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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.

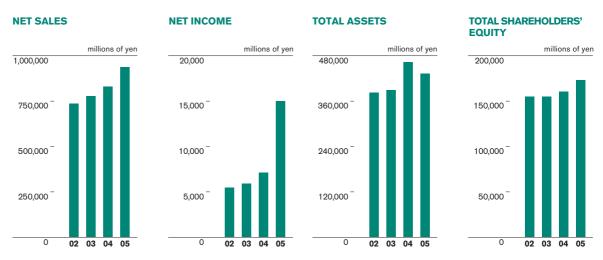
#### **CONSOLIDATED FOUR-YEAR SUMMARY**

# Four Years of Steady Growth

				Millions of yen	Thousands of U.S. dollars
Years ended March 31	2002	2003	2004	2005	2005
FOR THE YEAR:					
Net sales	¥738,289	¥778,229	¥831,050	¥936,865	\$8,723,950
Electronic Device Systems	126,258	136,239	137,614	229,275	2,134,978
Life Science	79,024	90,721	89,200	83,866	780,951
Information Systems & Electronic Components	281,593	305,750	327,840	309,801	2,884,818
Advanced Industrial Products	251,413	245,519	276,396	313,923	2,923,203
Operating profit	9,940	11,844	13,798	30,001	279,362
Net income	5,507	5,928	7,162	15,004	139,715
Net cash provided by (used in) operating activities	(8,824)	18,284	14,989	26,000	242,105
Net cash provided by (used in) investing activities	547	2,457	(531)	(576)	(5,365
Net cash provided by (used in) financing activities	1,139	(10,818)	(20,853)	(21,582)	(200,968
AT THE YEAR-END:					
Total assets	¥382,533	¥389,704	¥462,875	¥432,501	\$4,027,383
Total shareholders' equity	155,154	155,161	160,480	173,379	1,614,483
Cash and cash equivalents	42,811	52,456	44,648	48,967	455,976
Number of employees	7,945	8,073	10,043	9,868	_
PER SHARE DATA (¥)					
Net income	49.71	40.92	50.56	107.94	-
Total shareholders' equity	1,127.04	1,125.60	1,164.99	1,259.18	-
Dividend	15.00	15.00	15.00	20.00	
RATIO:					
Equity ratio (%)	40.6	39.8	34.7	40.1	_
Return on equity (%)	4.0	3.8	4.5	9.0	_
Return on assets (%)	2.8	3.1	3.2	5.8	_
Price-earnings ratio (Times)	35.9	41.3	32.8	15.7	_

Notes: 1. U.S. dollar amounts in this report are translated from yen, for convenience only, at the rate of ¥107.39=U.S.\$1.00.

2. ROA is calculated by dividing ordinary income by total assets, and expressed as a percentage.



#### THE HITACHI HIGH-TECHNOLOGIES CORPORATE VISION



- To contribute to value creation in the global community through synergies between our strengths in cutting-edge technologies and our capabilities as an established trading company.
- 3. To aim for reliability and excellence based on our core assets of talent and technical resources, and to maximize our corporate value.

#### **MANAGEMENT POLICY**

- To aggressively disclose information and conduct business in a highly transparent manner.
- 2. To exercise social responsibility as an environmentally aware corporate citizen.
- 3. To conduct legally and ethically sound business activities.

## To Consistently Aim to Be the Global Top in High-Tech Solutions

Our corporate vision is anchored by our business policy, based on a framework of management and corporate culture policies

#### **CORPORATE CULTURE POLICY**

- 1. To respect the abilities of every employee and inspire confidence to tackle new challenges.
- 2. To build a vibrant, enterprising company that is open to new ideas.
- 3. To encourage speedy and efficient performance through teamwork.



Every Member of the Hitachi High-Technologies Team is Striving to Make Our Corporate Vision a Reality.

#### **CHAIRMAN'S MESSAGE**

## **Supporting Society With Optimal Solutions Grounded on Cutting-edge Technologies**

Hitachi High-Technologies Corporation is developing business globally in four segments: Electronic Device Systems, Life Science, Information Systems & Electronic Components and Advanced Industrial Products. Targeting these areas, we are currently stepping up our efforts to realize our vision of being the global top in high-tech solutions.

As we do so, our operating environment is undergoing major



change. Increasing sophistication and finer design rules are key dynamics as the industry strives for products that are faster, smaller and more energy efficient. One word stands out above all others as vital for responding to this change—and it is an area in which we excel—nanotechnology.

Hitachi High-Technologies has two faces. We are a high-tech company that develops new products leveraging nanotechnology and other leading-edge and seminal technologies. And we act as a trading company providing optimal solutions to our customers around the world. In the past fiscal year, we worked to capture synergies in both these areas. At the same time, adhering to our customer-first mantra, we strove to develop highly reliable, world-class products with the aim of creating value for society. The development of products such as process equipment for finer design rules in the Electronic Device Systems Segment, and Liquid Chromatograph Mass Spectrometer for Proteomics and Magnetocardiographs in the Life Science Segment is raising our stature in society.

I believe that a company will contribute to society through achieving sustained growth by developing businesses that have a meaningful role to play in society. Determined to be a company trusted by all stakeholders and to contribute to progress and development, we will continue to conduct our business activities based on the overriding desire to create value through high-tech solutions.

June 2005

YOSHIRO KUWATA

Chairman of the Board

Representative Executive Officer

#### TO OUR STAKEHOLDERS



In fiscal 2004, the year ended March 31, 2005, we delivered record operating results. Consolidated net sales grew 12.7% year on year to ¥936,865 million, driving an increase in operating profit of 117.4%, to ¥30,001 million. Two segments performed particularly well: the Electronic Device Systems Segment, which designs, manufactures and sells semiconductor and LCD/PDP Manufacturing & Inspection Systems; and the Advanced Industrial Products Segment, which handles steel, plastics and other industrial materials.

Hitachi High-Technologies is championing a corporate vision of being a global leader in the high-tech solutions field. Our record results owe much to the development of new products and efforts to boost global sales, reflecting our commitment to this vision.

#### **Management Strategy for Key Issues**

I believe our operating environment will present us with its fair share of challenges in fiscal 2005. Market conditions have been soft since the latter half of fiscal 2004, price-based competition is intensifying and costs are rising. In fiscal 2005, we intend to execute the necessary management reforms to create a company that can consistently deliver high earnings in this environment.

Our goals are to strengthen core businesses as well as create new businesses and expand operations globally. To this end, we will optimally allocate resources in a manner that responds to market changes by strengthening cost competitiveness and improving the efficiency of operations.

We have a number of specific themes: ensure we adhere to our customerfirst philosophy; actively develop new businesses and global operations; bolster group management; push through management reforms; and do the basics well and right.

"Fiscal 2004 Was a Record Year for Us."

Actions have already been taken, such as the launch of a management reform project. The results have been almost immediate. Under this project, your company has pinpointed four issues in particular as being of the utmost importance:

- (1) Strengthening product development capabilities
- (2) Bolstering sales capabilities
- (3) Reducing total costs
- (4) Enhancing consolidated management

(These items are discussed in detail in "An Interview With the President, Masaaki Hayashi" on pages 06-09 of this annual report.)

#### **Enhancing Corporate Governance, Maximizing Enterprise Value**

To stay competitive in the rapidly changing high-tech solutions business, it is imperative that we make bold and speedy decisions and execute them decisively. We recognize that ensuring transparency by refining corporate governance and bolstering management oversight is crucial to achieving this. That's why in June 2003 we adopted a Company With Committees System in accordance with revisions to the Commercial Code of Japan. The Nominating, Audit and Compensation committees, established along with this move, are ensuring that we manage the company in a highly transparent manner. The appointment of an outside director from the legal field this year will further reinforce governance. Moreover, we moved quickly to establish the Regulatory Compliance Office and Information Security Committee ahead of the amendment and enforcement of certain laws. These and other actions have put in place a framework to educate all employees on the importance of legal issues in our business operations. We have also taken steps to ensure legal compliance, enforce risk management and upgrade internal control systems. At the same time, we have established the CSR Promotion Dept. as we work to fulfill our responsibilities and role as a corporate citizen. Having established this department, we will implement stronger initiatives to fulfill our social responsibility, including environmental activities, and actively disclose information.

Today, the specific actions a company takes to fulfill its corporate social responsibilities and play an active role in society partly determine its corporate value. For us, these activities are important from the standpoint of earning the trust of all stakeholders, one of our mantras.

Your support and understanding, as always, are greatly appreciated.

June 2005

MASAAKI HAYASHI

Representative Executive Officer

President

Chief Executive Officer and Director

M. Hayashi

#### AN INTERVIEW WITH THE PRESIDENT, MASAAKI HAYASHI

# "We Will Maintain the Momentum of Our Management Reforms and Boost Corporate Value."

#### ► Question 01: Please tell us about your strategy for maintaining high growth and the ongoing Management Reform Project.

In December 2003 we announced our corporate vision outlining goals that bring every employee on board. We disclosed its contents to gain understanding from the public and ensure that our employees will concur

< Main Features of the Management Reform Project >

#### **Strengthen Product Development Capabilities**

- Allocate resources to core businesses through careful selection and concentration
- 2. Make aggressive R&D investments
- 3. Promote collaborative research
- 4. Establish user application centers

#### **Bolster Sales Capabilities**

- Boost development of new businesses and build a Company-wide lateral structure
- Strengthen local sales capabilities by establishing new regional branch offices
- 3. Reinforce marketing functions

#### **Curtail Total Costs**

- 1. Expand production in China
- Cut expenses related to the direct procurement of materials and back-office costs
- 3. Reduce inventory assets

#### **Enhance Consolidated Operations**

- 1. Combine semiconductor inspection equipment production sites
- 2. Integrate development functions and similar businesses spread among Group companies
- 3. Reorganize and integrate Group companies
- 4. Integrate analysis centers
- 5. Bolster maintenance services
- 6. Reduce total costs

in its mission, as well as take concrete steps to fulfill its goals. Guided by the objective of "becoming the global top in high-tech solutions," the entire Company is making concerted efforts to work hand-in-hand with customers to achieve high growth. This will mean offering products and solutions that secure leading shares in markets worldwide. I firmly believe we can accomplish our goal of reaching the pinnacle of the global market if we exploit our cutting-edge technology and sales capabilities and strategically implement each measure outlined in the vision.

The key to realizing our corporate vision in an age of rapid change and fierce competition is to create a lean operating structure and constantly remain on the offensive. Since last year, all of our

executives have been working in unison to comprehensively review issues facing the Company across all fields, culminating in the proposal of salutary measures—the details of which are compiled in our Management Reform Project, already underway from April 2005.

As part of earlier management reform efforts, we have worked to boost the earnings capabilities of proprietary products and create a trading company business that offers value-added solutions. The current project takes this approach a step further by proposing plans that are more detailed and more ambitious in scope. To ensure these theoretical objectives actually generate results, I will strive to ensure every employee thoroughly understands the details of the project and acts proactively with me to fulfill its vision.

### **▶** Question 02: Please describe the actions you are taking to reinforce product development capabilities.

To become even stronger, I believe it is vital that we further bolster product development and sales capabilities, our twin interlocking strengths.

With this in mind, we must launch products and technologies that meet market needs ahead of other companies. This is the key to surviving in the cutting-edge field of nanotechnology, where groundbreaking advances in technological innovations are made everyday. We also have to deliver market-beating growth. To this end, we have to be even more discerning in selecting and strategically allocating resources to our core businesses.

In addition, we will identify business fields with future potential and continue to actively invest in R&D in these areas. To this end, we will exploit Hitachi's research centers and prioritize collaborative research over independent projects when other companies and universities possess superior technology.

Moreover, in addition to developing tangible products, it will become ever more important to enhance more intangible strengths such as application technology capabilities to forge a more distinctive position in the industry. Consequently, in order to boost our overall development capabilities, we will consolidate application-related resources scattered among the Group companies into our divisions and establish a new user application center. We will also collaborate with users to better reflect their needs in our products.

### ➤ Question 03: Please describe some of the concrete initiatives you are implementing to strengthen sales capabilities.

In order to meet diversifying market demands in a flexible manner, we must conduct specialist sales activities, while also running our regular sales operations from a Company-wide perspective. Based on this thinking, in addition to further strengthening the existing New Business Development Division, in April 2005, we established the Cross Division Business (CDB) Development Group to bring together know-how from each sales division.

In another move, we have integrated branch offices and local Group companies to reinforce and expand sales capabilities in domestic regional areas. New regional branch offices in the Eastern and Western Japan regions were established to promote business development on a broader scale. We also established a Strategic Planning Division within the Proprietary Product Management Division. This

< The Roles of the Cross Division Business Development Group >

- Develop new businesses with existing clients that cross over multiple business divisions by taking a Group-wide approach
- 2. Tap new markets overseas

division, staffed with highly skilled personnel from sales, design, and other divisions, has bolstered the Company's marketing and sales capabilities, and created synergies between them.

### **▶** Question 04: Please tell us how you plan to implement cost-cutting measures for the entire Group.

Given the sharp drop in market prices, we are working proactively to curtail costs. In addition to shifting



#### Question 05: Please describe how you intend to strengthen consolidated management.

In order to strengthen and boost the efficiency of consolidated management, we will overhaul Company functions, including those of the Group companies. This will involve optimizing the number of subsidiaries, and promoting personnel exchange.

Specifically, we have concentrated the development functions of our core products, which were previously dispersed among the Group companies, in the operational divisions of Hitachi High-Technologies Corporation. We have also brought together Group-wide information businesses into a single Group company. Furthermore, last year we integrated two subsidiaries specializing in sales, two other Group companies specializing in manufacturing, and sold a subsidiary providing medical consulting services. Continuing our efforts to bolster our business and boost operational efficiency, we also acquired a sales company this year specializing in scientific equipment.

In addition to integrating five analysis centers that were dispersed across the Group, we consolidated two domestic service companies to reinforce our ability to provide maintenance services. We took similar measures overseas by combining sales and service companies located in the same country, a move that enhanced our competitiveness.

### ► Question 06: Finally, please tell us about your dividend policy and how you plan to boost the corporate value of the Group.

In order for us to become a high-growth, high-earnings group, we must realize the goals set out in the Management Reform Project, as I discussed earlier. However, it is equally important for us to act responsibly as a member of society. As a company, we will pursue profit in an appropriate manner. But more importantly, I believe we must be conscientious of our corporate social responsibility (CSR) in running our operations. Ultimately, being socially responsible will help us boost our corporate value.

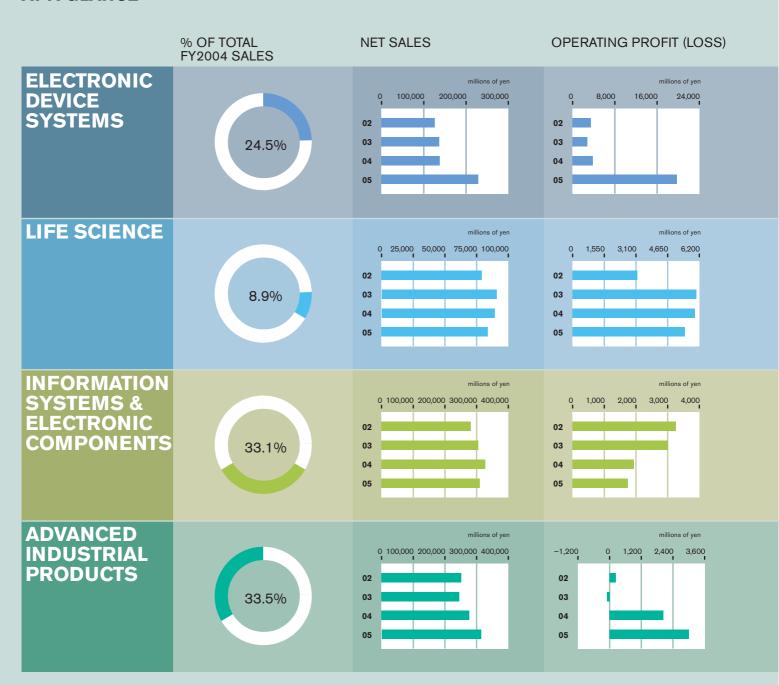
Based on this thinking, each group has been conducting its own social, environmental, and other activities. To strengthen our CSR activities, we established a CSR Promotion Department in April 2005. As initial steps, this department changed the title of our Environmental Report to CSR Report and began disclosing our CSR activities alongside environmental initiatives.

In terms of dividend policy, the Company seeks to pay a stable dividend that strikes a balance between retained earnings and returning an appropriate level of profits to shareholders, while also striving to enhance the financial position and operating base. In line with this policy and taking into account the substantial top- and bottom-line growth achieved in the year under review, we increased the annual dividend from ¥15 to ¥20 per share.

In closing, I hope we can count on your continued understanding and support as we work to grow as a company trusted by shareholders and other stakeholders.

#### **REVIEW OF OPERATIONS**

#### AT A GLANCE



#### **HIGHLIGHTS**

The Electronic Device Systems Segment provides advanced solutions based on optimized proposals for developing and manufacturing equipment critical to each stage of the manufacturing process, and after-sales services. This includes semiconductor yield management and LCD/PDP manufacturing & inspection systems, primarily 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 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.

The Information Systems & Electronic Components Segment provides optimal solutions by exploiting global market information, and by using its unique technical capabilities and integrating functions to meet customer requests in the information and electronics field. This field is characterized by the ever-increasing diversification and sophistication of surface mounting systems (chip mounters), OLED (Organic Light Emitting Diodes) production equipment, network-related systems, and electronic components.

The Advanced Industrial Products Segment addresses wide-ranging customer needs through responsive business development. This includes proposing and developing products ranging from industrial materials to specialty high-tech materials and thoroughly demonstrating its strengths and unique capabilities as a high-tech trading company. Examples are the creation of procurement solutions that leverage its own global network and alliances with companies in Asia and other areas.

#### MAJOR PRODUCTS AND BUSINESSES

- Etching Systems
- Step & Scan Systems
- Electron Beam Writing Systems
- Wafer Inspection Systems
- Advanced CD-Measurement SEMs
- Electron Microscopes
- Back-end Process Equipment
- LCD/PDP Manufacturing & Inspection Systems
- Automatic Clinical Chemistry Analyzers
- Immunodiagnostic Analyzers
- Liquid Chromatographs
- Spectrophotometers
- Amino Acid Analyzers
- DNA Sequencers
- NMR Spectrometers
- Magnetocardiographs
- Chip Mounters
- OLED (Organic Light Emitting Diodes) Production Equipment
- Semiconductor Products
- IT Solutions
- Information and Control Systems
- Consumer Electronics
- Optical Pick-Ups
- Steel, Plastics, Nonferrous Metals
- Circuit Boards for Ball Grid Arrays, Components for Smart Media
- Procurement Solutions Business
- Silicon Wafers
- Components for LCD Projectors
- Optical Components
- Optical Media Components
- Optical Communication Components

# ELECTRONIC DEVICE SYSTEMS

Significant market growth drove our results sharply higher in fiscal 2004. Our focus now is on developing products and providing solutions that fit squarely with customer demands in step with market change.





CD-Measurement SEM



Fully Automatic Assembly System for LCD TV



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

### Fiscal 2004 Operating Environment and Results

The past fiscal year was defined by large increases in capital investments by semiconductor and LCD manufacturers, who drew strength from robust demand for digital home appliances and other electronics. This investment supported growth in our operating results.

In semiconductor manufacturing equipment operations, mainstay critical dimension measurement scanning electron microscopes (CD-Measurement SEMs), etching systems, and scanners made by ASML Holding N.V. (ASML) posted strong sales growth. However, I believe there is still more room to increase earnings based on comparisons with peer companies.

Similarly, our LCD/PDP manufacturing equipment achieved significant sales growth, underpinned by vigorous capital investment in Asia. The integration with Hitachi Electronics Engineering Co., Ltd. also boosted results.

### **New Products Grounded in Top-class Technologies**

In November 2004, we launched a promising new product in Japan—a nano-prober. Combining our outstanding evaluation and analysis technologies, this revolutionary prober can directly evaluate defective areas in minute devices fabricated using 90nm or finer processes. Our efforts are now focused on expanding the market for this prober beyond Japan into Taiwan, South Korea and the U.S.

More recently, in April 2005, we started selling a miniscope built on scanning electron microscope (SEM) technology. Because it is simple to operate, we expect this product to be bought by schools and science museums, and of course, research laboratories. We expect the miniscope to arouse interest in children who are increasingly shunning science in favor of other pursuits.

In LCD/PDP Manufacturing & Inspection Systems, year-on-year sales of our Fully Automatic Assembly Systems for LCD TVs more than doubled. We will continue to develop systems for 8th generation LCD substrates and new products.

### **Prioritizing Resources to Increase Earnings, Raising Customer Satisfaction**

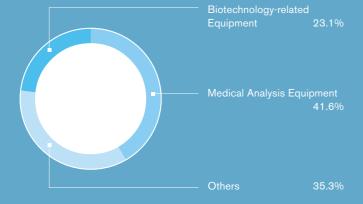
We are pushing through various measures to boost earnings.

First is the prioritization of certain businesses. This entails exiting product categories with negligible growth potential and concentrating human and other resources on fields with greater market promise or on areas that are expected to become core businesses. Next, we have established the Application Technology Dept. with engineers that bring a customer-facing perspective to manufacturing equipment. This department is responsible for providing customer-centric technical support from business sites in Japan and overseas.

The development of new products in the fields of semiconductor and LDP/PDP Manufacturing & Inspection Systems will remain an area of focus going forward. Another will be fully utilizing our renowned skills and expertise to deliver solutions that satisfy customers.

### **LIFE SCIENCE**

Curbs on medical expenditures and slowing demand for genome analysis hampered our results during fiscal 2004. Highlighting the year, though, were the launch of promising new products and a string of other achievements.





Automatic Clinical Chemistry Analyzer



Liquid Chromatograph Mass Spectrometer for Proteomics



KATSUJI YAMASHITA Representative Executive Officer Senior Vice President, Executive Officer and Director General Manager, Life Science Business Group

### Fiscal 2004 Operating Environment and Results

Clinical diagnostic instruments continued to battle tough market conditions in the past fiscal year.

Challenges included falling prices for equipment and greater efforts by companies to cut testing costs amid a worldwide trend of curbs on medical expenditures.

In the biotechnology-related field, the biggest issue was lackluster growth in sales to the U.S. of DNA sequencers, one of the mainstays of this business, as demand in the genome analysis field slowed.

#### **Our Products Win Plaudits Worldwide**

A highlight of the past year was the October 2004 launch of the Liquid Chromatograph Mass Spectrometer for Proteomics. This was followed in April 2005 by the release of a high-grade version capable of improved sensitivity and high-precision analysis. Armed with this augmented product lineup, we are targeting higher sales to the pharmaceuticals and food products industries.

We also unveiled a new series of automatic clinical chemistry analyzers, a product sector in which we command the leading market share. In addition to higher performance, this series helps users tackle cost and time issues faced at the frontline of medicine.

Our magnetocardiograph, the first to be released worldwide, was also in the news, winning two prestigious awards recognizing products based on outstanding technologies. Overseas it was selected for the R&D 100 Awards. Sponsored by the U.S. *R&D Magazine*, this award chooses the 100 most technologically innovative products appearing each year. In Japan, the magnetocardiograph was awarded the Best 10 New Products Award in 2004. This award, sponsored by The Nikkan Kogyo Shimbun, Ltd., recognizes the top 10 technologically outstanding and internationally competitive products in any given year in Japan. With its superior cost performance and ability to produce more accurate data, our magneto-

cardiograph is making a name for itself on the world stage. We expect demand to continue rising.

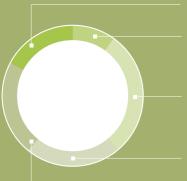
### **Technological Innovation Stimulates New Demand**

Hospitals in Japan are facing a tough business environment due to falling standard prices for medical reimbursement. They are therefore demanding products that offer unprecedented value and cost efficiency. To respond to this trend and secure a competitive advantage, we are making preparations to sell systems that provide customers with a total guarantee in respect of both equipment and reagents.

In the biotechnology field, we plan to develop clinical applications based on the results of genome analysis. At the same time, we will step up measures to respond to the cutting-edge fields of proteome and sugar chain analysis.

### INFORMATION SYSTEMS & ELECTRONIC COMPONENTS

Our performance in fiscal 2004 was affected by falling prices in the digital home appliances field in the second half of the year. Nevertheless, we launched a new chip mounter and focused on business to the auto industry, where growth is forecast.



Information and Control
Systems 17.3%
Assembly and Fabrication
Fourinment 9.8%

Semiconductor Products

Media Devices and
Consumer Electronics 21.9%
Others 21.9%



Chip Mounter (Modular-type Mounter)



Organic Light Emitting Diodes (OLED) Production Equipment



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

### Fiscal 2004 Operating Environment and Results

In the first half of fiscal 2004, sales of semiconductors for cellular phones rose sharply on the back of robust demand from cellular phone manufacturers. In contrast, DVD optical pick-ups for Asia struggled as prices plummeted due to slowing growth in sales of finished products. Consumer electronics sales to the U.S. also recorded a large drop.

Organic Light Emitting Diodes (OLED) Production Equipment posted healthy growth to customers in Taiwan and South Korea in the first half of the year. The second half was a different story, however, as customers pushed back investment plans. The situation with chip mounters was very similar. In the first half of fiscal 2004, capital investment was strong in Asia, most notably in China, and sales of a new product, a modular mounter, started strongly. But, in the second half, a sharp drop in capital investment by digital home appliance and other electronic equipment manufacturers stunted sales growth.

### A Strong Auto Industry Spells Business Opportunities

In the past fiscal year, we concentrated in particular on cultivating new fields, products and customers in the auto industry, where strong growth is projected to continue.

HDDs used in car navigation systems are a prime focus.

We are attempting to expand sales of HDDs to customers leveraging our exclusive technologies.

Chip mounters are another promising field. In the first half of fiscal 2004, sales of these products continued to increase, particularly for cellular phone and digital camera applications. In the second half, we focused on automotive electronics applications, which now account for an increasingly higher share of sales.

### **High Expectations for New and Key Products**

Products to watch going forward include modular mounters, which cater to the need to produce small lots of many different products at speed. These mounters respond to calls from cellular phone and other manufacturers who are producing a more diverse lineup of products due to customer diversification. Fiscal 2005 will see sales of these modular mounters move into full swing.

In April 2005, a new law came into force in Japan for the safeguarding of personal information, the Personal Information Protection Law. This development has triggered increasing demand from companies for ways to prevent the leak of such information. Staying in step with this trend, we plan to step up sales of encryption, log file analysis and other security-related systems.

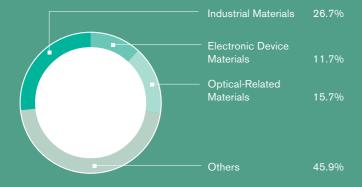
In cellular phone-related areas, we will focus on selling camera lens modules and other components, in addition to expanding sales of semiconductors and TFT cells.

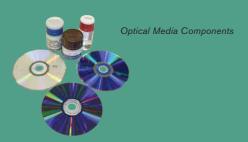
Hitachi High-Technologies boasts a leading market share in OLED production equipment. This is a field where investment is forecast to continue in products that use an active matrix format, have a high response rate and deliver high resolution. We believe that rising investment by manufacturers centered on the production of larger substrates, especially in South Korea, offers opportunities for expansion in our OLED production equipment business.

Interest is growing worldwide in the so-called BRIC countries (Brazil, Russia, India and China). Our focus is on developing business in India and Brazil, in addition to China.

# ADVANCED INDUSTRIAL PRODUCTS

Industrial materials recorded strong growth on rising demand for materials, particularly in China. Boosting demand for our products by meeting market needs in a timely manner and making use of cross-company projects will be key themes going forward.







PDP Front Filter



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

### Fiscal 2004 Operating Environment and Results

Fiscal 2004 was characterized by persistently high prices for basic materials and crude oil and sustained, robust demand for materials worldwide. Propelled by expansion in the Chinese economy, steel for construction machinery, non-ferrous steel and other special steel products recorded large rises in sales. Sales of plastics for home appliances were also up sharply due to expanding demand and surging crude oil prices.

Sales of optical-related materials, however, struggled to grow due to production cutbacks of finished goods in the second half of fiscal 2004 and other factors. This lackluster growth came despite strong sales of silicon wafers, optical components for LCD projectors, and optical media components in the first half of the past fiscal year.

### **New Development Projects Accurately Target Market Needs**

Plastics that possess outstanding properties in terms of heat resistance, burning resistance and transparency are in demand today. With this in mind, we are developing our business by strengthening relationships with suppliers through improved information exchange and other initiatives.

With forecasts for the switch to flat-panel displays in AV and information equipment projected to gain momentum, we have started handling materials for these displays. The optical communications-related field has also caught our eye. This field had been mired in a temporary slump because of a demand-supply imbalance, but has emerged from a period of inventory cutbacks. Demand has now started to grow again. We hope to catch this wave of growth to expand our business by leveraging our expertise in advanced materials and our global network.

### Putting the Customer First and Developing Globally

In April 2005, Hitachi High-Technologies established the Cross Division Business Development Group\*1 to tap the collective strengths of the Company by supporting the development of new businesses that cut across business division boundaries. With this move, we have created an organization where customers can

procure products efficiently from one source. This should allow us to expand our dealings with customers. Take the trend toward the increasing use of information networking products in automobiles as an example. Here, the fusion of electronics and communications is vital. This is expected to spur growth in demand for modules for wireless LANs, sensors and other onboard devices. I believe that utilizing the strengths of this new group will have benefits for business in the Advanced Industrial Products Segment, such as encouraging the bulk supply of materials.

As typified by the procurement solutions business,\*2 which makes full use of the trading company functions of Hitachi High-Technologies, we are also developing our business globally. Our goal is to fashion a business model to drive expansion in overseas sales. This model will also include the development of business that does not pass through Japan.

<sup>\*1.</sup> Please refer to page 08 for more information on the Cross Division Business Development Group.

<sup>\*2.</sup> Please refer to page 21 for more information on the procurement solutions business.

#### **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 some of the examples.

#### **ELECTRONIC DEVICE SYSTEMS**

#### Nano-prober



With the miniaturization of semiconductor devices in recent years, improving yield rates has become a vital issue for semiconductor device manufacturers. Our excellence in the field of Evaluation & Analysis Solutions meets this growing demand by offering expertise in inspection and analysis. Nano-prober N-6000, launched in November 2004, directly evaluates failure points and electrical characteristics on devices using 90nm or finer processes. Developed jointly with Renesas Technology Corp. and Hitachi, Ltd., this new addition to our product lineup is capable of identifying failure transistor and further precise failure points that were previously considered too difficult to identify.

Our nano-prober is a full-fledged dedicated probing instrument that incorporates six ultrafine probes in the Scanning Electron Microscope, which equipped with our reputable cold-cathode field-emission electron gun, a world-first. This technology enables direct evaluation of actual semiconductor device circuits and identification of precise failure points. Realizing a high-speed and high-precision failure analysis, our nano-prober supports optimal design of semiconductor devices.

#### **LIFE SCIENCE**

#### Magnetocardiograph



Hitachi High-Technologies has led the world in launching magnetocardiographs (MCGs), which have attracted attention as a next-generation clinical diagnostics tool. The interest in this system is directly related to the fact that heart disease is the number two cause of death in Japan after cancer, and the leading cause of death in the U.S. Many cases of heart disease show that early detection could have allowed treatment and even led to complete remission. As a result, there is a growing demand for high-precision data necessary for early medical diagnosis.

Using a superconducting quantum interference device (SQUID) to measure trace magnetic fields in the heart, MCGs are innovative diagnostic instruments that identify the location of cardiac impairment. MCGs offer a highly non-invasive procedure that generates high-precision data in a short period of time. The non-invasive advantages of MCGs also extend to the diagnosis of hearts in unborn infants. Consequently, MCGs are gaining attention as the only safe method for mothers and unborn children.

### INFORMATION SYSTEMS & ELECTRONIC COMPONENTS

#### **Chip Mounter**



Chip mounters are used in the high-precision procedure of placing ultra-small electronic components on print substrates. These substrates, which are only a few square centimeters in size, are the central component of electronic devices such as mobile phones, digital cameras, and personal computers. Hitachi High-Tech Instruments Co., Ltd., which became a member of the Group in 2003, designs and manufactures high-speed mounter systems,

such as turret mounters and modular mounters.

Hitachi High-Tech Instruments also developed today's industry-standard rotary high-speed mounters featuring rotating heads that attach electronic components and which was patented in 1990. Then in 1995, the company independently developed direct-drive head technology (with a motor built in the mounter head). These achievements illustrate the leading position Hitachi High-Tech Instruments has built and maintained in high-precision, high-speed, and high-reliability products.

### ADVANCED INDUSTRIAL PRODUCTS

### **Procurement Solutions Business**



Delivery Center in the U.S., crucial to distribution services

Hitachi High-Technologies offers solutions that take full advantage of its trading company functions. For example, the Kentucky Project, started in 2000, provides comprehensive support to Japanese automobile manufacturers recently established in the Kentucky region, including locating better suppliers, securing new customers, improving business efficiency through the introduction of integrated management systems that use the web, and outsourcing production to optimal sites. As a result, we have won high acclaim for helping our customers realize "Just in Time" (JIT) operations, reduce costs related to transport and storage, boost management efficiency,

improve productivity, and effectively utilize funds.

Although local procurement has been the mainstream approach in car manufacturing, today there is new demand for optimal procurement that transcends borders to achieve the best quality and cost. Taking an international perspective, we will push forward our efforts to gather information to identify the best global suppliers, scout and foster promising manufacturing partners, build a speedy distribution system, and help customers establish good relationships with suppliers.

#### **CORPORATE GOVERNANCE**

Ever aware of its responsibilities to shareholders and society at large, Hitachi High-Technologies has separated executive and management oversight functions and upgraded its corporate governance system to increase management transparency. To this end, the Company adopted a Company With Committees System.

#### **NEW MEASURES TAKEN IN FY2004**

#### **Enhancing Internal Controls**

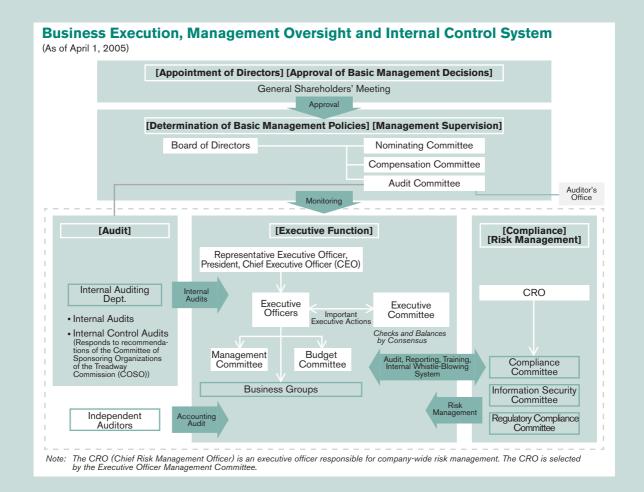
Because Hitachi, Ltd., the parent company of Hitachi High-Technologies, is listed on the New York Stock Exchange, the Company introduced an internal control system in March 2005 based on the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), related to the enforcement of the Sarbanes-Oxley Act. A COSO Compliance Promotion Section was also established in the Internal Auditing Department in April 2005 to conduct audits of internal control systems.

#### **Privacy Policy**

In response to the Act for Protection of Computer Processed Personal Data Held by Administrative Organs enacted in April 2005, the Company appointed Katsuji Yamashita, Representative Executive Officer and Senior Vice President, as Chief Privacy Officer to head the new Personal Information Protection Committee. As a company that handles personal information, the Company will promote strict protection of this data by all employees.

Please access the following webpage for Hitachi High-Technologies' privacy policy:

http://www.hitachi-hitec.com/oversea/privacy\_policy/index.html



#### **DIRECTORS AND EXECUTIVE OFFICERS**

(As of June 23, 2005)



YOSHIRO KUWATA Chairman of the Board Representative Executive Officer



MASAAKI HAYASHI Representative Executive Officer President Chief Executive Officer and Director



KATSUJI YAMASHITA Representative Executive Officer Senior Vice President Executive Officer and Director



YUICHI TSUNODA Director



HARUMICHI UCHIDA Outside Director



RYUICHI SEGUCHI Outside Director



KOTARO MUNEOKA Outside Director



WASUKE NAKANO Vice President and Executive Officer



HIDEHITO OBAYASHI 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



Vice President and Executive Officer



NOBUHIRO SOEDA 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 KATSUJI YAMASHITA **Director**YUICHI TSUNODA

Outside Directors

HARUMICHI UCHIDA

RYUICHI SEGUCHI

KOTARO MUNEOKA

Vice Presidents and Executive Officers WASUKE NAKANO HIDEHITO OBAYASHI MASUMI MIYAUCHI HIROSHI KANAUCHI MASAO SAKURAGI HIROSHI MISAWA NOBUHIRO SOEDA SHIGERU IIZUKA
YOSHINAO KAWASAKI
MASAHO MASUYAMA
MITSUHIRO HAYASHI
KENYA WADA
TOSHIO SENGOKU
TAMIO MORI
KATSUMI MIZUNO
TSUTOMU ANDO

SHINICHI TACHI

**Executive Officers** 

#### **ENVIRONMENTAL AND SOCIAL ACTION PROGRAMS**

The Hitachi High-Technologies Group, seeking to win the trust of stakeholders, aims to maximize its corporate value by leveraging its core resources of people and technology. As a good corporate citizen, the Company also engages in corporate activities based on consideration for the environment, as well as social action programs.

#### **ENVIRONMENT**

Aiming to create environmental value through a global environment management system, the Company has contributed to environmental protection by promoting ecofriendly operations. The following are just a few examples of initiatives in fiscal 2004.

#### Naka Division and Three Group Companies Obtain Integrated ISO 14001 Certification



Inspection at the Naka Division for integrated certification

In November 2004, Naka Division, Hitachi Science Systems, Hitachi Naka Electronics, and Hitachi High-Tech Manufacturing & Service obtained integrated ISO 14001 certification as part of

efforts to strengthen their consolidated environmental management and establish an efficient environmental control system. Under this uniform management system, these companies will strive to standardize overall environmental activities, and maintain and improve environmental protection initiatives. In fiscal 2005, the Company will aim to obtain integrated certification for the headquarters, regional branch offices, and six Group companies specializing in sales.

### **Expanding ISO 14001 Certification in Europe and Asia**



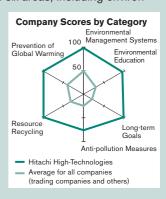
ISO 14001 Certificate (Manheim Office and the Head Office of Hitachi High-Technologies Europe GmbH) Overseas, five affiliates acquired ISO 14001 certification: Hitachi High-Technologies IPC (M) Sdn. Bhd. in September 2004; the Head Office and the Manheim Office of Hitachi High-Technologies Europe GmbH in March 2005, following the

same certification for this company's Munich Branch Office; and the Taipei Branch Office of Hitachi High-Technologies Corporation in February 2003. We will continue our efforts in acquiring ISO certification.

# Ranked 1st for the Second Year in the Trading Company and Others Category of the Corporate Environmental Management Survey

In the Nihon Keizai Shimbun's Eighth Survey of Corporate Environmental Management, we ranked 1st in the trading company and others division for the second consecutive year, while we placed 7th overall in the new category of office management. The survey, which evaluates how well companies combine environmental activities with implementation of management efficiency measures, gave high marks for the Company's activities in six areas, including environ-

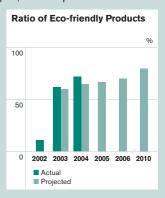
mental management systems, environmental education, long-term goals, anti-pollution measures, resource recycling, and prevention of global warming. We remain committed to maintaining and improving our environmental activities going forward.



### Increasing the Ratio of Eco-friendly Products

In fiscal 2004, we registered 13 products from Hitachi High-Technologies, and six products from

Hitachi High-Tech
Electronics Engineering as eco-friendly
products. The ratio of
these products (sales
of eco-friendly products/total sales of
applicable factories
and Group companies) was 72%,
exceeding the goal of
70% set for fiscal 2006
ahead of schedule.



#### **SOCIAL ACTION PROGRAMS**

In addition to the environmental activities described above, Hitachi High-Technologies is actively committed to social action programs to fulfill its corporate social responsibility (CSR). The following are just a few examples from fiscal 2004.

### **Cultural Aid Project: Scientific Live "SAPIENS"**

Since 1992, Hitachi High-Technologies has sponsored Scientific Live "SAPIENS," a series of science forums organized biannually by Nikkei Science, Inc. dedicated to people's appreciation of science. In fiscal 2004, the forums focused on the themes of "Sugar Chains: The Key to a New Understanding of Medicine and Health" and "Understanding the Brain and the Heart Through Images," and invited top specialists from across Japan to discuss these topics. Drawing a crowd of 900 attendees, including company employees, researchers, and students, these events contributed to the advancement of cuttingedge science.

### **Environmental Conservation Activities: Hitachi High-Tech Yasato no Mori**



Participants in tree-planting ceremony

The Company launched a tree-planting program at Hitachi High-Tech Yasato no Mori, a 2.3-hectare plot of a national forest in Yasatomachi, Ibaraki Prefecture. We will

plant 5,600 seedlings and grow a forest over a 60-year period at the site.

# Educational Activities: Environmental and Science Education for Elementary and Junior High School Children



Science class using electron microscopes at Hitachi Instruments Service.

Hitachi Instruments Service Co., Ltd. supports environmental and science education for elementary and junior high school children in local communities. It provides curricula

for "comprehensive studies" and/or "elective science" courses in elementary and junior high schools, such as projects using electron microscopes, rarely available in school classrooms, to allow students to experience the microscopic world. Hitachi Science Systems, Ltd. has also invited local elementary school students to the Naka Application Center Science Laboratory and opened a hands-on summer class in which children used electron microscopes to study samples of their choice. Wary of the declining interest in science among children, the Company offers opportunities for students to experience the wonders of science.

Selected to FTSE4Good: Globally Recognized Socially Responsible Investors (SRI) Index



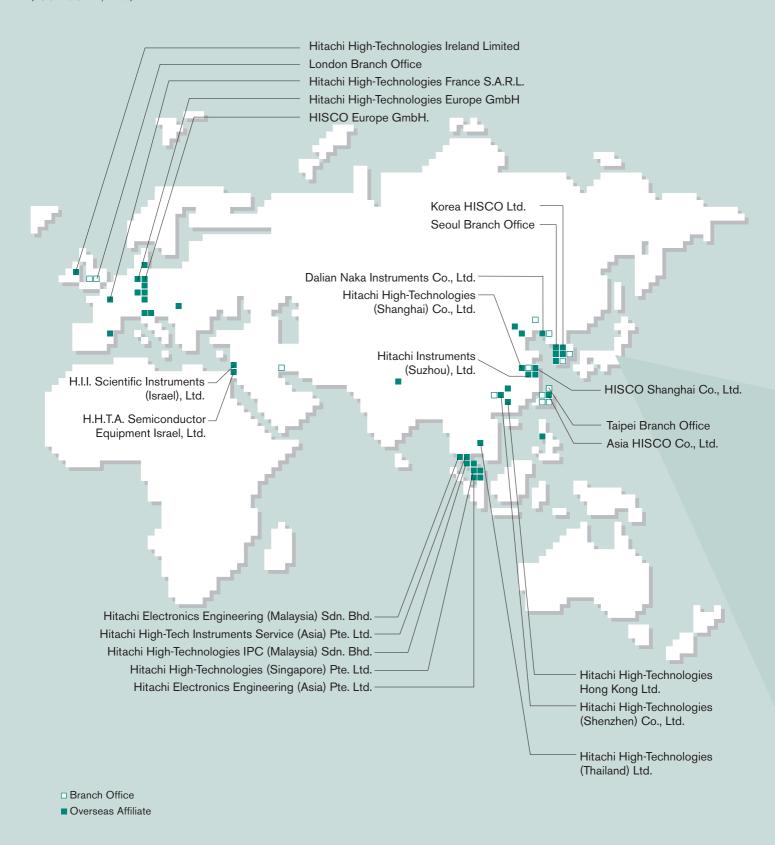
In March 2004, Hitachi High-Technologies was included in the FTSE4Good Index Series, a benchmark for socially responsible investment created by the FTSE Group\*. This certifies that the Company is actively committed to such goals as environmental sustainability, human rights, social action programs, and efforts to reinforce corporate governance and accountability.

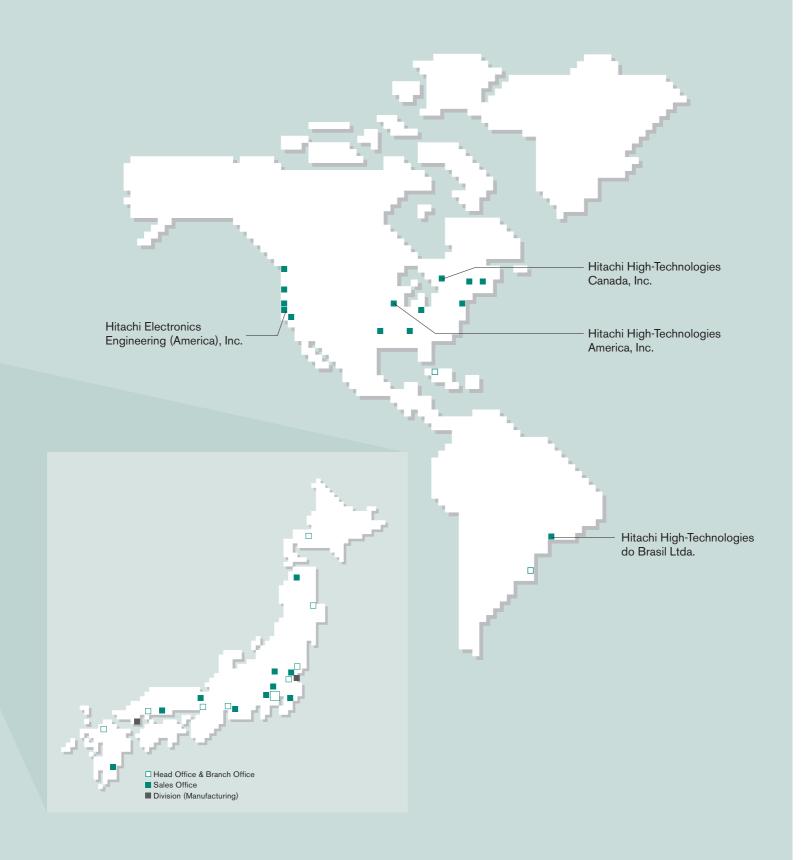
#### \*FTSE Group

An independent global index provider created through a joint venture between London Stock Exchange plc. and The Financial Times Ltd., the FTSE Group evaluates performance in corporate social responsibility through collaboration with The Ethical Investment Research Service, a research company for responsible investment, and a network of global research partners.

#### **NETWORK**

(As of March 31, 2005)





#### HITACHI HIGH-TECHNOLOGIES GROUP (As of March 31, 2005)

#### **DOMESTIC AFFILIATED COMPANIES**

Company Name	Holding (%)		Capital (¥ millions)	Business Activities	
Sales					
Hitachi High-Tech Trading Corp.		100	400	Sales of information electronics-related products such as electronic devices and industrial meters	
Nissei Mecs Corp.		100	200	Sales of advanced industrial products such as chemical products and electronic component materials	
Nissei Science, Ltd.		100	100	Sales of physical/chemical appliances and medical/surgical instruments	
Hitachi High-Tech Solutions Corp.		100	100	Development and sales of computer software, operational control of information management systems and calculation services	
Nissei Service Inc.		100	50	Welfare business services and management	
Nissei Denki Co., Ltd.		100	50	Sales of electrical machinery and appliances	
Giesecke & Devrient K.K.	(HHT)	49	200	Development, issuance and sales of IC card products	
	((Germany)G&D)	51			
Services/Manufacturing					
Hitachi Instruments Service Co., Ltd.		100	1,000	Installation and maintenance support for semiconductor manufacturing equipment, electron microscopes, analyzing equipment and products for instruments and control systems sold by the company	
HISCO Solution Co., Ltd.	(HISCO)	100	50	Sales of and service support for measuring devices and their components	
Hitachi High-Tech Electronics Engineering Co., Ltd.		100	4,025	Manufacture and sales of LCD/PDP manufacturing & inspection systems	
Hitachi High-Tech D E Technology Co., Ltd.	(HTD)	100	320	Manufacture and sales of magnetic disks and semiconductor-related devices; installation and maintenance support	
Hitachi Science Systems, Ltd.		100	400	Manufacture of electron microscopes and analyzing equipment; development of software and analysis; lease of company facilities	
Hitachi Naka Electronics Co., Ltd.		100	200	Manufacture of instruments and control systems and related systems; lease of company facilities	
Hitachi High-Tech Manufacturing & Service Corp.		100	230	Manufacture of analytical and measuring equipment and biotechnology-related analyzers and systems; production of spare parts; lease of land, buildings and facilities owned by the company	
Hitachi High-Tech Instruments Co., Ltd.		100	450	Design and manufacture of chip mounters	
Hitachi High-Tech Instruments Service Co., Ltd.		100	50	Service support for chip mounters	

#### **OVERSEAS AND DOMESTIC OFFICES**

Company Name	Holding (%)	Capital	Business Activities
Sales and Services NORTH AMERICA/SOUTH AMERICA			
Hitachi High Technologies America, Inc.		3 15 million US\$	Sales of semiconductor manufacturing equipment, electron microscopes, analyzing equipment and electronic components
Hitachi High-Technologies Canada, Inc.	(Hitachi High Tech America) 1	0 0.5 million C\$	Sales of and service support for scientific equipment in Canada
Hitachi High-Technologies do Brasil Ltda.	1	0 0.65 million R\$	Sales and distribution of electronic components in Brazil
Hitachi Electronics Engineering (America), Inc.	(HTD) 1	0 0.5 million US\$	Sales of and maintenance support for LCD/PDP manufacturing & inspection systems
EUROPE			
Hitachi High-Technologies Europe GmbH	1	0 2.6 million EUR	Sales of electron microscopes, analyzing equipment and electronic components
Hitachi High-Technologies France S.A.R.L.	(Hitachi High-Tech Europe) 1	0 0.3 million EUR	Sales of electronic components in France
HISCO Europe GmbH.	(HISCO) 1	0 0.5 million EUR	Installation and maintenance support for scientific equipment and semiconductor manufacturing-related equipment, and sales of components
Hitachi High Technologies Ireland Limited	(Hitachi High Tech America) 1	0 0.1 million US\$	Maintenance support for semiconductor manufacturing equipment

		1	<u> </u>
Company Name	Holding (%)	Capital	Business Activities
H.I.I. Scientific Instruments (Israel), Ltd.	(Hitachi High Tech America) 100		Maintenance support for electron microscopes
H.H.T.A. Semiconductor Equipment Israel, Ltd.	(Hitachi High Tech America) 100	250 US\$	Maintenance support for semiconductor manufacturing equipment
ASEAN			
Hitachi High-Technologies (Singapore) Pte. Ltd.	(HHT) 95 (ACT) 5		Sales of semiconductor manufacturing equipment, electronic components and advanced industrial products
Hitachi High-Technologies IPC (Malaysia) Sdn. Bhd.	(HHT) 20 (HTS) 80		Sales of synthetic resin and industrial machinery in Malaysia
Hitachi High-Technologies (Thailand) Ltd.	(HTS) 100	30 million TB	Sales of electronic components, industrial materials and machinery in Thailand
Hitachi High-Tech Instruments Service (Asia) Pte. Ltd.	(HTV) 100	1 million S\$	Sales of and service support for components of chip mounters and related products
Hitachi Electronics Engineering (Asia) Pte. Ltd.	(HTD) 100	0.2 million S\$	Sales of and maintenance support for LCD/PDP manufacturing & inspection systems and magnetic disk production
Hitachi Electronics Engineering (Malaysia) Sdn. Bhd.	(HTD) 100	0.5 million M\$	Sales of and maintenance support for LCD/PDP manufacturing & inspection systems and magnetic disk production
ASIA			
Hitachi High-Technologies Hong Kong Ltd.	100	15 million HK\$	Sales of electronic components and advanced industrial products
Hitachi High-Technologies (Shenzhen)Co., Ltd.	(HTH) 100	2 million HK\$	Sales of electronic components, industrial materials, and systems for electrical appliances in South China
Hitachi High-Technologies (Shanghai) Co., Ltd.	100	0.5 million US\$	Sales of industrial machinery, electronic components and construction materials in China
Korea HISCO Ltd.	(HISCO) 100	270 million WON	Installation and maintenance support for semiconductor manufacturing equipment in Korea
Asia HISCO Co., Ltd.	(HISCO) 100	20 million NT\$	Installation and maintenance support for semiconductor manufacturing equipment in Taiwan
HISCO Shanghai Co., Ltd.	(HISCO) 100	0.2 million US\$	Sales of components for equipment for manufacturing devices such as electron microscopes in China
Manufacturing ASIA			
Hitachi Instruments (Suzhou), Ltd.	(HHT) 86 (HISCO) 2 (Hitachi Science Systems) 10		Local production of and maintenance support for medical and analytical equipment; maintenance support for electron microscopes
Dalian Naka Instruments Co., Ltd.	(Liaoning No. 2 Radio Factory)40 (Hitachi High-Tech 60 Manufacturing & Service)		Local production of analytical equipment

#### **EQUITY-METHOD AFFILIATES**

Company Name	Holding (%)	Capital	Business Activities
Hitachi China, Ltd.	(HHT) 30 (Hitachi Asia (Singapore)) 70	2.5 million \$	Procurement of electronic components by the Group

HHT: Hitachi High-Technologies

HTS: Hitachi High-Technologies (Singapore) HTV: Hitachi High-Tech Instruments Service HTD: Hitachi High-Tech Electronics Engineering
HTH: Hitachi High-Technologies Hong Kong

HISCO: Hitachi Instruments Service

#### **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 July September	New York branch office opened (now Hitachi High-Technologies America, Inc.)  Düsseldorf branch office opened (now Hitachi High-Technologies Europe GmbH)  Matsue Nissei Co., Ltd. established (now Nissei Denki Co., Ltd.)
1962	September	São Paulo branch office opened (now Hitachi High-Technologies do Brazil, Ltda.)
1964	February March	Hong Kong representative office opened (now Hitachi High-Technologies Hong Kong Ltd.) Head office moved to Nishi-Shimbashi 2-chome, Minato-ku, Tokyo
1965	April	Hitachi Instruments Service Co., Ltd. established
1971	October	Company listed on the Second Section of the Tokyo Stock Exchange
1972	March April October	Singapore branch office opened (now Hitachi High-Technologies (Singapore) Pte. Ltd.) Nissei Oil Sales Co., Ltd. established (now Nissei Mecs Corp.) 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	October	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 October	Nissei Service Inc. established 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 October	Nissei Sangyo Thailand Ltd. established (now Hitachi High-Technologies (Thailand) Ltd.) Nissei Sangyo Shanghai Co., Ltd. established (now Hitachi High-Technologies (Shanghai) Co., Ltd.)
1999	March	Nissei Sanyo High-Tech Services Pte. Ltd. established (now Hitachi High-Tech Instruments Service (Asia) Pte. Ltd.)
2001	October	Company name changed to Hitachi High-Technologies Corporation 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 Corporation) made subsidiaries
2002	January	Nissei Sangyo Trading (Shenzhen) Co., Ltd. established (now Hitachi High-Technologies (Shenzhen) Co., Ltd.)
2003	March April	Giesecke & Devrient K.K. established 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

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#### 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. To consistently aim to be the global top in high-tech solutions field, the Group is pushing through management reforms targeting, in particular, stronger cutting-edge development and sales capabilities. At the same time, it is actively restructuring businesses with the aim of building optimal operations within the context of the whole Hitachi Group.

#### 2. BUSINESS ENVIRONMENT

In the first half of fiscal 2004, the operating environment generally moved toward economic recovery. The U.S. economy was supported by strength in consumer spending and capital expenditures, while Asian economies, including China, continued to grow at a high pace. In Japan, capital expenditures were underpinned by strong demand related to digital home appliances and in other markets, and consumer spending was healthy. However, consumer spending languished from the beginning of the second half of fiscal 2004, and the growth rate slowed in digital

consumer electronics-related markets as production and inventories were cut.

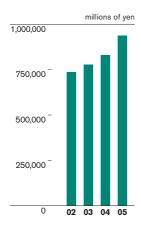
Under these conditions, Hitachi High-Technologies recorded robust growth in core semiconductor manufacturing and evaluation systems. This growth was fueled by high levels of capital expenditure at semiconductor manufacturers in response to demand for digital home appliances and PCs. Moreover, the Group reaped the benefits from management integration with Hitachi Electronics Engineering Co., Ltd. (now Hitachi High-Tech Electronics Engineering Co., Ltd.). Both sales and earnings rose sharply as a result of these and other factors.

In fact, net sales, operating income and ordinary profit rose for the third-straight year to all-time highs.

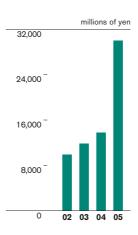
### 3. OPERATING RESULTS NET SALES

Consolidated net sales increased ¥105.8 billion, or 12.7%, year on year to ¥936.9 billion. This reflected significantly higher sales in the Electronic Device Systems Segment, which recorded strong sales of semiconductor manufacturing equipment and LCD-related manufacturing and inspection systems manufactured by Hitachi High-Tech Electronics Engineering. In addition, supported by rising crude oil prices and brisk demand for materials, sales rose sharply in the Advanced Industrial Products Segment, which sells steel, resins, non-ferrous metals and other products.

#### **Net Sales**



#### **Operating Profit**



Looking at overseas sales by geographical area, sales in Asia, which includes China, South Korea, Taiwan and other Asian countries outside Japan, jumped 27.5% to ¥286.6 billion. North America sales declined 1.8% to ¥95.9 billion, while Europe sales edged up 0.6% to ¥87.5 billion. Sales in other areas,

including the Near and Middle East and Central and South America, decreased 8.6% to ¥7.9 billion. As a result, overseas sales accounted for 51.0% of total net sales, up 0.7 of a percentage point from 50.3% in the previous fiscal year.

SECI	MENT	INFOD	MATION	
SEGI		INFUR	WALION	

SEGMENT INFORMATION		(¥100 million)	
	Fiscal 2004	Fiscal 2003	Change (%)
Electronic Device Systems	¥2,293	¥1,376	66.6%
	198	38	414.8
Life Science	839	892	(6.0)
	55	60	(8.1)
Information Systems & Electronic Components	3,098	3,278	(5.5)
	17	19	(10.0)
Advanced Industrial Products	3,139	2,764	13.6
	30	20	47.6

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

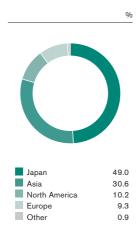
#### Electronic Device Systems

Year-on-year sales of semiconductor manufacturing equipment improved dramatically in fiscal 2004, reflecting strong capital investment by semiconductor manufacturers against a backdrop of brisk consumer demand for digital home appliances and personal computers. Sales of mainstay critical dimension measurement scanning electron microscopes (CD-Measurement SEMs) grew strongly on large capital investments in Japan and elsewhere in Asia and the

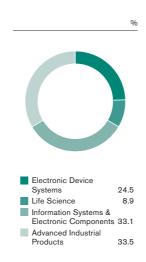
U.S. Sales of etching systems grew due to strong capital investment by domestic semiconductor manufacturers. Sales to North America increased significantly. Sales of ASML scanners grew sharply thanks to successful efforts to win new customers and other favorable developments.

Vigorous capital investment by LCD panel-related manufacturers in South Korea and Taiwan resulted in a large increase in sales of LCD/PDP Manufacturing & Inspection Systems in the first half of fiscal 2004.

#### **Overseas Sales**



#### **Segment Sales**



Sales remained strong in the second half of the fiscal year, supported by capital investment in these countries and China. As a whole, the segment recorded substantially higher year-on-year sales due to the above factors as well as the integration of Hitachi Electronics Engineering Co., Ltd. (renamed Hitachi High-Tech Electronics Engineering Co., Ltd.).

#### Life Science

Clinical diagnostic instruments continued to face a difficult operating environment characterized by falling instrument prices and cuts on testing costs, against a backdrop of efforts by governments around the world to curb medical expenses.

In the biotechnology-related equipment field, demand for clinical analyzers entered a period of correction in the second half of fiscal 2004 and the market for mainstay DNA sequencers struggled to grow, as demand in the genome analysis field slowed. These factors contributed to a fall in overall segment results.

#### Information Systems & Electronic Components

Sales of semiconductors and rechargeable batteries for mobile phones dropped markedly in the second half of fiscal 2004 following robust demand from mobile phone makers in the fiscal year's first half. Prices also declined. The prices of optical pick-ups for DVDs in Asia declined sharply, owing to lackluster growth of finished products. Consumer electronics sales to the U.S. recorded a large drop.

Organic light-emitting diodes (OLED) production equipment posted healthy growth to customers in Taiwan and South Korea in the first half of the year. In the second half, however, customers pushed back investment plans. In chip mounters, a sharp drop in capital investment by digital home appliance and other electronic equipment manufacturers in the second half of the year stunted sales growth.

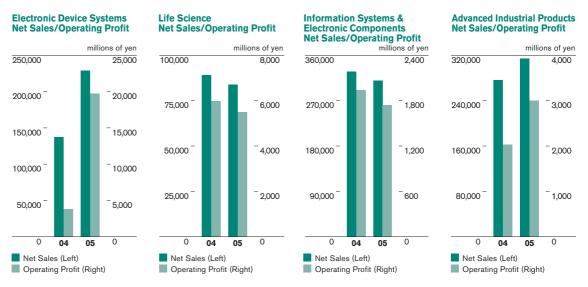
#### Advanced Industrial Products

Sales of ferrous and non-ferrous metals, resins, and automobile-related parts and components rose due to the continued rise in prices for basic materials and crude oil, expanding demand in China, and strong growth in automobile-related demand.

Sales of silicon wafers, optical components for LCD projectors, and optical media materials were brisk during the first half of the year due in part to the boost given by the Olympic Games and other factors. However, sales of optical-related materials struggled to grow due to production and inventory cutbacks of finished goods in the second half of fiscal 2004.

#### **SG&A EXPENSES**

Selling, general and administrative (SG&A) expenses rose ¥9.6 billion year on year to ¥96.6 billion. The main reason for this increase was the integration of Hitachi Electronics Engineering and Hitachi D E Technology Co., Ltd. in fiscal 2004.



#### **OPERATING PROFIT**

Operating profit increased ¥16.2 billion, or 117.4%, year on year to ¥30.0 billion, an all-time high for Hitachi High-Technologies. This was mainly due to higher operating profit in Electronic Device Systems, which has a high share of proprietary products. The higher operating profit in this segment was the result of a substantial year-on-year increase in sales, supported by strong market conditions for semiconductors and LCDs.

#### **OTHER INCOME (EXPENSE)**

In fiscal 2004, other expense increased ¥5.4 billion to ¥5.6 billion. This reflected ¥4.0 billion in gains on settlement of substitutional portion, which was not included in the previous year, as well as ¥4.3 billion in losses on devaluation of inventories and ¥5.7 billion in impairment losses.

Income before income taxes and minority interests was ¥24.4 billion, 78.7% higher than the ¥13.7 billion recorded in fiscal 2003.

#### **NET INCOME**

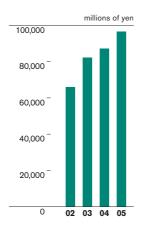
Net income, after taking into account current income taxes, deferred income taxes and minority interests, was ¥15.0 billion, 109.5% up on ¥7.2 billion in fiscal 2003. Net income per share was ¥107.94, compared with ¥50.56 in the previous fiscal year. Dividend per share increased from ¥15 in fiscal 2003, to ¥20 in fiscal 2004.

# CAPITAL RESOURCES AND LIQUIDITY

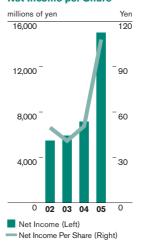
The Group borrows from financial institutions to maintain sufficient liquidity and secure funds for its business activities. As of March 31, 2005, debt totaled ¥9.9 billion, a decrease of ¥19.1 billion from ¥29.0 billion a year ago. This reflected the use of surplus funds at consolidated Group companies arose from the adoption of a cash pooling system among domestic Group companies from fiscal 2004 to pay down debt. Operating cash flows rose due to an increase in pre-tax income, the result of a strong performance in an improved operating environment, and other factors.

Regarding the Group's finance policy, the Group will strengthen its financial base by maintaining sufficient liquidity and securing funds. These funds

#### SG&A Expenses



#### Net Income/ Net Income per Share



will be used for meeting working capital requirements due to business expansion and for R&D and capital investment. The Group will also maintain a sound balance sheet by collecting accounts receivables 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 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 capable of consistently delivering earnings that exceed the cost of capital.

# 4. FINANCIAL POSITION ASSETS

Total assets at March 31, 2005 stood at ¥432.5 billion, ¥30.4 billion less than a year ago. Current assets decreased ¥19.6 billion year on year to ¥338.6 billion due mainly to the collection of accounts receivable. Fixed assets decreased ¥10.8 billion to ¥93.9 billion due to the adoption of assetimpairment accounting.

# LIABILITIES AND SHAREHOLDERS' EQUITY

Total liabilities decreased ¥43.5 billion year on year to ¥255.3 billion.

Current liabilities declined ¥36.9 billion to ¥225.7 billion, the result mainly of a decrease in short-term debt due to the repayment of borrowings from banks and other financial institutions.

Long-term liabilities declined ¥6.6 billion to ¥29.6 billion. This mainly reflected a decrease in retirement and severance benefits due to the transfer of the substitutional portion of the employees' pension fund.

Shareholders' equity increased ¥12.9 billion to ¥173.4 billion due to an increase in retained earnings from the higher net income and other factors. The equity ratio increased from 34.7% to 40.1%, while ROE increased from 4.5% to 9.0%.

#### 5. CASH FLOWS

Cash and cash equivalents increased ¥4.3 billion to ¥49.0 billion.

Operating activities provided net cash of ¥26.0 billion. The main components were ¥24.4 billion in income before income taxes and minority interests due to an improved operating performance, ¥8.9 billion was provided by depreciation and amortization, a non-cash expense, and ¥5.7 billion represented the add back of impairment losses. These sources of cash were partly offset by a decrease in cash from a ¥4.7 billion decrease in retirement and severance benefits following the transfer of the



substitutional portion of the employees' pension fund, and income taxes paid of ¥8.9 billion.

Investing activities used net cash of ¥0.6 billion. This mainly reflected inflows of ¥4.0 billion from the redemption of securities and ¥0.6 billion in proceeds from the sale of shares, offset by outflows of ¥5.8 billion for the purchase of property, plant and equipment, including production facilities, and intangible assets.

Financing activities used net cash of ¥21.6 billion. This chiefly reflected a ¥18.1 billion decrease in short-term debt and ¥1.0 billion in repayments of long-term debt, as well as dividends paid of ¥2.4 billion.

#### **6. CAPITAL EXPENDITURES**

Capital expenditures increased 31.8% to ¥10.8 billion. A major component of this was investment in a new clean room constructed at Naka Division of Hitachi High-Technologies.

Depreciation was ¥7.3 billion, 1.5% lower year on year.

#### 7. R&D EXPENSES

R&D expenses rose 25.6% to ¥18.5 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 at appropriate

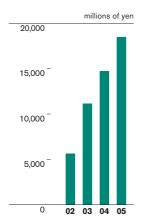
prices by expediting the development of new products that dovetail with market trends and customer needs.

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. At the same time, it has established a Research and Development Division as an organization that cuts across divisional boundaries. Moreover, since April 2004, the Group has worked to capture synergies with new Group member Hitachi Electronics Engineering. In these and other ways, the Group has strengthened its advanced technological development capabilities and core technologies. The Group plans to further reinforce its application development system as well as strengthen integrated management with business planning departments by working with the newly established Cross Division Business Development Group and Marketing & Planning Division.

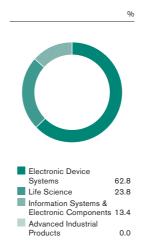
#### [R&D Expenses by Segment]

Electronic Device Systems	¥11.6 billion
Life Science	4.4 billion
Information Systems &	
Electronic Components	2.5 billion

#### R&D



#### **R&D** by Segment



#### 8. 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 is developing business globally, mainly in the electronics and life science fields, using both its advanced technological development capabilities and trading company functions. A downturn in the Group's main markets could adversely affect its operating results.

Sluggish consumption caused by an economic downturn in regions where the Group is developing business, namely Japan, elsewhere in Asia, Europe, and the U.S., could cause a decrease in demand and fuel price-based competition, which could in turn have a negative effect on the Group's operating results. Furthermore, deteriorating economic conditions could result in an increase in inventories and excess capacity, which may give rise to the need for expenditures to implement new structural reforms.

While the Chinese market is expected to continue growing in the future, management believes there is a strongly likelihood of a 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 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 is developing 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 SARS 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 that cannot be prevented with disaster prevention equipment, or a power outage or other event that dramatically lowers energy supplies could hinder the Group's ability to produce 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 a lower discount rate on pension assets or a decline in investment returns adversely affecting its operating results and financial condition, the Group has returned the substitutional portion of the employees' pension fund and moved to a new corporate pension fund, centered on a cash balance plan and similar plans. This has helped the Group to alleviate some risks. However, a downturn in the share market caused by a sudden change in economic conditions or other event, or the continuation of low interest rates could adversely affect the Group's operating results.

# (8) Change in Foreign Currency Exchange Rates

The Group is developing 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. Hitachi High-Technologies has also responded to revisions to Article 35 of Japan's Patent Law concerning reward systems for workplace inventions. 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.

#### 9. OUTLOOK FOR FISCAL 2005

Overall, a low growth rate in the world economy is expected in fiscal 2005, despite projections of some recovery during the second half. This is due to a correction in the U.S. economy during the first half and declining exports in Asia triggered by inventory reductions and by IT and digital products manufacturers.

Hitachi High-Technologies forecasts net sales of ¥830 billion, ordinary profit of ¥20 billion and net income of ¥11.3 billion for fiscal 2005 when it announced its fiscal 2004 financial results in April 2005.

As it consistently aims to become the global top in high-tech solutions, the Group is also working to achieve these forecasts by responding rapidly to market trends and customer needs.

## **CONSOLIDATED BALANCE SHEETS**

Hitachi High-Technologies Corporation and Subsidiaries March 31, 2005 and 2004

		Millions of yen	Thousands of U.S. dollars (note 2)
ASSETS	2005	2004	2005
CURRENT ASSETS:			
Cash (note 3)	¥ 46,052	¥ 41,747	\$ 428,832
Short-term investments (note 4)	193	4,092	1,796
Notes and accounts receivable (note 5)	213,022	234,613	1,983,628
Inventories	56,900	55,860	529,846
Advances to suppliers (note 5)	1,755	1,844	16,346
Prepaid expenses and other current assets (note 8)	6,624	8,600	61,678
Deferred tax assets (note 6)	17,893	14,115	166,619
Less: allowance for doubtful receivables	(3,803)	(2,645)	(35,412
Total current assets	338,636	358,226	3,153,333
PROPERTY, PLANT AND EQUIPMENT:			
Land	20,031	22,446	186,525
Buildings and structures	43,355	48,282	403,719
Machinery and equipment	34,684	36,958	322,971
Tools, furniture & fixtures	25,581	25,248	238,203
Construction in process	325	162	3,026
	123,976	133,096	1,154,444
Less: accumulated depreciation	(67,344)	(71,061)	(627,098
Net property, plant and equipment	56,632	62,035	527,346
INTANGIBLE ASSETS	9,551	11,419	88,934
INVESTMENTS AND OTHER ASSETS:			
Investments in non-consolidated subsidiaries and affiliates	2,809	2,641	26,158
Investments in securities (note 4)	12,776	12,682	118,965
Long-term loan	1,097	1,410	10,211
Deferred tax assets (note 6)	5,804	7,371	54,050
Other assets	6,224	8,058	57,955
Less: allowance for doubtful receivables	(1,028)	(967)	(9,569
Total investments and other assets	27,682	31,195	257,770
	¥432,501	¥462,875	\$4,027,383

See accompanying notes to consolidated financial statements

		Milliana af	Thousands of U.S. dollars	
LIABILITIES AND SHAREHOLDERS' EQUITY	2005	Millions of yen 2004	(note 2	
CURRENT LIABILITIES:	2000	2001	2000	
Short-term debt (note 7)	¥ 7,903	¥ 25,996	\$ 73,590	
Current installments of long-term debt (note 7)	2,000	1,000	18,624	
Notes and accounts payable (note 5)	164,787	188,316	1,534,475	
Accrued expenses	26,415	25,039	245,969	
Income taxes (note 6)	7,073	4,672	65,861	
Advances from customers (note 5)	5,964	7,395	55,540	
Other current liabilities	11,516	10,115	107,227	
Total current liabilities	225,658	262,533	2,101,286	
LONG-TERM LIABILITIES:				
Long-term debt (note 7)	_	2,000	_	
Retirement and severance benefits (note 8)	29,259	33,910	272,457	
Other liabilities	363	325	3,381	
Total long-term liabilities	29,622	36,235	275,838	
Total liabilities	255,280	298,768	2,377,124	
MINORITY INTERESTS	3,842	3,627	35,776	
SHAREHOLDERS' EQUITY:				
Capital (note 9)	7,938	7,938	73,922	
Capital surplus (note 9 and 10)	35,745	35,745	332,848	
Retained earnings (note 10)	126,817	114,427	1,180,901	
Net unrealized holding gains on securities	4,926	4,897	45,870	
Foreign currency translation adjustments	(1,797)	(2,286)	(16,734	
Treasury stock, at cost, 169,283 shares in 2005				
and 163,155 shares in 2004	(250)	(241)	(2,324	
Total shareholders' equity	173,379	160,480	1,614,483	
COMMITMENTS AND CONTINGENT LIABILITIES (note 11)				
	¥432,501	¥462,875	\$4,027,383	

# **CONSOLIDATED STATEMENTS OF INCOME**

Hitachi High-Technologies Corporation and Subsidiaries Years ended March 31, 2005 and 2004

	2005	Millions of yen 2004	(note 2)
		2004	2005
NET SALES (note 5)	¥936,865	¥831,050	\$8,723,950
COST OF SALES (note 5)	810,233	730,186	7,544,772
Gross profit	126,632	100,864	1,179,178
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	96,631	87,066	899,816
Operating profit	30,001	13,798	279,362
OTHER INCOME (EXPENSE)			
Interest & dividends income	525	632	4,887
Interest expenses	(183)	(165)	(1,707)
Equity income	139	42	1,298
Foreign exchange gains	504	274	4,694
Gains on settlement of substitutional portion	4,011	_	37,352
Losses on devaluation of inventories	(4,261)	_	(39,679
Impairment losses (note 15)	(5,701)	_	(53,084)
Other, net	(607)	(908)	(5,656)
	(5,573)	(125)	(51,895)
Income before income taxes and minority interests	24,428	13,673	227,467
INCOME TAXES (note 6)			
Current	11,353	5,789	105,717
Deferred	(2,190)	657	(20,395)
	9,163	6,446	85,322
Income before minority interests	15,265	7,227	142,145
MINORITY INTERESTS	261	65	2,430
NET INCOME	¥ 15,004	¥ 7,162	\$ 139,715
		Yen	U.S. dollars (note 2)
Net income per share (note 12)	¥ 107.94	¥ 50.56	\$ 1.01

See accompanying notes to consolidated financial statements

# **CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

Hitachi High-Technologies Corporation and Subsidiaries Years ended March 31, 2005 and 2004

						N	/lillions of yen
	Issued and outstanding shares (thousands)	Capital	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	137,739	¥7,938	¥35,745	¥109,633	¥2,923	¥ (853)	¥(226)
Net income	-	_	_	7,162	_	-	_
Cash dividends	-	_	_	(2,064)	_	-	_
Bonuses to directors	_	_	_	(304)	_	_	_
Net change during the year	-	_	_	_	1,974	(1,433)	_
Increase in treasury stock	_	_	_	-	_	_	(15)
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)

					Thou	usands of U.S. do	ollars (note 2)
	Issued and outstanding shares (thousands)	Capital	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	137,739	\$73,922	\$332,848	\$1,065,523	\$45,600	\$(21,290)	\$(2,240)
Net income	_	_	_	139,715	_	_	_
Cash dividends	_	_	_	(22,419)	_	_	_
Bonuses to directors	_	_	_	(1,918)	_	_	_
Net change during the year	_	_	_	_	270	4,556	_
Increase in treasury stock	_	_	_	_	_	_	(84)
Balance at March 31, 2005	137,739	\$73,922	\$332,848	\$1,180,901	\$45,870	\$(16,734)	\$(2,324)

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# **CONSOLIDATED STATEMENTS OF CASH FLOWS**

Hitachi High-Technologies Corporation and Subsidiaries Years ended March 31, 2005 and 2004

			Thousands of U.S. dollars
		Millions of yen	(note 2)
	2005	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 24,428	¥ 13,673	\$ 227,467
Adjustments to reconcile to net income before income taxes	,	,	. ,
to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,891	7,552	82,793
Impairment losses	5,701	_	53,084
Increase in provision for doubtful receivables	1,416	593	13,186
Increase (decrease) in retirement and severance benefits	(4,657)	1,097	(43,368
Interest and dividends income	(525)	(632)	(4,887
Interest expenses	183	165	1,706
Foreign exchange losses	52	301	486
Equity income	(139)	(42)	(1,298
Losses on sales and disposal of property and equipment	243	368	2,259
Gains on sales and devaluation of securities	(1,057)	(297)	(9,845
Increase (decrease) in notes and accounts receivables	21,259	(31,776)	197,958
Increase in inventories	(2,941)	(5,936)	(27,383
Increase (decrease) in notes and accounts payables	(25,432)	37,037	(236,815
Bonuses paid to directors	(206)	(305)	(1,918
Other, net	7,259	(105)	67,601
<u> </u>			
lakana akana di dibida anda manaka di	34,475	21,693	321,026
Interest and dividends received	536	671	4,987
Interest paid	(116)	(99)	(1,080)
Income taxes paid	(8,895)	(7,276)	(82,828)
Net cash provided by operating activities	26,000	14,989	242,105
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in time deposits	14	115	127
Purchase of securities	(203)	(2,036)	(1,895
Proceeds from sales and redemption of securities	4,564	9,925	42,499
Capital expenditures	(5,843)	(4,711)	(54,405)
Proceeds from sales of property and equipment	894	190	8,321
Proceeds from sales of shares of subsidiaries	67	<del>_</del>	622
Purchase of shares of subsidiaries	_	(3,808)	_
Other, net	(69)	(206)	(634
Net cash used in investing activities	(576)	(531)	(5,365)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term debt	(18,094)	(18,696)	(168,487
Repayments of long-term debt	(1,000)	(10,090)	(9,312
Dividends paid	(2,408)	(2,064)	(22,419)
·	(80)	. , ,	
Other, net		(93)	(750
Net cash used in financing activities	(21,582)	(20,853)	(200,968
EFFECT OF EXCHANGE RATE CHANGES ON CASH			
AND CASH EQUIVALENTS	477	(1,402)	4,452
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,319	(7,797)	40,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	44,648	52,456	415,752
CASH AND CASH EQUIVALENTS OF SUBSIDIARIES			
EXCLUDED FROM CONSOLIDATION	_	(11)	
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 3)	¥ 48,967	¥ 44,648	\$ 455,976

See accompanying notes to consolidated financial statements

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Hitachi High-Technologies Corporation and 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.

#### (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.

#### (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 : Stated at lower of cost or market, cost being determined by the moving-average method

Raw materials

Work-in-process : Stated at lower of cost or market, cost being determined by the 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) 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.

#### (h) 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.

#### (i) 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 meet 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 regulated 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.

#### (j) Lease

Finance leases 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, are accounted for as operating lease.

#### (k) 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 accounted for as capital surplus.

#### (I) 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.

#### (m) Reclassifications

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

#### (n) Accounting Standards for Impairment of Fixed Assets

Accounting Standards for Impairment of Fixed Assets (Opinion Concerning the Establishment of the Accounting Standard for Impairment of Fixed Assets (Business Accounting Council, August 9, 2002) and Guidelines for the Application of Accounting Standards for Impairment of Fixed Assets (Accounting Standards Board of Japan, October 31, 2003, Guidelines for the Application of Corporate Accounting Standards No. 6)) were allowed to be applied starting with consolidated financial statements issued for the year ended March 31, 2004. Accompanying these changes, the Company has applied the aforementioned accounting standards and guidelines on April 1, 2004. As a result, income before income taxes for the year ended March 31, 2005 decreased ¥5,701 million. Cumulative impairment losses are directly deducted from each asset based on the revised rules for consolidated financial statements.

#### 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 U.S. dollars at the rate of ¥107.39=\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2005. 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:

		Thousands of U.S. dollars	
	2005	2004	2005
Cash	¥46,052	¥41,747	\$428,832
Time deposits with maturity over three months	(85)	(98)	(792)
Deposits to Hitachi Group cash management fund	3,000	2,999	27,936
Cash and cash equivalents	¥48,967	¥44,648	\$455,976

#### 4. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Investments in securities as of March 31, 2005 and 2004 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:

							N	fillions of yen
				2005				2004
	Cost	Gross gains	Gross losses	Aggregate fair value	Cost	Gross gains	Gross losses	Aggregate fair value
Available-for-sale securities:								
Equity securities	¥1,906	¥8,316	¥ -	¥10,222	¥1,961	¥8,289	¥ (8)	¥10,242
Debt securities	2,007	11	_	2,018	3,008	6	(13)	3,001
Other securities	726	5	(2)	729	3,513	18	_	3,531
	¥4,639	¥8,332	¥(2)	¥12,969	¥8,482	¥8,313	¥(21)	¥16,774

		Thousands of U.S. dollars			
				2005	
		Gross	Gross	Aggregate	
	Cost	gains	losses	fair value	
Available-for-sale securities:					
Equity securities	\$17,747	\$77,436	\$ -	\$ 95,183	
Debt securities	18,690	103	_	18,793	
Other securities	6,758	46	(19)	6,785	
	\$43,195	\$77,585	\$(19)	\$120,761	

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, 2005 and 2004 totaled ¥515 million (\$4,798 thousand) and ¥313 million, respectively.

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

		Millions of yen	Thousands of U.S. dollars	
	2005	2004	2005	
Short-term investments	¥ 193	¥ 4,092	\$ 1,796	
Investments in securities	12,776	12,682	118,965	
	¥12,969	¥16,774	\$120,761	

The following represents the maturities of debt securities and other securities with contractual maturities as of March 31, 2005.

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Within 1 year	¥ 193	\$ 1,796
After 1 year through 5 years	31	285
After 5 years through 10 years	1,097	10,217
	¥1,321	\$12,298

The proceeds from sales of available-for-sale securities for the year ended March 31, 2005 amounted to ¥464 million (\$4,319 thousand), 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 (\$3,900 thousand) and ¥31 million (\$291 thousand), respectively.

The proceeds from sales of available-for-sale securities for the year ended March 31, 2004 amounted to ¥722 million and the gross realized gains and gross realized losses on the sales of those securities for the year ended March 31, 2004 amounted to ¥314 million and ¥12 million, respectively.

#### 5. BALANCES AND TRANSACTIONS WITH RELATED PARTY

55.04% 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, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005 2004	2005		
Principal balances:				
Accounts receivable	¥10,191	¥ 7,829	\$ 94,898	
Advances to suppliers	34	159	320	
Trade accounts payable	10,617	11,137	98,865	
Advances from customers	722	239	6,722	
Principal transactions:				
Sale	53,464	42,719	497,850	
Purchase	20,295	31,234	188,982	

#### **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:

	2005	2004
Normal income tax rate	40.7%	42.1%
Expenses not deductible for tax purpose	2.9	4.5
Amortization of consolidated adjustment account	2.4	2.7
Tax credit	(5.2)	(6.8)
Valuation allowance	(2.9)	3.7
Other, net	(0.4)	0.9
Effective income tax rate	37.5%	47.1%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2005 and 2004 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Total gross deferred tax assets:			
Allowance for doubtful receivables	¥ 1,368	¥ 1,150	\$ 12,741
Accrued bonus	4,279	3,950	39,849
Accrued business tax	703	364	6,547
Accrued expenses	5,469	3,984	50,924
Intercompany profit on inventories	1,093	892	10,176
Devaluation of inventories	3,032	1,591	28,234
Depreciation	671	174	6,249
Membership deposit	330	435	3,074
Investments in securities	536	107	4,991
Retirement and severance benefits	9,954	9,180	92,694
Net operating losses carryforwards	435	566	4,051
Other, net	3,579	2,812	33,322
	31,449	25,205	292,852
Less valuation allowance	(4,372)	(505)	(40,708)
	27,077	24,700	252,144
Total gross deferred tax liabilities:			
Net unrealized holding gains on securities	(3,380)	(3,214)	(31,475)
	(3,380)	(3,214)	(31,475)
Net deferred tax assets	¥23,697	¥21,486	\$220,669

Net deferred tax assets as of March 31, 2005 and 2004 are reflected in the consolidated balance sheets under the following items:

		Millions of yen	
	2005 2004	2005	
Deferred tax assets-current	¥17,893	¥14,115	\$166,619
Deferred tax assets-noncurrent	5,804	7,371	54,050
Net deferred tax assets	¥23,697	¥21,486	\$220,669

#### 7. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Unsecured bank borrowings	¥4,013	¥19,400	\$37,369
Export bills discounted	3,890	6,596	36,221
	¥7,903	¥25,996	\$73,590

The weighted-average interest rates on short-term debt outstanding as of March 31, 2005 and 2004 are 1.595% and 0.631%, respectively.

Long-term debt as of March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans from insurance companies,			
Due 2004-2005, interest 0.63%-0.65%	¥2,000	¥3,000	\$18,624
	2,000	3,000	18,624
Less current portion	2,000	1,000	18,624
	¥ -	¥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.

- Employees Pension Fund stipulated by the Japanese Welfare Pension Law (EPF), a funded contributory defined benefit pension plan.
- Tax Qualified Pension Plan (funded defined benefit pension plan)
- Retirement and Severance Benefit Plan (unfunded defined benefit pension plan)
- Corporate Pension Plan (funded defined benefit pension plan)

The funded status of the Company's and subsidiaries' pension plans as of March 31, 2005 and 2004 is summarized as follows:

		Millions of yen	
	2005	2004	U.S. dollars 2005
Projected benefit obligation	¥(119,490)	¥(133,780)	\$(1,112,672)
Plan assets at fair value	63,849	58,827	594,550
Funded status	(55,641)	(74,953)	(518,122)
Unrecognized transition gain	_	236	_
Unrecognized actuarial loss	33,294	47,747	310,034
Unrecognized prior service cost	(5,589)	(5,358)	(52,046)
Amount recognized in the consolidated balance sheet	¥ (27,936)	¥ (32,328)	\$ (260,134)
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid expenses and other current assets	¥ 299	¥ 362	\$ 2,790
Retirement and severance benefits	(28,235)	(32,690)	(262,924)
	¥ (27,936)	¥ (32,328)	\$ (260,134)

Net periodic benefit cost for the Company and subsidiaries' pension plans for the years ended March 31, 2005 and 2004 consisted of the following components:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	
Service cost	¥ 4,399	¥ 4,063	\$ 40,963	
Interest cost	3,176	3,152	29,576	
Expected return on plan assets for the period	(2,523)	(2,016)	(23,489)	
Amortization of transition difference	257	(73)	2,390	
Amortization of actuarial loss	3,158	2,567	29,408	
Amortization of prior service cost	(420)	(371)	(3,914)	
	8,047	7,322	74,934	
Gains on settlement of substitutional portion	(4,011)	(115)	(37,352)	
Other, net	108	96	1,006	
	¥ 4,144	¥ 7,303	\$ 38,588	

The EPF is composed of the substitutional portion of Japanese Welfare Insurance and the corporate portion. The benefits for the substitutional portion are based on standard remuneration scheduled by the Welfare Pension Insurance Law and the length of participation. The benefits of the corporate portion are based on the current rate of pay and the length of service.

The Company and certain consolidated subsidiaries received approval from the Minister of Health, Labour and Welfare on September 30, 2004 to return the past substitutional portion of the Employees' Pension Fund. Accompanying this, the Company and certain consolidated subsidiaries reformed their systems of retirement plans on September 30, 2004 and switched over from conventional defined benefit plans—the Employees' Pension Fund Plan, Tax-Qualified Pension Funds Plan, and Retirement and Severance Benefits Plan—to a defined benefit corporate pension plan and Retirement and Severance Benefits Plan.

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

	2005	2004
Discount rate	1.7-2.5%	1.5-3.1%
Expected rate of return on plan assets	2.5-4.5	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, 2005 and 2004, such obligation recognized as retirement and severance benefits amounted to ¥1,024 million (\$9,533 thousand) and ¥1,220 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 the 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, 2005 and 2004 are summarized as follows:

	Authorized shares	Issued shares
Balance as of March 31, 2004	350,000,000	137,738,730
Balance as of March 31, 2005	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 the total of capital surplus and legal reserve equals 25% of stated capital. In addition to a 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, director's bonuses and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2005 and 2004 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 ¥10.00 (\$0.09) per share, aggregating ¥1,376 million (\$12,810 thousand), or directors' bonuses for subsidiaries of ¥155 million (\$1,439 thousand) in respect of the year ended March 31, 2005.

#### 11. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2005 and 2004, the Company and its subsidiaries are contingently liable for the following amounts:

	Millions of yen		Thousands of U.S. dollars
	2005 2004	2005	
Export bills discounted	¥2,321	¥ 756	\$21,617
Notes receivable endorsed to suppliers	215	264	2,006
Guarantees given for employees' housing loans	1,829	2,080	17,036
	¥4,365	¥3,100	\$40,659

#### 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 in note 1 (I). The Company has no potentially dilutive securities for the years ended March 31, 2005 and 2004. Net income per share computation for the year ended March 31, 2005 is as follows:

		Number of shares
		2005
Weighted average number of shares on which basic net income		
per share is calculated		137,572,965
		Thousands of
	Millions of yen	U.S. dollars
	2005	2005
Net income	¥15,004	\$139,715
Appropriations for directors' bonuses	(155)	(1,439)
Net income available to common shareholders	¥14,849	\$138,276
	Yen	U.S. dollar
Net income per share:		
Basic	¥107.94	\$1.01

#### 13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income for the year ended March 31, 2005 amounted to ¥18,541 million (\$172,648 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 that are denominated in foreign currencies.

The Company has no derivative financial instruments for trading purposes. 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, 2005 and 2004 are as follows:

					N	fillions of yen	
		2005			2		
	Notional amounts	Estimated fair values	Unrealized gains	Notional amounts	Estimated fair values	Unrealized gains	
Forward exchange contracts:							
To sell foreign currency	¥12,193	¥12,205	¥(12)	¥12,891	¥12,628	¥263	
To buy foreign currency	4,592	4,617	25	4,747	4,761	14	
		Thousands o	f U.S. dollars				
			2005				
	Notional amounts	Estimated fair values	Unrealized gains				
Forward exchange contracts:							
To sell foreign currency	\$113,538	\$113,654	\$(116)				
To buy foreign currency	42,761	42,996	235				

#### 15. IMPAIRMENT OF TANGIBLE ASSETS

For determining impairment indications, the Company and its consolidated subsidiaries classify the 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 (¥5,701 million).

	Millions of yen	Thousands of U.S. dollars	
	2005	2005	
Buildings and structures	¥3,094	\$28,811	
Land	2,059	19,173	
Lease assets	108	1,007	
Other	440	4,093	
Total	¥5,701	\$53,084	

#### **16. SEGMENT INFORMATION**

#### **Business segment information**

The Company has divided its operations into four reportable segments: "Electronic Device Systems," "Life Science," "Information Systems & Electronic Components" and "Advanced Industrial Products." The main products of each business segment are provided on pages 10-19 of this annual report. Following is a tabulation of business segment information as of and for the years ended March 31, 2005 and 2004.

							Millions of yen
							2005
	Electronic Device Systems	Life Science	Information Systems & Electronic Components	Advanced Industrial Products	Total	Eliminations & Corporate items	Consolidated
Net sales: External customers Intersegment sales	¥229,275 60	¥83,866 1,208	¥309,801 390	¥313,923 1,248	¥936,865 2,906	¥ - (2,906)	¥936,865 -
Operating expenses	229,335 209,581	85,074 79,581	310,191 308,447	315,171 312,168	939,771 909,777	(2,906) (2,913)	936,865 906,864
Operating profit	¥ 19,754	¥ 5,493	¥ 1,744	¥ 3,003	¥ 29,994	¥ 7	¥ 30,001
Total assets Depreciation Impairment losses Capital expenditure	¥156,764 4,976 364 6,881	¥42,127 1,656 240 3,048	¥ 98,282 1,433 9 1,116	¥ 81,944 826 - 857	¥379,117 8,891 613 11,902	¥53,384 - 5,088 -	¥432,501 8,891 5,701 11,902
							Millions of yen
	Electronic Device Systems	Life Science	Information Systems & Electronic Components	Advanced Industrial Products	Total	Eliminations & Corporate items	2004 Consolidated
Net sales: External customers Intersegment sales	¥137,614 705	¥89,200 1,868	¥327,840 1,503	¥276,396 2,770	¥831,050 6,846	¥ - (6,846)	¥831,050
Operating expenses	138,319 134,482	91,068 85,094	329,343 327,405	279,166 277,131	837,896 824,112	(6,846) (6,860)	831,050 817,252
Operating profit	¥ 3,837	¥ 5,974	¥ 1,938	¥ 2,035	¥ 13,784	¥ 14	¥ 13,798
Total assets Depreciation Capital expenditure	¥166,515 4,118 4,362	¥41,577 1,617 1,908	¥116,341 1,333 1,811	¥ 88,257 484 545	¥412,690 7,552 8,626	¥50,185 - -	¥462,875 7,552 8,626
						Thousa	nds of U.S. dollars
	Electronic Device Systems	Life Science	Information Systems & Electronic Components	Advanced Industrial Products	Total	Eliminations & Corporate items	Consolidated
Net sales: External customers Intersegment sales	\$2,134,978 562	\$780,951 11,243	\$2,884,818 3,634	\$2,923,203 11,624	\$8,723,950 27,063	\$ - (27,063)	\$8,723,950
Operating expenses	2,135,540 1,951,591	792,194 741,043	2,888,452 2,872,214	2,934,827 2,906,866	8,751,013 8,471,714	(27,063) (27,126)	8,723,950 8,444,588
Operating profit	\$ 183,949	\$ 51,151	\$ 16,238	\$ 27,961	\$ 279,299	\$ 63	\$ 279,362
Total assets Depreciation Impairment losses Capital expenditure	\$1,459,763 46,332 3,391 64,075	\$392,281 15,417 2,235 28,384	\$ 915,191 13,347 82 10,392	\$ 763,048 7,697 - 7,975	\$3,530,283 82,793 5,708 110,826	\$497,100 - 47,376 -	\$4,027,383 82,793 53,084 110,826

#### Geographic segment information

Geographic segment information as of and for the years ended March 31, 2005 and 2004 are as follows:

								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
								Millions of yen
								2004
	Japan	North America	Europe	Asia	Other areas	Total	Elimination	Consolidated
Net sales:	•		·					
External customers	¥575,490	¥108,925	¥70,376	¥75,906	¥353	¥831,050	¥ –	¥831,050
Intersegment sales	117,963	2,544	2,891	7,679	29	131,106	(131,106)	_
	693,453	111,469	73,267	83,585	382	962,156	(131,106)	831,050
Operating expenses	683,236	114,337	72,697	80,905	359	948,534	(131,282)	817,252
Operating profit	¥ 10,217	¥ 132	¥ 570	¥ 2,680	¥ 23	¥ 13,622	¥ 176	¥ 13,798
Total assets	¥411,468	¥ 31,689	¥19,981	¥26,972	¥368	¥490,478	¥ (27,603)	¥462,875
							Thousa	nds of U.S. dollars
								2005
	Japan	North America	Europe	Asia	Other areas	Total	Elimination	Consolidated
Net sales:								
External customers	\$6,266,910	\$965,269	\$661,867	\$826,469	\$3,435	\$8,723,950	\$ -	\$8,723,950
Intersegment sales	1,081,836	28,483	16,969	120,514	404	1,248,206	(1,248,206)	_
	7,348,746	993,752	678,836	946,983	3,839	9,972,156	(1,248,206)	8,723,950
Operating expenses	7,114,089	988,095	672,203	916,330	3,277	9,693,994	(1,249,406)	8,444,588
Operating profit	\$ 234,657	\$ 5,657	\$ 6,633	\$ 30,653	\$ 562	\$ 278,162	\$ 1,200	\$ 279,362
Total assets	\$3,669,092	\$198,808	\$155,821	\$238,512	\$3,588	\$4,265,821	\$ (238,438)	\$4,027,383

#### 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
					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%
					Millions of yen
					2004
	North America	Europe	Asia	Other areas	Total
Net sales:	¥97,670	¥86,942	¥224,744	¥8,634	¥417,990
Percentage of consolidated net sales	11.8%	10.5%	27.0%	1.0%	50.3%
				Thous	and of U.S. dollars
					2005
	North America	Europe	Asia	Other areas	Total
Net sales:	\$892,764	\$814,363	\$2,668,632	\$73,449	\$4,449,208
Percentage of consolidated net sales	10.2%	9.3%	30.6%	0.9%	51.0%

#### 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, 2005 and 2004, 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, 2005 and 2004, 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.

As described in Note 1 to the consolidated financial statements, Hitachi High-Technologies Corporation and consolidated subsidiaries adopted a new accounting standard for impairment of fixed assets effective at April 1, 2004 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.

First & Young Shinnihar

Tokyo, Japan

June 23, 2005

#### **INVESTOR INFORMATION**

(As of March 31, 2005)

#### **CORPORATE DATA**

**Independent Auditors** 

Number of Shareholders 9.208

**Date of Establishment** April 12, 1947 Paid-in Capital ¥7,938 million **Number of Employees** 9,868 (Hitachi High-Technologies Group Total) **Number of Common** 137,738,730 **Shares** (Issued and Outstanding) **Stock Exchange** Tokyo Stock Exchange, Listings First Section; Osaka Securities Exchange, First Section **Annual Shareholders'** Meeting June Tokyo Securities Transfer **Transfer Agent** Agent Co., Ltd. 4-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

Ernst & Young ShinNihon

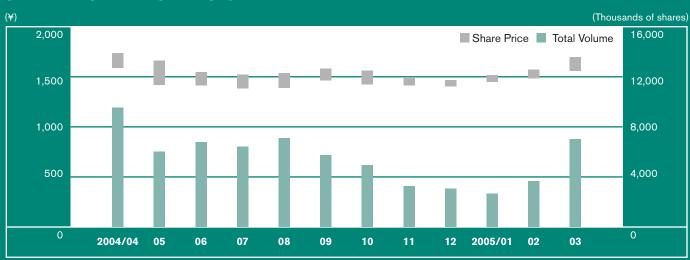
#### **MAJOR SHAREHOLDERS**

Name	Number of shares	Percentage of total equity (%)
Hitachi, Ltd.	75,807,382	55.0
Japan Trustee Services Bank, Ltd.	7,548,400	5.5
The Master Trust Bank of Japan, Ltd.	4,881,000	3.5
Trust & Custody Services Bank, Ltd.	4,029,900	2.9
The Chase Manhattan Bank NA London	2,428,634	1.8
Hitachi High-Technologies Employees Shareholders' Association	2,392,836	1.7
The Northern Trust Company	2,212,428	1.6
The Bank of New York Europe Limited	1,257,600	0.9
State Street Bank and Trust Company	1,200,206	0.9
JPMCB	1,095,600	0.8

#### **TYPE OF SHAREHOLDERS**

	Number of shareholders	Percentage of total equity (%)	Number of shares (Tens of thousands)	Percentage of total equity (%)
Financial institutions	68	0.7	2,204	16.0
Securities firms	29	0.3	38	0.3
Other domestic corporations	179	2.0	7,785	56.5
Foreign corporations, etc.	179	2.0	2,276	16.5
Individuals and others	8,753	95.0	1,471	10.7
Total	9,208	100.0	13,774	100.0

#### **SHARE PRICE AND TOTAL VOLUME**



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