

Activities of the Consumer Business S t r a t e g y D i v i s i o n

■ The Consumer Business Moving Forward

July 14, 2004 Kazuhiro Tachibana

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President & Chief Executive Officer,
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Hitachi, Ltd.**

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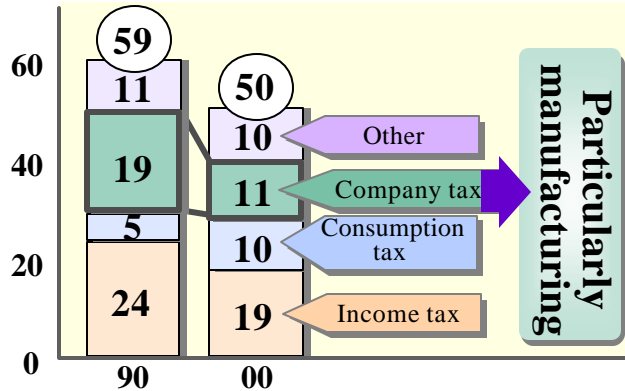


Changes in the Consumer Products Market and New Trends

In 2001

《Tax Revenue: Fiscal 2001》

(Trillion yen/year)



Maturation of basic industries

A post-war economy centered on the 3C businesses

*cars, color TVs and computers

Maturation of 3C businesses

Reasons

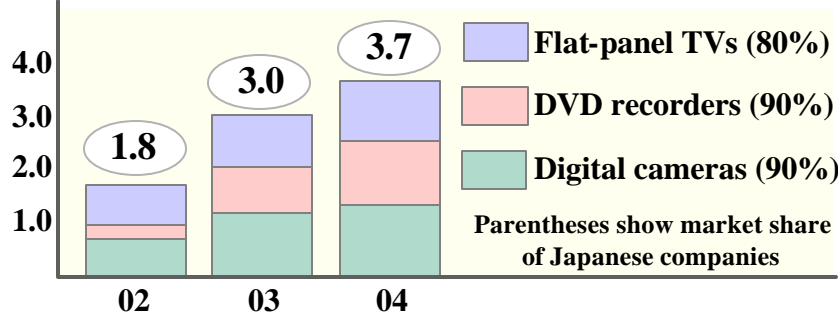
Little technological innovation

e.g. TV: half century; video: quarter century

In 2003: Revival of 3C Businesses Driving Force for Japan's Economy

《Demand for the 3 New Consumer Necessities》

(Trillion yen/year)



New International Production Paradigm

➡ **『Made in Japan』**

•Commodity products

China

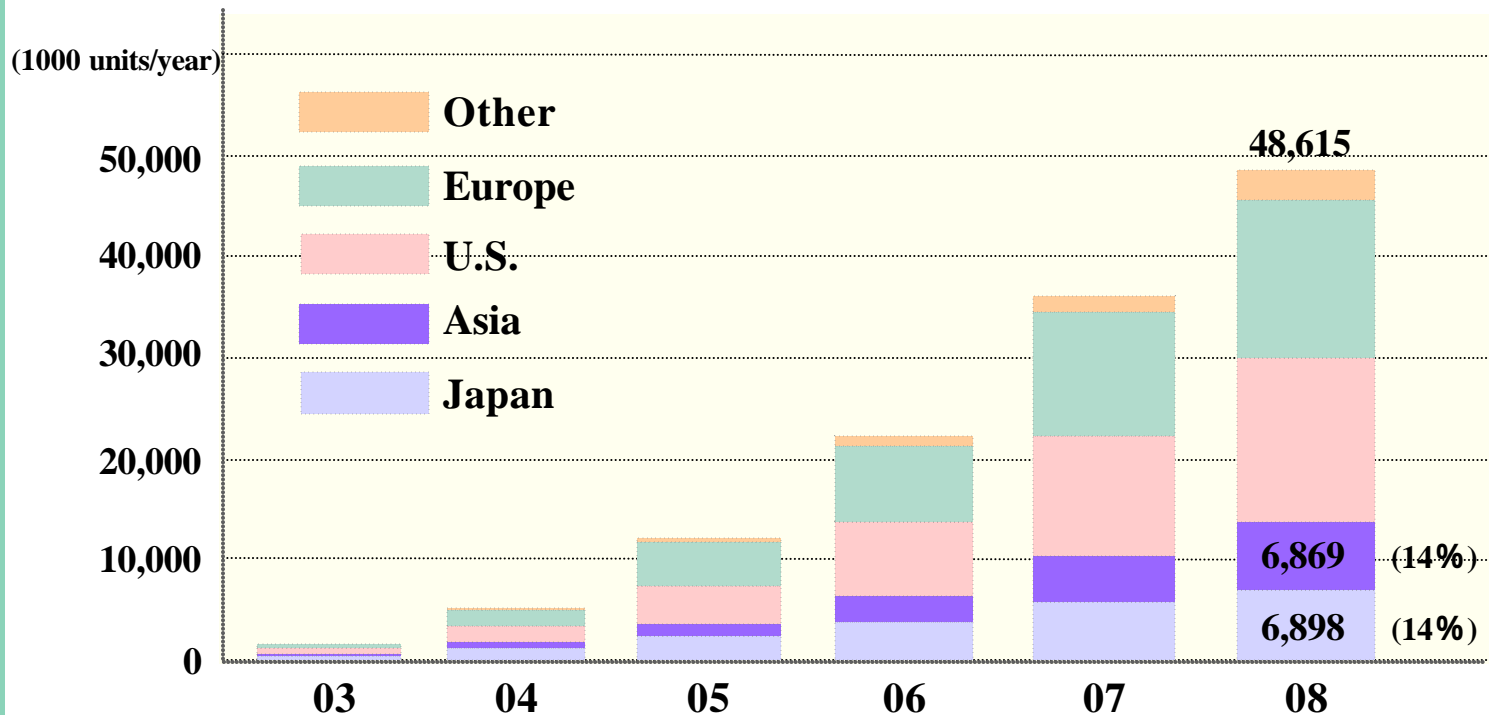
•High-tech products

Japan

World Market: Rapid Growth in China and Elsewhere in Asia

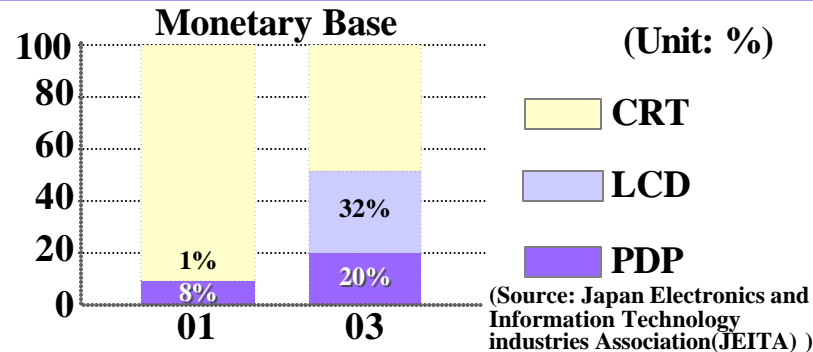
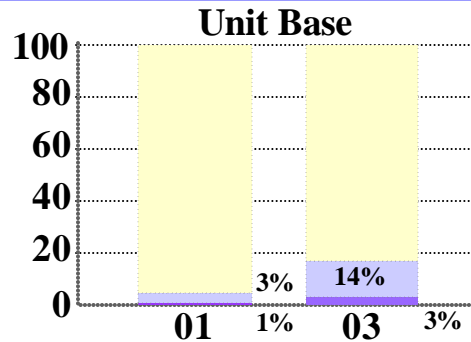
Expansion in Asia vs World

e.g. PDP TVs and large-sized LCD TVs: A market of approx. 14 million units by 2008, 20 times the 2003 level

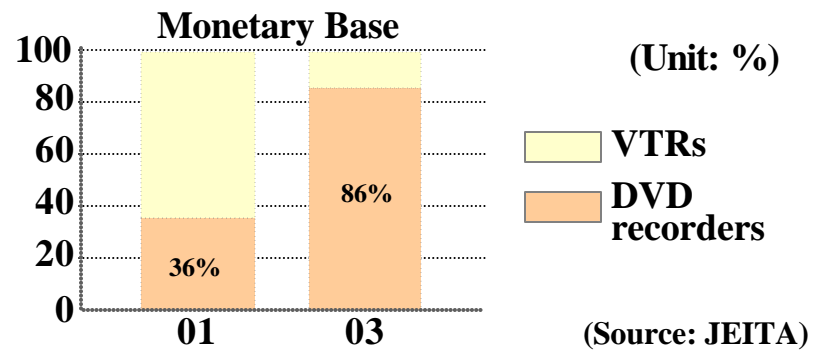
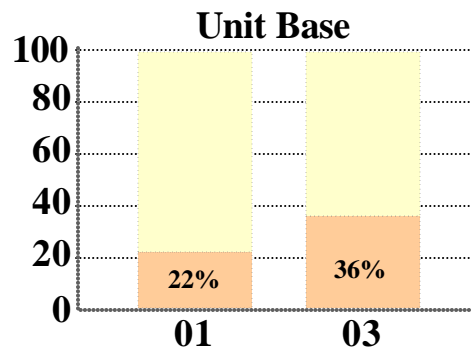


Japanese Market: Advent of the Value-Added Market - Rapid Growth in “Niche and Big” Products

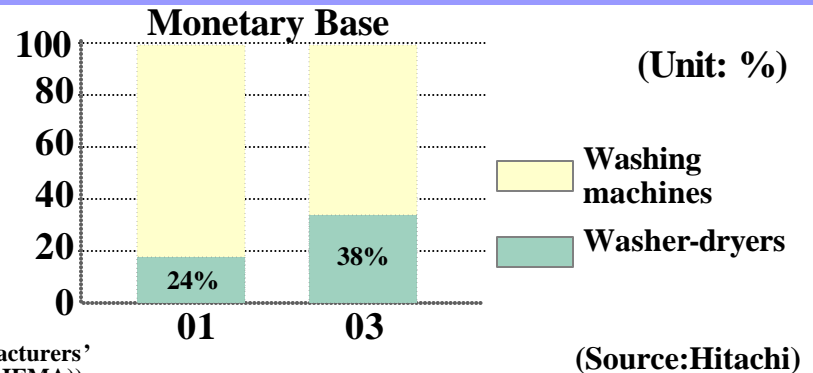
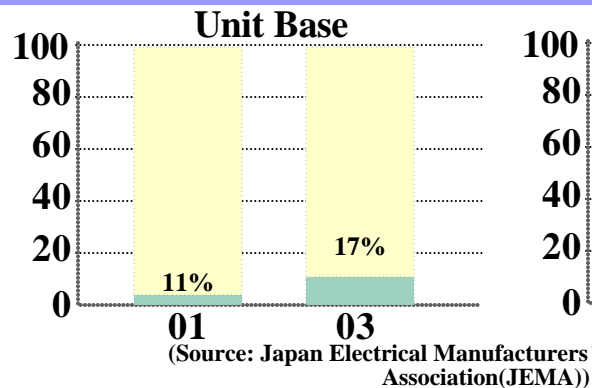
Flat-panel TVs vs. TV market



DVD recorders vs. video market



Washer-dryers vs. washing machine market



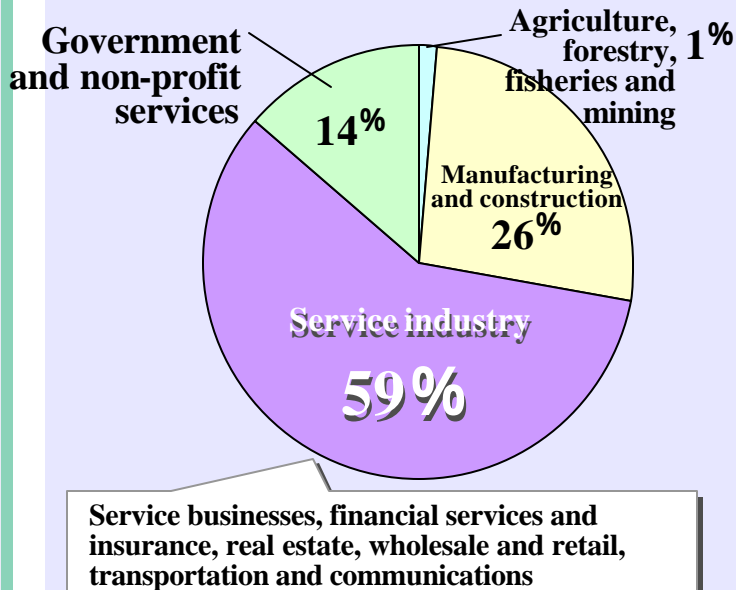
Note: Percentages are for the Japanese market

Growth of Service Businesses ➔ **Rapid rise in demand for IT and greater efficiency in people's lives**
 ➔ **Development of business channels with consumers**

The Size of the Service Industry

- **Size: Approx. ¥300 trillion**
- **Percentage of GDP: Approx. 60%**

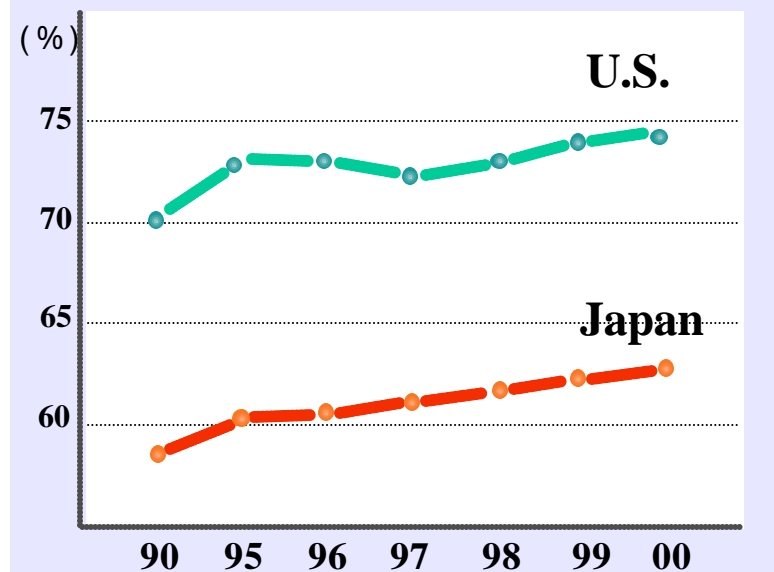
2002 GDP Share of Output by Industry



(Source: System of National Accounts (SNA))

- **Number of people: 43 million**
- **Percentage of Japanese workforce: 63%**

Percentage of Workers in the Service Industry



(Source: System of National Accounts (SNA))



Market Expectations

Market Expectations of Hitachi

- **A clear commitment to the consumer business, establish a market presence**
- **Development of Hitachi-like businesses and products that leverage its strengths**





Market Feedback

“I would like to see Hitachi announce a comprehensive consumer strategy”

“I want Hitachi to come out with technologically advanced products that create new markets as only Hitachi can”

“I expect Hitachi to deliver even higher quality and a stable supply by collaborating with companies in which Hitachi has made strategic investments”

Consumers' Expectations of Hitachi Businesses

 Digital consumer electronics	79.8 %
 Information and telecommunication systems	38.8%
 Household appliances	30.0 %
 Electronic devices	25.5 %

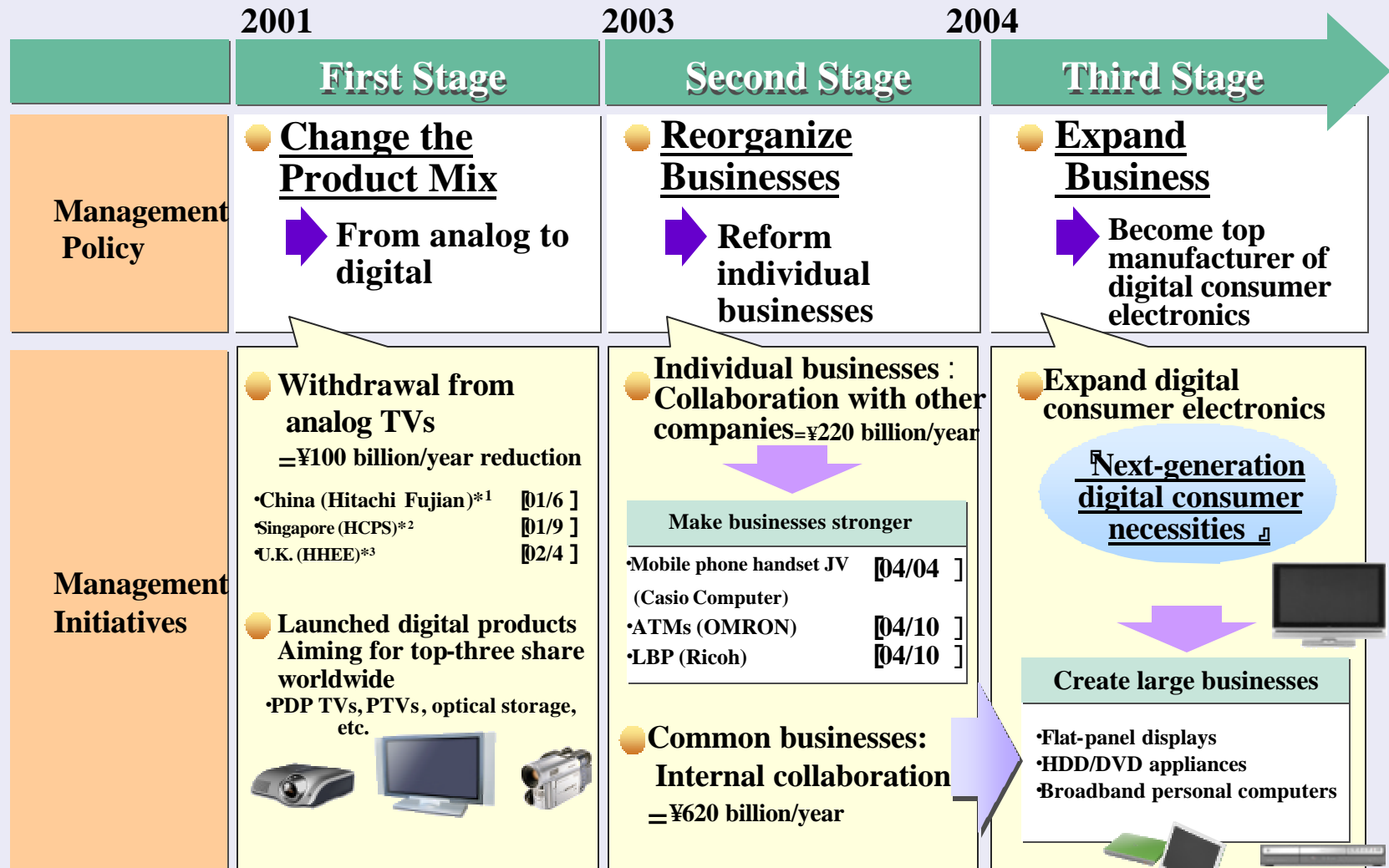
Survey by Itoh Research Office,
Hitotsubashi University



Past Structural Reforms

**Closing the chapter on reforms,
moving from defense to offense**

Ubiquitous Platform Systems Group (UB)- Structural Reforms



*1:Hitachi Fujian Digital Media Company Ltd.

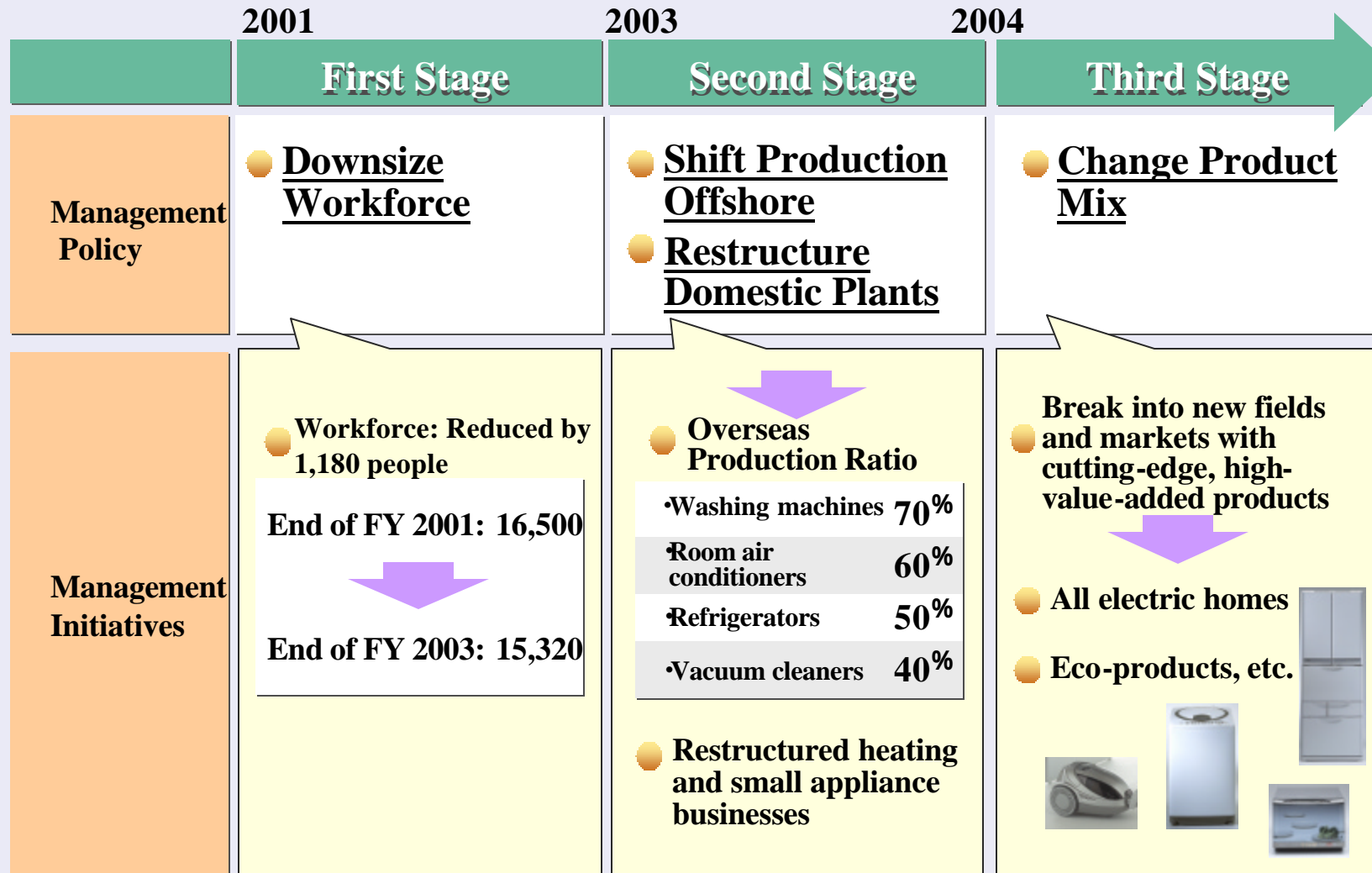
*2:Hitachi Consumer Products (S) Pte. Ltd.

*3:Hitachi Home Electronics (Europe) Ltd.

Hitachi Home & Life Solutions, Inc. (H&L)

- Structural Reforms

HITACHI
Inspire the Next



The Hitachi Group's strategic investees are companies engaged in digital consumer electronics

● **Worldwide Top 3**





Consumer Business Strategy

**Grow the consumer business as a Hitachi Group
targeted business**

Basic Strategy: "Made by HITACHI" Strategy

Sales target

2010: ¥2 trillion

Strategic products

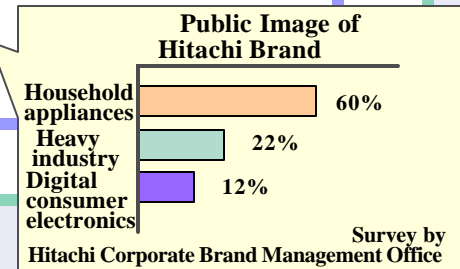
"Niche and Big" products

Development strategy

Break into new fields and markets with cutting-edge, value-added products

Brand strategy

Utilize strong brand equity in major household appliances into success in digital consumer electronics



Establish Consumer Business Group in Hitachi [2004.10.1]

Goals of Integration (1): Integrate Development Strengths of (UB) and Sales Capabilities of (H&L)



Synergies of integrating (UB) and (H&L)

Feature	Products	Sales
(UB)	<ul style="list-style-type: none"> ● <u>Ubiquitous Platform Systems R & D Laboratory</u> ● <u>Embedded software capabilities*1</u> 	<ul style="list-style-type: none"> ● <u>Bases in Europe and the U.S.</u>
(H&L)	<ul style="list-style-type: none"> ● <u>High market share</u> ● <u>Strong brand</u> 	<ul style="list-style-type: none"> ● <u>Domestic (HCM)*2</u> ● <u>3,200 people</u> ● <u>Bases in China and rest of Asia</u>

*1 Embedded software is the source of Japan's international competitiveness
(Japanese market: ¥2 trillion, employs 150,000 people)

*2 Hitachi Consumer Marketing, Inc.

Integration Synergies

- 1.(UB) : Use (H&L)'s domestic and overseas sales network  Expand sales of digital consumer electronics in East Asia economic region
- 2.(H&L) : Leverage (UB)'s R&D system  Give impetus to product transformation
- 3.Brand : Capture synergies from leading image in digital consumer electronics and Hitachi's strong household appliance brand

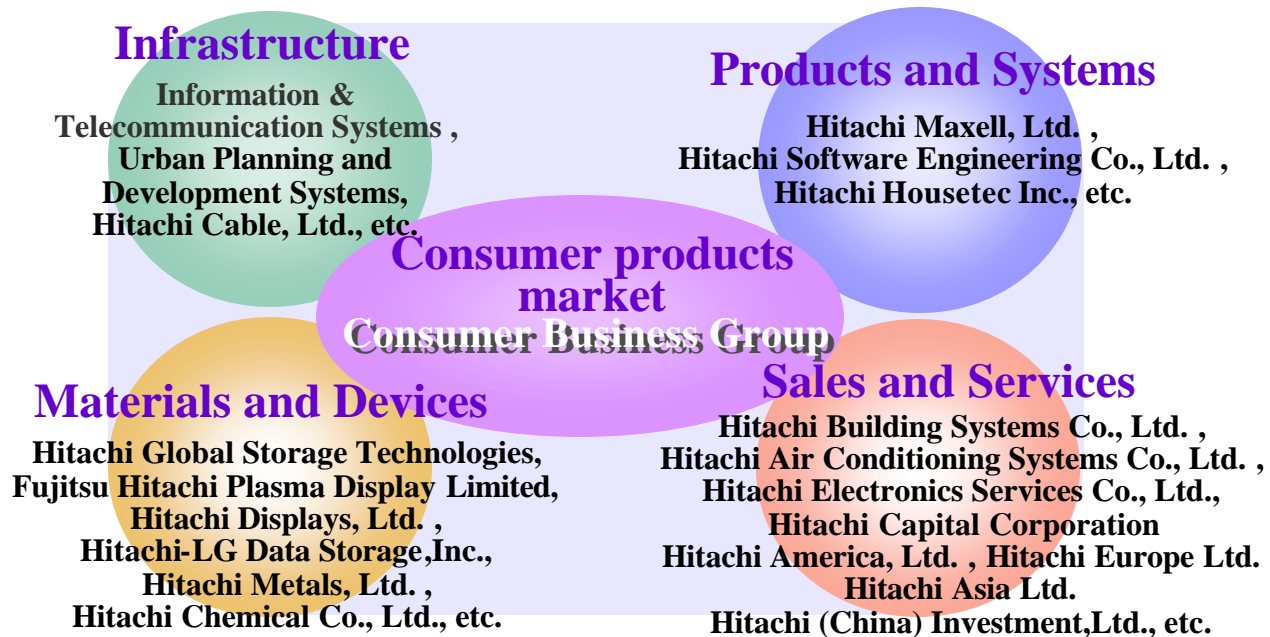
Goals of Integration (2): “Made by HITACHI” Strategy

Synergies between Consumer Business Group and Hitachi Group

Hitachi’s vision of its consumer business

1. Infrastructure innovation
 2. Effective vertical integration of operations with devices
 3. Integrated management of products and sales and services
- ➡ Stimulate new demand with product innovations

Aim: Leverage Hitachi’s collective strengths through collaboration with Hitachi Group Headquarters



Product Strategy

	Emphasis	Key Fields
(UB)	<ul style="list-style-type: none"> ● <u>3 next-generation consumer necessities</u> 	<u>Flat-panel TVs</u> <u>HDD/DVD appliances</u> <u>Broadband personal computers</u>
(H&L)	<ul style="list-style-type: none"> ● <u>Appliances for improving living environments</u> 	<u>All electric homes</u> <u>Eco-products</u> <u>Next-generation devices</u>

(UB) :PDP TVs

(H&L) :Household appliances

All digital consumer electronics

Appliances for improving living environments

Start selling the 3 next-generation consumer necessities

Large, flat-panel TVs



- PDP TVs: Japan and Europe , PTVs: U.S. and China
- 55-inch stadium-size PDP TVs
- PDP TVs with HDDs



3 large networks

Broadcasting network
 IP network
 High-speed wireless network

HDD/DVD appliances

- HDD/DVD recorders
- DVD camcorders



Broadband personal computers

- PCs with digital TV capabilities
- Broadband mobile PCs



Next-generation Appliances for Improving Living Environments

HITACHI
Inspire the Next

Start selling next-generation products for improving living environments



All electric homes

- IH cooking appliances
- Heat pump electric hot water systems



Eco- products

- Non-CFC refrigerators
- New washer-dryer "Beat Wash" which has Beat Wing Pulsator



Next-generation devices

- LCD backlights
- Electro fine forming



Overview

Research &
Development Group

● Digital Appliance Research Center

Structure

- Consolidate laboratory R&D resources for expanding consumer business
- At establishment: 50 people
Fiscal 2006: 100 people

R&D Themes

- High picture quality and image processing technologies
- Content archiving and search technologies
- Home networking technology, etc.

Reasons for Establishment

- Platform development that vertically integrates powerful components (panels, HDDs/optical disks, system LSIs, etc.)
- Apply in (UB)'s large, flat-panel TVs, HDD/DVD appliances and Broadband personal computers as well as cars, mobile handsets, etc.

Organization Overview

Hitachi Group
Headquarters

Consumer
Business Group

Ubiquitous
Platform
Systems

Hitachi H&L

Hitachi Group
Companies

《 New Organizations 》

《 Objectives 》

Strategic Business
Planning Division

- Oversee consumer business
- Establish ties with Hitachi Group companies

Strategic Business
Development Division

- Break into 6 new markets

B2B Sales Division

- Open up new markets in service business

International Sales
Division

- Further develop markets in China and rest of Asia

Develop a consumer business that is the first choice of customers as their “best solutions partner”



**Contribute to achievement of
i.e. HITACHI Plan II**

Nex't MADE IN JAPAN **Expect more from the New Hitachi**