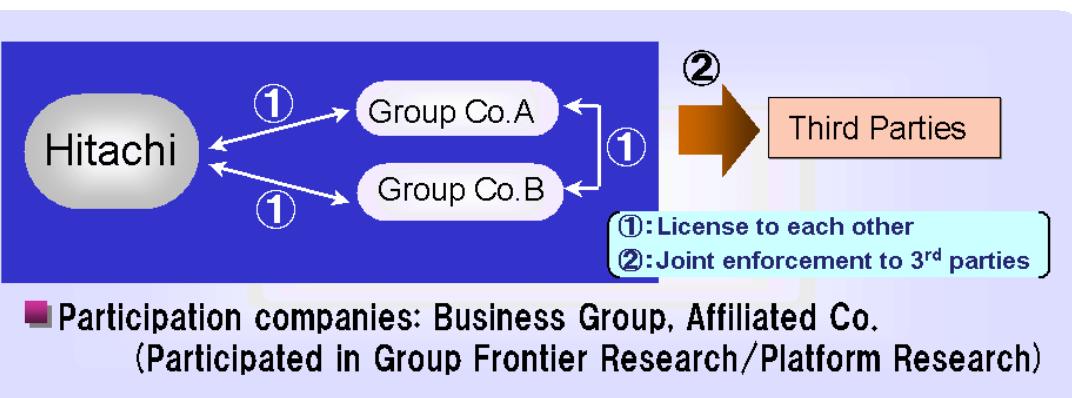


Fig.5.2 Group IP Hitachi

1.1.3. Patent Portfolio

The Hitachi Group ranks second among companies in US patent registrations as of 2004 (See Table 5.1 based on US IPO¹ data). Due to business restructuring in which patents became registered under the Group name, the total number of patents under the name of Hitachi Ltd. registrations was down in 2004. Hitachi is making every effort to gain the top rank. Table 5.2 shows the number of laid-open patents in Japan and Table 5.3² shows the number of US patent registrations for 2004.

Table 5.1 US Patent Registrations Ranking

Rank	Company Name	US Patent Registrations
1	IBM	3,248
2	Hitachi	1,993
3	Matsushita Electric	1,986
4	Canon	1,867
5	HP	1,783

Table 5.2 Laid-open patents in Japan (2003, 2004)

Category	Laid-open patents in Japan for 2003			Laid-open patents in Japan for 2004		
	Hitachi Ltd.	Group Company	Subtotal	Hitachi Ltd.	Group Company	Subtotal
Information and Telecommunication Systems	1,852	784	2,636	1,916	891	2,807
Electronic Device	1,147	751	1,898	1,024	958	1,982
Power and Industrial Systems	1,540	2,050	3,590	1,702	1,650	3,352
Digital Media and Consumer Equipment	909	1,130	2,039	717	1,329	2,046
High-Performance Materials	159	1,908	2,067	124	2,021	2,145
Logistics and Services	109	6	115	79	10	89
Financial Service	58	9	67	42	7	49
Total	5,774	6,638	12,412	5,604	6,865	12,469

¹ IPO is the Intellectual Properties Owners Association which has members from major enterprises.
<http://www.ipo.org>

² Hitachi gathered information from the databases listed below. The survey periods were from January to December in both 2003 and 2004. Refer to Reference 1 at the end of this report for survey targets that are Group companies. Tables for the Hitachi Ltd. and Group Companies are from each business division based on international patent classifications. Joint applications by Hitachi Ltd. and Group companies are totaled under Hitachi Ltd. Joint applications between Group companies may be counted double, except when Hitachi Ltd. is an applicant.

Database Search

Laid-open patents in Japan: PATOLIS search on April 22, 2005. (PATOLIS is a trademark of PATOLIS Corporation.)
 US patent registrations: Questel Orbit search on April 26, 2005. (Questel Orbit is a trademark of Questel S.A.)

Table 5.3 US Patent Registrations (2003, 2004)

Category	US Patent Registrations for 2003			US Patent Registrations for 2004		
	Hitachi Ltd.	Group Company	Subtotal	Hitachi Ltd.	Group Company	Subtotal
Information and Telecommunication System	543	85	628	492	193	685
Electronic Device	744	54	798	518	122	640
Power and Industrial Systems	356	139	495	283	148	431
Digital Media and Consumer Equipment	221	39	260	195	46	241
High-Performance Materials	41	79	120	46	97	143
Logistics and Services	2	12	14	0	3	3
Financial Service	2	0	2	0	1	1
Total	1,909	408	2,317	1,534	610	2,144

1.2. Patent Strategy

In response to a national policy to become a nation based on intellectual property, Our IP strategy aims to develop businesses that are internationally competitive. The road to international competitive strength runs through R&D that yields differentiated products and technologies.

Specifically, through obtaining core and peripheral patents of differentiated products and technologies and utilizing the patents, we will be able to increase profits and gain market share.

1.2.1 Obtaining Patents

The IP Group creates value-added IP to brush up the inventions coming from R&D Headquarters and each business group; and its operations contribute to business activities.

Operations include stage 1) creating invention and stage 2) Nurturing invention. Strong technology and differentiated technology are built into unrivalled patent portfolios through flagship patent activity and patent portfolio management activity. (See Fig. 5.3)

One of our activity examples is in a five fighting patent (5FP) activity, which is to obtain at least five patents which together can stand up to patent infringement claims. Another activity examples is Strategic Patent Activity which is to designate gold, silver, and bronze flags to obtain basic and essential patent related to main technologies both current and future.

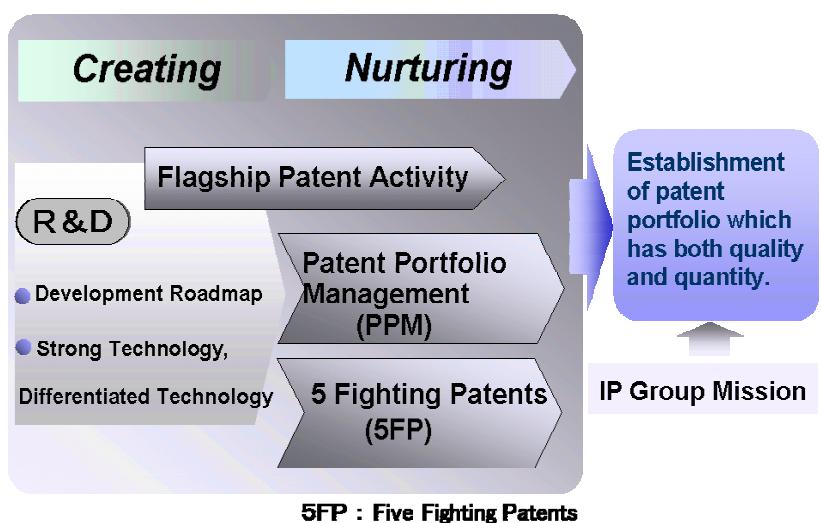


Figure 5.3 Patent Portfolio Creation

1.2.2. Patent Utilization

Multiple patent utilization in agreement with business strategy includes 1) patent royalty income, 2) cross licensing, and 3) strategic exploitation (contributions to new orders and alliance support). (See Fig. 5.4)

For a mature product sector, Hitachi works to create a strong patent portfolio to protect differentiated products produced by a relevant business division. We contribute to realization of high sales amount and business interests by multiple patent utilization.

For a new product sector, Hitachi implements a strategy to create a strong patent portfolio for the best or only product in the sector. For a product sector in which Hitachi has already withdrawn, Hitachi's aim is to gain patent royalty income to support new investment.

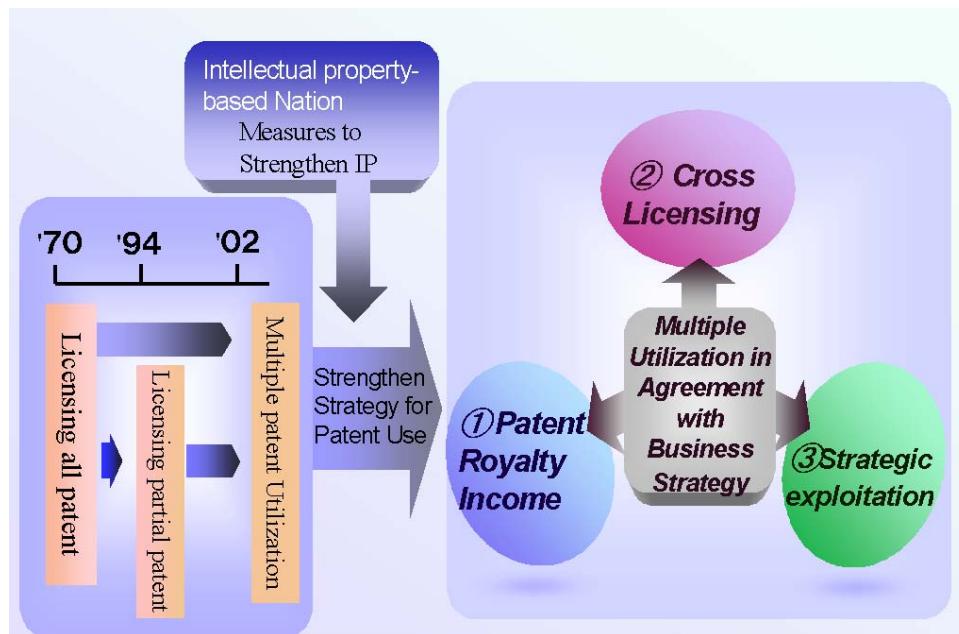


Figure 5.4 Patent Use Strategy

The results of intellectual asset activities are often weighted heavily by patent royalty income performance. At Hitachi, patent royalty income is considered only one out of the many types of intellectual asset activity that contribute to business success.

1.3 Employee Invention System Revision

Hitachi aims to stimulate R&D further and to continue to create outstanding inventions. Starting in April the Group has a revised invention reward system that is more transparent and attractive to inventors. These revisions are in line with revisions to Article 35 of the Japanese Patent Law. To clarify the system to inventors, nearly 200 explanatory meetings were held. At the meeting, we received opinions and request of the invention reward system. An invention award committee was set up to hear opinions and to handle uncertainty about invention rewards. An invention information system was introduced to manage internal use and other information related to inventions. In the future, information related to invention reward evaluations will be released to inventors and a list of the top 100 rewards for patents and inventors will be published within the company. In this way, Hitachi is working to strengthen its invention incentives.

2. Brand

2.1. Brand Management System

The Corporate Brand Management Office of the Hitachi Group Headquarters supervises brand management. Each business group and Group Company assigns a person to closely work with the Corporate Brand Management Office.

The Intellectual Property Group is responsible for integrated management for the acquisition and protection of global trademarks such as the Hitachi logo “**HITACHI**” and the Hitachi mark “.” Hitachi has approximately 7,000 trademarks registered for Group products and services in over 200 countries. The intellectual property departments of each Group Company manage the acquisition and protection of their product trademarks.

2.2. Brand Strategy

The source of competitiveness is shifting from tangible to intangible assets. Hitachi considers its brand to be the highest important asset. As such, brand management has been an important activity since April 2000. The slogan, “Inspire the Next” expresses Hitachi’s intention and value to offer the world, superior products, services, and systems. The slogan also expresses Hitachi’s desire to continually breathe vitality into succeeding generations. To be worthy of the slogan “Inspire the Next,” the Hitachi Group is promoting various strategies. The main promotion activities in 2004 are outlined below.

2.2.1. Activities to Enhance Brand Image in the Youth Sector

In recent years, the Hitachi brand image among the youth sector (university age) has continued to weaken. To enhance brand image in the youth sector, young employees are directly conveying the message to university students about Hitachi activities in venture enterprises, Hitachi history, cutting-edge technology, and other current business content. These activities will help recruit superior talent and help build better relations with future Hitachi stakeholders. Publishing messages to university students through newspaper advertisements and employing the use of celebrity images in direct mail campaigns are just a few of the activities designed to enhance popular awareness of Hitachi. In addition, Hitachi holds seminars to educate young people about its founding philosophy, brand principle, business content, and workforce pride. Direct contact with young people through Hitachi’s young employees is especially effective in conveying the vitality, founding principle, and spirit of “Inspire the Next.” According to a jobseeker ranking published by the Nihon Keizai Shimbun in February 2005, Hitachi was ranked 14th among young men and women from the science and humanities backgrounds. In 2004, Hitachi ranked 72nd. In a Recruit ranking, Hitachi ranked 10th in 2005 and 85th in 2004.

2.2.2. 2004 Hitachi-China Exhibition

Starting in October 2004, the Hitachi Group hosted the Hitachi Exhibition-China in three major cities: Beijing, Shanghai, and Guangzhou. With a theme of urban space creation for vitality, Hitachi displayed products related to social infrastructure and promoted its technology strength and collective Group strength. Over 14,000 people visited the three exhibit sites and 4,000 people attended related seminars. Hitachi employees had many opportunities to meet with government representatives, customers, and partners. The exhibit provided a medium for Hitachi to strengthen its base in China and to establish many important business contacts. In the future, Hitachi hopes to turn these important contacts into new business orders.

2.2.3. Hitachi Pavilion at 2005 World Exposition, Aichi, Japan

The 2005 World Expo in Aichi opened in March in the Nagoya Eastern Hills (Nagakute Town, Toyota City, and Seto City). The Hitachi Group hosted its own pavilion called “Nature Contact-Hitachi Group Pavilion’s Ubiquitous Entertainment Ride.” Through contact with rare animals, visitors experienced the importance and splendor of nature along with the dawning of a 24/7 network society based on advanced information technology that the Hitachi Group is striving to achieve. The goal of the exhibit was to give visitors a taste of entertainment in the future.

2.2.4. Award System: Inspiration of the Year Award

The Hitachi Group has introduced an award system called Inspiration of the Year. This system honors Hitachi employees and groups that have enhanced Hitachi brand value, and, is linked to stock price. In 2004 a total of 106 award applications were submitted from Japan and overseas.

2004 Inspiration of the Year Award (2 Cases)

(1) Hitachi brand value enhancement through consumer service product improvement in the US

This case is cited for its steady effort over 10 years to integrate production and sales and to enhance brand presence focusing on plasma and projection televisions. These efforts are responsible for capturing the top share of projection and plasma televisions at Sears’ retailers in the US and for enhancing the Hitachi brand image.

(2) Hitachi brand value enhancement by winning the gold medal at the 37th International Skills Festival

In this case, Hitachi was the only electronics manufacturer to capture one of the six gold medals awarded to Japanese companies at the International Skills Festival. The gold medal award clearly demonstrates to the world Hitachi’s manufacturing strength and skill and contributes to enhancing the Hitachi brand image.

At the 38th Festival, Hitachi captured two of the five gold medals awarded to Japanese companies.

In addition, Hitachi’s trademark section awards an intellectual property right prize for product brand excellence related to good ideas, application, and development.

2.2.5. Action Plan to Enhance Hitachi Brand Value

The brand enhancements Action Plan concretely shape to the “Inspire the Next” slogan. The Action Plan started with projects in Europe in 2002 and Hitachi Construction Machinery Co., Ltd. in 2004. The projects are planned to expand into other group companies. Each project involves interviewing customers and senior management. The interview results are used to customize the Hitachi brand to fit regional and market characteristics. The goal of the Action Plan is to enhance brand value by filling the gap (through insight and analysis) between actual and ideal customer experience.

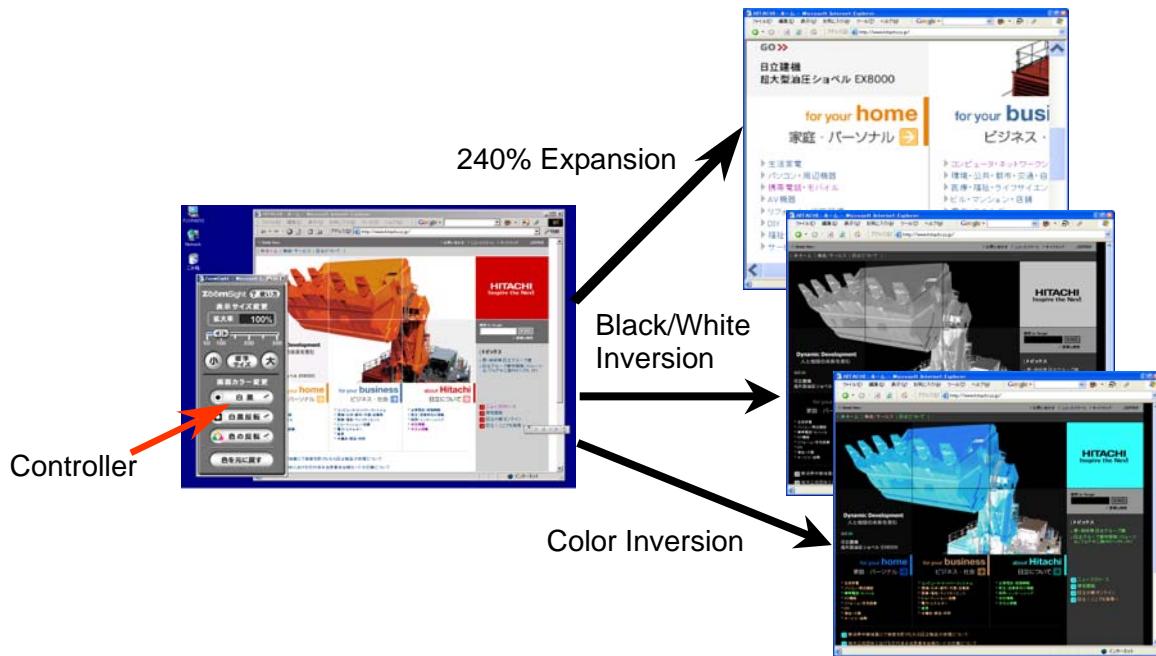
2.2.6. Web Management

(1) Enhance web quality in line with new laws (Personal Data Protection Law and Web Accessibility JIS).

The Personal Data Protection Law became effective in April 2005. This Law sets standards to protect the private information of users and customers on the Internet. The Hitachi Group is promoting website design that is safe to access. At the same time, the Group is introducing measures against illegal access and enhancing the reliability of its websites.

Japanese Industrial Standards (JIS) related to web accessibility (JIS X 8341-3) aim to enable

anybody to easily browse the Internet. The Hitachi Group is upgrading its Internet guidelines and building high-quality websites that all customers can easily access. Hitachi websites also provide various tools to support accessibility such as adjustable text size and color and a text-to-speech function.



(2) Activate Group strength through information sharing.

Hitachi has created a Group information sharing website that is password protected. The site publishes information related to brands, web, advertisements, and public relations; it promotes a Group feeling of unity and global information sharing about brands among Group companies.

The original Hitachi intranet system is being repositioned as a Group information site and the interface is being updated. The upgraded site will promote information sharing within the Group and Group companies will be able to easily publish their content. The changes will increase information exchange. Compared to the previous intranet system, access to the revamped site is up by threefold. The increase in mutual information exchange will enhance collective Group strength and create synergies.

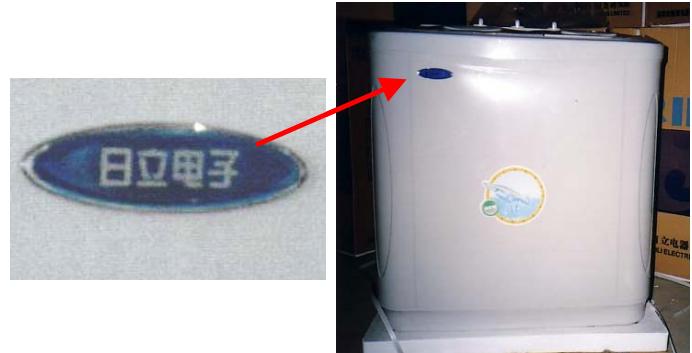
2.3. Measures against Counterfeit Products

The Hitachi Group has been taking strong action against counterfeit products (e.g., home appliances, automobile components, electronic components, power tools) to protect Hitachi brand especially in China, other Asian countries, and the Middle East. Especially, in China where we face a lot of counterfeits, Hitachi has many raids carried out, and tackled counterfeits even in foreign markets exported from China through cooperation with local affiliate companies. Also, Hitachi participated in a mission dispatched to China under the International Intellectual Property Protection Forum to lobby Chinese authorities for the better protection of prestigious brands..

Recently, we have faced many cases where infringers established corporations to advance their illegal activities, even registering trademarks and company names that are confusingly similar to "HITACHI" both in English and Chinese characters.

For example, in 2004, a third party in Hong Kong registered a trade name that contained “Hitachi” in Chinese characters. The purpose was to pretend to be Hitachi group company and to have factories on mainland China manufacture washing machines and refrigerators under the fake “Hitachi” brand. The manufactured products were then sold in Anhui, Shangdong, and Sichuan Provinces. Hitachi filed a complaint in a Hong Kong court for illegal use of registered trade name, and obtained the favorable court order.

Then, Hitachi commenced an extensive investigation on the Chinese mainland, and confiscated many counterfeits from the various regions. The Chinese authorities also issued a fine payment order and confiscation order for illegal profiting. Finally, the guilty party was stripped of its business license.



Hitachi has taken other legal actions to stop illegal use of its trade name. At the same time, Hitachi has been cooperating with other companies in the industry to request, through the Ministry of Economy, Trade, and Industry, the authorities in Hong Kong and China to protect trademark rights.

3. Trade Secrets

The Hitachi Group has been actively managing its trade secrets for a number of years. Upon the law revisions related to strengthening trade secret protections in 1990, Hitachi revised newly set a rule to further protect its own trade secrets etc. Since then with the advent of era of digital information and networks, Hitachi upgraded its rules to manage trade secrets not to give rise to trouble.

Further to respond effectively to personnel mobility and to risks of unintended technology information outflow due to recent technology transfers to China and other regions, Hitachi is enforcing policies group-wide with the cross-sectional Trade Secret Management Committee as the central figure.

The committee is made up by:

- chairman : the Vice President for R&D and new business
- members : such as in Figure 5.3
- secretariat : the IP Protection Center.

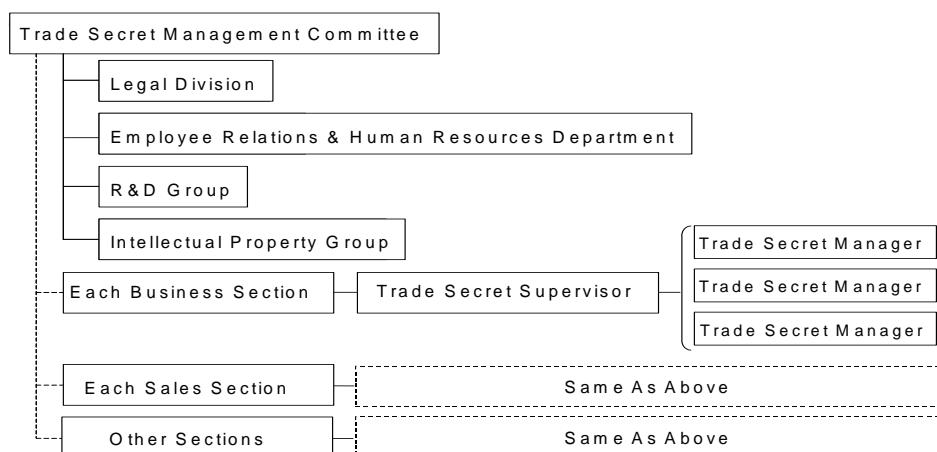


Figure 5.3 Trade Secret Management System

- 1) Hitachi, through issue of the "Guidelines on Management of Trade (including how to prevent technology outflow overseas)" in line with the guidelines of Ministry of Economy, Trade, and Industry, is taking the following measures.
 - (1) Basic guideline for technology outflow prevention
Clarify the content and range of technology transfer and formulate a technology transfer strategy.
 - (2) Maintenance of organization
Formulate an overall plan and clarify roles and responsibilities to determine whether a certain technology is transferable.
 - (3) Execution of technology outflow prevention plan
Conduct preliminary studies by specialists, make thorough non-disclosure agreements, and perform follow-up checks.
- 2) Response to personnel mobility
 - (1) Make professional confidentiality clauses stricter in labor contracts, collective labor agreements, and written retirement pledges.
 - (2) Issue (on a case by case basis) a letter to a company that hires a former Hitachi employee.