

**Hitachi Kokusai Electric**

**Annual Report 2011**

For the fiscal year ended March 31, 2011

**HITACHI**

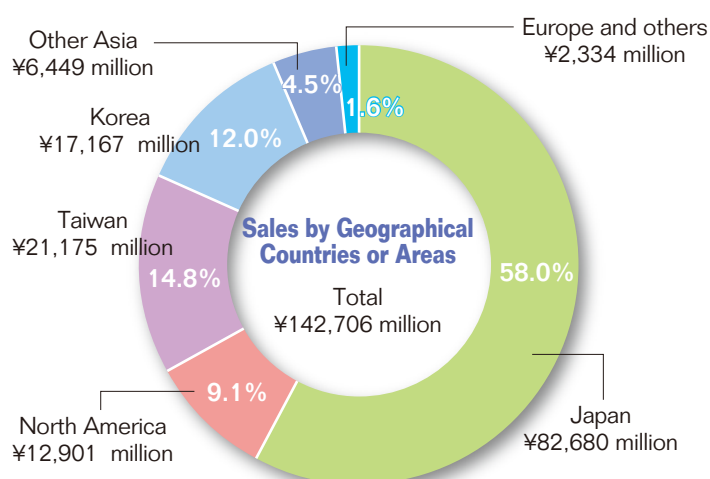
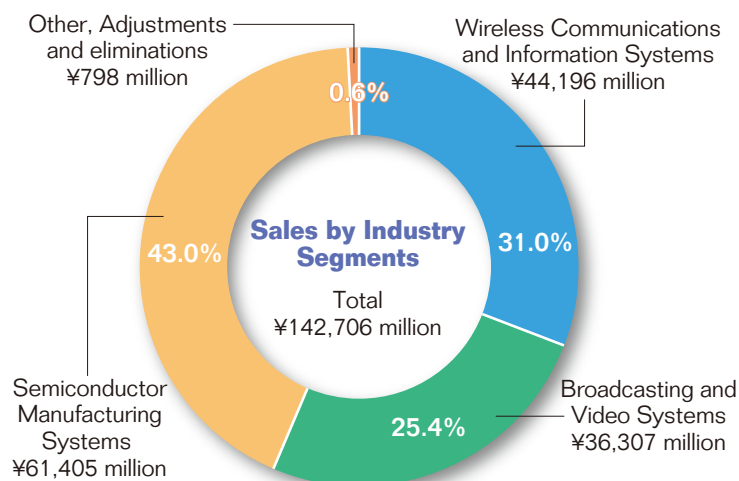
# Profile

Hitachi Kokusai Electric is a provider of information communication systems that offer borderless capabilities through compatibility with global standards on which the next generation of mobile communication systems will be based. We offer total support of broadcasting and video systems that shape our image culture, and are moving forward with research and development on the provision of mobile multimedia products and systems. Next-generation advanced information and communication systems will be based on semiconductors. Hitachi Kokusai Electric is also moving forward with semiconductor manufacturing systems.

Hitachi Kokusai Electric is already a leading manufacturer of semiconductor manufacturing systems that are held in high regard by semiconductor manufacturers the world over. The Company is constantly utilizing its advanced research and development capabilities to provide new, next-generation products that incorporate the latest advances in semiconductor manufacturing technology.

#### Cautionary Statement With Respect to Forward-looking Statements:

Statements made in this annual report with respect to Hitachi Kokusai Electric's plans and projections as well as other statements that are not historical facts are forward-looking statements, which involve risks and uncertainties. Potential risks and uncertainties include, without limitation, general economic conditions in Hitachi Kokusai Electric's markets, exchange rates and Hitachi Kokusai Electric's ability to continue to win customers' acceptance of its products, which are offered in highly competitive market characterized by continual new product introductions and rapid developments in technology.



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# Consolidated Financial Highlights

Hitachi Kokusai Electric Inc. and Consolidated Subsidiaries

Years ended March 31

For the Year:	Millions of Yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Net sales	142,706	122,089	128,587	1,716,248
Operating income (loss)	3,956	(4,299)	(11,408)	47,577
Net income (loss)	(5,065)	(1,808)	(24,880)	(60,914)
Cash dividends	1,234	1,029	1,852	14,841
Capital expenditures	2,687	1,974	3,929	32,315
Depreciation	4,245	4,592	5,331	51,052
R&D costs	14,172	15,028	17,067	170,439

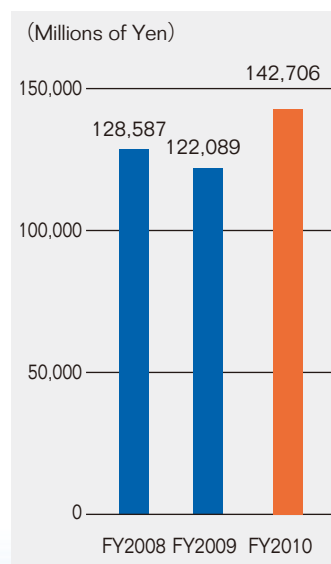
At Year-End:	Millions of Yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Total assets	149,784	149,066	138,546	1,801,371
Total net assets	73,703	78,201	81,317	886,386

Per share data:	Yen			U.S. dollars
	2011	2010	2009	2011
Net income (loss)	(49.25)	(17.57)	(241.79)	(0.59)
Cash dividends	12.00	10.00	18.00	0.14

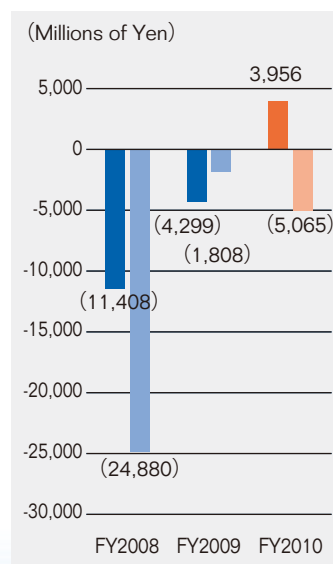
Note: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83.15 to \$1, the rate of exchange at March 31, 2011.

Diluted net income per share has not been presented because there were no potentially dilutive share at March 31, 2009, 2010 and 2011.

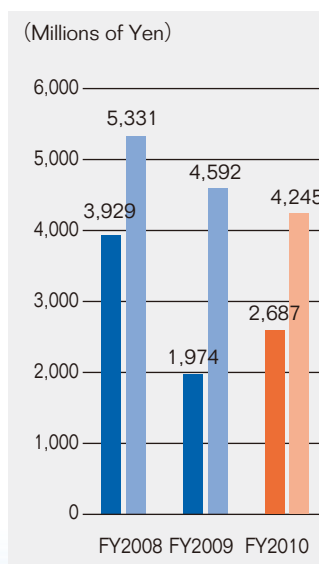
Net sales



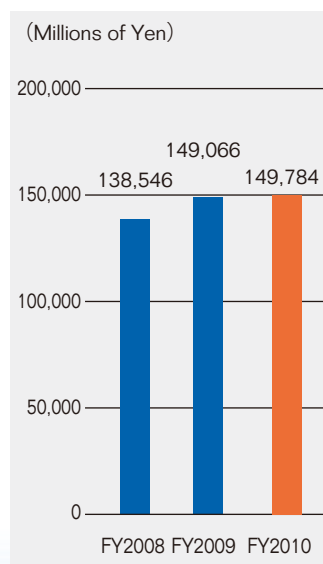
Operating income (loss) and Net income (loss)



Capital expenditures and Depreciation



Total assets



**As a company that strives to support society in the development of essential infrastructure, Hitachi Kokusai Electric will continue to contribute to efforts aimed at realizing the earliest possible reconstruction of devastated areas.**



## **1. Working to overcome the effects of the Great East Japan Earthquake**

The Great East Japan Earthquake that struck the nation on March 11, 2011 was a disaster of unprecedented magnitude. In the immediate aftermath of the earthquake, the Company set up a Companywide Emergency Headquarters headed by the president. In addition to implementing all necessary safety crisis management measures, the Company continues to provide reconstruction assistance to customers and devastated areas.

Looking at the status of damage to the Company and its workforce, we are pleased to report that there were no injuries among the Group's employees. Damage was, however, reported to sections of our Sendai Branch Works, which manufactures substrates and assembles units of wireless communications and video systems. The Company was quick to inspect the nature and status of damage, and to undertake reconstruction in an effort to restore all facilities to their original state. During this period, production was relocated to alternative facilities as an emergency temporary measure until operations at our Sendai

Branch Works recommenced in full in May. The remainder of the Group's manufacturing bases suffered minimal damage and in overall terms there was little or no interruption to operations. From a material procurement perspective, we put into practice our Business Continuity Plan (BCP) immediately following the earthquake, taking steps to ascertain the impact of the disaster on suppliers both at the primary and secondary levels. The Group has already secured all necessary components and materials to service its needs for the first half. Moving forward, we will continue to monitor conditions and requirements on a real-time basis.

In addition, the Hitachi Kokusai Electric Group is committed to providing wide-ranging support to the victims directly affected by the earthquake as well as devastated areas. While playing a role in reconstruction efforts, the Group is also providing assistance through charitable contributions and the supply of products.

### **(1) Providing a selection of the Group's products**

Aiming to help provide the means of communication essential to restoration and reconstruction efforts, we are supplying local governments as well as electric power and gas companies reeling from the disaster with wireless radio equipment including walkie-talkies,

batteries and battery chargers; in-house receivers for disaster-prevention administrative wireless systems; systems usable as a means of remote monitoring; and reception antennae necessary for watching TV at evacuation centers and similar facilities.

## (2) Charitable contributions and calling on donations from employees

Hitachi Kokusai Electric contributed ¥10 million toward relief efforts through the Central Community Chest of Japan. In collaboration with the Company's Labor Union, an activity is also underway to collect donations from employees. These efforts have to date raised approximately ¥6 million.

## (3) Implementing restoration work

Drawing from each of the Company's core business segments: Wireless Communications and Information Systems; Broadcasting and Video Systems; and Semiconductor Manufacturing Systems, some 2,000 service engineers across the Group's nationwide network have been dispatched to help restore the systems and production lines of customers in afflicted areas.

In order to adequately address potential interruptions to the Group's operations due mainly to projected electric power shortages during the summer months, the Hitachi Kokusai Electric Group is a willing participant in the government's plans to impose power consumption restrictions in the areas serviced by The Tokyo Electric Power Company, Incorporated and Tohoku Electric Power Co., Inc. Accordingly, we will work diligently to reduce power consumption by 15% compared with last summer's peak levels. These efforts will not be limited to affected areas, but extend across other regions as a measure of our full-scale commitment and cooperation. In our own right, and as a member of the Hitachi Group, our Koganei Works (in Kodaira-shi, Tokyo) and Hamura Works (in Hamura-shi, Tokyo) are planning to adopt a system of working day adjustment including rolling holidays, disperse summer vacation periods and shift working hours, while also implementing power-saving measures for lighting and air-conditioning systems in order to reduce peak power consumption. Despite taking these measures, we still expect to maintain our normal production system levels.

In connection with damage to the Fukushima Daiichi nuclear power station caused by the recent disaster, we would like to point out that there have been no abnormal levels of radioactivity detected in any of the major cities near which the Group's production bases are located. (The Toyama Works, which produces semiconductor production devices, is situated in a remote location more than 300km from the subject nuclear power plant. The Koganei Works, which is the main factory for video and wireless network systems, is also situated in a remote location more than 200km away.) Therefore, stakeholders can rest assured that our Group products are being manufactured in a safe environment and pose no threat whatsoever regarding radioactive contamination. We have also secured safe routes for transporting all products shipped from our Group companies.

## 2. Business performance for the fiscal year ended March 31, 2011 (FY 2010)

In fiscal 2010, the fiscal year ended March 31, 2011, the Hitachi Kokusai Electric Group encountered mixed operating conditions. In Japan, public-sector spending was down as projects were either cutback or delayed. Private-sector demand and capital investment also continued along their downward spiral. Overseas, however, conditions were robust with expenditure by semiconductor manufacturers firm particularly in Asia.

Under these circumstances, the Group continued to implement measures aimed at achieving its newly formulated mid-term managerial plan HK-AV (Hitachi Kokusai Advanced Vision) 10. In addition to undertaking HiKQ (Hitachi Kokusai Electric Quality) Innovation Activities in an effort to nurture a fresh corporate culture, we maintained a focus on rebuilding our profit platform, implementing business structure improvements in order to bolster our financial position and strengthening our business base. Among a host of initiatives, we acquired additional shares of equity-method affiliate KOKUSAI ELECTRIC KOREA CO., LTD. on September 17, 2010. As a result of this initiative both the company and its subsidiary FUSIONAID CO., LTD. were included in the Group's scope of consolidation as subsidiary companies. At the same time, we took significant strides toward integrating our business strategies in the semiconductor

### New Mid-term Managerial Plan "HK-AV 10"

<b>Mission</b>	- To be a social innovator trusted by customers and creating new value in the next era.
<b>Goal</b>	- To become the top global company in video and wireless network system solutions - To become the top global company in eco- and thin film processing solutions
<b>Target</b>	- Fiscal 2014: Moving average (3-year average) Operating income margin of 10%

manufacturing systems field and establishing a structure that is capable of expanding business globally from a base centered in Korea.

On a negative note, several customers requested that deliveries be delayed or construction put aside due to the impact of the Great East Japan Earthquake.

Accounting for each of these factors, orders received for fiscal 2010 climbed ¥20,497 million, or 16.5%, compared with the previous fiscal year to ¥144,730 million. Net sales also increased ¥20,617 million, or 16.9%, year on year to ¥142,706 million. From a profit perspective, the Group successfully secured a return to profitability in the fiscal year under review. After incurring operating and ordinary losses of ¥4,298 million and ¥3,142 million, respectively in fiscal 2009, the Hitachi Kokusai Electric Group reported operating and ordinary income of ¥3,956 million and ¥3,689 million, respectively, in the fiscal year under review. Due mainly to restructuring initiatives aimed at bolstering the Group's profit platform, the implementation of business structure improvements to reinforce our financial position and strengthen our business base as well as extraordinary losses relating to damage resulting from the earthquake, Hitachi Kokusai Electric incurred a consolidated net loss of ¥5,065 million up from ¥1,807 million in the previous fiscal year.

### 3. Prospects and policies for the fiscal year ending March 31, 2012

While there are concerns surrounding several factors including the sharp rise in crude oil prices, the global economy is expected to benefit from economic growth in developing countries and ongoing recoveries in business conditions in Europe and the United States. Turning to the domestic market, however, significant uncertainty surrounds the future of the Japanese economy due to the unresolved effects of the Great East Japan Earthquake.

Under these circumstances, the Group will continue to support reconstruction efforts following the disaster, and guided by its mid-term managerial plan HK-AV 10 formulated in May 2010 strive to expand profits by capturing demand both in and outside Japan. To this end, we reorganized our internal operating structure with a focus on agility and mobility. This initiative embraces the Group's goals of becoming the top global company in both video and wireless network system solutions as well as eco- and thin film processing solutions\*. In specific terms, the Group is promoting several measures in an effort to build and bolster a business structure that is capable

of securing and maintaining market competitive advantage. Details are presented briefly as follows.

\* Please refer to Changes in Business Segments on page 7 for details.

#### (1) Contribute to reconstruction efforts following the earthquake disaster

As a company that strives to support society in the development of essential infrastructure, Hitachi Kokusai Electric will continue to contribute to efforts aimed at realizing the earliest possible reconstruction of devastated areas. In order to fulfill its corporate social responsibilities, the Company will work diligently to upgrade and expand its planning, procurement, manufacturing and service capabilities. We will place considerable emphasis on building an operating platform that is capable of delivering finely tuned and flexible products and services. Striving to provide our customers with all possible assistance we will coordinate information both in and outside the Company.

#### (2) Strengthen marketing

Recognizing the critical need to grasp customer requirements both in an accurate and timely manner, we will strengthen our marketing capabilities to ensure that our customers' thoughts and ideas are reflected in our products and services.

In specific terms, video and wireless network system solutions, sales branches and divisions will be brought under the supervision of the Sales Management Division. In promoting a sales expansion project that is closely linked to the market, every effort will be made to increase direct contact with customers and to maintain close collaboration with the research and development division, and designing division. With an eye to the future, we will promote forward-looking sales and pre-engineering activities while aggressively proposing products and services that match customer needs.

In eco- and thin film processing solutions, we will more actively push forward opportunities that entail alliances with major customers and joint development promotion. At the same time, we will focus on used equipment and service businesses, areas of considerable interest to customers, and promote a total life support business framework.

#### (3) Bolster planning capabilities

In video and wireless network system solutions, the Company will consolidate and reorganize existing engineering and design divisions in an effort to bolster competitive advantage. To this end, we will reinforce our planning capabilities by establishing the Product

Design Management, System Engineering Management and Information Business Management divisions.

The Product Design Management Division will look to hone the Company's core video and wireless technologies while adding higher value to its products. The System Engineering Management Division will pursue video and wireless synergies and promote an advanced one-stop service business. The Information Business Management Division will work closely with the previously mentioned two divisions to strengthen activities in the information technology business.

In its eco- and thin film processing solutions activities, Hitachi Kokusai Electric will continue to cement its presence in next-generation semiconductor production equipment that employ vertical technologies, while boosting development of distinctive single wafer processing equipment. As a part of these endeavors, the Company will actively pursue strategic cooperation and alliances with leading semiconductor manufacturers and suppliers as well as venture companies that possess useful technologies. Through these means, we will take the lead in product development. Moreover, we will ramp up development activities that facilitate entry into such next-generation fields as power devices, LEDs and solar cells by drawing on existing core technologies.

#### **(4) Promote globalization**

Hitachi Kokusai Electric is committed to expanding its global business and will develop sales strategies that incorporate overarching views both by region and new business field. Taking the lead, the Global Business Division will work to enter new markets overseas and expand the Company's share in existing markets.

The Company will place considerable weight on increasing its ratio of overseas sales to total sales in video and wireless network system solutions through a wide range of measures including collaboration and alliances with local companies.

In order to further cement its presence in the global eco- and thin film processing solutions market, the Company will pursue steps to bolster its global transnational business capabilities from manufacturing to service by joining forces with local companies in each region.

Recognizing the need for personnel who are capable of excelling on the world stage as the driving force of its global aspirations, Hitachi Kokusai Electric will proactively strengthen its human resources activities and promote various initiatives in each field.

#### **(5) Reinforce *monozukuri* (creative manufacturing)**

The MONOZUKURI Management Division is charged with the responsibility of promoting operational

reforms that help bolster creative manufacturing and to ensure the consistent creation of high-value-added products that underpin the Company's ability to ensure ongoing development and growth in an intensely competitive market.

The Company will in particular focus on such measures as bolstering project management while promoting engineering and design reform that ensures quality that genuinely reflects the attributes of individual engineering and design divisions after reorganization, streamlining processing systems and securing optimal manufacturing bases that engage in efficient resource consumption. Through these means, every effort will be made to establish a manufacturing structure that is both realistic and efficient from design through to production.

Complementing each of the aforementioned, Hitachi Kokusai Electric has also established the Strategic Planning Management Division. The role of this division is to promote greater efficiencies in the corporate function while bolstering corporate governance. To this end, the Division will develop management strategies that help achieve the objectives of the mid-term managerial plan.

In addition, the Company will further reinvigorate its HiKQ Innovation Activities\* launched during the previous year. Hitachi Kokusai Electric will nurture a corporate culture that positions customer satisfaction at the heart of its business activities.

Looking ahead, the Hitachi Kokusai Electric Group will continue to observe the three basic philosophies of *monozukuri* that contributes to a safe and affluent society; continuous growth by incessant efforts, looking to the future; and fair and transparent corporate behavior, based on the basic and right path stipulated in the Hitachi Kokusai Electric Corporate Credo. As a member of the Hitachi Group, we will work to be a social innovator trusted by customers and creating new value in the next era.

\* "HiKQ (Hitachi Kokusai Electric Quality) Innovation Activities" refers to the effort to further expand the scope of improvement activities and quality enhancement activities, and to realize reforms under the premise of "Customer First" in every facet of our business.



**Manabu Shinomoto**

President and Chief Executive Officer

MARCH 2011

## Release of the ISnex™ Series of Network Surveillance Camera Systems



Hitachi Kokusai Electric released the KP-IP1000HD HDTV network camera a new addition to its ISnex™ series of network surveillance camera systems. Compared with existing products, the new KP-IP1000HD delivers an approximate six-fold increase in the number of pixels from 640x480 to 1920x1080, a 1080 dot point increase, for higher definition, higher image quality. With a rate of 30 frames per second the KP-IP1000HD also offers quality video monitoring.

To date, raising the sensitivity of HDTV and other high-definition-types of cameras has proven difficult. This largely reflected the contraction in pixel size when exposed to light, a determining feature in pickup element sensitivity. The KP-IP1000HD taps into the sensitivity characteristics of pickup elements and in combination with the Company's proprietary device processing technology delivers adaptive noise reduction processing to realize a minimum object luminance of 0.31x resulting in high sensitivity. Based on these attributes, the KP-IP1000HD can be used in a variety of environments both during the day and at night.

Beginning with the KP-IP1000HD, the Company's ISnex™ series of network surveillance camera systems strives to deliver safe and secure social environments, particularly in outdoor areas where demand for security remain high. With a broad and diverse range of applications, the ISnex™ series of network surveillance camera systems can be used for major facilities including plants, railways, airports, marine ports, dams and water treatment stations as well as shops, buildings schools and event halls.

Note: ISnex™ is a registered trademark of Hitachi Kokusai Electric Inc. as well as a brand name.

APRIL 2011

## Sales of Digital Terrestrial Digital Broadcast Reception Antennas Commenced in Brazil



Standing at the forefront of a global market that continues to show signs of growing diversification, the Company's wholly owned subsidiary YAGI ANTENNA INC. commenced sales of terrestrial digital broadcast reception antennas, which are attracting favorable domestic acclaim, in Brazil in April 2011. This initiative is consistent with the company's efforts to expand its high-value-added products business by strengthening core technologies.

In similar fashion to Japan, Brazil decided to adopt the ISDB-T terrestrial digital broadcasting method in June 2006. Digital transmission commenced in certain areas in December 2007, with plans for a complete changeover in 2016. Following in the footsteps of Brazil, several South American countries adopted in succession the Japanese method of terrestrial digital transmission. To date, the number of countries in South America to use the ISDB-T method has risen to nine. Looking ahead, an estimated 330 million people throughout the region will view terrestrial digital broadcasts using the preferred Japanese method. Recognizing that Brazil will host two of the world's major sporting events, the FIFA World Cup in 2014 and the summer Olympics in 2016, both the country and South American region offer considerable promise for terrestrial digital-related market growth.

Taking into consideration YAGI ANTENNA's efforts to develop its business as a member of the Hitachi Kokusai Electric Group in South America, every effort will be made to promote product growth leveraging the Hitachi brand. Japanese-manufactured products are already held in high esteem for their quality and reliability in Brazil. Harnessing the visibility of the Hitachi brand, steps will be taken to release a succession of unique and distinct products. In this manner, the Hitachi Kokusai Electric Group will seek to establish a dominant position in the market.

APRIL 2011

## Hitachi Kokusai Electric Inc. Receives Intel's Prestigious Supplier Continuous Quality Improvement Award

Hitachi Kokusai Electric Inc. has received Intel Corporation's prestigious Supplier Continuous Quality Improvement (SCQI) award recognizing extraordinary commitment to quality and exceptional performance to Intel's goals. This award, given to eight suppliers, is Intel's highest honor for its suppliers acknowledging world-class, outstanding performance.



JUNE 2011

## Ranked among 10 Best for 14 Consecutive Years in VLSI Research's Customer Satisfaction Survey

Hitachi Kokusai Electric Inc. was again ranked among the "10 Best" in an annual customer satisfaction survey on semiconductor-manufacturing systems as conducted by VLSI Research Inc. a market research company based in California, USA.

This marks the 14th consecutive year that our company has been ranked among the "10 Best."

To achieve even better customer satisfaction, we will continue to improve product quality and enhance our service.

Given our constantly high goals, we will continue tackling challenges and going forward as a corporation that provides optimal solutions.



## Notice Concerning Changes in Business Segment

The Hitachi Kokusai Electric Group has decided to reorganize its business segments effective from April 1, 2011. Brief details are presented as follows.

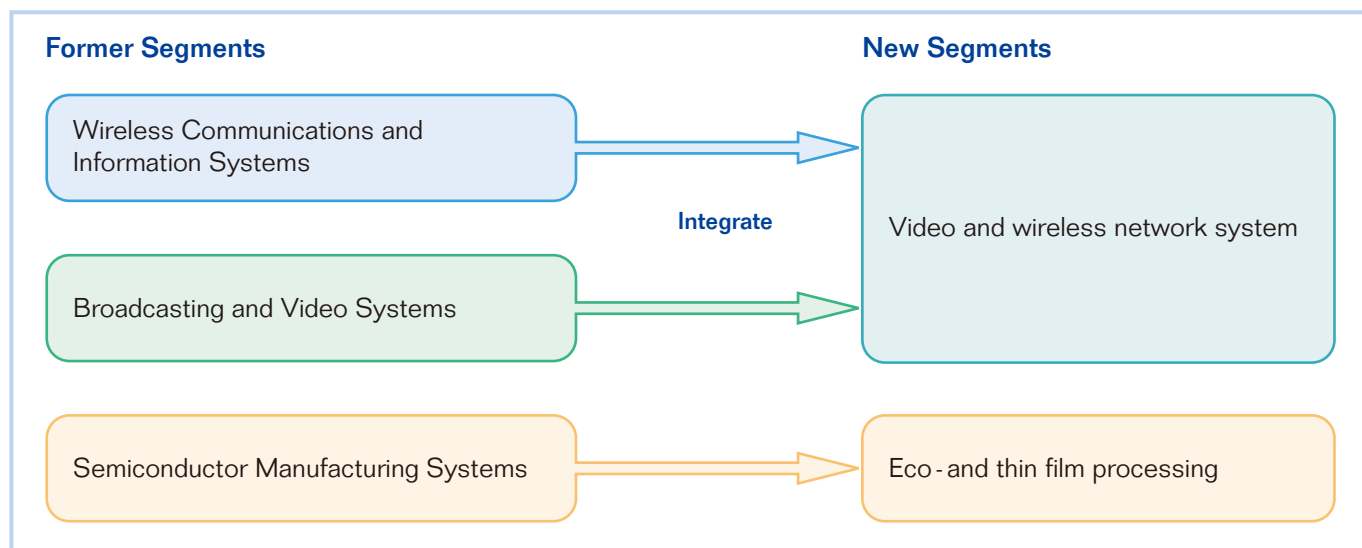
### 1. Rationale

Effective from April 1, 2011, the Hitachi Kokusai Electric Group has decided to reorganize its internal structure with the aim of better becoming a social innovator trusted by customers and creating new value in the next era, the principal mission outlined under its HK-AV10 mid-term managerial plan.

Consistent with this reorganization, Hitachi Kokusai Electric has also decided to reorganize its business segments.

### 2. Overview of New Business Segments

The Company has to date operated under three core business segments: Wireless Communications and Information Systems; Broadcasting and Video Systems; and, Semiconductor Manufacturing Systems. Effective from April 1, 2011, the Wireless Communications and Information Systems and Broadcasting and Video Systems segments have been integrated to form the Video and Wireless Network Systems segment. In addition, while carrying on its existing operations and duties, the Semiconductor Manufacturing Systems segment will enter in earnest the energy conservation (ecology) field of semiconductor thermal processing technologies as a part of efforts to engage in next-generation product activities. In order to better reflect the nature of its business, this segment has been renamed the Eco- and Thin Film Processing segment.



# Hitachi Kokusai Electric at a Glance

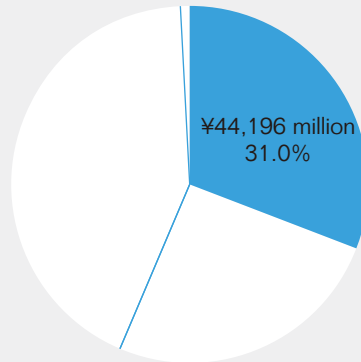
Hitachi Kokusai Electric Inc. and Consolidated Subsidiaries

Years ended March 31, 2011

## Wireless Communications and Information Systems

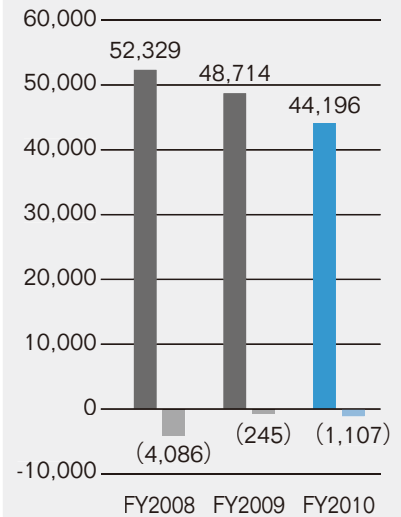


Share of net sales

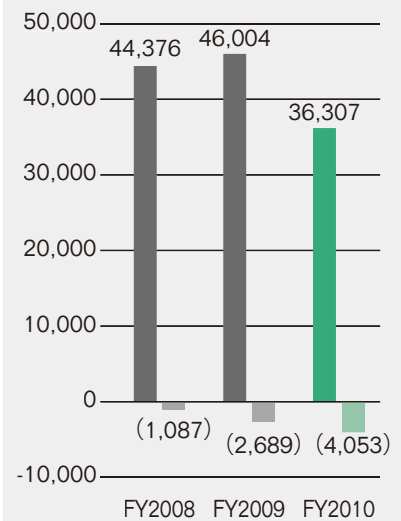
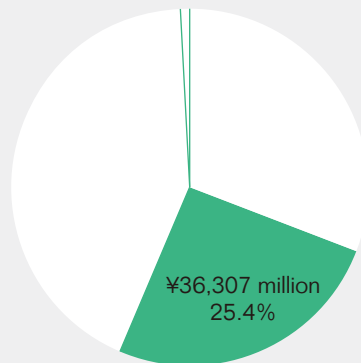


Net sales and operating income

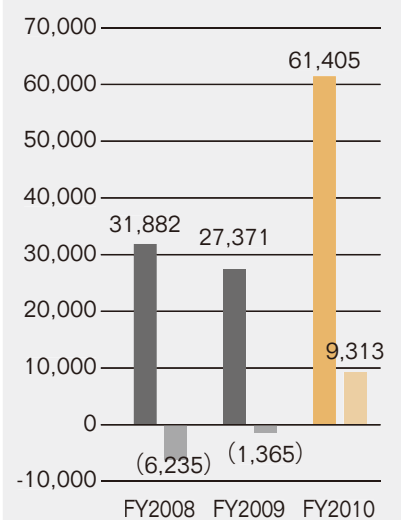
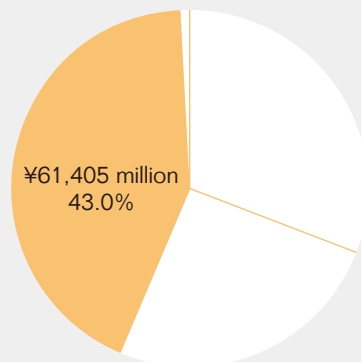
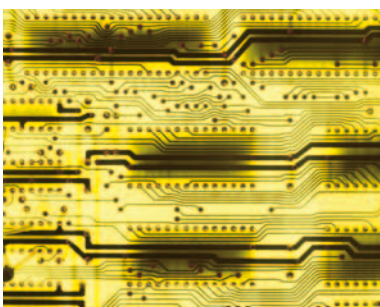
Net sales Operating income



## Broadcasting and Video Systems



## Semiconductor Manufacturing Systems



Note: In addition to the above three segments, other and adjustments and eliminations are also presented in the above graph. Data for fiscal 2008 and fiscal 2009 is classified according to industry segment while data for fiscal 2010 is classified according to reportable segment.

## Product Line

Station Equipment for Cellular Telephones, Wireless Broad-band Systems, Radio Equipment for Packet Communication Systems, On-premises Digital Wireless Communication Systems, Aircraft Communication Systems, Digital Wireless Systems for Public Business, Train Communication Systems, Stock Price Display Systems, Assorted Display Boards and Display Devices, Multimedia Information Display Systems



## Performance Highlights

In public telecommunication systems, the Company has continued to successfully boost its market share in disaster-preventive administration radio systems. Public sector demand, however, has declined due mainly to contraction in the scale of projects as well as delays in project planning amid an increasingly price competitive environment. In mobile communication systems, demand has also contracted reflecting completion of a round of large-scale facility investment. Moreover, performance has been affected by requests from customers to postpone deliveries in the wake of the recent earthquake disaster. Taking each of the aforementioned factors into consideration, orders received in fiscal 2010 fell ¥7,530 million, or 15.3%, compared with the previous fiscal year to ¥41,594 million. Net sales in this segment totaled ¥44,196 million, a drop of ¥5,905 million, or 11.8%, year on year. On the earnings front, the Company incurred an operating loss of ¥1,107 million in this segment compared with the operating loss of ¥513 million in the previous fiscal year. This was largely attributable to the decrease in net sales.

Digital Microwave Relay Equipment, FPU and Portable Tracking Receivers, Digital Relay Transmitters, Digital TV Cameras, Non-linear Digital Video Editing Systems/Transmission Systems, Wide Area Monitoring Systems (for Roads, Rivers and Railroad Networks), Security Surveillance System, Monitoring Systems for Plant (Environment, Electric power, Chemistry and Steel), LCD Automatic Line Width Measuring Equipment



In broadcasting systems operations, the Company successfully secured new orders for tape-less systems. Moving steadily toward the complete shift to terrestrial digital broadcasting, demand for antennas was also robust. Entering the final phase of changeover, however, new capital investment witnessed a sharp decline. Turning to video systems, orders were strong for high pixel cameras. Despite this favorable climate, results were down in overall terms. This was mainly attributable to the freeze on public-sector projects and a persistent decline in private-sector demand for equipment renewal. Buffeted by the recent earthquake disaster, customer calls for delays in delivery reached peak levels. Construction in disaster areas was also largely put on hold. Taking into account the aforementioned factors, orders received in the broadcasting and video systems segment decreased ¥7,120 million, or 17.0%, compared with the previous fiscal year to ¥34,683 million. Net sales declined ¥8,395 million, or 18.8%, year on year to ¥36,307 million. Due mainly to the drop in net sales, the Company incurred an operating loss of ¥4,053 million in the fiscal year under review. This was up from the operating loss of ¥2,938 million recorded in fiscal 2009.

Batch Thermal Process System, Batch High Temperature Anneal Processing System, Batch SiGe/Si Epitaxial Growth System, Batch Thermal Process System for 200mm Wafers, Silicon Epitaxial Growth System, Single Wafer Plasma Nitridation / Oxidation System, Single Wafer Plasma Dry Strip System.



Despite requests for delays in delivery due largely to the recent earthquake disaster, results in semiconductor manufacturing systems were bolstered by firm capital investment by semiconductor manufacturers in Asia and particularly Korea and Taiwan. This positive trend was complemented by successful efforts to capture demand through the release of high-value-added products. As a result, order received in the semiconductor manufacturing systems segment surged ¥34,934 million, or 106.9%, compared with the previous fiscal year to ¥67,625 million. Net sales in this segment amounted to ¥61,405 million, a substantial jump of ¥34,740 million, or 130.3%, year on year. From a profit perspective, operating income totaled ¥9,313 million compared with the operating loss of ¥1,436 million in fiscal 2009 owing primarily to the sharp upswing in net sales.

# CSR Management

## 1. Hitachi Kokusai Electric's CSR Policy

Hitachi Kokusai Electric recognizes that its corporate social responsibility (CSR) is to garner both trust and confidence while fulfilling the expectations of society through its everyday business activities.

On this basis, the Company has formulated the "Hitachi Kokusai Electric Corporate Credo," which services as the Group's basic corporate philosophy as well as its CSR policy.

## 2. CSR Policy of the Hitachi Group

The CSR Policy of the Hitachi Group underpins and guides both the CSR policy and specific CSR activities of Hitachi Kokusai Electric and its group companies. With this as its overarching standard, the Group undertakes a process of self-assessment and strives diligently to implement improvement measures and initiatives.

### (1) Commitment to Corporate Social Responsibility

The Hitachi Group, including all its executives and employees, recognizes CSR as a vital part of corporate activity and is therefore committed to a course of social responsibility in accordance with this CSR policy for the sustainable development of society and business.

### (2) Contribution to Society through Our Business

The Hitachi Group will contribute to the building of a prosperous and vibrant society by providing safe, high-quality products and services through business activities based on its excellent research, technology and product development.

### (3) Disclosure of Information and Stakeholder Engagement

The Hitachi Group will disclose information openly and transparently in order to maintain and develop a relationship of trust with its various stakeholders, and act responsibly towards them through various means of communication.

### (4) Corporate Ethics and Human Rights

The Hitachi Group will undertake its business based on the principles of fairness and sincerity, act with the utmost respect for human rights and pursue a high sense of corporate ethics in the global business market which encompasses diverse cultures, morals, ethics, and legal systems.

### (5) Environmental Conservation

The Hitachi Group will strive to minimize environmental effects and utilize resources towards the development of a sustainable society that is in harmony with the environment.

### (6) Corporate Citizenship Activities

The Hitachi Group will promote social contribution activities as a good corporate citizen in order to realize a better society.

### (7) Working Environment

The Hitachi Group will make every effort to create a pleasant and motivating working environment for all its employees and to fully support those employees who desire self-fulfillment and self-development through their work.

### (8) Responsible Partnership with Business Partners

The Hitachi Group will make every effort to promote fair and sound business practices among our business partners by fostering a common awareness of social responsibility.

## Corporate Credo

Hitachi Kokusai Electric, which respects human rights, observes the spirit as well as the letter of national and international laws and regulations, hereby adopts this Corporate Credo with a view to achieving continued growth and development while contributing to the creation of a sustainable society.

## Fundamental Philosophy

1. Manufacture products that contribute to a safe and affluent society.
2. Looking to the future, never stop working for continuous improvement.
3. Observe fundamentals, do things the right way, and be fair and transparent in all aspects of corporate conduct.

## Guidelines and Commitments

In accordance with the Fundamental Philosophy, Hitachi Kokusai Electric commits to the dissemination of this Corporate Credo with the following Guidelines and Commitments and to the maintenance of the related internal system.

1. Obtain customers' trust and confidence by developing and providing products and services in which the emphasis is on safety, quality and environmental soundness.
2. Engage in fair and transparent competition and business activities, comply with laws and be ethical in one's corporate conduct.
3. Respect the diversity, character and individuality of all employees and provide a mentally and physically rewarding workplace environment.
4. Provide shareholders and other stakeholders with full and fair disclosure of corporate information.
5. Take a proactive, independent approach to protecting the global environment and improving local living environments.
6. As a good corporate citizen, engage proactively in philanthropic activities and other activities that benefit society.
7. Respect international rules and local laws, cultures, practices and customs and always strive to contribute to local progress and development.
8. Respect the value of other companies' business and technology information as well as our own, and implement proper controls regarding such information.
9. Comply with trade-related laws and regulations in order to contribute to the maintenance of international peace and security.
10. Should a situation arise that runs counter to this Corporate Credo, managers shall endeavor to resolve the matter, establish the cause and take steps to prevent a reoccurrence. They will also endeavor to provide a prompt and accurate disclosure and explanation of the facts of the matter, clarify where the responsibility lies and deal strictly with those concerned, including with respect to their own activities.

# Eco Management (promoting environmental management)

## 1. Hitachi Kokusai Electric Action Guidelines for Environmental Conservation

We work to cultivate an environmental mind establishing an environmental management system as a pillar for it, according to Hitachi Kokusai Electric's Corporate Credo and Environmental Conservation Action Guidelines.

In order to realize an environmentally harmonious and sustainable society through products and services, Hitachi Kokusai Electric is committed to meeting its social responsibilities by promoting globally-applicable *Monozukuri* ("designing, manufacturing or repairing products"), which is aimed at reducing the environmental burdens of products throughout their entire life cycles, ensuring environmental conservation.

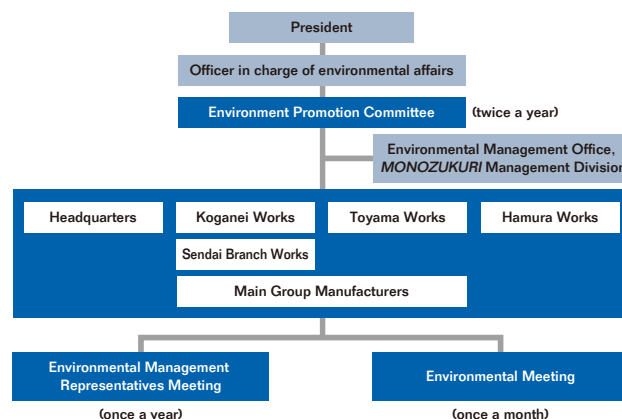
"Purpose of Hitachi Kokusai Electric Action Guidelines for Environmental Conservation"

## 2. Environmental Management System

With the president at the top, the "Environment Promotion Committee" including the environmental affairs officers of Group manufacturers deliberates, determines, and implements

a medium-term environmental action plan, yearly targets, and important challenges for the entire Group.

The Environmental Management Office of the CSR Promotion Division helps promote the implementation and performs follow-ups on the progress at the Environmental Management Representatives Meeting."



## Targets and Results of Environmental Activities in Fiscal 2010

	Main item	Fiscal 2010 targets	Fiscal 2010 results	Evaluation
<b>Eco-management</b>	Constructing and developing the environmental management	Renewing certification for the integrated environmental management system	Renewing certification for the integrated environmental management system	
	Encouraging colleagues to take environmental e-learning	90% attendance	96% attendance	
	Promoting the purchase of eco-friendly office supplies and other products	Green procurement ratio: 90%	Green procurement ratio: 94%	
<b>Eco-products</b>	Promoting eco-friendly products	Sales of eco-friendly products: 57%	Sales of eco-friendly products: 62%	
	Higher product environmental efficiency	Registration ratio of super eco-friendly products: 15%	Registration ratio of super eco-friendly products: 36%	
<b>Eco-factories</b>	Prevention of global warming	35% reduction in basic unit of CO <sub>2</sub> emissions in actual production (from level in fiscal 1990)	45% reduction in basic unit of CO <sub>2</sub> emissions in actual production (from level in fiscal 1990)	
		11% reduction in actual production transportation energy unit requirement (from level in fiscal 2006)	25% reduction in actual production transportation energy unit requirement (from level in fiscal 2006)	
	Waste reduction	90% reduction in final disposal (from level in 1998)	99% reduction in final disposal (from level in 1998)	
		Final disposal rate: 1% or less	Final disposal rate: 0.5%	
	Chemical substances management	40% reduction in release of "reducible substances" (from level in fiscal 2000)	57% reduction in release of "reducible substances" (from level in fiscal 2000)	

Evaluation standard: achieved 100% achieved 80% or more achieved less than 80%

# Corporate Governance

## Basic Structure

Hitachi Kokusai Electric has adopted the company with committees system as a part of efforts to ensure timely decision making as well as transparent management. The Company places every emphasis on securing the adequacy, relevance and efficacy of its operations as the means to promote management reform. To this end, Hitachi Kokusai Electric maintains a Board of Directors, half of whose members are external appointments. The Board of Directors determines the Company's basic management policies and delegates decision-making authority to Executive Officers. Working in unison with each committee, the Board of Directors serves as Hitachi Kokusai Electric's principal oversight authority, supervising executive officers in the execution of their duties. Within this framework, outside directors remain independent from the Company, actively providing their objective and unbiased opinions. In this regard, outside directors fulfill an important role and function in further enhancing the transparency and soundness of Hitachi Kokusai Electric's management.

An overview of the current status of the Company's corporate governance structure and systems is provided briefly as follows.

### (1) The execution of business activities and duties

Within the scope of statutory and regulatory requirements, considerable authority is delegated to Executive Officers with respect to important matters as they relate to the Company's business operations in an effort to accelerate the decision-making process. While individual Executive Officers are provided with decision-making authority for their particular areas of responsibility, in accordance with the segregation of duties determined by the Board of Directors, Executive Officers' Meeting, comprising all Executive Officers are held to deliberate on matters of major importance. The Executive Officers' Meeting is designed to facilitate discussion that incorporates wide-ranging and diverse input and opinions prior to a decision being made.

The type and details of all other matters for determination by Executive Officers are defined in the Company's internal rules and regulations. All necessary procedures are taken as and when required in accordance with these internal rules and regulations.

### (2) The monitoring and audit functions

In collaboration with such internal organizations as the Nomination, Audit and Compensation committees, the Board of Directors monitors the overall manage-

ment of the Company including the execution of duties.

In addition, the activities of the Board of Directors and each committee are supported by their own departments. A designated specialist department has been established particularly for the Audit Committee to ensure that audits are conducted in an appropriate and effective manner. Employees within this department are not subject to the directions and instructions of Executive Officers.

#### a. The Board of Directors

The Board of Directors monitors the overall management of the Company. Accordingly, the Board of Directors receives reports from the Nomination, Audit and Compensation committees in connection with the status of each committee's activities. At the same time, the Board of Directors receives reports directly from each Executive Officer outlining details of the execution of Executive Officer duties.

#### b. The Nomination Committee

The Nomination Committee selects and determines candidates for the position of Director, who are then proposed at the Company's shareholders' meetings for approval. In order to ensure the highest quality management, the Nomination Committee selects Director candidates from both inside and outside the Company based on a comprehensive criteria than encompasses personality, experience, knowledge, ability and numerous other factors.

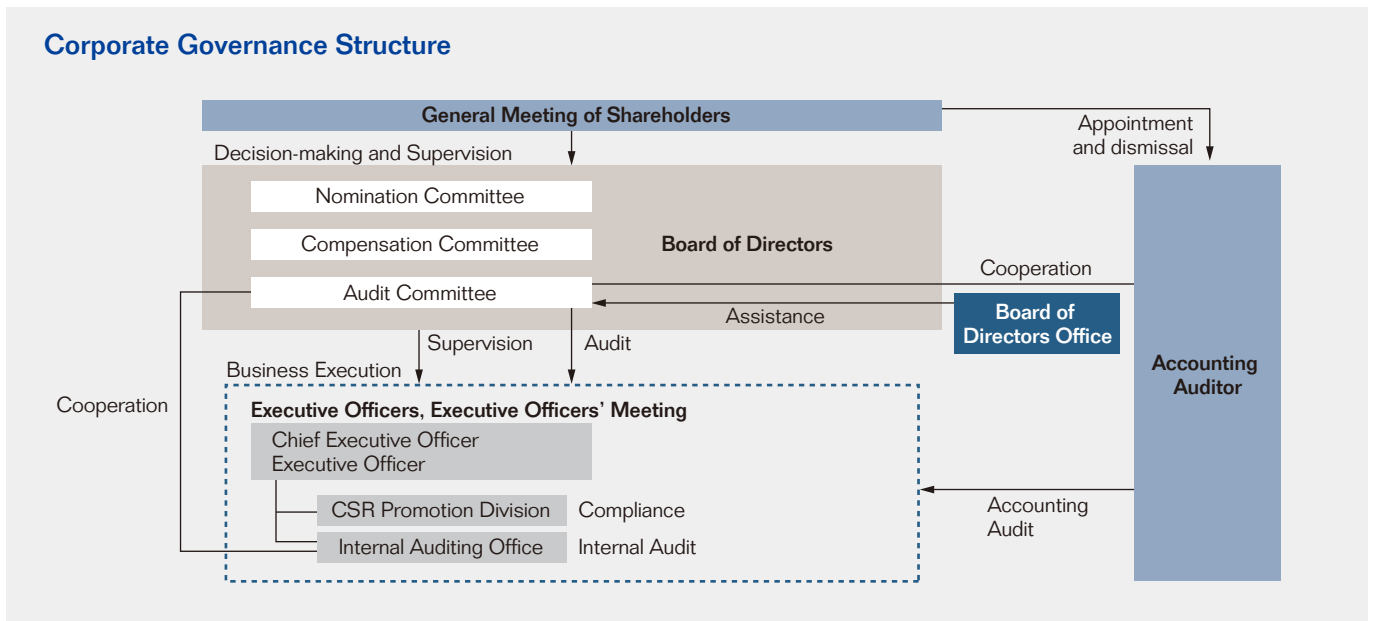
#### c. The Audit Committee

In addition to determining the Company's audit policies and plans, the Audit Committee engages in follow up activities to ensure that designated employees conducting each audit do so in accordance with subject audit policies and plans. Complementing these initiatives aimed at securing the efficacy of each audit, the Audit Committee also promotes and monitors the sharing of information and other collaborative measures among the Internal Audit Department, Independent Auditors and corporate auditors of Group subsidiaries.

#### d. The Compensation Committee

The Compensation Committee formulates the basic policy for determining the compensation be paid to the Company's Directors and Executive Officers. At the same time, the Compensation Committee evaluates the performance of each

## Corporate Governance Structure



Director and Executive Officer and determines the evaluation amount.

## Internal Control / Risk Management

The Company designates Executive Officers, formulates internal rules and regulations as well as management and operating standards and implements internal audits on a regular basis with respect to all risks associated with the management and control of the Company's business activities including compliance, information security, the environment, disaster, quality assurance and exports. Drawing on deliberations undertaken at and reports tabled to Executive Officer and other meetings, Executive Officers work diligently to identify potential additional new risks and to formulate preventive measures.

In connection with its internal reporting systems, the Company has adopted a structure that is supported by legal counsel. Every effort is also made to secure the widest possible coverage, with internal reporting systems extending across the Company's full- and part-time employees as well as the employees of Group companies and business partners. Through these means, Hitachi Kokusai Electric is endeavoring to ensure an open and fair internal reporting system.

The Hitachi Kokusai Group places particular emphasis on its R&D activities, providing products across such wide-ranging fields as communication/information, broadcasting/video and semiconductor manufacturing, which form the very basis of a ubiquitous society. In this manner, the Group is actively contributing to a safe and prosperous society.

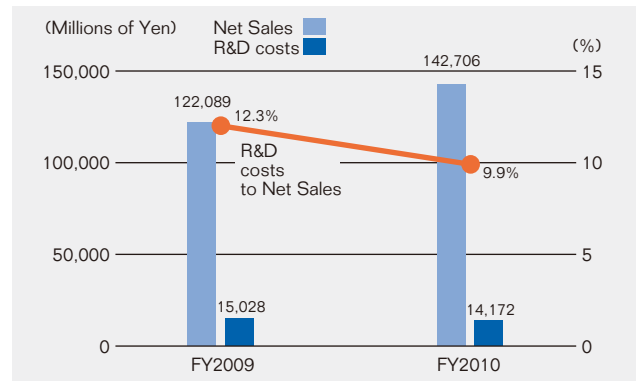
Our R&D activities are conducted across three broad phases. The first phase entails the development of new products and technologies in which individual business divisions and Group companies are involved. The second phase encompasses the development of next-generation products and technologies undertaken by the Information & Communication Systems Research Laboratory and the Semiconductor Equipment System Laboratory. Finally, the third phase covers the development of next, next-generation application products compatible with state-of-the-art technology, which is conducted in collaboration with such external organizations as the research institutes of Hitachi, Ltd. and universities. As we engage in this three-phase R&D with a vision that traverses the present though to the future, we anticipate achieving sustainable growth. In the fiscal year under review, the Hitachi Kokusai Group undertook R&D expenditures of ¥14,172 million. This figure accounts for 9.9% of the Group's total sales.

The basic technologies possessed by the Group are in the areas of wireless communication, video/image processing and thermal processing for semiconductor devices. We have provided cutting-edge products to customers, taking full advantage of technologies in each area. Looking ahead, we will continue to deliver new products that address market needs amid expanding trends in digitization, the fusion of communication and broadcasting, higher quality and the miniaturization of semiconductor devices.

The following is a select list of research and development activities conducted in each business segment.

### Wireless Communications and Information Systems

In order to enhance the rate of transmission of portable terminals, we developed an optical transmission device for installation in the interior of roofs that is compatible with multiple-input multiple-output (MIMO) technology. In addition, we also developed a new 26GHz compatible product in the high-speed wireless repeater "SINELINK" series. In our disaster-preventive administration wireless systems operations, we were successful in expanding our product and service lineups. In addition to digital wireless equipment aligned in accordance with standard specifications issued by the Fire and Disaster Management Agency for use by nationwide fire-fighting stations moving steadily toward digitization, we came up with infrastructure software for digital disaster-preventive administrative systems for municipalities. R&D expenditure pertaining to this business totaled ¥5,266 million.



### Broadcasting and Video Systems

In the broadcasting areas, we developed image information integration control software and installed large-scale tapeless systems in response to the digitization of image information and the trend toward tapeless processing at broadcasting stations. Moreover, we developed a high definition, low power studio camera for the overseas broadcasting market. In the area of monitoring systems, we came out with several new offerings including a high-definition network camera for the network monitoring market, an ultra-sensitive, high-magnification housing camera for the U.S. Border Patrol, a high-definition CCD camera for industrial use and a high-pixel, high speed CMOS camera. R&D expenditure relating to this business amounted to ¥3,153 million.

### Semiconductor Manufacturing Systems

In the semiconductor industry, the development of 10-nanometer processes is progressing in earnest with application in new structures and materials. As a result, the ability to accommodate conventional technologies is becoming increasingly difficult. In this context, there are indications of three directions of development namely "More Moore," "More than Moore" and "Beyond CMOS." In addition, in the MPU, memory and foundry fields, the trend toward increasingly large production bases as a result of oligopolies is becoming more prevalent, placing greater pressure on the need for higher productivity. In specific terms, and with respect to the development of new high-performance, high-productivity type "QUIXACE" series vertical diffusion, coating equipment, steps have been taken to progress expansion of next-generation low temperature, new multi-element Lower-K membranes and 3D device compatible applications, boost the lineup of high productivity single wafer processing equipment utilizing proprietary low-temperature heating technologies, and develop new environment areas and next-generation power devices through the application of LSI semiconductor manufacturing equipment technologies. R&D expenditure in this business was ¥5,752 million.

# Financial Review

## Financial Review

Details of the Group's operating environment and its activities throughout fiscal 2010, ended March 31, 2011 as well as the impact of the Great East Japan Earthquake are presented in president's message.

In the fiscal year under review, the Hitachi Kokusai Electric Group reported consolidated net sales of ¥142,706 million (US\$1,716,248 thousand), up ¥20,617 million, or 16.9%, compared with the previous fiscal year. At an operating level, the Group returned to the black posting operating income of ¥3,956 million (US\$47,577 thousand), compared with an operating loss of ¥4,299 million in fiscal 2009. Accounting for business structure improvement expenses directed toward rebuilding the Company's earnings structure and restoring the soundness of its financial position as well as the posting of extraordinary losses for damages incurred as a result of the earthquake and other factors, the Group reported a net loss of ¥5,065 million (US\$60,914 million), up from the net loss of ¥1,808 million in the previous fiscal year.

Please refer to "Performance Highlights" on page 9 for details regarding operating results by business segment.

## Financial Position

Total assets as of March 31, 2011 stood at ¥149,784 million (US\$1,801,371 thousand), an increase of ¥718 million compared with the end of the previous fiscal year. Current assets climbed ¥4,310 million year on year to ¥121,411 million (US\$1,460,144 thousand). This upswing was mainly attributable to the increase mainly in inventories (merchandise and finished goods, work in process and raw materials and supplies), which grew ¥5,976 million. Total non-current assets contracted ¥3,592 million compared with the previous fiscal year-end to ¥28,373 million (US\$341,227 thousand). This was attributable to the impairment loss of ¥3,279 million largely reflecting efforts to improve the Company's business structure.

Total liabilities stood at ¥76,081 million (US\$915,985 thousand) as of March 31, 2011. This

represented an increase of ¥5,216 million compared with the end of the previous fiscal year.

Total net assets came in at ¥73,703 million (US\$886,386 thousand) as of March 31, 2011, ¥4,498 million lower than a year earlier.

## Cash Flows

Cash and cash equivalents stood at ¥44,629 million (US\$536,729 thousand) as of March 31, 2011, a decrease of ¥1,030 million compared with the end of the previous fiscal year. The major movements in each activity for the fiscal year ended March 31, 2011 were as follows.

### (Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥3,655 million, down ¥7,783 million, or 68%, compared with the previous fiscal year. This largely reflected major cash inflows, which included depreciation and amortization, a non-cash item, of ¥4,244 million and business structure improvement expenses of ¥5,234 million, which was comprised of the non-cash impairment loss item of ¥3,279 million, loss on valuation of inventories totaling ¥595 million and special retirement payments of ¥1,360 million projected for payment from the next fiscal year, which exceeded the principal cash outflow of increase in inventories, which amounted to ¥5,347 million.

### (Cash Flows from Investing Activities)

Net cash used in investing activities came to ¥2,468 million. This represented a ¥1,855 million, 303.3%, increase compared with the previous fiscal year. The principal movements and cash outflows were purchase of property, plant and equipment totaling ¥1,707 million and purchase of investments in subsidiaries resulting in a change in the scope of consolidation of ¥522 million.

### (Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,892 million, up ¥516 million, or 37.5%, compared with the previous fiscal year. The main component was dividends paid amounting to ¥1,266 million.

# Consolidated Balance Sheets

Hitachi Kokusai Electric Inc. and Consolidated Subsidiaries

March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and time deposits (Note 3).....	¥ 10,775	¥ 17,668	\$ 129,585
Deposits with Hitachi, Ltd. (Notes 3 and 16) .....	34,140	28,102	410,583
Receivables:			
Trade notes .....	1,819	1,886	21,876
Trade accounts .....	38,105	36,905	458,268
Unconsolidated subsidiaries and affiliated companies .....	120	2,095	1,443
Other .....	1,397	256	16,801
Allowance for doubtful receivables .....	(132)	(160)	(1,587)
Inventories (Notes 5).....	30,042	24,066	361,299
Deferred tax assets (Note 9) .....	4,324	4,240	52,002
Prepaid expenses and other current assets .....	821	2,043	9,874
Total current assets .....	<u>121,411</u>	<u>117,101</u>	<u>1,460,144</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land.....	6,182	5,507	74,348
Buildings and structures .....	41,756	43,321	502,177
Machinery and equipment.....	16,975	16,567	204,149
Furniture and fixtures.....	22,304	23,433	268,238
Construction in progress .....	344	317	4,137
Total .....	<u>87,561</u>	<u>89,145</u>	<u>1,053,049</u>
Accumulated depreciation.....	<u>(66,562)</u>	<u>(66,037)</u>	<u>(800,505)</u>
Net property, plant and equipment .....	<u>20,999</u>	<u>23,108</u>	<u>252,544</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Goodwill (Note 18) .....	1,075	—	12,928
Investment securities (Note 4).....	1,725	1,926	20,746
Investments in unconsolidated subsidiaries and affiliated companies .....	52	1,386	625
Long-term loans receivable .....	56	45	673
Deferred tax assets (Note 9) .....	1,366	2,372	16,428
Claims provable in bankruptcy, claims provable in rehabilitation and other .....	367	540	4,414
Allowance for doubtful receivables .....	(471)	(655)	(5,664)
Other assets .....	3,204	3,243	38,533
Total investments and other assets .....	<u>7,374</u>	<u>8,857</u>	<u>88,683</u>
<b>TOTAL</b> .....	<u>¥149,784</u>	<u>¥149,066</u>	<u>\$1,801,371</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 6) .....	¥ 815	¥ 1,417	\$ 9,802
Payables (Note 16):			
Trade notes .....	548	697	6,590
Trade accounts .....	28,124	26,717	338,232
Unconsolidated subsidiaries and affiliated companies .....	141	141	1,696
Other .....	3,627	1,415	43,620
Income taxes payable .....	925	545	11,124
Accrued expenses .....	10,614	9,008	127,649
Provision for product warranties .....	1,936	626	23,283
Provision for loss on construction contracts .....	351	467	4,221
Other current liabilities .....	3,842	3,306	46,206
Total current liabilities .....	<u>50,923</u>	<u>44,339</u>	<u>612,423</u>
<b>LONG-TERM LIABILITIES:</b>			
Liability for retirement benefits (Note 7):			
Employees .....	20,061	25,884	241,263
Directors and executive officers .....	310	318	3,728
Long-term liability payable .....	32	—	385
Asset retirement obligations .....	137	—	1,648
Other long-term liabilities (Note 9) .....	4,618	324	55,538
Total long-term liabilities .....	<u>25,158</u>	<u>26,526</u>	<u>302,562</u>
<b>NET ASSETS</b> (Notes 8 and 15):			
Common stock—authorized, 400,000,000 shares; issued, 105,221,259 shares in 2011 and 2010 .....	10,058	10,058	120,962
Capital surplus .....	26,204	26,204	315,141
Retained earnings .....	39,124	45,546	470,523
Treasury stock—at cost, 2,393,583 shares in 2011 and 2,364,108 shares in 2010 .....	(2,595)	(2,573)	(31,209)
Total shareholders' equity .....	<u>72,791</u>	<u>79,235</u>	<u>875,417</u>
Unrealized gain on available-for-sale securities .....	150	274	1,804
Foreign currency translation adjustments .....	(1,979)	(1,366)	(23,800)
Total accumulated other comprehensive income .....	<u>(1,829)</u>	<u>(1,092)</u>	<u>(21,996)</u>
Minority interests .....	2,741	58	32,965
Total net assets .....	<u>73,703</u>	<u>78,201</u>	<u>886,386</u>
<b>TOTAL</b> .....	<u>¥149,784</u>	<u>¥149,066</u>	<u>\$1,801,371</u>

# Consolidated Statements of Operations

Hitachi Kokusai Electric Inc. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>NET SALES</b> .....	<b>¥142,706</b>	¥122,089	<b>\$1,716,248</b>
<b>COST OF SALES</b> (Note 11) .....	<b>108,410</b>	98,772	<b>1,303,788</b>
Gross profit .....	<b>34,296</b>	23,317	<b>412,460</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 11) .....	<b>30,340</b>	27,616	<b>364,883</b>
Operating income (loss) .....	<b>3,956</b>	(4,299)	<b>47,577</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest income .....	116	150	1,395
Dividend income.....	114	153	1,371
Interest expense .....	(18)	(17)	(216)
Equity in earnings of affiliated company .....	156	135	1,876
Foreign exchange gain (loss) .....	(108)	104	(1,299)
Loss on disposals of property, plant and equipment .....	(77)	(92)	(926)
Gain on sales of securities .....	—	437	—
Rent income .....	99	—	1,191
Loss from revaluation of securities .....	(27)	(24)	(325)
Reversal of allowance for doubtful accounts .....	142	254	1,708
Maintenance cost for idle assets .....	(141)	(129)	(1,696)
Subsidy income .....	3	216	36
Compensation expenses .....	(567)	(119)	(6,819)
Gain on step acquisitions .....	451	—	5,424
Business structure improvement expenses (Note 19) .....	(5,234)	—	(62,946)
Loss on transfer to defined contribution pension plan .....	(1,051)	—	(12,640)
Loss on disaster.....	(307)	—	(3,692)
Loss on adjustment for changes of accounting standard for asset retirement obligations .....	(96)	—	(1,155)
Other—net .....	41	88	493
Other income (expenses)—net .....	<b>(6,504)</b>	1,156	<b>(78,220)</b>
<b>LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS</b> .....	<b>(2,548)</b>	(3,143)	<b>(30,643)</b>
<b>INCOME TAXES</b> (Note 9):			
Current .....	1,432	611	17,222
Deferred .....	800	(1,910)	9,621
Total income taxes .....	<b>2,232</b>	(1,299)	<b>26,843</b>
Loss before minority interests .....	<b>(4,780)</b>	—	<b>(57,486)</b>
<b>MINORITY INTERESTS</b> .....	<b>285</b>	(36)	<b>3,428</b>
<b>NET LOSS</b> .....	<b>¥ (5,065)</b>	¥ (1,808)	<b>\$ (60,914)</b>
			U.S. Dollars (Note 1)
	2011	2010	2011
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.r. and 15):			
Net loss .....	<b>¥(49.25)</b>	¥(17.57)	<b>\$ (0.59)</b>
Cash dividends applicable to the year.....	<b>12.00</b>	10.00	<b>0.14</b>

Diluted net income per share is not disclosed because it is anti-dilutive the years ended March 31, 2011 and 2010  
See accompanying notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income (Loss)

Year Ended March 31, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	<b>2011</b>	<b>2011</b>
<b>LOSS BEFORE MINORITY INTERESTS</b> .....	<b>¥(4,780)</b>	<b>\$(57,486)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gain on available-for-sale securities .....	(123)	(1,480)
Foreign currency translation adjustment .....	(496)	(5,965)
Share of other comprehensive income of associates accounted for using equity method .....	(119)	(1,431)
Total other comprehensive loss .....	(738)	(8,876)
<b>COMPREHENSIVE LOSS</b> .....	<b>¥(5,518)</b>	<b>\$(66,362)</b>
<b>(break down)</b>		
Comprehensive loss attributable to owners of the parent .....	(5,813)	(69,910)
Comprehensive income attributable to minority interests.....	295	3,548

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Hitachi Kokusai Electric Inc. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Thousands		Millions of Yen								
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total shareholders' equity	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Total accumulated other comprehensive income	Minority Interests	Total Net Assets
<b>BALANCE, MARCH 31, 2009</b> .....	105,221	¥10,058	¥26,204	¥48,427	¥(2,554)	¥82,135	¥330	¥(1,258)	¥ (928)	¥ 110	¥81,317
Disposal of treasury stock (428 shares).....			(0)		0	0					0
Net loss .....				(1,808)		(1,808)					(1,808)
Cash dividends, ¥13 per share.....				(1,337)		(1,337)					(1,337)
Purchase of treasury stock (27,397 shares) ...					(19)	(19)					(19)
Change in scope of consolidation .....				264		264					264
Net changes in items other than those in shareholders' equity .....							(56)	(108)	(164)	(52)	(216)
<b>BALANCE, MARCH 31, 2010</b> .....	105,221	¥10,058	¥26,204	¥45,546	¥(2,573)	¥79,235	¥274	¥(1,366)	¥(1,092)	¥ 58	¥78,201
Disposal of treasury stock (360 shares) ...			(0)			(0)					(0)
Net loss .....				(5,065)		(5,065)					(5,065)
Cash dividends, ¥12 per share.....				(1,234)		(1,234)					(1,234)
Purchase of treasury stock (29,835 shares)					(22)	(22)					(22)
Change in scope of consolidation .....				(123)		(123)					(123)
Net changes in items other than those in shareholders' equity .....							(124)	(613)	(737)	2,683	1,946
<b>BALANCE, MARCH 31, 2011</b> .....	105,221	¥10,058	¥26,204	¥39,124	¥(2,595)	¥72,791	¥150	¥(1,979)	¥(1,829)	¥2,741	¥73,703

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total shareholders' equity	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Total accumulated other comprehensive income	Minority Interests	Total Net Assets
	<b>BALANCE, MARCH 31, 2010</b> .....	\$120,962	\$315,141	\$547,757	\$(30,944)	\$952,916	\$3,295	\$(16,428)	\$(13,133)	\$ 698
Disposal of treasury stock (360 shares).....			(0)		(0)					(0)
Net loss .....			(60,914)		(60,914)					(60,914)
Cash dividends, \$0.14 per share.....			(14,841)		(14,841)					(14,841)
Purchase of treasury stock (29,835 shares)				(265)	(265)					(265)
Change in scope of consolidation .....			(1,479)		(1,479)					(1,479)
Net changes in items other than those in shareholders' equity .....						(1,491)	(7,372)	(8,863)	32,267	23,404
<b>BALANCE, MARCH 31, 2011</b> .....	\$120,962	\$315,141	\$470,523	\$(31,209)	\$875,417	\$1,804	\$(23,800)	\$(21,996)	\$32,965	\$886,386

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Hitachi Kokusai Electric Inc. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>OPERATING ACTIVITIES:</b>			
Loss before income taxes and minority interests .....	<b>¥(2,548)</b>	¥ (3,143)	<b>\$(30,643)</b>
Adjustments for:			
Income taxes—paid .....	<b>(1,380)</b>	(760)	<b>(16,597)</b>
Income taxes—refunded .....	<b>313</b>	980	<b>3,764</b>
Depreciation and amortization .....	<b>4,244</b>	4,592	<b>51,040</b>
Business structure improvement expenses .....	<b>5,234</b>	—	<b>62,946</b>
Loss on transfer to defined contribution pension plan .....	<b>1,051</b>	—	<b>12,640</b>
Loss on disposals of property, plant and equipment.....	<b>75</b>	68	<b>902</b>
Gain on sales of property, plant and equipment .....	<b>(12)</b>	(19)	<b>(144)</b>
Decrease in allowance for doubtful accounts .....	<b>(217)</b>	(314)	<b>(2,610)</b>
Increase (decrease) in liability for employees' retirement benefits .....	<b>(1,215)</b>	254	<b>(14,612)</b>
Decrease in liability for directors' and executive officers' retirement benefits .....	<b>(10)</b>	(30)	<b>(120)</b>
Increase (decrease) in provision for product warranties .....	<b>977</b>	(298)	<b>11,750</b>
Increase (decrease) in provision for loss on construction contracts .....	<b>(115)</b>	467	<b>(1,383)</b>
Changes in assets and liabilities			
Decrease (increase) in notes and accounts receivables .....	<b>246</b>	(4,793)	<b>2,959</b>
Decrease (increase) in inventories .....	<b>(5,347)</b>	2,393	<b>(64,305)</b>
Decrease (increase) in other current assets .....	<b>230</b>	(690)	<b>2,766</b>
Decrease in claims provable in bankruptcy, claims provable in rehabilitation .....	<b>195</b>	561	<b>2,345</b>
Increase in notes and accounts payables .....	<b>1,298</b>	12,184	<b>15,610</b>
Increase in other current liabilities .....	<b>453</b>	571	<b>5,448</b>
Other—net .....	<b>183</b>	(584)	<b>2,201</b>
Total adjustments .....	<b>6,203</b>	14,582	<b>74,600</b>
Net cash provided by operating activities .....	<b>3,655</b>	11,439	<b>43,957</b>
<b>INVESTING ACTIVITIES:</b>			
Payments into time deposits .....	<b>(668)</b>	(12)	<b>(8,034)</b>
Proceeds from withdrawal of time deposits .....	<b>997</b>	12	<b>11,990</b>
Purchases of investment securities .....	<b>(19)</b>	(213)	<b>(229)</b>
Proceeds from sales of investment securities .....	<b>14</b>	775	<b>168</b>
Purchases of property, plant and equipment .....	<b>(1,707)</b>	(1,718)	<b>(20,529)</b>
Proceeds from sales of property, plant and equipment.....	<b>33</b>	43	<b>397</b>
Purchase of intangible assets .....	<b>(511)</b>	—	<b>(6,146)</b>
Net decrease in short-term loans receivable .....	<b>4</b>	8	<b>48</b>
Decrease in investment in long term deposit .....	<b>—</b>	1,000	<b>—</b>
Purchase of shares of newly consolidated subsidiaries (Note 3).....	<b>(522)</b>	—	<b>(6,278)</b>
Other .....	<b>(89)</b>	(508)	<b>(1,068)</b>
Net cash used in investing activities .....	<b>(2,468)</b>	(613)	<b>(29,681)</b>
<b>FORWARD</b> .....	<b>¥ 1,187</b>	¥10,826	<b>\$ 14,276</b>

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>FORWARD</b> .....	<b>¥ 1,187</b>	<b>¥10,826</b>	<b>\$ 14,276</b>
<b>FINANCING ACTIVITIES:</b>			
Decrease in short-term bank loans-net .....	<b>(602)</b>	—	<b>(7,240)</b>
Dividends paid .....	<b>(1,266)</b>	(1,353)	<b>(15,225)</b>
Increase in treasury stock—net .....	<b>(23)</b>	(19)	<b>(277)</b>
Other—net .....	<b>(1)</b>	(4)	<b>(12)</b>
Net cash used in financing activities .....	<b>(1,892)</b>	(1,376)	<b>(22,754)</b>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b> .....	<b>(325)</b>	(162)	<b>(3,909)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> .....	<b>(1,030)</b>	9,288	<b>(12,387)</b>
<b>CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR</b> .....	—	307	—
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> .....	<b>45,659</b>	36,064	<b>549,116</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)</b> .....	<b>¥44,629</b>	<b>¥45,659</b>	<b>\$536,729</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Hitachi Kokusai Electric Inc. and Consolidated Subsidiaries

Years Ended March 31, 2011 and 2010

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In

addition, certain reclassifications have been made in the 2010 financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Hitachi Kokusai Electric Inc. (the "Company") is incorporated and mainly operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83.15 to \$1, the rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its 16 significant (16 in 2010) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Affiliated company accounted for by the equity method is nil (one in 2010). Investments in the remaining two unconsolidated subsidiaries and one affiliated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the respective dates of acquisition is being amortized over 5 years by the straight-line method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

**b. Cash Equivalents**—Cash equivalents deposits are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits and mutual funds investing in bonds, all

of which mature or become due within three month from the date of acquisition.

**c. Inventories**—Finished products and work in process are stated at the lower of cost, determined by substantially on a specific identification method, or net realisable value. Certain mass-produced finished products and work in process are stated at the lower of cost, determined by the moving-average method or the average method, or net realisable value.

Raw materials are substantially stated at the lower of cost, determined by the average method, or net realisable value. Certain raw materials are stated at the lower of cost, determined by the specific identification method or the moving-average method, or net realisable value.

**d. Investment Securities**—Investments in unconsolidated subsidiaries and affiliated companies are stated at cost determined by the moving average method.

Available for sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

**e. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed by the declining-balance method, while the straight-line method is applied to buildings of the Company and its consolidated domestic subsidiaries acquired after April 1, 1998. The range of useful lives is from 2 to 50 years for buildings and structures, from 2 to 17 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures. The useful lives for lease assets are the terms of the respective leases.

**f. Long-lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted future cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**g. Intangible Assets**—Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method. Software which is internally used by the Group is amortized by the straight-line method over 5 years and intangible assets other than software are amortized by the straight-line method over 3 years.

**h. Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

**i. Retirement Benefit Plans**—The Company and certain consolidated subsidiaries have non-contributory and contributory trustee pension plans covering a certain portion of employees' retirement benefits. Benefits paid to some employees upon retirement or termination of employment may exceed the amount of benefits computed based on years of service. Benefits paid to such persons are not computed as a retirement benefit liability. The liability for employees' retirement benefits is stated at

amounts based on projected benefit obligations and plan assets at the balance sheet date.

The liability for directors' and executive officers' retirement benefits for the Company is provided at the amount which would be required if all directors and executive officers retired at the balance sheet date. The above liability includes a liability for directors' retirement benefits for certain of the Company's consolidated subsidiaries.

On April 1, 2011, the Company and certain domestic subsidiaries transferred defined benefit pension plan to a defined contribution pension plan adopted by the "Guidance on Accounting for Transfer between Retirement Benefit Plans" (Accounting Standards Board of Japan Guidance No.1).

Loss on transferring defined benefit pension plan to a defined contribution pension plan was ¥1,051 million (\$12,640 thousand), included in other expenses of the year.

The liability for directors' and executive officers' retirement benefits for the Company is provided at the amount which would be required if all directors and executive officers retired at the balance sheet date. The above liability includes a liability for directors' retirement benefits for certain of the Company's consolidated subsidiaries.

Decisions were made at the Compensation Committee meetings held April 24, 2008, to abolish the retirement benefit plans for all directors and executive officers and to pay the retirement benefits for the applicable period to directors and executive officers at the time of their retirement, subject to resolutions of the Compensation Committee following decisions on their retirement.

**j. Provision for Product Warranties**—The provision for product warranties is estimated and recorded at the time of sale to provide for future potential costs, such as costs related to after-sales services, in amounts considered to be appropriate based on the Group's past experience.

**k. Provision for Loss on Construction Contracts**—The provision for losses on construction contracts is provided at the fiscal year-end when substantial losses are anticipated for the next fiscal year and beyond and such losses can be reasonably estimated.

**l. Research and Development Costs**—Research and development costs are charged to income as incurred.

**m. Revenue Recognition**—The Company applies the percentage-of-completion method to some contracts contracted by construction agreements.

**n. Leases**—All finance lease transactions are capitalized by recognizing lease assets and lease obligations on the balance sheets.

In addition, the Company accounted for leases which were entered into prior to April 1, 2008 and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

**o. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

**p. Foreign Currency Translations**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. The foreign exchange gains and losses from the translation are recognized in the consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for net assets, which is translated at the historical rate. Differences arising from such translations were shown as "Foreign currency translation adjustments" and "Minority Interests" in a separate component of net assets. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

**q. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of operations and

(b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in sales of products to overseas customers. Trade receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

**r. Per Share Information**—Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

**s. Changes in Accounting Standards**

**Asset Retirement Obligations**—From the year ended March 31, 2011, the Company adopted the "Accounting Standard for Asset Retirement Obligations" (Accounting Standard No. 18, Accounting Standards Board of Japan (ASBJ), March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No. 21, ASBJ, March 31, 2008). The adoption of these accounting standards has resulted in a decrease of ¥7 million (\$84 thousand) in operating income, and an increase of ¥103 million (\$1,239 thousand) in loss before income taxes and minority interests.

**Equity method of Accounting for Investments**—From the year ended March 31, 2011, the Company adopted the "Accounting Standard for Equity Method of Accounting for Investments" (Accounting Standard No. 16, Accounting Standards Board of Japan (ASBJ), March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates

Accounted for Using the Equity Method” (PITF No. 24, ASBJ, March 10, 2008). The adoption of these accounting standards had a negligible effect on the consolidated financial statements.

**Business Combinations**—From the year ended March 31, 2011, the Company adopted the accounting standards below.

- “Accounting Standard for Business Combinations” (Accounting Standard No. 21, Accounting Standards Board of Japan (ASBJ), December 26, 2008)
- “Accounting Standard for Consolidated Financial Statements” (Accounting Standard No. 22, ASBJ, December 26, 2008)
- “Partial amendments to Accounting Standard for Research and Development Costs” (Accounting Standard No. 23, ASBJ, December 26, 2008)
- “Revised Accounting Standard for Business

Divestitures” (Accounting Standard No. 7, ASBJ, Revised on December 26, 2008)

- “Revised Accounting Standard for Equity Method of Accounting for Investments” (Accounting Standard No. 16, ASBJ, Revised on December 26, 2008)
- “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Guidance No. 10, ASBJ, Revised on December 26, 2008)

**t. Additional Information**

**Presentation of Comprehensive Income**—From the year ended March 31, 2011, the Company adopted the “Accounting Standard for Presentation of Comprehensive Income” (Accounting Standard No. 25, Accounting Standards Board of Japan (ASBJ), June 30, 2010).

### 3. CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, cash and cash equivalents at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Cash and time deposits .....	¥10,775	¥17,668	\$129,585
Deposits with Hitachi, Ltd. ....	34,140	28,102	410,583
Less—time deposits with maturities over three months .....	(286)	(111)	(3,439)
Total .....	¥44,629	¥45,659	\$536,729

Deposits with Hitachi, Ltd. represent a deposit to Hitachi, Ltd. under the Hitachi Pooling System for concentration of surplus deposits of Hitachi group companies.

New consolidated subsidiaries due to the acquisition of shares in the year ended March 31, 2011

Kokusai Electric Korea Co., Ltd. and its consolidated subsidiary FusionAid Co., Ltd. became new consolidated subsidiaries of the Company due to the additional acquisition of shares in the year ended March 31, 2011. At the start of their consolidation, summary of their assets and liabilities, the acquisition cost of shares, and the payment for acquisition were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Current assets .....	<b>¥ 4,417</b>	<b>\$ 53,121</b>
Fixed assets .....	<b>2,889</b>	<b>34,744</b>
Goodwill .....	<b>1,162</b>	<b>13,975</b>
Current liabilities .....	<b>(1,836)</b>	<b>(22,081)</b>
Long-term liabilities .....	<b>(557)</b>	<b>(6,698)</b>
Minority interests .....	<b>(2,374)</b>	<b>(28,551)</b>
Acquisition cost .....	<b>3,701</b>	<b>44,510</b>
Gain on step acquisition .....	<b>(451)</b>	<b>(5,424)</b>
Acquisition cost of shares of FusionAid Co., Ltd. ....	<b>(203)</b>	<b>(2,441)</b>
Investment value on an equity basis before acquisition of controlling interests .....	<b>(1,026)</b>	<b>(12,339)</b>
Acquisition cost of additional purchase .....	<b>2,021</b>	<b>24,306</b>
Cash and cash equivalents of the acquired companies .....	<b>(1,499)</b>	<b>(18,028)</b>
Net payments for acquisition .....	<b>¥ 522</b>	<b>\$ 6,278</b>

#### 4. INVESTMENT SECURITIES

Investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Non-current:			
Marketable equity securities .....	<b>¥1,380</b>	¥1,594	<b>\$16,597</b>
Held-to-maturity debt securities .....	<b>17</b>	—	<b>204</b>
Other .....	<b>328</b>	332	<b>3,945</b>
Total .....	<b>¥1,725</b>	¥1,926	<b>\$20,746</b>

The carrying amounts and aggregate fair values of investment securities at March 31, 2011 and 2010 were as follows:

	Millions of Yen		
	2011	2011	2011
	Carrying Value	Estimated Fair Value	Unrealized Value
Securities classified as held-to-maturity debt securities .....	<b>¥17</b>	<b>¥16</b>	<b>¥(1)</b>

	Thousands of U.S. Dollars		
	2011	2011	2011
	Carrying Value	Estimated Fair Value	Unrealized Value
Securities classified as held-to-maturity debt securities .....	<b>\$204</b>	<b>\$192</b>	<b>\$(12)</b>

	Millions of Yen			
	2011	2011	2011	2011
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities .....	<b>¥1,080</b>	<b>¥370</b>	<b>¥70</b>	<b>¥1,380</b>

	Millions of Yen			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities .....	<b>¥1,089</b>	<b>¥575</b>	<b>¥70</b>	<b>¥1,594</b>

	Thousands of U.S. Dollars			
	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities .....	<b>\$12,989</b>	<b>\$4,450</b>	<b>\$842</b>	<b>\$16,597</b>

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2011 and 2010 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Available-for-sale:			
Equity securities .....	<b>¥328</b>	¥332	<b>\$3,945</b>
Total .....	<b>¥328</b>	¥332	<b>\$3,945</b>

Proceeds from sales of available-for-sale securities for the years ended March 31, 2011 and 2010 were ¥14 million (\$168 thousand) and ¥775 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost method, were ¥12 million (\$144 thousand) and nil, respectively, for the year ended March 31, 2011 and ¥437 million and ¥0 million, respectively, for the year

ended March 31, 2010.

For other than temporary declines in fair value, investment securities which are reduced to net realizable value by a charge to income for the years ended March 31, 2011 and 2010 were ¥27 million (\$325 thousand) and ¥24 million, respectively.

## 5. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
	Finished products .....	<b>¥12,846</b>	¥ 8,592
Work in process .....	<b>12,284</b>	10,433	<b>147,733</b>
Raw materials and supplies .....	<b>4,912</b>	5,041	<b>59,074</b>
Total .....	<b>¥30,042</b>	¥24,066	<b>\$361,299</b>

## 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans were made under general agreements with banks.

The annual interest rates applicable to the short-term bank loans and long-term debt were 0.74% and 0%, respectively at March 31, 2011 and 0.81% and nil at March 31, 2010, respectively.

## 7. RETIREMENT BENEFIT PLANS

The Company has severance payment plans for employees, directors and executive officers. Moreover, the Company's certain consolidated subsidiaries have severance payment plans for employees and directors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death,

or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

Liability for directors' and executive officers' retirement benefits of the Company is paid subject to the approval of the compensation committee of the Company. On the other hand, liability for directors' retirement benefits of the Company's certain consolidated subsidiaries is paid subject to the approval of the shareholders meeting.

The Company and the certain domestic subsidiaries transferred a portion of defined benefit pension plan to a defined contribution pension plan in April 2011.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation .....	¥ 46,771	¥ 52,788	\$ 562,489
Fair value of plan assets .....	(24,520)	(25,029)	(294,889)
Unrecognized prior service cost .....	4,775	5,089	57,426
Unrecognized actuarial loss .....	(6,965)	(6,964)	(83,763)
Net liability .....	¥ 20,061	¥ 25,884	\$ 241,263

The effect of transferring to defined contribution pension plan is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2011	2011
Decrease of retirement benefit obligation .....	¥5,692	\$68,455
Unrecognized actuarial loss .....	(573)	(6,891)
Unrecognized prior service cost .....	(370)	(4,450)
Decrease in allowance for employees' retirement benefit .....	¥4,749	\$57,114

The pension plan assets which were transferred to the defined contribution pension plan amounted to ¥5,800 million (\$69,753 thousand). The Company and the certain domestic subsidiaries plan to complete the transition over a period of 4 years. Accrued retirement benefits for employees which is planned to be transferred to the defined contribution pension plan was reclassified to other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets at March 31, 2011.

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost .....	¥1,463	¥1,564	\$ 17,594
Interest cost .....	1,431	1,328	17,210
Expected return on plan assets .....	(884)	(559)	(10,631)
Amortization of prior service cost .....	(682)	(684)	(8,202)
Recognized actuarial loss.....	1,184	1,595	14,239
Net periodic retirement benefit costs .....	2,512	3,244	30,210
Loss on transfer to defined contribution pension plan .....	1,051	—	12,640
Additional retirement benefits .....	1,176	—	14,143
Total .....	¥4,739	¥3,244	\$ 56,993

Assumptions used for the years ended March 31, 2011 and 2010 are set forth as follows:

	2011	2010
Discount rate		
Contributory .....	2.8%	2.9%
Non-contributory .....	2.0%	2.0%
Expected rate of return on plan assets .....	3.5%	2.5%
Amortization period of prior service cost .....	13 years	13 years
Recognition period of actuarial loss .....	13 years	13 years

## 8. NET ASSETS

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The company meets all the above criteria. The Board of Directors of companies with board committees (an appointment committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Companies Act, even though such companies have an audit committee instead of

the Board of Corporate Auditors. The company is organized as a company with board committees.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional

paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### ***c. Treasury Stock and Treasury Stock Acquisition Rights***

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury

stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are now presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## **9. INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred tax assets (current):			
Inventories .....	¥ 2,765	¥ 2,790	\$ 33,277
Accrued bonuses .....	1,527	1,584	18,364
Provision for product warranties .....	639	227	7,685
Accounts payable, other for the transfer to the defined-contribution pension plan .....	642	—	7,721
Other .....	1,903	1,339	22,887
Valuation allowance .....	(3,154)	(1,700)	(37,931)
Total (current) .....	<b>4,324</b>	<b>4,240</b>	<b>52,003</b>
Net deferred tax assets (current).....	<b>4,324</b>	<b>4,240</b>	<b>52,003</b>
Deferred tax assets (non-current):			
Employees' retirement benefits .....	8,106	10,574	97,486
Depreciation .....	1,034	1,208	12,435
Loss on impairment of long-lived assets .....	1,558	—	18,737
Directors' and executive officers' retirement benefits .....	122	138	1,467
Devaluation of investments in subsidiaries and affiliated companies .....	—	186	—
Tax loss carryforwards .....	9,225	9,082	110,944
Accounts payable other for the transfer to the defined contribution pension plan .....	1,612	—	19,387
Other .....	2,034	2,447	24,463
Valuation allowance .....	(21,633)	(20,990)	(260,169)
Total (non-current).....	<b>2,058</b>	<b>2,645</b>	<b>24,750</b>
Deferred tax liabilities (non-current):			
Special depreciation reserve .....	(65)	(83)	(782)
Unrealized gain on available-for-sale securities .....	(148)	(189)	(1,780)
Other .....	(479)	(1)	(5,761)
Total (non-current).....	<b>(692)</b>	<b>(273)</b>	<b>(8,322)</b>

Net deferred tax assets (non-current) .....	<b>1,366</b>	2,372	<b>16,428</b>
Net deferred tax assets .....	<b>5,690</b>	6,612	<b>68,431</b>
Deferred tax liabilities (current):			
Other .....	—	(0)	—
Total (current) .....	—	(0)	—
Deferred tax liabilities (non-current):			
Intangible assets .....	<b>(196)</b>	—	<b>(2,357)</b>
Unrealized gain on available-for-sale securities .....	—	(41)	—
Other .....	—	(25)	—
Total (non-current).....	<b>¥ (196)</b>	¥ (66)	<b>\$ (2,357)</b>

The reconciliation for the year ended March 31, 2010 is not shown since the difference between the statutory tax rate and the effective tax rate is less than 5% of the statutory tax rate.

The reconciliation for the year ended March 31, 2011 is not shown since the Company recorded loss before income taxes.

The Company and certain domestic subsidiaries have received approval from the Commissioner of the National Tax Agency of Japan to adopt the consolidated taxation system effective the fiscal year ending March 31, 2012. From the fiscal year ended March 31, 2011, accounting treatment and presentation regarding deferred taxes have been based on the "Practical Solution on Tax Effect Accounting under the Consolidated Taxation System (Part 1)" (ASBJ PITF No.5), and the "Practical Solution on Tax Effect Accounting under the Consolidated Taxation System (Part 2)" (ASBJ PITF No.7), under the assumption that the Company would adopt the consolidated taxation system.

## 10. OTHER COMPREHENSIVE INCOME

The following table presents components of other comprehensive income for the year ended March 31, 2010:

	Millions of Yen
	2010
Unrealized gain on available-for-sale securities .....	¥ (55)
Foreign currency translation adjustment.....	(260)
Share of other comprehensive income of assets accounted for using equity method.....	154
Total other comprehensive loss .....	¥ (161)
Total Comprehensive loss attributable to:	
Owners of the parent .....	¥(1,970)
Minority interest .....	¥ (34)

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥14,172 million (\$170,439 thousand) and ¥15,028 million for the years ended March 31, 2011 and 2010, respectively.

## 12. LEASES

As discussed in Note 2.n, the Company accounts for leases which were entered into prior to April 1, 2008 and do not transfer ownership of the leased property to the lessee as operating lease transaction.

The Group leases certain machinery, computer equipment and software.

Total rental expenses including lease payments under finance leases that do not transfer ownership of the leased

property to the lessee included in cost of sales and selling and administrative expenses for the years ended March 31, 2011 and 2010 were ¥116 million (\$1,395 thousand) and ¥228 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2011 and 2010 was as follows:

	Millions of Yen							
	2011				2010			
	Machinery and Equipment	Furniture and Fixtures	Other	Total	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost.....	¥13	¥126	¥22	¥161	¥41	¥518	¥25	¥584
Accumulated depreciation .....	8	102	18	128	30	398	16	444
Net leased property .....	¥ 5	¥ 24	¥ 4	¥ 33	¥11	¥120	¥ 9	¥140

	Thousands of U.S. Dollars			
	2011			
	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost.....	\$156	\$1,516	\$264	\$1,936
Accumulated depreciation .....	96	1,227	216	1,539
Net leased property .....	\$ 60	\$ 289	\$ 48	\$ 397

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
	Due within one year .....	¥27	¥109
Due after one year .....	7	34	84
Total .....	¥34	¥143	\$409

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
	Depreciation expense .....	¥108	¥212
Interest expense .....	1	4	12

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
	Due within one year .....	¥ 5	¥31
Due after one year .....	7	32	84
Total .....	¥12	¥63	\$144

## 13. FINANCIAL INSTRUMENTS

### Overview

#### (1) Policy for financial instruments

The Group manages temporary cash surpluses limited through bank deposits including time deposits, capital protected variable rate deposits and negotiable certification of deposits and deposits with Hitachi, Ltd. Further, the Group raises short-term capital through bank borrowings and deposits with Hitachi, Ltd. The Group uses derivatives limited for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

#### (2) Types of financial instruments and related risk

Trade receivables— trade notes and accounts receivable— are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies.

Investment securities are exposed to market risk. Those securities are composed of mainly shares of common stock of companies with which the Group has business relationships, or affiliated companies.

Substantially all trade payables —trade notes and accounts payable— have payment due dates within six months. Although the Group is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies.

Short-term borrowings are raised mainly in connection with business activities. The Group is exposed to interest rate fluctuation risk.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 2.q.

#### (3) Risk management for financial instruments.

##### (a) Monitoring of credit risk (the risk that customers or counterparties may default)

For receivables, the Group sets up internal policies for new customers and credit exposure and monitors due dates and outstanding balances by individual customer. The Group also reviews the financial position of major customers each year.

The Group also believes that the credit risk of derivatives is insignificant as it enters into

derivatives transactions only with financial institutions which have a sound credit profile.

##### (b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Group identifies the net position of each currency and enters into forward foreign exchange contracts to hedge such risk.

As short-term borrowings are settled in a short period of time, interest rate fluctuation risk is limited.

Investment securities are mainly marketable securities and the Group reviews the fair values of such financial instruments quarterly. For investment securities other than marketable securities, the Group reviews the financial position of the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority. Reports including actual transaction data are submitted to top management for their review.

##### (c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

The Group sets up payment dates for payables and the related division prepares and updates its cash flow plans and maintains the short-term liquidity at certain level.

#### (4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different outcomes.

### *Estimated fair value of financial instruments*

Carrying value of financial instruments on the consolidated balance sheets of March 31, 2011 and 2010 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is not practicable to estimate the fair value (Please refer to Note 2 below).

	Millions of Yen		
	2011		
	Carrying value	Estimated Fair Value	Difference
<b>Assets</b>			
Cash and time deposits .....	¥ 10,775	¥ 10,775	¥ —
Deposits with Hitachi, Ltd. ....	34,140	34,140	—
Trade notes and accounts receivable .....	40,044	40,040	(4)
<b>Investment</b>			
Held-to-maturity debt securities .....	17	16	(1)
Investment securities .....	1,380	1,380	—
<b>Liabilities</b>			
Trade notes and accounts payable .....	(28,813)	(28,813)	—
Short-term bank loans .....	(815)	(815)	—

	Thousands of U.S. Dollars		
	2011		
	Carrying value	Estimated Fair Value	Difference
<b>Assets</b>			
Cash and time deposits .....	\$ 129,585	\$ 129,585	\$ —
Deposits with Hitachi, Ltd. ....	410,583	410,583	—
Trade notes and accounts receivable .....	481,587	481,539	(48)
<b>Investment</b>			
Held-to-maturity debt securities .....	204	192	(12)
Investment securities .....	16,597	16,597	—
<b>Liabilities</b>			
Trade notes and accounts payable			
Short-term bank loans .....	(346,518)	(346,518)	—
<b>Assets</b>	<b>(9,802)</b>	<b>(9,802)</b>	<b>—</b>

	Millions of Yen		
	2010		
	Carrying value	Estimated Fair Value	Difference
<b>Assets</b>			
Cash and time deposits .....	¥ 17,668	¥ 17,668	¥ —
Deposits with Hitachi, Ltd. ....	28,102	28,102	—
Trade notes and accounts receivable .....	40,885	40,875	(10)
<b>Investment</b>			
Investment securities .....	1,594	1,594	—
Investments in unconsolidated subsidiaries and affiliated companies .....	1,125	1,164	39
<b>Liabilities</b>			
Trade notes and accounts payable .....	(27,516)	(27,516)	—
Short-term bank loans .....	(1,417)	(1,417)	—

The amount in parentheses represents net liability position.

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

*Cash and time deposits and Deposits with Hitachi, Ltd.*

Since these items are mainly settled in a short period of time, their carrying value approximates fair value.

*Trade notes and accounts receivable*

The fair value of trade notes and accounts receivable is based on the present value of the total of principal and interest discounted by the interest rate.

*Investment*

The fair value of investment is based on quoted market prices.

*Trade notes and accounts payable and Short-term bank loans*

Since these items are settled in a short period of time, their carrying value approximates fair value.

*Derivatives Transactions*

Please refer to Note 14 *Derivatives* of the notes to the consolidated financial statements.

2. Financial instruments for which it is not practicable to estimate the fair value

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Unlisted stocks .....	¥380	¥594	\$4,570

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

3. Redemption schedule for receivables and marketable securities with maturities at March 31, 2011

	Millions of Yen			
	2011			
	Due within One Year	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and time deposits .....	¥10,675	¥ 100	¥ —	¥ —
Deposits with Hitachi, Ltd. ....	34,140	—	—	—
Trade notes and accounts receivable .....	39,022	1,022	—	—
Investment securities				
Held-to-maturity debt securities (government bonds) .....	—	17	—	—
Total .....	¥83,837	¥1,139	¥ —	¥ —

	Thousands of U.S. Dollars			
	2011			
	Due within One Year	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and time deposits .....	\$ 128,382	\$ 1,203	\$ —	\$ —
Deposits with Hitachi, Ltd. ....	410,583	—	—	—
Trade notes and accounts receivable .....	469,297	12,291	—	—
Investment securities				
Held-to-maturity debt securities (government bonds) .....	—	204	—	—
Total .....	\$1,008,262	\$13,698	\$ —	\$ —

	Millions of Yen			
	2010			
	Due within One Year	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and time deposits .....	¥17,668	¥ —	¥ —	¥ —
Deposits with Hitachi, Ltd. ....	28,102	—	—	—
Trade notes and accounts receivable .....	38,884	2,002	—	—
Total .....	<u>¥84,654</u>	<u>¥2,002</u>	<u>¥ —</u>	<u>¥ —</u>

## 14. DERIVATIVES

(1) Derivative transactions which hedge accounting has not been applied.

There were no such transactions at March 31, 2011 and 2010.

(2) Derivative transactions which hedge accounting has been applied.

There were no such transactions at March 31, 2011 and 2010.

## 15. PER SHARE INFORMATION

The reconciliation of the number of shares and amounts used in basic net income per share computation is as follows:

	Thousands of shares	
	2011	2010
Weighted average number of shares on which basic net loss per share is calculated .....	<b>102,843</b>	102,872
Number of shares on which net assets per share is calculated .....	<b>102,828</b>	102,857

Net loss available to common shareholders for the years ended March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Net loss .....	<b>¥ (5,065)</b>	¥(1,808)	<b>\$60,914</b>

Net loss per share for the years ended March 31, 2011 and 2010 are as follows:

	Yen		U.S. Dollars
	2011	2010	2011
Net loss per share .....	<b>¥(49.25)</b>	¥(17.57)	<b>\$(0.59)</b>

Diluted net income per share has not been presented because there were no potentially dilutive shares at March 31, 2011 and 2010.

Net assets per share as of March 31, 2011 and 2010 are as follows:

	Yen		U.S. Dollars
	2011	2010	2011
Net assets per share .....	<b>¥690.11</b>	¥759.73	<b>\$8.30</b>

## 16. RELATED PARTY DISCLOSURES

The balances due to or from Hitachi, Ltd. (owing 52.4% and 52.4% of the voting stock in 2011 and 2010) and its subsidiary at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deposits with Hitachi, Ltd. ....	<b>¥33,300</b>	¥28,102	<b>\$400,481</b>
Accounts receivable from Hitachi Capital Corporation .....	<b>2,299</b>	—	<b>27,649</b>
Accounts payable to Hitachi Capital Corporation .....	<b>15,487</b>	13,144	<b>186,254</b>
Other payables to Hitachi Capital Corporation .....	<b>300</b>	100	<b>3,608</b>

Transactions of the Group with Hitachi, Ltd. and its subsidiary for the years ended March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deposits with Hitachi, Ltd. ....	<b>¥38,476</b>	¥33,643	<b>\$462,730</b>
Interest received from Hitachi, Ltd. ....	<b>61</b>	111	<b>734</b>
Factoring of payables to Hitachi Capital Corporation .....	<b>44,762</b>	27,664	<b>538,328</b>
Sales of finished products to Hitachi Capital Corporation .....	<b>3,429</b>	—	<b>41,239</b>

## 17. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2011 was approved at the Company's Board of Directors meeting held on May 23, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥6 (\$0.07) per share .....	<b>¥617</b>	<b>\$7,420</b>

## 18. BUSINESS COMBINATIONS

(1) Name of acquired company, description of its business, main reasons for undertaking the business combination, date and legal form of business combination, name of combined entity, ratios of acquired voting rights, and main basis behind the determination of the acquiring company.

(a) Name of acquired company and description of its business

Name of acquired company: Kokusai Electric Korea Co., Ltd.

Description of business: Manufacture, sales, service and installation of semiconductor manufacturing systems

(b) Main reasons for undertaking business combination

Aiming for growth and expansion of the business in Korean market

(c) Date of business combination

September 17, 2010

(d) Legal form of business combination

Acquisition of shares

(e) Name of combined entity  
Kokusai Electric Korea Co., Ltd.

(f) Ratios of acquired voting rights  
Ratio of voting rights owned prior to the acquisition of shares: 26.7%  
Ratio of additional voting rights secured upon acquisition date: 25.0%  
Ratio of voting rights after acquisition: 51.7%

(g) Main basis behind the determination of the acquiring company  
An acquisition of shares by the Company for cash consideration

(2) Term of performance of the acquired company included in the consolidated financial statements  
From October 1, 2010 to March 31, 2011  
As the deemed acquisition date was September 30, 2010, the consolidated statements of operations account for the purchase under the equity method, including results for April 1, 2010 to September 30, 2010.

(3) Acquisition cost and details

	Millions of Yen	Thousands of U.S. Dollars
Fair value of common shares of Kokusai Electric Korea Co., Ltd. owned by the Company before the acquisition .....	¥1,477	\$17,763
The additional acquisition cost .....	2,021	24,306
Total acquisition cost .....	¥3,498	\$42,069

(4) The difference between acquisition price and total costs of individual transactions in the process of acquisition  
Gain on step acquisitions: 451 million yen (\$5,424 thousand)

(5) Amount of goodwill, cause of accrual, amortization method and amortization period

(a) Amount of goodwill: 1,162 million yen (\$13,975 thousand)

(b) Cause : Goodwill resulted from estimates of future excess earnings capacity of the acquired company as a result of anticipated semiconductor manufacturing system business development in Korea.

(c) Amortization method and amortization period  
Straight-line method over 5 years

(6) Total assets acquired and liabilities assumed on the date of business combination and the main components

	Millions of Yen	Thousands of U.S. Dollars
Current assets .....	¥4,417	\$53,121
Fixed assets .....	2,889	34,744
Total assets .....	7,306	87,865
Current liabilities .....	1,836	22,080
Long-term liabilities .....	557	6,699
Total liabilities .....	¥2,393	\$28,779

(7) Estimated impact on the consolidated statements of operations for the year ended March 31, 2011, assuming that the business combination was concluded on April 1, 2010, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net sales .....	<b>¥1,944</b>	<b>\$23,379</b>
Operating income .....	<b>400</b>	<b>4,811</b>
Loss before income tax .....	<b>275</b>	<b>3,307</b>
Net income.....	<b>¥ 10</b>	<b>\$ 120</b>
	Yen	U.S. Dollars
Net income per share .....	<b>¥ 0.09</b>	<b>\$ 0.00</b>

These amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on April 1, 2010 and information on sales and income contained in the consolidated statements of operations of the acquiring company. These estimates are unaudited.

## 19. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Business structure improvement expenses for the year ended March 31, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loss on impairment of long-lived assets .....	<b>¥3,279</b>	<b>\$39,435</b>
Additional retirement benefits .....	<b>1,360</b>	<b>16,356</b>
Loss on devaluation of inventories .....	<b>595</b>	<b>7,155</b>
Total .....	<b>¥5,234</b>	<b>\$62,946</b>

For the year ended March 31, 2011, the Company and certain subsidiary recorded loss on impairment of long-lived assets of ¥3,279 million (\$39,435 thousand). These impairment losses resulted from the review of future cash flows for assets for which the carrying amounts may not be recoverable and decline in the fair value of assets to be disposed of by sale.

The fair value of assets is calculated mainly as present value of estimated future cash flows.

The details of loss on impairment of long-lived assets for the year ended March 31, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings .....	<b>¥ 945</b>	<b>\$11,365</b>
Structures .....	<b>53</b>	<b>637</b>
Machinery and equipment .....	<b>202</b>	<b>2,429</b>
Furniture and fixtures .....	<b>1,131</b>	<b>13,602</b>
Other tangible assets .....	<b>0</b>	<b>0</b>
Intangible assets .....	<b>948</b>	<b>11,402</b>
Total .....	<b>¥3,279</b>	<b>\$39,435</b>

## 20. SEGMENT INFORMATION

Information about industry segments, geographical segments, sales to foreign customers and reportable segments of the Company and subsidiaries for the years ended March 31, 2011 and 2010 is as follows:

**(1) Industry Segments**

**a. Sales and Operating Income**

	Millions of Yen				
	2010				
	Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Eliminations/ Corporate	Consolidated
Sales to customers .....	¥48,714	¥46,004	¥27,371	¥ —	¥122,089
Intersegment sales .....	86	489	32	(607)	—
Total sales .....	48,800	46,493	27,403	(607)	122,089
Operating expenses .....	49,045	49,182	28,768	(607)	126,388
Operating loss .....	¥ (245)	¥ (2,689)	¥ (1,365)	¥ 0	¥ (4,299)

**b. Total Assets, Depreciation and Capital Expenditures**

	Millions of Yen				
	2010				
	Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Eliminations/ Corporate	Consolidated
Total assets .....	¥49,114	¥32,029	¥17,122	¥50,801	¥149,066
Depreciation .....	1,803	1,153	1,636	—	4,592
Capital expenditures .....	916	710	348	—	1,974

Notes:

Wireless Communications and Information Systems consist of Station Equipment for Cellular Telephones, Radio Equipment for Packet Communication Systems, 25GHz Band Point to Point High-speed Radio Link, Assorted Equipment for Governmental and Public Communications, Digital Wireless Systems for Public Business, Disaster Management Wireless Systems, Train Communication Systems, Airport MCA Wireless Systems, GPS/AVM Wireless Systems, Telemetry Systems, Radio Communication Systems for Fire Station, Radios for Dedicated Short-Range Communication System, On-premises Digital Wireless Communication Systems, 60GHz Wireless Transmission Device, Assorted Wireless Equipment, Wireless Telephone Systems for Air Traffic Control, Aircraft Communication Systems, Shipboard Communication Systems, Education & Training Systems, Short Wave Digital Radio Broadcasting Systems, Stock-Price Display Systems, Assorted Display Boards and Display Devices, Multimedia Information Display Systems, Information Communication Network Systems for Securities and Financial, Package Software for Securities and Financial Applications, Dealing Systems, RFID (Radio Frequency Identification) Shelf Antenna Systems, Data Warehouse Systems, Computer Telephony Integration Systems, Stock Price Notification System Operation, Maintenance & Operation Service, Network Construction.

Broadcasting and Video Systems consist of Digital

Microwave Link (Portable and Fixed), FPU and Portable Tracking Receivers, Digital Terrestrial Television Transmitter, Digital Terrestrial Television Transposer, Digital TV Cameras, Cameras and Monitors for Broadcasting, Non-linear Digital Video Editing Systems/Transmission Systems, FM Broadcasting Transmitter/Sound Broadcasting Transmitter, One-Seg Broadcasting System for Small Area, Antenna Systems for Terrestrial Digital Broadcasting, Amplifiers/Splitters and Other TV Receiving Equipment, Satellite Broadcasting and Receiving Equipment, TV/FM Broadcasting Antennas, Community Receiving Facilities, CATV Equipment, Digital-analog Converter, Interference and Bad Reception Safeguard Equipment, Wide-Area Monitoring Systems (for Roads, Rivers and Railroads Networks), Security Surveillance Systems, Monitoring Systems for Plant (Environment, Electric Power, Chemistry and Steel), Intelligent Video Analytics (Intrusion Detection), Cameras and Monitors for Industrial Applications, Wireless Communication Antennas, ITS (Intelligent Transport Systems), RFID (Radio Frequency Identification) Reader/Writers.

Semiconductor Manufacturing Systems consist of Batch Thermal Process System, Batch High Temperature Anneal Processing System, Batch Thermal Process System for 200mm Wafers, Silicon Epitaxial Growth System, Single Wafer Plasma Nitridation/Oxidation System, Single Wafer Plasma Dry Strip System.

Eliminations/corporate consist of cash and time deposits, investment securities and assets at headquarters.

Effective April 1, 2009, the Group changed the method for the construction revenue and construction costs. The effect of this change was to increase sales on segment of Wireless Communications and

Information Systems by ¥3,102 million and on segment of Broadcast and Video Systems by ¥7,119 million and decrease operating loss on segment of Wireless Communications and Information Systems by ¥242 million and on segment of Broadcast and Video Systems by ¥606 million.

## (2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the year ended March 31, 2010 is summarized as follows:

	Millions of Yen				
	2010				
	Japan	U.S.A.	Other	Eliminations/ Corporate	Consolidated
Sales to customers .....	¥113,887	¥5,778	¥2,424	¥ —	¥122,089
Interarea transfers.....	4,776	361	754	(5,891)	—
Total sales .....	118,663	6,139	3,178	(5,891)	122,089
Operating expenses .....	123,441	5,908	2,796	(5,757)	126,388
Operating income (loss) .....	¥ (4,778)	¥ 231	¥ 382	¥ (134)	¥ (4,299)
Total assets .....	¥ 92,068	¥4,596	¥2,848	¥49,554	¥149,066

Note:

“Other” includes Taiwan, Singapore, Great Britain and Germany.

Effective April 1, 2009, the Group changed the

method for the construction revenue and construction costs. The effect of this change was to increase sales in “Japan” by ¥10,220 million and decrease operating loss in “Japan” by ¥848 million.

## (3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2011 and 2010 amounted to ¥60,026 million (\$721,900 thousand) and ¥27,861 million, respectively.

## (4) Reportable Segments

Effective the fiscal year ended March 31, 2011, the Company has adopted new accounting standards for disclosures about segments of an enterprise and related information. Segment information for the year ended March 31, 2010 has been restated in accordance with such accounting standards for comparative purpose.

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Notes 2. Segment performance is evaluated based on operating income or loss. Intersegment sales are recorded at the same prices used in transaction with third parties.

The Company has three reportable segments and major products and service of each segment are as follows:

1. Wireless Communications and Information Systems: Station Equipment for Cellular Telephones, Assorted Equipment for Governmental and Public Communications, Multimedia Information Display Systems and else
2. Broadcast and Video Systems: Cameras and Monitors for Broadcasting, Security Surveillance Systems, CATV Equipment, Antenna Systems for Terrestrial Digital Broadcasting and else
3. Semiconductor Manufacturing Systems: Batch Thermal Process System, Single Wafer Plasma Nitridation/Oxidation System and else

**a. Sales and Profits (loss)**

	Millions of Yen					
	2011					
	Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Other	Adjustments and eliminations	Consolidated
Sales to customers .....	¥44,196	¥36,307	¥61,405	¥ 759	¥ 39	¥142,706
Intersegment sales .....	26	293	—	3,613	(3,932)	—
Total sales .....	44,222	36,600	61,405	4,372	(3,893)	142,706
Segment profits (loss) .....	¥ (1,107)	¥ (4,053)	¥ 9,313	¥ 202	¥ (399)	¥ 3,956

**b. Depreciation, Amortization of goodwill and Loss on impairment of long-lived assets**

	Millions of Yen					
	2011					
	Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Other	Adjustments and eliminations	Consolidated
Depreciation .....	¥1,703	¥1,027	¥1,314	¥49	¥152	¥4,245
Amortization of goodwill .....	—	—	129	—	11	140
Loss on impairment of long-lived assets ...	1,824	1,455	—	—	—	3,279

**a. Sales and Profits (loss)**

	Thousands of U. S. Dollars					
	2011					
	Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Other	Adjustments and eliminations	Consolidated
Sales to customers .....	\$531,521	\$436,645	\$738,485	\$ 9,128	\$ 469	\$1,716,248
Intersegment sales .....	313	3,523	—	43,452	(47,288)	—
Total sales .....	531,834	440,168	738,485	52,580	(46,819)	1,716,248
Segment profits (loss) .....	\$ (13,313)	\$ (48,743)	\$112,002	\$ 2,430	\$ (4,799)	\$ 47,577

**b. Depreciation, Amortization of goodwill and Loss on impairment of long-lived assets**

	Thousands of U. S. Dollars					
	2011					
	Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Other	Adjustments and eliminations	Consolidated
Depreciation .....	\$20,481	\$12,351	\$15,803	\$589	\$1,828	\$51,052
Amortization of goodwill .....	—	—	1,551	—	133	1,684
Loss on impairment of long-lived assets ...	21,936	17,499	—	—	—	39,435

Notes:

Adjustments and eliminations for sales to customers are unrealized profit resulting from transactions with affiliated company accounted for by the equity method.

Adjustments and eliminations for segment profits and loss include ¥209 millions (\$2,514 thousand) of corporate general administration expense which are not allocable to the reportable segments, ¥(406) millions (\$4,883 thousand) of unrealized gain, ¥(386) millions (\$4,642 thousand) of amortization of allocation of acquisition cost and else and ¥184 millions (\$2,212

thousand) of others.

Adjustments and eliminations for depreciation are amortization of allocation of acquisition cost.

Adjustments and eliminations for amortization of goodwill are amortization which is not allocable to the reportable segments.

Segment assets and liabilities are not described as the Executive Committee does not use them to make decisions about resource allocation and to assess performance.

**a. Sales and Profits (loss)**

	Millions of Yen					
	2010					
	Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Other	Adjustments and eliminations	Consolidated
Sales to customers .....	¥50,101	¥44,703	¥26,664	¥ 659	¥ (38)	¥122,089
Intersegment sales .....	—	436	—	3,539	(3,975)	—
Total sales .....	50,101	45,139	26,664	4,198	(4,013)	122,089
Segment profits (loss) .....	¥ (514)	¥ (2,938)	¥ (1,437)	¥ 176	¥ 414	¥ 4,299

**b. Depreciation and Amortization of goodwill**

	Millions of Yen					
	2010					
	Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Other	Adjustments and eliminations	Consolidated
Depreciation .....	¥1,782	¥1,139	¥1,623	¥48	¥ —	¥4,592
Amortization of goodwill .....	—	—	—	—	10	10

Notes:

Adjustments and eliminations for sales to customers are unrealized profit resulting from transactions with affiliated company accounted for by the equity method.

Adjustments and eliminations for segment profits and loss include ¥602 millions of corporate general administration expense which are not allocable to the reportable segments, ¥(166) millions of unrealized gain and loss and ¥(23) millions of others.

Adjustments and eliminations for amortization of goodwill are amortization which is not allocable to the reportable segments.

Segment assets and liabilities are not described as the Executive Committee does not use them to make decisions about resource allocation and to assess performance.

**(5) Related Information**

Net sales by geographical countries or areas for the year ended March 31, 2011 are summarized as follows:

	Millions of Yen						
	2011						
	Japan	North America	Taiwan	Korea	Other Asia	Europe and others	Consolidated
Net sales .....	¥82,680	¥12,901	¥21,175	¥17,167	¥6,449	¥2,334	¥142,706

		Thousands of U. S. Dollars						
		2011						
		Japan	North America	Taiwan	Korea	Other Asia	Europe and others	Consolidated
Net sales	.....	\$994,348	\$155,153	\$254,660	\$206,458	\$77,559	\$28,070	\$1,716,248

Property, plant and equipment by geographical countries or areas at March 31 is summarized as follows:

		Millions of Yen				
		2011				
		Japan	North America	Asia	Europe	Consolidated
Property, plant and equipment	.....	¥18,973	¥113	¥1,798	¥115	¥20,999

		Thousands of U. S. Dollars				
		2011				
		Japan	North America	Asia	Europe	Consolidated
Property, plant and equipment	.....	\$228,178	\$1,359	\$21,624	\$1,383	\$252,544

Sales by major customers are as follows:

		Millions of Yen	Thousands of U.S. Dollars	Related segment
		2011	2011	
Samsung Group	.....	¥15,884	\$191,028	Semiconductor Manufacturing Systems

#### (6) Balance of goodwill

		Millions of Yen					
		2011					
		Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Other	Adjustments and eliminations	Total
BALANCE, MARCH 31, 2011	.....	¥ —	¥ —	¥1,066	¥ —	¥9	¥1,075

		Thousands of U. S. Dollars					
		2011					
		Wireless Communications and Information Systems	Broadcast and Video Systems	Semiconductor Manufacturing Systems	Other	Adjustments and eliminations	Total
BALANCE, MARCH 31, 2011	.....	\$ —	\$ —	\$12,820	\$ —	\$108	\$12,928

Notes: Adjustments and eliminations are the balances which are not allocated to the reportable segments.

## REPORT OF INDEPENDENT AUDITORS

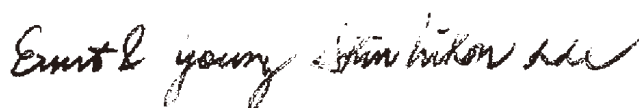
To The Board of Directors of  
Hitachi Kokusai Electric Inc.

We have audited the accompanying consolidated balance sheets of Hitachi Kokusai Electric Inc. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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 Kokusai Electric Inc. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 1.



June 27, 2011

# Corporate Data

## ■ Corporate Data (As of March 31, 2011)

**Corporate Name and Head Office:** Hitachi Kokusai Electric Inc.  
Akihabara UDX Building 11<sup>th</sup> floor,  
4-14-1 Soto-Kanda, Chiyoda-ku, Tokyo  
101-8980, Japan

**Established:** November 17, 1949

**Fiscal Year-end:** March 31

**Independent Auditors:** ERNST & YOUNG SHINNIHON LLC

**Paid-in Capital:** ¥10,058 million

**Employees:** 5,280 (consolidated)

**URL:** <http://www.hitachi-kokusai.co.jp>

### **Directors and Executive Officers (As of June 27, 2011):**

**Directors**  
**Chairman of the Board**  
Jyunzo Nakajima<sup>(1) (2)\*</sup>

**Directors**  
Manabu Shinomoto<sup>(1) (2)</sup>  
Kenshiro Koto<sup>(1) (2) (3)\*</sup>  
Tadahiko Ishigaki<sup>(3)</sup>  
Yoshifumi Nomura<sup>(3)</sup>

**Executive Officers**  
**President and Chief Executive Officer**  
Manabu Shinomoto

**Vice President and Executive Officers**  
Kazuo Kera  
Masahiro Fukatani  
Hideyuki Hagiwara  
Tetsuo Takemura  
Takeo Kawano  
Isoo Fujita  
Takashi Okada

**Executive Officers**  
Nobuo Owada  
Shoichiro Izumi  
Osamu Naruse  
Yoshinao Arai  
Shigeru Kimura

(1) Nominating Committee  
(2) Compensation Committee  
(3) Audit Committee  
\* outside director

# Investor Information

## ■ Stock Data (As of March 31, 2011)

### Common Share:

Number of Common Shares	105,221,259 shares
Number of Shareholders	10,720
Number of shares Per Unit	1,000

### Stock Listings:

Tokyo Stock Exchange (1<sup>st</sup> Section)  
Osaka Securities Exchange (1<sup>st</sup> Section)

### Transfer Agent for Shares:

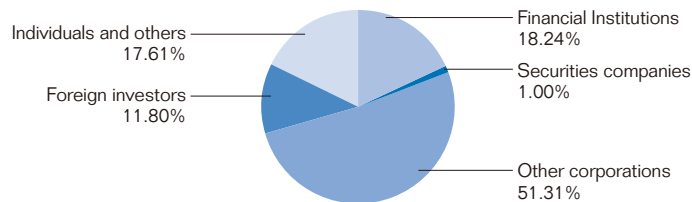
Tokyo Securities Transfer Agent Co., Ltd.  
6-2, Otemachi 2-chome, Chiyoda-ku, Tokyo, 100-0004, Japan  
Phone: +81-3-6833-3907

## ■ Shareholder Information (As of March 31, 2011)

### Ten Largest Shareholders:

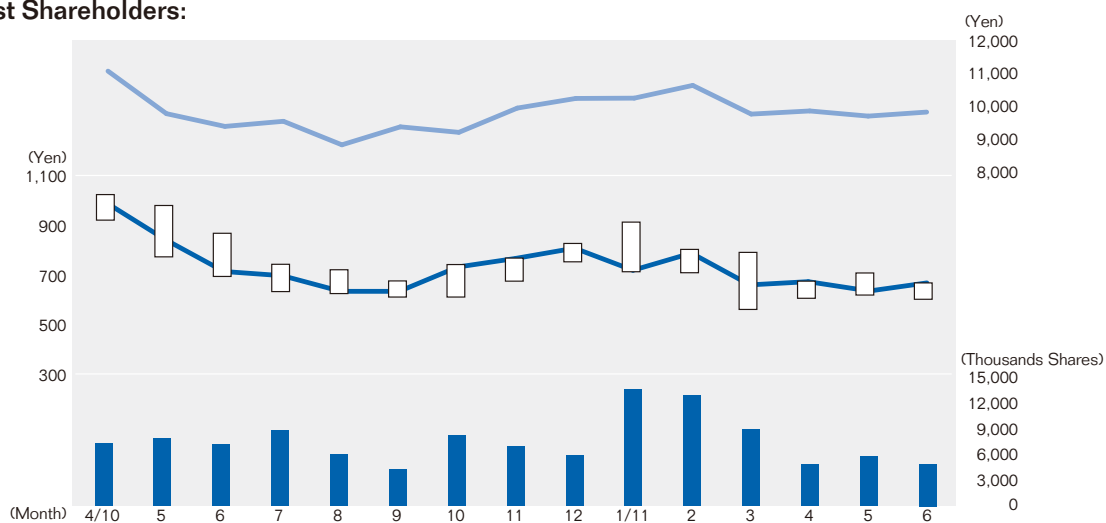
Name of Shareholder	Number of Shares Held (thousands)	Percentage of Total (%)
Hitachi, Ltd.	52,462	49.85
The Master Trust Bank of Japan, Ltd. (Trustee Account)	6,487	6.16
Japan Trustee Services Bank, Ltd. (Trustee Account)	4,426	4.20
Treasury Stock	2,393	2.27
HAYAT	1,250	1.18
Deutsche Bank AG London-PB Non-Treaty Clients 613	1,199	1.13
The Nomura Trust and Banking Co., Ltd.(Trustee Account)	1,055	1.00
Nipponvest	1,038	0.98
BBH(LUX)Fidelity Funds - Japan Advantage	941	0.89
Japan Trustee Services Bank, Ltd. (Trustee Account9)	853	0.81

### Breakdown of Shareholders by Category:



## ■ Monthly Stock Price Data (As of June 30, 2011)

### Ten Largest Shareholders:



Month/Year	4/10	5/10	6/10	7/10	8/10	9/10	10/10	11/10	12/10	1/11	2/11	3/11	4/11	5/11	6/11
Stock High	1,023	979	867	742	720	675	741	767	826	912	802	790	674	707	667
Price Low	920	772	693	632	624	610	610	674	752	712	708	560	605	618	601
(Yen) Average Closing	988	841	713	696	633	633	731	766	807	718	787	659	672	636	667
Trading Volume (Right scale, thousands)	9,698	10,501	9,616	11,750	7,954	5,614	10,991	9,258	7,875	18,074	17,140	11,968	6,443	7,744	6,540



 **Hitachi Kokusai Electric Inc.**

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Tel: +81-3-6734-9401 FAX: +81-3-5209-6160

This Annual Report is only issued as a pdf file and is not available as a printed booklet.

<http://www.hitachi-kokusai.co.jp>