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Risk Management

GRI 103-2/403-2

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. In this era, the maintenance of our business model will be greatly affected by how we respond to these changes as well. Hitachi understands that, in this context, it will be necessary to identify and analyze opportunities to attain sustainable growth and the risks that it must prepare for and appropriately address them.

Given the close relationship of our business with 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.

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 that contribute to the resolution of global issues including those relevant to the UN Sustainable Development Goals (SDGs) and Society 5.0. Also regarding climate change, which is an urgent issue worldwide, Hitachi discloses key information and strives to promote responses to climate change based on the proposals of the Task Force on Climate-related Financial Disclosure (TCFD).



Risk and Opportunity Management

What

— What we are doing —

- Understanding and responding to risks and opportunities related to investment, sustainability, etc.
- Implementing risk management to strengthen the business and ensure continuity

How

— How we are doing it —

Policy and promotion structure

Hitachi launched an Investment Strategy Committee to strengthen the quantitative risk management of its investments. The Executive Sustainability Committee deliberates on 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 issues. The company also established the new position of chief risk management officer (CRMO) in April, 2020 and has worked to better understand the risks and opportunities that may affect its business and to strengthen risk management activities.

Achievements in Fiscal 2020

Strengthen risk management systems	Established the new position of CRMO
Understand risks and opportunities and take appropriate action	Continued to strive systematically to identify and address risks hindering the achievement of business objectives, and for climate change, disclosed information based on the TCFD's recommendations

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Business Continuation Initiatives

What

— What we are doing —

- Strengthen procurement BCPs
- Improve 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. Also, 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.

Achievements in Fiscal 2020

Earthquake drills simulating a major seismic event	Conducted drills to set up an earthquake task force on a remote-work basis
Further strengthening procurement BCPs	Hitachi Group CSR/BCP Procurement Committee provided supplier diagnostic tools to procurement divisions
Continuously improving the safety of employees sent to dangerous regions	Posted information from risk consultants internally through our intranet
	Provided medical assistance for Hitachi Group employees outside Japan

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Addressing Risks and Opportunities GRI 102-11

Investment Risks and Opportunities

Approach **Structure**

The business environment is changing with each passing day, for example, as a result of rapid digitalization and changes in complex political and economic conditions worldwide. Hitachi monitors and analyzes the business environments, and based on factors such as social issues, management resources, and our competitive superiority, undertakes risk management from the perspective of both further growth opportunities and responding to the risks that Hitachi should prepare for, controlling risks while creating profit opportunities. Hitachi established the Investment Strategy Division in fiscal 2017 and the post of Chief Risk Management Officer (CRMO) in April 2020 to better identify the risks and opportunities that could potentially affect Hitachi's business and to strengthen risk management.

From fiscal 2017, as part of efforts to achieve a sustainable society, the Executive Sustainability Committee was established to discuss relations between Hitachi's business and social/environmental issues and to define the issues that Hitachi should target as business opportunities, the negative impact that business could have on society and the environment, and necessary countermeasures.

Investment Risks and Opportunities

Structure

> Hitachi's Risk Management



Implement risk management to strengthen business and ensure business continuity

Investments and lending	Social and environmental issues	Information security	Occupational health and safety	Quality Assurance	Compliance	Business Continuity Plan (BCP)	Business risks
<ul style="list-style-type: none"> Enhance individual investment and business evaluation criteria Strengthen the monitoring of large-scale M&A and other projects 	Ascertaining and responding to risks affecting society and the environment, including climate change and human rights	<ul style="list-style-type: none"> Promote information security governance* Promote collaborative creation by fostering a security ecosystem 	<ul style="list-style-type: none"> Rebuild a culture of safety and establish a safe workplace Develop countermeasures to prevent work-related accidents 	Implement quality assurance activities from the perspectives of "organization and management," "technology," and "human resources" in every process—from product planning and development to design, manufacturing, delivery, and maintenance.	To improve the effectiveness and efficiency of frameworks, implement balanced measures in keeping with the level of risk and confirm/improve effectiveness based on monitoring and a central group-wide whistleblower system	<ul style="list-style-type: none"> Establish and maintain BCP systems as a disaster/hazard countermeasure Procurement BCPs Formulate BCPs at major Hitachi facilities 	<ul style="list-style-type: none"> Implement systematic risk assessments and risk responses Strengthen project management

[Hitachi Integrated Report](#)

* Information security governance supports corporate governance by building and implementing an organization's internal control mechanisms related to information security.

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Investment Risks and Opportunities

Approach Structure

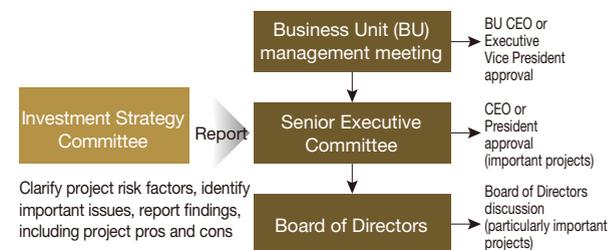
To accelerate the global Social Innovation Business amid structural changes and increasing uncertainty in the world economy, it is increasingly important to understand investment risks and opportunities (e.g., M&A and orders for projects) and to take appropriate measures.

As shown in the flowchart on the right, regarding 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 to confirm and review not only the perspective of economic value in terms of cash flow and the profitability of projects but also the impact on social value and environmental value. The findings, including pros and cons, are reported to Senior Executive Committee members, including the President.

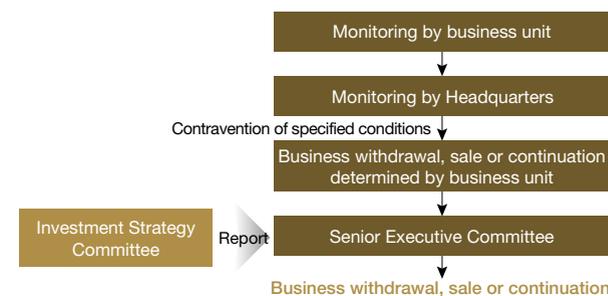
After making an investment, Hitachi regularly monitors the business objectives and achievement status of the project, considering changes in the external environment. In principle, each business unit ensures flexibility, but the Headquarters is also involved depending on the level of importance. Also, 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 of which business is not progressing as planned, Hitachi established a framework

to deliberate on the pros and cons of continuing business, including withdrawal, to improve capital efficiency.

Investment Execution Flowchart



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.

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

Quantitative Understanding of Risks

Activities

GRI 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 region and sector and the outlook for future trends, Hitachi gains a quantitative understanding of risk concentrations in specific regions and sectors in comparison with profitability.

Responding to increasingly challenging and complex risks

Activities

GRI 102-15/201-2

Hitachi conducts business activities in a variety of industries throughout the world and therefore needs to take a multifaceted approach to managing the business risks that prevent the organization from achieving its business objectives. To systematically identify, evaluate, and manage risks, while taking into account the effects of reorganizing the business portfolio, Hitachi is rebuilding group-wide risk management frameworks and putting in place more systematic processes, using global standard practices at Hitachi ABB Power Grids as a reference. By further enhancing risk management, we will strengthen our capability of responding to different risks in each business and at the same time gain a comprehensive and integrated understanding of those risks and put in place

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measures in advance to better achieve the organization's goals.

Following is an outline of the main risks and opportunities. This list assumes that the content was reasonable at the time this report was issued.

[Annual Securities Report \(The 152nd Business Term\)](#)

Major Risks and Opportunities

Major risk factors	Details on risks and opportunities	Company actions
Market risks (Changes in exchange rates, capital procurement interest, and stock prices)	<p>Risks</p> <ul style="list-style-type: none"> Decline in sales of products and services in yen, and increased costs of raw material and parts purchasing Revaluation loss due to decline in value of inventory assets Increasing capital procurement costs Changes in fair value due to declining value of stockholdings 	<ul style="list-style-type: none"> Hedging exchange rate/interest fluctuation risks Promoting local production/local consumption strategies for products and services Sell-off of cross-shareholdings <p>Hitachi Integrated Report 2021 (P73)</p>
Geopolitical risks	<p>Risks</p> <ul style="list-style-type: none"> Effects on business from political, economic, and social trends in countries and regions worldwide 	<ul style="list-style-type: none"> Regularly monitor global political and economic conditions, analyze effects on business, and implement Group-wide responses
Raw material / parts procurement	<p>Risks</p> <ul style="list-style-type: none"> Raw material shortages and manufacturing cost increases resulting from fluctuations in prices/supply and demand Negative effects on production activities Damage to reputation caused by violations of laws and regulations, e.g., human rights violations by suppliers 	<ul style="list-style-type: none"> Build close relationships with multiple suppliers Use and strengthen Group-wide procurement functions Create business continuity plans (BCPs) to strengthen responses to risks of business stoppages Have suppliers conduct self-inspections and audits and promote understanding to prevent violations of laws and regulations
Intensifying competition and rapid technology innovations	<p>Risks</p> <ul style="list-style-type: none"> Reduced competitiveness due to commoditization and cost reductions in cutting-edge products, systems, and services Reduced competitiveness when cutting-edge technologies are not developed or applied in products and services on schedule <p>Opportunities</p> <ul style="list-style-type: none"> Secure growth opportunities by developing innovative technologies 	<ul style="list-style-type: none"> Expand digital solutions using Lumada Increase added value of products and services through co-creation with customers Create value through open innovations and the formation of ecosystems Form innovation ecosystems
M&As and receipt of orders for large projects	<p>Risks</p> <ul style="list-style-type: none"> Increased integration costs from M&As and loss of intangible assets including goodwill Increased costs on large-scale projects <p>Opportunities</p> <ul style="list-style-type: none"> Build growth platforms by securing new management resources 	<ul style="list-style-type: none"> Conduct analyses and discussions from various perspectives at meetings of the Investment Strategy Committee, Senior Executive Committee, Board of Directors, and Auditing Committee, e.g., regarding trends in markets, competitors, and technologies, as well as strategies, acquisition prices, PMI processes, and potential risks Monitor investment results • Manage project risks, including phase gate management by business units

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Major risk factors	Details on risks and opportunities	Company actions
Secure talent	<p>Risks</p> <ul style="list-style-type: none"> Loss of growth opportunities due to intensifying competition in recruiting and securing outstanding talent in the digital field <p>Opportunities</p> <ul style="list-style-type: none"> Strengthen competitiveness by securing and fostering outstanding talent 	<ul style="list-style-type: none"> Expand direct hiring of digital talent Build comfortable work environments for diverse talent Create common HR systems worldwide Use learning management systems and implement in-house training programs that are common throughout the Group worldwide
Occupational Health and Safety	<p>Risks</p> <ul style="list-style-type: none"> Deterioration in work efficiency and loss of trust due to inability to put in place work environments where employees can work safely and with peace of mind 	<ul style="list-style-type: none"> At Safety Strategy Promotion Meetings, create plans and targets and continuously review the status of improvements Support improvement activities at overseas sites and other workplaces where major accidents and incidents have arisen Establish contact points for remote consultations with occupational physicians
Compliance	<p>Risks</p> <ul style="list-style-type: none"> Loss of trust, limitations on business activities and increases in related costs due to behaviors that deviate from international ethics and codes of conduct in relation to bribery, competition laws, export management, and taxation 	<ul style="list-style-type: none"> Strengthen structures for promoting activities based on the Hitachi Group's Code of Conduct and the Hitachi Group Compliance Program (HGCP), and implement these structures worldwide Integrate, unify, and enhance internal reporting systems throughout the entire Group
Product quality and responsibility	<p>Risks</p> <ul style="list-style-type: none"> Indemnity liability and loss of sales capabilities due to declining quality and defects resulting from increasingly complex and advanced products and services and diversification of suppliers 	<ul style="list-style-type: none"> Strengthen QA structures Implement accident prevention activities Ensure compliance with technology laws and regulations Ensure thorough quality risk assessments Provide training in responses in the event of incidents involving quality, trust, and product-related accidents
Climate change, large-scale disasters, infections (COVID-19)	<p>Risks</p> <ul style="list-style-type: none"> Delays or suspension in business activities ranging from production to shipment and sales Decline in product/service demand and confusion in supply chains Increasingly serious natural disasters resulting from climate change <p>Opportunities</p> <ul style="list-style-type: none"> Increasing demand for solutions aimed at reducing risks 	<ul style="list-style-type: none"> Activities targeting carbon neutrality in "Hitachi Environmental Innovation 2050" long-term environmental goals Analyze risks and opportunities based on climate change scenarios, and respond based on results Expand environment-related business Create BCPs to strengthen responses to risks of business stoppages Create and implement effective infection countermeasures
Information security	<p>Risks</p> <ul style="list-style-type: none"> Interruption of operations or information leaks resulting from cyberattacks Information leaks resulting from expansion of remote working <p>Opportunities</p> <ul style="list-style-type: none"> Increase profit opportunities resulting from increased demand for security measures 	<ul style="list-style-type: none"> Build cyber monitoring environments that incorporate the latest technologies Implement information security training, and ensure thorough auditing and inspections Confirm and audit the status of information security among suppliers Strengthen development of technologies and products suited to digital environments

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Business Continuation Initiatives

Hitachi's Thinking on BCPs

Approach	Structure
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Given the close relationship 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 2020, 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.

BCP Initiatives in Japan

- Creating BCPs for major earthquakes, wind and flood damage, as well as novel strains of influenza as appropriate to each business operation (from fiscal 2011)
- Conducted earthquake drills simulating a major seismic event (annually)
- Conducted initial response drills simulating a major earthquake in the suburbs of Tokyo (fiscal 2018)
- Developed action plans including setting up substitute headquarters in the Kansai region in case our Tokyo headquarters temporarily cease to function (fiscal 2017) and conducted drills to set up the substitute headquarters (fiscal 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 (fiscal 2019)
- Conducted drills to set up an earthquake task force on a remote-work basis on the assumption that all work is conducted remotely (fiscal 2020)

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 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.

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Procurement BCPs Initiatives

Approach Activities

Our procurement divisions are also working to enhance BCPs across Group companies worldwide so that the occurrence of incidents does not disrupt business and have a significant impact on society.

For example, 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 substitute products.

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

We collaborate on these activities with procurement divisions in business units and key Group companies outside Japan as well as reviewing and sharing strategies in an effort to enhance procurement BCPs throughout the Group worldwide.

Achievements in Fiscal 2020

In fiscal 2020, all major Group business sites in Japan with production lines (147 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 during disasters.

In fiscal 2020, the Hitachi Group CSR/BCP Procurement Committee, which includes members from business units and key Group companies, provided a supplier diagnostic tool to procurement divisions in an effort to support suppliers' BCP initiatives.

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 high risk of conflicts, terrorism, and other threats. On-site surveys are also conducted by in-house and outside experts beforehand. After employees are dispatched, we conduct additional local surveys every six months to confirm the effectiveness of our safety policies.

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 and take part in public-private exercises to counter terrorism and kidnapping.

Achievements in Fiscal 2020

In fiscal 2020, with demonstrations occurring around the world and also the COVID-19 pandemic, we endeavored to ensure the safety of our employees working around the globe with a range of safety measures. These included the timely provision of information to employees by alerts we issued and information from outside risk consultants posted on our intranet. In addition, we employed an outside specialist to provide medical assistance to Hitachi Group employees outside Japan.