

88th



Business Report for the 88th Term

From April 1, 2003, to March 31, 2004

Hitachi Medical Corporation

Hitachi Medical creates new value to contribute to healthcare in the 21st century

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Chairman

Yutaka Takuma



To Our Stockholders



At the outset, we would like to thank our stockholders for the invaluable support they have extended to Hitachi Medical throughout the term.

During the year ended March 31, 2004, the Japanese economy was on a recovery track, supported by the resurgence of the U.S. economy, rising exports to Asia and increasing capital investment. However, lackluster personal consumption and a likely slowing of the tempo of export growth

put sustainability of the economic recovery in question.

Medical equipment manufacturers have been operating in a business environment characterized by fierce competition for sales. As a result of the continuing efforts to curb national healthcare expenditure, for example by increasing patient contributions under health insurance programs, many medical institutions, facing financial difficulties, have become reluctant to invest in new medical equipment or to upgrade existing equipment.

In these circumstances, Hitachi Medical's consolidated net sales increased 1.0% year on year to ¥122,699 million. Ordinary income declined 14.4% to ¥7,289 million due to higher R&D expenditures. Net income amounted to ¥3,060 million as a result of recording Amortization of difference resulting from a change in according standard for retirement benefits as an extraordinary loss.

President and CEO

Hiroshi Inomata

Offering category-leading products and transforming the business portfolio

In the image diagnosis equipment business, we have been striving to create systems capable of seizing the leadership in their respective segments. Our “patient-friendly” open-type MRI system has already become the top-seller in its segment in Japan and the U.S. Adhering to our product concept emphasizing the patient-friendliness of medical equipment, we have introduced the “VersiFlex” X-ray system featuring a wide field-of-view flat panel, the “Digital POPULUS” basic fluoroscopic system, and the “EUB-8500” digital diagnostic ultrasound system, all of which are well positioned to become the leaders in their segments.

Also, in accordance with the “V-Plan” which Hitachi Medical has been implementing since 2002, we are transforming our business portfolio. This is a two-fold strategy. One strategic thrust involves addressing the broader needs for medical care, namely, by expanding the scope of our business from

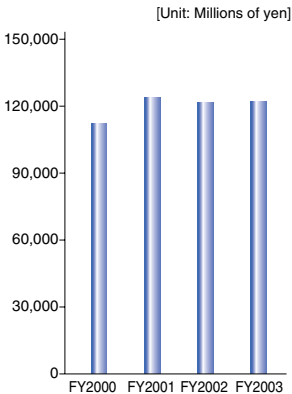
diagnosis to include treatment. We are promoting the introduction of “intelligent operating theaters” offering sophisticated state-of-the-art medical care by integrating image diagnosis with treatment.

Our other strategic thrust is to strengthen the solutions business, specifically by championing the wider and deeper application of IT in the medical field so as to provide solutions that fully address the issues confronting our customers. “Open-Karte”, a web-ready electronic medical chart system, and Digital Hospital, our comprehensive solutions for hospitals, are at the forefront of the Company’s drive to achieve integrated management and effective utilization of information within hospitals, and thus place the tremendous capabilities of advanced IT in the hands of the medical sector.

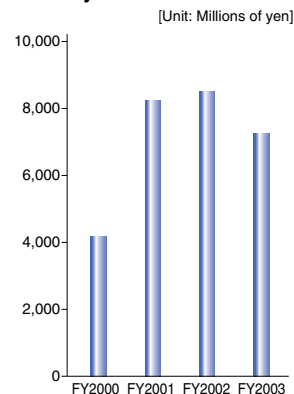
We are also promoting business-academia collaboration in the cutting-edge realm. The fruits of this ongoing collaboration already include development of “Real-time Virtual Sonography” for simultaneous display of ultrasound and CT images of the same

Past Year Results (Consolidated)

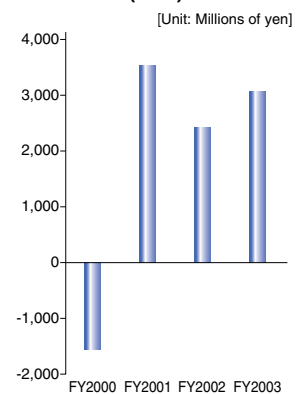
Net Sales



Ordinary Income



Net Income (loss)



cross section in real time and “Real-time Tissue Elastography” for imaging of the hardness of tissues, Business-academia collaboration enables the more sophisticated development, combined with the user’s perspective.

Embracing new values and contribute extensively to the medical community

We are convinced that a new set of values underpins the dramatic changes reshaping the medical sector. Rather than pursuing material affluence, people are now desiring to sustain mental and physical well-being, that is, the quality of life.

To embrace the new values and contribute extensively to the medical community, we are convinced that under our corporate principles - ‘Contribution to healthcare in the 21st century and Creation of new values through fusion of medical science and engineering’, it is essential to offer the demanded medication to as many people as possible with minimum cost.

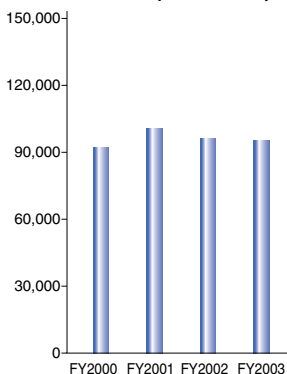
Mindful of the needs of the new era, all of us at Hitachi Medical have rededicated ourselves to revitalizing our corporate culture and resolutely tackling new challenges. These efforts are now bearing fruit. Hitachi Medical, having embraced the new realities of the medical field and brought forth a stream of new cutting-edge equipment, has taken a step forward to a new era.

June 2004

Past Year Results (Non-consolidated)

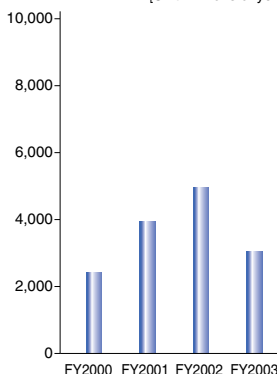
Net Sales

[Unit: Millions of yen]



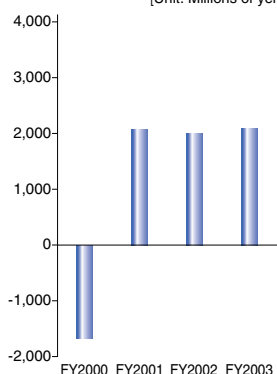
Ordinary Income

[Unit: Millions of yen]



Net Income (loss)

[Unit: Millions of yen]



Computerized Tomography Systems

Sales of MRI systems in Japan were higher than in the previous year thanks to continued strong sales of “APERTO”, a system with 320-degree aperture. In the U.S. market, robust sales of the “AIRIS Elite”, a new system, could not offset lackluster sales of conventional products, and total sales declined substantially from the previous year.

In X-ray CT systems, sales of the “Robusto” four-slice CT system equipped with a real-time image display function were brisk. Total sales of X-ray CT systems declined however, because of weak sales of conventional single-slice CT systems.

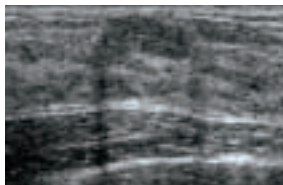
Sales of this category declined 11.0% year on year to ¥26,153 million.

Electronic Medical Equipment

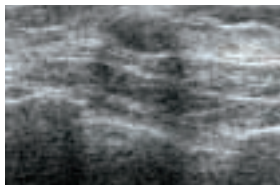
New Technology for Diagnostic Ultrasound Systems

Real-time Tissue Elastography

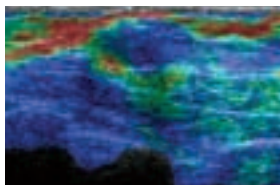
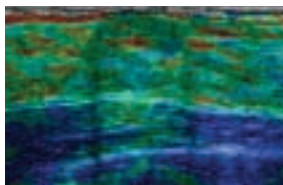
Fibroadenoma (benign)



Invasive ductal carcinoma (malignant)



Observation by
tissue elastography



In general mammary cancer diagnosis, some pain-accompanying diagnostic technique such as needle biopsy, that punctures the needle to the tumor and aspirate the suspicious tissue to diagnose it cytologically, is conducted to differentiate between benign and malignant tumor.

On the other hand, it has been known that there is correlation between the levels of malignancy of tumor and hardness of tissues of such region. In mammary gland area, there is a research that malignant tumor is 2 to 3 times harder than benign tumor.

The “Real-time Tissue Elastography” developed this time enables to display hardness of tissues in real-time with color, and provide the new diagnostic information for the doctors. With this new technology, it is expected to improve the accuracy of diagnosis and help to reduce the unnecessary needle biopsy, which is a big burden to the patients, on the breast examination.

X-ray Equipment

Sales of the “VersiFlex” multi-purpose imaging system equipped with a large field-of-view, flat-panel detector and the “medites CREA” fluoroscopic system increased greatly. Sales of the “Digital POPULUS” basic fluoroscopic system were also buoyant. Also, sales of the “Sirius Star Mobile” X-ray equipment rose greatly thanks to its superior operationality and innovative design. Sales of this category increased 12.2% year on year to ¥14,326 million.

Electronic Medical Equipment

Sales of digital diagnostic ultrasound systems rose, results in overseas markets being particularly gratifying, with the “EUB-8500”, a new product, winning plaudits for its high image quality and superb operationality. In Japan, however, sales of conventional models were weak. Sales of this category decreased 3.9% year on year to ¥10,593 million.

Services and Medical Information

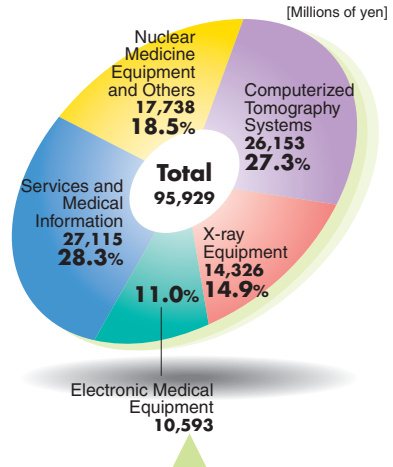
This operation is a source of comprehensive solutions for hospitals. Although revenues from equipment maintenance and sales of image management systems such as the web-ready “OPEN-PACS WeView” and hospital information systems such as “HIHOPS” electronic medical charts were brisk, sales of comprehensive medical checkup systems were sluggish.

Sales of this category was ¥27,115 million. There was no notable change from the last term.

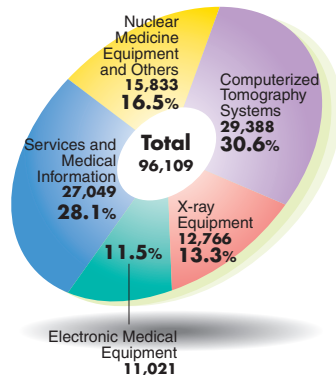
Nuclear Medicine Equipment and Others

Sales of Positron Emission Tomography (PET) systems were strong. As a result, sales of this category increased 11.7% year on year to ¥17,738 million.

Sales by Product Category
(Fiscal year ended March 31, 2004)



(Fiscal year ended March 31, 2003)



Consolidated Financial Statements

Consolidated Balance Sheets (As of March 31, 2004 and 2003)

(Unit: Millions of yen)

	March 31 2004	March 31 2003
(Assets)		
Current Assets	92,377	94,941
Cash	9,749	7,677
Receivables	35,513	36,882
Marketable securities	7,216	9,783
Inventories	23,710	24,615
Deferred taxes	4,136	4,484
Deposits	9,017	8,008
Others	3,542	3,849
Less: Allowance for doubtful accounts	△509	△358
Fixed Assets	27,832	27,585
Tangible assets	17,265	17,616
Buildings and structures	5,937	6,242
Machinery, equipment and vehicles	1,661	1,676
Land	7,664	7,664
Others	2,001	2,031
Intangible assets	2,186	2,259
Consolidation goodwill	70	246
Software	1,977	1,804
Others	139	208
Investments and other assets	8,380	7,709
Investment securities	956	1,010
Long-term prepaid expenses	586	454
Deferred taxes	3,892	3,449
Deferred tax assets on revaluation of land	1,899	1,894
Others	1,045	900
Total Assets	120,209	122,526

	March 31 2004	March 31 2003
(Liabilities)		
Current Liabilities	36,448	41,119
Notes and accounts payable	22,205	24,168
Short-term borrowings	4	20
Accrued income taxes	1,365	2,568
Accrued expenses	5,671	6,477
Reserve for product warranty	2,170	2,875
Others	5,031	5,009
Long-term liabilities	8,926	8,251
Accrued retirement benefits	8,244	7,693
Reserve for directors' retirement allowances	646	547
Others	35	10
Total Liabilities	45,375	49,371
(Minority Interests)		
Minority interests in consolidated subsidiaries	1,555	1,705
(Stockholders' Equity)		
Common stock	13,884	13,884
Capital surplus	21,206	21,206
Retained earnings	49,748	47,389
Unrealized loss on revaluation of land	△11,163	△11,168
Unrealized gain on available-for-sale securities	98	17
Foreign currency translation adjustment	△296	270
Treasury stock	△198	△149
Total Stockholders' Equity	73,278	71,449
Total Liabilities, Minority Interests and Stockholders' Equity	120,209	122,526

Consolidated Statements of Income (For the years ended March 31, 2004 and 2003) (Unit: Millions of yen)

	March 31 2004	March 31 2003
Net Sales	122,699	121,465
Cost of Goods Sold	79,808	79,205
Selling, General and Administrative Expenses	34,722	33,413
Operating Income	8,168	8,846
Non-operating Income	424	540
Non-operating Expenses	1,304	869
Ordinary Income	7,289	8,517
Extraordinary loss	859	1,449
Income before income taxes	6,429	7,067
Income taxes—Current	2,821	5,198
Income taxes—Deferred	△292	△1,641
Minority interests in earnings of consolidated subsidiaries	839	1,090
Net income	3,060	2,418

Consolidated Statements of Retained Earnings (For the years ended March 31, 2004 and 2003) (Unit: Millions of yen)

	March 31 2004		March 31 2003	
(Capital Surplus)				
Beginning balance of Capital Surplus		21,206		21,206
Increase in Capital Surplus				
Gain on sale of Treasury stock	0	0	—	—
Ending balance of Capital Surplus		21,206		21,206
(Retained Earnings)				
Beginning balance of Retained Earnings		47,389		45,685
Increase in Retained Earnings				
Net income	3,060	3,060	2,418	2,418
Decrease in Retained Earnings				
Cash dividends	591		592	
Directors' bonuses	110		120	
Reversal of unrealized loss on revaluation of land	—	701	2	715
Ending balance of Retained Earnings		49,748		47,389

Consolidated Statements of Cash Flows (For the years ended March 31, 2004 and 2003) (Unit: Millions of yen)

	March 31 2004	March 31 2003
Cash flows from operating activities	4,482	5,041
Cash flows from investing activities	△2,735	685
Cash flows from financing activities	△1,449	△3,227
Effect of exchange rate changes on cash and cash equivalents	△249	△431
Net increase in cash and cash equivalents	47	2,067
Beginning balance of cash and cash equivalents	25,204	23,137
Ending balance of cash and cash equivalents	25,252	25,204

Non-Consolidated Balance Sheets (As of March 31, 2004 and 2003) (Unit: Millions of yen)

	March 31 2004	March 31 2003
(Assets)		
Current Assets	76,383	78,420
Cash on hand and in banks	4,108	3,451
Notes receivable	5,097	7,707
Trade receivables	27,672	26,210
Marketable securities	6,502	7,900
Merchandise	481	149
Finished products	7,349	7,904
Raw materials	1,477	1,716
Work in process	7,570	7,748
Deferred tax assets	1,975	2,310
Short-term loan receivable	3,642	4,562
Deposits	9,017	8,008
Others	1,584	773
Less: Allowance for doubtful accounts	△95	△25
Fixed Assets	27,850	27,936
Tangible Assets	16,167	16,578
Buildings	5,532	5,804
Structures	214	236
Machinery and equipment	1,279	1,377
Vehicles	3	1
Tools, furniture and fixture	1,496	1,584
Land	7,574	7,574
Construction in progress	67	—
Intangible Assets	1,862	1,651
Patents	56	61
Trade marks	5	5
Software	941	1,121
Facilities utilization rights	60	64
Software in progress	799	398
Investments and Others	9,819	9,705
Investment securities	537	792
Investment in subsidiaries	2,579	2,777
Investment in Capital	6	6
Long-term loans	1	3
Long-term loans to employees	7	16
Long-term loans to affiliates	16	33
Long-term prepaid expenses	545	395
Deferred tax assets	3,640	3,198
Deferred tax asset on revaluation of land	1,899	1,894
Other investments	586	588
Total Assets	104,233	106,356

Non-Consolidated Financial Statements

(Unit: Millions of yen)

	March 31 2004	March 31 2003
(Liabilities)		
Current Liabilities	27,561	31,696
Notes payable	859	763
Trade payables	21,009	22,832
Other payables	313	246
Accrued income taxes	—	1,856
Accrued expenses	3,187	2,978
Advances received	414	341
Deposits received	448	521
Reserve for product warranty	967	1,736
Notes payable related to equipment	4	18
Other current liabilities	354	400
Non-current Liabilities	8,490	7,924
Accrued retirement benefits	7,894	7,397
Reserve for directors' retirement allowances	595	527
Total Liabilities	36,051	39,621
(Stockholders' Equity)		
Common stock	13,884	13,884
Capital surplus	21,206	21,206
Capital reserve	21,206	21,206
Gain on sale of treasury stock	0	—
Retained earnings	44,353	42,937
Profit reserve	786	786
Voluntary reserve	40,368	39,068
Voluntary reserve-other	40,368	39,068
Unappropriated profit	3,199	3,083
Unrealized loss on revaluation of land	△11,163	△11,168
Unrealized gain on available-for-sale securities	100	25
Treasury stock	△198	△149
Total Stockholders' Equity	68,181	66,735
Total Liabilities and Stockholders' Equity	104,233	106,356

Non-Consolidated Statements of Income (For the years ended March 31, 2004 and 2003) (Unit: Millions of yen)

	March 31 2004	March 31 2003
(Ordinary Profit and Loss)		
Operating Profit and Loss		
Net sales	95,929	96,109
Cost of goods sold	72,870	72,006
Selling, general and administrative expenses	21,330	20,812
Operating income	1,727	3,290
Non-operating Profit and Loss		
Non-operating income	2,631	2,419
Interest income	15	18
Interest on securities	11	28
Dividends income	2,480	2,144
Miscellaneous income	123	228
Non-operating expenses	1,263	713
Interest expenses	6	8
Loss on disposal of inventories	732	377
Loss on disposal of fixed assets	82	68
Foreign exchange loss	356	171
Miscellaneous losses	85	87
Ordinary income	3,095	4,997
(Extraordinary Profit and Loss)		
Extraordinary loss	856	1,447
Amortization of differences resulting from a change in accounting standard for retirement benefits	531	910
Loss on return of agency business for welfare pension fund	—	536
Loss on valuation of investment securities	325	—
Income before income taxes	2,238	3,550
Corporate income tax, inhabitant tax and enterprise tax	289	2,369
Income taxes deferred	△158	△852
Net income	2,107	2,033
Retained profit brought forward	1,387	1,348
Reversal of unrealized loss on revaluation of land	—	△2
Interim dividends	295	296
Unappropriated profit	3,199	3,083

Appropriation of Profit (For the year ended March 31, 2004)

Unappropriated profit for the year	¥3,199,680,793
This amount will be disposed as follows:	
Cash dividends (Cash dividend per share)	¥295,404,923 (Common dividends ¥7.50)
Transfer to voluntary reserve	¥1,500,000,000
Retained profit carried forward	¥1,404,275,870

Company name: Hitachi Medical Corporation
Headquarters: 1-1-14 Uchi-kanda, Chiyoda-ku, Tokyo
Capital: ¥13,884 million
Number of employees: 2,204

Board Members and Corporate Officers (as of June 22, 2004)

The Company adopted a corporate structure based on a committee system, the new system having been approved at the general meeting of stockholders held on June 24, 2003.

Board of Directors

Chairman: Yutaka Takuma
Director: Hiroshi Inomata
Director: Masahiro Tanaka
External Director: Hajime Honma
External Director: Kazuo Sato
External Director: Takao Matsui

Nomination Committee

Chairman: Hiroshi Inomata
Member: Kazuo Sato
Member: Takao Matsui

Audit Committee

Chairman: Hajime Honma
Member: Kazuo Sato
Member: Takao Matsui

Compensation Committee

Chairman: Hiroshi Inomata
Member: Kazuo Sato
Member: Takao Matsui

Executive Officers

(* Serving concurrently as member of the Board of Directors)

President & Chief Executive Officer*:
Hiroshi Inomata
Senior Vice President and Executive Officer:
Shojiro Asai
Senior Vice President and Executive Officer:
Masao Ooi
Vice President and Executive Officer:
Masao Kuroda
Vice President and Executive Officer:
Kiyoshi Hamamatsu
Vice President and Executive Officer*:
Masahiro Tanaka
Vice President and Executive Officer:
Kenzo Sawaide
Vice President and Executive Officer:
Hideki Takahashi
Executive Officer: Toshiaki Kono
Executive Officer: Makoto Hata
Executive Officer: Etsuji Yamamoto
Executive Officer: Norifumi Katsukura

Stock Information (as of March 31, 2004)

Number of Shares Authorized:158,000,000 shares

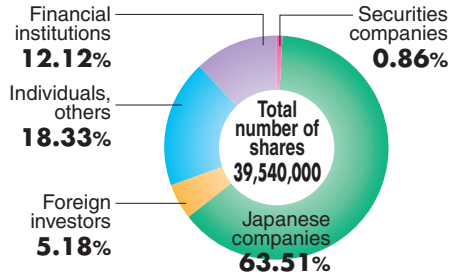
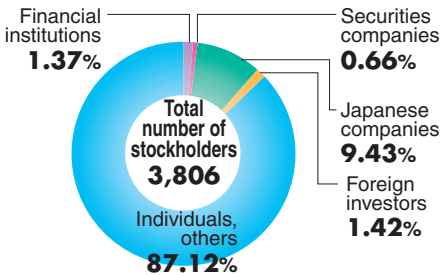
Issued:39,540,000 shares

Number of stockholders:3,806

Major Stockholders

Holders	Number of shares held	Ratio of shares held
	<small>shares</small>	<small>%</small>
Hitachi, Ltd.	24,220,400	62.76
Japan Trustee Services Bank, Ltd.	1,628,000	4.21
The Master Trust Bank of Japan, Ltd.	1,473,000	3.81
Hitachi Medical Group Employees' Stock Association	733,000	1.89
Trust & Custody Services Bank, Ltd.	368,000	0.95

Holders	Number of shares held	Ratio of shares held
	<small>shares</small>	<small>%</small>
Morgan Stanley & Company International Ltd.	295,000	0.76
State Street Bank And Trust Company	275,573	0.71
Yoshifumi Sakurai	255,000	0.66
State Street Bank And Trust Company 505044	228,000	0.59
Atsuko Aoyama	190,000	0.49



2003

- April** ● Announced the release of the “Robusto” 4-slice X-ray CT system.
- May** ● “Real-time Tissue Elastography” received the “Third Technology Award” of The Japan Society of Ultrasonics in Medicine.
- June** ● Adopted a corporate structure based on a committee system upon approval of the general meeting of stockholders.
● Announced the progress on dental germ regeneration. “The dental germ regeneration consortium” is established by six universities.
- August** ● The “APERTO” open-type permanent-magnet MRI system received the “Screening Committee Special Award” of the 33rd Machine Design Award.
- September** ● Held an exhibition marking the launch of direct sales in China with Hitachi Medical Systems (Suzhou) Co., Ltd.
- October** ● The unit shipment of permanent-magnet MRI systems reached 3,000.
- November** ● Announced the release of the “ETG-4000” optical topography system which emphasizes ease of use at clinical settings.
● Headquarters gained ISO 14001.
- December** ● Introduced “Real-time Virtual Sonography”. It received the “Certificate of Merit Award” at RSNA2003 (Radiological Society of North America) info RAD.

August



The 33rd Machine Design Award

October



MRI systems shipped reaches 3,000

2004

- February** ● Held lectures marking the Company’s 30th anniversary at “Roppongi Hills”, Tokyo.
● Announced the release of the “Open-Karte” web-ready electronic medical chart system.
- March** ● It’s optical topography system received the “50th Okochi Memorial Award”.
● Announced the release of the “CONCORD” armless fluoroscopic system equipped with a flat-panel detector.

March



The 50th Okochi Memorial Award.



Information for Stockholders

- Unit of shares: 1,000 share
- Fiscal year end: March 31 of each year
- Stockholder registration date for year-end dividend: March 31 of each year
- Stockholder registration date for interim dividend: September 30 of each year
- Ordinary general stockholders' meeting: June of each year
- Public announcements: Nihon Keizai Shimbun issued in Tokyo
Information on balance sheets provided for in Article 16, Paragraph 3 of the "Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha" is available at <http://www.hitachi-medical.co.jp>.
- Transfer agent: Tokyo Securities Transfer Agent Co., Ltd.
- Transfer agent headquarters: 1-5-1 Marunouchi, Chiyoda-ku, Tokyo (Shinmaru Building)
Tel: (03) 3212-4611
- Transfer agent branch: The Osaka office of Tokyo Securities Transfer Agent Co., Ltd. and all branches nationwide
- Requests for the Company to repurchase shares in quantities less than the minimum trading unit and requests for additional purchases:

Requests for the Company to repurchase shares in quantities less than one trading unit and requests for additional purchases are handled by the above-mentioned transfer agent. Handling of requests for additional purchases is suspended for a period of 12 business days immediately preceding March 31 and for a period of 12 business days immediately preceding September 30. In addition, handling of requests for additional purchases may be suspended for a certain period specified by the Company.

(※) Announcement

Our Company's transfer agent, Tokyo Securities Transfer Agent Co., Ltd. will change its headquarters to 1-4-2, Marunouchi, Chiyoda-ku, Tokyo (Togin Building 3F) as of July 20, 2004. Please be informed that all the transfer processes will be handled at the new address after July 20, 2004. The phone number will not be changed.

Hitachi Medical Corporation

For further information, please contact:

General Affairs Department
1-1-14 Uchikanda, Chiyoda-ku, Tokyo 101-0047 Japan Tel: +81-3-3291-6391