

# Value Chain Management



### Key SDGs



## Why it matters

As business becomes more and more globalized, there is a growing possibility of procurement risks in the supply chain creating management problems. As an enterprise that engages in businesses activities in many regions around the world, Hitachi strives to identify and mitigate these risks in advance as much as possible. Hitachi emphasizes sustainability in the value chain, and suppliers are selected strictly in accordance with the Hitachi Group Global Procurement Code. Additionally, in order to share our CSR procurement policies, we not only distribute the Hitachi Group CSR Procurement Guidelines to approximately 30,000 suppliers around the world and

ensure their awareness but also conduct CSR Monitoring (self-checks) and CSR audits to minimize procurement risks. To address the conflict mineral issue, Hitachi formulated the Hitachi Group Conflict Minerals Procurement Policy to promote responsible procurement in line with international guidelines.

Furthermore, embracing the Hitachi Founding Spirit of “Harmony, Sincerity, and Pioneering Spirit,” we adhere to basics and ethics and put right and wrong before profit and loss, with all employees sharing our policy of making quality and reliability our top priority, thereby strengthening our quality assurance activities.

## What we are doing

	Core initiatives	Goals and KPIs	Achievements in FY 2019
 <p>Responsible procurement</p>	<ul style="list-style-type: none"> <li>• Improve value chain competitiveness based on partnerships with suppliers</li> <li>• Share procurement policies with suppliers</li> <li>• Implement CSR procurement</li> <li>• Hold CSR procurement seminars</li> <li>• Respond to conflict mineral issue</li> </ul>	<ul style="list-style-type: none"> <li>• Conducting audits on suppliers with the support of external auditing organizations</li> </ul>	<ul style="list-style-type: none"> <li>• Formulated the Hitachi Group Global Procurement Code</li> <li>• Conducted CSR audits at 19 suppliers</li> <li>• Held a CSR seminar for suppliers in Thailand, our first in Southeast Asia</li> </ul>

# What we are doing

	Core initiatives	Goals and KPIs	Achievements in FY 2019	Key SDGs
 <p>Quality and product safety management</p>	<ul style="list-style-type: none"> <li>Practice our policy of making quality and reliability our top priority</li> <li>Adhere to basics and ethics, put right and wrong before profit and loss</li> </ul>	<ul style="list-style-type: none"> <li>Improving product reliability and customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened organizational structure for quality assurance</li> <li>Promoted quality assurance activities globally</li> <li>Carried out incident prevention activities</li> <li>Promoted product safety activities</li> <li>Carried out technical law compliance activities</li> <li>Conducted quality and reliability education</li> </ul>	 
 <p>Customer satisfaction (CS)</p>	<ul style="list-style-type: none"> <li>Improve CS by reflecting customers' voices in our business</li> <li>Provide comprehensive customer support online</li> <li>Improve CS in home appliances</li> <li>Promote advertising activities</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of CS</li> <li>Proper information disclosure on products and services</li> </ul>	<ul style="list-style-type: none"> <li>Continuously implemented CS and advertising activities</li> </ul>	

# Responsible Procurement

## Basic Procurement Guidelines

Policy

102-9

In April 2019, Hitachi instituted the Hitachi Group Global Procurement Code. Based on the framework of our CSR and green procurement guidelines, this is our highest code for procurement activities. It calls on Group companies and suppliers to give due consideration to human rights, labor practices, safety, ethics, quality, and security in the supply chain. All Group companies follow the code, and we share global supply chain issues within the Group as we engage in procurement activities. Suppliers, too, are selected strictly in accordance with the code's provisions.

Procurement activities are also carried out according to the Hitachi Group CSR Procurement Guidelines, which were revised based on the results of human rights due diligence performed by procurement divisions and version 5.1 of the Responsible Business Alliance (RBA, formerly called EICC) Code of Conduct. We plan to revise these guidelines regularly in the future to ensure that they always reflect global demands regarding corporate supply chain management.

## CSR Supply Chain Management Framework

Framework

308-1 | 411-1 | 412-1 | 414-1

Given the global reach of Hitachi's business, procurement risks throughout the supply chain are growing. The Hitachi Group is working hard to identify and mitigate these risks beforehand as much as possible.

CSR supply chain management, responsible minerals procurement, and green procurement policies and initiatives are discussed within Hitachi's Value Chain Integration Division, which 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/BCP Procurement Committee, which includes members from business units and CSR/BCP Procurement Committees at key Group companies.

To address the issue of chemical substances in products, we recommend management with chemSHERPA\*1-CI/AI, a common scheme that facilitates transmission of information on chemical substances in products throughout the supply chain.

\*1 chemSHERPA: A standard developed by the Japanese Ministry of Economy, Trade, and Industry to facilitate the management of chemical substances in products by creating a shared transmission scheme throughout the supply chain. The chemSHERPA-CI standard is applicable to chemical substances contained in chemical products and chemSHERPA-AI to those contained in molded products.



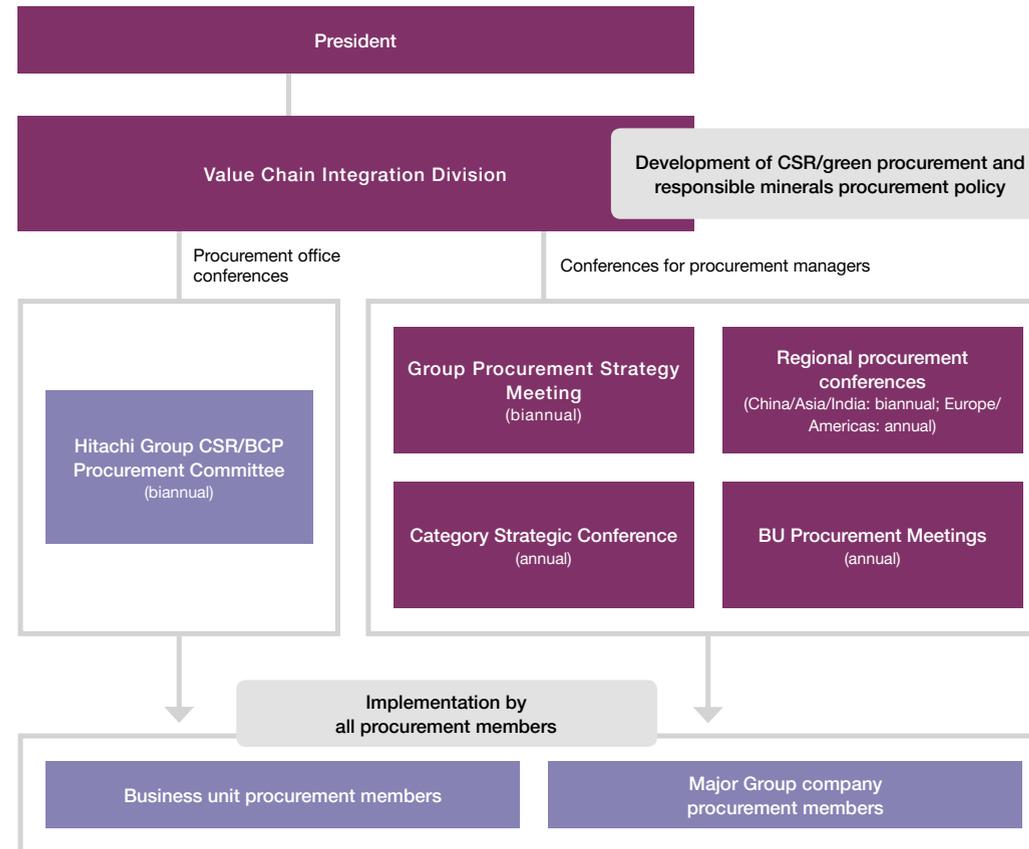
**Number of Hitachi Group suppliers**  
(as of December 2019):

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



CSR/Green Procurement  
<http://www.hitachi.com/procurement/csr/index.html>

### Supply Chain Management Organizational Structure



## Strengthening Global Partnerships

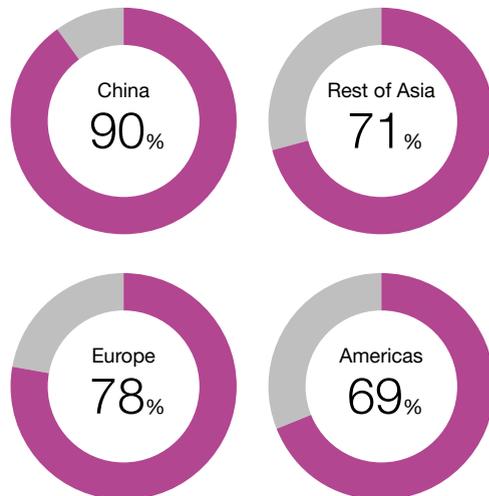
Framework

Activities

A key element of the Hitachi Group Vision is to improve the competitiveness of our value chain based on partnerships with our suppliers. In order to promote procurement based on local production for local consumption in line with our business policy of international expansion, we have appointed procurement officers to oversee local procurement in China, the rest of Asia, Europe, and the Americas. These officers carry out activities such as CSR audits, CSR monitoring (self-checks), and CSR procurement seminars in their respective regions to strengthen our response to CSR-related risks.

Local procurement officers are also responsible for addressing environmental risks in China. Through the Institute of Public and Environmental Affairs, an environmental NGO, the officers obtain information about polluting enterprises made public by China's central and regional government bodies. They use this information not only for screening businesses who have transactions with these enterprises but also for urging the enterprises themselves to make improvements.

### ■ Rate of Local Procurement of Materials for Main Regions



## Sharing Procurement Policies with Suppliers

Activities

To share procurement policies with the approximately 30,000 suppliers of Hitachi business units and Group companies, we are undertaking the following initiatives.

### Distributing the Hitachi Group CSR Procurement Guidelines

To ensure that the guidelines are strictly followed, we make them available in Japanese, English, Chinese, and Thai and distribute them to approximately 30,000 suppliers around the world. We also request acknowledgment of suppliers' understanding in writing.

### Distributing the Green Procurement Guidelines

We distribute guidelines that define our basic position on procuring environmentally friendly parts and products as well as our requirements of suppliers. The guidelines set out 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, recycling, managing chemical substances in products, and fully disclosing related information. In fiscal 2019, we revised these guidelines to ban four types of phthalates in line with the EU's RoHS directive.

 Hitachi Group CSR Procurement Guidelines ▶ <http://www.hitachi.com/procurement/csr/csr/index.html>

 Hitachi Group Green Procurement Guidelines ▶ [http://www.hitachi.com/environment/library/pdf/green\\_en.pdf](http://www.hitachi.com/environment/library/pdf/green_en.pdf)

## Implementing CSR Procurement

Activities

414-2

Hitachi engages in the following initiatives to promote and pursue CSR procurement based on its CSR supply chain management philosophy.

### CSR Monitoring (Self-Checks)

We ask key suppliers to conduct CSR Monitoring (self-checks) using checklists based on the Hitachi Group CSR Procurement Guidelines. After collecting and analyzing the results, we provide feedback for related business operations to suppliers, and then work with those involved in the operations to resolve issues related to the suppliers. We are also reinforcing our onboarding procedures for new suppliers in Japan, including providing them with the guidelines and asking them to complete a checklist.

### Implementation of CSR Audits

Hitachi, Ltd. has been auditing the manufacturing bases of its and Group companies' suppliers in China and the rest of Asia. For these audits, we engaged external evaluators such as 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 RBA-recognized auditor checks suppliers' CSR initiatives from the perspectives of labor and human rights, health and safety, the environment, and ethics. Suppliers needing improvement 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.

### Violations in FY 2019

In fiscal 2019, audits were conducted of 12 Chinese suppliers. Though there were no significant violations, the following minor problems were identified with some suppliers, who were accordingly asked to remedy the issues.

- Failure to comply with legal working hours, including overtime: 8 suppliers
- Failure to conduct staff training, including fire safety measures, evacuation drills, and emergency response to hazardous chemicals: 7 suppliers
- Failure to renew permit for discharging pollutants: 1 supplier

\*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.

### Holding CSR Procurement Seminars

In order to share the philosophy of Hitachi among our suppliers, we provide suppliers directly with information in a face-to-face format. Specifically, we hold a CSR Procurement Seminar for Hitachi Group partners in China.

### Activities in 2019

In fiscal 2019, we held a CSR seminar for suppliers in Thailand attended by 77 participants from 59 companies. At the seminar, our first in Southeast Asia, we explained our Group-wide CSR procurement initiatives and activities, CSR procurement activities in ASEAN, CSR-related laws and regulations in Thailand, and promotion of ethical employment. Feedback from participants included comments such as "I was pleased to gain necessary information and knowledge about CSR," "The seminar taught me the importance of working together on CSR initiatives," and "More companies will participate if the next seminar like this is held in an industrial park." We believe that the seminar helped participants deepen their understanding of our efforts on CSR and green procurement activities.

A seminar was also scheduled for China in February 2020, but was cancelled due to the spread of COVID-19.



### CSR Procurement Activities Implementation Status

	FY 2019
CSR monitoring (self-checks)	291
CSR audits	19
Supplier seminars	59

## Increasing Green Purchasing of Office Supplies

Activities

We are improving our green purchasing rate\*1 by using a Group-wide online procurement system called the E-sourcing Mall. This system has a range of environmentally conscious products and promotes procurement by clearly labeling these products. In fiscal 2019, our green purchasing rate reached 84%.

\*1 Green purchasing rate: The ratio, by monetary value, of products with the Eco Mark among all products purchased subject to the Act on Promoting Green Procurement.

## Response to the Conflict Mineral Issue

Policy

Framework

Activities

In fiscal 2013, Hitachi formulated its Conflict Minerals Procurement Policy, declaring its stance and commitments regarding conflict minerals. The policy was revised in fiscal 2016 to explicitly lay out measures to be implemented to ensure responsible procurement, including inquiries based on international guidelines, so that procurement of components incorporating conflict minerals does not benefit armed groups in the Democratic Republic of the Congo (DRC) or adjoining countries. Expanding the scope of corporate responsibilities for the procurement of minerals is a global trend, with companies increasingly expected to address the overall risks to human rights as well as conflict risks, and recognize responsibilities that extend beyond the countries adjoining Congo to a wider area where risks are high. We are currently revising our Conflict Minerals Procurement Policy in this respect. Sales divisions, business groups, plants, procurement divisions, and other divisions within individual business units and Hitachi Group companies work together to respond to investigation requests and inquiries relating to conflict minerals. We also strive to grasp developments in conflict mineral-related laws and regulations in each country and region and what global society demands of enterprises, working to share information within the Group.

Each Hitachi business unit and Group company investigates its use of conflict minerals and reports the results to customers when requested. Supply chain investigations are carried out with the cooperation of the relevant entities' sales, procurement, and CSR divisions. In addition, Hitachi, Ltd., a member of the Japan Electronics and Information Technology Industries Association (JEITA)'s Responsible Minerals Trade Working Group, has been addressing the conflict minerals issues with other members of the association.

In 2018, Hitachi, Ltd. and six key Group companies (Hitachi Metals, Hitachi Chemicals, Hitachi High-Technologies, Hitachi Construction Machinery, Hitachi Automotive Systems, and Hitachi Industrial Equipment Systems) performed investigations and replied to a total of 1,874 requests from customers.

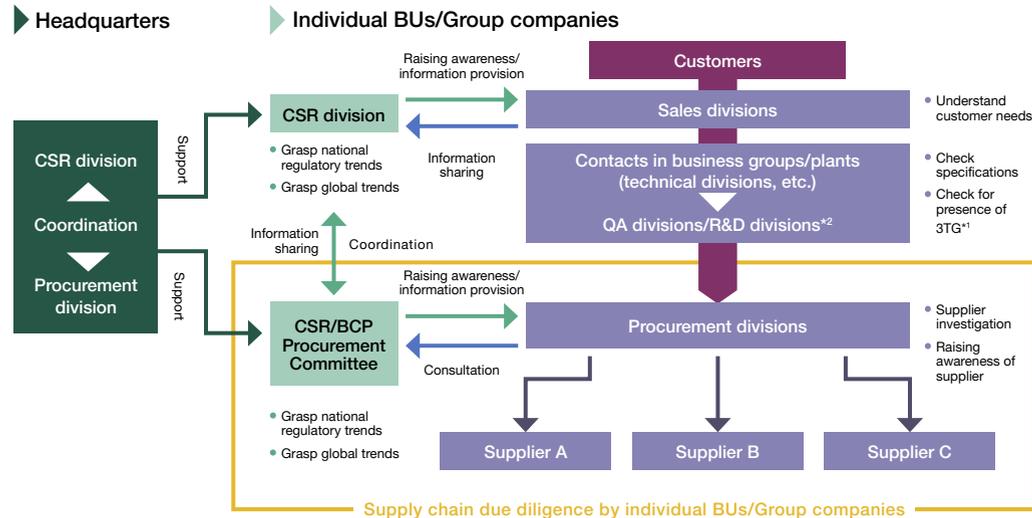
### Hitachi Group Conflict Minerals Procurement Policy

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 utilize the Conflict Minerals Reporting Template developed by RBA/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 Responsible Minerals Initiative (RMI), an organization that was founded by the RBA/GeSI, which is a group that aims to solve the conflict minerals problem.

Hitachi Group Conflict Minerals Procurement Policy  
[http://www.hitachi.com/procurement/csr/initiative/\\_icsFiles/afidfile/2018/06/07/Hitachi\\_Group\\_Conflict\\_Minerals\\_Procurement\\_Policy.pdf](http://www.hitachi.com/procurement/csr/initiative/_icsFiles/afidfile/2018/06/07/Hitachi_Group_Conflict_Minerals_Procurement_Policy.pdf)

### Hitachi's Conflict Minerals Response Framework



\*1 3TG: Collective term for four commonly used conflict minerals: tin, tantalum, tungsten, and gold.   
 \*2 May differ depending on business unit or Group company.

Main Groups in Which Hitachi Participates

## Quality and Product Safety Management

### Hitachi's Approach to Quality Assurance Activities

Approach

As stipulated in the Hitachi Group Codes of Conduct, we uphold a philosophy of providing products and services that our customers can use with confidence by meeting their specifications and quality requirements. The Quality Assurance Standards in our corporate regulations also set out our basic principles for quality assurance activities.

Embracing the Hitachi Founding Spirit of “Harmony, Sincerity, and Pioneering Spirit,” we adhere to basics and ethics and put right and wrong before profits and losses, with all employees sharing our policy of prioritizing quality and reliability above all else. We are strengthening the organization and management, technology, and human capital aspects of our quality assurance activities in every process—from planning and development to design, manufacturing, testing, delivery, and maintenance. Furthermore, under our approach of making prevention the duty of quality assurance, we are working beyond reoccurrence prevention and striving toward preventing incidents from occurring in the first place.

Our unique practice of *OCHIBO-HIROI*, which means “gleaning” in English, involves analyzing and learning from failure to further develop our technologies. When an incident occurs, we not only investigate the technical causes but also thoroughly discuss the process, framework, and motivating factors leading up to occurrence, along with ways to prevent reoccurrence, in order to improve our product reliability and customer satisfaction.

### Framework for Quality Assurance and Quality Assurance Activities

Structure

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To ensure full control over quality governance, Hitachi has separated the quality assurance division from the manufacturing division in every business unit and Group company, creating a framework for activity in which its customers' safety and trust are the top priorities. In order to strengthen this framework further, we have made BU and Group company quality assurance divisions independent of business divisions and reinforced their report lines to the Quality Assurance Division at our head office, establishing systems for close information sharing between the two sides. We are also strengthening governance by giving greater authority to the Quality Assurance Division at our head office.

Regarding our services business, which continues to grow in scale, we have established a Service and Software Quality Enhancement Division and are sharing quality activities and current challenges, while also enhancing the reliability of our embedded software as the field becomes more advanced and complex by applying our solutions division's software development capabilities and expertise in strengthening reliability to our product divisions (embedded software development divisions).

### Technical Law Compliance Activities

- Distribute product regulations worldwide, along with amendment trends and enforcement dates, among Hitachi Group companies.
- Clarify product-specific laws (the product-specific laws map); continuously improve regulatory compliance activities and processes based on our product compliance management system.

### Product Safety Activities

- Use Guide for Preparing User Instruction Manuals to improve risk communication with our customers.
- Make the safety of our customers' life, health, and property the top priority in product development and verify safety at every step, from development and production to sales and maintenance.
- Conduct risk assessments from a wide perspective in collaboration with related business units and research laboratories.
- Ensure safety by reducing risks through design (fundamental safety design), protective measures (safeguards), and usage information (product manuals), in order of priority.

### Global Quality Assurance Activities

- Build Hitachi quality by applying our fundamental principles for quality assurance activities globally and preparing Global Quality Assurance Standards, thereby understanding the situation regarding incidents globally through a unified set of rules.



Hitachi Group Codes of Conduct  
<https://www.hitachi.com/corporate/about/conduct/index.html#aid8071856>

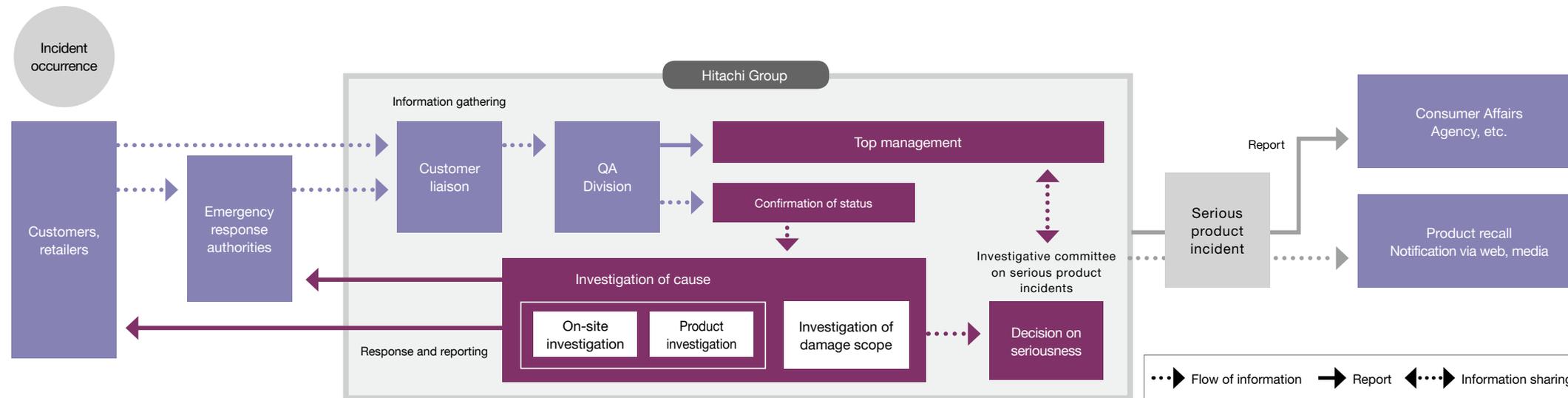
### Handling Product Incidents

Structure

When a product incident occurs, the division responsible acts swiftly to resolve the problem. In case of a severe incident, we report to government agencies in line with legal requirements and disclose the incident information to customers on our website and through other communication channels. At the same time, we promptly submit a status report to top management, ensuring fast and appropriate action at all companies across the Group.

In case we determine that retroactive action is necessary, we notify customers via newspaper advertising and websites in order to carry out the necessary repair or replacement program.

#### Response Flow in the Event of Product Incident



### Quality and Reliability Education

Employee Engagement

We conduct field-specific technical lectures for engineers engaged in monozukuri craftsmanship at a range of levels from basic to expert.

Each business unit also conducts specialized technical courses regarding manufacturing, quality assurance, and maintenance at their quality assurance training centers.

## Customer Satisfaction

### Structure for Reflecting Customers' Voices

Structure

The sales and marketing divisions at Hitachi, Ltd. use customer input in developing management, product, and solution strategies. We identify key customers who will help grow our business, then assign an account manager to each one. These account managers serve as customers' "portals" into Hitachi Group companies in Japan, and the whole Group works with them to build closer relations with customers, including the following initiatives for improving customer satisfaction (CS).

#### Initiatives for Improving CS

Initiative	Location	Outline
Executive seminars	Headquarters and branches in Japan	<ul style="list-style-type: none"> <li>Engage in direct dialogue with customers to learn their expectations of Hitachi and opinions about product strategies, and use this knowledge to create sales activity proposals based on customer needs</li> </ul>
Hitachi Social Innovation Forum	Global	<ul style="list-style-type: none"> <li>Accelerate collaborative creation with customers in Hitachi's Social Innovation Business</li> </ul>
Technology Community program	R&D sites in Japan	<ul style="list-style-type: none"> <li>Create opportunities for researchers to speak directly with customers and contribute to collaborative creation of new businesses based on customer needs and Hitachi technology</li> </ul>

### Providing Customer Support Online

Activities

Hitachi offers comprehensive global customer support on its website to respond to customer inquiries, opinions, requests, and complaints. We also conduct training courses like our Web Inquiry Responsiveness Improvement Course to improve our handling of these inquiries.

#### Customer Support Activities in Fiscal 2019

Inquiries to comprehensive customer support	4,017
Web Inquiry Responsiveness Improvement Course attendees	31 (858 in total since fiscal 2009)

### Improving CS in Home Appliances

Activities

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The Home Appliances Customer Satisfaction Division provides services and solutions to improve quality of life for people of all ages and regions of residence. In Japan, these initiatives are carried out under the slogan, "360° Happiness: Encircling People and All Their Dreams for the Future."

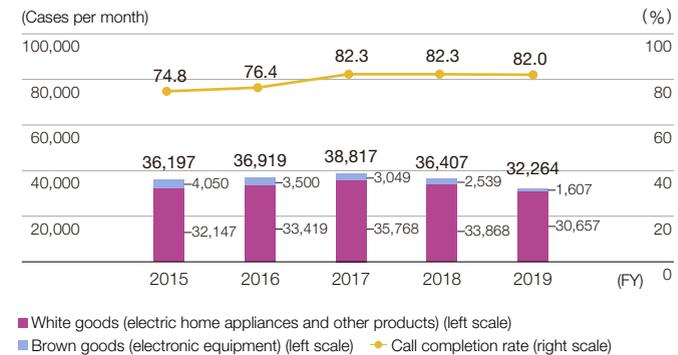
Our call center and website handle about 2.13 million customer inquiries, repair requests, and complaints about washing machines, refrigerators, and other appliances per year.\*1 We have undertaken a number of initiatives to better respond to inquiries and to reflect customer feedback in our monozukuri craftsmanship, including improving the contact success rate by using outsourcing; creating a database of customer feedback, including consultations, inquiries, and complaints; and enhancing our website's FAQ section.

We also conduct semiannual customer service evaluation surveys at approximately 90 service centers in Japan. Based on the answers, we improve services through CS training courses and other programs.

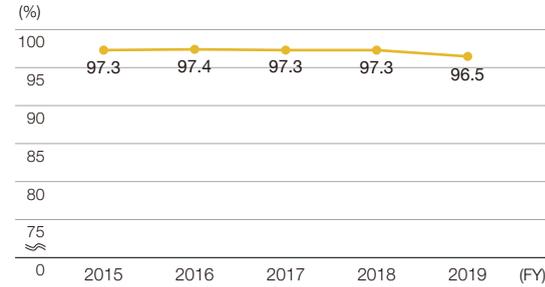
With the expansion of Hitachi's markets, 12 sales offices and manufacturing sites have been opened mainly in Asia and the Middle and Near East. We are also working on unifying management of operations outside Japan.

\*1 Since fiscal 2013, technical inquiries from suppliers and parts orders have been excluded from these statistics.

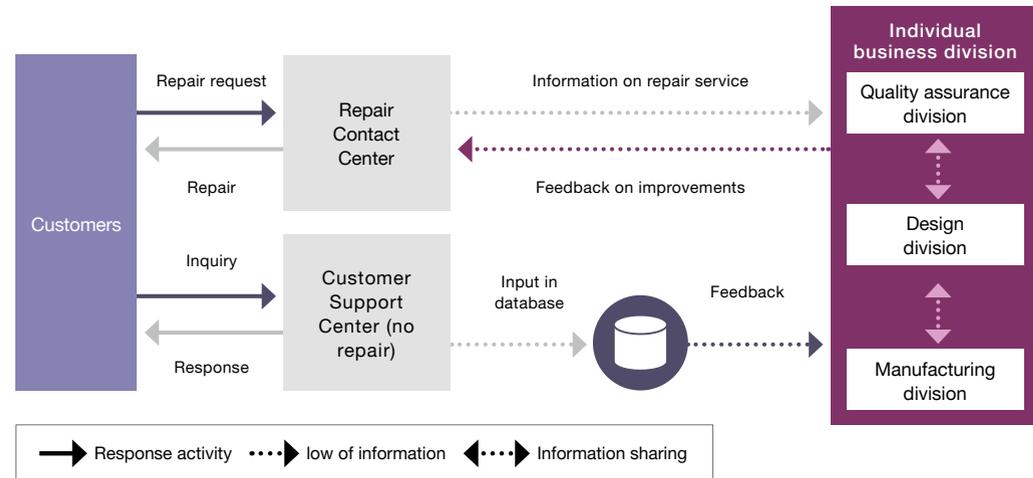
#### Customer Contact Cases, Call Completion Rate (12-Month Average)



■ Results of Evaluation Survey for Customer Repair Services (CS)



■ Flow of Customer Service



Advertising Activities

Policy

Because Hitachi, Ltd. believes that advertising activities must show proper consideration for society as a whole as well as complying with laws and regulations, it has established a set of Advertisement Guidelines, which it follows and updates in line with social developments.

To ensure that these guidelines are strictly followed even at business locations outside Japan, where languages and customs vary, an Advertising Material Checklist is included. All items on the checklist are confirmed when creating advertisements.