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HITACHI LTD  
Form 20-F  
September 30, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended March 31, 2003  
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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  
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KABUSHIKI KAISHA HITACHI SEISAKUSHO  
-----

(Exact name of Registrant as specified in its charter)

Hitachi, Ltd.  
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(Translation of Registrant's name into English)

Japan  
-----

(Jurisdiction of incorporation or organization)

6, Kanda-Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8010, Japan  
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(Address of principal executive offices)

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

| Title of each class<br>-----        | Name of each exchange on which registered<br>----- |
|-------------------------------------|--|
| American Depositary Shares<br>----- | New York Stock Exchange<br>-----                   |
| Common Stock<br>-----               | New York Stock Exchange<br>-----                   |

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

None

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(Title of Class)

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

None

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(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.

Common Stock            3,368,124,286 shares

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

Item 17     Item 18   
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Fiscal years 2002, 2001 and 2000 of this report indicate Hitachi, Ltd.'s fiscal years ended March 31, 2003, 2002 and 2001.

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

Cautionary Statement

Certain statements contained in this annual report may constitute forward-looking statements which reflect management's current views with respect to certain future events and financial performance based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as "anticipate," "believe," "expect," "estimate," "intend," "plan," "project" and similar expressions which indicate future events and trends may identify forward-looking statements. Actual results may differ materially from those projected or implied in the forward-looking statements and from historical trends. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate.

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

- rapid technological change, particularly in the Information & Telecommunication Systems segment and Electronic Devices segment;

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- 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;
- fluctuations in product demand and industry capacity, 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;

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- 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 access, or access on favorable terms, liquidity or long-term financing, particularly in the context of limited credit availability currently prevailing in Japan;
- 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 economic conditions and the regulatory and trade environment of Hitachi's major markets, particularly, the United States, Japan and elsewhere in Asia, including, without limitation, continued stagnation or deterioration of the Japanese economy, or direct or indirect restriction by other nations of imports;
- uncertainty as to Hitachi's access to, or protection for, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- 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; 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.

These factors listed above are not exclusive and are in addition to other factors that are stated or indicated elsewhere in this report, or in other materials published by the Company.

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### PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

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Not applicable.

Item 3. Key Information

A. Selected Financial Data

|  | Year ended March 31                            |           |            |
|--|--|-----------|------------|
|  | 1999   | 2000      | 2001       |
|  | (Millions of yen, except per share amounts and |           |            |
| Total revenues   | 7,977,374                                      | 8,001,203 | 8,416,982  |
| Income (loss) before income taxes and minority interests   | (221,174)                                      | 79,235    | 323,655    |
| Net income (loss)  | (327,611)                                      | 16,922    | 104,380    |
| Per common share:  |  |           |            |
| Net income (loss)  |  |           |            |
| Basic  | (98.15)  | 5.07      | 31.27      |
| Diluted  | (98.15)  | 4.99      | 30.32      |
| Cash dividends declared                                    | 5.50   | 6.00      | 11.00      |
|  | (\$0.045)                                      | (\$0.058) | (\$0.094)  |
| Cash and cash equivalents                                  | 1,237,527                                      | 1,357,432 | 1,381,603  |
| Short-term investments                                     | 605,679  | 632,434   | 433,650    |
| Total assets   | 9,847,742                                      | 9,983,361 | 11,246,608 |
| Short-term debt and current installments of long-term debt | 1,159,811                                      | 1,305,670 | 1,611,855  |
| Long-term debt   | 1,478,168                                      | 1,482,810 | 1,881,270  |
| Minority interests   | 776,462  | 791,925   | 825,158    |
| Stockholders' equity                                       | 3,006,015                                      | 2,987,687 | 2,861,502  |
| Common stock   | 281,735  | 281,738   | 281,754    |
| Number of shares issued (thousand shares)                  | 3,337,895                                      | 3,337,900 | 3,337,932  |

Note: On April 1, 2000, Hitachi adopted the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, figures for all prior periods have been restated.

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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.

| Yen exchange rates per U.S. dollar: | Average | High | Low  |
|-------------------------------------|---------|------|------|
| Year ended March 31                 | -----   | ---- | ---- |
| 1999                                | 128.10  |      |      |
| 2000                                | 110.02  |      |      |
| 2001                                | 111.65  |      |      |

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|             |        |        |
|-------------|--------|--------|
| 2002        | 125.64 |        |
| 2003        | 121.10 |        |
| March 2003  | 121.42 | 116.47 |
| April 2003  | 120.55 | 118.25 |
| May 2003    | 119.50 | 115.94 |
| June 2003   | 119.87 | 117.46 |
| July 2003   | 120.55 | 117.24 |
| August 2003 | 120.47 | 116.71 |

On September 10, 2003, the yen exchange rate per U.S. dollar was 117.13 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.

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 information relating to the forward-looking statements subject to "Cautionary Statement" beginning on page 2 of this report.

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

#### Risks related to economic environment

##### .. Economic trends

The continuing adverse economic environment in Hitachi's main markets may have a negative effect on Hitachi's business results. Decreases in consumption owing to economic downturns in Japan, North America, Asia and other major markets where Hitachi does business may negatively impact Hitachi's business results by reduced demand and increased price competition for the products and services Hitachi offers. In addition, the

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adverse economic environment may result in increased risks of excess inventories and overcapacities, and further restructuring measures by Hitachi, which could pose associated expenses.

##### .. Currency exchange rate fluctuations

Since Hitachi conducts business in many foreign countries, a certain portion of its assets, liabilities, revenues and expenses are denominated in various

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currencies, principally the U.S. dollar. Fluctuations in 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.

### 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 field of information systems and electronics. The development of such advanced technologies and their continuous, timely and cost-effective incorporation in products and services is indispensable to stay 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 so develop and incorporate such advanced technologies, 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. 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 each or any of the products or services that it offers will be competitive, and should each or any 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 overcapacity and obsolete equipment to adjust supply and demand, which can cause Hitachi losses. Semiconductor industry and liquid crystal display industry, in particular, are highly cyclical and cyclical downturns are characterized by a sharp fall in prices and overcapacity. Hitachi's semiconductor business and liquid crystal display business have recently been and may be in the future negatively impacted by a periodic oversupply in the global markets.

#### .. Dependence on the ability of third parties to deliver materials and components

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.

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 conducts business through acquisitions of other companies, joint ventures and strategic alliances with outside partners to develop 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 other than Hitachi 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 Hitachi will be able to successfully integrate acquired businesses or achieve all or any of the initial aims through such 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, there may occur costs that adversely affect Hitachi's financial results and condition. Restructuring measures may be constrained or intended plans cannot be implemented in a timely manner due to governmental regulations, employment issues and underdevelopment of Japanese M&A market. Moreover, Hitachi may not achieve all of the goals that it aims for through these actions.
- .. 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 may arise 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.

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### .. 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.

### .. Financial risks

Hitachi owns marketable securities that are exposed to stock market risks. Declines in stock market prices may have an adverse effect on Hitachi's financial condition and results of operations. Hitachi is dependent on the capital market for long-term financing secured through the issue of debentures and long-term borrowing from financial institutions, which exposes Hitachi to interest rate and credit risks.

### .. Retirement benefits

Hitachi has significant employee retirement benefit costs which are derived from actuarial valuations based on a number of assumptions. Assumptions may differ from actual results and may adversely and materially affect Hitachi's financial condition and results of operations. For example, difference between expected return assumptions and actual return on plan assets could result in a material understatement of Hitachi's funding obligations which may adversely affect Hitachi's financial condition and results of operations. In addition, changes in valuation assumptions, such as the discount rate or



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the expected return on plan assets, may have a material effect on Hitachi's financial condition and results of operations.

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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) in 1920 under the laws of Japan. Its registered office is located at 6, Kanda-Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8010, 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 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. 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. The businesses on which Hitachi plans to increase focus include its storage solutions business, hard disk drive business and automotive equipment 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 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.

On October 1, 2000, Hitachi Credit Corporation, a 53.4% owned subsidiary, merged with Hitachi Leasing, Ltd., a 50.0% owned affiliate of the Company, for the purpose of strengthening management and promoting business development in the area of financial services. The merged company changed its name to Hitachi Capital Corporation.

On October 1, 2000, Kokusai Electric Co., Ltd., a 26.7% owned affiliate of the Company, merged with Hitachi Denshi, Ltd., a 63.7% owned subsidiary, and Yagi Antenna Co., Ltd., a 40.9% owned affiliate of the Company, for the purpose of integrating and strengthening their wireless communication businesses. The merged company became an affiliate of the Company and changed its name to Hitachi Kokusai Electric Inc.

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On October 1, 2001, Nissei Sangyo Co., Ltd., a subsidiary of the Company, was integrated with the Company's instrument and semiconductor manufacturing equipment operations and sales operations relating to clinical testing systems of Hitachi Medical Corporation, a subsidiary of the Company, to form Hitachi High-Technologies Corporation. The aim of the reorganization is to speedily respond to market changes in nanotechnology areas such as semiconductor manufacturing equipment and biotechnology-related products.

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.

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On October 1, 2002, the Company made UNISIA JECS CORPORATION a wholly-owned subsidiary through a share exchange. The purpose of the transaction was to strengthen Hitachi's competitiveness in the automotive products business. UNISIA JECS CORPORATION changed its name to Hitachi Unisia Automotive, Ltd. on the same date.

In June 2002, the Company and International Business Machines Corporation ("IBM") 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 LSIs to a new company incorporated jointly by the Company and Mitsubishi Electric Corporation ("Mitsubishi"). Hitachi expects the new company, Renesas Technology Corp. ("Renesas"), to improve semiconductor competitiveness by permitting more flexible management and realizing synergies between the advanced technologies of the Company and Mitsubishi. Renesas is expected to be accounted for under the equity method by Hitachi.

Hitachi's capital expenditures for fixed assets on a completion basis were JPY 787,496 million, JPY 856,279 million and JPY 971,095 million in fiscal 2002, 2001 and 2000. 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 decrease in capital expenditures during fiscal 2001 reflected curbs on expenditures in the semiconductor sector. The decrease in capital expenditures during fiscal 2002 reflected Hitachi's increasingly selective attitude toward investment decisions. In April 2003, Hitachi projected that, for the fiscal year ending March 31, 2004, its capital expenditures would amount to approximately JPY 810,000 million, primarily invested in Japan. Hitachi expects this investment to be funded primarily through internal sources of financing.

### B. Business Overview

#### Main Categories of Products and Services

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Hitachi's business is highly diversified. Starting from the fiscal year ended March 31, 2002, Hitachi has reclassified its operations into seven industry segments: (1) Information & Telecommunication Systems, (2) Electronic Devices, (3) Power & Industrial Systems, (4) Digital Media & Consumer Products, (5) High Functional Materials & Components, (6) Logistics, Services & Others and (7) Financial Services. Hitachi's major categories of products and services offered in each segment as of March 31, 2003 are shown below. This classification of segments is required pursuant to a ministerial ordinance under the Securities and Exchange Law of Japan.

(1) Information & Telecommunication Systems

Systems Integration, Software, Disk Array Subsystems, Hard Disk Drives, Servers, Mainframes, Personal Computers, Computer Peripherals, Telecommunications Equipment

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(2) Electronic Devices

System LSIs, Memories, Multi-Purpose Semiconductors, Liquid Crystal Displays, Semiconductor Manufacturing Equipment, Test and Measurement Equipment, Medical Electronics Equipment

(3) Power & Industrial Systems

Nuclear Power Plants, Thermal Power Plants, Hydroelectric Power Plants, Plant Engineering and Construction, Industrial Machinery and Plants, Air-Conditioning Equipment, Construction Machinery, Railway Vehicles, Elevators, Escalators, Automotive Equipment, Environmental Control Systems

(4) Digital Media & Consumer Products

Optical Disk Drives, Television Sets, Mobile Phones, LCD Projectors, Room Air Conditioners, Refrigerators, Washing Machines, Batteries, Information Storage Media

(5) High Functional Materials & Components

Wires and Cables, Copper Products, Malleable Cast-Iron Products, Forged and Cast-Steel Products, Specialty Steels, Magnetic Materials, Chemical Products, Electrical Insulating Materials, Synthetic Resin Materials and Products, Carbon Products, Printed Circuit Boards, Ceramic Materials

(6) Logistics, Services & Others

General Trading, Transportation, Property Management

(7) Financial Services

Loan Guarantees, Leasing, Insurance Services

### 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 (OEM) basis and marketed under the brand names of such industrial companies.

Overseas sales amounted to JPY 2,645,209 million in fiscal 2002, accounting for 32% of total revenues. Foreign currency exchange rate fluctuations influence

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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.

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### Segment Information

Hitachi has not presented segment information in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No.131, "Disclosures about Segments of an Enterprise and Related Information," since foreign issuers are presently exempted from these disclosure requirements for the purpose of Securities Exchange Act filings with the SEC. 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.

#### (1) Industry Segment

|   | Year ended March 31 |      |             |      |             |
|---|---------------------|------|-------------|------|-------------|
|   | 2001                |      | 2002        |      | 2003        |
|   | (Millions of yen)   |      |             |      |             |
| <b>Revenues</b>                         |                     |      |             |      |             |
| Information & Telecommunication Systems | 1,796,084           | 17%  | 1,829,661   | 18%  | 1,899,600   |
| Electronic Devices                      | 2,011,717           | 19   | 1,487,200   | 15   | 1,570,000   |
| Power & Industrial Systems              | 2,321,104           | 21   | 2,266,895   | 23   | 2,297,000   |
| Digital Media & Consumer Products       | 1,053,199           | 10   | 1,170,744   | 12   | 1,205,500   |
| High Functional Materials & Components  | 1,467,345           | 13   | 1,250,248   | 12   | 1,248,500   |
| Logistics, Services & Others            | 1,599,369           | 15   | 1,430,825   | 14   | 1,449,500   |
| Financial Services                      | 592,774             | 5    | 567,138     | 6    | 579,200     |
| Subtotal                                | 10,841,592          | 100% | 10,002,711  | 100% | 10,249,700  |
|   |                     | ==== |             | ==== |             |
| Eliminations and Corporate Items        | (2,424,610)         |      | (2,008,927) |      | (2,057,900) |
|   | -----               |      | -----       |      | -----       |
| Total                                   | 8,416,982           |      | 7,993,784   |      | 8,191,700   |
|   | =====               |      | =====       |      | =====       |
| <b>Operating Income (Loss)</b>          |                     |      |             |      |             |
| Information & Telecommunication Systems | 48,921              | 13%  | 35,757      | -%   | 110,500     |
| Electronic Devices                      | 118,128             | 31   | (163,633)   | -    | (23,200)    |
| Power & Industrial Systems              | 77,269              | 20   | 55,004      | -    | 53,200      |
| Digital Media & Consumer Products       | 1,541               | 0    | (14,675)    | -    | 6,200       |
| High Functional Materials & Components  | 83,415              | 22   | (22,024)    | -    | 18,300      |
| Logistics, Services & Others            | 8,437               | 2    | 3,257       | -    | 10,300      |
| Financial Services                      | 44,146              | 12   | 37,403      | -    | 12,000      |
| Subtotal                                | 381,857             | 100% | (68,911)    | -%   | 187,400     |

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|                                  |          |           |       |
|----------------------------------|----------|-----------|-------|
| Eliminations and Corporate Items | (39,545) | (48,504)  | (34,4 |
| Total                            | 342,312  | (117,415) | 152,9 |

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|   | Year ended March 31 |      |           |      |           |
|---|---------------------|------|-----------|------|-----------|
|   | 2001                |      | 2002      |      | 200       |
|   | (Millions of yen)   |      |           |      |           |
| Segment Assets                          |                     |      |           |      |           |
| Information & Telecommunication Systems | 1,342,252           | 12%  | 1,307,248 | 13%  | 1,702,10  |
| Electronic Devices                      | 1,582,447           | 15   | 1,246,285 | 13   | 1,345,83  |
| Power & Industrial Systems              | 2,230,193           | 20   | 2,060,169 | 21   | 2,194,44  |
| Digital Media & Consumer Products       | 820,212             | 8    | 743,515   | 7    | 782,42    |
| High Functional Materials & Components  | 1,520,718           | 14   | 1,349,133 | 14   | 1,298,97  |
| Logistics, Services & Others            | 1,191,298           | 11   | 1,051,712 | 11   | 1,016,59  |
| Financial Services                      | 2,193,057           | 20   | 2,114,367 | 21   | 1,932,45  |
| Subtotal                                | 10,880,177          | 100% | 9,872,429 | 100% | 10,272,83 |
| Eliminations and Corporate Items        | 366,431             |      | 43,225    |      | (93,44    |
| Total                                   | 11,246,608          |      | 9,915,654 |      | 10,179,38 |
| Depreciation & Amortization             |                     |      |           |      |           |
| Information & Telecommunication Systems | 106,256             | 19%  | 105,716   | 18%  | 106,95    |
| Electronic Devices                      | 153,789             | 27   | 168,706   | 28   | 120,91    |
| Power & Industrial Systems              | 68,733              | 12   | 70,236    | 12   | 77,69     |
| Digital Media & Consumer Products       | 46,155              | 8    | 46,419    | 8    | 43,08     |
| High Functional Materials & Components  | 84,317              | 15   | 83,573    | 14   | 75,83     |
| Logistics, Services & Others            | 38,383              | 7    | 40,058    | 7    | 32,70     |
| Financial Services                      | 64,728              | 12   | 79,124    | 13   | 102,46    |
| Subtotal                                | 562,361             | 100% | 593,832   | 100% | 559,65    |
| Eliminations and Corporate Items        | 4,315               |      | 4,796     |      | 6,71      |
| Total                                   | 566,676             |      | 598,628   |      | 566,36    |
| Tangible & Intangible Asset Increase    |                     |      |           |      |           |
| Information & Telecommunication Systems | 135,636             | 12%  | 137,802   | 13%  | 203,38    |
| Electronic Devices                      | 230,684             | 20   | 125,373   | 12   | 107,37    |
| Power & Industrial Systems              | 83,012              | 7    | 85,936    | 8    | 94,92     |
| Digital Media & Consumer Products       | 48,135              | 4    | 40,871    | 4    | 37,07     |
| High Functional Materials & Components  | 111,292             | 9    | 85,112    | 8    | 64,51     |
| Logistics, Services & Others            | 36,519              | 3    | 44,823    | 4    | 35,49     |
| Financial Services                      | 527,429             | 45   | 551,017   | 51   | 608,43    |
| Subtotal                                | 1,172,707           | 100% | 1,070,934 | 100% | 1,151,19  |
| Eliminations and Corporate Items        | (69,824)            |      | (57,436)  |      | (65,48    |
| Total                                   | 1,102,883           |      | 1,013,498 |      | 1,085,70  |

(2) Geographic Segment

|                                  |             |      | Year ended March 31 |      |             |
|----------------------------------|-------------|------|---------------------|------|-------------|
|                                  | 2001        |      | 2002                |      | 2003        |
|                                  |             |      | (Millions of yen)   |      |             |
| Revenues                         |             |      |                     |      |             |
| Japan                            |             |      |                     |      |             |
| Outside customer sales           | 6,557,736   | 65%  | 6,134,554           | 66%  | 6,290,654   |
| Intersegment transactions        | 1,148,587   | 12   | 892,562             | 10   | 1,026,916   |
| Total                            | 7,706,323   | 77   | 7,027,116           | 76   | 7,317,570   |
| Asia                             |             |      |                     |      |             |
| Outside customer sales           | 550,303     | 6    | 607,041             | 6    | 651,228     |
| Intersegment transactions        | 415,946     | 4    | 349,337             | 4    | 351,006     |
| Total                            | 966,249     | 10   | 956,378             | 10   | 1,002,234   |
| North America                    |             |      |                     |      |             |
| Outside customer sales           | 863,349     | 9    | 830,959             | 9    | 802,582     |
| Intersegment transactions        | 48,141      | 0    | 45,382              | 0    | 38,753      |
| Total                            | 911,490     | 9    | 876,341             | 9    | 841,335     |
| Europe                           |             |      |                     |      |             |
| Outside customer sales           | 395,809     | 4    | 364,840             | 4    | 379,615     |
| Intersegment transactions        | 27,513      | 0    | 32,268              | 0    | 28,382      |
| Total                            | 423,322     | 4    | 397,108             | 4    | 407,997     |
| Other Areas                      |             |      |                     |      |             |
| Outside customer sales           | 49,785      | 0    | 56,390              | 1    | 67,673      |
| Intersegment transactions        | 4,254       | 0    | 2,359               | 0    | 2,645       |
| Total                            | 54,039      | 0    | 58,749              | 1    | 70,318      |
| Subtotal                         | 10,061,423  | 100% | 9,315,692           | 100% | 9,639,454   |
| Eliminations and Corporate Items | (1,644,441) |      | (1,321,908)         |      | (1,447,702) |
| Total                            | 8,416,982   |      | 7,993,784           |      | 8,191,752   |
| Operating Income (Loss)          |             |      |                     |      |             |
| Japan                            | 303,359     | 82%  | (70,420)            | -%   | 155,684     |
| Asia                             | 45,032      | 12   | (5,090)             | -    | 18,357      |
| North America                    | 7,037       | 2    | (21,053)            | -    | 6,336       |
| Europe                           | 13,109      | 4    | 4,007               | -    | 6,720       |
| Other Areas                      | 1,246       | 0    | 1,842               | -    | 2,097       |
| Subtotal                         | 369,783     | 100% | (90,714)            | -%   | 189,194     |
| Eliminations and Corporate Items | (27,471)    |      | (26,701)            |      | (36,227)    |
| Total                            | 342,312     |      | (117,415)           |      | 152,967     |

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|                                  |            |       |           |       |            |
|----------------------------------|------------|-------|-----------|-------|------------|
| Segment Assets                   |            |       |           |       |            |
| Japan                            | 8,492,338  | 82%   | 7,685,632 | 82%   | 7,935,395  |
| Asia                             | 659,153    | 6     | 624,864   | 7     | 731,108    |
| North America                    | 662,439    | 7     | 603,980   | 6     | 592,530    |
| Europe                           | 471,040    | 5     | 434,239   | 5     | 502,446    |
| Other Areas                      | 37,428     | 0     | 39,492    | 0     | 55,824     |
| Subtotal                         | 10,322,398 | 100%  | 9,388,207 | 100%  | 9,817,303  |
|                                  |            | ===== |           | ===== |            |
| Eliminations and Corporate Items | 924,210    |       | 527,447   |       | 362,086    |
|                                  | -----      |       | -----     |       | -----      |
| Total                            | 11,246,608 |       | 9,915,654 |       | 10,179,389 |
|                                  | =====      |       | =====     |       | =====      |

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(3) Revenues by Market

|                | Year ended March 31 |       |           |       |           |       |
|----------------|---------------------|-------|-----------|-------|-----------|-------|
|                | 2001                |       | 2002      |       | 2003      |       |
|                | -----               | ----- | -----     | ----- | -----     | ----- |
|                | (Millions of yen)   |       |           |       |           |       |
| Domestic sales | 5,791,300           | 69%   | 5,444,662 | 68%   | 5,546,543 | 68%   |
| Overseas sales |                     |       |           |       |           |       |
| Asia           | 966,870             | 11    | 896,050   | 11    | 1,017,439 | 12    |
| North America  | 903,800             | 11    | 930,629   | 12    | 890,684   | 11    |
| Europe         | 550,968             | 7     | 513,310   | 6     | 537,029   | 7     |
| Other Areas    | 204,044             | 2     | 209,133   | 3     | 200,057   | 2     |
| Subtotal       | 2,625,682           | 31    | 2,549,122 | 32    | 2,645,209 | 32    |
|                | -----               | ----- | -----     | ----- | -----     | ----- |
| Total          | 8,416,982           | 100%  | 7,993,784 | 100%  | 8,191,752 | 100%  |
|                | =====               | ===== | =====     | ===== | =====     | ===== |

- Notes:
- Revenues by segment include intersegment transactions.
  - Geographic Segment is based on the locations of Hitachi's facilities where products or services are produced.
  - Figures for Revenues by Market are based on the locations of the customer to whom Hitachi's products or services are sold.
  - 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 accounting principles generally accepted in the United States of America, 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 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 (16), (17) and (18) to the consolidated financial statements.
  - Hitachi has changed industry segment classifications starting from the fiscal year ended March 31, 2002. Accordingly, figures for the fiscal year ended March 31, 2001 have been restated.

Hitachi conducts a broad and diverse range of businesses. Hitachi divides its operations into seven segments that are determined mainly on the basis of

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management units, and the similarity of products and services in type, use, production method and marketing method. The seven segments are Information & Telecommunication Systems, Electronic Devices, Power & Industrial Systems, Digital Media & Consumer Products, High Functional Materials & Components, Logistics, Services & Others and Financial Services. Each segment includes the Company's subsidiaries and affiliates engaged in related production, marketing and service activities.

### Information & Telecommunication Systems

Products and services provided by Hitachi in this segment include systems integration, 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 solutions business. Customers are business entities in various industries, national and local governments, and, to a lesser extent, individuals. Among the hardware products Hitachi offers, disk array subsystems, hard disk drives, 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 solutions 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

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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.

Over the medium term, in accordance with changing market requirements, Hitachi intends to expand its solutions business in growing areas, such as network business and outsourcing business. In overseas markets, especially in North America, Hitachi focuses on storage solutions business integrating its large-capacity disk array subsystems, software and related services and drives expansion in its IT solutions business. In accordance with this strategy, Experio Solutions Corporation (currently Hitachi Consulting Corporation), a subsidiary of the Company, acquired the e-Business Consulting Group of Grant Thornton LLP, an accounting and management-consulting firm, in October 2000 and two IT consulting companies in fiscal 2001 and expanded its business, including by hiring consultants from Arthur Andersen LLP in fiscal 2002.

In June 2002, the Company and IBM 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. Hitachi believes the new company will be able to



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realize increased competitiveness in the hard disk drive industry, including as a result of access to the combined R&D capabilities of Hitachi and IBM, an expanded product line-up, increased production capacity and an enhanced global sales and support network.

Hitachi believes strategic alliances are important to improve time to market requirements. The Company entered into an alliance with IBM in the field of servers and joined Microsoft Corporation in establishing a joint-venture company in the system solutions business for enterprises in fiscal 2000. The Company and one of its subsidiaries entered into an agreement with Sun Microsystems, Inc. in the area of storage systems including cross-license, distribution and development of storage software in fiscal 2001.

In fiscal 2002, the segment accounted for 19% of total revenues before eliminations and posted operating income of JPY 110,523 million.

### Electronic Devices

The Electronic Devices segment provides semiconductors, liquid crystal displays, semiconductor manufacturing equipment, test and measurement equipment and medical electronics equipment. Semiconductors and liquid crystal displays form the nucleus of this segment.

Semiconductors are used extensively in many industries, including computers, digital consumer products and automobiles. Hitachi's product line for semiconductors consists of system LSIs, semiconductor memories and other multi-purpose semiconductors. Hitachi develops and manufactures advanced memory chips. Recently, Hitachi has been giving more emphasis on system LSIs which combine memories, microprocessors and other components on a single chip and are capable of performing complex tasks.

Two notable features of the semiconductor market are rapid technological changes and significant price fluctuations with changes in the supply-demand balance. Technology becomes obsolete in a very short period of time, and new industry standards for any product line may be established very quickly. Prices for DRAMs in particular are under pressure due to increasing commoditization and intense competition among companies with large production capacity that specialize in this market. The industry is responding to these circumstances by

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seeking ways to spread investment risks by outsourcing manufacture to foundries, setting up joint ventures and forming alliances.

In accordance with changing market requirements, Hitachi has consolidated its semiconductor manufacturing bases and sold non-strategic business such as semiconductor silicon crystal operations in an effort to redefine the scope of its operation. In December 1999, Hitachi, together with NEC Corporation, established a joint-venture company called Elpida Memory, Inc. which is engaged in the DRAM business. The new company has integrated DRAM business including development, marketing and manufacturing.

In the face of the sluggish demand and sharp declines in prices, during fiscal 2001, Hitachi implemented reforms to restore profitability. The reforms include right-sizing of production by integrating product lines and cutting the workforce.

In addition, on April 1, 2003, the Company transferred its semiconductor operations centered in system LSIs to a new company incorporated jointly by the Company and Mitsubishi. Hitachi expects the new company, Renesas, to improve

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semiconductor competitiveness by permitting more flexible management and realizing synergies between the advanced technologies of the Company and Mitsubishi. Renesas is expected to be accounted for under the equity method by Hitachi which will likely result in assets and liabilities of Renesas' operations being excluded from Hitachi's consolidated balance sheet.

The display business is highly competitive and characterized by significant price fluctuations with changes in the supply-demand balance. In light of the difficult business conditions, during fiscal 2001, Hitachi decided to withdraw from cathode ray tubes for PC monitors, as well as cathode ray tubes for direct view color televisions in North America, to concentrate its resources on the flat panel display operations.

In fiscal 2002, the segment accounted for 15% of total revenues before eliminations and posted an operating loss of JPY 23,242 million.

### Power & Industrial Systems

In this segment, Hitachi offers power plants, industrial machinery, construction machinery, automotive equipment, 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.

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 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.

On October 1, 2002, the Company made UNISIA JECS CORPORATION a wholly-owned subsidiary through a share exchange. The purpose of the transaction was to strengthen Hitachi's competitiveness in the automotive

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products business. UNISIA JECS CORPORATION changed its name to Hitachi Unisia Automotive, Ltd. on the same date.

In fiscal 2002, the segment accounted for 22% of total revenues before eliminations and posted operating income of JPY 53,253 million.

### Digital Media & Consumer Products

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In this segment, Hitachi manufactures and sells products in two main categories: digital media products and consumer products. The former includes optical disk drives, TVs, mobile phones and LCD projectors, 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 fiscal 2002, the segment accounted for 12% of total revenues before eliminations and posted operating income of JPY 6,204 million.

### 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 fiscal 2002, the segment accounted for 12% of total revenues before eliminations and posted operating income of JPY 18,301 million.

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### Logistics, Services & Others

This segment includes various businesses not covered by other segments, primarily consisting of sales from general trading, transportation 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.

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In fiscal 2002, the segment accounted for 14% of total revenues before eliminations and posted operating income of JPY 10,352 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.

On October 1, 2000, Hitachi Credit Corporation, a subsidiary of the Company, merged with Hitachi Leasing, Ltd., an affiliate of the Company, for the purpose of strengthening management and promoting business development in the area of financial services. The merged company changed its name to Hitachi Capital Corporation.

In fiscal 2002, the segment accounted for 6% of total revenues before eliminations and posted operating income of JPY 12,067 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 "Segment Information" in this Item for details of competition in each segment.

### Seasonality

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

### 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. Although prices of certain raw materials, parts and components that Hitachi purchases are volatile, such as petroleum products, copper, aluminum and semiconductor memories, Hitachi does not think, at the present time, the price volatility for any specific raw materials, parts and components may materially affect Hitachi's results of operations in the near future.

### 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.

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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. At present, Hitachi manages to operate its business without any significant difficulty in coping with such regulations.

### C. Organizational Structure

The table below shows major subsidiaries of Hitachi, Ltd. as of March 31, 2003.

| Name of company<br>-----                               | Country of<br>incorporation<br>----- | Ownership rat<br>voting rig<br>----- |
|--|--------------------------------------|--------------------------------------|
| (1) Information & Telecommunication Systems            |                                      |                                      |
| Hitachi Communication Technologies, Ltd.               | Japan                                | 100.0%                               |
| Hitachi Electronics Services Co., Ltd.                 | Japan                                | 100.0                                |
| Hitachi Information Systems, Ltd.                      | Japan                                | 51.4                                 |
| Hitachi Software Engineering Co., Ltd.                 | Japan                                | 51.8                                 |
| Hitachi Systems & Services, Ltd.                       | Japan                                | 100.0                                |
| Hitachi Computer Products (America), Inc.              | U.S.A.                               | 100.0                                |
| Hitachi Computer Products (Asia) Corp.                 | Philippines                          | 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                                |
| (2) Electronic Devices                                 |                                      |                                      |
| Eastern Japan Semiconductor Technologies, Inc.         | Japan                                | 100.0%                               |
| Hitachi Displays, Ltd.                                 | Japan                                | 100.0                                |
| Hitachi Electronics Engineering Co., Ltd.              | Japan                                | 100.0                                |
| Hitachi High-Technologies Corporation                  | Japan                                | 67.6                                 |
| Hitachi Medical Corporation                            | Japan                                | 63.4                                 |
| Hitachi Semiconductor and Devices Sales Co., Ltd.      | Japan                                | 100.0                                |
| Northern Japan Semiconductor Technologies, Inc.        | Japan                                | 100.0                                |
| Trecenti Technologies, Inc.                            | Japan                                | 100.0                                |
| Hitachi Electronic Devices (USA), Inc.                 | U.S.A.                               | 100.0                                |
| Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd. | Singapore                            | 92.0                                 |
| Hitachi Semiconductor (America) Inc.                   | U.S.A.                               | 100.0                                |
| Hitachi Semiconductor (Europe) GmbH                    | Germany                              | 100.0                                |
| Hitachi Semiconductor (Malaysia) Sdn. Bhd.             | Malaysia                             | 90.0                                 |

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| Name of company<br>-----                           | Country of<br>incorporation<br>----- | Ownership ratio of<br>voting rights<br>----- |
|--|--------------------------------------|--|
| (3) 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                                | 56.4   |
| 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                                | 54.9   |
| Hitachi Plant Engineering & Construction Co., Ltd. | Japan                                | 56.3   |
| Hitachi Unisia Automotive, Ltd.                    | Japan                                | 100.0  |
| Hitachi Via Mechanics, Ltd.                        | Japan                                | 100.0  |
| Japan Servo Co., Ltd.                              | Japan                                | 57.8   |
| Hitachi Automotive Products (USA), Inc.            | U.S.A.                               | 100.0  |
| Taiwan Hitachi Co., Ltd.                           | Taiwan                               | 61.5   |
| (4) Digital Media & Consumer Products              |                                      |  |
| Hitachi Home & Life Solutions, Inc.                | Japan                                | 100.0%                                       |
| Hitachi Maxell, Ltd.                               | Japan                                | 52.1   |
| 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   |
| (5) High Functional Materials & Components         |                                      |  |
| Hitachi Cable, Ltd.                                | Japan                                | 53.3%  |
| Hitachi Chemical Co., Ltd.                         | Japan                                | 51.7   |
| Hitachi Metals, Ltd.                               | Japan                                | 55.0   |
| (6) 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                                | 59.9   |
| Nikkyo 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  |
| (7) Financial Services                             |                                      |  |
| Hitachi Capital Corporation                        | Japan                                | 55.3%  |
| Hitachi Insurance Services, Ltd.                   | Japan                                | 100.0  |

D. Property, Plants and Equipment

Most of Hitachi's 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.

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The total outstanding balance of the secured loans and bonds as of March 31, 2003 was JPY 31,920 million.

The following table shows relevant property data in relation to major lines of business as of March 31, 2003.

| Name<br>----  | Location<br>----- | Area<br>----<br>(thousands of<br>square meters) | Principal products<br>----- |
|---|-------------------|---|-----------------------------|
| In Japan  |                   |   |                             |
| Hitachi, Ltd.:  |                   |   |                             |
| Semiconductor & Integrated Circuits                           | Tokyo, etc.       | 601   | Semiconductors              |
| Thermal & Hydroelectric Systems Division, etc.                | Ibaraki           | 3,636   | Power generating equipment  |
| Sales Offices   | Osaka, etc.       | 226   | -                           |
| Research & Development Group                                  | Tokyo, etc.       | 930   | -                           |
| Head Office   | Tokyo             | 905   | -                           |
| Enterprise Server Division                                    | Kanagawa          | 203   | Mainframes                  |
| Device Development Center                                     | Tokyo             | 67  | Semiconductors              |
| Automotive Products   | Ibaraki           | 609   | Automotive products         |
| Internet Systems Platform Division                            | Kanagawa          | 234   | PCs                         |
| Data Storage Systems Division                                 | Kanagawa          | 67  | Hard disk drives            |
| Subsidiaries:   |                   |   |                             |
| Hitaka Works<br>(Hitachi Cable, Ltd.)                         | Ibaraki, etc.     | 1,049   | Electronic materials and    |
| Hitachi Displays, Ltd.  | Chiba             | 517   | Liquid crystal displays     |
| Yasugi Works<br>(Hitachi Metals, Ltd.)                        | Shimane           | 1,111   | Special steels              |
| Head Office<br>(Hitachi Software Engineering Co., Ltd.)       | Tokyo             | 16  | -                           |
| Kyoto Works<br>(Hitachi Maxell, Ltd.)                         | Kyoto             | 313   | Magnetic recording media    |
| Head Office<br>(Hitachi Building Systems Co., Ltd.)           | Tokyo             | 206   | -                           |
| Tsuchiura Plant<br>(Hitachi Construction Machinery Co., Ltd.) | Ibaraki, etc.     | 5,471   | Hydraulic excavators        |
| Tsuchiura Works<br>(Hitachi Cable, Ltd.)                      | Ibaraki           | 562   | Electronic materials and    |
| Densen Works<br>(Hitachi Cable, Ltd.)                         | Ibaraki           | 123   | Electronic materials and    |
| Tochigi Works<br>(Hitachi Home & Life Solutions, Inc.)        | Tochigi           | 1,095   | Refrigerators, Air condi    |

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| Name<br>-----   | Location<br>-----          | Area<br>-----<br>(thousands of<br>square meters) | Principal products<br>----- |
|---|----------------------------|--|-----------------------------|
| Overseas Subsidiaries:                                  |                            |  |                             |
| Hitachi Global Storage<br>Technologies Netherlands B.V. | California<br>U.S.A., etc. | 1,572  | Hard disk drives            |
| Hitachi Metals America, Ltd.                            | New York,<br>U.S.A., etc.  | 2,903  | Automotive components       |
| Hitachi Computer Products<br>(Asia) Corp.               | Binan,<br>Philippines      | 83   | Hard disk drives            |
| Hitachi Semiconductor<br>(Europe) GmbH                  | Landshut,<br>Germany       | 63   | Semiconductors              |

For information on Hitachi's plan for capital investment for the fiscal year ending March 31, 2004, 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 2002, the Japanese economy was buoyed by firm consumer confidence but failed to make a full-fledged recovery because of continued stagnant private-sector plant and equipment investment and declines in public-sector spending. Japan's GDP grew 3.2% in fiscal 2000, declined by 1.2% in fiscal 2001 and grew 1.6% in fiscal 2002.

Outside Japan, in fiscal 2002, the economic environment was marked by the slow pace of the economic recovery in the United States and a deepening slump in Europe, but generally vigorous economic activity in Asia.

Overseas sales, a significant part of which are denominated in U.S. dollars, were 31% of total revenues in fiscal 2000 and 32% of total revenues in fiscal 2001 and 2002. Fluctuations in foreign currency exchange rates may affect Hitachi's financial results, which are reported in Japanese yen, through the translation of foreign currencies to Japanese yen. The Japanese yen on average did not change substantially against the U.S. dollar during fiscal 2000, weakened against the U.S. dollar during fiscal 2001 and strengthened against the U.S. dollar during fiscal 2002, 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 fluctuations. In addition, to alleviate the adverse effects of foreign currency exchange 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 such 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 fluctuations. For additional information



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regarding foreign currency 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 is limited, including due to the underdeveloped M&A market in Japan 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 overstuffed businesses to growth businesses, and reorganizing the geographic allocation of its manufacturing facilities.

In the face of the increasingly difficult business environment due primarily to global economic slowdowns and worldwide decline in demand for IT-related products, during fiscal 2001, Hitachi implemented management measures to raise management efficiency and strengthen competitiveness. The measures include the withdrawal from unprofitable businesses such as cathode ray tubes for PC monitors, the reorganization and streamlining of production bases and facilities for semiconductors and digital media products operations, and the introduction of an early retirement benefits program. In addition, Hitachi has accelerated the pace of certain corporate projects, 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."

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Following its medium-term business plan launched in November 1999 and ending March 2003, 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."

Hitachi is currently aware of no governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, Hitachi's operations or investment by U.S. shareholders.

Hitachi's total revenues rose 5% in fiscal 2000, decreased 5% in fiscal 2001 and rose 2% in fiscal 2002 on a year-on-year basis, respectively. Hitachi posted net income of JPY 104,380 million in fiscal 2000, a net loss of JPY 483,837 million in fiscal 2001 and net income of JPY 27,867 million in fiscal 2002.

The analysis of revenues by industry and geographic segment and description of

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restructuring measures by industry segment mentioned below are based on the information 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. Hitachi has changed industry segment classifications starting from the fiscal year ended March 31, 2002. Accordingly, results of operations by industry segment for the preceding fiscal year have been restated on the basis of the new classification.

### Restructuring

For fiscal 2000, Hitachi recorded a restructuring charge of JPY 8,814 million, primarily associated with the reorganization and streamlining of its domestic and overseas operations in the areas of consumer products and power and industrial systems. The restructuring charge included special termination benefits of JPY 5,275 million for 772 employees. The special termination benefits accrual of JPY 2,371 million as of March 31, 2001, which was related to the voluntary termination of 336 employees, was paid in fiscal 2001.

In the face of an increasingly difficult business environment due primarily to global economic slowdowns and worldwide decline in demand for IT-related products, during fiscal 2001, Hitachi implemented restructuring measures to reduce cost structure and focus on strategic businesses, primarily by reducing its work force and withdrawing from unprofitable businesses.

For fiscal 2001, Hitachi recorded restructuring charges of JPY 288,096 million in connection with the restructuring measures. The restructuring charges included a cost of JPY 185,105 million primarily for special termination benefits for 22,422 employees under the early retirement benefits program introduced by the Company and certain of its subsidiaries. Payments of JPY 73,252 million were made in fiscal 2001 and special termination benefits accrual of JPY 114,266 million as of March 31, 2002, which was related to the voluntary termination of 10,077 employees, was paid in fiscal 2002. In addition, the restructuring charges included a loss on fixed assets in the amount of JPY 51,316 million, a loss on disposal of inventories in the amount of JPY 19,451 million, and lease termination and business partner compensation of JPY 11,487 million. The details of the restructuring measures were as follows.

Information & Telecommunication Systems incurred restructuring charges of JPY 63,790 million, including a cost of JPY 45,294 million primarily for special termination benefits. In March 2002, Hitachi decided to exit its telecommunications equipment business in North America, except for the related after-services, by March 2002, due to the significant downturn in the market and the bankruptcy of a major customer. In this connection, the Company and certain subsidiaries disposed of inventories and fixed assets. The charges in connection with such restructuring amounted to JPY 23,369 million, including accrual of JPY 9,342 million mainly for special termination benefits. The liabilities recognized were paid by March 2003. Sales in this business line were approximately JPY 30 billion and operating income was negative. Restructuring measures related to the telecommunications equipment business were expected to decrease personnel, depreciation and other costs by approximately JPY 7 billion. Hitachi believes that it realized substantially such effect in fiscal 2002.

Electronic Devices recorded restructuring charges of JPY 82,718 million, including a cost of JPY 46,301 million primarily for special termination benefits. Restructuring measures in this segment included withdrawal from the cathode ray tubes business and realignment of the semiconductor business. In

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July 2001, due to intense competition and general overcapacity in the market, Hitachi decided to shut down several plants and production lines of PC monitors in Japan, Singapore and Malaysia, and the direct view color TV product line in the U.S. Consequently, the Company and certain subsidiaries disposed of inventories and fixed assets. The charges in connection with such restructuring amounted to JPY 30,412 million, and the amount of JPY 13,921 million for special termination benefits and JPY 4,851 million mainly for cancellation penalties were accrued. The liabilities for special termination benefits were paid by March 2003 and the remaining liabilities were substantially paid by March 2002. Sales in this business line were approximately JPY 80 billion and operating income was negative. Restructuring measures related to the cathode ray tubes business were expected to decrease costs by approximately JPY 21 billion. Hitachi believes that it realized substantially such effect in fiscal 2002.

In October 2002, Hitachi also decided to realign its semiconductor business by reorganizing its semiconductor product lines and facilities primarily in Japan. This realignment was in response to a sharp decline in prices of semiconductor products and general overcapacity in the market, which was primarily due to a decline in demand for semiconductor products used in PCs and mobile communications equipment. With respect to front-end manufacturing processing, production of semiconductor products on older lines with low utilization rates was transferred to new lines in order to optimize utilization of certain lines. As a result, the number of active lines was reduced from 19 to 15 by March 2002, and from 15 to 13 by December 2002. Also, reorganization and consolidation of back-end production bases reduced the number of bases from 13 to 11 by March 2002, and from 11 to 9 by March 2003. The associated restructuring charges amounted to JPY 45,510 million, including accrual of JPY 37,156 million. The liabilities for special termination benefits in the amount of JPY 28,479 million were paid out by March 2003, and the liabilities in the amount of JPY 8,677 million incurred mainly for removal costs were substantially paid by March 2002. These restructuring measures were expected to decrease costs by approximately JPY 23 billion. Hitachi believes that it realized substantially all of such effect in fiscal 2002.

Power & Industrial Systems recorded restructuring charges of JPY 53,833 million, including a cost of JPY 49,723 million primarily for special termination benefits for employees of the Company and its domestic subsidiaries. The restructuring measures were implemented in an effort to increase profitability by reducing fixed costs.

Digital Media & Consumer Products recorded restructuring charges of JPY 39,245 million, including a cost of JPY 21,510 million primarily for special termination benefits. Affected by the slowdown of the global economy, prices of color TVs declined due to increased competition. And against this backdrop, Hitachi sought to strengthen competitiveness of its TV operations on a global scale by consolidating its manufacturing operations and streamlining sales channels. As part of its restructuring of digital media and consumer products operations in the Asian region, Hitachi decided to transfer its product management, R&D capabilities, manufacturing of color TVs and production of vacuum cleaners in Singapore to certain subsidiaries in China, Indonesia and Thailand. In addition, Hitachi decided to liquidate a sales and manufacturing subsidiary in the U.K. and reorganized sales channels in Europe in February 2002. Hitachi disposed of inventories and fixed assets in the process of implementing its restructuring measures. The charges in connection with such restructuring amounted to JPY 9,581 million. The liabilities for special termination benefits in the amount of JPY 3,634 million were paid by March 2002 and the liabilities for lease termination and others amounted to JPY 2,719 million, which were substantially paid by March 2002. Sales in this business line were approximately JPY 57 billion and operating income was almost breakeven in fiscal 2001. These restructuring measures were expected to decrease costs for personnel and depreciation by approximately JPY 50 billion for the following fiscal year. Hitachi believes it realized substantially such effect for fiscal

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2002.

High Functional Materials & Components recorded restructuring charges of JPY 25,693 million, including a cost of JPY 11,613 million primarily for special termination benefits. Other restructuring charges were primarily related to the disposal of fixed assets due to weak demand for IT-related products, particularly for mobile phone related parts. Restructuring measures in this segment involved streamlining the product lines mainly in Japan, and shutting down manufacturing plants in Malaysia and Japan. The charges in connection with such restructuring amounted to JPY 23,474 million, and liabilities in the amount of JPY 11,940 million were accrued mainly for special termination benefits. The liabilities were paid by March 2003. These measures were expected to decrease costs by approximately JPY 16 billion for the following fiscal year, and Hitachi believes that it realized substantially such effect in fiscal 2002.

Other segments incurred restructuring charges of JPY 22,817 million, including a cost of JPY 10,664 million primarily for special termination benefits.

In addition to the restructuring charges above, JPY 46,115 million of impairment losses for long-lived assets, of which JPY 37,442 million were related to the semiconductor and display operations, were recognized.

For fiscal 2002, Hitachi did not record any restructuring charges.

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### Fiscal 2001 Compared with Fiscal 2000

Hitachi's total revenues in fiscal 2001 were JPY 7,993,784 million, a decrease of 5% from the preceding fiscal year. Overseas sales declined 3% over the same period, to JPY 2,549,122 million.

Revenues in Information & Telecommunication Systems rose 2%, to JPY 1,829,661 million, from the preceding fiscal year primarily as a result of increased sales of software, systems integration and other services as well as an increase in sales of large-capacity storage systems, partially offset by a decrease in sales of telecommunications equipment due to weak demand by telecommunications carriers. Revenues in Electronic Devices dropped 26%, to JPY 1,487,200 million, from the preceding fiscal year primarily due to a sharp decline in sales of semiconductors resulting from a sluggish demand for personal computers and mobile communications equipment as well as falling semiconductor prices and, to a lesser degree, due to a decline in sales of liquid crystal displays owing primarily to falling prices. Revenues in Power & Industrial Systems declined 2%, to JPY 2,266,895 million, from the preceding fiscal year primarily due to a decrease in sales of construction machinery and industrial equipment, partially offset by an increase in sales of nuclear power systems owing to the delivery of large orders. Revenues in Digital Media & Consumer Products rose 11%, to JPY 1,170,744 million, from the preceding fiscal year primarily due to an increase in sales of optical storage drives resulting from the establishment of a consolidated subsidiary jointly with LG Electronics Inc. of the Republic of Korea. Sales of air conditioners remained largely unchanged from the preceding fiscal year, while sales of refrigerators and washing machines dropped due to a decrease in volumes of and prices for such products. Revenues in High Functional Materials & Components declined 15%, to JPY 1,250,248 million, from the preceding fiscal year primarily due to a decrease in sales of materials and components for semiconductors, liquid crystal displays and mobile communications equipment owing primarily to weak demand for such products. Revenues in Logistics, Services & Others declined 11%, to JPY 1,430,825 million, from the preceding fiscal year primarily due to a decrease in sales by consolidated subsidiaries of semiconductors and liquid crystal displays as well as a decrease

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in sales of logistics services. Revenues in Financial Services declined 4%, to JPY 567,138 million, from the preceding fiscal year primarily due to the slow pace of the semiconductor manufacturing equipment leasing business and stagnant demand for personal financial services.

An analysis by geographic segment shows that revenues of the Company and its consolidated subsidiaries located in Japan dropped 9%, to JPY 7,027,116 million, from the preceding fiscal year primarily due to decreased demand in the semiconductor and liquid crystal display markets. Revenues of consolidated subsidiaries of the Company located in Asia (other than Japan) declined 1%, to JPY 956,378 million, from the preceding fiscal year primarily owing to flagging demand for semiconductors and liquid crystal displays. Revenues of consolidated subsidiaries of the Company located in North America declined 4%, to JPY 876,341 million, from the preceding fiscal year primarily due to a decrease in sales of semiconductors and IT products, partially offset by an increase in sales of thermal power station equipment. Revenues of consolidated subsidiaries of the Company located in Europe dropped 6%, to JPY 397,108 million, from the preceding fiscal year primarily due to a decrease in sales of semiconductors and liquid crystal displays. Revenues of consolidated subsidiaries of the Company located in Other Areas increased 9%, to JPY 58,749 million, from the preceding fiscal year.

Hitachi's cost of sales during fiscal 2001 amounted to JPY 6,184,396 million, approximately the same as the preceding fiscal year. The ratio of cost of sales to total revenues increased 4% from the preceding fiscal year, to 77%, due to a drop in total revenues. Selling, general and administrative expenses amounted to JPY 1,926,803 million, approximately the same as the preceding fiscal year, and was 24% of total revenues.

Hitachi recorded impairment losses for long-lived assets in the amount of JPY 46,115 million due primarily to the significant decline in demand for and prices of semiconductor products. Restructuring charges increased significantly, to JPY 288,096 million, from JPY 8,814 million in the preceding fiscal year. For a description of the restructuring charges, see "Restructuring."

Interest income declined 31% from the preceding fiscal year, to JPY 22,481 million, due in part to a decline in interest rates. Dividends received decreased 36% from the preceding fiscal year, to JPY 6,134 million, mainly due to lower dividend payments by companies in which Hitachi invests because of the weak business performance of certain of those companies. Other income amounted to JPY 7,424 million, consisting of foreign exchange gain, compared to JPY 27,544 million in the preceding fiscal year, which included net gain on securities in the amount of JPY 9,334 million, JPY 15,651 million of gross realized gains on contributions of available-for-sale securities to pension fund trusts and JPY 2,559 million of equity in earnings of affiliated companies.

Interest charges declined 22% from the preceding fiscal year, to JPY 45,830 million, due in part to a decline in borrowings. Other deductions increased significantly, to JPY 124,655 million, from JPY 20,697 million in the preceding fiscal year primarily due to a net loss on securities in the amount of JPY 80,938 million. Equity in earnings of affiliated companies included in other deductions posted a net loss of JPY 35,756 million primarily due to the poor results by affiliated companies engaged in the semiconductor business.

A loss before income taxes and minority interests in fiscal 2001 amounted to JPY 586,072 million compared to income before income taxes and minority interests of JPY 323,655 million in the preceding fiscal year. Net loss was JPY 483,837 million in fiscal 2001, compared to net income of JPY 104,380 million in the preceding fiscal year.

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Fiscal 2002 Compared with Fiscal 2001

Hitachi's total revenues in fiscal 2002 were JPY 8,191,752 million, an increase of 2% from the preceding fiscal year. Overseas sales increased 4% over the same period, to JPY 2,645,209 million.

Revenues in Information & Telecommunication Systems rose 4%, to JPY 1,899,651 million, from the preceding fiscal year, due primarily to two factors. First, sales of hard disk drives and disk array systems increased, reflecting steady demand from business enterprises. Second, sales of systems integration and other services increased. Increased sales of these products and services, however, were partially offset by a decrease in sales of telecommunications equipment due to weak demand by telecommunications carriers. Revenues in Electronic Devices rose 6%, to JPY 1,570,069 million, from the preceding fiscal year primarily due to two factors. First, sales of system LSIs increased, most notably microcontrollers for automotive applications and liquid crystal display drivers for mobile phones. In addition, sales of small and medium-size liquid crystal displays increased due to expansion in demand for mobile phones with color liquid crystal display panels. Increased sales of these products, however, were partially offset by a decline in sales of cathode ray tubes for PC monitors due to Hitachi's withdrawal from such business. Revenues in Power & Industrial Systems increased 1%, to JPY 2,297,068 million, from the preceding fiscal year primarily as a result of an increase in sales of construction machinery, driven by vigorous demand in overseas markets, particularly in China, and automotive products, as a result of the consolidation of UNISIA JECS CORPORATION through an exchange of shares. Increased sales of these products, however, were partially offset by a decrease in sales of industrial equipment due to sluggish private-sector plant and equipment investment in Japan and maintenance services for power plants. Revenues in Digital Media & Consumer Products rose 3%, to JPY 1,205,551 million, from the preceding fiscal year primarily due to an increase in sales of optical storage products, plasma display TVs and batteries for mobile phones because of growth in demand for such products. Increased sales of these products, however, were partially offset by a decrease in sales of air conditioners and refrigerators because of a fall in prices for such products. Revenues in High Functional Materials & Components amounted to JPY 1,248,550 million, approximately the same as the preceding fiscal year. An increase in sales of materials and components for semiconductors and liquid crystal displays due primarily to steady demand for such products was partially offset by a decline in sales of submarine fiber-optic cables and other cables and wires. Revenues in Logistics, Services & Others increased 1%, to JPY 1,449,594 million, from the preceding fiscal year primarily due to an increase in sales of information-related products by overseas trading companies as well as increased sales of logistics services. Increased sales of these products and services, however, were partially offset by the absence of sales from a subsidiary engaged in monorail passenger service operations, since this subsidiary was sold during fiscal 2001. Revenues in Financial Services increased 2%, to JPY 579,267 million, from the preceding fiscal year due to inclusion of sales of a leasing company acquired during fiscal 2001 as well as the inclusion of large orders for leased software. These sales were partially offset by the slow pace of the leasing business for corporate clients and stagnant demand for personal financial services.

An analysis by geographic segment shows that revenues of the Company and its consolidated subsidiaries located in Japan rose 4%, to JPY 7,317,570 million, from the preceding fiscal year primarily due to the firm growth in information systems business, notably systems integration, as well as the rebound of semiconductors. Revenues of consolidated subsidiaries of the Company located in Asia (other than Japan) rose 5%, to JPY 1,002,234 million, from the preceding fiscal year primarily due to an increase in sales of information-related products, notably hard disk drives. Revenues of consolidated subsidiaries of the

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Company located in North America declined 4%, to JPY 841,335 million, from the preceding fiscal year primarily due to a decrease in sales of power generation equipment, partially offset by an increase in sales of storage-related businesses. Revenues of consolidated subsidiaries of the Company located in Europe increased 3%, to JPY 407,997 million, from the preceding fiscal year primarily due to an increase in sales of hard disk drives partially offset by a decrease in sales of semiconductors and liquid crystal displays. Revenues of consolidated subsidiaries of the Company located in Other Areas increased 20%, to JPY 70,318 million, from the preceding fiscal year.

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Hitachi's cost of sales during fiscal 2002 amounted to JPY 6,240,493 million, an increase of 1% from the preceding fiscal year. The ratio of cost of sales to total revenues decreased 1% from the preceding fiscal year, to 76%, due in part to Hitachi's efforts to reduce materials purchasing costs. Selling, general and administrative expenses declined 7%, to JPY 1,798,292 million, from the preceding fiscal year due in part to the restructuring measures Hitachi took during the preceding fiscal year to reduce fixed costs. The ratio of selling, general and administrative expenses to total revenues also decreased 2% from the preceding fiscal year, to 22%.

In fiscal 2002, Hitachi recorded impairment losses for long-lived assets in the amount of JPY 8,474 million, the majority of which were recorded with respect to the Company's equipment which provides semiconductor product development and design services.

Interest income declined 37% from the preceding fiscal year, to JPY 14,158 million, primarily due to a decrease in financial assets held by the Company and a decline in U.S. interest rates. Dividends received increased 45% from the preceding fiscal year, to JPY 8,921 million, mainly because of increased dividend payments by companies in which Hitachi invests, due, in turn, to recovery in business performance of certain of those companies. Other income amounted to JPY 23,658 million, consisting of net gain on sale and disposal of rental assets and other property, compared to JPY 7,424 million consisting of foreign exchange gain in the preceding fiscal year.

Interest charges declined 25% from the preceding fiscal year, to JPY 34,338 million, primarily due to a decrease in borrowings and a decline in U.S. interest rates. Other deductions declined significantly, to JPY 60,064 million, from JPY 124,655 million in the preceding fiscal year primarily due to a decrease in a net loss on securities from the preceding fiscal year. Hitachi recorded a net periodic benefit cost of JPY 24,857 million as other deductions for fiscal 2002 due to its adoption of Emerging Issues Task Force (EITF) Issue No.03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," which provides guidance with respect to accounting for transfer of the substitutional portion of the Employee Pension Fund to the Japanese government. This cost arose from the remeasurement of the substitutional portion of the benefit obligation by the Company and certain subsidiaries in accordance with the EITF. For additional information on the accounting treatment of the transfer of the substitutional portion of the Employee Pension Fund to the Japanese government, see note (10) to the consolidated financial statements. Equity in earnings of affiliated companies included in other deductions reflected a net loss of JPY 15,803 million, compared to a net loss of JPY 35,756 million in the preceding fiscal year, primarily due to the poor results of affiliated companies engaged in the semiconductor memories business. A net loss on securities included in other deductions amounted to JPY 660 million, compared to a net loss of JPY 80,938 million in the preceding fiscal year. In addition, other deductions include a foreign exchange loss of JPY 18,262 million, primarily due to the appreciation

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of the Japanese yen during fiscal 2002.

Income before income taxes and minority interests in fiscal 2002 amounted to JPY 96,828 million, compared to a loss before income taxes and minority interests of JPY 586,072 million in the preceding fiscal year.

Income taxes in fiscal 2002 amounted to an expense of JPY 52,662 million, compared to a benefit of JPY 71,114 million in the preceding fiscal year. Minority interests in fiscal 2002 amounted to income of JPY 16,299 million, which decreased net income by the same amount, compared to a loss of JPY 31,121 million in the preceding fiscal year.

Net income in fiscal 2002 was JPY 27,867 million, compared to a net loss of JPY 483,837 million in the preceding fiscal year.

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### B. Liquidity and Capital Resources

The analysis made in this Item covers the three-year period from fiscal 2000 to fiscal 2002. 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 its cash management by centralizing such management within its group. 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 directly from the capital markets and indirectly from Japanese and international commercial banks.

Net cash provided by operating activities was JPY 646,518 million, JPY 482,866 million and JPY 535,433 million in fiscal 2002, 2001 and 2000, respectively. The increase in fiscal 2002 was caused primarily by posting net income compared to a large net loss in the preceding fiscal year. This increase was partially offset by a decrease in accrued expenses and retirement and severance benefits due to special severance payments arising during fiscal 2002 under the early retirement program implemented in the preceding fiscal year. The decrease in fiscal 2001 was caused primarily by posting a large net loss, partially offset by a reduction in receivables and inventories under a project aimed at improving turnover of assets.

Net cash used in investing activities was JPY 619,285 million, JPY 272,871 million and JPY 370,717 million in fiscal 2002, 2001 and 2000, respectively. The increase in fiscal 2002 was due in part to an increase in purchase of investments and subsidiaries' common stock arising from Hitachi's purchase of hard disk drive operations from IBM and new shares of Elpida Memory, Inc. Cash flows for capital expenditures and purchase of assets to be leased during fiscal 2002, 2001 and 2000 were JPY 782,861 million, JPY 874,766 million and JPY 995,727 million, respectively. The decrease in capital expenditures in fiscal 2002 reflects Hitachi's more stringent selection of capital investment and the decrease in fiscal 2001 reflects Hitachi's curbing of expenditures in the semiconductor field. 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. Management has made more selective capital expenditures for recent years in order to conserve capital while maintaining the ability to grow in competitive markets. As of March 31, 2003, Hitachi's capital commitments for the purchase of property, plant and equipment amounted to JPY 30,214 million.



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Net cash used in financing activities was JPY 207,170 million, JPY 578,112 million and JPY 159,507 million in fiscal 2002, 2001 and 2000, 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 2002, proceeds from long-term debt amounted to JPY 375,802 million, a decrease of JPY 197,571 million from fiscal 2001, while payments on long-term debt amounted to JPY 547,759 million compared to JPY 743,385 million in fiscal 2001. In fiscal 2002, proceeds from sale of common stock by subsidiaries were JPY 1,872 million, compared to JPY 42,466 million in fiscal 2001, which consisted primarily of proceeds from the issuance of common stock by OpNext, Inc. As part of its business strategy, the Company may take one of its wholly-owned subsidiaries public through an issuance of the stock of such subsidiary.

Hitachi relies for its liquidity principally on cash and other working capital as well as bond issuances, bank loans and other uncommitted sources of financing. While Hitachi has maintained committed facilities for issuing commercial paper in the U.S. market, the aggregate amount of such facilities is limited. In fiscal 2002, the Company concluded commitment line agreements with a number of banks under which the Company may borrow any amount it requires up to a total of JPY 120,000 million in order to ensure efficient access to operating funds. The 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 its subsidiaries also hold lines of credit arrangements. The unused lines for the Company and its subsidiaries totaled to JPY 147,042 million as of March 31, 2003.

At the end of fiscal 2002, the total of Hitachi's short-term debt and long-term debt amounted to JPY 2,840,598 million, a decrease of JPY 157,626 million from at the end of fiscal 2001. The decrease was chiefly due to Hitachi's efforts to reduce interest-bearing debt. Short-term debt totaled JPY 825,860 million, consisting of borrowings mainly from banks and commercial paper. Long-term debt was JPY 1,512,152 million, mainly

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consisting of debentures, convertible debentures and loans principally from banks and insurance companies. Current installments of long-term debt came to JPY 502,586 million. 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 (9) to the consolidated financial statements.

The Company's current debt ratings (long-term/short-term) are: A2/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, the downgrade of its debt ratings is likely to 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.

In fiscal 2002, the above activities and the effect of foreign exchange rate fluctuations decreased cash and cash equivalents by JPY 201,203 million from fiscal 2001. Cash and cash equivalents at the end of fiscal 2002 amounted to JPY 828,171 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 2002 amounted to JPY 186,972

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million, an increase of JPY 8,039 million from at the end of fiscal 2001. As a result of the foregoing, the total of cash and cash equivalents and short-term investments at the end of fiscal 2002 was JPY 1,015,143 million, a decrease of JPY 193,164 million from at the end of fiscal 2001.

The transfer of funds from a subsidiary to a parent company in the form of cash dividends is restricted pursuant to the Commercial Code of Japan or regulatory requirements of foreign countries where such subsidiary is 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 current financial position including working capital as indicated by these figures is adequate for its present requirements and business operations, and is seeking to ensure that the level of liquidity and the access to capital resources be maintained in order to successfully conduct its future operations in highly competitive markets.

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, and does not enter into derivative financial instruments for any purpose other than hedging. For additional information on financial instruments and derivative financial instruments, see notes (22) and (24) to the consolidated financial statements.

Pursuant to the provisions of Article 210 of the Commercial Code of Japan, the Company, at the Tokyo Stock Exchange, purchased 66,338,000 shares of its own common stock for the aggregate amount of JPY 29,934 million during May 2003.

In May 2003, the Company issued unsecured debentures in the amount of JPY 80,000 million. The debentures mature in ten years and the coupon rate is 0.72%. The procured funds are used primarily for redemption of convertible debentures.

In June 2003, the Company announced that it reached an agreement with its labor union on a basic framework for pension plan reform centered on the introduction of the cash balance plan. Under the cash balance plan, the pension benefit obligation is adjusted automatically in correlation to market interest trends. The Company expects that the cash balance plan will enable stable administration of its pension system and reduce the impact of interest rate and stock market volatility on Hitachi's financial results.

In July and August 2003, Hitachi sold most of its shares of NITTO DENKO CORPORATION, which was accounted for under the equity method by Hitachi, for the aggregate amount of approximately JPY 140 billion.

The proceeds of such sales are expected to be used to secure funding for Hitachi's implementation of its business portfolio realignment and to increase Hitachi's focus on targeted businesses.

The following tables show Hitachi's contractual obligations and other commercial commitments as of March 31, 2003.

|             |                        |       |
|-------------|------------------------|-------|
|             | Payments due by period |       |
|             | -----                  |       |
| Contractual | Less than              | After |

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| obligations               | Total     | 1 year  | 1-3 years | 4-5 years | 5 years |
|---------------------------|-----------|---------|-----------|-----------|---------|
| (Millions of yen)         |           |         |           |           |         |
| Long-term debt            | 1,994,671 | 497,450 | 915,047   | 289,420   | 292,754 |
| Capital lease obligations | 20,067    | 5,136   | 6,935     | 3,763     | 4,229   |
| Operating leases          | 44,292    | 13,174  | 17,450    | 5,090     | 8,574   |

|   | March 31 |
|---|----------|
| Other commercial commitments              | 2003     |
| (Millions of yen)                         |          |
| Lines of credit                           | 662,737  |
| Purchase of property, plant and equipment | 30,214   |
| Trade notes discounted and endorsed       | 28,563   |
| Guarantees                                | 628,627  |

See note (15) to the consolidated financial statements.

Off-balance Sheet Arrangements

Hitachi uses off-balance sheet Special Purpose Entities (SPE) 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 SPE which are in turn packaged mainly into asset-backed commercial papers by the SPE for sale to third party investors. In certain securitizations, the SPE require Hitachi to retain subordinated residual interests to the investors. These retained subordinated residual interests are not material. The SPE and the investors have no recourse to Hitachi when there are failures by the debtors of trade and lease receivables to pay 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 SPE. The SPE meet the accounting criteria for off-balance sheet treatment and are not consolidated under generally accepted accounting principles in the United States of America.

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The amount of off-balance sheet arrangements as of March 31, 2003 is as follows:

| March 31          |  |
|-------------------|--|
| 2003              |  |
| (Millions of yen) |  |

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|                               |         |
|-------------------------------|---------|
| Securitized lease receivables | 382,861 |
| Securitized trade receivables | 291,223 |
| -----                         |         |
| Total                         | 674,084 |
| -----                         |         |

See note (1) (f) to the consolidated financial statements.

### C. Research and Development

Viewing research and development (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 JPY 435,579 million in fiscal 2000, JPY 415,448 million in fiscal 2001 and JPY 377,154 million in fiscal 2002. The ratio of R&D expenditures to total revenues remained at approximately 5% over these three years. The decreases in fiscal 2001 and fiscal 2002 reflect Hitachi's more stringent selection of R&D activities.

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 2002, expenditures in the Information & Telecommunication Systems segment and the Electronic Devices segment accounted for 32% and 28% of total R&D expenditures, respectively.

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.

### D. Trend Information

In fiscal 2001, Hitachi's business results significantly deteriorated due primarily to global economic slowdowns and worldwide decline in demand for IT-related products. In the face of the difficult business environment, during fiscal 2001, Hitachi implemented management measures to raise management efficiency and strengthen competitiveness. The measures include the withdrawal from unprofitable businesses, the reorganization and streamlining of production bases and facilities and the introduction of an early retirement benefits program.

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

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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's hard disk drive operations were transferred. The new company, a majority-owned subsidiary of the Company, commenced operations on January 1, 2003. The sales of the new company are expected to be included in Hitachi's consolidated statement of income for the fiscal year ending March 31, 2004. 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. The new company is expected to be accounted for under the equity method by the Company which will likely result in the sales of such operations, included in Hitachi's consolidated statement of income for the fiscal year ended March 31, 2003, to be excluded in the fiscal year ending March 31, 2004.

Management believes that the Japanese economy is unlikely to stage any significant recovery for some time and that an upturn in the U.S. economy is uncertain. Under continuing difficult business circumstances, Hitachi expects total revenues for the fiscal year ending March 31, 2004 to decrease, due in part to the transfer of its semiconductor operations to Renesas, as described in the preceding paragraph. In addition, Hitachi expects net income for the fiscal year ending March 31, 2004 to decrease, due in part to poor results from its hard disk drive operations.

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 "Cautionary Statement" beginning on page 2 and "Item 3. Key Information - D. Risk Factors" for other examples of factors that could cause actual results to differ materially from those anticipated.

### E. 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 represents Hitachi's critical accounting policies.

#### Impairment of long-lived assets

Hitachi reviews the carrying value of its long-lived assets held and used, and intangible assets that do not have indefinite useful lives, whenever events or changes in circumstances indicate that the carrying value of the assets may not

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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

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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," on an annual basis 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. Goodwill and other intangible assets with indefinite useful lives acquired after June 30, 2001 but prior to the adoption of SFAS No.142 on April 1, 2002 are not amortized but are reviewed for impairment in accordance with Accounting Principles Board Opinion (APB) No. 17 and SFAS No.121.

### Deferred tax assets

In assessing the realizability of the deferred tax assets, the 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, 2003. 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, disablement and 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. A decrease in the expected return on plan

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assets would increase the pension benefit obligation. 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

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in earnings. Management regularly reviews each investment in security and equity method investment for possible impairment based on criteria such as the extent to which the carrying value exceeds market value, the duration of that market decline and the financial condition of and specific prospects of the issuer.

### F. New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Hitachi is required and plans to adopt the provisions of SFAS No. 143 for the fiscal year beginning April 1, 2003. SFAS No. 143 will have no material impact on Hitachi's consolidated financial position or results of operations.

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

results of operations.

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. The interpretation applies immediately to variable interests in variable interest entities created and acquired after January 31, 2003. For variable interest in a variable interest entity created before February 1, 2003, the interpretation is applicable no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The application of this interpretation did not have a material effect on Hitachi's consolidated financial statements for the year ended March 31, 2003 and is not expected to have a material effect for the year ending March 31, 2004.

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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 (the "Committee System") recently permitted as a form of corporate organization pursuant to the amended Commercial Code and the amended Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-Kaisha of Japan (together, hereinafter referred to as the "Commercial Code"). Each company adopting the Committee System, such as the Company, is required to establish within its board of directors a nominating, audit and compensation committee, a majority of the members of each of which must be outside directors who are not executive officers of the company, and to have executive officers responsible for executing the business of the company. The Commercial Code defines an outside director of a company as a director who is not engaged in the business affairs of the company and has never assumed the position of executive director (a director who is engaged in the business affairs of a company), executive officer, manager or employee of the company or its subsidiaries, and who does not currently assume the position of executive director or executive officer of its subsidiaries or the position of manager or employee of the 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 the audit committee. For more information, see "C. Board Practices" below.

Set forth below are the names of the Company's Directors and Executive Officers as of September 1, 2003. All Directors were elected at the Company's general meeting of shareholders held on June 25, 2003. Three Directors, Mr. Etsuhiko Shoyama, Mr. Yoshiki Yagi and Mr. Yoshiro Kuwata, concurrently assume the office of Executive Officer. 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 provision of the Commercial Code. All Executive Officers were subsequently appointed at the meeting of the Board of Directors held on June 25, 2003.

Directors

| Name | Current position and principal position outside the Company | Business experience, in experience in the Company, a |
|------|---|--|
| ---- | -----   | -----  |



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| (Date of birth)                    |  |                  |   |
|------------------------------------|--|------------------|---|
| Tsutomu Kanai<br>(Feb. 26, 1929)   | Chairman of the Board and<br>Director                | 5/1958<br>6/1985 | Joined Hitachi, Ltd.<br>Group Executive, Power<br>Executive Managing Dire |
|                                    |  | 6/1987           | Senior Executive Managi   |
|                                    |  | 6/1989           | Executive Vice-Presiden   |
|                                    |  | 6/1991           | President and Director  |
|                                    |  | 4/1999           | Chairman of the Board a   |
| Etsuhiko Shoyama<br>(Mar. 9, 1936) | President and Chief Executive<br>Officer<br>Director | 4/1959<br>6/1991 | Joined Hitachi, Ltd.<br>General Manager, Consum<br>Division<br>Director   |
|                                    |  | 6/1993           | Executive Managing Dire   |
|                                    |  | 6/1995           | Senior Executive Managi   |
|                                    |  | 6/1997           | Executive Vice-Presiden   |
|                                    |  | 4/1999           | President and Director  |
|                                    |  | 6/2003           | President, Chief Execut   |

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| Name<br>-----<br>(Date of birth)     | Current position and principal<br>position outside the Company<br>----- |  | Business experience, inclu<br>experience in the Company, and<br>-----   |
|--------------------------------------|---|--|---|
| Yoshiki Yagi<br>(Feb. 27, 1938)      | Executive Vice President and<br>Executive Officer<br>Director           | 4/1960<br>6/1988<br>6/1991<br>6/1993<br>6/1997<br>4/1999<br>6/2003                     | Joined Hitachi, Ltd.<br>General Manager, Account<br>Director<br>Executive Managing Dire<br>Senior Executive Managi<br>Executive Vice Presiden<br>Executive Vice Presiden<br>Director                    |
| Yoshiro Kuwata<br>(Sep. 1, 1936)     | Executive Vice President and<br>Executive Officer<br>Director           | 6/1961<br>7/1992<br><br>6/1993<br>6/1995<br>6/1997<br>4/1999<br>6/2003                 | Joined Hitachi, Ltd.<br>General Manager, Overse<br>Promotion Office<br>Director<br>Executive Managing Dire<br>Senior Executive Managi<br>Executive Vice Presiden<br>Executive Vice Presiden<br>Director |
| Shigemichi Matsuka<br>(May 19, 1937) | Director  | 4/1961<br>6/1989<br>6/1991<br>6/1993<br>6/1997<br>4/1999<br>4/2001<br>6/2001<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Omika<br>Director<br>Executive Managing Dire<br>Senior Executive Managi<br>Executive Vice Presiden<br>Director<br>Corporate Auditor<br>Director                |
| Kotaro Muneoka                       | Director  | 4/1964   | Joined Hitachi, Ltd.  |

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|                                  |  |  |         |  |
|----------------------------------|--|--|---------|--|
| (Oct. 30, 1940)                  |  |  | 6/1997  | General Manager, Corpor<br>Education Dept.<br>Director |
|                                  |  |  | 4/1999  | Senior Vice President a                                |
|                                  |  |  | 4/2001  | Director   |
|                                  |  |  | 6/2001  | Corporate Auditor                                      |
|                                  |  |  | 6/2003  | Director   |
| Ginko Sato<br>(Jul. 6, 1934)     | Director   |  | 7/1990  | Assistant Minister of L                                |
|                                  | President, Japan Association for<br>the Advancement of Working Women |  | 10/1991 | Ambassador Extraordinar<br>Japan to Kenya              |
|                                  |  |  | 7/1995  | Commissioner, Securitie<br>Surveillance Commission     |
|                                  |  |  | 7/1998  | Chairperson, Securities<br>Surveillance Commission     |
|                                  |  |  | 8/2001  | President, Japan Associ<br>Advancement of Working      |
|                                  |  |  | 6/2003  | Director   |
| Hiromichi Seya<br>(Oct. 7, 1930) | Director   |  | 3/1992  | President, Asahi Glass                                 |
|                                  | Chairman of the Board, Asahi<br>Glass Company, Limited               |  | 6/1998  | Chairman & CEO, Asahi G                                |
|                                  |  |  | 6/2002  | Chairman of the Board,<br>Limited                      |
|                                  |  |  | 6/2003  | Director   |

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| Name<br>-----<br>(Date of birth)     | Current position and principal<br>position outside the Company<br>-----                                | Business experience, includ<br>experience in the Company, and<br>-----   |
|--------------------------------------|--|--|
| Akira Chihaya<br>(Mar. 6, 1935)      | Director<br><br>Representative Director and<br>Chairman of the Board, NIPPON<br>STEEL CORPORATION      | 4/1998 Representative Director<br>STEEL CORPORATION<br>4/2003 Representative Director<br>Board, NIPPON STEEL COR<br>6/2003 Director  |
| Toshiro Nishimura<br>(Apr. 10, 1933) | Director<br><br>Attorney at Law  | 4/1961 Member of the First Tok<br>5/1966 Senior Partner of Nishi<br>6/2003 Director  |
| Hiroshi Kuwahara<br>(Nov. 23, 1935)  | Director<br><br>Chairman of the Board and<br>Representative Executive<br>Officer, Hitachi Maxell, Ltd. | 4/1960 Joined Hitachi, Ltd.<br>6/1989 General Manager, Indust<br>Director<br>6/1991 Executive Managing Dire<br>6/1993 Senior Executive Managi<br>6/1995 Executive Vice-Presiden<br>6/1999 Vice Chairman of the Bo<br>1/2001 Director<br>Executive member of Cou<br>Technology Policy, Cabi<br>1/2003 Vice Chairman of the Bo<br>4/2003 Director<br>6/2003 Chairman of the Board a<br>Executive Officer, Hita |

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|                                       |   |  |  |
|---------------------------------------|---|--|--|
| Takashi Kawamura<br>(Dec. 19, 1939)   | Director<br><br>Chairman of the Board and<br>Representative Executive<br>Officer, Hitachi Software<br>Engineering Co., Ltd. | 4/1962<br>6/1992<br>6/1995<br>6/1997<br>4/1999<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Hitachi<br>Director<br>Executive Managing Director<br>Executive Vice President<br>Director<br>Chairman of the Board and<br>Executive Officer, Hitachi<br>Co., Ltd.          |
| Masayoshi Hanabusa<br>(Oct. 10, 1934) | Director<br><br>Chairman of the Board and<br>Director, Hitachi Capital<br>Corporation                                       | 6/1991<br><br>6/2001<br><br>6/2003                                 | President and Representative<br>Credit Corporation (current<br>Corporation)<br>Chairman of the Board and<br>Director, Hitachi Capital<br>Corporation<br>Chairman of the Board and<br>Capital Corporation<br>Director |

Members of each committee are as follows.

Nominating Committee: Tsutomu Kanai (Chairman), Etsuhiko Shoyama, Ginko Sato, Hiromichi Seya, Toshiro Nishimura

Audit Committee: Shigemichi Matsuka (Chairman), Kotaro Muneoka, Ginko Sato, Hiromichi Seya, Toshiro Nishimura

Compensation Committee: Tsutomu Kanai (Chairman), Etsuhiko Shoyama, Hiromichi Seya, Akira Chihaya, Toshiro Nishimura

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### Executive Officers

| Name<br>----<br>(Date of birth)    | Current position and principal<br>position outside the Company<br>----- | Business experience<br>experience in the Company<br>-----  |
|------------------------------------|---|--|
| Etsuhiko Shoyama<br>(Mar. 9, 1936) | President and Chief Executive<br>Officer<br>Director                    | See "Directors."   |
| Yoshiki Yagi<br>(Feb. 27, 1938)    | Executive Vice President and<br>Executive Officer<br>Director           | See "Directors."   |
| Yoshiro Kuwata<br>(Sep. 1, 1936)   | Executive Vice President and<br>Executive Officer<br>Director           | See "Directors."   |
| Kazuo Kumagai<br>(Mar. 2, 1938)    | Executive Vice President and<br>Executive Officer                       | 4/1961<br>6/1989<br>6/1993<br>6/1997<br>4/1999<br>4/2001<br>6/2003   |
| Katsukuni Hisano<br>(Mar. 2, 1940) | Executive Vice President and<br>Executive Officer                       | 4/1962<br>6/1995   |
|                                    |   | Joined Hitachi, Ltd.<br>Deputy General Manager<br>Director<br>Executive Managing Director<br>Senior Vice President<br>Executive Vice President<br>Executive Vice President |

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|                                     |  |         |   |
|-------------------------------------|--|---------|---|
|                                     |  | 6/1997  | Director  |
|                                     |  | 4/1999  | Senior Vice President   |
|                                     |  | 6/2002  | Director  |
|                                     |  | 10/2002 | Senior Vice President   |
|                                     |  | 4/2003  | Executive Vice President  |
|                                     |  | 6/2003  | Executive Vice President  |
| Takao Matsui<br>(Mar. 18, 1939)     | Senior Vice President and<br>Executive Officer   | 4/1963  | Joined Hitachi, Ltd.  |
|                                     |  | 6/1993  | General Manager, Kansai Area  |
|                                     |  | 6/1997  | Director  |
|                                     |  | 4/1999  | General Manager, Sales  |
|                                     |  | 6/1999  | Retired from Director   |
|                                     |  | 6/2001  | Senior Vice President   |
|                                     |  | 6/2003  | Senior Vice President   |
| Isao Ono<br>(May 23, 1944)          | Senior Vice President and<br>Executive Officer<br>(General Manager, Information<br>Business Group) | 4/1968  | Joined Hitachi, Ltd.  |
|                                     |  | 4/2002  | General Manager, Information<br>President & CEO, Information<br>Systems |
|                                     |  | 6/2002  | Senior Vice President   |
|                                     |  | 4/2003  | General Manager, Information<br>Systems                                 |
|                                     |  | 6/2003  | Senior Vice President   |
| Masaharu Sumikawa<br>(Jul. 2, 1943) | Senior Vice President and<br>Executive Officer   | 4/1972  | Joined Hitachi, Ltd.  |
|                                     |  | 2/2002  | President, Power & Industrial<br>Power systems operation                |
|                                     |  | 6/2002  | Senior Vice President   |
|                                     |  | 6/2003  | Senior Vice President   |

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| Name<br>----<br>(Date of birth)      | Current position and principal<br>position outside the Company<br>-----                                 |        | Business experience<br>experience in the Company<br>-----     |
|--------------------------------------|---|--------|---|
| Michiharu Nakamura<br>(Sep. 9, 1942) | Senior Vice President and<br>Executive Officer<br>(General Manager, Research &<br>Development Group)    | 4/1967 | Joined Hitachi, Ltd.  |
|                                      |   | 4/2001 | General Manager, Research &<br>Development Group              |
|                                      |   | 6/2003 | Senior Vice President   |
| Hiromi Kuwahara<br>(Aug. 23, 1945)   | Senior Vice President and<br>Executive Officer<br>(General Manager, Corporate<br>Strategy)              | 4/1968 | Joined Hitachi, Ltd.  |
|                                      |   | 4/2003 | General Manager, Corporate<br>Strategy                        |
|                                      |   | 6/2003 | Senior Vice President   |
| Minoru Tsukada<br>(Jan. 1, 1947)     | Vice President and Executive<br>Officer<br>(General Manager, Kansai Area<br>Operation)                  | 4/1969 | Joined Hitachi, Ltd.  |
|                                      |   | 4/2003 | General Manager, Kansai Area<br>Operation                     |
|                                      |   | 6/2003 | Vice President and Executive<br>Officer                       |
| Yoshito Tsunoda<br>(Sep. 20, 1944)   | Vice President and Executive<br>Officer<br>(President & CEO, Urban Planning<br>and Development Systems) | 4/1971 | Joined Hitachi, Ltd.  |
|                                      |   | 4/2003 | President & CEO, Urban<br>Planning and Development<br>Systems |
|                                      |   | 6/2003 | Vice President and Executive<br>Officer                       |
| Hiroaki Nakanishi                    | Vice President and Executive  | 4/1970 | Joined Hitachi, Ltd.  |

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|                                      |   |                            |   |
|--------------------------------------|---|----------------------------|---|
| (Mar. 14, 1946)                      | Officer<br>(General Manager, Global Business)   | 4/2003<br>6/2003           | General Manager, Global<br>Vice President and Execo   |
| Tadahiko Ishigaki<br>(Jan. 14, 1946) | Vice President and Executive<br>Officer<br>(General Manager, Corporate<br>Marketing)  | 4/1968<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Corpor<br>Vice President and Execo                                       |
| Shozo Saito<br>(Nov. 5, 1945)        | Vice President and Executive<br>Officer<br>(President & CEO, Power &<br>Industrial Systems)   | 4/1970<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>President & CEO, Power<br>Vice President and Execo  |
| Manabu Shinomoto<br>(Mar. 30, 1948)  | Vice President and Executive<br>Officer<br>(CEO, Platform and network systems<br>operation, Information &<br>Telecommunication Systems)           | 7/1971<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>CEO, Platform and netwo<br>Information & Telecommu<br>Vice President and Execo            |
| Takuya Tajima<br>(Jan. 21, 1945)     | Vice President and Executive<br>Officer<br>(CEO, Social and industrial<br>infrastructure systems operation,<br>Power & Industrial Systems)        | 4/1968<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>CEO, Social and industr<br>operation, Power & Indu<br>Vice President and Execo            |
| Takashi Hatchoji<br>(Jan. 27, 1947)  | Vice President and Executive<br>Officer<br>(General Manager, Legal and<br>Corporate Communications and<br>General Manager, Corporate<br>Auditing) | 4/1970<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Legal<br>Communications and Gene<br>Auditing<br>Vice President and Execo |

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| Name<br>----<br>(Date of birth)  | Current position and principal<br>position outside the Company<br>-----                                  |                            | Business experience<br>experience in the Compan<br>-----                               |
|----------------------------------|--|----------------------------|--|
| Kazuo Furukawa<br>(Nov. 3, 1946) | Vice President and Executive<br>Officer<br>(President & CEO, Information &<br>Telecommunication Systems) | 4/1971<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>President & CEO, Inform<br>Systems<br>Vice President and Execo |
| Makoto Ebata<br>(Feb. 23, 1947)  | Executive Officer<br>(General Manager, Group Management<br>Office)                                       | 4/1970<br>2/2002<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Group<br>Executive Officer                    |
| Yasuo Sakuta<br>(Oct. 6, 1945)   | Executive Officer<br>(General Manager, Intellectual<br>Property Group)                                   | 4/1972<br>8/2001<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Intell<br>Executive Officer                   |
| Takao Suzuki<br>(Jan. 12, 1946)  | Executive Officer<br>(General Manager, Chugoku Area<br>Operation)  | 4/1969<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Chugok<br>Executive Officer                   |
| Koichiro Nishikawa               | Executive Officer  | 4/1970                     | Joined Hitachi, Ltd.   |

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|                                     |   |                            |   |
|-------------------------------------|---|----------------------------|---|
| (Jul. 12, 1947)                     | (General Manager, Business Development)   | 4/2003<br>6/2003           | General Manager, Business<br>Executive Officer  |
| Tsugio Momose<br>(Jun. 30, 1945)    | Executive Officer<br>(President & CEO, Ubiquitous Platform Systems)                             | 4/1970<br>4/2002<br>6/2003 | Joined Hitachi, Ltd.<br>President & CEO, Ubiquitous<br>Executive Officer                        |
| Kazuhiro Mori<br>(Oct. 7, 1946)     | Executive Officer<br>(General Manager, Chubu Area Operation)                                    | 4/1969<br>2/1999<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Chubu<br>Executive Officer                             |
| Iwao Hara<br>(May 11, 1945)         | Executive Officer<br>(General Manager, Human Capital)   | 4/1970<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Human<br>Executive Officer                             |
| Takashi Miyoshi<br>(Sep. 25, 1947)  | Executive Officer<br>(General Manager, Finance)   | 4/1970<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>General Manager, Finance<br>Executive Officer                           |
| Taiji Hasegawa<br>(Feb. 18, 1947)   | Executive Officer<br>(President & CEO, Automotive Systems)                                      | 4/1969<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>President & CEO, Automot<br>Executive Officer                           |
| Masahiro Hayashi<br>(Apr. 11, 1946) | Executive Officer<br>(CEO, System solutions operation, Information & Telecommunication Systems) | 4/1969<br>4/2003<br>6/2003 | Joined Hitachi, Ltd.<br>CEO, System solutions o<br>Telecommunication Syste<br>Executive Officer |

There are no family relationships between any Director or Executive Officer and any other Director or Executive Officer of the Company.

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### B. Compensation

The aggregate amount of compensation, including bonuses but excluding retirement allowances, paid by Hitachi during the year ended March 31, 2003 to all Directors and Corporate Auditors of the Company who served during that year was JPY 602 million.

Under the corporate governance system prior to June 25, 2003, in accordance with customary Japanese business practice, when a Director or Corporate Auditor retires, a proposal to pay a lump-sum retirement allowance is submitted at a general meeting of shareholders for approval. After the shareholders' approval is obtained, the amount of the retirement allowance for a Director or Corporate Auditor is fixed by the Board of Directors and the Board of Corporate Auditors and generally reflects his position at the time of retirement, the length of his service as a Director or Corporate Auditor and the retiring member's contribution to the Company's performance. The Company does not set aside reserves for such retirement payments. The aggregate amount of retirement allowances paid during the year ended March 31, 2003 to retired Directors of the Company was JPY 86 million. With the adoption of the Committee System in June 2003, the Compensation Committee determines the matters relating to the compensation including retirement allowances for each Director and Executive Officer. See "C. Board Practices."

In June 2000, the ordinary general meeting of shareholders of the Company approved a stock option plan under which rights to subscribe for 527,000 shares of Common Stock of the Company were granted to 14 Directors and 57 employees

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including Senior Corporate Officers, Corporate Officers, Managing Officers and Corporate Fellows. The exercise price of the rights is JPY 1,451 per share and the rights are exercisable from July 27, 2001 until July 26, 2005.

In June 2001, the ordinary general meeting of 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 JPY 1,270 per share and the rights are exercisable from August 4, 2002 until August 3, 2006.

In June 2003, the ordinary general meeting of 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 JPY 561 per share and the rights are exercisable from August 1, 2004 through July 31, 2007. See note (26) to the consolidated financial statements.

### 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 amended Commercial Code. Each company adopting the Committee System is required to establish within its board of directors a nominating, audit and compensation committee, a majority of the members of each of which must be outside directors who are not executive officers of the company, and to have executive officers responsible for executing the business of the company. Under the Committee System, a company is not allowed to have corporate auditors but is instead required to delegate auditing function responsibilities to the audit committee. Through the adoption of the Committee System, the Company aims to clear the way for much speedier management with the strict separation of execution of business and supervision thereof and simultaneously foster fair and highly transparent management.

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. The Company's Articles of Incorporation provide that the Board of Directors must appoint a Chairman of the Board from among its members. The term of office

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of a Director expires at the close of the ordinary general meeting of shareholders relating to the last closing of accounts 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, 2004.

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

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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 determine the policy on the determination of the particulars of compensation for each Director and Executive Officer and determine the particulars of compensation for each Director and Executive Officer in accordance with the established 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 the outside auditor for the purpose of complying with applicable U.S. law and regulations. 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.

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 closing of accounts 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, 2004.

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 service as a Director.

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 respect of his/her failure to execute duties to the maximum aggregate amount provided in the items of paragraph 19 of Article 266 of the Commercial Code.

D. Employees

The following table shows the number of full-time employees of Hitachi by industry segment as of March 31, 2001, 2002 and 2003.

|   | As of March 31 |         |         |
|---|----------------|---------|---------|
|   | 2001           | 2002    | 2003    |
|   | ----           | ----    | ----    |
| Information & Telecommunication Systems | 65,864         | 68,381  | 83,304  |
| Electronic Devices                      | 50,152         | 42,216  | 41,763  |
| Power & Industrial Systems              | 74,935         | 72,250  | 76,685  |
| Digital Media & Consumer Products       | 37,389         | 33,742  | 33,046  |
| High Functional Materials & Components  | 57,101         | 52,720  | 48,821  |
| Logistics, Services & Others            | 31,124         | 30,197  | 29,520  |
| Financial Services                      | 4,012          | 4,184   | 4,116   |
| Corporate                               | 3,320          | 3,299   | 3,273   |
|   | -----          | -----   | -----   |
| Total                                   | 323,897        | 306,989 | 320,528 |
|   | =====          | =====   | =====   |

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 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, 2004. 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 owned by the Directors and Executive Officers of the Company as of June 25, 2003. The total amount is 0.02% of total shares issued.

| Name | Position | Number of s |
|------|----------|-------------|
| ---- | -----    | -----       |
|      |          | (sh         |

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|                    |  |     |
|--------------------|--|-----|
| Tsutomu Kanai      | Chairman of the Board and Director                       | 68  |
| Etsuhiko Shoyama   | President, Chief Executive Officer and Director          | 51  |
| Yoshiki Yagi       | Executive Vice President, Executive Officer and Director | 65  |
| Yoshiro Kuwata     | Executive Vice President, Executive Officer and Director | 24  |
| Shigemichi Matsuka | Director   | 31  |
| Kotaro Muneoka     | Director   | 21  |
| Ginko Sato         | Director   | 2   |
| Hiromichi Seya     | Director   | 29  |
| Akira Chihaya      | Director   | 35  |
| Toshiro Nishimura  | Director   | 5   |
| Hiroshi Kuwahara   | Director   | 23  |
| Takashi Kawamura   | Director   | 17  |
| Masayoshi Hanabusa | Director   | 19  |
| Kazuo Kumagai      | Executive Vice President and Executive Officer           | 44  |
| Katsukuni Hisano   | Executive Vice President and Executive Officer           | 15  |
| Takao Matsui       | Senior Vice President and Executive Officer              | 15  |
| Isao Ono           | Senior Vice President and Executive Officer              | 10  |
| Masaharu Sumikawa  | Senior Vice President and Executive Officer              | 10  |
| Michiharu Nakamura | Senior Vice President and Executive Officer              | 15  |
| Hiromi Kuwahara    | Senior Vice President and Executive Officer              | 10  |
| Minoru Tsukada     | Vice President and Executive Officer                     | 15  |
| Yoshito Tsunoda    | Vice President and Executive Officer                     | 10  |
| Hiroaki Nakanishi  | Vice President and Executive Officer                     | 17  |
| Tadahiko Ishigaki  | Vice President and Executive Officer                     | 19  |
| Shozo Saito        | Vice President and Executive Officer                     | 10  |
| Manabu Shinomoto   | Vice President and Executive Officer                     | 18  |
| Takuya Tajima      | Vice President and Executive Officer                     | 24  |
| Takashi Hatchoji   | Vice President and Executive Officer                     | 14  |
| Kazuo Furukawa     | Vice President and Executive Officer                     | 11  |
| Makoto Ebata       | Executive Officer  | 10  |
| Yasuo Sakuta       | Executive Officer  | 10  |
| Takao Suzuki       | Executive Officer  | 16  |
| Koichiro Nishikawa | Executive Officer  | 16  |
| Tsugio Momose      | Executive Officer  | 10  |
| Kazuhiro Mori      | Executive Officer  | 11  |
| Iwao Hara          | Executive Officer  | 10  |
| Takashi Miyoshi    | Executive Officer  | 13  |
| Taiji Hasegawa     | Executive Officer  | 10  |
| Masahiro Hayashi   | Executive Officer  | --- |
| Total              |  | 730 |

The aggregate number of shares to be subscribed for by the rights granted to the Directors and Executive Officers, listed above, under the stock option plans approved in June 2000, 2001 and 2003 is 193,000, 440,000 and 795,000 shares, respectively. 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 80,448 thousand shares as of March 31, 2003, which amounted to 2.4% of total shares issued. The

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Association consists of employees of the Company and certain of its subsidiaries. Membership in the Association is voluntary.

### 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 as of March 31, 2003.

| Title of class<br>----- | Name<br>----                         | Number of shares owned<br>-----<br>(thousand shares) |
|-------------------------|--------------------------------------|--|
| Common Stock            | Japan Trustee Services Bank, Ltd.    | 212,081  |
| Common Stock            | NATS CUMCO*                          | 172,918  |
| Common Stock            | The Master Trust Bank of Japan, Ltd. | 169,035  |

\* NATS CUMCO is the nominee name for the aggregate of the Company's American Depositary Receipts (ADRs) holders.

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, 2003, approximately 12.3% of the Company's Common Stock was owned by 192 United States shareholders as a whole, including the Depository's nominee as one shareholder of record, the percentage ownership of which was about 5.1%.

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

No loans have been extended to Directors or Executive Officers of the Company except home loans extended to certain Directors by a subsidiary of the Company engaged in the business of financial services. These loans were (1) made or provided in the ordinary course of the business of such subsidiary; (2) of a type that is generally made available by such subsidiary to the public; and (3) made by such subsidiary on market terms, or terms that are no more favorable than those offered by such subsidiary to the general public for such extensions of credit. The aggregate outstanding balance of such loans to Directors as of March 31, 2003 was JPY 130 million, and the largest aggregate outstanding balance during fiscal 2002 was JPY 132 million.

#### C. Interests of Experts and Counsel

Not applicable.

### Item 8. Financial Information

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### 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 the information systems and electronics 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.

For information on restrictions imposed by the indentures relating to the Company's unsecured convertible debentures on its ability to pay cash dividends, see note (9) to the consolidated financial statements.

The Company paid a dividend of JPY 6 per share for fiscal 2002.

### B. Significant Changes

No significant changes have occurred since the date of the annual financial statements included in this 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 (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 American Depositary Shares ("ADSs") are listed and traded on the New York Stock Exchange (the "NYSE") in the form of American Depositary Receipts ("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 (the "Deposit Agreement"), among Hitachi, Ltd., Citibank, N.A. as Depositary (the "Depositary"), and the holders of ADRs. Each ADR evidences ADSs, each representing 10 shares of Common Stock 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

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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.

|   | Tokyo Stock Exchange<br>Price Per Share<br>of Common Stock<br>-----<br>(Yen) |            | New York Stock E<br>Price Per Amer<br>Depository Sh<br>-----<br>(U.S. Dollar |
|---|--|------------|--|
|   | High<br>----   | Low<br>--- | High<br>----   |
| <b>Annual Information</b>                 |  |            |  |
| Fiscal year ended March 31<br>-----       |  |            |  |
| 1999                                      | 1,015  | 532        | 77.000   |
| 2000                                      | 1,709  | 814        | 164.500  |
| 2001                                      | 1,549  | 899        | 146.250  |
| 2002                                      | 1,380  | 745        | 113.000  |
| 2003                                      | 997  | 398        | 77.950   |
| <b>Quarterly Information</b>              |  |            |  |
| Fiscal year ended March 31, 2002<br>----- |  |            |  |
| 1st quarter                               | 1,380  | 1,012      | 113.000  |
| 2nd quarter                               | 1,214  | 775        | 98.000   |
| 3rd quarter                               | 979  | 777        | 79.000   |
| 4th quarter                               | 1,008  | 745        | 76.500   |
| Fiscal year ended March 31, 2003<br>----- |  |            |  |
| 1st quarter                               | 997  | 736        | 77.950   |
| 2nd quarter                               | 800  | 592        | 66.550   |
| 3rd quarter                               | 619  | 398        | 50.650   |
| 4th quarter                               | 557  | 412        | 45.190   |
| Fiscal year ended March 31, 2004<br>----- |  |            |  |
| 1st quarter                               | 520  | 366        | 43.500   |
| <b>Monthly Information</b>                |  |            |  |
| March 2003                                | 505  | 412        | 43.000   |
| April 2003                                | 441  | 366        | 37.290   |
| May 2003                                  | 478  | 402        | 40.650   |
| June 2003                                 | 520  | 465        | 43.500   |
| July 2003                                 | 643  | 514        | 53.500   |
| August 2003                               | 642  | 484        | 54.740   |

Notes: (a) Prices per share of Common Stock are as reported by the TSE.  
 (b) Prices per American Depository Share are based upon one American

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Depository Share representing 10 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

Hitachi, Ltd. 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

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advisory business; home health care support business under the Health Care Insurance Law and the operation of health care and nursing facilities; 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.

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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.

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

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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-subsidiary 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 ("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.

### 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

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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.

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



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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 decision of the Executive Officers, may at any time split shares of Common Stock in issue. When Executive Officers decide 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.

Although the number of shares which constitute one unit is stipulated in the Articles of Incorporation, Executive Officers have 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

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(a) the closing price of the shares reported by the Tokyo Stock Exchange on the day when the request to purchase is made or (b) if no sale takes place on the Tokyo Stock Exchange 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.

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 Tokyo Stock Exchange on the day when the request to sell becomes effective or (b) if no sale takes place on the Tokyo Stock Exchange 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 Shares

Under the Commercial Code, the Company may acquire shares of its Common Stock for any purpose subject to authorization by (i) ordinary resolution of an ordinary general meeting of shareholders for (a) purchases of its shares on any Japanese stock exchange on which its shares are listed or (b) tender offers, or (ii) special resolution of an ordinary general meeting of shareholders for purchases of its shares from a specific shareholder other than a subsidiary of the Company. In the case of (ii) above, any other shareholder may make a request directly to an Executive Officer, five days prior to the relevant shareholders' meeting, that the Company also acquire the shares held by such requesting shareholder.

Any such acquisition of shares by the Company must satisfy certain requirements, including that 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, capital surplus 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. The Company may hold the shares acquired in compliance with the provisions of the Commercial Code, and Executive Officers may generally dispose or cancel such shares.

A resolution of the ordinary general meeting of shareholders held on June 25, 2003 authorizes the Company to acquire up to 300 million shares for up to JPY 150 billion prior to the ordinary general meeting of shareholders held in 2004.

### 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. The record date for an ordinary general meeting of shareholders is March 31 of each year. 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

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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.

### 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

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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.

### 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 (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

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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 ("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 (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

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as a result of such deposit or withdrawal the aggregate number of shares of Common Stock held by the Depositary (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.

## 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 American depositary shares 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.

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Pursuant to the tax treaty between the United States and Japan ("the Treaty") currently in force, a Japanese withholding tax at the rate of 15% is 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, the 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, the domestic tax rate applies.

The amount of withholding tax imposed on dividends payable to the holders of the Company's shares or ADRs 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. In the absence of any applicable treaty or agreement reducing the maximum rate of withholding tax, the 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 20% withholding tax rate is reduced to (i) 10% for dividends due and payable on or after April 1, 2003 but on or before December 31, 2003, (ii) 7% for dividends due and payable on or after January 1, 2004 but on or before March 31, 2008, and (iii) 15% for dividends due and payable on or after April 1, 2008.

Gains derived from the sale outside Japan of shares of Common Stock or ADRs 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 ADRs as a distributee, legatee or donee.

### United States Federal Income Taxation

The following summarizes the material U.S. federal income tax consequences applicable to a beneficial owner of Common Stock or ADRs that holds the Common Stock or ADRs as a capital asset, that is entitled to the benefits of the income tax convention between the United States and Japan (or the Tax Convention), and that, for U.S. federal income tax purposes, is (1) a citizen or resident of the United States, (2) a corporation, or other entity taxable as a corporation, organized under the laws of the United States or of any political subdivision of the United States, or (3) an estate or trust the income of which is includible in gross income for U.S. federal income

tax purposes regardless of its source. Such beneficial owner is referred to as a U.S. holder. This summary does not apply to certain U.S. holders that are members of a special class of holders subject to special rules, and does not take into account circumstances particular to a U.S. holder.

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Subject to the discussion regarding passive foreign investment companies (or PFICs) below, dividends received by a U.S. holder, including the amount of any Japanese taxes withheld, other than certain pro rata distributions of Common Stock or rights to acquire Common Stock to all shareholders (including ADR holders), will be includible in the income of the U.S. holder as ordinary dividend income to the extent of the current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) of the Company. A U.S. holder will not be entitled to a dividends-received deduction for dividends received from the Company. The amount a U.S. holder will be required to include in income for any dividend paid in Japanese yen will be equal to the U.S. dollar value of the Japanese yen received, calculated by reference to the exchange rate in effect on the date of receipt by the ADR depository in the case of U.S. holders of ADRs, or by the shareholder in the case of U.S. holders of Common Stock, regardless of whether the payment is in fact converted into U.S. dollars at that time. If the Japanese yen received in the distribution are not converted into U.S. dollars on the date of receipt, U.S. holders will have a basis in the Japanese yen equal to their U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the Japanese yen will be generally treated as U.S. source ordinary income or loss. Subject to applicable limitations and restrictions, Japanese taxes withheld at the rate provided in the Tax Convention from dividend distributions by the Company will be 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. For this purpose, dividends distributed by the Company will constitute "passive income" or, in the case of certain U.S. holders, "financial services income."

Subject to the discussion regarding PFICs below, gain or loss realized by a U.S. holder on the sale, exchange or other disposition of Common Stock or ADRs will be subject to U.S. federal income tax as capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's adjusted tax basis in the Common Stock or ADRs. The gain or loss will generally be U.S. source income or loss.

Special adverse U.S. federal income tax rules apply if a U.S. holder holds stock or ADRs of a company that is treated as a PFIC for any taxable year during which the U.S. holder held stock or ADRs. Based upon certain management estimates of the Company and the nature of the business activities to be conducted by the Hitachi corporate group, the Company believes it will not be considered a PFIC for the taxable year 2003 or future taxable years. However, since PFIC determinations are made based on the composition of the Company's income and assets and the 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.

### 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 U.S. Securities and Exchange Commission (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 operates globally and is exposed to market risks from changes in foreign currency exchange rates, interest rates and equity security prices. Hitachi uses certain derivative financial instruments in order to reduce these market risks, and does not enter into derivative financial instruments for any purpose other than hedging purpose. Hitachi is also exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments and derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are internationally recognized financial institutions and contracts are diversified into a number of major financial institutions.

Equity price risk

Hitachi holds marketable securities which are subject to price risks arising from changes in their market prices for such securities. Marketable securities classified as short-term investments are considered to be highly liquid and low risk in the investment portfolio, and those classified as investments and advances are held 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 value of the market risk sensitive securities as of March 31, 2003 and 2002, regardless of the consolidated balance sheet classification as follows.

|                               | (Millions of yen)                           |   |                         |        |
|-------------------------------|---|---|-------------------------|--------|
|                               | Carrying Amount (year ended March 31, 2003) |   |                         |        |
|                               | Contractual maturity date                   |   |                         |        |
|                               | Due within<br>one year                      | Due after one<br>year through<br>five years | Due after<br>five years | Total  |
| Available-for-sale securities |   |   |                         |        |
| Equity securities             |   |   |                         | 159,17 |
| Debt securities               | 52,443                                      | 38,228                                      | 77,288                  | 167,95 |
| Other securities              | 47,845                                      | 5,707                                       | 17,255                  | 70,80  |
| Held-to-maturity securities   | 6,057                                       | 1,380                                       | 107                     | 7,54   |

|  | (Millions of yen)                           |                               |           |
|--|---|-------------------------------|-----------|
|  | Carrying Amount (year ended March 31, 2002) |                               |           |
|  | Contractual maturity date                   |                               |           |
|  | Due within                                  | Due after one<br>year through | Due after |
|  |   |                               |           |

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|                               | one year | five years | five years | Tota   |
|-------------------------------|----------|------------|------------|--------|
| Available-for-sale securities |          |            |            |        |
| Equity securities             |          |            |            | 282,52 |
| Debt securities               | 62,111   | 46,550     | 74,822     | 183,48 |
| Other securities              | 31,549   | 14,827     | 21,276     | 67,65  |
| Held-to-maturity securities   | 4,866    | 5,654      | 497        | 11,01  |

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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.

(1) Foreign currency exchange rate risk

Hitachi principally uses forward exchange contracts to manage certain foreign currency exchange exposures principally from the exchange of U.S. dollars (USD) and Euros (EUR) into Japanese yen (JPY). These contracts, which principally mature within one year, are primarily used to fix future net cash flows principally from trade receivables and payables recognized, and forecasted transactions, which are denominated in foreign currencies. Hitachi measures the volume and due date of future net cash flows by currencies every month. In accordance with the policy, a certain portion of measured net cash flows is covered using forward exchange contracts.

Hitachi principally enters into cross currency swap agreements with the same maturities as underlying debts to fix cash flows from long-term debts denominated in foreign currencies. The hedging relationship between these derivative financial instruments and the hedged items is highly effective in achieving offsetting changes in foreign exchange rates.

The tables below provide information about Hitachi's financial instruments that are sensitive to foreign currency exchange rates, including primary forward exchange contracts to sell U.S. dollars (USD) and Euros (EUR) as of March 31, 2003 and 2002. The tables present the contract amounts in Japanese yen (JPY) 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 foreign currency exposures in cash flows are eliminated.

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Forward exchange contracts (year ended March 31, 2003)

|  | Expected maturity |      | T |
|--|-------------------|------|---|
|  | 2004              | 2005 |   |
|  |                   |      |   |



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|  |         |                   |      |    |
|--|---------|-------------------|------|----|
| Forward exchange contracts                             |         |                   |      |    |
| (Pay USD/Receive JPY) contract amount                  | 128,925 | -                 |      | 12 |
| Average contractual exchange rate (JPY/USD)            | 119.80  | -                 |      | 1  |
| Forward exchange contracts                             |         |                   |      |    |
| (Pay EUR/Receive JPY) contract amount                  | 38,162  | -                 |      | 3  |
| Average contractual exchange rate (JPY/EUR)            | 125.31  | -                 |      | 1  |
| Forward exchange contracts (year ended March 31, 2002) |         |                   |      |    |
|  |         | Expected maturity |      |    |
|  |         | 2003              | 2004 | T  |
| Forward exchange contracts                             |         |                   |      |    |
| (Pay USD/Receive JPY) contract amount                  | 65,452  | -                 |      | 6  |
| Average contractual exchange rate (JPY/USD)            | 127.27  | -                 |      | 1  |
| Forward exchange contracts                             |         |                   |      |    |
| (Pay EUR/Receive JPY) contract amount                  | 24,300  | -                 |      | 2  |
| Average contractual exchange rate (JPY/EUR)            | 112.83  | -                 |      | 1  |

(2) Interest rate risk

Hitachi's exposure to interest rate risk is related principally to debt obligations. These debt obligations expose Hitachi to variability in the future cash outflow of interest payments due to changes in interest rates. To minimize the variability caused by interest rate risk, Hitachi principally enters into interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk. The interest rate swaps principally change the variable-rate cash flows on debt obligations to fixed-rate cash flows principally associated with medium-term notes by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, Hitachi receives variable interest rate payments and makes fixed interest rate payments, thereby creating 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 about 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 (JPY) equivalents and related weighted average interest rates by expected maturity dates. However, the tables do not include information in relation to short-term borrowings because the Company believes that their risk exposures are insignificant. For interest rate swaps, the table below presents primary notional amounts by currencies and weighted average pay/receive interest rates by expected maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. The tables present the contract amounts in Japanese yen equivalents and weighted average contractual pay/receive rates by expected maturity dates.

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Long-term debt (year ended March 31, 2003)

|   | Expected maturity date |         |         |        |        |        |
|---|------------------------|---------|---------|--------|--------|--------|
|   | 2004                   | 2005    | 2006    | 2007   | 2008   | Therea |
| <b>Fixed rate (notes and debentures):</b>       |                        |         |         |        |        |        |
| JPY debentures                                  | 87,770                 | 32,193  | 290,500 | 60,000 | 37,865 | 174    |
| Average interest rate                           | 2.35%                  | 2.30%   | 2.32%   | 1.69%  | 1.66%  | 1      |
| JPY convertible debentures                      | 93,933                 | 231,541 | -       | -      | 6,757  |        |
| Average interest rate                           | 1.36%                  | 1.38%   | -       | -      | 0.00%  |        |
| JPY medium term notes                           | 34,895                 | 23,025  | 6,403   | 9,338  | 23,924 | 24     |
| Average interest rate                           | 1.06%                  | 1.24%   | 1.36%   | 1.37%  | 1.51%  | 1      |
| USD medium term notes                           | 1,288                  | -       | -       | 1,313  | -      |        |
| Average interest rate                           | 4.60%                  | -       | -       | 5.92%  | -      |        |
| <b>Floating rate (notes and debentures):</b>    |                        |         |         |        |        |        |
| JPY debenture                                   | -                      | 2,960   | -       | -      | 3,000  | 7      |
| Average interest rate                           | -                      | 0.34%   | -       | -      | 0.44%  | 0      |
| JPY medium term notes                           | 51,719                 | 18,551  | 2,919   | 3,075  | 4,614  | 19     |
| Average interest rate                           | 0.55%                  | 0.75%   | 1.03%   | 1.11%  | 1.12%  | 1      |
| USD medium term notes                           | 7,212                  | 18,030  | -       | 1,574  | -      |        |
| Average interest rate                           | 1.69%                  | 1.72%   | -       | 1.98%  | -      |        |
| Other currency medium term notes and debentures | 147                    | 228     | -       | 353    | -      |        |
| Average interest rate                           | 3.85%                  | 3.85%   | -       | 3.83%  | -      |        |
| <b>Fixed and floating rate (loans):</b>         |                        |         |         |        |        |        |
| Loans, principally from Banks                   | 220,486                | 177,291 | 111,406 | 54,494 | 83,113 | 66     |
| Average interest rate                           | 2.19%                  | 1.92%   | 1.78%   | 1.72%  | 1.62%  | 1      |

Weighted average floating rates are based on forward interest rates as of March 31, 2003.

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Long-term debt (year ended March 31, 2002)

|  | Expected maturity date |      |      |      |      |        |
|--|------------------------|------|------|------|------|--------|
|  | 2003                   | 2004 | 2005 | 2006 | 2007 | Therea |

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Fixed rate (notes and debentures):

|                            |        |        |         |         |        |      |
|----------------------------|--------|--------|---------|---------|--------|------|
| JPY debentures             | 30,993 | 86,165 | 33,000  | 290,500 | 60,000 | 161, |
| Average interest rate      | 2.48%  | 2.50%  | 2.47%   | 2.50%   | 1.98%  | 2.   |
| USD debentures             | 25,483 | -      | -       | -       | -      | -    |
| Average interest rate      | 6.63%  | -      | -       | -       | -      | -    |
| JPY convertible debentures | 21,364 | 93,933 | 231,542 | -       | -      | -    |
| Average interest rate      | 1.39%  | 1.38%  | 1.42%   | -       | -      | -    |
| USD convertible debenture  | 26     | -      | -       | -       | -      | -    |
| Average interest rate      | 1.75%  | -      | -       | -       | -      | -    |
| JPY medium term notes      | 32,280 | 15,308 | 10,418  | 5,436   | 11,136 | 20,  |
| Average interest rate      | 1.45%  | 1.80%  | 1.99%   | 2.05%   | 2.15%  | 2.   |
| USD medium term notes      | 1,999  | 1,291  | -       | -       | 1,316  | -    |
| Average interest rate      | 4.49%  | 4.60%  | -       | -       | 5.92%  | -    |

Floating rate (notes and debentures):

|   |        |        |        |       |       |     |
|---|--------|--------|--------|-------|-------|-----|
| JPY debenture                                   | -      | -      | 4,983  | -     | -     | 3,  |
| Average interest rate                           | -      | -      | 1.31%  | -     | -     | 0.  |
| JPY medium term notes                           | 20,638 | 51,480 | 8,449  | 2,995 | 3,038 | 39, |
| Average interest rate                           | 0.82%  | 0.92%  | 1.47%  | 1.60% | 1.66% | 1.  |
| USD medium term notes                           | 6,352  | 7,996  | 19,988 | -     | 1,578 | 1,  |
| Average interest rate                           | 3.20%  | 3.33%  | 3.02%  | -     | 6.15% | 8.  |
| Other currency medium term notes and debentures | 1,085  | -      | -      | -     | -     | -   |
| Average interest rate                           | 2.26%  | -      | -      | -     | -     | -   |

Fixed and floating rate (loans):

|                               |         |         |         |        |        |     |
|-------------------------------|---------|---------|---------|--------|--------|-----|
| Loans, principally from Banks | 222,696 | 231,555 | 163,793 | 86,327 | 48,772 | 91, |
| Average interest rate         | 2.19%   | 1.08%   | 1.00%   | 0.53%  | 0.43%  | 0.  |

Weighted average floating rates are based on forward interest rates as of March 31, 2002.

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Interest rate swaps (year ended March 31, 2003)

|                         | Expected maturity date |      |      |      |      |        |
|-------------------------|------------------------|------|------|------|------|--------|
|                         | 2004                   | 2005 | 2006 | 2007 | 2008 | Therea |
| Notional amounts (JPY): |                        |      |      |      |      |        |

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|                      |        |        |        |        |        |     |
|----------------------|--------|--------|--------|--------|--------|-----|
| Variable to Fixed    | 47,042 | 13,717 | 54,386 | 49,157 | 20,159 | 6,  |
| Average pay rate     | 1.62%  | 1.53%  | 1.46%  | 1.55%  | 1.63%  | 2.  |
| Average receive rate | 0.51%  | 0.49%  | 0.50%  | 0.62%  | 0.63%  | 1.  |
| Fixed to Variable    | 12,500 | 7,557  | 13,000 | 40,000 | 11,000 | 32, |
| Average pay rate     | 0.59%  | 0.64%  | 0.68%  | 0.79%  | 0.68%  | 0.  |
| Average receive rate | 2.19%  | 2.19%  | 2.23%  | 2.09%  | 2.07%  | 1.  |
| Variable to Variable | 22,000 | 3,000  | 4,500  | 4,000  | -      |     |
| Average pay rate     | 0.55%  | 1.49%  | 2.01%  | 1.01%  | -      |     |
| Average receive rate | 0.73%  | 1.74%  | 2.25%  | 1.32%  | -      |     |

Notional amounts (USD):

|                      |       |        |       |   |   |  |
|----------------------|-------|--------|-------|---|---|--|
| Variable to Fixed    | 6,851 | 18,030 | 1,923 | - | - |  |
| Average pay rate     | 3.53% | 3.55%  | 4.31% | - | - |  |
| Average receive rate | 1.29% | 1.28%  | 1.30% | - | - |  |
| Fixed to Variable    | 7,971 | -      | -     | - | - |  |
| Average pay rate     | 1.76% | -      | -     | - | - |  |
| Average receive rate | 0.43% | -      | -     | - | - |  |

Notional amounts (STP):

|                      |        |        |        |       |   |  |
|----------------------|--------|--------|--------|-------|---|--|
| Variable to Fixed    | 53,574 | 32,256 | 15,393 | 1,451 | - |  |
| Average pay rate     | 4.67%  | 4.39%  | 4.38%  | 4.96% | - |  |
| Average receive rate | 3.62%  | 3.66%  | 3.81%  | 4.01% | - |  |

Weighted average pay/receive rates are based on forward interest rates as of March 31, 2003.

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Interest rate swaps (year ended March 31, 2002)

|                         | Expected maturity date |        |        |        |        |        |
|-------------------------|------------------------|--------|--------|--------|--------|--------|
|                         | 2003                   | 2004   | 2005   | 2006   | 2007   | Therea |
| Notional amounts (JPY): |                        |        |        |        |        |        |
| Variable to Fixed       | 46,090                 | 49,749 | 18,759 | 64,360 | 30,051 | 29,    |
| Average pay rate        | 1.73%                  | 1.54%  | 1.47%  | 1.37%  | 1.35%  | 1.     |
| Average receive rate    | 0.76%                  | 0.54%  | 0.56%  | 0.58%  | 0.81%  | 1.     |
| Fixed to Variable       | 32,000                 | 15,500 | 4,557  | 13,000 | 26,999 | 32,    |
| Average pay rate        | 0.39%                  | 0.27%  | 0.29%  | 0.30%  | 0.37%  | 0.     |
| Average receive rate    | 2.06%                  | 2.18%  | 2.11%  | 2.12%  | 1.92%  | 2.     |
| Variable to Variable    | 12,250                 | 24,000 | 3,000  | 3,500  | 1,000  | 5,     |
| Average pay rate        | 0.64%                  | 0.38%  | 0.92%  | 1.19%  | 0.01%  |        |
| Average receive rate    | 0.81%                  | 0.70%  | 1.58%  | 1.97%  | 1.18%  | 1.     |

Notional amounts (USD):

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|                         |        |        |        |       |       |    |
|-------------------------|--------|--------|--------|-------|-------|----|
| Variable to Fixed       | 25,653 | 4,397  | 10,926 | 800   | -     |    |
| Average pay rate        | 5.48%  | 4.66%  | 4.78%  | 7.03% | -     |    |
| Average receive rate    | 1.90%  | 1.87%  | 1.87%  | 1.87% | -     |    |
| Fixed to Variable       | 26,650 | -      | -      | -     | -     |    |
| Average pay rate        | 2.02%  | -      | -      | -     | -     |    |
| Average receive rate    | 6.63%  | -      | -      | -     | -     |    |
| Variable to Variable    | 3,065  | -      | -      | -     | -     | 1, |
| Average pay rate        | 2.18%  | -      | -      | -     | -     | 1. |
| Average receive rate    | 2.54%  | -      | -      | -     | -     | 3. |
| Notional amounts (STP): |        |        |        |       |       |    |
| Variable to Fixed       | 81,643 | 25,632 | 3,797  | 949   | 1,454 |    |
| Average pay rate        | 5.57%  | 5.82%  | 5.40%  | 5.33% | 4.96% |    |
| Average receive rate    | 4.41%  | 4.77%  | 4.84%  | 4.53% | 4.08% |    |

Weighted average pay/receive rates are based on forward interest rates as of March 31, 2002.

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.

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Item 12. Description of Securities Other than Equity Securities

Not applicable.

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

An evaluation was carried out, under the supervision and with the participation of the Company's management including its Chief Executive Officer and principal financial officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act) as of a date within 90 days prior to the filing date of this report. Based on that evaluation, the Chief Executive Officer and principal financial officer concluded that the disclosure controls and procedures as of such date were effective to ensure that information required to be disclosed by the Company in

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the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

There have been no significant changes in the Company's internal controls over financial reporting that occurred subsequent to the date of its most recent evaluation 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

Not applicable because this Form 20-F covers a period ending before July 15, 2003.

Item 16B. Code of Ethics

Not applicable because this Form 20-F covers a period ending before July 15, 2003.

Item 16C. Principal Accountant Fees and Services

Not applicable because this Form 20-F covers a period ending before December 15, 2003.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

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### PART III

Item 17. Financial Statements

Consolidated Financial Statements of Hitachi, Ltd. and Subsidiaries:

|   | Page<br>Number<br>----- |
|---|-------------------------|
| Independent Auditors' Report  | 66                      |
| Consolidated Balance Sheets as of March 31, 2003 and 2002   | 67                      |
| Consolidated Statements of Income for the years ended March 31, 2003, 2002 and 2001               | 69                      |
| Consolidated Statements of Stockholders' Equity for the years ended March 31, 2003, 2002 and 2001 | 70                      |
| Consolidated Statements of Cash Flows for the years ended March 31, 2003, 2002 and 2001           | 71                      |
| Notes to Consolidated Financial Statements  | 72                      |

Schedule:

|                              |    |
|------------------------------|----|
| Independent Auditors' Report | 66 |
|------------------------------|----|

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Schedule II Reserves for the years ended March 31,  
2003, 2002 and 2001

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All other schedules are omitted as permitted by the rules and regulations of the Securities and Exchange Commission, 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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### Independent Auditors' Report

The Board of Directors and Stockholders  
Hitachi, Ltd.:

We have audited the consolidated financial statements of Hitachi, Ltd. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

The segment information required to be disclosed in financial statements under accounting principles generally accepted in the United States of America is not presented in the accompanying consolidated financial statements. Foreign issuers are presently exempted from such disclosure requirement in Securities Exchange Act filings with the United States Securities and Exchange Commission.

In our opinion, except for the omission of segment information, as discussed in the third paragraph, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of Hitachi, Ltd. and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, 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.

KPMG  
Tokyo, Japan  
May 15, 2003, except as to Note 27 which is as of May 30, 2003

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HITACHI, LTD.  
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2003 and 2002

| Assets<br>-----  | Yen (millions) |              |
|--|----------------|--------------|
|  | 2003<br>----   | 2002<br>---- |
| Cash and cash equivalents  | 828,171        | 1,029,374    |
| Short-term investments (note 2)                                      | 186,972        | 178,933      |
| Trade receivables:   |                |              |
| Notes (note 6)   | 155,277        | 206,867      |
| Accounts (notes 3 and 6)   | 1,942,470      | 1,929,029    |
| Allowance for doubtful receivables and<br>unearned income            | (40,520)       | (35,891)     |
| Net trade receivables  | 2,057,227      | 2,100,005    |
| Inventories (note 4)   | 1,187,529      | 1,214,399    |
| Prepaid expenses and other current assets (note 8)                   | 496,490        | 457,392      |
| Investment in leases (notes 5 and 6)                                 | 437,076        | 527,432      |
| Investments and advances,<br>including affiliated companies (note 2) | 726,442        | 834,907      |
| Property, plant and equipment (notes 5 and 9):                       |                |              |
| Land   | 445,283        | 383,781      |
| Buildings  | 1,838,853      | 1,748,509    |
| Machinery and equipment  | 5,709,409      | 5,510,651    |
| Construction in progress   | 67,909         | 97,790       |
|  | 8,061,454      | 7,740,731    |
| Less accumulated depreciation  | 5,460,404      | 5,226,307    |
| Net property, plant and equipment                                    | 2,601,050      | 2,514,424    |
| Other assets (notes 7 and 8)   | 1,658,432      | 1,058,788    |
|  | 10,179,389     | 9,915,654    |
|  | =====          | =====        |

See accompanying notes to consolidated financial statements.

HITACHI, LTD.  
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2003 and 2002



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| Liabilities and Stockholders' Equity                   | Yen (millions) |           |
|--|----------------|-----------|
|  | 2003           | 2002      |
| Short-term debt (note 9)                               | 825,860        | 833,838   |
| Current installments of long-term debt (notes 5 and 9) | 502,586        | 366,083   |
| Trade payables:  |                |           |
| Notes  | 71,934         | 92,799    |
| Accounts   | 1,140,130      | 991,037   |
| Accrued expenses                                       | 799,211        | 882,148   |
| Income taxes (note 8)                                  | 54,091         | 60,518    |
| Advances received                                      | 252,861        | 334,172   |
| Other current liabilities (note 8)                     | 358,555        | 324,670   |
| Long-term debt (notes 5 and 9)                         | 1,512,152      | 1,798,303 |
| Retirement and severance benefits (note 10)            | 1,932,646      | 1,049,054 |
| Other liabilities (note 8)                             | 124,573        | 80,064    |
|  | -----          | -----     |
| Total liabilities                                      | 7,574,599      | 6,812,686 |
|  | -----          | -----     |
| Minority interests                                     | 751,578        | 798,744   |
| Stockholders' equity:                                  |                |           |
| Common stock (notes 9 and 11)                          | 282,032        | 282,032   |
| Capital surplus (note 11)                              | 562,214        | 527,010   |
| Legal reserve (note 12)                                | 111,309        | 110,751   |
| Retained earnings (notes 9 and 12)                     | 1,655,029      | 1,643,248 |
| Accumulated other comprehensive loss (note 14)         | (755,525)      | (258,484) |
| Treasury stock (note 13)                               | (1,847)        | (333)     |
|  | -----          | -----     |
| Total stockholders' equity                             | 1,853,212      | 2,304,224 |
| Commitments and contingencies (note 15)                |                |           |
|  | -----          | -----     |
|  | 10,179,389     | 9,915,654 |
|  | =====          | =====     |

See accompanying notes to consolidated financial statements.

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HITACHI, LTD.  
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended March 31, 2003, 2002 and 2001

Yen (millions)

| 2003 | 2002 |
|------|------|
| ---- | ---- |

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|  |             |             |    |
|--|-------------|-------------|----|
| Revenues:  |             |             |    |
| Product sales (note 3)                                   | 7,235,069   | 7,005,470   | 7  |
| Financial and other services                             | 956,683     | 988,314     |    |
|  | -----       | -----       |    |
| Total revenues   | 8,191,752   | 7,993,784   | 8  |
| Cost of sales:   |             |             |    |
| Product sales  | (5,617,932) | (5,563,709) | (5 |
| Financial and other services                             | (622,561)   | (620,687)   |    |
|  | -----       | -----       |    |
| Total cost of sales                                      | (6,240,493) | (6,184,396) | (6 |
| Selling, general and administrative expenses             | (1,798,292) | (1,926,803) | (1 |
| Impairment losses for long-lived assets (note 16)        | (8,474)     | (46,115)    |    |
| Restructuring charges (note 17)                          | -           | (288,096)   |    |
| Interest income  | 14,158      | 22,481      |    |
| Dividends received                                       | 8,921       | 6,134       |    |
| Other income (note 18)                                   | 23,658      | 7,424       |    |
| Interest charges   | (34,338)    | (45,830)    |    |
| Other deductions (note 18)                               | (60,064)    | (124,655)   |    |
|  | -----       | -----       |    |
| Income (loss) before income taxes and minority interests | 96,828      | (586,072)   |    |
| Income taxes (note 8)                                    | (52,662)    | 71,114      |    |
|  | -----       | -----       |    |
| Income (loss) before minority interests                  | 44,166      | (514,958)   |    |
| Minority interests                                       | (16,299)    | 31,121      |    |
|  | -----       | -----       |    |
| Net income (loss)  | 27,867      | (483,837)   |    |
|  | =====       | =====       | == |
| Net income (loss) per share (note 19):                   |             | Yen         |    |
|  | -----       | -----       |    |
| Basic  | 8.31        | (144.95)    |    |
|  | =====       | =====       | == |
| Diluted  | 8.19        | (144.95)    |    |
|  | =====       | =====       | == |

See accompanying notes to consolidated financial statements.

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HITACHI, LTD.  
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2003, 2002 and 2001

|                                      | Yen (   |
|--------------------------------------|---------|
|                                      | -----   |
|                                      | 2003    |
|                                      | ----    |
| Common stock (notes 9 and 11):       |         |
| Balance at beginning of year         | 282,032 |
| Conversion of convertible debentures | -       |

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|   |           |   |
|---|-----------|---|
| Balance at end of year  | 282,032   |   |
| Capital surplus (note 11):  |           |   |
| Balance at beginning of year  | 527,010   |   |
| Conversion of convertible debentures  | 370       |   |
| Increase arising from issuance of common stock and other  | 34,834    |   |
| Balance at end of year  | 562,214   |   |
| Legal reserve (note 12):  |           |   |
| Balance at beginning of year  | 110,751   |   |
| Transfers from retained earnings  | 554       |   |
| Transfers to minority interests arising from conversion of subsidiaries' convertible debentures           | (24)      |   |
| Transfers from (to) minority interests arising from issuance of subsidiaries' common stock and other      | 28        |   |
| Balance at end of year  | 111,309   |   |
| Retained earnings (notes 9 and 12):   |           |   |
| Balance at beginning of year  | 1,643,248 | 2 |
| Net income (loss)   | 27,867    |   |
| Cash dividends  | (10,013)  |   |
| Transfers to legal reserve  | (554)     |   |
| Net transfer to minority interests arising from conversion of subsidiaries' convertible debentures        | (291)     |   |
| Net transfer from (to) minority interests arising from newly consolidated subsidiaries and other          | (5,228)   |   |
| Balance at end of year  | 1,655,029 | 1 |
| Accumulated other comprehensive loss (note 14):   |           |   |
| Balance at beginning of year  | (258,484) |   |
| Other comprehensive loss, net of reclassification adjustments   | (495,861) |   |
| Net transfer from (to) minority interests arising from conversion of subsidiaries' convertible debentures | 30        |   |
| Net transfer to minority interests arising from issuance of subsidiaries' common stock and other          | (1,210)   |   |
| Balance at end of year  | (755,525) |   |
| Treasury stock (note 13):   |           |   |
| Balance at beginning of year  | (333)     |   |
| Acquisition for treasury  | (1,514)   |   |
| Balance at end of year  | (1,847)   |   |
| Total stockholders' equity  | 1,853,212 | 2 |
| Comprehensive loss (note 14):   |           |   |
| Net income (loss)   | 27,867    |   |
| Other comprehensive loss arising during the year  | (492,476) |   |
| Reclassification adjustments for net loss (gain) included in net income (loss)                            | (3,385)   |   |

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Comprehensive loss

(467,994)

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See accompanying notes to consolidated financial statements.

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HITACHI, LTD.  
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2003, 2002 and 2001

|  | Yen (millio |           |
|--|-------------|-----------|
|  | 2003        | 2002      |
|  | ----        | ----      |
| Cash flows from operating activities (note 21):  |             |           |
| Net income (loss)  | 27,867      | (483,837) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |             |           |
| Depreciation   | 480,274     | 529,418   |
| Impairment losses for long-lived assets  | 8,474       | 46,115    |
| Deferred income taxes  | (35,526)    | (182,072) |
| Equity in earnings of affiliated companies   | 15,803      | 35,756    |
| Gain on sale of investments and subsidiaries' common stock                               | (54,849)    | (4,035)   |
| Impairment of investment in securities   | 65,828      | 76,867    |
| Loss (gain) on disposal of rental assets and other property                              | (14,064)    | 59,687    |
| Income (loss) applicable to minority interests   | 16,299      | (31,121)  |
| (Increase) decrease in receivables   | 2,280       | 450,904   |
| (Increase) decrease in inventories   | 7,994       | 261,229   |
| (Increase) decrease in prepaid expenses and other current assets                         | 3,170       | (999)     |
| Increase (decrease) in payables  | 96,777      | (271,698) |
| Increase (decrease) in accrued expenses and retirement and severance benefits            | (71,969)    | 70,813    |
| Increase (decrease) in accrued income taxes  | (5,825)     | (48,174)  |
| Increase (decrease) in other liabilities   | 11,989      | (69,671)  |
| Other  | 91,996      | 43,684    |
| Net cash provided by operating activities  | 646,518     | 482,866   |
| Cash flows from investing activities (note 21):  |             |           |
| (Increase) decrease in short-term investments  | (8,162)     | 253,236   |
| Capital expenditures   | (323,825)   | (429,835) |
| Purchase of assets to be leased  | (459,036)   | (444,931) |
| Collection of investment in leases   | 411,522     | 469,108   |
| Proceeds from disposal of rental assets and other property                               | 142,973     | 59,574    |
| Proceeds from sale of investments and subsidiaries' common stock                         | 167,350     | 55,354    |
| Purchase of investments and subsidiaries' common stock                                   | (262,424)   | (129,527) |
| Purchase of software   | (152,492)   | (112,506) |
| Other  | (135,191)   | 6,656     |
| Net cash used in investing activities  | (619,285)   | (272,871) |
| Cash flows from financing activities (note 21):  |             |           |

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|  |           |           |
|--|-----------|-----------|
| Decrease in short-term debt                                  | (12,490)  | (408,514) |
| Proceeds from long-term debt                                 | 375,802   | 573,373   |
| Payments on long-term debt                                   | (547,759) | (743,385) |
| Proceeds from sale of common stock by subsidiaries           | 1,872     | 42,466    |
| Dividends paid to stockholders                               | (9,973)   | (28,318)  |
| Dividends paid to minority stockholders of subsidiaries      | (13,108)  | (13,401)  |
| Acquisition of common stock for treasury                     | (1,514)   | (333)     |
|  | -----     | -----     |
| Net cash used in financing activities                        | (207,170) | (578,112) |
|  | -----     | -----     |
| Effect of exchange rate changes on cash and cash equivalents | (21,266)  | 15,888    |
|  | -----     | -----     |
| Net increase (decrease) in cash and cash equivalents         | (201,203) | (352,229) |
| Cash and cash equivalents at beginning of year               | 1,029,374 | 1,381,603 |
|  | -----     | -----     |
| Cash and cash equivalents at end of year                     | 828,171   | 1,029,374 |
|  | =====     | =====     |

See accompanying notes to consolidated financial statements.

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### HITACHI, LTD. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

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

(a) Basis of Presentation

Hitachi, Ltd. (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 include the accounts of the Company and those of its majority-owned subsidiaries, whether directly or indirectly controlled. Intercompany accounts and significant intercompany transactions have been eliminated in consolidation.

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. On a continuous basis, but no less

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frequently than at the end of each semi-annual period, the Company evaluates the carrying amount of its ownership interests in investee companies 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 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.

(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) 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 income and are reported in other comprehensive income.

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Notes to Consolidated Financial Statements

(e) Investment in Securities

The Company classifies investments in securities that have readily determinable fair values and all investments in debt securities in three categories, such as 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 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.

Held-to-maturity securities are reported at amortized cost. Trading securities are reported at fair value, with unrealized gains and

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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 amortized cost basis that is deemed to be other than temporary results in a write-down of the amortized cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings.

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 ratio of market prices per share to book value per share at date of evaluation compared to that at 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 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. The published credit ratings of investee companies that are generally "BB" or lower are considered an indication of other than temporary impairment.

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 was determined by the average method.

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HITACHI, LTD.  
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### Notes to Consolidated Financial Statements

- (f) **Securitization**
- The Company and certain subsidiaries have securitized certain financial assets such as lease receivables, trade receivables and others. In the securitization process, securitized assets are sold to Special Purpose Entities (SPE) which are funded through the issuance of asset-backed securities to investors. When the Company and its subsidiaries sell the financial assets to the SPE in a securitization transaction, 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

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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.

(g) 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 method for raw materials and other inventories.

(h) 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 |

(i) Goodwill and Other Intangible Assets

Effective April 1, 2002, the Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Goodwill and intangible assets with indefinite useful lives are no longer amortized, but instead are tested for impairment at least annually in accordance with the provisions of this statement. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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### Notes to Consolidated Financial Statements

(j) 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 addition, the Company and its subsidiaries develop certain computer software to be sold where related costs are capitalized after establishment of technological feasibility. Such capitalized costs are amortized based on the ratio of each software's expected future revenue to current year's revenue.

(k) 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.



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(1) 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.
- . "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.

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.

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Notes to Consolidated Financial Statements

(m) Revenue Recognition

Staff Accounting Bulletin No. 101 (SAB 101) expresses certain views of the United States Securities and Exchange Commission (SEC) in

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applying generally accepted accounting principles to revenue recognition in the financial statements. In accordance with SAB 101, we generally recognize 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 probable. Our more specific revenue recognition policies based on the type of revenue earned and our product offerings are discussed below.

The Company enters into transactions that include multiple element arrangements which may include any combinations of hardware products, related software products, installment and maintenance. When some elements are delivered prior to others in an arrangement, revenue is deferred until the delivery of the last service element, unless transactions are such that vendor specific objective evidence ("VSOE") of fair value of the undelivered elements is available, the functionality of the delivered element is not dependent on the undelivered elements and delivered elements represents the culmination of the earnings process. VSOE is the price charged by the Company to an external customer for the same element when such element is sold separately. The Company allocates revenue on software arrangements involving multiple elements to each element based on its relative fair value.

### Product Sales:

Revenue from sales of these products are 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 our products 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.

Price protections are provided to the Company's semiconductor memory business customers and retailers of the Company's consumer products business. Price protection is provided to compensate the customers and retailers for decline in product's value due mainly to competition. Price protection granted to our customers is classified as a reduction of revenue on our consolidated statement of income. 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 the 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 channel).

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Product revenues which are recognized upon shipment are IT system products, Large Scale Integrated Circuits, semiconductor manufacturing equipment, test and measurement equipments, construction equipment, displays, disk drives, televisions, air conditioners, batteries, magnetic tapes, high functional materials, cable products and automotive equipment. Product revenues which are recognized upon acceptance or shipment are railway vehicles. Product revenues that are recognized upon acceptance are medical electronic devices, industrial machinery and equipment, nuclear, thermal and hydroelectric power plant, 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 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 revenue in accordance with the provisions of Statement of Position No. 97-2, "Software Revenue Recognition" as amended by Statement of Position No. 98-9. 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.

Our 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. We provide for warranty at the time of revenue recognition using our historical experience of warranty claims. To date such warranty provisions have been insignificant.

### 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.

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### HITACHI, LTD. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

- (n) Advertising  
Advertising costs are charged to the statement of income as incurred.
- (o) Research and Development Costs  
Research and development costs are charged to the statement of income as incurred. Costs incurred in connection with the development of software products 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.
- (p) 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 loss 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.
- (q) Sales of Stock by Subsidiaries  
The change in the Company's proportionate share of subsidiary equity resulting from issuance of stock by the subsidiaries is accounted for as an equity transaction.
- (r) Treasury Stock  
Treasury stock is accounted for by the cost method.
- (s) 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 statement of income. 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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- (t) Stock-based Compensation  
As of March 31, 2003, the Company has two stock-based employee compensation plans, which are described more fully in note 26. 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." No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price not less than market value of the underlying common stock on the date of grant.

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 elected to continue applying APB No. 25, however, the pro forma effects of applying SFAS No. 123 on net income (loss) and the per share information for the years ended March 31, 2003, 2002 and 2001 were not material.

- (u) Disclosures about Segments of an Enterprise and Related Information  
SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," was issued in June 1997. This standard 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. This standard is effective for the Company's fiscal year ended March 31, 1999. However, foreign issuers are presently exempted from the segment disclosure requirements of SFAS No. 131 in Securities Exchange Act filings with SEC, 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.

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- (v) New Accounting Standards  
In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. SFAS No. 143 requires that the fair value of a liability for

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an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company is required and plans to adopt the provisions of SFAS No. 143 for the fiscal year beginning April 1, 2003. SFAS No. 143 will have no material impact on the consolidated financial position or results of operations.

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

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. The interpretation applies immediately to variable interests in variable interest entities created and acquired after January 31, 2003. For variable interest in a variable interest entity created before February 1, 2003, the interpretation is applicable no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The application of this interpretation did not have a material effect on the Company's consolidated financial statements for the year ended March 31, 2003 and is not expected to have a material effect for the year ending March 31, 2004.

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#### Notes to Consolidated Financial Statements

##### (2) Investment in Securities

Short-term investments as of March 31, 2003 and 2002 are as follows:

|                               | Yen (millions) |        |
|-------------------------------|----------------|--------|
|                               | 2003           | 2002   |
|                               | ----           | ----   |
| Investment in securities:     |                |        |
| Available-for-sale securities | 100,288        | 93,660 |
| Held-to-maturity securities   | 6,057          | 4,866  |
| Trading securities            | 80,627         | 80,407 |

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|                        |         |         |
|------------------------|---------|---------|
| Short-term investments | 186,972 | 178,933 |
|                        | =====   | =====   |

Investments and advances, including affiliated companies as of March 31, 2003 and 2002 are as follows:

|  | Yen (millions) |         |
|--|----------------|---------|
|  | 2003           | 2002    |
|  | ----           | ----    |
| Investment in securities:                                |                |         |
| Available-for-sale securities                            | 297,656        | 439,997 |
| Held-to-maturity securities                              | 1,487          | 6,151   |
| Securities without readily determinable fair values      | 75,860         | 73,639  |
| Investments in affiliated companies                      | 237,024        | 240,748 |
| Advances and others                                      | 114,415        | 74,372  |
|  | -----          | -----   |
| Investments and advances, including affiliated companies | 726,442        | 834,907 |
|  | =====          | =====   |

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, 2003 and 2002.

|                           | Yen (millions)       |             |              |                      |                      |             |
|---------------------------|----------------------|-------------|--------------|----------------------|----------------------|-------------|
|                           | -----                |             |              |                      |                      |             |
|                           | 2003                 |             |              |                      |                      |             |
|                           | Amortized cost basis | Gross gains | Gross losses | Aggregate fair value | Amortized cost basis | Gross gains |
|                           | -----                | -----       | -----        | -----                | -----                | -----       |
| Short-term investments:   |                      |             |              |                      |                      |             |
| Debt securities           | 52,432               | 61          | 50           | 52,443               | 62,114               |             |
| Other securities          | 47,897               | 5           | 57           | 47,845               | 31,717               |             |
|                           | -----                | -----       | -----        | -----                | -----                | -----       |
|                           | 100,329              | 66          | 107          | 100,288              | 93,831               |             |
| Investments and advances: |                      |             |              |                      |                      |             |
| Equity securities         | 115,999              | 51,951      | 8,772        | 159,178              | 173,204              | 1           |
| Debt securities           | 117,394              | 606         | 2,484        | 115,516              | 125,059              |             |
| Other securities          | 23,033               | 75          | 146          | 22,962               | 36,741               |             |
|                           | -----                | -----       | -----        | -----                | -----                | -----       |
|                           | 256,426              | 52,632      | 11,402       | 297,656              | 335,004              | 1           |
|                           | -----                | -----       | -----        | -----                | -----                | -----       |
|                           | 356,755              | 52,698      | 11,509       | 397,944              | 428,835              | 1           |
|                           | =====                | =====       | =====        | =====                | =====                | =====       |

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

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### Notes to Consolidated Financial Statements

The proceeds from sale of available-for-sale securities for the years ended March 31, 2003, 2002 and 2001 are JPY 112,861 million, JPY 62,783 million and JPY 167,923 million, respectively. The gross realized gains on the sale of those securities for the years ended March 31, 2003, 2002 and 2001 are JPY 40,119 million, JPY 6,585 million and JPY 10,525 million, respectively, while gross realized losses on the sale of those securities for the years ended March 31, 2003, 2002 and 2001 are JPY 4,660 million, JPY 2,700 million and JPY 460 million, respectively.

In addition, during the year ended March 31, 2001, certain subsidiaries contributed available-for-sale securities to pension fund trusts in the amount of JPY 25,684 million. Gross realized gains on those contributions for the year ended March 31, 2001 were JPY 15,651 million. For the years ended March 31, 2003, 2002 and 2001 the amount of the net unrealized holding gain or loss on available-for-sale securities that has been included in accumulated other comprehensive loss is a loss of JPY 60,907 million, JPY 97,972 million and JPY 61,073 million, respectively, and the amount of gains and losses reclassified out of accumulated other comprehensive loss is net gain of JPY 5,999 million, net loss of JPY 74,842 million and net gain of JPY 30,892 million, respectively.

Various held-to-maturity securities are held by certain subsidiaries. Gross unrealized holding gains and losses of these securities were not material.

Trading securities consist mainly of investments in trust accounts. The portions of trading losses for the years ended March 31, 2003, 2002 and 2001 that relate to trading securities still held at the balance sheet date are JPY 437 million, JPY 2,356 million and JPY 13,659 million, respectively.

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### Notes to Consolidated Financial Statements

The contractual maturities of debt securities and other securities classified as Investments and advances in the consolidated balance sheets as of March 31, 2003 are as follows:

|                       | Yen (millions)       |                        |         |
|-----------------------|----------------------|------------------------|---------|
|                       | Held-to-<br>maturity | Available-<br>for-sale | Total   |
| Due within five years | 1,380                | 43,935                 | 45,315  |
| Due after five years  | 107                  | 94,543                 | 94,650  |
|                       | 1,487                | 138,478                | 139,965 |
|                       | =====                | =====                  | =====   |

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



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The aggregate fair values of investments in affiliated companies based on the quoted market price as of March 31, 2003 and 2002 are JPY 179,884 million and JPY 241,589 million, respectively. The aggregate carrying amount of such investments as of March 31, 2003 and 2002 are JPY 127,343 million and JPY 167,805 million, respectively.

As of March 31, 2003, recognitions of other than temporary declines in values of investments in certain affiliated companies resulted in the difference of JPY 25,061 million between the carrying amount and the amount of underlying equity in net assets. In addition, equity method goodwill of JPY 11,145 million is included in investments in certain affiliated companies as of March 31, 2003 and 2002.

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### HITACHI, LTD. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

(3) Receivables

The aggregated annual maturities of the long-term trade receivables after March 31, 2004 included in Trade receivables- Accounts are as follows:

| Years ending March 31 | Yen<br>(millions) |
|-----------------------|-------------------|
| 2005                  | 26,889            |
| 2006                  | 1,699             |
| 2007                  | 1,299             |
| 2008                  | 1,224             |
| Thereafter            | 3,440             |
|                       | 34,551            |
|                       | =====             |

Sales on an installment contract basis for the years ended March 31, 2003, 2002 and 2001 totaled JPY 14,618 million, JPY 17,647 million and JPY 11,663 million, respectively.

(4) Inventories

Inventories as of March 31, 2003 and 2002 are summarized as follows:

|                 | Yen (millions) |           |
|-----------------|----------------|-----------|
|                 | 2003           | 2002      |
| Finished goods  | 373,317        | 347,391   |
| Work in process | 646,932        | 711,226   |
| Raw materials   | 167,280        | 155,782   |
|                 | 1,187,529      | 1,214,399 |
|                 | =====          | =====     |

Inventories include items associated with major contracts which, because of

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long-term processing requirements, have been or are expected to be performed over a period of more than 12 months. Those items as of March 31, 2003 and 2002 aggregated JPY 40,585 million and JPY 72,886 million, respectively.

### (5) Leases

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

Machinery and equipment at cost under operating leases and accumulated depreciation as of March 31, 2003 amounted to JPY 1,207,877 million and JPY 895,013 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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### HITACHI, LTD. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

The following table shows the future minimum lease receivables of financing and non-cancelable operating leases as of March 31, 2003 and the future minimum lease receivables of financing leases as of March 31, 2002:

|                                       | Yen (millions)      |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | -----               |                     |
|                                       | 2003                |                     |
|                                       | ----                |                     |
| Years ending March 31                 | Financing<br>leases | Operating<br>leases |
| -----                                 | -----               | -----               |
| 2004                                  | 177,413             | 53,566              |
| 2005                                  | 133,530             | 42,131              |
| 2006                                  | 87,493              | 28,651              |
| 2007                                  | 49,049              | 14,705              |
| 2008                                  | 22,291              | 4,910               |
| Thereafter                            | 26,462              | 5,876               |
|                                       | -----               | -----               |
| Total minimum payments to be received | 496,238             | 149,839             |
|                                       |                     | =====               |
| Amount representing executory costs   | (28,364)            |                     |
| Unearned income                       | (25,591)            |                     |
| Allowance for doubtful receivables    | (5,207)             |                     |
|                                       | -----               |                     |
| Net investment in financing leases    | 437,076             |                     |
|                                       | =====               |                     |
|                                       | Yen (millions)      |                     |
|                                       | -----               |                     |
|                                       | 2002                |                     |
|                                       | ----                |                     |
|                                       | Financing<br>leases |                     |
|                                       | -----               |                     |

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|                                       |          |
|---------------------------------------|----------|
| Total minimum payments to be received | 619,574  |
| Amount representing executory costs   | (42,205) |
| Unearned income                       | (43,056) |
| Allowance for doubtful receivables    | (6,881)  |
|                                       | -----    |
| Net investment in financing leases    | 527,432  |
|                                       | =====    |

Allowance for doubtful receivables is determined on the basis of loss experiences and assessment of inherent risks.

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, 2003 and 2002 amounted to JPY 32,669 million and JPY 20,154 million, respectively, and accumulated depreciation as of March 31, 2003 and 2002 amounted to JPY 14,231 million and JPY 9,782 million, respectively.

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### HITACHI, LTD. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

In March 2003, the Company entered into a sale and lease back agreement for its headquarter land and building for a total proceeds of JPY 40,000 million. The lease back is classified as an operating lease with a term of thirty-eight months. A part of the gain on sale of JPY 8,551 million which represents the present value of the minimum lease payments over the lease term has been deferred and will be recognized over the lease term.

The following table shows the future minimum lease payments of capital and non-cancelable operating leases as of March 31, 2003:

|   | Yen (millions)    |                     |
|---|-------------------|---------------------|
|   | Capital<br>leases | Operating<br>leases |
| Years ending March 31                             | -----             | -----               |
| 2004  | 5,774             | 13,174              |
| 2005  | 4,976             | 10,868              |
| 2006  | 2,857             | 6,582               |
| 2007  | 2,293             | 3,132               |
| 2008  | 2,078             | 1,958               |
| Thereafter  | 4,607             | 8,578               |
|   | -----             | -----               |
| Total minimum lease payments                      | 22,585            | 44,292              |
|   |                   | =====               |
| Amount representing executory costs               | (654)             |                     |
| Amount representing interest                      | (1,864)           |                     |
|   | -----             |                     |
| Present value of net minimum lease payments       | 20,067            |                     |
| Less current portion of capital lease obligations | 5,136             |                     |
|   | -----             |                     |
| Long-term capital lease obligations               | 14,931            |                     |
|   | =====             |                     |

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(6) Securitization

For the years ended March 31, 2003 and 2002, Hitachi Capital Corporation (HCC), a financing subsidiary, transferred lease receivables. In these transactions, HCC sold mainly lease receivables to Special Purpose Entities (SPE), and the SPE issued asset-backed commercial papers to investors. The investors and the SPE 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 subordinate to investors' interests. For the years ended March 31, 2003 and 2002, gains recognized on the transfer of lease receivables amounted to JPY 8,278 million and JPY 6,261 million, respectively.

The table below summarizes certain cash flows received from and paid to the SPE during the years ended March 31, 2003 and 2002:

|  | Yen (millions) |         |
|--|----------------|---------|
|  | 2003           | 2002    |
|  | ----           | ----    |
| Proceeds from transfer of lease receivables  | 249,430        | 252,210 |
| Servicing fees received                      | 27             | 36      |
| Purchases of delinquent or ineligible assets | (8,174)        | (7,242) |

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Notes to Consolidated Financial Statements

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, 2003 are as follows:

|                                      | Yen (millions)                                 |   |                      |
|--------------------------------------|--|---|----------------------|
|                                      | Total<br>principal<br>amount of<br>receivables | Principal<br>amount of<br>receivables<br>90 days or<br>more past<br>due | Net credit<br>losses |
|                                      | -----  | ---   | -----                |
| Total assets managed or transferred: |  |   |                      |
| Lease receivables                    | 819,937  | 950   | 1,720                |
| Assets transferred                   | (382,861)                                      |   |                      |
|                                      | -----  |   |                      |
| Assets held in portfolio             | 437,076  |   |                      |
|                                      | =====  |   |                      |

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For the years ended March 31, 2003 and 2002, the Company and certain subsidiaries sold trade receivables mainly through the SPE 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 receivable approximate the related costs. In addition, the Company and certain subsidiaries retained subordinated interests which were not material.

During the years ended March 31, 2003 and 2002, proceeds from transfer of trade receivables were JPY 1,080,805 million and JPY 482,831 million, respectively and losses recognized on those transfers were JPY 2,965 million and JPY 621 million, respectively.

### (7) Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," on April 1, 2002, the Company reassessed the useful lives of previously recognized intangible assets and completed an impairment test. No impairment loss was recognized.

Intangible assets excluding goodwill acquired during the year ended March 31, 2003 and related amortization expense amounted to JPY 262,460 million, and JPY 86,095 million, respectively. 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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### HITACHI, LTD. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

Intangible assets excluding goodwill as of March 31, 2003 and April 1, 2002 are presented below:

|                                  | Yen (millions)           |                             |                        |                          |
|----------------------------------|--------------------------|-----------------------------|------------------------|--------------------------|
|                                  | March 31, 2003           |                             |                        |                          |
|                                  | Gross carrying<br>amount | Accumulated<br>amortization | Net carrying<br>amount | Gross carrying<br>amount |
|                                  | -----                    | -----                       | -----                  | -----                    |
| Amortized intangible assets      |                          |                             |                        |                          |
| Software                         | 288,066                  | 169,239                     | 118,827                | 216,200                  |
| Software for internal use        | 290,204                  | 132,917                     | 157,287                | 191,539                  |
| Other                            | 153,130                  | 47,997                      | 105,133                | 71,652                   |
|                                  | -----                    | -----                       | -----                  | -----                    |
|                                  | 731,400                  | 350,153                     | 381,247                | 479,391                  |
|                                  | =====                    | =====                       | =====                  | =====                    |
| Unamortized intangible<br>assets | 13,603                   | -                           | 13,603                 | 8,165                    |

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The changes in the carrying amount of goodwill for the year ended March 31, 2003 are as follows:

|          | Yen (millions)                                  |   |                            |   |
|----------|---|---|----------------------------|---|
|          | Balance at<br>beginning of<br>the year<br>----- | Acquired<br>during<br>the year<br>----- | Impairment<br>loss<br>---- | Translat<br>adjustm<br>and oth<br>----- |
| Goodwill | 27,299  | 39,986                                  | (4,235)                    | (2,733)                                 |

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

| Years ending March 31 | Yen (millions) |
|-----------------------|----------------|
| 2004                  | 80,813         |
| 2005                  | 76,043         |
| 2006                  | 65,633         |
| 2007                  | 56,128         |
| 2008                  | 48,909         |

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### HITACHI, LTD. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

The following tables show reconciliation of reported net income (loss), basic net income (loss) per share and diluted net income (loss) per share to the amounts adjusted to exclude the amortization expense of goodwill for the years ended March 31, 2003, 2002 and 2001:

|                            | Yen (millions) |              |              |
|----------------------------|----------------|--------------|--------------|
|                            | 2003<br>----   | 2002<br>---- | 2001<br>---- |
| Reported net income (loss) | 27,867         | (483,837)    | 104,380      |
| Goodwill amortization      | -              | 785          | 307          |
| Adjusted net income (loss) | 27,867         | (483,052)    | 104,687      |
|                            | =====          | =====        | =====        |

  

|  | Yen          |              |              |
|--|--------------|--------------|--------------|
|  | 2003<br>---- | 2002<br>---- | 2001<br>---- |
| Reported basic net income (loss) per share | 8.31         | (144.95)     | 31.27        |
| Goodwill amortization                      | -            | 0.23         | 0.09         |
| Adjusted basic net income (loss) per share | 8.31         | (144.72)     | 31.36        |

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|  | ====  | =====    | ===== |
|--|-------|----------|-------|
|  |       | Yen      |       |
|  | ----- | -----    | ----- |
|  | 2003  | 2002     | 2001  |
|  | ----  | ----     | ----  |
| Reported diluted net income (loss) per share | 8.19  | (144.95) | 30.32 |
| Goodwill amortization                        | -     | 0.23     | 0.09  |
|  | ----  | -----    | ----- |
| Adjusted diluted net income (loss) per share | 8.19  | (144.72) | 30.41 |
|  | ====  | =====    | ===== |

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Notes to Consolidated Financial Statements

(8) Income Taxes

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

|   | Yen (millions) |          |           |
|---|----------------|----------|-----------|
|   | -----          |          |           |
|   | 2003           |          |           |
|   | -----          | -----    | -----     |
|   | Domestic       | Foreign  | Total     |
|   | -----          | -----    | -----     |
| 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    |
|   |                |          |           |
|   | Yen (millions) |          |           |
|   | -----          |          |           |
|   | 2002           |          |           |
|   | -----          | -----    | -----     |
|   | Domestic       | Foreign  | Total     |
|   | -----          | -----    | -----     |
| Loss before income taxes and minority interests   | (538,556)      | (47,516) | (586,072) |
| Income taxes:                                     |                |          |           |
| Current tax expense                               | 100,698        | 10,260   | 110,958   |
| Deferred tax benefit                              | (176,170)      | (5,902)  | (182,072) |
|   | -----          | -----    | -----     |
|   | (75,472)       | 4,358    | (71,114)  |
|   |                |          |           |
|   | Yen (millions) |          |           |
|   | -----          |          |           |
|   | 2001           |          |           |
|   | -----          |          |           |

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|   | Domestic<br>----- | Foreign<br>----- | Total<br>----- |
|---|-------------------|------------------|----------------|
| Income before income taxes and minority interests | 282,372           | 41,283           | 323,655        |
| Income taxes:                                     |                   |                  |                |
| Current tax expense                               | 134,639           | 17,717           | 152,356        |
| Deferred tax expense                              | 7,157             | 5,348            | 12,505         |
|   | -----             | -----            | -----          |
|   | 141,796           | 23,065           | 164,861        |

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Notes to Consolidated Financial Statements

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, 2003, 2002 and 2001 are as follows:

|   | Yen (millions) |               |               |
|---|----------------|---------------|---------------|
|   | 2003<br>-----  | 2002<br>----- | 2001<br>----- |
| Continuing operations:  |                |               |               |
| Current tax expense   | 88,188         | 110,958       | 152,356       |
| Deferred tax benefit (exclusive of the effects of other components listed below)                      | (20,525)       | (263,449)     |               |
| Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates in Japan | 27,993         | -             |               |
| Change in valuation allowance   | (42,994)       | 81,377        | 13,500        |
|   | -----          | -----         | -----         |
|   | 52,662         | (71,114)      | 164,861       |
| Other comprehensive income (loss), net of reclassification adjustments:                               |                |               |               |
| Minimum pension liability adjustments   | (333,700)      | (59,985)      | (149,000)     |
| Net unrealized holding gain on available-for-sale securities  | (27,878)       | (9,717)       | (37,000)      |
| Cash flow hedges  | (335)          | (646)         |               |
|   | -----          | -----         | -----         |
|   | (361,913)      | (70,348)      | (186,000)     |
|   | -----          | -----         | -----         |
|   | (309,251)      | (141,462)     | (22,000)      |
|   | =====          | =====         | =====         |

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 years ended March 31, 2003, 2002 and 2001.

On March 31, 2003, a reduction of income tax rate for business tax was enacted in Japan, and is effective from April 1, 2004. With this adoption,



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the aggregated statutory income tax rate for domestic companies will be approximately 40.8% for the year ending March 31, 2005.

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

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, and included the cumulative tax effect in the amount of JPY 27,993 million in income from continuing operations for the year ended March 31, 2003.

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### HITACHI, LTD. AND SUBSIDIARIES

#### Notes to Consolidated Financial Statements

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

|  | 2003   | 2002    | 2001  |
|--|--------|---------|-------|
|  | ----   | ----    | ----  |
| Combined statutory income tax rate   | 41.8%  | (41.8)% | 41.8  |
| Equity in earnings of affiliated companies   | 6.8    | 2.6     | (0.3) |
| Impairment of investments in affiliated companies                                      | 10.8   | -       | -     |
| Adjustment of net gain on sale of investments in subsidiaries and affiliated companies | 5.6    | 0.5     | 0.0   |
| Expenses not deductible for tax purposes   | 12.9   | 6.7     | 6.0   |
| Enacted changes in tax laws and rates in Japan   | 28.9   | -       | -     |
| Change in valuation allowance  | (44.4) | 13.9    | 4.1   |
| Difference in statutory tax rates of foreign subsidiaries                              | (9.1)  | 5.0     | (2.3) |
| Other  | 1.1    | 1.0     | 1.6   |
|  | ----   | ----    | ----  |
| Effective income tax rate  | 54.4%  | (12.1)% | 50.9  |
|  | =====  | =====   | ===== |

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, 2003 and 2002 are presented below:

| Yen (millions) |      |
|----------------|------|
| -----          |      |
| 2003           | 2002 |

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|   |                        |                        |
|---|------------------------|------------------------|
|   | ----                   | ----                   |
| Total gross deferred tax assets:                                  |                        |                        |
| Retirement and severance benefits                                 | 736,731                | 387,345                |
| Accrued expenses  | 183,990                | 168,165                |
| Property, plant and equipment, due to differences in depreciation | 34,521                 | 35,822                 |
| Net operating loss carryforwards                                  | 288,113                | 319,822                |
| Other   | 286,259                | 271,332                |
|   | -----                  | -----                  |
| Valuation allowance   | 1,529,614<br>(187,687) | 1,182,486<br>(239,965) |
|   | -----                  | -----                  |
|   | 1,341,927              | 942,521                |
| Total gross deferred tax liabilities:                             |                        |                        |
| Deferred profit on sale of properties                             | (35,421)               | (35,795)               |
| Tax purpose reserves regulated by Japanese tax laws               | (31,563)               | (33,728)               |
| Net unrealized gain on securities                                 | (8,951)                | (42,517)               |
| Other   | (32,702)               | (13,531)               |
|   | -----                  | -----                  |
|   | (108,637)              | (125,571)              |
|   | -----                  | -----                  |
| Net deferred tax asset  | 1,233,290              | 816,950                |
|   | =====                  | =====                  |

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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, 2003 and 2002 are reflected in the accompanying consolidated balance sheets under the following captions:

|   | Yen (millions) |        |
|---|----------------|--------|
|   | -----          | -----  |
|   | 2003           | 2002   |
|   | ----           | ----   |
| Prepaid expenses and other current assets | 12,269         | 12,042 |
| Other assets                              | 63,951         | 63,077 |
|   | -----          | -----  |
|   | 76,220         | 75,119 |
|   | =====          | =====  |

Net deferred tax assets as of March 31, 2003 and 2002 are reflected in the accompanying consolidated balance sheets under the following captions:

Yen (millions)  
-----

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|   | 2003<br>---- | 2002<br>---- |
|---|--------------|--------------|
| Prepaid expenses and other current assets | 274,865      | 237,209      |
| Other assets                              | 976,368      | 595,588      |
| Other current liabilities                 | (5,454)      | (4,822)      |
| Other liabilities                         | (12,489)     | (11,025)     |
|   | -----        | -----        |
| Net deferred tax asset                    | 1,233,290    | 816,950      |
|   | =====        | =====        |

Under the tax laws of various jurisdictions in which the Company and its subsidiaries operate, the valuation allowance was recorded against deferred tax assets for deductible temporary differences, net operating loss carryforwards and tax credit carryforwards. The net change in the total valuation allowance for the years ended March 31, 2003 and 2002 was a decrease of JPY 52,278 million and an increase of JPY 82,344 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 entirely dependent upon the generation of future 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 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, 2003.

As of March 31, 2003, the Company and various subsidiaries have operating loss carryforwards of JPY 725,579 million which are available to offset future taxable income, if any. Operating loss carryforwards of JPY 619,001 million expire by March 31, 2008, and JPY 106,578 million expire in various years thereafter or do not expire.

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(9) Short-term and Long-term Debts

The components of short-term debt as of March 31, 2003 and 2002 are summarized as follows:

|   | Yen (millions) |               |
|---|----------------|---------------|
|   | 2003<br>-----  | 2002<br>----- |
| Borrowings not from affiliates, mainly from banks | 481,867        | 647,886       |
| Commercial paper                                  | 254,536        | 139,239       |

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|                            |         |         |
|----------------------------|---------|---------|
| Borrowings from affiliates | 89,457  | 46,713  |
|                            | -----   | -----   |
|                            | 825,860 | 833,838 |
|                            | =====   | =====   |

The weighted average interest rates on short-term debt outstanding as of March 31, 2003 and 2002 are 0.1% and 0.2%, respectively.

The components of long-term debt as of March 31, 2003 and 2002 are summarized as follows:

|   | Yen (millions) |           |
|---|----------------|-----------|
|   | 2003           | 2002      |
|   | -----          | -----     |
| Mortgage debentures:  |                |           |
| Due 2004, interest 2.1%, issued by a subsidiary   | 300            | 400       |
| Unsecured notes and debentures:   |                |           |
| Due 2006, interest 3.45% debenture  | 200,000        | 200,000   |
| Due 2003-2018, interest 0.028-5.92%, issued by subsidiaries   | 748,581        | 760,836   |
| Unsecured convertible debentures:   |                |           |
| 6th series, due 2003, interest 1.3%   | 92,828         | 92,828    |
| 7th series, due 2004, interest 1.4%   | 218,471        | 218,471   |
| Due 2003-2008, interest 0.6-1.8%, issued by subsidiaries  | 20,932         | 35,566    |
| Loans, principally from banks and insurance companies:  |                |           |
| Secured by various assets and mortgages on property, plant and equipment, maturing 2003-2011, interest 0.93-8.77% | 31,620         | 14,692    |
| Unsecured, maturing 2003-2015, interest 0.5225-7.04%  | 681,939        | 830,301   |
| Capital lease obligations   | 20,067         | 11,292    |
|   | -----          | -----     |
|   | 2,014,738      | 2,164,386 |
| Less current installments   | 502,586        | 366,083   |
|   | -----          | -----     |
|   | 1,512,152      | 1,798,303 |
|   | =====          | =====     |

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The aggregate annual maturities of long-term debt after March 31, 2004 are as follows:

| Years ending March 31 | Yen (millions) |
|-----------------------|----------------|
| -----                 | -----          |
| 2005                  | 508,283        |
| 2006                  | 413,699        |
| 2007                  | 132,101        |

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|            |           |
|------------|-----------|
| 2008       | 161,082   |
| Thereafter | 296,987   |
|            | -----     |
|            | 1,512,152 |
|            | =====     |

The Company and its subsidiaries provide their investment in certain subsidiaries as collateral for bank loans of JPY 14,240 million.

The collateralized number of shares and their fair values as of March 31, 2003 are as follows:

| Subsidiary name                   | Number of<br>shares owned<br>in thousand | Percent of<br>ownership | Collateralized<br>number of shares<br>in thousand |
|-----------------------------------|--|-------------------------|---|
| -----                             | -----                                    | -----                   | -----   |
| Hitachi Capital Corporation       | 71,074                                   | 55.3%                   | 13,000  |
| Hitachi Maxell, Ltd.              | 51,528                                   | 52.1                    | 800   |
| Hitachi Powdered Metals Co., Ltd. | 17,072                                   | 53.3                    | 4,700   |

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security 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 security or mortgages on property, plant and equipment.

The unsecured convertible debentures due in 2003 are redeemable in whole or in part, at the option of the Company, from October 1, 1996 to September 30, 2002 at premiums ranging from 6% to 1%, and at par thereafter. The debentures are currently convertible into approximately 49,503,000 shares of common stock, based on a fixed conversion price not less than the fair market value of the Company's common stock on the date of issuance. Commencing September 30, 1999, the Company is required to make annual payments to the Trustee of JPY 10 billion less the aggregate amounts of the debentures converted, repurchased or redeemed which have not been deducted before.

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The unsecured convertible debentures due in 2004 are redeemable in whole or in part, at the option of the Company, from October 1, 1997 to September 30, 2003 at premiums ranging from 6% to 1%, and at par thereafter. The debentures are currently convertible into approximately 128,945,000 shares of common stock, based on a fixed conversion price not less than the fair market value of the Company's common stock on the date of issuance. Commencing September 30, 1999, the Company is required to make annual payments to the Trustee of JPY 20 billion less the aggregate amounts of the debentures converted, repurchased or redeemed which have not been deducted before.

In accordance with Trustee agreements for the unsecured debentures due in 2003 and 2004 as mentioned above, the 16,977,000 shares of investments in Hitachi Software Engineering Co., Ltd. and the 48,401,000 shares of investments in Hitachi High-Technologies Co., Ltd. are held in trust. The fair values of the shares held in trust as of March 31, 2003 are JPY 31,747 million and JPY 81,749 million, respectively.

Pursuant to the terms of the indentures under which the unsecured convertible debentures due in 2004 were issued, accumulated cash dividends (including interim dividends) paid by the Company for the fiscal years beginning after March 31, 1989 may not exceed accumulated net income in the audited consolidated statements of income for the fiscal years beginning after March 31, 1989 plus JPY 65,000 million as long as these debentures are outstanding. In determining the accumulated cash dividends, interim cash dividends to be paid on and after April 1, 1990 are considered to be a part of the cash dividends of the previous fiscal year. As of March 31, 2003, the accumulated cash dividends and the accumulated net income including JPY 65,000 million, which are defined by the above terms, amounted to JPY 419,072 million and JPY 452,233 million, respectively.

### (10) Retirement and Severance Benefits

#### (a) Defined benefit plans

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

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

Directors and certain employees are not covered by the programs described above. Benefits paid to such persons and meritorious service awards paid to employees in excess of the prescribed formula are charged to income as paid as it is not practicable to compute the liability for future payments since amounts vary with circumstances.

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In addition to unfunded defined benefit pension plans, the Company and certain of its subsidiaries contribute to each Employees Pension Fund (EPF) as is stipulated by the Japanese Welfare Pension Insurance Law and other pension plans. The pension plans under the EPF are composed of the

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substitutional portion of Japanese Welfare Pension Insurance and the corporate portion which is the contributory defined benefit pension plan covering substantially all of their employees and provides benefits in addition to the substitutional portion. The Company, certain of its subsidiaries and their employees contribute the pension premiums for the substitutional portion and the corporate portion to each EPF. The plan assets of each EPF cannot be specifically allocated to the individual participants nor to the substitutional and corporate portions.

The benefits for the substitutional portion are based on standard remuneration scheduled by the Welfare Pension Insurance Law and the length of participation. The benefits of the corporate portion are based on the current rate of pay and the length of service. Under EPF pension plans, the participants are eligible for these benefits after a one-month period of participation in the plan. EPF contributions and cost for the substitutional portion were determined in accordance with the open aggregate cost method (actuarial funding method) as stipulated by the Welfare Pension Insurance Law. Contributions and cost for the corporate portion were determined in accordance with the entry age normal cost method (actuarial funding method).

Net periodic benefit costs for the funded benefit pension plans and the unfunded lump-sum payment plans for the years ended March 31, 2003, 2002 and 2001 consist of the following components:

|   | Yen (millions) |          |          |
|---|----------------|----------|----------|
|   | 2003           | 2002     | 2001     |
|   | -----          | -----    | -----    |
| Service cost                                  | 112,948        | 110,173  | 117,104  |
| Interest cost                                 | 97,161         | 118,094  | 115,163  |
| Expected return on plan assets for the period | (71,679)       | (77,194) | (86,879) |
| Amortization of transition asset              | (421)          | (421)    | (421)    |
| Amortization of prior service (benefit) cost  | (10,115)       | (2,999)  | 218      |
| Recognized actuarial loss                     | 107,478        | 60,867   | 25,869   |
| Transfer to defined contribution pension plan | 5,167          | 3,807    | -        |
| Curtailement and settlement loss              | 700            | 1,823    | -        |
| Employees' contributions                      | (16,558)       | (18,330) | (18,111) |
|   | -----          | -----    | -----    |
| Net periodic benefit cost                     | 224,681        | 195,820  | 152,943  |
|   | =====          | =====    | =====    |

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

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benefit pension plans and the fair value of the plan assets, and actuarial assumptions used at March 31, 2003 and 2002 are as follows:

|  | Yen (million) |       |
|--|---------------|-------|
|  | 2003          |       |
|  | -----         |       |
| Change in benefit obligation:                                    |               |       |
| Benefit obligation at beginning of year                          | 3,022,170     | 3     |
| Service cost   | 112,948       |       |
| Interest cost  | 97,161        |       |
| Plan amendments  | (17,138)      |       |
| Actuarial loss   | 681,822       |       |
| Benefits paid  | (223,946)     |       |
| Acquisitions and divestitures                                    | 106,792       |       |
| Transfer to defined contribution pension plan                    | (7,882)       |       |
| Curtailment and settlement                                       | (14,396)      |       |
| Foreign currency exchange rate changes                           | (4,156)       |       |
|  | -----         | ----- |
| Benefit obligation at end of year                                | 3,753,375     | 3     |
|  | -----         | ----- |
| Change in plan assets:   |               |       |
| Fair value of plan assets at beginning of year                   | 1,767,560     | 1     |
| Actual return on plan assets                                     | (283,651)     |       |
| Employers' contributions   | 121,036       |       |
| Employees' contributions   | 16,558        |       |
| Benefits paid  | (141,917)     |       |
| Acquisitions and divestitures                                    | 52,198        |       |
| Transfer to defined contribution pension plan                    | (3,582)       |       |
| Settlement   | (9,634)       |       |
| Foreign currency exchange rate changes                           | (4,894)       |       |
|  | -----         | ----- |
| Fair value of plan assets at end of year                         | 1,513,674     | 1     |
|  | -----         | ----- |
| Funded status  | (2,239,701)   | (1)   |
| Unrecognized transition asset                                    | (831)         |       |
| Unrecognized prior service benefit                               | (86,411)      |       |
| Unrecognized actuarial loss                                      | 1,713,702     |       |
|  | -----         | ----- |
| Net amount recognized in the consolidated balance sheet          | (613,241)     | ----- |
|  | -----         | ----- |
| Amounts recognized in the consolidated balance sheet consist of: |               |       |
| Prepaid benefit cost   | 861           |       |
| Accrued benefit cost   | (1,932,646)   | (1)   |
| Intangible asset   | 4,765         |       |
| Accumulated other comprehensive loss                             | 1,313,779     |       |
|  | -----         | ----- |
| Net amount recognized  | (613,241)     | ----- |
|  | -----         | ----- |
| Actuarial assumptions on a weighted-average basis:               |               |       |
| Discount rate  | 2.5%          |       |
| Expected rate of return on plan assets                           | 3.7%          |       |
| Rate of compensation increase                                    | 3.3%          |       |



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The components of the net periodic benefit cost are determined using the assumptions as of the beginning of the fiscal year, and the components of benefit obligation are determined using the assumptions as of the end of the fiscal year.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were JPY 3,744,219 million, JPY 3,428,655 million and JPY 1,503,085 million, respectively, as of March 31, 2003, and JPY 2,981,740 million, JPY 2,739,092 million and JPY 1,730,108 million, respectively, as of March 31, 2002.

On June 15, 2001, the Japanese government issued a new law concerning the defined benefit plan. This law allows a company, at its own discretion, to apply for an exemption from the future benefit obligation and return the past benefit obligation of the substitutional portion of the EPF to the government. Under the new law, a company may apply for the exemption from the future benefit obligation on or after April 1, 2002 and the return of the past benefit obligation on or after July 1, 2003. The past benefit obligation and the related pension assets will be returned to the government on or after September 1, 2003. In accordance with the new law, the Company and certain subsidiaries obtained an approval for the exemption from the future benefit obligation on or after April 2002 and will apply for the return of the past benefit obligation.

The Company's plans to return the substitutional portion of the EPF to the government had been considered in the actuarial assumptions. In January 2003, the FASB issued EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," which addresses accounting for the transfer of the substitutional portion of the EPF to the Japanese government. The EITF requires employers to account for the entire separation process of the transfer of the substitutional portion as a single settlement transaction upon the completion of the transfer to the government of the benefit obligation and related plan assets. In addition, the EITF requires employers to measure the obligation at current market rates of interest that could be obtained in a transaction with a third-party, nongovernmental entity to settle the obligation.

The Company and certain subsidiaries remeasured the substitutional portion of the benefit obligation at April 1, 2002 in accordance with EITF Issue No. 03-2. As a result of this remeasurement, the benefit obligation as of April 1, 2002 and net periodic benefit costs for the year ended March 31, 2003 increased by JPY 283,084 million and JPY 24,857 million, respectively.

(b) Defined contribution plans

Certain subsidiaries have a number of defined contribution plans.

Effective December 31, 2001, the Company implemented a defined contribution plan allowing employees to transfer a portion of their unfunded defined benefit plans to the new defined contribution plan. The amount to be transferred to the new plan will be contributed over 8 years.

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The Company will make contributions in accordance with the plan provisions.

The amount of cost recognized for the Company's and certain subsidiaries' contribution to the plans for the years ended March 31, 2003 and 2002 were JPY 6,895 million and JPY 3,557 million, respectively.

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(11) Common Stock

The Company has authorized for issuance 10 billion shares of common stock. The Japanese Commercial Code (JCC) had required designation of par value to all common stock at least 50% of new share issuance price, or the common stock par value prescribed by the JCC. Effective October 1, 2001, the JCC was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

Issued shares, changes in shares and the amount of common stock for the years ended March 31, 2003, 2002 and 2001 are summarized as follows:

|  |               | Yen (millions) |
|--|---------------|----------------|
|  | Issued shares | Amount         |
|  | -----         | -----          |
| Balance as of March 31, 2000                     | 3,337,900,251 | 281,738        |
| Issued upon conversion of convertible debentures | 31,606        | 16             |
|  | -----         | -----          |
| Balance as of March 31, 2001                     | 3,337,931,857 | 281,754        |
| Issued upon conversion of convertible debentures | 549,184       | 278            |
|  | -----         | -----          |
| Balance as of March 31, 2002                     | 3,338,481,041 | 282,032        |
| Issued under exchange offerings                  | 29,643,245    | -              |
|  | -----         | -----          |
| Balance as of March 31, 2003                     | 3,368,124,286 | 282,032        |
|  | =====         | =====          |

Issued shares under exchange offerings for the year ended March 31, 2003 include the issuance of 25,143,245 shares as discussed in note 25.

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

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##### (12) Legal Reserve and Cash Dividends

The Japanese Commercial Code (JCC) had provided that earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash should be appropriated as a legal reserve until such reserve equals 25 percent of stated common stock. This legal reserve was not available for dividends but might be used to reduce a deficit by resolution of the shareholders or might be transferred to stated common stock by resolution of the Board of Directors.

Effective October 1, 2001, the JCC was amended to require earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash should be appropriated as a legal reserve until total additional paid in capital and legal reserve equals 25 percent of stated common stock. Either additional paid in capital or legal reserve may be available for dividends by resolution of the shareholders to the extent that the amount of total additional paid in capital and legal reserve exceeds 25 percent of stated common stock.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2003, 2002 and 2001 represent dividends resolved during those years and the related appropriations to the legal reserve. Provision had not been made in the accompanying consolidated financial statements for the dividend for the second half year of JPY 3.0 per share, aggregating JPY 10,094 million, subsequently would be proposed by the Board of Directors at the ordinary general shareholders' meeting in respect to the year ended March 31, 2003.

Cash dividends per share for the years ended March 31, 2003, 2002 and 2001 are computed at JPY 6.0, JPY 3.0 and JPY 11.0, respectively, based on dividends declared with respect to earnings for the periods.

##### (13) Treasury Stock

The Japanese Commercial Code (JCC) had imposed certain restrictions on acquisition and disposal of treasury stock. Effective October 1, 2001, the JCC eliminated the provision of these restrictions and allowed acquisitions of treasury stock to the extent of funds appropriated by a resolution of shareholders.

As of March 31, 2003, the Company held 3,216,077 shares of the Company's common stock as treasury stock as a result of acquisitions of shares from shareholders holding less than a trading lot (1,000 shares) upon request by the shareholder pursuant to the provisions of the JCC. The shareholders may request the Company to acquire their shares below a trading lot as any number of shares below a trading lot cannot be publicly traded and does not carry on a voting right.

In April 2003, the Board of Directors proposed to acquire up to 300,000,000 shares of the Company's common stock for aggregate acquisition price not exceeding JPY 150,000 million as treasury stock for the period from the close of the ordinary general shareholders' meeting to the close of the next ordinary general shareholders' meeting, pursuant to the provisions of the JCC. This proposal is subject to an approval at the ordinary general shareholders' meeting on June 25, 2003.

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At the ordinary general shareholders' meeting on June 26, 2002, the Company was approved to acquire up to 300,000,000 shares of its common stock for aggregate acquisition price not exceeding JPY 300,000 million as treasury stock for the period from the close of the ordinary general shareholders' meeting to the close of the next ordinary general shareholders' meeting, pursuant to the provision of the JCC. In May 2003, based on this approval, the Company acquired its own shares as indicated in note 27.

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(14) Accumulated Other Comprehensive Loss

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

|  | Yen (million) |           |
|--|---------------|-----------|
|  | 2003          | 2002      |
| Foreign currency translation adjustments:  |               |           |
| Balance at beginning of year   | (38,012)      | (57,647)  |
| Other comprehensive income (loss),<br>net of reclassification adjustments                                    | (21,833)      | 19,986    |
| Net transfer from (to) minority interests arising from<br>conversion of subsidiaries' convertible debentures | 7             | -         |
| Net transfer to minority interests arising from issuance<br>of subsidiaries' common stock and other          | (1,110)       | (351)     |
| Balance at end of year   | (60,948)      | (38,012)  |
| Minimum pension liability adjustments:   |               |           |
| Balance at beginning of year   | (260,100)     | (182,936) |
| Other comprehensive loss   | (438,799)     | (77,338)  |
| Net transfer from minority interests arising from<br>conversion of subsidiaries' convertible debentures      | 20            | -         |
| Net transfer from (to) minority interests arising from<br>issuance of subsidiaries' common stock and other   | (37)          | 174       |
| Balance at end of year   | (698,916)     | (260,100) |
| Net unrealized holding gain on available-for-sale securities:  |               |           |
| Balance at beginning of year   | 39,997        | 51,041    |
| Other comprehensive loss,<br>net of reclassification adjustments   | (35,082)      | (11,132)  |
| Net transfer from (to) minority interests arising from<br>conversion of subsidiaries' convertible debentures | 1             | 1         |
| Net transfer from (to) minority interests arising from<br>issuance of subsidiaries' common stock and other   | (42)          | 87        |
|  |               |           |

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|                        |       |        |
|------------------------|-------|--------|
| Balance at end of year | 4,874 | 39,997 |
|                        | ----- | -----  |

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|  | Yen (millions)     |                    |                 |
|--|--------------------|--------------------|-----------------|
|  | 2003               | 2002               | 2001            |
|  | -----              | -----              | -----           |
| Cash flow hedges:  |                    |                    |                 |
| Balance at beginning of year   | (369)              | 1,096              |                 |
| Other comprehensive income (loss),<br>net of reclassification adjustments                                    | (147)              | (1,464)            | 1,0             |
| Net transfer from minority interests arising from<br>conversion of subsidiaries' convertible debentures      | 2                  | -                  |                 |
| Net transfer from (to) minority interests arising from<br>issuance of subsidiaries' common stock and other   | (21)               | (1)                |                 |
| Balance at end of year   | -----<br>(535)     | -----<br>(369)     | -----<br>1,0    |
| Total accumulated other comprehensive loss:  |                    |                    |                 |
| Balance at beginning of year   | (258,484)          | (188,446)          | 17,4            |
| Other comprehensive loss,<br>net of reclassification adjustments   | (495,861)          | (69,948)           | (205,1          |
| Net transfer from (to) minority interests arising from<br>conversion of subsidiaries' convertible debentures | 30                 | 1                  |                 |
| Net transfer to minority interests arising from<br>issuance of subsidiaries' common stock and other          | (1,210)            | (91)               | (7              |
| Balance at end of year   | -----<br>(755,525) | -----<br>(258,484) | -----<br>(188,4 |
|  | =====              | =====              | =====           |

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The following is a summary of reclassification adjustments by each classification of other comprehensive income (loss) arising during the years ended March 31, 2003, 2002 and 2001 and the amounts of income tax expense or benefit allocated to each component of other comprehensive income (loss), including reclassification adjustments.

Yen (millions)

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

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|  | Yen (millions)    |                       |
|--|-------------------|-----------------------|
|  | 2002              |                       |
|  | Before-tax amount | Tax benefit (expense) |
| Other comprehensive income (loss) arising during the year:   |                   |                       |
| Foreign currency translation adjustments                     | 19,511            | -                     |
| Minimum pension liability adjustments                        | (132,882)         | 55,544                |
| Net unrealized holding gain on available-for-sale securities | (97,342)          | 40,679                |
| Cash flow hedges   | (948)             | 526                   |
|  | (211,661)         | 96,749                |

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Reclassification adjustments for net loss (gain) included in net loss:

|  |        |          |
|--|--------|----------|
| Foreign currency translation adjustments                     | 475    | -        |
| Net unrealized holding gain on available-for-sale securities | 78,232 | (32,701) |
| Cash flow hedges   | (767)  | (275)    |
|  | 77,940 | (32,976) |

Other comprehensive income (loss), net of reclassification adjustments:

|  |           |        |
|--|-----------|--------|
| Foreign currency translation adjustments                     | 19,986    | -      |
| Minimum pension liability adjustments                        | (132,882) | 55,544 |
| Net unrealized holding gain on available-for-sale securities | (19,110)  | 7,978  |
| Cash flow hedges   | (1,715)   | 251    |
|  | (133,721) | 63,773 |

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|  | Yen (millions)    |                       |
|--|-------------------|-----------------------|
|  | 2001              |                       |
|  | Before-tax amount | Tax benefit (expense) |
| Other comprehensive income (loss) arising during the year:               |                   |                       |
| Foreign currency translation adjustments                                 | 18,990            | -                     |
| Minimum pension liability adjustments                                    | (314,158)         | 131,222               |
| Net unrealized holding gain on available-for-sale securities             | (55,311)          | 22,759                |
| Cash flow hedges   | 2,742             | (804)                 |
|  | (347,737)         | 153,177               |
| Reclassification adjustments for net loss (gain) included in net income: |                   |                       |
| Foreign currency translation adjustments                                 | 1,814             | -                     |
| Net unrealized holding gain on available-for-sale securities             | (19,652)          | 8,213                 |
| Cash flow hedges   | (1,670)           | 744                   |
|  | (19,508)          | 8,957                 |
| Other comprehensive income (loss), net of reclassification adjustments:  |                   |                       |
| Foreign currency translation adjustments                                 | 20,804            | -                     |
| Minimum pension liability adjustments                                    | (314,158)         | 131,222               |
| Net unrealized holding gain on available-for-sale securities             | (74,963)          | 30,972                |
| Cash flow hedges   | 1,072             | (60)                  |

|           |         |
|-----------|---------|
| (367,245) | 162,134 |
| =====     | =====   |

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(15) Commitments and Contingencies

The Company and its operating subsidiaries are contingently liable for loan guarantees to its affiliates in the amount of approximately JPY 38,599 million as of March 31, 2003.

Hitachi Capital Corporation (HCC), a financing subsidiary of the Company, provides guarantees to financial institutions for extending loans to customers of HCC. As of March 31, 2003, the undiscounted maximum potential future payments under such guarantees amounted to JPY 590,028 million of which JPY 139,878 million is covered by consumer credit insurance. The Company has accrued JPY 1,751 million as an obligation to stand ready to perform over the term of the guarantees.

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

The outstanding balance of the revolving lines of credits, credit facilities and a loan commitment as of March 31, 2003 is as follows:

|                            | Yen (millions) |
|----------------------------|----------------|
| Total commitment available | 664,634        |
| Amount utilized            | (1,897)        |
|                            | -----          |
| Balance available          | 662,737        |
|                            | =====          |

A portion of the revolving lines of credit which are pending credit approval cannot be utilized.

The Company and certain of its subsidiaries hold line of credit arrangements with banks in order to secure source of working capital. The unused line of credit as of March 31, 2003 amounted to JPY 147,042 million.

As of March 31, 2003, outstanding commitments for the purchase of property, plant and equipment were approximately JPY 30,214 million.

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## Notes to Consolidated Financial Statements

The Company and its subsidiaries generally warrant its products over respective warranty periods. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. Change in accrued product warranty cost for the year ended March 31, 2003 is as follows:

|                              | Yen (millions) |
|------------------------------|----------------|
|                              | -----          |
|                              | 2003           |
|                              | ----           |
| Balance at beginning of year | 98,865         |
| Addition                     | 26,740         |
| Utilization                  | (20,987)       |
| Other                        | 679            |
|                              | -----          |
| Balance at end of year       | 105,297        |
|                              | =====          |

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

As of March 31, 2003 and 2002, the companies were contingently liable for trade notes discounted and endorsed in the following amounts:

|                  | Yen (millions) |        |
|------------------|----------------|--------|
|                  | 2003           | 2002   |
|                  | ----           | ----   |
| Notes discounted | 3,639          | 3,452  |
| Notes endorsed   | 24,924         | 33,062 |
|                  | -----          | -----  |
|                  | 28,563         | 36,514 |
|                  | =====          | =====  |

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

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### (16) Impairment losses for long-lived assets

Under the provision of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" the Company and certain subsidiaries recognized impairment losses for the year ended March 31, 2003 in the amount of JPY 8,474 million. The majority of the impairment losses were recorded by the Company's Device Development Center, which provides

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semiconductor product development and design services. The significant decline in the demand for such development resulted from the Company's realignment of the semiconductor operations.

The impairment losses were measured as the amount by which the carrying amount of the assets exceeded their fair values. In calculating those fair values, the Company and certain subsidiaries used present value techniques based on the estimated future cash flows expected to result from the use of the assets and their eventual disposition.

Under the provision of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," certain subsidiaries recognized impairment losses for the year ended March 31, 2002 in the amount of JPY 46,115 million. Impairment losses resulted due mainly to the significant decline in demand and prices of semiconductor products.

### (17) Restructuring charges

Certain losses incurred in the reorganization of the Company's operations are considered as restructuring charges. Components and related amounts of the restructuring charges, before the related tax effects, for the years ended March 31, 2003, 2002 and 2001 are as follows:

|  | Yen (millions) |         |       |
|--|----------------|---------|-------|
|  | 2003           | 2002    | 2001  |
| Special termination benefits   | -              | 185,105 | 5,277 |
| Loss on fixed assets   | -              | 51,316  | 91    |
| Loss on disposal of inventories  | -              | 19,451  |       |
| Lease termination and business partner compensation  | -              | 11,487  |       |
| Cost incurred in association with employee termination including retraining and outplacement | -              | 7,404   |       |
| Others   | -              | 13,333  | 2,627 |
| Total restructuring charges  | -              | 288,096 | 8,812 |

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For the year ended March 31, 2002, the Company and certain subsidiaries incurred restructuring charges in the amount of JPY 288,096 million. The restructure resulted from the Company's corporate strategy to realign its organization to cope with the weak global demand for IT related products, intense price competition and continuous economic slow down in Japan. The restructuring charges by major division are as follows:

Yen (millions)

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|  | IT Systems | Electronic Devices | Digital Media & Consumer Products | High Functional Materials & Components |
|--|------------|--------------------|-----------------------------------|--|
|  | -----      | -----              | -----                             | -----                                  |
| Special termination benefits   | 45,294     | 46,301             | 21,510                            | 11,613                                 |
| Loss on fixed assets   | 2,220      | 25,695             | 7,485                             | 10,321                                 |
| Loss on disposal of inventories  | 14,548     | 1,902              | 1,410                             | 275                                    |
| Lease termination and business partner compensation  | 877        | 3,061              | 5,486                             | 276                                    |
| Cost incurred in association with employee termination including retraining and outplacement | 678        | 2,210              | 2,318                             | 894                                    |
| Others   | 173        | 3,549              | 1,036                             | 2,314                                  |
|  | -----      | -----              | -----                             | -----                                  |
| Total restructuring charges  | 63,790     | 82,718             | 39,245                            | 25,693                                 |
|  | =====      | =====              | =====                             | =====                                  |

The Company provided special termination benefits to those employees voluntarily leaving the Company. The accrued special termination benefits were recognized at the time voluntary termination was offered and benefits accepted by the employees. An analysis of the accrued special termination benefits for the years ended March 31, 2003, 2002 and 2001 is as follows:

|  | Yen (millions) |          |
|--|----------------|----------|
|  | 2003           | 2002     |
|  | ----           | ----     |
| Balance at beginning of the year       | 114,266        | 2,371    |
| New charges                            | -              | 185,105  |
| (employees to be terminated)           | -              | 22,422   |
| Cash payments                          | (114,213)      | (73,252) |
| (employees actually terminated)        | 10,077         | 12,681   |
| Foreign currency exchange rate changes | (53)           | 42       |
|  | -----          | -----    |
| Balance at end of the year             | -              | 114,266  |
|  | =====          | =====    |

Restructuring charges related to lease termination and business partner compensation, cost incurred in association with employee termination including retraining and outplacement, and others have been accrued as liabilities. Majority of the liabilities were paid by March 2002. In addition to the liabilities above, special termination benefits have been accrued as liability and were substantially paid by March 2003.

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The following represent significant restructuring activities by business line:

1. Information & Telecommunication Systems ("IT Systems") division restructured its telecommunications business in North America. The exit strategy called for a complete exit except for the after-service business by March 2002. The decision culminated as the result of bankruptcy filing by its major customer and required liquidation of all financial assets and obligations of the business. As a result, the Company and certain subsidiaries disposed inventories and fixed assets. The charges in connection with such restructuring amounted to JPY 23,369 million, including accrual of JPY 9,342 million mainly for special termination benefits. The liabilities recognized were paid by March 2003.
2. Electronic Devices division decided to shut down several cathode ray tube monitor-manufacturing plants and production lines in Japan, Singapore and Malaysia, and direct view color televisions product lines in North America. This decision was due to intense competition and general overcapacity in the market. The exit plan called for a complete exit from the business by the end of April 2002 and involved the Company and certain subsidiaries disposing inventories and fixed assets. The charges in connection with such restructuring amounted to JPY 30,412 million, and the amount of JPY 13,921 million for special termination benefits and JPY 4,851 million mainly for cancellation penalties were accrued. The liabilities for special termination benefits were paid by March 2003 and the remaining liabilities were substantially paid by March 2002.

Semiconductor facilities and production lines were reorganized in Japan in response to a sharp decline in semiconductor product prices and general overcapacity in the market. This stagnation was as the result of decline in demand for semiconductor products used in PCs and mobile communications equipment. The reorganization plan included moving front-end production operations to newer lines to maximize efficiency and back-end production bases were consolidated to fewer numbers of bases. The associated restructuring charges amounted to JPY 45,510 million, including accrual of JPY 37,156 million. The liabilities for special termination benefits in the amount of JPY 28,479 million were paid out by March 2003, and the liabilities in the amount of JPY 8,677 million incurred mainly for removal costs were substantially paid by March 2002.

3. Digital Media & Consumer Products division restructured its television manufacturing plants and related distribution network in order to address the general weakness in consumer demand for consumer products. This restructuring was in response to the slow down of the global economy and general decline in the color television prices. In order to strengthen the global competitiveness, the Company decided to consolidate its manufacturing operation and streamlining the sales channels. As part of the restructuring effort within Asia, the Company decided to transfer color television product management, R&D and manufacturing capabilities, and vacuum cleaner production from Singapore to certain subsidiaries in China, Indonesia and Thailand. One of the Company's UK sales and manufacturing subsidiary was liquidated in February 2002 in an effort to reorganize the European sales channel. The Company disposed of inventories and fixed assets in the process of implementing its restructuring measures. The charges in connection with such restructuring amounted to JPY 9,581 million. The liabilities for special termination benefits in the amount of JPY 3,634 million were paid by March 2002, and the liabilities for lease

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termination and others amounted to JPY 2,719 million were almost paid by March 2002.

4. In High Functional Materials & Components division, the mobile telephone parts business was restructured as the result of weak demand for information technology related parts and supplies. Restructuring measures taken included streamlining of the production lines in Japan, and shutting down of manufacturing plants in Malaysia and Japan. The charges in connection with such restructuring amounted to JPY 23,474 million, and the JPY 11,940 million were accrued mainly for special termination benefits. The liabilities were paid by March 2003.
5. Restructuring charge of JPY 76,650 million of which JPY 60,387 million represented special termination benefits were incurred in the other remaining businesses of the Company.

### (18) Other Income and Other Deductions

"Other deductions" for the year ended March 31, 2003, the Company and certain subsidiaries recorded a net periodic benefit cost of JPY 24,857 million which were generated as the result of adopting EITF Issue No. 03-2 "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" as shown in note 10.

"Other deductions" for the years ended March 31, 2003 and 2002 and "Other income" for the year ended March 31, 2001 includes the net loss on securities in the amount of JPY 660 million and JPY 80,938 million and the net gain on securities in the amount of JPY 9,334 million, respectively. In addition, JPY 15,651 million of gross realized gains on contributions of available-for-sale securities to pension fund trusts is included in "Other income" for the year ended March 31, 2001. Equity in earnings of affiliated companies included in "Other deductions" for the years ended March 31, 2003 and 2002 and "Other income" for the year ended March 31, 2001 is a loss of JPY 15,803 million, JPY 35,756 million and a gain of JPY 2,559 million, respectively.

For the year ended March 31, 2003 net gain on sale and disposal of rental assets and other property, classified as "Other income," amounted to JPY 23,658 million while net loss on sale and disposal of rental assets and other property of JPY 15,150 million and JPY 7,776 million were included in "Other deductions" for the years ended March 31, 2002 and 2001, respectively.

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### Notes to Consolidated Financial Statements

### (19) Net Income (Loss) Per Share Information

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

Number of shares  
-----

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|  | 2003<br>----           | 2002<br>----           | 2001<br>----       |
|--|------------------------|------------------------|--------------------|
| Weighted average number of shares on which basic net income (loss) per share is calculated | 3,351,624,705          | 3,337,850,007          | 3,337,926          |
| Effect of dilutive securities:   |                        |                        |                    |
| 5th series convertible debentures  | -                      | -                      | 28,442             |
| 6th series convertible debentures  | -                      | -                      | 49,502             |
| 7th series convertible debentures  | -                      | -                      | 128,944            |
|  | -----                  | -----                  | -----              |
| Number of shares on which diluted net income (loss) per share is calculated                | 3,351,624,705<br>===== | 3,337,850,007<br>===== | 3,544,816<br>===== |

|  | Yen (millions)  |                    |              |
|--|-----------------|--------------------|--------------|
|  | 2003<br>----    | 2002<br>----       | 2001<br>---- |
| Net income (loss) applicable to common stockholders                          | 27,867          | (483,837)          | 104          |
| Effect of dilutive securities:   |                 |                    |              |
| 5th series convertible debentures  | -               | -                  |              |
| 6th series convertible debentures  | -               | -                  |              |
| 7th series convertible debentures  | -               | -                  | 2            |
| Other  | (402)           | -                  |              |
|  | -----           | -----              | -----        |
| Net income (loss) on which diluted net income (loss) per share is calculated | 27,465<br>===== | (483,837)<br>===== | 107<br>===== |

|                              | Yen          |              |              |
|------------------------------|--------------|--------------|--------------|
|                              | 2003<br>---- | 2002<br>---- | 2001<br>---- |
| Net income (loss) per share: |              |              |              |
| Basic                        | 8.31         | (144.95)     | 3            |
| Diluted                      | 8.19         | (144.95)     | 3            |

The net loss per share computation for the year ended March 31, 2002 excludes all series convertible debentures because their effect would have been antidilutive. The net income per share computation for the year ended March 31, 2003 excludes 6th and 7th series convertible debentures because their effect would have been antidilutive. In addition, 5th series convertible debentures were redeemed in March 2002.

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(20) Supplementary Income Information

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|   | Yen (millions) |         |         |
|---|----------------|---------|---------|
|   | 2003           | 2002    | 2001    |
|   | ----           | ----    | ----    |
| Taxes other than income taxes consist of the following:             |                |         |         |
| Property  | 45,318         | 43,396  | 43,825  |
| Welfare   | 203,196        | 202,369 | 198,447 |
| Other   | 12,277         | 15,596  | 15,828  |
|   | -----          | -----   | -----   |
|   | 260,791        | 261,361 | 258,100 |
|   | =====          | =====   | =====   |
| Maintenance and repairs   | 83,660         | 89,786  | 106,542 |
| Research and development expense                                    | 377,154        | 415,448 | 435,579 |
| Provision for retirement and severance benefits and pension expense | 224,681        | 195,820 | 152,943 |
| Advertising expense   | 52,165         | 55,075  | 50,940  |
| Rent  | 156,552        | 155,237 | 148,463 |
| Exchange (gain) loss  | 18,262         | (7,424) | 11,307  |

(21) Supplementary Cash Flows Information

|                                | Yen (millions) |         |         |
|--------------------------------|----------------|---------|---------|
|                                | 2003           | 2002    | 2001    |
|                                | ----           | ----    | ----    |
| Cash paid during the year for: |                |         |         |
| Interest                       | 35,932         | 52,881  | 50,073  |
| Income taxes                   | 94,013         | 159,132 | 126,019 |

Convertible debentures issued by the Company of JPY 556 million in 2002 and JPY 32 million in 2001 were converted into common stock. Convertible debentures issued by subsidiaries of JPY 4,728 million in 2003, JPY 579 million in 2002 and JPY 2,305 million in 2001 were converted into subsidiaries' common stock. Capital lease assets of JPY 4,050 million in 2003, JPY 3,874 million in 2002 and JPY 4,672 million in 2001 were capitalized.

During the years ended March 31, 2003 and 2001, the Company acquired and integrated some of its subsidiaries and affiliates through exchange of equity securities procedure as shown in note 25.

The proceeds from sale of securities classified as available-for-sale discussed in note 2 are included in both "(Increase) decrease in short-term investments" and "Proceeds from sale of investments and subsidiaries' common stock" on the consolidated statements of cash flows.

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### (22) Derivative Instruments and Hedging Activities

#### Overall risk profile

The major manufacturing bases of the Company and its subsidiaries are located in Japan and Asia. The selling bases are located globally, and the Company and its subsidiaries generate approximate 30% of their sales from overseas. These sales are mainly denominated in U.S. dollar or Euro. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rate.

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

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

#### Risk management policy

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

#### Foreign currency exchange rate risk management

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

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

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

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#### Interest rate risk management

The Company's and its subsidiaries' exposure to interest rate risk is



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related principally to long-term debt obligations. These debt obligations expose the Company and its subsidiaries to variability in the future cash outflow of interest payments due to changes in interest rates. Management believes it is prudent to minimize the variability caused by interest rate risk.

To meet this objective, the Company and its subsidiaries principally enter into interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk. The interest rate swaps principally change the variable-rate cash flows on debt obligations to fixed-rate cash flows principally associated with medium-term notes by entering into receive-variable, payfixed interest rate swaps. Under the interest rate swaps, the Company and its subsidiaries receive variable interest rate payments and make fixed interest rate payments, thereby creating fixed-rate long-term debt. The hedging relationship between the interest rate swaps and its hedged item is highly effective in achieving offsetting changes in cash flows resulting from interest rate risk.

### Fair value hedge

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

The sum of the amount of the hedging ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003, 2002 and 2001, respectively.

### Cash flow hedge

#### Foreign Currency Exposure

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

The sum of the amount of the hedging ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003, 2002 and 2001.

It is expected that approximately gains of JPY 130 million of AOCI relating to existing forward exchange contracts will be reclassified into other income and other deductions during the year ending March 31, 2004.

As of March 31, 2003, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to the variability in future cash flows associated with foreign currency forecasted transactions is approximately 12 months.

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### Interest Rate Exposure

Changes in fair values of interest rate swaps designated as hedging

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

Interest charges for the years ended March 31, 2003, 2002 and 2001 includes losses of JPY 497 million, gains of JPY 667 million and losses of JPY 1,357 million, respectively, which represents the component excluded from the assessment of hedge effectiveness.

During the year ending March 31, 2004, approximately losses of JPY 476 million of AOCI related to the interest rate swaps are expected to be reclassified into interest charges as a yield adjustment of the hedged debt obligations.

The contract or notional amounts of derivative financial instruments held as of March 31, 2003 and 2002 are summarized as follows:

|                                 | Yen (millions) |         |
|---------------------------------|----------------|---------|
|                                 | 2003           | 2002    |
|                                 | ----           | ----    |
| Forward exchange contracts:     |                |         |
| To sell foreign currencies      | 187,093        | 105,054 |
| To buy foreign currencies       | 27,584         | 15,489  |
| Cross currency swap agreements: |                |         |
| To sell foreign currencies      | 51,789         | 71,798  |
| To buy foreign currencies       | 128,717        | 170,802 |
| Interest rate swaps             | 484,961        | 606,847 |

### (23) Concentrations of Credit Risk

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

### (24) Fair Value of Financial Instruments

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

#### Investment in securities

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

#### Long-term debt

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

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

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

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### Derivative financial instruments

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

The carrying amounts and estimated fair values of the financial instruments as of March 31, 2003 and 2002 are as follows:

|                                | Yen (millions)      |                          |                     |          |
|--------------------------------|---------------------|--------------------------|---------------------|----------|
|                                | 2003                |                          | 2002                |          |
|                                | Carrying<br>amounts | Estimated<br>fair values | Carrying<br>amounts | E<br>fai |
| Investment in securities:      |                     |                          |                     |          |
| Short-term investments         | 186,972             | 186,972                  | 178,933             |          |
| Investments and advances       | 299,143             | 299,138                  | 446,148             |          |
| Derivatives (Assets):          |                     |                          |                     |          |
| Forward exchange contracts     | 668                 | 668                      | 225                 |          |
| Cross currency swap agreements | 279                 | 279                      | 3,456               |          |
| Interest rate swaps            | 1,921               | 1,921                    | 2,672               |          |
| Long-term debt                 | (2,014,738)         | (2,064,192)              | (2,164,386)         | (2       |
| Derivatives (Liabilities):     |                     |                          |                     |          |
| Forward exchange contracts     | (1,333)             | (1,333)                  | (3,128)             |          |
| Cross currency swap agreements | (3,045)             | (3,045)                  | (7,778)             |          |
| Interest rate swaps            | (3,853)             | (3,853)                  | (3,021)             |          |

It is not practicable to estimate the fair value of investments in unlisted common stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amounts of these investments at March 31, 2003 and 2002 totaled JPY 75,860 million and JPY 73,639 million, respectively.

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### (25) Merger and Acquisition

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

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

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

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

The results of operations of UJ for the period from October 1, 2002 to March 31, 2003 are included in the accompanying consolidated statements of income. On a pro forma basis, revenue, net income and the per share information of the Company, with assumed acquisition dates for UJ of April 1, 2002 and 2001, respectively, would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the years ended March 31, 2003 and 2002.

On December 31, 2002, the Company purchased a majority ownership in a company to which hard disk drive operations and related intellectual property portfolio had been transferred from International Business Machines Corp. (IBM) for a total cash purchase price, subject to adjustment, of JPY 243,480 million. This purchase price adjustment may reduce the purchase price and the amount of goodwill recorded upon acquisition. The purchase price is payable in three installments, of which the first installment payment was paid on December 31, 2002 with the remaining payments due in December 2003 and 2005.

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

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

The effects of this purchase as of December 31, 2002 are as follows:

Yen (millions)  
-----

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|                         |           |
|-------------------------|-----------|
| Current assets          | 106,357   |
| Non-current assets      | 184,326   |
| Goodwill                | 13,653    |
| Current liabilities     | (24,737)  |
| Non-current liabilities | (32,159)  |
| Net assets acquired     | (247,440) |

The purchase price upon closing is as follows:

|  | Yen (millions) |
|--|----------------|
|  | -----          |
| Cash paid to IBM as of December 31, 2002 | 169,680        |
| Cash to be paid to IBM                   | 73,800         |
| Direct acquisition costs                 | 3,960          |
|  | -----          |
| Total purchase price                     | 247,440        |
|  | =====          |

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

The results of operations of the acquired company on December 31, 2002 are included in the accompanying consolidated statements of income. On a pro forma basis, revenue, net loss and the per share information of the Company, with assumed acquisition dates of April 1, 2002 and 2001, respectively, are as follows:

|          | Yen (millions) |           |
|----------|----------------|-----------|
|          | -----          | -----     |
|          | 2003           | 2002      |
|          | ----           | ----      |
| Revenue  | 8,541,202      | 8,480,778 |
| Net loss | (149,891)      | (529,055) |

  

|                  | Yen     |          |
|------------------|---------|----------|
|                  | -----   | -----    |
|                  | 2003    | 2002     |
|                  | ----    | ----     |
| Basic net loss   | (44.72) | (158.50) |
| Diluted net loss | (44.84) | (158.50) |

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HITACHI, LTD.  
AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

On October 1, 2000, Hitachi Credit Corporation acquired all common stock of Hitachi Leasing, Ltd. in exchange for 13,386,240 shares of Hitachi Credit Corporation's common stock. Prior to this transaction, the ownership of Hitachi Credit Corporation, a core financial service business, and Hitachi Leasing, Ltd., a leasing and other corporate financing service business, were 53.4% and 50.0%, respectively. Consequently, the surviving entity

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changed its name to Hitachi Capital Corporation and became the Company's 53.0% owned subsidiary. The merger was accounted for using the purchase method and the Company consolidated Hitachi Leasing, Ltd. and its subsidiaries as if it had been merged effective April 1, 2000. The excess of purchase price over net assets acquired of the 50% interest in Hitachi Leasing, Ltd. not previously owned by the Company was not material.

The effects of the purchase to the balance sheet as of April 1, 2000 are as follows:

|                               | Yen (millions) |
|-------------------------------|----------------|
|                               | -----          |
| Cash and cash equivalent      | 49,768         |
| Investment in leases          | 736,505        |
| Other assets                  | 73,018         |
| Short-term and long-term debt | (743,985)      |
| Other liabilities             | (90,532)       |

On a pro forma basis, revenue, net income and the per share information of the Company, with the assumed acquisition of April 1, 1999, would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the year ended March 31, 2000.

On October 1, 2000, Kokusai Electric Co., Ltd. merged into Yagi Antenna Co., Ltd. and Hitachi Denshi, Ltd. and changed its name to Hitachi Kokusai Electric Inc. Prior to the merger, Kokusai Electric Co., Ltd. and Yagi Antenna Co., Ltd., manufacturers and distributors of wireless telecommunication equipment, were 26.7% and 40.9% owned affiliates of the Company. Hitachi Denshi Co., Ltd., a manufacturer and distributor of broadcasting and telecommunication equipment, was a 63.7% owned subsidiary of the Company. Kokusai Electric Co., Ltd. issued common stock in exchange for common stock of Yagi Antenna Co., Ltd. and Hitachi Denshi, Ltd. As a result, Hitachi Kokusai Electric Inc. became a 37.4% owned affiliate of the Company and is accounted for using the equity method. Total assets and net assets of Hitachi Denshi, Ltd. and its subsidiaries as of September 30, 2000 amounted to approximately JPY 56,959 million and JPY 23,237 million, respectively.

On October 31, 2000, Hitachi Consulting Corporation (former Experio Solutions Corporation (Experio)), a wholly owned subsidiary of the Company, acquired the e-business consulting department of Grant Thornton LLP for JPY 15,674 million in cash. In addition, Experio issued its common stock valued at JPY 1,601 million to the department partners in lieu of a cash payment, and accordingly became a 91.4% owned subsidiary of the Company. The acquisition was recorded under the purchase method and the results of operations of the acquired e-business consulting have been included in the consolidated financial statements since the date of acquisition. This transaction resulted in an excess of purchase price over net assets acquired of JPY 15,895 million, which was amortized on the straight-line method over 10 years. The amortization has been terminated effective April 1, 2002, with the implementation of SFAS No. 142, "Goodwill and Other Intangible Assets."

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HITACHI, LTD.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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The allocation of acquisition costs to the assets and liabilities acquired is as follows:

|  | Yen (millions) |
|--|----------------|
| Assets acquired                            | 2,009          |
| Goodwill                                   | 15,895         |
| Liabilities assumed                        | (263)          |
| Common stock issued to department partners | (1,601)        |
| Direct acquisition costs                   | (366)          |
| Cash paid to Grant Thornton                | (15,674)       |

On a pro forma basis, revenue, net income and the per share information of the Company with the assumed acquisition of April 1, 2000 and 1999 would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the years ended March 31, 2001 and 2000.

### (26) Stock Option Plans

The Company has two stock option plans under which non-employee directors and certain employees have been granted stock options to purchase the Company's common stock. Under these stock option plans, options were granted at prices not less than market value at the date of grant, are exercisable from one year after the date of grant and expire 5 years after the date of grant. Under APB No. 25, the Company recognized no compensation expense related to employee stock options for the years ended March 31, 2003, 2002 and 2001 as no options were granted at a price below the market price on the day of the grant.

A summary of stock option plans activity for the years ended March 31, 2003, 2002 and 2001 is as follows:

|   | 2003                         |   | 2002                         |  |
|---|------------------------------|---|------------------------------|--|
|   | Stock<br>options<br>(shares) | Weighted-<br>average<br>exercised<br>price<br>(yen) | Stock<br>options<br>(shares) | Weight<br>avera<br>exerci<br>pric<br>(yen) |
|   | -----                        | -----   | -----                        | -----                                      |
| Outstanding at beginning of year            | 1,437,000                    | 1,314   | 527,000                      | 1,4  |
| Granted                                     | -                            | -   | 1,090,000                    | 1,2  |
| Forfeited                                   | (272,000)                    | 1,311   | (180,000)                    | 1,4  |
|   | -----                        | -----   | -----                        | -----                                      |
| Outstanding at end of year                  | 1,165,000                    | 1,314   | 1,437,000                    | 1,3  |
|   | =====                        | =====   | =====                        | =====                                      |
| Weighted-average remaining contractual life |                              | 3.1 years   |                              | 4.1 year                                   |
| Options exercisable at end of year          |                              | 1,165,000 shares                                    |                              | 347,000 shar                               |

The exercise prices of the stock options outstanding as of March 31, 2003 are JPY 1,451 and JPY 1,270.

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## HITACHI, LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

In addition, in April 2003, the Board of Directors decided to propose the adoption of stock option plans for non-employee directors, executive officers and certain employees to general shareholders' meeting to be held in June 2003. In accordance with the proposals, options to purchase the Company's common stock less than 1,500,000 shares were granted at prices not less than market value at the date of grant, are exercisable from one year after the date of grant and expire 4 years after the date of grant.

#### (27) Subsequent Events

On April 1, 2003, Renesas Technology Corp., which focuses on system LSI (Large Scale Integration) operation, was incorporated through a corporate split procedure, where Semiconductor & Integrated Circuits operations of the Company and Mitsubishi Electric Corporation were spun-off. Renesas Technology Corp. was capitalized with JPY 50,000 million through the issuance of 5,000,000 shares of common stock. The Company and Mitsubishi Electric Corporation received 2,750,000 shares and 2,250,000 shares, respectively. Renesas Technology Corp. is to be accounted for under the equity method by the Company as major decisions require consensus between the Company and Mitsubishi Electric Corporation in accordance with the joint venture agreement and assets and liabilities of the operations will be excluded from the consolidated balance sheet. Total assets and net assets of the operations as of April 1, 2003 amounted to approximately JPY 596,118 million and JPY 147,443 million, respectively.

On April 28, 2003, the Company decided to issue up to JPY 300,000 million of straight bonds by May 2005. On May 27, 2003, the Company issued JPY 80,000 million of straight bonds with a 0.72% interest rate. These bonds, which are unsecured with interest payable semi-annually, are due May 27, 2013.

As indicated in note 13, at the ordinary general shareholders' meeting on June 26, 2002, the Company was approved to acquire up to 300,000,000 shares of its common stock for an aggregate acquisition price not exceeding JPY 300,000 million as treasury stock pursuant to the Japanese Commercial Code. On April 28, 2003, the Company announced that it would acquire up to 80,000,000 shares of its common stock for an aggregate acquisition price not exceeding JPY 30,000 million. The share purchase is specifically limited to shares traded during the period from May 1 through May 30, 2003 on the Tokyo Stock Exchange. The Company acquired a total of 66,338,000 shares for JPY 29,934 million during this period.

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Schedule II  
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## HITACHI, LTD. AND SUBSIDIARIES

### Reserves

Years ended March 31, 2003, 2002 and 2001



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(In millions of yen)

|   | Balance at<br>beginning<br>of period<br>----- | Charged<br>to<br>income<br>----- | Net decrease<br>in unearned<br>income<br>----- | Bad debts<br>written<br>off<br>----- | Balance<br>at end<br>of period<br>----- |
|---|---|----------------------------------|--|--------------------------------------|---|
| Year ended March 31, 2003:                |   |                                  |  |                                      |   |
| Allowance for doubtful<br>receivables     | 34,884  | 9,656                            | --   | (4,772)                              | 39,768                                  |
| Unearned income-<br>installment financing | 1,007   | --                               | (255)  | --                                   | 752                                     |
|   | -----   | -----                            | -----  | -----                                | -----                                   |
|   | 35,891  | 9,656                            | (255)  | (4,772)                              | 40,520                                  |
|   | =====   | =====                            | =====  | =====                                | =====                                   |
| Year ended March 31, 2002:                |   |                                  |  |                                      |   |
| Allowance for doubtful<br>receivables     | 21,028  | 19,200                           | --   | (5,344)                              | 34,884                                  |
| Unearned income-<br>installment financing | 1,231   | --                               | (224)  | --                                   | 1,007                                   |
|   | -----   | -----                            | -----  | -----                                | -----                                   |
|   | 22,259  | 19,200                           | (224)  | (5,344)                              | 35,891                                  |
|   | =====   | =====                            | =====  | =====                                | =====                                   |
| Year ended March 31, 2001:                |   |                                  |  |                                      |   |
| Allowance for doubtful<br>receivables     | 14,430  | 11,307                           | --   | (4,709)                              | 21,028                                  |
| Unearned income-<br>installment financing | 7,767   | --                               | (6,536)  | --                                   | 1,231                                   |
|   | -----   | -----                            | -----  | -----                                | -----                                   |
|   | 22,197  | 11,307                           | (6,536)  | (4,709)                              | 22,259                                  |
|   | =====   | =====                            | =====  | =====                                | =====                                   |

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Item 18. Financial Statements

Not applicable.

Item 19. Exhibits

- 1.1 Articles of Incorporation of Hitachi, Ltd., as amended (English Translation)
- 1.2 Share Handling Regulations of Hitachi, Ltd., as amended (English Translation)
- 1.3 Board of Directors Regulations of Hitachi, Ltd. (English Translation)
- 12.1 Certification of Chief Executive Officer or Equivalent Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
- 12.2 Certification of Chief Financial Officer or Equivalent Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934

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

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SIGNATURES

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

Hitachi, Ltd.

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(Registrant)

Date: September 30, 2003

By /s/ Takashi Hatchoji

-----  
Takashi Hatchoji  
Vice President and Executive Officer

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Exhibit Index

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