

Compliance

We carry out our business not only in full compliance with legal requirements but also in ways that ensure socially responsible conduct. Spreading understanding of this among all Hitachi employees is a fundamental management issue. As economic activity becomes increasingly borderless, there is a growing need for steps to eradicate bribery, corruption, and other illegal behavior in accordance with conditions in the countries and regions where we have operations. As a global company, we are implementing a consistent compliance structure across the entire Hitachi Group.

Enhancing Our Compliance Framework

Based on the Hitachi Group Codes of Conduct, we have expanded the Hitachi Global Compliance Program. To comprehensively implement our compliance framework through this program, we have appointed a senior executive as the head of risk management for the entire Hitachi Group. Every business unit and key Group company also has an executive handling risk management, assisted by a compliance manager. We are also supporting regional Group companies and have appointed compliance heads in 11 regions globally.

Under this system, policies and measures are shared through the Compliance Management Conference, composed of risk management executives from business units and key Group companies. In addition, all compliance managers meet regularly at the Hitachi Group Compliance Conference to provide information on compliance and to confirm implementation of required actions.

The Advisory Committee, consisting of outside experts, convenes regularly to exchange views on the state of compliance initiatives. The insights provided by committee members are utilized to improve policies and actions.

The internal audit section regularly conducts Group-wide reviews to verify that each area of compliance is being appropriately operated. In cases where the reviews identify necessary improvements, corrective measures are swiftly implemented.

Compliance Reporting System

Hitachi has instituted a Group-wide whistleblowing system to prevent illegal and unethical behavior, to promptly address infractions, and to enhance our ability to self-regulate.

In this system, reports go directly to the Compliance Department at Hitachi or to an outside attorney. This system can be used not only by employees within the Hitachi Group, who are able to report issues through in-house channels, but also by temporary staff and suppliers. In addition, we have implemented the Channel to the Board of Directors system to allow employees to directly report problems anonymously to Hitachi directors.

The facts related to all reports are subject to thorough investigation and checking, and people who have identified themselves in the reports are informed of the investigation results. We make every effort to appropriately deal with situations, including taking remedial action where necessary.

Thorough Export Controls

For basic export control policies, we have adopted the Hitachi Standards of Corporate Conduct, which state: "We shall help maintain international peace and security through compliance with trade-related laws and regulations." We established the Corporate Regulations Concerning Security Export Control based on this policy in 1987. We carry out strict export control practices in line with relevant laws and regulations, screening all goods and technologies intended for export against such factors as destination countries and regions as well as intended end use and end users. We provide guidance and educational support on the formulation of regulations as well as on the establishment of frameworks to Hitachi Group companies in Japan and around the world to ensure that all Group companies follow the same export control policies.

At present, as part of our educational program for all the Group companies, we host workshops on export control in addition to the annual implementation of an e-learning program in Japanese, English, and Chinese. Moving forward, we will continue to make an effort so that export control is thoroughly enforced throughout the Group.

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* 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.

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

* 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

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.

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.