

Addressing Risks and Opportunities

With the rapid advance of digitalization and complex developments in the political and economic landscape globally, the business environment is changing with each day. In the Risk Management Meeting, which is chaired by the President with the Chief Risk Management Officer (CRMO) acting as vice-chairperson, Hitachi monitors and analyzes this business environment quantitatively and qualitatively and manages risks in terms of the response to risks that Hitachi should prepare as well as opportunities for further growth in light of, for example, social issues, competitive advantages and management resources. We will create revenue opportunities while controlling risks. We will identify severe risks that could potentially have a significant impact on Hitachi's operations in terms of the nature of risk events, the expected time period, the likelihood of their occurrence and their seriousness when they do occur, and we discuss and implement measures against the risks. By identifying the various risks Hitachi faces while operating around the world, we are working to achieve a solid management foundation that is linked to our growth strategy.

▶ CRMO (Kawamura holds both CRMO and CFO positions since fiscal 2022) Reflects on Activities in Fiscal 2022

In an ever-changing business environment, Hitachi has built a risk management structure in order to understand risks and opportunities that could affect its business management, quickly identify potential upcoming risks and make decisions. Hitachi has strengthened this structure to create a risk management system that identifies and manages financial and non-financial matters in an integrated manner with the aim of comprehensively dealing with the various risks that Hitachi faces in operating its business on a global scale.

In fiscal 2022, not only risk assets on the balance sheet but also risks related to the order backlog in large-scale, long-term projects, etc. , were quantified using Value-at-Risk models and other statistical approaches. In the event that significant losses are incurred simultaneously, the top priority will be placed on absorbing them on the balance sheet in our risk management. We have also held discussions on several issues, including exchange rates, interest rates, and other changes in the macroeconomic environment, safety and BCP measures for times of disaster such as a major earthquake in Tokyo, and cyber security and compliance. Moreover, to further accelerate the Social Innovation Business on a global scale, across the entire Hitachi Group, including acquired companies, Hitachi has examined and developed a group governance policy. It commenced application of the policy in April 2023.

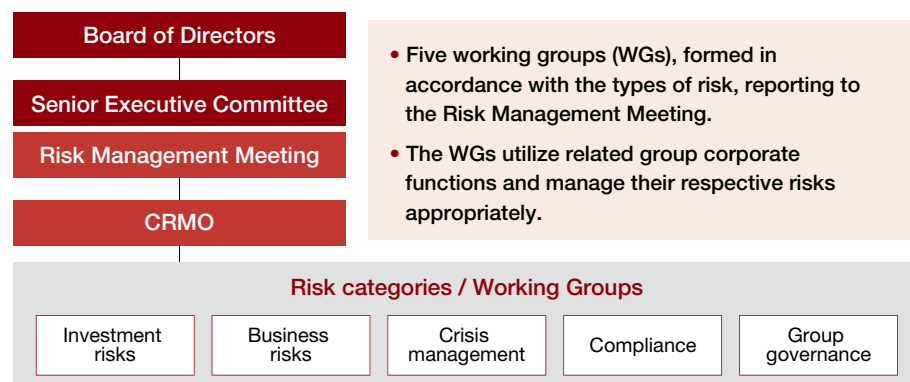
In fiscal 2023, Hitachi will further strengthen its risk management to respond robustly to foreign exchange and interest rate trends and rapid changes in the macroeconomic environment, aiming to achieve growth, particularly of large global assets, including Hitachi Energy, the railway systems business, Hitachi High-Tech and GlobalLogic.



Yoshihiko Kawamura

Executive Vice President and Executive Officer, CFO, CRMO

▶ Hitachi's Risk Management Structure



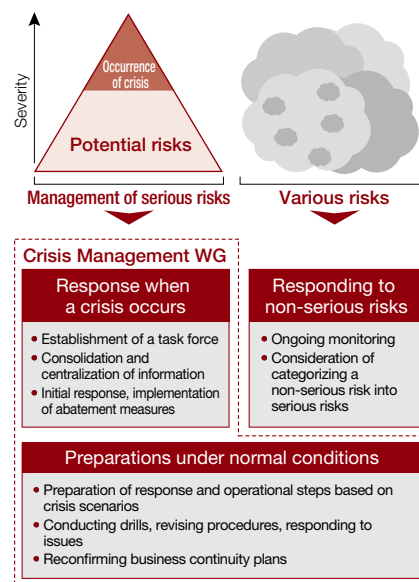
▶ Group Governance Efforts

Our new Group Governance Policy was established in April 2023. The policy aims to clarify how the Hitachi Group's governance should function and to explicitly state responsibilities and roles of different organizations given Hitachi's presence as a global enterprise.

Achieving sustainable growth through the global expansion of the Social Innovation Business requires group-wide optimal management, based on the group's common aim, to reflect global perspectives and diverse values in our business management and efficiently allocate management resources. Based on this policy, the Hitachi Group integrates its management to formulate and execute the group's strategies in pursuit of synergies within the group, strengthen its management foundation through common discipline and rules, and streamline business management through the standardization of our global operations. In this way, we will accelerate our global growth by ensuring the transparency and fairness of our business management, protecting the Hitachi brand's value and promoting our Social Innovation Business.

► Crisis Management Initiatives

For crisis management, Hitachi strives to achieve more sophisticated resilience. An example is quick action taken in the event that a crisis occurs. Even in ordinary times, we are ready to take action against each of the serious risk categories to enhance our preparedness for contingencies and ensure appropriate action. In fiscal 2022, our corporate measures in the areas of large-scale natural disasters in Japan, as well as cybersecurity and other related issues, were strengthened and reviewed. Our aim was, for example, to facilitate the migration of major systems to the cloud and duplicate our information infrastructure. In fiscal 2023, the expansion of our measures for business units and the Hitachi Group companies as well as Diagrammatic drill, among other initiatives, will be strengthened to enhance the Group's resilience globally.



► Compliance Initiatives

As a cross-sectoral compliance initiative, four related departments worked together and shared information with one another in fiscal 2022 regarding the measures implemented by each department under regular conditions (e.g., development of regulations, training, monitoring, audits) and how to handle contingencies in the event that they arise (e.g., communication with internal and external stakeholders including senior management when a major risk manifests) to handle major compliance-related risks that concern corporate ethics and laws, the environment, quality, and health and safety. These departments work to strengthen their cooperation in terms of management methods in different categories of risks. In this way, we have sought to raise the level of our risk management in the different categories and reduce risks. In fiscal 2023, we will seek to establish an organizational climate for encouraging employees to speak up and preventing violation of laws and internal rules with the aim to reduce the Hitachi Group's compliance-related risks.

► Efforts Against Investment Risks

Hitachi has a proper framework of decision making [↗](#) in different phases of investment (e.g., M&A, sale of assets, orders for projects) to facilitate our response to risks and secure growth opportunities. Hitachi has a framework for delegation of authority within a three-layer deliberation structure—the Board of Directors, the Senior Executive Committee and the business units—in accordance with the size and details of the project to ensure appropriate and flexible decision making when carrying out an investment or other activity. For important projects, the Investment Strategy Committee, an advisory body consisting of members of our corporate divisions, examines risks in a multifaceted manner to submit a report (including recommendations of approval or disapproval) the Senior Executive Committee whose members include the President. After an investment is executed, we periodically monitor the status of the project. If the project fails to proceed as planned, we have a framework in place to decide whether to continue with the investment, which might lead to a decision to withdraw. The aim is to enhance our capital efficiency. In response to changes in the economy finance, geopolitics, customers and other components of the management environment (risks and opportunities), the criteria for providing investment and post-implementation monitoring (including PMI) are continuously strengthened in an effort to achieve the Mid-term Management Plan and capital allocation plans.

► Quantitative Understanding of Risks

Hitachi calculates expected maximum risks (Value at Risk) by statistical methods according to the type of assets held on the group's consolidated balance sheet. Similarly, the risks of increasing the backlog of long-lead projects have been quantified since fiscal 2022.

We avoid missing out on growth opportunities by visualizing the capacity for growth investment, etc., considering consolidated net assets and other factors. We also engage in monitoring and hold discussions through the Risk Management Meeting to ensure that risks are not excessively unbalanced compared to Hitachi's consolidated financial strength.

We also quantitatively analyze and understand the state of risks and profitability on a regional and per-sector basis.

► Responding to Climate Change Risks and Opportunities

In June 2018, Hitachi announced its endorsement of the recommendations by the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD). See [page 43 of the Sustainability Report](#) [↗](#) for details on climate change-related, TCFD-based financial disclosures.

For details of the risk factors, please refer to [page 34 of the Annual Securities Report \(the 154th business term\)](#). [↗](#)