

Risk Management

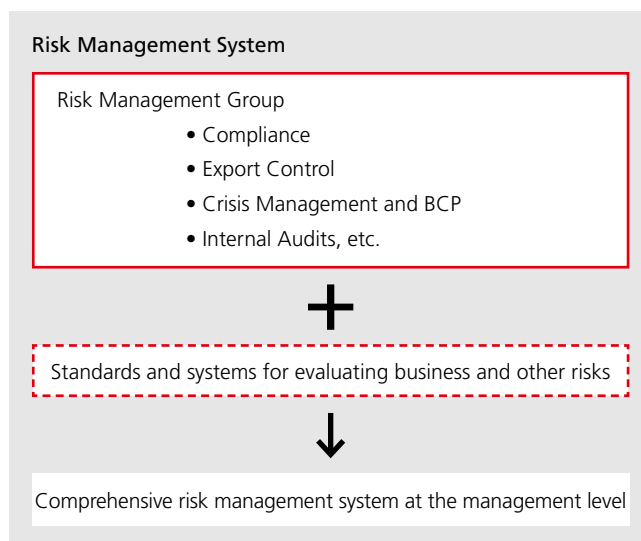
Hitachi conducts business activities in a wide range of fields in markets around the world.

To prevent a variety of risk factors from having adverse effects on business continuity, the Hitachi Group is taking steps to strengthen risk management, such as utilizing a system with overall responsibility for compliance for the Hitachi Group.

Reinforcement of Risk Management System

The entire Hitachi Group is reinforcing its risk management system to address increasingly globalized and complex risks.

Under Hitachi, Ltd.'s Head of Risk Management, each business operation assigns an executive as its risk management officer to manage risks mainly concerned with compliance, export control, disasters, and crime, and to respond adequately in coordination among the entire Group. Furthermore, Hitachi has started to build a comprehensive risk management system that contains standards and procedures for evaluating any risks that may affect business.



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 Hitachi employees but also by former employees, 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.

Preventing Bribery and Corrupt Practices

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

*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.

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 Law. In November 2012, a subsidiary dealing in automotive components was penalized by the Japan Fair Trade Commission for violating the Antimonopoly Law. In September 2013, the same company was prosecuted by the US Department of Justice for violating American antitrust laws, resulting in a plea bargain.

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 2014, we held group education sessions on the Antimonopoly Law for all Hitachi sales managers, with 957 taking part.

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

Export Control

For basic export control policies, we adopt the Hitachi Standards of Corporate Conduct,^{*2} 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 according to laws and regulations, screening all goods and technologies intended for export for such factors as destination countries and regions as well as intended end use and end users. We provide guidance and educational support to Hitachi Group companies to ensure that all Group companies follow the same export control policies. In fiscal 2014, we held workshops for Group companies in the United States, Europe, and China and other Asian countries providing practical training on export control. E-learning programs on export control basics and US re-export controls were introduced and taken by around 22,000 employees at 106 Group companies worldwide.

^{*2} Hitachi Standards of Corporate Conduct: Created by Hitachi, Ltd. to ensure full awareness of Hitachi's mission and role and to enable Hitachi to continue to grow as a truly global enterprise.

Creating BCPs^{*3} in Key Operations Worldwide

Given the close relation of our business to social infrastructure, we are enhancing our BCPs to ensure that the impact of risks does not disrupt our business and thereby significantly affect society. In December 2006, we issued the Hitachi Group Guidelines for Developing Business Continuity Plans in Japanese. In fiscal 2010 these were translated into English and Chinese for distribution to all Hitachi Group companies worldwide to ensure our response readiness for large disasters and other risks.

When the Great East Japan Earthquake struck in March 2011, our BCPs enabled quick responses and swift decision making. However, issues emerged including identification of secondary and other suppliers, cloud storage and multiplexing of production information, and the need to secure alternate transportation and fuel sources.

Based on the lessons learned from this disaster, in October 2011 we released and distributed new BCP guidelines for departmental implementation to further improve our BCPs. Hitachi Group operations in Japan completed their preparation and review of BCPs, based on applicability to their operations, by the end of fiscal 2011. BCPs for large earthquakes and novel strains of influenza have been prepared for 49 Hitachi, Ltd. business sites and 96 Group companies.

On top of these efforts, since fiscal 1998, Hitachi, Ltd. has held annual earthquake simulation drills at key operations in Japan. In March 2015, Hitachi High-Technologies Corporation in the Naka area of Ibaraki Prefecture held a drill simulating a potential large-scale earthquake. Directed by the head of the Naka area, managers in charge of their divisions confirmed the action plans in emergency situations based on BCPs.

In fiscal 2013, Hitachi appointed personnel in charge of risk-response policies at its main overseas bases and around 300 companies prepared BCPs with the goal of completing them for key operations by the end of fiscal 2013. These BCPs are aimed at strengthening our ability to respond to business risks, including large disasters, novel strains of influenza, political instability, and social disruption, as well as acts of terrorism. Moving forward, we intend to further expand the scope of our BCPs.

^{*3} BCP: Business Continuity Plan

Improving Safety for Employees Sent to Dangerous Regions

Responding to the hostage incident in Algeria in January 2013,^{*4} President Hiroaki Nakanishi reinforced his policy in February 2013 of ensuring the safety of employees sent outside Japan. Survey missions of in-house and outside experts are now sent beforehand to areas at high risk of war, terrorism, and other threats. Even after employees are dispatched to such areas, we conduct additional local surveys every six months as a means of confirming the effectiveness of our safety policies. In fiscal 2014, survey missions were sent to several countries in Africa and the Middle East. In addition, we have introduced a range of safety measures in the light of recent terrorist incidents involving Japanese and other nationals, including providing timely alerts to employees. These and other steps underscore our commitment to ensuring the safety of our employees working around the globe.

Hitachi is also contributing to safety measures at other Japanese corporations operating outside Japan. To help enhance collaboration between the private and public sectors in this area, Hitachi executives participated in the Council for Public-Private Cooperation for Overseas Safety organized by Japan's Ministry of Foreign Affairs, and in June 2014 Hitachi took part in a public-private kidnap incident preparatory training exercise.

^{*4} Incident in January 2013 in which an armed terrorist group attacked a natural gas refining plant in Algeria. There were more than 30 victims, including 10 Japanese.