

The Hitachi logo is positioned in the top right corner. It consists of the word "HITACHI" in a bold, black, sans-serif font. The background of the entire page features several thick, diagonal stripes in shades of orange, grey, and white, creating a modern, geometric design.

HITACHI

Reliable solutions

CSR & Financial Report 2019

for all stakeholders

Creating Shared Value ———
Striving to create and share value for society

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Editorial Policy
From fiscal 2011, we consolidated our Annual Report, which reported our management strategy and financial statements, and our CSR Report, which reported Environment, Social, and Governance (ESG) information, to produce a comprehensive CSR & Financial Report. We did this to provide a clear overall view of the activities of the Hitachi Construction Machinery Group as it aims at the integrated advancement of our growth strategies and CSR management as a corporate group. In this FY 2019 CSR & Financial Report, we have highlighted the areas described right to allow our stakeholders to gain a clearer understanding of the Hitachi Construction Machinery Group's corporate management.

Reporting Period
April 1, 2018 - March 31, 2019
(Some of the information included is from after April 1, 2019.)

Reporting Organizations
Consolidated subsidiaries of the HCM Group
· Scope of performance data
Financial Report:
Consolidated subsidiaries and affiliates of the HCM Group
Non-financial Report (Environment):
Hitachi Construction Machinery Co., Ltd. and its consolidated subsidiaries
Non-financial Report (Society):
Hitachi Construction Machinery Co., Ltd. and some of its consolidated subsidiaries and affiliate

Guidelines used for reference
This report and HCM's corporate website "Environment / CSR" are prepared following the Core option of the Global Reporting Initiative (GRI) Standards.

Next scheduled release
Scheduled for release in June 2020
(Issued every June)
Last issue: June 2018

The HCM Group's Philosophy

Soon after the end of World War II, HCM embarked on a new journey to develop, manufacture, market and provide services for construction machinery in an effort to contribute to Japan's reconstruction using our own technologies. The origin of this commitment traces back to Hitachi's founding spirit of "harmony," "sincerity" and "pioneering spirit." This spirit has been passed down over the years as the very fabric of our corporate DNA and is firmly entrenched in the Kenkijin Spirit that forms the heart of the HCM Group's shared values and codes of conduct. Using the Kenkijin Spirit as a driving force, we are working to create new value in order to achieve Our Vision.

Hitachi Construction Machinery's Vision

"Toward the richness of Earth and prosperous communities in the future..."
Hitachi Construction Machinery is contributing to the creation of comfortable living spaces.

Identity

Part of our vision is to be active in the evolution of "machinery" and the synergy between "human" and "business" that combines to create rich living spaces, making them more comfortable, developed and efficient.

Our philosophy

CSR

We are committed to generating stable profits and also acting as a good corporate citizen widely aware of our connections with society, including harmony with the environment, social contributions, and cultural activities.

Innovation

We will continually develop and supply innovative technologies, products and services that generate new value for customers.

"Kenkijin Spirit"

To realize our philosophy, it is vital that we fulfill the HCM Group's mid- to long-term vision and mid-term management plan while addressing the needs of society in the form of our CSR. The driving force behind these efforts will be our people (Kenkijin).

If these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee's ideas and initiatives.

The Kenkijin Spirit codifies the shared values and codes of conduct for all HCM Group employees. The underlying commitment behind this spirit are the three words "Challenge," "Customer" and "Communication."



Hitachi Founding Spirit

The Hitachi Founding Spirit has been carefully fostered over more than a century since Hitachi's founder Namihei Odaira and our other predecessors.

Harmony

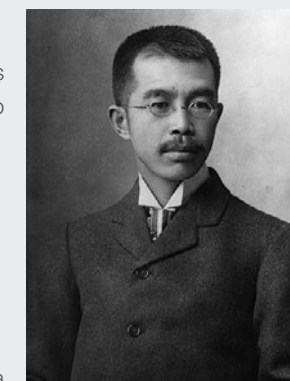
The willingness to respect the opinions of others and discuss matters in a manner that is thorough and frank, but fair and impartial, and once a conclusion has been reached, to cooperate and work together to achieve a common goal.

Sincerity

To act with a sense of ownership and honesty at all times and never pass the buck. The spirit to meet society's expectations and generate credibility for Hitachi.

Pioneering Spirit

To work creatively, using novel approaches to enter new areas. To always act as a pioneer within our areas of expertise and to have the passion to pursue higher goals beyond our capabilities.

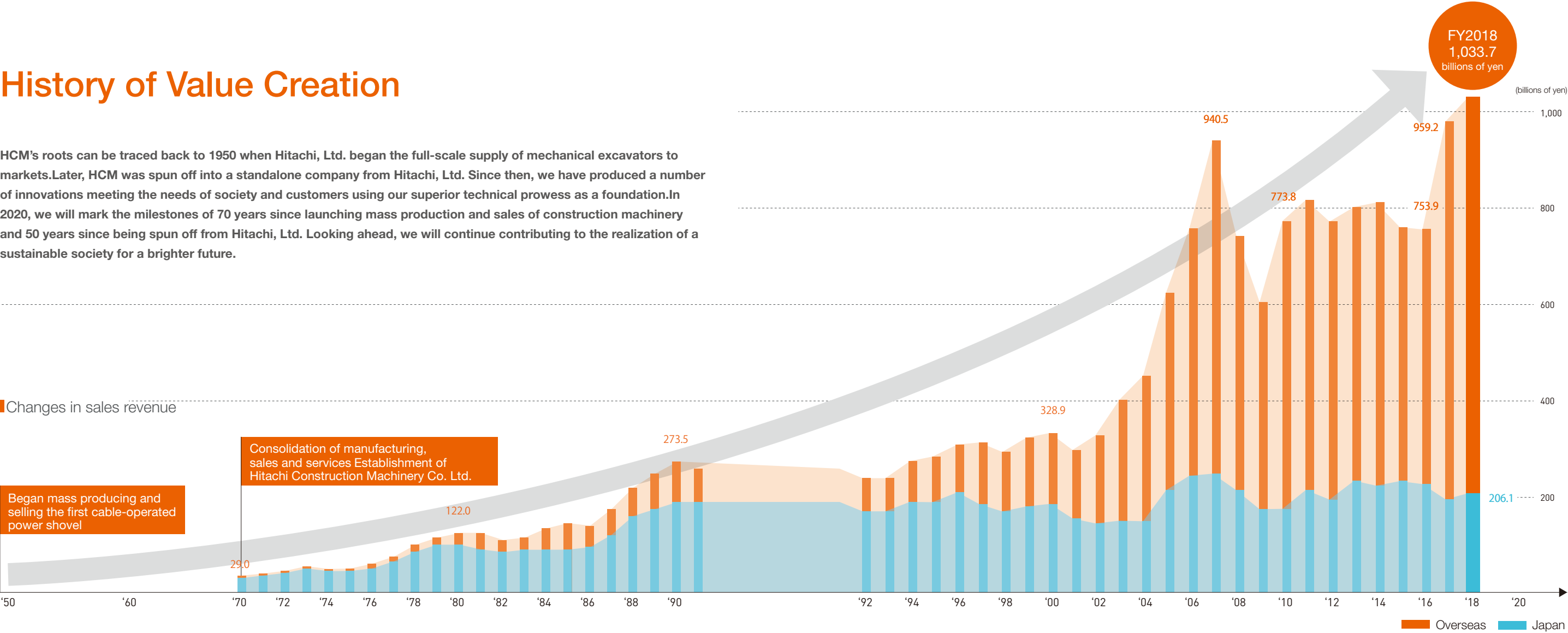


Hitachi founder
Namihei Odaira

History of Value Creation

HCM's roots can be traced back to 1950 when Hitachi, Ltd. began the full-scale supply of mechanical excavators to markets. Later, HCM was spun off into a standalone company from Hitachi, Ltd. Since then, we have produced a number of innovations meeting the needs of society and customers using our superior technical prowess as a foundation. In 2020, we will mark the milestones of 70 years since launching mass production and sales of construction machinery and 50 years since being spun off from Hitachi, Ltd. Looking ahead, we will continue contributing to the realization of a sustainable society for a brighter future.

Changes in sales revenue



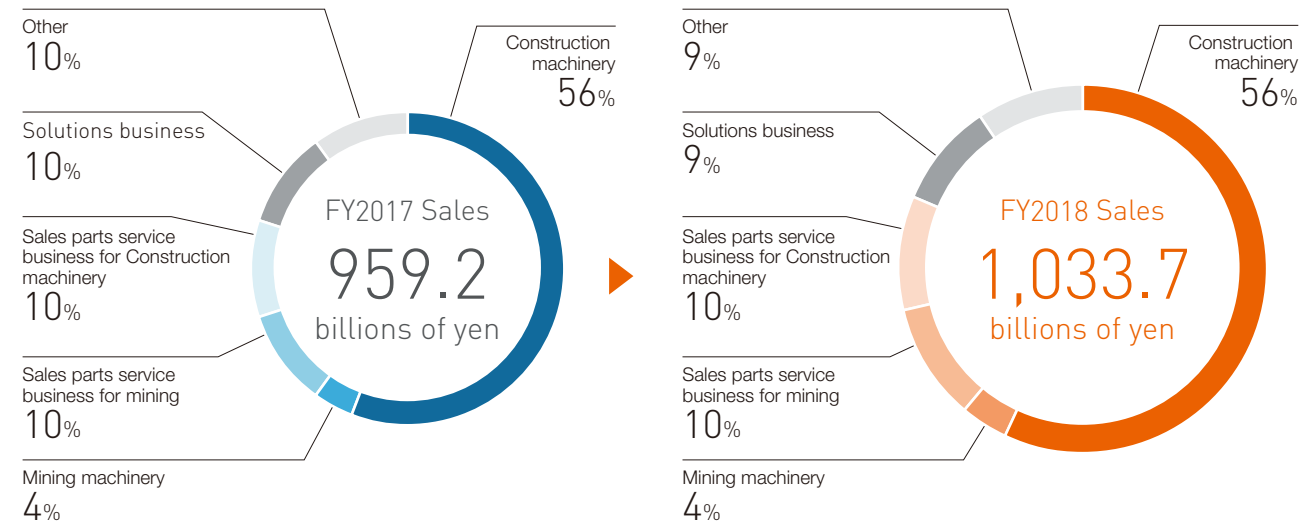
Post-war reconstruction Reconstruction of devastated roads and rivers, etc.	Rapid economic growth Industrial infrastructure development in cities	Stable growth Environmentally conscious construction machinery	Economic globalization Performance required at work sites overseas	Information society Increasing operational efficiency of construction machinery	Diverse society From ownership to shared use
 <p>We developed the U05 cable-operated power shovel in 1949, given growing demand for the economical rationale and shorter lead times of river, road and other infrastructure projects after the initial wave of post-war upheaval. We commenced mass production of the U06, a successor model, and launched sales in Japan in 1950. It became a driving force behind nationwide reconstruction in post-war Japan.</p>	 <p>Released the UH-M10 mini excavator in 1976 (Hitachi branded product from OEM supplier). This excavator played a major role in the development of Japan's industrial base by reducing workload for small-scale civil works projects thanks to its ability to operate even in the tightest of places in cities.</p>	 <p>We began developing eco-friendly products using energy efficient designs to address growing awareness of the environment, driven by pollution issues and oil crises, etc.</p>	 <p>Released the EX550 ultra-large hydraulic excavator in 1997, one of the world's largest at the time.</p>	 <p>Released the ZAXIS series featuring the world's first satellite communication kit on-board in the year 2000.</p>	 <p>We are reinforcing the value chain business, spanning from parts services to rentals and used machinery, in order to meet the varying needs of customers in terms of work site, application and local characteristics. This has enabled us to provide highly valued added products and services.</p>

* Photograph of the EX200 released in 1986

Source of value creation

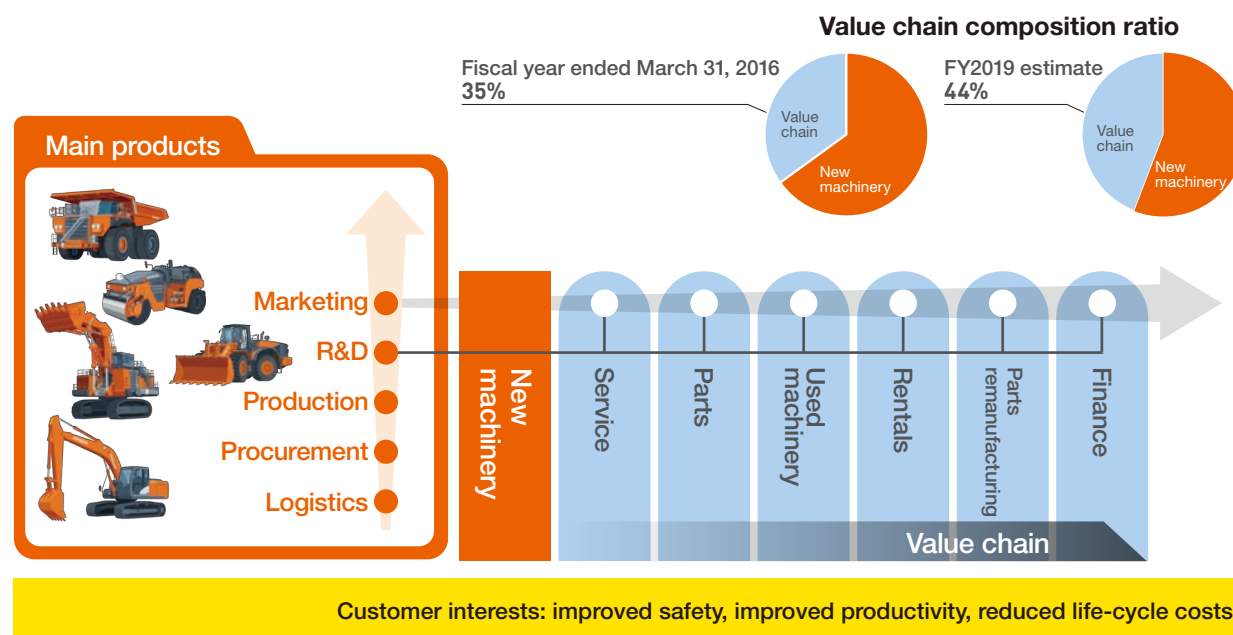
The HCM Group delivers a full range of services and solutions supporting the business needs of customers around the world, including construction machinery and mining equipment with world-leading performance.

Earnings structure



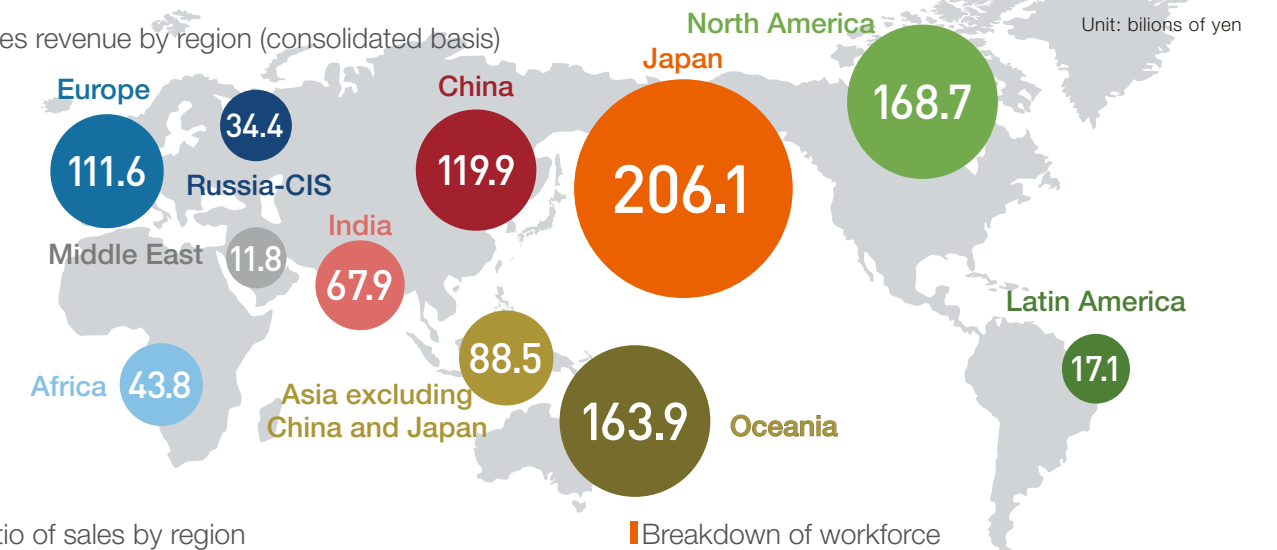
Deepen the value chain

The HCM Group positions non-product businesses as the “value chain” and is now working to strengthen the parts services and solutions businesses.

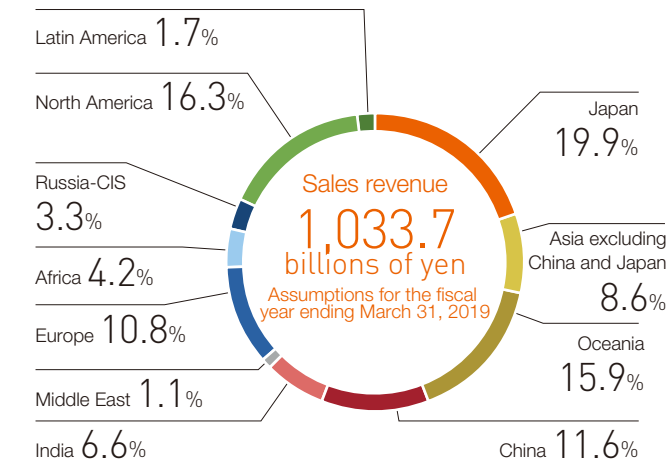


Global network

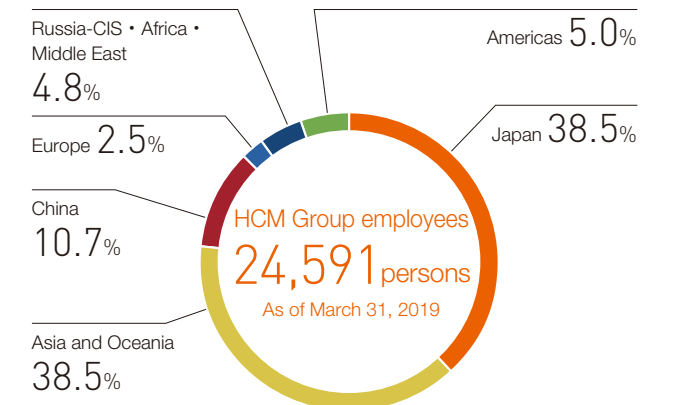
Sales revenue by region (consolidated basis)



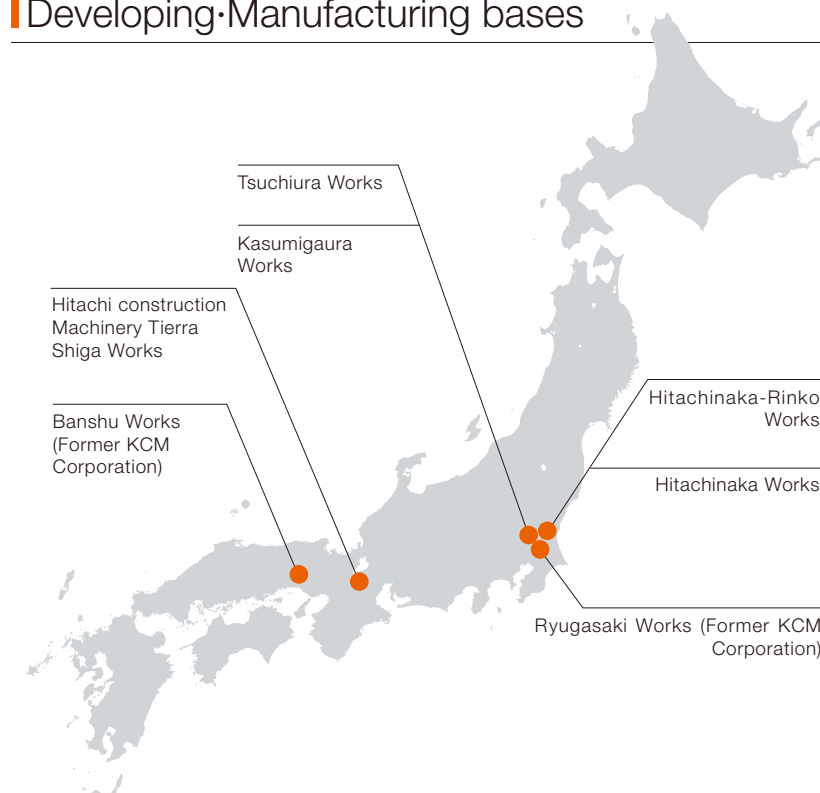
Ratio of sales by region



Breakdown of workforce



Developing Manufacturing bases



HCM is undertaking a drastic reorganization of its main business sites in Japan to further boost its competitiveness globally. On April 1, 2019, we merged by absorption with KCM Inc., a company we made into a subsidiary in 2015. Next, we aim to establish an integrated production system from parts to completed machinery, by consolidating our business sites by function and merging development departments around fiscal 2022.

► For details, see page 23.

Materiality and HCM Group’s vision

The HCM Group identified material issues in the form of eight CSR key initiative themes determined through dialog with stakeholders to determine correlations between social issues and our businesses.

We are now steadily working to address these eight themes taking into account the latest trends in international society and changes in the business climate facing the HCM Group.

8 Key Initiative Themes		Changes in external environment		HCM's Approach
		Opportunity	Risk	
Themes with a high level of social expectations and correlation with our business operations	CSV theme 1 Resolving global environmental issues	<ul style="list-style-type: none">Development and Expansion of Environmentally Conscious ProductsSpread of renewable energy technologyAdaptation to and mitigation of climate change	<ul style="list-style-type: none">Changes in industrial structure from transition to a low-carbon societyStricter environmental regulations in countries/regionsOperational stoppages due to natural disasters	P33
	CSV theme 2 Enhancing initiatives to increase social infrastructure workforce	<ul style="list-style-type: none">Rising demand for automation and labor-saving technology driven by the declining labor population and number of experienced engineersRising demand for reducing life cycle costs	<ul style="list-style-type: none">Contracting domestic construction marketCompetitors expanding business and entering new segments	P37
	CSV theme 3 Contributing to community development	<ul style="list-style-type: none">Development of emerging countries in Central Asia and Africa, etc.Creation of business opportunities using tie-ups with outside organizations	<ul style="list-style-type: none">Cessation of operations due to terrorism or civil unrest, etc.Worsening relations with local residents due to cultural differences	P41
Themes that will become a platform for realizing CSV	Key Initiative Theme 1 Pursuing safe, effective, and sophisticated products and working environments	<ul style="list-style-type: none">Rising demand for reducing life cycle costsIncreasing sophistication and complexity of construction work	<ul style="list-style-type: none">Soaring raw material and commodity pricesScandals from falsification of quality data, etc.	P45
	Key Initiative Theme 2 Occupational safety and work style reform	<ul style="list-style-type: none">Increasing productivity by fostering safety mindsetIncreasing motivation from realization of work-life balance	<ul style="list-style-type: none">Occurrence of major accidents at production sites, etc.Turnover caused by life events	P47
	Key Initiative Theme 3 Developing human resources globally and locally	<ul style="list-style-type: none">Securing global growth opportunitiesSocial demand for diversity-oriented management	<ul style="list-style-type: none">Outflow of talent and difficulty of securing human resourcesSoaring personnel costs	P49
	Key Initiative Theme 4 Creating better business transactions and value chains	<ul style="list-style-type: none">Increasing reliability from sustained CSR procurementCreation of innovation through partnerships	<ul style="list-style-type: none">Fraud in the supply chainStricter regulations, etc., on fair transactions	P51
	Key Initiative Theme 5 Governance	<ul style="list-style-type: none">Demands of the Corporate Governance CodeGrowing influence of ESG investmentGrowing awareness of human rights	<ul style="list-style-type: none">Increasing complexity of internal control systemMore sophisticated cyberattacksHuman rights violations in the supply chain	P53

*(Creating Shared Value (CSV): An approach to management that seeks to create both social value and economic value.

Our corporate vision

“Toward the richness of Earth and prosperous communities in the future...”

Hitachi Construction Machinery is contributing to the creation of comfortable living spaces.

Long-term goals

2030 CSV GOAL

Contribute to solutions to social issues through our business by unifying CSR measures and management strategy

Create corporate value with a mid- to long-term perspective and promote ESG-related disclosures

Corporate target

Curb CO₂ emissions via products:
Reduce by
▲33%

Target for solutions

Improve safety and productivity,
reduce life cycle cost

Initiatives for Work Style Reform

Increase labor productivity by introducing telework (work from home or at satellite office), etc.

Individual's work styles × Company's work styles

Contributions to SDGs

Identify correlation between the HCM Group's activities and the SDGs and establish 10 key targets

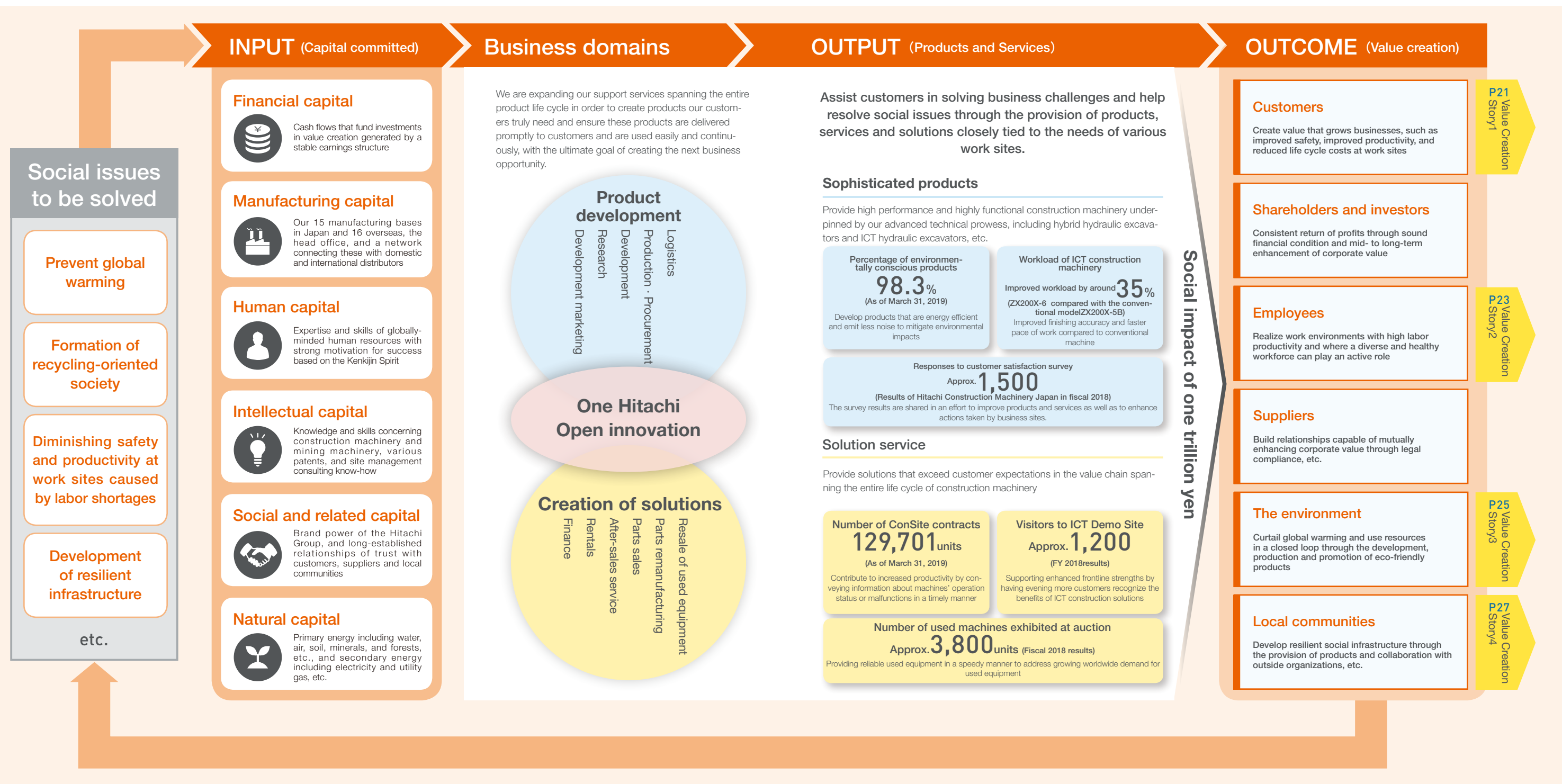
*SDGs (Sustainable Development Goals):

A continuation and development of the Millennium Development Goals (MDGs) whose deadline was in 2015, adopted by the United Nations General Assembly in September of 2015 as The 2030 Agenda for Sustainable Development. These are specific guidelines for action for advanced and developing countries that stipulate responsibility for poverty, famine, discrimination, climate change, and biodiversity.

▶ For details, see page 19.

Value Creation Model

The HCM Group is working to boost management capital and maximize corporate value by identifying social issues that we can solve and continuously implementing our value creation model.



The HCM Group's Business Activities

Development marketing

We focus our energy on creating a global strategic development marketing system in order to provide the most appropriate products for the needs of specific countries and regions in a timely manner.

Research

We harness the collective strengths of the Hitachi Group to research technology that is "kind to both human beings and the environment" and "technology that creates an even better environment" as a basis of our medium- to long-term growth.

Development

We develop advanced and innovative construction machinery that offers improved reliability, controllability, and comfort, while meeting a broad range of customer needs.

Production procurement

We are dedicated to standardizing and improving quality levels while aiming to achieve the concept of Made by Hitachi where all products are made with the same high quality regardless of which of our manufacturing facilities around the world they are made at.

Logistics

We are raising logistics efficiencies by building a logistics system and global supply system powered by IT and our know-how in transporting ultra heavy objects.

Finance

We offer various financing plans for our products to ensure that they can be employed by customers in a format that meets their needs.

Rentals

We provide various types of construction machinery and equipment needed in the field, including standard machines, specially designed machines, recycling machines, mowers, and submersible pumps, among others.

After-sales service

We support the preventive maintenance of construction machinery, which includes our ConSite service solution using a wide array of operating data obtained from each individual machine.

Parts sales

We guarantee the high performance and long service life of our products by supplying high quality parts. This reduces customer costs and helps conserve the environment.

Parts remanufacturing

We collect replacement parts from repair work and restore them to like new condition at our remanufacturing plant. This supports the operation of construction machinery in even the most harshest work sites.

Resale of used equipment

Resale of used equipment We propose the purchase or sale of construction machinery that matches customer needs using our worldwide network and support system.



By restructuring our value chain, we will work with customers to move towards a sustainable society.

Kotaro Hirano
Representative Executive Officer,
President, Executive Officer and Director, CEO

Deepening our value chain business in response to changes in customer awareness

In the past few years, I have sensed a rapid change in customer awareness in the market. The three primary needs for construction machinery manufacturers with regards to construction and mining sites are “improved safety”, “improved productivity” and “reduced life-cycle costs”. What we have observed recently are growing efforts to link these needs to global themes and demands. These include working to achieve SDGs (Sustainable Development Goals) and support ESG (Environment, Social, and Governance). For instance, safety on-site is directly linked to worker satisfaction. And when on-site productivity is improved, so that work that used to take five days to be completed in three or four days, resources like water and electricity can be conserved. Reducing life cycle costs such as fuel consumption by dump trucks or hydraulic excavators is directly tied to reducing CO₂ emissions.

We have also noticed changes in awareness with regards to the way construction machinery is used. For instance, in the past it has not been uncommon for customers to use their own con-

struction machinery on jobs even when they were a bit too large for the site. However, recently we have seen a marked increase in cases in which customers rent small or medium-size construction machinery to match the size of the site. We have begun to see this kind of change in awareness towards the way construction machinery is used not only in Japan, but also in rapidly developing countries like China.

In order to respond to these global changes, since FY 2017 the Hitachi Construction Machinery Group has been working to deepen business other than products (value chain business) through our mid-term management plan “CONNECT TOGETHER 2019”. The target under this mid-term management plan is to deliver “Reliable solutions” that exceed customer expectations in the value chain extending across the entire life cycle of construction machinery. For example, we provide solutions that allow customers to use machinery in good condition longer by replacing or remanufacturing parts. We propose more efficient ways to utilize machinery by understanding the conditions in which machinery is operating. And we maintain a rental system (rental business expansion) that enables us to supply customers with optimal machinery in a timely manner when they need it.

Moreover, this mid-term management plan has allowed us to begin reorganizing our primary factories in Japan. Our goal in

this is to put in place a system for development and production aimed at strengthening our global competitiveness, while also promoting diversity and work-style reform. In recent years, the shortage of younger workers has become a serious problem. We urgently need to create a safe and worker-friendly environment that encourages participation of both men and women up into their 50s and 60s on the front lines of production sites. First of all, we want to take the experience we have built up in Japan and extend it to our overseas production sites in China, Indonesia, etc.

We believe that deepening these efforts, effectively dealing with SDGs and ESG, will in turn lead to solving the issues required by society.

Collaborating with customers to generate solutions to environmental and social issues

Looking back over FY 2018, the first thing that comes to mind is the frequent worldwide occurrence of natural disasters caused

by climate change. How we should guard against threats like earthquakes, tsunamis, typhoons and torrential rain is a big theme for both our customers and nations. The effects of natural disasters on regional life and economies are so large that it takes a considerable amount of time to recover. It is important not just to deal with disasters after they occur, but to enact measures that enhance disaster management before the fact. In FY 2019 Japan is increasing its budget for public investment to this end. Moving forward, it will become increasingly necessary not just to rely on creating new infrastructure, but to improve that which already exists to make it more robust. I believe the HCM Group should hurry to develop and supply products and services that can support infrastructure maintenance, repair and reinforcement.

In this kind of social environment, construction machinery manufacturers like us are tasked with improvements beyond what extending current technology can offer. In short, rather than improve, I believe we must innovate. From each of the targets advanced through SDGs, through measures to combat climate change, the demands of society are ever higher and require even greater speed. For example, even if we seek to electrify construction machinery we will be asked when it will be developed and when it will be brought to market. So in order to respond

Message from the President

with speed, we have begun to innovate the development process itself. Specifically, in October 2018 we established a German marketing and development firm. We used this to test introducing a development process in which customers actually use compact electric-drive machinery and development evolves based on their on-site feedback and requests. In our conventional traditional development process, our R&D department in Japan would spend years creating products that would then be delivered to customers around the world. But in some cases this has not been fast enough. Fundamental parts like foundations and components will continue to be thoroughly researched and developed in Japan. But from here out we believe it will be necessary to carry out speedy development together with customers all around the world.

Moreover, development takes too long using only our own engineering. For example, it is difficult for construction machinery manufacturers alone to advance development of foundational technology like lithium-ion batteries and hydrogen fuel cells in a speedy manner. For this reason, the key to swiftly achieving technological innovation is for the entire industry to keep pace with automotive and trucking industry technology in particular, and skillfully integrate it. In addition, construction machinery can

succeed in applying new technology in the field even more quickly than general automotive can. Using autonomous driving technology as an example, it is likely to be difficult to allow vehicles to travel on public roads without the driver ever touching the wheel, or without a steering wheel at all. However, trials of autonomous dump trucks are already under way in Australia. This is because they operate in a designated area within which safety can be ensured.

This kind of technological innovation in construction machinery, as well as i-Construction^{*1}, will not only make on-site work more efficient, but will bring about various changes. We are hearing from customers that, “Companies which do not seriously engage with work site automation and computerization cannot attract or retain top talent.” Up until now, construction sites have had an environment that women have found it hard to break into. But now women are able to play large roles operating drones to gather data, and analyzing the data gathered. The adoption of new technology leads to solving problems such as hiring new talent and employee training. We will provide customers with new value by accelerating “Solution Linkage^{*2}” using ICT and IoT solutions to solve problems on construction sites together with customers.

*1 i-Construction

The Ministry of Land, Infrastructure, Transport and Tourism aims to apply ICT to increase efficiency and productivity at civil engineering and construction work sites. It hopes to create appealing construction sites through improving the corporate management environment.

*2 Solution Linkage

HCM's ICT/IoT-based solutions that help to improve safety, productivity, and reduce life-cycle costs together with customers. In finding solutions to challenges, HCM will take the lead in using the “One Hitachi” approach to deliver the Hitachi Group's wide ranging technologies and propose solutions that utilize open innovation combining the expert technologies of business partners.

Creating business opportunities from an outside-in perspective

In April 2019 we carried out organizational reform with the goal of speeding up value chain reform. First we established the Sustainability Promotion Division to promote integrated company-wide measures relating to CSR, environmental and social issues. Moving forward, it will be increasingly vital to incorporate ways of thinking that emphasize approaching all important managerial matters from a societal and environmental point of view. In the past dealing with social issues was seen as costly, but this is now an integral part of business. Now we are beginning to see a change in thinking, wherein efforts to deal with SDGs and ESG are perceived as business opportunities. Moreover, the Corporate Quality Assurance Division (which had been under the Development and Production Department), and the Marketing Strategy Group Division (which handles work related to product strategy) have both been placed under the direct control of the president. We aim to further strengthen governance related to quality and swiftly reflect world trends and customer feedback

Ideology of the 3Cs

3C

Challenge Customer Communication

in our business. We believe it is important to reform our business with an outside-in perspective that recognizes our company's role in social issues. We also think it vital to keep a perspective of expanding together with customers and to stay even one or two steps ahead in handling issues.

Of course, we expect employee awareness to change through this organizational reform. But what is important is to actively bring in outside opinions. One of the 3 C's in the “Kenkijin Spirit” (the HCM Group's standard of value and code of conduct) is Communication. It will be increasingly important at each stage of the value chain to always maintain a high level of sensitivity, listen to others, make your own hypothesis, consider it on your own, and incorporate this into your own work. I believe that if each and every one of our employees adopts this kind of process, then HCM this group will have unlimited potential.

Contributing to a sustainable society together with all stakeholders

The market scale for construction machinery is expanding globally. This is because for the past ten of twenty years China and India have experienced rapid economic growth and pressed forward with infrastructure expansion investment in areas like roads and railways. You might think that this kind of growth has peaked, but not yet. There are still many regions that it has yet to touch. There are still countries and regions in places like Africa and central Asia that will develop from here out.

Lately the HCM Group has striven to increase the performance of construction machinery, make machinery more com-

pact and unceasingly worked to protect the environment. Also, we have not only pushed to increase the efficiency of each and every machine, have devised solutions that we can provide to further increase profit and value for customers when they have 10 or 100 machines. We must ensure that construction machinery demonstrates adequate performance, and provide consulting that is environmentally and economically efficient for customers to use. This represents a business opportunity, of course. And we believe it will naturally lead to value creation through things such as engaging with SDGs and ESG.

In the future, when construction machinery has proliferated in regions where infrastructure maintenance is still not as advanced, we will be able to apply the expertise we have built up through efforts in developed countries and expand it to initiatives in emerging nations. Thus, we will be able to provide deeper value chains and business models. And this cannot be accomplished by construction machinery manufacturers alone. It can only be accomplished through cooperation with our customers, and all stakeholders who share the common goal of achieving a sustainable society.

I feel that construction machinery is a familiar element of our lives. All around us countless people are using construction machinery to create the buildings and infrastructure essential to our daily existence. That is why the impact we have on society is so large. 2020 marks 70 years since the HCM Group began development, manufacture and sale of construction machinery. And it marks 50 years since we became independent of Hitachi, Ltd. We are determined to look past 2020 and take on challenges that we have never encountered before. The Hitachi Construction Machinery Group is ready to work with all our stakeholders around the world to create the future together.



“Maintenance & Resilience TOKYO 2018” held at Tokyo Big Sight in July 2018

Mid-term Management Plan (FY2017 ~ FY2019)

The HCM Group is implementing a new mid-term management plan called **CONNECT TOGETHER 2019** as the final step toward realizing the **2020 VISION**.

We aim to provide “reliable solutions” that exceed customer expectations in the value chain spanning the entire life cycle of construction machinery. Our goal is to build a corporate structure resilient to change that will boost profitability and efficiency by rebuilding the value chain and relevant systems.

2020VISION

A “Close and Reliable Partner”
Anywhere on the Earth with Best Solutions through
Kenkijin Spirit

Go Together
2013

Planting seeds for growth

GROW
TOGETHER 2016

Promoting growth
and the next round of seeds

CONNECT
TOGETHER 2019

Achieving a structure
resilient to change

Targets and progress of CONNECT TOGETHER 2019

In fiscal 2018, the second year of CONNECT TOGETHER 2019, we made great strides toward providing products, services and solutions closely in tune with customer needs. As a result, we were able to beat nearly all of our targets set for fiscal 2019, following a similar performance as last year.

In this fiscal year, the final year of the mid-term management plan, we will continue working to reinforce the value chain busi-

nesses of parts, services, used equipment and rentals as cited as a focus theme, expand the wheel loader and dump truck business, and step up development of solutions using ICT and IoT. Our goal is to achieve our targets and establish a stable business foundation resilient in the face of a changing business climate.

	GROW TOGETHER 2016	CONNECT TOGETHER 2019		
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ending March 31, 2020*
Adjusted operating income ratio	3.7%	9.8%	11.3%	9% or more
ROE	2.0%	14.1%	14.7%	9% or more
Net D/E ratio	0.46	0.33	0.49	0.4 or less
Dividend payout policy	31.8%	30.1%	31.0%	30% approximately 30% or more
Assumptions for the fiscal year ending March 31, 2020				
Foreign exchange rates	\$100 yen / €110 yen / Renminbi 15 yen		Global demand (outlook for hydraulic excavators determined by HCM)	170,000 units
Sales revenue	850 billion yen			

* Guidance as of April 2017

Main results of activities and future challenges






Focus themes	Results of Activities Aimed at 2020	Future challenges
Parts and service	<ul style="list-style-type: none"> Launched ConSite OIL service (first of its kind in the construction machinery industry) Established parts remanufacturing plant at H-E Parts (Chile) 	(1) Advanced failure/predictive diagnostics utilizing Big Data analysis, ICT, and IoT (2) Reinforce collaboration with H-E Parts and Bradken
Mining Operations	<ul style="list-style-type: none"> Began working with Whitehaven on autonomous haulage system for mining dump trucks Released the EH500AC-3 rigid dump truck with trolley system Released the EX-7 series of ultra-large hydraulic excavators 	(1) Enhance presence in dump trucks (2) Develop and commercialize AHS
Used equipment and rental business	<ul style="list-style-type: none"> Expanded sales of used equipment from Japan Invested in ACME for reinforcing the rental business in North America Established Synergy Hire to reinforce the rental business in the UK 	(1) Reinforce used equipment and rental business
R&D	<ul style="list-style-type: none"> Released the ZH120-6 12-ton hybrid hydraulic excavator (first of its kind in the construction machinery industry) Released the ZX135USX-6 ICT hydraulic excavator Developed concept models for an 8-ton and 2-ton electric-powered excavator at EAC in Germany 	(1) Develop ICT and IoT solutions (2) Reinforce global development system finely tuned to regional needs
Structural reform	<ul style="list-style-type: none"> Drastically reorganize main development and production sites in Japan by around fiscal 2022 Merged by absorption with KCM which develops and produces wheel loaders 	(1) Increase profitability of each business segment
ESG-oriented management	<ul style="list-style-type: none"> Identified correlation between our business and the SDGs and established 10 key targets Received the Energy Conservation Center Chairman's Award at the FY2018 Energy Conservation Grand Prize for energy productivity improvement initiatives at five plants in Ibaraki Prefecture Tata Hitachi Construction Machinery began using solar power generation at the Kharagpur plant following the Dharwad plant 	(1) Further promote ESG-oriented management

Growth strategy and the SDGs

In fiscal 2018, we identified the correlation between the HCM Group's activities and the SDGs and established 10 key theme goals.

The Hitachi Group is contributing directly and indirectly to all 17 goals set out in the SDGs. As for our 10 key theme goals, we believe that we can meet and beat each target through our business strategy.

SDGs goals	Main ongoing initiatives	Anticipated effects
 4 QUALITY EDUCATION Ensure inclusive and equitable quality education and promote lifelong learning	[Activities for education] <ul style="list-style-type: none"> Support acquisition of qualifications from training institutes Assistance at Hitachi Construction Machinery Songgang Xi Wang Elementary School in China Manufacturing Technology Transfer Promotion Program in India Internship program in Zambia Supporting self-reliance in Cambodia Participate in construction machinery fairs for education 	Develop children and leaders of the future
	[Provide technology acquisition and education-al] <ul style="list-style-type: none"> opportunities for employees Implementation of succession plan International Skills Competition Hold service mechanic competitions 	Increasing the skill level of individuals and technical levels in Japan and abroad contributes to sustainable growth
 5 GENDER EQUALITY Achieve gender equality and empower all women and girls	[Empower women in the workplace] <ul style="list-style-type: none"> Developing female instructors at training centers for women 	Encourage gender equality, etc., by providing a work environment that provides a high level of motivation to women
 6 CLEAN WATER AND SANITATION Ensure availability and sustainable management of water and sanitation for all	[Reduce emissions and prevent pollution] <ul style="list-style-type: none"> Identify areas with high water stress level Reduce water usage in business activities Management of chemical substances (Reduce water risk) 	Support local communities by ensuring sustainable management of water and conducting water-saving activities in areas of high risk
 7 AFFORDABLE AND CLEAN ENERGY Ensure access to affordable, reliable, sustainable and modern energy for all	[Reduce environmental impact for manufacturing processes] <ul style="list-style-type: none"> The introduction of "Emilia" electric power monitoring system 	Realize efficient energy use by adopting proprietary technology on the manufacturing floor
	[Utilize renewable energy] <ul style="list-style-type: none"> Install solar panels 	Ensure access to affordable, reliable, sustainable and modern energy
 8 DECENT WORK AND ECONOMIC GROWTH Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	[Expand new businesses globally] <ul style="list-style-type: none"> The parts remanufacturing business 	Contribute to creating local employment opportunities and economic growth by hiring locally
	[Business structure reform] <ul style="list-style-type: none"> Restructure domestic development and production bases 	Achieve decent work for all and realize a safe and efficient production line ▶ P23: Value Creation Story2
	[Work Style Reform] <ul style="list-style-type: none"> Reinforce occupational safety and health Employee health advancement Promote diversity Equal labor and wages Elimination of forced and child labor 	Promote sustainable economic growth, full and productive employment through promoting decent work for all * "Diversity promotion" correlates with SDG 5 depending on the case.
	[Promote a safe and secure work environment] <ul style="list-style-type: none"> Corporate Governance Compliance Human rights initiatives 	Strengthen organization and improve corporate value thereby enhancing economic productivity through initiatives in governance * "Respect for human rights" correlates with SDG 5 depending on the case.

SDGs goals	Main ongoing initiatives	Anticipated effects
 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	[Develop products and solutions using ICT and IoT] <ul style="list-style-type: none"> Expand Solution Linkage Develop labor-saving machinery that is unmanned/uses robotics 	Support economic development and general welfare and realize a safe and productive labor environment through innovative technological development that creates new value * "Development of labor-saving machinery" correlates to SDG 8
	[Enhance services globally] <ul style="list-style-type: none"> Establish regional sales companies 	Contribute to local infrastructure and economic development by expanding sales channels
	[Risk management] <ul style="list-style-type: none"> Formulate Business Continuity Plan (BCP) Enhance the Business Continuity Management (BCM) structure Increase resilient residential areas 	Develop resilient infrastructure and promote sustainable industrialization through measures against risks faced by businesses such as natural and man-made disasters (terrorism and civil unrest) * "Increase resilient residential areas" correlates to SDG 11
 11 SUSTAINABLE CITIES AND COMMUNITIES Realize inclusive, safe and resilient cities and human dwellings that are sustainable	[Supply and support construction machinery] <ul style="list-style-type: none"> Develop infrastructure in each country Supply rental equipment to local governments 	Achieve a sustainable urban and living environment resilient against disasters ▶ P27: Value Creation Story4
 12 RESPONSIBLE CONSUMPTION AND PRODUCTION Ensure a sustainable consumption production pattern	[Enhance value chain business] <ul style="list-style-type: none"> Expand rental business globally 	Ensure a sustainable consumption and production pattern by enhancing the value of the product life cycle ▶ P21: Value Creation Story1
	[Reuse and recycling of products] <ul style="list-style-type: none"> Initiatives of the parts remanufacturing business 	Contribute to reduction of waste
	[Provide accurate information on products and services] <ul style="list-style-type: none"> Prompt disclosure of recall information Prevent risk in the supply chain (mainly procurement related) 	Ensure sustainable a consumption and production pattern
	[Improve the quality of our products] <ul style="list-style-type: none"> Realize the vision of "Made by Hitachi" uniform worldwide quality Increase used equipment distribution Developing technologies for competitive differentiation 	Minimize environmental impact through ensuring a sustainable consumption and production pattern while maintaining safety and quality throughout the product life cycle * "Develop distinctive technology" correlates to SDG 9
 13 CLIMATE ACTION Take urgent action to combat climate change and its impacts	[Development of clean technologies and environmentally conscious technologies] <ul style="list-style-type: none"> Hybridization of construction machinery Electrification of construction machinery 	Contribute to minimizing risks of climate change through developing and putting into practical use construction machinery with low-carbon technologies ▶ P25: Value Creation Story3
	[Address risks of climate change] <ul style="list-style-type: none"> Introduce solar power generation Introduce internal carbon pricing Conserve water resources Consider biodiversity 	Contribute to solutions for global environmental issues by adopting renewable energy and introducing energy saving equipment * "Introduce solar power generation" correlates to SDG 7, "Conserve water resources" to SDG 6, and "Consider biodiversity" to SDG 15
	[Development support in local communities through cooperation with outside organizations] <ul style="list-style-type: none"> Assistance at Hitachi Construction Machinery Songgang Xi Wang Elementary School in China Desert afforestation activities in the Horqin Desert in China Manufacturing Technology Transfer Promotion Program in India Supporting self-reliance in Cambodia 	Help energize innovation using global partnerships
 17 PARTNERSHIPS FOR THE GOALS Enhance means of sustainable development and revitalize the global partnerships	[Promote CSR throughout the entire value chain] <ul style="list-style-type: none"> Promote fair procurement among suppliers Pass down and transfer technologies globally 	Energize global partnerships



Value Creation Story

1

Expanding the rental business in North America and Europe

New values being created around the world

The diversification of people's lifestyles is picking up the pace accelerated with changes in the social environment. Above all, there is growing value perceived in "switching from ownership to shared services," where an asset is used only when and in the amount required, instead of owning it. This suggests the people are becoming more aware of using assets efficiently. This trend can also be seen in the world of construction machinery.

Ahead of such changes in social environment, since 2017 the HCM Group has worked to reform its business structure through its mid-term management plan called CONNECT TOGETHER 2019. One of the key strategies under this plan is to enter the rental business in developed countries.

Relevant SDGs



In order to achieve sustainable development, it is essential to pursue an economic model with less social and environmental impacts by sharing existing materials, services, and spaces. We believe that by increasing the convenience of renting construction machinery, and making it a valid option, we can contribute to achieving the SDGs.

Expanding the rental business as key to deepening our value chain strategy

In August 2018, HCM announced capital participation in ACME Lift Company in the United States (hereinafter, "ACME"), marking our official launch of the rental business in North America. ACME is a construction machinery rental company with 3,500 partner locations throughout North America and an excellent client base.

In addition, it is also known as a pioneer in the re-rental business, where it lends to rental companies that are focused on Aerial work platform, who in turn sublet the machinery. Unlike automobiles, which can be quickly turned around for a new rental upon their return, the rental of construction machinery is not as simple. This is because there is need for maintenance to clear any dirt or mud on the vehicle, assembly of any requested attachment (accessories) for the next customer, as well as transportation of the vehicle to their next construction site. Having the manufacturer, who possesses the knowledge of their products to provide these services, ensures that the machinery is kept in the optimal condition, which also extends service life. In other words, the rental business can be viewed as a customer-oriented business model which not only effectively utilizes resources in terms of the manufacturing of machines but also enhances the profitability of customers' assets. The HCM Group aims to acquire know-how in the re-rental business in the United States,

Idling economy, which maximizes product life cycle value

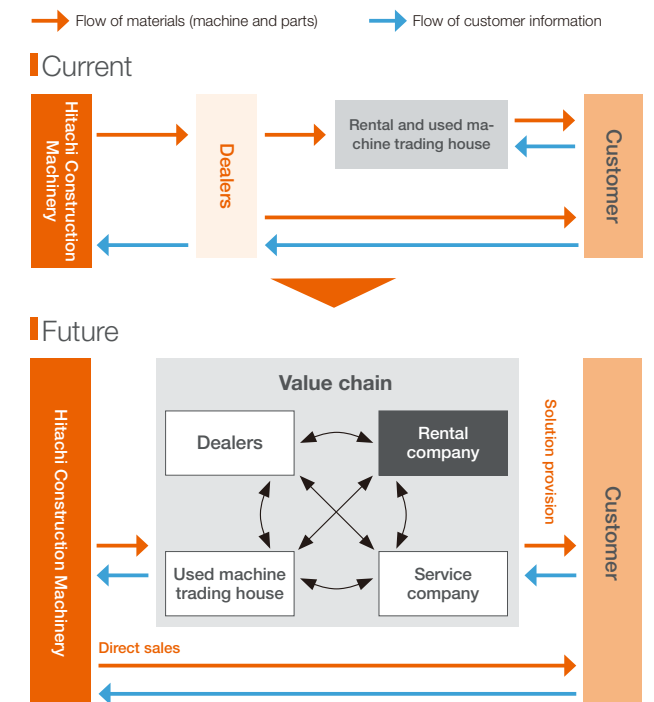
In order to create a customer-oriented business model, it is crucial to always monitor the operation status of construction machinery. Hitachi Construction Machinery's proprietary information solution, "ConSite," which remotely monitors machinery in operation at each site and predicts operating failures, makes this possible. The monitoring and optimal maintenance at the right time not only make the machines excellent for use as used vehicles, they also extend service life, maximizing life cycle value. This practice not only represents the "sharing economy" where everyone shares an asset owned by people and businesses, but is also known as "idling economy" where unoccupied resources and assets are turned into new values while being utilized efficiently.

From a society of ownership to shared use. In a time when people's values are shifting, construction machinery makers are not only expected to develop products, but also step up their role in terms of providing services from user training, management and operation consulting as well as fulfilling their duties to

Future Developments

Going forward, we will globally expand our rental of quality machinery as well as implement initiatives in order to provide new ICT and IoT-based solutions to flexibly address social issues such as the worldwide shortage of technicians.

which is the world's largest rental market, in order to expand the Group's rental business. In January 2019, we established Synergy Hire as a new company to engage in the rental business in the U.K.



preserve the environment. At the same time, this also serves as an opportunity to further relationships of trust while expanding contact points with customers. The HCM group will explore new forms of partnerships with customers through the rental business.



Carrying out the required maintenance for the next rental



Value Creation Story Production line at the Shiga Works (Hitachi Construction Machinery Tierra)

2

Comfortable work environments and productivity Manufacturing reforms pursued simultaneously

Taking into account Japan's declining birthrate and aging population, along with worker shortages, disasters, and unusual weather, issues that pose a risk to our business activities are becoming more severe with each passing year. The HCM Group has initiated a large-scale reorganization and reforms of its domestic development and production sites since October 2018 in order to enhance its high productivity and global competitiveness. We are developing a production system that enables productive and comfortable work environment by implementing labor-saving ICT on production lines and developing frontlines that are worker friendly.

Relevant SDGs



One universal goal is for everyone to have employment, in which they find the job meaningful and decent. To achieve this goal, it is essential to develop a workplace that enables a high level of economic productivity through innovation, as well as allows a diverse workforce to exert their abilities while working safely and securely.

Launched the largest scale reforms since the Group's inception

The HCM Group has reorganized its development structure that was once categorized by product, and centralize construction and mining machinery at the Tsuchiura Works, and compact machines at the Shiga Works.

Furthermore, production bases have been categorized by function, while structure reforms entailing development of new production lines is underway. This goal means the establishment of a flexible production structure that can adapt to changes in demand, and attain a higher level of technical development capability. Moreover, in order to achieve this goal in today's market with labor shortages, it is imperative to establish a manufacturing environment that promotes both ease of work and productivity. The reform that started in 2018 entails a complete overhaul of the functions of our seven domestic major bases, at a large scale that has never been done before.

Developing a production line safe for seniors, women and non-Japanese employees

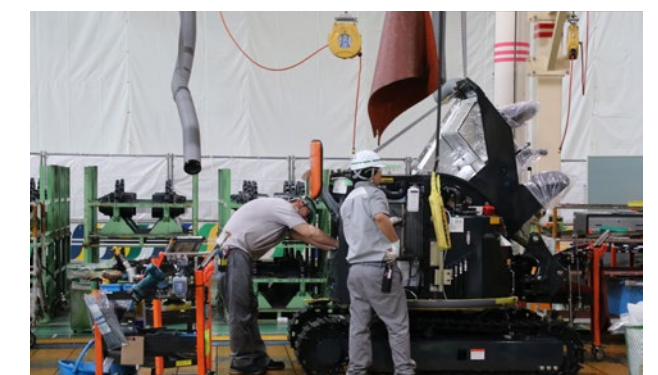
On the conventional frontlines of production, experienced workers with skills and knowledge have led processes and supported high productivity and quality. However, as the birthrate declines and population ages more, there is a lower number of experienced and skilled workers, which means a reduced number of hands on deck. As a result, we have thoroughly analyzed work attitudes and processes and implemented various efforts to largely reduce physical labor as part of this reform, for those with less experiences or physical strength to feel empowered to work. At Shiga Plant (Hitachi Construction Machinery Tierra), which was first to implement the reform ahead of others, the number of steps was reduced by 30% compared to before, while robots have been adopted for the handling of heavy parts, giving rise to new production lines with advanced automation and energy-saving features.

For example, robots have the same proficiency as skilled workers in the assembly of traveling equipment, including the ability to properly tighten bolts and prevent loosening. We have

Position of the seven major domestic bases

Plant name	Status of business structure reforms in 2022	
Tsuchiura Works	Development base	Centralize development resources related to "construction" and "mining"
	Construction plant	Production of medium hydraulic excavators, and medium/large wheel loaders
Ryugasaki Works (Former KCM Corporation)		Production of main parts
Hitachinaka-Rinko Works	Mining plant	Production of large hydraulic excavators for mines, rigid dump trucks, and ultra-large wheel loaders
Hitachinaka Works		Production of parts for construction and mining
Kasumigaura Works	Components plant	
Hitachi construction Machinery Tierra Shiga Works	Development base	Centralize development resources for compact machines
		Production of mini excavators and mini wheel loaders
Banshu Works (Former KCM Corporation)	Compact plant	Production of main parts

also made safety improvements, such as adjusting the height of carts to ensure workers maintain an ergonomically correct posture during tasks and widening conveyor belts. Tablet devices with multilingual interfaces are made available to non-Japanese workers so that they can always check work guidelines.



Every effort is made to eliminate work using stairs or on an elevated location, and eliminate the need to bend down. The tool cart moves with the worker on a conveyor line to reduce the burden of having to carry them.



Hitachi Construction Machinery Tierra Co., Ltd.
President
Kazunori Nakamura

Creating a workplace that enables a diverse workforce to actively take on their roles and increase global competitiveness

HCM prides itself on always implementing reforms on the frontlines. We have promptly implemented production process reform by bundling each stage of the process from development to sales. Prior to reorganization this time around, we successfully launched new processes while increasing productivity by introducing robots and developing programs focused on younger employees on the frontlines. Moreover, feedback from female employees is actively reflected in workplace improvements, which has a positive impact on employment. Soon, the production line of mini wheel loaders will be moved to our Works plant. This means efficiency and worker friendliness are required in all aspects of our work, including not only the production floor but also development and design. We aim to increase production capacity throughout Hitachi Construction Machinery Tierra by 1.5 times through creating a workplace where anyone can play an active role.



Value Creation Story Hitachi Construction Machinery (Europe)'s booth at "bauma 2019"

3

Quickly turning latent needs into reality Toward a new era in electric-powered excavators

The HCM Group has always been committed to development of electric-powered construction machinery in hopes of contributing to environmental issues such as climate change and resource depletion. Until now, we implemented efforts mainly within the Japan market. In October 2018, we established a new company, European Application Center (EAC), with KTEG, a Group company of our European dealer, Kiesel (headquarters: Baienfurt, Baden-Württemberg, Germany). We are promoting the development of electric-powered construction machinery in the European market.

Relevant SDGs



Climate change is the biggest threat to development. Its impact weighs heavily on those in the weakest position. As it is a universal goal to achieve a carbon-free society to prevent global warming, the need for electric-powered construction machinery is expected to grow in the future.

Accelerated development in Germany where EV shift is advancing

Europe is one of the markets with the strictest regulations aimed towards the prevention of global warming and realization of a carbon-free society. This makes it a high demand area for electric-powered construction machinery. Particularly, in Germany the automotive industry is seeing a quicker shift towards EV. This trend of EV shift is expected to spread sooner or later to construction machinery.

The HCM Group has launched a new development company in Germany, which is known worldwide for its advanced environmental awareness. This company has started the development of electric-powered construction machinery geared towards the European market. The goal is for customers to try out machines at their work sites and implement improvements; thereby enhancing the speed of development. KTEG excels at marketing in Europe and possesses a wealth of knowledge on the ever-changing regulations, along with know-how to actualize customers' latent needs. On the other hand, HCM possesses a high level of technology, including base technology, among them those related to electrification including battery and drive system.

Achieve zero emission while maintaining usability

Since electric-powered construction machinery is not equipped with an engine, they offer the excellent benefit of environmental friendliness due to a lack of waste products such as exhaust or CO₂ emission from the excavator, engine oil and filters. However, we must not let power or operability fall short as it may hinder the customers' productivity at their work sites. HCM aims to reduce environmental impacts by minimizing exhaust gas and CO₂ emissions while achieving highly productive electric-powered construction machinery.

In April 2019, we announced two new concept models of electric-powered excavators, the ZE85 (8 ton class) and ZE19 (2 ton class), at an international trade show on construction machinery called bauma 2019, held in Munich, Germany. These

The synergy between the two companies drives rapid development of machines that meet the specific needs of the European market.

History of HCM's development of electric powered construction machinery

HCM has engaged in development of higher efficiency and electric systems with energy-saving and clean solutions as one of the development goals for construction machinery. Particularly, electric-powered hydraulic excavators were first launched in the market in 1971. While currently most machines are powered through a cable using commercial power supply, we are also developing battery powered excavators.

2006	Development of battery powered hydraulic excavator ZX70B (7-ton class) Development of 2WAY eco excavator (commercial power supply and battery powered 5-ton class)
2010	Development of lithium-ion battery mini excavator ZX35B (3.5 ton class)
2019	Development (conceptual model) of motorized excavator ZE85, ZE19

models received positive feedback from customers in the European market, where domestic manufacturers are known to dominate. In the future, we aim to continue our development, by expanding from 13-ton to 30-ton class construction machinery, to further expand the business.



Demonstration of ZE85

VOICE



Hitachi Construction Machinery Co., Ltd.
General Manager, Marketing Strategy Group, General Manager,
Corporate Planning Office, Corporate Strategy Div.
Ichirou Hirami

The skills accumulated over years of experience and desire to tackle challenges underpin our speedy turnaround time for development.

One thing that surprised us in our joint development with KTEG was that the speed of development was very rapid. This illustrates that there is so much more for us to learn. At the same time, however, we also realized that the basic technology we have accumulated after spending tireless hours was what made rapid turnaround possible in the development of machines with high functionality and quality. It is difficult to predict exactly when the electric-powered construction machinery market will expand. Therefore, we aim to offer quality products that we can be proud before this demand arrives. Right now, this is what we are wholly focusing on.



Value Creation Story

At Hitachi Construction Machinery Japan's Niiza Servicing Office

4

Preparing for future large-scale disasters The role of construction machinery

The recent spate of earthquakes, typhoons and torrential rains in Japan have had serious impacts on people's lives and the economy. Companies and governments are both working hard to make preparations for minimizing damages and restoring operations promptly following an emergency. Construction machinery play a vital role in the onsite recovery work for various types of disasters. The HCM Group is working to develop a support system so that it can be useful to communities at the time of a major disaster.

Relevant SDGs



Securing resilience in the face of urban disasters is an urgent issue that must be addressed in response to the frequent occurrence of natural disasters. Resilience requires a network for collaboration and cooperation utilizing the strengths of various actors.

Construction machinery is critical for evacuation and recovery work at the scene of disasters

In 2018, Japan experienced a number of major earthquakes and torrential downpours, resulting in extensive damages in Western Japan and Hokkaido. The HCM Group provided assistance^{*1} to local governments so as to aid in the rescue of victims and in the reconstruction of communities following these disasters. Construction machinery is vital to the removal, sorting and disposal of earth and sand and debris. In particular, hydraulic excavators (backhoes, Double-Arm Working Machine), Track Mounted crushers, Track Mounted screeners, and Rigid Dump Trucks are needed for each stage of recovery work.

Hitachi Construction Machinery Japan, which engages in construction machinery rentals, sales and services, works together as a company to quickly supply construction machinery to areas hit by disasters. First, following its Disaster Response Manual, a disaster support headquarters that reports directly to the president is set up at the head office, while disaster support

Concluding collaboration agreements for disasters Acting as a company communities rely on during an emergency

Hitachi Construction Machinery Japan has until now provided support at the request of affected local governments. However, the spate of disasters over the past several years has increased the need^{*2} to have agreements on support in place before a disaster strikes.

In October 2018, the Niiza servicing office of our Tokyo Branch concluded an agreement on the priority supply of rental equipment and supplies at the time of a disaster at the request of Nishitokyo City^{*3}. Nishitokyo City concluded this agreement with Hitachi Construction Machinery Japan and two other companies to work directly with companies to receive priority provision of supplies and equipment following a disaster, in order to protect the safety of local residents. The Tokyo Branch sales office and Niiza servicing office are now formulating a plan on how to specifically support the city during an emergency, based

teams are also set up at each branch office. After checking damages locally, each team works together to carry out the initial response and then provide specific assistance after examining the need for dispatch of equipment, personnel, and transport methods to reach the scene.

^{*1} Various forms of support include charitable donations, provision of construction machinery, and operator training for construction machinery, etc.



Track Mounted screen can be used to sort and process earth and soil at the scene of a disaster.

on their experience in providing aid to the scenes of disasters in the past.

^{*2} In addition to Nishitokyo City, Hitachi Construction Machinery Japan has concluded collaboration agreements for disasters with Tsuchiura City and Ryugasaki City in Ibaraki Prefecture and Kumagaya City in Saitama Prefecture, among others.

^{*3} A city in Eastern Tama with a population of 203,000. The city was formed in 2001 after the merger of Tama City and Hoya City.



Practical training on recovery work using a mini excavator (Asakura City, Fukuoka Prefecture)

VOICE



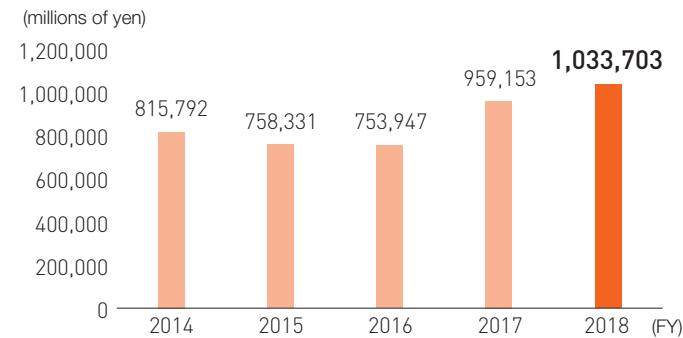
Hitachi Construction Machinery Japan Co., Ltd.
Manager, Niiza servicing office,
Tokyo branch sales office,
Kanto Sales Office
Yasunori Matsubara

Using ICT and networks to aid the recovery at the scene of disasters lacking equipment and people

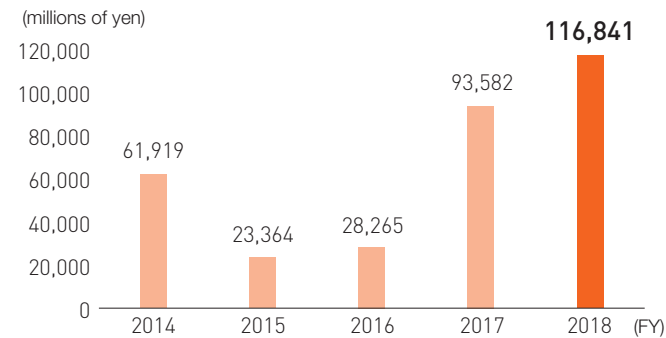
The Niiza servicing office owns around 1.7 billion yen worth of rental equipment, making it among the largest in all of Japan. Nevertheless, there is always a shortage of equipment following a major disaster. Therefore, it is building a support system network so that it can collaborate with other branch sales offices across Japan during an emergency. In addition, the scene of disasters not only lack construction equipment, but also operators to use them. HCM's ICT construction machinery featuring machine control and machine guidance make it possible for operators with little experience to operate machines like a pro. These machines are likely to play a major part during a disaster with people shortages. Our business operations regularly support everyone in the community. We are prepared to aid communities during an emergency using the HCM Group's technologies and network.

Financial and non-financial information highlights

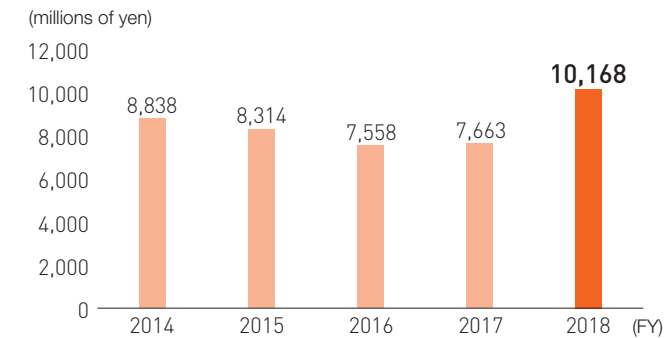
Sales revenue **↑ + 7.8%**
(consolidated basis)



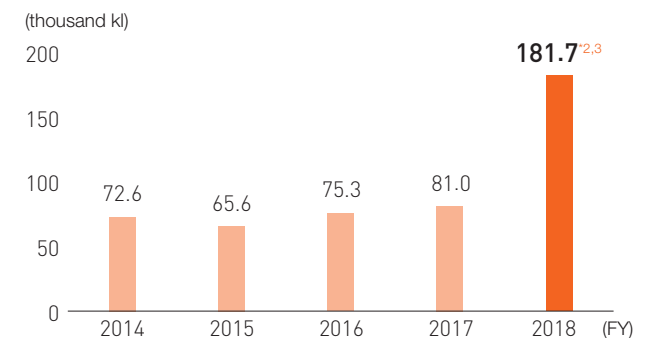
Adjusted operating income **↑ + 24.9%**
(consolidated basis)



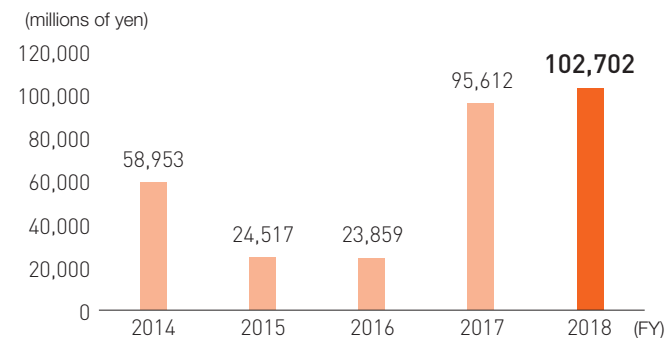
Environmental conservation costs^{*1} **↑ + 32.7%**



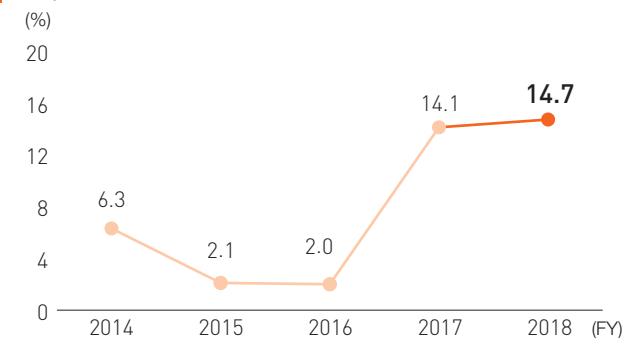
Energy consumption (Hitachi Construction Machinery Group) **↑ + 124.3%**



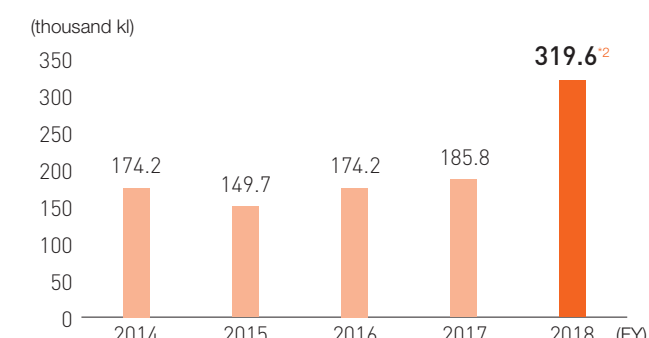
Income before income taxes **↑ + 7.4%**
(consolidated basis)



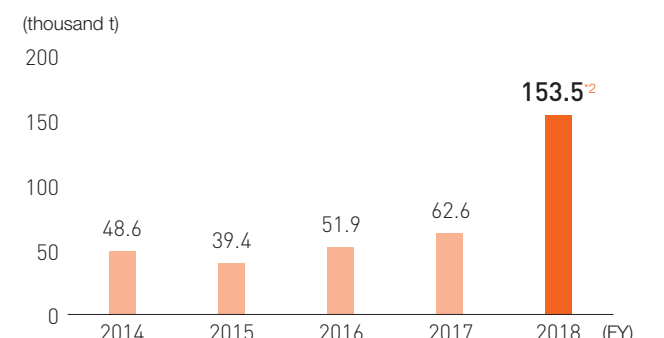
Net income on equity attributable to owners of the parent (consolidated basis) **↑ + 0.6%**



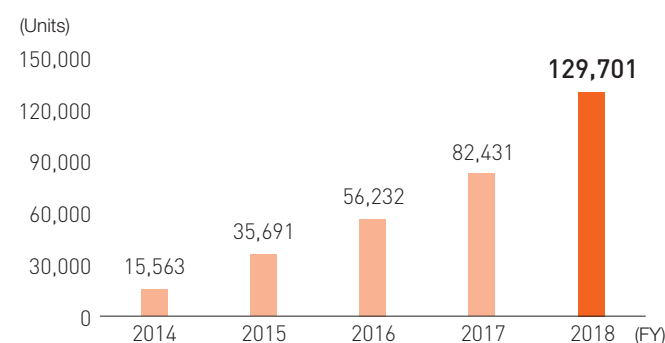
GHG emissions (Hitachi Construction Machinery Group) **↑ + 72.0%**



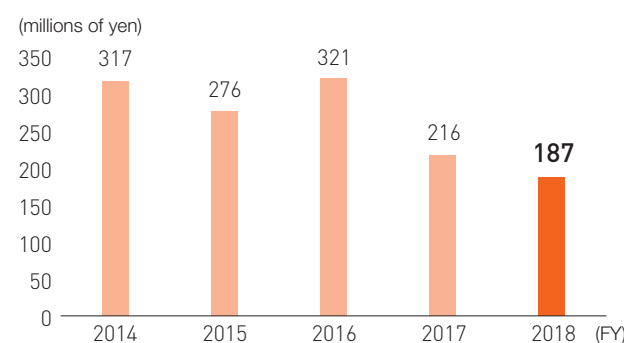
Total waste volume (Hitachi Construction Machinery Group) **↑ + 145.2%**



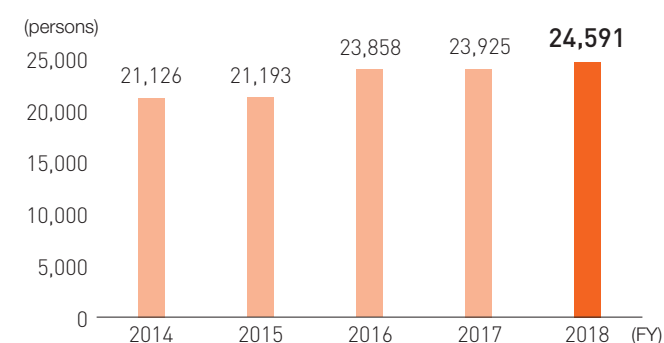
ConSite contracts **↑ + 57.3%**



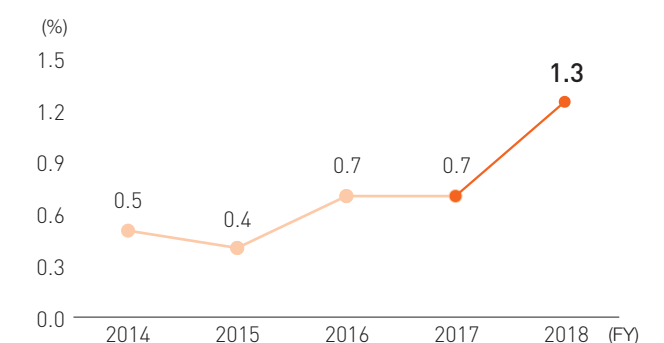
Social contribution related costs **↓ - 13.4%**



Number of permanent employees **↑ + 2.8%**
(Hitachi Construction Machinery Group)



Ratio of managers that are female (Hitachi Construction Machinery (non-consolidated)) **↑ + 0.6%**



^{*1} All Domestic and Overseas Production Bases for Consolidation

^{*2} Bradken has been included in the results since FY 2018.

^{*3} Use of the 2010 edition of the International Energy Agency (IEA) CO₂ energy conversion coefficient

Management Structure

Directors (as of June 24, 2019)



Hideaki Takahashi
Chairman of the Board



Kazushige Okuhara
Outside Director



Haruyuki Toyama
Outside Director



Junko Hirakawa
Outside Director



Tetsuo Katsurayama
Director



Toshikazu Sakurai
Director



Koji Sumioka
Director



Seishi Toyoshima
Director



Toshitake Hasunuma
Director



Kotaro Hirano
Director

Executive Officers (as of June 24, 2019)

Representative Executive Officer, President and Chief Executive Officer, CEO	Kotaro Hirano	Vice President and Executive Officer	Takaharu Ikeda	Executive Officer	Masafumi Senzaki
Representative Executive Officer, Executive Vice President, Executive Officer and Director	Koji Sumioka	Vice President and Executive Officer	Sonosuke Ishii	Executive Officer	Kazunori Nakamura
Executive Vice President and Executive Officer	Yasushi Ochiai	Vice President and Executive Office	Seishi Toyoshima	Executive Office	Masaaki Hirose
Senior Vice President, Executive Officer and Director	Tetsuo Katsurayama	Vice President and Executive Office	Hideshi Fukumoto	Executive Officer	Hidehiko Matsui
Senior Vice President and Executive Officer	Michifumi Tabuchi	Executive Officer	Yusuke Kajita	Executive Officer	Makoto Yamazawa
Senior Vice President and Executive Officer	Naoyoshi Yamada	Executive Officer	Moriaki Kadoya	Executive Officer	David Harvey

Note: Executive officers are listed in the Japanese syllabic order for each job title.

Policy on determining the amount of compensation, etc. for directors and executive officers

- (1) Method for determination of policies
- Our Compensation Committee sets forth the policy on the determination of the amount of compensation for the company's individual Directors and Executive Officers pursuant to the provision of the Companies Act applicable to companies with nominating committees, etc.
- (2) Policy Overview
1. Matters relating to both Directors and Executive Officers
- Compensation will be commensurate with the scope and range of our company's business, the ability required of, and the responsibilities and risks to be borne by, Directors and Executive Officers, taking into consideration package at other companies.
2. Matters relating to Directors
- Compensation for Directors consists of a monthly salary and year-end allowance.
- A monthly salary is determined by making additions reflecting committees to which the employee belongs and his or her position to the base salary on a full-time or part-time basis.
 - The year-end allowance shall be, in principle, payed at the amount multiplying the amount of basic salary by a certain factor. However, the amount may be reduced depending on operating results of the Company. In case of Directors who also serve as Executive Officers, compensation as a Director

- is not paid.
3. Matter relating to Executive Officers
- Compensation for Executive Officers consists of a monthly salary and performance-linked compensation.
- A standard yearly compensation is set in accordance with societal standards by taking into account the scope and range of our company's business, the abilities required of, and the responsibilities and risks to be borne by Executive Officers.
 - Monthly salaries are set to standard amounts according to job positions.
 - The standard sum for performance-based compensation is roughly 40% of standard annual income for the Chairman and President. For other Executive Officers it is roughly 30% of annual income. It is determined within a certain range depending on the company performance and achievement of individual roles.
 - For foreign Executive Officers, standard annual income is set according to the benchmarks of salary levels of the country in question from the view point of retaining capable personnel, taking into account the competitiveness of the salary.

Web Corporate Governance Guidelines

<https://www.hitachicm.com/global/environment-csr/csr-en/company-en/governance-en/guidelines/>

Results Under the 8 Key Initiative Themes

The HCM Group is carrying out activities under eight key initiative themes, having identified three CSV themes where solutions to social issues equate to business growth and five core themes essential to the implementation of the three CSV themes.

CSV Theme1	Resolving global environmental issues P33	Key Initiative Theme 2	Occupational safety and work style reform P47
CSV Theme2	Enhancing initiatives to increase social infrastructure workforce..... P37	Key Initiative Theme 3	Developing human resources globally and locally P49
CSV Theme3	Contributing to community development P41	Key Initiative Theme 4	Creating better business transactions and value chains P51
Key Initiative Theme 1	Pursuing safe, effective, and sophisticated products and working environments P45	Key Initiative Theme 5	Governance P53

ESG Index

ESG	Key Issues	Key Initiative	Reference Page
Environment	Philosophy concerning the environment	Resolving global environmental issues	P33 – 36
	Data relating to the environment	Financial and non-financial highlights	P29 – 30
	Climate Change	Develop electric-powered excavators	P25 – 26
		Environmental impact reduction in manufacturing processes	P35
		Providing environmentally-conscious products and low-carbon machines	P36
	Waste	Environmental impact reduction in manufacturing processes	P35
	Use resources effectively	Expand the rental business in North America and Europe	P21 – 22
		Eco-friendly mining operation solutions	P36
	Products and services	Expand the rental business in North America and Europe	P21 – 22
		Develop electric-powered excavators	P25 – 26
Social	Customers and quality	Pursuing safe, effective, and sophisticated products and working environments	P45 – 46
	Labor practices	Restructure and reform domestic development and production bases	P23 – 24
		Occupational safety and work style reform	P47 – 48
		Developing human resources globally and locally	P49 – 50
	Human rights	Human rights initiatives	P55
	Contribute to local communities	Conclude collaboration agreements for disasters	P27 – 28
		Contributing to community development	P41 – 44
Governance	Corporate governance	Governance	P53 – 55
	Information disclosure	Ensure product safety	P46
		HCM's disclosure media	P62
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	Supply chain management	Creating better business transactions and value chains	P51 – 52
	Approach to sustainability	Materiality and corporate vision	P9 – 10
		Value Creation Model	P11 – 12
		Message from the President	P13 – 16
		Growth strategy and the SDGs	P19 – 20

CSV theme 1

Resolving global environmental issues



Global environmental issues including climate change are extremely important issues that could threaten the very survival of humankind. Solutions or adaptation to these issues requires inclusive initiatives and in particular companies are expected to play an important role. The HCM Group is working to reduce the environmental impacts of its products throughout the entire life cycle and to provide environmentally conscious solutions through ICT, IoT and open innovation.

Targets				Key Initiatives
	CSV2030 Long-term goals	Reference year	2030 reduction rate	
Product	CO ₂ saving by products	FY2010	33%	<ul style="list-style-type: none"> Environmental impact reduction in manufacturing processes Develop and deliver Eco-Products, low carbon construction machinery, dismantling, and recycling machinery Utilize ICT and IoT Applications for disaster recovery and disaster prevention Eco-friendly mining operation solutions Green infrastructure solutions
	Fuel reduction of hybrid hydraulic excavators	FY2010	50%	
Production	Improvement rate of energy basic unit in production	FY2005	40%	
	Improvement rate of waste basic unit in production	FY2005	40%	
	Improvement rate of water basic unit in production	FY2005	50%	
Production	Improvement rate of energy basic unit in production	FY2005	79%	
	Improvement rate of waste basic unit in production	FY2005	86%	
	Improvement rate of water basic unit in production	FY2005	95%	

Progress of main activities in FY2018

Boost electrification of construction machinery

In Germany, which has some of the world's strictest regulations for preventing global warming, we established a new company that engages in the electrification of construction machinery and development of applied products. At an international trade fair on construction machinery, we announced the ZE85 and ZE19 electric-powered excavator concept models.

Switching to solar power at plants in India

Tata Hitachi Construction Machinery (India) began using electricity produced from solar power generation at the Kharagpur Works. In FY 2019, we estimate that they sourced about 30% of their annual electricity consumption, or around 7,000 MWh, from renewable energy.

Visualizing electricity using IoT technology

At the Group's plants in Japan, we continue to carry out initiatives to reduce standby power using EMilia, which visualizes electricity consumption, and to recover unused energy. We received the Energy Conservation Center Chairman's Award at the FY 2018 Energy Conservation Grand Prize.

Future initiatives

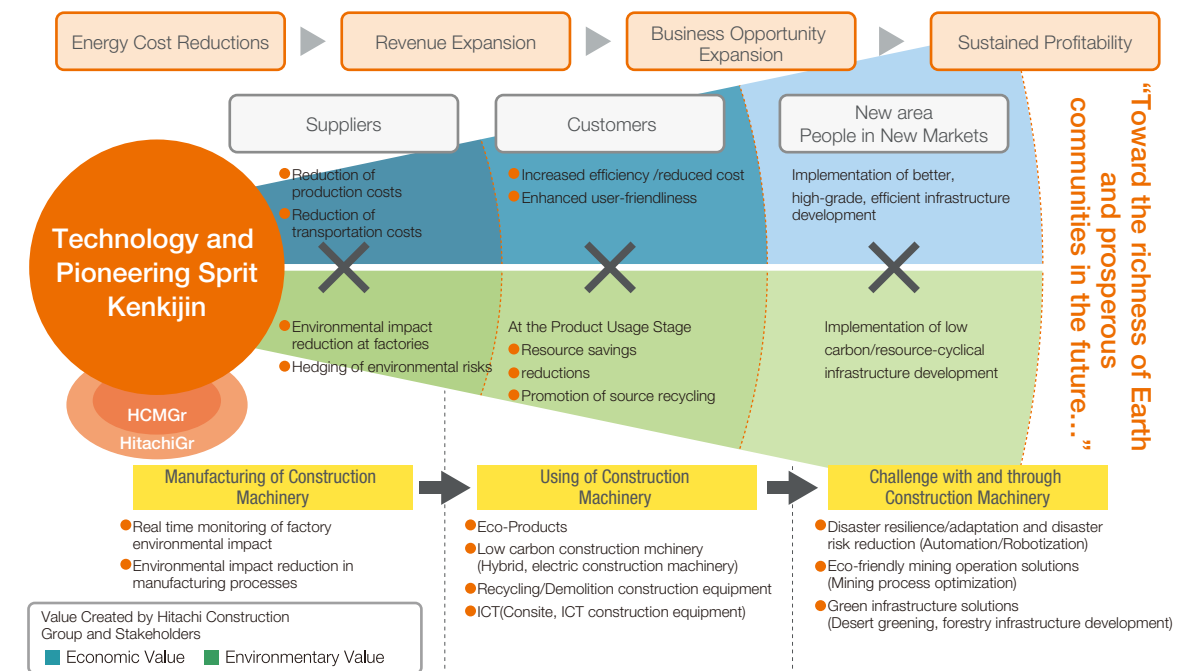
In FY 2019, the Environment Policy Division, which has been responsible for the promotion of organized environmental conservation activities for the entire Group, transitioned to a new organization called the Sustainability Promotion Division, established to take a comprehensive approach to environment, social and governance issues. Initiatives to encourage the introduction of renewable energy and increase energy productivity using IoT technology that made progress in FY2018 will now be expanded Group-wide to make even greater contributions to global environmental issues.

Approach to value creation

The HCM Group's CSV for the environment involves efforts in the three areas of "manufacturing", "using" and "taking on challenges" create, use and challenge for maximizing value creation in terms of both economic value and environmental value together with all people related to the society we aim to achieve. In terms of "manufacturing", we are carrying out activities including with suppliers to lower environmental costs.

In terms of "using", we aim to increase earnings by boosting

the environmental and social value of our products and businesses. In terms of "taking on challenges", we are working to expand business opportunities by solving social issues globally. These initiatives to increase economic value and environmental value help to secure the long-term, stable growth of the Group. In addition, the main products and services related to CSV are managed and promoted under the long-term CSV 2030 targets.



Environmental Vision

This environmental vision is shared throughout the Hitachi Group, and it is to resolve environmental issues and achieve both a higher quality of life and a sustainable society through its Social Innovation Business in collaborative creation with its stakeholders.

In order to create a society which has the three attributes of being a “Low-Carbon Society”, “Resource Efficient Society” and “Harmonized Society with Nature,” the HCM Group Action Guidelines for Environmental Conservation form the basic policy of our environmental activities, under which we are making efforts.

Web

Action Guidelines for Environmental Conservation

<https://www.hitachicm.com/global/environment-csr/environmental-activities/environmental-strategy/pdca-for-environmental-management/action-guidelines-for-environmental-conservation/>

Ideal society laid out in our environmental vision

Low-Carbon Society

We will work to reduce emissions at the “use” stage, which accounts for more than 90% of greenhouse gas emissions throughout the value chain, along with reductions at our own “production” stage.

Resource Efficient Society

Through our businesses, we will contribute to building a water and resource recycling society.

Harmonized Society with Nature

At each stage of the value chain, we will evaluate the impact on the ecosystem and promote measures to minimize the burden.

Environmental Management

With respect to environmental management, our system is centered around the newly established Sustainability Promotion Division, which comprehensively manages and promotes environment, social and governance matters for the entire Group as well as discloses information as appropriate. The Sustainability Promotion Committee, which meets biannually, is comprised of members including the president and executive officers. It carries out deliberations and approvals on ESG matters related to management decisions, including our response to climate change.

In addition, the HCM Group implements an ISO 14001-compliant environmental management system centered on production Group companies that account for more than 95% of environmental impacts from plants and offices. In FY2018, there was a change in the number of Group companies, resulting in a 93% certification rate, including simplified environmental management systems at production Group companies.

Sustainability promotion system



Manufacturing of Construction Machinery

Environmental impact reduction in manufacturing processes

The HCM Group has engaged in green procurement in an effort to achieve a highly efficient supply chain together with suppliers that reduces environmental impacts. In manufacturing processes, we have implemented a number of measures aimed at reaching our long-term CSV 2030 goal for the environment, including using solar power, investing in energy efficient facilities, encouraging recycling, and reducing waste. In FY 2019, we introduced an internal carbon pricing system in order to further promote investments in energy efficient facilities.

The internal carbon pricing (ICP) system is a voluntary mechanism for companies to assign a price to carbon emissions or reduced carbon usage, in order to make investment decisions and carry out risk management internally. This makes it possible to visualize the impacts carbon emissions have on business operations and to strategically determine and promote low-carbon investments. Going forward, we will work to raise awareness inside the company about ICP-driven efforts to reduce carbon.

TOPICS

Obtained SBT approval for greenhouse gas reduction targets

In May 2019, the Science Based Targets Initiative (SBTi)* approved our long-term goals for reducing greenhouse gas emissions as targets based on scientific facts. The HCM Group will accelerate its energy-saving and carbonization-reduction initiatives to achieve these goals, and thereby contribute to the 2°C target set in the Paris Agreement.

SBT of the HCM Group

Scope1+2: Reduce our greenhouse gas emissions by 45% by 2030 (based on FY 2010)
Scope 3: Reduce our greenhouse gas emissions by 33% by 2030 (based on FY 2010)



* Launched by the CDP (a research agency that represents investors and promotes disclosure of information related to climate change), WRI (World Resources Institute), an international environmental NGO, WWF (World Wildlife Fund), and UNGC (United Nations Global Compact) in September 2014

TOPICS

Used advanced IoT to lower the energy basic unit of five plants in Ibaraki Prefecture by 37%

We introduced EMilia, an integrated energy and facility management system using Hitachi's advanced IoT technology, at our five plants in Ibaraki Prefecture. This system enables us to visualize electricity consumption as well as standby power and to reduce wasteful electricity usage. The visualized data is used for making production facilities more energy efficient and conserving electricity consumed inside offices. This has included such measures as cutting electricity use during peak times and reducing standby power. As a result, in FY2018 we lowered the energy basic unit of these five plants by 37% compared to FY2010.

These initiatives were recognized with the Energy Conservation Center Chairman's Award in the successful case of energy conversation category at the FY2018 Energy Conservation Grand Prize organized by the Energy Conservation Center, Japan.

Using of Construction Machinery

Providing environmentally-conscious products and low-carbon machines

The HCM Group engages in environmentally-friendly product development aimed at resolving global environmental issues, including climate change. Since the year 2000, we have implemented "DfE (Design for Environment) Assessment" that set forth, at the time of development and design of all new products, specific details of environmentally conscious products throughout the product life cycle. From FY2016, we launched new "Environmentally Conscious Design Assessments" compliant with IEC 62430, an international standard, to further enhance the environmental friendliness of products.

In addition, this assessment includes life cycle assessment (LCA) for environmental impacts, which involves quantifying energy use associated with materials, manufacturing, transport, product use and disposal along with water, fuel and materials, including CO₂ emissions.

TOPICS

Released the ZH120-6, the industry's first*1 12-ton hybrid hydraulic excavator

In October 2018, we released the ZH120-6 all-new hybrid hydraulic excavator for the Japan market. This machine features the HIOS IV-HX, a new hybrid hydraulic regeneration system developed by drawing on HCM's portfolio of technologies, for even greater fuel economy. Compared to the standard ZX120-5B, which complies with the 2011 standards specified in Japan's Off-road Act, it offers a 12% reduction in fuel consumption*2.



Released the ZH200-6 hybrid hydraulic excavator

*1 HCM research
*2 Comparison using HCM's testing standards

Challenge with and through Construction Machinery

Eco-friendly mining operation solutions

In recent years, the mining industry faces the challenge of realizing greater efficiencies through total mining operation optimization while addressing growing demand for commodities. For this reason, the industry requires not only reliable machines, but also mining machinery and solutions that harness ICT and IoT technologies.

In order to meet these needs, HCM is focusing its energy on research and development and commercialization of mining information and communication technology (MICT) that will generate innovation in mining operation through the use of cutting-edge information technology. In particular, our Fleet Management System (FMS) already used at mines around the world optimizes vehicle operations and increases mine productivity. This system also monitors the condition of construction machinery used at mines, making it possible to predict and prevent failures; thus, reduce down time.

TOPICS

The EH5000AC-3 rigid dump truck with trolley system

In June 2018, we released the EH5000AC-3 rigid dump truck with trolley system for use in large-scale mining operations overseas. This product offers even higher efficiency operations. This is achieved by first installing overhead power lines on hill roads at mines with a power plant, and then using the pantograph on top of the truck to capture electricity running through these overhead power lines when driving uphill.

In trolley mode, the electricity is used to operate the drive motor, eliminating the need to operate the generator at high revolutions using the engine and reducing the burden placed on the engine, which also reduces maintenance costs.



The EH5000AC-3 rigid dump truck with trolley system

CSV theme 2

Enhancing initiatives to increase social infrastructure workforce



In the future the world will need infrastructure development that underpins an affluent life and promotes industrial development. It will also need commodities development that generates a stable supply of energy to be carried out in a way that contributes to a sustainable society. The HCM Group is addressing various issues faced by work sites including labor shortages and a lack of experienced technicians, while utilizing cutting-edge technology including ICT.

Targets	Key Initiatives
<ul style="list-style-type: none"> Contribute to enhanced site productivity for customers using ICT and IoT Reduce life cycle costs and improve utilization rate of customer machinery Improve the safety of machinery and prevent occupational injuries on site Contribute to alleviating the shortage of skilled technicians through advancement of machinery and systems 	<ul style="list-style-type: none"> Provide solutions to optimize mining processes and management Achieve stable machinery operations and the reduction of life cycle costs Popularize machinery and systems that increase work efficiency Develop and delivery labor-saving machinery that is unmanned/uses robotics

Progress of main activities in FY2018

Developed all-new ICT hydraulic excavator

Following the 20-ton ZX200X-6 in 2017, we developed the 13-ton ZX135USX-6 and began offering for the Japan market as a rental in July and for sale in October. It greatly reduces work processes, such as staking and measurement, resulting in significantly shortened work time.

Began collaboration on autonomous haulage system for mining dump trucks

We agreed to work with Whitehaven, Australia's largest specialized coal producer and seller, on the introduction of an autonomous haulage system for mining dump trucks. This system is expected to secure a higher degree of safety and raise the efficiency of mining operations.

Making advancements in the use of AI in ConSite service solutions

ConSite uses AI to estimate anomaly trends by analyzing big data including repair history. The accuracy of AI is improved by using testing tools to inspect machines before they fail and then re-learning based on the results and repair details.

Future initiatives

To continually provide customers with high quality services, we have been steadily installing ConSite OIL Sensor (predicts failures of engines and hydraulics by remotely detecting the condition of oil) on our main machinery. Through this we aim to achieve a failure detection rate of 90% in 2020 and beyond. Looking ahead, we will continue to promote products and solutions that utilize ICT and IoT to improve safety, productivity, and reduce life-cycle costs.

Reinforcing R&D system

HCM carries out R&D on its mainstay product lines that generate new customer value as well as on cutting edge technologies and platforms underpinning its products. This is achieved through collaboration within the Hitachi Group and with outside R&D partners, primarily through its R&D divisions, quality assurance department, and production engineering divisions.

With co-creation activities together with customers at the forefront, we pursue R&D for solutions that resolve the three customer challenges of improving safety and productivity, reducing life-cycle costs as well as for the creation of basic value in machinery that underpins these challenges, based on our solutions building, development and manufacturing capabilities.

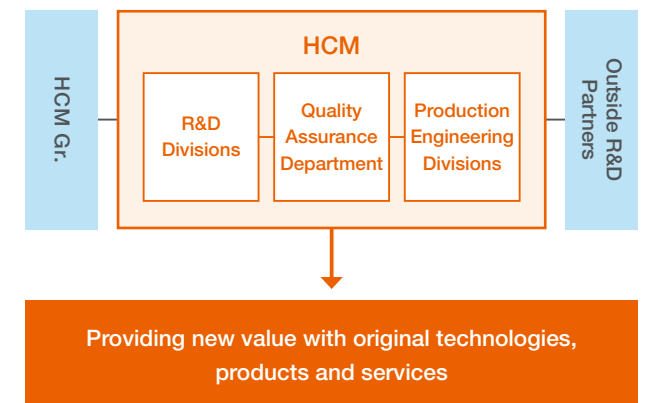
In FY2018, we developed and implemented "Solution Linkage", a series of solutions utilizing ICT. In addition, in April 2019, we newly established the Marketing Strategy Group with the purpose of quickly reflecting market trends and the voice of customers in our products and businesses. Through these activities, we are providing high value-added products and optimized solutions for customer challenges.

Solution Linkage—new value provided by HCM

In FY2017 the HCM Group began rolling out a proprietary solution called Solution Linkage that accumulates know-how while working together with customers to solve their unique challenges. Solution Linkage represents a form of value creation provided by the HCM Group, which has extensive experience in supporting customers' businesses using ICT and IoT.

HCM's construction machinery that underpins social infrastructure has evolved considerably over the years driven by various technological innovations. At the same time, the mining sector, which is searching for greater management efficiencies,

R&D System



and construction sites, faced with labor shortages, both require greater innovations in the production process. The key to resolving these challenges is One Hitachi, where HCM spearheads efforts that transcend the geographic regions and business fields of the Hitachi Group to deliver valuable solutions for customers and society, along with the use of open innovation converging expert technologies with business partners.

The HCM Group uses One Hitachi and open innovation to address social issues around the world.



TOPICS

Began working with Whitehaven on autonomous haulage system for mining dump trucks

HCM has been carrying out demonstration testing aimed at the commercialization of an Autonomous Haulage System (AHS) for mining dump trucks in Australia since FY2017.

In FY2018, we agreed to work with Whitehaven, Australia's largest specialized coal producer and seller, on the introduction of an AHS. In FY2019, we plan to roll out ins stages an AHS for HCM's EH5000AC-3 rigid dump trucks operating at the Maules Creek mine, one of Whitehaven's core projects, as well as develop the infrastructure needed for this.



Dump trucks for autonomous haulage systems

Promoting i-Construction

With worker and technician shortages growing in the construction industry, the issues of improving safety and productivity, reducing life-cycle costs faced by customers at work sites continue to increase in importance. In order to resolve these challenges, it is vital that we promote i-Construction, which seeks to increase the efficiencies of construction and civil works by using information communication technology or ICT.

In 2017, the HCM Group began offering Solution Linkage Cloud, a cloud-based solution that plays a central role in ICT construction solutions. In addition, we expanded ConSite services that provide optimal service solutions by remotely monitoring the operation and positional information of construction machinery. By providing ICT construction machinery and other solutions, we are supporting the realization of ICT construction at various job sites, including building foundation work, residen-

tial land development, and cultivated land improvements, among others. Furthermore, we began operating an ICT Demo Site in 2016 with the goal of broadening understanding of i-Construction and promoting ICT construction work. In April 2018, we opened Kagawa ICT Demo Site, our second such site in Japan.

In addition, in September, we revamped the demonstration area at the Amsterdam Plant of Hitachi Construction Machinery Europe in the Netherlands, marking the opening of our first ICT Demo Site outside of Japan. By promoting understanding of ICT construction among customers using this site and providing machinery for demonstrations at customer work sites, we are working to raise awareness about our ICT hydraulic excavators in the European market.



Birds eye view of Hitachi Construction Machinery Europe's ICT Demo Site

TOPICS

Launched new ICT construction machinery for small-scale civil works projects

In July 2018, we launched rentals of the ZX135USX-6 ICT hydraulic excavator in Japan. This all-new machine is ideally suited to small-scale projects by harnessing the small swing radius of a 13-ton class machine while maintaining the functions of the 20-ton ZX200X-6 ICT hydraulic excavator. We launched sales of this same machine in October 2018.

In addition, we developed a mini excavator system with 3D machine control function for the PAT blade* and its complex movements using 3D design data and launched sales of the ZX35U-5B mini excavator with this same function in December 2018. This machine is suited to work at sports grounds or small-scale paving works, among others.

By providing such ICT construction machinery ideally suited to relatively small-scale projects, we are working to further promote the concept of i-Construction advocated by Japan's Ministry of Land, Infrastructure, Transport and Tourism.

*PATblade:
PAT stands for Power Angle Tilt. A PAT blade can be tilted and angled for work, in addition to conventional up and down positioning.



[ZX135USX-6]

Technological development that saves labor

HCM has developed a number of products that apply the same technologies as hydraulic excavators in order to address the work needs of customers from various sectors. In 2005, we developed the Double-Arm Working Machine ASTACO (Advanced System for Twin Arm Complicated Operation) series machine, aiming to enable more complex work using a hydraulic excavator. Afterwards, we worked to increase operability, culminating in the commercialization of the ZX135TF-3 (ASTACO NEO) in 2012. Since then, we have developed the series further in order to resolve social issues, including reconstruction work in areas hit by disasters.

In 2018, we developed a Double-Arm Working Concept Machine featuring a four-leg crawler, with an eye toward further expanding the possibilities of construction machinery. This design also enables stable work on slopes and in undeveloped areas where it was difficult to maintain a level position with the standard two-leg crawler design.

Excavators with dual front arms make it possible for a single operator to perform complex actions such as cutting an object while holding it and bending long objects, which reduces labor. In addition, the four-leg crawler design expands the scope of activities. This technology is also expected to be useful in natural disasters. Looking ahead, we will continue R&D with a focus on the future potential of construction machinery.



Double-Arm Working Concept Machine with Four-Crawler

CSV theme 3

Contributing to community development



In order to develop and grow in local communities, a company must understand the various characteristics of each local community and aim to grow together with it. The HCM Group, considering local communities to be an important stakeholder, aims to realize a sustainable society through activities that contribute to the development of communities while harnessing the characteristics of its business operations.

Targets	Key Initiatives
<ul style="list-style-type: none"> Support the self-reliance of emerging countries through infrastructure development Create jobs in the local community through the parts remanufacturing business Support environmental activities in the local community 	<ul style="list-style-type: none"> Develop machinery and human resources that meet regional requirements Support the development of overall community infrastructure utilized Hitachi Group integrated capability Provide financing and machinery to support infrastructure development

Progress of main activities in FY2018

Fostering human resources in development in India

Tata Hitachi Construction Machinery in India established a training center within Dharwad Plant as a Japan-India Institute for Manufacturing (JIM) (opened in December 2017) with the aim of training 30 manufacturing workers in three years through lectures and on-the-job training (OJT) in cultivating the future leaders of the industry in India.

Creating employment opportunities in Zambia

The parts remanufacturing plant of Hitachi Construction Machinery Zambia actively hires local human resources as a plant closely rooted in the community. Currently, 155 out of 168 employees are Zambian, with OJT being implemented for employees as well as efforts put in to ensure prompt learning of skills.

Future initiatives

In FY2018, we worked on developing human resources in local communities with the goal of growing our businesses together with communities. These initiatives included our ongoing involvement in the Manufacturing Skill Transfer Promotion Program being implemented through a public-private partnership involving Japan and India. Looking ahead, we will further strengthen partnerships with various stakeholders around the world and engage in activities that contribute to community development.

Policies concerning social contributions

In order to promote social contributions in a prioritized manner, the HCM Group formulated the Hitachi Construction Machinery Group Social Contribution Policy in FY2006. Based on this policy, we genuinely recognize our role as a member of society and continually engage in activities that address social issues, including humanitarian support, environmental conservation and local community coexistence. In FY2018, social contribution related costs totaled 187 million yen.

Details of our social contribution activities are featured on our website, which further deepens our relationship with society and propels continued implementation.

Policies concerning social contributions

Our group solves problems in society through our business, and contributes to society as a good corporate citizen for a better society. Also, our group contributes to society by providing personal, material and financial supports, with the participation of our employees, making the most of our group features, with the understanding of our stakeholders.

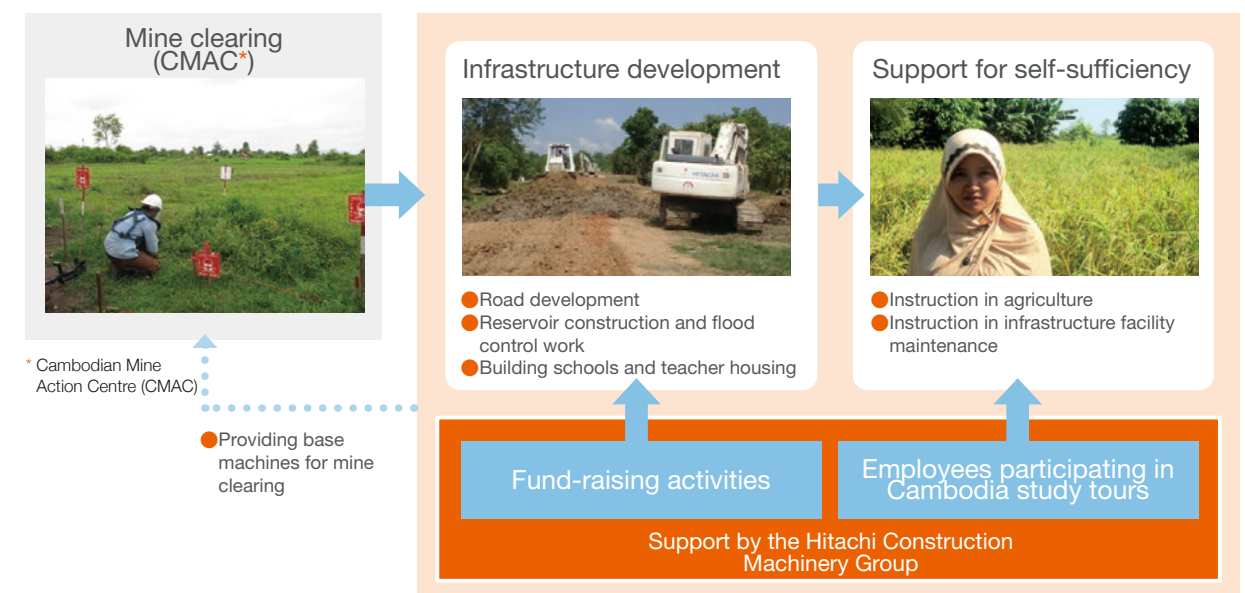
Initiatives for local community support

In order to cultivate land in countries and regions around the world and establish a wholesome and enriched living environment for those living there, it is essential to thoroughly understand environmental issues on a global scale and address environmental and social issues faced by each local community.

For example, Cambodia is known as the country with the highest density of landmines in the world and its people still suffer

from injuries and fatalities from landmine accidents even though its civil war is long over. The HCM Group has been donating to Good Earth Japan (GEJ), an NPO, since FY2007 to support the removal of landmines and infrastructure development. Following the removal of landmines, activities such as agricultural instruction and infrastructure development guidance are provided to support the self-reliance of local residents in Cambodia.

Support activities in Cambodia (●: support activities by GEJ)



Results of domestic activities in FY2018

Activity name	Company conducted	Period	Content
Forest Maintenance Activities at Hyogo Prefectural Mikiyama Forest Park	KCM	April 21 and November 10, 2018	We conducted forest maintenance activities at Hyogo Prefectural Mikiyama Forest Park in Miki, Hyogo as a way to promote forest development.
Toyotomi Donguri no Mori Woodland Preservation Activity	Tadakiko	July 23 and December 14, 2018	At the Chiba Toyotomi Donguri no Mori event, employee volunteers participated in undergrowth mowing and thinning activities to preserve the undeveloped woodland area.
Hitachi Construction Machinery Festival in Hitachinaka	Hitachi Construction Machinery	October 21 , 2018	Held at the Hitachi Naka Rinko Works, the event was attended by approximately 3,500 participants, and held as a way of giving back to the local community.
Environment-related Lecture at the University of Shiga Prefecture	Hitachi Construction Machinery Tierra	November 7, 2018	Our environmental activities were highlighted in the lecture entitled "Environmental Management Theory" from the University of Shiga Prefecture as part of the Member Lecturer Dispatch Program mediated by Shiga Green-activity Network, a general incorporated association.
14th Hitachi Construction Machinery Festival	Hitachi Construction Machinery	November 18, 2018	The event was held at the Tsuchiura Works as a way of giving back to the local community at the Tsuchiura Works. Approximately, 5,500 people took part.
Cleanup activities as part of Environmental Beautification Day in Shiga Prefecture	Hitachi Construction Machinery Tierra	November 20 and December 4, 2018	In November, five employees took part in a cleanup campaign organized by the Prefecture, joining a total of 50 participants from the community in picking up 30kg of garbage.

Results of overseas activities in FY2018

Activity name	Company conducted	Period	Content
LET'S PLAY: COMMUNITY DEVELOPMENT PROGRAMME	Hitachi Construction Machinery Southern Africa	Year-round	We helped develop four multipurpose sports facilities during the year in less fortunate communities in South Africa together with other sponsors.
KAIZEN Activities Win Gold at the International Convention on Quality Control Circles	Hitachi Construction Machinery Zambia	Year-round	These activities are ongoing. We attended the 43rd International Convention on QC Circles held in Singapore from October 22 to 25 as the first representative from Zambia and earned a gold medal.
Participation in afforestation activities in India	Bradken	September and December, 2018	In September, we planted 120 seedlings around the Chettipalayam Reservoir close to the Coimbatore Works. In December, we planted an additional 80 seedlings as part of these activities.
Desert afforestation volunteer activities in the Horqin Desert	Hitachi Construction Machinery (China), Hitachi Construction Machinery (Shanghai)	September 18-21, 2018	A total of 40 volunteers took part from the suppliers' organization of Hitachi Construction Machinery (China) and Hitachi Construction Machinery (Shanghai), conducting a bucket relay to supply water.
Workshop on universal design	Hitachi Construction Machinery (Malaysia)	October 10, 2018	This workshop was held to educate Klang Valley high school students in Malaysia about the importance of designing accessible products and facilities for a diversifying society.
Company visits by students	Hitachi Construction Machinery Indonesia	December 12, 2018	We hosted a company visit by 63 high school students and five teachers from Kersana Brebes in Central Java State, where we explained about the company and took the group on a plant tour. This workplace visit provided an educational opportunity for students.

TOPICS

Forest Maintenance Activities at Hyogo Prefectural Mikiyama Forest Park

On April 1, 2018, KCM* entered into the "Agreement Concerning Initiatives for Forest Maintenance Activities by Companies" with Hyogo Prefecture, Miki City and the Hyogo Green Promotion Council. We established the approx. 1.2 hectare a field for activities named "KoCoro no Mori" within the park. Following the first event on opening of the forest on April 21, the second event was held on November 10. With approximately 30 people in attendance including employees and other officials, we spent about three hours on thinning and removing trees following the detailed instructions of NPO Hyogo Mori Club. Going forward, we will continue to regularly implement activities.

* KCM was acquired by Hitachi Construction Machinery as of April 1, 2019 in absorption-type merger.



Forest thinning work

Participants in the second session

TOPICS

Desert afforestation activities in China recognized by the United Nations Decade on Biodiversity-Japan (UNDB-J)

Hitachi Construction Machinery (Shanghai) launched afforestation volunteer activities in the Horqin Desert in 2004. By 2014, vegetation and trees had been restored covering some 100,000 m² of desert in an area known as the Hitachi Construction Machinery Forest. Starting in 2015, we began tree planting as part of a 10-year plan with the goal of restoring 130,000 m² of forest land in a separate location in the desert together with dealers in China. In a separate location, Hitachi Construction Machinery (China) is also working to restore vegetation covering 100,000 m² over a 10-year period beginning in 2017. The activities of both companies were recognized as an authorized cooperative project by the United Nations Decade on Biodiversity-Japan (UNDB-J) in March 2018.



UNDB-J logo

Volunteers

Key Initiative Theme 1

Pursuing safe, effective,
and sophisticated
products and working
environments



In 1950, HCM became the first to mass produce a mechanical excavator using purely Japanese technologies. With our excellent technical capabilities as a foundation, we deliver innovative and highly reliable products. We make construction machinery that is safer and more efficient for workers, and we are working collectively as a group to further increase site productivity.

Targets

- Realize the vision of “Made by Hitachi” uniform worldwide quality
- Develop talented manufacturing technicians
- Improve service support capabilities

Key Initiatives

- Develop technologies to secure safety and quality and to differentiate
- Provide accurate information on products and services

Progress of main activities in FY2018

Enhance organizational structure for quality assurance

We have considered revising the organizational structure in order to further enhance governance for quality assurance. Since April 2019, the Quality Assurance Division (which had been under the Development Production Department) has been placed under direct control of the president.

Launched Quality Information Navigation

Quality Information Navigation, which was developed in FY2017 to support the quality management system of Group companies overseas, was launched in FY2018. Training documents, work manuals and recording formats have been revamped for ease of reading and use by those overseas.

International Skills Competition

A total of 82 participants from Group companies and affiliated companies in Japan and overseas who won their respective qualifiers competed in eight games. We hold this competition annually with the goal of improving skills and the quality management of the entire Group.

Future initiatives

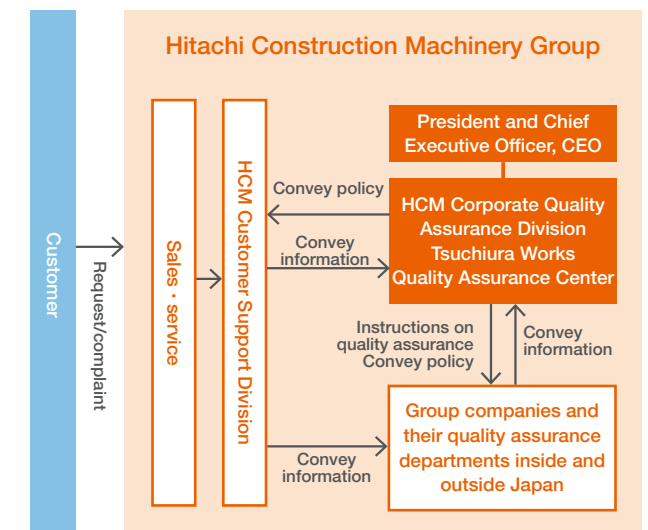
In order to achieve the vision of “Made by Hitachi” within the expanding global supply system, it is important to promptly obtain data on quality and address any deficiency in quality without delay. Going forward, we will prevent defects through statistical processing, stop forged data and false positives (quality compliance) through automation, and improve operational efficiency by introducing IoT.

Basic policy on quality control

Since the establishment of the HCM Group, we have dedicated ourselves to customer-first quality assurance that centers on the legendary ochibo hiroi (gleanings) concept passed down from Hitachi. This philosophy is illustrated in The Gleaners by artist Jean-François Millet, which suggests that each accident and defect should be examined for lessons to be learned from mistakes in order to thoroughly prevent recurrences. The Quality Assurance Center established at the Tsuchiura Works (the mother plant for the HCM Group) under the Corporate Quality Assurance Division provides information, practical instructions and support to the quality assurance departments of HCM Group companies. The Corporate Quality Assurance Division oversees the quality assurance operations of all Group companies inside and outside of Japan, which ensures the entire HCM Group delivers and improves upon the same uniform level of quality to achieve the Made by Hitachi vision.

In FY2019, the Corporate Quality Assurance Division was placed under direct control of the president. By having the president directly oversee the Quality Assurance Division, we are able to further strengthen governance for quality assurance.

Quality assurance system of the Hitachi Construction Machinery Group



Ensure product safety

The reliability paramount to the construction machinery of HCM is made possible by strict quality control. Our basic philosophy is to contribute to the enhancement of social capital and the improvement of people’s lives by developing excellent proprietary technologies and products. We are committed to providing customers with safe products and reliable technologies that fully meet their needs both inside and outside of Japan.

We have established the Company-wide PS Committee as a management system for product safety. This committee promotes activities that ensure we supply customers with products

with an even higher level of safety and reliability. The head of the Corporate Quality Assurance Division serves as the committee chair. The committee conducts information sharing of product safety and product liability within and outside of the company, as well as deliberates countermeasures based on reports on safety defects received from service divisions.

Moreover, we utilize media such as the website to promptly publish recall information as well as apply feedback received from customers to product safety.

TOPICS

FY2018 Global Monozukuri Diagnosis

During Global Monozukuri Diagnosis activities in FY2018, a diagnostic technician for each of the processes at Tsuchiura Works, from assembly to mechanical processing, can manufacturing, painting, and quality management, visited all 13 production sites at Group companies around the world to visualize vulnerabilities in manufacturing capabilities and quality management through diagnosis, and provide assistance for improvement.

Storytelling sessions are held in which senior experts in each field convey their operational approaches, failures and technical know-how to engineers working on the frontlines. These sessions were held on 43 occasions at the head office and Group companies, reaching a total of 1,222 employees.



Global Monozukuri Diagnosis

Key Initiative Theme 2

Occupational safety and work style reform



Every company maintains the important duty of protecting its employees from occupational injuries and health problems. Moreover, ensuring a good work-life balance and work environment that enables employees to thrive will also enhance corporate value. The HCM Group is promoting workplaces where its diverse workforce can fully contribute its skills, under the basic philosophy of giving priority to safety and health in everything we do.

Targets	Key Initiatives
<ul style="list-style-type: none">• Make efforts to completely eliminate occupational injuries• Increase the number of business sites with ISO 45001 (occupational health and safety management system) certification• Reduce the total overtime of employees (indirect workers) to a monthly average of 15 hours or less by FY2020 (HCM non-consolidated basis)• Increase the average number of annual paid leave days taken by all employees to 17 or more days by FY2020 (HCM non-consolidated basis)	<ul style="list-style-type: none">• A fair work environment• Global management for health and safety of employees

Progress of main activities in FY2018		
Response to ISO 45001 Until now, the HCM Group has promoted activities to expand our OHSAS 18001 certification. Following the publication of ISO 45001 (International Standard for Occupational Health and Safety Management System) in March 2018, we launched initiatives geared towards switching and obtaining this certification.	Hosting of health and safety presentation In FY2018, the presentation was held with each group business site in Japan sharing their original initiatives on safety activities and results of their creativity for reducing workload, involving both the labor and management side. The event is held annually with the goal of sharing each company's own health and safety activity results to learn from others.	Introduction of telework system The telework system implemented on a trial basis since last year was officially adopted in January 2019. We are working to create a comfortable and dynamic work environment, while ensuring that each and every employee can use their limited time to the maximum effect.

Future initiatives

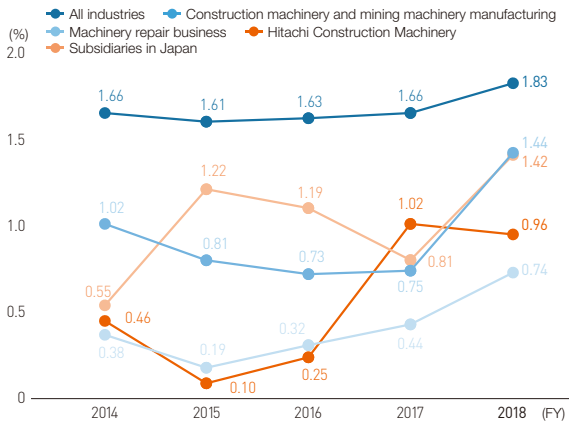
There were less work-related incidents in FY2018 compared to the previous year. However, 70% of incidents that occurred at HCM on a standalone basis still involve workers with little experience. We take this result very seriously, and will now work diligently, under the strong leadership of organization heads who will set the example, to create a bright and healthy workplace free of injuries, with the elimination of occupational injuries one of the most important tasks for management.

Occupational safety and health

Each fiscal year, we establish basic policy and priority items for implementation in promoting various health and safety activities with the aim of preventing work-related incidents and ensuring the health and safety of employees. The Health and Safety Promotion Committee oversees health and safety activities across the entire Group, as well as shares information on work-related incidents and activity reports, and develops plans. Moreover, there are subcommittees under the same Committee, which are involved in fostering personnel in charge of occupational health and safety activities, conducting technical review and mutual inspections, and supporting initiatives on occupational health and safety management system of each Group company. There were 29 work-related incidents that occurred at HCM in FY2018, an increase of 16 compared to the previous year.

There were 55 work-related incidents at our Group companies in Japan, and of these 30 occurred in manufacturing divisions and 25 in sales and services divisions. The frequency of lost-time-incidents has improved within HCM but worsened at domestic Group companies.

Frequency of lost-time-incidents (frequency rate*)



* frequency rate: The number of incidents per 1,000,000 employee-hours worked. It is an indicator of the state of health and safety at a workplace. (These statistics only count lost-time-incidents of at least one day)

Policies and key measures in FY2019

1. Basic philosophy: "Preservation of safety and health should always come first"
2. Policy: All employees shall create safe, healthy, cheerful and comfortable workplaces through the elimination of all occupational accidents with a strong conviction that "all occupational accidents can be prevented"
3. Promotion for Eliminating Occupational Accidents (For the Entire Group)
 - (1) Achieve intrinsic safety
 - Each organization shall take the main role to implement safety activities and thoroughly eliminate sources of hazards with the participation of all employees.
 - Make a plan with priority given to the investment necessary to ensure safety for the intrinsic safety of machines and facilities. Clarify the deadlines and responsibilities for that. Upon that, reliably take measures to prevent occupational accidents.
 - (2) Rebuild a safety culture
 - Understand the outstanding safety culture of DuPont and deploy activities to reform awareness in the organization.
 - Establish a Safety Day (every month) to ensure a thorough awareness that safety and health activities have top priority.
 - Systematically develop and reinforce safety and health training. Provide this training in a planned manner with consideration also given to the diversification of language.
 - (3) Implement safety and health activities with those at the top of the organization taking the initiative and displaying leadership
 - Strongly implement safety guidance given to inexperienced workers, safety activities with consideration for intercultural communication and the elimination of unsafe behaviors. All employees should then create an environment in which it is possible to work safely under the strong leadership of the top management.

TOPICS

FY2018, Initiatives for health and productivity management

Recognizing the importance of mental health care, the HCM Group continues to carry out activities focused on four aspects of care based on the guidelines published by Japan's Ministry of Health, Labour and Welfare. In particular, stress checks represent an important initiative linked with our health maintenance and advancement measures and deeply correlated with measures to prevent overwork and provide appropriate solutions and guidance by physicians. In FY2018, stress checks were performed in November, with approximately 10,000 employees across the HCM Group in Japan receiving one. Going forward, we will strive to improve the overall quality of industrial health, including mental health care.

Workshop for managers based on stress check results



Initiatives for Work Style Reform

Work style reforms tend to focus on prolonged working hours, but these reforms must also be implemented from the perspective of developing an environment where workers can do their job efficiently while ensuring their health. With this in mind, the HCM Group is working to create a comfortable and dynamic work environment that further utilizes human resources with various values, while ensuring that each and every employee can use their limited time to the maximum effect. FY2018 is considered the first year of work style reform and various initiatives have been implemented. Specific initiatives include revision of meeting committee structure, thorough facilitation education, utilization of new technology such as robotic process automation that automates routine work, and implementation of more flexible work styles, such as teleworking (working from home or a satellite office). Going forward, we will continue working to develop a work environment that enables employees to thrive.

Key Initiative Theme 3

Developing human resources globally and locally



It is becoming more difficult for companies to secure the human resources they need due to the diversification of work styles and changes in values, among other factors. Fostering of human capital is critical to improving productivity given Japan's limited labor force. The HCM Group is now promoting various initiatives aimed at developing both global human resources who can play an active role around the world and local human resources who can carefully respond to the needs of local markets.

Targets	Key Initiatives
<ul style="list-style-type: none">• Develop human resources development system that takes into account local cultures and business practices• Expand educational opportunities for developing global human resources• Transform the diversity of our workforce into an engine of organizational growth	<ul style="list-style-type: none">• Management localization• Development and recruitment of local human resources• Global personnel management leveraging diversity

Progress of main activities in FY2018		
<p>Activities to develop global human resources</p> <p>In fostering the successors of tomorrow, we are implementing a succession plan to promote assignment of the right person to the right job as well as localization. We have systematically rolled out the succession plan as well as selection and fostering of leaders based on global governance.</p>	<p>Empower women in the workplace</p> <p>We have promoted measures for developing an employment environment where women can work a high level of motivation. As part of our career development support system, we dispatched junior female employees to an outside career development seminar and published career models internally by division.</p>	<p>Promote diversity</p> <p>We have implemented many measures based on the policy of harnessing the individual characteristics of our diverse pool of human resources to add to the strength of the organization, which contributes to the continued growth of both individuals and the organization. We are working on initiatives recognizing that achieving diversity is an important task of management.</p>

Future initiatives

With the economy becoming more globalized, it is critical to cultivate global human resources. The succession plan will be promoted as a continuous initiative. In addition, we aim to foster global and local human resources through expanding education opportunities and enriching education programs. We strive for the continued growth of individuals and the Group by encouraging innovation with the synergistic effects from various sources.

Basic policy on human resource development

Human resource development is a common challenge for all divisions both in Japan and overseas. The HCM Group considers human resource development one of management's most important themes, and promotes expansion of education opportunities and enrichment of education programs. The HCM Group has developed a succession plan that applies to the entire Group. The plan involves the heads of each company and division identifying the requirements of the duties of the workers they are responsible for. In turn, the duties and career path of each individual employee of the HCM Group can be visualized across the entire organization in order to plan and execute training of successors with a medium- to long-term vision. This approach enables us to utilize human resources strategically.

Since 1996, each division in Japan has actively accepted intern trainees from overseas Group companies as part of the successor training program. Since 2016, managerial level trainees have also been accepted. As of FY2018, a total of 260 intern trainees have been accepted, while there are currently 34 in training as of May 2019. We hope to enhance the organization's performance by actively accepting diverse overseas personnel and expanding opportunities to utilize such human resources.

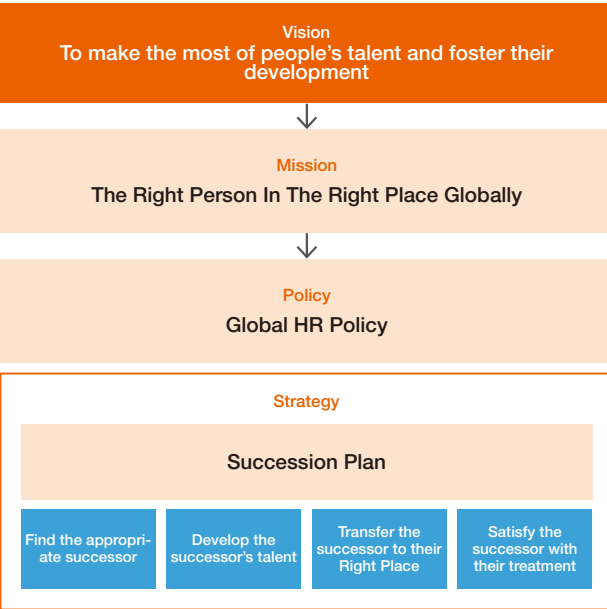
Basic policy on diversity

In order to be recognized and thrive as a truly global company, we cannot continue on a linear path; instead we need to develop our business based on new strategies and ideas. To achieve this vision, it is important to recognize the different values and characteristics of each and every person who supports the business while respecting their diversity, regardless of race, nationality, gender, and age.

Based on this recognition, we established the Diversity Promotion Group in 2011, which strives to address the five themes on diversity for the HCM Group; namely, building a foundation for diversity, work style reforms (work, - life, and management), supporting the participation of women and minorities, supporting the activities of national staff, and globalization of HCM in Japan. From FY2016, the Human Resource Division has headed up these efforts. The progress and planning of activities is verified through the CSR and Diversity Committee.

We strive to promote and instill the values of diversity through platforms such as various rank-specific training for our employees.

Overview of our global human resources strategy



TOPICS

Activities to develop global production engineers

The HCM Group regularly hosts training for domestic and overseas production sites at mother plants for the HCM Group in Japan, such as Tsuchiura Works, in order to realize the "Made by Hitachi" vision to create products with the same uniform level of safety and quality at its production sites around the world. This training program allows young production engineers from HCM Group companies around the world and Japan to undergo practical three-year training including process planning, rationalization, and jig design. The aim of the program is to cultivate global human resources as well as instill the philosophy of manufacturing embodied by the mother plant in other production sites worldwide; thereby, spreading the manufacturing culture of the HCM Group. Launched in 2008, the Global Monozukuri Human Resources Development Program has graduated 93 trainees who are now showing Kenkijin Spirit applying what they have learned in Japan to their workplaces in order to achieve the "Made by Hitachi" vision. In FY2019, seven new production engineers have been accepted, with a total of 16 trainees, including the nine already accepted, attending the program.



Presentation of results and completion ceremony

Key Initiative Theme 4

Creating better business transactions and value chains



The business activities of the HCM Group, which offers diverse products and services around the world, are made possible with the support of many business partners and customers.

The HCM Group shares its vision and policies on CSR with suppliers to promote CSR activities across the entire value chain.

Targets	Key Initiatives
<ul style="list-style-type: none">• Maintain a sound relationship with suppliers and governments• Promote fair and free competition and ensure consumer interests• Prevent risks within the supply chain	<ul style="list-style-type: none">• Suppliers and human rights• Fair sales partnerships• Fair procurement• Corruption prevention



Progress of main activities in FY2018		
<p>Implementation of supplier CSR survey</p> <p>In FY2018, we conducted a CSR survey targeting suppliers who account for approx. 90% of Hitachi Construction Machinery's independent purchases of products. The response rate was 83.5%. We have requested improvements from suppliers whose evaluation results were not favorable and are carrying out continual improvement activities.</p>	<p>Transaction audits and legal compliance training</p> <p>We are focusing efforts on transaction audits and legal compliance training for employees, aimed at ensuring fair transactions. We are increasing the transparency of audits by performing transaction audits bi-annually using self-audits as well as annual reciprocal audits within the HCM Group.</p>	<p>Response to conflict minerals</p> <p>To ensure that we do not fund the activities of armed groups in conflict areas by procuring parts that contain conflict minerals, we have established a clear policy on responsible procurement activities and we engage suppliers to ensure they do not use conflict minerals.</p>

Future initiatives

In FY2018, we worked to prevent risks in the supply chain by strictly carrying out the internal review process for new suppliers, in addition to requesting all suppliers to comply with the Hitachi Group CSR Procurement Guideline. We believe responding to procurement risks is an ongoing issue and going forward we will seek to identify such risk as far in advance as possible to help mitigate it.

Procurement Policy

As the social responsibilities of companies increase in the intentional community, we must share CSR awareness with business partners and take steps to prevent risk in the supply chain.

The HCM Group distributes and makes known to suppliers the Hitachi Group CSR Procurement Guideline the 3rd Edition as its CSR code of conduct and standards that must be complied with during the course of business. In addition, the HCM Group has established the Procurement Policy and Guidelines for Procurement Activities, which is makes known to widely to the general public through its website. These policies give due consideration to social and environmental aspects, including legal compliance, environmental conservation, human rights and labor environment, and sharing of social responsibility awareness with business partners.

Procurement divisions conduct strict screenings when selecting new suppliers that examine whether or not these new suppliers are fulfilling their social responsibilities, such as sharing awareness of social responsibilities with business partners.

Web

Hitachi Group CSR Procurement Guideline

http://www.hitachi.com/procurement/csr/csr/_icsFiles/afieldfile/2018/06/07/HITACHI_GROUP_CSR_PROCUREMENT_GUIDELINE.pdf

Initiatives for preventing bribery

The HCM Group revised its Anti-Corruption Regulations in 2017 in order to address the global risk of bribery. The revisions clear language on banning facilitation payments*, compliance screenings of suppliers, and procedures for compliance screenings when hiring current or former public servants. Overseas Group companies newly joining the Group are required to adopt the newly revised regulations to ensure the same standards across the entire HCM Group. Suppliers are required to fully prevent improper benefits as part of the business ethics clearly stipulated in the Hitachi Group CSR Procurement Guideline. We also utilize e-learning (global edition) on Anti-bribery released by Hitachi in order to increase basic knowledge about all aspects of corrupt practices, including bribery.

Thanks to these initiatives, in FY2018, there were no incidents involving bribery-related violations or sanctions.


*Facilitation payment: A payment made to a public servant for facilitating approvals, immigration, customers or other public services.

TOPICS

Activities of Chikuhou-kai and Tokiwa-kai

HCM asks that procurement partners who we regularly do business with to join the Chikuhou-kai (60 member companies) or the Tokiwa-kai (48 member companies) for the purpose of building and maintaining partnerships with procurement partners. (As of April, 2019)

In FY2018, we held joint seminars and joint presentations on safety, quality and the environment. We promote CSR activities across the entire supply chain through the continuation of these measures.



Joint presentation in progress

Initiatives to prevent violations of competition laws

The HCM Group is working to increase the level of compliance awareness concerning violation of competition laws, using the basic philosophy of “conduct ourselves in accordance with the law and correct corporate ethics” and “fair and orderly competition.”

We provide training and education to employees using manuals, conduct regular audits, develop rules, and share messages from officers. In order to raise the level of knowledge, the HCM Group utilizes the e-learning program (global edition) on the basics of competition laws published by Hitachi.

Thanks to these initiatives, in FY2018, there were no incidents involving violations or sanctions related to competition laws.

Key Initiative Theme 5

Governance



In order to enhance competitiveness as a company and enhance corporate value over the long term, it is crucial to accurately understand global trends and shifts in management environment as well as establish a structure for decision making.

The HCM Group is strengthening its governance system in order to establish a structure to promptly and reliably execute management strategies as well as realize a fair and transparent management style.

Targets	Key Initiatives
<ul style="list-style-type: none"> Establish a fair and highly transparent organizational framework Respect international principles on human rights Respond to diversifying global risks Instill and establish awareness of compliance 	<ul style="list-style-type: none"> Strengthen global governance Management transparency Fair tax strategies Risk management, including ESG

Progress of main activities in FY2018

Compliance Education and Training

We provide e-learning on the HCM Group Codes of Conduct, bribery prevention, and compliance with competition laws to the officers, employees and temporary employees of HCM and HCM Group companies in Japan along with managers at HCM Group companies overseas. In fiscal 2018, a total of 10,153 employees from across the HCM Group took part in compliance training.

Human rights training

We continually provide education on human rights for the purpose of improving each individual employee's awareness in developing an organization free of human rights violations. In FY2018, a total of 1,912 employees (total of HCM and domestic Group companies) attended various training opportunities.

Safety confirmation system training

In addition to train the use of the safety confirmation system regularly, we have developed a centralized information management system to handle information on disasters, incidents, accidents, and infrastructure failures in order to facilitate the confirmation of employees' safety.

Future initiatives

In order to enhance competitiveness as a company and enhance corporate value over the long term, it is crucial to accurately understand global trends and shifts in management environment as well as establish a structure for decision making. The HCM Group is strengthening its governance system in order to establish a structure to promptly and reliably execute management strategies as well as realize a fair and transparent management style.

Basic policies on corporate governance

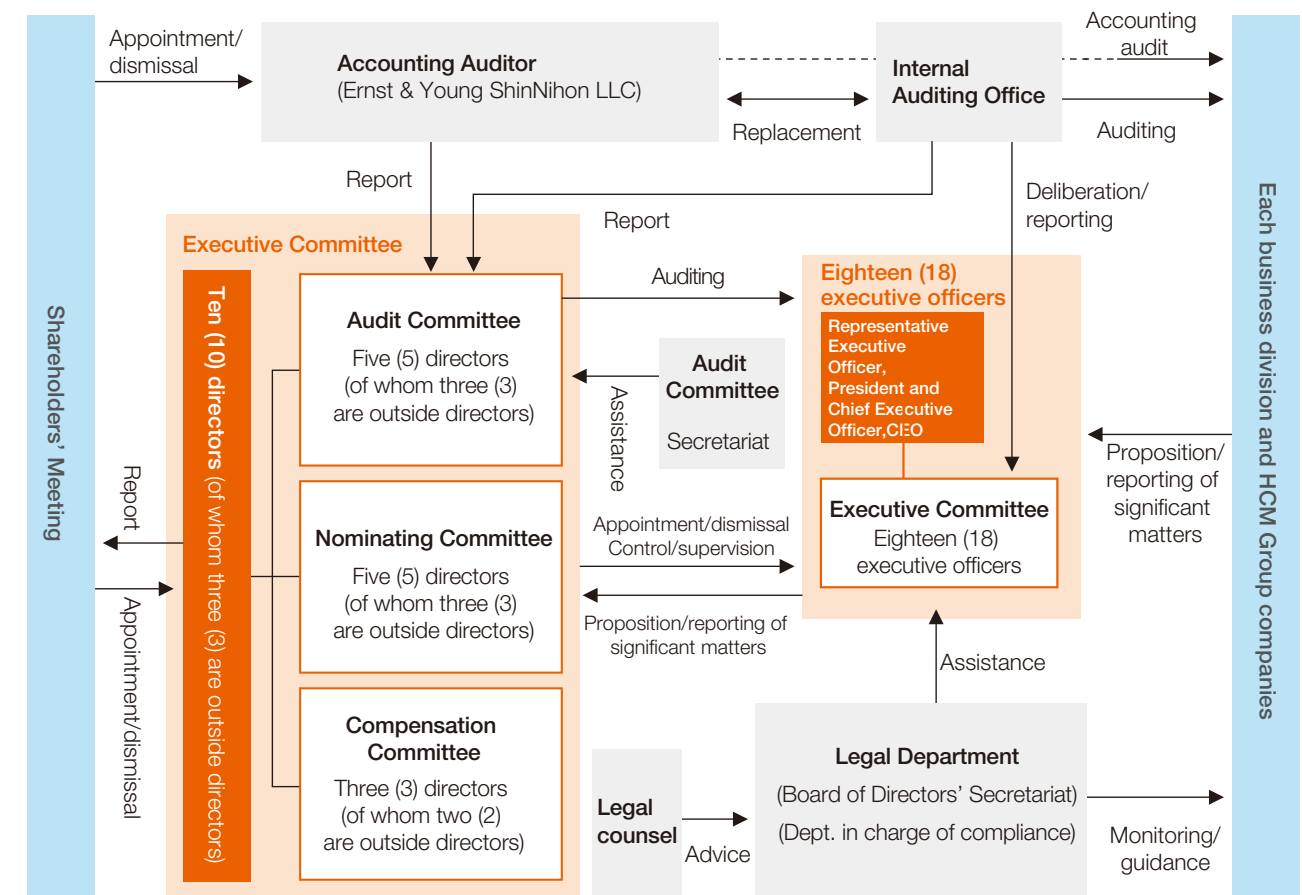
As a member of the Hitachi Group, the HCM Group shares Hitachi, Ltd.'s Basic Philosophy and Conduct guidelines and stipulates its own codes of conduct in line with them.

The HCM Group positions this code of conduct as the basic policies on corporate governance. The HCM Group has adopted a corporate organizational system based on the structure for a company with a nominating committee, etc., as defined in the Companies Act. We have greatly strengthened our system of corporate governance through this separation of management oversight from business execution. The Board of Directors comprises ten (10) Directors, of which three (3) are Outside Directors (two [2] male and one [1] female). The Representative Executive Officer and other Executive Officers, who are authorized to do so by the Board of Directors, have the right to make operational decisions and execute work in accordance with the company's basic management policies. The Board of Directors determines the responsibilities and duties of the Executive Officers, matters regarding supervision and authority, and the mutual relationships among the Executive Officers. An Executive Committee (convening twice a month, in principle), comprising all the Executive Officers has been established as a consultative organ for the Representative Executive Officer, President and Chief Executive Officer in making business decisions. The Executive Committee exercises control regarding important matters related to the company's operation.

Ensuring constant independence from the parent company

One of the 10 HCM directors is concurrently taking a post as an executive officer at Hitachi as of June 24, 2019, which creates a situation where he may have an impact on HCM's management policy decisions through expressing his opinions at board meetings. However, the board members concurrently taking on executive officer posts at Hitachi are less than the majority of HCM's board members, and because three of HCM's outside directors are registered with the Tokyo Stock Exchange as independent officers, HCM believes that it is able to make independent management decisions. Terms of business with Hitachi and its group companies are rationally determined based on mutual accord, referencing market prices, etc.

Corporate governance system (as of June 25, 2018)



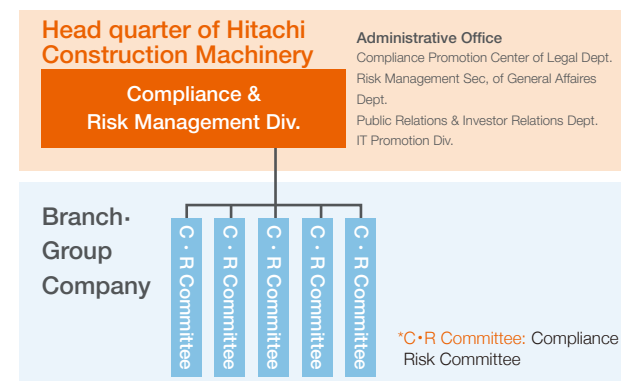
Basic policy on compliance

The HCM Group defines compliance as understanding of the codes of conduct and taking actions with a high degree of ethics, honesty and fairness, in addition to observing laws.

The HCM Group's compliance promotion structure is headed by the Compliance and Risk Management Division, which is in charge of compliance activities for the entire HCM Group. Meetings of the Compliance and Risk Management Division are convened regularly to review, plan, and evaluate the results of various compliance measures. Meetings also deliberate on the effectiveness of measures for preventing the recurrence of misconduct.

We establish a Compliance Promotion Officer and Compliance Manager at each Group company and promote activities in coordination with the Compliance Promotion Center of HCM's Legal Department. Furthermore, we have two types of whistle-blowing system in place to promote compliance awareness among employees; namely, the Compliance Hot Line and Global Alert Line. In FY2018, there were 69 reports filed. Among these, about 20% were related to harassment while 30% were related to violations of laws or regulations during the course of business operations. None of the details communicated or reports filed pose major risk to the HCM Group.

Compliance・Risk management structure



Basic structure of risk management

When engaging in corporate activities, there are risks of encountering natural disasters, accidents, or legal violations. Based on this awareness, the HCM Group address risk management under the lead of the Compliance and Risk Management Division. We always assess risks, and strive to prevent those risks, or to minimize influence when it occurred. As a way to avoid risk overseas, we continuously monitor for incidents and disasters and issue appropriate instructions to employees traveling on business and expatriate workers.

In addition, we are working to reinforce our business continuity plan (BCP) and business continuity management (BCM), so that when faced with a risk, such as natural disaster or accident, we are able to minimize the impacts on our business activities and restore operations as soon as practical. In FY2018, regular training was conducted on the use of the safety confirmation system, which was adopted in preparation for disasters such as major earthquakes. Going forward, we will continue to heighten awareness of crisis management across the entire Group and take steps to strengthen our risk management system.

Basic policy on respect for human rights

In order for a company to continually expand globally, it is imperative to establish a corporate culture that enables each and every employee to respect the rights and personality of one another and exert their greatest creative potential in all regions both inside and outside of Japan. The HCM Group carries out human rights initiatives following its policies on human rights explicitly stated in the HCM Group Codes of Conduct and the HCM Group Human Rights Policy.

We continually provide education on human rights included in rank-specific training for new employees and new section managers, among others, for the purpose of improving each individual employee's awareness of human rights. We conduct training concerning harassment during our compliance training in order to create workplaces that are sound and comfortable. For reports concerning human rights, employees can use the internal whistle-blower system and external stakeholders can use the inquiries feature on our website.

Going forward human rights initiatives will be applied at an individual level while we aim to create a work environment that empowers diverse human resources to take an active role.

Results of human rights training in fiscal 2018

	Participants in training during fiscal 2018	Number of participants that are section manager or above	Number of participants that are general employees
Hitachi Construction Machinery ^{*1}	500 persons	88 persons	412 persons
HCM Group companies ^{*2}	1,412 persons	231 persons	1,181 persons
Total	1,912 persons	319 persons	1,593 persons

^{*1} The number of HCM participants are participants of rank-specific training

^{*2} Group companies are the total for the 8 domestic companies

Management's Discussion and Analysis

Business Performance

The HCM Group launched a new mid-term management plan, "CONNECT TOGETHER 2019," in April 2017. We are promoting the development of "Solution Linkage" utilizing ICT and IoT to offer solutions to customers' challenges on safety, productivity, and decrease in lifecycle costs. And, to expand the source of revenue besides new machine sales in addition to the existing parts & service business, we are expanding the value chain (Parts & Services, Solution business, Rental etc. other than new machine sales) by enhancing the parts & service business for mining machines and facilities provided by H-E Parts and Bradken, HCM's consolidated subsidiary that we acquired in FY2016, and by entry into the rental business in North America through ACME, and in the U.K. through Synergy Hire, which was established in February 2019. We promoted enhancement of the parts & service business through a globally launched service called "ConSite," and added to the menus of "ConSite" the newly launched "ConSite OIL," the first service in the industry to predict problems of engines and hydraulic equipment by remotely inspecting the condition of its oil by oil sensors installed in each machine, in order to contribute to reducing customers' lifecycle costs.

In the Amsterdam factory of Hitachi Construction Machinery Europe, we opened ICT demonstration sites where customers can experience ICT construction. We also decided to introduce ICT hydraulic excavators to the European market, which will be the first time in the overseas market, to strive to spread ICT construction beyond the Japanese market. In Oceania, we decided to establish a new regional headquarters in April 2019 in order to strengthen its business in the region and further expand its construction machinery and mining machinery sales as well as its parts and service business. In Europe, which has some of the strictest regulations in the world, with the prospect of a rise in demand for EV construction machinery, a new company, EAC, which was established with a German distributor for developing electric construction machinery and special application products, developed electric excavators in the 2t and 8t classes as concept models. We are focusing on expanding sales of the well-accepted AC-3 series of rigid dump trucks equipped with an advanced vehicle body stability-assist function, in addition to offering a fleet management system and aggressively developing an autonomous haulage system (AHS) to optimize the mining operations that we promote jointly with Whitehaven Coal in Australia, by taking advantage of Hitachi Group's strengths.

Additionally, we are working to restructure the main domestic bases to further strengthen our technical capabilities and product development to create a more efficient production system. At the same time, we are working to optimize capital investments and reduce fixed costs, establishing a high profit structure. As part of restructuring, on April 1, 2019 we implemented an absorption-type merger of KCM Corporation, which is a full sub-

sidary and takes part in the development and production of wheel loaders. Also, at five factories in Ibaraki Prefecture, our energy consumption activities have been well appraised and we won the ECCJ Chairman Prize of the Energy Conservation Grand Prize for excellent energy conservation equipment for Fiscal 2018 (hosted by The Energy Conservation Center, Japan).

Consolidated revenue for this term (April 1, 2018 to March 31, 2019) increased by 7.8% year on year to ¥1,033,703 million due to increased sales of new machines mainly in Asia and Oceania, North America, and Europe, as well as increased sales of the value chain business mainly from parts & services.

Adjusted operating income increased by 24.9% year on year to ¥116,841 million, operating income increased by 6.9% to ¥102,296 million, and net income attributable to the owners of the parent increased by 14.2% to ¥68,542 million due to a decrease in the cost of sales, in addition to the contribution of the parts & service business and mining business.

Principles Regarding Appropriation of Earnings and Dividends for the Year under Review and the Fiscal Year Ending March 31, 2020

The HCM Group will maintain and strengthen its financial structure and work to bolster its internal reserves while considering implementation plans for upfront investments, including investments for technology development and facilities based on medium- and long- term business strategies. At the same time, HCM will pay dividends of surplus linked to its consolidated business results twice annually, comprising interim and year-end dividends, with a target payout ratio of around 30% or higher.

With the aim of enabling the execution of a flexible capital policy, Hitachi Construction Machinery will acquire treasury shares in consideration of necessity, financial conditions, and stock price movement.

With regard to the FY2018 year-end dividend, at the Meeting of the Board of Directors held on May 21, 2019, a resolution was approved for cash dividends per share of ¥57 with the record date of March 31, 2019. As a result, cash dividends for the entire FY2018 amounted to ¥100 per share. Dividends for FY2019 are to be determined.

Consolidated Balance Sheets

(unit: millions of yen)

Item	Previous fiscal year (reference) As of March 31, 2018	Current fiscal year As of March 31, 2019
Assets		
Current assets	597,829	673,888
Cash and cash equivalents	81,929	67,347
Trade receivables	219,599	238,234
Inventories	255,623	324,844
Income taxes receivable	1,894	1,167
Other financial assets	28,029	25,904
Other current assets	10,342	14,110
Subtotal	597,416	671,606
Assets held for sale	413	2,282
Non-current assets	491,967	511,368
Property, plant and equipment	299,987	311,245
Intangible assets	37,748	42,092
Goodwill	35,016	34,564
Investments accounted for using the equity method	29,549	32,628
Trade receivables	41,392	44,357
Deferred tax assets	17,463	19,145
Other financial assets	20,148	17,279
Other non-current assets	10,664	10,058
Total assets	1,089,796	1,185,256
Liabilities		
Current liabilities	366,422	470,623
Trade and other payables	268,230	259,570
Bonds and borrowings	69,892	185,641
Income tax payables	11,000	12,012
Other financial liabilities	11,584	10,165
Other current liabilities	5,716	3,235
Non-current liabilities	218,344	171,972
Trade and other payables	18,839	16,203
Bonds and borrowings	160,773	119,167
Retirement and severance benefits	17,341	17,958
Deferred tax liabilities	11,314	8,726
Other financial liabilities	2,354	1,158
Other non-current liabilities	7,723	8,760
Total liabilities	584,766	642,595
Equity		
Equity attributable to owners of the parent	448,502	486,407
Common stock	81,577	81,577
Capital surplus	81,991	81,991
Retained earnings	279,201	328,344
Accumulated other comprehensive income	8,802	△ 2,428
Treasury stock, at cost	△ 3,069	△ 3,077
Non-controlling interests	56,528	56,254
Total equity	505,030	542,661
Total liabilities and equity	1,089,796	1,185,256

Consolidated Statements of Income

(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2017 to March 31, 2018	Current fiscal year From April 1, 2018 to March 31, 2019
Revenue	959,153	1,033,703
Cost of sales	△ 695,316	△ 735,507
Gross profit	263,837	298,196
Selling, general and administrative expenses	△ 170,255	△ 181,355
Adjusted operating income	93,582	116,841
Other income	6,658	5,369
Other expenses	△ 4,503	△ 19,914
Operating income	95,737	102,296
Financial income	2,910	3,781
Financial expenses	△ 7,390	△ 8,091
Share of profits (losses) of investments accounted for using the equity method	4,355	4,716
Income before income taxes	95,612	102,702
Income taxes	△ 26,390	△ 28,516
Net income	69,222	74,186
Net income attributable to		
Owners of the parent	60,004	68,542
Non-controlling interests	9,218	5,644
Total net income	69,222	74,186
Net income attributable to owners of the Parent per share (basic) (yen)	282.16	322.31
Net income attributable to owners of the Parent per share (diluted) (yen)	282.16	322.31

Consolidated Statements of Comprehensive Income

(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2017 to March 31, 2018	Current fiscal year From April 1, 2018 to March 31, 2019
Net income	69,222	74,186
Other comprehensive income		
Items that cannot be reclassified into net income		
Net gains and losses from financial assets measured at fairvalue through OCI	1,444	△ 1,743
Remeasurements of defined benefit obligations	△ 378	△ 1,077
Other comprehensive income of equity method associates	7	7
Items that can be reclassified into net income		
Foreign currency translation adjustments	△ 2,425	△ 8,988
Cash flow hedges	160	64
Other comprehensive income of equity method associates	△ 313	△ 502
Other comprehensive income, net of taxes	△ 1,505	△ 12,239
Comprehensive income	67,717	61,947
Comprehensive income attributable to owners of the parent	58,437	57,445
Non-controlling interests	9,280	4,502

Consolidated Statements of Changes in EquityCurrent Fiscal Year (From April 1, 2018 to March 31, 2019)

(unit: millions of yen)

	Equity attributable to owners of the Company					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income		
				Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fair-value through OCI	Cash flow hedges
Balance at beginning of year	81,577	81,991	279,201	△ 1,232	8,992	149
Cumulative effects of changes in accounting policies			32			
Restated balance	81,577	81,991	279,233	△ 1,232	8,992	149
Net income			68,542			
Other comprehensive income				△ 1,098	△ 1,741	64
Comprehensive income for the year	—	—	68,542	△ 1,098	△ 1,741	64
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			△ 19,564			
Changes in ownership inter-ests in subsidiaries without a loss of control						
Change in the scope of consolidation						
Transfer to retained earnings			133		△ 133	
Expiration of subscription rights						
Transactions with owners	—	—	△ 19,431	—	△ 133	—
Balance at end of year	81,577	81,991	328,344	△ 2,330	7,118	213

(unit: millions of yen)

	Equity attributable to owners of the Company					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of year	893	8,802	△ 3,069	448,502	56,528	505,030
Cumulative effects of changes in accounting policies		—		32		32
Restated balance	893	8,802	△ 3,069	448,534	56,528	505,062
Net income		—		68,542	5,644	74,186
Other comprehensive income	△ 8,322	△ 11,097		△ 11,097	△ 1,142	△ 12,239
Comprehensive income for the year	△ 8,322	△ 11,097	—	57,445	4,502	61,947
Acquisition of treasury stock		—	△ 8	△ 8		△ 8
Sale of treasury stock		—		—		—
Dividends to stockholders of the Company		—		△ 19,564	△ 4,795	△ 24,359
Changes in ownership inter-ests in subsidiaries without a loss of control		—		—		—
Change in the scope of consolidation		—		—	19	19
Transfer to retained earnings		△ 133		—		—
Expiration of subscription rights		—		—		—
Transactions with owners	—	△ 133	△ 8	△ 19,572	△ 4,776	△ 24,348
Balance at end of year	△ 7,429	△ 2,428	△ 3,077	486,407	56,254	542,661

Consolidated Statements of Cash Flow

(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2017 to March 31, 2018	Current fiscal year From April 1, 2018 to March 31, 2019
Net income	69,222	74,186
Depreciation	32,306	32,343
Amortization of Intangible assets	5,526	4,611
Impairment losses	549	2,143
Income tax expense	26,390	28,516
Share of profits of investments accounted for using the equity method	△ 4,355	△ 4,716
Gain (loss) on sales of property, plant and equipment	△ 574	△ 458
Financial income	△ 2,910	△ 3,781
Financial expenses	7,390	8,091
(Increase) decrease in accounts and trade receivables	△ 27,497	△ 19,101
(Increase) decrease in lease receivables	△ 14,257	△ 7,115
(Increase) decrease in inventories	△ 24,664	△ 76,497
Increase (decrease) in accounts and notes payables	53,337	△ 18,583
Increase (decrease) in provisions and retirement benefit obligations	△ 248	△ 587
Other	△ 17,667	△ 11,995
Subtotal	102,548	7,057
Interest received	2,548	2,525
Dividends received	1,179	1,800
Interest paid	△ 5,089	△ 5,357
Income tax paid	△ 16,658	△ 31,718
Net cash provided by operating activities	84,528	△ 25,693
Capital expenditures	△ 16,887	△ 26,231
Proceeds from sale of property, plant and equipment	4,603	5,251
Acquisition of intangible assets	△ 4,464	△ 8,536
Acquisition of investments in securities and other financial assets(including investments in associates)	△ 21,416	△ 1,315
Sales of investments in securities and other financial assets(including investments in associates)	469	318
Collection of long-term loan receivables	88	47
Other	45	127
Net cash provided by (used in) investing activities	△ 37,562	△ 30,339
Increase (decrease) in short-term borrowings, net	△ 33,864	67,386
Proceeds from long-term borrowings and bonds	90,386	36,197
Payments on long-term borrowings and bonds	△ 70,844	△ 28,766
Payments on lease payables	△ 4,700	△ 6,388
Dividends paid to owners of the parent	△ 9,361	△ 19,562
Dividends paid to non-controlling interests	△ 2,103	△ 4,933
Other	3	△ 6
Net cash provided by (used in) financing activities	△ 30,483	43,928
Effect of exchange rate changes on cash and cash equivalents	△ 9	△ 2,478
Net increase (decrease) in cash and cash equivalents	16,474	△ 14,582
Cash and cash equivalents at beginning of year	65,455	81,929
Cash and cash equivalents at end of year	81,929	67,347

Company Information

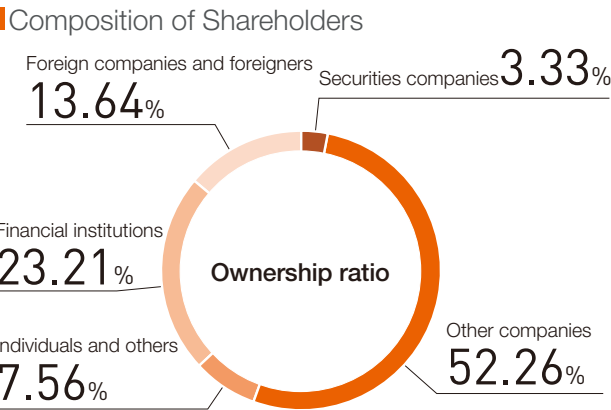
Company Profile (As of March 31, 2019)

Company Name	Hitachi Construction Machinery Co., Ltd. (Hitachi Kenki Kabushiki Kaisha)
Paid in Capital	81,576 million yen
Head Office	16-1 Higashiueno 2-choume,Taito-ku, Tokyo, 110-0015, Japan
Establishment	October 1, 1970
President	Representative Executive Officer, President and Chief Executive Officer,CEO Kotaro Hirano
Employees	24,591 (Consolidated) 4,341 (Non-consolidated)
Major Operations	Manufacturing, sales, rental and service of con- struction machinery, transportation machinery,environmental related products and other machines and devices
URL	https://www.hitachicm.com/global/



Investor Information (As of March 31, 2019)

Stock Exchange of Listing	First Section of the Tokyo Stock Exchange(#6305)*
* The cash equity market integration between Tokyo Stock Exchange (TSE) and Osaka Securities Exchange (OSE) was completed on July 16, 2013.	
Accounting Auditor	Ernst & Young ShinNihon LLC
Stock Transfer Agent	Tokyo Securities Transfer Agent Co., Ltd.
Number of Shares Authorized	700,000,000
Number of Shares Issued	215,115,038
Number of Shareholders	27,598
Annual Meeting	The annual meeting of sharehold- ers is usually held before the end of June in Tokyo.



Major Shareholders (Top 10 Largest Shareholders)

Shareholder	Number of shares held	Ownership ratio (%) (Third decimal place rounded off)
Hitachi, Ltd.	108,058	50.81
The Master Trust Bank of Japan, Ltd. (trust account)	24,793	11.66
Japan Trustee Services Bank, Ltd. (trust account)	10,115	4.76
Trust & Custody Services Bank, Ltd. (securities investment trust account)	3,257	1.53
GOLDMAN, SACKS & CO. REG	2,846	1.34
Japan Trustee Services Bank, Ltd. (trust account 9)	2,750	1.29
Japan Trustee Services Bank, Ltd. (trust account 7)	1,713	0.81
JP Morgan Chase Bank 385151	1,639	0.77
STATE STREET BANK WEST CLIENT - TREATY 505234	1,638	0.77
Japan Trustee Services Bank, Ltd. (trust account 5)	1,577	0.74

* Hitachi Construction Machinery holds 2,457,970 shares of treasury stock, but these have been excluded from the list of major shareholders above.
* Ownership ratio is calculated without the 2,457,970 shares of treasury stock.

HCM's Disclosure Media



CSR & Financial Report

This report comprehensively covers the HCM Group's management strategy as well as financial and non-financial (ESG) information.



Corporate Governance Report

This report provides information about the HCM Group's basic approach to corporate governance and capital structure, among other topics.



TIERRA+ (magazine)

This seasonal magazine is published to educate stakeholders about the HCM Group's activities both inside and outside Japan.



Information for shareholders and investors (corporate website)

<https://www.hitachicm.com/global/investor-relations/>

HCM's corporate website publishes earnings information and IR news in a timely manner and features information for individual investors along with various IR documents.



CSR activities (corporate website)

<https://www.hitachicm.com/global/environment-csr/csr-en/>

HCM's corporate website features activities not appearing in this report along with more comprehensive performance data.



Environmental activities (corporate website)

<https://www.hitachicm.com/global/environment-csr/environmental-activities/>

HCM's corporate website provides in-depth information about its environmental management system and various information on environmental performance.

External evaluation

SRI

FTSE4Good Global Index Series
We were selected for inclusion in the Responsible Investment (RI) indices for global companies. (As of June, 2019)

FTSE Blossom Japan Index
We are recognized as a Japanese company engaging in excellent practices in terms of environment, social, and governance (ESG). (As of June, 2019)

SNAM Sustainability Index
We have been selected for inclusion in the index managed by Sompo Japan Nipponkoa Asset Management Co., Ltd. (SNAM). (As of June, 2019)

SRI

MSCI Japan ESG Select Leaders Index
We have been selected for inclusion in the MSCI Japan ESG Select Leaders Index as a company recognized for its ESG evaluation among companies in the MSCI Japan IMI Top 700 Index. (As of June, 2019)

Ethibel EXCELLENCE Investment Register
We have been selected as a company demonstrating high performance in corporate social responsibility. (As of June, 2019)

Web

Internet IR Award by Daiwa Investor Relations Co. Ltd.
We wins 2018 Internet IR Commendation Award, selected by Daiwa Investor Relations Co. Ltd. This award is based on the original quantitative assess of Daiwa. (November 2018)

All Japanese Listed Companies' Website Ranking by Nikko Investor Relations Co., Ltd.
We received A Grade in overall ranking, based on the degree of fulfillment and functionality of listed company websites. (December 2018)

Hitachi Construction Machinery Co., Ltd.

Hitachi Construction Machinery Co., Ltd.

2-16-1 Higashi-Ueno, Taito-ku, Tokyo 110-0015

<https://www.hitachicm.com/global/>

Contact for inquiries

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