Editorial Policy for Hitachi Integrated Report 2021

Editorial Policy

The goal of Hitachi’s integrated report is to explain to various stakeholders Hitachi’s aspirations and the value that it provides to society, as well as the business models, strategies, and management systems and to promote a better understanding of Hitachi’s medium- and long-term growth potential.

In this 2021 report, we have placed a particular emphasis on communicating, in an easy-to-understand way, Hitachi’s activities targeting co-creation and the creation of value through digital transformations (DX) in social infrastructure, which is Hitachi’s core area of business. Furthermore, it summarizes the themes that should be prioritized for the realization of a sustainable society amid increasingly complex and diverse social issues, such as COVID-19, climate change, aging populations, and natural disasters, as new “Strategic Focus Areas,” and systematically explains strategies and measures.

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.

Production Structure

Information Disclosure Structure

Non-financial

• Sustainability Report
• Corporate Governance Report
• Sustainability Website https://www.hitachi.com/sustainability/

Investor Information

• Annual Securities Report
• Financial Statements
• Business Report
• Corporate Strategy (Mid-term Management Plan)

Value Creation Story

Integrated Report

Environmental Load Data

For the scope of the environmental load data associated with Hitachi’s business operations, Hitachi, Ltd., and consolidated subsidiaries whose environmental load comprises more than 90% of the total, excluding the Group companies mentioned above.

Scope of Data

The scope of the data are individually described.

For the environmental load data of Hitachi’s business operations, Hitachi, Ltd., and consolidated subsidiaries whose environmental load comprises more than 90% of the total, excluding the Group companies mentioned above.

Based on calculations by Hitachi, Ltd.

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,” 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 70 of this Report.
CEO Message

Hitachi: Leading the World in DX and Decarbonization

Toshiaki Higashihara
Executive Chairman & CEO

Maintaining a solid profit base amid major changes

In 2020, as the world confronted the dramatic impact of COVID-19, a number of pressing social and economic issues were brought to light. From the perspective of sustainability, activities targeting climate change and human rights have quickly emerged as the most urgent issues worldwide, including in Japan.

After the disruption of the past year, even capitalism itself is seeing a transformation from the long-practiced “shareholder capitalism” to “stakeholder capitalism,” which prioritizes long-term value creation for a wide range of stakeholders. In addition to economic value, in the context of corporate activities, a greater emphasis is now being placed on environmental value and social value. Last year’s Integrated Report demonstrated how the environmental changes brought on by the pandemic provided an opportunity to achieve things that we could not have achieved in the past. In keeping with emerging global demands, the Social Innovation Business has worked to offer remote, contactless, and automated solutions. By responding to these changes in the business environment, Hitachi has been able to target structural reforms that allow it to better generate social innovations and create a solid profit base that endured even during the COVID-19 pandemic. Furthermore, by strengthening cash management, we have increased operating cash flow by approximately ¥230 billion year over year and established a strong business base poised for sustainable growth in the future.

These results are entirely due to the efforts of our employees. By making the health and safety of our employees, their families, customers, and business partners our top priority last fiscal year, we established a strong remote work environment that allowed us to focus our efforts on supporting customers and maintaining social infrastructures. I would like to express my deep appreciation to the employees who adapted themselves to the new normal and bravely continued to perform their duties in keeping with the changing needs of customers and society as a whole.

Fiscal 2020 saw progress in expanding the Lumada business and strengthening the business portfolio

In fiscal 2020, Hitachi’s Lumada business continued to grow despite the COVID-19 pandemic. Lumada has expanded steadily since it was first offered in 2016, and in November of last year, we started the Lumada Alliance Program, which was followed by the opening of the Lumada Innovation Hub Tokyo in April of this year. Additionally, we completed the acquisition of GlobalLogic, a leading U.S.-based digital engineering services company, which will enable us to further strengthen our global rollout and increase sales from 1.1 trillion yen in fiscal 2020 to 1.6 trillion yen in fiscal 2021, with the goal of accelerating this to 3 trillion yen by fiscal 2025.

Until now, we have strengthened the business portfolio with a focus on becoming a company with business that can compete as a leader in the global market. Securing competitiveness is an essential condition in achieving digital solutions that will bring about social innovations that generate new value.

In fiscal 2020, we made substantial progress in strengthening our five sectors and reorganizing our business portfolio with a focus on readjusting capital relationships with listed subsidiaries. In addition to the sale-off of Hitachi Chemical in April 2020, in May of that year, we converted Hitachi High-Tech Corporation into a full subsidiary, Hitachi High-Tech beaerts top of the line measurement and analysis technologies and undertakes business involving in vitro diagnostics as well as semiconductor manufacturing equipment. In July 2020, we acquired ABB’s power grids business, which has the top level market share and advanced technologies. This acquisition, which brought with it more than 15,000 customers in about 90 countries worldwide and welcomed approximately 36,000 outstanding employees into the Hitachi Group, contributed to the strengthening of our management base, which is essential to accelerating the rollout of Hitachi’s Social Innovation Business on a global scale. Specifically, to effectively utilize the global operations of Hitachi ABB Power Grids throughout the entire organization, we are currently promoting the construction of common ERP systems and global shared services. From this, we expect to achieve cumulative cost reductions of 70 billion yen and 100 billion yen in these two fields, respectively, by fiscal 2025. In January 2021, we launched Hitachi Astemo through the integration of Hitachi Automotive Systems with three Honda affiliates, Kainji Corporation, Shin Corporation, and Nissin Kogyo Co., Ltd. These integrations will streamline the development of core parts and solutions in the shift toward electric power, which represents the key to developing the next-generation of automobiles, while securing a leading position and creating mobility solutions for the future. In April 2021, a decision was made to sell off Hitachi Metals by the end of this fiscal year. Moving forward, Hitachi Metals will strengthen its competitiveness and recover profitability under an ownership group led by the Bain Capital Consortium.

In fiscal 2020, we decided to pull out of business operations on the Horizon project, the construction of a new nuclear power plant in the United Kingdom. In the nuclear power business, Hitachi will focus on the decommissioning and reactivation of power plants in Japan, a task of great social significance to society. Hitachi has been involved in the nuclear power business for 50 years, and we look forward to fulfilling our responsibilities through this business in the future as well, in line with the Japanese government’s energy policies.

The strength of our global business portfolio, which was built through a comprehensive process of business selection and concentration, was demonstrated throughout COVID-19. Even as we maintain the competitiveness of each individual business, we will further refine those strengths to demonstrate comprehensive capabilities in the context of digital solutions.

Stakeholder capitalism
The notion that a company creates long-term value for all stakeholders, including customers, employees, suppliers, local communities, and shareholdets.

Social Innovation Business
Business that resolves a variety of issues faced by society and creates value through the use of information technology (IT) and co-creation with diverse partners.

Sustainable value creation
Value creation activities that create value.

Governance
Hitachi’s commitment to good corporate governance.

Lumada Alliance Program
A program that builds ecosystems through open innovation collaboration, matching with diverse partners to resolve social issues that cannot easily be overcome by a single company alone and accelerate social innovations that create value.

Lumada Innovation Hub
The flagship location for the Lumada Innovation Hub, which serves as a hub for co-creation activities, connecting customers and partners to create innovations and creating new value by combining their respective knowledge and ideas.

Lumada business
Business that realizes social innovations through solutions and services that apply Hitachi’s advanced digital technologies.

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 Hitachi Integrated Report 2021
In fiscal 2021, we will complete the transition to a “growth mode”

Fiscal 2021 is the final year of the 2021 Mid-term Management Plan, in which we declared that Hitachi would become a global leader in the Social Innovation Business. Our first area of focus will be to accelerate the global rollout of the Lumada business with the acquisition of GlobalLogic. GlobalLogic develops software for customers in fields such as healthcare, telecommunications, manufacturing, and the automotive sector, leveraging the strength of some 21,000 digital specialists and eight co-creation bases worldwide. Based on dialogues with customers, GlobalLogic provides solutions that resolve issues from a customer perspective, and we feel that this business demonstrates a high affinity with Hitachi’s Lumada platform. Boasting strong trust relationships with customers and a customer retention rate of more than 90%, one of GlobalLogic’s most attractive features in terms of technical capabilities is the scope of “Chip-to-Cloud” development, which enables collaborations ranging from front line data and micro-programs in devices to cloud environments. By making GlobalLogic part of the Hitachi Group, we will strengthen co-creation on a global scale. At the same time, we will combine GlobalLogic’s engineering capabilities with Hitachi’s system development capabilities to strengthen the development and provision of globally scalable applications and services, thereby accelerating DX in social infrastructure throughout the world. We have established the major framework for future growth by acquiring powerful assets in a range of business domains, including JR Automation in 2019, Hitachi High-Tech and Hitachi ABB Power Grids in 2020, and Hitachi Astemo in 2021. Moving forward, we will leverage these assets to demonstrate synergy with digital technologies in each region and create an even more robust Hitachi.

In the past, Hitachi Astemo operated in the Smart Life sector, but starting from fiscal 2021, Hitachi Astemo will operate as an independent segment (the Automotive Systems Segment), as we aim to accelerate business growth in six segments. Although the effects of COVID-19 still linger, we will secure an adjusted operating income ratio of 8% in fiscal 2021, and in fiscal 2022, the first year of the new Mid-term Management Plan, we will bring this figure above 10%. We will position fiscal 2021 as the year in which we complete the transition to a growth mode, as we work to further strengthen profitability.

Becoming a platform provider that brings about DX for society

Ever since its establishment in 1910, Hitachi has taken a “product out” approach, bringing about innovations and responding to customer needs through product development and the leveraging of outstanding technical capabilities. Since the beginning of the 2000s, however, we have shifted our mindset from a product-oriented to a customer-oriented approach, as we strive to transform into a company that provides social innovations. The most significant change in direction toward customer-oriented co-creation took place in 2016, when we launched the Lumada business amid the rapid proliferation of digital technologies.

In this context, “customer-oriented” refers to an approach built on collaborating to discover and resolve the issues faced by customers. For example, if a customer in the manufacturing industry that owns several plants needs to reduce lead-time and increase quality, we share those management issues and work together to devise the ideal solution. In recent years, the social issues that dominate our headlines have become increasingly complex and diverse, as can be seen throughout the world in the context of climate change, aging populations, natural disasters, and the resulting fragmentation of supply chains. We are seeing a growing demand to resolve these social issues not through an extension of existing solutions, but by using “value” as a starting point, with a view toward future society and the value that should be provided to make that society a reality. There are limits, however, to the issues that Hitachi can resolve on its own. To bring about social innovations that will create value in people’s lives, it is essential that we undertake co-creation with a range of diverse stakeholders, including customers and partners. We believe that this presents an ideal opportunity to apply the strength of open approaches, one of the unique features of Lumada. By leveraging this strength, we have made Lumada an open platform that welcomes many stakeholders, and we have kicked off the Lumada Alliance Program to build an ecosystem that enables us to provide approaches and solutions to social problems together with those stakeholders. Through the open innovation community that Hitachi provides, we will combine the diverse knowledge and expertise of our partners and create new solutions to social issues that would have been difficult to resolve alone. The solutions created through this process are registered in the Lumada Solution Hub where they can be further used by a variety of customers and partners to achieve a chain of value creation and continuous innovation.

The Lumada Alliance Program already includes dozens of customer and partner companies. It is important to continue creating innovation through products and promoting business from a customer perspective, but we expect to see an increasing number of social issues that cannot be resolved without close collaboration and activities involving multiple companies. We are aware that as the public face of the Lumada business, Hitachi will be required to demonstrate strong leadership while exemplifying the social values we hope to advance. Furthermore, to resolve the issues unique to countries and regions throughout the world, we must provide a venue for co-creation, designed to promote discussion and increase awareness of customers’ issues while developing solutions. With this in mind, Hitachi has established 11 co-creation bases around the world, including the United States, the United Kingdom, Thailand, and China. This year, we added eight co-creation bases run by GlobalLogic, mainly in Europe and the Americas. The Lumada Innovation Hub Tokyo opened this spring to gather DX specialists and to promote practical co-creation using real-world data. All co-creation bases are connected virtually to form a venue for embedding ideas to promote the development and provision of solutions more efficiently. We will continue to promote co-creation from a medium- to long-term perspective using the Kyōko-no-Mori innovation base, as well as through collaboration and co-creation with research agencies in Japan and around the world.

I have personally been conducting outreach activities to raise broader awareness of Hitachi as a company that promotes DX in social infrastructures on a global scale, and I am extremely pleased to see that recently we have received an increasing number of positive reactions from outside the company. For example, Hitachi is recognized as a Leader based on its’ completeness of vision and ability to execute in the “2020 Gartner Magic Quadrant for Industrial IoT Platforms” report which evaluates providers of industrial IoT platforms*. In addition, in June of this year, Hitachi was recognized for the “Chip-to-Cloud” development, which enables those solutions to be built and introduced quickly and easily in cloud environments.

* Gartner, Magic Quadrant for Industrial IoT Platforms, Eric Goodness, et al., 19 October 2020

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Focusing on three fields: the Environment, Resilience, and Security & Safety

Hitachi has always strived to improve people’s quality of life and increase value for partner companies by making maximum use of its strengths in “OT x IT x Products” and offering consumer-centric digital solutions that use the Lumada platform, based on ideas from the customer’s perspective. When thinking about the future from a value perspective, we need to create an ideal vision of people’s lives at a certain point in the future—for example, in 2050—and then back track from that vision to determine what we should do now and what we should prepare. Thinking from that perspective, there are three fields in which Hitachi can create new value for society through the Social Innovation Business, and in which Hitachi can grow: the Environment, Resilience, and Security & Safety.

I would like to talk for a moment about Hitachi’s vision for this future society and people’s lives in the context of these three fields. In the environmental field, we will contribute to achieving a decarbonized, resource-efficient society. Hitachi will contribute to building a new society, mainly through the power grids business, which supports the transition to renewable energy; the automotive systems business, which promotes the transition to electric vehicles and other forms of electric power to achieve a decarbonized society; and the railway systems business, which accelerates green mobility. For example, the society of the future will use electric power supplied by wind power generation. However, the locations where wind power generators can be installed are limited, so achieving this goal will require technologies that can supply energy efficiently across long distances. We will respond to these needs by developing solutions that incorporate direct current power transmission, transformer stations, and transformer devices. Replacing gasoline with electricity is one solution for achieving a society in which people are able to use carbon-free, next-generation automobiles. Rather than creating these solutions as an extension of existing technologies and businesses, we need to back track from this future vision and study issues such as power generation and energy storage before taking action.

Our goal in the second key field of resilience is to achieve a society that can withstand the challenges faced by customers, markets, and regions throughout the world, and offer corporate activities by providing platforms for digital services that target public institutions and other companies by making maximum use of its strengths in “OT x IT x Products” and offering the mobility and building services and connected appliances required to build cities and support safe and healthy lifestyles from childhood to old age. In addition, Hitachi will spearhead the development of healthcare solutions that support healthy lifestyles for everyone throughout their entire lives. In creating the next generation of healthcare solutions, we must go beyond simply testing and treatment; we need to support healthy living through the entire life cycle, from prevention of illnesses through to the senior years, when long-term care is needed. We must also provide individualized healthcare and build healthcare systems that meet the diverse needs of different individuals and regions. In addition to contributing to testing and treatment through in-vitro diagnostics (IVD) technologies, particle therapy systems and pharmaceutical manufacturing solutions, we will improve people’s quality of life by providing new healthcare services using data obtained from those systems and devices.

The environment: An urgent issue
Aiming for carbon neutrality

Among the three fields mentioned above, there is no doubt that environmental issues are the most urgent. Earlier, I mentioned how Hitachi’s businesses contribute to a decarbonized, resource-efficient society, but Hitachi’s in-house corporate activities are also working toward this goal. Hitachi declared its intention to achieve carbon neutrality at in-house business offices and production bases by fiscal 2030, and in December 2020, we were certified under the Science Based Targets initiative (SBTi) for these activities. In January 2020, Hitachi’s Omika Works became the first factory operated by a Japanese company to be listed in the World Economic Forum Lighthouse under the “most advanced before decision making” category. The efficiency-improving activities undertaken at Omika Works will be expanded throughout the entire value chain. Hitachi aims to achieve carbon neutrality across its entire value chain together with our customers by fiscal 2050. In April of this year, we appointed Executive Vice President Alistair Dormer as Chief Environmental Officer to accelerate these activities. We also incorporated environmental value into the compensation structure for executives as a KPI starting from April 2021 to promote a greater awareness of reducing CO2 emissions in the context of day-to-day operations. We will accelerate the formulation and execution of environmental strategies as a leading company in the creation of environmental value, on par with the activities of leading environmentally-oriented companies.

Fostering human resources with the ability to empathize with society

The value of human resources is an important element of Hitachi’s sustainable growth. As I mentioned last year, in our efforts to promote the Social Innovation Business, it is essential that each Hitachi employee see social issues as relevant to their own lives. Each individual must take on the challenges faced by customers, markets, and regions throughout the world, and offer solutions. To do this, we will need to make a transition to job-based HR management, in which the right people are assigned to the appropriate positions according to their own goals and abilities. In the work culture that we are aiming to create, employees announce the social issues that they want to take on. The company can contribute to these efforts by recognizing employees for their determination to take on these issues. In last year’s Integrated Report, I gave an example of an assignment where I personally felt a strong motivation and sense of satisfaction, when I was in charge of introducing the Autonomous decentralized Transport Operation control System (ATOS)—a transport management system for the Tokyo area—in collaboration with East Japan Railway Company about 25 years ago. A real sense that you are contributing to society and words of appreciation from the customers are the driving force that creates a sense of autonomy.
in each individual employee. I want to transform this positive force into motivational energy for
the growth of Hitachi as a whole. We are putting in place an environment to support autonomy,
including the “Make a difference!” in-house idea contest that began in 2015, and the Future
Investment Division, an organization established directly under the president four years ago.
In addition, Hitachi has conducted studies of new business creation and fields to be strengthened
in the medium and long term based on trends in next-generation technologies and changes in
the world at large.

“空己唯盡字機” — Feel empathy with heart empty and contribute to
people with sincerity: The empathetic mind

Hitachi is driven by people with empathetic minds. This has been true throughout Hitachi’s
history. Hitachi was founded as a venture company by Namihei Odaira in 1910. Ever since
its establishment, based on the corporate philosophy of “Contributing to society through the
development of superior, original technology and products,” Hitachi has put forward the founding
concepts of harmony, sincerity, and a pioneering spirit, and has placed great value on a venture
spirit. At the entrance to the Hitachi Central Research Laboratory, you will find the words of
Kumeo Baba, one of Hitachi’s founders, who said: “Empty your mind, and devote yourself to
sincerity.” One of the Chinese characters he uses is “心”, which is said to represent a mother
bird protecting her eggs. Similarly, when we interact with customers, it is important that we adopt
the stance of expressing empathy, putting aside our ego, and devoting ourselves to sincerity,
transcending self-interest. I have personally taken the words “Feel empathy with heart empty and
contribute to people with sincerity” as a personal motto, and I strongly believe this is the mindset
that should be adopted by every employee involved in the Social Innovation Business as well as
the next generation of leaders who will drive that business. Emphasis brings greater happiness
than self-interest. We will focus our efforts on fostering employees who see social issues as their
own, involve those around them with passion, and strive to achieve goals together.

The role of the CEO and the essential attributes
of next-generation leaders

I believe that the role of the CEO is to present a vision, lay out a path toward realizing that vision,
and communicate this to others. I often say to future leaders, “Leaders must always see things
from the perspectives of time, regions, and value, and pick up on trends.” If you think about the
values in each region, which change over time, then what needs to be done now will become
clear, in the context of social, environmental, and economic value. Based on this view, the quality
of leadership demanded of a leader is the ability to present a vision of how Hitachi’s assets should be used to
achieve a richer society, lay out a road map for realizing that vision, and communicate that road
map to society.

When thinking about the company’s vision, the important thing is how we define a rich society
and people’s happiness. I believe that society must enable each individual to freely pursue and
realize his or her own form of happiness. We can make society more comfortable and convenient
through the evolution of digital technologies and progress in robotics and AI, but humans ultimately control these technologies, so the central assumption is that people are able to use AI,
robotics, and other technologies. This year, Hitachi established principles guiding the ethical use
of AI, and in the context of ethics training for engineers as well, we will continue to communicate
the importance of human-centric innovations.

To become a global leader in the Social Innovation Business

I’ve placed an emphasis on dialogue and engagement with shareholders and investors, and
recently, I have had increasing opportunities to discuss a wide range of topics, including
environmental issues and human resource development. Environmental, social, and governance
(ESG) criteria are top priorities in corporate management and it is understood as responsibilities
to society. To further merge business and sustainability, Hitachi established the Executive
Sustainability Committee, comprised of members of the Senior Executive Committee (where I
serve as Chairman) along with CEOs from the various business units and General Managers from
the various Head Office divisions, to discuss and decide on important policies and initiatives.
Regarding human resources, we will increase engagement with employees and the effective use
of human resources on a global scale, and at the same time promote diversity and inclusion, with
the goal of increasing the ratio of both female and non-Japanese executives and corporate officers
to 30% by fiscal 2030. Hitachi will also strengthen its response to issues related to human rights
that have come to light recently by conducting partner audits and building a human rights risk
management structure. With regard to corporate governance, even looking at the composition
of the Board of Directors, it is clear that we have built a structure that emphasizes independence
and diversity with independent directors accounting for 10 out of 13 board members, six of whom
are non-Japanese. We have also recently introduced environmental indexes into the evaluation
of executive compensation, and we are strengthening risk management as well, for example, in
terms of compliance, crisis, and business risks.

After making clear to all shareholders our policies regarding the allocation of management
resources, we will ensure a stable increase in dividends, while at the same time considering the
possibility of conducting share buybacks at the appropriate time, as part of efforts to share the
fruits of growth with stakeholders.

Hitachi’s ideal image as a global leader in the Social Innovation Business is directly in line with
its public perception as a next-generation leader. We will continue our efforts to gain the trust
of those around us by emphasizing openness and transparency while involving others with an
empathetic attitude. At Hitachi, we believe that a true leader is not someone who stands at the
head of the line and leads the way. Instead, a true leader looks toward the future with great
perspective, gained from encountering new ideas while working tirelessly to implement policies
that result in the best possible future for everyone. I will take every necessary step to bring Hitachi
closer to this ideal image of a global leader. I look forward to your continued support as we
continue this work together.

Hitachi’s “Principles
guiding the ethical use of
AI in Social Innovation
Business”

Since its establishment, Hitachi has operated under the Mission “Contribute to society through the development of superior, original technology and products.” In accordance with this Mission, we have resolved issues facing society through the development of technologies and products that support social infrastructures. The Social Innovation Business creates new value for society by offering a combination of the OT (operational technology), IT (information technology), and products cultivated over Hitachi’s 110-year history. Through this business, we strive to improve people’s quality of life and contribute to achieving 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 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.

2020
Toward Realizing a Decarbonized Society and Circular Economy

Social Innovation Business
Developing more advanced social infrastructures by combining expertise in OT, IT, and products

Hitachi Integrated Report 2021
Creating Value for Society through Digital Technologies

The concept of Lumada
Since launching Lumada in 2016, Hitachi has accelerated the use of digital technologies in social innovation. The name “Lumada” is a coined word that combines the words “illuminate” and “data.” It expresses Hitachi’s desire to create value through digital technologies, respond to the needs of customers and society, and help in addressing issues and growing businesses.

Components of Lumada

1. Digital innovation platform
Lumada’s digital innovation platform gathers advanced digital technologies such as AI and analytics. To create a better society through digital transformation, it is important to adopt cyber-physical systems that leverage IoT; in other words, create a cycle of feedback in which AI and other technologies established in the cloud (in cyberspace) are used to visualize and analyze data gathered from the real world, and from that solutions are returned to the real world in real time. Through this cycle, the real world is transformed into a place where solutions are returned to the real world in real time.

2. Knowledge of industries and business
Hitachi has knowledge and expertise in a wide range of industries and businesses, including electric power, railways, manufacturing, and finance, as well as digital solutions where value has been verified through co-creation with customers. Universal solutions and customer cases applied as models have been accumulated through Lumada to enable the rapid rollout and use of these solutions and expertise. The future is unpredictable, and a variety of social issues are coming to light. Amid these trends, there is growing demand throughout the world for digital transformation (DX) toward a better society that makes effective use of digital technologies. Hitachi sees the rapidly increasing volumes of data made accessible through the Internet of Things (IoT) as a source of value. Using data to pick up on signs of change, we will create new value for the next stage of society, as part of our efforts to achieve social innovations that increase corporate value for customers and the quality of life (QoL) for people everywhere. This is the essence of Lumada.

3. Co-creation with customers and partners
Hitachi has prepared numerous co-creation methods for creating new value with customers and partners.

- NEXPERIENCE
NEXPERIENCE is a methodology for creating new businesses and services through collaboration with partners. It enables us to create social innovation and navigate solutions for customers in three main steps: 1) discovering issues, 2) proposing solutions, and 3) verifying value. We will promote co-creation by proposing appropriate methods and content to customers through NEXPERIENCE and applying those methods and content in keeping with the unique characteristics of the themes in question and the status of studies, from the discovery of an issue—seeking out new business themes based on societal trends—to creating and verifying ideas that transform data into value and formulating strategies for new business development.

- Lumada Innovation Hub: Combining and connecting knowledge and ideas
Lumada Innovation Hub serves as a hub for co-creation activities, connecting customers and partners to innovate and generate new value by combining their respective knowledge and ideas. The Lumada Innovation Hub Tokyo, which opened in April 2021 as a flagship site that links stakeholders virtually and physically and transcends the boundaries of industries, such as customers, partners, and start-up companies, with diverse talent and co-creation facilities on the front lines of the digital transformation, such as Hitachi’s “KyoKyo-no-Mori” (literally translated as “forest of collaborative innovation”) and Omika Works, which was selected in the World Economic Forum Lighthouse as a most advanced factory. By bringing various people together and combining diverse digital knowledge and technologies, we will create new value for society.

- Lumada Alliance Program: Connecting partners
The Lumada Alliance Program offers an open innovation community that resolves social issues which cannot be overcome by a single company. It creates social innovations that create value. This program builds ecosystems which partners can contribute to their respective fields of specialization.

- Lumada Solution Hub: Connecting solutions and technologies
The Lumada Solution Hub is a platform that gathers and catalogs new solutions developed through co-creation and enables customers to build and deploy those solutions quickly and easily on the cloud. Solutions that have been proven effective by Hitachi and its partners are listed on the Lumada Solution Hub portal site. Customers can search for solutions according to their relevant conditions, such as industry, themes, and approaches, and then refer to detailed information of each solution, including lead time, costs, and other related information.

In this way, they can quickly and accurately find the solutions and digital technologies that they need. The Lumada Solution Hub also provides a framework for building the chosen solutions in the customer’s own cloud environment. By selecting and building optimum solutions quickly and easily, these customers can dramatically reduce the time and cost required in comparison to conventional processes. After system construction is complete, Hitachi offers a variety of shared services to support system operation and management—for example, service status monitoring and system operation proxy services—to facilitate the transition from proof of concept (PoC) to full-scale operational environments and rapid rollout to multiple bases. Hitachi and its partners use the Lumada Solution Hub to achieve n-fold scaling of solutions with a track record of generating value and to further expand that value.

Through Lumada, Hitachi has enhanced the three elements that are essential to digital transformations: digital technology platforms for social innovation, the accumulation of diverse and generalized knowledge of industries and businesses, and co-creation methods that quickly connect these platforms and knowledge with solutions and provide a framework for establishing and expanding the cycle of value creation. By effectively utilizing advanced digital technologies and proven solutions, and by maximizing the value of co-creation, Hitachi will work with customers and partners to achieve social innovations that create new value in the lives of people everywhere.
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. From April 2021, the Automotive Systems business (Hitachi Astemo) was made independent from the Smart Life sector, as we undertake business with the goal of creating further value through the six segments. Through solutions that leverage know-how in social infrastructure businesses and technologies, where Hitachi has been active for many years, and which combine Lumada with Hitachi’s knowledge in each segment, we will contribute to improving people’s quality of life and increasing value for customer companies.
Hitachi’s Global Business Portfolio

Overseas revenues account for 52% of total revenues for Hitachi, which strives to be a global leader in the Social Innovation Business. By combining Lumada with the global business portfolio that has been built up in each region and business, Hitachi will further accelerate its global rollout and expand the value created and realized through the Social Innovation Business on a global scale.

19 customer co-creation centers (as of July 2021)

Indicates businesses that account for a significant component ratio of revenues by region

### Japan
- Number of employees: Approx. 158,000
- Number of subsidiaries: 160
- Revenues (component ratio): 4,154.8 billion yen (48%)

### North America
- Number of employees: Approx. 27,000
- Number of subsidiaries: 87
- Revenues (component ratio): 1,117.5 billion yen (13%)

### Europe
- Number of employees: Approx. 32,000
- Number of subsidiaries: 150
- Revenues (component ratio): 1,013.4 billion yen (11%)

### China
- Number of employees: Approx. 52,000
- Number of subsidiaries: 144
- Revenues (component ratio): 1,043.2 billion yen (12%)

### ASEAN, India and other areas
- Number of employees: Approx. 61,000
- Number of subsidiaries: 211
- Revenues (component ratio): 850.3 billion yen (10%)

### Other areas
- Number of employees: Approx. 20,000
- Number of subsidiaries: 120
- Revenues (component ratio): 549.7 billion yen (6%)
Ensuring the Viability of Business and a Sustainable Society

Hitachi practices sustainable management, which incorporates sustainability into the core of its business strategies. In the 2021 Mid-term Management Plan, for which fiscal 2021 is the final year, we have set the goal of becoming a global leader in the Social Innovation Business to help achieve a sustainable society. To accomplish this goal, we will focus on three fields—the Environment, Resilience, and Security & Safety—as we contribute to resolving social and corporate management issues and strive to improve quality for life for people everywhere. Based on our domain knowledge and co-creation with partners throughout the world, we will leverage Lumada to expand the Social Innovation Business.

### Strategic Focus Area

Hitachi undertakes activities with a focus on creating value in important market domains, led by our vision of the ideal companies and society in 2030. Hitachi’s current goal is to achieve sustainability in society and Hitachi’s management, as part of efforts to increase value for customers and improve the quality of life for people everywhere.

To achieve this goal, we have mapped key initiatives based on the company (Hitachi) and the level of interest and importance of stakeholders. Among these, priority initiatives have been designated as a strategic focus area.

#### Sustainability Strategy Promotion Structure

Hitachi, Ltd., has established an Executive Sustainability Committee, whose members include Toshiaki Higashihara, Executive Chairman & CEO, and other top management members, along with CEOs from the various business units (BU). The purpose of this committee is to discuss and decide on important policies and initiatives related to sustainability, share progress and results, and tie these into further improvements and new activities.

### Strategic Focus Area

Hitachi’s mission in the Social Innovation Business is to achieve a sustainable society by taking on the challenges of climate change, a circular economy, and future-focused social issues. In response to climate change, which is a particularly urgent issue, we will expand solutions for targeting carbon neutrality within Hitachi by fiscal 2030 and achieving carbon neutrality through the value chain by fiscal 2050. As a leading company in the creation of environmental value, we will further accelerate our initiatives aimed at realizing these goals.

#### Recognition of Issues and Strategies in Strategic Focus Areas

<table>
<thead>
<tr>
<th>Strategic Focus Area</th>
<th>Recognition of Issues and Strategies</th>
<th>Initiatives/YFP</th>
<th>Relevant SGD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social innovations using digital technologies and AI</td>
<td>- Expansion of the Lumada business</td>
<td>• Promote “Hitachi Environmental Innovation 2050”</td>
<td>• Expand the healthcare business</td>
</tr>
<tr>
<td>Resilience and Security &amp; Safety</td>
<td>- Hitachi Social Innovation Business</td>
<td>• Protect value creation story in the Mobility and Smart Life sectors</td>
<td>• Value creation story in the Mobility and Smart Life sectors</td>
</tr>
<tr>
<td>Environment</td>
<td>- Lumada weighted in terms of climate change, circular economy, and social issues</td>
<td>• Expand businesses that support public infrastructure and services</td>
<td>• Increase Lumada revenues and adjusted operating income</td>
</tr>
<tr>
<td>Resilience</td>
<td>- High interest and importance for stakeholders</td>
<td>• Enhance social contributions</td>
<td>• Build and operate risk management systems</td>
</tr>
<tr>
<td>Security &amp; Safety</td>
<td>- Value creation story in the Mobility and Smart Life sectors</td>
<td>• Respond to risks and opportunities</td>
<td></td>
</tr>
</tbody>
</table>
Provide solutions focusing on three fields: the Environment, Resilience, and Security & Safety

Co-creation with customers and society

**Input**

- Human capital
  - Diverse and global talent that can resolve social issues
    - Number of employees (consolidated): 301,056
    - Overseas employees ratio: 46%
    - Investment in education per employee: 66,900 yen

- Intellectual capital
  - Technologies/co-creation platforms to ensure global competitiveness
    - R&D investments: 293.5 billion yen
    - R&D staff*: 2,650
    - Customer co-creation centers*: 11

- Manufactured capital
  - Production/business processes enhanced through IT
    - Capital expenditure: 359.8 billion yen
    - Manufacturing bases: approximately 400

- Social and relationship capital
  - Partnerships for creating value through co-creation
    - Lumada Alliance Program partners: More than 40 companies
    - Investments in start-ups: cumulative 7 companies
    - Funding for social contribution activities: 1.9 billion yen

- Natural capital
  - Efficient use of resources
    - Total energy input: 61 projects (kiloton)
    - Raw material input: 3,066 kt
    - Total water input: 26.35 million m³
    - Total chemical substances handled: 56.4 kt

- Financial capital
  - Financial platforms and investments for creating value
    - Hitachi, Ltd.: 3,525.5 billion yen
    - Interest-bearing debt: 2,397.3 billion yen
    - Growth investment: 1,700 billion yen

**Output**

- Simultaneously increase social, environmental, and economic value

  - **Diversification and globalization of Human Capital**
    - Ratio of female managers: 9.5%
    - Ratio of non-Japanese executive and corporate officers: 11.6%
    - Ratio of female executive and corporate officers: 10.1%
    - Digital talent: Increase of 5,000 persons
      - Total: 35,000 persons
  - **Increase competitive superiority to expand business**
    - Lumada business revenues: 1.1 trillion yen
    - Number of cases registered in the Lumada Solution Hub: More than 100
    - Lumada customer cases: More than 1,000
    - Lumada solution core: More than 85
    - Expand use of Lumada in-house applications for internal IT services: 257 cases
    - Number of published patent applications: approx. 10,000
  - **Reducing environmental burden** (FY 2010)
    - Reduction in CO2 emissions from products and services: 20%
    - Reduction rate in total CO2 emissions at business sites (factories and offices): 39%
    - Reduction rate in waste and valuables generation per unit: 24%
    - Reduction rate in chemical atmospheric emissions per unit: 14%
    - Reduction rate in water use (crude oil equivalent): 33%
  - **Accumulate resources for growth and returns**
    - Core free cash flows: 419.8 billion yen
    - Total dividends: 101.5 billion yen
    - Total shareholder return: +106.4%

**Vision**

Realize a Sustainable Society through Improving Quality of Life and Adding Value for Customers

**Mission**

Contribute to society through the development of superior, original technology and products.
Looking Back on Past Mid-term Management Plans

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 automobile systems business, the withdrawal from the internal manufacturing of flat-panel TV business, and the transfer of the HDD 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 from 4.7% thanks to cost structure reforms in line with the Hitachi Smart Transformation Project. In addition, after dropping to 11.2% in fiscal 2008, the stockholders’ equity ratio recovered to 21.2% in fiscal 2012, while the D/V ratio narrowed to 0.75x over the same period, indicating a slow improvement in Hitachi’s financial position as the Company worked toward the establishment of a stable earnings base.

Challenges Ahead
- Further improvements in business profitability
- Strengthening the service business
- Global business development and establishing a management base that makes that possible

Expanding the Lumada business
- 2014: PayPay Payment Services (Forged service)
- 2015: PortalNet (Orderly analytics)
- 2016: PayPay Cloud (Service related to the public cloud)
- 2017: Global performance
- 2019: SunAvail (AIoT platform)
- 2020: Aras/iVeda
- 2021: GlobalLogic

Utilizing Digital Technologies
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 consideration 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 Alistair Dormer, currently serving as executive vice president, as the global CEO of the Company’s rail business.

In personnel 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 insufficient 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 600 billion yen, with the operating income ratio at 6%, signaling stability in 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

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 collaboration 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 bolstered the management speed. Specifically, business units (BU), 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 grids business. The goal of each of these is the acquisition of a robust global sales network and the expansion of the Social Innovation Business.
In the 2021 Mid-term Management Plan, which ends in fiscal 2021, Hitachi put forward the goal of realizing a sustainable society by being a global leader in the Social Innovation Business. To achieve this goal, we will focus on three fields—the Environment, Resilience, and Security & Safety—as we contribute to resolving social and corporate management issues, and strive to improve value for customer companies and quality of life for people everywhere.

### Business Performance

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2019 results</th>
<th>FY2020 results</th>
<th>FY2021 forecast*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>2,059.4 billion yen</td>
<td>2,047.7 billion yen</td>
<td>2,200.0 billion yen</td>
</tr>
<tr>
<td>Adjusted operating income / ratio</td>
<td>249.4% / 10.1%</td>
<td>244.9% / 10.6%</td>
<td>246.0% / 11.2%</td>
</tr>
<tr>
<td>EBIT / EBIT ratio</td>
<td>18.4%</td>
<td>17.8%</td>
<td>12.7%</td>
</tr>
<tr>
<td>ROIC</td>
<td>9.4%</td>
<td>6.4%</td>
<td>8.3%</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>399.0 billion yen</td>
<td>1,107.9 billion yen</td>
<td>1,320.6 billion yen</td>
</tr>
<tr>
<td>Adjusted operating income / ratio</td>
<td>13.0% / 3.9%</td>
<td>147.7% / 14.3%</td>
<td>30.6% / 3.3%</td>
</tr>
<tr>
<td>EBIT / EBIT ratio</td>
<td>37.5% / 94.1%</td>
<td>66.5% / 35.5%</td>
<td>37.0% / 2.8%</td>
</tr>
<tr>
<td>ROIC</td>
<td>6.4%</td>
<td>9.7%</td>
<td>1.9%</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>840.7 billion yen</td>
<td>850.1 billion yen</td>
<td>850.7 billion yen</td>
</tr>
<tr>
<td>Adjusted operating income / ratio</td>
<td>54.1% / 6.5%</td>
<td>43.7% / 6.5%</td>
<td>69.0% / 6.1%</td>
</tr>
<tr>
<td>EBIT / EBIT ratio</td>
<td>57.8% / 6.9%</td>
<td>42.3% / 9.1%</td>
<td>59.0% / 6.9%</td>
</tr>
<tr>
<td>ROIC</td>
<td>8.6%</td>
<td>8.1%</td>
<td>8.7%</td>
</tr>
<tr>
<td><strong>Mobility</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>1,144.4 billion yen</td>
<td>1,159.6 billion yen</td>
<td>1,250.0 billion yen</td>
</tr>
<tr>
<td>Adjusted operating income / ratio</td>
<td>50.2% / 11.5%</td>
<td>74.7% / 6.2%</td>
<td>102.0% / 8.2%</td>
</tr>
<tr>
<td>EBIT / EBIT ratio</td>
<td>112.3% / 9.8%</td>
<td>129.0% / 10.3%</td>
<td>124.0% / 9.9%</td>
</tr>
<tr>
<td>ROIC</td>
<td>11.3%</td>
<td>10.2%</td>
<td>10.2%</td>
</tr>
<tr>
<td><strong>Smart Life</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>2,167.6 billion yen</td>
<td>1,252.7 billion yen</td>
<td>1,000.0 billion yen</td>
</tr>
<tr>
<td>Adjusted operating income / ratio</td>
<td>118.9% / 5.5%</td>
<td>89.4% / 8.3%</td>
<td>97.0% / 9.7%</td>
</tr>
<tr>
<td>EBIT / EBIT ratio</td>
<td>90.0% / 4.2%</td>
<td>201.0% / 16.1%</td>
<td>150.0% / 15.0%</td>
</tr>
<tr>
<td>ROIC</td>
<td>8.5%</td>
<td>8.7%</td>
<td>10.8%</td>
</tr>
<tr>
<td><strong>Automotive Systems</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>—</td>
<td>967.5 billion yen</td>
<td>1,600.0 billion yen</td>
</tr>
<tr>
<td>Adjusted operating income / ratio</td>
<td>—</td>
<td>347.0% / 3.5%</td>
<td>97.0% / 6.1%</td>
</tr>
<tr>
<td>EBIT / EBIT ratio</td>
<td>—</td>
<td>4.3% / 0.4%</td>
<td>76.0% / 4.8%</td>
</tr>
<tr>
<td>ROIC</td>
<td>—</td>
<td>3.1%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

*Announced on July 30, 2021

### Performance by Segment

**Revenues**

- **IT**
- **Energy**
- **Industry**
- **Mobility**
- **Smart Life**
- **Automotive Systems**

### Strategy 1: Expand Revenues by Accelerating the Social Innovation Business

- **Exhibit High Profitable Businesses with Digital Technology**
  - Achieve Robust Growth in the Lumada Business
  - Further Acceleration of Global Rollout
  - Hitachi’s Strengths in DX for Social Infrastructures
  - The Chain of Value Creation and Expansion to Ecosystems That Initiate Cycles
  - Strengthening and Training Talent That Drives the Social Innovation Business
  - Examples of Value Creation through Lumada Solutions
  - Expanding the Social Innovation Business by Entrenching the Value of Co-Creation

- **Creation of Social and Environmental Value**
  - Become a Climate Change Innovator
  - Realization of a Decarbonized Society

### Strategy 2: Enhance Global Competitiveness

- **Hitachi’s R&D**
  - Value-based Innovation
  - The Strength of Hitachi’s R&D
  - Strengthening R&D and Future Directions
  - Value-based R&D
  - Further Evolution of Lumada

- **Initiatives in Intellectual Properties (IPs)**
  - Global Human Capital that Provides Value to Society through the Social Innovation Business
  - Global Human Capital Management Strategy
  - Diveristy & Inclusion
  - Target and Actions for Diversity & Inclusion
  - Framework for Global Human Capital Management
  - Building Workplaces That Offer Job Satisfaction

- **Growth Investment**
  - Inputs for Promoting Strategy

### Strategy 3: Reinforce Management System to Improve Profitability

- **Progress of ROIC Management**
- **Financial and Capital Strategy**
- **Capital Allocation**
- **Strengthening the Management Base through the Standardization of Global Operations**

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*Executive officers, Corporate officers, and Fellows*
COO Message

Creating a Growth Story for the Next 10 Years with the Lumada Business at the Core

Q: You were appointed President and COO in June of this year. Can you tell us about your aspirations for this position?

For about 10 years following the financial crisis that began with the collapse of Lehman Brothers, successive management teams implemented drastic structural reforms to transform Hitachi into a global company. They took a number of steps to achieve the next stage of growth. My mission is to create a path for Hitachi’s continued growth over the next 10 years based on this foundation. This is very satisfying and meaningful work.

Q: Moving forward, what are the main markets and fields where you expect to see the most growth in the Lumada business?

The markets where I expect to see the most growth are North America and India. The markets have many companies that create outstanding products, so I think this market has great potential as well. The sectors that demonstrate the greatest potential growth include the Industry sector and the Smart Life sector, especially the field of genetic engineering, which includes regenerative medicine and iPS cells.

Q: You said that the Lumada business holds the key to growth. How much progress do you think has been made toward realizing the future vision for this business?

To me, the starting point for Lumada is co-creation with customers aimed at resolving social issues. When we began Lumada, we said that researchers would share social issues with customers and undertake co-creation to resolve those issues, and then transfer the insight gained from these frameworks and systems to the business side, to provide them in the form of the Social Innovation Business. Up to now, we have expanded co-creation-style SI with a particular focus on the IT sector and have used this approach to vigorously promote the Lumada business. The IT sector has grown to the point where it currently generates about half of Hitachi’s income, but it only accounts for about 20% of sales. Our next management goal is to accelerate the digitalization of project and design/manufacturing assets, which account for most of the Hitachi Group’s sales. Digitalization is moving forward in businesses that demonstrate a strong affinity with the Lumada business, such as the Building Systems Business Unit. However, from this point onward we will go one step further, placing all of Hitachi’s businesses on the Lumada platform to accelerate growth. In addition, we need to promote full-scale globalization, many through Hitachi Vantara, which drives the Lumada business on a global scale. In that sense, I would say that right now, we have achieved 30% or 40% of our “aspirations.”

Q: In closing, please tell us President Kojima’s guiding principles, and give us a message for stakeholders.

Hitachi’s core principle of contributing to society through the power of technology remains unchanged. With that in mind, I will continue my unwavering efforts to maintain a bird’s-eye view of all technological innovation as it unfolds—not only Hitachi’s technologies but also technologies in completely different fields—and to constantly monitor those trends. This approach has been shaped by my own pride as a researcher.

I can declare without fear that we will undoubtedly achieve our goal of recording “10 years of growth” moving forward, and I will embody in my actions the motto “Always follow through on your promises,” which I once saw displayed at the Central Research Laboratory and which has become a central part of my philosophy. During this coming decade of growth, one major theme will be to enhance returns to all stakeholders, including shareholders, investors and employees. My goal is to gain people’s understanding and support by communicating my own thoughts on matters such as growth strategies and to comment on the progress of those strategies in a transparent and easy-to-understand way.

Q: Please tell us about the direction and key initiatives driving the creation of the next Mid-term Management Plan.

To guide future growth, we must tie the assets acquired through large-scale M&As into a comprehensive plan to steadily increase corporate value. The key words in this regard are simplicity, digitalization, and globalization of management.
Strategy 1 | Expand Revenues by Accelerating the Social Innovation Business

Using data to pick up on signs of change, we will create new value with customers for the next stage of society, as part of our efforts to achieve social innovations that increase the corporate value for customers and the quality of life for people everywhere. This is the essence of Lumada. Leveraging the strengths of Operational Technology (OT) + Information Technology (IT) + Products that Hitachi has cultivated over many years, we will accelerate the Social Innovation Business using Lumada on a global scale.

In 2020, due to the COVID-19, the global business community faced a major turning point, and a variety of hidden social issues came to light. Digital solutions that take full advantage of digital technologies such as AI and IoT are essential in this era of the new normal. By building new partnerships that transcend the boundaries of various industries, we will provide even greater value to society.

Grow Highly Profitable Businesses with Digital Technology

Achieve Robust Growth in the Lumada Business

The Lumada business has a high adjusted operating income ratio (more than 10%), and revenues are increasing. We posted revenues of 1.11 trillion yen in fiscal 2020 and expect 1.58 trillion yen in fiscal 2021. Moving forward, through integration with GlobalLogic, for which the acquisition was completed in July 2021, we will strive to capture growth in the rapidly expanding global market for digital transformation to achieve both high business growth and profitability with revenues of 3 trillion yen and adjusted operating income of 500 billion yen in fiscal 2025.

In the Lumada business, we leverage the expertise that Hitachi has accumulated in the fields of OT (operation and control technologies), IT (including AI and analytics) and products (including industrial devices, rolling stock, and elevators, etc.) to provide digital solutions that resolve customers’ issues and increase social, environmental and economic value. The Lumada business comprises the Lumada core business and Lumada related businesses. The “Lumada core business” is a digital solutions business that solves management and business issues by converting customer data into value using AI and other digital technologies. “Lumada related businesses” 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, OT and product data are collected through sensors installed in rolling stock, signaling systems, and other elements positioned as Lumada related businesses, and these data are analyzed using the digital solutions that represent the Lumada core business to detect signs of failure. This enables efficient maintenance to prevent failures before they occur and to increase operating rates. In this way, digital solutions enable a shift toward high-value-added, high-profit operations in the related OT and Product businesses.

By undertaking both the Lumada core business and Lumada related businesses while using the domain knowledge and assets cultivated through the five sectors and at Hitachi Astemo, we will deepen the integration of OT + IT + Products and expand these businesses.

In April 2021, Hitachi was authorized by the Japanese Ministry of Economy, Trade, and Industry as a “DX-certified operator.” In June 2021, we received the DX Grand Prix 2021 award in “Digital Transformation Brand 2021,” which is selected by the Ministry of Economy, Trade, and Industry and the Tokyo Stock Exchange. This award recognizes that Lumada has been used to support the acceleration of DX for customers and society, and that it has already led into the rollout of global business, demonstrating that DX is an engine for changing entire companies. We see this as the most significant recognition yet that Hitachi itself continues to undergo a transformation through the Lumada business.

Lumada is used in a wide range of operational fields at Hitachi, including sales, procurement, production, maintenance, and management. In fiscal 2020, there was a cumulative total of 257 examples of applications related to in-house IT services, more than twice the number in fiscal 2018. Further Acceleration of Global Rollout

Up to now, Hitachi has acquired industry expertise and OT assets through M&As, as part of efforts to build a strong global business portfolio. In July 2020, we completed the acquisition of ABB’s power grids business and established Hitachi ABB Power Grids. In May 2020, Hitachi High-Tech, which has outstanding measurement and analysis technologies, was converted into a full subsidiary, and in January 2021, we launched Hitachi Astemo through the integration of Hitachi Automotive Systems with three Honda affiliates: Kehin Corporation, Showa Corporation, and Nisson Kogyo Co., Ltd.

In the overseas home appliance business, we established a joint venture with the Turkish company Arçelik in July 2021. In terms of the framework for promoting Lumada, the new Hitachi-Vantara formed in January 2020 through the integration of the American subsidiary Hitachi Vantara with Hitachi Consulting Corporation has driven the growth of business and the creation of global strategies for the Lumada business, in collaboration with the Hitachi Group as a whole. Further accelerating the growth of Hitachi’s Lumada business requires talent to undertake co-creation with customers throughout the world and digital engineering capabilities to further accelerate development. The American company GlobalLogic, which was acquired in July 2021, is a leading company in the rapidly growing digital engineering service market. It has more than 21,000 employees in 14 countries around the world who develop and provide solutions with an emphasis on co-creation with customers at 30 development bases, along with eight co-creation bases mainly in Europe and the Americas. It demonstrates advanced and broad ranging “Chip-to-Cloud” engineering capabilities, from the chips that gather frontline data and offer control functions to the extraction and analysis of data in Cloud environment. GlobalLogic has a track record of providing solutions to more than 400 customer companies in industries including healthcare, telecommunications, manufacturing and automobiles.

Moving forward, Hitachi and GlobalLogic will target the customer bases of both companies, starting with the cross-selling of services that leverage their respective strengths and then utilizing the software assets accumulated through the Lumada business. By utilizing GlobalLogic’s Digital engineering capabilities to increase the added value of Hitachi’s broad ranging products and will strive to develop new Lumada solutions by combining these products with software created through co-creation with customers. There is a substantial market for these solutions, and we plan to promote them in Europe and North America, where Hitachi has already established a track record. GlobalLogic will undertake these activities in collaboration with Hitachi ABB Power Grids, Hitachi Rail, JR Automation and other Hitachi entities.

Delivering Digital Value on a Larger Canvas, Hitachi

GlobalLogic has partnered with some of the world’s top brands, including many of “Fortune 500” companies. As our customers and partners, they have leveraged our digital engineering expertise to create innovative products, new platforms, and amazing experiences. Together, we have been able to create innovations with greater added value through our design and digital engineering-helping clients see the world not as it is, but as it should be.

We are delighted to join Hitachi, one of the most trusted engineering brands in the world. Hitachi and GlobalLogic understand IoT and digital technologies well and are using them to innovate digital solutions that benefit society. In addition, Lumada’s basic concept of “developing a platform and building an ecosystem that maximizes the value of design, engineering, and data application technologies” is exactly the very same approach as we take when we build solutions for our clients.

I am convinced that the coming together of these two companies, which share the same purpose, passion, and vision, will be a very powerful combination that will bring innovation to society through digital technology.

Furthermore, while our strength lies in engagement systems in areas close to consumers, Hitachi has a large customer base around the world, especially in the industrial sector. Therefore, we ourselves can contribute to the Lumada customer cases, and we believe that we can leverage Lumada in the future.

By joining together with Hitachi, we have expanded our canvas to a more global scale and Hitachi will enable us to realize our vision for the next five to seven years ahead of schedule, and through these synergies with Hitachi, we will provide new value to society.

Growth-Driven Business

<table>
<thead>
<tr>
<th>Lumada core business</th>
<th>Lumada related business</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥1,110.0 billion</td>
<td>¥400.0 billion</td>
</tr>
</tbody>
</table>

Component ratio of Lumada business revenues by segment in FY2020

<table>
<thead>
<tr>
<th>Field</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>42.0%</td>
<td>40.0%</td>
</tr>
<tr>
<td>Rail</td>
<td>20.0%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Mobility</td>
<td>16.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Industry</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Shashank Samant
CEO, GlobalLogic, Inc.
Hitachi’s Strengths in DX for Social Infrastructures “Mission-Critical IoT”

Hitachi’s strengths in the realization of the digital transformation for social infrastructures lie in its ability to provide mission-critical IoT, which is at the core of applications that resolve both social and corporate management issues. We also use our broad-ranging product lineup to gather data from physical space into cyberspace (the cloud) and to analyze the data gathered through GlobalLogic’s digital engineering capabilities. Furthermore, controlling physical space in real time based on the results of data analyses requires mission-critical IoT skills and expertise. Hitachi will leverage these strengths to accelerate the digital transformation for social infrastructures.

Expanding company-wide Lumada business by providing total solutions ranging from products to DX applications which digitally optimize social infrastructure

The Chain of Value Creation and Expansion to Ecosystems That Initiate Cycles

Hitachi has undertaken three initiatives to expand Lumada’s co-creation activities and the use of digital solutions, and to promote a chain of value creation and ecosystems that initiate positive cycles: the Lumada Solution Hub, which connects solutions and technologies; the Lumada Alliance Program, which connects partners; and Lumada Innovation Hub, which connects knowledge and ideas.

There are more than 100 solutions currently registered in the Lumada Solution Hub, which was kicked off in April 2019. The Lumada Alliance Program, which started in November 2020, already has more than 40 member companies that support the vision of “Contributing to the continuous development of societies and economies and to improving people’s quality of life by creating new value from data through the mutual use of alliance members’ technologies, expertise, and ideas, and then creating a cycle of value that results in mutual growth for all parties involved.” In April 2021, the Lumada Innovation Hub Tokyo opened as a venue for new open innovations, further contributing to these applications.

Hitachi promotes the use of existing assets including advanced digital technologies and customer cases cultivated up to now, applying and enhancing these assets in the form of Lumada solutions for a variety of fields. At the same time, through open innovations with partners transcending the boundaries of industries, we are building and expanding an ecosystem that resolves a variety of social issues and generates a chain of value creation.

Strengthening and Developing the Talent to Drive the Social Innovation Business

Diverse global talent is essential in responding to increasingly diverse social issues in the Social Innovation Business. We are accelerating Diversity & Inclusion activities to enable every Hitachi employee to demonstrate that value and to support Hitachi’s growth. We also actively promote activities aimed at strengthening and developing the digital talent that drives DX, so that they can handle the core digital solutions that combine OT and IT, and accelerate the Social Innovation Business on a global scale.

Hitachi has built new training systems for digital talent, including front-office staff and data scientists, and offers human resource development through programs that combine classroom courses and on-the-job training (OJT). Starting with new graduate hiring in fiscal 2021, we have enhanced our ability to secure outstanding manpower through a “digital talent recruiting course” targeting R&D positions and data scientists in the digital field, which allows compensation to be set individually in accordance with an individual’s skills and experience.

Our digital talent plan called for an increase from 30,000 persons in fiscal 2019 to more than 37,000 by the end of fiscal 2021, and the number had already reached 35,000 at the end of fiscal 2020. Specifically, we set targets of 3,000 data scientists (data analysis specialists) and 350 Ph.D.-level R&D staff with cutting-edge skills in AI and related technologies to be recruited by the end of fiscal 2021, and these targets had already been reached by April 2021.

Examples of Value Creation through Lumada Solutions

The realization of DX requires not only the digitalization of information but also solutions with a view toward the provision of new services based on data applications. With the digitalization of social infrastructures, payment methods are also changing, as cashless payments are rapidly gaining popularity, for example, in the form of credit cards and QR codes. There are high expectations for the provision of systems that ensure safe and secure handling of important payment-related data and which are resilient even in the face of natural disasters or failures, as well as the creation of services based on that payment information which offer even greater convenience for users. The IoT Payment Platform Service offered by Hitachi combines knowledge of finances and settlements with IT and OT, creating payment services that adapt to changes in user lifestyles. Hitachi also offers support to vendors in the use of data related to applications and operations, as well as consultations when services are introduced. These are solutions that Hitachi is uniquely equipped to provide, based on its extensive experience with products and systems that support people’s lives, including financial systems and social infrastructures. These solutions also support the realization of smart cities and Mobility as a Service (MaaS).

Services using these platforms are already being tested and applied throughout the world. In proof-of-concept tests conducted jointly with the Italian public transportation operator Trentino Trasporti S.p.A., Hitachi installed communication terminals in rolling stock and buses, as well as at train stations and bus stops, exchanging positional information via apps installed in the passengers’ smartphones. In this way, we established a framework for automatically calculating and collecting the passengers’ fares. Passengers enjoy more comfortable transportation because they no longer need to carry paper tickets or IC cards or stop to pay fares before or after their ride. Public transportation companies can cut down on facilities such as ticket machines and ticket gates, thereby reducing initial investments and maintenance costs. Trentino Trasporti has decided to put these services into operation from 2021.

In Japan, Hitachi is collaborating with ZENRIN CO., LTD., which has data and expertise related to map information, in the development of Maas for tourism. Together, we developed an application for seamless operations on a smartphone, from searches for tourist routes to purchasing and payments for transportation and tourism tickets based on positional information. This service supports comfortable and convenient tourism activities, as users can receive information that is useful for both travel and tourism on a map, in keeping with their current location and movement. The effects of this service will be verified through proof-of-concept tests scheduled to be conducted by ZENRIN in Nagasaki City in 2021. Together, we are working to build and provide service platforms that are ideally suited to the needs of each individual tourist.

Create a new payment method with OT × IT × Finance

Deliver innovative payment as a service to improve financial safety, security and resilience

Achieving a DX Society through Advanced Payment Services

Case 1

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Products and technologies related to regenerative medicine products are expected to open the way to new therapies for diseases where no effective treatment methods are available. In this field, Hitachi has constructed a platform for the integrated management of cell and tracing information throughout the entire value chain. Regenerative medicine products are unique in that cells collected from patients or cell donors are incubated and then injected to other patients. The safe and secure management and distribution of cell and tracing information required the construction of a new and unprecedented supply chain structure.

Hitachi has focused on the issues involved in the development of regenerative medicine products in the healthcare field and has developed and constructed these platforms through co-creation with various partners, including Alfresa Corporation, a Japanese ethical pharmaceutical wholesaler, as well as other pharmaceutical companies and medical institutions. Specialized knowledge from Alfresa is used in the transport and storage of patients’ cells and regenerative medicine products; from consigned manufacturers in the development of manufacturing methods and the manufacture of experimental drugs and regenerative medicine products; and from pharmaceutical companies and bio-ventures in all processes and information tracing from the collection of patients’ cells to the administration of regenerative medicine products. To ensure applicability, we strived for specifications that can be used as a standard by a broad range of stakeholders; for example, we conducted studies offering to actual operations and incorporated the opinions of healthcare professionals into the development of user interfaces.

In addition, we use Hitachi’s digital twin solution, a Lumada solution, as an information platform for extracting, using, and analyzing OT data, such as information on equipment operation status and quality, and IT data, including planning and inventory management. By connecting the workplace data and IT data in a digital space, it becomes easier to conduct continuous and timely AI-based analyses and simulations, so it is possible to provide and support in keeping with customer needs, even in the case of services for increasing efficiency and productivity through analyses and simulations with a view toward all processes, from cell collection to drug administration.

The operation, analysis, and optimization of asset management and field service management are important issues for customers in every industry. Hitachi ABB Power Grids has supported inspections, testing, and maintenance, as well as appropriate capital investments, to enable advanced asset management and sustainable operations by providing Digital Enterprise, a suite of operational management solutions for electric power companies and the manufacturing and mining industries. Hitachi ABB Power Grids collaborated with Hitachi Vantara to increase system scalability and enable more advanced and broad ranging data analyses by combining Digital Enterprise, which is already used by many customers, with Lumada’s various technologies and solutions for data application and optimization. In addition to asset and work management, Lumada solutions support customers’ corporate management and operations. Hitachi will maximize the value of these solutions by providing them not only to traditional customers but also to customers and partners in Hitachi’s five sectors, as well as those of Hitachi Astemo.

Cases

1. Creating Information Management Platforms for Regenerative Medicine

2. Enhance Lumada Solutions in Combination with Hitachi ABB Power Grids’ Operation Management Solutions

3. Expanding the Social Innovation Business by Entrenching the Value of Co-creation

Expanding the Social Innovation Business by Entrenching the Value of Co-creation

Hitachi’s Mission is to “contribute to society through the development of superior, original technology and products.” To fulfill Hitachi’s Mission, the Values reflect the Hitachi Founding Spirit: Harmony, Sincerity, and Pioneering Spirit, which have been steadily passed on. Based on the Mission and Values, in 2013, we added the Vision, which is an expression of what Hitachi aims to become in the future. The Mission, Values and Vision are made to be shared in a simple concept as the Hitachi Group Identity. Based on the Hitachi Group Identity, we undertake corporate activities that contribute to resolving diverse social issues in keeping with changes in society, with a view toward the coming era. At Hitachi, we believe that when every employee understands and practices the Hitachi Group Identity this will tie into resolving a variety of social issues and to the realization of a better society.

Individual employees need to understand the value that can be achieved through co-creation. This understanding is important to providing the Social Innovation Business, driven by Lumada, throughout the world, and to expanding the value brought about by social innovations to even more diverse customers and societies. For us to operate effectively in the Social Innovation Business, it is essential that the 350,000 employees worldwide, including new employees who joined the Hitachi Group through M&As, understand the Hitachi Group Identity, and undertake their daily work with the mindset of resolving social issues from a first-person perspective.

We promote activities through in-house award systems as a venue for entrenching the Hitachi Group Identity and transforming employee mindsets. For example, the “Innovation of the Year Global Award,” an award that started in Japan in 2003 and became Hitachi’s global award system from 2013, is presented each year to recognize activities that embody the Hitachi Group Identity and contribute to realizing a better society. Currently, Hitachi puts out calls for projects in six regions worldwide where Hitachi undertakes business, and the Grand Prix award winners serve as ambassadors for the Hitachi Brand in their respective regions, entrenching the Hitachi Group Identity even more deeply within the company.

The “Make a Difference!” business idea contest, based on the theme of the “first-person mindset,” has been held since 2015 and strives to cultivate a corporate culture of winning in global competition. The Lumada Business Award, an in-house award system for the Lumada business, strives to expand the Social Innovation Business by entrenching the value of co-creation through a variety of activities, including a recognition of projects that create new value for society, based on an understanding of the issues involved in creating a better society for the future.

The Value of Digitization Provided by Hitachi

I’ve been working in the digital field for a long time and I was looking for a company that could leverage digital to impact society in more meaningful ways. And I found Hitachi.

When I met the Hitachi team members, I was particularly impressed by two things. The first was Hitachi’s mission, “Contribute to society through the development of superior, original technologies and products.”

The second was the transformation of Hitachi. The challenge of transforming Hitachi into a digital company, and to lead Hitachi Vantara, which is an important engine of that transformation, appealed to me greatly. I knew I wanted to walk this journey with Hitachi.

The trust in the Hitachi brand is very strong, and the Lumada digital portfolio has tremendous potential. I am confident we, together with our ecosystems of partners, can create much value for society and our customers.
Creation of Social and Environmental Value

Hitachi's mission is to continue providing solutions to social and environmental challenges to realize a sustainable society.

Climate change has become one of the most important issues, and many countries have declared set goals to both reduce CO2 emissions and achieve sustainable economic growth. As a company that creates environmental value, Hitachi will lead the realization of an environmentally friendly and sustainable society and economic growth through both its own economic activities and the provision of environment-related solutions.

Become a Climate Change Innovator

We are working to realize a “decarbonized society,” a “resource efficient society,” and a “harmonized society with nature,” as defined in our “Environmental Vision” and in our long-term environmental goals, “Hitachi Environmental Innovation 2050.” In particular, we are accelerating our efforts to decarbonize. In addition to the goal of carbon neutrality in our business sites (factories and offices) by fiscal 2030, we have set a goal of achieving carbon neutrality throughout the value chain by fiscal 2050. This goal includes CO2 emissions from our procurement partners and from the use of Hitachi products and services by our customers. By collaborating with customers, partners, and governments, Hitachi will lead the way toward a better world, with the aim of realizing a decarbonized society.

To achieve carbon neutrality in our business sites (factories and offices) by fiscal 2030, we are accelerating the horizontal deployment of best practices from Hitachi Group business sites that have achieved carbon neutrality. In addition, we are planning to invest 84 billion yen over the next 10 years to accelerate our internal environmental initiatives. This will be used to install/upgrade high-efficiency equipment, reduce production energy through measures to improve production efficiency by utilizing production technology and Lumada, which we have cultivated over many years, and introduce renewable energy facilities.

We have also established the Hitachi Internal Carbon Pricing (HCP) system to provide incentives for capital investment that contribute to CO2 reduction. In April 2021, we introduced an evaluation standard for executive compensation that takes environmental value into account.

Efforts Toward Achieving a Decarbonized Society in Business Sites (Factories and Offices)

<table>
<thead>
<tr>
<th>FY2020 (result)</th>
<th>FY2021 (target)</th>
<th>FY2030 (target)</th>
<th>FY2050 (target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction rate of total CO2 emissions (base: FY2016)</td>
<td>39%</td>
<td>20% or higher</td>
<td>100% carbon neutral</td>
</tr>
</tbody>
</table>

Hitachi's Commitment to the Environment

Environmental Vision

Hitachi will resolve environmental issues and achieve both a higher quality of life and a sustainable society through its Social Innovation Business in collaborative creation with its stakeholders.

Long-term Environmental Targets: Hitachi Environmental Innovation 2050

For a Decarbonized Society

Achieve carbon neutrality by FY2050 throughout the value chain, (including CO2 emissions by 50% by FY2030 on a 2010 baseline)

Achieve carbon neutrality by FY2030 at business sites (including CO2 emissions by 50% by FY2020 on a 2010 baseline)

For a Resource-Efficient Society

Build a society that uses water and other resources efficiently with customers and society

Efficiency in use of water/energy (compared with FY2010 in its three businesses)

For a Harmonized Society with Nature

Impacts on natural capital

Minimized

Environmental Action Plan

To achieve its Long-term Environmental Targets, Hitachi sets indicators and targets every three years. The “Environmental Action Plan for 2021,” covering the targets for FY2019 through FY2021, is in progress.

Realization of a Decarbonized Society

With the world accelerating its efforts to decarbonize, Hitachi is identifying the needs that are spreading globally and providing solutions that meet those needs. Hitachi’s green technologies and digital innovations help governments, customers, and partners address environmental issues, particularly CO2 emission reduction, and contribute to solving challenges in the area of climate change.

To achieve decarbonization, it is necessary to lead not only the transformation of social infrastructure and systems but also the decarbonization of entire industries. For example, what will be necessary for companies to decarbonize is the visualization of energy usage. Solutions that support the introduction of high-efficiency equipment and systems, support investment decisions, and confirm the status of the shift to renewable energy are important for corporate efforts, therefore Hitachi developed a system that visualizes the usage of renewable energy. Going forward, companies will be able to prove that the electricity they use comes from renewable energy sources by utilizing this system. By developing new systems in addition to the solutions Hitachi already provides, we will support the decarbonization of our customers and procurement partners.

Realization of a Decarbonized Society

Hitachi has been appointed as a “Principal Partner” to sponsor COP26 (the 26th Conference of the Parties of the signatories of the United Nations Framework Convention on Climate Change) to be held this November in Glasgow, U.K. This is a strong commitment to Hitachi’s role as a climate change innovator and the realization of global efforts to decarbonize. As countries accelerate their efforts and actions to achieve the goals of the Paris Agreement and the United Nations Framework Convention on Climate Change, we are proud to play a part, together with the U.K. government, in this effort.

Alistair Dormer, Executive Vice President and Executive Officer, Chief Environmental Officer
Strategy 2 | Enhance Global Competitiveness

Hitachi’s R&D—Value-based Innovation

Over its history of more than 100 years, Hitachi has worked to develop cutting-edge technologies through its R&D activities to create innovation for the future, adhering to the company’s Corporate Mission to “contribute to society through the development of superior, original technology and products.” Since fiscal 2020, we have set the Research & Development Group’s basic policy to “become a global innovation leader driving Society 5.0 and SDGs.” R&D resources are allocated to activities for the Social Innovation Business and future growth, as well as to developing technologies that enhance Lumada’s digital innovation platform, and to create value in three areas of business: the Environment, Resilience, and Security & Safety.

By leveraging the resources of Hitachi ABB Power Grids and Hitachi Astemo, as well as GlobalLogic, acquired in fiscal 2021, we are developing world-leading technology together with strong products and services that support value creation and contribute to the globalization of business and the growth of the Lumada business.

The Strength of Hitachi’s R&D

1 World-leading technology platforms and a value creation cycle

The strength of Hitachi’s R&D is derived from the integration of the Hitachi Group’s technology platforms and expertise in OT×IT×Products, technology development through co-creation with customers and partners, and an established value creation cycle that accumulates know-how from these processes. While adapting to changes in the business portfolio, the Hitachi Group is enhancing technology platforms in future growth areas. We integrated businesses in robotics system integration (Si), energy, and automotive parts into the Hitachi Group through the acquisition of JR Automation and the establishment of Hitachi ABB Power Grids and Hitachi Astemo to create innovations through synergies with Hitachi’s assets.

For example, by combining Hitachi ABB Power Grids’ world-leading grid automation, high-voltage direct current (HVDC), and power transmission and distribution product technologies with Hitachi’s technology platforms, including security, 5G, and artificial intelligence (AI), the Lumada platform will be effectively used to foster businesses that contribute to the environment, such as 100% renewable energy-based power supply services, electric vehicles (EVs) and hydrogen stations, and data center solutions. In areas undertaken by Hitachi Astemo, such as AD/ADAS, e/ev, and advanced chassis, we will leverage Hitachi’s R&D capabilities in areas such as cybersecurity, AI, and over-the-air (OTA) software updates to become a global leader driving the era of CASE (connected, automated, shared, and electric).

We are also reinforcing R&D in areas such as robotics and electric motorization to further advance and innovate core products such as high-speed railways, elevators and escalators, particle beam cancer treatment systems, biochemical immuno-assay systems, inverters, and air compressors, as well as to establish the world-leading technologies that leverage our strengths in OT×IT×Products. Moving forward to the next stage of growth, we will strengthen core Lumada technologies, including 5G and AI, as well as accelerate R&D in quantum computers and regenerative medicine with a medium- to long-term perspective.

2 Incorporating external knowledge through co-creation

Social issues are becoming increasingly complex on a global scale, as in the case of climate change, urbanization, and increasing senior populations. In this backdrop, co-creation with various partners is essential to quickly creating social, environmental, and economic values. As part of its Group-wide co-creation activities, in April 2019, Hitachi launched Kyōsō-no-Mori, an R&D initiative to accelerate the creation of innovations, from its research base at the Central Research Laboratory in Japan. Since the launch, we have sought new business opportunities through events such as ideathons and hackathons, sharing a vision aimed at resolving societal issues together with customers and partners around the globe. To promote collaboration between the co-creation centers located worldwide, the R&D network is being expanded to include the U.S. West Coast, Beijing and Guangzhou in China, and London, U.K. We are also preparing to open a base in West Sydney, Australia, in 2023.

- Communicating a vision to resolve challenges faced by society through industry-government-academia collaboration

Through global industry-government-academia collaborations, we will gain insights into future social issues, create a new vision for achieving both solutions and economic growth, and strengthen activities aimed at communicating this vision to the world. In 2016, we established joint laboratories with the University of Tokyo, Kyoto University, and Hokkaido University to accelerate activities that pick up on changes in customers and society. In 2021, forums were held to communicate a scenario created by the Hitachi-U Tokyo Laboratory to achieve carbon neutrality in 2050, and the Hitachi Kyoto University Lab published BEYOND SMART LIFE, a book that summarizes social issues in 2050 along with social value proposals to resolve those issues by universities and companies. Similarly, outside of Japan, we are promoting activities to contribute to human-centric cities, for example, through a digital city project being undertaken jointly with the prestigious Chulalongkorn University in Thailand, and innovations in the medical field promoted jointly with the city of Liverpool in Australia. Through such joint activities, we are promoting innovations by back-casting from visions of the future.

- Collaboration with start-ups

We are also actively investing in and collaborating with start-ups. The Corporate Venturing Office is actively involved in global innovation ecosystems to exercise open innovation and prepare for the next stage of growth, strengthening activities that pursue both disruptive technologies and business models. Through collaborations with nine start-ups in which Hitachi has invested (as of July 2021), including the health-tech company SOPHIA GENETICS SA, which agreed to a collaboration in March 2021, we are accelerating the creation of new value in fields such as life science, next-generation trust platforms, and computing.

Happiness Planet, Ltd., was established in July 2020 as Hitachi’s first inside-out initiative, with the objective of creating new industries in happiness and well-being amid COVID-19. An app business is being developed to create organizations where, using wearable devices and smartphones to measure people’s sense of well-being and quantify the level of activity in an organization, employees can take positive action toward achieving

- Enhance Quality of Life and increase corporate value for customers

Simultaneously improve the three values for our customers through the six solutions

- Raise social value
- Raise environmental value
- Raise economic value

Strategic Business Areas

IT Energy Industry Mobility Smart Life Automotive Systems

Value & Solutions

Research & Development Group

Co-create Cycle of value creation Develop

Accumulate

OT×IT×Products Technology platforms/Know-how

Societal/ Customer issues Wide-ranging business issues

Products

Products

Products

Products

Products

Products

Products
company objectives. The new company adopts the “Dejima” approach advocated by the Japan Business Federation (Keidanren), which combines the agility of a venture company with Hitachi’s advanced technologies and sales channels to quickly create new businesses capturing changes and needs in society.

### 3 The Lumada ecosystem value creation cycle

Hitachi is expanding the Lumada core and related businesses worldwide leveraging the OT×IT×Products technology platforms and expertise found in the Research & Development Group. One of its greatest strengths is its ability to connect the technology platforms found in the Hitachi Group with the “knowledge” acquired through open innovation by collaborative creation to create value for corporate entities across a wide range of industrial sectors on a global scale.

Hitachi is using “NEXPERIENCE,” an original co-creation methodology, to identify customer issues worldwide, create solutions, and verify value. It is being enhanced to quantify social, environmental, and economic values together with risk assessment, and this advanced “NEXPERIENCE” is evolving into a methodology that enables collaboration with multiple companies or regional communities to resolve challenges in society. Solutions and know-how gained through such activity or achievements by Hitachi and its partners are accumulated in the Lumada Solution Hub, feeding into a cycle to create new value and transcending the boundaries of companies and industries.

### Strengthening R&D and Future Directions

#### Expanding R&D Investment

R&D expenditure in fiscal 2020 was ¥293.5 billion yen, which represents 3.4% of revenues. R&D was conducted to contribute to raising social, environmental, and economic value, and raising the QoL of people. Core technologies, such as AI, electric motorization, security/authentication platforms, 5G, post 5G, robotics, and data science, were strengthened, and research in quantum computers and regenerative medicine were conducted as disruptive technologies for the future.

R&D investment decreased temporarily in fiscal 2019 and 2020, due in part to a reshuffling of the business portfolio, but in fiscal 2021, investments will be increased targeting growth in the environment and digital technologies, while further increasing R&D efficiency.

R&D investment is planned to increase up to 1.5 trillion yen over the three years from fiscal 2022 to 2024. The following areas identified by back-casting from society in 2050 are examples of key target areas for Hitachi’s R&D activities: hydrogen-powered mobility and energy storage for decarbonization and the circular economy; water and carbon cycle systems; mobility-related technologies supporting the expansion of spaces for economic activities resulting from the evolution of electric motorization technologies; addressing the cell industry that has arisen from advances in biotechnology; acceleration of technology development spurred by the development of quantum computers; the area of data trust supporting the growth of the data distribution industry; and product innovations that support these fields. Hitachi will continue to provide value through the medium to long term by collaborating with regional academia, research institutions, and start-ups as well.

#### Increase R&D investment for growth in the Environment and Digital fields

<table>
<thead>
<tr>
<th>R&amp;D Investment (billion yen)</th>
<th>R&amp;D expenditure/Revenues (%)</th>
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<tbody>
<tr>
<td>2016</td>
<td>200</td>
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<tr>
<td>2017</td>
<td>200</td>
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<td>2018</td>
<td>200</td>
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<td>2019</td>
<td>200</td>
</tr>
<tr>
<td>2020</td>
<td>200</td>
</tr>
<tr>
<td>2021</td>
<td>200</td>
</tr>
</tbody>
</table>

Hitachi Group R&D Portfolio

- Corporate, others: 19%
- Automotive Systems: 16%
- Smart Life: 20%
- Mobility: 10%
- Energy: 11%
- IT: 3%
- Laid-off subsidiaries: 13%

Value-based R&D

Hitachi promotes value-based R&D with a view toward the future, striving to enhance technology platforms and create innovations that contribute to increasing value in three areas: the Environment, Resilience, and Security & Safety.

#### Environment

In the environment area, we will provide technologies that contribute to the realization of a decarbonized society through fundamental solutions that include renewable energy and the shift to electric motorization and hydrogen fuels.

- **Initiatives in electrification**

  In the field of electric motorization, with growing demand to accelerate the proliferation of electric vehicles to realize a decarbonized society, we developed a compact, high-output 800-V converter, which halves charging time while providing comfortable acceleration, that was awarded with the Ichimura Prize in Industry against Global Warming in March 2021. This achievement was made possible by the development of a double-sided direct water-cooled power module with outstanding insulated heat dissipation characteristics, offering both high-withstand voltage and cooling performance, which enabled us to increase the inverter’s voltage even while reducing its size and increasing output. In this way, we increased the electric vehicle system voltage to 800 V from past levels of around 400 V. For industrial applications, we developed an amorphous motor based on IES standards for energy conservation with a magnet that does not use rare earth metals and incorporated it into a scroll-type compressor, creating a highly efficient, quiet, and compact industrial air compressor that contributes to reducing CO₂ emissions in industrial devices. This product was awarded the 52nd Ichimura Prize in Industry against Global Warming, Achievement Award and the 66th Okochi Memorial Production Prize for technologies related to high-speed railway rolling stock. We will continue our efforts to further increase the efficiency of electric drive systems. Hitachi has also produced TEO-MOS®, an original SiC power device that offers both durability and low power consumption characteristics. In addition to maximizing drive efficiency in electric drive systems and achieving carbon neutrality in fiscal 2030 in Hitachi’s in-house production, we will support reduction in power consumption and CO₂ emissions in a variety of societal infrastructures, including electric vehicles, railways, power systems, and data centers, contributing to the realization of a carbon-free society.

- **Activities in the field of energy**

  In the energy field, Hitachi is focusing on digitalization, providing power system control and energy management systems that accommodate the growing introduction of renewable energy to contribute to a decarbonized society. We are conducting performance tests using simulations to realize high-volume systems and stable operations in renewable energy based on the world's first risk prediction type online grid control that combines normal operation and emergency measures. In demand-side energy management, we will increase the efficiency of energy operations at offices and plants, using Lumada to conduct integrated analyses of real-time forecasting and historical data in Hitachi ABB Power Grids’ e-mesh™ EMS solution, which optimizes operational settings for distributed and renewable energy power sources.
In January 2021, we developed a system to visualize renewable energy usage for each facility and service. Smart meters were added to various facilities at customer sites, and blockchain technology was used to manage the electric power source by facility unit. This will enable digital certification of 100% renewable energy use by product or service. We have already begun operation of a Powered by Renewable Energy system verifying that renewable energy accounts for 100% of the electric power used in the “Kyōsō-no-Mori” facility of Kyōsō-no-Mori. Moving forward, to develop a solution to tackle climate change by expanding these operations to include all aspects of the supply chain, including authentication in green procurement and the product usage and disposal stages, in collaboration with partner companies in various industries.

Initiatives for hydrogen energy

In hydrogen production systems using facilities, we are developing systems and materials technologies that will contribute to a sustainable hydrogen value chain. Regarding hydrogen systems, we are working with Denyo Kosan and the National Institute of Advanced Industrial Science and Technology (AIST) to increase the efficiency of hydrogen-lithium mixed combustion power generation systems in Fukushima prefecture. In relation to changing compositions of diverse fuel types, we are applying AI control technology to increase efficiency. In hydrogen production systems, we have reduced water resource usage volumes by 30% compared to the past using Hitachi’s original shift catalysts, which are structurally controlled to the molecular level. We are conducting verification tests on the Osaki CoolGen Project with the New Energy and Industrial Technology Development Organization (NEDO) to achieve high-volume, low-cost, sustainable hydrogen manufacturing.

Resilience

Hitachi is also promoting R&D that contributes to improving customers’ business resilience in response to changes in society and the environment, as well as the resilience of societal infrastructures that use digital technologies to support rapid recovery from natural disasters, pandemics, and cyberattacks.

In 2020, Hitachi’s Omika Works became the first factory operated by a Japanese company to be listed in the World Intellectual Property Organization (WIPO) copyright database. This addition to the database benefits customers by reducing counterfeiting and the sale of products that use Hitachi’s technology.

In our IP strategy for collaboration, as opportunities for co-creation with our customers and partners increase through the Lumada business, we have expanded the scope of our IP activities to include not only copyrights, patents, and trade secrets but also information assets such as data and software. The intent is to evolve from a single patent to a complete patent portfolio and digital solutions, fields, and “IP for society,” in which we strive to resolve social issues through the Social Innovation Business.

The IP strategy for competitiveness is centered on acquiring and utilizing patents and other IP rights. “IP Master Plans” customized for the nature of each business are formulated and implemented to enforce competitiveness.

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Further Evolution of Lumada

Hitachi is strengthening R&D in the fields of AI, beyond 5G/G6 wireless communications, and quantum computers, as Lumada’s core technologies, to contribute to the further evolution of Lumada and to growth in the medium and long term.

In February 2021, Hitachi established “principles guiding the ethical use of AI” to promote the development of AI technologies that support a human-centric society. Checklists in line with these principles are already being applied to actual projects at the Lumada Data Science Lab. To further enhance AI technology capabilities, we are actively participating in international AI competitions and have received top class evaluations in the fields of image and language processing. The technologies cultivated through such activities will also be applied to Lumada-related solutions, including high-speed human detection and tracking.

Initiatives in Intellectual Properties (IPs)

To achieve SDGs and business growth, Hitachi has formulated and implemented intellectual property (IP) strategies that consist of three pillars: “IP strategy for competitiveness,” “IP strategy for collaboration,” and “IP for society.” We have been working on IP strategy development and utilizing patents and other IP rights. “IP Master Plans” customized for the nature of each business are formulated and implemented to enforce competitiveness.

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Global Human Capital that Provides Value to Society through the Social Innovation Business

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. 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 capital management in a bid to spur innovation and create new value in the global and digital era. We are also striving to cultivate a common Hitachi Group Identity in all employees worldwide, along with the values of Harmony, Sincerity, and Pioneering Spirit that comprise the Hitachi Founding Spirit, so that we can work as One Hitachi across countries, regions, and divisions to contribute to society.

Global Human Capital Management Strategy

It is none other than the 350,000 employees of the Hitachi Group who bring about innovations and support the company’s growth. In order to become a world leader in the Social Innovation Business, Hitachi has implemented a global human capital management strategy to ensure that its diverse workforce can work with a high level of engagement across countries, regions and companies, and that individuals and organizations can demonstrate their full potential. At the same time, to further grow the Social Innovation Business on a global scale, it is important to secure, assign and train optimum human resources, regardless of nationality, gender, age or other attributes, so that global-scale projects can be executed as One Hitachi. If we are to propose innovative solutions to customers and society, it is essential that each and every employee sees social issues as his or her own, and that these employees have the personal drive to bring about change. As such, cultivating a corporate culture that supports this approach is a key issue in talent management.

Diversity & Inclusion

Hitachi is keen to create companies where employees with diverse cultural backgrounds, experiences and ways of thinking can work together. The “Statement on Diversity and Inclusion” was created to demonstrate our commitment. Diversity is the wellspring of our innovation and our growth engine. Hitachi regards personal differences such as gender, nationality, race, religion, background, age, abled or disabled status, 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.

In 2010, Hitachi made a major change in its management directions, aiming for global growth through the Social Innovation Business. Since then, we have invested efforts into re-examining and executing talent strategies to support that growth. As of the end of March 2021, the number of Hitachi employees working overseas reached 190,000, and as the scale of overseas business increased, so too did the ratio of overseas business as part of Hitachi overall. With a view toward these changes in the company, in our HR strategies, we have promoted global human resource management that uses unified performance evaluation criteria and offers a common leadership development program for employees around the world.

By building workplaces for diverse workforce with diverse values while responding to changes in the company and in society, and by putting in place frameworks that enable each individual employee to demonstrate their value to the fullest, we are accelerating the creation of value on a global scale through the Social Innovation Business.

To further accelerate activities at the global level, we have incorporated “Diversity and Inclusion” into our business strategies. These are led by Lorena Deliagiovanna, Hitachi’s first female Vice President and Executive Officer, who serves in the capacity of Chief Diversity and Inclusion Officer (CDIO). We believe it is 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, and bring great value to business and society.

To further progress diversity and inclusion throughout the Hitachi Group as a whole, we have included D&I as a theme at the Sustainability Strategy Meeting (the Diversity and Inclusion session), where members discuss sustainability from a management perspective and the Group Diversity and Inclusion Council, which meets once each year to discuss issues related to diversity. The Sustainability Strategy Meeting focuses on creating policies along with the management team, defining priorities on initiatives and investments, and sharing learnings from various activities, while the main goal of the Diversity and Inclusion Council is to ensure alignment with global strategies and discuss specific actions in partnership with HR Divisions at Hitachi Group companies. In addition, Group companies are also advancing diversity management in accordance with their respective challenges and circumstances at the global level. With Group companies around the world, we are working together to accelerate implementation.

Target and Actions for Diversity & Inclusion

As part of activities aimed at achieving these goals, in fiscal 2020, we analyzed current conditions and conducted a gap analysis using external evaluation data, and also conducted interviews with business division staff. Based on the results, in April 2021, we created a Diversity & Inclusion strategy that lays out medium- and long-term goals. This strategy includes a Diversity & Inclusion goals set for individual business divisions, corporate divisions, and Group companies. When setting these goals, we conducted one-on-one meetings with the CDIO and division managers to discuss how Diversity & Inclusion relate to issues in Hitachi’s various business divisions, which undertake business in diverse markets and industries.

In the past, Hitachi set numerical targets (KPIs) of 10% for the ratio of both women and non-Japanese among top executives (Executive Officers and Corporate Officers), and the appointment of 800 women to management positions, to promote participation by people with different backgrounds in management decision-making, and to place more female employees in leadership roles.

In terms of empowering female employees, we have put in place structures that enable participation by more women in management decision-making. For example, we appointed one female executive level corporate officer in April 2015, and Lorena Deliagiovanna was appointed Vice President and Executive Officer in April 2021, becoming Hitachi’s first female executive officer. As a result, in April 2021, there were seven female executives, meeting our target of 10%. Furthermore, in October 2020, we reached our goal of appointing 800 female managers by fiscal 2020, doubling the number compared to fiscal 2012, forming a substantial population of female candidates for executive leadership in the future.

In terms of promoting active participation by non-Japanese, six out of 13 current board directors are non-Japanese, and April 2021 saw the appointment of three new non-Japanese to the executive officer structure: Lorena Deliagiovanna as Vice President and Executive Officer, Claudio Facchin as Senior Vice President and Executive Officer and Wolfgang Mueller as Corporate Officer. There are now eight non-Japanese among Hitachi’s executive level, once again reaching our goal of 10%. To further accelerate Diversity & Inclusion, in April 2021, we set a new target of 30% for the ratio of both women and non-Japanese among top executives (Executive Officers and Corporate Officers) to be reached by fiscal 2023”, with a milestone of 15% to be reached by fiscal 2024. We have also set targets for diversity and gender (female managers) at the decision-making level, for business units, corporate functions, and Group companies, respectively. By promoting Diversity & Inclusion, we will continue to reflect diverse, global perspectives in management and strengthen management supervision functions. Diversity and inclusion at Hitachi matters, not just with respect to women and non-Japanese nationals, but embracing all aspects of diversity as stated in our “Statement on Diversity and Inclusion.” For example, to promote generational diversity, the CDIO has participated in the Talent Committee and is mentoring emerging talent in addition to ad hoc programs, and the Hitachi Group has joined “The Valuable 500,” a global movement for disability inclusion. We will continuously work to create an inclusive environment where all employees can fulfill their potential.

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The development of the Social Innovation Business requires cooperation with customers to create all new solutions. With us, to actively investigate social and customer issues and then...
Hitachi is implementing measures to further increase profitability and strengthen the management base. In terms of financial capital strategies, we are accelerating activities in four key areas: 1) further improve profitability through stringent ROIC management, 2) improve capital efficiency by increasing the business asset turnover rate, 3) reduce the WACC using leverage within the scope of appropriate financial discipline, and 4) increase total shareholder return (TSR) through the execution of TSR measures that take into account not only dividends but also share buybacks.

### Progress of ROIC Management

**Promoting ROIC Management with a Higher Awareness of Capital Costs**

In its 2021 Mid-term Management Plan, Hitachi implemented growth investments of approximately 2.9 trillion yen focusing mainly on the IT, Energy, and Industry sectors, with the goal of becoming a global leader in the Social Innovation Business. To ensure the efficient execution of these large-scale growth investments, we introduced return on invested capital (ROIC)*1 as a corporate management index in fiscal 2019. ROIC indicates how much profit (after-tax business profit) can be generated on capital invested in a business. To improve ROIC, returns must exceed the weighted average cost of capital (WACC), which is the financing cost of invested capital. Since introducing ROIC, understanding of this approach has penetrated to the front lines, and we are promoting management with an awareness of profitability as well as capital costs throughout the Group as a whole. Our goal is to increase ROIC from 6.4% at the end of fiscal 2020 to more than 10% at the end of fiscal 2022.

**Increase after-tax business profit**

- Increase working capital turnover
- Increase fixed asset turnover ratio
- Reduce cash on hand and financial-bearing debt

**Improve asset efficiency (improved invested capital – business efficiency)**

- Increase working capital turnover
- Increase fixed asset turnover ratio
- Reduce cash on hand and financial-bearing debt

**Improve ROIC**

- ROE increase drivers

**Increase after-tax business profit**

- Increase working capital turnover
- Increase fixed asset turnover ratio
- Reduce cash on hand and financial-bearing debt

**Progress of ROIC Management**

<table>
<thead>
<tr>
<th>Example of major active item</th>
<th>Increase after-tax business profit</th>
<th>Reduce costs</th>
<th>Reduce tax expenses</th>
<th>Improve asset efficiency (improved invested capital – business efficiency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(to be further broken down and assigned to each division)</td>
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<td>(to be further broken down and assigned to each division)</td>
</tr>
</tbody>
</table>

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*1 ROIC = NOPAT / Share of profits (losses) of investments accounted for using the equity method
*2 NOPAT (Net Operating Profit after Tax) = Adjusted Operating Income x (1 – Effective Income tax rate), Invested Capital = Interest-bearing debt + Total equity
*3 CCC (Cash Conversion Cycle)

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**Financial and Capital Strategy**

### Strengthening Cash Management

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

**Financing and Capital Strategy**

Financing is carried out through the means deemed most appropriate (e.g., cash on hand, borrowings, and gains from the sale of assets), based on a variety of conditions, including the timing and amounts required by the business. When financing through borrowing and other forms of debt, our financial discipline is to maintain a D/E ratio of less than 0.5 times and an interest-bearing debt/EBITDA ratio of less than 2.0 times. Regarding the cost of capital (hurdle rate) used for individual investment decisions, calculations and judgments are made on a case-by-case basis considering interest rates, country risks, and expected returns in the country where the investment will be made.

### Capital Allocation

**Basic policies in the 2021 Mid-term Management Plan**

- Secure capital by increasing operating cash flow
- Implement growth investments to strengthen products and services and secure human resources as required to provide solutions and expand the digital solutions business
- Ensure stable growth in dividends

**Future capital allocation policies**

- Secure operating cash flow through business growth and continue to secure capital by selling off assets
- Continue growth investments in the Environment, Resilience, and Security & Safety
- Strengthen returns to shareholders by steadily increasing dividends and considering share buybacks based on business growth, asset sell-offs, and the status of stock prices
- Over the three years from fiscal 2022 to fiscal 2024, increase R&D investments to 1.5 trillion yen and strengthen R&D targeting future growth

### Basic Policy on Shareholder Returns

Returning profits to shareholders based on medium- and long-term business plans and achieving growth in total shareholder return (TSR) through the formation of appropriate stock prices are positioned as important management themes for Hitachi. Our policy is to provide stable dividend growth while securing the internal capital required to execute the R&D and capital investments that are essential to maintaining market competitiveness and increasing profits. Under this policy, we make decisions based on overall consideration of performance trends, financial conditions, and dividend payout ratios, among other factors. Share buybacks are undertaken within a scope that is consistent with dividend policies to enable the execution of agile capital policies, including studies and implementation of buybacks with a view toward stock price conditions and the need for growth investments based on capital and business plans, as well as business reorganizations aimed at maximizing shareholder value in the future. Moving forward, we will continue working to steadily increase dividends, based on our policy of strengthening returns to shareholders. We will also explore share buybacks to reliably share the benefits of business growth with shareholders.
Growth Investments Made to Date

In the 2021 Mid-term Management Plan, Hitachi expanded the Lumada business by positioning the IT, Energy, and Industry sectors as key investment fields for growth. Following is a list of the main M&A projects undertaken to strengthen businesses.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Company (Acquisition price*)</th>
<th>Acquisition data</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>EuroTech</td>
<td>April 2020</td>
<td>Accelerate the growth of the Lumada business through the acquisition of the AI and data analytics business in Asia.</td>
</tr>
<tr>
<td></td>
<td>Hitachi Channel Solutions</td>
<td>March 2021</td>
<td>Accelerate management set up with Hitachi Ltd. and increase the speed of management and decision-making.</td>
</tr>
<tr>
<td></td>
<td>GlobalLogic (Approx. 1 trillion yen)</td>
<td>July 2021</td>
<td>Acquire GlobalLogic’s global customer base and digital engineering capabilities to accelerate the growth of the Lumada business</td>
</tr>
<tr>
<td>Energy</td>
<td>ABB’s grid business (Approx. 1 trillion yen)</td>
<td>July 2020</td>
<td>Acquire the another global player in grid business, human resources, back-office functions and other operational infrastructure to accelerate the transformation of Hitachi into a true global company.</td>
</tr>
<tr>
<td>Industry</td>
<td>KEC</td>
<td>April 2019</td>
<td>Hitachi ABB Power Grids’ global operations. By increasing the role of Hitachi ABB Power Grids in the global customer base, Hitachi would leverage measurement and analysis technologies to accelerate growth in the robotics solutions business.</td>
</tr>
<tr>
<td>Mobility</td>
<td>Smart Life</td>
<td>December 2019</td>
<td>Hitachi would leverage measurement and analysis technologies to accelerate growth in the social innovation business.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Source</th>
<th>Company</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hitachi High-Tech (became a wholly owned subsidiary) (Approx. 530 billion yen)</td>
<td>October 2020</td>
</tr>
<tr>
<td></td>
<td>Established Hitachi Astemo through an integration with Showa Koushin Kenpo Kogyo Co., Ltd. (Approx. 600 billion yen)</td>
<td>January 2021</td>
</tr>
</tbody>
</table>

*1 Amounts are indicated only for acquisitions with prices higher than 1 trillion yen.
*2 On July 1, 2021, Hitachi-Omron Terminal Solutions changed its name to Hitachi Channel Solutions.

Strengthening the Management Base through the Standardization of Global Operations

Hitachi is strengthening the Company-wide management base through a digital transformation that leverages the platforms of Hitachi ABB Power Grids, which are based on global operational know-how. We will further strengthen synergies while reducing costs, by fostering shared ERP, introducing global shared services, and building Group-wide CRM. Construction and studies are ongoing through fiscal 2021, with plans to gradually introduce these platforms from fiscal 2022 onward. In this way, we expect to achieve a cumulative cost-reduction impact of 170 billion yen by fiscal 2025.

Standardization of Enterprise Resource Planning (ERP) Systems

Hitachi is consolidating and standardizing the ERP system applications that have been used separately at individual Hitachi Group companies. In the context of these activities, Group companies will adopt ERP templates that are based on Hitachi ABB Power Grids’ global operations. By increasing the efficiency of application operations, we will shift resources, including both human resources and assets, to business competition fields, and enable a rapid response to business recognition. Companies that have started early introduction are scheduled to be completed before the end of June 2022, with integration and consolidation according to industry type to be completed by 2027.

Expanding Shared Services

Hitachi is expanding services that allow Company-wide management division operations to be used throughout the Group as Global Business Services (GBS). We are building global operation platforms and applying this GBS approach to optimize the operation of shared IT assets, as well as the global uniformity and operating efficiency of services and operations. Moving forward, we will use Hitachi ABB Power Grids’ core business systems and infrastructure service platforms to promote standardization within the Group to achieve an IT operation platform that supports global business activities and to provide this platform as a global shared service.

Building Customer Relation Management (CRM) Systems

Hitachi will accelerate the creation of value for customers by centralizing information on the Hitachi Group’s global customers in multiple industries through shared Company-wide CRM. Up to now, individual business units and Group companies managed customer information using their respective systems, approaching customers from a front-office perspective. Now, by also centralizing information from Hitachi ABB Power Grids, which has a customer channel comprising more than 15,000 companies, we will promote collaborations that transcend business divisions and strengthen approaches to customers. Furthermore, by linking management-related data lakes, we will accelerate not only the analysis and management of customer information but also decision-making. System construction is scheduled for completion by fiscal 2022, and the scope of operations will be expanded gradually after that.

Restructuring 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. Although the number of consolidated subsidiaries increased because of M&A activity, at the end of June 2021, there were 865 consolidated subsidiaries (157 in Japan and 708 overseas), a decrease of 51 companies from the end of March 2020. Regarding listed subsidiaries, in April 2020, Hitachi sold shareholdings in Hitachi Chemical to Showa Denko and, in May 2020, Hitachi acquired the remaining shares in Hitachi High-Tech, turning that company into a wholly owned subsidiary of Hitachi Ltd. Hitachi Metals is scheduled to be sold off before the end of the financial year. This leaves Hitachi Construction Machinery as the last remaining listed subsidiary, and Hitachi continues to review its capital policy regarding this company. We will also continue to study and execute the sell-off of non-core businesses and measures targeting low-margin businesses.

Ensuring Financial Stability

Ensuring the stability of the financial base is an important management issue. For this reason, we will continue our financial discipline policy of maintaining an A rating on issued instruments and a D/E ratio of less than 0.5 times. At the same time, we will ensure a return of profits with an awareness of shareholder returns, for example, through growth investments and continued increases in dividends. Our ability to generate cash is increasing steadily, and our ratings are as shown in the table below.

<table>
<thead>
<tr>
<th>Rating company</th>
<th>Long-term</th>
<th>Short-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s Japan K.K.</td>
<td>A3</td>
<td>P-2</td>
</tr>
</tbody>
</table>

Financial Analysis of the Past Five Years

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

- The adjusted operating income ratio has increased. In fiscal 2020, despite the harsh business environment resulting from the COVID-19 pandemic, the profit ratio stayed above 5%.
- As a result of strengthened cash management, in fiscal 2020, cash flows from operating activities reached approximately 800 billion yen, exceeding adjusted operating income. The operating cash flow margin was the highest ever, at 9.1%.
- As a result of M&A at building the business portfolio, interest-bearing debt increased, resulting in a D/E ratio of 0.54x. We will reduce interest-bearing debt and quickly improve the D/E ratio by increasing operating cash flows and selling off assets.
- The payout ratio has remained between 20% and 30%, and the total of dividend payments has increased.

Adjusted operating income ratio (%)

<table>
<thead>
<tr>
<th>Years</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>2.4%</td>
<td>7.6%</td>
<td>8.0%</td>
<td>7.5%</td>
<td>5.7%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Trends in dividends

<table>
<thead>
<tr>
<th>Years</th>
<th>Total amount of dividends</th>
<th>Total amount (bn yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2,268.4</td>
<td>2,221.9</td>
</tr>
<tr>
<td>2017</td>
<td>1,895.0</td>
<td>1,895.0</td>
</tr>
<tr>
<td>2018</td>
<td>1,863.6</td>
<td>1,863.6</td>
</tr>
<tr>
<td>2019</td>
<td>1,977.6</td>
<td>1,977.6</td>
</tr>
<tr>
<td>2020</td>
<td>1,830.8</td>
<td>1,830.8</td>
</tr>
<tr>
<td>FY End</td>
<td>101.5</td>
<td>101.5</td>
</tr>
</tbody>
</table>

Total Shareholder Return (TSR)

The following illustrates Hitachi’s TSR, with fluctuations in dividends and stock price reflected. 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.
First, please give us your thoughts on your first year since being appointed CFO.

The COVID-19 pandemic, which broke out in 2020, is unprecedented in the history of modern management in that this infection, representing a unique external variable, has astounded the economic system creating a huge impact. The thing that I emphasized first amid this crisis was returning to the basics of financial management, that is, cash flow management. We strengthen cash flow management with overall coordination of elements such as working capital, R&D investments, capital investments, and fixed costs and, as a result, in the fiscal 2020, despite a decrease in revenues and profit, the cash flow margin from operating activities was 9.1%, the highest in Hitachi’s history.

We have been applying ROIC management since the first year of the 2021 Mid-term Management Plan. In addition to using online meetings worldwide, we entrench this approach within Hitachi by conducting regular training to encourage a deeper understanding of ROIC and weighted average cost of capital (WACC). I feel that by increasing the awareness of all employees through these types of day-to-day activities, the ROIC tree is tied directly into concrete actions in the various workplaces. We disclose ROIC for each sector to outside parties as well, and within Hitachi, we can monitor each business in even greater detail. ROIC is included in all in-house business strategy for Hitachi’s leadership role in management as we undertake activities that tie into increased corporate value.

In capital allocation, we have no immediate plans for large-scale loans or capital increases, but we will continue to increase operating cash flow through growth investments and secure funding by constantly switching out assets. We consider returns to shareholders to be an important theme. Our internal discussion about one-third of capital to each of three areas: returns to shareholders and repayment of loans, growth investments, and capital investments. We will also further enhance R&D investments, targeting cumulative investments of about 1.5 trillion yen over the three years from fiscal 2022. Growth investments are growth drivers that increase enterprise value. There are two ways of achieving our goals for growth investments: “organic growth,” where we increase the added value of Hitachi’s own killer technologies, as in the case of particle beam therapy systems, and “inorganic growth,” which is achieved by incorporating businesses from outside, like when we acquired ABB’s power grids business. Capital growth strategies comprise regional strategies and sector strategies with a three-dimensional approach, considering the timeline for investment efficiency.

In regional strategies, we monitor the status of marginal income (increased profits in line with additional invested resources) for both the domestic and overseas business, and we are shifting the focus toward businesses with higher marginal income (overseas business in many cases). Moving forward, it will become increasingly important to factor in our global strategies and design optimum strategies specific to each region. There are two important elements to the sector strategies: the perspective of market positioning for Hitachi’s products and services (positioning strategy), and resource-based strategies, which leverage Hitachi’s technical superiority and other resources. In addition, we will back-cast from an ideal form of the future and study capital allocation taking into account R&D investments, M&A targets, and the economic and management viability of those initiatives.

Please tell us your thoughts on non-financial KPI information and disclosure of that information.

There are four important non-financial KPIs: governance, climate change measures, the value of human resources, and the happiness of human society. Governance can be very difficult to present in the form of a KPI but in addition to the diversity background and experience of the people who make up the Board of Directors, my goal is to be able to explain to outside parties how these directors engage in exchanges of constructive criticism with the executive side, as well as discussions related to ethical behavior at board meetings.

In climate change measures, Hitachi has set a target KPI of achieving carbon neutrality in our own operations by 2030, and we are accelerating these activities. We need to look at this problem from a broader perspective, however, so I believe we must show an aggressive stance and involvement in activities targeting this problem, while introducing how Hitachi will reduce CO 2 emissions in an economic society and how we can contribute to the global environment, presenting actual examples of R&D activities and specific contributions through business.

In terms of the value of human resources, first, it is important to explain clearly how we encourage diversity and inclusion within Hitachi. I can say with confidence that by fostering and training our people worldwide through day-to-day corporate activities in which we cultivate our technical strengths, we support the international competitiveness of Japan as a whole. I would like to set this as a kind of KPI, as a means of communicating Hitachi’s contributions.

Finally, and I think that this is the most important perspective, there is the question of whether our corporate activities help to improve the public welfare; in other words, whether people’s lives are more culturally oriented, healthier, and richer because of our corporate activities. This is the starting point for all corporate activities, so I want to keep this in mind as a corporate citizen and ensure that we continue to ask these questions of ourselves.

My approach to non-financial KPIs is to maintain a focus on these four perspectives and use these as key indexes for management as we undertake activities that tie into increased corporate value.
Since the start of the COVID-19 pandemic in 2020, the digital transformation, which reshapes companies and society through digital technologies, has accelerated even further worldwide. The digital transformation has the power to move not only business models at individual companies but also market structures and society. As a variety of issues come to light—for example, climate change, aging social infrastructures, and the growing senior population—the IT sector brings about the digital transformation for customers and society by applying data and digital technologies such as AI and IoT, and contributes to improving people’s quality of life and increasing corporate value.

**Market Environment**

Even amid the continuing unpredictable economic conditions brought about by the spread of COVID-19, global IT investments are expected to expand steadily, while Europe and North America are expected to be huge markets that account for roughly two-thirds of the global market. Global digital transformation (DX) investments are also expected to expand rapidly in all industries, with the average annual growth rate predicted to reach 15% by 2024. Meanwhile, in Japan, even as traditional IT investments remain flat, DX investments are expected to continue growing, due to the shift to the cloud and the use of AI, mainly in public services and financial institutions.

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

**Strengthening support for customers’ digital transformation (DX) and expanding the global business**

In the IT sector, for some time now, we have strived to transform Hitachi into a global leader and promoted the global rollout of the Lumada business, mainly through our U.S. subsidiary, Hitachi Vantara, taking advantage of the track record we have built in Japan. We will accelerate this transformation by accurately identifying needs in regions throughout the world, based on our management policies of strengthening support for customers’ digital transformation (DX) and expanding the global business.

The acquisition of GlobalLogic in the United States, which was completed on schedule in July 2021, was one of the concrete measures for achieving this goal. GlobalLogic is a leading company that uses digital technologies to innovate customers’ business through advanced digital engineering and experience design capabilities. It has a customer base comprising more than 400 companies worldwide and has many outstanding digital technology specialists at its eight co-creation design centers and 30 delivery bases. When providing digital transformation support to customers, it is essential to first identify the customer’s management issues and to propose and offer appropriate solutions. Co-creation with customers, backed up by innovative digital engineering capabilities, is critical to the success of this approach. Highly reliable SI capabilities are also required to integrate those solutions with the customer’s existing operating systems. In the IT sector, we will accelerate growth in the digital transformation market, which is expanding on a global scale, by combining the strengths of Hitachi and GlobalLogic.

Specifically, we will expand the global business not only through cross-selling but also by working with GlobalLogic to promote business that applies software assets scaled through the Lumada Solution Hub, based on more than 1,000 Lumada customer cases already accumulated by Hitachi. We will also increase the added value of Hitachi’s products through GlobalLogic’s digital engineering capabilities and tie this into the development of new Lumada solutions that bring about digital transformations in social infrastructures. In this way, we will utilize the business footprint of companies such as Hitachi ABB Power Grids, Hitachi Rail, and JR Automation in North America and Europe, the world’s largest IT markets, and rapidly expand the global rollout of the Lumada business.

**N-fold expansion of the Lumada business**

To expand the Lumada business, we are promoting the N-fold expansion of solutions and services provided to customers (Scale of Digital). For example, using Hitachi’s original annealing-based quantum computer "CMOS annealing" (combination optimization processing technology), known as quantum-inspired computers that do not make use of quantum effects, and by working with customers in a wide range of industries, including Sompo Japan Insurance, the Sumitomo Mitsui Financial Group and KDDI Research, we conduct tests, develop and improve solutions to solve a variety of combination optimization problems.
In the energy market, while activities targeting to enable a decarbonized society are accelerating, the demand for electric power is expanding due to the electrification of transport and industry, as well as economic growth and increasing populations in emerging countries. The Energy sector, Hitachi will support the expansion of clean energy, which contributes to the reduction of CO₂ emissions, through the power grids, energy, and nuclear energy businesses. Furthermore, we will strive to build a society where people can use electricity safely and securely by supporting efficient energy infrastructure operations and the stable supply of electric power.

Results and Forecasts

<table>
<thead>
<tr>
<th>Business Unit</th>
<th>FY2019 (Results)</th>
<th>FY2020 (Results)</th>
<th>FY2021 (Forecast)*1</th>
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<tbody>
<tr>
<td>Nuclear Energy BU</td>
<td>1,107.9 billion yen</td>
<td>1,320.0 billion yen</td>
<td>1,320.0 billion yen</td>
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<tr>
<td>Energy BU</td>
<td>390.2 billion yen</td>
<td>350.8 billion yen</td>
<td>350.8 billion yen</td>
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<tr>
<td>Power Grids BU</td>
<td>756.4 billion yen</td>
<td>756.4 billion yen</td>
<td>756.4 billion yen</td>
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<tr>
<td>ROIC (%)</td>
<td>6.4%</td>
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<td>8.1%</td>
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<tr>
<td>Adjusted operating income ratio (%)</td>
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<td>2.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>EBIT ratio (%)</td>
<td>7.8%</td>
<td>8.2%</td>
<td>19.0%</td>
</tr>
<tr>
<td>- Including related costs (%)</td>
<td>3.4%</td>
<td>4.5%</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

Principal Products and Services

- **Nuclear Energy BU**: 15%
  - Nuclear power plant APR
  - Fuel cycle enrichment technologies
  - Nuclear fuel cycle technologies
- **Energy BU**: 17%
  - Energy solutions/services
  - Green business
  - Power services
- **Power Grids BU**: 68%
  - Grid automation and software
  - HVDC high-voltage direct current, HVAC
  - Transformers, substations
  - Wires

Revenues/Overseas ratio

- Nuclear Energy BU: 69%
- Energy BU: 76%
- Power Grids BU: 76%

Market Environment

Activities targeting decarbonization and responses to climate change are accelerating on a national scale, for example, with the United States rejoining the Paris Agreement; more than 120 countries and regions, including Japan, declaring their intention to achieve carbon neutrality by 2050 (as of April 2021); and the 26th UN Climate Change Conference of the Parties (COP26) scheduled to be held in November 2021. Given this backdrop, investments in renewable energy, which does not emit CO₂ emissions when power is generated, are increasing substantially, and it is expected that the share of renewables in the global electricity supply will rise from 27% in 2019 to 60% in 2050*2. Global demand for electric power is also expected to increase dramatically in the future, for example, because of increasing demand for data centers, the spread of electric vehicles, and electrification in industrial fields, as well as growing urbanization and economic growth in emerging countries.

To respond to constantly increasing demand for electric power while striving to achieve carbon neutrality, we need to overcome a variety of issues. For example, we need to develop new business and services quickly and flexibly, enabling even more advanced banking operations.

In this way, we contribute to expanding business, especially for regional financial institutions, and to the revitalization of regional economies.

**Resilience** | Supporting DX in mission-critical backbone systems

The “2025 Digital Cliff” refers to the many issues likely to arise in legacy systems from 2025 onward in various industries in Japan, as those systems become increasingly complex, obsolete, or more like black boxes. Hitachi responds to these issues by promoting a shift to digital technologies in backbone systems. As an example, for financial institutions, we worked with The Shizuoka Bank in the joint development of a next-generation core banking system that operates on an open platform, yet still offers the reliability and robustness of a mainframe system. That system began operations in January 2021. We now offer the system as a packaged solution, which is being introduced at other financial institutions as well. In September 2020, the system was officially adopted by the Shiga Bank. By applying open technologies in these mission-critical systems, it becomes possible to link and utilize FinTech and other new financial services along with data application services quickly and flexibly, enabling even more advanced banking operations.

In this way, we contribute to expanding business, especially for regional financial institutions, and to the revitalization of regional economies.

**Security & Safety** | Contributing to a secure, safe society through social infrastructure maintenance services

In social infrastructure maintenance, it is increasingly difficult to maintain both costs and service levels from a previous era, due to a decline in maintenance staff resulting from social issues such as the aging population and the deterioration of existing facilities.

In response, Hitachi offers a variety of services and solutions as a social infrastructure maintenance platform, for example, to conduct efficient inspections using various digital technologies such as AI, drones, ground penetrating radar, and water leak sensors. By providing this platform to a wide range of customers, including local municipalities, infrastructure providers and manufacturers, we contribute to minimizing accidents, reducing maintenance costs, and rapid recovery in the event of a natural disaster.

**Environment** | Promoting the use of renewable energy by optimizing the power supply/demand balance

One of the key issues in the expansion of renewable energy is fluctuations in demand for electric power depending on the weather. In this context, measures for increasing system stability will become increasingly important in maintaining the balance of supply and demand.

In May 2021, Hitachi was selected as a system vendor for a "Demand Response Demonstration Project" targeting the optimization of power supply and demand balance in Thailand. The project is being undertaken by the Electricity Generating Authority of Thailand, based on the Smart Grid Development Master Plan, a comprehensive energy initiative led by the Thai government.

On this project, Hitachi will provide integrated management systems that will enable multiple distributed power sources, including renewable energy, to be managed as a single Virtual Power Plant (VPP). Through the efficient operation of Thailand’s power transmission and distribution facilities, we will contribute to building a smart grid system that expands the capacity of renewable energy systems.

Contributing to the Environment, Resilience, and Security & Safety

Hitachi provides customers with social, environmental, and economic value with a focus on three fields: the Environment, Resilience, and Security & Safety. In this way, we strive to contribute to realizing a sustainable society. The IT sector in particular leads the Hitachi Group as a whole toward achieving its goals through the power of digital technologies.

*1 Impact from loss for the settlement on the South Africa projects
*2 From fiscal 2021, figures for the transmission and distribution systems business previously recorded in the Energy BU will be recorded in the Power Grids BU, and the figures for fiscal 2020 have been retroactively adjusted
*3 Announced on July 30, 2021
*4 Source: IEA Global Energy Review 2018 and Net Zero by 2050

Social infrastructure maintenance services

Lumada Manufacturing Insights

Lumada Manufacturing Insights

Value Creation Story | IT Sector

Value Creation Story | Energy Sector

Value Creation

Sustainability

Governance

Data

Vision

Value Creation

Sustainability

Governance

Data

Hitachi Integrated Report 2021
In the Energy sector, we promoted a transition in the business portfolio to resolve these issues in the fields of the Environment, Resilience, and Security & Safety.

In addition to the clean power generation systems business, including renewable energy and nuclear energy, we acquired ABB’s power grids business and established Hitachi ABB Power Grids in July 2020 to strengthen the power grids business, which is expected to see market growth. By acquiring a business platform that picks up on needs throughout the world and has continued to provide the world’s most advanced power transmission and distribution systems, the Hitachi Group has put in place a structure that enables it to resolve customer issues and provide added value for power generation and power transmission vendors as well as users throughout the world.

In parallel with these business reorganizations, to contribute to improving social value, environmental value, and economic value for customers, we are starting high-value-added service businesses and strengthening the solutions business, leveraging the strengths of the Hitachi Group’s OT x IT x Products.

In this way, we will expand the provision of energy solutions that support the digital transformations ongoing in regions throughout the world, not only in the electric power field but also in the development of smart cities, the establishment of data centers, and the electrification in mobility and industry, which are essential to the realization of a sustainable society.

We are also promoting the use of Hitachi ABB Power Grids’ marketing presence, global footprint, and management base, which encompasses 115 plants and 200 offices in 90 countries around the world, within the Hitachi Group. We will undertake a major change in direction toward the expansion of global business and support Hitachi’s management base by strengthening end-to-end customer relations and establishing an IT operation platform through the creation of Global Business Services (GBS) that utilize core business process systems.

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

**Power Grids Business**

- **Becoming an energy platform provider that resolves issues in the fields of the Environment, Resilience, and Security & Safety**

Hitachi’s power grids business provides products, systems, services, and software that are essential to the stable supply of electric power based on advanced engineering capabilities and to enable more efficient power transmission and distribution. The Power Grids BU is focused on high growth market segments, including high-voltage direct current (HVDC), EV charging systems, data centers, and micro-grids, contributing to a more resilient, smarter, cleaner energy supply throughout the world.

In the HVDC field, in February 2021, we received an order for a Voltage-Sourced Converter HVDC (VSC-HVDC) system for the Dogger Bank Wind Farm, the largest of its kind in the world, located in the North Sea about 130 km off the coast of the United Kingdom. The system will connect the offshore wind farm with power transmission networks in the United Kingdom, supporting decarbonization in that country. In Japan, in March 2021, the operation of the Hida frequency converter station was started. It is linked to Tokyo and strengthens electric power ties between East and West Japan, which have different frequencies, and improves the stability of the electric power supply. Hitachi’s HVDC system has been adopted in this converter station.

In the industry field, we launched the “Grid-eMotion™ Fleet,” an EV charging system for electric buses and commercial vehicles, in July 2020, and EconoQ®, a product/service/solution package that supports the realization of carbon neutrality, in April 2021. EconoQ® contributes to the transition to green energy with a superior environmentally efficient portfolio that emphasizes sustainability, for example, with high-voltage switchgears that use no sulfur hexafluoride (SF₆) gases and that have been proven to reduce relative CO₂ emissions by more than 50% throughout the entire life cycle, along with related maintenance services. We provide solutions that support decarbonization and increased resilience throughout the world; for example, in June 2021, we began offering power transmission and distribution systems for floating offshore wind farms.

The operation management solutions provided by Hitachi ABB Power Grids to electric power vendors and to manufacturing, mining, and other industries were integrated into the Lumada platform to accelerate digitalization. Since January 2021, we have been providing three key solutions that support corporate management and operations in a broader range of industries: Asset Performance Management, Enterprise Asset Management, and Field Service Management. In February, we began providing the Smart Digital Substation equipped with predictive diagnosis and failure prediction. Moving forward, we will promote synergies with GlobalLogic, the acquisition of which was completed in July 2021. By combining the world’s leading energy platforms with digital platforms, we will demonstrate value as a global leader in the energy field and contribute to realizing a sustainable society.

**Nuclear Energy Business**

- **Contributing to resolving energy-related issues by placing Hitachi’s Nuclear Knowledge at the core**

In the nuclear energy business, which contributes to a decarbonized society and plays a role in the stable supply of energy, Hitachi leverages its outstanding engineering capabilities and extensive knowledge in this field to further improve safety in the restart of nuclear power plants in Japan.

To promote the steady decommissioning of the Fukushima Daiichi Nuclear Power Station, we are promoting R&D targeting medium- and long-term issues in activities that include the development of technologies for the removal of fuel debris, as well as decommissioning measures as laid out in the Mid- and Long-Term Roadmap and the Mid- and Long-Term Decommissioning Action Plan 2021. We will work to contribute to the decommissioning of this power plant through the development of these technologies. Regarding small modular reactors, which are expected to be in demand as an innovative nuclear reactor, we will focus on joint development involving both Japan and the United States, as we consider customer viewpoints and nuclear energy policy and develop innovative nuclear reactors that are safe, economically efficient, and highly acceptable to society.

**Energy Business**

- **Contributing to a decarbonized society by promoting energy solutions and services and green business**

Hitachi uses digital technologies to promote energy solutions and services in the fields of smart grid, energy transmission and distribution, and society. For example, through next-generation energy management solutions and Energy & Facility Management as a Service (EaaS), which provide one-stop support for the efficient operation and management of energy-related facilities that result in stable operation and improving operational efficiency for customers.

In addition to renewable energy, we are investing efforts into promoting green business including the expansion of the power semiconductor business and the creation of the hydrogen business. In power semiconductors, in January 2021, we released a newly developed product, the TED-MOS, an SiC power semiconductor device with a new structure that offers both durability and low power consumption characteristics, as a high-efficiency product that is essential to energy conservation and the transition to electrification in important social infrastructures such as power systems, railways, electric vehicles, and data centers. In the hydrogen business, we are planning to apply hydrogen at Hitachi’s own facilities as a means of verifying efficient supply chain operations, as well as technical and economic feasibility. Hitachi’s energy business contributes to realizing a decarbonized society by promoting renewable energy and supporting efficient operations and reductions in electric power consumption and CO₂ emissions in social infrastructures.

**Value Creation Story Energy Sector**

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

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## Value Creation Story

### Industry Sector

In the industrial world, the market environment continues to undergo unprecedented rapid and complex changes because of a decrease in the working-age population, increasingly intense global competition, climate change, and the effects of COVID-19. Against this backdrop, there is a greater need than ever for decarbonization and DX using advanced technologies such as AI, IoT, and robotics, and new services and innovations are expected to be created in a variety of fields.

### Results and Forecasts

<table>
<thead>
<tr>
<th></th>
<th>FY2019 (Result)</th>
<th>FY2020 (Result)</th>
<th>FY2021 (Forecast)</th>
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</thead>
<tbody>
<tr>
<td>Revenues/Overseas revenue ratio</td>
<td>0.6</td>
<td>0.8</td>
<td>0.9</td>
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<tr>
<td>Industry &amp; Distribution BU</td>
<td>44%</td>
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<td>Principal Products and Services</td>
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<tr>
<td>Industrial Products Business</td>
<td>840.7 billion yen 21%</td>
<td>830.1 billion yen 25%</td>
<td>850.0 billion yen 25%</td>
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<td>850.0 billion yen 25%</td>
</tr>
</tbody>
</table>

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

In the Industry sector, the solution business targeting the industry & distribution fields and the water & environment fields accounts for 56% of revenues, whereas the product business, which includes industrial machinery, accounts for 44%. This sector is unique in that it encompasses a wide range of fields from workplaces to management, that is, from products used by customers on the workplaces to control and operational technologies (IT) for those facilities and IT for corporate management. We will leverage this expertise and expertise across a wide range of business domains, along with Lumada, to connect the cyber and real spaces. As a result, we will provide total seamless solutions on a global scale to resolve gaps, which we view as “boundary” issues between management, workplaces and supply chain, and achieve overall optimization. In this way, to create not only social and economic value but also sustainable environmental value, we are working to reduce CO2 emissions by providing solutions that optimize production, supply chains, and delivery; increasing efficiency in facilities and the cycle of water resources; and incorporating IoT and reducing energy consumption in products.

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

In the Industry sector, we put forward a basic policy of promoting business by “expanding and strengthening total seamless solutions” and “accelerating global expansion,” while at the same time, in fiscal 2020, we focused our efforts on responding to changes in the market environment resulting from COVID-19. We strengthened the business by shifting our resources into digital businesses and enhancing our solutions in response to COVID-19. Meanwhile, we targeted fixed costs and enhanced project management. We transformed ourselves into an organization resilient to changes in the market environment by combining proactive and reactive measures.

### Market Environment and Business Strategies

Amid rapid changes in the market environment, including the spread of COVID-19, increasing geopolitical risks, growing awareness of the environment, and a transition to a recycling-oriented society, it has become important to create value in three fields: the Environment, Resilience, and Security & Safety. In this new normal, in addition to securing employees’ safety and increasing productivity via automation, contactless, and remote operations, the issue of “boundaries” has come to light in the context of business continuity when supply chains are disrupted.

### Total Seamless Solutions that Resolve “Boundary” Issues

In this market environment, value that can be provided through seamless connections is increasingly important. Using Lumada, we provide venues for connecting the vertical “boundaries” between management and workplaces; connecting the horizontal “boundaries” between supply chains; and connecting the “boundaries” between different industries. In this way, the total seamless solutions that are unique to Hitachi, resolving the issue of “boundaries” and maximizing total profit for customers, will come to represent a major factor that differentiates Hitachi from the competition.

### Vision of the Industry Sector

In the Industry sector, we will strive to expand and strengthen total seamless solutions through co-creation with customers. To this end, we will leverage Hitachi’s strength in AI, mathematical optimization technologies, and other advanced technologies; advanced manufacturing (monozukuri) capabilities cultivated through our extensive track record in manufacturing, workplace experience, and other forms of domain knowledge; and customer relations built on our broad customer base.

### Example of Connecting Vertical “Boundaries” through Co-creation with the Nichirei Group

Co-creation with Seiyu and Workman provides examples of using digital technologies to connect horizontal “boundaries” in the supply chain, for example, between suppliers, manufacturing, distribution, and the market. The deli division at Seiyu, a major Japanese supermarket operator, used Hitachi’s AI demand forecast auto replenishment service to connect sales sites with the market, building a structure that dramatically reduced complex order placement operations, and allowed more energy to be focused on in-store kitchen operations and customer services. Workman, a major provider of work clothes, handles approximately 100,000 products, with approximately 14,000 items at each outlet. The company began introducing the AI demand forecast auto replenishment system that quickly responds to changes in demand.
service targeting products with different sales turnover rates, with a goal of reducing the time required for order placement operations from approximately 40 minutes per day to about 2 minutes, while at the same time minimizing stock outages and optimizing inventory. In this way, we contribute to increasing productivity in the sales sites, preventing lost opportunities, and strengthening resilience. Collaborations with Hitachi Transport System provide an example of a venue that uses digital technologies to connect the “boundaries” between different industries. The logistics industry faces accident prevention and a declining population of truck drivers. By combining Smart & Safety Connected Vehicle (SSCV)-Safety, a safe driving management solution that uses Hitachi Transport System’s original algorithm, with Hitachi’s digital platforms for the logistics field, information on the driver’s biological and physical data before, during, and after driving, as well as information on vehicle behavior, is accumulated in the cloud. This information is then managed and analyzed to support both safe, secure driving and increased efficiency.

**Providing a Place to Connecting through Co-working with Hitachi Transport System**

Digital platform for logistics × biological data/operation data × delivery optimization service

**In the water & environment field, we provide operation and maintenance (O&M) support digital solutions of city service provider that combine the expertise and experience that Hitachi has cultivated over many years in Products × OT × IT as a comprehensive water service provider. The service contributes to increase visibility and efficiency, reduce labor, and pass on expertise related to operation and maintenance in the water and sewage treatment business. We apply advanced technologies and services to increase efficiency in facilities operations and related processes; for example, in April 2021, we added new functions that leverage the power of AI in facilities diagnostics, water quality forecasting, and operational support.

**Accelerating Global Business with a Focus on North America**

In 2017, we strengthened the North American product business through the acquisition of Sullair, an American air compressor manufacturer, and in 2019, we acquired JR Automation in the United States by merging KEC in Japan and APAC, a part of efforts to build a platform for the robotic SI business, which is expected to see rapid growth amid labor shortages and rapidly increasing labor costs. In fiscal 2020, despite the impact that COVID-19 had on the economy, we successfully grew and expanded these businesses by steadily executing post-merger integration (PMI) at those two newly acquired companies. Sullair has demonstrated steady growth through improvement measures targeting resilient structures, including a steadily growing new customer base, flexible production systems, and increased cost competitiveness in products. Meanwhile, JR Automation has expanded its business domain from its original business portfolio, which focused mainly on the automotive industry, to include the e-commerce and medical markets, which are expected to grow in the future, thereby dramatically increasing both new orders and revenues.

In April 2021, we acquired Kyoto Robotics, a Japanese startup that develops intelligent robot systems, to further strengthen robotic SI functions. The robot systems offered by Kyoto Robotics boast world-class 3-D vision systems, featuring a 3-D recognition rate of 99.99%, masterless object recognition, and the industry-leading depalletizing capability. All these strengths make Kyoto Robotics a powerful ally in strengthening business in the logistics and factory automation fields. In April 2020, we established Hitachi Industrial Holdings Americas, a supervisory company for the North American region, to fortify the business base in that region.

**Rapidly Merging the Robotic SI Business and Digital Technologies**

We are rapidly merging the robotic SI business, which has been fortified mainly in North America, with Hitachi’s outstanding digital technologies. For example, in the manufacturing of aircraft parts in North America, JR Automation is involved in the automation of scale-robotics and transport manufacturing facilities, using digital technologies tied into enterprise resource planning (ERP; integrated backbone operating systems) and manufacturing execution systems (MESs). Moving forward, Hitachi will strengthen unified activities with JR Automation, KEC, and Kyoto Robotics transcending the boundaries of regions, and based on that business platform, will expand the merging of the robotic SI business and digital technologies from North America to include Europe, Japan, and ASEAN countries. Furthermore, in collaboration with GlobalLogic, for which Hitachi’s acquisition was completed in July 2021, we will further expand the business to encompass E2E digital solutions that use digital technologies to connect management with workplaces.

**Targeting Further Growth in the Industry Sector**

To achieve even further growth in the industry sector, we will strengthen and expand total seamless solutions and accelerate our global expansion through co-creation with customers, while at the same time using highly efficient products and digital technologies to create sustainable environmental value.

**Value Creation Story Industry Sector**

In the Mobility sector, which comprises the Building Systems and the Railway Systems businesses, Hitachi offers safe, secure, comfortable, and eco-friendly products and services to customers throughout the world. Specifically, each business provides solutions that serve as key elements of clean and highly efficient smart cities, including smart solutions that facilitate faster and more eco-friendly travel between cities, reduce reliance on automobiles inside cities, and enhance the flow of people inside high-rise buildings.

**Results and Forecasts**

- **ROIC (%)**
  - FY2019 Results: 54.7%
  - FY2020 Results: 54.7%
  - FY2021 Forecast*: 55%

- **Adjusted operating income ratio (%)**
  - FY2019 Results: 8.1%
  - FY2020 Results: 8.9%
  - FY2021 Forecast: 9.2%

- **EBIT ratio (%)**
  - FY2019 Results: 8.8%
  - FY2020 Results: 10.2%
  - FY2021 Forecast: 10.2%

In the Mobility sector, Hitachi will contribute to increasing social value by providing safe, secure, and comfortable transportation services, as well as solutions to issues in buildings and urban spaces in buildings and other urban spaces. At the same time, we will generate environmental value by creating transportation services with minimal impact on the environment; for example, by reducing CO2 emissions. Based on powerful business platforms in building systems and railway systems, we will strive to achieve revenues of 1.85 trillion yen by fiscal 2025, by promoting sustainable digital connectivity that leverages new technologies, with a view toward market recovery after the pandemic. At the same time, we will continue to increase profitability by strengthening the business portfolio and implementing process reforms, aiming for an adjusted operating income ratio of 11% or more, and ROIC exceeding 13%.

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

In the Mobility sector, Hitachi will contribute to increasing social value by providing safe, secure, and comfortable transportation services, as well as solutions to issues in buildings and urban spaces in buildings and other urban spaces. At the same time, we will generate environmental value by creating transportation services with minimal impact on the environment; for example, by reducing CO2 emissions. Based on powerful business platforms in building systems and railway systems, we will strive to achieve revenues of 1.85 trillion yen by fiscal 2025, by promoting sustainable digital connectivity that leverages new technologies, with a view toward market recovery after the pandemic. At the same time, we will continue to increase profitability by strengthening the business portfolio and implementing process reforms, aiming for an adjusted operating income ratio of 11% or more, and ROIC exceeding 13%.

**The Mobility sector has strong fundamentals. In fiscal 2021, we expect to grow and improve profitability, despite the impact of COVID-19. We have revised our portfolio, disposing of non-core assets and preparing for future growth in new markets. We are well-positioned to benefit from the post-pandemic recovery.**

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*Corresponding to the Expansion of Digital Platforms for the E&E and IT Businesses

**Principal Products and Services**

- **Building Services**
  - Building Systems BU
  - Railway Systems BU

- **Revenue Sources**
  - FY2020
  - FY2021

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>FY2020</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Building Systems BU</strong></td>
<td>1,144.4 billion yen</td>
<td>1,399.6 billion yen</td>
</tr>
<tr>
<td><strong>Railway Systems BU</strong></td>
<td>1,250.0 billion yen</td>
<td>1,507.8 billion yen</td>
</tr>
</tbody>
</table>
Market Environment

Building Systems Business Unit

In the elevators and escalators (E&E) market, where business is handled by the Building Systems Business Unit, although many regions were affected by COVID-19 in fiscal 2020, Hitachi saw substantial growth in this market, due to a rapid recovery in demand in China, the world’s largest E&E market, which accounts for approximately 60% of new installation demand worldwide. From fiscal 2021 onward, we expect to see a gradual recovery in other regions as well, so our overall outlook is for steady market growth. In China, we expect to enjoy stable growth in new installation demand in the future, and we also expect growth in the service business, which includes maintenance and modernization for E&E products already installed. We have seen growing demand for new E&E installations in many countries, including India, which is the most promising market after China, and countries in Southeast Asia. Meanwhile, in Japan, which is a mature market, the effects of COVID-19 have given rise to demand for new high added value in buildings and offices, and we expect to see a further increase in demand for digital solutions at the core of smart buildings. Demand for digitalization in buildings—for example, in the context of facility management, energy management, security, and signage—is expected to see rapid growth on a scale of approximately 15% per year from 2019 through 2024.

Railway Systems Business Unit

COVID-19 created challenges during fiscal 2020. For instance, our rail factories in the U.K. and Italy were closed for several weeks, which impacted revenues for the year. The other big challenge of COVID-19 was some of our large turnkey projects, where we often rely on our engineers being able to travel from site to site to work closely with our customers. This year, travel restrictions meant it was harder to get our engineering teams onto sites. The good news is our business was still profitable, even in this challenging year. Although adjusted operating income was down year on year, our EBIT was above the target we set, generating good returns for shareholders. In fiscal 2020, we expanded our railway systems business from Europe, making major inroads in the North American market by winning new projects in San Francisco and Washington, D.C., as well as our new monorail project in Panama. The long-term impacts of the pandemic are still not fully understood. However, the latest rail market forecasts by UNIFE, a European industry body, are largely optimistic. In the past year, our customers experienced a severe shock due to the downturn in travel, which had a major financial impact on them. Two things will help to resolve this: governments stimulating the economy by investing in new infrastructure, and finding new ways of operating, enabled by digital technologies and Mobility as a Service (MaS) business models. Overall, strong environmental momentum exists that should support the rail sector in the long term. Globally, governments have declared their emission targets, and over time we believe they will continue to invest in rail to reduce emissions. For example, we are seeing agreements among some European rail operators and airlines to displace some short-haul flights with rail travel. Accelerating the decarbonization of the rail industry itself is also important. We announced new collaborations in fiscal 2020 to develop battery and hydrogen trains to help us tackle environmental challenges. Further in the future, an alternative to airline travel will be Hyperloop, and this year we started collaboration with Hyperloop Transportation Technologies to make use of our rail experience in a new sector with exciting potential.

Progress in the 2021 Mid-term Management Plan

Building Systems Business Unit

Until now, in the Building Systems Business Unit, we have strived to achieve management growth and increase profitability mainly in Japan, China, and other Asian markets, both through the manufacturing and sales of E&E, and through building services, which include the maintenance and modernization of those products, along with building solutions. In April 2021, we revamped the management structure worldwide, aiming for global growth through rapid business operations that led to the four regions including Japan, China, Southeast Asia and strategic focus markets such as India and the U.K.

Railway Systems Business Unit

Delivering environmental and social value

One of our most important priorities is to deliver environmental and social value through our core business. By delivering new projects, we are providing higher-quality, safer infrastructure and connecting people to new opportunities. In this way, we are delivering social value. One project that achieves this aim is Line 2 of the Lima Metro in Peru. We are providing both rolling stock and the systems for train signaling and control on this line. The project in Lima is a good example of social value because until recently this huge global city and growing economy had very little public transportation. Rail access can offer major value to the people who live in Lima, as it provides access to future jobs and economic opportunity. By displacing cars, rail can improve air quality and reduce CO2 emissions and traffic congestion. On the environmental side, we support governments investing in rail as an environmentally friendly alternative to both aviation (through high-speed rail) and use of private cars in congested cities (through metro and light rail systems). Through our investments and partnerships in developing battery and hydrogen trains, we are also helping to decarbonize the railway itself. Our railway systems business is also working to decarbonize itself. From 2018 to 2020, the railway systems business’s non-Japanese affiliates reported a reduction in carbon emissions of nearly 15% per hour worked.

Promoting our digital strategy

In fiscal 2020, we created $2.9 billion in value from Lumada, and this figure is expected to grow. We are focusing in particular on Maas, an area where we can harness digital capabilities to complement our current core business. These could be passenger-facing, such as digital ticketing services, or technologies that connect the entire railway to improve overall performance. A good example of this in fiscal 2020 is our acquisition of Perpetuum, a U.K. company. Perpetuum uses self-powering wireless sensors on trains to understand when safety-critical parts are deteriorating. This helps to optimize maintenance cycles and reduces industrial waste.

Aiming to be a market leader in building solutions

In the Building Systems Business Unit, we have been utilizing cutting-edge digital technologies ahead of other business fields. For example, we have adopted the approach of analyzing and utilizing E&E operational data gathered using IoT technologies to develop and provide highly reliable products as well as high-quality remote monitoring and maintenance services using AI. The Lumada business accounts for nearly 20% of revenues in the Building Systems business, and moving forward, we will gather and aggregate various types of data, including operational data from building facilities, as a means of contributing to the realization of smart buildings. We will do this, for example, by offering an IoT solution for buildings that increases the efficiency and quality of building management, and a solution for office workers that provides workers with useful apps on a smart phone, for example, to share information or reserve building facilities. Our goal is to accelerate the digitalization of business and maximize the value provided throughout the entire value chain, from new E&E installation to maintenance, modernization, and building solutions, in order to achieve our target revenues of ¥1 trillion and an adjusted operating income ratio of 12% in fiscal 2025, and to become a market leader in this field.
Smart Life Sector

There are increasing expectations that “Smart Life” will improve quality of life via digital technologies such as IoT and AI, for example, by extending healthy life expectancy and reducing the burden of housework. In the Smart Life sector, Hitachi contributes to the realization of Smart Life through Hitachi High-Tech’s measurement and analysis systems business and semiconductor manufacturing and inspection equipment business, and through Hitachi Global Life Solutions’ Smart Life & Eco-friendly Systems businesses, creating social, environmental, and economic value.

Market Environment

The biomedical and life science fields in the measurement and analysis systems business are expected to see dramatic growth in the future as well because there are many unmet needs and related sciences are developing at a starting pace. The semiconductor manufacturing and inspection equipment businesses, which support the transition to 5G and digital technologies, are showing continuous growth due to growing demand for semiconductors. In the home appliance and air-conditioning field in the Smart Life & Eco-friendly Systems businesses, time spent at home has increased as a result of the COVID-19 pandemic, so there is growing demand for more comfortable living environments. Furthermore, increased concern for the environment has boosted the global proliferation of EVs. This is expected to increase demand for solutions aimed at reducing EV total costs through operation management and battery management.

Progress on the 2021 Mid-term Management Plan

Up to now, in the Smart Life sector, we have revised our fundamental business portfolio. In May 2020, we made Hitachi High-Tech a full subsidiary, positioning this company as a core business in the Smart Life sector, and in March 2021, we completed the transfer of the diagnostic imaging-related business to FUJIFILM. Then, in January 2021, we established Hitachi Astemo through the management integration of Hitachi Automotive Systems with Kekin Corporation, Showa Corporation, and Nisin Kogyo Co., Ltd. Starting from fiscal 2021, Hitachi Astemo has been operating independently from the Smart Life sector. During the current fiscal year, in July 2021, we established a joint venture with the Turkish company Arçelik in the overseas home appliance business. We will increase profitability by accomplishing these business structure reforms and by strengthening Lumada solutions via AI and digital technologies in four fields: healthcare, semiconductors, homes, and electric vehicles (EVs).

We will also work on improving QoL and reducing the rate of traffic accidents through autonomous driving and advanced driver assistance. We will also work to reduce environmental impact by providing environmental solutions by optimizing EV operation management, EV battery management and air-conditioning field in the Smart Life & Eco-friendly Systems businesses.

Semiconductor Manufacturing and Inspection Equipment Business

Hitachi High-Tech demonstrates strengths in plasma etching systems that enable ultrafine processing of semiconductors, as well as high-resolution, high-speed inspection equipment, built on a foundation comprising electron microscopes and other high-precision measurement and analysis technologies. In advanced CD measurement SEM, in particular, Hitachi High-Tech holds a top position with approximately 80% of the global share in this market.

Leveraging these strengths, we will create new business based on Lumada solutions by incorporating into Lumada frameworks the expertise in data analysis for semiconductor manufacturing and inspection that Hitachi High-Tech has cultivated up to now. We will also create new value by further accelerating the development of Lumada solutions that support technology innovations at partner companies. As an example, we will contribute to strengthening resilience in response to constantly changing and growing demand in the semiconductor market through co-creation with partner companies—mainly a semiconductor technology development base being established in Oregon—targeting Lumada solutions that support short development turnaround time and improve productivity and yield during each semiconductor manufacturing phase.

Vision in the 2021 Mid-term Management Plan

The goal of the Smart Life sector is to expand business in four growth fields: healthcare, semiconductors, homes, and electric vehicles (EVs) by strengthening activities in Hitachi’s three main fields—the Environment, Resilience, and Security & Safety. Specifically, we will apply digital technologies to improve the performance of semiconductors; achieving richer lifestyles through the use of AI and robots in the home; and reducing the rate of traffic accidents through autonomous driving and advanced driver assistance. We will also work to reduce environmental impact by providing environmental solutions by optimizing EV operation management, EV battery management and air-conditioner operations.

Vision

Hitachi Center of Excellence in Portland, a new semiconductor engineering base in the United States (image upon completion)
Healthcare Business
Hitachi has been repositioning the business portfolio in the healthcare field, keeping with market growth potential. In this field, Hitachi High-Tech’s clinical chemistry and immunoassay analyzers boast a top global share, with some 20 billion tests being conducted worldwide each year. Hitachi’s particle therapy system also holds the global No. 2 share, offering cutting-edge cancer treatments that minimize discomfort and enable patients to carry on with their daily lives even as they undergo treatment.

To accelerate growth in these business fields, for three years starting in fiscal 2021, we will make strategic investments of 300 billion yen in four fields—in vitro diagnosis, cancer radiotherapy, pharmaceutical solutions, and medical data integration—establishing these fields as a core area of business in the next Mid-term Management Plan. In in vitro diagnosis, we will strengthen the molecular diagnostic business, which enables earlier cancer diagnoses through the measurement of cancer DNA in the blood, as well as more effective treatment selection and prognostic management. In cancer radiotherapy, we will strive for innovations in core accelerators to further support highly efficient and minimally invasive cancer treatments. In the pharmaceutical solutions field, we will leverage the highly efficient cell culture technologies that we have developed through the differentiated culturing of iPS cells. We will support the medical application of these cells, as in the case of immune cell therapy for cancer. Furthermore, by applying AI that incorporates medical knowledge into diagnostic and treatment data, we will promote medical data integration analytics that support the selection of optimum medical treatments.

In addition to strengthening R&D and investments in these four growth fields, we will accelerate open innovations in collaboration with academia and start-ups and support the rapid realization of new medical treatments as we strive to increase peoples’ quality of life and achieve a safer, more secure society.

Smart Life & Eco-friendly Systems Business
The Smart Life & Eco-friendly Systems business, where Hitachi has a long history of developing products from a consumer perspective, holds an important position in the Smart Life sector, which strives to increase people’s quality of life. We create a wide range of solutions using digital technologies, including new connected appliance products such as robot vacuum cleaners, washing machines, and refrigerators that can be controlled and managed via a smartphone, and IoT-based remote air-conditioning diagnostic and maintenance systems.

As a result of the COVID-19 pandemic that began in 2020, people have been spending more time at home, and this has led to growing demand for more comfortable living environments. In response to these trends, we will strengthen the Lumada business and contribute to realizing safe and secure homes by creating advanced lifestyle solutions that further enhance network functionality for home appliances and by developing solutions that incorporate the “LOVOT” home robot created by GROOVE X, Inc. (capital and business alliance agreement completed in December 2020).

Environmental Solutions
In the Smart Life sector, Hitachi provides Lumada environmental solutions that contribute to reducing environmental impact. In the field of electric vehicles (EVs), in particular, which are expected to play a large role in resolving environmental issues, we leverage the battery control technologies that we have cultivated over many years to develop and provide solutions for optimizing the life cycle of EV batteries. In this way, we will contribute to the effective use of resources throughout the battery life cycle, including manufacturing, use, and reuse/recycling, and to the realization of a sustainable society. We will also promote links with the Industry sector in the provision of solutions targeting air-conditioning and freezer facilities used by customers in the food industry and the healthcare field. For example, we will collect remote monitoring data through the IoT-based air-conditioning solution “exiida” and use this data to support highly efficient facility operations.

Hitachi’s Automotive Systems business, handled by Hitachi Astemo, became independent from the Smart Life sector and positioned as a business alongside the five sectors in April to promote swift decisions and a structure that achieves smooth integration and growth strategies, produces synergies, and further accelerates the growth of the business.

Brice Koch
President & CEO, Hitachi Astemo, Ltd.

Principal Products and Services*1, 2

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Powertrain &amp; Safety Systems Bus. Div.</td>
<td>50%</td>
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<tr>
<td>Motorcycle Bus. Div.</td>
<td>8%</td>
</tr>
<tr>
<td>Chassis Bus. Div.</td>
<td>41%</td>
</tr>
</tbody>
</table>

*1 Figures from the Automotive Systems business that were formerly recorded in the Smart Life sector have been recorded in the Automotive Systems segment from fiscal 2022.
*2 FY2021 revenues 987.5 billion yen

Vision in the 2021 Mid-term Management Plan
On January 1, 2021, Hitachi Automotive Systems, Ltd., Kehin Corporation, Showa Corporation, and Nissin Kosyo Co., Ltd., concluded a management integration to form Hitachi Astemo. Of the name derived from the words “Advanced Sustainable Technologies for Mobility” and describes the mission of the integrated company to “provide a safe, sustainable, and comfortable mobility life through technologies that contribute to an advanced and sustainable society.” The company is committed to achieving this mission guided by its triple bottom line.

Social contribution: Improve safety, comfort and QoL with ADAS systems and advanced chassis
Environmental contribution: Contribute to a greener world through efficient electrification technologies and products that improve emission reductions
Economic contribution: Achieve approximately 2 trillion yen in revenues and EBITDA of approximately 15% in fiscal 2025

President & CEO, Hitachi Astemo, Ltd.

Value Creation Story | Smart Life Sector
As an independent and global mega-supplier, Hitachi Astemo will continue the work of integrating companies by creating advanced mobility solutions by leveraging powertrain systems, advanced driver assistance systems, and chassis systems for both automobiles and motorcycles. Leveraging its expanded scale and the advanced technologies of the four integrating companies, Hitachi Astemo will drive innovation in CASE (Connected, Autonomous, Sharing, and Electric), its expanded scale and the advanced technologies of the four integrated companies, investing in high growth technologies, and others. Reinvesting overlapping technologies and resources and integrating complementary areas will enable Hitachi Astemo to provide faster and increasingly competitive solutions to its customers. The company can also leverage Hitachi R&D capabilities including the new material development, electronics, and software required in advanced vehicle control systems and make superior secure telecommunications and information technologies, as well as digital solutions, provided through Hitachi’s Lumada and GlobalLogic.

In addition, Hitachi Astemo is the culmination of four companies with a culture of technological excellence and employees with deep technological and software expertise. With its diversified footprint, customer relationships and product portfolio, including a substantial motorcycle business in which Hitachi Astemo is a global leader, the company has the scale and technological expertise to adapt to market demands and to take a leading role in the global market for CASE technologies.

**Strengthening Hitachi’s Automotive Systems Business**

Hitachi Astemo has many advantages via a broad array of key components for powertrain, ADAS, and chassis from which it can continue to create advanced system solutions. These include optimizing overlapping R&D resources, leveraging the best technologies of the four integrated companies, investing in high growth technologies, and others. Reinvesting overlapping technologies and resources and integrating complementary areas will enable Hitachi Astemo to provide faster and increasingly competitive solutions to its customers. The company can also leverage Hitachi R&D capabilities including the new material development, electronics, and software required in advanced vehicle control systems and make superior secure telecommunications and information technologies, as well as digital solutions, provided through Hitachi’s Lumada and GlobalLogic.

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**Strategic Progress**

**Comprehensive Global Coverage**

Hitachi Astemo serves customers around the world through 123 Group companies and approximately 140 manufacturing locations in 27 countries. By expanding its business globally through the integration, the company has become physically closer to customers in various regions.

**Optimization of Investment in Line with Changing Market Needs**

Defining the components for next-generation vehicles (xEV, AD/ADAS, advanced chassis, and next-generation motorcycles) is a core component of what is driving growth for Hitachi Astemo. Accordingly, the company is prioritizing investment in this area. Through integration, the company will invest its R&D expenses in focused areas. About 300 billion yen will be newly invested in xEV-related products including R&D by fiscal 2025. In addition, Hitachi Astemo collaborates with Hitachi, Ltd.’s R&D on a global basis utilizing the resources and effectively allocating

R&D activities in areas such as connected solutions. There, Hitachi Astemo is responsible for R&D on the automotive devices side and Hitachi, Ltd., on the cloud side. To ensure efficient use of capital and optimize investment allocation, Hitachi Astemo established an investment strategy committee in January 2021.

**A Larger Share of the Market for xEV-Related Products**

In the xEV business domain, Hitachi Astemo has developed inverters with reduced losses to improve power savings, as well as more compact sizes and higher output for easier installation, boasting more than twice the output density of other companies. In 2019, we launched the world’s first mass production of high-voltage (800 V) output inverters for EVs. Its motors, which utilize the advanced analysis technology, structural design, materials development, production technology, and motor control technology that the company has cultivated within the Hitachi Group, have more than 1.2 times the torque per magnet volume of its competitors. Hitachi Astemo is aiming for the top share of the market for both motors and inverters by expanding its product lineup, developing advanced technologies including new materials and software, and strengthening cost competitiveness. Boosted by the integrated companies, including the former Hitachi Automotive Systems and the former Kaeihin, the company intends to maintain the No. 1 position for motors through 2025 by expanding its sales and to move from the No. 3 position for inverters in 2019 to No. 1 in 2025, specifically targeting sales of more than five million pieces by 2025. By accelerating the adoption of xEV-related products, the company will contribute to a carbon-neutral society.

**Coping with the Decline in Internal Combustion Engines (ICE)**

As the trend toward electrification continues, the number of vehicles equipped with ICE alone will gradually decline, but the total number of vehicles equipped with ICE in combination with hybrids will continue to grow until 2025, and ICE is still considered to be the largest volume for the time being. Hitachi Astemo will continue to offer ICE technologies that are best suited for combination with hybrid EVs mainly based on ICE efficiency improvement technologies, and ensure profits of the remaining suppliers in the ICE business forming an important medium-term contribution to its profits.

**Leading-Edge Solutions Leveraging Lumada**

For safety in autonomous vehicles, the key technology will be wireless software with “Over The Air (OTA)" solutions to ensure that the software installed in an electronic control unit, the brain of the car, is always the latest version.

Hitachi’s OTA solution is a highly efficient and secure software update by utilizing proprietary differential data update technology and IT. By connecting this OTA solution to the Lumada as a digital solution, it will be possible to update the software based on the optimal solution derived from AI big data analysis.

For example, the system collects and analyzes information from external sensors and sensors related to vehicle motion such as steering and braking in various driving conditions of multiple autonomous vehicles and updates the control software for safer autonomous driving.

In addition, Hitachi Astemo expects to further leverage this technology in areas such as predictive maintenance and safety and to provide more comfortable driving, as well as personalized services that are currently ahead of the needs of users by linking information across the vehicle components and driver history with Lumada.

**Software Enhancements**

Hitachi Astemo is responding to the needs of automakers around the world by applying software to products and systems globally. The company aims to enhance its software capability to meet the need for the software-defined vehicles of the future.

Utilizing the software human resources of the Hitachi Group, the company set up the Software Business Division in April 2019 to focus on the enhancement of software development capability. In addition, Hitachi Astemo acquired seneos, a German automotive device software developer, in April 2020 to enhance front engineering capability for precise and efficient software development in line with the latest common standard software architecture and software development process framework. The company will also be able to capitalize on synergies leveraging GlobalLogic engineering and software capabilities as vehicles become defined by software.

**Transformations to Maximize the Value of Hitachi Astemo**

Since the business integration, achieving savings through cost synergies has been a challenge. Hitachi Astemo is addressing this challenge, however, and by 2025 the company expects to achieve cost synergies worth 60 billion yen and aims to maximize value by more closely integrating the personnel and corporate cultures from previously separate companies, promoting digital transformation, and improving its product portfolio and operations.
Addressing Risks and Opportunities

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 capabilities, undertakes risk management from the perspective of both future 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.

Transforming Hitachi into a Globally Competitive Organization by Strengthening Risk Management

Please tell us about the way of managing risks that will be required in the future and the role of the CRMO.

Today’s world is often described using the term VUCA, which refers to volatility, uncertainty, complexity, and ambiguity. A variety of risks and compliance issues are coming to light, for example, in the context of environmental issues and human rights issues. Amid deepening discussions about stakeholder capitalism, it has become extremely important to coordinate the interests that arise among shareholders and other stakeholders. In this context, to operate business and compete in the global arena, we need to put in place frameworks that enable us to identify risks and to respond to those risks. I believe that to increase the effectiveness of risk management in the context of corporate management, it is important to strengthen risk management from three perspectives: compliance, which is related to violations of laws and regulations; business risk management, which is directly related to the operations of each business unit; and crisis management, which is examined from a company-wide perspective, including human rights and geopolitical risks.

Based on my experience working in the United States, I got a very real sense that legal affairs, risk management, and auditing functions are central to business and that promoting not only risk hedging but also appropriate risk-taking means competing in the global arena based on global standards. I feel that my role is to leverage this experience in transforming Hitachi’s past approaches to risk management and leading in the creation of appropriate risk management frameworks.

What is your goal as CRMO?

My ultimate goal is to create a risk management structure that will contribute to transforming Hitachi into a true global leader. In terms of compliance, in October 2020, David Karas, who is from the United States, was appointed to the position of Chief Compliance Officer (CCO), which I held from 2018. In that capacity, he promotes strategic changes in compliance throughout the Hitachi Group as a whole. In fiscal 2020, we launched The One Hitachi Compliance Project in earnest to unify compliance programs within the Group, and we introduced a uniform compliance program at about 900 consolidated subsidiaries worldwide. We conducted compliance training with uniform content in more than a dozen languages, and in terms of internal reporting system, we created a central Group-wide reporting system using a third-party vendor that can handle reporting in 80 languages.

As the next step, I am currently supervising activities aimed at building a full-scale enterprise risk management (ERM) structure. Hitachi is involved in a wide range of businesses, so we need to establish a systematic process in each business unit to identify the risks that prevent Hitachi from achieving its business objectives, evaluate the impact of those risks, and plan and execute appropriate risk responses. The global standard practices applied at companies such as Hitachi ABB Power Grids serve as a valuable reference in that process. From the perspective of crisis management, we monitor risk exposure for Hitachi’s various businesses in each country and region, identifying the risk factors in those countries and regions, including geopolitical risks, human rights issues, religion, culture, and public order. We pick up on signs of potential crises and study and inspect countermeasures. This represents a huge transformation, but we are promoting the transition to a global standard ERM structure with a view toward the next Mid-term Management Plan. ERM has no “final form.” Business itself changes every day. Even after you have put a structure in place, you need to constantly refine ERM frameworks and structures in line with business conditions.

Hitachi’s Risk Management

Board of Directors

Senior Executive Committee

Monitoring/Management

Implement risk management to strengthen business and ensure business continuity

<table>
<thead>
<tr>
<th>Investments and funding</th>
<th>Social and environmental issues</th>
<th>Information security</th>
<th>Occupations, health and safety</th>
<th>Quality assurance</th>
<th>Compliance</th>
<th>Business Continuity Plan (BCP)</th>
<th>Business risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Balance individual investment and business evaluation criteria</td>
<td>• Sustain and expand to risks affecting society and the environment, including climate change and resource issues</td>
<td>• Promotes information security governance and technology</td>
<td>• Establish a culture of safety and establish a safe workplace</td>
<td>• Implement quality assurance activities from the perspective of “operational and management”</td>
<td>• To improve the effectiveness and efficiency of frameworks, implement balanced measures to ensure the level of risk and countermeasures, effectiveness based on a combined Group-wide reporting system</td>
<td>• Establish and maintain BC5 systems as a disaster-recovery countermeasure</td>
<td>• Implement systematic risk assessment and risk response</td>
</tr>
<tr>
<td>• Strengthen the membership of large-scale RIA and other projects</td>
<td>• Promotes collaborative creation by fostering a security ecosystem</td>
<td>• Strengthen countermeasures to prevent work-related accidents</td>
<td>• Implement quality assurance activities from the perspective of “operational and management”</td>
<td></td>
<td></td>
<td>• Strengthen project management</td>
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</tbody>
</table>

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

Kohei Kodama
Vice President and Executive Officer, CLO, General Counsel, CRMO (Chief Risk Management Officer), and Officer in charge of Audit

Profile

Addressing Risks and Opportunities

Investment Risks and Opportunities

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, regarding individual investment decisions (e.g., execution, business plan changes, and disposal), under the authority of the Hitachi Group, Director of Directors and the Board 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 that are decided by the Senior Executive Committee, prior to deliberations, discussions are held with the Investment Strategy Committee* advisory body to confirm and review not only the perspective but also the 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 previous 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, in order 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 by 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 Complex and Challenging Risks

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 into place more systematic processes, using global standard practices at Hitachi ABB Power Grids as a reference.

For further details, please refer to the Annual Securities Report (The 152nd Business Term).

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 (FSB)’s Task Force on Climate-related Financial Disclosures (TCFD). The TCFD calls for disclosures sought by investors, such as how businesses assess climate-related issues, the short-, medium-, and long-term impact of climate change on corporate value, the identification of climate-related risks and opportunities, the metrics and targets to assess progress, and how the results of these assessments are reflected in corporate management.

**Goverance**

Hitachi sees climate change and other environmental issues as important management issues. Reports on Environmental Innovation 2050 (Hitachi’s long-term environmental targets, which include targets for reducing CO₂ emissions) were published after being reported to the Board of Directors: when the targets were revised in fiscal 2016 and when the targets were revised in fiscal 2021. The Executive Sustainability Committee, chaired by the executive chairman and CEO and staffed by heads of corporate divisions and business units, meets twice a year to discuss and reach decisions on climate-related policies and measures including those in response to climate change, and it sets the stage for implementing those measures. In addition, the Audit Committee of independent directors conducts an audit of sustainability-related changes once a year and receives reports on important climate-related issues from the directors in charge of those items.

**Strategy**

We are responding to climate change by fulfilling our responsibilities as a global company by helping to achieve a decarbonized society. Taking note of the CO₂ reductions required throughout the world, we established long-term environmental targets called Hitachi Environmental Innovation 2050 under Environmental Vision 2050. Moreover, in fiscal 2020 we revised our targets to even more ambitious levels: To help limit the global temperature increase to within 1.5°C, we declared that we would achieve carbon neutrality at Hitachi factories and offices by fiscal 2030, and in fiscal 2021 we revised our target again to achieve carbon neutrality in our value chain by fiscal 2050.

**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 decarbonized economy mainly in the development of the 1.5°C scenario (changed from the previous 2°C scenario due to the importance of achieving a decarbonized society) and (2) risks related to the physical impacts of climate change arising in the event of the 4°C scenario, which assumes that global CO₂ emissions have failed. Our assessments of climate change risks and opportunities 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).

*Our assessments are based on the temperature increase scenarios contained in the Fifth Assessment Report, published in 2014 by the Intergovernmental Panel on Climate Change (IPCC), and the Special 1.5°C Report published in 2018. The 1.5°C scenario assumes that the increase in global average temperatures from preindustrial levels is kept below 1.5°C at the end of the 21st century. The 4°C scenario sees global temperatures rising by approximately 4°C compared to preindustrial levels.*

**Climate-related Opportunities**

CO₂ emissions during the use of our products and services by our customers account for a large part of CO₂ emissions in our value chain. For this reason, developing and providing products and services that emit zero or little CO₂ during their use will help meet society’s demands for reduced emissions. This represents a significant business opportunity for Hitachi in the short, medium, and long term.

**Responding to Climate Scenario Risks and Opportunities for Each Business**

Hitachi operates a broad array of businesses with each business having its own set of risks and opportunities. We therefore selected businesses that have a relatively high likelihood of being affected by climate change and examined the business impact of and responses to the 1.5°C and 4°C scenarios.

### Responses to 1.5°C and 4°C Scenarios in Hitachi’s Businesses (Excerpts)

<table>
<thead>
<tr>
<th>Category</th>
<th>Major opportunities</th>
<th>Main initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products/services and markets</td>
<td>Increased corporate value and revenue from expanded sales of products and services with innovative technology that can contribute to the mitigation and adaptation of climate change</td>
<td>• Expand business areas that contribute to decarbonization • Promote decarbonized solutions and services through collaborative initiatives with customers • Focus on the fields of energy, mobility, and industry to promote greater utilization of digital technology (Finisar by Digital) and develop products that offer world-class efficiency</td>
</tr>
<tr>
<td>Resilience</td>
<td>Provision of solutions to address climate-related natural disasters</td>
<td>• Provide disaster prevention solutions such as high-performance firefighting command systems • Provide construction equipment that enables quicker recoveries from disasters</td>
</tr>
</tbody>
</table>

### Categories and Main Initiatives

<table>
<thead>
<tr>
<th>Category</th>
<th>Major risks</th>
<th>Time span</th>
<th>Main initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate-related Risks</td>
<td>Increase in water-related damage, such as rising sea levels and chronic heat waves (chronic risk)</td>
<td>Short to long term</td>
<td>• Provide construction equipment that enables quicker recoveries from disasters</td>
</tr>
<tr>
<td>Climate-related Risks</td>
<td>Consequences of flooding, such as rising sea levels and chronic heat waves (chronic risk)</td>
<td>Short to long term</td>
<td>• Provide construction equipment that enables quicker recoveries from disasters</td>
</tr>
</tbody>
</table>

**Continues on the next page**

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Hitachi considers information security governance as one of our top management priorities. Information security governance minimizes the risk of business disruption, including information leaks and operational stoppages, due to cyberattacks. As such, we take a dual approach to cybersecurity: value creation and risk management. We outline Information Security Policy from the perspective of cybersecurity risk management and have established the Information Security Committee, which is headed by our Chief Information Security Officer (CISO). This committee outlines policy and leads initiatives related to information security and personal information protection.

**Information Security Management**

Hitachi has created the Global Information Security Administration Rules, which conform to the international ISO/IEC 27001 standard, and is promoting compliance with the regulations in Special Publication 800-171 by the National Institute of Standards and Technology (NIST) of the United States. These rules are implemented globally from the headquarters of Hitachi, Ltd., and other Group companies. We are also actively promoting the use of shared service centers and related support for information security provided by regional headquarters. Policies and procedures determined by the Information Security Committee are then reinforced by the Information Security Promotion Council and other bodies to ensure adoption in the workplace. As Hitachi promoted new work styles based on telecommuting, vulnerabilities associated with employee security awareness become a greater risk in fiscal 2020. In addition to IT-based security measures, we are taking an employee-centered approach to raise security awareness among our employees. During telecommuting, employees are also using personal devices to access our internal systems. To promote a culture of cybersecurity awareness, employees every year are sent a variety of courses that have different goals and are tailored to different target audiences. We also implement simulation training to educate employees about phishing and other cyberattacks. Employees are sent deceptive e-mail as phishing simulation to heighten their awareness of security through direct experience.

**Thorough Security Audit and Inspections**

The information security audit system has been developed in compliance with the “Plan-Do-Check-Act” (PDCA) cycle for its information security management system. We conduct annual information security and personal information protection audits at all Group companies and business units. The president of Hitachi, Ltd., appoints audit supervisors to conduct independent audits, and we ensure the fairness and objectivity of auditors. There are 153 Hitachi Group companies in Japan, including Hitachi, Ltd., that conduct audits in the same way as Hitachi, Ltd., and all results are subject to confirmation. For Hitachi Group companies outside Japan, we use a common global self-check approach to ensure Group-wide auditing and inspections. All business units conduct annual self-checks using Confirmation of Personal Information Protection and Information Security Management. We also conduct monthly Confirmation of Personal Information Protection Management at the 733 operations (as of March 2021) that handle important personal information.

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**Metrics and Targets**

Our environmental activities are managed through the Environmental Action Plan, for which the 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 with 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 years 2019-2021), we aim to achieve 42% progress in our target reduction rates of CO₂ emissions per unit compared with fiscal 2010 for each business unit and Group company. As part of Hitachi’s climate change countermeasures, to advance CO₂ reductions during the use of solid products and services, we set targets and monitor the progress of reducing CO₂ emissions per unit. In other words, we focus on setting metrics that provide users and society with products and services that emit less CO₂. At the same time, we will try to not only reduce per unit emissions but also total CO₂ emissions from our business sites (factories and offices).

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**References**

1. TCFD Recommendations refer to the Task Force on Climate-Related Financial Disclosures.

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**See page 180 of our Sustainability Report for detailed information.**

Establishing the Occupational Health and Safety Management System

The Health and Safety Officer Meeting is held and attended by health and safety officers from each Group company and representatives from the Hitachi, Ltd., headquarters. The members set plans and objectives for Group-wide safety strategies, review ongoing measures to improve occupational health and safety management systems, and share the clear commitment from top management in promoting the health of and safety of employees. At these meetings, the Audit Committee audits the results of Group health and safety activities, plans, and policies every year. For critical health and safety issues, the status of occupational health and safety management is reported at least once a year to the Senior Executive Committee and at meetings of Group company presidents. In fiscal 2020, the Hitachi Group advanced infrastructure development that included information gathering toward the creation of a global health and safety management system. We also increased the frequency of global accident statistics reporting from once every six months to once a month. We expanded initiatives directly undertaken by the Safety and Health Management Division toward safety activities at sites outside Japan where serious accidents have occurred.

Initiatives for Preventing Work-related Accidents

We have set goals of zero fatal accidents and halving lost-time accidents across Group sites worldwide compared to 2016 by 2021. To achieve these goals, we hold the Health and Safety Officer Meeting and conduct interviews with the departments in charge of safety. We also conduct training and analyze the causes of accidents. In addition, we implemented various measures in fiscal 2020 based on our Action Plan. Hitachi sets and implements safety standards to be observed globally at manufacturing sites with a high risk of work-related accidents. We also advance health and safety measures tailored to the operations of individual companies. During business restructuring, we share the details of the health and safety management framework of each of the organizations to be merged in advance. While maintaining mutual respect for the occupational cultures of each party, we ensure safety as part of a smooth business launch. Hitachi conducts safety training specific to each job title and, in fiscal 2020, we created new safety training sections.

Although the total number of work-related accidents is declining, globally there were still three accidents resulting in death in 2020. Recognizing the need to improve workplace environment, we conducted onsite visits and the need for a safety management system that also applies to contractors. In fiscal 2021 we are working to improve our responses and implement corrections for high-risk work and facilities. This work will be completed by the end of the fiscal year.

Initiatives to Improve Employee Health

In fiscal 2020, we expanded our efforts to address the mental health of employees. In fiscal 2020, we created a task force at employees who faced an elongated need for telecommuting due to COVID-19. For example, in Japan, we provided remote healthcare counseling, offered tips on staying healthy while working from home, supported foreign employees seeking medical services in Japan, and ensured the human rights of infected employees. In fiscal 2021, we have been working to increase the support we provide the global employees through more proactive measures, based on organizational integration with the safety department.

Measures to Prevent Infectious Disease

We have been vaccinating employees against hepatitis A, tetanus, cholera, etc. to support infectious disease prevention during business travel outside Japan. In fiscal 2020, we asked employees to always stay home if they have a fever or feel unwell. We have also maintained a work-at-home ratio of 70% during the state of emergency declaration. In Japan, for employees working on jobs required to maintain social infrastructure, we implement infection prevention measures appropriate for each job, including distributing disinfectant spray and masks. In the event of an employee infection, we implement measures to avoid the further spread of infection based on guidance from administrative authorities.

Hitachi Group Global Safety Statistics (rate of occurrence)

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</thead>
<tbody>
<tr>
<td>North America</td>
<td>3.95</td>
<td>3.15</td>
<td>2.66</td>
<td>2.09</td>
<td>2.37</td>
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<td>Oceania</td>
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</table>

*Oriental rate is the rate of workplace accidents per 1,000 directly contracted employees (including basic with lost workdays).*

Value Chain Responsibilities

The Hitachi Group attaches great importance to the sustainability of our value chain, and we work with our suppliers to promote initiatives toward increasing social, environmental and economic value. To ensure the stable supply of products and services, whenever possible we engage in preemptive measures toward ascertaining and reducing risks.

Procurement BCP and Promotion Framework

Our procurement divisions work to enhance our Group/Global business continuity plan (BCP) to ensure incidents that do occur do not result in the suspension of operations or do not have a great impact on society.

Sustainable Procurement Management Framework

Hitachi instituted the Hitachi Group Global Procurement Code. The Code calls on Group companies and suppliers to give due consideration to human rights, labor practices, safety, ethics, quality, and security throughout the supply chain.

We also distribute the Hitachi Group CSR Procurement Guidelines to our approximately 30,000 suppliers around the world, engage in enlightening activities, and require documentation that suppliers have confirmed and understood these Guidelines. We reviewed the guidelines in fiscal 2021 and produced a revision retitled the Hitachi Group Sustainable Procurement Guidelines. Accompanying these guidelines, we also distribute the Green Procurement Guidelines as part of our efforts toward increasing environmental value.

To strengthen our sustainable procurement management framework, in fiscal 2020 we redefined our management functions and established a new Sustainable Procurement Council in fiscal 2021.

Strengthening Global Partnerships for Sustainable Procurement

We have appointed regional procurement officers to oversee local procurement activities in China, the rest of Asia, Europe, and the Americas. These officers carry out activities such as supplier CSR audits and CSR monitoring (self-checks) and hold CSR Seminar for Suppliers in their respective regions to strengthen our responses for sustainable procurement.

Status of CSR Procurement Measures

<table>
<thead>
<tr>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>Period Total</th>
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</thead>
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<tr>
<td>CSR Monitoring (Self-Checks)</td>
<td>116</td>
<td>113</td>
<td>349</td>
<td>291</td>
<td>271</td>
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<tr>
<td>CSR Audits</td>
<td>40</td>
<td>33</td>
<td>64</td>
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<tr>
<td>CSR Seminar for Suppliers</td>
<td>12</td>
<td>10</td>
<td>25</td>
<td>19</td>
<td>27</td>
</tr>
</tbody>
</table>

*1) In fiscal 2020, CSR Seminar for Suppliers were held by webinar and e-learning instead of face-to-face.

Ensuring Responsible Mineral Procurement

Hitachi follows the Responsible Minerals Procurement Code, which our Group policy for responsible supply chain management. In fiscal 2021, we revised and renamed our Hitachi Group Conflict Minerals Procurement Policy as the Hitachi Group policy for Responsible Supply Chain of Minerals.

Response to Technical Intern Training Program Issues

In 2018, the Hitachi Group received a warning from the Organization for Technical Intern Training to correct violations concerning the use of the Technical Intern Training Program. In 2019, Hitachi also received orders from the Immigration Services Agency and the Ministry of Health, Labour, and Welfare to make improvements regarding intern training. We submitted a report to the Organization for Technical Intern Training regarding the completion of improvements in October 2019. In March 2020, we established Group-wide policies and guidelines, and created a system of checks applied to technical intern training. In November, we began conducting internal audits and other measures to prevent the recurrence of any violations.

Hitting the Limits of Legitimacy

Note: The Hitachi Group positions suppliers as partners with whom we engage equally toward business development. We use the term “procurement partners” when referring to suppliers that meet our procurement standards. In fiscal 2020, CSR Seminar for Suppliers were held by webinar and e-learning instead of face-to-face.


data

SustainabilityGovernanceVisionValueCreation
Quality Assurance

As we outline in the Hitachi Group Code of Conduct, being able to provide customers peace of mind in the use of our products and services and being able to fulfill the specification and quality requirements of our customers are two of the things valued most by all of us at Hitachi. Hitachi believes in prioritizing quality and reliability above all else. To embody this belief, we engage in activities toward strengthening quality assurance for all processes and from multiple perspectives: organization and management, technology, and human resources.

Basic Principles on Quality Assurance

Embracing the Hitachi Founding Spirit of “Harmony, Sincerity, and Pioneering Spirit,” we adhere to “basics and ethics” and “put right and wrong before profit and loss.” In our quality assurance activities, we value a commitment to sincerity. Our unique practice of OCHIBO-HIROI, which means “clearing” in English, involves analyzing and learning from our failures to further develop our technologies. When an incident occurs, we not only investigate the technical causes but also thoroughly discuss the process, framework, and motivational causes leading up to the occurrence, along with ways to prevent recurrences, to improve our product reliability and customer satisfaction.

Framework for Quality Assurance

To ensure full control over quality governance, Hitachi has separated the quality assurance division from the manufacturing division in every business unit and Group company, creating a framework for operations that prioritize customer safety and trust above all. We also make quality assurance divisions independent of business divisions and enhance the structure for reporting to the Quality Assurance Division at our head office. This ensures a framework for close information sharing between all parties.

Quality Assurance Activities

Hitachi distributes product regulations worldwide and shares information on amendment trends and enforcement dates among Hitachi Group companies. We promote legal compliance and make continuous improvements to this process by clarifying product-specific laws (product-specific laws map) and implementing our product compliance management system. The Hitachi Group globally applies our basic principles of quality assurance and Quality Assurance Standards. We receive accident reports from overseas Group companies based on a reporting structure that is independent of the business divisions, similar to the structure that is used in Japan, and we promote the same principles of OCHIBO-HIROI. Through these activities, we promote the establishment of the global quality assurance framework.

Compliance

Hitachi has established internal regulations based on widely recognized and adopted international guidelines concerning important business practices, including bribery and corruption prevention, adherence to the Anti-Monopoly Act, and tax compliance. We work to ensure awareness and enforcement throughout our Group. With the interpretation of regulations and laws constantly evolving, we regularly validate and reform internal regulations to ensure our appropriate response to the demands of society.

Basic Policy

Hitachi, Ltd., has formulated the Hitachi Group Codes of Conduct, which all executive officers and employees across the Group pledge to uphold. The Codes of Conduct is translated from Japanese to 14 languages, including English, Chinese, and through e-learning is shared with more than 300,000 Hitachi Group executive officers and employees around the world. In April 2020, we established the Hitachi Group Code of Conduct and Compliance. This code supplements the Codes of Conduct to clarify the approach to corporate ethics and compliance that must be shared across the entire Hitachi Group. Based on the Hitachi Group Codes of Conduct and the Hitachi Group Code of Ethics and Compliance, we established the Hitachi Group Compliance Program (HGCP), which consists of regulations and guidelines for various matters such as compliance with the Anti-Monopoly Act, preventing transactions with antisocial forces and money laundering, and preventing bribery and corruption.

Compliance Reporting System

Hitachi has adopted a compliance reporting system that can be accessed by Hitachi Group employees not only by Hitachi Group employees but also by temporary staff and business partners such as suppliers and distributors. In fiscal 2020, we received 639 reports from all Group companies worldwide. We also established what we call the Channel to the Board of Directors. This system allows all Hitachi, Ltd., employees to report problems anonymously or under their real names directly to the Board of Directors. In fiscal 2020, to further strengthen the Group’s governance and compliance, we integrated internal reporting systems within the Group into a Group-wide system called the Hitachi Global Compliance Hotline. The harassment consultation service previously under the management of the human capital division and the internal reporting systems independently maintained by Group companies were integrated into the new system.

Major Initiatives

- **Policies for preventing bribery and corrupt practices**
  As part of the HGCP, Hitachi established the Hitachi Group Anti-Bribery and Anti-Corruption Policy and related regulations. The provision or acceptance of entertainment or gifts, donations, or provision of political capital (political contributions) by any employee must not exceed the scope permitted by anti-bribery laws and regulations and must comply with Hitachi’s internal rules. In addition to outlining specific spending limits on monetary value and frequency of online training courses for manufacturing, quality assurance, and other divisions.

- **Anti-monopoly act compliance policy**
  The HGCP includes the Hitachi Group Fair Competition Policy. To promote global awareness and compliance throughout the Group, we have created international versions of standards concerning contact with competitors to ensure awareness of points of caution related to business practices. We also clarified the involvement of compliance departments in existing cartel prevention monitoring and other activities (vertical relationships with customers, channel partners, suppliers, and others).

- **Export control**
  Hitachi’s basic policy is to comply with global import/export laws and ensure appropriate management. To reinforce this basic policy, Hitachi, Ltd., has established the Corporate Regulations concerning Security Export Control. We carry out strict export control practices in line with relevant laws and regulations, including 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. Hitachi Group companies also implement export control in accordance with relevant laws and regulations.

- **Hitachi’s tax compliance approach**
  Hitachi ensures appropriate tax governance for the entire Hitachi Group. We have established regulations governing all tax-related matters and work to ensure awareness among all employees involved in tax management (filing and paying taxes, handling tax audits, and tax risk management). We manage transfer pricing in accordance with the OECD Transfer Pricing Guidelines and the transfer pricing regulations of the countries and regions in which our Group companies are located. We also assess the applicability of the Anti-Tax Haven System. When applicable, we ensure appropriate tax payments based on the application of this system.

Violations of Laws and Regulation

In fiscal 2020, there were no incidents in which Hitachi was prosecuted or penalized by the authorities. Furthermore, Hitachi had no significant fines or nonmonetary sanctions for noncompliance with tax laws and regulations.
Senior Executive

Hitachi views the expansion of long-term and overall shareholder returns as an important management objective. Hitachi, Ltd. and Hitachi 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
  - Development of Guidelines for Strengthening Governance
    - Development of Corporate Governance Guidelines
  - Enforcement of Companies Act
- **2003**
  - Demarcation of Management Oversight and Execution
    - Shifted to a company with committees (currently a company with nominating committee, etc.)
    - To increase management speed and improve management transparency
  - Development of Stewardship Code
  - Start of Application of Corporate Governance Code
  - Enhancement of Dissemination of Information about Medium- to Long-Term Sustainable Growth
    - Publication of an integrated report
  - Enhancement of Interactions with Capital Markets
    - Hitachi IR Day (briefing on business strategy by division) was launched
  - Acceleration of Global Management
    - Independent directors including foreign directors were increased
    - Independent directors composed the majority of directors
- **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
  - Non-Japanese directors joined the Compensation Committee, the Nominating Committee, and the Audit Committee, etc. in 2003.
  - Independent directors composed the majority of directors
- **2012**
  - Acceleration of Global Management
    - Independent directors including foreign directors were increased
    - Independent directors composed the majority of directors
  - Development of Guidelines for Strengthening Governance
    - Development of Corporate Governance Guidelines
  - Start of Application of Corporate Governance Code
  - Enhancement of Dissemination of Information about Medium- to Long-Term Sustainable Growth
    - Publication of an integrated report
  - Enforcement of Companies Act

**Implementing All the Principles of the Corporate Governance Code**

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

**Director Composition**

- **Independence**
  - (ratio of Independent directors)
    - Independent directors: 10 directors
    - 76.9%
  - (ratio of non-Japanese and female directors)
    - Non-Japanese directors: 6 directors
    - Female directors (3% of overall director seats)
    - 46.2%

**Directors with Abundant Experience**

The Board 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.

In June 2021, Helmuth Ludwig joined the Audit Committee and Joe Harlan joined the Compensation Committee, enabling even more diverse discussions.

**Hitachi’s Corporate Governance Framework and Its Features**

The Senior Executive Committee is an advisory body to the CEO or the President that conducts multifaceted discussions and makes careful decisions regarding important matters that impact Hitachi, Ltd. or the Hitachi Group. As of July 2021, the Committee consisted of 11 members, including the Executive Chairman & CEO, the President & COO, five executive vice presidents, three senior vice presidents, and one vice president.

**General Meeting of Shareholders**

- **Board of Directors**
  - 2 executive members
  - 11 non-executive members (including 2 female members)
  - Nominating Committee
    - 4 directors
  - Compensation Committee
    - 5 directors
  - Audit Committee
    - 6 directors

**Transparency in Management**

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

We have established the Nominating Committee, the Compensation Committee, and the Audit Committee, which are mostly made up of 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, from 2012.

Our Board of Directors, which is chaired by an independent director, has 11 members, including 10 independent directors, two directors who are also serving as executive officers, and one 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.
Administrative Performance of the Board of Directors

The Board of Directors approves basic management policy for the Hitachi Group and supervises the execution of the duties of executive officers and directors in order to sustainably enhance corporate value and the 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 the Board of Directors Regulations.

Attendance at the Board of Directors Meetings Held in Fiscal 2020

<table>
<thead>
<tr>
<th>Name</th>
<th>Board of Directors</th>
<th>Nominating Committee</th>
<th>Audit Committee</th>
<th>Compensation Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katsumi Ihara</td>
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<tr>
<td>Ravi Venkatesan</td>
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<td>Cynthia Carroll</td>
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<td>George Buckley</td>
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<tr>
<td>Louise Pentland</td>
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<tr>
<td>Harunori Mochizuki</td>
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<td>Takahito Yamamoto</td>
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<tr>
<td>Hiroaki Yoshishara</td>
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<tr>
<td>Makutou Lowder</td>
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</tbody>
</table>

*Number of days during term of office on which the Board of Directors meetings were held: 34
Number of days during term of office on which Nominating Committee meetings were held: 8
Number of days during term of office on which Audit Committee meetings were held: 17
Number of days during term of office on which Compensation Committee meetings were held: 4

Description of the Three Committees' Activities

Nominating Committee

The Nominating Committee has the authority to determine proposals submitted to the general meeting of shareholders for the election and dismissal of directors. The Nominating Committee consists of four directors, three of whom are independent directors. It examines director candidates and holds preliminary meetings concerning the appointment and dismissal of executive officers, including the CEO. In fiscal 2020, the Nominating Committee held meetings on eight 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 sets an upper limit on the total term of office for independent directors and reviewed and confirmed the executive officer system implemented in fiscal 2021. In addition, it provided guidance for the activities including discussions and individual interviews aimed at creating candidates for future management and leadership positions.

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 accounting auditors. The Audit Committee currently consists of five independent directors and one standing Audit Committee member. Harunori Mochizuki, the chairman of the Audit Committee, has been involved in accounting and other business practices at the Hitachi Group for many years and possesses a considerable breadth of knowledge concerning finance and accounting. In fiscal 2020, the Audit Committee held meetings on 17 days.

Primary Activities

The Audit Committee conducted activities that were focused on its priority matters for consideration, including the strengthening of collaboration and the facilitation of information sharing under a "bipartite Audit" (by the Audit Committee, internal audit and audit in accounting audit), and auditing of the establishment and operation of internal control systems. In addition, it reviewed the financial statements and examined the views of the board of directors on the financial statements.

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. Currently, composed of five directors, including four independent directors, the committee strives to ensure objectivity, transparency, and fairness in the determination process.

In addition, the Compensation Committee verifies and releases details of the process used for determining remuneration for individuals, including assessments concerning basic remuneration amounts, evaluation of progress made toward individual targets, and performance appraisals that are held to short-term incentive compensation. In fiscal 2020, the Compensation Committee held meetings on four days.

Primary Activities

The Compensation Committee determined remuneration amounts for individual directors and executive officers in accordance with established policies with regard to understanding the processes and results of appraisals for performance and individual targets tied to short-term incentive compensation for executive officers. In addition, the committee reviewed the executive compensation system while giving due consideration to compensation granted to managers at global companies and the group’s executive officers with shareholders, and decided on specific criteria for evaluating executive officers in fiscal 2021.

The Role of the Nominating Committee

At Hitachi, a “company with nominating committee, etc.,” one role of the Nominating Committee is to support the fundamental framework of corporate governance. Specifically, it plays an important role in securing the effectiveness of the Board of Directors’ management supervision and decision-making functions by deciding on the content of agenda items for submission to the General Meeting of Shareholders concerning the appointment and dismissal of executive officers and submitting proposals to the Board of Directors on appointments and dismissals to the position of CEO and on the makeup of the Nominating, Compensation, and Audit committees. It also selects and trains CEO successor candidates. Since 2016, independent directors have served as the committee chairman, and the Nominating Committee has comprised three independent directors and one executive officer, with non-Japanese and female members included to ensure diversity.

A Board of Directors Rich in Diversity

Hitachi became a company with committees (currently a company with a nominating committee, etc.) in 2003, and in 2012 the number of independent directors increased, including non-Japanese directors, as part of efforts to build a globally competitive management structure. A backdrop to these changes was a desire to transform Hitachi into a true global leader, with overseas business accounting for more than half of the Group’s business. Deciding on director candidates is an important mission of the Nominating Committee, and it chooses people who are qualified to sit on a Board of Directors that is in line with global standards. Currently, 10 of 13 directors are independent directors, combining global knowledge and experience in a variety of fields, making this board ideally suited to lead in Hitachi’s diverse management operations. People with experience in a global corporation demonstrate not only outstanding character but also a broad range of knowledge and experience in management. In selecting these candidates, regardless of nationality, we conducted interviews where we asked about their management philosophy and perspectives on corporate management, including aspects of culture. At Hitachi’s actual Board of Directors meetings, we sometimes spend more than an hour discussing a single topic in detail, and you can see lively discussions where each of the participants has spent time studying these topics in advance, from their own unique perspective.

Building a Globally Competitive Board of Directors and Fostering Diverse Leaders

Fostering Management Leaders, including the Next CEO and Successor Candidates

Another mission of the Nominating Committee is appointing the CEO. Hitachi is a huge organization, so in addition to selecting the CEO, creating management leaders of the future is extremely important in terms of supporting Hitachi’s continued global growth. I have served as chairman of the Nominating Committee since fiscal 2016, and in addition to further strengthening selection and training activities, I have worked to secure objectivity and transparency in these processes. We recently appointed Dr. Kojima as president & CEO, but this selection process began from the moment that his predecessor, Dr. Higashihara, was appointed president & CEO. On the executive side, we have identified and trained about 400 people who have the potential to take on corporate management positions. The Nominating Committee also participates by narrowing down candidates from the perspective of one’s track record and potential. When they are first selected, none of these individuals has all the elements required to be a leader. Non-Japanese can also be appointed to top positions, but they need to have a deep understanding of Japanese culture and business practices. We provide these candidates with opportunities to give presentations to the Nominating Committee, engage in discussions, and participate in one-on-one meetings with committee members. We focus on developing the qualities of these candidates, reinforcing the most essential elements, and at the same time fostering these individuals through a process of tough assignments. Directors outside of the Nominating Committee also conduct one-on-one meetings with the candidates to foster a multifaceted perspective.

Fostering Next-Generation Leaders

Because we believe that it is important to select and foster these candidates for the future early on. For this reason, the Nominating Committee focuses on developing “Future 50” members, who are young leader candidates, while switching out candidate members every year. We actively work to strengthen these candidates, for example, by giving lectures and conducting debates on various themes. Hitachi’s management, including the Board of Directors, increases its capacity to respond while referring to global standards, for example, through strict governance of various themes, and diversity that is not limited by attributes such as gender and nationality. By expanding these types of management-level awareness reforms to include young leader candidates, we enhance and improve next-generation leaders for Hitachi as a whole, to include a broader and deeper talent pool.
Establishing Attractive, Global Compensation Structures in Line with the Viewpoint of Stakeholders

Harufumi Mochizuki
Independent Director

The Role of the Compensation Committee
I have been a member of Hitachi’s Board of Directors since 2012, and I have been deeply involved with the Compensation Committee since 2014 in the capacity of chairman. During this time, I feel that the role of the committee has evolved in terms of its responsibility for Hitachi’s governance. Of course, the basic form of the committee’s activities is to guarantee objectivity, transparency, and fairness in processes related to deciding director compensation. The goal, however, is to ensure a good balance in the distribution of corporate profits among shareholders and other stakeholders. During the time that I have been here, Hitachi has shifted the focus of its strategic bases even more from Japan to other countries, implementing management strategies aimed at transforming the company into a global leader. By ensuring that the compensation structure is aligned with standards appropriate to a global corporation, we have adopted a basic policy of securing management talent with the qualities that will increase corporate value in the global market.

Building a Compensation Structure that is Attractive Even from a Global Perspective

Every country has different compensation frameworks and different taxation systems regarding stock options. When we designed our compensation system, we started by introducing basic compensation, performance-based compensation as a short-term incentive, and a stock option system as a medium- to long-term incentive. This includes individual evaluations tied to performance.

Introducing an Evaluation System that Increases Environmental Value

When Hitachi presented “environmental value” as a new core element of management strategies, we decided to add environmental value as a clear element of performance evaluations for executive officer compensation. We set targets for each executive officer’s evaluation based on indices like those in Hitachi’s Mid-term Management Plan. We will continue to flexibly examine and evolve this system, for example, by enhancing evaluation indices.

The CEO assigns roles to the various executives, and after multiple meetings individual goals are set through a mutual consensus based on the job description. The Compensation Committee conducts fair and strict evaluations through a process of interim and year-end reviews, and then the CEO decides on the final evaluation. We referenced the component ratios for management compensation at major global corporations and decided on a 1:1:1 balance of basic compensation, short-term incentives, and medium- to long-term incentives. This compensation design has been in place in its current form since 2019.

In fiscal 2019, we introduced the shares of restricted stock system to replace the conventional stock options as medium- to long-term incentive compensation. By having directors own stock from the time that they are appointed, we have built a framework that develops a deeper sense of shared values with shareholders and gives directors the incentive to continuously increase corporate value and undertake management from a medium- to long-term perspective. In the case of non-Japanese directors, given that systems differ in each country, we conducted careful and extensive studies and eventually introduced a performance-based compensation system as a short-term incentive; then, in fiscal 2020, we decided to apply the restricted share compensation unit system as a medium- to long-term incentive.

Moving forward, by incorporating opinions from diverse perspectives, we will further increase effectiveness in terms of operating the compensation system, including performance evaluations. As part of these efforts, Joe Harlan joined the Compensation Committee in June 2021, bringing with him extensive knowledge and experience with global corporations.

Contributing to Building a Responsive Organization that is Sensitive to Risk by Strengthening the “Triangular Pyramid” Monitoring Structure Based on Tripartite Audits

Hiroaki Yoshihara
Independent Director

The Role of the Audit Committee
The role of the Audit Committee is to fulfill the responsibilities entrusted to us by stakeholders, by conducting accounting audits, and by reviewing and appraising the appropriateness of the activities executed by directors, executive directors, and corporate officers, while at the same time paying close attention to growth opportunities and management issues. The Audit Committee identifies, evaluates, and processes risks and issues that the company is facing on a global scale, with a particular focus on large-scale M&As, mid-term management plans, investment strategies, and other items in matters that bear substantial risks. At the same time, we monitor the progress of post-merger integration processes and company-wide digital transformations and exchange opinions on improvement measures as they become necessary. In fiscal 2020, amid the COVID-19 pandemic, we followed the Hitachi Group’s safety and health policy of placing top priority on protecting safety and health. We used web conferences and other IT tools to hold Audit Committee meetings and conducted remote audits. Overseas, we conducted remote audits and effectively utilized auditing talent from overseas regional supervisory companies.

Tripartite Audits and the Triangular Pyramid Monitoring Structure
Hitachi’s Audit Committee and internal audit section collaborate and communicate closely with accounting auditors in a process called “Tripartite Audits,” which aims to increase transparency and the effectiveness of internal controls while ensuring appropriate tension and information sharing on matters such as audit plans, progress, risks, and respective response measures. Key auditing matters (KAMs) are also an important part of Tripartite Audits. We collaborate with accounting auditors and conduct ongoing discussions from the creation of the auditing plan and throughout the auditing process. One unique feature of Hitachi’s Tripartite Audits is that Audit Committee members conduct preliminary audit visits at key locations prior to internal audits by the Head Office Internal Audit Section. Another feature is that, to further improve Tripartite Audits, the three parties in question conduct mutual performance evaluations with the Finance Division, constantly working to improve by sharing feedback from those evaluations. Furthermore, we study and actively encourage the introduction of digital tools to further increase the efficiency of Tripartite Audits.

To strengthen support for Audit Committee activities, in August 2020, Hitachi established an Audit Committee Center to provide support that would contribute to continuous improvements in Tripartite Audits, for example, by updating and following up on important risk and issue lists and coordinating with sector corporate auditors and the internal audit sections. In June 2021, independent director Helmuth Ludwig was welcomed as a new Audit Committee member, adding to the diversity of committee members and accelerating the globalization of debates. Hitachi’s Audit Committee was able to smoothly improve effectiveness as a direct result of top management’s strong awareness and deep determination regarding governance. With this background, we ensure easy access to the persons and information required in auditing operations and enable regular follow-up on all items pointed out during audits, either through committee meetings, business review meetings, or audit visits, or else through the Audit Committee Center. In addition, the status of progress on important items, and items where improvements were requested, are reported at meetings of the Board of Directors.

Further Improving the Effectiveness of the Audit Committee

To strengthen support for Audit Committee activities, in August 2020, Hitachi established an Audit Committee Center to provide support that would contribute to continuous improvements in Tripartite Audits, for example, by updating and following up on important risk and issue lists and coordinating with sector corporate auditors and the internal audit sections. In June 2021, independent director Helmuth Ludwig was welcomed as a new Audit Committee member, adding to the diversity of committee members and accelerating the globalization of debates. Hitachi’s Audit Committee was able to smoothly improve effectiveness as a direct result of top management’s strong awareness and deep determination regarding governance. With this background, we ensure easy access to the persons and information required in auditing operations and enable regular follow-up on all items pointed out during audits, either through committee meetings, business review meetings, or audit visits, or else through the Audit Committee Center. In addition, the status of progress on important items, and items where improvements were requested, are reported at meetings of the Board of Directors.
Hitachi Integrated Report 2021

Analysis and Evaluation of the Effectiveness of the Board of Directors

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

Fiscal 2020 Evaluation Process

### Points of evaluation

<table>
<thead>
<tr>
<th>1. Questionnaire-based self-assessment by each director (February–March 2021)</th>
</tr>
</thead>
</table>
| [• Composition: diversity on the Board, the number and proportion of Inside and Outside Directors, etc.]
| [• Viability of responsibilities and roles of the Board]
| [• Meeting operation: meeting frequency, deliberation time, agenda setting, quality of deliberation, Chairman’s role, etc.]
| [• Contribution: contribution to strategy building and change of company culture, contribution to have constructive discussions, validation of Director’s knowledge and experience, discussions based on taking the Digital Transformation, etc.]
| [• Understanding of the Company: Hitachi Group identity, risk factors, potential challenges and opportunities.]
| [• Three committees: composition, responsibilities and roles, coordination with the Board, etc.]
| [• Supporting system for the Board: provision of necessary information such as the Board materials, etc.]

<table>
<thead>
<tr>
<th>2. Discussions among independent directors (March 2021)</th>
</tr>
</thead>
</table>
| [• Independent directors had a meeting and discussed the Board effectiveness there.]

<table>
<thead>
<tr>
<th>3. Discussions at the Board meeting (May 2021)</th>
</tr>
</thead>
</table>
| [• The Board analyzed and evaluated its effectiveness as a whole and confirmed the policy on approaches to further enhance the Board’s effectiveness based on the results of the preceding process, considering comparison to the evaluation results of the previous year and measures taken for improving its effectiveness in fiscal 2020.]

### Evaluation Results and Future Initiatives

#### Overall evaluation in fiscal 2020

- The Board assessed that the Board members are diverse and make use of their knowledge and expertise to speak out, having vigorous discussions especially on matters related to business strategies such as the mid-term management plan toward mid/long-term growth of corporate value. The Board, therefore, concluded that the effectiveness of the Board as a whole is maintained.

#### Future initiatives

- Further enhancement of corporate governance
  - Examine the discussion process for strategy discussions based on a mid- to long-term perspective and establish a time and forum for deepening discussions.
  - Business strategy reports and discussions at Board meetings will continue to be implemented on a sector by sector basis, and discussions will focus on strategy, such as a risk-based matrix based on factors such as the standing of the Company, the status of competitors, technology, talent, finance and Lumada strategy.
  - Risk management, ESG and investor relations will be submitted as agenda items as important matters for improving long-term corporate value.
  - The Board will attempt to strengthen a relationship with the Nominating Committee and further contribute to succession planning of the CEO (e.g., enhancement of the Nominating Committee’s reports to the Board, one-on-one meetings with CEO successor candidates and next generation leader candidates).

- Enhancement of supporting system for the Board and improvement of practical issues in operations
  - Post COVID-19, resuming to provide Independent Directors with information on opportunities of visiting sites and events of Hitachi Group.
  - Further improve structure and contents of materials for the Board meeting and operation of provision of materials well in advance of the Board meeting.

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 on proposals from the Naminating Committee. As stipulated in our Corporate Governance Guidelines, our basic policy concerning the CEO 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 the shareholders. Decisions regarding the appointment or dismissal of the CEO shall be made based on prior deliberations and proposals by the Naminating Committee.

Regarding our CEO Succession Plan, as the speed of change in the management environment 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.

Moreover, 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 among 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 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 intensive 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

#### 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 the roles and responsibilities of each Director and Executive Officer.
- Compensation for Directors shall be such that it enables them to exercise the 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 considering compensation levels at other companies as well as economic and market trends.
- The Compensation Committee utilizes external 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 based on remuneration as fixed pay. The amount of basic remuneration is decided 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 basic remuneration, short-term incentive compensation and medium- and long-term incentive compensation is set based on the ratio of 1:1:1 as the standard, 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 an Executive Officer holds, the higher the proportion of variable pay is set to the total annual compensation.

As part of efforts to achieve carbon neutrality at Hitachi business sites (factories and offices) by fiscal 2030, in fiscal 2021, an evaluation system that considers environmental value was introduced into short-term incentive compensation for executive officers. Specifically, targets are set for environmental strategies and solutions to environmental issues based on the divisions and operations handled by each executive officer, and performance is evaluated according to the degree of target achievement.

It is found that an executive officer has been engaged in misconduct during his/her term of office, compensation for such Executive Officer that has been already paid shall be returned to the Company (clawback provision).

Compensation to Executive Officers (Fiscal 2021)


<table>
<thead>
<tr>
<th>Basic remuneration</th>
<th>Total remuneration</th>
<th>Variable pay</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Basic remuneration</td>
<td><strong>2</strong> Short-term incentive compensation</td>
<td><strong>3</strong> Medium- and long-term incentive compensation</td>
</tr>
</tbody>
</table>

1. Basic remuneration
   - Set according to the relevant position by adjusting that amount to reflect financial results and individual performance.

2. 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. The amount of short-term incentive compensation is determined after ex-post evaluations regarding the achievement of individual targets (20%).
   - Evaluated referring to consolidated revenue, 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.

3. Medium- and long-term incentive compensation
   - 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 the granted shares of restricted stock, the number of shares whose transfer restriction is lifted is determined after ex-post evaluation. The total shareholder return (TSR) of Hitachi stock over the three years from the beginning of the fiscal year when the medium- and long-term incentive compensation is granted is compared to growth rate of TOPX over the same period.

   The shares of restricted stock
   - 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 the granted shares of restricted stock, the number of shares whose transfer restriction is lifted is determined after ex-post evaluation. The total shareholder return (TSR) of Hitachi stock over the three years from the beginning of the fiscal year when the medium- and long-term incentive compensation is granted is compared to growth rate of TOPX over the same period.

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 as fair and reasonable.

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.
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 that time, the committee 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 President 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. In addition, 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 of our 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. Statutory auditors, which function as legal agents at Hitachi subsidiaries under the Companies Act, also report to these chief auditors and work to improve the effectiveness of Hitachi’s internal control systems. When conducting business audits, we use IT systems to expediently search for reference information contained within materials submitted prior to audit in an attempt to improve efficiency. We are currently enhancing a system that will allow our internal audit section to share information with professional accounting auditors using a data lake. When reading audit reports submitted to the President by the internal audit section, the President must be able to quickly understand the issues identified by these reports and make prompt judgments concerning whether immediate action is required. In the future, our internal audit section will continue to maintain its transparency and independence while working to improve audit efficiency as one member of our Tripartite Audit system. Our accounting auditors perform audits that focus on the accuracy and reliability of our financial statements. First, they adopt a risk-based approach in response to the Group’s overall financial status. Applying this approach, they then determine the scope and methods of the audit, formulate an audit plan, and share opinions with the Audit Committee. Next, based on the audit plan, they perform audits on each of the five sectors and the business units that comprise them, enabling effective and efficient understanding of data related to Hitachi’s finance department and each of its business segments. If, during the auditing process, our accounting auditors discover a degree of risk that could impact future financial statements significantly or issues that, even if monetarily small, could have a large qualitative effect, they share related information regarding these risks and issues and the progress on a response from the related divisions with the Audit Committee and internal audit section. They also work to improve and raise the effectiveness of audits by submitting “management letters” containing points of concern and improvement suggestions through the finance department. Recently, they have also been working to raise the efficiency of checks on the accuracy of numerical figures by using some IT systems to investigate all cases rather than performing test-checking through sampling.

Hitachi promotes its Social Innovation Business with efforts 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, given the recent increase in ESG investments, we actively engage in dialogues with shareholders and investors as well. In March 2021, Hitachi Europe held a two-day online stakeholder dialogue based on the theme of “Hitachi’s approach towards a zero-carbon society.” The event welcomed 29 participants, including corporate executives, persons involved in sustainability activities, policy makers, investors, and NGOs. Hitachi will continue to promote active dialogues with stakeholders and work to increase social and environmental value by applying knowledge from this event in corporate management activities.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Main roles</th>
<th>Means of communication (fiscal 2020 results)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Creation of better products and services, response to complaints, appropriate disclosure of information on products and services</td>
<td>• Customer satisfaction activities</td>
</tr>
<tr>
<td>Shareholders and investors</td>
<td>Timely and proper information disclosure, obtaining of fair recognition and support from capital markets, reflection of shareholder and investor viewpoints in corporate management</td>
<td>• Financial results briefings (quarterly), general shareholders’ meeting (annual)</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Building of fair and sound business relations, smooth information sharing toward better partnerships</td>
<td>• Procurement activities, CIR seminar (271 companies)</td>
</tr>
<tr>
<td>Employees</td>
<td>Proper treatment, promotion of occupational health and safety of human capital</td>
<td>• Intranet, in-house newsletters, training, town hall meetings between senior management and employees (President &amp; CEO: 7 meetings, executive-vice presidents: 8 meetings), employee survey (annual)</td>
</tr>
<tr>
<td>National and local governments, industrial associations</td>
<td>Compliance with domestic and foreign laws and regulations, policy recommendations, participation in industry-government-academia collaborative projects</td>
<td>• Academic research for policy recommendations to international organizations and national governments, lobbying activities, participation in industry and business associations (Japan)</td>
</tr>
<tr>
<td>Local communities</td>
<td>Fulfillment of responsibilities as a corporate citizen, involvement in local communities</td>
<td>• Contribution to local communities through business, participation in volunteer activities</td>
</tr>
<tr>
<td>Academic associations and research institutions</td>
<td>Promotion of technological innovations, participation in industry-government-academia collaborative projects</td>
<td>• Open innovation (joint research)</td>
</tr>
<tr>
<td>NGOs and NPOs</td>
<td>Incorporation of diverse public opinions, promotion of stakeholder-focused management, social contribution through nonprofit activities</td>
<td>• Stakeholder dialogue (annual), dialogue through collaboration</td>
</tr>
<tr>
<td>Global environment</td>
<td>Realization of a decarbonized society, a resource-efficient society, a harmonized society with nature</td>
<td>• Stakeholder dialogues about environment (annual)</td>
</tr>
</tbody>
</table>
Independent Directors*

Katsumi Ihara
Share ownership: 930 shares
Term of office as Independent Director: 3 years
1994 President, US Electrical Motors,
1993 Chief Technology Officer, Motors,
2018 Director, Hitachi, Ltd.
2016 Chairman, Director, Sony Financial Holdings, Inc. (Currently in office)
2014 President and Representative Director, Sony Corporation (Retired in September 2011)
2011 President, Representative Director, Sony Financial Holdings, Inc.
2011 President, Representative Director, Sony Life Insurance Co., Ltd.
2009 Director, Corporate Governance Office, Sony Co., Ltd. (Retired in June 2016)
2016 Chairman, Director, Sony Financial Holdings, Inc. (Retired in June 2017)
2018 Director, Hitachi, Ltd.

Ravi Venkatesan
Share ownership: 200 shares
Term of office as Independent Director: 11 months
1998 Chairman of Board of Directors, Compass Information Ltd. (Retired in March 2006)
2004 Chairman, MicroIntelligence Pvt. Ltd. (Retired in September 2011)
2011 Independent Director, Infosys Ltd. (Served in May 2015, served on the Board from April 10, 2017 to August 2017)
2013 Senior Partner, KPMG LLP (Currently in office)
2015 Chairman (Non-Executive), Bank of Baroda (Retired in August 2015)
2012 Special Representative for Young Entrepreneurs, Indian Government (Currently in office)
2013 Director, Hitachi, Ltd.

Cynthia Carroll
Share ownership: 1,400 shares
Term of office as Independent Director: 8 years
1994 General Manager, Tel-Produkts, Alcan Inc.
1996 Managing Director, AGH-Intha Ltd., Alcan Inc.
1996 President, Beaulieu, Almintra and Specialty Chemicals, Alcan Inc.
2002 President & CEO, Primary Metals, Alcan Inc.
2007 CEO, Anglo-America plc. (Retired in April 2010)
2010 Director, Hitachi, Ltd.

Joe Harlan
Share ownership: 930 shares
Term of office as Independent Director: 7 years
1996 Vice President and Chief Financial Officer, Lighting Business, General Electric Company
2001 Vice President, Corporate Financial Planning and Analysis, JM Company
2002 President and Chief Executive Officer, Sumitomo, JM Ltd.
2002 Managing Director, Bank of Baroda Consumer and Commerce Business, JM Company
2002 Executive Vice President, Consumer and Commerce Business, JM Company
2002 Executive Vice President, Performance Materials, The Dow Chemical Company
2012 President, President, Corporate Finance, Energy, and Information Materials, The Dow Chemical Company
2014 Chief Commercial Officer and Vice Chairman, Market Business, The Dow Chemical Company
2015 Vice Chairman, Chief Commercial Officer and Chief Executive Officer, The Dow Chemical Company (Retired in August 2015)
2016 Director, Hitachi, Ltd.

Hiroaki Yoshishara
Share ownership: 2,500 shares
Term of office as Independent Director: 7 years
1978 Joined Hitachi, Ltd.
1981 Corporate Management, Hitachi Research Laboratory
1985 Vice President and Executive Officer
2013 Vice President and Executive Officer
2015 Senior Vice President and Executive Officer
2016 Executive Vice President and
2021 President & CEO and Director

Helmut Ludwig
Share ownership: 1,900 shares
Term of office as Independent Director: 11 months
2001 President, Software and System House Division, Siemens AG
2006 President, Systems Engineering Division, Automation and Drives Group, Siemens AG
2017 President, Siemens FLM Software, Inc.
2010 Global Head of Communications, Siemens AG
2011 President and CEO, Industry Sector, North America, Siemens Inc.
2014 Executive Vice President and Chief Digital Officer, Digital Factory Division, Product Lifecycle Management, Siemens Corp.
2020 President and CEO, Siemens AG (Begun December 2018)
2020 Professor of Practice in Strategy and Entrepreneurship, Cox School of Business, Southern Methodist University (Currently in office)
2020 Director, Hitachi, Ltd.

Directors

George Buckley
Share ownership: 6,700 shares
Term of office as Independent Director: 9 years
1980 Chief Technology Officer, Motom, Dunes and Apples, Emerson
1994 President, U.S. Electrical Motors, Emerson Electric Company
1997 President, Mercury Marine Division and Corporate Vice President, Brunswick Corporation
2000 President and Chief Operating Officer, Cummins Inc.
2005 Chairman and Chief Executive Officer, Cummins Inc.
2005 Chairman of the Board, President and Chief Executive Officer, Cummins Inc.
2012 Executive Chairman of the Board, 3M Company (Retired in May 2012)
2012 Executive Chairman of the Board, 3M Company (Currently in office)
2013 Executive Chairman of the Board, Hitachi, Ltd. (Currently in office)
2013 Director, Hitachi, Ltd.

Louise Pentland
Share ownership: 1,000 shares
Term of office as Independent Director: 6 years
1997 Admitted as a Solicitor (UK)
2001 Senior Partner, Norton Rose, Norton Rose, Norton Rose
2007 Vice President, Acting Chief Legal Officer and Chief Legal Officer, Nippon Life Insurance Company
2008 Senior Vice President and Chief Legal Officer, Nippon Life Insurance Company
2009 Admitted to New York State Bar
2011 Executive Vice President and Chief Legal Officer, Nippon Life Insurance Company (Retired in May 2016)
2016 General Counsel, PayPal, Inc. (Currently in office)
2016 Director, Hitachi, Ltd.
2016 Senior Vice President and Chief Legal Officer, PayPal, Inc. (Currently in office)
2016 Executive Vice President and Chief Business Officer (Finance & Legal Officer, PayPal Holdings, Inc. (Currently in office)

Harutumi Mochizuki
Share ownership: 4,600 shares
Term of office as Independent Director: 8 years
Chairman of the Board of the Compensation Committee
2002 Director of Governance and Compliance and Director of the Compensation Committee
2002 Director General, Accounting and Business Information, Hitachi, Ltd.
2003 Director General, Accounting and Business Information, Hitachi, Ltd.
2004 Director General, Accounting and Business Information, Hitachi, Ltd.
2004 Director General, Accounting & Business Information, Hitachi, Ltd. (Retired in June 2014)
2014 Director, Hitachi, Ltd.

Takatoshi Yamamoto
Share ownership: 11,300 shares
Term of office as Independent Director: 5 years
1990 Managing Director, Morgan Stanley Japan Limited
2002 Managing Director, Morgan Stanley Japan Limited
2008 Managing Director and Vice Chairman, Toyo Blake, Morgan Stanley Japan Limited
2008 Managing Director and Vice Chairman, UBS Securities Japan Co., Ltd.
2009 Managing Director, COO, UBS Japan Co., Ltd.
2010 Managing Director, COO, UBS Japan Co., Ltd. (Retired in January 2013)
2012 Director, Hitachi, Ltd.
2013 President and Representative Director, Toyo Seikō and Mutual Business Investment & Consultancy Co., Ltd. (Currently in office)

Keiji Kojima
Share ownership: 67,300 shares
Term of office as Independent Director: 3 years
1982 Joined Hitachi, Ltd.
2001 Senior Managing, Hitachi Research Laboratory
2013 Vice President and Executive Officer
2015 Senior Vice President and Executive Officer
2016 Executive Vice President and
2021 President & CEO and Director

Hideaki Seki
Share ownership: 11,500 shares
Term of office as Independent Director: 9 years
1976 Joined Hitachi, Ltd.
2001 Corporate Strategy and Human Resources Division, Hitachi, Ltd.
2003 Corporate Strategy and Human Resources Division, Hitachi, Ltd.
2010 President and Chief Executive Officer, Hitachi Plant Technologies, Ltd.
2013 Senior Vice President and Executive Officer, Hitachi, Ltd.
2014 President & CEO, Hitachi, Ltd.
2016 President & CEO and Director, Hitachi, Ltd.
2021 Executive Chairman, President & CEO and Director, Hitachi, Ltd.

Toshiaki Higashihara
Share ownership: 175,300 shares
1977 Joined Hitachi, Ltd.
2001 Vice President and Executive Officer (Retired in March 2006)
2006 President, Siemens Europa GmbH
2010 President and Chief Executive Officer, Hitachi Plant Technologies, Ltd.
2013 President and Representative Director, Hitachi Plant Technologies, Ltd.
2016 Vice President and Executive Officer, Hitachi, Ltd.
2013 President & CEO, Hitachi, Ltd.
2016 President & CEO and Director, Hitachi, Ltd.
2021 Executive Chairman, President & CEO and Director, Hitachi, Ltd.

Auditors
Hiroaki Yoshishara, Katsumi Ihara, Handumi Mochizuki, Takatoshi Yamamoto, Helmut Ludwig, Hideaki Seki

Compensation Committee:
Harutumi Mochizuki, Katsumi Ihara, Handumi Mochizuki, Takatoshi Yamamoto, Helmut Ludwig, Hideaki Seki

* The independent directors are the directors who fulfill the qualification 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 provided by Japanese stock exchanges where the Company is listed.
Leadership

Executive Officers

Executive Chairman & CEO
Toshiaki Higashihara
General

President & COO
Keiji Kojima
Overall management, smart life & environmentally friendly systems business, healthcare strategy

Executive Vice President 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, marketing & sales and regional strategies)

Alistair Dormer
Assistant to the President (building systems business, railway systems business, and environmental strategy and environmental strategy)

Senior Vice Presidents and Executive Officers

Toshiaki Tokunaga
Assistant to the President (systems & services, business and defense systems business, defense systems business, and social innovation business promotion)

Toshikazu Nishino
Assistant to the President (nuclear energy business, energy business and power grids business)

Kohei Kodama
Legal matters, risk management and corporate auditing

Lorena Dellagiovanna
Diversity & inclusion strategy, government & external relations and environmental strategy

Tadashi Kume
Business for government, public corporation and social infrastructure systems, and defense systems business

Hitoshi Ito
Government & external relations and sustainability strategy

Masahiko Hasegawa
Marketing & sales and regional strategies (Japan)

Kenji Urabe
Energy business

Yoji Takeuchi
Marketing & sales (business for industry & distribution sectors, water & environment business, building systems business, railway systems business and smart life business)

Tadashi Kume
Nuclear energy business

Lorena Delagiovanna
Diversity & inclusion strategy, government & external relations and environmental strategy

Koijn Nakakita
Regional strategies (APAC)

Norihiro Suzuki
Research & Development

Seichiro Nukui
Information technology strategies

Andrew Barr
Railway systems business

Kazunobu Morita
Cost structure reform and information security management

Hidenobu Nakahata
Corporate communications, corporate auditing, corporate export regulation, and human capital

Claudio Facchin
Power grids business

Mamoru Morita
Management strategies and strategies for next generation business

Hitachi Integrated Report 2021

Data Section

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101 Segment Highlights
102 Corporate Data / Stock Information / Representations and Warranties
### 10-year Financial Data

#### For the year:

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>9,665,863</td>
<td>9,041,071</td>
<td>9,563,791</td>
<td>9,774,930</td>
<td>10,034,365</td>
<td>9,162,264</td>
<td>9,368,814</td>
<td>9,480,819</td>
<td>8,767,263</td>
<td>8,729,196</td>
</tr>
<tr>
<td><strong>Adjusted operating income</strong></td>
<td>412,280</td>
<td>422,028</td>
<td>538,288</td>
<td>641,325</td>
<td>634,869</td>
<td>587,309</td>
<td>714,630</td>
<td>754,976</td>
<td>661,883</td>
<td>495,180</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>573,218</td>
<td>358,015</td>
<td>585,662</td>
<td>534,059</td>
<td>531,003</td>
<td>475,182</td>
<td>644,257</td>
<td>513,906</td>
<td>183,614</td>
<td>850,287</td>
</tr>
<tr>
<td><strong>Net income attributable to Hitachi, Ltd. stockholders</strong></td>
<td>347,179</td>
<td>175,326</td>
<td>264,975</td>
<td>217,482</td>
<td>172,155</td>
<td>231,261</td>
<td>362,988</td>
<td>222,546</td>
<td>87,596</td>
<td>501,613</td>
</tr>
<tr>
<td><strong>Earnings per share attributable to Hitachi, Ltd. stockholders, diluted (yen)</strong></td>
<td>37,369</td>
<td>39.98</td>
<td>54.86</td>
<td>45.04</td>
<td>36.65</td>
<td>47.90</td>
<td>37.46</td>
<td>230.25</td>
<td>50.29</td>
<td>519.29</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td>447,165</td>
<td>583,508</td>
<td>439,406</td>
<td>451,825</td>
<td>812,226</td>
<td>622,092</td>
<td>727,168</td>
<td>610,025</td>
<td>580,900</td>
<td>793,128</td>
</tr>
<tr>
<td><strong>Net income per share attributable to Hitachi, Ltd. stockholders, basic (yen)</strong></td>
<td>37.35</td>
<td>39.98</td>
<td>54.86</td>
<td>45.04</td>
<td>36.65</td>
<td>47.90</td>
<td>37.46</td>
<td>230.25</td>
<td>50.29</td>
<td>519.29</td>
</tr>
<tr>
<td><strong>Free cash flows</strong></td>
<td>251,571</td>
<td>30,051</td>
<td>(51,967)</td>
<td>(160,720)</td>
<td>81,427</td>
<td>291,627</td>
<td>252,840</td>
<td>447,153</td>
<td>35,044</td>
<td>334,288</td>
</tr>
<tr>
<td><strong>Capital expenditures (Property, plant and equipment)</strong></td>
<td>649,234</td>
<td>742,537</td>
<td>849,877</td>
<td>431,201</td>
<td>377,045</td>
<td>374,201</td>
<td>414,708</td>
<td>389,643</td>
<td>359,897</td>
<td>345,201</td>
</tr>
<tr>
<td><strong>Depreciation (Property, plant and equipment)</strong></td>
<td>360,358</td>
<td>300,664</td>
<td>329,833</td>
<td>350,783</td>
<td>386,547</td>
<td>320,757</td>
<td>265,413</td>
<td>342,450</td>
<td>293,799</td>
<td>293,799</td>
</tr>
<tr>
<td><strong>R&amp;D expenditures</strong></td>
<td>412,514</td>
<td>341,310</td>
<td>351,426</td>
<td>334,814</td>
<td>323,730</td>
<td>323,903</td>
<td>323,145</td>
<td>293,799</td>
<td>293,799</td>
<td>293,799</td>
</tr>
</tbody>
</table>

#### At year-end:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>9,418,526</td>
</tr>
<tr>
<td><strong>Property, plant and equipment</strong></td>
<td>2,025,538</td>
</tr>
<tr>
<td><strong>Total Hitachi, Ltd. stockholders’ equity</strong></td>
<td>1,771,782</td>
</tr>
<tr>
<td><strong>Interest-bearing debt</strong></td>
<td>2,396,454</td>
</tr>
</tbody>
</table>

#### Financial ratios:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted operating income ratio</td>
<td>4.3</td>
</tr>
<tr>
<td>EBIT ratio</td>
<td>5.9</td>
</tr>
<tr>
<td>Return on revenues</td>
<td>3.6</td>
</tr>
<tr>
<td>ROIC</td>
<td>--</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>21.6</td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>4.4</td>
</tr>
<tr>
<td>D/E ratio (Including non-controlling interests) (times)</td>
<td>0.86</td>
</tr>
<tr>
<td>Total Hitachi, Ltd. stockholders’ equity ratio</td>
<td>18.8</td>
</tr>
<tr>
<td>Dividend payout ratio</td>
<td>10.4</td>
</tr>
</tbody>
</table>

Note 1: Terminology differs under U.S. GAAP and IFRS for the following line items (U.S. GAAP/IFRS):
1. Operating income/Adjusted operating income
2. Net income per share attributable to Hitachi, Ltd. stockholders, diluted/Earnings per share attributable to Hitachi, Ltd. stockholders, diluted

Note 2: To represent actual management conditions more appropriately, operating income/adjusted operating income is presented as revenues less selling, general and administrative expenses, as well as cost of sales calculated on the assumption that the Company conducted this consolidation at the beginning of the previous fiscal year.

Note 3: Core free cash flows” are cash flows presented as free cash flows excluding cash flows from M&A and asset sales, etc.

Note 4: On October 1, 2018, the Company completed the share consolidation of every five shares into one share for its common stock. The figures for basic and diluted earnings per share attributable to Hitachi, Ltd. stockholders are calculated on the assumption that the Company conducted this consolidation at the beginning of the previous fiscal year.

Note 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

Hitachi Integrated Report 2021
5-year Non-financial Data

Human Capital

<table>
<thead>
<tr>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>Consolidated</td>
<td>303,887</td>
<td>307,275</td>
<td>305,041</td>
</tr>
<tr>
<td>Non-consolidated</td>
<td>35,638</td>
<td>34,925</td>
<td>33,440</td>
<td>31,442</td>
</tr>
<tr>
<td>Average service years</td>
<td></td>
<td>15.0</td>
<td>14.9</td>
<td>15.1</td>
</tr>
<tr>
<td>Turnover ratio (%)</td>
<td></td>
<td>5.3</td>
<td>5.5</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Diversity & Inclusion

<table>
<thead>
<tr>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of female employees (%)</td>
<td></td>
<td>18.3</td>
<td>18.2</td>
<td>18.8</td>
</tr>
<tr>
<td>Global ratio (number) of female-managers</td>
<td></td>
<td>6.7</td>
<td>7.3</td>
<td>8.3</td>
</tr>
<tr>
<td>(2,563)</td>
<td>(3,305)</td>
<td>(3,975)</td>
<td>(4,503)</td>
<td>(4,841)</td>
</tr>
<tr>
<td>Ratio (number) of female managers</td>
<td></td>
<td>4.1</td>
<td>4.2</td>
<td>4.8</td>
</tr>
<tr>
<td>(503)</td>
<td>(577)</td>
<td>(805)</td>
<td>(731)</td>
<td>(746)</td>
</tr>
</tbody>
</table>

Hitachi Group's Global Safety Figures (Occurrence rate)

- North America: Japan 27.65, Outside Japan total 27.36, Japan total 27.06, 18.18
- Latin America: 2.33, 0.62, 0.44, 0.57, 2.12
- Europe: 16.75, 10.02, 6.08, 4.78, 3.09
- Asia (excluding India and China): 2.07, 1.44, 1.44, 1.63, 1.07
- China: 1.59, 1.53, 1.46, 1.17, 1.12
- Africa: 4.93, 4.41, 3.34, 2.63, 1.55
- Oceania: 30.97, 24.41, 21.94, 29.07, 12.95
- Europe: 17.16, 9.03, 11.76, 5.72, 28.37
- Outside Japan total: 7.76, 7.42, 7.43, 7.58, 4.08
- Japan: 1.57, 1.85, 1.64, 1.53, 1.34
- Global total: 3.95, 4.22, 4.20, 3.45, 2.89

Ratios of Female and Non-Japanese Executive

- Female: June 2017: 2, June 2018: 4, June 2019: 6, June 2020: 7
- Female Non-Japanese: June 2017: 3, June 2018: 6, June 2019: 8, June 2020: 8

Research & Development

<table>
<thead>
<tr>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of R&amp;D expenditure to revenue (%)</td>
<td></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>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR monitoring (self-check): companies</td>
<td>37</td>
<td>131</td>
<td>246</td>
<td>291</td>
</tr>
<tr>
<td>CSR audit:</td>
<td>20</td>
<td>18</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>CSR Seminar for Suppliers:</td>
<td>29</td>
<td>60</td>
<td>120</td>
<td>59</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environment</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO2 emissions of business sites (electricity and afforestation) (t CO2)</td>
<td>5,322</td>
<td>5,433</td>
<td>4,973</td>
<td>4,374</td>
</tr>
<tr>
<td>Total water use (million m^3)</td>
<td>41.34</td>
<td>36.54</td>
<td>37.02</td>
<td>36.41</td>
</tr>
<tr>
<td>Waste and valuables generation</td>
<td>1,336</td>
<td>1,356</td>
<td>1,384</td>
<td>1,302</td>
</tr>
<tr>
<td>Atmospheric emissions of chemical substances</td>
<td>4,323</td>
<td>4,278</td>
<td>4,032</td>
<td>3,882</td>
</tr>
</tbody>
</table>

Revenues, Adjusted Operating Income and EBIT by Business Segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>2,090.4</td>
<td>2,048.7</td>
</tr>
<tr>
<td>Energy</td>
<td>1,107.2</td>
<td>1,35.2</td>
</tr>
<tr>
<td>Industry</td>
<td>840.7</td>
<td>831.3</td>
</tr>
<tr>
<td>Mobility</td>
<td>1,144.9</td>
<td>1,199.6</td>
</tr>
<tr>
<td>Smart Life</td>
<td>71.7</td>
<td>77.4</td>
</tr>
<tr>
<td>Total</td>
<td>3,347.5</td>
<td>3,733.7</td>
</tr>
</tbody>
</table>

Hitachi Group Business Operation Framework (As of April 2021)

- Financial Institutions Business Unit
- Social Infrastructure Systems Business Unit
- Services & Platforms Business Unit
- Nuclear Energy Business Unit
- Energy Business Unit
- Power Grids Business Unit
- Industry & Distribution Business Unit
- Water & Environment Business Unit
- Hitachi Industrial Products, Ltd.
- Hitachi Industrial Equipment Systems Co., Ltd.
- Hitachi Construction Machinery
- Hitachi Metals, Ltd.
- Smart Life
- Building Systems Business Unit
- Railway Systems Business Unit
- Hitachi Global Life Solutions, Inc.
- Hitachi High-Tech Corporation
- Hitachi Astemo, Ltd.
- Hitachi Construction Machinery Co., Ltd.
- Hitachi Metals, Ltd.
- Regional Headquarters
- Shared Service Companies, etc.

Hitachi Group’s Global Safety Figures

- Hitachi Group’s Global Safety Figures (Occurrence rate)
- Occurrence rate
- Hitachi Group’s Global Safety Figures (Occurrence rate)
- Ratios of Female and Non-Japanese Executive
- Global ratio (number) of female-managers
- Ratios of Female and Non-Japanese Executive
- Ratio of female employees (%)
Message from the Editor-in-chief

Hitachi Integrated Report 2021 is the sixth such report to be produced and issued. During this time, the world has entered an era that is more unpredictable than ever before, as evidenced by the COVID-19 pandemic. Over these past six years, Hitachi has made substantial changes to its business structures, further clarifying directions for the creation of value with a focus on digitalization and the environment, while making continuous improvements to the Integrated Report so that its content will better communicate Hitachi’s value creation story. In the creation of this report, we engaged in extensive studies to ensure that it was presented in an easy-to-understand format from multiple perspectives so that readers can understand the business model centered on Lumada, which combines Hitachi’s strengths, and the value creation process based on that business model. Back-casting from a vision of society and Hitachi’s ideal future in 2030, we have summarized the themes that should be prioritized as Strategic Focus Area, along with measures to be implemented in those areas. For this report, we undertook a fundamental reexamination of the production structure. We started the Information Disclosure Working Group, which serves as a unified planning and production team for the Annual Securities Report, the Sustainability Report, and the Integrated Report, to enable production based on organic collaborations and sincere discussions among related divisions. This report has also been produced amid studies targeting the creation of the next Mid-term Management Plan. In that sense, I feel that this report can also be used as a bridging media between Hitachi’s past evolution and the path toward coming long-term growth. As the executive officer responsible for the production of this report, I can say with confidence that this production process is fair and that the content presented herein is accurate. I hope that you will take the time to read this report and ask that you send us your impressions and unsolicited opinions with regard to Hitachi’s management. I further hope that this Hitachi Integrated Report 2021 will assist readers in gaining a deeper understanding of Hitachi’s value creation story and provide opportunities for the co-creation of new value with all stakeholders.

September 2021

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

Independent Assurance of Social and Environmental Data

To ensure the reliability of the data disclosed, we have received independent assurance of key social and environmental performance indicators by KPMG AZSA Sustainability Co., Ltd. in the Hitachi Sustainability Report 2021.

Indicators Subject to Independent Assurance

- Hitachi Group: Ratio of non-Japanese executives, Ratio of female executives, Ratio of female managers, Number of CSR audits, CO2 emissions at business sites
- Hitachi Ltd.: Ratio of female managers, Number of CSR audits, CO2 emissions at business sites

Website Information

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

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

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