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Basic Concept

We have seen the emergence of social issues such as rapid digitalization and complex global political and economic change, as well as environmental issues such as climate change, resource depletion, and large-scale disasters. In response, the business environment has become so volatile that it is difficult to predict the future, and the response to these changes has become a major factor in maintaining business models. Hitachi strives to comprehend and analyzes this business environment quantitatively and qualitatively. Based on social issues, our competitive environment, and management resources, we engage in risk management from the perspective of responding to risks and opportunities for further growth, creating profit-earning opportunities while controlling risks.

Topic	Overview
	<p>Addressing Risks and Opportunities</p> <p>In April 2022, Hitachi established a new Risk Management Meeting within the Senior Executive Committee to deliberate and determine materialities related to companywide risks. The President serves as chair of the Risk Management Meeting and the chief risk management officer (CRMO) serves as vice-chair. By managing the diverse risks of Hitachi's global operations centrally, we are building a solid management foundation that is aligned with growth strategies.</p>
	<p>Business Continuity Initiatives</p> <p>We provide the Hitachi Group Guidelines for Developing Business Continuity Plans to Group companies to enhance our preparation for major disasters and other risks. In addition to strengthening safety and business continuity measures in the event of natural disasters such as large-scale earthquakes in Japan as Natural Disaster BCPs, the procurement departments of business units (BUs) and major Group companies in Japan strive to enhance procurement BCPs to minimize the impact of future incidents.</p>

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Addressing Risks and Opportunities

With the rapid advance of digitalization and complex developments in the political and economic landscape globally, the business environment is changing with each day. In the Risk Management Meeting, which is chaired by the President with the Chief Risk Management Officer (CRMO) acting as vice-chairperson, Hitachi monitors and analyzes this business environment quantitatively and qualitatively and manages risks in terms of the response to risks that Hitachi should prepare as well as opportunities for further growth in light of, for example, social issues, competitive advantages and management resources. We will create revenue opportunities while controlling risks. We will identify severe risks that could potentially have a significant impact on Hitachi's operations in terms of the nature of risk events, the expected time period, the likelihood of their occurrence and their seriousness when they do occur, and we discuss and implement measures against the risks. By identifying the various risks Hitachi faces while operating around the world, we are working to achieve a solid management foundation that is linked to our growth strategy.

Hitachi's Risk Management Structure

Structure

GRI 2-12/2-13/2-24/3-3/403-2

We established five working groups (WGs) according to types of risk under the Risk Management Meeting. The WGs utilize related group corporate functions and manage respective risks appropriately.

► Risk Management Structure



Group Governance Efforts

Policy

Activities

We amended our Group Governance Policy in April 2023. The policy aims to clarify how the Hitachi Group's governance should function and to explicitly state responsibilities and roles of different organizations given Hitachi's presence as a global enterprise.

Achieving sustainable growth through the global expansion of the Social Innovation Business requires group-wide optimal management, based on the Group's common aim, to reflect global perspectives and diverse values in our business management and efficiently allocate management resources. Based on this policy, the Hitachi Group integrates its management to formulate and execute the Group's strategies in pursuit of synergies within the Group, strengthen its management foundation through common discipline and rules, and streamline business management through the standardization of our global operations. In this way, we will accelerate our global growth by ensuring the transparency and fairness of our business management, protecting the Hitachi brand's value and promoting our Social Innovation Business.

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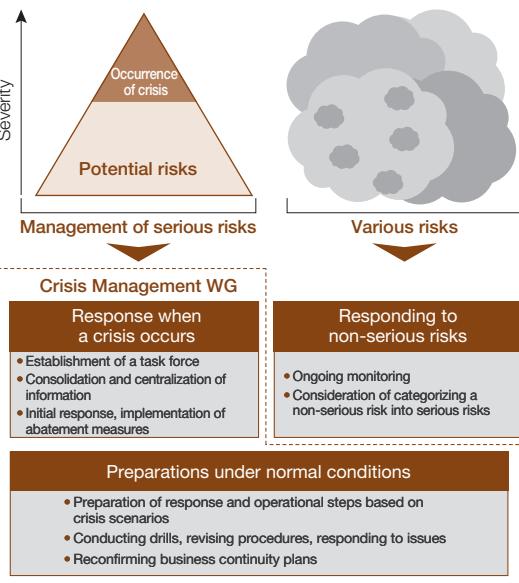
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Crisis Management Initiatives

Activities

For crisis management, Hitachi strives to achieve more sophisticated resilience. An example is quick action taken in the event that a crisis occurs. Even in ordinary times, we are ready to take action against each of the serious risk categories to enhance our preparedness for contingencies and ensure appropriate action. In fiscal 2022, our corporate measures in the areas of large-scale natural disasters in Japan, as well as cybersecurity and other related issues, were strengthened and reviewed. Our aim was, for example, to facilitate the migration of major systems to the cloud and duplicate our information infrastructure. In fiscal 2023, the expansion of our measures for business units and the Hitachi Group companies as well as Diagrammatic drill, among other initiatives, will be strengthened to enhance the Group's resilience globally.



Compliance Initiatives

Activities

GRI 201-2

As a cross-sectoral compliance initiative, four related departments worked together and shared information with one another in fiscal 2022 regarding the measures implemented by each department under regular conditions (e.g., development of regulations, training, monitoring, audits) and how to handle contingencies in the event that they arise (e.g., communication with internal and external stakeholders including senior management when a major risk manifests) to handle major compliance-related risks that concern corporate ethics and laws, the environment, quality, and health and safety. These departments work to strengthen their cooperation in terms of management methods in different categories of risks. In this way, we have sought to raise the level of our risk management in the different categories and reduce risks. In fiscal 2023, we will seek to establish an organizational climate for encouraging employees to speak up and preventing violation of laws and internal rules with the aim to reduce the Hitachi Group's compliance-related risks.

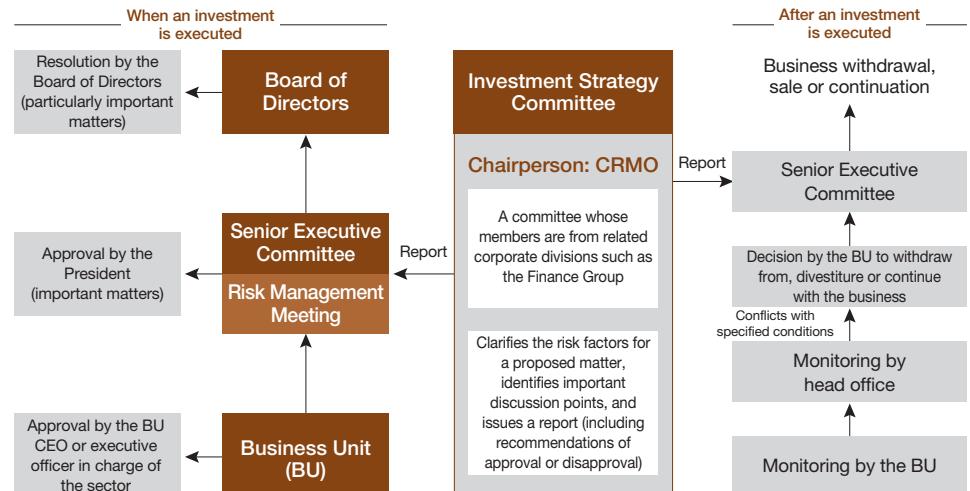
Efforts Against Investment Risks

Structure

Hitachi has a proper framework of decision making in different phases of investment (e.g., M&A, sale of assets, orders for projects) to facilitate our response to risks and secure growth opportunities. Hitachi has a framework for delegation of authority within a three-layer deliberation structure—the Board of Directors, the Senior Executive Committee and the business units—in accordance with the size and details of the project to ensure appropriate and flexible decision making when carrying out an investment or other activity. For important projects, the Investment Strategy Committee, an advisory body consisting of members of our corporate divisions, examines risks in a multifaceted manner to submit a report (including recommendations of approval or disapproval) to the Senior Executive Committee whose members include the President. After an investment is executed, we periodically monitor the status of the project. If the project fails to proceed as planned, we have a framework in place to decide whether to continue with the investment, which might lead to a decision to withdraw. The aim is to enhance our capital efficiency.

In response to changes in the economy finance, geopolitics, customers and other components of the management environment (risks and opportunities), the criteria for providing investment and post-implementation monitoring (including PMI) are continuously strengthened in an effort to achieve the Mid-term Management Plan and capital allocation plans.

Framework of Decision Making



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Quantitative Understanding of Risks

Activities

Hitachi calculates expected maximum risks (Value at Risk) by statistical methods according to the type of assets held on the group's consolidated balance sheet. Similarly, the risks of increasing the backlog of long-lead projects have been quantified since fiscal 2022.

We avoid missing out on growth opportunities by visualizing the capacity for growth investment, etc., considering consolidated net assets and other factors. We also engage in monitoring and hold discussions through the Risk Management Meeting to ensure that risks are not excessively unbalanced compared to Hitachi's consolidated financial strength.

We also quantitatively analyze and understand the state of risks and profitability on a regional and per-sector basis.

Responding to Climate Change Risks and Opportunities

Activities

GRI 201-2

In June 2018, Hitachi announced its endorsement of the recommendations by the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD).

P.043 Climate-related Financial Information Disclosure (Based on TCFD Recommendations)

For details of the risk factors, please refer to page 34 of the Annual Securities Report (the 154th business term).

Annual Securities Report (the 154th business term) P.34
https://www.hitachi.com/IR-e/library/stock/hit_sr_fy2022_4_en.pdf

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Business Continuity Initiatives

Approach to Business Continuity Plans (BCPs)

Approach Activities

Given the close relationship of our business to social infrastructure, we continue to strengthen BCPs to ensure that the impact of risks do not disrupt our business and thereby significantly affect society. We published the Hitachi Group Guidelines for Developing Business Continuity Plans (Overview) and the Hitachi Group Guidelines for Developing Business Continuity Plans (By Department) in Japanese, English, and Chinese for distribution to all Hitachi Group companies to enhance preparedness for major disasters and other risks.

Regarding infectious diseases, we released the Hitachi Group Guidelines for Pandemic Influenza Preparedness for Group companies. These guidelines served as a useful tool in dealing with the COVID-19.

We also appointed personnel with responsibility for risk-response policies at our main overseas bases. Major Group companies outside Japan prepared BCPs to strengthen response to business risks including major disasters, infectious diseases, political instability, social disruption, and acts of terrorism.

Formulation of BCPs

Hitachi, Ltd. and its Group companies in Japan have formulated BCPs for each business in preparation for major earthquakes, wind and flood damage, and novel strains of influenza. Each business division reviews its BCP regularly and makes revisions as necessary to reflect the latest risk assessment results. In fiscal 2022, Hitachi, Ltd. and its Group companies in Japan strengthened BCPs related to infectious diseases such as COVID-19 in particular, as well as continuity plans in the event of mega-earthquakes. Group companies outside Japan have formulated BCPs in light of risks of concern in their respective locations.

Note: Hitachi normally refers to suppliers (including suppliers, vendors or providers) as *procurement partners* who build business together on an equal footing.

BCPs Initiatives

Activities

Hitachi, Ltd. continues to strengthen measures against natural disasters by conducting annual earthquake drills, which simulate a major seismic event.

Drill Simulating Earthquake Measures

FY2020	<ul style="list-style-type: none">Drills to set up an earthquake task force on a remote-work basis on the assumption that all work must be conducted remotely
FY2021	<ul style="list-style-type: none">Remote drills using a Web conferencing system on the assumption that not everyone can assemble at the office on weekdays and that there is a mix of those who come to the office and those who work from home
FY2022	<ul style="list-style-type: none">Conducted training for remote workers, assuming that headquarters disaster-response staff living in areas subject to JMA Seismic intensity 7 are not able to participate in drills in person; simulated an earthquake occurring directly under the Tokyo metropolitan area during daylight on a weekday

Procurement BCPs Initiatives

Approach Activities

Hitachi enhances procurement-related business continuity plans (BCPs) across Group companies worldwide to ensure significant incidents^{*1} do not disrupt our business or seriously impact the society.

To minimize the impact of disasters that may occur, the procurement divisions in BUs and key Group companies: (1) standardize and use generic parts to make procurement as flexible as possible; (2) cultivate multiple suppliers; (3) distribute production across several locations; (4) budget inventory

strategically; and (5) consider and promote substitute products. Based on our experience with the various impacts e.g. lockdowns caused by COVID-19 and wars, we will accelerate the above measures.

We share these activities with procurement divisions in BUs and key Group companies outside Japan as appropriate, making use of this information in reviewing strategies in an effort to enhance procurement BCPs throughout the Group worldwide.

*1 Events such as natural disasters (including major earthquakes) serious enough to disrupt business

Achievements in Fiscal 2022

We have introduced the Procurement BCPs Management System for our procurement partners in Japan to share information (on contingency impact surveys) efficiently among Hitachi Group companies during disasters.

In fiscal 2022, we added a new function to identify the locations damaged by typhoons and other windstorms in a timely manner, which have been increasing in recent years.

In the future, we promote systematization of incident identification and survey for overseas procurement partners in China and other countries.

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Improving Safety for Employees Sent to Dangerous Regions

Activities

Hitachi takes all possible measures to ensure safety when sending employees to countries and areas at high risk of conflicts, terrorism, and other threats. On-site surveys are also conducted by in-house and outside experts beforehand.

In addition, Hitachi, Ltd. participates in the Council for Public-Private Cooperation for Overseas Safety organized by Japan's Ministry of Foreign Affairs to enhance collaboration between the private and public sectors in this area, by which contributes to safety measures at other Japanese corporations operating outside Japan.

Achievements in Fiscal 2022

In fiscal 2022, Hitachi, Ltd. undertook measures for the timely provision of information to ensure the safety of our employees around the globe. These measures included posting information from contracted consultants and news agencies on the company's intranet. In addition, the company employs an outside specialist to provide medical assistance to Hitachi Group employees outside Japan.

GlobalLogic Business Continuity Plans

GlobalLogic continues to execute Business Continuity Plans (BCPs) in all business locations. Maintaining the safety of employees as the highest priority, the company continues to operate in Ukraine through BCPs.

A diverse distribution of the workforce is a key factor in the ability of GlobalLogic to operate safely and maintain productivity. A total of 15% of Ukraine team-members live and work outside Ukraine, with another one-third located in the relative safety of western Ukraine. In addition, the company conducts a program to incentivize temporary or permanent employee relocation to safer locations inside and outside of Ukraine.

In fiscal 2022, the company improved safety measures and business continuity to prepare for the future, including the opening of 11 satellite offices across Ukraine. All offices have been equipped with redundant power and communications infrastructure, including multiple satellite internet connections and mobile power banks. The company also maintains a sufficient inventory of emergency provisions in its offices.

In addition to the preceding, GlobalLogic implemented a long-range Ukraine de-risk plan beginning in fiscal 2023.