The challenges we face as a society are unprecedented, but so are the opportunities. Together, let’s start powering good. Let’s call on our heritage, our spirit of collaboration and our technology to do better for generations to come.
Editorial Policy for Hitachi Integrated Report 2020

Editorial Policy
In this Hitachi Integrated Report 2020, we illustrate Hitachi’s aspirations and the competitive advantages, strategies and management system to achieve them, while reviewing the history and progress of the Hitachi Group up to fiscal 2019 (year ended March 31, 2020), as well as the achievements and challenges of our initiatives. The expanded impact of Covid-19 has significantly changed the social and economic environment around the world. Even in the midst of these changes, Hitachi committed to contribute to realizing a sustainable society while co-creating with customers and society to enhance their social, environmental, and economic value. In this report, we focused on illustrating such an approach to Hitachi.

In editing this report, we referred to the International Integrated Reporting Council’s (IIRC’s) International Integrated Reporting Framework and the Ministry of Economy, Trade and Industry of Japan’s Guidance for Collaborative Value Creation.

About Cover Page
Hitachi contributes to enhancing the social, environmental, and economic value of our customers by providing novel solutions utilizing digital technologies across the five sectors of IT, Energy, Industry, Mobility, and Smart Life. The cover image of this report depicts people who are enhancing their lives through Hitachi’s business.

Reporting Scope
Period: April 1, 2019, to March 31, 2020 (Certain subsequent activities and information presented after April 2020 is also included).
Companies: Hitachi, Ltd., and its consolidated subsidiaries
Scope of Data:
Social data: The scope of the data are individually described.
Environmental data: 815 companies (Hitachi, Ltd., and 814 consolidated subsidiaries)
For environmental performance data associated with business operations, Hitachi, Ltd., and consolidated subsidiaries whose environmental load comprises 90% of the total (based on Hitachi calculations) are included.
Accounting Standard: Unless otherwise noted, this report is prepared in accordance with U.S. GAAP through fiscal 2013 and with the International Financial Reporting Standards (IFRS) from fiscal 2014.

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Disclaimer Regarding Forward-looking Statements
Certain statements regarding the future of the Company set forth in this Report may constitute “forward-looking statements,” such as “plan,” “forecast,” “target,” and “strategy.” Although forward-looking statements contained in this report are based upon what the Company has determined to be reasonable assumptions at the time of disclosure, actual performance and other results may differ materially from those anticipated in such statements. For the major factors regarding these differences, please see “Addressing Risks and Opportunities” on page 60 of this Report.
Business of the Hitachi Group

Our 2021 Mid-term Management Plan, launched in April 2019, focuses on simultaneously improving social, environmental and economic value, and establishes five business sectors (IT, energy, industry, mobility and smart life) for the creation of social innovation. These are areas in which Hitachi can make use of the technological know-how it has built up through its many years of developing social infrastructure. Through each of these business sectors, we will utilize Lumada to improve people’s quality of life (QoL), as well as corporate value at our client companies.
The Hitachi Group Identity and Social Innovation Business

Grounded in the Hitachi Group Identity, we will raise the social, environmental and economic value we provide to customers and aim to achieve a sustainable society by focusing on our Social Innovation Business.

The present world is said to be an era of volatility, uncertainty, complexity and ambiguity (VUCA), in which the future is difficult to predict. Looking around the world, we can see a wide variety of steadily approaching change that will have an impact on people’s lives, including climate change, resource shortages, demographic changes due to aging, problems related to urbanization, and responding to COVID-19.

Since its establishment, Hitachi has operated under the Mission expressed by its founder: “Contribute to society through the development of superior, original technology and products.” In accordance with this Mission, we have solved challenges facing society during each era through the development of social infrastructure technologies while raising people’s quality of life and, in recent years, contributing to the achievement of a sustainable society.

Originally set by Hitachi founder Namihei Odaira, the Mission has been carefully passed on to generations of employees and stakeholders throughout the Company’s 100-year history. The Values reflect the Hitachi Founding Spirit, which was shaped by the achievements of our company predecessors as they worked hard to fulfill Hitachi’s Mission. The Vision has been created based on the Mission and Values. It is an expression of what the Hitachi Group aims to become in the future as it advances to its next stage of growth. The Mission, Values and Vision are made to be shared in a simple concept: Hitachi Group Identity.

History of Hitachi—Addressing Social Issues and Helping to Improve Quality of Life

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<td>Social Situation</td>
<td>Postwar reconstruction</td>
<td>Increase in transportation demand associated with a rise in population, and fast economic growth</td>
<td>Globalization</td>
<td>Spread of the Internet</td>
<td>Entered an era of high-capacity and high-speed communication</td>
<td>1980s–2010s Responded to demand for the advancement of Internet technologies</td>
<td>1980s–2010s Hitachi delivered innovations that answered society’s challenges. With our talented team and proven experience in global markets, we can inspire the world.</td>
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<td>Transition to domestic production of industrial equipments</td>
<td>1940s–1970s Energy and transportation network infrastructure established alongside growth in the Japanese economy</td>
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2020 Advancement of the Social Innovation Business

We will improve our three values to attain a sustainable society and resolve a variety of pertinent social issues.

Social Value

Environmental Value

Economic Value
Hitachi’s Basic Policy for Responding to COVID-19

- We’re placing top priority on the health and safety of our stakeholders, including customers, partners and the employees working at Hitachi Group worldwide, as well as their families.
- We’re helping prevent the spread of the infection, both inside and outside of Hitachi Group, and minimize the effects of the virus on both our and our customers’ businesses.
- We’re fulfilling our responsibilities for accountability to stakeholders and will disclose necessary information as needed.

Moving forward, we will continue to promote management that conforms to this basic policy.

Examples Hitachi Initiative

Supply of Free Face Shields and Establishment of a Protective Mask Production Line

The Hitachi Group provided medical practice in Japan by producing protective face shields for use on medical sites and providing them to medical institutions free of charge. JR Automation, which operates our robot system integration business in North America, has constructed a medical-mask production line for customers and is supporting the steady supply of face masks in North America, where demand has grown urgent.

Supply of Touchless Solutions

We are contributing to the achievement of no-contact device operation by providing solutions that allow for touchless entry and exit management on elevators and in buildings using image analysis technology. In addition, we are providing automatic reception and payment machines for use in medical institutions that are equipped with aerial input technology that will replace the button and touch-panel interfaces used in conventional machines.

Loans for Businesses and Research Support

Hitachi has decided to provide US$ 1 million in loans to businesses affected by the spread of COVID-19 through Kiva Microfunds, a U.S.-based NPO. In addition, we have resolved to support infectious disease research with a ¥100 million donation made through the Hitachi Global Foundation and will collect donations from executive officers and corporate officers at Hitachi.

Standardization of Telecommuting Utilization

While prioritizing the health and well-being of our employees and their families, we are promoting utilization of telecommuting as a standard way of working for a wide range of jobs. At the same time, we are accelerating our shift to job-based human resource management to demonstrate our full potential and improve productivity.

“Make a Difference!” Internal Idea Contest

In April 2020, using the platform provided by the “Make a Difference!” internal idea contest it has been conducting since 2015, the Hitachi Group, under the theme of “Challenge to COVID-19,” solicited ideas from employees around the world regarding new work styles and how Hitachi technologies can be utilized to provide social support and contributions. From the 1,430 suggestions that we received, we are promoting the use of existing Hitachi technologies to support online education for children and other social contribution measures and bolstering systems and products that facilitate lifestyles that are quickly relying more heavily on remote, contactless and automated technologies. Also, in accordance with suggestions that we received, we are conducting initiatives aimed at providing and maintaining remote work tools that will support new work styles and eliminating procedures that require physical approval stamps or paperwork. In fact, the aforementioned business loans made through Kiva Microfunds were the first initiative that we implemented in response to suggestions received through this contest.

Hitachi’s Current Management Policy Implemented in Response to COVID-19

We respond to social changes caused by COVID-19 and make appropriate contributions through the Social Innovation Business.

Priorities in Management

- Prioritize the health of employees, their families and customers
- Maintain social infrastructure and secure customer support
- Sufficient liquidity and financial soundness
- Respond based on the assumption that COVID-19 impacts continue for a while and affect moving forward

Priority Actions

- Strengthen digital technologies to support working from home and remote working
- Customer support, maintaining social infrastructure and supply chain (secure business continuity)
- Maintain business activity while securing safety
- Sustaining financial soundness and enhancing cost management

Acceleration of the Social Innovation Business

In Pursuit of Further Growth as the Societal Impact of COVID-19 Continues

Hitachi will further strengthen the management foundations and will continue to maintain rock-solid financial and business platforms as COVID-19 spreads. We will accelerate operations in our Social Innovation Business by completing post-merger integration (PMI) of acquired businesses and maintaining our business portfolio reform efforts. Furthermore, we will continue to conduct growth investment based on clear assessments of priority.
Dynamic Hitachi Continues to Accelerate its Social Innovation Business Despite COVID-19

First, I would like to express my deepest sympathies to those suffering from COVID-19, as well as their families and other affected individuals. At the same time, please allow me to express my condolences to those whose family members have passed away due to this tragic disease. Furthermore, I would like to share my deep gratitude to everyone working to prevent the spread of COVID-19 and maintain social function.

Toshiaki Higashihara
President & CEO

Progress During the First Year of the 2021 Mid-term Management Plan

In fiscal 2019, Hitachi achieved an adjusted operating income ratio of 7.5% despite the impact of COVID-19. We achieved this result thanks to the success of profitability improvement measures implemented under our 2018 Mid-term Management Plan. Hitachi is immensely confident and proud that, through continuous adaptation, we have successfully achieved a V-shaped recovery since fiscal 2008 and constructed a solid and unwavering earnings base in the face of COVID-19.

Co-Creation with Customers and Partners Around the World Enhances Digital Infrastructure

In last year’s Integrated Report, Hitachi shared its aim to become a global leader in the Social Innovation Business through its 2021 Mid-term Management Plan. The term “social innovation” was coined by Hitachi and refers to both the transformation of social and industrial infrastructure – such as railway, energy and water facilities – into more sophisticated and intelligent social infrastructure through the use of digital technology and providing it to the public. As a leading company advancing the digital transformation (DX) of social infrastructure, Hitachi aims to help raise the quality of life (QoL) for people throughout the world and increase the value of its globally expanding client companies. Digital technology is at the core of our Social Innovation Business; to enhance it, Hitachi is building an innovation ecosystem with partners around the world and working to construct digital infrastructure at major global sites. In April 2019, we established “Kyōso-no-Mori,” a new research initiative for a generation of innovation within our Central Research Laboratory. Furthermore, in January 2020, we launched Hitachi Vantara, which will lead the development of digital solutions on a global scale.

Construction of a Globally Competitive Business Portfolio

To simultaneously increase social, environmental and economic value, our 2021 Mid-term Management Plan identifies five business sectors that underpin our Social Innovation Business (IT, Energy, Industry, Mobility and Smart Life). Under this plan, we are building a globally competitive business portfolio. We assess our global competitiveness based on whether our businesses can secure a leading market position. One major move we have made to secure a larger market share in the automotive systems industry specifically is the merger between Hitachi Automotive Systems, Ltd., and Kaelin Corporation, Showa Corporation and Nissin Kogyo Co., Ltd., which are affiliates of Honda Motor Co., Ltd. The “electrification” of vehicles will be key as the automotive systems industry responds to tightening global environmental regulations. This merger will enable us to secure a top share of the global market for core parts used in electrification technology while also helping generate environmental value.

Realigning Group Companies

We revised the capital policies of our group companies based on considerations for how to reorganize listed subsidiaries to compete on a global scale. Our general philosophy was that the subsidiaries capable of competing on a global scale should be retained within the Group, whereas those that were not should pursue their own growth. After conducting reviews of our subsidiary companies, we transferred Hitachi Chemical Co., Ltd., to Showa Denko K.K. in April 2020. Meanwhile, we converted Hitachi High-Tech Corporation into a wholly owned subsidiary in May 2020, and I believe that Hitachi High-Tech’s measurement and analysis technologies are the best in the world. We anticipate that our acquisition of Hitachi High-Tech will enable us to identify further synergies among our five business sectors; for example, promoting highly competitive clinical chemistry and automatic immunodiagnostic analyzers through our partnership with Roche Diagnostics and retaining data related to semiconductor manufacturing.
Thoughts on COVID-19, Employees and Future Management

Deep Gratitude Toward Employees

The first action Hitachi took when COVID-19 began in the world, was to establish an on-site emergency headquarters on January 27, 2020, to protect employees. We also donated computed tomography equipment to speed up medical examinations, with the aim of containing the virus’s spread in China. In February, we established a system in Japan that prioritizes the health of employees and their families, our customers and our business partners, primarily by encouraging a work from home (remote work) model whenever possible. I am concerned about the safety of employees for whom shifting to remote work is difficult, including staff working on the front lines at medical institutions, employees responsible for on-site system support and maintenance, and personnel who commute to workplaces to maintain administrative functions, such as expense processing and payment of salaries and other obligations. I am deeply grateful for their ongoing daily commitment to safety measures as they bravely continue to perform their work.

Our Ability to Respond to Change Will Strengthen Our Company

Now is the Time to Implement Cash-Positive Management and Adjust Our Policies to Prepare for a “New Normal”

COVID-19 has brought to light a number of large-scale social issues, including income inequality and hidden discrimination, as well as the challenges facing our own Company. In terms of corporate business administration, companies that maintain a measurable cash surplus during times of crisis have fared better than those that, in accordance with previous philosophies, are content with a minimal cash supply. In the short term, it is essential that we establish a solid cash management system that will not falter under any circumstances. To this end, Hitachi has secured liquidity of ¥1.3 trillion. My commitment to cash-positive management is not simply a product of the COVID-19 pandemic; we will continue to strengthen our cash management strategy to enable swift responses to a wide variety of future changes. COVID-19 has caused massive changes in people’s lifestyles. I do not believe that the world ever completely returns to “normal” following a global event of this magnitude; however, this notion is not entirely negative. Changes are sometimes difficult but can also be viewed as opportunities, enabling us to accomplish things that were not previously possible. Due to the spread of COVID-19, public focus has shifted to “remote,” “contactless” and “automation” – in other words, enabling processes to be conducted without human involvement or intervention. These popular technologies can help resolve issues brought about by COVID-19. While promoting its Social Innovation Business, Hitachi has clarified issues and established procedures for finding their solutions. I believe that applying these procedures will enable people whose day-to-day routines have been impacted by COVID-19 to resume active lifestyles through new and unconventional methods. I am also convinced that COVID-19 will be a driving force for acceleration in the Social Innovation Business. Hitachi has always been able to adapt to surrounding circumstances, but we will embrace agility and change even further in response to the global shifts caused by COVID-19. We will implement a business structure that is based on the “New Normal” conditions resulting from the pandemic. In addition, we will restructure the way our employees work while simultaneously striving to improve their productivity. To achieve this goal, we will implement a remote work model as well as shift to job-based human resource management. Hitachi’s global employee base is growing, requiring the Company to clarify individual job descriptions. We currently plan to complete our shift to job-based human resource management by April 2021.

COVID-19 Has Highlighted a High Level of Employee Awareness Regarding Contributions to Society

Job Satisfaction Reforms Will Result in Major Changes at Hitachi

Incidentally, I do not believe that these changes and opportunities will come from other people; rather, I believe that positive, large-scale results will only be achieved once we have proactively seized upon relevant opportunities. In times of crises, such as current COVID-19, I consider it important to frequently converse with employees, and I have been sending messages to employees nearly every week since March. Employees have proactively shared their thoughts with me in response. Many of these replies contained positive messages, such as, “I feel like this is the time to make a positive contribution to the world” and, “I anticipate that this pandemic will lead to a variety of new ideas.” Our “Challenge to COVID-19” competition, which leverages submissions from our “Make a Difference!” internal idea contest, has generated a variety of splendid ideas from around the world. We have implemented those ideas that were immediately applicable and are sequentially reviewing other visionary proposals, with the ultimate goal of adopting them for practical use. Against the backdrop of COVID-19, many employees share my perspective that the time is ripe to solve social issues through innovation and, by doing so, contribute to society at large. Moreover, ideas from employees who are conscious of their connection to society and the importance of giving back are functioning as a driving force for Hitachi as a whole. Seeing this trend unfold has been emotionally moving for me. For Hitachi to become a true global leader, each employee must be aware of his or her personal connection to society, as well as the importance of social and environmental value. In addition, our employees must all become capable of perceiving social and environmental issues as personally relevant. More relevant in this regard than “work-style reforms” are “job satisfaction reforms.” To relay a personal story; in 1995, as a member of Hitachi (since 1977), I became involved with work connected to the Autonomous decentralized Transport Operation control System (ATOS), a transport management system adopted by East Japan Railway Company for the Tokyo metropolitan area. At the time, transportation management for many rail lines was still conducted by directors and station staff, who manually operated signal lamps and communicated using telephones. The main goal behind the adoption of the ATOS was to improve passenger service by increasing the efficiency of transportation management operations and providing train operating conditions in real time. For several years, I was responsible for installation work between the Kofu and Tokyo stations on the Chuo Line, and we encountered a series of problems at the beginning of the system’s launch. At the time, when train delays and other related problems on the Chuo Line were announced on television, my family would apparently conclude that I would not be returning home that day. Now, the ATOS facilitates smooth travel by supporting safe and stable train operation on a large-scale rail network that transports about 14 million passengers per day. When working on this project, I drew a tremendous amount of motivation and job satisfaction from the fact that both my family and I understood how my efforts contributed to the betterment of society. Economic value is extremely important in terms of management. However, employees might feel an overwhelming amount of pressure if management overemphasizes a top-down approach when pursuing income targets. Our key to resolving this issue is to expand businesses that promote social and economic value on a global scale, while integrating and achieving balance between bottom-up approaches, such as “Make a Difference!” and top-down approaches. I believe that these efforts will make the Hitachi Group even stronger.
Hitachi has been manufacturing for 110 years and has equipment, can create and leverage solutions like these.

that only Hitachi, with its practical knowledge of devices and recommend maintenance before breakdowns occur. I believe using sensors built into trucks, detect signs of failure and data on automotive parts and other important factors have resulted in a mechanism that utilizes Lumada to collect illustrative example of our use of Lumada. These efforts U.S. to improve the operating efficiency of trucks are an customer cases. Our collaborative creation efforts in the Lumada platform has accumulated more than 1,000 frameworks for packaging individual solutions. In total, since 2016, Hitachi has utilized Lumada as a digital platform

Hitachi provides solutions in five sectors: IT, Energy, Industry, Mobility and Smart Life. I believe that we can contribute to the construction of smart cities by combining the solutions we provide within these sectors. Let us examine an amusement park as a smaller-scale “smart city,” for example. We would provide stable energy and mobility services that are essential for the park’s operation. We would collect data using sensors built into the park’s attractions, detect signs of failure and perform preventive maintenance in addition to supporting stable water supply and reuse. Furthermore, we would conduct video analyses aimed at gauging the number of park visitors on line and ensuring social distancing. One of Hitachi’s major goals is to platformize solutions such as these so that it can provide customer value globally in each of the five sectors mentioned earlier.

The COVID-19 pandemic has brought many issues into the spotlight. Operational risks associated with Hitachi’s factories have become particularly apparent. We’ve modified our supply chain in response to Great East Japan Earthquake and tragic flooding in Thailand in 2011 and have established a backup system for our production lines, as a significant number of our production processes are conducted across international borders. There is still more to be done, however. We must focus on optimizing the Hitachi Group as a whole as we build a supply chain system capable of flexible response. It’s also important to stay abreast of evolving geopolitical risks, such as the impact of Brexit and trade friction between the United States and China. As living environments change rapidly due to COVID-19, Hitachi is encountering an increasing number of opportunities to support its goal of creating social, environmental and economic value. Moving forward, COVID-19 will function as a major trigger, providing us with the impetus to further accelerate our Social Innovation Business.

Development of the Social Innovation Business

Package a Multitude of Solutions Generated Through Hitachi’s IT, OT and Products and Roll Them Out Globally

Since 2016, Hitachi has utilized Lumada as a digital platform for providing value to its customers and has established frameworks for packaging individual solutions. In total, the Lumada platform has accumulated more than 1,000 customer cases. Our collaborative creation efforts in the U.S. to improve the operating efficiency of trucks are an illustrative example of our use of Lumada. These efforts have resulted in a mechanism that utilizes Lumada to collect data on automotive parts and other important factors using sensors built into trucks, detect signs of failure and recommend maintenance before breakdowns occur. I believe that only Hitachi, with its practical knowledge of devices and equipment, can create and leverage solutions like these. Hitachi has been manufacturing for 110 years and has accumulated expertise on how customers use products, namely concerning operational technology (OT). Since 1960, we have supplemented this expertise with knowledge and skills related to IT used in banking, industry and other fields. Hitachi’s status as a singular group possessing IT, OT and products expertise has afforded it a strength that other companies do not have and has led to solutions for a variety of issues. To share an example from our railways systems business: we delivered train cars and an unmanned operation control system to Denmark’s Copenhagen Metro, but also endeavored to make the system more convenient by installing sensors on station platforms and field testing a solution that automatically adjusts train schedules based on the number of people waiting on platforms.

The Importance of Human-centric Innovation

Earlier, I mentioned that new needs around remote, contactless and automated solutions have arisen due to the COVID-19 pandemic. Moving forward, we will likely see growth in digital technology that provides solutions for the restraints and inconveniences placed on society due to the pandemic. Important in this regard is the creation of “human-centric” societies. Smartphones, the Internet and other modern technologies have dramatically changed our lives, and the belief that AI will play a role in innovation moving forward has become common. However, COVID-19 has taught us that humans, not technology, are at the center of these changes. As humans, we determine and shape our lifestyles based on the circumstances of our specific environments; AI should never be able to replace our ability to make decisions about our lives. AI is programming at its core, so providing ethical training for engineers who create algorithms and other problem-solving operations, as well as making adjustments from a legal perspective, will be important tasks moving forward. We must not forget the importance of a “human-centric” approach when considering innovation generated through AI. This approach supports the core policies of the Social Innovation Business, through which Hitachi is promoting adaptation to the “New Normal” brought about by COVID-19.

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The COVID-19 Pandemic Will Not Alter Our Investment Plans

Accelerate the Social Innovation Business While Responding to Issues

Some aspects of management have remained unchanged even during COVID-19, including our basic capital allocation policy. In the 2021 Mid-term Management Plan, we projected total funds of ¥4 trillion–¥4.5 trillion and have made no changes to our plan to use ¥2 trillion–¥2.5 trillion of this total for growth investment and the remaining ¥2 trillion for shareholder return and capital expenditure. We have already decided that ¥1.8 trillion of growth investment will be allocated to the acquisition of ABB’s power grid business and other projects. Meanwhile, we plan to use the remaining ¥700 billion primarily to strengthen our front-line sales team in the IT sector, predominantly through M&A. In terms of shareholder returns, we have consistently raised dividends since I assumed my position as CEO in 2016. Moving forward, we will look into conducting share buybacks while maintaining a stable dividend payout ratio.

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Human Resource Development and Revolutionary Changes to Mindsets

The Hitachi Group is Driven by its Founding Venture Spirit and an Empathetic Mindset

The ratio of Hitachi Group’s domestic and overseas employees has shifted due to strategic decisions made to establish a more global business foundation, such as the acquisition of ABB’s power grid business. Traditionally, the value of a company has been determined primarily based on quantitative factors, such as ROE. However, as we endeavor to fully establish our Social Innovation Business, we have come to believe in the relevance of qualitative value; in particular, we regard the value of human resource as extremely important. Once our employees, who come from diverse backgrounds, have shared their opinions and held thorough discussions on a matter, they unite toward a common set of objectives. Because we find ourselves in uncertain times, I think it is important that we return to Hitachi’s mission and values in pursuit of achieving a unified “One Hitachi.” To truly achieve the “One Hitachi” vision, we must sympathize with the venture-company spirit through which founder Namieh Odaira and several engineers created Hitachi in 1910 and strive to achieve
How We Will Grow

CEO Message

Opportunities for Hitachi to Continue to Grow

Social and Environmental Value Through the Social Innovation Business

As Hitachi strives to simultaneously increase social, environmental and economic value, I feel as if these issues have grown in importance to our investors. In recent years, climate change in particular has become an urgent issue for humanity. With the aim of increasing environmental value, Hitachi has declared that it will achieve carbon-neutral production by fiscal 2030. In January 2020, our Omika Works became the first factory operated by a Japanese company to be listed in the World Economic Forum Lighthouse as a “most advanced factory.” We will make our CO2 reduction initiatives, particularly those applied during the manufacturing stage, more visible to customers, which will lead to subsequent environmental solutions. As soon as possible, I would like to transform Hitachi into an environmental leader in our industry.

Large-scale natural disasters are occurring more frequently around the world due primarily to climate change. Japan is no exception; this year, it is facing many cases of unexpected and abnormal weather. Circumstances like these underscore the urgent need for maintenance on aging social infrastructure. In response to the increased frequency of natural disasters, we will be required to update and tighten safety standards for infrastructure and equipment. The COVID-19 pandemic has also revealed that, overall, Japan is far behind the rest of the world in terms of digitizing its public infrastructure. Along with other entities active in industrial circles, we are addressing this problem by discussing data architecture with the government. I believe that Hitachi, which is promoting the digital transformation of social infrastructure, is uniquely equipped to provide many solutions to these issues.

Social infrastructure, including power grids and railways, is also aging in North America and requires thorough inspection. In Europe, infrastructure must be assessed in accordance with environmental policies.

All of Hitachi’s global employees have dedicated themselves to the advancement of the Social Innovation Business by considering social issues personally relevant. Moving forward, Hitachi will continue to adapt to surrounding circumstances as it implements efforts around the world aimed at improving people’s QoL and raising value for client companies. I humbly ask for your continued support as we move forward.

September 2020

Toshiaki Higashihara
President & CEO

To put it another way, empathy enables one to understand the feelings of others; this fosters a win-win mindset. I believe that this is precisely the frame of mind that the front-line sales team promoting our Social Innovation Business should have. Sharing happiness does not cause it to dwindle, but rather to grow. As we move forward, we will focus on developing human capital who are capable of perceiving social issues as personally relevant, passionately involving others and developing shared mindsets focused on achieving common targets.

 unity based on the sharing and practical implementation of this founding spirit.

Hitachi currently has about 300,000 employees. I believe that the value of our human resource will greatly increase if they are able to view social issues and the interests of others, including our customers, as personal interests. People often pursue endeavors that are in their own self-interest; however, it is critical to consider the interests and needs of others as well. When our employees balance their own interests with a desire to help others, we elevate to demonstrating empathy.

Opportunities for Hitachi to Continue to Grow

Social and Environmental Value Through the Social Innovation Business

As Hitachi strives to simultaneously increase social, environmental and economic value, I feel as if these issues have grown in importance to our investors. In recent years, climate change in particular has become an urgent issue for humanity. With the aim of increasing environmental value, Hitachi has declared that it will achieve carbon-neutral production by fiscal 2030. In January 2020, our Omika Works became the first factory operated by a Japanese company to be listed in the World Economic Forum Lighthouse as a “most advanced factory.” We will make our CO2 reduction initiatives, particularly those applied during the manufacturing stage, more visible to customers, which will lead to subsequent environmental solutions. As soon as possible, I would like to transform Hitachi into an environmental leader in our industry.

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The Value Creation Process

Comprehension of Issues and Trends

- **Social issues**
  - Climate change
  - Issues concerning energy, water and other natural resources
  - Population growth and urbanization
  - Aging infrastructure
  - Cybersecurity

- **Global trends**
  - Accelerating digitization
  - Appearance of geopolitical risks due to the globalization of politics and the economy
  - Paradigm shifts (shrinking from possession to sharing, from objects to things and from closed to open strategies)

- **Customer issues**
  - Safety and security
  - Reduction of energy consumption
  - Response to diversifying consumer needs
  - Improvement of productivity

Vision: Improving the Quality of People’s Lives, Raising Customers’ Corporate Value and Achieving a Sustainable Society

- **Social value**
  - Healthy lives and a safe, secure, comfortable and efficient society

- **Environmental value**
  - High-quality and environmentally conscious manufacturing
  - Reduction of environmental burden through the value chain

- **Economic value**
  - Redistribution of added economic value to stakeholders

How We Will Grow

Simultaneously improve three types of customer value through the digital technologies and five solutions

- Input
  - **Human capital**
    - Number of employees: 301,056 people (consolidated)
    - Digital technology training participants over 10,000 people (consolidated)
    - Global management program participants: 4,006 people

- **Intellectual capital**
  - R&D investment: ¥293.7 billion
  - R&D centers (including intellectual property): 5 regions (North America, Europe, China, APAC and Japan)
  - Number of patents: over 470,000

- **Natural capital**
  - Total energy input (crude oil equivalent): 80.6 million (GJ)
  - Raw material input: 3,776 million
  - Total water input: 36.41 million m³

- **Financial capital**
  - Stockholders’ equity: ¥3,159.9 billion
  - Interest-bearing debt: ¥1,485.0 billion
  - Number of employees: 406
  - Capital expenditure: ¥3,089.6 million

- **Social and relationship capital**
  - Total CV investment (plan): $150 million

Output/Outcomes

Converting data into value (Lumada platform)

- Extract widely applicable industrial and business expertise

Accumulation of Lumada customer cases

Source of value (competitive advantage)

Innovation ecosystems that constantly create groundbreaking new value

Efficient use of energy and resources

- Long-term environmental targets (compared with fiscal 2010)
  - Reduction rate in CO₂ emissions per unit product and service: 19%
  - Reduction rate in total CO₂ emissions at business sites: factories and offices: 17%
  - Reduction rate in water use per unit: 26%
  - Ratio of renewable energy sources to conventional energy sources: 14%
Looking Back on Past Mid-term Management Plans

### 2012 Mid-term Management Plan
#### Rebuilding Management Recovery
- **Looking Back**
  - After booking its largest losses ever in fiscal 2008, Hitachi during the period covered by the 2012 Mid-term Management Plan advanced the rebuilding of its business. The rebuilding of the automotive systems business, the withdrawal from the internal manufacturing of flat-panel TV business, and the transfer of the HSD business all served to improve profitability, allowing Hitachi to concentrate on the Social Innovation Business that so effectively leverages the Company’s strengths.
  - In fiscal 2012, Hitachi consolidated operations into six strong groups and worked to speed up management through an integration of operations.
  - Hitachi’s operating income ratio in fiscal 2012, the final year of the Mid-term Management Plan, fell short of the 5% target due to a write-off associated with a sharp drop in material prices, as well as the booking of structural reform costs and reduced capacity utilization amid the economic slowdown in China and Europe. However, it improved to 4.7% thanks to cost structure reforms, Hitachi’s Smart Transformation Project, and the Strong Business Management Project. In addition, after dropping to 11.2% in fiscal 2008, the stockholders’ equity ratio recovered to 21.2% in fiscal 2012, with the ROE ratio remained over 0.5% over the same period, indicating a clear improvement in Hitachi’s financial position as the Company worked toward the establishment of a stable earnings base.

- **Challenges Ahead**
  - Further improvements in business predictability
  - Strengthening the service businesses
  - Strategic business development and establishing a management basis that makes that possible

### 2015 Mid-term Management Plan
#### Building a Foundation for Growth
##### The Swapping Out of Businesses
- **Looking Back**
  - Hitachi during the period covered by the 2015 Mid-term Management Plan substantially revised its business portfolio as it sought to build a foundation for growth. The Company acquired Pentaho, which develops and markets big data analytics software, as part of its aim to strengthen and expand the global value chain in big data utilization, while also removing from consolidation its thermal power, air-conditioning, and batteries businesses. In addition, Hitachi moved its rail business headquarters to the U.K., as part of its effort to promote the globalization of the Company, appointing Walter Dorn, currently serving as executive vice president, as the global CEO of the Company’s rail business. In personal evaluation systems, Hitachi introduced “Global Performance Management” as a mechanism under which compensation directly reflects personal performance assessments as well as the global common standards for job roles.
  - In fiscal 2015, the last year in the mid-term plan, the target was not achieved due to a delayed response to changing market conditions, including in the telecommunication and networks business, as well as losses due to inefficient management at a large overseas project. Another factor contributing to underperformance was the greater-than-expected increase in structural reform costs due to an acceleration in structural reforms following a deterioration in the market environment for the infrastructure systems, power distribution, and construction machinery businesses. However, operating income reached ¥1.5 trillion, with the operating income ratio at 6%, signaling stability in the profitability and an improved ability to generate cash.

- **Challenges Ahead**
  - Accelerate management’s speed to more quickly respond to changes in the market environment
  - Strengthen project management
  - Take action regarding unprofitable businesses

### 2018 Mid-term Management Plan
#### Utilizing Digital Technologies
- **Looking Back**
  - With the goal of strengthening front-line functions, including the number of sales, system engineers, and consultants, and creating a system of collaborative cooperation with our customers, Hitachi from fiscal 2016 moved from a product-specific company system to a three-level system, composed of front-line, platform, and product tiers. With the three-level system, Hitachi boosted the management speed. Specifically, business units (BU’s), which had been subdivided from the former in-house companies to develop and provide services closely to the customer, and group companies, including listed subsidiaries, were positioned to each level. We also strengthened project management and worked to improve profitability at individual businesses.
  - With the aim of enhancing on a global basis the front-line functions central to the Social Innovation Business, we acquired 100% stakes in Ansaldo STS, which supplies signal equipment and control systems to 30 or more countries and regions, and Sullair, which manufactures, sells, and services air compressors to about 4,000 customers, mainly in North America. In December 2018, we signed an agreement for the acquisition of ABB’s power grid business. The goal of each of these is the acquisition of a robust global sales network and the expansion of the Social Innovation Business.
  - To add to this, we launched Lumada in May 2016. Lumada takes the essential technologies for delivering advanced solutions, including AI, analytics, security, robotics and control technologies distributed across the Company and applies them to a common platform, creating a system that comprehensively and organically leverages the resources of the entire Hitachi Group to quickly and flexibly create new innovations. Thanks to a steady increase in customer collaborations, Lumada business revenues are trending as planned and have already exceeded ¥1 billion. Moreover, in addition to reorganizing our business portfolio, including selling off listed subsidiaries with little connection to the core Social Innovation Business, we continue to reform our cost structure, which contributed to the adjusted operating income ratio meeting our Mid-term Management Plan target and reaching a record level.

- **Challenges Ahead**
  - Aggressive investment in key areas of focus
  - Increased capital efficiency
  - Accelerated innovation and active use of digital technologies with a focus on Lumada

### Changes in Performance and Business Portfolio

<table>
<thead>
<tr>
<th>Component</th>
<th>FY1999 (Revenues)</th>
<th>FY2010-2012 (Revenues)</th>
<th>NET2019 (Revenues)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>12,000</td>
<td>9,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Net income</td>
<td>2,000</td>
<td>1,500</td>
<td>1,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component</th>
<th>FY1999 (%)</th>
<th>FY2010-2012 (%)</th>
<th>NET2019 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High functional materials and components</td>
<td>34%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Social infrastructure</td>
<td>20%</td>
<td>22%</td>
<td>16%</td>
</tr>
<tr>
<td>Home appliances</td>
<td>5%</td>
<td>43%</td>
<td>43%</td>
</tr>
<tr>
<td>IT</td>
<td>51%</td>
<td>65%</td>
<td>65%</td>
</tr>
</tbody>
</table>
Strategy and Resource Allocation

2021 Mid-term Management Plan (FY2019-2021)
Aiming to Become a Global Leader in the Social Innovation Business
Shifting to a “Growth Mode”

Under our 2021 Mid-term Management Plan, we will conduct management focused on raising social, environmental and economic value for our customers as we aim to become a global leader in the Social Innovation Business. The Strategies we are implementing to simultaneously raise these three types of value are “Expand Revenues by Accelerating the Social Innovation Business,” “Reinforce Global Competitiveness,” and “Reinforce Management System to Improve Profitability.” Through this approach, we will endeavor to improve people’s quality of life, raise value for both our customers and society at large, and achieve a sustainable society.

Performance targets (consolidated)

<table>
<thead>
<tr>
<th>Sector</th>
<th>FY2019 results</th>
<th>FY2020 forecast</th>
<th>FY2021 targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>¥3,384.0 billion</td>
<td>¥1,280.0 billion</td>
<td>¥2,320.0 billion</td>
</tr>
<tr>
<td>Adjusted operating income / ratio</td>
<td>11.4%</td>
<td>10.5%</td>
<td>13.8%</td>
</tr>
<tr>
<td>EBIT / EBIT ratio</td>
<td>18.2%</td>
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</tr>
<tr>
<td>ROIC</td>
<td>18.4%</td>
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</tr>
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<td>Energy</td>
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<td></td>
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<td>Revenues</td>
<td>¥330.2 billion</td>
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<td>Adjusted operating income / ratio</td>
<td>3.4%</td>
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<td>Industry</td>
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<td></td>
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<tr>
<td>Revenues</td>
<td>¥234.7 billion</td>
<td>¥770.0 billion</td>
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<td>Adjusted operating income / ratio</td>
<td>6.9%</td>
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Strategic 1
Expand Revenues by Accelerating the Social Innovation Business

- Growth Highly Profitable Businesses with Digital Technology
  - Expansion of the Lumada business
  - Acceleration and utilization of customer cases, creation of solution core
  - Developing digital talents to lead digital transformation

- Expansion of Global Business
  - Strengthen brand line, use footprint

- Creation of Social and Environmental Value
  - Initiatives to realize a sustainable society through social innovation
  - Initiatives to realize a decarbonized society and a resource efficient society

Strategic 2
Reinforce Global Competitiveness

- Creation of Value at the Front Lines in Each Region
  - Promotion of co-creation
  - Sharing vision to resolve future societal challenges

- Leveraging Strength in Technology to Create Value
  - Co-creation with customers in OT × IT × Products

- Become a Technology Leader
  - Global No. 1 in technological platforms
  - Strengthen Lumada core technologies
  - Initiatives to enhance product advantages
  - Creation of defensive technologies for the future
  - Initiatives in Intellectual Properties (IPs)
  - Securing and Tracing Diverse Global Human Resources
    - Diversity & Inclusion
    - Global human resource management

Strategic 3
Reinforce Management System to Improve Profitability

- Accelerate ROIC Management
  - Promoting ROIC management with a higher awareness of capital costs

- Financial and Capital Strategy
  - Basic approach to funding procurement, capital costs, and shareholder returns
  - Strengthening cash management

- Capital Allocation for Improving Profitability
  - Investments in priority growth businesses
  - Restructuring of the business portfolio

- ROIC
  - 9.4 %

- Adjusted operating income ratio
  - 7.1 %

- Operating cash flows
  - ¥560.9 billion

- Revenues
  - ¥1,144.4 billion

- Adjusted operating income
  - ¥100.0 billion

- EBIT / EBIT ratio
  - 5.3%
Leveraging its accumulated strengths in OT × IT × Products, the Hitachi Group contributes to the resolution of societal issues and improves customer value by globally deploying digital solutions through the Lumada business.

**Grow Highly Profitable Businesses with Digital Technology**

Expansion of the Lumada Business

As society and business continue to generate more data, Hitachi’s Lumada acts as an engine that creates new value from these data and accelerates innovation. Revenues in the Lumada business, which commenced in 2016, were ¥1,037.0 billion in fiscal 2019, with an adjusted operating income margin above 10%. Under our 2021 Mid-term Management Plan, we are advancing measures to expand the business with the aim to improve profitability further and achieve ¥1,600.0 billion in revenues.

In the Lumada business, Hitachi does not offer individual products but digital solutions that increase social, environmental and economic value while solving issues at customers by leveraging the know-how in OT (operational technology), IT (e.g., AI and analytics technology) and Products (e.g., industrial equipment, rolling stock, elevators). It has accumulated across the Hitachi Group’s broad business domains. The Company has provided numerous digital solutions while building up a library of customer cases through collaboration with customers in various fields. In identifying and analyzing business issues with customers, it is possible to reaply previous digital solutions and customer cases from similar issues, thereby minimizing the need for customization as much as possible for the more rapid deployment of solutions to a broader range of customer needs. That is an advantage of the digital solutions in the Lumada business.

The Lumada business comprises the Lumada core business and the Lumada related business. The Lumada core business is a pure digital solutions business that solves management and business issues by converting customer data into value using AI and other digital technologies. In the Lumada core business, we intend to expand Lumada solutions by utilizing accumulated customer cases and solution cores, based on the “Scale of Digital” concept. The Lumada related business are defined as advanced products and systems businesses, centered on OT and products, that have prospects for synergies with the Lumada core business. In the railway systems business, for example, data are collected from rolling stock (the product) on the OT side, and these data are analyzed and deployed on the IT side. This makes it possible to reduce breakdowns and increase capacity utilization by efficiently maintaining rolling stock with predictive analysis. In the Lumada related business, Hitachi is promoting co-creation with customers while delving deeper on the combination of OT × IT × Products.

**Lumada Business Promotion Scenario**

<table>
<thead>
<tr>
<th>Revenues¹</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2019</td>
<td>¥1,037.0 billion</td>
<td>FY2020</td>
<td>1,100.0</td>
<td>FY2021 Forecast</td>
</tr>
<tr>
<td>Lumada core business*1</td>
<td>593.0</td>
<td>440.0</td>
<td>570.0</td>
<td></td>
</tr>
<tr>
<td>Lumada related business</td>
<td>444.0</td>
<td>660.0</td>
<td>830.0</td>
<td></td>
</tr>
<tr>
<td><em>1 Lumada related business+ products + Lumada core business</em></td>
<td>944.0</td>
<td>1,060.0</td>
<td>1,200.0</td>
<td></td>
</tr>
</tbody>
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**How We Will Grow**

**Strategy 1 Expand Revenues by Accelerating the Social Innovation Business**

based on the “Scale by Digital” concept. The Company is pivoting toward high-value-added, high-profit operations in the OT and Product businesses by leveraging digital solutions to develop new solutions and strengthen existing solutions. In this way, the growth potential of the Lumada core business and the Lumada related business are intertwined, and by feeding off each other, the Lumada business will continue to grow. In the future, we will continue to contribute to solving a broader range of social issues and customer issues by co-creation with our customers and expanding markets through the Lumada ecosystem.

Accumulation and Utilization of Customer Cases, Creation of Solution Cores

At Hitachi, we have accumulated Lumada customer cases with our extensive know-how and insight in various sectors and businesses, which was gained through co-creation with our customers in diverse fields. Each of these customer cases has examples of the value that can be created with data, as well as details about the technologies deployed, such as AI and analytics. Based on these customer cases, Hitachi has identified the core technologies that can be broadly deployed across a wide range of industries to solve common issues. These core technologies are categorized and accumulated as solution cores.

As of March 31, 2020, the number of customer cases exceeded 1,000, and solution cores number more than 85. When embarking on a new collaborative effort with customers, Hitachi utilizes Lumada customer cases and solution cores that fit the customer’s management issue, and then provides digital solutions that create solid value.

Hitachi has created the Lumada Solution Hub as a venue for rapidly and easily distributing the know-how in OT × IT × Products it has accumulated through co-creation with its customers. Reusable digital technologies and solutions are packaged together and catalogued, allowing customers to choose the packages they want to deploy from the catalog. This facilitates a smooth transition from the early evaluation to deployment of cloud computing environments that satisfy the needs of customers. It is also possible to efficiently deploy the solution to multiple sites, including those overseas. Lumada Solution Hub has a development environment for combining digital technologies and solutions and registered in the catalog, allowing the creation of new solutions. New solutions can also be added to the catalog, leading to the creation of more new solutions. Lumada Solution Hub is a platform for driving innovation that supports the Lumada ecosystem.
As we make Lumada Solution Hub available to various partners, the solutions developed by our partners will be added to the catalog, and these partners will begin to deploy Hitachi’s own solutions in sequence. Hitachi is keen to increase the utility value of its customers, helping to solve societal issues and management issues in the process of creating, distributing and deploying digital solutions in society, while also accelerating the evolution of the Lumada ecosystem. Lumada has more than 300 digital solutions available to meet the needs for "remote," "contactless" and "automation" in this "New Normal" brought by COVID-19. By providing these solutions, Hitachi helps its customers accelerate their own digital transformations.

**Developing Digital Talents to Lead Digital Transformation**

Hitachi has strongly advanced efforts to develop digital talents to lead digital transformation and apply digital solutions that combine IT and IoT, the core of its Social Innovation Business. In April 2019, Hitachi Academy Co., Ltd. was established with a mission to further enhance and develop digital talents, including front-line personnel and data scientists. Hitachi Academy has created a new educational system for digital transformation and develops digital talents with on-the-job training (OJT) to accelerate global growth in the Social Innovation Business. The entire Hitachi Group aims to increase the number of digital talents to 37,000 people by fiscal 2021, including 3,000 data scientists. We are keen to expand our digital solutions globally by increasing support for customers with a larger regiment of digital talents.

**Expansion of Global Business**

**Strengthen Front Line, Use Footprint**

In the Lumada business, overseas revenues account for about 40% of the total. To accelerate business expansion worldwide, Hitachi is strengthening the structure for advancing overseas operations in mainly North America and Asia. As a part of these initiatives, in January 2020, U.S. subsidiary Hitachi Vantara Corporation was integrated with Hitachi Consulting Corporation to create Hitachi Vantara LLC, which will drive global development of the Lumada business as a core company in front-line and delivery functions, while collaborating with other Hitachi Group companies. By region, looking at North America first, Hitachi acquired JR Automation, a leading firm in the robotic SI business, in December 2019, following its acquisition of Sullair LLC, in 2017. Leveraging on JR Automation’s technologies, know-how and resources in the advanced robotic SI business accumulated over many years as well as its customer base that encompasses a broad range of industries, we will provide new value to customers by globally expanding Lumada solutions that utilize digital technologies. In addition, Hitachi Industrial Holdings Americas, Inc. was founded in April 2020 as our North America regional headquarters for the industry business. While collaborating with Hitachi Vantara, it will integrate operations with Sullair and JR Automation and develop the digital solutions business for the industrial and distribution fields. Through mutual utilizations of broad customer bases and resources that Sullair and JR Automation possess in North America, it will provide total seamless solutions combining digital solutions and products.

In Asia, Hitachi turned FusoTech Holdings into a wholly owned subsidiary in April 2020, after it was created to take over operations from Fusionex International Pte, a market leader in AI and big data that provides SaaS platforms for AI and data analytics mainly in Asia. As a result, the Hitachi Group has obtained access to its more than 11,000 customers primarily in Asia, and its assets that include around 260 digital talents, such as data scientists and AI front-line personnel. The Lumada Solution Hub will bring in its competitive AI and data analytics applications, SaaS platforms that support payments and user verification, and SaaS business know-how for acquiring and maintaining a customer base. Through collaboration with Hitachi Vantara and other group companies, we will reinforce front-line and delivery functions in a bid to rapidly develop SaaS platforms globally. In July 2020, Hitachi completed the acquisition of ABB’s power grids business and established Hitachi ABB Power Grids Ltd. The Hitachi Group welcomes its global footprint of about 90 countries and regions, a customer base of more than 15,000 companies, roughly 200 sales bases around the world and 36,000 employees. These abundant resources and customer base on a global scale will be instrumental in our efforts to expand global sales channels and front-line operations for Lumada.

**Strategy 1  Expand Revenues by Accelerating the Social Innovation Business**

Expand revenues by accelerating the Social Innovation Business. How We Will Grow

**Lumada has more than 300 digital solutions available to meet the needs for “remote,” “contactless” and “automation” in this “New Normal” brought by COVID-19. By providing these solutions, Hitachi helps its customers accelerate their own digital transformations.**

**Hitachi Integrated Report 2020**

- **Security**
  - Cyberattack security/ electricity/ water and other plant facilities, railway operators
    - Control system security monitoring and analysis support services: Hitachi
    - This 24-hour, 365-day-a-year support service helps companies protect their control systems from cyberattacks, by monitoring and analyzing their status and responding to security events as they occur.
    - Supply chain optimization services: Hitachi
    - High-speed simulations using diverse data from procurement and production, among other sources, are a fundamental part of this cloud-based service for automatically creating optimal plans for inventories and deliveries in response to changes in demand. It also supports planning based on changes in the spread of COVID-19.

- **Automation, unmanned, labor-saving**
  - Automated planning in response to changes in supply and demand/ manufacturers, distributors, etc.
  - Automation in response to changes in supply and demand/ manufacturers, distributors, etc.

- **Remote**
  - Remote monitoring and maintenance/ manufacturers, medical institutions, transporters, etc.
  - Field work information-sharing system: Hitachi Solutions
  - Hitachi work-style reform solutions: Hitachi Group
  - This system facilitates secure access to in-company work environments from a variety of devices, such as tablets, smartphones and laptops, from off-premise locations including homes and satellite offices. A variety of services are offered for efficiently and seamlessly working remotely, including services for visualizing work hours to prevent employees from long hours of overtime.

- **Contactless**
  - Touchless devices/ medical institutions, public institutions, manufacturers, etc.
  - Touchless solutions: Hitachi-Onoran Terminal Solutions
  - Touchless solutions have been developed to allow the clean contactless operation of devices without touching them. We provide devices to be manipulated by using hand and finger gestures in the air, instead of buttons and touch panels.

- **Key snippets**
  - The system scans people who may be queuing to enter a venue or facility. Once its machine learning software detects an individual with a temperature exceeding the threshold level, the system will issue an alert. With this system, we support risk management in event venues and other places in which people gather in large groups. The system can also be used to measure social distance and monitor proper hand washing behavior without collecting personal information.

- **Key keywords**
  - Security specialist
  - Data scientist
  - Solutions Adapted to “New Normal”
  - How We Will Grow

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**See the full report for more detailed information.**

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**Strategy 1**

Expand Revenues by Accelerating the Social Innovation Business

How We Will Grow
For a decarbonized society

Reducing the CO2 emissions per unit throughout the value chain

**For a resource efficient society**

**Building a society that uses water and other resources efficiently**

- **(Water)**
  - FY2021: 20% or higher improvement
  - FY2050: 50% improvement

- **(Resources)**
  - FY2021: 12% or higher improvement
  - FY2050: 50% improvement

Furthermore, in May 2020, Hitachi newly announced its intention to achieve carbon neutral in its own business sites (factories and offices) by fiscal 2030, in accordance with its aim of accelerating to achieve the targets of reducing CO2 emissions. This is a target for practically achieving zero emissions of CO2 from the production stage within its value chain, in other words, Hitachi’s factories and offices. More specifically, we are working to increase efficiency in facility operations by introducing and upgrading to high-efficiency equipment in our factories. We are also endeavoring to achieve the targets by enhancing energy-use efficiency through the deployment of smart meters and other IoT technologies, while advancing the use of renewable energy. To start these initiatives, we aim to have at least three carbon neutral factories in fiscal 2020 and seven or more sites in fiscal 2021.

**Strategy 1 Expand Revenues by Accelerating the Social Innovation Business**

Accelerating the Global Deployment of Digital Solutions

Hitachi Vantara joined in a strategic alliance with Disney Parks, Experiences and Products to help Disney’s theme park innovations. Through the provision of digital twin solution as well as a predictive capabilities solution that utilizes data acquired from sensors and other sources, Hitachi Vantara will help to visualize and optimize operations and improve the operational efficiency of attractions and shows. Hitachi aims to improve the guest experience through Disney’s entertainment and Hitachi Vantara’s data-driven solutions.

Creation of Social and Environmental Value

**Initiatives to Realize a Sustainable Society Through Social Innovation**

In its 2021 Mid-term Management Plan, Hitachi has set targets for improving three values (social value, environmental value, economic value) for its customers through solutions in five sectors comprising IT, Energy, Industry, Mobility and Smart Life, with the ultimate aim of realizing a sustainable society through the Social Innovation Business. Since fiscal 2019, we have worked on the visualization of value by quantifying as much as feasible the social and environmental value generated in each of our businesses, drawing connections between our businesses and the SDGs. By understanding both the positive and negative impacts on society and the environment from our operations, we will generate value on these three fronts in line with the 2021 Mid-term Management Plan, and propose ideas to customers for achieving more sustainable business operations.

Additionally, to realize a decarbonized society and a resource efficient society, Hitachi aims to resolve environmental issues and achieve both higher quality of life and a sustainable society through its Social Innovation Business. In 2016, we established long-term environmental targets called “Hitachi Environmental Innovation 2050,” and we are promoting environmental activities to achieve these long-term targets in line with our Environmental Action Plan, which is updated every three years. To achieve a decarbonized society, Hitachi has set reduction targets for CO2 emissions per unit of 50% by fiscal 2030 and 80% by fiscal 2050 (both compared with the fiscal 2010 level) throughout the value chain.

To achieve a resource efficient society, Hitachi has set targets for improving by 50% by fiscal 2030 (compared with the fiscal 2010 level) its water- and resource-use efficiency in the Hitachi Group, in addition to striving for building a recycling-oriented society through seawater desalination projects and other water-related businesses.

**For a decarbonized society**

Reducing the CO2 emissions per unit throughout the value chain

- **FY2021**: 20% or higher Reduction
- **FY2030**: 50% Reduction
- **FY2050**: 80% Reduction (compared with FY2010)

**For a resource efficient society**

Building a society that uses water and other resources efficiently

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**For a resource efficient society**

Building a society that uses water and other resources efficiently

- **(Water)**
  - FY2021: 20% or higher improvement
  - FY2050: 50% improvement

- **(Resources)**
  - FY2021: 12% or higher improvement
  - FY2050: 50% improvement
Reinforce Global Competitiveness

Hitachi’s corporate mission for more than 100 years has been to “contribute to society through the development of superior, original technology and products.” While developing cutting-edge technologies, Research & Development (R&D) at Hitachi has implemented the corporate mission and spurred innovations that have led us into the future. In fiscal 2020, we decided on an R&D policy to “become a global innovation leader driving social, environmental and economic value creation.” Building on Lumada, we are further accelerating open innovation to grow together with our stakeholders by combining our strengths in OT × IT × Products, with the technology platforms in the Research & Development Group, and external knowledge. Through these initiatives, our goal is to enhance social, environmental and economic value for our customers, and raise people’s QoL.

To realize this R&D policy, we are focusing on building ecosystems to generate innovation and strengthen core technologies that will help expand the Lumada business. As new values emerge from the impact of COVID-19, Hitachi will step up its global efforts that address common societal issues, such as environmental issues, to realize a human-centric society.

R&D structure based on three innovation strategies

- Global Center for Social Innovation
  - Service development training the needs of customers in each region
- Center for Technology Innovation
  - Establishing global No. 1 technology platforms, products
- Center for Exploratory Research
  - Resolving future societal issues

Policy
Become a global innovation leader driving social, environmental and economic value creation

Create value at Front
Create value at Front

- Formulate visions and regional policy as part of global operations
- Design business models based on value provided by Hitachi

Leverage technology strengths in value creation

- Contribute value proposition-oriented business creation through cooperation with global front
- Expand global Lumada business by deeper customer co-creation in each region

Become a technology leader

- Build up Lumada CPS incorporating OT × IT × Products
- Enhance “AI,” “Trust,” “5G,” “Robotics” and “Electrification”
- Develop disruptive technology for a human-centric society

Promotion of Co-creation

As issues faced by society and customers become more complex, the Hitachi Group is working as one under the banner of “co-creation” to create social, environmental and economic value through a shared understanding with our different partners of the challenges, and working together to resolve the issues.

Hitachi has built up an original end-to-end co-creation process for customers called NEXPERIENCE, starting with the creation of visions and leading through to services. NEXPERIENCE Spaces, where customers can come to discover the issues and move forward to create value, have been opened in Tokyo, North America, the United Kingdom and China. Going forward, NEXPERIENCE will evolve as a methodology that quantifies social, environmental and economic value, with enhanced risk assessment, to enable collaboration with multiple companies or regional communities to resolve societal challenges. By working with Hitachi teams on the global front, we will accelerate the creation of value through the delivery of Lumada solutions, as well by reflecting the insights of the challenges faced by each region in drafting visions and rulemaking.

Creation of Value at the Front Line in Each Region

Promotion of Co-creation

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Expand Lumada Solution Hub* and contribute to strengthening “Scale of Digital” business

To realize this, Hitachi is expanding open co-creation spaces in regions of focus to strengthen initiatives in areas of growth and resolution of societal issues. Following the launch of “Kyōsō-no-Mori” from the Central Research Laboratory in Tokyo, Japan, in April 2019, we opened a center for the development of digital solutions through open co-creation in Santa Clara, California, U.S., in May. Further, the R&D resources on the West Coast of North America were relocated to the same office as Hitachi Vantara to facilitate close collaboration across business divisions. We are also exploring business models together with startups through ideathons and hackathons held at such centers. In October 2019, Hitachi and the state Government of New South Wales, Australia, agreed to establish a Kyōsō Centre (co-creation center) in Western Sydney by 2023 to accelerate the creation of social innovation. Further, in May 2020, Hitachi signed a memorandum of understanding with the Liverpool City Council and the South Western Sydney Local Health District, to collaborate in areas such as digital healthcare. In April 2020, the Lumada Data Science Lab. was established within Kyōsō-no-Mori by bringing together top talents in the area of data science to further enhance the values delivered through digital solutions.
Sharing Vision to Resolve Future Societal Challenges

While studying challenges that society may face in the future, Hitachi is using the insights to craft visions of how those challenges might be resolved while maintaining economic growth. We will also be stepping up our efforts to share those visions with the world. As part of this activity, joint laboratories were established with the University of Tokyo, Kyoto University and Hokkaido University in 2016. Hitachi also shares its vision through industry-academia-government forums to discuss societal issues, policy proposals and publications. Hitachi The University of Tokyo Laboratory has made statements and held forums on next-generation power grid systems, and in 2020, is focusing on total energy management for zero carbon emissions. Through such initiatives, Hitachi is working to contribute to the resolution of environmental and societal issues.

With regard to regional co-creation activities, in Southeast Asia, Hitachi is working to implement “working with Chulalongkorn University” in Thailand to create new services to realize digital cities of the future, and contribute to the development of human-centric communities in Thailand. In China, Hitachi signed a strategic agreement with Tsinghua University in 2018, “Future Innovation Collaboration Plan,” and has been engaged in projects such as healthy aging. In August 2019, a technology exchange event was held with the National Development and Reform Commission on the theme of “digital economy and healthy aging.” We will contribute to raising social, environmental, and economic value in China through such activities.

Leveraging Strengths in Technology to Create Value

Co-creation with Customers in OT × IT × Products

Working with Hitachi teams on the global front to create solutions that enhance our customers’ corporate value and peoples’ QoL, we are leveraging the technology platforms, including R&D in OT × IT × Products, and applying it to “Scale of Digital” business centered on IT sector, as well as “Scale by Digital” business, centered on OT and products to contribute to the expansion of Lumada business.

For the “Scale of Digital” business, OT × IT specialists have been assigned to each region in North America, Europe, China, Asia Pacific, and Japan to form teams to realize challenges faced by our customers in those regions, and achieve an horizontal expansion by developing digital solutions such as maintenance repair through co-creation with customers.

For the “Scale by Digital” business, Lumada solution cores that can be applied across the five sectors for solutions development, such as blockchain and data analysis technologies, are being used to connect multiple services and stakeholders to create value in areas such as Mobility-as-a-Service (Maas), Infrastructure-as-a-Service (IaaS), and smart manufacturing and logistics. For example, in IaaS solutions, Hitachi provides value to businesses and passengers by coordinating regional transportation networks and peripheral services by applying technologies developed for railway systems such as operation control and scheduling. Field trials have begun in several cities in Italy and elsewhere in fiscal 2020. In the area of smart manufacturing and logistics field, by realizing automatic selection of optimal plan parameters and dynamic demand-responsive plans, the value chain of production, facilities and logistics, we will deliver services that can adapt to changes in the business environment.

Through such initiatives, we will use OT technology, one of Hitachi’s strengths, to differentiate ourselves and further enhance value creation in each region.

Collaboration with Startups

In April 2019, the Corporate Venture Office was established to plant the new seeds for new growth through investment and collaboration with startups, and promote open innovation. Further, the fund management company, Hitachi Ventures GmbH was set up in June 2019, followed by Hitachi Ventures North America in December, to make the first $150 million investment fund. New seeds of innovation are being sought in Europe, North America and Israel, and we will pursue investments that advance collaboration in line with scenarios drawn to augment Hitachi’s business portfolio in the future. We are already communicating with over 1,000 startups, and have invested in three firms and working on several collaborative projects. Disruptive technologies and business models are being adopted, and achievements are being reflected in corporate R&D strategies and R&D strategy. Hitachi will continue to invest in the future to realize new social, environmental and economic value while closely monitoring the impact of COVID-19 on the investment environment, as well as changes in macroeconomic conditions through such activities.

In July 2020, Happiness Planet, Ltd., was established with the objective of creating new industries in happiness and well-being. An app business to support organization management is being developed using wearable devices and smartphones to quantitively measure people’s sense of well-being and increase organizational activity. The new company adopts the “Ojeima” approach advocated by Keidanren (Japan Business Federation), which has both the agility of a venture company with the advanced technology, and trust and sales channels of Hitachi.

Hitachi is adopting outside-in and inside-out initiatives, to rapidly create new businesses while staying one step ahead of changing needs in society.

* The Dejima Strategy is a reform that was proposed by Keidanren (Japan Business Foundation) in 2018. Its main aim is for businesses to develop and bring new goods and services to the market in a manner that is positive for society.

Global No. 1 in Technological Platforms

To create innovations drawing on advantages of OT × IT × Products, Hitachi is focusing on the development of Lumada CPS (Cyber Physical System) which connects cyberspace and the real world, and prioritizing the core technologies of “AI,” “Trust” and “Beyond 5G/6G.”

For AI, we have developed “Explainable AI” technologies that can explain the rationale behind decisions reached by the AI. Hitachi has developed a highly accurate loan screening application that refers to both internal data from financial institutions (e.g., card loans, mortgage, housing loans) and external data (e.g., economic indicators, GIS information). We are pursuing a real-world operation of explainable AI through a co-creation initiative with a Vietnamese financial institution.

In the area of Trust, Hitachi is proceeding with technology development in public biometrics infrastructure (PBI) using proprietary hands-free authentication system and confidential information-processing technologies that allow data to be processed while encrypted. With regard to PBI, several research papers have been cited in the ISO/IEC 30136 world standards issued in March 2018. Field verifications are currently being conducted with UC Cart Co., Ltd., on cashless settlements that use PBI. Further, in the area of cybersecurity, Hitachi in collaboration with Keio University and Chubu Electric Power Co., Ltd., developed technology to analyze darknet communications (communications to IP addresses that have not been assigned to a particular computer) that are hidden from the public, from among the dubious communications coming from multiple unknown organizations, in order to prevent increasingly sophisticated cyberattacks, and showed that it is possible to predict cyberattacks.

For Beyond 5G/6G, Hitachi has built 5G testbeds in Kyoto-no-Mori and in North America, to accelerate R&D to realize secure real-time control systems in 5G environments. Among growing needs for automation, reduced human presence and remote capabilities in various fields due to the impact of COVID-19, Hitachi is accelerating the deployment of Lumada × 5G especially for remote operation of equipment in factory settings, remote work and the monitoring of buildings and infrastructure.

In addition, the Hitachi Group’s secure measurement and control technologies are contributing to global growth in the Lumada business by advancing Lumada CPS and enhancing real-time connections between cyberspace and the real world.
Initiatives to Enhance Product Advantages

Hitachi products include rolling stocks for high-speed railways, elevators & escalators, particle therapy system, biochemical immunoassay equipment, inverters and air compressors. Next-generation technologies enhancing these key products are being developed. In February 2020, Hitachi was presented with the 66th Okochi Memorial Production Prize for technologies related to high-speed railway rolling stocks. We are also focusing on initiatives in robotics for automation, labor savings and remote operations, as well as electrification for a zero-carbon society. In the area of robotics, in April 2020, Hitachi commercialized the communication robot “EMIEW” which offers guidance, monitoring and patrol services within buildings. In the manufacturing and logistics fields, Hitachi is developing technologies that enable multi-robot coordination, and autonomous technologies that facilitate high-speed item recognition and sorting with picking machines. Hitachi has commercialized pick-and-place technologies, in addition to the automated guided delivery vehicle, RaceWay. We are also developing robotics technologies for unmanned installation and maintenance operations. In vehicle electrification, Hitachi is contributing to the reduction of CO2 emissions in electric vehicles and industrial equipment by increasing the efficiency of electric power systems, such as motors and inverters. An 800-V inverter for long-distance drives was developed for automobiles. In 2019, Hitachi was awarded a Best 10 New Products Award from Nikkan Kogyo Shim bun. For industrial applications, we are developing an amorphous motor based on IEC standards for energy conservation. These efforts were recognized in 2020 with the presentation of the Ichimura Prize in Global Environment Industry - Achievement Award. Hitachi will continue to pursue greater efficiency in electric power systems.

Creation of Disruptive Technologies for the Future

Aiming for a human-centric society, we are focusing on the development of disruptive technologies in the fields of quantum computing, regenerative medicine and the environment—new technologies that will change society.

In the area of quantum computing, following the commercialization of a CMOS annealing machine, we are also pursuing the development of a gate-type quantum computer. R&D at the Hitachi Cambridge Lab., which welcomed its 10th anniversary, as well as in Japan, is being strengthened. Recently, we successfully developed a prototype for the basic structure of a 2D quantum bit array using silicon semiconductors. In contrast to conventional superconducting devices, Hitachi’s approach enables the large-scale integration needed to reach industrial scale. Hitachi is also a member of the Quantum Innovation Initiative Consortium which is a joint research and development project between leading universities and companies around the world. Hitachi is facilitating the development of regenerative medicine in Taiwan. To become a company that leads in creating environmental value, Hitachi is developing high-efficiency electrically powered equipment while working on the development of renewable energy and hydrogen systems. On the renewable energy front, we are developing systems to help stabilize the supply of electricity and strike a balance in supply and demand when large volumes of renewable energy are added to the power grids. In hydrogen production and usage systems, we are moving ahead with experimental projects. Through our participation on the Tokyo Zero-Emission Innovation Bay Council established by the Ministry of Economy, Trade and Industry of Japan, we are contributing to industry-academia collaborations for zero emission.

Initiatives in Intellectual Properties (IPs)

Amid an ongoing international pro-patent shift, Hitachi is strengthening its intellectual property activities in products and solutions. To demonstrate our OT × IT × Products strengths, we have formulated IP master plan that defines areas of focus and bolsters our IP creation activities. This resulted in Hitachi being awarded the Intellectual Property Achievement Award by the Minister of Economy, Trade and Industry in Japan for the first time in June 2020. To further drive the global deployment of Lumada solutions under the 2021 Mid-term Management Plan, we intend to obtain intellectual property rights of solution inventions and core technologies that support Lumada, in advance of other companies. Through business integrations, we are promoting the mutual use of patents, including with companies newly joined to the Hitachi Group. In addition, based on the “IP for society” concept, an intellectual property strategy for a new era, we are aggressively promoting the openness of intellectual property in specific fields with high public utility. While advancing these activities, Hitachi contributes to solutions for global social issues by participating as a partner in the “WIPO GREEN” platform for transferring environmental technologies, that is operated by WIPO (World Intellectual Property Organization).

Securing and Developing Diverse Global Human Resources

Based on its 2021 Mid-term Management Plan, Hitachi has formulated the 2021 Human Resources Strategy with the aim of having each and every employee around the world contribute to the creation of safe and vibrant workplaces while respecting diverse value systems, and having its employees feel pride and happiness working for Hitachi with opportunities for growth through work. All employees around the world are educated on Hitachi’s value systems, beginning with the Hitachi Group Identity and within it, Hitachi’s founding spirit of “harmony, sincerity and a pioneering spirit.” Our employees around the world look beyond countries, regions and business divisions to contribute to society as One Hitachi. Hitachi is stepping up efforts to secure and train global human resources by evolving its training, evaluation, compensation and hiring systems based on a core strategy of effecting changes in human resource management in a bid to spur innovation and create new value in the global and digital era.

Diversity & Inclusion

Hitachi is keen to create companies where human resources with diverse cultural backgrounds, experiences and ways of thinking can work together.

Diversity is the wellbeing of our innovation and our growth engine. Hitachi regards personal differences—such as gender, nationality, race, religion, background, age, and sexual orientation—as well as other differences, as facets of people’s individuality. By respecting our employees’ individualities and positioning them as an advantage, Hitachi frames its diversity and inclusion as conducive to both the individual’s and the company’s sustainable growth. With a diverse workforce, strong teamwork and broad experience in the global market, we will meet our customers’ needs.

We are promoting diversity management as a key management strategy under the initiative slogan “Diversity for the Next 100.” We believe it important to recognize diverse values and share opinions if we are to provide optimal solutions based on an accurate understanding of the complex issues confronting society and our customers. With the goal of having members with different values on the same team sharing the same goals, we are working not only to secure and train a diverse workforce but also to create a workplace where each of these individuals can work to the best of their abilities. Hitachi, Ltd., and 15 major group companies jointly operate the Advisory Committee and the Hitachi Group Diversity Development Council, which focus on accelerating the promotion of diversity across the Hitachi Group as a whole, including in regard to supporting diverse human resources and providing work-life management. The Advisory Committee implements to the fullest the Company’s diversity management policies, while the Diversity Development Council shares best practices and discusses specific diversity-related activities. Each committee meets every six months alternatingly. Group companies and business groups/sites have also set up their own diversity-promotion organizations and projects, such as those to help develop women’s careers, to enhance initiatives geared to the challenges faced by individual workplaces. Hitachi from fiscal 2018 has broadened the sharing of diversity promotion policies across the entire group, with group companies around the world working together to accelerate implementation.

How We Will Grow
Diversity Activities and Developing Women’s Careers

With the goal of promoting participation in management decision-making by people with diverse backgrounds and enabling as many female employees as possible to take up leadership positions, Hitachi, Ltd., has created two key performance indicators (KPIs) for the appointment of women in executive and managerial positions. In fiscal 2013, Hitachi set a goal of promoting women to executive positions by fiscal 2015. In April 2015, the Company appointed its first female corporate office, a position equivalent to the executive level. We will continue to promote this goal to ensure that diverse views and values will be reflected in our management. In November 2017, we publicly announced our commitment to increasing the rate of non-Japanese and female executive and corporate officers to 10%, respectively, by the end of fiscal 2020. We are also working to promote more female employees to managerial positions, aiming to double the number of female managers to 800 by the end of fiscal 2020 compared with fiscal 2012. These efforts demonstrate our commitment both internally and to the world to improve our diversity management.

As part of our efforts in this area, we have been holding the Global Women’s Summit as a venue for diverse Hitachi Group employees from various countries and regions, companies and positions to mingle and discuss gender equality. This event is held in a different country each year to get as many employees to participate as possible. In fiscal 2019, the Global Women’s Summit was held in Japan in October. On the day of the event, Toshiaki Higashikawa, President & CEO, and female Independent Director gave keynote speeches, panel discussions were held by Hitachi’s leaders from each region, and workshops were held about careers and panel discussions were held by Hitachi’s leaders from each region, and workshops were held about careers and panel discussions were held by Hitachi’s leaders from each region, and workshops were held about careers and panel discussions were held by Hitachi’s leaders from each region, and workshops were held about careers and panel discussions were held by Hitachi’s leaders from each region, and workshops were held about careers.

Global Human Resource Management

The development of the Social Innovation Business requires us to actively investigate social and customer issues and then cooperate with customers to create all new solutions. With the goal of creating innovation and new value in the global and digital era, Hitachi is focused on securing and fostering a diverse workforce and the organizations capable of driving sustainable growth. Starting with a common human resources system for the global group companies, Hitachi aims to assign the right personnel to the right positions, allocating the best human resources to key positions on a global basis. To achieve this goal, Hitachi clarifies the roles and responsibilities of each position, as well as reporting lines, to find a common approach to human resource management globally. With this shared understanding, we endeavor to nurture an organizational culture that respects diversity while centering on individual capabilities and build a global business structure based on this culture.

Framework for Global Human Resource Management

Hitachi has introduced measures, including the Hitachi Global Grade and Global Performance Management systems, to create a human resource management platform shared globally across the entire group.

In January 2018, Hitachi launched the full-scale operation of the human resource management integrated platform, centralizing processes and measures enacted to date, with a broad range of information about its human resources, including the skills and career ambitions of individual employees. This platform is utilized in optimally allocating personnel around the world, discovering and grooming candidates for future leadership and management positions, and communications between managers and employees.

Employees clarify their ideal careers, and companies identify the necessary work skills and experiences. We are shifting toward job-based human resource management, whereby the best people are optimally assigned to positions in accordance with each employee’s abilities and ambitions, without regard to factors such as age. More specifically, we visualize job functions through preparing job descriptions that describe the job content as well as desired skills and experiences. Several managers gather to discuss the strengths and career goals of their subordinates and conduct talent review sessions to explore options for job training and assignments. By introducing this framework, Hitachi is accelerating the switchover to the job-based management of human resources that clarifies the work and roles of each employee as well as performance expected and achieved.

Ensuring Fair Evaluations and Compensation

Aim the ongoing globalization of business, there is an increased need to establish a global human resources system that ensures fair evaluations and compensation. To attract a diverse and highly engaged workforce, Hitachi is focused on building a consistent management system and accordingly follows a common “Global Compensation Philosophy” based on “Maintaining Market Competitiveness,” “Pay for Performance” and “Ensuring Transparency.”

We are developing a compensation system that is fair and competitive in the context of each country or region’s labor market, with an individual’s compensation determined after an evaluation of performance. Individual assessments are conducted annually to set each employee’s compensation, and feedback on performance results is provided to inspire each employee to develop and grow even further.

We ensure compliance with the laws and regulations of each region in which we operate when determining compensation. Starting pay for new graduates in Japan—representing about half of all new graduates recruited each year across the Group’s global operations—was roughly 20% higher than the weighted average of Japan’s regional minimum wages.
Accelerate ROIC Management

Promoting ROIC Management with a Higher Awareness of Capital Costs

Under the 2021 Mid-term Management Plan, Hitachi has set forth a policy of investing in growth to become a global leader. Beginning with its ¥1 trillion acquisition of ABB’s power grids business, Hitachi has decided to allocate ¥1.8 trillion for growth investments, centered on the IT, Energy and Industry sectors. To efficiently execute these large investments for future growth, Hitachi has used return on invested capital (ROIC)* as a management benchmark since fiscal 2019. ROIC is an indicator of how much profit (after-tax business profit) can be generated on capital invested in a business (invested capital). To improve ROIC, returns need to exceed the weighted average cost of capital (WACC), which is the cost of raising invested capital. By using ROIC as a key performance indicator (KPI), Hitachi is encouraging management to be more aware of the cost of capital, in addition to the goal of improving profitability.

Financial and Capital Strategy

Financial Analysis of the Past Five Years

The following is a summarized financial analysis of the Hitachi Group over the past five years.

<table>
<thead>
<tr>
<th>Year</th>
<th>ROIC (%)</th>
<th>D/E Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>16.2</td>
<td>0.35</td>
</tr>
<tr>
<td>2016</td>
<td>17.1</td>
<td>0.29</td>
</tr>
<tr>
<td>2017</td>
<td>18.0</td>
<td>0.23</td>
</tr>
<tr>
<td>2018</td>
<td>19.0</td>
<td>0.17</td>
</tr>
<tr>
<td>2019</td>
<td>20.0</td>
<td>0.09</td>
</tr>
</tbody>
</table>

The following are summarized financial ratios of the Hitachi Group over the past five years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CCC</td>
<td>365</td>
<td>358</td>
<td>350</td>
<td>343</td>
<td>336</td>
</tr>
<tr>
<td>D/LN</td>
<td>699.3</td>
<td>765.2</td>
<td>812.3</td>
<td>867.5</td>
<td>923.5</td>
</tr>
</tbody>
</table>
| Cash on cash equivalents | ¥2.0 trillion–¥2.5 trillion over three years | Continuous return of profits targeted in the 2021 Mid-term Management Plan.

Ensuring Financial Stability

Hitachi recognizes that ensuring the stability of our financial base is an important management issue in terms of realizing growth investments (¥2.0 trillion–¥2.5 trillion over three years) and continuous return of profits targeted in the 2021 Mid-term Management Plan. To this end, we must maintain an A-rating on our corporate bonds and a D/E ratio of about 0.5 times.

The Hitachi Group’s ability to generate cash has increased steadily over the past five years with improvements in our financial structure leading to rating improvements as shown in the table on the right.

Rating and Investment Information, Inc. (Rai): AA- a-1+
As of September 2020

Hitachi Integrated Report 2020
Reinforce Management System to Improve Profitability

Financial and Capital Strategies and Shareholder Returns Going Forward

- **Basic Approach to Funding Procurement**
  Funding procurement is conducted by the most appropriate means considering a variety of conditions, including the timing and funding required for business. When procuring funds through borrowing, our financial discipline policy is to maintain a D/E ratio of less than 0.5 trillion in cash on hand, borrowings and gains from the sale of assets.

- **Basic Approach to Capital Costs**
  Regarding the cost of capital (hurdle rate) used for individual investment decisions, calculations are made on a case-by-case basis in light of interest rates, country risks and the expected stock market returns in the country where the investment will be made.

Total Shareholders Return (TSR) for Hitachi, Ltd., Over the Past 10 Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Past 1 Year</th>
<th>Past 2 Years</th>
<th>Past 3 Years</th>
<th>Past 5 Years</th>
<th>Past 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi share price</td>
<td>-13.0%</td>
<td>-12.2%</td>
<td>-16.8%</td>
<td>-17.9%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>TOPX including dividends</td>
<td>0.4%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>TOPX Electrical Equipment including dividends</td>
<td>0.5%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

While continuing to improve profitability and distribute a stable dividend, Hitachi is making concerted efforts to increase shareholder value through management that is aware of its share price, based on business and financial strategies designed to improve TSR in excess of the cost of shareholders’ equity.

Strengthening Cash Management

To keep pace with the rapid changes in society and the economy, Hitachi places an emphasis on stable cash flow by 1) ensuring adequate liquidity on hand; 2) enhancing the generation of cash flows from operating activities by obtaining business opportunities, reducing working capital, such as inventories, and structural reforms; and 3) reviewing priorities for capital expenditure and other investments and loans, while selling off assets.

Cash Flows

- **Cash flows from operating activities**
- **Cash flows from investing activities**
- **Core cash flows**

Restructuring of the Business Portfolio

To become a global leader in the Social Innovation Business, Hitachi is accelerating M&A with the intention of realizing an optimal business portfolio, and to promote efficient group management while strengthening governance, the Company is conducting a review of capital policy at listed subsidiaries and reducing the number of group companies.

As of the end of June 2020, the number of consolidated subsidiaries was 739 companies (153 in Japan and 586 overseas), a decrease of 64 companies from the end of March 2019. Regarding its listed subsidiaries, in April 2020, Hitachi sold shareholdings in Hitachi Chemical Co., Ltd., to Showa Denko K.K. In May 2020, Hitachi acquired the remaining shares in Hitachi High-Tech Corporation, turning it into a wholly owned subsidiary. For the two listed subsidiaries, Hitachi Construction Machinery Co., Ltd., and Hitachi Metals, Ltd., Hitachi continues to review its capital policy. Furthermore, new decisions have been made concerning the diagnostic imaging operations of the Healthcare Solutions Group, and in the railway systems business, we sold some additional shares in U.K.-based Agility Trains West (Holdings) Limited, a rolling stock leasing firm, in April 2019. Hitachi continues to sell off non-core businesses and withdraw from low-margin businesses.
Supporting Hitachi Group’s Social Innovation Business through the appropriate capital allocation

Yoshihiko Kawamura
Senior Vice President and Executive Officer, CFO

Mr. Kawamura joined Hitachi in 2015 after serving as an executive officer at Mitsubishi Corporation. Leveraging the experience he gained at Harvard Business School and the World Bank, he has played a key role as Chief Strategy Officer (2016) since 2019 and has driven structural reforms and the design of the 2021 Mid-term Management Plan. He was appointed Chief Financial Officer (CFO) in April 2020.

Q: Having been promoted from CSO to CFO, how are you approaching your role as CFO?

The primary duty of the CFO is to make management decisions, mainly about investments, in addition to budgeting and compiling results, the actual work of legal financial accounting, and ensuring accounting compliance. In my previous role as CFO, I oversaw growth and investment strategies, as well as the Mid-term Management Plan. As the CFO starting in April this year, I am in position to manage major business decisions by allocating capital and funds across the entire company and comprehensively monitoring returns as a result of it. Japanese companies divide up the roles and responsibilities of the CFO (a majority of which belong to the corporate planning department) and the CFO, but around the world, many companies combine the functions of the CSO and CFO. I believe the experiences I gained as the CSO will be useful in fulfilling my responsibilities as the CFO.

In its 2021 Mid-term Management Plan, ending March 31, 2022, Hitachi plans to execute ¥2.0 trillion–¥2.5 trillion in growth investments. The funds needed for these investments are, of course, based on our operating cash flows, but being procured from diverse sources, including debt financing (e.g., loans from financial institutions, issuance of corporate bonds). Looking ahead, we are keen to maximize returns on investments by appropriately allocating capital while aligning investments with our strategies, procuring capital through an optimal combination of means with an eye on a rise of debt costs. If necessary, Hitachi will reshuffle its business portfolio. It is important to steer the portfolio toward assets that generate higher returns, while optimizing operations on the capital procurement side. Business restructuring is done while comprehensively considering strategic value and synergies with core businesses. On occasion, decisions are made to scale down or withdraw from businesses even if they are profitable.

Q: Last year, Hitachi added return on invested capital (ROIC) as a key performance indicator. What are your thoughts on ROIC management over the past year?

In the past, operating income and operating income ratio were our key performance indicators. In addition to these KPIs, we introduced ROIC as a new indicator last fiscal year, for the purpose of clarifying our intention of pursuing profits commensurate with the cost of capital, while remaining aware of the balance sheet. Hitachi is in position to accelerate company-wide growth by improving capital efficiency and concentrating management resources in highly profitable businesses. Foreign investors make up approximately 50% of Hitachi’s shareholders. Part of the reason we introduced ROIC as a KPI is because these foreign investors pay close attention to the cost of capital. Over the past year, we have striven to instill ROIC management from business units (individual profit centers) to the front lines by using an ROIC tree, which breaks down the individual elements of ROIC and suggests ways to improve each one. To increase earnings, ROIC must exceed the weighted average cost of capital (WACC), a measure of procuring cost of capital (i.e., ROIC spread is a positive value). Since last year, we have periodically conducted reviews of ROIC in each business unit. I believe the rollout of ROIC has had an impact, as discussions have come to center more on ROIC and consensus has formed around ROIC, based on whether the cost of capital aligns with the business being advanced. In addition, ROIC management is increasingly understood in light of the reorganization and use of idle assets such as land, and the concentration of capital that leads to greater investment efficiency. Despite the impact from COVID-19, which was not envisioned when the 2021 Mid-term Management Plan was drafted in early fiscal 2019, our key management targets have not been changed as of today for capital allocations, including ¥2.5 trillion for growth investments, a 10% adjusted operating income ratio and 10% ROIC. Debt has increased considerably in accordance with the massive investment Hitachi made to acquire ABB’s power grids business, resulting in a temporary deviation in the Debt/Equity (D/E) ratio above our target of 0.5 times, which was set relatively conservatively. Hitachi plans to continue investing in growth while leveraging under the adequate financial discipline and controlling debt so the D/E ratio falls back below 0.5 times going forward. When executing investment, it is necessary to create earnings opportunities while managing risks. By understanding and analyzing the constant changes in the business environment and considering societal issues, our competitive advantages and constraints on management resources, we seek to properly identify and manage a variety of risks as a company. I believe one of my most important duties is to judge and monitor these risks.

Q: Can you explain Hitachi’s approach to capital allocation?

Hitachi is keenly aware of the importance of growing in tandem with capital markets. We believe in the importance of having constructive conversations with participants on capital markets that watch companies in various industries along different time lines. For this reason, we make a concerted effort to prepare informational environment for it. Accordingly, this fiscal year, we took a leap of raising our disclosure level of managerial information. I hope that these enhanced disclosures will shed more light on Hitachi’s management conditions among capital market participants. Hitachi mainly considers growth investments in the area where significant synergies with Lumada, our strategic core, can be anticipated, namely digital and IT businesses. In an environment of rapid advances in technology (big tech era), being too much cautious on investment strategies could translate into various opportunity losses in the future. Hitachi aims to maximize corporate value though the pursuit of relatively short-term profits and medium- to long-term growth investments, while considering the balance of overall resource allocations, including R&D spending.

As for shareholder returns, I believe improving corporate value is fundamentally important, more than anything else. We aim to increase earnings per share as a result of increased profitability of overall businesses, which is achieved through investments based on appropriate strategies and the creation of an optimal business portfolio by shifting assets from weak-performing businesses into relatively profitable businesses. And we believe it is also important to steadily and continually increase dividends. When the timing and various conditions are right, Hitachi considers share buybacks. Hitachi intends to comprehensively improve shareholder returns while striking a balance among increasing corporate value, dividends and share buybacks (maximize total shareholders return).

Q: What is Hitachi’s policy on allocating financial and nonfinancial resources in line with its aim of becoming a global leader in the Social Innovation Business?

Hitachi follows strategies that move it closer to its vision of becoming a global leader in the Social Innovation Business. It is important for us to support business units, the front lines for advancing its strategies, on the financial side. I believe the core mission of the finance department is to maximize efficiency in the procurement of financial resources and effectively deploy them to facilitate their sales activities without restriction.

Hitachi promotes the Social Innovation Business by amplifying its presence in social infrastructure and digital transformation. As exemplified in the acquisition of ABB’s power grids business, it is necessary to mobilize a large sum of funds for the Social Innovation Business, and we need to come up with an optimal solution to these funding needs. In addition, it is important to prepare a financial foundation on a regular basis so that these essential investments can be made in a timely manner. Hitachi has an adequate level of liquidity, as the pace of capital accumulation has accelerated alongside constant increase in profits. Readying a foundation for procuring funds is a crucial element of financial strategy, and this foundation entails building cordial and all-around relationships with external financiers and investors, including financial institutions and capital markets around the world, international institutions and government entities.

Furthermore, social expectations for corporations have changed dramatically. For a sustainable company, the nonfinancial side has become increasingly important, in terms of contribution to solutions for social and environmental problems, in addition to management indicators that focus on profitability. Hitachi is proactively tackling social and environmental issues, such as by reducing its carbon footprint, a cause of global warming, and augmenting its corporate behavior as a good corporate citizen. Strategically investing in fields that facilitate solutions for these social and environmental problems should translate into medium- to long-term growth for Hitachi, in my opinion. If we lose sight of the nonfinancial aspects of social and environmental values and mechanically make investment decisions based on the adequacy of short-term profitability, our future corporate values could be eroded. To pursue economic, social and environmental value in parallel (not sequentially), Hitachi will manage operations with an eye on medium- to long-term returns, while paying due consideration to nonfinancial value and relationships, which do not always factor into short-term profitability. The finance department lends its support to the parallel pursuits of economic, social and environmental value.
**Story of Value Creation in the IT Sector**

Digital transformation (DX) is attracting considerable attention. DX refers to a trend in which digital technologies such as AI, IoT, robotics and 5G are being used to respond to the digitization of market environments. As this trend unfolds, it is transforming the economic activities of companies and the business models that form them, as well as the internal organizations, cultures and systems that make up the companies themselves. In 2020, the COVID-19 pandemic resulted in a global turning point for values regarding how business should be ideally conducted in response to consumer activity and supply chain considerations, and for business philosophies in general. Individual lifestyles and work styles have also changed significantly due to the pandemic. Amid this “New Normal,” demand for remote, contactless, and automation including unmanned and labor-saving technologies is growing, and DX appears likely to pick up further speed moving forward.

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**Principal Products and Services**

![Principal Products and Services chart]

**How We Will Grow**

We have expanded revenues and improved profitability in the IT sector by reinforcing front-line functions related to financial, public and social infrastructure systems and expanding services and platforms that support DX, including those associated with cloud services, data analytics, and IoT and AI technology.

Meanwhile, the IT sector has been a major driving force behind the Lumada business, which is an engine of overall growth for Hitachi, while also acting as a cross functional organization in collaboration with the Energy, Industry, Mobility and Smart Life sectors to promote business expansion.

Moving forward, we will actively invest in growth with the goal of steadily promoting the “sales expansion in the growing global market” detailed in our 2021 Mid-term Management Plan and accelerate the global rollout of Lumada while striving to achieve business expansion.

In terms of specific measures, we strengthened systems supporting the global expansion of the Lumada business with our January 2020 integration between Hitachi Vantara Corporation and Hitachi Consulting Corporation. This new Hitachi Vantara LLC will play a key role in carrying out front-line and delivery functions while striving to maintain close collaboration with the entire Hitachi Group and driving global expansion of the Lumada business. In addition to this integration, in April 2020, we obtained digital service business expertise, excellent data scientists, as well as new customer bases, from Fusinex International Plc in Malaysia. Moving forward, we will incorporate AI and data analytics technology and expertise regarding subscription-model service businesses into the Lumada business as we aim for business expansion in the global market.

Meanwhile, we will continue to consider further acquisitions and alliances aimed at procuring personnel, business sites and other business resources.

Furthermore, we are working to establish Lumada Solution Hub, a common platform that will allow customers to quickly implement Lumada, while developing advanced digital technology. In the future, we will utilize the technology and expertise in the IT sector to digitize, and increase the added value provided by, products and solutions businesses associated with other sectors and promote business expansion.

**Global Business Promotion**

In January 2019, we established a joint venture with State Bank of India (SBI), the largest state-owned commercial bank in India. Through this venture, we aim to build a digital payment service platform for the next generation. By collaborating with SBI, which has about 400 million customers (equivalent to roughly one-third of India’s population), we are analyzing and utilizing vast amounts of digital payment data obtained from point-of-sale (POS) systems, e-commerce, and transportation fare payment systems in an effort to provide high-value-added services in India. In fiscal 2020, we established a department within Hitachi Payment Services Pvt. Ltd. that focuses on data analysis with the goal of promoting further business collaboration with SBI. At the same time, this department began to collaborate with Hitachi’s R&D Division as the company aims to create new services that leverage payment data.

In Vietnam, we began field testing an automatic loan contract service through a partnership with VietCredit Finance Company, a local financial institution, in February 2020. Once ready, this service will digitize loan agreement processes ranging from initial applications to subsequent screenings and conclusions. By establishing the first-ever automatic loan contract service in Vietnam, we will reduce the burden of service counter operations that were previously conducted using paper and aim to raise the efficiency of office services. At the same time, we will enable detailed, data-based screening utilizing our original AI technology, which has been successfully utilized in home loan screenings in Japan.

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**Results and Targets**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>FY2019 (FY2019 Results)</th>
<th>FY2020 (Forecast)**</th>
<th>FY2021 (Target)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>¥2,099.4 billion (26%)</td>
<td>¥2,020.0 billion (27%)</td>
<td>¥2,600.0 billion (42%)</td>
</tr>
</tbody>
</table>

*1 Announced at Hitachi IR Day 2019
*2 Announced at Hitachi IR Day 2020

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**Vision in the 2021 Mid-term Management Plan**

In the IT sector, we are using the power of digital technologies to fulfill the expectations of customers in Japan and overseas while aiming to realize a sustainable society and become a top-class solution provider in the global market. The impact from the spread of COVID-19 has given rise to concerns of further stagnation in IT demand. However, the pandemic has also accelerated the global acceleration of DX, a trend in which digital technology is being used to transform corporate management and business models. This intensification of DX is also generating more opportunities for investment. In response to corresponding needs, we are aiming to improve the social value generated by our digital solution business in the highly developed financial and social infrastructure fields. At the same time, we are striving to raise overall environmental efficiency throughout the lifecycle of our products and services while targeting the creation of environmental value.
Continuing to Prevent the Spread of COVID-19

Hitachi is supporting customers in their pursuit of DX by using Hitachi’s digital technologies in response to the “New Normal” with COVID-19. For example, we will provide a variety of solutions that support remote working, including systems that allow customers to use devices such as tablets, smartphones and laptops to safely access their normal digital work environments from any external environment, including homes and satellite offices. Through these solutions, we furnish business continuity support for both organizations and activities, including many companies and social infrastructure-related projects. In addition, Hitachi Vantara provides a body temperature detection solution for the COVID-19 pandemic that unobtrusively scans people with a greater accuracy than manual temperature measurement. The system scans people who may be queuing to enter a venue or facility. Once its machine learning software detects an individual with a temperature exceeding the threshold level, the system will issue an alert. With this system, we support risk management in event venues and other places in which people gather in large groups. The system can also be used to detect and measure social distancing, and to monitor proper handwashing, without gathering private information. Furthermore, Hitachi-Omron Terminal Solutions, Corp. has developed “touchless solutions” that achieve clean, contactless device operation without requiring users to manipulate any equipment or parts; its aerial input device has already launched and allows users to operate devices by touching an image that is projected into the air, rather than a button or touch panel.

Maximizing the Added Value Provided by Solutions with Lumada×5G

In 2020, telecom carriers began providing commercial services based on 5G, which is the next generation telecommunication system. This high-speed telecommunication network launch amidst the spread of IoT technology will dramatically increase Hitachi’s potential for providing solutions as it supports DX. Hitachi has established experimental 5G stations within its factories, offices and research laboratories and is using them to accumulate the technical knowledge required to construct 5G environments. By examining and developing use cases in 5G environments and services, the entire Hitachi Group is supporting the 5G solutions that are expected to form a thriving new market. Based on the expertise and technologies cultivated through these efforts, the Hitachi Group will provide total support for the construction and implementation of 5G environments in a wide range of companies and local governments. This comprehensive support will include network design, construction, operation and maintenance, as well as the provision of upper-layer applications. Particularly in the Industry field, where needs are reportedly most prevalent, we are preemptively developing and testing use cases and technologies cultivated through these efforts, the Hitachi Group can provide solutions as it supports DX.}

Story of Value Creation in the Energy Sector

Global demand for energy has continued to increase alongside social innovations, such as increasing popularity of electric vehicles (EVs), further industrial electrification and scale-up of data centers, in addition to population increase and economic growth. Around the world, the movement to reduce CO2 emissions and decarbonize has gained momentum to combat climate change. In developing countries, meanwhile, more than a billion people struggle to live without electricity due to severe power shortages. To solve these problems, Hitachi is contributing to society by energy solution businesses including power grids, nuclear energy and renewable energy leveraging its strengths in OT × IT × Products.

How We Will Grow

In the Mobility, Smart Life and Energy sectors, we will develop a range of applications that support new value creation through the use of 5G technology, conduct relevant preparations and development on the Lumada Solution Hub, and swiftly roll out these applications within the market. Featuring ultra-high speed, low latency and support for multiple connections at the same time, 5G has the potential to facilitate further evolution in digital technologies such as AI, IoT and robotics. It also speeds up cyber-physical systems, which process and analyze a variety of data on a large scale in cyberspace and apply the results in the physical world. 5G is an essential platform that provides the fundamental technologies that will accelerate the development of the world envisioned through Hitachi’s Lumada, where OT and IT have fused. With the development of 5G, Hitachi will form a thriving new market. Based on the expertise and technologies cultivated through these efforts, the Hitachi Group will provide total support for the construction and implementation of 5G environments in a wide range of companies and local governments. This comprehensive support will include network design, construction, operation and maintenance, as well as the provision of upper-layer applications. Particularly in the Industry field, where needs are reportedly most prevalent, we are preemptively developing and testing use cases and technologies cultivated through these efforts, the Hitachi Group can provide solutions as it supports DX.
Innovation Business.

expansion that will serve as one of the core businesses of the Social
boundaries of the Energy Sector and endeavor to achieve global
arrive at new digital energy solutions that extend beyond the
will combine our powerful resources and expertise with Lumada to
in North American, European and Middle Eastern markets, where the
Japanese market, where the former has demonstrated strength, and
Hitachi and Hitachi ABB Power Grids will make joint offerings in the

15,000 client companies, and 36,000 employees.

approximately 200 business locations, a customer base of more than
ABB's top-tier transmission & distribution products and services, an
2020, Hitachi acquired the power grids business of ABB Ltd, a world
Power Systems, Ltd. *2, to Mitsubishi Heavy Industries, Ltd. In July
December 2019, Hitachi reached a settlement with Mitsubishi Heavy
transformers for offshore wind projects in Taiwan. Furthermore, we
received an order for HVDC systems that will be installed in Europe
for the first time as part of a multi-terminal HVDC connection project
that will link wind power stations in the Shetland islands to the grid of
U.K. In September, we announced an order to build 4 substations for
3 wind power stations in Poland and an agreement with MH Vestas
Offshore Wind A/S under the terms of which we will provide
transformers for offshore wind projects in Taiwan. Furthermore, we
are striving to expand our solutions in industrial fields for increasing
data centers, factory electrification, and EVs. In July, we launched
Grid-eMotion™ Fleet, EV charging system for electric buses or
commercial EVs. 

Examining trends in major markets by region, in North America,
digital initiatives are underway, such as using blockchain technology
in the energy field. In Europe and China, there are major business
opportunities for power grids. In the Middle East, there is a
movement away from oil & gas, with more emphasis being placed on
renewable energy and making urban infrastructure smarter. In
India, national power grids are being modernized with digital
technology. In Japan, the priority is to strengthen resilience by
upgrading grids and deploying digital solutions. We are aiming to
expand our businesses by accelerating growth in the Social
Innovation Business within these regions.

How We Will Grow

Story of Value Creation in the Energy Sector

Power Grid Solutions Business

Building advanced energy management systems requires knowledge
of energy and cutting-edge digital technologies. The energy business
experience and digital technology that Hitachi has developed over
many years, and global business of Hitachi ABB Power Grids can be
fully leveraged in the power grid solutions business. Through this
business, we are actively developing high-voltage direct current
(HVDC) transmission and substation equipment business for cross-
region / country interconnection and offshore wind power market. At
the same time, we are striving to develop and deploy new solutions
that combine DC transmission and digital technologies. In April 2019,
we announced that we received an order for HVDC transmission
systems for the Chubu Electric Power Co., Inc., Higashi-Shimizu
substation. In addition, in August 2020, we announced that we
received an order for HVDC systems that will be installed in Europe
for the first time as part of a multi-terminal HVDC connection project
that will link wind power stations in the Shetland islands to the grid of
U.K. In September, we announced an order to build 4 substations for
3 wind power stations in Poland and an agreement with MH Vestas
Offshore Wind A/S under the terms of which we will provide
transformers for offshore wind projects in Taiwan. Furthermore, we
are striving to expand our solutions in industrial fields for increasing
data centers, factory electrification, and EVs. In July, we launched
Grid-eMotion™ Fleet, EV charging system for electric buses or
commercial EVs. 

Examining trends in major markets by region, in North America,
digital initiatives are underway, such as using blockchain technology
in the energy field. In Europe and China, there are major business
opportunities for power grids. In the Middle East, there is a
movement away from oil & gas, with more emphasis being placed on
renewable energy and making urban infrastructure smarter. In
India, national power grids are being modernized with digital
technology. In Japan, the priority is to strengthen resilience by
upgrading grids and deploying digital solutions. We are aiming to
expand our businesses by accelerating growth in the Social
Innovation Business within these regions.

Solution & Service Business

In the solution & service business, we are applying our extensive OT
and digital technologies to provide service solutions that improve the
stability and efficiency of facility operations in pursuit of a decarbonized
society. We are providing solutions that are tailored to meet the unique
needs of individual regions and customers and are designed to resolve a
wide variety of issues. These solutions are based mainly on wind and
gas turbines, solar power generation systems, as well as distributed power generation systems combined with integrated energy / facility
management services. Utilizing Lumada, we integrate our
technological capabilities and know-how accumulated on-site with our
digital technologies to provide a wide range of services and solutions,
including increasing the efficiency of inspection planning, predictive
diagnosis of breakdowns, remote monitoring, and more advanced and
speedy maintenance. We are striving to launch high-value-added service businesses and strengthen solutions businesses; in 2019, we
received an order from TOA Oil Co., Ltd. of a cloud service based on
Gas Turbine High Temperature Parts Management Platform to improve the efficiency of inspection and maintenance, and to increase the maintenance capabilities of operators. In August 2020, we also
launched comprehensive maintenance services for emergency power
generators to improve performance by analyzing remote monitoring
data of operation and inspection.

Meanwhile, in wind power generation, installed capacity is projected to
more than triple around the world over the 20 years from 2015 to
2035, mainly in Asia* and we are currently manufacturing and installing
wind turbines for the Changhua Offshore Wind Farm Project in Taiwan.
In the Japanese market, we are providing one-stop solutions that
combine our track record and knowledge related to engineering,
installation and maintenance services, with products from our partner,
Enercon, a wind turbine manufacturer based in Germany. In response to
strong needs for expertise and digital technologies that can realize
and guarantee high operation rates from wind power generation systems, we will expand solution & service business that are focused on
renewable energy and help raise the profitability of our customers by
providing maintenance and other services utilizing predictive
maintenance systems for wind power generation equipment supplied
by other companies. At the same time, we will focus on developing and
manufacturing high-performance power semiconductors used in a
variety of products that promote industrial electrification and energy
conservation.

Nuclear Energy Business

Through the nuclear energy business, we contribute to realize a
decarbonized society and provide a stable supply of energy. Within
this business, Hitachi is utilizing its high-level technologies and
abundant expertise to facilitate the completion of safety improvement
measures for nuclear power stations in Japan and the restart of these
stations. Meanwhile, we are actively conducting decommissioning
measures at the Fukushima Daiichi Nuclear Power Station through
investigations in the reactor buildings and the development of
technology designed to remove fuel debris. Regarding Small Modular
Reactors, which are projected to generate high demand in the future,
we will focus on joint development involving both Japan and the
United States as we consider customer viewpoints and nuclear power
policies and provide innovative nuclear reactors that are safe,
economically efficient and highly acceptable for society.
How We Will Grow

Story of Value Creation in the Industry Sector

The industrial market has been undergoing rapid and complex changes, such as declining working-age populations and intensifying global competition, as well as climate change and resource shortages. In such an operating environment, COVID-19 has significantly changed people’s lifestyles and corporate activities, and in various parts of the industrial market, there are greater expectations for new services and innovations that use cutting-edge digital technologies, such as AI and IoT.

In the manufacturing industry in particular, labor shortages, soaring labor costs and growing needs for automation due to COVID-19 will advance the shift from “manufacturing through people and machine” to “manufacturing in which people and robots collaborate” like never before. Against this backdrop, with the aim of strengthening our response to boundary issues between the workplace and management, we acquired JR Automation, a U.S.-based robotic SI business, and Japan-based KEC in 2019. Centered on the robotic SI business, which is expected to have a high growth potential globally going forward, we are leveraging these 3 technological capabilities.

Providing Total Seamless Solution

The needs of our industrial customers have been becoming diverse and sophisticated in recent years. In addition, the spread of COVID-19 has given rise to new issues such as ensuring employee safety and improving productivity through automated, contactless and remote operations as well as business continuity within supply chain disruptions. In the Industry Sector, we use Lumada to identify gaps in the overall value chain, which we view as “boundary” issues between management, workplaces and supply chains, and connect cyber spaces and real spaces using digital technologies to provide total seamless solution that resolves issues existing on these boundaries and attempt to create new business value aimed at business optimization from the perspective of management. These solutions are underpinned by tying our “Products x OT x IT” capabilities. For many years, Hitachi has been sharpening our product such as industrial equipment, OT that controls and operates the industrial systems, and IT that helps our customers manage their overall business operations. We are leveraging these 3 technological capabilities.

Principal Products and Services

FY2019 Revenues ¥840.7 billion

<table>
<thead>
<tr>
<th>Industrial Products Business</th>
<th>¥1,000.0 billion / 30%</th>
</tr>
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<tbody>
<tr>
<td>FY2019 (Results)</td>
<td>259.8</td>
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**: Figures for each subsegment include intersegment transactions.
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How We Will Grow

Story of Value Creation in the Industry Sector

Another example of our solution that connects the boundary between different companies in the supply chain is a platform for integrated management of cell and tracing information throughout the entire value chain, from cell collection to production, transport and administration of regenerative medicine products. This platform was built through collaborative creations with ethical pharmaceuticals wholesaler Alphresa Corporation, pharmaceutical companies, medical institutions and others, and will start practical operations in 2021 as first common service infrastructure in Japan that can be used by all stakeholders involved in the value chain of the products.

Our comprehensive solutions cover the entire regenerative medicine product value chain from the production of raw materials to the transport of finished products and the delivery of these products to hospitals and research facilities. This comprehensive solution provides a platform to support the development, production and administration of regenerative medicine products.

### Story of Value Creation in the Industry Sector

- **Acceleration of Global Expansion**
  In the Industry Sector, we are accelerating business development in the North American region, including the acquisition of an air compressor manufacturer Sullair in 2017 and JR Automation in 2019. In April 2020, Hitachi Industrial Holdings Americas, Inc. was established with the aim of further strengthening the industry business in North America. Hitachi Industrial Holdings Americas is based in Chicago, the center of the American Midwest where manufacturing industries are concentrated in the United States, and has Sullair and JR Automation under its umbrella. We are taking steps to further strengthen our North American management base, which will become a platform to take the lead in global operations.
  
- **COVID-19 Response Solutions**
  In the Industry Sector, we are proactively developing business aimed at resolving social issues, including the provision of support for the production of face masks, respirators and antigen test kits, the demand for which is rising rapidly due to the spread of COVID-19. In March 2020, JR Automation, collaborated with General Motors Company to build an assembly line in six days that produces 50,000 medical masks a day, which are in great demand in North America. Additionally, in Japan, Hitachi is participating in the planning of engineering services for incidental facilities at a new factory making ESPLINE SARS-CoV-2 novel coronavirus (SARS-CoV-2) antigen test kits provided by Fujirebio Inc., a wholly-owned subsidiary of H.U. Group Holdings, Inc. By supporting the rapid commencement of operations at this facility, Hitachi is contributing to the expansion of COVID-19 testing, which is an urgent social issue in Japan.

- **In Pursuit of Further Growth in the Industry Sector**
  In the Industry Sector, we will strengthen and expand total seamless solution that leverage the strengths of Products x OT x IT and accelerate and enhance global expansion in pursuit of further growth. Furthermore, we will aim to become a high value-added business entity by expanding recurring business and improving capital efficiency.

In the Mobility Sector, Hitachi offers products and services that are gentle on the environment while enhancing the safety, security and comfort of people all over the world, through the provision of solutions as core elements of clean and highly efficient smart cities. These include smart solutions that facilitate faster and more environmentally friendly travel between cities, reduce reliance on automobiles inside cities and enhance the flow of people inside high-rise buildings.
Overview of E&E Market: Expansion in Services and Solutions Business

China dominates the world market for E&E, accounting for more than 50% of demand for new installations. Although the Chinese market should hold steady at its current scale, the pace of growth in demand for new installations has been tapering off, shifting the growth driver to the maintenance and modernization services business. Demand for new installations of E&E appears likely to expand in most countries in the Asia and Middle East regions, including India, which is second only to China in market scale. In Japan, meanwhile, demand for modernization services has held steady, and expectations are mounting for new solutions that enhance the added value of buildings with digital technologies.

Business Resilient to COVID-19 and Response to “New Normal”

In China, the world’s largest market, Hitachi has improved profitability by cost reductions and other cost-cutting measures, while also leveraging its advanced products and technological capabilities to acquire a leading share of the market* in terms of new installation orders for the past two fiscal years from fiscal 2018. In the fourth quarter of fiscal 2019, COVID-19 pandemic paused work on new installations, but operations have resumed in fiscal 2020, and we think more business opportunities will arise amidst stronger interest in remote monitoring and maintenance services, areas of strength at Hitachi. In Japan, the overall business scale in fiscal 2019 was identical to the previous fiscal year, thanks to brisk demand for building services that offset a decline in production and sales of E&E, owing to a downturn in demand for new installations. With tough competition on the market for new installations and growing demand for modernization of E&E, Hitachi aims to sharpen the competitiveness of its E&E product and service offerings, while providing integrated services that combine E&E with building solutions. Furthermore, Hitachi is accelerating efforts in the smart building business, where it provides new value through solutions that utilize IoT, AI and other digital technologies. We are targeting further growth by rapidly developing and providing new solutions tailored to demand in the “New Normal” since COVID-19 outbreak, beginning with solutions that enable non-contact movement and lifestyles inside buildings. In Asia and the Middle East, business has expanded alongside growth in demand for new installations. Looking ahead, Hitachi is monitoring the impact that COVID-19 will have on new installation demand. Although market conditions and business issues vary by country, Hitachi is eyeing growth in operations by taking a shared strategy of maximizing resources and employing the product competitiveness gained in China.

Expansion of Building Solutions Business with Digital Technology

In the Building Systems Business Unit, we have offered remote monitoring services for E&E and building equipment in Japan for approximately 30 years, and we have been running our business for years in a way that anticipates Lumada’s philosophy of creating value from data and accelerating innovation. Furthermore, in recent years we have stepped up service provision overseas through our global control center, which focuses on providing remote monitoring and maintenance services for E&E and building equipment. Based on the information we gather and analyze about equipment status in real time, we strive to conduct preventive maintenance and are enhancing product competitiveness. In addition to this sophisticated remote monitoring and maintenance service, we provide building owners and managers with a dashboard for monitoring the operations and maintenance status, as well as controlling operations as Lumada solutions, thereby contributing to greater efficiency in building management work. We aim to expand business globally by reinforcing the value chain through the deployment of digital technologies, an area of strength at Hitachi Group.

*Source: Hitachi

Railway Systems Business Unit

Against the backdrop of an expanding world population, urbanization and climate change, the railway business will likely grow over the long term. The Hitachi Group has built a robust business foundation in world markets, including Japan, Europe and North America, with rolling stocks, signalling systems and turnkey solutions as core businesses.

Business Resilience Based on Global Competitiveness, Further Improvement in Profitability

In Europe, which accounts for approximately 50% of sales in the Railway Systems Business Unit, demand should remain stable for rolling stocks upgrades and high-speed railway projects, especially in the U.K. and Italy. In fiscal 2019, Hitachi won several large orders that mainly entail rolling stocks for high-speed railways. In early 2020, supply chains were disrupted by COVID-19, including the shutdown of some plants in the U.K. and Italy, but operations resumed in April. Hitachi anticipates brisk performance as it makes steady progress on already ordered projects. In Japan, which generates 20% of sales, modernization demand and projects to develop new types of rolling stocks are expected. In fiscal 2019, Hitachi secured orders for large-scale projects, including Shinkansen rolling stocks, and Japanese market will play a major role as an incubator of new technologies. To sharpen our competitiveness in the global market, we are investing heavily in the Americas, a market with potential for robust demand. Although the Americas account for only about 10% of sales, we are keen to tap into business opportunities, including major projects, through our existing manufacturing bases and presence in the market for services and maintenance. We will accelerate growth with the intention of turning the Americas into a home market.

Worldwide, Hitachi has an order backlog totaling about ¥3 trillion. Our production activities were affected by the lockdowns as many regions combated COVID-19 outbreaks. However, as most of our customers are government-affiliated companies, the impact on our operations has been limited, even though some deliveries could encounter delays, and we expect a recovery to get under way soon. Around the world, although railway passenger numbers and the number of trains running have declined considerably, maintenance and service operations have not been adversely affected by this reduction, as the majority of agreements in this business are based on the availability of the trains Hitachi delivers. Under these circumstances, initiatives to improve profitability in the Railway Systems Business Unit are being given urgent priority, including efforts to increase operating rates at plants and return supply chains to normal. In April 2020, Hitachi entered into a partnership with Cytent, a global engineering firm in India, to establish a global design center for developing technologies related to signalling and turnkey solutions, in a bid to reduce operational costs and enhance earnings capabilities.

Contributions to Development of Railway Business as a Total Solutions Provider with Stronger Presence in Digital Field

Hitachi aims to contribute to the development of the railway business by creating solutions that use digital technology, as a provider of integrated solutions for railways that solve issues and meet needs related to railway operations in various countries. In Denmark, for example, as an IoT solution, Hitachi has launched a proof-of-concept experiment in Copenhagen for optimizing the schedules of automated trains based on the number of people waiting on train platforms, with the objectives of maximizing transportation capacity, easing congestion and reducing costs. In Italy, Hitachi commenced a proof-of-concept demonstration in fiscal 2019 for digital ticketing solutions that feature automatic payments with smartphones based on location data. In addition, in August 2020, Hitachi decided to acquire U.K.-based Perpetuum, which has advanced digital sensor technologies in order to enhance the digital maintenance services that we have been developing and providing. With the rolling stocks, signalling and turnkey business continuing as a core business, Hitachi aims to strengthen the maintenance services business and enhance solutions that use digital technology by incorporating more outside knowledge, with the ultimate aim of further expanding business scale.
The Smart Life Sector realizes a pleasant society under the keywords of safety, health, and comfort, creating social, environmental and economic value that contributes to improving the quality of life (QoL) for people throughout the world. Hitachi aims to contribute to the eradication of fatal traffic accidents through advanced driver assistance technologies, support healthy lives through the provision of blood testing equipment and particle therapy systems, facilitate a richer life through the provision of connected home appliances and air-conditioning systems and prevent global warming by reducing CO₂ emissions from products through electrification and IoT.

### How We Will Grow

#### Results and Targets

<table>
<thead>
<tr>
<th></th>
<th>FY2019 Revenues</th>
<th>FY2020 Forecast</th>
<th>FY2021 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue/Overseas revenue ratio</td>
<td>¥2,167.6 billion / 50%</td>
<td>¥3,000.0 billion / 53%</td>
<td>¥2,100.0 billion / 60%</td>
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<td>Over</td>
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<td>FY2020 (Forecast)*2</td>
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<td>FY2021 (Target)*3</td>
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</table>

#### Principal Products and Services

- **Health Care BU and Others**: 9%
- **Measurement and Analysis Systems**: 32%
- **Automotive Systems**: 37%
- **Smart Life & Eco-friendly Systems**: 21%

#### Progress on the 2021 Mid-term Management Plan

**Automotive Systems Business**

Amid growing social needs for the reduction of environmental burdens through electrification, the eradication of traffic accidents using AI technologies such as autonomous driving and the shift from vehicle ownership to utilization, the automobile industry is entering a period of drastic changes said to occur every 100 years. Hitachi Automotive Systems focuses on products including electric powertrains, suspension, steering, brakes and the advanced driver assistance systems that integrate them. Aiming to increase the global market share of focus products to within the third place, we are engaged in M&A and business alliances. In October 2019, we acquired Chassis Brakes International, a provider of automotive safety systems centered on electrically controlled brakes. Also, in October 2019, Hitachi and Hitachi Automotive Systems, a wholly owned subsidiary of Hitachi, entered into an agreement with Honda Motor and its three affiliates on management integration of their automotive/motorcycle businesses. After conducting the tender offer by Honda Motor which will make Kahlen, Showna and Nissin Kogyo its wholly owned subsidiaries, Hitachi and Honda will integrate their subsidiaries in fiscal 2020. The integrated company’s shares will be owned 66.6% by Hitachi and 33.4% by Honda Motor. Kahlen has strengths in powertrains, Showna has strengths in suspension and steering, and Nissin Kogyo has strengths in brakes. As these are a good fit with Hitachi Automotive Systems’ focus product areas, the merger will maximize synergies in terms of innovative technology R&D and cost capabilities enhancing global competitiveness.

Due to COVID-19, the trend toward electrification and autonomous driving in the automobile industry are further accelerating. Passenger cars will be required to advance safety performance through advanced driver assistance technologies as a personal and safe means of transportation with less risk of infection. At the same time, with respect to commercial vehicles, distribution volumes are rapidly increasing due to rising e-commerce demands, making improved environmental performance via electrification an important issue. The new integrated company will meet social needs in the “New Normal” by providing innovative components and systems that are essential for electrification and advanced driver assistance.

**Smart Life & Eco-friendly Systems**

The Smart Life & Eco-friendly Systems business, which has a long history of developing products from the consumer’s perspective, is an important business in the Smart Life Sector, which aims to improve people’s QoL. We create new growth businesses that utilize digital technologies, such as robotic vacuum cleaners and laundry machines linked to smartphones, Internet-connected refrigerators and other home appliances, and systems that perform remote diagnostics and maintenance of air conditioners using IoT. In the Smart Life & Eco-friendly Systems business, our air-conditioning business was merged with that of U.S.-based Johnson Controls and spun off, realizing high profitability by integrating the sales channels and technological and R&D capabilities of both companies. In April 2019, we merged home appliance sales and design and manufacturing, which had been handled by separate companies, to establish Hitachi Global Life Solutions, Inc. As a lifestyle solutions company, Hitachi Global Life Solutions can respond quickly to changes in lifestyles and provide new products and services. Working from home, which initially was intended to prevent COVID-19, is becoming established in society as the “New Normal”. The home will be the place we spend most of our days, thus needs for air-conditioning and home appliances will change. Hitachi Global Life Solutions utilizes technologies cultivated over the years, such as “cleaning,” “purifying,” “cold storage” and “freshness” to provide timely solutions that realize a safe and comfortable “New Normal”.

#### Measurement and Analysis Systems

In May 2020, Hitachi, Ltd., made Hitachi High-Tech a wholly owned subsidiary to add its Measurement and Analysis Systems business as a pillar of the Lumada growth strategy. As a result, the risk of conflicts of interest in parent company-subsidiary listings have been reduced and EPS has been improved by eliminating the outflow of minority interest profits. Hitachi High-Tech provides physics and chemistry equipment that diagnoses and inspects objects with a high degree of accuracy in various fields based on measurement and analysis technologies represented by electron microscopes. For example, clinical chemistry and immunodiagnostic analyzers that perform blood tests in the life sciences field, as well as CD-SEM (Critical Dimension Scanning Electron Microscope) that test the processing quality of semiconductors in the semiconductor manufacturing field, are both products with the top market share in the world. Hitachi High-Tech measurement and analysis systems generate huge amounts of data on measurement targets.
Mathematical analysis of this data using Lumada’s AI and analytics creates new value. Taking the life sciences field as an example, the comprehensive analysis of blood protein data output from clinical chemistry and immuno-diagnostic analyzers and gene data output from DNA sequencers enable the realization of precision medicine. At Hitachi High-Tech, collaborative creation with customers is the basis of business development, and this business model is consistent with the Lumada business strategy. To connect measurement and analysis technologies to customer value, it is necessary to work with customers to find out what to measure and analyze to solve their problems. For example, in the semiconductor manufacturing field, we are developing new solutions by expanding engineering bases around the world to collaborate with major customers. In global industrial markets, where data is an important asset, the need for measurement and analysis technologies to obtain high-quality data is expected to continue to grow, thus we will focus investment in this area as one of the pillars of the Lumada business.

Healthcare Business
In the Healthcare business, we are reorganizing our business portfolio, placing the highest priority on market growth potential. In December 2019, we decided to transfer our diagnostic imaging-related businesses, such as diagnostic ultrasound system, CT and MRI, which are mature markets, to FUJIFILM Corporation. At the same time, regarding our particle therapy system, in June 2018 we acquired Mitsubishi Electric Corporation’s business in this field and integrated it into our own. This increased our market share in this area to the second largest in the world. The particle therapy system is attracting attention as a state-of-the-art treatment method able to balance treatment and a normal social life with almost no pain. We will continue to invest in the research and development of innovative hardware and software, aiming to capture the world’s top market share in this business. In May 2020, we made Hitachi High-Tech a wholly owned subsidiary to strengthen the physics and chemistry equipment business in the life sciences field, which is at the center of high-precision medical care and regenerative medicine, markets that are expected to expand.

Solutions Businesses Resolving Social Issues and Realizing Improved QoL
In the “New Normal,” there will be a need for solutions that facilitate economic activity and infection control. This is a massive business opportunity for Hitachi, as we collaborate with various partners in each sector to promptly provide the required solutions. Hitachi High-Tech has trading business division which is directly descended from the Nissei Sangyo Co., Ltd. trading company; thus, we possess human resources with a track record of building value chains that include partners. Utilizing this capability, we will strengthen investments mainly in the APAC region to develop solutions businesses that realize human safety, health and comfortable lifestyles.
How We Will Achieve Sustainability

Addressing Risks and Opportunities

Risks and Opportunities

Under the 2021 Mid-term Management Plan, which began in fiscal 2019, we will expand business while leveraging the Company’s competitive advantages. We plan to invest ¥2.0 trillion–¥2.5 trillion in focus areas over the three-year period ending in fiscal 2021. A solid risk management system is indispensable for seizing growth opportunities and implementing aggressive management. Hitachi established the Investment Strategy Division in 2017 and the post of Chief Risk Management Officer (CRMO) in April 2020 to better understand risk and take appropriate action. The Company in the same year established the Executive Sustainability Committee to focus on the Company’s policies regarding social and environmental issues. Our efforts in this area also included a move to identify issues that could be seen as business opportunities, as well as the negative effects on society and the environment from our business activities and the measures Hitachi is taking to address them.

Risk Management System

The business environment is changing day by day, impacted by the continued advance of information and communications technology, as exemplified by IoT, and geopolitical risks arising from complex shifts in political and economic conditions around the world. Hitachi aims to create new revenue opportunities while controlling risks. To do this, we maintain a clear understanding and awareness of the operating environment, taking into account social issues, as well as our competitive advantages and management resources, conducting risk management with an eye towards the many risks the company should be prepared for as well as opportunities for growth.

In April 2020, we newly established the post of CRMO to formulate and execute risk management policies and strategies for the entire Hitachi Group. We also established the “Hitachi Group Corporate Ethics and Compliance Code” to clearly share ideas regarding corporate ethics and compliance that should be shared throughout Hitachi, as we work to further ensure that all Hitachi executives and employees act in thorough compliance with corporate ethics.

Investment Risks and Opportunities

To accelerate the global Social Innovation Business amidst structural changes and increasing uncertainty in the world economy, it is increasingly important to understand investment risks and opportunities (e.g., M&A and orders for projects) and to take appropriate measures. As shown in the flowchart below, with regard to individual investment decisions (e.g., execution, business plan changes and disposal), under the ultimate authority of the Board of Directors and depending on the scale and content of the projects, Hitachi delegates authority to the Senior Executive Committee (which, in principle, meets twice per month) and respective business units to facilitating flexible and appropriate decision-making. In addition, regarding important matters to be deliberated by the Senior Executive Committee, prior to deliberations, discussions are held with the Investment Strategy Committee advisory body, whose findings, including pros and cons, are reported to Senior Executive Committee members, including the President.

Investment Execution Flowchart

After making an investment, Hitachi regularly monitors business objectives and achievement status of the project, considering changes in the external environment. In principle, each business unit ensures flexibility, but the Headquarters is also involved depending on the level of importance. Also, regarding changes in business plans and the disposal or reorganization of important investment targets, discussions are held by the Senior Executive Committee as in the execution stage. For investment targets whose business is not progressing as planned, Hitachi established a framework to deliberate on the pros and cons of continuing business, including withdrawal, so as to improve capital efficiency.

Post-Investment Flowchart

Through the above process, Hitachi will further strengthen asset profitability and risk tolerance while ascertaining risks before and after investments are made.

Quantitative Understanding of Risks

Hitachi calculates the maximum risk (Value at Risk) assumed by statistical methods according to the type of assets held on the group’s consolidated balance sheet. Considering total consolidated net assets and other factors, we visualize the surplus capacity of growth investments to monitor growth opportunities and ensure that risks are not excessively unbalanced compared to Hitachi’s consolidated management strength. In addition, by analyzing risk conditions in each country and sector and the outlook for future trends, Hitachi gains a quantitative understanding of risk concentrations in specific countries and sectors in comparison with profitability.

Understanding and Responding to Risks and Opportunities Related to Sustainability

Social and environmental issues, including climate change, resource depletion, the curtailing of business activity due to significant disasters and social instability due to growing inequality, are having a substantial impact on corporate value creation and business models. Amid such drastic changes in the business environment, companies must have a clear understanding of opportunities and risks and take appropriate measures if they are to achieve sustainable growth over the long term.

Hitachi can gain a clear understanding of sustainability-related risks, and accordingly take appropriate actions, thanks to the efforts of the Executive Sustainability Committee and other related committees. We remain actively engaged in promoting our own sustainable growth while contributing to the realization of a sustainable society by seeking out business opportunities contributing to the resolution of important domestic and overseas issues, including those relevant to the UN Sustainable Development Goals (SDGs) and Society 5.0.

https://www.hitachi.com/sustainability/

Risk Factors

We conduct business on a global scale across a broad range of business areas and utilize sophisticated, specialized technologies to carry out our operations. Thus, we are exposed to a wide range of risks related to our operations. The following risks are based on the assumptions we consider reasonable as of the date this report was issued. For more information on business risks and other risks, please refer to our 151st Annual Securities Report.

Addressing Risks and Opportunities

How We Will Achieve Sustainability

Major Risks and Opportunities

<table>
<thead>
<tr>
<th>Major risk factors</th>
<th>Details on risks and opportunities</th>
<th>Company actions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risks</strong></td>
<td>Building close relationships with multiple suppliers</td>
<td>• Establish clear risk management processes</td>
</tr>
<tr>
<td></td>
<td>Gain increased visibility from higher quality components</td>
<td>• Implement preventive measures</td>
</tr>
<tr>
<td></td>
<td>Maintain competitiveness against competitors</td>
<td>• Conduct quality and reliability-related training</td>
</tr>
<tr>
<td></td>
<td>Maintain a high level of customer satisfaction</td>
<td>• Engage in activities aimed at ensuring compliance with laws and regulations related to technology</td>
</tr>
<tr>
<td></td>
<td>Maintain a high level of customer satisfaction</td>
<td>• Strengthen the quality assurance system</td>
</tr>
<tr>
<td></td>
<td>Maintain a high level of customer satisfaction</td>
<td>• Strengthen our ability to respond to business disruption risks</td>
</tr>
</tbody>
</table>

Rapid technological innovation

- Developed competitive intelligence, enabling Hitachi to maintain a competitive edge in the industry.
- Developed advanced technologies to generate new business opportunities.

Securing human resources

- Impact on new hires and retention due to increased competition to hire and retain highly skilled workers.
- Human capital strategy.
- Grow opportunities for the recruitment and retention of highly skilled workers who share Hitachi's vision.

Occupational health and safety

- Impact on business due to inability to create healthy, safe and secure work environments.
- Impact on business activities from employees infected with COVID-19.

M&A, investment in new projects, etc.

- Vulnerability to external factors, such as economic and political conditions.
- Lack of diversification of product and service lines.
- Risk of reduced competitiveness due to technological innovation.

Geopolitical risks

- Failure of a strategy to maintain a competitive edge in the industry.
- Risk of reduced competitiveness due to technological innovation.
- Risk of reduced competitiveness due to the transition to a low-carbon economy.

Tighter laws and regulations

- Impact on business due to inability to maintain a competitive edge in the industry.
- Impact on business due to inability to maintain a competitive edge in the industry.
- Risk of reduced competitiveness due to technological innovation.

Compliance

- Impact on business due to inability to maintain a competitive edge in the industry.
- Risk of reduced competitiveness due to technological innovation.
- Risk of reduced competitiveness due to the transition to a low-carbon economy.

Product quality and responsibility

- Impact on business due to inability to maintain a competitive edge in the industry.
- Risk of reduced competitiveness due to technological innovation.
- Risk of reduced competitiveness due to the transition to a low-carbon economy.

Climate change/ significant disasters

- Impact on business due to inability to maintain a competitive edge in the industry.
- Risk of reduced competitiveness due to technological innovation.
- Risk of reduced competitiveness due to the transition to a low-carbon economy.

Information security

- Computer viruses or other factors adversely affecting information security.
- Increase in opportunities through increased demand for information security measures.
- Impact on the demand for IT solutions in line with the expansion of remote work.

**Response to Climate-related Risks and Opportunities**

**Climate-related Financial Information Disclosure (Based on TCFD Recommendations)**

- **In June 2018**, Hitachi announced its endorsement of the recommendations by the Financial Stability Board (FSD)’s Task Force on Climate-related Financial Information Disclosure (TCFD). The TCFD calls for disclosures sought by investors, such as how businesses assess climate-related risks, the short-, medium- and long-term impact of climate change on corporate value, the identification of climate-related risks and opportunities, and the metrics and targets to assess progress, and how the results of these assessments are reflected in corporate management.

**Strategy**

- We are responding to climate change by fulfilling our responsibilities as a global company in achieving a decarbonized society. Taking note of the total CO2 reductions required globally, we have established long-term environmental targets called Hitachi Environmental Innovation 2030 based on our Environmental Vision calling for CO2 reductions throughout our value chain of 50% by fiscal 2030 and 80% by fiscal 2050, compared with fiscal 2010.

- In May 2020, we announced an even more ambitious CO2 reduction target of achieving carbon neutrality, which will mean net zero emissions, at our business sites (factories and offices) by fiscal 2030.

**Climate-related Risks**

As for climate-related business risks, we have followed the TCFD’s classification in considering (1) risks related to the transition to a low-carbon economy in the 2°C scenario and (2) risks related to the physical impacts of climate change in the 4°C scenario, which assumes that efforts to reduce global CO2 emissions have failed. Our assessments are also categorized according to time span, namely, short term (three years from fiscal 2019 to 2021), medium term (through fiscal 2030), and long term (through fiscal 2050).

**Supporting Information**

- **Risks related to the transition to a low-carbon economy (applying mostly to the 2°C scenario)**

  - **Policy and legal**
    - Increased business costs from the introduction of carbon taxes, fuel/ energy consumption taxes, emissions trading systems, and other measures.
    - Short to long term
    - Avoid or mitigate increases in business costs, such as from carbon taxes, by further enhancing production and transport efficiency and promoting the use of non- or low-carbon energy sources.

  - **Technology**
    - Loss of sales opportunities due to delays in technology development for products and services.
    - Medium to long term
    - Contribute to reducing CO2 emissions by developing and marketing innovative products and services and expanding the decarbonization business.

  - **Market and reputation**
    - Impact on sales due to changes in market value or assessment of our approach to climate issues.
    - Medium to long term
    - In the light of rising investor and market interest and expectations regarding climate change, clearly incorporate our CO2 emissions reduction targets in our management and business strategy.

- **Risks related to the physical impacts of climate change (4°C scenario)**

  - **Acute and chronic physical risks**
    - Climate-related risks to business continuity, including increased severity of typhoons, floods, and droughts (acute risks) as well as rising sea level and chronic heat waves (chronic risks).
    - Short to long term
    - Take into account the possibility of flood damage when deciding on the location or equipment layout of a new plant. Measures tailored to the water risks of each manufacturing site will be strengthened in the future based on the results of a water risk assessment now being conducted.
Response to Climate-related Risks and Opportunities

Climate-related Opportunities

CO₂ emissions during the use of our products and services by our customers account for approximately 90% of total emissions in our value chain. Developing and providing products and services that emit zero or very little CO₂ during their use will thus not only help meet society’s demands for reduced emissions but also represents a major business opportunity for us in the short, medium, and long term.

Strategies for the 2°C and 4°C Scenarios (abridged)

Response to business risks under 2°C or 4°C scenario

Response to business risks under 2°C or 4°C scenario

We believe that by paying close attention to market trends and developing our business flexibly and strategically, we have high climate resilience in the medium to long term under either the 2°C or 4°C scenario.

Risk Management

The Hitachi Group evaluates and monitors climate-related risks for each business unit and Group company as part of a process of assessing risks and opportunities in accordance with the Environmental Action Plan, updated every three years. The results are tabulated by the Sustainability Promotion Division of Hitachi, Ltd., and their importance is checked at Sustainability Promotion Meetings. Those risks and opportunities perceived as being particularly important for the Group as a whole are deliberated by the Executive Sustainability Committee, chaired by the president and CEO of Hitachi, Ltd.

Metrics and Targets

Our environmental activities are managed through the Environmental Action Plan, whose metrics and targets are updated every three years, including those to measure and manage climate-related risks and opportunities.

We use the reduction rate of CO₂ emissions per unit compared to fiscal 2010 to set targets and monitor progress across our many Group products and services in the value chain. Under the current 2021 Environmental Action Plan (covering fiscal 2019-2021), we set and monitor progress for annual target reductions of CO₂ emissions per unit compared to fiscal 2010 for each business unit and Group company.

To advance CO₂ reductions during the use of sold products and services, we set targets and monitor progress for the reduction rate of CO₂ emissions per unit. In other words, for products and services featuring equivalent value, we focus on metrics to provide customers and society with those that emit less CO₂. At the same time, we will make an exerted effort to not only reduce per unit but also total CO₂ emissions from our business sites (factories and offices).
Promotion of Information Security

With the arrival of the digital age in recent years, risks associated with the leakage of confidential and personal information resulting from increasingly international socioeconomic activities are expected to rise while accelerated global digital transformation spurred on by the spread of COVID-19 is projected to give rise to more sophisticated and numerous cyberattacks.

As we aim to become a global leader in the Social Innovation Business, Hitachi is striving to minimize risks that directly hinder business continuity, such as information leaks caused by cyberattacks and operational shutdowns, and maximize opportunities for collaborative creation with customers and society at large. In pursuing these goals, we are viewing information security as one of our most important management issues and focusing on enhancing our information security governance.

**Information Security Policies and Framework**

**Information Security Policies**

As a global company, Hitachi broadly recognizes the management risks associated with information security, including cybersecurity risks. Therefore, we have established an information security policy that is consistent with our corporate management policy, ensuring that we can declare both internally and externally that response policies are implemented throughout our organization.

1. Formulation and continuous improvement to information security management regulations
2. Protection and continuous management of information assets
3. Strict observance of laws and standards
4. Education and training
5. Incident prevention and management
6. Assurance of fair business practices within the corporate group

**Information Security Framework**

Our President & CEO appoints both a Chief Information Security Officer (CISO) and an Information Security Chief Auditor. Charged with promoting information security, the CISO determines policies, education plans and measures related to information security as Chairman of the Information Security Committee. His or her decisions are communicated to all Hitachi Group business sites and companies, where each information security officer ensures their thorough implementation in the workplace.

The Information Security Chief Auditor performs annual audits concerning information security and personal information protection in all of Hitachi’s departments. He or she conducts these audits independently to ensure their fairness and impartiality and independence. Hitachi conducts audits and inspections on a group-wide basis; group companies in Japan carry out audits that are commensurate with those performed at Hitachi, Ltd., which later confirms their results. Meanwhile, group companies overseas employ a standard global self-check system.

**Information Security Risk Management**

We have established Global Information Security Administration Rules compliant with ISO/IEC 27001, an international standard governing the management of information security. At the same time, we are promoting an ongoing information security management system to enhance our overall information security management. We are also globally expanding this management outside of our parent company in Japan to include group companies overseas. Meanwhile, we have stationed information security experts in the Americas, Europe, Southeast Asia, India and China as we strive to enhance our global security.

As cyberattack methods diversify, incidents are being caused by a wider range of sources and are having an increasingly broad impact. To respond to risks under these circumstances, Hitachi has expanded the scope of its risk management activities, which had previously focused on measures related to internal IT environments, and is now promoting new “cybersecurity and risk management activities.” Meanwhile, we are conducting business risk reduction activities and have expanded the range of our risk management activities to cover development, production and manufacturing environments established for the creation of products and services, as well as our supply chain and processes implemented for the development of products and services.

**Information Security Enhancement Initiatives**

**Security Monitoring**

To ensure early detection and a quick response to global cyberattacks, Hitachi is conducting continuous security monitoring (24 hours per day, 365 days per year) through its Security Operation Center (SOC), collecting and deploying cyber threat intelligence* through its Incident Response Team (IRT) and performing incident response.

**Preventing Information Leaks**

Hitachi is developing standardized IT measures, such as encryption, a diverse range of access control systems, ID management and filtering, as it strives to prevent information leaks. To defend against cyberattacks, we are strengthening a variety of countermeasures, including defense-in-depth controls, early detection measures and initial response strategies.

In addition, we review and investigate the status of information security measures taken at suppliers based on our request guidelines. At the same time, we provide suppliers with educational materials regarding security and tools for checking operational data stored within information-processing equipment. We also require that operational data stored on personally owned information processing equipment be inspected and erased.

**Information Security Education**

Hitachi provides annual e-learning-based education concerning information security and personal information protection for all executive officers and employees. We also make a wide variety of information security education available for new employees, new managers and information system administrators. Furthermore, we conduct “targeted attack e-mail simulation training” aimed at defending against cyberattacks. This training raises the security sensitivity of employees by sending them simulated e-mails.

**Developing Human Resources Well-Versed in Information Security**

As cyberattacks on social infrastructure intensify, Hitachi is promoting activities aimed at developing human resources that are well-versed in information security and capable of responding to these threats. Through these activities, we have identified the following categories of human resources who systematically respond to cyberattacks from outside the company:

- Provide the education and exercises necessary for each category through advanced security human resource study, e-learning that facilitates the acquisition of basic cyberattack response knowledge and communication training.
- Advanced security human resources
  - Duties: Investigate and analyze unidentified attacks, countermeasure formulation and guidance for all other human resources
  - Duties: Develop action plans and other policies associated with defense measures for known attacks
  - Duties: Implement fully developed security countermeasures

**Thorough Protection of Personal Information and Compliance with Global Legal Systems**

In accordance with the Hitachi, Ltd. Personal Information Protection Management System, which was established based on the Company’s Personal Information Protection Policy, Hitachi properly manages and processes personal information while providing education for, and performing regular audits of, all its employees.

In addition, 39 Hitachi Group companies in Japan have received Privacy Mark accreditation and are working to safeguard personal information (as of March 2020). Furthermore, Hitachi is ensuring compliance with global legal systems by adhering to applicable legal systems implemented abroad, including Europe’s General Data Protection Regulation (GDPR). Meanwhile, we are implementing appropriate measures while continuously monitoring applicable legal systems and societal trends.

**Security Changes Associated with New Work Style**

**Employee Security Awareness is the Bulwark That Protects Our Organization**

The spread of COVID-19 has caused us to adopt new work styles. However, this can also be viewed as a positive opportunity to achieve more personally suitable balance between work and private life. Hitachi is also responding to this opportunity by rapidly accelerating its implementation of telework while actively conducting measures focused on promoting future work styles based on utilization of information assets.

Meanwhile, in recent years, cyberattacks have continued to increase, creating a need for security measures that are adequate for the promotion of telework. In terms of IT security, we are currently facing extremely high levels of risk related to data theft targeting telework environments and intrusion into internal networks. Under these circumstances, Hitachi is reducing risk by requiring employees to use Company PCs and protecting remote access through various security measures.

Until recently, cyberattackers have primarily targeted the IT vulnerabilities of organizations with work styles that shift toward telework, whereas attacks are now focused on weaknesses in the awareness of individual people. When working outside their offices, employees might feel more relaxed than usual, resulting in the loss of documents, PCs, mobile phones or USB devices containing sensitive data. People around them might also quickly peak at computer screens, resulting in information leaks. Furthermore, with nobody around whom with can be seen to talk, employees working outside the office could be tempted to access suspicious e-mails or malicious websites. Under these circumstances, all employees are exposed to potential risk.

Given these concerns, we believe that raising the security awareness of our employees will be the ultimate bulwark defending us against these risks. Accordingly, we will adopt a new perspective as we launch employee-centered awareness-raising activities regarding next-generation security to support the introduction of security measures implemented through people, which will complement our security measures that provide protection through IT. Specifically, we will provide avenues through which employees can voluntarily learn about and practice security. By sharing what they have learned through these avenues, our employees will subsequently elevate each other’s awareness regarding security activities.

With the goal of creating a major bulwark for the defense of our organization, we will aim to establish a collective awareness that will foster an appropriate understanding regarding security among all employees and allow them to work effectively toward achieving our ideals. By also conducting awareness-raising activities outside the Company, we will strive to expand this bulwark so that it can provide protection to society as a whole.

Moving forward, Hitachi will continue to explore and promote new security initiatives that will enable us to avoid risks lurking within the “New Normal” we are now facing and to live more safely, securely and comfortably under these new circumstances.

* Cyber threat intelligence: A general term for efforts aimed at acquiring knowledge of new threats from a variety of cybersecurity-related information and applying this knowledge through security measures.
Our Basic Policy and Promotion Framework

The Hitachi Group Health and Safety Policy is shared with all Hitachi Group companies around the world, based on the principle that “Health and Safety Comes First,” and we work together to build a safe, secure and healthy workplace that is free from accidents.

In 2019, aiming to become an organization whose employees spontaneously promote safety activities with the direct commitment of management, we established the Safety Management Division, which reports directly to the president on matters of safety management. This division holds an annual Safety Strategy Congress, attended by safety officers from each group company and representatives from each division. The congress sets budgets and objectives for company-wide safety strategy and reviews the progress in building the Hitachi Group’s safety management systems, making the congress an opportunity for top management to share their commitment to safety as the highest priority.

Furthermore, we hold monthly meetings of the Safety Strategy Promotion Council, attended by managers in charge of safety from each business unit and group company. This council provides an opportunity for us to examine the promotional frameworks for safety activities and education in each division alongside standards to be shared across the group. Utilizing the Hitachi Group Health and Safety Portal System and Incident Investigation Database, which comprise the basic system for occupational health and safety management common to group companies in Japan, in response to the degree of occupational accidents that have occurred in Japan, the results of incident analyses and countermeasure examples are registered in these systems, with the know-how acquired from this process shared globally as a knowledge base throughout the entire group. The analysis of detailed accident information from various angles collected in these systems help prevent the occurrence of similar accidents and injuries.

Initiatives for Preventing Work-Related Accidents

Based on the policy above, to prevent work-related accidents among approximately 300,000 employees of the entire Hitachi Group, we have established and applied our own standards for manufacturing sites at high risk of work-related accidents as a common global policy, and each company promotes health and safety activities in a way that is appropriate for its own operations. In particular, since the establishment in April 2019 of the Safety Management Division, we are working to improve both tangible and intangible elements safety measures by checking and improving our risk assessment system and utilizing IT and digital technologies to prevent work-related accidents.

We had already introduced the Hitachi Group Key Safety Management Designation System, which promotes the improvement of safety measures and reinforcement of safety activities at Hitachi Group companies and business sites that have experienced serious work-related accidents. Under the leadership of top executives, these companies and business sites take on both management-driven and bottom-up initiatives to formulate specific plans, and the progress of these plans is monitored by safety officers, who also lead initiatives to prevent recurrence.

In addition, because the risk of accidents is higher for workers not yet accustomed to their work or environment, employees and temporary workers receive individual health and safety training and on-the-job training before work begins to help prevent accidents by ensuring that they understand work procedures and dangers. At the same time, on occasions of business restructuring, we share the details of the health and safety management frameworks and initiatives of the organizations to be merged in advance, and paying all due respect to the safety cultures on both sides, ensure that safety is always preserved during the execution of a smooth business launch.

In Japan, a health and safety commission—composed of business owners, labor union officials and employees—is convened at each business site every month to discuss and share information related to such issues as work-related accident cause analysis and countermeasures and health and safety activities in light of the situation regarding employees who have taken sick leave.

However, in 2019, four fatal incidents caused by work-related accidents occurred globally, thus accidents have yet to be eradicated entirely. Hitachi takes a sincere approach in recognizing its present situation, and brings in an objective third-party perspective by working with external consultants. Through various countermeasures such as strengthening our ability to determine the causes of accidents, as well as reviewing our risk assessments, we are committed to continuously improving our safety management system.

Promoting Work-Style Reforms Focused on Preventing the Spread of COVID-19

Hitachi is promoting work styles standardizing the use of telecommuting in a wide range of jobs, while looking ahead to the “New Normal” caused by the spread of COVID-19. Since 2016, Hitachi has promoted diverse work styles, including telecommuting, so that diverse human resources can achieve results. Since the government announced a state of emergency in Japan, Hitachi has, in principle, promoted telecommuting, except for duties that require going into the workplace to maintain social functions. Hitachi is moving forward with the creation of a business promotion system for the “New Normal” so that ordinary corporate activities can be maintained and continued in the event of a second or third wave of COVID-19 or a natural disaster. With protection of the health and livelihood of our employees and their families as our top priority, even after the state of emergency is completely rescinded, telecommuting will be the standard for a wide range of jobs as we examine and implement measures to increase productivity further than ever before.

Building Safe and Secure Work Environments, Efforts to Prevent the Spread of COVID-19

As a corporate group with a globally developing business, we must deal with the management issue of creating healthy, safe and hygienic work environments at every work site. Hitachi believes that its organizational culture which prioritizes safety first is an essential foundation for creating corporate value, and it is working to establish a global health and safety management system. In addition, in response to the spread of COVID-19, to conduct management that puts the safety and health of our employees and stakeholders first while looking ahead into the future of the “New Normal,” we are promoting the adoption of work styles and the establishment of environments with teleworking with a wide range of duties as the standard.

Main Measures for Telecommuting and Other New Work Styles in the “New Normal”

1. Support for employees based on the immediate risk of infection
   (1) Provide subsidies for prevention against COVID-19 in telecommuting
   (2) Provide subsidies for equipment purchase costs for telecommuting under the cafeteria plan system
   (3) Establish “bonus payment for responding to COVID-19”
   (4) Support foreign employees by introducing the Foreign Language Medical Assistance Service for foreign employees working in Japan

2. Main measures to continue telecommuting over the medium to long term
   (1) Accelerate the conversion to job-based HR management
   (2) Improve the IT environment
   (3) Provide health support for employees telecommuting over the long term
   (4) Provide communication enhancement tools

*New Work Style Standards for Telecommuting* Road Map

<table>
<thead>
<tr>
<th>Period</th>
<th>Key Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>May–July 2020</td>
<td>Review and summary of issues related to telecommuting identified thus far</td>
</tr>
<tr>
<td>August–September 2020</td>
<td>Examine medium- to long-term work styles according to individual jobs Determine the handling of various bonus payments for improving the proactive utilization of telecommuting environments</td>
</tr>
<tr>
<td>October 2020–March 2021</td>
<td>Launch a trial of work styles based on the use of telecommuting Review business execution methods, the business environment, various bonus payments, welfare and other efforts toward productivity improvements and cost optimization Review various bonus payments, welfare and other efforts aimed at cost optimization Consider revising rules and agreements between labor and management</td>
</tr>
<tr>
<td>From April 2021 (tentative)</td>
<td>Application of new regulations and agreements Formal commencement of work styles based on telecommuting</td>
</tr>
</tbody>
</table>
Value Chain Responsibilities

Achieving a Sustainable Value Chain
We are deeply involved in social infrastructures in areas where risks can affect society as a whole. We acknowledge our responsibility to minimize the impact of such risks. Also, the global expansion of our value chain means that we come into direct contact with diverse environments, business customs and practices in a variety of countries and regions. Accordingly, we need to make a conscious effort to conduct business in a manner that respects the human rights of all people involved. Furthermore, we are reinforcing business continuity plans (BCPs) and tightening our information security to ensure a stable supply of our products and services and to prevent threats to our networks that could severely disrupt business operations. Ensuring stable supply of our products and services is vital, and this is why Hitachi strives to enhance the BCP on an ongoing basis. In addition, the Company recognizes human rights as a management priority, and implements various measures intended to respect the human rights of all our stakeholders, including employees and individuals throughout our supply chain in all countries and regions in which we operate our businesses. Furthermore, as a group of companies that procure products and services from suppliers around the globe, we were one of the early adopters of CSR procurement policies, various measures are being implemented at each group company.

Procurement BCP Policies and Framework
To minimize the impact from disasters, the procurement divisions in business units and key group companies have created procurement BCPs that 1) standardize and use generic parts to minimize risks to stable procurement as flexible as possible; 2) cultivate multiple suppliers; 3) distribute production across several locations; 4) secure strategic inventory; and 5) consider substitute products. To ensure the efficacy of the procurement BCPs, we implement desktop exercises to simulate specific case of disaster, and discuss in groups what actions need to be taken to further improve these plans.

CSR Procurement Policies and Framework
Creating and Sharing Procurement Policies
In accordance with the principles of the UN Global Compact, Hitachi established the Hitachi Group Global Procurement Code in 2019 as our highest code for procurement activities. This code specifies that based on Hitachi’s CSR Procurement and Green Procurement Guidelines, due diligence should be performed to the supply chain on factors such as human rights, labor practices, safety, ethics, quality and security. They also require our procurement team to request suppliers to perform same due diligence. Al Group companies follow the code, and share global supply chain issues within the Group as we engage in procurement activities. In addition, we distribute the Hitachi Group CSR Procurement Guidelines to the approximately 30,000 suppliers of our business units and group companies to ensure their thorough dissemination and receive written responses confirming that the content therein is understood. We also require first-tier primary suppliers to confirm that second-tier suppliers are complying with these guidelines. In terms of environmental response, we have compiled our basic philosophies regarding procurement of eco-friendly parts/products as well as our requirements of suppliers into our Green Procurement Guidelines to expand the procurement of parts and materials with low environmental impact. Through these guidelines, we are working together with our suppliers to promote green procurement.

Framework
Hitachi’s Value Chain Integration Division, which reports directly to the President, discusses policies and measures related to CSR supply chain management, responsible mineral procurement and green procurement. Decisions reached through these discussions are shared throughout the group via the Hitachi Group CSR/BOP Procurement Committee, which is composed of CSR/BOP Procurement Committee members from business units and key group companies. Chemical substances within our products are recommended to be managed by chemSHERPA*-CI/AI, which is a standardized system for communicating information regarding chemicals in products (CDP) throughout the supply chain.

Strengthening Global Partnerships
To promote procurement based on the premise of expanding local production for local consumption in accordance with its operational policy of global business expansion, Hitachi has stationed Regional Procurement Officers who supervise local procurement activities in each of its four regions of operation around the world (China, the rest of Asia, Europe and the Americas). These Regional Procurement Officers have strengthened our response to CSR-related risks by conducting CSR audits, CSR monitoring (self-checks) and CSR procurement seminars for suppliers in their respective regions.

CSR Monitoring (Self-Checks)
To monitor how well its CSR supply chain management philosophy has been adopted by its suppliers, Hitachi requests that major suppliers conduct self-checks using check sheets created in accordance with the Hitachi Group CSR Procurement Guidelines. We then encourage suppliers to make improvements in response to potential issues by analyzing collected results and providing relevant feedback to our business units and group companies dealing with those suppliers.

CSR Audits
Hitachi, like most companies that procure products and services from global suppliers, has been auditing the manufacturing bases of its and group companies’ suppliers in China and the rest of Asia. For these audits, we engaged external evaluators such as the experienced CSR auditing company InterTek Certification.*1 Our audits are based on the international SA8000 certification standard developed by Social Accountability International (SAI), an American CSR evaluation institution. These audits investigate our workplace practices, and an RBA-recognized auditor checks suppliers’ CSR initiatives from the perspectives of labor and human rights, health and safety, the environment, and ethics. Suppliers needing improvement were requested to submit improvement action plans, and Hitachi, Ltd., together with group companies, will work with and advise the suppliers until they complete the planned improvements.

Human Rights Due Diligence in Procurement
Basic Policy
Hitachi believes that respecting human rights is our responsibility as a global company and indispensable in conducting business. To this end, in May 2013 we formulated the Hitachi Group Human Rights Policy. In this policy, we clearly understand our human rights as being, at a minimum, those outlined in the International Bill of Human Rights, and incorporated the ILO’s International Labour Organization’s Declaration on Fundamental Principles and Rights at Work. This policy shapes Hitachi’s approach to meeting the responsibility to respect human rights, including implementing human rights due diligence*2 in line with the UN Guiding Principles on Business and Human Rights, providing appropriate education to employees, adhering to laws and regulations in all the regions and countries where we operate, and seeking ways to honor the principles of international human rights when faced with conflicts between internationally recognized human rights standards and national laws.

*1 InterTek Certification. A company that provides a wide range of certification services extending across all of NA, Europe, and Asia. Hitachi’s CSR audit was performed by InterTek Certification.
*2 A policy that provides a wide range of certification services extending across all of NA, Europe, and Asia.

Addressing the Risks of Child and Forced Labor
The Hitachi Group Codes of Conduct clearly express Hitachi’s firm stance against the use of child labor either in Group companies or forced labor along its supply chain. In addition, Hitachi’s CSR procurement guidelines for suppliers also clearly forbid the use of child labor or forced or compulsory labor. As part of our efforts to raise awareness all along the supply chain, we conducted CSR procurement seminars in China and Thailand.

Response to the Conflict Minerals Issue
Hitachi has formulated the Hitachi Group Conflict Minerals Procurement Policy. The policy explicitly lays out measures to be implemented to ensure responsible procurement, including inquiries based on international guidelines, so that procurement of components incorporating conflict minerals does not benefit armed groups in the Democratic Republic of the Congo (DRC) or adjoining countries. Expanding the scope of corporate responsibilities for the procurement of minerals is a global trend, with companies increasingly expected to address the overall risks to human rights as well as conflict risks, and recognize responsibilities that extend beyond the countries adjoining Congo to a wider area where risks are high. We are currently revising our Conflict Minerals Procurement Policy in this respect.
Quality Assurance

Thorough Quality Assurance

Providing products and services that our customers can use with confidence, along with meeting the specifications and quality levels demanded by customers are important values shared by all our employees and described in the Hitachi Group Codes of Conduct. To ensure that quality and reliability are top priorities, we are strengthening our quality assurance activities from the perspectives of organization and management, technology, and human resources in every process—from planning and development to design, manufacturing, delivery, and maintenance.

Quality Assurance Initiatives

Maintaining the values of “Harmony”, “Sincerity”, and “Pioneering Spirit” that comprise the Hitachi Founding Spirit, as well as adhering to “Basics and Ethics” and “Right and Wrong are more important than Profits and Losses”, we place great emphasis on “Sincerity” in quality assurance activities for earning trust in our products. One integral aspect of this is our unique and longstanding practice of “Passion for Reincarnation”, which is our continuous learning from failure to further develop our technologies. Our executives and senior management take the lead in examining things from the customer’s perspective, not only investigating the technical causes but also thoroughly discussing the process, framework, and motivating factors leading up to an occurrence, along with ways to prevent reoccurrence, in order to improve our product reliability and to increase customer satisfaction.

Framework for Quality Assurance

To ensure full control over quality governance, we have separated the quality assurance division from the manufacturing division in every business unit and group company, creating a framework for activity in which our customers’ safety and trust are the top priorities. Since fiscal 2018, to strengthen this framework further, we have reinforced the reporting lines from business unit and group company quality assurance divisions to the quality assurance division at our head office, independent from all business divisions, creating systems for close information sharing between the two. We are also strengthening governance by giving greater authority to the quality assurance division at our head office.

Hitachi has also established “Product Safety Assurance Guidelines” and declares that we will always give top priority to ensuring the safety of our customers. We strive to achieve a higher degree of safety by repeatedly examining product safety activities in each division.

To develop a basic philosophy pertaining to Hitachi quality assurance efforts within global activities, we created Global Quality Assurance Standards and are strengthening the global governance of the entire group.

Incident Prevention Activities

We believe that prevention of incidents is the essential role of quality assurance, and we are strengthening our initiatives not only to prevent the recurrence of incidents, but also to prevent them in the first place. To this end, we are promoting quality assurance activities while anticipating quality issues with an eye to the changes in our various business activities.

As a part of these activities, to prevent incidents in advance, we are applying our software development capabilities and reliability engineering know-how in solutions divisions to product-related divisions (embedded software development divisions), and we are also building and strengthening our quality assurance activities in service businesses, which are growing rapidly, as well as a framework for sharing information on current issues.

Furthermore, we are promoting the digitization of test and inspection data and the establishment of processes that do not require manual intervention in the acquisition and assessment of inspection data and the preparation of inspection reports.

Complying with Technical Laws and Regulations

In addition, we developed the “Guideline for the Assessment of Technical Laws and Regulations, and Quality Assurance Systems,” which is shared throughout the Hitachi Group. The guideline includes two key subjects: (1) certification of laws and regulations related to each product (product laws and regulations map); and (2), legal compliance activities and continuous improvement of processes based on a product compliance management system.

Thorough Risk Assessment

We give top priority to the safety of our customers’ lives, physical bodies, and property when designing new products, and confirm the safety of our products at every stage in the process, from development to production, sales, and maintenance. Specifically, we improve risk communication with our customers based on the Guide for Preparing User Instruction Manuals, and ensure product safety through risk reduction measures based on the following priorities: design (innovative safety design), protective measures (safeguarding), and information on use (e.g., instruction manuals). We also collaborate with related business units and laboratories to conduct risk assessment from a broad perspective.

Handling Product Incidents

When an incident occurs, the department in charge of the product will take the lead in dealing with the situation from the customers’ perspective. In case of a particularly serious accident, we have a company-wide framework in place to take prompt and appropriate action. Specifically, in accordance with laws and regulations, we report to the competent authorities and disclose information to customers via our website and other channels, as well as promptly reporting the situation to senior management.

Furthermore, when it is deemed necessary to take retroactive measures against a product, we issue a public notice in newspapers or on our website and implement measures such as repair and replacement.

Quality and Reliability Instruction

We offer field-specific technical courses and level-specific courses such as “basic” and “advanced” mainly for engineers involved in manufacturing. Each business unit also provides specialized technical instruction in quality assurance training centers to improve manufacturing, quality assurance and maintenance techniques.
Compliance

Thorough Compliance
As the economy becomes more global and corporate activities become more borderless, business activities spanning across countries and regions with different administrative and economic systems, trading practices and values are picking up. Globally shared initiatives and guidance are increasingly important in terms of conducting proper international business and preparing for all types of risks that could potentially hinder business activities.

Hitachi promotes business globalization in accordance with “Basics and Ethics” and has established its own set of rules concerning important business practices, such as preventing bribery, observing the Competition Law and establishing tax compliance, that are compliant with widely recognized and approved international standards. We are also working to ensure thorough awareness and practice of these rules throughout the entire Hitachi Group. We will respond appropriately to the demands of society while reviewing and updating these rules as needed based on an awareness that required corporate behavior and interpretations of standards and regulations continue to evolve due to ongoing global discussion concerning compliance.

Our Basic Policy and Promotion System
We established the “Hitachi Group Codes of Conduct” as a standard of behavior for the entire group and have translated them from Japanese into 13 different languages, including English and Chinese, and have been circulating them through e-learning, sharing them with officers and employees throughout the world. We also established the “Hitachi Group Code of Ethics and Compliance” to clearly share ideas regarding corporate ethics and compliance that should be shared throughout Hitachi, as we work to further ensure that all Hitachi officers and employees act in thorough compliance with corporate ethics.

Regarding awareness of corporate ethics and compliance, an employee survey is conducted by the Hitachi Group every year in an effort to foster a sound corporate culture. In 2016, Hitachi reconstituted its rules and guidelines related to matters such as compliance with competition law and the prevention of antisocial transactions, corruption and bribery, repackaging them into the “Hitachi Global Compliance Program (HGCP),” a system of regulations falling under the Hitachi Group Codes of Conduct. We are seamlessly implementing these rules at all business sites globally.

Strengthening Our Global Compliance Framework
To implement the HGCP, we have appointed a senior executive as the head of risk management for the entire Hitachi Group to supervise the executives who are in charge of management-level risks in each business unit and key group companies. Under this system, policies and measures are shared through the “Compliance Management Conference,” composed of these risk management executives. Each executive is assisted by a compliance manager who implements practical support measures.

We also support group companies outside Japan and have appointed compliance heads in 11 regions, responsible for implementing education and sharing information as well as arranging consultation services with outside attorneys.

Issues in the promotion of compliance measures are clarified through individual dialogue with business units and key group companies, while the internal audit section regularly conducts group-wide reviews to verify that each area of compliance is being appropriately operated. In cases where these reviews identify necessary improvements, corrective measures are swiftly implemented. In addition, Hitachi conducts surveys every three years at group companies in regions where bribery risks are high based on possible bribery risk scenarios.

Hitachi also convenes an “Advisory Committee” of outside experts to gain new insights into compliance and apply them proactively in its own efforts.

In fiscal 2019, compliance risk surveys were conducted at 821 group companies to conduct management based on shared risk management categories throughout the Hitachi Group globally. Based on the results of these surveys, we will work to ensure the effectiveness of compliance programs by allocating resources to businesses and regions where risks are high and thoroughly implementing and managing measures in accordance with risks.

Compliance Reporting System
Hitachi introduced a Compliance Reporting System to prevent illegal and unethical behavior, promptly address infractions and enhance our ability to self-regulate. This system can be used by employees within the Hitachi Group, as well as temporary staff and business partners such as suppliers and distributors. In fiscal 2019, we received 459 reports from all group companies in Japan and throughout the world. In addition, we have implemented the Channel to the “Board of Directors system” to allow all Hitachi employees to directly report problems anonymously or under their real names to Hitachi directors in cases where they see any illegal or extreme inappropriateness in business conduct by division heads, executive officers or other management personnel.

Export Controls
For basic export control policies, we have adopted the “Hitachi Group Codes of Conduct,” which state: “We will help maintain international peace and security through compliance with all applicable laws and regulations concerning import and export, and will operate appropriately according to our internal rules and policies.” Hitachi has established “Corporate Regulations concerning Security Export Control” based on this policy to carry out strict export control practices in line with relevant laws and regulations, screening all goods and technologies intended for export against such factors as destination countries and regions, as well as intended end use and end users. We provide guidance and educational support for the formulation of regulations and the establishment of frameworks to Hitachi Group companies to ensure that all group companies follow this policy and implement export control in accordance with the laws and regulations of the regions and countries.

Primary Initiatives
Policies for Preventing Bribery and Corrupt Practices
Preventing bribery and corrupt practices is a major challenge for corporations today. Hitachi established rules against bribery and corruption for the HGCP along with guidelines indicating specific spending thresholds for entertainment, gifts and other arrangements provided to public officials, establishing a policy banning facilitation payments and due diligence procedures for business partners. In addition, Hitachi thoroughly complies with the U.S. Foreign Corrupt Practices Act (FCPA) and bribery regulations in each country and region, which have become stricter in recent years.

Tax Compliance Initiatives
To ensure risk management for taxation in response to globalization, Hitachi follows relevant tax-related regulations applicable to the overall group, as well as rules for transfer pricing management. We also manage transfer pricing in accordance with the OECD Transfer Pricing Guidelines and the laws and regulations on transfer pricing in each country or region where group companies are located.

Preventing Violations of Competition Law
Hitachi makes thorough efforts to comply with the HGCP’s rules concerning competition law and other related business standards and guidelines. We created a global version of our standards for contact with competitors to enhance awareness of ethical principles and practices. We also provide a collection of case studies for workplace discussions to group companies, including case studies on competition law in Japanese, English and Chinese, to raise employee awareness.

Hitachi holds a special manager training every other year and in fiscal 2019, approximately 1,100 general managers, mainly from sales department personnel facing high compliance risks in daily work activities, such as contact with competitor companies and involvement in public bidding, attended the training.

Violations of Laws and Regulations
In fiscal 2019, there were no incidents in which Hitachi violated or was penalized under laws or regulations regarding bribery or corrupt practices. Regarding tax compliance, Hitachi acts in accordance with all applicable laws and regulations and did not have any significant fines or nonmonetary sanctions for noncompliance with tax laws and regulations. Moreover, regarding competition law, we take seriously the fact that a group company was confirmed to be in violation of competition laws regarding the overseas transactions of some automobile parts. We are working to prevent recurrence through organizational and regulatory improvements and enhanced education and auditing.
Corporate Governance

Hitachi views the expansion of long-term and overall shareholder returns as an important management objective. Hitachi and its group companies maintain good relationships with a wide range of stakeholders, and we recognize that these relationships make up an important portion of our overall corporate value. Accordingly, we are striving to establish a system that will facilitate the maintenance of these relationships and improve our corporate value primarily through the implementation of measures focused on promoting constructive dialogue. To advance these efforts effectively, we are working to improve our corporate governance by ensuring thorough separation between the oversight and execution of management, establishing a swift business execution system and striving to achieve highly transparent management.

History of Hitachi’s Corporate Governance Reform

1999 Introduction of Objective Perspective Management Advisory Committees
- Practical advice from experts in Japan and overseas
- To increase management speed and improve management transparency

2003 Demarcation of Management Oversight and Execution
- Shuffled to a company with committees (currently a company with nominating committee, etc.)

2006 Enforcement of Revised Companies Act

2010 Enhancement of Interactions with Capital Markets Hitachi IR Day (briefing on business strategy by division) was launched
- Clarification of commitment of top management of the business units to the capital markets

2012 Acceleration of Global Management
- Independent directors comprising the majority of directors

Implementing All of the Principles of the Corporate Governance Code

We are implementing all of the principles of the Corporate Governance Code.

Director Composition

Independence (ratio of Independent directors)

Diversity (ratio of non-Japanese directors)

Directors with Abundant Experience

Hitachi has 13 directors, 6 of whom are non-Japanese and 2 of whom are female. This team of directors applies their abundant experience and knowledge related to the management of global companies, legal affairs, accounting, capital markets, government agencies and the field of digital technology to facilitate discussions informed by a wide variety of perspectives.

Hitachi’s Corporate Governance Framework and Its Features

Transparency in Management
- We became a company with committees (currently a company with a nominating committee, etc.) in 2003.

We have established a Nominating Committee, a Compensation Committee and an Audit Committee, which are mostly made up of, and are chaired by, independent directors. The system we have in place to ensure transparency in management separates the oversight and execution of management, facilitates the full exercise of supervisory functions and enables discussions and reports to be conducted appropriately within these three committees.

Independence of the Board of Directors
- We increased our number of independent directors, including non-Japanese directors, in 2012.

Our Board of Directors, which is chaired by an independent director, has 13 members, including 10 independent directors, 2 directors who are also serving as executive officers and 1 director who is not serving as an executive officer. In addition, we have established a system that facilitates the full exercise of supervisory functions by maintaining separation between the oversight and execution of management.

Enhanced Collaboration through Tripartite Audits
- Hitachi’s Audit Committee and internal audit section collaborate with third-party accounting auditors to strengthen its “tripartite auditing,” which aims to increase the effectiveness of internal controls.
Corporate Governance

I Administrative Performance of the Board of Directors

The Board of Directors approves basic management policy for Hitachi Group and supervises the execution of the duties of executive officers and directors in order to sustainably enhance corporate value and shareholders’ common interests. The basic management policy includes the Mid-term Management Plan and annual budget compilation. The Board of Directors focuses on strategic issues related to the basic management policy as well as other items to be resolved that are provided in laws, regulations, the Articles of Incorporation and Board of Directors Regulations.

Board of Director Meetings in Overseas and Panel Discussions Involving Experts

In principle, Hitachi holds a meeting of its Board of Directors annually in a foreign country that is deeply connected with its businesses. In December 2019, this meeting was held in the City of Zurich in the Swiss Confederation. As a side event, we also held a panel discussion involving representatives from the International Energy Agency (IEA), European power transmission and distribution companies, and Japanese scholars. This panel discussion increased the depth of understanding our directors and associates have concerning the “3Ds” (decarbonization, dispersion, and digitalization) and new power system trends, including the ongoing establishment of power grids in a wide range of regions and nations.

Status of Board of Director meetings held in fiscal 2019

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of days during term of office on which the meetings were held</th>
<th>Attendance / Number of days on which the meetings were held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>Nominating Committee</td>
<td>Audit Committee</td>
</tr>
<tr>
<td>Katsuki Ibari</td>
<td>100%</td>
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</tr>
<tr>
<td>Cynthia Carroll</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Joe Hartter</td>
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<tr>
<td>George Bailey</td>
<td>100%</td>
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<tr>
<td>Louise Pennyard</td>
<td>89%</td>
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</tr>
<tr>
<td>Harumitchi Morishita</td>
<td>100% 100%</td>
<td>100%</td>
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<tr>
<td>Takahiro Yamamoto</td>
<td>100%</td>
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<tr>
<td>Hiroshi Yoshizera</td>
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</tbody>
</table>

*Number of days during term of office on which Audit Committee meetings were held. Number of days during term of office on which Audit Committee meetings were held. Number of days during term of office on which Audit Committee meetings were held. Number of days during term of office on which Audit Committee meetings were held.

I Analysis and Evaluation of the Effectiveness of the Board of Directors

The Company evaluates the effectiveness of its Board of Directors as a whole each year, in a continuous effort to maintain and improve its functions.

Fiscal 2019 Evaluation Process

1. Questionnaire-based self-assessment by each director (February–March 2020)
   - Points of evaluation
     - Composition of Board of Directors: Member diversity, numbers and ratio of independent directors and inside directors
     - Clarification of the responsibilities and expected roles of the Board of Directors
     - Operation of Board of Directors: Meeting frequency, discussion time, preparation, discussion content, role of chairperson, etc.
     - Contribution to management strategy formulation and changes in corporate culture, member demonstration of experience and knowledge, etc.
     - Understanding regarding the Company: Group identity, risk factors
   - Status of committee activities: Composition, responsibilities and roles, collaboration with Board of Directors, etc.
   - Operation supporting system: delivery of information, e.g., provision of documents for the Board.

2. Discussions held by independent directors (March 2020)
   - Independent directors held an exclusive meeting to discuss the effectiveness of the Board of Directors.

3. Discussion and review within the Board of Directors (June 2020)
   - The Board of Directors held a discussion based on the results of the questionnaire-based self-assessment and discussions conducted in the exclusive meeting attended by independent directors, comparing these results to those of the previous year and considering the statutes of the Company and its business.

Evaluation Results and Future Initiatives

- Overall evaluation in fiscal 2019
  - Fiscal 2019 evaluations determined that membership in our Board of Directors was sufficiently diverse. They also indicated the Board of Directors’ overall effectiveness was satisfactory due in part to its active discussions aimed at medium- to long-term growth in corporate value. Each director was found to have contributed to or her own own realization of these discussions, which were primarily focused on points related to management strategy, including the Mid-term Management Plan.

- Results in March 2020

  - Maintenance and improvement of Board of Director functions
    - The Board of Directors will continue to conduct discussions concerning business strategies for each sector. At the same time, it discusses the progress of our Mid-term Management Plan as appropriate while accounting for circumstances surrounding COVID-19.
    - We are strengthening collaboration between the Board of Directors and the Nominating Committee while continuing to CEO succession planning for example, expanding reports made to the Board of Directors through the Nominating Committee, enhancing coaching for successors and next-generation candidates.

  - Enhancement of operational support of the Board of Directors and improvement of its practical aspects
    - While accounting for circumstances surrounding COVID-19, we improve our operation supporting system through the continuous sharing of information obtained through independent directors’ visits to Hitachi Group business premises and event participation.
    - We will achieve further improvements related to the composition and content of materials, as well as to their preliminary provision.

I Nominating Committee

The Nominating Committee has the authority to determine candidates for the election and dismissal of directors. In fiscal 2019, the Nominating Committee held meetings on 8 days.

Primary Activities

In addition to deciding upon the contents of the proposal made concerning director appointments at the Annual General Meeting of Shareholders, the Nominating Committee reviewed and confirmed the executive officer system implemented in fiscal 2020. In addition, it provided committee-related activities including discussions and individual interviews aimed at developing candidates for future management and leadership positions.

I Audit Committee

The Audit Committee has the authority to audit the execution of duties of directors and executive officers and to decide on proposals submitted to the general meeting of shareholders for the election and dismissal of directors. The Audit Committee is composed of 5 directors, including 4 independent directors and 1 standing Audit Committee member.

Primary Activities

The Audit Committee conducted activities that were focused on its priority matters for consideration, which included the establishment of collaboration and the promotion of information through cooperating audit bodies (including the Audit Committee, internal audit sections, and accounting outsourcing), as well as the construction and operational evaluation of internal control systems important in terms related to the consulting ofHitachi’s firm management and business existence.

Primary Initiatives

In fiscal 2019, the Audit Committee held meetings on 15 days.

I Compensation Committee

The Compensation Committee has the authority to determine remuneration policies for directors and executive officers and remuneration for individuals (including amounts of remuneration) based on them. Composed of 4 directors, including 3 independent directors, the committee strives to ensure objectivity, transparency, and fairness in the remuneration for executive officers and remuneration for individuals (including amounts of remuneration).

Primary Activities

The Compensation Committee decided upon the remuneration amount for executive officers in fiscal 2020, including the determination of remuneration for the President and other executive officers, and the executive officers in the previous fiscal period. In addition, the Committee reviewed the executive compensation system while giving due consideration to the compensation system for European officers and the system for global officers in the previous fiscal period. The Committee also reviewed the remuneration amount and performance-based bonus for each executive officer. In fiscal 2019, the Compensation Committee held meetings on 4 days.

How We Will Achieve Sustainability
Corporate Governance

CEO Appointment, Dismissal, and Succession Plan
Hitachi's Board of Directors decides upon the appointment and dismissal of executive officers, including the CEO, with the goal of constructing an optimal business execution system for management. Decisions regarding the appointment or dismissal of executive officers are based upon proposals made to the Nominating Committee, while decisions related to the position of CEO are made based on preliminary deliberations and proposals from the Nominating Committee. As stipulated in our Corporate Governance Guidelines, our basic policy concerning CEO appointments and dismissals requires that individuals serving in the position of CEO have extensive experience and achievements in the field of company management. They must also be considered optimally suited for conducting management aimed at achieving Hitachi’s goals of continuously raising its corporate value and further serving the common interests of its shareholders. Regarding our CEO Succession Plan, as the speed of change accelerates, we are striving to build a system that enables us to appropriately and promptly secure and develop (both internally and globally) necessary management personnel who will provide leadership that will allow us to realize our growth strategies. Accordingly, we are also concentrating on providing training for selected employees while targeting the early development of candidates for future management positions. Accordingly, we are developing next-generation leaders capable of acting authoritatively and resolutely by establishing forums where participants can discuss what is necessary for Hitachi’s future growth and make recommendations to management. In addition, we have identified a group of about 50 employees from around the Hitachi Group with next-generation development potential. People in this “Future 50” group are selected on merit, regardless of age, gender, or nationality. They are given challenges to help expand their horizons and build their perspectives, through tough assignments including different types of work, and internal and external training opportunities. The Future 50 group members receive one-on-one mentoring opportunities with independent directors to benefit directly from their extensive business experience and global perspectives. Our aim is to change mindsets so that we can develop people for important positions in the future.

Director and Executive Officer Compensation

Basic Policy
- Compensation shall be such that it enables the Company to attract necessary personnel to achieve an improvement in corporate value through global business growth.
- Compensation shall be commensurate with roles and responsibilities of each Director and Executive Officers.
- Compensation for Directors shall be such that it enables them to exercise functions of supervision of management effectively.
- Compensation for Executive Officers shall be such that it enables them to contribute to sustained improvement in corporate value through the execution of business and employs an appropriate balance between short-term performance and medium- and long-term performance.
- The level of compensation shall be determined taking into account compensation levels at other companies as well as economic and market trends.
- The Compensation Committee uses outside experts to gain expert advice and an objective viewpoint, if necessary, for considering the details and amounts of compensation.

Compensation Structure
(1) Directors
Compensation for Directors is basic remuneration as fixed pay. The amount of basic remuneration is determined by adjusting a basic amount to reflect full-time or part-time status, committee membership and position, and travel from place of residence, etc. A Director concurrently serving as an Executive Officer is not paid compensation as a Director.

(2) Executive Officers
Compensation for Executive Officers consists of basic remuneration as fixed pay, and short-term incentive compensation and medium- and long-term incentive compensation as variable pay. The basic amount of each type of compensation is set based on the ratio of 1:1:1 as the standard form of compensation, taking into account the composition of executive compensation for major global companies, in order to improve corporate value through the growth of global businesses. The higher position of Executive Officers holds, the higher proportion of variable pay is set to the total annual compensation. It is found that an executive officer has been engaged in misconduct during his/her term of office, compensation for Executive Officers who has been already paid shall be returned to the Company (clawback provision).


Compensation to Executive Officers (FY2020)


Fixed pay
- Basic remuneration
Set according to the relevant position by adjusting that amount to reflect financial results and individual performance.
- Short-term incentive compensation
The amount of short-term incentive compensation is decided within the range of 0 to 200% of a basic amount set according to the relevant position by adjusting that amount to reflect financial results and individual performance.
- Medium- and Long-term incentive compensation
The shares of restricted stock are granted in order to propel management from a medium- and long-term perspective and to provide incentives to bring about a sustainable increase in enterprise value by further promoting senior management’s shared values with shareholders through the holding of shares during their term of office.

Variable pay
- Linked to evaluations of Company-wide performance (80%)
Evaluated referring to adjusted operating income and operating cash flows for each division, among other indicators, to measure the level of achievement of targets under the Mid-term Management Plan and the annual budgets for divisions.
- Linked to evaluations of divisional performance (50%)
Evaluated referring to consolidated revenues, adjusted operating income, EBIT, and net income attributable to Hitachi, Ltd stockholders in order to measure the level of achievement of consolidated financial forecasts disclosed to stakeholders, including shareholders and investors.

The shares of restricted stock are

- The restriction on transfer shall be lifted if executive officers resign from all of the positions of the Company’s executive officer, director, and corporate officer.
- With regard to one-half of granted shares of restricted stock, the number of shares whose transfer restriction is lifted shall be determined after ex-post evaluation in which the total shareholder return of Hitachi stock is compared to growth rate of TOPIX (both measured over the three years dating back to the beginning of the fiscal year during which corresponding medium- and long-term incentive compensation was issued). Lifting of transfer restrictions shall apply to all granted shares if the TSR/TOPIX Growth Rate Ratio is 120% or more. Lifting of transfer restrictions shall apply to part of granted shares if the TSR/TOPIX Growth Rate Ratio is 80% or more but less than 120%. Transfer restrictions shall not be lifted for any shares if the TSR/TOPIX Growth Rate Ratio is less than 80%. Shares whose transfer restrictions are not lifted shall be acquired by the Company without consideration.
- The rates used for “other executive officers” apply when “executive officers forming the Senior Executive Committee” are in charge of business units or businesses.

How We Will Achieve Sustainability

STEP 1 STEP 2 STEP 3 STEP 4 STEP 5
Define the roles and personnel associated with important positions
Select candidates for important positions
Evaluate candidates
Develop candidates

STEP 1
STEP 2
STEP 3
STEP 4
STEP 5

The Compensation Committee utilizes external experts to gain expert advice and an objective viewpoint, if necessary, to discuss the necessity and effectiveness of compensation levels and structure. The Compensation Committee monitors external trends and measures the level of achievement of annual targets to ensure the compensation is competitive with comparable businesses. It is also consulting external experts to gain expert advice and an objective viewpoint.
Corporate Governance

Internal Control over Financial Reporting
To ensure the reliability of its consolidated financial reporting, the Hitachi Group is establishing and implementing relevant internal controls. We evaluate their effectiveness by adhering to standards for the evaluation of internal controls related to financial reporting that are generally accepted and are consistent with good corporate governance. Furthermore, we have established the J-SOX Committee with the goal of raising the effectiveness of these internal controls. This committee evaluates internal control effectiveness and establishes frameworks designed to improve and strengthen them.

Enhanced Collaboration through Tripartite Audits
In pursuit of sustainable growth in corporate value, Hitachi’s Audit Committee and internal audit section collaborate with third-party auditing agencies to strengthen its “tripartite auditing,” which aims to increase the effectiveness of internal controls. Our Audit Committee takes the lead in this regard, as the three parties communicate closely to share risk information and assessments concerning risk response while securing transparency and ensuring appropriate checks and balances.

Building a More Effective and Efficient Auditing System
Our Audit Committee formulates audit plans in accordance with its risk-based approaches and conducts audits for each consolidated business unit. Audit Committee members meet directly with business unit heads before the internal audit section’s audits are carried out. Then, these members inform the internal audit section about concerns and issues related to the implementation of business strategies aimed at achieving sustainable growth that require attention. At this time, Hitachi also verifies matters that carry high levels of risk in terms of quality, measuring these risks through employee awareness surveys and thorough implementation of business strategies. Hitachi’s internal audit section performs regular internal audits at each business site and location. This section reports directly to the CEO and is independent from organizations that are subject to its audits. The internal audit section also formulates audit plans based on past audit records and the most recent business circumstances. Additionally, this section performs audits upon receiving direction from the Audit Committee, ensuring their effectiveness. The internal audit section at Hitachi is responsible for confirming the legality and appropriateness of all business operations, including those related to accounting, production management, sales, purchasing, IT systems, compliance and human resources. Furthermore, acting on behalf of our management team, the internal audit section confirms whether the employees are well versed in the ideas and policies of our management, and their operations are being carried out based on these ideas and policies and if business strategies are being implemented in a way that will efficiently lead to sustainable growth.

To further raise audit effectiveness, we implemented a “chief auditor system” in each five sectors (IT, Energy, Industry, Mobility, Smart Life) in April 2019. Through this action, we built an internal control system spearheaded by chief auditors and enhanced collaboration with the executive vice presidents who manage each sector and with the Audit Committee. Although these chief auditors do not act as legal agents under the Companies Act, they still assume responsibility for governance in each sector. They also function as a reporting line for statutory auditors at Hitachi subsidiaries who are legal agents under the Companies Act and are working to improve the efficiency of our internal control systems.

Comprehending Management Issues through Conversations with Stakeholders
Hitachi promotes its Social Innovation Business with an attempt to perceive the social issues in each country or region, followed by collaborative creation with customers, national and local governments, academic and research institutes, and other stakeholders to resolve them. We strive to enhance the value of human capital—which are indispensable management resources for conducting business—and place importance on direct dialogue between employees and senior management. Furthermore, we are also actively communicating with shareholders and investors to improve our corporate value, and held approximately 750 meetings in fiscal 2019.

How We Will Achieve Sustainability

Management of risk associated with global business expansion
Creation of a system focused on maintaining transparency and a sense of urgency

Internal Control Assessment Framework

How We Will Achieve Sustainability

Building a More Effective and Efficient Auditing System
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Message from Independent Directors

I hope to leverage my nearly 15 years in leadership roles building successful global companies to move us more swiftly down the path of digital transformation and contribute to good governance.

Ravi Venkatesan
Independent Director

Hitachi and its customers are on a journey to bring together technologies, platforms and people. I will draw on all my experience in digital transformation to support this journey.

Helmut Ludwig
Independent Director

First, I am honored to join the Board of Directors of Hitachi, which is one of the world’s great technology companies. As an independent director, I hope to contribute to Hitachi in several ways. For instance, Hitachi is making a big bet on the digital transformation of its businesses and building out Lumada as a platform for this. The Company has been proactive and is well positioned for leadership, but other large technology companies and competitors are building similar platforms. Many crucial decisions will determine our success, including investments, partnerships, M&A and strategic governance. I hope to draw on my nearly 15 years in leadership roles with Microsoft and Infosys to bring useful perspectives to accelerate our digital transformation journey.

One opportunity is in India, which has a large market and a critical pool of engineering talent. It also presents an extremely difficult business environment. Having helped build several successful companies in India, including Cummins, Microsoft, JCB and Volvo, I aim to advise and assist our Business Units to successfully build market leadership there.

In my role as UNICEF’s Special Representative for Young People and Innovation, I find Hitachi’s commitment to the Social Innovation Business fascinating. This aspect of the Company is distinctive and extremely important: society is increasingly holding companies to account for good governance.

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How We Will Achieve Sustainability

Leadership

Independent Directors* (As of July 30, 2020)

Nominating Committee: Haruyuki Morishita, Cynthia Carroll, Hiroaki Yoshihara, Hisakata Nakarai

Audit Committee: Hiroaki Yoshihara, Katsumi Ibara, Haruyuki Morishita, Takashi Yamamoto, Hitoshi Saki

Compensation Committee: Haruyuki Morishita, Katsumi Ibara, Takashi Yamamoto, Toshiaki Hayashihara

Each Committee is composed of the following members (chair names underlined)

Nominating Committee:
Haruyuki Morishita, Cynthia Carroll, Hiroaki Yoshihara, Hisakata Nakarai

Audit Committee:
Hiroaki Yoshihara, Katsumi Ibara, Haruyuki Morishita, Takashi Yamamoto, Hitoshi Saki

Compensation Committee:
Haruyuki Morishita, Katsumi Ibara, Takashi Yamamoto, Toshiaki Hayashihara

Katsumi Ibara

Director, Hitachi, Ltd.
(Retired in December 2015)

George Buckley

President & CEO, Hitachi, Ltd.
(Retired in August 2018)

Louise Pentland

President, Hitachi America, Ltd.
(Retired in December 2019)

Takatoshi Yamamoto

Director, Hitachi, Ltd.
(Retired in December 2015)

Harufumi Mochizuki

Chairman of the Board, Hitachi, Ltd.
(Retired in September 2011)

Joe Harlan

Chairman, Hitachi, Ltd.
(Retired in April 2013)

Hiroaki Yoshihara

Chairman of the Board, Hitachi, Ltd.
(Retired as CEO in March 2009)

Toshiaki Higashihara

Chairman of the Board, Hitachi, Ltd.
(Retired in June 2020)

Helmuth Ludwig

Chairman of the Board, Hitachi, Ltd.
(Retired in July 2014)

Hiroaki Yoshihara, Hideaki Seki

Chair of the Audit Committee

Audit Committee: Cynthia Carroll, Hiroaki Yoshihara, Hisakata Nakarai

Compensation Committee: Haruyuki Morishita, Katsumi Ibara, Takashi Yamamoto, Hitoshi Saki

* The “independent directors” are the directors who fulfill the stipulated requirements to be outside directors as provided for the Companies Act of Japan, and also meet the independence criteria defined by the Company and those prescribed by Japanese stock exchanges where the Company is listed.

Hitachi Integrated Report 2020

66

67
Executive Officers (As of April 2020)

President & CEO

Toshiaki Higashihara*
Overall management

Executive Vice Presidents and Executive Officers

Masakazu Aoki*
Assistant to the President, business for industry & distribution sectors, water & environment business, and industrial products business

Ryuichi Kitayama*
Assistant to the President, marketing & sales and regional strategies

Keiji Kojima*
Assistant to the President, key R&D, energy business, information systems business, and healthcare business, and social & safety systems business

Senior Vice Presidents and Executive Officers

Yoshikiko Kawamura*
Finance, corporate strategy, and corporate financial strategies

Toshiaki Tokunaga
Remedial & support business

Hidenobu Nakahata*
Corporate social responsibility, corporate social responsibility, corporate sustainability, and corporate capital

Mamoru Morita
Management strategies and business strategies for social innovation business

Vice Presidents and Executive Officers

Keiichi Shiotaka*
Assistant to the President, legal & compliance, and corporate governance

Alistair Dormer*
Assistant to the President, building systems business and machinery systems business

Toshikazu Nishino*
Assistant to the President, nuclear energy business and energy business

Masashi Murayama
Cost structure reform and Information security management

Takashi Yoda
Regional strategies (Other)

Note: Executive officers are listed by position and in alphabetical order within each grouping.
An asterisk (*) denotes executive officers who are representative executive officers.

Data Section

- 10-year Financial Data...
- 5-year Non-financial Data...
- Segment Highlights...
- Hitachi Group Business Operation Framework...
- Corporate Data / Stock Information and a Message from the Editor-in-chief...
## 10-year Financial Data

### U.S. GAAP

<table>
<thead>
<tr>
<th>For the year</th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>¥3,315,807</td>
<td>¥3,685,883</td>
<td>¥3,041,071</td>
<td>¥3,563,721</td>
<td>¥3,761,970</td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>444,508</td>
<td>473,280</td>
<td>422,028</td>
<td>538,288</td>
<td>650,479</td>
<td></td>
</tr>
<tr>
<td>EBIT (Earnings before interest and taxes)</td>
<td>443,812</td>
<td>573,218</td>
<td>358,015</td>
<td>585,462</td>
<td>551,018</td>
<td></td>
</tr>
<tr>
<td>Net income attributable to Hitachi, Ltd. stockholders</td>
<td>238,869</td>
<td>347,179</td>
<td>175,326</td>
<td>264,875</td>
<td>251,301</td>
<td></td>
</tr>
</tbody>
</table>

| Cash flows from operating activities | 841,554 | 447,155 | 583,508 | 439,406 | 447,348 |        |
| Cash flows from investing activities | (260,346) | (195,584) | (553,457) | (491,363) | (810,251) |        |
| Free cash flows | 581,208 | 251,571 | 30,261 | (51,967) | (162,067) |        |
| Cash flows from financing activities | (584,176) | (176,838) | (180,445) | 32,968 | 250,335 |        |

### Financial ratios:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA (Return on Assets)</td>
<td>3.3 %</td>
<td>4.4 %</td>
<td>2.5 %</td>
<td>3.5 %</td>
<td>3.1 %</td>
<td></td>
</tr>
<tr>
<td>D/E ratio (Including non-controlling interests) (times)</td>
<td>1.03</td>
<td>1.08</td>
<td>2.18</td>
<td>24.21</td>
<td>24.21</td>
<td>23.6 %</td>
</tr>
</tbody>
</table>

### Notes:

1. Under IFRS, in order to be consistent with financial reporting principles and practices generally accepted in Japan, operating income in period-end report is calculated at less cost of sales and selling, general and administrative expenses. The Company believes this is useful to investors in comparing the Company's financial results with those of other Japanese companies. Under accounting principles generally accepted in the United States of America, restructuring charges, net gain or loss on sales and disposal of rental assets and other property and impairment losses for long-lived assets are included as part of operating income.

2. Earnings per share attributable to Hitachi, Ltd. stockholders is calculated on the assumption that the Company conducted this consolidation at the beginning of the previous fiscal year.

3. EBIT is presented as income before income taxes less interest income plus interest charges.

4. From fiscal 2013, capital investment is stated exclusive of investment in lease assets classified as finance leases.

5. ROA (Return on Assets) = Net income / Total assets (Average between the end of current fiscal year and the end of previous fiscal year) x 100
## Human Capital Development

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>375,353</td>
<td>353,631</td>
<td>349,250</td>
<td>334,940</td>
<td>315,440</td>
</tr>
<tr>
<td>Consoladated</td>
<td>3,397</td>
<td>3,294</td>
<td>3,238</td>
<td>3,162</td>
<td>3,095</td>
</tr>
<tr>
<td>Non-consoladated</td>
<td>34,953</td>
<td>31,337</td>
<td>31,142</td>
<td>29,742</td>
<td>28,345</td>
</tr>
<tr>
<td>Average service (years)²</td>
<td>14.4</td>
<td>15.0</td>
<td>14.9</td>
<td>15.1</td>
<td>15.0</td>
</tr>
<tr>
<td>Turnover ratio (%)¹</td>
<td>4.2</td>
<td>5.3</td>
<td>5.5</td>
<td>6.3</td>
<td>5.2</td>
</tr>
</tbody>
</table>

### Diversity & Inclusion

- **Ratio of female employees (%)**: 18.5%
- **Ratio of female managers (%)**: 4.0%
- **Ratio of female executives (%)**: 2.4%
- **Number of non-Japanese executives**: 3

### Leadership & Governance

- **Turnover ratio (%)**: 4.2% to 5.5%
- **Ratio of female managers**: 4.0%
- **Ratio of female executives**: 2.4%
- **Number of non-Japanese executives**: 3

## Hitachi Group’s Global Safety Figures (Occurrence rate)²

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>27.65%</td>
<td>24.33%</td>
<td>27.96%</td>
<td>20.75%</td>
</tr>
<tr>
<td>Latin America</td>
<td>2.33%</td>
<td>1.62%</td>
<td>0.44%</td>
<td>0.57%</td>
</tr>
<tr>
<td>Europe</td>
<td>10.70%</td>
<td>10.82%</td>
<td>8.06%</td>
<td>4.78%</td>
</tr>
<tr>
<td>India</td>
<td>2.07%</td>
<td>1.64%</td>
<td>1.44%</td>
<td>1.63%</td>
</tr>
<tr>
<td>China</td>
<td>1.59%</td>
<td>1.53%</td>
<td>1.46%</td>
<td>1.17%</td>
</tr>
<tr>
<td>Asia (excluding India and China)</td>
<td>5.43%</td>
<td>4.41%</td>
<td>3.34%</td>
<td>2.63%</td>
</tr>
<tr>
<td>Oceania</td>
<td>39.07%</td>
<td>24.41%</td>
<td>21.34%</td>
<td>20.07%</td>
</tr>
<tr>
<td>Africa</td>
<td>17.26%</td>
<td>9.93%</td>
<td>11.76%</td>
<td>9.72%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.57%</td>
<td>1.55%</td>
<td>1.64%</td>
<td>1.53%</td>
</tr>
<tr>
<td>Global total</td>
<td>3.95%</td>
<td>2.42%</td>
<td>2.45%</td>
<td>3.45%</td>
</tr>
</tbody>
</table>

### Occupational Health and Safety

- **Number of fatal accidents**: 4
- **Number of non-fatal accidents**: 3

## Waste and Valuables Generation

<table>
<thead>
<tr>
<th>Component</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste and valuables generation (kt)</td>
<td>618</td>
<td>1,336</td>
<td>2,562</td>
<td>3,325</td>
<td></td>
</tr>
<tr>
<td>Water use (million m³)</td>
<td>43.91</td>
<td>41.34</td>
<td>38.54</td>
<td>37.02</td>
<td>36.41</td>
</tr>
<tr>
<td>CO2 emissions at business sites (factories and offices) (kt-CO2)</td>
<td>4,346</td>
<td>5,323</td>
<td>5,433</td>
<td>4,073</td>
<td>4,374</td>
</tr>
<tr>
<td>Water use (million m³)</td>
<td>43.91</td>
<td>41.34</td>
<td>38.54</td>
<td>37.02</td>
<td>36.41</td>
</tr>
</tbody>
</table>

### Ratio of Female and Non-Japanese Executive (Hitachi, Ltd.)³

<table>
<thead>
<tr>
<th>Region</th>
<th>June 2017</th>
<th>June 2018</th>
<th>June 2019</th>
<th>July 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of female executives</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Ratio of female executives (%)</td>
<td>2.4</td>
<td>2.6</td>
<td>5.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Number of non-Japanese executives</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Ratio of non-Japanese executives (%)</td>
<td>3.7</td>
<td>6.4</td>
<td>8.8</td>
<td>8.6</td>
</tr>
</tbody>
</table>

### Research & Development

<table>
<thead>
<tr>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of R&amp;D expenditure to revenue (%)</td>
<td>3.3</td>
<td>3.5</td>
<td>3.6</td>
<td>3.4</td>
</tr>
</tbody>
</table>

### Responsible Procurement, Status of CSR Procurement Policies

<table>
<thead>
<tr>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>Cumulative total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR monitoring (self-check) (companies)</td>
<td>218</td>
<td>216</td>
<td>131</td>
<td>345</td>
</tr>
<tr>
<td>CSR audits</td>
<td>20</td>
<td>20</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>Supplier briefings</td>
<td>12</td>
<td>65</td>
<td>128</td>
<td>59</td>
</tr>
</tbody>
</table>

### Environment

- **Reduction rate in CO2 emissions per unit from products and services (base: FY2010) (%)**: 19%
- **CO2 emissions at business sites (factories and offices) (kt-CO2)** | 4,346, 5,323, 5,433, 4,073 |
- **Water use (million m³)** | 43.91, 41.34, 38.54, 37.02 |
- **Waste and valuables generation (kt)** | 618, 1,336, 1,356, 1,384 |
- **Atmospheric emissions of chemical substances (t)** | 3,615, 4,393, 4,393, 4,393 |

**Scope of Data**
- ² Hitachi’s three figures exclude approximately 60,000 manufacturing workers.
- ³ Hitachi Group’s three figures include manufacturing employees dispatched from Hitachi, Ltd. to other companies, and those accepted from other companies for more than six months.

### Hitachi Group Business Operation Framework

- **IT**
- **Energy**
- **Industry**
- **Mobility**
- **Smart Life**
Corporate Data / Stock Information
(As of March 2020)

- **Corporate Name**
  Hitachi, Ltd. (Kabushiki Kaisha)
  Hitachi Seisakusho

- **URL**
  https://www.hitachi.com/

- **Head Office**
  6-6, Marunouchi 1-chome,
  Chiyoda-ku, Tokyo 100-8280, Japan

- **Founded**
  1910 (Incorporated in 1920)

- **Capital Stock**
  459,862 million yen

- **Number of Employees**
  (consolidated)
  301,056

- **Number of Shares Issued**
  Common Stock
  (including treasury stock)
  967,280,477 shares

- **Number of Shareholders**
  308,638

- **Administrator of Shareholders’ Register**
  Tokyo Securities Transfer Agent Co., Ltd.
  3-11, Kanda Nishiki-cho,
  Chiyoda-ku, Tokyo 101-0054, Japan

- **Stock Exchange Listings**
  Tokyo, Nagoya

- **Accounting Auditor**
  Ernst & Young ShinNihon LLC

- **Contact**
  Hitachi, Ltd.
  6-6, Marunouchi 1-chome,
  Chiyoda-ku, Tokyo 100-8280
  TEL: +81-3-3258-1111

- **Ratings Company**
  S&P Global Ratings Japan Inc.
  A
  A-1

- **Moody’s Japan K.K. (Moody’s)**
  A3
  P-2

- **Rating and Investment Information, Inc. (R&I)**
  AA-
  a-1+

- **Government and Municipality**
  1.54%

- **Other Institutions**
  33.93%

- **Financial Institution and Securities Firm**
  46.11%

- **Individual**
  18.42%

- **10 Largest Shareholders**

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Shares (shares)</th>
<th>Share-holding Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>81,189,800</td>
<td>8.40</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>55,286,400</td>
<td>5.72</td>
</tr>
<tr>
<td>STATE STREET BANK AND TRUST COMPANY 505001</td>
<td>21,463,830</td>
<td>2.22</td>
</tr>
<tr>
<td>JP MORGAN CHASE BANK 385151</td>
<td>20,609,612</td>
<td>2.13</td>
</tr>
<tr>
<td>Hitachi Employees’ Shareholding Association</td>
<td>20,319,676</td>
<td>2.10</td>
</tr>
<tr>
<td>NATS CUMCO</td>
<td>20,185,002</td>
<td>2.09</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>20,000,099</td>
<td>2.07</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account S)</td>
<td>19,572,500</td>
<td>2.03</td>
</tr>
<tr>
<td>STATE STREET BANK AND TRUST COMPANY 505223</td>
<td>19,012,529</td>
<td>1.97</td>
</tr>
<tr>
<td>STATE STREET BANK WEST CLIENT-TREATY 505234</td>
<td>15,270,687</td>
<td>1.58</td>
</tr>
</tbody>
</table>

Note: Treasury stock is included in “Other Institutions.”

- **Message from the Editor-in-chief**

  I would like to thank you for reading all the way to the final page of the Hitachi Integrated Report 2020. Since fiscal 2016, Hitachi has been publishing an integrated report for its investors and all other stakeholders with the goal of creating a deeper understanding of how the Hitachi Group will create value over the medium to long term.

  In 2019, major changes to our report production policies and efforts to make our integrated report more readable were paid off, as we received the Integrated Reporting Award through the 7th WICI Japan Award for Excellence in Integrated Reporting event, as well as the Grand Prize in the 22nd Nikkei Annual Report Awards 2019. When publishing the 2020 edition of our integrated report, we experimented with new ideas to enable the accomplishment of some feats that were not possible during the previous year.

  In May 2020, we disclosed our financial forecast for the fiscal year ending March 31, 2021, along with the projected impacts of the COVID-19 pandemic on each individual business, which constitute one of the premises on which the forecast was based. We made these disclosures despite the uncertain circumstances we are now facing because we wish to present as much information as possible. This desire stems from our belief that disclosing as much information as we possibly can will enable us to have more constructive discussions concerning the future with investors.

  I hope that this integrated report will facilitate better understanding of the Hitachi Group and provide an opportunity for constructive discussion. Furthermore, we plan to enhance our disclosure and raise transparency moving forward, so we welcome you to share any opinions you might have without reserve.

  In closing, as the publication supervisor of the Hitachi Integrated Report 2020, I would like to take this opportunity to wish you, the reader, well and express my gratitude for your kind attention.

  September 2020

  Hidenobu Nakahata
  Representative Executive Officer
  Senior Vice President and Executive Officer
  Head of Corporate Communications and Corporate Auditing

- **Website Information**

  Detailed information is available on the Company’s website.

  **About Hitachi Group**
  https://www.hitachi.com/corporate/about/
  (English)
  https://www.hitachi.co.jp/about/corporate/ (Japanese)

  **Investor Relations**
  https://www.hitachi.com/ir/
  (English)
  https://www.hitachi.co.jp/IR/ (Japanese)

  **Sustainability**
  https://www.hitachi.com/sustainability/
  (English)
  https://www.hitachi.co.jp/sustainability/ (Japanese)