

Information & Telecommunication Systems Strategy Briefing

June 15, 2005



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HITACHI
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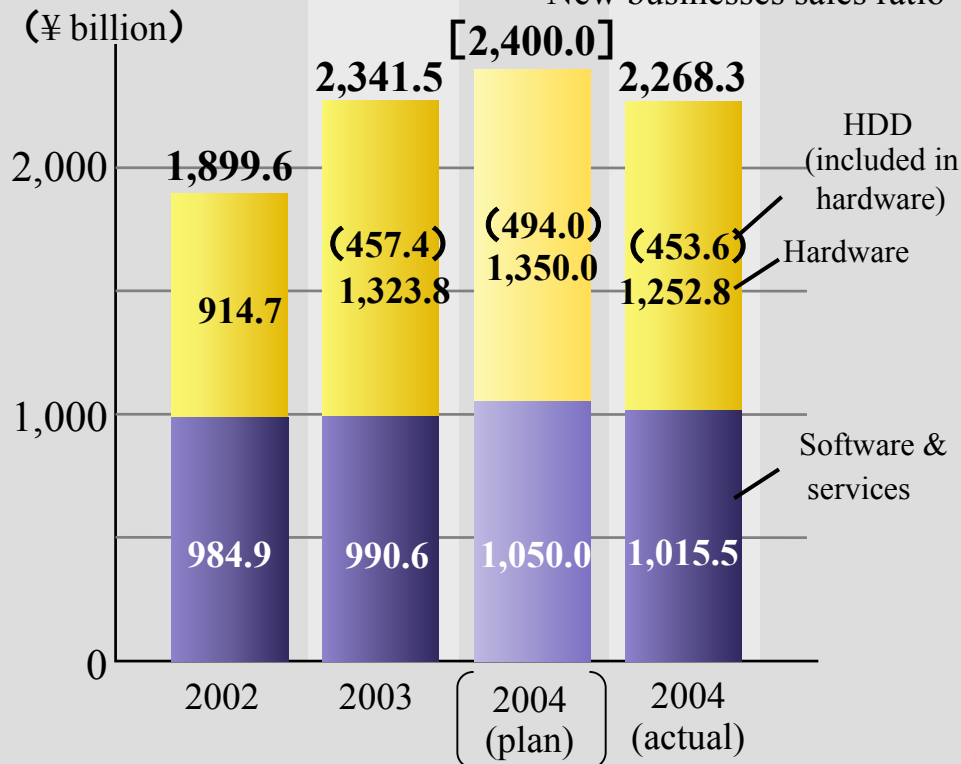
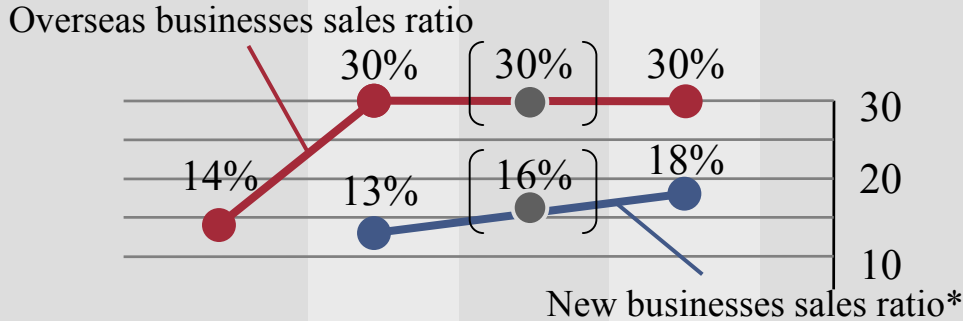
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1

Fiscal 2004 Overview of Operating Results



Sales Trend



Overview

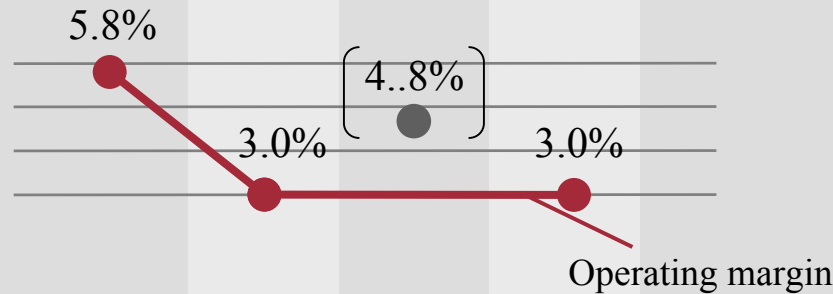
- Hardware and Software & services both fell short of plan due to declining sales prices.
- The launch of outsourcing, RFID and other new businesses went as planned.

Major differences vs. plan

- Hardware ¥ (97.2) billion
 - Declining sales prices
- Software & services ¥ (34.5) billion.
 - Declining sales prices

*Based on sales excluding HDD sales

Operating Income Trend

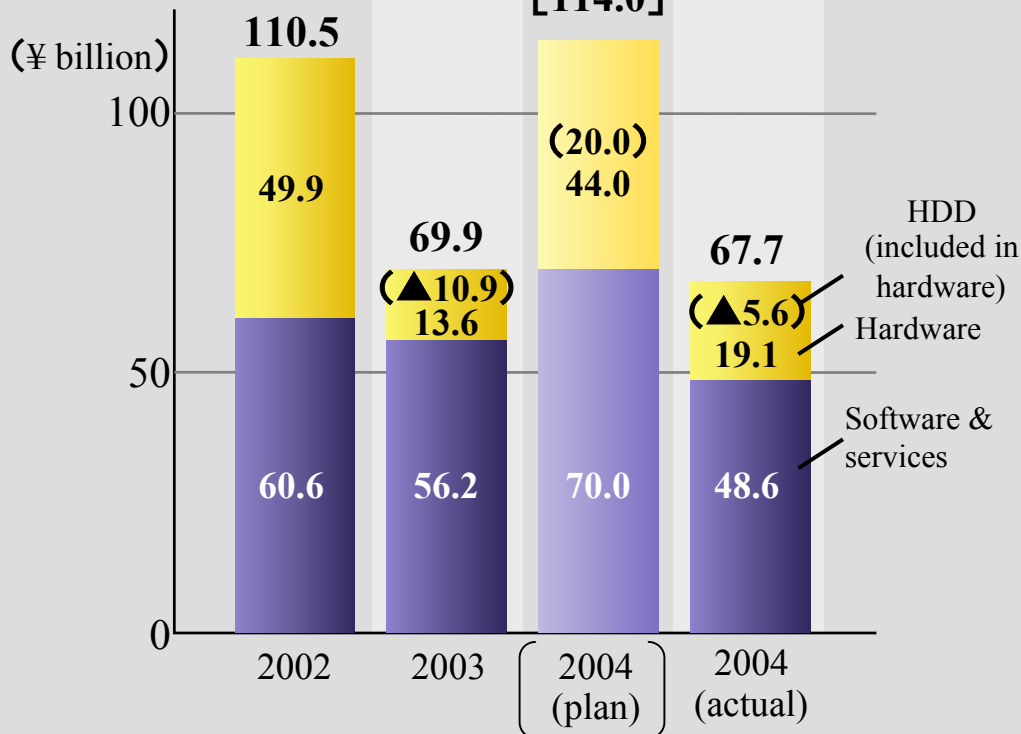


Overview

- Operating income fell short of plan due to weakness in the HDD business and large, unprofitable projects in the Software & services business.

Major differences vs. plan

- Hardware ¥ (24.9) billion
 - Declining HDD prices
 - Delay in improving HDD yields
- Software & services ¥ (21.4) billion
 - Large, unprofitable projects



Market	Issues	Fiscal 2004 Actions	Self-Evaluation
Public and social systems	<ul style="list-style-type: none"> ▪ Expand businesses related to e-Japan Strategy II ▪ Strengthen services for the local government market 	<ul style="list-style-type: none"> ▪ Family Register Procedure On-Line Solution ▪ e-Document Solution 	○
Financial information systems	<ul style="list-style-type: none"> ▪ Enhance next-generation solutions ▪ Introduce cutting-edge applications from Europe and the U.S. 	<ul style="list-style-type: none"> ▪ FREIA21+ next-generation integrated channel solution ▪ NEXTBASE joint outsourcing service 	△
Industrial and distribution systems	<ul style="list-style-type: none"> ▪ Strengthen ability to serve midium-sized and regional companies ▪ Support globalization of Japanese companies 	<ul style="list-style-type: none"> ▪ Created family of GEMPLANET products ▪ Established General Market Business Headquarters 	△
All market sectors	<ul style="list-style-type: none"> ▪ Consulting (proposal skills) ▪ Outsourcing (increase fee-based businesses) 	<ul style="list-style-type: none"> ▪ Basic agreement with Sankyo for comprehensive outsourcing service ▪ Secure Client Solution 	○
	<ul style="list-style-type: none"> ▪ Improving productivity and cut costs of solutions 	<ul style="list-style-type: none"> ▪ Foster development of project managers ▪ Expand Chinese IP 	△

*Self-Evaluations: Benefits of initiatives relative to the initial plan.

Products		Issues	Fiscal 2004 Actions	Self-Evaluation
Servers		<ul style="list-style-type: none"> ▪ Early market launch of EBS (Enterprise Blade System) 	<ul style="list-style-type: none"> ▪ BladeSymphony 	△
Storage	RAID	<ul style="list-style-type: none"> ▪ Expand market share in mid-range disk array subsystems ▪ Launch DLCM (Data Life Cycle Management) 	<ul style="list-style-type: none"> ▪ SANRISE USP ▪ SANRISE9500V Series ▪ DLCM Solution 	○
	HDD	<ul style="list-style-type: none"> ▪ Make HDD operation profitable ▪ Brake into and expand non-IT fields 	<ul style="list-style-type: none"> ▪ 400GB HDD, initially the world's highest-capacity HDD ▪ Support center for consumer electronics manufacturers 	×
Networks		<ul style="list-style-type: none"> ▪ Bolster router/switch operations ▪ Promote fusion of communications and computing 	<ul style="list-style-type: none"> ▪ Established ALAXALA Networks ▪ CommuniMax IP telephony solution 	△
Software		<ul style="list-style-type: none"> ▪ Strengthen integrated middleware, centered on JP1 ▪ Respond needs for open source software 	<ul style="list-style-type: none"> ▪ Upgraded JP1 functions 	○

*Self-Evaluations: Benefits of initiatives relative to the initial plan.

Policy	Actions	Self-Evaluation
Focus on strategic fields	<ul style="list-style-type: none"> ▪ Merged Hitachi Information Systems and Hitachi netBusiness. ▪ Established ALAXALA Networks with NEC ▪ Transferred all share of Hitachi Printing Solutions to Ricoh ▪ Established Hitachi-Omron Terminal Solutions with Omron 	○
Rigorously cut costs	<ul style="list-style-type: none"> ▪ Reduced workforce, mainly in administrative sections ▪ Cut cost of purchasing materials 	△
Increase group operating efficiency	<ul style="list-style-type: none"> ▪ Reinforced governance by holding an Information & Telecommunication Systems Group Summit ▪ Raise efficiency of business activities by reviewing each division's responsibilities 	△

The need to deal with rapid changes in the operating environment (external factors)

- Increasingly heated competition for new orders due to slumping volume of IT investments in Japan
- More intense price-based competition due to entry of new competitors in small form factor HDD market
- Steep drop in prices as IT becomes a commodity

Inadequate ability to deal with risks (internal factors)

Occurrence of unprofitable large-scale projects

Delay in improving HDD yields

Inadequate competitive strengths of platform business

2

Fiscal 2005 Business Plan and Initiatives to Achieve its Goals



Fiscal 2005 Targets for Information & Telecommunication Systems

Operating Margin	New Businesses*	Overseas Businesses
At least 7% overall	30% of net sales	At least 40% of net sales

- Nurture global businesses and capture leading market positions
- Make base businesses more competitive
- Create and expand highly profitable new businesses
- Establish a strong consolidated group management base



Become the “best solutions partner” for the ubiquitous information society

*Based on sales excluding HDD sales

Sales and earnings targets

Net sales	¥2,390.0 billion (up 5% Year on Year)	Sales from new businesses* 25% Sales from overseas businesses 32%
Operating income	¥82.0 billion (up 21% Year on Year)	

Basic Policies

Software & services	HDD	Platforms
<p>Improve quality of software and services supplied to customers</p> <ul style="list-style-type: none"> - Conduct stringent project management - Improve productivity of development activities - Strengthen the services business 	<p>Increase operating efficiency to become more competitive on a global scale</p> <ul style="list-style-type: none"> - Become more cost competitive - Enhance quality management - Strengthen development capabilities 	<p>Focus on strengthening platforms as the base for all solutions</p> <ul style="list-style-type: none"> - Make backbone products more competitive - Upgrade product sales capabilities

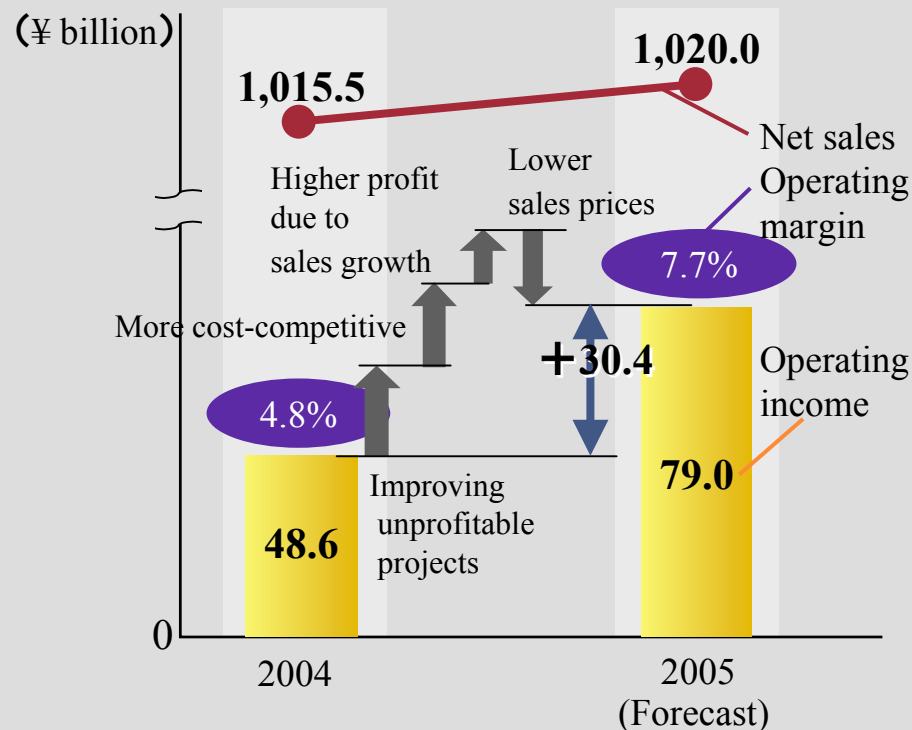
*Based on sales excluding HDD sales

Issues	Metric	Medium-term target	FY05 plan	Difference	Reasons for difference
Increase profitability	Operating margin (%)	At least 7% (Software & services 10)	3.4 (Software & services 7.7)	▲3.6 (Software & services ▲2.3)	<ul style="list-style-type: none"> Increasing loss in HDD business Inadequate ability of Software & services to generate profits
Create and enlarge new businesses	New business sales ratio (%)	30	25	▲5	<ul style="list-style-type: none"> Delay in launching businesses involving the ubiquitous information market
Globalization	Overseas business sales ratio (%)	At least 40%	32	▲8	<ul style="list-style-type: none"> Yen's appreciation exceeded forecast (¥120/US\$ rate used for medium-term plan) Slowing growth of storage market

We will continue to aim for the initial medium-term plan goals for fiscal 2005, even though reaching these goals will be difficult.

Market trends

- In Japan, competition is heating up as the scale of the market remains flat
- Growing demand for IT to execute management strategies
 - Life cycle solutions extending from consultations to system operations



Basic Strategies

Increase earnings by supplying customers with higher quality software and services

- Conduct stringent project management to eliminate unprofitable large-scale projects
- Improve system development productivity across the entire Hitachi Group
- Enhance consulting capabilities and expand the outsourcing business

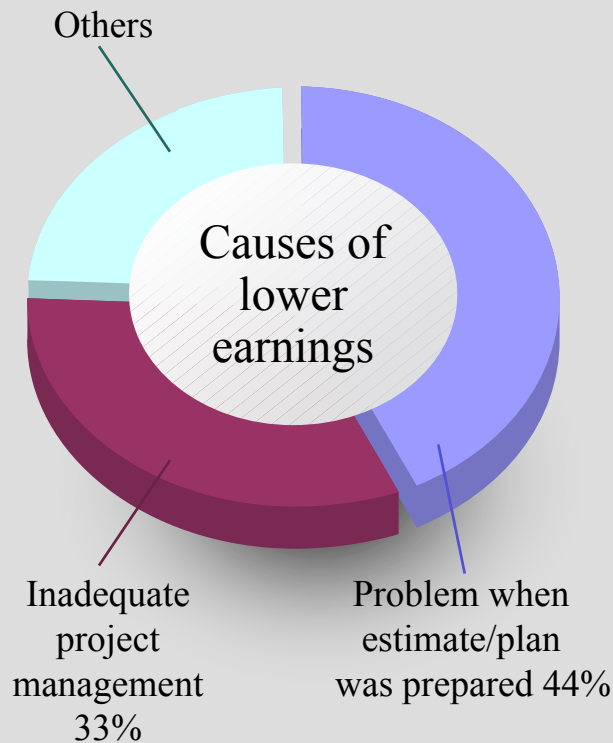
Status of unprofitable large-scale projects in fiscal 2004

- Profitability of large-scale projects decreased by ¥19.7 billion from FY03 to FY04
- Almost all of these projects are from orders received in FY03 or earlier
- All losses from large-scale projects were recognized in FY04



Eliminate unprofitable large-scale projects with stringent project management and measures to become more cost competitive

Adopt proven initiatives at Hitachi on other group companies



When preparing estimates

- Use risk diagnostic meetings to carefully examine whether or not to accept a new order
- Assign managers as necessary based on the scale of each project

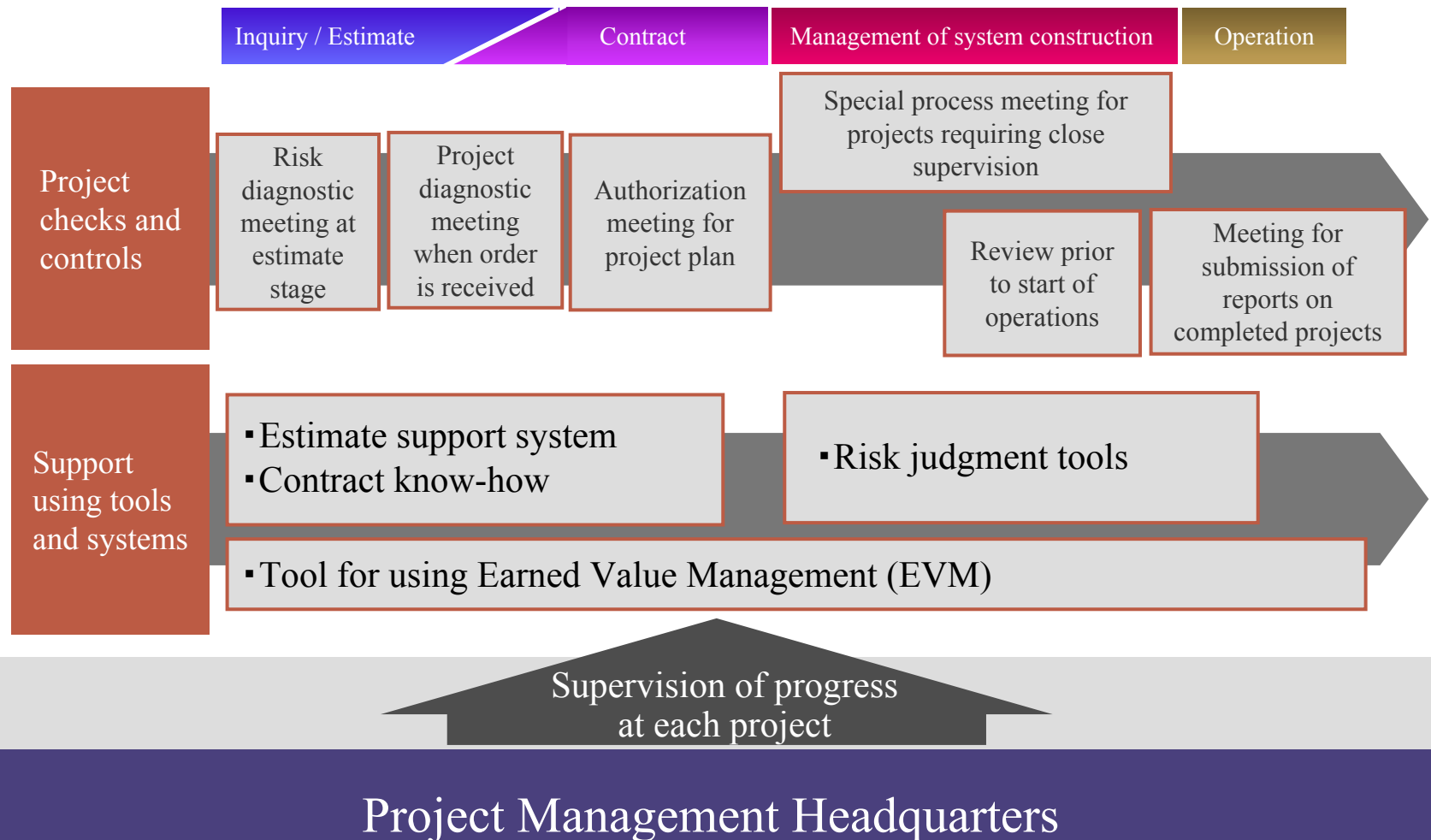
Enhance project management skills

- Systematically foster development of project managers
- Expand certification/training systems to group companies
- Establish Hitachi Group PM Task Force

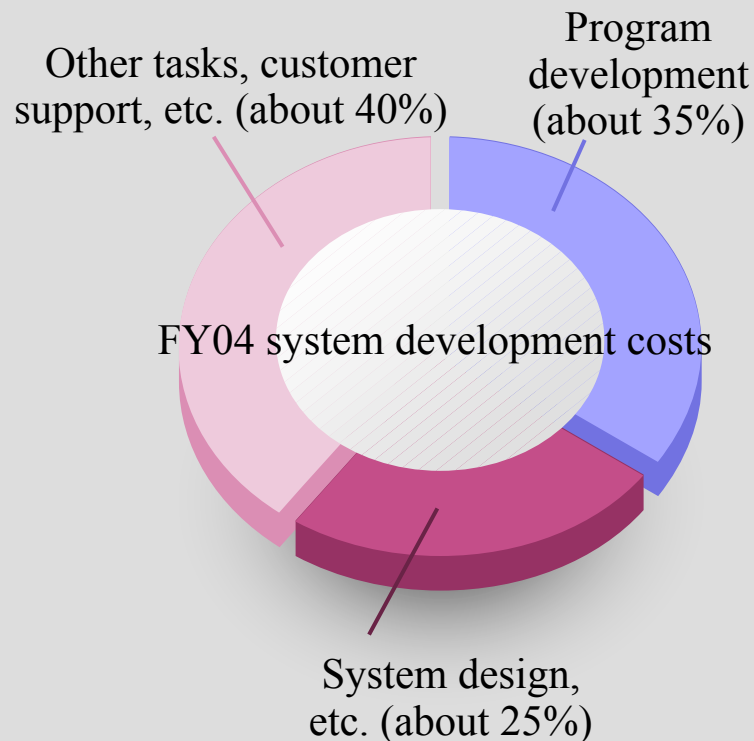
Overall process management

- Use "PM Cockpit" to enable the total oversight of a project's progress

A project management system that combined know-how from inside and outside the Hitachi Group



Become more cost competitive by sharing Hitachi Group knowledge, using more systematized processes and improving quality



Raise efficiency by quickly verifying the status of each system engineering process and taking appropriate actions

- Support tools for each system engineering task
- Make the same knowledge available to all projects
- ⇒ Raise system engineering productivity 20% (FY06 vs. FY04)

Raise efficiency and quality of system design and other tasks

- Strengthen and expand best practice suites
- Reuse system know-how by using Solution-HIPACE

Raise productivity of program development work

- Establish organization exclusively for this task
- Establish base for industry-specific applications
- Increased use of IP (2,700 people/month in FY05)

System integration is becoming a commodity—Hitachi's response

Enhance consulting skills

■ Strengthen management consulting

- Big increase in use of consulting company EXSURGE
- Deepen ties with U.S.-based Hitachi Consulting
- Form alliances with specialist consulting firms

■ Expand and strengthen business process and IT consulting

- Enhance training and certification systems
 - Target is 1,000 people in FY05

Strengthen outsourcing business

■ Offer total support by combining business and IT strategies

- Total business support that includes BPO, BTO and finance

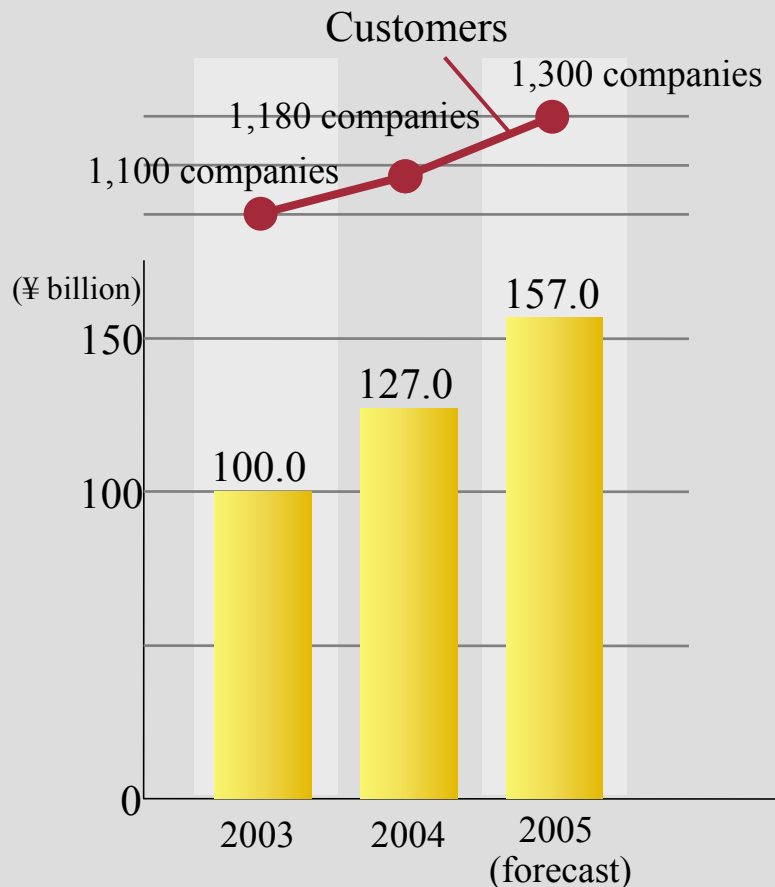
■ Add global sourcing capability

- Deepen ties with India companies
- Make greater use of China for software development
- Provide offshore and onsite support

■ Invest aggressively, including for alliances and M&As, to achieve growth

Outsourcing business Fiscal 2005 sales target is ¥157.0 billion

Net Sales



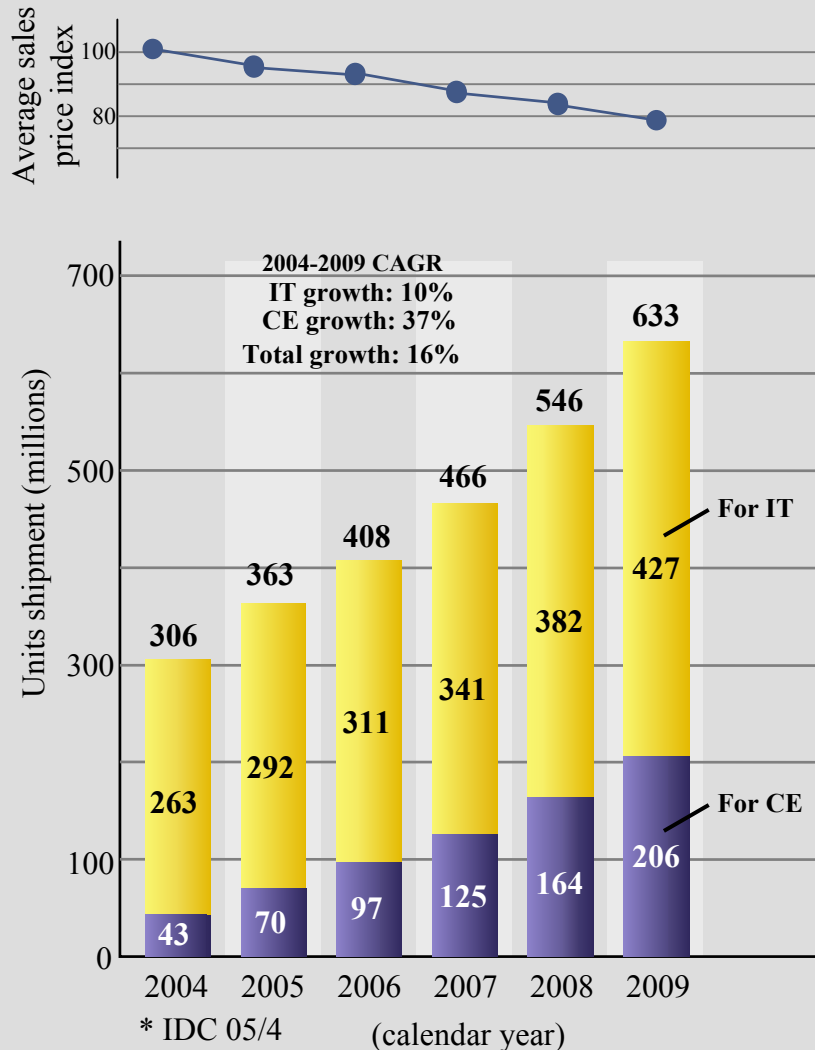
Hitachi's Strengths

- A broad array of services backed by the Hitachi Group's knowledge, extending from consulting through development, operation and maintenance

- Strengthening BPO services for administrative tasks (payroll, employee benefits, accounting, property management, logistics, others)
 - Hitachi Triple Win, Hitachi Transport System, others
 - Total partnerships that make use of financing

- Reputation for reliability due to extensive experience in building systems and stability of system operations
 - Hitachi systems now operating at more than 1,000 companies
 - Expertise in disaster and security issues

Product strategy to respond to growth in demand for IT and consumer electronics applications



Market trends

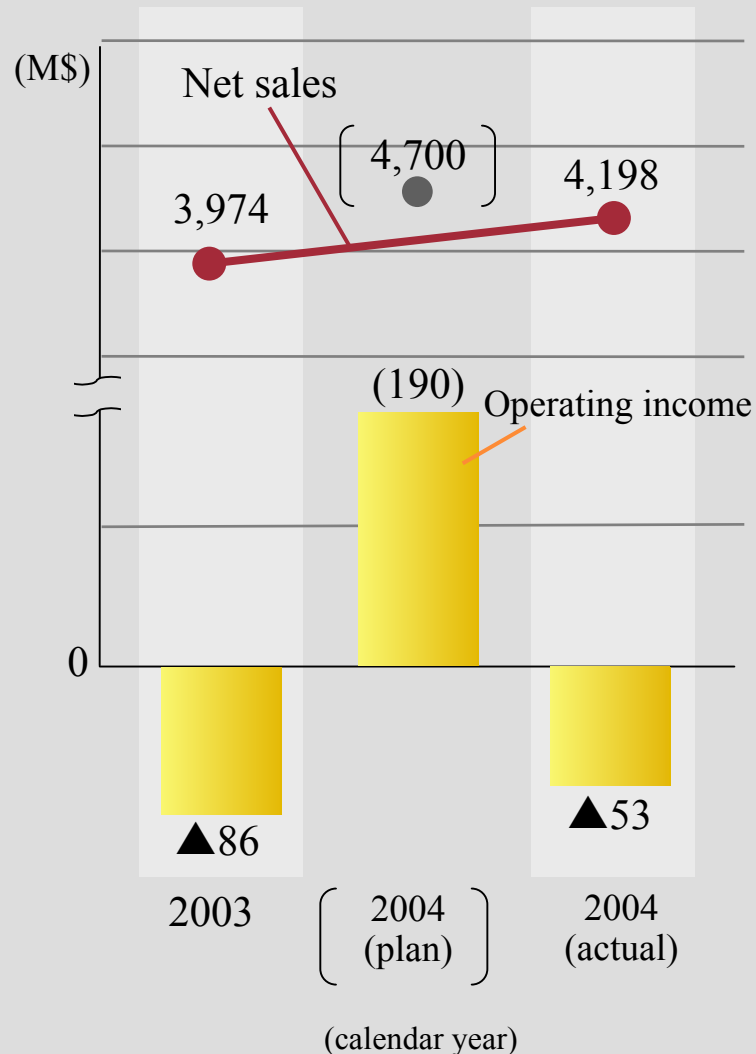
Intense price-based competition, mainly for 2.5-inch and smaller HDDs, but market is growing steadily, chiefly for CE (consumer electronics) applications

CAGR 2004-2009

- * 1.0-inch HDD: 48%
- * 1.8-inch HDD: 33%
- * 2.5-inch HDD: 27%
- * 3.5-inch HDD for desktop PCs: 5%
- * Server HDDs: 10%

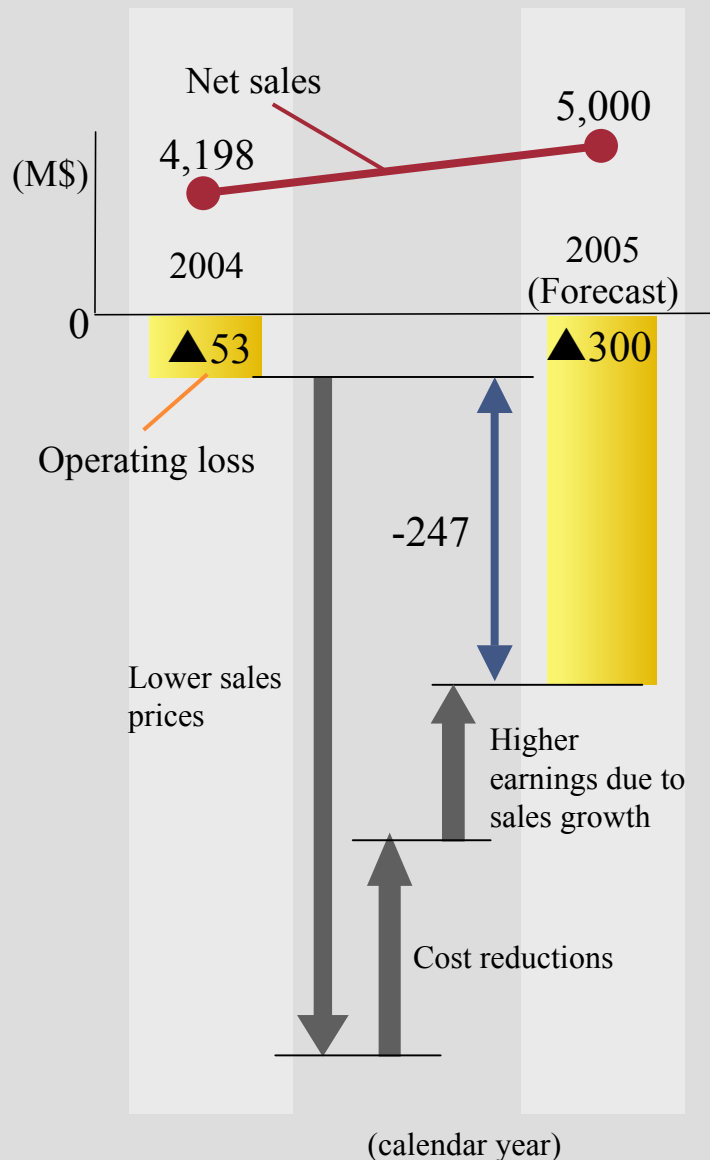
Strategic use of a broad product portfolio

- 1.0-inch: Drive into cell phones and portable media players
- 1.8-inch: Leverage growth as strategic product
- 2.5-inch: Preserve the top market share
- 3.5-inch: Reap economies of scale through more growth
- Server HDDs: Recapture market share



Major causes of difference vs. plan

- Lower prices and shipment volume of products for mobile due to intensifying competition
- Delay in start of shipments of new products for servers
- Delay in improvement of production yields of heads and media



Increasingly heated competition

- Lower prices (annual decline of 20%) of products for mobile devices due to new competitors and intensifying competition
- Intense price-based competition for products used in consumer electronics

Cost reductions

- + Use of low-cost designs
- + More efficient production processes
- + Workforce reduction
- Delay in development of some new products
- Slow improvement of head and disk process yields

Benefits of growth in sales volume (46 M in 2004 to over 60 M in 2005)

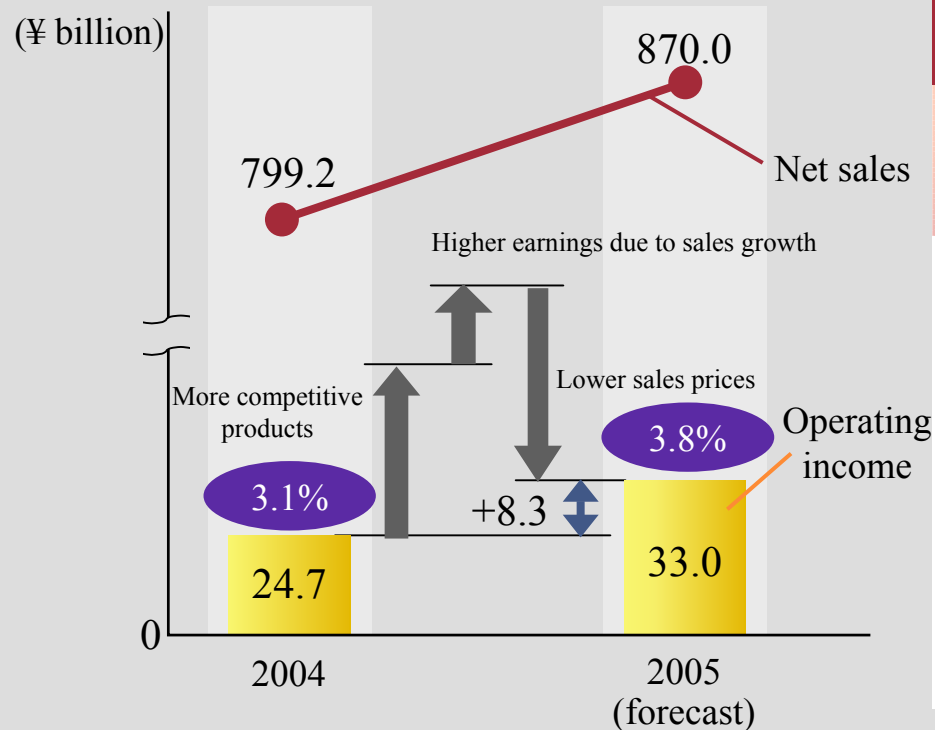
- Strong position in CE market
- Increase share of 3.5-inch desktop HDD market (target is share of at least 10% in 4Q of 2005)

Total year-on-year difference of ▲US\$247 million

	Actions	2005	2006~ (calendar year)
Time to Market	●Use modules to raise efficiency of new product development	→	
	●Integrate head and disk manufacturing processes	→	
	●Accelerate customer qualifications of server HDDs	→	
	●Redeploy Japan R&D resources on high-growth fields	→	
Supply and production Commitment	●Use the same manufacturing equipment to increase flexibility	→	
	●Upgrade and expand production bases in Thailand, Philippine and China	→	
	●Begin using a new supply chain management system	→	
Cost reductions	●Transfer some administrative tasks to Singapore	→	
	●Manufacturing disks in China	→	
	●Assembling HDDs in China		→
	●Minimize the San Jose site		→
	●Increase output capacity (more than 30%) by using the femto slider	→	
Improve quality	●Improve production yield by using new head materials		→
	●Adopt new inspection standards	→	
	●Raise product quality through total quality control campaign	→	

Market trends

- Market in Japan is contracting, except for networks.
- Outside Japan, there is growth in moves to strengthen IT infrastructures, such as by cutting TCO through server integration, but price-based competition is fierce.



Basic Strategies

Reinforce manufacturing efficiency by integrating hardware and software

- Make backbone products more competitive

Top 3 → Storage (SAN/NAS)

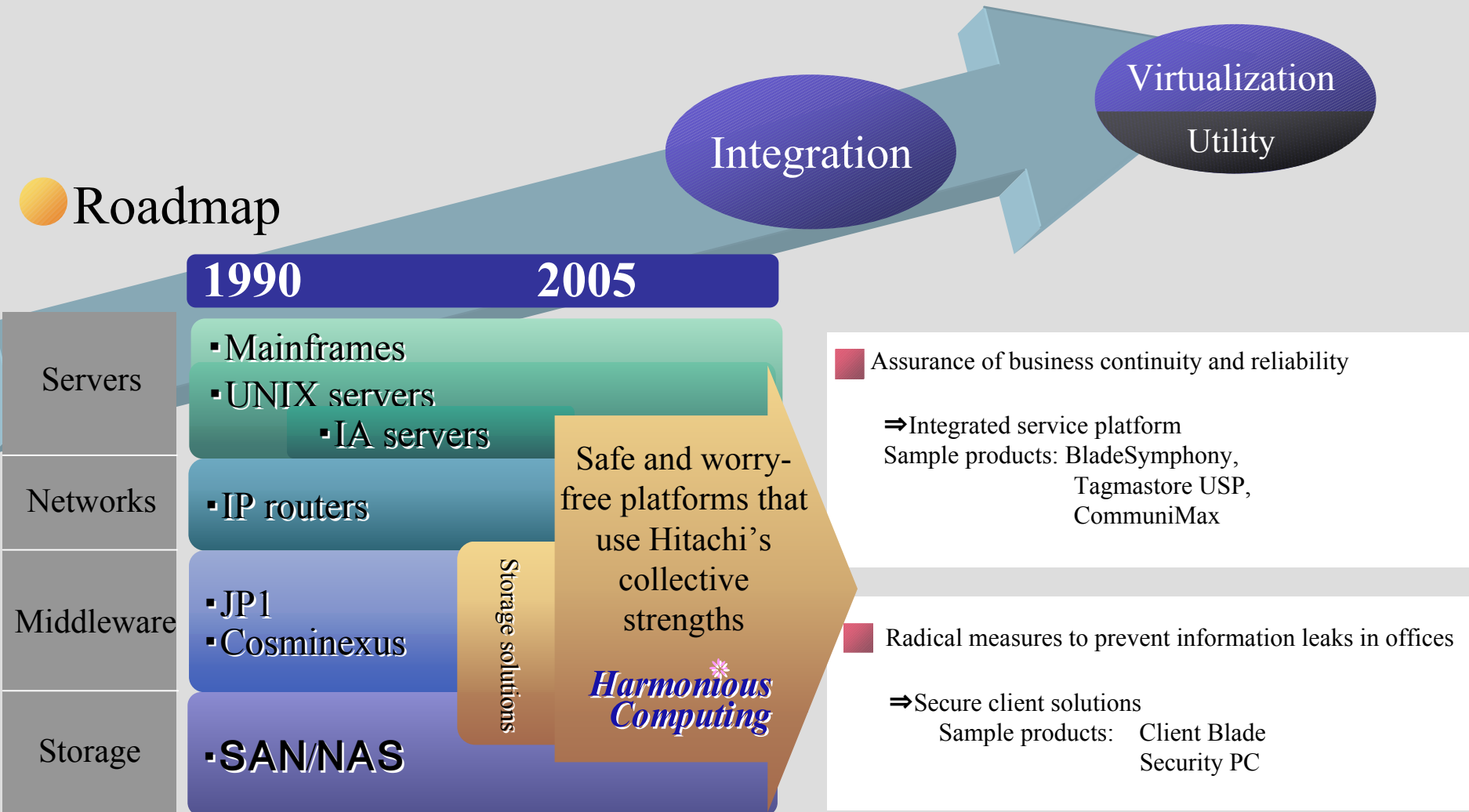
The challenge → Servers

Niche top → Networks

- Strengthen ability to sell products

Develop the platform business by using integration and virtualization technology to supply more competitive products

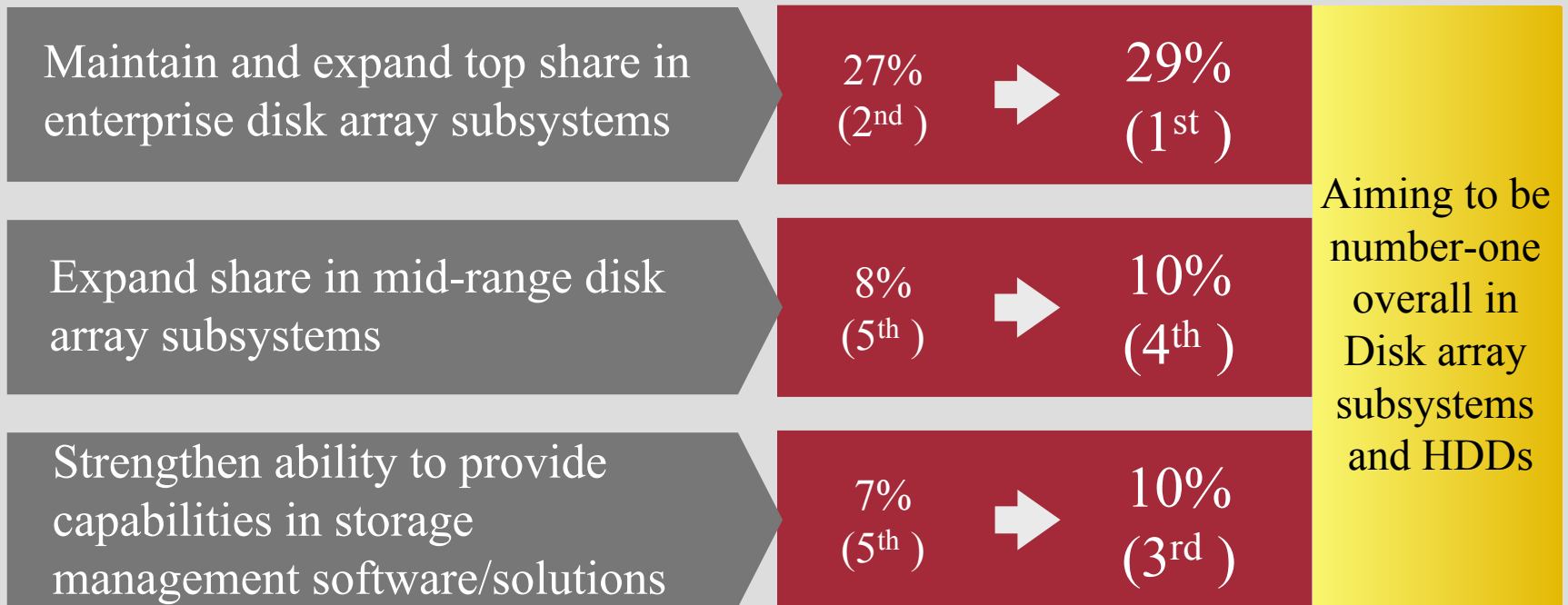
● Roadmap



Fiscal 2005 targets: Net sales of ¥280.0 billion, 8% operating margin

Establish leading position in enterprise market by using Tagmastore USP to differentiate services; become more competitive in the mid-range market

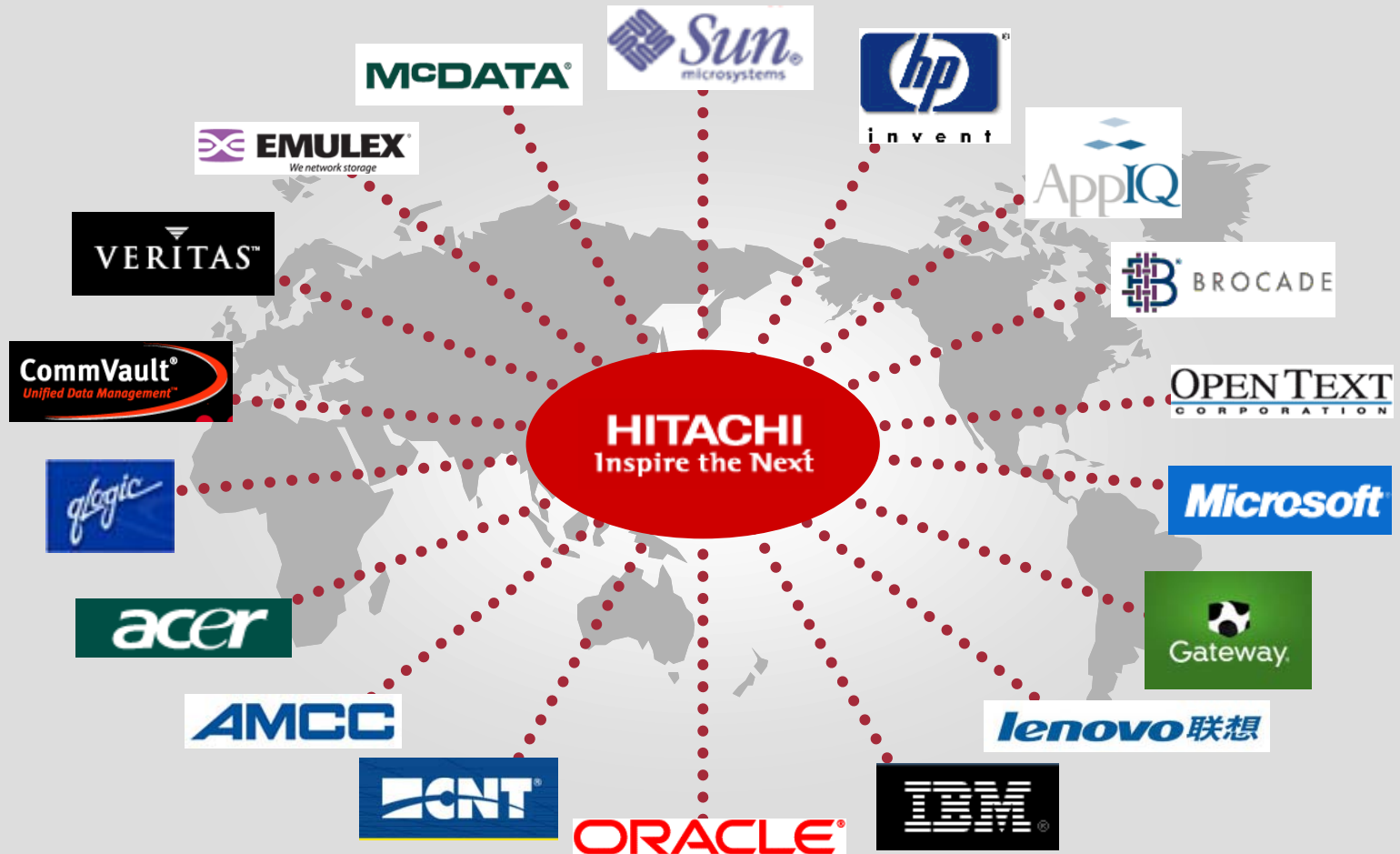
Worldwide share (2004-2006)

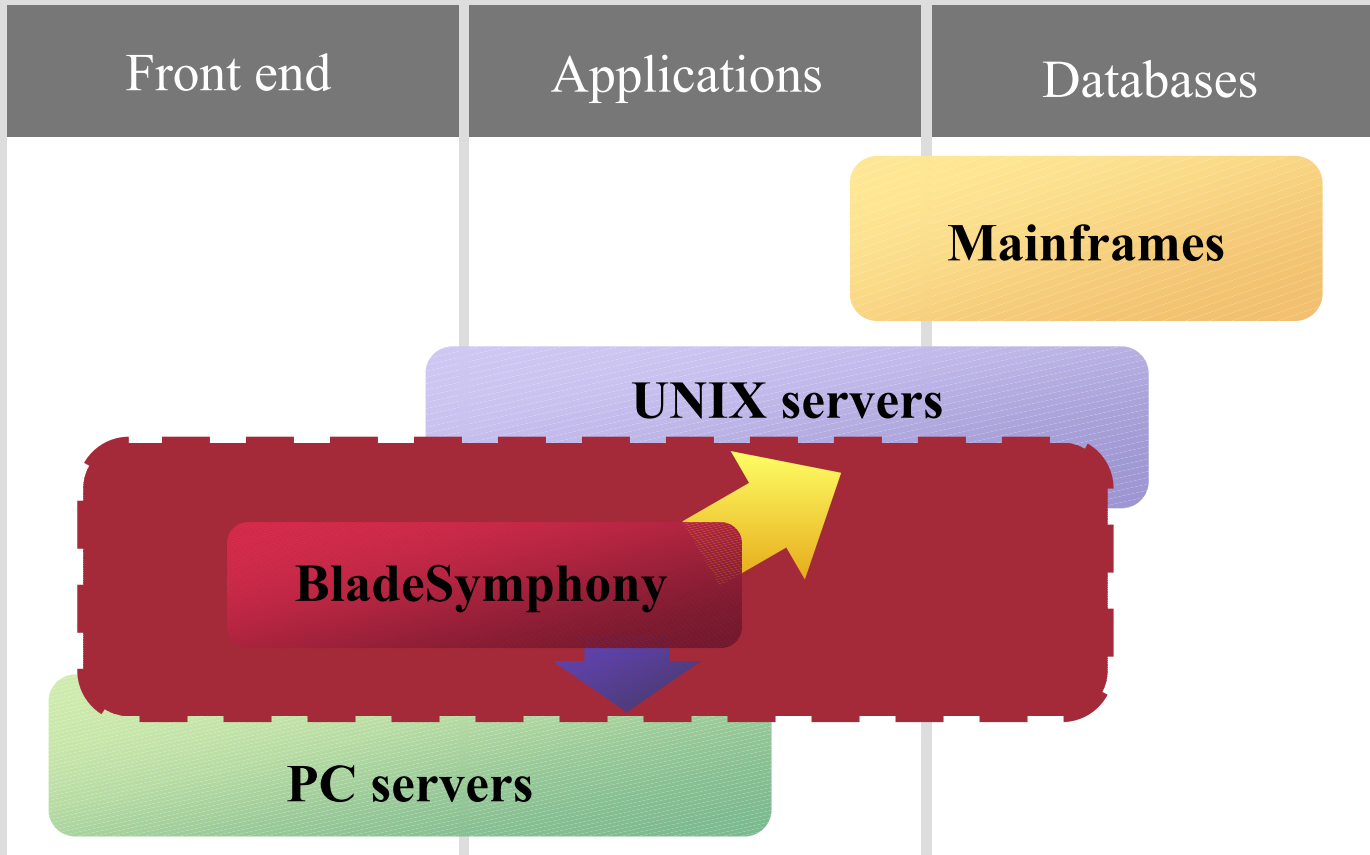


Disk array subsystems: capacity base

Management software: monetary base *Source: Hitachi calculations

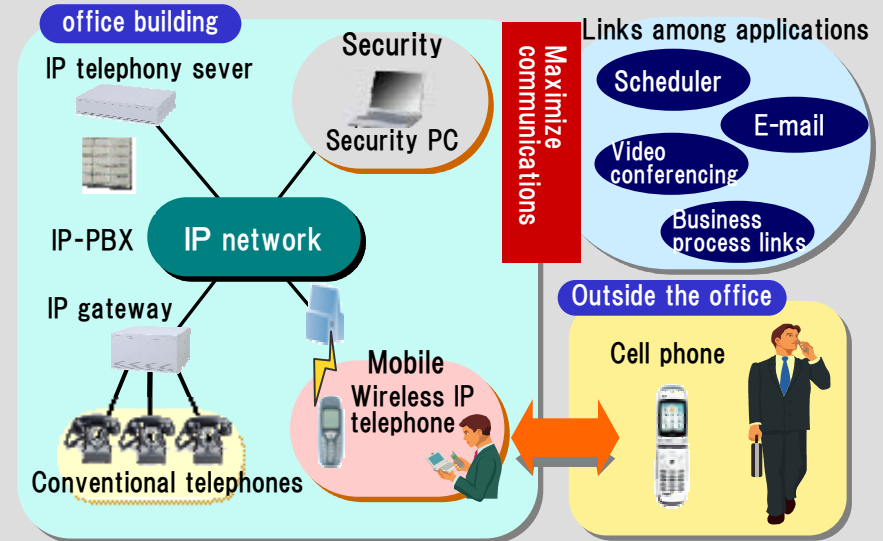
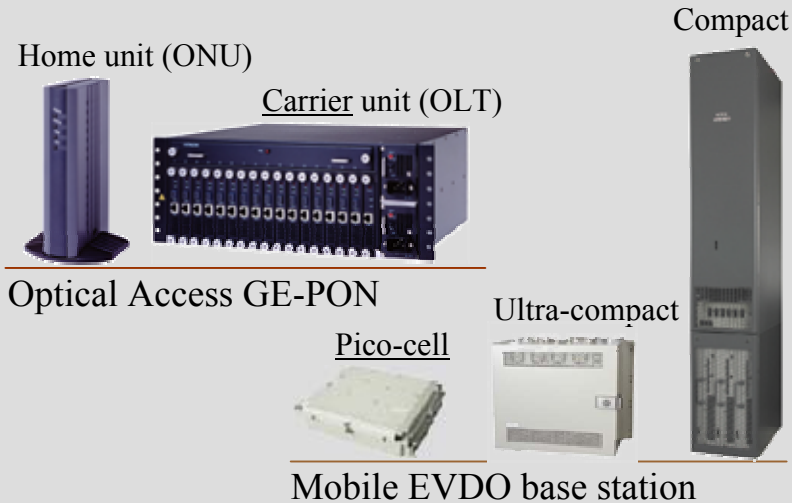
Expand a global network of partners





Optical Access/Mobile Business

IP Telephony (CommuniMax) Business



Initiatives

Initiatives

- Optical Access
Focus on PON *, use alliances to start operations in China and North America

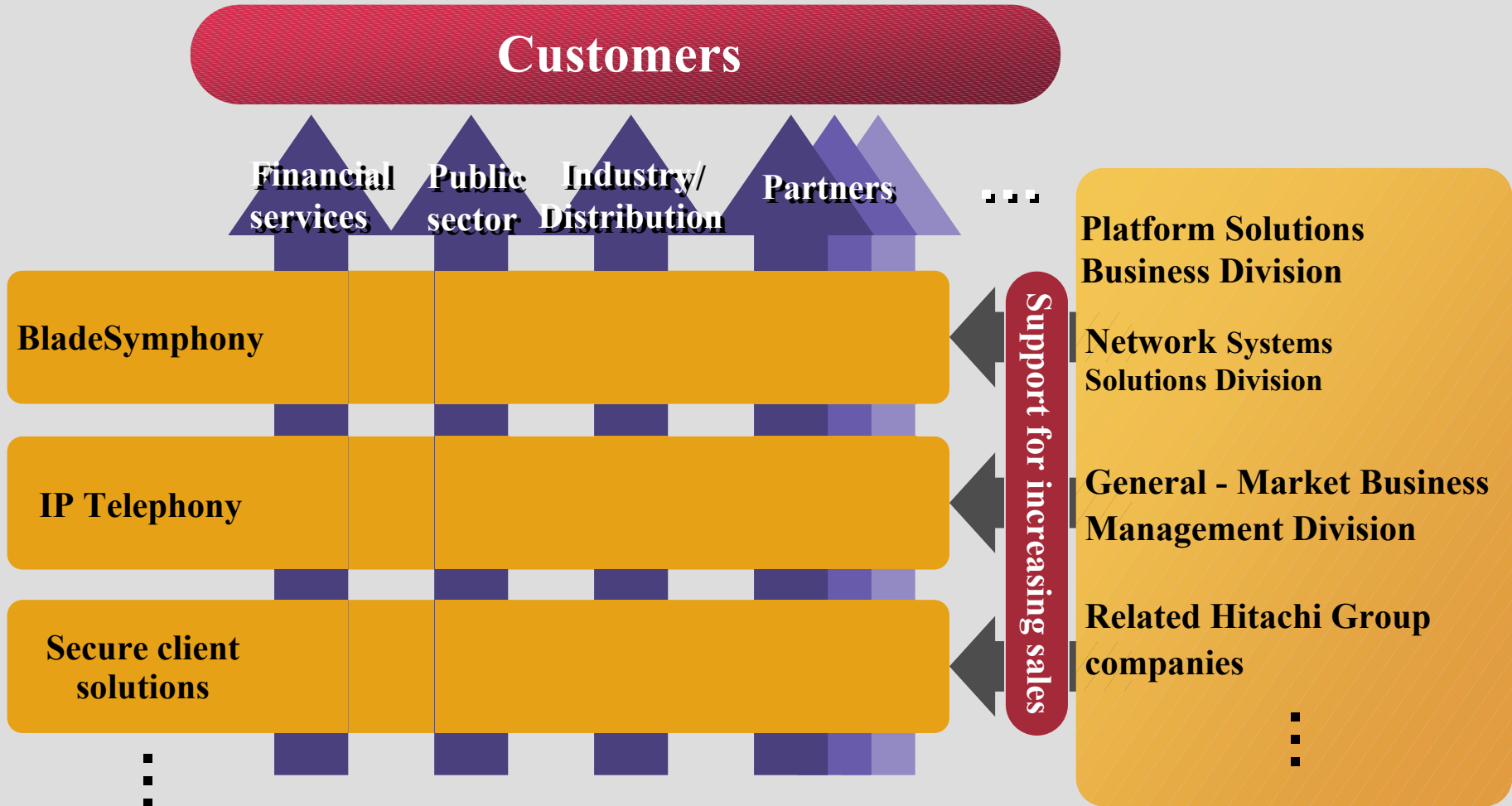
- Mobile
Focus on EVDO base stations, top priority is growth in China

- Collaboration with Hitachi Group Companies and business partners

- One-stop provision of solutions linked with applications

*PON:Passive Optical Network

Strengthen product sales capabilities by extending support to raise sales of strategic products



Measures to Strengthen Consolidated Group Management

- **Hitachi and major group companies → Adopted Committee System (June 2003)**
- **Established Hitachi Group Headquarters (April 2004)**
- **Established Group Summit to create an optimal information and communications systems business (June 2004)**

Hitachi Information Systems, Ltd.
Hitachi Systems & Services, Ltd.
Hitachi HBM Co., Ltd.

Hitachi Software Engineering
Hitachi Electronics Services Co., Ltd
Hitachi Communication Technologies, Ltd.



Raise consolidated corporate value and pursue business synergies

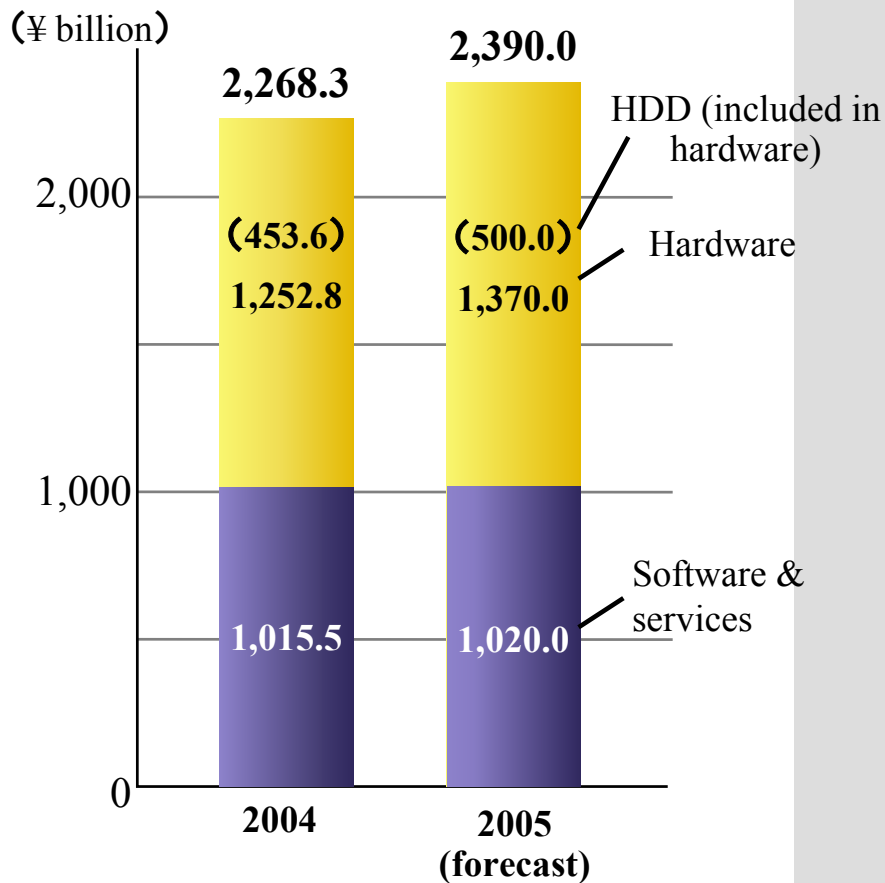
Clarified missions

- **Hitachi:**
Overall group supervision, large-scale projects, focus on new businesses
- **Hitachi Group companies:**
Focus on businesses in strongest fields and using competitive technologies

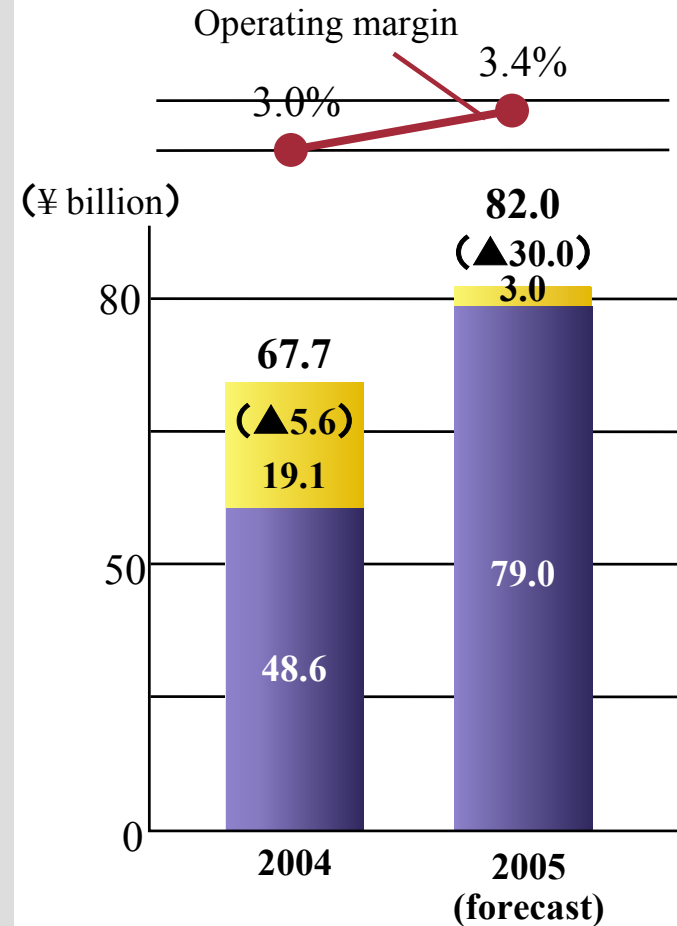
Strengthening operations

- **Enhance technological strengths through adoption of common productive technologies**
- **Reduce costs through groupwide procurement**

Net Sales

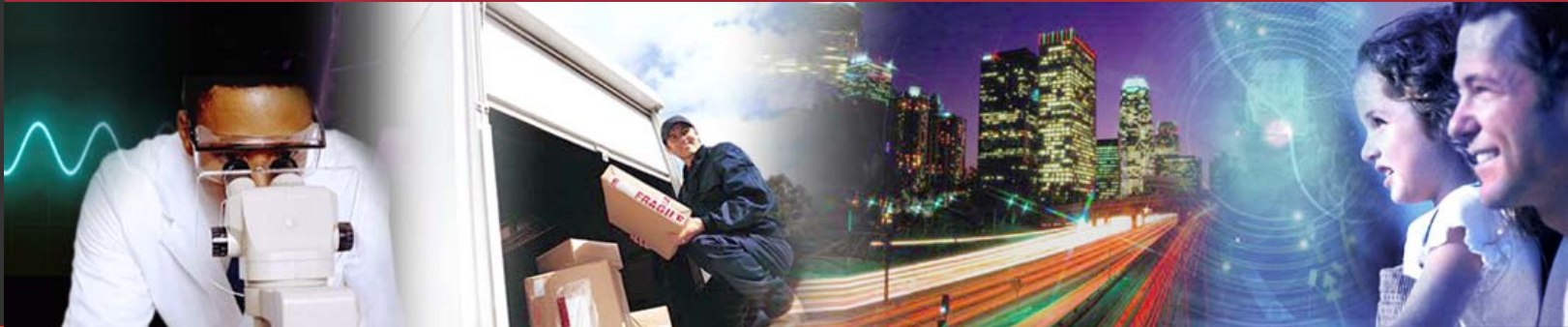


Operating Income



3

Setting the Stage for More Growth



uVALUE



Business Portfolio

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IT



Creating value with customers



Business

Living

Communities

Vertically
integrated
solutions

Traceability Eco & PLM e-documents Security Others

Secure
platforms

Business service platforms

Common business services for logistics, financial services,
purchasing and other functionsIT service platforms using Harmonious Computing
—Secureplaza, SANRISE, BladeSymphony, JP1—

R&D involving leading-edge technologies

The secure ubiquitous office

Value from providing information security that facilitates freed work style in people's work places



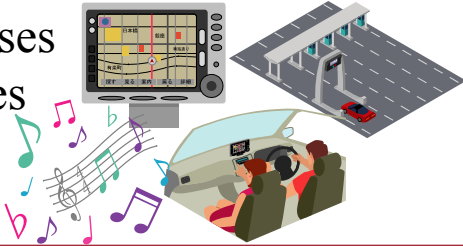
Business traceability

Value from real-time monitoring all aspects of business operations



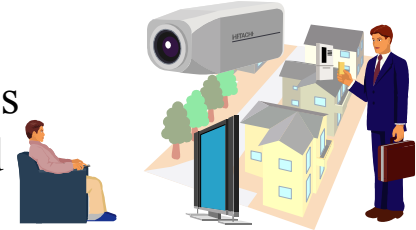
Advanced automotive functions

Value from businesses that link automobiles with communities



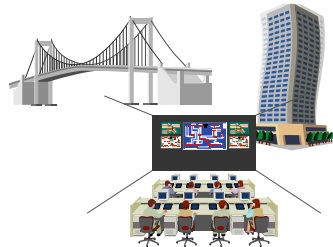
Hospitality, living spaces

Value from facilitating lifestyles that are healthy and free of worries



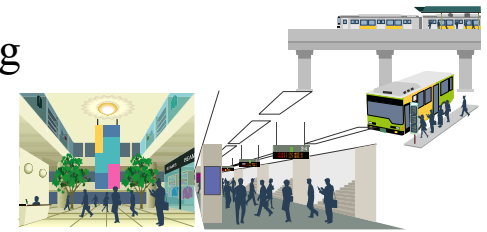
Disaster risk management

Value from easing public fears about disasters by efficient risk management for various contingencies



Pleasant communities

Value from creating public and commercial spaces filled with vitality



Secure Client Solution



Rated No. 1 as a next-generation client

Source: NIKKEI COMPUTER magazine, June 13



Hitachi's Strengths

- Expertise in leading-edge R&D
 - Bio-authentication, encryption, digital watermarking, etc.
 - Security technology for e-Japan concept

- Provision of total solutions leveraging Hitachi Group's collective strengths
 - Security solutions
Secureplaza
 - Solutions that combine physical and cyber security

- Develops markets by being the first user—employ knowledge gained through in-house use of new technologies
 - Electronic authentication, information leak prevention, integrated operation and management

Finger Vein Authentication Solution



PC log-in



Room access management



ATM

Meat Traceability

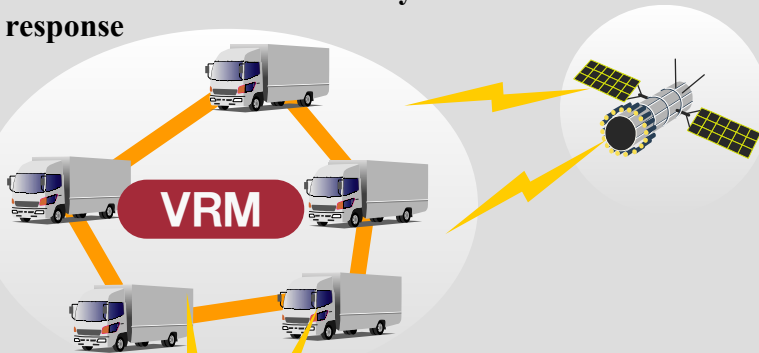


Hitachi's Strengths

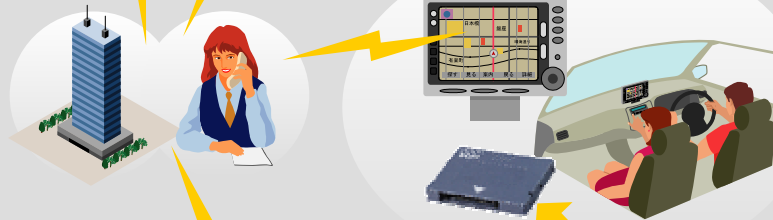
- μ -chip (wireless IC tag) and many other sophisticated ID management technologies and their application
- Inter-system integration and linking technology gained through operation of TWX-21, Japan's largest e-marketplace
- As a manufacturer, Hitachi has knowledge in IT device attachment and operations gained through its own operations
- Ability to offer total solutions covering the entire product life cycle, including warehouse management and distribution

Car Information Systems

Efficient and environmentally
response



Comfortable and
convenient



Safe and
worry-free



Hitachi's Strengths

- Ability to realize synergies from automotive equipment, car navigation, and data system businesses within the Hitachi Group

(Xanavi Informatics Corporation, etc.)

- Sophisticated traffic data forecasting technology made possible by business system expertise in the field of transportation

- Ability to create new auto information infrastructures by using iVDR, automotive HDDs and other components

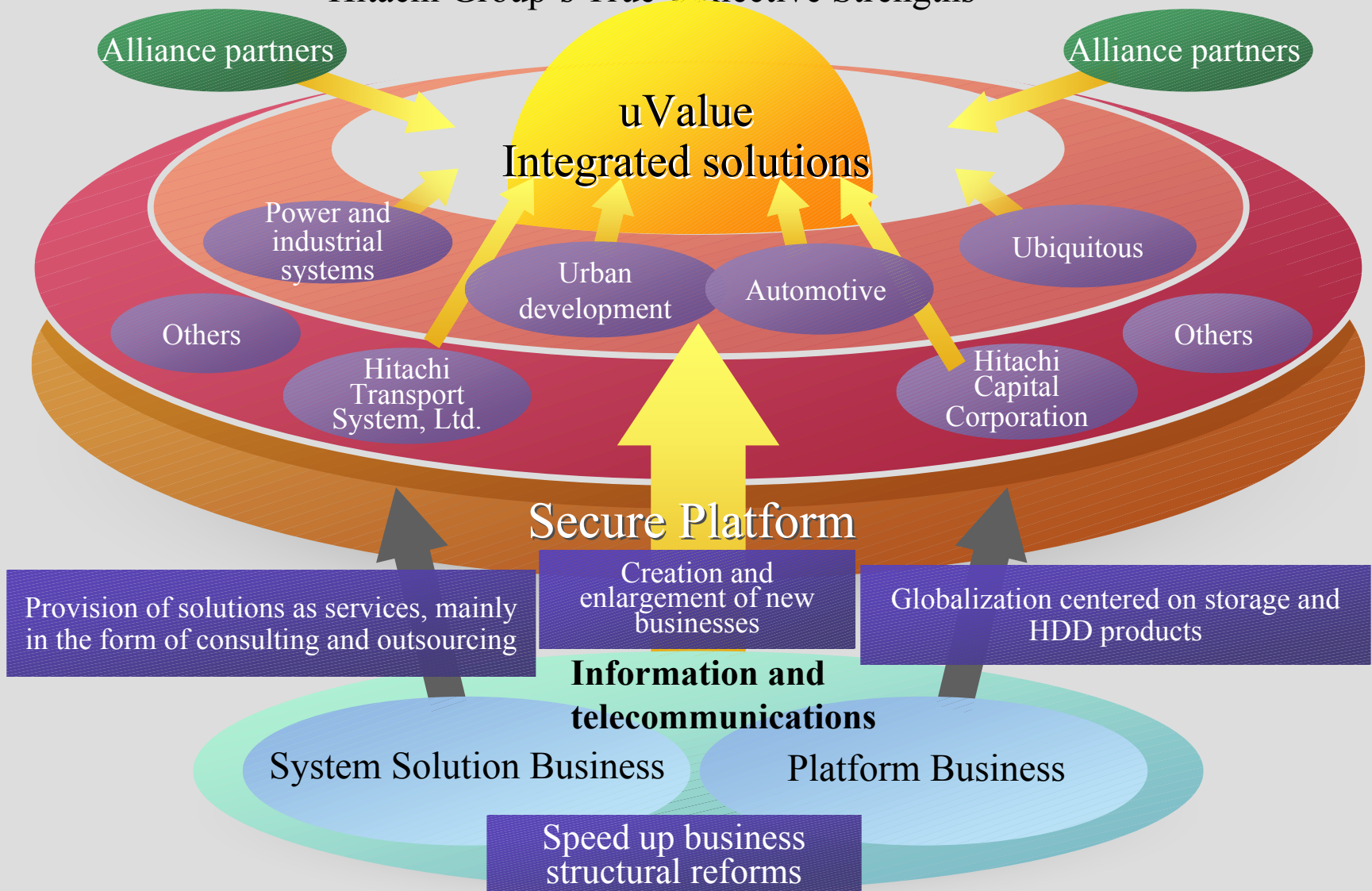
- A broad range of diagnostic technologies (noise, vibrations, etc.) using Hitachi Group products

* VRM: Vehicle Relationship Management

* iVDR: Information Versatile Disk for Removable usage

What We Aspire to Be in 2010

A Focus on Strategic Fields That Leverage the Hitachi Group's True Collective Strengths



This document contains forward-looking statements which reflect management's current views with respect to certain future events and financial performance. Words such as "anticipate," "believe," "expect," "estimate," "intend," "plan," "project" and similar expressions which indicate future events and trends are used to assist readers in identifying these "forward-looking statements." Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the "forward-looking statements" and from historical trends. Certain "forward-looking statements" are based on current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on "forward-looking statements," as such statements speak only as of the date of this document.

Factors that could cause actual results to differ materially from those projected or implied in any "forward-looking statement" and from historical trends include, but are not limited to: rapid technological change, particularly in the Information & Telecommunication Systems segment and Electronic Devices segment; uncertainty as to Hitachi's ability to continue to develop and market products that incorporate new technology on a timely and cost-effective basis and to achieve market acceptance for such products; 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; 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 on imports; uncertainty as to Hitachi's access to, and ability to protect, 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.

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