Hitachi to Implement Emergency Management Measures and New Consolidated Management System

Tokyo, Japan, August 31, 2001 --- Hitachi, Ltd. (TSE:6501/NYSE:HIT) today announced that the Company is implementing emergency management measures aimed at bringing about an early improvement in its business results.

Hitachi has been working to achieve the goals of its "i.e. HITACHI" medium-term business plan through restructuring moves and management reforms implemented under a new management system launched in April 1999. However, with rapid changes in the market environment leading to a worsening of the Company's business results, Hitachi is implementing emergency management measures aimed at bringing about an early improvement in its business results.

(more)

Full-fledged consolidated management is essential to accelerate the increase in the corporate value of the Hitachi Group within an environment shaped by intense competition. As such, starting from the second half of the current fiscal year, Hitachi Group head-office function will be strengthened and a new "Future Inspiration Value (FIV)" index being devised by the Company will be used to re-evaluate the Company's business portfolio in terms of new segment units. Based on the outcome of this re-evaluation, the form the Hitachi Group should take will be defined, business strategies will be rigorously reviewed and operations will be resolutely reorganized.

I. Emergency Management Measures

[1] Company-wide emergency measures

1. Comprehensive cutting of fixed costs

On an unconsolidated basis, targets for cutting fixed costs will be set for each business group to reduce the overall level of fixed costs by 60 billion yen by the end of fiscal 2001, the year ending March 31, 2002. In subsidiaries belonging to segments where results are particularly sluggish, such as Electronic Devices and High Functional Materials & Components, manufacturing facilities will be closed, merged or downsized. On a consolidated basis, fixed costs reduction target is set around 130 billion yen.

2. Personnel reductions

On a consolidated basis, the number of employees will be reduced by around 14,700 (10,200 in Japan and 4,500 overseas), by the end of fiscal 2001, mainly through natural attrition and restructuring of the Semiconductor Group and Display Group.

3. Top-to-bottom review of planned investment in plant and equipment

In response to a rapid deterioration in the operating environment, plant and equipment investment plans will be reviewed to reduce investment items to the minimum required.

In the semiconductor business in which supply greatly exceeds demand, the initially-planned investment of 140 billion yen will be decreased to 60 billion yen in an effort to further prevent cash flow deterioration.

4. Boosting management efficiency

The Company will continue to move forward with the Corporate Innovation Initiative (CII), encompassing the following elements.

(1) Procurement Renewal Project (PRP)

The procurement specifications and methods of the Hitachi Group are being reviewed to reduce consolidated procurement costs by a planned 20% (approximately 600 billion yen) over two years, by using such measures as net-based centralized purchasing and by making major reductions in distribution costs. In the first half of the current fiscal year, the project is being carried out at a faster pace.

(2) Project C

The aim of Project C is to ensure funds for strategic investments and reduce interest-bearing debt through a 25% decrease (by March 31, 2003, compared to September 30, 2000) in the number of days it takes to turn over inventory and accounts receivable. This is expected to generate additional 1 trillion yen improvement in cash flow over the period. It is targeted that by the end of September 2001, the number of days it takes to turn over inventory and accounts receivable will have decreased by around 10% compared to September 2000.

(3) Project A

Hitachi is currently in the process of strategically promoting this project. Each business group and division is developing businesses and services which aims at world leadership positions within 2 to 3 years. Compared to fiscal 2000 sales, the aim is to increase sales of products and services targeted by the project by 1.5 times in fiscal 2001, and to double sales by fiscal 2002.

[2] Business Group Emergency Measures

1. Semiconductor business

(1) Selectivity and concentration

Hitachi will concentrate resources where it has strengths and the markets are large, or in products and applications that have high growth potential. The Company's business portfolio will be comprised of a commodity-product business segment for the many customers that use general-purpose items, and an application-specific business segment that will provide solutions and products tailored to meet the needs of leading enterprises in specific applications such as mobile systems and car information systems.

<Commodity-product business>

For multi-purpose semiconductors, multi-purpose microcomputers, SRAMs and non-volatile memory products, product groups to concentrate resources on will be selected. The lineups of the selected product groups will be strengthened and improved to increase the range of market coverage.

<Application-specific business>

Applications to concentrate resources on will be selected from mobile and network systems, digital consumer products and car information systems, and by meeting the demands of leading companies by providing systems solutions, application specific microcomputers and system LSIs, Hitachi will increase its market shares.

(2) Restructuring of business

a) A part of the Multi-Purpose Semiconductor Group and Hitachi Tohbu Semiconductor, Ltd. will be consolidated to establish, during fiscal year 2002, a company that integrates sales, design and manufacturing. This will provide an enhancement of developmental capabilities and will reduce costs.

b) To improve profitability, a part of the multi-purpose microcomputer business and Hitachi Hokkai Semiconductor, Ltd. will be integrated for the design and manufacture of multi-purpose microcomputers. October 2001 is the target date for this step.

c) Thanks to the use of the latest process technology, Trecenti Technologies, Inc.'s 300mm wafer process productivity is very high. To improve its utilization rate and profitability, Trecenti will start producing system LSIs, in addition to flash memories and SRAMs that are already under production, for which high performance, short delivery period and low cost are particularly important.

(3) Business improvement measures

a) On the front-end manufacturing processing side, a part of the Kofu operation's manufacturing lines has already been suspended, and certain production lines with low utilization rates at Naka, Kofu, Takasaki, Kodaira operations and Hitachi Hokkai Semiconductor, Ltd. will be temporarily suspended, reducing the number of active lines from 19 to 13.

b) Back-end manufacturing processing subsidiaries will also be reorganized and consolidated. By the end of fiscal 2002, the number of back-end manufacturing processing bases will be reduced from 13 to 8.

c) At Hitachi Nippon Steel Semiconductor Singapore Pte. Ltd., which manufactures DRAMs, production will be reduced to match demand. With further respect to DRAM operations, after Elpida Memory, Inc. has established an integrated system that includes development, design, production and sales, and its business results have recovered, a public offering of Elpida Memory shares will be planned.

d) By the end of the current fiscal year, the number of employees in Japan will be reduced by approximately 2,000 on a consolidated basis; this figure includes employees moved to a different business group. Taken together with the reduction in depreciation costs resulting from the cutbacks in plant and equipment investment, this will reduce fixed costs by 20%. It is estimated that investment in plant and equipment during fiscal 2001 will amount to 60 billion yen.

2. Displays business

(1) Cathode Ray Tubes (CRTs)

Hitachi has already decided to withdraw from CRTs used in PC monitors; production in

Japan and overseas will be halted by the end of this year. The Company is in the process of negotiating the sale of the monitor CRT business. The withdrawal will eliminate losses generated by this CRT operation, and reduce the number of employees by some 2,600. Hitachi is also considering a reorganization of its television CRT business.

(2) Flat panel displays (FPDs)

Looking ahead, Hitachi intends to concentrate resources on FPDs, with particular emphasis on TFT LCDs, including low-temperature poly-silicon TFT LCDs.

Hitachi has been expanding its FPD business, targeting mainly notebook PCs. However, the Company also intends to aggressively expand sales of FPDs ranging from small- and medium-sized LCDs for mobile phones and other such applications, to large-screen models for monitors, by introducing new, competitive products that incorporate the Company's leading-edge technology. As part of ongoing moves to reduce unit costs, in July TFT LCD production got underway at a new high-efficiency production line that uses the world's largest glass substrates, measuring 730 mm by 920 mm, and in August assembly of LCD modules was started in China. These measures are expected to improve efficiency and profitability.

II. Strengthening of operations through re-appraisal of business portfolio

In order to achieve effective consolidated management, the business portfolio will be re-appraised in terms of the seven new segments to clarify business strategies for a consolidated Hitachi.

Based on the re-appraisal, within fiscal 2002, with respect to businesses that should be strengthened as core businesses, management resources will be concentrated and M&A and other such measures will be used aggressively to expand those business operations. Along with this, businesses from which Hitachi should withdraw will also be clarified.

Moreover, to build an optimum operations system able to speedily respond to market changes, Hitachi will move forcefully forward to reorganize business operations between the parent company and subsidiaries, by spinning off companies, merging subsidiaries and other such measures.

[1] Strengthening of Information and Telecommunication Systems business

1. Storage business

In the storage business, the disk-array based SAN/NAS storage solutions business will be strengthened to achieve sales targets of 310 billion yen in fiscal 2001 and 400 billion yen in fiscal 2002.

Hitachi will develop solutions that offer a high level of customer satisfaction, by combining leading application software of partners with Hitachi's powerful disk arrays and basic software, and, in conjunction with Hitachi Data Systems Corporation and its worldwide network, will focus on expanding the business from a global perspective, including in Japan, where Hitachi has the leading share of the market.

With particular respect to disk array systems, which are a core product, Hitachi will move forward with the development and production of hardware that will continue to be highly competitive. On the sales side, in addition to using Hitachi's own channels and OEM supply arrangements with partners such as Hewlett-Packard Company, sales will be strengthened using a diverse range of channels, including Sun Microsystems, Inc., with which Hitachi has signed a new sales agreement.

With respect to the parts business, specifically hard disk drives, total supply-chain management will be used to reduce costs and new customers will be developed in order to grow the business.

To ensure the effectiveness of such storage business strategies, with respect to the SAN/NAS storage solutions business, which has good growth potential, within one year Hitachi is considering investing in venture enterprises and investing around 100 billion to 150 billion yen for M&A. In addition to this, Hitachi is considering aggressive measures such as multi-hundred-billion-yen M&A that will enable Hitachi to utilize its manufacturing strengths and achieve merits of scale on the production side.

2. Information solutions business

In October 2000, Experio Solutions Corporation, a Hitachi subsidiary, acquired the e-Business Consulting Group of Grant Thornton LLP, an accounting and management-consulting firm. And in July this year, Experio Solutions acquired WaveBend Solutions, LLC. Hitachi expects these and other overseas information solutions businesses to generate sales of $1 billion in five years. Hitachi may implement further acquisitions and/or tie-ups before the end of the year.

3. Telecommunications business

To ensure its ability to respond to the rapidly-growing optical components market, in September 2000, Hitachi established a U.S. subsidiary, OpNext, Inc., to conduct Hitachi's fiber optic components business in the United States. This was done with the equity participation of Clarity Group, a U.S.-based equity partnership. Another task is to ensure Hitachi's competitiveness on world markets in other product areas. To strengthen its telecommunications business, by the end of this fiscal year Hitachi is considering measures such as new alliances.

[2] Strengthening of Power & Industrial Systems business

1. Power systems

Hitachi is strengthening its services business, starting with operation and maintenance services, and is participating in the development of a next-generation nuclear reactor. To achieve higher efficiency and promote overseas operations, Hitachi is also studying the possibility of tie-ups with other companies in Japan and overseas. Management resources are being concentrated to develop new businesses that can rank alongside the power systems business as a pillar of operations. Examples of such new businesses include advanced medical-treatment support services utilizing radiation technology developed during the course of the Company's work with nuclear power.

2. Building systems

The total building services offered by the acquisition of SEISHIN SERVICE CO., LTD. will be strengthened, and M&A and tie-ups are being considered to expand the overseas business.

3. Railway systems

The tie-up with Kawasaki Heavy Industries, Ltd. will be used to expand overseas operations, and Hitachi will concentrate management resources to strengthen product competitiveness.

4. New businesses

New businesses for which future growth is projected include environmental energy solutions, which is a fusion between information technology and social infrastructure technology developed by Hitachi's power and industrial systems business, recycling plant services, and Private Finance Initiatives. To speed up the development and expansion of these businesses in Japan and overseas, Hitachi will use the comprehensive capabilities of the Hitachi Group together with outside alliances.

[3] Strengthening of digital media / consumer products operations

1. Home network appliance systems

With the consumer products business entering a time of major transition, Hitachi will enhance profitability by shifting to new markets, such as network appliances and digital products, in which system and service capabilities are a requirement. As part of this, Hitachi will focus on strengthening its home network appliance systems business by making maximum use of its sophisticated technologies in the areas of information

(more)

systems and networks and electronic devices and solutions, and by moving forward with the networking and digital implementation of home appliances.
Hitachi is also working with Matsushita Electric Industrial Co., Ltd. to establish de facto standards for home network appliance systems.

2. Reorganization of global business
<Asia>
Hitachi has been transferring production overseas as part of its moves to strengthen its competitiveness in the areas of consumer products and digital media. Looking ahead, the Company will be reorganizing its production system in the Asia region to reduce manufacturing costs. The focus of this reorganization will be China, a market for which major growth is projected.
In room air-conditioners, in August this year Hitachi established a subsidiary in Anhui Province, China, to manufacture low-priced room air-conditioners for the China and Japan markets. The new company will enable Hitachi to increase its share of the China market, and will also make it possible to strengthen its cost-competitiveness in the Japan market. The company was established as a future global manufacturing base.
In TVs, Hitachi has started producing projection TVs in China. In other moves, TV production in Singapore has been transferred to China and Indonesia. Singapore has been repositioned as the base for developing TVs for markets in Asia. Hitachi Consumer Products (S) Pte. Ltd. will be wound up at the end of September.
<Europe>
Hitachi Home Electronics (Europe) Ltd. has initiated consultation with representatives of its employees, with a view to halt TV production and to close its plant at the end of this year. The company is to be restructured for marketing and sales of digital products, demand for which is expected to grow at a rapid pace as broadband access becomes more widespread.

III. New Consolidated Management System

[1] Segment-based consolidated management

In order to maximize corporate value, from this October, consolidated management will be applied on a reorganized seven new segment basis. Specifically, there will be a strengthening of Group head-office function, which will formulate consolidated management strategies, provide advice on reorganization, and so forth. To achieve consolidated management that maximizes return on assets, management of business groups under the parent company and of subsidiaries will be analyzed and evaluated on a segment by segment basis, and the results will be used as a basis for boldly restructuring companies and business segments.

[2] Introduction of Hitachi's FIV Index

The Future Inspiration Value (FIV) index being developed by Hitachi will be used to re-evaluate the Company's business portfolio, in relation to formulating consolidated management strategies and studying reorganization matters. Based on the outcome of this re-evaluation, the portfolio the Hitachi Group should take will be redefined, business strategies will be rigorously reviewed, and operations resolutely reorganized.

In assessing value, in addition to cost of capital, the FIV index includes other elements such as risk and environmental accounting factors. It was devised as a measure of corporate management that takes into consideration the interests of a range of stakeholders.

[3] Establishment of Group Finance Center

In October Hitachi will establish Group Finance Center to expand the business strategy functions of the Hitachi Group, improve management efficiency and enhance the use of the comprehensive capabilities of the Group. The Center will be used to centralize the management of Hitachi Group funds, and those funds will be strategically used for the reorganization of group business operations. The funds will also be used to reduce interest-bearing debt. Looking to the future, it will also be used to raise funds, utilizing Hitachi's high credit rating and the merits of scale.

[4] Policies relating to holdings in subsidiaries and affiliated companies

With respect to subsidiaries and affiliated companies in which Hitachi has a holding, the mission and position of each such company will be clarified. And, determination will be made on a case by case basis, as to whether the holdings in a company will be sold or whether the company will be made a wholly-owned subsidiary. Once such a determination has been made, the decision will be implemented on an expedited basis.

# # #