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Fair Operating Practices Promoting Work Practices in Line with International Ethics Codes

Fair Operating Practices

➤ Hitachi's Aims

There is a growing idea that companies should build their businesses with a view to promoting CSR throughout the supply chain, not just around the company's operations. This view informs such global initiatives as the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD) and the United Nations' Global Compact and Guiding Principles on Business and Human Rights.

In seeking to be a company that continually fulfills its social responsibility throughout the value chain, Hitachi strictly adheres to laws and regulations and acts in a moral and fair manner with all its business partners. We thoroughly promote the compliance of our employees in all business activities, including procurement, manufacture, sales, export, and taxation. By enhancing activities to raise our suppliers' awareness, we are advancing the creation of a framework and fostering a corporate culture to carry out ethical actions and fulfill our social responsibility together with our business partners.

Main Plans and Results

Policies	FY 2015 goals/plans	Results in FY 2015	Achievement level	FY 2016 goals/plans
· Contribution to continuation of Hitachi's operations by working with suppliers to secure supplies	· Establish procurement BCPs at production sites outside Japan · Identify bottlenecks and develop countermeasures; conduct BCP surveys of suppliers	· Established BCPs at 118 targeted production sites outside Japan	★★★	· Regularly update information on parts and suppliers
· Reinforcement of supply chain from global perspective	· Consider supply chain management based on survey results	· Held seminar for suppliers in Shanghai as part of capacity building; 15 people from 12 companies attended · Conducted human rights due diligence at procurement division	★★★	· Implement measures based on the results of the fiscal 2015 human rights due diligence

★★★: Achieved ★★: Partially achieved ★: Not achieved

Promoting Work Practices in Line with International Ethics Codes

Hitachi's Approach

Given the globalization of the economy and the increasingly borderless nature of corporate activities, our business increasingly spans countries and regions with different governmental and economic frameworks, trade practices, and sets of values. Common worldwide principles in the form of initiatives and guidance are becoming increasingly important in order to thoroughly implement fair business practices around the globe and to avoid any risks that could impede business activities.

Hitachi has formulated in-house regulations in line with widely accepted international standards to govern important business practices, such as bribery prevention, ensuring of fair competition, and tax compliance, and these regulations are made known to and thoroughly implemented across the Hitachi Group.



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Preventing Bribery and Corrupt Practices

Measures to Prevent Bribery and Corrupt Practices

To deal with global bribery and corruption risks, in fiscal 2013 we referred to the *US Foreign Corrupt Practices Act Resource Guide**1 and other documents to develop various corruption risk scenarios. These were used as the basis for a survey conducted at Hitachi Group companies outside Japan. By analyzing the survey results, we identified several companies at risk from corruption. We are monitoring and working with those companies with the goal of reducing corruption worldwide.

In 2015, we also created a set of revised rules regarding prevention of bribery and corrupt practices, which were globally adopted by Hitachi Group companies. That same year, we released a global version of an e-learning program regarding the fundamentals of preventing bribery and corrupt practices to be utilized among Group companies worldwide.

*1 The US Foreign Corrupt Practices Act consists of antibribery provisions regarding foreign government officials and transparent accounting provisions within the Securities Exchange Act. Enforced by the Department of Justice, it prohibits bribes to foreign government officials. Transparent accounting, enforced by the Securities and Exchange Commission, requires companies to show transactions fairly and accurately in their accounting records and to maintain effective internal control over accounting.

Measures to Prevent Unfair Competition

Preventing Violations of Fair Competition Laws

Hitachi engages in business based on the principles of conformance with the law and business ethics and fair and disciplined competition. However, Hitachi, Ltd. was found to have impaired the fairness of a public bid in fiscal 2002 and was penalized in September 2006, October 2008, and March 2009 for violating the Japanese Antimonopoly Act.

In November 2012, a subsidiary dealing in automotive components was penalized by the Japan Fair Trade Commission for violating the Antimonopoly Act. In September 2013, the same company was prosecuted by the US Department of Justice for violating American antitrust laws, resulting in a plea bargain, and in January 2016 the company reached a settlement with the European Commission for a violation of EU competition laws.

We are working to prevent further violations and to broaden awareness of compliance issues, including publicizing messages from top executives, developing company regulations, conducting regular audits, and providing education and training to employees based on a compliance manual. In fiscal 2015, we held group education sessions on the Antimonopoly Act for 1,263 participants, including all Hitachi sales managers. We also released an e-learning program on the fundamentals for compliance with competition laws and implemented it at Hitachi Group companies globally.

Through these initiatives, we will continue working to improve and enhance our compliance framework.

Tax Compliance

Implementing Thorough Tax Compliance

The global expansion of Hitachi's business activities has made it necessary for the Group as a whole to build a system of tax governance in order to comply with indications made by the tax authorities in each country and respond to risks concerning taxation, such as tax-related legal proceedings.

In January 2016, we established a set of tax-related regulations with which the entire Group must comply. In connection with the globalization of our business, we are implementing risk management for taxation that focuses in particular on the points listed below.

- (1) Group companies strictly comply with all relevant laws and implement tax management when pursuing their business activities, bearing in mind such international tax-compliance standards as the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations of the Organisation for Economic Co-operation and Development (OECD), as well as that body's Action Plan on Base Erosion and Profit Shifting (BEPS).
- (2) Group companies effectively, continually, and proactively manage tax-related issues as socially responsible organizations, while maintaining Hitachi brand value and seeking to maximize shareholder value.
- (3) Group companies build sincere and positive relations of trust with the tax authorities in the regions where the companies do business, and strive to maintain and develop those relations.