

Management Strategy

June 4, 2002

HITACHI
Inspire the Next

FY2001 Results and FY2002 Estimates

| | <u>FY2001</u> | <u>y/y</u> | | <u>FY2002 (E)</u> | <u>y/y</u> |
|---|----------------------------|------------|---|-----------------------------|------------|
| | <u>Ended Mar. 31, 2002</u> | <u>(%)</u> | | <u>Ending Mar. 31, 2003</u> | <u>(%)</u> |
| Net sales: | 7,993.7 | (95%) | : | 8,100 | (101%) |
| Operating income: | -117.4 | (—) | : | 200 | (—) |
| Information & Telecommunication Systems | 35.7 | (73%) | | 75 | (210%) |
| Electronic Devices | -163.6 | (—) | | -3 | (—) |
| Power & Industrial Systems | 55.0 | (71%) | | 81 | (147%) |
| Digital Media & Consumer Products | -14.6 | (—) | | 19 | (—) |
| High Functional Materials & Components | -22.0 | (—) | | 18 | (—) |
| Logistics, Services & Others | 3.2 | (39%) | | 4 | (123%) |
| Financial Services | 37.4 | (85%) | | 36 | (96%) |
| Income before income taxes and minority interests: | -586.0 | (—) | : | 190 | (—) |
| Net income: | -483.8 | (—) | : | 60 | (—) |

(billion yen)

“V-Shaped” Recovery

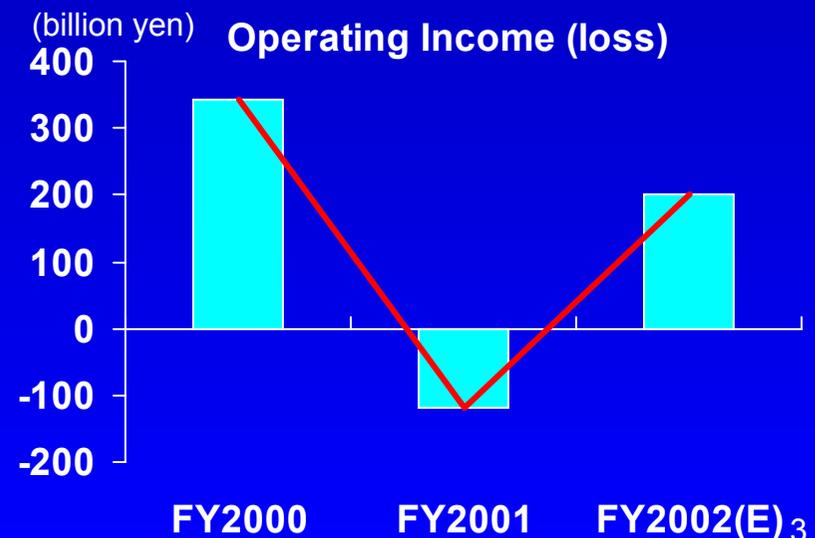
FY2001: Restructuring charges

| | |
|-------------------------------|-------------------|
| Restructuring of operations: | 140.4 billion yen |
| Special termination benefits: | 185.1 billion yen |

FY2001: Operating loss: -117.4 billion yen

| | |
|-------------------------------------|--------------------------|
| Reduction of fixed costs: | +240.0 billion yen |
| Recovery in utilization: | +180.0 billion yen |
| Lower cost of materials: | +320.0 billion yen |
| (Procurement Renewal Project (PRP): | 160.0 billion yen) |
| Lower selling prices: | -400.0 billion yen |
| <u>Others:</u> | <u>-22.6 billion yen</u> |
| Net improvement: | +317.4 billion yen |

FY2002: Operating income: 200.0 billion yen (projected)



Pushing Ahead With Medium-Term Business Plan

Reforms achieved by Medium-Term Business Plan: "i.e. HITACHI Plan"

(1) "Best Solutions Partner"

- Bolstered global solutions business
- Structural reforms by Group realignments, alliances & acquisitions

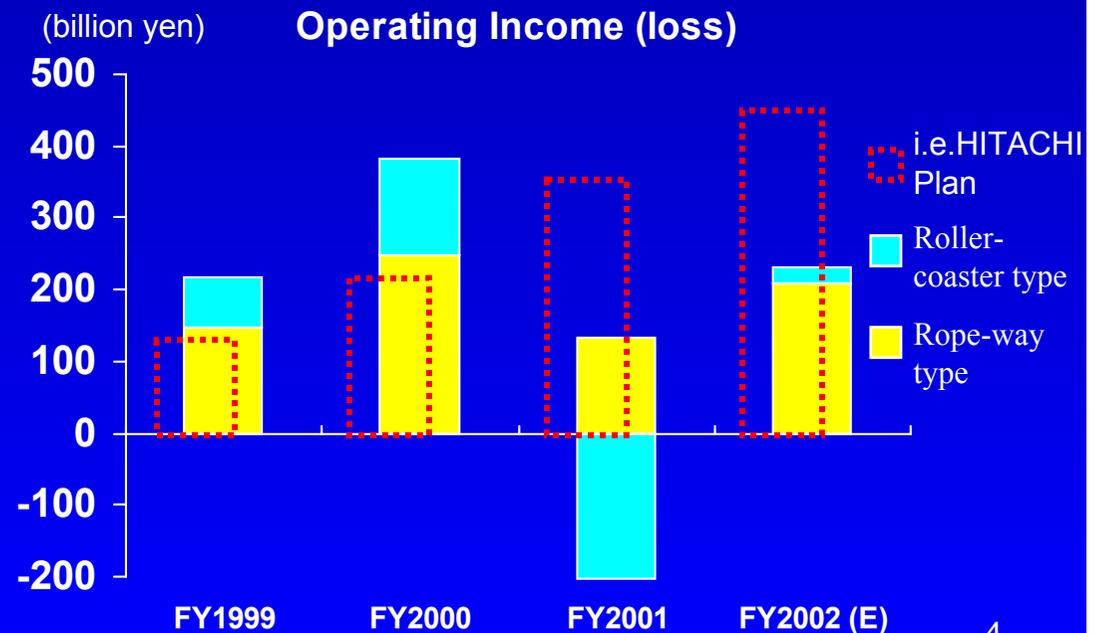
(2) Speeding up decision making, increased efficiency in management systems

(3) Employee evaluation and remuneration

systems based on performance

(4) Implementation of brand management

(5) Increased communication both internally and externally, driving sense of urgency



Accelerating Corporate Innovation Initiative (CII): (1) Procurement Renewal Project (PRP)

Reduction of materials purchasing costs:

Centralized Net-based purchasing

Revision of procurement specifications and methods

Slashing distribution costs

Original plan:

reducing 600 billion yen in FY2002 (Compared to FY2000)

FY2001: 260 billion yen FY2002: 640 billion yen (projected)

(both compared to FY2000)

Accelerating CII: (2) Project C

To secure funds for strategic investments and reduce interest-bearing debt:
shorten by 25% turnover of inventory and accounts receivable

At September 30, 2000: Turnover of 204 days (Inventory: 99; Accounts receivable: 105)

< Original FY2001 plan: 175 days; improve cash flow by 800 billion yen >

FY2001 results: 164 days (Inventory: 70; Accounts receivable: 94)

Cash flow improvement: 1,060 billion yen

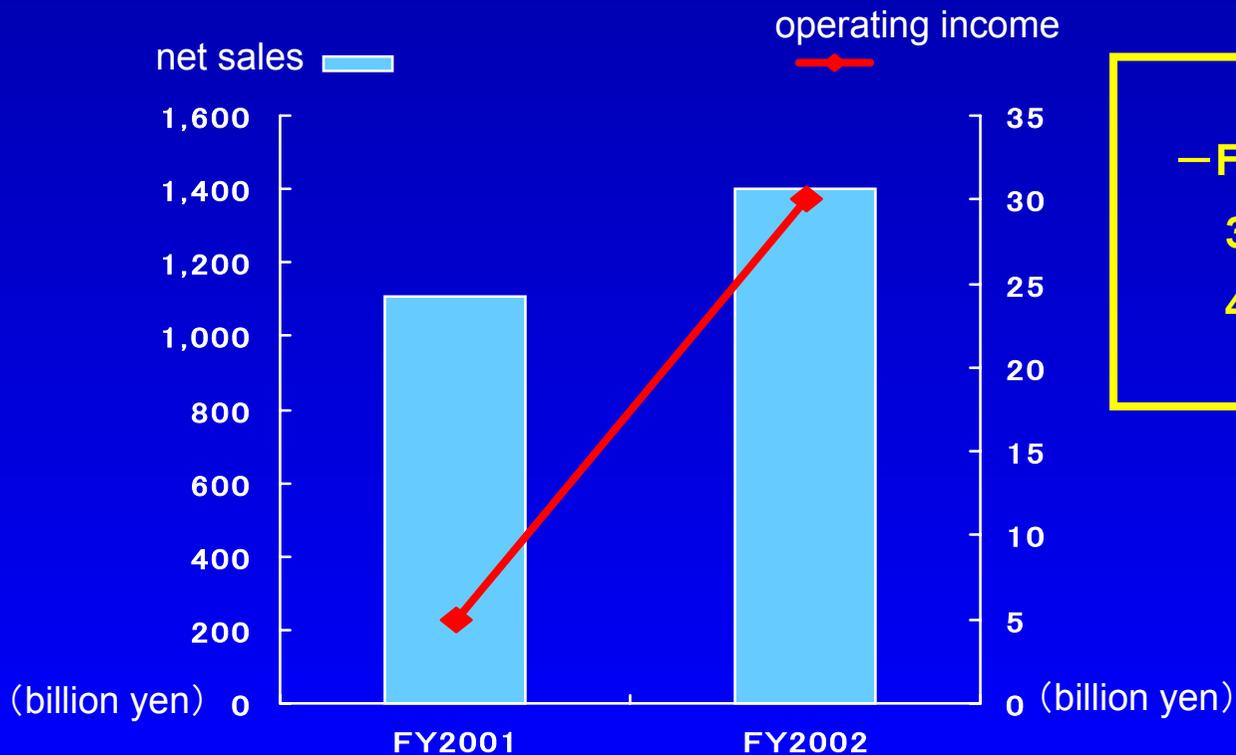


Accelerating CII: (3) Project A

Developing businesses that are the best in the world

Project A Sales – FY2001: 1,110 billion yen; FY2002: 1,400 billion yen

Examples: Storage solutions, e-government solutions, electricity sales, advanced medical solutions, ITS, PDP televisions, F-ZTAT microcomputer



—FY2003 Project A target—
30% of net sales
40% of operating income

Accelerating CII: (4) Global Strategy (5) Project E

■ Global Strategy

Overseas sales ratio:

From 32% in FY2001 to projected 45% in FY2005

Aggressive M&A's in growing business fields

Expand business in China

■ Project E

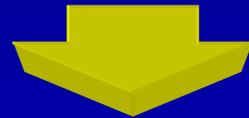
Using IT capabilities to dramatically upgrade Hitachi's operational structure

Investing 15 billion yen to build a total supply chain management (TSCM) system and daily close system by April 2003

(in addition to 200 billion yen IT investment projected under the i.e. Hitachi plan)

Financial Strategy

Long-term credit rating: Aim to maintain single-A or higher



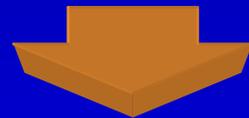
Improve D/E ratio

March 2002: 0.97

→ March 2004: 0.8 (projected)

(Without financial services: 0.68

→ : 0.5)



- Use Project C to improve cash flow

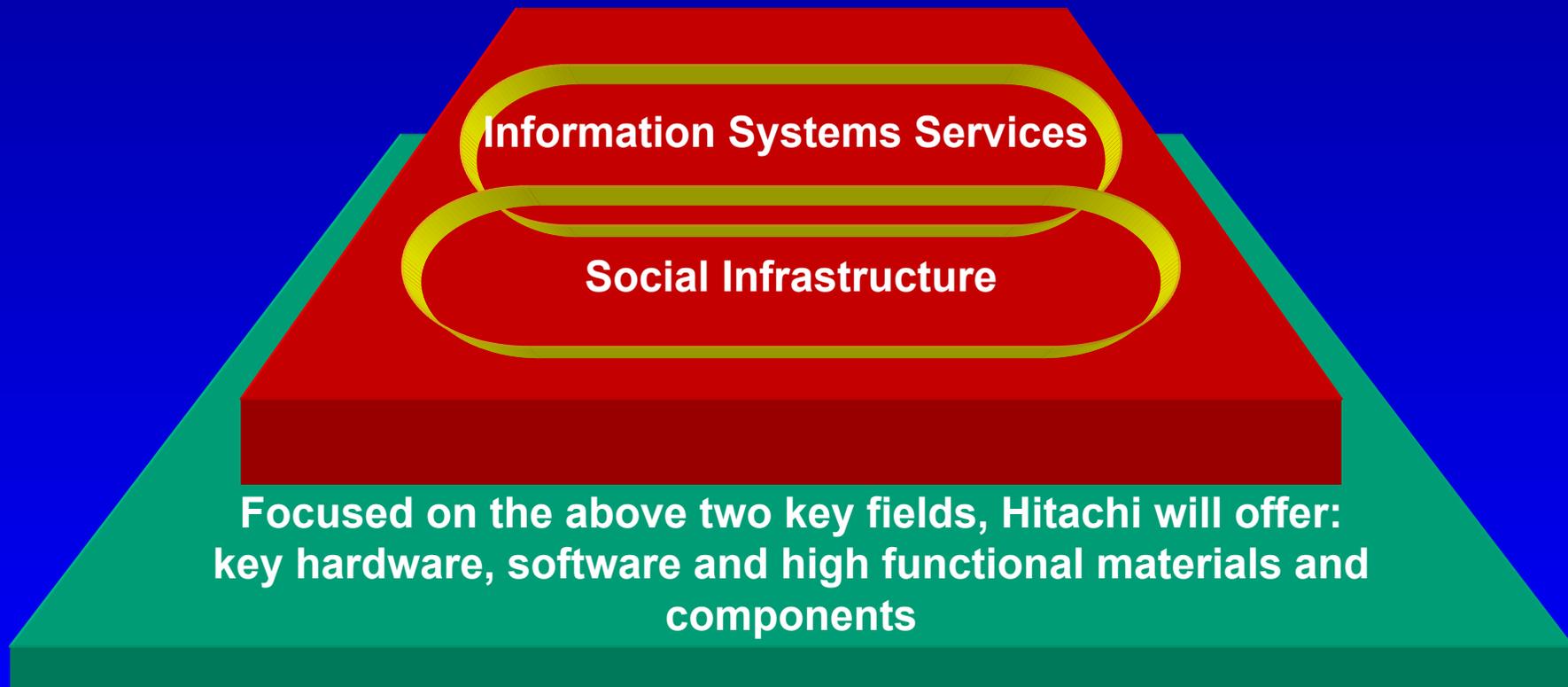
- Increase use of the Hitachi Group Pooling System

Loans for Group companies(aimed to reduce debt):

From 234.9 billion yen in March 2002 to 500 billion yen
in March 2003

Vision for Hitachi's Future

- Hitachi aims to be a global supplier of total solutions, offering IT- and knowledge-based Information Systems Services and Social Infrastructure together with key hardware, software and high functional materials and components.



“Future Inspiration Value” (FIV)

(FIV: Market Efficiency Value Added + ϵ x Social and Environmental Value)

Investment criteria

Profitable within 3 years and eliminate accumulated losses within 5 years

Withdrawal criteria

2 consecutive years in the red: warning issued
After warning, if the rebuilding plan is not approved or if within 2 years business does become profitable: withdraw or sell

Implementing FIV

Use FIV to evaluate results in each business.
Make managers fully aware of cost of capital by reflecting FIV on bonuses starting from FY2002 and through education

New Group Management Framework

Integrated Management of the Hitachi Group

- Reduce the number of Group companies by 300
- Clarify the management framework for the Group
 - 1) Group A: Consolidated Group Management

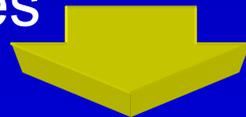
Companies function both strategically and operationally in step with the Hitachi Group
 - 2) Group B: Consolidated Vision and Brand

Companies share management vision and brand as member of the Hitachi Group
 - 3) Group C: Consolidated Finances

Companies with autonomous management
- Studying new corporate governance system suitable for Group management

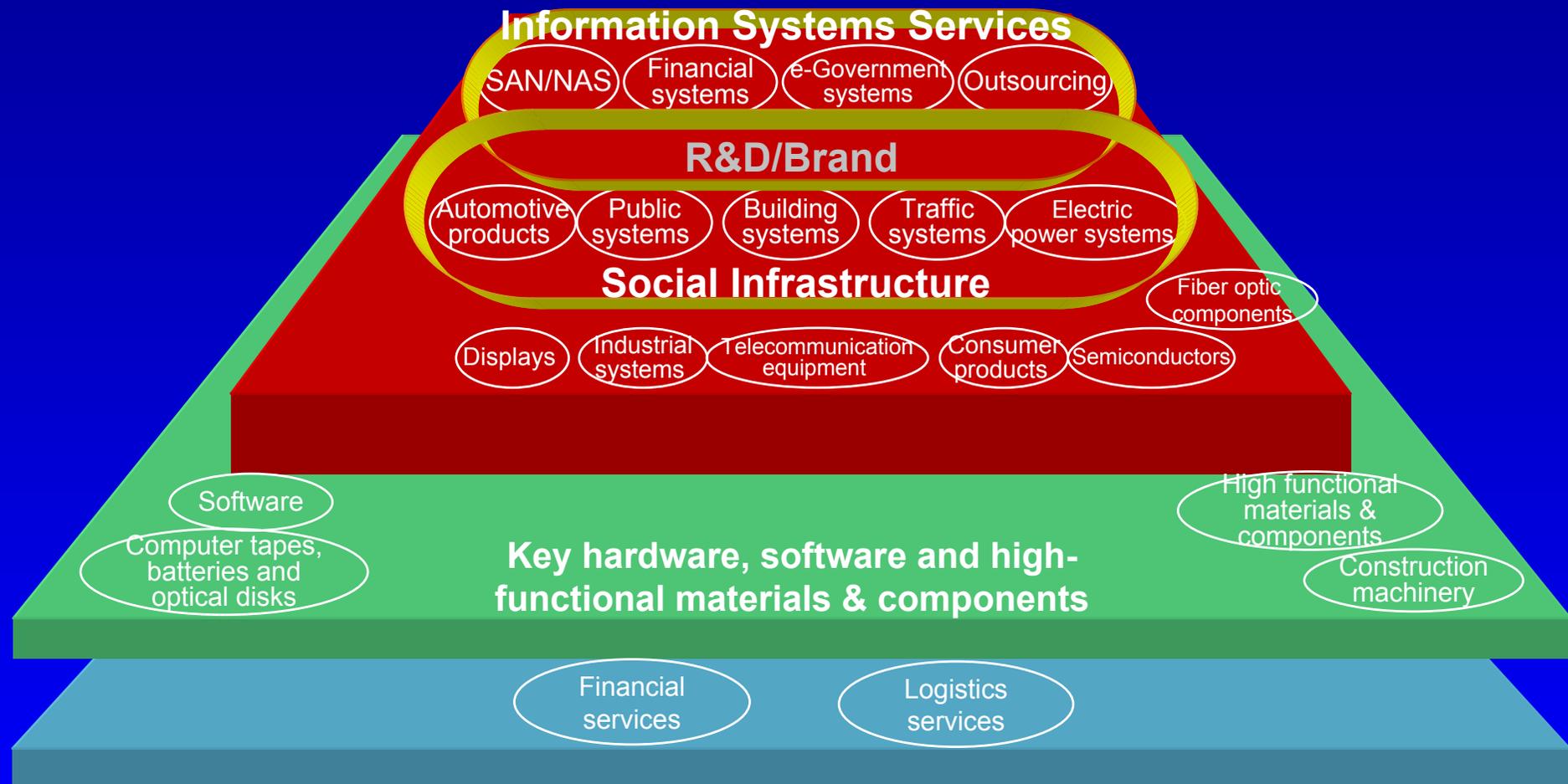
Realignment Scenario for Hitachi Businesses

- Concentrate resources on information systems services and social infrastructure
- Develop powerful hardware and advanced software; offer full-fledged services
- Implement new framework for Group management; use FIV to proactively decide when to withdraw from or invest in businesses

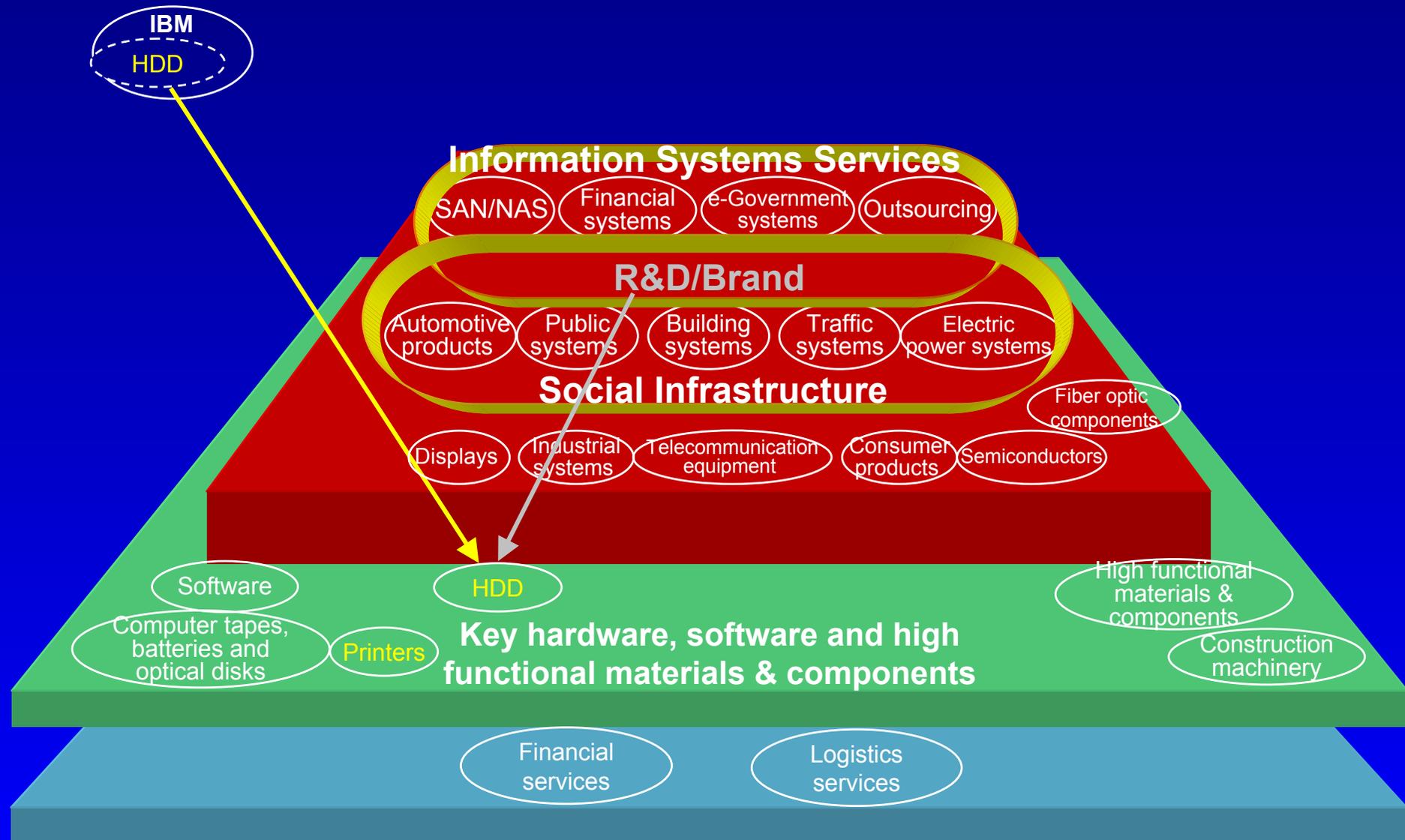


Strengthening Hitachi's DNA
as the global technology leader
(Produce conglomerate premium)

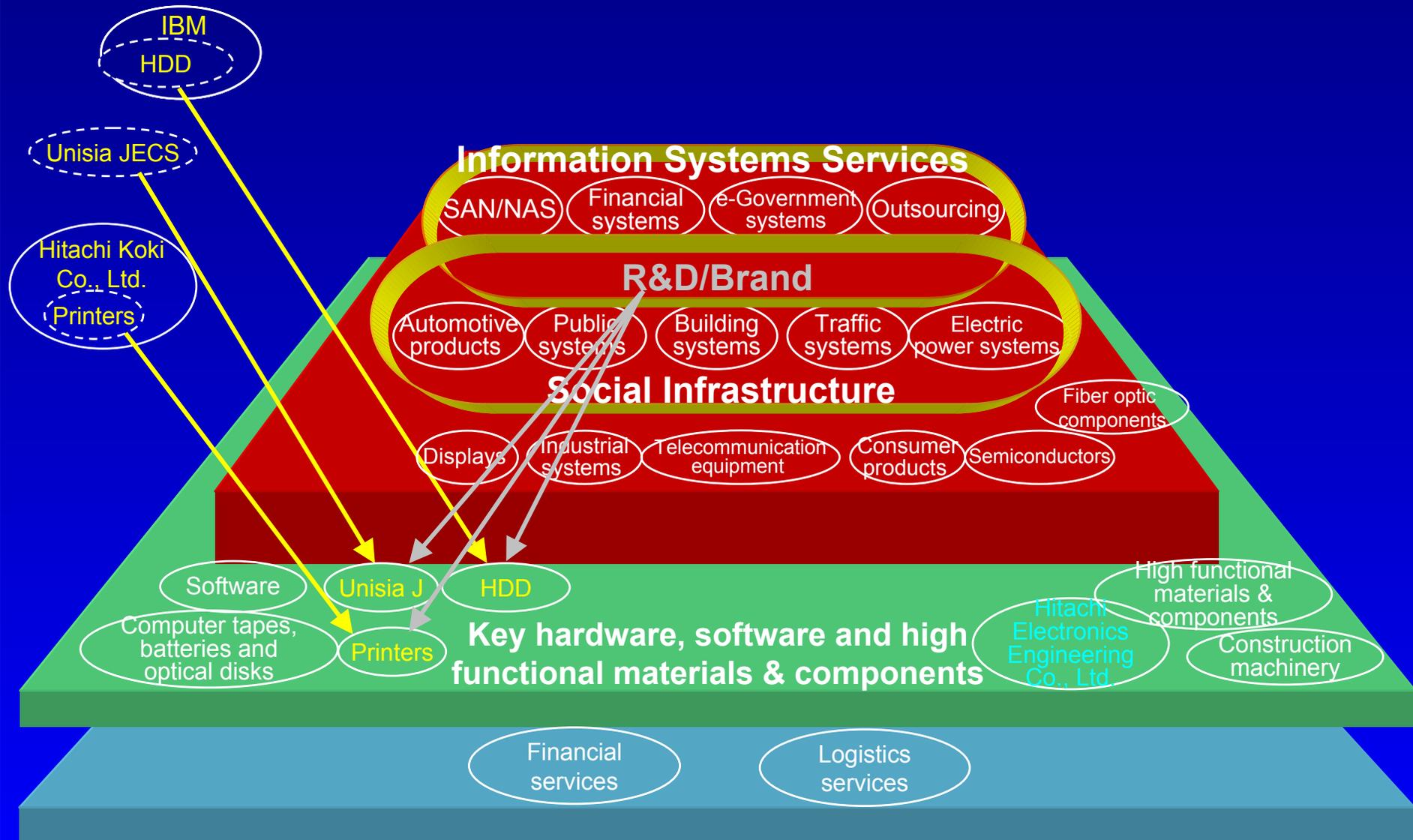
Progress in Business Realignmentments



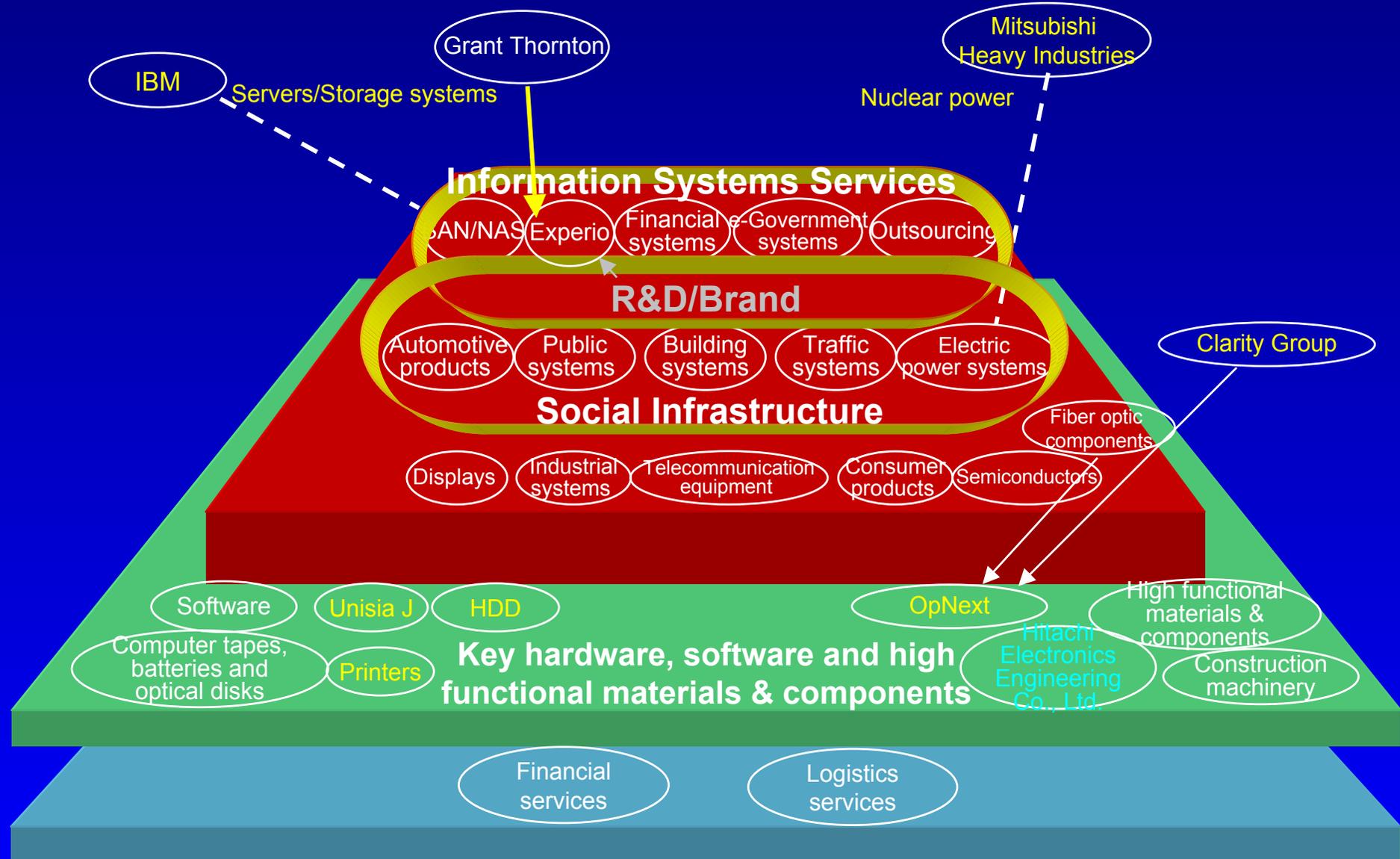
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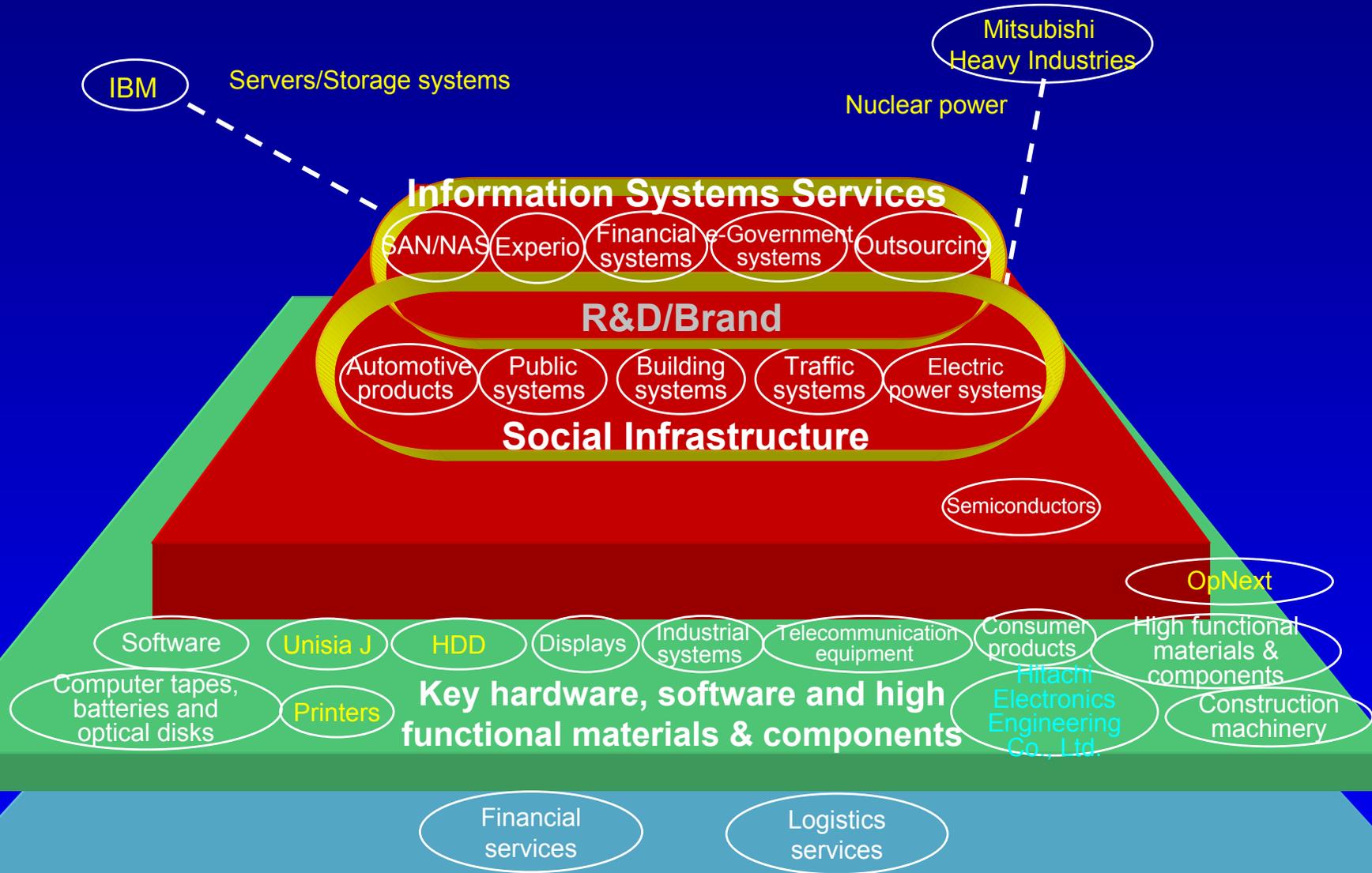
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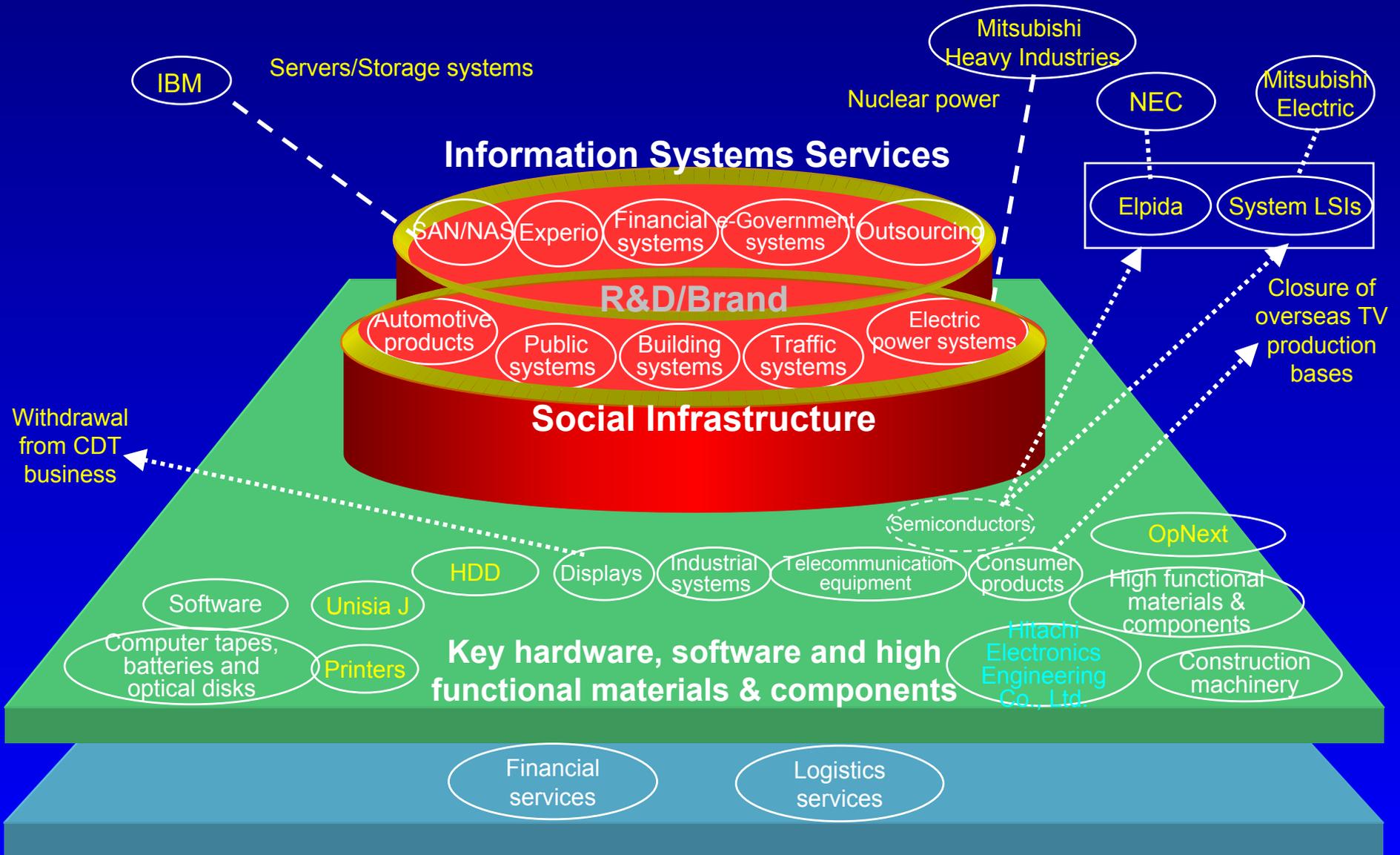
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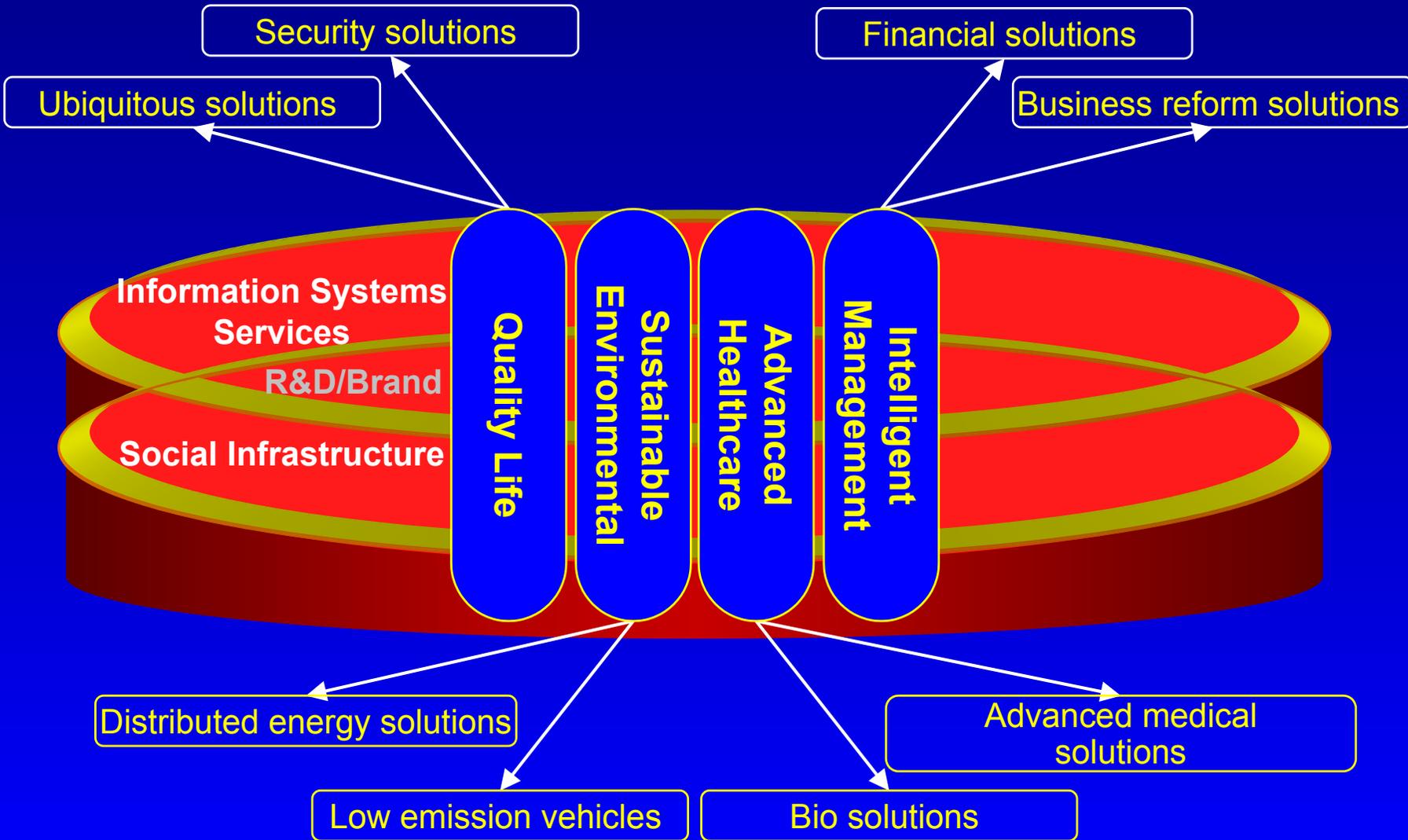
Progress in Business Realignmentments



Progress in Business Realignmentments



Inspire the Next



HITACHI

Inspire the Next

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