

# Addressing Risks and Opportunities

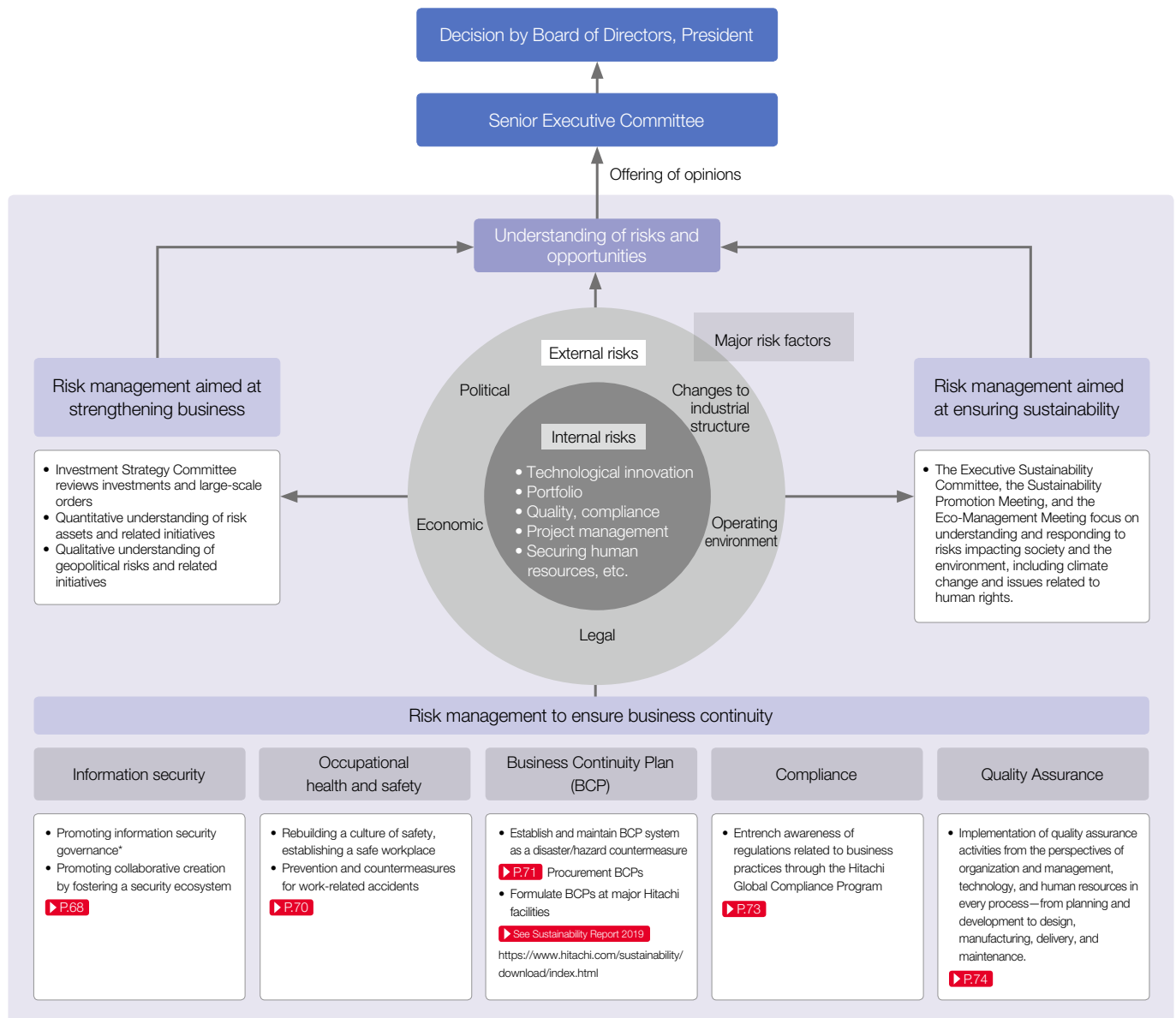
## Risks and Opportunities

Hitachi's 2021 Mid-term Management Plan, beginning in fiscal 2019, focuses on expanding our business while making the best use of the Company's competitive advantages. In particular, we target investment for growth in select, focused areas over the three years through fiscal 2021 of ¥2.0–¥2.5 trillion, compared to investment of about ¥500 billion in the three years through fiscal 2018. We believe taking advantage of growth business opportunities and implementing aggressive management requires a solid risk management system.

Hitachi established the Investment Strategy Committee to strengthen investment risk management in 2017 and continues to work to better understand risk and take appropriate action. The Company in the same year established the Executive Sustainability Committee to focus on the company's policies in regard to social and environmental issues. Our efforts in this area also included a move to identify issues that could be seen as business opportunities, as well as the negative effects on society and the environment from our business activities and the measures Hitachi is taking to address them.

## Risk Management System

The business environment is changing day by day, impacted by the continued advance of information and communications technology, as exemplified by IoT, and geopolitical risks arising from complex shifts in political and economic conditions around the world. Hitachi aims to create new revenue opportunities while controlling risk. To do this, we maintain a clear understanding and analysis of the operating environment, taking into account social issues as well as our competitive advantages and management resources, and conduct risk management with an eye toward the many risks the Company should be prepared for as well as opportunities for growth.



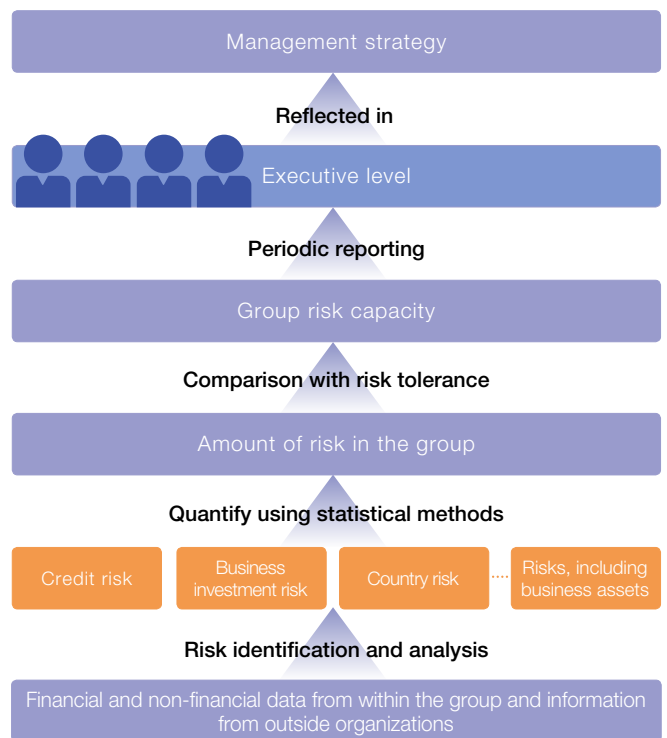
\* Information security governance works in support of corporate governance by building and maintaining an organization's internal control mechanisms related to information security.

## Understanding and Responding to Quantitative Risk

In regard to quantitative risk, assumed maximum risk (value at risk) is calculated using statistical methods based on the type of asset held. More specifically, value at risk measures the maximum expected loss based on price movements over a specified period of time (observation period) at a given confidence level for a defined period of time moving forward. Visualizing the strength of a company's balance sheet and whether that company has the potential for growth, including by focusing on whether the maximum expected loss is within the range of net assets or whether there is room to invest in growth, limits the likelihood that opportunities for growth will be missed, while continued monitoring ensures that risks do not exceed management capabilities.

Moreover, analyzing risk by country and sector, while also taking into account future trends, allows a quantitative understanding of the concentration of risks in a given country or sector relative to profitability.

### The Flow of Quantitative Risk Assessment



## Understanding and Responding to Qualitative Risk

In regard to qualitative risk, including geopolitical risk, we maintain a focus on the global political and economic situation by taking advantage of research from external organizations, and use this information to analyze the potential risks and opportunities for Hitachi so that we may take action to improve our corporate value. In addition, the Investment Strategy Committee examines investment projects and large orders, taking into account qualitative factors in addition to quantitative factors such as those listed below.

- Related technological innovations and competitive conditions
- Hitachi's past performance in the business
- Trends and market conditions, including prices and costs
- Business performance from ordering parties and their transaction history with Hitachi, etc.
- Contractual rights and obligations (transaction terms, reasons and details for damages and penalties)
- Local laws and labor practices in countries in which the business operates

## Understanding and Responding to Risks and Opportunities Related to Sustainability

Social and environmental issues, including climate change, resource depletion, the curtailment of business activity due to significant disasters, and social instability due to growing inequality, are having a substantial impact on corporate value creation and business models.

Amid such a drastic change in the business environment, companies must have a clear understanding of opportunities and risks and take appropriate measures if they are to achieve sustainable growth over the long term.

Hitachi is able to gain a clear understanding of sustainability-related risks, and accordingly take appropriate action, thanks to the efforts of the Executive Sustainability Committee and other related committees. We remain actively engaged in promoting our own sustainable growth while contributing to the realization of a sustainable society by seeking out business opportunities contributing to the resolution of important domestic and overseas issues, including those relevant to the UN Sustainable Development Goals (SDGs) and Society 5.0.

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

## Risk Factors

We conduct business on a global scale across a broad range of business areas and utilize sophisticated, specialized technologies to carry out our operations. Therefore, we are exposed to a wide range of risks related to our operations. The following risks are based on the assumptions we consider reasonable as of the date this report was issued.

For more information on business risks and other risks, please refer to our 150th Annual Securities Report

<https://www.hitachi.com/IR-e/library/stock/index.html>

## Major Risks and Opportunities

Major risk factors	Details on risks and opportunities	Company actions
<p><b>Fluctuations in product supply and demand, exchange rates and resource prices; insufficient raw materials, components</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Price fluctuations, including for products, exchange rate impact and excess inventory</li> <li>Exchange rate impact and price fluctuations, including for raw materials and components</li> <li>Impact from significant disasters on supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Building close relationships with multiple suppliers</li> <li>Ensuring an appropriate response to changes in demand in each region by promoting a local production and local consumption model for products and services</li> <li>Heightening resistance to business interruption risks by formulating BCPs at domestic and major overseas facilities</li> </ul> <p>▶ <b>P.71</b> Engaging in Responsible Procurement</p>
<p><b>Rapid technological innovation</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Decreased competitiveness if development of cutting-edge technology, or application to product/service does not progress as expected</li> <li>Reduction or elimination of existing market due to technological innovation</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Development of advanced technology leads to new business opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Promoting open innovation through industry-academia-government cooperation</li> <li>Bolstering the digital workforce</li> <li>Strengthen Lumada</li> <li>Fostering an innovation ecosystem through the above</li> </ul> <p>▶ <b>P.38</b> Accelerate Innovation</p> <p>▶ <b>P.48</b> Strengthen Lumada</p>
<p><b>Securing human resources</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Impact on new hires and worker retention due to increased competition to hire and retain the highly skilled workers</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Growth opportunities on the recruitment and retention of highly skilled workers that share the Hitachi vision</li> </ul>	<ul style="list-style-type: none"> <li>Securing the highly skilled global workers using a global common standard for personnel</li> <li>Securing and training the highly skilled workers through in-house educational systems, include Hitachi Academy, and Hitachi University, the group's global common learning management system</li> </ul> <p>▶ <b>P.42</b> Accelerate Innovation</p>
<p><b>Occupational health and safety</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Impact on business due to inability to create healthy, safe and secure work environments</li> </ul>	<ul style="list-style-type: none"> <li>Establishing a global occupational health and safety system that includes lessons learned from global operations, entrenchment of global norms, and the sharing of success stories</li> </ul> <p>▶ <b>P.70</b> Occupational health and safety, worker health</p>
<p><b>M&amp;A, investment in new projects, etc.</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>M&amp;A aimed at strengthening the Social Innovation Business, investment in new projects, R&amp;D investment/capex, failure related to insufficient project management in large-scale orders</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Building a foundation for growth through the acquisition of new management resources</li> </ul>	<ul style="list-style-type: none"> <li>Implementing phase-gate management in each business unit (BU), analysis and discussion of market trends, strategies, acquisition prices, and the post-merger integration process at Investment Strategy Committee, Senior Executive Committee, Board of Directors, and Audit Committee</li> </ul> <p>▶ <b>P.18</b> Independent Director Dialogue</p> <p>▶ <b>P.78</b> Corporate Governance</p>
<p><b>Geopolitical risks</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Impact on Hitachi's overseas businesses due to global political, economic and social trends</li> </ul>	<ul style="list-style-type: none"> <li>Regularly updating our understanding of global political and economic trends, analyzing the impact on our business, and swiftly implementing countermeasures on a groupwide basis</li> </ul>
<p><b>Tighter laws and regulations</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Tighter laws and regulations in regard to investment, exports, and customs duties</li> </ul> <p>Example: The effects on business activities from the introduction of new laws and regulations related to the protection of personal data, such as the General Data Protection Regulation (GDPR) in Europe</p>	<ul style="list-style-type: none"> <li>Operating of personal information protection systems in line with Hitachi's personal information protection policy</li> <li>Identifying businesses subject to GDPR, assessing risk, implementing appropriate safety management measures in line with those risks, implementing worker training</li> </ul> <p>▶ <b>P.68</b> Promoting Information Security</p>
<p><b>Compliance</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Reduced trust and a decline in corporate value as a result of corporate behavior that deviates from social norms and violates laws, including relating to bribery and anti-competitive activities</li> </ul>	<ul style="list-style-type: none"> <li>Implementing groupwide compliance programs and establishing the highest values in the Codes of Conduct</li> <li>Strengthening measures to prevent bribery and violation of competition laws</li> </ul> <p>▶ <b>P.73</b> Compliance</p>
<p><b>Product quality and responsibility</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Reduced trust and claims for damages due to defects or a deterioration in product and service quality as a result of the increased complexity/sophistication of products or services, or the diversification of production sites or suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the quality assurance system</li> <li>Activities aimed at preventing accidents</li> <li>Activities aimed at ensuring compliance with laws and regulations related to technology</li> <li>Intensive risk assessment</li> <li>Implementing measures to handle product accidents</li> <li>Conducting quality and reliability-related training</li> </ul> <p>▶ <b>P.74</b> Quality Assurance</p>
<p><b>Climate change/significant disasters</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Impact on business activities due to measures in line with the tightening of international regulations to curb greenhouse gas emissions and the depletion of energy and resources</li> <li>Impact on business activities, from production to sales, due to significant disaster affecting major Hitachi facilities in Japan or overseas</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Expansion in the decarbonization business through offering climate-change-related solutions</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening measures aimed at achieving the CO<sub>2</sub> reduction targets in the Hitachi Environmental Innovation 2050</li> <li>Enacting measures in line with an analysis of Hitachi risks and opportunities based on climate-related scenarios</li> <li>Formulating BCPs to strengthen our ability to respond to business disruption risks</li> </ul> <p>▶ <b>P.71</b> Responsibilities in the Value Chain</p> <p>▶ <b>P.46</b> Environmental Vision and the Decarbonization Business</p> <p>▶ <b>P.76</b> Climate-Related Information Disclosure (based on TCFD recommendations)</p>
<p><b>Information security</b></p>	<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Computer viruses or other factors adversely impacting information systems</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Expansion in revenue opportunities through increased demand for information security measures</li> </ul>	<ul style="list-style-type: none"> <li>Promoting cybersecurity strategies through risk management and value creation</li> </ul> <p>▶ <b>P.68</b> Promoting Information Security</p> <p>▶ <b>P.54</b> Story of Value Creation in the IT Sector</p>