

HITACHI

Hitachi Construction Machinery Group
Integrated Report
2021

Reliable solutions



 **Hitachi Construction Machinery Co., Ltd.**

Hitachi Construction Machinery's Vision

**To pass on a productive environment and prosperous cities to future generations.
Hitachi Construction Machinery Group helps to create comfortable living spaces.**

To contribute to society by playing an important role in maximizing the creation of productive environments and prosperous cities, which stand as a symbol of comfortable living spaces.

Hitachi Construction Machinery Group Shared Values and Code of Conduct

Kenkijin Spirit

The Kenkijin Spirit is the mindset of the Kenkijin who both understand and take responsibility to achieve the future vision of Hitachi Construction Machinery. We strive to foster a corporate culture in which every employee around the world takes on the challenge of creating valuable technologies, products, services, and solutions from the perspective of our customers.

Ideology of the 3Cs

3C Challenge
Customer
Communication

About the Integrated Report

In 2020, Hitachi Construction Machinery celebrated the 70th anniversary of the commencement of full-scale construction machinery production. On this occasion, we changed the name of our report from *CSR and Financial Report* to *Integrated Report*, publishing this new and updated version to provide stakeholders with a deeper understanding of the Hitachi Construction Machinery Group medium- to long-term value creation strategies and ESG (Environmental, Social, and Governance) initiatives. The Hitachi Construction Machinery Group Integrated Report 2021 is built around the CEO Message and reflects our awareness of creating sustainable corporate value in both financial and non-financial terms.

Target Period

April 1, 2020 to March 31, 2021
(Includes certain information from April 1, 2021 and later)

Organizations Covered

Hitachi Construction Machinery Group consolidated subsidiaries
Scope of performance data
•Scope of performance data collected
[Financial Reports]
Hitachi Construction Machinery Group consolidated subsidiaries
[Non-Financial Reporting (Environment)]
Hitachi Construction Machinery Co., Ltd. and its consolidated subsidiaries
[Non-Financial Reporting (Social)]
Hitachi Construction Machinery Co., Ltd. and certain consolidated subsidiaries

Our Communication Map

In addition to publishing this Integrated Report, the Hitachi Construction Machinery Group fulfills our accountability and engages in more meaningful communications with stakeholders through media that include our ESG Data Book and Sustainability Web site.



ESG Data Book
We publish detailed information related to the ESG performance of the Hitachi Construction Machinery Group in our ESG Data Book.



Sustainability Website
This site provides a comprehensive report on the sustainability activities of the Hitachi Construction Machinery Group.



Investor Relations (Website)
This website provides information on financial results and IR news in a timely manner. This website also provides information for individual investors and various IR materials.



Corporate Governance Report
Our Corporate Governance Report describes the basic approach of the Hitachi Construction Machinery Group to corporate governance and capital structure.



TIERRA+ (Information Magazine)
TIERRA+ is a quarterly magazine published to inform a wide range of stakeholders about Hitachi Construction Machinery Group activities in Japan and overseas.



Referenced Guidelines

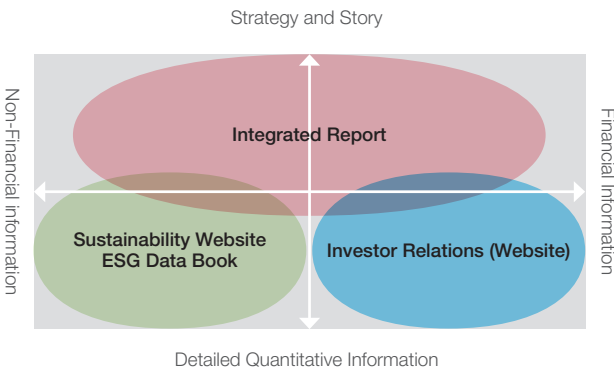
We prepared the *Hitachi Construction Machinery Group Integrated Report* and *Sustainability Website* in accordance with the Core option of the GRI Standards and referencing the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation of the Ministry of Economy, Trade and Industry.

Cautionary Statement Regarding Forward-Looking Statements

The forward-looking statements contained in this Integrated Report are based on management's assumptions and beliefs in light of the information available at the time. Actual business results and performance may differ materially due to future economic conditions, market trends, demand, exchange rate fluctuations, and other factors.

Publication Date

July 2021
Previous Issue: August 2020
Next Issue: July 2022 (tentative)



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Message From the CEO

Fulfilling Our Mission and Responsibilities as an Essential Business That Supports Society

Interviewer: Hidemi Tomita (Lloyd's Register Japan)

Q In fiscal 2020, the spread of COVID-19 led to major changes in social structures, including business practices and lifestyles. Please tell us your honest impressions of the past year.

I feel that there is an even stronger need to address customer issues of improving safety, increasing productivity, and reducing lifecycle costs.

Fiscal 2020 was a year that saw changes in the values of the Hitachi Construction Machinery Group (the Group) management and employees, including myself, as well as our customers. To be honest, I think this is a big change for us, as we are now faced with unprecedented events which we used to think were in the distant future. We saw the plain need to improve productivity, an

example being when a suspected infection temporarily halted a construction site and we suspended production for two weeks. But construction schedules must be met, so we have been forced to improve efficiency. Of course, efficiency is second in priority to the safety of on-site workers. In addition, as customer cash flows and business performance worsened, we received more requests than ever for reducing fuel costs and lowering other costs. The COVID-19 pandemic has strengthened our mission to solve customer issues of improving safety, increasing productivity, and reducing lifecycle costs.

Kotaro Hirano

Representative Executive Officer, President, Director and CEO
Hitachi Construction Machinery Co., Ltd

Q The global spread of COVID-19 has impacted supply chains tremendously, particularly in the manufacturing industry. I am sure Hitachi Construction Machinery has created business continuity plans (BCP) and prepared against risks. Has there been any impact on the supply chain?

We reaffirmed our awareness of the supply chain in production activities and product supply, and we are striving to add strength in this area.

Fortunately, our company has not suffered any direct disruptions to our supply chain due to the COVID-19 pandemic. However, the situation certainly caused us to reevaluate the risks to our supply chain. I view BCP from two perspectives. The first is to

maintain the supply chain as a production activity. We secure employment for our workers and meet the expectations of our shareholders by engaging in steady production as the Group, ensuring uninterrupted production activities and working in close coordination with our business partners. The second is to maintain a product supply chain. In other words, maintain a system that ensures our products, services, and rentals are always available when our customers need them. Especially during emergencies such as natural disasters, construction equipment is vital to recovery and reconstruction work. Even in times of crisis, it is essential that we maintain a supply system. With this understanding, we are developing our supply chain to be stronger than ever. This will ensure our efforts to support society are never interrupted.

Q We live in an era in which global climate change affects business in many ways. What do you see as the threats, risks, or business opportunities for the Hitachi Construction Machinery Group?

We see global climate change and the push towards decarbonization as a business opportunity.

Along with the COVID-19 pandemic, climate change risk is another global challenge facing humanity. But we would rather tackle these issues in a positive manner. In particular, we recognize that the growing need for decarbonization is an important business opportunity. Emissions regulations are becoming increasingly stringent; however, levels vary among countries and regions. We must understand the trends in environmental regulations as well as the issues faced on-site by our customers if we are to propose suitable solutions.

For example, we have a lineup of electric construction equipment and experience with supplying trolley-powered dump trucks for mining that run on electricity from overhead wires. We recently agreed to collaborate with ABB Ltd., which is a company that possesses strengths throughout the mining process, including mining equipment management systems. Together we will continue working toward achieving net zero emissions in all aspects of mining. We not only sell environmentally friendly construction and mining equipment, but we are also entering a new

area of business that includes infrastructure.

Also, as fuel consumption and efficiency varies greatly depending on the operator, we focus on customer data to propose suitable solutions. The Group uses ConSite® Mine, a solution that incorporating IoT and AI to solve issues at mining sites. We also use an operation management system to improve the operating efficiency of our products and reduce CO₂ emissions during use. In other words, we achieve our own goal to reduce machine CO₂ emissions while also achieving customer goals by proposing CO₂ reductions and total efficiencies in construction and mining machinery operations.

The global trend in decarbonization is hastening the move toward the elimination of coal. We believe our duty is to reduce the CO₂ emissions of machines operating at coal mines as much as possible to both decarbonize and fulfill our social responsibilities. On the other hand, it is still important to focus on the so-called hard rocks, meaning areas that produce iron ore, copper, and nickel. In future, we plan to expand sales of mining machinery in the same regions in which they are produced, such as Central Asia and CIS. We also intend to increase sales related to the hard rocks, thereby reducing our reliance on coal-related businesses.

In light of the regional trends around the world, the Group will partner with customers and fulfill our mission to offer optimal products and solutions that help customers reduce CO₂ emissions proactively.



Q The concept of a circular economy, which aims to achieve economic growth by recycling resources in a sustainable manner, has been attracting greater attention. What is the concept behind the movement to build a recycling-oriented society?

We aim to achieve a circular economy by focusing on the lifecycle of construction equipment and by providing optimal solutions that increase efficiency.

Our rental and parts remanufacturing businesses will play a major role in building a recycling-oriented society. From the perspective of efficient use of limited resources, customers may find it more efficient to rent certain machines, rather than own, depending on the volume of work. Also, instead of using new parts for repairs, we use recycled parts collected from current customers to be used future customers. These practices serve as a model for resource recycling and help customers reduce their parts costs.

We call this our value chain business. It is the business of providing optimal solutions throughout the entire lifecycle of a machine. We are proud to say that the Group has the systems in place to achieve an efficient lifecycle for construction and mining machinery. By delving deeper into this value chain business, we hope to achieve a circular economy for the environment and business.

Q The number of human rights cases, including cases involving the supply chain, has increased in recent years. These cases include the treatment of foreign workers and gender discrimination in advertising. Corporate ethical standards and responses have come under greater scrutiny. What are your thoughts on the risks surrounding human rights abuses?

We are striving to establish a due diligence system as quickly as possible to identify and respond appropriately to human rights risks.

The Group recognizes that responding appropriately to the risks of human rights abuse is essential in continuing to be a global company that is trusted by our customers and society.

To date, we have investigated the risk of human rights abuse in business by participating in the Human Rights Due Diligence Working Group organized by Hitachi, Ltd. In fiscal 2020, the Group established a system to conduct due diligence for potential human rights abuses. As a first step, we held a Human Rights Due Diligence Promotion Meeting in May 2021, attended by relevant executives. The main session of the meeting discussed our survey on the status of forced and migrant labor and the distribution of the survey to suppliers. Going forward, I will be in charge personally to direct the survey, which we plan to implement twice a year. As human rights abuses may change with changes in society, we will strive to identify priority risks and take appropriate measures on a continual basis.



Q The world is changing rapidly, and the construction machinery industry will be facing a period of change in the future. What strategies do you have in mind for the Group?

We support customer businesses by delving deeper through Solution Linkage®, which supports and monitors the operational status of construction equipment.

In a rapidly changing world, such as the emergence of high-speed, high-capacity 5G communications, the business of construction and mining machinery is entering a new era. The stoppage of even one piece of construction or mining machinery due to a problem will affect not only customer work schedules, but also all related construction work. The Group business should focus not only on selling machines, but also on monitoring machines to ensure continuous operation. This is where IoT and ICT are indispensable.

The Group is developing a variety of services derived from Solution Linkage®, a name we give to solutions that utilize IoT and ICT to monitor construction machinery. For example, our failure prediction detection rate for major parts has now reached 75%. This enables us to provide customers with quantitative data to predict failure. In the past, predictions relied solely on the experience and intuition of our service staff. We believe it is important to provide solutions of this type to our customers to improve their work efficiency and asset management.

Q Your competitors provide services and solutions that emphasize intangibles rather than just products. What is the Hitachi Construction Machinery advantage in this context?

We believe that our greatest strength lies in obtaining a firsthand understanding of customer issues and creating the best solutions.

One feature of our business model is our focus on direct sales and services to customers by our employees. In particular, Japan, Asia, Oceania, and Africa take advantage of this direct sales and service model. We believe our strength is in how we get to the heart of customer issues through direct interaction. This is also a challenge in some ways. Face-to-face interactions can mean a face-to-face scolding from the customer. But I believe such experiences have nurtured our human resources and have formed the basis of our unique business model. Many ideas for new solutions are created through such direct interactions with customers.

Q Tell us what you discuss with your employees on a daily basis. What do you expect from them and what are your thoughts on human resources supporting corporate growth?

As our employees work, I ask them to keep in mind the ideas of *Kenkijin Spirit* and the 3Cs, which are the common identities of the Group.

The foundation of Group human resources development is the code of conduct we call the *Kenkijin Spirit*. This spirit is based on the 3Cs of Challenge, Customer, and Communication. We coined the term 3Cs in 2006. Until that time, our business was mainly in Japan. Since 2005, we have been doing increasing amounts of business overseas. Our number of non-Japanese employees has increased, making communication more difficult. Therefore, we called for a common philosophy that can be understood by people from any country, which is when we came up with the 3Cs. This is also important from the perspective of human resource development.

Q At the same time you developed a common global philosophy, do you see the need to address diversity in human resources. What initiatives are you implementing toward diversity?

We are working to create a work environment in which anyone, regardless of age or gender, can play an active role.

From the perspective of women's advancement, the percentage of female managers at the level of section chief or above currently stands at about 9% for the entire group in Japan and overseas. We plan to promote initiatives such as career development, continued employment, and return to work to increase the number of opportunities for female employees. The number of women working at production sites is increasing gradually. I visited a company factory recently and witnessed a young female employee using a light and easy-to-handle power tool. I realized that these types of initiatives make it possible not only for women to work on construction sites, but also for senior citizens. Historically, workers reaching the age of 40 tend to experience a decline in physical strength. In the past, these individuals would have been transferred to less strenuous jobs, but if we can reduce the physical burden on workers, they can continue to work on-site as direct employees as long as they wish. In other words, reviewing how individual jobs are performed is important not only from the perspective of women's advancement, but also in terms of diversity, including age. This could lead to diversity on a much broader scale.



Q Last, do you have a message for your stakeholders?

We will continue to supply the most suitable machines to our customers and contribute to achieving a sustainable society.

Our customers are entities that use machines to develop and maintain countries, as well as to support production and social activities. The ultimate goal of our activities is neither to make nor sell machines, but to continue to supply the best machines and solutions that help our customers develop countries and regions, maintain their production activities, and sustain their efforts in supporting society. The results of our businesses lead to the building of roads, waterworks, and cities. Nations prosper and people's lives are enriched. This is the ultimate corporate vision of the Group.

I believe the Group business is essential. To achieve a sustainable society, we will continue to keep our value chain foremost in mind, providing machinery development, production, post-delivery services, and rentals. The Group is an essential business that continues to contribute to the creation of a sustainable society.

In Closing

In the midst of severe change, I found your perspectives novel and compelling in stating that the ultimate goal is not to manufacture or sell products, but rather to continue to supply optimal machines and solutions. It is wonderful that you make the effort to communicate this idea to your employees and inspire them to think about it. The Hitachi Construction Machinery business has always been an essential business, and I believe it will continue to be an essential business. I hope you will continue to be a close and reliable partner for your customers in creating a sustainable society.



Hidemi Tomita

Representative Director of Lloyd's Register Japan K.K. Having a deep history of practical experience in CSR management, Mr. Hidemi Tomita has participated in government committees and industry associations, as well as in international standards development processes. He provided an international perspective to support the ESG and sustainability strategies of numerous Japanese companies.

Value Created by Hitachi Construction Machinery Group

The Group started business from the introduction of the first cable-operated shovel to the market in 1950 as part of Hitachi, Ltd.

After becoming independent from Hitachi Ltd. in 1970, Our Group has created innovations that satisfy the needs of both customers and society using its industry-leading technical prowess.



2013

The ConSite® service solutions that ensure optimal operations of machines used by individual customers is introduced.



2016

The ZX200-5B, a hydraulic excavator and a core of the information-oriented construction (ICT) solutions, is introduced.

Sales Revenue

FY2020
813.3
billion yen

(billion yen)
1,000

2008

The EH3500ACII, Japan's largest class rigid dump truck, is introduced.



2000

The ZAXIS Series, hydraulic excavators incorporating the world's first satellite communication function, is introduced.



1997

Development of the EX5500, the world's largest class ultra-large hydraulic excavator, is completed.



1950

Development of the U06 cable-operated shovel is completed and the mass production starts.



1986

The Landy EX Series, new generation hydraulic excavators incorporating electronic control is introduced.

1965

The UH03, the first hydraulic excavator developed with Japanese technology is commercialized.

Establishment of Hitachi Construction Machinery Co., Ltd.

Start of the mass production and sale of cable-operated shovels.



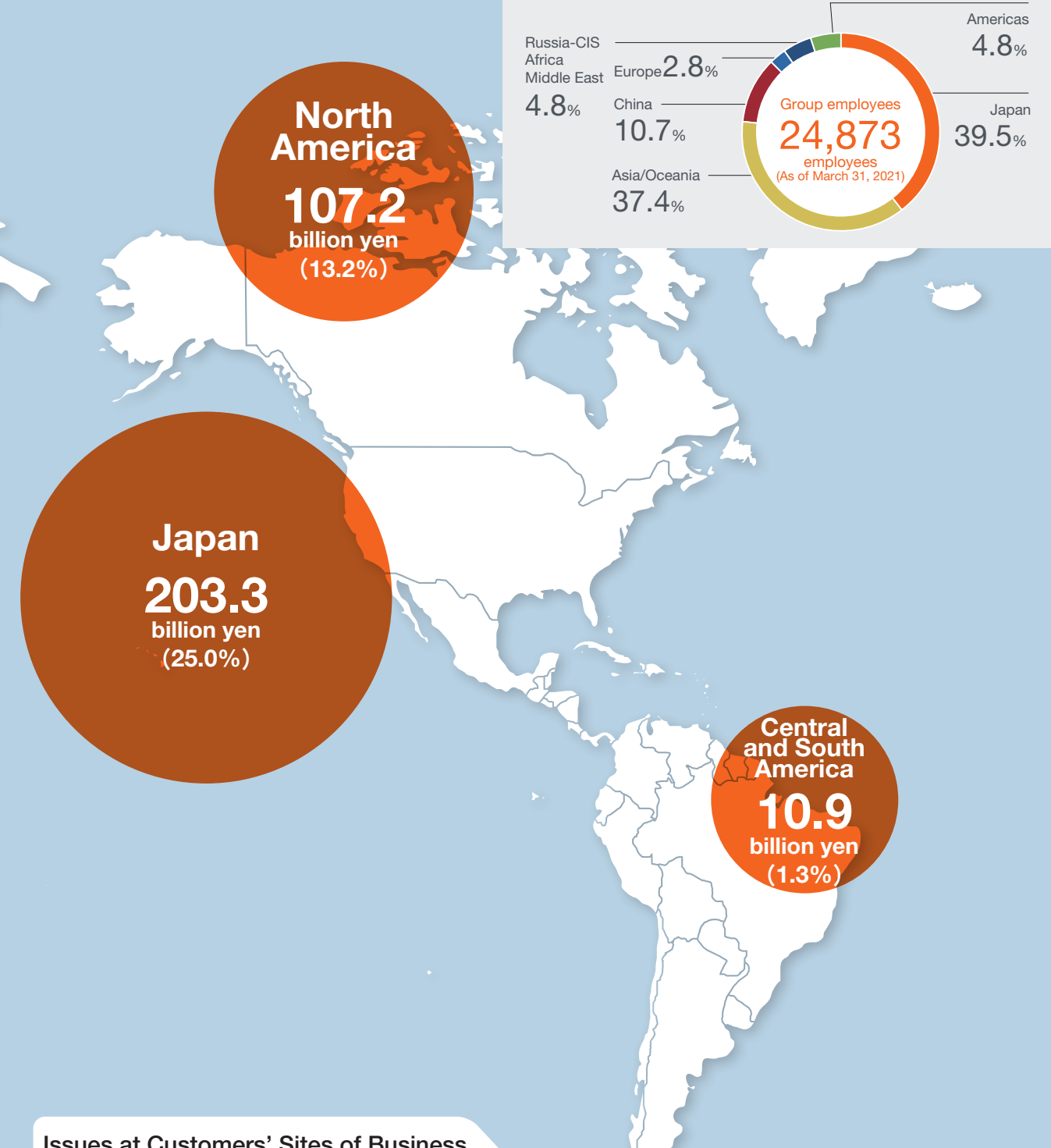
Business Environment Surrounding Construction Machinery

In a rapidly changing society, the issues that the Hitachi Construction Machinery Group must address are also constantly changing.

We will accurately identify risks and opportunities related to our sustainable growth. We believe that our mission is to promptly provide products and services that contribute to the resolution of social issues and customers' on-site challenges.

■ Sales Revenue by Region (consolidated)

■ Number of Employees by Region



Global Social Issues

Progress of global warming

If effective global warming countermeasures are not implemented, the global average temperature at the end of the 21st century will likely rise by 2.6 to 4.8 degrees Celsius. This is according to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC). And there are concerns that climate change caused by global warming will lead to natural disasters, food crises and other damage.

Mass consumption and depletion of resources

Demand for resources continues to grow as the world population increases and the economy develops. There are concerns about the depletion of natural resources such as fossil fuels, minerals, and water. There is a need to curb the consumption of natural resources while making effective use of circulative resources. Transitioning towards a sound material-cycle society poses a major challenge.

Development of infrastructure to withstand natural disasters

In recent years, disasters caused by natural phenomena, such as earthquakes, tsunamis, typhoons, and hurricanes and cyclones, have been occurring frequently around the world. And they have claimed the lives of many people. It will be necessary to build a robust infrastructure in light of the expected frequency and severity of future natural disasters.

Issues at Customers' Sites of Business

Declines in safety due to labor shortages

With the declining birthrate and aging population, labor shortage has become a social problem. As the number of laborers decreases, there is a possibility of serious accidents, brought about by working in conditions where safety is not adequately ensured. At construction and mine development sites, where people and huge construction equipment coexist in close proximity, improving safety is an issue that must be addressed.

Decline in productivity due to labor shortages

The labor shortage in the construction industry is becoming increasingly serious. Skills are not being adequately transferred from experienced older workers to the younger generation. This has become a major issue. As work style reforms progress, the key to increasing organizational productivity is how to utilize ICT and IoT technologies.

Reduction of life cycle costs

Since construction machinery is indispensable machinery for customers, it is important to find ways to increase the occupancy rate and reduce the overall lifecycle cost. In addition to providing highly reliable machines, we need to identify signs of trouble at an early stage. We also need to focus on providing appropriate guidance.

Hitachi Construction Machinery's Competitive Edge

The Hitachi Construction Machinery Group has accumulated its capital over a 70-year history. These six types of capital constitute the competitive edge that enables us to meet the expectations of stakeholders and form the source from which we create sustainable value.

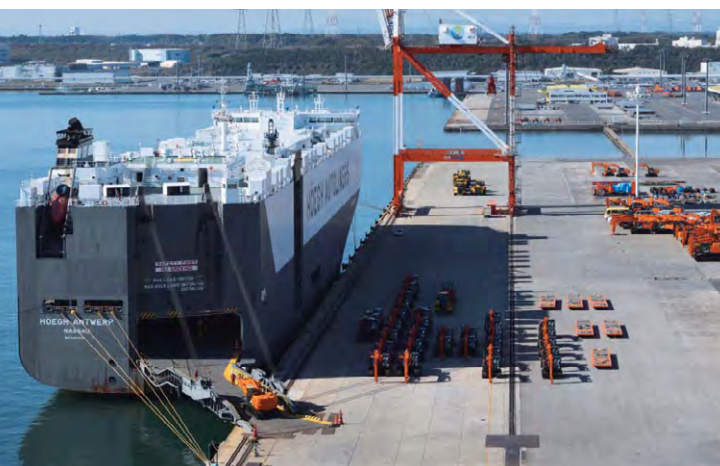


Financial Capital

Extremely sound financial base that supports sustainable growth

- Parent company shareholders' equity (equity capital): 514.3 billion yen
- Net interest-bearing liabilities*: 249.2 billion yen
- Dividend payout ratio: 41.1% (FY2020 actual results)
- Profitability stemming from an increase in corporate and shareholder value as well as the ability to generate cash flow

*Net interest-bearing liabilities = Interest-bearing liabilities – the balance of cash and cash equivalents at the end of the period



Manufacturing Capital

Establishment of a system to provide global products, services, and solutions

- Development of construction machinery that has supported both social infrastructure development and industries around the world over the course of 70 years
- Provision of innovative and highly *reliable solutions*
- Development and provision of ICT and IoT-based solutions
- Assuring quality uniformity around the world through the *Made by Hitachi* global manufacturing system.
- Increased investment in our global bases (50 billion yen by FY2027)
- Production bases: 14 in Japan, 15 overseas
- Expansion of our global parts remanufacturing business



Intellectual Capital

Possession of knowledge and expertise related to construction and mining machinery

- Research and development expenses: 24.8 billion yen (FY2020 actual)
- Overseas patent application ratio: 30% or more
- Improvement of welding techniques and technology on a global scale by holding international skills competitions
- Knowledge and technology related to construction machinery and mining, various patent rights, and expertise related to on-site operations

Human Capital

Employees from diverse backgrounds working with the Kenkijin Spirit

- Consolidated number of employees: 24,873
- Diverse regional workforce: Japan 39.5%, Asia/Oceania 37.4%, China 10.7%, Europe 2.8%, Russia-CIS/Africa/Middle East 4.8%, Americas 4.8%
- The *Kenkijin Spirit* is a globally shared set of values and code of conduct.
- Number of participants in the *Self-Improvement Program* for assistant managers and above, including senior executives: more than 2,000 in total, including groups in Japan and overseas (as of June 2021)
- Four independent outside directors (including two female directors)
- Skilled employees with high levels of expertise



Social and Relationship Capital

A Global network, the power of the One Hitachi brand and the trust it inspires

- Sales network composed of nine global business units (Japan, Asia, Oceania, China, India, Europe and the Middle East, Russia-CIS, Africa, and the Americas)
- Comprehensive strength and brand power of One Hitachi
- Operating in over 100 countries and regions worldwide. A network that connects production sites, headquarters, and domestic and overseas distributors



Natural Capital

Reduction of environmental impact throughout the entire value chain

- Focusing on environmental management since the establishment of the Environmental Division in 1991
- Obtained SBT certification (2019)
- Number of environmentally conscious products: 259 models in total
- Recycling rate (Japan): 83.3% (FY2020 results)
- Development capabilities related to electric construction machinery fostered through collaboration with Europe, a leader in environmental policies and regulations
- Energy-saving and carbon-reduction technologies cultivated over many years that contribute to achieving carbon neutrality
- Reduction of CO₂ emissions and development of water-saving activities at production factories



(Note) Unless otherwise stated, figures are as of the end of fiscal year 2020.

10-Year Consolidated Financial Highlights

Hitachi Construction Machinery Co., Ltd. and Consolidated Subsidiaries (March Year-End)

*Beginning with the fiscal year ended March 2015, we have prepared our financial statements in accordance with International Financial Reporting Standards (IFRS). Figures in brackets [] are based on Japanese GAAP.

Financial Indicator	Units	2012/3 (Japanese GAAP)	2013/3 (Japanese GAAP)	2014/3 (Japanese GAAP)	2015/3 (IFRS)	2016/3 (IFRS)	2017/3 (IFRS)	2018/3 (IFRS)	2019/3 (IFRS)	2020/3 (IFRS)	2021/3 (IFRS)
Financial Information											
Earnings											
Revenue [Net sales]	Millions of yen	817,143	772,355	802,988	815,792	758,331	753,947	959,153	1,033,703	931,347	813,331
Overseas revenue [Overseas net sales]	Millions of yen	606,164	580,440	571,142	594,036	525,531	527,961	765,933	827,628	725,743	609,995
Overseas sales ratio	%	74.2	75.2	71.1	72.8	69.3	70.0	79.9	80.1	77.9	75.0
Solutions business	Millions of yen	-	-	-	-	-	6,691	92,287	95,976	90,596	79,140
Adjusted operating income	Millions of yen	-	-	-	-	23,364	28,265	93,582	116,841	76,618	32,710
Income (loss) before income taxes [income before income taxes and other adjustments]	Millions of yen	50,129	45,763	52,775	58,953	24,517	23,859	95,612	102,702	67,103	25,578
Net income (loss) attributable to owners of the parent [Net income attributable to owners of the parent]	Millions of yen	23,036	23,464	28,939	26,023	8,804	8,022	60,004	68,542	41,171	10,340
Financial Condition											
Total assets [Total assets]	Millions of yen	1,086,116	1,099,901	1,087,191	1,064,673	926,628	1,012,208	1,089,796	1,185,256	1,167,567	1,220,571
Equity attributable to owners of the parent [Shareholders' equity]	Millions of yen	322,570	361,163	388,381	431,227	395,963	399,619	448,502	486,407	473,537	514,291
Net interest-bearing debt* ¹	Millions of yen	307,710	325,050	308,909	236,240	138,785	183,246	148,736	237,461	276,778	249,158
Net debt-to-equity ratio (net D/E ratio)	Times	0.95	0.90	0.80	0.55	0.35	0.46	0.33	0.49	0.58	0.48
Return on equity attributable to the parent [Return on equity] (ROE)	%	7.3	6.9	7.7	6.3	2.1	2.0	14.1	14.7	8.6	2.1
Return on assets attributable to the parent [Return on assets] (ROA)	%	5.1	3.3	4.9	2.4	0.9	0.8	5.7	6.0	3.5	0.9
Equity ratio attributable to owners of the parent [Shareholders' equity ratio]	%	29.7	32.8	35.7	40.5	42.7	39.5	41.2	41.0	40.6	42.1
Price-earnings ratio (PER)	Times	16.8	18.3	14.6	17.2	43.2	73.6	14.5	9.1	11.3	72.9
Per-Share Indicators											
Earnings per share attributable to owners of the parent [Earnings per share attributable to owners of the parent]	Millions of yen	108.88	110.77	136.24	122.44	41.41	37.72	282.16	322.31	193.61	48.62
Diluted earnings per share attributable to owners of the parent [Diluted earnings per share attributable to owners of the parent]	Millions of yen	108.86	110.75	136.20	122.42	41.41	37.72	282.16	322.31	193.61	48.62
Equity attributable to owners of the parent [Net assets]	Millions of yen	1,522.86	1,704.34	1,827.59	2,028.57	1,861.93	1,879.14	2,109.04	2,287.31	2,226.80	2,418.46
Dividends per share	JPY	30	40	50	60	40	12	85	100	60	20
Capital Investment, Etc.											
Capital investment (construction basis)	Millions of yen	40,555	58,452	30,291	16,525	21,028	14,127	18,736	30,440	47,197	34,747
Research and development investment	Millions of yen	16,938	18,109	18,809	17,843	18,834	19,304	24,571	24,774	23,720	24,764
Ratio of R&D investment to revenues	%	2.1	2.3	2.3	2.2	2.5	2.6	2.6	2.4	2.5	3.0
Foreign Currency Exchange Rates* ²											
JPY/USD	JPY	78.9	82.4	100.3	110.5	120.1	108.7	110.9	111.0	108.7	106.0
JPY/EUR	JPY	109.0	107.5	134.8	138.3	132.4	118.9	130.1	127.9	120.8	124.6
JPY/RMB	JPY	12.4	13.5	16.4	17.6	18.6	16.2	16.8	16.6	15.7	15.7

*1 Net interest-bearing debt = Interest-bearing debt - Cash and cash equivalents at end of period

*2 Average exchange rate during the period

Feature 1

How Will the Hitachi Construction Machinery Group Respond to Climate Change?

A new era has arrived for the construction machinery industry in response growing climate change issues.

As a construction machinery manufacturer, the Hitachi Construction Machinery Group plans to accelerate its efforts to solve the problems of climate change by leveraging its accumulated technological capabilities and global manufacturing network.

Senior Officer, President, Sustainability Promotion Group
Hitachi Construction Machinery Co., Ltd.

Atsushi Tamane

Declaring Accelerating Efforts to Achieve Carbon Neutrality

In September 2020, Hitachi, Ltd. announced its intention to become carbon neutral by fiscal 2030. We took this action as more countries and municipalities around the world adopt a carbon-neutral policy to reduce greenhouse gas emissions. Our firm aims to achieve net-zero emissions by 2050 in accord with the Paris Agreement. In May 2019, The Science Based Targets initiative (SBTi) ^{*1} approved Hitachi Construction Machinery Group's CO₂ emission reduction targets as follows: A 33% product CO₂ emissions reduction from our products and a 45% like reduction from our production processes by 2030 (as compared to FY2010). In the future, we will accelerate further energy-saving and reduce carbon emissions to achieve carbon neutrality.

The Sustainability Promotion Committee, chaired by our

president, is held twice a year under the leadership of the Sustainability Promotion Group. Here, we report on the major policies and results of our efforts, social trends, and changes in laws and regulations. We also obtain the approval of the executive officers for the plan we have formulated. With a commitment from top management, our group in Japan and overseas is ready to work together to implement our plan.

Our group continues making efforts to create environmental value by “manufacturing”, “using” and “taking on challenges”. Towards this end, we have achieved and accumulated a variety of unique technologies. In the “manufacturing” field, we naturally feel responsible for carbon neutrality and will continue to reduce CO₂ by utilizing more carbon-friendly technologies, including electrical cogeneration systems and greater use of renewable energy.

^{*1} SBTi: Science Based Targets initiative was established in September 2014 by CDP, (a non-governmental organization (NGO) which promotes climate change-related disclosure on behalf of institutional investors), the World Resources Institute (WRI), (an international environmental NGO), the World Wide Fund for Nature (WWF) and the United Nations Global Compact (UNGC). Third-party certification is provided for targets determined by companies and organizations based on climate change scientific evidence.

What is the Paris Agreement?

The Paris Agreement is a international framework for reducing greenhouse gas emissions after 2020. It was adopted at the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCCC) held in Paris, France in 2015. The goal is to reduce global greenhouse gas emissions to near zero in the second half of this century and to limit the temperature increase from pre-industrial revolution levels to less than 2°C (ideally to less than 1.5°C).

Major risks and opportunities due to climate change

For details, please refer to “Response to Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations” on page 51.

Equipped with CO₂ Reduction Technologies Suitable for Each Product, Utilizing our Expertise in Environmentally Friendly Design

Approximately 90% of the CO₂ emitted by construction machinery over its life cycle is generated through equipment use. Scope 3 (other indirect emissions) for the manufacturer is Scope 1 (direct emissions) for the customer, and we believe that our responsibility in the “using” field is very large.

Looking at market trends, we recognize that electric or zero-emission construction equipment is essential to the construction market in developed countries, such as in Europe and Japan. However, there is a limit to the capacity of batteries, so not all excavators, from mini excavators to ultra-large hydraulic excavators, can be battery-powered. From the Group's accumulated technologies—such as wired electric, fuel cell, and hydrogen engine—we examine the best power source based on the characteristics of each product group. Then we adapt the appropriate technology in order to strengthen our competitiveness

Solving Issues in the Mining Field Using IoT and AI, at the Same Time Accelerate the Reduction of CO₂ Emissions

In the mining industry, we will steadily work to comply with exhaust gas regulations and reduce fuel consumption in order to reduce CO₂ emissions in all models. Ultra-large hydraulic excavators utilize wired electric power to reduce fuel consumption in diesel-driven machines and to pull high-voltage wires directly into



Electric excavator “ZE85” (photo: concept model)

in each global market, after considering the available local supply infrastructure.

In addition, European Application Center GmbH (EAC), a development facility based in Germany which is owned by our European distributor, Kiesel Technologie Entwicklung GmbH (KTEG), a Kiesel group company, develops marketing systems around customer's needs, as they use our products. We develop products which respond closely to the issues and needs on-site. We plan to launch new 5-ton class battery-powered mini excavators in Japan and Europe in fiscal 2021.

vehicles. Our trolley-type dump trucks consume electric power by means of a pantograph which significantly reduces CO₂ emissions. We have a range of solution that can be applied to all models. In addition, we continue to research and develop ways to further reduce CO₂ emissions.

Another pillar is the reduction of CO₂ through improved equipment usage at the construction site. We reduce CO₂ by improving product operating efficiency through our mine operation management systems. For example, ConSite® Mine leverages the power of IoT and AI to solve problems which can arise at mining sites. By monitoring construction equipment, it is also possible to predict machine breakdowns so that parts replacement proceeds in advance, maintaining high productivity.

Promoting decarbonization is a major global trend. Hitachi Construction Machinery will continue to focus on “Hard Rock” areas that produce iron ore, copper, nickel, etc. We feel socially responsible for minimizing the CO₂ emissions generated by the machines we manufacture that operate at mining sites. Many of our major mining customers are TCFD*2 supporters aiming to decarbonize. We will work in partnership with them to reduce CO₂ emissions at their mining sites.

*2 Task Force on Climate-Related Financial Disclosures (TCFD)
The TCFD was established by the Financial Stability Board (FSB) at the request of the G20, chaired by Michael Bloomberg, to encourage companies to disclose their climate change-related risks and opportunities.

Rigid dump truck with trolley receiving system

The Development of the Circular Economy Will Lead to Enhanced Corporate Competitiveness in the Long Term

From the perspective of resource recycling, we work on 3R activities in production, parts remanufacturing, milk run (traveling collection) in logistics, introduction of returnable transportation equipment, and used car sales and rental businesses. At a time when the economic outlook remains uncertain due to the global pandemic, more customers are requesting used cars and rental machines.

There is a growing interest in advanced markets to develop the circular economy—to end the cycle of mass production and consumption. This is the unavoidable challenge for companies that sell goods. Realizing resource recycling enhances the sustainability of businesses and can be a source of competitiveness

in the medium to long term. From this perspective, the Group will also strengthen its systems for used car sales, rental, and parts remanufacturing business that contribute to resource recycling, improving the level of value provided to customers.

For example, the Group uses solutions such as ConSite® Mine and the Mine Operation Management System to monitor the status of machines operating around the world and to control its parts remanufacturing business in-house. We believe the group can achieve greater operational and cost efficiencies by using such solutions. Our customers will benefit through improved productivity while reducing maintenance costs. These efforts can also differentiate us from our competitors.

Creating Technology for People and the Environment Looking at the Role of Construction Machinery in Emergencies

In October 2020, Hitachi Construction Machinery announced its endorsement of the TCFD recommendations. In preparation, an internal task force was formed to interview all relevant departments and to identify all climate-related business risks and opportunities. For example, a large typhoon in 2019 damaged one of our parts manufacturers in Nagano Prefecture. Production there ceased for nearly a month and a half. Then, in accordance with our business continuity plan (BCP), we took immediate measures to support production. For example, we diverted parts from stock at Hitachi Construction Machinery (China) to restore production in a short period of time. There are, of course, no guarantees that future like incidents will not occur in the future. The internal task force analyzed not only the direct damage caused by such natural disasters, but also both the risks and opportunities, including changes to behavior and technological trends. Based on this information, we began rebuilding our BCP. We reassessed our risk management plans and started other initiatives. We have already begun to expand our BCP program to encompass the entire group.

During the course of this initiative, the Hitachi Construction Machinery Group recognized that it has a responsibility to bolster countermeasures in all phases of disaster prevention, including mitigation, emergency response, recovery and reconstruction—all essential to ensure business continuity. We believe that we are uniquely positioned to promptly and efficiently supply product and services to disaster sites, utilizing data such as the operating status of our construction equipment. When the company was founded, it started by making and selling construction machinery. With the passage of time, we have combined a variety of digital technologies and are now able to supply our customers with more diverse services. In the future we will have an ever-increas-

ing role to play in society as a supplier of essential products and services.

It will not be easy to achieve carbon neutrality or overcome the severe business environment caused by the pandemic. However, we are not afraid of change. Our business model will evolve to meet the challenges and opportunity of a new era. We will continue to strive, to contribute and solve social issues for everyone's benefit.



Response to recovery in the affected areas

Feature 2

How Will Digital Transformation

New Organization to be the Key to the DX Promotion Strategy
The DX Promotion Group Will be launched in April 2020.

Executive Officer, CDIO, President of DX Promotion Group
 Hitachi Construction Machinery Co., Ltd.
Seimei Toonishi

CDIO: Chief Digital & Information Officer

Since fiscal 2016, the IT Promotion Division (predecessor of the DX Promotion Group) has been introducing its "Value & Vision 2020 Project" to revamp core systems of five domestic production plants of the Hitachi Construction Machinery Japan Co., Ltd. With the release of the new core system in May 2020, we took the opportunity to update our organization by launching full-scale DX acceleration. The new organization, the DX Promotion Group, was formed with a total of 37 members. This includes key personnel selected from each business unit, in addition to existing dedicated IT members.

The objective of this organization is to build a system which quickly and easily creates new value for our customers. Our

DX

Change

Construction Machinery?

In today's rapidly changing world, digital transformation (DX) has become essential for companies to survive.

The Hitachi Construction Machinery Group aims to realize DX that is truly valuable to customers and society under a new DX promotion system.

Client Solutions Group has already released IoT installation solutions for customers, such as Solution Linkage®. The DX Promotion Group facilitates the development of solutions that create customer value. We also formulate and implement infrastructure strategies to improve agility. Specifically, we will shift from employing a "waterfall" to "agile" development style. The "waterfall" style is characterized by dividing development into smaller steps, with each step checked one at a time. With the "agile" style, development is carried out quickly, with repeated tests conducted over short periods of time. We will build agile systems, allowing business units to develop together with the DX Promotion Group.

What is Digital Transformation?

Originally proposed by Professor Erik Stolterman of Umeå University in Sweden in 2004, the concept refers to broad social change that encompasses all aspects of daily life and which transforms people's lives for the better through use of advanced IT.

Today, DX is best interpreted as strategic use of digital technology by companies to transform their organizations and create value in order to increase competitiveness and sustainability.

We Aim to Establish Operational Excellence by Acquiring Innovative Operational Skills and Processes That Other Companies Cannot Imitate

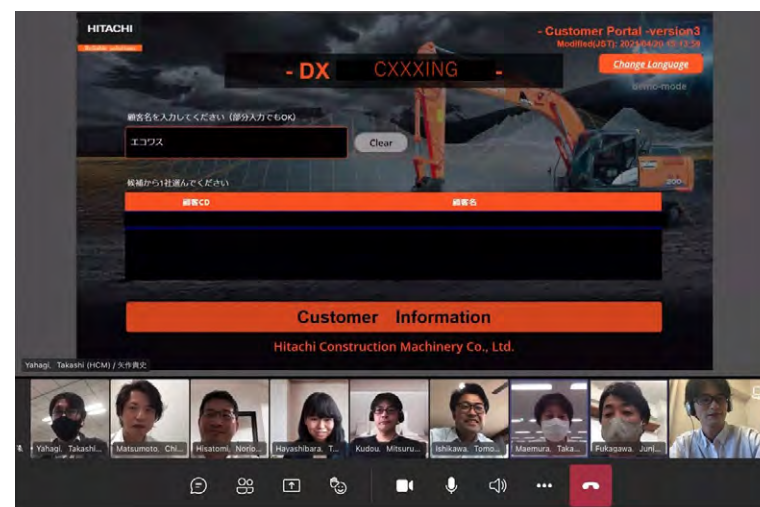
The term DX is often used in recent years, but I feel there are many companies that end up simply using IT. I believe the key to success in corporate DX lies in changing people, data and organizational culture. In order for the president and other senior management to understand this, we asked, “What is DX?” We started the conversation with the following question and explained the importance of working with the entire organization. By doing so, we were able to build a system in which the DX Promotion Group is not a stand-alone IT unit, but rather a cross-sectional organization that collaborates with businesses and operational divisions.

The mission of the DX Promotion Group is to strengthen digital capabilities and to develop human resources across all workplaces and field sites. We want to acquire the ability to reform business operations to a level that other companies cannot imitate, thereby creating customer value and reforming business processes—changing corporate culture itself. Our slogan for fiscal 2021 is: *Change the unchangeable*. In the past, there were cases where business reforms could not be incorporated into the system. They did not take root. But the key to DX is to transform by creating new systems. Rather than follow convention—receiving development requests from business units and then creating what they tell us to create—we work together with our customers to develop Value Proposition Canvas^{*1}. We achieve transformation by making small incremental revisions. After each

revision, we check with customers to confirm real value creation. Then we repeat the process. We believe that by repeating this process, we will be able to achieve a corporate culture of operational excellence^{*2}.

^{*1} A framework for visualizing customer needs.

^{*2} A state in which business reforms are now rooted in the workplace and business operations are refined to the point where they have become a competitive advantage.



Development by an agile team

Create New Customer Value Through Utilizing Collected Data

One year after the launch, many issues have come to light. The biggest theme is how teams best utilize collected data from ConSite[®] and other sources to generate customer value. Data is a treasure trove if it is used well, but it is otherwise useless. First, it should be stored properly in a data reservoir and able to be retrieved on demand. Ideally, information systems should

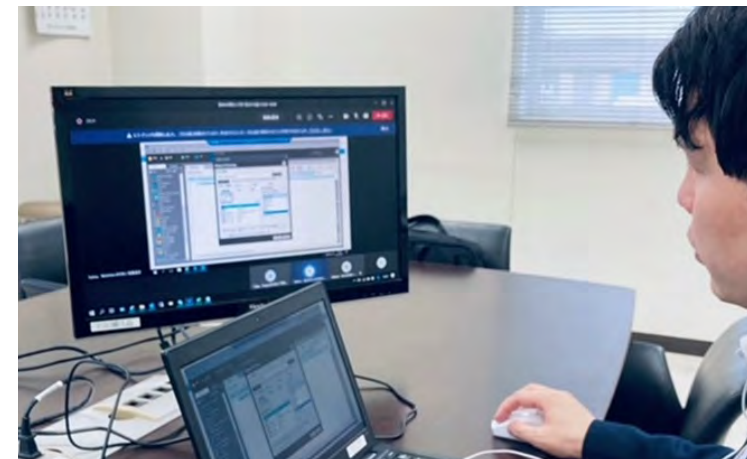
provide not only the construction equipment data but also other associated data. This is not something that can be achieved by hiring a large number of data scientists. We need staff members who are familiar with in-the-field customer issues.

Thinking about at our customers, it is the managers who buy our products and operators who use them. While management focuses on safety, productivity and lifecycle costs, operators also require ease of use, functionality, and comfort. In particular, the construction industry is aging, so it will be necessary to come up with products and services that match the physical condition of operators. In other words, there are two types of user experience. It is important to connect with both. To achieve this, we will need new technologies. We would also like to accelerate building an ecosystem with other industries and start-up companies.

Raising the Level of IT Literacy and Breaking Down Communication Barriers

For internal operations DX, we will redesign existing processes and then proceed with reforms using RPA^{*3} and low-code development. In particular, we are deploying RPA not only in Japan but also at overseas locations. At some other companies, RPA can be developed by the IT department. But at our company, it is developed by people in charge of operations in each business unit. We expect considerable benefits if RPA is introduced, after analyzing and redesigning existing processes. It is important to allocate useful work to current downtime.

The DX Promotion Group also provides education to enhance IT literacy so that each business unit can develop their own applications. Each business unit replaced “hanko” with a stamp-less management workflow approval system. We rapidly deployed the stamp-less system to prevent companywide operational bottlenecks caused by COVID-19. As a result, the awareness that, “We should be able to do this in our own division,” has spread. Our low-code development tools are easy to handle, even for beginners. So it is possible for everyone to more freely exchange ideas and create new useful processes. It may be possible for a new employee who has just joined a company to see problems in existing operations and proceed with developing solutions on his or her own. Through these activities, we



Analysis and redesign of existing processes using RPA.

hope to eventually break down siloed communication between departments and reform organizational culture.

IT literacy is needed for implementing essential information security measures. Ransomware attacks on mission-critical systems occur more frequently since the COVID pandemic struck. Hackers use very clever methods to find vulnerable points to attack. We are working to strengthen information security by implementing Endpoint Detection & Response (EDR) solutions and educating IT members at global sites, with the support of Hitachi's IT group companies.

^{*3} Robotic Process Automation

Robotic Process Automation is the concept of substituting and automating desk work by software robots equipped with rule engines, AI, and other technologies.

We Plan to Develop Human Resources with Flexible Thinking and to Transform the Corporate Culture Itself

In FY2021, we began working with the Human Capital Group to develop a new DX Human Resources Education Plan. The aim is to develop human resources with the ability to adapt to the environment through self-transformation. When people around start thinking about what is happening in the world and what should happen a little further into the future, the conversations

among employees transform—as do the managers themselves. If you prepare an environment in which people can gather without any divisional barriers, our company can more easily start to develop in a more agile way. When looking ahead and testing new ideas becomes the norm, the corporate culture itself changes. In order to create such a foundation, it is essential to train DX specialists who can properly collect necessary data, analyze it, and put it to use. We will work with Hitachi Academy, Ltd. to address these issues as soon as possible.

Since the beginning of Reiwa, in 2019, large-scale natural disasters and pandemics have occurred frequently on a global scale. The Hitachi Construction Machinery Group supplies heavy machinery to assist in disaster recovery and reconstruction. In order to fulfill our social mission, we plan to move forward with DX as soon as possible. In parallel with our DX activities, we are also planning to build a foundation for digital governance. We also will establish KPIs which match our management's strategy to evaluate how we can contribute to our customers and to society. In the future, we would like to steadily contribute to society and to disclose information to our stakeholders in a timely manner.

The Relationship Managers Meeting is where IT managers from Japan and overseas gather to share achievements and challenges



CTO Message

By envisioning the construction site of the future where people and machines cooperate, we will engage an increasing number of partners to continue moving forward.

Hideshi Fukumoto

Vice President and Executive Officer
CTO, President of Client Solutions Group
Hitachi Construction Machinery Co., Ltd.

Acceleration of Technology Development

Our Challenge to Quickly Implement CASE* Into the Civil Engineering, Construction, and Mining Industry

While the global pandemic is having a tremendous impact on the economies and production of many countries, our social environment continues to also undergo major changes. We now live in an era where corporate growth cannot be expected without demonstrating proper responses to social issues such as the declining birthrate and aging population, climate change, and resource depletion. At our customers' business/sites, due to a decrease in workers, shortages of operators and on-site managers are now the norm. There is a growing demand to improve efficiencies in construction and site management using ICT and other technologies.

In the automotive industry, technological innovation based on the keyword CASE is rapidly advancing, and this trend is also being seen in the civil engineering, construction, and mining industry. Our top priorities are to develop construction equipment

and solutions that incorporate new technologies, solve on-site issues and bring about new ways of working. In other words, our major objective and challenge is to make the adoption of CASE into the civil engineering, construction, and mining industry a reality as fast as possible.

Starting in fiscal 2020, under the medium-term management plan "Realizing Tomorrow's Opportunities 2022", our basic strategy is to reinforce the development of digital and advanced technologies. Our main themes include the realization of human-machine cooperative control technology and new technologies for decarbonization. In addition to our own resources for technology development, we are promoting development through open innovation.

* CASE: Acronym for Connected, Autonomous, Shared & Service, and Electric. The four English words used to describe technological innovation.

Open Innovation

Envision the Future of the Field and Take on the Challenge of Turning it Into a Reality

Collaboration with groups who have expertise in a wide range of technologies is essential for future technological development. In fiscal 2018, Hitachi Construction Machinery established the Open Innovation Promotion Office within the Research and Development Group to strengthen ties with a variety of companies, including start-ups. In fiscal 2020, we launched the Venture Business Investment Promotion Project, and are actively working to expand contacts with start-up companies in Silicon Valley and

other parts of the world. From venture companies to large corporations, we are currently partnering on a number of projects a wide range of fields.

In February 2021, as part of the Ministry of Land, Infrastructure, Transport and Tourism's i-Construction initiative, in collaboration with the Kato Group in Hiroshima Prefecture and Nishio Rent All Co., Ltd., in Osaka, we conducted a test run using the fifth-generation mobile communication system 5G to remotely

control multiple pieces of construction machinery. Overall, the experiment was a huge success. What was even more impressive than the results was the feedback we received explaining that staff shortages at small and medium-sized companies being a serious problem and they are in immediate need this kind of cutting edge technology. Although there are still many technical

issues to be overcome in controlling machinery remotely, I realized that it is important to illustrate that we are taking on the challenge of envisioning and realizing the future of civil engineering/construction, mining sites, and other customers' sites, as demonstrated by this practice run.

Cooperative construction machinery

Development of ZCORE for Humans and Machines to Work Cooperatively

Despite the challenges we have undertaken, there is still a gap between our dream of achieving the construction site of the future and the current reality. Looking into the needs of our customers, we see that they want to increase work efficiency and improve productivity with fewer technicians in a safe environment. For the past 70 years, Hitachi Construction Machinery has focused on making machines that operate according to the operator's intentions. The next thing that needs to be done is to incorporate the operator's intentions into the construction machinery. In other words, the construction machinery will be able to perform a series of operations that humans used to do, such as checking the surroundings, making decisions, and operating the machinery. This is now more like developing operators rather than building construction machinery. ZCORE is the system

platform for this purpose.

Cameras and laser radar confirm the machinery's surroundings and AI and the CPU plan and command the next movement through arithmetic operations. The engine, motor, and each hydraulic part then move smoothly to execute the command. In other words, ZCORE is the operator. And just like people, it is important to exchange information outside the company in order to make more appropriate decisions. For example, work plans and weather information can be given via cloud technology to enable more accurate decisions. In this sense, construction machinery is both an operator and an information terminal. Based on this concept, we are operating an experimental machine using ZCORE.

Role as CTO.

Build a New System That Can Adapt to Change

In our 70-plus years of history, Hitachi Construction Machinery has grown by providing society with construction machinery products that always meet the needs of the time. In the face of increasingly rapid social change, for us to be able to achieve future growth, we face even greater challenges than before, such as catering solutions that go beyond the provision of construction machinery products in order to solve the problems faced by society and our customers. In the face of such changes and challenges, if we rest on our past successes and fear the risks of taking on new challenges, we will not only fail to grow, we will decline.

I recognize that my role as CTO is to remove the barriers to change that remain in the organization and in individuals, and to build a mindset and a new system that will allow the entire organization to adapt to change. And the most important thing is to change together with our customers. Experiencing the trials and errors of change together with our customers is the solution we are aiming for, and it will further deepen our relationship with them.

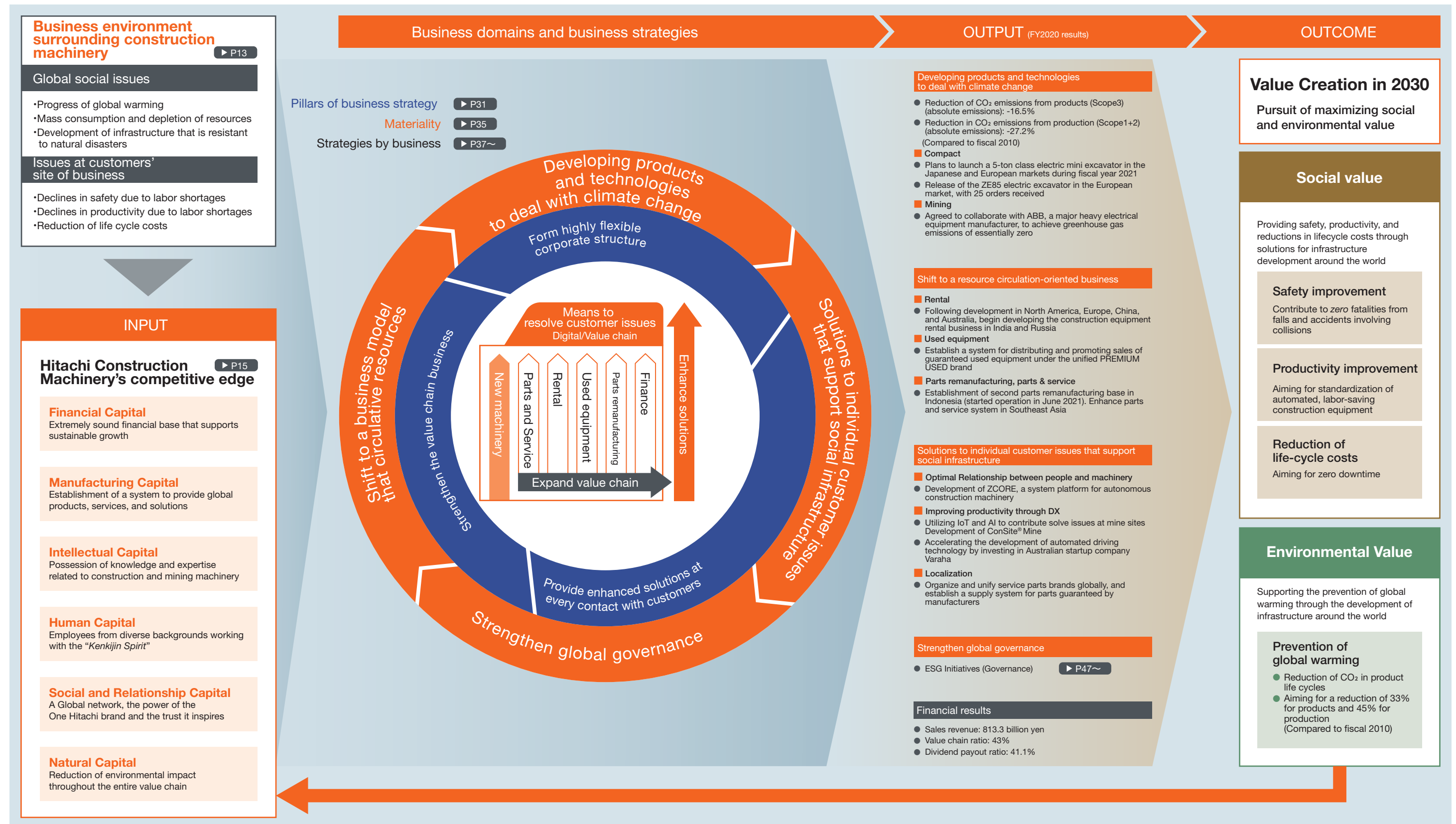
We, the Hitachi Construction Machinery Group, would like to express a single worldview that paints the future of the civil engineering, construction, and mining Industry. Some people believe that machine automation will eliminate the need for people. We envision an ideal workplace where no matter how advanced the technology, people and machines communicate and

cooperate safely. While the realization of a world in which people can feel affluence alongside sustainable development isn't easy, we believe it is possible whether in urban or remote areas. We would like to discuss our future vision with as many groups as possible and find collaborative partners willing to take on the challenge with us, moving forward step by step.



Value Creation Model

The Hitachi Construction Machinery Group will utilize digital technology in the value chain businesses that it has focused on to date. We will also further enhance the solutions that we provide every time we have contact with our customers. By doing so, we aim to maximize our social and environmental value.



FY2020-2022 Medium-term Management Plan

Realizing Tomorrow's Opportunities 2022

Positioning of the New Medium-term Management Plan

The Hitachi Construction Machinery Group has formulated its medium-term management plan, “Realizing Tomorrow’s Opportunities 2022”, which will end in FY2022. This plan serves as an intermediate step toward 2030. During the previous medi-

um-term management plan, we shifted from a business model focused on new machines sales to a value chain business targeting machines operating worldwide. In this medium-term plan, we will solve customers’ issues by leveraging digital technologies to deepen the value chain business that was our focus during the previous medium-term plan.

CONNECT TOGETHER 2019

Deepening the Value Chain

- Parts and services
 - ConSite®
- Acquired Bradken and H-E Parts
- Launched rental business in the US and UK
- Developed certified used equipment business

Rebuilding Global Structures

Improved efficiency of overseas sites

Realizing Tomorrow's Opportunities 2022

Deepening the Value Chain & Digital Solutions

- Parts and services
 - ConSite®
 - Parts remanufacturing
 - Bradken / H-E Parts
- Digital mining
- Global expansion of rental and used machines

Greater Efficiency in Development Marketing and Production

Global collaboration

Quantitative Goals and Achievements

There was severe deterioration from FY2019 to the first half of FY2020 in the market environment for hydraulic excavators, our mainstay product, due to impact from the spread of COVID-19. While there is gradual recovery here, a full-scale recovery of market conditions is expected to start in the second half of

FY2021. In the first half of FY2020, business performance deteriorated due to factors like major production adjustments. However, the actions we have taken so far are expected to reap results and bring us into recovery in FY2021. We will also promote initiatives that take into account ESG-related indicators as key management indicators.

Management indicators	Previous medium-term plan CONNECT TOGETHER 2019	New medium-term plan Realizing Tomorrow's Opportunities 2022			
	FY2019 results	FY2020 results	FY2021 forecast	FY2022 targets	
Sales revenue	931.3 billion yen	813.3 billion yen	880.0 billion yen	1 trillion yen	
Value chain ratio	41%	43%	43%	50%	
Adjusted operating income ratio	8.2%	4.0%	7.0%	10% or more	
Net D/E ratio	0.58	0.48	(No target set)	0.5 or less	
ROE	8.6%	2.1%	(No target set)	10% or more	
Social value ConSite® adoption rate	73%	75%	(No target set)	90%	
Economic value Parts remanufacturing business sales revenue * Vs. FY2010	296%	308%	352%	420%	
Environmental value Reducing CO ₂ emissions from products (total) * Vs. FY2010	-15.9%	-16.5%	-21.0%	-20.0%	
Dividend payout ratio	31.0%	41.1%	30% or more	30% or more	

Key Strategies and Directions

Focus themes	Directions	Targets
<div>Strengthening value chain business (rental and used machines)</div> 	<ul style="list-style-type: none">Utilizing ConSite® to ascertain operation data for each machines, providing each in their best possible conditionsProviding manufacturer maintenance and repairs for rental machines, selling a strong selection of grades to the used machines market	<div>Expand the used machines business sales revenue</div> <div><div>FY2022</div><div>Used machines 280% vs. FY2010</div></div> <div><div>FY2030</div><div>Adoption of products and services that meet regional needs</div></div>
<div>Strengthen value chain business (parts & service)</div> 	<ul style="list-style-type: none">Increasing the ConSite® adoption rate to 90%, using proactive approaches to customers to target zero machine downtime, while simultaneously linking this to expansion of the parts & service businessIn addition to the usual genuine parts, establishing certifications for what are called “Selected Parts” to meet the diverse needs of our customers while expanding the parts remanufacturing business globallyStrengthening traceability, promoting inventory and delivery optimization, and expanding the parts service business	<div>Expand parts remanufacturing business sales revenue</div> <div><div>FY2022</div><div>Parts remanufacturing 420% vs. FY2010</div></div> <div><div>FY2030</div><div>Adoption of products and services that meet regional needs</div></div> <div>Life cycle cost reductions</div> <div><div>FY2022</div><div>ConSite® Adoption rate 90%</div></div> <div><div>FY2030</div><div>Aim for “zero” downtime</div></div>
<div>Advancement of construction machinery and improvement of safety</div> 	<ul style="list-style-type: none">Improving safety through evolving construction machines, and providing deeper solutionsImproving site safety as a whole through providing co-operative construction equipment, operation support systems, and various solutions, aiming for “zero” overturn and fatal accidents in the construction site.	<div>Functionality to reduce accidents caused by our products</div> <div><div>FY2022</div><div>Achieve cooperative control between people and machines</div></div> <div><div>FY2030</div><div>Contribute to “zero” overturn and fatal accidents</div></div>
<div>Realizing a sustainable society</div> 	<ul style="list-style-type: none">Complying with regional engine exhaust gas regulations as we seek drastic technological innovation to reduce CO₂.	<div>Reducing CO₂ emissions from products</div> <div><div>FY2022</div><div>-20% vs. FY2010</div></div> <div><div>FY2030</div><div>-33% vs. FY2010</div></div>

CFO Message

As a company, we aim to be resilient to fluctuations in demand and changes in the environment. To this end, we strive to balance strengthening our capacity for growth, improving our financial stability, and returning profits to shareholders.

Keiichiro Shiojima

Executive Officer, Director
CFO, President of Financial
Strategy Group
Hitachi Construction
Machinery Co., Ltd.

Key Strategies for Capital Allocation

A Balanced Distribution of Capital Among Capacity for Growth, Stability, and Shareholder Returns

For the Hitachi Construction Machinery Group (the Group) to achieve sustainable improvements in corporate value, we aim to create a corporate structure that is resilient to changes in the business environment and fluctuations in demand. In support of this aim, we plan to allocate capital equally among capacity for growth, stability, shareholder return. We began operating our medium-term management plan, *Realizing Tomorrow's Opportunities 2022*, in fiscal 2020. This plan defines indicators (KPIs) and the targets we prioritize.

Our target for adjusted operating margin, an indicator of profitability, is 10% or higher. Our targets for sales revenue and a value chain business sales ratio (an indicator of growth potential) are 1 trillion yen and 50%, respectively. Other targets in our plan include an ROE of 10% or higher (capital efficiency) and a net debt-to-equity ratio of 0.5% or lower (financial stability). Last, we set a target of 30% or higher for dividend payout ratio (shareholder return).

To date, our guideline for R&D investment has been 3% of net sales. Despite a challenging fiscal 2020, we will maintain our commitment to investments, aiming for 4% under the new medium-term management plan. We will focus investments in the

key areas of digital and cutting-edge technologies. We believe these areas are essential for securing future product superiority. We categorize the markets for group products generally into advanced countries, accounting for about 40% of total sales, and emerging countries, accounting for about 60% of total sales. We plan to expand our presence in both markets. The trend toward ESG considerations has strengthened over recent years among the developed world. Various countries have declared the urgent need in particular for the development of decarbonization technologies, as well as for the development of labor-savings and autonomous driving technologies based on ICT. We plan to make considerable investments in these areas as they relate to our purpose as the Group. In emerging markets, we plan to accelerate the development of products for specific applications and purposes to achieve functional superiority and price competitiveness. Rather than relying solely on our own resources, we intend to leverage open innovation to hasten this development. The exception will be technologies in operability and control, where we already have strengths. Here, we are investigating a wide range of startup and venture funds to best focus our investments.

Fiscal 2020 Financial Activities and Future Initiatives

Improving Cash Flows for Further Investments in the Next Stage of Growth

The spread of COVID-19 caused production stoppages and the stagnation of group inventory operations in Europe, India and other regions through fiscal 2020. We were forced to delay the announcement of our financial results, and we could not make

future projections for a period of time. From a financial perspective, we prioritized cash flow and conducted large-scale production cutbacks in response to the situation. We achieved the significant milestone of 1 trillion yen in sales revenue two years

ago, in fiscal 2018. This achievement also increased working capital, while the spread of COVID-19 in the following fiscal year depressed demand and resulted in two consecutive accounting periods of free cash flow deficits. We recognize that stakeholders expect profits on earnings, so we prioritized improving cash flow and implemented production adjustments promptly in fiscal 2020. We saw faster-than-expected recoveries in markets such as China, and cash flow improved significantly as a result of shrinking working capital through production adjustments. By the end of the fiscal year, we reduced our net D/E ratio 10 points to 0.48. Market conditions are expected to recover in many parts of the world in fiscal 2021. We are now in a position to turn cash toward new investments to our expand growth and profitability.

Issues Currently Facing the Group

Stabilize Earnings and Improve Financial Leverage by Strengthening Our Value Chain Business

The construction machinery industry is sensitive to economic change. One of the most important issues for management is how we absorb these fluctuations. Strengthening our value chain business will be an important strategy to resolve this issue in the future. We will stabilize earnings through deeper interactions customers and by taking advantage of our direct sales and service-oriented business structure. When new car sales fluctuate, for example, we want a stable base of sales revenue, developed by a higher sales ratio of our value chain business.

One of the values we provide in the value chain is construction equipment rental. While the impact of the pandemic has seen companies reduce investments, rental demand has been growing. With nearly 300 managed locations in Japan, we work with our customers as partners to build relationships of trust and provide a wide range of equipment that meets the needs of construction sites. We are proud to be one of the few manufacturers that have succeeded in operating a profitable rental business. The rental business is even a more attractive option when considering the perspective of ESG. Over the past few years, there has been a shift from ownership to rental use. This shift

has occurred mainly in developed countries, and more customers are using a combination of ownership and rental. The rental business is also a service that society needs in terms of maximizing the value of resources, and we expect this business to grow in the future.

Another challenge is to improve our financial leverage. We recognize that fiscal 2020 ratio of 2.4 was high compared to the industry level. To improve this ratio, we believe we must establish a management structure supporting steady sales revenue of 1 trillion yen, while also monitoring our ratio of total assets to equity based on the scale of our production facilities and other factors. In other words, the approach is to establish a production system offering immediate supply in response to rising demand, ensuring profitability by controlling indirect costs while maintaining the operation of production facilities using rental equipment and parts when demand decreases. The Group goal is to establish a well-balanced financial base by reducing debt, investing in growth, monitoring ROE to ensure efficiency, and returning profits to shareholders.

Shareholder Return and Total Shareholder Return

Become a Highly Valued Company Through Greater Communications with Stakeholders

Due to a significant decrease in profits for fiscal 2020, our annual dividend of 20 yen per share (payout ratio of 41%) did not meet the expectations of our shareholders. Despite the pandemic, we have improved our financial stability and in the future, we plan to offer shareholders stable returns and a dividend payout ratio of 30% or more in the next fiscal year and beyond.

In fiscal 2020, we began disclosing total shareholder return, which was 213.8% for fiscal 2020. We believe that communication with our shareholders and investors is very important. To this end, we held an ESG presentation in December 2020. Going forward, we will continue to communicate our business potential

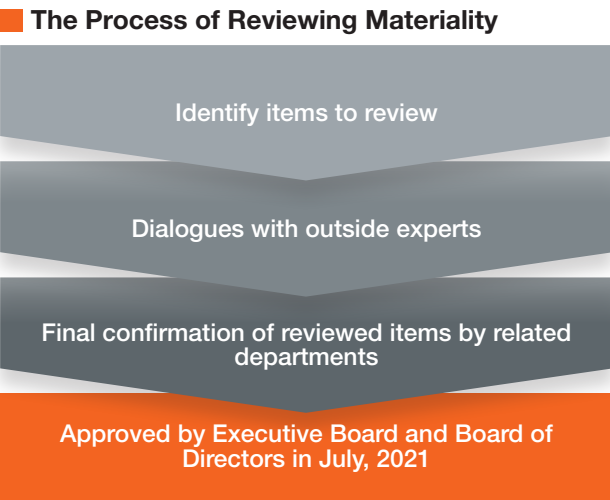
and future prospects to improve the value of the Group.

Competition in the construction equipment market is intensifying. Developed countries are accelerating their search for the next generation of construction equipment, while emerging countries are spurring price competition. During these challenging times, our group will prevail by providing customers with valuable products and services through our diverse value chain businesses and the trust in quality that we have cultivated. We will continue to work to strengthen our financial position and solidify the foundation for new investments. We hope that our shareholders will continue to support us for many years to come.

Hitachi Construction Machinery Group's Materiality

In fiscal 2015, the Hitachi Construction Machinery Group identified “eight CSR priority themes” as our Materiality together with internal and external stakeholders. Due to the drastic change in the global society as well as the policies and regulations of each country, we started to review the materiality in FY2020.

The materiality reviewed this time emphasizes not only the perspectives of SDGs and ESG, but also issues that lead to the improvement and damage of the company’s corporate value. Regarding identifying the materiality themes, we had a lot of discussions while incorporating the opinions of internal and external stakeholders, including several dialogues with outside experts and were approved by the Executive Board and the Board of Directors in July 2021. In the future, we plan to confirm the progress of the medium-term management plan and reflect our Materiality in the management strategy process.



Current Materiality Themes identified in FY2015

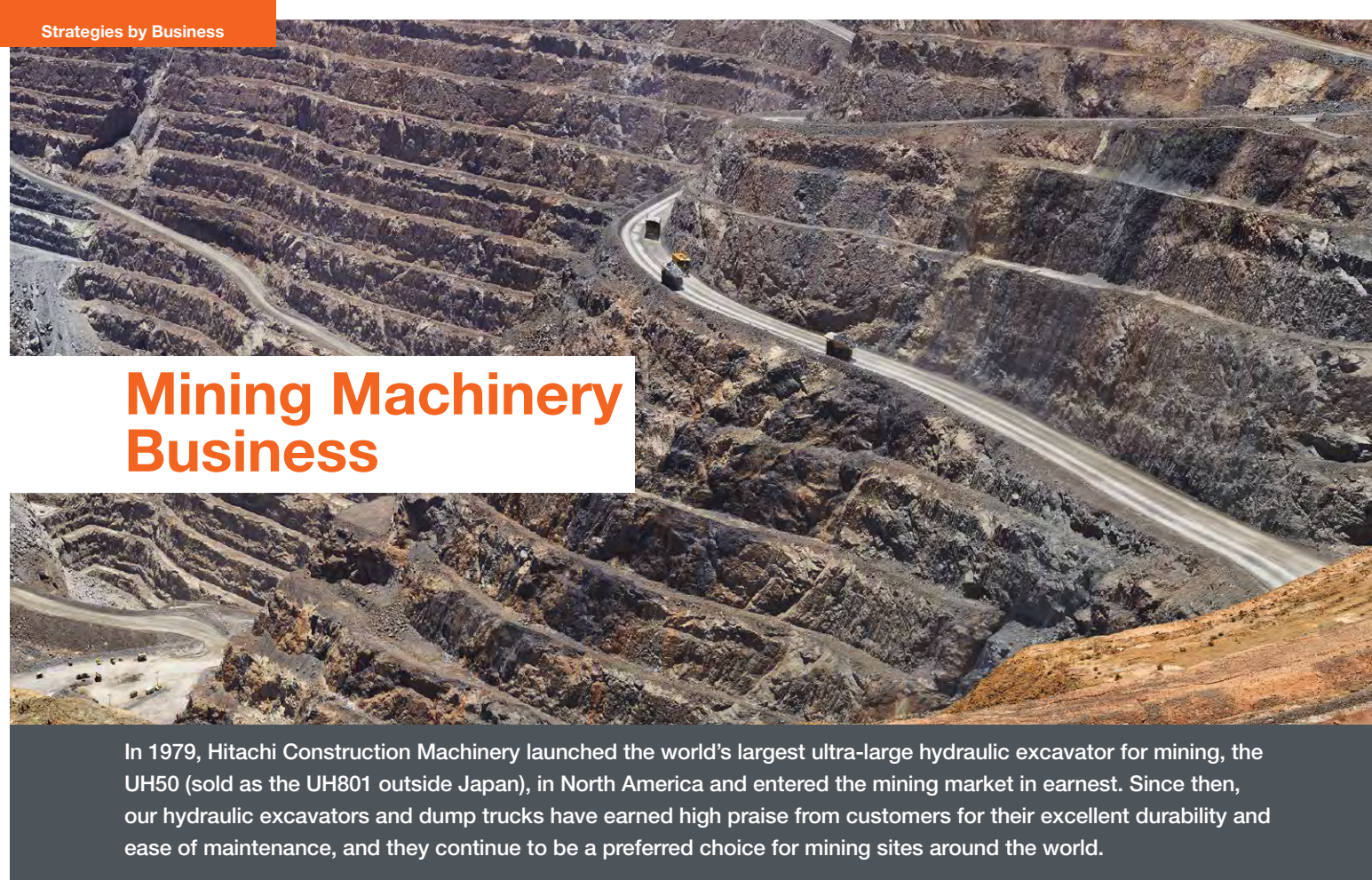


Regrouped Materiality Themes



* In fiscal 2018, the Hitachi Construction Machinery Group selected 10 priority goals on which to focus among the 17 goals of the SDGs. The SDGs most relevant to the newly identified materialities are listed here, but they will also contribute to achieving other goals. (Reference) *Approaches to the SDGs* <https://www.hitachim.com/global/sustainability/sdgs/>

Materiality Themes	Key Initiatives	Why it Matters
Product and technology development contributing to Climate Change Mitigation and Adaptation 	<p>[Mitigation] (Measures to curb greenhouse gas emissions)</p> <ul style="list-style-type: none">Differentiation by expanding the development of decarbonization technologies such as electric and hydrogen enginesRealization of decarbonized products by understanding potential market needs and accelerating the speed of developmentAcceleration of decarbonization by open innovationHighly efficient mine operation management system (Improving the efficiency of the entire mine)CO₂ reduction in the entire value chainProactively introducing renewable energy and systematically investing in high-efficiency facilitiesOptimization of global production and procurement <p>[Adaptation] (responding to current and projected climate change impacts)</p> <ul style="list-style-type: none">Prompt provision of optimal solutions for disaster prevention and mitigation, emergency response, and recovery and reconstructionStrengthen BCP for the entire supply chainEstablish a global production and procurement system to prepare for disasters	“Climate change” has a great impact on the Group’s business in terms of risks and opportunities. As a TCFD supporter, this issue is undoubtedly critical and significant to tackle. We have selected this theme to clarify our stance of tackling this challenge by going one step further than the conventional solutions to global environmental issues.
Conversion to Recycling-oriented Business model 	<p>[Resource saving / waste generation control]</p> <ul style="list-style-type: none">3R (Reduce/Reuse/Recycle) + RenewableAI Production Control <p>[Longer term and effective use of products, etc.]</p> <ul style="list-style-type: none">Longer service term and improved durability through eco-design <p>[Global expansion of resource recycling]</p> <ul style="list-style-type: none">Remanufacturing business of parts with the same quality as new productsDevelopment of certified brand-name used equipmentDifferentiation through high-quality rental machines and utilization of data	Increase the sustainability of business activities and ensure competitiveness over the medium to long term. To this end, it is important to shift to a business model that circulates and uses resources efficiently. This is the direction that is being sought internationally.
Creating innovative solutions for challenges faced by customers supporting social infrastructure 	<p>[Optimal relationship between people and machines]</p> <ul style="list-style-type: none">Ensuring safety / quality, developing differentiating technologiesContribution to cooperative construction machinery, driver assistance systems, and site safety <p>[Productivity improvement by DX]</p> <ul style="list-style-type: none">Expanding machines, systems and solutions that improve construction efficiencyDevelopment and provision of labor-saving machines using unmanned and robotized technology <p>[Lifecycle cost reduction]</p> <ul style="list-style-type: none">Stable machine operation and reduction of life cycle cost <p>[Localization]</p> <ul style="list-style-type: none">Local development of machines and human resourcesProviding finance and machinery for infrastructure development	While utilizing advanced technologies such as ICT, our group is confronting various issues in workplace, such as shortages of both workers and skilled engineers. It is our mission to solve customer issues such as improvement of safety, productivity, and reduction of life cycle costs.
Strengthening global governance  	<p>[Governance]</p> <ul style="list-style-type: none">Management TransparencyComplianceRisk management <p>[Supply Chain Management]</p> <ul style="list-style-type: none">Respecting human rightsFair sales partnership <p>[Employee occupational safety and human resource development]</p> <ul style="list-style-type: none">Diversity human resource development locally and globallyGlobal Occupational Safety and Health Management (including infectious disease control)	We will aim to establish an organizational structure that will lead to increased corporate value in the long term. Furthermore, we must develop corporate governance on a global scale, including the creation of an environment in which employees from diverse backgrounds can play active roles. These things are essential. For the Group, which operates in more than 100 countries around the world, it is essential to consolidate corporate governance globally.



Mining Machinery Business

In 1979, Hitachi Construction Machinery launched the world's largest ultra-large hydraulic excavator for mining, the UH50 (sold as the UH801 outside Japan), in North America and entered the mining market in earnest. Since then, our hydraulic excavators and dump trucks have earned high praise from customers for their excellent durability and ease of maintenance, and they continue to be a preferred choice for mining sites around the world.

Enhancing Our Development System for Technologies and Solutions Solving Mining Site Issues

The Hitachi Construction Machinery Group has successively developed and provided a number of elements contributing to the resolution of issues at mining sites, such as skilled labor shortages and safety improvement. These solutions include our Fleet Management System (FMS) for mining operation management and our Advanced Vehicle Stabilization Controls Technologies. We have also taken action to strengthen our solutions business structure, such as bringing US-based machinery and equipment services solutions provider H-E Parts into the Group in 2016, and acquiring Australia-based major manufacturer of cast parts manufacturer Bradken into the Group in 2017. In addition, our ConSite® Mine service, beginning a full-scale rollout in 2021, features a Load Index function that utilizes AI and stress analysis technology to predict cracks in excavator booms and arms. By visualizing the operator's operations, this system helps improve safety and productivity, as well as contributing to the reduction of life-cycle costs. We have utilized Proof of Concept in Australia, Zambia, and Indonesia to conduct a detailed analysis of user needs, reflecting these in our UX/UI*1 improvements.

Much of the world's mining remains energy-intensive, with the challenges to reduce CO₂ emission. Hitachi Construction Machinery has reached an agreement with major Swiss heavy electrical equipment company ABB, establishing collaboration with the aim of achieving net zero emission from mining machinery. ABB has strong capabilities in electrification, automation, and digital technologies for mining machinery. Going forward, our goal is to improve the efficiency and scalability of mining sites

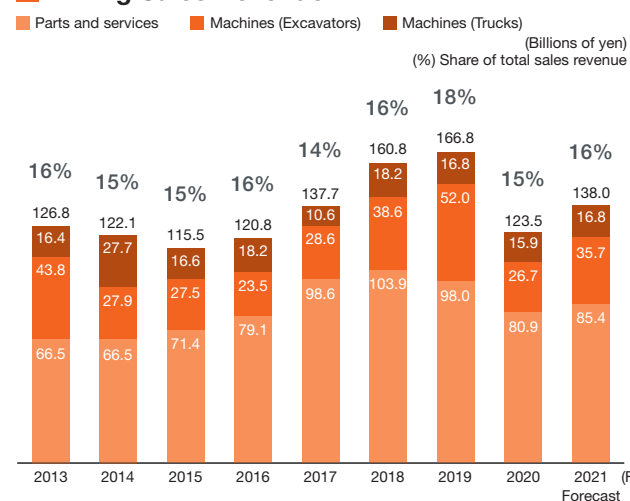
through a fusion of solutions from both companies, contributing to the realization of a sustainable society.

*1 UX/UI: User Experience/User Interface



Illustration of the ConSite® Mine dashboard (management screen). Users can check detailed information on excavators via a web browser or tablet device.

Mining Sales Revenue



Focus on Australia

Autonomous Operation, Remote Operation, Decarbonization: Australia's Mining Sites Serve as Near-future Model

Australia is the world's largest coal exporter and boasts ample mineral resources. Its coal and natural gas industries are key parts of its economy, accounting for about a quarter of total exports. It is also rich in hard rock (metal minerals) like iron ore, copper, and nickel, and steel companies are actively working to introduce technologies and automation in order to improve productivity and safety on-site.

In 2009, Hitachi Construction Machinery began research into an Autonomous Haulage System (AHS) for dump trucks used in mining. In FY2020, we delivered six unmanned autonomous rigid dump trucks to the Maules Creek Mine operated by coal giant Whitehaven in FY2020, launching 24-hour autonomous operation. Large-scale mining sites have a wide variety of both manned and unmanned vehicles, requiring stable control of wireless communications in managing operations. Hitachi Construction Machinery's AHS is managed by our FMS, and is scalable to control up to 100 vehicles.



Unmanned rigid dump trucks operating in Australia

Leveraging Collaboration with Australian Startups to Accelerate Self-Driving Development

Beginning in FY2021, we are also launching Proof of Concept for autonomous ultra-large hydraulic excavators. We began by developing an ultra-large hydraulic excavator remote operation system to improve operators' work environments and to ensure safety. Furthermore, in order to ensure the same level of operability as if an operator were in the machine itself, we incorporate the operator support system to provide functions like avoiding collisions with other mining machinery. Next, we will develop a system automating some of the machinery's operation, such as excavation and loading, enabling a single remote operator to operate multiple excavators. Through these steps, we aim to develop autonomous ultra-large hydraulic excavators. Eventually, our goal is to attain high levels of both safety and productivity by exchanging information between ultra-large hydraulic excavators, dump trucks, and other machinery operating on-site.

In order to strengthen technologies for solutions targeting mining operation, Hitachi Construction Machinery has invested in Baraja, an Australian startup offering LiDAR*2 technology, which is essential for advanced autonomous driving. Our plan is to use this to further accelerate development for evolving our AHS and greater autonomous function for ultra-large hydraulic excavators.

*2 LiDAR: Light Detection and Ranging. A technology that irradiates an object with laser light, captures the reflected light with a sensor, and detects the shape of and distance to the object.

Stakeholder's Voices

Our Quality Gives Confidence, Even at Harsh Mining Sites

The Roy Hill Mine in Australia's Pilbara region is one of the world's largest iron ore mines. We have 24 EH5000AC-3 (rigid dump truck) from Hitachi Construction Machinery in operation at our site. EH5000AC-3 is an ideal match for the scale of our business, including matching with EX8000-6 ultra-large hydraulic excavator. And EH5000AC-3 provides us with various advantages. Hitachi Construction Machinery dump trucks run in harsh environments. The fact that they have passed Japan's rigorous performance tests gives us confidence.



Ian Wallace
Head of Mining, Roy Hill

Construction Business

Since the 1990s, Hitachi Construction Machinery has shifted its overseas business, which was previously focused on exports, to a local production, sales, and service model, and has expanded its business around the world. Fiscal 2020 overseas sales for the Group will account for 75% of total sales, and in order that we can provide customers worldwide with various options other than for new machines, we are entering the rental business in major developed countries as well as expanding sales of certified used equipment worldwide.

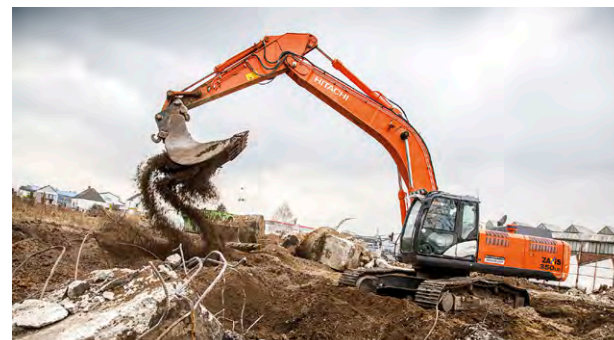
Global Deployment of Value Chains and Digital Solutions

The fiscal 2020 impact of COVID-19 on markets led to a decrease in new machines sales. Rental machines, however, saw heightened demand even during the pandemic, and so the Group started to expand its rental construction equipment business in India and Russia, in addition to North America, Europe, China, and Australia. We will work to differentiate ourselves in the market by maximizing our advantages in providing high-quality rentals of construction equipment through the use of ConSite® and other products. In addition, as a response to growing demand for used equipment especially in emerging countries, we have systemized the distribution and expansion of sales of certified used machines under warranty as PREMIUM USED, for which we can control quality in-house. In the medium to long term, we aim to establish a high-quality used machine business so that we can provide customers around the world with used machines and services that suit local needs.

We will also accelerate technical innovation in response to the on-site challenges of advanced markets including ICT construction equipment incorporating autonomous driving and remote control functionality which is seeing increased demand in Europe and other areas. We will also work using open innovation in order to develop next-generation construction equipment including the usage of fuel cells and hydrogen engines as a way to contribute to carbon neutrality.

Hitachi Construction Machinery
PREMIUM USED

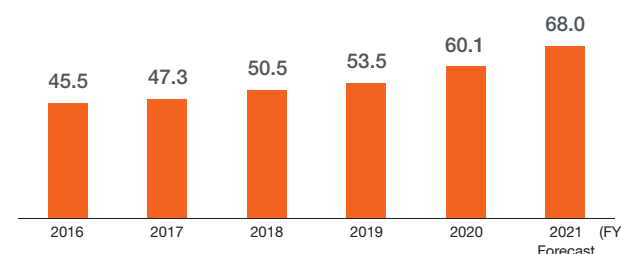
PREMIUM USED certified used machines under warranty



After meeting our own inspection and maintenance standards, used machines under warranty are sold with a power train warranty.

Trends in Rental Business Sales Revenue

(Billions of yen)



No. of Used Machines Auctions

Approx. **4,000** (FY2020 results)

Focus on China

Aiming to be a High-quality Presence in the Chinese Construction Market

The COVID-19 pandemic has resulted in China's economy being in turmoil, however the government's strict quarantine policy was successful, and since March 2020 the economy has been recovering rapidly. The increase in infrastructure construction means the demand for construction equipment has rebounded, and the pronouncement by the National People's Congress that it will aim for 6% growth in GDP in 2021 has further spurred activity.

To ride this wave of demand, Hitachi Construction Machinery launched three new specialized models of earth-moving equipment for the Chinese market in the fall of 2020—the ZX60C-5A, ZX120-5A, and ZX195-5A. Many local manufacturers have entered the Chinese market and are driving price competition. We are at a disadvantage as regards price here given that we are a foreign manufacturer, but the operability and durability of our products are highly regarded.



ZX120-5A excavator for civil construction use for the Chinese market

Accelerating Development of Products That Meet Customer Needs, Such as Electric Construction Machinery

In recent years, demands for infrastructure development such as for cities and farmland has seen an increase in numbers of private chartered construction contractors working on an hourly basis. These three models of excavators were developed based upon a new product strategy from the Marketing Strategy Group established by Hitachi Construction Machinery in April 2019. They are the result of a swift response to ever-changing customer needs and the business environment. The ZX60C-5A in particular has been well received because of both the change in body shape from its predecessor the ZX55, and its reduced pricing. Sales of the ZX120-5A and ZX195-5A have also exceeded initial targets.

China has announced a policy of making all cars eco-friendly by 2035, and there is accelerated development of EVs with replaceable batteries, and of charging stations. Such an environment also requires that construction equipment be eco-friendly, and so local Chinese manufacturers are leveraging electrification technologies used in cars and buses in developing hydraulic excavators and wheel loaders, and have begun introduction of these on a trial basis. Foreign manufacturers have also focused development efforts on commercializing electric small and medium-sized equipment, and in areas in which the environment is of concern such as indoor work, tunnel construction, and ports, demand for this is expected to grow.

The Group aims to gain a foothold in the global market by accelerating development of electric construction machinery.

Stakeholder's Voices

High Overall Opinion of the ZX120-5A

We have been working with Hitachi Construction Machinery for a while now, and purchased the ZX130-5ABP in 2017 and 2018. We used other manufacturers in 2019 and 2020, but in March 2021, we tested the ZX120-5A in a demonstration, and found it very easy to operate, in particular its speed of combined operations. Its fuel efficiency and overall high rating were key factors in our deciding to purchase this model. We do a lot of crushing work at our site in south-west Chongqing, and so we had the seat screw fitted at the time of delivery, and find it convenient on the work site.



Yue Zong Construction Equipment Leasing Co., Ltd at Beibei District of Chongqing (photo, at right)



Electrification Business

Hitachi Construction Machinery was one of the first companies to develop and manufacture electric construction machinery. We developed the first electric hydraulic excavators in 1971. Wired electric excavators based on small- and medium-sized equipment for work inside factory buildings were launched in the 1990s, and have sold well since then. Experience gained through the development in 2006 of battery type hydraulic excavators incorporating lithium-ion batteries has given the Group a major competitive advantage in this field.

Line-up That Meets the Needs of Customers Aiming to Achieve Carbon Neutrality

The Hitachi Construction Machinery Group has put forth a goal to reduce by 33% CO₂ emissions (over 2010 levels) from production through to disposal, and is working to achieve carbon neutrality. Electrification of construction machinery is key to achieving this. National and regional governments around the world are announcing their intention to go carbon neutral, and we are seeing a move towards the complete electrification of automobiles, with this trend also impacting construction equipment. Construction work in narrow and enclosed areas, as well as at night is increasing particularly in urban areas worldwide, and we are seeing heightened demand for operationally and environmentally functional electric mini excavators with compact bodies, no exhaust, and low emitted sound. Hitachi Construction Machinery developed the battery-powered mini excavators ZX-50UB-2 and ZX70B in 2006, and the ZX35B in 2010, releasing these to market. Leveraging our long experience and expertise

in electric equipment, in 2011 we launched the 20-ton class ZH200-A hybrid hydraulic excavator. Furthermore, in the European market which is driving demand for electric construction machinery, in 2018 we established the European Application Center GmbH (EAC) in collaboration with German company Kiesel Technologie Entwicklung GmbH (KTEG) as a development base for electric products. Centered around this, the company is rapidly conducting development near the sites of environmentally conscious clients, and is expanding its development to other models in Japan.

Electric machinery drive components are currently still expensive with major hurdles to cross in order to bring these to prices acceptable for customers, but there is still a need to expand the product line-up in readiness for a rapid expansion in the market. If future advances in cost-competitive electric drive component technologies in conjunction with the move to electric cars and trucks can be achieved, this will let us offer a wide range of electric products from mini- through to ultra-large excavators and loaders, allowing the group to fully demonstrate its strengths.

Stakeholder's Voices

Together, Technologies from Both Companies Will Speed the Development of Electrification

KTEG has a wealth of knowledge regarding regulatory trends and productization for electrification in the European market. Having entered the market in partnership with SUNCAR HK AG, which has extensive experience in electrification, KTEG is very familiar with actual site processes, and has earned a good reputation and high customer satisfaction in Europe. Bringing Hitachi Construction Machinery and KTEG technical know-how together will let us more rapidly provide customers with electric construction machinery that better meets their needs. We feel this type of cooperation will be particularly beneficial not only in achieving zero emissions, but also in the fields of demolition products and digital services.



KTEG GmbH / EAC European Application Center GmbH
Managing Director
Harald Thum



Focus on Norway

Investment Promotion Activities in European Countries to Promote Usage of Electric Construction Machinery

Under the framework of the Paris Agreement with the aim of achieving carbon neutrality by 2050, the EU and other European countries are pushing investment promotion policies aimed at decarbonization. For example, Norway is seeing a more rapid increase in demand for electric construction machinery than in other countries because of a wide range of incentives, such as a 40% subsidy covering the price difference with a standard engine-powered model. Also, Germany has introduced a financial aid program aimed at promoting investment towards reducing carbon emissions, and the Netherlands is also considering a subsidy program for the purchase of electric construction machinery. Major European cities are also increasing numbers of low- and zero-emissions zones, and numbers of gasoline-powered vehicles are gradually decreasing. In view of this, customers in European countries are showing an ever-increasing interest in electric construction machinery.



Norway, the country that has made the biggest move to EVs, has strong requirements for electrification on worksites as well.

Selection of ZE85 Electric Excavator for Pilot Business Project Using Only Electric Construction Machinery

In 2019, Hitachi Construction Machinery (Europe) participated in the bauma2019 international construction machinery trade fair held in Munich, Germany, where it exhibited the ZE85 battery-powered excavator (8-ton class, KTEG brand). The ZE85 was developed in collaboration with EAC, and features a lithium-ion battery that provides 3–4 hours operation on a full charge, and that can be charged in under an hour.

In fiscal 2020, the ZE85 was selected for a zero emissions construction site pilot project in Norway's capital Oslo. This test project using only electric construction machinery was carried out in an area in front of Oslo's city hall. The test showed that power and operating duration performance of the ZE85 were comparable to engine-powered models, and these have been introduced on zero-emissions worksites. Moving forward, Hitachi Construction Machinery will continue to seize such opportunities to meet the needs of Europe which has high environmental standards and strict regulations.

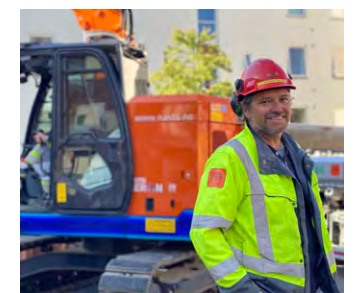


Demonstration of ZE85 exhibited at international construction machinery trade fair

Stakeholder's Voices

ZE85 Showed off its Superiority in Oslo

PA Entreprenør AS has been engaged in construction in and around Oslo for around 30 years. We are very mindful of the environment, and more than half of our construction equipment is emissions free. In a project in Oslo, emissions-free machinery alone completed renewals of water and sewerage systems. The ZE85 has operability, productivity, and safety characteristics similar to the ZX85, and yet is quiet enough that workers nearby can converse. This benefit also showed its advantages in Oslo. We currently own two of these machines, and plan to purchase more this year. We hope to see the ZE85 manufactured in larger quantities to bring its price down.



PA Entreprenør AS
Department Manager (CEO)
Lars Fredrik Moe-Helgesen

Parts Remanufacturing Business

Hitachi Construction Machinery started our parts remanufacturing business in 1998 as one of our efforts towards achieving a recycling-oriented society. Since then, our accumulated unique reconstruction technologies let us rapidly provide high-quality, low-cost remanufactured parts, and these have gained the trust of customers around the world, while also contributing to a reduced environmental impact.

Parts Remanufacturing That Maximizes the Value of Resources, Providing High Value to Customers Around the World

Hitachi Construction Machinery manufactures the major components of its main products such as 20-ton hydraulic excavators, and in this the company has accumulated around 70 years of technology. Accordingly, we are able to remanufacture parts such as hydraulic pumps, hydraulic cylinders, and travel devices to have the same performance as new parts in-house. We currently have three production locations within Japan and eight overseas, providing remanufactured components to customers in over 170 countries and regions around the world. As an example, our equipment is in operation almost around the clock at large mines in Africa, Australia, Indonesia, and other areas. These are often located far from urban areas, meaning that ordering parts after a problem occurs can result in significant down-time. However, Hitachi can provide remanufactured parts from the closest plants to the mines, meaning equipment can be returned to operation quickly.

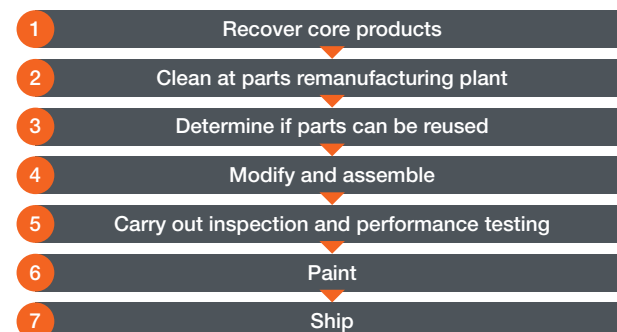
Society's needs are changing from an owning to a usage paradigm, and this trend is seeing different manufacturers entering the parts remanufacturing business, with intensified price competition. In this, Hitachi Construction Machinery has established our REMANUFACTURED brand of remanufactured parts. As well as providing parts with quality guarantees, ConSite® is used to monitor customer machinery by providing high-quality service by predicting failures and supplying parts, thereby improving our competitive advantage. We are also working to develop the specialist knowledge and skills of our service engineers, continuously enhancing our ability to provide support and proposals to customers.

Hitachi Construction Machinery

REMANUFACTURED

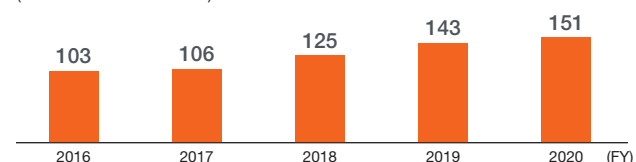
REMANUFACTURED brand of remanufactured parts

Parts Remanufacturing Flow



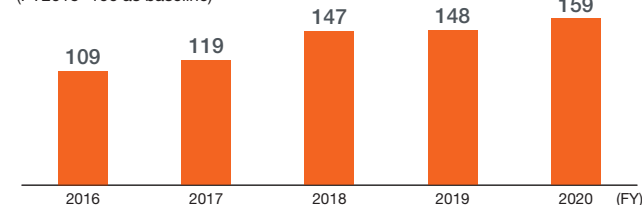
Trends in Remanufactured Parts Sales

(FY2015=100 as baseline)



Trends in Remanufactured Parts Production

(FY2015=100 as baseline)



Focus on Zambia

Providing Dependable Service to Mining Customers in Southern Africa, Where Parts Wear Out Rapidly

Hitachi Construction Machinery Zambia's parts remanufacturing plant is the first such parts refurbishment location established by a Japanese construction machinery manufacturer in Africa, and this started operation in 2012. In 2016, the production line was approximately doubled in size to handle key components used in mining equipment, and it is increasing production capacity targeting an expansion of supply to all of Africa.

Harsh on-site conditions mean that mining equipment operating in southern Africa is subject to severe wear and tear, and reducing running costs is a major issue for customers. So that it can ensure a rapid and reliable supply of parts to mining sites, Hitachi Construction Machinery Zambia conducts exacting performance testing on these remanufactured parts, delivering only those parts that have passed this rigorous testing. The company also provides customer-centric support that includes a manufacturer warrantee as well as prompt replacement in the event of trouble.



Zambia parts remanufacturing plant

High-quality Training Program for Local Personnel, Aiming for Locally Based Management

Since the establishment of its base, Hitachi Construction Machinery Zambia has been actively recruiting local human resources, expanding employment along with improved technical capabilities. Out of 171 employees, 159 are Zambian, including 29 women (as of April 2021). The company is expanding its training programs by job category and level, such as factory, administrative, and management divisions, and has recently introduced a program from the Zambian Ministry of Higher Education to support the early acquisition of skills and growth.

In the factory division, the company is working with the KAI-ZEN Institute of Zambia to communicate the concept of kaizen to a wide range of employees, and so that it can strengthen activities to solve issues concerning quality and work efficiency. At the 45th International QC Circle Conference held in December 2020, the "Parts Centralization" kaizen initiative for improving the work flow for shelving parts from the EXCAVATOR team from Hitachi Construction Machinery Zambia's parts reclamation plant won the highest award, the Platinum Award. This both shortened working hours, as well as ensuring safety and reducing worker fatigue.

Recipient team members with Hitachi Construction Machinery Zambia Company President Hideki Hattori (2nd from right)



Stakeholder's Voices

High-level Support for Mining Equipment Operating 24hrs a Day 7 Days a Week

Having the option available to use remanufactured component on our machines provides us a cost-effective solution while minimizing the downtime on our machines. Hitachi keeps critical component stock available close to our operations to ensure same shift availability of critical components. Our fleet runs 24hrs a day 7 days a week so this type of support is critical. The fact that the Reman center is available in Zambia adding that high level of support was a positive contributor towards our decision to purchase our Hitachi fleet. We look forward to continue to working with the Remanufactured product going forward.



Avantech Ltd. Avantech Plant
General Manager
Joseph Kapira

ICT Construction Business

In 2000, Hitachi Construction Machinery launched the ZAXIS series, the world's first hydraulic excavators incorporating satellite communication functionality, and since then has been promoting development to support customer ICT construction. In 2017, we launched Solution Linkage® Cloud which is central to ICT construction solutions, and are providing a series of new solutions to support the whole process from initial surveying through to delivery.

Providing Wide-ranging, High-quality ICT Solutions to Respond to the Diverse Challenges of Differing Sites

There are a wide range of solutions in achieving ICT construction, requiring expert technologies and advanced solutions. These include 3D surveying using unmanned aerial vehicles (UAVs) and lasers, creating point clouds and 3D design data, autonomous operation and remote control of ICT construction equipment, as well as quality control and inspections using this equipment. To meet these demands, Hitachi Construction Machinery provides Solution Linkage® as a platform for providing value, and while utilizing advanced technologies using open innovation, provides high-quality solutions that address a range of challenges faced by worksites.

Given this, requirements for ICT construction vary dramatically between countries and regions. For example, in Scandinavia the introduction of ICT construction equipment has reached 80 to 90%, while in Japan the number of construction projects commissioned by the Ministry of Land, Infrastructure, Transport and Tourism is only now starting to increase. In spite of this, the increase in reconstruction work due to frequent natural disasters along with serious labor shortages due to declining birthrate and an aging population mean that we expect to see an accelerating introduction of ICT construction solutions that enable high safety and productivity while requiring fewer workers. Increased adoption of 5G communications networks will enable the introduction of these solutions to major construction projects even in mountainous areas in which communication environments were hitherto unavailable. Hitachi Construction Machinery is rapidly developing new solutions that can use this high-capacity communications infrastructure, and in FY2020 started providing Solution Linkage® Survey, Solution Linkage® Work Viewer, and ConSite®

Navi. In July 2021, we have started providing Solution Linkage® Point Cloud.



Solution Linkage® Survey that enables rapid, approximate measurement of soil volume just by taking a smartphone video

Use of ICT demonstration site

Hitachi Construction Machinery is developing ICT demonstration sites in Japan and Europe to let visitors experience ICT construction, and as a first step to its introduction. At these, demonstrations and test rides are carried out using the ZX200X-6 ICT hydraulic excavator that incorporates a 3D machine control function.

Sites currently open

- Hitachinaka ICT Demonstration Site (Hitachinaka City, Ibaraki Prefecture, 2016)
- Kagawa ICT Demonstration Site (Zentsuji City, Kagawa Prefecture, 2018)
- Europe ICT Demonstration Site (Amsterdam, Netherlands, 2018)

Kagawa ICT Demonstration Site



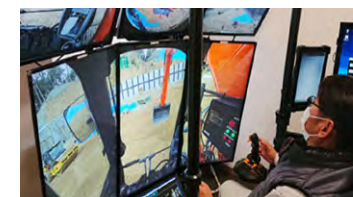
Focus on Japan

High Expectations for Remote Control of ICT Construction Machinery in Response to Challenges Facing the Civil Engineering and Construction Industries

Against the backdrop of labor shortages from declining birthrates and an aging population, a 44% drop in numbers of construction workers in Japan is expected by 2030 (compared to 2005 figures*1), and the civil engineering and construction industries are facing significant issues in passing on specialized skills and securing new workers. To solve these problems, the “i-Construction” initiative is being promoted by the Ministry of Land, Infrastructure, Transport and Tourism. This aims to improve productivity and make construction sites more attractive by introducing innovative technologies such as IoT and AI, and we have high hopes for the spread of ICT construction. Furthermore, we have high expectations for the role of remote operation of ICT construction machinery, in terms of ensuring construction machinery operator safety at sites of natural disasters which have become more frequent in recent years.

Remote operation of equipment requires communications networks that can rapidly transfer large amounts of data such as high-resolution images of worksites and construction management information of projects, and this requires the use of 5G, a 5th generation mobile communications system.

One operator remotely operates three machines



Successful Verification Testing of Remote Operation Using 5G and AR

In February 2021, Hitachi Construction Machinery in cooperation with Kato Construction Co., Ltd. (Hiroshima Prefecture) and Nishio Rent All Co., Ltd. (Osaka) carried out verification testing*2 of remote operation of three types of construction machinery over 5G. The site for this was the Ota River spillway in Nishi-ku, Hiroshima Prefecture, and a single operator remotely operated different construction machinery for each process. This compared and verified the ease of viewing images, operability, safety, and productivity in remote construction carried out using wireless LAN in January 2021, and when using the 5G system. This was assessed as being at a level for practical use in every regard.

*1 Source: Ministry of Land, Infrastructure, Transport and Tourism, “Situation Regarding Skilled Construction Workers.”

*2 Implemented as part of an initiative selected by the Cabinet Office’s “Public/Private R&D Investment Strategic Expansion Program” (PRISM), and the Ministry of Land, Infrastructure, Transport and Tourism’s “Project for the Introduction and Adoption of Innovative Technologies to Dramatically Improve Construction Site Productivity.”

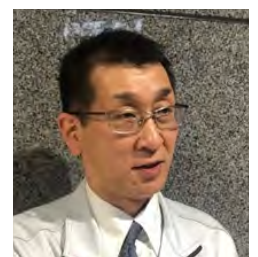
Overview of verification

- Three construction machines—a hydraulic excavator, a bulldozer, and a vibratory roller for earthworks are equipped with a camera for front view, one for interior view, and one for an omni-directional view. Camera images and remote operation signal data for each of these machines are transmitted between the work site and the remote operator over 5G.
- Image data for operational assistance is also transmitted to improve operability. Augmented reality (AR) technologies superimpose ground and bucket claw positions over the camera image as a grid, providing depth information not obtainable from the camera image alone. 3D design data AR images are displayed on the remote operation monitor
- Report submitted to Ministry of Land, Infrastructure, Transport and Tourism at the end of March 2021. Labor-savings of 33% of conventional construction were achieved (target of 40%). Reductions in worker-hours of 61% of conventional construction were achieved (target of 80%).

Stakeholder's Voices

Remote Operation Aims to Solve a Range of Issues

There are fewer new workers being hired, and bringing multiple new operators in is difficult, and so we hope to solve this problem using remote operation technologies. This verification testing also took into account portability, anticipating usage in disaster zones. As a result, we overcame a range of technical issues, and feel that this is at a level suitable for practical use. Developing technologies from scratch is a major hurdle, but utilizing technologies already in the marketplace will speed adoption of the technology. We will provide results of this testing to other companies as well, hoping to make them of value to society as a whole.



Kato Construction Co., Ltd.
Director, Civil Engineering
Department Chief
Eiji Harada

Corporate Governance

Basic Policies on Corporate Governance

As a member of Hitachi Group, Hitachi Construction Machinery Group shares the Mission of Hitachi Ltd. and the Hitachi Founding Spirit, and stipulates the Code of Conduct in line with them as the basic policies of its corporate governance.

To reinforce corporate governance through the separation of management oversight and execution of operation, the Group has adopted a corporate organizational system based on the governance structure of a company with committees, etc. as specified by the Companies Act. The Board of Directors comprises 10 Directors including 4 Outside Directors (2 male and 2 female). With their accumulated experience and knowledge in management, laws, and accounting through their careers at global companies, they discuss issues from diverse perspectives.

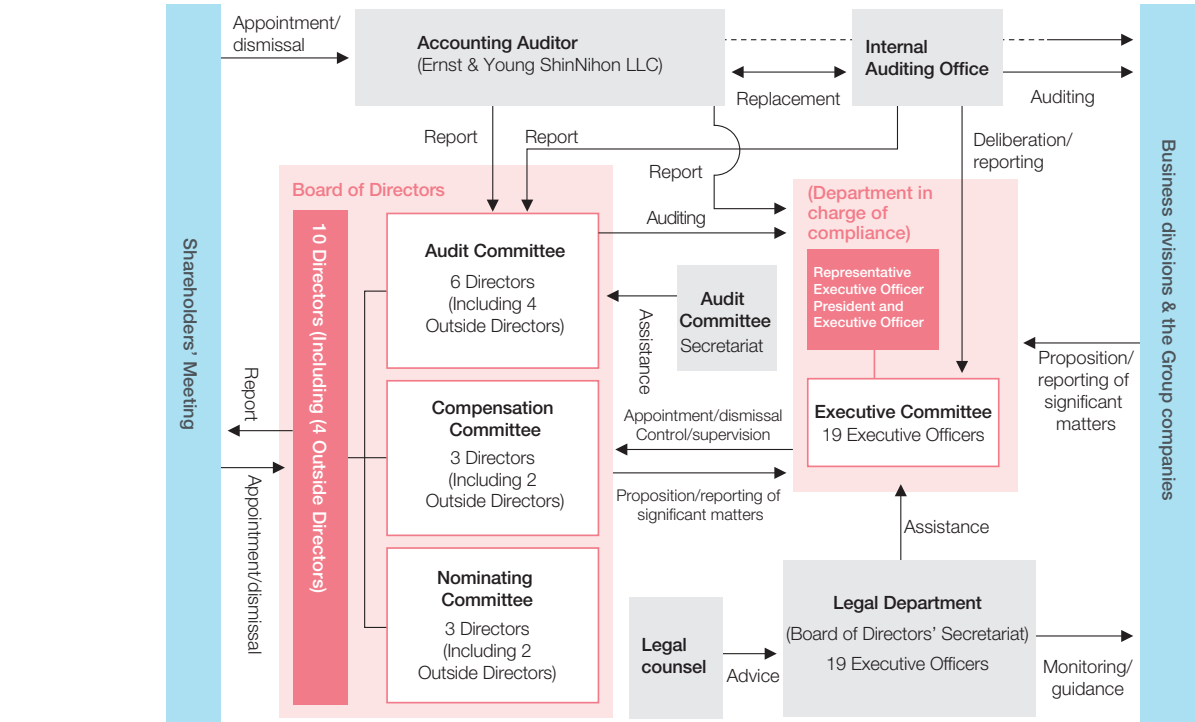
The Representative Executive Officer and other Executive Officers who are authorized by the Board of Directors make operational decisions and execute business in accordance with the Company's basic management policies established by the Board of Directors. The Board of Directors also determines the responsibilities and duties of the Executive Officers, matters regarding supervision and authority, and the mutual relationships among the Executive Officers. The Group also has an Executive Committee comprising all Executive Officers as an advisory or-

gan for the representative Executive Officer, President, and Chief Executive Officer for business decisions. Executive Committee meetings are held twice a month in principle to manage important matters regarding the Company's business operation.

Ensuring Independence from the Parent Company

Among the 10 Directors of the Company, Hideaki Takahashi, the Chairman of the Board, who serves to Hitachi Ltd. as Senior Advisor, and Yoshinori Hosoya, who serves the Social Infrastructure Systems Business unit of Hitachi Ltd. as COO, Hitachi Ltd. Because of this, the parent company is in a position to exert potential influence on decisions regarding the management policies of the Company through the views expressed by these two Directors at the Board of Directors' Meetings. However, none of the other 8 Directors serve concurrently in executive or other positions at Hitachi Ltd., and there are 4 Outside Directors who have been registered with the Tokyo Stock Exchange as independent officers. Therefore, the Company is capable of making its own management decisions. In addition, terms and conditions of transactions with Hitachi Ltd. and its group companies are determined rationally upon mutual discussions in consideration of market prices and other factors.

Corporate Governance System (As of June 28, 2021)



Reference Corporate Governance Guidelines
<https://www.hitachicm.com/global/sustainability/governance/corpgovernance/guidelines/>

Reference Corporate Governance Report (Published on July 7, 2021)
<https://www.hitachicm.com/global/wp-content/uploads/2021/07/210707CG.pdf>
(Japanese only)

Directors and Executive Officers

Directors (As of June 28, 2021)

 Chairman of the Board Hideaki Takahashi	 Outside Director Toshiko Oka	 Outside Director Kazushige Okuhara	 Outside Director Maoko Kikuchi	 Outside Director Haruyuki Toyama
 Director Tetsuo Katsurayama	 Director Keichiro Shiojima	 Director Michifumi Tabuchi	 Director Kotaro Hirano	 Director Yoshinori Hosoya

Name	Nominating Committee	Compensation Committee	Audit Committee	Independent Officer	Affiliation	Reasons for Appointment (Experience and Knowledge)
Hideaki Takahashi	Chairman				From Hitachi Ltd.	He has experience in "MONOZUKURI" (manufacturing) in Hitachi Group and extensive experience and deep insight as a top executive of a global company.
Toshiko Oka					From other company	She has extensive experience as a top executive of consulting firm, knowledge on M&A and deep insight.
Kazunari Okuhara					From other company	He has extensive experience as a business manager of an international company, knowledge and deep insight regarding personnel affairs and labor policies.
Maoko Kikuchi					Lawyer	She has extensive experience and knowledge in legal matters, and experience and deep insight as a top executive and auditor.
Haruyuki Toyama					From other company	He has extensive experience and knowledge in the fields of monetary affairs and finance.
Tetsuo Katsurayama			Chairman		Hitachi Construction Machinery Co., Ltd.	He has been involved in accounting, financial business and management of the Company and the Group and accumulated experience, achievements, and deep insight.
Keichiro Shiojima					Hitachi Construction Machinery Co., Ltd.	He has experience in "MONOZUKURI" (manufacturing) both at home and abroad at the Company and the Group, and has extensive experience and deep insight regarding corporate management.
Michifumi Tabuchi					Hitachi Construction Machinery Co., Ltd.	He has experience in manufacturing both at home and abroad at the Company and the Group, and has extensive experience and deep insight regarding management.
Kotaro Hirano		Chairman			Hitachi Construction Machinery Co., Ltd.	He has experience in information and communication systems in Hitachi Group, and has extensive experience and deep insight as a top executive.
Yoshinori Hosoya					From Hitachi Ltd.	He has experience in information and communication systems in Hitachi Group, and has extensive experience and deep insight as a manager.

Executive Officers (As of June 28, 2021)

Representative Executive Officer, President and Executive Officer	Kotaro Hirano	Executive Officer	Moriaki Kadoya
Representative Executive officer, Executive Vice President and Executive Officer	Michifumi Tabuchi	Executive Officer	Keichiro Shiojima
Executive Vice President and Executive Officer	Yasushi Ochiai	Executive Officer	Seimei Toonishi
Senior Vice President and Executive Officer	Sonosuke Ishii	Executive Officer	Kazunori Nakamura
Senior Vice President and Executive Officer	Naoyoshi Yamada	Executive Officer	Masaaki Hirose
Vice President and Executive Officer	Yusuke Kajita	Executive Officer	Eiji Fukunishi
Vice President and Executive Officer	Masafumi Senzaki	Executive Officer	Hidehiko Matsui
Vice President and Executive Officer	Seishi Toyoshima	Executive Officer	Satoshi Yamanobe
Vice President and Executive Officer	Hideshi Fukumoto	Executive Officer	David Harvey
		Executive Officer	Sandeep Singh

Note: Members of each category are listed in the order of the Japanese syllabary.

Reference ESG Databook 2021
⇒Governance Data (Scheduled to be released at the end of September 2021)

Policies on Determining the Amount of Compensation, etc. for Directors and Executive Officers

1. How to determine the policies

The Compensation Committee of the Company sets forth the policies on the determination of the amount of compensation for individual Directors and Executive Officers in accordance with the provisions regarding a company with nominating committee, etc. specified by the Companies Act.

2. Policy overview

(1) Compensation standards of the Company are set according to the scope and range of its business, ability required, responsibility and risk to be borne, and other factors regarding individual Directors and Executive Officers considering the compensation standards of other companies.

(2) Matters related to Directors

Compensation for Directors consists of a monthly salary and a year-end allowance. The monthly salary is determined as a fixed amount considering that the duty of individual Directors is supervisory function. The level of compensation is determined according to full-time or part-time, basic allowance, allowance as a member of a committee, and the content of duties. The year-end allowance is determined by multiplying a certain coefficient by the basic allowance in principle. However, the amount may be reduced depending on the business results of the Company. Compensation as a Director is not paid to a Director who concurrently serves as an Executive Officer.

(3) Matters relating to Executive Officers

Compensation for Executive Officers consists of a monthly salary and performance-linked base compensation. Standard annual income is based on societal standards considering the scope and range of the Company’s business, ability required, responsibility and risk to be borne, and other factors regarding individual Executive Officers. Standard monthly salaries are specified according to job position. The standard amount for performance-linked compensation is roughly 40% of the standard yearly compensation for the President, and roughly 30% for other Executive Officers. It is determined within a certain range depending on the degree of achievement of standard performance targets of the Company and achievement of individual roles in their businesses. Compensation standards for foreign Executive Officers are determined considering the compensation standards of the country and region in question from the viewpoint of retaining capable personnel, taking into account the competitiveness in compensation.

Evaluation of the Effectiveness of the Board of Directors

The Company has conducted evaluations of the effectiveness of the Board of Directors since FY2015. Continuing discussions of

evaluations, practices and improvement measures have gradually improved their effectiveness. We surveyed all 10 Directors using a questionnaire between February and March 2021 regarding the following items. In addition, based on the results of the questionnaire, we had interviews with 6 Directors, including Outside Directors.

<Questionnaire Areas>

- (1) Composition of the Board of Directors
- (2) Management of the Board of Directors
- (3) Composition and roles of committees (nominating, audit, and compensation)
- (4) Management of committees (nominations, audit, and compensation)
- (5) Support system for Directors
- (6) Relationship with investors and shareholders
- (7) Topics (Approaches to ESG and SDGs)
- (8) Other (Describe freely)

(Ideal process of creating, discussing, and determining management strategies at the Board of Directors’ Meeting and ideal process of supervising the execution of strategies/ Supervision of risk management and compliance by the level of Board of Directors)

<Analyses & Evaluations>

For FY2020, the majority of the items, including the application of web systems under the COVID-19 crisis, were judged to “Function well” and “Generally function.” However, from FY2019, some issues have been identified regarding (i) management of the Board of Directors and (ii) discussions at the Board of Directors’ Meetings, and issues newly identified for FY2020 were (iii) minutes of the Board of Directors’ Meetings, (iv) Compensation Committee, and (v) relationship with investors and shareholders. Although each item has been improved, we understand that it is necessary to take further steps to make discussions at the Board of Directors’ Meetings more effective.

<Future Approaches>

Based on the results of analysis and evaluation, the Board of Directors of the Company discussed each issue and decided to work on the following matters for the continual improvement of effectiveness.

- (1) More effective discussions through the improvement of explanations on bills at the Board of Directors’ Meetings
- (2) Creation of free and multifaceted discussions through the provision of innovative opportunities for exchange
- (3) Appropriate recording of opinions provided by Directors through the improvement of descriptions in minutes
- (4) Clarification of evaluation standards and results through the improvement of discussions at the Compensation Committee meetings and information disclosure
- (5) Promotion of investment by investors through the enhancement of content to be disclosed

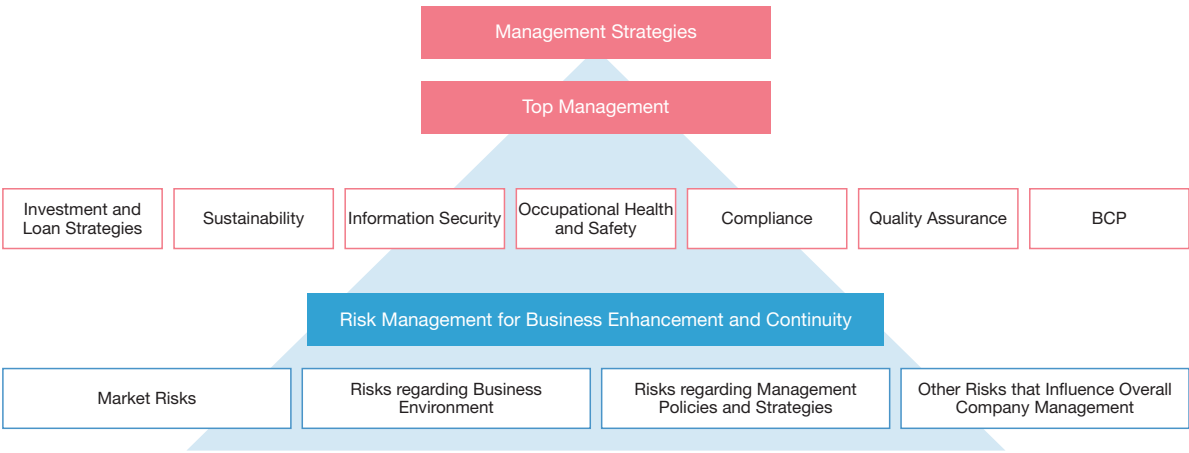
current business environment, endeavors to control future risks while protecting opportunities for further growth, considering social issues, the competitive advantages and management resources of the Company, and reflects these to management

strategies.

The Company has established a risk management structure capable of examining a wide range of factors, factors such as changes in global conditions and environment, and the revision

of laws along with the progress of technology, to prepare for potential risks. For example, the Company holds meetings on export management, environmental management, and information security on a regular basis.

Hitachi Construction Machinery Group Risk Management



Enhancement of Business Continuity Plan (BCP)

At the Group, the Compliance & Risk Management Committee plays a central role in handling risks such as the legal violations, natural disasters and accidents. The Group has also established a business continuity plan (BCP) and enhances its business continuity management (BCM) to minimize the influence of risks

such as natural disasters that may occur anywhere throughout the world, and recover business operations as soon as possible. Recently, the Group united its efforts to maintain the supply chains of Group companies that suffered damage from the Great East Japan Earthquake, Typhoon Hagibis and COVID-19. We continue increasing group-wide awareness of risk management and reinforcing the management structure.

Compliance

The Group defines compliance not only as observing laws and regulations, but also as understanding the Codes of Conduct and acting conscientiously and impartially with a strong ethical perspective. We established the Compliance & Risk Management Committee to promote group-wide compliance. The Committee is periodically convened to review the status of compliance in the Group companies, and shares and executes recurrence prevention measures. Each Group company assigns a Compliance Promotion Officer and Compliance Manager to

promote consistent compliance activities throughout the Group. We also have two whistle-blowing systems, the Compliance Hotline and the Global Alert Line, to enhance organizational self-cleansing functions. In FY2020, 33 reports were filed. Among these, about 30% were related to harassment while another 30% were related to violations of corporate rules. None posed a major risk to the Group.



Global Quality Governance

The Group sets the standardization and improvement of product quality throughout the Group companies as a basic quality assurance policy, which we believe facilitates achievement of the concept of global quality standardization, Made by Hitachi. Since April 2019, the Quality Assurance Division within the Development Production Department was placed under direct control of the President. By having the President directly oversee the Quality Assurance Division, we are able to strengthen governance for quality assurance operations.

The Group also promotes digitalization in quality assurance. For example, we promote the elimination of quality risks through linkage with quality data, which allows us to prevent the delivery

of nonconforming products, and the automation of commercial tests, which detects human errors and data falsification.



Automatic judgment of commercial tests

Response to TCFD Recommendations

Climate change is one of the most important environmental issues that will have an enormous impact not only on the natural environment and ecosystems, but also on the economy and society. In October 2020, Hitachi Construction Machinery announced its support for the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). We are working to promote activities in line with these recommendations, with the aim of developing sustainable and resilient businesses. We are also focusing on strengthening engagement with stakeholders through information disclosure based on the TCFD framework.

History of TCFD Initiatives

In July 2020, an internal task force consisting of division managers and key personnel from corporate and business divisions across the company was formed. A TCFD kick-off meeting was held. Through scenario analysis, we determined the likely financial impact of climate change, assuming a 2°C and 4°C rise in global temperatures. Then we considered needed response measures and strategies (see page 53). The results of the scenario analysis were reported by the Sustainability Promotion Committee in September. The board of directors expressed its support for the TCFD recommendations in October. Our response to climate change risks and opportunities was approved by the Executive Committee and reported to the Board of Directors in July 2021.

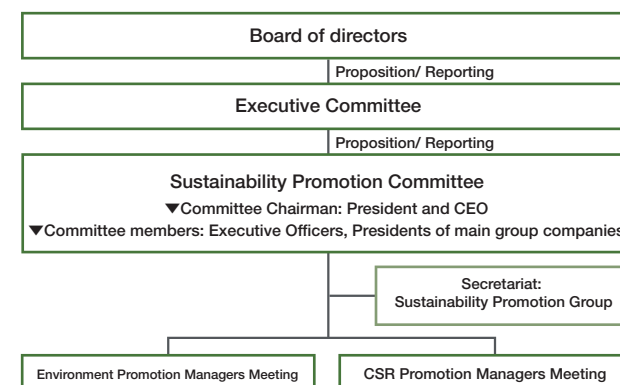


Roadmap for Addressing Climate Change

FY2005	● Publication of the 2005 Environmental Report
FY2008	● Registered the industry's first emission reduction methodology through electrification of construction machinery under the domestic credit system ● Launch of product-type carbon offset activities
FY2009	● Started responding to the CDP Climate Change Questionnaire ● Started carbon offsetting activities to contribute to local communities
FY2019	● Greenhouse Gas (GHG) Emission Reduction Target Receives SBT Certification ● Introduced internal carbon pricing system
FY2020	● Company-wide TCFD kick-off meeting held; TCFD scenario analysis conducted ● Expressed support for the TCFD recommendations ● Business environment and risks/opportunities under 2°C and 4°C scenarios disclosed at ESG briefings; Dialogues conducted with experts
FY2021	● Based on TCFD framework recommendations, disclosed information in the Integrated Report, conducted ESG briefings and held stakeholder dialogues.
FY2022 (planned)	● Further progress on the four disclosure requirements based on the TCFD recommendations ● Promote diverse stakeholder engagement

Governance

Discussed important matters related to climate change at the CSR Promotion Managers Meeting, the Environmental Promotion Managers Meeting and the Compliance and Risk Management Group Meeting. We also reported to the Sustainability Promotion Committee (held twice a year), which consists of executive officers and presidents of main Group companies. The President and CEO, who has the highest responsibility and authority for climate-related issues, chairs the Sustainability Promotion Committee. This committee deliberates and approves important management-related matters, including responses to climate change. In addition, important matters are approved by the Executive Committee and reported to the Board of Directors for appropriate monitoring and supervision.



Meeting Committee Structure	Chairman	Member	Main Agenda
Sustainability Promotion Committee	President and CEO	Executive Officer, President of Main Group Companies	Deliberation and approval of the Hitachi Construction Machinery Group's sustainability promotion policy, including climate change, priority measures and KPIs
Environment Promotion Managers Meeting	General Manager, Sustainability Promotion Group	President of domestic and overseas group companies	Initiatives to address environmental issues including climate change, KPI progress management, sharing of priority measures and requests for cooperation
CSR Promotion Managers Meeting	General Manager, Sustainability Promotion Group	General Manager of Corporate Group, General Manager of Business Group	Initiatives to promote sustainability in the Hitachi Construction Machinery Group, progress management of nonfinancial medium- term goals, sharing of priority measures and requests for cooperation

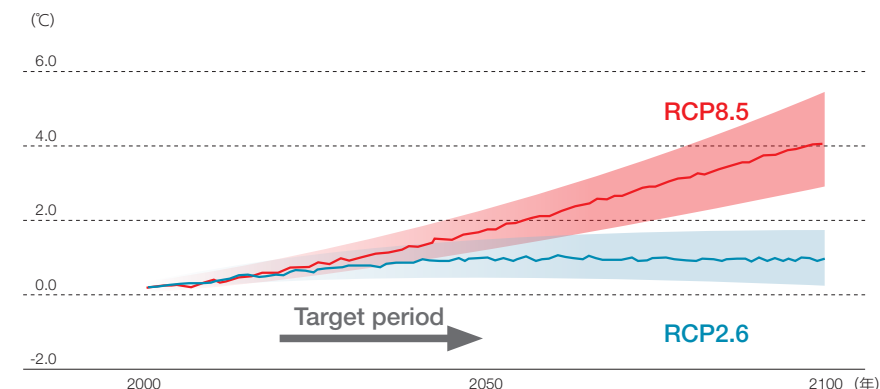
Strategy

Hitachi Construction Machinery conducts scenario analysis of business risks and opportunities under an assumed 2°C and 4°C rise in global temperature from climate change. It then incorporates these into its business strategy targets. We recognize that selected risks and opportunities are important elements of our management strategy. Therefore, we will strive to enhance our corporate value through the acquisition of business opportunities and the resolution of social issues.

Scenario Selection

In line with the classification recommended by TCFD, we made

Projected Global Mean Surface Temperature Change



< Referenced External Information >

- International Energy Agency (IEA), 66% 2°C Scenario
- Intergovernmental Panel on Climate Change (IPCC), RCP2.6 Scenario and RCP8.5 Scenario in the Fifth Assessment Report.
- World Energy Outlook 2019, Current Policies Scenario and New Policies Scenario
- Council for Hydrogen and Fuel Cell Strategies, Roadmap for Hydrogen and Fuel Cell Strategies

4°C Scenario

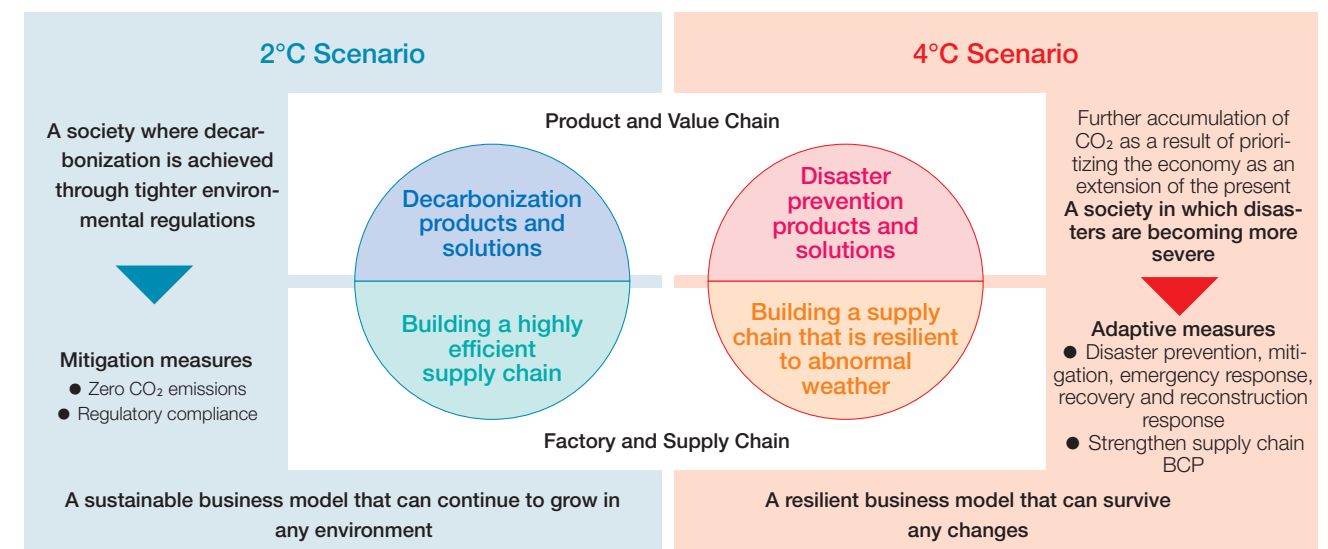
- The occurrence of natural disasters, such as abnormal weather caused by rising temperatures, dramatically increases.

2°C Scenario

- Regulations on greenhouse gas emissions will be strengthened, including further review of national policies.
- The ratio of non-fossil power sources such as renewable energy increases, investment in low-carbon technologies increases and new technologies get introduced.

* Based on the IPCC Fifth Assessment Report, Working Group II Report, Summary for Policymakers (translated by the Ministry of the Environment)

Areas for Identification of Priority Measures



Evaluation Results Based on Scenario Analysis

■ Building a Highly Efficient Supply Chain in the 2°C Scenario ■ Decarbonization Products and Solutions for 2°C Scenarios
■ Building a Supply Chain Resilient to Extreme Weather Events in the 4°C Scenario ■ Disaster Preparedness Products and Solutions for 4°C Scenarios

Classification		Changes in the Business Environment	Impact on the Company	Evaluation	Duration	Financial Impact	Priority Measures
2°C Scenario (Transition Risk)	Policy and Legal Risks	Increase in the price of CO ₂ emissions	<ul style="list-style-type: none">● Increase in capital investment such as introduction of solar power generation equipment● Increased carbon tax (including carbon border tax) burden if CO₂ emissions are not controlled	Risk minimization	Medium to long term	Large	<ul style="list-style-type: none">● Proactive introduction of renewable energy● Secure stable production by introducing distributed power sources● Promote optimization of global production procurement● Systematic investment in high-efficiency equipment● Introduction of internal carbon pricing
		Mandate / Regulate existing products and services	<ul style="list-style-type: none">● Declining competitiveness due to delays in advancing decarbonization technologies	Risk → Opportunity	Medium to long term	Large	<ul style="list-style-type: none">● Differentiation through increased development of decarbonization technologies, such as electrification and hydrogen engines
	Technical Risk	Replacement of existing products with low-carbon options	<ul style="list-style-type: none">● Increase in research and development cost due to switching to decarbonization technologies for existing products and services● Increase the scale of development for products adapted to each region	Risk → Opportunity	Medium to long term	Large	<ul style="list-style-type: none">● Realizing decarbonized products through understanding potential market needs and accelerating product development● Parts procurement in compliance with local regulations
	Market Risk	Transition to decarbonization technologies	<ul style="list-style-type: none">● Increase in research and development cost of measures to ban internal combustion engines● Increase in procurement costs associated with hydrogen engines and fuel cells	Risk → Opportunity	Medium to long term	Large	<ul style="list-style-type: none">● Achieving differentiation through expanded development of hydrogen fuel technology● Secure stable procurement
			<ul style="list-style-type: none">● Increase in research and development cost of measures to ban internal combustion engines● Increase in procurement costs associated with battery type	Risk → Opportunity	Medium to long term	Large	<ul style="list-style-type: none">● Differentiating ourselves through further development of electrification technologies● Secure stable procurement
		Uncertainty in market signals / Changes in customer behavior	<ul style="list-style-type: none">● Changes in bidding conditions● Tax reduction policies / Preferential interest rate policies● Additional R&D costs due to changes in the construction environment	Risk → Opportunity	Medium to long term	Large	<ul style="list-style-type: none">● Differentiating through increased development of decarbonization technologies, such as electrification and hydrogen engines
		Market changes / Rising raw material costs	<ul style="list-style-type: none">● Decreased demand for coal due to decreased share of thermal power generation● Increase in procurement costs due to higher raw material costs	Risk → Opportunity	Medium to long term	Large	<ul style="list-style-type: none">● We will expand our machinery and parts service business for “hard rock” products in the Central Asian and South American markets.● Expanding the development of decarbonization technologies and providing various measures to solve customers' on-site issues with the latest digital technologies● Effective resource use by promoting product circular economy
	Reputation Risk	Increasing stakeholder concerns	<ul style="list-style-type: none">● Exchange rate fluctuations due to climate change-related disasters● Raising investment and loans due to mistrust of climate change measures● Boycotts and negative campaigns, in case of delayed transitioning to decarbonization	Risk → Opportunity	Medium to long term	Large	<ul style="list-style-type: none">● Accurate and timely information dissemination in collaboration with customers● Gain public support for decarbonizing technologies by acting early● Promotion of ESG investment
4°C Scenario (Physical Risk)	Acute Risk	Increasing severity of abnormal weather	<ul style="list-style-type: none">● Production stagnation due to damage to factories or closure of main roads caused by wind, flood, heavy snow, etc.● Harmful effects of heavy rain and flooding on employee commutes and business travel	Risk minimization	Short term to long term	Large	<ul style="list-style-type: none">● Improving inventory accuracy and speeding management change through future use of DX● Strengthening the BCP (Business Continuity Plan) to encompass the entire supply chain and improving the effectiveness of BCM (Business Continuity Management) systems● Establishing a global production and procurement system to prepare for disasters
			<ul style="list-style-type: none">● Increasing frequency and severity of disasters	Risk → Opportunity	Medium to long term	Large	<ul style="list-style-type: none">● Prompt provisioning of optimal solutions for disaster prevention and mitigation, emergency response, and recovery and reconstruction● Developing and delivering ICT, teleoperation, collaborative safety (hazard sensing), automation and robotization
		Extreme variations in precipitation patterns and weather patterns	<ul style="list-style-type: none">● Suspension of operations at the company's plants due to increased precipitation● Supply chain disruptions due to increased precipitation	Risk minimization	Long term	Large	<ul style="list-style-type: none">● We will check for risks when building or relocating future factories or offices● In the future, we will revise the BCP of the entire supply chain and improve the effectiveness of BCM
		Sea level rises, river flooding	<ul style="list-style-type: none">● Operations suspended due to flooding at plants, equipment failure, etc. Increased costs for equipment countermeasures	Risk minimization	Long term	Large	<ul style="list-style-type: none">● We will check for risks when building or relocating future factories or offices● Identify areas of high water stress levels● Establishing a global production and procurement system to prepare for disasters
	Chronic Risk	Rising average temperatures	<ul style="list-style-type: none">● Deterioration of the working environment and decline in productivity due to the increase in extreme heat and extremely hot days	Risk minimization	Long term	Small to medium	<ul style="list-style-type: none">● Achieve cost reduction through in-house power generation such as solar power● Make systematic investment in high-efficiency equipment● Accelerate the development of production technology to improve productivity (energy conservation)
		Soaring fossil fuel prices	<ul style="list-style-type: none">● Higher fuel costs and procurement delays due to difficulty in obtaining fuel	Risk minimization	Long term	Medium	<ul style="list-style-type: none">● Switch to renewable energy sources instead of relying on fossil fuels● Promote transport decarbonization
Extreme variations in precipitation patterns and weather patterns		<ul style="list-style-type: none">● Sales and service disruptions due to customer shutdowns and delays● Metal supply shortages. Effects on mining industry due to flooding and production line stoppage due to difficulty in obtaining raw materials	Risk minimization	Long term	Small to medium	<ul style="list-style-type: none">● Establish an appropriate response system based on market research● Shift to future procurement from countries with low water risk	

【Time of manifestation】 Short-term: Medium-term management plan (2020-2022) Medium-term: Medium-term management plan by 2030 Long-term: beyond 2030 to 2050

【Financial impact】 Small: Less than or equal to 0.25% of net sales Medium: Over 0.25% to under 0.5% of net sales Large: 0.5% or more of net sales

Risk Management

The Hitachi Construction Machinery Group considers climate-related issues to be a risk that could have a significant impact on the business. The Sustainability Promotion Group appropriately manages that risk. As for other natural disasters, the Compliance and Risk Management Committee takes the lead in responding to such risks. In Japan, we introduced a safety confirmation system in fiscal 2017 and a crisis information management system in fiscal 2019. By centrally managing information on disasters, incidents, accidents and infrastructure failures, we are working to ensure the safety of our employees and to reduce the impact on our businesses. Overseas, we collect information from the Ministry of Foreign Affairs and specialized companies to

manage safety on a daily basis.

The financial impact of climate change, characterized as risks and opportunities, are quantified into three levels: Large, medium and small. Those with a high occurrence probability are measured. Strategies and KPIs are reported, discussed and approved by the President and other company executives at the Sustainability Promotion Committee. Management then minimizes risks and promotes strategies to maximize opportunities.

In the future, we will further strengthen our governance and risk management of climate change.

Indicators and Targets

The Hitachi Construction Machinery Group aims to reduce CO₂ emissions throughout the entire value chain. We promote activities aimed at decarbonization by setting two goals: reducing greenhouse gas emissions from business activities and reducing greenhouse gas emissions associated with the use of products and services. In May 2019, the Science Based Targets Initiative (SBTi) certified “science based” our long-term CO₂ emissions goals. In the future, we will accelerate our energy-saving and reduce carbon emissions. We will also set higher emissions targets to become carbon neutral.

Under the 2°C scenario, the Hitachi Construction Machinery Group plans to develop a sustainable business model that en-

ures company growth, even under a severe CO₂ reduction scenario. Under the 4°C scenario, we will be able to build a resilient business model that can survive any disaster or change. In order to survive and constantly develop as company in the future, our business needs to migrate and adapt to climate change. The Group of companies will actively work together to achieve these objectives.

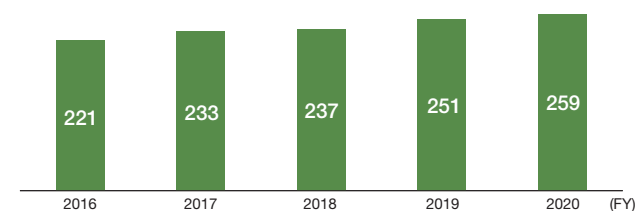


Initiatives for Environmental Conservation

Development of Environmentally Conscious Products

In fiscal 1999, the Hitachi Construction Machinery Group introduced an assessment based on the *Design for Environment Assessment*. This sets standards for development and design that take the environment into consideration. Currently, environmentally friendly products are products developed and designed based on a new assessment that complies with the global standard *IEC62430**. Our goal is to increase sales revenue ratio of environmentally conscious products. We also conduct Life Cycle Assessment of the environmental impact of our products. We quantitatively calculate the energy usage and CO₂ emissions related to materials, production, shipping, product use and disposal, also the amount of water use, fuel use, and materials use. In FY2020, eight models developed and designed based on the Design for Environment Assessment were added to our list of environmentally conscious registered models. The cumulative total now stands at 259 models.

Number of Environmentally Conscious Models (cumulative)



Reference ESG Databook 2021
⇒Environmentally conscious products (to be released at the end of September 2021)

* IEC62430: International Electrotechnical Commission "Design for Environment of Electrical and Electronic Products" (JIS C 9910)

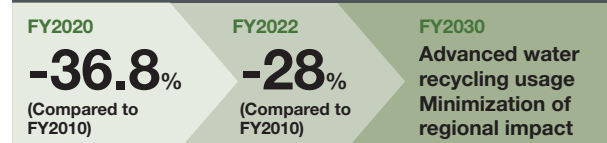
Conservation of Water Resources

The Hitachi Construction Machinery Group has identified areas of high water stress levels through its operations. For this purpose, we use tools such as the Aqueduct published by the World Resources Institute. We then quantify the water stress levels at all of our domestic and overseas production sites. In particular, overseas operations such as Tata Hitachi Construction Machinery and Hitachi Construction Machinery Indonesia, and Japan based Hitachi Construction Machinery Tierra, located in the vicinity of Lake Biwa, are implementing advanced water conservation activities.

With regard to the effective use of water resources, we are recycling water and reducing the amount of water used overall in our business activities (including fresh water). To help do this, we are working to optimize robotization and coating conditions.

In FY2020, the Group's overall water consumption decreased by 36.8% compared to FY2010. This is due to water conservation measures such as extending the service life of water used in painting equipment and expanding the use of circulating water.

Water Consumption Reduction (per unit of production)

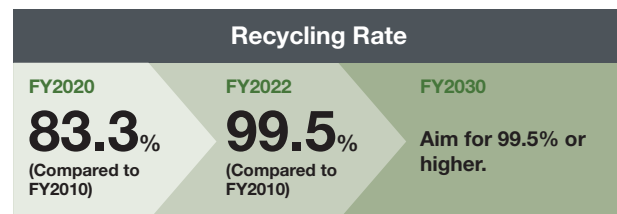


Reference ESG Databook 2021
⇒Effective use of water (to be released at the end of September 2021)

Waste Reduction

To contribute to the effective use of resources, the Hitachi Construction Machinery Group is promoting waste reduction from its business activities. We are actively promoting 3R (Reduce, Reuse, Recycle) activities mainly at our production sites. Through efforts to use resources effectively, we avoid or minimize the use of raw material resources extracted from nature, actively use recycled materials, and reuse products and parts. Through recycling activities, we are working to reduce waste (including hazardous waste). In FY2020, the recycling rate for the Group (in Japan) was 83.3%. Other than new machines sales, to reduce waste we are also focusing on areas such as servicing or renting

parts, used machines sales, and parts remanufacturing.



Reference ESG Databook 2021
⇒Waste Reduction (to be released at the end of September 2021)

Moving Towards the Realization of a Circular Economy

The circular economy is a business model that aims for new growth by changing the traditional one-way business model of mass production and mass sales of resources. It reduces resource waste by increasing the length of product use through recycling, sharing, and making products into services.

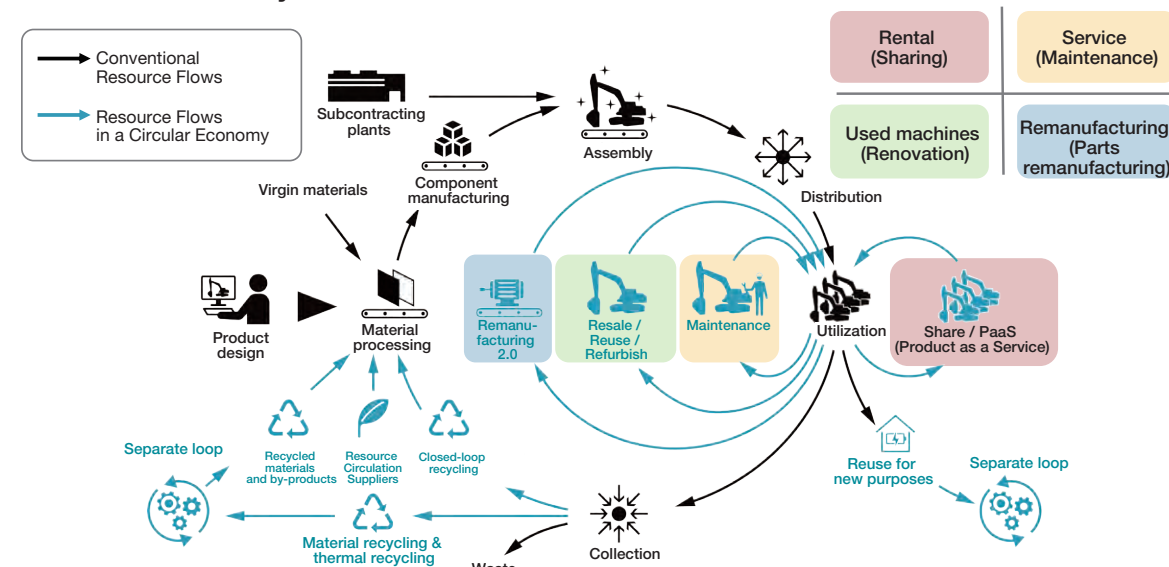
Hitachi Construction Machinery also believes that it is important to play a role in bringing the economy closer to a resource-recycling economy through various ideas. Such as extending the life of construction machinery through parts remanufacturing and maintenance, developing parts that are less likely to break down through data analysis of parts collected for repair, encouraging customers to use up their products by selling rented or renovated used machines, and supporting the independence and development of emerging countries through job creation.

In our company, each department in our company is engaged in four areas of resource recycling. These are: Reduce

(reduction of waste generation), Reuse (reuse), Recycle (reuse of resources), and Renewable (use of renewable resources). In FY2021, we will promote these as specific company-wide measures by setting KPIs. Most of the measures have been taken before, or are an extension of our previous efforts. However, we believe that by positioning them as important issues, we can differentiate ourselves from our competitors and gain a competitive advantage.

The circular economy has the potential to significantly change current business models. In some cases, we may need to consider collaborating with our competitors. Therefore, we see this as an issue to be addressed across the Group. We will support our customers' circular economy initiatives, not only with regards to factories, offices, and products, but also in cooperation with the sales divisions. By doing so, we aim to make further contributions to society.

The Circular Economy Model



Based on *What is the Circular Economy?* in "Ministry of Economy, Trade and Industry: Circular Economy Vision 2020 (Summary)".

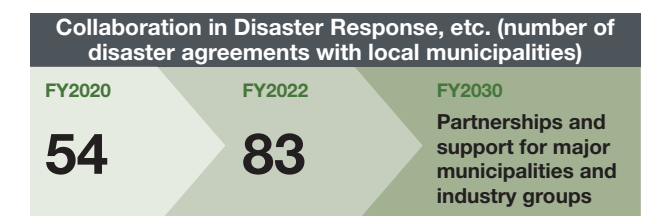
Adapting to Natural Disasters

Construction work for disaster prevention and mitigation, emergency response to disasters, and reconstruction support involves civil engineering and building work using construction machinery. In recent years, abnormal weather such as heavy rains said to occur once every 100 years, and storms said to be among the largest ever recorded have been occurring more frequently in many parts of the world. As a company that develops, manufactures, sells, and services construction machinery in an integrated manner, we recognize that we have a large role to play.

Based on this concept, the Group has entered into agreements with local governments and industry organizations. It gives priority to the supply of machinery and materials for disaster response and recovery. We plan to continue to provide support in times of disaster, mainly through these agreements. In addition,

in product development, we will take on the challenge of developing products and solutions that contribute to adapting to natural disasters.

By FY2020, Hitachi Construction Machinery Japan has concluded 54 disaster agreements with local governments in Japan.



Human Resources Initiatives

Talent Management

Talent Management Initiatives for Overseas Companies

The Hitachi Construction Machinery Group (the Group) considers the development of talent to be one of the most important management themes. We position it as the foundation of all management strategies along with governance. 74 out of 81 group companies are located overseas, with local employees accounting for about 60% of the workforce. For us, global human resource management is the cornerstone of our human resource strategy. Even with the COVID-19 pandemic, 75% of sales revenue is generated overseas, and local staff are active in each country.

To support their activities, we are working to share our human resource systems and policies globally from the second half of FY2020. The company has introduced a global standard model for compensation systems and development programs, which have traditionally been different in each country. By doing so, we are maximizing the performance of human resources and the organization. The aim is to create an environment in which more diverse human resources can play an active role.

In addition, we are also focusing on the development of future global leaders. We have a system in place to invite executive



candidates selected in each country to Japan and train them over a period of one to two years. From FY2016 to FY2020, we have accepted approximately 290 candidates. Eventually, we will be global and have more diverse members in our senior management than we have now. This is expected to further strengthen the cooperation of the group.

Self-Improvement Program

One of the education programs we are focusing on to achieve our mid-term management plan is our self-improvement program. This program targets senior management levels and above, including senior executives. It is to learn the mindset and skill set to foster the organizational culture needed in an era of change. From the start of FY2019 to June 2021, the cumulative number of participants has exceeded 2,000 across the Group in Japan and overseas.

Going forward, by centering on this educational program, we will continue to strive to transform our corporate structure to be resilient to changes in business environment.



Commemorative photo taken when the number of participants reached 1,000.

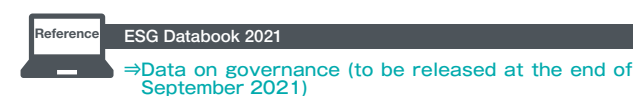
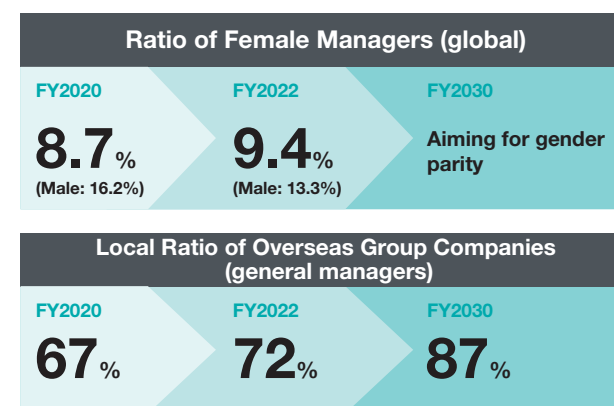


Diversity & Inclusion

In order to survive as a truly global company, we must not be an extension of the past. We need to develop business with new strategies and fresh ideas. To achieve this, it is important to respect and respond to diversity by recognizing the values and individuality of each and every person who supports our business, regardless of race, nationality, gender, age, etc. Based on this approach, the Group is working to promote diversity.

In order to support the utilization of female employees, we have implemented measures such as career development support for female employees, including active promotion to management positions, and support for continued employment and return to work for returning to work after maternity or childcare leave and ensuring work-life balance. Through these measures, we are working to build a foundation for the advancement of women.

In addition, we are also promoting the localization of general managers of overseas group companies, with a target of 87% by FY2030.



Occupational Health and Safety

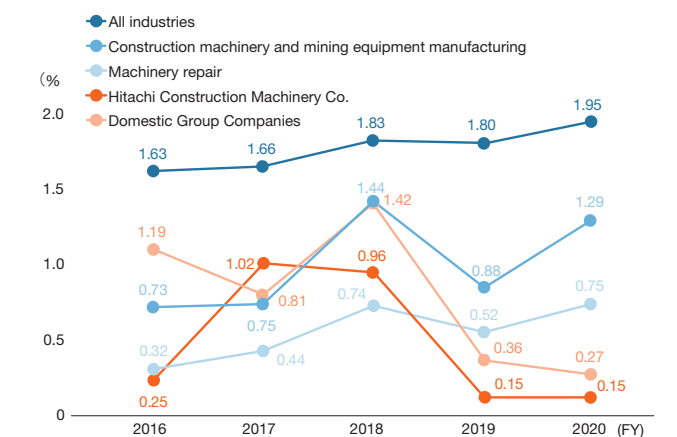
The Group is committed to preventing occupational accidents and protecting the safety and health of our employees. To this end, we promote a variety of safety and health activities by setting basic policies and priority implementation items for each fiscal year. In terms of activities, the Safety and Health Promotion Committee oversees the safety and health activities of the entire group. It works to share information on occupational accidents, report on activities, and formulate plans.

In addition, the committee has established subcommittees. They conduct training of personnel in charge of promoting occupational health and safety activities, technical reviews, and mutual check. Along with these, the committee supports the efforts of each group company based on the occupational health and safety management system.

The number of occupational accidents at Hitachi Construction Machinery in FY2020 was 11. This is a decrease of 13 cases from the previous fiscal year. Overall, 35 occupational accidents occurred at Group companies in Japan. Of these, 21 were in the manufacturing division and 14 in the sales and service division. The frequency of accidents resulting in lost work time improved both for Hitachi Construction Machinery alone and for Group

companies in Japan.

Trends in Frequency of Occupational Accidents Resulting in Absence from Work (frequency rate*)



*Frequency rate: The number of fatalities and injuries due to occupational accidents per 1 million total working hours. (Statistics cover at least one day of absence)



Improving Organizational Health

Organizational health is also referred to as corporate culture, employee awareness, or corporate spirit. Along with improved performance (business results), it is the other essential element for a company to achieve change. Hitachi Construction Machinery launched the Organizational Health Workstream in 2017, led by the Human Resources Division, as a cross-divisional, horizontal function. It plans, develops, and implements measures and disseminates information both internally and externally. In addition, the entire group conducts an annual employee survey (awareness survey). In fiscal 2020, approximately 12,000 employees in Japan and overseas participated in the program.

Based on the results of the employee survey, Hitachi Construction Machinery is steadily implementing the PDCA (Plan-Do-Check-Action) cycle: identifying issues, planning and implementing measures, and checking and reviewing the effects. We are then working to improve the level of organizational health. In identifying issues and formulating measures, we try to bring about these measures through workshops involving not only senior management but also younger employees. At the same time, we appoint a person responsible for each measure to help achieve the goal.

Examples of Introduced Measures

Main Activities	Specific Initiatives
Enhancement of Internal Communication	<ul style="list-style-type: none"> Implementation of 1-on-1 meetings Development of town hall meetings and round tables
Strengthen Management and Administration Skills	<ul style="list-style-type: none"> Improvement of training systems
Secure human resources in areas to be strengthened by utilizing internal and external channels	<ul style="list-style-type: none"> Adoption of internal recruitment system Adoption of referral recruitment system Adoption of referral recruitment Strengthen Recruitment of Experienced Personnel
Review of compensation evaluation system	<ul style="list-style-type: none"> Revision of the personnel treatment system Further improvement of evaluation interviews to improve the conviction of evaluations
Implementation of career development	<ul style="list-style-type: none"> Adoption of career and skill maps Enhance career interviews Introduction of a human resources meeting to discuss systematic rotation and human resources development
Foster and strengthen a customer interest first (CIF) culture	<ul style="list-style-type: none"> Implementation of internal seminars and training to promote CIF
Improvement of the Work Environment	<ul style="list-style-type: none"> Enhance collaboration space to enhance communication Achieve a comfortable and productive work environment

Respect for Human Rights

Human Rights Due Diligence Initiatives

The Group has clarified the Hitachi Construction Machinery Group Codes of Conduct and the “Hitachi Construction Machinery Group Human Rights Policy. This is in line with the Hitachi Construction Machinery Group Human Rights Policy. We are promoting initiatives for the respect of human rights. It also mentions human rights due diligence based on the UN Guiding Principles on Business and Human Rights and clearly stipulates implementation of appropriate education for employees, compliance with the laws and regulations of the countries and regions where we do business. Furthermore, if there are any discrepancies between internationally recognized human rights and the domestic laws of each country or region, we will pursue ways to respect international human rights principles.

With this in mind, the Group is actively promoting the exchange of human resources among its global bases. In May 2021, we held our first meeting promoting human rights due diligence. The president and other relevant officers attended this meeting and discussed understanding the human rights risks in our company, the identification of priority risks and measures to be taken. Going forward, we will establish a system to promote human rights due diligence. At the same time, we plan to conduct surveys on the status of forced labor and migrant labor responses at Group companies and suppliers.

Supply Chain Management

As corporate social responsibility increases in the international community, we need to share CSR awareness with our business partners and prevent risks in the supply chain. The Group distributes the Hitachi Group Sustainable Procurement Guidelines (Fourth Edition) to ensure that all suppliers are aware of the guidelines. These are the CSR codes of conduct and standards that all suppliers are required to follow. In addition, we have created the Basic Policy for Procurement of Materials and the Action Guidelines for Purchasing Transactions which we have made widely available to the public through our Web site.

The procurement department conducts rigorous screening when selecting new suppliers. We give full consideration to whether they fulfill their social responsibilities, such as sharing awareness of social responsibility with their business partners.

Reference Hitachi Group Sustainable Procurement Guidelines
https://www.hitachi.com/procurement/csr/EN_HG_SPG_1.pdf

Reference Basic Policy for Procurement of Materials
<https://www.hitachicm.com/global/corporate/procurement/>

Reference Guidelines for Procurement Activities
<https://www.hitachicm.com/global/wp-content/uploads/2017/09/guidelines.pdf>

Human Rights Education and Training

To raise the awareness of human rights among each employee, we continuously provide human rights enlightenment education as part of training by job level. In addition, we have an internal reporting system for employees to report human rights issues. For external stakeholders, we respond through the “Contact Us” section of our website.

We will continue to incorporate human rights initiatives into our work at the individual level. We will also continue to create an environment in which diverse human resources can play an active role.

Results of Human Rights Training in FY2020

(Number of People)

	Overall Number of Participants	Manager and above	General employees
Hitachi Construction Machinery	1,433	52	1,381
Group companies*	1,121	221	900
Total	2,554	273	2,281

*Group companies are the sum of seven domestic companies.

Implementation of Fair Trade with Suppliers

To ensure fair transactions, we are focusing on auditing the status of transactions and providing legal education to employees. We conduct self-audits twice a year to audit the status of our transactions. In addition to this, we conduct a mutual audit within the Group once a year. By doing so, we are enhancing the transparency of our audits. We also provide education and training on the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors for all employees involved in consignment acceptance. Employees responsible consignment acceptance and inspection must attend the training.

We plan to continue auditing transactions and educating employees on legal compliance in FY2021 and beyond.

Message from Outside Directors



Kazushige Okuhara
Outside Director

In 1970, Mr. Okuhara joined Fuji Heavy Industries, Ltd. (currently Subaru Corporation). He served as the Director of the Board, Corporate Executive Vice President, and General Manager of Human Resources Dept. at Fuji Heavy Industries, Ltd., President and Chairman of the Business Reforms Promotion Committee at Subaru System Service Co., Ltd. Representative Director of the Board and Deputy President of Fuji Heavy Industries Ltd., and Representative Director of the Board and President of Subaru Kohsan Co., Ltd., before joining Hitachi Construction Machinery Co., Ltd. in June 2016.



Maoko Kikuchi
Outside Director

In 1992, Ms. Kikuchi was appointed as a prosecutor in the Public Prosecutor's Office of the Ministry of Justice. After serving as a lawyer at law firms in U.S and Japan, and the Japan Fair Trade Commission, she worked for Softbank Corp. as its COO, Microsoft Japan Co., Ltd. as an Executive officer, and Mitsui-Soko Holdings Co., Ltd., as a Member of Audit and Supervisory Board. She has been an Outside Director of the Company (since July 2020), an Outside Director of Mitsui-Soko Holdings Co., Ltd., and a Member of Audit and Supervisory Board of KADOKAWA Corporation.



Haruyuki Toyama
Outside Director

Mr. Toyama joined the Bank of Japan in 1982. After serving as Director General of the Financial Markets Dept., General Manager for the Americas, and Director General of the International Dept. there, he retired from the Bank in 2014. He got registered as an attorney-at-law in 2015. Since January 2019, he has been Special Counsel at IWATA GODO (current position), and since March 2021, Non-executive Director of Horiba, Ltd. (current position). He has been an outside director of the Company since June 2015.



Toshiko Oka
Outside Director (Newly Appointed)

In 1986, Ms. Oka joined Tohmatsu Touche Ross Consulting Ltd. She had served as President and Representative Director of ABeam M&A Consulting Ltd., after Asahi Arthur Andersen Ltd. She also had served as Partner at PwC Advisory LLC,. Currently, she is Outside Director at Sony Group Corporation, Outside Director at Hapinet Corporation, Outside Director at ENEOS Holdings, Inc., and full-time professor at Meiji University Graduate School of Global Business, and has been an Outside Director of the Company since June 2021.

Kazushige Okuhara: Outside Director

Role as an Outside Director, and Activities of the Nominating Committee

Hitachi Construction Machinery Outside Directors include those with specialized skills in legal affairs and finance, however in my case, my experience is in the automotive industry where I have worked on management issues such as manufacturing, procurement, and sales. An important function of the Board of Directors is to monitor business execution, however my position is that I would like to monitor business execution from a practical perspective and provide suitable advice with empathy.

Since assuming this office in 2016, I have served on the Nominating Committee, and I feel that this role has become more fulfilling every year. For example, management has requested that during our day-to-day duties, we keep an eye out for candidates who could be future management personnel. As the Nominating Committee, we receive a variety of reports on execution status, and conduct on-site audits as necessary. Information is provided in a timely fashion, and we have in place a system for selecting management candidates and executives. However, the promotion of women to managerial positions is a significant issue. The reality is that not only Hitachi Construction Machinery, but other manufacturing companies tend to be behind in promoting women, with barriers existing that include mismatches between positions and human resources. However, even if we get past these issues, I think we will need a strong will to promote women.

Issues in Human Resources and Labor Relations

Hitachi Construction Machinery Co., Ltd. has a fantastic sys-

tem of sending young employees to our overseas bases in Russia, Indonesia, and Africa, etc., where they have opportunities to show their abilities and gain practical education—this leads to the development of the Kenkijin spirit. As well as this, I believe that if the human resource department can better exercise its leadership role in finding and promoting human resources both globally and locally, this will be of great benefit as an organization. In this, the management of the organization cannot be considered in isolation. From my experience, the more simplified an organization can be, the better. This simplification leads to a reallocation and refinement of human resources, and lets us direct outstanding human resources to new important issues and management tasks. I'm sure that such a system will lead to a positive growth cycle of furthering the development of human resources.

Approaches and Responses to Human rights Risks

Recent years have seen cases of issues concerning human rights come to light unexpectedly, to which companies have been compelled to respond. I feel that communication is vital as a foundation for respecting human rights. An organization that lacks a human type of sensitivity is at great risk. An organization comprises many relationships, between employees and with suppliers and stakeholders, but with an openness to discuss and anything it is possible to recover quickly from any issues that may arise. Communication is one of the “Three Cs” that comprise the Kenkijin Spirit, and I feel that if we all communicate with a high level of sensitivity, this will engender respect and in turn naturally bring about a stance of protecting human rights.

The role of the Compensation Committee is to formulate, and put into practice a remuneration standard that looks fair in the eyes of our stakeholders, and provides motivations to our executives. The performance of the construction machinery business fluctuates significantly due to external factors, meaning that evaluations spanning only a single year may not be equitable, and so I would like to adopt evaluations spanning multiple years.

The Audit Committee is central to management monitoring, and all Outside Directors are members of this committee. Agendas for the Board of Director's meetings are proposed by the executive directors and thus the information provided may have come through some sort of screening albeit unconsciously. Accordingly, we fully recognize the importance of collecting information using our own eyes and ears through on-site audits, and engaging in discussions of the committee from a wide-ranging perspective over a long term.

Initiatives to Address Climate Change

The Hitachi Construction Machinery Group has committed to implementing TCFD recommendations, but achieving carbon neutrality by 2050 will be no easy task. There is a pressing need to present concrete measures towards achieving carbon neutrality throughout our whole supply chain including customers and suppliers, at a level above and beyond hitherto-implemented CO2 reduction activities. At the same time, we need to highlight the role played by construction machinery in responding to natural disasters caused by climate change, and position this as a social mandate for continuing business operations. Accordingly, I feel it is the mission of the Hitachi Construction Machinery Group to take the lead in creating a new ecosystem together with our stakeholders.

Maoko Kikuchi: Outside Director

The future of Corporate Governance

Listed companies have in recent years been required to address the topic of ESG. This is of high importance in defensive governance, and I think that action plans should be formulated as ESG Compliance, with their implementation incorporated into company internal controls. For example, the U.S. Securities and Exchange Commission has put in place a system to investigate and rectify errors and discrepancies in published ESG information. Within the EU, companies are now required to identify risks to human rights, the environment, and governance in their businesses and supply chains, and to create policies and plans to eliminate these—failure to do so may result in fines and penalties. In Japan, the Corporate Governance Code has been revised in order to require companies to disclose their sustainability initiatives as a part of their management strategy, and listed companies in particular are required to collect and analyze climate change-related data. No penalties have as yet been imposed, but we need to be cognizant of this possibility in the future.

Corporate Governance Issues Facing the Hitachi Construction Machinery Group

When compared to companies in the West, Japanese companies are behind when it comes to corporate governance, however because around 80% of the Hitachi Construction Machinery Group's sales are generated overseas, simply following Japanese rules is not enough—we need to pay close attention to overseas trends. This requires that we bring on broad information and regulations from overseas, and reflect these in our management. So that we can link sustainability to Hitachi Construction Machinery's CSV (Creating Shared Value), we need to do more than just follow environmental regulations and reduce waste and CO2 emissions. We also need to have the creativity

and development capabilities to become a disrupter, and to remake the market. We will draw up an image of where society should be 20 to 30 years hence, and after reviewing the very presence of the Hitachi Construction Machinery Group, will give our all to making this a reality.

Board of Directors' Effectiveness

Governance at Hitachi Construction Machinery is based upon the Hitachi Group's basic corporate governance policy, and its institutional design is based on the global standard of a company using a nominating committee system, highly regarded by overseas investors. Of the 10 members of the Board of Directors, seven are either independent outside directors or directors who are not serving concurrently as executive officers, and active discussions are conducted mainly with the independent outside directors. In addition to audits by the Audit Office under the direct control of the Representative Executive Officer, the Audit Committee in the Board of Director, and the auditing firm, there are multiple other rigorous audits, including environmental audits conducted by Hitachi, Ltd. When formulating management strategies that include policies on investment and dividends, the emphasis is always upon increasing both corporate value and shareholder value. The revision to the Corporate Governance Code allows companies to choose parent-subsidiary listings as a group strategy providing certain measures are taken to protect minority shareholders, a good example of group governance that is of benefit to all shareholders.

The impact of the COVID-19 pandemic in fiscal 2020 required a review of management by the Board of Directors, however Hitachi Construction Machinery was able to in principle keep the Board of Directors and the Audit Committee online, providing effective and efficient management. Fiscal 2021 will not see us moving backwards, and we will further strive to improve the effectiveness of the Board of Directors.

Toshiko Oka: Outside Director (Newly Appointed)

It is a great honor for me to be appointed to the position of independent outside director of Hitachi Construction Machinery Co., Ltd.

I have been working in mergers and acquisitions consulting for some time, and have served on committees including at the Ministry of Economy, Trade and Industry and at the Cabinet Office. Since April this year, I have been teaching M&A and management at Meiji Business School (Global Business Research).

I first entered the workforce in 1986, the year after the Plaza Accord—35 years have since elapsed. At that time, the theory of a 30-year corporate lifespan was popular. This postulated that companies have a lifespan of 30 years. In 2020, Hitachi Construction Machinery celebrated not its 30th anniversary, but its 70th. This could be because the ideals of our predecessors at Hitachi Construction Machinery have been passed down over long years, while we continue with ongoing changes.

Looking forward, companies will operate in ever more

differing environments including the promotion of digitization, switching to carbon neutrality and other green technologies, and the trend of investors moving towards ESG investment. How we survive when confronted by such environmental changes will require constant innovations. I feel that key to this will be continuing to reinvent ourselves, and how we use M&A methods such as acquisitions and divestitures in order to effectively make use of help from outside. However, many mergers and acquisitions involving Japanese companies tend to fail. The probability of success with overseas M&A is even lower in spite of the large size of the transactions, and many companies end up being stuck with massive impairment losses after a few years.

In the future, Hitachi Construction Machinery may well find itself in the position of using M&A to redo its business portfolio, and to expand its scope of business. In such an instance, it is my hope that the Board of Directors will exhaustively discuss which issues are of importance, as well as how we can reduce risk and maximize corporate value.

I look forward to your continued support.

Company Profile (As of March 31, 2021)

Company Name	Hitachi Construction Machinery Co., Ltd.
Paid-in Capital	81,577 million yen
Head Office	16-1 Higashiueno 2-choume, Taito-ku, Tokyo, 110-0015, Japan
Established	October 1, 1970
Representative	Kotaro Hirano, Representative Executive Officer, President and CEO
Number of Employees	24,873 (Consolidated), 5,455 (Non-consolidated)
Major Operations	Manufacturing, sales, rental and service of construction machinery, transportation machinery, environmental related products and other machines and devices
URL	https://www.hitachicm.com/global/

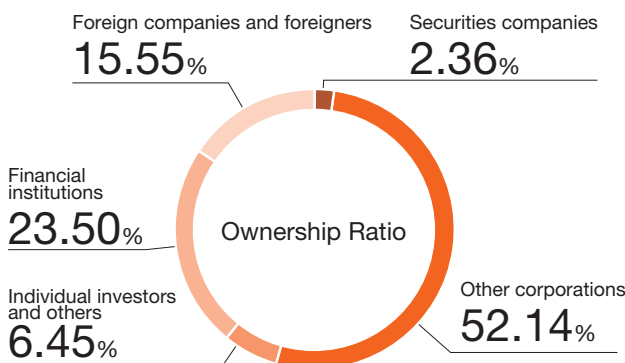


Ueno East Tower

Investor Information (As of March 31, 2021)

Stock Exchange of Listing	First Section of the Tokyo Stock Exchange 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
Shareholder Registry Administrator	Tokyo Securities Transfer Agent Co., Ltd.
Number of Shares Authorized	700,000,000 Shares
Number of Shares Issued	215,115,038 Shares
Number of Shareholders	21,663
Annual Shareholders Meeting	The annual shareholders meeting is usually held before the end of June in Tokyo.

Composition of Hitachi Construction Machinery Shareholders



Major Shareholders (Top 10 Largest Shareholders) (As of March 31, 2021)

Shareholder	Number of shares held ('000)	Ownership ratio (%) (Third decimal place rounded off)
Hitachi, Ltd.	109,352	51.42
The Master Trust Bank of Japan, Ltd. (trust account)	26,388	12.41
Custody Bank of Japan, Ltd. (trust account)	10,588	4.98
Custody Bank of Japan, Ltd. (securities investment trust account)	2,487	1.17
Custody Bank of Japan, Ltd. (trust account 7)	1,993	0.94
The Bank of NY Mellon (International,) Ltd. 131800	1,860	0.87
Custody Bank of Japan, Ltd. (trust account 9)	1,629	0.77
State Street Bank West Client - Treaty 505234	1,558	0.73
Custody Bank of Japan, Ltd. (trust account 5)	1,434	0.67
JP Morgan Chase Bank 385781	1,330	0.63

* Hitachi Construction Machinery holds 2,463,047 shares of treasury stock, but these have been excluded from the list of major shareholders above.

* Ownership ratio is calculated without the 2,463,047 shares of treasury stock.

External Evaluation

Investor Relations



IR Special Award at 2020 IR Award

We received the Empathy IR Award at the IR Special Award 2020 conducted by Japan Investor Relations Association. This award was newly created on the occasion of the 25th anniversary of the IR Special Award. The theme for 2020 was "IR - with and after Covid-19". (November, 2020)

SRI



In collaboration with Dow Jones Sustainability Asia Pacific Index

We were selected for inclusion in the Asia Pacific Index of the Dow Jones Sustainability Indices (DJSI). The DJSI was developed in 1999 by S&P Dow Jones Indices and RobecoSAM, a Swiss investment advisory firm with the aim of comprehensively analyzing listed companies around the world in terms of economy, environment, and society, and to select companies that excel in sustainability. (as of November 2020)



FTSE4Good

FTSE4Good Global Index Series

We were selected for inclusion in the "FTSE4Good Global Index Series" Responsible Investment (RI) indices for global companies. (as of June 2021)



FTSE Blossom Japan

FTSE Blossom Japan Index

We are recognized as a Japanese company engaging in excellent practices in terms of environment, society, and governance (ESG). (as of June 2021)



Sompo Sustainability Index

SOMPO Sustainability Index

We were selected for inclusion in the active index created independently by SOMPO Asset Management that combines ESG evaluation (Environment, Society, Governance) and stock price evaluation (fundamental value). (as of June 2021)

2021 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

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 2021)

External Recognition



Carbon Disclosure Project (CDP)

The CDP is a non-profit organization established in the UK in 2000 that globally surveys, discloses, and evaluates corporate initiatives regarding climate change and water. In 2020, we received a climate change score of A- and a water score of B, as we did in 2019.

	2018	2019	2020
CDP Climate Change	B	A-	A-
CDP Water	B-	B	B



SBT (Science Based Targets, emissions reduction targets based upon scientific evidence)

SBTI certifies companies that have set scientifically based emissions reduction targets consistent with the 2°C target (1.5°C target) level required by the Paris Agreement. In May 2019, our long-term targets for greenhouse gas emissions reductions received SBT certification.

Information Disclosure



All Japanese Listed Companies' Website Ranking by Nikko Investor Relations Co., Ltd.

We were selected to receive an A Grade overall ranking by the All Japanese Listed Companies' Website Rankings. This ranking is conducted by Nikko Investor Relations Co., Ltd., and evaluates the degree of fulfillment and functionality of listed company websites. (December 2020)



Gomez / IR Site Overall Ranking (Morningstar)

Received Gomez / IR Site Overall Ranking Bronze Award (2020). The above is a ranking carried out by Morningstar Japan K.K. that evaluates from a user's perspective the IR sites of listed companies that meet certain survey criteria covering major items. (December 2020)

Management Strategy



DX Certification 2021

DX certification is a system for certification of companies that support basic items in the Digital Governance Code based upon the Act on Facilitation of Information Processing, and for companies making outstanding efforts in this regard, in view of the policies formulated by the government regarding support for changes caused by digital technologies. As our strategy for digital transformation, we are working to enhance existing businesses through improved service quality using ConSite®, and create new businesses opportunities through ICT solution-related measures. Additionally, in order to achieve a digital transformation, we are putting together an environment for internal business reform and strategy promotion using a core system based upon a uniform design policy and a data integration platform that utilizes this. In recognition of these initiatives, we have been certified as a DX-certified company.

ESG Certification



Health and Productivity 2021

Companies that responded to the Health Management Brand Survey conducted by METI and that meet certain standards receive this certification. For the Hitachi Construction Machinery Group, in addition to Hitachi Construction Machinery Co., Ltd., the three companies Hitachi Construction Machinery Tierra Co., Ltd., Hitachi Kenki Logistics Technology Co., Ltd., and Hitachi Construction Machinery Japan Co., Ltd. were certified in the large company group (excluding White 500). In the small to medium sized company group, Hitachi Construction Machinery Camino Co., Ltd., Tadakiko Co., Ltd., and Shin Tohoku Metal Co., Ltd. were certified (excluding White 500).

*Logo is for the large company group.

Endorsement of Initiatives



Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) is an initiative established by the Financial Stability Board (FSB) in June 2017 that requires companies to disclose climate-related information that may impact their finances from the four perspectives of corporate governance, strategy, risk management, and indicators and targets. We announced our endorsement of TCFD in October 2020. We have put in place an internal task force and are working company-wide to disclose climate-related information that may impact our finances.

Global Review

Hitachi Construction Machinery Group gathered opinions and considered evaluations of the Hitachi Construction Machinery Group Integrated Report 2021 to respond to requests for sustainability from a wide range of perspectives.



Hidemi Tomita

Lloyd's Register Japan K.K.
Representative Director

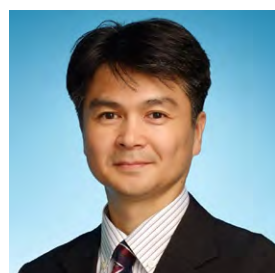
About the Materiality of the Group

We are experiencing a time of rapid change in external factors such as climate change, a shift to a circular economy, and a pandemic that have had a significant impact on business, and the clarification of materiality and business strategies has become increasingly important. It has become increasingly important to understand the short-, mid-, and long-term changes in society and recognize issues to bolster both the internal and external reliability of the Group.

I highly regard that the Group reviewed its materiality and clarified the definition. While a wide range of standards and guidelines regarding the disclosure of sustainability information abound, some companies have failed to engage in meaningful discussion and have limited their actions to organizing issues because materiality standards, guidelines, and definitions vary greatly from company to company. The Group clearly defines materiality as a priority issue for each group company with consideration for both the internal and external environment, and clarifies the relationship between the materiality identified by each group company and its business.

Materiality has become the starting point for the establishment of business strategies. In the midst of significant changes in priority issues for business operations along with the trend of ESG, a wide range of approaches employed by the Group to respond to immediate customer needs have been systematically organized through the reorganization of materiality.

In future, I expect that the Group will apply specific business strategies such as expanding its business while addressing identified issues regarding materiality through the strategic leveraging of its strengths and by proactively changing its business model to anticipate the needs of the times. Based on this review and reorganization of materiality, I expect the continued success of the Group business and a positive impact on social issues.



Takeshi Shimotaya

Sustainavision Ltd.
Managing Director

Response to ESG Issues

The importance of ESG information disclosure has been increasing. From the viewpoint of ESG, many investors have been focusing on ESG issues, climate change, circular economy, and human rights in supply chains. After approval of its CO₂ reduction targets based on science-based targets (SBT) in 2019, Hitachi Construction Machinery announced its agreement with the Task Force on Climate-related Financial Disclosures (TCFD), and has advanced scenario analysis and company-wide responses to climate change. In addition, the Company is establishing a business model for the industry through better approaches to the circular economy. I expect Hitachi Construction Machinery to continue contributing to the life-cycle of machinery focusing on the effective use of limited resources, a need accelerated by the global population growth. In accordance with the Guiding Principles on Business and Human Rights established by the United Nations, the Company has continued working to improve its unique due diligence structure since FY2020. As respect

for human rights is the foundation of SDGs, it is very important for the CEO to announce that they will take a leading role in eliminating forced labour and ensuring the fair treatment of immigrant worker throughout the supply chain through top-down approaches.

Hitachi Construction Machinery also plans to review and reorganize materiality in 2021 to ensure that its action plans are based on the current status. The identification of materiality requires the input of stakeholder opinion, the disclosure of information to stakeholders, and the promotion of engagement with stakeholders. I expect that Hitachi Construction Machinery will promote solutions to materiality issues through outside-in approaches and contribute to the achievement of SDG targets based on respect for human rights.



Peter D. Pedersen

Professor, Shizenkan University
Graduate School of Leadership & Innovation
Representative Director, NELIS (NPO)
External Director, Marui Group Co., Ltd.

Digital Transformation (DX) and Organizational Culture & Relationship with Sustainability Transformation (SX)

I feel the extraordinary ambition of the Company in its approaches to DX. Although many companies use "DX" as a buzzword in their business targets, there are only a few companies that continue to try different approaches until they achieve good results, in other words, until real transformation is made. I think continual efforts to achieve transformation (qualitative changes) are essential in ensuring that companies become resilient. (It's one of the keys to establishing a flexible and strong corporate structure.)

In order to pursue qualitative changes in business through DX, it is extremely important to create the corporate climate described in the Feature 2 (p.23). I believe that what Japanese companies really need is management innovation rather than innovation management. This means innovation in the operational methods of organizations. Deadlocked organizations with sections that are isolated from others cannot achieve good results even with DX as a goal. The Company has placed an emphasis on the evolution of the corporate climate and on cultivating the dynamic capabilities of employees, which I strongly support.

For successful DX, contributions to changes in sustainability in society, in other words, contributions to SX, will be extremely important in future. I believe the Company has already instituted approaches for SX, and I believe if all employees share the viewpoint of SX through DX, our goal will be clear and employee motivation to work on DX will increase.



B. Lorraine Smith

Advisor on regenerative business,
former Associate Director at
Volans, former Board Member of
CBSR

Feedback on Hitachi Construction Machinery TCFD Response

The application of the TCFD framework is an important signal to financial markets and other stakeholders that executives and boards are taking climate change seriously. It remains a challenge to ensure it is a useful tool for change versus simply more disclosures. This is the spirit in which my comments are intended, to encourage the shift towards a thriving society within a healthy biosphere i.e. a Regenerative Economy.

Strengths

Application of the four-part framework: Hitachi Construction Machinery has done a thorough job of providing high-level responses to all four aspects of the framework, including accessible supporting visuals.

Commitment to engaging more stakeholders: I was pleased to see this in the Roadmap for FY2022 as it is an essential element of change. In particular, customers in industries undergoing rapid transformation due to climate risk – e.g. coal and other mining and energy sector players

– will be important collaborators, as well as municipal leaders and influencers in regions where Hitachi Construction Machinery's customers operate.

Areas For Improvement

More details on scenarios: The diagram and table help illustrate impacts based on two warming scenarios. However, additional context and a more human-centric approach to the disclosures could offer readers a better sense of the disruptions ahead. For example, it would be helpful to include more commentary on how customer sectors and social systems will likely change.

There is sufficient evidence that the best case scenario (i.e. the 2-degree scenario) is highly unlikely and yet even it entails serious volatility in biological and social systems. Hitachi Construction Machinery's current disclosures downplay the likely level of disruption and severity of the impacts. Future disclosures will ideally offer a more candid and realistic view of the path ahead.

Thank you again for the opportunity to provide feedback. I look forward to seeing the evolution of your approach.

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