



Management Approach

**Activities**

Performance Data

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.



Management Approach

Activities

Performance Data

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

## 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*\*<sup>1</sup> 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.



Management Approach

Activities

Performance Data

Fair Operating Practices Engaging in Responsible Procurement

## Engaging in Responsible Procurement

### Hitachi's Approach

International initiatives like the UN Global Compact have prompted companies worldwide to give greater thought to CSR and green procurement under which they take social and environmental concerns into consideration when selecting suppliers, thereby strengthening CSR activities throughout the supply chain.

As a company that procures products and services from suppliers in regions and countries around the world, Hitachi was quick to introduce policies on CSR and green procurement. Moreover, Hitachi has taken the lead in responding to the issue of conflict minerals, which has been the focus of public interest in recent years, by scrutinizing the countries where raw materials are mined in order to prevent the infringements on human rights by countries engaged in conflict. Along with sharing our procurement policies throughout the Hitachi Group, we are conducting CSR- and environment-related inspections and audits of suppliers and stepping up awareness-raising activities.

### Supply Chain Management

#### Creating and Sharing Procurement Policies

We base our procurement activities on the Hitachi Guidelines for Procurement Activities, while sharing global supply chain issues within the Group. All Group companies follow these guidelines. The guidelines were created in line with the United Nations Global Compact and include the elimination of discrimination in employment and occupation as well as all forms of child and forced labor.

To help suppliers, as the codrivers of our operations, to understand Hitachi's supply chain management philosophy, we have distributed the *Hitachi Group Supply Chain CSR Deployment Guidebook*, revised in 2009, which is based on the *Supply Chain CSR Deployment Guidebook* issued by JEITA.\*1 The guidebook is given out to around 23,000 suppliers of our in-house and Group companies.

\*1 JEITA (Japan Electronics and Information Technology Industries Association): An industrial association for electronics technologies, electronic machinery, and information technologies.

### Guidelines for Procurement Activities

These guidelines define business transaction standards which shall be applied to all HITACHI executives and employees in connection with their activities purchasing necessary materials, products, services, and information from outside sources.

1. Overall procurement activities of Hitachi shall adhere to the "HITACHI Company Conduct Standards."
2. HITACHI shall maintain proper partnerships, mutual understanding, and reliable relationships with suppliers with a view to the long term results, giving due consideration to the following:
  - (1) HITACHI shall treat all suppliers impartially and be prohibited from favoritism such as giving unfair priority to any specific suppliers.
  - (2) HITACHI respects fair business dealings with suppliers and will avoid any improper act which might cause a loss to a supplier apart from normal and customary business transactions.
  - (3) HITACHI shall keep suppliers' trade secrets strictly confidential and prevent them from being revealed or improperly used.
3. HITACHI develops suppliers to maintain competitiveness from a worldwide point of view, with particular attention to the following points:
  - (1) HITACHI responds to all suppliers' offers sincerely, and is always willing to offer the information necessary for suppliers to compete on an even playing field.
  - (2) HITACHI shall periodically check and review suppliers' performance and will consider offering more advantageous business opportunities when comparison with other resources allows.
4. Through a designated selection process, and in compliance with the standards given below, suppliers shall be evaluated by product quality, reliability, delivery, price, suppliers' business stability, technical development ability, fair and transparent information release, compliance with societies' rules, regulatory compliance, respect for human rights, elimination of discrimination in respect of employment and occupation, elimination of all forms of forced and compulsory labor, environmental preservation activities, social contributions, good working environment, and recognition of social responsibilities with business partners.
  - (1) HITACHI shall not request quotations from suppliers with whom there is no intention to enter into a future business relationship.
  - (2) In accordance with specified internal procedures, the authority and responsibility for specifications, terms and conditions, and product acceptance and inspection belong to each Requester, Procurement Department, and Inspection Department.
  - (3) Procurement Departments shall represent HITACHI when contracting with suppliers.
5. HITACHI members are prohibited from receiving any personal gifts or offers from suppliers.

Revised in 2009

Guidelines for Procurement Activities

Procurement Policy

CSR/Green Procurement

## CSR Supply Chain Management Framework

Given the global reach of Hitachi's business, there is a growing likelihood of supply chain risks creating management problems, and we are working hard to identify and mitigate these risks beforehand as much as possible. We established a CSR/Green Procurement Promotion Center within the Hitachi headquarters in fiscal 2011. We have also established the Hitachi Group CSR Green Procurement Committee, which includes committee members from in-house and key Group companies. This completes a framework that will enable our CSR supply chain management and green procurement philosophy and initiatives to be shared throughout the Group.

In order to share the philosophy of Hitachi among our suppliers, in fiscal 2015 we also introduced a new initiative to provide suppliers directly with information in a face-to-face format, in addition to the information shared on the Hitachi website as well as our CSR monitoring, CSR audits, and other measures. The first of these face-to-face events was held in January 2016 at a CSR and green procurement seminar held in Shanghai for Hitachi Group partners in China. The event was attended by 15 people from 12 companies, primarily suppliers in eastern China. At the seminar, Hitachi explained topics including its fundamental CSR philosophy, the CSR audit situation, regulatory trends under Chinese environmental laws, and Hitachi's related policies. Feedback from participants included a comment from one person who was "impressed by the emphasis the company places not only on *monozukuri* craftsmanship but also on fulfilling its social responsibility in a range of areas." Another participant "gained a sense that profitability is not the sole aim and that it is important to adhere to environmental laws." As reflected in the comments, the seminar served to deepen the understanding of Hitachi initiatives related to CSR and green procurement.



### Number of Hitachi Group suppliers

(as of December 2015):

**26,000** companies (about 62 countries)

## Green Procurement

To procure parts and materials manufactured with reduced environmental impact, so that suppliers help to protect the environment, it is crucial that we share our commitment to environmentally conscious *monozukuri* craftsmanship throughout our entire supply chain. In fiscal 1998, we led the industry in developing Green Procurement Guidelines to define our basic position on procuring parts and products that do not have a negative impact on the global environment, as well as our requirements of suppliers, so that we can work together to promote green procurement. The guidelines set out supplier requirements for

environmental conservation, including building an environmental management system and acquiring certifications. There are also requirements for reducing the environmental impact of products supplied to Hitachi, such as conserving resources and energy in production, recycling, managing chemical substances, and fully disclosing related information.

There is a global trend toward tighter regulations on chemical substances. In fiscal 2013, we reviewed our categories for controlled chemical substances in our Green Procurement Guidelines to comply with the stipulations on restricted substances, authorized substances, and substances of very high concern (SVHCs) in Europe's Registration, Evaluation, Authorization, and Restriction of Chemicals (REACH) regulation for managing chemical substances within the European Union. Specific changes include: (1) moving some chemicals to the prohibited substances list, (2) further breaking down the controlled substances list, and (3) adopting the industry association list. The previous guidelines were revised to version 8.2 and distributed through in-house and Group companies to suppliers to ensure that they are fully informed. We have built A Gree'Net, an Internet-based green procurement system, to collect information about chemical substances contained in products and other environment-related data from suppliers as soon as it becomes available. The goal is to manage chemicals carefully. Under this system, we encourage suppliers to use the MSDSPlus\*<sup>1</sup>/AIS\*<sup>2</sup> reporting templates published by the Joint Article Management Promotion Consortium.\*<sup>3</sup> We also encourage them to use information transmission systems and to minimize the amount of labor.

\*1 MSDSPlus: A format for reporting chemical substances contained in products created by upstream companies (chemical manufacturers) for midstream companies (molded product manufacturers, etc.).

\*2 AIS: A format for reporting chemical substances contained in products created by midstream companies (molded product manufacturers, etc.) for downstream companies (assembly manufacturers, etc.).

\*3 Joint Article Management Promotion Consortium (JAMP): Established in September 2006 as a cross-industry promotion association of 17 companies endorsing the idea that "it is essential for the enhancement of industrial competitiveness to ensure proper management of information on chemical substances contained in articles (parts and final products), and to establish and popularize a concrete mechanism for smooth disclosure and transmission of such information in supply chains."

Hitachi Group Green Procurement Guidelines

Joint Article Management Promotion Consortium



Management Approach

Activities

Performance Data

Fair Operating Practices [Engaging in Responsible Procurement](#)

### Response to the Conflict Minerals Issue

The *Request to Our Suppliers*, based on the Conflict Minerals Procurement Policy that we released in September 2013, has been published on our website as a clear statement of our position.

#### Hitachi Group Conflict Minerals Procurement Policy

The Hitachi Group is committed to responsible procurement practices to mitigate the risk of sourcing conflict minerals (tantalum, tin, tungsten, and gold) that can directly or indirectly finance armed groups abetting human rights violations in the Democratic Republic of the Congo (DRC) and adjoining countries. The Hitachi Group Procurement Division strives to establish a sustainable supply chain that eliminates procurement of materials and/or parts using conflict minerals. Our efforts are to continue procurement of minerals from responsible sources in the region and are not intended to implement a ban on procurement of minerals from the DRC and adjoining countries.

#### Request to Our Suppliers

To do so, it is important to enhance supply chain transparency and to strengthen responsible procurement of materials and parts. Therefore, we expect our suppliers to agree to our Conflict Minerals Procurement Policy and to cooperate with us in our efforts to ensure procurement of conflict-free minerals. In accordance with the Dodd-Frank Act\*<sup>1</sup> and the OECD Guidelines for Multinational Enterprises,\*<sup>2</sup> companies are required to conduct a reasonable country of origin inquiry and to exercise due diligence covering the entire supply chain to determine whether final products include conflict minerals which benefit armed groups.

The Hitachi Group will examine its supply chain through a collaborative industrywide approach by utilizing the tool developed by EICC-GeSI.\*<sup>3</sup> We expect our suppliers to adhere to our Conflict Minerals Procurement Policy and to cooperate with our supply chain investigation.

As improved processes are introduced to eliminate conflict minerals from the supply chain, we will ask our suppliers to comply with such programs once they are developed, proven, and established (i.e., expansion of the Conflict-Free Smelter\*<sup>4</sup> list, which is under implementation by EICC-GeSI). The Hitachi Group will continue to engage in industry efforts to develop methods to build a stable, conflict-mineral-free supply chain.

\*1 Dodd-Frank Act: The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into federal law by President Barack Obama on July 21, 2010.

\*2 OECD Guidelines for Multinational Enterprises: Government recommendations for multinational corporations operating in or from the Organisation for Economic Co-operation and Development (OECD) countries to adhere to their guidelines.

\*3 EICC-GeSI: Nonprofit organization of members in the information and communications technology (ICT) industry.

\*4 Conflict-Free Smelter: A smelter or refinery that does not handle conflict minerals.

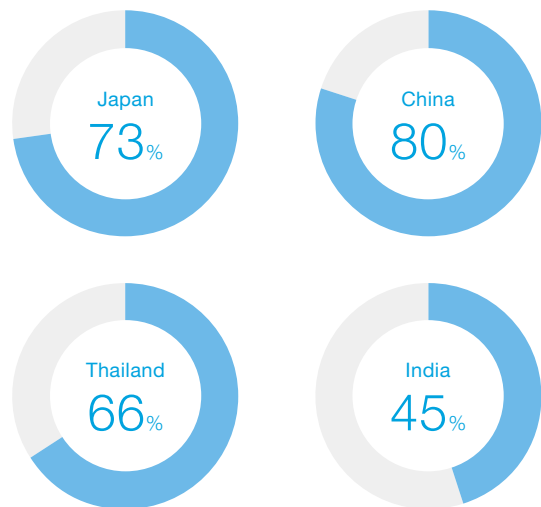
Hitachi Group Conflict Minerals Procurement Policy and Request to Our Suppliers

### Strengthening Global Partnerships

A key element of the Hitachi Group Vision is to improve the competitiveness of our value chain based on partnerships with our suppliers. Given our business aim to expand internationally, we need to extend our procurement globally, looking toward increasing local production for local consumption. In fiscal 2011, we appointed procurement officers to oversee local procurement in China, the rest of Asia, Europe, and the Americas.

A global supplier database built in fiscal 2013 was followed in fiscal 2014 by a new global procurement scheme using the Group's professional service functions (Hitachi High-Technologies Corporation, Hitachi Capital Corporation, and Hitachi Transport System, Ltd.). We are expanding our suppliers in emerging nations while also strengthening our response to CSR-related risks expected to arise from the global expansion of our supply chain.

#### Rate of Local Procurement of Materials for Main Countries





Management Approach

Activities

Performance Data

Fair Operating Practices Engaging in Responsible Procurement

### Implementation of CSR Monitoring (Self-Checks)

To monitor how well Hitachi's CSR supply chain management philosophy has been adopted by our suppliers, since fiscal 2007 we have asked key suppliers to conduct CSR Monitoring (self-checks) using the *JEITA Supply Chain CSR Deployment Guidebook* and detailed checklists. After collecting and analyzing the results, we provide feedback for the business operations related to the suppliers, and then work with those involved in the operations to resolve issues related to the suppliers. Since fiscal 2011, we have expanded the scope to include suppliers in China and the rest of Asia, and in fiscal 2015 we asked 218 suppliers outside Japan to conduct CSR Monitoring.

#### Self-Check Results

FY	Suppliers in Japan	Suppliers outside Japan	Total
2011	0	102	102
2012	57	41	98
2013	55	45	100
2014	0	200	200
2015	0	218	218
Total	112	606	718

### Implementation of CSR Audits

Since July 2012, we have been auditing suppliers in China and the rest of Asia. In fiscal 2015 as well, we conducted CSR audits of 20 suppliers , all of them in China. For these audits, we engaged the experienced CSR auditing company Intertek Certification. Our audits are based on the international SA8000 certification standard developed by Social Accountability International (SAI), an American CSR evaluation institution. These audits investigate our workplace practices, and an EICC-recognized auditor checks suppliers' CSR initiatives from the perspectives of labor and human rights, health and safety, the environment, and ethics.

In fiscal 2015, audit results revealed no major infringements at the 20 suppliers, but made note of some small areas needing improvement, such as overtime work exceeding stipulated rules (17 suppliers), failure to conduct periodic inspections of machinery and equipment (12), and insufficient management of hazardous waste (15). We have mandated that these suppliers submit improvement action plans and will be working with and advising them until they complete the planned improvements.

\*1 Intertek Certification: With a presence in over 100 countries across the globe, the Intertek Group provides a wide array of certification services in every industrial field.

### Increasing Green Purchasing of Office Supplies

We are improving our green procurement rate—the ratio of environmentally conscious products purchased to total office supplies—by using a Group-wide online procurement system: the E-sourcing Mall. This system has a range of environmentally conscious products and promotes procurement by clearly labeling these products. In fiscal 2015, our green purchasing rate reached 87%.

### Human Rights Due Diligence in Procurement

Starting in fiscal 2015, the Hitachi Group Procurement Division began implementing human rights due diligence based on the Hitachi Group Human Rights Policy. In the current fiscal year we requested the consulting services of the nonprofit organization Shift for the creation of a working group centered on the procurement and CSR divisions at Hitachi, Ltd., which serve as the corporate divisions overseeing activities throughout the Group, including the procurement and CSR divisions of two in-house and four Group companies and the CSR division of Hitachi Asia Ltd. The working group has evaluated human rights risks within the supply chain, set priorities, and considered measures for reducing risks. Starting from fiscal 2016, plans call for Hitachi to update existing policies and its guidance document based on the results of the fiscal 2015 due diligence, and also to introduce concrete measures such as incorporating human rights initiatives within its ordinary procurement operations.

Respect for Human Rights