

To discuss with
our customers,
business partners,
colleagues, and
neighbors

another step for us into the future ...



CSR Report 2006

CONTENTS

	Commitment of President and Chief Executive Officer ·····	2
Social Report	With Our Customers ·····	3-4
	With Our Business Partners ·····	5-6
	With Our Colleagues ·····	7-8
	With the Local Communities ·····	9-10
Environmental Report	Eco-management ·····	11-12
	Evaluation of Environmental Activities ·····	13
	Eco-Products ·····	14
	Eco-Factories ·····	15-16
	Governance, Compliance and Communication ·····	17
	Corporate Profile ·····	18

Hitachi Kokusai Electric Code of Conduct

Hitachi Kokusai Electric, which **respects human rights, observes the spirit as well as the letter of national and international laws and regulations**, hereby adopts this Code of Conduct with a view to achieving continued growth and development while contributing to the creation of a sustainable society.

Fundamental Philosophy:

Manufacture products that contribute to a safe and affluent society.

Looking to the future, never stop working for **continuous improvement**.

Observe fundamentals, do things the right way, and be fair and transparent in all aspects of corporate conduct.

In accordance with the Fundamental Philosophy, Hitachi Kokusai Electric commits to the dissemination of this Code of Conduct with the following Guidelines and Commitments and to the maintenance of the related internal system.

Guidelines and Commitments:

1. **Obtain customers' trust and confidence** by developing and providing products and services in which the emphasis is on **safety, quality and environmental soundness**.
2. Engage in **fair and transparent** competition and business activities, comply with laws and be ethical in one's corporate conduct.
3. **Respect the diversity, character and individuality** of all employees and provide a mentally and physically rewarding workplace environment.
4. Provide shareholders and other **stakeholders with full and fair disclosure** of corporate information.
5. Take a **proactive, independent approach to protecting the global environment** and improving local living environments.
6. As a **good corporate citizen**, engage proactively in philanthropic activities and other activities that benefit society.
7. Respect international rules and local laws, cultures, practices and customs and always strive to **contribute to local progress and development**.
8. Respect the **value of other companies' business and technology information as well as our own**, and implement proper controls regarding such information.
9. Comply with **trade-related laws and regulations** in order to contribute to the maintenance of international peace and security.
10. Should a situation arise that runs counter to this Code of Conduct, managers shall endeavor to resolve the matter, establish the cause and take steps to prevent a reoccurrence. They will also endeavor to provide a prompt and accurate disclosure and explanation of the facts of the matter, clarify where the responsibility lies and deal strictly with those concerned, including with respect to their own activities.

Commitment of President and Chief Executive Officer

Hitachi Kokusai Electric is working hard to create
a sustainable recycling-based society.
It is our goal to live up to every confidence society
may have in us.

I would first like to express my sincere gratitude for your assistance and your patronage of Hitachi Kokusai Electric Group. This report is now titled "CSR Report 2006," replacing our "Environmental Report" of past years and our "Environmental and Social Report" of just last year.

We intend to promote CSR* oriented management and make this report a tool for communication between you, our valued stakeholders**, and us. Hitachi Kokusai Electric Group, based on our Code of Conduct, earns customer trust and confidence by developing and manufacturing products and services with consideration for safety, quality, and our environment. We take a proactive and independent approach to protecting our global environment and improving the local environments where we work.

In fiscal 2005, we moved our headquarters from Higashi-nakano to Akihabara as the center of our sales force. We built a new factory in the Koganei Works, integrating the engineering force of our telecommunication, broadcasting, and video systems divisions. The former has shortened the distance with our customers, aiming at closer contact for mutual benefit, whereas the latter produces synergy of research and development among those divisions so that our manufacturing, *Monozukuri* contributes to society now and in the future.

Our products, generally speaking, are in state of the art technologies or meet advanced requirements of society, such as nanometer-level semiconductor manufacturing equipment. This report introduces several samples of our wireless video communication system and explains how our products contribute to society. Following the products and our customers' section, we report about our business partners, employees, and communities of the region we concern as our important stakeholders with examples of how we are related with and committed to them.

When building our new factory in the Koganei Works, we created the design considering the neighboring environment and landscape, while we contributed a southern strip of the ground to the local community as a walking path, as a gift for safety and convenience to our neighbors. After the terrible earthquake in northern Pakistan in October 2005, our employees gathered donations and withdrew matching funds from our company, doubling the total amount sent to the victims. Additionally, we donated our broadcasting equipment to national TV stations to help them get back on the air.

As for protecting our environment, in addition to our ongoing activities reported every year, we participated in Cool Biz and Black Illumination, working against global warming. We also adopted a new IT/administrative system to assure our compliance with international regulations concerning chemical substances.



Our fundamental philosophy, "Observe fundamentals, do things the right way" is the prerequisite to satisfying the expectations of society. The final section of this report covers our compliance with the laws and regulations, including those related to military proliferation, corporate disclosure, and corporate governance for adequate operation of our company.

I would appreciate it if you would kindly respond to us with your opinions and advice, which will help us in charting our future. Thank you in advance for your understanding and assistance with our CSR activities.

June 23, 2006

Kunio Hasegawa
President and Chief Executive Officer

*CSR: Corporate Social Responsibility

**Stakeholders: Entities related to the company, e.g. customers, business partners, employees, shareholders, NPO

With Our Customers

Hitachi Kokusai Electric emphasizes the importance of communication with our customers. We are committed to manufacturing products that will fascinate

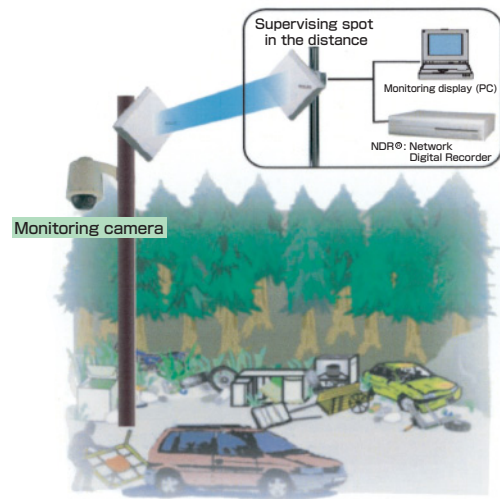
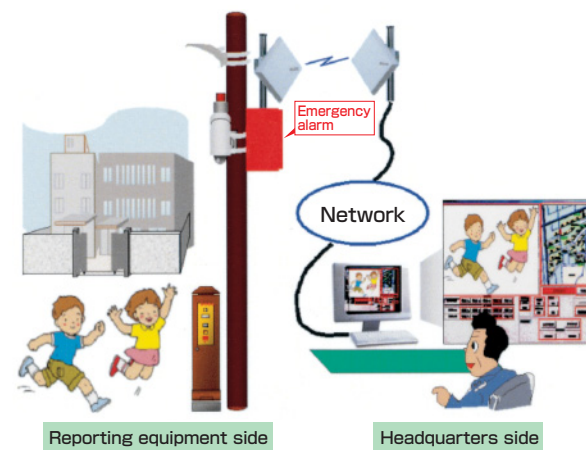
Contribution to Society through our Products

Hitachi Kokusai Electric provides system products helpful for your life and business in the fields of wireless communication and information, broadcasting and video, and semiconductor manufacturing. Our products contributing to society range from infrastructure for advanced IT networks, public and industrial wireless communication systems fused with video systems, broadcasting systems including cameras for

professional use, monitoring systems benefiting from state of art video engineering, and small size/high resolution video cameras required for industry/science/chemistry/visual arrangements, to semiconductor manufacturing equipment for rapidly increasing integrity of semiconductors. The following are samples of where communities welcome our video camera and wireless telecommunication systems:

1. To protect our children (Security Post System)

This system discourages recently increasing crimes against children such as kidnappings, since the crimes are visually and audibly monitored through an emergency alarm system.



2. To protect our environment (Illegal Disposal Watch System)

This monitoring system works 24 hours a day in areas difficult to watch, such as deep in the mountains. The camera and sensor automatically identify, report, and record suspicious cars. Our wireless telecommunication technology enables the coverage of the area where cables cannot reach.

3. To protect our lives from disasters (Municipal Disaster Prevention System)

Our wireless communication system is helpful to communities for publicity to prepare for disasters, and for emergency communication if disasters do occur. Digital processing clears the load from visual and data communication, as easily as audio communication. Other than these, our products make our lives safer and more convenient in many areas. As shown above, our customers have their own customers, making Hitachi Kokusai Electric involved deeply and widely with society. Considering this, we develop and produce products to contribute to making our society safe and affluent.



and help our customers now and in the future. We will continue to improve our accountability, earn and sustain your trust and confidence.

Respond to Customers' Confidence

Hitachi Kokusai Electric Inc. considers the viewpoint of customers and manufactures products pleasing customers. The quality of our products and services must be excellent. Not only for sales and marketing force who have daily contact with customer, but at each phase of research, design, manufacture,

inspection, shipping and service we are working with customer in mind. In addition, our monitoring system must be in effect, to identify all potential problems and always be working to improve products' reliability and customers' confidence in us.

1. Programs to Improve Customer Satisfaction (CS)

Hitachi Kokusai Electric Inc. is always working to improve customer satisfaction and confidence with thoroughgoing quality comes first based manufacturing and providing product and service considering safety, quality and environment. In addition to our usual contacts with customers, our Internet site shows how to reach us and our call center listens to customers. This communication, as well as the results of the regular CS research, is properly reflected in our products and services. We are constantly striving to improve our CS level in many ways.



Contact page of our Web Site

3. Programs to Improve Quality

Quality has to be assured initially at the stages of planning and designing, whereas manufacturing and inspection are the stages where defects are eliminated. Based on the thoughts of good products come out through good working procedures, all Works are ISO9001 registered to keep continual improvement of Quality Management System. Moreover, in order to further satisfy customer requirements, the relevant manufacturing Works are JIS Q 9100 or TL9000 registered.

Another regular meeting, the Quality Assurance General Managers Meeting is held under supervision of the executive officer in charge to improve quality of products and services. It leads improvement activities such as making quality policies well known, preventing the occurrence or recurrence of quality problems, and providing quality information to share.

4. Programs to Quality Problems

When any quality problem occurs, it is important to act quickly and minimize the influence on the customer. Major quality problems are immediately escalated to president and the executive officers. With this system and structure, top management leads immediate response to solve the problems.

It is important to handle quality problems from the viewpoint of the customer and to consider customer benefit as the first priority. "Ochibo Hiroi . Quality Gleaning Activities", which is a series of actions from finding and studying a quality problem to preventing its recurrence, is based on this principle. In "Ochibo Hiroi", the technical cause or even how the cause be consciously or unconsciously generated are thoroughly investigated in order to prevent any recurrence of the problem.

2. Providing safety Products and Services

The incidents that a company loses its customer's confidence by defective of product's safety keep on appearing in media.

Hitachi Kokusai Electric Inc. complies with the Product Liability Law (PL Law) and other laws, regulations, and standards in Japan and abroad, as well as our internal standards established for further assurance of safety. The General Manager of the Quality Assurance Division chairs the regular meetings of the Product Safety Promotion Committee, to share the information regarding products safety and to discuss internal and external incidents as an example to prevent the recurrence.

URL showing how to inquire about our products and services.

■ Hitachi Kokusai Electric, Inc. Home Page
<http://www.h-kokusai.com/global>

- ① Inquiry on wireless communications and information systems
<http://www.h-kokusai.com/global/products/wireless/contact.html>
- ② Inquiry on broadcasting and video systems
<http://www.h-kokusai.com/global/products/video/contact.html>
- ③ Inquiry on semiconductor manufacturing systems
<http://www.h-kokusai.com/global/products/semicon/contact.html>

Nb. Usual contacts such as quality problems or repairs are undertaken by the relevant sales and service staff.

With Our Business Partners

Hitachi Kokusai Electric engages in fair and open transaction with our business partners, with whom we develop equal partnerships. This will bring an appropriate price and lead time as well as material, parts, and services with high quality. This

Procurement Policy

1.Partnership

We develop good partnerships with all our business partners and maintain clear and trusting relationships.

2.Open-door

Regardless of whether our business partners are domestic or overseas companies, we proactively disclose information on procurement items and more, based on the principle of free competition.

3.CSR (Corporate Social Responsibility)

Hitachi Group has adopted the CSR Policy of the Hitachi Group. Based on this policy, Hitachi Kokusai Electric is committed to carrying out our social responsibilities with all employees under a common understanding. We request the assistance of our business partners in understanding and supporting the policy in pursuing the social responsibilities.

4.Sharing Information and Maintaining Confidentiality

We attend to all our business partners' offers sincerely, and are willing to provide the necessary information. We always endeavor to strictly maintain confidentiality concerning the information our business partners provide us.

Collaboration of CSR under the Supply Chain

Hitachi Kokusai Electric regards it as indispensable to share CSR with our business partners, in order to develop a business model for the future growth of both parties. Specifically, the factors to choose our business

partners may include respect for human rights, environment protection, social contributions, and maintenance of a good working environment.

Quality Control and VEC

We are always asking our business partners to improve quality and cost performance, in order for us to keep providing our products with high trustworthiness and quality. We conduct assessment tests and inspections to assure the required functions and quality, both when selecting and receiving material and parts. We promote

our VEC (Value Engineering for Customers) work, which is improvement from various aspects such as designing, materials, and processing in order to provide our customers with higher performance in our products and services.

Hitachi Kokusai Electric Group Helpline

Hitachi Kokusai Electric Group Helpline is the channel for our business partners, if they should find any illegal matters in our work. This is highly improbable as it is our policy that our group procurement division and the procurement section of our factories work with business partners in a fair and legitimate manner. The helpline is independently handled by staff and a committee including an outside lawyer, protecting the caller and assuring fair treatment.



Whistle blowing channel for business partners:

Phone : +81-3-3254-7391

email : rinri.helpline@h-kokusai.com

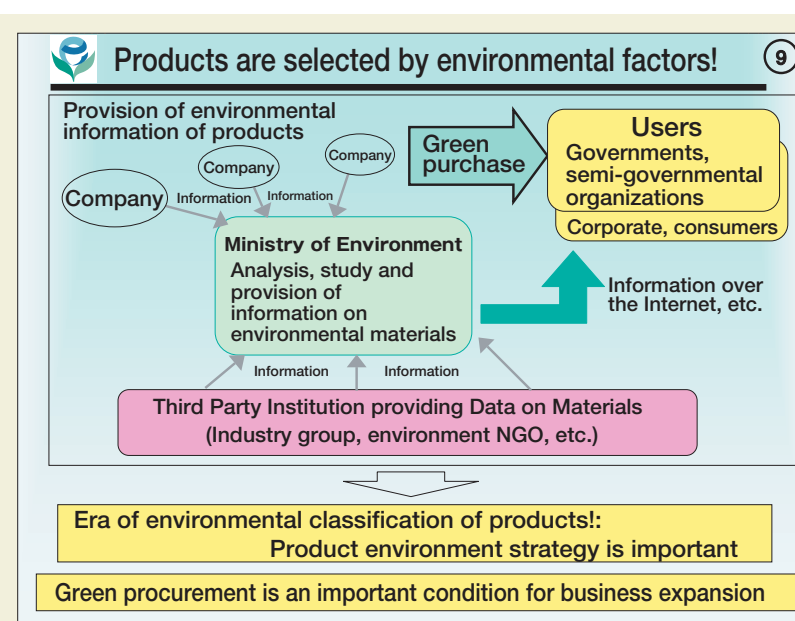
Post : Akihabara UDX Building 11th floor
4-14-1 Soto-Kanda, Chiyoda-ku, Tokyo, 101-8980

The Ethics Helpline Service
of Hitachi Kokusai Electric, Inc.

will also help us observe the laws and regulations, consider our environment, and respond to social expectations. Collaborating with our business partners, we will keep creating valuable products which impress our customers.

Green Procurement

Hitachi Kokusai Electric Group promotes green procurement, which is the procurement of material and parts with less environmental load.



From the material to explain green procurement to our business partners

BPM

Hitachi Kokusai Electric Group promotes BPM (Business Partner Meetings) at each site of our works in order to effectively implement the above mentioned policies and concepts with our business partners. Participants include those involved with electronic parts, machine processing, design outsourcing, assembling and adjustments, and finishing. The total number of firms is more than 150, with a business volume of more than 70% of the total procurement amount of the entire Hitachi Kokusai Electric Group. In the meetings, we explain the semiannual budgets and business strategies; request proposals on cost,

lead time, and quality; split into small meetings to discuss cooperative VEC and specific transactions; and move to site visiting sessions to view the manufacturing work. Our entire group staff and BPM are working together to make this even more effective in the future.

The picture below shows the BPM general meeting at the new East Wing of the Koganei Works on April 13, 2006. There were 176 partners from 115 firms attending.



There were 176 partners attending the Business Partner Meeting on April, 2006.

With the Local Communities

Hitachi Kokusai Electric Inc. holds the highest regard for its works to fit in with their local communities and for both the works and their employees to

New factory construction at Koganei Works

Taking advantage of the opportunity of constructing a new plant ward, Hitachi Kokusai Electric is endeavoring to make itself a human-friendly company by communicating with neighbors and paying attention to eco-friendly designs. Hitachi Kokusai Electric shall continue to work for harmonious coexistence with local communities.



A summer evening festival was held in a playground where the new ward was to be constructed. The mayor and neighbors were invited to say farewell to the playground which was often used publicly. (July 1, 2005)



To realize harmony with nature in the Musashino District and secure coexistence with local communities, the concepts for constructing the new plant ward were consideration of the work environment and attention to ecology. A 5-storied energy-saving office building having about 20,000 m² floor space was commenced in July 2005 and completed in February 2006. Thanks to highly efficient illuminations and air-conditioning systems backed by ice and wall thermal storage systems, the building will contribute to energy saving, global environment, and more reduction of carbon dioxide.

As a part of considering neighboring municipalities, Hitachi Kokusai Electric donated widened municipal roads neighboring the Works, newly constructed pedestrian paths, and green space to Kodaira City. We also adopted eco-friendly measures such as afforestation, conservation of trees, and prevention of office illumination from leaking during nighttime by adopting light-shielding blinds. Our contributions have been well accepted as a comfortable pedestrian environment for neighboring users and our employees while commuting to work or school. We shall continue to work hard to prosper and coexist with local communities.

Contributing to local safety, health, and education

The playground at Toyama Works is put to use by local baseball teams. Among middle school players who had trained here, many won opportunities to participate in high school baseball games at the Koshien. On August 27 and 28, 2005 "Baseball Games battling for Toyama TV Cup" by the Toyama Senior Leagues were held at this playground.



The Works are willing to welcome factory tours from elementary schools.

Hamura Works: 60 pupils, third year of Hamura Municipal Sakae School (February 9, 2006)

YAGI ANTENNA INC.: 26 pupils, third year of Saitama Municipal Hasunuma School (June 24, 2005)



A firefighting team composed of 35 children from Fukushima Nursery School participated in a joint evacuation drill held at Toyama Works with local fire-fighting station team. (November 9, 2005)

be welcomed favorably.

Donation in a matching fund for victims of the North Pakistan Earthquake

The great earthquake that struck North Pakistan in October 2005 resulted a large number of victims and refugees. Hitachi Kokusai Electric officers and management-level employees participated in the labor union's campaign to raise funds. The money thus collected withdrew its equivalent from Hitachi Kokusai Electric and the total was sent to the site as donation. This was a matching fund in which both individual employees and our company collaborated.



Donation of TV cameras to Pakistan National TV Station

This earthquake damaged the office buildings at Muzaffarabad and Jammu & Kashmir of Pakistan National TV Station. To support an early recovery from the damage, we donated two sets of our broadcasting color camera SK-888 system (equivalent of ¥10 million), visited President Arshad Khan and other top management members of the TV Station at Islamabad, and held a donation ceremony.

The station expressed gratitude, saying, "Among our broadcasting equipment manufacturers of many countries, only Hitachi Kokusai Electric has offered the equipment for the Pakistan TV Station for recovery." A

message that the audience in Kashmir would never forget this kindness arrived to us through that TV station and raised an expectation to further deepen the friendship between the two countries in the future. The Pakistan TV station has been using our broadcasting cameras for over 20 years. Almost all of the pictures distributed from Pakistan are produced by means of our cameras. Hitachi Kokusai Electric sincerely wishes the speedy recovery of the Muzaffarabad and Jammu & Kashmir branches and life of inhabitants of those areas from damage.



Pakistan TV staff before the disaster operating the camera of the same model as donated



Hitachi Kokusai Electric's General Manager of Overseas Sales, Pakistan TV President and Technological Department Manager, and an officer of the distributor (from the left)

Eco-Management (promotion of environment management)

Compliance with international environment regulations has been required domestically and internationally. Our manufacturing principles aim at

Environmental CSR Monozukuri Activities

The urgent matters are to act on new environmental regulations including EU RoHS directives* effective from July 2006 and WEEE directives** requiring segregated collection and recycling.

We have revised Hitachi Kokusai Electric Action Guidelines for Environmental Conservation as the basic

* RoHS (Restriction of the use of certain Hazardous Substances in electric and electronic equipment) directives prohibit using chromium hexavalent, lead, cadmium, mercury, and brominated flame retardants (PBB, PBDE) in the products delivered to EU markets (enforced from July 1, 2006).

guidelines, established our "Environmental CSR Monozukuri standards" and relevant regulations as company rules, and started operating Integrated Management System for Chemical Substances Contained in Products (A Gree' Net), which is applied in common with other Hitachi group companies.

** WEEE (Waste Electrical and Electronic Equipment) directives address reusing and recycling electrical and electronic waste materials in the EU to reduce the waste disposal volume (enforced from August 1, 2005).

Hitachi Kokusai Electric Action Guidelines for Environmental Conservation

Purpose

In order to realize an environmentally harmonious and sustainable society through products and services, Hitachi Kokusai Electric is committed to meeting its social responsibilities by promoting globally-applicable *Monozukuri* (designing, manufacturing or repairing of products), which is aimed at reducing environmental burdens of products throughout their entire life cycles, ensuring environmental conservation.

Action Guidelines

- 1.Global environmental conservation is a critical challenge shared by all humans. Hitachi Kokusai Electric is committed, therefore, to fulfilling its responsibilities by assisting in the realization of an environmentally harmonious and sustainable society as one of its management priorities.
- 2.Hitachi Kokusai Electric will make efforts to contribute to society by developing highly reliable technologies and production processes, while identifying needs considering concerns related to global environmental conservation and limited resources.
- 3.Executive Officers in charge of environmental conservation and *Monozukuri* are responsible for facilitating appropriate environmental conservation activities. Through divisions responsible for environmental conservation they should endeavor to promote and ensure environmental conservation activities, including improving environment-related rules and regulations and setting goals for environmental burden reduction. They should also confirm that their environmental conservation activities are conducted in a proper manner and ensure that these activities are maintained and improved.
- 4.Hitachi Kokusai Electric will promote globally applicable *Monozukuri* with the aim of reducing environmental burdens at every stage, including product research and development, design, production, distribution, sales, usage and final disposal.
- 5.Hitachi Kokusai Electric will investigate and review the environmental impact caused in the course of its *Monozukuri* processes. Hitachi Kokusai Electric will also introduce excellent technologies and materials useful to safeguard the environment,

- 6.Hitachi Kokusai Electric's environmental conservation efforts are not only to be focused on observing international environmental regulations and those of national and local governments, but also on conserving the environment by implementing voluntary environmental standards when necessary.
- 7.Regarding globally-applicable *Monozukuri* activities, impact on the local environment and community are to be considered. In addition, measures that meet local communities' requests should be implemented.
- 8.Hitachi Kokusai Electric will educate its employees on the observance of environment-related laws, raise their environmental awareness and encourage their interest in society at large and broad-based environmental conservation activities.
- 9.Hitachi Kokusai Electric will evaluate potential environmental problems and prevent them from occurring. In the event that any environmental problem occurs, Hitachi Kokusai Electric will take appropriate measures to minimize the impact on the environment.
- 10.Hitachi Kokusai Electric will make efforts to disclose information on its environmental conservation activities to its relevant stakeholders. Hitachi Kokusai Electric will also actively communicate with these stakeholders so as to strengthen mutual understanding and forge cooperative relationships with them.

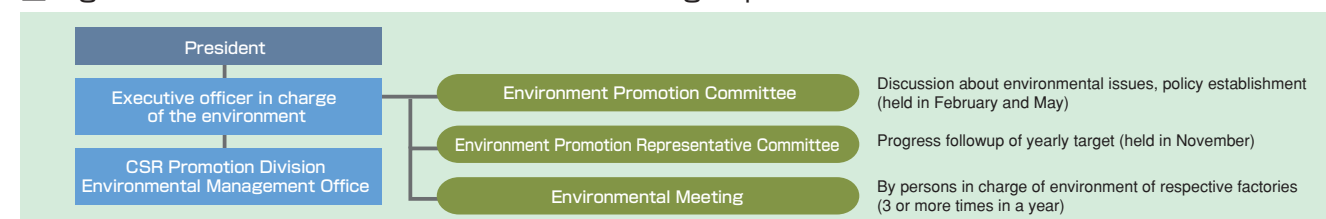
in other words, to reduce environmental burdens through energy and resource saving, chemical substance management, recycling, and other measures.

Environment Protection System

Our Environment Promotion Committee consists of the President as the head of the committee, the executive officer in charge of the environment as the chairman, and the top executives of each factory and major affiliated companies as committee members. In the committee, we discuss, determine, and develop the mid-to-long term environment planning of the whole group, yearly targets, and priority subjects. The Environment Management Office, which is a headquarters staff department, plans and supports environmental

strategies as well as conducts progress followup in the Environment Promotion Representative Committee. This work is based on the decisions of the Environment Promotion Committee. In addition, there is an Environmental Meeting consisting of persons in charge of the environment of their respective factories. They discuss the policy and activity planning of Hitachi Kokusai Electric group, reporting on results, information exchange, experience sharing, and problem solutions.

Organization chart of Hitachi Kokusai Electric group



proactively conforming with these regulations.

Goals and Results of Environmental Activities in Fiscal 2005

◎:Mid-long term target reached ○:Target reached △:Efforts in improvement required

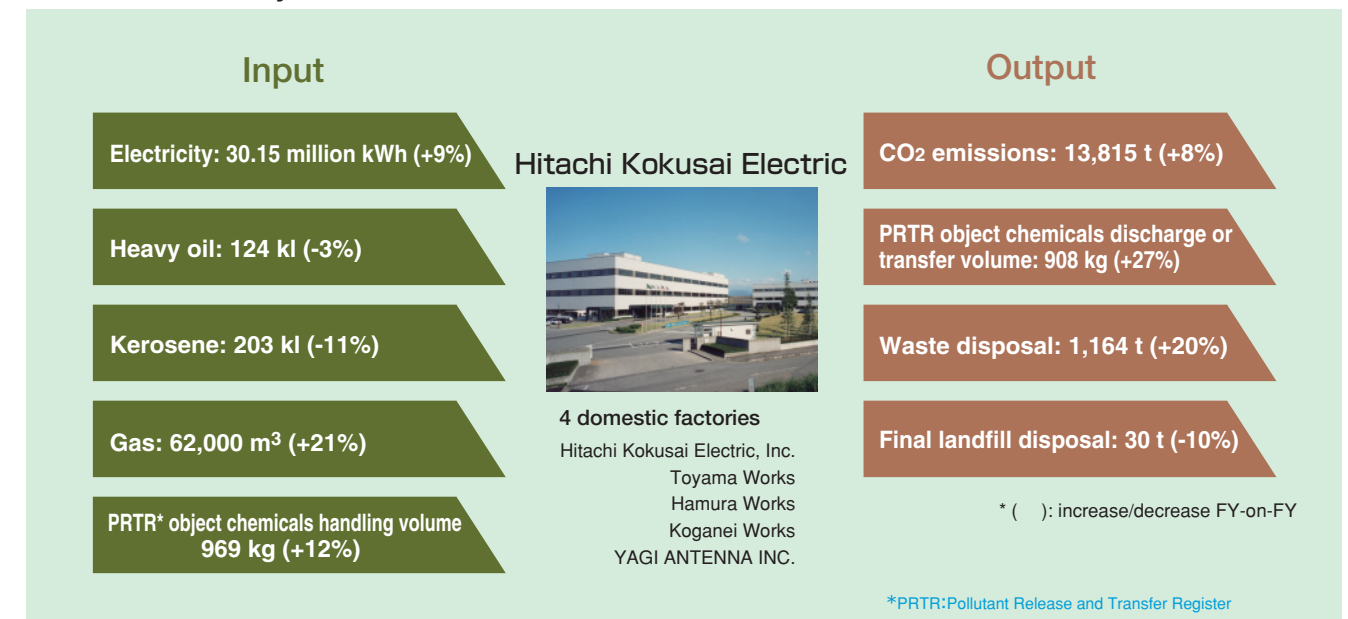
	Main item	Mid-long term plan	FY 2005 target	Results	Own evaluation
Eco-management	Enhancement of environment management system	Ready for ISO 14001(2004)	Completion of registration of ISO 14001(2004)	Completion of registration of ISO 14001(2004) Completion at 3 factories/in company Completion at 7 companies/in group companies	◎
	Environmental audit	Enhancement of environmental audit (including group companies)	Implementation of environmental audit Completion at 1 factory/in company Completion at 1 company/in group companies	5 Implementation of environmental audit at 5 sites Completion at 1 factory/in company Completion at 3 companies (4 sites)/in group companies	◎
Eco-products	Promotion of environmental CSR Monozukuri	Establishment of solid material management system 06/6	Establishment of company rules for Environmental CSR Monozukuri Data entry into new A Gree' Net	Establishment of company rules for Environmental CSR Monozukuri Part of data entry into new A Gree' Net	△
	Expansion of environment-friendly product lineup	Percentage of environment-friendly products sales 100% in FY 2010	Percentage of environment-friendly products sales 75%	Percentage of environment-friendly products sales 88%	◎
	Promotion of green procurement	Examination to identify chemicals contained in products in FY 2007	Abolition of 6 RoHS restricted substances	Abolition of 6 RoHS restricted substances (part of products)	△
Eco-factories	Global warming prevention (energy conservation)	Reduction in CO ₂ emission Compared to FY 1990 7% reduction in FY 2010 Reduction in real output of CO ₂ primary unit 25% reduction in FY 2010 compared to FY 1990	Reduction in CO ₂ emission 3% reduction compared to FY 1990 Reduction in real output of CO ₂ primary unit 20% reduction compared to FY 1990	Reduction in CO ₂ emission Compared to FY 1990 7% increase Reduction in real output of CO ₂ primary unit Compared to FY 1990 41% reduction	△
	Waste reduction	Reduction in final disposal volume 90% reduction in FY 2010 compared to FY1998 1% or less of final disposal rate	Reduction in final disposal volume 85% reduction compared to FY 1998 Less than 3% of final disposal rate	Reduction in final disposal volume 95% reduction compared to FY 1998 2.5% of final disposal rate	◎
	Reduction of chemicals	Thorough chemical management and reduction in released chemicals	Reduction of "chemicals to be reduced" 30% reduction compared to FY 2000	Reduction of "chemicals to be reduced" 78% reduction compared to FY 2000	◎

Business activities and Environmental Loads

We quantitatively collect and analyze data concerned with the quantity of resources and energy used (input) and the quantity of environmental load generating materials discharged (output) during our business operation at 4 major factories. From the results of

these analyses, we establish a reduction goal of environmental load generating materials every year, and try hard to achieve this goal while carrying out our business.

Business activity mass-balance



Evaluation of Environmental Activities

We monitor and analyze environmental activities based on quantitative evaluation criteria in order to improve the level of environmental management, reduce environmental risk, and promote the efficiency of environmental investment and environmental activities.

GREEN 21 Operation (Version 2) and Evaluation in FY 2005

The Green 21 operation works to continuously improve the environmental activities and to enhance them, based on certain evaluation criteria. We evaluate items in 8 categories on a scale of 100 green points (GP) as the full mark, with a maximum total of 800 GP.

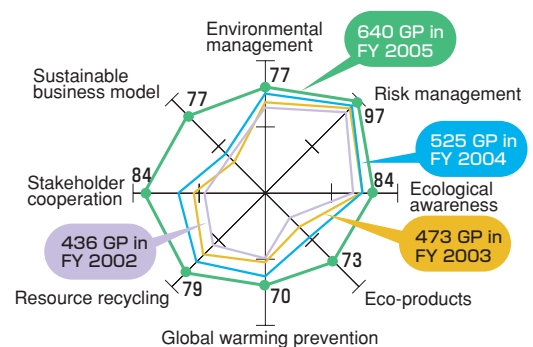
○Results report

The overall evaluation is higher than that of last fiscal year by 115 GP, resulting in a total of 640 GP and reaching our target. We have obtained significant higher points in the ecological products and sustainable business model categories especially because of promoting environment-friendly products.

■GREEN 21 evaluation items

No	Category	Main evaluation items
1	Environmental management	Environmental management, environmental planning, environmental accounting
2	Risk management	Strict observance of laws and regulations, establishment of voluntary standards
3	Ecological awareness	Employee education
4	Ecological products	Assessment of products and services, green procurement, distribution management
5	Global warming prevention	Energy conservation at business institutions, CO ₂ reduction
6	Resource recycling	Waste reduction, management of chemicals
7	Stakeholder cooperation	Information disclosure, communication, community activities
8	Sustainable business model	Systems and plans, recovery and recycle of products, environmental restoration

■Targets and evaluation results of green points



Environmental Accounting

Based on Hitachi Environmental Accounting Guidelines, we quantitatively assess costs and effects related to environmental activities. As for costs, in addition to the capital investment connected with environmental activities, also counted are research and development costs as well as operation and administration costs of maintenance equipment. As for effects, we compute economic effects recognized by a firmly substantiated basis.

○Results report

The total cost of FY 2005 increased by 45% compared to FY 2004 due to increase of R&D and designing of eco-products. The environmental investment increased remarkably because of investment for pollution prevention and in energy-saving facilities. Regarding the item of material cost reduction from resource saving design, the economic effects notably decreased compared to FY 2004. We will continue our efforts to save resources. We will attempt to improve investment effectiveness by referring environmental accounting as a tool for continuous improvement.

■Costs

Item	Cost (in millions of yen)			Main contents
	FY 2003	FY 2004	FY 2005	
1.Costs within factory areas	153.1	178.3	180.6	Costs for maintenance and management of environmental load reduction facilities
2.Upstream and downstream costs	0.3	0.3	0.3	Costs for green procurement and recycling
3.Management activity costs	76.3	81.2	76.8	Personnel expenditures for environmental management, maintenance costs for environmental management system
4.R&D costs	3803.8	2165.2	3267.3	Costs for R&D and design of products to reduce environmental loads
5.Social activity costs	1.7	2.1	3.0	Costs for environment improvements such as greening and landscaping, PR, and publicity
6.Costs related to environmental damage	0.2	0.2	0	Environment-related compensation, contributory money, and surcharges
Total cost	4035.4	2427.3	3528.1	
Total investment	63.7	51.5	169.2	Investments in direct environmental load reduction facilities such as energy conservation facilities

■Economic effect

Item	Effect value (in millions of yen)			Main contents
	FY 2003	FY 2004	FY 2005	
1.Effect on real income	1.0	1.0	4.3	Profit on sale of recycled waste, etc.
2.Expenditure reduction	3.4	4.8	6.2	Power cost reduction due to energy conservation
3.Material cost reduction	43.0	39.0	4.0	Resource cost reduction due to resource conservation
Total amount	47.4	44.8	14.5	

Eco-products (environment-friendly products)

We are developing products by implementing our Assessment of Environment-Friendly Design based on the concept of minimizing the environmental loads at each stage of the product lifecycle.

Environment-Friendly Products in FY 2005



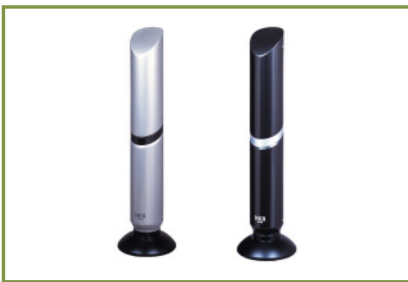
- Ready for RoHS directives:
Built-in Type W-CDMA Communication Module
- ① Environmental feature:
compatible with RoHS directives
(elimination of 6 substances)
- ② Volume: reduction by 59%
- ③ Weight: reduction by 50%



- Lead-free solder connection:
In-Vehicle Digital Wireless System
for Emergency Use
- ① Environmental feature: lead-free solder connection
- ② Assembly time: reduction by 26%
- ③ Weight: reduction by 9%
- ④ Power consumption: reduction by 69%



- Ready for RoHS directives:
Compact HDTV Camera
- ① Environmental feature: compatible with RoHS
directives (elimination of 6 substances)
- ② Volume: reduction by 30%
- ③ Weight: reduction by 20%
- ④ Power consumption: reduction by 25%



- Downsizing:
UHF Antenna for Digital Terrestrial Broadcasting
- ① Volume: reduction by 62%
- ② Resource recycling:
recyclability rate increase by 44%



- Energy conservation:
Energy-Saving Power Supply, "VieZA"
- ① High power factor: average power factor 0.99 or higher
[increase by approx. 60% or higher]
- ② Compliance with the Harmonic Suppression Guidelines of
FY 1994 provided by the Agency for Natural Resources and Energy

Eliminating Products Containing Asbestos

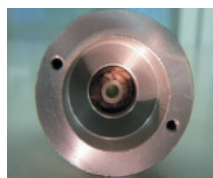
We eliminated materials containing asbestos that were used in our products by completely replacing them with alternative materials by December 2005. Our products containing asbestos deemed to have little possibility of dispersing the asbestos when used or regularly maintained because those materials were used in the form of solid or sealed materials,

even before replacement with the alternative materials. We contacted our customers via our sales departments, informed them of cautions necessary for handling, maintenance, and disposal of our products containing asbestos, asked for their consideration to replace them with alternative products, and obtained their understanding.

■ When the asbestos-containing materials (non-dispersal type) used in our products were eliminated

When	Shipped in October 2004 or before	September 2005	November 2005	December 2005	
Product	Vertical diffusion/CVD system	Surveillance camera	Vertical diffusion/CVD system	Surveillance camera	Broadcasting camera
Object material	L-shaped cascade thermocouple Thermocouple for heater control Thermocouple for overheat prevention Needle valve/globe valve/joint	Heat-insulating board (for camera case in furnace)	Valve heat insulating material (joint sheet)	Heat-insulating board (for outdoor camera case)	Friction plate (outdoor hood for view finder)

■ Sample of asbestos-containing material



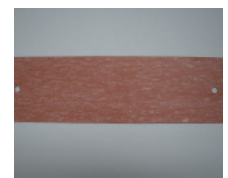
Thermocouple for heater control



Thermocouple for overheat prevention



Valve heat insulating material (joint sheet)



Heat-insulating board

Eco-Factories (environment-friendly production activities)

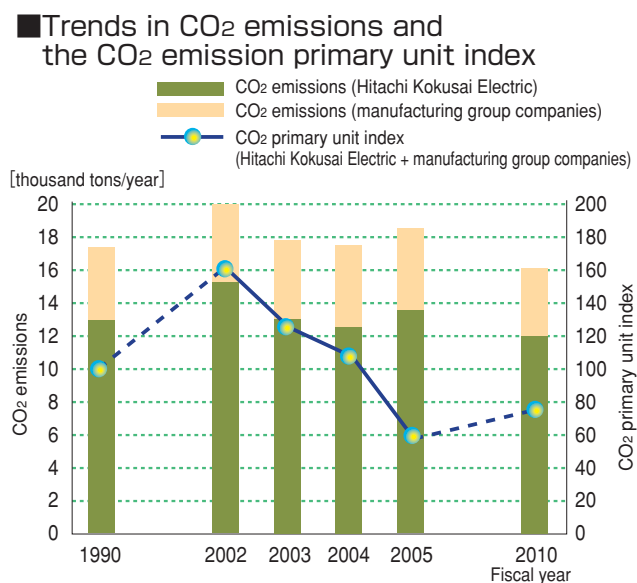
We strive for environmental load reduction by preventing global warming with power conservation and facility improvement as well as by promoting waste

Global Warming Prevention (energy conservation)

We have set ourselves the goal of reducing our primary unit of CO₂ emissions in production by 25% and our volume of CO₂ emissions by 7% by FY 2010 compared to FY 1990 levels. The CO₂ emissions in FY 2005 increased by 6% compared to FY 1990 due to an increase in production. The total CO₂ emissions of the main manufacturing group companies was increased by 7% compared to FY 1990. We introduced the concept of real output of the CO₂ primary unit, which is the unified objective in the fields of electrical manufacturing and electronics, and our real output of the CO₂ primary unit including manufacturing group companies was decreased by 41%.

Product prices in the fields of electrical manufacturing and electronics have been remarkably lower than those in FY 1990. Therefore, the efforts to reduce CO₂ emissions in the concept of nominal output of the CO₂ primary unit have been undervalued. After considering this trend, we introduced the concept of the primary unit of real production output* that corrects the effect caused by price fluctuation as an index approximate to the primary unit of production quantity into which efforts at saving energy can be incorporated since FY 2005.

*Real production output = nominal production output ÷ domestic corporate goods price index of Bank of Japan (electrical machinery)



Ice thermal storage air conditioning system



An Ice Thermal Storage Air Conditioning System was installed in the new building at Koganei Works. This earth-friendly air conditioning system reduces CO₂ emissions that cause global warming thanks to the use of night electricity with less fossil fuel.

We also implemented Cool Biz from June 1 to the end of September in which we set the air conditioner temperature to 28°C and advised "No Jacket, No Tie" for all Hitachi Kokusai Electric group companies in order to participate in the national movement of Team -6% that has been promoted by the Ministry of the Environment since 2005. In addition, we turned off all the lights of company advertisements at night on Sunday, June 19 under the name of Black Illumination 2005.

Topic We participated in the CO₂ Reduction/Lights-Down Campaign for global warming prevention, Black Illumination 2005.

We turned off all the lights together from 8 to 10 p.m. on Sunday, June 19 under the name of Black Illumination 2005.



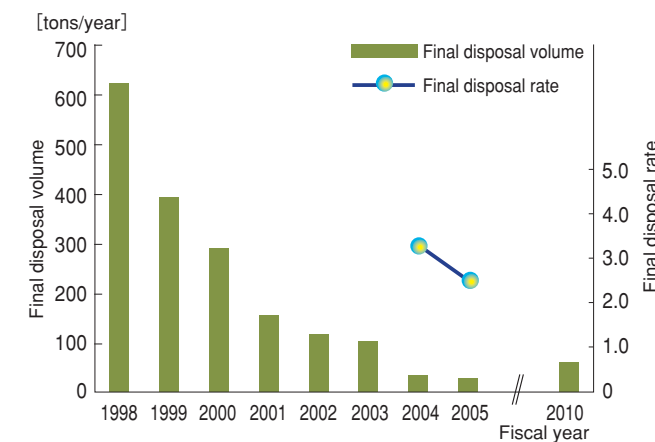
Lights off at the company advertisement at Hamura Works

reduction that is intended to achieve zero emissions.

Waste Reduction

We are working on reducing the final disposal volume with a goal of a 90% reduction in FY 2010 compared to FY 1998. The further promotion of recycling in FY 2005 achieved a 95% reduction compared to FY 1998, which cleared our goal. We also set another goal of a final disposal rate of waste of less than 3% and started to work on it from FY 2005. We will commit ourselves to achieving zero emissions, that is, "1% or Less of the Final Disposal Rate and Less Than 5 Tons of Final Disposal Volume".

Trends in final disposal volume



Investigation Results of Substances Controlled under the PRTR Law

The total volume of substances we handled specified in the PRTR* Law is 969 kg, which was increased by 12% compared to the last fiscal year. That is mainly because the increase in production volume causes the increase in xylene and toluene contained in paint. We will promote reducing paint and finding alternative substances, and continue to implement the appropriate risk management of chemicals.

*PRTR:Pollutant Release Transfer Register

Results of PRTR object substances release and transfer volume

Chemicals	Volume handled	Volume consumed	Volume recycled	Volume transferred	Volume released
Xylene	443	12	0	1	429
Toluene	208	2	0	29	178
Hydrogen fluoride and its water soluble chloride	260	0	0	240	20

* Substances considerably handled are shown above

Control of PCB-Contained Equipment

Every factory of the Hitachi Kokusai Electric group checks the quantity of transformers, condensers, and fluorescent ballast that contain PCB (polychlorinated biphenyl) in its storage every year, and reports the results to the local authority concerned. We also manage PCB-contained equipment in locked storage

facilities or storage boxes in an appropriate manner to prevent loss or leakage. To dispose of PCB waste properly, we will sign up with the Japan Environmental Safety Corporation for programmed disposal as soon as possible.

Portable Rechargeable Battery Recycling

As a manufacturer using portable rechargeable battery products, we participate in the Collection System for Used Small Portable Batteries of limited liability intermediate corporation JBRC and work on collecting

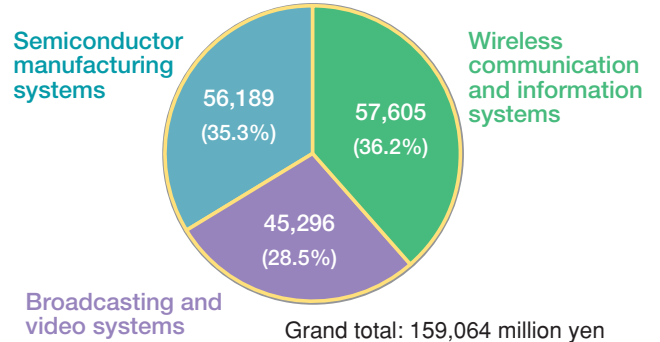
and recycling used batteries after appointing Hamura Works, Koganei Works, and branches of Hitachi Kokusai Electric Services Inc. as collection bases.

Corporate Profile

Company Outline (as of March 31, 2006)

Name: Hitachi Kokusai Electric, Inc.
 Headquarters: 4-14-1 Soto-Kanda, Chiyoda-ku,
 Tokyo, 101-8980
 Founded: November 17, 1949
 Capital: 10,058 million yen
 Sales: 159,064 million yen (consolidated)
 Employees: 4,657 (consolidated)

Consolidated Sales by Segment (million yen)



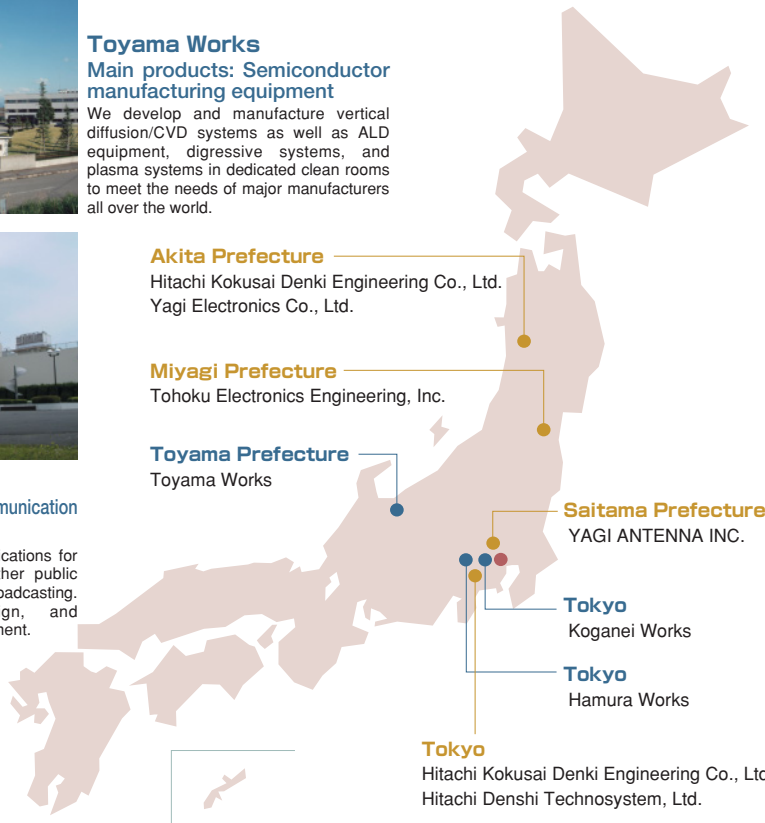
Domestic Institutions/Main Manufacturing Group Companies



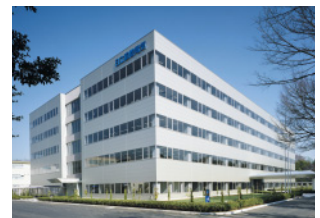
Toyama Works
 Main products: Semiconductor manufacturing equipment
 We develop and manufacture vertical diffusion/CVD systems as well as ALD equipment, digressive systems, and plasma systems in dedicated clean rooms to meet the needs of major manufacturers all over the world.



Hamura Works
 Main products: Wireless communication and information systems
 We manufacture wireless applications for defense, government, and other public communications as well as broadcasting. We also develop, design, and manufacture information equipment.



Headquarters
 (Akihabara UDX Building 11th floor)



Koganei Works
 Main products: Wireless communication and information systems, broadcasting and video systems
 We develop, design, and manufacture public and communication systems such as disaster prevention information systems and train radio systems, broadcasting systems, monitoring systems, and broadcasting and video systems such as inspection devices.

Report coverage

Period covered: Fiscal 2005 (from April 2005 to March 2006)
 Object business institutions: Hitachi Kokusai Electric, Inc. and 8 domestic group companies

- | | | |
|----------------------------------|--|--|
| ○ Hitachi Kokusai Electric, Inc. | ● YAGI ANTENNA INC. | ○ Hitachi Denshi Technosystem, Ltd. |
| ● Toyama Works | ○ Hitachi Kokusai Denki Engineering Co., Ltd. | ○ Yagi Electronics Co., Ltd. |
| ● Hamura Works | ○ Kokusai Electric Semiconductor Service, Inc. | ○ Tohoku Electronics Engineering, Inc. |
| ● Koganei Works | ○ Kokusai Electric Techno Service Co., Ltd. | |
| | ○ Hitachi Kokusai Electric Services, Inc. | |
- The environmental loads and environmental accounting were compiled with the data of the factories marked with ●.

Next issue

We issued our "Report on the Environment" annually from 2001 to 2004 and our "Environmental and Social Report" in June 2005, and started to issue our "CSR Report" from 2006. The next report will be issued in June 2007.

 **Hitachi Kokusai Electric Inc.**

CSR Promotion Division
Akihabara UDX Building 11th floor
4-14-1 Soto-Kanda, Chiyoda-ku , Tokyo, 101-8980
Inquiries:

Tel: +81-3-6734-9401

Fax: 81-3-5209-6160

Issued in July 2006

This English version, only issued in pdf file, is not printed
and not available as a booklet.

<http://www.h-kokusai.com/>