

Hitachi Metals formulated its Code of Conduct for Hitachi Metals Group Companies in July 2006, and has conducted CSR on a foundation of "Obey the law and walk the path of virtue."

However, a violation of the Antimonopoly Act was uncovered in November 2006, prompting the Japan Fair Trade Commission to impose a fine on the Company and issue a cease and desist order. In this section, we provide an overview of the case, and a report of our measures to regain lost trust, and ensure that similar cases do not arise.

Compliance Measures

Decisions on Violations of the Antimonopoly Act

1

Report of the Facts

Price fixing among manufacturers and retailers of polyethylene plastic pipes and fittings for gas

On November 14, 2006, the Japan Fair Trade Commission conducted on-site inspections of Hitachi Metals' Piping Components Company (Tokyo), along with branch offices in Sendai, Nagoya and Osaka, on suspicion that manufacturers and retailers of polyethylene plastic pipes and fittings for gas had collaborated in fixing sales prices to gas companies (a price cartel prohibited under Article 3 of the Antimonopoly Act covering unreasonable restraint of trade).

Hitachi Metals did not resist the on-site inspection, cooperating fully with the Fair Trade Commission, and conducting extraordinary audits and internal training. On June 29, 2007, the Japan Fair Trade Commission determined that the Company was in violation of Article 3 (prohibition on unreasonable restraint of trade) of the Antimonopoly Act, issuing a cease and desist order in accordance with Article 7-2 of the Act, and imposing a surcharge in accordance with Article 7-2-1.

1. Details of the cease and desist order

- 1) Confirm that collaboration on raising prices has been eliminated at all Executive Committee.
- 2) Pass a resolution that all Executive Committee voluntarily determine their own selling prices.
- 3) Notify the six companies (with the exception of your own) of the measures taken with regard to 1) and 2) above; notify retailers and end-users of polyethylene plastic pipes and fittings for gas of the measures; and make your employees fully aware of the measures.
- 4) Take steps necessary to implement the following:
 - a. Create and/or revise the code of conduct regarding compliance with the Antimonopoly Act **1**
 - b. Conduct regular trainings for and audits of sales managers in Japan with regard to compliance with the Antimonopoly Act

2. Details of the order to pay a surcharge

Amount of surcharge to be paid:

¥667.03 million

Payment deadline: October 1, 2007

1 The Code of Conduct for Hitachi Metals Group Companies formulated in 2006 stipulates compliance with laws and regulations, including the Antimonopoly Act. We were advised that no revisions are necessary, and as such have revised the Antimonopoly Act Compliance Manual, but not the code of conduct.

Price fixing among manufacturers and retailers of stainless steel flexible gas pipings and fittings

In response to the on-site inspection on November 14, 2006, Hitachi Metals conducted an internal investigation that uncovered actions that could be considered in violation of the Antimonopoly Act with regard to stainless steel flexible gas pipings and fittings. The findings of this investigation were submitted to the Japan Fair Trade Commission, along with a request for immunity from or reduction in surcharge payment under the Leniency Program.²

On March 1, 2007, the Japan Fair Trade Commission conducted on-site inspections of Hitachi Metals' Piping Components Company (Tokyo) on suspicion that manufacturers and retailers of stainless steel flexible gas pipings and fittings had collaborated in fixing sales prices (a price cartel prohibited under Article 3 of the Antimonopoly Act covering unreasonable restraint of trade). On March 26, 2008, the Japan Fair Trade Commission issued the following statement regarding a cease and desist order and the Leniency Program as pertains to the case of stainless steel flexible gas piping systems and fittings.

1. Regarding a cease and desist order

We have determined that manufacturers and retailers of stainless steel flexible gas pipings and fittings did collaborate in fixing sales prices to gas companies, and that this action occurred during a period that violated the stipulations of Article 3 of the Antimonopoly Act. For this reason, the Japan Fair Trade Commission conducted an on-site inspection, but as Hitachi Metals is no longer engaged in the illicit activity that occurred in November 2006, no cease and desist order was issued.

2. Regarding immunity from or reduction in surcharge payment

The Japan Fair Trade Commission has accepted the application for the Leniency Program based on the findings of the internal investigation, and exempts Hitachi Metals from the full amount of the surcharge.

² The Leniency Program was incorporated into the January 2006 revisions to the Antimonopoly Act. It provides for immunity from or reduction in surcharge payment to enterprises that meet statutory conditions (e.g., voluntarily disclosure of key information by an enterprise prior to the launch of an investigation by the Japan Fair Trade Commission).

Conduct of an internal investigation and Leniency Program application

The Hitachi Metals Group, in response to the on-site inspection by the Japan Fair Trade Commission in November 2006, conducted training to reinforce compliance awareness, launched extraordinary audits through its Compliance Committee, and implemented various measures to revise the status of its membership in industrial organizations.

Compliance Measures

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Hitachi Metals' Response

Decisions on Violations of the Antimonopoly Act

Extraordinary audits

Hitachi Metals conducted extraordinary audits of all its business offices, and consolidated subsidiaries that operate commercial businesses or independent businesses. We reviewed documents related to these businesses (charges, papers on industrial organizations to which they belong) and took statements from all employees regarding operations to determine whether there were any violations of the Antimonopoly Act other than that which prompted the on-site investigation by the Japan Fair Trade Commission. Further, during the interviews we required all employees to sign a pledge stating that they would not engage in activity that could be considered in violation of the Antimonopoly Act.

Revision of industry organizations

The cartel that fixed prices of polyethylene plastic pipes and fittings for gas began at a meeting of an industrial organization composed of manufacturers of polyethylene plastic pipes for gas. In order to revise the status of its membership in industry organizations, the Hitachi Metals Group conducted a survey of the industry organization memberships of all group companies. Based on the results, the extraordinary audit team conducted its investigation, and instituted revisions regarding participation based on the following standards:

- 1) Membership in industry organizations is limited to those organizations concerned with specific qualifications or technologies.
- 2) Attendance at industrial organization meetings is limited to persons not connected with sales.
- 3) A record of attendance at industry organizations is to be created (Compliance Record¹).

Leniency Program application

The internal investigation unfortunately revealed actions that could be considered in violation of the Antimonopoly Act with regard to stainless steel flexible gas piping systems and fittings. In response, following the principle of "Obey the law and walk the path of virtue" incorporated in the Code of Conduct for Hitachi Metals Group Companies, we determined to confront the issue directly, and submitted an application for immunity from or reduction in surcharge payment under the Leniency Program. We felt that we should immediately disclose our involvement in the price cartel for stainless steel flexible gas piping systems and fittings, along with our Leniency Program application, in order to clarify our stance as a company. However, in accordance with the policies of the Leniency Program, we were obliged to withhold disclosure until notified by the Japan Fair Trade Commission, and delayed our statement until after that of the Commission's announcement on March 26, 2008.

¹A record stating that attendees at meetings of industrial organizations or other events, when having no choice but to meet with employees of competing firms, took no action that would be in violation of applicable laws.

In response to the cease and desist order issued by the Japan Fair Trade Commission on June 29, 2007, we conducted on-site training for all sales personnel in Japan (those subject to the order) in October through November. Although not a part of the cease and desist order, as part of our measures to prevent a recurrence we conducted similar training at Hitachi Metals' manufacturing and R&D facilities, as well as for managers and sales departments at all Group companies.

We further held training sessions on compliance and the code of conduct at overseas business locations, to strengthen compliance throughout the Group worldwide.

We plan to continue conducting similar training.

3

Internal Training

Measures to prevent recurrence

Fiscal 2007

1. On-site training seminars conducted by the sales director and the Compliance Department regarding compliance with the Antimonopoly Act and the Code of Conduct

October-November 2007

Persons receiving training: Sales managers and employees at Hitachi Metals' head office, branch offices and sales offices (total 13 locations)

Number of sessions: 13 seminars at 11 locations (including joint and multiple sessions)



Compliance training at the head office

2. On-site training seminars conducted by the sales director and the Compliance Department regarding compliance with the Antimonopoly Act and the Code of Conduct

January-March 2008

Persons receiving training: Managerial employees at Hitachi Metals' manufacturing plants and research divisions (total 17 locations)

Manager and sales-related staff at Group company head offices and sales offices (total 89 locations)

Number of sessions: 53 seminars at 47 locations (including joint and multiple sessions)



Compliance training at production facilities

3. On-site compliance training seminars at overseas locations conducted by the Compliance Department

August 2007-March 2008

Persons receiving training: Managerial employees at overseas business offices (total 28 locations in the United States, EU, Singapore, Thailand and China)

Number of sessions: 21 seminars at 19 locations (including joint and multiple sessions)



Compliance training at sales offices

4. Other compliance training

2007	Apr	Training for new hires
	Jul	Training for newly-appointed junior executive
	Sep	Training for newly-appointed section managers
	Oct	Corporate profile training
	Nov	Sales accounting training
	Dec	Line manager training
2008	Jan	Training for group company managers
	Jan	Company-wide budget meeting



Compliance training at overseas offices



Compliance training at overseas offices

What we've gained from compliance training

The Hitachi Metals Group conducted compliance training in the wake of the on-site investigation by the Japan Fair Trade Commission to prevent a reoccurrence, fostering compliance awareness throughout the Company. In this section, young employees in the middle of their careers discuss the part that compliance and CSR play in their everyday business conduct.



Introductions of sales personnel from various segments of Hitachi Metals

Moderator: This group meeting has been convened to discuss how compliance, the bedrock of corporate social responsibility (CSR), plays a part in the everyday business of Hitachi Metals. We've invited four up-and-coming employees from sales departments—the sections that have the most opportunities for interaction with customers—from across the Hitachi Metals Group. We'll be hearing opinions directly from these young men operating on the front lines. Let's begin with self-introductions.

Shinya: I'm currently with the Electrical Components Group of the NEOMAX Company, where I've been in charge of sales for magnets used in automotive parts for just over a year now. When I joined the Company in 1994, I worked in the technology field,

and after working at an overseas plant and other position joined the sales department 10 years ago.

Kohno: I'm in the Specialty Steel Company, in charge of sales of mold and cutting tool materials in the Korea and Taiwan area. I joined the Company in 1999, and after a year of training at the Yasugi Works (Shimane Prefecture) worked at the Chubu-Tokai Branch Office (Nagoya) and other locations prior to my current assignment.



Kobayashi: I moved to Hitachi Metals from a different industry in 2004. I'm currently in the Information System Components Company, mainly handling sales of magnetic sensors, such as giant magneto-resistive (GMR) sen-



Kenji Ichihashi
Overseas Sales Group
Piping Components Company



Yoshinari Shinya
NEOMAX Company
Tokyo Sales Office



Shinya Kohno
Tool Steel Business Unit
Specialty Steel Company



Noriaki Kobayashi
Information System
Components Company

Participants

Moderator **Toshinori Hata** Communication Office

sors. These sensors are used to control the motors inside lenses for digital single-lens reflex cameras.



Ichihashi: I've been working in export operations for the Piping Components Company for the past two years. I handle OEM fittings manufactured at plants in Thailand, in charge of sales in Europe and Hong Kong. After joining the Company in 1994, I worked for five years in development before moving to sales, where my duties included domestic sales of various types of fittings and piping components.

Moderator: Your profiles present a fairly comprehensive overview of the Hitachi Metals Group. Please feel free to give us your open and honest opinions.

Do not attend gatherings where there is a possibility of price fixing

Moderator: Discussions of compli-

ance at the Hitachi Metals Group can not avoid the two on-site inspections conducted by the Japan Fair Trade Commission in 2006 and 2007. These concerned cartels, in other words, a violation of the Antimonopoly Act, for polyethylene plastic pipes and fittings for gas, and stainless steel flexible gas pipings and fittings. The Hitachi Metals Group immediately implemented measures to prevent a reoccurrence. Among these was the Company's first on-site training¹ for compliance with the Antimonopoly Act, conducted between December 2006 and March 2007, and again between October 2007 and March 2008. These sessions, led by the sales director and the Compliance Department, provided extensive instruction in compliance for the entire Hitachi Metals Group, including production facilities and branch sales offices nationwide. I received this training as well. I think that it was a good opportunity to increase awareness of laws, the common rules that govern our society. What are your thoughts? That is, what aspects of your thinking changed the most during the period before and after the compliance training? Also, how have you incorporated this into your current duties?

Ichihashi: Looking back on my past business activities, I was relieved to

find that my actions didn't violate the law. I learned from the case studies presented during the seminar, however, that one wrong move and I could've done something that would've been unacceptable from a compliance standpoint. For example, back when I was in charge of domestic sales, I had many opportunities to attend gatherings where manufacturers in the same industry discussed technology matters. I became keenly aware through the compliance training that if I'd heard talk about product prices or given a response, even if it wasn't the main topic of discussion, this could raise problems from a legal standpoint. I wasn't fully aware of this at the time. Now, if there's a gathering where



there's a possibility of price fixing, I do not attend. Also, when I attend client-sponsored meetings that have no relation to price fixing, I record every interaction I have with a representative of a competing company in a

¹ Refer to p. 7, "Compliance Measures"

compliance record¹. I realized that if for some reason someone makes a statement regarding prices, that I will immediately excuse myself, make a record in the notebook that I wasn't party to the discussion, and report this to my supervisor upon returning to the office. The most important thing I gained from compliance training was a keen awareness of specific actions I hadn't considered previously. Even now, I have to make a conscious effort to put these measures into practice, but believe that they will become perfectly natural before long.

We've developed an awareness of the importance of customer and social benefit

Moderator: So what you're saying is don't engage in any activity that could raise doubts about misconduct. Are there any comments from the rest of the panel?

Kohno: Management had said all along never to get involved in illicit activities like cartels, and I think one of the main things that came across during the compliance training was the statement from top management that such actions benefits neither the Company or the employee. For my part, the training gave me a deeper understanding of how the Antimonopoly Act is applied in situations other than cartels. For example, we often see the manufacturer's suggested retail price in advertisements and think little of it, and I learned



¹ Refer to p. 7, "Compliance Measures"

that this is indicated in accordance with the law.

Kobayashi: I've heard that in the past it was common practice in the industry to consult with other companies regarding prices in the course of business. I came to understand, however, that this practice runs counter to both CSR and compliance. It's not as if I was at fault myself, but after receiving compliance training I'm aware of measures to prevent activity that goes against compliance. I now exercise caution on a daily basis.



Shinya: I got the impression that we tend to run afoul of compliance when we prioritize the Company's needs apart from those of customers or society. Particularly with the major products of the Hitachi Metals Group, where there are only a limited number of competitors, this is a constant danger without solid awareness of compliance. I learned from compliance training the need to first of all take actions that benefit customers and society.

Moderator: No one in management wants to violate compliance for the sake of benefiting the Company. The training sessions made that clear to each and every employee.

Highlighting the environmental friendliness of our products

Moderator: Environmental responsiveness is another aspect of CSR that ranks alongside compliance in importance.

Examples include compliance with the EU's Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation, and Restriction of Hazardous Substances (RoHS) directive. In a broad sense, how do you address environmental issues in the conduct of everyday business?

Kobayashi: We receive many inquiries from customers regarding environmental issues, so I'm routinely conscious of the high level of interest in this issue. In terms of technology I'd say that we're a step ahead of such demands, while at the same time responding quickly to urgent issues. We make an effort to highlight these features of our products.

Kohno: The representative product in my department is CENA1[®]α² plastic mold steel. This is the only molding material suitable for weldless molding, a completely new method of molding for the frames of large, flat-screen televisions. Unlike previous molding techniques, there's no seam left in the plastic, and the surface can be polished to a clean finish, eliminating the painting process used to cover the seams. This molding technique also generates less waste plastic and uses less energy, reducing the environmental burden. These features led to CENA1[®]α receiving the Award of 10 Best New Products at the 2007(50th) Best New Product Awards² given by the *Nikkan Kogyo Shimbum* newspaper. We plan to continue to develop and promote products that support environmental measures.

Shinya: Growing awareness of environmental issues has led to increased focus recently on hybrid cars and wind power. This has pushed up demand for magnets³, the main products handled in my division. Our principal customers—the automotive industry— have a high level of environmental awareness, and frequently require us to submit a state-

² Refer to p. 35 and 38

³ Refer to p. 37

ment attesting that our products contain no hazardous substances. The Hitachi Metals Group is strong in magnet development, and has excellent personnel working in this field. We draw on these advantages to promote our magnet products, and I feel that awareness of the finished product in which the customer will utilize them is part of our response to environmental issues.

Ichihashi: One of our Eco-Products is the plastic piping system for hot and cold water supply⁴. It's substantially lighter and more compact than previous systems, as well as conserves energy and enhances efficiency. The system also uses Pb-free bronze, making it superior in terms of sanitation.

Moderator: Demand for environmentally conscious products is expected to continue to increase in the years ahead. The examples you've given here demonstrate how the Hitachi Metals Group is directly addressing environmental issues.

Heightened CSR awareness by every employee enhances trust in the Company overall

Moderator: What everyone has said so far illustrates well how compliance and environmental concerns play a part in the everyday conduct of business. Based on this, how do you expect this will contribute to the advancement of society?

Ichihashi: I only realized once I became



involved in export operations how respected the Gourd Brand of pipe fittings is worldwide, a product series that the Hitachi Metals Group has produced for many years. There are even some customers who have been using Gourd Brand fittings for over four decades. I intend to continue to spare no effort to take good care of these customers, while also expanding the family of customers who prefer the Gourd Brand. To achieve this, I'm continually trying to refine my international perspective, and conduct business from a global standpoint.

Kohno: I hold to the idea that taking pride in one's daily work is itself a contribution to society. More specifically, it's building a relationship of trust with customers. The conduct of business itself is of course fulfilling CSR, but through continual, specific efforts we enhance both the quality of the individual, and the level of trust as a company. That's how I hope to contribute to society.

Kobayashi: I'm constantly asking myself why it is that customers purchase Hitachi Metals Group products. The answer to that question is the essence of what customers want, and becomes the selling point for the product. My role is to give that a concrete form, present it to customers through my sales efforts, and help the business to succeed. Seeing the customer satisfied by the result is satisfaction for me as well. This is the basis of the CSR I practice each day, and it's the biggest

contribution I can make to the Company as a salesman.

Shinya: I've been extremely interested lately in developing new projects together with customers. It not only benefits the Company, but is interesting to me as well. I receive the designs from customers, and instead of just ordinarily manufacturing the product, delve more deeply to determine their needs, and put together a proposal with even more refined specifications. I find appealing the process of creating products that provide even greater satisfaction for customers. If, for example, I'm able to use this method to create a product that's even smaller and more efficient, that'll add to the customer's satisfaction. For me, that's the most significant expression of CSR and contribution to society.



Moderator: You've all expressed clearly how your awareness is smoothly and naturally translated into social contributions. Thank you for taking time out of your busy schedules to attend this group meeting today.

⁴ Refer to p. 39