

HITACHI LTD
Form 20-F
August 26, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-8320

KABUSHIKI KAISHA HITACHI SEISAKUSHO

(Exact name of Registrant as specified in its charter)

Hitachi, Ltd.

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

6-6, Marunouchi 1-chome, Chiyoda-ku,

Tokyo 100-8280, Japan

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|--|--|
| American depositary shares, or ADSs, each of which represents ten shares of common stock | New York Stock Exchange |
| Common stock without par value | New York Stock Exchange* |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2005, 3,368,126,056 shares of common stock were outstanding.

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

* Not for trading, but only for technical purposes in connection with the listing of the ADSs.

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CAUTIONARY STATEMENT

Certain statements found in this annual report may constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements reflect management's current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as anticipate, believe, expect, estimate, forecast, intend, plan, project and similar expressions which indicate future events and trends may identify 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 upon 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 annual report.

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:

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 markets 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 implement measures to reduce the potential negative impact of fluctuations in product demand and/or exchange rates;

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;

uncertainty as to the success of restructuring efforts to improve management efficiency and to strengthen competitiveness;

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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;

uncertainty as to Hitachi's ability to access, or access on favorable terms, liquidity or long-term financing; 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.

The factors listed above are not all-inclusive and are in addition to other factors contained elsewhere in this annual report and in other materials published by Hitachi.

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**CERTAIN DEFINED TERMS, CONVENTIONS AND
PRESENTATION OF FINANCIAL INFORMATION**

Unless the context indicates otherwise, the term "Company" refers to Hitachi, Ltd. and the term "Hitachi" refers to the Company and its consolidated subsidiaries.

The Company's fiscal year ends on March 31. The fiscal year ended March 31, 2005 is sometimes referred to in this annual report as "fiscal 2004," and other fiscal years may be referred to in a corresponding manner. References to years not specified as fiscal years are to calendar years.

The consolidated financial statements of Hitachi, except for segment information, have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Unless otherwise stated or the context otherwise requires, all amounts in such financial statements are expressed in Japanese yen.

References in this annual report to "yen" or "¥" are to Japanese yen, references to "US\$", "\$" or "U.S. dollars" are to United States dollars and references to "ST£" are to United Kingdom sterling pounds.

References in this annual report to the "Commercial Code" or the "Japanese Commercial Code" are to the Japanese Commercial Code and such other laws amending and/or supplementing the Japanese Commercial Code.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

The following selected consolidated financial information has been derived from Hitachi's consolidated financial statements as of each of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to Hitachi's consolidated financial statements, including the notes thereto, included in this annual report.

| | Year ended March 31, | | | | |
|--|---|-----------|------------|-----------|-----------|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| | (Millions of yen, except per share amounts and number of shares issued) | | | | |
| Total revenues | 8,416,982 | 7,993,784 | 8,191,752 | 8,632,450 | 9,027,043 |
| Income (loss) before income taxes and minority interests | 323,655 | (586,072) | 96,828 | 237,149 | 264,506 |
| Net income (loss) | 104,380 | (483,837) | 27,867 | 15,876 | 51,496 |
| Per common share: | | | | | |
| Net income (loss) | | | | | |
| Basic | 31.27 | (144.95) | 8.31 | 4.81 | 15.53 |
| Diluted | 30.32 | (144.95) | 8.19 | 4.75 | 15.15 |
| Cash dividends declared | 11.00 | 3.00 | 6.00 | 8.00 | 11.00 |
| | (\$0.094) | (\$0.024) | (\$0.049) | (\$0.074) | (\$0.105) |
| Cash and cash equivalents | 1,381,603 | 1,029,374 | 828,171 | 764,396 | 708,715 |
| Short-term investments | 433,650 | 178,933 | 186,972 | 177,949 | 146,568 |
| Total assets | 11,246,608 | 9,915,654 | 10,179,389 | 9,590,322 | 9,736,247 |
| Short-term debt and current installments of long-term debt | 1,611,855 | 1,199,921 | 1,328,446 | 1,183,463 | 1,183,474 |
| Long-term debt | 1,881,270 | 1,798,303 | 1,512,152 | 1,314,102 | 1,319,032 |
| Minority interests | 825,158 | 798,744 | 751,578 | 798,816 | 921,052 |
| Stockholders' equity | 2,861,502 | 2,304,224 | 1,853,212 | 2,168,131 | 2,307,831 |
| Common stock | 281,754 | 282,032 | 282,032 | 282,032 | 282,033 |
| Number of shares issued (thousand shares) | 3,337,932 | 3,338,481 | 3,368,124 | 3,368,125 | 3,368,126 |

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The following table provides the noon buying rates for Japanese yen in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. Translation of dividend amounts into U.S. dollars is based on such rates at each respective payment date. The average rate means the average of the exchange rates on the last day of each month during a fiscal year.

| Year ended March 31, except month data | Yen exchange rates per U.S. dollar | | |
|--|------------------------------------|--------|--------|
| | Average | High | Low |
| 2001 | 111.65 | | |
| 2002 | 125.64 | | |
| 2003 | 121.10 | | |
| 2004 | 112.75 | | |
| 2005 | 107.35 | | |
| February 2005 | | 105.84 | 103.70 |
| March 2005 | | 107.49 | 103.87 |
| April 2005 | | 108.67 | 104.64 |
| May 2005 | | 108.17 | 104.41 |
| June 2005 | | 110.91 | 106.64 |
| July 2005 | | 113.42 | 110.47 |

On August 19, 2005, the yen exchange rate per U.S. dollar was 110.68 yen per \$1.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Hitachi operates in a broad range of business fields, conducts business on a global scale, and utilizes sophisticated specialized technologies to carry on its operations. It is therefore exposed to risks attributable to the economic environment, risks inherent in individual industrial sectors and business lines, and risks related to management. Investments in Hitachi's securities also involve risks.

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Although certain risks that may affect Hitachi's businesses are listed in this section, the list is not exhaustive. Hitachi's businesses may in the future also be affected by other risks that are currently unknown or that are not currently considered significant. The items set forth in this section contain forward-looking statements as described in the "Cautionary Statement" in this annual report.

Certain of the risk factors that may affect Hitachi are set out below.

Risks Related to Economic Environment

Economic trends

Decreases in consumer spending and private-sector plant and equipment investment due to economic downturns in Japan, North America, Asia and other major markets where Hitachi does business, or direct or indirect restrictions on imports by other nations, may negatively impact Hitachi's business results by reducing demand and increasing price competition for the products and services Hitachi offers. In addition, the adverse economic environment may result in increased risks of excess inventories and overcapacities, and further restructuring measures by Hitachi, which could involve associated expenses.

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Currency exchange rate fluctuations

Since Hitachi conducts business in many foreign countries, a portion of its assets and liabilities that are denominated in various currencies is exposed to risks from fluctuations in foreign currency exchange rates. In addition, Hitachi exports products and imports raw materials in local currencies, principally the U.S. dollar. Therefore, fluctuations in foreign currency exchange rates may affect Hitachi's financial results, which are reported in Japanese yen. A strong yen, for example, reduces the price competitiveness of products exported to foreign markets and diminishes profit by decreasing revenues. While Hitachi takes measures to reduce the risks from fluctuations in foreign currency exchange rates, there can be no assurance that such measures will succeed.

Risks Related to Industrial Sectors and Business Lines

Rapid technological innovation

New technologies are rapidly emerging in the segments in which Hitachi does business, with the pace of technological innovation being especially notable in the fields of information systems, electronics and digital media. The development of new and advanced technologies, the continuous, timely and cost-effective incorporation of such technologies into products and services, and the effective marketing of such products and services are indispensable to remaining competitive. While introducing such products and services requires a significant commitment to research and development, there can be no assurance that Hitachi's research and development will result in success. Should Hitachi fail in its endeavors to develop and incorporate into products and services such advanced technologies, and achieve market acceptance for such products and services, the results of operations of related Hitachi businesses may be negatively impacted.

Intense competition

The industrial sectors and business lines in which Hitachi is engaged are experiencing increasingly intense competition. Hitachi competes with diverse competitors ranging from huge global corporations to specialized companies. Competitors are increasingly manufacturing products, including sophisticated electronic products, in low-cost jurisdictions. Globalization of markets and commoditization of such products are making price competition in the business sectors in which Hitachi is engaged increasingly intense. Products which are facing intense price competition or decreases in prices include computer-related products, such as hard disk drives, disk array subsystems and optical disk drives, semiconductors, liquid crystal displays, digital media products and home appliances. To succeed in this competitive environment, Hitachi believes its products and services must be competitive in terms of price, engineering expertise, quality and brand value. Hitachi cannot be certain that the products or services that it offers will be competitive, and should such products or services fail to be competitive, Hitachi's business results may be negatively affected.

Supply and demand balance

Supply in excess of demand leads to a decline in selling prices and thus, such oversupply in the markets in which Hitachi is involved may adversely affect Hitachi's performance. In addition, Hitachi may be forced to dispose of overcapacity and obsolete equipment to adjust to demand, which can cause Hitachi losses. The semiconductor industry and the liquid crystal display industry, in particular, are highly cyclical, and cyclical downturns are characterized by sharp falls in prices and overcapacity. The liquid crystal display business and the semiconductor business conducted primarily by subsidiaries and affiliates of the Company may be negatively impacted by a periodic oversupply in the global

markets in the future.

Material and component procurement

Hitachi's manufacturing operations rely on third parties for supplies of parts, components and services of adequate quality and quantity and in a timely manner. External suppliers may have other customers and may not have sufficient capacity to meet all of the needs of such customers during periods of excess demand. Although in general, Hitachi maintains multiple sources of supply and works closely with its suppliers to avoid supply-related problems, such problems including shortages and delays may occur, which could materially harm Hitachi's business. In addition, reliance on outside sources increases the risk that Hitachi will not be able to control or avoid the introduction under the Hitachi name of products incorporating defective or inferior components, which could impose expenses for product recalls and lawsuits on Hitachi and adversely affect Hitachi's business results or its reputation for quality products. In addition, an increase in Hitachi's production costs due to a sharp rise in prices of materials and components that Hitachi purchases could negatively affect Hitachi's business results.

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Risks Related to Management

Dependence on specially skilled personnel

Hitachi believes it can continue to remain competitive only if it can maintain and secure additional people who are highly skilled in the fields of management and technology. However, the number of skilled personnel is limited and the competition for attracting and maintaining such personnel is intense, particularly in the information technology industry. Hitachi cannot assure that it will be able to successfully maintain and secure additional skilled personnel.

Acquisitions, joint ventures and strategic alliances

In every operating sector, Hitachi depends to some degree on acquisitions of other companies, joint ventures and strategic alliances with outside partners to design and develop key new technologies and products, and to strengthen competitiveness. Such transactions are inherently risky, including because of the difficulties in integrating operations, technologies, products and personnel. Integration issues are complex, time-consuming and expensive and, without proper planning and implementation, could adversely affect Hitachi's business. The success of alliances may also be adversely affected by decisions or performance of alliance partners that Hitachi cannot control or by adverse business trends. Hitachi may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration or restructuring of acquired businesses. There can be no assurance that these transactions will be beneficial to Hitachi's business or financial condition. Even assuming these transactions are beneficial, there can be no assurance that Hitachi will be able to successfully integrate acquired businesses or achieve all or any of the initial objectives of these transactions.

Restructuring of business

Hitachi is continuing to restructure its business to improve management efficiency and strengthen competitiveness by closing unprofitable operations, divesting its subsidiaries and affiliated companies, reorganizing production bases and sales network and reducing its workforce. In connection with these actions, Hitachi is incurring costs that adversely affect Hitachi's financial results and condition. Restructuring measures may be constrained or plans may not be implemented in a timely manner due to governmental regulations, employment issues and a lack of demand in the M&A market for businesses Hitachi may seek to sell. Moreover, Hitachi may not achieve all of the objectives of these actions.

Business activities in overseas markets

Hitachi seeks to expand its business in overseas markets as part of its business strategy. Through such overseas expansion, Hitachi aims to increase its revenues, reduce its costs and improve its profitability. Hitachi's overseas business activities may be adversely affected by various factors in foreign countries where it operates, including changes in regulations relating to investments, export, tariffs, antitrust, consumer and business taxation and exchange controls, differences in commercial and business customs, labor relations, public sentiment against Japan and other political and social factors as well as economic trends and currency exchange rate fluctuations. There can be no assurance that Hitachi will be able to achieve all or any of the initial aims of its strategy.

Measures taken under the medium-term management plan

In January 2003, Hitachi announced a new medium-term management plan through the fiscal year ending March 31, 2006. Hitachi plans to realign its business portfolio by exiting certain businesses and increasing focus on targeted businesses under the management plan. A variety of exit strategies may be employed to exit the selected businesses, including divestiture and closure. Significant costs are expected in connection with these actions, including costs related to the restructuring of businesses and losses related to the sale of securities. While increasing focus on targeted businesses may require a significant commitment to investment and research and development, there can be no assurance that Hitachi's investment and research and development efforts will be successful. In addition, there can be no assurance that the strategic realignment of businesses under the plan will be beneficial to Hitachi's business or financial condition. Even assuming the strategic realignment would be beneficial, Hitachi may fail to properly implement the measures under the plan, which might adversely affect Hitachi's financial condition and results of operations.

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Intellectual property

Hitachi depends in part on intellectual property rights covering its products, product design and manufacturing processes. Hitachi owns or licenses a large number of intellectual property rights and, when Hitachi believes it is necessary or desirable, obtains additional licenses for the use of other parties' intellectual property rights. If Hitachi fails to protect, maintain or obtain such rights, its performance and ability to compete may be adversely affected. In addition, since intellectual property litigation is costly and unpredictable, Hitachi's efforts to protect its intellectual property rights or to defend itself against claims relating to intellectual property rights made by others could impose considerable expenses on Hitachi.

Litigation and regulatory investigations

Hitachi faces risks of litigation and regulatory investigation and actions in connection with its operations. Lawsuits, including regulatory actions, may seek recovery of very large, indeterminate amounts or limit Hitachi's operations, and their existence and magnitude may remain unknown for substantial periods of time. A substantial legal liability or regulatory action could have a material adverse effect on Hitachi's business, results of operations, financial condition, reputation and credibility.

Product quality and liability

Hitachi increasingly provides products and services utilizing sophisticated and complicated technologies. Reliance on external suppliers reduces Hitachi's control over quality assurance. There is a risk that defects may occur in Hitachi's products and services. The occurrence of such defects could make Hitachi liable for damages caused by the defects and could negatively impact Hitachi's reputation for quality products and thereby adversely affect Hitachi's business results.

Risks of natural disasters and similar events

Portions of Hitachi's facilities, including its research and development facilities, manufacturing facilities and the Company's headquarters, are located in Japan, where seismic activity is frequent. Large earthquakes or other significant natural disasters could have a negative impact on Hitachi's operating activities, results of operations and financial condition. In addition, with the increased importance of information systems in Hitachi's operating activities, disruptions in such information systems due to computer viruses and other factors could have a negative impact on Hitachi's operating activities, results of operations and financial condition.

Governmental regulations

Hitachi's business activities are subject to various governmental regulations in countries where it operates, which include investment approvals, export regulations, tariffs, antitrust, intellectual property, consumer and business taxation, exchange controls, and environmental and recycling requirements. Significant changes in such regulations may limit Hitachi's business activities or increase operating costs.

Marketable securities risks

Hitachi owns marketable securities that are exposed to stock market risks. Declines in stock market prices may require Hitachi to write down equity securities that it holds, which may have an adverse effect on Hitachi's financial condition and results of operations.

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Access to liquidity and long-term financing

Hitachi's primary sources of funds are cash flows from operations, borrowings from banks and other institutional lenders, and funding from the capital markets, such as offerings of commercial paper and other debt securities. A downgrade in Hitachi's credit ratings could result in increases in Hitachi's interest expenses and could have an adverse impact on Hitachi's ability to access the commercial paper market or the public and private debt markets, which could have an adverse effect on Hitachi's financial position and liquidity. Although Hitachi has access to other sources of liquidity, including bank borrowings, cash flows from its operations and sales of its assets, Hitachi cannot be sure that these other sources will be adequate or on terms acceptable to it if any adverse conditions arise. A failure of one or more of Hitachi's major lenders, a decision by one or more of them to stop lending to Hitachi or instability in the Japanese capital markets could have an adverse impact on Hitachi's access to funding.

Retirement benefits

Hitachi has a significant amount of employee retirement benefit costs which are derived from actuarial valuations based on a number of assumptions. Inherent in these valuations are key assumptions used in estimating pension costs including mortality, withdrawal, retirement, changes in compensation, discount rate and expected return on plan assets. Hitachi is required to make judgments regarding the key assumptions by taking into account various factors including personnel demographics, market conditions and expected trends in interest rates. Although management believes that its key assumptions are reasonable in light of the various underlying factors, there can be no assurance that the key assumptions will correspond to actual results. If the Company's key assumptions differ from actual results, the consequent deviation of actual pension costs from estimated costs may have a material adverse effect on Hitachi's financial condition and results of operations. In addition, the Company may change these key assumptions, such as the discount rate or the expected return on plan assets. Changes in key assumptions may also have a material adverse effect on Hitachi's financial condition and results of operations.

Risks Related to Hitachi's Securities

Unit shares

One unit of the Company's shares is comprised of 1,000 shares or 100 ADSs. Each unit of the Company's shares has one vote. A holder who owns shares or American depository receipts, or ADRs, in other than multiples of 1,000 or 100, respectively, will own less than a whole unit (i.e., for the portion constituting fewer than 1,000 shares, or ADRs evidencing fewer than 100 ADSs). The Japanese Commercial Code imposes significant restrictions on the rights of holders of shares constituting less than a whole unit, which include restrictions on the right to vote and on the transferability of less than whole unit shares. Under the unit share system, holders of the Company's shares constituting less than a unit have the right to require the Company to purchase their shares and the right to require the Company to sell them additional shares to create a whole unit of 1,000 shares. However, holders of the Company's ADRs are unable to withdraw underlying shares representing less than one unit and, as a practical matter, are unable to require the Company to purchase those underlying shares. The unit share system, however, does not affect the transferability of ADSs, which may be transferred in lots of any size.

Foreign exchange fluctuations

Market prices for the ADSs may fall if the value of the yen declines against the dollar. In addition, the amount of cash dividends or other cash payments made to holders of ADSs will decline if the value of the yen declines against the dollar.

Rights of ADS holders

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining the Company's accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depository, through its custodian agents, is the record holder of the shares underlying the ADSs, only the depository can exercise those rights in connection with the deposited shares. The depository will make efforts to vote the shares underlying ADSs in accordance with the instructions of ADS holders and will pay the dividends and distributions collected from the Company. However, ADS holders will not be able to bring derivative actions, examine the Company's accounting books and records, or exercise appraisal rights through the depository.

The Company is incorporated in Japan with limited liability. A significant portion of the assets of the Company are located outside the United States. As a result, it may be more difficult for investors to enforce against the Company judgments obtained in U.S. courts predicated upon the civil liability provisions of the Federal securities laws of the United States or judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the Federal securities laws of the United States.

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ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

The Company was founded in 1910 as a small electric repair shop and was incorporated as Hitachi, Ltd. (Kabushiki Kaisha Hitachi Seisakusho), a joint stock corporation, in 1920 under the laws of Japan. Its registered office is located at 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8280, Japan. The telephone number of the Company's principal executive office is +81-3-3258-1111.

Over the years, Hitachi has broadened the horizon of its research as well as its business activities to develop a highly diversified product mix ranging from electricity generation systems to consumer products and electronic devices. Hitachi has grown into one of Japan's largest diversified manufacturer of electronic and electrical products. With its diverse product lines, Hitachi maintains a significant presence in each of the major markets it serves, which together make Hitachi one of the world's largest manufacturers of electronic products. With its emphasis on research and development and its ability to combine a wide range of technologies, Hitachi continues to strive to provide the world with products that meet the changing needs of its customers.

In January 2003, Hitachi launched a new medium-term management plan defining the direction and goals of its businesses through the fiscal year ending March 31, 2006. The plan includes, among other things, a realignment of Hitachi's business portfolio which may be implemented by exiting certain businesses, increasing focus on targeted businesses and creating new businesses in an effort to achieve increased profitability and alteration of its corporate governance structure in an effort to improve the efficiency and transparency of management. Under the plan, Hitachi expects to pursue further growth in the global markets by identifying competitive businesses and channeling management resources into those businesses. The businesses on which Hitachi plans to increase focus include its storage solutions business, hard disk drive business and automotive products business. Hitachi also expects under the plan to continue to improve cash-flow management by increasing the efficiency of working capital use while making selective investments, and further to reduce procurement costs. See Item 5. Operating and Financial Review and Prospects A. Operating Results and Item 6. Directors, Senior Management and Employees.

In recent years, Hitachi has accelerated its business reorganization, including to facilitate Hitachi's goal of maximizing growth by combining and utilizing the diverse management resources within Hitachi in the most effective and efficient ways.

In June 2002, the Company and International Business Machines Corporation, or IBM Corporation, entered into an agreement under which their respective hard disk drive operations would be transferred to a new standalone company and the Company would then purchase a majority ownership in the new company. The purpose of the transaction was to strengthen hard disk drive operations in a highly competitive market. The deal closed on December 31, 2002 and the new company, Hitachi Global Storage Technologies, Inc., commenced operations on January 1, 2003.

On April 1, 2003, the Company transferred its semiconductor operations centered in system large scale integrations, or system LSIs, to a new company, Renesas Technology Corp., or Renesas, jointly owned by the Company and Mitsubishi Electric Corporation, or Mitsubishi Electric. The Company believes this transfer will improve the competitiveness of its semiconductor operations through more flexible management and realizing synergies between the technologies of the Company and Mitsubishi Electric. Renesas is accounted for under the equity method by the Company.

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On October 1, 2004, the Company merged its equity-method affiliate, TOKICO LTD., and its wholly-owned subsidiary, Hitachi Unisia Automotive, Ltd. into itself. The Company allocated 0.521 shares of the Company for each share of TOKICO LTD., excluding those shares already held by the Company. The Company made this allocation exclusively with treasury shares. The Company believes that this transaction will strengthen its automotive products business due to synergies it expects to realize through the integration of operations, including the sales and R&D functions of the three companies.

On April 1, 2005, the Company acquired 30.1% shares of its equity-method affiliate, Fujitsu Hitachi Plasma Display Limited (FHP), from Fujitsu Limited, and made it a consolidated subsidiary. The Company believes that this transaction will strengthen both its plasma display panel business and its plasma television business by integrating business strategies of the Company and FHP and by developing high value-added products utilizing the Company's know-how.

Hitachi's capital expenditures for fixed assets on a completion basis were ¥959,593 million, ¥816,547 million and ¥787,496 million in fiscal 2004, 2003 and 2002. While Hitachi has maintained a selective attitude toward investment decisions, it has placed an emphasis on capital expenditures for strategically important products. Excluding the purchase of assets to be leased, a significant portion of capital expenditures have been directed toward information-related products and electronic devices, including large capital investments in manufacturing facilities to maintain or enhance competitiveness in those product sectors. The increase in capital expenditures in fiscal 2004 was primarily due to an increase in purchases of assets to be leased, an increase of manufacturing equipment for hard disk drives, automotive products and construction machinery in response to an increased demand for these products. The increase in capital expenditures in fiscal 2003 was primarily due to an increase in purchases of assets to be leased as a result of increased demand for leases of such assets. In fiscal 2005, Hitachi expects to increase its capital expenditures in the areas of hard disk drives, automotive products, construction machinery and high-functional materials. Hitachi expects capital expenditure investments in fiscal 2005 to be funded primarily through internal sources of financing and to be made primarily in Japan.

B. Business Overview

Main Categories of Products and Services

Hitachi's business is highly diversified. Hitachi classifies its operations into seven industry segments based primarily along related assets and operations management lines, as well as on the similarity of products and services by type, use, production method and marketing method, as required by a ministerial ordinance under the Securities and Exchange Law of Japan. The industry segments and major categories of products and services offered in each segment as of March 31, 2005 are as follows:

Information & Telecommunication Systems. Systems integration, outsourcing services, software, hard disk drives, disk array subsystems, servers, mainframes, personal computers, telecommunications equipment and ATMs;

Electronic Devices. Liquid crystal displays, semiconductor manufacturing equipment, test and measurement equipment and medical electronics equipment;

Power & Industrial Systems. Nuclear power plants, thermal power plants, hydroelectric power plants, plant engineering and construction, industrial machinery and plants, automotive products, construction machinery, elevators, escalators, railway vehicles and air-conditioning equipment;

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Digital Media & Consumer Products. Optical disk drives, televisions, LCD projectors, mobile phones, room air conditioners, refrigerators, washing machines, information storage media and batteries;

High Functional Materials & Components. Wires and cables, copper products, semiconductor materials, circuit boards and materials, organic and inorganic chemical products, synthetic resin products, LCD materials, specialty steels, magnetic materials, malleable cast-iron products and forged and cast-steel products;

Logistics, Services & Others. General trading, logistics and property management; and

Financial Services. Leasing, Loan guarantees and insurance services.

Table of Contents***Sales and Distribution***

Hitachi distributes its products in Japan primarily through its own sales network. Hitachi also distributes some of its products through independent dealers. In most field sales offices, Hitachi's sales personnel specialize in the marketing of particular types of products.

International marketing is conducted through overseas sales subsidiaries, joint-venture companies and unaffiliated distributors. Also, certain types of equipment are sold to industrial companies in foreign markets on an original equipment manufacturing, or OEM, basis and marketed under the brand names of such industrial companies.

Overseas revenues amounted to ¥3,277,440 million in fiscal 2004, accounting for 36% of total revenues. Foreign currency exchange rate fluctuations influence Hitachi's operating environment. A strong yen reduces the price competitiveness of products exported to foreign markets and diminishes profit by decreasing revenue when foreign currency income from overseas product sales is converted to yen. See Item 5. Operating and Financial Review and Prospects A. Operating Results.

Hitachi's widespread customer base in domestic and overseas markets encompasses leading industrial companies, financial institutions, utilities, governments and individual customers. No material part of its business is dependent upon one or a few customers.

Segment Information

Hitachi does not present segment information in accordance with the requirements of SFAS No.131, Disclosures about Segments of an Enterprise and Related Information. Foreign issuers are presently exempted from these disclosure requirements for filings with the U.S. Securities and Exchange Commission, or the SEC, under the U.S. Securities Exchange Act of 1934, or the Exchange Act. However, Hitachi is required to disclose the segment information presented below in accordance with a ministerial ordinance under the Securities and Exchange Law of Japan. Hitachi believes that this presentation may be useful in understanding Hitachi's results of operations.

Industry segment

| | Year ended March 31, | | | | | |
|---|---|-----|-----------|-----|-----------|-----|
| | 2003 | | 2004 | | 2005 | |
| | (Millions of yen, except percentage data) | | | | | |
| Revenues | | | | | | |
| Information & Telecommunication Systems | 1,899,651 | 19% | 2,314,552 | 23% | 2,268,386 | 21% |
| Electronic Devices | 1,570,069 | 15 | 1,312,380 | 13 | 1,320,177 | 12 |
| Power & Industrial Systems | 2,297,068 | 22 | 2,297,913 | 22 | 2,515,366 | 24 |
| Digital Media & Consumer Products | 1,205,551 | 12 | 1,226,955 | 12 | 1,280,302 | 12 |
| High Functional Materials & Components | 1,248,550 | 12 | 1,297,085 | 13 | 1,504,312 | 14 |
| Logistics, Services & Others | 1,449,594 | 14 | 1,256,266 | 12 | 1,248,296 | 12 |

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| | | | | | | |
|---|-------------|------|-------------|------|-------------|------|
| Financial Services | 579,267 | 6 | 550,982 | 5 | 529,695 | 5 |
| Subtotal | 10,249,750 | 100% | 10,256,133 | 100% | 10,666,534 | 100% |
| Eliminations and Corporate Items | (2,057,998) | | (1,623,683) | | (1,639,491) | |
| Total | 8,191,752 | | 8,632,450 | | 9,027,043 | |
| Operating Income (Loss) | | | | | | |
| Information & Telecommunication Systems | 110,523 | % | 69,932 | 33% | 67,761 | 21% |
| Electronic Devices | (23,242) | | 30,424 | 15 | 37,017 | 12 |
| Power & Industrial Systems | 53,253 | | 33,933 | 16 | 73,661 | 23 |
| Digital Media & Consumer Products | 6,204 | | 6,951 | 3 | 8,694 | 3 |
| High Functional Materials & Components | 18,301 | | 46,767 | 22 | 87,514 | 28 |
| Logistics, Services & Others | 10,352 | | 533 | 0 | 9,808 | 3 |
| Financial Services | 12,067 | | 22,388 | 11 | 31,073 | 10 |
| Subtotal | 187,458 | % | 210,928 | 100% | 315,528 | 100% |
| Eliminations and Corporate Items | (34,491) | | (26,065) | | (36,473) | |
| Total | 152,967 | | 184,863 | | 279,055 | |
| Segment Assets | | | | | | |
| Information & Telecommunication Systems | 1,702,104 | 16% | 1,759,163 | 18% | 1,767,074 | 18% |
| Electronic Devices | 1,345,835 | 13 | 899,821 | 9 | 838,605 | 8 |
| Power & Industrial Systems | 2,194,445 | 21 | 2,191,091 | 22 | 2,357,504 | 23 |
| Digital Media & Consumer Products | 782,420 | 8 | 781,386 | 8 | 719,168 | 7 |
| High Functional Materials & Components | 1,298,973 | 13 | 1,185,662 | 12 | 1,301,039 | 13 |
| Logistics, Services & Others | 1,016,599 | 10 | 1,027,699 | 10 | 932,354 | 9 |
| Financial Services | 1,932,459 | 19 | 2,062,921 | 21 | 2,157,409 | 22 |
| Subtotal | 10,272,835 | 100% | 9,907,743 | 100% | 10,073,153 | 100% |
| Eliminations and Corporate Items | (93,446) | | (317,421) | | (336,906) | |
| Total | 10,179,389 | | 9,590,322 | | 9,736,247 | |
| Depreciation & Amortization | | | | | | |
| Information & Telecommunication Systems | 106,958 | 19% | 150,406 | 28% | 158,184 | 29% |
| Electronic Devices | 120,911 | 22 | 55,773 | 10 | 48,240 | 9 |
| Power & Industrial Systems | 77,697 | 14 | 83,608 | 15 | 83,947 | 15 |
| Digital Media & Consumer Products | 43,083 | 8 | 40,037 | 7 | 40,275 | 7 |
| High Functional Materials & Components | 75,833 | 13 | 69,806 | 13 | 69,425 | 13 |
| Logistics, Services & Others | 32,700 | 6 | 30,545 | 6 | 28,887 | 5 |
| Financial Services | 102,468 | 18 | 113,268 | 21 | 118,251 | 22 |
| Subtotal | 559,650 | 100% | 543,443 | 100% | 547,209 | 100% |
| Eliminations and Corporate Items | 6,719 | | 10,171 | | 10,241 | |
| Total | 566,369 | | 553,614 | | 557,450 | |
| Tangible & Intangible Asset Increase | | | | | | |
| Information & Telecommunication Systems | 203,380 | 18% | 167,928 | 16% | 176,885 | 15% |
| Electronic Devices | 107,373 | 9 | 42,292 | 4 | 50,834 | 4 |

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| | | | | | | |
|--|-----------|-----------------|-----------|-----------------|-----------|-----------------|
| Power & Industrial Systems | 94,920 | 8 | 83,170 | 8 | 110,234 | 10 |
| Digital Media & Consumer Products | 37,074 | 3 | 34,276 | 3 | 45,063 | 4 |
| High Functional Materials & Components | 64,511 | 6 | 65,636 | 6 | 81,326 | 7 |
| Logistics, Services & Others | 35,498 | 3 | 35,599 | 4 | 35,830 | 3 |
| Financial Services | 608,434 | 53 | 606,650 | 59 | 667,667 | 57 |
| | | <u> </u> | | <u> </u> | | <u> </u> |
| Subtotal | 1,151,190 | 100% | 1,035,551 | 100% | 1,167,839 | 100% |
| | | <u> </u> | | <u> </u> | | <u> </u> |
| Eliminations and Corporate Items | (65,483) | | (20,302) | | 23,052 | |
| | | <u> </u> | | <u> </u> | | <u> </u> |
| Total | 1,085,707 | | 1,015,249 | | 1,190,891 | |
| | | <u> </u> | | <u> </u> | | <u> </u> |

Table of Contents*Geographic segment*

| | Year ended March 31, | | | | | |
|---|---|-------------|--------------------|-------------|--------------------|-------------|
| | 2003 | | 2004 | | 2005 | |
| | (Millions of yen, except percentage data) | | | | | |
| Revenues | | | | | | |
| Japan | | | | | | |
| Outside customer sales | 6,290,654 | 65% | 6,364,411 | 64% | 6,598,002 | 63% |
| Intersegment transactions | 1,026,916 | 11 | 854,532 | 9 | 937,814 | 9 |
| Total | 7,317,570 | 76 | 7,218,943 | 73 | 7,535,816 | 72 |
| Asia | | | | | | |
| Outside customer sales | 651,228 | 7 | 993,471 | 10 | 1,059,197 | 10 |
| Intersegment transactions | 351,006 | 3 | 312,153 | 3 | 388,249 | 4 |
| Total | 1,002,234 | 10 | 1,305,624 | 13 | 1,447,446 | 14 |
| North America | | | | | | |
| Outside customer sales | 802,582 | 8 | 784,782 | 8 | 798,266 | 8 |
| Intersegment transactions | 38,753 | 1 | 25,894 | 0 | 34,224 | 0 |
| Total | 841,335 | 9 | 810,676 | 8 | 832,490 | 8 |
| Europe | | | | | | |
| Outside customer sales | 379,615 | 4 | 404,278 | 4 | 470,792 | 5 |
| Intersegment transactions | 28,382 | 0 | 32,949 | 1 | 20,015 | 0 |
| Total | 407,997 | 4 | 437,227 | 5 | 490,807 | 5 |
| Other Areas | | | | | | |
| Outside customer sales | 67,673 | 1 | 85,508 | 1 | 100,786 | 1 |
| Intersegment transactions | 2,645 | 0 | 2,655 | 0 | 3,545 | 0 |
| Total | 70,318 | 1 | 88,163 | 1 | 104,331 | 1 |
| Subtotal | 9,639,454 | 100% | 9,860,633 | 100% | 10,410,890 | 100% |
| Eliminations and Corporate Items | (1,447,702) | | (1,228,183) | | (1,383,847) | |
| Total | 8,191,752 | | 8,632,450 | | 9,027,043 | |
| Operating Income (note 4) | | | | | | |
| Japan | 155,684 | 82% | 177,102 | 77% | 274,389 | 83% |
| Asia | 18,357 | 10 | 33,363 | 15 | 27,538 | 8 |
| North America | 6,336 | 3 | 4,733 | 2 | 10,188 | 3 |
| Europe | 6,720 | 4 | 10,512 | 5 | 16,382 | 5 |
| Other Areas | 2,097 | 1 | 3,245 | 1 | 3,260 | 1 |
| Subtotal | 189,194 | 100% | 228,955 | 100% | 331,757 | 100% |
| Eliminations and Corporate Items | (36,227) | | (44,092) | | (52,702) | |

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| | | | | | | |
|----------------------------------|------------|------|-----------|------|-----------|------|
| Total | 152,967 | | 184,863 | | 279,055 | |
| Segment Assets | | | | | | |
| Japan | 7,935,395 | 81% | 7,706,490 | 82% | 7,680,748 | 79% |
| Asia | 731,108 | 7 | 669,146 | 7 | 857,825 | 9 |
| North America | 592,530 | 6 | 496,116 | 5 | 611,098 | 6 |
| Europe | 502,446 | 5 | 516,818 | 5 | 520,391 | 5 |
| Other Areas | 55,824 | 1 | 63,238 | 1 | 75,590 | 1 |
| Subtotal | 9,817,303 | 100% | 9,451,808 | 100% | 9,745,652 | 100% |
| Eliminations and Corporate Items | 362,086 | | 138,514 | | (9,405) | |
| Total | 10,179,389 | | 9,590,322 | | 9,736,247 | |

Revenues by market

| | Year ended March 31, | | | | | |
|-------------------|---|------|-----------|------|-----------|------|
| | 2003 | | 2004 | | 2005 | |
| | (Millions of yen, except percentage data) | | | | | |
| Domestic revenues | 5,546,543 | 68% | 5,654,856 | 66% | 5,749,603 | 64% |
| Overseas revenues | | | | | | |
| Asia | 1,017,439 | 12 | 1,212,844 | 14 | 1,406,883 | 15 |
| North America | 890,684 | 11 | 873,243 | 10 | 901,855 | 10 |
| Europe | 537,029 | 7 | 655,824 | 7 | 709,770 | 8 |
| Other Areas | 200,057 | 2 | 235,683 | 3 | 258,932 | 3 |
| Subtotal | 2,645,209 | 32 | 2,977,594 | 34 | 3,277,440 | 36 |
| Total | 8,191,752 | 100% | 8,632,450 | 100% | 9,027,043 | 100% |

Notes:

1. Revenues by industry and geographic segments include intersegment transactions.
2. Geographic segments are based on the location of Hitachi's facilities where products or services are produced.
3. Figures for revenues by market are based on the locations of the customer to whom Hitachi's products or services are sold.
4. In order to be consistent with financial reporting principles and practices generally accepted in Japan, operating income (loss) is presented as total revenues less cost of sales and selling, general and administrative expenses. Under U.S. GAAP, restructuring charges, net gain or loss on sale and disposal of rental assets and other property, impairment losses, special termination benefits and the losses resulting from the remeasurement of the obligation upon adoption of EITF issue No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities are included as part of operating income (loss). See notes 11, 17, 18 and 19 to the consolidated financial statements.

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Description of Industry Segments

Hitachi classifies its operations into seven industry segments based primarily along related assets and operations management lines, as well as on the similarity of products and services by type, use, production method and marketing method.

Information & Telecommunication Systems

Products and services provided by Hitachi in this segment include systems integration, outsourcing services, computer hardware, software and telecommunications equipment and components. This segment groups products with many common technological aspects, facilitating operations management.

Hitachi's computer business consists of hardware products, software and services business. Customers are business entities in various industries, national and local governments, and, to a lesser extent, individuals. Among the hardware products Hitachi offers, hard disk drives, disk array subsystems, servers and mainframes are more significant than other products. In order to meet market requirements, these products need to be built to achieve high performance while meeting cost parameters of customers. Hitachi also develops and offers various software packages designed to enhance the productivity of customers. Systems integration, consulting and outsourcing form the core of the services business in which customized solutions are developed and offered to customers with Hitachi's hardware and software products, as well as other vendors products, to deliver systems that help customers achieve their business objectives. This segment also provides telecommunications equipment and components such as switches and fiber optic components, which are delivered to customers in data and telecommunication industries.

The computer industry is extremely competitive. The speed of technology development in both hardware and software is very fast, and failure or delay to introduce the products or services that incorporate the latest technology would materially diminish Hitachi's market presence. Customers are highly sensitive to the cost effectiveness of their investments in information technology, which leads to intense price competition particularly in hardware products.

Hitachi designated the outsourcing, storage solutions and hard disk drive businesses as target businesses within the Information & Telecommunication Systems segment.

Hitachi is expanding its outsourcing business in response to demands from companies that want to outsource their information systems to concentrate resources on core competence. The outsourcing business includes data center outsourcing and strategic outsourcing. Data center outsourcing entails the monitoring, operation and maintenance of information systems on behalf of clients, and the hosting of servers and networks under tightly controlled security environments. Strategic outsourcing provides comprehensive support for customers' information systems, ranging from consulting to systems design, construction, operation and maintenance. As necessary, Hitachi establishes joint venture companies with clients to conduct strategic outsourcing.

In the storage solutions business, Hitachi is seeking to expand its business by enhancing the high-performance functions of disk array subsystems and storage management software and deepening strategic alliances with overseas partners. In fiscal 2003, the Company and Hewlett-Packard Company extended the joint technology agreement and original equipment manufacturer relationship for high-end disk arrays through 2008. In addition, the Company and one of its subsidiaries extended the agreement with Sun Microsystems, Inc. through 2006 in the area of storage systems including distribution of products and collaboration for marketing, sales support, services and joint customer support

centers.

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In the hard disk drive business, the Company acquired the hard disk drive operations of IBM Corporation in December 2002 and integrated them with its operations. The Company seeks to strengthen its hard disk drive operations in a highly competitive market by combining the R&D capabilities of Hitachi and IBM Corporation, expanding its product line-up, increasing production capacity and enhancing its global sales and support network. The Company expects increasing demand for hard disk drives mainly due to expanding use in digital consumer products such as hard disk drive recorders as well as existing information technology products such as servers and personal computers.

In fiscal 2004, this segment accounted for 21% of total revenues before eliminations and recorded operating income of ¥67,761 million.

Electronic Devices

The Electronic Devices segment provides liquid crystal displays, or LCDs, semiconductor manufacturing equipment, test and measurement equipment and medical electronics equipment. A significant portion of Hitachi's semiconductor business was transferred to Renesas in fiscal 2003 and that portion has not been included in this segment since fiscal 2003.

The display business is highly competitive and characterized by significant price fluctuations with changes in the supply-demand balance. In an effort to improve profitability, Hitachi has changed its product mix, shifting its focus from LCDs for notebook PCs to small and medium-sized LCDs, particularly for mobile phones, and LCDs for flat screen televisions. In October 2004, the Company and Hitachi Displays, Ltd., a wholly-owned subsidiary of the Company, together with Toshiba Corporation and Matsushita Electric Industrial Co., Ltd., entered into an agreement to establish a joint-venture company called IPS Alpha Technology, Ltd. to manufacture and sell LCD panels for flat panel televisions. The Company expects to achieve synergies in the production of flat panel televisions as well as competitiveness in terms of the LCDs performance and price.

Hitachi designated the medical electronics equipment and semiconductor/LCD manufacturing and inspection equipment businesses as target businesses within the Electronic Devices segment. Hitachi seeks to strengthen these businesses by allocating resources to them.

Due to the severe business environment, Hitachi realigned its semiconductor operations in recent years. In December 1999, the Company, together with NEC Corporation, established a joint-venture company called Elpida Memory, Inc., an equity-method affiliate of the Company. Elpida Memory, Inc. has an integrated DRAM business including development, marketing and manufacturing. In November 2004, Elpida Memory, Inc. listed its shares on Tokyo Stock Exchange. On April 1, 2003, the Company transferred its semiconductor operations centered in system LSIs to a new company, Renesas, jointly owned by the Company and Mitsubishi Electric. The Company believes this transfer will improve the competitiveness of its semiconductor operations through more flexible management and realizing synergies between the technologies of the Company and Mitsubishi Electric. Renesas is accounted for under the equity method.

In fiscal 2004, this segment accounted for 12% of total revenues before eliminations and recorded operating income of ¥37,017 million.

Power & Industrial Systems

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In this segment, Hitachi offers power plants, industrial machinery, automotive products, construction machinery, transportation equipment and other products and related services for power utilities and industry.

Power companies are the main customers of the power sector. In this sector, Hitachi must respond to customer demand for low-priced products with high added value. In addition, in recent years Hitachi has given high priority to environmental protection in its product design. The entry of independent power producers into the domestic electric power industry brought about by deregulation has put pressure on power companies to lower electricity prices. This causes more intense price competition among vendors to match lower electricity prices. Since the orders the sector receives are generally for large items with long delivery periods, a portion of the purchase price from those orders is generally paid in advance to finance the production of the items.

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The industrial systems sector covers products used in numerous industries and is strongly influenced by trends in public works spending and private-sector plant and equipment investment. Market demands focus primarily on low price, high added value and the capability of products to be integrated into systems. The number of product types is vast and production is frequently done in small lots or on order. The industry includes many small-to-medium-sized specialty manufacturers and competition for orders is fierce.

Hitachi designated the automotive products business as a target business in this segment. In connection with this focus on the automotive products business, on October 1, 2004, the Company merged its equity-method affiliate, TOKICO LTD., and its wholly-owned subsidiary, Hitachi Unisia Automotive, Ltd. into itself. The Company believes that this transaction will strengthen its automotive products business due to synergies it expects to realize through the integration of operations, including the sales and R&D functions of the three companies.

Hitachi optimizes its response to the needs and priorities of segment customers by strategically combining technologies from Hitachi's diverse fields of operation, especially from the technologies of information systems and electronics field.

In fiscal 2004, this segment accounted for 24% of total revenues before eliminations and recorded operating income of ¥73,661 million.

Digital Media & Consumer Products

In this segment, Hitachi manufactures and sells products in two main categories: digital media products and consumer products. The former includes optical disk drives, televisions, LCD projectors and mobile phones, while the latter comprises room air conditioners, refrigerators, washing machines and other appliances. All products have a broad range of customers dominated by general consumers.

Home electrical equipment manufacturers are responding to customer demand for low price and high added value by cutting costs and developing differentiated product lines. Success in this segment will also depend considerably on the development of products geared to advances in new multimedia-related markets.

In order to achieve low-cost production and have access to growing markets, Hitachi has expanded overseas production, especially in Southeast Asia. Hitachi also has introduced supply chain management to shorten lead times and hold minimum inventory. Hitachi is a well-recognized brand associated with high reliability and quality.

On April 1, 2002, the consumer products operation of the Company was separated and integrated with related subsidiaries of the Company to form Hitachi Home & Life Solutions, Inc. for the purpose of enabling the consumer products business to be managed with more speed and flexibility. In addition, Hitachi has implemented structural reforms centered on reducing fixed costs. The initiatives included a reduction in the workforce in Japan accompanied by an expansion of production overseas.

Hitachi designated plasma display panel business as a target business in this segment. In March 2005, the Company acquired, in an agreement with Fujitsu Limited, a joint-owner of FHP, patents on plasma display panel technology in March 2005. In April 2005, the Company then acquired shares of FHP from Fujitsu Limited, which resulted in FHP becoming a consolidated subsidiary of the Company as of April 1, 2005.

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The Company believes that this transaction will strengthen both its plasma display panel business and its plasma television business by integrating business strategies of the Company and FHP and by developing high value-added products utilizing the Company's know-how. Further, in February 2005, the Company entered into a comprehensive collaboration agreement with Matsushita Electric Industrial Co., Ltd. in the plasma display panel business including R&D, production, marketing and intellectual property. The Company believes that this agreement will improve the Company's competitiveness by enhancing product performance, reducing R&D costs, increasing production efficiency, responsiveness to customer needs and proper management of intellectual property.

In fiscal 2004, this segment accounted for 12% of total revenues before eliminations and recorded operating income of ¥8,694 million.

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High Functional Materials & Components

This segment includes fabricated chemical and metal products supplied as parts or materials to downstream manufacturers of mainly electric and electronic products. For example, Hitachi Chemical Co., Ltd. manufactures products based on its resin technology and serves industrial markets such as semiconductors, liquid crystal displays and automobiles. Hitachi Metals, Ltd. manufactures and sells magnetic and electronic materials and parts. They include specialty steels such as materials for mobile phones and automobile engine parts. Hitachi Cable, Ltd. manufactures and sells electronic materials and components for semiconductors and mobile phones as well as cable and wire products used for transmission of power and telephone signals.

As more products in this segment become more closely dependent upon and driven by capabilities in electronics technology, Hitachi's strength in electronics technology is expected to provide Hitachi with an advantage in introducing new products with such technology. Since the portion of materials and components used for semiconductors, liquid crystal displays, mobile phones and other IT-related products has increased in recent years, the business results have been significantly affected by the business climate of IT industry.

In April 2004, the magnetic materials business of Hitachi Metals, Ltd., a subsidiary of the Company, was combined with Sumitomo Special Metals Co., Ltd. to form a new company, NEOMAX Co., Ltd. The new company became a consolidated subsidiary of the Company as a result of the transaction.

In fiscal 2004, this segment accounted for 14% of total revenues before eliminations and recorded operating income of ¥87,514 million.

Logistics, Services & Others

This segment includes various businesses not covered by other segments, primarily consisting of sales from general trading, logistics and property management services conducted by consolidated subsidiaries of the Company. Hitachi has set up sales subsidiaries by region and by product. Hitachi also has many subsidiaries that were established to offer various services related to Hitachi's business operations internally, such as printing and food services.

In fiscal 2004, this segment accounted for 12% of total revenues before eliminations and recorded operating income of ¥9,808 million.

Financial Services

Financial services originated to extend credit to purchasers of Hitachi products. This segment currently provides leases, loan guarantees and insurance services and conducts business in the area of securitization and outsourcing services.

In fiscal 2004, this segment accounted for 5% of total revenues before eliminations and recorded operating income of ¥31,073 million.

Competition

Hitachi is subject to intense competition in each of its businesses. Among its major competitors are some of the top-ranking industrial companies in Japan, U.S., Europe and Asia. Depending on the nature of the business, the competition is marked by rapid progress in technology or the need to reduce costs to meet customer requirements. In addition, Hitachi is facing more competition against companies that focus exclusively on specific market segments. See "Description of Industry Segments" in this Item for details of competition in each segment.

Seasonality

Hitachi's revenues in the fourth quarter ending March 31 tend to be higher than those in other quarters due in part to the purchase customs of governmental agencies in Japan.

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Sources of Supply

Hitachi purchases a wide variety of raw materials, parts and components from many suppliers in Japan and abroad. In general, Hitachi is not dependent on any single source of supply for its raw materials, parts and components. In light of the fact that Japan produces very few of the raw materials Hitachi uses in its manufacturing processes, Hitachi monitors the availability of raw materials on a regular basis. There are currently no particular shortages of energy, raw material, parts or components that are likely to materially affect Hitachi's business. Prices of certain raw materials, parts and components, such as petroleum products, copper, aluminum and semiconductor memories, that Hitachi purchases are volatile. Recent increases in prices of petroleum and other materials, such as steel and synthetic resins, are increasing Hitachi's production costs, and may adversely affect its results of operations.

Intellectual Property and Licenses

Hitachi holds numerous patents, trademark rights and copyrights. While Hitachi considers them to be valuable assets and important for its operations, it believes that its business is not dependent to any material extent upon any single patent, trademark right, copyright or any related group of such rights it holds.

Hitachi also has many licenses and technical assistance agreements covering a wide variety of products. Such licenses and technical assistance agreements grant Hitachi the rights to use certain Japanese and foreign patents or the rights to receive certain technical information. Hitachi is not materially dependent on any single such agreement.

Hitachi has granted licenses and technical assistance to various companies located in Japan and overseas. In certain instances, Hitachi has entered into cross-licensing agreements with other major international electronics and electrical equipment manufacturers.

Government Regulations

Hitachi's business activities are subject to various governmental regulations in countries where it operates, which include investment approvals, export regulations, tariffs, antitrust, intellectual property, consumer and business taxation, exchange controls, and environmental and recycling requirements.

Table of Contents**C. Organizational Structure**

The table below shows major subsidiaries of the Company as of March 31, 2005. Ownership percentage of voting rights indicates voting rights owned by the Company and its subsidiaries.

| Name of company | Country of incorporation | Ownership percentage of voting rights |
|--|--------------------------|---------------------------------------|
| Information & Telecommunication Systems | | |
| Hitachi Communication Technologies, Ltd. | Japan | 100.0% |
| Hitachi Electronics Services Co., Ltd. | Japan | 100.0 |
| Hitachi Information Systems, Ltd. | Japan | 51.9 |
| Hitachi-Omron Terminal Solutions, Corp. | Japan | 55.0 |
| Hitachi Software Engineering Co., Ltd. | Japan | 51.9 |
| Hitachi Systems & Services, Ltd. | Japan | 63.2 |
| Hitachi Computer Products (America), Inc. | U.S.A. | 100.0 |
| Hitachi Computer Products (Europe) S.A.S. | France | 100.0 |
| Hitachi Data Systems Holding Corp. | U.S.A. | 100.0 |
| Hitachi Global Storage Technologies Netherlands B.V. | Netherlands | 100.0 |
| Electronic Devices | | |
| Hitachi Displays, Ltd. | Japan | 100.0% |
| Hitachi High-Technologies Corporation | Japan | 55.3 |
| Hitachi Medical Corporation | Japan | 63.2 |
| Hitachi Electronic Devices (USA), Inc. | U.S.A. | 100.0 |
| Hitachi Semiconductor Singapore Pte. Ltd. | Singapore | 100.0 |
| Power & Industrial Systems | | |
| Babcock-Hitachi Kabushiki Kaisha | Japan | 100.0% |
| Hitachi Air Conditioning Systems Co., Ltd. | Japan | 100.0 |
| Hitachi Building Systems Co., Ltd. | Japan | 100.0 |
| Hitachi Construction Machinery Co., Ltd. | Japan | 51.3 |
| Hitachi Engineering Co., Ltd. | Japan | 100.0 |
| Hitachi Engineering & Services Co., Ltd. | Japan | 100.0 |
| Hitachi Industrial Equipment Systems Co., Ltd. | Japan | 100.0 |
| Hitachi Industries Co., Ltd. | Japan | 100.0 |
| Hitachi Kiden Kogyo, Ltd. | Japan | 54.8 |
| Hitachi Plant Engineering & Construction Co., Ltd. | Japan | 57.2 |
| Hitachi Via Mechanics, Ltd. | Japan | 100.0 |
| Japan Servo Co., Ltd. | Japan | 57.8 |
| Guangzhou Hitachi Elevator Co., Ltd. | China | 70.0 |
| Hitachi Automotive Products (USA), Inc. | U.S.A. | 100.0 |
| Digital Media & Consumer Products | | |
| Hitachi Home & Life Solutions, Inc. | Japan | 100.0% |
| Hitachi Maxell, Ltd. | Japan | 53.7 |
| Hitachi Media Electronics Co., Ltd. | Japan | 100.0 |
| Hitachi Home Electronics (America), Inc. | U.S.A. | 100.0 |
| Shanghai Hitachi Household Appliances Co., Ltd. | China | 60.0 |
| High Functional Materials & Components | | |
| Hitachi Cable, Ltd. | Japan | 53.3% |
| Hitachi Chemical Co., Ltd. | Japan | 51.6 |
| Hitachi Metals, Ltd. | Japan | 56.3 |

Logistics, Services & Others

| | | |
|--------------------------------|-----------|--------|
| Chuo Shoji, Ltd. | Japan | 100.0% |
| Hitachi Life Corporation | Japan | 100.0 |
| Hitachi Mobile Co., Ltd. | Japan | 64.8 |
| Hitachi Transport System, Ltd. | Japan | 59.4 |
| Nikko Create, Ltd. | Japan | 100.0 |
| Hitachi America, Ltd. | U.S.A. | 100.0 |
| Hitachi Asia Ltd. | Singapore | 100.0 |
| Hitachi (China), Ltd. | China | 100.0 |
| Hitachi Europe Ltd. | U.K. | 100.0 |

Financial Services

| | | |
|----------------------------------|-------|-------|
| Hitachi Capital Corporation | Japan | 60.0% |
| Hitachi Insurance Services, Ltd. | Japan | 100.0 |

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Hitachi owns a significant portion of the land, plants, offices and other fixed assets necessary to conduct its business and a significant portion of Hitachi's land, plants, offices and other fixed assets are located in Japan. Hitachi considers its properties to be well maintained and believes its plant capacity is adequate for its current needs. Certain of Hitachi's properties such as land and buildings are subject to mortgages in respect of bonds and loans. The total outstanding balance of the secured loans and bonds as of March 31, 2005 was ¥12,140 million.

The following table describes the name of the Company office, division, group, center or subsidiary that is using the property, the location and area of the property, and in the case of plant property, the principal products produced there as of March 31, 2005. Hitachi believes the following offices, divisions, groups, centers and subsidiaries comprise its major lines of business.

| Name of user of plants and offices | Location | Land area (Thousands of square meters) | Principal products |
|---|----------------------------|--|--------------------------------------|
| In Japan | | | |
| The Company: | | | |
| Thermal & Hydroelectric Systems Division, etc. | Ibaraki | 3,777 | Power generating equipment, turbines |
| Automotive Systems, 2nd Business Management Division | Kanagawa | 1,546 | Automotive products |
| Research & Development Group | Tokyo, etc. | 848 | |
| Sales Offices | Osaka, etc. | 156 | |
| Automotive Systems, 3rd Business Management Division | Kanagawa | 567 | Automotive products |
| Head Office | Tokyo | 868 | |
| Automotive Systems, 1st Business Management Division | Ibaraki | 609 | Automotive products |
| Enterprise Server Division | Kanagawa | 349 | Mainframes |
| Micro Device Division | Tokyo | 67 | Semiconductors |
| Digital Media Division | Kanagawa | 949 | Plasma televisions, LCD Projectors |
| Subsidiaries: | | | |
| Hitachi Displays, Ltd. | Chiba | 516 | Liquid crystal displays |
| Hitaka Works, Hitachi Cable, Ltd. | Ibaraki, etc. | 1,061 | Electronic materials and components |
| Yasugi Works, Hitachi Metals, Ltd. | Shimane | 1,109 | Special steels |
| Kyoto Works, Hitachi Maxell, Ltd. | Kyoto | 313 | Magnetic recording media |
| Head Office, Hitachi Software Engineering Co., Ltd. | Tokyo | 17 | |
| Tsuchiura Plant, Hitachi Construction Machinery Co., Ltd. | Ibaraki, etc. | 5,534 | Hydraulic excavators |
| Head Office, Hitachi Building Systems Co., Ltd. | Tokyo | 167 | |
| Yamasaki Works, Hitachi Chemical Co., Ltd. | Ibaraki | 674 | Electronic materials and components |
| Tsuchiura Works, Hitachi Cable, Ltd. | Ibaraki | 552 | Electronic materials and components |
| Densen Works, Hitachi Cable, Ltd. | Ibaraki | 115 | Electronic materials and components |
| Outside of Japan | | | |
| Overseas subsidiaries: | | | |
| Hitachi Global Storage Technologies Netherlands B.V. | California U.S.A., etc. | 1,829 | Hard disk drives |
| Hitachi Metals America, Ltd. | New York, U.S.A., etc. | 2,594 | Automotive components |

For information on Hitachi's plan for capital investment for fiscal 2005, see A. History and Development of the Company in this Item.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

Overview

Hitachi provides highly diversified products and services and conducts business throughout the world. Hitachi's results of operations therefore are affected by various aspects of the economic environment, particularly capital investment in the private sector and consumer spending in Hitachi's main market sectors.

In fiscal 2004, growth of the Japanese economy leveled off primarily due to deceleration of private-sector plant and equipment investment and consumer spending and continued stagnation in public-sector plant and equipment investment. Japan's GDP grew 0.8% in fiscal 2002, 2.0% in fiscal 2003 and 1.9% in fiscal 2004.

Outside Japan, in fiscal 2004, the economic environment was marked by the firm economic growth in the United States and Asia and the gradual pace of the economic growth in Europe.

Overseas revenues, a significant part of which are denominated in U.S. dollars, were 32% of total revenues in fiscal 2002, 34% of total revenues in fiscal 2003 and 36% of total revenues in fiscal 2004. Hitachi conducts business in many foreign countries, and a portion of its assets and liabilities that are denominated in various currencies is exposed to risks from fluctuations in foreign currency exchange rates. In addition, Hitachi exports products and imports components and raw materials in local currencies, principally the U.S. dollar. Therefore, fluctuations in foreign currency exchange rates may affect Hitachi's financial results, which are reported in Japanese yen. The Japanese yen on average strengthened against the U.S. dollar during fiscal 2002, 2003 and 2004, each as compared with the preceding fiscal year. Hitachi employs forward exchange contracts and cross currency swap agreements to reduce the impact of foreign currency exchange rate fluctuations. In addition, to alleviate the adverse effects of foreign currency exchange rate fluctuations, when Hitachi believes it is appropriate, it seeks to manufacture outside Japan and procure materials and parts locally. Hitachi expects to finance foreign currency investments by foreign currency it has on hand. When the amount on hand is insufficient, Hitachi may enter into forward exchange contracts to reduce the impact of foreign currency exchange rate fluctuations. For additional information regarding foreign currency exchange rate fluctuations, see Item 4. Information on the Company B. Business Overview Sales and Distribution.

The business circumstances surrounding Hitachi have been increasingly challenging. Some of its businesses are in stagnant industries. In addition, globalization of markets and commoditization of electronic products is continuing to intensify price competition in the business sectors in which Hitachi is engaged. However, Hitachi's ability to close or sell unprofitable businesses may be limited, including due to a lack of demand in the M&A market for such businesses and the importance of preserving customer goodwill. A large portion of Hitachi's manufacturing is done domestically, which means that a strengthening of the yen reduces Hitachi's cost competitiveness. Hitachi is responding to these circumstances by closing or downsizing unprofitable operations where feasible, seeking joint ventures with competitors, reallocating employees from overstaffed businesses to growth businesses, and reorganizing the geographic allocation of its manufacturing facilities.

Hitachi has been implementing a variety of projects to enhance efficiency and restructure unprofitable operations, including a project aimed at reducing materials purchasing costs and a project aimed at improving turnover of assets. For a description of the charges associated with the restructuring measures, see Restructuring.

In January 2003, Hitachi launched a new medium-term management plan defining the direction and goals of its businesses through the fiscal year ending March 31, 2006. The plan includes, among other things, a realignment of Hitachi's business portfolio which may be implemented by exiting certain businesses, increasing focus on targeted businesses and creating new businesses in an effort to achieve increased profitability and alteration of its corporate governance structure in an effort to improve the efficiency and transparency of management. Hitachi uses an economic value-added evaluation index based on cost of capital to make decisions with respect to exiting businesses, strengthening focus on targeted businesses and creating or incubating new businesses. The businesses on which Hitachi plans to increase focus include its storage solutions business, hard disk drive business and automotive products business. In addition, under the plan, Hitachi expects to pursue further growth in the global markets by identifying competitive businesses and channeling management resources into those businesses. Hitachi also expects under the plan to continue to improve cash-flow management by increasing the efficiency of working capital use while making selective investments, and further to reduce procurement costs. See Item 4. Information on the Company A. History and Development of the Company and Item 6. Directors, Senior Management and Employees.

In December 2002, the Company acquired the hard disk drive operations of IBM Corporation and later integrated them with its operations, to strengthen hard disk drive operations in a highly competitive market by combining R&D capabilities of Hitachi and IBM Corporation, expanding product line-up, increasing production capacity and enhancing global sales and support network. In April 2003, the Company transferred its semiconductor operations centered in system LSIs to a new company incorporated jointly by the Company and Mitsubishi Electric to improve semiconductor competitiveness by permitting more flexible management and realizing synergies between the advanced technologies of the Company and Mitsubishi Electric. The new company, Renesas, is accounted for under the equity method by the Company. Consequently, the revenues of such semiconductor operations, included in Hitachi's consolidated statement of operations in fiscal 2002, are excluded in subsequent periods. In July and August 2003, Hitachi sold most of its shares of Nitto Denko Corporation, or Nitto Denko, which was accounted for under the equity method by the Company, for approximately ¥140 billion. As a result, Nitto Denko is no longer an equity-method affiliate. In October 2004, the Company merged its equity-method affiliate, TOKICO LTD., and its wholly-owned subsidiary, Hitachi Unisia Automotive, Ltd., into itself, to strengthen its automotive products business due to synergies it seeks to realize through the integration of operations, including the sales and R&D functions of the three companies.

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Hitachi's total revenues increased 2% in fiscal 2002, 5% in fiscal 2003 and 5% in fiscal 2004 on a year-on-year basis, respectively. Hitachi posted a net income of ¥27,867 million in fiscal 2002, net income of ¥15,876 million in fiscal 2003 and net income of ¥51,496 million in fiscal 2004.

The analysis of revenues by industry and geographic segment and description of restructuring measures by industry segment mentioned below are based on the segmentation presented in Item 4. Information on the Company B. Business Overview Segment Information. Hitachi believes that this presentation may be useful in understanding Hitachi's results of operations. Revenues by segment include intersegment transactions which Hitachi adjusts for in calculating total revenues.

Restructuring

The table below shows restructuring charges by major industry segment for fiscal 2003 and 2004. For fiscal 2002, Hitachi did not incur any restructuring charges.

| | <u>Fiscal 2003</u> | <u>Fiscal 2004</u> |
|---|--------------------|--------------------|
| | (Millions of yen) | |
| Information & Telecommunication Systems | | 16,708 |
| Electronic Devices | | 533 |
| Power & Industrial Systems | 1,414 | 2,428 |
| Digital Media & Consumer Products | 17,760 | 9,685 |
| High Functional Materials & Components | 9,439 | 3,945 |
| Others | | 8 |
| | <u>28,613</u> | <u>33,307</u> |
| Total restructuring charges | 28,613 | 33,307 |

Fiscal 2004 restructuring

For fiscal 2004, Hitachi recorded restructuring charges of ¥33,307 million, associated with restructuring measures primarily in Information & Telecommunication Systems, Digital Media & Consumer Products and High Functional Materials & Components. The restructuring charge included special termination benefits of ¥29,426 million for 3,714 employees. Payments of ¥15,939 million were made in fiscal 2004 and special termination benefits of ¥14,389 million were accrued as of March 31, 2005. The accrued amount is expected to be paid in the fiscal year ending March 31, 2006.

Information & Telecommunication Systems recorded restructuring charges of ¥16,708 million, consisting of special termination benefits in the amount of ¥16,666 million and a loss primarily on disposal of fixed assets in the amount of ¥42 million. The restructuring measures in this segment were implemented primarily by the Company and its domestic subsidiaries, in an effort to increase profitability by reducing fixed costs. Digital Media & Consumer Products recorded restructuring charges of ¥9,685 million, consisting of special termination benefits in the amount of ¥8,080 million and a loss primarily on disposal of fixed assets in the amount of ¥1,605 million. The restructuring measures in this segment were implemented primarily by the Company's digital media operations to reorganize business operations. These measures included introduction of an early retirement benefits program and reorganization of production bases for digital media products. High Functional Materials &

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Components recorded restructuring charges of ¥3,945 million, consisting of special termination benefits in the amount of ¥1,711 million and a loss primarily on disposal of fixed assets in the amount of ¥2,234 million. The restructuring measures in this segment were associated primarily with cables operations and magnetic materials operations, including introduction of an early retirement benefits program and reorganization of production bases for these products.

Table of Contents***Fiscal 2003 restructuring***

For fiscal 2003, Hitachi recorded restructuring charges of ¥28,613 million, associated with restructuring measures in Power & Industrial Systems, Digital Media & Consumer Products and High Functional Materials & Components. The restructuring charge included special termination benefits of ¥18,155 million for 2,143 employees. Payments of ¥17,247 million were made in fiscal 2003 and special termination benefits of ¥908 million were accrued as of March 31, 2004. The accrued amount was paid in the fiscal year ending March 31, 2005.

In Power & Industrial Systems, restructuring charges of ¥1,414 million were incurred for special termination benefits for employees of the domestic subsidiaries conducting plant engineering and construction businesses in an effort to increase profitability by reducing fixed costs. Digital Media & Consumer Products recorded restructuring charges of ¥17,760 million, consisting of special termination benefits in the amount of ¥14,394 million and a loss primarily on disposal of fixed assets in the amount of ¥3,366 million. The restructuring measures in this segment were implemented primarily by domestic subsidiaries conducting home appliances business in response to the severe business environment due to intensified competition and declines in prices. These measures included introduction of an early retirement benefits program and reorganization of production bases for home appliances. High Functional Materials & Components recorded restructuring charges of ¥9,439 million, consisting of a loss on disposal of fixed assets in the amount of ¥7,092 million and special termination benefits in the amount of ¥2,347 million. The restructuring measures in this segment were associated primarily with semiconductor packaging materials operations, including introduction of an early retirement benefits program and termination of certain operations.

Fiscal 2004 Compared with Fiscal 2003

Summarized results of operations for fiscal 2004 and fiscal 2003 are shown below.

| | <u>Fiscal 2003</u> | <u>Fiscal 2004</u> | <u>Percent change</u> |
|---|---|--------------------|---------------------------|
| | (Millions of yen, except percentage data) | | |
| Total revenues | 8,632,450 | 9,027,043 | +5% |
| Income before income taxes and minority interests | 237,149 | 264,506 | +12% |
| Income before minority interests | 38,494 | 114,516 | +197% |
| Net income | 15,876 | 51,496 | +224% |

Hitachi's total revenues in fiscal 2004 were ¥9,027,043 million, an increase of 5% from the preceding fiscal year. Overseas revenues increased 10% over the same period, to ¥3,277,440 million.

Revenues in Information & Telecommunication Systems decreased 2%, to ¥2,268,386 million, in fiscal 2004 compared to the preceding fiscal year. Although sales by the outsourcing business related to information systems increased, sales of servers, personal computers and hard disk drives decreased due primarily to price declines. Sales of software also decreased due primarily to declines in prices for platform software.

Revenues in Electronic Devices increased 1%, to ¥1,320,177 million, in fiscal 2004 compared to the preceding fiscal year. Sales of semiconductor manufacturing equipment and LCDs manufacturing equipment increased due primarily to increased demand. Sales of large-sized LCDs for personal computers and televisions decreased due primarily to price declines, and sales of small and medium-sized LCDs declined due

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to a decline in demand in the domestic market in the latter half of fiscal 2004.

Revenues in Power & Industrial Systems increased 9%, to ¥2,515,366 million, in fiscal 2004 compared to the preceding fiscal year. Sales of automotive products increased due primarily to the merger with TOKICO LTD., formerly an equity-method affiliate of the Company. Sales of construction machinery increased due primarily to strong demand in Europe and North America. Sales of railway vehicles increased in overseas market, and air-conditioning equipment and industrial machinery increased due primarily to increased demand. Sales of elevators and escalators increased due primarily to acquisition of shares of the Company's equity-method affiliate in China, Guangzhou Hitachi Elevator Co., Ltd., making it a consolidated subsidiary of the Company. However, sales of power systems declined due primarily to curbs on capital expenditures at electric power companies.

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Revenues in Digital Media & Consumer Products increased 4%, to ¥1,280,302 million, in fiscal 2004 compared to the preceding fiscal year due primarily to increases in sales of plasma televisions, LCD projectors and recordable DVDs due primarily to increased demand. These increases were partially offset by a decrease in sales of projection televisions in North America, and by a decrease in sales of information storage media due primarily to price declines. Sales of washing machines and room air conditioners in overseas market increased, while sales of refrigerators in the domestic market declined.

Revenues in High Functional Materials & Components increased 16%, to ¥1,504,312 million, in fiscal 2004 compared to the preceding fiscal year due in part to an increase in sales of materials and components for LCDs, and semiconductors, reflecting increased demand for LCD televisions and other digital media products. Sales of materials and components for automotive products also increased due to firm demand. The consolidation of NEOMAX, Co., Ltd., which became a subsidiary of Hitachi Metals, Ltd., also contributed to an increase in sales in this segment.

Revenues in Logistics, Services & Others decreased 1%, to ¥1,248,296 million, in fiscal 2004 compared to the preceding fiscal year. Although sales of logistics services increased, sales by overseas subsidiaries decreased as a result of the transfer of their semiconductor operation to Renesas, an equity-method affiliate.

Revenues in Financial Services decreased 4%, to ¥529,695 million, in fiscal 2004 compared to the preceding fiscal year due primarily to a decrease in automotive loans to individuals as a result of the shift in focus from automotive loans to leasing.

An analysis by geographic segment shows that revenues of the Company and its consolidated subsidiaries located in Japan increased 4%, to ¥7,535,816 million, in fiscal 2004 compared to the preceding fiscal year due primarily to an increase in sales by the outsourcing business in Information & Telecommunication Systems, and increased sales of materials and components for LCDs, semiconductors and automotive products and construction machinery.

Revenues of consolidated subsidiaries of the Company located in Asia (other than Japan) rose 11%, to ¥1,447,446 million, in fiscal 2004 compared to the preceding fiscal year due primarily to an increase in sales of digital media related products, air-conditioning equipment and industrial equipment. The consolidation of Guangzhou Hitachi Elevator Co., Ltd., formerly an equity-method affiliate of the Company, also contributed to an increase in sales of this segment.

Revenues of consolidated subsidiaries of the Company located in North America increased 3%, to ¥832,490 million, in fiscal 2004 compared to the preceding fiscal year due primarily to an increase in sales of plasma televisions and LCD projectors due to increased demand, and an increase in sales of power generation equipment, partially offset by a decrease in sales of servers and projection televisions due to declines in prices.

Revenues of consolidated subsidiaries of the Company located in Europe increased 12%, to ¥490,807 million, in fiscal 2004 compared to the preceding fiscal year due primarily to an increase in sales of plasma televisions, room air conditioners and construction machinery.

Revenues of consolidated subsidiaries of the Company located in Other Areas increased 18%, to ¥104,331 million, in fiscal 2004 compared to the preceding fiscal year.

Hitachi's cost of sales increased 4%, to ¥6,961,270 million, in fiscal 2004 compared to the preceding fiscal year, while the ratio of cost of sales to total revenues decreased 1% in fiscal 2004 compared to the preceding fiscal year, to 77%. Selling, general and administrative expenses increased 3%, to ¥1,786,718 million, in fiscal 2004 compared to the preceding fiscal year, while the ratio of selling, general and administrative expenses to total revenues was 20%, approximately the same the preceding fiscal year.

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In fiscal 2004, Hitachi recorded impairment losses for long-lived assets in the amount of ¥26,797 million. The majority of the impairment losses were recorded on long-lived property, plant and equipment in Japan, ¥8,517 million of which was recorded in Electronic Devices Division, ¥4,954 million of which was recorded in High Functional Materials & Components Division and ¥4,453 million of which was recorded in the Corporate Division, due primarily to the result of a change in the extent or manner the assets were used. The impairment losses are recognized because of: (i) estimation of irrecoverable amounts for entity-wide long-lived assets that are now designated for leasing; (ii) declines in the market price of long-lived assets to be abandoned and long-lived assets to be sold; and (iii) estimation of irrecoverable amounts for investments in some long-lived assets due to declining profitability.

In fiscal 2004, Hitachi recorded restructuring charges of ¥33,307 million, associated primarily with the restructuring measures in Information & Telecommunication Systems, Digital Media & Consumer Products and High Functional Materials & Components. For further details, see *Restructuring* in this Item.

Interest income increased 5% in fiscal 2004 compared to the preceding fiscal year, to ¥13,413 million. Dividend income decreased 6% in fiscal 2004 compared to the preceding fiscal year, to ¥5,971 million. Other income decreased to ¥67,024 million in fiscal 2004 compared to ¥142,010 million in the preceding fiscal year, as net gain on securities in fiscal 2004 decreased ¥83,712 million, to ¥46,463 million, compared to ¥130,175 million in the preceding fiscal year. This decrease was partially offset by a net gain of ¥14,422 million from issuance of stock by certain subsidiaries and affiliated companies which resulted in changes of the Company's ownership interest.

Interest charges decreased 6% in fiscal 2004 compared to the preceding fiscal year, to ¥29,057 million. Other deductions decreased 49%, to ¥11,796 million, in fiscal 2004 compared to the preceding fiscal year primarily because foreign exchange loss recorded in fiscal 2003 became a gain in fiscal 2004.

Income before income taxes and minority interests increased 12%, to ¥264,506 million, in fiscal 2004 compared to the preceding fiscal year.

Income taxes in fiscal 2004 decreased to ¥149,990 million, from ¥198,655 million in the preceding fiscal year, due primarily to a decrease in minimum pension liability adjustments.

Income before minority interests in fiscal 2004 increased 197%, to ¥114,516 million, from the preceding fiscal year due to the increase in income before income taxes and minority interests and a decrease in income taxes.

Minority interests in fiscal 2004 increased 179%, to ¥63,020 million, from the preceding fiscal year due primarily to improvement as a whole in the business results of publicly-held subsidiaries.

As a result of the foregoing, net income in fiscal 2004 increased 224% from the preceding fiscal year, to ¥51,496 million.

Fiscal 2003 Compared with Fiscal 2002

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Summarized results of operations for fiscal 2003 and fiscal 2002 are shown below.

| | Fiscal 2002 | Fiscal 2003 | Percent change |
|---|-------------|-------------|-------------------|
| (Millions of yen, except percentage data) | | | |
| Total revenues | 8,191,752 | 8,632,450 | +5% |
| Income before income taxes and minority interests | 96,828 | 237,149 | +145% |
| Income before minority interests | 44,166 | 38,494 | -13% |
| Net income | 27,867 | 15,876 | -43% |

Hitachi's total revenues in fiscal 2003 were ¥8,632,450 million, an increase of 5% from the preceding fiscal year. Overseas revenues increased 13% over the same period, to ¥2,977,594 million.

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Revenues in Information & Telecommunication Systems rose 22%, to ¥2,314,552 million, in fiscal 2003 compared to the preceding fiscal year, due primarily to three factors. First, sales of hard disk drives increased due primarily to the acquisition of the hard disk drives operations of IBM Corporation. Second, sales of Hitachi's services business increased due to growth in its outsourcing business related to information systems and in its services for automatic teller machine-related systems for financial institutions. In addition, sales of telecommunications equipment increased in part due to growth in sales of base stations for data communication systems for third-generation mobile phones in the Japanese market. Increased sales of these products and services, however, were partially offset by a decrease in sales of software due primarily to falling prices and lower sales of platform software for mainframes and a decrease in sales of disk array subsystems due to sluggish demand in the Japanese market.

Revenues in Electronic Devices decreased 16%, to ¥1,312,380 million, in fiscal 2003 compared to the preceding fiscal year due primarily to the transfer of the semiconductor operations centered in system LSIs to an equity-method affiliate, Renesas, in April 2003. The decrease in sales from these operations was partially offset by an increase in sales of small and medium-sized LCDs due primarily to an expansion in demand for mobile phones with higher resolution color displays, large-sized LCDs due primarily to the start of production of LCDs for flat screen televisions, and semiconductor manufacturing and inspection equipment due primarily to increased demand.

Revenues in Power & Industrial Systems amounted to ¥2,297,913 million in fiscal 2003, approximately the same as the preceding fiscal year. Increased sales of construction machinery due primarily to vigorous demand in overseas markets, notably China and Europe, and automotive products due primarily to strong demand of automobile companies were partially offset by a decrease in sales of power systems due primarily to curbs on capital expenditures at electric power companies and industrial equipment due to sluggish plant and equipment investment in this field.

Revenues in Digital Media & Consumer Products increased 2%, to ¥1,226,955 million, from the preceding fiscal year due primarily to an increase in sales of plasma televisions, mobile phones and recordable DVDs due primarily to growth in demand for such products, partially offset by a decrease in sales of air conditioners due to weak demand in the Japanese market.

Revenues in High Functional Materials & Components increased 4%, ¥1,297,085 million, in fiscal 2003 compared to the preceding fiscal year due in part to an increase in sales of materials and components for semiconductors and LCDs. Increased demand for such products reflected growth in demand for PCs and mobile phones. Increased segment revenues also reflected increased sales of metal products and casting components for automobiles due primarily to increased demand of automobile companies.

Revenues in Logistics, Services & Others decreased 13%, to ¥1,256,266 million, in fiscal 2003 compared to the preceding fiscal year due primarily to the transfer of sales operations of semiconductors to affiliated companies, partially offset by an increase in sales of the logistics business.

Revenues in Financial Services decreased 5%, to ¥550,982 million, in fiscal 2003 compared to the preceding fiscal year due primarily to a decline in volumes of automobile loans to individuals as a result of the shift in focus from automobile loans to leasing.

An analysis by geographic segment shows that revenues of the Company and its consolidated subsidiaries located in Japan decreased 1%, to ¥7,218,943 million, in fiscal 2003 compared to the preceding fiscal year due primarily to the transfer of the semiconductor operations centered in system LSIs to Renesas and a decline in sales of power systems and industrial equipment, partially offset by an increase in sales of outsourcing business in the information systems area and an increase in sales of LCDs.

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Revenues of consolidated subsidiaries of the Company located in Asia (other than Japan) rose 30%, to ¥1,305,624 million, in fiscal 2003 compared to the preceding fiscal year due primarily to an increase in sales of hard disk drives due mainly to the acquisition of the hard disk drives operations of IBM Corporation and construction machinery due to vigorous demand, partially offset by the transfer of the semiconductor operations centered in system LSIs.

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Revenues of consolidated subsidiaries of the Company located in North America declined 4%, to ¥810,676 million, in fiscal 2003 compared to the preceding fiscal year due primarily to the transfer of the semiconductor operations centered in system LSIs and a decrease in sales of power generation equipment, partially offset by an increase in sales of hard disk drives due primarily to the acquisition of such operations.

Revenues of consolidated subsidiaries of the Company located in Europe increased 7%, to ¥437,227 million, in fiscal 2003 compared to the preceding fiscal year due primarily to an increase in sales of construction machinery and hard disk drives.

Revenues of consolidated subsidiaries of the Company located in Other Areas increased 25%, to ¥88,163 million, in fiscal 2003 compared to the preceding fiscal year.

Hitachi's cost of sales during fiscal 2003 increased 8%, to ¥6,710,154 million, in fiscal 2003 compared to the preceding fiscal year, and the ratio of cost of sales to total revenues increased 2% in fiscal 2003 compared to the preceding fiscal year, to 78%. Selling, general and administrative expenses declined 3%, to ¥1,737,433 million, in fiscal 2003 compared to the preceding fiscal year, and the ratio of selling, general and administrative expenses to total revenues also decreased 2% in fiscal 2003 compared to the preceding fiscal year, to 20%.

In fiscal 2003, Hitachi recorded impairment losses for long-lived assets in the amount of ¥26,085 million. The impairment losses were recorded on long-lived property, plant and equipment in Japan, ¥13,391 million of which was recorded in the Corporate Division and ¥8,175 million of which was recorded in Information & Telecommunication Systems, due in part to a change in the manner the assets are used.

In fiscal 2003, Hitachi recorded restructuring charges of ¥28,613 million, associated with the restructuring measures in Power & Industrial Systems, Digital Media & Consumer Products and High Functional Materials & Components. For further details, see "Restructuring" in this Item.

Interest income declined 10% in fiscal 2003 compared to the preceding fiscal year, to ¥12,808 million. Dividends income decreased 29% in fiscal 2003 compared to the preceding fiscal year, to ¥6,352 million. Other income increased significantly, to ¥142,010 million, in fiscal 2003 compared to ¥23,658 million in the preceding fiscal year due primarily to two factors. First, net gain on securities in fiscal 2003 amounted to ¥130,175 million, compared to a net loss on securities of ¥660 million in the preceding fiscal year, due primarily to the sale of shares of Nitto Denko. Second, equity in earnings of affiliated companies in fiscal 2003 amounted to net gain of ¥10,120 million, compared to a net loss of ¥15,803 million in the preceding fiscal year, due in part to an improvement in results of an affiliate engaged in the production of plasma display panels.

Interest charges declined 10% in fiscal 2003 compared to the preceding fiscal year, to ¥30,855 million, due in part to a decrease in interest-bearing debt. Other deductions declined 61%, to ¥23,331 million, in fiscal 2003 compared to the preceding fiscal year due primarily to declines in net periodic benefit costs and in net losses in equity in earnings of affiliates. There were no corresponding entries in fiscal 2003 for the following items which were each recorded in fiscal 2002: (i) a net benefit cost of ¥24,857 million resulting from the remeasurement of the substitutional portion of the benefit obligation upon the adoption of Emerging Issues Task Force, or EITF, Issue No. 03-2, and (ii) a net loss of ¥15,803 million in equity in earnings of affiliated companies. Other deductions include a foreign exchange loss of ¥17,484 million, primarily due to the appreciation of the Japanese yen against the U.S. dollar during fiscal 2003.

Income before income taxes and minority interests in fiscal 2003 increased 145%, to ¥237,149 million, from the preceding fiscal year due primarily to an increase in the amount of other income.

Income taxes in fiscal 2003 increased, to ¥198,655 million, from ¥52,662 million in the preceding fiscal year due primarily to an increase in income before income taxes and minority interests, an increase in taxes imposed as a result of the sale of shares of an equity-method affiliate and subsidiaries and an increase in change in valuation allowance as a result of a reevaluation of the realizability of deferred tax assets.

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Income before minority interests in fiscal 2003 declined 13%, to ¥38,494 million, from the preceding fiscal year due to the increase in income taxes partially offset by the increase in income before income taxes and minority interests.

Minority interests in fiscal 2003 increased 39%, to ¥22,618 million, from the preceding fiscal year due primarily to improvement as a whole in the business results of publicly-held subsidiaries.

As a result of the foregoing, net income in fiscal 2003 declined 43% from the preceding fiscal year, to ¥15,876 million.

B. Liquidity and Capital Resources

The analysis made in this Item covers the three-year period from fiscal 2002 to fiscal 2004. Management considers maintaining an appropriate level of liquidity and securing adequate funds for current and future business operations to be important financial objectives. Through efficient management of working capital and selective investment in new plant and equipment, Hitachi is working to optimize the efficiency of capital utilization throughout its business operations. Hitachi endeavors to improve Hitachi group cash management by centralizing such management among the Company and its overseas financial subsidiaries. Hitachi's internal sources of funds include cash flows generated by operating activities and cash on hand. Management also considers short-term investments as an immediately available source of funds. In addition, Hitachi raises funds both from the capital markets and from Japanese and international commercial banks in response to its capital requirements. Management's policy is to finance capital expenditures primarily by internally generated funds and to a lesser extent by funds raised by the issuance of debt and equity securities in domestic and foreign capital markets.

In fiscal 2004, the Company raised a total of ¥170,000 by means of syndicate loan agreements from domestic banks as funds for, among other purposes, redeeming the Company's 7th issue of unsecured convertible bonds that were due for redemption in September 2004. Further, the Company issued convertible bonds (bonds with stock acquisition rights) in the aggregate amount of ¥100,000 million in October 2004. The bonds mature in five years with zero coupon rate. The procured funds were used primarily for raising funds for upfront investment, including investment in facilities and R&D for maintaining the medium-to-long term growth of Hitachi.

In August 2005, the Company issued two series of unsecured straight bonds: (i) five-year bonds with a 0.7% coupon rate in an aggregate principal amount of ¥50,000 million, and (ii) ten-year bonds with a 1.56% coupon rate in an aggregate principal amount of ¥50,000 million. The Company issued these bonds for the purpose of redeeming the Company's 11th issue of unsecured straight bonds that is due for redemption in February 2006.

Hitachi relies for its liquidity principally on cash and other working capital as well as the issue of debentures, medium term notes and commercial paper, bank loans and other uncommitted sources of financing. While Hitachi maintains backup lines of credit to cover maturing commercial paper in the U.S. market, the aggregate amount of credit available under these credit lines is limited. At the end of fiscal 2004, the Company maintained commitment line agreements with a number of domestic banks under which the Company may borrow any amount it requires up to a total of ¥143,000 million in order to ensure efficient access to operating funds. These commitment line agreements generally provide for a one-year term, renewable upon mutual agreement between the Company and each of the lending banks. Certain of the Company's subsidiaries also maintain commitment line arrangements. Unused commitment lines for the Company and its subsidiaries totaled to ¥183,014 million as of March 31, 2005. The committed credit arrangements of the Company and its subsidiaries are, in general, subject to financial and other covenants and conditions prior to and after drawdown and require the borrower to represent, in connection with any borrowing under the agreement, that no material adverse change has occurred since certain dates.

At the end of fiscal 2004, the total of Hitachi's short-term debt and long-term debt amounted to ¥2,502,506 million, an increase of ¥4,941 million from at the end of fiscal 2003. The increase was due primarily to the Company's finance by syndicate loan agreements and the issuance of bonds with stock acquisition rights, partially offset by the redemption of the Company's 7th issue of unsecured convertible bonds. At the end of fiscal 2004, short-term debt totaled ¥676,611 million, consisting mainly of borrowings from banks and commercial paper, while long-term debt was ¥1,319,032 million, consisting mainly of debentures, debentures with stock acquisition rights, medium term notes and loans principally from banks and insurance companies. At the end of fiscal 2004, current portion of long-term debt totaled ¥506,863 million. A significant portion of Hitachi's long-term debt bears a fixed rate of interest. Hitachi's debt is not significantly affected by seasonal factors. In general, there are no material restrictions on Hitachi's use of borrowings. For further details including the maturity and interest rates, see note 10 to the consolidated financial statements.

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The Company's current debt ratings (long-term/short-term) are: A1/P-1 by Moody's; A-/A-1 by S&P and AA-/a-1+ by R&I. With its current ratings, the Company believes that its access to the global capital markets will remain sufficient for its financing needs. However, a downgrade of its debt ratings would likely increase the cost of debt finance by the Company. Hitachi seeks to maintain a stable credit rating in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain access to sufficient funding resources through capital markets.

Transfers of funds from a subsidiary to a parent company in the form of a cash dividend are restricted under the Commercial Code and under regulatory requirements of certain foreign countries in which a subsidiary may be located. Although the Company's subsidiaries are subject to such restrictions, Hitachi does not expect such restrictions to have a significant impact on the ability of Hitachi to meet its cash obligations.

Management believes that Hitachi's sources of liquidity and capital resources, including working capital, are adequate for its present requirements and business operations and will be adequate to satisfy its presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs. Hitachi is seeking to ensure that its level of liquidity and access to capital resources continue to be maintained in order for Hitachi to successfully conduct its future operations in highly competitive markets.

Cash Flows

Summarized cash flows from operating, investing and financing activities for fiscal 2002, 2003 and 2004 are shown below. In fiscal 2004, the Company reclassified cash receipts from lease receivables related to the products manufactured by Hitachi as Cash flows from operating activities in place of Cash flows from investing activities. The reclassification was also applied to the cash flows for fiscal 2002 and in fiscal 2003 presented in the following table. See note 2(y) to the consolidated financial statements.

| | Fiscal 2002 | Fiscal 2003 | Fiscal 2004 |
|--|--------------------|--------------------|--------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| | (Millions of yen) | | |
| Net cash provided by operating activities | 657,559 | 603,403 | 565,356 |
| Net cash used in investing activities | (630,326) | (267,413) | (526,988) |
| Net cash used in financing activities | (207,170) | (374,435) | (99,429) |
| Effect of exchange rate changes on cash and cash equivalents | (21,266) | (25,330) | 5,380 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net decrease in cash and cash equivalents | (201,203) | (63,775) | (55,681) |

Net cash provided by operating activities was ¥565,356 million, ¥603,403 million and ¥657,559 million in fiscal 2004, 2003 and 2002, respectively. The decrease in fiscal 2004 was due primarily to an increase in inventories in part as a result of an increase in price of raw materials and an increase in inventories of construction machinery, and income tax payments, partially offset by a decrease in receivables in part as a result of improved cash collections from customers and cash receipts from securitized receivables. The decrease in fiscal 2003 was due primarily to an increase in receivables and inventories, in part as a result of an increase in sales, partially offset by an increase in accrued expenses and retirement and severance benefits.

Net cash used in investing activities was ¥526,988 million, ¥267,413 million and ¥630,326 million in fiscal 2004, 2003 and 2002, respectively. The increase in fiscal 2004 was due primarily to following three factors: an increase in investments in manufacturing equipment for hard disk drives to enhance production capacity; an increase in purchase of assets to be leased, in response to strong demand; and a decrease in proceeds from sale of investments and subsidiaries' common stock, partially offset by a decrease in purchase of investments and subsidiaries' common

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stock. The decrease in fiscal 2003 was due primarily to proceeds from the sale of shares of Nitto Denko, an equity-method affiliate, and a decrease in purchases of investments and subsidiaries' common stock. Cash flows for capital expenditures and purchases of assets to be leased during fiscal 2004, 2003 and 2002 were ¥852,088 million, ¥728,800 million and ¥705,151 million, respectively. The increase in capital expenditures in fiscal 2004 is due primarily to an increase in production capacity for manufacturing hard disk drives. The increase in purchases of assets to be leased in fiscal 2003 and in fiscal 2004 is directly related to higher demand. As of March 31, 2005, Hitachi's capital commitments for the purchase of property, plant and equipment amounted to ¥35,937 million, which is expected to be funded primarily through internal sources of financing.

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Net cash used in financing activities was ¥99,429 million, ¥374,435 million and ¥207,170 million in fiscal 2004, 2003 and 2002, respectively. These outflows in financing activities were chiefly due to Hitachi's efforts to reduce interest-bearing debt by improving cash management within the Company and its subsidiaries. In fiscal 2004, the increase in short-term debt amounted to ¥27,029 million, and payments on long-term debt amounted to ¥599,637 million, an increase of ¥12,302 million from fiscal 2003, while proceeds from long-term debt amounted to ¥533,442 million, an increase of ¥73,298 million from fiscal 2003 due primarily to the Company's financing by syndicate loan agreements and issue of debentures with stock acquisition rights.

In fiscal 2004, the above activities decreased cash and cash equivalents by ¥55,681 million from fiscal 2003. Cash and cash equivalents at the end of fiscal 2004 amounted to ¥708,715 million, primarily held in Japanese yen and a substantial part in U.S. dollars.

Short-term investments, the change of which is classified as investing activities, are considered as an immediately available source of funds. Short-term investments at the end of fiscal 2004 amounted to ¥146,568 million, a decrease of ¥31,381 million from at the end of fiscal 2003. As a result of the foregoing, the total of cash and cash equivalents and short-term investments at the end of fiscal 2004 was ¥855,283 million, a decrease of ¥87,062 million from at the end of fiscal 2003.

Assets, Liabilities and Stockholders' Equity

At the end of fiscal 2004, total assets amounted to ¥9,736,247 million, an increase of ¥145,925 million from the end of fiscal 2003 due primarily to the effect of NEOMAX Co., Ltd. becoming a consolidated subsidiary and the merger with TOKICO LTD. during fiscal 2004.

At the end of fiscal 2004, the total of Hitachi's short-term debt and long-term debt amounted to ¥2,502,506 million, an increase of ¥4,941 million from at the end of fiscal 2003, due primarily to the Company's financing by means of a syndicate loan agreement and the issue of convertible bonds, partially offset by the redemption of convertible bonds. At the end of fiscal 2004, retirement and severance benefits amounted to ¥1,033,005 million, a decrease of ¥240,504 million from at the end of fiscal 2003 due primarily to the transfer of the substitutional portion of the Employee Pension Fund to the Japanese government by certain subsidiaries. At the end of fiscal 2004, minority interests amounted to ¥921,052 million, an increase of ¥122,236 million from the end of fiscal 2003, due primarily to the effect of NEOMAX Co., Ltd. becoming a consolidated subsidiary and the improvement as a whole in the business results of publicly-held subsidiaries.

At the end of fiscal 2004, stockholders' equity amounted to ¥2,307,831 million, an increase of ¥139,700 million from the end of fiscal 2003 due primarily to an increase of net income, an increase in capital surplus as a result of a merger with TOKICO LTD., decrease in treasury stock and decrease in minimum pension liability adjustments as a result of the transfer of the substitutional portion of the Employee Pension Fund to the Japanese government by certain subsidiaries. As a result, the ratio of stockholders' equity to total assets increased 1% from the preceding fiscal year, to 24%. The ratio of the total of short-term debt and long-term debt against the total of stockholders' equity and minority interests became 0.78, an improvement of 0.06 points from the preceding fiscal year.

The Company and its subsidiaries assess foreign currency exchange rate risk and interest rate risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. Hitachi uses certain derivative financial instruments in order to reduce such risks. In principle, Hitachi does not enter into derivative financial instruments for speculation purposes. For additional information on financial instruments and derivative financial instruments, see notes 24 and 26 to the consolidated financial statements.

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C. Research and Development, Patents and Licenses, etc.

Viewing research and development, or R&D, activity as a key investment for the future, Hitachi conducts its R&D in a number of areas from materials to production technology. Hitachi focuses on basic R&D with a long-term vision but also strives to achieve more immediate benefits by introducing new products.

Hitachi's R&D expenditures amounted to ¥377,154 million in fiscal 2002, ¥371,825 million in fiscal 2003 and ¥388,634 million in fiscal 2004. The ratio of R&D expenditures to total revenues ranged from approximately 4% to 5% over these three years.

Hitachi recognizes the importance of the Information & Telecommunication Systems segment and the Electronic Devices segment as sources of new technologies that can be applied to other segments. Therefore, Hitachi places emphasis on these segments in allocating R&D resources. In fiscal 2004, total expenditures in the Information & Telecommunication Systems segment and the Electronic Devices segment accounted for 55% of total R&D expenditures.

To achieve higher efficiency, Hitachi has reinforced the link between R&D activities and marketing activities under the control of each business operation while maintaining its focus on long-term research at independent corporate laboratories. Hitachi's global R&D activities include cooperation with universities and companies in the U.S. and Europe. Hitachi will reinforce R&D in the area of both frontier and platform research. The former aims to cultivate future mainstay businesses, while the latter has a more immediate focus of increasing productivity and quickening the pace of product development throughout Hitachi. Hitachi also focuses on leading-edge R&D for creating its future core businesses to reinforce fundamental technologies for improving productivity and quality and lowering costs.

For information on Hitachi's patents and licenses, see Item 4. Information on the Company B. Business Overview Intellectual Property and Licenses.

D. Trend Information

In January 2003, Hitachi launched a new medium-term management plan defining the direction and goals of its businesses through the fiscal year ending March 31, 2006. The plan includes, among other things, a realignment of Hitachi's business portfolio which may be implemented by exiting certain businesses, increasing focus on targeted businesses and creating new businesses in an effort to achieve increased profitability and alteration of its corporate governance structure in an effort to improve the efficiency and transparency of management. In addition, under the plan, Hitachi expects to pursue further growth in the global markets by identifying competitive businesses and channeling management resources into those businesses. Hitachi also expects under the plan to continue to improve cash-flow management by increasing the efficiency of working capital use while making selective investments, and further to reduce procurement costs. See Item 4. Information on the Company A. History and Development of the Company and Item 6. Directors, Senior Management and Employees.

In December 2002, the Company purchased a majority ownership in a newly-established company to which IBM Corporation's hard disk drive operations were transferred. The new company, a majority-owned subsidiary of the Company, commenced operations on January 1, 2003. As a result, the revenues of the new company have been included in Hitachi's consolidated statement of operations since the beginning of fiscal 2003. In April 2003, the Company transferred its semiconductor operations centered in system LSIs to a new company, Renesas, incorporated jointly by the Company and Mitsubishi Electric. Since the new company is accounted for under the equity method by the Company, the revenues of

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such operations, included in Hitachi's consolidated statement of operations through fiscal 2002, have been excluded since the beginning of fiscal 2003. In October 2004, the Company merged its equity-method affiliate, TOKICO LTD., into itself. As a result, the revenues of TOKICO LTD. have been included in Hitachi's consolidated statement of operations for fiscal 2004.

Factors that could cause actual results to differ materially from those expected or implied in any forward-looking statements in this section include, but are not limited to, rapid and significant declines in product prices and uncertainty as to Hitachi's ability to implement restructuring measures. In addition, see the Cautionary Statement at the beginning of this annual report and Item 3. Key Information D. Risk Factors for other examples of factors that could cause actual results to differ materially from those anticipated.

Table of Contents**E. Off-balance Sheet Arrangements**

Hitachi's off-balance sheet arrangements consist primarily of off-balance sheet Special Purpose Entities, or SPEs, used to securitize and sell certain trade and lease receivables. The purpose of such securitization transactions is to enable Hitachi to access the capital markets for liquidity.

In these securitizations, trade and lease receivables are sold to the SPEs which are in turn packaged mainly into asset-backed commercial papers by the SPEs for sale to third party investors. In certain securitizations, the SPEs may require Hitachi to retain residual interests subordinated to the investors. These retained subordinated residual interests are not material to Hitachi. The SPEs and the investors have no recourse against Hitachi when debtors fail to pay trade and lease receivables when due. Accordingly, Hitachi's contingent liability exposure is limited to the retained subordinated residual interests.

No officers, directors or employees of Hitachi have any investments in the SPEs. The SPEs meet the accounting criteria for off-balance sheet treatment and are not consolidated under generally accepted accounting principles in the United States.

The amount of off-balance sheet arrangements as of March 31, 2005 is as follows:

| | March 31, 2005 |
|-------------------------------|--------------------------|
| | (Millions of yen) |
| Securitized lease receivables | 569,794 |
| Securitized trade receivables | 345,927 |
| Total | 915,721 |

See note 2(g) and 7 to the consolidated financial statements.

F. Tabular Disclosure of Contractual Obligations

The following tables show Hitachi's contractual obligations and other commercial commitments, including guarantees, as of March 31, 2005.

| Contractual obligations | Payments due by period | | | | |
|-------------------------|------------------------|------------------|-----------|-----------|---------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| | | | | | |

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| | (Millions of yen) | | | | |
|---|-------------------|----------------|----------------|----------------|----------------|
| Long-term debt obligations | 1,812,744 | 503,294 | 450,405 | 533,136 | 325,909 |
| Capital lease obligations | 13,151 | 3,569 | 5,512 | 2,679 | 1,391 |
| Operating lease obligations | 48,843 | 13,540 | 17,388 | 10,042 | 7,873 |
| Purchase of property, plant and equipment | 35,937 | 35,330 | 607 | | |
| Total | 1,910,675 | 555,733 | 473,912 | 545,857 | 335,173 |

| Other commercial commitments | As of March 31, 2005 |
|-------------------------------------|---------------------------------|
|-------------------------------------|---------------------------------|

| | (Millions of yen) |
|-------------------------------------|-------------------|
| Lines of credit | 638,404 |
| Trade notes discounted and endorsed | 11,497 |
| Guarantees | 579,762 |

See note 16 to the consolidated financial statements.

Table of Contents**G. Critical Accounting Policies**

The preparation of the consolidated financial statements of Hitachi in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. Management considers the accounting estimates discussed in this section to be critical accounting estimates for two reasons. First, the estimates require Hitachi to make assumptions about matters that are highly uncertain at the time the accounting estimate is made. Second, different estimates that Hitachi reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of Hitachi's financial condition, changes in financial condition or results of operations. Management believes the following represent Hitachi's critical accounting policies.

Revenue Recognition for Sales under Long-term Construction Arrangements

Hitachi uses the percentage-of-completion method to recognize revenue from sales of tangible products under long-term construction type arrangements, principally in connection with the construction of nuclear, thermal and hydroelectric power plants. Under the percentage-of-completion method, revenue from a sale is recognized in an amount equal to estimated total revenue from the sale multiplied by the percentage that costs incurred to date bear to estimated total completion costs based upon most recently available information. The use of percentage-of-completion method requires Hitachi to make significant assumptions about estimates of total contract costs, remaining costs to completion, total contract revenues, contract risks and other factors. Hitachi continually reviews these estimates and adjusts them as it deems necessary. Any anticipated losses on fixed price contracts are charged to operations when Hitachi is able to estimate such losses. Hitachi makes provisions for contingencies (e.g. performance penalty and benchmarking) in the period in which they become known to Hitachi under the specific terms and conditions of the relevant contract and are estimable by Hitachi.

Impairment of Long-Lived Assets

Hitachi reviews the carrying value of its long-lived assets held and used, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Hitachi performs the initial impairment review using estimates of undiscounted future cash flows. If the carrying value of the asset is considered impaired based upon the review, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its estimated fair value. Although management believes that the estimates of future cash flows and fair value are reasonable, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations of the long-lived assets.

Goodwill and Other Intangible Assets

All goodwill and other intangible assets with indefinite useful lives are not amortized but are tested for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, during the fourth quarter after the annual forecasting process is completed or between annual tests if an event occurs or circumstances change in a manner that would more likely than not reduce the fair value of these assets below their carrying value. Fair value for these assets is determined using a discounted cash flow analysis, which is based on various assumptions, including forecasted operational results set forth in Hitachi's authorized business plan. Although management believes that the estimates of future cash flows and fair value are reasonable, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in the

business environment could negatively affect the valuations and the amount of the impairment charge.

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Deferred Tax Assets

In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. The ultimate realization of Hitachi's deferred tax assets is dependent on whether Hitachi is able to generate future taxable income in specific tax jurisdictions during the periods in which temporary differences become deductible. Management has scheduled the expected future reversals of the temporary differences and projected future taxable income in making this assessment. Based on these factors, management believes that it is more likely than not that Hitachi will realize the benefits of these temporary differences, net of the existing valuation allowance as of March 31, 2005. However, the amount of deferred tax assets may be different if Hitachi does not realize estimated future taxable income during the carry forward periods as originally expected.

Retirement Benefits

Hitachi has a significant amount of employee retirement benefit costs which are developed from actuarial valuations. Inherent in these valuations are key assumptions in estimating pension costs including mortality, withdrawal, retirement, changes in compensation, discount rate and expected return on plan assets. Hitachi is required to estimate the key assumptions by taking into account various factors including personnel demographics, current market conditions and expected trends in interest rates. Hitachi determines the discount rate by looking to available information about rates implicit in return on high-quality fixed-income governmental and corporate bonds. Accordingly, the discount rate is likely to change from period to period based on these ratings. A decrease in the discount rate results in an increase in actuarial pension benefit obligations. Increases and decreases in the pension benefit obligation affect the amount of the actuarial gain or loss which is amortized into income over the service lives of employees. Changes in the key assumptions may have a material effect on Hitachi's financial position and results of operations. Management believes that estimation of the key assumptions is reasonable under the various underlying factors.

Allowance for Doubtful Accounts

Hitachi is required to estimate the collectibility of its notes and accounts receivable. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness of each customer. Such assessment includes an examination of factors such as business conditions, turnover of receivables and financial positions for significant customers. Significant changes in required reserves have been recorded in recent periods and may occur in the future due to the current market environment. Any deterioration in customer credit rating may adversely affect net income.

Investments in Securities

Hitachi holds various investments in securities and equity method investments. A decline in fair value of securities and equity method investments below carrying value that is deemed other than temporary results in a write-down of the carrying value to the fair value as a new cost basis. The amount of the write-down is included in earnings. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. Management regularly reviews each investment in securities and each equity method investment for possible impairment based on criteria such as the extent to which the carrying value exceeds fair value, the duration the fair value has been below the carrying value and the financial condition of and specific prospects of the issuer. A decline in market prices or a change in the financial condition of an issuer could negatively affect the fair value of an investment in securities.

Table of Contents**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and Senior Management**

The Company, by special resolution of the general meeting of shareholders held on June 25, 2003, adopted a new corporate governance structure, or the Committee System, then newly permitted as a form of corporate organization pursuant to the amended Commercial Code. Each company adopting the Committee System, including the Company, is required to (i) establish within its board of directors nominating, audit and compensation committees, a majority of the members of each of which must be outside directors who are not executive officers of such company, and (ii) appoint executive officers responsible for executing the business of such company. The Commercial Code defines an outside director as a director (i) who does not execute such company's business, (ii) has never been an executive director (a director who executes such company's business), executive officer, manager or any other employee of such company or its subsidiaries, and (iii) who is not an executive director or executive officer of such company's subsidiaries or a manager or any other employee of such company or its subsidiaries. Under the Committee System, a company is not allowed to have corporate auditors but is instead required to delegate auditing function responsibilities to its audit committee. For information regarding the Company's implementation of the Committee System, see C. Board Practices below.

Set forth below are the names of the Company's directors, or Directors, and executive officers, or Executive Officers, as of August 1, 2005. All Directors were elected at the Company's general meeting of shareholders held on June 24, 2005. While Board Director (Chair), Mr. Yoshiki Yagi, does not concurrently serve as an Executive Officer, three Directors, Mr. Etsuhiko Shoyama, Mr. Takashi Miyoshi and Mr. Isao Uchigasaki, do concurrently serve as Executive Officers. Four Directors, Ms. Ginko Sato, Mr. Hiromichi Seya, Mr. Akira Chihaya and Mr. Toshiro Nishimura, are outside Directors who fulfill the qualification requirements as provided for in the Commercial Code. All Executive Officers, except Mr. Gaku Suzuki, were subsequently appointed at the meeting of the board of Directors, or Board of Directors, held on June 24, 2005. Mr. Gaku Suzuki was appointed as an Executive Officer at the meeting of Board of Directors, held on July 28, 2005.

Directors

| Name (Date of birth) | Current position (Principal | Date | Business experience, including experience |
|---------------------------------|---------------------------------------|------------------------------------|--|
| | position outside the Company, if any) | | in the Company, and functions |
| Yoshiki Yagi (Feb. 27, 1938) | Board Director (Chair) | 6/2005 | Appointed Board Director (Chair) |
| | | 4/2004 | Appointed Director |
| | | 6/2003 | Appointed Executive Vice President, Executive Officer and Director |
| | | 4/1999 | Appointed Executive Vice President and Representative Director |
| | | 6/1997 | Appointed Senior Executive Managing Director |
| | | 6/1993 | Appointed Executive Managing Director |
| | | 6/1991 | Appointed Director |
| | | 6/1988 | Appointed General Manager, Accounting Controls Dept. |
| | | 4/1960 | Joined Hitachi, Ltd. |
| | | Etsuhiko Shoyama (Mar. 9, 1936) | Director |

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| | | | |
|------------------------------------|--|---------|--|
| | President and Chief Executive Officer | 4/1999 | Appointed President and Representative Director |
| | | 6/1997 | Appointed Executive Vice-President and Representative Director |
| | | 6/1995 | Appointed Senior Executive Managing Director |
| | | 6/1993 | Appointed Executive Managing Director |
| | | 6/1991 | Appointed Director Appointed General Manager, Consumer Electronics Division |
| | | 4/1959 | Joined Hitachi, Ltd. |
| Kotaro Muneoka (Oct. 30, 1940) | Director | 6/2003 | Appointed Director |
| | | 6/2001 | Appointed Corporate Auditor |
| | | 4/2001 | Appointed Director |
| | | 4/1999 | Appointed Senior Vice President and Director |
| | | 6/1997 | Appointed Director Appointed General Manager, Corporate Personnel & Education Dept. |
| | | 4/1964 | Joined Hitachi, Ltd. |
| Takashi Miyoshi (Sep. 25, 1947) | Director | 6/2004 | Appointed Senior Vice President, Executive Officer and Director |
| | Senior Vice President and Executive Officer | 4/2004 | Appointed Senior Vice President and Executive Officer |
| | | 6/2003 | Appointed Executive Officer |
| | | 4/2003 | Appointed General Manager, Finance |
| | | 4/1970 | Joined Hitachi, Ltd. |
| Ginko Sato (Jul. 6, 1934) | Director | 4/2005 | Appointed Honorary President, Japan Association for the Advancement of Working Women |
| | (Honorary President, Japan Association for the Advancement of Working Women) | 6/2003 | Appointed Director, Hitachi, Ltd. |
| | | 8/2001 | Appointed President, Japan Association for the Advancement of Working Women |
| | | 7/1998 | Appointed Chairperson, Securities and Exchange Surveillance Commission |
| | | 7/1995 | Appointed Commissioner, Securities and Exchange Surveillance Commission |
| | | 10/1991 | Appointed Ambassador Extraordinary and Plenipotentiary of Japan to Kenya |
| | | 7/1990 | Appointed Assistant Minister of Labour |
| Hikomichi Seya (Oct. 7, 1930) | Director | 3/2004 | Appointed Senior Corporate Advisor, Asahi Glass Company, Limited |
| | (Senior Corporate Advisor, Asahi Glass Company, Limited) | 6/2003 | Appointed Director, Hitachi, Ltd. |
| | | 6/2002 | Appointed Chairman of the Board, Asahi Glass Company, Limited |
| | | 6/1998 | Appointed Chairman & CEO, Asahi Glass Company, Limited |
| | | 3/1992 | Appointed President, Asahi Glass Company, Limited |
| Akira Chihaya (Mar. 6, 1935) | Director | 6/2003 | Appointed Director, Hitachi, Ltd. |
| | | 4/2003 | |

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| | | | |
|--------------------------------------|--|--------|--|
| | (Representative Director and Chairman of the Board, NIPPON STEEL CORPORATION) | | Appointed Representative Director and Chairman of the Board, NIPPON STEEL CORPORATION |
| | | 4/1998 | Appointed Representative Director and President, NIPPON STEEL CORPORATION |
| Toshiro Nishimura (Apr. 10, 1933) | Director | 1/2004 | Founder, Senior Counsel, Nishimura & Partners |
| | (Attorney at law) | 6/2003 | Appointed Director, Hitachi, Ltd. |
| | | 5/1966 | Appointed Senior Partner of Nishimura & Partners |
| | | 4/1961 | Member of the First Tokyo Bar Association |
| Isao Uchigasaki (Jan. 2, 1939) | Director | 6/2004 | Appointed Hitachi Group Executive Officer and Director, Hitachi, Ltd. |
| | Hitachi Group Executive Officer | 4/2004 | Appointed Hitachi Group Executive Officer, Hitachi, Ltd. |
| | (Chairman of the Board, Hitachi Chemical Co., Ltd.) | 6/2003 | Appointed Chairman of the Board, Hitachi Chemical Co., Ltd. |
| | | 4/2003 | Appointed Chairman of the Board and Representative Director, Hitachi Chemical Co., Ltd. |
| | | 6/1997 | Appointed President and Representative Director, Hitachi Chemical Co., Ltd. |
| Takashi Kawamura (Dec. 19, 1939) | Director | 6/2003 | Appointed Chairman of the Board and Representative Executive Officer, Hitachi Software Engineering Co., Ltd. |
| | (Chairman of the Board and Representative Executive Officer, Hitachi Software Engineering Co., Ltd.) | 4/2003 | Appointed Director |
| | | 4/1999 | Appointed Executive Vice President and Representative Director |
| | | 6/1997 | Appointed Executive Managing Director |
| | | 6/1995 | Appointed Director |
| | | 6/1992 | Appointed General Manager, Hitachi Works |
| | | 4/1962 | Joined Hitachi, Ltd. |
| Yoshiro Kuwata (Sep. 1, 1936) | Director | 4/2004 | Appointed Director |
| | (Chairman of the Board and Representative Executive Officer, Hitachi High-Technologies Corporation) | 6/2003 | Appointed Executive Vice President, Executive Officer and Director |
| | | | Appointed Chairman of the Board and Representative Executive Officer, Hitachi High-Technologies Corporation |
| | | 4/1999 | Appointed Executive Vice President and Representative Director |
| | | 6/1997 | Appointed Senior Executive Managing Director |
| | | 6/1995 | Appointed Executive Managing Director |
| | | 6/1993 | Appointed Director |
| | | 7/1992 | Appointed General Manager, Overseas Operations Promotion Office |
| | | 6/1961 | Joined Hitachi, Ltd. |
| Hiroshi Kuwahara | | | |

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| | | | |
|---------------------------------------|--|---|--|
| (Nov. 23, 1935) | Director | 6/2003 | Appointed Chairman of the Board and Representative Executive Officer, Hitachi Maxell, Ltd. |
| | (Chairman of the Board and Representative Executive Officer, Hitachi Maxell, Ltd.) | 4/2003 | Appointed Director |
| | | 1/2003 | Appointed Vice Chairman of the Board and Representative Director |
| | | 1/2001 | Appointed Executive Member of Council for Science & Technology Policy, Cabinet Office |
| | | | Appointed Director |
| | | 6/1999 | Appointed Vice Chairman of the Board and Representative Director |
| | | 6/1995 | Appointed Executive Vice-President and Representative Director |
| | | 6/1993 | Appointed Senior Executive Managing Director |
| | | 6/1991 | Appointed Executive Managing Director |
| | | 6/1989 | Appointed Director |
| | | Appointed General Manager, Industrial Processing Division | |
| | 4/1960 | Joined Hitachi, Ltd. | |
| Masayoshi Hanabusa (Oct. 10, 1934) | Director | 6/2003 | Appointed Director, Hitachi, Ltd. |
| | (Chairman of the Board, Hitachi Capital Corporation) | | Appointed Chairman of the Board, Hitachi Capital Corporation |
| | | 6/2001 | Appointed Chairman of the Board and Representative Director, Hitachi Capital Corporation |
| | 6/1991 | Appointed President and Representative Director, Hitachi Credit Corporation (currently Hitachi Capital Corporation) | |
| Ryuichi Seguchi (Nov. 19, 1933) | Director | 6/2005 | Appointed Director, Hitachi, Ltd. |
| | (Chairman of the Board, Hitachi Construction Machinery Co., Ltd.) | 4/2005 | Appointed Chairman of the Board, Hitachi Construction Machinery Co., Ltd. |
| | | 6/2003 | Appointed Chairman of the Board and Representative Executive Officer, Hitachi Construction Machinery Co., Ltd. |
| | | 4/2003 | Appointed Chairman of the Board and Representative Director, Hitachi Construction Machinery Co., Ltd. |
| | | 6/1997 | Appointed President, Chief Executive Officer and Representative Director, Hitachi Construction Machinery Co., Ltd. |

Members of each of the Company's committees are as follows:

Nominating Committee. Etsuhiko Shoyama, Ginko Sato, Hiromichi Seya, Toshiro Nishimura, Masayoshi Hanabusa (Chair);

Audit Committee. Yoshiki Yagi (Chair), Kotaro Muneoka, Ginko Sato, Hiromichi Seya, Toshiro Nishimura; and

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Compensation Committee. Etsuhiko Shoyama, Hiromichi Seya, Akira Chihaya, Toshiro Nishimura, Masayoshi Hanabusa (Chair).

Table of Contents*Executive Officers*

| Name (Date of birth) | Current position (Responsibility of Executive Officer as authorized by the Board of Directors) | Date | Business experience, including experience in the Company, and functions |
|--------------------------------------|--|---|--|
| Etsuhiko Shoyama (Mar. 9, 1936) | Representative Executive Officer President and Chief Executive Officer (Overall management) | See | Directors above. |
| Isao Ono (May 23, 1944) | Representative Executive Officer Executive Vice President and Executive Officer (Sales operations and information & telecommunication systems business) | 4/2004 6/2003 6/2002 4/2002 | Appointed Executive Vice President and Executive Officer Appointed Senior Vice President and Executive Officer Appointed Senior Vice President and Director Appointed General Manager, Information Business Group and President & CEO, Information & Telecommunication Systems |
| Michiharu Nakamura (Sep. 9, 1942) | Representative Executive Officer Executive Vice President and Executive Officer (Research & development and business incubation) | 4/2004 6/2003 4/2001 4/1967 | Appointed Executive Vice President and Executive Officer Appointed Senior Vice President and Executive Officer Appointed General Manager, Research & Development Group Joined Hitachi, Ltd. |
| Masaharu Sumikawa (Jul. 2, 1943) | Representative Executive Officer Executive Vice President and Executive Officer (Power & industrial systems business, automotive systems business and production engineering) | 10/2004 2/2004 6/2003 6/2002 2/2002 4/1972 | Appointed Executive Vice President and Executive Officer Appointed Executive Officer Appointed Senior Vice President and Executive Officer Appointed Senior Vice President and Director Appointed President, Power & Industrial Systems and CEO, power systems operation Joined Hitachi, Ltd. |
| Kazuo Furukawa (Nov. 3, 1946) | Representative Executive Officer | 4/2005 | |

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| | | | |
|--------------------------------------|---|---------|---|
| | Executive Vice President and Executive Officer | | Appointed Executive Vice President and Executive Officer |
| | | 4/2004 | Appointed Senior Vice President and Executive Officer |
| | (Information & telecommunication systems business, digital media business, Hitachi group global business, corporate export regulation and business development) | 6/2003 | Appointed Vice President and Executive Officer |
| | | 4/2003 | Appointed President & CEO, Information & Telecommunication Systems |
| | | 4/1971 | Joined Hitachi, Ltd. |
| Hiroaki Nakanishi (Mar. 14, 1946) | Senior Vice President and Executive Officer | 4/2004 | Appointed Senior Vice President and Executive Officer |
| | | 6/2003 | Appointed Vice President and Executive Officer |
| | (Hitachi group global business, North America) | 4/2003 | Appointed General Manager, Global Business |
| | | 4/1970 | Joined Hitachi, Ltd. |
| Takashi Hatchoji (Jan. 27, 1947) | Senior Vice President and Executive Officer | 4/2004 | Appointed Senior Vice President and Executive Officer |
| | | 6/2003 | Appointed Vice President and Executive Officer |
| | (Hitachi group legal and corporate communications, corporate auditing and human resources) | 4/2003 | Appointed General Manager, Legal and Corporate Communications and General Manager, Corporate Auditing |
| | | 4/1970 | Joined Hitachi, Ltd. |
| Takashi Miyoshi (Sep. 25, 1947) | Senior Vice President and Executive Officer | | See Directors above. |
| | (Finance and corporate pension system) | | |
| Takuya Tajima (Jan. 21, 1945) | Senior Vice President and Executive Officer | 10/2004 | Appointed Senior Vice President and Executive Officer |
| | | 6/2003 | Appointed Vice President and Executive Officer |
| | (Sales operations) | 4/2003 | Appointed CEO, Social and industrial infrastructure systems operation, Power & Industrial Systems |
| | | 4/1968 | Joined Hitachi, Ltd. |
| Shigeharu Mano (Jun. 1, 1946) | Vice President and Executive Officer (Power systems business) | 2/2004 | Appointed Vice President and Executive Officer |
| | | 4/2002 | Appointed President and CEO, Hitachi America, Ltd. |
| | | 7/1971 | Joined Hitachi, Ltd. |
| Gaku Suzuki (May 12, 1947) | Vice President and Executive Officer | 8/2005 | Appointed Vice President and Executive Officer |
| | (Industrial systems business) | 4/2004 | Appointed General Manager, Transportation Systems Division, Industrial Systems |
| | | 4/1972 | Joined Hitachi, Ltd. |

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| | | | |
|--------------------------------------|--|---------|--|
| Kunihiko Ohnuma (Dec. 4, 1946) | Vice President and Executive Officer | 4/2005 | Appointed Vice President and Executive Officer |
| | (Urban planning and development systems business) | 6/2001 | Appointed President and Representative Director, Hitachi Building Systems Co., Ltd. |
| | | 4/1971 | Joined Hitachi, Ltd. |
| Manabu Shinomoto (Mar. 30, 1948) | Vice President and Executive Officer | 6/2003 | Appointed Vice President and Executive Officer |
| | (System solutions business, platform and network systems business) | 4/2003 | Appointed CEO, platform and network systems operation, Information & Telecommunication Systems |
| | | 7/1971 | Joined Hitachi, Ltd. |
| Kazuhiro Tachibana (Nov. 6, 1946) | Vice President and Executive Officer (Digital media business) | 4/2004 | Appointed Vice President and Executive Officer |
| | | 4/2002 | Appointed CSO, Ubiquitous Platform Systems |
| | | 4/1970 | Joined Hitachi, Ltd. |
| Taiji Hasegawa (Feb. 18, 1947) | Vice President and Executive Officer (Automotive systems business) | 4/2004 | Appointed Vice President and Executive Officer |
| | | 6/2003 | Appointed Executive Officer |
| | | 4/2003 | Appointed President & CEO, Automotive Systems |
| | | 4/1969 | Joined Hitachi, Ltd. |
| Junzo Kawakami (Jul. 29, 1944) | Vice President and Executive Officer (Automotive systems business (suspensions and brakes)) | 10/2004 | Appointed Vice President and Executive Officer |
| | | 6/2003 | Appointed President and Representative Director, TOKICO LTD. |
| | | 11/1982 | Joined Hitachi, Ltd. |
| Kazuhiro Mori (Oct. 7, 1946) | Vice President and Executive Officer (Hitachi group companies management assistance) | 4/2004 | Appointed Vice President and Executive Officer |
| | | 6/2003 | Appointed Executive Officer |
| | | 2/1999 | Appointed General Manager, Chubu Area Operation |
| | | 4/1969 | Joined Hitachi, Ltd. |
| Minoru Tsukada (Jan. 1, 1947) | Vice President and Executive Officer (Hitachi group global business, China) | 6/2003 | Appointed Vice President and Executive Officer |
| | | 4/2003 | Appointed General Manager, Kansai Area Operation |
| | | 4/1969 | Joined Hitachi, Ltd. |
| Masahiro Hayashi (Apr. 11, 1946) | Vice President and Executive Officer (Sales operations, Kansai area) | 4/2005 | Appointed Vice President and Executive Officer |
| | | 6/2003 | Appointed Executive Officer |
| | | 4/2003 | Appointed CEO, system solutions operation, Information & Telecommunication Systems |

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| | | | |
|---------------------------------------|---|---------|---|
| | | 4/1969 | Joined Hitachi, Ltd. |
| Makoto Ebata (Feb. 23, 1947) | Vice President and Executive Officer (Hitachi group strategy and Hitachi group global business) | 4/2004 | Appointed Vice President and Executive Officer |
| | | 6/2003 | Appointed Executive Officer |
| | | 2/2002 | Appointed General Manager, Group Management Office |
| | | 4/1970 | Joined Hitachi, Ltd. |
| Iwao Hara (May 11, 1945) | Vice President and Executive Officer (Human resources) | 4/2004 | Appointed Vice President and Executive Officer |
| | | 6/2003 | Appointed Executive Officer |
| | | 4/2003 | Appointed General Manager, Human Capital |
| | | 4/1970 | Joined Hitachi, Ltd. |
| Shozo Saito (Nov. 5, 1945) | Vice President and Executive Officer (Power systems engineering) | 10/2004 | Appointed Vice President and Executive Officer |
| | | 2/2004 | Appointed Executive Officer |
| | | 6/2003 | Appointed Vice President and Executive Officer |
| | | 4/2003 | Appointed President & CEO, Power & Industrial Systems |
| | | 4/1970 | Joined Hitachi, Ltd. |
| Yasuo Sakuta (Oct. 6, 1945) | Executive Officer (Intellectual property) | 6/2003 | Appointed Executive Officer |
| | | 8/2001 | Appointed General Manager, Intellectual Property Group |
| | | 4/1972 | Joined Hitachi, Ltd. |
| Takao Suzuki (Jan. 12, 1946) | Executive Officer (Sales operations, Chugoku area) | 6/2003 | Appointed Executive Officer |
| | | 4/2003 | Appointed General Manager, Chugoku Area Operation |
| | | 4/1969 | Joined Hitachi, Ltd. |
| Koichiro Nishikawa (Jul. 12, 1947) | Executive Officer (Business development) | 6/2003 | Appointed Executive Officer |
| | | 4/2003 | Appointed General Manager, Business Development |
| | | 4/1970 | Joined Hitachi, Ltd. |
| Isao Uchigasaki (Jan. 2, 1939) | Hitachi Group Executive Officer (Hitachi group overall strategy) | | See Directors above. |

There are no family relationships between any Director or Executive Officer and any other Director or Executive Officer of the Company. There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a Director or Executive Officer.

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B. Compensation

The aggregate amount of compensation, including retirement allowances, by Hitachi during the fiscal year ended March 31, 2005 to all Directors and Executive Officers of the Company who served during that year was ¥1,909 million.

Compensation will be commensurate with the ability required of, and the responsibilities to be borne by, the Company's Directors and Executive Officers, taking into consideration compensation packages at other companies.

Compensation for Directors will consist of a monthly salary, a year-end allowance and a retirement allowance. Monthly salary will be decided by making adjustments to basic salary that reflect full-time or part-time status, committee membership and position. Year-end allowance will be a pre-determined amount equivalent to about twenty percent of the Director's annual income based on monthly salary, although this amount may be reduced depending on Company performance. Retirement allowance will be an amount payable on retirement that is determined based on monthly salary and years of service (total years of service in the case of a Director who has served multiple terms as a Director) (the Director's Basic Retirement Amount). A Director concurrently serving as an Executive Officer will not be paid compensation as a Director.

Compensation for Executive Officers will consist of a monthly salary, a performance-linked bonus and a retirement allowance. Monthly salary will be decided by adjusting a basic amount set in accordance with the relevant position to reflect the results of an assessment. The performance-linked bonus will be payable in an amount up to approximately thirty percent of the Executive Officer's annual income, adjusted based on the Company and individual performance. Retirement allowance will be an amount payable on retirement, which will be determined by the position held at retirement, the monthly salary of previous positions held and total years of service in such positions (the Executive Officer's Basic Retirement Amount).

In accordance with a resolution of the June 2003 ordinary general meeting of shareholders of the Company, the amount of retirement allowance for a Director or Executive Officer who was a Director or corporate auditor prior to the close of the meeting will include an allowance corresponding to the person's period of service as a Director or corporate auditor before the adoption of the Committee System. Retirement allowance may, through an assessment, be supplemented for distinguished service by an amount equivalent to up to thirty percent of the Director's Basic Retirement Amount or Executive Officer's Basic Retirement Amount. Depending on the circumstances, each such Basic Retirement Amount may also be reduced. The Company does not set aside reserves for such retirement allowance. In addition to the above, stock options may be granted as an incentive to increase corporate value.

At the June 2001 ordinary general meeting of shareholders, the shareholders of the Company approved a stock option plan under which rights to subscribe for 1,090,000 shares of common stock of the Company were granted to 13 Directors and 64 employees, including senior corporate officers, corporate officers, managing officers and corporate fellows. The exercise price of the rights is ¥1,270 per share and the rights are exercisable from August 4, 2002 until August 3, 2006.

At the June 2003 ordinary general meeting of shareholders, the shareholders of the Company approved a stock option plan. Pursuant to such approval, the Board of Directors set and approved the details of the plan under which rights to subscribe for 1,305,000 shares of common stock of the Company were granted to a total of 85 persons, including Directors, Executive Officers, corporate officers and fellows of the Company. The exercise price of the rights is ¥561 per share and the rights are exercisable from August 1, 2004 through July 31, 2007.

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At the June 2004 ordinary general meeting of shareholders, the shareholders of the Company approved a stock option plan. Pursuant to such approval, the Board of Directors set and approved the details of the plan. Under the plan, at the meeting of Board of Directors held in July 2004, the Company granted rights to subscribe for 1,237,000 shares of common stock of the Company to a total of 78 persons, including Directors, Executive Officers, corporate officers and fellows of the Company. At a subsequent meeting of Board of Directors held in September 2004, the Company granted rights to subscribe for 41,000 shares of common stock of the Company to a total of 7 persons, including an Executive Officer and corporate officers of the Company. The exercise price of the rights is ¥782 per share and ¥705 per share, applicable to 1,237,000 shares and 41,000 shares, respectively, and the rights are exercisable from July 30, 2005 through July 29, 2008, and from October 2, 2005 through October 1, 2008, respectively.

At the June 2005 ordinary general meeting of shareholders, the shareholders of the Company approved a stock option plan. Pursuant to such approval, the Board of Directors set and approved the details of the plan under which rights to subscribe for 1,201,000 shares of common stock of the Company were granted to a total of 73 persons, including Directors, Executive Officers, corporate officers and fellows of the Company. The exercise price of the rights is ¥719 per share and the rights are exercisable from July 29, 2006 through July 28, 2009. See note 28 to the consolidated financial statements.

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C. Board Practices

The Company, by special resolution of the general meeting of shareholders held on June 25, 2003, adopted the Committee System pursuant to the Commercial Code. Each company adopting the Committee System is required to (i) establish within its board of directors, nominating, audit and compensation committees, a majority of the members of each of which must be outside directors who are not executive officers of such company, and (ii) appoint executive officers responsible for executing the business of such company. Under the Committee System, a company is not allowed to have corporate auditors, but is instead required to delegate auditing function responsibilities to its audit committee. Through the adoption of the Committee System and the resulting separation of business execution and supervision thereof, the Company hopes to improve the efficiency of its management and foster a thorough and transparent management system.

The Company's amended articles of incorporation provide for a Board of Directors of not more than 20 members. All Directors are elected at a general meeting of shareholders and the current Directors were elected at the Company's June 24, 2005 general meeting of shareholders. The Company's articles of incorporation provide that, by resolution of the Board of Directors, a Director who convenes and presides over meetings of the Board of Directors shall be selected. The Directors are reelected each year, and not on a staggered basis. The term of office of a Director expires at the close of the ordinary general meeting of shareholders relating to the last financial closing within one year after the relevant Director's assumption of office. A Director may serve any number of consecutive terms. The term of office of the Directors currently in office will expire at the close of the ordinary general meeting of shareholders to be held within three months from March 31, 2006.

Under the Committee System, the Board of Directors focuses on the functions of decision-making with respect to fundamental management policies and certain important matters prescribed by law, as well as supervision of execution by the Directors and Executive Officers of their respective duties. The Board of Directors has, by resolution, delegated to the Executive Officers most of its authority to make decisions with regard to the Company's business affairs.

The Nominating Committee is authorized to determine the particulars of proposals concerning the election and dismissal of Directors to be submitted to a general meeting of shareholders. As stated above, a majority of the members of the Nominating Committee must be outside Directors.

The Compensation Committee is authorized to establish a policy on the determination of the particulars of compensation for each Director and Executive Officer and to determine the particulars of compensation for each Director and Executive Officer in accordance with such policy. In addition, pursuant to the Board of Directors regulations of the Company, the Compensation Committee is authorized to determine the policy on the grant of stock options. As stated above, under the Commercial Code, a majority of the members of the Compensation Committee must be outside Directors.

The Audit Committee is authorized to audit the execution by the Directors and Executive Officers of their respective duties and determine the particulars of proposals concerning the election, dismissal and non-retention of the Company's outside auditor to be submitted to the general meeting of shareholders. The Audit Committee has the statutory duty to examine the financial statements and business reports prepared by Executive Officers designated by the Board of Directors and to prepare its audit report to be submitted to the Board of Directors. Pursuant to the Board of Directors regulations of the Company, the Audit Committee has the authority to pre-approve audit and non-audit services provided by an outside auditor. As stated above, a majority of the members of the Audit Committee must be outside Directors. In addition, a member of the Audit Committee may not concurrently be an Executive Officer, a manager or any other employee of the Company or any of its subsidiaries, or a Director who is engaged in the business affairs of any of such subsidiaries.

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For a list of the members of each committee, see A. Directors and Senior Management above.

The Company's articles of incorporation provide for a maximum of 40 Executive Officers. All Executive Officers are appointed by the Board of Directors. The term of office of an Executive Officer expires at the close of the first meeting of the Board of Directors after the ordinary general meeting of shareholders relating to the last financial closing within one year after the relevant Executive Officer's assumption of office. An Executive Officer may serve any number of consecutive terms. The term of office of the Executive Officers currently in office will expire at the close of the first meeting of the Board of Directors after the ordinary general meeting of shareholders to be held within three months from March 31, 2006.

Under the Committee System, Executive Officers have the power to make decisions on matters delegated to them by the Board of Directors. An Executive Officer executes the business affairs of the Company within the scope of assignment determined by the Board of Directors. From among the Executive Officers, the Board of Directors must appoint one or more representative Executive Officers. Each of the representative Executive Officers has the statutory authority to represent the Company generally in the conduct of its affairs. Pursuant to the Company's articles of incorporation, the Board of Directors must appoint a President and Chief Executive Officer who must also be a representative Executive Officer.

No Directors have service contracts with Hitachi providing for benefits upon termination of employment.

Pursuant to the Commercial Code and the Company's articles of incorporation, the Company may, by resolution of the Board of Directors, exempt any Director and Executive Officer from liabilities to the Company arising in respect of his/her failure to execute duties to the extent provided in laws or regulations. In addition, the Company has entered into an agreement with each outside Director to limit such Director's liabilities to the Company arising in connection with a failure by such Director to execute his/her duties to the Company. The maximum aggregate amount of liability coverage under these agreements is in accordance with the Commercial Code.

Table of Contents**D. Employees**

The following table shows the number of full-time employees of Hitachi by industry segment as of March 31, 2003, 2004 and 2005.

| | As of March 31, | | |
|---|-----------------------|----------------|----------------|
| | 2003 | 2004 | 2005 |
| | (Number of employees) | | |
| Information & Telecommunication Systems | 83,304 | 89,707 | 90,173 |
| Electronic Devices | 41,763 | 25,137 | 25,943 |
| Power & Industrial Systems | 76,685 | 76,424 | 84,602 |
| Digital Media & Consumer Products | 33,046 | 31,421 | 31,302 |
| High Functional Materials & Components | 48,821 | 48,525 | 55,032 |
| Logistics, Services & Others | 29,520 | 28,284 | 28,706 |
| Financial Services | 4,116 | 4,156 | 4,084 |
| Corporate | 3,273 | 3,222 | 3,230 |
| Total | 320,528 | 306,876 | 323,072 |

The activities of the Hitachi Workers Union and those unions representing the employees of certain domestic subsidiaries are organized under the Federation of Hitachi Group Workers Unions. Each company in the Hitachi group has a collective bargaining agreement with its workers union. Under the agreements, all employees of the Company and its domestic subsidiaries that have labor unions, except management and a limited number of other employees, must become union members. The collective bargaining agreements are customarily for two-year terms and the present provisions, other than those relating to wages, extend to March 31, 2006. Hitachi considers its relations with the labor unions to be excellent and there have been no significant strikes or labor disputes in recent years.

E. Share Ownership

The following table shows the number of shares of common stock of the Company owned by the Directors and Executive Officers as of August 1, 2005. The total amount is 0.03% of total shares issued.

| Name | Position | Share ownership |
|------------------|---|--------------------|
| | | (Number of shares) |
| Yoshiki Yagi | Board Director (Chair) | 102,000 |
| Etsuhiko Shoyama | President, Chief Executive Officer and Director | 110,000 |
| Kotaro Muneoka | Director | 58,000 |
| Takashi Miyoshi | Senior Vice President, Executive Officer and Director | 31,000 |
| Ginko Sato | Director | 26,000 |
| Hikomichi Seya | Director | 10,000 |
| Akira Chihaya | Director | 4,000 |

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| | | |
|--------------------|--|-----------|
| Toshiro Nishimura | Director | 20,000 |
| Isao Uchigasaki | Hitachi Group Executive Officer and Director | 12,000 |
| Takashi Kawamura | Director | 67,000 |
| Yoshiro Kuwata | Director | 61,700 |
| Hiroshi Kuwahara | Director | 33,600 |
| Masayoshi Hanabusa | Director | 12,050 |
| Ryuichi Seguchi | Director | 10,000 |
| Isao Ono | Executive Vice President and Executive Officer | 81,000 |
| Michiharu Nakamura | Executive Vice President and Executive Officer | 46,000 |
| Masaharu Sumikawa | Executive Vice President and Executive Officer | 42,000 |
| Kazuo Furukawa | Executive Vice President and Executive Officer | 30,000 |
| Hiroaki Nakanishi | Senior Vice President and Executive Officer | 28,000 |
| Takashi Hachoji | Senior Vice President and Executive Officer | 33,000 |
| Takuya Tajima | Senior Vice President and Executive Officer | 24,000 |
| Shigeharu Mano | Vice President and Executive Officer | 23,000 |
| Gaku Suzuki | Vice President and Executive Officer | 13,000 |
| Kazuhiro Mori | Vice President and Executive Officer | 14,000 |
| Kunihiko Ohnuma | Vice President and Executive Officer | 23,100 |
| Manabu Shinomoto | Vice President and Executive Officer | 16,000 |
| Kazuhiro Tachibana | Vice President and Executive Officer | 17,000 |
| Taiji Hasegawa | Vice President and Executive Officer | 17,000 |
| Junzo Kawakami | Vice President and Executive Officer | 28,840 |
| Minoru Tsukada | Vice President and Executive Officer | 13,000 |
| Masahiro Hayashi | Vice President and Executive Officer | 26,050 |
| Makoto Ebata | Vice President and Executive Officer | 15,000 |
| Iwao Hara | Vice President and Executive Officer | 14,050 |
| Shozo Saito | Vice President and Executive Officer | 23,050 |
| Yasuo Sakuta | Executive Officer | 25,000 |
| Takao Suzuki | Executive Officer | 14,000 |
| Koichiro Nishikawa | Executive Officer | 36,150 |
| | | 1,159,590 |
| Total | | 1,159,590 |

The aggregate number of shares that may be subscribed for under rights granted to the Directors and Executive Officers, listed above, pursuant to stock option plans approved in June 2001, 2003, 2004 and 2005 is 296,000, 285,000, 715,000 and 811,000 shares, respectively, and constitutes 0.06% of total shares issued. For additional information on the Company's stock option plan, see B. Compensation of this Item.

No Director or Executive Officer has different voting rights from any other shareholder of the Company's common stock.

Hitachi Employees Shareholding Association owned approximately 91,626 thousand shares as of March 31, 2005, which amounted to 2.7% of total shares issued. The association consists of employees of the Company and certain of its subsidiaries. Membership in the association is voluntary.

Table of Contents**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

The following table provides information concerning shareholders holding more than five percent of the outstanding common stock of the Company as of March 31, 2005 based on the Company's share register. There has been no significant change in the percentage ownership of the Company's common stock by any major shareholder during the past three years.

| <u>Title of class</u> | <u>Name</u> | <u>Share ownership</u> | <u>Percentage of total shares issued</u> |
|-----------------------|--------------------------------------|------------------------|--|
| | | (Thousand shares) | |
| Common stock | NATS CUMCO ¹ | 216,030 | 6.4% |
| Common stock | The Master Trust Bank of Japan, Ltd. | 194,452 | 5.8% |
| Common stock | Japan Trustee Services Bank, Ltd. | 172,379 | 5.1% |

Note:

1. NATS CUMCO is the nominee name for the ADR depository.

In February 2005, the Company received from Brandes Investment Partners, L.P. a notice included on Schedule 13G filed on February 14, 2005 pursuant to Rule 13d-1(b) under the Securities and Exchange Act of 1934. The notice indicated that neither Brandes Investment Partners, L.P. nor any of its affiliates owned shares for its own account and that the shares were held solely for investment purposes in the ordinary course of business and not with the purpose or effect of changing or influencing control. However, by virtue of Rule 13d-3 under the Act, Brandes Investment Partners, L.P. may be deemed to beneficially own 254,756,702 shares as of December 31, 2004, representing 7.6% of the Company's outstanding shares at that time.

In July 2005, the Company received a copy of a filing made to the Kanto Local Finance Bureau on July 14, 2005 indicating that Templeton Asset Management Ltd. acquired 171,483,070 shares, representing an estimated 5.1% of the Company's outstanding shares at that time. This filing represents a report on beneficial ownership of more than 5% of total issued voting shares under the Securities and Exchange Law of Japan (See Item 10. Additional Information Memorandum and Articles of Association Reporting of Substantial Shareholdings).

Major shareholders of the Company do not have different voting rights from any other shareholder of the Company's common stock.

As of March 31, 2005, approximately 17.1% of the Company's common stock was owned by 214 U.S. shareholders of record, in the aggregate, including the depository's nominee as one shareholder of record.

Hitachi is not directly or indirectly owned or controlled by any other corporation, by any foreign country or by any other natural or legal person severally or jointly. To the knowledge of Hitachi, there are no arrangements, the operation of which may at a subsequent date result in a change in control of Hitachi.

B. Related Party Transactions

To the knowledge of Hitachi, as of March 31, 2005, no person was the beneficial owner of more than 10% of any class of Hitachi's shares which might give that person significant influence over Hitachi. In addition, Hitachi is not directly or indirectly owned or controlled by, or under common control with, any enterprise.

Hitachi may enter into transactions with shareholders or potential large investors in the ordinary course of its business. Hitachi may also enter into transactions in the ordinary course of its business with certain companies over which Hitachi or its key management personnel may have a significant influence. Hitachi believes it conducts its business with these companies in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in Hitachi, or if Hitachi or its key management personnel did not have significant influence over them, as the case may be. None of these transactions is or was material to Hitachi or, to its knowledge, to the other party.

There are no outstanding loans (including guarantees of any kind) made by the Company or any of its subsidiaries to or for the benefit of Directors or Executive Officers of the Company except home loans extended to certain Director and Executive Officers by a subsidiary of the Company engaged in the business of financial services. The aggregate outstanding balance of such loans to the Director and Executive Officers as of March 31, 2005 was ¥290 million, and the largest aggregate outstanding balance during fiscal 2004 was ¥314 million. Hitachi believes these loans were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features.

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C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Consolidated Financial Statements

See Item 17. Financial Statements.

Legal Proceedings

The Company and certain of its subsidiaries are subject to several legal and arbitration proceedings and claims which have arisen in the ordinary course of business. However, based upon the information currently available to Hitachi, management of the Company does not expect those legal and arbitration proceedings and claims to have a material effect on Hitachi's financial condition or results of operations.

Dividend Policy

The Company views enhancement of the long-term and overall interests of shareholders as an important management objective. The industrial sector encompassing energy, information systems, social infrastructure and other primary businesses of the Company is undergoing rapid technological innovation and changes in market structure. This makes vigorous upfront investment in R&D and plant and equipment essential for securing and maintaining market competitiveness and improving profitability. Dividends are therefore decided based on medium-to-long term business plans with an eye to ensuring the availability of internal funds for reinvestment and the stable growth of dividends, with appropriate consideration of the Company's financial condition and results of operations. The Company believes that the repurchase of its shares should be undertaken, when necessary, as part of its policy on distribution to shareholders to complement the dividend payout. Such action will be taken by the Company based on a consideration of market conditions, its future capital requirement and other relevant factors.

The Company declared a dividend of ¥11 per share in fiscal 2004.

B. Significant Changes

No significant changes have occurred since the date of the most recent annual financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

The primary market for the Company's common stock is the Tokyo Stock Exchange, or the TSE. The common stock is traded on the First Section of the TSE and is also listed on four other Japanese stock exchanges: Osaka, Nagoya, Fukuoka and Sapporo. In addition, the Company's common stock is listed on Euronext Amsterdam, the Frankfurt Stock Exchange, the Luxembourg Stock Exchange and Euronext Paris. In the United States, the Company's ADSs are listed and traded on the New York Stock Exchange, or the NYSE, in the form of ADRs. There may from time to time be a differential between the common stock's price on exchanges outside the United States and the market price of the ADSs in the United States.

ADRs are issuable pursuant to the Deposit Agreement dated July 9, 1963, as amended and restated on March 6, 1981 and as further amended on February 17, 1982, or the Deposit Agreement, among the Company, Citibank, N.A. as depositary, or the Depositary, and the holders of ADRs. Each ADR evidences ADSs, each representing ten shares of common stock of the Company deposited under the Deposit Agreement with The Fuji Bank, Limited, Tokyo, or The Industrial Bank of Japan, Limited, Tokyo, as agents of the depositary, or any successor or successors to such agent or agents. On April 1, 2002, all the rights, liabilities and obligations of The Fuji Bank, Limited and The Industrial Bank of Japan, Limited under the Deposit Agreement were succeeded by Mizuho Corporate Bank, Ltd.

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The following table sets forth for the periods indicated the reported high and low sales prices of the Company's common stock on the TSE and the reported high and low sales prices of the Company's ADSs on the NYSE.

| | TSE | | NYSE | |
|--|------------------------------------|-----|----------------|--------|
| | price per share of common stock | | price per ADS | |
| | (Yen) | | (U.S. Dollars) | |
| | High | Low | High | Low |
| Fiscal year ended March 31, | | | | |
| 2001 | 1,549 | 899 | 146.250 | 73.750 |
| 2002 | 1,380 | 745 | 113.000 | 57.000 |
| 2003 | 997 | 398 | 77.950 | 33.330 |
| 2004 | 835 | 366 | 79.170 | 31.300 |
| 2005 | 850 | 627 | 81.350 | 57.450 |
| Fiscal year ended March 31, 2004 | | | | |
| 1st quarter | 520 | 366 | 43.500 | 31.300 |
| 2nd quarter | 706 | 484 | 61.480 | 40.950 |
| 3rd quarter | 698 | 600 | 64.090 | 55.550 |
| 4th quarter | 835 | 651 | 79.170 | 60.120 |
| Fiscal year ended March 31, 2005 | | | | |
| 1st quarter | 850 | 682 | 81.350 | 59.990 |
| 2nd quarter | 757 | 627 | 69.700 | 57.450 |
| 3rd quarter | 712 | 635 | 69.440 | 59.730 |
| 4th quarter | 720 | 654 | 69.450 | 61.230 |
| Fiscal year ending March 31, 2006 | | | | |
| 1st quarter | 682 | 604 | 63.190 | 57.400 |
| February 2005 | 696 | 654 | 67.310 | 62.120 |
| March 2005 | 685 | 655 | 65.550 | 61.230 |
| April 2005 | 682 | 604 | 63.190 | 57.880 |
| May 2005 | 654 | 607 | 60.290 | 57.400 |
| June 2005 | 676 | 635 | 61.400 | 59.340 |
| July 2005 | 694 | 669 | 62.330 | 59.680 |

Notes:

1. Prices per share of common stock are as reported by the TSE.
2. Prices per ADS are based upon one ADS representing ten shares of common stock and are as reported by the NYSE via the NYSEnet system.

B. Plan of Distribution

Not applicable.

C. Markets

See A. Offer and Listing Details in this Item.

D. Selling Shareholders

Not applicable.

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E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Organization

The Company was incorporated in Japan under the Commercial Code. It is registered in the commercial register (shogyo tokibo) maintained by the Tokyo Legal Affairs Bureau of the Ministry of Justice.

Objects and Purposes

Article 2 of the articles of incorporation of the Company provides that its purpose is to carry on the following businesses: manufacture and sale of electrical machinery and appliances; manufacture and sale of industrial machinery and appliances; manufacture and sale of rolling stock; manufacture and sale of telecommunication and electronic machinery and appliances; manufacture and sale of lighting and household machinery and appliances; manufacture and sale of optical and medical machinery and instruments; manufacture and sale of measuring and other general machinery and appliances; manufacture and sale of materials related to the products mentioned in any of the foregoing items; preparation and sale of software; preparation and sale of images, software and data related to multimedia; leasing and maintenance services of the products mentioned in any of the foregoing items; supply of electricity; telecommunication, information processing and information supply services, as well as broadcasting; undertaking of commercial transactions and payment transactions by utilizing the Internet; provision of results of research and development related to biotechnology; consulting on any of the foregoing items; licensing of industrial property rights and know-how; undertaking of engineering related to any of the foregoing items; design, supervision and undertaking of construction work; money lending, factoring, debt guarantee and investment advisory business; home health care service business, home health care support business and the

operation of health care and nursing facilities under the Health Care Insurance Law; any and all businesses related to the foregoing items.

Directors

Under the Committee System, the Board of Directors focuses on the functions of decision-making with respect to fundamental management policies and certain important matters prescribed by law, as well as supervision of execution by the Directors and Executive Officers of their respective duties. The Board of Directors may, by resolution, delegate to the Executive Officers its authority to make decisions with regard to the Company's business affairs.

Under the Commercial Code, the adoption of a resolution of the Board of Directors requires a majority vote of the Directors present who must in turn constitute a majority of the full Board of Directors. Any Director who has a conflict of interest or a vested interest with respect to any given resolution cannot participate in voting for the resolution. Under the Commercial Code, each Director must refrain from engaging in any business competing with the Company unless approved by the Board of Directors.

The Commercial Code provides that, under the Committee System, the Compensation Committee established within the Board of Directors determines matters relating to compensation for each Director and Executive Officer. A member of the Compensation Committee cannot participate in voting for any resolution relating to his/her own compensation.

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There is no mandatory retirement age for the Directors required by the Commercial Code or the Company's articles of incorporation. No shares are required for a Director's qualification under the Commercial Code or the Company's articles of incorporation.

Pursuant to the Commercial Code, under the Committee System, the Board of Directors has, by resolution, delegated to Executive Officers powers regarding the incurrence by the Company of a significant amount of debt.

Common Stock

Dividends

Under the Company's articles of incorporation, its financial accounts will be closed on March 31 of each year and annual dividends, if any, will be paid to shareholders of record as of that date. The Commercial Code permits a joint stock corporation to distribute retained earnings by way of interim dividends if the articles of incorporation of a company so provide. The Company's articles of incorporation permit it to make interim dividends and such interim dividends, if any, will be paid to shareholders of record as of September 30 of each year.

Under the Company's articles of incorporation, the Company is not obligated to pay any dividends which are left unclaimed for a period of three years after the date on which they first became payable.

Voting rights

A shareholder is generally entitled to one vote per one unit of shares with respect to whole units of shares, as described in this paragraph and under "Unit Share System" below. In general, under the Commercial Code, a resolution can be adopted at a general meeting of shareholders by a majority of the number of voting rights represented at the meeting. The Commercial Code and the Company's articles of incorporation require for the election of Directors a quorum of not less than one-third of the total number of voting rights of all the shareholders. The Company's shareholders are not entitled to cumulative voting in the election of Directors. A corporate shareholder whose voting rights are in turn more than one-quarter directly or indirectly owned by the Company does not have voting rights. The Company does not have voting rights with respect to its own shares. Shareholders may cast their votes in writing and may also exercise their voting rights through proxies, provided that those proxies are also shareholders who have voting rights. Shareholders may also cast their votes by electronic means in accordance with the Company's share handling regulations.

The Commercial Code and the Company's articles of incorporation provide that a quorum of not less than one-third of the voting rights of all the shareholders must be present at a shareholders' meeting to approve any material corporate actions such as: a reduction of the stated capital; amendment of the articles of incorporation; the removal of a Director; establishment of a 100% parent-subsidary relationship by way of share exchange or share transfer; a dissolution, merger or consolidation; a company split; the transfer of the whole or an important part of the business; the taking over of the whole of the business of any other corporation; and any issuance of new shares at a specially favorable price (or any issuance of rights to subscribe for or acquire shares, or stock acquisition rights, with specially favorable conditions) or of bonds or debentures with stock acquisition rights with specially favorable conditions) to persons other than shareholders. At least two-thirds of the voting rights represented at the meeting must approve these actions. Certain matters relating to rights of shareholders, such as those relating to voting rights and dividend rights, are provided for in the Company's articles of incorporation, any amendment to which is generally subject to approval by a shareholders' meeting in the manner described above.

Issue of additional shares and pre-emptive rights

Holders of the Company's shares of common stock have no pre-emptive rights under its articles of incorporation. Authorized but unissued shares may be issued at such times and upon such terms as Executive Officers determine, subject to the limitations as to the issuance of new shares at a specially favorable price mentioned above. Executive Officers may determine that shareholders be given subscription rights to new shares, in which case they must be given on uniform terms to all shareholders as of a record date of which not less than two weeks prior public notice must be given. Each of the shareholders to whom such subscription rights are given must also be given at least two weeks prior notice of the date on which such rights expire.

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Rights to subscribe for shares of common stock given to the shareholders may be made generally transferable by Executive Officers. If subscription rights are not made generally transferable, a transfer by a foreign investor not resident in Japan will be enforceable against the Company and third parties only if prior written consent to each such transfer is obtained from the Company. When such consent is necessary in the future for the transfer of subscription rights, the Company intends to consent, on request, to all such transfers by foreign investors not resident in Japan.

Pursuant to the Commercial Code, the Company may issue stock acquisition rights. Except where the issuance of stock acquisition rights would be on specially favorable terms, Executive Officers may determine the issuance of stock acquisition rights other than those for stock option purposes, which in contrast, must be approved by the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares, or alternatively, to transfer the necessary number of existing shares held by it.

Liquidation rights

In the event of a liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses and taxes will be distributed among the holders of shares of common stock in proportion to the respective numbers of shares of common stock held by each of them.

Stock splits

The Company, by determination of an authorized Executive Officer, may at any time split shares of common stock in issue. When Executive Officers determine to effect a stock split, the Company may amend its articles of incorporation without shareholder approval to increase the number of authorized shares in proportion to the stock split if the Company has only one class of outstanding shares.

Generally, shareholders do not need to exchange share certificates for new ones following a stock split; however, certificates representing the additional shares resulting from the stock split will be issued to shareholders. Before a stock split, the Company must give public notice of the stock split specifying the record date for the stock split, not less than two weeks prior to the record date. In addition, promptly after the stock split takes effect, the Company must send notice to each shareholder specifying the number of shares to which each such shareholder is entitled.

Unit share system

Pursuant to the Commercial Code, the Company has designated 1,000 shares as one unit of shares. Under the unit share system, a shareholder is generally entitled to one voting right for each unit of shares. The Company may not issue share certificates for a number of shares not constituting a whole number of units unless the Company deems the issuance of such share certificates to be necessary for shareholders. Since transfers of less than one unit of the underlying shares of common stock are normally prohibited under the unit share system, under the Deposit Agreement currently in force, the right of ADR holders to surrender their ADRs and withdraw the underlying shares of common stock may only be exercised as to whole units of common stock.

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Although the number of shares which constitute one unit is stipulated in the articles of incorporation, an authorized Executive Officer has the power to amend the articles of incorporation to reduce the number of shares which constitute one unit or abolish the unit share system. Pursuant to the Commercial Code, the number of shares constituting one unit, however, should neither exceed 1,000 nor one-two hundredths of the total number of outstanding shares of the Company.

A holder of shares representing less than one unit may at any time require the Company to purchase his/her shares. These shares will be purchased at (a) the closing price of the shares reported by the TSE on the day when the request to purchase is made or (b) if no sale takes place on the TSE on that day, the price at which sale of shares is effected on such stock exchange immediately thereafter. However, because holders of ADSs representing less than one unit are not able to withdraw the underlying shares from deposit, these holders will not be able to exercise this right as a practical matter.

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The Company's articles of incorporation also provide that a holder of shares representing less than one unit may require the Company to sell any fractional shares it may have to such holder so that the holder can raise his/her fractional ownership up to a whole unit. These shares will be sold at (a) the closing price of the shares reported by the TSE on the day when the request to sell becomes effective or (b) if no sale takes place on the TSE on that day, the price at which sale of shares is effected on such stock exchange immediately thereafter. However, because holders of ADSs representing less than one unit are not able to withdraw the underlying shares from deposit, these holders will not be able to exercise this right as a practical matter.

Acquisition by the Company of its shares

The Company may acquire shares of its common stock (i) by way of purchase on any Japanese stock exchange on which shares are listed or by way of tender offer (in either case pursuant to an ordinary resolution of an ordinary general meeting of shareholders), (ii) by way of purchase from a specific shareholder other than the Company's subsidiaries (pursuant to a special resolution of an ordinary general meeting of shareholders), or (iii) by way of purchase from the Company's subsidiary (pursuant to a resolution of the Board of Directors). In the case of (ii) above, any other shareholder may make a request directly to an Executive Officer, five days prior to the relevant general meeting of shareholders, to include such shareholder as a seller in the proposed purchase.

The authorization to purchase shares of its common stock pursuant to (i) above may also be granted by a resolution of the Board of Directors pursuant to the articles of incorporation of the Company. If shares are purchased by the Company according to the authorization of the Board of Directors, then the reason for the purchase, as well as the kind, number and aggregate purchase price of such shares must be reported to shareholders at the ordinary general meeting of shareholders immediately after such purchase of shares.

Any such acquisition of shares of its common stock must satisfy certain requirements, including that, in the case of purchase of shares by the Company pursuant to a resolution of the general meeting of shareholders mentioned in (i) and (ii) above, the total amount of the purchase price may not exceed the amount of the retained earnings available for annual dividend payments after taking into account any reduction of the stated capital, additional paid-in capital or legal reserve (if such reduction is authorized by a resolution of the relevant general meeting of shareholders) less the sum of the amount to be paid by way of appropriation of retained earnings and the amount of retained earnings to be transferred to the stated capital in respect of the relevant fiscal year pursuant to a resolution of such general meeting of shareholders. In the case of a purchase of shares by the Company pursuant to a resolution of the Board of Directors mentioned in (iii) above and in the preceding paragraph, the total amount of the purchase price may not exceed the amount of retained earnings available for interim dividend payments less the amount of any interim dividend the Company actually paid. However, if it is anticipated that the net assets, as stated on its non-consolidated balance sheet at the end of the fiscal year, will be less than the aggregate amount of (i) its stated capital, (ii) its additional paid-in capital, (iii) its accumulated legal reserve, (iv) the legal reserve to be set aside in respect of the financial period concerned and any other proposed payment by way of appropriation of retained earnings and (v) such other amounts as provided for by an ordinance of the Ministry of Justice of Japan, the Company may not purchase such shares. The Company may hold the shares acquired in compliance with the provisions of the Commercial Code, and Executive Officers may generally dispose of or cancel such shares.

General Meeting of Shareholders

The Company normally holds its ordinary general meeting of shareholders within three months following the date of closing of accounts of each year in Tokyo. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice. Under the Commercial Code, notice of any shareholders' meeting must be mailed to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with the Company's share handling regulations, at least two weeks prior to the date of the meeting. Under the Commercial Code, such notice may be given to shareholders by electronic means, subject to the consent by the relevant shareholders.

Generally, those shareholders of the Company registered as having rights on the register of shareholders and the register of substantial shareholders as of the end of a given fiscal year are permitted to exercise their rights at the ordinary general meeting of shareholders concerning that fiscal year and those shareholders of the Company registered as having voting rights on the register of shareholders as of a record date properly fixed by the Company are permitted to exercise their rights at the extraordinary general meeting of shareholders.

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Reporting of Substantial Shareholdings

The Securities and Exchange Law of Japan, as amended, requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued voting shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the Prime Minister of Japan within five business days a report concerning such share holdings. A similar report must also be made in respect of any subsequent change of one percentage point or more in any such holding. For this purpose, shares issuable to such person upon exercise of any rights to subscribe for or acquire shares are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Copies of each such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed or (in the case of shares traded over-the-counter) the Japan Securities Dealers Association.

There is no provision in the Company's articles of incorporation that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company.

Corporate Governance Practices

The Company's ADSs are listed on the New York Stock Exchange (the "NYSE"). The Company is therefore required to comply with certain of the NYSE's corporate governance listing standards (the "NYSE Standards"), which were approved by the SEC in November 2003. As a foreign private issuer, the Company may follow its home country's corporate governance practices in lieu of most of the NYSE Standards. The Company's corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain NYSE listing and, in accordance with Section 303A.11 of NYSE's Listed Company Manual, a brief, general summary of those differences is provided as follows.

Director independence

The NYSE Standards require a majority of the membership of NYSE-listed company boards to be composed of independent directors. The Company's Board of Directors consists of 14 members, four of whom are outside directors, as defined under the Commercial Code. The Commercial Code defines an outside director as a director (i) who does not execute the company's business, (ii) has never been an executive director (a director who executes the company's business), executive officer, manager or any other employee of the company or its subsidiaries, and (iii) who is not an executive director or executive officer of its subsidiaries or a manager or any other employee of the company or its subsidiaries.

Non-management directors' executive sessions

The NYSE Standards require non-management directors of NYSE-listed companies to meet at regularly scheduled executive sessions without management. Neither the Commercial Code, nor the Company's articles of incorporation require the Company's non-management directors to hold such meetings.

Committee member composition

The NYSE Standards require NYSE-listed companies to have a nominating/corporate governance committee, audit committee and compensation committee that are composed entirely of independent directors. The Company's nominating committee, audit committee and compensation committee are composed of a majority of outside directors in accordance with the Commercial Code, while the Company's audit committee complies with the NYSE Standards.

Miscellaneous

In addition to the above differences, the Company is not required to make its nominating, audit and compensation committees prepare a written charter that addresses either purposes and responsibilities or performance evaluations in a manner that would satisfy the NYSE's requirements. Further, the Company is not required to make publicly available one or more documents which purport to summarize all aspects of its corporate governance guidelines, or to adopt a code of business conduct and ethics for its directors, officers and employees that would comply fully with the NYSE's requirements.

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C. Material Contracts

None.

D. Exchange Controls

The Foreign Exchange and Foreign Trade Law of Japan, as amended, and the cabinet orders and ministerial ordinances thereunder, or the Foreign Exchange Law, govern certain matters relating to the issuance of equity-related securities by the Company and the acquisition and holding of shares of common stock or ADSs representing such shares by exchange non-residents and by foreign investors as hereinafter defined. The Foreign Exchange Law currently in effect does not affect the right of an exchange non-resident to purchase or sell an ADS outside Japan.

Exchange non-residents are defined under the Foreign Exchange Law as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents, but branches and other offices located within Japan of non-resident corporations are regarded as residents of Japan.

Foreign investors are defined to be (i) individuals not resident in Japan, (ii) corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan and (iii) corporations of which (a) 50% or more of the shares are held by (i) and/or (ii) above, (b) a majority of officers consists of non-resident individuals or (c) a majority of the officers having the power of representation consists of non-resident individuals.

Dividends and Proceeds of Sales

Under the Foreign Exchange Law, dividends paid on, and the proceeds of sales in Japan of, shares of common stock held by exchange non-residents in general may be converted into any foreign currency and repatriated abroad. The acquisition of shares of common stock by exchange non-resident shareholders by way of stock splits is not subject to any requirements under the Foreign Exchange Law.

Acquisition of Shares

Under the Foreign Exchange Law, acquisition of shares of a Japanese company listed on any Japanese stock exchange or traded on the over-the-counter market in Japan, or listed shares, by an exchange non-resident from a resident of Japan is generally not subject to a prior filing requirement.

In case a foreign investor acquires listed shares (whether from a resident of Japan or an exchange non-resident, from another foreign investor or from or through a designated securities company) and as a result of such acquisition the number of shares held directly or indirectly by such foreign investor would become 10% or more of the total outstanding shares of the company, the foreign investor is required to make a subsequent report on such acquisition to the Minister of Finance and other Ministers having jurisdiction over the business of the subject company, or the Competent Ministers. In certain exceptional cases, a prior filing is required and the Competent Ministers may recommend the modification or abandonment of the proposed acquisition and, if the foreign investor does not accept the recommendation, order its modification

or prohibition.

The deposit of shares of common stock by an exchange non-resident of Japan, the issuance of ADRs in exchange therefor and the withdrawal of the underlying shares of common stock by an exchange non-resident upon surrender of ADRs are not subject to any requirements under the Foreign Exchange Law, except where as a result of such deposit or withdrawal the aggregate number of shares of common stock held by the depository (or its nominee) or the holder surrendering ADRs, as the case may be, would be 10% or more of the total outstanding shares of common stock, in which event a subsequent reporting may be required as described above.

Table of Contents**E. Taxation***Japanese Taxation*

The discussion of Japanese taxation set forth below is intended only as a summary and does not purport to be a complete analysis or discussion of all the potential Japanese tax consequences that may be relevant to the ownership of the Company's shares or ADSs by a person who is not a resident of Japan.

A non-resident of Japan or a non-Japanese corporation is generally subject to a Japanese withholding tax on cash dividends. Stock splits, in general, are not subject to Japanese withholding tax since they are characterized merely as an increase in the number of shares (as opposed to an increase in the value of the shares) from a Japanese tax perspective. Due to the 2001 Japanese tax legislation effective April 1, 2001, a conversion of retained earnings or legal earned reserve into stated capital is not deemed a dividend payment to shareholders for Japanese tax purposes and therefore such a conversion does not trigger Japanese withholding taxation.

In the absence of any applicable treaty or agreement reducing the maximum rate of withholding tax, the standard rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20%. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of common stock of the Company) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or Japanese non-resident individuals), except for any individual shareholder who holds 5% or more of the outstanding total of the shares issued by the relevant Japanese corporation, the aforementioned standard 20% withholding tax rate is reduced to (i) 7% for dividends due and payable on or after January 1, 2004 but on or before March 31, 2008 and (ii) 15% for dividends due and payable on or after April 1, 2008.

Pursuant to the Convention Between the Government of the United States of America and the Government of Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, or the Treaty, (i) the withholding tax rate on dividends declared on or after July 1, 2004 is generally 10% for portfolio investors who are qualified U.S. residents eligible to enjoy treaty benefits, (ii) the dividends declared after July 1, 2004 are exempt from Japanese taxation by way of withholding or otherwise for pension funds which are qualified U.S. residents eligible to enjoy treaty benefits, unless the dividends are derived from the carrying on of a business, directly or indirectly, by such pension funds, and (iii) the dividends declared before July 1, 2004 are still subject to the old treaty under which a Japanese withholding tax at the rate of 15% may be imposed, in general, on dividend payments made by a Japanese corporation to a U.S. resident or corporation, unless the recipient of the dividend has a permanent establishment in Japan and the shares with respect to which such dividends are paid are effectively connected with such permanent establishment. For Japanese tax purposes, a treaty rate generally supersedes the tax rate under domestic tax law. However, due to the so-called preservation doctrine under Article 4(2) of the Treaty, and/or due to Article 3-2 of the Special Measurement Law for the Income Tax Law, Corporation Tax Law and Local Taxes Law with respect to the Implementation of Tax Treaties, if the tax rate under domestic tax law is lower than the treaty rate (which is currently the case with respect to the treaty), the domestic tax rate applies (which, as discussed above, is currently 7% with respect to dividends paid on the Company's shares).

The amount of withholding tax imposed on dividends payable to the holders of the Company's shares or ADSs who reside in a country other than the United States is dependent upon the provisions of such treaties or agreements as may exist between such country and Japan.

Gains derived from the sale outside Japan of shares of common stock or ADSs by a non-resident of Japan or a non-Japanese corporation, or from the sale of the shares within Japan by a non-resident of Japan as an occasional transaction or by a non-Japanese corporation not having a permanent establishment in Japan, are in general not subject to Japanese income or corporation taxes. Japanese inheritance and gift taxes at

progressive rates may be payable by an individual who has acquired shares of common stock or ADSs as a distributee, legatee or donee.

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United States Taxation

The following is a discussion of material U.S. federal income tax consequences of owning and disposing of the Company's shares of common stock or ADSs by U.S. holders (as defined below). The discussion applies only if a U.S. holder holds shares of common stock or ADSs as capital assets for U.S. federal income tax purposes and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as:

certain financial institutions;

insurance companies;

dealers and traders in securities or foreign currencies;

persons holding shares of common stock or ADSs as part of a hedge, straddle, conversion or other integrated transaction;

persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

persons liable for the alternative minimum tax;

tax-exempt organizations;

persons holding shares of common stock or ADSs that own or are deemed to own ten percent or more of the Company's voting stock;
or

persons who acquired shares of common stock or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation.

This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations and the Treaty, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. U.S. holders should consult their own tax advisors concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of shares of common stock or ADSs in their particular circumstances.

A U.S. holder is a beneficial owner of shares of common stock or ADSs that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. holder of ADSs will be treated as the holder of the underlying shares of common stock represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. holder exchanges ADSs for the underlying shares of common stock represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain noncorporate U.S. holders. Accordingly, the analysis of the creditability of Japanese taxes and the availability of the reduced tax rate for dividends received by certain noncorporate U.S. holders, each described below, could be affected by actions taken by parties to whom ADSs are pre-released.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company (as discussed below).

Table of Contents***Taxation of distributions***

Distributions paid on shares of common stock or ADSs, other than certain pro rata distributions of common stock, will be treated as dividends to the extent paid out of the Company's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to noncorporate U.S. holders in taxable years beginning before January 1, 2009 will be taxable at a maximum rate of 15%. Noncorporate U.S. holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at this favorable rate. The amount of a dividend will include any amounts withheld by the Company or its paying agent in respect of Japanese taxes. The amount of the dividend will be treated as foreign source dividend income to a U.S. holder and will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code.

Dividends paid in yen will be included in a U.S. holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the dividends are received by such U.S. holder in the case of a U.S. holder of shares of common stock or by the Depository in the case of a U.S. holder of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may have foreign currency gain or loss if the dividend is not converted into U.S. dollars on the date of its receipt.

Japanese taxes withheld from cash dividends on shares of common stock or ADSs at a rate not exceeding the rate provided in the Treaty will be creditable against a U.S. holder's U.S. federal income tax liability, subject to applicable restrictions and limitations that may vary depending upon such holder's circumstances and the discussion above regarding concerns expressed by the U.S. Treasury. Japanese taxes withheld in excess of the Treaty rate for which a refund is available are not eligible for credit against a U.S. holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Instead of claiming a credit, a U.S. holder may elect to deduct such otherwise creditable Japanese taxes in computing such holder's taxable income, subject to generally applicable limitations under U.S. law. U.S. holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to make effective use of foreign tax credits.

Sale and other disposition of shares or ADSs

For U.S. federal income tax purposes, gain or loss a U.S. holder realizes on the sale or other disposition of shares of common stock or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the holder held the shares of common stock or ADSs for more than one year. The amount of the U.S. holder's gain or loss will be equal to the difference between the holder's tax basis in the shares of common stock or ADSs disposed of and the amount realized on the sale or other disposition, determined in U.S. dollars. Such gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes.

Passive foreign investment company rules

The Company does not believe that it was a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for its 2005 taxable year and does not expect to be a PFIC in the foreseeable future. However, since PFIC status depends upon the composition of the Company's income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company were treated as a PFIC for any taxable year during which a U.S. holder held a share of common stock or an ADS, certain adverse tax consequences could apply to such holder.

Information reporting and backup withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless (i) the holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.

The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against its U.S. federal income tax liability and may entitle it to a refund, provided that the required information is furnished to the Internal Revenue Service.

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F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents filed by the Company with the SEC can be inspected at its public reference room located at 450 Fifth Street, N.W., Washington D.C. 20549. The documents filed via the Electronic Data Gathering, Analysis, and Retrieval system can be also available for inspection on the SEC's website (<http://www.sec.gov>).

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Primary Market Risk Exposure

Hitachi is exposed to market risks from changes in foreign currency exchange rates, interest rates and market prices for equity securities. Hitachi seeks to manage these market risks by using derivative financial instruments. Hitachi does not employ derivative financial instruments for speculation purpose.

Hitachi is exposed to credit-related risks arising from the potential non-performance by counterparties to derivative and other financial instruments Hitachi uses to hedge its market risks. Most of the counterparties are internationally recognized financial institutions and contracts are diversified among a number of major financial institutions.

Equity Price Risk

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Hitachi holds marketable securities which are subject to price risks arising from changes in market prices for such securities. Hitachi considers marketable securities classified as short-term investments to be highly liquid and present a relatively low equity price risk. Hitachi holds marketable securities classified as investments and advances as long-term investments.

The tables below provide information about the contractual maturities of available-for-sale securities and held-to-maturity securities and fair values of these market risk sensitive securities as of March 31, 2005 and 2004, regardless of the consolidated balance sheet classification as follows.

| Carrying amount for year ended March 31, 2005 | | | | | |
|---|--------------|------------|------------|---------|------------|
| Contractual maturity date | | | | | |
| Due after one | | | | | |
| Due within | year through | Due after | | Total | Fair value |
| one year | five years | five years | five years | Total | Fair value |
| (Millions of yen) | | | | | |
| Available-for-sale securities | | | | | |
| Equity securities | | | | 197,298 | 197,298 |
| Debt securities | 37,209 | 36,427 | 55,461 | 129,097 | 129,097 |
| Other securities | 44,374 | 8,454 | 16,831 | 69,659 | 69,659 |
| Held-to-maturity securities | 392 | 558 | 100 | 1,050 | 1,064 |

| Carrying amount for year ended March 31, 2004 | | | | | |
|---|--------------|------------|------------|---------|------------|
| Contractual maturity date | | | | | |
| Due after one | | | | | |
| Due within | year through | Due after | | Total | Fair value |
| one year | five years | five years | five years | Total | Fair value |
| (Millions of yen) | | | | | |
| Available-for-sale securities | | | | | |
| Equity securities | | | | 178,533 | 178,533 |
| Debt securities | 54,022 | 49,800 | 62,058 | 165,880 | 165,880 |
| Other securities | 40,766 | 8,533 | 12,490 | 61,789 | 61,789 |
| Held-to-maturity securities | 259 | 664 | 406 | 1,329 | 1,334 |

Table of Contents**Foreign Currency Exchange Rate Risk and Interest Rate Risk**

Hitachi has assets and liabilities which are exposed to foreign currency exchange rate risks and interest rate risks. Hitachi enters into forward exchange contracts, cross currency swap agreements and interest rate swaps for the purpose of hedging these risk exposures.

Foreign currency exchange rate risk

Hitachi mainly uses forward exchange contracts to manage foreign currency exchange exposures, primarily in the exchange of U.S. dollars and Euros into Japanese yen. These contracts, which typically mature within one year, are used primarily to hedge foreign currency denominated future net cash flows from trade receivables and payables recognized, and from forecasted transactions. In accordance with its internal policy, Hitachi measures by currency each month the amount and due date of future net cash flows. In accordance with the policy, a portion of net cash flows measured is covered using forward exchange contracts.

Hitachi enters into cross currency swap agreements to manage currency exchange rate risk relating to long-term debt denominated in foreign currencies. These cross currency swap agreements typically have maturities that mirror the underlying debt, which allows Hitachi to predict cash flows from such long-term debt. Hitachi believes these derivative financial instruments can be highly effective in hedging foreign currency denominated long-term debt against changes in foreign exchange rates.

The tables below provide information on Hitachi's financial instruments that are sensitive to foreign currency exchange rates, including primary forward exchange contracts to sell U.S. dollars and Euros as of March 31, 2005 and 2004. The tables present the contract amounts in Japanese yen equivalents and weighted average contractual exchange rates by expected maturity dates. Cross currency swap agreements and the corresponding foreign currency denominated debt instruments are not included in the table below because all of Hitachi's foreign currency exposure in its cash flows are eliminated.

| | Forward exchange contracts for year ended March 31, 2005 | | | |
|--|---|-------------|--------------|---------------------------------|
| | Expected maturity date | | | Estimated fair value |
| | 2006 | 2007 | Total | |
| | (Millions of yen) | | | |
| Forward exchange contracts (Pay US\$/receive ¥) contract amount | 157,416 | | 157,416 | (3,438) |
| Average contractual exchange rate (¥/US\$) | 104.15 | | 104.15 | |
| Forward exchange contracts (Pay Euro/receive ¥) contract amount | 87,594 | | 87,594 | (1,585) |
| Average contractual exchange rate (¥/Euro) | 135.40 | | 135.40 | |

Forward exchange contracts for year ended March 31, 2004

| | Expected maturity date | | | Estimated fair value |
|--|------------------------|------|---------|-------------------------|
| | 2006 | 2007 | Total | |
| | (Millions of yen) | | | |
| Forward exchange contracts | | | | |
| (Pay US\$/receive ¥) contract amount | 149,743 | | 149,743 | 2,133 |
| Average contractual exchange rate (¥/US\$) | 107.19 | | 107.19 | |
| Forward exchange contracts | | | | |
| (Pay Euro/receive ¥) contract amount | 57,117 | | 57,117 | 1,193 |
| Average contractual exchange rate (¥/Euro) | 131.40 | | 131.40 | |

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Interest rate risk

Hitachi's exposure to interest rate risk is related principally to its debt obligations, and the risk of increases in market interest rates that increase future cash outflow of interest payments due on such debt. To manage this risk, Hitachi typically enters into interest rate swaps. Hitachi mainly uses interest rate swaps in connection with medium-term notes. These interest rate swaps typically have the effect of converting variable interest rates on debt obligations to fixed-interest rates. Under these commonly referred to as "receive-variable, pay-fixed" interest rate swaps, Hitachi receives variable interest rate payments and makes fixed interest rate payments, thereby creating, from Hitachi's perspective, fixed-rate long-term debt.

Hitachi has long-term debt, including amounts due within one year, with fixed and floating interest rates. The tables below provide information on Hitachi's financial instruments that are sensitive to changes in interest rates, including debt obligations. For debt obligations, the tables below present principal cash flows in Japanese yen equivalents and related weighted average interest rates by expected maturity dates. The tables do not include information on short-term borrowings because the Company believes that its risk exposure to changes in interest rates on short-term borrowings is not significant. For interest rate swaps, the table below presents primary notional amounts by currency and weighted average pay/receive interest rate by expected maturity date. Notional amounts are used to calculate payments to be made and received under the contract. The tables present contract amounts in Japanese yen equivalents and weighted average contractual pay/receive rates by expected maturity dates.

Table of Contents**Long-term debt for year ended March 31, 2005**

| | Expected maturity date | | | | | | Total | Estimated fair value |
|--|------------------------|---------|---------|--------|---------|------------|---------|-------------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter | | |
| (Millions of yen, except rates) | | | | | | | | |
| Fixed rate (notes and debentures): | | | | | | | | |
| Yen debentures | 292,090 | 63,410 | 79,964 | 88,953 | 65,000 | 135,135 | 724,552 | 737,350 |
| Average interest rate | 1.97% | 1.35% | 1.29% | 1.33% | 1.42% | 1.14% | 1.54% | |
| Yen convertible debentures | | | | | 100,000 | | 100,000 | 92,773 |
| Average interest rate | | | | | | | | |
| Yen medium term notes | 57,532 | 30,935 | 29,925 | 19,763 | 43,976 | 25,004 | 207,135 | 204,816 |
| Average interest rate | 0.76% | 0.97% | 1.13% | 1.17% | 1.18% | 1.61% | 1.01% | |
| US\$ medium term note | | 4,286 | | | | | 4,286 | 4,369 |
| Average interest rate | | 3.21% | | | | | 3.21% | |
| Floating rate (notes and debentures): | | | | | | | | |
| Yen debenture | | | | 3,000 | | | 3,000 | 3,000 |
| Average interest rate | | | | 1.99% | | | 1.99% | |
| Yen medium term notes | 12,599 | 3,003 | 4,516 | | 2,004 | 25,300 | 47,422 | 47,422 |
| Average interest rate | 0.63% | 0.81% | 0.82% | | 0.85% | 0.90% | 0.79% | |
| US\$ medium term notes | | 1,282 | 2,677 | 537 | 3,206 | | 7,702 | 7,702 |
| Average interest rate | | 3.63% | 3.59% | 3.90% | 3.94% | | 3.69% | |
| Fixed and floating rate (loans): | | | | | | | | |
| Loans, principally from Banks | 141,073 | 107,823 | 122,584 | 84,550 | 122,147 | 140,470 | 718,647 | 715,979 |
| Average interest rate | 2.15% | 1.32% | 1.22% | 1.11% | 1.01% | 1.37% | 1.26% | |

Weighted average floating rates are based on contractual interest rates as of March 31, 2005

Table of Contents**Long-term debt for year ended March 31, 2004**

| | Expected maturity date | | | | | | Total | Estimated fair value |
|--|------------------------|---------|--------|---------|--------|------------|---------|-------------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | | |
| (Millions of yen, except rates) | | | | | | | | |
| Fixed rate (notes and debentures): | | | | | | | | |
| Yen debentures | 41,697 | 286,803 | 85,000 | 40,437 | 48,788 | 240,000 | 742,725 | 758,841 |
| Average interest rate | 2.00% | 2.00% | 1.36% | 1.35% | 1.29% | 1.28% | 1.68% | |
| Yen convertible debentures | 231,527 | | | | | | 231,527 | 235,872 |
| Average interest rate | 1.42% | | | | | | 1.42% | |
| Yen medium term notes | 52,071 | 10,506 | 15,813 | 24,176 | 18,827 | 29,246 | 150,639 | 148,813 |
| Average interest rate | 0.89% | 1.09% | 1.12% | 1.25% | 1.30% | 1.40% | 1.10% | |
| US\$ medium term note | | | 1,055 | | | | 1,055 | 1,161 |
| Average interest rate | | | 5.92% | | | | 5.92% | |
| Floating rate (notes and debentures): | | | | | | | | |
| Yen debenture | | | | | 2,951 | | 2,951 | 2,951 |
| Average interest rate | | | | | 2.23% | | 2.23% | |
| Yen medium term notes | 21,053 | 9,652 | 2,966 | 4,573 | | 14,719 | 52,963 | 52,963 |
| Average interest rate | 0.44% | 0.64% | 0.84% | 0.87% | | 1.06% | 0.71% | |
| US\$ medium term notes | 15,952 | | 1,266 | | | | 17,218 | 17,218 |
| Average interest rate | 1.55% | | 1.81% | | | | 1.59% | |
| Fixed and floating rate (loans): | | | | | | | | |
| Loans, principally from Banks | 193,445 | 136,876 | 95,988 | 107,297 | 77,251 | 49,031 | 659,888 | 661,126 |
| Average interest rate | 1.99% | 1.55% | 1.47% | 1.42% | 1.36% | 1.71% | 1.50% | |

Weighted average floating rates are based on contractual interest rates as of March 31, 2004.

Table of Contents**Interest rate swaps for year ended March 31, 2005****Expected maturity date**

| | Expected maturity date | | | | | | Estimated |
|--|-------------------------------|-------------|-------------|-------------|-------------|-------------------|-------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter | fair value |
| (Millions of yen, except rates) | | | | | | | |
| Notional amounts (Yen): | | | | | | | |
| Variable to fixed | 12,800 | 33,606 | 15,420 | 21,200 | 102,448 | | 185,474 (2,121) |
| Average pay rate | 1.21% | 1.19% | 1.03% | 1.03% | 0.89% | | 1.09% |
| Average receive rate | 0.39% | 0.39% | 0.32% | 0.29% | 0.13% | | 0.32% |
| Fixed to variable | 76,000 | 38,000 | 9,000 | 64,000 | 15,000 | 23,600 | 225,600 (1,946) |
| Average pay rate | 1.95% | 0.72% | 0.35% | 0.33% | 0.68% | 0.03% | 1.00% |
| Average receive rate | 2.00% | 1.34% | 1.16% | 1.16% | 1.53% | 1.19% | 1.51% |
| Variable to variable | 4,500 | 5,000 | | | | 19,000 | 28,500 (248) |
| Average pay rate | 0.47% | 0.42% | | | | 0.00% | 0.18% |
| Average receive rate | 1.33% | 1.00% | | | | 0.91% | 1.02% |
| Notional amounts (US\$): | | | | | | | |
| Variable to fixed | 8,377 | 644 | 752 | | 537 | | 10,310 20 |
| Average pay rate | 3.21% | 3.48% | 3.80% | | 4.12% | | 3.37% |
| Average receive rate | 2.89% | 2.80% | 2.82% | | 2.71% | | 2.86% |
| Fixed to variable | 2,573 | | | | | | 2,573 18 |
| Average pay rate | 2.66% | | | | | | 2.66% |
| Average receive rate | 1.41% | | | | | | 1.41% |
| Variable to variable | | | | 537 | | | 537 4 |
| Average pay rate | | | | 2.79% | | | 2.79% |
| Average receive rate | | | | 2.91% | | | 2.91% |
| Notional amounts (ST£): | | | | | | | |
| Variable to fixed | 34,925 | 44,284 | 28,358 | | | | 107,567 (66) |
| Average pay rate | 5.05% | 5.07% | 5.08% | | | | 5.06% |
| Average receive rate | 4.90% | 4.88% | 4.90% | | | | 4.89% |

Weighted average pay/receive rates are based on contractual interest rates as of March 31, 2005.

Table of Contents**Interest rate swaps for year ended March 31, 2004**

| | Expected maturity date | | | | | | Total | Estimated fair value |
|---------------------------------|------------------------|--------|--------|--------|--------|------------|---------|-------------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | | |
| (Millions of yen, except rates) | | | | | | | | |
| Notional amounts (Yen): | | | | | | | | |
| Variable to fixed | 5,010 | 23,680 | 44,981 | 19,280 | 21,560 | 2,325 | 116,836 | (1,374) |
| Average pay rate | 1.63% | 1.64% | 1.65% | 1.51% | 1.76% | 2.06% | 1.64% | |
| Average receive rate | 0.64% | 0.63% | 0.68% | 0.68% | 0.89% | 0.71% | 0.67% | |
| Fixed to variable | 7,557 | 76,000 | 38,000 | 9,000 | 24,000 | 22,000 | 176,557 | (85) |
| Average pay rate | 1.33% | 1.39% | 0.56% | 0.42% | 0.46% | 0.90% | 1.04% | |
| Average receive rate | 2.34% | 2.37% | 1.61% | 1.45% | 1.50% | 1.82% | 2.05% | |
| Variable to variable | | 2,500 | 5,000 | | 2,000 | 4,000 | 13,500 | (56) |
| Average pay rate | | 1.33% | 1.19% | | 1.36% | 0.00% | 1.21% | |
| Average receive rate | | 1.69% | 1.55% | | 1.73% | 0.56% | 1.59% | |
| Notional amounts (US\$): | | | | | | | | |
| Variable to fixed | 19,863 | 3,486 | 634 | | | | 23,983 | (228) |
| Average pay rate | 3.08% | 3.11% | 2.83% | | | | 3.08% | |
| Average receive rate | 1.11% | 1.10% | 1.11% | | | | 1.11% | |
| Fixed to variable | 989 | | | | | | 989 | 6 |
| Average pay rate | 1.42% | | | | | | 1.42% | |
| Average receive rate | 0.11% | | | | | | 0.11% | |
| Variable to variable | 1,056 | | | | | | 1,056 | 7 |
| Average pay rate | 1.14% | | | | | | 1.14% | |
| Average receive rate | 1.28% | | | | | | 1.28% | |
| Notional amounts (ST£): | | | | | | | | |
| Variable to fixed | 57,977 | 47,551 | 1,479 | | | | 107,007 | 197 |
| Average pay rate | 4.37% | 4.58% | 4.96% | | | | 4.44% | |
| Average receive rate | 4.67% | 4.82% | 4.18% | | | | 4.71% | |

Weighted average pay/receive rates are based on contractual interest rates as of March 31, 2004.

Factors that could cause actual results to differ materially from those projected or implied in any forward-looking statements in this section include, but are not limited to, ability of counterparties to the financial instruments to perform contractual obligations; the general economic condition in the markets where financial assets Hitachi holds are traded; and the volatility of the market prices of securities, interest rates and foreign currency exchange rates. In addition, see Item 3. Key Information Risk Factors for other examples of factors that could cause actual results to differ materially from those projected or implied.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

As of March 31, 2005, the Company, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and principal financial officer performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). The Company's management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management's control objectives. Based on this evaluation, the Company's Chief Executive Officer and principal financial officer concluded that the Company's disclosure controls and procedures as of such date were effective at the reasonable assurance level for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Exchange Act, within the time periods specified in the SEC's rules and forms.

There has been no change in the Company's internal control over financial reporting that occurred during the fiscal year ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors of the Company has determined that Mr. Yoshiki Yagi qualifies as an audit committee financial expert within the meaning of the rules of the SEC.

ITEM 16B. CODE OF ETHICS

The Company has a code of ethics which applies to its Directors, Executive Officers, corporate officers and other executives which include its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, or the

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Covered Individuals, although not within the strict meaning of the current rules of the SEC. The Company believes that its code of ethics is reasonably designed to deter wrongdoing and to promote, among other things, (i) honest and ethical conduct of the Covered Individuals, including the ethical handling of conflicts of interest between personal and professional relationships, (ii) full compliance by the Covered Individuals with applicable laws and regulations, including securities-related laws, (iii) the taking of remedial and preventative actions by the Covered Individuals with respect to occurrences or likely occurrences of violations of laws or regulations of which the Covered Individuals become aware, and (iv) accountability for violations of such laws and regulations, including for violations by the Covered Individuals. The Company believes that this code of ethics, in conjunction with its other bylaws and customary practice, performs a function similar to that of a code of ethics within the meaning of the rules of the SEC. The Company continues to seek ways in which it can further promote ethical conduct by its Covered Individuals, including by considering ways in which to improve its code of ethics for such individuals.

Table of Contents**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES***Principal Accounting Fees and Services*

The following table shows fees for audit and other services rendered by Hitachi's principal accountant for fiscal 2003 and 2004.

| | Fiscal 2003 | Fiscal 2004 |
|--------------------|--------------------------|------------------------|
| | (Millions of yen) | |
| Audit Fees | 885 | 1,516 |
| Audit-Related Fees | 134 | 196 |
| Tax Fees | 58 | 82 |
| All Other Fees | 42 | 16 |
| Total | 1,119 | 1,810 |

Notes:

- Audit Fees are fees for professional services for the audit of the annual financial statements or services that are normally provided by the principal accountant in connection with statutory and regulatory filings or engagements for those fiscal years. Audit-Related Fees are fees for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported as Audit Fees. Tax Fees are fees for professional services rendered for tax compliance, tax advice and tax planning. All Other Fees are fees for products and services not included in any of the other categories.
- Ernst & Young ShinNihon has served as Hitachi's principal accountant for fiscal 2003 and fiscal 2004.

Audit Committee Pre-approval Policies and Procedures

In compliance with applicable U.S. law and regulations, the Company's Audit Committee has established a policy and procedures regarding pre-approval of audit and permissible non-audit services provided by the independent auditors to ensure that the auditors will be independent of management.

Under the policy and procedures, audit and permissible non-audit services to be provided to the Company, its subsidiaries and affiliates by the independent auditors are required to be pre-approved by either the Audit Committee or an Audit Committee member to whom it has delegated authority. Audit services provided to the Company are required to be pre-approved by the Audit Committee. The designated Audit Committee member must report the pre-approval decisions to the Audit Committee held after the decisions.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

Table of Contents**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The following table sets forth, for each of the months indicated, the total number of shares purchased by the Company, the average price paid per share, the number of shares purchased as part of a publicly announced repurchase plan or program, the maximum number of shares or approximate Japanese Yen value that may yet be purchased under the plans or programs.

The Company currently does not have any publicly announced repurchase plans or programs. The purchases shown below represent the purchase of less-than-one-unit shares from less-than-one-unit shareholders in accordance with the Japanese Commercial Code. It also represents with the purchase as a result of the merger with TOKICO LTD., an equity-method affiliate of the Company (see notes 1 through 3.)

| Period | (a) Total Number of Shares Purchased (Shares) | (b) Average Price Paid per Share (Yen) | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--|--|---|--|--|
| April 1, 2004 - April 30, 2004 | 57,616 | 812 | | |
| May 1, 2004 - May 31, 2004 | 39,725 | 736 | | |
| June 1, 2004 - June 30, 2004 | 51,375 | 743 | | |
| July 1, 2004 - July 31, 2004 | 136,821 | 716 | | |
| August 1, 2004 - August 31, 2004 | 74,321 | 669 | | |
| September 1, 2004 - September 30, 2004 | 92,098 | 687 | | |
| October 1, 2004 - October 31, 2004(*1) | 246,191 | 364 | | |
| November 1, 2004 - November 30, 2004(*2) | 207,388 | 657 | | |
| December 1, 2004 - December 31, 2004(*3) | 11,065,156 | 660 | | |
| January 1, 2005 - January 31, 2005 | 207,859 | 702 | | |
| February 1, 2005 - February 28, 2005 | 111,322 | 672 | | |
| March 1, 2005 - March 31, 2005 | 92,022 | 673 | | |
| Total | 12,381,894 | 657 | | |

Notes:

1. The purchase in October 2004 includes 112,724 shares allocated to TOKICO LTD.'s treasury stocks, which became the Company's treasury stocks without consideration after the merger with TOKICO LTD.
2. The purchase in November 2004 includes fractional shares allocated as a result of the merger with TOKICO LTD.
3. The purchase in December 2004 includes shares allocated to the Company's subsidiaries as a result of the merger with TOKICO LTD.

Table of Contents**PART III****ITEM 17. FINANCIAL STATEMENTS**

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All other schedules are omitted as permitted by the rules and regulations of the SEC, as the required information is presented in the notes to consolidated financial statements, or the schedules are not applicable.

Financial statements of affiliates are omitted because none of these meets the 20% level tests.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Hitachi, Ltd.

We have audited the accompanying consolidated balance sheets of Hitachi, Ltd. and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the index at Item 17 for the years ended March 31, 2005 and 2004. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company's consolidated financial statements do not disclose certain information required by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information". Disclosure of this information is required by accounting principles generally accepted in the United States.

In our opinion, except for the omission of segment information discussed in the third paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi, Ltd. and subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the years ended March 31, 2005 and 2004 referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young ShinNihon

Tokyo, Japan

May 18, 2005,

except for Note 29, as to which the date is

August 18, 2005

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Hitachi, Ltd.:

We have audited the consolidated statements of operations, stockholders' equity and cash flows of Hitachi, Ltd. and subsidiaries for the year ended March 31, 2003. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule for the year ended March 31, 2003, as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company declined to present segment information for the year ended March 31, 2003. In our opinion, disclosures of segment and related information about the different types of business activities in which the company engages and the different economic environments in which it operates is required by U.S. generally accepted accounting principles. The omission of segment information results in an incomplete presentation of the Company's consolidated financial statements.

In our opinion, except for the omission of the segment information as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Hitachi, Ltd. and subsidiaries for the year ended March 31, 2003, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule for the year ended March 31, 2003, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG AZSA & Co.

Tokyo, Japan

May 15, 2003

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**HITACHI, LTD.
AND SUBSIDIARIES**

Consolidated Balance Sheets

March 31, 2005 and 2004

| | <u>Yen (millions)</u> | |
|---|-----------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| <u>Assets</u> | | |
| Cash and cash equivalents | 708,715 | 764,396 |
| Short-term investments (note 3) | 146,568 | 177,949 |
| Trade receivables: | | |
| Notes (note 7) | 134,198 | 144,768 |
| Accounts (notes 4 and 7) | 2,104,147 | 2,085,048 |
| Allowance for doubtful receivables and unearned income | (40,579) | (43,287) |
| | <u>2,197,766</u> | <u>2,186,529</u> |
| Net trade receivables | | |
| | <u>2,197,766</u> | <u>2,186,529</u> |
| Inventories (note 5) | 1,198,955 | 1,123,406 |
| Prepaid expenses and other current assets (note 9) | 560,072 | 515,909 |
| Investments in leases (notes 6 and 7) | 526,759 | 451,753 |
| Investments and advances, including affiliated companies (note 3) | 894,851 | 908,962 |
| Property, plant and equipment (notes 6 and 10): | | |
| Land | 436,308 | 419,846 |
| Buildings | 1,740,057 | 1,690,096 |
| Machinery and equipment | 5,222,157 | 4,899,239 |
| Construction in progress | 57,291 | 49,011 |
| | <u>7,455,813</u> | <u>7,058,192</u> |
| Less accumulated depreciation | 5,097,882 | 4,825,330 |
| | <u>2,357,931</u> | <u>2,232,862</u> |
| Net property, plant and equipment | | |
| | <u>2,357,931</u> | <u>2,232,862</u> |
| Other assets (notes 8 and 9) | 1,144,630 | 1,228,556 |
| | <u>1,144,630</u> | <u>1,228,556</u> |
| | <u>9,736,247</u> | <u>9,590,322</u> |

See accompanying notes to consolidated financial statements.

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**HITACHI, LTD.
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended March 31, 2005, 2004 and 2003

| | Yen (millions) | | |
|---|----------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Revenues: | | | |
| Product sales (note 4) | 8,055,179 | 7,652,205 | 7,235,069 |
| Financial and other services | 971,864 | 980,245 | 956,683 |
| | 9,027,043 | 8,632,450 | 8,191,752 |
| Cost of sales: | | | |
| Product sales | (6,258,922) | (5,966,578) | (5,617,932) |
| Financial and other services | (702,348) | (743,576) | (622,561) |
| | (6,961,270) | (6,710,154) | (6,240,493) |
| Selling, general and administrative expenses | (1,786,718) | (1,737,433) | (1,798,292) |
| Impairment losses for long-lived assets (note 17) | (26,797) | (26,085) | (8,474) |
| Restructuring charges (note 18) | (33,307) | (28,613) | |
| Interest income | 13,413 | 12,808 | 14,158 |
| Dividends income | 5,971 | 6,352 | 8,921 |
| Other income (notes 19 and 20) | 67,024 | 142,010 | 23,658 |
| Interest charges | (29,057) | (30,855) | (34,338) |
| Other deductions (note 19) | (11,796) | (23,331) | (60,064) |
| | 264,506 | 237,149 | 96,828 |
| Income before income taxes and minority interests | | | |
| Income taxes (note 9) | (149,990) | (198,655) | (52,662) |
| | 114,516 | 38,494 | 44,166 |
| Income before minority interests | | | |
| Minority interests | (63,020) | (22,618) | (16,299) |
| | 51,496 | 15,876 | 27,867 |
| Net income | | | |
| | 51,496 | 15,876 | 27,867 |
| | | | |
| | | Yen | |
| Net income per share (note 21): | | | |
| Basic | 15.53 | 4.81 | 8.31 |
| | 15.53 | 4.81 | 8.31 |

| | | | |
|---------|-------|------|------|
| Diluted | 15.15 | 4.75 | 8.19 |
|---------|-------|------|------|

See accompanying notes to consolidated financial statements.

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HITACHI, LTD.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2005, 2004 and 2003

| | Yen (millions) | | |
|--|------------------|------------------|------------------|
| | 2005 | 2004 | 2003 |
| Common stock (notes 10 and 12): | | | |
| Balance at beginning of year | 282,032 | 282,032 | 282,032 |
| Conversion of convertible debentures | 1 | 0 | |
| Balance at end of year | 282,033 | 282,032 | 282,032 |
| Capital surplus (note 12): | | | |
| Balance at beginning of year | 551,690 | 562,214 | 527,010 |
| Gains on sales of treasury stock | 353 | 48 | |
| Gains on stock exchange upon a merger | 12,509 | | |
| Increase (decrease) arising from divestiture and other | 808 | (10,572) | 35,204 |
| Balance at end of year | 565,360 | 551,690 | 562,214 |
| Legal reserve (note 13): | | | |
| Balance at beginning of year | 109,163 | 111,309 | 110,751 |
| Net transfer from (to) retained earnings | 921 | (1,849) | 554 |
| Net transfer from (to) minority interests | 130 | (297) | 4 |
| Balance at end of year | 110,214 | 109,163 | 111,309 |
| Retained earnings (note 13): | | | |
| Balance at beginning of year | 1,651,272 | 1,655,029 | 1,643,248 |
| Net income | 51,496 | 15,876 | 27,867 |
| Cash dividends | (34,628) | (19,990) | (10,013) |
| Net transfer from (to) legal reserve | (921) | 1,849 | (554) |
| Net transfer from (to) minority interests | 1,765 | (1,492) | (5,519) |
| Balance at end of year | 1,668,984 | 1,651,272 | 1,655,029 |
| Accumulated other comprehensive loss (note 15): | | | |
| Balance at beginning of year | (393,864) | (755,525) | (258,484) |
| Other comprehensive income (loss), net of reclassification adjustments | 92,666 | 359,116 | (495,861) |

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| | | | |
|--|-----------|-----------|-----------|
| Net transfer from (to) minority interests | (326) | 2,545 | (1,180) |
| Balance at end of year | (301,524) | (393,864) | (755,525) |
| Treasury stock, at cost (note 14): | | | |
| Balance at beginning of year | (32,162) | (1,847) | (333) |
| Acquisition for treasury | (1,177) | (30,464) | (1,514) |
| Sales of treasury stock | 478 | 149 | |
| Stock exchange upon a merger | 15,625 | | |
| Balance at end of year | (17,236) | (32,162) | (1,847) |
| Total stockholders' equity | 2,307,831 | 2,168,131 | 1,853,212 |
| Comprehensive income (loss) (note 15): | | | |
| Net income | 51,496 | 15,876 | 27,867 |
| Other comprehensive income (loss) arising during the year | 97,878 | 362,893 | (492,476) |
| Reclassification adjustments for net gain included in net income | (5,212) | (3,777) | (3,385) |
| Comprehensive income (loss) | 144,162 | 374,992 | (467,994) |

See accompanying notes to consolidated financial statements.

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HITACHI, LTD.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2005, 2004 and 2003

| | Yen (millions) | | |
|---|------------------|------------------|------------------|
| | 2005 | 2004 | 2003 |
| Cash flows from operating activities (note 23): | | | |
| Net income | 51,496 | 15,876 | 27,867 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 425,080 | 436,053 | 480,274 |
| Amortization | 132,370 | 117,561 | 86,095 |
| Impairment losses for long-lived assets | 26,797 | 26,085 | 8,474 |
| Deferred income taxes | 45,310 | 77,056 | (35,526) |
| Equity in (earnings) losses of affiliated companies, net | 162 | (10,120) | 15,803 |
| Gain on sale of investments and subsidiaries common stock | (54,741) | (137,925) | (54,849) |
| Impairment of investments in securities | 9,665 | 12,893 | 65,828 |
| Loss (gain) on disposal of rental assets and other property | 15,202 | 13,274 | (14,064) |
| Income applicable to minority interests | 63,020 | 22,618 | 16,299 |
| (Increase) decrease in receivables | 103,246 | (187,545) | 2,280 |
| (Increase) decrease in inventories | (95,191) | (67,026) | 7,994 |
| (Increase) decrease in prepaid expenses and other current assets | (29,973) | (3,075) | 3,170 |
| Increase (decrease) in payables | (53,785) | 145,234 | 96,777 |
| Increase (decrease) in accrued expenses and retirement and severance benefits | (26,823) | 109,152 | (71,969) |
| Increase (decrease) in accrued income taxes | (18,861) | 27,741 | (5,825) |
| Increase (decrease) in other liabilities | (408) | 5,276 | 11,989 |
| Net change in inventory-related receivables from financial services (note 2 (y)) | (22,036) | (3,140) | 11,041 |
| Other | (5,174) | 3,415 | 5,901 |
| Net cash provided by operating activities | 565,356 | 603,403 | 657,559 |
| Cash flows from investing activities (note 23): | | | |
| (Increase) decrease in short-term investments | 47,179 | 10,035 | (8,162) |
| Capital expenditures | (368,896) | (289,753) | (323,825) |
| Purchase of assets to be leased (note 2 (y)) | (483,192) | (439,047) | (381,326) |
| Collection of investments in leases (note 2 (y)) | 301,614 | 340,376 | 307,392 |
| Proceeds from disposal of rental assets and other property | 90,726 | 122,258 | 142,973 |
| Proceeds from sale of investments and subsidiaries common stock | 112,932 | 301,553 | 167,350 |
| Purchase of investments and subsidiaries common stock | (61,711) | (110,837) | (262,424) |
| Purchase of software (note 2 (y)) | (121,415) | (117,896) | (137,113) |
| Other | (44,225) | (84,102) | (135,191) |
| Net cash used in investing activities | (526,988) | (267,413) | (630,326) |
| Cash flows from financing activities (note 23): | | | |

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| | | | |
|--|-------------------|-------------------|-------------------|
| Increase (decrease) in short-term debt, net | 27,029 | (193,286) | (12,490) |
| Proceeds from long-term debt | 533,442 | 460,144 | 375,802 |
| Payments on long-term debt | (599,637) | (587,335) | (547,759) |
| Proceeds (payments) on subsidiaries' common stock, net | (8,431) | 9,984 | 1,872 |
| Dividends paid to stockholders | (34,815) | (19,961) | (9,973) |
| Dividends paid to minority stockholders of subsidiaries | (16,671) | (13,714) | (13,108) |
| Acquisition of common stock for treasury | (1,177) | (30,464) | (1,514) |
| Proceeds from sales of treasury stock | 831 | 197 | |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in financing activities | (99,429) | (374,435) | (207,170) |
| | <u> </u> | <u> </u> | <u> </u> |
| Effect of exchange rate changes on cash and cash equivalents | 5,380 | (25,330) | (21,266) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net decrease in cash and cash equivalents | (55,681) | (63,775) | (201,203) |
| Cash and cash equivalents at beginning of year | 764,396 | 828,171 | 1,029,374 |
| | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of year | 708,715 | 764,396 | 828,171 |
| | <u> </u> | <u> </u> | <u> </u> |

See accompanying notes to consolidated financial statements.

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**HITACHI, LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(1) Nature of Operations

Hitachi, Ltd. (the Company) is a Japanese corporation, whose principal office is located in Japan. The Company's and its subsidiaries' businesses are diverse, and include information and telecommunication systems, electronic devices, power and industrial systems, digital media and consumer products, high functional materials and components, and other services including financial services and logistics services.

(2) Basis of Presentation and Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are necessary to conform them with accounting principles generally accepted in the United States of America. Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates.

(b) Principles of Consolidation

The consolidated financial statements as of and for the years ended March 31, 2005 and 2004 include the accounts of the Company, its majority-owned subsidiaries and all variable interest entities (VIEs) for which any of the Company and its consolidated entities are the primary beneficiary. The consolidated financial statements for the year ended March 31, 2003 include the accounts of the Company and its majority-owned subsidiaries. The consolidated financial statements include accounts of certain subsidiaries, of which fiscal years differ from March 31 by 93 days or less, to either comply with local statutory requirements or facilitate timely reporting. There have been no significant transactions, which would materially affect the Company's financial position and results of operations, with such subsidiaries during the period from their fiscal year-end to March 31. Intercompany accounts and significant intercompany transactions have been eliminated in consolidation.

A VIE is defined in Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51. This interpretation addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The application of this interpretation did not have a material effect on the Company's consolidated financial statements as of and for the year ended March 31, 2004.

Investments in corporate joint ventures and affiliated companies that are accounted for using the equity method primarily relate to 20% to 50% owned companies to which the Company has the ability to exercise significant influence over operational and financial policies of the investee company. Investments of less than 20% or where the Company does not have significant influence are accounted for using the cost method.

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**HITACHI, LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(c) *Cash Equivalents*

For the purpose of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(d) *Allowance for doubtful receivables*

Allowance for doubtful receivables, including both trade and investments in leases, is the Company's and subsidiaries' best estimate of the amount of probable credit losses in their existing receivables. The allowance is determined based on, but are not limited to, historical collection experience adjusted for the effects of current economic environment, assessment of inherent risks, aging and financial performance of debtors. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(e) *Foreign Currency Translation*

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation. Under this standard, the assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are excluded from the consolidated statements of operations and are accumulated and included in accumulated other comprehensive loss as part of stockholders' equity.

(f) *Investments in Securities and Affiliated Companies*

Equity securities that do not have readily determinable fair values are accounted for under the cost method. The Company classifies investments in securities that have readily determinable fair values and all investments in debt securities in three categories: held-to-maturity securities, trading securities and available-for-sale securities.

Held-to-maturity securities are debt securities that the Company has the positive intent and ability to hold to maturity. Trading securities are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. Available-for-sale securities are debt and equity securities not classified as either held-to-maturity securities or trading securities.

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Held-to-maturity securities are reported at amortized cost. Trading securities are reported at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income.

A decline in fair value of any available-for-sale or held-to-maturity security below the cost basis or the amortized cost basis that is deemed to be other-than-temporary results in a write-down of the cost basis or the amortized cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings.

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**HITACHI, LTD.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the cost basis of an available-for-sale security for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include: the degree of change in the ratio of market prices per share to book value per share at the date of evaluation compared to that at the date of acquisition, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the fair value of an available-for-sale security relative to the cost basis of the investment, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors.

The Company evaluates the amortized cost basis of a held-to-maturity security for possible impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer.

Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the carrying amount of its ownership interests in equity-method investees and cost method investments for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include the achievement of business plan objectives and milestones including cash flow projections and the results of planned financing activities, the financial condition and prospects of each investee company, the fair value of the ownership interest relative to the carrying amount of the investment, the period of time during which the fair value of the ownership interest has been below the carrying amount of the investment and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings is determined by the average cost method.

(g) Securitizations

The Company and certain subsidiaries have a number of securitization programs. Under those programs, certain financial assets such as lease receivables, trade receivables and others are sold to Special Purpose Entities (SPEs) which are funded through the issuance of asset-backed securities to investors. When a transfer of financial assets is eligible to be accounted for as a sale under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, the carrying amount of the financial assets is allocated based on relative fair values to the portions to be retained and sold. The Company and its subsidiaries recognize a gain or loss for the difference between the net proceeds received and the allocated carrying amount of the assets sold when the transaction is consummated.

Fair values are based on the present value of estimated future cash flows which take into consideration various factors such as expected credit loss and others.

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(h) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the specific identification method for job order inventories and generally by the average cost method for raw materials and other inventories.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Property, plant and equipment are principally depreciated by the declining-balance method, except for some assets which are depreciated by the straight-line method, over the following estimated useful lives:

| | |
|----------------------------------|---------------|
| Buildings | |
| Buildings and building equipment | 3 to 50 years |
| Structures | 7 to 60 years |
| Machinery and equipment | |
| Machinery | 4 to 13 years |
| Vehicles | 4 to 7 years |
| Tools, furniture and fixtures | 2 to 20 years |

(j) Goodwill and Other Intangible Assets

The Company tests goodwill and indefinite-lived intangible assets for impairment at least annually. The Company performs its annual impairment test during the fourth quarter after the annual forecasting process is completed. Furthermore, goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The fair value of a reporting unit is estimated using the expected present value of future cash flows. Intangible assets with finite useful lives are amortized over their respective estimated useful lives.

(k) Capitalized Software Costs

Costs incurred for computer software developed or obtained for internal use are capitalized and amortized on a straight-line basis over their estimated useful lives in accordance with Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. In addition, the Company and its subsidiaries develop certain computer software to be sold where related costs are capitalized after establishment of technological feasibility in accordance with SFAS No.86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. The annual amortization of such capitalized costs is the greater of the amount computed using the ratio of each software's expected future revenue to current year's revenue or the straight-line method over the remaining estimated economic life of each software.

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(l) Impairment of Long-lived Assets

The Company reviews the carrying value of long-lived assets or related group of assets to be held and used, including intangible assets with finite useful lives, for impairment whenever events or circumstances occur that indicate that the carrying value of the assets may not be recoverable. The assets are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying values. The impairment losses are measured as the amount by which the carrying value of the asset exceeds the fair value. In determining the fair value, the Company uses available quoted market prices and present value techniques, if appropriate, based on the estimated future cash flow expected to result from the use of the assets and their eventual disposition.

(m) Retirement and Severance Benefits

The Company accounts for retirement and severance benefits in accordance with SFAS No. 87, *Employers' Accounting for Pensions*. Unrecognized gains and losses are amortized using the straight-line method over the average remaining service period of active employees.

(n) Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. SFAS No. 133 requires that all derivative financial instruments, such as forward exchange and interest rate swap contracts, be recognized in the financial statements as either assets or liabilities and measured at fair value regardless of the purpose or intent for holding them.

The Company designates and accounts for hedging derivatives as follows:

Fair value hedge: a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitment and the derivatives are recorded in earnings if the hedge is considered highly effective.

Cash flow hedge: a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability. The changes in the fair value of the derivatives designated as cash flow hedges are recorded as other comprehensive income if the hedge is considered highly effective. This treatment is continued until earnings are affected by the variability in cash flows or the unrecognized firm commitment of the designated hedged item, at which point changes in fair value of the derivative is recognized in income.

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Foreign currency hedge: a hedge of foreign-currency fair value or cash flow. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitment and the derivatives are recorded as either earnings or other comprehensive income if the hedge is considered highly effective. Recognition as earnings or other comprehensive income is dependent on the treatment of foreign currency hedges as fair value or cash flow hedges.

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The Company follows the documentation requirements as prescribed by the standard, which includes risk management objective and strategy for undertaking various hedge transactions. In addition, a formal assessment is made at the hedge's inception and periodically on an ongoing basis, as to whether the derivative used in hedging activities is highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting is discontinued for ineffective hedges, if any. Subsequent changes in the fair value of derivatives related to discontinued hedges are recognized in earnings immediately.

(o) Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price is fixed and determinable and collectibility is reasonably assured. The Company adopted the consensus of the FASB Emerging Issue Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, during the year ended March 31, 2004. The impact of adopting the consensus was not material to the Company's results of operations.

The Company offers multiple solutions to its customers' needs. Those solutions may involve the delivery or performance of multiple elements, such as products, services, or rights to use assets, and performance may occur at different points in time or over different periods of time. When one element is delivered prior to the other in an arrangement, revenue is deferred until the delivery of the last element, unless transactions are such that the delivered item has value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of the undelivered item, and delivery or performance of the undelivered item is considered probable and substantially in the control of the Company if the arrangement includes a general right of return relative to the delivered item. If all conditions described above are met, each element in an arrangement is considered a separate unit of accounting, and the arrangement consideration is allocated to the separate units of accounting based on the relative fair values provided that there is objective and reliable evidence of the fair values of all units of accounting in the arrangement. The Company allocates revenue on software arrangements involving multiple elements to each element based on its relative fair value, as evidenced by vendor specific objective evidence (VSOE), or in the absence of VSOE, the residual method. VSOE is the price charged by the Company to an external customer for the same element when such an element is sold separately.

Product Sales:

Revenue from sales of these products is recognized when title and risk of loss have been transferred to the customer. Depending upon the terms of the contract or arrangement with the customer, this may occur at the time of shipment, when installation is completed or upon the attainment of customer acceptance. The Company's policy is not to accept product returns unless the products are defective. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specification are not recorded as revenue. Product warranties are offered on the Company's and certain subsidiaries' products (in certain cases separately priced) and a warranty accrual is established when sales are recognized and is based on estimated future costs of repair and replacement principally using our historical experience of warranty claims.

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Price protection is provided to retailers of the Company's consumer products business and others to compensate the customer retailers for a decline in the product's value due mainly to competition. Price protection granted to the customers is classified as a reduction of revenue on the consolidated statements of operations. In addition, it is our policy to accrue reasonably and reliably estimated price adjustment at the later of the date at which the related sales are recognized, or the date at which price protection is offered. The estimate is made based primarily upon historical experience or agreement on the adjustment rate and the number of units that are subject to such adjustment (e.g., units in distribution channels).

Product revenues which are recognized upon shipment are information technology system products, semiconductor manufacturing equipment, test and measurement equipment, construction equipment, displays, disk drives, televisions, air conditioners, batteries, magnetic tapes, high functional materials, cable products and automotive equipment. Revenues for railway vehicles are recognized upon acceptance or shipment, depending on contract terms. Product revenues that are recognized upon acceptance are medical electronic devices, industrial machinery and equipment, nuclear, thermal and hydroelectric power plants, and elevators and escalators.

Revenue from sales of tangible products under long-term construction type arrangements, principally in connection with the construction of nuclear, thermal and hydroelectric power plants, are recognized under the percentage-of-completion method. Under the percentage-of-completion method, revenue is recognized as a percentage of estimated total revenue that incurred costs to date bear to estimated total costs after giving effect to estimates of costs to complete based upon most recent information. Any anticipated losses on fixed price contracts are charged to operations when such losses can be estimated. Provisions are made for contingencies (i.e. performance penalty, benchmarking, etc.) in the period in which they become known pursuant to specific contract terms and conditions and are estimable.

The Company recognizes software revenue in accordance with the provisions of Statement of Position 97-2, Software Revenue Recognition, as amended. Revenue from software consists of software licensing, customized software development and post contract customer support. Revenues from software license arrangements are recognized upon shipment of the software if evidence of the arrangement exists, pricing is fixed and determinable and collectibility is probable. Customized software revenue is recognized upon customer acceptance. Revenue from post contract customer support is amortized over the period of the post contract customer support. Consulting and training services are recognized when the services are rendered.

The Company's standard software license agreement provides for a limited warranty that the license will operate substantially in accordance with the functionality described in the documentation provided with the products. The standard software license does not provide for right of return. The Company provides for warranty at the time of revenue recognition using historical experience of warranty claims. To date such warranty provisions have been insignificant.

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Service Revenues:

Service revenues from maintenance and distribution services are recognized upon completion of service delivery. Revenue from time service contracts is recognized as services are rendered. Revenue from long-term fixed price service contracts such as support or maintenance contracts is recognized ratably over the contractual period. Finance lease income is recognized at level rates of return over the term of the leases. Operating lease income is recognized on a straight-line basis over the term of the lease.

(p) Advertising

Advertising costs are expensed as incurred.

(q) Research and Development Costs

Research and development costs are expensed as incurred. Costs incurred in connection with the development of software products for sale are accounted for in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed. Development costs incurred in the research and development of new software products and enhancements to existing products are expensed as incurred until technological feasibility has been established.

(r) Income Taxes

Deferred income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

(s) Sales of Stock by Subsidiaries

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The change in the Company's proportionate share of a subsidiary's equity resulting from issuance of stock by the subsidiary is accounted for as an income statement recognition.

(t) Net Income Per Share

Net income per share is computed in accordance with SFAS No. 128, Earnings per Share. This standard requires a dual presentation of basic and diluted net income per share amounts on the face of the statements of operations. Under this standard, basic net income per share is computed based upon the weighted average number of shares of common stock outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

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(u) Stock-Based Compensation

The Company and certain subsidiaries have stock-based compensation plans. As of March 31, 2005, the Company has several stock-based compensation plans, which are described more fully in note 28. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations. For the years ended March 31, 2005, 2004 and 2003, the Company recognized no material stock-based compensation expense.

SFAS No. 123, Accounting for Stock-Based Compensation, prescribes the recognition of compensation expense based on the fair value of options on the grant date and allows continuous application of APB No. 25 if certain pro forma disclosures are made assuming hypothetical fair value method application. The Company elects to continue applying APB No. 25, however, the pro forma effects of applying SFAS No. 123 on net income and the per share information for the years ended March 31, 2005, 2004 and 2003 are as follows:

| | Yen (millions) | | |
|--|-----------------------|---------------|---------------|
| | 2005 | 2004 | 2003 |
| Net income as reported | 51,496 | 15,876 | 27,867 |
| Stock-based compensation expense included in reported net income | 215 | | |
| Stock-based compensation expense determined under SFAS No. 123 | (459) | (3,034) | (172) |
| | 51,252 | 12,842 | 27,695 |
| Net income pro forma | | | |
| | 51,252 | 12,842 | 27,695 |
| | | | |
| | Yen | | |
| Net income per share: | | | |
| Basic as reported | 15.53 | 4.81 | 8.31 |
| Basic pro forma | 15.45 | 3.89 | 8.26 |
| Diluted as reported | 15.15 | 4.75 | 8.19 |
| Diluted pro forma | 15.08 | 3.83 | 8.14 |

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(v) Disclosures about Segments of an Enterprise and Related Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the manner in which a public business enterprise is required to report financial and descriptive information about its operating segments. This standard defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets and other related information is required to be disclosed for each operating segment. Further, this standard requires the disclosure of information concerning revenues derived from the enterprise's products or services, countries in which it earns revenue or holds assets and major customers. However, certain foreign issuers are presently exempted from the segment disclosure requirements of SFAS No. 131 in filings with the United States Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, and the Company has not presented the segment information required to be disclosed in the footnotes to the consolidated financial statements under SFAS No. 131.

(w) Guarantees

The Company recognizes, at the inception of the guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after December 31, 2002, in accordance with the FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of SFAS No. 5, 57, and 107 and rescission of FASB Interpretation No. 34.

(x) New Accounting Standards

In October 2004, the EITF reached a consensus on EITF Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share. This consensus requires that all instruments which have embedded conversion features that are contingent on market conditions indexed to an issuer's share price should be included in diluted earnings per share computations (if dilutive) regardless of whether the market price trigger (or other contingent feature) has been met. This consensus is effective for reporting periods ending after December 15, 2004 and applied retroactively to instruments outstanding at the end of the first reporting period after December 15, 2004, except for those that have been cash settled before such date. It had no impact on the diluted earnings per share for the years ended March 31, 2004 and 2003.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 clarify that abnormal amounts of costs should be recognized as current-period charges rather than as a portion of the inventory cost. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. SFAS No. 151 is not expected to have a material effect on the consolidated financial position or results of operations of the Company and subsidiaries.

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In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. The amendments made by SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and adopted a broader exception for exchanges of nonmonetary assets that do not have commercial substance and should be measured based on the recorded amount of the asset relinquished. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. SFAS No. 153 is not expected to have a material effect on the consolidated financial position or results of operations of the Company and subsidiaries.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 (R) supersedes APB No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Also, the SEC issued Staff Accounting Bulletin No. 107, in which interpretations expressed views of the staff regarding the interaction between SFAS No. 123 (R) and certain SEC rules and regulations, and provided the staff's views regarding the valuation of share-based payment arrangements for public companies. The provisions of SFAS No. 123 (R) shall be effective no later than the beginning of the first fiscal year beginning after June 15, 2005, as deferred by the SEC. SFAS No. 123 (R) is not expected to have a material effect on the consolidated financial position or results of operations of the Company and subsidiaries.

In March 2004, the EITF reached a consensus in Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which provides guidance for the determination of other-than-temporary impairment and disclosure of debt and equity securities accounted for in accordance with SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities, and cost method investments. In September 2004, the FASB issued FASB Staff Position No. 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1 which delayed the effective date for the recognition and measurement guidance of EITF Issue No. 03-1. The delay remains in effect until the FASB issues further implementation guidance. The disclosure requirements of the consensus remain in effect.

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(y) Presentation of Receivables from Financing Services in Consolidated Statements of Cash Flows

Certain financing subsidiaries provide the financing services related to products which the Company and its subsidiaries manufacture under lease agreements. In the prior years, such transactions were reflected as an operating cash inflow and an investing cash outflow in the consolidated statements of cash flows when a lease agreement was commenced even though there was no cash flow on a consolidated basis. After considering the concern raised by the SEC in public, the Company has decided to reflect the fact there was no cash received by the consolidated entity at the inception of the lease, resulting in the elimination of the effects of the intercompany transaction, and to properly classify cash receipts from lease receivables related to the products manufactured by the Company and its subsidiaries as operating activities. The reclassification has also been made to the presentation of the prior year's statements of cash flows and the effects of this reclassification for the years ended March 31, 2004 and 2003 are as follows:

| | Yen (millions) | |
|---|-----------------------|------------------|
| | 2004 | 2003 |
| Net cash provided by operating activities, as previously reported | 606,543 | 646,518 |
| Reclassification | (3,140) | 11,041 |
| | 603,403 | 657,559 |
| Net cash used in investing activities, as previously reported | (270,553) | (619,285) |
| Reclassification | 3,140 | (11,041) |
| | (267,413) | (630,326) |

(z) Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentations.

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(3) Investments in Securities and Affiliated Companies

Short-term investments as of March 31, 2005 and 2004 are as follows:

| | <u>Yen (millions)</u> | |
|-------------------------------|-----------------------|----------------|
| | <u>2005</u> | <u>2004</u> |
| Investments in securities: | | |
| Available-for-sale securities | 81,583 | 94,788 |
| Held-to-maturity securities | 392 | 259 |
| Trading securities | 64,593 | 82,902 |
| | <u>146,568</u> | <u>177,949</u> |

Investments and advances, including affiliated companies as of March 31, 2005 and 2004 are as follows:

| | <u>Yen (millions)</u> | |
|---|-----------------------|----------------|
| | <u>2005</u> | <u>2004</u> |
| Investments in securities: | | |
| Available-for-sale securities | 314,471 | 311,414 |
| Held-to-maturity securities | 658 | 1,070 |
| Securities without readily determinable fair values | 77,755 | 77,242 |
| Investments in affiliated companies | 388,076 | 389,295 |
| Advances and other | 113,891 | 129,941 |
| | <u>894,851</u> | <u>908,962</u> |

The following is a summary of the amortized cost basis, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of available-for-sale securities by the consolidated balance sheets classification as of March 31, 2005 and 2004.

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Yen (millions)

| | 2005 | | | | 2004 | | | |
|---------------------------|-------------------------|----------------|-----------------|-------------------------|-------------------------|----------------|-----------------|-------------------------|
| | Amortized cost basis | Gross gains | Gross losses | Aggregate fair value | Amortized cost basis | Gross gains | Gross losses | Aggregate fair value |
| Short-term investments: | | | | | | | | |
| Debt securities | 37,195 | 34 | 20 | 37,209 | 53,979 | 45 | 2 | 54,022 |
| Other securities | 44,355 | 19 | | 44,374 | 40,766 | 43 | 43 | 40,766 |
| | 81,550 | 53 | 20 | 81,583 | 94,745 | 88 | 45 | 94,788 |
| Investments and advances: | | | | | | | | |
| Equity securities | 98,751 | 102,170 | 3,623 | 197,298 | 89,450 | 90,245 | 1,162 | 178,533 |
| Debt securities | 91,412 | 1,383 | 907 | 91,888 | 112,288 | 521 | 951 | 111,858 |
| Other securities | 24,928 | 450 | 93 | 25,285 | 20,620 | 476 | 73 | 21,023 |
| | 215,091 | 104,003 | 4,623 | 314,471 | 222,358 | 91,242 | 2,186 | 311,414 |
| | 296,641 | 104,056 | 4,643 | 396,054 | 317,103 | 91,330 | 2,231 | 406,202 |

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The following is a summary of gross unrealized holding losses on available-for-sale securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2005 and 2004.

| | Yen (millions) | | | | | | | |
|---------------------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|
| | 2005 | | | | 2004 | | | |
| | Less than 12 months | | 12 months or longer | | Less than 12 months | | 12 months or longer | |
| | Aggregate fair value | Gross losses | Aggregate fair value | Gross losses | Aggregate fair value | Gross losses | Aggregate fair value | Gross losses |
| Short-term investments: | | | | | | | | |
| Debt securities | 3,842 | 20 | | | 1,820 | 2 | | |
| Other securities | | | | | 127 | 7 | 166 | 36 |
| | 3,842 | 20 | | | 1,947 | 9 | 166 | 36 |
| Investments and advances: | | | | | | | | |
| Equity securities | 10,112 | 2,694 | 5,025 | 929 | 4,692 | 563 | 3,305 | 599 |
| Debt securities | 14,559 | 669 | 10,937 | 238 | 20,089 | 775 | 15,080 | 176 |
| Other securities | 5,317 | 59 | 905 | 34 | 990 | 5 | 588 | 68 |
| | 29,988 | 3,422 | 16,867 | 1,201 | 25,771 | 1,343 | 18,973 | 843 |
| | 33,830 | 3,442 | 16,867 | 1,201 | 27,718 | 1,352 | 19,139 | 879 |

Debt securities consist primarily of national, local and foreign governmental bonds, debentures issued by banks and corporate bonds. Other securities consist primarily of investment trusts.

The proceeds from sale of available-for-sale securities for the years ended March 31, 2005, 2004 and 2003 were ¥60,653 million, ¥83,886 million and ¥112,861 million, respectively. The gross realized gains on the sale of those securities for the years ended March 31, 2005, 2004 and 2003 were ¥15,889 million, ¥33,887 million and ¥40,119 million, respectively, while gross realized losses on the sale of those securities for the years ended March 31, 2005, 2004 and 2003 were ¥64 million, ¥2,160 million and ¥4,660 million, respectively.

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For the years ended March 31, 2005, 2004 and 2003, the amount of the net unrealized holding gain or loss on available-for-sale securities that has been included in accumulated other comprehensive loss was a net gain of ¥18,848 million, a net gain of ¥67,265 million and a net loss of ¥60,907 million, respectively, and the amount of gains and losses reclassified out of accumulated other comprehensive loss was a net gain of ¥9,379 million, ¥19,319 million and ¥5,999 million, respectively.

Trading securities consist mainly of investments in trust accounts. The portions of trading gains and losses for the years ended March 31, 2005, 2004 and 2003 that relate to trading securities still held at the balance sheet date were a gain of ¥2,223 million, a gain of ¥2,214 million and a loss of ¥437 million, respectively.

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The contractual maturities of debt securities and other securities classified as Investments and advances in the consolidated balance sheets as of March 31, 2005 are as follows:

| | Yen (millions) | | |
|-----------------------|----------------------|------------------------|---------|
| | Held-to- maturity | Available- for-sale | Total |
| Due within five years | 558 | 44,881 | 45,439 |
| Due after five years | 100 | 72,292 | 72,392 |
| | 658 | 117,173 | 117,831 |

Expected redemptions may differ from contractual maturities because these securities are redeemable at the option of the issuers.

The aggregate carrying amount of cost method investments which were not evaluated for impairment as of March 31, 2005 was ¥75,838 million mainly because the Company did not identify any events or changes in circumstances that might have had a significant adverse effect on their fair value.

The aggregate fair values of investments in affiliated companies based on the quoted market price as of March 31, 2005 and 2004 were ¥206,942 million and ¥159,774 million, respectively. The aggregate carrying amount of such investments as of March 31, 2005 and 2004 were ¥130,850 million and ¥114,636 million, respectively.

As of March 31, 2005 and 2004, cumulative recognition of other-than-temporary declines in values of investments in certain affiliated companies resulted in the difference of ¥14,673 million and ¥28,379 million, respectively, between the carrying amount of the investment and the amount of underlying equity in net assets. In addition, equity method goodwill of ¥8,669 million and ¥7,434 million, respectively, are included in investments in certain affiliated companies as of March 31, 2005 and 2004.

Summarized combined financial information relating to affiliated companies accounted for by the equity method is as follows:

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| | Yen (millions) | |
|-------------------------|-----------------------|-------------|
| | 2005 | 2004 |
| Current assets | 1,516,004 | 1,372,889 |
| Non-current assets | 1,096,151 | 1,283,797 |
| Current liabilities | 1,094,051 | 1,251,814 |
| Non-current liabilities | 540,773 | 398,058 |

| | Yen (millions) | | |
|-------------------|-----------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Revenues | 2,588,526 | 2,457,443 | 1,400,599 |
| Gross profit | 432,615 | 374,535 | 233,772 |
| Net income (loss) | 1,850 | 14,581 | (29,841) |

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On April 1, 2003, Renesas Technology Corp. (Renesas), which focuses on system LSI (Large Scale Integration) operations, was incorporated through a corporate split procedure, where the Semiconductor & Integrated Circuits operations of the Company and Mitsubishi Electric Corporation were spun-off from their respective companies. Although the Company owns 55% of the voting stock of Renesas, the Company accounts for the investment under the equity method of accounting as Mitsubishi Electric Corporation has substantive participating rights per the joint venture agreement. Total assets and net assets of the operations as of April 1, 2003 amounted to approximately ¥596,118 million and ¥147,443 million, respectively.

(4) Receivables

The aggregate annual maturities of the long-term trade receivables after March 31, 2006 included in Trade receivables- Accounts are as follows:

| Years ending March 31 | Yen (millions) |
|-----------------------|----------------|
| 2007 | 18,552 |
| 2008 | 11,167 |
| 2009 | 7,453 |
| 2010 | 1,107 |
| Thereafter | 984 |
| | 39,263 |

Sales on an installment payment basis for the years ended March 31, 2005, 2004 and 2003 totaled ¥8,275 million, ¥9,021 million and ¥14,618 million, respectively.

(5) Inventories

Inventories as of March 31, 2005 and 2004 are summarized as follows:

| Yen (millions) | |
|----------------|------|
| 2005 | 2004 |
| | |

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| | | |
|-----------------|------------------|------------------|
| Finished goods | 371,331 | 333,337 |
| Work in process | 651,227 | 632,358 |
| Raw materials | 176,397 | 157,711 |
| | <u>1,198,955</u> | <u>1,123,406</u> |

Inventories include items associated with major contracts which require long-term processing performed for more than twelve months. These items as of March 31, 2005 and 2004 aggregated ¥39,474 million and ¥45,860 million, respectively.

(6) Leases

The Company and certain subsidiaries are lessors of manufacturing machinery and equipment under financing and operating lease arrangements with terms ranging from 3 to 6 years.

Machinery and equipment at cost under operating leases and accumulated depreciation as of March 31, 2005 amounted to ¥1,433,516 million and ¥1,094,835 million, respectively. The leased assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

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The following table shows the future minimum lease receivables of financing and non-cancelable operating leases as of March 31, 2005 and the future minimum lease receivables of financing leases as of March 31, 2004:

| | Yen (millions) | |
|--|---------------------|---------------------|
| | 2005 | |
| | Financing leases | Operating leases |
| Years ending March 31 | | |
| 2006 | 201,762 | 72,158 |
| 2007 | 149,871 | 54,022 |
| 2008 | 106,649 | 36,129 |
| 2009 | 73,471 | 18,893 |
| 2010 | 36,546 | 7,163 |
| Thereafter | 35,143 | 11,160 |
| Total minimum payments to be received | 603,442 | 199,525 |
| Amount representing executory costs | (32,029) | |
| Unearned income | (39,650) | |
| Allowance for doubtful receivables | (5,004) | |
| Net investment in financing leases | 526,759 | |

| | Yen (millions) | |
|--|---------------------|----------------|
| | 2004 | |
| | Financing leases | |
| Total minimum payments to be received | | 510,834 |
| Amount representing executory costs | | (28,936) |
| Unearned income | | (24,620) |
| Allowance for doubtful receivables | | (5,525) |

| | |
|------------------------------------|---------|
| Net investment in financing leases | 451,753 |
|------------------------------------|---------|

The Company and certain subsidiaries lease certain manufacturing machinery and equipment. The amount of leased assets at cost under capital leases as of March 31, 2005 and 2004 amounted to ¥33,239 million and ¥34,080 million, respectively, and accumulated depreciation as of March 31, 2005 and 2004 amounted to ¥17,803 million and ¥16,655 million, respectively.

In March 2003, the Company entered into a sale and lease back agreement for its headquarter land and building for total proceeds of ¥40,000 million. The lease back is classified as an operating lease with a term of 38 months. A portion of the gain on sale which represents the present value of the minimum lease payments over the lease term has been deferred and is being recognized over the lease term. This deferral amounted to ¥8,551 million.

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The following table shows the future minimum lease payments of capital and non-cancelable operating leases as of March 31, 2005:

| | Yen (millions) | |
|--|-------------------|---------------------|
| | Capital leases | Operating leases |
| Years ending March 31 | | |
| 2006 | 3,977 | 13,540 |
| 2007 | 3,616 | 10,040 |
| 2008 | 2,479 | 7,348 |
| 2009 | 2,070 | 6,117 |
| 2010 | 862 | 3,925 |
| Thereafter | 1,474 | 7,873 |
| Total minimum lease payments | 14,478 | 48,843 |
| Amount representing executory costs | (362) | |
| Amount representing interest | (965) | |
| Present value of net minimum lease payments | 13,151 | |
| Less current portion of capital lease obligations | (3,569) | |
| Long-term capital lease obligations | 9,582 | |

(7) Securitizations

For the years ended March 31, 2005, 2004 and 2003, Hitachi Capital Corporation (HCC), a financing subsidiary, sold primarily lease receivables, to Special Purpose Entities (SPE), and the SPEs issued asset-backed commercial papers to investors. The investors and the SPEs have no recourse to HCC's other assets for failure of debtors to pay when due. HCC retained servicing responsibilities and subordinated interests, but has not recorded a servicing asset or liability since the cost to service the receivables approximates the servicing income. The retained interests are not material and are subordinate to investor's interests. For the years ended March 31, 2005, 2004 and 2003, gains recognized on the sale of lease receivables amounted to ¥12,985 million, ¥12,394 million and ¥8,278 million, respectively.

The table below summarizes certain cash flows received from and paid to the SPEs during the years ended March 31, 2005, 2004 and 2003:

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| | Yen (millions) | | |
|--|-----------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Proceeds from transfer of lease receivables | 310,668 | 271,281 | 249,430 |
| Servicing fees received | 22 | 23 | 27 |
| Purchases of delinquent or ineligible assets | (25,717) | (14,775) | (8,174) |

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Quantitative information about delinquencies, net credit losses, and components of lease receivables subject to transfer and other assets managed together as of and for the year ended March 31, 2005 are as follows:

| | Yen (millions) | | |
|--------------------------------------|--|---|----------------------|
| | Total principal amount of receivables | Principal amount of receivables 90 days or more past due | Net credit losses |
| Total assets managed or transferred: | | | |
| Lease receivables | 1,096,553 | 737 | 951 |
| Assets transferred | (569,794) | | |
| | 526,759 | | |
| Assets held in portfolio | | | |

For the years ended March 31, 2005, 2004 and 2003, the Company and certain subsidiaries sold trade receivables mainly to SPEs which securitized these receivables. In these securitizations, the Company and certain subsidiaries retained servicing responsibility. No servicing asset or liability has been recorded because the fees for servicing the receivables approximate the related costs. In addition, the Company and certain subsidiaries retained subordinated interests which were not material.

During the years ended March 31, 2005, 2004 and 2003, proceeds from the transfer of trade receivables were ¥1,252,656 million, ¥1,006,164 million and ¥1,080,805 million, respectively, and losses recognized on those transfers were ¥3,388 million, ¥2,973 million and ¥2,965 million, respectively.

(8) Goodwill and Other Intangible Assets

Intangible assets other than goodwill acquired during the years ended March 31, 2005, 2004 and 2003 amounted to ¥228,085 million, ¥190,059 million and ¥262,460 million, respectively, and related amortization expense during the years ended March 31, 2005, 2004 and 2003 amounted to ¥132,370 million, ¥117,561 million and ¥86,095 million, respectively.

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The main component of intangible assets subject to amortization was capitalized software. Amortization of capitalized computer software costs for software to be sold, leased or otherwise marketed is charged to cost of sales.

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Intangible assets other than goodwill as of March 31, 2005 and 2004 are as follows:

| | Yen (millions) | | | | | |
|-------------------------------|--------------------------|-----------------------------|------------------------|--------------------------|-----------------------------|------------------------|
| | 2005 | | | 2004 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Amortized intangible assets | | | | | | |
| Software | 402,523 | 279,139 | 123,384 | 335,808 | 218,972 | 116,836 |
| Software for internal use | 362,426 | 189,024 | 173,402 | 326,745 | 151,955 | 174,790 |
| Patents | 123,445 | 24,375 | 99,070 | 73,502 | 14,350 | 59,152 |
| Other | 96,371 | 61,769 | 34,602 | 75,868 | 45,064 | 30,804 |
| | 984,765 | 554,307 | 430,458 | 811,923 | 430,341 | 381,582 |
| Unamortized intangible assets | 9,382 | | 9,382 | 13,618 | | 13,618 |

The following table shows the estimated aggregate amortization expense of intangible assets for the next five years.

| Years ending March 31 | Yen (millions) |
|-----------------------|----------------|
| 2006 | 100,236 |
| 2007 | 80,885 |
| 2008 | 59,756 |
| 2009 | 39,743 |
| 2010 | 25,605 |

The changes in the carrying amount of goodwill for the years ended March 31, 2005 and 2004 are as follows:

| Yen (millions) | |
|----------------|------|
| 2005 | 2004 |

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| | | |
|--|----------|---------|
| Balance at beginning of the year | 53,478 | 60,317 |
| Acquired during the year | 6,424 | 10,003 |
| Impairment loss | (13,646) | (3,623) |
| Transfer due to divestiture | | (8,232) |
| Translation adjustment and other | (358) | (4,987) |
| Balance at end of the year, included in other assets | 45,898 | 53,478 |

Mainly due to severe demands for price reduction in the Automotive industry reporting units in the Power and Industrial Systems, operating profits and cash flows were lower than expected. Based on that trend, the earnings forecast for the next three years was revised. The Company's determination of fair values of the reporting units incorporate the earnings forecast into its valuation assumptions resulting in a fair market value that was less than its carrying value. The Company recorded a pretax impairment loss of ¥11,526 million, which was reported in selling, general and administrative expenses for the year ended March 31, 2005.

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(9) Income Taxes

Components, as either domestic or foreign, of income before income taxes and minority interests, and income taxes attributable to continuing operations are as follows:

| | Yen (millions) | | |
|---|----------------|---------|---------|
| | 2005 | | |
| | Domestic | Foreign | Total |
| Income before income taxes and minority interests | 212,424 | 52,082 | 264,506 |
| Income taxes: | | | |
| Current tax expense | 85,263 | 19,417 | 104,680 |
| Deferred tax expense | 41,847 | 3,463 | 45,310 |
| | 127,110 | 22,880 | 149,990 |

| | Yen (millions) | | |
|---|----------------|----------|---------|
| | 2004 | | |
| | Domestic | Foreign | Total |
| Income before income taxes and minority interests | 211,000 | 26,149 | 237,149 |
| Income taxes: | | | |
| Current tax expense | 93,264 | 28,335 | 121,599 |
| Deferred tax expense (benefit) | 89,293 | (12,237) | 77,056 |
| | 182,557 | 16,098 | 198,655 |

| | Yen (millions) | | |
|--|----------------|---------|-------|
| | 2003 | | |
| | Domestic | Foreign | Total |
| | | | |

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| | | | |
|---|----------|--------|----------|
| Income before income taxes and minority interests | 69,248 | 27,580 | 96,828 |
| Income taxes: | | | |
| Current tax expense | 76,782 | 11,406 | 88,188 |
| Deferred tax expense (benefit) | (38,996) | 3,470 | (35,526) |
| | 37,786 | 14,876 | 52,662 |

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Significant components of income tax expense (benefit) attributable to continuing operations and other comprehensive income (loss), net of reclassification adjustments, for the years ended March 31, 2005, 2004 and 2003 are as follows:

| | Yen (millions) | | |
|---|----------------|---------|-----------|
| | 2005 | 2004 | 2003 |
| Continuing operations: | | | |
| Current tax expense | 104,680 | 121,599 | 88,188 |
| Deferred tax expense (benefit) (exclusive of the effects of other components listed below) | 23,672 | 35,714 | (20,525) |
| Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates in Japan | | 2,318 | 27,993 |
| Change in valuation allowance | 21,638 | 39,024 | (42,994) |
| | 149,990 | 198,655 | 52,662 |
| Other comprehensive income (loss), net of reclassification adjustments: | | | |
| Minimum pension liability adjustments | 77,535 | 259,788 | (333,700) |
| Net unrealized holding gain on available-for-sale securities | 3,115 | 19,154 | (27,878) |
| Cash flow hedges | (523) | 162 | (335) |
| | 80,127 | 279,104 | (361,913) |
| | 230,117 | 477,759 | (309,251) |

The Company and its domestic subsidiaries are subject to a national corporate tax of 30%, an inhabitant tax of between 17.3% and 20.7% and a deductible business tax between 5% and 10.08%, which in the aggregate resulted in a combined statutory income tax rate of approximately 41.8% for the year ended March 31, 2003.

The Company adopted the consolidated taxation system in Japan effective from the year ended March 31, 2003. Under the consolidated taxation system, the Company had consolidated, for Japanese tax purposes, all wholly-owned domestic subsidiaries. A temporary 2% surtax for the period between April 1, 2002 through March 31, 2004 was assessed for adopting the consolidated taxation system. The aggregated statutory income tax rate for the consolidated group for tax purposes was approximately 43.6% for the year ended March 31, 2004.

On March 31, 2003, amendments to local business tax law in Japan were enacted, resulting in the lower business tax rates. During the year ended March 31, 2004, additional minor changes in tax rates for business taxes were enacted in certain local administrative divisions of Japan. Those changes became effective on April 1, 2004. As a result, the aggregated statutory income tax rate for domestic companies was

approximately 40.6% for the year ended March 31, 2005.

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In accordance with EITF Issue No. 93-13, Effect of a Retroactive Change in Enacted Tax Rates That Is Included in Income from Continuing Operations, the Company determined the tax effect of retroactive changes or changes in enacted tax rates on current and deferred tax assets and liabilities. The effect of these changes on the Company's deferred tax balances amounted to ¥2,318 million and ¥27,933 million in income from continuing operations for the years ended March 31, 2004 and 2003, respectively.

Reconciliations between the combined statutory income tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are as follows:

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|--------------|--------------|--------------|
| Combined statutory income tax rate | 40.6% | 43.6% | 41.8% |
| Equity in (earnings) losses of affiliated companies | 0.0 | (1.9) | 6.8 |
| Impairment of investments in affiliated companies | | 1.4 | 10.8 |
| Excess amounts over the tax basis of investments in affiliated companies | 2.6 | 3.0 | |
| Adjustment of net gain on sale of investments in subsidiaries and affiliated companies | 1.6 | 12.6 | 5.6 |
| Expenses not deductible for tax purposes | 4.6 | 7.2 | 12.9 |
| Enacted changes in tax laws and rates in Japan | | 1.0 | 28.9 |
| Change in valuation allowance | 8.2 | 16.5 | (44.4) |
| Difference in statutory tax rates of foreign subsidiaries | (2.1) | (1.5) | (9.1) |
| Other | 1.2 | 1.9 | 1.1 |
| | <u>56.7%</u> | <u>83.8%</u> | <u>54.4%</u> |

The tax effects of temporary differences and carryforwards that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2005 and 2004 are presented below:

| | <u>Yen (millions)</u> | |
|---|-----------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Total gross deferred tax assets: | | |
| Retirement and severance benefits | 380,254 | 478,559 |
| Accrued expenses | 216,139 | 184,521 |
| Property, plant and equipment, due to differences in depreciation | 34,769 | 30,442 |
| Net operating loss carryforwards | 119,930 | 157,958 |
| Other | 293,735 | 288,820 |

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| | | |
|---|-----------|-----------|
| | 1,044,827 | 1,140,300 |
| Valuation allowance | (196,811) | (191,196) |
| | 848,016 | 949,104 |
| Total gross deferred tax liabilities: | | |
| Deferred profit on sale of properties | (33,077) | (34,645) |
| Tax purpose reserves regulated by Japanese tax laws | (24,268) | (26,674) |
| Net unrealized gain on securities | (35,477) | (26,023) |
| Other | (27,706) | (28,558) |
| | (120,528) | (115,900) |
| Net deferred tax asset | 727,488 | 833,204 |

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In addition to the above, income taxes paid on net intercompany profit on assets remaining within the group, which had been deferred in accordance with Accounting Research Bulletin No. 51, Consolidated Financial Statements, as of March 31, 2005 and 2004 are reflected in the accompanying consolidated balance sheets under the following captions:

| | Yen (millions) | |
|---|----------------|---------------|
| | 2005 | 2004 |
| Prepaid expenses and other current assets | 11,781 | 10,673 |
| Other assets | 51,610 | 56,843 |
| | <u>63,391</u> | <u>67,516</u> |

Net deferred tax asset as of March 31, 2005 and 2004 is reflected in the accompanying consolidated balance sheets under the following captions:

| | Yen (millions) | |
|---|----------------|----------------|
| | 2005 | 2004 |
| Prepaid expenses and other current assets | 295,532 | 283,538 |
| Other assets | 460,721 | 572,982 |
| Other current liabilities | (3,011) | (2,392) |
| Other liabilities | (25,754) | (20,924) |
| | <u>727,488</u> | <u>833,204</u> |
| Net deferred tax asset | 727,488 | 833,204 |

A valuation allowance was recorded against deferred tax assets for deductible temporary differences, net operating loss carryforwards and tax credit carryforwards, taking into account the tax laws of various jurisdictions in which the Company and its subsidiaries operate. The net change in the total valuation allowance for the years ended March 31, 2005 and 2004 was an increase of ¥5,615 million and ¥3,509 million, respectively.

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future

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taxable income in specific tax jurisdictions during the periods in which these deductible differences become deductible. Although realization is not assured, management considered the scheduled reversals of deferred tax liabilities and projected future taxable income, including the execution of certain available tax strategies if needed, in making this assessment. Based on these factors, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2005.

As of March 31, 2005, the Company and various subsidiaries have operating loss carryforwards of ¥328,158 million which are available to offset future taxable income, if any. Operating loss carryforwards of ¥245,065 million expire by March 31, 2010, and ¥83,093 million expire in various years thereafter or do not expire.

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Deferred tax liabilities have not been recognized for excess amounts over the tax basis of investments in foreign subsidiaries that are considered to be reinvested indefinitely, since such temporary differences will not reverse in the foreseeable future and those undistributed earnings, if remitted, generally would not result in material additional Japanese income taxes because of available foreign tax credits. Also, prior to April 1, 2003, deferred tax liabilities had not been recognized for excess amounts over the tax basis of investments in affiliated companies as the effects to the Company's financial position and results of operations were not material.

(10) Short-term and Long-term Debt

The components of short-term debt as of March 31, 2005 and 2004 are summarized as follows:

| | Yen (millions) | |
|------------------------------|----------------|----------------|
| | 2005 | 2004 |
| Borrowings mainly from banks | 333,183 | 323,288 |
| Commercial paper | 295,821 | 216,671 |
| Borrowings from affiliates | 47,607 | 83,857 |
| | 676,611 | 623,816 |

The weighted average interest rate on short-term debt outstanding as of March 31, 2005 and 2004 was 0.1%.

The components of long-term debt as of March 31, 2005 and 2004 are summarized as follows:

| | Yen (millions) | |
|------------------------------------|----------------|---------|
| | 2005 | 2004 |
| Unsecured notes and debentures: | | |
| Due 2006, interest 3.45% debenture | 200,000 | 200,000 |
| Due 2013, interest 0.72% debenture | 80,000 | 80,000 |
| Due 2008, interest 0.52% debenture | 5,000 | |

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| | | |
|---|------------------|------------------|
| Due 2010, interest 0.74% debenture | 5,000 | |
| Due 2005 - 2018, interest 0.03 - 5.92%, issued by subsidiaries | 704,097 | 687,551 |
| Unsecured convertible debentures: | | |
| 7th series, due 2004, interest 1.4% | | 218,468 |
| Series A, due 2009, zero coupon | 50,000 | |
| Series B, due 2009, zero coupon | 50,000 | |
| Due 2004, interest 1.7 - 1.8%, issued by subsidiaries | | 13,059 |
| Loans, principally from banks and insurance companies: | | |
| Secured by various assets and mortgages on property, plant and equipment, maturing 2005 - 2014, interest 0.65 - 4.65% | 12,140 | 22,777 |
| Unsecured, maturing 2005 - 2015, interest 0.4 - 5.7% | 706,507 | 637,111 |
| Capital lease obligations | 13,151 | 14,783 |
| | <u>1,825,895</u> | <u>1,873,749</u> |
| Less current portion | 506,863 | 559,647 |
| | <u>1,319,032</u> | <u>1,314,102</u> |

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Before the Company's merger with Hitachi Unisia Automotive, Ltd., a wholly owned subsidiary, on October 1, 2004, Due 2008, interest 0.52% debenture and Due 2010, interest 0.74% debenture were included in Due 2005-2018, interest 0.03-5.92%, issued by subsidiaries.

The aggregate annual maturities of long-term debt after March 31, 2006 are as follows:

| Years ending March 31 | Yen (millions) |
|-----------------------|----------------|
| 2007 | 214,029 |
| 2008 | 241,888 |
| 2009 | 198,691 |
| 2010 | 337,124 |
| Thereafter | 327,300 |
| | 1,319,032 |

A subsidiary pledges equity securities issued by its subsidiary as collateral for bank loans totaling ¥477 million. The collateralized number of shares and the fair value as of March 31, 2005 are as follows:

| Subsidiary name | Number of shares owned in thousands | Percent of ownership | Collateralized number of shares in thousands | Yen |
|-----------------------------------|---|-------------------------|--|---|
| | | | | (millions) Fair value as of March 31, 2005 |
| Hitachi Powdered Metals Co., Ltd. | 17,072 | 53.3% | 2,000 | 1,614 |

In addition, some other assets are collateralized for bank loans of certain subsidiaries as described in note 16.

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As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that securities and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations.

Generally, the mortgage debenture trust agreements and certain secured and unsecured loan agreements provide, among other things, that the lenders or trustees shall have the right to have any distribution of earnings, including the payment of dividends and the issuance of additional capital stock, submitted to them for prior approval and also grant them the right to request additional securities or mortgages on property, plant and equipment.

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In October, 2004, the Company issued Euro yen zero coupon convertible bonds. The bonds consist of ¥50,000 million series A zero coupon convertible bonds due 2009 and ¥50,000 million series B zero coupon convertible bonds due 2009. The bondholders are entitled to stock acquisition rights effective from November 2, 2004 to October 5, 2009. The initial conversion price is ¥1,009 per share, which will be adjusted to no less than ¥822 on October 19, 2005 and October 19, 2007 for series A zero coupon convertible bonds, and April 19, 2006 and April 19, 2008 for series B zero coupon convertible bonds. During the conversion period, the bondholders may exercise the stock acquisition rights anytime after the closing price of the Company's shares at the Tokyo Stock Exchange on at least one trading day is 115 percent or more of the then applicable conversion price rounded down to the nearest yen. In addition, the bondholders are entitled, at its option, to require the Company to redeem the bonds at a redemption price of 100 percent of the principal amount on October 17, 2008.

(11) Retirement and Severance Benefits

(a) Defined benefit plans

The Company and its subsidiaries have a number of contributory and noncontributory pension plans to provide retirement and severance benefits to substantially all employees.

Under unfunded defined benefit pension plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause.

Directors, Executive Officers and certain employees are not covered by the programs described above. Certain benefits paid to such persons are charged to income as paid as it is not practicable to compute the liability for future payments since amounts vary with circumstances.

In addition to unfunded defined benefit pension plans, the Company and certain of its subsidiaries make contributions to a number of defined benefits pension plans. During the years ended March 31, 2005 and 2004, the Company and certain subsidiaries amended a portion of their defined benefit plans to cash balance plans.

Under the cash balance plans, each employee has a notional account which represents pension benefits. The balance in the notional account is based on principal credits, which are accumulated as employees render services, and interest credits, which are determined based on the market interest rates.

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Net periodic benefit cost for the funded benefit pension plans and the unfunded lump-sum payment plans for the years ended March 31, 2005, 2004 and 2003 consists of the following components:

| | Yen (millions) | | |
|---|----------------|----------------|----------------|
| | 2005 | 2004 | 2003 |
| Service cost | 85,500 | 107,002 | 112,948 |
| Interest cost | 63,637 | 78,493 | 97,161 |
| Expected return on plan assets for the period | (33,749) | (32,863) | (71,679) |
| Amortization of transition asset | (208) | (368) | (421) |
| Amortization of prior service benefit | (13,842) | (13,423) | (10,115) |
| Recognized actuarial loss | 100,274 | 151,567 | 107,478 |
| Transfer to defined contribution pension plan | 3,223 | 1,557 | 5,167 |
| Derecognition of previously accrued salary progression due to transfer of substitutional portion | (16,235) | (17,215) | |
| Loss on previously deferred actuarial losses due to transfer of substitutional portion | 105,758 | 375,049 | |
| Curtailment and settlement loss | 173 | 1,072 | 700 |
| Employees contributions | (3,187) | (9,735) | (16,558) |
| Net periodic benefit cost | 291,344 | 641,136 | 224,681 |
| Difference between the obligations settled and the assets transferred due to transfer of substitutional portion | (165,247) | (411,621) | |
| | 126,097 | 229,515 | 224,681 |

Unrecognized transition asset, unrecognized prior service benefit and cost and unrecognized actuarial gain and loss are amortized using the straight-line method over the average remaining service period of active employees.

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Reconciliations of beginning and ending balances of the benefit obligation of the funded defined benefit pension plans and the unfunded defined benefit pension plans and the fair value of the plan assets are as follows:

| | Yen (millions) | |
|---|--------------------|--------------------|
| | 2005 | 2004 |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | 2,717,784 | 3,753,375 |
| Service cost | 85,500 | 107,002 |
| Interest cost | 63,637 | 78,493 |
| Plan amendments | (57,625) | (115,859) |
| Actuarial loss | 18,377 | 34,676 |
| Benefits paid | (138,245) | (175,210) |
| Acquisitions and divestitures | 13,559 | (78,689) |
| Transfer to defined contribution pension plan | (18,308) | (19,329) |
| Transfer of substitutional portion | (368,132) | (850,697) |
| Curtailement and settlement | (10,956) | (6,801) |
| Foreign currency exchange rate changes | 1,675 | (9,177) |
| Benefit obligation at end of year | 2,307,266 | 2,717,784 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 1,257,195 | 1,513,674 |
| Actual return on plan assets | 59,117 | 167,115 |
| Employers contributions | 130,247 | 154,832 |
| Employees contributions | 3,187 | 9,735 |
| Benefits paid | (98,183) | (131,274) |
| Acquisitions and divestitures | 2,441 | (20,334) |
| Transfer to defined contribution pension plan | (1,209) | (8,621) |
| Transfer of substitutional portion | (186,650) | (421,861) |
| Settlement | (8,234) | |
| Foreign currency exchange rate changes | 1,096 | (6,071) |
| Fair value of plan assets at end of year | 1,159,007 | 1,257,195 |
| Funded status | (1,148,259) | (1,460,589) |
| Unrecognized transition asset | | (208) |
| Unrecognized prior service benefit | (235,757) | (190,667) |
| Unrecognized actuarial loss | 803,104 | 1,021,527 |

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| | | |
|--|-------------|-------------|
| Net amount recognized in the consolidated balance sheet | (580,912) | (629,937) |
| Amounts recognized in the consolidated balance sheet consist of: | | |
| Prepaid benefit cost | 2,212 | 1,070 |
| Accrued benefit cost | (1,033,005) | (1,273,509) |
| Intangible asset | 1,416 | 4,727 |
| Accumulated other comprehensive loss | 448,465 | 637,775 |
| Net amount recognized | (580,912) | (629,937) |

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The Company and substantially all subsidiaries use their year-end as a measurement date. Weighted-average assumptions used to determine the year-end benefit obligations are as follows:

| | <u>2005</u> | <u>2004</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 2.5% | 2.5% |
| Rate of compensation increase | 2.9% | 3.1% |

Weighted-average assumptions used to determine the net periodic pension cost for the years ended March 31, 2005, 2004 and 2003 are as follows:

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|-------------|-------------|-------------|
| Discount rate | 2.5% | 2.5% | 3.3% |
| Expected long-term return on plan assets | 3.0% | 3.7% | 3.9% |
| Rate of compensation increase | 3.1% | 3.3% | 3.2% |

The expected long-term rate of return on plan assets is developed for each asset class, and is determined primarily on historical returns on the plan assets and other factors.

The accumulated benefit obligation was ¥2,167,152 million as of March 31, 2005 and ¥2,514,233 million as of March 31, 2004.

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets are as follows:

| | <u>Yen (millions)</u> | |
|--|-----------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Plans with accumulated benefit obligations in excess of plan assets: | | |
| Accumulated benefit obligations | 2,128,876 | 2,486,835 |

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| | | |
|--|-----------|-----------|
| Plan assets | 1,118,739 | 1,225,906 |
| Plans with projected benefit obligations in excess of plan assets: | | |
| Projected benefit obligations | 2,306,142 | 2,709,118 |
| Plan assets | 1,157,541 | 1,248,067 |

The Employees Pension Fund (EPF) stipulated by the Japanese Pension Insurance Law is one of the defined benefit pension plans to which the Company and certain domestic subsidiaries had contributed. The pension plans under the EPF are composed of the substitutional portion of Japanese Welfare Pension Insurance and the corporate portion which is the contributory defined benefit pension plan covering substantially all of their employees and provides benefits in addition to the substitutional portion. The Company, certain subsidiaries and their employees had contributed the pension premiums for the substitutional portion and the corporate portion to each EPF. The plan assets of each EPF cannot be specifically allocated to the individual participants nor to the substitutional and corporate portions.

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On June 15, 2001, the Japanese government issued a new law concerning defined benefit plans. This law allows a company, at its own discretion, to apply for an exemption from the future benefit obligation and return the past benefit obligation of the substitutional portion of the EPF to the government. In accordance with the new law, the Company and certain subsidiaries obtained approvals from the government for the exemption from the future benefit obligation and for the return of the past benefit obligation through March 31, 2005. Consequently, the Company and certain subsidiaries transferred the substitutional portion of each of their benefit obligations related to past service and the related portion of the plan assets of the EPF to the government during the years ended March 31, 2005 and 2004. The Company anticipates that all remaining subsidiaries will transfer the substitutional portion of their benefit obligations and return the related portion of the plan assets to the government during the year ending March 31, 2006.

The Company and certain subsidiaries accounted for the entire separation process of the transfer as a single settlement transaction upon the completion of the transfer to the government in accordance with EITF Issue No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.

The Company's plans to return the substitutional portion of the EPF to the government had been considered in the actuarial assumptions. EITF Issue No. 03-2 requires employers to measure the obligation at current market rates of interest that could be obtained in a transaction with a third-party, nongovernmental entity to settle the obligation. The Company and certain subsidiaries remeasured the substitutional portion of the benefit obligation at April 1, 2002 in accordance with the EITF. As a result of this remeasurement, the benefit obligation as of April 1, 2002 and net periodic benefit costs for the year ended March 31, 2003 increased by ¥283,084 million and ¥24,857 million, respectively.

Asset allocations for the pension plans as of March 31, 2005 and 2004 are as follows:

| | <u>2005</u> | <u>2004</u> |
|---|---------------|---------------|
| Equity securities | 40.9% | 40.6% |
| Debt securities | 33.2 | 23.7 |
| Cash | 7.0 | 13.3 |
| Life insurance company general accounts | 6.3 | 8.4 |
| Investment trusts | 10.2 | 9.0 |
| Other | 2.4 | 5.0 |
| | <u>100.0%</u> | <u>100.0%</u> |

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The objective of investment policy is to generate a stable return on the investment over the long term, which enable the Company's and certain subsidiaries' pension funds to meet their future obligations. In order to achieve the above objective, a target rate of return is established, taking into consideration composition of participants, level of funded status, the Company's and certain subsidiaries' capacity to absorb risks and the current economic environment. Also, a target asset allocation is established to achieve the target rate of return, based on expected rate of return by each asset class, standard deviation of rate of return and correlation coefficient among the assets. The investments are diversified primarily into domestic and foreign equity and debt securities according to the target asset allocation. Rebalancing will occur if market fluctuates in excess of certain levels. The Company and certain subsidiaries periodically review actual returns on assets, economic environments and their capacity to absorb risk and realign the target asset allocation if necessary.

The Company and its subsidiaries expect to contribute ¥112,346 million to their defined benefit plans for the year ending March 31, 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

| Years ending March 31 | Yen (millions) |
|-----------------------|----------------|
| 2006 | 116,156 |
| 2007 | 115,196 |
| 2008 | 121,838 |
| 2009 | 131,145 |
| 2010 | 139,483 |
| 2011-2015 | 683,420 |

(b) Defined contribution plans

The Company and certain subsidiaries have a number of defined contribution plans. The amount of cost recognized for the Company's and certain subsidiaries' contributions to the plans for the years ended March 31, 2005, 2004 and 2003 were ¥10,749 million, ¥7,718 million and ¥6,895 million, respectively.

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(12) Common Stock

The Company has authorized for issuance 10 billion shares of common stock.

Issued shares, changes in shares and the amount of common stock for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

| | | Yen (millions) |
|--|----------------------|-----------------------|
| | Issued shares | Amount |
| Balance as of March 31, 2002 | 3,338,481,041 | 282,032 |
| Issued under exchange offerings | 29,643,245 | |
| Balance as of March 31, 2003 | 3,368,124,286 | 282,032 |
| Issued upon conversion of convertible debentures | 590 | 0 |
| Balance as of March 31, 2004 | 3,368,124,876 | 282,032 |
| Issued upon conversion of convertible debentures | 1,180 | 1 |
| Balance as of March 31, 2005 | 3,368,126,056 | 282,033 |

Issued shares under exchange offerings for the year ended March 31, 2003 include the issuance of 25,143,245, in connection with the Hitachi Unisia Automotive, Ltd. acquisition shares as discussed in note 27.

Conversions of convertible debt issued subsequent to October 1, 1982 into common stock were accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one-half of the conversion price to each of the common stock accounts and the capital surplus accounts.

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(13) Legal Reserve and Cash Dividends

The Japanese Commercial Code provides that earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash should be appropriated as a legal reserve until the total of additional paid in capital and legal reserve equals 25 percent of stated common stock. In addition to reduction of a deficit and transfer to stated common stock, either additional paid in capital or legal reserve may be available for dividends by resolution of the shareholders to the extent that the amount of total additional paid in capital and legal reserve exceeds 25 percent of stated common stock.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2005, 2004 and 2003 represent dividends declared during those years and the related appropriations to the legal reserve. A provision has not been made in the accompanying consolidated financial statements for the dividend for the second half year ended March 31, 2005 of ¥5.5 per share, aggregating ¥18,323 million. This dividend will be reported by the Board of Directors at the ordinary general shareholders meeting in respect to the year ended March 31, 2005.

Cash dividends per share for the years ended March 31, 2005, 2004 and 2003 were ¥11.0, ¥8.0 and ¥6.0, respectively, based on dividends declared with respect to earnings for the periods.

(14) Treasury Stock

The Japanese Commercial Code (JCC) allows a company to acquire treasury stock upon shareholders approval to the extent that sufficient distributable funds are available. Effective September 25, 2003, the JCC was amended to no longer require shareholders approval but Board of Directors approval to the extent that the Board of Directors authority was stated in the articles of incorporation. In this connection, the related amendment of the articles of incorporation was approved at the ordinary general shareholders meeting on June 24, 2004.

Pursuant to the provisions of the JCC, shareholders may request the Company to acquire their shares below a minimum trading lot (1,000 shares) as shares below a minimum trading lot cannot be publicly traded and do not carry a voting right. The JCC also states that a shareholder holding shares less than a minimum trading lot is entitled to request the company to sell its treasury stock, if any, to the shareholder up to a minimum trading lot, provided that sale of treasury stock is allowed under the articles of incorporation. In this connection, the related amendment of the articles of incorporation was approved at the ordinary general shareholders meeting on June 25, 2003.

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The changes in treasury stock for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

| | Yen (millions) | |
|--|-----------------------|---------------|
| | Shares | Amount |
| Balance as of March 31, 2002 | 370,714 | 333 |
| Acquisition for treasury | 2,864,577 | 1,514 |
| Balance as of March 31, 2003 | 3,235,291 | 1,847 |
| Acquisition for treasury | 67,199,843 | 30,464 |
| Sales of treasury stock | (325,161) | (149) |
| Balance as of March 31, 2004 | 70,109,973 | 32,162 |
| Acquisition for treasury | 1,697,685 | 1,177 |
| Sales of treasury stock | (1,321,295) | (478) |
| Stock exchange upon a merger (note 27) | (33,937,141) | (15,625) |
| Balance as of March 31, 2005 | 36,549,222 | 17,236 |

At the ordinary general shareholders' meetings on June 25, 2003 and June 26, 2002, the Company was authorized to acquire for treasury up to 300,000,000 shares of its common stock each year for an aggregate acquisition amount not exceeding ¥150,000 million and ¥300,000 million, respectively, during the period from the close of the ordinary general shareholders' meeting to the close of the next ordinary general shareholders' meeting, pursuant to the provisions of the JCC.

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(15) Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of related tax effects, displayed in the consolidated statements of stockholders' equity is classified as follows:

| | Yen (millions) | | |
|--|------------------|------------------|------------------|
| | 2005 | 2004 | 2003 |
| Foreign currency translation adjustments: | | | |
| Balance at beginning of year | (95,786) | (60,948) | (38,012) |
| Other comprehensive income (loss), net of reclassification adjustments | 5,320 | (34,275) | (21,833) |
| Net transfer to minority interests | (438) | (563) | (1,103) |
| Balance at end of year | (90,904) | (95,786) | (60,948) |
| Minimum pension liability adjustments: | | | |
| Balance at beginning of year | (329,536) | (698,916) | (260,100) |
| Other comprehensive income (loss) | 86,541 | 366,707 | (438,799) |
| Net transfer from (to) minority interests | 323 | 2,673 | (17) |
| Balance at end of year | (242,672) | (329,536) | (698,916) |
| Net unrealized holding gain on available-for-sale securities: | | | |
| Balance at beginning of year | 31,499 | 4,874 | 39,997 |
| Other comprehensive income (loss), net of reclassification adjustments | 1,458 | 26,635 | (35,082) |
| Net transfer from (to) minority interests | 39 | (10) | (41) |
| Balance at end of year | 32,996 | 31,499 | 4,874 |
| Cash flow hedges: | | | |
| Balance at beginning of year | (41) | (535) | (369) |
| Other comprehensive income (loss), net of reclassification adjustments | (653) | 49 | (147) |
| Net transfer from (to) minority interests | (250) | 445 | (19) |
| Balance at end of year | (944) | (41) | (535) |
| Total accumulated other comprehensive loss: | | | |
| Balance at beginning of year | (393,864) | (755,525) | (258,484) |
| Other comprehensive income (loss), net of reclassification adjustments | 92,666 | 359,116 | (495,861) |
| Net transfer from (to) minority interests | (326) | 2,545 | (1,180) |

| | | | |
|------------------------|------------------|------------------|------------------|
| Balance at end of year | <u>(301,524)</u> | <u>(393,864)</u> | <u>(755,525)</u> |
|------------------------|------------------|------------------|------------------|

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The following is a summary of reclassification adjustments by each classification of other comprehensive income (loss) arising during the years ended March 31, 2005, 2004 and 2003 and the amounts of income tax expense or benefit allocated to each component of other comprehensive income (loss), including reclassification adjustments.

| | Yen (millions) | | |
|---|----------------|-------------|------------|
| | 2005 | | |
| | Before-tax | Tax benefit | Net-of-tax |
| | amount | (expense) | amount |
| Other comprehensive income arising during the year: | | | |
| Foreign currency translation adjustments | 4,650 | | 4,650 |
| Minimum pension liability adjustments | 147,163 | (60,622) | 86,541 |
| Net unrealized holding gain on available-for-sale securities | 13,174 | (5,627) | 7,547 |
| Cash flow hedges | (1,233) | 373 | (860) |
| | 163,754 | (65,876) | 97,878 |
| Reclassification adjustments for net gain included in net income: | | | |
| Foreign currency translation adjustments | 670 | | 670 |
| Net unrealized holding gain on available-for-sale securities | (10,566) | 4,477 | (6,089) |
| Cash flow hedges | 259 | (52) | 207 |
| | (9,637) | 4,425 | (5,212) |
| Other comprehensive income, net of reclassification adjustments: | | | |
| Foreign currency translation adjustments | 5,320 | | 5,320 |
| Minimum pension liability adjustments | 147,163 | (60,622) | 86,541 |
| Net unrealized holding gain on available-for-sale securities | 2,608 | (1,150) | 1,458 |
| Cash flow hedges | (974) | 321 | (653) |
| | 154,117 | (61,451) | 92,666 |

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| | Yen (millions) | | |
|---|----------------|-------------|------------|
| | 2004 | | |
| | Before-tax | Tax benefit | Net-of-tax |
| | amount | (expense) | amount |
| Other comprehensive income arising during the year: | | | |
| Foreign currency translation adjustments | (42,535) | | (42,535) |
| Minimum pension liability adjustments | 619,719 | (253,012) | 366,707 |
| Net unrealized holding gain on available-for-sale securities | 66,059 | (26,678) | 39,381 |
| Cash flow hedges | (722) | 62 | (660) |
| | 642,521 | (279,628) | 362,893 |
| Reclassification adjustments for net gain included in net income: | | | |
| Foreign currency translation adjustments | 8,260 | | 8,260 |
| Net unrealized holding gain on available-for-sale securities | (21,599) | 8,853 | (12,746) |
| Cash flow hedges | 722 | (13) | 709 |
| | (12,617) | 8,840 | (3,777) |
| Other comprehensive income, net of reclassification adjustments: | | | |
| Foreign currency translation adjustments | (34,275) | | (34,275) |
| Minimum pension liability adjustments | 619,719 | (253,012) | 366,707 |
| Net unrealized holding gain on available-for-sale securities | 44,460 | (17,825) | 26,635 |
| Cash flow hedges | 0 | 49 | 49 |
| | 629,904 | (270,788) | 359,116 |

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| | Yen (millions) | | |
|---|----------------|-------------|------------|
| | 2003 | | |
| | Before-tax | Tax benefit | Net-of-tax |
| | amount | (expense) | amount |
| Other comprehensive loss arising during the year: | | | |
| Foreign currency translation adjustments | (21,294) | | (21,294) |
| Minimum pension liability adjustments | (744,779) | 305,980 | (438,799) |
| Net unrealized holding gain on available-for-sale securities | (54,607) | 22,789 | (31,818) |
| Cash flow hedges | (953) | 388 | (565) |
| | (821,633) | 329,157 | (492,476) |
| Reclassification adjustments for net gain included in net income: | | | |
| Foreign currency translation adjustments | (539) | | (539) |
| Net unrealized holding gain on available-for-sale securities | (5,642) | 2,378 | (3,264) |
| Cash flow hedges | 707 | (289) | 418 |
| | (5,474) | 2,089 | (3,385) |
| Other comprehensive loss, net of reclassification adjustments: | | | |
| Foreign currency translation adjustments | (21,833) | | (21,833) |
| Minimum pension liability adjustments | (744,779) | 305,980 | (438,799) |
| Net unrealized holding gain on available-for-sale securities | (60,249) | 25,167 | (35,082) |
| Cash flow hedges | (246) | 99 | (147) |
| | (827,107) | 331,246 | (495,861) |

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(16) Commitments and Contingencies

The Company and its operating subsidiaries are contingently liable for loan guarantees to its affiliates in the amount of approximately ¥31,258 million as of March 31, 2005.

Hitachi Capital Corporation (HCC), a financing subsidiary of the Company, provides guarantees to financial institutions for extending loans to customers of HCC. As of March 31, 2005, the undiscounted maximum potential future payments under such guarantees amounted to ¥548,504 million. The Company has accrued ¥6,099 million as an obligation to stand ready to perform over the term of the guarantees in the event the customer can not make its scheduled payments.

HCC provides certain revolving lines of credit to its credit card holders in accordance with the terms of the credit card business customer service contracts. Furthermore, HCC provides credit facilities to parties in accordance with the service agency business contracts from which temporary payments on behalf of such parties are made. In addition, the Company and HCC provide loan commitments to its affiliates.

The outstanding balance of these revolving lines of credit, credit facilities and loan commitments as of March 31, 2005 is as follows:

| | Yen (millions) |
|----------------------------|-----------------------|
| Total commitment available | 656,825 |
| Amount utilized | 18,421 |
| Balance available | 638,404 |

A portion of these revolving lines of credit is pending credit approval and cannot be utilized.

The Company and certain of its subsidiaries have line of credit arrangements with banks in order to secure a source of working capital. The unused line of credit as of March 31, 2005 amounted to ¥183,014 million.

As of March 31, 2005, outstanding commitments for the purchase of property, plant and equipment were approximately ¥35,937 million.

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The Company and its subsidiaries generally warrant its products over respective warranty periods. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. The changes in accrued product warranty costs for the years ended March 31, 2005 and 2004 are summarized as follows:

| | Yen (millions) | |
|---|-----------------------|-------------|
| | 2005 | 2004 |
| Balance at beginning of year | 107,774 | 105,297 |
| Expense recognized upon issuance of warranties | 76,510 | 56,422 |
| Payment of cash or in kind | (55,264) | (50,471) |
| Other, including effect of foreign currency translation | (71) | (3,474) |
| Balance at end of year | 128,949 | 107,774 |

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It is a common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to subsequently discount such notes to banks or to transfer them by endorsement to suppliers in the settlement of accounts payable.

As of March 31, 2005 and 2004, the Company and subsidiaries were contingently liable for trade notes discounted and endorsed in the following amounts:

| | Yen (millions) | |
|------------------|-----------------------|---------------|
| | 2005 | 2004 |
| Notes discounted | 4,853 | 3,839 |
| Notes endorsed | 6,644 | 15,592 |
| | 11,497 | 19,431 |

As of March 31, 2005, certain subsidiaries pledge a portion of their assets as collateral for bank loans, trade payables and other liabilities as follows:

| | Yen (millions) |
|---------------------------|-----------------------|
| Cash and cash equivalents | 117 |
| Short-term investments | 247 |
| Other current assets | 1,833 |
| Investments and advances | 112 |
| Land | 7,437 |
| Buildings | 9,053 |
| Machinery and equipment | 5,910 |
| | 24,709 |

The Company and certain subsidiaries are subject to several legal proceedings and claims which have arisen in the ordinary course of business and have not been finally adjudicated. These actions when ultimately concluded and determined will not, in the opinion of management, have a

material adverse effect on the financial position and results of operations of the Company.

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(17) Impairment Losses for Long-Lived Assets

The Company and certain subsidiaries recognized impairment losses for long-lived assets for the years ended March 31, 2005, 2004 and 2003 in the amount of ¥26,797 million, ¥26,085 million and ¥8,474 million, respectively.

For the year ended March 31, 2005, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan, which primarily consisted of ¥8,517 million in the Electronic Devices division, ¥4,954 million in the High Functional Materials & Components division and ¥4,453 million in the Corporate division. These losses were mainly the result of change in the extent or manner the assets were used and were determined based primarily on discounted future cash flows.

For the year ended March 31, 2004, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan, which primarily consisted of ¥13,391 million in the Corporate division and ¥8,175 million in the Information & Telecommunication Systems division. These losses, in part, were the result of change in the manner the assets were used.

For the year ended March 31, 2003, the majority of the impairment losses were recorded on the Company's Device Development Center, which develops semiconductor products, resulted from the Company's realignment of the semiconductor operations.

(18) Restructuring Charges

Certain losses incurred in the reorganization of the Company's operations are considered restructuring charges. Components and related amounts of the restructuring charges, before the related tax effects, for the years ended March 31, 2005, 2004 and 2003 are as follows:

| | Yen (millions) | | |
|------------------------------------|----------------|---------------|------|
| | 2005 | 2004 | 2003 |
| Special termination benefits | 29,426 | 18,155 | |
| Loss on fixed assets | 3,881 | 10,458 | |
| Total restructuring charges | 33,307 | 28,613 | |

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In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies the FASB's EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination covered by EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, or with a disposal activity covered by SFAS No. 144. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and measured at fair value. The provisions of the statement were effective for exit or disposal activities that were initiated after December 31, 2002. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

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The Company and certain subsidiaries provided special termination benefits to those employees voluntarily leaving the Company. The accrued special termination benefits were recognized at the time voluntary termination was offered and benefits accepted by the employees. An analysis of the accrued special termination benefits for the years ended March 31, 2005, 2004 and 2003 is as follows:

| | Yen (millions) | | |
|--|----------------|----------|-----------|
| | 2005 | 2004 | 2003 |
| Balance at beginning of the year | 908 | | 114,266 |
| New charges | 29,426 | 18,155 | |
| (employees to be terminated) | 3,714 | 2,143 | |
| Cash payments | (15,939) | (17,247) | (114,213) |
| (employees actually terminated) | 2,334 | 2,037 | 10,077 |
| Foreign currency exchange rate changes | (6) | | (53) |
| | 14,389 | 908 | |
| Balance at end of the year | 14,389 | 908 | |

The following represent significant restructuring activities for the year ended March 31, 2005 by business line:

1. Information & Telecommunication Systems division restructured in order to strengthen its business structure primarily in Japan. The accrued special termination benefits expensed during the year ended March 31, 2005 amounted to ¥16,666 million. The liabilities for special termination benefits amounting to ¥9,599 million at March 31, 2005 will be paid by March 2006. Total restructuring charges during the year ended March 31, 2005 amounted to ¥16,708 million.
2. Digital Media & Consumer Products division restructured mainly its digital media plants in order to reorganize digital media operations primarily in Japan. The accrued special termination benefits expensed during the year ended March 31, 2005 amounted to ¥8,080 million. The liabilities for special termination benefits amounting to ¥2,696 million will be paid by March 2006. Total restructuring charges during the year ended March 31, 2005 amounted to ¥9,685 million.
3. High Functional Materials & Components division restructured its magnetic materials operations and cable operations in order to strengthen its management structure. The accrued special termination benefits expensed during the year ended March 31, 2005 amounted to ¥1,711 million and were paid by March 2005. Total restructuring charges during the year ended March 31, 2005 amounted to ¥3,945 million.

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AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following represent significant restructuring activities for the year ended March 31, 2004 by business line:

1. Power & Industrial Systems division restructured in order to address the general weakness in demand primarily in Japan. The accrued special termination benefits expensed during the year ended March 31, 2004 amounted to ¥1,414 million. The liabilities for special termination benefits amounting to ¥715 million were paid by March 2005. Total restructuring charges during the year ended March 31, 2004 consisted only of special termination benefits.
2. Digital Media & Consumer Products division restructured its consumer products plants and related distribution network in order to address the general weakness in consumer demand primarily, in Japan. The accrued special termination benefits expensed during the year ended March 31, 2004 amounted to ¥14,394 million. The liabilities for special termination benefits amounting to ¥26 million were paid by March 2005. Total restructuring charges during the year ended March 31, 2004 amounted to ¥17,760 million.
3. High Functional Materials & Components division restructured its semiconductor packaging materials operations because the business environment took a dramatic downturn in Japan. The accrued special termination benefits expensed during the year ended March 31, 2004 amounted to ¥2,347 million. The liabilities for special termination benefits amounting to ¥167 million were paid by March 2005. Total restructuring charges during the year ended March 31, 2004 amounted to ¥9,439 million.

(19) Other Income and Other Deductions

The following items are included in other income or other deductions for the years ended March 31, 2005, 2004 and 2003.

| | Yen (millions) | | |
|--|----------------|----------|----------|
| | 2005 | 2004 | 2003 |
| Net gain (loss) on securities | 46,463 | 130,175 | (660) |
| Equity in earnings (losses) of affiliated companies | (162) | 10,120 | (15,803) |
| Net gain (loss) on sale and disposal of rental assets and other property | (9,545) | 1,715 | 23,658 |
| Exchange gain (loss) | 4,389 | (17,484) | (18,262) |

Other income for the year ended March 31, 2005 includes a net gain of ¥14,422 million from issuance of stock by certain subsidiaries and affiliated companies which resulted in changes of the Company's ownership interest.

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Other deductions for the year ended March 31, 2003 includes a net periodic benefit cost of ¥24,857 million which was generated as the result of adopting EITF Issue No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, as described in note 11.

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Notes to Consolidated Financial Statements

(20) Sales of Stock by Subsidiaries or Affiliated Companies

In November 2004, Elpida Memory, Inc., an affiliated company which is a Japanese manufacturer of Dynamic Random Access Memory silicon chips, issued 29,150,000 shares of common stock at ¥3,325 per share to third parties with the initial public offering. In December 2004, Elpida Memory, Inc. issued 2,700,000 shares of common stock at ¥3,325 per share to a third party. As a result of the issuance of new shares, the Company's ownership interest of common stock decreased from 50.0% to 25.0% at March 31, 2005.

The Company provided deferred tax liability on this gain.

(21) Net Income Per Share Information

The reconciliations of the numbers and the amounts used in the basic and diluted net income per share computations are as follows:

| | Number of shares | | |
|---|------------------|---------------|---------------|
| | 2005 | 2004 | 2003 |
| Weighted average number of shares on which basic net income per share is calculated | 3,316,354,127 | 3,303,624,737 | 3,351,624,705 |
| Effect of dilutive securities: | | | |
| Series A zero coupon convertible bonds | 22,265,365 | | |
| Series B zero coupon convertible bonds | 22,265,365 | | |
| Stock options | 215,813 | 134,551 | |
| Number of shares on which diluted net income per share is calculated | 3,361,100,670 | 3,303,759,288 | 3,351,624,705 |
| | | | |
| | Yen (millions) | | |
| | 2005 | 2004 | 2003 |
| Net income applicable to common stockholders | 51,496 | 15,876 | 27,867 |
| Effect of dilutive securities: | | | |
| Series A zero coupon convertible bonds | 1 | | |
| Series B zero coupon convertible bonds | 1 | | |

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| | | | |
|--|--------|------------|--------|
| Other | (579) | (192) | (402) |
| Net income on which diluted net income per share is calculated | 50,919 | 15,684 | 27,465 |
| | | Yen | |
| Net income per share: | | | |
| Basic | 15.53 | 4.81 | 8.31 |
| Diluted | 15.15 | 4.75 | 8.19 |

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HITACHI, LTD.
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Notes to Consolidated Financial Statements

The net income per share computations for the years ended March 31, 2004 and 2003 exclude 6th and 7th series convertible debentures because their effect would have been antidilutive. The net income per share computation for the year ended March 31, 2005 excludes 7th series convertible debentures because their effect would have been antidilutive. In addition, 6th and 7th series convertible debentures were redeemed in September 2003 and September 2004, respectively.

(22) Supplementary Income Information

| | Yen (millions) | | |
|---|----------------|----------------|----------------|
| | 2005 | 2004 | 2003 |
| Taxes other than income taxes consist of the following: | | | |
| Property | 39,597 | 40,001 | 45,318 |
| Welfare | 192,763 | 199,630 | 203,196 |
| Other | 22,890 | 12,969 | 12,277 |
| | <u>255,250</u> | <u>252,600</u> | <u>260,791</u> |
| Maintenance and repairs | 73,952 | 69,084 | 83,660 |
| Research and development expense | 388,634 | 371,825 | 377,154 |
| Advertising expense | 53,405 | 48,512 | 52,165 |
| Rent | 137,179 | 142,649 | 156,552 |

(23) Supplementary Cash Flow Information

| | Yen (millions) | | |
|--------------------------------|----------------|--------|--------|
| | 2005 | 2004 | 2003 |
| Cash paid during the year for: | | | |
| Interest | 30,706 | 32,128 | 35,932 |
| Income taxes | 123,541 | 93,858 | 94,013 |

Convertible debentures issued by the Company of ¥2 million in 2005 and ¥1 million in 2004 were converted into common stock. Convertible debentures issued by subsidiaries of ¥11,054 million in 2005, ¥6,769 million in 2004 and ¥4,728 million in 2003 were converted into subsidiaries common stock. Capital lease assets of ¥2,109 million in 2005, ¥3,998 million in 2004 and ¥4,050 million in 2003 were capitalized.

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During the years ended March 31, 2005 and 2003, the Company acquired and merged some of its subsidiaries and affiliated companies through exchange of equity securities procedure as shown in note 27.

The proceeds from sale of securities classified as available-for-sale discussed in note 3 are included in both (Increase) decrease in short-term investments and Proceeds from sale of investments and subsidiaries common stock on the consolidated statements of cash flows.

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Notes to Consolidated Financial Statements

(24) Derivative Instruments and Hedging Activities

Overall risk profile

The major manufacturing bases of the Company and its subsidiaries are located in Japan and Asia. The selling bases are located globally, and the Company and its subsidiaries generate approximately 35% of their sales from overseas. These overseas sales are mainly denominated in the U.S. dollar or Euro. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates.

The Company's financing subsidiaries in London, New York and Singapore issue U.S. dollar denominated, variable rate, medium-term notes mainly through the Euro markets to finance its overseas long-term operating capital. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates and interest rates.

The Company and its subsidiaries are also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations because most of the counterparties are internationally recognized financial institutions and contracts are diversified into a number of major financial institutions.

Risk management policy

The Company and its subsidiaries assess foreign currency exchange rate risk and interest rate risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. It is the Company's principal policy that the Company and its subsidiaries do not enter into derivative financial instruments for speculation purposes.

Foreign currency exchange rate risk management

The Company and its subsidiaries have assets and liabilities which are exposed to foreign currency exchange rate risk and, as a result, they enter into forward exchange contracts and cross currency swap agreements for the purpose of hedging these risk exposures.

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In order to fix the future net cash flows principally from trade receivables and payables recognized, which are denominated in foreign currencies, the Company and its subsidiaries on a monthly basis measure the volume and due date of future net cash flows by currencies. In accordance with the Company's policy, a certain portion of measured net cash flows is covered using forward exchange contracts, which principally mature within one year.

The Company and its subsidiaries enter into cross currency swap agreements with the same maturities as underlying debt to fix cash flows from long-term debt denominated in foreign currencies. The hedging relationship between the derivative financial instrument and its hedged item is highly effective in achieving offsetting changes in foreign currency exchange rates.

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Interest rate risk management

The Company's and certain subsidiaries' exposure to interest rate risk is related principally to long-term debt obligations. Management believes it is prudent to minimize the variability caused by interest rate risk.

To meet this objective, the Company and certain subsidiaries principally enter into interest rate swaps to manage fluctuations in cash flows. The interest rate swaps entered into are receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company and certain subsidiaries receive variable interest rate payments on long-term debt associated with medium-term notes and make fixed interest rate payments, thereby creating fixed interest rate long-term debt.

The Company and certain financing subsidiaries mainly finance a portion of their operations by long-term debt with a fixed interest rate and lend funds at variable interest rates. Therefore, such companies are exposed to interest rate risk. Management believes it is prudent to minimize the variability caused by interest rate risk. To meet this objective, the Company and certain financing subsidiaries principally enter into interest rate swaps converting the fixed rate to the variable rate to manage fluctuations in fair value resulting from interest rate risk. Under the interest rate swaps, the Company and certain financing subsidiaries receive fixed interest rate payments associated with medium-term notes and make variable interest rate payments, thereby creating variable-rate long-term debt.

The hedging relationship between the interest rate swaps and its hedged item is highly effective in achieving offsetting changes in cash flows and fair value resulting from interest rate risk.

Fair value hedge

Changes in fair value of both recognized assets and liabilities, and derivative financial instruments designated as fair value hedges of these assets and liabilities are recognized in other income (deductions). Derivative financial instruments designated as fair value hedges include forward exchange contracts associated with operating transactions, cross currency swap agreements and interest rate swaps associated with financing transactions.

Interest charges for the years ended March 31, 2005 and 2004 include losses of ¥716 million and ¥1,098 million, respectively, which represents the component excluded from the assessment of hedge effectiveness. The sum of the amount of hedge ineffectiveness is not material for the years ended March 31, 2005, 2004 and 2003.

Cash flow hedge

Foreign currency exposure

Changes in fair value of forward exchange contracts designated and qualifying as cash flow hedges of forecasted transactions are reported in accumulated other comprehensive income (AOCI). These amounts are reclassified into earnings in the same period as the hedged items affect earnings.

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Exchange gain for the year ended March 31, 2005 include losses of ¥351 million which represents the component excluded from the assessment of hedge effectiveness. The sum of the amount of the hedging ineffectiveness is not material for the years ended March 31, 2005, 2004 and 2003.

It is expected that approximately ¥94 million of gains recorded in AOCI relating to existing forward exchange contracts will be reclassified into other income and other deductions during the year ending March 31, 2006.

As of March 31, 2005, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to the variability in future cash flows associated with foreign currency forecasted transactions is approximately 39 months.

Interest rate exposure

Changes in fair values of interest rate swaps designated as hedging instruments for the variability of cash flows associated with long-term debt obligations are reported in AOCI. These amounts subsequently are reclassified into interest charges as a yield adjustment in the same period in which the hedged debt obligations affect earnings.

Interest charges for the years ended March 31, 2004 and 2003 include losses of ¥356 million and ¥497 million, respectively, which represents the component excluded from the assessment of hedge effectiveness. Net gain or loss excluded from the assessment of hedge effectiveness is not material for the year ended March 31, 2005. Interest charges for the years ended March 31, 2005 and 2004 include losses of ¥202 million and ¥257 million, respectively, which represents the component of the hedging ineffectiveness. Ineffectiveness was not material for the year ended March 31, 2003.

During the year ending March 31, 2006, approximately ¥175 million of losses recorded in AOCI related to the interest rate swaps are expected to be reclassified into interest charges as a yield adjustment of the hedged debt obligations.

The contract or notional amounts of derivative financial instruments held as of March 31, 2005 and 2004 are summarized as follows:

Yen (millions)

| | 2005 | 2004 |
|---------------------------------|---------|---------|
| Forward exchange contracts: | | |
| To sell foreign currencies | 282,333 | 235,750 |
| To buy foreign currencies | 62,104 | 29,462 |
| Cross currency swap agreements: | | |
| To sell foreign currencies | 91,732 | 23,896 |
| To buy foreign currencies | 148,007 | 132,842 |
| Interest rate swaps | 571,395 | 445,609 |
| Option contracts | 19,152 | 8,708 |

(25) Concentrations of Credit Risk

The Company and its subsidiaries generally do not have significant concentrations of credit risk to any counterparties nor any regions because they are diversified and spread globally.

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Notes to Consolidated Financial Statements

(26) Fair Value of Financial Instruments

The following methods and assumptions are used to estimate the fair values of financial instruments:

Investment in securities

The fair value of investment in securities is estimated based on quoted market prices for these or similar securities.

Long-term debt

The fair value of long-term debt is estimated based on quoted market prices or the present value of future cash flows using the Company's and its subsidiaries' incremental borrowing rates for similar borrowing arrangements.

Cash and cash equivalents, Trade receivables, Short-term debt and Trade payables

The carrying amount approximates the fair value because of the short maturity of these instruments.

Derivative financial instruments

The fair values of forward exchange contracts, cross currency swap agreements, interest rate swaps and option contracts are estimated on the basis of the market prices of derivative financial instruments with similar contract conditions.

The carrying amounts and estimated fair values of the financial instruments as of March 31, 2005 and 2004 are as follows:

| | Yen (millions) | | | |
|-----------------------------------|----------------|-------------|-------------|-------------|
| | 2005 | | 2004 | |
| | Carrying | Estimated | Carrying | Estimated |
| | amounts | fair values | amounts | fair values |
| Investment in securities: | | | | |
| Short-term investments | 146,568 | 146,568 | 177,949 | 177,949 |
| Investments and advances | 315,129 | 315,143 | 312,484 | 312,489 |
| Derivatives (Assets): | | | | |
| Forward exchange contracts | 683 | 683 | 3,422 | 3,422 |
| Cross currency swap agreements | 1,109 | 1,109 | 1,961 | 1,961 |
| Interest rate swaps | 1,407 | 1,407 | 2,024 | 2,024 |
| Option contracts | | | 3 | 3 |
| Long-term debt | (1,825,895) | (1,826,562) | (1,873,749) | (1,893,728) |
| Derivatives (Liabilities): | | | | |
| Forward exchange contracts | (5,211) | (5,211) | (353) | (353) |
| Cross currency swap agreements | (6,478) | (6,478) | (8,610) | (8,610) |
| Interest rate swaps | (5,603) | (5,603) | (3,669) | (3,669) |
| Option contracts | (237) | (237) | (60) | (60) |

It is not practicable to estimate the fair value of investments in unlisted common stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amounts of these investments at March 31, 2005 and 2004 totaled ¥77,755 million and ¥77,242 million, respectively.

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(27) Merger and Acquisition

On May 28, 2002, the Company signed a share exchange agreement with Hitachi Unisia Automotive, Ltd., former UNISIA JECS Corporation (UJ), to assume full ownership of UJ by exchanging 0.197 of the Company's common stock for each share of UJ common stock outstanding. The Company and UJ obtained third party valuations of the respective share prices which were used as a basis in negotiating the share exchange ratio. On October 1, 2002, the Company issued 25,143,245 shares of common stock, in the amount of ¥23,635 million based on the quoted market price of ¥940 per share as of the announcement date, April 18, 2002, for exchange with the UJ registered shareholders as of September 30, 2002.

UJ manufactures automotive systems and components that support every area of basic vehicle function. The Company has strategically targeted the automotive products business and the purpose of making UJ a wholly owned subsidiary is to further expand this business.

The effects of the acquisition to the balance sheet as of October 1, 2002 are as follows:

| | <u>Yen (millions)</u> |
|--------------------------------|-----------------------|
| Current assets | 68,427 |
| Non-current assets | 121,248 |
| Goodwill | 10,435 |
| Current liabilities | (99,453) |
| Non-current liabilities | (76,120) |
| Net assets acquired | (23,635) |
| Net assets previously acquired | (902) |

The results of operations of UJ for the period from October 1, 2002 to March 31, 2003 are included in the accompanying consolidated statements of operations. On a pro forma basis, revenue, net income and the per share information of the Company, with an assumed acquisition date for UJ of April 1, 2002 would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the year ended March 31, 2003.

On May 25, 2004, the Company signed a merger agreement with TOKICO LTD. (TOKICO) and UJ and, on October 1, 2004, acquired full ownership of TOKICO by exchanging 0.521 of the Company's treasury stock for each of TOKICO's common stocks outstanding. Before the transaction, the Company and certain subsidiaries had owned approximately 42% of TOKICO, which had been accounted for under the equity method. The Company and TOKICO obtained third party appraisals of the respective share prices which were used as a basis of negotiation over the share exchange ratio. On October 1, 2004, the Company issued 33,937,141 shares of treasury stock, in the amount of ¥28,134 million calculated by using the quoted market price of ¥829 per share as of the announcement date, March 26, 2004, for the exchange with the

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TOKICO's shareholders registered as of September 30, 2004. As a result, ¥12,509 million of gains on stock exchange upon the merger was credited to capital surplus.

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Notes to Consolidated Financial Statements

TOKICO manufactures automotive components and pneumatic equipment. As described above, the Company has strategically targeted the automotive products business and the purpose of the merger with TOKICO is to further expand this business.

The effects of the merger to the Company's consolidated financial position as of October 1, 2004 were not material. On a pro forma basis, revenue, net income and the per share information of the Company with an assumed merger date for TOKICO of April 1, 2004 and 2003 would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the years ended March 31, 2005 and 2004.

On December 31, 2002, the Company purchased a majority ownership interest in a company to which the hard disk drive operations and related intellectual property portfolio had been transferred from International Business Machines Corp. (IBM) for a total cash purchase price (excluding acquisition costs) of ¥222,262 million, including certain purchase price adjustments subsequent to the initial purchase date. The purchase price and the amount of goodwill recorded upon acquisition may be reduced. The purchase price is payable in three installments, of which the first two installments were paid in the years ended March 31, 2003 and 2004, with the remaining payment due in December 2005.

On January 1, 2003, this company began operating as Hitachi Global Storage Technologies Netherlands B.V. (HGST). HGST offers a full array of hard disk drives and this acquisition will complement and expand the Company's product portfolio, production capacity, research and development and distribution channels globally.

Upon closing, the Company obtained full voting rights to HGST and, as a result, has consolidated all of its assets and liabilities in the consolidated balance sheet, with the remaining installment payments recorded as liabilities.

The amounts assigned to each major asset and liability caption of HGST at the acquisition date are as follows:

| | <u>Yen (millions)</u> |
|-------------------------|-----------------------|
| Current assets | 94,865 |
| Non-current assets | 184,326 |
| Goodwill | 15,138 |
| Current liabilities | (35,948) |
| Non-current liabilities | (32,159) |
| Net assets acquired | (226,222) |

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Notes to Consolidated Financial Statements

The purchase price upon closing is as follows:

| | Yen (millions) |
|--|-----------------------|
| Cash paid to IBM in the year ended March 31, 2003 and 2004 | 180,251 |
| Cash to be paid to IBM | 42,011 |
| Direct acquisition costs | 3,960 |
| | 226,222 |

In-process research and development assets amounting to ¥2,787 million have been acquired as part of the purchase and have been written off at the date of acquisition as these assets are considered as not having alternative use. The write-off has been recorded as selling, general and administrative expenses.

The results of operations of the acquired company beginning on December 31, 2002 are included in the accompanying consolidated statements of operations. On a pro forma basis, revenue, net loss and the per share information of the Company, with an assumed acquisition date of April 1, 2002 are as follows:

| | Unaudited |
|------------------|-----------------------|
| | Yen (millions) |
| | 2003 |
| Revenue | 8,541,202 |
| Net loss | (149,891) |
| | Yen |
| | 2003 |
| Basic net loss | (44.72) |
| Diluted net loss | (44.84) |

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Notes to Consolidated Financial Statements

(28) Stock Option Plans

The Company and certain subsidiaries have stock option plans. Under the Company's stock option plans, non-employee directors, executive officers and certain employees have been granted stock options to purchase the Company's common stock. Under these stock option plans, options were granted at prices not less than market value at the date of grant and are exercisable from one year after the date of grant and expire four or five years after the date of grant. The Company and certain subsidiaries recognized no material stock-based compensation expense for the years ended March 31, 2005, 2004 and 2003.

A summary of the Company's stock option plans activity for the years ended March 31, 2005, 2004 and 2003 is as follows:

| | 2005 | | 2004 | | 2003 | |
|---|------------------------------|---|------------------------------|---|------------------------------|---|
| | Stock options (shares) | Weighted- average exercised price (yen) | Stock options (shares) | Weighted- average exercised price (yen) | Stock options (shares) | Weighted- average exercised price (yen) |
| Outstanding at beginning of year | 2,194,000 | 866 | 1,165,000 | 1,314 | 1,437,000 | 1,314 |
| Granted | 1,278,000 | 780 | 1,305,000 | 561 | | |
| Exercised | (585,000) | 561 | | | | |
| Forfeited | (196,000) | 1,174 | (276,000) | 1,315 | (272,000) | 1,311 |
| Outstanding at end of year | 2,691,000 | 869 | 2,194,000 | 866 | 1,165,000 | 1,314 |
| Weighted-average remaining contractual life | 2.5 years | | 2.8 years | | 3.1 years | |
| Options exercisable at end of year | 1,413,000 shares | | 889,000 shares | | 1,165,000 shares | |

The exercise prices of the stock options outstanding as of March 31, 2005 are ¥1,451, ¥1,270, ¥561, ¥782 and ¥705.

In addition, in April 2005, the Board of Directors decided to propose the adoption of stock option plans for non-employee directors, executive officers and certain employees to the general shareholders' meeting to be held in June 2005. In accordance with the proposals, up to 1,500,000 options to purchase of the Company's common stock will be granted at exercise prices not less than market value at the date of grant, and are exercisable from one year after the date of grant and expire four years after the date of grant.

(29) Subsequent events

On August 18, 2005, the Company issued the 13th series of unsecured straight bonds, due August 18, 2010, with a maturity value of ¥50,000 million and a 0.70% interest rate payable semi-annually, and also issued the 14th series of unsecured straight bonds, due August 18, 2015, with a maturity value of ¥50,000 million and a 1.56% interest rate payable semi-annually.

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**HITACHI, LTD.
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Reserves

Years ended March 31, 2005, 2004 and 2003

(In millions of yen)

| | Balance at beginning of period | Charged to income | Net decrease in unearned income | Bad debts written off | Balance at end of period |
|---------------------------------------|---|----------------------------------|--|--------------------------------------|---|
| Year ended March 31, 2005: | | | | | |
| Allowance for doubtful receivables | 42,760 | 4,287 | | (6,717) | 40,330 |
| Unearned income-installment financing | 527 | | (278) | | 249 |
| | 43,287 | 4,287 | (278) | (6,717) | 40,579 |
| Year ended March 31, 2004: | | | | | |
| Allowance for doubtful receivables | 39,768 | 7,423 | | (4,431) | 42,760 |
| Unearned income-installment financing | 752 | | (225) | | 527 |
| | 40,520 | 7,423 | (225) | (4,431) | 43,287 |
| Year ended March 31, 2003: | | | | | |
| Allowance for doubtful receivables | 34,884 | 9,656 | | (4,772) | 39,768 |
| Unearned income-installment financing | 1,007 | | (255) | | 752 |
| | 35,891 | 9,656 | (255) | (4,772) | 40,520 |

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ITEM 18. FINANCIAL STATEMENTS

Not applicable.

ITEM 19. EXHIBITS

Hitachi has filed the following documents as exhibits to this annual report.

- 1.1 Articles of Incorporation of Hitachi, Ltd., as amended on June 24, 2005 (English Translation)
- 1.2 Share Handling Regulations of Hitachi, Ltd., as amended on July 20, 2004 (English Translation)
(incorporated by reference to Exhibit 1.2 of Hitachi, Ltd.'s annual report on Form 20-F filed with the SEC on August 20, 2004 (file no. 001-08320)).
- 1.3 Board of Directors Regulations of Hitachi, Ltd., as amended on June 24, 2005 (English Translation)
- 8.1 List of subsidiaries
See Item 4. Information on the Company C. Organizational Structure.
- 11.1 Code of Ethics for Directors and Executive Officers of Hitachi, Ltd.
- 12.1 Certification of Chief Executive Officer or equivalent pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
- 12.2 Certification of Chief Financial Officer or equivalent pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
- 13.1 Certification of Chief Executive Officer or equivalent pursuant to Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 13.2 Certification of Chief Financial Officer or equivalent pursuant to Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code

Hitachi has not included as exhibits certain instruments with respect to its long-term debt. The total amount of long-term debt securities of the Company or its subsidiaries, authorized under any instrument does not exceed 10% of Hitachi's total assets. Hitachi hereby agrees to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of long-term debt of the Company or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Hitachi, Ltd.
(Registrant)

Date: August 26, 2005

By: /s/ Takashi Hatchoji
Name: Takashi Hatchoji
Title: Senior Vice President and Executive Officer

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EXHIBIT INDEX

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- 13.2 Certification of Chief Financial Officer or equivalent pursuant to Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code