

# Risk Management



## Why it matters

Social and environmental issues, including climate change, resource depletion, the curtailment 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 a drastic change 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.

Hitachi launched an Investment Strategy Committee to strengthen the quantitative risk management of its investments. The Executive Sustainability Committee deliberates the social and environmental impact of our business activities to clarify any negative impact our business

has on society and the environment and to identify countermeasures. Meanwhile, 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 global issues, including those relevant to the UN Sustainable Development Goals (SDGs) and Society 5.0. In addition, we are enhancing our business continuity plans (BCPs) to ensure that the impact of risks does not disrupt our business and thereby significantly affect society.

Since fiscal 2019, along with disclosing key information based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we have also been promoting climate change responses.



## What we are doing

	Core initiatives	Goals and KPIs	Achievements in FY 2019
<p>Risk and opportunity management</p>	<ul style="list-style-type: none"> <li>Understand and respond to risks and opportunities related to investment, sustainability, etc.</li> <li>Implement risk management to strengthen business and ensure business continuity</li> </ul>	<ul style="list-style-type: none"> <li>Understanding risks and taking appropriate action</li> </ul>	<ul style="list-style-type: none"> <li>Continued to understand risks and take appropriate action</li> <li>Disclosed information based on the TCFD's recommendations</li> </ul>
<p>Business continuation initiatives</p>	<ul style="list-style-type: none"> <li>Strengthen procurement BCPs</li> <li>Improve safety for employees sent to dangerous regions</li> </ul>	<ul style="list-style-type: none"> <li>Further strengthening procurement BCPs</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened procurement BCPs at major business sites in Japan</li> <li>Introduced Procurement BCPs Management System for business partners in Japan</li> </ul>

## Addressing Risks and Opportunities

### Risks and Opportunities

Approach Structure

102-11 102-30 103-2

Under the 2021 Mid-term Management Plan, which began in fiscal 2019, we will expand our business while leveraging the company's competitive advantages. We plan to invest ¥2.0–2.5 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.

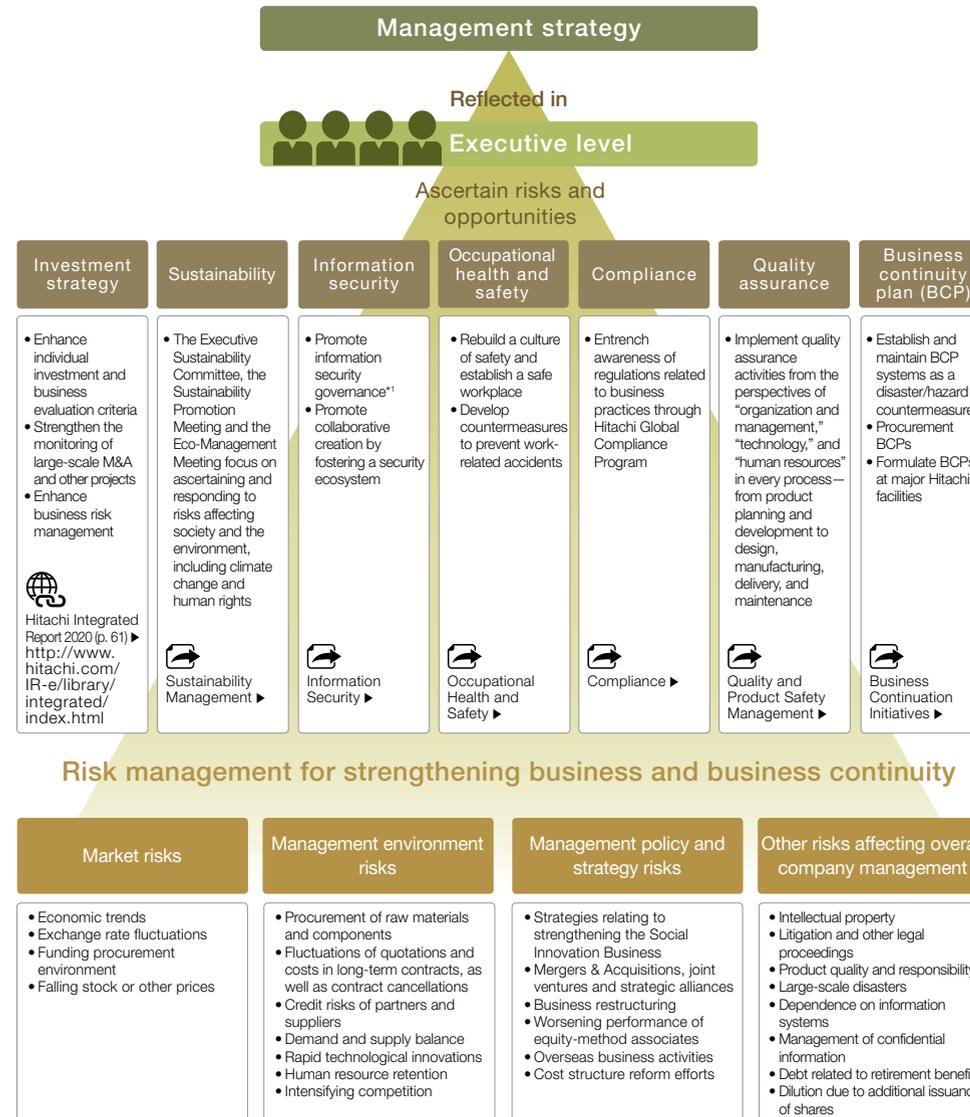
### Risk Management System

Structure

102-29 102-30

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 analysis of the operating environment, taking into account social issues, as well as our competitive advantages and management resources, and conduct risk management with an eye toward the many risks the company should be prepared for as well as opportunities for growth.

In April 2020, we established the new 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 complete compliance with corporate ethics.



<sup>\*1</sup> Information security governance supports corporate governance by building and implementing an organization's internal control mechanisms related to information security.

**Investment Risks and Opportunities**

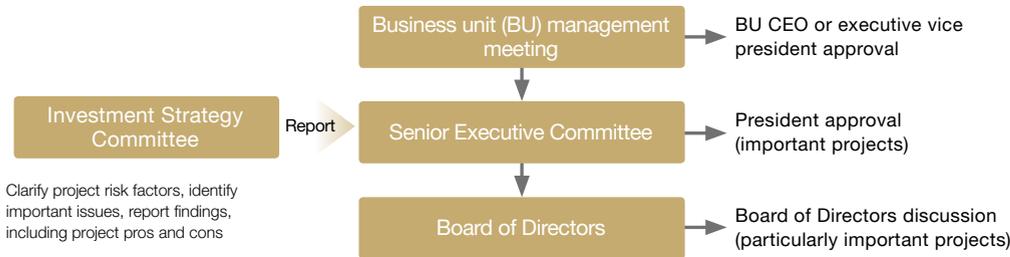
Approach Structure

102-15 | 102-29 | 102-30

To accelerate the global Social Innovation Business amid 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 disposals), 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 facilitate 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\*1 advisory body, whose findings, including pros and cons, are reported to Senior Executive Committee members, including the President.

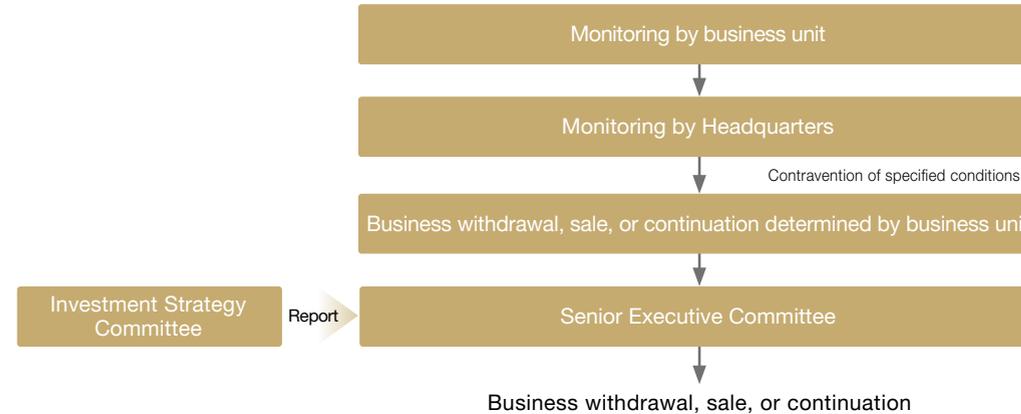
\*1 Investment Strategy Committee: Consists of 10 members from the finance department and other relevant corporate divisions (as of March 31, 2020), including the Executive Officers in charge of Investment Strategy and Management Strategy as chairman and vice chairman.

**Investment Execution Flowchart**



After making an investment, Hitachi regularly monitors the business objectives and achievement status of the project, considering changes in the external environment. In principle, each business unit ensures flexibility, but Headquarters may also be 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 as an option, 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**

Activities

102-15

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

Activities

201-2

Social and environmental issues, including climate change, resource depletion, the curtailment 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

### Major Risks and Opportunities

Major risk factors	Details on risks and opportunities	Company actions
Fluctuations in product supply and demand, exchange rates, and resource prices; insufficient raw materials and components	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Price fluctuations, including for products, exchange rate impact, and excess inventory</li> <li>Exchange rate impact and price fluctuations, including for raw materials and components</li> <li>Impact from significant disasters on the supply chain</li> <li>Shrinking demand and impact on the supply chain caused by the spread of COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>Build close relationships with multiple suppliers</li> <li>Ensure an appropriate response to changes in demand in each region by promoting a local production and local consumption model for products and services</li> <li>Strengthen resilience to business interruption risks by formulating BCPs at domestic and major overseas facilities</li> </ul> <p>  Responsible Procurement ▶   Business Continuation Initiatives ▶   Hitachi Integrated Report 2020 (p. 38) Sustaining Financial Soundness, Enhancing Cost Management ▶  <a href="http://www.hitachi.com/IR-e/library/integrated/index.html">http://www.hitachi.com/IR-e/library/integrated/index.html</a> </p>
Rapid technological innovation	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Decreased competitiveness if development of cutting-edge technology or application of a product/service does not progress as expected</li> <li>Reduction or elimination of existing market due to technological innovation</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Develop advanced technology to generate new business opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Promote open innovation through industry-academia-government cooperation</li> <li>Secure and develop digital talent</li> <li>Strengthen Lumada</li> <li>Foster an innovation ecosystem through the above</li> </ul> <p>  Hitachi Integrated Report 2020 (p. 24) Expand Revenues by Accelerating the Social Innovation Business ▶  <a href="http://www.hitachi.com/IR-e/library/integrated/index.html">http://www.hitachi.com/IR-e/library/integrated/index.html</a>   Hitachi Integrated Report 2020 (p. 30) Reinforce Global Competitiveness ▶  <a href="http://www.hitachi.com/IR-e/library/integrated/index.html">http://www.hitachi.com/IR-e/library/integrated/index.html</a> </p>
Securing human resources	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Impact on new hires and worker retention due to increased competition to hire and retain highly skilled workers</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Grow opportunities for the recruitment and retention of highly skilled workers who share Hitachi's vision</li> </ul>	<ul style="list-style-type: none"> <li>Expand the direct hiring of frontline and digital talent overseas</li> <li>Create workplaces where diverse talent can work comfortably</li> <li>Secure highly skilled global talent using a global common platform for HR Management</li> <li>Retain and develop talent through through a common learning management system globally across the Group and in-house education programs</li> </ul> <p>  Hitachi Integrated Report 2020 (p. 24) Expand Revenues by Accelerating the Social Innovation Business ▶  <a href="http://www.hitachi.com/IR-e/library/integrated/index.html">http://www.hitachi.com/IR-e/library/integrated/index.html</a>   Hitachi Integrated Report 2020 (p. 30) Reinforce Global Competitiveness ▶  <a href="http://www.hitachi.com/IR-e/library/integrated/index.html">http://www.hitachi.com/IR-e/library/integrated/index.html</a> </p>
Occupational health and safety	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Impact on business due to inability to create healthy, safe, and secure work environments</li> <li>Impact on business activities from employees infected with COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>Establish a global occupational health and safety system that includes lessons learned from global operations, the entrenchment of global norms, and the sharing of success stories</li> </ul> <p>  Occupational Health and Safety ▶                 </p>

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.

 151st Annual Securities Report ▶  
[https://www.hitachi.com/IR-e/library/stock/hit\\_sr\\_fy2019\\_4\\_en.pdf](https://www.hitachi.com/IR-e/library/stock/hit_sr_fy2019_4_en.pdf)

## Risk Factors

Activities

102-15 | 201-2

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.

Major risk factors	Details on risks and opportunities	Company actions
M&A, investment in new projects, etc.	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Failure related to insufficient management of projects involving M&amp;A aimed at strengthening the Social Innovation Business, investment in new projects, R&amp;D investment/CAPEX, and large-scale orders</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Build a foundation for growth through the acquisition of new management resources</li> </ul>	<ul style="list-style-type: none"> <li>Carry out strategy formulation in business units and phase-gate management in various councils and approval meetings</li> <li>Analyze and discuss market trends, other company trends, technological trends and potential risks at Investment Strategy Committee, Business Strategy Meeting, Senior Executive Committee, Board of Director and Audit Committee meetings</li> </ul> <p> Corporate Governance ▶</p>
Geopolitical risks	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Impact on Hitachi Group's overseas businesses due to political, economic and social trends</li> </ul>	<ul style="list-style-type: none"> <li>Regularly update our understanding of global political and economic trends, analyze the impact on our business and swiftly implement countermeasures on a Group-wide basis</li> </ul>
Tighter laws and regulations	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Tighter laws and regulations regarding investment, exports, and customs duties</li> </ul> <p>Example: Impact on business activities from the introduction of new laws and regulations related to the protection of personal data, such as the General Data Protection Regulation (GDPR) in Europe</p>	<ul style="list-style-type: none"> <li>Operate personal information protection systems in line with Hitachi's personal information protection policy</li> <li>Identify businesses subject to the GDPR, assess risk, implement appropriate safety management measures in line with those risks, and conduct worker training</li> </ul> <p> Information Security ▶</p>
Compliance	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Loss of trust and a decline in corporate value as a result of corporate behavior that deviates from social norms and violates laws, including relating to bribery and anti-competitive activities</li> </ul>	<ul style="list-style-type: none"> <li>Implement Group-wide compliance programs based on Hitachi Group Codes of Conduct as highest principles</li> <li>Strengthen measures to prevent bribery and violation of competition laws</li> </ul> <p> Compliance ▶</p>
Product quality and responsibility	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Loss of trust and claims for damages due to defects or a deterioration in product and service quality because of the increased complexity/sophistication of products or services, or the diversification of production sites or suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the quality assurance system</li> <li>Engage in activities aimed at preventing accidents</li> <li>Engage in activities aimed at ensuring compliance with laws and regulations related to technology</li> <li>Ensure intensive risk assessment</li> <li>Implement measures for handling product accidents</li> <li>Conduct quality and reliability-related training</li> </ul> <p> Quality and Product Safety Management ▶</p>
Climate change/significant disasters	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Impact on business activities due to measures in line with the tightening of international regulations to curb greenhouse gas emissions and the depletion of energy and resources</li> <li>Impact on business activities, from production to sales, due to a significant disaster affecting major facilities in Japan or overseas</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Expand the decarbonization business by offering climate change-related solutions</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen measures to achieve the CO<sub>2</sub> reduction targets in Hitachi Environmental Innovation 2050</li> <li>Implement measures in line with an analysis of Hitachi risks and opportunities based on climate-related scenarios</li> <li>Formulate BCPs to strengthen our ability to respond to business disruption risks</li> </ul> <p> Achieving a Decarbonized Society ▶</p> <p> Climate-related Financial Information Disclosure ▶</p> <p> Business Continuation Initiatives ▶</p> <p> <i>Hitachi Integrated Repot 2020</i> (P. 28) Creation of Social and Environmental Value ▶ <a href="http://www.hitachi.com/IR-e/library/integrated/index.html">http://www.hitachi.com/IR-e/library/integrated/index.html</a></p>
Information security	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Computer viruses or other factors adversely affecting information systems</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Expand revenue opportunities through increased demand for information security measures</li> <li>Respond to increased demand for IT solutions in line with the expansion of remote work</li> </ul>	<ul style="list-style-type: none"> <li>Promote cybersecurity strategies through risk management and value creation</li> <li>Enhance technological and product development for digital environments</li> </ul> <p> Information Security ▶</p> <p> <i>Hitachi Integrated Repot 2020</i> (P. 42) Story of Value Creation in the IT Sector ▶ <a href="http://www.hitachi.com/IR-e/library/integrated/index.html">http://www.hitachi.com/IR-e/library/integrated/index.html</a></p> <p> <i>Hitachi Integrated Repot 2020</i> (P. 24) Expand Revenues by Accelerating the Social Innovation Business ▶ <a href="http://www.hitachi.com/IR-e/library/integrated/index.html">http://www.hitachi.com/IR-e/library/integrated/index.html</a></p>

## Business Continuation Initiatives

### Hitachi's Thinking on BCPs

Approach

Structure

Given the close relation of our business to social infrastructure, we are enhancing our business continuity plans (BCPs) to ensure that the impact of risks does not disrupt our business and thereby significantly affect society. The *Hitachi Group Guidelines for Developing Business Continuity Plans (Overview)* and the *Hitachi Group Guidelines for Developing Business Continuity Plans (By Department)* were issued in Japanese, and then translated into English and Chinese for distribution to all Hitachi Group companies to enhance preparedness for major disasters and other risks.

Regarding infectious diseases, we released the *Hitachi Group Guidelines for Pandemic Influenza Preparedness* in Japanese, English, and Chinese. In fiscal 2019, they served as a useful tool in dealing with the novel coronavirus (COVID-19) pandemic.

We have also appointed personnel with responsibility for risk-response policies at our main overseas bases. Around 300 overseas Group companies prepared BCPs to strengthen their ability to respond to business risks, including major disasters, infectious diseases, political instability, social disruption, and acts of terrorism.

#### Responding to COVID-19

A COVID-19 task force led by the president of Hitachi, Ltd. was established at Group headquarters to provide instructions on preventive measures to Group companies worldwide. Similarly, each Group company formed its own task force to secure the safety of their employees and business continuity while helping to maintain social infrastructure through its business operations.

Our regional headquarters around the world gather local information as well as sharing information on the measures taken by Hitachi Group companies in their respective regions.

#### BCP Initiatives in Japan

- Created BCPs for both major earthquakes and novel strains of influenza as appropriate to each business operation (fiscal 2011).
- Conducted earthquake drills simulating a major seismic event (annually).
- Conducted initial response drills simulating a major earthquake in the suburbs of Tokyo (2018).
- Developed action plans including setting up substitute headquarters in the Kansai region in case our Tokyo headquarters temporarily cease to function (2017); conducted drills to set up substitute headquarters (2019).
- Conducted drills to set up an earthquake task force on a remote-work basis, on the assumption that a major seismic event had occurred on a holiday, shutting down traffic (2019).

### Procurement BCPs Initiatives

Approach

Activities

To minimize the impact of disasters that may occur, the procurement divisions in business units and key Group companies in Japan have created procurement BCPs that (1) standardize and use generic parts to make procurement as flexible as possible; (2) cultivate multiple suppliers; (3) distribute production across several locations; (4) budget inventory strategically; and (5) consider substitute products.

We held desktop exercises to see whether or not procurement BCPs would be effective against earthquakes and held group discussions about what should be done during and after such disasters, seeking further improvements.

#### Achievements in FY 2019

In fiscal 2019, all major Group business sites in Japan with production lines (192 sites in total) took steps to strengthen the procurement BCPs.

In January 2020, we introduced the Procurement BCPs Management System for our business partners in Japan to efficiently share information among Hitachi Group companies in time of a disaster.

 Countermeasures Against the COVID-19 Pandemic [Global Human Capital Management] ▶

 Support for Employees During the COVID-19 Pandemic [Occupational Health and Safety] ▶

 Hitachi Group's COVID-19-Related Support Efforts [Social Contribution Activities] ▶

### Improving Safety for Employees Sent to Dangerous Regions

System

The president of Hitachi, Ltd. strengthened our policy of ensuring the safety of employees sent to countries and areas at higher risk of conflicts, terrorism, and other threats. Survey missions of in-house and outside experts are sent beforehand to such areas. After employees are dispatched, we conduct additional local surveys every six months to confirm the effectiveness of our safety policies.

Hitachi is also contributing to safety measures at other Japanese corporations operating outside Japan. To help enhance collaboration between the private and public sectors in this area, we participate in the Council for Public-Private Cooperation for Overseas Safety organized by Japan's Ministry of Foreign Affairs and take part in public-private exercises to counter terrorism and kidnapping.

#### Achievements in FY 2019

In fiscal 2019, against the threat of terrorism expanding around the world and the COVID-19 pandemic, we employed a range of safety measures, including providing timely alerts to employees.

This underscores our commitment to ensuring the safety of our employees working around the globe.