

Hitachi's Global Alliance Strategy and Agile Management

2004/10/26

Hitachi, Ltd
Etsuhiko Shoyama
President and Chief Executive Officer



HITACHI
Inspire the Next
日立



01

Outline of the Hitachi Group

1.1 Hitachi Today

| | |
|----------------------------------|--|
| Revenues | U.S.\$ 82.2 billion |
| Operating Income | U.S.\$ 1.7 billion |
| Total Assets | U.S.\$ 91.3billion |
| No. of Employees | 326,344 |
| No. of Consolidated Subsidiaries | 956 (Japan: 545; Overseas: 411) |
| Stock Exchange Listings | Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Luxemburg, Frankfurt, Amsterdam, Paris, New York |

U.S.\$1=105 Japanese yen

Year ended March 31, 2004

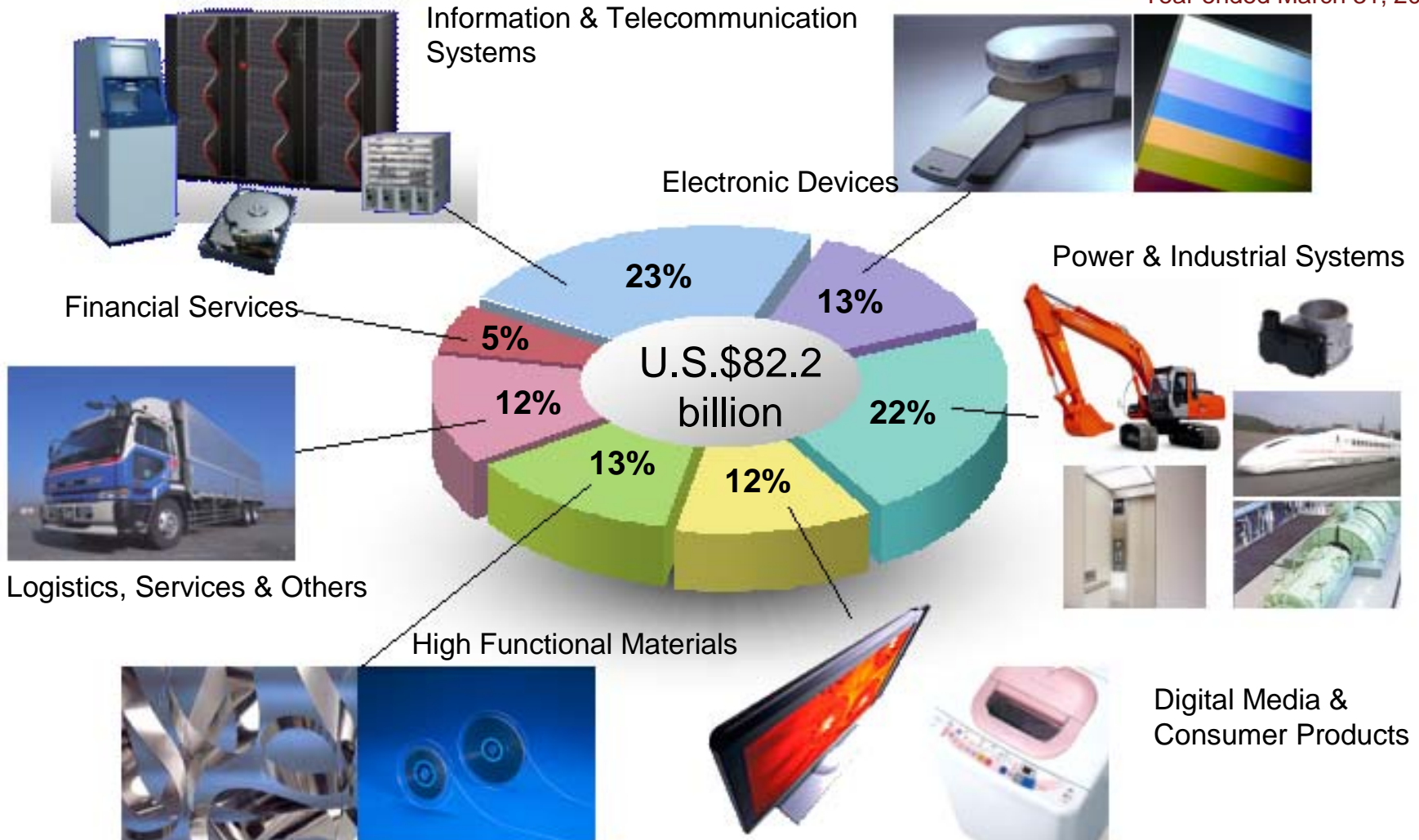
1.2 Hitachi's Place in the Fortune 500

Electronics Company's Rankings (2003)

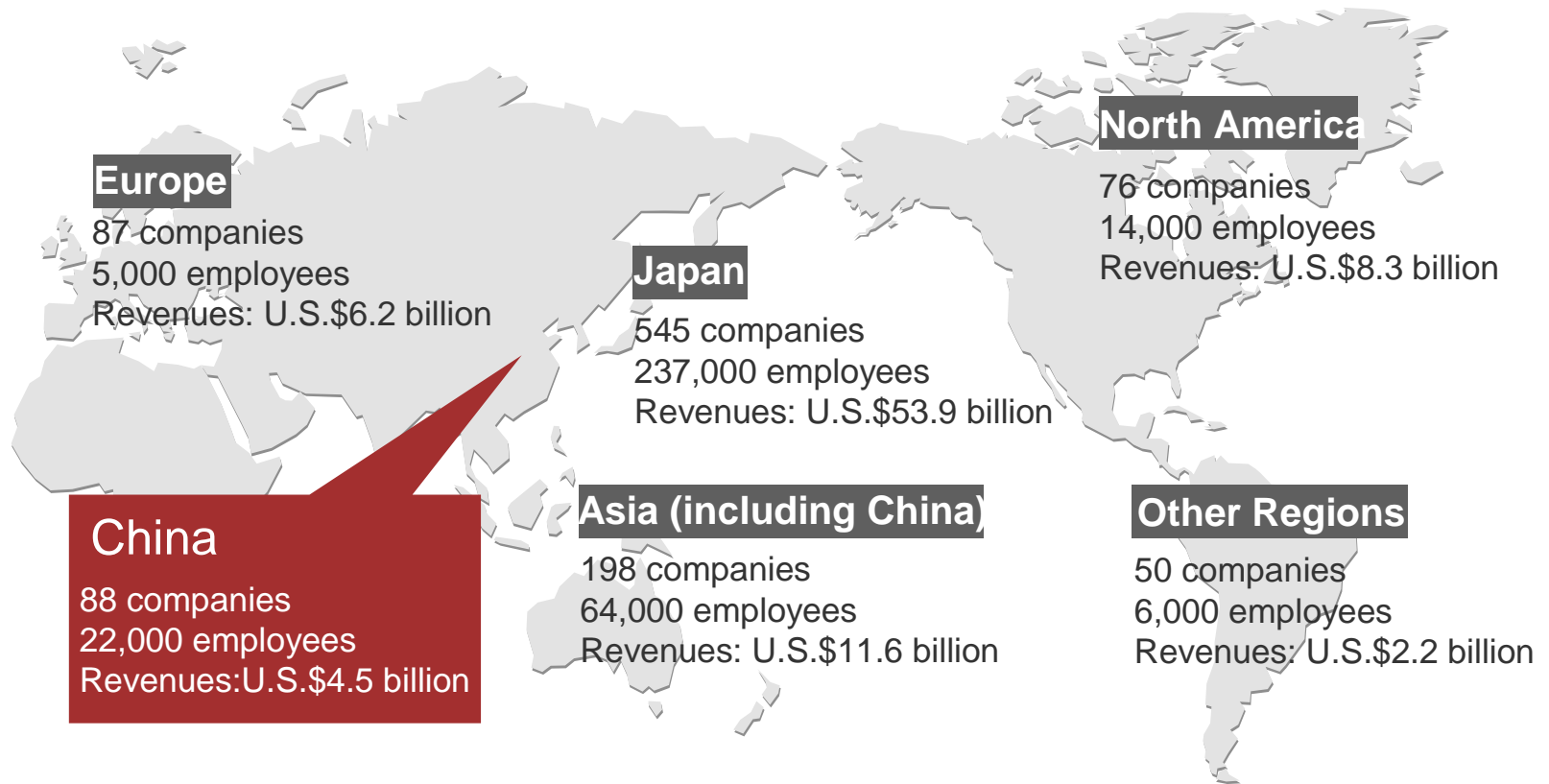
| Rank | Overall Ranking | Company Name | Revenues (\$ millions) |
|------|-----------------|------------------------|------------------------|
| 1 | 9 | GE (U.S.) | 131,698 |
| 2 | 19 | IBM (U.S.) | 83,132 |
| 3 | 21 | Siemens AG (Germany) | 77,205 |
| 4 | 26 | Hitachi (Japan) | 67,228 |
| 5 | 32 | Sony (Japan) | 61,335 |
| 6 | 34 | Matsushita (Japan) | 60,744 |
| 7 | 40 | Hewlett-Packard (U.S.) | 56,588 |
| 8 | 59 | Samsung (South Korea) | 47,606 |

1.3 Hitachi's Wide-Ranging Business Spheres

Year ended March 31, 2004



1.4 Hitachi's Businesses Span the Globe



Consolidated subsidiaries : 956/No. of employees : 326,344

U.S.\$1=105 Japanese yen

1.5

A Self-Reliant Spirit - Development of the 5 Horsepower Motor -



Founder: Namihei Odaira

In heavy industry, sales are directly related to production and must not be separated. That is why Hitachi's basic philosophy is to sell products we ourselves have designed and manufactured. Without a self-reliant spirit, one can't hope to seize the initiative and will be subject to various constraints that will hamper corporate development, making it very difficult to succeed.

1910

Hitachi developed the first 5hp motors produced in Japan.



1.6 Hitachi's World-Leading Products and Technologies



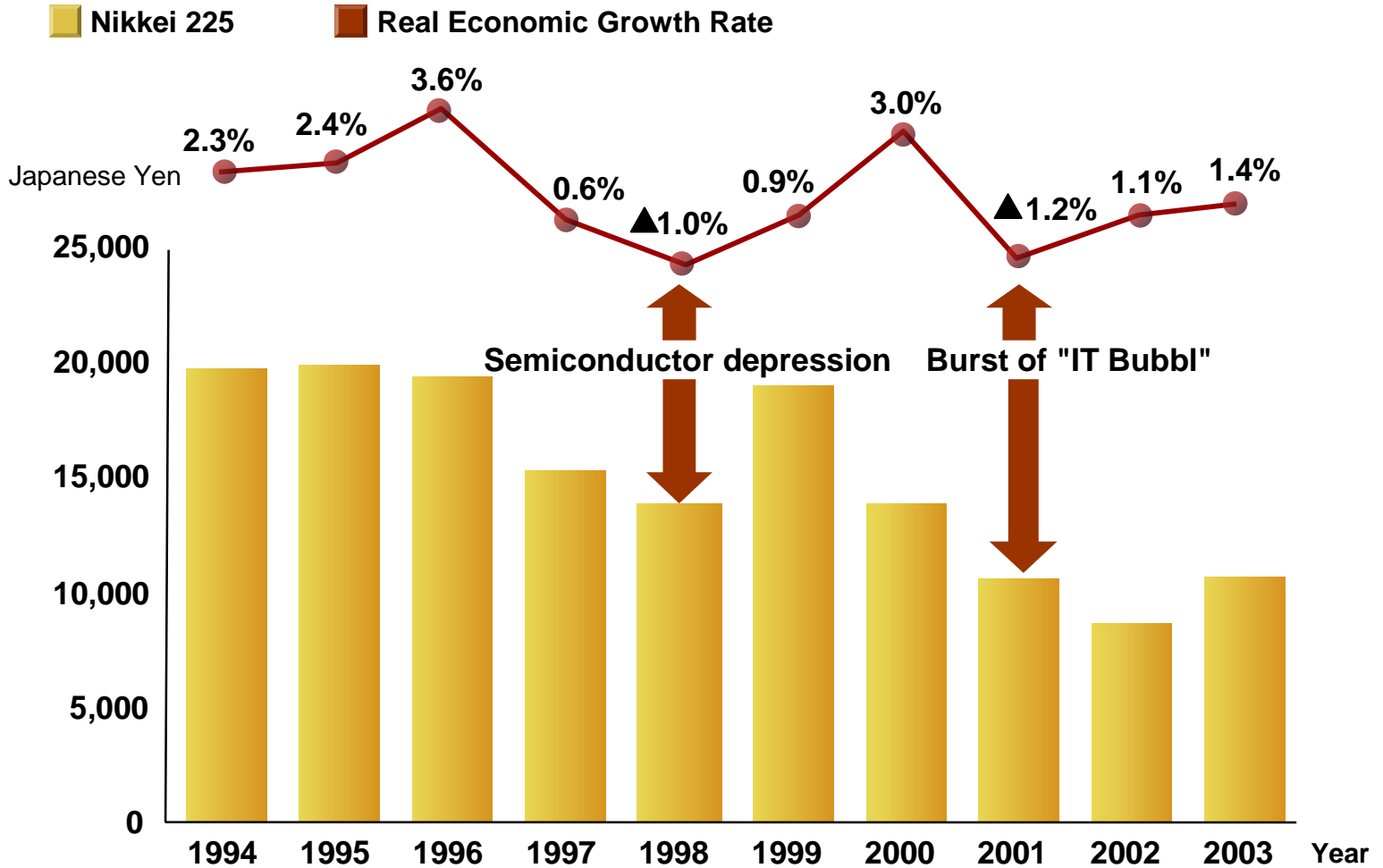


02

Crises of the Japanese Electrical Machinery Industry

2.1

The Japanese Economy Has Stagnated Twice (Nikkei 25 and Real Economic Growth Rate)

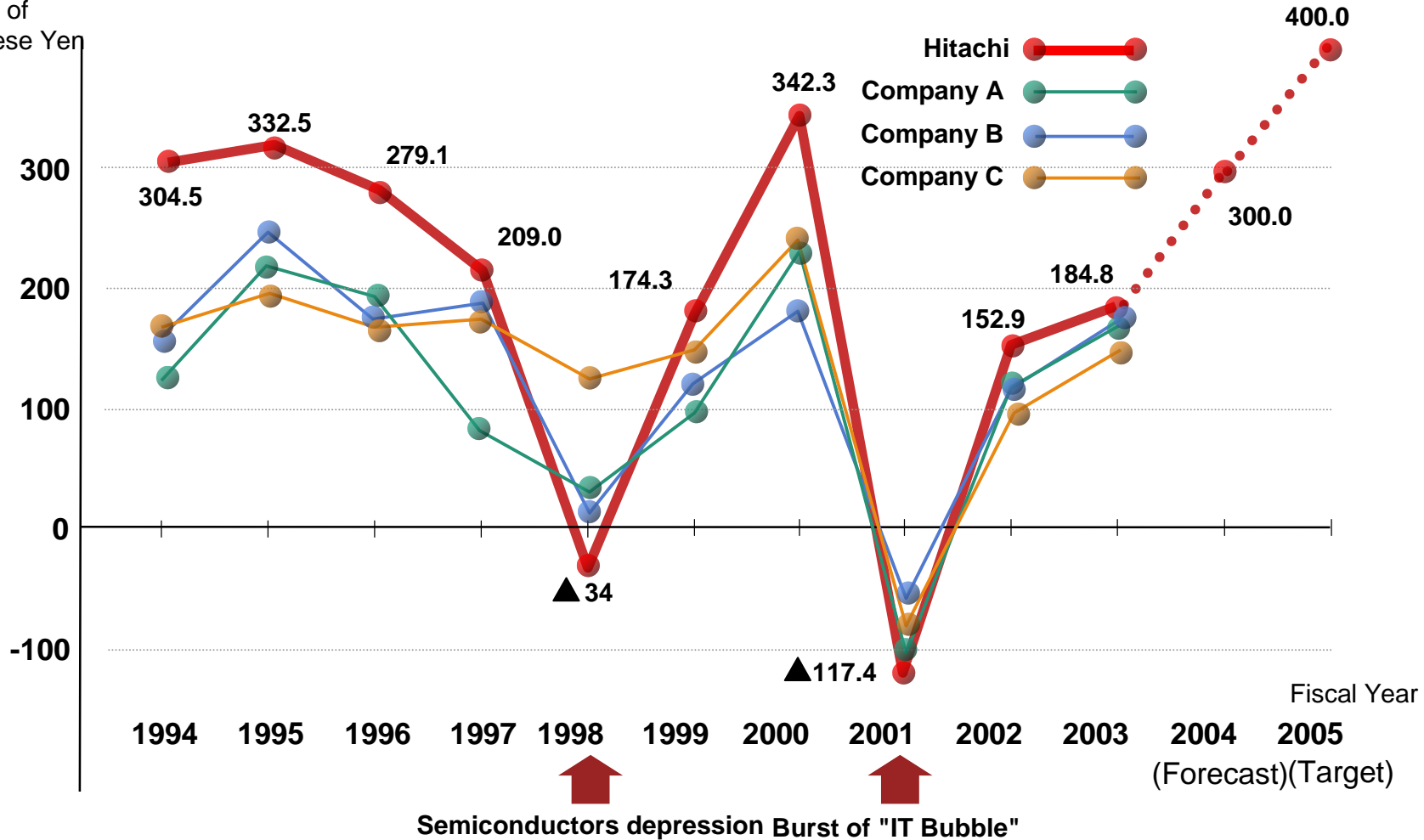


2.2

Electrical Machinery Manufacturers Have Faced Two Crises

Operating Income (Loss) of Electrical Machinery Manufacturers

billions of Japanese Yen





03

Management Reforms at Hitachi

3. 1 Reforms to the "New" Hitachi

Increase of
mega-competition



Market globalization → Intensified competition
Shift from "industrialized society" to "knowledge-based society"

Hitachi-style Corporate Reforms

Hitachi's Long-standing
Strengths

Reliability and Technological
Expertise

Harmony, Sincerity and
a Pioneering Spirit

Reforms to the "New" Hitachi
Top-down and Bottom-up

Strong Leadership

Mind-set Change of Employee

Revival of a Strong Hitachi

3.2 Hitachi's Crisis

Declining
competitiveness

Falling
employee morale

Lack of
risks-taking
ventures

Huge, unprecedented loss

3.3 The Need for Management Reforms

Rise above the crisis



Top-down reforms based on two keywords: Reliability and Speed.

Launched the following medium-term management plans

"i.e.HITACHI Plan" FY1999 - FY2002

"i.e.HITACHI Plan *II* " FY2003 - FY2005

***i.e. is an acronym for information and electronics, and also means "That is"**

3.4 Points of Management Reforms

- 1 Strengthen Consolidated Management
- 2 Reforms of Business Portfolio
- 3 Strengthen Business for the Medium- and Long-term Growth
- 4 Empower Employees

3.5

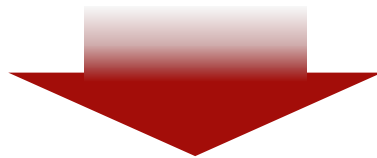
Strengthen Consolidated Management (1)

- Reorganization and Delegation of Authority -

Reorganization and Delegation of Authority (Hitachi, Ltd.) (From Apr.1999)

- Delegate considerable authority to business groups
- To be managed as autonomous companies

Advancement of consolidated management



Adoption of the Committee System (From Apr. 2003)

Establishment of a headquarter function of consolidated management (From Apr. 2004)

- Faster decision-making processes
- Efficiently utilizing Hitachi Group management resources

■ Adoption of Committee System

Demarcation of Execution and Supervision

(Established Nominating Committee, Compensation Committee and Audit Committee)

- An execution system that facilitates dynamic management
- Highly transparent management

Group Management unique to Hitachi that doesn't imitate the U.S. and Europe

● Realization of Strategically Integrated Management

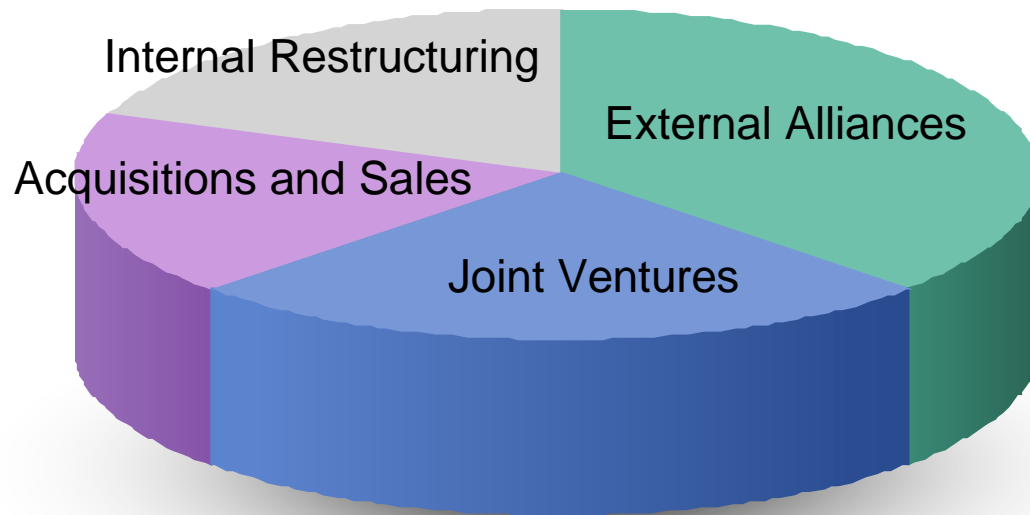
Directors and other members of senior management at Hitachi serve concurrently as outside directors of group companies. Similarly, group company directors serve on Hitachi's Board. The result is realize a strategically integrated management that mirrors the will of the group.

■ Establishment of Hitachi Group Headquarters

Devise, propose and execute strategies for greater group synergies

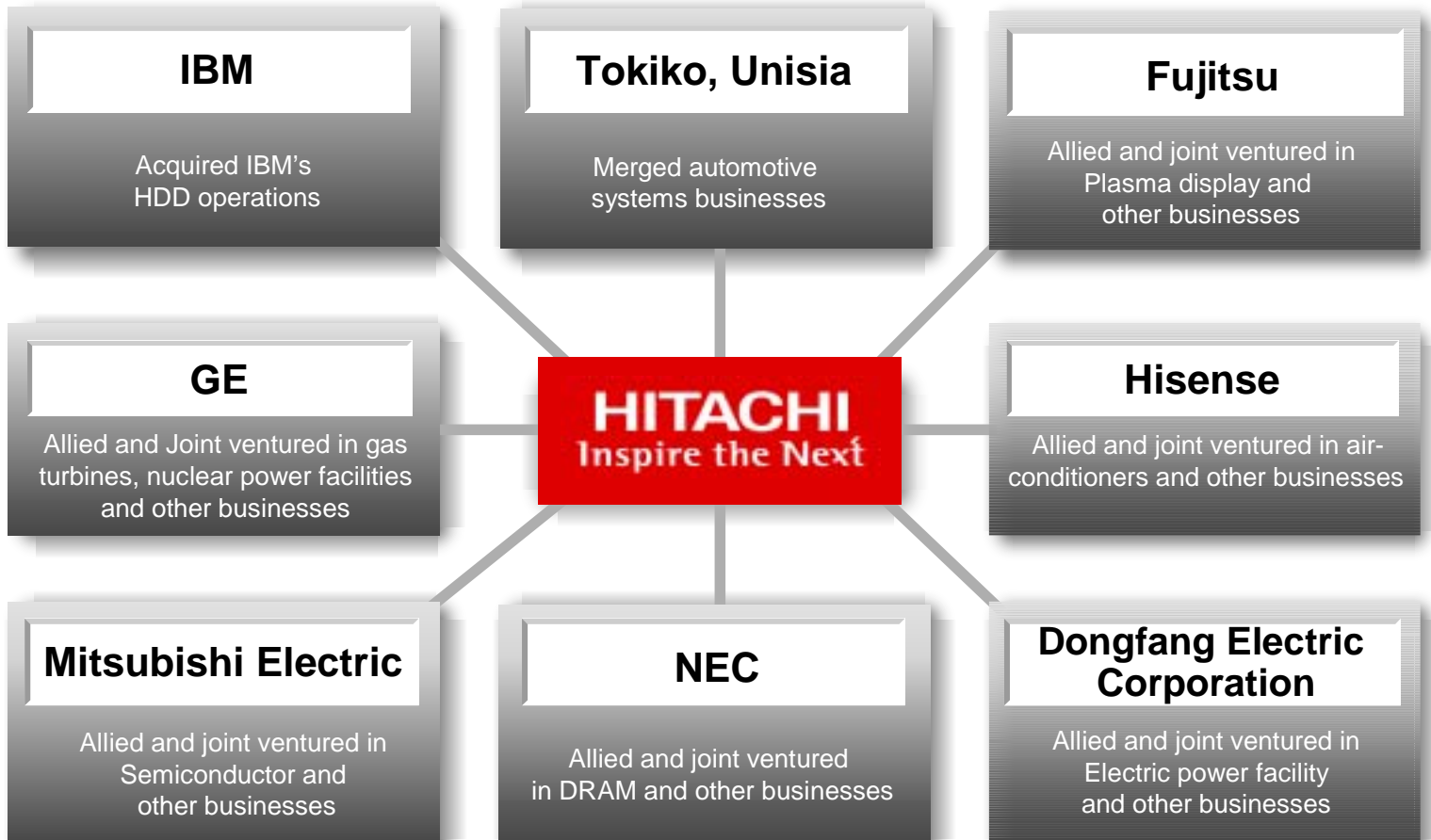
Business Structural Reforms Since FY1999

Decided on restructuring measures for over 90 businesses



Alliances = Saving time

Alliance-Based Strategic Partnerships (Main Examples)



Examples of Strong Products in Japan and Global Markets

High Functional Materials and Components

Specialty steel

Electronic materials (ANISOLM) (No. 1 worldwide)

Digital Media & Consumer Products

Plasma TVs (No. 2 worldwide)

LCD projectors (No. 1 worldwide)

Optical disk drives (No. 1 worldwide)

Washer-dryers (No. 2 in Japan)

"Cyclone" vacuum cleaners (No. 2 in Japan)

Computer tapes (No. 1 worldwide)

Information & Telecommunication Systems

SAN/NAS storage solutions (No. 2 worldwide)

Hard disk drives (No. 2 worldwide)

EV-DO (No. 1 in Japan)

ATMs

System management software "JP1" (No. 1 in Japan)

RFID(μ -chip) solutions

Measurement Equipment

CD-Measurement SEMs (No. 1 worldwide)

DNA sequencers (No. 1 worldwide)

Power & Industrial Systems

Generating equipment (Top class in Japan)

Railcars (Top class in Japan)

Monorail systems (No. 1 in Japan)

Traffic management and signal systems

Escalators and elevators

Pneumatic systems

Printed circuit board hole pinning machine

(No. 1 worldwide)

Hydraulic excavators (No. 3 worldwide)

3. 10

Strengthen Business for the Mid- and Long-term Growth (1) - "Inspire A Businesses" -

Expanding Businesses

Example of "Inspire A Businesses"

Developing Businesses

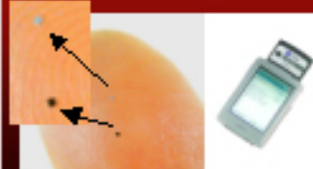
Electric Power Systems
(Coal-fired)



Transportation
Systems



μ -Chip Solutions



Energy Conservation
Solutions (ESCO)



Information and
Telecommunication Systems



Building Systems



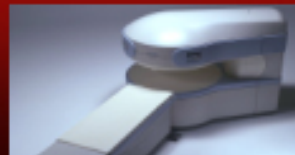
Automotive Systems



Consumer Electronics



Medical



Information Systems
Components



Bolstering R&D Activities

- Collaborate with overseas universities and venture companies
- Get feedback on customer requirements for R&D

China

R&D for Business Expansion

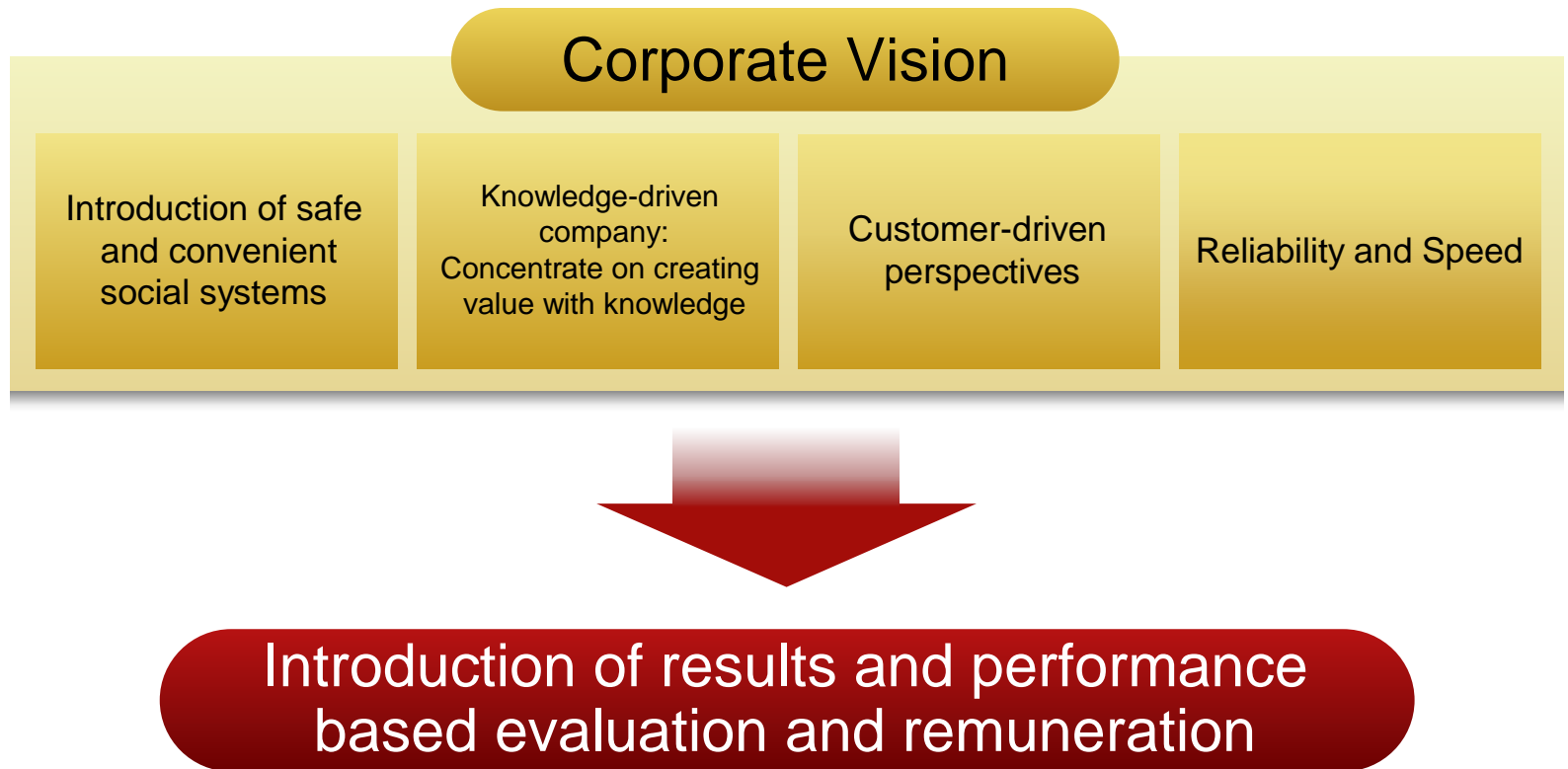
- Increase number of researchers in China: 1,000 (FY2005)
 - ◆ Expanding Beijing Lab: open-source software, IP networks
 - ◆ Setting up Shanghai Lab: information services, bio-systems

Asia Joint R&D for business expansion

Europe Joint development of advanced technology

North America Development of new technology for the U.S. market

Introduction of results and performance based evaluation and remuneration systems



3. 13 Empower Employees (2)

Merger of Top-Down and Bottom-Up

Emphasize dialogue with employees

- "GENBA"(Worksite) visits
- Intranet homepage "Shoyama Online"



Instill top-management thinking in front-line operations



Promote smooth management reforms



Communication platform for employee and the president (Shoyama Online)

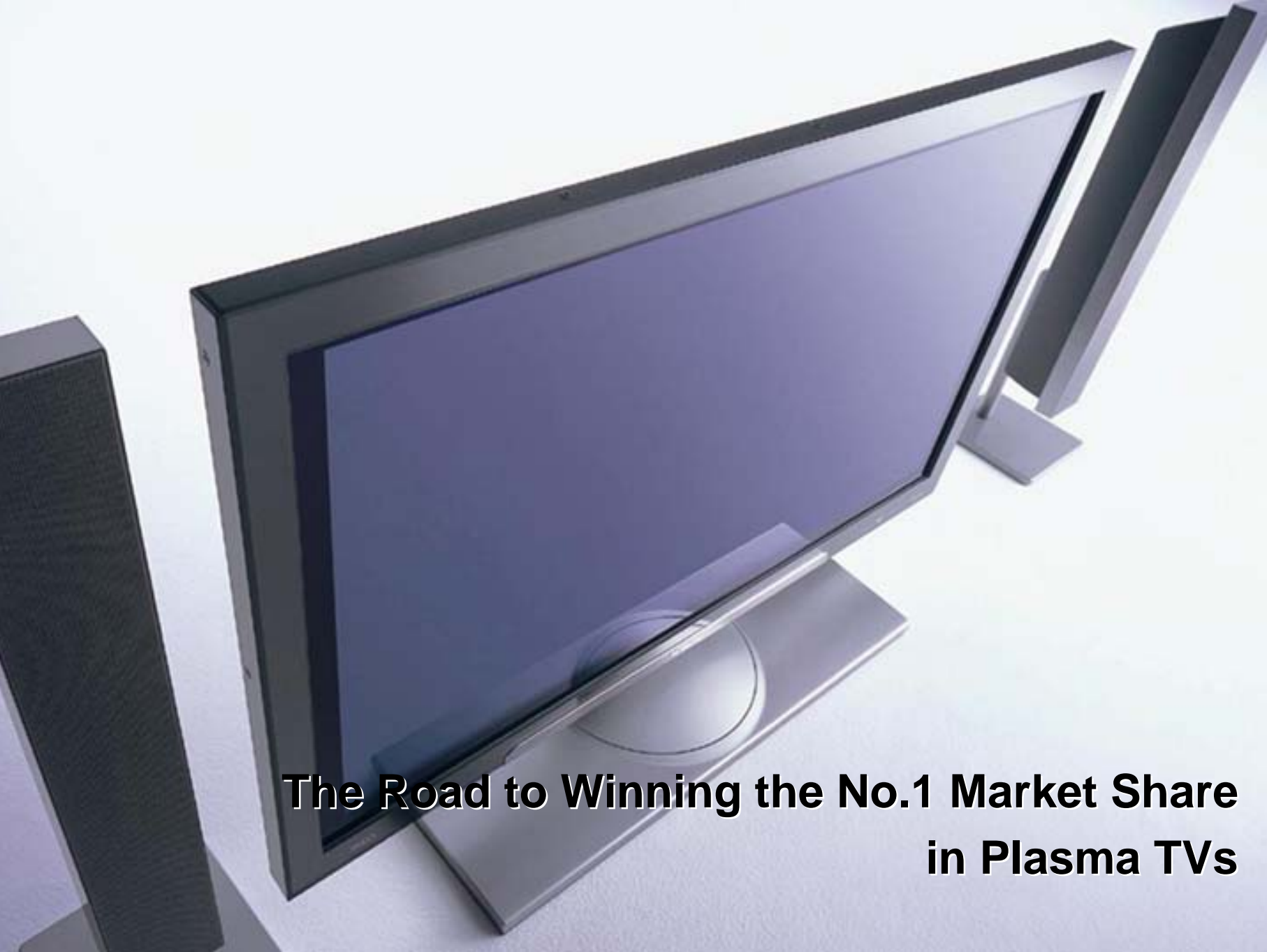


The president on a factory visit to Guangzhou Hitachi Elevator Co., Ltd.



04

Top-Management Decisions



**The Road to Winning the No.1 Market Share
in Plasma TVs**

4. 1

The Road to Winning the No.1 Market Share in Plasma TVs

Top-management decision

Capture No.1 market share in plasma TVs

■ Issues to Surmount

Issue 1

- Solve technical issues with key devices
- Risk of huge investments in facilities

Issue 2

- Dispersion of management resources



4. 1

The Road to Winning the No.1 Market Share in Plasma TVs

Key to Success (1): Establish a joint venture company

Rational for establishment

- Advent of a new TV era
- Quickly overcome technical issues
- Share the burden of large capital investments

Anticipated Risks

- Hitachi started development in the 1960s
- Hitachi had a principle to develop products independently
- Unclear prospects for plasma TVs



1999

Established Fujitsu Hitachi Plasma Display Limited



4.1

The Road to Winning the No.1 Market Share in Plasma TVs

Key to Success (2): Withdrawal from CRT TV business

Concentration on Plasma TVs

- Falling prices of CRT TVs
- Concentration of resources on plasma TVs
- Expected advent of flat-panel TV era

Withdrawal From CRT TVs

- Objection from sales channels
- Risk of losing existing customers
- Concerns about the prospects for flat-panel TVs



Withdrew from CRT TVs
Concentrated resources on plasma TVs

4.1

The Road to Winning the No.1 Market Share in Plasma TVs

Building on a top market share

Launched the world's first 32-inch plasma TV in 2000



No.1 domestic market share



Expansion of digital consumer electronics business



The Road to the Leading Hard Disk Drive Company



4.2 The Road to the Leading Hard Disk Drive Company (1)

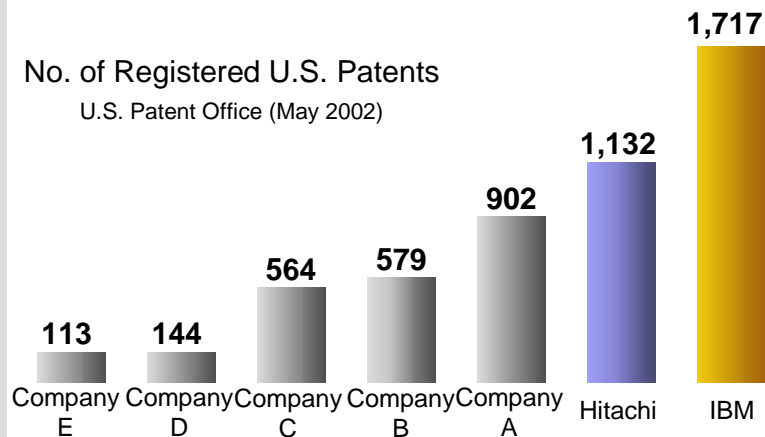
Top-management decision

Acquire IBM's HDD operations

Background to Acquisition

Hard disk drives will be key components in the ubiquitous era not only in information systems

Strengthen competitiveness by merging world-leading technological expertise



Anticipated Risks

Huge loss in the IBM era (US\$1.6 billion)

Large risks posed by demand and price volatility

Large cash outflows

4.2 The Road to the Leading Hard Disk Drive Company (2)

Basis for Decision

Establish world-leading position

Establish global business structure

Strengthen solutions business
with a strong hardware nucleus



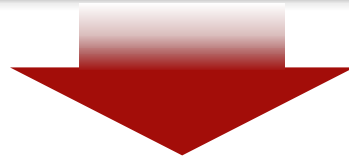
Established Hitachi Global Storage Technologies
in 2003

4.2 The Road to the Leading Hard Disk Drive Company (3)

1 Establish divisions by product

2 Quick integration of Hitachi and IBM operations

3 Create an efficient operating structure



Dramatic turnaround in results
Forecasting profits in fiscal 2004

A close-up photograph of two hands shaking in a firm grip. The hands are silhouetted against a bright, glowing blue light source, creating a strong contrast. The background is a soft, out-of-focus blue. The overall mood is one of agreement, partnership, and success.

The Keys to Successful Reforms

4.3 The Keys to Successful Reforms



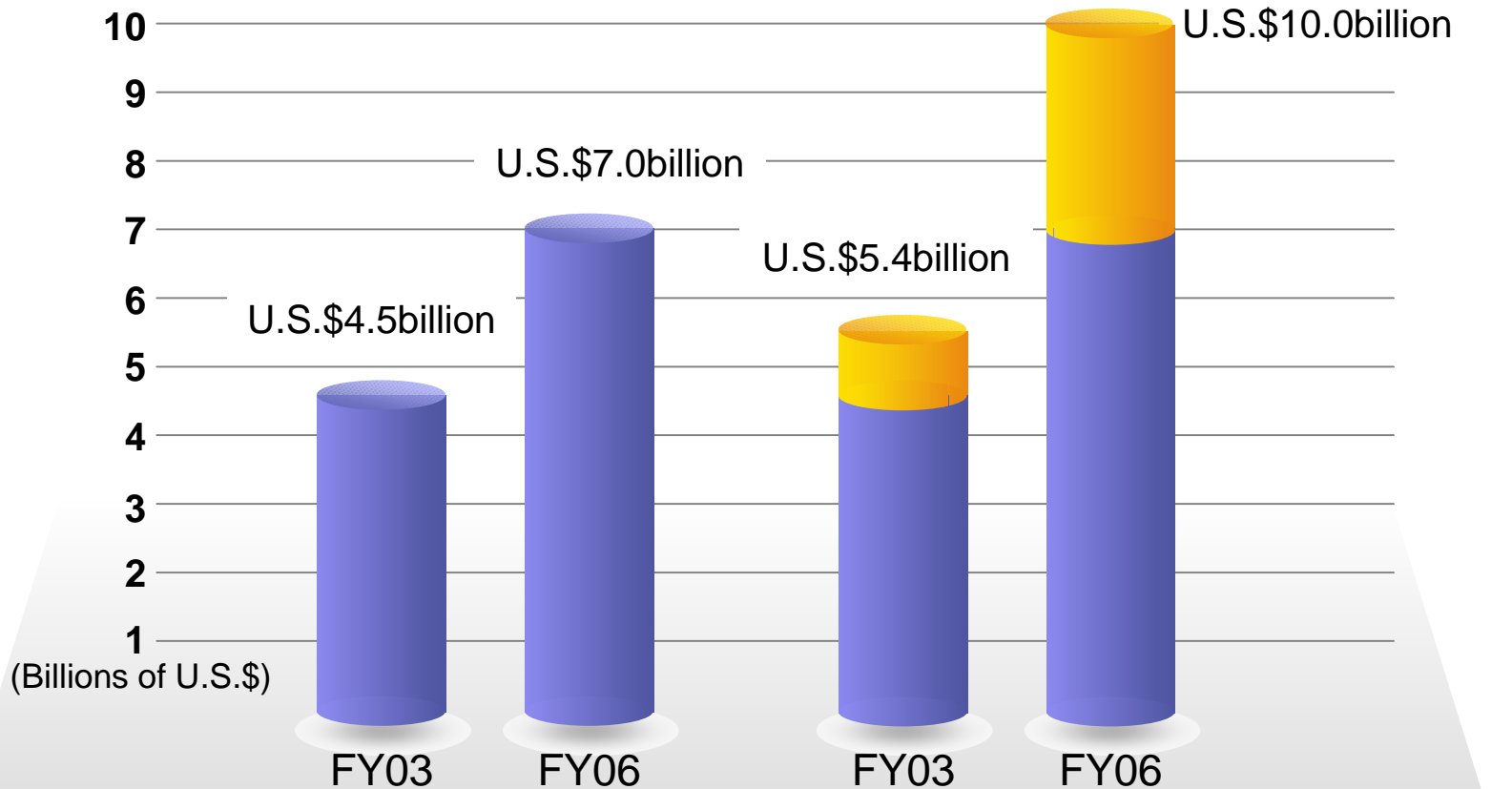


05

Hitachi-A Company
With a Part to Play in China

5.1 Expanding Business Further in China

■ Consolidated revenues ■ Revenues of equity-method affiliates



U.S.\$1=105 Japanese yen

5.2 Investing for Business Expansion

Investments from FY01 to FY03: U.S.\$ 1 billion

Investments planned over the next 3 years: at least U.S.\$ 1 billion

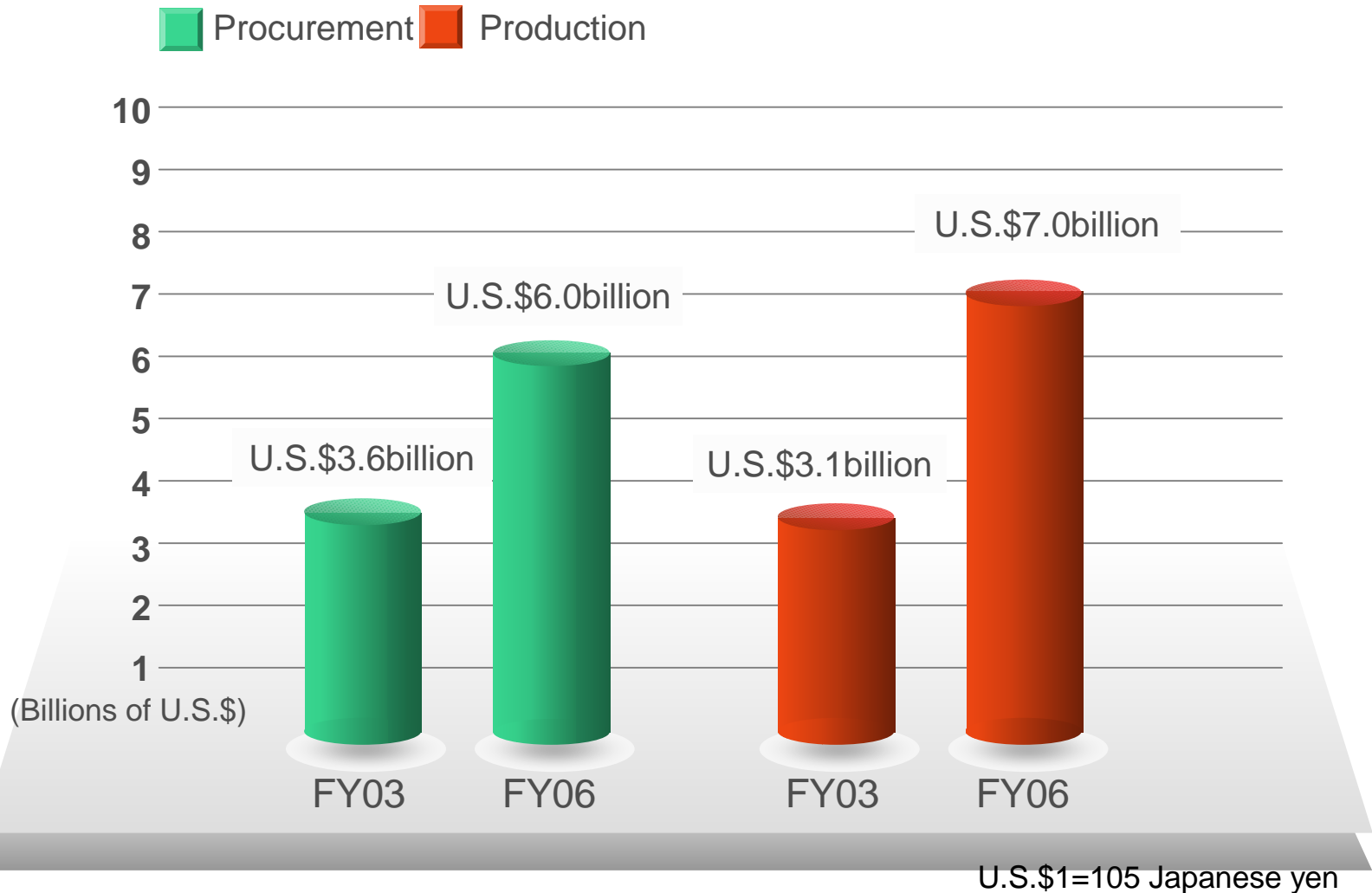
<Example>



U.S.\$1=105 Japanese yen

5.3

Expanding Procurement and Production to Strengthen Businesses



5.4

Business Operations in China (Examples of Businesses in and around Shanghai)



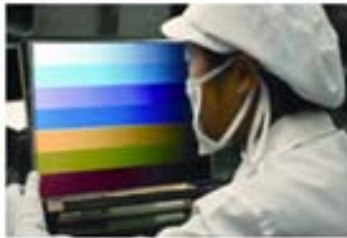
Hitachi Information Systems
(Shanghai) Co., Ltd



Shanghai Hitachi Household
Appliances Co., Ltd.



Hitachi Construction Machinery
(Shanghai) Co., Ltd.
Hefei Hitachi Excavators Co., Ltd.



Hitachi Display Device
(Suzhou) Co., Ltd.



Hitachi China Ltd. Shanghai Headquarters



Hitachi Fujian Digital
Media Co., Ltd.



Hitachi Automotive
Products (Suzhou), Ltd.



Hitachi Medical Systems
(Suzhou) Corporation

Hitachi Highly Automotive Products (Shanghai) Ltd. (scheduled to commence production in January 2005)

5.5 Business Cooperation for Becoming a "Chinese" Company

Collaboration in medical business with Fudan University



Fudan-Hitachi Medical Engineering Collaboration Center (FHMEC)

Established in June 2004 (Center head: Professor Fang Zuxiang, Department of Electronic Science and Engineering)



Blood-sugar monitoring device



Open MRI system

- Clinical trials
- Joint equipment development
- Customization for the Chinese market

5.6 Advanced Technologies



Actively Apply China's Intellectual Capital to Enhance Hitachi's Collective Strengths in Terms of Knowledge

■ Advanced research

- Medical and Biotechnology
(Collaboration with Fudan University)
- Next-generation networks
(Collaboration with Tsinghua University)
- Electronics Components
(Collaboration with Shanghai Jiao Tong University)
etc.

■ Bolster the R&D framework in China

- Make the China R&D Center an independent company
- Establish a center for the development of escalators and elevators in Asia

■ Assemble a team of 1,000 researchers in China

5.7 Talented Human Resources



Actively Utilize People Versed in Chinese Culture and Society

- Actively recruit Chinese staff through Hitachi Group recruitment activities
- Support the development of key Chinese staff
- Provide opportunities for appealing work and to display individual abilities
- Develop a human resources strategy led by the regional headquarters

5.8 Social Contribution



Enhance Social Contribution Activity to Help Develop Society in Both China and Japan

- Launch the Hitachi Fellowship Program for Chinese Researchers
- Invite researchers from Chinese think tanks to research institutions in Japan

5.9

Brand Power



Establish a Reliable and Cutting-Edge Brand

- An Exhibition Assembling Hitachi's Cutting-Edge Technologies
Hold the "Hitachi Exhibition---China 2004"

- Strengthen Communication With Chinese Society

5. 10 Fast Decision-Making



Hitachi---A Company With a Part to Play in China

- Build a business framework for maximizing customer satisfaction
- Strengthen the regional headquarters system
- Develop a business strategy spearheaded locally



06

Hitachi, the Most Trusted Partner in China

Hitachi, the Most Trusted Partner in China

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