

October 28, 2003

Hitachi's drastic reorganization of its global logistics system in alliance with DHL
A project to facilitate Business Process Reengineering (BPR) and to enhance customer satisfaction through a direct product delivery system

Tokyo, October 28, 2003 - Hitachi, Ltd.(TSE:6501) today announced they will implement what is known as the L Project to reorganize its global logistics system in alliance with DHL Japan. Under this project, Hitachi's Ubiquitous Platform Systems(hereinafter called UB Systems) will construct a highly efficient business system through the drastic implementation of Business Process Reengineering (BPR: fundamental reorganization of business operations).

The objective of this project is to reduce the total inventory level by 70 percent on a consolidated basis by eliminating warehousing requirements at overseas sales companies and by delivering products directly to customers within 72–96 hours from production sites inside and outside Japan. As a result, cash flow, business operational efficiency and customer satisfaction can all be improved after the introduction of IT to peripheral systems.

This project was partially implemented on a trial basis for liquid crystal projectors launched into the European market in July this year and will be fully implemented over the entire European market in April next year. The project will subsequently also be implemented in America and Asian countries. Hitachi plans to complete the worldwide project implementation by 2005.

UB Systems will make use of this project for the distribution of key products, namely liquid crystal projectors, plasma televisions, and surveillance products. UB Systems estimates that the project will effectively yield an annual cost reduction of 180 million yen in logistics cost savings alone in terms of the global market distribution of liquid crystal projectors. The problem of costs from scattered inventories will be addressed through a central control system introduced to production sites where products and materials are flexibly converted and utilized. As a result, losses from dispersed inventories occurring during price fluctuations and slow sales periods will be significantly reduced on a consolidated basis. These losses presented risks for each locally incorporated company in the past. In the long run, Hitachi is planning to replace the system of stocking at individual production sites by a Built-To-Order system (BTO). UB Systems plans to reduce distribution inventory at all levels (including customers' inventory) from the current level of three months to one month in volume.

For the sales of UB Systems's key products (e.g. liquid crystal projectors, plasma televisions, and surveillance products) in the international market, sales companies in each country had to retain warehouse stock on an individual basis and shipped products when they received customer orders. But this system caused problems shown below.

Distribution Problems in the Old System

1. A long lead time for delivery

It took a long time (about 70 days) to deliver products from production sites to customers. This caused a serious cash flow problem on a consolidated basis.

[Distribution in the Old System]

For Europe: 70 days from dispatch to delivery via ocean transportation (See the figure below).

Production sites

Air/sea transportation

Local companies' warehouses

Local transportation

Customers' warehouses

End users

2. Dispersed Inventory

There was a problem of dispersed inventory since each overseas business base overseas had to have stock. For example, a warehouse in a certain country had sufficient stock, while one elsewhere suffered a stock shortage. UB Systems was not able to respond to fluctuations in demand caused by significant changes in market circumstances and ended up missing business opportunities due to a short stock position or accounting losses from revalued inventories caused by surplus stock.

3. Rising Operating Costs at Overseas Subsidiaries

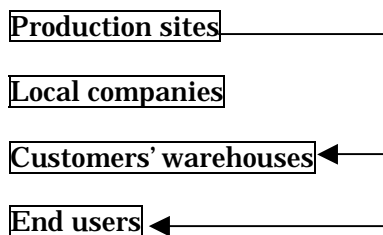
While overall product prices kept falling year on year, fixed costs at overseas subsidiaries kept rising, meaning it was getting harder to make ends meet. With no conventional solution to reorganization looming, drastic business reorganization based on flexible principles was called for.

This project will establish the following distribution system.

Distribution under L Project

1. New Logistics System

Products will be delivered from production bases to customers' warehouses within 72–96 hours in the use of Break Bulk Express (BBX), which is DHL's transportation service value-added to import clearance service (See the figure below).



2. Establishment of IT system to Support the Above System

We will establish an IT system that supports sales companies overseas and business bases in Japan. Specific policy on IT is as follows:

Order-taking and Order-placement Support System

Establishment of a system in which order sheets from sales companies are automatically recognized as shipping instruction sheets to be sent to production sites.

Information Sharing for Sales People and Customers

Establishment of a system in which information concerning the status of order-taking

and placement, delivery, and production plans are shared on a visual basis through all connected stations, including customers, in order to achieve timely sales activities (such as pricing and product planning), while promptly identifying market changes.

The following points represent our expectations for this project:

Effects of L Project

1. Cost Reduction Effect

Previously, it took 70 days to deliver products from production sites to customers, because of the need to stock at sales companies. The new direct delivery system will eliminate inventory throughout the distribution channel. In addition, the time required to process orders ranging from order receipt to product delivery will be reduced to 72–96 hours, meaning significantly improved cash flow.

2. More Efficient Sales Management

Improved IT environments in the case of the order-taking and placement support system will significantly decrease current workloads incurred for items such as the issuance of bills and will create an environment where sales forces can concentrate on real sales activities. Additionally, sales opportunities can be maximized through the real-time identification of market trends using information regarding daily operational order taking.

3. Improvement in CS

The project will also help improve customer satisfaction (CS) and strengthen Hitachi's non-price competitiveness with regard to the following points.

As the reduction in distribution inventory levels is an objective of the direct delivery system, customers will eventually enjoy reduced costs .

A customer portal system and DHL's shipment tracking system will make it possible to always pinpoint the current location of products ordered by customers during distribution.

As the number of touch points throughout the distribution will fall after the introduction of the direct delivery system, the risk of transport accidents such as freight damage and theft will be decreased. This will result in reduced insurance costs.

Hitachi UB Systems plans to eventually achieve zero inventory levels at locally incorporated companies and strives for the ultimate implementation of supreme supply chain management (SCM) operation. DHL, as a total logistics provider, makes efforts to meet all kinds of customers' expectation in a flexible manner with its network for transportation services over land, air and sea, providing expert logistics.

About HITACHI

Hitachi, Ltd. headquartered in Tokyo, Japan, is a leading global electronics company, with approximately 340,000 employees worldwide. Fiscal 2002 (ended March 31, 2003) consolidated sales totaled 8,191.7 billion yen (\$68.3 billion). The company offers a wide range of systems, products and services in market sectors, including information systems, electronic devices, power and industrial systems, consumer products, materials and financial services. For more information on Hitachi, please visit the company's Web site at <http://www.hitachi.com>.

About DHL

DHL, the world's leading company in the international express (international parcel delivery) and logistics industry, offers customers many innovative business solutions from a single source in order to meet all kinds of customers' expectation concerning transportation services. With an in-depth understanding of local markets around the world, DHL has a global network linking more than 220 countries and territories worldwide, offering expert global logistics solutions, air express, air and sea freight, and overland transport.

With innovative technologies and more than 170,000 employees, DHL guarantees fast and reliable services aimed at exceeding customers' expectations.

DHL is 100% owned by Deutsche Post World Net (DPWN), based in Brussels, the capital of Belgium.

[DHL Japan: Corporate Data]

Corporate Name : DHL Japan, Inc.

Head Office : 1- 37- 8, Higashi Shinagawa, Shinagawa-ku, Tokyo

Service Started : June 1972 (as Japan branch of DHL International)

Established : August 1979 (Incorporated as a Japanese listed company)

Capital : 50 million yen

Number of Employees : Approximately 1,600*

Domestic Locations : 31 service Centers, Branches, and Offices* (and 13 Express Centers)

*** Include the customs division group affiliate, Kyokuto DHL Ltd.**

Representative Director and President : Scott Price

Business Overview :

Started Japan's first air express service in 1972.

DHL provides air express service for delivering door-to-door a variety of shipments ranging from business documents to large cargos safely, reliably, and speedily to over 220 countries and territories over the world.

See the DHL Japan web site (www.dhl.co.jp) for more details.

Information contained in this news release is current as of the date of the press announcement, but may be subject to change without prior notice.
