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Inspire the Next

Hitachi Corporate Strategy

Establishment of Stable, High Profit Structure

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Establishment of Stable, High Profit Structure

Contents

(fiscal 2003-2005)

1-1. Review of the “i.e. HITACHI Plan *II*”

“i.e. HITACHI Plan *II*” Goals	Evaluation	
Positive FIV	×	Insufficient FIV management
Accelerate globalization	△	Overseas sales up / Not enough improvement in profitability
Strengthen group management	○	Building of Group management infrastructure

FIV (Future Inspiration Value): FIV is Hitachi's economic value-added evaluation index in which the cost of capital is deducted from after-tax operating profit. After-tax operating profit must exceed the cost of capital to achieve positive FIV.

1-2. Basic Policy

Basic Management Policy

Rigorous focus on market-oriented approach and profit creation

Goal

Establishment of stable, high profit structure

Key Initiatives

1. High profitability through rigorously FIV-based management
2. Building of stable, high profit structure
3. Evolution to group management for high profitability
4. Innovation by collaboration creation

1-3. Key Initiatives (1)

High Profitability through Rigorous FIV-based Management

2 years of negative FIV: Cautionary notice ➡ If restructuring plan not approved, or if there is no positive FIV within two years of approval: Withdrawal advisory

➡ Withdrawal plan and implementation (in principle)

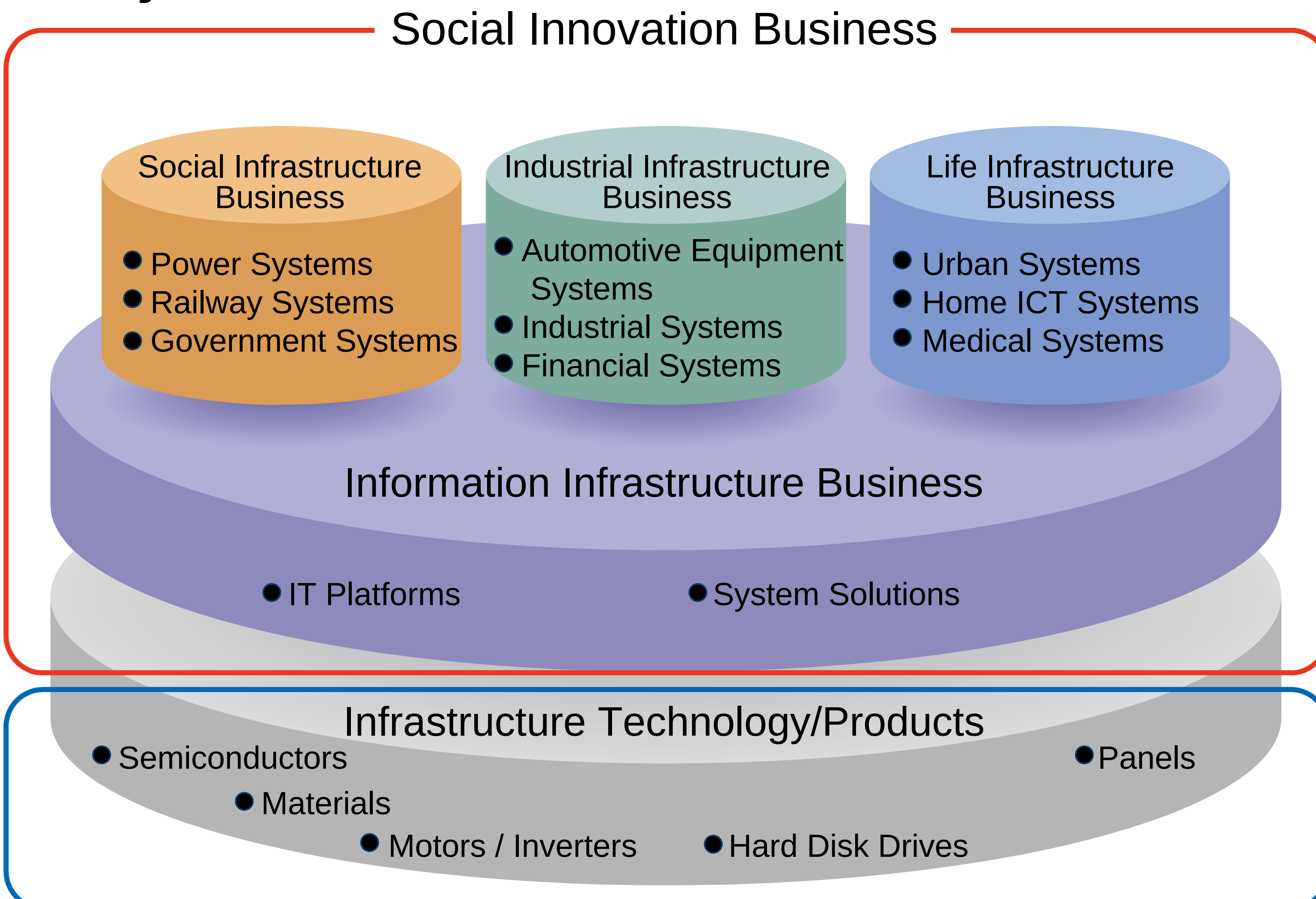
Rigorous use of FIV rules

1. Rigorously FIV-based business management
   - Move to substantially independent company system
   - Stronger business monitoring and risk management

2. Restructuring and reappraisal, with no area sacrosanct

1-4. Key Initiatives (2)

Priority Areas



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1-5. Key Initiatives (2)

Building of Stable, High Profit Structure

A shift to business areas in which Hitachi can utilize its strengths, accelerated by timely management decisions based on the rigorous application of the FIV rule

1. Strengthen social innovation business
   - Expand overseas business
   - Expand service and maintenance business
   - Allocate resources with priority on strong businesses
     (Investment emphasis on M&A, globalization, R&D, etc.)

2. Maximizing synergies with infrastructure technology/products business
   - Contribute to social innovation business through distinctive technology such as high functional materials

1-6. Key Initiatives (3)

Evolution of Group Management for High Profitability

1. Group governance system emphasizing collaborative creation

- Hitachi 7 business groups
- Major 40 subsidiaries

→ Promote rigorous consolidated management

2. Efficient management of consolidated subsidiaries
   (Decrease number of consolidated subsidiaries to around 700)

3. Flexible reappraisal of equity relationships
   to improve profitability

1-7. Key Initiatives (4)

Innovation by Collaborative Creation

1. Diverse partnerships

- Nuclear power (GE), car information systems (Clarion), magnets (NEOMAX)

2. Profitability-focused innovations

- Grow businesses that are No. 1 or No. 2 in market share
  30% of total sales (fiscal 2005) ➡ 40% (fiscal 2009)
- Direct linkage between R&D and generating profits
  - Assign 15% of corporate researchers to business divisions
  - Shorten R&D period by 30%
- Double value of intellectual property

1-8. Numerical Targets

Fiscal 2009: Consolidated Operating Margin of 5%

D/E Ratio: 0.8 or below

(including minority interests)

Establishment of Stable, High Profit Structure

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1. Basic Management Policy
2. **Establishment of High Profit Structure, and Growth Strategies**
3. Globalization & Capturing Synergies
4. Summary

2-1. Establishment of High Profit Structure (1)

Initiatives to improve negative FIV businesses

1	Power Systems
2	Flat-Panel TVs
3	Hard Disk Drives

2-2. Establishment of High Profit Structure (2)

Power Systems	Operating income in fiscal 2007 Positive FIV in fiscal 2008

1. Upgrade MONOZUKURI (manufacturing)
   - Strengthen business using the Supervisory Office for Power Systems
   - Rigorously upgrade reliability and technological capabilities
   - Invest in leading-edge verification systems

2. Strengthen overseas thermal power business
   - Manage projects rooted in each region of the world
   - Strengthen risk management by collaboration between group companies and partners

2-3. Establishment of High Profit Structure (3)

Flat-Panel TVs	Operating income in fiscal 2007 Positive FIV in fiscal 2008

1. Strategy
   - Increase share in growth market of large-screen plasma TVs
   - Expand product lineup, including LCD TVs
2. Build global operation system
   - Establish production system in Japan, North America, Europe, China
   - Build total supply chain management system
3. Collaborative creation with partners
   - Matsushita Electric Industrial
   - IPS Alpha Technology

2-4. Establishment of High Profit Structure (4-1)

Hard Disk Drives (1)	Operating income in fiscal 2007 Positive FIV in fiscal 2008

1. Management strengthened

2. Strengthen competitiveness by new technology and products
    - Expand application of perpendicular magnetic recording technology and differentiate based on quality
    - New product ratio of 75% in fiscal 2007

3. Enhance production capacity and cost competitiveness
    - Achieve mass-production effect by ramping up capacity in China & Thailand
    - Improve yields by increased use of new head materials

2-5. Establishment of High Profit Structure (4-2)

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Hard Disk Drives (2)

4. Strengthen developmental capabilities
   - Design and development groups integrated, standardize designs
   - Promote “TOKKEN,” special R&D projects

5. Emphasize Japanese MONOZUKURI ethic
   - Hitachi quality is receiving high grades from major customers

6. Expand strategic tie-ups with partners

■ Quality Evaluation Ranking of Hitachi by major customers

2004	2005	2006
Apr. to Jun.		
3.1	1.7	1.4

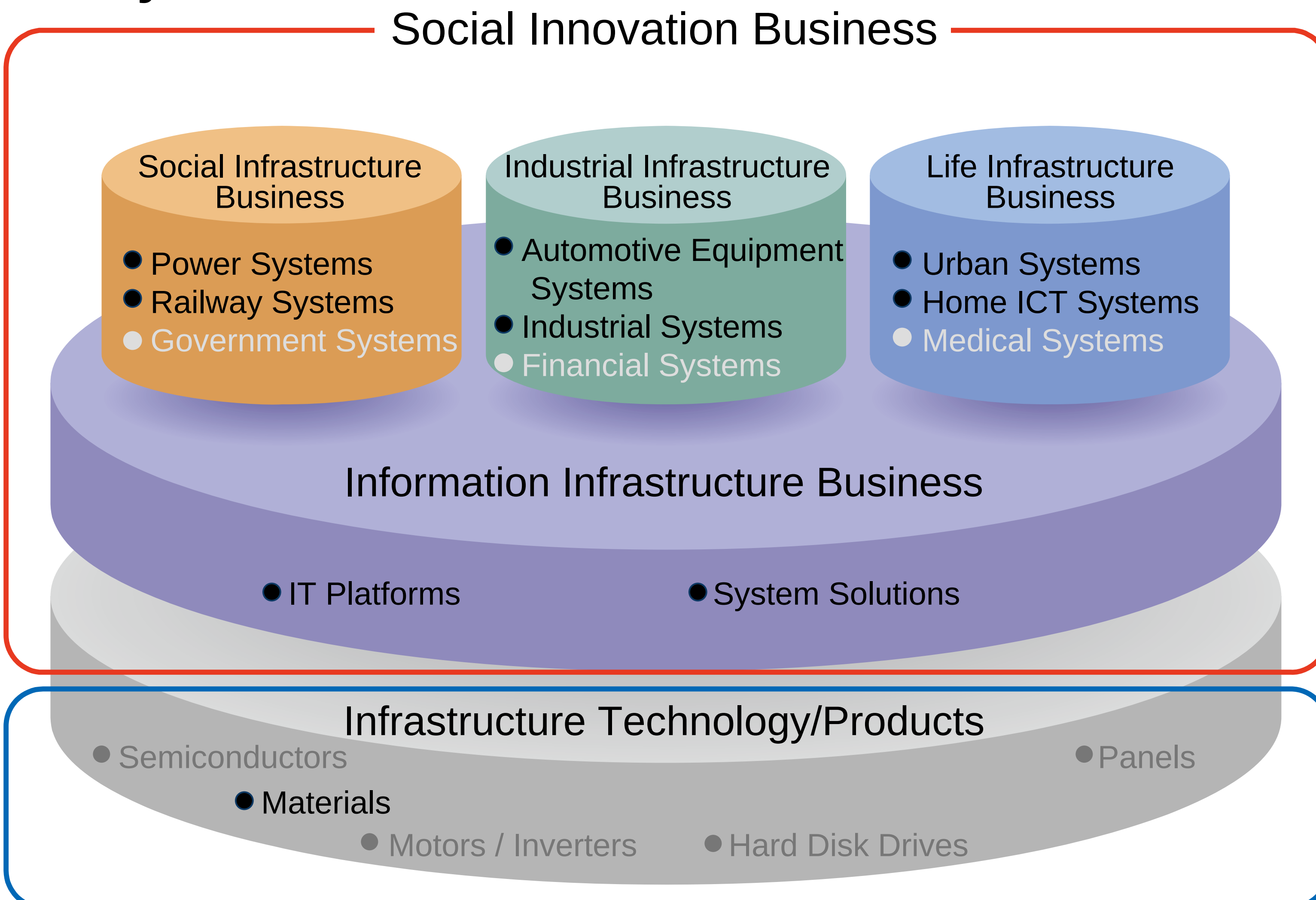
■ Share by Number of Units

2006*			2007
Jan. to Mar.	Apr. to Jun.	Jul. to Sep.	Jan. to Dec.
14%	15%	17%	20% (Target)

* Estimates by Hitachi

2-6. Growth Strategies (1)

Priority Areas



2-7. Growth Strategies (2)

Social Infrastructure Business

Overseas utilization of domestically-honed "Japanese quality", and localization of each base

Power Systems

[Nuclear Power]

- Global alliance with GE
- Leading-edge maintenance and service technology, high-reliability monitoring control systems
- Development of next-generation nuclear power technology

[Thermal Power]

- Strengthening of business infrastructure by establishing local subsidiaries in the U.S. and Europe
- Differentiate using high-efficiency power generation systems, environmental protection equipment, etc.

[Target Operating Margin]

Fiscal 2009 3%

Fiscal 2005 -5%

Railway Systems

- U.K. orders for lightweight aluminum cars having No. 1 market share in Japan
- Entry into railway vehicle maintenance business in U.K.
- Expand the operations control system in overseas market

2-8. Growth Strategies (3)

Industrial Infrastructure Business

Further strengthen advanced technology to create and maintain products having leading market share

Automotive Equipment Systems

- Development of hybrid car systems
- Development of outside recognition technology to increase safety
- Use tie-up with Clarion to strengthen car information systems business

Industrial Systems / Semiconductor & LCD manufacturing equipment

- Early launch of equipment for next-generation semiconductor and LCD manufacturing applications
- Equip bases to handle needs of overseas customers

Industrial Systems / Construction Machinery

- Strengthen global development and expand services by new plant construction
- Focus on upgrading the development of battery-powered excavator, energy-saving, environmental-burden reduction technologies

[Target Operating Margin]

Fiscal 2009 5%

↑

Fiscal 2005 4%

2-9. Growth Strategies (4)

Life Infrastructure Business

Utilize collective strengths of the Hitachi Group to provide secure, pleasant solutions

Urban Systems

- Expand market share of new elevator/escalator installations in Asia
- Expand solutions business based on elevator/escalator maintenance service networks
  (security, energy, redevelopment projects, building management)

Home ICT (Information Communication Technology) Systems

- Provide services that fuse broadcasting and communications
- Provide infrastructures for Next Generation Networks able to handle high-speed, reliable distribution of video and voice data

[Target Operating Margin]

Fiscal 2009 5%

↑

Fiscal 2005 4%

2-10. Growth Strategies (5)

Information Infrastructure Business

Use storage and consulting to bolster profitability

IT Platforms

[Storage]

- Use market superiority in enterprise systems centering on virtualization technology, and the expansion of sales channels for mid-range systems, to grow sales

[Server]

- Provide competitive offerings anchored by BladeSymphony

System Solutions

- Use established consulting expertise combined with SI capabilities to provide one-stop solution services
- Global marketing of finger vein authentication systems and Hibiki *μ*-chip RFID

[Target Operating Margin]

Fiscal 2009 7%

↑

Fiscal 2005 5%

[Consultants]

Fiscal 2008 (Target)
3,000

↑

Fiscal 2005
1,200

2-11. Growth Strategies (6)

Materials Business

Expand top share products and promote development of new materials

Utilizing group synergies with social innovation business

[Strengthen competitiveness]

- Focus on automotive systems, electronics and industrial area
- Enhance development of top share products
- Strengthen magnet business

[Deepen Hitachi Group Tie-ups]

- Use group synergies to promote development and commercialization
- Promote development of new materials (motor materials, panel materials, etc.)

[Target Operating Margin]

Fiscal 2009 8%

↑

Fiscal 2005 7%

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3-1. Globalization & Capturing Synergies

Globalization

"Full emphasis on market-oriented approach in the world's growing infrastructure markets"

1	Accelerate move into BRIC markets (especially China and India)
2	Promote localization through tie-ups with prominent partners
3	Bolster global proposal capabilities and brand power
4	Training of global personnel
5	Upgrade functions of Chief Executives for North America, Europe, China and Asia

Capturing Synergies

1	Use synergies between businesses to create value
2	Use operational synergies to improve earnings

3-2. Development of high profitability global business

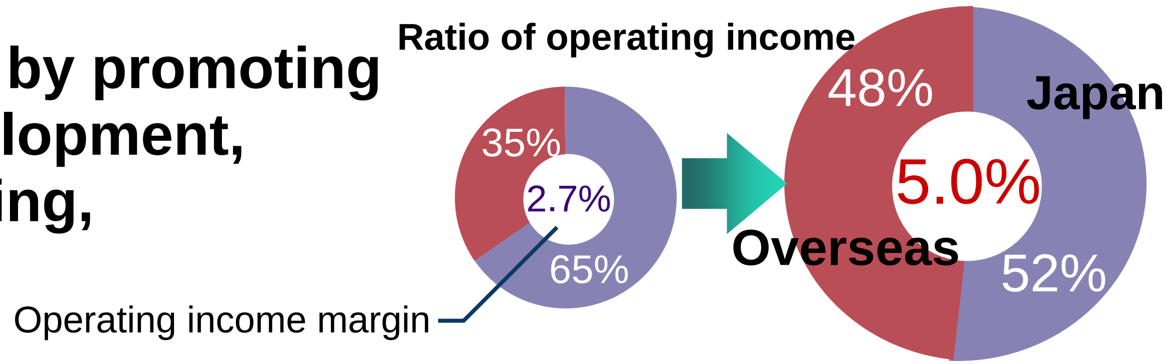
- **Accelerate globalization of social innovation business**
- **Stable, high profits by promoting localization of development, production, marketing, and services**

FY2005	FY2009

Ratio of overseas sales

38% → 45%

Ratio of operating income



Region	Initiatives to globalize social innovation business
North America	Strengthen sales operation (power, consulting, storage, etc.)
Europe	Emphasis on main growth sectors (railways, storage, power, etc.)
China	Strengthen growth businesses (promote tie-ups with prominent partners and localization, etc.)
Asia	Tackle growth markets (India: construction machinery, software, etc.)

3-3. Synergies between businesses
(Automotive Equipment Systems examples)

3-4. Using operational synergies to improve earnings

Cost reductions achieved by strengthening group management infrastructure

1	**Increased concentration and centralization of purchasing** Reductions in cost of materials: 300 billion yen/year (fiscal 2006) → Additional cost reduction 30 billion yen (fiscal 2008) Utilize IT and reinforce group cooperation
2	**Reduction of indirect costs** 15 billion yen/year (average up to fiscal 2008)
3	**Pooling of group funds** Annual saving of 5 billion yen/year in interest
4	**Effective use of assets** Cash flow improvement of 5 billion yen/year (fiscal 2010)
5	**Centralization of IT infrastructure** Savings of 7 billion yen/year (average up to fiscal 2008)

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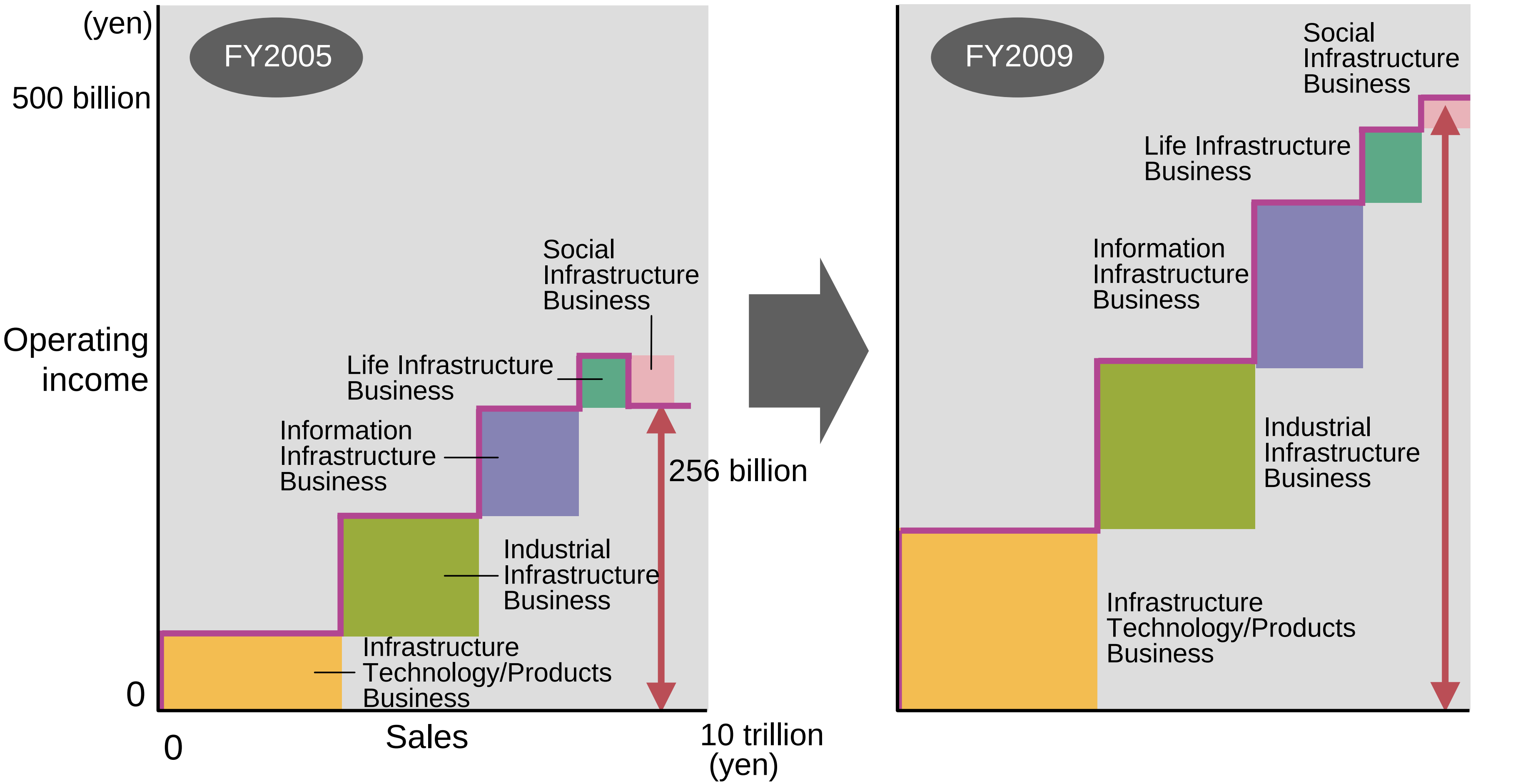
4-1. Strengthening of management infrastructure

1	MONOZUKURI and technological capabilities
2	Human-resource capabilities
3	CSR Management

4-2. Earnings structure in fiscal 2009



Information on the progress of structural reforms will be provided on a regular basis

4-3. Summary

Establishment of Stable, High Profit Structure

Fiscal 2009: Consolidated Operating Margin of 5%

D/E Ratio: 0.8 or below

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Cautionary Statement

Certain statements found in this document 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 document.

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

- fluctuations in product demand and industry capacity, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technology on a timely and cost-effective basis and to achieve market acceptance for such products;
- rapid technological change, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;
- increasing commoditization of information technology products, and intensifying price competition in the market for such products, particularly in the Information & Telecommunication Systems segment, Electronic Devices segment and Digital Media & Consumer Products segment;
- fluctuations in rates of exchange for the yen and other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated, particularly between the yen and the U.S. dollar;
- 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 results of litigation and legal proceedings of which the Company, its subsidiaries or its equity method affiliates have become or may become parties;
- possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- uncertainty as to the success of restructuring efforts to improve management efficiency and to strengthen competitiveness;
- 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.

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