

To Our Shareholders, Employees and Customers

The Year in Review

Sales results by product sector for the year ended March 2000, were mixed. The Scientific Instruments Group achieved growth amid the overall lackluster markets, especially at home, but the Power Tools and Printing Systems groups registered sales declines. By region, sales in Asia showed some growth, but sales in Japan, Europe and North America declined.

Consolidated sales for the year totaled ¥128,234 million, down 11.1 % from the preceding fiscal year.

We posted an operating loss of ¥656 million and a net loss during the year of ¥11,964 million. Of the two major factors in this loss, one was the combination of operating loss, asset write-offs and restructuring charges at Hitachi Koki Imaging Solutions, Inc. (HIKIS). The other was a decline in sales brought on by weakened competitiveness in the Power Tools Group.

The following major managerial and structural reforms have been implemented in order to reverse these serious situations.

Management Reform

Beginning in April 2000, we introduced a business group system, under which the Power Tools, Printing Systems and Scientific Instruments groups operate virtually as independent companies in order to strengthen consolidated business performance. In addition, we created new positions for a CEO and executive officers at each business group to accelerate the speed of decision-making and to clarify operational responsibilities. In line with the other changes, the size of the board of directors was also reduced. In the United States, HIKIS is in the process of a major restructuring, following management reform in July 1999.

Structural Reform

To reinforce product competitiveness, we subdivided power tool manufacturing operations in April 2000. We also fortified the group's operations with the establishment of a subsidiary specializing in sales of power tools to Japan's domestic market, in February 2000, and launched it in April.

To realize further improvements in work efficiency, we transferred the Information System Department of Hitachi Koki to a subsidiary company, and reassigned part of our Administration Department to another subsidiary.

The Year Ahead

The management foundation was laid by the managerial and structural reforms outlined above. Based on these reforms, the following plans will be implemented.

Power Tools Group

We will strengthen our consolidated management by utilizing managerial resources on a priority basis, first, by stepping up input of new products to our production bases in China and totally rearranging worldwide production bases, and second, by undertaking an all-out expansion of distribution of our program for home center sales channels in North America and Japan.

Printing Systems Group

HIKIS, a U.S. manufacturing and sales subsidiary, posted a loss of ¥10.379 billion in the year ended March 2000. We will strive to make its operations profitable by June 2001 by raising its competitiveness in the print-on-demand (POD) market through the introduction of the DDP70 and other products.

The successful high-speed cut-sheet printer DDP70 will be expanded into a range of products. High-speed, continuous paper printers will be further upgraded in speed and visual output quality. High-end color printers are under development in preparation for future business expansion.

Restoring Profitability

By aggressively implementing the aforementioned steps, we plan to achieve consolidated sales of ¥135 billion for the fiscal year ended March, 31, 2001, an increase of approximately 5%. (Sales break down by business group: ¥77.0 billion for Power tools, ¥54.4 billion for Printing Systems and ¥3.6 billion for Scientific Instruments) Net income is forecast to reach ¥2.2 billion.

We hope for your greater support and guidance in the months and years ahead.



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Yasutsugu Takeda
Dr. Yasutsugu Takeda, PhD
President & Director