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Risk Management

GRI 103-2/403-2

Relevant SDGs

Why

— Why it matters —

Social issues, including rapid advancements in digitalization and complex changes in political and economic situations occurring worldwide, along with environmental issues, including climate change, resource depletion, and major disasters, are bringing changes to the business environment that are difficult to predict. Hitachi monitors and analyzes this business environment, conducts risk management in terms of both responding to risks that should be anticipated and opportunities for further growth in light of social issues, Hitachi's competitive advantage and management resources, and strives to create revenue opportunities while controlling risks.

Addressing Risks and Opportunities

What

— What we are doing —

- Strengthening risk management systems
- Understanding and responding to risks and opportunities related to investment, sustainability, etc.

How

— How we are doing it —

Policy and promotion structure	In April 2022, a Risk Management Meeting that deliberates important matters related to Hitachi management was established within the Senior Executive Committee. Chaired by the CEO with the Chief Risk Management Officer (CRMO) as vice chair, the meeting discusses and makes decisions on important matters relating to companywide risks. By centrally managing the various risks faced by Hitachi, which has operations around the world, we are working to achieve a solid management foundation that is linked to growth strategy.

	Achievements in FY 2021
Strengthen risk management systems	Established a Risk Management Meeting that deliberates important matters related to Hitachi management within the Senior Executive Committee and selected top risks based on global risk trends
	Set up Six risk-specific working groups under the Risk Management Meeting; investment risks, business risks, crisis management, compliance, Group governance and regional risks, and each WG coordinates Group corporate functions across the organization while conducting activities to mitigate the respective risks
Understand risks and opportunities and take appropriate action	Ascertained and appropriately responded to risks and opportunities related to investments (e.g., M&A, sale of assets, orders for projects) and assets held on the group's consolidated balance sheet
	Implemented crisis and compliance management initiatives
	Disclosed climate-related information based on the TCFD recommendations P049 Climate-related Financial Information Disclosure (Based on TCFD Recommendations)

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Business Continuation Initiatives

What
— What we are doing —

- Strengthening Business Continuity Plans (BCPs)
- Improving the safety of employees sent to dangerous regions

How
— How we are doing it —

Policy and promotion structure	To increase preparedness for major disasters and other risks across the entire Group worldwide, we have issued the Hitachi Group Guidelines for Developing Business Continuity Plans. We are strengthening our measures against COVID-19 and natural disasters as part of Pandemic and Natural Disaster BCPs, and the procurement divisions in business units and key Group companies in Japan have created procurement BCPs to minimize the impact of disasters that may occur.

	Achievements in FY 2021
Continuously strengthening Pandemic and Natural Disaster BCPs	Under the COVID-19 task force's leadership, our regional headquarters around the world gathered local information as well as share information on the measures taken by Hitachi Group companies in their respective regions
	Conducted an earthquake drill on the assumption that there is a mix of those who come to the office and those who work from home
Continuously strengthening procurement BCPs	Expanded the number of business sites utilizing the Procurement BCPs Management System for our procurement partners in Japan and to digitize information
Continuously improving the safety of employees sent to dangerous regions	Provided medical assistance for Hitachi Group employees outside Japan

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Addressing Risks and Opportunities GRI 102-11/201-2

With the rapid advance of digitalization and complex developments in the political and economic landscape globally, the business environment is changing day by day. Hitachi monitors and analyzes this business environment, conducts risk management in terms of both responding to risks that should be anticipated and opportunities for further growth in light of social issues, Hitachi's competitive advantage and management resources, and strives to create revenue opportunities while controlling risks.

Strengthening of the Risk Management Structure and Its Aims

System

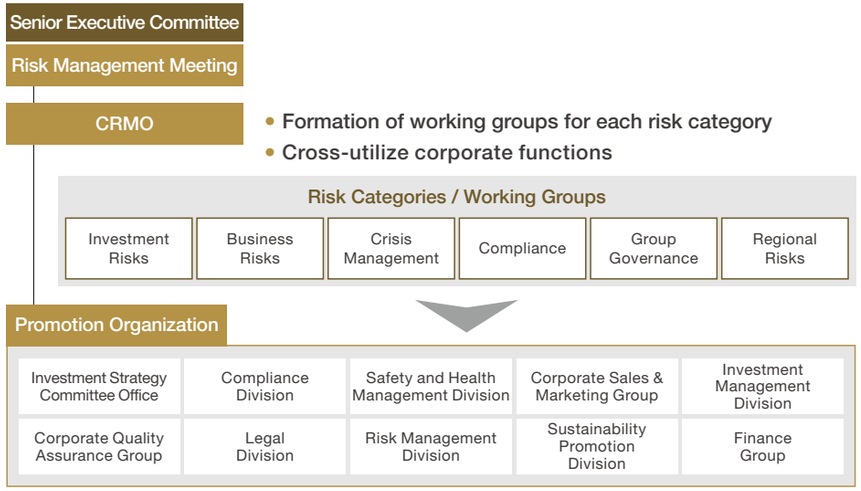
In April 2022, a Risk Management Meeting that deliberates important matters related to Hitachi management was established within the Senior Executive Committee. Chaired by the CEO with the Chief Risk Management Officer (CRMO) as vice chair, the meeting discusses and makes decisions on important matters relating to company-wide risks. By centrally managing the various risks faced by Hitachi, which has operations around the world, we are working to achieve a solid management foundation that is linked to growth strategy.

Six risk-specific working groups have been set up under the Risk Management Meeting, investment risks, business risks, crisis management, compliance, group governance and regional risks. Each working group coordinates Group corporate functions across the organization while conducting activities to mitigate the respective risks.

For example, the Business Risks Working Group discusses risks and responses in the global supply chain. Since control of consolidated management is important for Hitachi as a group made up of more than 800 companies, we must also develop plans to disseminate and manage guidelines and policies. This is an area the Group Governance Working Group will discuss going forward. Addressing regional risks in an effort to review the roles of local subsidiaries and achieve overall optimization at global sites, we will ensure that Hitachi's assets are utilized effectively.

Initiatives about investment risks, crisis management and compliance are introduced on the following pages.

Risk Management Structure



Selecting Top Risks based on Global Risk Trends

In the Mid-term Management Plan 2024, we are utilizing knowledge from inside and outside the Group to collect and analyze information on the external environment surrounding Hitachi and select top risks through the Risk Management Meeting.

Specifically, we have organized major risks under classifications such as disasters, accidents and epidemic; geopolitics and geoeconomics; economics, finance and markets; sustainability; investment and orders for projects; and operations. We then assess and narrow down the risks from the perspectives of the nature of risk events, expected time period, likelihood of occurrence and seriousness when occurring, and select the top risks, such as the risk of a major natural disaster in Japan that may significantly impact Hitachi's business. The six working groups consider and implement policies to respond to each of the top risks.

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Addressing Investment Risks and Opportunities

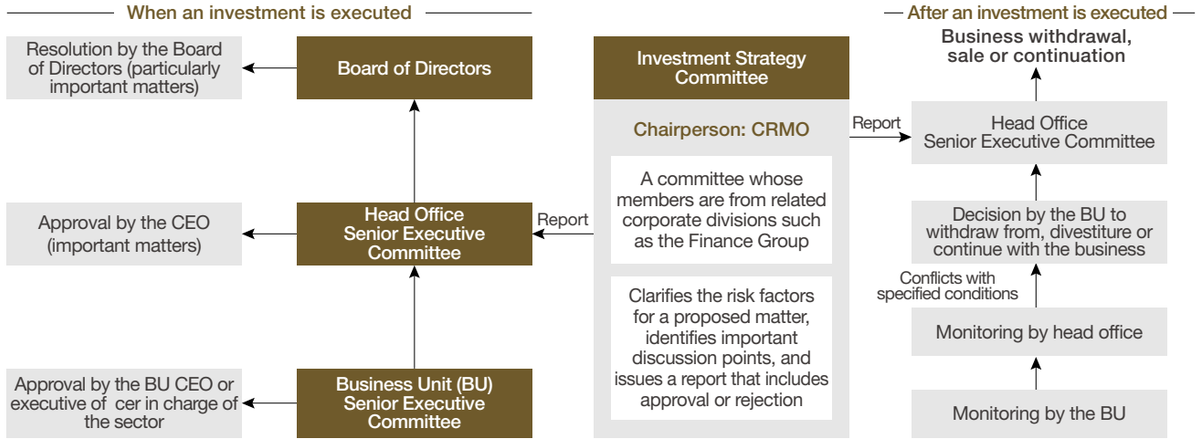
System

GRI 102-15/102-29/102-30/102-31

To ascertain and appropriately respond to risks and opportunities related to investments (e.g., M&A, sale of assets, orders for projects), Hitachi has established a decision-making framework based on the following flowchart. Decision-making regarding individual investments (e.g., execution, business plan changes) is delegated from the Board of Directors as the highest level body to the head office Senior Executive Committee (which generally meets twice a month) or the relevant sector or business unit, based on the size and specifics of the matter. This facilitates flexible and appropriate decision-making. For important matters that fall under deliberation by the head office Senior Executive Committee, the Investment Strategy Committee working as its advisory body checks the risks, response measures for the matter from economic value perspectives such as profitability and cash flow as well as in terms of the impact on social value and environmental value. Following deliberation, the Investment Strategy Committee delivers a report that includes approval or rejection recommendations to the Senior Executive Committee, of which the CEO is also a member.

After executing an investment, Hitachi regularly monitors the achievement of business objectives and plan while taking into account changes to the risk climate including the external environment. By generally having monitoring performed by the relevant business units, which are accountable for profits and closely associated with field operations, flexibility can be maintained, while head office can still become involved depending on the importance of the matter. For changes to business plans, business withdrawals, asset sales and other matters related to important investment targets, the head office Senior Executive Committee engages in similar deliberations to the initial investment stage. For investment targets whose business is not proceeding as planned, a framework has been established to deliberate the merits of continuing a business, including the prospects of withdrawal, in an effort to enhance capital efficiency.

Conceptual Diagram of the Decision-Making Flow



Quantitative Understanding of Risks

Activities

GRI 102-15

Hitachi calculates expected maximum risks (Value at Risk) assumed by statistical methods according to the type of assets held on the group's consolidated balance sheet.

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

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

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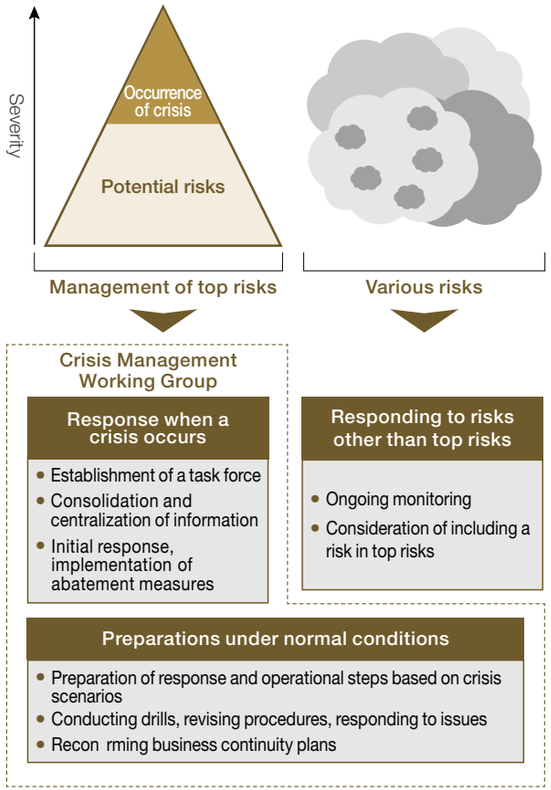
Crisis Management Initiatives

System Activities

Based on the selected top risks, the Crisis Management Working Group promotes the development of response measures, including crisis management structures, for each risk. By making preparations under normal conditions, we have put systems in place to respond swiftly in the event a risk does materialize.



Compliance Initiatives

System Activities

The Compliance Working Group is made up of members from the Compliance Division, Sustainability Promotion Division, Corporate Quality Assurance Group and Safety and Health Management Division.

For major compliance-related risks falling under business ethics and compliance, environmental compliance, quality compliance, and health and safety (fatal and serious incidents, etc.), information on the measures implemented by each department under regular conditions (development of regulations, training, monitoring, audits, etc.) and the response methods implemented in the event of an emergency (communication with internal and external stakeholders including top management when a major risk has materialized, etc.) are linked and shared amongst member of the Working Group as management methods for the different risk areas. By pursuing a greater level of global collaboration, we will strive to raise the level of risk management in each field and mitigate various risks.

Safety-First Risk Management

Three Hitachi Group companies, namely GlobalLogic, Hitachi Energy and Hitachi Vantara have sites in Ukraine. The safety and health of our employees and their families is the highest priority for the Hitachi Group. GlobalLogic, which has an engineering site in Ukraine, has approximately 7,500 employees (as of May 31, 2022). Based on the business continuity plan, top priority has been given to the safety of the site's employees and their families, and measures were taken to evacuate them to safe locations in Ukraine or out of the country. The company is now returning to normal operations with an operating rate of 96% as of May, and is working to maintain business continuity while ensuring safety.

Annual Securities Report (The 153rd Business Term)
https://www.hitachi.com/IR-e/library/stock/hit_sr_fy2021_4_en.pdf

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Business Continuation Initiatives GRI102-15

Approach on Business Continuity Plans (BCPs)

Approach

Given the close relationship of our business to social infrastructure, we are enhancing our 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 2021, 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 Group companies outside Japan prepared BCPs to strengthen their ability to respond to business risks including major disasters, infectious diseases, political instability, social disruption, and acts of terrorism. We will reflect in our BCPs the current environment of significantly more people working from home and the experienced gained in the course of recent COVID-19 measures.

Formulation of BCPs

Since fiscal 2011, Hitachi, Ltd. and its Group companies in Japan have formulated BCPs for each business in preparation for major earthquakes, wind and flood damage, and novel strains of influenza. Each business unit regularly reviews its BCP and revises it as necessary to reflect the latest risk assessment results. Group companies outside Japan have formulated BCPs in light of risks of concern in their respective locations.

From fiscal 2022, we will strengthen our BCPs especially for infectious diseases such as COVID-19 and for mega-earthquakes.

Pandemic and Natural Disaster BCPs Initiatives

Activities

A COVID-19 task force, headed by the President & CEO of Hitachi, Ltd., was established at Group headquarters to provide instructions on preventive measures to Group companies. Similarly, each Group company formed its own task force to secure the safety of its employees and business continuity while helping to maintain the social infrastructure through their business operations. Our regional headquarters around the world gather local information as well as share information on the measures taken by Hitachi Group companies in their respective regions.

Hitachi, Ltd. is also strengthening its measures against natural disasters by conducting annual earthquake drills, which simulate a major seismic event. In fiscal 2017, we developed action plans including setting up substitute headquarters in the Kansai region in case our Tokyo headquarters temporarily ceases to function. From fiscal 2019 we have conducted drills that assume remote work. In such ways, we are making sure that our efforts are in line with reality.

P118 Measures to Prevent Infectious Disease

Drill Simulating Earthquake Measures

FY 2018	● Initial response drills simulating a major earthquake in the suburbs of Tokyo
FY 2019	● Drills to set up a substitute headquarters in the Kansai region in case our Tokyo headquarters temporarily ceases to function ● 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
FY 2020	● Drills to set up an earthquake task force on a remote-work basis on the assumption that all work must be conducted remotely
FY 2021	● Remote drills using a Web conferencing system on the assumption that not everyone can assemble at the office on weekdays and that there is a mix of those who come to the office and those who work from home

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Procurement BCPs Initiatives

Approach Activities

Hitachi is also working to enhance BCPs for procurement across Group companies worldwide so that the occurrence of incidents*1 does not disrupt business and have a significant impact on society.

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

We also hold desktop exercises to check the effectiveness of procurement BCPs against earthquakes and to make further improvements hold group discussions about what should be done during and after such disasters.

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

*1 Incidents: Events that interrupt business operations, such as major earthquakes and other natural disasters

Achievements in Fiscal 2021

In January 2020, we introduced the Procurement BCPs Management System for our procurement partners in Japan to efficiently share information among Hitachi Group companies during disasters.

In fiscal 2021, we worked to expand the number of business sites utilizing the system and to digitize information to help shorten recovery time.

P132 Responsible Procurement

Improving Safety for Employees Sent to Dangerous Regions

Activities

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

Hitachi, Ltd. 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.

Achievements in Fiscal 2021

In fiscal 2021, Hitachi, Ltd. undertook a range of measures to ensure the safety of its employees working around the globe. These included the timely provision of information by alerts on conflicts occurring around the world and also the COVID-19 pandemic as well as information from outside risk consultants contracted by Hitachi, Ltd. posted on its intranet. In addition, the company employed an outside specialist to provide medical assistance to Hitachi Group employees outside Japan.

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