

Fair Operating Practices

Hitachi's Aims: Fostering a Corporate Culture of Fairness with Our Partners



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. To fully carry out our responsibilities as a corporate citizen, we not only encourage business sites to implement their own investigation and reporting systems for any improprieties but also promote the utilization of a compliance reporting system to prevent or promptly address such indiscretions.

By enhancing activities to raise our suppliers' awareness, we are advancing the creation of a framework to carry out ethical actions and fulfill our social responsibility together with our business partners, thereby fostering a corporate culture of fairness throughout the supply chain.

Fiscal 2016 Overview of Activities



In fiscal 2016, we reflected the findings of the human rights due diligence (HRDD) working group from the previous fiscal year in our CSR procurement activities. At the same time, we fully revised our guidebook for suppliers into the *Hitachi Group CSR Procurement Guidelines* in an attempt to further propagate the concept among our suppliers. In addition, we conducted document-based and on-site audits to strengthen our supply chain from a global perspective.

Main Plans and Results

Engaging in Responsible Procurement

Policies	FY 2016 goals/plans	Results in FY 2016	Achievement level	FY 2017 goals/plans
Contribution to continuation of Hitachi's operations by working with suppliers to secure supplies	<ul style="list-style-type: none"> Regularly update information on parts and suppliers 	<ul style="list-style-type: none"> Verified information on parts and suppliers and created non-workday contact list for 200 production sites outside Japan 	★★	<ul style="list-style-type: none"> Continue to regularly update information on parts and suppliers

Policies	FY 2016 goals/plans	Results in FY 2016	Achievement level	FY 2017 goals/plans
Reinforcement of supply chain from global perspective	<ul style="list-style-type: none"> Implement written survey for 200 companies and on-site audits for 20 companies as part of supplier monitoring Host two seminars for Chinese suppliers 	<ul style="list-style-type: none"> Revised questions on check sheet used in CSR monitoring (self-checks) Implemented on-site audits for 20 companies Hosted seminar for Chinese suppliers, attended by 45 employees from 32 companies 	★★★	<ul style="list-style-type: none"> Continue supplier monitoring by reviewing number of companies and regions targeted for monitoring Implement survey based on revised check sheet by targeting primary suppliers in China, Malaysia, and Vietnam Implement CSR audit at supplier plants in China, Malaysia, and Vietnam Host seminars for suppliers in China Send <i>Procurement Guidelines</i>; analyzing certificates sent by suppliers and deliberating on next steps Formulate policies in response to European regulations on conflict minerals and examine ways to reflect the above in Conflict Minerals Procurement Policy
	<ul style="list-style-type: none"> Restructure CSR procurement activities based on fiscal 2015 findings of HRDD working group Revise <i>Procurement Guidelines</i> and distribute to suppliers Revise details of supplier monitoring 	<ul style="list-style-type: none"> Distributed <i>Hitachi Group CSR Procurement Guidelines</i>, revised in January 2017, to all primary suppliers Introduced revisions to the <i>Guidelines</i> to procurement members of business units and Group companies at Hitachi Group CSR Green Procurement Committee 	★★★	<ul style="list-style-type: none"> Revise contents of <i>Hitachi Group CSR Procurement Guidelines</i> when appropriate; run PDCA cycles and promote CSR procurement activities Revise <i>Guidelines</i> approximately every three years

★★★: 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. There is ongoing global debate concerning each of these issues, and demands regarding corporate behavior and the interpretation of relevant rules and regulations are constantly evolving. We thus regularly review and update our in-house regulations as appropriate in responding to society's demands. We will continue to act in a thoroughly responsible manner as members of both the global and local community.

Preventing Bribery and Corrupt Practices

Measures to Prevent Bribery and Corrupt Practices

Hitachi makes thoroughgoing efforts to prevent bribery and corrupt practices in accordance with the Hitachi Global Compliance Program.

To deal with global bribery and corruption risks, since fiscal 2013 we have referred to the *Resource Guide to the US Foreign Corrupt Practices Act*^{*1} and other documents to develop various corruption risk scenarios. These were used as the basis for a survey conducted at almost all Hitachi Group companies outside Japan (roughly 600 companies in total). By analyzing the survey results, we identified companies at risk from corruption due to factors such as high levels of involvement with governmental and related businesses. These risks were identified at approximately 10% of the companies surveyed, and through close monitoring of those companies, along with educational and other initiatives, we are working to reduce corruption worldwide. We will continue to carry out this sort of risk evaluation regularly.

In 2016, we revised our rules regarding the prevention of bribery and corrupt practices, with changes including an explicit ban on facilitation payments and clarification of due diligence procedures for transaction partners.

To ensure awareness of these policies and regulations, we developed a global e-learning program on preventing bribery and corrupt practices, making it available in nine languages—including Japanese, English, and Chinese—for use by Group companies worldwide.

We have also established the proper procedures to follow for handling donations such as contributions to political funds in compliance with related laws. Decisions to go ahead with donations or similar gifts are made based on amount-specific approval criteria to prevent donations with improper aims.

In fiscal 2016, there were no incidents in which Hitachi violated or was penalized under laws or regulations regarding bribery or corrupt practices.

^{*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. The Hitachi Global Compliance Program was developed based on these principles to ensure strict compliance with competition laws.

Fiscal 2016 saw two incidents in the United States of plea agreements related to cartel activities, and one in Japan of a cease and desist order related to collusion.

Hitachi takes these incidents very seriously and will continue strengthening its educational and institutional efforts to eliminate violations of competition laws.

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. Additionally, 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.

Furthermore, following the establishment in April 2017 of rules for Group transfer pricing management, Hitachi manages transfer pricing in accordance with the OECD Transfer Pricing Guidelines as well as laws and regulations on transfer pricing in each country or region where Group companies are located.

Regarding tax compliance, Hitachi acts in accordance with all applicable laws and regulations. Hitachi did not have any significant fines or nonmonetary sanctions for noncompliance with tax laws and regulations in fiscal 2016.

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 CSR and green procurement policies, which are being meticulously implemented by all Group companies. High expectations have been placed on the Electronic Industry Citizenship Coalition's Code of Conduct in recent years as an international CSR standard for the industry. We are further evolving our procurement activities in line with this code, not only reviewing our own CSR standards but also auditing and cooperating with the CSR initiatives of our suppliers.

Moreover, Hitachi has taken the lead in responding to the issue of conflict minerals, which has been the focus of public concern in recent years, by scrutinizing the countries where raw materials are mined in order to prevent infringements on human rights by countries engaged in conflict. Keeping abreast of global trends, we will continue to share and strengthen on a Group-wide basis our commitment to fulfilling our social responsibilities throughout the supply chain.

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, the rejection of all forms of child and forced labor, and environmental protection activities. Suppliers are selected strictly in accordance with the *Hitachi Guidelines for Procurement Activities*.

In fiscal 2016, we released the *Hitachi Group CSR Procurement Guidelines*, a full revision of the 2009 *Hitachi Group Supply Chain CSR Deployment Guidebook*. This revision incorporates the provisions of the Hitachi Group Codes of Conduct and also makes references to version 5.1 of the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, promulgated in January 2016. To ensure that the guidelines' provisions are strictly followed, we distribute the *Guidelines* to the approximately 30,000 suppliers of Hitachi business units and Group companies, from whom we request acknowledgment of suppliers' understanding in writing. Tier 1 suppliers are further asked to confirm that tier 2 suppliers also follow the provisions in the guidelines.

We plan to revise these guidelines regularly in the future to ensure that they always reflect the demands of global society regarding corporate supply chain management.

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 child and forced 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

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.

CSR supply chain management and green procurement policies and initiatives are discussed within Hitachi's Value Chain Integration Division, which is headed by the chief procurement officer (CPO) and reports directly to the president of Hitachi, Ltd. Policies and initiatives adopted after this discussion are shared throughout the Group through the Hitachi Group CSR Green Procurement Committee, which includes members from business units and key Group companies.

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 (self-checks), CSR audits, and other measures. The most recent of these face-to-face events was held in January 2017 at a CSR and green procurement seminar held in Shenzhen for Hitachi Group partners in China. The event was attended by 45 people from 32 companies. 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.

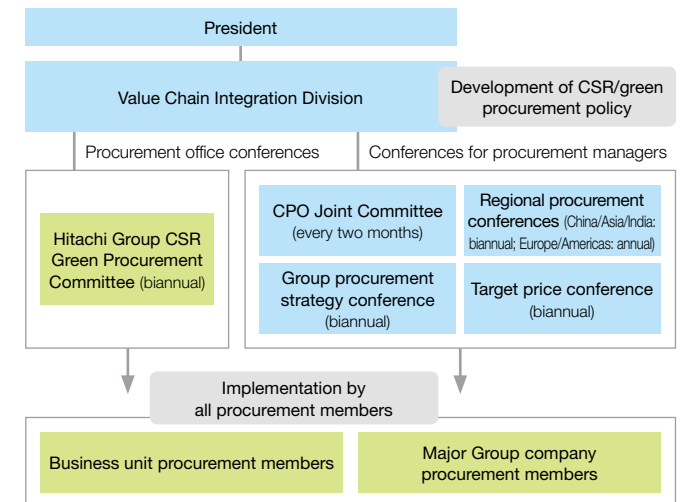


Number of Hitachi Group suppliers

(as of December 2016):

Approx. **30,000** companies (66 countries)

Supply Chain Management Organizational Structure



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 8.4 and distributed through Group companies and business units 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^{*1}/AIS^{*2} reporting templates published by the Joint Article Management Promotion Consortium^{*3} to achieve smoother and more efficient transmission of information.

^{*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

Response to the Conflict Minerals Issue

Hitachi released a Conflict Minerals Procurement Policy in September 2013. Our *Request to Our Suppliers*, based on this policy, is published on our website as a clear statement of our position.

In fiscal 2016, we revised this policy to ensure that procurement of components incorporating conflict minerals does not benefit armed groups in the Democratic Republic of the Congo (DRC) or adjoining countries. The policy now explicitly lays out the measures to be implemented, including inquiries based on international guidelines, to ensure responsible procurement.

Hitachi Group Conflict Minerals Procurement Policy

Conflict Minerals

There are numerous types of mineral resources buried within the lands of the Democratic Republic of the Congo, located in central Africa, and its neighbouring countries. Ores containing minerals such as tin which is used in solders to secure electronic parts to printed circuit boards, tantalum which is used in capacitors, tungsten which is used in superhard materials, and gold which is used in lead frames can be found in this region. The locals extract these ores, which traders and brokers export to other countries in order to earn valuable foreign currencies, but part of those foreign currencies are forcibly collected and used as funds to purchase weapons by armed groups that repeatedly engage in conflict and violate human rights in the same region, which has become a major problem. As such, the minerals listed above are called "conflict minerals".

Procurement Policy

The policy for procurement departments in all Hitachi Group companies have always been and will continue to be to ensure that procurement activities do not result or aid in conflicts within the same region and that the armed groups described above do not benefit from those activities, while continuing responsible procurement activities of minerals that are not related to the conflicts in the region based on local laws. Additionally, we will continue to support the practice of due diligence based on the "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" among companies. With these in mind, Hitachi Group would like to request all our suppliers to utilise the Conflict Minerals Reporting Template developed by EICC/GeSI to continue checking the country of origin and supply chain of minerals, and also to procure from the CFS (Conflict Free Smelter)^{*1} listed within.

^{*1} CFS (Conflict Free Smelter): A list of smelters who have been identified as "not being involved in the conflict within the same region" by the Conflict-Free Sourcing Initiative (CFSI), an organisation that was founded by the EICC/GeSI, which is a group that aims to solve the conflict minerals problem.



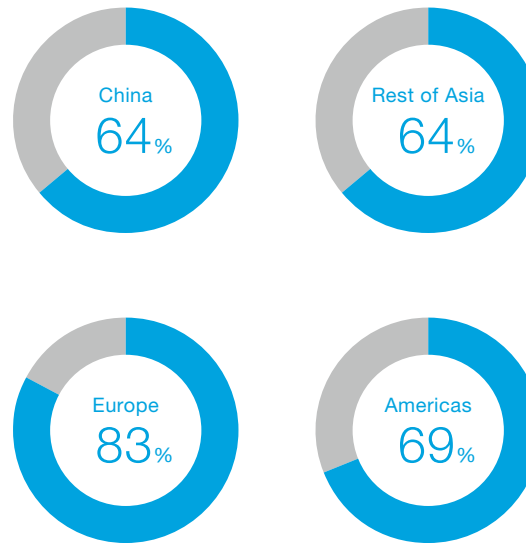
Hitachi Group Conflict Minerals Procurement Policy

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 professional service functions available in the Group at the time (Hitachi High-Technologies, Hitachi Capital, and Hitachi Transport System). 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



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 2016 we asked 316 suppliers inside and outside Japan to conduct CSR Monitoring.

Additionally, alongside the revisions made to the *Hitachi Group CSR Procurement Guidelines*, the checklists have also been fully updated to allow us to obtain a more detailed understanding of the challenges our suppliers face. Starting in fiscal 2017, we will be asking our suppliers to conduct CSR Monitoring using the updated checklists.

CSR Monitoring (Self-Check) Results

FY	Suppliers in Japan	Suppliers outside Japan	Total
2012	57	41	98
2013	55	45	100
2014	0	200	200
2015	0	218	218
2016	198	118	316
Total*1	310	724	1,034

*1 Total also includes self-check results from fiscal 2011.

Implementation of CSR Audits

Since July 2012, Hitachi, Ltd. has been auditing the manufacturing bases of its and Group companies' suppliers in China and the rest of Asia. In fiscal 2016, we conducted CSR audits of 20 suppliers.

For these audits, we engaged the experienced CSR auditing company Intertek Certification.*1 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.

No major infringements were found at the 20 suppliers audited in fiscal 2016, but some small areas needing improvement were noted, such as overtime work exceeding stipulated

rules (19 suppliers), failure to conduct periodic inspections of machinery and equipment (6), and insufficient management of hazardous waste (9). The relevant suppliers were requested to submit improvement action plans, and Hitachi, Ltd., together with Group companies, will work with and advise the suppliers 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 2016, our green purchasing rate reached 88%.

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. With the assistance of the consulting services of the nonprofit organization Shift, we have created 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. The working group has evaluated human rights risks within the supply chain, set priorities, and considered measures for reducing risks.

In fiscal 2016, we published the fully revised *Hitachi Group CSR Procurement Guidelines* based on results obtained from human rights due diligence activities in fiscal 2015 as well as input from a range of sources and perspectives, including Hitachi Europe, Hitachi (China), and outside experts.

Starting from fiscal 2017, Hitachi will incorporate input from various perspectives into a revision of its checklists, which will then be used to prevent supply chain risks. As well as strengthening and improving existing initiatives in this way, we will use the results obtained from the checklists to deepen our communication with suppliers. Additionally, in cooperation with outside experts, we will enhance suppliers' understanding of the expectations of Hitachi Group procurement departments and, at the same time, promote capacity building at suppliers and take other necessary measures.



Respect for Human Rights