

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.

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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

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		
	<u>1,910,675</u>	<u>555,733</u>	<u>473,912</u>	<u>545,857</u>	<u>335,173</u>
Total	1,910,675	555,733	473,912	545,857	335,173

Other commercial commitments	As of March 31, 2005
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	(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 1/2003 1/2001	Appointed Director Appointed Vice Chairman of the Board and Representative Director Appointed Executive Member of Council for Science & Technology Policy, Cabinet Office
		6/1999 6/1995 6/1993 6/1991 6/1989	Appointed Director Appointed Vice Chairman of the Board and Representative Director Appointed Executive Vice-President and Representative Director Appointed Senior Executive Managing Director Appointed Executive Managing Director Appointed Director
		4/1960	Appointed General Manager, Industrial Processing Division Joined Hitachi, Ltd.
Masayoshi Hanabusa (Oct. 10, 1934)	Director	6/2003	Appointed Director, Hitachi, Ltd.
	(Chairman of the Board, Hitachi Capital Corporation)	6/2001 6/1991	Appointed Chairman of the Board, Hitachi Capital Corporation Appointed Chairman of the Board and Representative Director, Hitachi Capital Corporation Appointed President and Representative Director, Hitachi Credit Corporation (currently Hitachi Capital Corporation)
Ryuichi Seguchi (Nov. 19, 1933)	Director	6/2005 4/2005 6/2003 4/2003 6/1997	Appointed Director, Hitachi, Ltd. Appointed Chairman of the Board, Hitachi Construction Machinery Co., Ltd. Appointed Chairman of the Board and Representative Executive Officer, Hitachi Construction Machinery Co., Ltd. Appointed Chairman of the Board and Representative Director, Hitachi Construction Machinery Co., Ltd. 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.

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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
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-subsiary 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		
(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		
(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.

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PART III

ITEM 17. FINANCIAL STATEMENTS

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<u>Consolidated Statements of Operations for the years ended March 31, 2005, 2004 and 2003</u>	64
<u>Consolidated Statements of Stockholders' Equity for the years ended March 31, 2005, 2004 and 2003</u>	65
<u>Consolidated Statements of Cash Flows for the years ended March 31, 2005, 2004 and 2003</u>	66
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Schedule:	
Schedule II <u>Reserves for the years ended March 31, 2005, 2004 and 2003</u>	121

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

	Yen (millions)	
	2005	2004
<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)
	2,197,766	2,186,529
Net trade receivables		
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
	7,455,813	7,058,192
Less accumulated depreciation	5,097,882	4,825,330
	2,357,931	2,232,862
Net property, plant and equipment		
Other assets (notes 8 and 9)	1,144,630	1,228,556
	9,736,247	9,590,322

See accompanying notes to consolidated financial statements.

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**HITACHI, LTD.
AND SUBSIDIARIES**

Consolidated Balance Sheets

March 31, 2005 and 2004

	Yen (millions)	
	2005	2004
<u>Liabilities and Stockholders' Equity</u>		
Short-term debt (note 10)	676,611	623,816
Current portion of long-term debt (notes 6 and 10)	506,863	559,647
Trade payables:		
Notes	62,855	67,581
Accounts	1,246,401	1,220,033
Accrued expenses	843,022	797,935
Income taxes (note 9)	61,789	78,438
Advances received	247,586	216,544
Other current liabilities (note 9)	419,419	347,060
Long-term debt (notes 6 and 10)	1,319,032	1,314,102
Retirement and severance benefits (note 11)	1,033,005	1,273,509
Other liabilities (note 9)	90,781	124,710
Total liabilities	6,507,364	6,623,375
Minority interests	921,052	798,816
Stockholders' equity:		
Common stock (notes 10 and 12)	282,033	282,032
Capital surplus (note 12)	565,360	551,690
Legal reserve (note 13)	110,214	109,163
Retained earnings (note 13)	1,668,984	1,651,272
Accumulated other comprehensive loss (note 15)	(301,524)	(393,864)
Treasury stock, at cost (note 14)	(17,236)	(32,162)
Total stockholders' equity	2,307,831	2,168,131
Commitments and contingencies (note 16)	9,736,247	9,590,322

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
Total revenues	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)
Total cost of sales	(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)
Income before income taxes and minority interests	264,506	237,149	96,828
Income taxes (note 9)	(149,990)	(198,655)	(52,662)
Income before minority interests	114,516	38,494	44,166
Minority interests	(63,020)	(22,618)	(16,299)
Net income	51,496	15,876	27,867
		Yen	
Net income per share (note 21):			
Basic	15.53	4.81	8.31

Diluted	15.15	4.75	8.19
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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.
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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.
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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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**HITACHI, LTD.
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Notes to Consolidated Financial Statements

(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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**HITACHI, LTD.
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Notes to Consolidated Financial Statements

(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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**HITACHI, LTD.
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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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Notes to Consolidated Financial Statements

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)
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, Guarantors' 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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	<u>Yen (millions)</u>	
	<u>2005</u>	<u>2004</u>
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

	<u>Yen (millions)</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
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)		
Assets held in portfolio	526,759		

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)
Net deferred tax asset	<u>727,488</u>	<u>833,204</u>

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.