Hitachi High-Technologies

PLAYING TO OUR STRENGTHS

ANNUAL REPORT 2006

Year ended March 31, 2006

HITACHI

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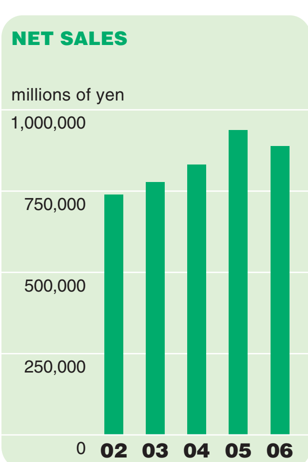
FORWARD-LOOKING STATEMENTS

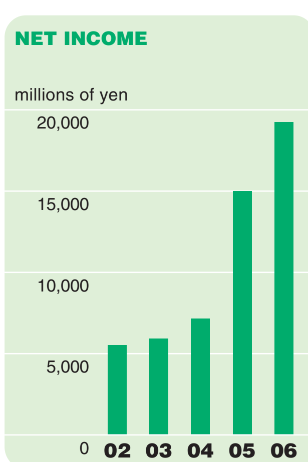
Statements made in this annual report with respect to Hitachi High-Technologies' plans, strategies and future performance are forward-looking statements based on management's assumptions and beliefs in light of the information currently available, and involve risks and uncertainties. Accordingly, actual performance may differ materially from expectations due to a range of factors including, but not limited to, changes in the Company's operating environment.

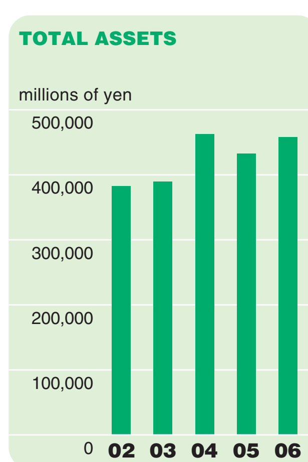
CONSOLIDATED FOUR-YEAR SUMMARY

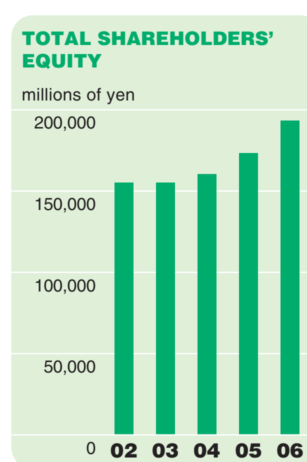
				Millions of yen	Thousands of U.S. dollars
Years ended March 31	2003	2004	2005	2006	2006
For the year:					
Net sales	¥778,229	¥831,050	¥936,865	¥888,293	$7,561,868
Electronic Device Systems	136,239	137,614	229,275	227,964	1,940,616
Life Science	90,721	89,200	83,866	85,331	726,409
Information Systems & Electronic Components	305,750	327,840	309,801	261,536	2,226,404
Advanced Industrial Products	245,519	276,396	313,923	313,462	2,668,439
Operating profit	11,844	13,798	30,001	36,036	306,771
Net income	5,928	7,162	15,004	19,249	163,864
Net cash provided by (used in) operating activities	18,284	14,989	26,000	15,700	133,654
Net cash provided by (used in) investing activities	2,457	(531)	(576)	(9,578)	(81,536)
Net cash provided by (used in) financing activities	(10,818)	(20,853)	(21,582)	(12,762)	(108,639)
At the year-end:					
Total assets	¥389,704	¥462,875	¥432,501	¥457,837	$3,897,479
Total shareholders' equity	155,161	160,480	173,379	193,363	1,646,063
Cash and cash equivalents	52,456	44,648	48,967	43,600	371,160
Number of employees	8,073	10,043	9,868	9,974	–
Per share data (¥)					
Net income	40.92	50.56	107.94	139.24	–
Total shareholders' equity	1,125.60	1,164.99	1,259.18	1,404.96	–
Dividend	15.00	15.00	20.00	25.00	–
Ratio:					
Equity ratio (%)	39.8	34.7	40.1	42.2	–
Return on equity (%)	3.8	4.5	9.0	10.5	–
Return on assets (%)	3.1	3.2	5.8	7.9	–
Price-earnings ratio (Times)	41.3	32.8	15.7	22.3	–

Notes: 1. U.S. dollar amounts in this report are translated from yen, for convenience only, at the rate of ¥117.47=U.S.$1.00.
2. ROA is calculated by dividing ordinary income by total assets, and expressed as a percentage.









CHAIRMAN'S MESSAGE

"Hitachi High-Technologies is playing a vital role in society through business activities founded on high-tech solutions that generate value."

Hitachi High-Technologies Corporation operates a global business focused on four segments: Electronic Device Systems, Life Science, Information Systems & Electronic Components, and Advanced Industrial Products. Targeting markets in these areas, we are striving to realize our vision of being the global leader in high-tech solutions.

Business is becoming increasingly borderless as IT evolves. In this environment, Hitachi High-Technologies is creating value by combining two elements of its operations: we design and manufacture new products leveraging nanotechnology and other leading-edge technologies, but we also act as a trading company that provides advanced solutions to customers worldwide. In fiscal 2005, our commitment to the customer-first mantra in our business activities helped us to win strong support from customers in Japan and other countries around the world. In particular, I firmly believe that this was because we clearly understand the specific cultures and needs of our customers, and we effectively use this knowledge in product development.

Our business is based on activities and relationships with various stakeholders, including suppliers and purchasers, shareholders, and employees. With so many people involved in our operations, it is vital that we continue to observe laws and regulations and show consideration for the environment and human rights. At the same time, we will continually improve risk management and other internal control systems, rigorously manage information and ensure appropriate information disclosure. In these and other ways, we aim to further strengthen corporate governance while striving to ensure management founded on a strong awareness of Corporate Social Responsibility (CSR).

With our business climate becoming increasingly challenging, achieving sustained, stable growth will not be easy. However, by creating value through high-tech solutions, I believe Hitachi High-Technologies and its stakeholders will be able to help create a sustainable society.

June 2006

Y. Kuwata

YOSHIRO KUWATA
Chairman of the Board
Representative Executive Officer

TO OUR STAKEHOLDERS

Four Consecutive Years of Earnings Growth Thanks to Stronger Profits in Proprietary Products

In fiscal 2005, the year ended March 31, 2006, we achieved record-high earnings. Although consolidated net sales declined 5.2% year on year to ¥888,293 million, operating profit surged 20.1% to ¥36,036 million and net income rose 28.3% to ¥19,249 million as both operating profit and net income grew for a fourth consecutive year. The decline in sales stemmed from such factors as the return of commercial rights for consumer electronic products supplied to the U.S. market, which we had previously handled as trading products. In contrast, earnings growth was supported by a favorable turnaround in business conditions for Electronic Device Systems and Life Science. Specifically, sales of LCD manufacturing equipment grew strongly due to the rising capital investment plans of LCD panel manufacturers, while hard disk drive (HDD) businesses grew in tandem with market expansion. Immunodiagnostic analyzers and pre-analytical process automation systems also posted substantial earnings growth in the European and U.S. markets. I believe another factor that led to this sharp rise in earnings was the fact that our proprietary products steadily became more profitable thanks to progress with our ongoing Management Reform Project.

A Year of Strategy Execution

We have been implementing the Management Reform Project as a matter of the highest priority since April 2004. The ultimate goal of this project is to achieve a high rate of growth ahead of overall market growth and to become a highly profitable company. To that end, we have undertaken four measures: strengthening product development capabilities, bolstering sales capabilities, reducing total costs, and enhancing consolidated management.

In strengthening our product development capabilities, we made the greatest progress in strategically channeling management resources into the Electronic Device Systems segment. We pinpointed proprietary products that are projected to achieve growth, and then concentrated resources into these strategic products. At the same

"Fiscal 2005 was a year when we effectively executed our strategy."

time, we withdrew from low-margin products unlikely to generate growth. As a result, I believe we managed to establish a very robust product lineup.

To strengthen our sales capabilities, we promoted greater efficiency at our domestic sales branches. This included newly establishing the Regional Branch Offices for the West Japan Area and the Kanto Area. Overseas, we expanded our operations mainly in China and developed our position in markets like Vietnam, India, and Russia. In China, we set up Hitachi High-Technologies (China) Co., Ltd., which has sales and trading rights in China, in May 2005. We also converted our Seoul and Taipei branch offices into local subsidiaries in April and September 2005, respectively. In the Life Science segment, we began developing a new business through an alliance with Eiken Chemical Co., Ltd., a manufacturer of clinical diagnostics.

With the aim of reducing total costs, we pursued cost savings by assigning respective reduction targets for raw materials that we procure directly and for back-office expenses. This approach steadily delivered positive results.

To enhance consolidated operations, we optimized the allocation of management resources, which had been dispersed among Group companies, by reexamining how we allocate these resources from scratch. For example, in April 2005, we integrated a Group company engaged in domestic sales of electron microscopes with Hitachi High-Technologies Corporation and we combined IT solutions operations into a single specialized Group company.

Two years have passed since we inaugurated the Management Reform Project, and I feel that fiscal 2005 was a year when we executed our strategy. From here on, I expect our steady stream of initiatives to gradually bear fruit.

Using Our Information Gathering Networks to Provide Value-added Products and Solutions

We expect our business environment to become even more challenging in contrast to favorable trends in the macro economy. Although LCD panel manufacturers are showing a strong appetite for capital investment to improve productivity, they are also being more aggressive in calling for reductions in equipment prices. In the semiconductor sector, competition among equipment suppliers attempting to build strong partnerships with the small group of successful semiconductor manufacturers is becoming more intense. In parallel, demands for substantial price reductions are increasing. In the Life Science segment, the worldwide trend of curbing medical expenditure is hindering the steady expansion of the market.

Nevertheless, I firmly believe that however harsh the market environment, we have to build up the capabilities we need to stay ahead of our rivals as long as there is a market to compete in. Consequently, we will enhance total cost competitiveness, including areas like technology and pricing, so that we can launch proprietary products that customers need in a timely manner. In research and development, we will make use of the Central Research Laboratory, the research organization for the entire Hitachi Group, as well as our own R&D organization to generate a strong flow of new products. At the same time, we intend to carefully examine production costs right from the design phase to achieve effective reductions in expenses.

In trading products, we will raise profitability by focusing on cultivating new customers, in addition to business with various companies in the Hitachi Group. To expand our overseas operations, we will further develop our presence in the emerging markets of Vietnam, India, Russia, and Poland, with particular emphasis on China. We will also accelerate business investment in our four highest-priority trading product markets: automobiles, digital information equipment, communications, and semiconductors.

Our greatest strength at Hitachi High-Technologies is our combined trading and manufacturing functions. This allows us to gather information from the raw materials stage right through to the finished product. By refining this unique strength, we will continue to provide value-added products and solutions to our customers.

Aiming to Be an Attractive Company for All Stakeholders

I believe it is extremely important for companies to pursue sustained earnings growth and then return these profits to stakeholders. At the same time, it is also vital that we give consideration to compliance. We constantly instruct our employees to take actions based on ethical judgments rather than mistakenly simply emphasizing profits. I believe that this way of thinking is now firmly rooted in the Company thanks to proactive measures to strengthen corporate governance and the creation of internal control systems.

We have adopted a corporate vision of being a global leader in the high-tech solutions field. Being the global leader means that we have to sustain growth and consistently deliver a stable performance by creating numerous world-leading products such as critical dimension measurement scanning electron microscopes (CD-Measurement SEMs) and DNA sequencers. Going forward, I intend to focus on refining our total competitiveness, which includes product development, quality, pricing, and services, on a daily basis. My aim will be to create an even more attractive Hitachi High-Technologies corporate brand for all our stakeholders. I hope we can count on your continued support as we target our next phase of rapid growth.

June 2006

M. Hayashi

MASAAKI HAYASHI
Representative Executive Officer
President
Chief Executive Officer and Director

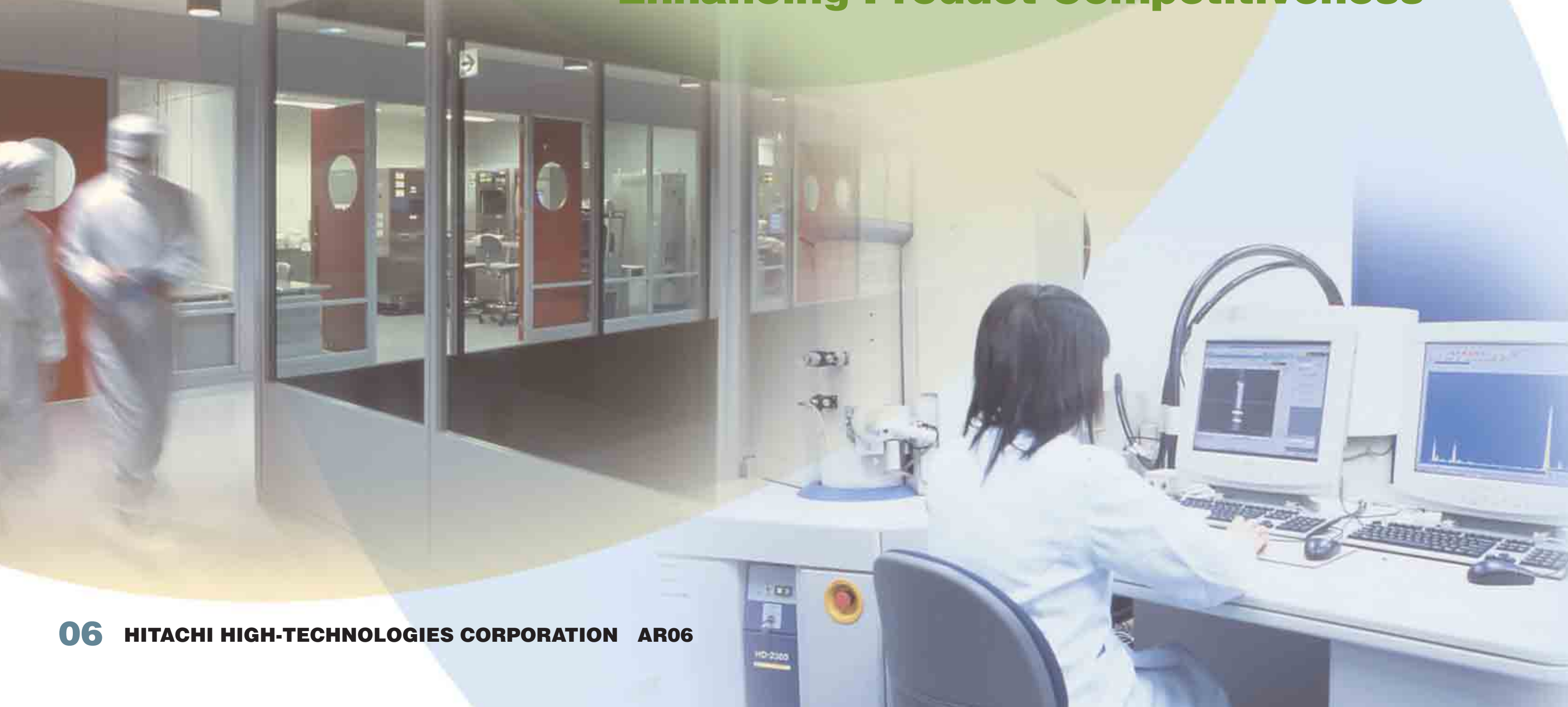
PLAYING TO OUR STRENGTHS

Hitachi High-Technologies has achieved four consecutive years of earnings growth in the face of an increasingly harsh business environment caused by changing customer needs and intensifying competition. We have been able to record consistent earnings growth by making effective use of our three unique strengths. Going forward, we will work to enhance our growth potential further by implementing a whole host of measures designed to refine these strengths.

Generating Synergies Between Trading and Manufacturing Capabilities

Stepping Up Global Expansion Based on an Integrated Manufacturing, Sales and Service Network

Enhancing Product Competitiveness



DELIVERING EVEN STRONGER GROWTH

Generating Synergies Between Trading and Manufacturing Capabilities

Refining trading and manufacturing capabilities

To achieve high growth that surpasses the pace of growth in the market, the Hitachi High-Technologies Group will need to expand its business operations and earnings capabilities in two areas. One is trading products, which we procure and sell by leveraging our capabilities as a trading company. The other is proprietary products, which we manufacture, sell, and service by exercising our manufacturing capabilities. In trading products, we will promote high-value-added businesses, including business investment activities, and pursue global expansion by cultivating new markets.

In proprietary products, we will promote initiatives aimed at generating even higher earnings. To this end, we will continue our policy of identifying strategic products and channeling management resources into these products. We also aim to further boost our market share by rapidly introducing new products. Furthermore, in existing product fields, we will continually reinforce the cost structure.

Pursuing synergies between trading and manufacturing capabilities

Hitachi High-Technologies is a high-tech company that develops original businesses. We do this by combining design and manufacturing capabilities that employ leading-edge technologies, with trading company capabilities that provide cutting-edge solutions. We believe that generating maximum synergies by combining both of these capabilities is indispensable to our growth going forward.

Trading products account for 67% of our total sales, while proprietary products, which we manufacture and sell ourselves by harnessing our manufacturing capabilities, account for the remaining 33%. By effectively utilizing the advantages of our integrated manufacturing, sales, and service network, we can broadly respond to customer needs from upstream through to downstream sectors. Moreover, by forming alliances with business partners and collaborating with customers, we are optimizing the management of a supply chain that extends from the procurement of raw materials to the delivery and servicing of equipment and systems. This contributes to a high degree of customer satisfaction.

As a further initiative aimed at establishing an integrated manufacturing, sales, and service network, in April 2005, we established the Cross Division Business (CDB) Development Group to promote the development of new businesses and new products based on know-how from each sales division. In October 2005, we incorporated a business that produces and sells LCD manufacturing equipment, formerly part of Hitachi Display Devices, Ltd., and worked to integrate this business with our sales capabilities. In our global operations, in April 2006, we integrated eight overseas group companies involved in service operations into core local sales companies in each region. This move was aimed at enhancing Group value by creating synergies through a unified sales and service structure.

Office building where Hitachi High-Technologies (China) Co., Ltd. is located

Hitachi Instrument (Suzhou), Ltd.

Stepping Up Global Expansion Based on an Integrated Manufacturing, Sales and Service Network

Laying the foundations for global operations, centered on China

With the aim of establishing an integrated manufacturing, sales, and service network, Hitachi High-Technologies has made strenuous efforts to expand on a global scale. As a result, the ratio of overseas sales has reached 52%. In terms of regional initiatives, in the fiscal year under review, we focused our efforts on the Chinese market, where growth is projected to be particularly strong. In May 2005, we established Hitachi High-Technologies (China) Co., Ltd. which has business rights to engage in domestic sales and trading in China. Operations at this company are already fully up and running following initial efforts to expand its marketing network. In addition, Hitachi Instrument (Suzhou), Ltd. is now specializing in the manufacture of medical and analysis equipment after we transferred its maintenance services to Hitachi High-Technologies (China) Co., Ltd. in April 2006.

Accelerating global expansion

We plan to develop new markets to support global business expansion going forward, firstly by setting up new business sites in Vietnam, India, and Russia. Furthermore, by pursuing the joint development of products with key customers overseas, we aim to realize operations that are closely linked to our main customers. We will also reinforce our integrated manufacturing, sales, and service network by promoting the unification of overseas sales and service companies.

In trading products in particular, we have identified automobiles, digital consumer electronics, communications, and semiconductors as our four key markets. By ensuring cooperation among business divisions in these fields, we will provide total solutions extending from raw materials to equipment in key markets.

Enhancing Product Competitiveness

Bolstering marketing capabilities and the product development system

To survive in an increasingly competitive market, the Hitachi High-Technologies Group will need to create a highly targeted business portfolio and manage it appropriately. Based on this thinking, we are developing an organization to enhance our proprietary products. This entails reinforcing our product development system and marketing capabilities in order to create a powerful business portfolio. In product development in particular, we are supplementing the Group's research and development organization by leveraging our position as a member of the Hitachi Group to make use of the R&D organizations of our parent company Hitachi, Ltd.

For example, in April 2005, we established Strategic Planning Divisions within each Business Group to bolster our medium- to long-term business strategy formulation capabilities. And in a move to strengthen marketing, we also newly established the Regional Branch Offices for the West Japan Area and the Kanto Area. This has enabled us to create a framework that will bring together our broad-ranging marketing capabilities, including those at Group companies.

We have positioned LCD panels and hard disk-related manufacturing and inspection equipment as one of our core businesses for the future. To strengthen this business, we merged Hitachi High-Tech Electronics Engineering Co., Ltd., a wholly owned subsidiary, into Hitachi High-Technologies Corporation in April 2006. At the same time, we established the Fine Technology Products Business Group.

Through these and other moves, we are creating an integrated manufacturing, sales, and service network in the Group's core businesses that will drive expansion in our high-margin proprietary products.

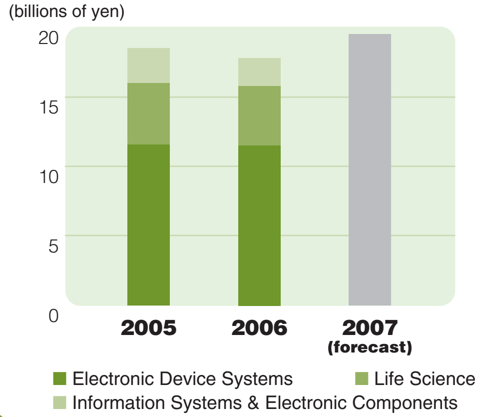
Creating strong products by actively identifying customer needs

In proprietary products, we have been able to create a solid lineup by selecting products that are projected to achieve growth as strategic products, and then channeling management resources into these areas. Additionally, we plan to enhance our competitiveness to enable us to launch products that customers need in a timely manner.

We are also proactively bolstering our product development capabilities by making effective use of alliances. For example, in December 2005, as part of our efforts to reinforce our presence in the drug discovery and genetics market, we concluded a business alliance, including a capital tie-up, with Eiken Chemical Co., Ltd., which handles clinical diagnostics and related equipment. As a result, our marketing and design divisions are now able to share trends in the clinical reagents market, as well as technology for the development of new equipment. This has given us the capability to develop products with strong competitive advantages that meet customer needs. Going forward, we will utilize this strength to roll out a stream of high-value-added products, giving us an important edge in the clinical testing sector where the operating environment remains challenging.

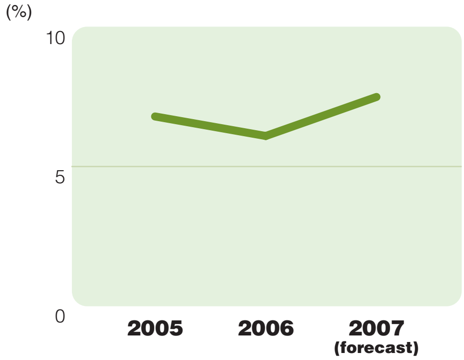
R&D Expenses by Segment

(Years ended March 31)



Ratio of R&D Expenses to Sales*

(Years ended March 31)



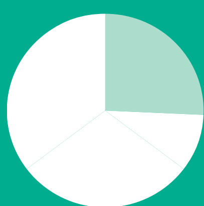
* Sales of proprietary products only

REVIEW OF OPERATIONS

AT A GLANCE

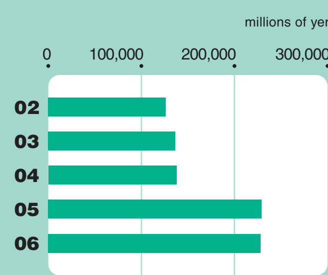
NET SALES | OPERATING PROFIT (LOSS)

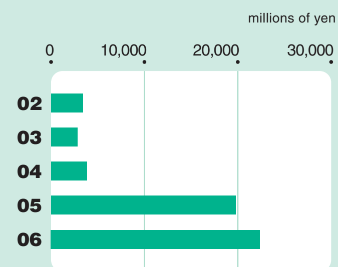
ELECTRONIC DEVICE SYSTEMS



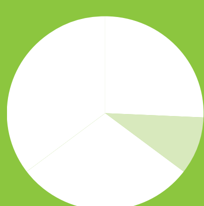
% of Total FY2005 Sales

25.7%



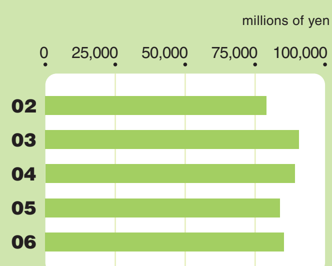


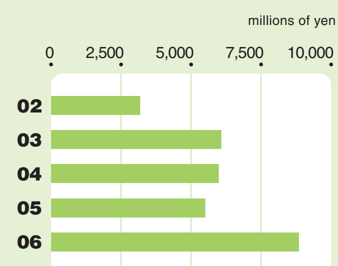
LIFE SCIENCE



% of Total FY2005 Sales

9.6%

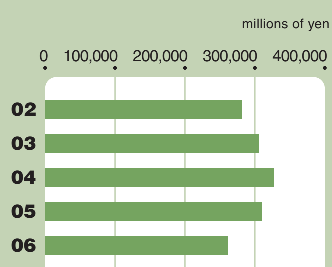


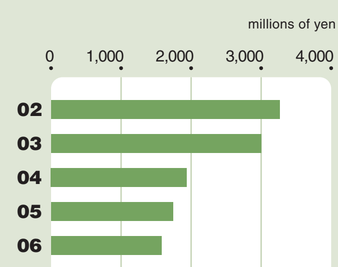


INFORMATION SYSTEMS & ELECTRONIC COMPONENTS

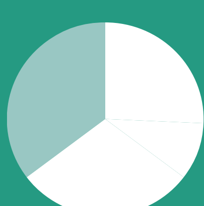
% of Total FY2005 Sales

29.4%



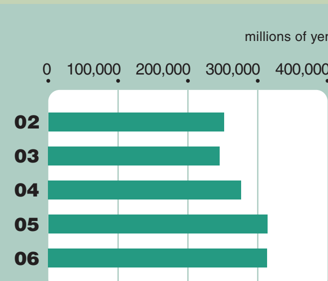


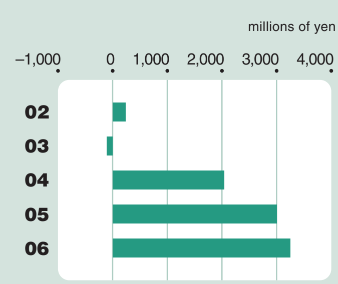
ADVANCED INDUSTRIAL PRODUCTS



% of Total FY2005 Sales

35.3%





HIGHLIGHTS	MAJOR PRODUCTS AND BUSINESSES
The Electronic Device Systems Segment provides advanced solutions based on optimized proposals for developing and creating equipment critical to each stage of the semiconductor manufacturing process, as well as related after-sales services. These solutions include electron microscopes such as world-class critical dimension measurement scanning electron microscopes (CD-Measurement SEMs) and field emission scanning electron microscopes (FE-SEMs), which boast world-leading resolution. The segment also develops and sells LCD and hard disk drive manufacturing and inspection systems.	• Etching Systems • Step & Scan Systems • Wafer Inspection Systems • Advanced CD-Measurement SEMs • Electron Microscopes • Back-end Process Equipment • LCD/PDP Manufacturing & Inspection Systems • Hard Disk Drive Manufacturing Systems
The Life Science Segment provides cutting-edge, nanoscale technologies in measurement, analysis, and evaluation. These technologies are used in a variety of fields, including the rapidly evolving biotechnology field, medical treatment and clinical diagnostics, which require high levels of safety and labor saving, as well as environmental measurement and materials research, the demand for which is urgent. World-class clinical chemistry/immunodiagnostic analyzers and DNA sequencers, indispensable in genomic analysis, are among this variety of analytical instrumentation.	• Automatic Clinical Chemical Analyzers • Immunodiagnostic Analyzers • Liquid Chromatographs • Amino Acid Analyzers • Spectrophotometers • DNA Sequencers • NMR Spectrometers • Magnetocardiographs
The Information Systems & Electronic Components Segment provides optimal solutions that combine hardware and software by exploiting global market information, and by leveraging its advanced technical capabilities and integrating functions to meet customer needs in the diversifying and increasingly sophisticated information and electronics field. The segment offers a varied product lineup that includes surface mounting systems (chip mounters), organic light emitting diode (OLED) production equipment, network-related systems, and peripheral equipment.	• Chip Mounters • OLED (Organic Light Emitting Diodes) Production Equipment • Semiconductor Products • IT Solutions • Measuring Equipment and Related Systems • Network and Communications-related Products • Information and Consumer Electronics Products • Electronic Devices
The Advanced Industrial Products Segment creates procurement solutions using its own global network. It also procures and develops industrial materials and electronic materials by drawing on its strengths as a high-tech trading company, which includes the promotion of alliances with overseas companies. The segment is able to address diverse customer needs through responsive business development. This includes supplying a wide range of items ranging from industrial materials to specialty high-tech materials, and developing products that swiftly and rapidly grasp customer needs based on joint development with clients in the manufacturing sector.	• Steel, Nonferrous Metals, and Plastics • Procurement Solutions Business • Silicon Wafers • Substrates and Circuit Boards • Components for LCD Projectors • Optical Components • Optical Media Components • Automotive-related Components

ELECTRONIC DEVICE SYSTEMS

Semiconductor Manufacturing Equipment

In the face of a shrinking overall market, we posted sales on a par with the previous fiscal year by leveraging our strengths as both a manufacturer and a trading company. Going forward, while bolstering partnerships with our customers, we aim to be one of the five strongest companies in the industry within five years by targeting key global customers.

WASUKE NAKANO
Vice President and Executive Officer
General Manager, Semiconductor Equipment Business Group

Fiscal 2005 Operating Environment and Results

In the year under review, the semiconductor manufacturing equipment market contracted compared to a year earlier as manufacturers cut their capital investment budgets. Nevertheless, we achieved sales on a par with fiscal 2004 by fully leveraging our strengths as both a manufacturer and a trading company.

In semiconductor manufacturing equipment operations, our evaluation/analysis equipment, which is rated highly in the marketplace, recorded steady sales growth, as semiconductor manufacturers, our major customers, made proactive investments aimed at improving product reliability and boosting production yields. Our back-end process equipment also generated substantial sales growth thanks to aggressive investment by companies in South Korea and Taiwan. In addition, scanners made by ASML Holding N.V. (ASML), which simultaneously realize high throughput and high resolution, posted higher sales.

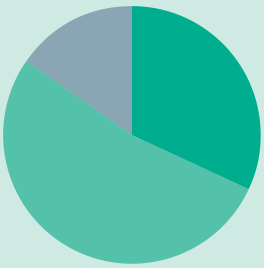
Critical dimension measurement scanning electron microscopes (CD-Measurement SEMs), a major product group for us, performed strongly in Japan as well as in South Korea and Taiwan. However, although they maintained their worldwide market share, sales declined overall because customers in Europe and the U.S. cut spending. Etching systems also registered lower sales because our major customers in the U.S. reduced capital investment.

Move to Reinforce Application Engineer Operations

In fiscal 2006, we will focus our efforts on dark field wafer defect inspection systems and defect review SEMs, which incorporate high-performance

Share of Segment Sales by Product Type

- Process Equipment 31.9%
- Evaluation/Analysis Equipment 52.8%
- Back-end Process Equipment 15.3%

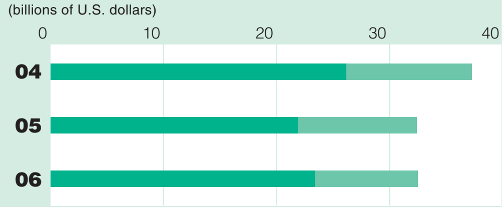


Dark Field Wafer Defect Inspection System

Defect Review SEM

Semiconductor Manufacturing Equipment Market

(billions of U.S. dollars)



Front-end processes Other

Source: Hitachi High-Technologies, based on data released by Semiconductor Equipment and Materials International (SEMI) in May 2005.

image processing capabilities. These products hold promise as a new core business to supplement our CD-measurement SEMs, currently our mainstay product.

In semiconductor manufacturing equipment, the development of systems linked to the device development operations of semiconductor manufacturers has become a key issue, and application engineers with a mastery of semiconductor manufacturing processes are now needed in the industry. Following a number of business integrations, we have been proactively securing application engineers to give us a highly competitive edge. We now intend to enhance customer satisfaction by further strengthening our application engineer capabilities and taking other steps, ultimately aiming to develop our presence in new fields and boost sales.

Our Goal: Take 5, Be 5, In 5

This slogan expresses our goal to be one of the five strongest companies in the industry within five years by focusing on key customers worldwide. To achieve this goal, our commitment to being a key player in the semiconductor industry will have to be unwavering: this will mean providing production yield solutions that are always evolving and conducting R&D ahead of its time. But even more importantly, we will have to establish even deeper partnerships with customers.

The performance of semiconductor manufacturing equipment is improving rapidly. At the same time, we increasingly have to develop equipment that is optimized to specific processes for each customer. In short, we are entering an era in our industry where we have to sit down with customers and work out exactly what their needs are. This new environment provides the perfect backdrop for us to demonstrate one of our strengths—an integrated framework covering R&D, manufacturing, sales, and services.

ELECTRONIC DEVICE SYSTEMS

LCD-related Equipment and HDD-related Equipment

Sales were higher than a year earlier thanks to vigorous investment in liquid crystal display (LCD)-related equipment by customers in Taiwan and growth in demand for hard disk drive (HDD)-related equipment. Going forward, we will expand these businesses by actively leveraging the combined capabilities of our elemental technologies cultivated over more than 30 years.

KENYA WADA
Vice President and Executive Officer
General Manager, Flat Panel Display & Hard Disk Manufacturing Systems Sales Division

Fiscal 2005 Operating Environment and Results

At the start of fiscal 2005, the LCD-related equipment market had been forecast to enter a substantial adjustment phase following record-high capital investment in the previous fiscal year. However, the market ultimately declined only 6% year on year.

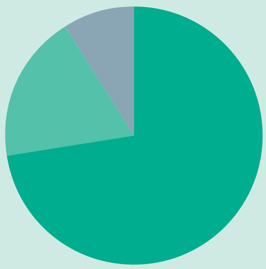
In this division, we actively worked to capture orders associated with new investment by customers in Taiwan and expansion in existing production lines. In addition to expanding sales of photolithography equipment compatible with sixth- and seventh-generation panels, wet process equipment, testing devices and other products, we also launched a new LCD module assembly system. This system can respond flexibly to model changes in panel manufacturing, and enables substantial improvements in space efficiency and cost savings.

As a result, even though the LCD-related equipment market contracted, LCD-related equipment earnings in this division were higher than in the previous fiscal year.

HDD-related equipment experienced strong demand growth in the digital consumer electronics and mobile equipment fields, as well as in the conventional fields of PCs and servers. In line with this expansion in applications, disk manufacturers actively invested to boost capacity. This, together with our launch of new products and efforts to cultivate new customers, led to a marked increase in sales.

Share of Segment Sales by Product Type

- LCD-related Manufacturing Equipment 72.5%
- HDD-related Equipment 18.5%
- Others 9.0%

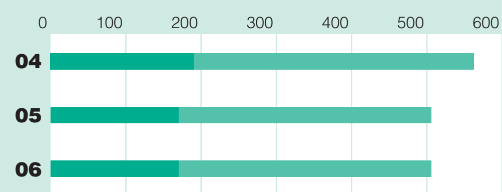


LCD Module Assembly System

Disk Test System

LCD Manufacturing Equipment Market

(billions of yen)

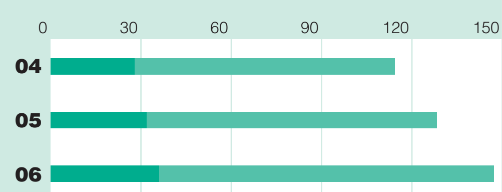


Hitachi High-Technologies' target market Other

Source: Hitachi High-Technologies, based on data released by the Semiconductor Equipment Association of Japan (SEAJ) in January 2006.

HDD Manufacturing Equipment Market

(billions of yen)



Hitachi High-Technologies' target market Other

Source: Hitachi High-Technologies

Launching New Products in Response to Process Innovations

Against the backdrop of continuing declines in LCD panel prices in fiscal 2006, LCD-related equipment will have to handle increasingly large glass substrates and help to realize shorter manufacturing processes.

In response to these needs, we will work to boost sales of our newly completed lineup of manufacturing and inspection systems for eighth-generation glass substrates, which have sides measuring more than two meters. We also plan to launch a new 57-inch compatible module assembly system. These systems have already proved popular with manufacturers of large-screen flat panel TVs.

In addition, while expanding partnerships with leading manufacturers, we will focus on inkjet-compatible products, black matrix photolithography equipment and other products that cater to innovations in manufacturing processes.

LCD panel manufacturers are aiming to strengthen their sales and after-service capabilities in line with the shift in production to China. They are also planning to move into Eastern Europe ahead of an anticipated increase in sales of LCD TVs in Europe. Our aim will be to actively support these trends.

In the HDD-related equipment business, we have already developed manufacturing systems for small-diameter drives in the digital consumer electronics sector, where market growth has accelerated. We will also develop next-generation systems that are compatible with projected new technologies such as perpendicular magnetic recording. Additionally, we will work to expand sales by strengthening our overseas sales network, mainly in the U.S.

Hitachi High-Technologies has created a whole range of elemental technologies over the last 30 years or more. By strongly leveraging their combined capabilities, we intend to expand our business in response to market needs.

LIFE SCIENCE

Sales increased year on year on the back of robust demand for medical analysis equipment from Europe and the U.S. particularly immunodiagnostic analyzers, pre-analytical process automation systems, and automatic clinical chemistry analyzers. Going forward, we intend to focus on genomic analysis and protein analysis, both fields where growth is anticipated.

HIDEHITO OBAYASHI
Representative Executive Officer and Senior Vice President
General Manager, Life Science Business Group

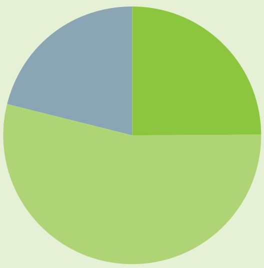
Fiscal 2005 Operating Environment and Results

In the medical analysis equipment field, the hospital operating environment remained challenging during the year under review due to continued curbs on medical expenditure. Consequently, hospitals further reviewed testing operation methods and increasingly outsourced this work to off-site testing centers. In response to this business climate, we launched new types of automatic clinical chemistry analyzers in Japan. Meanwhile, immunodiagnostic systems and pre-analytical process automation systems experienced strong demand in the European and U.S. markets, helping to drive an increase in sales. Our clinical chemistry analyzers have captured the leading market share in their field, but customers are increasingly calling for greater cost savings and even higher levels of testing quality. We therefore worked to tap replacement demand by launching two new models capable of handling reagents.

In the biotechnology equipment field, sales of our DNA sequencers remained almost flat in the U.S. Additionally, although general-purpose analysis equipment experienced tougher competition from rival companies, sales rose slightly, mainly on the back of new products launched in Japan.

Share of Segment Sales by Product Type

- Biotechnology-related Equipment 24.9%
- Clinical Diagnostic Systems 54.0%
- Others 21.1%



Automatic Clinical Chemical Analyzers

Liquid Chromatograph Mass Spectrometers for Proteomics

Focusing on Genomic and Protein Analysis—Projected Growth Fields

In fiscal 2006, we aim to enhance our presence in the biotechnology equipment market by focusing on genomic analysis, which is increasingly focused on understanding individual gene function, and protein analysis. Both areas are expected to grow going forward. In protein analysis in particular, needs in the market for liquid chromatograph mass spectrometers are expanding from proteomics analysis to the search for biological and diagnostic markers. In order to meet these needs, we launched NanoFrontier LD in May 2006. We aim to use this new liquid chromatograph mass spectrometer to expand sales in the protein analysis field in the North American market, supplementing our existing position in Japan.

In the medical analysis equipment field, we intend to increase our market share further by introducing a succession of new clinical chemistry and immunodiagnostic analyzers, which have a strong reputation in Europe and the U.S. In China, where growth is continuing, we aim to promote our reagent business more aggressively and expand sales of equipment incorporated into complete systems. Moreover, our alliance with Eiken Chemical Co., Ltd., which we concluded in December 2005, is aimed at developing sales of systems that combine equipment and reagents by utilizing the strengths of both partners in the clinical laboratory testing systems field. In particular, we intend to focus on the genomic analysis field, which is showing rapid growth.

INFORMATION SYSTEMS & ELECTRONIC COMPONENTS

Although chip mounters and broadband-related products recorded sales growth, consumer electronics sales to the U.S. declined substantially. Going forward, we intend to expand market share for our highly rated modular mounters, and at the same time, give priority to boosting sales of products in the car electronics, communications, digital consumer electronics, semiconductor, and IT electronics fields.

MASUMI MIYAUCHI
Vice President and Executive Officer
General Manager, Cross Division Business Development Group

Fiscal 2005 Operating Environment and Results

During the year, signs of an end to the equipment oversupply situation in the surface mounting system market emerged, while capital investment grew in Asia, mainly related to mobile phone and digital camera applications. These trends helped to support an increase in sales of chip mounters. Sales in the automotive electronics segment, an area we focused on during the past year, also grew strongly, while broadband-related products performed favorably thanks to sustained and rapid growth in the digital high-speed communications market in Europe. In contrast, sales of consumer electronics to the U.S. fell sharply.

Owing to surging demand from mobile phone makers, mobile phone TFT cells posted a strong performance. However, sales of optical pick-up lenses declined as demand for DVD recorders grew far less than expected and lens prices fell.

Demand for mobile phones and PCs was robust, but due to downward pricing pressure caused by intensifying competition in finished products, sales of semiconductors to the Asian market decreased significantly.

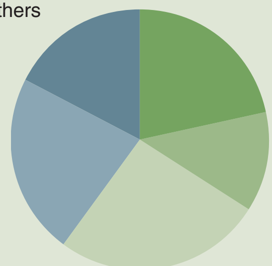
In OLED production equipment, manufacturers continued to exit the field due to profitability issues affecting the whole industry. Although our customers adopted a cautious stance toward investment because products are currently in a transition phase, sales rose slightly year on year as we secured large contracts in Japan and South Korea.

Focusing on Modular Mounters to Boost Market Share

In fiscal 2006, we plan to capture a greater share of the surface mounting system market by focusing on modular mounters. Sales of these products

Share of Segment Sales by Product Type

- Information and Control Systems 21.6%
- Assembly and Fabrication Equipment 12.4%
- Semiconductor Products 26.1%
- Media Devices and Consumer Electronics 22.5%
- Others 17.4%



Chip Mounter (Modular-type Mounter)

TV Conferencing System

are already growing, particularly to the digital AV sector, buoyed by emerging signs in fiscal 2005 of an end to equipment oversupply in the electronic device manufacturing field, including digital consumer electronics.

Hitachi High-Technologies had maintained a high share of the turret mounter market. However, since fiscal 2004, the market for these products has contracted as demand for modular mounters has grown rapidly instead. Consequently, we moved into modular mounters in fiscal 2004, but initially struggled to secure customers, partly because of our relatively late entry to the field. In spite of this, our modular mounters are recently winning high marks for productivity, helping to support solid gains in market share. Our goal is to capture 20% of the market in fiscal 2006.

OLED production equipment made by Tokki Corp., which has the leading market share, is currently experiencing stagnant growth due to competition in the market from LCDs. However, we believe there are great opportunities in this field as applications for OLEDs expand. We have therefore established a system to develop manufacturing equipment optimized for customer applications.

Technological and product innovation in the field of information systems and electronic components is remarkable. Consequently, we foresee an array of promising growth fields for this segment going forward. For example, as TV conferencing systems increase in speed and size, we believe our technological expertise will attract greater attention in the marketplace. Furthermore, in the automotive electronics segment, we aim to expand sales of HDDs used in car navigation systems by leveraging our unique technological capabilities. Using our diverse lineup of chip mounters and other products, we will actively target the auto industry by channeling resources into this sector.

ADVANCED INDUSTRIAL PRODUCTS

Plastics and non-ferrous metals performed strongly, supported by a steep rise in petroleum-related material prices and other factors, while automotive components and specialty steel products were also robust. Globally expanding and strengthening businesses that generate added value for customers, such as procurement solutions, will be a key theme going forward.

NOBUHIRO SOEDA
Vice President and Executive Officer
Deputy General Manager, Cross Division Business Development Group

Fiscal 2005 Operating Environment and Results

Plastics and non-ferrous metals turned in a strong performance on the back of a steep rise in petroleum-related material prices and high prices for basic materials. Automotive components and specialty steel products also performed strongly thanks to favorable conditions in the automotive and construction machinery industries. In contrast, sales of semiconductor package substrates declined, reflecting sluggish demand in the first half of the fiscal year, even though the market is now strengthening again.

Silicon wafers performed well, and related components also generated solid sales growth supported by favorable conditions in the optical communications industry. However, optical components for projectors and optical media materials registered lower sales due to falling prices.

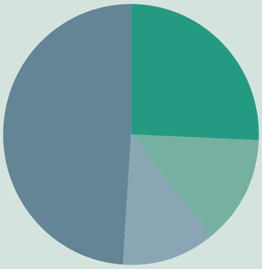
Striving for Global Expansion in Value-added Businesses

From fiscal 2006 onward, we will focus on globally expanding businesses that generate added value for customers.

Specifically, in the rapidly expanding flat panel display (FPD) field, we have already invested in an FPD back cover manufacturer in the form of loaned production facilities, aiming to secure commercial rights for related ferrous materials and products. By leveraging this position, we plan to create chances to offer manufacturing cost reduction solutions to leading makers of consumer electronics that manufacture FPDs. We anticipate that this will lead to growth in the value chain through increased sales of back covers and FPD-related materials.

Share of Segment Sales by Product Type

Industrial Materials	25.7%
Electronic Device Materials	13.5%
Optical-related Materials	11.8%
Others	49.0%



FPD Back Cover Manufacturing Facility

Procurement Solutions Business (Delivery Center in the U.S.)

We also plan to focus on the procurement solutions business, which makes full use of the trading company functions of Hitachi High-Technologies. This business provides supply chain management (SCM) solutions, including enhanced efficiency in component provision and delivery, to customers that have set up sites overseas. These solutions have won high marks from customers in a range of business sectors because they emphasize procurement from optimal global locations. In this business, we are also promoting the development of procurement operations tailored to the auto industry, primarily targeting the U.S. and China, but with intentions to move into countries like Mexico and India.

As another initiative, we intend to enhance global business expansion. Rather than just selling Japanese products in overseas markets, as we have done in the past, we will also supply technologically sophisticated products made in countries such as Taiwan, China and South Korea to overseas markets. We also plan to expand into Brazil, Russia, India, and China (BRICs) and other underdeveloped markets where economic expansion is forecast. Specifically, we dispatch staff to Russia, Vietnam and India to cultivate markets in those regions.

We are aiming for global business expansion by effectively leveraging our unique competitive advantage in the form of trading company functions coupled with interdivision synergies extending from component procurement to product supply.

PRODUCT INFORMATION

Hitachi High-Technologies develops new products and businesses worldwide by leveraging its unique cutting-edge technologies in four business segments. The following are just some examples of the kind of products we supply.

ELECTRONIC DEVICE SYSTEMS

Semiconductor Manufacturing Equipment

UHF-ECR Plasma Etch System U-8000 Series

In the cutting-edge semiconductor device industry, volume production based on the 65nm technology node is about to get under way, while development of semiconductors using the 45nm technology node and beyond has also already started. In tandem with this trend, etching technology that achieves advanced miniaturization and enhanced precision is required. It is essential that this equipment can handle new materials and ensure the stability of volume production. Focused on achieving further advances in miniaturization, high precision, and high productivity, Hitachi High-Technologies developed the U-8000 series of plasma etch systems compatible with devices at the 65nm technology node and beyond. To improve surface uniformity in the etching of 300mm wafers, we have introduced mechanisms to control the exhaust uniformity of the etching reactor and differences in the temperature of the electrode. We have also developed resist trimming technology that can handle dimensions in excess of the exposure limits of current resist exposure equipment. In addition, we have developed an etching reactor that will realize low Cost of Ownership (CoO), including an improvement in workability and the shortening of maintenance time.

Going forward, we will provide etch systems that can also handle the 45nm technology node and beyond.

ELECTRONIC DEVICE SYSTEMS

LCD-related Equipment and HDD-related Equipment

Exposure System for Large-scale Glass Substrates for Color Filters

The market for LCD panels used for PC displays has expanded rapidly, and these panels are now increasingly being used in large flat-screen TVs. In response to the development of larger finished LCD panels, motherglass has also increased in size. Production lines making 7th generation substrates with sides measuring more than 2 meters are already up and running.

To meet the requirements of the latest production lines, Hitachi High-Technologies launched the LE0100S exposure system for color filters in April 2005. It follows the industry-first XY step proximity exposure system that was adopted for 5th generation products, and with the use of a double chuck stage system, has achieved high throughput of 6 shots in 56 seconds. Moreover, the equipment has realized a resolution of 8 microns thanks to an original photomask bending correction mechanism and optical non-contact gap control mechanism.

This system is compatible with next-generation standard masks (850 mm x 1200 mm x t10 mm) and realizes one-time exposure of large panels for 46-inch wide TVs.

LIFE SCIENCE

NanoFrontier LD

The analysis of proteins within the body to rapidly detect various diseases such as cancer and lifestyle-related diseases is a thriving field. In particular, proteins that indicate signs of disease, and proteins that are used in drugs administered to treat those diseases, are called biomarkers. The search for these biomarkers is becoming an increasingly important goal.

Protein analysis systems are one of the main types of measurement systems used in the search for biomarkers. In May 2006, Hitachi-High Technologies developed NanoFrontier LD, a liquid chromatograph mass spectrometer for use in the identification and comparative measurement of proteins. NanoFrontier LD incorporates a world-class liquid chromatograph to separate the vast number of proteins contained in cells, serum, and urine, as well as a linear ion trap and a time-of-flight hybrid mass spectrometer to analyze the detailed structure of samples with high mass number precision.

NanoFrontier LD, which enables both biomarker identification and quantification, is expected to make a huge contribution to the search for biomarker proteins.

INFORMATION SYSTEMS & ELECTRONIC COMPONENTS

Chip Mounter

Chip mounters are used in the high-precision procedure of placing ultra-small electronic components on printed circuit boards. These circuit boards are the central component of electronic devices such as mobile phones, digital cameras, and personal computers. Hitachi High-Tech Instruments Co., Ltd. designs and manufactures some of the most leading-edge mounter systems in the world called turret mounters and modular mounters.

Turret mounters, which have played a leading role in the industry, were developed by Hitachi High-Tech Instruments and patented in 1990. In addition, the modular mounter GXH-1 series, which employs our proprietary direct drive technology (involving the integration of the motor part and the head part), has also played an important role in the industry by virtue of its high precision, high speed, and high reliability.

With various products offering even higher functions and smaller scale, we aim to be the industry leader in the electronic component mounter systems business by making original technologies our core competence.

ADVANCED INDUSTRIAL PRODUCTS

Infrared Night Vision Camera

Hitachi High-Technologies has concluded a distributor agreement with L-3 Communications Corp., a major U.S. manufacturer of far-infrared cameras, providing services such as sales and maintenance for these cameras in Japan. Following the 9/11 terrorist attacks in the U.S., interest in security has risen in Japan as well, with a growing need in particular for night-time wide-area surveillance. Many CCTV manufacturers are making progress in the construction of systems that utilize the features of far-infrared cameras, which are able to obtain a wide field of vision without lighting equipment. The products that we sell have won high acclaim in the industry.

In addition, with major automakers beginning to adopt these cameras as part of night vision systems for passenger cars (for the detection of pedestrians and obstacles), they are attracting attention as a means of preventing night-time accidents involving pedestrians.

Hitachi High-Technologies will continue to provide safety and security to customers centered on sales of infrared cameras.

ENVIRONMENTAL AND SOCIAL CONTRIBUTION ACTIVITIES

The Hitachi High-Technologies Group aims to maximize its corporate value through its business activities. In addition, as an enthusiastic and proud corporate citizen that emphasizes harmony with the environment, the Company intends to help realize an affluent society. To that end, the Company actively engages in environmental activities and social action programs.

ENVIRONMENT

The Group is undertaking various environmental activities aimed at realizing a sustainable society in harmony with the environment. The following are some of the main initiatives we implemented in fiscal 2005.

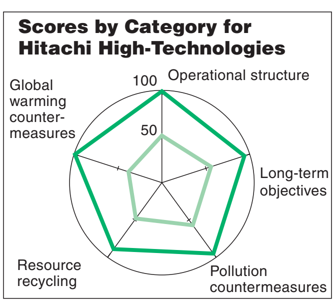
Headquarters, Domestic Branch Offices, and Six Sales-related Group Companies Obtain Integrated ISO 14001 Certification

Hitachi High-Technologies is constructing environmental management systems based on the ISO 14001 standard and promoting their effective use from the perspective of reducing environmental load and contributing to environmental protection. However, to reinforce the ongoing endeavors of the entire Group, we are shifting our approach from certification at individual companies to integrated certification.

In line with this policy, the headquarters, domestic branch offices, and six sales-related Group companies obtained integrated ISO 14001 certification in August 2005 (two of the six companies were newly certified).

We will continue to improve our environmental protection activities by making effective use of environmental management systems.

Certificate for Hitachi High-Technologies Sales-related Group Companies



Hitachi High-Technologies
Industry average (trading companies and others)

Ranked 1st for the Third Consecutive Year in the Corporate Environmental Management Survey

The Survey of Corporate Environmental Management conducted by the *Nihon Keizai Shimbun*, a business daily, evaluates the efforts of companies that work to balance environmental measures with corporate management. Companies respond to a 63-item questionnaire that comprises five evaluation categories, and the compiled results are announced as the “Environmental Management Rankings” for each industry.

In the Ninth Survey of Corporate Environmental Management, the efforts of entire corporate groups were recognized, and the Hitachi High-Technologies Group ranked 1st in the trading company and others category for the third consecutive year.

Going forward, we will analyze this evaluation to further improve our environmental management.

Four Manufacturing-related Group Companies Achieve Zero Emissions

Hitachi High-Tech Science Systems Corp., Hitachi High-Tech Control Systems Corp., Hitachi High-Tech Manufacturing & Service Corp., and Hitachi High-Tech Instruments Co., Ltd. achieved the zero emission* level stipulated by the Hitachi Group in fiscal 2005. They accomplished this by revising previous contracts for waste product disposal and by undertaking activities such as selling waste products as raw materials for recycled products. The Hitachi High-Technologies Group had already achieved zero emissions at the Naka Division and the Kasado Division. We will continue to promote activities aimed at maintaining newly achieving zero emissions levels at our divisions and offices.

* 1% or less of the total waste generated in a given fiscal year going to final disposal sites, and the volume going to final disposal of less than 5 tonnes per year

SOCIAL CONTRIBUTION ACTIVITIES

Striving to help realize an affluent society as an enthusiastic and proud corporate citizen is a major theme at Hitachi High-Technologies. The following are the main examples of social contribution activities conducted in fiscal 2005.

Environmental and Science Education for Elementary and Junior High School Children

Hitachi High-Technologies Kansai Branch Office has cooperated in providing a place and equipment such as electron microscopes for a course run by university professors that gives parents and children the chance to learn about the microscopic world. Hitachi High-Tech Fielding Corp. is also engaged in environmental and science education activities. For example, it provides programs for nearby elementary and junior high school students to experience the microscopic world. Using electron microscopes, which are rarely available in school classrooms, they are able to take part in preparing samples and using the microscopes to observe them.

Concerned about the declining interest in science among children, the Group will continue to provide opportunities to communicate the wonders of science to children.

Science lesson involving the use of a tabletop microscope


Children visiting the Midsummer Festival enjoy the kid's picture exhibition in the environment zone

Communicating With Local Residents by Opening up Manufacturing Facilities to the Public

At Hitachi High-Technologies, we regularly have open days at our manufacturing facilities to introduce our business and environmental activities to regional residents. In this and other ways, we actively engage in communication with people in local communities.

For example, at the Naka Division, we held the Midsummer Festival in August 2005. In addition to displays by each department, we also ran an exhibition and events based on the theme of the environment. Through these initiatives, we will continue to engage in social interaction with local people.

Helping to Protect the Environment and Prevent Global Warming Through Tree-planting Activities

To help protect the global environment and prevent global warming, the Company has leased a 2.3-hectare plot of a national forest in Ishioka-city, Ibaraki Prefecture, and formulated a plan to plant 5,600 seedlings of Japanese cypress and other trees to create a new forest over a 60-year period. In April 2005, we launched tree planting activities by holding the Hitachi High-Tech *Yasato Forest* tree-planting festival. To prepare the site, we will continue to carry out weeding, thinning and other work.


Hitachi High-Tech *Yasato Forest* tree-planting festival


Fund-raising activity at the London Branch

Volunteer Activities by Employees Also Expanding Overseas

The Company's overseas bases are actively engaged in social action programs conducted mainly by employee volunteers. At Hitachi High-Technologies America, Inc., a Community Action committee run by employee volunteers is playing a central role in the donation of money and goods delivered to various assistance organizations via the Hitachi Foundation, an independent nonprofit philanthropic organization established by Hitachi, Ltd. Other employee-driven volunteer activities are being carried out in various regions.

CORPORATE GOVERNANCE

Having adopted the Company with Committees System stipulated in the Company Law, Hitachi High-Technologies has separated executive and management oversight functions and is upgrading its corporate governance system. In addition, to ensure compliance with laws, ordinances and the Articles of Incorporation, the Company is actively working to develop its internal control system.

Basic Rationale Regarding Corporate Governance

In order to come out ahead in the fiercely competitive high-tech solutions field, Hitachi High-Technologies must carry out bold and rapid decision-making and business execution. We also believe it is important to enhance business execution oversight, improve management transparency by strengthening corporate governance, and fulfill our responsibilities to society in general, including our shareholders. We have adopted the Company with Committees System as the corporate governance structure to realize these objectives.

Relationship With Parent Company Hitachi

With the aim of sharing the unified vision of the Hitachi Group, Hitachi High-Technologies has accepted external directors from Hitachi, Ltd. and the Hitachi Group. However, this has not impeded the independence of the Company's management decisions. The authority for individual business execution lies with the executive officers of the Company, and matters that exceed the decision-making authority of the executive officers are decided, in accordance with internal Company rules, after discussion within the Executive Committee, which is made up of leading executive officers. In addition, we ensure the appropriateness of important transactions with the rest of the Hitachi Group, as in the case of other normal transactions, through checks not only by the sales department concerned, but also by the Sales Administration Department, the Internal Auditing Division and other bodies.

Auditing, Supervision, Nomination, Compensation, and Business Execution Functions

Auditing, Supervision, Nomination, and Compensation

We have set up three committees—the Nominating Committee, the Audit Committee, and the Compensation Committee. These bodies ensure that the appointment of directors, audits of the legality and appropriateness of business execution, and decisions on compensation for directors and executive officers are conducted separately from the business execution side of the Company.

Proposals to elect directors at the General Meeting of Shareholders are drafted by the Nominating Committee and resolutions are voted on at the General Meeting of Shareholders.

Compensation for executives is individually decided at the Compensation Committee in accordance with basic policy, which prescribes fundamental standards on levels of compensation, and specific policies.

The Audit Committee monitors business execution through the internal control system, which is centered on the Internal Auditing Division under the direct jurisdiction of the Representative Executive Officer, President, Chief Executive Officer (CEO). In addition, the Audit Committee members, who are in charge of auditing and conduct on-the-spot inspections based on independent plans, report the results to the Audit Committee and the Board of Directors. Furthermore, based on close cooperation with the independent auditors, the Company ensures the appropriateness of matters related to accounting on both a parent company and consolidated basis.

The Board of Directors decides on the appointment of various committee members after deliberation at the Nominating Committee and the Board of Directors, while taking into consideration the duties and authority of each committee member.

Business Execution

Business execution is carried out based on the decisions of the executive officer responsible. However, in the case of important executive actions, decisions are made by leading executives on the basis of discussion at ordinary meetings of the Executive Committee, which are held once a month. In addition, the Executive Committee makes decisions regarding the formulation of budgets, major capital investments, and research and development expenditure for each fiscal year. These decisions are reached after deliberation at meetings held once in each fiscal year or, when an extraordinary need arises, at meetings held at the earliest convenience.

Developing an Internal Control System

The Company resolved to develop its internal control system at a Board of Directors meeting held on April 24, 2006. The following is a summary of the main points concerned.

1. **System related to the storage and management of information associated with the execution of duties by executive officers**
   The Company shall stipulate precise handling of information with regard to the period of storage of approval documents and other matters based on document storage rules.
2. **Provisions related to the management of risk of loss and other systems**
   The Company shall establish Risk Management Regulations and develop risk management systems and management methods.
3. **System to ensure that the execution of duties by executive officers is performed efficiently**
   The Company shall create an internal system related to important decision-making. It shall check and improve business implementation by means of a budget management system and carry out internal audits regarding the effective use of management resources. The Audit Committee shall audit the efficiency of management.
4. **System to ensure that the execution of duties by executive officers conforms to laws and ordinances and the Articles of Incorporation**
   The Company shall establish regulations regarding legal compliance, and shall appoint an executive in charge of compliance and establish a Compliance Risk Management Committee. It shall also conduct internal training concerning compliance. The Internal Auditing Division shall conduct internal auditing and establish an internal reporting system.
5. **System to ensure the appropriateness of business operations within the corporate group, comprising Hitachi High-Technologies, its parent company and subsidiaries**
   Several divisions shall be responsible for checking the appropriateness of transactions with Group companies. In response to a variety of audits by the parent company, feedback on the audit results shall be appropriately provided. The Company shall receive reports on

business execution and financial position from subsidiaries, while the Audit Committee shall regularly conduct interviews at these subsidiaries and the Internal Auditing Division shall carry out regular internal audits of their activities.

6. Matters concerning the directors and employees who assist the duties of the Audit Committee

The Company shall establish an Auditor's Office and appoint Auditor's Office staff. As the need arises, the Internal Auditing Division and administrative departments shall assist with the duties of the Audit Committee.

7. Matters concerning independence of directors and employees mentioned in 6. from executive officers

With regard to personnel changes among the Auditor's Office staff, the Audit Committee shall receive a report on such changes in advance, and when required, a proposal shall be made to the executive officer in charge of personnel and general affairs setting out the reason for such changes.

When an employee belonging to the Auditor's Office is to be disciplined, the executive officer in charge of personnel and general affairs should obtain approval from the Audit Committee in advance.

8. System to enable reporting by executive officers and employees to the Audit Committee and other systems to enable reports to the Audit Committee

Proposals put forward at meetings of the Executive Committee and the results of internal audits carried out by the Internal Auditing Division shall be reported without delay to the Audit Committee by the executive officer in charge or the employee concerned. With regard to the status of reporting through the internal reporting system, matters of particular importance shall be reported to the Audit Committee members by the Head of the Compliance & Risk Management Committee.

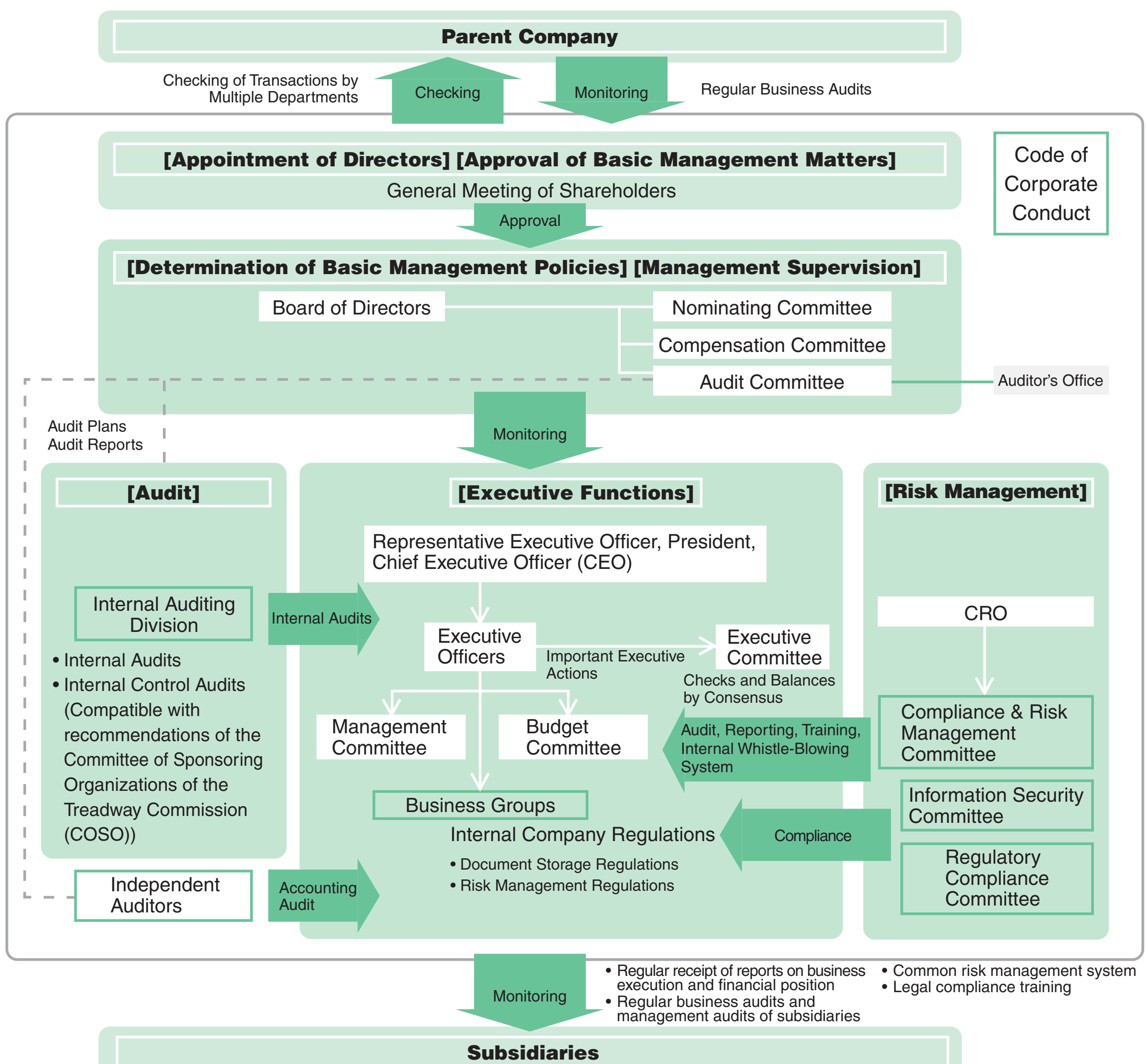
9. Other systems to ensure that audits by the Audit Committee are effectively implemented

As the need arises, the Audit Committee shall consign some audit matters to the Internal Auditing Division and the independent auditors, resulting in a cooperative approach where the Audit Committee receives reports on the results of audits.

The results of audits by the Audit Committee and the Internal Auditing Division shall be provided to the Board of Directors and the Executive Committee to be reflected in the execution of business.

Business Execution, Management Oversight and Internal Control System

(As of April 1, 2006)



Note: The Chief Risk Management Officer (CRO) is an executive officer responsible for company-wide risk management. The CRO is selected by the Board of Directors.

DIRECTORS AND EXECUTIVE OFFICERS

(As of June 23, 2006)

YOSHIRO KUWATA
Chairman of the Board
Representative Executive Officer

MASAAKI HAYASHI
Representative Executive Officer
President
Chief Executive Officer and Director

HIDEHITO OBAYASHI
Representative Executive Officer
Senior Vice President
Executive Officer and Director

KATSUJI YAMASHITA
Director

HARUMICHI UCHIDA
Outside Director

RYUICHI SEGUCHI
Outside Director

KOTARO MUNEOKA
Outside Director

WASUKE NAKANO
Vice President
and Executive Officer

MASUMI MIYAUCHI
Vice President
and Executive Officer

HIROSHI KANAUCHI
Vice President
and Executive Officer

MASAO SAKURAGI
Vice President
and Executive Officer

HIROSHI MISAWA
Vice President
and Executive Officer

NOBUHIRO SOEDA
Vice President
and Executive Officer

YOSHINAO KAWASAKI
Vice President
and Executive Officer

HIROSHI MIZUSAWA
Vice President
and Executive Officer

KENYA WADA
Vice President
and Executive Officer

Chairman of the Board
Representative Executive Officer

YOSHIRO KUWATA

Representative Executive Officer
President
Chief Executive Officer and Director

MASAAKI HAYASHI

Representative Executive Officer
Senior Vice President
Executive Officer and Director

HIDEHITO OBAYASHI

Director

KATSUJI YAMASHITA

Outside Directors

HARUMICHI UCHIDA
RYUICHI SEGUCHI
KOTARO MUNEOKA

Vice Presidents and Executive Officers

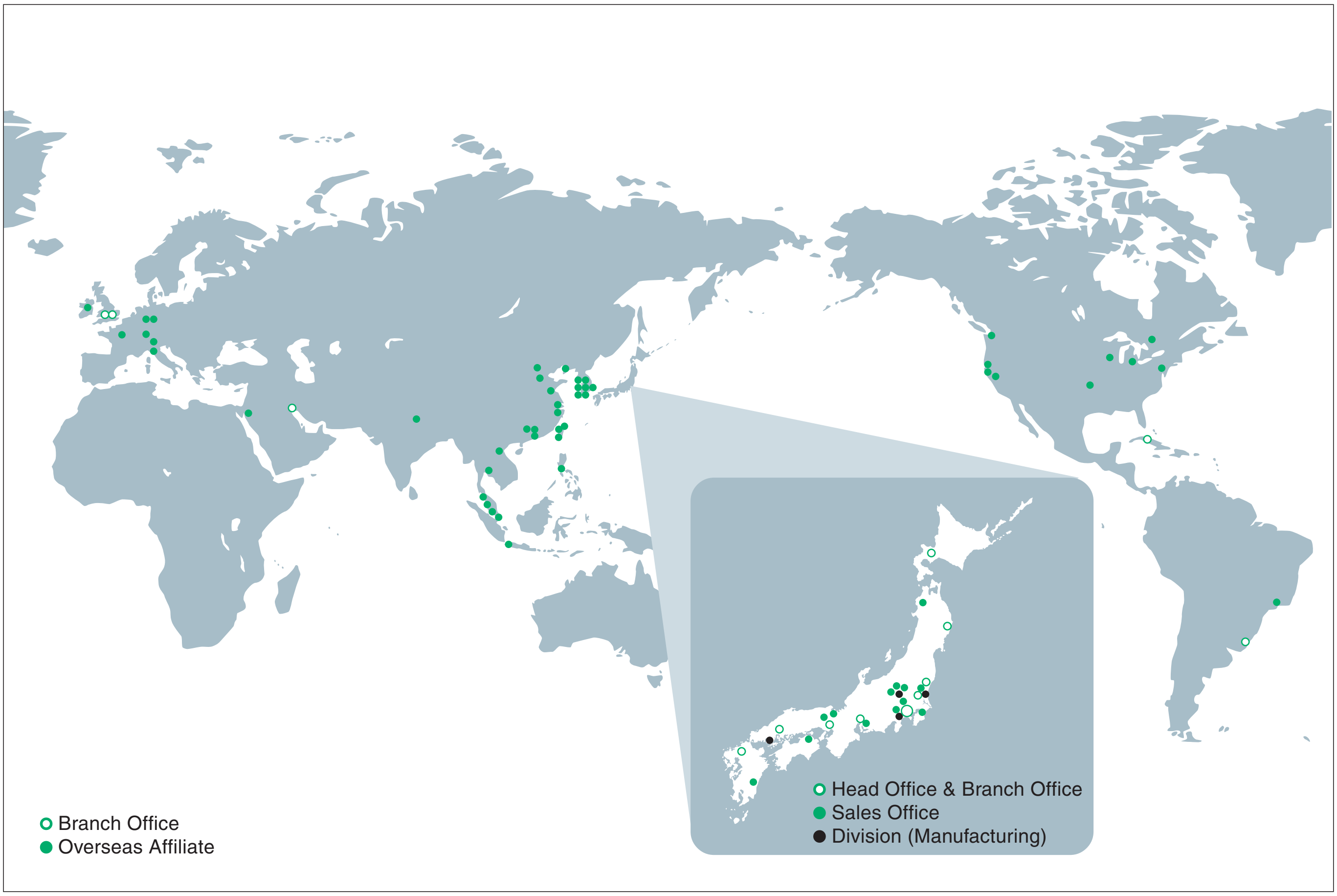
WASUKE NAKANO
MASUMI MIYAUCHI
HIROSHI KANAUCHI
MASAO SAKURAGI
HIROSHI MISAWA
NOBUHIRO SOEDA
YOSHINAO KAWASAKI
HIROSHI MIZUSAWA
KENYA WADA

Executive Officers

SHIGERU IIZUKA
MASAHO MASUYAMA
MITSUHIRO HAYASHI
TOSHIO SENGOKU
TAMIO MORI
KATSUMI MIZUNO
TSUTOMU ANDO
SHINICHI TACHI
HIROSHI OHKI
OSAMU NAKAMURA

NETWORK

(As of March 31, 2006)



JAPAN

Head Office (Tokyo)
Naka Division
Kasado Division
Shonan Division
Saitama Division
Hokkaido Branch Office
Goshogawara Office

Tohoku Branch Office
Takasaki Sub Branch Office
Tochigi Sales Office
Utsunomiya Office
Ibaraki Branch Office
Hitachinaka Sales Office
Tsukuba Branch Office

Kanto Branch Office
Hino Sales Office
Mobara Sub Branch Office
Chubu Branch Office
Toyota Sales Office
Kyoto Sales Office
West Japan Branch Office

Kansai Branch Office
Chugoku Branch Office
Shikoku Sales Office
Kyushu Branch Office
Minami Kyushu Sales Office

OVERSEAS

North America

Chicago
San Francisco
San Jose
Los Angeles
Oregon
Dallas
Washington
Lexington
Toronto

Latin America

Havana
Buenos Aires
San Paulo

Europe/Middle East

London
Düsseldorf
Munich
Mannheim
Budapest
Eindhoven
Milan
Paris
Dublin
Israel
Kuwait

ASEAN Region

Singapore
Ang Mo Kio
India
Philippines
Vietnam
Kuala Lumpur
Penang
Jakarta
Bangkok

East Asia

Shanghai
Beijing
Shenzhen
Guangzhou
Dalian
Tianjin
Qingdao
Suzhou
Hong Kong
Taipei
Hsinchu
Tainan
Seoul
Pusan
Gumi
Kangnam
Giheung
Chongju
Ichon

HITACHI HIGH-TECHNOLOGIES GROUP (As of July 1, 2006)

DOMESTIC AFFILIATED COMPANIES

Company Name	Holding (%)	Capital (¥ millions)	Business Activities
Sales			
Hitachi High-Tech Trading Corp.	100	400	Sales, import and export of electronic components and equipment; sales of industrial measuring devices and measuring control equipment
Hitachi High-Tech Materials Corp.	100	200	Sales of energy, functional chemicals, electronic component materials and electronic equipment
Hitachi High-Tech Solutions Corp.	100	100	Development and sales of software; operation and management of information processing systems
Hitachi High-Tech Support Corp.	100	50	Management of welfare facilities, postal and home delivery services, and internal sales
Giesecke & Devrient K.K.	(HHT) 49 ((Germany) G&D) 51	200	Sales and development in Japan of products (IC cards, etc.) made by G&D of Germany
Services/Manufacturing			
Hitachi High-Tech Fielding Corp.	100	1,000	Service support for semiconductor manufacturing and testing systems, scientific equipment, industrial measuring devices and other products
Hitachi High-Tech D E Technology Co., Ltd.	100	320	Service support for LCD manufacturing and testing systems, hard disk manufacturing and testing systems and other products
Hitachi High-Tech Science Systems Corp.	100	400	Design, manufacture and testing of scientific equipment and medical equipment; development and production of software
Hitachi High-Tech Control Systems Corp.	100	200	Design and manufacture of measuring control systems and equipment, clinical testing systems and other products
Hitachi High-Tech Manufacturing & Service Corp.	100	230	Manufacture of optical analysis systems, medical equipment components and printed circuit boards; design and manufacture of replacement parts
Hitachi High-Tech Instruments Co., Ltd.	100	450	Design and manufacture of chip mounting systems and other products
Hitachi High-Tech Instruments Service Co., Ltd.	100	50	Service support for chip mounting systems and other products

OVERSEAS OFFICES

Company Name	Holding (%)	Capital	Business Activities
Sales and Services			
NORTH AMERICA/SOUTH AMERICA			
Hitachi High Technologies America, Inc.	(HHT) 53 (Hitachi America) 47	15 million US$	Sales of and service support for semiconductor manufacturing and testing systems, scientific equipment, industrial materials and other products
Hitachi High-Technologies Canada, Inc.	(HTA) 100	0.5 million C$	Sales of and service support for scientific equipment, medical equipment and other products
Hitachi High-Technologies do Brasil Ltda.	100	0.7 million R$	Sales of electronic components and other products
EUROPE			
Hitachi High-Technologies Europe GmbH	100	2.6 million EUR	Sales of and service support for scientific equipment, optical transmission components and materials, electronic components and other products
Hitachi High-Technologies France S.A.R.L.	(HTE) 100	0.3 million EUR	Sales of electronic components and other products
Hitachi High Technologies Ireland Limited	(HTA) 100	0.1 million US$	Maintenance services for semiconductor manufacturing systems
H.H.T.A. Semiconductor Equipment Israel, Ltd.	(HTA) 100	250 US$	Maintenance services for semiconductor manufacturing and testing systems

Company Name	Holding (%)		Capital	Business Activities
ASEAN				
Hitachi High-Technologies (Singapore) Pte. Ltd.	(HHT) (ACT)	95 5	4 million S$	Sales of and service support for electronic materials, semiconductor testing systems, chip mounting systems and other products
Hitachi High-Technologies IPC (Malaysia) Sdn. Bhd.	(HHT) (HTS)	20 80	3 million M$	Sales of industrial materials and service support for chip mounting systems and other products
Hitachi High-Technologies (Thailand) Ltd.	(HTS)	100	30 million TB	Sales of industrial materials and service support for chip mounting systems and other products
ASIA				
Hitachi High-Technologies (China) Co., Ltd.	(HTH)	100	2.1 million US$	Sales of and service support for industrial materials, electronic components and scientific equipment
Hitachi High-Technologies (Shanghai) Co., Ltd.		100	0.5 million US$	Sales of industrial materials, electronic materials, chip mounting systems and other products
Hitachi High-Technologies Hong Kong Ltd.		100	15 million HK$	Sales of industrial materials, electronic materials, electronic components and other products
Hitachi High-Technologies (Shenzhen) Co., Ltd.	(HTH)	100	2 million HK$	Customer demonstrations of chip mounting systems
Hitachi High-Technologies Korea Co., Ltd.		100	1,500 million WON	Sales of and service support for semiconductor and LCD manufacturing and testing equipment, electronic components and other products
Hitachi High-Technologies Taiwan Corp.		100	60 million NT$	Sales of and service support for semiconductor and LCD manufacturing and testing equipment, electronic components, electronic materials and other products
Manufacturing ***ASIA***				
Hitachi Instrument (Suzhou), Ltd.		100	5 million US$	Local production of medical equipment and electron microscopes
Dalian Naka Instruments Co., Ltd.	(HMS) (Liaoning No. 2 Radio Factory)	60 40	0.3 million US$	Local production of analytical equipment

EQUITY-METHOD AFFILIATES

Company Name	Holding (%)		Capital	Business Activities
Hitachi China, Ltd.	(HTT) (Hitachi Asia (Singapore))	30 70	2.6 million US$	Sales of and services support for electrical and electronic equipment; materials procurement

HHT: Hitachi High-Technologies
HTA: Hitachi High-Technologies America Inc.
HTE: Hitachi High-Technologies Europe GmbH
HTS: Hitachi High-Technologies (Singapore) Pte. Ltd.
HTH: Hitachi High-Technologies Hong Kong Ltd.
HMS: Hitachi High-Tech Manufacturing & Service Corp.

CORPORATE HISTORY

1947 April	Established in Chuo-ku, Tokyo, as Hinode Shokai Co., Ltd. with capital of ¥195,000
1953 January	Head office moved to Minato-ku, Tokyo
1960 May	New York sub branch office opened (now Hitachi High-Technologies America, Inc.)
July	Düsseldorf sub branch office opened (now Hitachi High-Technologies Europe GmbH)
1962 September	São Paulo branch office opened (now Hitachi High-Technologies do Brasil Ltda.)
1964 February	Hong Kong representative office opened (now Hitachi High-Technologies Hong Kong Ltd.)
March	Head office moved to Nishi-Shimbashi 2-chome, Minato-ku, Tokyo
1965 April	Hitachi Instruments Service Co., Ltd. established (now Hitachi High-Tech Fielding Corp.)
1971 October	Company listed on the Second Section of the Tokyo Stock Exchange
1972 March	Singapore branch office opened (now Hitachi High-Technologies (Singapore) Pte. Ltd.)
April	Nissei Oil Sales Co., Ltd. established (now Hitachi High-Tech Materials Corp.)
October	Company listed on the Second Section of the Osaka Securities Exchange
1973 July	Nissei Electronics Co., Ltd. established (now Hitachi High-Tech Trading Corp.)
1978 August	Nissei Sangyo France S.A.R.L. established (now Hitachi High-Technologies France S.A.R.L.)
1980 April	Nissei Sangyo Canada, Inc. established (now Hitachi High-Technologies Canada, Inc.)
1983 September	Company listed on the First Section of both the Tokyo and Osaka markets Nissei Software Co., Ltd. established (now Hitachi High-Tech Solutions Corp.)
1986 March	Head office moved to Nishi-Shimbashi 1-chome, Minato-ku, Tokyo
1987 April	Nissei Service Inc. established
October	Nissei Engineering Co., Ltd. established (now Hitachi High-Tech Trading Corp.)
1992 January	Nissei Sangyo Malaysia Sdn. Bhd. established (now Hitachi High-Technologies IPC (Malaysia) Sdn. Bhd.)
1993 April	Nissei Science Ltd. established
1994 January	Nissei Sangyo Thailand Ltd. established (now Hitachi High-Technologies (Thailand) Ltd.)
October	Nissei Sangyo Shanghai Co., Ltd. established (now Hitachi High-Technologies (Shanghai) Co., Ltd.)
2001 October	Company name changed to Hitachi High-Technologies Corp. following the integration of Hitachi's Measuring Instrument Group and Semiconductor Manufacturing Equipment Group; Hitachi Science Systems, Ltd., Hitachi Naka Electronics Co., Ltd. and Naka Instruments Co., Ltd. (now Hitachi High-Tech Manufacturing & Service Corp.) made subsidiaries
2002 January	Nissei Sangyo Trading (Shenzhen) Co., Ltd. established (now Hitachi High-Technologies (Shenzhen) Co., Ltd.)
March	Giesecke & Devrient K.K. established
2003 April	SANYO High Technology Co., Ltd. (now Hitachi High-Tech Instruments Co., Ltd.) and SANYO High-Tech Service Co., Ltd. (now Hitachi High-Tech Instruments Service Co., Ltd.) made subsidiaries
2004 March	Hitachi Electronics Engineering Co., Ltd. (now Hitachi High-Tech Electronics Engineering Co., Ltd.) made a subsidiary
2005 April	Nissei Science, Ltd. absorbed by Hitachi High-Technologies Corp.
2006 April	Hitachi High-Tech Electronics Engineering Co., Ltd. absorbed by Hitachi High-Technologies Corp.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. COMPANY OVERVIEW

The operations of the Hitachi High-Technologies Group are divided into four segments: Electronic Device Systems, Life Science, Information Systems & Electronic Components, and Advanced Industrial Products. The Group manufactures and sells various products in these four segments, mainly related to electronics, as well as provides maintenance and other services associated with these businesses. The Group aims to be the global leader in the high-tech solutions field. While pushing through management reforms targeting, in particular, stronger cutting-edge development and sales capabilities, the Group aims to achieve strong growth and high earnings.

2. BUSINESS ENVIRONMENT

In fiscal 2005, the year ended March 31, 2006, the trend toward recovery in the Japanese economy became more pronounced. As corporate earnings and the employment and personal income environments continued to improve, internal demand, including consumer spending and private-sector capital investment, showed a robust performance. In addition, exports to the U.S. and China also grew strongly in the second half.

Under these conditions, semiconductor manufacturing and testing systems, one of the Company's core product groups, performed strongly in Japan, South Korea and Taiwan, but as customers in Europe and the U.S. reduced investment budgets, overall sales declined. Meanwhile, although we expected the LCD-related manufacturing systems market to enter an adjustment phase, in Taiwan, investment was restarted and existing lines were expanded. As a result, sales were higher than a year earlier. In addition, sales of hard disk drive manufacturing equipment rose sharply due to investment in capacity expansion by disk manufacturers and other factors, and sales of clinical diagnostic systems rose year on year thanks to strong demand from Europe and the U.S.

As a result, operating profit and net income grew for a fourth consecutive year to reach record levels.

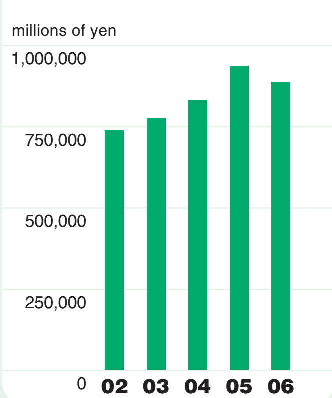
3. OPERATING RESULTS

Net Sales

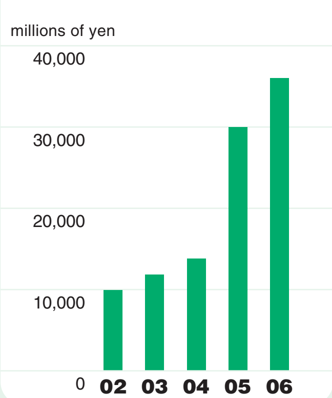
Consolidated net sales declined ¥48.6 billion, or 5.2%, year on year to ¥888.3 billion. Although clinical diagnostic systems performed well in the European and U.S. markets, sales of mainly trading products, namely, consumer electronic equipment for the U.S. market and semiconductor devices used in mobile phones, recorded a decline.

Looking at overseas sales by geographical area, sales in Asia, which includes China, South Korea, Taiwan and other Asian countries outside Japan, rose 5.9% to ¥303.4 billion. North America sales fell 33.1% to ¥64.1 billion and Europe sales declined 4.9% to ¥83.2 billion. However, sales in other areas, including the Near and Middle East and Central and South America, surged 68.1% to ¥13.3 billion. As a result, overseas sales accounted for 52.2% of total net sales, up 1.2 percentage points from 51.0% in the previous fiscal year.

NET SALES



OPERATING PROFIT



Segment Information

(¥100 million)

	Fiscal 2005	Fiscal 2004	Change (%)
Electronic Device Systems	2,280	2,293	(0.6)
	224	198	13.2
Life Science	853	839	1.7
	88	55	60.8
Information Systems & Electronic Components	2,615	3,098	(15.6)
	16	17	(9.6)
Advanced Industrial Products	3,135	3,139	(0.1)
	33	30	8.3

The upper figures of each segment represent net sales while the lower figures show operating profit.

Electronic Device Systems

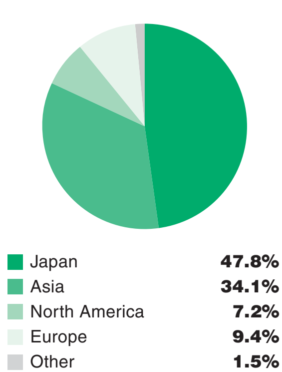
Overall sales of semiconductor manufacturing equipment declined due to a decrease in capital investment by European and U.S. customers, despite strong growth in sales of mainstay critical dimension measurement scanning electron microscopes (CD Measurement SEMs) in Japan, South Korea and Taiwan. Sales of etching systems also decreased due to a reduction in investment by U.S. customers. On the other hand, analytical systems performed well due to more active investment aimed at improving reliability, and sales of back-end process equipment also increased sharply as a result of aggressive investment in South Korea and Taiwan. In addition, sales of ASML scanners recorded steady growth.

We had expected sales of LCD manufacturing systems to enter an adjustment phase with a sharp decline from the record highs reached in the previous year. However, strong investment, including the restart of investment programs that had been frozen and the expansion of existing lines in Taiwan, as well as the introduction of new products, all helped to drive sales higher than a year earlier. Sales of hard disk manufacturing systems also grew sharply. In addition to the conventional fields of PCs and servers, demand growth was also striking in the consumer electronics and mobile equipment fields as disk manufacturers made investments in capacity expansion.

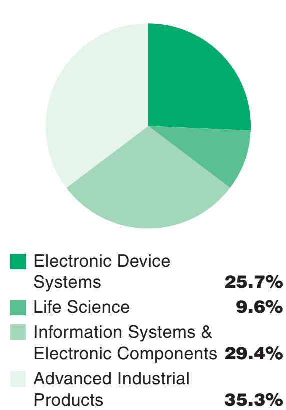
Life Science

Clinical diagnostic systems continued to face a difficult operating environment. The hospital management environment has reached a turning point due to continued curbs on medical expenses. In addition, the

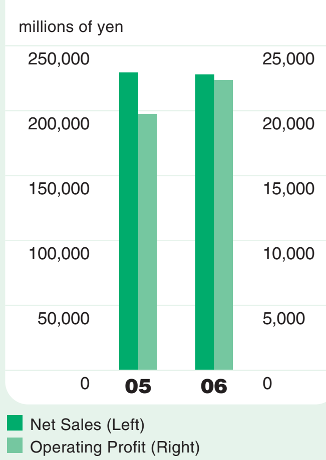
OVERSEAS SALES



SEGMENT SALES



ELECTRONIC DEVICE SYSTEMS NET SALES/OPERATING PROFIT



demand trend in the instruments market changed, as hospitals reviewed their clinical testing methods and increasingly outsourced this work to clinical testing centers. Price competition also intensified. Despite such conditions, immunodiagnostic analyzers and specimen preparation systems experienced strong demand in the European and U.S. markets, resulting in higher sales growth year on year.

In the biotechnology-related equipment field, sales of protein analysis equipment declined, reflecting the impact of the end of large-scale projects. However, sales of genetic testing systems in the U.S. market remained almost stable year on year. In addition, although general-purpose analysis equipment experienced tougher competition from rival companies, sales rose slightly mainly because of the launch of new products in Japan.

Information Systems & Electronic Components

Although mobile phone TFT modules registered a strong performance, sales of optical pick-ups declined as demand for DVD recorders grew far less than forecast and lens prices declined. Demand for mobile phones and PCs was robust, but owing to downward pricing pressure caused by intensifying competition in finished products, sales of semiconductors to the Asian market decreased significantly.

The digital high-speed communications market in Europe continued to grow rapidly, supporting a firm performance by broadband-related products. In contrast, sales of consumer electronics for the U.S. fell sharply year on year.

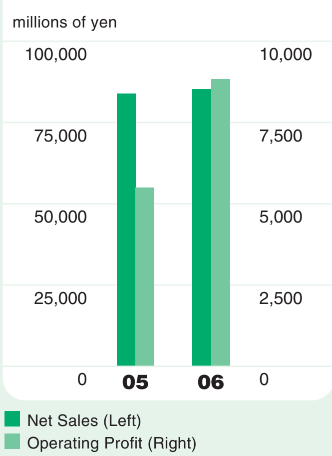
Signs of an end to equipment oversupply in the chip mounter market began to appear, despite some customers in the Asian region altering their capital investment plans, helping the Company to achieve an increase in sales of chip mounters compared to the previous fiscal year. In OLED production equipment, manufacturers continued to withdraw from the field due to problems of profitability affecting the whole industry. Although our customers adopted a cautious stance toward investment because products are in a transition phase, sales rose slightly year on year on the back of new large-scale deals in Japan and South Korea.

Advanced Industrial Products

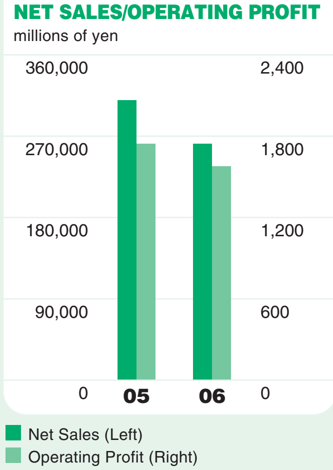
Plastics and non-ferrous metals turned in a strong performance on the back of a steep rise in petroleum-related material prices and high prices for basic materials. Automotive components and special steel products were also robust thanks to favorable conditions in the automotive and construction machinery industries. In contrast, sales of semiconductor package substrates declined despite an ongoing upturn in the market, reflecting sluggish demand in the first half of the fiscal year.

Silicon wafers performed well, and related components also generated solid sales growth, supported by favorable conditions in the optical communications industry. However, optical components for projectors and media-related materials were strongly affected by falling prices and consequently registered lower sales.

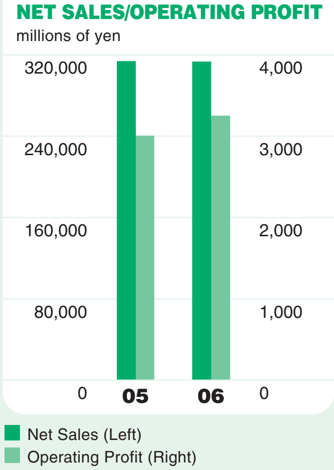
LIFE SCIENCE
NET SALES/OPERATING PROFIT



INFORMATION SYSTEMS & ELECTRONIC COMPONENTS
NET SALES/OPERATING PROFIT



ADVANCED INDUSTRIAL PRODUCTS
NET SALES/OPERATING PROFIT



Operating Profit

Operating profit grew ¥6.0 billion, or 20.1%, year on year to ¥36.0 billion. This mainly reflected higher sales of LCD manufacturing systems, hard disk drive manufacturing systems, and clinical diagnostic systems.

Other Income (Expense)

Other income rose ¥0.8 billion, or 30.2%, to ¥3.4 billion. Other expenses declined ¥2.4 billion, or 36.2%, to ¥4.3 billion. This mainly reflected a decrease in losses on devaluation of inventories.

Net Income

Income before income taxes and minority interests was ¥29.7 billion, an increase of ¥5.3 billion, or 21.7%, from ¥24.4 billion in fiscal 2004. Net income, after taking into account current income taxes, deferred income taxes, and minority interests, was ¥19.2 billion, up 28.3% from ¥15.0 billion in fiscal 2004. Net income per share was ¥139.24, compared with ¥107.94 in the previous fiscal year. The annual dividend per share was ¥25, comprising the year-end dividend of ¥15 (ordinary dividend of ¥10 and commemorative dividend of ¥5) and the interim dividend of ¥10.

Capital Resources and Liquidity

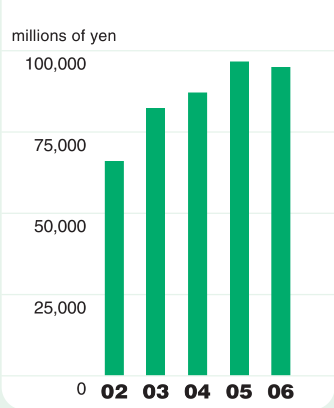
In fiscal 2005, the Group repaid ¥9.9 billion in borrowings outstanding at the end of fiscal 2004, bringing consolidated interest-bearing debt to zero at the end of the fiscal year under review. The repayment was financed mainly by ¥6.1 billion in free cash flow, comprising a ¥15.7 billion cash inflow resulting from operating activities, including ¥29.7 billion in income before income taxes and minority interests, and a ¥9.6 billion cash outflow resulting from investment activities.

Regarding the Group's finance policy, the Group will strengthen its financial base by maintaining sufficient liquidity and securing funds. These funds will be used to meet working capital requirements for business expansion and for R&D and capital investment. The Group will also maintain a sound balance sheet by collecting accounts receivable earlier, reducing inventories and promoting other initiatives to improve working capital. In addition, it will review asset holdings and take other steps. These and other actions target a further increase in free cash flows on a consolidated basis.

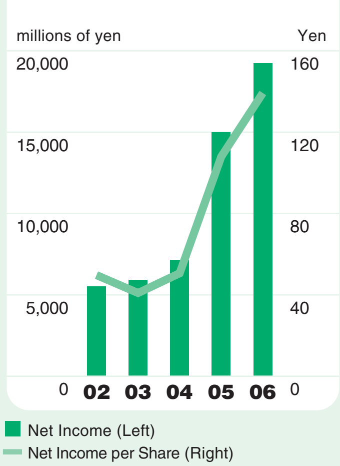
The Group aims to improve the efficiency of capital within the Group through the use of a cash pooling system among Group companies. In addition, by making active use of the cash pooling system of the Hitachi Group, the Group aims to maintain liquidity and improve profitability and thereby contribute to an improvement in the capital efficiency of the entire Hitachi Group.

The Group uses Future Inspiration Value (FIV), a management performance indicator used by the Hitachi Group, to evaluate its operating results. By strictly applying this management performance metric, the Hitachi High-Technologies Group is promoting an improvement in asset efficiency across the whole Group with the aim of creating a management framework

SG&A EXPENSES



NET INCOME/ NET INCOME PER SHARE



capable of consistently delivering earnings that exceed the cost of capital.

4. FINANCIAL POSITION

Assets

Total assets at March 31, 2006 stood at ¥457.8 billion, an increase of ¥25.3 billion, or 5.9%, from a year earlier. Current assets increased ¥22.3 billion, or 6.6%, year on year to ¥361.0 billion. This mainly reflected an increase of ¥25.2 billion, or 11.8%, in notes and accounts receivable, an increase of ¥9.5 billion, or 316.7%, in deposits at affiliated companies due to the use of the Hitachi Group's cash pooling system, and a ¥14.9 billion, or 32.3%, decrease in cash resulting from the repayment of ¥9.9 billion of debt.

Investments and other assets rose ¥10.3 billion, or 37.1%, to ¥38.0 billion. This was mainly attributable to a ¥3.8 billion increase in prepaid pension expenses, ¥3.0 billion for the acquisition of shares of Eiken Chemical Co., Ltd., with which the Company formed an alliance primarily in the clinical testing systems field, and a ¥6.7 billion, or 43.0%, increase in investments in securities resulting from a rise of ¥3.5 billion in the market value of share holdings.

Liabilities

Total liabilities grew ¥4.5 billion, or 1.8%, year on year to ¥259.8 billion.

Current liabilities rose ¥5.8 billion, or 2.6%, to ¥231.4 billion. This was mainly due to a ¥17.3 billion, or 10.5%, increase in note and accounts payable and the repayment of the balance of ¥9.9 billion in debt at the end of fiscal 2004 through the use of a cash pooling system among domestic Group companies.

Long-term liabilities declined ¥1.3 billion, or 4.2%, to ¥28.4 billion. This mainly reflected a decrease of ¥1.2 billion, or 4.3%, in retirement and severance benefits.

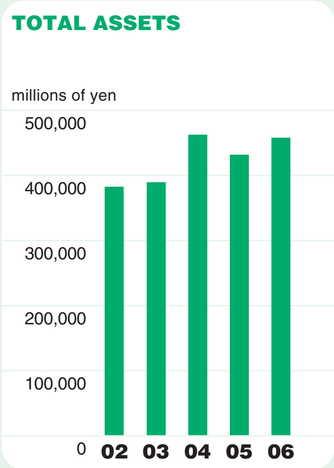
Shareholders' Equity

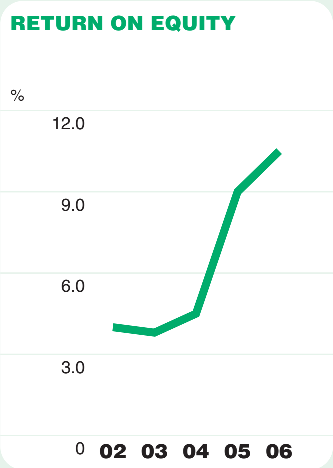
Shareholders' equity increased ¥20.0 billion, or 11.5%, to ¥193.4 billion. This was mainly due to an increase of ¥16.3 billion, or 12.9%, in retained earnings associated with improved business performance. The equity ratio rose 2.1 percentage points year on year to 42.2%, and net assets per share increased ¥145.78 to ¥1,404.96.

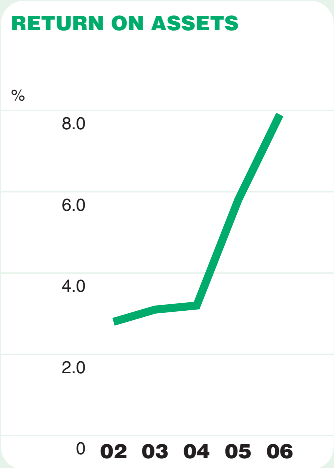
5. CASH FLOWS

Cash and cash equivalents decreased ¥5.4 billion to ¥43.6 billion. Cash provided by operating activities was ¥15.7 billion, but this was offset by cash used of ¥9.6 billion in investing activities and ¥12.8 billion in financing activities.

Operating activities provided net cash of ¥15.7 billion. The main components were ¥29.7 billion in income before income taxes and minority interests, ¥8.5 billion provided by depreciation and amortization, a non-cash expense, and increase in notes and







accounts payables of ¥14.3 billion. These sources of cash were offset by a decrease in cash resulting from ¥11.2 billion in income taxes paid and decrease in notes and accounts receivables of ¥22.4 billion.

Investing activities used net cash of ¥9.6 billion. This mainly reflected an outflow of ¥3.0 billion for the purchase of securities associated with a business and capital alliance and an outflow of ¥7.1 billion in capital expenditures for the purchase of tangible and intangible fixed assets, including the installation of a new clean room building at the Naka Division and other manufacturing equipment.

Financing activities used net cash of ¥12.8 billion. This chiefly reflected decrease in short-term debt of ¥7.9 billion, repayments of long-term debt of ¥2.0 billion, and dividends paid of ¥2.8 billion.

6. R&D EXPENSES

In fiscal 2005, R&D expenses amounted to ¥17.9 billion.

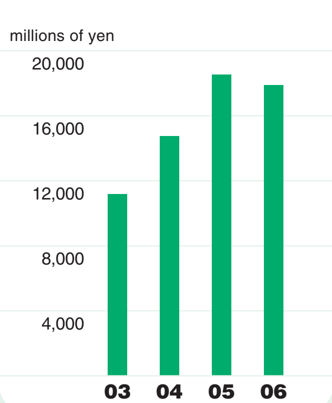
The Hitachi High-Technologies Group aims to be a global leader in the high-tech solutions field. To achieve this goal, the Group is working closely with the research laboratories of Hitachi, Ltd. and outside alliance partners such as universities in the rapidly advancing fields of electronics and life science. The aim is to provide optimal solutions by expediting the development of new products that dovetail with market trends and customer needs.

The Hitachi High-Technologies Group boasts a distinctive business model that combines advanced technological development capabilities as a manufacturer with trading company functions, enabling it to provide unique solutions. This is based on even closer cooperation with the newly established Cross Division Business Development Group and Strategic Planning Divisions within each Business Group, as well as the Research and Development Division and product development sections as organizations that cut across divisional boundaries. With the aim of standing out from competitors, the Group is taking a number of steps to establish a position of dominance and strong customer trust, including the creation of an application development system. In April 2006, the Group integrated Hitachi High-Tech Electronics Engineering Co., Ltd., which became a Group company in April 2004, into Hitachi High-Technologies Corporation and established the Fine Technology Products Business Group. Based on this step, the Group intends to further strengthen its advanced technological development capabilities and core technologies by capturing synergies with LCD and hard disk manufacturing systems.

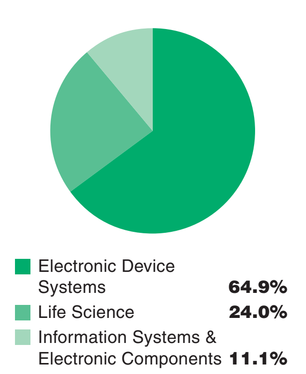
[R&D Expenses By Segment]

Electronic Devices Systems	¥11.6 billion
Life Science	4.3 billion
Information Systems & Electronic Components	2.0 billion

R&D EXPENSES



R&D EXPENSES BY SEGMENT



7. RISK INFORMATION

The following is a non-exhaustive list of some of the risks faced by the Group in the course of its business activities that have the potential to affect its operating results, stock price, and financial condition.

(1) Market Trends

The Group conducts business globally, including in Japan, Europe, the U.S., China and other parts of Asia, mainly in the electronics, life science, information electronics and cutting-edge materials fields using both its advanced technological development capabilities and trading company functions. Deterioration in the supply-demand balance in any of these fields or an economic downturn in any of these regions could adversely affect the Group's operating results.

While the Chinese market is expected to continue growing in the future, management believes there is a strong likelihood of change in this trend due to political and economic conditions around the world.

(2) Technological Innovation

In the electronics and life science fields, the Group's main business domains, new technologies are being developed daily. The development of advanced technologies and the continuous and timely application of the results of development efforts to products and services are vital to ensuring the Group remains competitive. To launch these sorts of new products, the Group is concentrating on research and development in close cooperation with the research facilities of parent company Hitachi, Ltd. However, there are no guarantees that the Group's R&D activities will always be successful. Failure to translate R&D and efforts to commercialize new products into successful outcomes, could adversely affect the Group's operating results.

(3) Escalating Competition

Based on past experiences, the Group's business domains are bound to see an escalation in competition.

To prevail in this competitive environment, the Group's products must be competitive in terms of price, performance, quality and brand appeal. However, ensuring competitiveness is an inherently uncertain matter. Loss of product competitiveness could adversely affect the Group's operating results.

(4) Rapid Rise in Materials Expenses

It is difficult to pass rapidly rising prices of crude oil and basic materials on to the sales prices of the Group's products. Any further increase in materials prices could thus adversely affect the Group's operating results.

(5) Risks Associated With International Activities and Developing Business Overseas

The Group conducts sales activities expansively around the world. However, the following are some of the risks related to these activities:

(1) Occurrence or high frequency of terrorist attacks, riots, and war in regions where key trading partners or Group bases are located.

(2) The spread of bird flu or other infectious diseases in regions where key trading partners or Group bases are located.

The occurrence of conditions such as those listed above could result in bans on the movement of employees and shipment of goods. Such a situation could cause delays in business activities, adversely affect operating results and inhibit growth.

(6) Natural Disasters

The Group implements measures to prevent disasters at production sites. However, a naturally occurring disaster such as a major earthquake, the impact of which cannot be reduced with disaster prevention equipment, or a power outage or other event that dramatically reduces energy supplies, could hinder the Group's ability to manufacture products or result in the complete suspension of production, adversely affecting the Group's operating results.

(7) Retirement Benefit Obligations

To minimize the risk of deterioration in pension asset investments affecting its operating results and financial condition, the Group has shifted to a new corporate pension fund centered on a cash balance plan and other similar systems.

Although this move has enhanced the Group's ability to control related risk, a downturn in the share market caused by a sudden change in economic conditions or other event, could adversely affect the Group's operating results.

(8) Change in Foreign Currency Exchange Rates

The Group conducts business in Japan and overseas. Accounts denominated in local currencies, including sales, expenses and assets, in each region are converted to yen for the purpose of preparing the consolidated financial statements. Even if there is no change in the value of these accounts on a local currency basis, the value may change after conversion to yen. Furthermore, in divisions handling proprietary products, the bulk of procurements are denominated in yen, meaning that there is little foreign exchange rate risk related to production and procurement costs. Generally speaking, however, sales of proprietary products and products sold in trading company operations are adversely affected by an appreciation of the yen and benefit from a depreciation of the yen against other currencies.

A fall in the value of a currency in a country where trading divisions are located could result in higher costs for procuring products. Increased costs could lower the Group's profit margin and undermine the price competitiveness of products, adversely affecting the Group's operating results.

The Group uses forward exchange contracts to minimize the adverse effects of short-term currency fluctuations between major currencies, including the U.S. dollar, euro and yen. However, because there are cases where the Group cannot execute planned business activities due to medium- and long-term foreign exchange movements, changes in foreign exchange rates may adversely affect the Group's operating results and financial condition.

(9) Intellectual Property-related Risk

The Group owns intellectual property rights and has acquired licenses that are necessary for its businesses. Furthermore, as a member of the Hitachi Group, Hitachi High-Technologies is engaged in intellectual property activities in close collaboration with Hitachi, Ltd. However, problems relating to the infringement of intellectual property rights are inherently difficult to predict. The Group could incur considerable expenses in defending itself in a dispute with a third party over intellectual property rights.

(10) Information Security

Technical information associated with the electronics, life science, information electronics and cutting-edge materials fields is the source of the Group's competitiveness. Additionally, some of the Group's main companies are deemed by laws related to the protection of personal information to be businesses that handle personal information. As a result, the Group has put in place Group-wide systems to securely manage this personal and technical information. However, with vast volumes of information exchanged due to the increasingly advanced nature of the information society and the spread of IT, there is a risk that this information may be leaked. Any leak of technical information could impact the Group's relative competitiveness, while a leak of personal information could lead to a loss of trust in the Group.

8. OUTLOOK FOR FISCAL 2006

In the LCD manufacturing system sector, the Group is projecting rising competition with lower-priced products from other parts of Asia. The operating environment is also expected to remain challenging in medical analysis equipment due to intensifying price competition against the backdrop of pressure on medical budgets.

In this business climate, for fiscal 2006, ending March 31, 2007, Hitachi High-Technologies is forecasting net sales of ¥871.0 billion, a decline of 1.9% year on year, operating profit of ¥31.8 billion, down 11.7%, and net income of ¥18.2 billion, a decrease of 5.4%.

As it consistently aims to become the global leader in high-tech solutions, the Group will work to achieve these forecasts by responding rapidly to market trends and customer needs.

CONSOLIDATED BALANCE SHEETS

Hitachi High-Technologies Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
ASSETS	2006	2005	2006
CURRENT ASSETS:			
Cash (note 3)	¥ 31,174	¥ 46,052	$ 265,380
Short-term investments (note 4)	128	193	1,094
Notes and accounts receivable (note 5)	238,183	213,022	2,027,605
Inventories	59,082	56,900	502,955
Advances to suppliers (note 5)	2,112	1,755	17,977
Deposit to Hitachi group cash management fund	12,501	3,000	106,418
Prepaid expenses and other current assets (note 8)	4,683	3,624	39,859
Deferred tax assets (note 6)	16,325	17,893	138,972
Less: allowance for doubtful receivables	(3,233)	(3,803)	(27,520)
Total current assets	360,955	338,636	3,072,740
PROPERTY, PLANT AND EQUIPMENT:			
Land	20,087	20,031	170,994
Buildings and structures	43,726	43,355	372,231
Machinery and equipment	33,502	34,684	285,199
Tools, furniture & fixtures	25,140	25,581	214,012
Construction in progress	39	325	332
	122,494	123,976	1,042,768
Less: accumulated depreciation	(67,910)	(67,344)	(578,106)
Net property, plant and equipment	54,584	56,632	464,662
INTANGIBLE ASSETS	4,346	9,551	37,001
INVESTMENTS AND OTHER ASSETS:			
Investments in non-consolidated subsidiaries and affiliates	3,146	2,809	26,785
Investments in securities (note 4)	19,147	12,776	162,996
Long-term loan	729	1,097	6,202
Deferred tax assets (note 6)	6,122	5,804	52,119
Other assets	9,709	6,224	82,645
Less: allowance for doubtful receivables	(901)	(1,028)	(7,671)
Total investments and other assets	37,952	27,682	323,076
	¥457,837	¥432,501	$3,897,479

See accompanying notes to consolidated financial statements

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2006	2005	Thousands of U.S. dollars (note 2) 2006
CURRENT LIABILITIES:			
Short-term debt (note 7)	¥ –	¥ 7,903	$ –
Current portion of long-term debt (note 7)	–	2,000	–
Notes and accounts payable (note 5)	182,047	164,787	1,549,734
Accrued expenses	27,246	26,415	231,938
Income taxes (note 6)	5,948	7,073	50,638
Advances from customers (note 5)	6,059	5,964	51,579
Other current liabilities	10,153	11,516	86,430
Total current liabilities	231,453	225,658	1,970,319
LONG-TERM LIABILITIES:			
Retirement and severance benefits (note 8)	28,002	29,259	238,379
Other liabilities	366	363	3,108
Total long-term liabilities	28,368	29,622	241,487
Total liabilities	259,821	255,280	2,211,806
MINORITY INTERESTS	4,653	3,842	39,610
SHAREHOLDERS' EQUITY:			
Common Stock (note 9)	7,938	7,938	67,579
Capital Surplus (note 9 and 10)	35,745	35,745	304,287
Retained earnings (note 10)	143,160	126,817	1,218,695
Net unrealized holding gains on securities	7,109	4,926	60,515
Foreign currency translation adjustments	(319)	(1,797)	(2,717)
Treasury stock, at cost, 177,579 shares in 2006 and 169,283 shares in 2005	(270)	(250)	(2,296)
Total shareholders' equity	193,363	173,379	1,646,063
COMMITMENTS AND CONTINGENT LIABILITIES (note 11)			
	¥457,837	¥432,501	$3,897,479

CONSOLIDATED STATEMENTS OF INCOME

Hitachi High-Technologies Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
NET SALES (note 5)	¥888,293	¥936,865	$7,561,868
COST OF SALES (note 5)	757,286	810,233	6,446,630
Gross profit	131,007	126,632	1,115,238
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	94,971	96,631	808,467
Operating profit	36,036	30,001	306,771
OTHER INCOME (EXPENSE)			
Interest & dividends income	842	525	7,171
Interest expenses	(117)	(183)	(998)
Equity income	127	139	1,080
Foreign exchange gains	495	504	4,212
Gains on transfer of the benefit obligation of the substitutional portion of the employees' pension fund (note 8)	–	4,011	–
Losses on devaluation of inventories	(2,191)	(4,261)	(18,648)
Impairment losses (note 16)	(1,254)	(5,701)	(10,672)
Loss on business restructuring (note 17)	(1,438)	–	(12,244)
Amortization of cost in excess of net assets acquired (note 18)	(2,692)	(636)	(22,918)
Other, net	(72)	29	(615)
	(6,300)	(5,573)	(53,632)
Income before income taxes and minority interests	29,736	24,428	253,139
INCOME TAXES (note 6)			
Current	10,014	11,353	85,244
Deferred	(63)	(2,190)	(534)
	9,951	9,163	84,710
Income before minority interests	19,785	15,265	168,429
MINORITY INTERESTS	536	261	4,565
NET INCOME	¥19,249	¥15,004	$163,864

	Yen		U.S.dollars (note 2)
Net income per share (note 12)	¥139.24	¥107.94	$1.19

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Hitachi High-Technologies Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

		Millions of yen					
	Issued and outstanding shares (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	137,739	¥7,938	¥35,745	¥114,427	¥4,897	¥(2,286)	¥(241)
Net income	–	–	–	15,004	–	–	–
Cash dividends	–	–	–	(2,408)	–	–	–
Bonuses to directors	–	–	–	(206)	–	–	–
Net change during the year	–	–	–	–	29	489	–
Increase in treasury stock	–	–	–	–	–	–	(9)
Balance at March 31, 2005	137,739	¥7,938	¥35,745	¥126,817	¥4,926	¥(1,797)	¥(250)
Net income	–	–	–	19,249	–	–	–
Cash dividends	–	–	–	(2,751)	–	–	–
Bonuses to directors	–	–	–	(155)	–	–	–
Net change during the year	–	–	–	–	2,183	1,478	–
Increase in treasury stock	–	–	–	–	–	–	(20)
Balance at March 31, 2006	137,739	¥7,938	¥35,745	¥143,160	¥7,109	¥ (319)	¥(270)

		Thousands of U.S. dollars (note 2)					
	Issued and outstanding shares (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	137,739	$67,579	$304,287	$1,079,569	$41,935	$(15,298)	$(2,125)
Net income	–	–	–	163,864	–	–	–
Cash dividends	–	–	–	(23,422)	–	–	–
Bonuses to directors	–	–	–	(1,316)	–	–	–
Net change during the year	–	–	–	–	18,580	12,581	–
Increase in treasury stock	–	–	–	–	–	–	(171)
Balance at March 31, 2006	137,739	$67,579	$304,287	$1,218,695	$60,515	$ (2,717)	$(2,296)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Hitachi High-Technologies Corporation and Consolidated Subsidiaries
Years ended March 31,2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 29,736	¥ 24,428	$ 253,139
Adjustments to reconcile to net income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,459	8,891	72,014
Impairment losses	1,254	5,701	10,672
Increase (decrease) in provision for doubtful receivables	(712)	1,416	(6,061)
Decrease in retirement and severance benefits	(1,316)	(4,657)	(11,199)
Interest and dividends income	(842)	(525)	(7,171)
Interest expenses	117	183	998
Foreign exchange losses (gains)	(30)	52	(259)
Equity income	(127)	(139)	(1,080)
Losses on sales and disposal of property and equipment	251	243	2,136
Gains on sales and devaluation of securities	(62)	(1,057)	(532)
Decrease (increase) in notes and accounts receivables	(22,437)	21,259	(191,006)
Increase in inventories	(2,421)	(2,941)	(20,610)
Increase (decrease) in notes and accounts payables	14,254	(25,432)	121,346
Bonuses paid to directors	(155)	(206)	(1,316)
Other, net	139	7,259	1,178
	26,108	34,475	222,249
Interest and dividends received	846	536	7,203
Interest paid	(52)	(116)	(442)
Income taxes paid	(11,202)	(8,895)	(95,356)
Net cash provided by operating activities	15,700	26,000	133,654
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in time deposits	10	14	85
Purchase of securities	(2,965)	(203)	(25,239)
Proceeds from sales and redemption of securities	283	4,564	2,413
Capital expenditures	(7,073)	(5,843)	(60,213)
Proceeds from sales of property and equipment	132	894	1,125
Proceeds from sales of shares of subsidiaries	–	67	–
Other, net	35	(69)	293
Net cash used in investing activities	(9,578)	(576)	(81,536)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term debt	(7,903)	(18,094)	(67,275)
Repayments of long-term debt	(2,000)	(1,000)	(17,026)
Dividends paid	(2,751)	(2,408)	(23,422)
Other, net	(108)	(80)	(916)
Net cash used in financing activities	(12,762)	(21,582)	(108,639)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,111	477	9,455
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,529)	4,319	(47,066)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	48,967	44,648	416,849
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES	162	–	1,377
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 3)	¥ 43,600	¥ 48,967	$ 371,160

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Hitachi High-Technologies Corporation and Consolidated Subsidiaries

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements of Hitachi High-Technologies Corporation (the “Company”) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In addition, for the convenience of readers outside Japan, the consolidated financial statements, including the notes to the consolidated financial statements, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

(b) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its effectively controlled subsidiary companies, which in general are majority-owned. Investments in entities in which the Company does not have effective control but has the ability to exercise significant influence over operating and financial policies, generally 20 to 50 percent-owned, are accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

The cost in excess of net assets, based on the fair value, acquired by the Company is being amortized on a straight-line basis over 5 years or, if the amount is not material, charged immediately to earnings.

(c) Cash and Cash Equivalents

For the purpose of the statements 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) Short-term Investments and Investments in Securities

The Company has adopted “Accounting Standards for Financial Instruments” issued by the Business Accounting Deliberation Council. Under this standard, securities are to be classified into one of the following three categories and accounted for as follows:

- Securities that the company held with the objective of generating profits on short-term differences in price are classified as trading securities and measured at fair value, with unrealized holding gains and losses included in earnings.
- Securities that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and measured at amortized cost
- Securities classified as neither trading securities nor held-to-maturity securities are classified as available-for-sale securities and measured at fair value, with either unrealized holding gains and losses excluded from earnings and reported as net unrecognized holding gains (losses) in a separate component of shareholders’ equity until realized, or with unrealized holding losses included in earnings and unrealized gains excluded from earnings and reported as unrecognized holding gains in a separate component of shareholders’ equity until realized.

The Company measured available-for-sale securities at fair value and reported unrealized holding gains and losses as “Net unrealized holding gains on securities” in a separate component of shareholders’ equity. Available-for-sale securities without fair values are carried at cost. In computing realized gains or losses, cost of available-for-sale securities was principally determined by the moving-average method.

(e) Inventories

Inventories are mainly stated as following methods:

Merchandise	: Stated at cost, cost being determined by the moving-average method
Finished goods Semi-finished goods Raw materials	: Stated at lower of cost or market, cost being determined by the moving-average method
Work-in-process	: Stated at lower of cost or market, cost being determined by specific identification method

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the respective assets by the declining-balance method, except for certain buildings which are depreciated by the straight-line method.

(g) Impairment of Fixed Assets

Effective April 1, 2004, the Company adopted “Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council and the related implementation guidance issued by the Accounting Standards Board of Japan. Under this standard and implementation guidance, fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, an amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in earnings. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets. The Company and consolidated subsidiaries identify groups of assets by their business unit as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Previously, no impairment of fixed assets was reviewed, tested or recognized.

As a result of the adoption of this standard, income before income taxes and minority interests decreased for the year ended March 31, 2005 by ¥5,701 million.

(h) Retirement and Severance Benefits

Allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets.

Prior service benefits and costs are recognized as income or expense on a straight-line basis over certain years (7 to 18 years) not exceeding the expected average remaining working lives of the employees active at the date of the amendment. Actuarial gains and losses are recognized as income or expense on a straight-line basis from the next year over certain years (7 to 18 years) not exceeding the expected average remaining working lives of the employees participating in the plans.

A retirement allowance for directors and executive officers has been made for the vested benefits to which they are entitled if they were to retire or sever immediately at the balance sheet date.

(i) Income Taxes

Deferred income taxes are accounted for under the asset and liability method in accordance with “Accounting Standards for Deferred Income Taxes” issued by the Business Accounting Deliberation Council. Under such method, deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. 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.

(j) Translation of Foreign Currency Accounts

The Company has adopted the revised “Accounting Standards for Foreign Currency Transaction” issued by the Business Accounting Deliberation Council. Under this standard, foreign currency transactions are translated into yen at the rates in effect at the transaction date or, if only the relation between a foreign currency transaction and a related firm forward exchange contract meets the criteria of hedge accounting as regulated in “Accounting Standards for Financial Instruments,” those covered by firm forward exchange contracts can be translated at such contract rates. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except for those, as described above, translated at related contract rates. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to income as incurred.

The financial statements of the consolidated foreign subsidiaries are translated into the reporting currency of yen as follows: all assets and liabilities are translated at the rates of exchange in effect at the balance sheet date; shareholders’ equity accounts are translated at historical rates; income and expenses are translated at an average of exchange rates in effect during the year; and a comprehensive adjustment resulting from translation of assets, liabilities and shareholders’ equity is reported as “Foreign currency translation adjustments,” a separate component of shareholders’ equity.

(k) Derivative Financial Instruments

The Company has adopted “Accounting Standards for Financial Instruments” issued by the Business Accounting Deliberation Council. Under this standard, in principle, derivative financial instruments are measured at fair value, with unrealized gains or losses included in earnings. Hedging transactions, which meets the criteria of hedge accounting as regulated in “Accounting Standards for Financial Instruments,” are accounted for using deferral hedge accounting, which requires the unrealized gains or losses to be deferred as an asset or liability until gains or losses relating to the hedge objects are recognized.

In addition, certain foreign currency swap transactions and certain interest rate swap transactions are accounted for using the allocation method and the special method, respectively, which are permitted in the standard. The allocation method requires recognized foreign currency receivables or payables covered by firm foreign currency swap transactions to be translated at such swap rates. Under the special method, interest rate swap transactions are accounted for as if the interest rates under those transactions were originally applied to underlying borrowings and debentures.

(l) Lease

Finance lease except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, is accounted for as operating lease.

(m) Treasury stock

The Company has adopted “Accounting Standards for the Company’s Own Shares and the Withdrawal of Legal Reserve” issued by the Business Accounting Deliberation Council. Under this standard, treasury stock is recorded at cost as a deduction of shareholders’ equity. When the Company reissues the treasury stock, the difference between the issuance price and the cost of the treasury stock is credited or charged to capital surplus.

(n) Research and Development expenses

Research and development expenses are charged to income as incurred.

(o) Net Income per Share

The Company has adopted “Calculations of Earnings per Share of the Current Net Earnings” issued by the Business Accounting Deliberation Council. Under this standard, basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of shares of common shares outstanding during the respective years. 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.

(p) Reclassifications

Certain reclassifications have been made in prior year’s consolidated financial statements to conform to classification used in current year.

2. U.S. DOLLAR AMOUNTS

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into the U.S. dollars at the rate of ¥117.47=$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2006. This translation should not be construed as a representation that any amounts shown could be converted into U.S. dollars.

3. CASH AND CASH EQUIVALENTS

Reconciliations between consolidated balance sheet captions and cash and cash equivalents are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash	¥31,174	¥46,052	$265,380
Time deposits with maturity over three months	(75)	(85)	(638)
Deposits to Hitachi group cash management fund	12,501	3,000	106,418
Cash and cash equivalents	¥43,600	¥48,967	$371,160

4. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Investments in securities as of March 31, 2006 and 2005 are classified as available-for-sale securities. A summary of cost, unrealized holding gross gains, unrealized holding gross losses and aggregate fair value by major type of securities are as follows:

	Millions of yen							
	2006				2005			
	Cost	Gross Gains	Gross Losses	Aggregate fair value	Cost	Gross gains	Gross losses	Aggregate fair value
Available-for-sale securities:								
Equity securities	¥4,847	¥12,373	¥(386)	¥16,834	¥1,906	¥8,316	¥ –	¥10,222
Debt securities	2,006	6	(4)	2,008	2,007	11	–	2,018
Other securities	422	12	(1)	433	726	5	(2)	729
	¥7,275	¥12,391	¥(391)	¥19,275	¥4,639	¥8,332	¥(2)	¥12,969

	Thousands of U.S. dollars			
	2006			
	Cost	Gross Gains	Gross Losses	Aggregate fair value
Available-for-sale securities:				
Equity securities	$41,260	$105,332	$(3,286)	$143,306
Debt securities	17,079	51	(37)	17,093
Other securities	3,594	101	(4)	3,691
	$61,933	$105,484	$(3,327)	$164,090

Debt securities consist mainly of corporate bonds. Other securities consist mainly of common shares of private companies and investment trusts. It is not practicable to estimate the fair value of investments in non-marketable securities because of the lack of market prices and difficulty in estimating fair value without incurring excessive cost. The carrying amount of these investments classified as available-for-sale securities at March 31, 2006 and 2005 totaled ¥337 million ($2,865 thousand) and ¥515 million, respectively.

The aggregate fair value recognized in the consolidated balance sheets consist of:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Short-term investments	¥ 128	¥ 193	$ 1,094
Investments in securities	19,147	12,776	162,996
	¥19,275	¥12,969	$164,090

The following represents the maturities of debt securities and other securities with contractual maturities as of March 31, 2006.

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Within 1 year	¥ 128	$ 1,094
After 1 year through 5 years	97	828
After 5 years through 10 years	1,002	8,531
	¥1,227	$10,453

The proceeds from sales of available-for-sale securities for the year ended March 31, 2006 amounted to ¥157 million ($1,338 thousand), and the gross realized gains and gross realized losses on the sales of those securities for the year ended March 31, 2006 amounted to ¥82 million ($698 thousand) and ¥4 million ($33 thousand), respectively.

The proceeds from sales of available-for-sale securities for the year ended March 31, 2005 amounted to ¥464 million and the gross realized gains and gross realized losses on the sales of those securities for the year ended March 31, 2005 amounted to ¥419 million and ¥31 million, respectively.

5. BALANCES AND TRANSACTIONS WITH RELATED PARTY

51.7% of the Company's outstanding common stock is owned by Hitachi, Ltd. (the parent company). Balances and transactions with the parent company as of and for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Principal balances:			
Accounts receivable	¥ 8,316	¥10,191	$ 70,790
Advances to suppliers	30	34	256
Deposit to Hitachi group cash management fund	12,501	3,000	106,418
Trade accounts payable	9,423	10,617	80,213
Advances from customers	1,298	722	11,053
Principal transactions:			
Sale	43,462	53,464	369,984
Purchase	16,455	20,295	140,075

6. INCOME TAXES

Reconciliations between the normal income tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are as follows:

	2006	2005
Normal income tax rate	40.7%	40.7%
Expenses not deductible for tax purpose	2.5	2.9
Amortization of cost in excess of net assets acquired	5.4	2.4
Tax credit	(4.1)	(5.2)
Valuation allowance	(9.7)	(2.9)
Other, net	(1.3)	(0.4)
Effective income tax rate	33.5%	37.5%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2006 and 2005 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Total gross deferred tax assets:			
Allowance for doubtful receivables	¥ 1,424	¥1,368	$12,121
Accrued bonus	4,361	4,279	37,123
Accrued business tax	516	703	4,396
Accrued expenses	5,250	5,469	44,691
Intercompany profit on inventories	1,122	1,093	9,554
Devaluation of inventories	2,271	3,032	19,331
Depreciation	1,130	671	9,620
Membership deposit	398	330	3,390
Investments in securities	787	536	6,698
Retirement and severance benefits	8,348	9,954	71,067
Net operating losses carryforwards	47	435	398
Other, net	3,252	3,579	27,679
	28,906	31,449	246,068
Less valuation allowance	(1,596)	(4,372)	(13,582)
	27,310	27,077	232,486
Total gross deferred tax liabilities:			
Net unrealized holding gains on securities	(4,881)	(3,380)	(41,549)
Other	(194)	–	(1,648)
	(5,075)	(3,380)	(43,197)
Net deferred tax assets	¥22,235	¥23,697	$189,289

Net deferred tax assets as of March 31, 2006 and 2005 are reflected in the consolidated balance sheets under the following items:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets-current	¥16,325	¥17,893	$138,972
Deferred tax assets-noncurrent	6,122	5,804	52,119
Deferred tax liabilities-noncurrent	(212)	–	(1,802)
Net deferred tax assets	¥22,235	¥23,697	$189,289

7. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unsecured bank borrowings	¥–	¥4,013	$–
Export bills discounted	–	3,890	–
	¥–	¥7,903	$–

Long-term debt as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans from insurance companies,			
Due 2004 – 2005, interest 0.63% – 0.65%	¥–	¥2,000	$–
	–	2,000	–
Less current portion	–	2,000	–
	¥–	¥ –	$–

8. RETIREMENT AND SEVERANCE BENEFITS

The Company and subsidiaries have the following defined benefit pension plans to provide pension benefits to substantially all employees.

- Corporate Pension Fund (funded defined benefit pension plan)
- Tax Qualified Pension Plan (funded defined benefit pension plan)
- Retirement and Severance Benefit Plan (unfunded defined benefit pension plan)

Previously, the Company and certain consolidated subsidiaries had contributory defined benefit pension plans (Employees' Pension Fund (EPF) as is stipulated by the Japanese Welfare Pension Insurance Law) covering substantially all employees, which was composed of the substitutional portion of Japanese Welfare Pension Insurance and the corporate portion based on a contributory defined benefit pension arrangement established at the discretion of employers.

On September 30, 2004, the Company and these subsidiaries obtained the final approval for separation of the substitutional portion from the Ministry of Health Labour and Welfare and; on June 30,2005, the obligation and the related government–specified portion of the plan assets of the EPF were transferred to the Japanese government. As a result of the transfer to the Japanese government, the Company recognized a gain of ¥4,011 million as other income for the year ended March 31, 2005 in accordance with "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13, issued by the Japanese Institute of Certified Public Accountants), and, therefore, income before income taxes and minority interests increased for the year ended March 31, 2005 by ¥4,011 million.

The funded status of the Company and subsidiaries' pension plans as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(101,052)	¥(119,490)	$(860,233)
Plan assets at fair value	59,523	63,849	506,707
Funded status	(41,529)	(55,641)	(353,526)
Unrecognized actuarial loss	25,395	33,294	216,182
Unrecognized prior service cost	(6,804)	(5,589)	(57,927)
Amount recognized in the consolidated balance sheet	¥ (22,938)	¥(27,936)	$(195,271)
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid expenses and other current assets	¥ 4,073	¥299	$ 34,671
Retirement and severance benefits	(27,011)	(28,235)	(229,942)
	¥ (22,938)	¥(27,936)	$(195,271)

Net periodic benefit cost for the Company and subsidiaries' pension plans for the years ended March 31, 2006 and 2005 consisted of the following components:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 4,105	¥ 4,399	$34,946
Interest cost	2,570	3,176	21,877
Expected return on plan assets for the period	(1,830)	(2,523)	(15,577)
Amortization of transition difference	–	257	–
Amortization of actuarial loss	2,552	3,158	21,725
Amortization of prior service cost	(518)	(420)	(4,406)
	¥ 6,879	¥ 8,047	$58,565
Gains on settlement of substitutional portion	–	(4,011)	–
Other, net	122	108	1,033
	¥ 7,001	¥ 4,144	$59,598

Actuarial assumptions used in accounting for the Company and subsidiaries' plans are principally as follows:

	2006	2005
Discount rate	1.7-2.5%	1.7-2.5%
Expected rate of return on plan assets	3.0-3.5%	2.5-4.5%

The program described above does not cover directors and statutory auditors. However, the provision has been made in the accompanying balance sheets for accrued liability based on management estimates. At March 31, 2006 and 2005, such obligation recognized as retirement and severance benefits amounted to ¥991 million ($8,437 thousand) and ¥1,024 million, respectively. Benefits payable to directors and statutory auditors upon retirement are subject to the approval of shareholders.

9. COMMON STOCK

The Japanese Commercial Code (JCC) requires that at least 50% of the issue price of new shares is designated as stated capital, and proceeds in excess of amount designated as stated capital are credited to additional paid-in capital.

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

Authorized shares and issued shares for the years ended March 31, 2006 and 2005 are summarized as follows:

	Authorized Shares	Issued Shares
Balance as of March 31, 2005	350,000,000	137,738,730
Balance as of March 31, 2006	350,000,000	137,738,730

10. LEGAL RESERVE AND DIVIDENDS

The JCC requires an amount of equal to at least 10% of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until total of capital surplus and legal reserve equals 25% of stated capital. In addition to reduction of a deficit and transfer to stated capital, either capital surplus or legal reserve may be available for dividends by resolution of the shareholders' meeting to the extent that the amount of total capital surplus and legal reserve exceeds 25% of stated capital.

Cash dividends, directors' bonuses and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2006 and 2005 represent dividends and directors' bonuses paid out during those periods and the related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥15.00 ($0.13) per share, aggregating ¥2,063 million ($17,565 thousand), or directors' bonuses for subsidiaries of ¥95 million ($806 thousand) in respect of the year ended March 31,2006.

11. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2006 and 2005, the Company and its subsidiaries are contingently liable for following amounts:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Export bills discounted	¥1,668	¥2,321	$14,201
Notes receivable endorsed to suppliers	183	215	1,556
Guarantees given for employees' housing loans	1,708	1,829	14,543
	¥3,559	¥4,365	$30,300

12. NET INCOME PER SHARE INFORMATION

The Company adopted ASB Statement No. 2, "Calculations of Earnings per Share of the Current Net Earnings" issued by the Business Accounting Deliberation Council as described note 1(l). The Company has no potentially dilutive securities for the years ended March 31, 2006 and 2005. Net income per share computation for the year ended March 31,2006 is as follows:

	Number of shares
	2006
Weighted average number of shares on which basic net income per share is calculated	137,565,859

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Net income	¥19,249	$163,864
Appropriations for directors' bonuses	(95)	(806)
Net income available to common shareholders	19,154	163,058

	Yen	U.S dollar
Net income per share:		
Basic	¥139.24	$1.19

13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the year ended March 31, 2006 amounted to ¥17,893 million ($152,320 thousand).

14. FINANCIAL INSTRUMENTS

The Company and its subsidiaries are exposed to market risks arising from fluctuations in foreign currency exchange rates. The Company and subsidiaries enter into forward exchange contracts for the purpose of hedging these risk exposures. Forward exchange contracts are utilized to manage foreign currency exchange rate risk from receivables and payables which are denominated in foreign currencies.

The Company has no derivative financial instruments for trading purpose. In addition, the Company may be exposed to losses in the event of nonperformance by counterparties to financial instruments, but it is not expected that any counterparties will fail to meet their obligations because most of the counterparties are authentic financial institutions. The Company has also developed hedging policies to control various aspects of derivative financial transactions including authorization levels, transaction volumes and counterparty credit guidelines.

The notional amounts, estimated fair values and unrealized gains (losses) of the derivative financial instruments other than derivative financial instruments accounted for using the deferral hedge accounting for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen					
	2006			2005		
	Notional Amounts	Estimated fair values	Unrealized Losses	Notional amounts	Estimated fair values	Unrealized Gains (Losses)
Forward exchange contracts:						
To sell foreign currency	¥19,929	¥20,016	¥(87)	¥12,193	¥12,205	¥(12)
To buy foreign currency	7,596	7,521	(75)	4,592	4,617	25

	Thousands of U.S. dollars		
	2006		
	Notional Amounts	Estimated fair values	Unrealized Losses
Forward exchange contracts:			
To sell foreign currency	$169,655	$170,391	$(736)
To buy foreign currency	64,662	64,023	(639)

15. LEASES

Lessee

Future minimum lease payments under non-cancelable operating lease arrangements as of March 31, 2006 are ¥458 million ($3,899 thousand) due within one year and ¥2,358 million ($20,069 thousand) due after one year.

Finance leases (without transfer of legal title) are accounted for as operating leases. For the years ended March 31, 2006 and 2005, lease payments of ¥1,616 million ($13,757 thousand) and ¥1,672 million, respectively, under such finance leases were included in earnings. On a pro forma basis, leased property, lease obligation and related expenses, with assumed capitalization of such finance leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Leased property:			
Equipment and other, at cost	¥5,284	¥6,197	$44,978
Less accumulated depreciation (Note a)	2,972	3,238	25,293
Less impairment	105	–	896
Net equipment and other	¥2,207	¥2,959	$18,789
Depreciation expense (Note a)	¥1,571	¥1,617	$13,376
Interest expense (Note b)	38	49	326
Lease obligation:			
Within one year	¥1,113	¥1,376	$ 9,474
After one year	1,117	1,615	9,514
Total	¥2,230	¥2,991	$18,988
Leased property impaired	¥ 94	¥ –	$ 801

Notes: a. Leased property is depreciated over the lease term by the straight-line method with no residual value.
b. Excess of total lease payments over the assumed acquisition costs is regarded as assumed interest payable and is allocated to each period using the interest method.

16. IMPAIRMENT OF TANGIBLE ASSETS

For determining impairment indications, the Company and its consolidated subsidiaries group assets in accordance with managerial accounting classifications on the basis of each business unit, except for significant dormant assets, assets targeted for sale, etc.

As a result of reviewing holding policies for significant assets in order to further strengthen the Company's financial foundation, in the year under review, the book values of the following dormant assets and assets targeted for sale were reduced to recoverable values, and the reduced amount was stated in extraordinary losses as an impairment loss (¥1,254 million).

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Buildings and structures	¥ 329	$ 2,801
Lease assets	115	981
Other	810	6,890
Total	¥1,254	$10,672

17. LOSS ON BUSINESS RESTRUCTURING

The Company booked devaluation of inventories due to a decline in E-Beam Lithography equipment, and expenses related to products already delivered to customers. The combined amount was stated in extraordinary losses as loss on business restructuring of ¥1,438 million ($12,244 thousand).

18. AMORTIZATION OF COST IN EXCESS OF NET ASSETS ACQUIRED

This mainly comprised the one-time amortization of cost in excess of net assets required which is related to newly recognized deferred tax assets at Hitachi High-Tech Electronics Engineering Co., Ltd., which represented the portion arising from the expected future tax consequences of temporary differences deemed as meeting conditions for recognition as deferred tax assets.

Amortization of cost in excess of net assets acquired for the year ended March 31, 2006 amounted to ¥2,692 million ($22,918 thousand).

19. SEGMENT INFORMATION

BUSINESS SEGMENT INFORMATION

The Company has divided its operations into four reportable segments: "Electronic Device Systems," "Life Science," "Information Systems and Electronic Components" and "Advanced Industrial Products." The main products of each business segment are provided on pages 10–21 of this annual report. Following is a tabulation of business segment information as of and for the years ended March 31, 2006 and 2005:

	Millions of yen						
	2006						
	Electronic Device Systems	Life Science	Information Systems & Electronic Components	Advanced Industrial Products	Total	Elimination	Consolidated
Net sales:							
External customers	¥227,964	¥85,331	¥261,536	¥313,462	¥888,293	¥ –	¥888,293
Intersegment sales	54	1,752	644	2,126	4,576	(4,576)	–
	228,018	87,083	262,180	315,588	892,869	(4,576)	888,293
Operating expenses	205,652	78,249	260,603	312,336	856,840	(4,583)	852,257
Operating profit	¥ 22,366	¥ 8,834	¥ 1,577	¥ 3,252	¥ 36,029	¥ 7	¥ 36,036
Total assets	¥165,250	¥47,086	¥104,923	¥ 95,524	¥412,783	¥45,054	¥457,837
Depreciation	4,327	1,549	1,397	1,186	8,459	–	8,459
Impairment losses	1,013	–	–	–	1,013	241	1,254
Capital expenditure	3,735	1,257	789	1,175	6,956	–	6,956

	Millions of yen						
	2005						
	Electronic Device Systems	Life Science	Information Systems & Electronic Components	Advanced Industrial Products	Total	Elimination	Consolidated
Net sales:							
External customers	¥229,275	¥83,866	¥309,801	¥313,923	¥936,865	¥ –	¥936,865
Intersegment sales	60	1,208	390	1,248	2,906	(2,906)	–
	229,335	85,074	310,191	315,171	939,771	(2,906)	936,865
Operating expenses	209,581	79,581	308,447	312,168	909,777	(2,913)	906,864
Operating profit	¥ 19,754	¥ 5,493	¥ 1,744	¥ 3,003	¥ 29,994	¥ 7	¥30,001
Total assets	¥156,764	¥42,127	¥ 98,282	¥ 81,944	¥379,117	¥53,384	¥432,501
Depreciation	4,976	1,656	1,433	826	8,891	–	8,891
Impairment losses	364	240	9	–	613	5,088	5,701
Capital expenditure	6,881	3,048	1,116	857	11,902	–	11,902

	Thousands of U.S. dollars						
	2006						
	Electronic Device Systems	Life Science	Information Systems & Electronic Components	Advanced Industrial Products	Total	Elimination	Consolidated
Net sales:							
External customers	$1,940,616	$726,409	$2,226,404	$2,668,439	$7,561,868	$ –	$7,561,868
Intersegment sales	458	14,914	5,487	18,100	38,959	(38,959)	–
	1,941,074	741,323	2,231,891	2,686,539	7,600,827	(38,959)	7,561,868
Operating expenses	1,750,674	666,122	2,218,466	2,658,853	7,294,115	(39,018)	7,255,097
Operating profit	$ 190,400	$ 75,201	$ 13,425	$ 27,686	$ 306,712	$ 59	$ 306,771
Total assets	$1,406,747	$400,834	$ 893,188	$ 813,179	$3,513,948	$383,531	$3,897,479
Depreciation	36,837	13,189	11,889	10,099	72,014	–	72,014
Impairment losses	8,623	–	–	–	8,623	2,049	10,672
Capital expenditure	31,792	10,697	6,719	10,007	59,215	–	59,215

GEOGRAPHIC SEGMENT INFORMATION

Geographic segment information as of and for the years ended March 31, 2006 and 2005 are as follows:

Millions of yen — 2006

	Japan	North America	Europe	Asia	Other areas	Total	Elimination	Consolidated
Net sales:								
External customers	¥ 657,827	¥ 68,585	¥ 73,527	¥ 87,970	¥ 384	¥ 888,293	¥ –	¥ 888,293
Intersegment sales	109,939	3,478	217	19,472	41	133,147	(133,147)	–
	767,766	72,063	73,744	107,442	425	1,021,440	(133,147)	888,293
Operating expenses	735,988	70,701	73,050	105,142	351	985,232	(132,975)	852,257
Operating profit	¥ 31,778	¥ 1,362	¥ 694	¥ 2,300	¥ 74	¥ 36,208	¥ (172)	¥ 36,036
Total assets	¥ 415,501	¥ 23,667	¥ 27,590	¥ 31,771	¥ 453	¥ 498,982	¥ (41,145)	¥ 457,837

Millions of yen — 2005

	Japan	North America	Europe	Asia	Other areas	Total	Elimination	Consolidated
Net sales:								
External customers	¥ 673,003	¥103,660	¥ 71,078	¥ 88,755	¥ 369	¥ 936,865	¥ –	¥ 936,865
Intersegment sales	116,179	3,059	1,822	12,942	43	134,045	(134,045)	–
	789,182	106,719	72,900	101,697	412	1,070,910	(134,045)	936,865
Operating expenses	763,982	106,111	72,188	98,405	352	1,041,038	(134,174)	906,864
Operating profit	¥ 25,200	¥ 608	¥ 712	¥ 3,292	¥ 60	¥ 29,872	¥ 129	¥ 30,001
Total assets	¥ 394,024	¥ 21,350	¥ 16,734	¥ 25,614	¥ 385	¥ 458,107	¥ (25,606)	¥ 432,501

Thousands of U.S. dollars — 2006

	Japan	North America	Europe	Asia	Other areas	Total	Elimination	Consolidated
Net sales:								
External customers	$5,599,955	$583,855	$625,925	$748,866	$3,267	$7,561,868	$ –	$7,561,868
Intersegment sales	935,889	29,608	1,846	165,766	347	1,133,456	(1,133,456)	–
	6,535,844	613,463	627,771	914,632	3,614	8,695,324	(1,133,456)	7,561,868
Operating expenses	6,265,322	601,862	621,862	895,055	2,986	8,387,087	(1,131,990)	7,255,097
Operating profit	$ 270,522	$ 11,601	$ 5,909	$ 19,577	$ 628	$ 308,237	$ (1,466)	$ 306,771
Total assets	$3,537,085	$201,472	$234,869	$270,463	$3,852	$4,247,741	$ (350,262)	$3,897,479

OVERSEAS SALES

Export sales of the Company and its domestic subsidiaries and foreign subsidiaries' sales other than sales to Japan are summarized as follows:

	Millions of yen				
	2006				
	North America	Europe	Asia	Other areas	Total
Net sales:	¥ 64,121	¥ 83,197	¥ 303,382	¥ 13,264	¥ 463.964
Percentage of consolidated net sales	7.2%	9.4%	34.1%	1.5%	52.2%

	Millions of yen				
	2005				
	North America	Europe	Asia	Other areas	Total
Net sales:	¥ 95,874	¥ 87,454	¥ 286,584	¥ 7,888	¥ 477,800
Percentage of consolidated net sales	10.2%	9.3%	30.6%	0.9%	51.0%

	Thousand of U.S. dollars				
	2006				
	North America	Europe	Asia	Other areas	Total
Net sales:	$545,846	$708,238	$2,582,637	$112,919	$3,949,640
Percentage of consolidated net sales	7.2%	9.4%	34.1%	1.5%	52.2%

REPORT OF INDEPENDENT AUDITORS

Independent Auditors' Report

The Board of Directors
Hitachi High-Technologies Corporation

We have audited the accompanying consolidated balance sheets of Hitachi High-Technologies Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi High-Technologies Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young Shinnihon

Tokyo, Japan

June 23, 2006

INVESTOR INFORMATION

CORPORATE DATA (As of March 31, 2006)

Date of Establishment	April 12, 1947
Paid-in Capital	¥7,938 million
Number of Employees	9,974 (Hitachi High-Technologies Group Total)
Number of Common Shares	137,738,730 (Issued and Outstanding)
Stock Exchange Listings	Tokyo Stock Exchange, First Section; Osaka Securities Exchange, First Section
Annual Shareholders' Meeting	June
Independent Auditors	Ernst & Young ShinNihon
Number of Shareholders	8,260

TRANSFER AGENT

Transfer Agent	Tokyo Securities Transfer Agent Co., Ltd.
Office of the Transfer Agent	4-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

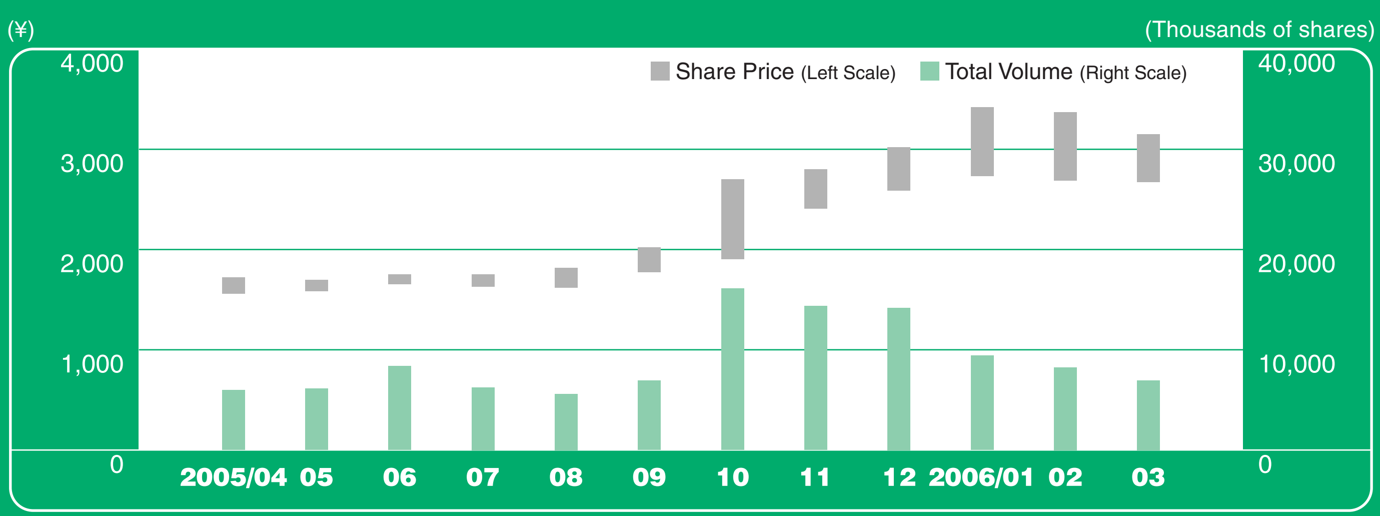
MAJOR SHAREHOLDERS (As of March 31, 2006)

Name	Number of shares	Percentage of total equity (%)
Hitachi, Ltd.	70,807,382	51.4
Japan Trustee Services Bank, Ltd.	7,384,600	5.4
The Master Trust Bank of Japan, Ltd.	6,182,000	4.5
Trust & Custody Services Bank, Ltd.	4,765,800	3.5
State Street Bank and Trust Company	2,484,353	1.8
Investors Bank and Trust Company	2,464,851	1.8
The Northern Trust Company	2,458,128	1.8
Deutsche Bank AG London	1,796,900	1.3
Hitachi High-Technologies Employees Shareholders' Association	1,778,436	1.3
Mellon Bank, NA	1,555,997	1.1

TYPE OF SHAREHOLDERS (As of March 31, 2006)

	Number of shareholders	Percentage of total equity (%)	Number of shares (Tens of thousands)	Percentage of total equity (%)
Financial institutions	66	0.8	2,426	17.6
Securities firms	24	0.3	38	0.3
Other domestic corporations	232	2.8	7,271	52.8
Foreign corporations, etc.	214	2.6	2,944	21.4
Individuals and others	7,724	93.5	1,095	7.9
Total	8,260	100.0	13,774	100.0

SHARE PRICE AND TOTAL VOLUME



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