

# Hitachi Integrated Report 2021

Year ended March 31, 2021





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# Editorial Policy for Hitachi Integrated Report 2021

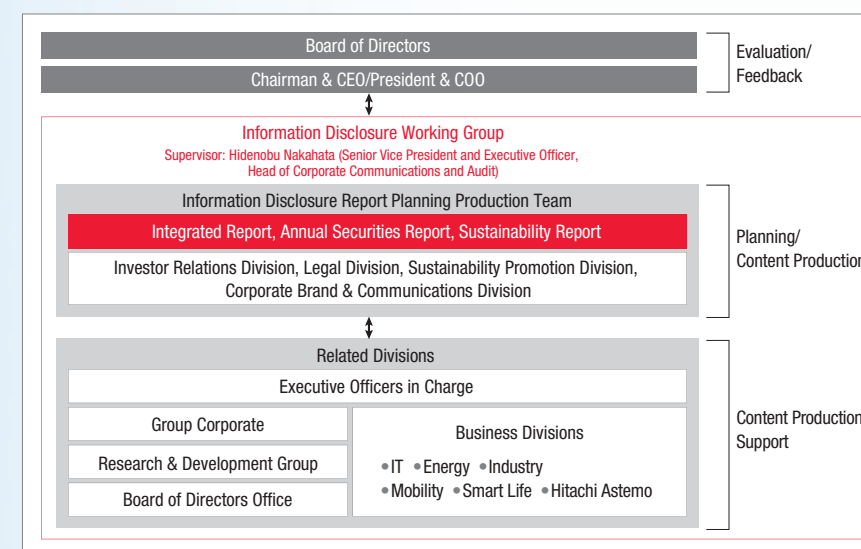
## Editorial Policy

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.

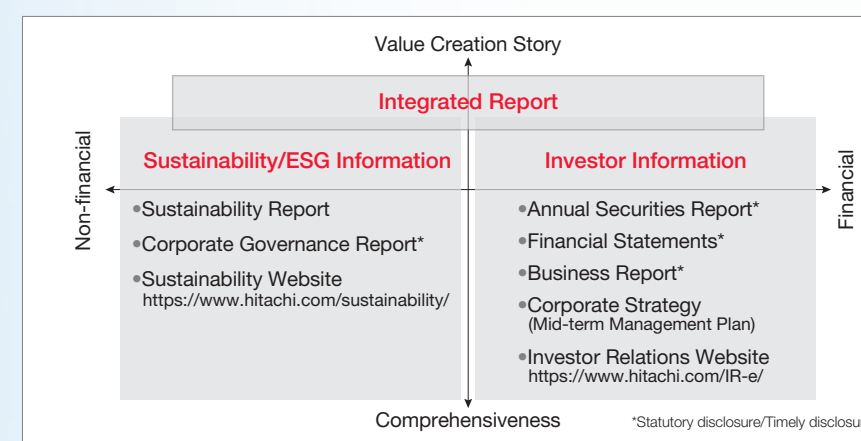
In this 2021 report, we have placed a particular emphasis on communicating, in an easy-to-understand way, Hitachi's activities targeting co-creation and the creation of value through digital transformations (DX) in social infrastructure, which is Hitachi's core area of business. Furthermore, it summarizes 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 Area," 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



## Reporting Scope

Period: April 1, 2020, to March 31, 2021  
(Certain subsequent activities and information presented after April 2021 are also included.)

Companies: Hitachi, Ltd., and its consolidated subsidiaries

Scope of Data:

- Social data: The scope of the data are individually described.
- Environmental data: 872 companies (Hitachi, Ltd., and 871 consolidated subsidiaries) However, Group companies that were acquired in the middle of the fiscal year are not included in the scope of the 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.

\*Based on calculations by Hitachi, Ltd.

Accounting Standard: Unless otherwise noted, this report is prepared in accordance with U.S. GAAP through fiscal 2013 and with the International Financial Reporting Standards (IFRS) from fiscal 2014.

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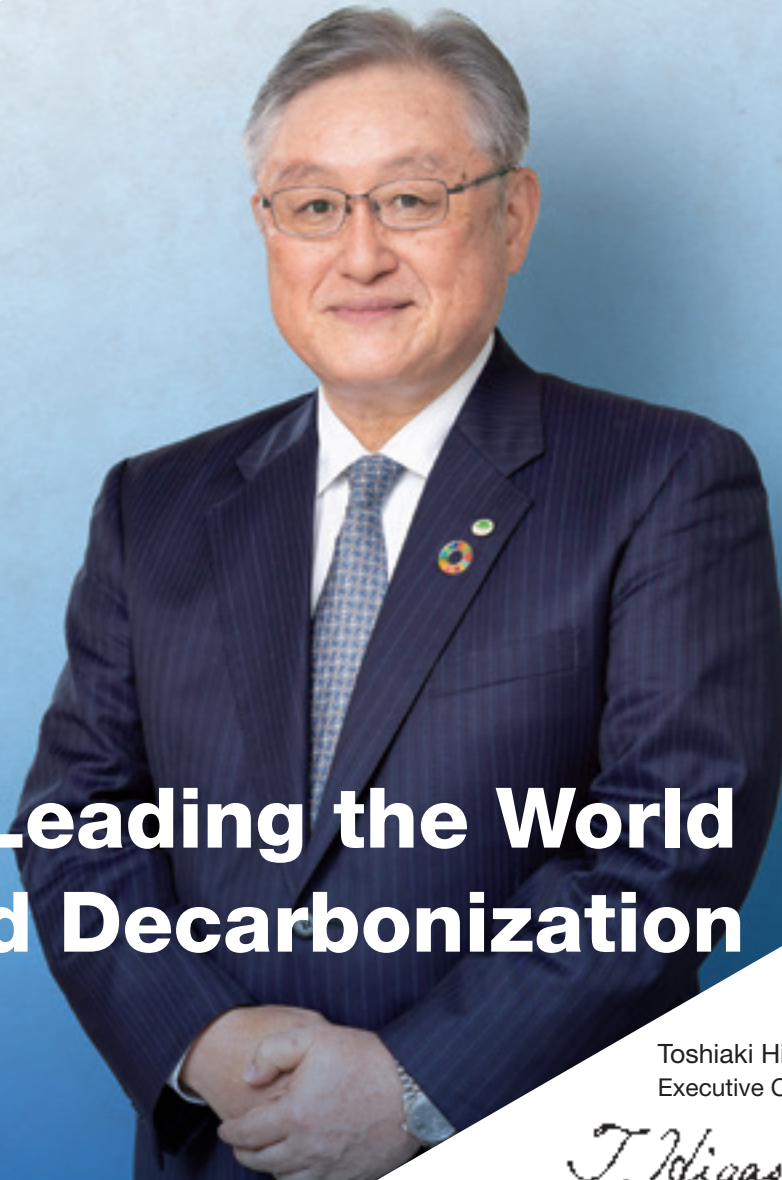
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## Disclaimer Regarding Forward-looking Statements

Certain statements regarding the future of the Company set forth in this Report may constitute "forward-looking statements," such as "plan," "forecast," "target," and "strategy." Although forward-looking statements contained in this report are based upon what the Company has determined to be reasonable assumptions at the time of disclosure, actual performance and other results may differ materially from those anticipated in such statements. For the major factors regarding these differences, please see "Addressing Risks and Opportunities" on page 70 of this Report.





# Hitachi: Leading the World in DX and Decarbonization

Toshiaki Higashihara  
Executive Chairman & CEO

*T. Higashihara*

## 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 posted an adjusted operating income ratio in fiscal 2020 of 6.5% in its five sectors—IT, Energy, Industry, Mobility, and Smart Life—all despite the negative effects of COVID-19. Although this figure represents a decline of two percentage points compared with the previous year, it exceeded the initial forecast of 5.3%. Though our response has allowed for an ideal V-shaped recovery following the decline into negative profits in fiscal 2008, Hitachi has continued to change. By embracing social innovation, Hitachi has been able to target structural reforms that allow it to better generate social innovations and create a solid profit

### Stakeholder capitalism

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

### Social Innovation Business

Business that resolves a variety of issues faced by society and customers in a broad range of fields, especially social infrastructure, through the use of information technology (IT) and co-creation with diverse partners.

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 sell-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 boasts 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: Keihin Corporation, Showa 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.

### Lumada business

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

▶ P.12

### Lumada Alliance Program

A program that builds ecosystems through an open innovation community based on 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 Tokyo

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.

#### GlobalLogic

► P.29

#### JR Automation

An American robotic systems integration company acquired by Hitachi in December 2019. Involved in the construction of production lines and logistic systems using industrial robots for customers in the automotive, aerospace, e-commerce, and medical device industries, mainly in North America.

#### Hitachi ABB Power Grids

Began operations in July 2020, following the acquisition of the power grids business from ABB, a major heavy electrical equipment company headquartered in Switzerland. Provides the world's most advanced power transmission and distribution systems, products, and services, including micro-grids that achieve highly reliable electric power supply, and high-voltage direct current (HVDC) power transmission systems that enable large-scale energy transmission over long distances. In October 2021, the company's name was changed to Hitachi Energy, to show a strengthened commitment to sustainable energy in the future.

### 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 frontline data and micro-programs in devices to cloud environments. By making GlobalLogic part of the Hitachi Group, we will strengthen co-creation with customers 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 embodying 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 Kyōsō-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 execution 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 promoting the DX business using Lumada, as well as for its in-house digital applications, receiving the Grand Prix in the DX Stocks 2021 awards from the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.



#### Lumada Solution Hub

A platform that gathers and catalogs new solutions developed through co-creation and 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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## OT x IT x Products

Hitachi offers operational technology (OT) cultivated mainly in the social infrastructure field, along with advanced information technology (IT) and products. Hitachi's strength is in its ability to realize DX for customers and society by combining these three elements.

## 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 deciding how best to move forward.

Our goal in the second key field of resilience is to achieve a society that can withstand the fragmentation of public services and social systems arising as a result of natural disasters and insufficient resources. We need to build a resilient society that can recover quickly and protect people's lifestyles even in the face of disaster. Countries around the world are confronting aging infrastructure while also investing in digitization against the backdrop of rapid urbanization and population increases. Governments and companies must face the possibility of a decreasing labor force due to an aging population, as well as a resulting decline in economic activity. In the industrial world, amid continuing globalization and digitalization, and with the backdrop of insufficient resources, there is a growing demand for management systems that provide support to global supply chains and these systems could become a source of competitive superiority for other companies. In response to these issues, we will support sustainable public services and corporate activities by providing platforms for digital services that target public institutions and the financial industry; robotics SI and other innovative digital solutions as well as logistics services that link various parts of the supply chain, such as manufacturing, warehouses, and distribution; along with cybersecurity that protects all of these component elements.



Finally, in the security & safety field, as we enter an era in which it is said that people will live for 100 years, we will strive for a society in which everyone can live active lives, enjoying health in both body and mind. To help achieve this, Hitachi will develop and provide 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 factory" category. The efficiency-boosting 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 CO<sub>2</sub> 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

## Particle therapy system for cancer treatment

A treatment system that projects a particle beam (e.g., proton beam or carbon beam) to destroy or kill cancer cells. Treatment can be provided on an outpatient basis, with little impact on the patient's body, enabling treatments that maintain the patient's quality of life.

## Creation of Social and Environmental Value

► P.34

## Executive Officers' Compensation

► P.89

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.

**“空己唯盡乎誠” – 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 “孚,” 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. Empathy 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 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.

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

▶ [https://www.hitachi.co.jp/products/it/lumada/about/ai/dsl/document/ai\\_document\\_en.pdf](https://www.hitachi.co.jp/products/it/lumada/about/ai/dsl/document/ai_document_en.pdf)



**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.

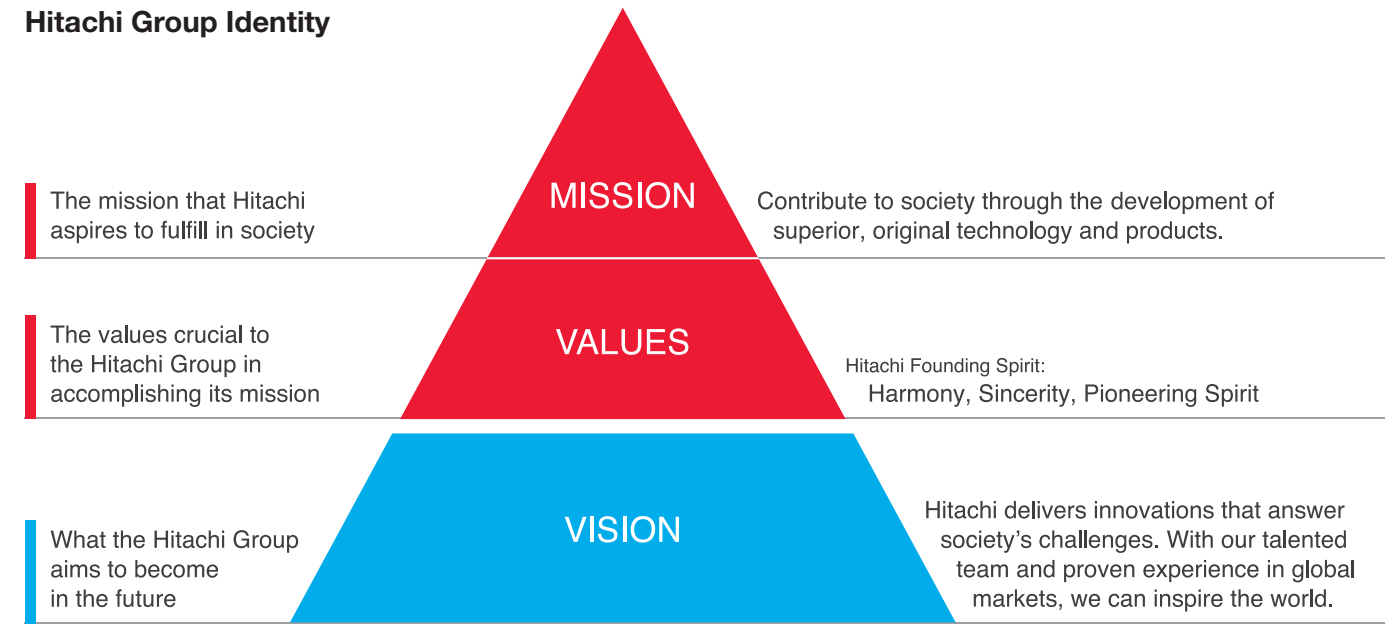
**Diversity & Inclusion**  
▶ P.42



# Hitachi's History as a Corporate Citizenship

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.

## Hitachi Group Identity



1910

1940

1950

1960

1970

1980

1990

2000

2010

2020

**Toward Realizing a Decarbonized Society and Circular Economy**



Hitachi's founder  
Namihei Odaira



Sogyo Koya (Hitachi's first factory)

### IT Information technology



Development and supply of large-scale computers



Development of virtual storage technology

IoT

## OT and Products

Infrastructure development and maintenance



Five-horsepower induction motor



Urban infrastructure development



Production of trains for the Tokaido Shinkansen



Launch of operations at the Shimane Nuclear Power Station

## Social Innovation Business

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

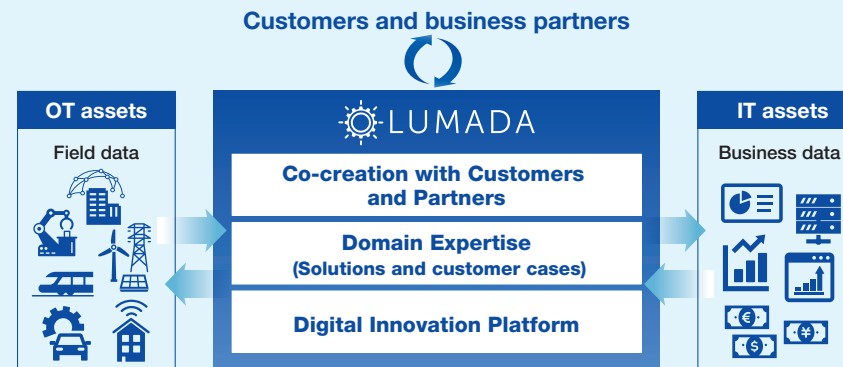




The future is unpredictable, and a variety of social issues are coming to light. Amid these trends, there is growing demand throughout the world for digital transformation (DX) toward a better society that makes effective use of digital technologies. Hitachi sees the rapidly increasing volumes of data 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 with customers 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.

## 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 new value is constantly being created to keep up with change. The digital innovation platform creates and accelerates this chain of value creation. The thing that makes this platform unique is that it adopts an open architecture that connects not only Hitachi’s original technologies but also other companies’ products and platforms to provide a combination of multiple digital technologies, products, and platforms.



### 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 number and scope of fields is growing with each passing year, and the number of customer cases has already exceeded 1,000. Hitachi is utilizing the expertise amassed through Lumada to quickly propose and provide solutions to the issues faced by customers and society.

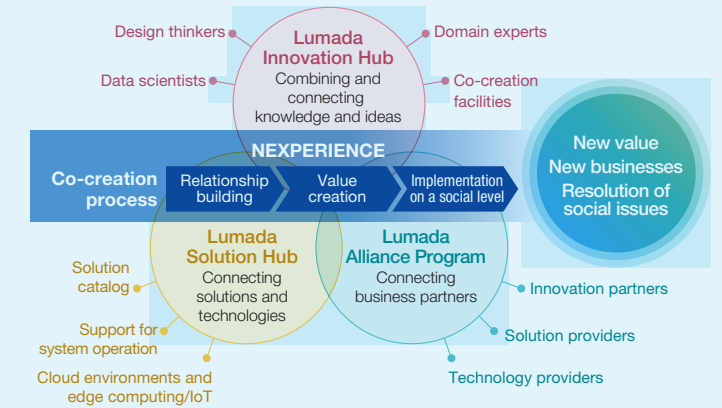
In one example, Lumada is used by an American truck leasing company in its maintenance operations. The company uses data to monitor the status of its trucks, and then, through AI, the system analyzes and forecasts which parts might break down, and when, suggesting replacements before those failures occur. This enables efficient maintenance and prevents lost opportunities that might arise due to mechanical failures. We will continue to create a library of solutions and customer cases in a variety of industries and businesses, resolving issues by applying Lumada’s AI and analytics technologies.

## 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 “Kyōsō-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 alone and accelerates social innovations that create value. This program builds ecosystems which partners can contribute to their respective fields of specialization. Hitachi has put forward a vision of “mutually utilizing technologies, know-how, and ideas, and creating new value from data, to contribute to improving people’s quality of life and to the sustainable development of society and economies; then, reinvesting this value in a positive cycle that promotes growth for all the parties involved.” The Lumada Alliance Program welcomes partners that support this vision, to work together in taking on the challenges of various societal matters and regional issues that could not be resolved by a single company alone. To resolve these issues, Hitachi matches diverse partners that demonstrate various strengths—for example, digital solutions, global delivery, and technical support capabilities—to bring about a wave of “N-to-N” co-creation and accelerate the creation of social innovation.

### 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 operating 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.

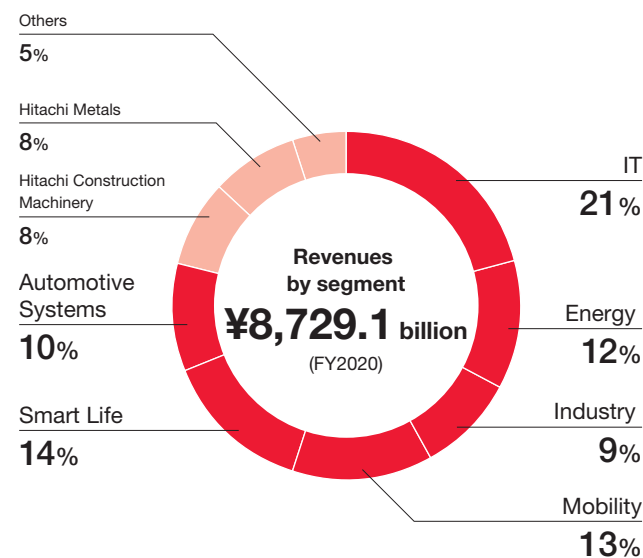


# Business of the Hitachi Group

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.

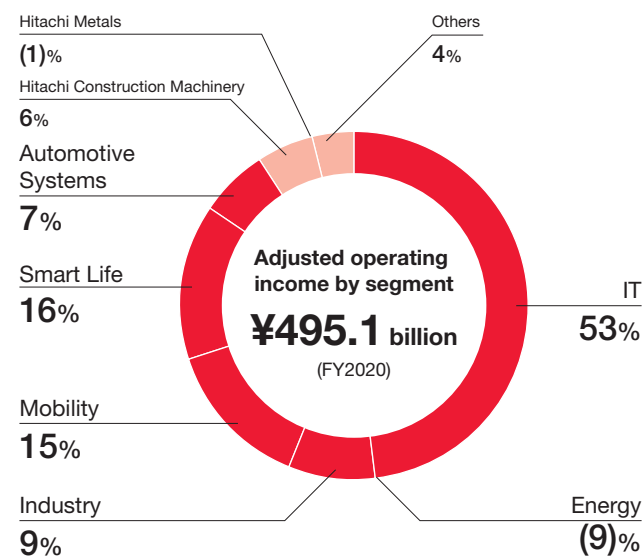
## Revenues

Composition ratio (%)



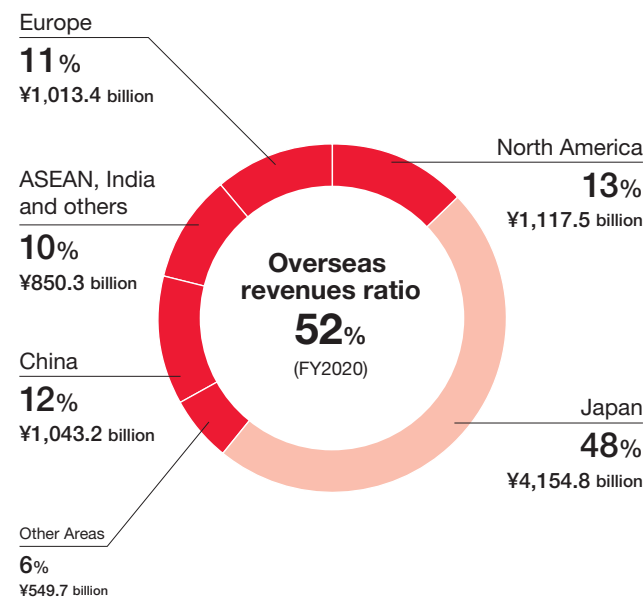
## Adjusted Operating Income

Composition ratio (%)



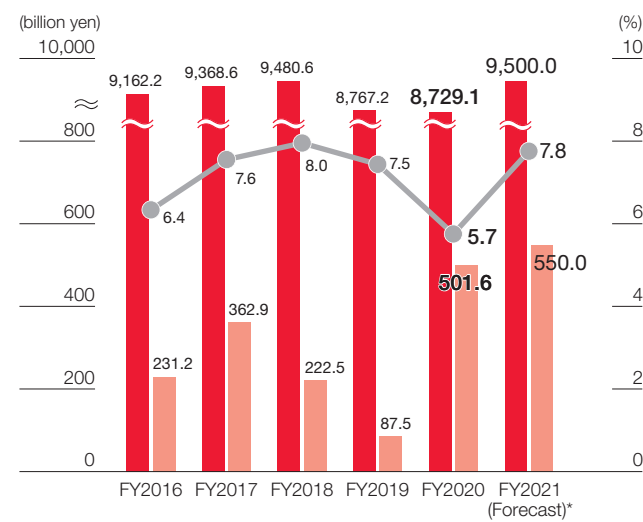
## Revenues by Region

Composition ratio (%)

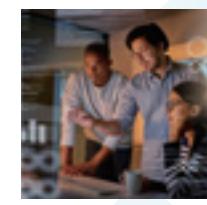


## Revenues/Adjusted Operating Income Ratio/Net Income

■ Revenues (billion yen) ● Adjusted operating income ratio (%)  
 ■ Net income attributable to Hitachi, Ltd. stockholders (billion yen)



\*Announced on July 30, 2021



**Main products and services**

- Digital solutions (Consulting, software, cloud services, system integration, control systems)
- IT products (Storage, servers)
- ATMs



**Main products and services**

- Energy solutions (Power grids, nuclear, renewable energy, thermal)



**Main products and services**

- Building systems (Elevators, escalators)
- Railway systems



**Main products and services**

- Industry & distribution solutions
- Water & environment solutions
- Industrial machinery



**Main products and services**

- Powertrain, chassis, advanced driver assistance, motorcycle systems



**Main products and services**

- Smart life & eco-friendly systems (Home appliances, air-conditioning systems)
- Measurement & analysis systems (Medical and bio, semiconductors, industry)

## Hitachi Construction Machinery

Listed subsidiary

Ownership percentage of voting rights: 51.5%

- Main products and services**
- Hydraulic excavators
  - Wheel loaders
  - Mining machinery
  - Maintenance and services
  - Construction solutions
  - Mine management systems

## Hitachi Metals

Listed subsidiary

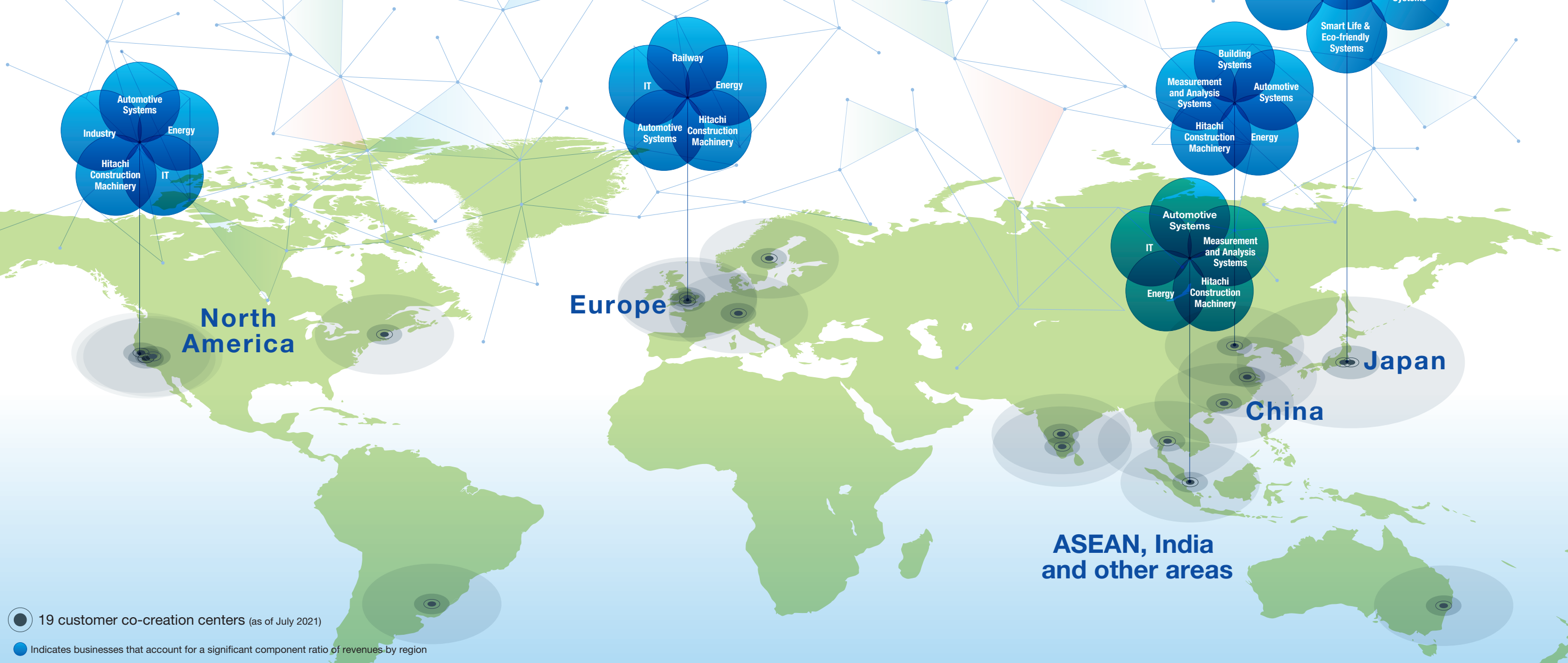
Note: Scheduled to be sold by the end of fiscal 2021

Ownership percentage of voting rights: 53.4%

- Main products and services**
- Specialty steel products
  - Functional components and equipment
  - Magnetic materials and power electronics materials
  - Wires, cables, and related products

# 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.



Japan		North America		Europe		China		ASEAN, India and other areas		Other areas	
Number of employees	Number of subsidiaries	Number of employees	Number of subsidiaries	Number of employees	Number of subsidiaries	Number of employees	Number of subsidiaries	Number of employees	Number of subsidiaries	Number of employees	Number of subsidiaries
Approx. 158,000	160	Approx. 27,000	87	Approx. 32,000	150	Approx. 52,000	144	Approx. 61,000	211	Approx. 20,000	120
Revenues (component ratio)		Revenues (component ratio)		Revenues (component ratio)		Revenues (component ratio)		Revenues (component ratio)		Revenues (component ratio)	
4,154.8 billion yen (48%)		1,117.5 billion yen (13%)		1,013.4 billion yen (11%)		1,043.2 billion yen (12%)		850.3 billion yen (10%)		549.7 billion yen (6%)	

Vision

Value Creation

Sustainability

Governance

Data



# Ensuring the Viability of Business and a Sustainable Society

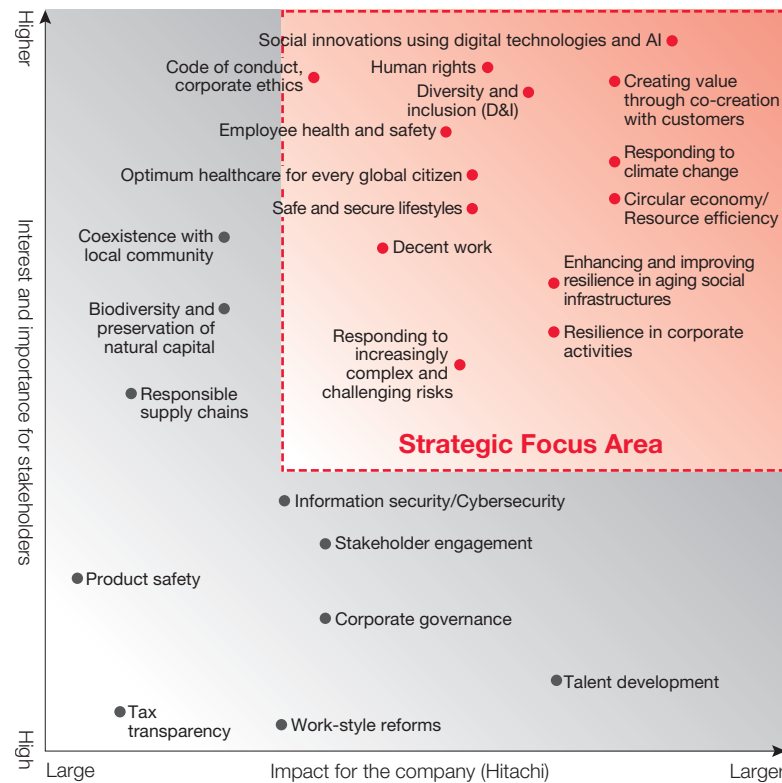
Hitachi practices sustainable management, which incorporates sustainability into the core of its business strategies. In the 2021 Mid-term Management Plan, for which fiscal 2021 is the final year, we have set the goal of becoming a global leader in the Social Innovation Business to help achieve a sustainable 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 value for customers and quality of 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 impact for the company (Hitachi) and the level of interest and importance for 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 (BUs). 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.

Sustainability Promotion Meetings have also been established under this committee, attended by sustainability strategy promotion officers in each BU (heads of business promotion divisions). The purpose of these meetings is to create long-term corporate strategies with an emphasis on environmental, social, and governance (ESG) matters, and to promote concrete initiatives related to sustainability, including contributions to meeting the UN Sustainable Development Goals (SDGs).

## Recognition of Issues and Strategies in Strategic Focus Areas

Strategic Focus Area	Recognition of Issues and Strategies	Initiatives/KPIs	Relevant SDG
Social innovations using digital technologies and AI	The world is undergoing a variety of changes, such as climate change and resource shortages, aging populations and urbanization. Furthermore, society and the economy have changed dramatically amid the global COVID-19 pandemic. Hitachi creates new value for society by providing solutions that respond to a variety of challenges faced by society and the customers who are being confronted by these changes. This is the essence of Hitachi's Social Innovation Business.	<ul style="list-style-type: none"> <li>Expansion of the Lumada business ▶ P.28, P.36                             <ul style="list-style-type: none"> <li>Increase Lumada revenues and adjusted operating income</li> <li>Utilize the Lumada Solution Hub</li> </ul> </li> <li>Enhance human resources and technologies that support the growth of Lumada                             <ul style="list-style-type: none"> <li>Develop digital talent, and encourage participation of diverse human resources (D&amp;I)</li> <li>Create learning opportunities</li> <li>Strengthen R&amp;D</li> </ul> </li> <li>Expand value and innovation from co-creation, and entrench this approach inside and outside of the Company                             <ul style="list-style-type: none"> <li>Expand co-creation centers</li> <li>Expand partners in the Lumada Alliance Program</li> <li>Increase awareness and understanding of the Hitachi Group identity</li> </ul> </li> </ul>	
Creating value through co-creation with customers	Co-creation with customers and partners is essential in responding to these changes quickly and efficiently. Through collaboration, we will expand social innovations that leverage Lumada. As a result, Hitachi will help realize a sustainable society.		
Responding to climate change	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 the efficient use of resources. In response to climate change, which is a particularly urgent issue, we will expand solutions for targeting decarbonization.	<ul style="list-style-type: none"> <li>Promote "Hitachi Environmental Innovation 2050" ▶ P.34</li> <li>Expand the environmental contribution business                             <ul style="list-style-type: none"> <li>Reduction in CO<sub>2</sub> emissions at workplaces</li> <li>Reduction in CO<sub>2</sub> emissions from products and services</li> <li>Reduction rate in water use per unit</li> <li>Reduction rate in waste and valuables generation per unit</li> </ul> </li> <li>Value creation story in five sectors and the Automotive Systems business ▶ P.52-69</li> </ul>	
Circular economy/Resource efficiency	We have set the targets of achieving 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.		
Optimum healthcare for every global citizen	In a society characterized by rapid digitalization, urbanization and a growing senior population, it is important that we enable people to enjoy comfortable, energetic lifestyles, within a safe and secure living environment. To do this, Hitachi provides city building solutions that support safe and secure living for people everywhere, as well as optimum healthcare for individuals.	<ul style="list-style-type: none"> <li>Expand the Healthcare business ▶ P.64</li> <li>Expand businesses that support safe and secure transportation and lifestyles ▶ P.61, P.64</li> <li>Value creation story in the Mobility and Smart Life sectors</li> </ul>	
Safe and secure lifestyles	In the healthcare field, we support a society in which more and more people are living past the age of 100 through the development and provision of solutions that extend from prevention of illnesses in the pre-symptomatic phase to testing, diagnostics, treatment and support for long-term care.		
Enhancing and improving resilience in aging social infrastructures	Society and the economy are always potentially susceptible to highly unpredictable risks such as natural disasters, pandemics and cyberattacks. Public services and corporate activities must be able to recover quickly even in times of disaster. We also face the urgent need to create a society in which everyone can benefit equally from the public services delivered by rapid digitalization.	<ul style="list-style-type: none"> <li>Expand businesses that support public infrastructure and services</li> <li>Expand businesses that support business operations such as finances, industry, logistics, and cybersecurity                             <ul style="list-style-type: none"> <li>Value creation story in five sectors and the Automotive Systems business ▶ P.52-69</li> </ul> </li> </ul>	
Resilience in corporate activities	Hitachi provides systems and solutions that make society and corporate activities more robust, thereby contributing to a more resilient society.		
Human rights		<ul style="list-style-type: none"> <li>Respect human rights ▶ P.79                             <ul style="list-style-type: none"> <li>Training completion ratio</li> <li>Auditing of supply chains</li> </ul> </li> </ul>	
Employee health and safety	Hitachi's Social Innovation Business adds to the vitality of society and people's lives.	<ul style="list-style-type: none"> <li>Thorough work safety and hygiene ▶ P.78                             <ul style="list-style-type: none"> <li>Reduce work-related accidents</li> <li>Promote health</li> </ul> </li> </ul>	
Diversity and inclusion (D&I)	Hitachi is managing its workplaces and maximizing the potential of its diverse talent pool in line with our basic philosophy that "Health and Safety Always Come First." We respect all people, including co-creation partners and those who support the value chain, contributing to a society in which everyone can work safely and with peace of mind.	<ul style="list-style-type: none"> <li>Promote diversity and inclusion (D&amp;I) ▶ P.42                             <ul style="list-style-type: none"> <li>Ratio of non-Japanese and female executives and corporate officers</li> <li>Number of non-Japanese and female employees</li> <li>Number of female managers</li> <li>Employment of people with disabilities</li> </ul> </li> </ul>	
Decent work	By encouraging the participation of diverse talent, we will promote active co-creation between Hitachi and its partners and accelerate the creation of new value through the Social Innovation Business.	<ul style="list-style-type: none"> <li>Put in place and promote workplace environments that are comfortable and satisfying for employees ▶ P.42                             <ul style="list-style-type: none"> <li>Participation rate in global employee survey/engagement index</li> <li>Create learning opportunities</li> <li>Autonomous career support through HR management initiatives</li> <li>Put in place a remote working environment</li> <li>Promote social contributions</li> </ul> </li> </ul>	
Code of conduct, corporate ethics	Amid the rapid growth of Hitachi's businesses and partners on a global scale, the effective management of corporate compliance, geopolitical risks and business risks is essential to the continuation of highly reliable business activities.	<ul style="list-style-type: none"> <li>Compliance ▶ P.81</li> <li>Build and operate risk management systems                             <ul style="list-style-type: none"> <li>Respond to risks and opportunities ▶ P.70</li> </ul> </li> </ul>	
Responding to increasingly complex and challenging risks	Hitachi recognizes that sharing codes of conduct, ensuring thorough compliance with laws and regulations, and promoting risk management are particularly important to sustainable growth. We are also undertaking initiatives to augment our corporate governance function.		

Vision

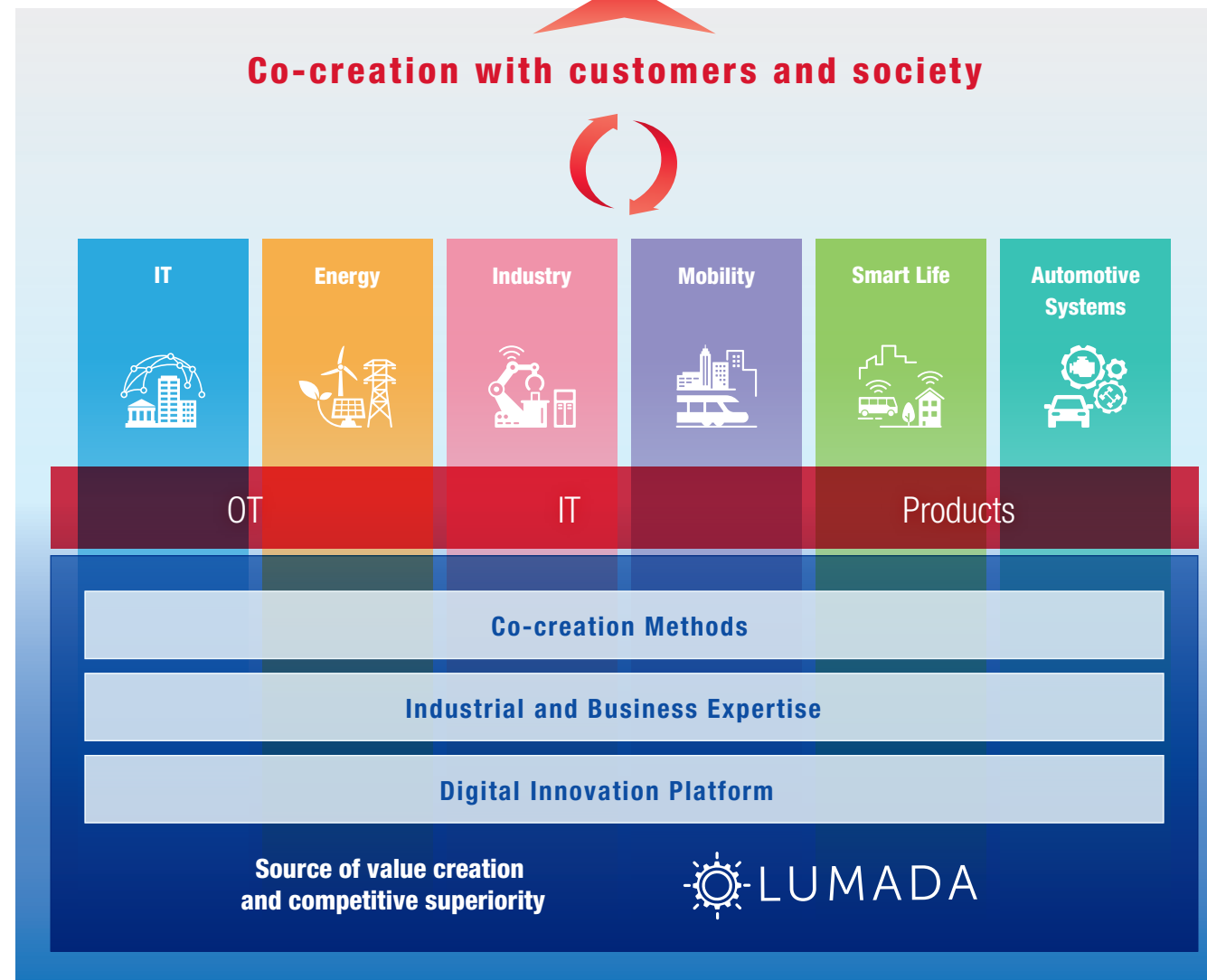
Realize a Sustainable Society through Improving Quality of Life and Adding Value for Customers

**INPUT** (FY2020)

- Human capital**  
Diverse and global talent that can resolve social issues
  - Number of employees (consolidated)\* 301,056
  - Overseas employee 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 7 companies (cumulative)
  - Funding for social contribution activities 1.9 billion yen
- Natural capital**  
Efficient use of resources
  - Total energy input 61 projects (crude oil equivalent) (1.51 GL)
  - Raw material input 3,066 kt
  - Total water input 26.35 million m<sup>3</sup>
  - Total chemical substances handled 56.4 kt
- Financial capital**  
Financial platforms and investments for creating value
  - Hitachi, Ltd. 3,525.5 billion yen (stockholders' equity)
  - Interest-bearing debt 2,397.3 billion yen
  - Growth investment 1,700 billion yen

Provide solutions focusing on three fields: the Environment, Resilience, and Security & Safety

Co-creation with customers and society



Sustainable growth strategies

- Expand Revenues by Accelerating the Social Innovation Business > P.28
- Enhance Global Competitiveness > P.36
- Reinforce Management System to Improve Profitability > P.46

Foundations supporting sustainable growth

- Addressing Risks and Opportunities > P.70
- Promoting Information Security > P.77
- Occupational Health and Safety, Employee Health > P.78
- Value Chain Responsibilities > P.79
- Quality Assurance > P.80
- Compliance > P.81
- Corporate Governance > P.82

**MISSION** Contribute to society through the development of superior, original technology and products.

OUTCOME

Simultaneously increase social, environmental, and economic value

**Diversification and globalization of Human Capital** (FY2020)

- Diversity and inclusion (D&I)
  - 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)
- Engagement indicator in employee survey 62%

**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 the use of Lumada in-house Application cases for internal IT services 257 cases
- Number of published of patent applications approx. 10,000

**Reducing environmental burden** (vs. fiscal 2010)

- Reduction in CO<sub>2</sub> emissions from products and services 20%
- Reduction rate in total CO<sub>2</sub> emissions at business sites (factories and offices) 39%
- Reduction rate in water use per unit 24%
- Reduction rate in waste and valuables generation per unit 14%
- Reduction rate in chemical atmospheric emissions per unit 33%

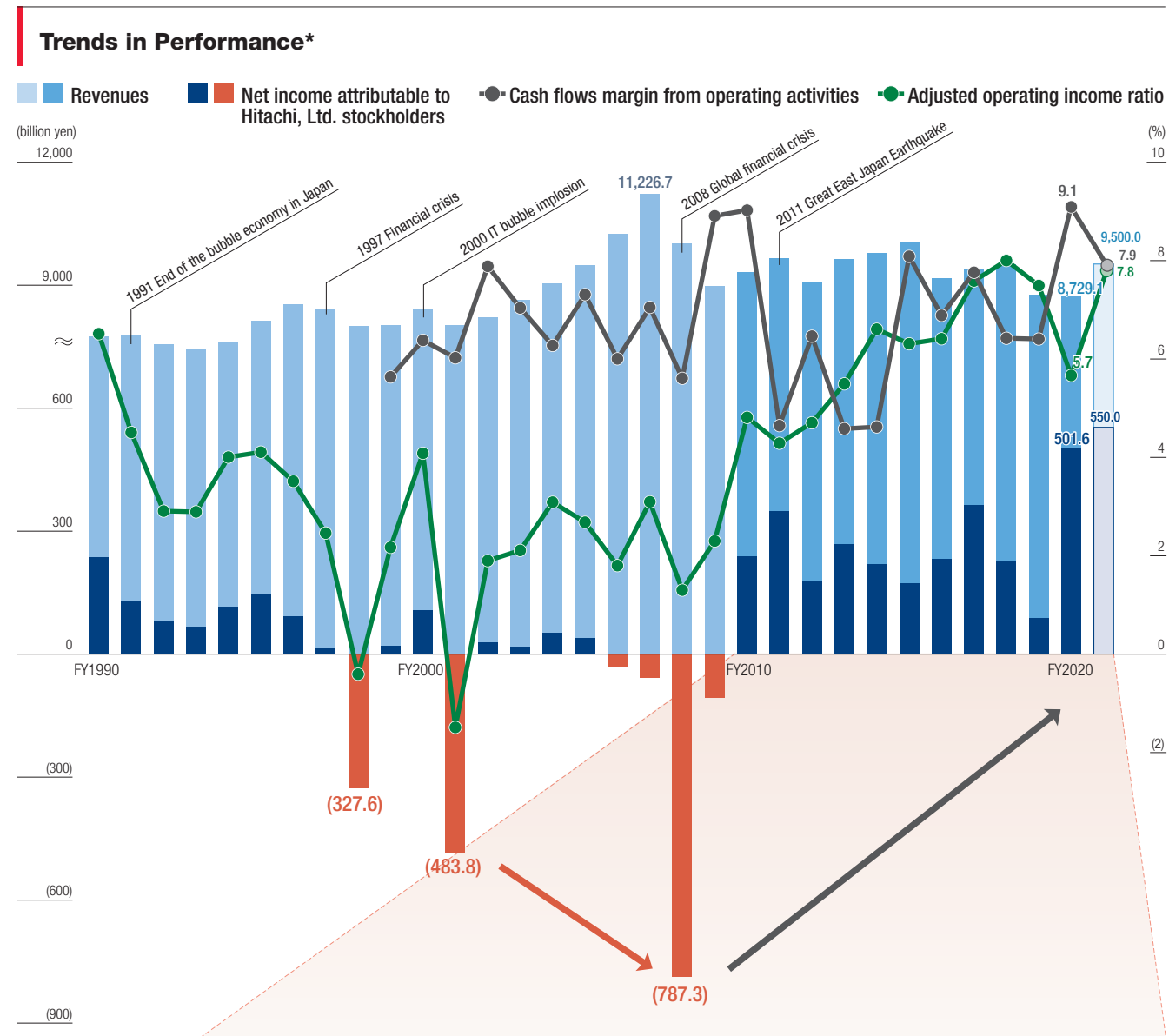
**Accumulate resources for growth and returns**

- Core free cash flows 419.8 billion yen
- Total dividends 101.5 billion yen
- Total shareholder return +106.4% (past 5 years)

Note: The total number of employees on a consolidated basis, the number of R&D staff, and the number of customer co-creation centers are as of the end of fiscal 2019. The number of manufacturing bases is as of April 2020



# Looking Back on Past Mid-term Management Plans



Business Portfolio Reforms	2012 Mid-term Management Plan FY2010-2012	2015 Mid-term Management Plan FY2013-2015	2018 Mid-term Management Plan FY2016-2018	2021 Mid-term Management Plan FY2019-2021
<b>Expanding the Lumada business (IT)</b>		<b>2014</b> • Prizm Payment Services (Payment services) <b>2015</b> • Pentaho (Data analytics)	<b>2016</b> • Lumada business launch <b>2018</b> • REAN Cloud (Services related to the public cloud)	<b>2020</b> • FusioTech (AI and data analytics) <b>2021</b> • GlobalLogic (Digital engineering)
<b>Strengthening the business portfolio (OT/Products)</b>		<b>2015</b> • AnsaldoBreda - Ansaldo STS (Mobility)	<b>2017</b> • Sullair (Industry)	<b>2019</b> • JR Automation (Industry) • Chassis Brakes International (Automotive Systems) <b>2020</b> • Hitachi High-Tech (Smart Life) • Hitachi ABB Power Grids (Energy) • Hitachi Astemo (Automotive Systems)
<b>Divestment/reduction of businesses</b>	<b>2012</b> • Transferred the hard disk drive business • Reduced the small- and medium-sized display business • Terminated in-house production of flat-panel TVs	<b>2014</b> • Converted the thermal power generation systems business into an equity-method associate • Deconsolidated Hitachi Maxell	<b>2015</b> • Converted the air-conditioning systems business into an equity-method associate	<b>2021</b> • Transferred the diagnostic imaging-related business

\*Figures of fiscal 2021 were announced on July 30, 2021

## 2012 Mid-term Management Plan FY2010-2012

### Rebuilding Management Recovery

**Looking Back**  
 After booking its largest losses ever in fiscal 2008, Hitachi during the period covered by the 2012 Mid-term Management Plan advanced the rebuilding of its business. The rebuilding of the automotive systems business, the withdrawal from the internal manufacturing of flat-panel TV business, and the transfer of the 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 to 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/E ratio narrowed to 0.75x over the same period, indicating a clear improvement in Hitachi's financial position as the Company worked toward the establishment of a stable earnings base.

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

## 2015 Mid-term Management Plan FY2013-2015

### Building a Foundation for Growth The Swapping Out of Businesses

**Looking Back**  
 Hitachi during the period covered by the 2015 Mid-term Management Plan substantially revised its business portfolio as it sought to build a foundation for growth. The Company acquired Pentaho, which develops and markets big data analytics software, as part of its aim to strengthen and expand the global value chain in big data utilization, while also removing from consolidation its thermal power, air-conditioning, and batteries businesses. In addition, Hitachi moved its rail business headquarters to the U.K. as part of its effort to promote the globalization of the Company, appointing 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

## 2018 Mid-term Management Plan FY2016-2018

### Achieving Growth in Social Innovation Utilizing Digital Technologies

**Looking Back**  
 With the goal of strengthening front-line functions, including the number of sales, system engineers, and consultants, and creating a system of collaborative cooperation with our customers, Hitachi from fiscal 2016 moved from a product-specific company system to a three-level system, composed of front-line, platform, and product tiers. With the three-level system, Hitachi bolstered the management speed. Specifically, business units (BUs), 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.

To add to this, we launched Lumada in May 2016. Lumada takes the essential technologies for delivering advanced solutions, including AI, analytics, security, robotics and control technologies distributed across the Company and applies them to a common platform, creating a system that comprehensively and organically leverages the resources of the entire Hitachi Group to quickly and flexibly create new innovations. Thanks to a steady increase in customer collaborations, Lumada business revenues are trending as planned and have already exceeded 1 trillion yen.

Moreover, in addition to reorganizing our business portfolio, including selling off listed subsidiaries with little connection to the core Social Innovation Business, we continued to reform our cost structure, which contributed to the adjusted operating income ratio meeting our Mid-term Management Plan target and reaching a record level.

**Challenges Ahead**

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

Vision  
Value Creation  
Sustainability  
Governance  
Data

## 2021 Mid-term Management Plan

(FY2019-2021)

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

	FY2019 results	FY2020 results	FY2021 forecast*
Revenues	8,767.2 billion yen	8,729.1 billion yen	9,500.0 billion yen
Adjusted operating income / ratio	661.8 billion yen / 7.5%	495.1 billion yen / 5.7%	740.0 billion yen / 7.8%
EBIT / EBIT ratio	183.6 billion yen / 2.1%	850.2 billion yen / 9.7%	820.0 billion yen / 8.6%
Net income attributable to Hitachi, Ltd. stockholders	87.5 billion yen	501.6 billion yen	550.0 billion yen
Overseas revenues ratio	48 %	52 %	—
Cash flows from operating activities	560.9 billion yen	793.1 billion yen	750.0 billion yen
ROIC	9.4 %	6.4 %	8.3 %

### Performance by Segment

Segment	Item	FY2019 results	FY2020 results	FY2021 forecast*
IT	Revenues	2,099.4 billion yen	2,048.7 billion yen	2,200.0 billion yen
	Adjusted operating income / ratio	249.4 billion yen / 11.9%	269.4 billion yen / 13.2%	263.0 billion yen / 12.0%
	EBIT / EBIT ratio	214.4 billion yen / 10.2%	244.8 billion yen / 12.0%	246.0 billion yen / 11.2%
	ROIC	18.4 %	17.8 %	12.7 %
Energy	Revenues	399.2 billion yen	1,107.9 billion yen	1,320.0 billion yen
	Adjusted operating income / ratio	13.5 billion yen / 3.4%	(47.7) billion yen / (4.3)%	30.0 billion yen / 2.3%
	EBIT / EBIT ratio	(375.7) billion yen / (94.1)%	(55.5) billion yen / (5.0)%	37.0 billion yen / 2.8%
	ROIC	6.4 %	(2.7)%	1.9 %
Industry	Revenues	840.7 billion yen	830.1 billion yen	850.0 billion yen
	Adjusted operating income / ratio	54.7 billion yen / 6.5%	45.5 billion yen / 5.5%	69.0 billion yen / 8.1%
	EBIT / EBIT ratio	57.8 billion yen / 6.9%	42.3 billion yen / 5.1%	59.0 billion yen / 6.9%
	ROIC	8.6 %	6.1 %	8.7 %
Mobility	Revenues	1,144.4 billion yen	1,199.6 billion yen	1,250.0 billion yen
	Adjusted operating income / ratio	92.3 billion yen / 8.1%	74.7 billion yen / 6.2%	102.0 billion yen / 8.2%
	EBIT / EBIT ratio	112.3 billion yen / 9.8%	129.0 billion yen / 10.8%	124.0 billion yen / 9.9%
	ROIC	11.3 %	8.9 %	10.2 %
Smart Life	Revenues	2,167.6 billion yen	1,252.7 billion yen	1,000.0 billion yen
	Adjusted operating income / ratio	118.9 billion yen / 5.5%	79.4 billion yen / 6.3%	97.0 billion yen / 9.7%
	EBIT / EBIT ratio	90.0 billion yen / 4.2%	202.1 billion yen / 16.1%	150.0 billion yen / 15.0%
	ROIC	8.0 %	8.7 %	10.8 %
Automotive Systems	Revenues	—	987.5 billion yen	1,600.0 billion yen
	Adjusted operating income / ratio	—	34.7 billion yen / 3.5%	97.0 billion yen / 6.1%
	EBIT / EBIT ratio	—	4.3 billion yen / 0.4%	76.0 billion yen / 4.8%
	ROIC	—	3.1 %	6.3 %

\*Announced on July 30, 2021

## Inputs for Promoting Strategy



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

- **Grow Highly 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

KPI	FY2019	FY2020
Revenues of Lumada business	1,037.0 billion yen	1,110.0 billion yen
Lumada core business	593.0 billion yen	672.0 billion yen
Lumada related business	444.0 billion yen	438.0 billion yen
Customer cases	Over 1,000	
Solution cores	Over 85	
Digital talent	30,000	35,000
Lumada overseas revenue ratio	Approx. 40%	Approx. 30%
Reduction rate in CO <sub>2</sub> emissions per unit (products and services) (compared with FY2010)	19%	20%
Reduction rate in total CO <sub>2</sub> emissions at business sites (factories and offices) (compared with FY2010)	17%	39%
Reduction rate in water use per unit (compared with FY2010)	26%	24%
Reduction rate in waste and valuables generation per unit (compared with FY2010)	14%	14%

### 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
  - Diversity & Inclusion
  - Target and Actions for Diversity & Inclusion
  - Framework for Global Human Capital Management
  - Building Workplaces That Offer Job Satisfaction

KPI	FY2019	FY2020
R&D expenses to sales revenues ratio	3.4%	3.4%
Ratio of non-Japanese executives*	8.6%	11.6%
Ratio of female executives*	7.1%	10.1%
Number of female managers	700	768
Engagement indicator of employee survey	60%	62%

\*Executive officers, Corporate officers, and Fellows

### 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**

KPI	FY2019	FY2020
ROIC	9.4%	6.4%
Adjusted operating income ratio	7.5%	5.7%
Operating cash flows	560.9 billion yen	793.1 billion yen
Growth Investment	Approx. 200.0 billion yen	Approx. 1,700.0 billion yen



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



**Keiji Kojima**  
President & COO

**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 accomplish this, one of the most prominent examples was the restructuring of the company's business portfolio. Now that these structural reforms have had time to take effect and serve as the foundation for growth, we are approaching a business portfolio that is well-equipped for future success. 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.

Back when I was serving as CTO, Mr. Nakanishi, the former Executive Chairman, communicated a strong message to me when he told me that "the Social Innovation Business is Hitachi's core." This stuck with me and ever since I have worked to execute reforms at research laboratories worldwide to strengthen Hitachi's innovation capabilities. First, I undertook a major change in direction as I prioritized creating an R&D structure close to society and the customers. Specifically, rather than using the conventional approach of creating products as an extension of fundamental research and elemental technologies, I encouraged an approach of identifying social issues and back-casting from future forecasts to define our key research themes. Ever since we began the Lumada business in 2016, we have invested immense energy into expanding this business. Since my first encounter with database research, I have been confident that data was an immensely valuable resource which would be a driving force that could change the world. Now that we are approaching the final form of the business portfolio, we will create and follow a path in which the Lumada business serves as a driver for Hitachi to achieve the next stage of growth.

**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.

Hitachi's business can be separated into three main categories: IT, projects, and design/manufacturing. Management must be simple to ensure the efficient use of assets characterized by different risks and growth mechanisms. Acting with speed is also crucial in achieving continued growth that keeps pace with changes in the world at large. Finally, the effective use of digital technologies in management is key to increasing speed.

The structural reforms that Hitachi has implemented have been executed to achieve global growth. We are promoting integration with overseas companies that have recently joined the Hitachi Group, including Hitachi ABB Power Grids and GlobalLogic, and we are making a full-scale shift toward management from a global perspective. We are building an operational structure that will enable us to demonstrate effective Group synergies, while at the same time preserving the speed and culture of a top global company. To do this, even as we press forward with the globalization of existing Head Office functions, we will further accelerate growth by establishing smaller global corporate functions in each region to complement those Head Office functions.

**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, mainly 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."

Hitachi ABB Power Grids, which we acquired last year, is positioned not as a business in the Energy sector but rather as a core business that supports the environment, one of

the three fields where we can demonstrate growth through Lumada. As we move forward toward our goal of carbon neutrality for the Hitachi Group as a whole, Hitachi ABB Power Grids has an important role to play as a crosscutting business that creates synergies with all sectors. GlobalLogic is similar in that its business demonstrates great value and synergies with all sectors. We will link these newly secured resources with all our businesses while working to accelerate global expansion and growth in the Lumada business.

**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. North America—particularly the United States—is investing aggressively in infrastructure, and various domestic industries are seeing a recovery, so I see this as a growth market with huge potential. India, which has become the world's largest source of digital talent, is also a key area that we approach alongside North America as we work to expand the Lumada business. Japan also has many companies that create outstanding products, so I think this market has great potential as well.

The sectors that demonstrate the greatest growth potential include the Industry sector and the Smart Life sector, especially the field of genetic engineering, which includes regenerative medicine and iPS cells.

**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.



## 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

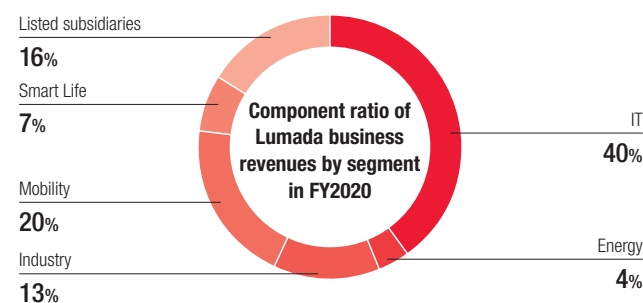
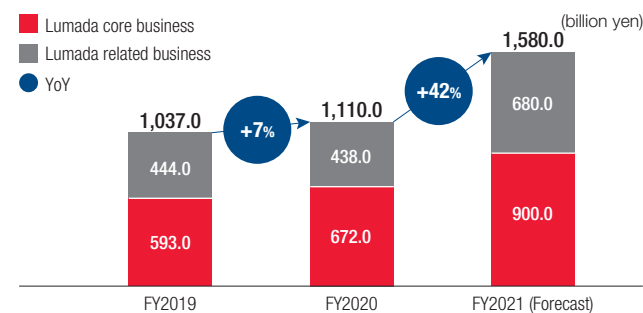
#### Achieve Robust Growth in the Lumada Business

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

#### Lumada Business Revenues



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 tied 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: Keihin Corporation, Showa Corporation, and Nissin 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 environments. 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 Lumada's existing assets, GlobalLogic will not only apply its current business model, in which unit prices are based on worker hours, but also undertake the broad rollout of business based on the use of software assets. We will use 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 actually 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.



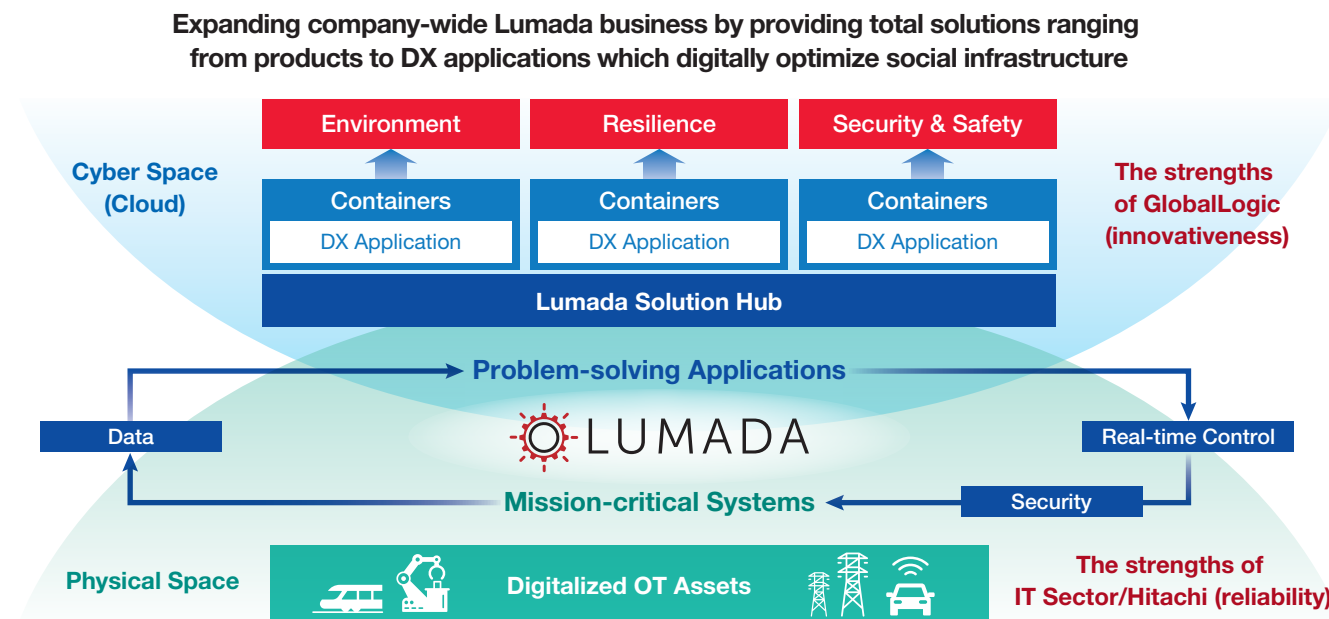
Shashank Samant  
CEO, GlobalLogic, Inc.



### 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 SI skills and expertise. Hitachi will leverage these strengths to accelerate the digital transformation for social infrastructures.



### 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

#### Case 1 Achieving a DX Society through Advanced Payment Services

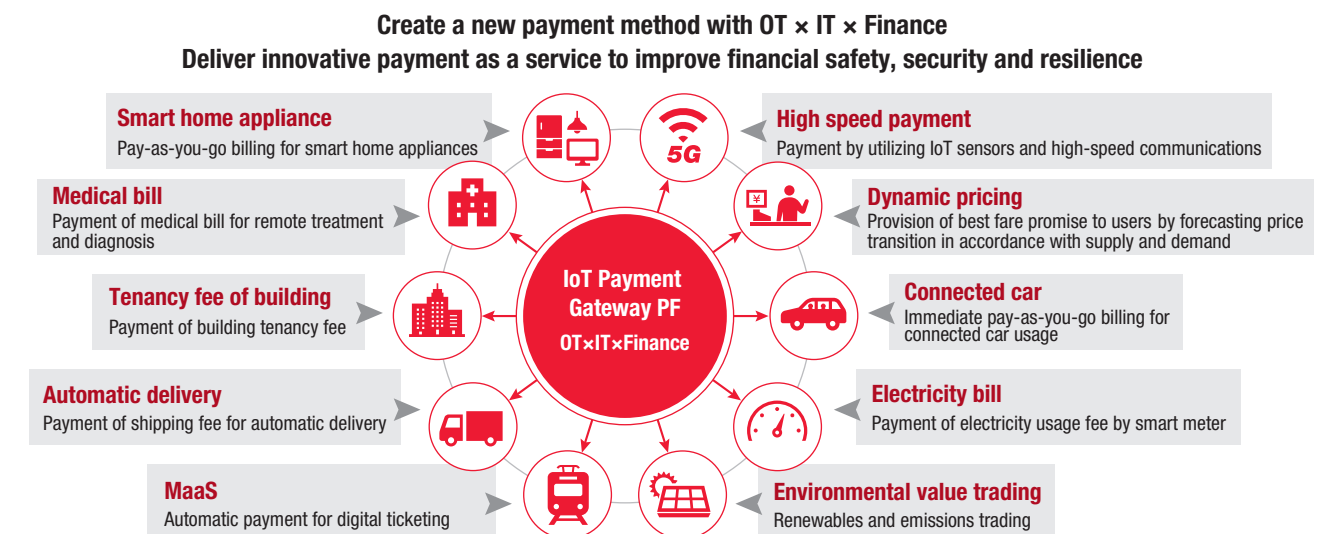
The realization of DX requires not only the digitalization of information but also solutions with a view toward the provision of new services based on data applications. With the digitalization of social infrastructures, payment methods are also changing, as cashless payments are rapidly gaining popularity, 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.



**Case 2** **Creating Information Management Platforms for Regenerative Medicine**

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.

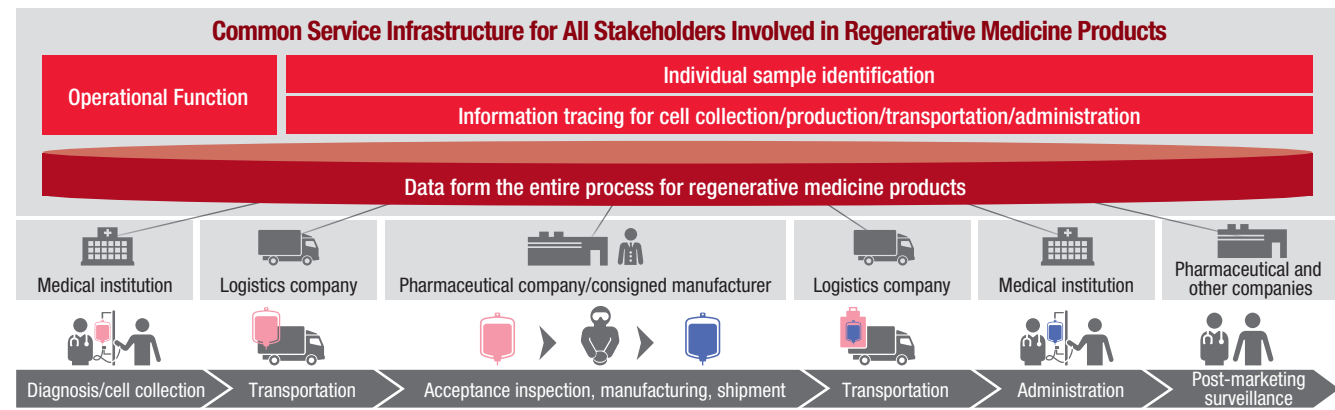
Regenerative medicine products are unique in that cells collected from patients or cell donors are incubated and then injected to other patients. The safe and secure management and distribution of cell and tracing information required the construction of a new and unprecedented supply chain structure.

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 referring 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.

**Overview of the regenerative medicine products value chain integrated management platform**

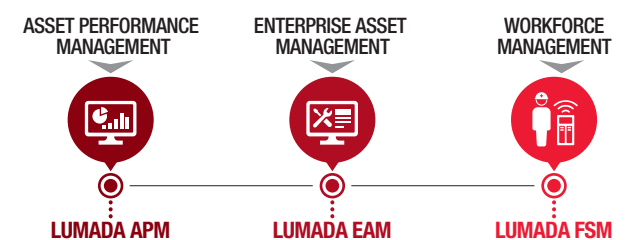


**Case 3** **Enhance Lumada Solutions in Combination with Hitachi ABB Power Grids' Operation Management Solutions**

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.

**Hitachi ABB Power Grids' Digital Enterprise joins Lumada ecosystem**



**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 works

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 "Inspiration 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.



**Gajen Kandiah**  
CEO, Hitachi Vantara LLC

**Profile**  
Spent 15 years with Cognizant, a global IT services company. Appointed CEO of Hitachi Vantara on July 13, 2020.



## 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 and set goals to both reduce CO<sub>2</sub> 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.



Alistair Dormer, Executive Vice President and Executive Officer, Chief Environmental Officer

### 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 CO<sub>2</sub> 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 (HICP) system to provide incentives for capital investment that contribute to CO<sub>2</sub> 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)

	FY2020 (result)	FY2021 (target)	FY2030 (target)	FY2050 (target)
Reduction rate of total CO <sub>2</sub> emissions (base: FY2010)	39%	20% or higher	100% (carbon neutral)	Maintain 100%

### 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	For a Resource-Efficient Society	For a Harmonized Society with Nature
Achieve carbon neutrality by FY2050 throughout the value chain, reduce CO <sub>2</sub> emissions by 50% by FY2030 (compared with FY2010) Achieve carbon neutrality by FY2030 at business sites (factories and offices)	Build a society that uses water and other resources efficiently with customers and society Efficiency in use of water/resources FY2050 <b>50% improvement</b> (compared with FY2010 in the Hitachi Group)	Impacts on natural capital <b>Minimized</b>

**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 CO<sub>2</sub> 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



- |  |  |  |  |
|--|--|--|--|
| <b>Energy</b> <ul style="list-style-type: none"> <li>Support the societal shift toward renewable energy</li> <li>Provide systems and high-efficiency products that realize stable energy supply</li> </ul> | <b>Railway Systems</b> <ul style="list-style-type: none"> <li>Develop eco-friendly railcars</li> <li>Develop hybrid- and battery-powered trains</li> </ul> | <b>Automotive Systems</b> <ul style="list-style-type: none"> <li>Develop high-efficiency electrification products and technologies to support the expansion of xEVs</li> </ul> | <b>Industry</b> <ul style="list-style-type: none"> <li>Provide DX solutions and energy-saving industrial equipment for manufacturing and other industries</li> </ul> |
|--|--|--|--|

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.

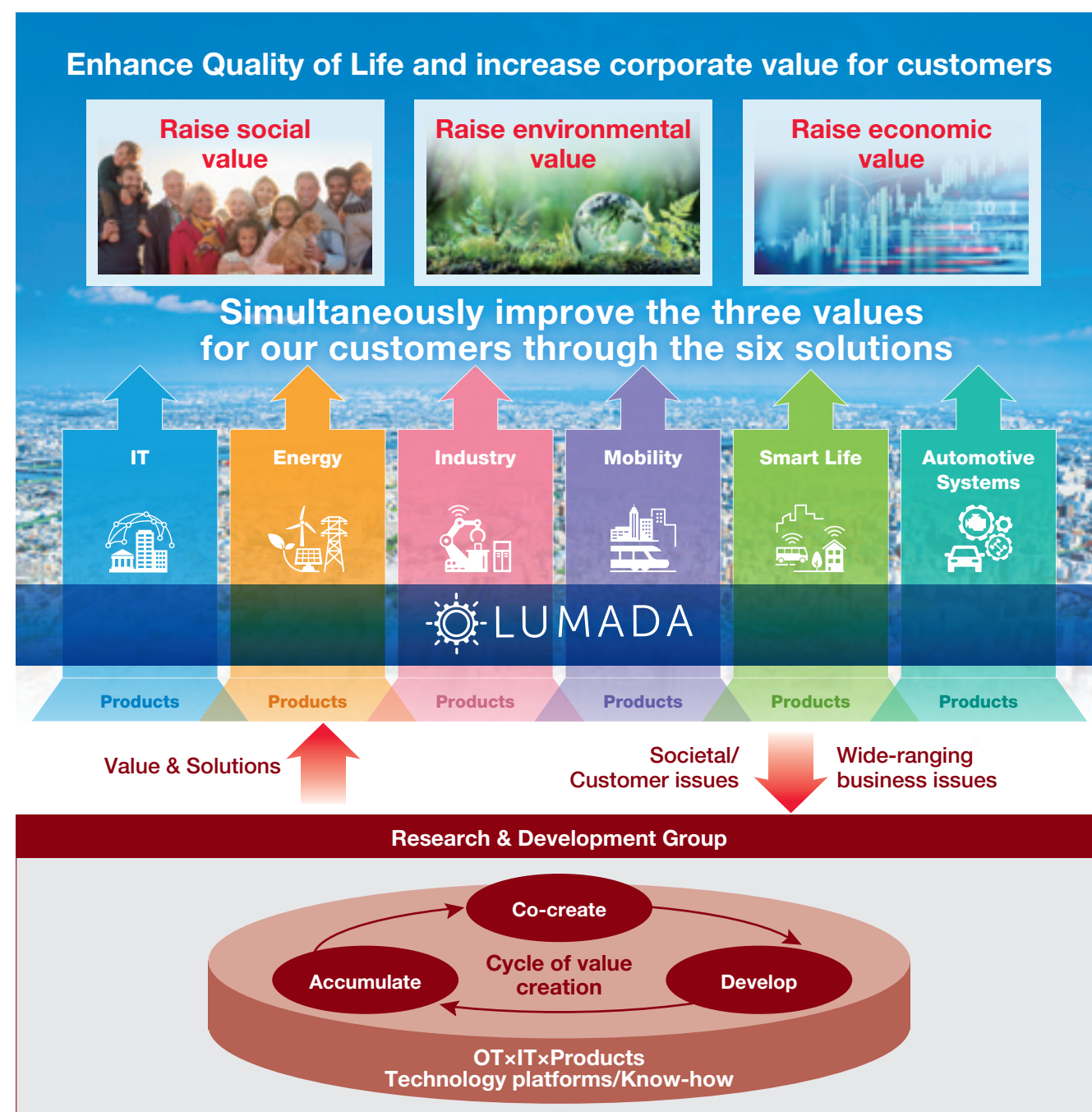
**HITACHI**  
Inspire the Next



## 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 OTxITxProducts, 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, xEV, 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 OTxITxProducts. 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



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

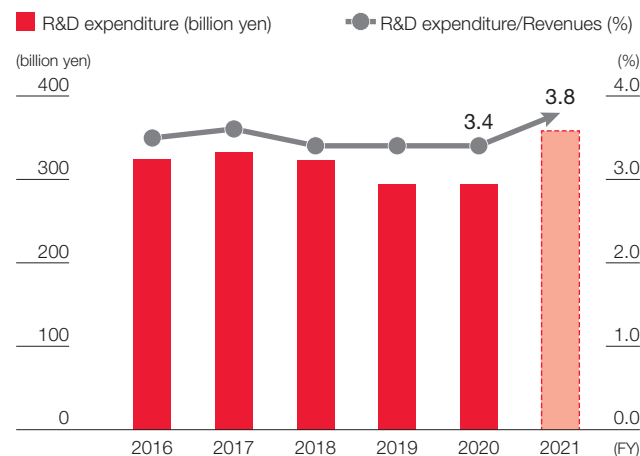
### Expanding R&D Investment

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

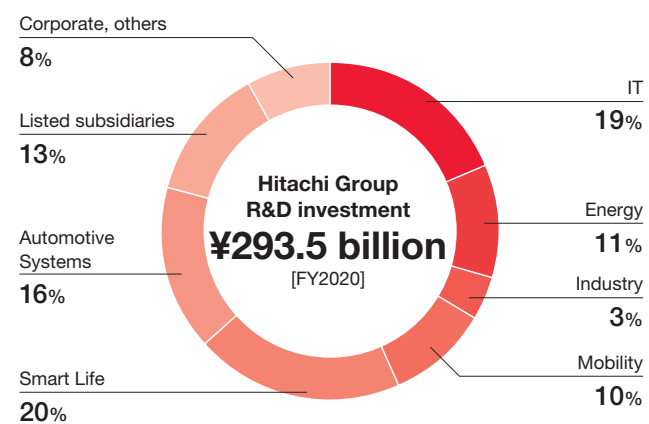
identified by back-casting from society in 2050 are examples of key target areas for Hitachi’s R&D activities: hydrogen-powered mobility and energy storage for decarbonization and the evolution of a circular economy; water and carbon cycle systems; mobility-related technologies supporting the expansion 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

#### R&D Investment

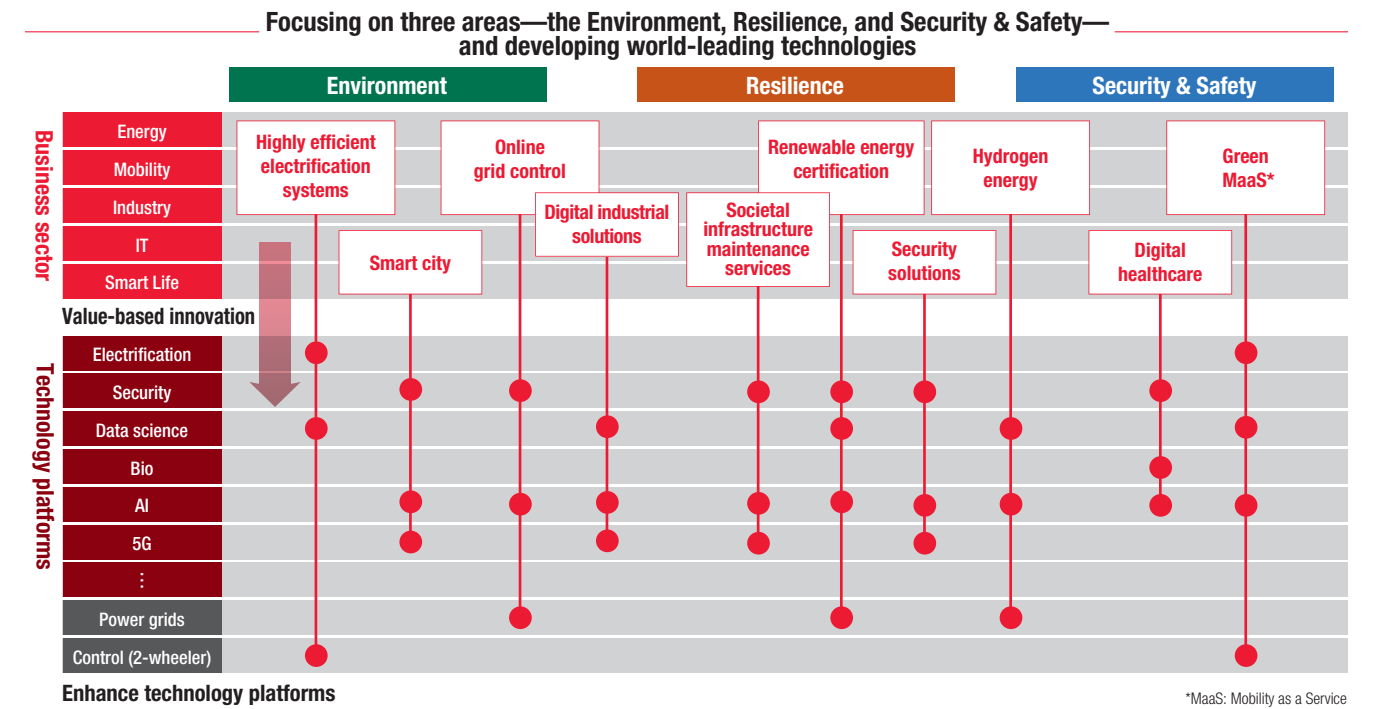


#### Hitachi Group R&D Portfolio



## 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 IE5 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 TED-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 user 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-tō” facility of Kyōsō-no-Mori. Moving forward, we will contribute to realizing a decarbonized society 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 and usage systems, we are developing systems and material 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-light oil 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 large-scale blue 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 Economic Forum Lighthouse as a most advanced factory. To realize value chain optimization that flexibly adapts to the business environment, the high-efficiency production model and other systems from Omika Works are being deployed through co-creation in automotive, chemical, and other industries. Our goal for the future is to provide Lumada solutions that embody an N-fold expansion of industrial digital solutions that achieve overall optimization, such as planning optimization services that digitalize tacit knowledge and increase the visibility of frontline operations.

In the security field, we are promoting R&D aimed at improving resilience for human activities both in the cyber and physical worlds. In October 2020, using Hitachi’s original Public Biometric Infrastructure (PBI) technologies, we began providing the “Biometric Integrated Infrastructure Service,” a cloud service for secure biometric authentication. By combining PBI with settlement functions or access management at commercial facilities, it becomes possible to offer hands-free personal authentication. Using PBI, biometric information such as finger vein, face, or iris can be encrypted and registered in the cloud in a format that cannot be decrypted, enabling safe personal authentication and cashless settlements. This system was awarded the 2020 (63rd) Best 10 New Products Award (Masuda Prize) sponsored by the Nikkan Kogyo Shimbun. Increased security is provided by using AI image analysis of people and luggage to improve the visibility of people flow and movement in public areas such as train stations and airports. Solutions such as “high-speed human detection and tracking solutions” are being developed as COVID-19 infection prevention measures with due consideration to individual privacy.

**Security & Safety**

Hitachi strives to achieve a safe and secure society that increases quality of life through advanced R&D based on insights into the new challenges in the future brought about by climate change, COVID-19, the aging society, and digital economies.

**■ Initiatives in medical/pharmacy for Security & Safety**

In the medical and pharmacy fields, synergies are being exerted with Hitachi High-Tech, now a fully owned subsidiary. By applying image processing technologies that use machine learning to biochemical immune-assay systems in which Hitachi holds the top share, we have increased the accuracy and processing capacity of specimen analysis to accommodate COVID-19 antigen testing and antibody measurement. In diagnostic and treatment systems, the Hospital of University of Navarra in Spain received delivery of Europe’s first particle beam cancer treatment system, equipped with a spot scanning technology that projects a particle beam adjusted to the shape of the cancer and a moving tissue tracking system that accurately projects the proton beam onto tumors that change position due to respiration or other bodily movement. Treatments using this system began in April 2020. In the field of regenerative medicine, Kyoto University conducted the world’s first physician-initiated clinical trials for Parkinson’s disease using iPS cells. Sumitomo Dainippon Pharma produced the treatment cells for these trials using Hitachi’s automated cell culturing system. The first clinical application of a commercial cell production system based on industry-academia collaborations represents an important first step toward the proliferation of regenerative medicine.

**Further Evolution of Lumada**

Hitachi is strengthening R&D in the fields of AI, beyond-5G/6G 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 consists of three pillars: “IP strategy for competitiveness,” “IP strategy for collaboration” in the product 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.

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 information, and we are using IP to promote partnerships and build ecosystems. For example, in the case of IP derived from a co-creation process using AI, it is important to be flexible when entering contracts with customers regarding the handling of those IP assets. Hitachi’s IP division is involved in 200–300 co-creation contracts each year and supports the building of win-win relationships between Hitachi and its customers. It also supports the enhancement and expansion of the digital solutions business, promoting activities that ensure smooth responses even in the case of new regulations or new technologies such as AI, robotics, and automatic driving. These activities resulted in Hitachi, Ltd., being awarded the Intellectual Property Achievement Award within the Minister of Economy, Trade, and Industry Awards in Japan for the first time in June 2020.

Regarding beyond-5G/6G communications technologies, 5G testing environments have been established at our North American Silicon Valley site and Kyōsō-no-Mori to accelerate the development of 5G solutions. We are also accelerating R&D targeting the creation of secure, real-time control systems in 5G environments, including telepresence remote work support solutions that utilize AR glasses.

In the field of quantum computers, Hitachi is promoting R&D for silicon quantum computers with outstanding scalability through industry-government-academia collaboration. In 2020, we successfully created a prototype of the basic structure for a two-dimensional electron dot array using a silicon semiconductor and achieved the large-scale integration that is essential for industrial applications. We will continue to accelerate R&D aimed at the early application of quantum computers through collaborations in this industry-government-academia ecosystem.

Our activities, which are rooted in Hitachi’s “IP for society” concept, work to promote the use of IP to maintain and evolve social norms. We are aggressively promoting the openness of intellectual property in certain highly public domains, contributing to solutions for global social issues. In the case of environmental issues, in fiscal 2021, we newly established the Environmental IP Enhancement Center within the Intellectual Property Division. With that, we have begun considering policies (e.g., solution creation contributing to environmental value realization, construction of IP libraries) aimed at improving environmental value from the perspective of intellectual property. Hitachi has registered the technology for the desalination of seawater to resolve water-related issues as well as the technology for a type of ink that detects changes in temperature and then changes color to help tackle food waste issues, with WIPO GREEN as a platform for environmental technology operated by the World Intellectual Property Organization (WIPO). With regard to contributions to resolve social issues, Hitachi has announced to open its IP concerning the Mother & Child Health Survey in cooperation with Hokkaido University, the City of Iwamizawa, and Morinaga Milk Industry Co., Ltd. Looking forward, we will continue to consider ways we can contribute to the resolution of social issues utilizing our IP.

In fiscal 2020, Hitachi ABB Power Grids and Hitachi Astemo newly joined the Hitachi Group, dramatically expanding the IP portfolio as it relates to energy platforms, xEV, AD/ADAS, and advanced chassis. Moving forward, we will further promote the enhancement of IP globally and in the solutions field.



## 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.

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.

### 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.



**Lorena Dellagiovanna**  
Vice President and Executive Officer, CDIO

After joining Hitachi Europe in 1988, was mainly active at Hitachi bases in Europe. Appointed CDIO in 2020, and serves as Vice President and Executive Officer, CDIO from 2021.

To further accelerate activities at the global level, we have incorporated "Diversity and Inclusion" into our business strategies. These initiatives are led by Lorena Dellagiovanna, 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. We have also established a Hitachi 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 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 Dellagiovanna 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.

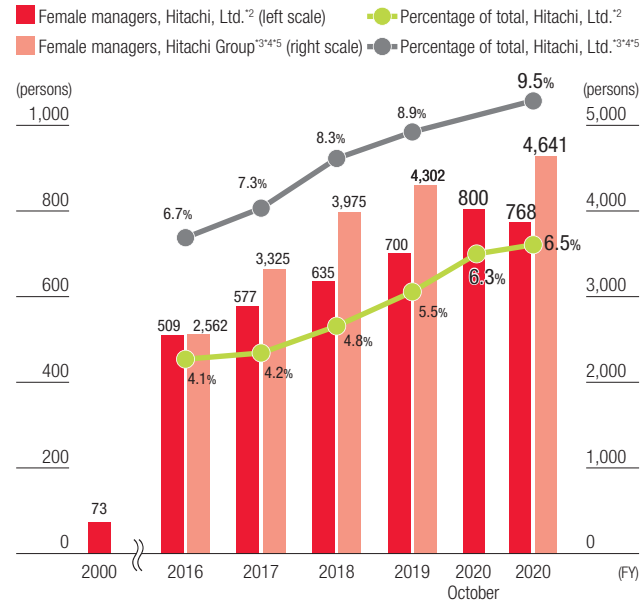
In terms of promoting active participation by non-Japanese, six out of 13 current board directors are non-Japanese, and April 2021 saw the appointment of three new non-Japanese

to the executive officer structure: Lorena Dellagiovanna 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 2030\*1, 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.

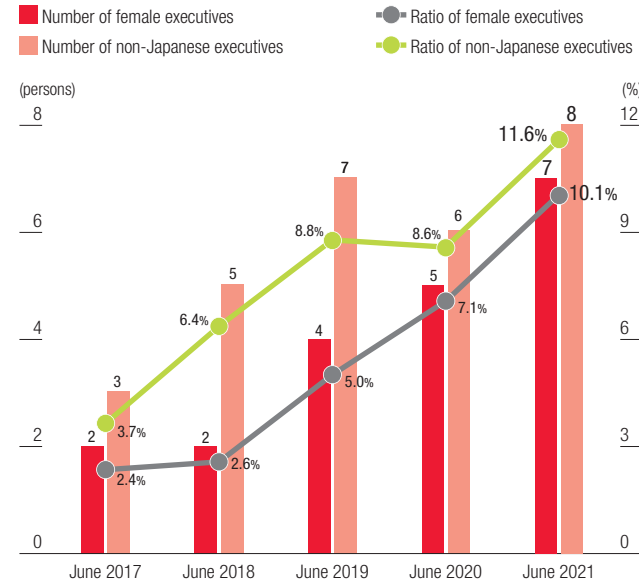
\*1 FY2030 includes personnel changes effective April 1, 2031

### Number and Ratio of Female Managers<sup>\*1</sup>



<sup>\*1</sup> The decline at Hitachi, Ltd. from October 2020 to the end of that fiscal year was due mainly to the transfer of businesses  
<sup>\*2</sup> Since fiscal 2017, "Female managers" has included managerial employees dispatched from Hitachi, Ltd. to other companies and those accepted from other companies by Hitachi, Ltd. Earlier figures include regular managerial employees dispatched to other companies but exclude those accepted from other companies  
<sup>\*3</sup> Hitachi Group figures exclude approximately 40,000 manufacturing workers  
<sup>\*4</sup> The scope of reporting shifted from full-time, regular female managers, excluding those dispatched to non-Group companies, to all female managers including those dispatched from Hitachi, Ltd. to other companies and those accepted from other companies; figures for previous years have been adjusted to match this new scope  
<sup>\*5</sup> Rising numbers of female managers in part reflect improved coverage of our human capital databases

### Ratios for Female and Non-Japanese Executives and Corporate Officers (Hitachi, Ltd.)<sup>\*1</sup>



<sup>\*1</sup> Disclosed since 2017, the year we established as a goal for achieving diversity among executive officers, corporate officers, and fellows

sustainable growth. Starting with a common human resources system for the global group companies, Hitachi aims to assign the right personnel to the right positions, allocating the best human resources to key positions on a global basis. To achieve this goal, Hitachi clarifies the roles and responsibilities of each position, as well as reporting lines, to find a common approach to human capital management globally. With this shared understanding, we endeavor to nurture an organizational culture that respects diversity while centering on individual capabilities and build a global business structure based on this culture.

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

Hitachi launched the full-scale operation of the human capital management integrated platform in 2015, centralizing processes and measures enacted to date, with a broad range of information about its human resources, including the skills

and career ambitions of individual employees. This platform is utilized in optimally allocating personnel around the world, discovering and grooming candidates for future leadership and management positions, and communications between managers and employees.

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

### Building Workplaces that Offer Job Satisfaction

The source of Hitachi's growth is found in building comfortable workplaces that offer job satisfaction, where Hitachi's diverse employees can work with enthusiasm and demonstrate strong performance.

Hitachi uses the term "employee engagement" to refer to employees' understanding of the company's strategies and policies, as well as their job satisfaction and desire to take actions on their own initiative to bring about results. We conduct an annual global employee survey called Hitachi Insights as a way of measuring employee engagement. Top executives and managers in each workplace share the results of this survey with members of their own organizations and incorporate those results into concrete improvement measures, which in turn ties into a PDCA cycle for building workplaces that offer job satisfaction. Specifically, factors such as understanding of management policies, the status of work-style reforms, labor environments, learning opportunities and motivation for growth are presented in a clear numerical form. In this way, these elements can be prioritized and applied in the context of re-examining work-styles and improving productivity in individual workplaces, as well as HR initiatives throughout Hitachi as a whole. This annual survey also enables evaluations and reviews of specific activities, and can be tied directly into operational and workplace improvements and the measurement of impact. In 2020, we conducted the eighth annual survey, targeting approximately 200,000 employees worldwide, in 14 languages. The survey participation rate was 90%, the highest since the

survey was first conducted in 2013, and scores continue to increase in all categories. The overall positive evaluation rate was 64% (up 3% from last year, and up 10% vs. 2013), and the engagement index was 62% (up 2% from last year, and up 9% vs. 2013).

In addition, as part of efforts to build more comfortable workplaces, Hitachi has evolved the concept of work life balance, which strives for harmony between work and private life, promoting "work life management," in which each individual employee improves the quality of his or her own work and private life.

In 2020, COVID-19 had a huge impact on the work-styles of employees throughout the world. Hitachi will continue to promote working from home, along with other new and diverse work-styles, so that the diverse workforce can demonstrate their full potential in their respective environments, and also to enable recovery and continuity of corporate activities even after a natural disaster or other disruptive event. We are making improvements to remote working environments and security services that make these work-styles possible, and we will support diverse work-styles by putting in place IT environments that allow employees to work as comfortably and efficiently as they would in an office environment.

For data on human resources, please see page 147 of the Hitachi Sustainability Report 2021.  
 ▶ <https://www.hitachi.com/sustainability/download/index.html>

### Framework for Global Human Capital Management

The development of the Social Innovation Business requires us to actively investigate social and customer issues and then cooperate with customers to create all new solutions. With

the goal of creating innovation and new value in the global and digital era, Hitachi is focused on securing and fostering a diverse workforce and the organizations capable of driving

#### Initiatives to Achieve Growth for Individuals and Society through the Shared Global Foundation for Group-wide Human Capital Management

FY2012	FY2013	FY2014	FY2015~
<b>Global Human Capital Database</b> Database creation for approx. 250,000 people's human capital information	<b>Hitachi Global Grade (HGG)</b> Grading of 50,000 positions worldwide from manager level and above	<b>Global Performance Management (GPM)</b> Implementation for 112,000 people (with phased expansion of implementation)	<b>Global education platform (Hitachi University)</b> Introduced new learning system to 300,000 people
<b>Selection/development of global leaders</b> Selection/development of around 500 people with top-level global talent	<b>Global Employee Survey (Hitachi Insights)</b> Approx. 682 participant companies worldwide Approx. 177,940 respondents (Response rate: 86%) Provided in 11 languages	<b>Amended compensation for manager level and above (Japan [Hitachi, Ltd.])</b> Phased expansion of linkage between HGG and GPM Excluding seniority-based portion for manager level and above Toward job-based compensation	<b>Global integrated platform for human capital management</b> FY2015 Test implementation FY2017 Implementation in Japan FY2020 153,000 people FY2021 224,000 people

Phased implementation of human capital management platform shared globally by the entire Group



# Strategy 3 Reinforce Management System to Improve Profitability

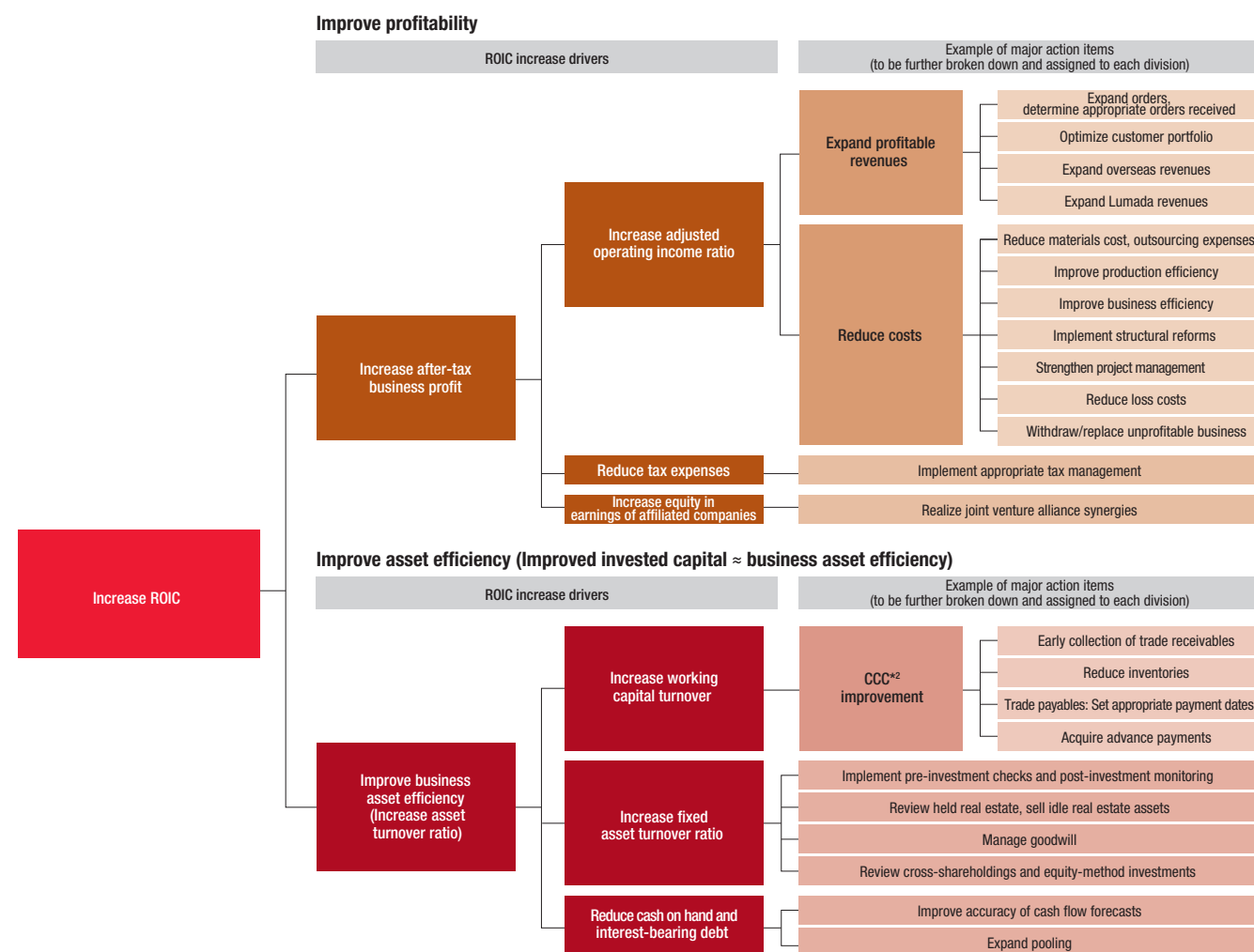
Hitachi is implementing measures to further increase profitability and strengthen the management base. In terms of financial capital strategies, we are accelerating activities in four key areas: 1) further improve profitability through stringent ROIC management, 2) improve capital efficiency by increasing 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.



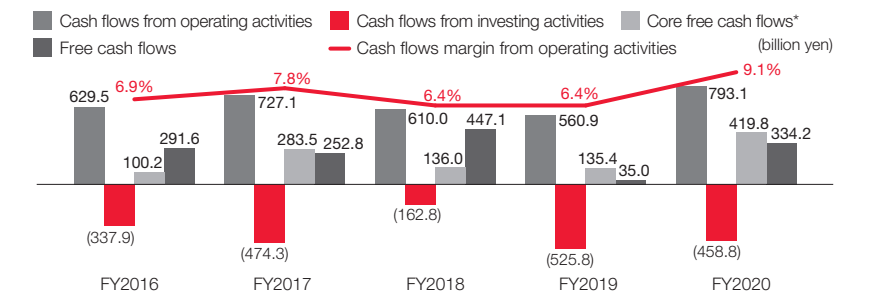
\*1 ROIC = (NOPAT + Share of profits (losses) of investments accounted for using the equity method) / "Invested Capital" x 100  
 NOPAT (Net Operating Profit after Tax) = Adjusted Operating Income x (1 - Effective income tax rate), Invested Capital = Interest-bearing debt + Total equity  
 \*2 CCC (Cash Conversion Cycle)

## 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.

### Cash Flows



\*\*"Core free cash flows" are cash flows presented as free cash flows excluding cash flows from M&A and asset sales, etc.

### Financing and Capital Costs

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

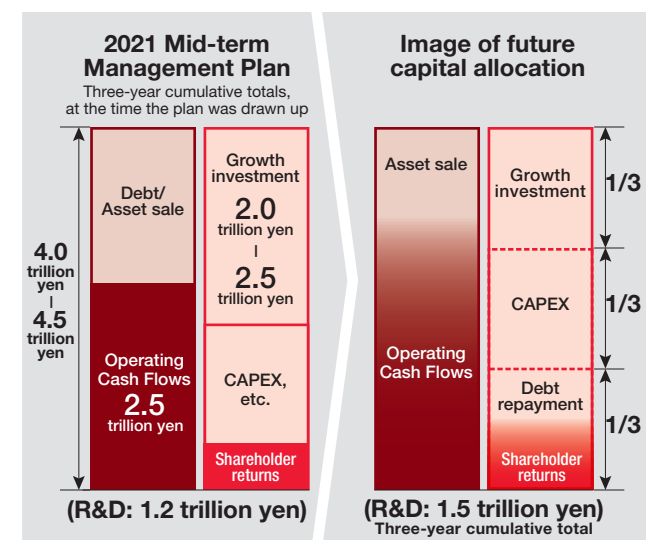
- Secure capital by increasing operating cash flow
- Implement growth investments to strengthen products and services and secure human resources as required to provide solutions and expand the digital solutions business
- Ensure stable growth in dividends

### 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 business.

Sector	Company [Acquisition price*1]	Acquisition date	Purpose
IT	FusioTech	April 2020	Accelerate the global rollout of the Lumada business through the acquisition of the AI and data analytics SaaS business in Asia
	Hitachi Channel Solutions (became a wholly owned subsidiary)*2	March 2021	Accelerate management as one with Hitachi, Ltd., and increase the speed of management and decision-making
	GlobalLogic [Approx. 1 trillion yen]	July 2021	Leverage GlobalLogic's global customer base and digital engineering capabilities to accelerate the global rollout of the Lumada business
Energy	ABB's power grids business [Approx. 1 trillion yen]	July 2020	Acquire the world's top-level power grids business as well as a global customer base, human resources, back-office functions and other operational infrastructure to accelerate the transformation of Hitachi into a truly global company.
Industry	KEC	April 2019	Increase Hitachi's competitiveness in the robotics solutions business
	JR Automation [Approx. 150.0 billion yen]	December 2019	Entry into the North American robotic systems integration business and acquisition of its customer base
Mobility	Yungtay Engineering (partial share acquisition)	May 2019 and October 2020	Expand global operations and improve profitability in the elevators & escalators business
Smart Life	Chassis Brakes International	October 2019	This move strengthens the chassis and safety systems business, core operations in the automotive systems business
	Hitachi High-Tech (became a wholly owned subsidiary) [Approx. 530.0 billion yen]	May 2020	Leverage measurement and analysis technologies to accelerate growth in Lumada and the Social Innovation Business
	Established Hitachi Astemo through an integration with Keihin, Showa, and Nissin Kogyo, affiliates of Honda Motor	January 2021	Strengthen the development and provision of globally competitive solutions in the CASE field in the automotive systems business

\*1 Amounts are indicated only for acquisitions with prices higher than 100 billion 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 reorganizations. Companies targeted for early introduction are scheduled to begin operations based on these ERP templates in 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 own 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 fiscal 2021. 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

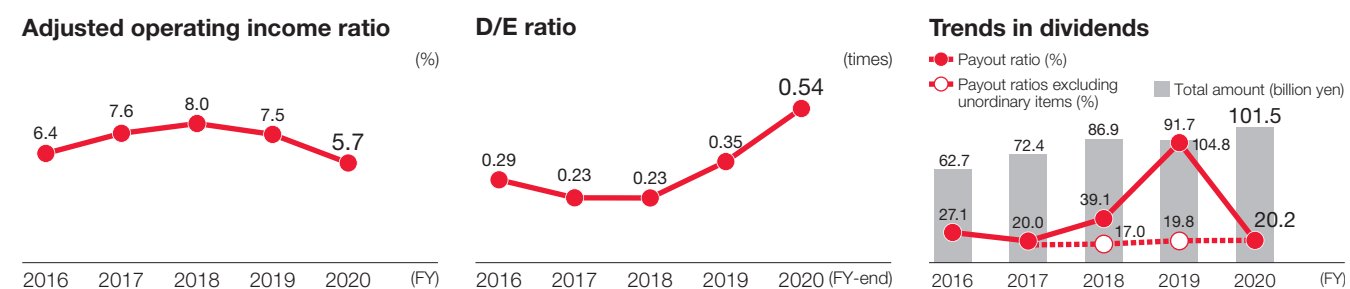
Ensuring the stability of the financial base is an important management issue. For this reason, we will continue our financial discipline policy of maintaining an A rating on issued instruments and a D/E ratio of less than 0.5 times. At the same time, we will ensure a return of profits with an awareness 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.

Rating company	Long-term	Short-term
S&P Global Ratings Japan Inc.	A	A-1
Moody's Japan K.K. (Moody's)	A3	P-2
Rating and Investment Information, Inc. (R&I)	AA-	a-1+

As of July 2021

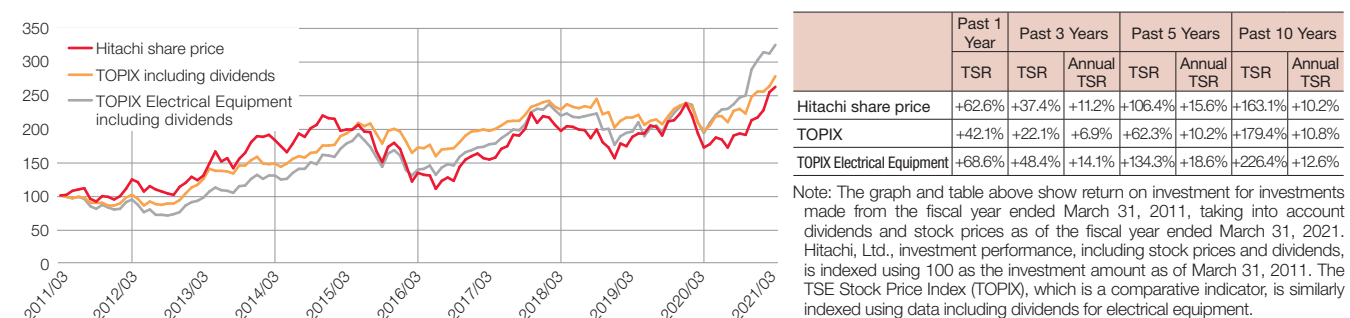
### Financial Analysis of the Past Five Years

- 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 aimed 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.



### 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.







**We will further promote management based on return on invested capital (ROIC) and allocate the cash created through synergies from large-scale acquisitions to enhance shareholder returns and growth investments.**

**Yoshihiko Kawamura**  
Senior Vice President and Executive Officer, CFO

Joined Hitachi in 2015 after serving as an executive officer at Mitsubishi Corporation. Leveraging the experience he gained at Harvard Business School and the World Bank, he has played a key role as CSO (Chief Strategy Officer) since 2018 and has driven structural reforms and the design of the 2021 Mid-term Management Plan. He was appointed CFO (Chief Financial Officer) in April 2020.

**Q 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 infiltrated 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 strengthened 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 budget and settlement-related materials so that we can conduct discussions based on this. Even amid the COVID-19 crisis, we are enhancing ROIC management on a deeper level; for example, we see businesses with a negative ROIC spread (the difference between ROIC and capital costs) as causing damage to enterprise value, so we reexamine our business strategies in those cases.

In addition to taking out loans with financial institutions, Hitachi issues corporate bonds and commercial paper. Our policy is to

maintain a debt/equity (D/E) ratio of less than 0.5x, considering a combination of factors that includes discussions with rating agencies. In fiscal 2020, however, the D/E ratio reached 0.54x at the end of March 2021 because we used loans to procure part of the capital to acquire ABB's power grids business. We plan to quickly get that ratio back down below 0.5x, eliminating debt by allocating profits from the sell-off of assets, as well as operating cash flow, which will increase through business growth.

**Q Please tell us about your approach to M&A.**

I have held a concurrent position as the head of the Investment Strategy Division since April of this year, and I'm able to look at investments and loans, so the financing and allocation of capital for acquisitions has been going even more smoothly than in the past. For example, we needed about one trillion yen for the acquisition of GlobalLogic, and we were able to move quickly in investigating capital financing procurement methods and simulations of the short- and medium-term impact of the acquisition on financial and management performance KPIs.

In general, when you announce that you are going to undertake an M&A project, there is a tendency for share price volatility to increase in the short term. If you want to control that volatility, it's important to clearly communicate a medium- and long-term equity story to the capital markets. In post-merger integration (PMI), the integration into consolidated management systems is completed in a comparatively short period of just a few months, but PMI takes two or three years after that to impact performance. We focus our efforts on garnering synergies in the medium to long term, as we amortize the intangible assets involved in the acquisition.

In terms of the impact of integration at Hitachi ABB Power Grids, we expect to see cost-reduction effects on a scale of about 100 billion yen by 2025, through the use of shared service

functions involving the new company's indirect operations in Europe, including general affairs, HR, finance, accounting, and procurement. We are also promoting cross-selling and synergies with Lumada in each business sector and, in some cases, the impact has already become apparent.

**Q Please tell us your thoughts on capital allocation.**

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 intent is to allocate 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.

**Q What are your basic policies for returns to shareholders?**

We will aim for returns to shareholders on three levels: not only dividends and share buybacks but also increasing stock prices (capital gains). We will monitor dividend yield levels in other businesses as well and aim for a stable increase in dividends based on business growth. We will consider and undertake share buybacks while conducting a variety of simulations, keeping in mind business growth, the sell-off of assets, and stock price levels.

We will continue our efforts to increase shareholder value through intensive engagement with the capital markets.

**Q In closing, please give 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 diverse 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<sub>2</sub> 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.

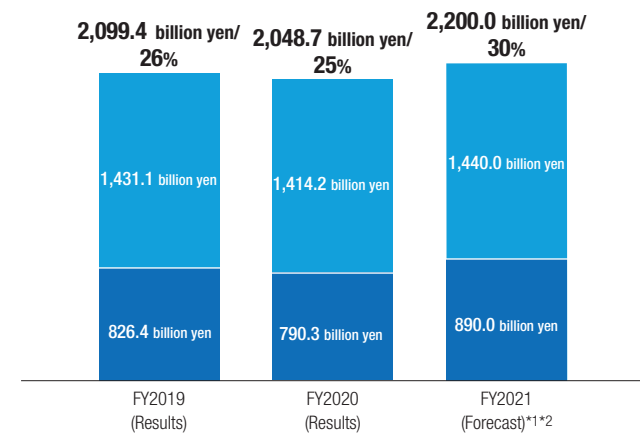
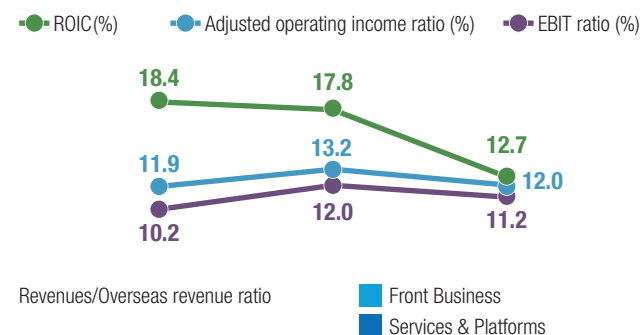
Finally, and I think that this is the most important perspective, there is the question of whether our corporate activities help to improve the public welfare; in other words, whether people's lives are more culturally oriented, healthier, and richer because of our corporate activities. This is the starting 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.

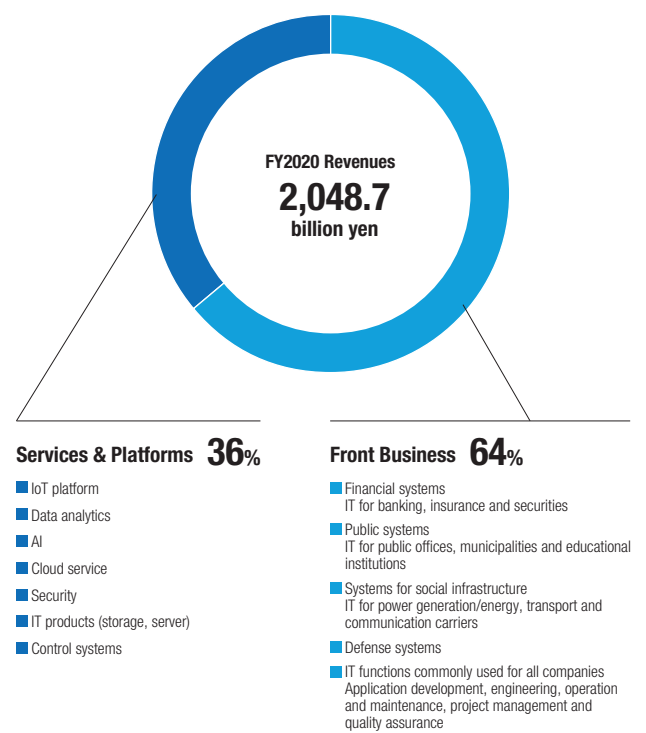


Since the start of the COVID-19 pandemic in 2020, the digital transformation, which reshapes companies and society through digital technologies, has accelerated even further worldwide. The digital transformation has the power to move not only business models at individual companies but also market structures 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.

Results and Forecasts



Principal Products and Services



\*1 Announced on July 30, 2021  
 \*2 Includes the impact on the Service & Platforms BU resulting from the acquisition of GlobalLogic

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 striven 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 Sampo 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.



CMOS annealing

With the "Biometrics Integrated Infrastructure Service" that is based on Hitachi's proprietary Public Biometric Infrastructure (PBI) technology, we have achieved contactless personal authentication and cashless settlements using finger vein authentication, and we are expanding co-creation with multiple customers. Scale of Digital is evolving steadily in a variety of fields—for example, "Materials Development Solutions," which apply materials informatics to develop and evaluate new materials using AI, data analysis, and other digital technologies—and has been adopted by around 40 companies, and "Risk Simulator for Insurance," a medical big data analysis solution that uses predictive models to simulate future risk of hospitalization, is being applied in a growing



Contactless personal authentication and cashless settlements using finger vein authentication

Vision in the 2021 Mid-term Management Plan

In the IT sector, among the IT businesses undertaken since the 1950s, we have established a business foundation through the development and provision of products and system integration (SI) in many mission-critical fields that support people's lives, such as train seat reservation systems and online banking systems, building trust relationships with customers over many years. Based on that business foundation, we have accelerated activities targeting digital business, including big data analytics, AI and IoT, and since 2016, we have driven the Lumada business using the power of digital technologies, through co-creation with customers and partners. Moving forward, we will target the digital transformation market, which continues to demonstrate rapid growth worldwide, striving to become a global leader in this field.

Achieving the digital transformation requires highly reliable SI capabilities to handle the data and systems related to customers' management. Agile development capabilities are also required to respond flexibly to rapidly changing business environments. We will make strides as a global leader in the IT sector by combining the highly reliable SI capabilities that we have cultivated through the construction of mission-critical social infrastructures in Japan with GlobalLogic's advanced digital engineering and experience design capabilities. The IT sector will continue to lead the Hitachi Group as a whole as we strive to achieve Hitachi's company-wide performance goals for the Lumada business in fiscal 2025; namely, revenues of 3 trillion yen and adjusted operating income of 500 billion yen.



number of scenarios, including health guidance provided by insurance companies and by municipal governments. Overseas, Hitachi Vantara plays a central role in providing "Lumada Manufacturing Insights," which support productivity improvements by increasing visibility in all production lines, from the gathering of 4M data (Method, huMan, Machine, Material) through to manufacturing processes. They have been offered as a solution for optimizing equipments monitoring and productivity in the manufacturing industry. Up to now, Lumada Manufacturing Insights have been provided to customers involved in the Vehicles, Industrial Products, Metals, Mining, and Food & Beverage and other industries in North America and in the APAC and EMEA regions, and we have begun offering these services through the Microsoft Azure Marketplace as well.



Lumada Manufacturing Insights

### 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.

### 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.

### 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.

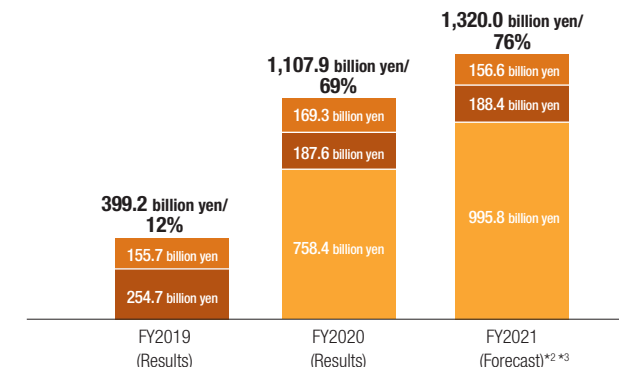
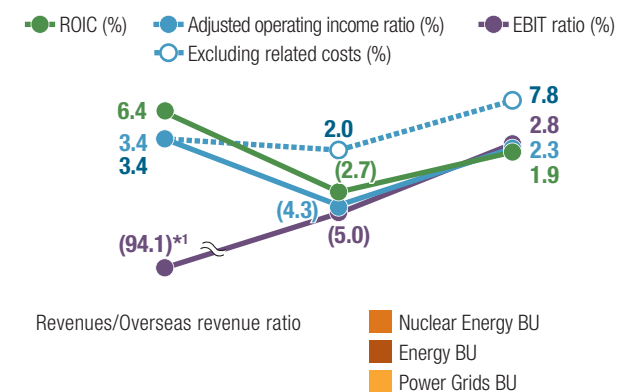
In response, Hitachi offers a variety of services and solutions as a social infrastructure maintenance platform, for example, to conduct efficient inspections using various digital technologies such as AI, drones, ground penetrating radar, and water leak sensors. By providing this platform to a wide 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.



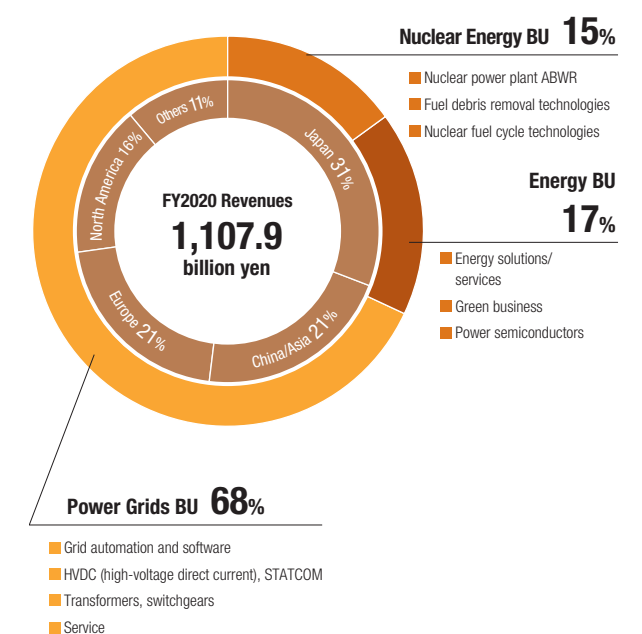
Social infrastructure maintenance services

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. In the Energy sector, Hitachi will support the expansion of clean energy, which contributes to the reduction of CO<sub>2</sub> 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



### Principal Products and Services



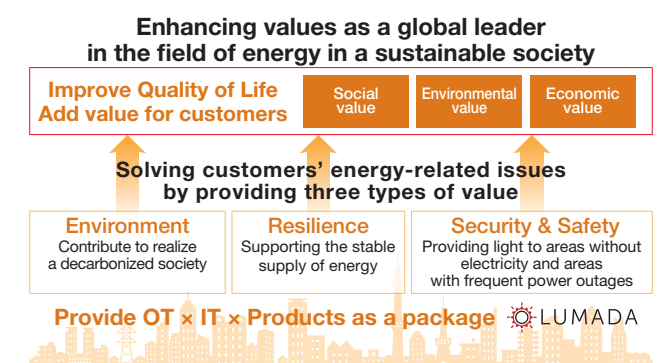
\*1 Impact from loss for the settlement on the South Africa projects  
 \*2 From fiscal 2021, figures for the transmission and distribution systems business previously recorded in the Energy BU will be recorded in the Power Grids BU, and the figures for fiscal 2020 have been retroactively adjusted  
 \*3 Announced on July 30, 2021

### 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 CO<sub>2</sub> 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 2030\*4. 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

\*4 Source: IEA Global Energy Review 2019 and Net Zero by 2050

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



technologies that handle new supply and demand complexities in response to the increasing ratio of renewable energy, where power output is influenced by weather conditions, and we need to increase the quality of electric power by providing reactive power. Furthermore, it will be essential to have frameworks for transactions and coordination for electric power sharing and to enable green energy to be given priority in procurement and delivery to users, as well as broad ranging, highly efficient

systems that link renewable energy created in remote locations to consumers' locations. In terms of new investments and a fundamental reexamination of power transmission systems accompanying the shift from traditional power sources, it will be necessary to ensure resilience in the face of threats such as natural disasters and cyberattacks, while maintaining economic rationality.

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

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 × IT × 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.



### 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 EconIQ™, a product/service/solution package that supports the realization of carbon neutrality, in April 2021. EconIQ™ 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 (SF<sub>6</sub>) gases and that have been proven to reduce relative CO<sub>2</sub> 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.



Dogger Bank Wind Farm (image) Source: Aibel

### 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 that support the stable supply of energy, stable facilities operations, and increased operating efficiency, as well as the green business, which strives to achieve a decarbonized society.

Combining digital technologies with the technologies and expertise we have cultivated over the years, we provide a broad range of digital solutions and O&M services, including remote monitoring, predictive diagnosis of failure, and increased efficiency in inspection plans for wind power, solar power, distributed power sources, and other power generation systems. We will enhance value in the fields of the Environment, Resilience, and Security & Safety by supporting DX for customers and society, for example, through next-generation energy management solutions and Energy & Facility Management as a Service (EFaaS), which provide one-stop support for the efficient operation and management of energy-related facilities that require 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 CO<sub>2</sub> emissions in social infrastructures.

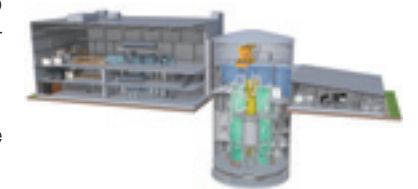


Hitachi Power Solutions Remote Monitoring and Support Center

### Nuclear Energy Business

#### ■ Contributing to resolving energy-related issues by placing the highest priority on security & safety

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 continue 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.



BWRX-300 (Small Modular Reactor) (CG)

#### Management with a view toward the form of society and energy in 2050

As part of efforts to achieve a sustainable society through activities targeting decarbonization and the circular economy, Hitachi seeks out issues based on the ideal form of the future. In terms of issues "back-casted" from the future of energy and society in 2050, our policy is to undertake R&D in environment-friendly technologies such as hydrogen fuel mobility and energy storage, zero pollution, and recycling of water and carbon resources.

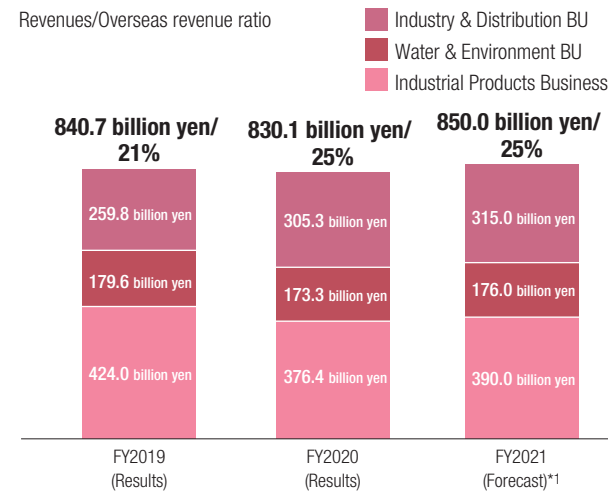
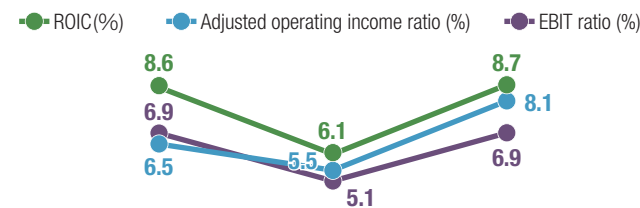
As a global leader in the energy field, Hitachi will continue to contribute to improving people's quality of life and enhancing value for customers and society by developing and providing highly competitive digital and energy platforms, as well as solutions that combine those platforms.



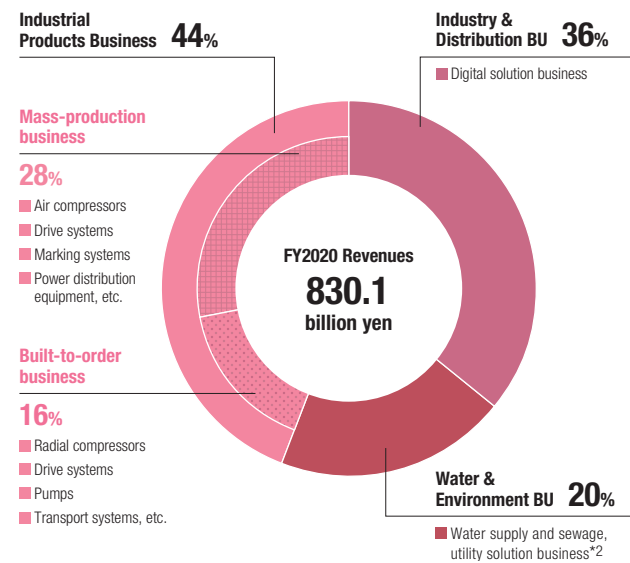


In the industrial world, the market environment continues to undergo unprecedented rapid and complex changes because of a decrease in the working-age population, increasingly intense global competition, climate change, and the effects of COVID-19. Against this backdrop, there is a greater need than ever 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



Principal Products and Services



\*1 Announced on July 30, 2021  
 \*2 Air-conditioning and water treatment facilities for factories, social infrastructure, etc.

Market Environment and Business Strategies

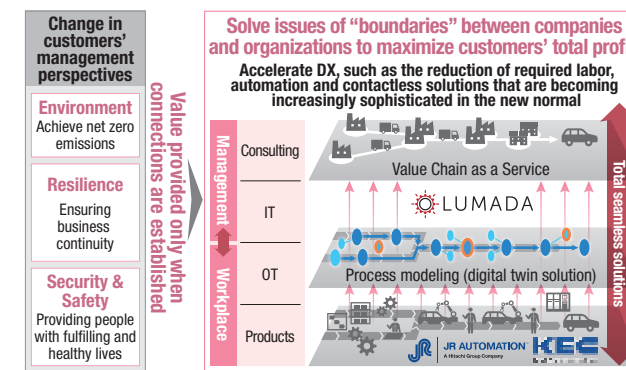
Amid rapid changes in the market environment, including the spread of COVID-19, increasing geopolitical risks, growing awareness of the environment, and a transition to a recycling-oriented society, it has become important to create value in three fields: the Environment, Resilience, and Security & Safety. 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.

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 strengths 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.

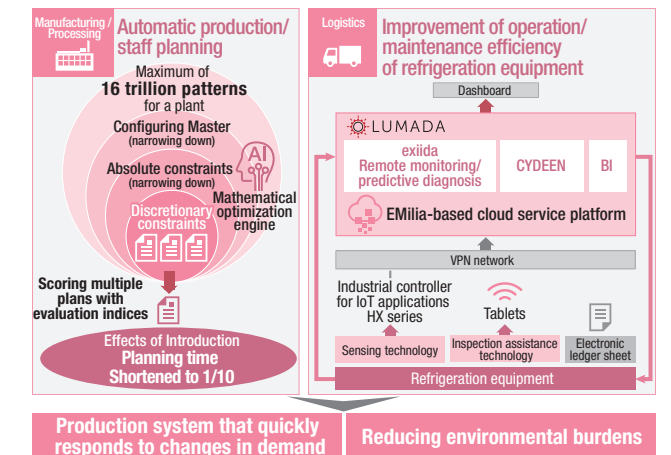
Vision of the Industry Sector



Co-creation with two companies in the Nichirei Group provides an example of using digital technologies to connect the vertical "boundaries" between management and workplaces. In production and staff planning for Nichirei Foods' manufacturing and processing plants, the company introduced Hitachi's original systems that combine AI and mathematical optimization technologies. In this way, we were able to automatically create optimum solutions based on up to 16 trillion production and staffing plans for each plant, thereby reducing planning time to approximately 1/10th of previous levels. We also provided

solutions that combined the Hitachi Group's technologies to increase operating and maintenance efficiency for freezer facilities operated by the Nichirei Logistics Group. The HX series of industrial controllers for IoT applications offered by Hitachi Industrial Equipment Systems was used to gather field data, and those data were then compiled on a cloud service platform based on EMilia, an integrated Energy & Equipment Management Service, to conduct operational and failure prediction diagnostics. In this way, we contribute to reducing environmental impact and establishing a resilient production system that enables the Nichirei Group to respond quickly to changes in demand.

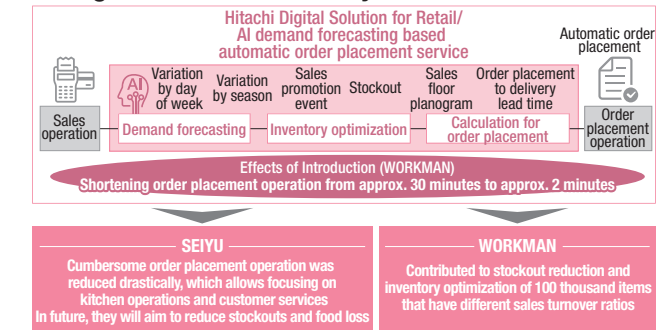
Example of Connecting Vertical "Boundaries" through Co-creation with the Nichirei Group



Production system that quickly responds to changes in demand  
 Reducing environmental burdens

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

Examples of Connecting Horizontal "Boundaries" through Co-creation with Seiyu and Workman



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 (OT) for those facilities and IT for corporate management. We will leverage this experience 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

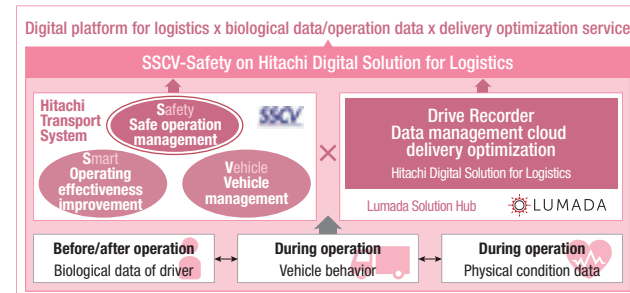
In the Industry sector, we put forward a basic policy of promoting business by "expanding and strengthening total seamless solutions" and "accelerating global expansion," while at the same time, in fiscal 2020, we focused our efforts on responding to changes in the market environment resulting from COVID-19. 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.

service targeting products with different sales turnover rates, with a goal of reducing the time required for order placement operations from approximately 30 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 is facing issues including 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 for Connecting through Co-working with Hitachi Transport System**



Respond to decrease in number of truck drivers/accident preventive measures | Real-time operation management utilizing IoT technologies

In the water & environment field, we provide operation and maintenance (O&M) support digital solutions of cloud services that combine the experience and expertise 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 and KEC in Japan as 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 start-up 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**

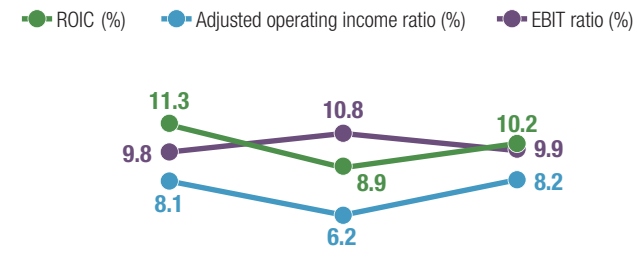
We are rapidly merging the robotic SI business, which has been fortified mainly in North America, with Hitachi’s outstanding digital technologies. For example, in the manufacturing of aircraft parts in North America, JR Automation is involved in the automation of large-scale robotics and transport/manufacturing 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.

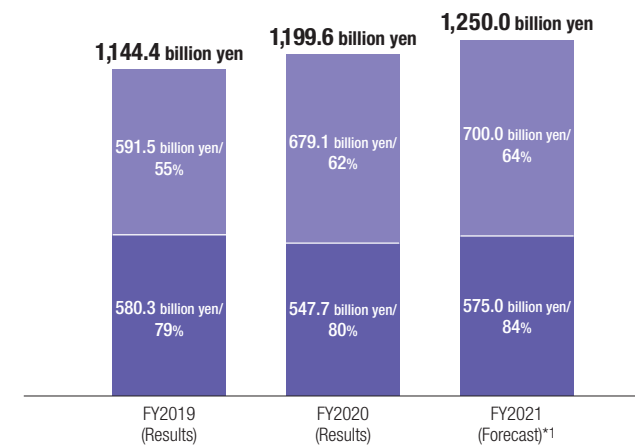
In the Mobility sector, which comprises the Building Systems and the Railway Systems businesses, Hitachi offers safe, secure, comfortable, and eco-friendly products and services to customers throughout the world. Specifically, each business provides solutions that serve as key elements of clean and highly 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**



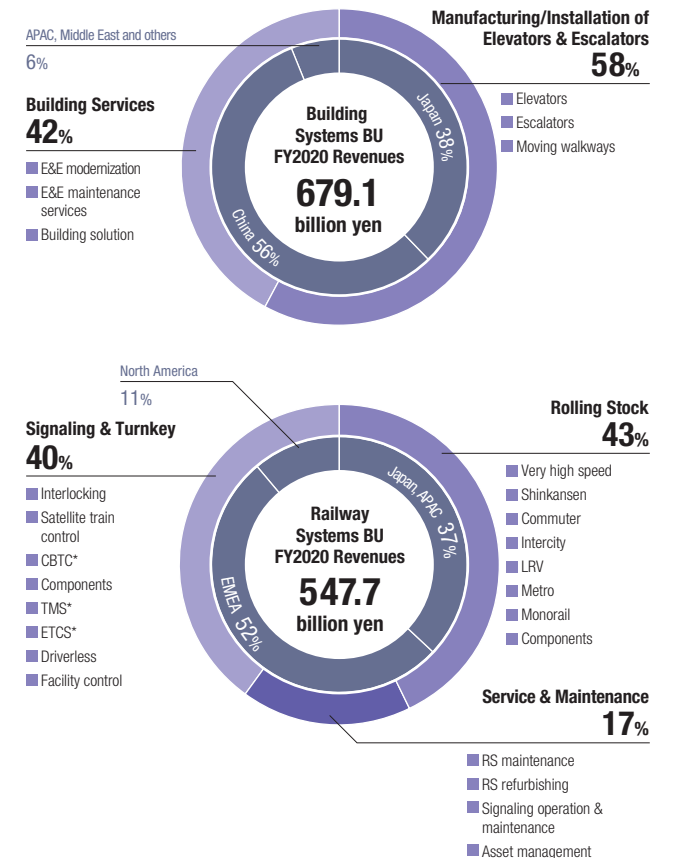
Revenues/Overseas revenue ratio

- Building Systems BU
- Railway Systems BU



\*1 Announced on July 30, 2021

**Principal Products and Services**



\*CBTC: Communications-Based Train Control  
TMS: Traffic Management System  
ETCS: European Train Control System

**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 CO<sub>2</sub> 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.



## 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 internationally 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 them recover: governments stimulating the economy by investing in new infrastructure, and finding new ways of operating, enabled by digital technologies and Mobility as a Service (MaaS) business models.

Overall, strong environmental momentum exists that should support the rail sector in the long term. Globally, governments have declared their raised 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 business 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 led by four regions including Japan, China, Southeast Asia and strategic focus markets such as India and the U.K.

### Activities specific to global markets

In Japan, although there have been some delays in new installations and modernizations of E&E due to the effects of COVID-19, we have introduced products and services one after another in response to needs in the era of the new normal—for example, solutions aimed at reducing the risk of infection through touchless elevator operations and air cleaning in elevator cars, and a new standard elevator model released in April 2021—to quickly meet new customer needs. In China, the world's largest market, Hitachi maintains the top share in the number of new E&E units ordered, based on the strengths of its outstanding product competitiveness. In fiscal 2020, we set a record for the number of new installations in the backdrop of a rapid recovery in demand post-COVID-19. In addition to the increase in new installations, the service business continues to expand, including maintenance and modernization. In October 2020, we acquired a majority of the shares in Yungtay Engineering Co., Ltd., Taiwan's largest E&E company, making it a part of the Hitachi Group. Moving forward, we will accelerate the business integration with Yungtay Engineering, enhance the E&E product lineup, and strengthen cost competitiveness, thereby strengthening our response to demand in third-tier and fourth-tier cities in China, where growth is expected, while at the same time leveraging the merits of scale in the Chinese business to expand business in other promising markets, including Asia.



Standard Elevator

### Aiming to be a market leader in building solutions

In the Building Systems business, 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.

### 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 CO<sub>2</sub> 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 entities reported a reduction in carbon emissions of nearly 15% per hour worked.

#### Promoting our digital strategy

In fiscal 2020, 20% of the Rail business revenues derived from Lumada, and this figure is expected to grow. We are focusing in particular on MaaS, an area where we can harness digital capabilities that 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.

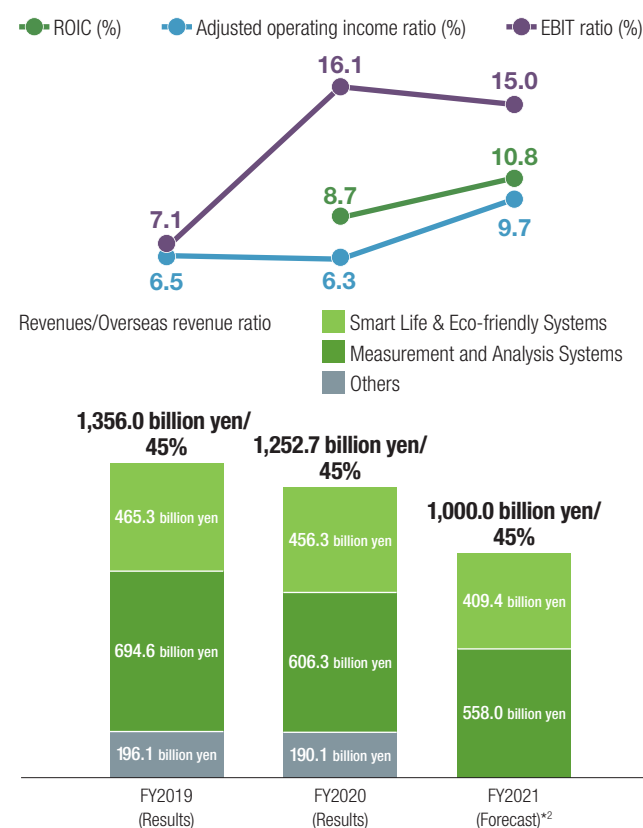
A good example of this in fiscal 2020 is our acquisition of Perpetuum, a U.K. company. Perpetuum uses self-powering wireless sensors on trains to understand when safety-critical parts are deteriorating. This helps to optimize maintenance cycles and reduces industrial waste.



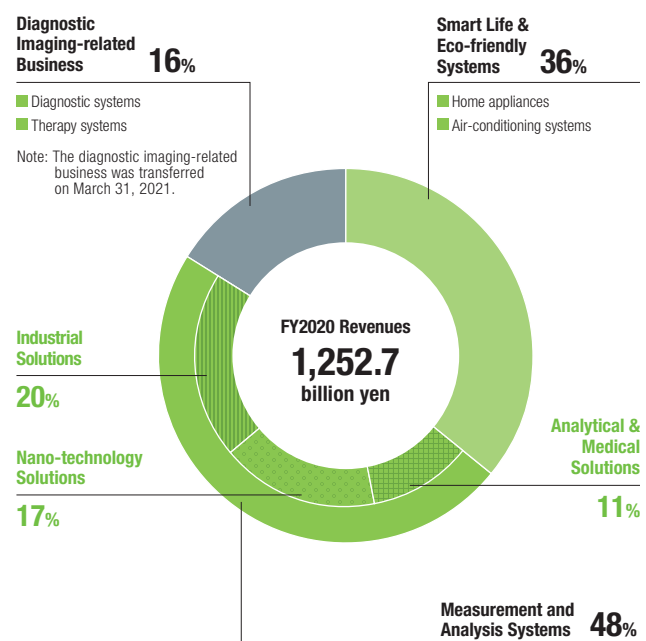


There are increasing expectations that “Smart Life” will improve quality of life via digital technologies such as IoT and AI, for example, by extending healthy life expectancy and reducing the burden of housework. In the Smart Life sector, Hitachi contributes to the realization of Smart Life through 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.

Results and Forecasts\*1



Principal Products and Services\*1



\*1 From fiscal 2021, figures for the Automotive Systems business are posted as the Automotive Systems segment. Figures for the Smart Life sector have been retroactively adjusted to reflect this change  
 \*2 Announced on July 30, 2021

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 functions and convenience of top share products, and at the same time expand the service business through co-creation with customers. We will create competitive solutions for growth markets and strive to further improve quality of life, for example, by contributing to extending healthy life expectancy

through the use of innovative technologies on in-vitro diagnosis enhanced by Lumada data analysis technologies and AI; accelerating the transition to 5G and digital technologies by increasing 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.

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 because related sciences are developing at a startling 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 Keihin Corporation, Showa Corporation, and Nissin 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. We will also accelerate business growth in these fields by investing the cash generated through business transfers and other initiatives mainly into the healthcare field, where especially high rates of market growth are expected. Meanwhile, by leveraging GlobalLogic’s digital engineering

capabilities, we will strive to create synergies in the automotive, healthcare, and consumer fields, which we expect to have a high level of affinity with the Smart Life sector.

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 to shorten development turnaround time and improve productivity and yield during each semiconductor manufacturing phase.

Contributing to realizing smart life in the four growth fields of EV, semiconductors, healthcare, and home

<p>Reduction of CO<sub>2</sub> resulting from the spread of EV Lower accident rate attributed to autonomous driving</p> <p>Sensing technologies × Autonomous driving with digital technologies and AI</p>	<p>Semiconductor inspections supporting digital technologies and 5G</p> <p>Semiconductor inspection equipment × High precision enabled by digital technologies and AI</p>
<p>Extending healthy life expectancy and improving QoL</p> <p>In-vitro diagnosis (Early/prognosis) × Selection of optimal treatment with digital technologies and AI</p>	<p>Reducing the burden of routine household tasks and helping enrich life</p> <p>Connected home appliances and robots × Improving wellness with digital technologies and AI</p>



Hitachi Center of Excellence in Portland, a new semiconductor engineering base in the United States (image upon completion)



### Healthcare Business

Hitachi has been reforming the business portfolio in the healthcare field, in 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 hold 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



The LABOSPECT 008 α (an automatic analyzer) and the MIRuDa (an analysis tool for approximating the reaction process)



A proton therapy system at the Clinica Universidad de Navarra in Spain (the first system Hitachi has delivered in Europe)

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. In activities targeting the reduction of CO<sub>2</sub> emissions within the Hitachi Group, we achieved carbon neutrality early on at four Hitachi high-tech business facilities in fiscal 2020 through initiatives that include replacing traditional electric power sources with renewable energy. We are promoting reductions in CO<sub>2</sub> emissions throughout the entire value chain, for example, by introducing environmentally conscious design (eco-design) to reduce power consumption during the design and development stages and during product usage.

## Story of Value Creation Automotive Systems Business

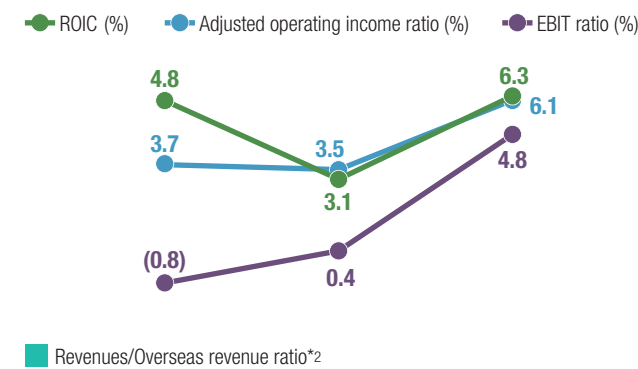
Hitachi's Automotive Systems business, handled by Hitachi Astemo, became independent from the Smart Life sector and positioned as a business alongside the five sectors in April to promote swift decisions and a structure that achieves smooth integration and growth strategies, produces synergies, and further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

Hitachi Astemo is an independent, leading global technology company committed to delivering on social, environmental and economic value through the advanced automotive and motorcycle systems business and technologies such as electric powertrain systems, autonomous driving (AD) and advanced driving assistance systems (ADAS), and advanced chassis systems.

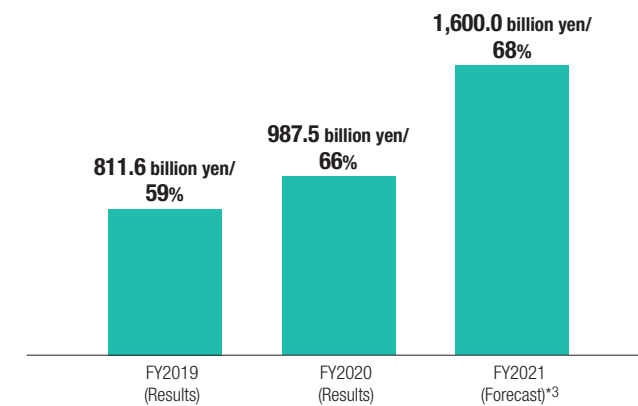


Brice Koch  
President & CEO, Hitachi Astemo, Ltd.

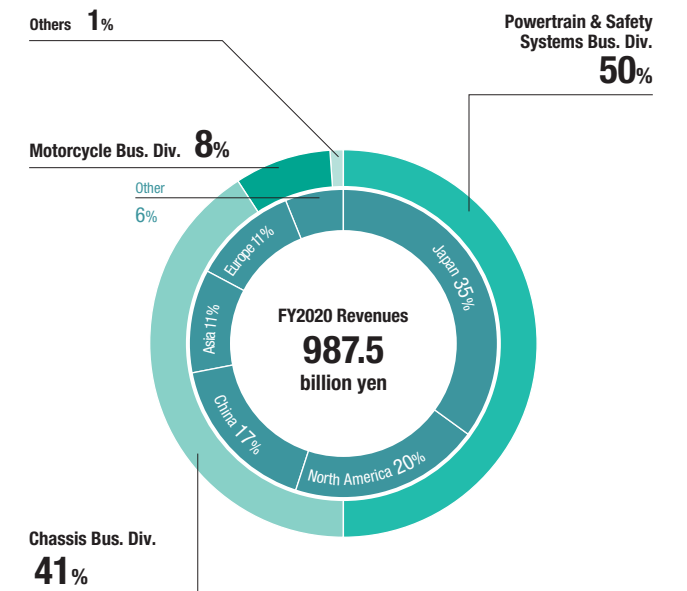
### Results and Forecasts\*1



Revenues/Overseas revenue ratio\*2



### Principal Products and Services\*1 \*2



\*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 2021

\*2 This was the result of a merger, from the fourth quarter of fiscal 2020, among three companies formerly affiliated with Honda (Keihin, Showa, and Nissin Kogyo)

\*3 Announced on July 30, 2021

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

On January 1, 2021, Hitachi Automotive Systems, Ltd., Keihin Corporation, Showa Corporation, and Nissin Kogyo Co., Ltd., concluded a management integration to form Hitachi Astemo, of which the name is 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 AD/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

As an independent and global mega-supplier, Hitachi Astemo will continue the work of integrating companies by creating advanced mobility solutions in its core businesses of 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), an area expected to grow rapidly. Furthermore, leveraging Hitachi, Ltd.'s global R&D and group strength, the company will maximize its engineering resources to accelerate development of next-generation technologies and integrate advanced software across systems, establishing itself as an independent global leader in mobility solutions. Hitachi Astemo contributes to building a sustainable society and improving quality of life by providing world-leading advanced mobility solutions that satisfy its customers worldwide.



### Operating Environment

The current market is characterized by accelerated initiatives leading toward a carbon-neutral society. Automakers are stepping up efforts targeting CASE, especially electrification for xEVs. Of particular note is manufacturers' dramatic increase in R&D spending for CASE and software in recent years. The COVID-19 pandemic has negatively affected the market in many ways, however, one positive trend has been a growing sense of responsibility toward the environment, which has led to a positive trend on CASE and growing adoption of xEVs. In this environment, Hitachi Astemo aims to outpace overall market growth. While the market for xEVs and ADAS-equipped vehicles is forecast to grow over the next several years at an average annual growth rate of 30%–32%, Hitachi Astemo is targeting medium-term sales growth of 30%–40%. As represented by VUCA, the market environment surrounding companies has become volatile, uncertain, complex, and ambiguous. Although semiconductor supply shortages are widely expected to persist through fiscal 2021, the company is working to mitigate risk and alleviate this situation through collaboration across its global network and the supply chain and is enlisting public-sector assistance to minimize the impact.

### Strengths of 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. 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.



### 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 loss 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), high-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 Keihin, 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 hybrid EVs 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 thoroughly 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 superiority, undertakes risk management from the perspective of both further growth opportunities and responding to the risks that Hitachi should prepare for, controlling risks while creating profit opportunities. Hitachi established the Investment Strategy Division in fiscal 2017 and the post of Chief Risk Management Officer (CRMO) in April 2020 to better identify the risks and opportunities that could potentially affect Hitachi's business and to strengthen risk management.

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

## Transforming Hitachi into a Globally Competitive Organization by Strengthening Risk Management



**Kohei Kodama**

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

**Profile**

Joined Hitachi, Ltd.'s Legal Affairs Division in 1987; in 1993, moved to the United States and obtained qualifications as a lawyer in the State of New York. Served as in-house lawyer at Hitachi America in Silicon Valley for 14 years starting in 1997, gaining experience in the front lines for M&As and legal affairs. Returned to Japan in 2011. Leads legal affairs and risk management reforms on a global level.

**Q 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.

### Hitachi's Risk Management



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

**Q 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. Starting from fiscal 2021, we are verifying whether this program has been implemented accordingly and whether the program works in practice. CCO David Karas and I have been working together in developing this concept over many years, and we are now steadily putting it into practice. 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 processes 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.

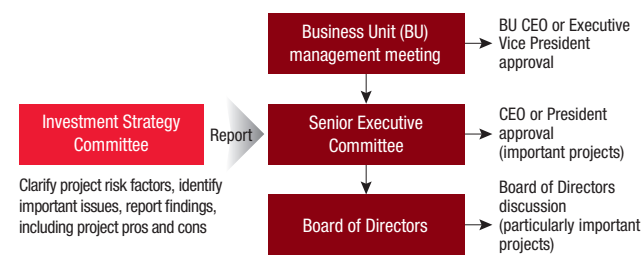
### Investment Risks and Opportunities

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 disposals), under the ultimate authority of the Board of Directors and depending on the scale and content of the projects, Hitachi delegates authority to the Senior Executive Committee (which, in principle, meets twice per month) and respective business units to facilitate flexible and appropriate decision-making. In addition, regarding important matters to be deliberated by the Senior Executive Committee, prior to deliberations, discussions are held with the Investment Strategy Committee\*<sup>1</sup> advisory body to confirm and review not only the perspective of economic value in terms of cash flow and the profitability of projects but also the impact on social

\* Investment Strategy Committee: Consists of 13 members from the finance department and other relevant corporate divisions (as of May 31, 2021), including the Executive Officers in charge of Investment Strategy and Management Strategy as chairman and vice chairman.

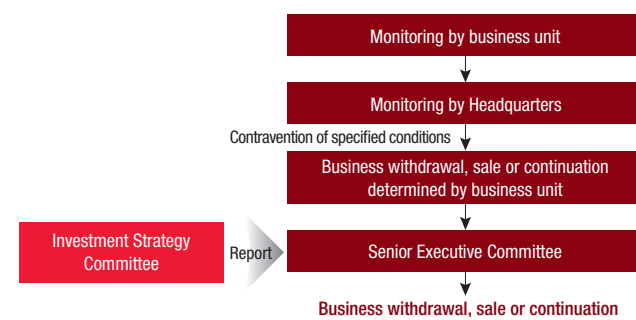
#### Investment Execution Flowchart



value and environmental value. The findings, including pros and cons, are reported to Senior Executive Committee members, including the President.

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

#### Post-Investment Flowchart



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

### Quantitative Understanding of Risks

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

Considering total consolidated net assets and other factors, we visualize the surplus capacity of growth investments to monitor growth opportunities and ensure that risks are not

excessively unbalanced compared to Hitachi's consolidated management strength.

In addition, by analyzing risk conditions in each 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 in place more systematic processes, using global standard practices at Hitachi ABB Power Grids as a reference.

By further enhancing risk management, we will strengthen our capability of responding to different risks in each business and at the same time gain a comprehensive and integrated understanding of those risks and put in place measures in advance to better achieve the organization's goals.

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

For further details, please refer to the Annual Securities Report (The 152nd Business Term). [https://www.hitachi.com/IR-e/library/stock/hit\\_sr\\_fy2020\\_4\\_en.pdf](https://www.hitachi.com/IR-e/library/stock/hit_sr_fy2020_4_en.pdf)

### Major Risks and Opportunities

Major risk factors	Details on risks and opportunities	Company actions
Market risks (Changes in exchange rates, capital procurement interest, and stock prices)	<b>Risks</b> <ul style="list-style-type: none"> <li>Decline in sales of products and services in yen, and increased costs of raw material and parts purchasing</li> <li>Revaluation loss due to decline in value of inventory assets</li> <li>Increasing capital procurement costs</li> <li>Changes in fair value due to declining value of stockholdings</li> </ul>	<ul style="list-style-type: none"> <li>Hedging exchange rate/interest fluctuation risks</li> <li>Promoting local production/local consumption strategies for products and services</li> <li>Sell-off of cross-shareholdings</li> <li><b>P.46 Reinforce Management System to Improve Profitability</b></li> <li><b>P.50 CFO Message</b></li> </ul>
Geopolitical risks	<b>Risks</b> <ul style="list-style-type: none"> <li>Effects on business from political, economic, and social trends in countries and regions worldwide</li> </ul>	<ul style="list-style-type: none"> <li>Regularly monitor global political and economic conditions, analyze effects on business, and implement Group-wide responses</li> </ul>
Raw material/parts procurement	<b>Risks</b> <ul style="list-style-type: none"> <li>Raw material shortages and manufacturing cost increases resulting from fluctuations in prices/supply and demand</li> <li>Negative effects on production activities</li> <li>Damage to reputation caused by violations of laws and regulations, e.g., human rights violations by suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Build close relationships with multiple suppliers</li> <li>Use and strengthen Group-wide procurement functions</li> <li>Create business continuity plans (BCPs) to strengthen responses to risks of business stoppages</li> <li>Have suppliers conduct self-inspections and audits and promote understanding to prevent violations of laws and regulations</li> <li><b>P.79 Value Chain Responsibilities</b></li> </ul>
Intensifying competition and rapid technology innovations	<b>Risks</b> <ul style="list-style-type: none"> <li>Reduced competitiveness due to commoditization and cost reductions in cutting-edge products, systems, and services</li> <li>Reduced competitiveness when cutting-edge technologies are not developed or applied in products and services on schedule</li> </ul> <b>Opportunities</b> <ul style="list-style-type: none"> <li>Secure growth opportunities by developing innovative technologies</li> </ul>	<ul style="list-style-type: none"> <li>Expand digital solutions using Lumada</li> <li>Increase added value of products and services through co-creation with customers</li> <li>Create value through open innovations and the formation of ecosystems</li> <li>Form innovation ecosystems</li> <li><b>P.28 Expand Revenues by Accelerating the Social Innovation Business</b></li> <li><b>P.36 Enhance Global Competitiveness</b></li> </ul>
M&As and receipt of orders for large projects	<b>Risks</b> <ul style="list-style-type: none"> <li>Increased integration costs from M&amp;As and loss of intangible assets including goodwill</li> <li>Increased costs on large-scale projects</li> </ul> <b>Opportunities</b> <ul style="list-style-type: none"> <li>Build growth platforms by securing new management resources</li> </ul>	<ul style="list-style-type: none"> <li>Conduct analyses and discussions from various perspectives at meetings of the Investment Strategy Committee, Senior Executive Committee, Board of Directors, and Auditing Committee, e.g., regarding trends in markets, competitors, and technologies, as well as strategies, acquisition prices, PMI processes, and potential risks</li> <li>Monitor investment results</li> <li>Manage project risks, including phase gate management by business units</li> <li><b>P.70 Addressing Risks and Opportunities</b></li> <li><b>P.82 Corporate Governance</b></li> </ul>
Secure talent	<b>Risks</b> <ul style="list-style-type: none"> <li>Loss of growth opportunities due to intensifying competition in recruiting and securing outstanding talent in the digital field</li> </ul> <b>Opportunities</b> <ul style="list-style-type: none"> <li>Strengthen competitiveness by securing and fostering outstanding talent</li> </ul>	<ul style="list-style-type: none"> <li>Expand direct hiring of digital talent</li> <li>Build comfortable work environments for diverse talent</li> <li>Create common HR systems worldwide</li> <li>Use learning management systems and implement in-house training programs that are common throughout the Group worldwide</li> <li><b>P.28 Expand Revenues by Accelerating the Social Innovation Business</b></li> <li><b>P.42 Enhance Global Competitiveness</b></li> </ul>
Occupational Health and Safety	<b>Risks</b> <ul style="list-style-type: none"> <li>Deterioration in work efficiency and loss of trust due to inability to put in place work environments where employees can work safely and with peace of mind</li> </ul>	<ul style="list-style-type: none"> <li>At Safety Strategy Promotion Meetings, create plans and targets and continuously review the status of improvements</li> <li>Support improvement activities at overseas sites and other workplaces where major accidents and incidents have arisen</li> <li>Establish contact points for remote consultations with occupational physicians</li> <li><b>P.78 Occupational Health and Safety, Employee Health</b></li> </ul>
Compliance	<b>Risks</b> <ul style="list-style-type: none"> <li>Loss of trust, limitations on business activities and increases in related costs due to behaviors that deviate from international ethics and codes of conduct in relation to bribery, competition laws, export management, and taxation</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen structures for promoting activities based on the Hitachi Group Codes of Conduct and the Hitachi Group Compliance Program (HGCP), and implement these structures worldwide</li> <li>Integrate, unify, and enhance internal reporting systems throughout the entire Group</li> <li><b>P.81 Compliance</b></li> </ul>
Product quality and responsibility	<b>Risks</b> <ul style="list-style-type: none"> <li>Indemnity liability and loss of sales capabilities due to declining quality and defects resulting from increasingly complex and advanced products and services and diversification of suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen QA structures</li> <li>Implement accident prevention activities</li> <li>Ensure compliance with technology laws and regulations</li> <li>Ensure thorough quality risk assessments</li> <li>Provide training in responses in the event of incidents involving quality, trust, and product-related accidents</li> <li><b>P.80 Quality Assurance</b></li> </ul>
Climate change, large-scale disasters, infections (COVID-19)	<b>Risks</b> <ul style="list-style-type: none"> <li>Delays or suspension in business activities ranging from production to shipment and sales</li> <li>Decline in product/service demand and confusion in supply chains</li> <li>Increasingly serious natural disasters resulting from climate change</li> </ul> <b>Opportunities</b> <ul style="list-style-type: none"> <li>Increasing demand for solutions aimed at reducing risks</li> </ul>	<ul style="list-style-type: none"> <li>Activities targeting carbon neutrality in "Hitachi Environmental Innovation 2050" long-term environmental goals</li> <li>Analyze risks and opportunities based on climate change scenarios, and respond based on results</li> <li>Expand environment-related business</li> <li>Create BCPs to strengthen responses to risks of business stoppages</li> <li>Create and implement effective infection countermeasures</li> <li><b>P.34 Creation of Social and Environmental Value</b></li> <li><b>P.74 Response to Climate-related Risks and Opportunities</b></li> </ul>
Information security	<b>Risks</b> <ul style="list-style-type: none"> <li>Interruption of operations or information leaks resulting from cyberattacks</li> <li>Information leaks resulting from expansion of remote working</li> </ul> <b>Opportunities</b> <ul style="list-style-type: none"> <li>Increase profit opportunities resulting from increased demand for security measures</li> </ul>	<ul style="list-style-type: none"> <li>Build cyber monitoring environments that incorporate the latest technologies</li> <li>Implement information security training, and ensure thorough auditing and inspections</li> <li>Confirm and audit the status of information security among suppliers</li> <li>Strengthen development of technologies and products suited to digital environments</li> <li><b>P.77 Promoting Information Security</b></li> </ul>



# 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.

## Governance

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 CO<sub>2</sub> emissions) were published after being reported to the Board of Directors: when the targets were formulated 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 important environment-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 operations 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 CO<sub>2</sub> reductions required throughout the world, we established long-term environmental targets called Hitachi Environmental Innovation 2050 under our Environmental Vision.

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.

transition to a decarbonized economy arising 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 efforts to reduce global CO<sub>2</sub> 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 Risks

As for climate-related business risks, we have followed the TCFD's classification in considering (1) risks related to the

1. Risks related to the transition to a decarbonized economy (applying mostly to the 1.5°C scenario)			
Category	Major risks	Time span	Main initiatives
Policy and legal	Increased business costs from the introduction of carbon taxes, fuel/energy consumption taxes, emission trading systems, and other measures	Short to long term	<ul style="list-style-type: none"> <li>Avoid or mitigate increases in business costs, such as from carbon taxes, by further enhancing production and transport efficiency and promoting the use of non- or low-carbon energy sources</li> </ul>
Technology	Loss of sales opportunities due to delays in technology development for products and services	Medium to long term	<ul style="list-style-type: none"> <li>Contribute to reducing CO<sub>2</sub> emissions by developing and marketing innovative products and services that lead to the achievement of long-term environmental targets and expanding the decarbonization business</li> <li>Promote the development of low-carbon products by implementing Environmentally Conscious Design Assessments when designing products and services</li> </ul>
Market and reputation	Impact on sales due to changes in market values or assessment of our approach to climate issues	Medium to long term	<ul style="list-style-type: none"> <li>Given growing market concerns about climate change and investor expectations for companies to play more active roles, we revised our long-term environmental targets called Hitachi Environmental Innovation 2050 by setting the goal of becoming carbon neutral</li> </ul>
2. Risks related to the physical impacts of climate change (4°C scenario)			
Category	Major risks	Time span	Main initiatives
Acute and chronic physical risks	Climate-related risks to business continuity including increased severity of typhoons, floods, and droughts (acute risks), as well as rising sea levels and chronic heat waves (chronic risks)	Short to long term	<ul style="list-style-type: none"> <li>Considering the possibility of flood damage when deciding on the location or equipment layout of a new plant. Measures tailored to the water risks of each manufacturing site will be strengthened in the future based on the results of a water risk assessment now being conducted</li> </ul>

## Climate-related Opportunities

CO<sub>2</sub> emissions during the use of our products and services by our customers account for a large part of CO<sub>2</sub> emissions in our value chain. For this reason, developing and providing products and services that emit zero or little CO<sub>2</sub> 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.

Category	Major opportunities	Main initiatives
Products/ services and markets	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	<ul style="list-style-type: none"> <li>Expand business areas that contribute to decarbonization</li> <li>Promote decarbonized solutions and services through collaborative initiatives with customers</li> <li>Focus on the fields of energy, mobility, and industry to promote greater utilization of digital technology (Green by Digital) and develop products that offer world-class efficiency</li> </ul>
Resilience	Provision of solutions to address climate-related natural disasters	<ul style="list-style-type: none"> <li>Provide disaster prevention solutions such as high-performance firefighting command systems</li> <li>Provide construction equipment that enables quicker recoveries from disasters</li> </ul>

## 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)

Target businesses	Railway systems	Power generation and power grids	IT systems
The business environment under the 1.5°C scenario	<b>Business environment</b> Global demand for transport systems that emit less CO <sub>2</sub> per distance covered will grow with tighter CO <sub>2</sub> emission regulations in each country and region.	<b>Business environment</b> Global demand for electricity generated from renewable energy, nuclear power, and other non-fossil sources will grow with tighter CO <sub>2</sub> emission regulations in each country and region. Power networks will increasingly accommodate natural energy produced through distributed generation.	<b>Business environment</b> Demand for energy-saving, high-efficiency IT solutions will grow with tighter CO <sub>2</sub> emission regulations in each country and region. There is also rapidly growing demand for the construction of related systems; for example, data centers that respond to growth in finance-related businesses, as illustrated by the issuing of green bonds and investments and loans targeting the decarbonization business.
The business environment under the 4°C scenario	<b>Business environment</b> Demand for easy-to-use electric-powered transport will gradually increase because energy regulations are minimal. Damage from typhoons, floods, and other natural disasters caused by climate change will rise sharply.	<b>Business environment</b> The cost competitiveness of non-fossil energy will increase, and demand for renewable, nuclear, and other non-fossil energy will increase gradually as the expansion of energy consumption pushes up the price of fossil fuels. Natural disasters caused by climate change will rise sharply.	<b>Business environment</b> Demand for new, high-efficiency technology will expand as more redundant IT systems are introduced in response to natural disaster BCPs, resulting in increased energy consumption. There will also be increased demand for the construction of social and public systems to reduce damage from natural disasters.
Responses to future business risks (Business opportunities)	<b>Responses to business risks under the 1.5°C and 4°C scenarios</b> <ul style="list-style-type: none"> <li>Continue to strengthen the railway business as global demand for railways is expected to increase under either scenario.</li> <li>Given the increasing frequency of natural disasters, take risk aversion into account when deciding the location and equipment layout of a new plant.</li> </ul>	<b>Responses to business risks under the 1.5°C and 4°C scenarios</b> <ul style="list-style-type: none"> <li>Continue to enhance the response to relevant markets in view of expected higher demand for non-fossil energy under either scenario.</li> <li>Given the increasing frequency of natural disasters, develop technologies for disaster-resilient renewable energy systems and disruption-resistant power transmission/distribution systems.</li> </ul>	<b>Responses to business risks under the 1.5°C and 4°C scenarios</b> <ul style="list-style-type: none"> <li>Continue to develop innovative digital technologies, nurture necessary human capital, and enhance digital service solutions that generate new value in view of the expected growth in demand for digital services and the subsequent market expansion under either scenario.</li> <li>Given the increasing frequency of natural disasters, strengthen our ability to respond to business disruption risks in accordance with our BCPs.</li> </ul>

Continues on the next page

Responses to 1.5°C and 4°C scenarios in Hitachi's businesses (excerpts)

Target businesses	Industrial equipment	Automotive systems	Construction machinery
The business environment under the 1.5°C scenario	<b>Business environment</b> Global demand for highly energy-efficient industrial products will grow with tighter CO <sub>2</sub> emission regulations in each country and region. There is a risk that competitiveness will decline if there are delays in the development of high-efficiency, low-loss products.	<b>Business environment</b> Electric vehicles will rapidly gain popularity with tighter laws and regulations on fuel efficiency and environmental performance regulations and increases in fossil fuel prices. Markets for alternative non-fossil technologies such as hydrogen and biofuel vehicles will expand. The number of countries and regions with near zero sales of internal combustion engine vehicles will increase.	<b>Business environment</b> Demand for electric and carbon-free fuel construction machinery will grow with tighter laws and regulations on the use of fossil fuels. Environmental regulations intended to reduce environmental impact other than CO <sub>2</sub> emissions (e.g., air and noise pollution) will also grow tighter in urban areas.
The business environment under the 4°C scenario	<b>Business environment</b> Typhoons, floods, and other natural disasters caused by climate change will rise sharply. There is a risk of increased damages to production facilities from natural disasters. There are also opportunities, for example, demand for remote control in response to natural disasters.	<b>Business environment</b> Fuel efficiency laws and regulations will remain lax globally, and internal combustion engine vehicles will remain a major mode of transport. The modal shift will be slow, as conventional automobiles and motorcycles will remain predominant. Typhoons, floods, and other natural disasters caused by climate change will rise sharply.	<b>Business environment</b> Natural disasters caused by climate change will rise sharply, boosting demand for construction machinery to support speedy and safe disaster recovery.
Responses to future business risks (Business opportunities)	<b>Responses to business risks under the 1.5°C and 4°C scenarios</b> <ul style="list-style-type: none"> <li>Under either scenario, enhance development of energy-saving, high-efficiency products that use IoT technology. Focus particularly on expanding connected products with communication functions. Compact, lighter, high-efficiency, low-loss products can also help reduce CO<sub>2</sub> emissions.</li> <li>Given the increasing frequency of natural disasters, take risk aversion into account when deciding the location and equipment layout of a new plant.</li> </ul>	<b>Responses to business risks under the 1.5°C scenario</b> <ul style="list-style-type: none"> <li>Promote further R&amp;D targeting electrification technology and other alternative technologies to enhance the response to new markets such as electric vehicles.</li> </ul> <b>Responses to business risks under the 4°C scenario</b> <ul style="list-style-type: none"> <li>Promote R&amp;D and product development in existing technologies, including internal combustion engines, to not only improve energy efficiency but also increase value in areas other than environmental value, such as safety, security, and comfort.</li> </ul>	<b>Responses to business risks under the 1.5°C scenario</b> <ul style="list-style-type: none"> <li>Differentiate by expanding the development of decarbonized technologies such as those for electric and hydrogen vehicles. Create decarbonized products by ascertaining latent market needs and accelerating product development.</li> <li>Ensure the rapid provision of optimal solutions for prevention/mitigation and rapid response to disasters as well as recovery and reconstruction.</li> <li>Build a global production and procurement system to prepare for disasters. Enhance BCP and improve the effectiveness of business continuity management (BCM) for the entire supply chain.</li> </ul>

Notes:  
 1. The above table has been abridged. For a full discussion of the risks and opportunities under each scenario and detailed financial information, refer to the Hitachi Sustainability Report 2021  
 2. The above scenario analyses are not future projections but rather attempts to examine our resilience to climate change. How the future unfolds could be quite different from any of these scenarios

We believe that by paying close attention to market trends and developing our business flexibly and strategically, we have high climate resilience in the medium to long term under either the 1.5°C or 4°C scenario.

Risk Management

The Hitachi Group evaluates and monitors climate-related risks for each business unit and Group company as part of a process of assessing risks and opportunities in accordance with the Environmental Action Plan, which is updated every three years. The results are tabulated by the Sustainability Promotion Division of Hitachi, Ltd., and their importance is

checked at Sustainability Promotion Meetings. Those risks and opportunities perceived as being particularly important for the Group as a whole are deliberated by the Executive Sustainability Committee, chaired by the Executive Chairman and CEO of Hitachi, Ltd.

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 CO<sub>2</sub> 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 2019–2021), we set and monitor progress for annual target reduction rates of CO<sub>2</sub> emissions per unit compared with fiscal 2010 for each business unit and Group company.

As part of Hitachi's climate change countermeasures, to

advance CO<sub>2</sub> reductions during the use of sold products and services, we set targets and monitor the progress of reducing CO<sub>2</sub> emissions per unit. In other words, we focus on setting metrics that provide customers and society with products and services that emit less CO<sub>2</sub>. At the same time, we will try to not only reduce per unit emissions but also total CO<sub>2</sub> emissions from our business sites (factories and offices).

Items for "Climate-related Information Disclosure (Based on TCFD Recommendations)" are included in their entirety in Hitachi Sustainability Report 2021. Please refer to that document for further information.

▶ <https://www.hitachi.com/sustainability/download/index.html>

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 Department of Commerce in 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 security services 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.

Our Security Operation Center (SOC) monitors security on a round-the-clock basis so that global-scale cyberattacks can be detected and countermeasures initiated right away. To counter this risk, in fiscal 2020 we began building a cyber monitoring environment that always uses the latest technology.

Preventing Information Leaks

Hitachi takes the following IT steps to prevent information leaks: encrypting devices; using thin clients; employing electronic document access control and expiration processing software; maintaining ID management and access control by building an authentication infrastructure; and filtering e-mails and websites. We are also enhancing various IT measures, such as incorporating an in-depth defense strategy, in response to the recent spate of phishing and other cyberattacks. To prevent leaks from our suppliers, we review and confirm supplier information security measures based on information security requirements outlined by Hitachi. We also provide suppliers with tools and security education materials for checking business information on supplier-side devices. In addition, we require suppliers to check and remove business information from personal computers.

Education on Information Security

Hitachi holds e-learning programs on information security and personal information protection for all executive officers and employees every year. We offer 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 Information Security Audits and Inspections

The Hitachi Group has developed its approach to security based on 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.



## Occupational Health and Safety

▶ See page 114 of our Sustainability Report for detailed information.  
<https://www.hitachi.com/sustainability/download/index.html>

Ensuring that “Health and Safety Always Comes First” is the principle underlining the Hitachi Group Health and Safety Policy, which is shared by all Hitachi Group companies around the world. Employees work together to create healthy, safe, and secure work environments that aim to be accident free. We share the belief that all work-related accidents can be prevented and that we are responsible for our own health. We engage in practices to protect our health and safety and endeavor to build a culture that promotes mutual awareness.

### 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 each division. 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 to make protecting the health and safety of employees their top priority. 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 improving health and 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 2018 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 applies internal 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 frameworks and initiatives of the organizations to be merged in advance. While maintaining mutual respect for the organizational 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 for executives. 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 environments posing accident risks 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.

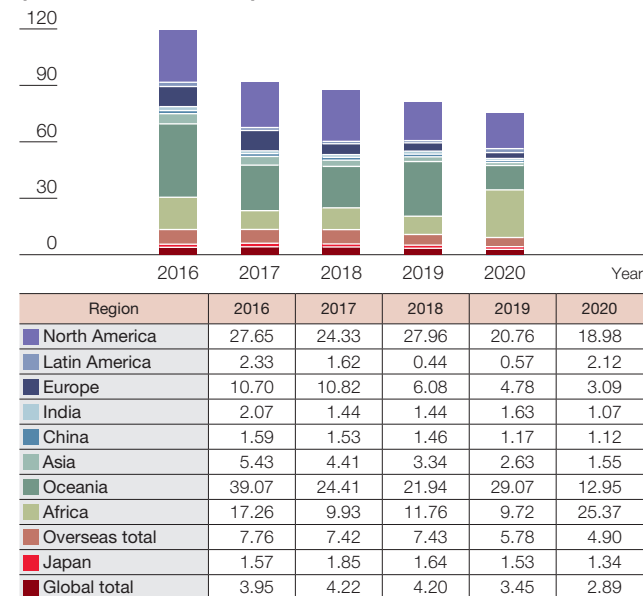
### Initiatives to Improve Employee Health

In fiscal 2020, we expanded our efforts to address the mental health of employees in each global region and the concerns of 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 group-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 ask 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 declarations 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<sup>1)</sup>)



<sup>1</sup> Occurrence rate is the rate of workplace accidents per 1,000 directly contracted employees (including cases without lost workdays)

## Value Chain Responsibilities

▶ See page 125, 130 of our Sustainability Report for detailed information.  
<https://www.hitachi.com/sustainability/download/index.html>

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. This 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 enlightenment 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

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Period total
CSR Monitoring (Self-Checks)	316	131	345	291	271	2,072 <sup>*2</sup>
CSR Audits	20	18	24	19	27	176 <sup>*3</sup>
CSR Seminar for Suppliers <sup>*1</sup>	29	65	126	59	450	741 <sup>*4</sup>

<sup>\*1</sup> In fiscal 2020, CSR Seminar for Suppliers were held by webinar and e-learning instead of face-to-face

<sup>\*2</sup> Cumulative total for fiscal 2011 to fiscal 2020

<sup>\*3</sup> Cumulative total for fiscal 2012 to fiscal 2020

<sup>\*4</sup> Cumulative total for fiscal 2015 to fiscal 2020

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 our suppliers. To promote ease of searchability, as an exception we refer to our procurement partners as “suppliers” within the Integrated Report

### Human Rights Due Diligence

In the Hitachi Group Human Rights Policy, we outline the Hitachi approach to Human Rights Due Diligence (HRDD) and require appropriate education and training for employees. The Hitachi Group has established the position of Chief Diversity & Inclusion Officer (CDIO). We also created a project team at the Hitachi, Ltd., headquarters to promote HRDD. This team is composed of members from the relevant divisions and oversees the preparation of manuals and other documents needed for the evaluation and implementation of HRDD measures. The team also works to create a structure for strengthening human rights risk management.

### Addressing Child Labor and Forced Labor

In the Hitachi Group Code of Conduct, we clearly express our firm stance against the use of child labor or forced labor either in Group companies or along our supply chain, and we work to reinforce awareness among our suppliers. In March 2020, a report from the Australian Strategic Policy Institute indicated that one of Hitachi’s suppliers might be using Uyghur forced labor in China. We conducted a social compliance review via a third party based on international standards to review the supplier’s management system, specifically looking at how employees were managed, given the allegations stated in the report. As a result, there were no findings to support the forced labor. Through various forms of engagement, the Hitachi Group will continue efforts to respect the human rights of its workers, including those employed by suppliers.

### Ensuring Responsible Mineral Procurement

Hitachi works to ensure responsible mineral procurement. To address the expansion of corporate responsibilities, in fiscal 2021 we revised and renamed our Hitachi Group Conflict Minerals Procurement Policy as the Hitachi Group’s 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 reoccurrence of any violations.

## Quality Assurance

▶ See page 137 of our Sustainability Report for detailed information.  
<https://www.hitachi.com/sustainability/download/index.html>

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 “gleaning” 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 reoccurrences, 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.

### ■ Accident prevention activities

Hitachi believes that accident prevention is one of the true goals of quality assurance. Based on this belief, we go beyond accident reoccurrence prevention to promote activities that prevent accidents before they occur. With the expanded use of software by our products division (embedded software development division), we are applying the software development skills and reliability improvement know-how of the solutions division to integrate software into the products division that helps prevent accidents before they occur. We are also building and enhancing a framework for sharing information on quality activities and issues related to the growing services business.

### ■ Reinforcing risk assessment

We engage in product development by prioritizing the safety of life, health, and property as the top priority from the design stage. We verify safety at every step, from development and production to sales and maintenance. We work to ensure safety by increasing risk communication with customers through our Guide for Preparing User Instruction Manuals, and by reducing risks through design (fundamental safety design), protective measures (safeguards), and usage information (such as user instruction manuals).

### ■ Responding to Product Incidents

When a product incident occurs, the division responsible acts swiftly to resolve the problem. In the case of a severe incident, we promptly report to management and government agencies in line with legal requirements and disclose the incident information to customers on our website and through other communication channels. We have established a structure for ensuring fast and appropriate action at all companies across the Hitachi Group. In cases where we determine that retroactive action is necessary, we notify customers via newspaper advertising or via our website to carry out the necessary repairs or replacement program.

### ■ Quality and Reliability Education

We conduct field-specific technical lectures for engineers at a range of levels from basic to expert. We provide technical training courses for manufacturing, quality assurance, and maintenance.

## Compliance

▶ See page 166 of our Sustainability Report for detailed information.  
<https://www.hitachi.com/sustainability/download/index.html>

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 into 14 languages, including English and 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 Ethics 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 used anonymously, 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 Hitachi directors if they discover illegal or significantly inappropriate activities in business conducted by division heads, executive officers, or other management personnel. 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 executive officers and employees 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

entertainment, gifts, and other arrangements to be provided to public officials, these regulations ban facilitation payments and require due diligence procedures for business partners.

### ■ 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 controls

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.



# Corporate Governance

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.

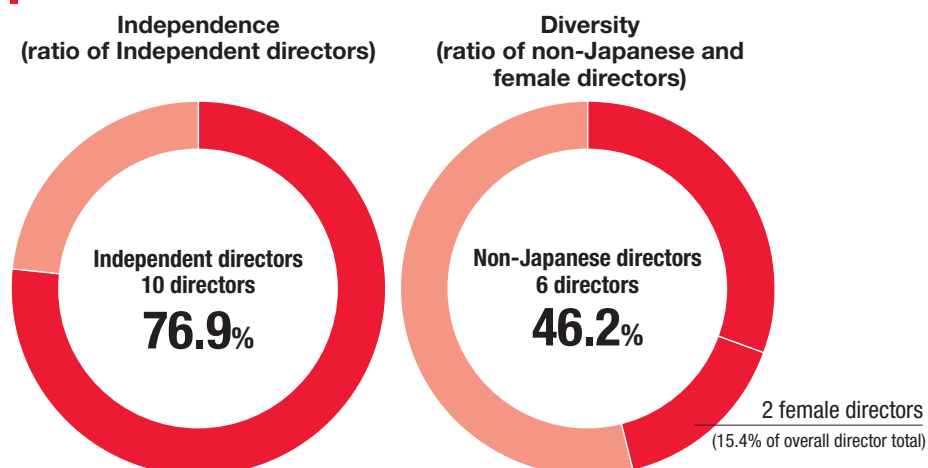
## History of Hitachi's Corporate Governance Reform

- |   |  |
|---|--|
| <p><b>1999</b> • <b>Introduction of Objective Perspective</b><br/>Management Advisory Committees<br/>➤ Practical advice from experts in Japan and overseas</p> <p><b>2003</b> • <b>Demarcation of Management Oversight and Execution</b><br/>Shifted to a company with committees (currently a company with nominating committee, etc.)<br/>➤ To increase management speed and improve management transparency</p> <p><b>2006</b> • <b>Enforcement of Companies Act</b></p> <p><b>2010</b> • <b>Enhancement of Interactions with Capital Markets</b><br/>Hitachi IR Day (briefing on business strategy by division) was launched<br/>➤ Clarification of commitment of top management of the business units to the capital markets</p> <p><b>2012</b> • <b>Acceleration of Global Management</b><br/>Independent directors including foreign directors were increased<br/>Independent directors composed the majority of directors</p> | <p><b>2012</b> • <b>Development of Guidelines for Strengthening Governance</b><br/>Development of Corporate Governance Guidelines</p> <p><b>2014</b> • <b>Development of Stewardship Code</b></p> <p><b>2015</b> • <b>Start of Application of Corporate Governance Code</b></p> <p><b>2016</b> • <b>Enhancement of Dissemination of Information about Medium- to Long-term Sustainable Growth</b><br/>Publication of an integrated report</p> <p><b>2019</b> • <b>Acceleration of the Social Innovation Business across 5 Growth Fields</b><br/>Executive vice presidents were placed in 5 sectors<br/>ESG briefing session held<br/>➤ An independent director (chair of the Audit Committee) and the CEO shared their remarks</p> |
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## Implementing All the Principles of the Corporate Governance Code

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

### Director Composition

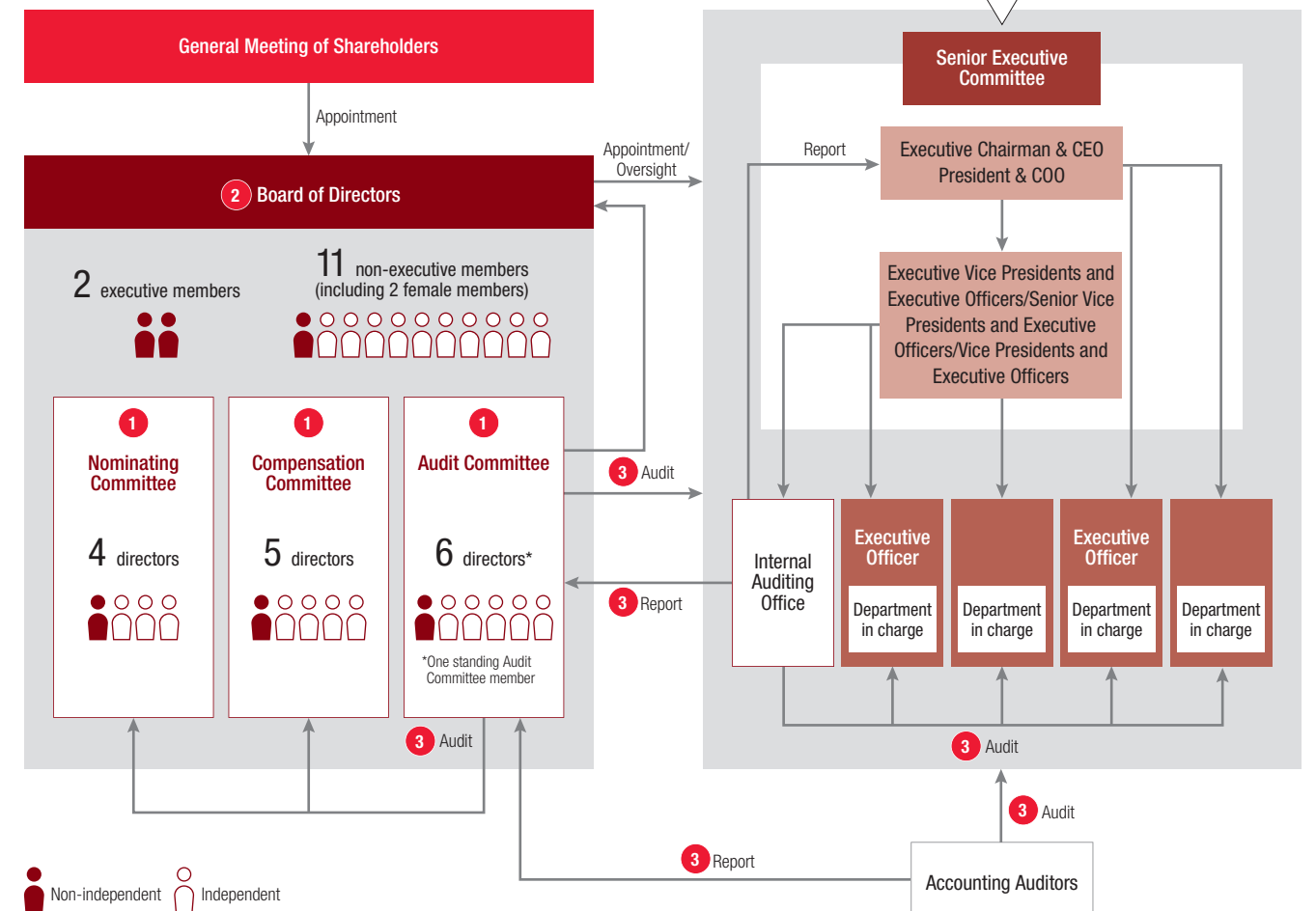


### Directors with Abundant Experience

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.



**POINT 1**  
**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, and are chaired by, independent directors. The system we have in place to ensure transparency in management separates the oversight and execution of management, facilitates the full exercise of supervisory functions, and enables discussions and reports to be conducted appropriately within these three committees.

**POINT 2**  
**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 13 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.

**POINT 3**  
**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.

Within the Board of Directors, there are three statutory committees—the Nominating Committee, the Audit Committee, and the Compensation Committee—with independent directors accounting for the majority of members of each committee. The Board of Directors meetings were held on nine days during fiscal 2020, and the attendance rate of directors at these meetings was 100%. The attendance rates for each independent director were as shown in the table below. To assist with the duties of the Board of Directors and each committee, staff who are not subject to orders and instructions from executive officers are assigned.

#### Attendance at the Board of Directors Meetings Held in Fiscal 2020

Name	Attendance/Number of days on which the meetings were held*			
	Board of Directors	Nominating Committee	Audit Committee	Compensation Committee
Katsumi Ihara	100%	—	100%	100%
Ravi Venkatesan	100%	—	—	—
Cynthia Carroll	100%	100%	—	—
Joe Harlan	100%	—	—	—
George Buckley	100%	—	—	—
Louise Pentland	100%	—	—	—
Harufumi Mochizuki	◎100%	◎100%	100%	◎100%
Takatoshi Yamamoto	100%	—	100%	100%
Hiroaki Yoshihara	100%	100%	◎100%	—
Helmuth Ludwig	100%	—	—	—

\*Number of days during term of office on which the Board of Directors meetings were held: 9; Mr. Venkatesan and Dr. Ludwig: 6  
 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  
 ◎Indicates role as a board or committee chairperson

### 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 determines director candidates and holds preliminary hearings 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 set 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 promoted committee-related activities including discussions and individual interviews aimed at developing 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 six directors, including five independent directors and one standing Audit Committee member. Hiroaki Yoshihara, the chairman of the Audit Committee, has been involved in accounting and other business practices at the KPMG 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, which included the strengthening of collaboration and the facilitation of information sharing under a "Tripartite Audit" (audit by the Audit Committee, internal audit and audit by accounting auditors), and auditing of the establishment and operation of internal control systems from the perspective of risk management and validity of execution of duties. In addition, a standing committee member worked to obtain information as needed in a timely and accurate manner, mainly by collaborating with the Internal Auditing Office, among other departments, and attending important internal meetings such as the Senior Executive Committee, and facilitated information sharing with other committee members.

#### 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 remuneration determination process. In addition, the Compensation Committee verifies and reviews details of the process used for determining remuneration for individuals, including assessments concerning basic remuneration amounts, evaluations of progress made toward individual targets, and performance appraisals that are tied 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 while verifying and reviewing 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 goal of sharing value with shareholders, and decided upon policies covering remuneration for directors and executive officers in fiscal 2021.

## Message from the Chairman of the Nominating Committee



### Building a Globally Competitive Board of Directors and Fostering Diverse Leaders

Harufumi Mochizuki  
Independent Director

#### 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 at 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.

#### 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 & COO, 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 fostering talent takes time, it's 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.



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.

### 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 indexes like those in Hitachi's Mid-term Management Plan. We will continue to flexibly examine and evolve this system, for example, by enhancing evaluation indexes.



## 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 audits of the legality and appropriateness of the duties 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.

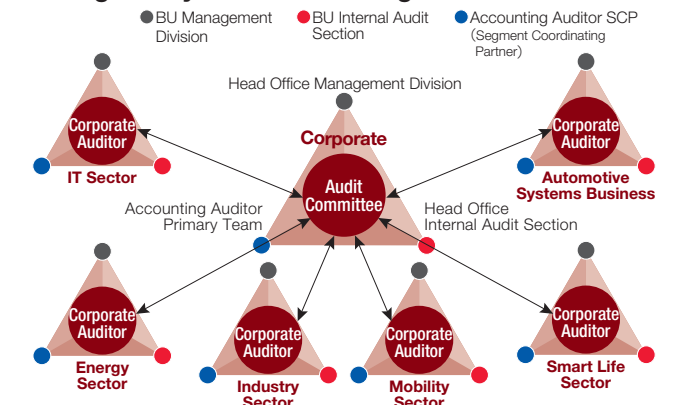
### Tripartite Audits and the Triangular Pyramid Monitoring Structure

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 tensions 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 the auditing structure and functions, in addition to the existing tripartite auditing structure, which combines the Audit Committee, the internal audit section, and accounting auditors, we collaborate with the Head Office management divisions to provide supervision and support in identifying, evaluating, and resolving important risks and issues. In this way, we continuously

work to improve the Triangular Pyramid Monitoring structure that has the Audit Committee at the top. We are working to increase the effectiveness of the auditing structure by building a similar Triangular Pyramid Monitoring structure that focuses not only on the Head Office side but also on the sector corporate auditor system introduced in each sector in 2019. The sector structure comprises corporate management divisions in the business units, internal audit sections within each sector, and accounting auditors responsible for those sectors.

Amid an accelerating global rollout, we identify, evaluate, and process a wide range of risks throughout the Hitachi Group as a whole, including 871 consolidated subsidiaries (as of the end of March 2021). The Head Office and sectors offer mutual support and closely share information to respond rapidly to risks and issues and to share knowledge throughout the entire company.

### Triangular Pyramid Monitoring Structure



### 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 backdrop, 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.

### 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
1. Questionnaire-based self-assessment by each director (February–March 2021)	<ul style="list-style-type: none"> <li>• Composition: diversity on the Board, the number and proportion of Inside and Outside Directors, etc.</li> <li>• Visibility of responsibilities and roles of the Board</li> <li>• Meeting operation: meeting frequency, deliberation time, agenda setting, quality of deliberation, Chairman's role, etc.</li> <li>• Contribution: contribution to strategy building and change of company culture, contribution to have constructive discussions, utilization of Director's knowledge and experience, discussions based on taking the Digital Transformation, etc.</li> <li>• Understanding of the Company: Hitachi Group Identity, risk factors, potential challenges and opportunities.</li> <li>• Three committees: composition, responsibilities and roles, coordination with the Board, etc.</li> <li>• Supporting system for the Board: provision of necessary information such as the Board materials, etc.</li> </ul>
2. Discussions among independent directors (March 2021)	<ul style="list-style-type: none"> <li>• Independent directors had a meeting and discussed the Board effectiveness there.</li> </ul>
3. Discussions at the Board meeting (May 2021)	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

#### Evaluation Results and Future Initiatives

Evaluation results	
Overall evaluation in fiscal 2020	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
Future initiatives	
Further enhancement of corporate governance	<ul style="list-style-type: none"> <li>• Examine the discussion process for strategy discussions based on a mid- to long-term perspective and establish a time and forum for deepening discussions.</li> <li>• 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 matrix based on factors such as the standing of the Company, the status of competitors, technology, talent, finance and Lumada strategy.</li> <li>• Risk management, ESG and investor relations will be submitted as agenda items as important matters for improving long term corporate value.</li> <li>• 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).</li> </ul>
Enhancement of supporting system for the Board and improvement of practical issues in operations	<ul style="list-style-type: none"> <li>• Post COVID-19, restarting to provide Independent Directors with information on opportunities of visiting sites and events of Hitachi Group.</li> <li>• Further improve structure and contents of materials for the Board meeting and operation of provision of materials well in advance of the Board meeting.</li> </ul>

### 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 Nominating 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 its shareholders. Decisions regarding the appointment or dismissal of the CEO shall be made based on prior deliberations and proposals by the Nominating 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 around the Hitachi Group with next-generation development potential. People in this "Future 50" group are selected on merit, regardless of age, gender, or nationality. They are given challenges to help expand their horizons and build their perspectives through tough assignments including different types of work and internal and external training opportunities. The Future 50 group members receive one-on-one mentoring opportunities with independent directors to benefit directly from their extensive business experience and global perspectives. Our aim is to change mindsets so that we can develop people for important positions in the future.



### Director and Executive Officer Compensation

**Basic Policy**

- Compensation shall be such that it enables the Company to attract necessary personnel to achieve an improvement in corporate value through global business growth.
- Compensation shall be commensurate with 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 basic 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.

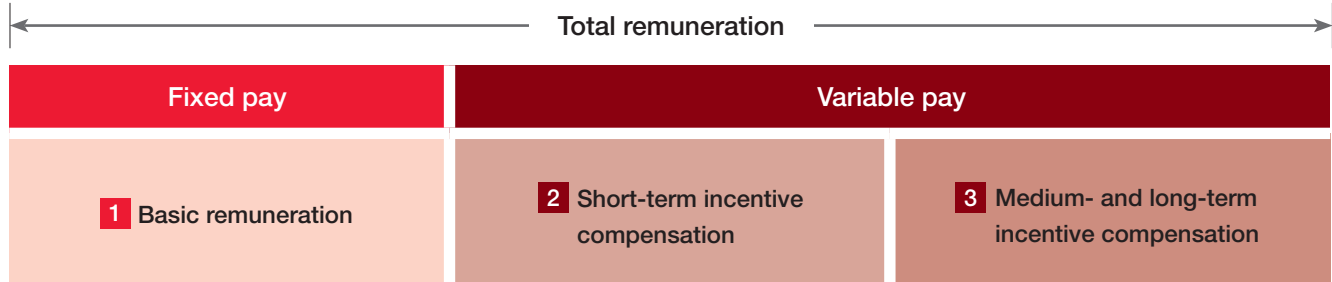
If it is found that an executive officer has been engaged in misconduct during his/her term of office, compensation for such Executive Officer that has been already paid shall be returned to the Company (clawback provision).

Please refer to Compensation to Directors and Executive Officers on page 101 of the Annual Securities Report (The 152nd Business Term).  
 ▶ [https://www.hitachi.com/IR-e/library/stock/hit\\_sr\\_fy2020\\_4\\_en.pdf](https://www.hitachi.com/IR-e/library/stock/hit_sr_fy2020_4_en.pdf)



### Compensation to Executive Officers (Fiscal 2021)

Basic remuneration : short-term incentive compensation : medium- and long-term incentive compensation = 1:1:1 ratio

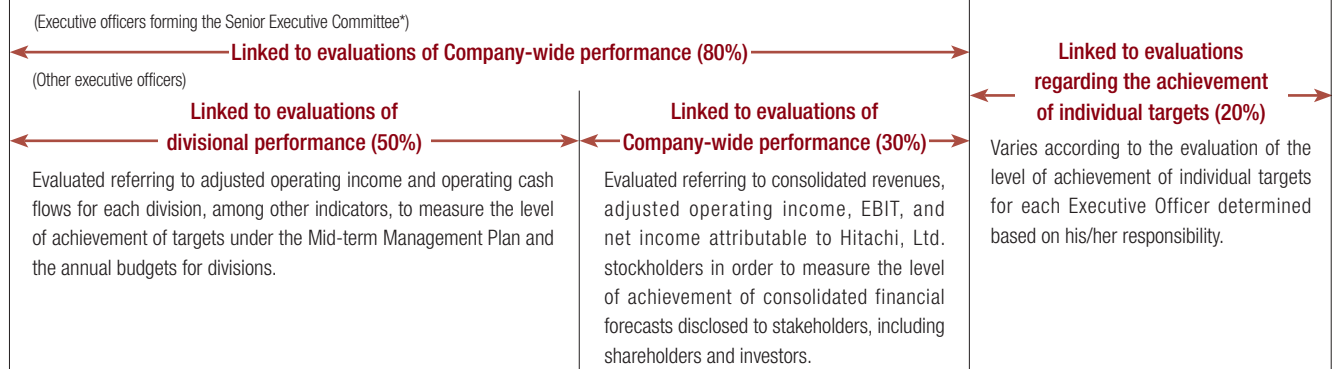


#### 1 Basic remuneration

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 rates used for "other executive officers" apply when "executive officers forming the Senior Executive Committee" are in charge of sector or business unit

#### 3 Medium- and long-term incentive compensation

Shares of restricted stock were introduced in fiscal 2019 as compensation for Japanese executive officers and corporate officers (the executive positions next to Executive Officers) to propel management from a medium- and long-term perspective and to provide incentives to bring about a sustainable increase in enterprise value by further promoting senior management's shared values with shareholders through the holding of shares during their term of office. In fiscal 2020, a restricted stock compensation unit system\*<sup>1</sup> was introduced as compensation for non-Japanese executive officers and corporate officers. In fiscal 2021, the scope of the restricted stock compensation unit system was expanded to executives at some Group companies.

#### 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 shall be determined after ex-post evaluation. In the 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 TOPIX over the same period.

TSR/TOPIX growth rate	Shares for which the transfer restrictions are lifted
120% or more	Transfer restrictions are lifted for all granted shares.
Between 80% or more but less than 120%	Transfer restrictions are lifted for part of granted shares* <sup>2</sup> .
Less than 80%	No granted shares have transfer restrictions lifted.

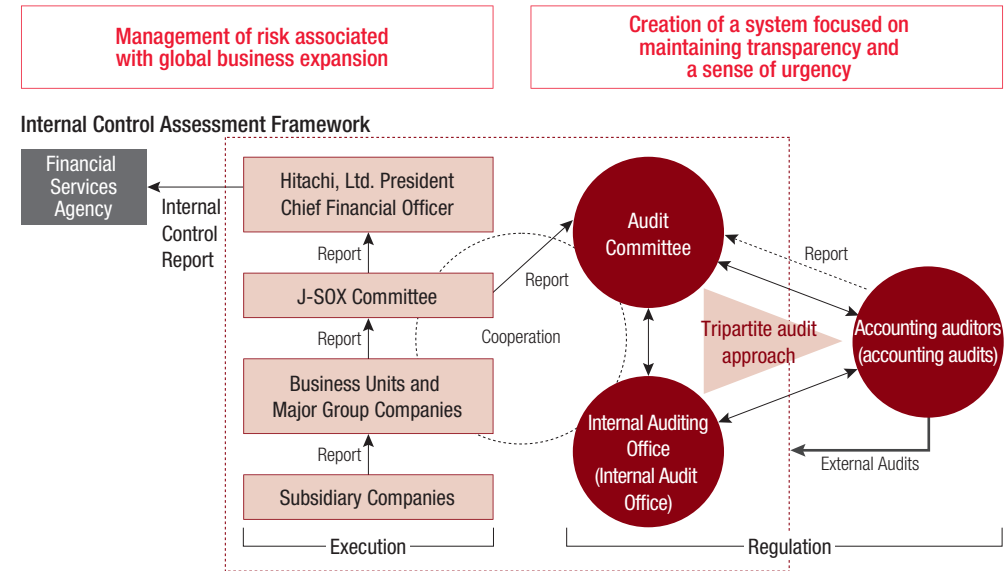
\*1 A system in which restricted stock compensation units are granted to the eligible persons, and over three years from the start of the business year in which the restricted stock compensation units were granted, one-third of the number of restricted stock compensation units granted is paid in each fiscal year that passes, as Hitachi stock or cash

\*2 Number of shares whose transfer restrictions are lifted = Number of granted shares × {(TSR/TOPIX Growth Rate Ratio × 1.25) - 0.5} Shares whose transfer restrictions are not lifted shall be acquired by Hitachi without consideration

### 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.

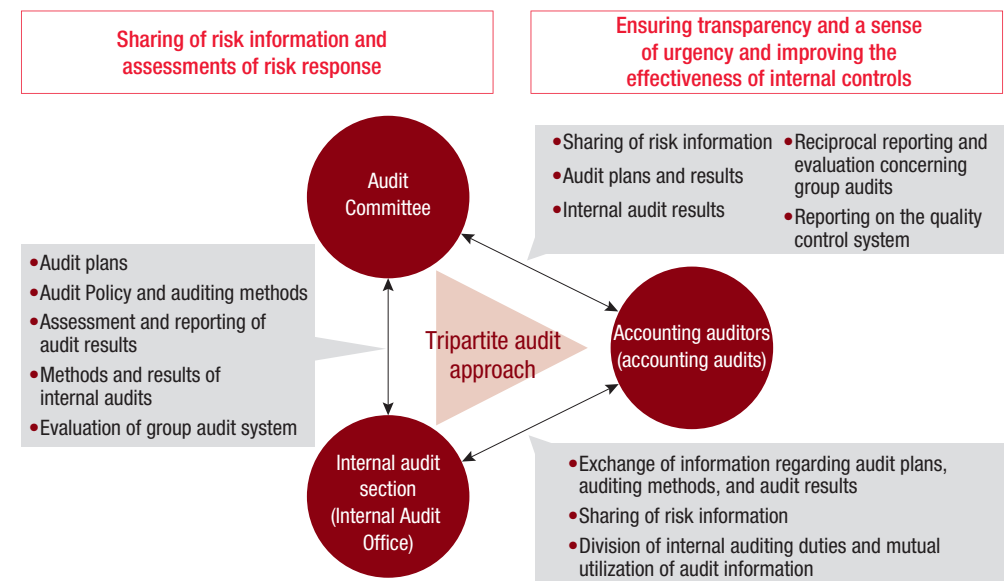
Furthermore, we have established the J-SOX Committee with the goal of raising the effectiveness of these internal controls. This committee evaluates internal control effectiveness and establishes frameworks designed to improve and strengthen them.



### Enhanced Collaboration through Tripartite Audits

In pursuit of sustainable growth in corporate value, Hitachi's Audit Committee and internal audit section collaborate with third-party accounting auditors to strengthen its "Tripartite Auditing," which aims to increase the effectiveness of internal controls. Our Audit Committee takes the lead in this regard, as

the three parties communicate closely to share risk information and assessments concerning risk response while securing transparency and ensuring appropriate checks and balances.



### Building a More Effective and Efficient Auditing System

Our Audit Committee formulates audit plans in accordance with its risk-based approaches and conducts audits for each consolidated business unit. Audit Committee members meet directly with business unit heads before the internal audit section's audits are carried out. Then, these members inform the internal audit section about concerns and issues related to the implementation of business strategies aimed at achieving sustainable growth that require attention. At 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 expeditiously 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.

### Comprehending Management Issues through Conversations with Stakeholders

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.

Stakeholders	Main roles	Means of communication (fiscal 2020 results)
Customers	Creation of better products and services Response to complaints Appropriate disclosure of information on products and services	<ul style="list-style-type: none"> <li>Customer satisfaction activities</li> <li>Marketing</li> <li>Website</li> <li>Advertising activities</li> <li>"Global Brand Campaign" (14 locations)</li> <li>Holding the Hitachi Social Innovation Forum (9 countries in 3 regions)</li> </ul>
Shareholders and investors	Timely and proper information disclosure, obtaining of fair recognition and support from capital markets, reflection of shareholder and investor viewpoints in corporate management	<ul style="list-style-type: none"> <li>Financial results briefings (quarterly)</li> <li>General shareholders' meeting (annual)</li> <li>Business strategy briefing "Hitachi Investor Day"</li> <li>Stakeholder dialogue (annual)</li> <li>One-on-one meetings with institutional investors and analysts (approx. 660 meetings)</li> <li>IR tools: Integrated Report, business reports, etc.</li> <li>Information disclosure on website for stakeholders and investors</li> </ul>
Suppliers	Building of fair and sound business relations, smooth information sharing toward better partnerships	<ul style="list-style-type: none"> <li>Procurement activities</li> <li>CSR monitoring (271 companies)</li> <li>CSR audits (27 companies)</li> <li>CSR Seminar for Suppliers (450 companies)</li> </ul>
Employees	Proper treatment, promotion of occupational health and safety of human capital	<ul style="list-style-type: none"> <li>Intranet, in-house newsletters</li> <li>Training</li> <li>Town hall meetings between senior management and employees (President &amp; CEO: 7 meetings, executive vice presidents: 8 meetings)</li> <li>Employee survey (annual)</li> <li>"Make a Difference!" idea contest</li> </ul>
National and local governments, industrial associations	Compliance with domestic and foreign laws and regulations, policy recommendations, participation in industry-government-academia collaborative projects	<ul style="list-style-type: none"> <li>Academic research for policy recommendations to international organizations and national governments, lobbying activities</li> <li>Policy council participation (Japan)</li> <li>Participation in business and industry associations (Japan)</li> </ul>
Local communities	Fulfillment of responsibilities as a corporate citizen, involvement in local communities	<ul style="list-style-type: none"> <li>Contribution to local communities through business</li> <li>Participation in volunteer activities</li> </ul>
Academic associations and research institutions	Promotion of technological innovations, participation in industry-government-academia collaborative projects	<ul style="list-style-type: none"> <li>Open innovation (joint research)</li> </ul>
NGOs and NPOs	Incorporation of diverse public opinions, promotion of stakeholder-focused management, social contribution through nonprofit activities	<ul style="list-style-type: none"> <li>Stakeholder dialogue (annual)</li> <li>Dialogue through collaboration</li> </ul>
Global environment	Realization of a decarbonized society, a resource-efficient society, a harmonized society with nature	<ul style="list-style-type: none"> <li>Stakeholder dialogues about environment (annual)</li> </ul>



Independent Directors\*



**Katsumi Ihara** ●▲

Share ownership: 900 shares  
Term of office as Independent Director: 3 years

- 2005 Executive Deputy President, Representative Corporate Executive Officer, Member of the Board, Sony Corporation
- 2009 Executive Deputy President, Corporate Executive, Sony Corporation
- Executive Vice President, Representative Director, Sony Financial Holdings Inc.
- 2010 President, Representative Director, Sony Financial Holdings Inc.
- 2011 President, Representative Director, Sony Life Insurance Co., Ltd.
- 2015 Chairman, Director, Sony Life Insurance Co., Ltd. (Retired in June 2017)
- 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

- 1999 Chairman of the Board of Directors, Cummins India Ltd. (Retired in March 2004)
- 2004 Chairman, Microsoft India Pvt. Ltd. (Retired in September 2011)
- 2011 Independent Director, Infosys Ltd. (Retired in May 2018, served as Co-Chairman from April 2017 to August 2017)
- 2013 Venture Partner, Unitus Ventures LLC. (Currently in office)
- 2015 Chairman (Non-Executive), Bank of Baroda (Retired in August 2018)
- 2018 Special Representative for Young People & Innovation, UNICEF (Currently in office)
- 2020 Director, Hitachi, Ltd.



**Cynthia Carroll** ●

Share ownership: 1,400 shares  
Term of office as Independent Director: 3 years

- 1991 General Manager, Foil Products, Alcan Inc.
- 1996 Managing Director, Aughinish Alumina Ltd., Alcan Inc.
- 1998 President, Bauxite, Alumina and Specialty Chemicals, Alcan Inc.
- 2002 President & CEO, Primary Metal Group, Alcan Inc.
- 2007 CEO, Anglo American plc. (Retired in April 2013)
- 2013 Director, Hitachi, Ltd.



**Joe Harlan** ▲

Share ownership: 900 shares  
Term of office as Independent Director: 3 years

- 1999 Vice President and Chief Financial Officer, Lighting Business, General Electric Company
- 2001 Vice President, Corporate Financial Planning and Analysis, 3M Company
- 2002 President and Chief Executive Officer, Sumitomo 3M Ltd.
- 2004 Executive Vice President, Electro and Communications Business, 3M Company
- 2009 Executive Vice President, Consumer and Office Business, 3M Company
- 2011 Executive Vice President, Performance Materials, The Dow Chemical Company
- 2012 Executive Vice President, Chemicals, Energy and Performance Materials, The Dow Chemical Company
- 2014 Chief Commercial Officer and Vice Chairman, Market Business, The Dow Chemical Company
- 2015 Vice Chairman and Chief Commercial Officer, The Dow Chemical Company (Retired in August 2017)
- 2018 Director, Hitachi, Ltd.



**Hiroaki Yoshihara** ●●

Share ownership: 2,600 shares  
Term of office as Independent Director: 7 years

- Chair of the Audit Committee**
- 1978 Joined Peat Marwick Mitchell & Co.
  - 1996 National Managing Partner, the Pacific Rim Practice, KPMG LLP
  - 1997 The Board Member, KPMG LLP
  - 2003 Vice Chairman and Global Managing Partner, KPMG International (Retired in April 2007)
  - 2014 Director, Hitachi, Ltd.



**Helmuth Ludwig** ●

Share ownership: 1,900 shares  
Term of office as Independent Director: 11 months

- 2001 President, Software and System House Division, Siemens AG
- 2002 President, Systems Engineering Division, Automation and Drives Group, Siemens AG
- 2007 President, Siemens PLM Software, Inc.
- 2010 Global Head of Communications, Industry Automation, Siemens Corp.
- 2011 President and CEO, Industry Sector, North America, Siemens Industry, Inc.
- 2014 Executive Vice President and Chief Digital Officer, Digital Factory Division, Product Lifecycle Management, Siemens Corp.
- 2016 Chief Information Officer, Siemens AG (Retired in December 2019)
- 2020 Professor of Practice in Strategy and Entrepreneurship, Cox School of Business, Southern Methodist University (Currently in office)
- Director, Hitachi, Ltd.

- Nominating Committee
- Audit Committee
- ▲ Compensation Committee

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

Nominating Committee:  
Harufumi Mochizuki, Cynthia Carroll, Hiroaki Yoshihara, Toshiaki Higashihara

Audit Committee:  
Hiroaki Yoshihara, Katsumi Ihara, Harufumi Mochizuki, Takatoshi Yamamoto, Helmuth Ludwig, Hideaki Seki

Compensation Committee:  
Harufumi Mochizuki, Katsumi Ihara, Joe Harlan, Takatoshi Yamamoto, Keiji Kojima

\* 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



**George Buckley**

Share ownership: 6,700 shares  
Term of office as Independent Director: 9 years

- 1993 Chief Technology Officer, Motors, Drives and Appliances, Emerson Electric Company
- 1994 President, US Electrical Motors, Emerson Electric Company
- 1997 President, Mercury Marine Division and Corporate Vice President, Brunswick Corporation
- 2000 President and Chief Operating Officer, Brunswick Corporation
- Chairman and Chief Executive Officer, Brunswick Corporation
- 2005 Chairman of the Board, President and Chief Executive Officer, 3M Company
- 2012 Executive Chairman of the Board, 3M Company (Retired in May 2012)
- Chairman, Arie Capital Partners Limited (Retired in December 2015)
- 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 Legal Counsel, Nokia Networks, Nokia Corporation
- 2007 Vice President, Acting Chief Legal Officer and Head of IP Legal, Nokia Corporation
- 2008 Senior Vice President and Chief Legal Officer, Nokia Corporation
- 2009 Admitted to New York State Bar Association
- 2011 Executive Vice President and Chief Legal Officer, Nokia Corporation (Retired in May 2014)
- 2015 General Counsel, PayPal, eBay Inc. Director, Hitachi, Ltd.
- Senior Vice President and Chief Legal Officer, PayPal Holdings, Inc.
- 2016 Executive Vice President and Chief Business Affairs & Legal Officer, PayPal Holdings, Inc. (Currently in office)



**Harufumi Mochizuki** ●●▲

Share ownership: 4,800 shares  
Term of office as Independent Director: 6 years

- Chairman of the Board**  
**Chair of the Nominating Committee**  
**Chair of the Compensation Committee**
- 2002 Director-General for Commerce and Distribution Policy, Minister's Secretariat, Ministry of Economy, Trade and Industry of Japan ("METI")
  - 2003 Director-General, Small and Medium Enterprise Agency, METI
  - 2006 Director-General, Agency for Natural Resources and Energy, METI
  - 2008 Vice-Minister of Economy, Trade and Industry of Japan
  - 2010 Special Advisor to the Cabinet of Japan (Retired in September 2011)
  - Senior Advisor to the Board, Nippon Life Insurance Company (Retired in April 2013)
  - 2012 Director, Hitachi, Ltd.
  - 2013 President and Representative Director, Tokyo Small and Medium Business Investment & Consultation Co., Ltd. (Currently in office)



**Takatoshi Yamamoto** ●▲

Share ownership: 11,300 shares  
Term of office as Independent Director: 9 years

- 1995 Managing Director, Morgan Stanley Japan Limited
- 1999 Managing Director and Vice Chairman, Tokyo Branch, Morgan Stanley Japan Limited
- 2005 Managing Director and Vice Chairman, UBS Securities Japan Co., Ltd.
- 2009 Managing Director, CASIO COMPUTER CO., LTD.
- 2011 Advisor, CASIO COMPUTER CO., LTD. (Retired in June 2012)
- 2016 Director, Hitachi, Ltd.



**Keiji Kojima** ▲

Share ownership: 67,300 shares  
Newly appointed

- 1982 Joined Hitachi, Ltd.
- 2011 General Manager, Hitachi Research Laboratory
- 2012 Vice President and Executive Officer
- 2016 Senior Vice President and Executive Officer
- 2018 Executive Vice President and Executive Officer
- 2021 President & COO and Director



**Hideaki Seki** ●

Share ownership: 11,500 shares

- 1979 Joined Hitachi, Ltd.
- 2011 Board Director, Hitachi Automotive Systems, Ltd.
- 2013 Vice President, Board Director, Hitachi Automotive Systems, Ltd.
- 2014 Executive Vice President, Board Director, Hitachi Automotive Systems, Ltd.
- 2015 President & COO, Representative Director, Hitachi Automotive Systems, Ltd.
- 2016 President & CEO, Representative Director, Hitachi Automotive Systems, Ltd.
- 2018 Senior Vice President and Executive Officer, Hitachi, Ltd. President, Representative Director, Hitachi Building Systems Co., Ltd. (Retired in March 2020)
- 2020 Associate, Hitachi, Ltd. Director, Hitachi, Ltd.



**Toshiaki Higashihara** ●

Share ownership: 175,300 shares

- 1977 Joined Hitachi, Ltd.
- 2007 Vice President and Executive Officer (Retired in March 2008)
- 2008 President, Hitachi Power Europe GmbH
- 2010 President and Chief Executive Officer, Hitachi Plant Technologies, Ltd. President and Representative Director, Hitachi Plant Technologies, Ltd.
- 2011 Vice President and Executive Officer, Hitachi, Ltd.
- 2013 Senior Vice President and Executive Officer, Hitachi, Ltd.
- 2014 President & COO, Hitachi, Ltd. President & COO and Director, Hitachi, Ltd.
- 2016 President & CEO and Director, Hitachi, Ltd.
- 2021 Executive Chairman, President & CEO and Director, Hitachi, Ltd. Executive Chairman & CEO and Director, Hitachi, Ltd.

Directors

**Executive Officers**

**Executive Chairman & CEO**



**Toshiaki Higashihara\***

General

**President & COO**



**Keiji Kojima\***

Overall management, smart life & ecofriendly 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), systems & services business, defense systems business, and social innovation business promotion



**Toshikazu Nishino\***

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



**Jun Abe**

Services & platforms business



**Yoshihiko Kawamura\***

Finance, corporate pension system, and investment strategies



**Katsuya Nagano**

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



**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

**Vice Presidents and Executive Officers**

**Hitoshi Ito**

Government & external relations and sustainability strategy

**Kohei Kodama**

Legal matters, risk management and corporate auditing

**Kojin Nakakita**

Regional strategies (APAC)

**Masahiko Hasegawa**

Marketing & sales and regional strategies (Japan)

**Masashi Murayama**

Cost structure reform and information security management

**Tatsuro Ueda**

Business for financial institutions

**Norihiro Suzuki**

Research & development

**Hideshi Nakatsu**

Water & environment business

**Tatsuro Hoshino**

Marketing & sales (business for financial institutions, government, public corporation and social infrastructure systems and defense systems business)

**Kazunobu Morita**

Business for industry & distribution sectors

**Kenji Urase**

Energy business

**Yoji Takeuchi**

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

**Seiichiro Nukui**

Information technology strategies

**Kentaro Masai**

Supply chain management (manufacturing strategy and quality assurance)

**Takashi Yoda**

Regional strategies (China)

**Tadashi Kume**

Nuclear energy business

**Lorena Dellagiovanna**

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

**Andrew Barr**

Railway systems business

**Shinya Mitsudomi**

Building systems business

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

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# 10-year Financial Data

Millions of yen

For the year:	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
	U.S. GAAP (through FY2013)			IFRS (from FY2014)						
Revenues	9,665,883	9,041,071	9,563,791	9,774,930	10,034,305	9,162,264	9,368,614	9,480,619	8,767,263	<b>8,729,196</b>
Adjusted operating income	412,280	422,028	538,288	641,325	634,869	587,309	714,630	754,976	661,883	<b>495,180</b>
EBIT	573,218	358,015	585,662	534,059	531,003	475,182	644,257	513,906	183,614	<b>850,287</b>
Net income attributable to Hitachi, Ltd. stockholders	347,179	175,326	264,975	217,482	172,155	231,261	362,988	222,546	87,596	<b>501,613</b>
Earnings per share attributable to Hitachi, Ltd. stockholders, basic (yen)	76.81	37.28	54.86	45.04	35.65	47.90	375.93	230.47	90.71	<b>519.29</b>
Earnings per share attributable to Hitachi, Ltd. stockholders, diluted (yen)	71.86	36.29	54.85	45.00	35.62	47.88	375.60	230.25	90.60	<b>518.51</b>
Net cash provided by operating activities	447,155	583,508	439,406	451,825	812,226	629,582	727,168	610,025	560,920	<b>793,128</b>
Net cash used in investing activities	(195,584)	(553,457)	(491,363)	(612,545)	(730,799)	(337,955)	(474,328)	(162,872)	(525,826)	<b>(458,840)</b>
Free cash flows	251,571	30,051	(51,957)	(160,720)	81,427	291,627	252,840	447,153	35,094	<b>334,288</b>
Core free cash flows	(21,293)	45,702	(186,042)	(176,448)	113,371	100,215	283,593	136,079	135,441	<b>419,848</b>
Net cash provided by (used in) financing activities	(167,838)	(180,445)	32,968	233,206	(26,467)	(209,536)	(321,454)	(320,426)	2,837	<b>(184,838)</b>
Capital expenditures (Property, plant and equipment)	649,234	742,537	849,877	431,201	528,551	377,545	374,901	414,798	399,643	<b>359,897</b>
Depreciation (Property, plant and equipment)	360,358	300,664	329,833	350,783	366,547	302,757	265,413	271,682	342,450	<b>345,201</b>
R&D expenditures	412,514	341,310	351,426	334,814	333,730	323,963	332,920	323,145	293,799	<b>293,571</b>
<b>At year-end:</b>	Millions of yen									
Total assets	9,418,526	9,809,230	11,016,899	12,433,727	12,551,005	9,663,917	10,106,603	9,626,592	9,930,081	<b>11,852,853</b>
Property, plant and equipment	2,025,538	2,279,964	2,342,091	2,472,497	2,500,226	1,998,411	2,124,827	1,956,685	2,165,311	<b>2,408,887</b>
Total Hitachi, Ltd. stockholders' equity	1,771,782	2,082,560	2,651,241	2,942,281	2,735,078	2,967,085	3,278,024	3,262,603	3,159,986	<b>3,525,502</b>
Interest-bearing debt	2,396,454	2,370,079	2,823,049	3,557,356	3,604,455	1,176,603	1,050,294	1,004,771	1,485,042	<b>2,397,356</b>
<b>Financial ratios:</b>	%									
Adjusted operating income ratio	4.3	4.7	5.6	6.6	6.3	6.4	7.6	8.0	7.5	<b>5.7</b>
EBIT ratio	5.9	4.0	6.1	5.5	5.3	5.2	6.9	5.4	2.1	<b>9.7</b>
Return on revenues	3.6	1.9	2.8	2.2	1.7	2.5	3.9	2.3	1.0	<b>5.7</b>
ROIC	—	—	—	—	—	—	—	8.5	9.4	<b>6.4</b>
Return on equity (ROE)	21.6	9.1	11.2	7.8	6.1	8.1	11.6	6.8	2.7	<b>15.0</b>
Return on assets (ROA)	4.4	2.5	3.5	2.9	2.4	3.0	5.0	3.3	1.3	<b>4.8</b>
D/E ratio (Including non-controlling interests) (times)	0.86	0.75	0.73	0.83	0.87	0.29	0.23	0.23	0.35	<b>0.54</b>
Total Hitachi, Ltd. stockholders' equity ratio	18.8	21.2	24.1	23.7	21.8	30.7	32.4	33.9	31.8	<b>29.7</b>
Dividend payout ratio	10.4	26.8	19.1	26.6	33.7	27.1	20.0	39.1	104.8	<b>20.2</b>

Note 1: Terminology differs under U.S. GAAP and IFRS for the following line items (U.S. GAAP/IFRS)

- Operating income/Adjusted operating income
- Net income per share attributable to Hitachi, Ltd. stockholders, basic/Earnings per share attributable to Hitachi, Ltd. stockholders, basic
- 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

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

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

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

## 5-year Non-financial Data

Human Capital		FY2016	FY2017	FY2018	FY2019	FY2020
Number of employees	Consolidated	303,887	307,275	295,941	301,056	350,864
	Non-consolidated	35,631	34,925	33,490	31,442	29,850
Average service (years) <sup>1</sup>		15.0	14.9	15.1	15.0	13.6
Turnover ratio (%) <sup>1,2</sup>		5.3	5.5	6.3	5.2	4.3
Diversity & Inclusion						
Ratio of female employees (%) <sup>1</sup>		18.3	18.2	18.8	19.4	19.1
Global ratio (number) of female managers <sup>1,3,4</sup>		6.7	7.3	8.3	8.9	9.5
		(2,562)	(3,325)	(3,975)	(4,302)	(4,641)
Ratio (number) of female managers <sup>1,5</sup>		4.1	4.2	4.8	5.5	6.5
		(509)	(577)	(635)	(700)	(768)
Hitachi Group's Global Safety Figures (Occurrence rate <sup>6</sup> )						
North America		27.65	24.33	27.96	20.76	18.98
Latin America		2.33	1.62	0.44	0.57	2.12
Europe		10.70	10.82	6.08	4.78	3.09
India		2.07	1.44	1.44	1.63	1.07
China		1.59	1.53	1.46	1.17	1.12
Asia (excluding India and China)		5.43	4.41	3.34	2.63	1.55
Oceania		39.07	24.41	21.94	29.07	12.95
Africa		17.26	9.93	11.76	9.72	25.37
Outside Japan total		7.76	7.42	7.43	5.78	4.90
Japan		1.57	1.85	1.64	1.53	1.34
Global total		3.95	4.22	4.20	3.45	2.89

### Occupational Health and Safety

Number of fatal accidents <sup>7</sup>	3	5	0	4	3
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Scope of Data  
 \*1 Hitachi Group figures exclude approximately 40,000 manufacturing workers  
 \*2 Includes only voluntary resignations  
 \*3 The figures are based on all female managers including those dispatched from the Hitachi Group to other companies  
 \*4 Rising numbers of female managers in part reflect improved coverage of our human capital databases

\*5 Since fiscal 2017, "Female managers" has included managerial employees dispatched from Hitachi, Ltd. to other companies and those accepted from other companies by Hitachi, Ltd. Earlier figures include regular managerial employees dispatched to other companies but exclude those accepted from other companies  
 \*6 Occurrence rate is the rate of workplace accidents per 1,000 directly contracted employees resulting in fatality or work-time loss of one day or more  
 \*7 January to December each year

### Ratios of Female and Non-Japanese Executive\* (Hitachi, Ltd.)

	June 2017	June 2018	June 2019	June 2020	June 2021
Number of female executives	2	2	4	5	7
Ratio of female executives (%)	2.4	2.6	5.0	7.1	10.1
Number of non-Japanese executives	3	5	7	6	8
Ratio of non-Japanese executives (%)	3.7	6.4	8.8	8.6	11.6

\*Executive Officers, Corporate Officers and Fellows

### Research & Development

	FY2016	FY2017	FY2018	FY2019	FY2020
Ratio of R&D expenditure to revenue (%)	3.5	3.6	3.4	3.4	3.4

### Responsible Procurement, Status of CSR Procurement Policies

	FY2016	FY2017	FY2018	FY2019	FY2020	Cumulative total
CSR monitoring (self-check) (companies)	316	131	345	291	271	2,072* <sup>2</sup>
CSR audits	20	18	24	19	27	176* <sup>3</sup>
CSR Seminar for Suppliers* <sup>1</sup>	29	65	126	59	450	741* <sup>4</sup>

\*1 In fiscal 2020, CSR Seminar for Suppliers were held by webinar and e-learning instead of face-to-face \*2 Total number of companies during FY2011-2020 \*3 Total number of companies during FY2012-2020 \*4 Total number of companies during FY2015-2020

### Environment

	FY2016	FY2017	FY2018	FY2019	FY2020
Reduction rate in CO <sub>2</sub> emissions per unit from products and services (base: FY2010)(%)	—	—	—	19	20
CO <sub>2</sub> emissions at business sites (factories and offices) (kt-CO <sub>2</sub> )	5,322	5,433	4,973	4,374	3,296
Total water use (million m <sup>3</sup> )	41.34	38.54	37.02	36.41	26.35
Waste and valuables generation (kt)	1,336	1,356	1,384	1,302	1,061
Atmospheric emissions of chemical substances (t)	4,325	4,378	4,352	3,882	2,374

\* New indicator established in fiscal 2019

[Scope of Data]

Hitachi, Ltd. and consolidated subsidiaries.

Number of companies: FY2016: 865; FY2017: 880; FY2018: 804; FY2019: 815; FY2020: 872

However, Group companies that were acquired in the middle of the fiscal year are not included in the scope of the 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.

\*Based on calculations by Hitachi, Ltd.

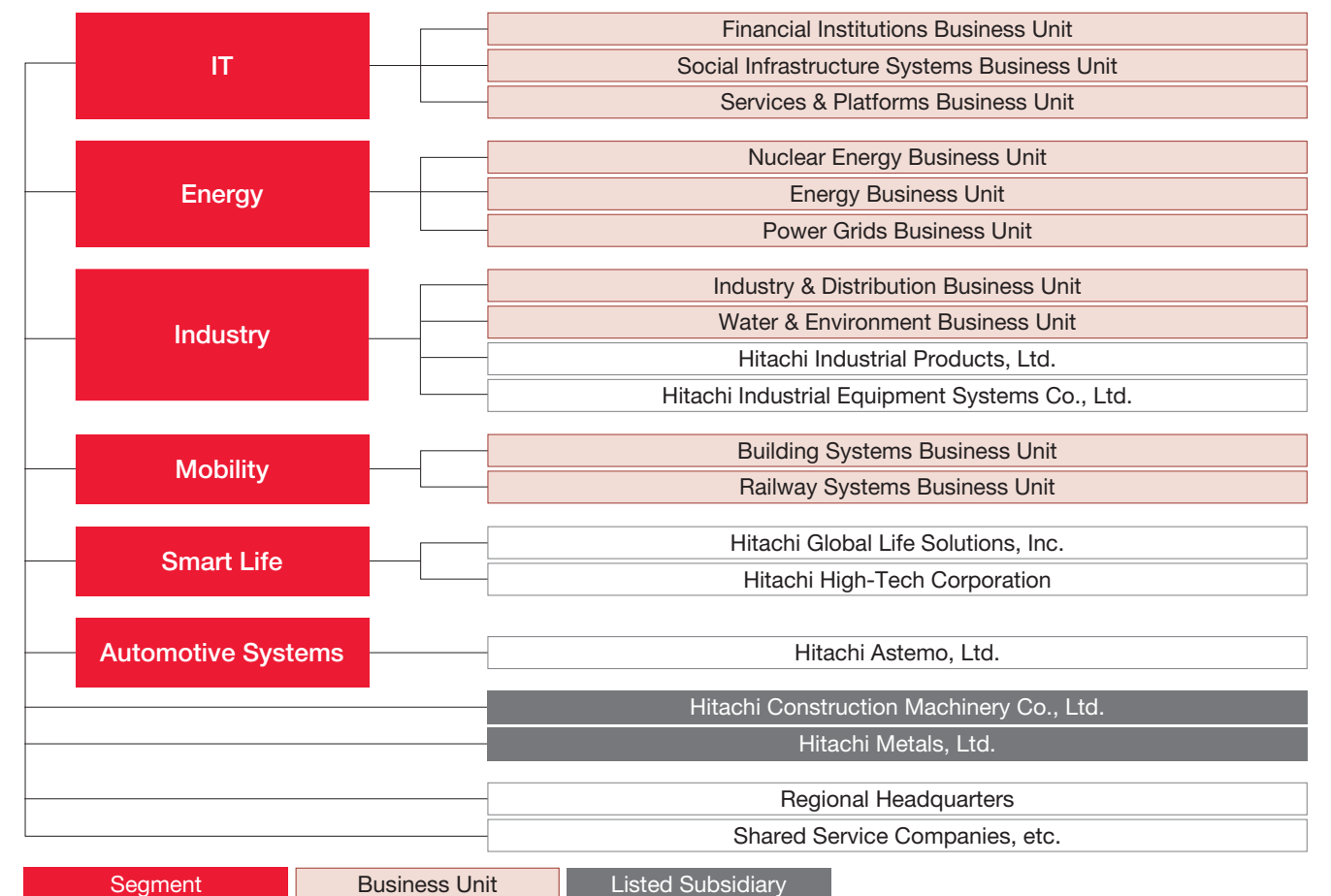
## Segment Highlights

### Revenues, Adjusted Operating Income and EBIT by Business Segment

Business Segment	Revenues		Adjusted operating income		EBIT	
	FY2019	FY2020	FY2019	FY2020	FY2019	FY2020
IT	2,099.4	2,048.7	249.4	269.4	214.4	244.8
Energy	399.2	1,107.9	13.5	(47.7)	(375.7)	(55.5)
Industry	840.7	830.1	54.7	45.5	57.8	42.3
Mobility	1,144.4	1,199.6	92.3	74.7	112.3	129.0
Smart Life	2,167.6	2,240.3	118.9	114.1	90.0	206.5
Hitachi Construction Machinery	931.3	813.3	75.5	31.6	70.5	27.6
Hitachi Metals	881.4	761.6	14.3	(4.9)	(57.2)	(49.1)
Hitachi Chemical	631.4	—	35.2	—	24.8	—
Others	484.8	449.0	22.3	21.2	31.2	25.3
Subtotal	9,580.5	9,450.8	676.4	504.1	168.2	571.0
Corporate items & Eliminations	(813.2)	(721.6)	(14.6)	(8.9)	15.3	279.2
Total	8,767.2	8,729.1	661.8	495.1	183.6	850.2

Note: Hitachi Chemical was deconsolidated from fiscal 2020

### Hitachi Group Business Operation Framework (As of April 2021)





■ Corporate Name

Hitachi, Ltd. (Kabushiki Kaisha)  
Hitachi Seisakusho)

■ URL

<https://www.hitachi.com/>

■ Head Office

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

■ Founded

1910 (Incorporated in 1920)

■ Capital Stock

460,790 million yen

■ Number of Employees (consolidated)

350,864

■ Number of Shares Issued (common stock, including treasury stock)

967,885,277 shares

■ Number of Shareholders

285,435

■ Administrator of Shareholders' Register

Tokyo Securities Transfer Agent Co., Ltd.  
3-11, Kanda Nishiki-cho,  
Chiyoda-ku, Tokyo 101-0054, Japan

■ Stock Exchange Listings

Tokyo, Nagoya

■ Accounting Auditor

Ernst & Young ShinNihon LLC

■ Contact

Hitachi, Ltd.  
TEL: +81-3-3258-1111

■ 10 Largest Shareholders

Name	Share ownership (shares)	Shareholding ratio (%) <sup>1</sup>
The Master Trust Bank of Japan, Ltd. (Trust Account)	91,166,600	9.43
Custody Bank of Japan, Ltd. (Trust Account)	59,465,400	6.15
Hitachi Employees' Shareholding Association	20,606,840	2.13
State Street Bank and Trust Company 505223	20,578,060	2.13
Nippon Life Insurance Company	20,000,099	2.07
NATS CUMCO <sup>2</sup>	18,702,358	1.93
SSBTC CLIENT OMNIBUS ACCOUNT	16,715,255	1.73
State Street Bank and Trust Company 505001	16,698,514	1.73
JP Morgan Chase Bank 385632	16,563,302	1.71
State Street Bank West Client - Treaty 505234	15,549,487	1.61

<sup>1</sup> Treasury stock (1,055,799 shares) is not included in the calculation of "Shareholding ratio"

<sup>2</sup> NATS CUMCO is the nominee name of the depository bank, Citibank, N.A., for the aggregate of the Company's American Depositary Receipts (ADRs) holders

■ Ratings

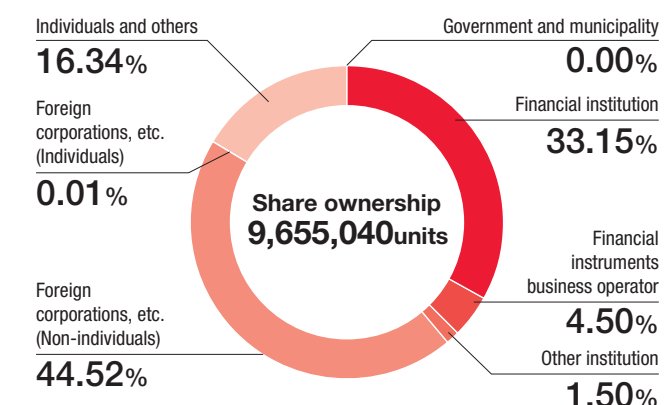
Rating Company	Long-term	Short-term
S&P Global Ratings Japan Inc.	A	A-1
Moody's Japan K.K. (Moody's)	A3	P-2
Rating and Investment Information, Inc. (R&I)	AA-	a-1+

As of July 2021

■ Shareholder Composition

Class of shareholders	Number of shareholders	Share ownership (units)
● Government and municipality	3	95
● Financial institution	205	3,200,291
● Financial instruments business operator	62	434,021
● Other institution	2,308	144,379
Foreign corporations, etc.		
● Non-individuals	1,087	4,298,023
● Individuals	125	763
● Individuals and others	222,379	1,577,468
Total	226,169	9,655,040
Number of shares less than one unit (shares)	—	2,381,277

Note: Of 1,055,799 shares of treasury stock, 10,557 units are included in the "Individuals and others" column, while 99 shares are included in the "Number of shares less than one unit" column. Of the shares registered in the name of Japan Securities Depository Center, Incorporated (account for managing stocks whose shareholders have not transferred titles), 53 units are included in the "Other institution" column and 65 shares are included in the "Number of shares less than one unit" column



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 unreserved 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

**Hideobu 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 female managers, Number of CSR audits, CO<sub>2</sub> emissions at business sites  
Hitachi, Ltd. | Ratio of non-Japanese executives, Ratio of female executives, Ratio of female managers

Website Information

About Hitachi Group

<https://www.hitachi.com/corporate/about/>  
(English)  
<https://www.hitachi.co.jp/about/corporate/>  
(Japanese)

Investor Relations

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

Sustainability

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