Management

Sustainability Management

Mid-term Management Plan 2024 and Sustainability

Towards Sustainable Societies—Mid-term Management Plan 2024

`Approach`   `Strategy`   `Targets`

In accordance with Hitachi's Mission to "contribute to society through the development of superior, original technology and products," we pursue our Social Innovation Business leveraging core strengths in IT (Information Technology) × OT (Operational Technology) × Products, and Lumada[1] to help build sustainable societies.

To respond to the increasingly complex global issues of recent years, it is essential that we conduct management from a long-term perspective and maximize Hitachi's diverse management resources to achieve further evolution in our Social Innovation Business.

Hitachi has responded by imagining the future—what the earth, society, and people will look like and what Hitachi will act like in 2050. Based on the future, in April 2022, we backcasted to formulate the Mid-term Management Plan 2024 which clarified what Hitachi should do now and what Hitachi should achieve over the medium- to long term.

[1] Lumada: Solutions, services, and technologies that leverage Hitachi's digital technology and are offered to customers to accelerate the digitization of customers' businesses.

▢ Mid-term Management Plan 2024
https://www.hitachi.com/New/cnews/month/2022/04/220428/f_220428pre.pdf

▢ Progress of the Mid-term Management Plan 2024
https://www.hitachi.com/New/cnews/month/2023/04/230427/f_230427pre.pdf

Vision Targets of Mid-term Management Plan 2024

Hitachi continues to grow across diverse industries and solve social issues through the three global trends of Digital, Green, and Connective as change drivers.

The environment is reaching limits on a global scale as the thresholds of several of the nine planetary boundaries have already been crossed. Also, wellbeing (physical, mental, and social) is a growing global issue, therefore it is significant that we focus both on planetary boundaries and wellbeing.

Hitachi aims to resolve the increasingly complex social issues through its business, while respecting planetary boundaries and realizing wellbeing for all individuals. We will further evolve our Social Innovation Business driven by three growth drivers: Digital, Green, and Innovation, and contribute to solve social issues. We will also grow Lumada globally as a customer co-creation framework, accelerating expansion through four cross-organizational functions: Green, Digital, Innovation, and Global M&S.

◗ Supporting quality of life with data and technology that foster a sustainable society

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Contributing to the SDGs

Approach

Hitachi's Social Innovation Business aims to create sustainable societies by solving global social and environmental issues as defined by the SDGs, and we consider the business to be a source of sustainable growth for us. We strive to create social, environmental, and economic value through our Social Innovation Business, reduce negative social and environmental impacts and seek a deeper understanding of business risks arising from social and environmental changes to ensure business continuity and greater resilience.

Based on our Mid-term Management Plan 2024, we examined the relationship between the opportunities and risks associated with the SDGs and our businesses to identify 13 goals as Hitachi priority SDGs issues: five goals through which we make particularly significant impacts through our key businesses and six goals through which we particularly contribute in the course of our corporate activities.

Through our active involvement across a broad range of business fields, we believe we can contribute extensively to the achievement of SDGs beyond the 13 goals identified, and we will strive to contribute to the achievement of all 17 SDGs.

Business Strategy

3 GOOD HEALTH AND WELL-BEING   6 CLEAN WATER AND SANITATION   7 AFFORDABLE AND CLEAN ENERGY   9 INDUSTRY, INNOVATION AND INFRASTRUCTURE   11 SUSTAINABLE CITIES AND COMMUNITIES

Corporate Commitment

4 QUALITY EDUCATION   5 GENDER EQUALITY   8 DECENT WORK AND ECONOMIC GROWTH   10 REDUCED INEQUALITIES   12 RESPONSIBLE CONSUMPTION AND PRODUCTION   13 CLIMATE ACTION   16 PEACE, JUSTICE AND STRONG INSTITUTIONS   17 PARTNERSHIPS FOR THE GOALS

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Materiality   GRI 2-4/2-14/2-16

Toward a Sustainable Society: Hitachi's Materiality

`Approach` `Strategy` `Targets`   GRI 3-1

Hitachi practices sustainable management, which positions sustainability as the core of its business strategy, and is working toward realizing a sustainable society through the Social Innovation Business.

　In the Mid-term Management Plan 2024, we declared our aspiration of "supporting people's quality of life with data and technology that fosters a sustainable society." While some of the nine planetary boundaries have already been exceeded, Hitachi is aware of each one and works to protect the planet and maintain society. Hitachi aims to solve social challenges to realize a future that balances protection of the planet and people's individual wellbeing.

🔗 Planetary boundaries
https://social-innovation.hitachi/en/article/planetary-boundaries/

The materiality analysis process

With a comprehensive understanding of social issues, Hitachi has identified six material topics and 15 sub-material topics based on an analysis of risks and opportunities from a sustainability perspectives as well as feedback from stakeholders.

　Based on these material topics, Hitachi is monitoring measures as well as discussing the progress, and new initiatives for each materiality at the Senior Executive Committee and the Board of Directors.

▶ Materiality analysis process

STEP**1**	Comprehensive understanding of social issues
STEP**2**	Ranking issues by priority from Hitachi's point of view
STEP**3**	Ranking issues by priority from a stakeholders' point of view
STEP**4**	Identifying Materiality

💻 Materiality analysis process
https://www.hitachi.com/sustainability/materiality/

Reflecting Sustainability Targets in Executive Compensation Evaluation
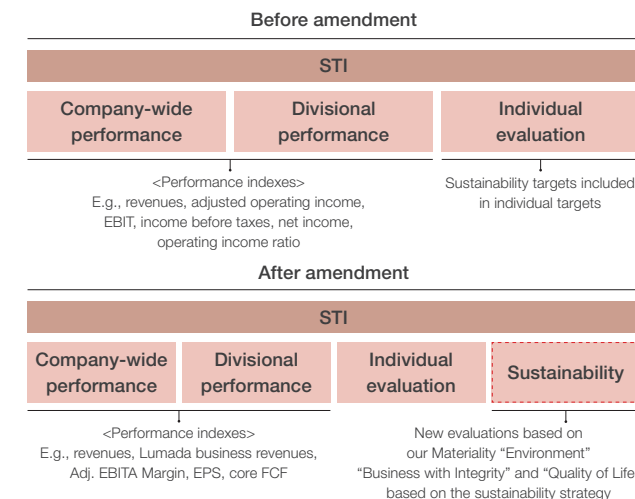
`System`   GRI 2-19

In fiscal 2023, Hitachi amended the executive compensation system to further accelerate growth as a global company, and to further strengthen links between increases in corporate value and compensation. The revised executive compensation system is more closely linked to the Mid-term Management Plan 2024 and incorporates sustainability targets.

　Specifically, sustainability evaluations that had been used as an index for individual short-term incentive compensation (STI) are now treated separately and account for a ratio of 20%.

　In addition, an additional grant of shares equivalent to 10% of the standard amount of medium- to long-term incentive compensation (LTI) will be granted if the sustainability targets are achieved.

　Sustainability evaluation in STI will be aligned to materiality topics including Environment, Business with Integrity and

Before amendment

STI		
Company-wide performance	Divisional performance	Individual evaluation

<Performance indexes>
E.g., revenues, adjusted operating income, EBIT, income before taxes, net income, operating income ratio

Sustainability targets included in individual targets

After amendment

STI			
Company-wide performance	Divisional performance	Individual evaluation	Sustainability

<Performance indexes>
E.g., revenues, Lumada business revenues, Adj. EBITA Margin, EPS, core FCF

New evaluations based on our Materiality "Environment" "Business with Integrity" and "Quality of Life" based on the sustainability strategy

Quality of Life, each linked to sub-materiality topics targets listed below.

　Going forward, Hitachi will enhance link of compensation and the growth of the company, cultivating a growth mindset and strive to achieve global growth as One Hitachi.

▶ Materiality targets linked to executive compensation

Materiality	Sub-material topics target
Environment	**[Decarbonization]** • Carbon neutrality through the value chain • Contributing to CO_2 reduction through business **[Resource circulation]** • Effective use of water
Business with Integrity	**[Occupational safety]** • Creating a safe working environment without accidents
Quality of Life	**[Employee happiness]** • More flexible working styles to increase engagement

🔖 P.141 Compensation to Executive Officers

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15 Sub-Material Topics and Targets   GRI 3-2/3-3

Materiality	Our aspirations		Sub-material topics Targets/KPIs	FY2022 Progress
Environment Contributing to decarbonization and resource circulation	As a climate change innovator, Hitachi will contribute to the realization of a carbon neutral society with Hitachi's superior green technologies, by providing value to customers in all business segments. We will also promote resource efficiency toward the transition to a circular economy.	Decarbonization	**Carbon neutrality through the value chain** Targets/KPIs ● FY2030: Achieve carbon neutrality in business sites (factories and offices) ● FY2050: Achieve carbon neutrality through the value chain	**40**% of total CO_2 reduction rate at factories and offices (compared to FY2010)
			Contributing to CO_2 reduction through business Target/KPI ● FY2024: 100 million metric tons of CO_2 avoided emissions per year	**126.1** million metric tons per year[1] of CO_2 avoided emissions
		Resource circulation	**Transition to a circular economy** Targets/KPIs ● FY2024: Full application Eco-Design for all newly developed products ● FY2030: Zero[2] waste to landfill[3] from manufacturing sites	**357** products identified as subject of Eco-Design **199** sites (**58**%) achieved zero waste to landfill
			Effective use of water Target/KPI ● Reduction rate in water use per unit (compared to FY2010) FY2024: 24%, FY2050: 50%	**27**% reduction in water use per unit
		Harmonize with nature	Minimize impact on natural capital	Sustainability Report 2023 📗 P.55–57
Resilience Contributing to the maintenance and rapid recovery of social infrastructure	Hitachi helps people live safely by contributing to the rapid recovery of supply chains and the maintenance of social infrastructure by providing system solutions that can respond immediately to risks, such as natural disasters, pandemics, and cyberattacks.	Strengthening supply chains	Build flexible supply chains capable of responding to disasters and risks	Sustainability Report 2023 📕 P.22–24
		Maintaining social infrastructure	**Resilience and sophistication of maintenance through DX of social infrastructure** Business Case Contribute to stable energy supply through substation management to approx. 1.9 billion people[4]	
Safety & Security Contributing to safe and secure society-building	Hitachi contributes to the realization of comfortable and active lifestyles for people by providing solutions in the building, mobility, and security fields that support urban development for safe and secure living.	Safe and secure urban environments	**Safe and comfortable transportation** Business Case Contributed to a total of 15 billion people annually through railway services[4]	
		Ensuring cyber security	Secure cybersecurity for social infrastructure and business systems	
Quality of Life Contributing to physical and mental wellness and a prosperous life	Hitachi is harnessing our healthcare and digital technologies to help more people develop bonds and enjoy healthier, more prosperous lives. We will also continue to pursue the happiness and wellbeing of our employees, as we believe that their happiness and wellbeing is the ground on which Hitachi's future will flourish even more fully.	Connected and prosperous society	**Increase healthy life expectancy and wellbeing** Business Case Blood tests and other physical exams: 20 billion tests/year[4]	
			Build a trustful relationship with others Target/KPI ● Users of happiness service: 90 thousand in FY2024	**10.0** thousand users of happiness service
		Employee happiness	**More flexible working styles to increase engagement** Target/KPI ● Employee engagement (positive response rate): FY2024 71.0%[5]	**69.5**% employee engagement (positive response rate)
Business with Integrity Adhering to ethical standards as well as respect human rights	As a Group responsible for social infrastructure around the world, Hitachi will manage its business with honesty and integrity, trusted by society, respect human rights and provide a safe workplace. We will reflect a system of ethical and responsible business conduct, including respect for human rights, in our business activities and decision-making standards, working together with our employees, collaborative partners and communities throughout the supply chain.	Business ethics and compliance	**Encourage employees to apply ethical standards in day-to-day work.** Target/KPI ● Achieve a score of at least 60 (out of 100) in FY2023[6], the first year of results from Ethical Culture & Perceptions Assessment, improving it every year	Achieved a score of **76.5** (Conducted assessment in June 2023)
		Respect for human rights	**Promote human rights due diligence and strengthen monitoring of procurement partners for responsible procurement, including human rights** Targets/KPIs ● FY2023: Conduct human rights risk assessments for all BUs (10 BUs) and major Group companies ● FY2024: Respond to human rights risks	Conducted human rights risk assessments for certain Group companies
		Occupational safety	**Creating a safe working environment without accidents** Target/KPI ● Zero fatal accidents	**5** fatal accidents
		Safe and secure products and services	Ensure products and services safety while putting customers first	Sustainability Report 2023 📘 P.115–117
Diversity, Equity and Inclusion (DEI) Contributing to a society where everyone can shine	Hitachi has a place for everyone, welcoming differences in colleagues' background, age, gender, sexuality, family status, disability, race, nationality, ethnicity, and religion. At Hitachi, we treat everyone fairly, recognizing differences to allow everyone to perform at their full potential. We respect and value these and other differences because only through them we can understand our markets, create better ideas and drive innovation.	Diverse organization that fosters innovation	**Strengthen diversity in management** Target/KPI ● Ratio of female and non-Japanese executive and corporate officers: FY2030 30% respectively	**11**% of female and **20**% of non-Japanese executive and corporate officers[7]
			Acquiring and developing digital talent Target/KPI ● FY2024: 97,000 persons[8]	**83,000** persons
		Contribution to a diverse and equitable society	**Empower DEI of society through community relationship programs** Target/KPI ● Nurture and empower next-generation talent	Participants in Hitachi Young Leaders Initiative **30** people **405** people cumulative[9] Participants in Hitachi High-Tech science education support activities **62,487** people **367,362** people cumulative[10]

*1: Mid-term Management Plan 2024 three-year average   *2: Less than 0.5%   *3: Wherever this is compatible with local conditions and regulations   *4: FY2022 results   *5: Target has been raised since we achieved the initial target/KPI
*6: Base year has been changed from FY2022 to FY2023   *7: Included assignment as of April 1, 2023   *8: Hitachi Astemo is excluded   *9: Cumulative total since 1996   *10: Cumulative total since 1990

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Framework for Promoting Sustainability Strategy

Establish a System to Promote Sustainability

`Structure`   GRI 2-12/2-13/2-14/2-16/2-24

Hitachi pursues sustainability initiatives across the group under the leadership of Chief Sustainability Officer, Lorena Dellagiovanna.

In April 2022, Hitachi established the Growth Strategy Meeting, Risk Management Meeting, and Human Resource Strategy Meeting to deliberate on the following important issues within the Senior Executive Committee that discusses important topics in Hitachi's corporate management.

> **Growth Strategy Meeting:** Matters related to management strategies for the growth of the Hitachi Group
> **Risk Management Meeting:** Matters necessary for the proper management of risk in the Hitachi Group
> **Human Capital Strategy Meeting:** Matters necessary for establishing organization and culture, and securing and developing human capital for the growth of the Hitachi Group

The Growth Strategy Meeting discusses and decides on matters related to the Hitachi Group's management strategy and accelerates the formulation of strategies necessary for its growth.

The Risk Management Meeting discusses and decides on important matters related to group-wide risks, and aims to realize a solid management foundation in coordination with growth strategies through a centralized and cross-sectional understanding of risks.

The Human Resource Strategy Meeting discusses and decides on matters necessary to foster the Hitachi Group's organization and culture as well as to secure and develop human resources, thereby supporting its further growth through the enhancement of human capital.

After discussions at these meeting bodies, important sustainability issues are deliberated on by the Senior Executive Committee to make decisions, and are submitted to the Board of Directors for further discussions as necessary.

Individual sustainability themes such as carbon neutrality, circular economy, human rights due diligence (HRDD), diversity, equity, and inclusion (DEI), occupational safety and health, supply chains, quality assurance, etc. are promoted by meeting bodies consisting of responsible staff at BUs and principal Group companies as part of cross-organizational activities in the Hitachi Group, who discuss measures and share information across the entire Group.

Since fiscal 2022, we hold the Sustainability Promotion Meetings chaired by the Chief Sustainability Officer to discuss and share information on important measures related to sustainability across the group, aiming to deepen sustainable management further.

▶ Framework for promoting sustainability strategy
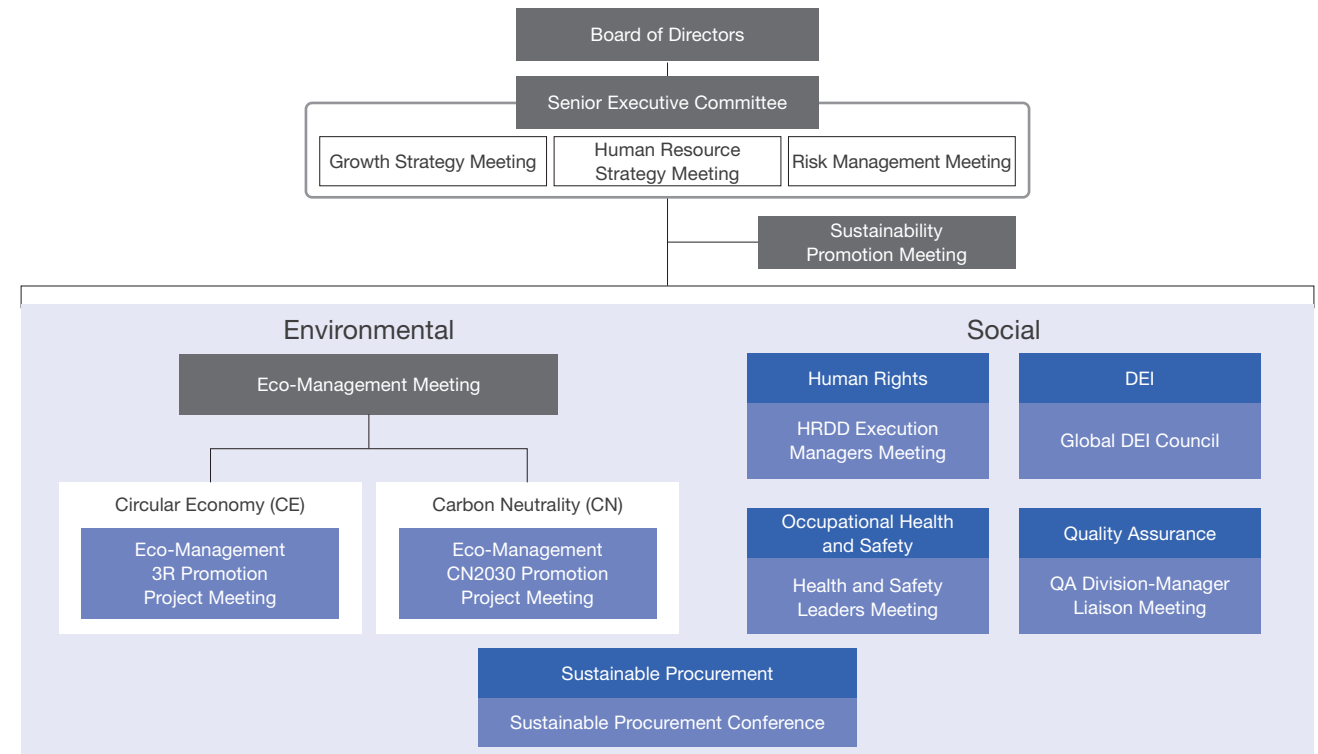
# Management

Framework for Implementing the Hitachi GX Strategy

Aiming to be a global leader in green transformation (GX), Hitachi formulated a Green Strategy consisting of *GX for CORE and GX for GROWTH*, striving to put into place a framework to execute our strategy.

The Internal Environment Initiatives Division leads environmental activities within the Hitachi Group. At the same time, the Global Environment Business Group drives growth through green businesses. And the business sectors foster environmental contributions through their respective business fields by working together to lead green strategies throughout the group.

▶ Framework for implementing GX strategy
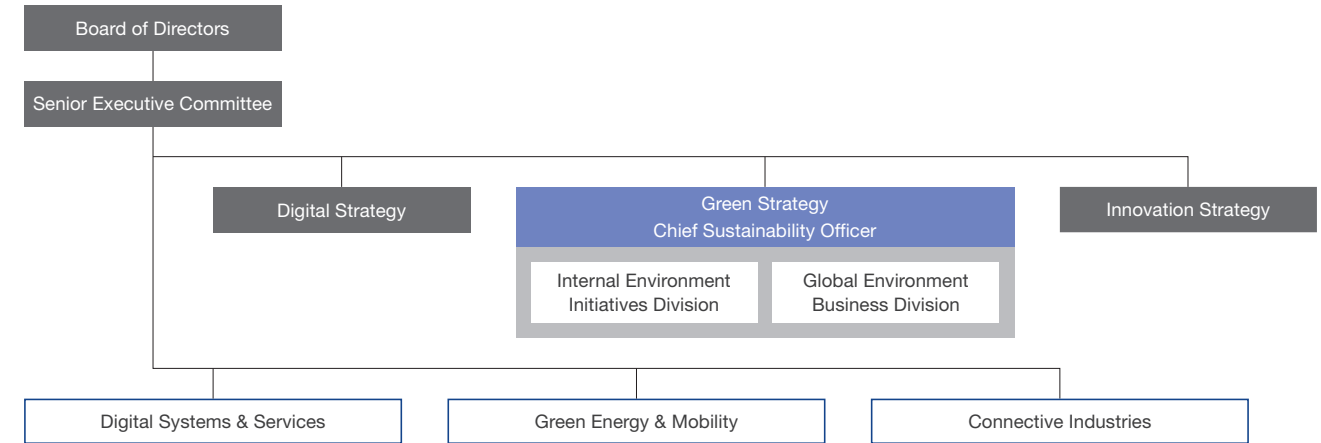
▶ Overview of Sustainability Related Conference Bodies

Meeting	Attendees	Purpose	Frequency
Sustainability Promotion Meeting	Chief Sustainability Officer, Business promotion division heads at BUs & key Group companies and RHQ Sustainability Officers	Deliberation, information sharing related to material sustainability initiatives	Once or twice per year
Eco-Management Meeting	Heads of Business promotion/Environment-related/MONOZUKURI (production)/Procurement divisions from BUs and key Group companies	Deliberation, planning, and implementation of action plans (environmental action plans) to achieve the Hitachi environmental long-term goals	Twice per year
Eco-Management CN2030 Promotion Project Meeting	Heads and members of Environment-related/MONOZUKURI (production) divisions from BUs and key Group companies	Monitoring and implementation of CN action plan and discussion of acceleration	Twice per year
Eco-Management 3R Promotion Project Meeting	Heads and members of Environment-related/MONOZUKURI (production) divisions from BUs and key Group companies	Promotion of actions for 3R activities toward realizing CE	Four times per year
Sustainable Procurement Conference	Chief Procurement Officer, heads of the procurement divisions at BUs and key Group companies, and individuals responsible for and engaged in sustainable procurement	Communicate the Hitachi Group sustainable procurement policies and strategies to all procurement divisions, improve knowledge and share best practices	Twice per year
HRDD Execution Managers Meeting	HRDD execution managers from BUs and key Group companies	Provide information and knowledge necessary for HRDD implementation, and share status of implementation in BUs and key Group companies	Once or twice per year
Global DEI Council	DEI leaders from BUs and key Group companies	Implement DEI policies, initiatives and share best practices	Once or twice per year
Health and Safety Leaders Meeting	Individuals responsible for health and safety at BUs, key Group companies (CHRO, officer in charge of health and safety)	Instruct and communicate occupational health and safety activity policies and measures, confirm progress Share the details of important incidents related to occupational health and safety, discuss measures to ensure the prevention of recurrence	Once per two months
QA Division-Manager Liaison Meeting	Heads of the quality assurance divisions at BUs and key Group companies	Discuss and develop shared Hitachi Group quality improvement activity policies and measures for products and services	Every quarter