

Hitachi Integrated Report 2020

Year ended March 31, 2020



Hitachi Social Innovation is

POWERING GOOD

The challenges we face as a society are unprecedented,
but so are the opportunities.

Together, let's start powering good.

Let's call on our heritage, our spirit of collaboration
and our technology to do better for generations to come.





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Editorial Policy for Hitachi Integrated Report 2020

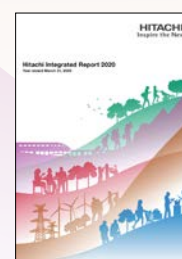
Editorial Policy

In this Hitachi Integrated Report 2020, we illustrate Hitachi's aspirations and the competitive advantages, strategies and management system to achieve them, while reviewing the history and progress of the Hitachi Group up to fiscal 2019 (year ended March 31, 2020), as well as the achievements and challenges of our initiatives. The expanded impact of Covid-19 has significantly changed the social and economic environment around the world. Even in the midst of these changes, Hitachi is committed to contribute to realizing a sustainable society while co-creating with customers and society to enhance their social, environmental, and economic value. In this report, we focused on illustrating such an approach to Hitachi.

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.

About Cover Page

Hitachi contributes to enhancing the social, environmental, and economic value of our customers by providing novel solutions utilizing digital technologies across the five sectors of IT, Energy, Industry, Mobility, and Smart Life. The cover image of this report depicts people who are enhancing their lives through Hitachi's business.



Reporting Scope

Period: April 1, 2019, to March 31, 2020
(Certain subsequent activities and information presented after April 2020 is also included.)
Companies: Hitachi, Ltd., and its consolidated subsidiaries
Scope of Data:
Social data: The scope of the data are individually described.
Environmental data: 815 companies (Hitachi, Ltd., and 814 consolidated subsidiaries)
For environmental performance data associated with business operations, Hitachi, Ltd., and consolidated subsidiaries whose environmental load comprises 90% of the total (based on Hitachi calculations) are included.
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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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)

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 60 of this Report.

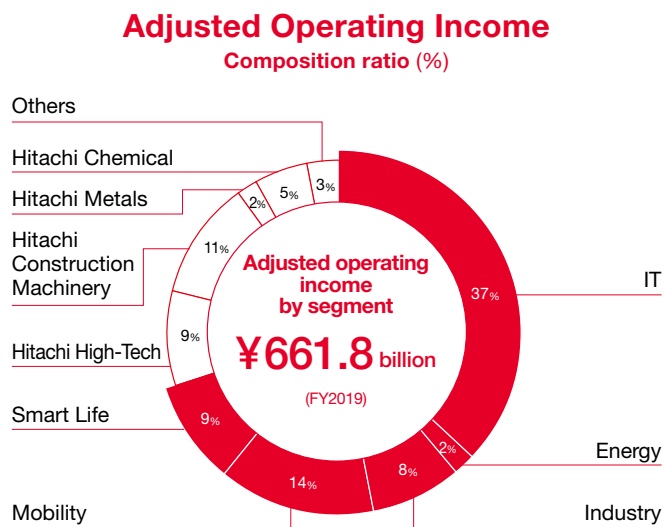
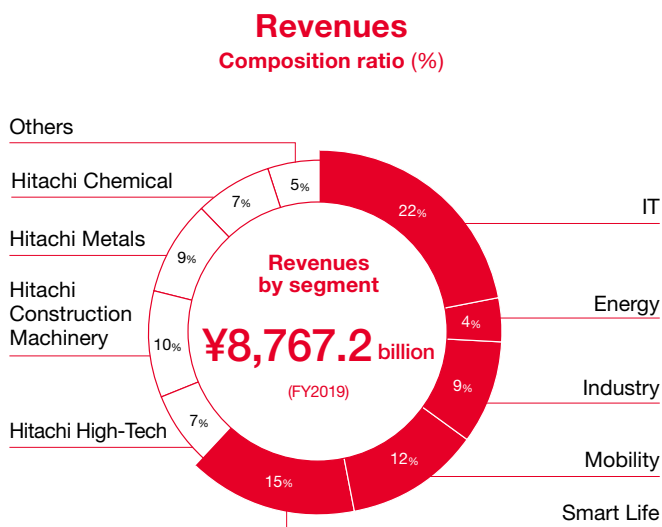


Where We Are Going

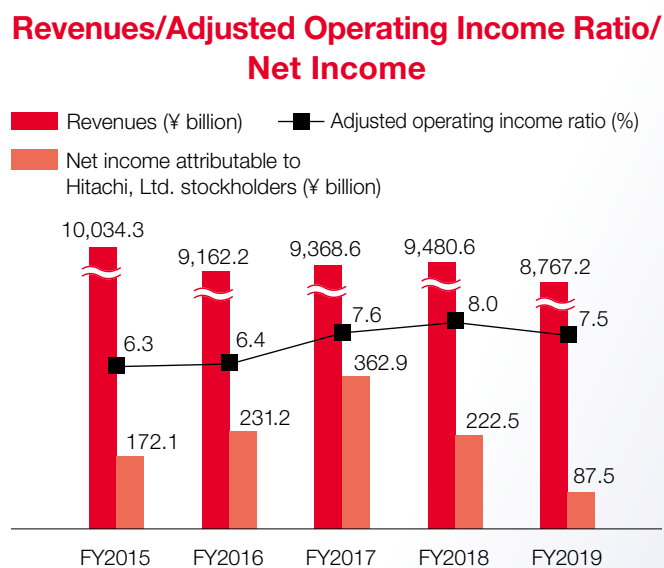
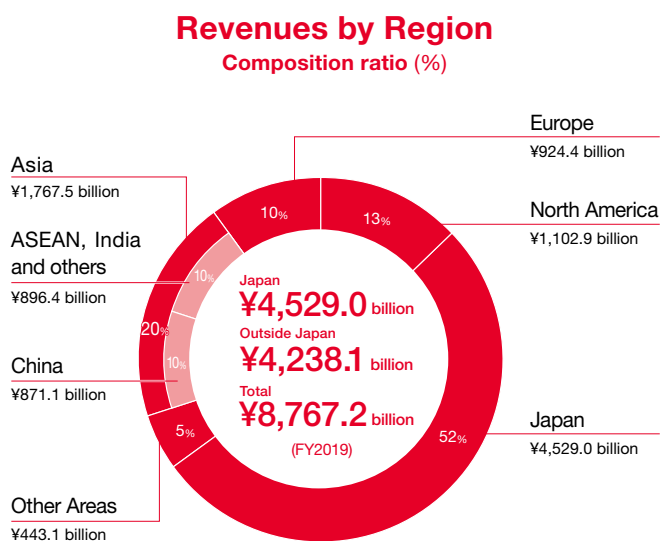
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Business of the Hitachi Group

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. These are areas in which Hitachi can make use of the technological know-how it has built up through its many years of developing social infrastructure. Through each of these business sectors, we will utilize Lumada to improve people's quality of life (QoL), as well as corporate value at our client companies.



Note: Figures for each subsegment include intersegment transactions.





- Systems integration
- Consulting
- Control systems
- Cloud services
- Software
- IT products (Storage, servers)
- ATMs



- Energy solutions
(Nuclear, Renewable energy, Thermal, Power grid)



Revenues of
Lumada Business

¥1,037.0 billion
(FY2019)

▶P24 Grow Highly Profitable Businesses
with Digital Technology



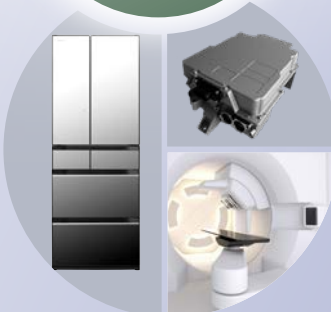
- Elevators, escalators, building services
- Railway system



- Industry & distribution system
- Water & environment system
- Industrial products



- Medical equipment
- Smart life & eco-friendly system
(Refrigerator, washing machine, air conditioner, commercial air conditioning system)
- Automotive systems
(Powertrain, chassis parts, advanced driving assistance system)



Hitachi Construction Machinery

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

Ownership percentage of voting rights: **53.5%**

Main products and services

- Specialty steel products
- Functional components and equipment
- Magnetic materials and applications
- Power electronics
- Wires, cables, and related materials

Hitachi High-Tech

Became a wholly owned subsidiary in May 2020

Main products and services

- Medical and life science products
- Analytical equipment
- Semiconductor processing equipment
- Manufacturing and inspection equipment
- Advanced industrial products

Hitachi Chemical

Deconsolidated in April 2020

Main products and services

- Functional materials
(Electronics materials, printed wiring board materials, electronic components)
- Advanced components and systems
(Mobility components, energy storage devices and systems, life science related products)

The Hitachi Group Identity and Social Innovation Business

Grounded in the Hitachi Group Identity, we will raise the social, environmental and economic value we provide to customers and aim to achieve a sustainable society by focusing on our Social Innovation Business.

The present world is said to be an era of volatility, uncertainty, complexity and ambiguity (VUCA), in which the future is difficult to predict. Looking around the world, we can see a wide variety of steadily approaching change that will have an impact on people's lives, including climate change, resource shortages, demographic changes due to aging, problems related to urbanization, and responding to COVID-19.

Since its establishment, Hitachi has operated under the Mission expressed by its founder: "Contribute to society through the development of superior, original technology and products." In accordance with this Mission, we have solved challenges facing society during each era through the development of social infrastructure technologies while raising people's quality of life and, in recent years, contributing to the achievement of 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 100-year 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.

History of Hitachi—Addressing Social Issues and Helping to Improve Quality of Life

Social Situation	1940	1950	1960	1970
mainly in Japan		Postwar reconstruction		Increase in transportation demand associated with a rise in population, and fast economic growth

Transition to domestic production of industrial equipments

1940s–1970s
Energy and transportation network infrastructure established alongside growth in the Japanese economy



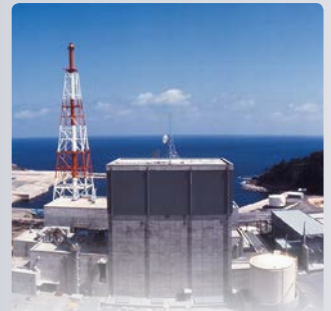
Five-horsepower induction motor



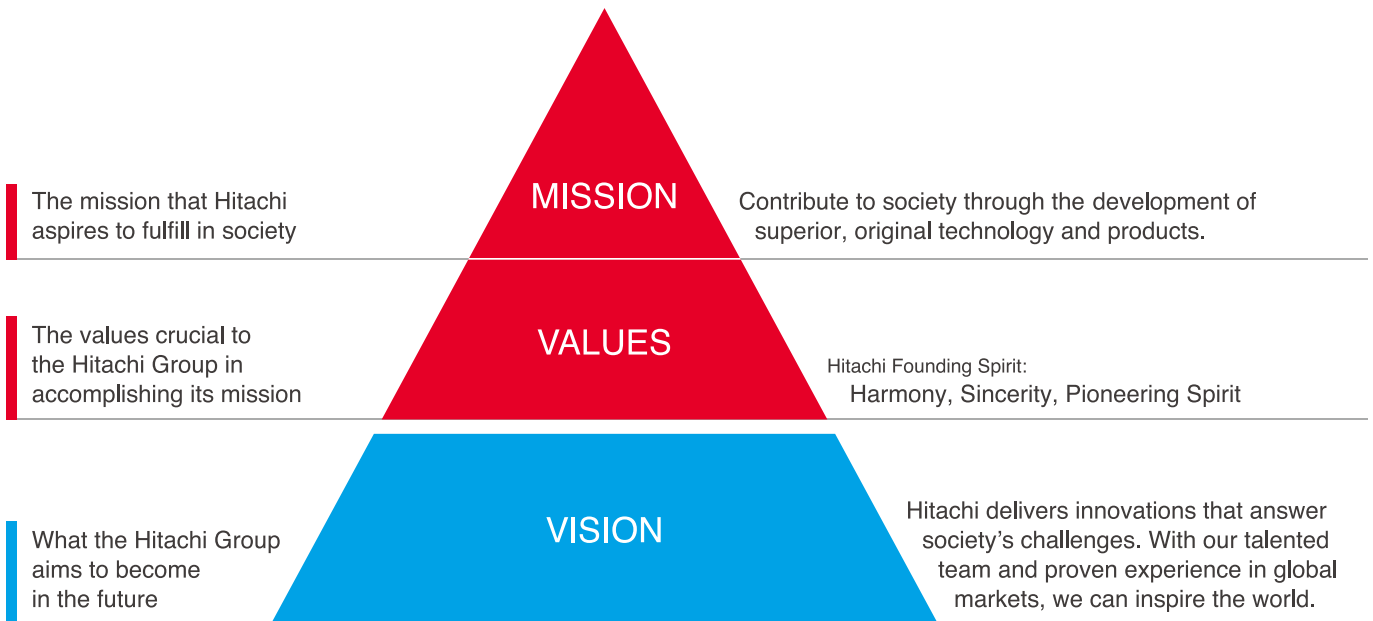
Urban infrastructure development



Production of trains for the Tokaido Shinkansen



Launch of operations at the Shimane Nuclear Power Station



1980

Globalization

1990

Spread of the Internet

2000

Entered an era of high-capacity and high-speed communication

2010

2020

Advancement of the Social Innovation Business

We will improve our three values to attain a sustainable society and resolve a variety of pertinent social issues.

Social Value

Environmental Value



Economic Value

1980s–2010s
Responded to demand for the advancement of Internet technologies

IT Information technology

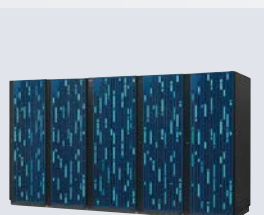
IoT

OT and Products


Infrastructure development and maintenance



Development and supply of large-scale computers



Development of virtual storage technology

 LUMADA

Digital solutions business

Hitachi's Basic Policy

for Responding to COVID-19

- We're placing top priority on the health and safety of our stakeholders, including customers, partners and the employees working at Hitachi Group worldwide, as well as their families.
- We're helping prevent the spread of the infection, both inside and outside of Hitachi Group, and minimize the effects of the virus on both our and our customers' businesses.
- We're fulfilling our responsibilities for accountability to stakeholders and will disclose necessary information as needed.

Moving forward, we will continue to promote management that conforms to this basic policy.

Examples Hitachi Initiative

Supply of Free Face Shields and Establishment of a Protective Mask Production Line

The Hitachi Group provided medical practice in Japan by producing protective face shields for use on medical sites and providing them to medical institutions free of charge. JR Automation, which operates our robot system integration business in North America, has constructed a medical-mask production lines for customers and is supporting the steady supply of face masks in North America, where demand has grown urgent.



Loans for Businesses and Research Support

Hitachi has decided to provide US\$ 1 million in loans to businesses affected by the spread of COVID-19 through Kiva Microfunds, a U.S.-based NPO. In addition, we have resolved to support infectious disease research with a ¥100 million donation made through the Hitachi Global Foundation and will collect donations from executive officers and corporate officers at Hitachi.



"Make a Difference!" Internal Idea Contest

In April 2020, using the platform provided by the "Make a Difference!" internal idea contest it has been conducting since 2015, the Hitachi Group, under the theme of "Challenge to COVID-19," solicited ideas from employees around the world regarding new work styles and how Hitachi technologies can be utilized to provide social support and contributions. From the 1,430 suggestions that we received, we are promoting the use of existing Hitachi technologies to support online education for children and other social contribution measures and bolstering systems and products that facilitate lifestyles that are quickly relying more heavily on

Supply of Touchless Solutions

We are contributing to the achievement of no-contact device operation by providing solutions that allow for touchless entry and exit management on elevators and in buildings using image analysis technology. In addition, we are providing automatic reception and payment machines for use in medical institutions that are equipped with aerial input technology that will replace the button and touch-panel interfaces used in conventional machines.



Standardization of Telecommuting Utilization

While prioritizing the health and well-being of our employees and their families, we are promoting utilization of telecommuting as a standard way of working for a wide range of jobs. At the same time, we are accelerating our shift to job-based human resource management to demonstrate our full potential and improve productivity.



remote, contactless and automated technologies. Also, in accordance with suggestions that we received, we are conducting initiatives aimed at providing and maintaining remote work tools that will support new work styles and eliminating procedures that require physical approval stamps or paperwork. In fact, the aforementioned business loans made through Kiva Microfunds were the first initiative that we implemented in response to suggestions received through this contest.

Hitachi's Current Management Policy

Implemented in Response to COVID-19

We respond to social changes caused by COVID-19 and make appropriate contributions through the Social Innovation Business.

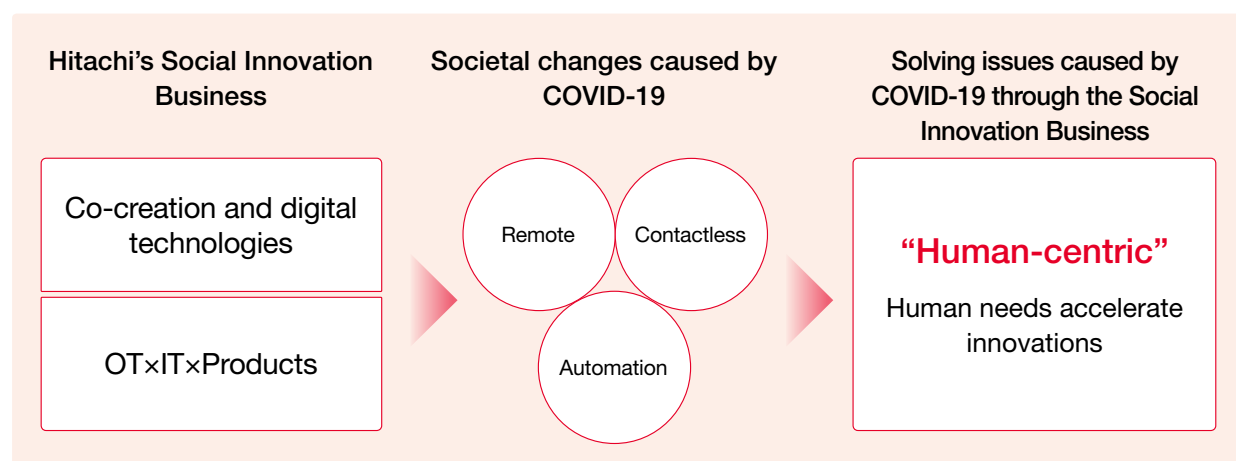
Priorities in Management

- Prioritize the health of employees, their families and customers
- Maintain social infrastructure and secure customer support
- Sufficient liquidity and financial soundness
- Respond based on the assumption that COVID-19 impacts continue for a while and affect moving forward

Priority Actions

- Strengthen digital technologies to support working from home and remote working
- Customer support, maintaining social infrastructure and supply chain (secure business continuity)
- Maintain business activity while securing safety
- Sustaining financial soundness and enhancing cost management

Acceleration of the Social Innovation Business



In Pursuit of Further Growth as the Societal Impact of COVID-19 Continues

Hitachi will further strengthen the management foundations and will continue to maintain rock-solid financial and business platforms as COVID-19 spreads. We will accelerate operations in our Social Innovation Business by completing post-merger

integration (PMI) of acquired businesses and maintaining our business portfolio reform efforts. Furthermore, we will continue to conduct growth investment based on clear assessments of priority.

Dynamic Hitachi Continues to Accelerate its Social Innovation Business Despite COVID-19



First, I would like to express my deepest sympathies to those suffering from COVID-19, as well as their families and other affected individuals. At the same time, please allow me to express my condolences to those whose family members have passed away due to this tragic disease. Furthermore, I would like to share my deep gratitude to everyone working to prevent the spread of COVID-19 and maintain social function.

Toshiaki Higashihara
President & CEO

A handwritten signature in black ink that reads "T. Higashihara". The signature is written in a cursive, flowing style.

Progress During the First Year of the 2021 Mid-term Management Plan

In fiscal 2019, Hitachi achieved an adjusted operating income ratio of 7.5% despite the impact of COVID-19. We achieved this result thanks to the success of profitability improvement measures implemented under our 2018 Mid-term Management Plan. Hitachi is immensely confident

and proud that, through continuous adaptation, we have successfully achieved a V-shaped recovery since fiscal 2008 and constructed a solid and unwavering earnings base in the face of COVID-19.

Co-Creation with Customers and Partners Around the World Enhances Digital Infrastructure

In last year's Integrated Report, Hitachi shared its aim to become a global leader in the Social Innovation Business through its 2021 Mid-term Management Plan. The term

"social innovation" was coined by Hitachi and refers to both the transformation of social and industrial infrastructure – such as railway, energy and water facilities – into more

sophisticated and intelligent social infrastructure through the use of digital technology and providing it to the public. As a leading company advancing the digital transformation (DX) of social infrastructure, Hitachi aims to help raise the quality of life (QoL) for people throughout the world and increase the value of its globally expanding client companies.

Digital technology is at the core of our Social Innovation Business; to enhance it, Hitachi is building an innovation

ecosystem with partners around the world and working to construct digital infrastructure at major global sites. In April 2019, we established “Kyōso-no-Mori,” a new research initiative for a generation of innovation within our Central Research Laboratory. Furthermore, in January 2020, we launched Hitachi Vantara, which will lead the development of digital solutions on a global scale.

Construction of a Globally Competitive Business Portfolio

To simultaneously increase social, environmental and economic value, our 2021 Mid-term Management Plan identifies five business sectors that underpin our Social Innovation Business (IT, Energy, Industry, Mobility and Smart Life). Under this plan, we are building a globally competitive business portfolio. We assess our global competitiveness based on whether our businesses can secure a leading market position. One major move we have made to secure a larger market share in the automotive systems industry specifically is the merger between Hitachi Automotive Systems, Ltd., and Keihin Corporation, Showa Corporation and Nissin Kogyo Co., Ltd., which are affiliates of Honda Motor Co., Ltd. The “electrification” of vehicles will be key as the automotive systems industry responds to tightening global environmental regulations. This merger will enable us to secure a top share of the global market for core parts used in electrification technology while also helping generate environmental value.

Overall, in fiscal 2019, we strengthened our North American business through measures such as our acquisition of JR Automation, a leading company in the U.S. robotic systems integration (SI) business. We made progress toward our goal of constructing a globally competitive business portfolio through tactics such as our decision to transfer our diagnostic imaging-related businesses to FUJIFILM Corporation. In December 2019, we reached a settlement with Mitsubishi Heavy Industries, Ltd., regarding a South African boiler construction project that was being handled by Mitsubishi Power, Ltd. (formerly Mitsubishi Hitachi Power Systems, Ltd.). By reaching this settlement, we resolved a long-standing management issue and took a significant step forward to accelerate the proactive management strategies previously mentioned.

Realigning Group Companies

We revised the capital policies of our group companies based on considerations for how to reorganize listed subsidiaries to compete on a global scale. Our general philosophy was that the subsidiaries capable of competing on a global scale should be retained within the Group, whereas those that were not should pursue their own growth. After conducting reviews of our subsidiary companies, we transferred Hitachi Chemical Co., Ltd., to Showa Denko K.K. in April 2020. Meanwhile, we converted Hitachi High-Tech Corporation into a wholly owned

subsidiary in May 2020, and I believe that Hitachi High-Tech's measurement and analysis technologies are the best in the world. We anticipate that our acquisition of Hitachi High-Tech will enable us to identify further synergies among our five business sectors; for example, promoting highly competitive clinical chemistry and automatic immunodiagnostic analyzers through our partnership with Roche Diagnostics and retaining data related to semiconductor manufacturing.

Thoughts on COVID-19, Employees and Future Management

Deep Gratitude Toward Employees

The first action Hitachi took when COVID-19 began in the world, was to establish an on-site emergency headquarters on January 27, 2020, to protect employees. We also donated computed tomography equipment to speed up medical examinations, with the aim of containing the virus's spread in China. In February, we established a system in Japan that prioritizes the health of employees and their families, our customers and our business partners, primarily by encouraging a work from home (remote work) model whenever possible. I am concerned about the

safety of employees for whom shifting to remote work is difficult, including staff working on the front lines at medical institutions, employees responsible for on-site system support and maintenance, and personnel who commute to workplaces to maintain administrative functions, such as expense processing and payment of salaries and other obligations. I am deeply grateful for their ongoing daily commitment to safety measures as they bravely continue to perform their work.

Our Ability to Respond to Change Will Strengthen Our Company

Now is the Time to Implement Cash-Positive Management and Adjust Our Policies to Prepare for a “New Normal”

COVID-19 has brought to light a number of large-scale social issues, including income inequality and hidden discrimination, as well as the challenges facing our own Company. In terms of corporate business administration, companies that maintain a measurable cash surplus during times of crisis have fared better than those that, in accordance with previous philosophies, are content with a minimal cash supply. In the short term, it is essential that we establish a solid cash management system that will not falter under any circumstances. To this end, Hitachi has secured liquidity of ¥1.3 trillion. My commitment to cash-positive management is not simply a product of the COVID-19 pandemic; we will continue to strengthen our cash management strategy to enable swift responses to a wide variety of future changes.

COVID-19 has caused massive changes in people's lifestyles. I do not believe that the world ever completely returns to “normal” following a global event of this magnitude; however, this notion is not entirely negative. Changes are sometimes difficult but can also be viewed as opportunities, enabling us to accomplish things that were not previously possible.

Due to the spread of COVID-19, public focus has shifted to “remote,” “contactless” and “automation” – in other words, enabling processes to be conducted without human

involvement or intervention. These popular technologies can help resolve issues brought about by COVID-19. While promoting its Social Innovation Business, Hitachi has clarified issues and established procedures for finding their solutions. I believe that applying these procedures will enable people whose day-to-day routines have been impacted by COVID-19 to resume active lifestyles through new and unconventional methods. I am also convinced that COVID-19 will be a driving force for acceleration in the Social Innovation Business.

Hitachi has always been able to adapt to surrounding circumstances, but we will embrace agility and change even further in response to the global shifts caused by COVID-19. We will implement a business structure that is based on the “New Normal” conditions resulting from the pandemic. In addition, we will restructure the way our employees work while simultaneously striving to improve their productivity. To achieve this goal, we will implement a remote work model as well as shift to job-based human resource management. Hitachi's global employee base is growing, requiring the Company to clarify individual job descriptions. We currently plan to complete our shift to job-based human resource management by April 2021.

COVID-19 Has Highlighted a High Level of Employee Awareness Regarding Contributions to Society

Job Satisfaction Reforms Will Result in Major Changes at Hitachi

Incidentally, I do not believe that these changes and opportunities will come from other people; rather, I believe that positive, large-scale results will only be achieved once we have proactively seized upon relevant opportunities. In times of crises, such as current COVID-19, I consider it important to frequently converse with employees, and I have been sending messages to employees nearly every week since March. Employees have proactively shared their thoughts with me in response. Many of these replies contained positive messages, such as, “I feel like this is the time to make a positive contribution to the world” and, “I anticipate that this pandemic will lead to a variety of new ideas.” Our “Challenge to COVID-19” competition, which leverages submissions from our “Make a Difference!” internal idea contest, has generated a variety of splendid ideas from around the world. We have implemented those ideas that were immediately applicable and are sequentially reviewing other visionary proposals, with the ultimate goal of adopting them for practical use. Against the backdrop of COVID-19, many employees share my perspective that the time is ripe to solve social issues through innovation and, by doing so, contribute to society at large. Moreover, ideas from employees who are conscious of their connection to society and the importance of giving back are functioning as a driving force for Hitachi as a whole. Seeing this trend unfold has been emotionally moving for me.

For Hitachi to become a true global leader, each employee must be aware of his or her personal connection to society, as well as the importance of social and environmental value. In addition, our employees must all become capable of perceiving social and environmental issues as personally relevant. More relevant in this regard than “work-style reforms” are “job satisfaction reforms.” To relay a personal story: in 1995, as a member of Hitachi (since 1977), I became involved with work connected to the Autonomous decentralized Transport Operation control System (ATOS), a transport management system adopted by East Japan Railway Company for the Tokyo metropolitan



area. At the time, transportation management for many rail lines was still conducted by directors and station staff, who manually operated signal lamps and communicated using telephones. The main goal behind the adoption of the ATOS was to improve passenger service by increasing the efficiency of transportation management operations and providing train operating conditions in real time. For several years, I was responsible for installation work between the Kofu and Tokyo stations on the Chuo Line, and we encountered a series of problems at the beginning of the system’s launch. At the time, when train delays and other related problems on the Chuo Line were announced on television, my family would apparently conclude that I would not be returning home that day. Now, the ATOS facilitates smooth travel by supporting safe and stable train operation on a large-scale rail network that transports about 14 million passengers per day. When working on this project, I drew a tremendous amount of motivation and job satisfaction from the fact that both my family and I understood how my efforts contributed to the betterment of society. Economic value is extremely important in terms of management. However, employees might feel an overwhelming amount of pressure if management overemphasizes a top-down approach when pursuing income targets. Our key to resolving this issue is to expand businesses that promote social and economic value on a global scale, while integrating and achieving balance between bottom-up approaches, such as “Make a Difference!,” and top-down approaches. I believe that these efforts will make the Hitachi Group even stronger.

The COVID-19 Pandemic Will Not Alter Our Investment Plans

Accelerate the Social Innovation Business While Responding to Issues

Some aspects of management have remained unchanged even during COVID-19, including our basic capital allocation policy. In the 2021 Mid-term Management Plan, we projected total funds of ¥4 trillion–¥4.5 trillion and have made no changes to our plan to use ¥2 trillion–¥2.5 trillion of this total for growth investment and the remaining ¥2 trillion for shareholder return and capital expenditure. We have already decided that ¥1.8 trillion of growth investment will be allocated to the acquisition of ABB's power grid business and other projects. Meanwhile, we plan to use the remaining ¥700 billion primarily to strengthen our front-line sales team in the IT sector, predominantly through M&A. In terms of shareholder returns, we have consistently raised dividends since I assumed my position as CEO in 2016. Moving forward, we will look into conducting share buybacks while maintaining a stable dividend payout ratio.

The COVID-19 pandemic has brought many issues into the spotlight. Operational risks associated with Hitachi's factories

have become particularly apparent. We've modified our supply chain in response to Great East Japan Earthquake and tragic flooding in Thailand in 2011 and have established a backup system for our production lines, as a significant number of our production processes are conducted across international borders. There is still more to be done, however. We must focus on optimizing the Hitachi Group as a whole as we build a supply chain system capable of flexible response. It's also important to stay abreast of evolving geopolitical risks, such as the impact of Brexit and trade friction between the United States and China.

As living environments change rapidly due to COVID-19, Hitachi is encountering an increasing number of opportunities to support its goal of creating social, environmental and economic value. Moving forward, COVID-19 will function as a major trigger, providing us with the impetus to further accelerate our Social Innovation Business.

Development of the Social Innovation Business

Package a Multitude of Solutions Generated Through Hitachi's IT, OT and Products and Roll Them Out Globally

Since 2016, Hitachi has utilized Lumada as a digital platform for providing value to its customers and has established frameworks for packaging individual solutions. In total, the Lumada platform has accumulated more than 1,000 customer cases. Our collaborative creation efforts in the U.S. to improve the operating efficiency of trucks are an illustrative example of our use of Lumada. These efforts have resulted in a mechanism that utilizes Lumada to collect data on automotive parts and other important factors using sensors built into trucks, detect signs of failure and recommend maintenance before breakdowns occur. I believe that only Hitachi, with its practical knowledge of devices and equipment, can create and leverage solutions like these. Hitachi has been manufacturing for 110 years and has

accumulated expertise on how customers use products, namely concerning operational technology (OT). Since 1960, we have supplemented this expertise with knowledge and skills related to IT used in banking, industry and other fields. Hitachi's status as a singular group possessing IT, OT and products expertise has afforded it a strength that other companies do not have and has led to solutions for a variety of issues. To share an example from our railways systems business: we delivered train cars and an unmanned operation control system to Denmark's Copenhagen Metro, but also endeavored to make the system more convenient by installing sensors on station platforms and field testing a solution that automatically adjusts train schedules based on the number of people waiting on platforms.

Hitachi provides solutions in five sectors: IT, Energy, Industry, Mobility and Smart Life. I believe that we can contribute to the construction of smart cities by combining the solutions we provide within these sectors. Let us examine an amusement park as a smaller-scale “smart city,” for example. We would provide stable energy and mobility services that are essential for the park’s operation. We would collect data using sensors built into the park’s attractions, detect signs of failure and perform preventive

maintenance in addition to supporting stable water supply and reuse. Furthermore, we would conduct video analyses aimed at gauging the number of park visitors on line and ensuring social distancing. One of Hitachi’s major goals is to platformize solutions such as these so that it can provide customer value globally in each of the five sectors mentioned earlier.

The Importance of Human-centric Innovation

Earlier, I mentioned that new needs around remote, contactless and automated solutions have arisen due to the COVID-19 pandemic. Moving forward, we will likely see growth in digital technology that provides solutions for the restraints and inconveniences placed on society due to the pandemic. Important in this regard is the creation of “human-centric” societies. Smartphones, the Internet and other modern technologies have dramatically changed our lives, and the belief that AI will play a role in innovation moving forward has become common. However, COVID-19 has taught us that humans, not technology, are at the center of these changes. As humans, we determine and shape our lifestyles based on the circumstances of

our specific environments; AI should never be able to replace our ability to make decisions about our lives. AI is programming at its core, so providing ethical training for engineers who create algorithms and other problem-solving operations, as well as making adjustments from a legal perspective, will be important tasks moving forward.

We must not forget the importance of a “human-centric” approach when considering innovation generated through AI. This approach supports the core policies of the Social Innovation Business, through which Hitachi is promoting adaptation to the “New Normal” brought about by COVID-19.

Human Resource Development and Revolutionary Changes to Mindsets

The Hitachi Group is Driven by its Founding Venture Spirit and an Empathetic Mindset

The ratio of Hitachi Group’s domestic and overseas employees has shifted due to strategic decisions made to establish a more global business foundation, such as the acquisition of ABB’s power grid business. Traditionally, the value of a company has been determined primarily based on quantitative factors, such as ROE. However, as we endeavor to fully establish our Social Innovation Business, we have come to believe in the relevance of qualitative value; in particular, we regard the value of human resource as extremely important.

Once our employees, who come from diverse backgrounds, have shared their opinions and held thorough discussions on a matter, they unite toward a common set of objectives. Because we find ourselves in uncertain times, I think it is important that we return to Hitachi’s mission and values in pursuit of achieving a unified “One Hitachi.” To truly achieve the “One Hitachi” vision, we must sympathize with the venture-company spirit through which founder Namihei Odaira and several engineers created Hitachi in 1910 and strive to achieve

unity based on the sharing and practical implementation of this founding spirit.

Hitachi currently has about 300,000 employees. I believe that the value of our human resource will greatly increase if they are able to view social issues and the interests of others, including our customers, as personal interests. People often pursue endeavors that are in their own self-interest; however, it is critical to consider the interests and needs of others as well. When our employees balance their own interests with a desire to help others, we elevate to demonstrating empathy.

Opportunities for Hitachi to Continue to Grow

Social and Environmental Value Through the Social Innovation Business

As Hitachi strives to simultaneously increase social, environmental and economic value, I feel as if these issues have grown in importance to our investors. In recent years, climate change in particular has become an urgent issue for humanity.

With the aim of increasing environmental value, Hitachi has declared that it will achieve carbon-neutral production by fiscal 2030. In January 2020, our 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.” We will make our CO₂ reduction initiatives, particularly those applied during the manufacturing stage, more visible to customers, which will lead to subsequent environmental solutions. As soon as possible, I would like to transform Hitachi into an environmental leader in our industry.

Large-scale natural disasters are occurring more frequently around the world due primarily to climate change. Japan is no exception; this year, it is facing many cases of unexpected and abnormal weather. Circumstances like these underscore the urgent need for maintenance on aging social infrastructure. In response to the increased frequency of natural disasters, we will be required to update and tighten safety standards for infrastructure and equipment. The COVID-19 pandemic has also revealed that, overall,

To put it another way, empathy enables one to understand the feelings of others; this fosters a win-win mindset. I believe that this is precisely the frame of mind that the front-line sales team promoting our Social Innovation Business should have. Sharing happiness does not cause it to dwindle, but rather to grow. As we move forward, we will focus on developing human capital who are capable of perceiving social issues as personally relevant, passionately involving others and developing shared mindsets focused on achieving common targets.

Japan is far behind the rest of the world in terms of digitizing its public infrastructure. Along with other entities active in industrial circles, we are addressing this problem by discussing data architecture with the government. I believe that Hitachi, which is promoting the digital transformation of social infrastructure, is uniquely equipped to provide many solutions to these issues.

Social infrastructure, including power grids and railways, is also aging in North America and requires thorough inspection. In Europe, infrastructure must be assessed in accordance with environmental policies.

All of Hitachi’s global employees have dedicated themselves to the advancement of the Social Innovation Business by considering social issues personally relevant. Moving forward, Hitachi will continue to adapt to surrounding circumstances as it implements efforts around the world aimed at improving people’s QoL and raising value for client companies. I humbly ask for your continued support as we move forward.

September 2020

Toshiaki Higashihara
President & CEO



How We Will Grow

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The Value Creation Process

Comprehension of Issues and Trends

Social issues

- Climate change
- Issues concerning energy, water and other natural resources
- Population growth and urbanization
- Aging infrastructure
- Cybersecurity

Global trends

- Accelerating digitalization
- Appearance of geopolitical risks due to the globalization of politics and the economy
- Paradigm shifts (shifting from possession to sharing, from objects to things and from closed to open strategies)

Customer issues

- Safety and security
- Reduction of energy consumption
- Response to diversifying consumer needs
- Improvement of productivity

Input

(As of March 31, 2020)



Human capital

- Number of employees: **301,056 people** (consolidated)
- Digital technology training participants: **over 19,000 people** (cumulative)
- Global management program participants: **4,063 people**



Intellectual capital

- R&D investment: **¥293.7 billion**
- R&D centers (including intellectual property): **5 regions** (North America, Europe, China, APAC and Japan)



Natural capital

- Total energy input (crude oil equivalent): **80 PJ (2.07 GL)**
- Raw material input: **3,776 kt**
- Total water input: **36.41 million m³**



Financial capital

- Stockholders' equity: **¥3,159.9 billion**
- Interest-bearing debt: **¥1,485.0 billion**



Manufactured capital

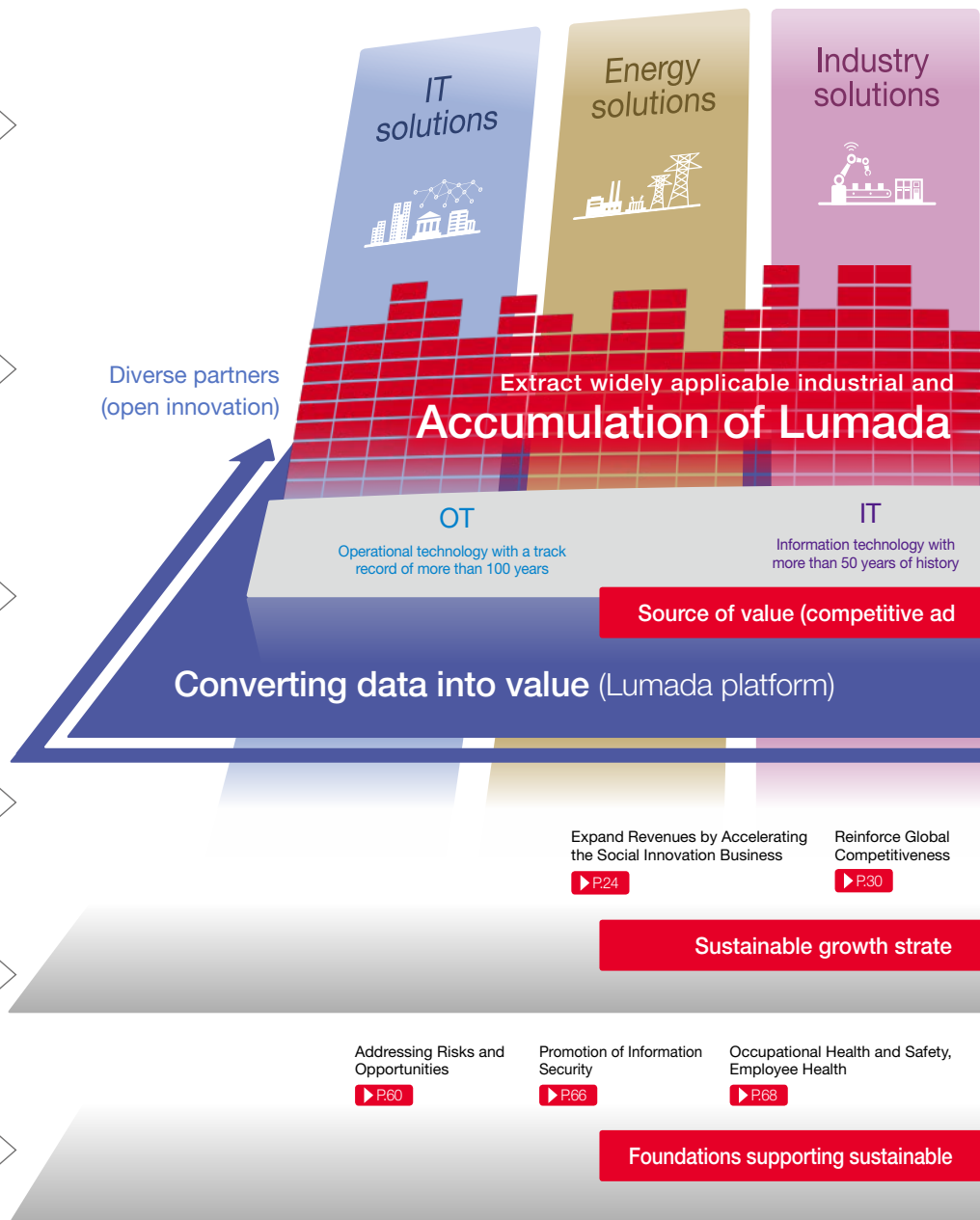
- Manufacturing bases: **406**
- Capital expenditure: **¥399.6 billion**



Social and relationship capital

- Total CV investment (plan): **\$150 million**

Comprehend social issues and global trends while identifying customer issues through collaborative creation with customers



Vision: Improving the Quality of People's Lives, Raising Customers' Corporate Value and Achieving a Sustainable Society

Social value



Healthy lives and a safe, secure, comfortable and efficient society

Environmental value



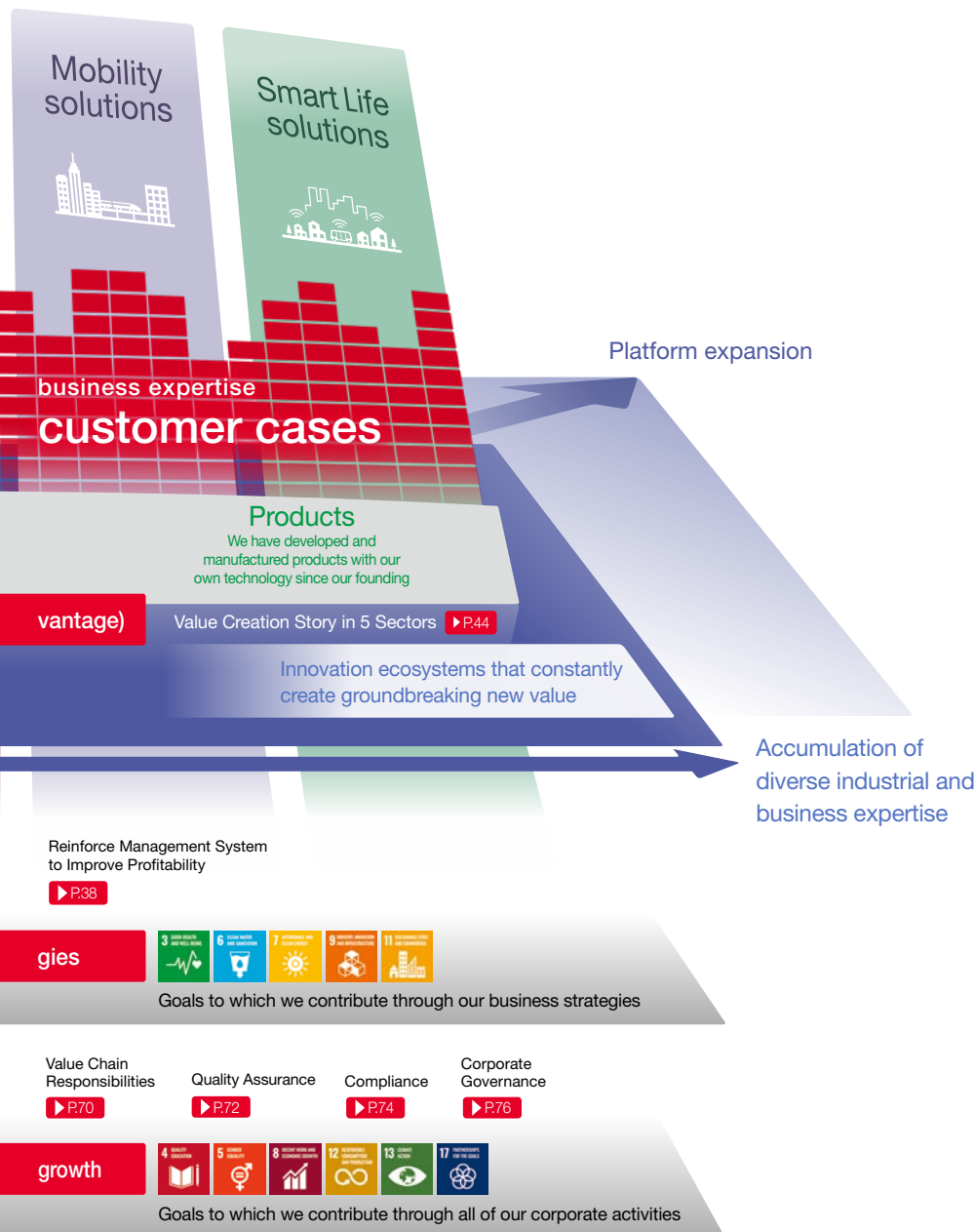
High-quality and environmentally conscious manufacturing
Reduction of environmental burden through the value chain

Economic value



Redistribution of added economic value to stakeholders

Simultaneously improve three types of customer value through the digital technologies and five solutions



Output/ Outcomes

(As of March 31, 2020)



Financial results

- ROIC: **9.4%**
- Operating cash flows: **¥560.9 billion**
- Adjusted operating income ratio: **7.5%**



Diversification and globalization of human resources

- Overseas employee ratio: **46%**
- Female manager ratio: **8.9%**
- Ratio of non-Japanese executives*: **8.6%**
- Ratio of female executives*: **7.1%**
- Digital talent: **30,000 people**

* Executive officers, Corporate officers, and fellows



Progress of strengthening competitiveness



• Revenues of Lumada business: **¥1,037.0 billion**



• Lumada overseas revenue ratio: **approximately 40%**



• Lumada customer cases: **over 1,000**

• Lumada solution core: **over 85**

• Overseas revenue ratio: **48%**

• Number of published of patent applications: **approximately 12,000**



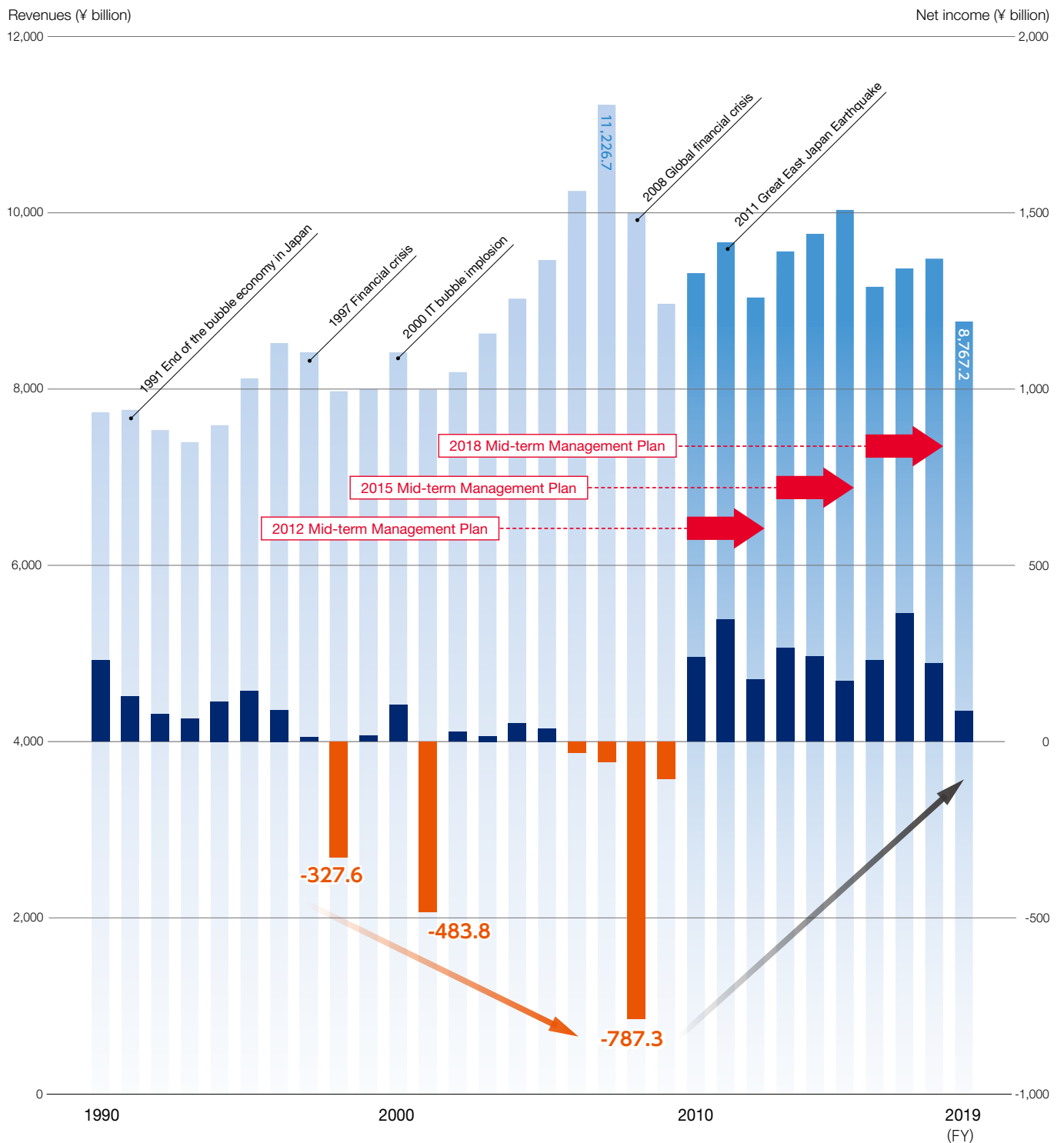
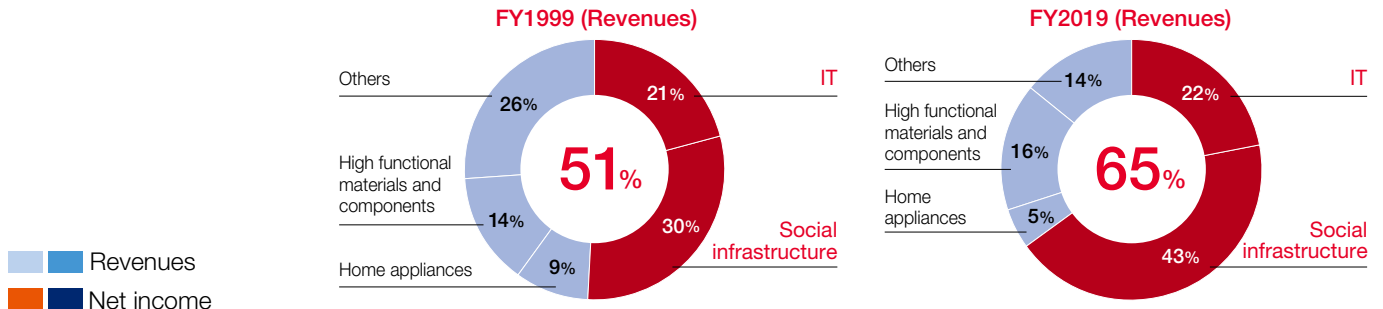
Efficient use of energy and resources

Long-term environmental targets (compared with fiscal 2010)

- Reduction rate in CO₂ emissions per unit (products and services): **19%**
- Reduction rate in total CO₂ emissions at business sites (factories and offices): **17%**
- Reduction rate in water use per unit: **26%**
- Reduction rate in waste and valuables generation per unit: **14%**

Looking Back on Past Mid-term Management Plans

Changes in Performance and Business Portfolio



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, Hitachi Smart Transformation Project, in line with the 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 if 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, with the operating income ratio at 6%, signaling stability in the 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 grid 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. 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

Strategy and Resource Allocation

2021 Mid-term Management Plan (FY2019-2021)

Aiming to Become a Global Leader in the Social Innovation Business Shifting to a “Growth Mode”

Under our 2021 Mid-term Management Plan, we will conduct management focused on raising social, environmental and economic value for our customers as we aim to become a global leader in the Social Innovation Business. The Strategies we are implementing to simultaneously raise these three types of value are “Expand Revenues by Accelerating the Social Innovation Business,” “Reinforce Global Competitiveness,” and “Reinforce Management System to Improve Profitability.” Through this approach, we will endeavor to improve people's quality of life, raise value for both our customers and society at large, and achieve a sustainable society.

Social Value

- Accelerate customers' innovation with advanced IT solutions
- Provide stable, high-efficiency energy and its management systems
- Increase the efficiency of customers' production and processing systems, and provide the supply of safe, secure city water, and sewage water systems
- Design smart cities to be more convenient and environmentally-friendly
- Provide with safe, comfortable transportation systems and services

Environmental Value

- Reduce CO₂ emissions through the value chain
- Enhance efficiency in the use of water
- Enhance efficiency in the use of resources

Economic Value

- Reallocate economic value added to stakeholders
- Improve profits at customer companies
- Enhance employee compensation
- Share earnings with partners, others

Performance targets (consolidated)

	FY2019 results	FY2020 forecast ¹	FY2021 targets ²
Revenues	¥8,767.2 billion	¥7,880.0 billion	CAGR over 3 %
Adjusted operating income / ratio	¥661.8 billion / 7.5%	¥372.0 billion / 4.7%	Over 10 %
EBIT / EBIT ratio	¥183.6 billion / 2.1%	¥614.0 billion / 7.8%	—
Operating cash flows	¥560.9 billion	¥500.0 billion	Over ¥2.5 trillion (3-year cumulative)
ROIC	9.4 %	5.7 %	Over 10 %
Overseas revenue ratio	48 %	53 %	Over 60 %

Performance targets by sector

Sector	Item	FY2019 results	FY2020 forecast ¹	FY2021 targets ³
IT	Revenues	¥2,099.4 billion	¥1,920.0 billion	¥2,600.0 billion
	Adjusted operating income / ratio	¥249.4 billion / 11.9%	¥192.0 billion / 10.0%	¥338.0 billion / 13.0%
	ROIC	18.4 %	12.5 %	15.0 %
Energy	Revenues	¥399.2 billion	¥1,020.0 billion	Over ¥1,700.0 billion
	Adjusted operating income / ratio	¥13.5 billion / 3.4%	(¥8.0 billion) / (0.8%)	Over ¥170.0 billion / Over 10%
	ROIC	6.4 %	14.5 %	7.5 %
Industry	Revenues	¥840.7 billion	¥770.0 billion	¥1,000.0 billion
	Adjusted operating income / ratio	¥54.7 billion / 6.5%	¥32.0 billion / 4.2%	¥91.0 billion / 9.1%
	ROIC	8.6 %	3.1 %	10.8 %
Mobility	Revenues	¥1,144.4 billion	¥1,090.0 billion	¥1,270.0 billion
	Adjusted operating income / ratio	¥92.3 billion / 8.1%	¥68.0 billion / 6.2%	¥124.8 billion / 9.8%
	ROIC	11.3 %	5.2 %	13.1 %
Smart Life	Revenues	¥2,167.6 billion	¥1,900.0 billion	Over ¥2,100.0 billion
	Adjusted operating income / ratio	¥118.9 billion / 5.5%	¥100.0 billion / 5.3%	Over ¥210.0 billion / Over 10%
	ROIC	8.0 %	6.1 %	Over 15 %

¹ Announced on July 30, 2020 (ROIC as announced on May 29, 2020). ² Announced in May 2019. ³ Announced on the “Hitachi IR Day 2019” in June 2019

Inputs for Promoting Strategy



Strategy 1 Expand Revenues by Accelerating the Social Innovation Business

■ Grow Highly Profitable Businesses with Digital Technology

- Expansion of the Lumada business
- Accumulation and utilization of customer cases, creation of solution cores
- Developing digital talents to lead digital transformation

■ Expansion of Global Business

- Strengthen front line, use footprint

■ Creation of Social and Environmental Value

- Initiatives to realize a sustainable society through social innovation
- Initiatives to realize a decarbonized society and a resource efficient society

KPI	FY2019 results	Progress
Revenues of Lumada business	¥1,037.0 billion	<ul style="list-style-type: none"> • Revenues of Lumada business, which drives the Social Innovation Business, were ¥1,037.0 billion in fiscal 2019, with the adjusted operating income ratio exceeding 10%. We are steadily expanding the accumulation of customer cases and solution cores, as well as expanding digital talents, to quickly deliver value that meets customer needs. We intend to achieve revenues of ¥1,600.0 billion and profit improvement in fiscal 2021. We aim to expand at a 10-20% annual growth rate.
Lumada core business	¥593.0 billion	
Lumada related business	¥444.0 billion	
Customer cases	Over 1,000	
Solution cores	Over 85	
Digital talent	30,000	
Lumada overseas revenue ratio	Approx. 40%	<ul style="list-style-type: none"> • Regarding the 20% reduction in CO₂ emissions per unit from products and services, the 26% reduction in water use per unit and the 12% reduction in waste and valuables generation per unit targeted under the Environmental Action Plan for 2021, we are progressing according to plans and already achieved some of the targets in fiscal 2019. We will make improvements ahead of schedule and work to achieve our long-term environmental targets with an eye on 2050.
Reduction rate in CO ₂ emissions per unit (products and services)	19 %	
Reduction rate in total CO ₂ emissions at business sites (factories and offices) (compared with FY2010)	17 %	
Reduction rate in water use per unit (compared with FY2010)	26 %	
Reduction rate in waste and valuables generation per unit (compared with FY2010)	14 %	

Strategy 2 Reinforce Global Competitiveness

■ Creation of Value at the Front Lines in Each Region

- Promotion of co-creation
- Sharing vision to resolve future societal challenges

■ Leveraging Strength in Technology to Create Value

- Co-creation with customers in OT × IT × Products

■ Become a Technology Leader

- Global No. 1 in technological platforms
- Strengthen Lumada core technologies
- Initiatives to enhance product advantages
- Creation of disruptive technologies for the future

■ Initiatives in Intellectual Properties (IPs)

■ Securing and Training Diverse Global Human Resources

- Diversity & Inclusion
- Global human resource management

KPI	FY2019 results	Progress
R&D expenses to sales revenues ratio	3.4 %	<ul style="list-style-type: none"> • To realize sustainable value creation, Hitachi focuses on the construction of Lumada CPS, AI, biometrics and security-related technologies such as trust, 5G, robotics and electrification, and is investing in R&D (to sales revenue ratio: maintained around 3%). We are also strengthening initiatives such as front-end collaborations to create value with customers and the formulation of a vision for future social issues.
Number of female managers	700	
Ratio of non-Japanese executives*	8.6 %	<ul style="list-style-type: none"> • We are in the process of transforming human resources management to innovate and create new value in the global and digital age. As one indicator of human resource diversity, Hitachi has set targets of 10% for female and non-Japanese executives and 800 female managers by fiscal 2020, both of which are progressing on track. We are also focusing efforts on human resources education, such as global management training, aimed at developing management personnel.
Ratio of female executives	7.1 %	
Global management program participants	4,063	

* Executive officers, Corporate officers, and fellows

Strategy 3 Reinforce Management System to Improve Profitability

■ Accelerate ROIC Management

- Promoting ROIC management with a higher awareness of capital costs

■ Financial and Capital Strategy

- Basic approach to funding procurement, capital costs, and shareholder returns
- Strengthening cash management

■ Capital Allocation for Improving Profitability

- Investments in priority growth businesses
- Restructuring of the business portfolio

KPI	FY2019 results	Progress
ROIC	9.4 %	<ul style="list-style-type: none"> • 2021 Mid-term Management Plan targets an adjusted operating income ratio over 10%, ROIC over 10% and operating cash flows above ¥2.5 trillion (three-year cumulative), as well as ¥2.0-2.5 trillion in growth investments aimed at achieving these targets. Regarding cash management, to respond to the social and economic changes due to COVID-19, we will ensure liquidity on hand while strengthening our cash generation capabilities and strengthening management by carefully selecting investments. With the introduction of ROIC, we are not only improving profitability but also accelerating efforts such as optimizing and streamlining funding and investments, and reducing assets throughout the Hitachi Group. By improving corporate value over the medium to long term, we will also enhance shareholder returns, including stable growth in dividends.
Adjusted operating income ratio	7.5 %	
Operating cash flows	¥560.9 billion	
Growth Investment (planned)	Approx. ¥1,800 billion	

Strategy 1

Expand Revenues by Accelerating the Social Innovation Business

Leveraging its accumulated strengths in OT × IT × Products, the Hitachi Group contributes to the resolution of societal issues and improves customer value by globally deploying digital solutions through the Lumada business.

Grow Highly Profitable Businesses with Digital Technology

Expansion of the Lumada Business

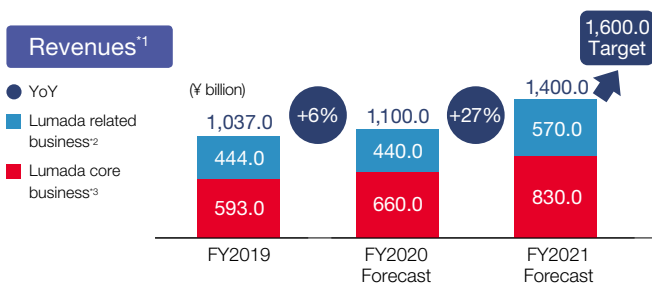
As society and business continue to generate more data, Hitachi's Lumada acts as an engine that creates new value from these data and accelerates innovation. Revenues in the Lumada business, which commenced in 2016, were ¥1,037.0 billion in fiscal 2019, with an adjusted operating income margin above 10%. Under our 2021 Mid-term Management Plan, we are advancing measures to expand the business with the aim to improve profitability further and achieve ¥1,600.0 billion in revenues.

In the Lumada business, Hitachi does not offer individual products but digital solutions that increase social, environmental and economic value while solving issues at customers by leveraging the know-how in OT (operational technology), IT (e.g., AI and analytics technology) and Products (e.g., industrial equipment, rolling stock, elevators) it has accumulated across the Hitachi Group's broad business domains. The Company has provided numerous digital solutions while building up a library of customer cases through collaboration with customers in various fields. In identifying and analyzing business issues with customers, it is possible to reapply previous digital solutions and customer cases from similar issues, thereby minimizing the need for customization as much as possible for the more rapid deployment of solutions to a broader range of

customer needs. That is an advantage of the digital solutions in the Lumada business.

The Lumada business comprises the Lumada core business and the Lumada related business. The Lumada core business is a pure digital solutions business that solves management and business issues by converting customer data into value using AI and other digital technologies. In the Lumada core business, we intend to expand Lumada solutions by utilizing accumulated customer cases and solution cores, based on the "Scale of Digital" concept.

The Lumada related business 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, data are collected from rolling stock (the product) on the OT side, and these data are analyzed and deployed on the IT side. This makes it possible to reduce breakdowns and increase capacity utilization by efficiently maintaining rolling stock with predictive analysis. In the Lumada related business, Hitachi is promoting co-creation with customers while delving deeper on the combination of OT × IT × Products



LUMADA		¥1,037.0 billion (FY2019)				
Business area		IT	Energy	Industry	Mobility	Smart Life
IT	Lumada core business (¥593.0 billion)					
OT Products		Lumada related business (¥444.0 billion)				

¹ Does not include impact from the performance of Hitachi ABB Power Grids Ltd.
² Lumada related business: Advanced products and systems businesses, mainly OT and products, that are expected to generate synergies with the Lumada core business
³ Lumada core business: Digital Solutions business (service business that converts customers data into valuable insight through AI and analytics, and improves management indicators or offers problem solutions)

Lumada Business Promotion Scenario

- Grow both Scale of Digital, which scales Lumada solutions, and Scale by Digital, which scales OT/IT system products



<p>Promote overall Hitachi business at speed of digital business (Scale of Digital)</p> <ul style="list-style-type: none"> ■ Build ecosystems using the Lumada Solution Hub ■ Utilize co-creation facilities to accelerate customer co-creation activities ■ Strengthen links between business units, develop solutions and promote the utilization of customer cases 	<p>Apply Lumada to OT business units (Scale by Digital)</p> <p>Phase 1: High profitability via digitization of manufacturing, maintenance, supplies, etc.</p> <p>Phase 2: Service creation for stabilization</p> <p>Phase 3: Create ecosystems, expand markets with partners</p>
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based on the “Scale by Digital” concept. The Company is pivoting toward high-value-added, high-profit operations in the OT and Product businesses by leveraging digital solutions to develop new solutions and strengthen existing solutions. In this way, the growth potential of the Lumada core business and the Lumada related business are intertwined, and by feeding off each other, the Lumada business will continue to grow. In the future, we will continue to contribute to solving a broader range of social issues and customer issues by co-creation with our partners and expanding markets through the Lumada ecosystem.

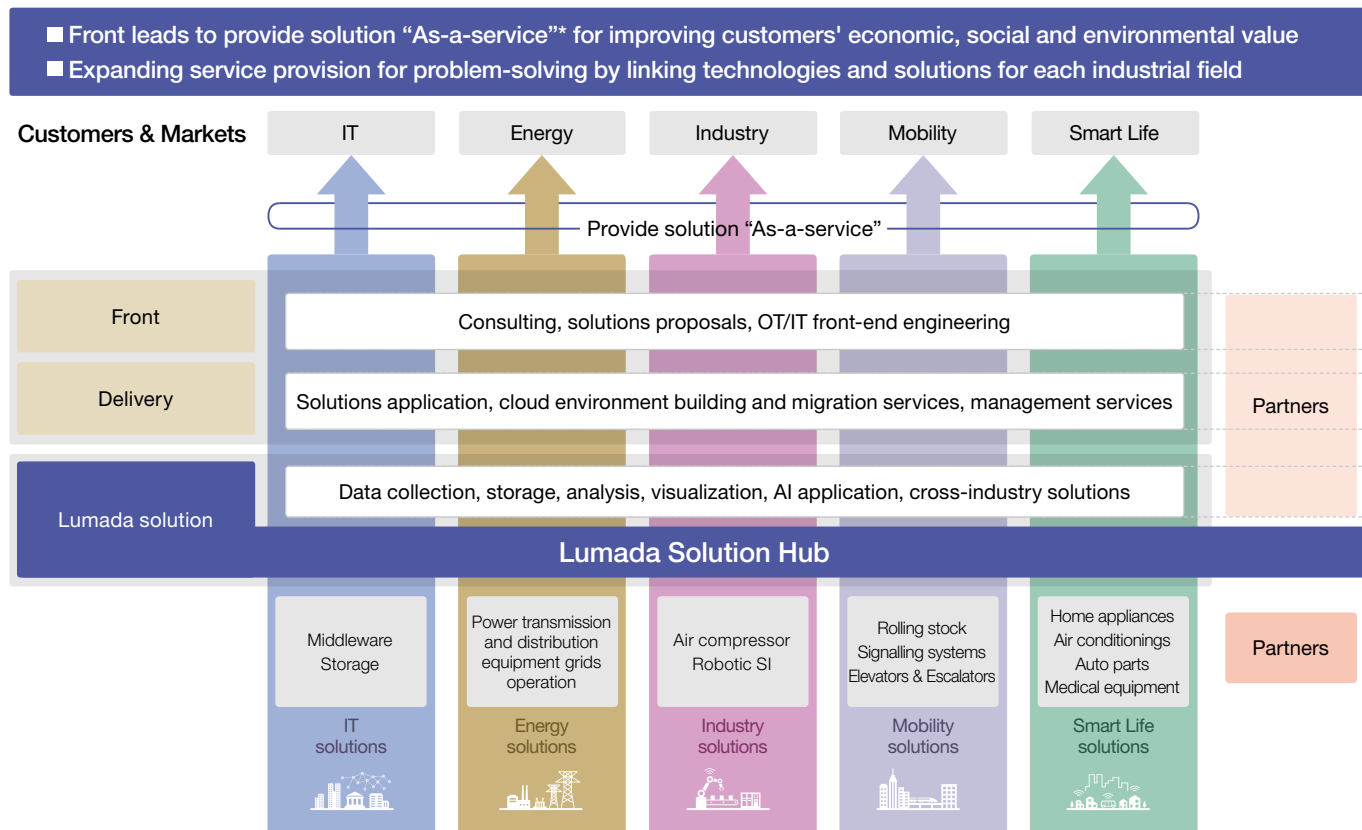
Accumulation and Utilization of Customer Cases, Creation of Solution Cores

At Hitachi, we have accumulated Lumada customer cases with our extensive know-how and insight in various sectors and businesses, which was gained through co-creation with our customers in diverse fields. Each of these customer cases has examples of the value that can be created with data, as well as details about the technologies deployed, such as AI and analytics. Based on these customer cases, Hitachi has identified the core technologies that can be broadly deployed across a wide range of industries to solve common issues. These core technologies are categorized and accumulated as solution cores.

As of March 31, 2020, the number of customer cases exceeded 1,000, and solution cores number more than 85. When embarking

on a new collaborative effort with customers, Hitachi utilizes Lumada customer cases and solution cores that fit the customer’s management issue, and then provides digital solutions that create solid value.

Hitachi has created the Lumada Solution Hub as a venue for rapidly and easily distributing the know-how in OT × IT × Products it has accumulated through co-creation with its customers. Reusable digital technologies and solutions are packaged together and catalogued, allowing customers to choose the packages they want to deploy from the catalog. This facilitates a smooth transition from the early evaluation to deployment of cloud computing environments that satisfy the needs of customers. It is also possible to efficiently deploy the solution to multiple sites, including those overseas. Lumada Solution Hub has a development environment for combining digital technologies and solutions registered in the catalog, enabling the creation of new solutions. New solutions can also be added to the catalog, leading to the creation of more new solutions. Lumada Solution Hub is a platform for driving innovation that supports the Lumada ecosystem.



* Shift business models from provision of services to provision of systems and products

Strategy 1 Expand Revenues by Accelerating the Social Innovation Business

As we make Lumada Solution Hub available to various partners, the solutions developed by our partners will be added to the catalog, and these partners will begin to deploy Hitachi's own solutions in sequence. Hitachi is keen to increase the utility value of its customers, helping to solve societal issues and management issues in the process of creating, distributing and deploying digital solutions in society, while also accelerating the evolution of the Lumada ecosystem.

Lumada has more than 300 digital solutions available to meet the needs for “remote,” “contactless” and “automation” in this “New Normal” brought by COVID-19. By providing these solutions, Hitachi helps its customers accelerate their own digital transformations.

Solutions Adapted to “New Normal”

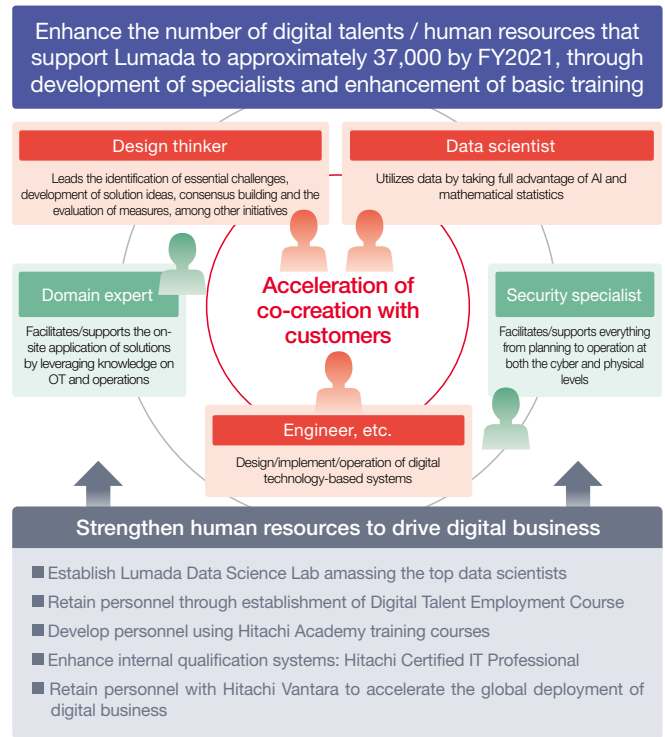
Keywords	Fields	Products and services provided
Contactless	Detection of people with high temperatures/ event venues	Body temperature detection solution for COVID-19: Hitachi Vantara The system scans people who may be queuing to enter a venue or facility. Once its machine learning software detects an individual with a temperature exceeding the threshold level, the system will issue an alert. With this system, we support risk management in event venues and other places in which people gather in large groups. The system can also be used to measure social distance and monitor proper hand washing behavior without collecting personal information.
	Touchless devices/ medical institutions, public institutions, manufacturers, etc.	Touchless solutions: Hitachi-Omron Terminal Solutions Touchless solutions have been developed to allow the clean contactless operation of devices without touching them. We provide devices to be manipulated by using hand and finger gestures in the air, instead of buttons and touch panels.
	Detection and notification of crowding/railway operators, etc.	Solution for visualizing flow of people using camera imagery: Hitachi People shown on camera are turned into icons to protect their privacy, enabling the visualization and display of how crowded an area is on smartphones and train station signage. By preliminarily understanding how crowded an area of a train station is, passengers can change their routes and departure times to avoid crowds.
	Cashless payments/ financial institutions, etc.	Cashless payments with finger vein authentication: Hitachi Hands-free cashless payments can be made with finger vein authentication that verifies the identity of a person who has registered her/his biometric information in an encrypted database. This reduces the risk of infection by eliminating the use of cash for payments between people.
Remote	Working from home and remote work/ all industries	Hitachi work-style reform solutions: Hitachi Group This system facilitates secure access to in-company work environments from a variety of devices, such as tablets, smartphones and laptops, from off-premise locations including homes and satellite offices. A variety of services are offered for efficiently and seamlessly working remotely, including services for visualizing work hours to prevent employees from long hours of overtime.
	Remote support from offices/manufacturers	Field work information-sharing system: Hitachi Solutions Combining smart eyeglasses and image-sharing technology, this system can minimize the number of on-site workers by having employees in offices remotely assist with several on-site tasks.
	Remote monitoring and maintenance/ manufacturers, medical institutions, transporters, etc.	Solutions for strengthening industrial machinery after-market services: Hitachi, Hitachi Construction Machinery Addresses needs for increasing efficiency and saving labor in maintenance through remote operation of industrial machinery using a combination of remote monitoring and predictive diagnostics technologies.
	Meter reading/ manufacturing sites	Automated service for reading meters: Hitachi Analog meters at plants are shot by cameras, the images of which are analyzed, read and sent automatically, enabling maintenance inspections that are done by people on the ground to be implemented automatically and remotely. Data analysis can lead to early detection of abnormalities in equipment.
Automation, unstaffed, labor-saving	Automated planning in response to changes in supply and demand/ manufacturers, distributors, etc.	Supply chain optimization services: Hitachi High-speed simulations using diverse data from procurement and production, among other sources, are a fundamental part of this cloud-based service for automatically creating optimal plans for inventories and deliveries in response to changes in demand. It also supports planning based on changes in the spread of COVID-19.
Security	Cyberattack security/ electricity, water and other plant facilities, railway operators	Control system security monitoring and analysis support services: Hitachi This 24-hour, 365-day-a-year support service helps companies protect their control systems from cyberattacks, by monitoring and analyzing their status and responding to security events as they occur.

Developing Digital Talents to Lead Digital Transformation

Hitachi has strongly advanced efforts to develop digital talents to lead digital transformation and apply digital solutions that combine OT and IT, the core of its Social Innovation Business.

In April 2019, Hitachi Academy Co., Ltd. was established with a mission to further enhance and develop digital talents, including front-line personnel and data scientists. Hitachi Academy has created a new educational system for digital transformation and develops digital talents with on-the-job training (OJT) to accelerate global growth in the Social Innovation Business.

The entire Hitachi Group aims to increase the number of digital talents to 37,000 people by fiscal 2021, including 3,000 data scientists. We are keen to expand our digital solutions globally by increasing support for customers with a larger regiment of digital talents.



Expansion of Global Business

Strengthen Front Line, Use Footprint

In the Lumada business, overseas revenues account for about 40% of the total. To accelerate business expansion worldwide, Hitachi is strengthening the structure for advancing overseas operations in mainly North America and Asia.

As a part of these initiatives, in January 2020, U.S. subsidiary Hitachi Vantara Corporation was integrated with Hitachi Consulting Corporation to create Hitachi Vantara LLC, which will drive global development of the Lumada business as a core company in front-line and delivery functions, while collaborating with other Hitachi Group companies.

By region, looking at North America first, Hitachi acquired JR Automation, a leading firm in the robotic SI business, in December 2019, following its acquisition of Sullair LLC, in 2017. Leveraging on JR Automation’s technologies, know-how and resources in the advanced robotic SI business accumulated over many years as well as its customer base that encompasses a broad range of industries, we will provide new value to customers by globally expanding Lumada solutions that utilize digital technologies. In addition, Hitachi Industrial Holdings Americas, Inc. was founded in April 2020 as our North America regional headquarters for the industry business. While collaborating with Hitachi Vantara, it will integrate operations with Sullair and JR Automation and develop the digital solutions business for the industrial and distribution fields. Through mutual utilizations of broad customer bases and resources that Sullair and JR Automation possess in North America

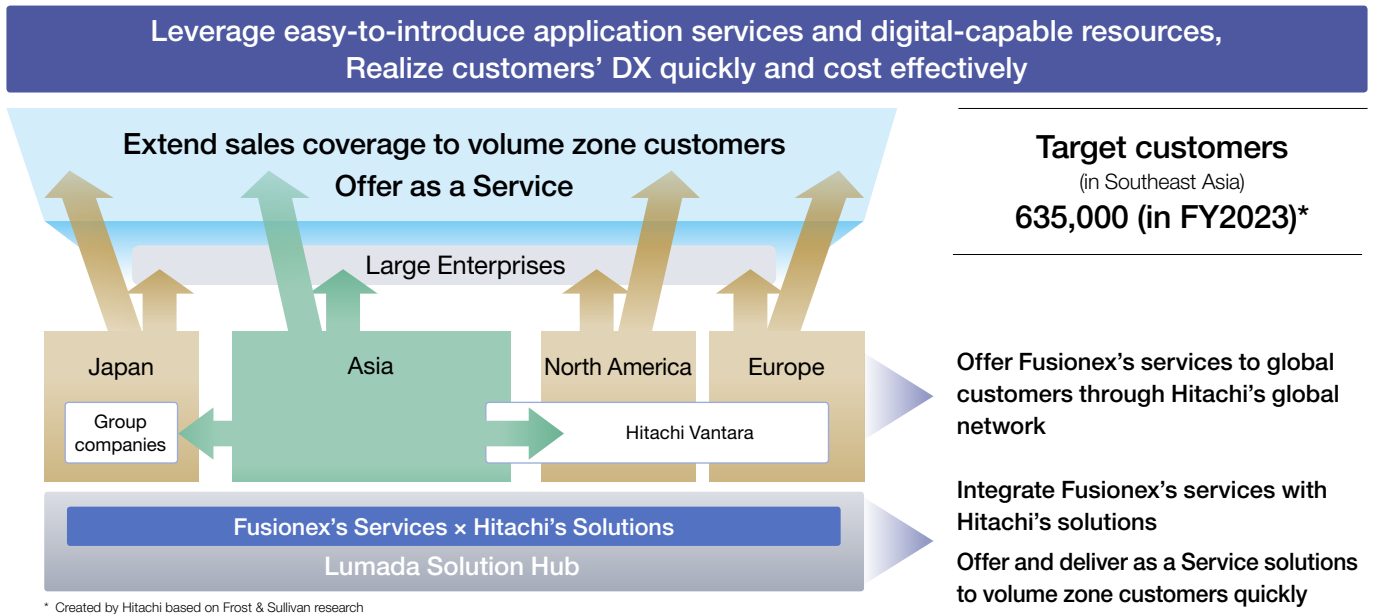
it will provide total seamless solutions combining digital solutions and products.

In Asia, Hitachi turned FusioTech Holdings into a wholly owned subsidiary in April 2020, after it was created to take over operations from Fusionex International Plc, a market leader in AI and big data that provides SaaS platforms for AI and data analytics mainly in Asia. As a result, the Hitachi Group has obtained access to its more than 11,000 customers primarily in Asia, and its assets that include around 260 digital talents, such as data scientists and AI front-line personnel. The Lumada Solution Hub will bring in its competitive AI and data analytics applications, SaaS platforms that support payments and user verification, and SaaS business know-how for acquiring and maintaining a customer base. Through collaboration with Hitachi Vantara and other group companies, we will reinforce front-line and delivery functions in a bid to rapidly develop SaaS platforms globally.

In July 2020, Hitachi completed the acquisition of ABB’s power grids business and established Hitachi ABB Power Grids Ltd. The Hitachi Group welcomes its global footprint of about 90 countries and regions, a customer base of more than 15,000 companies, roughly 200 sales bases around the world and 36,000 employees. These abundant resources and customer base on a global scale will be instrumental in our efforts to expand global sales channels and front-line operations for Lumada.

Strategy 1

Expand Revenues by Accelerating the Social Innovation Business



Accelerating the Global Deployment of Digital Solutions

Hitachi Vantara joined in a strategic alliance with Disney Parks, Experiences and Products to help Disney's theme park innovations. Through the provision of digital twins solution as well as a predictive capabilities solution that utilizes data acquired from sensors and other sources, Hitachi Vantara will help to visualize and optimize operations and improve the operational efficiency of

attractions and shows. Hitachi aims to improve the guest experience through Disney's entertainment and Hitachi Vantara's data-driven solutions.

Creation of Social and Environmental Value

Initiatives to Realize a Sustainable Society Through Social Innovation

In its 2021 Mid-term Management Plan, Hitachi has set targets for improving three values (social value, environmental value, economic value) for its customers through solutions in five sectors comprising IT, Energy, Industry, Mobility and Smart Life, with the ultimate aim of realizing a sustainable society through the Social Innovation Business. Since fiscal 2019, we have worked on the visualization of value by quantifying as much as feasible the social and environmental value generated in each of our businesses, drawing connections between our businesses and the SDGs. By understanding both the positive and negative impacts on society and the environment from our operations, we will generate value on these three fronts in line with the 2021 Mid-term Management Plan, and propose ideas to customers for achieving more sustainable business operations.

Please refer to the following pages for examples of the social and environmental value created by our solutions in five sectors.

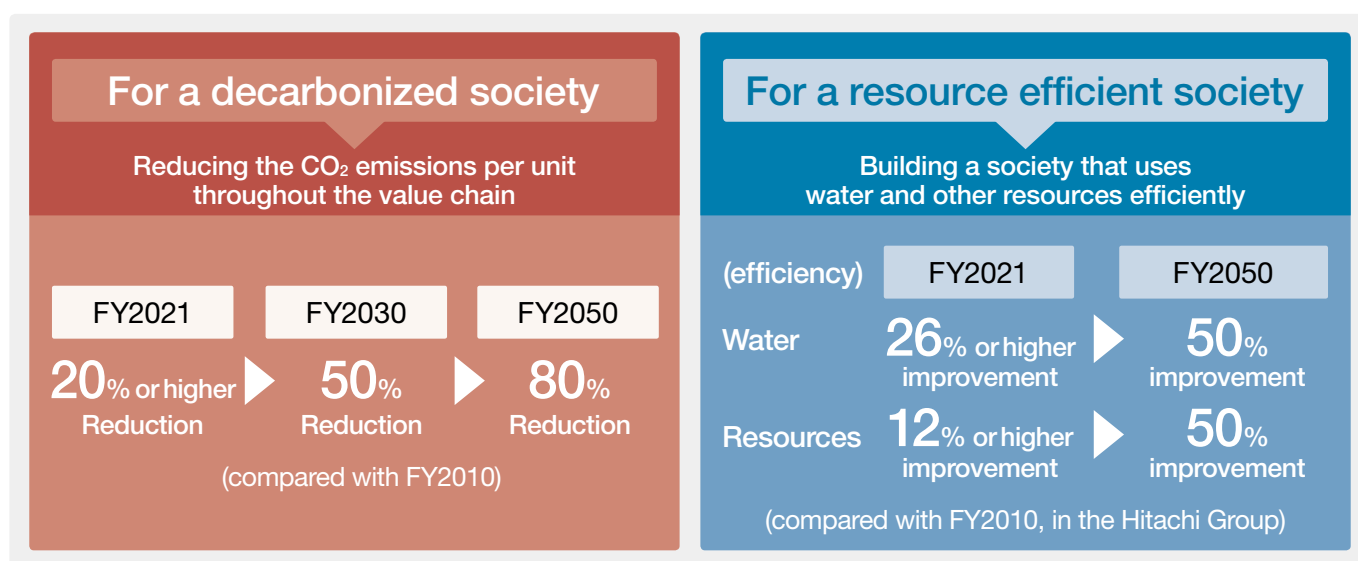
- IT ▶ P.44 Energy ▶ P.47 Industry ▶ P.50
- Mobility ▶ P.53 Smart Life ▶ P.56

Initiatives to Realize a Decarbonized Society and a Resource Efficient Society

Hitachi will resolve environmental issues and achieve both higher quality of life and a sustainable society through its Social Innovation Business. In 2016, we established long-term environmental targets called “Hitachi Environmental Innovation 2050”, and are promoting environmental activities to achieve these long-term targets in line with our Environmental Action Plan, which is updated every three years. To achieve a decarbonized society, Hitachi has set reduction targets for CO₂ emissions per unit of 50% by fiscal 2030 and 80% by fiscal 2050 (both compared with the fiscal 2010 level) throughout the value chain.

To reduce CO₂ emissions from the use of products and services we sold that account for a large percentage of CO₂ emissions in its value chain, Hitachi is expanding its decarbonization business, in other words, products and services that excel at conserving energy, businesses that introduce renewable energy, and solutions that increase efficiency and reduce CO₂ emissions through digitalization, such as the utilization of Lumada.

To achieve a resource efficient society, Hitachi has set targets for improving by 50% by fiscal 2050 (compared with the fiscal 2010 level) its water- and resource-use efficiency in the Hitachi Group, in addition to striving for building a recycling-oriented society through seawater desalination projects and other water-related businesses.



Furthermore, in May 2020, Hitachi newly announced its intention to achieve carbon neutral in its own business sites (factories and offices) by fiscal 2030, in accordance with its aim of accelerating to achieve the targets of reducing CO₂ emissions. This is a target for practically achieving zero emissions of CO₂ from the production stage within its value chain, in other words, Hitachi's factories and offices. More specifically, we are working to increase efficiency in facility operations by introducing and upgrading to high-efficiency

equipment in our factories. We are also endeavoring to achieve the targets by enhancing energy-use efficiency through the deployment of smart meters and other IoT technologies, while advancing the use of renewable energy. To start these initiatives, we aim to have at least three carbon neutral factories in fiscal 2020 and seven or more sites in fiscal 2021.

Strategy 2

Reinforce Global Competitiveness

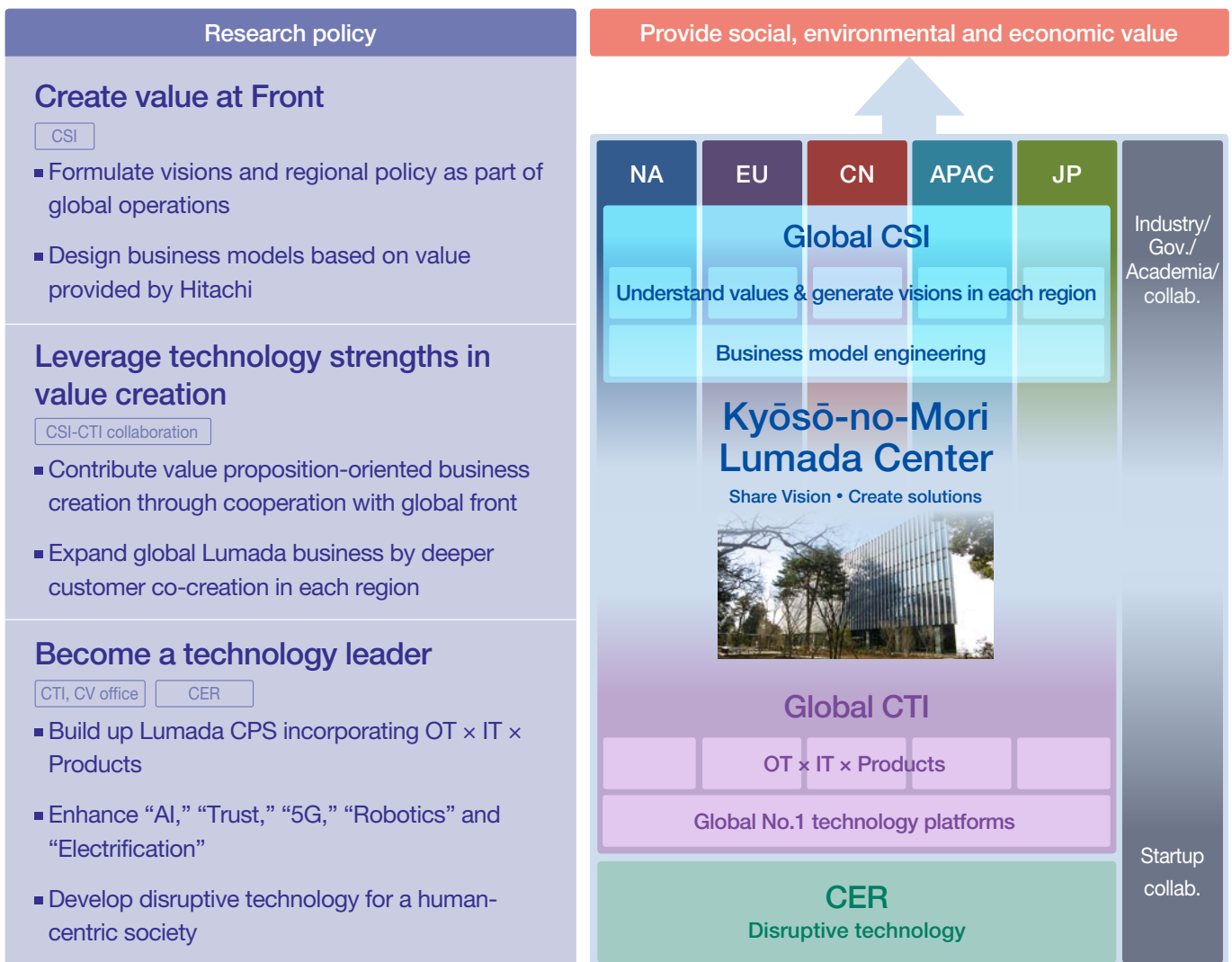
Hitachi's corporate mission for more than 100 years has been to "contribute to society through the development of superior, original technology and products." While developing cutting-edge technologies, Research & Development (R&D) at Hitachi has implemented the corporate mission and spurred innovations that have led us into the future. In fiscal 2020, we decided on an R&D policy to "become a global innovation leader driving social, environmental and economic value creation." Building on Lumada, we are further accelerating open innovation to grow together with our stakeholders by combining our strengths in OT × IT × Products, with the technology platforms in the Research & Development Group, and external knowledge. Through these initiatives, our goal is to enhance social, environmental and economic value for our customers, and raise people's QoL. To realize this R&D policy, we are focusing on building ecosystems to generate innovation and strengthen core technologies that will

help expand the Lumada business. As new values emerge from the impact of COVID-19, Hitachi will step up its global efforts that address common societal issues, such as environmental issues, to realize a human-centric society.

R&D structure based on three innovation strategies

	Global Center for Social Innovation Service development meeting the needs of customers in each region
	Center for Technology Innovation Establishing global No. 1 technology (platforms, products)
	Center for Exploratory Research Resolving future societal issues

Policy Become a global innovation leader driving social, environmental and economic value creation



CPS: Cyber Physical System, CSI: Global Center for Social Innovation, CTI: Center for Technology Innovation, CER: Center for Exploratory Research, CV: Corporate Venturing

Creation of Value at the Front Line in Each Region

Promotion of Co-creation

As issues faced by society and customers become more complex, the Hitachi Group is working as one under the banner of “co-creation” to create social, environmental and economic value through a shared understanding with our different partners of the challenges, and working together to resolve the issues.

Hitachi has built up an original end-to-end co-creation process for customers called NEXPERIENCE, starting with the creation of visions and leading through to services. NEXPERIENCE Spaces, where customers can come to discover the issues and move forward to create value, have been opened in Tokyo, North America, the United Kingdom and China. Going forward, NEXPERIENCE will evolve as a methodology that quantifies social, environmental and economic value, with enhanced risk assessment, to enable collaboration with multiple companies or regional communities to resolve societal challenges. By working with Hitachi teams on the global front, we will accelerate the creation of value through the delivery of Lumada solutions, as well by reflecting the insights of the challenges faced by each region in drafting visions and rulemaking.

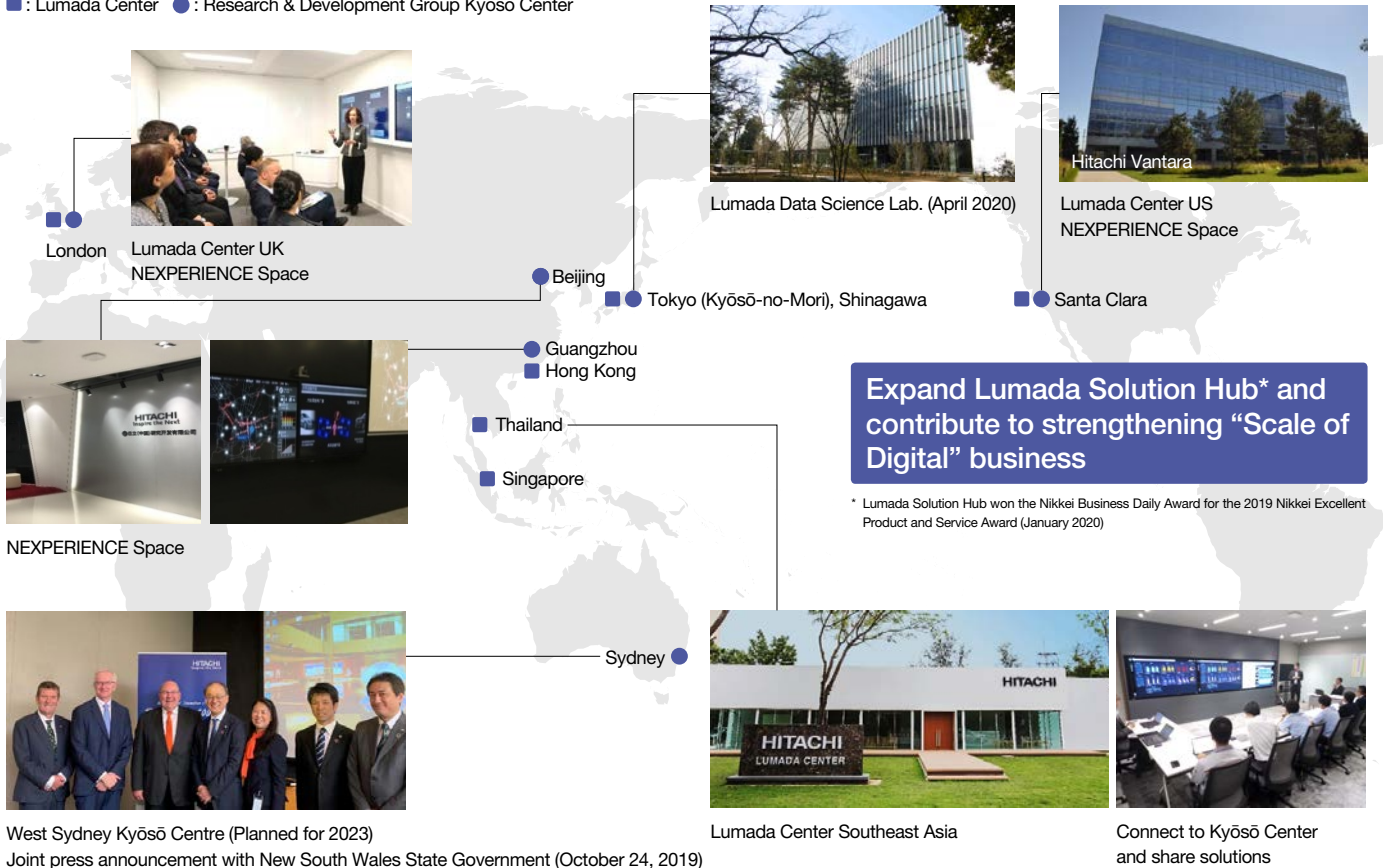
To realize this, Hitachi is expanding open co-creation spaces in regions of focus to strengthen initiatives in areas of growth and resolution of societal issues. Following the launch of “Kyōsō-no-Mori” from the Central Research Laboratory in Tokyo, Japan, in April 2019, we opened a center for the development of digital solutions through open co-creation in Santa Clara, California, U.S., in May. Further, the R&D resources on the West Coast of North America were relocated to the same office as Hitachi Vantara to facilitate close collaboration across business divisions. We are also exploring business models together with startups through ideathons and hackathons held at such centers. In October 2019, Hitachi and the state Government of New South Wales, Australia, agreed to establish a Kyōsō Centre (co-creation center) in Western Sydney by 2023 to accelerate the creation of social innovation. Further, in May 2020, Hitachi signed a memorandum of understanding with the Liverpool City Council and the South Western Sydney Local Health District, to collaborate in areas such as digital healthcare.

In April 2020, the Lumada Data Science Lab. was established within Kyōsō-no-Mori by bringing together top talents in the area of data science to further enhance the values delivered through digital solutions.

Strengthen the Front Collaboration Structure

Accelerate commercialization by coordinated operation between Lumada Centers and Kyōsō Centers

■ : Lumada Center ● : Research & Development Group Kyōsō Center



Strategy 2 Reinforce Global Competitiveness

Sharing Vision to Resolve Future Societal Challenges

While studying challenges that society may face in the future, Hitachi is using the insights to draft visions of how those challenges might be resolved while maintaining economic growth. We will also be stepping-up our efforts to share those visions with the world. As part of this activity, joint laboratories were established with the University of Tokyo, Kyoto University and Hokkaido University in 2016. Hitachi also shares its vision through industry-academia-government forums to discuss societal issues, policy proposals and publications. Hitachi The University of Tokyo Laboratory has made statements and held forums on next-generation power grid systems, and in 2020, is focusing on total energy management for zero carbon emissions. Through such initiatives, Hitachi is working to contribute to the resolution of environmental and societal issues.

With regard to regional co-creation activities, in Southeast Asia, Hitachi is working on a project “working with Chulalongkorn University” in Thailand to create new services to realize digital cities of the future, and contribute to the development of human-centric communities in Thailand. In China, Hitachi signed a strategic agreement with Tsinghua University in 2018, “Future Innovation Collaboration Plan,” and has been engaged in projects such as healthy aging. In August 2019, a technology exchange event was held with the National Development and Reform Commission on the theme of “digital economy and healthy aging.” We will contribute to raising social, environmental and economic value in China through such activities.

Leveraging Strengths in Technology to Create Value

Co-creation with Customers in OT × IT × Products

Working with Hitachi teams on the global front to create solutions that enhance our customers’ corporate value and peoples’ QoL, we are leveraging the technology platforms and knowledge held by R&D in OT×IT×Products, and applying it to “Scale of Digital” business centering on IT sector, as well as “Scale by Digital” business, centered on OT and products to contribute to the expansion of Lumada business.

For the “Scale of Digital” business, OT × IT specialists have been assigned to each region in North America, Europe, China, Asia Pacific, and Japan to form teams to resolve challenges faced by our customers in those regions, and achieve an horizontal expansion by developing digital solutions such as maintenance repair through co-creation with customers.

For the “Scale by Digital” business, Lumada solution cores that can be applied across the five sectors for solutions development, such as blockchain and data analysis technologies, are being used to connect multiple services and stakeholders to generate greater value in areas such as Mobility-as-a-Service (MaaS), Infrastructure-as-a-Service (IaaS), and smart manufacturing and logistics. For example, in MaaS solutions, Hitachi provides value to businesses and passengers by coordinating regional transportation networks and peripheral services

by applying technologies developed for railway systems such as operation control and scheduling. Field trials have begun in several cities in Italy and elsewhere in fiscal 2020. In the area of smart manufacturing and logistics field, by realizing automatic selection of optimal plan parameters and dynamic demand-responsive plans in in the value chain of production, facilities and logistics, we will deliver services that can adapt to changes in the business environment.

Through such initiatives, we will use OT technology, one of Hitachi’s strengths, to differentiate ourselves and further enhance value creation in each region.

Collaboration with Startups

In April 2019, the Corporate Venturing Office was established to plant the new seeds for new growth through investment and collaboration with startups, and promote open innovation. Further, the fund management company, Hitachi Ventures GmbH was set up in June 2019, followed by Hitachi Ventures North America in December, to make the first \$150 million investment fund. New seeds of innovation are being sought in Europe, North America and Israel, and we will pursue investments that advance collaboration in line with scenarios drawn to augment Hitachi’s business portfolio in the future. We are already communicating with over 1,000 startups, and have invested in three firms and working on several collaborative projects. Disruptive technologies and startup business models are being adopted, and achievements are being reflected in corporate and R&D strategies and R&D strategy. Hitachi will continue to invest in the future to realize new social, environmental and economic value while closely monitoring the impact of COVID-19 on the investment environment, as well as changes in macroeconomic conditions through such activities.

In July 2020, Happiness Planet, Ltd., was established with the objective of creating new industries in happiness and well-being. An app business to support organization management is being developed using wearable devices and smartphones to quantitatively measure people’s sense of well-being and increase organizational activity. The new company adopts the “Dejima*” approach advocated by Keidanren (Japan Business Federation), which has both the agility of a venture company with the advanced technology, and trust and sales channels of Hitachi.

Hitachi is adopting outside-in and inside-out initiatives, to rapidly creating new businesses while staying one step ahead of changing needs in society.

* The Dejima Strategy is a reform that was proposed by Keidanren (Japan Business Foundation) in 2018. Its name derives from the tiny island of Dejima off the coast of Nagasaki that once acted as a bridge between Japan and the rest of the world during the country’s isolationist period.

Becoming a Technology Leader

Global No. 1 in Technological Platforms

To become a global leader in the Social Innovation Business by resolving challenges faced by society, it is critical that Hitachi has a portfolio of world-leading technology while driving innovation

through co-creation.

The strength of Hitachi's R&D is derived from the established cycle of value creation with its accumulated know-how, from co-creation to technology development, with integrated technology platforms and expertise in OT × IT × Products of the Hitachi's five business sectors and other group companies. R&D efficiency is increased by offering concrete solutions that enhance value for our customers, and by sharing these solutions across the Hitachi Group.

The technology platforms are changed to align with changes in business portfolios, and new areas of growth. Hitachi is reinforcing the technology platforms through acquisitions and business integration in areas such as energy, automotive systems and robotic SI. We are strengthening Lumada core technologies such as "AI," "Trust" and "Beyond 5G/6G," as well as "robotics" and "electrification" that ensure No. 1 products, and disruptive technologies for the future such as "quantum computing," "regenerative medicine" and "environment."

Strengthen Lumada Core Technologies

To create innovations drawing on advantages of OT × IT × Products, Hitachi is focusing on the development of Lumada CPS (Cyber Physical System) which connects cyberspace and the real world, and prioritizing the core technologies of "AI," "Trust" and "Beyond 5G/6G."

For AI, we have developed "Explainable AI" technologies that can explain the rationale behind decisions reached by the AI. Hitachi has developed a highly accurate loan screening application that refers to both internal data from financial institutions (e.g., card loans, mortgage, housing loans) and external data (e.g., economic indicators, GIS* information). We are pursuing real-world operation of explainable AI through a co-creation initiative with a Vietnamese

financial institution.

In the area of Trust, Hitachi is proceeding with technology development in public biometrics infrastructure (PBI) using proprietary hands-free authentication system and confidential information-processing technologies that allow data to be processed while encrypted. With regard to PBI, several research papers have been cited in the ISO/IEC 30136 world standards issued in March 2018. Field verifications are currently being conducted with UC Card Co., Ltd., on cashless settlements that use PBI. Further, in the area of cybersecurity, Hitachi in collaboration with Keio University and Chubu Electric Power Co., Ltd., developed technology to analyze darknet communications (communications to IP addresses that have not been assigned to a particular computer) that are hidden from the public, from among the dubious communications coming from multiple unknown organizations, in order to prevent increasingly deft cyberattacks, and showed that it is possible to predict cyberattacks.

For Beyond 5G/6G, Hitachi has built 5G testbeds in Kyōsō-no-Mori and in North America, to accelerate R&D to realize secure real-time control systems in 5G environments. Amid growing needs for automation, reduced human presence and remote capabilities in various fields due to the impact of COVID-19, Hitachi is accelerating the deployment of Lumada × 5G especially for remote operation of equipment in factory settings, remote work and the monitoring of buildings and infrastructure.

In addition, the Hitachi Group's secure measurement and control technologies are contributing to global growth in the Lumada business by advancing Lumada CPS and enhancing real-time connections between cyberspace and the real world.

* GIS: Geographic Information System

Initiatives in Five Sectors

Field	Initiatives
IT	For solutions leveraging data in financial, public and social systems, in the financial field, for example, Hitachi is developing next-generation digital payment platforms with Hitachi Payment Services (Pvt. Ltd.) in India. At the same time, Hitachi is also conducting verification trials to optimize non-life insurance portfolios with a new type of computer (CMOS annealing) in a co-creation initiative with non-life insurance companies in Japan.
Energy	Hitachi is contributing to increasing the ratio of renewable energy in Japan by evaluating technologies to maximize the use of renewable energy in existing power grids, in accordance with the New Energy and Industrial Technology Development Organization (NEDO) project to develop technologies to stabilize next-generation electric power networks to enable the introduction of large-scale renewable energy, as well as by developing solutions to stabilize power grids that have incorporated renewable energy with view to total energy management for a decarbonized society.
Industry	To create smarter manufacturing, maintenance and logistics, Hitachi endeavors to maximize our customers' KPIs by seamlessly connecting the field to management. For example, Hitachi developed a delivery optimization services in the logistics field and has begun deployment in Thailand and China. We are also pursuing deployment of proven technologies such as predictive diagnostics technology for equipment failures with multiple partners, including amusement parks.
Mobility	To improve the total value chain for mobility between urban centers or within high-rise buildings, Hitachi has begun field tests such as smart building solutions in Singapore and smart ticketing solutions in Italy.
Smart Life	We are promoting data-driven urban planning to realize smart cities. Our efforts are focused on developing PBT* solutions to minimize the burden on patients; optimizing measurement conditions based on Hitachi High-Tech's "instrumentation × AI," and autonomous driving/connected vehicles and electrification technologies supporting CASE (connected, automated, shared, electric).

* PBT: Proton Beam Therapy

Strategy 2 Reinforce Global Competitiveness

Initiatives to Enhance Product Advantages

Hitachi products include rolling stocks for high-speed railways, elevators & escalators, particle therapy system, biochemical immunoassay equipment, inverters and air compressors. Next-generation technologies enhancing these key products are being developed. In February 2020, Hitachi was presented with the 66th Okochi Memorial Production Prize for technologies related to high-speed railway rolling stocks. We are also focusing on initiatives in robotics for automation, labor savings and remote operations, as well as electrification for a zero-carbon society.

In the area of robotics, in April 2020, Hitachi commercialized the communication robot "EMIEW" which offers guidance, monitoring and patrol services within buildings. In the manufacturing and logistics fields, Hitachi is developing technologies that enable multi-robot coordination, and autonomous technologies that facilitate high-speed item recognition and sorting with picking machines. Hitachi

has commercialized pick-and-place technologies, in addition to the automated guided delivery vehicle, Racrew. We are also developing robotics technologies for unmanned installation and maintenance operations.

In vehicle electrification, Hitachi is contributing to the reduction of CO₂ emissions in electric vehicles and industrial equipment by increasing the efficiency of electric power systems, such as motors and inverters. An 800-V inverter for long-distance drives was developed for automobiles. In 2019, Hitachi was awarded a Best 10 New Products Award from Nikkan Kogyo Shimbun. For industrial applications, we are developing an amorphous motor based on IE5 standards for energy conservation. These efforts were recognized in 2020 with the presentation of the Ichimura Prize in Global Environment Industry - Achievement Award. Hitachi will continue to pursue greater efficiency in electric power systems.

Okochi Memorial Production Prize

Class 800 series



Development of high-speed rolling stock able to travel between electrified and non-electrified track

Nikkan Kogyo Shimbun Best 10 New Products Award

Inverter for EV*



800-V inverter halves recharging times

* Picture: Screen cooling power module embedded in the inverter

The Ichimura Prize in Industry against Global Warming

Amorphous motor



Development and commercialization of energy-saving industrial motor with amorphous magnetic alloy foil

Creation of Disruptive Technologies for the Future

Aiming for a human-centric society, we are focusing on the development of disruptive technologies in the fields of quantum computing, regenerative medicine and the environment—new technologies that will change society.

In the area of quantum computing, following the commercialization of a CMOS annealing machine, we are also pursuing the development of a gate-type quantum computer. R&D at the Hitachi Cambridge Lab., which welcomed its 30th anniversary, as well as in Japan, is being strengthened. Recently, we successfully developed a prototype for the basic structure of a 2D quantum bit array using silicon semiconductors. In contrast to conventional superconducting devices, Hitachi's approach enables the large-scale integration needed to reach industrial scale. Hitachi is also a member of the Quantum Innovation Initiative Consortium established by the University of Tokyo as a part of efforts to build an ecosystem involving industry, academia and the government.

In the field of regenerative medicine, the Hitachi Kobe Laboratory has been working on the application of iPS cells to the cornea of the eye. Through joint research with Myoridge Co., Ltd., known for its

technology to culture iPS-derived differentiated myocardial cells, Hitachi has developed new technology to automate 3D culturing using Hitachi's equipment for automated mass culturing of iPS cells. In addition, through a joint venture established with MetaTech (AP) Inc. in Taiwan, Hitachi is facilitating the development of regenerative medicine in Taiwan.

To become a company that leads in creating environmental value, Hitachi is developing high-efficiency electrically powered equipment while working on the development of renewable energy and hydrogen systems. On the renewable energy front, we are developing systems to help stabilize the supply of electricity and strike a balance in supply and demand when large volumes of renewable energy are added to the power grids. In hydrogen production and usage systems, we are moving ahead with experimental projects. Through our participation on the Tokyo Zero-Emission Innovation Bay Council established by the Ministry of Economy, Trade and Industry of Japan, we are contributing to industry-academia-collaborations for zero emission.

Initiatives in Intellectual Properties (IPs)

Amid an ongoing international pro-patent shift, Hitachi is strengthening its intellectual property activities in products and solutions. To demonstrate our OT × IT × Products strengths, we have formulated IP master plan that defines areas of focus and bolsters our IP creation activities. This resulted in Hitachi being awarded the Intellectual Property Achievement Award by the Minister of Economy, Trade and Industry in Japan for the first time in June 2020.

To further drive the global deployment of Lumada solutions under the 2021 Mid-term Management Plan, we intend to obtain intellectual property rights of solution inventions and core

technologies that support Lumada, in advance of other companies. Through business integrations, we are promoting the mutual use of patents, including with companies newly joined to the Hitachi Group.

In addition, based on the “IP for society” concept, an intellectual property strategy for a new era, we are aggressively promoting the openness of intellectual property in specific fields with high public utility. While advancing these activities, Hitachi contributes to solutions for global social issues by participating as a partner in the “WIPO GREEN” platform for transferring environmental technologies, that is operated by WIPO (World Intellectual Property Organization).

Securing and Developing Diverse Global Human Resources

Based on its 2021 Mid-term Management Plan, 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.

All employees around the world are educated on Hitachi’s value systems, beginning with the Hitachi Group Identity and within it, Hitachi’s founding spirit of “harmony, sincerity and a pioneering spirit.” Our employees around the world look beyond countries, regions and business divisions to contribute to society as One Hitachi.

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 resource management in a bid to spur innovation and create new value in the global and digital era.

Diversity & Inclusion

Hitachi is keen to create companies where human resources with diverse cultural backgrounds, experiences and ways of thinking can work together.

Diversity is the wellspring of our innovation and our growth engine. Hitachi regards personal differences—such as gender, nationality, race, religion, background, age, 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.

We are promoting diversity management as a key management strategy under the initiative slogan “Diversity for the Next 100.” We believe it 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.

Hitachi, Ltd., and 15 major group companies jointly operate the Advisory Committee and the Hitachi Group Diversity Development Council, which focus on accelerating the promotion of diversity across the Hitachi Group as a whole, including in regard to supporting diverse human resources and providing work-life management. The Advisory Committee implements to the fullest the Company’s diversity management policies, while the Diversity Development Council shares best practices and discusses specific diversity-related activities. Each committee meets every six months alternately. Group companies and business groups/sites have also set up their own diversity-promotion organizations and projects, such as those to help develop women’s careers, to enhance initiatives geared to the challenges faced by individual workplaces. Hitachi from fiscal 2018 has broadened the sharing of diversity promotion policies across the entire group, with group companies around the world working together to accelerate implementation.

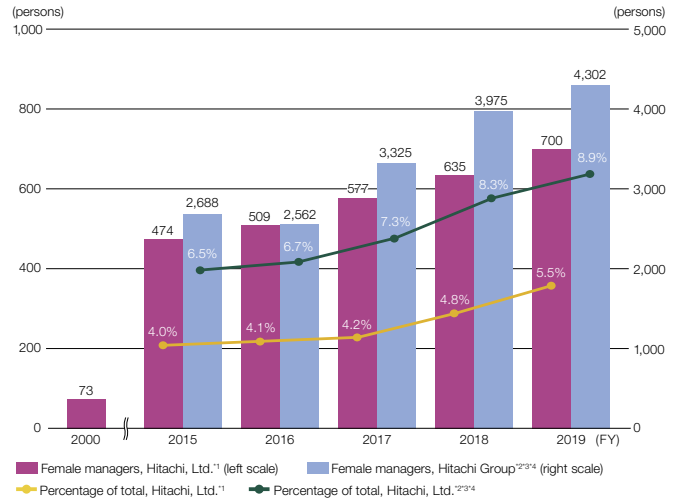
Strategy 2 Reinforce Global Competitiveness

Diversity Activities and Developing Women's Careers

With the goal of promoting participation in management decision-making by people with diverse backgrounds and enabling as many female employees as possible to take up leadership positions, Hitachi, Ltd., has created two key performance indicators (KPIs) for the appointment of women in executive and managerial positions. In fiscal 2013, Hitachi set a goal of promoting women to executive positions by fiscal 2015. In April 2015, the Company appointed its first female corporate officer, a position equivalent to the executive level. We will continue to promote this goal to ensure that diverse views and values will be reflected in our management. In November 2017, we publicly announced our commitment to increasing the rate of non-Japanese and female executive and corporate officers to 10%, respectively, by the end of fiscal 2020. We are also working to promote more female employees to managerial positions, aiming to double the number of female managers to 800 by the end of fiscal 2020 compared with fiscal 2012. These efforts demonstrate our commitment both internally and to the world to improve our diversity management.

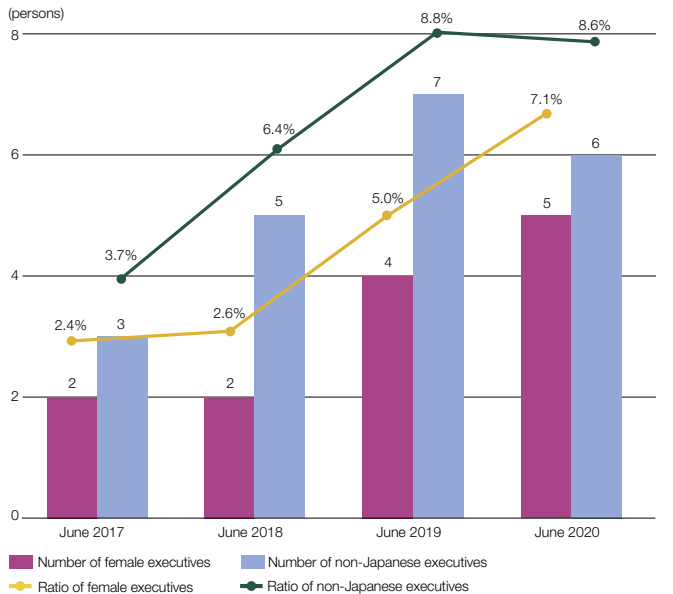
As part of our efforts in this area, we have been holding the Global Women's Summit as a venue for diverse Hitachi Group employees from various countries and regions, companies and positions to mingle and discuss gender equality. This event is held in a different country each year to get as many employees to participate as possible. In fiscal 2019, the Global Women's Summit was held in Japan in October. On the day of the event, Toshiaki Higashihara, President & CEO, and female Independent Director gave keynote speeches, panel discussions were held by Hitachi's leaders from each region, and workshops were held about careers and leadership. The participants had opportunities to pursue deep conversations about their careers and issues they face, while exchanging information. Last year, programs were also open to male employees, and panel discussions were steered by male executives. Regardless of gender, all participants were given a venue for discussing gender equality in the workplace.

Number and Ratio of Female Managers



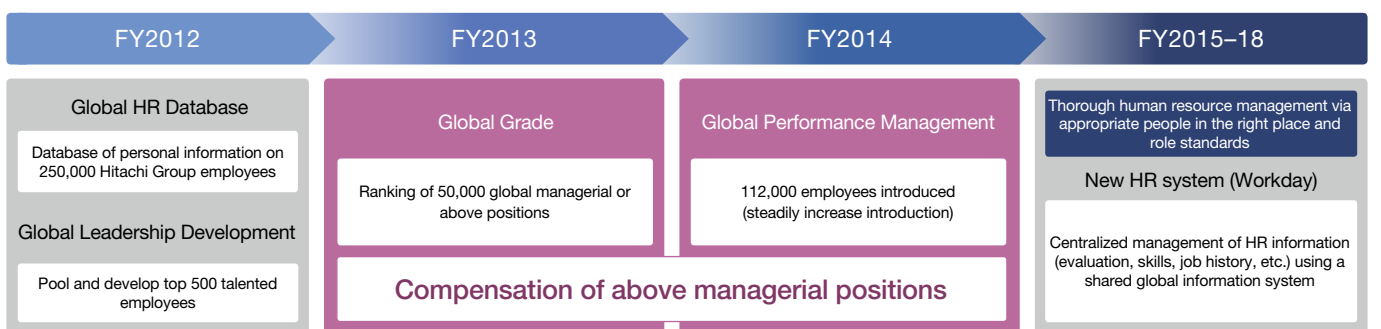
¹ Since fiscal 2017, "Female managers" has included managerial employees dispatched from Hitachi, Ltd. to other companies and those accepted from other companies by Hitachi, Ltd. Earlier figures include regular managerial employees dispatched to other companies but exclude those accepted from other companies.
² Hitachi Group figures exclude approximately 40,000 manufacturing workers.
³ 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.
⁴ 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.)¹



¹ Disclosed since 2017, the year we established as a goal for achieving diversity among executive officers, corporate officers, and fellows.

Initiatives to Realize Personal and Corporate Growth Through Job-based Management



Global Human Resource 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 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 resource 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.

Framework for Global Human Resource Management

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

In January 2018, Hitachi launched the full-scale operation of the human resource management integrated platform, 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 through 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.

Ensuring Fair Evaluations and Compensation

Amid the ongoing globalization of business, there is an increased need to establish a global human resources system that ensures fair evaluations and compensation. To attract a diverse and highly engaged workforce, Hitachi is focused on building a consistent management system and accordingly follows a common "Global Compensation Philosophy" based on "Maintaining Market Competitiveness," "Pay for Performance" and "Ensuring Transparency."

We are developing a compensation system that is fair and competitive in the context of each country or region's labor market, with an individual's compensation determined after an evaluation of performance. Individual assessments are conducted annually to set each employee's compensation, and feedback on performance results is provided to inspire each employee to develop and grow even further.

We ensure compliance with the laws and regulations of each region in which we operate when determining compensation. Starting pay for new graduates in Japan—representing about half of all new graduates recruited each year across the Group's global operations—was roughly 20% higher than the weighted average of Japan's regional minimum wages.

Strategy 3

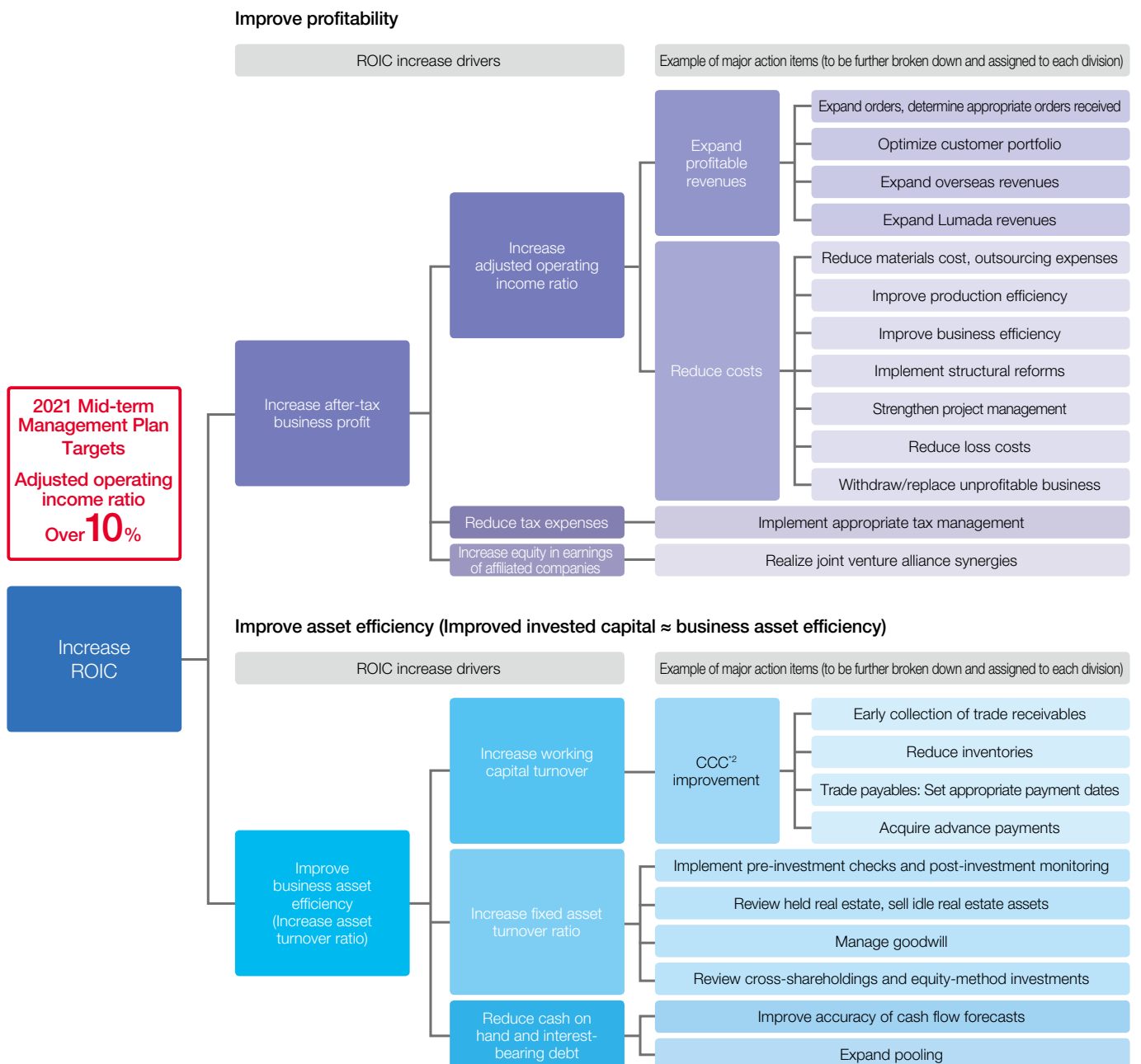
Reinforce Management System to Improve Profitability

Accelerate ROIC Management

Promoting ROIC Management with a Higher Awareness of Capital Costs

Under the 2021 Mid-term Management Plan, Hitachi has set forth a policy of investing in growth to become a global leader. Beginning with its ¥1 trillion acquisition of ABB's power grids business, Hitachi has decided to allocate ¥1.8 trillion for growth investments, centered on the IT, Energy and Industry sectors. To efficiently execute these large investments for future growth, Hitachi has used return on

invested capital (ROIC)^{*1} as a management benchmark since fiscal 2019. ROIC is an indicator of how much profit (after-tax business profit) can be generated on capital invested in a business (invested capital). To improve ROIC, returns need to exceed the weighted average cost of capital (WACC), which is the cost of raising invested capital. By using ROIC as a key performance indicator (KPI), Hitachi is encouraging management to be more aware of the cost of capital, in addition to the goal of improving profitability.



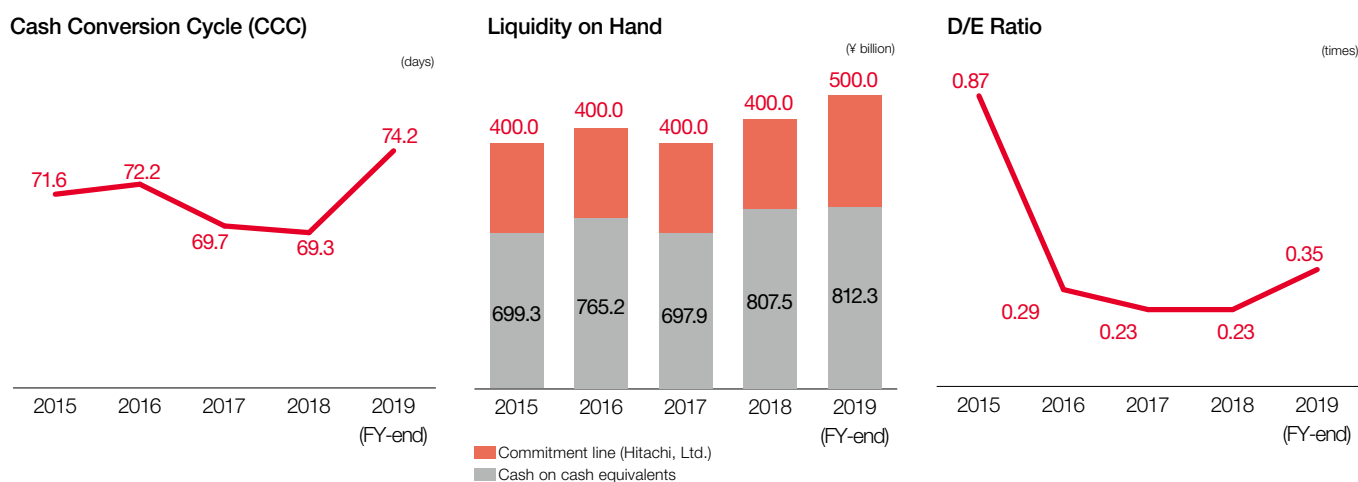
*1 ROIC = (NOPAT + Share of profits(losses) of investments accounted for using the equity method) / "Invested Capital" x 100
 NOPAT (Net Operating Profit after Tax) = Adjusted Operating Income x (1 - Effective income tax rate), Invested Capital = Interest-bearing debt + Total equity
 *2 CCC (Cash Conversion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

Financial and Capital Strategy

Financial Analysis of the Past Five Years

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

- In addition to using the CCC as a management benchmark, Hitachi has slimmed down total assets through the strategic restructuring of group companies
- Notably interest-bearing debt has been reduced by ¥2.1 trillion, and the D/E ratio has improved from 0.87 to 0.35
- Hitachi had adequate liquidity on hand
- The dividend payout ratio has stayed in the range of 20%–30%, and the total amount of dividends paid has increased



The following four priority issues are central to Hitachi's financial and capital strategy: 1) further improve profitability through stringent ROIC management, 2) increase capital efficiency by improving the business asset turnover ratio, 3) reduce WACC using moderate leverage within an appropriate financial discipline and 4) increase total shareholders return through the execution of rational shareholder return measures with consideration for share buybacks in addition to dividends.

Ensuring Financial Stability

Hitachi recognizes that ensuring the stability of our financial base is an important management issue in terms of realizing growth investments (¥2.0 trillion–¥2.5 trillion over three years) and continuous return of profits targeted in the 2021 Mid-term Management Plan. To this end, we must maintain an A-rating on our corporate bonds and a D/E ratio of about 0.5 times.

The Hitachi Group's ability to generate cash has increased steadily over the past five years with improvements in our financial structure leading to rating improvements as shown in the table on the right.

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 September 2020

Strategy 3 Reinforce Management System to Improve Profitability

Financial and Capital Strategies and Shareholder Returns Going Forward

Basic Approach to Funding Procurement

Funding procurement is conducted by the most appropriate means considering a variety of conditions, including the timing and funding required for business. When procuring funds through borrowing, our financial discipline policy 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. Our 2021 Mid-term Management Plan includes a budget for growth investments of ¥2.0 trillion–¥2.5 trillion over the three years from fiscal 2019 to fiscal 2021, which will be procured through ¥4.0 trillion–¥4.5 trillion in cash on hand, borrowings and gains from the sale of assets.

Basic Approach to Capital Costs

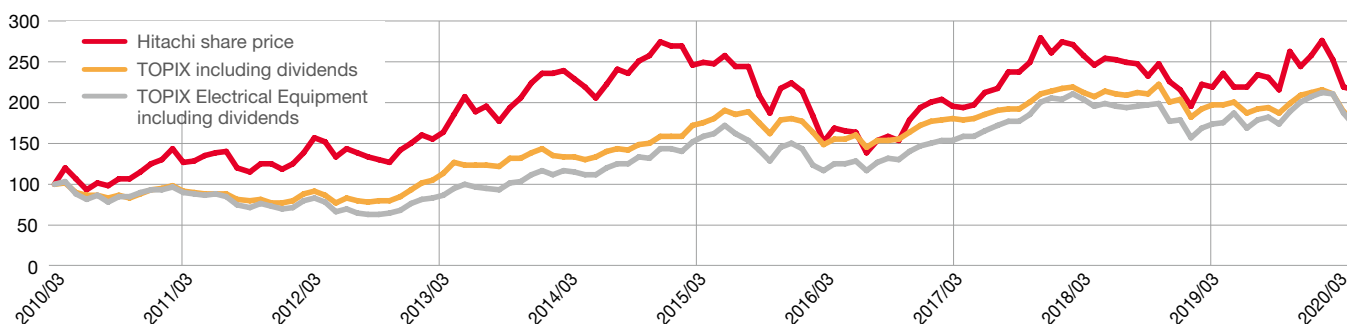
Regarding the cost of capital (hurdle rate) used for individual investment decisions, calculations are made on a case-by-case basis in light of interest rates, country risks and the expected stock market returns in the country where the investment will be made.

Basic Approach to Shareholder Returns

Returning profits to shareholders through the medium- to long-term enhancement of corporate value and ongoing dividends is an important management priority for Hitachi. Regarding dividends, our policy is to attempt to provide stable dividend growth, while ensuring the funding necessary for investments. Under this policy, we make decisions based on overall consideration for performance trends, financial conditions, dividend payout ratios and other factors. Share buybacks are conducted flexibly to supplement dividends in accordance with funding demand and the business environment. Internal reserves are used for M&A, R&D, capital expenditures and other activities to ensure Hitachi's competitiveness and growth as a global company based on medium- to long-term management strategies.

In its 2021 Mid-term Management Plan, Hitachi plans for total shareholders return over the three years from fiscal 2019 through fiscal 2021 to exceed the total for the previous three years through fiscal 2018.

Total Shareholders Return (TSR) for Hitachi, Ltd., Over the Past 10 Years



	Past 1 Year	Past 3 Years		Past 5 Years		Past 10 Years	
	TSR	TSR	Annual TSR	TSR	Annual TSR	TSR	Annual TSR
Hitachi share price	-9.7%	13.0%	4.1%	-14.3%	-3.0%	116.1%	8.0%
TOPIX	-9.5%	-0.4%	-0.1%	1.8%	0.4%	78.4%	6.0%
TOPIX Electrical Equipment	-1.4%	9.4%	3.0%	8.9%	1.7%	72.9%	5.6%

Note: The graph and table above show return on investment for investments made from the fiscal year ended March 31, 2010, taking into account dividends and stock prices as of the fiscal year ended March 31, 2020. Hitachi, Ltd., investment performance, including stock prices and dividends, is indexed using 100 as investment amount as of March 31, 2010. The TSE Stock Price Index (TOPIX), which is a comparative indicator, is similarly indexed using data including dividends for electrical equipment.

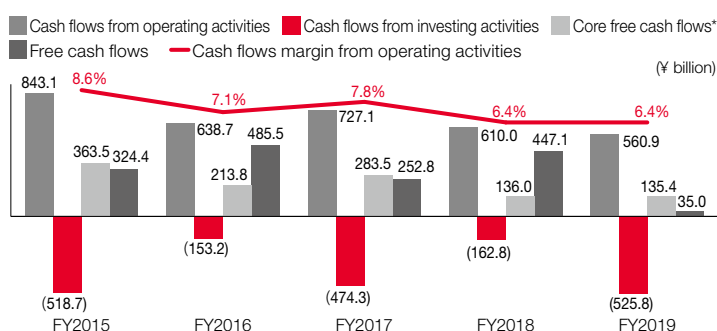
Total shareholders return (TSR), including dividends and stock price fluctuation, is shown above.

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.

Strengthening Cash Management

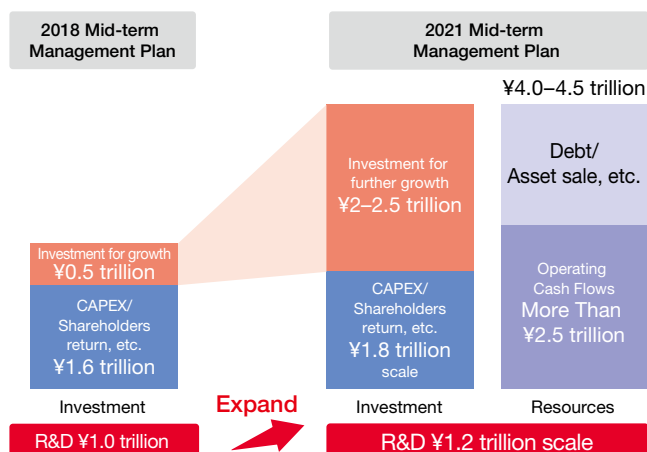
To keep pace with the rapid changes in society and the economy, Hitachi places an emphasis on stable cash flow by 1) ensuring adequate liquidity on hand; 2) enhancing the generation of cash flows from operating activities by obtaining business opportunities, reducing working capital, such as inventories,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

Cash Flows



* "Core free cash flows" are operating cash flows plus collection of investments in leases less cash outflows for the purchase of property, plant and equipment, intangible assets, software, and the assets to be leased.

Capital Allocation for Improving Profitability



Basic investment policy

M&A

- Expand the digital solutions business while strengthening products and services and securing human resource development, which are efforts essential to providing solutions

R&D

- Strengthen development focused on AI (e.g., image analysis, voice recognition, machine learning), robotics, electrification and security to establish a Cyber Physical System (CPS)

Human resources

- Produce and strengthen human resources who can create new innovation using digital technology and provide optimal digital solutions to customers through external recruitment and internal human resource development

Investments in Priority Growth Businesses

In its 2021 Mid-term Management Plan, Hitachi aims to expand the digital solutions business centered on Lumada, with a focus on the IT and Industry sectors as key investment fields for growth. While

continuing to ensure sufficient capital, Hitachi makes decisions on priorities regarding capital allocations and R&D spending and moves into action. Below is a list of major M&A deals we have made or decided to make to reinforce operations.

Sector	Companies	Acquisition date	Acquisition purpose
IT	Fusionex International	April 2020	Hitachi acquired its SaaS business in AI and data analytics for the Asian region in a bid to accelerate the global development of the Lumada business.
Energy	ABB's power grids business	July 2020	In addition to its world-class power grids business, Hitachi acquired its global customer base, human resources, back-office functions and other business infrastructure to accelerate its transformation into a truly global company.
Industry	JR Automation	December 2019	Hitachi entered the North American robotic systems integration business and acquired its customer base.
	KEC Corporation	April 2019	This acquisition was made to enhance competitiveness in the robotics solutions business.
Mobility	Yungtay Engineering (partial share acquisition)	May 2019	This acquisition of shares was made to 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.
	Business integration of Keihin, Showa and Nissin Kogyo, affiliates of Honda Motor	Within fiscal 2020	This will strengthen the development and provision of globally competitive solutions in the CASE field in the automotive systems business.

Restructuring of 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.

As of the end of June 2020, the number of consolidated subsidiaries was 739 companies (153 in Japan and 586 overseas), a decrease of 64 companies from the end of March 2019. Regarding its listed subsidiaries, in April 2020, Hitachi sold shareholdings in Hitachi

Chemical Co., Ltd., to Showa Denko K.K. In May 2020, Hitachi acquired the remaining shares in Hitachi High-Tech Corporation, turning it into a wholly owned subsidiary. For the two listed subsidiaries, Hitachi Construction Machinery Co., Ltd., and Hitachi Metals, Ltd., Hitachi continues to review its capital policy. Furthermore, we have decided to sell the diagnostic imaging operations of the healthcare business, and in the railway systems business, we sold some additional shares in U.K.-based Agility Trains West (Holdings) Limited, a rolling stock leasing firm, in April 2019. Hitachi continues to sell off non-core businesses and withdraw from low-margin businesses.

CFO Message

Supporting Hitachi Group's Social Innovation Business through the appropriate capital allocation

Yoshihiko Kawamura

Senior Vice President and Executive Officer, CFO

Mr. Kawamura 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 Chief Strategy Officer (CSO) since 2018 and has driven structural reforms and the design of the 2021 Mid-term Management Plan. He was appointed Chief Financial Officer (CFO) in April 2020.



Q: Having been promoted from CSO to CFO, how are you approaching your role as CFO?

The primary duty of the CFO is to make management decisions, mainly about investments, in addition to budgeting and compiling results, the actual work of legal financial accounting, and ensuring accounting compliance. In my previous role as the CSO, I oversaw growth and investment strategies, as well as the Mid-term Management Plan. As the CFO starting in April this year, I support top management in making business decisions by allocating capital and funds across the entire company and comprehensively monitoring returns as a result of it. Japanese companies divide up the roles and responsibilities of the CSO (a majority of which belong to the corporate planning department) and the CFO, but around the world, many companies combine the functions of the CSO and CFO. I believe the experiences I gained as the CSO will be useful in fulfilling my responsibilities as the CFO.

In its 2021 Mid-term Management Plan, ending March 31, 2022, Hitachi plans to execute ¥2.0 trillion–¥2.5 trillion in growth investments. The funds needed for these investments are, of course, based on our operating cash flows, but being procured from diverse sources, including debt financing (e.g., loans from financial institutions, issuance of corporate bonds). Looking ahead, we are keen to maximize returns on investments by appropriately allocating capital while aligning investments with our strategies, procuring capital through an optimal combination of means with an eye on a rise of debt costs. If necessary, Hitachi will reshuffle its business portfolio. It is important to steer the portfolio toward assets that generate higher returns, while optimizing operations on the capital procurement side. Business restructuring is done while comprehensively considering strategic value and synergies with core businesses. On occasion, decisions are made to scale down or withdraw from businesses even if they are profitable.

Q: Last year, Hitachi added return on invested capital (ROIC) as a key performance indicator. What are your thoughts on ROIC management over the past year?

In the past, operating income and operating income ratio were our key performance indicators. In addition to these KPIs, we introduced ROIC as a new indicator last fiscal year, for the purpose of clarifying our intention of pursuing profits commensurate with the cost of capital, while remaining aware of the balance sheet. Hitachi is in position to accelerate company-wide growth by improving capital efficiency and concentrating management resources in highly profitable businesses. Foreign investors make up approximately 50% of Hitachi's shareholders. Part of the reason why we introduced ROIC as a KPI is because these foreign investors pay close attention to the cost of capital. Over the past year, we have striven to instill ROIC management from business units (individual profit centers) to the front lines by using an ROIC tree, which breaks down the individual elements of ROIC and suggests ways to improve each one. To increase earnings, ROIC must exceed the weighted average cost of capital (WACC), a measure of procuring cost of capital (i.e., ROIC spread is a positive value). Since last year, we have periodically conducted reviews of ROIC in each business unit. I believe the rollout of ROIC has had an impact, as discussions have come to center more on ROIC and consensus has formed around ROIC, based on whether the cost of capital aligns with the business being advanced. In addition, ROIC management is increasingly understood in light of the reorganization and use of idle assets such as land, and the concentration of capital that leads to greater investment efficiency.

Despite the impact from COVID-19, which was not envisioned when the 2021 Mid-term Management Plan was drafted in early fiscal 2019, our key management targets have not been changed as of today for capital allocations, including ¥2.5 trillion for growth

investments, a 10% adjusted operating income ratio and 10% ROIC. Debt has increased considerably in accordance with the massive investment Hitachi made to acquire ABB's power grids business, resulting in a temporary elevation in the Debt/Equity (D/E) ratio above our target of 0.5 times, which was set relatively conservatively. Hitachi plans to continue investing in growth while leveraging under the adequate financial discipline and controlling debt so the D/E ratio falls back below 0.5 times going forward. When executing investment, it is necessary to create earnings opportunities while managing risks. By understanding and analyzing the constant changes in the business environment and considering societal issues, our competitive advantages and constraints on management resources, we seek to properly identify and manage a variety of risks as a company. I believe one of my most important duties is to judge and monitor these risks.

Q: Can you explain Hitachi's approach to capital allocation?

Hitachi is keenly aware of the importance of growing in tandem with capital markets. We believe in the importance of having constructive conversations with participants on capital markets that watch companies in various industries along different time lines. For this reason, we make a concerted effort to prepare informational environment for it. Accordingly, this fiscal year, we took a leap of raising our disclosure level of managerial information. I hope that these enhanced disclosures will shed more light on Hitachi's management conditions among capital market participants.

Hitachi mainly considers growth investments in the area where significant synergies with Lumada, our strategic core, can be anticipated, namely digital and IT businesses. In an environment of rapid advances in technology (big tech era), being too much cautious on investment strategies could translate into various opportunity losses in the future. Hitachi aims to maximize corporate value through the pursuit of relatively short-term profits and medium- to long-term growth investments, while considering the balance of overall resource allocations, including R&D spending.

As for shareholder returns, I believe improving corporate value is fundamentally important, more than anything else. We aim to increase earnings per share as a result of improved profitability of overall businesses, which is achieved through investments based on appropriate strategies and the creation of an optimal business portfolio by shuffling assets from weak-performing businesses into relatively profitable businesses. And we believe it is also important to steadily and continually increase dividends. When the timing and various conditions are right, Hitachi considers share buybacks. Hitachi intends to comprehensively improve shareholder returns while striking a balance among increasing corporate value, dividends and share buybacks (maximize total shareholders return).

Q: What is Hitachi's policy on allocating financial and nonfinancial resources in line with its aim of becoming a global leader in the Social Innovation Business?

Hitachi follows strategies that move it closer to its vision of becoming a global leader in the Social Innovation Business. It is important for us to support business units, the front lines for advancing its strategies, on the financial side. I believe the core mission of the finance department is to maximize efficiency in the procurement of financial resources and effectively deploy them to facilitate their sales activities without restriction.

Hitachi promotes the Social Innovation Business by amplifying its presence in social infrastructure and digital transformation. As exemplified in the acquisition of ABB's power grids business, it is necessary to mobilize a large sum of funds for the Social Innovation Business, and we need to come up with an optimal solution to these funding needs. In addition, it is important to prepare a financial foundation on a regular basis so that these essential investments can be made in a timely manner. Hitachi has an adequate level of liquidity, as the pace of capital accumulation has accelerated alongside constant increase in profits. Readyng a foundation for procuring funds is a crucial element of financial strategy, and this foundation entails building cordial and all-around relationships with external financiers and investors, including financial institutions and capital markets around the world, international institutions and government entities.

Furthermore, social expectations for corporations have changed dramatically. For a sustainable company, the nonfinancial side has become increasingly important, in terms of contribution to solutions for social and environmental problems, in addition to management indicators that focus on profitability. Hitachi is proactively tackling social and environmental issues, such as by reducing its carbon footprint, a cause of global warming, and augmenting its corporate behavior as a good corporate citizen. Strategically investing in fields that facilitate solutions for these social and environmental problems should translate into medium- to long-term growth for Hitachi, in my opinion. If we lose sight of the nonfinancial aspects of social and environmental values and mechanically make investment decisions based on the adequacy of short-term profitability, our future corporate values could be eroded. To pursue economic, social and environmental value in parallel (not sequentially), Hitachi will manage operations with an eye on medium- to long-term returns, while paying due consideration to nonfinancial value and relationships, which do not always factor into short-term profitability. The finance department lends its support to the parallel pursuits of economic, social and environmental value.



Story of Value Creation in the IT Sector

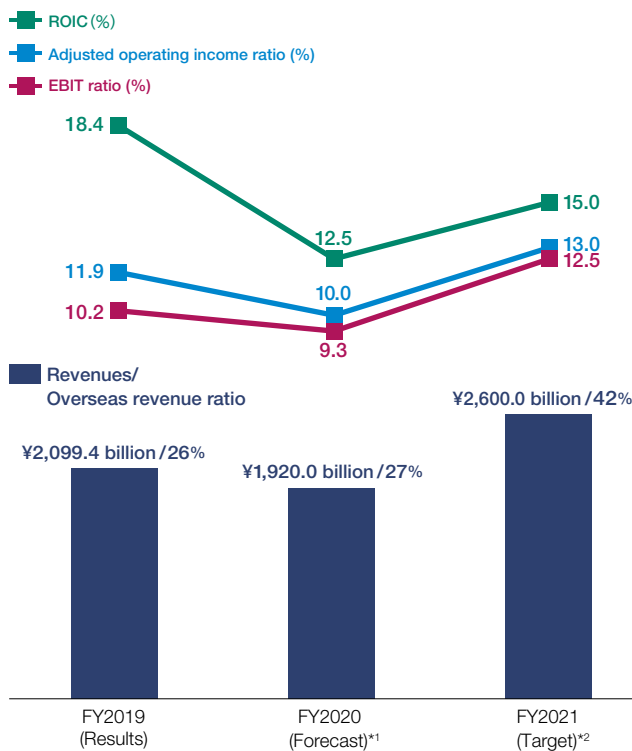
Digital transformation (DX) is attracting considerable attention. DX refers to a trend in which digital technologies such as AI, IoT, robotics and 5G are being used to respond to the digitalization of market environments. As this trend unfolds, it is transforming the economic activities of companies and the business models that form them, as well as the internal organizations, cultures and systems that make up the companies themselves. In 2020, the COVID-19 pandemic resulted in a global turning point for values regarding how business should be ideally conducted in response to consumer activity and supply chain considerations, and for business philosophies in general. Individual lifestyles and work styles have also changed significantly due to the pandemic. Amid this “New Normal,” demand for remote, contactless, and automation including unmanned and labor-saving technologies is growing, and DX appears likely to pick up further speed moving forward.

Activities for Creating Social and Environmental Values



Contributing to economic development in India
Payment services
 Over **400** mill. people

Results and Targets



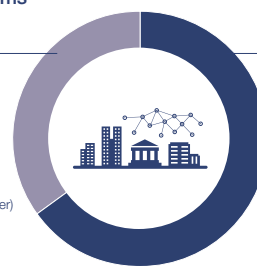
*1 Announced on July 30, 2020 (ROIC was announced on May 29, 2020)
 *2 Announced at the "Hitachi IR Day 2019"

Principal Products and Services

FY2019 Revenues **¥2,099.4** billion

Services & Platforms
37%

- IoT platform
- Data analytics
- AI
- Cloud service
- Security
- IT products (storage, server)
- Control systems



Front Business
63%

- Financial systems
IT for banking, insurance and securities
- Public systems
IT for public offices, municipalities and educational institutions
- Systems for social infrastructure
IT for power generation/energy, transport and communication carriers
- Defense systems
- IT functions commonly used for all companies
Application development, engineering, operation and maintenance, project management and quality assurance



Vision in the 2021 Mid-term Management Plan

In the IT sector, we are using the power of digital technologies to fulfill the expectations of customers in Japan and overseas while aiming to realize a sustainable society and become a top-class solution provider in the global market. The impact from the spread of COVID-19 has given rise to concerns of further stagnation in IT demand. However, the pandemic has also resulted in the global acceleration of DX, a trend in which digital technology is being used to transform corporate management and business models. This intensification of

DX is also generating more opportunities for investment. In response to corresponding needs, we are aiming to improve the social value generated by our digital solution business in the highly developed financial and social infrastructure fields. At the same time, we are striving to raise overall environmental efficiency throughout the lifecycle of our products and services while targeting the creation of environmental value.

Progress on the 2021 Mid-term Management Plan

We have expanded revenues and improved profitability in the IT sector by reinforcing front-line functions related to financial, public and social infrastructure systems and expanding services and platforms that support DX, including those associated with cloud services, data analytics, and IoT and AI technology.

Meanwhile, the IT sector has been a major driving force behind the Lumada business, which is an engine of overall growth for Hitachi, while also acting as a cross functional organization in collaboration with the Energy, Industry, Mobility and Smart Life sectors to promote business expansion.

Moving forward, we will actively invest in growth with the goal of steadily promoting the “sales expansion in the growing global market” detailed in our 2021 Mid-term Management Plan and accelerate the global rollout of Lumada while striving to achieve business expansion.

In terms of specific measures, we strengthened systems supporting the global expansion of the Lumada business with our January 2020 integration between Hitachi Vantara Corporation and Hitachi Consulting Corporation. This new Hitachi Vantara LLC will play a key role in carrying out front-line and delivery functions while striving to maintain close collaboration with the entire Hitachi Group and driving global expansion of the Lumada business. In addition to this integration, in April 2020, we obtained digital service business expertise, excellent data scientists, as well as new customer bases, from Fusionex International Plc in Malaysia. Moving forward, we will incorporate AI and data analytics technology and expertise regarding subscription-model service businesses into the Lumada business as we aim for business expansion in the global market. Meanwhile, we will continue to consider further acquisitions and alliances aimed at procuring personnel, business sites and other business resources.

Furthermore, we are working to establish Lumada Solution Hub, a common platform that will allow customers to quickly implement Lumada, while developing advanced digital technology. In the future, we will utilize the technology and expertise in the IT sector to digitalize, and increase the added value provided by, products and solutions businesses associated with other sectors and promote business expansion.

■ Global Business Promotion

In January 2019, we established a joint venture with State Bank of India (SBI), the largest state-owned commercial bank in India. Through this venture, we aim to build a digital payment service platform for the next generation. By collaborating with SBI, which has about 400 million customers (equivalent to roughly one-third of India’s population), we are analyzing and utilizing vast amounts of digital payment data obtained from point-of-sale (POS) systems, e-commerce and transportation fare payment systems in an effort to provide high-value-added services in India. In fiscal 2020, we established a department

within Hitachi Payment Services Pvt. Ltd. that focuses on data analysis with the goal of promoting further business collaboration with SBI. At the same time, this department began to collaborate with Hitachi’s R&D Division as the company aims to create new services that leverage payment data.

In Vietnam, we began field testing an automatic loan contract service through a partnership with VietCredit Finance Company, a local financial institution, in February 2020. Once ready, this service will digitize loan agreement processes ranging from initial applications to subsequent screenings and conclusions. By establishing the first-ever automatic loan contract service in Vietnam, we will reduce the burden of service counter operations that were previously conducted using paper and aim to raise the efficiency of office services. At the same time, we will enable detailed, data-based screening utilizing our original AI technology, which has been successfully utilized in home loan screenings in Japan.



Payment conducted on-site in India



Signing ceremony with VietCredit Finance Company



Story of Value Creation in the IT Sector

Contributing to Prevent the Spread of COVID-19

Hitachi is supporting customers in their pursuit of DX by using Hitachi's digital technologies in response to the "New Normal" with COVID-19. For example, we will provide a variety of solutions that support remote working, including systems that allow customers to use devices such as tablets, smartphones and laptops to safely access their normal digital work environments from any external environment, including homes and satellite offices. Through these solutions, we furnish business continuity support for both organizations and activities, including many companies and social infrastructure-related projects. In addition, Hitachi Vantara provides a body temperature detection solution for the COVID-19 pandemic that unobtrusively scans people with a greater accuracy than manual temperature measurement. The

system scans people who may be queuing to enter a venue or facility. Once its machine learning software detects an individual with a temperature exceeding the threshold level, the system will issue an alert. With this system, we support risk management in event venues and other places in which people gather in large groups. The system can also be used to detect and measure social distancing, and to monitor proper handwashing, without gathering private information. Furthermore, Hitachi-Omron Terminal Solutions, Corp. has developed "touchless solutions" that achieve clean, contactless device operation without requiring users to manipulate any equipment or parts; its aerial input device has already launched and allows users to operate devices by touching an image that is projected into the air, rather than a button or touch panel.



Conceptual image of the body temperature detection solution for COVID-19

Maximizing the Added Value Provided by Solutions with Lumada×5G

In 2020, telecom carriers began providing commercial services based on 5G, which is the next generation telecommunication system. This high-speed telecommunication network launch amid the spread of IoT technology will dramatically increase Hitachi's potential for providing solutions as it supports DX.

Hitachi has established experimental 5G stations within its factories, offices and research laboratories and is using them to accumulate the technical knowledge required to construct 5G environments. By examining and developing use cases in 5G environments and services, the entire Hitachi Group is supporting the 5G solutions that are expected to form a thriving new market. Based on the expertise and technologies cultivated through these efforts, the Hitachi Group will provide total support for the construction and implementation of 5G environments in a wide range of companies and local governments. This comprehensive support will include network design, construction, operation and maintenance, as well as the provision of upper-layer applications.

Particularly in the Industry field, where needs are reportedly most prevalent, we are preemptively developing and testing use cases and will collaborate with a wide variety of customers and partners to generate new work styles amid the "New Normal" through means such as the implementation of wireless technology in factories to support the construction of flexible production lines and remote operation. In addition, in the Mobility, Smart Life and Energy sectors,

we will develop a range of applications that support new value creation through the use of 5G technology, conduct relevant preparations and development on the Lumada Solution Hub, and swiftly roll out these applications within the market.

Featuring ultra-high speed, low latency and support for multiple connections at the same time, 5G has the potential to facilitate further evolution in digital technologies such as AI, IoT and robotics. It also speeds up cyber-physical systems, which process and analyze a variety of data on a large scale in cyberspace and apply the results in the physical world.

5G is an essential platform that provides the fundamental technologies that will accelerate the development of the world envisioned through Hitachi's Lumada, where OT and IT have fused together. By combining Lumada with 5G, we will further raise the added value associated with the solutions it provides.



Story of Value Creation in the Energy Sector

Global demand for energy has continued to increase alongside social innovations, such as increasing popularity of electric vehicles (EVs), further industrial electrification and scale-up of data centers, in addition to population increase and economic growth. Around the world, the movement to reduce CO₂ emissions and decarbonize has gained momentum to combat climate change. In developing countries, meanwhile, more than a billion people struggle to live without electricity due to severe power shortages*. To solve these problems, Hitachi is contributing to society by energy solution businesses including power grids, nuclear energy and renewable energy leveraging its strengths in OT × IT × Products.

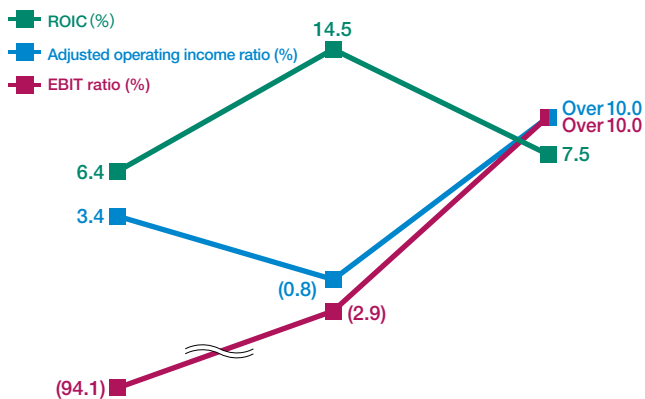
* Source: Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry (Japan's Energy White Paper 2018)

Activities for Creating Social and Environmental Values

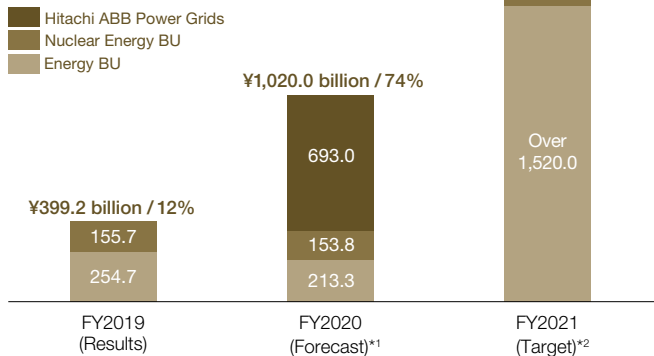


Supplying stable energy
Managing power grids
1.8 bill. people
(cumulative total)

Results and Targets



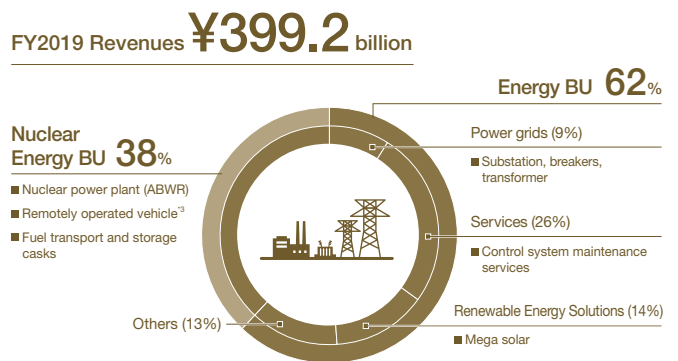
Revenues / Overseas revenue ratio



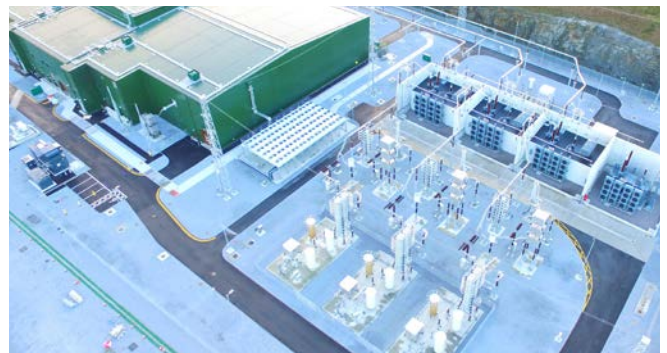
Vision in the 2021 Mid-term Management Plan

The energy business is one of the core businesses of our Social Innovation Business and contributes to the achievement of SDGs. Within the Energy Sector, we will collaborate with all users and partners involved with energy in three business domains (power grid solutions, solutions & services, and nuclear energy) that are the subject of focus in terms of energy value chains to co-create solutions aimed at energy conservation and achieving carbon-free society. By providing energy solutions that leverage the strengths of OT × IT × Products, we will help customers ensure a stable supply of energy while contributing to efficient equipment management, the reduction of CO₂ emissions and the realization of a low-carbon and decarbonized society.

Principal Products and Services



*1 Announced on July 30, 2020 (ROIC was announced on May 29, 2020 and does not include Hitachi ABB Power Grids)
 *2 Announced at the "Hitachi IR Day 2019" (Hitachi ABB Power Grids is included under Energy BU)
 *3 The development was executed as one of the assignments of the International Research Institute for Nuclear Decommissioning (IRID) with subsidies for the expenses of decommissioning and contaminated water disposal provided by the Agency for Natural Resources and Energy.



Conceptual image of the HVDC converter station that Hitachi ABB Power Grids received an order in a multi-terminal HVDC interconnection project



Pre-assembly work conducted at the Port of Taichung in the Changhua Offshore Wind Farm Project



Story of Value Creation in the Energy Sector

Progress on the 2021 Mid-term Management Plan

Amid growing demand for energy globally, the world is moving toward renewable energy with the aim of decarbonization. The amount of electricity generated by renewable energy is expected to grow at an annual average of about 4.5% based on current development plans in each country¹. As renewable energy expands, it is necessary to upgrade power grids and achieve more sophisticated management of power grids using digital technology, to strengthen power interconnections and supply-demand adjustment capabilities.

Due to the spread of COVID-19, we anticipate that “green” and “digital” investment within the energy market will continue to expand even as people’s lifestyles and corporate activities undergo significant changes. This business environment acts as a boost for the Hitachi Group, which provides digital energy solutions that take full advantage of Lumada.

In the Energy Sector, Hitachi is transforming its business portfolio in response to changes in energy market conditions, while reinforcing the solutions business and launching high-value-added services. In December 2019, Hitachi reached a settlement with Mitsubishi Heavy Industries, Ltd., regarding thermal power generation projects in South Africa, which had been a longstanding concern for many years, resulting in the transfer of all of Hitachi’s shares in Mitsubishi Hitachi Power Systems, Ltd.², to Mitsubishi Heavy Industries, Ltd. In July 2020, Hitachi acquired the power grids business of ABB Ltd, a world leader in this field, and established Hitachi ABB Power Grids Ltd. Through this acquisition, we enhanced our global competitiveness by incorporating into Hitachi Group new business foundations such as ABB’s top-tier transmission & distribution products and services, an expansive global footprint including about 90 countries and regions, approximately 200 business locations, a customer base of more than 15,000 client companies, and 36,000 employees.

To create synergies through this merger, over the short term, both Hitachi and Hitachi ABB Power Grids will make joint offerings in the Japanese market, where the former has demonstrated strength, and in North American, European and Middle Eastern markets, where the latter has exhibited advantages. Over the medium to long term, we will combine our powerful resources and expertise with Lumada to arrive at new digital energy solutions that extend beyond the boundaries of the Energy Sector and endeavor to achieve global expansion that will serve as one of the core businesses of the Social Innovation Business.

¹ Source: IEA World Energy Outlook 2019

² On September 1, 2020, the company’s name changed to Mitsubishi Power, Ltd.

Power Grid Solutions Business

Building advanced energy management systems requires knowledge of energy and cutting-edge digital technologies. The energy business experience and digital technology that Hitachi has developed over many years, and global business of Hitachi ABB Power Grids can be fully leveraged in the power grid solutions business. Through this business, we are actively developing high-voltage direct current (HVDC) transmission and substation equipment business for cross-region / country interconnection and offshore wind power market. At the same time, we are striving to develop and deploy new solutions that combine DC transmission and digital technologies. In April 2019, we announced that we received an order for HVDC transmission systems for the Chubu Electric Power Co., Inc., Higashi-Shimizu substation. In addition, in August 2020, we announced that we received an order for HVDC systems that will be installed in Europe for the first time as part of a multi-terminal HVDC connection project that will link wind power stations in the Shetland islands to the grid of U.K. In September, we announced an order to build 4 substations for 3 wind power stations in Poland and an agreement with MHI Vestas Offshore Wind A/S under the terms of which we will provide transformers for offshore wind projects in Taiwan. Furthermore, we are striving to expand our solutions in industrial fields for increasing data centers, factory electrification, and EVs. In July, we launched Grid-eMotion™ Fleet, EV charging system for electric buses or commercial EVs.

Examining trends in major markets by region, in North America, digital initiatives are underway, such as using blockchain technology in the energy field. In Europe and China, there are major business opportunities for power grids. In the Middle East, there is a movement away from oil & gas, with more emphasis being placed on renewable energy and making urban infrastructure smarter. In India, national power grids are being modernized with digital technology. In Japan, the priority is to strengthen resilience by upgrading grids and deploying digital solutions. We are aiming to expand our businesses by accelerating growth in the Social Innovation Business within these regions.



Ceremony for the establishment of Hitachi ABB Power Grids (July 1, 2020)

■ Solution & Service Business

In the solution & service business, we are applying our extensive OT and digital technologies to provide service solutions that improve the stability and efficiency of facility operations in pursuit of a decarbonized society. We are providing solutions that are tailored to meet the unique needs of individual regions and customers and are designed to resolve a wide variety of issues. These solutions are based mainly on wind and solar power generation systems, as well as distributed power generation systems combined with integrated energy / facility management services. Utilizing Lumada, we integrate our technological capabilities and know-how accumulated on-site with our digital technologies to provide a wide range of services and solutions, including increasing the efficiency of inspection planning, predictive diagnosis of breakdowns, remote monitoring, and more advanced and speedy maintenance. We are striving to launch high-value-added service businesses and strengthen solutions businesses; in 2019, we received an order from TOA Oil Co., Ltd. of a cloud service based on Gas Turbine High Temperature Parts Management Platform to improve the efficiency of inspection and maintenance, and to increase the maintenance capabilities of operators. In August 2020, we also launched comprehensive maintenance services for emergency power generators to improve performance by analyzing remote monitoring data of operation and inspection.

Meanwhile, in wind power generation, installed capacity is projected to more than triple around the world over the 20 years from 2015 to 2035, mainly in Asia* and we are currently manufacturing and installing wind turbines for the Changhua Offshore Wind Farm Project in Taiwan. In the Japanese market, we are providing one-stop solutions that combine our track record and knowledge related to engineering, installation and maintenance services, with products from our partner, Enercon, a wind turbine manufacturer based in Germany. In response to strong needs for expertise and digital technologies that can realize and guarantee high operation rates from wind power generation systems, we will expand solution & service business that are focused on renewable energy and help raise the profitability of our customers by providing maintenance and other services utilizing predictive maintenance systems for wind power generation equipment supplied by other companies. At the same time, we will focus on developing and manufacturing high-performance power semiconductors used in a variety of products that promote industrial electrification and energy conservation.

* Source: IEA World Energy Outlook 2019

■ Nuclear Energy Business

Through the nuclear energy business, we contribute to realize a decarbonized society and provide a stable supply of energy. Within this business, Hitachi is utilizing its high-level technologies and abundant expertise to facilitate the completion of safety improvement measures for nuclear power stations in Japan and the restart of these stations. Meanwhile, we are actively conducting decommissioning measures at the Fukushima Daiichi Nuclear Power Station through investigations in the reactor buildings and the development of technology designed to remove fuel debris. Regarding Small Modular Reactors, which are projected to generate high demand in the future, we will focus on joint development involving both Japan and the United States as we consider customer viewpoints and nuclear power policies and provide innovative nuclear reactors that are safe, economically efficient and highly acceptable for society.



The Chugoku Electric Power Co., Inc., Shimane Nuclear Power Station Unit 3 (under construction)



Story of Value Creation in the Industry Sector

The industrial market has been undergoing rapid and complex changes, such as declining working-age populations and intensifying global competition, as well as climate change and resource shortages. In such an operating environment, COVID-19 has significantly changed people's lifestyles and corporate activities, and in various parts of the industrial market, there are greater expectations for new services and innovations that use cutting-edge digital technologies, such as AI and IoT.

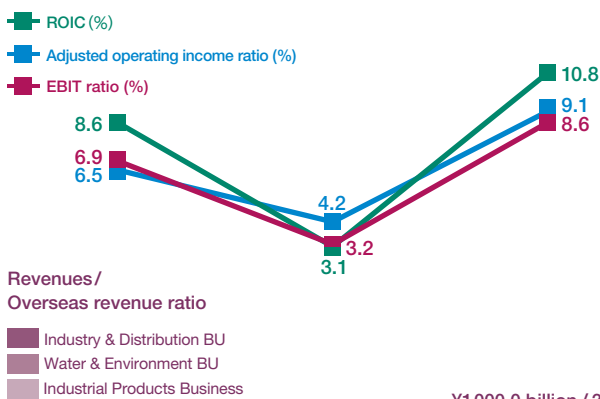
Activities for Creating Social and Environmental Values

Providing safe and secure water environments

Water and sewage systems

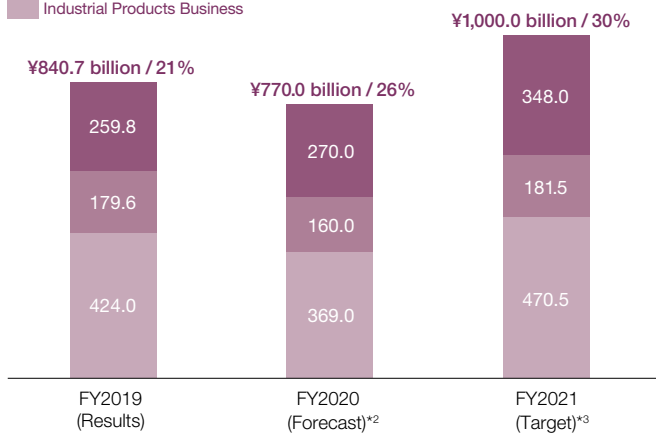
70 mil. people/day
(cumulative total)

Results and Targets^{*1}



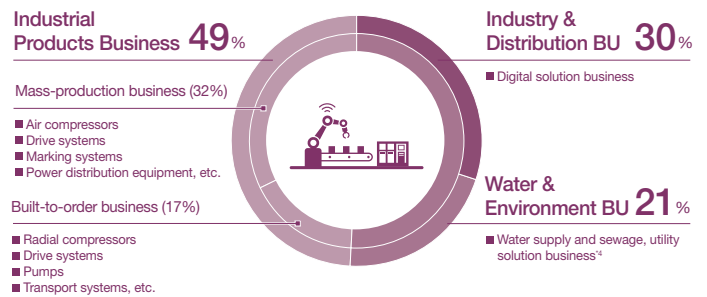
Revenues / Overseas revenue ratio

- Industry & Distribution BU
- Water & Environment BU
- Industrial Products Business



Principal Products and Services

FY2019 Revenues **¥840.7 billion**



^{*1} Figures for each subsegment include intersegment transactions.

^{*2} Announced on July 30, 2020 (ROIC was announced on May 29, 2020)

^{*3} Announced at the "Hitachi IR Day 2019". Fiscal 2021 (target) for the Industry & Distribution BU, the Water & Environment BU and the Industry Sector as a whole includes the control system business, which is included in the IT Sector.

^{*4} Air conditioning and water treatment facilities for factories, social infrastructure, etc.

Vision in the 2021 Mid-term Management Plan

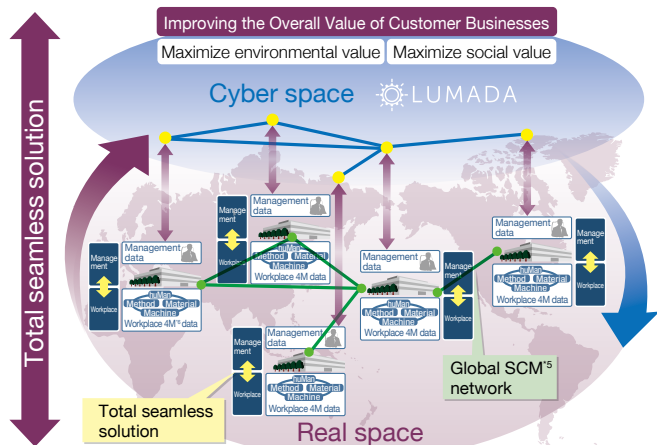
In the Industry Sector, Hitachi aims to become the best solution partner for our industrial customers tapping into Hitachi's unique strengths in "Products × OT × IT." We will create social, environmental and economic value by "increasing the efficiency of customers' production and processing systems" by delivering our solutions that contribute to productivity and quality improvements in the manufacturing and distribution fields; "providing safe and secure water environments" to 70 million people per day worldwide with our water and sewage infrastructure and seawater desalination technology; and "reducing CO₂ emissions" through energy-saving products.

Progress on the 2021 Mid-term Management Plan

Providing Total Seamless Solution

The needs of our industrial customers have been becoming diverse and sophisticated in recent years. In addition, the spread of COVID-19 has given rise to new issues such as ensuring employee safety and improving productivity through automated, contactless and remote operations as well as business continuity within supply chain disruptions. In the Industry Sector, we use Lumada to identify gaps in the overall value chain, which we view as "boundary" issues between management, workplaces and supply chains, and connect cyber spaces and real spaces using digital technologies to provide total seamless solution that resolves issues existing on these boundaries and attempt to create new business value aimed at business

optimization from the perspective of management. These solutions are underpinned by fusing our “Products × OT × IT” capabilities. For many years, Hitachi has been sharpening our product such as industrial equipment, OT that controls and operates the industrial systems, and IT that helps our customers manage their overall business operations. We are leveraging these 3 technological capabilities.



Vision of the Industry Sector

*5 SCM: Supply Chain Management
*6 4M: huMan, Machine, Material and Method

In the manufacturing industry in particular, labor shortages, soaring labor costs and growing needs for automation due to COVID-19 will advance the shift from “manufacturing through people and machine” to “manufacturing in which people and robots collaborate” like never before. Against this backdrop, with the aim of strengthening our response to boundary issues between the workplace and management, we acquired JR Automation, a U.S.-based robotic SI business, and Japan-based KEC in 2019. Centered on the robotic SI business, which is expected to have a high growth potential globally and involving the collection of massive amounts of data, we will use Lumada to create a seamless connection from the workplace (OT) to management (IT) facilitating major changes in manufacturing industry modality.



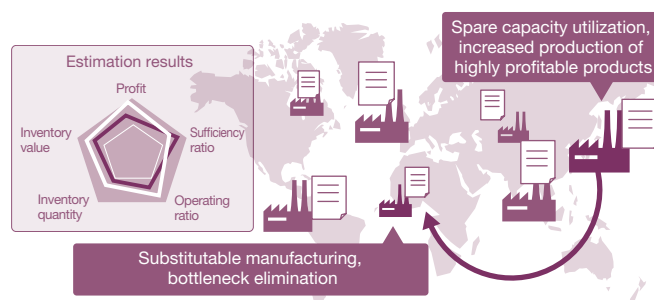
JR Automation’s robotic SI business

Here is an example of delivering our total seamless solution that connects the boundary between workplace and management. Hitachi worked with MonotaRO Co., Ltd., which is a major Japanese e-commerce company that handles industrial supplies and products. In this project, we received an order for transportation equipment, including approximately 400 units of compact and low-floor automated guided robot called “Racrew”, as well as warehouse control systems. These technologies will contribute to improved operational efficiency that is three times faster than conventional picking. Hitachi and MonotaRO have begun looking at the future introduction of warehouse management systems and robotics, aiming for further enhancements to these systems.



Racrew, a compact and low-floor automated guided robot in operation at the MonotaRO Kasama Distribution Center

Another example of delivery of our solution that connects the boundary between the supply chains is our recent collaborative creation with Daikin Industries, Ltd. Prior to this project, we have worked together with Daikin regarding advances in manufacturing sites involving the digitization of brazing work and chemical reaction processes. Our recent collaborative creation aims to contribute to maximizing value from a management perspective. In this project, we applied Hitachi Group’s SCM optimization solution technology to Daikin’s chemicals business, in order to formulate and execute optimal production and sales planning that quickly responds to demand fluctuations. The solution started to be used in live environment from June 2020. This solution allows Daikin to create approximately 60 times more manufacturing and sales actions faster than conventional approaches, and to build consensus quickly based on the results of quantitative simulations of those actions. Consequently, we confirmed that the solution can reduce the time it takes to make decisions by about 95%.

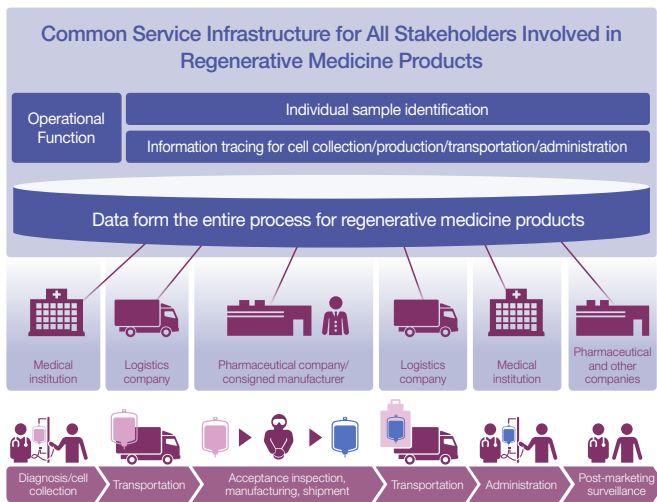


Formulation and execution support solution of optimal production and sales planning implemented through collaborative creation with Daikin Industries, Ltd.



Story of Value Creation in the Industry Sector

Another example of our solution that connects the boundary between different companies in the supply chain is a platform for integrated management of cell and tracing information throughout the entire value chain, from cell collection to production, transport and administration of regenerative medicine products⁷. This platform was built through collaborative creations with ethical pharmaceuticals wholesaler Alfresa Corporation, pharmaceutical companies, medical institutions and others, and will start practical operations in 2021 as first⁸ common service infrastructure in Japan that can be used by all stakeholders involved in the value chain of the products.



Overview of the regenerative medicine products value chain integrated management platform

Going forward, Hitachi will make an effort to provide next-generation solutions aimed at optimizing business from a management perspective by seamlessly connecting the entire value chain including the supply and engineering chain⁹.

One example from the Water & Environment BU is a special purpose company set up in 2019 with Hitachi as the representative company that was entrusted with the renewal of water purification plant equipment, including a 20-year operation and maintenance management contract, for a facility in Hakodate City, Hokkaido. We are promoting our business by combining Products x OT x IT track record and know-how cultivated over many years as a comprehensive water provider. Going forward, while collaborating with Hakodate City, we will propose advanced technologies and services such as Hitachi's O&M¹⁰ support digital solutions to improve the efficiency of operations and facility management.

Through collaborative creations with customers and partners, Hitachi will develop and provide solutions in industrial fields utilizing Lumada as we continue to develop the Lumada ecosystem.

⁷ Products that have been processed under the responsibility of a corporation among cell processed products used for cell therapy/gene treatment/regenerative medicine

⁸ As of August 31, 2020, according to Hitachi research

⁹ Engineering chain: A series of business flows, from planning and development to design, trial evaluation, production design and design maintenance within product development.

¹⁰ O&M: Operation & Maintenance

Acceleration of Global Expansion

In the Industry Sector, we are accelerating business development in the North American region, including the acquisition of air compressor manufacturer Sullair in 2017 and JR Automation in 2019. In April 2020, Hitachi Industrial Holdings Americas, Inc. was established with the aim of further strengthening the industry business in North America. Hitachi Industrial Holdings Americas is based in Chicago, the center of the American Midwest where manufacturing industries are concentrated in the United States, and has Sullair and JR Automation under its umbrella. We are accelerating provision of total seamless solution combining digital solutions and products through the mutual utilization of our abundant customer base and resources in North America.

Following the strengthening of our North American management base, we will continue to enhance our global competitiveness through further expansion into the Southeast Asian and Chinese markets.

COVID-19 Response Solutions

In the Industry Sector, we are proactively developing business aimed at resolving social issues, including the provision of support for the production of face masks, respirators and antigen test kits, the demand for which is rising rapidly due to the spread of COVID-19. In March 2020, JR Automation, collaborated with General Motors Company to build an assembly line in six days that produces 50,000 medical masks a day, which are in great demand in North America. Additionally, in Japan, Hitachi is participating in the planning of engineering services for incidental facilities at a new factory making ESPLINE SARS-CoV-2 novel coronavirus (SARS-CoV-2) antigen test kits provided by Fujirebio Inc., a wholly-owned subsidiary of H.U. Group Holdings, Inc. By supporting the rapid commencement of operations at this facility, Hitachi is contributing to the expansion of COVID-19 testing, which is an urgent social issue in Japan.

In Pursuit of Further Growth in the Industry Sector

In the Industry Sector, we will strengthen and expand total seamless solution that leverage the strengths of Products x OT x IT and accelerate and enhance global expansion in pursuit of further growth. Furthermore, we will aim to become a high value-added business entity by expanding recurring business¹¹ and improving capital efficiency.

¹¹ Cycling business that exists after sale service market and continual replace demand such as replacement parts.



Story of Value Creation in the Mobility Sector

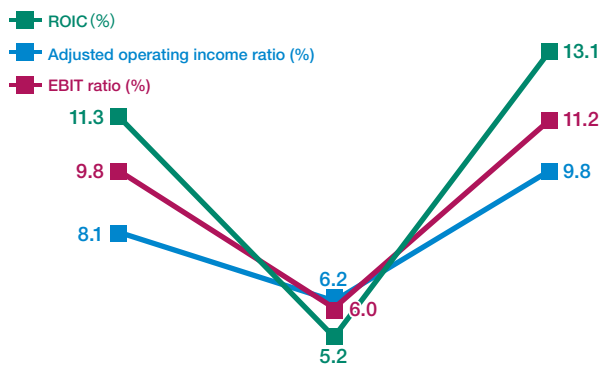
In the Mobility Sector, Hitachi offers products and services that are gentle on the environment while enhancing the safety, security and comfort of people all over the world, through the provision of solutions as core elements of clean and highly efficient smart cities. These include smart solutions that facilitate faster and more environmentally friendly travel between cities, reduce reliance on automobiles inside cities and enhance the flow of people inside high-rise buildings.

Activities for Creating Social and Environmental Values

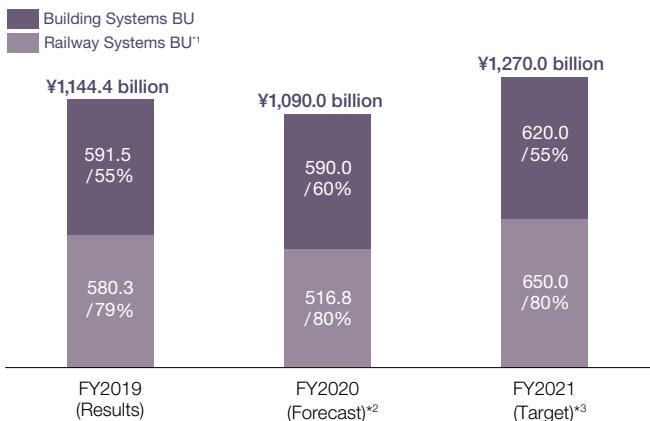
Providing safe, secure and comfortable transportation services

Railway services
18.5 bill. riders/yr.
 (cumulative total)

Results and Targets



Revenues / Overseas revenue ratio

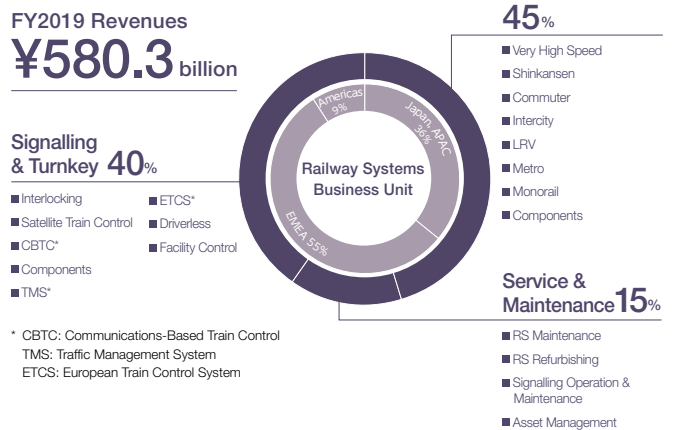
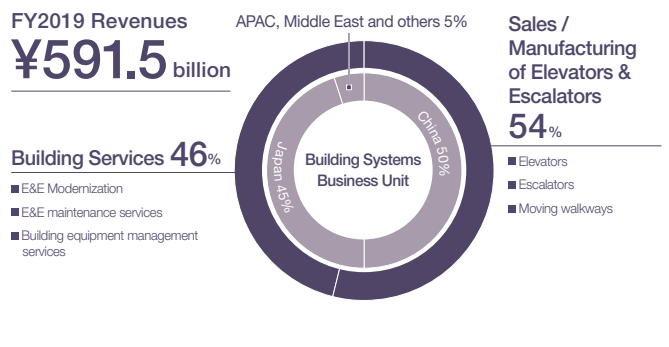


*1 Figures for Railway Systems BU include the control systems business, which is posted in the IT segment.
 *2 Announced on July 30, 2020 (ROIC was announced on May 29, 2020)
 *3 Announced at the "Hitachi IR Day 2019"

Vision in the 2021 Mid-term Management Plan

In the Mobility Sector, Hitachi contributes to the enhancement of social value through the provision of safe, secure, and comfortable transportation services, and through the products and services that solve problems in urban spaces including buildings. We also aim to create environmental value, such as by reducing CO₂ emissions, by realizing transportation services with a smaller environmental footprint.

Principal Products and Services



Progress on the 2021 Mid-term Management Plan

Building Systems Business Unit

The Building Systems Business Unit manufactures and sells elevators and escalators (E&E), and provides building services that include maintenance and modernization of E&E, and other solutions for buildings. We aim to boost profitability and growth in operations, centered on markets in China, Japan, Asia and the Middle East.



Story of Value Creation in the Mobility Sector

Overview of E&E Market: Expansion in Services and Solutions Business

China dominates the world market for E&E, accounting for more than 50% of demand for new installations. Although the Chinese market should hold steady at its current scale, the pace of growth in demand for new installations has been tapering off, shifting the growth driver to the maintenance and modernization services business. Demand for new installations of E&E appears likely to expand in most countries in the Asia and Middle East regions, including India, which is second only to China in market scale. In Japan, meanwhile, demand for modernization services has held steady, and expectations are mounting for new solutions that enhance the added value of buildings with digital technologies.

Business Resilient to COVID-19 and Response to “New Normal”

In China, the world’s largest market, Hitachi has improved profitability by cost reductions and other cost-cutting measures, while also leveraging its advanced products and technological capabilities to acquire a leading share of the market* in terms of new installation orders for the past two fiscal years from fiscal 2018. In the fourth quarter of fiscal 2019, COVID-19 pandemic paused work on new installations, but operations have resumed in fiscal 2020, and we think more business opportunities will arise amid stronger interest in remote monitoring and maintenance services, areas of strength at Hitachi.

In Japan, the overall business scale in fiscal 2019 was identical to the previous fiscal year, thanks to brisk demand for building services that offset a decline in production and sales of E&E, owing to a downturn in demand for new installations. With tough competition on the market for new installations and growing demand for modernization of E&E, Hitachi aims to sharpen the competitiveness of its E&E product and service offerings, while providing integrated services that combine E&E with building solutions. Furthermore, Hitachi is accelerating efforts in the smart building business, where it provides new value through solutions that utilize IoT, AI and other digital technologies. We are targeting further growth by rapidly developing and providing new solutions tailored to demand in the “New Normal” since COVID-19 outbreak, beginning with touchless solutions that enable non-contact movement and lifestyles inside buildings.

In Asia and the Middle East, business has expanded alongside growth in demand for new installations. Looking ahead, Hitachi is monitoring the impact that COVID-19 will have on new installation demand. Although market conditions and business issues vary by country, Hitachi is eyeing growth in operations by taking a shared strategy of maximizing resources and employing the product competitiveness gained in China.

Expansion of Building Solutions Business with Digital Technology

In the Building Systems Business Unit, we have offered remote monitoring services for E&E and building equipment in Japan for approximately 30 years, and we have been running our business for years in a way that anticipates Lumada's philosophy of creating value from data and accelerating innovation. Furthermore, in recent years we have stepped up service provision overseas through our global control center, which focuses on providing remote monitoring and maintenance services for E&E and building equipment. Based on the information we gather and analyze about equipment status in real time, we strive to conduct preventive maintenance and are enhancing product competitiveness. In addition to this sophisticated remote monitoring and maintenance service, we provide building owners and managers with a dashboard for monitoring the operations and maintenance status, as well as controlling operations as Lumada solutions, thereby contributing to greater efficiency in building management work. We aim to expand business globally by reinforcing the value chain through the deployment of digital technologies, an area of strength at Hitachi Group.

* Source: Hitachi



■ Railway Systems Business Unit

Against the backdrop of an expanding world population, urbanization and climate change, the railway business will likely grow over the long term. The Hitachi Group has built a robust business foundation in world markets, including Japan, Europe and North America, with rolling stocks, signalling systems and turnkey solutions as core businesses.

Business Resilience Based on Global Competitiveness, Further Improvement in Profitability

In Europe, which accounts for approximately 50% of sales in the Railway Systems Business Unit, demand should remain stable for rolling stocks upgrades and high-speed railway projects, especially in the U.K. and Italy. In fiscal 2019, Hitachi won several large orders that mainly entails rolling stocks for high-speed railways. In early 2020, supply chains were disrupted by COVID-19, including the shutdown of some plants in the U.K. and Italy, but operations resumed in April. Hitachi anticipates brisk performance as it makes steady progress on already ordered projects. In Japan, which generates 20% of sales, modernization demand and projects to develop new types of rolling stocks are expected. In fiscal 2019, Hitachi secured orders for large-scale projects, including Shinkansen rolling stocks, and Japanese market will play a major role as an incubator of new technologies. To sharpen our competitiveness in the global market, we are investing heavily in the Americas, a market with potential for robust demand. Although the Americas account for only about 10% of sales, we are keen to tap into business opportunities, including major projects, through our existing manufacturing bases and presence in the market for services and maintenance. We will accelerate growth with the intention of turning the Americas into a home market.

Worldwide, Hitachi has an order backlog totaling about ¥3 trillion. Our production activities were affected by the lockdowns as many regions combated COVID-19 outbreaks. However, as most of our customers are government-affiliated companies, the impact on our operations has been limited, even though some deliveries could encounter delays, and we expect a recovery to get under way soon. Around the world, although railway passenger numbers and the number of trains running have declined considerably, maintenance and service operations have not been adversely affected by this reduction, as the majority of agreements in this business are based on the availability of the trains Hitachi delivers. Under these circumstances, initiatives to improve profitability in the Railway Systems Business Unit are being given urgent priority, including efforts to increase operating rates at plants and return supply chains to normal. In April 2020, Hitachi entered into a partnership with Cyient, a global engineering firm in India, to establish a global design center for developing technologies related to signalling and turnkey solutions, in a bid to reduce operational costs and enhance earnings capabilities.

Contributions to Development of Railway Business as a Total Solutions Provider with Stronger Presence in Digital Field

Hitachi aims to contribute to the development of the railway business by creating solutions that use digital technology, as a provider of integrated solutions for railways that solve issues and meet needs related to railway operations in various countries. In Denmark, for example, as an IoT solution, Hitachi has launched a proof-of-concept experiment in Copenhagen for optimizing the schedules of automated trains based on the number of people waiting on train platforms, with the objectives of maximizing transportation capacity, easing congestion and reducing costs. In Italy, Hitachi commenced a proof-of-concept demonstration in fiscal 2019 for digital ticketing solutions that feature automatic payments with smartphones based on location data. In addition, in August 2020, Hitachi decided to acquire U.K.-based Perpetuum, which has advanced digital sensor technologies in order to enhance the digital maintenance services that we have been developing and providing. With the rolling stocks, signalling and turnkey business continuing as a core business, Hitachi aims to strengthen the maintenance services business and enhance solutions that use digital technology by incorporating more outside knowledge, with the ultimate aim of further expanding business scale.





Story of Value Creation in the Smart Life Sector

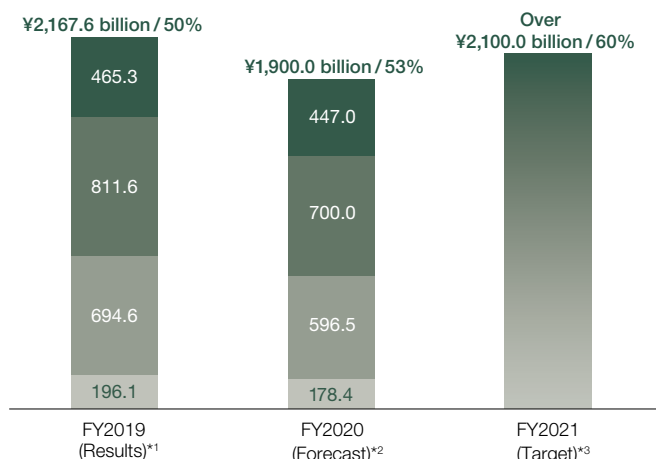
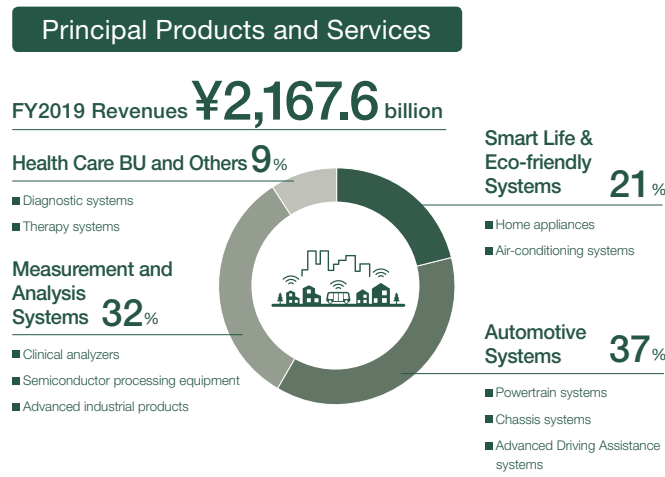
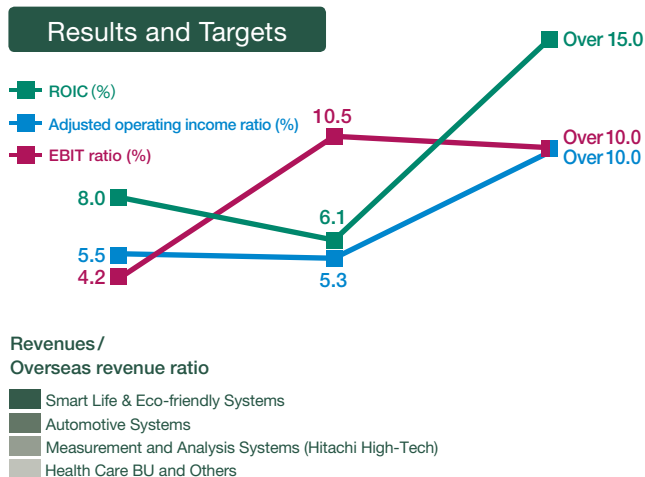
The Smart Life Sector realizes a pleasant society under the keywords of safety, health and comfort, creating social, environmental and economic value that contributes to improving the quality of life (QoL) for people throughout the world. Hitachi aims to contribute to the eradication of fatal traffic accidents through advanced driver assistance technologies, support healthy lives through the provision of blood testing equipment and particle therapy systems, facilitate a richer life through the provision of connected home appliances and air-conditioning systems and prevent global warming by reducing CO₂ emissions from products through electrification and IoT.

Activities for Creating Social and Environmental Values

Contributing to improving the QoL

In-vitro diagnostics
(e.g., blood testing)

20 billion tests/year



Particle Therapy System (Osaka Heavy Ion Therapy Center)

*1 ROIC values do not reflect impact from the conversion of Hitachi High-Tech (measurement and analysis systems business) into a wholly owned subsidiary
 *2 Announced on July 30, 2020 (ROIC was announced on May 29, 2020)
 *3 Announced at the "Hitachi IR Day 2019."

Vision in the 2021 Mid-term Management Plan

The Smart Life Sector is undergoing comprehensive business restructuring. In May 2020, the Hitachi High-Tech Corporation was made a wholly owned subsidiary and commenced operation in the Smart Life Sector as its core business. In addition, in fiscal 2020, we plan to complete the transfer of the diagnostic imaging-related business to FUJIFILM Corporation, as well as the management integration of Hitachi Automotive Systems, Ltd., with Keihin Corporation, Showa Corporation and Nissin Kogyo CO., Ltd.

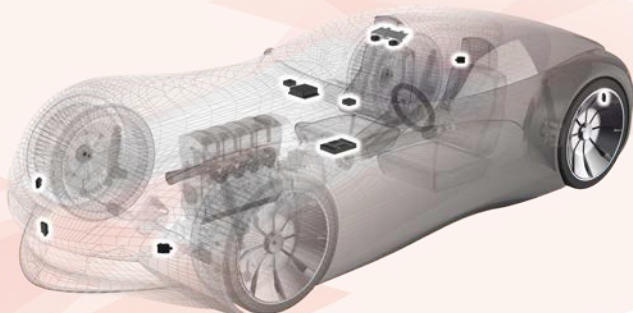
Through the reorganization of our business portfolio and the use of digital technologies to reform operations, we will realize profitability improvement through expanding business scale and market share, and improving cost efficiency. Mitigating the adverse impact of COVID-19 on business performance that began at the beginning of 2020 through improved management efficiency, we will ascertain the market needs arising "New Normal" and continue to contribute to improving QoL and achieve business growth.

Progress on the 2021 Mid-term Management Plan

■ Automotive Systems Business

Amid growing social needs for the reduction of environmental burdens through electrification, the eradication of traffic accidents using AI technologies such as autonomous driving and the shift from vehicle ownership to utilization, the automobile industry is entering a period of drastic changes said to occur once every 100 years. Hitachi Automotive Systems focuses on products including electric powertrains, suspension, steering, brakes and the advanced driver assistance systems that integrate them. Aiming to increase the global market share of focus products to within the third place, we are engaged in M&A and business alliances. In October 2019, we acquired Chassis Brakes International, a provider of automotive safety systems centered on electrically controlled brakes. Also, in October 2019, Hitachi and Hitachi Automotive Systems, a wholly owned subsidiary of Hitachi, entered into an agreement with Honda Motor and its three affiliates on management integration of their automotive/motorcycle businesses. After conducting the tender offer by Honda Motor which will make Keihin, Showa and Nisshin Kogyo its wholly owned subsidiaries, Hitachi and Honda will integrate their subsidiaries in fiscal 2020. The integrated company's shares will be owned 66.6% by Hitachi and 33.4% by Honda Motor. Keihin has strengths in powertrains, Showa has strengths in suspension and steering, and Nissin Kogyo has strengths in brakes. As these are a good fit with Hitachi Automotive Systems' focus product areas, the merger will maximize synergies in terms of innovative technology R&D and cost capabilities enhancing global competitiveness.

Due to COVID-19, the trend toward electrification and autonomous driving in the automobile industry are further accelerating. Passenger cars will be required to advance safety performance through advanced driver assistance technologies as a personal and safe means of transportation with less risk of infection. At the same time, with respect to commercial vehicles, distribution volumes are rapidly increasing due to rising e-commerce demands,



Advanced Driver Assistance Systems

making improved environmental performance via electrification an important issue. The new integrated company will meet social needs in the “New Normal” by providing innovative components and systems that are essential for electrification and advanced driver assistance.

■ Smart Life & Eco-friendly Systems

The Smart Life & Eco-friendly Systems business, which has a long history of developing products from the consumer's perspective, is an important business in the Smart Life Sector, which aims to improve people's QoL. We create new growth businesses that utilize digital technologies, such as robotic vacuum cleaners and laundry machines linked to smartphones, Internet-connected refrigerators and other home appliances, and systems that perform remote diagnostics and maintenance of air conditioners using IoT. In the Smart Life & Eco-friendly Systems business, our air-conditioning business was merged with that of U.S.-based Johnson Controls and spun off, realizing high profitability by integrating the sales channels and technological and R&D capabilities of both companies. In April 2019, we merged home appliance sales and design and manufacturing, which had been handled by separate companies, to establish Hitachi Global Life Solutions, Inc. As a lifestyle solutions company, Hitachi Global Life Solutions can respond quickly to changes in lifestyles and provide new products and services.

Working from home, which initially was intended to prevent COVID-19, is becoming established in society as the “New Normal.” The home will be the place we spend most of our days, thus needs for air-conditioning and home appliances will change. Hitachi Global Life Solutions utilizes technologies cultivated over the years, such as “cleaning,” “purifying,” “cold storage” and “freshness” to provide timely solutions that realize a safe and comfortable “New Normal”.

■ Measurement and Analysis Systems

In May 2020, Hitachi, Ltd., made Hitachi High-Tech a wholly owned subsidiary to add its Measurement and Analysis Systems business as a pillar of the Lumada growth strategy. As a result, the risk of conflicts of interest in parent company-subsidary listings have been reduced and EPS has been improved by eliminating the outflow of minority interest profits. Hitachi High-Tech provides physics and chemistry equipment that diagnoses and inspects objects with a high degree of accuracy in various fields based on measurement and analysis technologies represented by electron microscopes. For example, clinical chemistry and immunodiagnostic analyzers that perform blood tests in the life sciences field, as well as CD-SEM (Critical Dimension Scanning Electron Microscope) that test the processing quality of semiconductors in the semiconductor manufacturing field, are both products with the top market share in the world. Hitachi High-Tech measurement and analysis systems generate huge amounts of data on measurement targets.



Story of Value Creation in the Smart Life Sector

Mathematical analysis of this data using Lumada's AI and analytics creates new value. Taking the life sciences field as an example, the comprehensive analysis of blood protein data output from clinical chemistry and immunodiagnostic analyzers and gene data output from DNA sequencers enable the realization of precision medicine. At Hitachi High-Tech, collaborative creation with customers is the basis of business development, and this business model is consistent with the Lumada business strategy. To connect measurement and analysis technologies to customer value, it is necessary to work with customers to find out what to measure and analyze to solve their problems. For example, in the semiconductor manufacturing field, we are developing new solutions by expanding engineering bases around the world to collaborate with major customers. In global industrial markets, where data is an important asset, the need for measurement and analysis technologies to obtain high-quality data is expected to continue to grow, thus we will focus investment in this area as one of the pillars of the Lumada business.

Healthcare Business

In the Healthcare business, we are reorganizing our business portfolio, placing the highest priority on market growth potential. In December 2019, we decided to transfer our diagnostic imaging-related businesses, such as diagnostic ultrasound system, CT and MRI, which are mature markets, to FUJIFILM Corporation. At the same time, regarding our particle therapy system, in June 2018 we acquired Mitsubishi Electric Corporation's business in this field and integrated it into our own. This increased our market share in this area to the second largest in the world. The particle therapy system is attracting attention as a state-of-the-art treatment method able to balance treatment and a normal social life with almost no pain. We will continue to invest in the research and development of innovative hardware and software, aiming to capture the world's top market share in this business. In May 2020, we made Hitachi High-Tech a wholly owned subsidiary to strengthen the physics and chemistry equipment business in the life sciences field, which is at the center of high-precision medical care and regenerative medicine, markets that are expected to expand.



Measurement and analysis technologies for creating customer value

Solutions Businesses Resolving Social Issues and Realizing Improved QoL

In the "New Normal," there will be a need for solutions that facilitate economic activity and infection control. This is a massive business opportunity for Hitachi, as we collaborate with various partners in each sector to promptly provide the required solutions. Hitachi High-Tech has trading business division which is directly descended from the Nissei Sangyo Co., Ltd. trading company; thus, we possess human resources with a track record of building value chains that include partners. Utilizing this capability, we will

strengthen investments mainly in the APAC region to develop solutions businesses that realize human safety, health and comfortable lifestyles.



How We Will Achieve Sustainability

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Addressing Risks and Opportunities

Risks and Opportunities

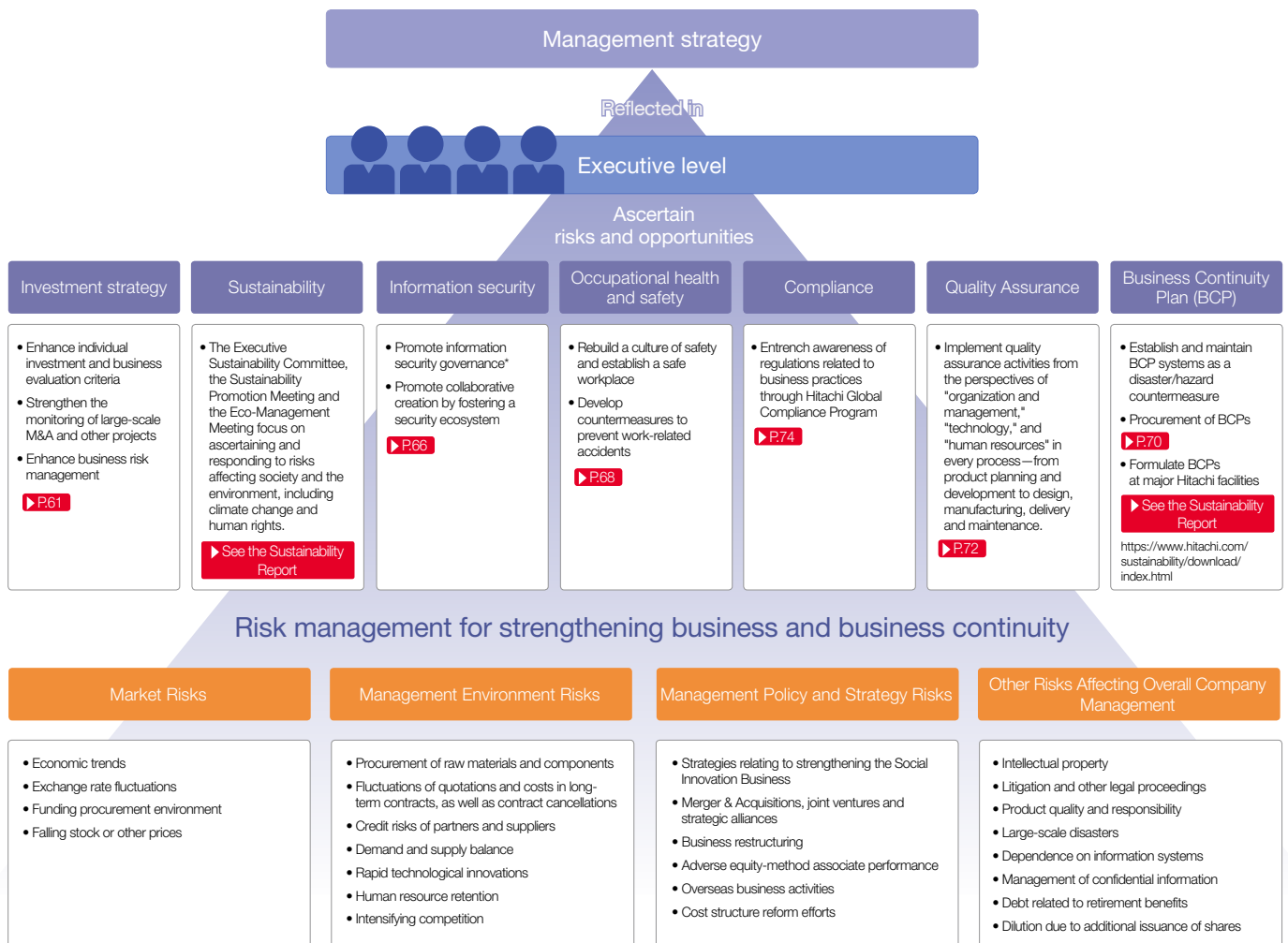
Under the 2021 Mid-term Management Plan, which began in fiscal 2019, we will expand business while leveraging the Company's competitive advantages. We plan to invest ¥2.0 trillion–¥2.5 trillion in focus areas over the three-year period ending in fiscal 2021. A solid risk management system is indispensable for seizing growth opportunities and implementing aggressive management.

Hitachi established the Investment Strategy Division in 2017 and the post of Chief Risk Management Officer (CRMO) in April 2020 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 regarding 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 risks. 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, conducting risk management with an eye towards the many risks the company should be prepared for as well as opportunities for growth.

In April 2020, we newly established the post of CRMO to formulate and execute risk management policies and strategies for the entire Hitachi Group. We also established the "Hitachi Group Corporate Ethics and Compliance Code" to clearly share ideas regarding corporate ethics and compliance that should be shared throughout Hitachi, as we work to further ensure that all Hitachi executives and employees act in thorough compliance with corporate ethics.



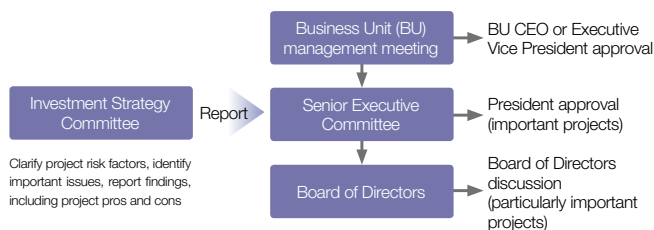
* Information security governance supports corporate governance by building and implementing an organization's internal control mechanisms related to information security.

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, with regard to 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* advisory body, whose findings, including pros and cons, are reported to Senior Executive Committee members, including the President.

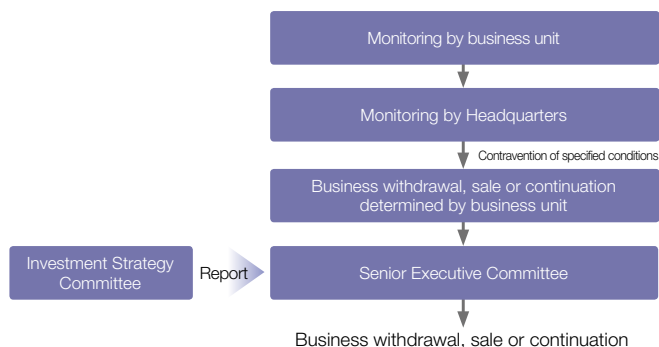
* Investment Strategy Committee: Consists of 10 members from the finance department and other relevant corporate divisions (as of March 31, 2020), including the Executive Officers in charge of Investment Strategy and Management Strategy as chairman and vice chairman.

Investment Execution Flowchart



After making an investment, Hitachi regularly monitors 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 whose business is not progressing as planned, Hitachi established a framework to deliberate on the pros and cons of continuing business, including withdrawal, so as 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 country and sector and the outlook for future trends, Hitachi gains a quantitative understanding of risk concentrations in specific countries and sectors in comparison with profitability.

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 drastic changes 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 can gain a clear understanding of sustainability-related risks, and accordingly take appropriate actions, 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. Thus, 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 151st Annual Securities Report.

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

Addressing Risks and Opportunities

Major Risks and Opportunities

Major risk factors	Details on risks and opportunities	Company actions
<p>Fluctuations in product supply and demand, exchange rates and resource prices; insufficient raw materials, components</p>	<p>Risks</p> <ul style="list-style-type: none"> Price fluctuations, including products, exchange rate impact and excess inventory Exchange rate impact and price fluctuations, including for raw materials and components Impact from significant disasters in the supply chain Shrinking demand and impact in the supply chain caused by the spread of COVID-19 	<ul style="list-style-type: none"> Building close relationships with multiple suppliers Ensure an appropriate response to changes in demand in each region by promoting a local production and consumption model for products and services Strengthen resilience to business interruption risks by formulating BCPs at domestic and major overseas facilities <p>▶ P.70 Value Chain Responsibilities</p> <p>▶ P.38 Sustaining Financial Soundness, Enhancing Cost Management</p>
<p>Rapid technological innovation</p>	<p>Risks</p> <ul style="list-style-type: none"> Decreased competitiveness if development of cutting-edge technology or application of a product/service does not progress as expected Reduction or elimination of existing market due to technological innovation <p>Opportunities</p> <ul style="list-style-type: none"> Develop advanced technology to generate new business opportunities 	<ul style="list-style-type: none"> Promote open innovation through industry-academia-government cooperation Secure and develop digital talent Strengthen Lumada Foster an innovation ecosystem through the above <p>▶ P.24 Expand Revenues by Accelerating the Social Innovation Business</p> <p>▶ P.30 Reinforce Global Competitiveness</p>
<p>Securing human resources</p>	<p>Risks</p> <ul style="list-style-type: none"> Impact on new hires and worker retention due to increased competition to hire and retain highly skilled workers <p>Opportunities</p> <ul style="list-style-type: none"> Grow opportunities for the recruitment and retention of highly skilled workers who share Hitachi's vision 	<ul style="list-style-type: none"> Expand the direct hiring of front-line and digital talent overseas Create workplaces where diverse talent can work comfortably Secure highly skilled global talent using a global common platform for HR Management Retain and develop talent through common Group & Global learning management system and in-house education programs <p>▶ P.24 Expand Revenues by Accelerating the Social Innovation Business</p> <p>▶ P.30 Reinforce Global Competitiveness</p>
<p>Occupational health and safety</p>	<p>Risks</p> <ul style="list-style-type: none"> Impact on business due to inability to create healthy, safe and secure work environments Impact on business activities from employees infected with COVID-19 	<ul style="list-style-type: none"> Establish a global occupational health and safety system that includes lessons learned from global operations, the entrenchment of global norms and the sharing of success stories <p>▶ P.68 Occupational Health and Safety, Employee Health</p> <p>▶ P.8 Ensuring employee safety by working from home and promoting remote operations</p>
<p>M&A, investment in new projects, etc.</p>	<p>Risks</p> <ul style="list-style-type: none"> Failure related to insufficient management of projects involving M&A aimed at strengthening the Social Innovation Business, investment in new projects, R&D investment/capex, and large-scale orders. <p>Opportunities</p> <ul style="list-style-type: none"> Build a foundation for growth through the acquisition of new management resources 	<ul style="list-style-type: none"> Strategy formulation in business units, phase-gate management in various councils and approval meetings Analysis and discussion of market trends, other company trends, technological trends and potential risks at Investment Strategy Committee, Business Strategy Meeting, Senior Executive Committee, Board of Director and Audit Committee meetings <p>▶ P.76 Corporate Governance</p>
<p>Geopolitical risks</p>	<p>Risks</p> <ul style="list-style-type: none"> Impact on Hitachi Group's overseas businesses due to political, economic and social trends 	<ul style="list-style-type: none"> Regularly update our understanding of global political and economic trends, analyze the impact on our business and swiftly implement countermeasures on a group-wide basis <p>▶ P.60 Addressing Risks and Opportunities</p> <p>▶ P.76 Corporate Governance</p>
<p>Tighter laws and regulations</p>	<p>Risks</p> <ul style="list-style-type: none"> Tighter laws and regulations regarding investment, exports and customs duties <p>Example: Impact 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"> Operate personal information protection systems in line with Hitachi's personal information protection policy Identify businesses subject to the GDPR, assess risk, implement appropriate safety management measures in line with those risks, and conduct worker training <p>▶ P.66 Promotion of Information Security</p>
<p>Compliance</p>	<p>Risks</p> <ul style="list-style-type: none"> Loss of 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 	<ul style="list-style-type: none"> Implement group-wide compliance programs based on Hitachi Group Codes of Conduct as highest principles Strengthen measures to prevent bribery and violation of competition laws <p>▶ P.74 Compliance</p>
<p>Product quality and responsibility</p>	<p>Risks</p> <ul style="list-style-type: none"> Loss of trust and claims for damages due to defects or a deterioration in product and service quality because of the increased complexity/sophistication of products or services, or the diversification of production sites or suppliers 	<ul style="list-style-type: none"> Strengthen the quality assurance system Engage in activities aimed at preventing accidents Engage in activities aimed at ensuring compliance with laws and regulations related to technology Ensure intensive risk assessment Implement measures for handling product accidents Conduct quality and reliability-related training <p>▶ P.72 Quality Assurance</p>
<p>Climate change/significant disasters</p>	<p>Risks</p> <ul style="list-style-type: none"> 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 Impact on business activities, from production to sales, due to a significant disaster affecting major facilities in Japan or overseas <p>Opportunities</p> <ul style="list-style-type: none"> Expand the decarbonization business by offering climate change-related solutions 	<ul style="list-style-type: none"> Strengthen measures to achieve the CO₂ reduction targets in the "Hitachi Environmental Innovation 2050" Implement measures in line with an analysis of Hitachi risks and opportunities based on climate-related scenarios Formulate BCPs to strengthen our ability to respond to business disruption risks <p>▶ P.63 Response to Climate-related Risks and Opportunities</p> <p>▶ P.70 Value Chain Responsibilities</p> <p>▶ P.28 Creation of Social and Environmental Value</p>
<p>Information security</p>	<p>Risks</p> <ul style="list-style-type: none"> Computer viruses or other factors adversely affecting information systems <p>Opportunities</p> <ul style="list-style-type: none"> Expand revenue opportunities through increased demand for information security measures Respond to increased demand for IT solutions in line with the expansion of remote work 	<ul style="list-style-type: none"> Promote cybersecurity strategies through risk management and value creation Enhance technological and product development for digital environments <p>▶ P.66 Promotion of Information Security</p> <p>▶ P.44 Story of Value Creation in the IT Sector</p> <p>▶ P.24 Expand Revenues by Accelerating the Social Innovation Business</p>

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. A report to the Board of Directors in 2016 was followed by the establishment and announcement of long-term environmental targets called Hitachi Environmental Innovation 2050 containing CO₂ reduction targets for fiscal 2030 and fiscal 2050. The Executive Sustainability Committee, chaired by the president and CEO and staffed by heads of corporate divisions and business units, meets twice a year to discuss and reach decisions on material environment-related policies and measures, including those in response to climate change, and to set the stage for implementation. In addition, the Audit Committee of independent directors conducts an audit of sustainability-related operations once a year, and Hitachi executive officers report on climate-related material issues to the committee during the audit.

Strategy

We are responding to climate change by fulfilling our responsibilities as a global company in achieving a decarbonized society. Taking note of the total CO₂ reductions required globally, we have established long-term environmental targets called Hitachi Environmental Innovation 2050 based on our Environmental Vision calling for CO₂ reductions throughout our value chain of 50% by fiscal 2030 and 80% by fiscal 2050, compared with fiscal 2010.

In May 2020, we announced an even more ambitious CO₂ reduction target of achieving carbon neutrality, which will mean net zero emissions, at our business sites (factories and offices) by fiscal 2030.

Climate-related Risks

As for climate-related business risks, we have followed the TCFD's classification in considering (1) risks related to the transition to a low-carbon economy in the 2°C scenario* and (2) risks related to the physical impacts of climate change in the 4°C scenario,* which assumes that efforts to reduce global CO₂ emissions have failed. Our assessments 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 scenarios contained in the Fifth Assessment Report, published in 2014 by the Intergovernmental Panel on Climate Change (IPCC). The 2°C scenario assumes that the increase in global temperatures from preindustrial levels is kept below 2°C at the end of the 21st century. The 4°C scenario sees global temperatures rising by approximately 4°C compared to preindustrial levels.

(1) Risks related to the transition to a low-carbon economy (applying mostly to the 2°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, emissions trading systems, and other measures	Short to long term	<ul style="list-style-type: none"> 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
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"> Contribute to reducing CO₂ emissions by developing and marketing innovative products and services and expanding the decarbonization business Promote the development of low-carbon products by implementing Environmentally Conscious Design Assessments when designing products and services
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"> In the light of rising investor and market interest and expectations regarding climate change, clearly incorporate our CO₂ emissions reduction targets in our management and business strategy

(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 level and chronic heat waves (chronic risks)	Short to long term	<ul style="list-style-type: none"> Take into account 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.

Response to Climate-related Risks and Opportunities

Climate-related Financial Information Disclosure (Based on TCFD Recommendations)

Climate-related Opportunities

CO₂ emissions during the use of our products and services by our customers account for approximately 90% of total emissions in our value chain. Developing and providing products and services that emit zero or very little CO₂ during their use will thus not only help meet society's demands for reduced emissions but also represents a major business opportunity for us in the short, medium, and long term.

Climate-related opportunities		
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"> Develop and market products and services that contribute to a decarbonized society, expand the decarbonization business, and promote the development of innovative devices and materials that contribute to reducing the environmental burden Create solutions that leverage Hitachi's strengths in operational technology (OT), IT, and products, as well as expertise in R&D
Resilience	Provision of solutions to address climate-related natural disasters	<ul style="list-style-type: none"> Provide disaster-mitigation solutions, such as high-performance fire-fighting command systems Provide construction machinery that enables speedy recovery efforts

Initiatives to Realize a Decarbonized Society and a Resource Efficient Society [▶ P.29](#)

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 six businesses (using such criteria as a relatively high likelihood of being affected by climate change and high sales volume) and examined the business impact of and responses to the 2°C and 4°C scenarios.

Strategies for the 2°C and 4°C Scenarios (abridged)

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

* 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 2020.
 * The above scenario analyses are not future projections but attempts to examine our resilience to climate change. How the future unfolds may be quite different from any of these scenarios.

Strategies for the 2°C and 4°C Scenarios (abridged)

Target businesses	Industrial equipment	Automotive systems	Construction machinery
The business environment under the 2°C scenario	Global demand for energy-saving, high-efficiency industrial equipment will grow with tighter CO ₂ emission regulations in each country and region. There are risks that competitiveness will decline if there are delays in the development of high-efficiency, low-loss products.	Electric vehicles will rapidly spread with tighter laws and regulations on fuel efficiency and environmental standards, and increases in fossil fuel prices. Markets for alternative, non-fossil technologies like hydrogen and biofuel vehicles will expand. The number of countries and regions with near zero sales of internal combustion engine vehicles will increase.	Demand for electric and low/no carbon-fuel construction machinery will grow with tighter laws and regulations on the use of fossil fuels. Environmental regulations for items other than CO ₂ emissions (air and noise pollution, etc.) will grow tighter in urban areas.
The business environment under the 4°C scenario	Typhoons, floods, and other natural disasters caused by climate change will rise sharply and exacerbate damage to production facilities. Demand for remote control equipment to be used during natural disasters represents an opportunity.	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.	Natural disasters caused by climate change will rise sharply, boosting demand for construction machinery to support speedy and safe recovery efforts
Responses to future business risks (business opportunities)	<p>Response to business risks under 2°C or 4°C scenario</p> <ul style="list-style-type: none"> Under either scenario, continue developing energy-saving, high-efficiency products that use IoT technology. Focus particularly on connected products with communication features. Miniaturized, high-efficiency, low-loss products can also help reduce CO₂ emissions Given the increasing frequency of natural disasters, take risk aversion into account when deciding the location and equipment layout of a new plant 	<p>Response to business risks under 2°C scenario</p> <ul style="list-style-type: none"> Promote R&D of electrification technology and other alternative technologies to enhance response to new markets, such as for electric vehicles <p>Response to business risks under 4°C scenario</p> <ul style="list-style-type: none"> Promote R&D and product development in existing technologies, including internal combustion engines, to not only improve energy efficiency but increase such non-environmental value as safety, security, and comfort 	<p>Response to business risks under 2°C scenario</p> <ul style="list-style-type: none"> Advance product development with an eye on trends in electrification and low/no carbon fuel to minimize development and product costs <p>Response to business risks under 4°C scenario</p> <ul style="list-style-type: none"> Promote the development and manufacture of innovative products and solutions that enable a speedy recovery from disasters Given the increasing frequency of natural disasters, take risk aversion into account when deciding the location and equipment layout of a new plant

* 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 2020.

* The above scenario analyses are not future projections but attempts to examine our resilience to climate change. How the future unfolds may 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 2°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, 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 president and CEO of Hitachi, Ltd.

Metrics and Targets

Our environmental activities are managed through the Environmental Action Plan, whose metrics and targets are updated every three years, including those to measure and manage climate-related risks and opportunities.

We use the reduction rate of CO₂ emissions per unit compared to 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 CO₂ emissions per unit compared to fiscal 2010 for each business unit and Group company.

To advance CO₂ reductions during the use of sold products and services, we set targets and monitor progress for the reduction rate of CO₂ emissions per unit. In other words, for products and services featuring equivalent value, we focus on metrics to provide customers and society with those that emit less CO₂. At the same time, we will make an exerted effort to not only reduce per unit but also total CO₂ emissions from our business sites (factories and offices).

This section on “Climate-Related Financial Information Disclosure (Based on TCFD Recommendations)” has been abridged due to space considerations. For a full discussion of our initiatives, refer to the Hitachi Sustainability Report 2020.
<https://www.hitachi.com/sustainability/download/index.html>

Promotion of Information Security

With the arrival of the digital age in recent years, risks associated with the leakage of confidential and personal information resulting from increasingly international socioeconomic activities are expected to rise while accelerated global digital transformation spurred on by the spread of COVID-19 is projected to give rise to more sophisticated and numerous cyberattacks.

As we aim to become a global leader in the Social Innovation Business, Hitachi is striving to minimize risks that directly hinder business continuity, such as information leaks caused by cyberattacks and operational shutdowns, and maximize opportunities for collaborative creation with customers and society at large. In pursuing these goals, we are viewing information security as one of our most important management issues and focusing on enhancing our information security governance.

Information Security Policies and Framework

Information Security Policies

As a global company, Hitachi broadly recognizes the management risks associated with information security, including cybersecurity risks. Therefore, we have established an information security policy that is consistent with our corporate management policy, ensuring that we can declare both internally and externally that response policies are implemented throughout our organization.

Information Security Policies

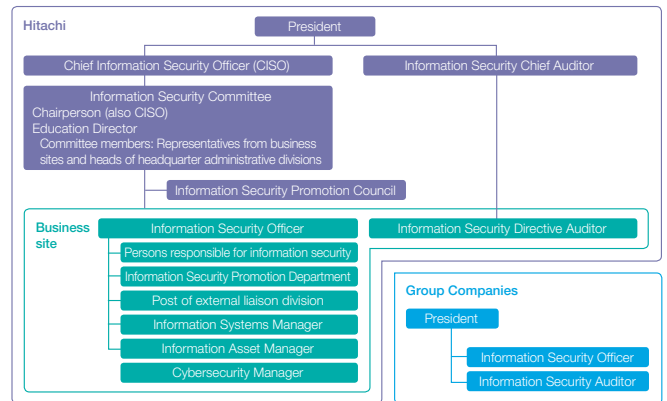
1. Formulation and continuous improvement to information security management regulations
2. Protection and continuous management of information assets
3. Strict observance of laws and standards
4. Education and training
5. Incident prevention and management
6. Assurance of fair business practices within the corporate group

Information Security Framework

Our President & CEO appoints both a Chief Information Security Officer (CISO) and an Information Security Chief Auditor.

Charged with promoting information security, the CISO determines policies, education plans and measures related to information security as Chairman of the Information Security Committee. His or her decisions are communicated to all Hitachi Group business sites and companies, where each information security officers ensure their thorough implementation in the workplace.

The Information Security Chief Auditor performs annual audits concerning information security and personal information protection in all of Hitachi's departments. He or she conducts these audits independently to ensure their fairness and impartiality and independence. Hitachi conducts audits and inspections on a group-wide basis; group companies in Japan carry out audits that are commensurate with those performed at Hitachi, Ltd., which later confirms their results. Meanwhile, group companies overseas employ a standard global self-check system.



Information security promotion

Information Security Risk Management

We have established Global Information Security Administration Rules compliant with ISO/IEC 27001, an international standard governing the management of information security. At the same time, we are promoting an ongoing information security management system to enhance our overall information security management. We are also globally expanding this management outside of our parent company in Japan to include group companies overseas. Meanwhile, we have stationed information security experts in the Americas, Europe, Southeast Asia, India and China as we strive to enhance our global security.

As cyberattack methods diversify, incidents are being caused by a wider range of sources and are having an increasingly broad impact. To respond to risks under these circumstances, Hitachi has expanded the scope of its risk management activities, which had previously focused on measures related to internal IT environments, and is now promoting new "cybersecurity and risk management activities." Meanwhile, we are conducting business risk reduction activities and have expanded the range of our management activities to cover development, production and manufacturing environments established for the creation of products and services, as well as our supply chain and processes implemented for the development of products and services.

Information Security Enhancement Initiatives

Security Monitoring

To ensure early detection and a quick response to global cyberattacks, Hitachi is conducting continuous security monitoring (24 hours per day, 365 days per year) through its Security Operation Center (SOC), collecting and deploying cyber threat intelligence* through its Incident Response Team (IRT) and performing incident response.

* Cyber threat intelligence: A general term for efforts aimed at acquiring knowledge of new threats from a variety of cybersecurity-related information and applying this knowledge through security measures.

Preventing Information Leaks

Hitachi is developing standardized IT measures, such as encryption, a diverse range of access control systems, ID management and filtering, as it strives to prevent information leaks. To defend against cyberattacks, we are strengthening a variety of countermeasures, including defense-in-depth controls, early detection measures and initial response strategies.

In addition, we review and investigate the status of information security measures taken at suppliers based on our request guidelines. At the same time, we provide suppliers with educational materials regarding security and tools for checking operational data stored within information-processing equipment. We also require that operational data stored on personally owned information processing equipment be inspected and erased.

Information Security Education

Hitachi provides annual e-learning-based education concerning information security and personal information protection for all executive officers and employees. We also make a wide variety of information security education available for new employees, new managers and information system administrators. Furthermore, we conduct “targeted attack e-mail simulation training” aimed at defending against cyberattacks. This training raises the security sensitivity of employees by sending them simulated e-mail attacks.

Developing Human Resources Well-Versed in Information Security

As cyberattacks on social infrastructure intensify, Hitachi is promoting activities aimed at developing human resources that are well-versed in security and capable of responding to these threats. Through these activities, we have identified the following categories of human

resources who systematically respond to cyberattacks from outside the company. We provide the education and exercises necessary for each category through advanced security human resource study, e-learning that facilitates the acquisition of basic cyberattack response knowledge and communication training.

- Advanced security human resources
Duties: Investigate and analyze unidentified attacks, countermeasure formulation and guidance for all other human resources
- Middle-level human resources
Duties: Develop action plans and other policies associated with defense measures for known attacks
- Base-level human resources
Duties: Implement fully developed security countermeasures

Thorough Protection of Personal Information and Compliance with Global Legal Systems

In accordance with the Hitachi, Ltd. Personal Information Protection Management System, which was established based on the Company's Personal Information Protection Policy, Hitachi properly manages and processes personal information while providing education for, and performing regular audits of, all its employees.

In addition, 39 Hitachi Group companies in Japan have received Privacy Mark accreditation and are working to safeguard personal information (as of March 2020).

Furthermore, Hitachi is ensuring compliance with global legal systems by adhering to applicable legal systems implemented abroad, including Europe's General Data Protection Regulation (GDPR). Meanwhile, we are implementing appropriate measures while continuously monitoring applicable legal systems and societal trends.

Security Changes Associated with New Work Style Employee Security Awareness Is the Bulwark That Protects Our Organization

The spread of COVID-19 has forced us to adopt new work styles. However, this can also be viewed as a positive opportunity to achieve more personally suitable balances between work and private life. Hitachi is also responding to this opportunity by rapidly accelerating its implementation of telework while actively conducting measures focused on promoting future work styles based on utilization of telecommuting.

Meanwhile, in recent years, cyberattack threats have continued to increase, creating a need for security measures that are adequate for the promotion of telework. In terms of IT security, we are currently facing extremely high levels of risk related to data theft targeting telework environments and intrusion into internal networks. Under these circumstances, Hitachi is reducing risk by requiring employees to use Company PCs and protecting remote access through various security measures.

Until recently, cyberattackers have primarily targeted the IT vulnerabilities of organizations but, as work styles shift toward telework, these attacks are projected to focus on weaknesses in the security awareness of individual people. When working outside their offices, employees might feel more relaxed than usual, resulting in the loss of documents, PCs, mobile phones or USB drives containing sensitive data. People around them might also quickly peak at their computer screens, resulting in information leaks. Furthermore, with nobody around with whom they can talk, employees working outside the office

could be tempted to access suspicious e-mails or malicious websites. Under these circumstances, all employees are exposed to potential risk.

Given these conditions, we believe that raising the security awareness of our employees will be the ultimate bulwark defending us against these risks. Accordingly, we will adopt a new perspective as we launch employee-centered awareness-raising activities regarding next-generation security to support the introduction of security measures implemented through people, which will complement our security measures that provide protection through IT. Specifically, we will provide avenues through which employees can voluntarily learn about and practice security. By sharing what they have learned through these avenues, our employees will subsequently elevate each other's awareness regarding security activities.

With the goal of creating a major bulwark for the defense of our organization, we will aim to establish a collective awareness that will foster an appropriate understanding regarding security among all employees and allow them to work effectively toward achieving our ideals. By also conducting awareness-raising activities outside the Company, we will strive to expand this bulwark so that it can provide protection to society as a whole.

Moving forward, Hitachi will continue to explore and promote new security initiatives that will enable us to avoid risks lurking within the “New Normal” we are now facing and to live more safely, securely and comfortably under these new circumstances.

Occupational Health and Safety, Employee Health

Building Safe and Secure Work Environments, Efforts to Prevent the Spread of COVID-19

As a corporate group with a globally developing business, we must deal with the management issue of creating healthy, safe and hygienic work environments at every work site. Hitachi believes that its organizational culture which prioritizes safety first is an essential foundation for creating corporate value, and it is working to establish a global health and safety management system. In addition, in response to the spread of COVID-19, to conduct management that puts the safety and health of our employees and stakeholders first while looking ahead into the future of the “New Normal,” we are promoting the adoption of work styles and the establishment of environments with teleworking with a wide range of duties as the standard.

Our Basic Policy and Promotion Framework

The Hitachi Group Health and Safety Policy is shared with all Hitachi Group companies around the world, based on the principle that “Health and Safety Comes First,” and we work together to build a safe, secure and healthy workplace that is free from accidents.

In 2019, aiming to become an organization whose employees spontaneously promote safety activities with the direct commitment of management, we established the Safety Management Division, which reports directly to the president on matters of safety management. This division holds an annual Safety Strategy Congress, attended by safety officers from each group company and representatives from each division. The congress sets budgets and objectives for company-wide safety strategy and reviews the progress in building the Hitachi Group’s safety management systems, making the congress an opportunity for top management to share their commitment to safety as the highest priority.

Furthermore, we hold monthly meetings of the Safety Strategy Promotion Council, attended by managers in charge of safety from each business unit and group company. This council provides an opportunity for us to examine the promotional frameworks for safety activities and education in each division alongside standards to be shared across the group. Utilizing the Hitachi Group Health and Safety Portal System and Incident Investigation Database, which comprise the basic system for occupational health and safety management common to group companies in Japan, in response to the degree of occupational accidents that have occurred in Japan, the results of incident analyses and countermeasure examples are registered in these systems, with the know-how acquired from this process shared globally as a knowledge base throughout the entire group. The analysis of detailed accident information from various angles collected in these systems help prevent the occurrence of similar accidents and injuries.

Initiatives for Preventing Work-Related Accidents

Based on the policy above, to prevent work-related accidents among approximately 300,000 employees of the entire Hitachi Group, we have established and applied our own standards for manufacturing sites at high risk of work-related accidents as a common global policy, and each company promotes health and safety activities in a way that

is appropriate for its own operations.

In particular, since the establishment in April 2019 of the Safety Management Division, we are working to improve both tangible and intangible elements safety measures by checking and improving our risk assessment system and utilizing IT and digital technologies to prevent work-related accidents.

We had already introduced the Hitachi Group Key Safety Management Designation System, which promotes the improvement of safety measures and reinforcement of safety activities at Hitachi Group companies and business sites that have experienced serious work-related accidents. Under the leadership of top executives, these companies and business sites take on both management-driven and bottom-up initiatives to formulate specific plans, and the progress of these plans is monitored by safety officers, who also lead initiatives to prevent recurrence.

In addition, because the risk of accidents is higher for workers not yet accustomed to their work or environment, employees and temporary workers receive individual health and safety training and on-the-job training before work begins to help prevent accidents by ensuring that they understand work procedures and dangers. At the same time, on occasions of business restructuring, we share the details of the health and safety management frameworks and initiatives of the organizations to be merged in advance, and paying all due respect to the safety cultures on both sides, ensure that safety is always preserved during the execution of a smooth business launch.

In Japan, a health and safety commission—composed of business owners, labor union officials and employees—is convened at each business site every month to discuss and share information related to such issues as work-related accident cause analysis and countermeasures and health and safety activities in light of the situation regarding employees who have taken sick leave.

However, in 2019, four fatal incidents caused by work-related accidents occurred globally, thus accidents have yet to be eradicated entirely. Hitachi takes a sincere approach in recognizing its present situation, and brings in an objective third-party perspective by working with external consultants. Through various countermeasures such as strengthening our ability to determine the causes of accidents, as well as reviewing our risk assessments, we are committed to continuously improving our safety management system.

Promoting Work-Style Reforms Focused on Preventing the Spread of COVID-19

Hitachi is promoting work styles standardizing the use of telecommuting in a wide range of jobs, while looking ahead to the “New Normal” caused by the spread of COVID-19.

Since 2016, Hitachi has promoted diverse work styles, including telecommuting, so that diverse human resources can achieve results. Since the government announced a state of emergency in Japan, Hitachi has, in principle, promoted telecommuting, except for duties that require going into the workplace to maintain social functions. Hitachi is moving forward with the creation of a business promotion system for the “New Normal” so that ordinary corporate activities can be maintained and continued in the event of a second or third wave of COVID-19 or a natural disaster. With protection of the health and livelihood of our employees and their families as our top priority, even after the state of emergency is completely rescinded, telecommuting will be the standard for a wide range of jobs as we examine and implement measures to increase productivity further than ever before.

Main Measures for Telecommuting and Other New Work Styles in the “New Normal”

1. Support for employees based on the immediate risk of infection

- (1) Provide subsidies for prevention against COVID-19 in telecommuting
- (2) Provide subsidies for equipment purchase costs for telecommuting under the cafeteria plan system
- (3) Establish “bonus payment for responding to COVID-19”
- (4) Support foreign employees by introducing the Foreign Language Medical Assistance Service for foreign employees working in Japan

2. Main measures to continue telecommuting over the medium to long term

- (1) Accelerate the conversion to job-based HR management
- (2) Improve the IT environment
- (3) Provide health support for employees telecommuting over the long term
- (4) Provide communication enhancement tools

“New Work Style Standards for Telecommuting” Road Map

May–July 2020	<ul style="list-style-type: none"> • Review and summary of issues related to telecommuting identified thus far
August–September 2020	<ul style="list-style-type: none"> • Examine medium- to long-term work styles according to individual jobs • Determine the handling of various bonus payments for improving the proactive utilization of telecommuting environments
October 2020–March 2021	<ul style="list-style-type: none"> • Launch a trial of work styles based on the use of telecommuting • Review business execution methods, the business environment, various bonus payments, welfare and other efforts toward productivity improvements and cost optimization • Review various bonus payments, welfare and other efforts aimed at cost optimization • Consider revising rules and agreements between labor and management
From April 2021 (tentative)	<ul style="list-style-type: none"> • Application of new regulations and agreements • Formal commencement of work styles based on telecommuting

Value Chain Responsibilities

Achieving a Sustainable Value Chain

We are deeply involved in social infrastructures in areas where risks can affect society as a whole. We acknowledge our responsibility to minimize the impact of such risks. Also, the global expansion of our value chain means that we come into direct contact with diverse work environments, business customs and practices in a variety of countries and regions. Accordingly, we need to make a conscious effort to conduct business in a manner that respects the human rights of all people involved. Furthermore, we are reinforcing business continuity plans (BCPs) and tightening our information security to ensure a stable supply of our products and services and to prevent threats to our networks that could severely disrupt business operations.

Ensuring stable supply of our products and services is vital, and this is why Hitachi strives to enhance the BCP on an ongoing basis. In addition, the Company recognizes human rights as a management priority, and implements various measures intended to respect the human rights of all our stakeholders, including employees and individuals throughout our supply chain in all countries and regions in which we operate our businesses. Furthermore, as a group of companies that procure products and services from suppliers around the globe, we were one of the early adopters of CSR procurement policies, various measures are being implemented at each group company.

Procurement BCP Policies and Framework

To minimize the impact from disasters, the procurement divisions in business units and key group companies have created procurement BCPs that 1) standardize and use generic parts to minimize risks to stable procurement as flexible as possible; 2) cultivate multiple suppliers; 3) distribute production across several locations; 4) secure strategic inventory; and 5) consider substitute products.

To ensure the efficacy of these procurement BCPs, we implement desktop exercises to simulate specific case of disaster, and discuss in groups what actions need to be taken to further improve these plans.

CSR Procurement Policies and Framework

Creating and Sharing Procurement Policies

In accordance with the principles of the UN Global Compact, Hitachi established the Hitachi Group Global Procurement Code in 2019 as our highest code for procurement activities. This code specifies that based on Hitachi's CSR Procurement and Green Procurement Guidelines, due diligence should be performed to the supply chain on factors such as human rights, labor practices, safety, ethics, quality and security. They also require our procurement team to request suppliers to perform same due diligence. All Group companies follow the code, and share global supply chain issues within the Group as we engage in procurement activities.

In addition, we distribute the Hitachi Group CSR Procurement Guidelines to the approximately 30,000 suppliers of our business units and group companies to ensure their thorough dissemination and receive written responses confirming that the content therein is understood. We also require first-tier primary suppliers to confirm that second-tier suppliers are complying with these guidelines.

In terms of environmental response, we have compiled our basic philosophies regarding procurement of eco-friendly parts / products as well as our requirements of suppliers into our Green Procurement Guidelines to expand the procurement of parts and materials with low

environmental impact. Through these guidelines, we are working together with our suppliers to promote green procurement.

Procurement Policy

<https://www.hitachi.com/procurement/index.html>

Hitachi Group CSR Procurement Guidelines

https://www.hitachi.co.jp/procurement/csr/__icsFiles/afieldfile/2018/06/07/HSC_CSR_GB_E.pdf

Hitachi Group Green Procurement Guidelines

https://www.hitachi.com/environment/library/pdf/green_en.pdf

Framework

Hitachi's Value Chain Integration Division, which reports directly to the President, discusses policies and measures related to CSR supply chain management, responsible mineral procurement and green procurement. Decisions reached through these discussions are shared throughout the group via the Hitachi Group CSR/BCP Procurement Committee, which is composed of CSR/BCP Procurement Committee members from business units and key group companies.

Chemical substances within our products are recommended to be managed by chemSHERPA*-CI/AI, which is a standardized system for communicating information regarding chemicals in products (CiP) throughout the supply chain.

* chemSHERPA: The Ministry of Economy, Trade and Industry of Japan is spearheading the standardization of this common system for communicating information regarding chemicals in products. It facilitates the transmission of information based on approaches that are common throughout supply chains to ensure the proper management of chemicals in products.

Strengthening Global Partnerships

To promote procurement based on the premise of expanding local production for local consumption in accordance with its operational policy of global business expansion, Hitachi has stationed Regional Procurement Officers who supervise local procurement activities in each of its four regions of operation around the world (China, the rest of Asia, Europe and the Americas). These Regional Procurement Officers have strengthened our response to CSR-related risks by conducting CSR audits, CSR monitoring (self-checks) and CSR procurement seminars for suppliers in their respective regions.

CSR Monitoring (Self-Checks)

To monitor how well its CSR supply chain management philosophy has been adopted by its suppliers, Hitachi requests that major suppliers conduct self-checks using check sheets created in accordance with the Hitachi Group CSR Procurement Guidelines. We then encourage suppliers to make improvements in response to potential issues by analyzing collected results and providing relevant feedback to our business units and group companies dealing with those suppliers.

CSR Audits

Hitachi, Ltd. has been auditing the manufacturing bases of its and group companies' suppliers in China and the rest of Asia. For these audits, we engaged external evaluators such as the experienced CSR auditing company Intertek Certification.*1 Our audits are based on the international SA8000 certification standard developed by Social Accountability International (SAI), an American CSR evaluation institution. These audits investigate our workplace practices, and an RBA-recognized auditor checks suppliers' CSR initiatives from the perspectives of labor and human rights, health and safety, the environment, and ethics. Suppliers needing improvement were requested to submit improvement action plans, and Hitachi, Ltd., together with group companies, will work with and advise the suppliers until they complete the planned improvements.

*1. Intertek Certification: A company that provides a wide range of certification services extending across all industrial fields in more than 100 countries around the world.

*2. RBA: Responsible Business Alliance (formerly "EICC")

Human Rights Due Diligence in Procurement

Basic Policy

Hitachi believes that respecting human rights is our responsibility as a global company and indispensable in conducting business. To this end, in May 2013 we formulated the Hitachi Group Human Rights Policy. In this policy, we clarify our understanding of human rights as being, at a minimum, those outlined in the International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. This policy shapes Hitachi's approach to meeting the responsibility to respect human rights, including implementing human rights due diligence* in line with

the UN Guiding Principles on Business and Human Rights, providing appropriate education to employees, adhering to laws and regulations in all the regions and countries where we operate, and seeking ways to honor the principles of international human rights when faced with conflicts between internationally recognized human rights standards and national laws.

* Human rights due diligence: An ongoing process to identify and assess potential and actual human rights negative impacts, take appropriate action to prevent or mitigate potential impacts, track the effectiveness of actions to address impacts and communicate externally.

Starting in fiscal 2015, the Hitachi Group Procurement Division began implementing human rights due diligence based on the Hitachi Group Human Rights Policy. In fiscal 2017, we incorporated the results of human rights due diligence into our CSR procurement guidelines for suppliers while also thoroughly revising the questions on the check sheet used in supplier CSR monitoring (self-checks) to better grasp the issues.

Hitachi Group Codes of Conduct

<https://www.hitachi.com/about/corporate/conduct/index.html>

Hitachi Group Human Rights Policy

https://www.hitachi.com/sustainability/renew/pdf/human_rights_policy.pdf

Addressing the Risks of Child and Forced Labor

The Hitachi Group Codes of Conduct clearly express Hitachi's firm stance against the use of child labor either in Group companies or forced labor along its supply chain. In addition, Hitachi's CSR procurement guidelines for suppliers also clearly forbid the use of child labor or forced or compulsory labor. As part of our efforts to raise awareness all along the supply chain, we conducted CSR procurement seminars in China and Thailand.

Response to the Conflict Minerals Issue

Hitachi has formulated the Hitachi Group Conflict Minerals Procurement Policy. The policy explicitly lays out measures to be implemented to ensure responsible procurement, including inquiries based on international guidelines, so that procurement of components incorporating conflict minerals does not benefit armed groups in the Democratic Republic of the Congo (DRC) or adjoining countries. Expanding the scope of corporate responsibilities for the procurement of minerals is a global trend, with companies increasingly expected to address the overall risks to human rights as well as conflict risks, and recognize responsibilities that extend beyond the countries adjoining Congo to a wider area where risks are high. We are currently revising our Conflict Minerals Procurement Policy in this respect.

Each Hitachi business unit and group company responds to investigation requests and inquiries relating to conflict minerals, and reports the results to customers when requested.

Hitachi Group Conflict Minerals Procurement Policy:
<https://www.hitachi.com/procurement/csr/csr/index.html>

Announcement of a Declaration Aimed at Building New Partnerships (Declaration of Partnership Building)

Hitachi has approved of, adopted and announced the Declaration of Partnership Building established by the Council on Promoting Partnership Building for Cultivating the Future, the members of which include the chairman of the Japan Business Federation, the chairman of the Japan Chamber of Commerce and Industry, the president of the Japanese Trade Union Confederation and representatives from related ministries (the Cabinet Office; the Ministry of Economy, Trade and Industry; the Ministry of Health, Labour and Welfare; the Ministry of Agriculture, Forestry and Fisheries; and the Ministry of Land, Infrastructure, Transport and Tourism).

Specifically, this declaration identifies matters upon which Hitachi will focus as it strives to build new partnerships through the promotion of collaborations and prosperous coexistence with business partners in its supply chain and businesses endeavoring to create value.

Declaration of Partnership Building (summary)

1. Prosperous Coexistence throughout Supply Chains and New Forms of Collaboration That Transcend Company Size and Business Groupings

We will aim to build a prosperous coexistence with our business partners by engaging in collaborations that transcend existing business relationships and company size while striving to raise added value throughout the supply chain. As we pursue these goals, we will support the implementation of remote work at business partners and provide advice for the formulation of BCPs in accordance with appropriate perspectives regarding business continuity during natural disasters and work-style reforms.

2. Compliance with “Promotion Standards”

We will observe appropriate business practices between main subcontracting entrepreneurs and subcontractors (Promotion Standards based on the Act on the Promotion of Subcontracting Small and Medium-Sized Enterprises) and proactively adjust trading and business practices that hinder the construction of partnerships with our business correspondents.

Quality Assurance

Thorough Quality Assurance

Providing products and services that our customers can use with confidence, along with meeting the specifications and quality levels demanded by customers are important values shared by all our employees and described in the Hitachi Group Codes of Conduct. To ensure that quality and reliability are top priorities, we are strengthening our quality assurance activities from the perspectives of organization and management, technology, and human resources in every process—from planning and development to design, manufacturing, delivery, and maintenance.

Quality Assurance Initiatives

Maintaining the values of “Harmony”, “Sincerity”, and “Pioneering Spirit” that comprise the Hitachi Founding Spirit, as well as adhering to “Basics and Ethics” and “Right and Wrong are more important than Profits and Losses”, we place great emphasis on “Sincerity” in quality assurance activities for earning trust in our products.

One integral aspect of this is our unique and longstanding practice of “Ochibo Hiroi”, which means “gleaning” in English and involves learning from failure to further develop our technologies. Our executives and senior management take the lead in examining things from the customer’s perspective, not only investigating the technical causes but

also thoroughly discussing the process, framework, and motivating factors leading up to an occurrence, along with ways to prevent reoccurrence, in order to improve our product reliability and to increase customer satisfaction.

Framework for Quality Assurance

To ensure full control over quality governance, we have separated the quality assurance division from the manufacturing division in every business unit and group company, creating a framework for activity in which our customers’ safety and trust are the top priorities. Since fiscal 2018, to strengthen this framework further, we have reinforced the

reporting lines from business unit and group company quality assurance divisions to the quality assurance division at our head office, independent from all business divisions, creating systems for close information sharing between the two. We are also strengthening governance by giving greater authority to the quality assurance division at our head office.

Hitachi has also established "Product Safety Assurance Guidelines" and declares that we will always give top priority to ensuring the safety of our customers. We strive to achieve a higher degree of safety by reciprocally examining product safety activities in each division.

To develop a basic philosophy pertaining to Hitachi quality assurance efforts within global activities, we created Global Quality Assurance Standards and are strengthening the global governance of the entire group.

Incident Prevention Activities

We believe that prevention of incidents is the essential role of quality assurance, and we are strengthening our initiatives not only to prevent the recurrence of incidents, but also to prevent them in the first place.

To this end, we are promoting quality assurance activities while anticipating quality issues with an eye to the changes in our various business activities.

As a part of these activities, to prevent incidents in advance, we are applying our software development capabilities and reliability enhancement know-how in solutions divisions to product-related divisions (embedded software development divisions), and we also building and strengthening our quality assurance activities in service businesses, which are growing rapidly, as well as a framework for sharing information on current issues.

Furthermore, we are promoting the digitization of test and inspection data and the establishment of processes that do not require manual intervention in the acquisition and assessment of inspection data and the preparation of inspection reports.

Complying with Technical Laws and Regulations

In addition, we developed the "Guideline for the Assessment of Technical Laws and Regulations, and Quality Assurance Systems," which is shared throughout the Hitachi Group. The guideline includes two key subjects: (1) clarification of laws and regulations related to each product (product laws and regulations map); and (2), legal compliance activities and continuous improvement of processes based on a product compliance management system.

Thorough Risk Assessment

We give top priority to the safety of our customers' lives, physical bodies, and property when designing new products, and confirm the safety of our products at every stage in the process, from development to production, sales, and maintenance. Specifically, we improve risk communication with our customers based on the Guide for Preparing User Instruction Manuals, and ensure product safety through risk

reduction measures based on the following priorities: design (intrinsic safety design), protective measures (safeguarding), and information on use (e.g., instruction manuals). We also collaborate with related business units and laboratories to conduct risk assessment from a broad perspective.

Handling Product Incidents

When an incident occurs, the department in charge of the product will take the lead in dealing with the situation from the customers' perspective.

In case of a particularly serious accident, we have a company-wide framework in place to take prompt and appropriate action. Specifically, in accordance with laws and regulations, we report to the competent authorities and disclose information to customers via our website and other channels, as well as promptly reporting the situation to senior management.

Furthermore, when it is deemed necessary to take retroactive measures against a product, we issue a public notice in newspapers or on our website and implement measures such as repair and replacement.

Quality and Reliability Instruction

We offer field-specific technical courses and level-specific courses such as "basic" and "advanced" mainly for engineers involved in manufacturing. Each business unit also provides specialized technical instruction in quality assurance training centers to improve manufacturing, quality assurance and maintenance techniques.

Compliance

Thorough Compliance

As the economy becomes more global and corporate activities become more borderless, business activities spanning across countries and regions with different administrative and economic systems, trading practices and values are picking up. Globally shared initiatives and guidance are increasingly important in terms of conducting proper international business and preparing for all types of risks that could potentially hinder business activities.

Hitachi promotes business globalization in accordance with “Basics and Ethics” and has established its own set of rules concerning important business practices, such as preventing bribery, observing the Competition Law and establishing tax compliance, that are compliant with widely recognized and approved international standards. We are also working to ensure thorough awareness and practice of these rules throughout the entire Hitachi Group. We will respond appropriately to the demands of society while reviewing and updating these rules as needed based on an awareness that required corporate behavior and interpretations of standards and regulations continue to evolve due to ongoing global discussion concerning compliance.

Our Basic Policy and Promotion System

We established the “Hitachi Group Codes of Conduct” as a standard of behavior for the entire group and have translated them from Japanese into 13 different languages, including English and Chinese, and have been circulating them through e-learning, sharing them with officers and employees throughout the world. We also established the “Hitachi Group Code of Ethics and Compliance” to clearly share ideas regarding corporate ethics and compliance that should be shared throughout Hitachi, as we work to further ensure that all Hitachi officers and employees act in thorough compliance with corporate ethics.

Regarding awareness of corporate ethics and compliance, an employee survey is conducted by the Hitachi Group every year in an effort to foster a sound corporate culture.

In 2016, Hitachi reconstituted its rules and guidelines related to matters such as compliance with competition law and the prevention of antisocial transactions, corruption and bribery, repackaging them into the “Hitachi Global Compliance Program (HGCP)”, a system of regulations falling under the Hitachi Group Codes of Conduct. We are seamlessly implementing these rules at all business sites globally.

Strengthening Our Global Compliance Framework

To implement the HGCP, we have appointed a senior executive as the head of risk management for the entire Hitachi Group to supervise the executives who are in charge of management-level risks in each business unit and key group companies. Under this system, policies and measures are shared through the “Compliance Management Conference”, composed of these risk management executives. Each executive is assisted by a compliance manager who implements practical support measures.

We also support group companies outside Japan and have appointed compliance heads in 11 regions, responsible for implementing education and sharing information as well as arranging consultation services with outside attorneys.

Issues in the promotion of compliance measures are clarified through individual dialogue with business units and key group companies, while

the internal audit section regularly conducts group-wide reviews to verify that each area of compliance is being appropriately operated. In cases where these reviews identify necessary improvements, corrective measures are swiftly implemented. In addition, Hitachi conducts surveys every three years at group companies in regions where bribery risks are high based on possible bribery risk scenarios. Hitachi also convenes an “Advisory Committee” of outside experts to gain new insights into compliance and apply them proactively in its own efforts.

In fiscal 2019, compliance risk surveys were conducted at 821 group companies to conduct management based on shared risk management categories throughout the Hitachi Group globally. Based on the results of these surveys, we will work to ensure the effectiveness of compliance programs by allocating resources to businesses and regions where risks are high and thoroughly implementing and managing measures in accordance with risks.

Compliance Reporting System

Hitachi introduced a Compliance Reporting System to prevent illegal and unethical behavior, promptly address infractions and enhance our ability to self-regulate. This system can be used by employees within the Hitachi Group, as well as temporary staff and business partners such as suppliers and distributors. In fiscal 2019, we received 459 reports from all group companies in Japan and throughout the world.

In addition, we have implemented the Channel to the “Board of Directors system” to allow all Hitachi employees to directly report problems anonymously or under their real names to Hitachi directors in cases where they see any illegality or extreme inappropriateness in business conduct by division heads, executive officers or other management personnel.

Primary Initiatives

Policies for Preventing Bribery and Corrupt Practices

Preventing bribery and corrupt practices is a major challenge for corporations today. Hitachi established rules against bribery and corruption for the HGCP along with guidelines indicating specific spending thresholds for entertainment, gifts and other arrangements provided to public officials, establishing a policy banning facilitation payments and due diligence procedures for business partners. In addition, Hitachi thoroughly complies with the U.S. Foreign Corrupt Practices Act (FCPA) and bribery regulations in each country and region, which have become stricter in recent years.

Tax Compliance Initiatives

To ensure risk management for taxation in response to globalization, Hitachi follows relevant tax-related regulations applicable to the overall group, as well as rules for transfer pricing management. We also manage transfer pricing in accordance with the OECD Transfer Pricing Guidelines and the laws and regulations on transfer pricing in each country or region where group companies are located.

Preventing Violations of Competition Law

Hitachi makes thorough efforts to comply with the HGCP's rules concerning competition law and other related business standards and guidelines. We created a global version of our standards for contact with competitors to enhance awareness of ethical principles and practices. We also provide a collection of case studies for workplace discussions to group companies, including case studies on competition law in Japanese, English and Chinese, to raise employee awareness.

Hitachi holds a special manager training every other year and in fiscal 2019, approximately 1,100 general managers, mainly from sales department personnel facing high compliance risks in daily work activities, such as contact with competitor companies and involvement in public bidding, attended the training.

Violations of Laws and Regulations

In fiscal 2019, there were no incidents in which Hitachi violated or was penalized under laws or regulations regarding bribery or corrupt practices. Regarding tax compliance, Hitachi acts in accordance with all applicable laws and regulations and did not have any significant fines or nonmonetary sanctions for noncompliance with tax laws and regulations. Moreover, regarding competition law, we take seriously the fact that a group company was confirmed to be in violation of competition laws regarding the overseas transactions of some automobile parts. We are working to prevent recurrence through organizational and regulatory improvements and enhanced education and auditing.

Export Controls

For basic export control policies, we have adopted the "Hitachi Group Codes of Conduct", which state: "We will help maintain international peace and security through compliance with all applicable laws and regulations concerning import and export, and will operate appropriately according to our internal rules and policies." Hitachi has established "Corporate Regulations concerning Security Export Control" based on this policy to carry out strict export control practices in line with relevant laws and regulations, 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. We provide guidance and educational support for the formulation of regulations and the establishment of frameworks to Hitachi Group companies to ensure that all group companies follow this policy and implement export control in accordance with the laws and regulations of the regions and countries.

Corporate Governance

Hitachi views the expansion of long-term and overall shareholder returns as an important management objective. Hitachi and its group companies maintain good relationships with a wide range of stakeholders, and we recognize that these relationships make up an important portion of our overall corporate value. Accordingly, we are striving to establish a system that will facilitate the maintenance of these relationships and improve our corporate value primarily through the implementation of measures focused on promoting constructive dialogue. To advance these efforts effectively, we are working to improve our corporate governance by ensuring thorough separation between the oversight and execution of management, establishing a swift business execution system and striving to achieve highly transparent management.

History of Hitachi's Corporate Governance Reform

1999 Introduction of Objective Perspective

Management Advisory Committees

- ▶ Practical advice from experts in Japan and overseas

2003 Demarcation of Management Oversight and Execution

Shifted to a company with committees (currently a company with nominating committee, etc.)

- ▶ To increase management speed and improve management transparency

2006 Enforcement of Revised Companies Act

2010 Enhancement of Interactions with Capital Markets

Hitachi IR Day (briefing on business strategy by division) was launched

- ▶ Clarification of commitment of top management of the business units to the capital markets

2012 Acceleration of Global Management

Independent directors including foreign directors were increased

Independent directors comprised the majority of directors

2012 Development of Guidelines for Strengthening Governance

Development of Corporate Governance Guidelines

2014 Development of Stewardship Code

2015 Start of Application of Corporate Governance Code

2016 Enhancement of Dissemination of Information about Medium- to Long-term Sustainable Growth

Publication of an integrated report

2019 Acceleration of the Social Innovation Business across 5 Growth Fields

Executive vice presidents were placed in 5 sectors

ESG briefing session held

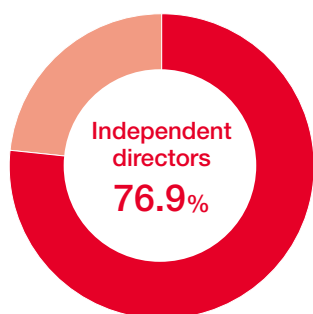
- ▶ An independent director (chair of the Audit Committee) and the CEO shared their remarks

Implementing All of the Principles of the Corporate Governance Code

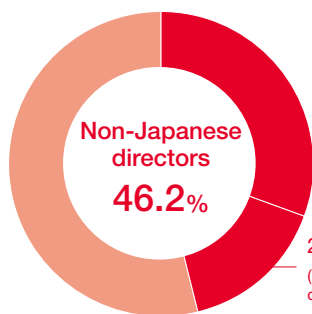
We are implementing all of the principles of the Corporate Governance Code.

Director Composition

Independence
(ratio of Independent directors)



Diversity
(ratio of non-Japanese directors)

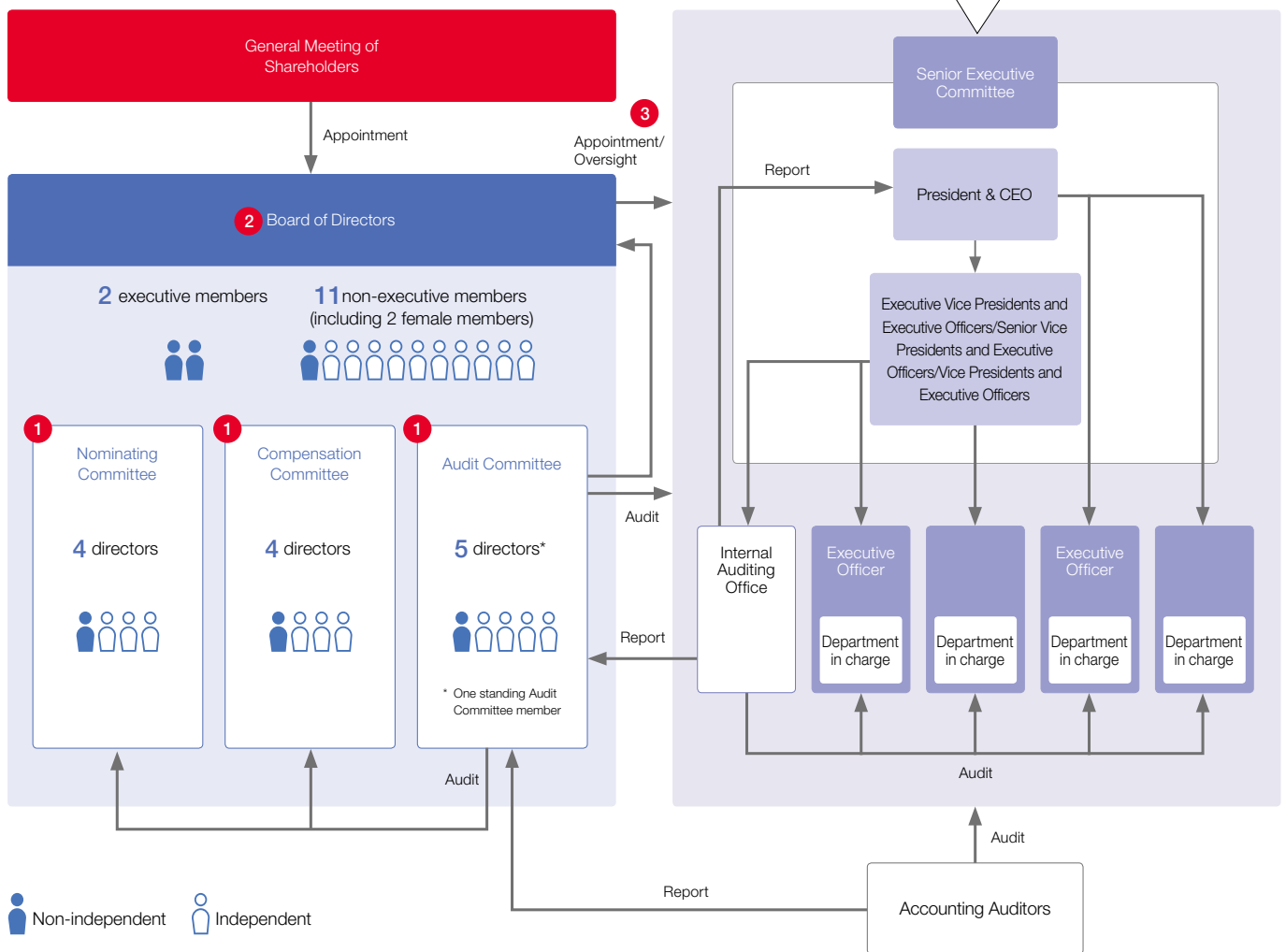


2 female directors
(15.4% of overall director total)

Directors with Abundant Experience

Hitachi has 13 directors, 6 of whom are non-Japanese and 2 of whom are female. This team 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.

Hitachi's Corporate Governance Framework and Its Features



POINT 1

Transparency in Management

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

We have established a Nominating Committee, a Compensation Committee and an 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, in 2012.

Our Board of Directors, which is chaired by an independent director, has 13 members, including 10 independent directors, 2 directors who are also serving as executive officers and 1 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.

Corporate Governance

Administrative Performance of the Board of Directors

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

Within the Board of Directors, there are 3 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 9 days during fiscal 2019, and the attendance rate of directors at these meetings was 98%. 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.

Status of Board of Director meetings held in fiscal 2019

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%
Cynthia Carroll	100%	100%	—	—
Joe Harlan	100%	—	—	—
George Buckley	100%	—	—	—
Louise Pentland	89%	—	—	—
Harufumi Mochizuki	◎100%	◎100%	100%	◎100%
Takatoshi Yamamoto	100%	—	100%	100%
Hiroaki Yoshihara	100%	100%	◎100%	—

* Number of days during term of office on which Board of Director meetings were held: 9
 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: 15
 Number of days during term of office on which Compensation Committee meetings were held: 4
 ◎ Indicates role as board or committee chairperson

Board of Director Meetings in Overseas and Panel Discussions Involving Experts

In principle, Hitachi holds a meeting of its Board of Directors annually in a foreign country that is deeply connected with its businesses. In December 2019, this meeting was held in the City of Zurich in the Swiss Confederation. As a side event, we also held a panel discussion involving representatives from the International Energy Agency (IEA), European power transmission and distribution companies, and Japanese scholars. This panel discussion increased the depth of understanding our directors and associates have concerning the “3Ds” (decarbonization, dispersion, and digitalization) and new power system trends, including the ongoing establishment of power grids in a wide range of regions and nations.



Analysis and Evaluation of the Effectiveness of the Board of Directors

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

Fiscal 2019 Evaluation Process

1. Questionnaire-based self-assessment by each director (February–March 2020)	<p>Points of evaluation</p> <ul style="list-style-type: none"> Composition of Board of Directors: Member diversity, numbers and ratios of independent directors and inside directors, etc. Clarification of the responsibilities and expected roles of the Board of Directors Operation of Board of Directors: Meeting frequency, discussion time, proposal selection, discussion content, role of chairperson, etc. Contribution: Contribution to management strategy formulation and changes in corporate culture, member demonstration of experience and knowledge, etc. Understanding regarding the Company: Group identity, risk factors Status of committee activities: Composition, responsibilities and roles, collaboration with Board of Directors, etc. Operation supporting system: delivery of information e.g., provision of documents for the Board
2. Discussions held by independent directors (March 2020)	<ul style="list-style-type: none"> Independent directors held an exclusive meeting to discuss the effectiveness of the Board of Directors.
3. Discussion and review within the Board of Directors (June 2020)	<ul style="list-style-type: none"> The Board of Directors held a discussion based on the results of the questionnaire-based self-assessment and discussions conducted in the exclusive meeting attended by independent directors, comparing these results to those of the previous year and considering the statuses of related initiatives. Through this discussion the Board of Directors analyzed and evaluated its overall effectiveness and identified policies through which it can increase this effectiveness.

Evaluation Results and Future Initiatives

Overall evaluation in fiscal 2019	
Overall evaluation in fiscal 2019	<p>Fiscal 2019 evaluations determined that membership in our Board of Directors was sufficiently diverse. They also indicated the Board of Directors' overall effectiveness was satisfactory due in part to its active discussions aimed at medium- to long-term growth in corporate value. Each director was found to have contributed his or her own knowledge to these discussions, which were primarily focused on points related to management strategy, including the Mid-term Management Plan.</p>
Future initiatives	
Maintenance and improvement of Board of Director functions	<ul style="list-style-type: none"> The Board of Directors will continue to conduct discussions concerning business strategies for each sector. At the same time, it discusses the progress of our Mid-term Management Plan as appropriate while accounting for circumstances surrounding COVID-19. We are strengthening collaboration between the Board of Directors and the Nominating Committee while further contributing to CEO succession planning (for example, expanding reports made to the Board of Directors through the Nominating Committee, enhancing coaching for successive and next-generation candidates).
Enhancement of operational support of the Board of Directors and improvement of its practical aspects	<ul style="list-style-type: none"> While accounting for circumstances surrounding COVID-19, we improve our operation supporting system through the continuous sharing of information obtained through independent directors' visits to Hitachi Group business premises and event participation We will achieve further improvements related to the composition and content of materials, as well as to their preliminary provision.

Administrative Performance of the Three Committees

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 4 directors, 3 of whom are independent directors.

It also determines director candidates and holds preliminary hearings concerning the appointment and dismissal of executive officers, including the CEO. In fiscal 2019, the Nominating Committee held meetings on 8 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 reviewed and confirmed the executive officer system implemented in fiscal 2020. 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 consists of 5 directors, including 4 independent directors and 1 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 2019, the Audit Committee held meetings on 15 days.

Primary Activities

The Audit Committee conducted activities that were focused on its priority matters for consideration, which included the enhancement of collaboration and the promotion of information through tripartite audits (involving the Audit Committee, internal audit sections, and accounting auditors), as well as the construction and operational evaluation of internal control systems based on perspectives concerning the adequacy of risk management and business execution. In addition, standing Audit Committee members established an understanding regarding timely and appropriate information through collaboration with internal audit sections and attendance at meetings of the Senior Executive Committee and other important internal conferences. Furthermore, they subsequently shared this information 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. Composed of 4 directors, including 3 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 2019, the Compensation Committee held meetings on 4 days.

Primary Activities

The committee determined remuneration amounts for individual directors and executive officers in accordance with established policies while verifying and reviewing details of the processes applied when conducting performance appraisals tied to short-term incentive compensation for executive officers and evaluating progress made toward individual targets. 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. Furthermore, the committee decided upon policies covering remuneration for directors and executive officers in fiscal 2020, including the implementation of a restricted stock unit (RSU) compensation system for non-Japanese officers.

Corporate Governance

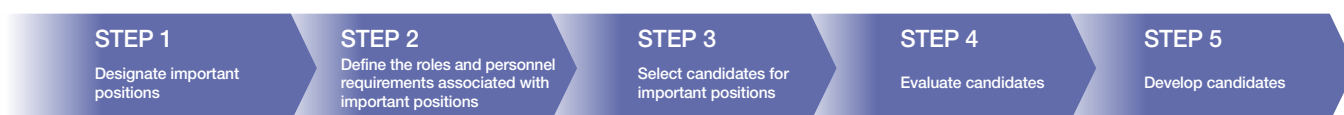
CEO Appointment, Dismissal, and Succession Plan

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 upon proposals made to the Nominating Committee, while decisions related to the position of CEO are made based on preliminary deliberations and proposals from the Nominating Committee. As stipulated in our Corporate Governance Guidelines, our basic policy concerning CEO appointments and dismissals 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.

Regarding our CEO Succession Plan, as the speed of change 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. Accordingly, 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 roles and responsibilities of each Directors and Executive Officers.
- Compensation for Directors shall be such that it enables them to exercise 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 taking into account 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.

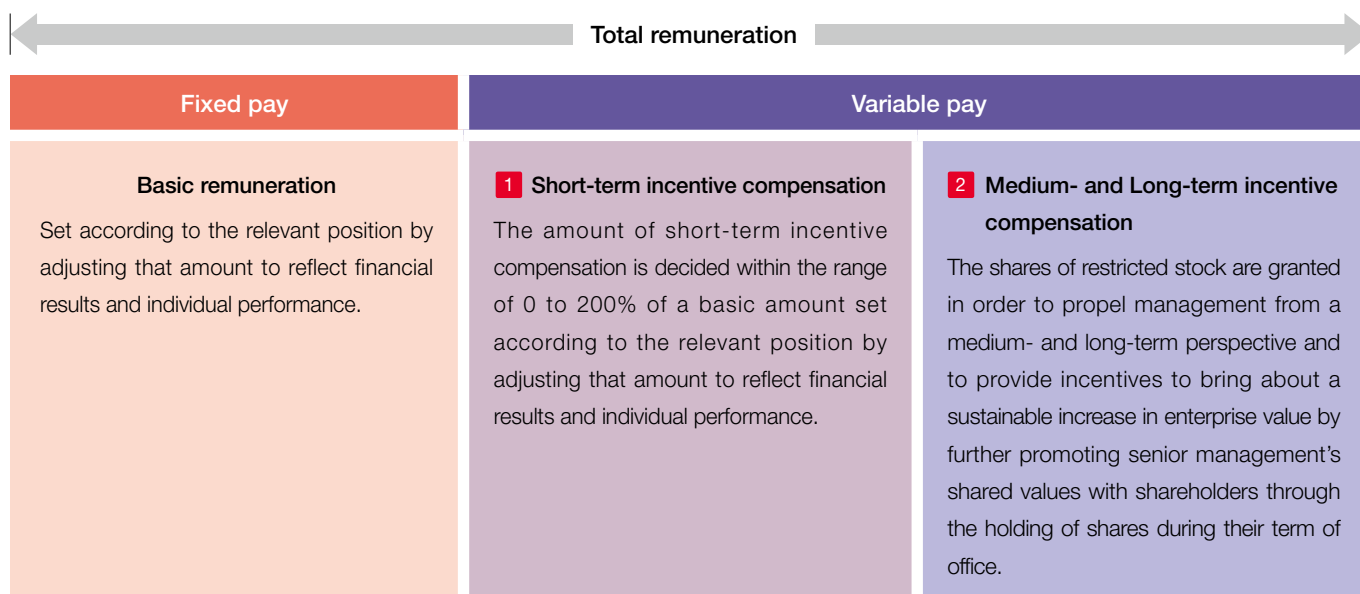
The basic amount of each type of compensations is set based on the ratio of 1:1:1 as the standard form of compensation, taking into account the composition of executive compensation for major global companies, in order to improve corporate value through the growth of global businesses. The higher position of Executive Officers held, the higher proportion of variable pay is set to the total annual compensation.

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

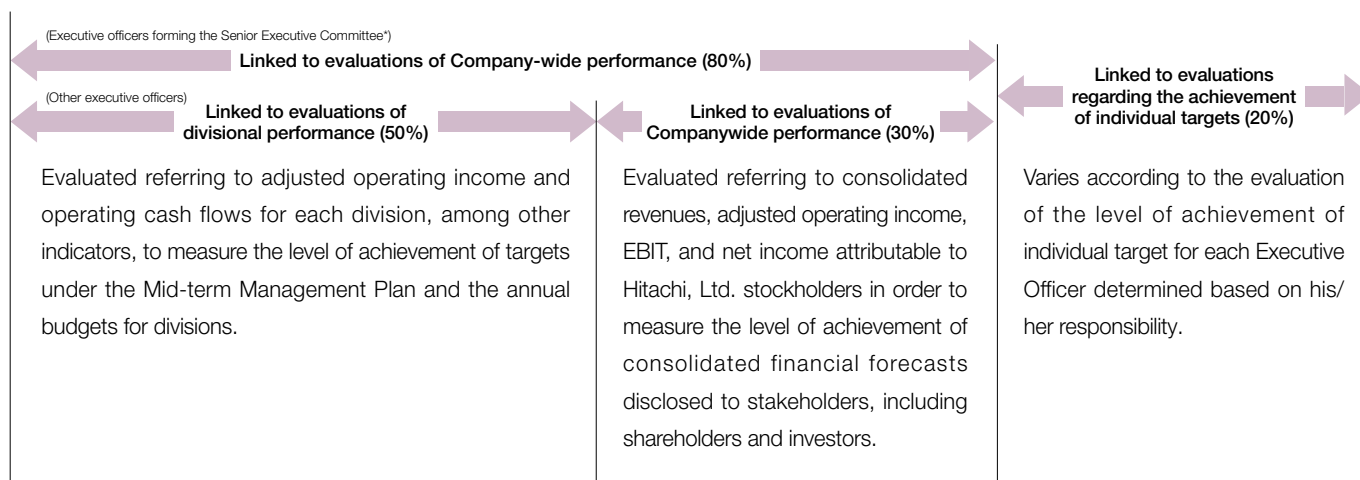
Please refer to Compensation to Directors and Executive Officers on P.93-98 of Annual Securities Report (The 151st Business Term).
https://www.hitachi.com/IR-e/library/stock/hit_sr_fy2019_4_en.pdf

Compensation to Executive Officers (FY2020)

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



1 Short-term incentive compensation



* The rates used for "other executive officers" apply when "executive officers forming the Senior Executive Committee" are in charge of business units or businesses.

2 Medium- and Long-term incentive compensation

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 granted shares of restricted stock, the number of shares whose transfer restriction is lifted shall be determined after ex-post evaluation in which the total shareholder return of Hitachi stock is compared to growth rate of TOPIX (both measured over the three years dating back to the beginning of the fiscal year during which corresponding medium- and long-term incentive compensation was issued). Lifting of transfer restrictions shall apply to all granted shares if the TSR/TOPIX Growth Rate Ratio is

120% or more. Lifting of transfer restrictions shall apply to part of granted shares if the TSR/TOPIX Growth Rate Ratio is 80% or more but less than 120%*. Transfer restrictions shall not be lifted for any shares if the TSR/TOPIX Growth Rate Ratio is less than 80%. Shares whose transfer restrictions are not lifted shall be acquired by the Company without consideration.

* Number of shares whose transfer restrictions are lifted
= Number of granted shares × ((TSR/TOPIX Growth Rate Ratio × 1.25) - 0.5)

Corporate Governance

Internal Control over Financial Reporting

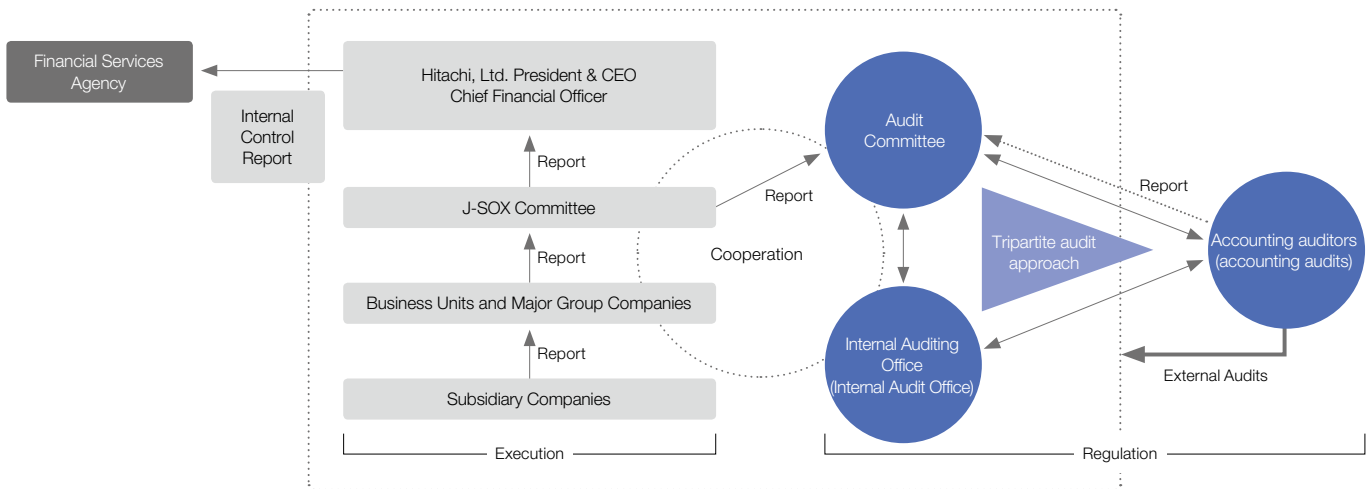
To ensure the reliability of its consolidated financial reporting, the Hitachi Group is establishing and implementing relevant internal controls. We evaluate their effectiveness by adhering to standards for the evaluation of internal controls related to financial reporting that are generally accepted 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.

Management of risk associated with global business expansion

Creation of a system focused on maintaining transparency and a sense of urgency

Internal Control Assessment Framework

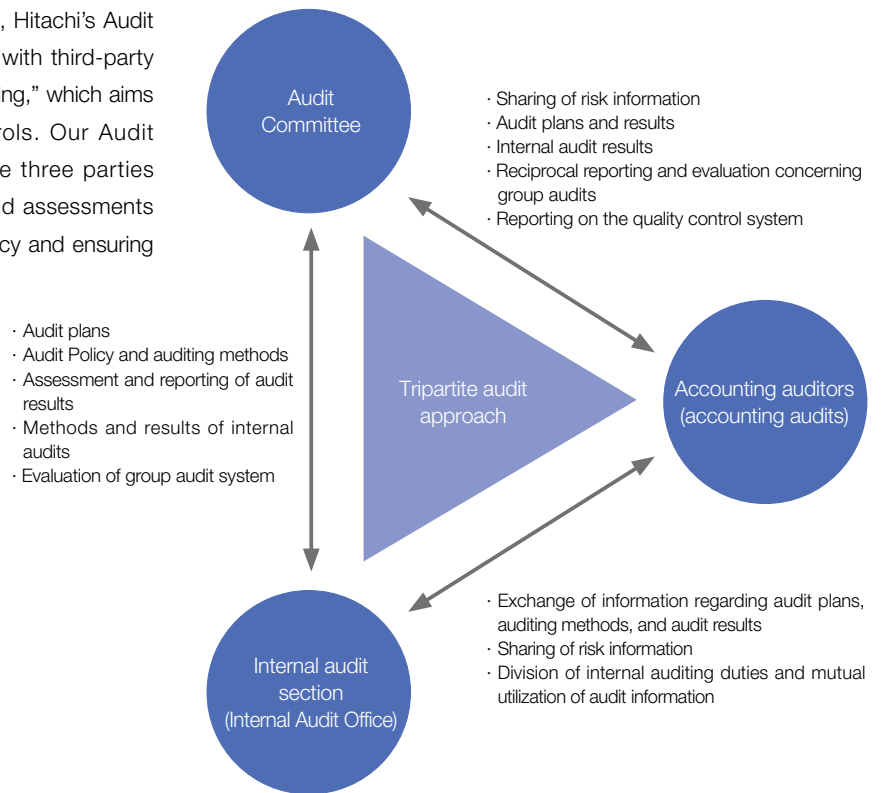


Enhanced Collaboration through Tripartite Audits

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.

Sharing of risk information and assessments of risk response

Ensuring transparency and a sense of urgency and improving the effectiveness of internal controls



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 this time, Hitachi 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 CEO 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. Additionally, 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 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. They also function as a reporting line for statutory auditors at Hitachi subsidiaries who are legal agents under the Companies Act and are working to improve the efficiency of our 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 building a system that will allow our internal audit section to share information with professional accounting auditors using the Lumada platform's data lake and expect it to be complete in fiscal 2020. When reading audit reports submitted by the internal audit section, our CEO 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 5 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 progress on response from 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 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, we are also actively communicating with shareholders and investors to improve our corporate value, and held approximately 790 meetings in fiscal 2019.

Stakeholders	Main Roles	Means of Communication
Customers	Creation of better products and services, Response to complaints Appropriate disclosure of information on products and services	<ul style="list-style-type: none"> Customer satisfaction activities • Marketing • Website • Advertising activities "Global Brand Campaign" (14 locations) • Holding Hitachi Social Innovation Forum (4 locations)
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"> Financial results briefings (quarterly) • General shareholders' meeting (annual) Hitachi IR Day event (annual), one-on-one meetings with institutional investors and analysts (about 790 meetings/year) IR tools: Integrated Report, business reports, etc. • Information disclosure on website for stakeholders and investors
Suppliers	Building of fair and sound business relations, smooth information sharing toward better partnerships	<ul style="list-style-type: none"> Procurement activities • CSR procurement seminars (59 companies/year) • CSR monitoring (201 companies/year) CSR audits (19 companies/year)
Employees	Proper treatment, promotion of occupational health and safety of human capital	<ul style="list-style-type: none"> Intranet, in-house newsletters • Training Town hall meetings between senior management and employees (president & CEO: 18 meetings/year, executive vice presidents: 28 meetings/year) Employee survey (annual) • "Make a Difference!" idea contest (annual)
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"> Academic research for policy recommendations to international organizations and national governments, lobbying activities Policy council participation (Japan) • Participation in business and industry associations (Japan)
Local communities	Fulfillment of responsibilities as corporate citizen, involvement in local communities	<ul style="list-style-type: none"> Contribution to local communities through business • Participation in volunteer activities
Academic associations and research institutions	Promotion of technological innovations, participation in industry-government-academia collaborative projects	<ul style="list-style-type: none"> Open innovation (joint research)
NGOs and NPOs	Incorporation of diverse public opinions, promotion of stakeholder-focused management, social contribution through nonprofit activities	<ul style="list-style-type: none"> Stakeholder dialogue (3 times/year) Dialogue through collaboration
Global environment	Realization of a decarbonized society, a resource efficient society, a harmonized society with nature	<ul style="list-style-type: none"> Stakeholder dialogue (annual)

Message from Independent Directors



I hope to leverage my nearly 15 years in leadership roles building successful global companies to move us more swiftly down the path of digital transformation and contribute to good governance.

Ravi Venkatesan

Independent Director

First, I am honored to join the Board of Directors of Hitachi, which is one of the world's great technology companies.

As an independent director, I hope to contribute to Hitachi in several ways. For instance, Hitachi is making a big bet on the digital transformation of its businesses and building out Lumada as a platform for this. The Company has been proactive and is well positioned for leadership, but other large technology companies and competitors are building similar platforms. Many crucial decisions will determine our success, including investments, partnerships, M&A and strategic governance. I hope to draw on my nearly 15 years in leadership roles with Microsoft and Infosys to bring useful perspectives to accelerate our digital transformation journey.

One opportunity is in India, which has a large market and a critical pool of engineering talent. It also presents an extremely difficult business environment. Having helped build several successful companies in India, including Cummins, Microsoft, JCB and Volvo, I aim to advise and assist our Business Units to successfully build market leadership there.

In my role as UNICEF's Special Representative for Young People and Innovation, I find Hitachi's commitment to the Social Innovation Business fascinating. This aspect of the Company is distinctive and extremely important; society is increasingly holding companies to account for behaving responsibly, operating in an environmentally sustainable way, and reducing inequality. Hitachi can show the world that doing well and doing good are entirely compatible, and we can communicate this at a scale that the world will notice and hopefully emulate.

Finally—and most importantly—I will contribute to good governance. Over the last 20 years, I've led and served on the boards of global companies in the U.S., Europe and India. I have helped guide firms through transformation, crises and stakeholder activism. A large, complex and global company like Hitachi benefits from having

independent directors who understand their fiduciary duty and have lived through such experiences.

Hitachi's board needs to have diversity that mirrors its complexity. I think the Company has been proactive and thoughtful in assembling a diverse, accomplished and independent group of global leaders with varied expertise. Second, board members must be engaged effectively so we have a sound understanding of our businesses, leaders, opportunities and risks. My experience so far with the thoroughness of my orientation process and the information provided has been very positive. Third, the board culture should be transparent, disclose and confront problems early, and encourage frank discussions. Equally, board members need both the wisdom and independence of mind to ask the right questions and challenge management constructively. If these conditions are met, and a high degree of mutual trust and respect exists between board members and management, things usually work out.

It is already clear to me that the Company has enormous opportunities and fantastic technological depth, talent and resources. Any company that has survived and flourished for more than 100 years must also have a very strong mission and values. But we are now experiencing the Fourth Industrial Revolution, which will be extremely disruptive. We face huge challenges like climate change, a changing world order and its impact on global supply chains, as well as "Black Swan" events like COVID-19.

The future is uncertain and volatile, and to maintain leadership, companies must be adept at managing risks and agile in adapting to change. Most large, successful companies are built to last rather than built for change; this often becomes their central challenge. But I see that Hitachi has a clear and coherent vision and has made an enormous number of difficult changes since the crisis of 2008. I am optimistic that we will be able to consolidate leadership in the industries of the future.



Hitachi and its customers are on a journey to bring together technologies, platforms and people. I will draw on all my experience in digital transformation to support this journey.

Helmuth Ludwig

Independent Director

The digital and physical worlds are growing together. To create and capture value, we need to understand both. In my former roles at Siemens, I had to do exactly that: bring together technologies, platforms, and most importantly, people. A transformational journey. Hitachi can be a leader in this journey for its clients: with the Lumada platform at its center and a strong focus on combining Information Technology with Operational Technology, and the crucial domain knowledge (ITxOTxProducts). The magic ingredient? Our people. Empowered employees who learn, grow and co-create. I expect to be a partner and sounding board for Hitachi's business leaders along this journey.

I am deeply impressed by the discussions with Hitachi's top management; I am also humbled to support such a strong team, and to serve as guide where it matters most to them. Their balanced focus on social, environmental and economic value is an industry benchmark.

Hitachi is a global company with a strong base and longstanding heritage. I have enormous respect for its strong track record in markets abroad. This international success story will be even more important going forward, since the Internet of Things and platform business models are global in nature: more users and more data drive greater customer benefit – and thus our own success. I am excited to apply my own experience of having worked and lived in different countries in the Americas, Europe and Asia.

The vision of "Improving the Quality of People's Lives, Raising Customers' Corporate Value and Achieving a Sustainable Society" resonates well with top talents in and outside of Hitachi. The vision also shows clearly where the company is going: Hitachi has a strong innovation culture dating back to its founding by Mr. Odaira in 1910, and the Company has a clear view on the next generation of

businesses. Forwardlooking portfolio changes over the past years are a clear proof point. This vision is most relevant for our stakeholders. In today's highly interconnected world, no one can go alone, and Hitachi's values are a strong foundation for building an ecosystem with partners and customers. Hitachi Ventures headquartered in Munich is a good example for the open mindset of the Hitachi culture.

The COVID-19 pandemic has taught us powerful lessons: humility, inventiveness, and resilience. It also showed that technology can help us cope even with existential threats. I am inspired by the way we all managed to move to remote work, building on existing technologies and inventing new ones. In the end, however, it is all about people, our resilience and our willingness to collaborate.

New technologies and new ways of working are exciting – but they come with risks. One area where I would like to contribute is in the "Democratization of Artificial Intelligence (AI)", one of my academic research areas. We need to experiment with AI. But we need to do it safely, so people will trust AI and understand its limits. I am convinced that we will see AI and other platform technologies become mainstream in Hitachi. We can be a trailblazer, if we find the right balance between opportunity and risk here.

But technological advancement is no value in itself. It needs to be human; it needs to serve us, humanity. My first board meeting in July left me convinced that I am supporting a team that embodies this mindset. The meeting began with a review of the health status of the employees. People matter at Hitachi. I am honored to be one of them.

Leadership

Independent Directors* (As of July 30, 2020)



Katsumi Ihara ▲ ◆

Share ownership: 600 shares

Term of office as Independent Director: 2 years

- 2005 Executive Deputy President, Representative Corporate Executive Officer, Member of the Board, Sony Corporation
- 2009 Executive Deputy President, Corporate Executive, Sony Corporation
- 2010 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. (Retired in June 2017)
- 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: 0 share

Newly appointed

- 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: 1,200 shares

Term of office as Independent Director: 7 years

- 1991 General Manager, Foil Products, Alcan Inc.
- 1996 Managing Director, Alughinish 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: 600 shares

Term of office as Independent Director: 2 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.



George Buckley

Share ownership: 6,200 shares

Term of office as Independent Director: 8 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
- 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, Arle Capital Partners Limited (Retired in December 2015)
- Director, Hitachi, Ltd.



Louise Pentland

Share ownership: 900 shares

Term of office as Independent Director: 5 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.
- 2016 Senior Vice President and Chief Legal Officer, PayPal Holdings, Inc. (Currently in office)



Harufumi Mochizuki ● ◆ ▲

Share ownership: 3,800 shares

Term of office as Independent Director: 8 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: 9,700 shares

Term of office as Independent Director: 4 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.

* 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.



Hiroaki Yoshihara

Share ownership: 2,200 shares

Term of office as Independent Director: 6 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.



Helmut Ludwig

Share ownership: 1,500 shares

Newly appointed

- 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, Hiroaki Nakanishi

Audit Committee:

Hiroaki Yoshihara, Katsumi Ihara, Harufumi Mochizuki, Takatoshi Yamamoto, Hideaki Seki

Compensation Committee:

Harufumi Mochizuki, Katsumi Ihara, Takatoshi Yamamoto, Toshiaki Higashihara

Directors (As of July 30, 2020)



Hideaki Seki

Share ownership: 11,200 shares

Newly appointed

- 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. (Retired in March 2018)
- 2018 Senior Vice President and Executive Officer, Hitachi, Ltd.
- President, Representative Director, Hitachi Building Systems Co., Ltd. (Retired in March 2020)
- 2020 Director, Hitachi, Ltd.



Hiroaki Nakanishi

Share ownership: 117,900 shares

- 1970 Joined Hitachi, Ltd.
- 2003 Vice President and Executive Officer
- 2004 Senior Vice President and Executive Officer
- 2005 Chairman and Chief Executive Officer, Hitachi Global Storage Technologies, Inc. (Retired as CEO in March 2009)
- 2006 Executive Vice President and Executive Officer, Hitachi, Ltd. (Retired in December 2006)
- 2009 Executive Vice President and Executive Officer, Hitachi, Ltd.
- Chairman of the Board, Hitachi Global Storage Technologies, Inc. (Retired in March 2010)
- 2010 President, Hitachi, Ltd., President and Director, Hitachi, Ltd.
- 2014 Chairman & CEO and Director, Hitachi, Ltd.
- 2016 Executive Chairman and Representative Executive Officer, Hitachi, Ltd.
- 2018 Executive Chairman and Executive Officer, Hitachi, Ltd.



Toshiaki Higashihara

Share ownership: 135,400 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.

Executive Officers (As of April 2020)

President & CEO



Toshiaki Higashihara*

Overall management

Executive Vice Presidents 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



Keiji Kojima*

Assistant to the President (smart life & ecofriendly systems business, automotive systems business and healthcare business) and smart life & ecofriendly systems business

Senior Vice Presidents and Executive Officers



Keiichi Shiotsuka*

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



Alistair Dormer*

Assistant to the President (building systems business and railway systems business)



Toshikazu Nishino*

Assistant to the President (nuclear energy business and energy business)



Atsushi Oda

Nuclear energy business and energy business



Yoshihiko Kawamura*

Finance, corporate pension system and investment strategies



Toshiaki Tokunaga

Services & platforms business



Hidenobu Nakahata*

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



Mamoru Morita

Management strategies and strategies for next generation business

Vice Presidents and Executive Officers

Keiichi Akino

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

Jun Abe

Business for industry & distribution sectors

Hitoshi Ito

Government & external relations and CSR & environmental strategies

Kenji Urase

Energy business

Ryuichi Otsuki

Investment strategies

Tadashi Kume

Nuclear energy business

Kohei Kodama

Legal matters, risk management and corporate auditing

Norihiro Suzuki

Research & development

Yoji Takeuchi

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

Kojin Nakakita

Regional strategies (APAC)

Katsuya Nagano

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

Seiichiro Nukui

One Hitachi actions promotion

Yasushi Nomura

Information technology strategies

Andrew Barr

Railway systems business

Masahiko Hasegawa

Marketing & sales and regional strategies (Japan)

Kentaro Masai

Supply chain management (MONOZUKURI and quality assurance)

Shinya Mitsudomi

Building systems business

Masashi Murayama

Cost structure reform and Information security management

Tsugio Yamamoto

Business for financial institutions

Takashi Yoda

Regional strategies (China)

Executive Officer

Hiroaki Nakanishi

General

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

U.S. GAAP	Millions of yen				
	FY2010	FY2011	FY2012	FY2013	FY2014
For the year:					
Revenues	¥9,315,807	¥9,665,883	¥9,041,071	¥9,563,791	¥9,761,970
Operating income	444,508	412,280	422,028	538,288	600,479
EBIT (Earnings before interest and taxes)	443,812	573,218	358,015	585,662	551,018
Net income attributable to Hitachi, Ltd. stockholders	238,869	347,179	175,326	264,975	241,301
Cash flows from operating activities	841,554	447,155	583,508	439,406	447,348
Cash flows from investing activities	(260,346)	(195,584)	(553,457)	(491,363)	(610,255)
Free cash flows	581,208	251,571	30,051	(51,957)	(162,907)
Cash flows from financing activities	(584,176)	(167,838)	(180,445)	32,968	250,335
Cash dividends declared	36,133	36,727	47,690	50,711	57,944
Capital expenditures (Property, plant and equipment)	556,873	649,234	742,537	849,877	848,716
Depreciation (Property, plant and equipment)	382,732	360,358	300,664	329,833	349,614
R&D expenditures	395,180	412,514	341,310	351,426	335,515
At year-end:					
Total assets	9,185,629	9,418,526	9,809,230	11,016,899	12,395,379
Property, plant and equipment	2,111,270	2,025,538	2,279,964	2,342,091	2,564,105
Total Hitachi, Ltd. stockholders' equity	1,439,865	1,771,782	2,082,560	2,651,241	2,930,309
Interest-bearing debt	2,521,551	2,396,454	2,370,079	2,823,049	3,354,616
					Yen
Per share data:					
Net income attributable to Hitachi, Ltd. stockholders:					
Basic	¥52.89	¥76.81	¥37.28	¥54.86	¥49.97
Diluted	49.38	71.86	36.29	54.85	49.93
Cash dividends declared	8.0	8.0	10.0	10.5	12.0
Total Hitachi, Ltd. stockholders' equity	318.73	382.26	431.13	549.02	606.87
					%
Financial ratios:					
Operating income ratio	4.8	4.3	4.7	5.6	6.2
EBIT ratio	4.8	5.9	4.0	6.1	5.6
Return on revenues	2.6	3.6	1.9	2.8	2.5
Return on equity (ROE)	17.5	21.6	9.1	11.2	8.6
Return on assets (ROA)	3.3	4.4	2.5	3.5	3.1
D/E ratio (Including non-controlling interests) (times)	1.03	0.86	0.75	0.73	0.78
Total Hitachi, Ltd. stockholders' equity ratio	15.7	18.8	21.2	24.1	23.6

- Notes: 1 In order to be consistent with financial reporting principles and practices generally accepted in Japan, operating income is presented as total revenues less cost of sales and selling, general and administrative expenses. The Company believes that this is useful to investors in comparing the Company's financial results with those of other Japanese companies. Under accounting principles generally accepted in the United States of America, restructuring charges, net gain or loss on sales and disposal of rental assets and other property and impairment losses for long-lived assets are included as part of operating income.
- 2 The restructuring charges mainly represent special termination benefits incurred with the reorganization of our business structures and as the result of the Company and its subsidiaries reviewing and reshaping the business portfolio.
- 3 EBIT is presented as income before income taxes less interest income plus interest charges.
- 4 Effective from fiscal 2014, a part of the thermal power generation systems business is classified as a discontinued operation in accordance with the provision of ASC 205-20, "Presentation of Financial Statements—Discontinued Operations," which was not transferred to MITSUBISHI HITACHI POWER SYSTEMS, LTD. for the business integration in the thermal power generation systems with Mitsubishi Heavy Industries, Ltd. The results of the discontinued operation are reported separately from continuing operations. In line with this classification, "Revenues" and "Operating income" for fiscal 2013 are reclassified.
- 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

IFRS

Millions of yen

For the year:	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Revenues	¥9,666,446	¥9,774,930	¥10,034,305	¥9,162,264	¥9,368,614	¥9,480,619	¥8,767,263
Adjusted operating income	604,798	641,325	634,869	587,309	714,630	754,976	661,883
EBIT	691,230	534,059	531,003	475,182	644,257	513,906	183,614
Net income attributable to Hitachi, Ltd. stockholders	413,877	217,482	172,155	231,261	362,988	222,546	87,596
Net cash provided by operating activities	306,777	451,825	812,226	629,582	727,168	610,025	560,920
Net cash used in investing activities	(550,179)	(612,545)	(730,799)	(337,955)	(474,328)	(162,872)	(525,826)
Free cash flows	(243,402)	(160,720)	81,427	291,627	252,840	447,153	35,094
Net cash provided by (used in) financing activities	228,840	233,206	(26,467)	(209,536)	(321,454)	(320,426)	2,837
Cash dividends declared	50,711	57,944	57,939	62,764	72,417	86,905	91,792
Capital expenditures (Property, plant and equipment)	491,170	431,201	528,551	377,545	374,901	414,798	399,643
Depreciation (Property, plant and equipment)	331,228	350,783	366,547	302,757	265,413	271,682	342,450
R&D expenditures	354,487	334,814	333,730	323,963	332,920	323,145	293,799
At year-end:							
Total assets	11,098,191	12,433,727	12,551,005	9,663,917	10,106,603	9,626,592	9,930,081
Property, plant and equipment	2,258,933	2,472,497	2,500,226	1,998,411	2,124,827	1,956,685	2,165,311
Total Hitachi, Ltd. stockholders' equity	2,668,657	2,942,281	2,735,078	2,967,085	3,278,024	3,262,603	3,159,986
Interest-bearing debt	3,033,985	3,557,356	3,604,455	1,176,603	1,050,294	1,004,771	1,485,042

Yen

Per share data

Earnings per share attributable to Hitachi, Ltd. stockholders:

Basic	¥85.69	¥45.04	¥35.65	¥47.90	¥75.19	¥230.47	¥90.71
Diluted	85.66	45.00	35.62	47.88	75.12	230.25	90.60
Cash dividends declared	10.5	12.0	12.0	13.0	15.0	90.0	95.0
Total Hitachi, Ltd. stockholders' equity	552.62	609.35	566.48	614.56	679.00	3,378.81	3,270.43

%

Financial ratios:

Adjusted operating income ratio	6.3	6.6	6.3	6.4	7.6	8.0	7.5
EBIT ratio	7.2	5.5	5.3	5.2	6.9	5.4	2.1
Return on revenues	4.3	2.2	1.7	2.5	3.9	2.3	1.0
Return on equity (ROE)	17.5	7.8	6.1	8.1	11.6	6.8	2.7
Return on assets (ROA)	5.0	2.9	2.4	3.0	5.0	3.3	1.3
D/E ratio (Including non-controlling interests) (times)	0.78	0.83	0.87	0.29	0.23	0.23	0.35
Total Hitachi, Ltd. stockholders' equity ratio	24.0	23.7	21.8	30.7	32.4	33.9	31.8

- Notes: 1 In order to be consistent with financial reporting principles and practices generally accepted in Japan, adjusted operating income is presented as total revenues less cost of sales and selling, general and administrative expenses. The Company believes that this is useful to investors in comparing the Company's financial results with those of other Japanese companies.
- 2 A part of the thermal power generation systems business is classified as a discontinued operation in accordance with the provision of IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations," which was not transferred to MITSUBISHI HITACHI POWER SYSTEMS, LTD. for the business integration in the thermal power generation systems with Mitsubishi Heavy Industries, Ltd. The results of the discontinued operation are reported separately from continuing operations.
- 3 From fiscal 2013, capital investment is stated exclusive of investment in lease assets classified as finance leases.
- 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 Development		FY2015	FY2016	FY2017	FY2018	FY2019
Number of employees	Consolidated	335,244	303,887	307,275	295,941	301,056
	Non-consolidated	37,353	35,631	34,925	33,490	31,442
Average service (years) ¹		14.4	15.0	14.9	15.1	15.0
Turnover ratio (%) ^{1,2}		4.2	5.3	5.5	6.3	5.2
Diversity & Inclusion						
Ratio of female employees (%) ¹		18.5	18.3	18.2	18.8	19.4
Global ratio (number) of female managers ^{1,3,5}		6.5	6.7	7.3	8.3	8.9
		(2,688)	(2,562)	(3,325)	(3,975)	(4,302)
Ratio (number) of female managers ^{1,4}		4.0	4.1	4.2	4.8	5.5
		(474)	(509)	(577)	(635)	(700)
Hitachi Group's Global Safety Figures (Occurrence rate⁶)						
North America		—	27.65	24.33	27.96	20.76
Latin America		—	2.33	1.62	0.44	0.57
Europe		—	10.70	10.82	6.08	4.78
India		—	2.07	1.44	1.44	1.63
China		—	1.59	1.53	1.46	1.17
Asia (excluding India and China)		—	5.43	4.41	3.34	2.63
Oceania		—	39.07	24.41	21.94	29.07
Africa		—	17.26	9.93	11.76	9.72
Outside Japan total		—	7.76	7.42	7.43	5.78
Japan		—	1.57	1.85	1.64	1.53
Global total		—	3.95	4.22	4.20	3.45

Occupational Health and Safety		FY2015	FY2016	FY2017	FY2018	FY2019
Number of fatal accidents ⁷		4	3	5	0	4

Scope of Data

¹ Hitachi Group figures exclude approximately 40,000 manufacturing workers. ² Includes only voluntary resignations. ³ 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.

⁴ 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. ⁵ Rising numbers of female managers in part reflect improved coverage of our human capital databases.

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	July 2020
Number of female executives	2	2	4	5
Ratio of female executives (%)	2.4	2.6	5.0	7.1
Number of non-Japanese executives	3	5	7	6
Ratio of non-Japanese executives (%)	3.7	6.4	8.8	8.6

* Executive officer, corporate officer and fellow.

Research & Development	FY2015	FY2016	FY2017	FY2018	FY2019
Ratio of R&D expenditure to revenue (%)	3.3	3.5	3.6	3.4	3.4

Responsible Procurement, Status of CSR Procurement Policies	FY2015	FY2016	FY2017	FY2018	FY2019	Cumulative total
CSR monitoring (self-check) (companies)	218	316	131	345	291	1,801 ¹
CSR audits	20	20	18	24	19	149 ²
Supplier briefings	12	29	65	126	59	291 ³

¹ Total number of companies during FY2011-2019 ² Total number of companies during FY2012-2019 ³ Total number of companies during FY2015-2019

Environment	FY2015	FY2016	FY2017	FY2018	FY2019
Reduction rate in CO ₂ emissions per unit from products and services (base: FY2010) ¹ (%)	—	—	—	—	19
CO ₂ emissions at business sites (factories and offices) (kt-CO ₂)	4,346	5,322 ²	5,433 ²	4,973 ²	4,374 ²
Water use (million m ³)	43.91	41.34 ²	38.54 ²	37.02 ²	36.41 ²
Waste and valuables generation (kt)	618	1,336 ²	1,356 ²	1,384 ²	1,302 ²
Atmospheric emissions of chemical substances (t)	3,615	4,380 ^{2,3}	4,391 ^{2,3}	4,392 ^{2,3}	3,886 ^{2,3}

Scope of Data

Hitachi, Ltd. and consolidated subsidiaries.

Number of companies: FY2015: 1,057; FY2016: 865; FY2017: 880; FY2018: 804; FY2019: 815.

Environmental performance data associated with Hitachi's business operations: Hitachi Group companies for which the environmental load accounts for 90% of the total (based on Hitachi calculations); data for each fiscal year indicates performance within the given scope for the fiscal year.

¹ New indicator established in fiscal 2019.

² Figures include a materials company that has become a reporting company since fiscal 2016.

³ The management scope of chemical substances has been expanded from 41 to 50 substances since fiscal 2016.

Independent Assurance of Environmental and Social Data

To enhance the reliability of the data disclosed in the Hitachi Sustainability Report 2020, we have received independent assurance of key environmental and social performance indicators by KPMG AZSA Sustainability Co., Ltd.

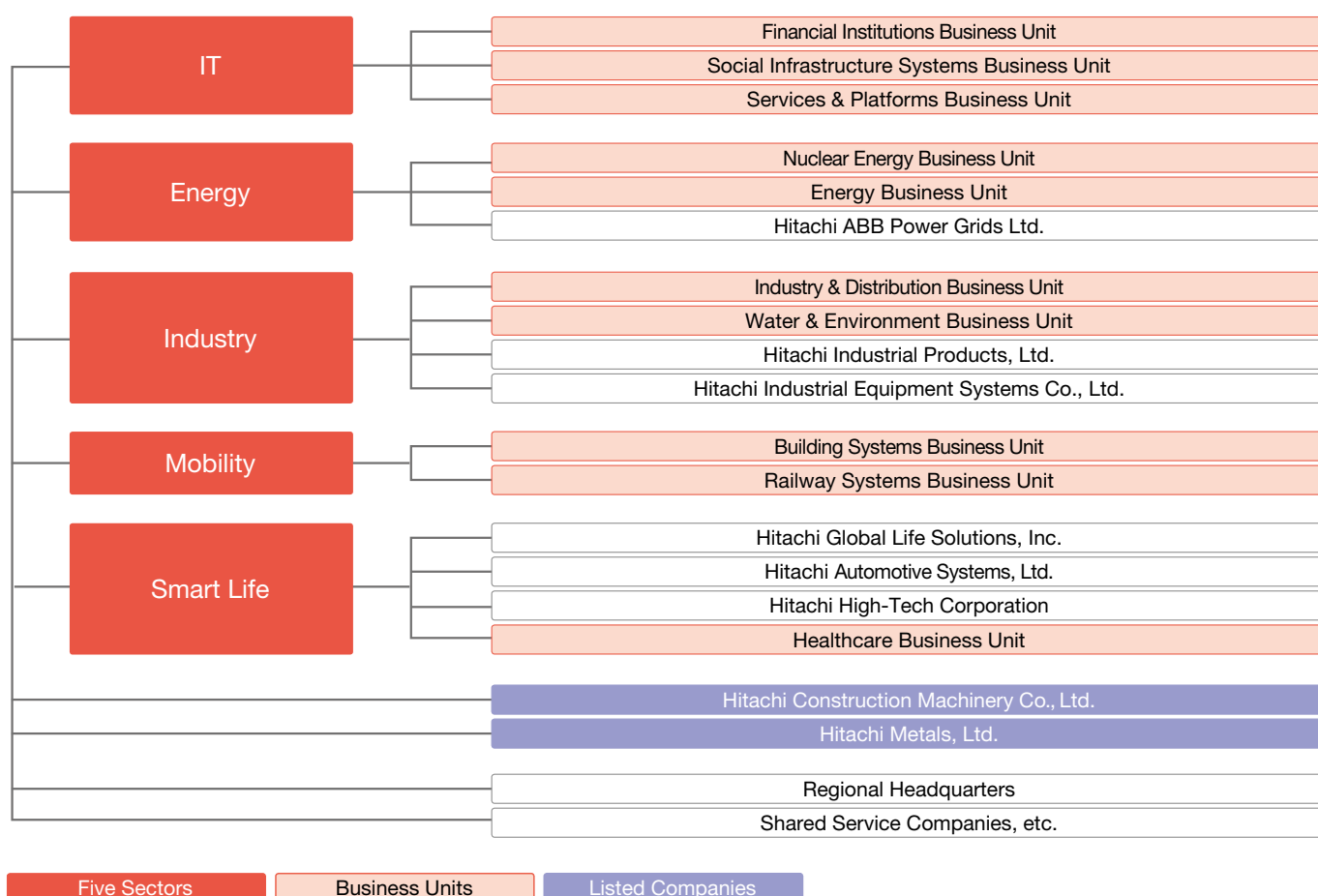
Segment Highlights

Revenues, Adjusted Operating Income and EBIT by Business Segment

Billions of yen

Business Segment	Revenues		Adjusted operating income		EBIT	
	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019
IT	2,121.6	2,099.4	230.1	249.4	212.6	214.4
Energy	453.9	399.2	34.0	13.5	(298.0)	(375.7)
Industry	895.4	840.7	20.6	54.7	19.1	57.8
Mobility	1,214.1	1,144.4	92.6	92.3	127.4	112.3
Smart Life	1,649.3	1,472.9	64.9	58.6	116.9	29.5
Hitachi High-Tech	731.1	694.6	66.7	60.3	64.2	60.4
Hitachi Construction Machinery	1,033.7	931.3	115.7	75.5	104.5	70.5
Hitachi Metals	1,023.4	881.4	51.4	14.3	45.3	(57.2)
Hitachi Chemical	681.0	631.4	48.5	35.2	41.1	24.8
Others	561.3	484.8	31.3	22.3	30.2	31.2
Subtotal	10,365.1	9,580.5	756.2	676.4	463.5	168.2
Corporate items & Eliminations	(884.5)	(813.2)	(1.2)	(14.6)	50.3	15.3
Total	9,480.6	8,767.2	754.9	661.8	513.9	183.6

Hitachi Group Business Operation Framework (As of September 2020)



Corporate Data / Stock Information

(As of March 2020)

Corporate Name

Hitachi, Ltd. (Kabushiki Kaisha
Hitachi Seisakusho)

Number of Employees (consolidated)

301,056

Stock Exchange Listings

Tokyo, Nagoya

URL

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

Number of Shares Issued Common Stock (including treasury stock)

967,280,477 shares

Accounting Auditor

Ernst & Young ShinNihon LLC

Head Office

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

Contact

Hitachi, Ltd.
6-6, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8280
TEL: +81-3-3258-1111

Founded

1910 (Incorporated in 1920)

Number of Shareholders

308,638

Capital Stock

459,862 million yen

Administrator of Shareholders' Register

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

10 Largest Shareholders

Name	Number of Shares (shares)	Share-holding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	81,189,800	8.40
Japan Trustee Services Bank, Ltd. (Trust Account)	55,286,400	5.72
STATE STREET BANK AND TRUST COMPANY 505001	21,463,830	2.22
JP MORGAN CHASE BANK 385151	20,609,612	2.13
Hitachi Employees' Shareholding Association	20,319,676	2.10
NATS CUMCO	20,185,002	2.09
Nippon Life Insurance Company	20,000,099	2.07
Japan Trustee Services Bank, Ltd. (Trust Account 5)	19,572,500	2.03
STATE STREET BANK AND TRUST COMPANY 505223	19,012,329	1.97
STATE STREET BANK WEST CLIENT-TREATY 505234	15,270,687	1.58

Note: Treasury stock (1,050,741 shares) is not included in the calculation of "Shareholding Ratio."

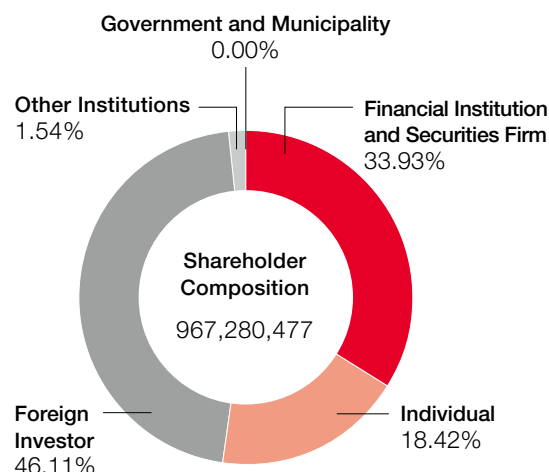
Ratings

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+

Shareholder Composition

Class of Shareholders	Number of Shareholders	Share Ownership (shares)
● Financial Institution and Securities Firm	317	328,199,579
● Individual	304,125	178,131,101
● Foreign Investor	1,410	445,992,700
● Other Institutions	2,782	14,947,785
● Government and Municipality	4	9,312
Total	308,638	967,280,477

* Treasury stock is included in "Other Institutions."



Message from the Editor-in-chief

I would like to thank you for reading all the way to the final page of the Hitachi Integrated Report 2020.

Since fiscal 2016, Hitachi has been publishing an integrated report for its investors and all other stakeholders with the goal of creating a deeper understanding of how the Hitachi Group will create value over the medium to long term.

In 2019, major changes to our report production policies and efforts to make our integrated report more rewarding to read proved successful; we received the Integrated Reporting Award through the 7th WICI Japan Award for Excellence in Integrated Reporting event, as well as the Grand Prize in the 22nd Nikkei Annual Report Awards 2019. When publishing the 2020 edition of our integrated report, we experimented with new ideas to enable the accomplishment of some feats that were not possible during the previous year.

In May 2020, we disclosed our financial forecast for the fiscal year ending March 31, 2021, along with the projected impacts of the COVID-19 pandemic on each individual business, which constitute one of the premises on which the forecast was based. We made these disclosures despite the uncertain circumstances we are now facing because we wish to present as much information as possible. This desire stems from our belief that disclosing as much information as we possibly can will enable us to have more

constructive discussions concerning the future with investors. When creating this current edition as well, we endeavored to include careful and thorough explanations regarding both financial and non-financial matters, including our response to COVID-19.

CEO has included a signed message at the top of the report on behalf of our management team, and this year's report also includes messages from CFO and two newly appointed Independent directors.

I hope that this integrated report will facilitate better understanding of the Hitachi Group and provide an opportunity for constructive discussion. Furthermore, we plan to enhance our disclosure and raise transparency moving forward, so we welcome you to share any opinions you might have without reserve.

In closing, as the publication supervisor of the Hitachi Integrated Report 2020, I would like to take this opportunity to wish you, the reader, well and express my gratitude for your kind attention.

September 2020

Hidenobu Nakahata

Representative Executive Officer

Senior Vice President and Executive Officer

Head of Corporate Communications and Corporate Auditing

Website Information

Detailed information is available on the Company's website.

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)