Hitachi Chemical Co., Ltd.

Hitachi Chemical

ANNUAL REPORT 2003

Year ended March 31, 2003

HITACHI

PROFILE

Hitachi Chemical Co., Ltd. was established in 1962 and began operations in 1963 with the transfer of the business assets of the Chemical Products Division of Hitachi, Ltd. Since then, based on its accumulated polymer technologies, the Company has continuously worked to expand its field of operations, developing innovative technologies and new business ventures as a chemical manufacturer engaged in a wide range of areas, including Electronics-Related Products, Chemical-Related Products, and Housing Equipment and Environmental Facilities.

Hitachi Chemical will continue its efforts to develop valuable new products and improve its technologies in key areas with high growth potential, including telecommunications, energy, and life sciences. As a technologically innovative corporation that provides optimal solutions to its customers, Hitachi Chemical is combining and harmonizing the superior technologies it has accumulated over the years in order to maximize the value of the Hitachi Chemical Group and contribute to a more prosperous society while maintaining its strong commitment to protecting the environment.

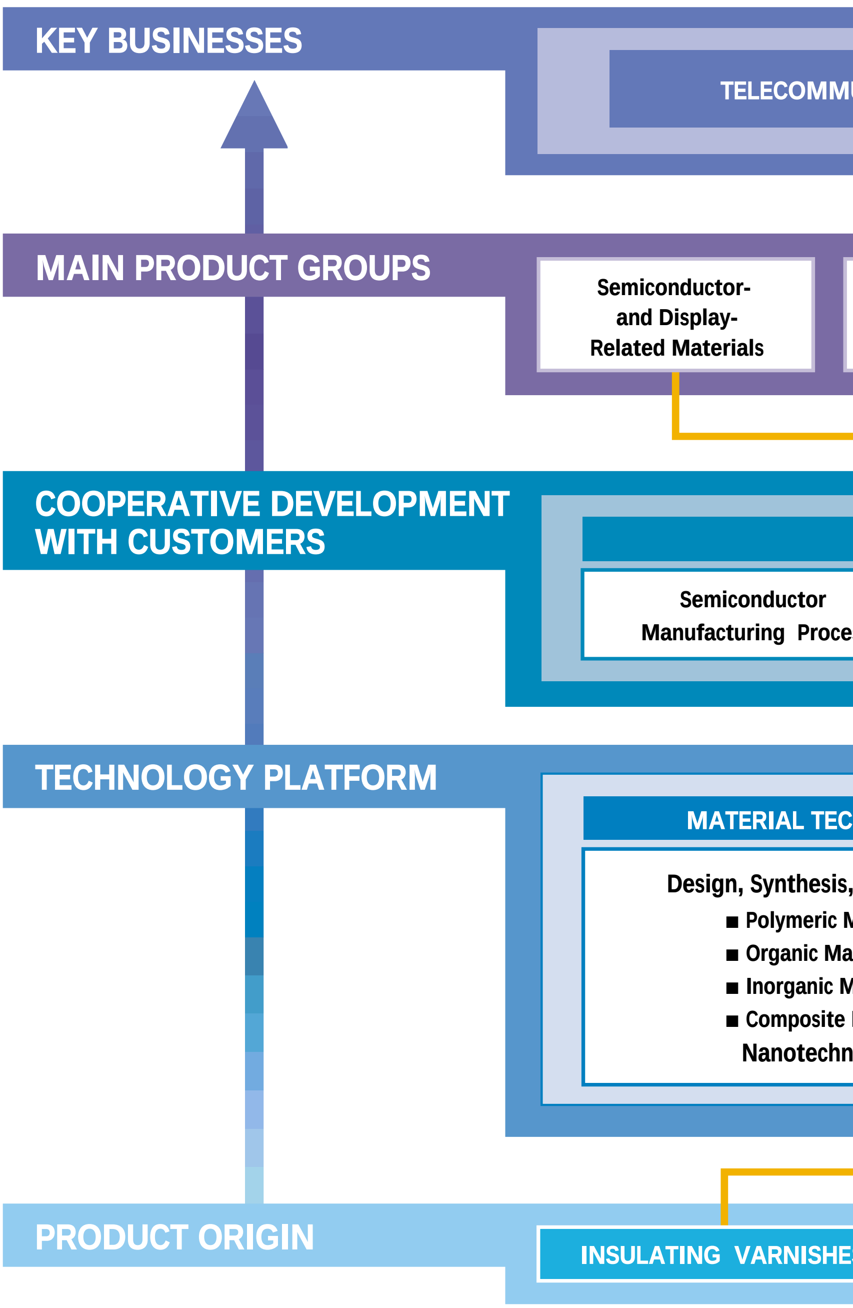
MAXIMIZING VALUE

CONTENTS

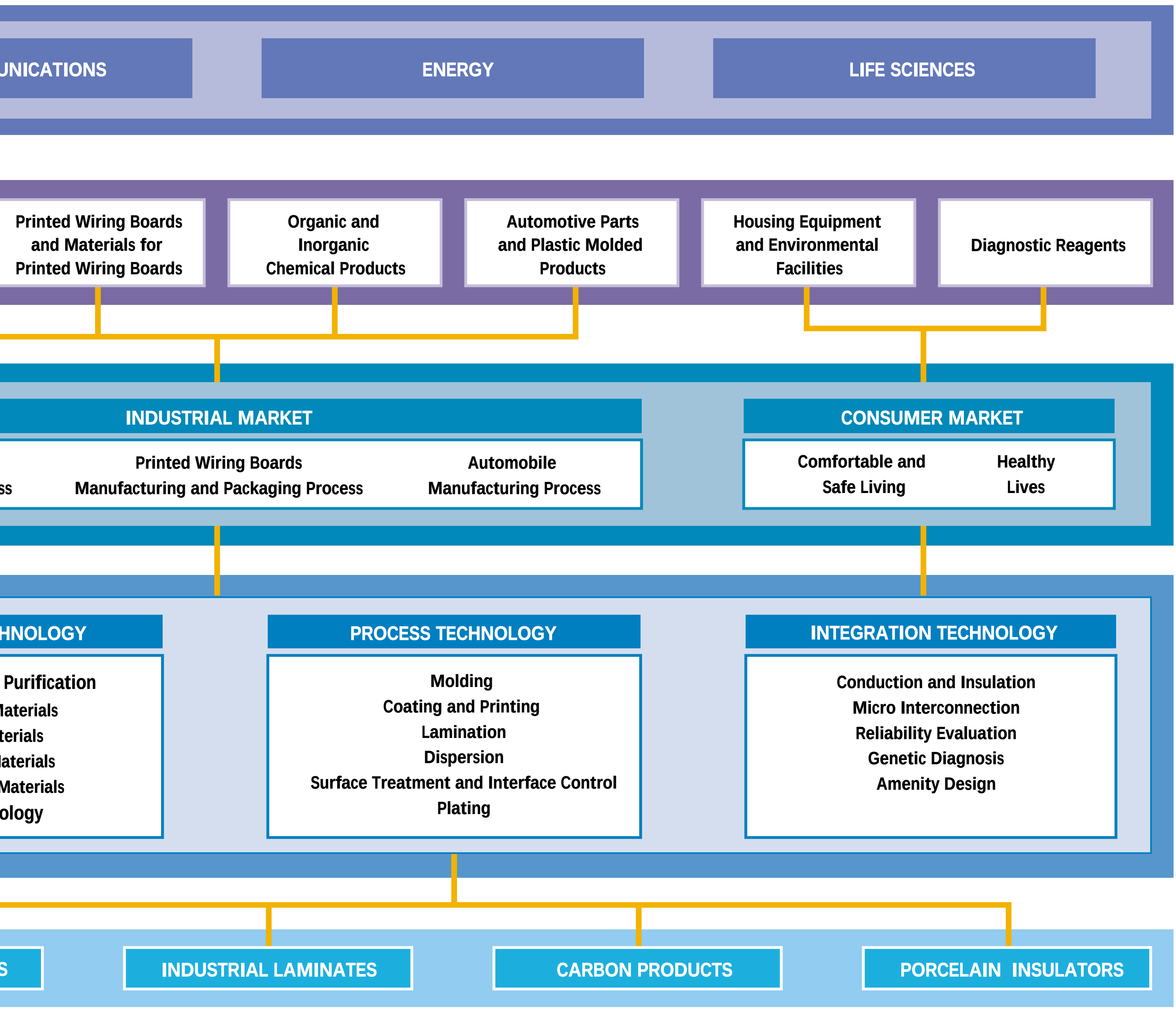
TECHNOLOGICAL FIELDS OF HITA

The foundation of Hitachi Chemical's operations, which today encompass a broad range of activities, is its polymer technology. Through the development of products such as insulating varnishes, industrial laminates, carbon products, and porcelain insulators, Hitachi Chemical has accumulated sophisticated material technologies, including polymer technology, and process technologies, as well as integration technologies that integrate material and process technologies. These technologies have produced a diverse product lineup including materials for semiconductors and liquid crystal displays, printed wiring boards and materials for printed wiring boards, organic and inorganic chemical products, automotive parts, plastic molded products, housing equipment and environmental facilities, and diagnostic reagents.

In the future, by combining and integrating elements of its broad technology platform with unlimited potential, Hitachi Chemical will strive for technological innovation to provide optimal solutions that contribute to a more prosperous society.



ACHI CHEMICAL



FINANCIAL HIGHLIGHTS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2003, 2002 and 2001

	Millions of yen (except per share data)			Thousands of U.S. dollars (except per share data) (Note 1)
	2003	2002	2001	**2003**
For the year:				
Net sales	**¥494,226**	¥480,777	¥586,314	**$4,118,550**
Operating income	**24,930**	13,048	45,814	**207,750**
Net income	**8,644**	3,141	13,022	**72,033**
At year-end:				
Total assets	**¥407,148**	¥418,408	¥457,117	**$3,392,900**
Total stockholders' equity	**146,443**	143,692	134,095	**1,220,358**
Per share data:				
Net income (basic) (Note 2)	**¥ 39.91**	¥ 15.28	¥ 64.42	**$ 0.33**
Net income (diluted) (Note 2)	**39.54**	—	63.53	**0.33**
Cash dividends declared	**11.00**	10.00	10.00	**0.09**
Total stockholders' equity	**704.87**	693.35	663.34	**5.87**
Value indicators:				
Return on sales (%)	**1.7**	0.7	2.2	
Return on equity (%)	**6.0**	2.3	10.1	
Return on assets (%)	**2.1**	0.7	2.9	

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, solely for the convenience of the reader, at the rate of ¥120=US$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2003.
2. Effective April 1, 2002, the Company adopted Accounting Standards Board of Japan Statement No. 2, "Calculations of Earnings Per Share of the current net earnings." See note 1 (m) to the consolidated financial statements on page 36.

FORWARD-LOOKING STATEMENTS

This Annual Report may contain certain statements that Hitachi Chemical believes are, or may be considered to be, "forward-looking statements." These forward-looking statements generally use statements that include phrases such as "believe," "expect," "anticipate," "plan," "foresee,"or other similar words or phrases. Similarly, statements that describe our objectives, plans, or goals are also forward-looking statements. All of these forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statements. The principal important risk factors that could cause actual performance and future actions to differ materially from those contemplated by the relevant forward-looking statements are: uncertainty as to the ability of Hitachi Chemical to continue to develop and market products that achieve market acceptance; fluctuations in product demand and industry capacity; exchange rates and fluctuations between the yen and other currencies in which Hitachi Chemical makes significant sales or in which the assets and liabilities of Hitachi Chemical are denominated, particularly between the yen and the U.S. dollar; uncertainty as to the access of Hitachi Chemical to liquidity or long-term financing, particularly in the context of restrictions or availability of credit prevailing in Japan; uncertainty as to the ability of Hitachi Chemical to implement measures to reduce the potential negative impact of fluctuations in product demand and/or exchange rates; economic conditions, and the regulatory and trade environment of the major markets of Hitachi Chemical; and the market prices of equity securities in Japan, declines in which may result in the devaluation loss of equity securities held by Hitachi Chemical. However, risk factors are not limited to the above.

Isao Uchigasaki, Chairman of the Board   Yasuji Nagase, President, Chief Executive Officer and Director

A New President and the Introduction of the "Company with Committees System"

At the annual general shareholders meeting held on June 26, 2003, Hitachi Chemical Co., Ltd. received approval to adopt a new Company with Committees System in accordance with the amended Commercial Code of Japan. This new system will further strengthen our corporate governance and will enable our management to respond with greater agility. Yasuji Nagase, who was appointed as the new President and assumed office on April 1, 2003, succeeds Isao Uchigasaki, our former President and Representative Director, who is now Chairman of the Board. As a result of our shifting to the Company with Committees System, a clear separation has been established between supervisory and operational management functions. Mr. Uchigasaki is now accountable for oversight as Chairman of the Board, and Mr. Nagase is in charge of business operations in his role as President, Chief Executive Officer and Director. Under this new system, various management reforms will be swiftly and vigorously implemented.

Overview of Consolidated Results for Fiscal 2002

In fiscal 2002, ended March 31, 2003, the Japanese economy showed signs of a recovery during the first half of the year, but amid prolonged deflationary conditions, the economy faced setbacks from the beginning of the new year due to factors such as a slowdown in exports and personal consumption as a result of the intensified conflict in Iraq. The economies of Asia maintained a high rate of growth due to robust demand in electronics and other fields, and, however, the U.S. economy slowed dramatically at the beginning of the new year due to sluggish personal consumption, lowered capital investment, and the hostilities in Iraq.

In this challenging business environment, the Hitachi Chemical Group strove to establish a more balanced and diversified business portfolio less susceptible to market volatility. The Group concentrated management resources on products with higher added value, while at the same time restructuring manufacturing and R&D bases to be more responsive to global demands. We implemented various measures that enabled us to selectively focus on strategic investments, further improve our productivity, and reduce overall costs. In order to strengthen consolidated management, Hitachi Chemical restructured the Group operations and reduced interest-bearing liabilities, while at the same time we stepped up our corporate disclosure responsibilities with the introduction of quarterly consolidated financial reports in fiscal 2002. In addition, the Group actively worked to develop and launch environmentally friendly products and promoted various energy conservation practices.

As a result, net sales for fiscal 2002 increased 2.8 percent year-over-year to ¥494.2 billion, operating income increased 91.1 percent year-over-year to ¥24.9 billion, and net income increased 175.2 percent year-over-year to ¥8.6 billion. These results were primarily due to increased sales of Electronics-Related Products and a reduction in the work force implemented during the previous fiscal year. Net income per share (basic) increased from ¥15.28 for the previous fiscal year to ¥39.91, and return on equity improved from 2.3 percent to 6.0 percent.

Although results for fiscal 2002 improved when compared with fiscal 2001, which was marked by significantly lower results, they were, however, far from the record high levels of fiscal 2000. Therefore, we are working to expand our operations by implementing structural reforms to create new businesses, innovating production methods, reinventing business processes, and strengthening corporate governance practices in order to rapidly achieve new performance records.

Commemorative Dividend Honoring the 40th Anniversary of the Company's Establishment

To mark the 40th anniversary of the establishment of Hitachi Chemical Co., Ltd. as a separate and independent company from Hitachi, Ltd., it was approved at the annual general shareholders meeting that a special commemorative dividend of ¥1.00 per share would be added to the ordinary dividend of ¥5.00 per share, making for a total dividend of ¥6.00 per share. In December 2002, the Company paid an interim dividend of ¥5.00 per share, bringing the annual dividend to ¥11.00 per share, for a dividend payout ratio of 35.3 percent. Retained earnings will be allocated toward capital investment and research and development of higher-value-added products in the key business areas of telecommunications, energy, and life sciences.

Efficient and Resilient Management System to Maximize Group Value

The future economic outlook predicts that personal consumption is expected to slow down as a result of continued uncertainties in employment, lowered income levels due to tax, and social security system reforms. Further, the currently unsettled global political environment is expected to further reduce exports and private capital investment, causing a worsening economic slump.

Based on our management policy that emphasizes the pursuit of added value, improved efficiency, and increasing sales, Hitachi Chemical is rebuilding its product portfolio with future market trends in mind, while at the same time implementing optimal organizational and operational processes. Our aim is to further instill efficient and resilient management practices that are responsive to market changes and maximize the value of the Hitachi Chemical Group. In this way, we are striving to meet the expectations of not only our shareholders, but also all our stakeholders.

In accomplishing these activities, based on our long-standing and uncompromising ethical standards, we remain committed to our environment, maintaining the health and safety of all employees, and the local communities in which we are involved. Environmental management, which has been elevated to a management objective, will be incorporated into all areas of our business. We will continue to work toward achieving sustainable development over the long-term.

We thank all of our shareholders for your continued support and encouragement.

July 2003

Isao Uchigasaki
Chairman of the Board

Yasuji Nagase
President, Chief Executive Officer and Director

BUSINESS STRATEGIES FOR MAXIMIZING THE VALUE OF THE GROUP

Yasuji Nagase, President, Chief Executive Officer and Director

Born	May 15, 1943	
Career Overview	April 1967	Entered Hitachi Chemical Co., Ltd. (the Company)
	June 1995	Board Director of the Company
	June 1996	Executive Managing Director of the Company
	June 1997	Senior Executive Managing Director of the Company
	Dec. 1999	Executive Vice President of the Company
	May 2001	President of Hitachi Housetec Co., Ltd.
	April 2003	President and Representative Director of the Company
	June 2003	President, Chief Executive Officer and Director of the Company (to present)

Q You have been appointed President in an extremely challenging business environment, amid such concerns as a prolonged economic slowdown. What issues do you want to address?

Our basic management philosophy, which has remained unchanged during the 40 years since Hitachi Chemical Co., Ltd. was separated from Hitachi, Ltd. and established as an independent company, is to contribute to society through the development of innovative products. As President, I am keenly aware that this should always remain as our steadfast philosophy in order to ensure the growth of the Hitachi Chemical Group, especially during these difficult times. I am committed to doing my best to accomplish this mission.

In particular, although the current economic climate is very demanding, we take the point of view that this period of intense change represents an opportunity for progress. We will not turn our backs on rapid changes in our environment. Rather, we will execute our business operations, while at the same time swiftly reforming ourselves at a dynamic pace. I firmly believe it is an important duty of management to take calculated risks followed by decisive and fast action. As such, I plan to quickly and vigorously implement various measures in response to sharp changes in our environment.

By making these efforts, we will pursue our management objective of maximizing the corporate value of the Hitachi Chemical Group and working hard to earn full recognition from all of our shareholders, customers, employees and other stakeholders.

Q In fiscal 2001, both sales and earnings declined considerably due to the slowdown in the IT industry. However, in fiscal 2002, Hitachi Chemical achieved a recovery. Could you explain the factors behind this result?

The first major factor, of course, was the improved performance in Electronics-Related Products, which is Hitachi Chemical's primary business area. Conditions in the electronics market improved somewhat after bottoming out in fiscal 2001. In particular, sales of anisotropic conductive films rose due to increased demand for liquid crystal displays, and Hitachi Chemical worked hard to attract new customers for semiconductor materials and printed wiring board materials by finding ways to optimize the superiority of our product features and technical services. The second factor involved the competitiveness of our Chemical-Related Products. Over the past few years, we have focused on developing and increasing sales of new products based on chemical technologies. During fiscal 2002, we achieved steady growth in the sales of carbon anode materials for lithium ion batteries, GSO single crystal scintillators for medical imaging equipment, and electromagnetic shielding films for plasma display panels. Sales of molded parts and friction materials for automobiles also increased. Thirdly, during the previous fiscal year, we reduced the total number of employees, throughout all business segments, by approximately 1,100. These reform measures began to show positive results during fiscal 2002, further contributing to increased earnings.

Although results have improved, our operating income was only about half the record high level of fiscal 2000, and our core business has not returned to the level of profitability achieved in fiscal 2000. Therefore, I would like to quickly implement specific business reforms with the objective of returning to record income levels.

Q One of Hitachi Chemical's management objectives is maximizing the value of the Group. What do you envision for the Group, and what reforms will you undertake to achieve this goal?

Hitachi Chemical aims to remain a technologically innovative corporation that contributes to the development of unique products and technologies pursued by our customers. I recognize that this will enable us to achieve sustainable high growth and high earnings, thus maximizing the value of the entire Hitachi Chemical Group.

As a technologically innovative corporation, we must fully capitalize on the strengths of our broad technology platform. We also need to offer the value that only Hitachi Chemical can provide in response to the changing times and fluctuating market demands. In other words, we must quickly and consistently provide unique products and solutions used in our customers' production processes, and generate new businesses, beginning from the design stage, that enable our customers to achieve their goals. With this in mind, for the past several years Hitachi Chemical has been promoting the Material System Solution (MSS), an effective business model that highlights the Group's strengths. MSS is not merely a combination of various Hitachi Chemical technologies and materials, but an optimal solution based on careful evaluation of our products when used under our customers' actual manufacturing conditions. Through efforts such as these, we have established our footing as a technologically innovative corporation.

However, these efforts have led us only part of the way toward achieving sustainable high growth and high earnings. More than just remaining a technologically innovative corporation, the key to the future growth of the Group will involve our ability to quickly implement important reforms to our business structure. These include establishing a balanced and diversified business portfolio by creating multiple clusters of products with varying growth cycles and high growth potential, effectively utilizing management resources, and finding new ways to capitalize on the synergy of consolidated management in speeding up the decision-making process.

What are your objectives for building a balanced and diversified business portfolio, and what specific approach will you take?

Electronics-Related Products account for approximately 40 percent of Hitachi Chemical's net sales. Because this market is extremely volatile, businesses that focus only on Electronics-Related Products are very vulnerable to economic fluctuations. We must continue to build a stable earnings base over the long-term, while continuing to strengthen our Electronics-Related Products area and improve the profitability of our Chemical-Related Products and Housing Equipment and Environmental Facilities businesses in order to compensate for periods when demand in our electronics business sector weakens. This is why it is necessary to build a balanced and diversified business portfolio.

As I mentioned previously, over the past few years, as part of our effort to stimulate the Chemical-Related Products business, we have focused on increasing sales of new products with differing growth cycles based on chemical technologies. These efforts have, to a certain degree, paid off in shoring up our business results.

Furthermore, as part of our balanced and diversified business strategy, we are taking a closer look at the growth potential of the automobile industry. Technological innovations in the automobile industry are progressing at a rapid rate, and represent an excellent opportunity for us to expand our operations. Over the years, Hitachi Chemical has accumulated the essential core technologies to develop businesses for automobile interior and exterior molded parts, brake components, engine and electrical components, and batteries. The automobile industry has growing needs for environmental performance, safety improvements, and Intelligent Transport System (ITS) compatibility, representing a bonanza of possible new technology products, including fuel cell batteries. By effectively using our broad technology platform and sales network, we will be able to develop new types of components that meet these needs, thus opening up a wide range of new opportunities for us.

Additionally, we view our life science-related business as an important part of our balanced and diversified business strategy. The life sciences market is a very promising business area in which we can expect high growth over the long-term. With this in mind, Hitachi Chemical has developed the seeds of several new businesses, including mRNA expression kits and microchips for rapid electrophoresis analysis. However, we are still lagging behind in this field and building a strategic framework for this business area is a pressing need.

With a deflationary trend affecting all parts of the world, the market cannot be expected to continue expanding as it has been in the past. As a result, further improvements in management efficiency will be necessary. Under these current conditions, how will you advocate new structural business reforms in order to achieve further growth?

Although we certainly do not anticipate a significant increase in demand, I want to work toward continuous improvement in sales and earnings, despite whatever situations may develop in the future. Companies that have not reached at least a certain scale will not be able to achieve stable growth. At present, Hitachi Chemical aims to achieve consolidated net sales consistently in excess of ¥500 billion.

Unfortunately, current conditions may make it difficult to reach this level in fiscal 2003. Nevertheless, we intend to achieve a slight increase in sales.

Hitachi Chemical faces the problem of lower profitability when compared to other companies in the industry. I am fully aware that rectifying this situation is an important issue for us. The Hitachi Chemical Group's strength lies in its broad technology platform, and its business is providing solutions designed to meet the diverse needs of our customers. As such, it is extremely important that we concentrate our management resources in expanding and profitable business areas, while efficiently developing and manufacturing new products that utilize our superior technologies. Based on this construct, I have taken on the structural reforms proposed by former President Uchigasaki. These include generating new businesses, innovating production methods, reinventing our business processes, and strengthening corporate governance. I will implement these measures quickly and responsibly in order to seek higher earnings for the Hitachi Chemical Group.

Another step we must take in order to improve profitability is to strengthen our consolidated management. In this age of intensified global competition, we will not succeed unless we harness the collective strength of our entire Group. It is vitally important that we eliminate redundant operations and businesses, while creating greater synergies among the technical development and marketing functions for all our companies. Taking these actions will ensure that we effectively utilize our Group's management resources. Five years ago, Hitachi Chemical Co., Ltd. had more than one hundred consolidated subsidiaries, but through a process of consolidation and restructuring, as of the end of fiscal 2002 we have reduced this number to 65 subsidiaries. We are working to further clarify the mission and positioning of each company within the Hitachi Chemical Group, and will proceed with additional restructurings. Furthermore, we will actively pursue synergies among those Group companies that are involved in similar business areas and will integrate them into our divisional operations.

Q Finally, do you have a motto or philosophy that you always keep in mind?

I don't know if you would call it a motto, but since I have taken office as President, I have aimed to satisfy our shareholders and customers and to meet the needs of our employees. I will also be straightforward and will handle all issues in a fair manner. In order to do so, I listen to a lot of people's comments, value honest discussions, and never put people off with vague answers. I also subscribe to the management principle that one should carry out each and every task to completion.

I am thoroughly committed to managing Hitachi Chemical in a reasonable and clear-cut fashion, being accountable to all of our stakeholders and their expectations.

MAXIMIZING GROUP VALUE: REFORMS AIMED AT CREATING NEW PRODUCTS AND BUSINESSES

BROADENING AND DEEPENING OUR EXTENSIVE TECHNOLOGY PLATFORM

A Technological Infrastructure for Creating New Products and Businesses

To maximize the value of Group companies, the Hitachi Chemical Group is working to create new products and businesses in key areas including telecommunications, energy and life sciences. Research and development of components and materials used in these fields is supported by the strong technology platform the Group has built over many years, based on core technologies in areas such as materials, processes and integration. In particular, we are focusing on expanding and deepening, our range of material technologies in areas such as polymer synthesis, technologies that contribute to improved functionality, crystallization and ceramic firing technologies for inorganic materials and composite technology. Furthermore, great progress has recently been made in the field of nanotechnology. Hitachi Chemical is working closely with other Hitachi Group companies to advance technical development of this innovative technology platform that significantly increases the potential of materials.

Utilizing our extensive technology platform, including process technology, we integrate new materials and components to promote "Material System Solution (MSS)," a business model that provides optimal solutions for emerging customer needs.

Swift and Efficient R&D

As the pace of technological innovation continues to increase, and the quality and sophistication of technology rises higher, it has become crucial for us to improve the speed and efficiency of our R&D activities if we are to develop new products and businesses in a timely manner. As part of business structural reforms initiated this year, Hitachi Chemical will reform its R&D organization to make its activities speedier and more efficient. In addition, we fully utilize not only Group R&D resources, but also external resources by participating in industry-government projects and conducting joint research with universities.

One example of these activities is our participation in the Consortium for Advanced Semiconductor Materials and Related Technologies (CASMAT), which was established by ten prominent materials manufacturers in March 2003. The participating companies work together to develop and standardize

evaluation technologies for the development of semiconductor materials used in back-end processing for next-generation semiconductors, such as Φ300mm silicon wafers and 65nm nodes. Hitachi Chemical considers its participation in CASMAT to be a valuable opportunity to accumulate evaluation technologies for the speedy and efficient development of key materials used in semiconductor production such as CMP slurry, low-k materials for interlayer dielectric, and buffer coating materials, as well as a chance to evaluate their compatibility with the other components and materials used in semiconductors.

Low-k materials for ULSI interlayer dielectric

Strategic Use of Intellectual Property

Strategic use of our intellectual property will contribute significantly to the development of new products and businesses, thereby helping us to compete fairly with other companies, especially rapidly growing major Asian manufacturers.

Hitachi Chemical is working to develop a more strategic patent network by continuing to file patents not only for materials, but also for processes that create total solutions for assembly and equipment manufacturers who use these materials. In addition, an intellectual property strategy that is responsive to changes in the regions where products are manufactured and consumed is key. As a result, we are working to create a patent network geared towards countries such as China, with major production centers for cutting-edge technology and huge emerging markets.

Moreover, we will strive to further improve the profitability of our patent licensing by making strategic use of the approximately 1,500 patents owned by the Hitachi Chemical Group.

INCREASING OUR GLOBAL PRESENCE

Building a Global R&D Triangle

In October 2002, Hitachi Chemical and Shanghai Jiao Tong University, one of the major universities in China, established the Hitachi Chemical-Shanghai Jiao Tong University Research and Development Center on the university's campus. Making use of the University's outstanding intellectual resources, the Center focuses primarily on conducting speedy research and development of Electronics-Related Products suitable for the Chinese market, while providing optimal application processes for increasingly sophisticated products close to the market. In the initial phase of operation, the Center will engage in research and development of photosensitive materials, one of Hitachi Chemical's key products, and will also function as a technical service center for customers. The establishment of the new facility in China has created a global R&D triangle, also comprising the Research & Development Center in Japan, which is responsible for technical development in cutting-edge fields, and Hitachi Chemical Research Center, Inc. in the U.S., which is the base for life science-related research activities. Through these three strategic research centers, we will work to establish our position as a technologically innovative corporation by acquiring world-leading technologies and developing, utilizing and sharing human resources.

Contract signing ceremony for the establishment of the Hitachi Chemical-Shanghai Jiao Tong University Research and Development Center

Strengthening Business Operations in China and Southeast Asia

Hitachi Chemical is working to further develop global markets with an eye toward generating new products and businesses. We have adopted a long-term strategy for internationally competitive products that emphasizes employing all our management tools to establish a global supply system and technical services network and strengthen our operating base.

For example, Hitachi Chemical has recently begun production of photosensitive dry films for printed wiring boards in China. Subsidiary Hitachi Chemical (Dongguan) Co., Ltd. was established in Dongguan, Guangdong Province, to manufacture photosensitive dry films, which are used in etching and plating resist for printed wiring boards. Production began in May 2003. Manufacturers of printed wiring boards have been expanding their production facilities in China at an increasingly rapid rate, and the Chinese market for photosensitive dry films for use in the processing of printed wiring boards is expected to grow by more than 10 percent annually, becoming the world's largest market in 2005. By manufacturing photosensitive dry films locally in China, Hitachi Chemical intends to shorten delivery time and offer enhanced technical services, thereby increasing its share of the Chinese market for photosensitive dry films from its present 30 percent to 40 percent by 2007.

Hitachi Chemical (Dongguan) Co., Ltd.

Photosensitive dry films

In Thailand, Japan Brake (Thailand) Co., Ltd., a subsidiary for the production of friction materials for automobiles, was established as a joint venture among Hitachi Chemical Co., Ltd. and one of its subsidiaries, Japan Brake Industrial Co., Ltd., and a Japanese automobile-parts manufacturer. Production began in March 2003. As automobile production in Asia continues to increase, there is a growing need for local procurement of friction materials such as disc brake pads. This joint venture was established as one of Hitachi Chemical's strategic bases for friction materials for automobiles.

In addition, Shin-Kobe Electric Machinery Co., Ltd., the Hitachi Chemical Group company that handles the battery business, established a subsidiary for the production of batteries in Dongguan to respond to the increase in demand for automotive and industrial batteries in China. The facility is currently under construction, and production is scheduled to begin in November 2003.

Japan Brake (Thailand) Co., Ltd.

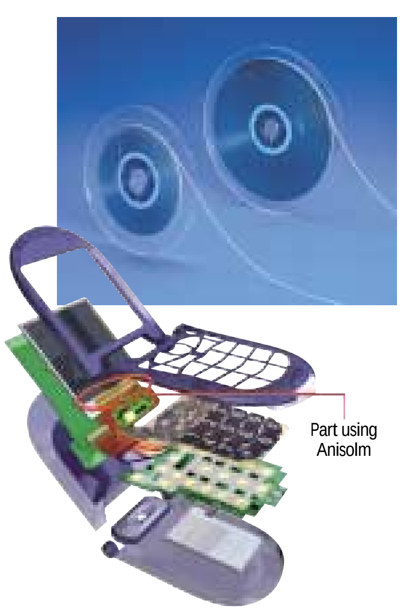
Disc brake pads

Battery for automobiles
(Shin-Kobe Electric Machinery Co., Ltd.)

CREATING HIGH-VALUE-ADDED PRODUCTS IN MAIN BUSINESS FIELDS

The Hitachi Chemical Group has identified key markets with high growth potential, including telecommunications, energy and life sciences. Supported by its broad technology platform developed over many years, Hitachi Chemical works to create new products used in these fields and improve its market share for core products. The following are some examples of these efforts.

TELECOMMUNICATIONS



“Anisolm“ Anisotropic Conductive Films for Liquid Crystal Displays

Anisolm is a material used for interconnecting liquid crystal display (LCD) drive-use semiconductor chip-mounted tape carrier package (TCP) circuits and LCD panel circuits. Anisolm is composed of an insulating adhesive material with dispersed conductive particles and coated on a layer of film. When Anisolm is used to connect circuits, TCP and LCD panel circuits are electrically connected with the help of the conductive particles while preserving the insulation of adjacent circuits. This makes possible a precise connection, which was difficult using solder, a conventional connecting material, and Anisolm is thereby playing a major role in advances in LCD color displays and fine pitches on LCD panels.

In 1984, Hitachi Chemical Co., Ltd. became the first company in the world to commercialize anisotropic conductive film (ACF) with metallic particles dispersed in an adhesive film. Utilizing the know-how we have accumulated over the years, coupled with our technologies for resin design and synthesis, film structural design and reliability evaluation, we provide optimal solutions to meet customer needs. The Company holds the leading share of the global market for ACF, with 60 percent of the market (Company

estimate). Today, Anisolm has a level of recognition in the market that makes its name synonymous with ACF for liquid crystal displays.

In addition, Anisolm has been recognized for its significant contribution to the development and popularization of liquid crystal displays, receiving such awards as the Prime Minister's Prize for Innovation from the Japan Institute of Invention and Innovation (JIII) and the SPSJ Award for Outstanding Achievement in Polymer Science in Technology from the Society of Polymer Science, Japan.

CMP Slurry for High-Speed and Finely Selective Planarization of Barrier Metal

Chemical mechanical planarization (CMP) is a technology designed for polishing and smoothing out an uneven surface on the dielectric film between the layers of circuits of semiconductors that results from mechanical processing. CMP slurry is widely applied in this process as a polishing material.

To meet the strong demand for faster semiconductor devices, circuit wiring material is shifting from aluminum to copper due to its lower electrical resistance property. Copper wiring is typically done by the following steps: 1) a groove is created in the dielectric film; 2) a barrier metal layer is formed to prevent the copper from spreading into the insulator; 3) the groove is filled in through copper plating; 4) the excess copper and barrier metal are planarized and removed through CMP.

Hitachi Chemical Co., Ltd. has been successfully offering CMP slurries for interlayer dielectric films to the semiconductor industry. Recently we developed a new slurry for planarizing copper wiring and barrier metal during the fourth step of the process described above. To date, we have won the global number-two position for our slurry for planarizing copper wiring, with 20 percent of the market (Company estimate). In particular, our slurry for barrier metal has received a positive response because it not only offers the optimal pH and other liquid composition for planarization, but also uses microscopic, high-purity abrasive particles, allowing the polishing process to become faster and to come to a halt automatically after planarizing the dielectric film layer in order to selectively planarize and remove the barrier metal.

ENERGY & AUTOMOBILES

Carbon Anode Materials for Lithium Ion Batteries

The lithium ion battery is a new type battery that can be recharged and reused over and over again. The lithium ion battery has approximately three times the voltage and a higher energy density than the nickel metal hydride (NiMH) battery. Consequently, it has been quickly adopted for mobile phones and laptop computers. The lithium ion battery operates based on the following principle: when the battery is charged, the lithium ions are stored in the anode, and when discharged, the lithium ions are released into the cathode. Therefore, the anode material is a very important element that influences the performance of the battery.

Relying on our long history of experience with carbon-related technology accumulated through the development of carbon brushes for motors, Hitachi Chemical Co., Ltd. has developed carbon anode material for a lithium ion battery. This material is massive artificial graphite powder with micro pores in its grain structure. This graphite powder is highly crystallized and has uniform properties. Compared to the lithium ion batteries adopting conventional materials, the battery adopting newly developed anode material offers higher capacity, minimizes capacity deterioration during high-current use, and maintains prime performance even at low temperatures. Our product's superior performance has made the Company the number one manufacturer in the global market, with a 40 percent share (Company estimate).

Plastic Balance Shaft Gears

The balance shaft masks the vibration and noise of an in-line four-cylinder engine by creating vibrations on a different wavelength from the vibrations created by the engine. The gear that is attached to the balance shaft is generally made of metal for increased durability. However, there is a need to reduce the vibrations and noise created when the balance shaft gear engages with the crank shaft gear, which is also made of metal.

Hitachi Chemical Group company, Shin-Kobe Electric Machinery Co., Ltd. has developed the world's first plastic balance shaft gear with longer durability using aramid reinforced fiber and polyaminoamide resin. Using plastic gears, we have not only been able to significantly reduce the amount of vibration and noise compared to the conventional balance shaft system, but have also simplified the assembly process by eliminating the need for a metal plate to adjust the gap between the gears.

Shin-Kobe Electric Machinery, together with balance shaft assembly manufacturer OTICS Corporation and friction damper manufacturer KOYO Seiko Co., Ltd., received the Toyota Engineering Development Award from Toyota Motor Corporation for a balance shaft system employing these plastic gears.

Diffusion Bonding Rotor Assembly for Hybrid Vehicles

Hybrid vehicles are equipped with both a gasoline engine and an electric motor. Because hybrid vehicles achieve higher fuel efficiency as well as decreased emissions of carbon dioxide and other pollutants, they are likely to become more widespread. The electric motor is composed of a rotor, the rotating part, and a stator, the stationary part which includes the stator frame and the bearings. When the vehicle is accelerating, the electric motor provides additional power to the gasoline engine, and when the vehicle is decelerating, energy is regenerated in order to recharge the battery.

Hitachi Chemical Group company, Hitachi Powdered Metals Co., Ltd. employed sintering diffusion bonding technology, in which different metals are fused into a solid mass, to develop a rotor using materials that meet the different demand criteria for the inner section that transmits torque and the outer part that is in contact with the magnetic circuit. Motors incorporating this rotor offer 30 percent more torque output than motors with conventional rotors.

These highly rated features have been recognized by awards from the Materials Process Technology Center, the Japan Society for Technology of Plasticity, and the Metal Powder Industries Federation in the U.S.A.

LIFE SCIENCES

GSO Single Crystal Scintillators for PET Equipment

Positron emission tomography (PET) is a new type of diagnostic imaging technique that can detect microscopic cancerous cells not found by conventional imaging equipment. PET uses a specified radiopharmaceutical that tends to collect in cancerous cells. The radiopharmaceutical then emits gamma rays in symmetrical directions. In addition, the scanner in which the patient is lying detects and analyzes the rays in order to create an image of the location of the cancerous cells.

To detect gamma rays, which are invisible, it is necessary to transform them into fluorescent light by passing through a scintillator. Gadolinium silicon oxide (GSO) single crystal is adopted as a scintillator for PET equipment. Because it not only is more responsive to gamma rays and generates more fluorescent light, but also has a higher energy resolution compared to other single crystals, GSO crystal has contributed substantially to improving the speed and accuracy of PET equipment.

The GSO single crystal is manufactured and sold only by Hitachi Chemical Co., Ltd., which holds many patents related to its composition and manufacturing process. Consequently, we hold the number-three share in the global market for PET scintillators, with 20 percent (Company estimate).

EFFORTS TO STRENGTHEN CORPORATE GOVERNANCE

ADOPTING A "COMPANY WITH COMMITTEES SYSTEM"

The Hitachi Chemical Group believes that one of its most important management tasks is establishing a management structure that is sound, highly transparent and capable of responding swiftly to changes in the market.

To further strengthen its corporate governance, Hitachi Chemical Co., Ltd. adopted the new corporate governance system of the Company with Committees System in accordance with the amended Commercial Code of Japan, following approval at the annual general shareholders meeting held on June 26, 2003.

The Company with Committees System separates operational and supervisory functions by transferring substantial decision-making authority regarding business operations from the Board of Directors to Executive Officers for speedy management with clear accountability. In addition, the new system strengthens the supervisory function of the Board of Directors and ensures highly objective and transparent management by establishing a Nominating Committee, an Audit Committee and a Compensation Committee under the Board of Directors and composed primarily of Outside Directors.

The Board of Directors and Executive Officers are listed on page 17.

Nominating Committee	Audit Committee	Compensation Committee
Isao Uchigasaki	Go Sato	Yasuji Nagase
Yasuji Nagase	Michiharu Nakamura	Tsutomu Kanai
Tsutomu Kanai	Masayoshi Hanabusa	Michiharu Nakamura
Michiharu Nakamura		
Masayoshi Hanabusa		

MAXIMIZING VALUE


Isao Uchigasaki


Yasuji Nagase


Nobuyuki Hayashi


Keiichi Takeda


Go Sato


Tsutomu Kanai


Michiharu Nakamura


Masayoshi Hanabusa


Tetsuo Odashiro


Takashi Urano


Kiyoshi Togawa


Takashi Morinaga


Tatsuji Nomura


Naoki Suzuki


Shoichi Hanaeda


Shigeru Hayashida

BOARD OF DIRECTORS

Isao Uchigasaki
Chairman of the Board

Yasuji Nagase
Director

Nobuyuki Hayashi
Director

Keiichi Takeda
Director

Go Sato
Director

Tsutomu Kanai
Outside Director
(Chairman of the Board, Hitachi, Ltd.)

Michiharu Nakamura
Outside Director
(Senior Vice President and Executive Officer, Hitachi, Ltd.)

Masayoshi Hanabusa
Outside Director
(Chairman of the Board, Hitachi Capital Corporation)

EXECUTIVE OFFICERS

Yasuji Nagase*
President and Chief Executive Officer

Nobuyuki Hayashi*
Executive Vice President and Executive Officer
Research & Development, Environment and Technology Innovation

Tetsuo Odashiro
Executive Vice President and Executive Officer
Business Operations and Manufacturing

Keiichi Takeda*
Vice President and Executive Officer
Administration

Takashi Urano
Vice President and Executive Officer
Semiconductor- and Liquid Crystal Display-Related Materials

Kiyoshi Togawa
Vice President and Executive Officer
Sales and Purchasing

Takashi Morinaga
Executive Officer
Advanced Performance Materials

Tatsuji Nomura
Executive Officer
Printed Wiring Boards Related Materials

Naoki Suzuki
Executive Officer
Corporate Planning, International Business Strategy, Group Management and Corporate Export Regulation

Shoichi Hanaeda
Executive Officer
Human Resources and General Affairs

Shigeru Hayashida
Executive Officer
Management of R&D Center

*Serves concurrently as director

HITACHI CHEMICAL AT A GLANCE

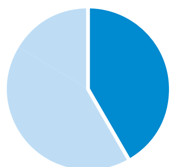
(As of March 31, 2003)

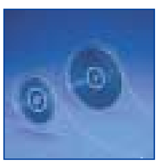
	MAIN PRODUCTS	NET SALES (Billions of Yen)

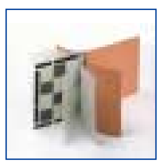
ELECTRONICS-RELATED PRODUCTS

Percentage of Net Sales

41.5%







SEMICONDUCTOR- AND DISPLAY-RELATED MATERIALS

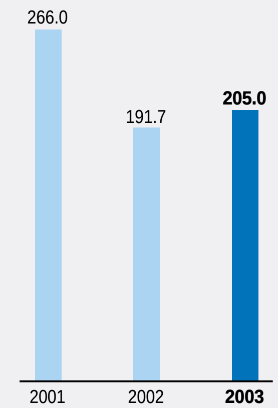
- Epoxy Molding Compounds
- Heat-Resistant Fine Polymers
- Die Bonding Materials
- Slurry for Chemical Mechanical Planarization
- Anisotropic Conductive Films for Liquid Crystal Displays
- Light Guides for Liquid Crystal Displays

PRINTED WIRING BOARDS AND RELATED PRODUCTS

- Copper Clad Laminates for Printed Wiring Boards
- Multilayer Printed Wiring Boards
- Multiwire Boards
- Package Substrates
- Photosensitive Dry Films for Printed Wiring Boards
- Liquid Photoimageable Solder Resist
- Plating Chemicals for Printed Wiring Boards

OTHERS

- Capacitors

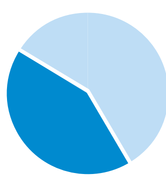


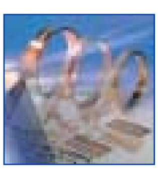
(Years ended March 31)

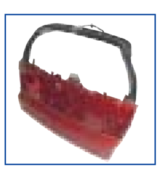
CHEMICAL-RELATED PRODUCTS

Percentage of Net Sales

42.2%







ORGANIC CHEMICAL PRODUCTS

- Electrical Insulating Varnishes
- Unsaturated Polyester Resins
- Synthetic Resins for Paints
- Expandable Polystyrene Beads
- ASA Resins
- Pharmaceuticals and Diagnostics
- Microchips for Rapid Electrophoresis Analysis
- Adhesives

OTHERS

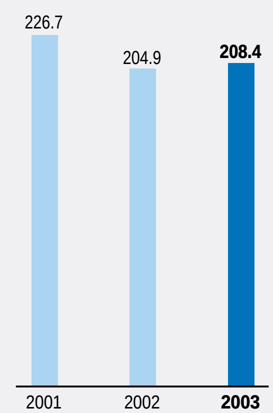
- Batteries
- Powdered Metal Products

INORGANIC CHEMICAL PRODUCTS

- Carbon Brushes
- Carbon Anode Materials for Lithium Ion Batteries
- Carbon and Graphite Products
- Ceramics
- Single Crystal Scintillators
- Disc Brake Pads

PLASTIC MOLDED PRODUCTS

- Automotive Molded Parts
- Adhesive Films
- Electromagnetic Shielding Films for Plasma Display Panels

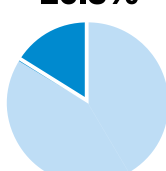


(Years ended March 31)

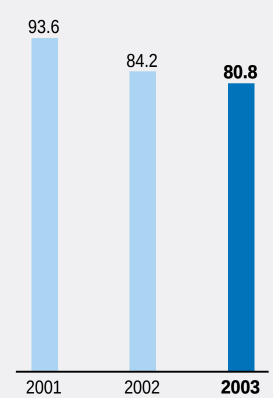
HOUSING EQUIPMENT AND ENVIRONMENTAL FACILITIES

Percentage of Net Sales

16.3%

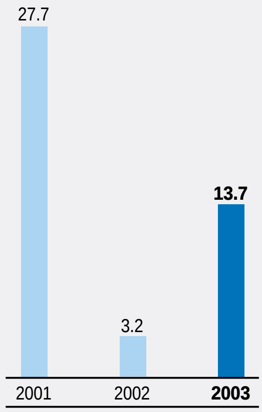
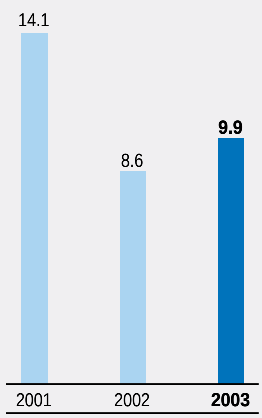
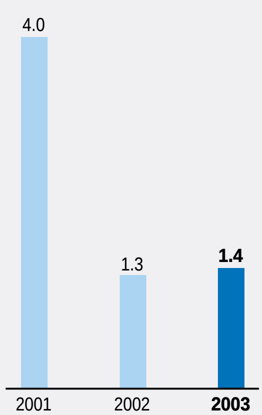


- Prefabricated Bathroom Units
- Home Bathtubs
- System Kitchens
- Compact Sized Kitchen Units
- Vanity Tables
- Toilet Seats with Warm Water Cleansing and Bidet Functions
- Home Boilers
- Domestic Wastewater Treatment Systems
- Fiber Reinforced Plastic Water Tanks



(Years ended March 31)

Note: Shin-Kobe Electric Machinery Co., Ltd. is included in the total number of companies listed for two segments, Electronics-Related Products and Chemical-Related Products.
Six companies, including Hitachi Kasei Shoji Co., Ltd., carry out activities in all segments and are included in the total number of companies listed for each segment.

OPERATING INCOME (Billions of Yen)	RESULTS AND TOPICS	CONSOLIDATED SUBSIDIARIES Total: 65 Companies
 (Years ended March 31)	■ With semiconductor production on the rise and liquid crystal display-related markets expanding, sales of materials for semiconductors and liquid crystal displays as well as printed wiring boards and related products all increased. Overall sales increased 6.9 percent year-on-year to ¥205.0 billion, and operating income increased 329.7 percent to ¥13.7 billion. ■ In October 2002, Hitachi Chemical Co., Ltd. and Shanghai Jiao Tong University established the Hitachi Chemical-Shanghai Jiao Tong University Research and Development Center on the university's campus to focus on the development of electronic materials and other products in the Chinese market. ■ In March 2003, the Consortium for Advanced Semiconductor Materials and Related Technologies (CASMAT) was established by ten prominent materials manufacturers including Hitachi Chemical Co., Ltd. to develop evaluation technology for the development of materials used in back-end processing for next-generation semiconductors. ■ A production facility for photosensitive dry films for printed wiring boards was established in China. Hitachi Chemical (Dongguan) Co., Ltd. began operations in May 2003.	Shin-Kobe Electric Machinery Co., Ltd. Hitachi AIC Inc. Hitachi Chemical Asia-Pacific Pte. Ltd. Hitachi Chemical (Johor) Sdn. Bhd. Akebono Technos Co., Ltd. Hitachi Kasei Shoji Co., Ltd. and 19 others Total: 25 companies
 (Years ended March 31)	■ Sales of batteries and crosslinked foamed polyethylene declined, but automotive products and new products such as carbon anode materials for lithium ion batteries, GSO single crystal scintillators and electromagnetic shielding films for plasma display panels continued to perform well. Overall sales increased 1.7 percent year-on-year to ¥208.4 billion, and operating income increased 15.6 percent year-on-year to ¥9.9 billion. ■ Hitachi Chemical Co., Ltd. and Japan Brake Industrial Co., Ltd. established a production facility for friction materials for automobiles in Thailand. Japan Brake (Thailand) Co., Ltd. began operations in March 2003. ■ Shin-Kobe Electric Machinery Co., Ltd. decided in March 2003 to build a production facility for batteries in China. Operations are scheduled to begin in November 2003.	Shin-Kobe Electric Machinery Co., Ltd. Hitachi Powdered Metals Co., Ltd. Hitachi Kasei Polymer Co., Ltd. Japan Brake Industrial Co., Ltd. Hitachi Chemical Automotive Products Co., Ltd. Hitachi Kasei Shoji Co., Ltd. and 33 others Total: 39 companies
 (Years ended March 31)	■ Sales of system kitchens were strong due to their adoption by an increasing number of major customers, but sales of prefabricated bathroom units and domestic wastewater treatment systems declined. Overall sales decreased 4.1 percent year-on-year to ¥80.8 billion, but operating income increased 6.6 percent year-on-year to ¥1.4 billion due to continued streamlining efforts and other measures. ■ In January 2003, Hitachi Housetec Co., Ltd. took over its manufacturing subsidiaries Hitachi Kasei Unit Co., Ltd. and Fukuyama Hitachi Kasei, Ltd. ■ In January 2003, Hitachi Housetec Co., Ltd. formed an agreement with Sun Wave Corporation, which has a long history of success in the kitchen facilities business, regarding a business tie-up in the field of housing equipment.	Hitachi Housetec Co., Ltd. Hitachi Housetec East Co., Ltd. Hitachi Housetec West Co., Ltd. Hitachi Kasei Maintenance Co., Ltd. Hitachi Kasei Shoji Co., Ltd. and 9 others Total: 14 companies

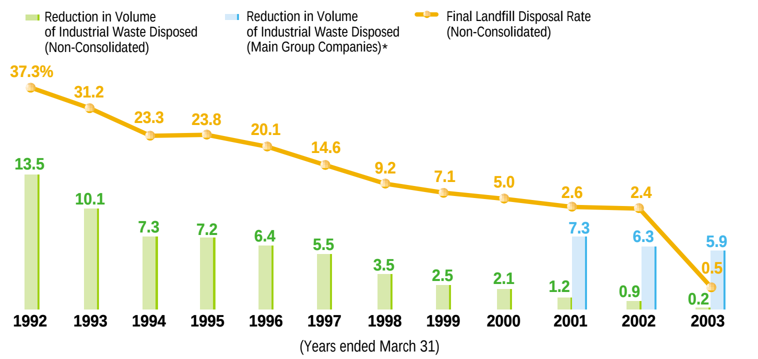
The Hitachi Chemical Group recognizes that global environmental problems are a major issue for all humankind, and has made harmony with the environment a top management priority. Under the Company's Environmental Protection Action Guidelines enacted in 1993, the Group conducts environmental management activities guided by the aim of creating a recycling-oriented society capable of sustainable development. In addition to the existing Environmental Safety Management Committee, chaired by the director responsible for environmental management activities, in March 2002 Hitachi Chemical established the Environmental Management Council, chaired by the president. The Council discusses and resolves important issues regarding the Hitachi Chemical Group's environmental management policy and activities, accident prevention and safety. The Group is also active in areas such as continuously improving its environmental management systems based on ISO 14001, working to achieve zero emissions, reducing CO_2 emissions, complying with the Pollution Release and Transfer Register (PRTR) Law, and expanding the range of environmentally friendly products.

Zero Emissions

Since fiscal 2000, the Hitachi Chemical Group has placed strong emphasis on achieving zero emissions in its operations. The Group's efforts focus on reducing to zero not only the final disposal volume of wastes, but also the losses of resources used throughout the entire production process. Hitachi Chemical's targets for zero emissions are a final landfill disposal rate of 1.0 percent or less and a reduction in volume of industrial waste disposed to under 5 tons annually at each manufacturing facility by fiscal 2005. As of the end of fiscal 2002, all manufacturing facilities of Hitachi Chemical Co., Ltd. were successful in reducing their final landfill disposal rate to 1.0 percent or less, and the Company continued to work towards its target of a final landfill disposal volume under 5 tons.

Reduction in Volume of Industrial Waste Disposed and Final Landfill Disposal Rate

(Thousands of tons, %)



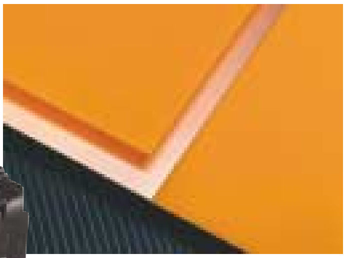
* "Main Group Companies" represents combined data for 14 main group companies with a significant impact on the environment, including Shin-Kobe Electric Machinery Co., Ltd. and Hitachi Powdered Metals Co., Ltd.

Compliance with the PRTR Law

As a member of the Japan Chemical Industry Association, Hitachi Chemical Co., Ltd. has been voluntarily working since fiscal 1995 to reduce emissions of chemical substances subject to the PRTR Law. In fiscal 2001, the Company achieved a 50 percent reduction in atmospheric emissions from fiscal 1994 levels through such measures as establishing a solvent recovery system at coating facilities. Currently, the Company aims to reduce emissions to 30 percent of fiscal 2000 levels by fiscal 2005, and is working to introduce a solvent recovery system and an exhaust treatment system. Group companies have set a target of reduction of chemical substances subject to the PRTR Law as well as voluntarily managed chemical substances to 70 percent of fiscal 2000 levels by fiscal 2005.

Expanding the Range of Green Products

As part of its management philosophy of contributing to society by developing revolutionary, high-quality products, the Hitachi Chemical Group is working to develop and expand its lineup of environmentally friendly products in order to reduce its impact on the environment. To further these efforts, the Group launched Green Product Assessment in fiscal 2001, which defines as environmentally friendly products those that have met or exceeded standards for eight evaluation criteria, such as resource conservation, recyclability, chemical safety, and energy saving performance. The Hitachi Chemical Group has set a target for green products to account for 60 percent or more of sales in fiscal 2003, and is working to accelerate development and expand sales.

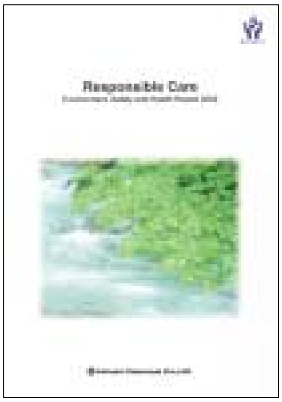


Environmentally friendly halogen-free copper clad laminates for multilayer printed wiring boards

Mn type lithium ion battery for electric vehicle
(Shin-Kobe Electric Machinery Co., Ltd.)

Publication of Environmental Report

The Hitachi Chemical Group is working to improve trust and increase communication with society in order to achieve sustainable growth. As part of these efforts, the Company began publishing the annual Responsible Care Report in 1999, outlining its voluntary activities to protect the environment, safety and health. Beginning in 2000, Group companies Shin-Kobe Electric Machinery Co., Ltd. and Hitachi Powdered Metals Co., Ltd. also began publishing environmental reports.



Responsible Care Report 2002

CORPORATE ETHICS AND SOCIAL CONTRIBUTIONS

The Hitachi Chemical Group is deeply aware of its role as a responsible member of society. The Group strives to operate in a fair and transparent manner, harmonize operations with the environment, and contribute meaningfully to society as a sound corporate citizen that truly supports the interests of society. Under this fundamental philosophy, Hitachi Chemical complies fully and scrupulously with corporate ethical standards and laws, and actively carries out social contribution activities .

Compliance with Corporate Ethics, Laws and Regulations

Employee Training

The Hitachi Chemical Group has prepared guidelines for corporate ethics, a handbook on antitrust law, and a manual on preventing sexual harassment, which it uses in its employee training activities based on the program for the year. These materials are also available on the Group's intranet so that employees can refer to them at any time.

Ethics Audits

To evaluate the level of compliance with corporate ethics, laws and regulations, the Hitachi Chemical Group conducts an annual self-audit of each office and manufacturing facility. In addition, regular ethics audits, including Group companies, are performed by Hitachi Chemical's Ethics and Business Conduct Office and Compliance Management Office.

Establishment of Employee Consultation Window

The Company has established a consultation window to quickly resolve employees' complaints, questions or concerns regarding corporate ethics and compliance. The institution of similar services at Group companies is planned for the future.

Contributing to Society

Some examples of the Hitachi Chemical Group's efforts to contribute to local communities include regional cleanup campaigns by employees and sponsorship of local events, as well as holding a junior soccer tournament and a course of table tennis lessons. In addition, Hitachi Chemical donates funds to research institutions and universities, and provides financial support to various education- and environment-related foundations.

Annual sponsorship of a Junior Soccer Tournament for primary-school children in local communities

Employees carry out a "clean up campaign" in the vicinity of their office.

SIX-YEAR SUMMARY

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2003, 2002, 2001, 2000, 1999 and 1998

	Millions of yen (except per share data)						Thousands of U.S. dollars (except per share data) (Note 1)
	2003	2002	2001	2000	1999	1998	**2003**
For the year:							
Net sales	**¥494,226**	¥480,777	¥586,314	¥544,837	¥524,219	¥565,110	**$4,118,550**
Operating income	**24,930**	13,048	45,814	35,058	24,656	27,297	**207,750**
Net income	**8,644**	3,141	13,022	12,587	8,096	2,686	**72,033**
Cash dividends declared	**2,279**	2,072	2,021	2,021	1,819	1,819	**18,992**
Research and development expenses	**22,933**	22,894	22,408	21,302	21,163	21,834	**191,108**
At year-end:							
Total assets	**¥407,148**	¥418,408	¥457,117	¥444,178	¥418,304	¥445,669	**$3,392,900**
Total liabilities	**240,798**	254,892	299,526	298,520	298,918	332,507	**2,006,650**
Total stockholders' equity	**146,443**	143,692	134,095	124,035	100,795	94,768	**1,220,358**
Per share data:							
Net income (basic) (Note 2)	**¥ 39.91**	¥ 15.28	¥ 64.42	¥ 62.27	¥ 40.05	¥ 13.29	**$ 0.33**
Net income (diluted) (Note 2)	**39.54**	—	63.53	61.42	39.34	—	**0.33**
Cash dividends declared	**11.00**	10.00	10.00	10.00	9.00	9.00	**0.09**
Total stockholders' equity	**704.87**	693.35	663.34	613.64	498.63	468.82	**5.87**
Value indicators:							
Return on sales (%)	**1.7**	0.7	2.2	2.3	1.5	0.5	
Return on equity (%)	**6.0**	2.3	10.1	10.6	8.3	2.8	
Return on assets (%)	**2.1**	0.7	2.9	2.9	1.9	0.6	
Number of employees	**17,061**	17,287	18,390	18,415	19,285	19,497	

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, solely for the convenience of the reader, at the rate of ¥120=US$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2003.
2. Effective April 1, 2002, the Company adopted Accounting Standards Board of Japan Statement No. 2, "Calculations of Earnings Per Share of the current net earnings." See note 1 (m) to the consolidated financial statements on page 36.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCES

(For the year ended March 31, 2003)

FINANCIAL STRATEGY

The financial policies of Hitachi Chemical Co., Ltd. (hereafter, the "Company") and its consolidated subsidiaries (collectively, "Hitachi Chemical") are designed to maintain a sound balance sheet by raising asset utilization efficiency, maintaining appropriate liquidity and securing appropriate capital for operating needs.

Of particular note, Hitachi Chemical reduced interest-bearing liabilities by 29.0 percent year-on-year, or ¥26.3 billion, to ¥64.3 billion during the year ended March 31, 2003. Given that cash and cash equivalents at the end of the past fiscal year stood at ¥63.4 billion, Hitachi Chemical has reduced interest-bearing liabilities to the point where it is debt-free for all practical purposes.

Hitachi Chemical will continue to strive to further reduce interest-bearing liabilities by raising the efficiency of asset utilization and other measures. At the same time, while considering the soundness of its balance sheet, Hitachi Chemical exercises sufficient care in obtaining external financing to smoothly fund both operations and the investments required to meet its objectives, including building a more balanced and diversified business portfolio.

RESULTS OF OPERATIONS

NET SALES

For the year ended March 31, 2003, net sales increased 2.8 percent year-on-year, or ¥13.4 billion, to ¥494.2 billion. An increase in sales of Electronics-Related Products was a primary factor supporting the increase in net sales. Overseas sales increased 7.6 percent year-on-year, or ¥7.5 billion, to ¥107.0 billion. The ratio of overseas sales to net sales increased 100 basis points to 21.7 percent.

Results in each business segment follow below. Sales data for each segment exclude intersegment sales.

ELECTRONICS-RELATED PRODUCTS

Segment sales increased 6.9 percent year-on-year, or ¥13.3 billion, to ¥205.0 billion, and increased 160 basis points as a percentage of total net sales to 41.5 percent.

Semiconductor- and display-related materials

Semiconductor production increased following the completion of inventory adjustments, which supported a year-on-year increase in sales of epoxy molding compounds. Successful efforts to create relationships with new customers resulted in higher sales of die bonding materials and slurry for chemical mechanical planarization of semiconductor wafers. Expansion in liquid crystal-related markets supported continued solid performance of anisotropic conductive films for liquid crystal displays (LCDs). In addition, sales of light guides that increase the brightness of LCDs increased strongly year-on-year due to expanded demand for use in mobile phones.

Sales of epoxy molding compounds produced by Hitachi Chemical (Malaysia) Sdn. Bhd. increased year-on-year, primarily due to expanded exports to the Chinese market.

Printed wiring boards and related products

Sales of copper clad laminates for printed wiring boards increased year-on-year due to expanded use of environmentally friendly halogen-free products among large-scale customers. Sales of flexible printed wiring boards and photosensitive dry films for printed wiring boards increased, supported by customer recognition of the unique features of these products.

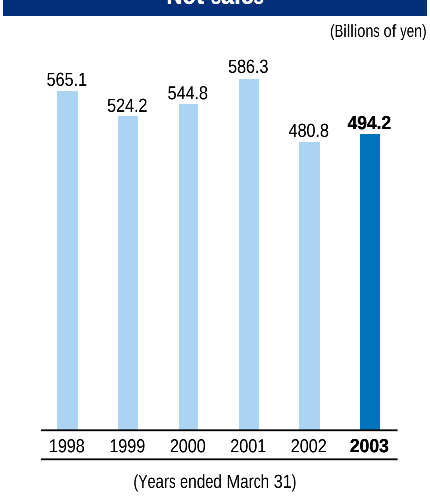
Overall sales of multiwire boards decreased year-on-year. While sales for server applications increased, demand for use in semiconductor testing declined.

Products that meet demand for high layer count and high precision performed well. Sales of photosensitive dry films for printed wiring boards produced by Hitachi Chemical (Johor) Sdn. Bhd. increased year-on-year. Sales of multilayer printed wiring boards produced by Hitachi Chemical Asia-Pacific Pte. Ltd., however, decreased year-on-year due to lower demand for use in routers, servers, and other types of network equipment.

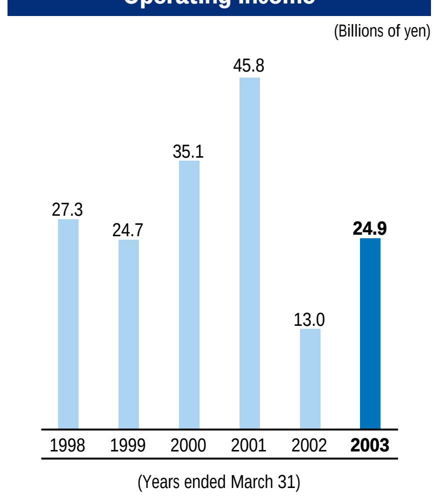
Others

Sales of printed wiring boards and capacitors produced by Hitachi AIC Inc. increased year-on-year.

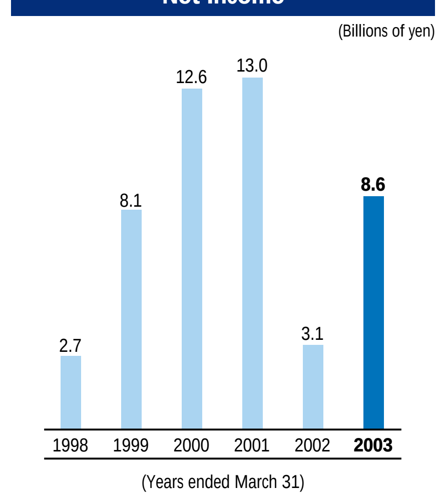
Net sales



Operating income



Net income



CHEMICAL-RELATED PRODUCTS

Sales in this segment increased 1.7 percent year-on-year, or ¥3.6 billion, to ¥208.4 billion, and decreased 40 basis points as a percentage of total net sales to 42.2 percent.

Organic chemical products

Sales of environmentally friendly UV-cured acrylic resin for use in coating flooring increased year-on-year. In addition, specialty chemicals such as acrylic monomers for applications including photosensitive dry films for printed wiring boards and cement additives performed well, supported by increased use among large-scale customers. Sales of electrical insulating varnishes increased due to their use in new applications such as protecting LCD interconnects.

Sales of adhesives produced by Hitachi Kasei Polymer Co., Ltd. rose substantially, benefiting from strong growth in sales of adhesives for flexible printed wiring boards used in products such as digital cameras and mobile phones.

Inorganic chemical products

As in the previous fiscal year, sales of GSO single crystal scintillators for positron emission tomography medical equipment increased strongly. Sales of carbon anode materials for lithium ion batteries used in mobile phones and other applications performed well, as did ceramics used in semiconductor and LCD manufacturing equipment. Sales of carbon brushes remained at approximately the same level as in the previous fiscal year, as the impact of lower demand for use in rolling stock offset expanded use of lead-free products in automobile motors. Sales of automotive disc brake pads were essentially unchanged year-on-year due to lower demand in the auto repair market.

Sales of graphite coating for cathode ray tubes (CRTs) manufactured by Hitachi Powdered Metals Co., Ltd. increased year-on-year as a result of increased exports for use in television CRTs. Sales of the disc brake pads manufactured by Japan Brake Industrial Co., Ltd. also increased year-on-year because of expanded use among large-scale customers.

Plastic molded products

Sales of EMI shielding films for plasma display panels rose substantially year-on-year due to increased demand. Adhesive films also performed well, supported by their use in protecting the surface of optical panels used in LCDs. Sales of automotive molded parts rose year-on-year because of the increased use of molded plastic rear hatch door panels, which contribute to reduced vehicle weight and offer other benefits. Sales of crosslinked polyethylene foam used in building insulation and other applications decreased year-on-year, due to the impact of reduced housing investment.

Others

Sales of powdered metal products manufactured by Hitachi Powdered Metals Co., Ltd. increased year-on-year because of increased demand for components for automobiles. Sales of Shin-Kobe Electric Machinery Co., Ltd.'s rechargeable batteries decreased year-on-year because of reduced capital investment in the telecommunications sector.

HOUSING EQUIPMENT AND ENVIRONMENTAL FACILITIES

HITACHI HOUSETEC CO., LTD. GROUP COMPANIES

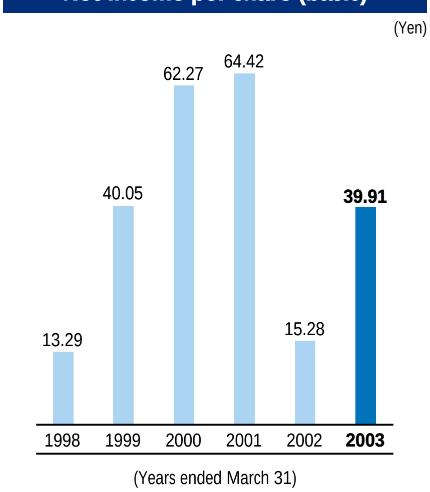
Sales in this segment decreased 4.1 percent year-on-year, or ¥3.4 billion, to ¥80.8 billion, and decreased 120 basis points as a percentage of total net sales to 16.3 percent.

Sales of system kitchens increased year-on-year due to increased use by large-scale customers, as well as favorable performance by products that incorporate peripheral equipment such as electromagnetic cooking appliances and dishwashers. Sales of prefabricated bathroom units decreased year-on-year due to the impact of lower sales prices for detached houses. Sales of domestic wastewater treatment systems also decreased year-on-year because of reduced demand.

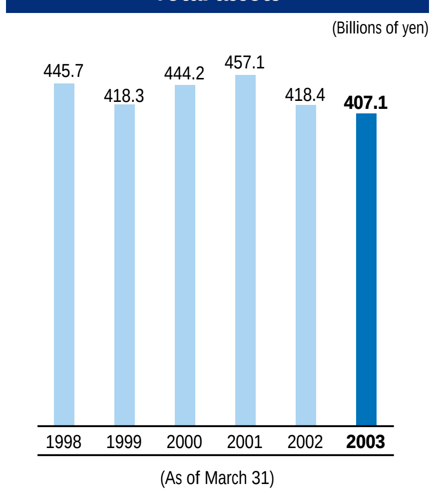
COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of sales increased 0.5 percent year-on-year, or ¥1.9 billion, to ¥368.1 billion, and decreased 170 basis points as a percentage of net sales

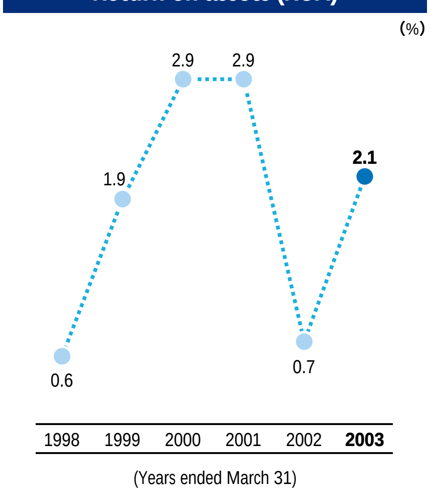
Net income per share (basic)



Total assets



Return on assets (ROA)



to 74.5 percent. Selling, general and administrative expenses decreased 0.3 percent year-on-year, or ¥0.3 billion, to ¥101.2 billion, and improved 60 basis points as a percentage of net sales to 20.5 percent. In addition to increased sales of Electronics-Related Products, factors supporting year-on-year improvement included ongoing structural reforms that have generated benefits such as enhanced productivity, and the positive effect of the reduction in personnel executed in the previous fiscal year. Research and development expenses totaling ¥22.9 billion were essentially unchanged year-on-year, and decreased 20 basis points as a percentage of net sales to 4.6 percent.

OPERATING INCOME

Operating income increased 91.1 percent year-on-year, or ¥11.9 billion, to ¥24.9 billion, and increased 230 basis points as a percentage of net sales to 5.0 percent.

By segment, operating income for Electronics-Related Products increased 329.7 percent, or ¥10.5 billion, to ¥13.7 billion. The ratio of segment operating income to segment net sales increased 500 basis points to 6.7 percent. Operating income for Chemical-Related Products increased 15.6 percent year-on-year, or ¥1.3 billion, to ¥9.9 billion. The ratio of segment operating income to segment net sales increased 50 basis points to 4.7 percent. Operating income for Housing Equipment and Environmental Facilities increased 6.6 percent, or ¥0.1 billion, to ¥1.4 billion. The ratio of segment operating income to segment net sales increased 20 basis points to 1.7 percent.

OTHER INCOME (EXPENSES)

Other expenses totaled ¥5.2 billion, compared to ¥3.7 billion for the previous fiscal year. Net interest expense, defined as interest expenses less interest and dividend income, decreased ¥0.9 billion year-on-year to ¥0.3 billion. Equity in loss of affiliated companies totaled ¥0.2 billion, compared to ¥0.4 billion for the previous fiscal year. Exchange loss totaled ¥0.8 billion, compared to exchange gain of ¥0.5 billion for the previous fiscal year. Loss on disposal of property, plant and equipment increased ¥0.6 billion over the previous fiscal year, and devaluation loss on securities increased ¥0.1 billion over the previous fiscal year.

As a result, income before income taxes and minority interests increased 111.7 percent year-on-year, or ¥10.4 billion, to ¥19.7 billion.

NET INCOME

Income taxes increased 95.6 percent year-on-year, or ¥4.9 billion, to ¥10.0 billion, due to the increase in income before income taxes and minority interests, the imposition of new taxes, and a revision of deferred tax assets at subsidiaries. The effective tax rate, defined as the ratio of income taxes to income before income taxes and minority interests, decreased 420 basis points to 50.8 percent. Minority interests totaled ¥1.1 billion, essentially unchanged year-on year.

As a result, net income increased 175.2 percent, or ¥5.5 billion, to ¥8.6 billion. The ratio of net income to net sales increased 100 basis points to 1.7 percent. Return on total stockholders' equity (ROE) increased 370 basis points to 6.0 percent, and return on total assets (ROA) increased 140 basis points to 2.1 percent. Net income per share (basic) totaled ¥39.91, compared to ¥15.28 for the previous fiscal year.

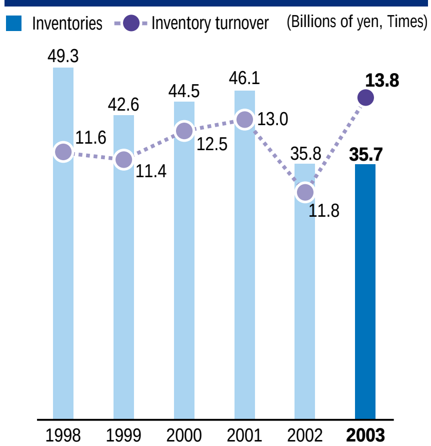
FINANCIAL CONDITION

ASSETS, LIABILITIES, AND STOCKHOLDERS' EQUITY

As of March 31, 2003, total assets decreased 2.7 percent from a year earlier, or ¥11.3 billion, to ¥407.1 billion. Main factors in the decrease included more efficient management of accounts receivable and greater focus in capital investment as part of Hitachi Chemical's program of raising asset efficiency.

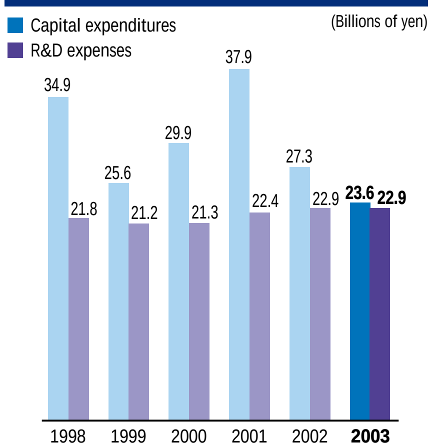
Current assets increased 1.6 percent from a year earlier, or ¥3.4 billion, to ¥215.6 billion. Trade receivables decreased ¥5.7 billion from a year earlier to ¥99.9 billion. Inventories totaled ¥35.7 billion, essentially unchanged from a year earlier. As a result of Group efforts to raise productivity, inventory turnover improved from 11.8 times in the previous fiscal year to 13.8 times. The allowance for doubtful receivables increased ¥1.0 billion from a year earlier to ¥3.7 billion.

Inventories, Inventory turnover



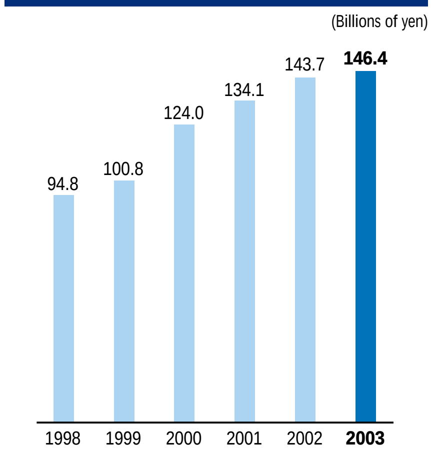
(Years ended March 31)

Capital expenditures, R&D expenses



(Years ended March 31)

Total stockholders' equity



(As of March 31)

Net property, plant and equipment decreased 7.0 percent from a year earlier, or ¥10.5 billion, to ¥139.1 billion as a result of greater focus in capital investment. Investments and other assets decreased 7.8 percent from a year earlier, or ¥3.8 billion, to ¥45.0 billion. This was mainly because investments in securities decreased ¥3.1 billion.

Total liabilities as of March 31, 2003 decreased 5.5 percent from a year earlier, or ¥14.1 billion, to ¥240.8 billion.

Current liabilities decreased 6.3 percent from a year earlier, or ¥11.1 billion, to ¥165.1 billion. Factors in the change included a reduction in short-term debt, which decreased ¥13.2 billion from a year earlier to ¥29.0 billion. The current ratio, defined as the ratio of current assets to current liabilities, increased to 130.6 percent from 120.5 percent a year earlier. Working capital, defined as current assets minus current liabilities, increased 40.1 percent to ¥50.5 billion. Long-term debt decreased ¥5.1 billion from a year earlier to ¥30.0 billion, primarily due to reduction of long-term borrowings. As a result, total interest-bearing liabilities, defined as the sum of short-term debt, the current portion of long-term debt and long-term debt, decreased ¥26.3 billion from a year earlier to ¥64.3 billion.

As of March 31, 2003, stockholders' equity increased 1.9 percent from a year earlier, or ¥2.8 billion, to ¥146.4 billion. The ratio of stockholders' equity to total assets increased to 36.0 percent from 34.3 percent a year earlier. The debt-to-equity ratio, defined as total interest-bearing liabilities divided by stockholders' equity, improved to 0.4 times from 0.6 times a year earlier. Stockholders' equity per share of common stock outstanding as of March 31, 2003 increased to ¥704.87 from ¥693.35 a year earlier.

CASH FLOWS

Cash and cash equivalents as of March 31, 2003 increased 12.6 percent from a year earlier, or ¥7.1 billion, to ¥63.4 billion.

Net cash provided by operating activities was ¥55.4 billion, a increase of ¥10.8 billion from the previous fiscal year. Primary factors included improved performance during the fiscal year and the resulting substantial increase in net income.

Net cash used in investing activities was ¥19.1 billion, a decrease of ¥10.8 billion from the previous fiscal year. A primary factor was decreased capital expenditures.

Net cash used in financing activities amounted to ¥28.1 billion, an increase of ¥9.4 billion from the previous fiscal year. Hitachi Chemical's efforts to strengthen its financial structure continued from the previous fiscal year, resulting in further reduction of interest-bearing liabilities.

DIVIDEND POLICY

The Company considers its operating environment, performance and future business prospects in allocating earnings dividends and internal capital reserves. The Company uses internal capital reserves to research and develop promising new high-value-added products, add vitality to existing businesses, and build on its strong financial structure.

The Company paid cash dividends per share of common stock totaling ¥11.00 for the fiscal year ended March 31, 2003. This consisted of a regular dividend of ¥10.00 per common share, and a commemorative dividend of ¥1.00 per share in recognition of the fortieth anniversary of the establishment of the Company as an independent company upon its separation from Hitachi, Ltd.

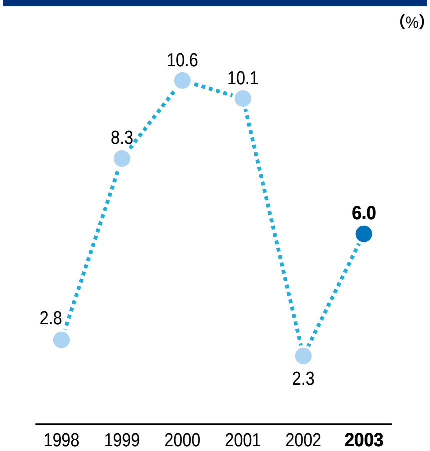
RISK MANAGEMENT

Hitachi Chemical uses derivatives as it deems necessary to reduce the remaining risk exposure after appropriate measures have been taken to balance credits and obligations.

The derivative instruments used by Hitachi Chemical are interest-rate swaps, forward exchange contracts and instruments of a similar nature, which are used to reduce interest rate and currency risks. The major risks to which such derivative transactions are subject are market risk and credit risk. The derivative transactions Hitachi Chemical uses are intended to hedge against market risk related to balance sheet assets and liabilities.

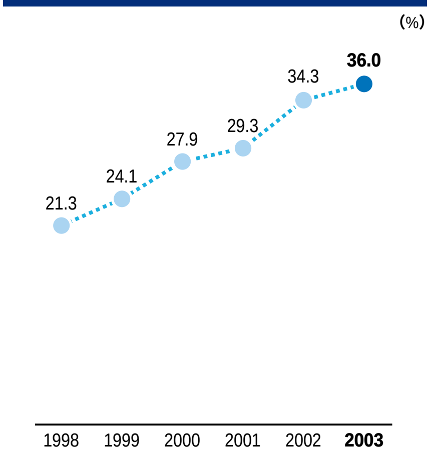
Details of the status of market and credit risk, including transaction positions and valuation of unrealized profit and loss, are regularly reported to the Board of Directors.

Return on equity (ROE)



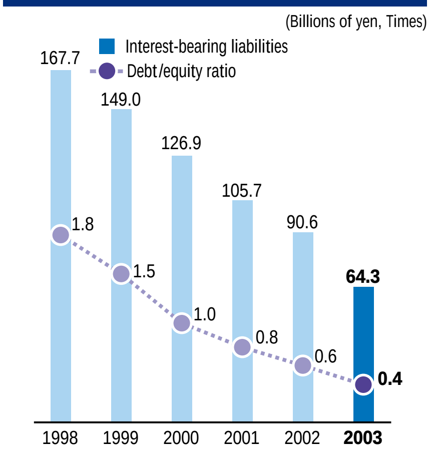
(Years ended March 31)

Stockholders' equity ratio



(As of March 31)

Interest-bearing liabilities, Debt/equity ratio



(As of March 31)

Note: Interest-bearing liabilities do not include notes and bills discounted.

CONSOLIDATED BALANCE SHEETS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents (Note 1 (c))	**¥ 63,421**	¥ 56,332	**$ 528,508**
Short-term investments (Note 3)	**—**	22	**—**
Trade receivables:			
Notes	**15,730**	18,249	**131,083**
Accounts	**84,166**	87,339	**701,384**
	99,896	105,588	**832,467**
Less allowance for doubtful receivables	**3,696**	2,725	**30,800**
Net receivables	**96,200**	102,863	**801,667**
Inventories (Note 4)	**35,708**	35,760	**297,567**
Prepaid expenses and other current assets (Note 5)	**20,232**	17,191	**168,600**
Total current assets	**215,561**	212,168	**1,796,342**
Property, plant and equipment, at cost (Notes 6 and 7)	**522,431**	529,241	**4,353,591**
Less accumulated depreciation	**383,359**	379,670	**3,194,658**
Net property, plant and equipment	**139,072**	149,571	**1,158,933**
Intangible assets:			
Cost in excess of net assets acquired	**3,176**	3,674	**26,467**
Other intangible assets	**4,317**	4,173	**35,975**
Total intangible assets	**7,493**	7,847	**62,442**
Investments and other assets:			
Affiliated companies' stock under the equity method	**3,758**	4,451	**31,317**
Investments in securities (Note 3)	**8,263**	11,373	**68,858**
Other assets (Note 5)	**34,212**	34,867	**285,100**
Less allowance for doubtful receivables	**1,211**	1,869	**10,092**
Total investments and other assets	**45,022**	48,822	**375,183**
	¥407,148	¥418,408	**$3,392,900**

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
Current liabilities:			
Short-term debt (Note 7)	**¥ 29,002**	¥ 42,179	**$ 241,683**
Current portion of long-term debt (Note 7)	**5,291**	13,301	**44,092**
Trade payables:			
Notes	**1,144**	1,708	**9,533**
Accounts	**52,087**	46,342	**434,058**
Accrued expenses	**23,148**	24,443	**192,900**
Income taxes (Note 5)	**10,562**	6,746	**88,017**
Other current liabilities	**43,835**	41,402	**365,292**
Total current liabilities	**165,069**	176,121	**1,375,575**
Long-term debt (Note 7)	**30,008**	35,093	**250,067**
Retirement and severance benefits (Note 8)	**41,419**	39,959	**345,158**
Other liabilities (Note 5)	**4,302**	3,719	**35,850**
Total liabilities	**240,798**	254,892	**2,006,650**
Minority interests	**19,907**	19,824	**165,892**
Stockholders' equity:			
Common stock:			
Authorized—800,000,000 shares;			
Issued—207,251,708 shares in 2003 and 207,251,426 shares in 2002 (Note 9)	**15,284**	15,284	**127,367**
Capital surplus (Note 9)	**34,174**	34,174	**284,783**
Earnings surplus (Note 10)	**99,111**	92,818	**825,925**
Net unrealized holding gain on securities	**1,067**	1,849	**8,891**
Foreign currency translation adjustments	**(3,165)**	(424)	**(26,375)**
	146,471	143,701	**1,220,591**
Treasury stock, at cost, 24,755 shares in 2003 and 7,286 shares in 2002 (Note 11)	**(28)**	(9)	**(233)**
Total stockholders' equity	**146,443**	143,692	**1,220,358**
Commitments and contingencies (Note 12)			
	¥407,148	¥418,408	**$3,392,900**

CONSOLIDATED STATEMENTS OF INCOME

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	**2003**
Net sales	**¥494,226**	¥480,777	¥586,314	**$4,118,550**
Cost of sales (Note 14)	**368,095**	366,225	434,120	**3,067,458**
Gross profit	**126,131**	114,552	152,194	**1,051,092**
Selling, general and administrative expenses (Note 14)	**101,201**	101,504	106,380	**843,342**
Operating income	**24,930**	13,048	45,814	**207,750**
Other income (expenses):				
Interest income	**772**	698	749	**6,433**
Dividend income	**250**	202	319	**2,083**
Equity in earnings (loss) of affiliated companies	**(227)**	(359)	854	**(1,892)**
Exchange gain (loss)	**(773)**	457	1,147	**(6,441)**
Interest expenses	**(1,279)**	(2,079)	(2,767)	**(10,658)**
Loss on disposal of property, plant and equipment	**(1,904)**	(1,347)	(1,258)	**(15,867)**
Devaluation loss of securities	**(716)**	(614)	(757)	**(5,967)**
Product warranty expenses	**(1,244)**	(343)	(152)	**(10,366)**
Gain (loss) on sale of subsidiaries' common stock and other	**(59)**	32	1,537	**(492)**
Gain on contribution to pension fund trusts (Note 3)	**—**	—	10,097	**—**
Transition difference arising from the adoption of the new accounting standard for retirement benefits (Note 8)	**—**	—	(28,611)	**—**
Other, net	**(24)**	(375)	(227)	**(200)**
	(5,204)	(3,728)	(19,069)	**(43,367)**
Income before income taxes and minority interests	**19,726**	9,320	26,745	**164,383**
Income taxes (Note 5)	**10,029**	5,127	11,903	**83,575**
Income before minority interests	**9,697**	4,193	14,842	**80,808**
Minority interests	**1,053**	1,052	1,820	**8,775**
Net income	**¥ 8,644**	¥ 3,141	¥ 13,022	**$ 72,033**

	Yen			U.S. dollars (Note 2)
Basic net income per share (Note 13)	**¥ 39.91**	¥ 15.28	¥ 64.42	**$ 0.33**
Diluted net income per share (Note 13)	**39.54**	—	63.53	**0.33**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	**2003**
Common stock:				
Balance at beginning of year	**¥ 15,284**	¥ 15,029	¥ 15,025	**$ 127,367**
Issuance of common stock (Note 9)	**—**	255	—	**—**
Conversion of convertible debentures (Note 9)	**—**	—	4	**—**
Balance at end of year	**15,284**	15,284	15,029	**127,367**
Capital surplus:				
Balance at beginning of year	**34,174**	27,342	27,338	**284,783**
Issuance of common stock (Note 9)	**—**	6,832	—	**—**
Conversion of convertible debentures (Note 9)	**—**	—	4	**—**
Balance at end of year	**34,174**	34,174	27,342	**284,783**
Earnings surplus:				
Balance at beginning of year	**92,818**	92,117	81,715	**773,483**
Effect of newly consolidated subsidiaries	**—**	—	(154)	**—**
Net income	**8,644**	3,141	13,022	**72,033**
Cash dividends (Note 10)	**(2,072)**	(2,047)	(2,021)	**(17,266)**
Bonuses to directors (Note 10)	**(279)**	(393)	(369)	**(2,325)**
Transfer to minority interests arising from issuance of common stock by subsidiaries	**—**	—	(76)	**—**
Balance at end of year	**99,111**	92,818	92,117	**825,925**
Net unrealized holding gain on securities:				
Balance at beginning of year	**1,849**	2,083	—	**15,408**
Net change during the year	**(782)**	(234)	2,083	**(6,517)**
Balance at end of year	**1,067**	1,849	2,083	**8,891**
Foreign currency translation adjustments:				
Balance at beginning of year	**(424)**	(2,471)	—	**(3,533)**
Net change during the year	**(2,741)**	2,047	(2,471)	**(22,842)**
Balance at end of year	**(3,165)**	(424)	(2,471)	**(26,375)**
Treasury stock:				
Balance at beginning of year	**(9)**	(5)	(43)	**(75)**
Decrease (increase) in treasury stock (Note 11)	**(19)**	(4)	38	**(158)**
Balance at end of year	**(28)**	(9)	(5)	**(233)**
Total stockholders' equity	**¥146,443**	¥143,692	¥134,095	**$1,220,358**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	**2003**
Cash flows from operating activities (Note 15):				
Net income	**¥ 8,644**	¥ 3,141	¥13,022	**$ 72,033**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**28,151**	29,628	29,188	**234,592**
Devaluation loss of marketable securities	**716**	614	757	**5,966**
Deferred income taxes	**(2,329)**	(2,600)	(10,790)	**(19,408)**
Loss on disposal of property, plant and equipment, net	**1,845**	1,174	1,186	**15,375**
Income applicable to minority interests	**1,053**	1,052	1,820	**8,775**
Equity in (earnings) loss of affiliated companies	**227**	359	(854)	**1,892**
Gain on contribution to pension fund trusts	**—**	—	(10,097)	**—**
Transition difference arising from the adoption of the new accounting standard for retirement benefits	**—**	—	28,611	**—**
Decrease in trade receivables	**4,355**	29,826	217	**36,292**
(Increase) decrease in inventories	**(289)**	11,049	(1,962)	**(2,408)**
Increase in other current assets	**(1,695)**	(1,525)	(1,175)	**(14,125)**
Increase (decrease) in trade payables	**6,103**	(14,306)	(5,162)	**50,858**
Increase (decrease) in accrued expenses and retirement and severance benefits	**468**	(1,348)	(825)	**3,900**
Increase (decrease) in accrued income taxes	**3,816**	(9,173)	3,062	**31,800**
Increase (decrease) in other liabilities	**2,280**	(3,112)	4,337	**19,000**
Other	**2,094**	(142)	(250)	**17,450**
Net cash provided by operating activities	**55,439**	44,637	51,085	**461,992**
Cash flows from investing activities:				
Decrease in short-term investments	**—**	693	49	**—**
Capital expenditures	**(22,646)**	(27,825)	(34,624)	**(188,716)**
Proceeds from sale of property, plant and equipment	**2,754**	2,207	4,212	**22,950**
Purchase of subsidiaries' and affiliated companies' stock and investments in securities	**(39)**	(2,521)	(1,732)	**(325)**
Proceeds from sale of subsidiaries' and affiliated companies' common stock and investments in securities	**940**	180	2,277	**7,833**
(Increase) decrease in other investments	**763**	(930)	2,211	**6,358**
(Increase) decrease in short-term loans receivable	**212**	(160)	180	**1,767**
(Increase) decrease in long-term loans receivable	**69**	1,080	(7)	**575**
Other	**(1,176)**	(2,661)	(511)	**(9,800)**
Net cash used in investing activities	**(19,123)**	(29,937)	(27,945)	**(159,358)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**(12,799)**	3,608	(15,886)	**(106,658)**
Proceeds from long-term debt	**682**	200	5,410	**5,683**
Payments on long-term debt	**(13,488)**	(19,938)	(10,360)	**(112,400)**
Dividends paid to stockholders	**(2,072)**	(2,047)	(2,021)	**(17,267)**
Dividends paid to minority stockholders of subsidiaries	**(428)**	(532)	(540)	**(3,567)**
Proceeds from sale of treasury stock	**—**	16	311	**—**
Purchase of treasury stock	**(19)**	(22)	(266)	**(158)**
Net cash used in financing activities	**(28,124)**	(18,715)	(23,352)	**(234,367)**
Effect of exchange rate changes on cash and cash equivalents	**(1,103)**	757	965	**(9,192)**
Cash and cash equivalents of newly consolidated subsidiaries	**—**	39	2,228	**—**
Net increase (decrease) in cash and cash equivalents	**7,089**	(3,219)	2,981	**59,075**
Cash and cash equivalents at beginning of year	**56,332**	59,551	56,570	**469,433**
Cash and cash equivalents at end of year	**¥63,421**	¥56,332	¥59,551	**$528,508**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2003, 2002 and 2001

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Hitachi Chemical Co., Ltd. (the Company) and its domestic subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and those maintained by its foreign subsidiaries in conformity with those of the countries of their domicile.

In addition, the consolidated financial statements, including the notes to the consolidated financial statements, presented herein have been compiled from the consolidated financial statements filed with the Ministry of Finance (the MOF report) as required by the Securities and Exchange Law of Japan and, for the convenience of readers outside Japan, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and those of its majority-owned subsidiaries, whether directly or indirectly controlled. All the significant intercompany accounts and transactions have been eliminated in consolidation.

Most of the investments in affiliated companies are stated at their underlying equity value, and the appropriate portion of the earnings of such companies is included in consolidated income. The investments in affiliated companies which do not materially affect consolidated income and equity are stated at cost.

The cost in excess of net assets acquired by the Company is being amortized using the straight-line method over its estimated useful period by each individual investment in subsidiaries, not exceeding twenty years or, if the amount is not material, charged immediately to consolidated income.

Until the year ended March 31, 2001, the cost in excess of net assets acquired by the Company had been amortized using the straight-line method over five years or, if the amount was not material, charged immediately to consolidated income.

(c) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all the highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents. Due to this reason, certain investments, which were reported in the MOF report as other current assets in the amount of ¥2,999 million in 2003 and short-term investments in the amount of ¥5,900 million in 2001, were reclassified as cash and cash equivalents in the consolidated financial statements.

(d) Short-Term Investments and Investments in Securities

Effective April 1, 2000, the Company adopted “Accounting Standard for Financial Instruments” issued by the Business Accounting Deliberation Council. Under this standard, securities are to be classified into one of the following three categories and accounted for as follows:

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

The Company reports unrealized holding gains and losses of other securities with fair values as a net amount in a separate component of stockholders' equity until realized. Other securities without fair values are carried at cost. In computing realized gain or loss, cost of other securities was principally determined by the moving-average method.

Previously, marketable securities were stated principally at the lower of cost or market. Investments in other than marketable securities were stated at cost.

The adoption of this standard did not have a material effect on net income for the year ended March 31, 2001.

(e) Inventories

Inventories are stated principally at the lower of cost or market (certain consolidated subsidiaries use the cost method). Cost is determined by the moving-average method.

(f) Property, Plant and Equipment

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

(g) Intangible Assets

Intangible assets are mainly amortized over the estimated useful lives of the respective assets by the straight-line method.

(h) Retirement and Severance Benefits

Effective April 1, 2000, the Company adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council. Under this standard, allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets.

Previously, under unfunded defined benefit pension plans, retirement allowance for employees had been made for the estimated accrued liability to which they were entitled if they were to voluntarily retire or sever immediately at the balance sheet date, less applicable plan assets of the tax-qualified pension plan. In addition, under contributory defined benefit pension plans (Employees' Pension Fund as is stipulated by the Japanese Welfare Pension Insurance Law), annual contributions had been charged to income when paid.

As a result of the application of this standard, operating income and income before income taxes and minority interests decreased for the year ended March 31, 2001 by ¥1,116 million and ¥19,630 million, respectively.

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

(i) Derivative Financial Instruments

Effective April 1, 2000, the Company adopted "Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council. Under this standard, in principle, net assets or liabilities arising from derivative financial instruments are measured at fair value, with unrealized gain or loss included in earnings. Hedging transactions, that meet the criteria of hedge accounting as regulated in "Accounting Standard for Financial Instruments," are accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as a liability or asset until gain or loss relating to the hedge object is recognized.

Previously, forward exchange contracts were accounted for as foreign currency transactions covered by such contracts were translated at contract rates and, interest rate swap transactions were accounted for as if interest rates under the interest rate swap transactions were originally applied to underlying borrowings and debentures.

The adoption of this standard did not have a material effect on net income for the year ended March 31, 2001.

(j) Foreign Currency Translation

Effective April 1, 2000, the Company adopted the revised "Accounting Standard for Foreign Currency Transaction" issued by the Business Accounting Deliberation Council. Under this standard, foreign currency transactions are translated into yen on the basis of the rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to income as incurred.

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

Previously, foreign currency transactions were translated into yen on the basis of the rates in effect at the transaction date, except for those covered by firm forward exchange contracts which were translated at such contract rates. At year-end, monetary current assets and current liabilities denominated in foreign currencies were translated into yen at the rates of exchange in effect at the balance sheet date, and other monetary assets and liabilities denominated in foreign currencies were translated into yen at historical rates. However, material unrealized translation losses on other monetary assets and liabilities had to be calculated using the rates of exchange in effect at the balance sheet date. On the translation of the financial statements of the consolidated foreign subsidiaries, a comprehensive adjustment resulting from the translation of assets, liabilities and stockholders' equity was presented as "Foreign currency translation adjustments" in the consolidated balance sheets as an asset or liability.

The adoption of this standard did not have a material effect on net income for the year ended March 31, 2001.

(k) Income Taxes

Under the asset and liability method of the standard, deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(l) Treasury Stock

Effective April 1, 2002, the Company adopted Accounting Standards Board of Japan Statement (ASB Statement) No.1, "Accounting Standards for the Company's Own Shares and the Withdrawal of Legal Reserve." Under this standard, treasury stock is recorded at cost as a deduction of stockholders' equity. When the company reissues the treasury stock as common stock, the difference between the issuance price and the cost of the treasury stock is accounted for as capital surplus.

The adoption of the accounting standard did not have a material effect on the Company's consolidated financial statements.

(m) Net Income per Share

Effective April 1, 2002, the Company adopted ASB Statement No.2, "Calculations of Earnings Per Share of the current net earnings." Under this standard, basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Previously, net income per share was computed by dividing income which includes the portion not available to common stockholders by the weighted average number of shares of common stock outstanding during each year. Basic and diluted net income per share calculated by the previous method for the year ended March 31, 2003 is ¥41.71 and ¥41.36, respectively.

(n) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2003.

2. BASIS OF FINANCIAL STATEMENT TRANSLATION

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥120=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2003. This translation should not be construed as a representation that any amounts shown could be converted into U.S. dollars.

3. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

The following is a summary of the amortized cost basis, gross unrealized holding gains or losses and aggregate fair value of other securities by major security type as of March 31, 2003 and 2002.

	Millions of yen					
	Amortized cost basis	Gross gains or losses	Aggregate fair value	Amortized cost basis	Gross gains or losses	Aggregate fair value
	2003			2002		
Other securities with gross unrealized holding gains:						
Equity securities	**¥2,497**	**¥2,174**	**¥4,671**	¥3,719	¥3,542	¥7,261
Debt securities	**—**	**—**	**—**	6	1	7
	2,497	**2,174**	**4,671**	3,725	3,543	7,268
Other securities with gross unrealized holding losses:						
Equity securities	**1,826**	**(246)**	**1,580**	1,526	(111)	1,415
Debt securities	**22**	**(8)**	**14**	336	(10)	326
	1,848	**(254)**	**1,594**	1,862	(121)	1,741
	¥4,345	**¥1,920**	**¥6,265**	¥5,587	¥3,422	¥9,009

	Thousands of U.S. dollars		
	Amortized cost basis	Gross gains or losses	Aggregate fair value
	2003		
Other securities with gross unrealized holding gains:			
Equity securities	**$20,808**	**$18,117**	**$38,925**
Debt securities	**—**	**—**	**—**
	20,808	**18,117**	**38,925**
Other securities with gross unrealized holding losses:			
Equity securities	**15,217**	**(2,050)**	**13,167**
Debt securities	**183**	**(67)**	**116**
	15,400	**(2,117)**	**13,283**
	$36,208	**$16,000**	**$52,208**

It is not practicable to estimate the fair value of investments in non-marketable securities because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amount of these investments at March 31, 2003 and 2002 totaled ¥1,794 million ($14,950 thousand) and ¥2,169 million, respectively.

As of March 31, 2003 and 2002, certain subsidiaries held held-to-maturity securities, which consist of corporate bonds, amounting to ¥204 million ($1,700 thousand) and ¥217 million, respectively. Gross unrealized holding gains and losses of these securities were not material.

Information about the contractual maturities of held-to-maturity securities and other securities with contractual maturities as of March 31, 2003 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Within one year	After one year through five years	After five years	Within one year	After one year through five years	After five years
Debt securities:						
Corporate bonds	**¥—**	**¥204**	**¥—**	**$—**	**$1,700**	**$—**
Other	**—**	**9**	**—**	**—**	**75**	**—**
	¥—	**¥213**	**¥—**	**$—**	**$1,775**	**$—**

During the year ended March 31, 2001, the Company and a certain subsidiary contributed their other securities, in the amount of ¥12,501 million at fair value, to pension fund trusts. Gross realized gains on those contributions for the year ended March 31, 2001 were ¥10,097 million.

4. INVENTORIES

Inventories as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished goods	**¥12,947**	¥11,749	**$107,892**
Semi-finished goods	**1,921**	1,638	**16,008**
Work in process	**11,294**	13,517	**94,117**
Raw materials	**9,546**	8,856	**79,550**
	¥35,708	¥35,760	**$297,567**

5. INCOME TAXES

The income tax expenses (benefits) reflected in the consolidated statements of income for the years ended March 31, 2003, 2002 and 2001 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Current tax expense	**¥12,358**	¥7,727	¥22,693	**$102,983**
Deferred tax benefit	**(2,329)**	(2,600)	(10,790)	**(19,408)**
	¥10,029	¥5,127	¥11,903	**$ 83,575**

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a normal income tax rate of 41.7% for the years ended March 31, 2002 and 2001.

On March 31, 2003, a reduction of income tax rate for business tax was enacted in Japan, and is effective from April 1, 2004. With this adoption, the aggregated normal income tax rate for domestic companies will be in approximately 40.4% for the year ending March 31, 2005. As a result, deferred tax assets, net of deferred tax liabilities, as of March 31, 2003 decreased by ¥642 million ($5,350 thousand), and deferred income tax benefit for the year ended March 31, 2003 and net unrealized holding gain on securities as of March 31, 2003 increased by ¥669 million ($5,575 thousand) and ¥27 million ($225 thousand), respectively.

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

	2003	2002	2001
Normal income tax rate	**41.7%**	41.7%	41.7%
Expenses not deductible for tax purposes	**4.1**	9.1	3.5
Equity in (earnings) loss of affiliated companies	**0.5**	1.6	(1.3)
Amortization of cost in excess of net assets acquired	**1.0**	2.7	0.3
Enacted changes in tax laws and rate in Japan	**3.4**	—	—
Other	**0.1**	(0.1)	0.3
Effective income tax rate	**50.8%**	55.0%	44.5%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2003 and 2002 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Total gross deferred tax assets:			
Retirement and severance benefits	**¥17,294**	¥16,520	**$144,117**
Accrued bonus	**3,469**	2,831	**28,908**
Accrued business tax	**854**	627	**7,117**
Allowance for doubtful receivables	**1,492**	1,010	**12,433**
Other	**10,631**	10,507	**88,592**
	33,740	31,495	**281,167**
Total gross deferred tax liability:			
Tax purpose reserves regulated by Japanese Tax Law	**(473)**	(574)	**(3,942)**
Net unrealized holding gain on securities	**(806)**	(1,471)	**(6,717)**
Other	**(1,814)**	(1,731)	**(15,116)**
	(3,093)	(3,776)	**(25,775)**
Net deferred tax assets	**¥30,647**	¥27,719	**$255,392**

Net deferred tax assets as of March 31, 2003 and 2002 are reflected in the consolidated balance sheets under the following items:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Prepaid expenses and other current assets	**¥ 9,607**	¥ 7,984	**$ 80,058**
Other assets	**21,611**	20,340	**180,092**
Other liabilities	**(571)**	(605)	**(4,758)**
Net deferred tax assets	**¥30,647**	¥27,719	**$255,392**

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Land	**¥ 24,729**	¥ 25,643	**$ 206,075**
Buildings and structures	**123,253**	123,597	**1,027,108**
Machinery and equipment	**371,133**	377,951	**3,092,775**
Construction in progress	**3,316**	2,050	**27,633**
	¥522,431	¥529,241	**$4,353,591**

7. SHORT-TERM AND LONG-TERM DEBT

Long-term debt as of March 31, 2003 and 2002 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Unsecured debentures:			
2nd series, due 2006, interest 3.5%	**¥10,000**	¥10,000	**$ 83,334**
4th series, due 2009, interest 2.3%	**5,000**	5,000	**41,667**
5th series, due 2004, interest 1.44%	**3,000**	3,000	**25,000**
6th series, due 2007, interest 2.01%	**3,000**	3,000	**25,000**
7th series, due 2008, interest 2.21%	**4,000**	4,000	**33,333**
Due 2003, interest 2.75%, issued by a consolidated subsidiary	**2,000**	2,000	**16,667**
Unsecured convertible debentures:			
4th series, due 2003, interest 2.0%	**—**	7,106	**—**
Due 2003, interest 0.6%, issued by a consolidated subsidiary	**1,105**	1,105	**9,208**
Loans, principally from banks and insurance companies:			
Secured by various assets and mortgages on property, plant and equipment, maturing 2003–2008, interest 1.4–3.3%	**1,237**	1,447	**10,308**
Unsecured, maturing 2003–2009, interest 0.99–4.8%	**5,957**	11,736	**49,642**
	35,299	48,394	**294,159**
Less current installments	**5,291**	13,301	**44,092**
	¥30,008	¥35,093	**$250,067**

The aggregate annual maturities of long-term debt after March 31, 2004 are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 5,024	$ 41,867
2006	2,532	21,100
2007	10,260	85,500
2008	3,144	26,200
Thereafter	9,048	75,400
	¥30,008	$250,067

The assets pledged as collateral for short-term and long-term debt at March 31, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	**¥8,097**	**$67,475**
Other	**914**	**7,617**
	¥9,011	**$75,092**

Loans of ¥1,720 million ($14,333 thousand) from a bank as of March 31, 2003 are secured by an investment in Hitachi Powdered Metals Co., Ltd., a 53.3% (17,072 thousand shares) owned subsidiary. The 4,700 thousand shares in Hitachi Powdered Metals Co., Ltd. are collateralized, and the fair value of the shares as of March 31, 2003 was ¥2,637 million ($21,975 thousand).

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset cash deposits against such obligations due the bank.

Generally, certain secured and unsecured loan agreements provide, among other things, that the lenders or trustees shall have the right to have any distribution of earnings, including the payment of dividends and the issuance of additional capital stock, submitted to them for prior approval and also grant them the right to request additional security or mortgages on property, plant and equipment.

8. LIABILITY FOR RETIREMENT AND SEVERANCE BENEFITS

The Company and its domestic subsidiaries have a number of contributory and noncontributory pension plans to provide retirement and severance benefits to substantially all the employees.

Principal pension plans are unfunded defined benefit pension plans. Under the plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause. The liability under these plans is partially funded by contributions to pension fund trusts.

In addition to the above plans, the Company and certain subsidiaries have contributory defined benefit pension plans (Employees' Pension Fund (EPF) as is stipulated by the Japanese Welfare Pension Insurance Law) covering substantially all employees. EPF is composed of the substitutional portion of Japanese Welfare Pension Insurance and the corporate portion based on a contributory defined benefit pension arrangement established at the discretion of employers. On June 15, 2001, the Japanese government issued a new law concerning the defined benefit plan. Following the enactment of the new law, the Company and three subsidiaries obtained an approval from the Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the substitutional portion of EPF on March 14, 2003.

In accordance with the provisions of "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)"(Accounting Committee Report No.13 issued by the Japanese Institute of Certified Public Accountants), the Company and the subsidiaries will recognize the settlement of the substitutional portion at the date of return to the government of the substitutional portion of the benefit obligation and related plan assets. In case the Company and the subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the guidelines, the effects of the adoption amounts to approximately ¥4.6 billion ($38 million) in other income for the year ended March 31, 2003.

Funding status of the Company's plans as of March 31, 2003 and 2002 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligations	**¥(164,914)**	¥(141,535)	**$(1,374,283)**
Plan assets at fair value	**77,187**	87,793	**643,225**
Funding status	**(87,727)**	(53,742)	**(731,058)**
Unrecognized actuarial loss	**51,646**	16,622	**430,383**
Unrecognized prior service benefit	**(5,336)**	(2,812)	**(44,467)**
Net amount recognized in the consolidated balance sheet	**¥ (41,417)**	¥ (39,932)	**$ (345,142)**
Amounts recognized in the statement of financial position consist of:			
Prepaid expenses and other current assets	**¥ 2**	¥ 27	**$ 16**
Retirement and severance benefits	**(41,419)**	(39,959)	**(345,158)**
	¥ (41,417)	¥ (39,932)	**$ (345,142)**

Net periodic benefit costs for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the Company for the years ended March 31, 2003, 2002 and 2001 consisted of the following components:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Service cost, net of employees' contributions	**¥3,858**	¥4,475	¥ 3,795	**$32,150**
Interest cost	**4,909**	4,961	4,991	**40,908**
Expected return on plan assets for the period	**(1,424)**	(1,510)	(1,879)	**(11,866)**
Amortization of transition difference (Note a)	**—**	—	28,611	**—**
Amortization of unrecognized actuarial loss (Note b)	**1,774**	1,098	—	**14,783**
Amortization of prior service benefit (Note c)	**(482)**	(240)	(204)	**(4,017)**
Net periodic benefit cost	**¥8,635**	¥8,784	¥35,314	**$71,958**

Notes: a. The transition difference of ¥28,611 million arising from the adoption of the new accounting standard was charged immediately to consolidated income for the year ended March 31, 2001.
b. Actuarial gains and losses are amortized using the straight-line method over certain years, principally over 10 years, which are within the estimated average remaining service years of employees.
c. Prior service benefits and costs are amortized using the straight-line method over certain years, principally over 10 years for the year ended March 31, 2003 and 2002 and 3 years for the year ended March 31, 2001, which are within the estimated average remaining service years of employees.
d. Besides retirement and severance benefits under the defined benefit pension plans above, special termination benefits of ¥1,675 million ($13,958 thousand), ¥2,727 million and ¥1,747 million were paid and charged to earnings during the years ended March 31, 2003, 2002 and 2001, respectively.

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

	2003	2002
Discount rate	**2.5%**	3.5%
Expected return rate on plan assets	**2.0%**	2.0%

9. COMMON STOCK

The Japanese Commercial Code (JCC) had required designation of par value to all common stock at least 50% of new share issuance price, or the common stock par value prescribed by the JCC. Effective October 1, 2001, the JCC was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

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

On August 1, 2001, the Company issued 5,098,435 shares of its common stock in exchange for all outstanding shares of Hitachi AIC Inc., formerly a majority owned subsidiary.

10. LEGAL RESERVE AND CASH DIVIDENDS

The Japanese Commercial Code (JCC) had provided that earnings in an amount equal to at least 10% of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until such reserve equals 25% of stated common stock. This legal reserve was not available for dividends but might be used to reduce a deficit by resolution of the shareholders or might be transferred to stated common stock by resolution of the Board of Directors.

Effective October 1, 2001, the JCC was amended to require earnings in an amount equal to at least 10% of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until total additional paid in capital and legal reserve equals 25% of stated common stock. In addition to reduction of a deficit and transfer to stated common stock, either additional paid in capital or legal reserve may be available for dividends by resolution of the shareholders to the extent that the amount of total additional paid in capital and legal reserve exceeds 25% of stated common stock. Legal reserve of ¥3,564 million ($29,700 thousand) is included in earnings surplus as of March 31, 2003 and 2002.

Cash dividends, directors' bonuses and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2003, 2002 and 2001 represent dividends and bonuses paid out during those years and the related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥6.0 ($0.05) per share totaling ¥1,243 million ($10,358 thousand) or directors' bonuses of ¥238 million ($1,983 thousand), subsequently proposed by the Board of Directors in respect of the year ended March 31, 2003.

11. TREASURY STOCK

The Japanese Commercial Code (JCC) had imposed certain restrictions on acquisition and disposal of treasury stock. Effective October 1, 2001, the JCC eliminated the provision of these restrictions and allowed acquisitions of treasury stock to the extent of distributable funds appropriated by resolution of the shareholders.

At the ordinary general shareholders' meeting in June 2002, it was approved to acquire up to 20,000 thousand shares of the Company's common stock for aggregate acquisition price not exceeding ¥40,000 million as treasury stock for the period from the close of the ordinary general shareholders' meeting to the close of the next ordinary general shareholders' meeting, pursuant to the provision of the JCC. The Company acquired no shares of its common stock based on the approval.

In May 2003, the Board of Directors of the Company resolved to present a proposal to the shareholders for the acquisition of up to 20,000 thousand shares of the Company's common stock for aggregate acquisition price not exceeding ¥30,000 million ($250,000 thousand) as treasury stock for the period from the close of the ordinary general shareholders' meeting to the close of the next ordinary general shareholders' meeting, pursuant to the provisions of the JCC. This proposal was approved in the ordinary general shareholders' meeting in June 2003.

12. COMMITMENTS AND CONTINGENCIES

At March 31, 2003, outstanding commitments for the purchase of property, plant and equipment were ¥1,941 million ($16,175 thousand), and contingent liabilities for guarantees for loans amounted to ¥1,235 million ($10,292 thousand).

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to transfer them by endorsement to suppliers in the settlement of accounts payable. The Company and its subsidiaries are contingently liable for trade notes endorsed, which amounted to ¥3,301 million ($27,508 thousand) and ¥4,124 million at March 31, 2003 and 2002, respectively.

13. NET INCOME PER SHARE INFORMATION

Effective April 1, 2002, the Company adopted ASB Statement No.2, "Calculations of Earnings Per Share of the current net earnings" as described note 1(m).

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

	Thousands of shares
	2003
Weighted average number of shares on which basic net income per share is calculated	**207,237**
Effect of dilutive securities:	
Convertible debentures	**4,029**
Number of shares on which diluted net income per share is calculated	**211,266**

	Millions of yen	Thousands of U.S. dollars
	2003	**2003**
Net income	**¥8,644**	**$72,033**
Net income not applicable to common stock holders:		
Appropriations for directors' bonuses	**(374)**	**(3,116)**
Net income on which basic net income per share is calculated	**8,270**	**68,917**
Effect of dilutive securities:		
Convertible debentures	**84**	**700**
Net income on which diluted net income per share is calculated	**¥8,354**	**$69,617**

	Yen	U.S. dollars
Net income per share:		
Basic	**¥39.91**	**$0.33**
Diluted	**39.54**	**0.33**

14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in general and administrative expenses and gross production cost for the years ended March 31, 2003, 2002 and 2001 amounted to ¥22,933 million ($191,108 thousand), ¥22,894 million and ¥22,408 million, respectively.

15. SUPPLEMENTARY CASH FLOW INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Cash paid during the year for:				
Interest	**¥1,299**	¥ 2,104	¥ 2,791	**$10,825**
Income taxes	**8,481**	16,900	19,631	**70,675**

16. FINANCIAL INSTRUMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company and certain subsidiaries operate globally and are exposed to market risks arising from fluctuations in foreign currency exchange rates and interest rates. In order to manage those risks, the Company and certain subsidiaries enter into various agreements on derivative financial instruments, including forward exchange contracts, currency option contracts and interest rate swap agreements. Forward exchange contracts are utilized to manage risks arising from foreign currency receivables from export of finished goods; foreign currency payables from the import of raw materials; and forecasted foreign currency sales and purchase transactions. Currency option contracts and interest rate swap agreements are utilized to manage foreign currency risk and interest rate risk for debts. The Company and its subsidiaries have no derivative financial instruments for trading purposes. In addition, the Company and its subsidiaries are exposed to potential credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are authentic financial institutions.

The Company and its subsidiaries have also developed hedging policies to control various aspects of derivative financial transactions including authorization levels and transaction volumes. Based on this policy, the Company and its subsidiaries hedge, within certain scopes, risks arising from changes in foreign currency exchange rates and interest rates. The Company and its subsidiaries review periodically the effectiveness of all the hedge policies to take account of the cumulative cash flows and any changes in the market.

The estimated fair values of the derivative financial instruments, excluding certain interest rate swap agreements, which are accounted for using deferral hedge accounting, by major instrument type as of March 31, 2003 and 2002 are as follows:

	Millions of yen					
	Notional amounts	Estimated fair values	Unrealized gains (losses)	Notional amounts	Estimated fair values	Unrealized gains (losses)
	2003			2002		
Interest rate swap agreements:						
Floating rate to floating rate	**¥ —**	**¥ —**	**¥ —**	¥10,000	¥ 3	¥ 3
Floating rate to fixed rate	**—**	**—**	**—**	100	(2)	(2)
	—	**—**	**—**	10,100	1	1
Currency option transactions:						
To sell foreign currencies	**106**	**(3)**	**(2)**	272	(1)	1
To buy foreign currencies	**106**	**0**	**(1)**	130	1	(2)
	212	**(3)**	**(3)**	402	0	(1)
Forward exchange contracts:						
To sell foreign currencies	**1,011**	**1,005**	**6**	576	585	(8)
			¥3			¥(8)

	Thousands of U.S. dollars		
	Notional amounts	Estimated fair values	Unrealized gains (losses)
	2003		
Interest rate swap agreements:			
Floating rate to floating rate	**$ —**	**$ —**	**$ —**
Floating rate to fixed rate	**—**	**—**	**—**
	—	**—**	**—**
Currency option transactions:			
To sell foreign currencies	**883**	**(25)**	**(17)**
To buy foreign currencies	**883**	**0**	**(8)**
	1,766	**(25)**	**(25)**
Forward exchange contracts:			
To sell foreign currencies	**8,425**	**8,375**	**50**
			$25

The fair values of derivative financial instruments were estimated on the basis of information obtained from third party financial institutions. The fair values of currency-related transactions are estimated using forward exchange rates. The fair values of interest rate swap agreements represent the estimated receipts or payments that would be made to terminate the agreements.

17. SEGMENT INFORMATION

The Company and its subsidiaries' business segments are classified as "Electronics-Related Products," "Chemical-Related Products" and "Housing Equipment and Environmental Facilities."

The main products of each business segment are provided on page 18 of this annual report.

Business segment information:

	Millions of yen					
	2003					
	Electronics-Related Products	Chemical-Related Products	Housing Equipment and Environmental Facilities	Total	Eliminations	Consolidated
Sales to outside customers	**¥205,004**	**¥208,440**	**¥80,782**	**¥494,226**	**¥ —**	**¥494,226**
Intersegment sales	**1,228**	**371**	**268**	**1,867**	**(1,867)**	**—**
	206,232	**208,811**	**81,050**	**496,093**	**(1,867)**	**494,226**
Operating expenses	**192,573**	**198,929**	**79,680**	**471,182**	**(1,886)**	**469,296**
Operating income	**¥ 13,659**	**¥ 9,882**	**¥ 1,370**	**¥ 24,911**	**¥ 19**	**¥ 24,930**
Assets	**¥178,031**	**¥182,558**	**¥47,898**	**¥408,487**	**¥(1,339)**	**¥407,148**
Depreciation and amortization of tangible and intangible fixed assets	**13,938**	**11,096**	**2,669**	**27,703**	**—**	**27,703**
Additions to tangible and intangible fixed assets	**7,098**	**13,892**	**2,586**	**23,576**	**—**	**23,576**

	Millions of yen					
	2002					
	Electronics-Related Products	Chemical-Related Products	Housing Equipment and Environmental Facilities	Total	Eliminations	Consolidated
Sales to outside customers	¥191,693	¥204,878	¥84,206	¥480,777	¥ —	¥480,777
Intersegment sales	1,250	872	31	2,153	(2,153)	—
	192,943	205,750	84,237	482,930	(2,153)	480,777
Operating expenses	189,764	197,198	82,952	469,914	(2,185)	467,729
Operating income	¥ 3,179	¥ 8,552	¥ 1,285	¥ 13,016	¥ 32	¥ 13,048
Assets	¥189,644	¥184,936	¥45,143	¥419,723	¥(1,315)	¥418,408
Depreciation and amortization of tangible and intangible fixed assets	15,454	10,816	2,764	29,034	—	29,034
Additions to tangible and intangible fixed assets	10,370	13,633	3,346	27,349	—	27,349

	Millions of yen					
	2001					
	Electronics-Related Products	Chemical-Related Products	Housing Equipment and Environmental Facilities	Total	Eliminations	Consolidated
Sales to outside customers	¥265,967	¥226,748	¥93,599	¥586,314	¥ —	¥586,314
Intersegment sales	753	1,371	634	2,758	(2,758)	—
	266,720	228,119	94,233	589,072	(2,758)	586,314
Operating expenses	239,025	213,999	90,235	543,259	(2,759)	540,500
Operating income	¥ 27,695	¥ 14,120	¥ 3,998	¥ 45,813	¥ 1	¥ 45,814
Assets	¥213,816	¥196,618	¥47,408	¥457,842	¥ (725)	¥457,117
Depreciation and amortization of tangible and intangible fixed assets	15,005	11,577	2,427	29,009	—	29,009
Additions to tangible and intangible fixed assets	22,105	12,604	3,211	37,920	—	37,920

	Thousands of U.S. dollars					
	2003					
	Electronics-Related Products	Chemical-Related Products	Housing Equipment and Environmental Facilities	Total	Eliminations	Consolidated
Sales to outside customers	**$1,708,367**	**$1,737,000**	**$673,183**	**$4,118,550**	**$ —**	**$4,118,550**
Intersegment sales	**10,233**	**3,092**	**2,234**	**15,559**	**(15,559)**	**—**
	1,718,600	**1,740,092**	**675,417**	**4,134,109**	**(15,559)**	**4,118,550**
Operating expenses	**1,604,775**	**1,657,742**	**664,000**	**3,926,517**	**(15,717)**	**3,910,800**
Operating income	**$ 113,825**	**$ 82,350**	**$ 11,417**	**$ 207,592**	**$ 158**	**$ 207,750**
Assets	**$1,483,592**	**$1,521,316**	**$399,150**	**$3,404,058**	**$(11,158)**	**$3,392,900**
Depreciation and amortization of tangible and intangible fixed assets	**116,150**	**92,467**	**22,241**	**230,858**	**—**	**230,858**
Additions to tangible and intangible fixed assets	**59,150**	**115,767**	**21,550**	**196,467**	**—**	**196,467**

Geographic segment information:

	Millions of yen					
	2003					
	Japan	Asia	Other areas	Total	Eliminations	Consolidated
Sales to outside customers	**¥418,934**	**¥57,378**	**¥17,914**	**¥494,226**	**¥ —**	**¥494,226**
Intersegment sales	**29,905**	**7,224**	**1,760**	**38,889**	**(38,889)**	**—**
	448,839	**64,602**	**19,674**	**533,115**	**(38,889)**	**494,226**
Operating expenses	**427,763**	**60,726**	**19,539**	**508,028**	**(38,732)**	**469,296**
Operating income	**¥ 21,076**	**¥ 3,876**	**¥ 135**	**¥ 25,087**	**¥ (157)**	**¥ 24,930**
Assets	**¥357,772**	**¥45,949**	**¥14,004**	**¥417,725**	**¥(10,577)**	**¥407,148**

	Millions of yen					
	2002					
	Japan	Asia	Other areas	Total	Eliminations	Consolidated
Sales to outside customers	¥408,942	¥57,139	¥14,696	¥480,777	¥ —	¥480,777
Intersegment sales	22,601	6,374	1,160	30,135	(30,135)	—
	431,543	63,513	15,856	510,912	(30,135)	480,777
Operating expenses	421,969	60,045	16,150	498,164	(30,435)	467,729
Operating income	¥ 9,574	¥ 3,468	¥ (294)	¥ 12,748	¥ 300	¥ 13,048
Assets	¥367,496	¥46,333	¥14,250	¥428,079	¥ (9,671)	¥418,408

	Millions of yen					
	2001					
	Japan	Asia	Other areas	Total	Eliminations	Consolidated
Sales to outside customers	¥504,816	¥66,645	¥14,853	¥586,314	¥ —	¥586,314
Intersegment sales	26,915	8,088	2,030	37,033	(37,033)	—
	531,731	74,733	16,883	623,347	(37,033)	586,314
Operating expenses	491,511	69,185	16,499	577,195	(36,695)	540,500
Operating income	¥ 40,220	¥ 5,548	¥ 384	¥ 46,152	¥ (338)	¥ 45,814
Assets	¥409,091	¥46,006	¥14,574	¥469,671	¥(12,554)	¥457,117

	Thousands of U.S. dollars					
	2003					
	Japan	Asia	Other areas	Total	Eliminations	Consolidated
Sales to outside customers	**$3,491,117**	**$478,150**	**$149,283**	**$4,118,550**	**$ —**	**$4,118,550**
Intersegment sales	**249,208**	**60,200**	**14,667**	**324,075**	**(324,075)**	**—**
	3,740,325	**538,350**	**163,950**	**4,442,625**	**(324,075)**	**4,118,550**
Operating expenses	**3,564,692**	**506,050**	**162,825**	**4,233,567**	**(322,767)**	**3,910,800**
Operating income	**$ 175,633**	**$ 32,300**	**$ 1,125**	**$ 209,058**	**$ (1,308)**	**$ 207,750**
Assets	**$2,981,433**	**$382,909**	**$116,700**	**$3,481,042**	**$ (88,142)**	**$3,392,900**

Overseas sales:

Overseas sales, which include export sales of the Company and its domestic subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars
	2003		2002		2001		**2003**
	Amount	Percentage of consolidated net sales	Amount	Percentage of consolidated net sales	Amount	Percentage of consolidated net sales	Amount
Overseas sales:							
Asia	¥ 71,785	14.5%	¥ 67,252	14.0%	¥ 84,445	14.4%	**$ 598,208**
Other areas	35,241	7.2	32,225	6.7	32,957	5.6	**293,675**
	¥107,026	21.7%	¥ 99,477	20.7%	¥117,402	20.0%	**891,883**
Consolidated net sales	¥494,226	100.0%	¥480,777	100.0%	¥586,314	100.0%	**$4,118,550**

INDEPENDENT AUDITORS' REPORT

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries

To the Shareholders and Board of Directors of
Hitachi Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Hitachi Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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 Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 1 to the consolidated financial statements, Hitachi Chemical Co., Ltd. and consolidated subsidiaries had adopted new accounting standards for retirement benefits, financial instruments and foreign currency transactions in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience of the reader. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Shin Nihon & Co.

Shin Nihon & Co.
Tokyo, Japan
June 26, 2003

See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Hitachi Chemical Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

MAJOR SUBSIDIARIES AND AFFILIATES

(As of March 31, 2003)

JAPAN

MANUFACTURING

Shin-Kobe Electric Machinery Co., Ltd.
Manufacturing and marketing of batteries and plastic products

Hitachi Powdered Metals Co., Ltd.
Manufacturing and marketing of powdered metal products

Hitachi AIC Inc.
Manufacturing and marketing of printed wiring boards and capacitors

Hitachi Housetec Co., Ltd.
Manufacturing and marketing of housing equipment and environmental facilities

Japan Brake Industrial Co., Ltd.
Manufacturing and marketing of friction materials

Hitachi Chemical Automotive Products Co., Ltd.
Manufacturing and marketing of plastic automotive parts and molded synthetic resin products

Hitachi Kasei Polymer Co., Ltd.
Manufacturing and marketing of adhesives and synthetic resin products

Nikka Kaseihin Co., Ltd.
Manufacturing and marketing of foamed styrene products

Namie Hitachi Chemical Co., Ltd.
Manufacturing and marketing of carbon products

Hitachi Chemical Filtec Inc.
Manufacturing and marketing of food-wrapping films

Hitachi Chemical Industrial Materials Co., Ltd.
Manufacturing and marketing of traffic marking materials and molded synthetic resin products

Nippon Denkai, Ltd.*
Manufacturing and marketing of metal foil

INSTALLATION, TRADING, DESIGN, AND SERVICE

Hitachi Kasei Shoji Co., Ltd.
Marketing of electronics- and chemical-related products and others

Nikka Equipment & Engineering Co., Ltd.
Design and manufacturing of facilities and machinery

Hitachi Kasei Business Service Co., Ltd.
Outsourcing of accounting, training/education and other business services
Leasing of office equipment

Hitachi Chemical Electronics Co., Ltd.
Design and manufacturing of printed wiring boards

Akebono Technos Co., Ltd.
Marketing of materials and instruments for printed wiring boards

*Affiliate accounted for by the equity method

ASIA & OCEANIA

MANUFACTURING

Hitachi Chemical (Johor) Sdn. Bhd.
Manufacturing and marketing of copper clad laminates for printed wiring boards, and photosensitive dry films

Hitachi Chemical Asia-Pacific Pte. Ltd.
Manufacturing and marketing of printed wiring boards
Marketing of Hitachi Chemical products

Hitachi Chemical (Dongguan) Co., Ltd.
Manufacturing and marketing of photosensitive dry films for printed wiring boards

Hitachi Chemical Co. (Taiwan) Ltd.
Manufacturing and marketing of printed wiring boards
Slitting operation and marketing of photosensitive dry films for printed wiring boards

Hitachi Chemical (Malaysia) Sdn. Bhd.
Manufacturing and marketing of epoxy molding compounds and die bonding materials for semiconductor devices

Bioclone Australia Pty Ltd.
Manufacturing and marketing of diagnostic reagents

Hitachi Chemical Electronic Materials (Korea) Co., Ltd.
Slitting operation and marketing of photosensitive dry films for printed wiring boards

PT. Hitachi Chemical Electronic Products Indonesia
Manufacturing and marketing of printed wiring boards

Hitachi Chemical (Shanghai) Co., Ltd.
Slitting operation and marketing of photosensitive dry films for printed wiring boards, and anisotropic conductive films for liquid crystal displays

Hitachi Powdered Metals (Singapore) Pte. Ltd.
Manufacturing and marketing of powdered metal products

Xinyi Rihong Plastic Chemical Co., Ltd.
Manufacturing and marketing of rosin derivatives

Japan Brake (Thailand) Co., Ltd.
Manufacturing and marketing of friction materials

Hitachi Chemical Automotive Products (Thailand) Co., Ltd.*
Manufacturing and marketing of plastic automotive parts

CSB Battery Co., Ltd.*
Manufacturing and marketing of batteries and electric equipment

Thai Sintered Products Co., Ltd.*
Manufacturing and marketing of powdered metal products

SALES AND SERVICE

Hitachi Chemical Co. (Hong Kong) Ltd.
Marketing of Hitachi Chemical products
Slitting operation and marketing of photosensitive dry films for printed wiring boards

U.S.A.

MANUFACTURING

Hitachi Chemical Diagnostics, Inc.
Manufacturing and marketing of diagnostic reagents

RNAture, Inc.
Manufacturing and marketing of gene expression enabling products

Tri-Continent Scientific, Inc.
Manufacturing and marketing of OEM liquid-handling products and instrument components

Sintering Technologies, Inc.
Manufacturing and marketing of powdered metal products

Hitachi Chemical DuPont MicroSystems L.L.C.*
Manufacturing and marketing of polyimide materials for semiconductor devices

RESEARCH

Hitachi Chemical Research Center, Inc.
R&D in biotechnology

SALES AND SERVICE

Hitachi Chemical Co. America, Ltd.
Marketing of Hitachi Chemical products

EUROPE

SALES AND SERVICE

Hitachi Chemical Europe GmbH
Marketing of Hitachi Chemical products

CORPORATE DATA

(As of March 31, 2003)

Hitachi Chemical Company, Ltd.

Head Office:
Shinjuku-Mitsui Building,
1-1, Nishi-Shinjuku 2-chome,
Shinjuku-ku, Tokyo 163-0449, Japan
Phone: 81-3-3346-3111
Fax: 81-3-3346-2977

Established:
October 10, 1962

Paid-in Capital:
¥15,284 million

Common Stock:
Authorized: 800,000,000 shares
Issued: 207,251,708 shares

Number of Shareholders:
14,402

Stock Exchange Listings:
Tokyo, Osaka
(Ticker Symbol Number: 4217)

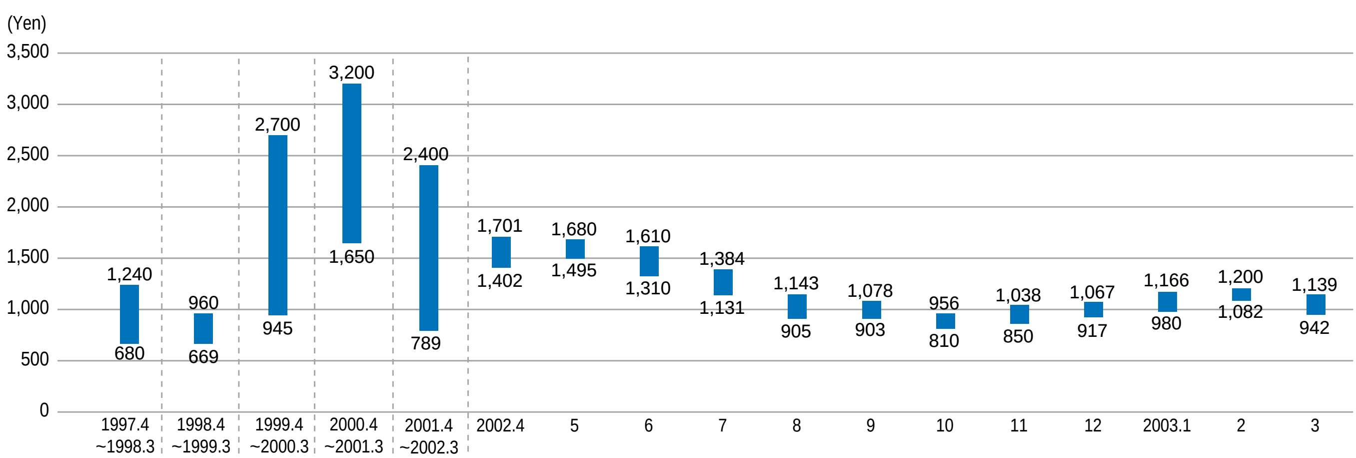
Independent Auditors:
Shin Nihon & Co.

Internet Address:
www.hitachi-chem.co.jp

Number of Employees:
3,378

Transfer Agent and Registrar:
Tokyo Securities Transfer Agent Co., Ltd.
Shin-Marunouchi Building,
5-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-0005, Japan
Phone: 81-3-3212-4611

Stock Price Range (Tokyo Stock Exchange)



NEW BRAND LOGO OF HITACHI CHEMICAL

Hitachi Chemical has established a new brand logo to further strengthen its competitiveness amid the increasing globalization of the market.

The design of the new logo sums up the conceptual and creative abilities of Hitachi Chemical. The drop-shaped mark leaping off the letter "C" symbolizes the power, energy and momentum to break out of a previously existing shell to boldly take on the challenges of unknown fields and create new things within them.

The use of italics in the logo expresses a sense of speed in swiftly offering optimal solutions to customers. Moreover, for the brand color, we used blue, which calls forth an image of clear water and sky to represent the Hitachi Chemical Group as a corporate organization that values coexistence with the environment.

Hitachi Chemical

Hitachi Chemical Co., Ltd.

PRINTED WITH SOY INK

This annual report was printed on 100% recycled paper.

Printed in Japan