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

for all stakeholders

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Our Vision

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

The Hitachi Construction Machinery (HCM) Group is contributing to the creation of comfortable living spaces.

Using the Kenkijin Spirit as a driving force, the HCM Group is working to create new value in order to achieve Our Vision.

Identity

We are active in the evolution of “machinery” and the synergy between “human” and “business” that combines to create rich living spaces, making them more comfortable, highly developed and efficient.

Innovation

We consistently develop and provide our customers with the technology, products and services that generate new value.

Corporate Social Responsibility (CSR)

While maintaining profitable operations, we act as a “corporate citizen having good judgment” by staying in harmony with the environment and participating in cultural activities, striving for a symbiotic coexistence with society.

What is the Kenkijin Spirit?

In pursuing our vision and principles, it is important to achieve the goals of the HCM Group’s medium- to long-term vision and mid-term management plan while responding to the demands of society in areas such as compliance and corporate social responsibility (CSR). The actions of each individual employee are the driving force behind these efforts. If these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee’s ideas and initiatives. The Kenkijin Spirit codifies the shared values and code of conduct to portray the attitude of an employee of the HCM Group, i.e., Kenkijin.
Solutions to global environmental issues

Enhance initiatives to increase social contribution to community development

The five fundamental themes of our CSV initiatives

CSR Key Initiative Themes

Activity 1: Manufacturing construction machinery
Undertaking the evolution of construction machinery, and bringing new value to work sites around the world

Activity 2: Using construction machinery
Pursuing innovation by starting with customer “usage”

Activity 3: Taking on challenges with construction machinery
Creation of new value that contributes to sustainable development and the resolution of social issues

Hitachi Construction Machinery Activities

8 Key Initiative Themes

CSV Theme 1: Solutions to global environmental issues
CSV Theme 2: Enhance initiatives to increase social infrastructure workforce
CSV Theme 3: Contribution to community development

5 Base Themes

Promoting CSR

CSR promotion system
Stakeholder engagement
Social contributions
Diversity
Human rights
Compliance
Risk management
Corporate governance

Financial Section

Ten-year Financial History
Management’s Discussion and Analysis
Corporate Information

Editorial Policy

From fiscal 2011, we consolidated our Annual Report, which reported our management strategy and financial statements, and our CSR Report, which reported Environment, Social, and Governance (ESG) information, to produce a comprehensive CSR & Financial Report. We did this to provide a clear overview of the activities of the Hitachi Construction Machinery Group as it aims at the integrated advancement of our growth strategies and CSR management as a corporate group. In this FY 2016 CSR & Financial Report, we have highlighted the areas described below to allow our stakeholders to gain a clearer understanding of the Hitachi Construction Machinery Group’s corporate management.

• We are working to reinforce our “Creating Shared Value (CSV) management” which uses business activities to bring value to the Earth, society (stakeholders), and the HCM Group. The 2016 edition of the report provides information on the three CSV themes we consider important in contributing to the achievement of a sustainable society, as well as the five base themes supporting those CSV themes.

• Furthermore, we release more detailed information about our activities and performance data on the web. We aim to release information that corresponds to the various interests and concerns in our business.

Reporting Period

April 1, 2015 - March 31, 2016
(Some of the information included is from after April 1, 2016.)

Reporting Organizations

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

Guidelines used for reference

• Global Reporting Initiative (GRI)
• G4 Sustainability Reporting Guidelines

This report contains information for standard disclosure items as per the GRI Sustainability Reporting Guidelines.

• Environmental Reporting Guidelines 2012, Ministry of the Environment

Next scheduled release
Scheduled for release in June 2017

Information disclosure medium

CSR & Financial Report

This is a key report that comprehensively discloses the HCM Group’s management strategy as well as financial and non-financial (ESG) information.

Information for shareholders/investors (website)
https://www.hitachicm.com/global/invester-relations/
Provides timely information on financial statements and IR news as well as posting various types of IR material for individual investors.

Social and environmental (CSR) reports (website)
Provides comprehensive information on environmental management systems and for each kind of environmental performance category.

Environmental activities (website)
Provides comprehensive information on environmental management systems and for each kind of environmental performance category.
Contribute to our customers and thereby to society for sustainable development as a bearer in the creation of social infrastructure.

Making the synergy between ‘human’ and ‘business’ more comfortable, highly developed and efficient

Yuichi Tsujimoto
President, Chief Executive Officer and Director
Contribute to our customers and society for sustainable development

The Hitachi Construction Machinery Group is a corporate group that contributes to maintaining social infrastructure and developing resources through the provision of products and services adapted to the needs of our customers and society as whole at sites in every country and region of the world. In addition to our efforts to improve the safety and productivity of our customers’ work-sites and reduce life-cycle costs through our provision of products and services, we also believe it is extremely important to reduce the environmental impact associated with using our products and services. When reflecting on the evolution of construction machinery and the historical growth of industry and economics, we believe the value we provide is in how much we can contribute to society for sustainable development and we consider that contribution both our duty and raison d’être.

As part of our 2020 VISION, amid the rapidly changing construction machinery industry the Hitachi Construction Machinery Group aims to become a global company whose products and services are chosen by customers in every country and region of the world. As the second step towards realizing this vision, we have created a mid-term management plan titled GROW TOGETHER 2016 and are currently building the foundations for growth. When looking at the FY2015 business environment, due to the slowing of the Chinese economy and the large-scale drop in the value of resources it becomes clear that there have been major changes to several of the conditions pre-supposed in our FY2013 business plan. We believe these circumstances are exactly what make it so important to strengthen development marketing, sales marketing, mining operations, parts and services operations, SCM reform, and MONOZUKURI (manufacturing by skilled craftsmen), in order to reinforce every link in the value chain.

Our construction machinery can be found in operation around the world, both in developed and emerging countries, and it is known for having an extremely long product life-cycle. From research and development to production, sales, after-sales service, parts remanufacturing, and used machine sales, we communicate with our customers throughout the product life-cycle in order to work on developing and providing products and services that reduce environmental impact, improve safety and productivity, and lead to reduced life-cycle costs.

In addition, in terms of maintenance of social infrastructure and resource development the safe and stable operation of machinery is also important. In order to ensure that operation we use a Global e-Service employing information and communication technology (ICT) to consolidate our machinery's operational status, operational record, repair record, and client information, which allows us to provide various services that aim to reduce sudden troubles and loss due to downtime. In other words, enhancing the value of our products and services is directly related to increasing the value of our clients’ businesses, resulting in our contribution to the creation of social value.

Identifying the Materiality that shows the relationship between business and society

As you can see, we have long been aware of the relationship between our business model and the value it has on the environment and society; however, we renewed our focus on this fact when selecting the key initiatives for our FY2015 CSR activities. The three approaches we identified with respect to creating shared value (CSV) through business are: Resolving global environmental issues; Enhancing initiatives to increase social infrastructure workforce; and, Contributing to community development. Furthermore, underpinning all of our business activities are our initiatives for employee work safety and diversity, and governance. We now have renewed awareness of the importance of these initiatives, and we are currently undertaking their reinforcement.

By undergoing Materiality (priority issues) identification process we have been able to rediscover the relationship between our business and social issues, and we believe that having this shared awareness is an extremely meaningful thing that will inform our future business policy development.

2020 VISION
A “Close and Reliable Partner” Anywhere on the Earth with Best Solutions through Kenkijin Spirit
Resolving global environmental issues to achieve sustainable development

Last year’s UN agreements on Sustainable Development Goals (SDGs) and the adoption of the Paris Agreement at COP21 show the directions being taken to solve global social issues. Our products and services include the machinery and systems used to build social infrastructure; our accurate grasp of our clients’ work environment needs in every region of the world, and our provision of the optimal products and services suited to those needs, allows us to assist in creating that infrastructure in a safe and efficient environment at work-sites without any unnecessary impact on the environment. Through initiatives like the development of products reducing carbon emissions, such as our hybrid hydraulic excavator and our first domestic mid-size hybrid wheel loader, our business model is directly contributing to sustainable development and environmental conservation. At the same time, the stable and efficient operation of machinery while reducing energy consumption and operational costs is also an important issue, and our ConSite service menu that watches over our machinery in operation around the world is already available for over 30,000 units globally.

Enhancing initiatives to increase durable social infrastructure workforce

In addition to the deterioration of the buildings and infrastructure supporting society, the lack of staff and decrease in skilled workers in the construction industry as part of the falling birthrates and population aging that will lead to a large-scale drop in productivity throughout society are becoming major domestic issues. As a countermeasure for this, the Ministry of Land, Infrastructure, Transport and Tourism has begun undertaking the i-Construction initiatives geared at optimizing the construction process for civil engineering and public works and increasing productivity. Meanwhile, we plan on introducing an ICT hydraulic excavator to the market that has an onboard “machine control” feature that allows for semi-automation of traditionally complicated operations through inputting 3D data. In addition, we are also moving forward with technological development aimed at reducing injuries and casualties caused by falls and collisions through the use of unmanned dump trucks at mining sites. If the various technologies that are currently under development are realized, the full implementation of i-Construction may not be all that far off.

Glossary

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

*2 COP21
The 21st Conference of the Parties (COP 21) to the United Nations Framework Convention on Climate Change, held in Paris, France on November 30, 2015. The Paris Agreement, which forms the framework for the year 2020 onward when the Kyoto Protocol expires, has been adopted by 196 countries and territories around the world. This is the first agreement to include developing countries in the promise to reduce greenhouse gases.

*3 i-Construction
An initiative by the Ministry of Land, Infrastructure, Transport and Tourism promoting the maintenance of safety and improvements to wage standards for people who work on construction sites by making use of information and communication technologies (ICTs) to improve civil works and construction site productivity and efficiency and ameliorate the corporate business environment. The i-Construction Committee was launched in December of 2015 and established their basic policy as working towards the introduction of ICTs to construction machinery and surveying, as well as standardization of specifications and leveling of yearly construction periods.
After all, construction machinery can already be considered ‘robotic’ in the broader sense of the word due to its provision of exponential amounts of labor in place of human beings and its role of operating in dangerous locations. Even when it comes to the Great East Japan Earthquake, we responded to conditions at the sites and developed and provided equipment and services that helped with reconstruction. This is another example of how we would like to use open innovation with the Hitachi Group and ICT solutions optimized for the creation of the future to solve labor shortage, safety, and all other ‘human’ issues.

Unearthing undeveloped capacity and contributing to the development of communities

While simultaneously improving our machinery and systems, we are also undertaking initiatives to directly tackle the ‘human’ elements. To start with, in terms of ‘creation’ we are undertaking our Made by Hitachi initiative in 35 works and plants around the world and aiming for unified global quality. As part of this initiative we are implementing quality diagnostics for each site and skill certification for processes such as welding, machining and painting, as well as holding skill competitions every year. Whether it is Japan, China, or India, we are working together with our suppliers in every region of the world to increase the level of the Group’s MONOZUKURI.

Furthermore, there is a global increase in the need for sustainable development, and one of the Group’s major duties is to back future-focused development in any community. In emerging countries the conditions of the work-sites using our machinery are quite varied, and the skill levels of the operators can differ widely. Since the concept of after-sales service can differ by country and region, we conduct training adapted to location with regards to the Group’s standards of service. Underpinning all of this are the Global Positioning System (GPS) capabilities and sensors onboard each and every one of our machines. These combined with our ConSite service that makes use of Global e-Service functions managed on a network allows for timely contact with our client sites through the automatic email transmission of malfunction information to our clients and our closest service centers.

Aspiring to even higher levels of service through the consolidated power of One Hitachi

More than just providing our clients with improved products and technology, in order to realize our 2020 VISION it will be important to determine how we can provide solutions that balance the hard and soft elements. From an environmental perspective, in addition to providing low-carbon products we will also need to provide solutions such as ICT construction machinery that efficiently reduces carbon emissions throughout the construction process and self-driving dump trucks. The mining industry involves unearthing, hauling, and pulverizing minerals as well as transporting them via rail to ports, but electricity generation and water treatment are also essential processes. Providing various products and services through the Hitachi Group’s wide range of businesses and responding to our clients’ deeper needs are the keys to differentiating ourselves. These kinds of above and beyond contributions are the true purpose of One Hitachi, and lead to the reduction of our clients’ operational costs and result in increased safety and decreased environmental impact. In addition to our collaborative creation with the Hitachi Group, we believe that undertaking open innovation in the provision of solutions that resolve the business problems of our clients in various different industries is a major pillar in our future growth.

Furthermore, Hitachi Construction Machinery’s Kenkijin Spirit is built upon the three ideas of Challenge, Customer, and Communication. Our group will come together as one in order to embody these ideas in every corner of the world.
Mid-term Management Plan (Fiscal years 2014 - to 2016)

The HCM Group has developed in 2010 the “2020 Vision” mid-term management vision in order to indicate our ideal state in the 10 years. As part of achieving this state, we are currently implementing the “GROW TOGETHER 2016” mid-term management plan (FY2014 - FY2016) following the “Go Together 2013” mid-term management plan (FY2011 - FY2013).

2020 VISION

Promoting growth and the next sowing of the seeds

Sowing the seeds of growth

GROW TOGETHER 2016

First step:
FY2011 - FY2013

Second step:
FY2014 - FY2016

Third step:

Go Together 2013

Six imperatives

GROW TOGETHER 2016

Key enhancement measures

Next mid-term management plan

• Development Marketing and Advanced Technology Development
• Sales and Marketing
• Mining Operations
• Parts and Service Operations
• SCM Reform and MONOZUKURI Capabilities
• Overall Value-chain

Progress of GROW TOGETHER 2016

Changes in sales revenue and operating income to sales

Operating income to sales after adjustments
Bracket includes International Financial Reporting Standards (IFRS) operating income

Sales revenue (left axis)  Operating income to sales (right axis)

Changes in global demand for hydraulic excavators
About the Hitachi Construction Machinery Group

The HCM Group was created in 1965 as the successor of the Hitachi, Ltd. Construction Machinery Department. The Hitachi Group, which is centered on Hitachi, Ltd., has businesses in various fields including Information & Telecommunication Systems, Power Systems, Social Infrastructure & Industrial Systems, Electronic Systems & Equipment, Construction Machinery, High Functional Materials & Components, Automotive Systems, and Smart Life & Ecofriendly Systems.

Sales and composition ratio by regional segment

- Japan: 31%
- China: 7%
- Asia: 9%
- Europe/Middle East: 16%
- Russia/CIS: 2%
- Africa: 5%
- Oceania: 12%
- The Americas: 13%

Total: 758.3 billion yen (period ending March 2016)
We continue building an open corporate culture that makes the most of people’s talent and fosters their development to ensure mutual self-actualization through the joys of work.

We are increasing the ratio of eco-products that reduce environmental impact through improved fuel efficiency, electrification, and hybridization, expanding the business opportunities in the global market.

As a partner to watch over our customers’ machines, we provide the “ConSite” global service making use of cutting-edge Information and communication technologies (ICT) and support our customers’ daily business.

The competition allows for mutual learning of creative techniques for production and skills improvement in use at each hub with the goal of gathering know-how to improve front-line capabilities on a global basis.

We aim for “social contributions through harmony and recycling” based on our research and development into technology that is “kind to both human beings and the environment” and “technology that creates an even better environment”.

We are promoting sustainable improvement activities like that make electrical power consumption visible to reduce peak electricity usage and volume of usage.

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**Facts and Figures about the Hitachi Construction Machinery Group**

**Number of employees**

- 21,193

**Ratio of sales to R&D expenses**

- 2.5%

**Environmental conservation costs**

- 8,545 million yen

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**Changes in numbers of employees (on a consolidated basis)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
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<tr>
<td>2013</td>
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<tr>
<td>2013</td>
<td>20,440</td>
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<tr>
<td>2014</td>
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<tr>
<td>2015</td>
<td>21,126</td>
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<tr>
<td>2016</td>
<td>21,193</td>
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**Changes in sales to R&D expenses**

<table>
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<tr>
<th>Year</th>
<th>Ratio of Sales to R&amp;D Expenses</th>
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<td>2011</td>
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<tr>
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<td>2.2</td>
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<tr>
<td>2015</td>
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**Changes in environmental conservation costs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Environmental Conservation Costs (million yen)</th>
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<tr>
<td>2011</td>
<td>8,016</td>
</tr>
<tr>
<td>2012</td>
<td>8,134</td>
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<td>2013</td>
<td>8,268</td>
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<td>2014</td>
<td>8,905</td>
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<tr>
<td>2015</td>
<td>8,545</td>
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</tbody>
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**Volume of reduced CO₂ emissions from products**

- 2.78 million tons

**Number of ConSite contracted machines**

- 35,691

**Number of participants in the International Skills Competition**

- 82 people from 8 countries

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**Changes in volume of reduced CO₂ emissions from products**

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume of Reduced CO₂ Emissions (million tons)</th>
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<td>2.23</td>
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<td>2015</td>
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**Changes in ConSite contracted machines**

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**Changes in environmental conservation costs**

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**Changes in numbers of participants**

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<td>2014</td>
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<td>2015</td>
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**About us**

- **Our Vision & Principles**

**Web references**

- Environmental Activities
- Environmental Conservation Activities

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**CSR & Financial Report 2016**

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**For Customers**

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Hitachi Construction Machinery Activities

The HCM Group undertakes initiatives to contribute to the development of a sustainable society through provision of construction machinery solutions. We will now cover activities which achieved significant progress in FY2015.

Activity 1: Manufacturing construction machinery → p11
Providing highly reliable construction machinery that contributes to building social infrastructure and industrial development. We will now introduce HCM’s concept of MONOZUKURI.

Activity 2: Using construction machinery → p15
Achieving improvements in customer safety and efficiency on construction sites while reducing life-cycle costs. We will now introduce the HCM products and services generating customer satisfaction.

Activity 3: Taking on challenges with construction machinery → p19
Making use of industry-leading cutting-edge technology and long-developed knowledge to create new value that contributes to the resolution of social issues. We will now introduce HCM’s initiatives for creating a sustainable future.
Manufacturing construction machinery, and bringing new value to work sites around the world

After the development of the first hydraulic excavators with genuine Japanese technology in 1965, HCM Group has been developing industry-leading technologies and products, such as being the world’s first to equip construction machinery with satellite communication terminals in 2000, and accumulating various core technologies related to construction machinery.

Our products are mainly used in civil construction and mining sites to conduct a wide variety of tasks in place of human beings. Therefore, our machines need to be tough, enable high and stable productivity over long periods of time, and have high levels of trustworthiness and durability; furthermore, our products need to come equipped for safety and excellent controllability that allow for “human beings” to work efficiently in various work sites without any accidents, as well as being products that achieve lower energy consumption and lighter environmental impacts. In recent years, there has been progress in the development of electric drive technology, leading to the development of hybrid construction machines that reduce fuel consumption by 30% compared with our traditional products, and haul trucks making use of electric drive technology. In addition, we have implemented electronic control technologies essential to improvements in performance, controllability, and safety of our products. In June 2016, we introduced “ZX200X-5B”, new intelligent hydraulic excavator to the market toward the coming age of informatized construction processes utilizing 3D design models.

Furthermore, we offer solutions and services utilizing information and communication technologies (ICT) that support “i-Construction”, informatized construction process proposed by the Ministry of Land, Infrastructure, Transport and Tourism, with construction machinery as the core competence. In addition to offering a wide range of products adapted to customer needs, we are also working towards the resolution of issues such as increasing productivity and decreasing manpower in the civil construction industries.
In expanding the domain of cutting-edge technology, HCM’s major advantage is the power of Hitachi Group. Hitachi Group, with Hitachi, Ltd. as the core company, has businesses in various fields including information & telecommunication systems, power systems, social infrastructure & industrial systems, electronic systems & equipment, construction machinery, high functional materials & components, automotive systems, and smart life & ecofriendly systems. There are no other construction machinery companies with such an extensive backbone in the world.

The synergy of Hitachi Group reveals its effects through three main aspects. The first aspect of the synergy is “wide variety of the products and technologies”. By making use of the various products and technologies possessed by Hitachi Group (electronic control devices and sensors, information and telecommunication systems, etc.), we are able to rapidly and surely introduce electric drive systems or intelligent technologies into construction machinery and develop solutions that increase the efficiency of product maintenance and management. The second aspect of the synergy is “technological innovation”. Hitachi Group is making efforts to reinforce its global social innovation business starting with our customers by establishing research and development hubs close to them. At the same time, HCM’s researchers and engineers, collaborating with the related departments of Hitachi Group, work for technological development that produces innovation for construction machinery. The third aspect is “human resources”. There are frequent exchanges of human resources in the form of transfers and secondments in research and development fields. Human resources who have gained broad experience in Hitachi Group participate in business operations of HCM. This human-resource flexibility act as the well-spring of diversity, activity, and innovativeness in HCM’s organization and human resources. Furthermore, we are aggressively working towards joint development and technological cooperation with domestic and overseas manufacturers, universities, research institutions, and venture companies outside of Hitachi Group as well.

In future, we will further reinforce the culture of open innovation that has taken root and lead the technological innovation of construction machinery.

“Manufacturing” the future of construction machinery by the total power of Hitachi Group and open innovation network

“I feel the joy of being a developer through visiting to our customers’ sites and gaining their trust directly”

For the development of “ZH200-A”hybrid hydraulic excavator that went on sale in 2011, developers from HCM and Hitachi, Ltd. combined to form a project team, and I participated in the development at the time through a secondment from Hitachi, Ltd. In order to have as many customers as possible make use of the “ZH200” series, we set “hybrid + (plus)”as the development concept, making it into a model that combines not just low fuel consumption but also a practicality that can adapt various types of worksites.

Due to my experience in developing electromotive devices for motor vehicles with Hitachi, Ltd. I was in charge of designing the electric / hydraulic swing system. I used to be one of the designers working on part of a product during my time at Hitachi, Ltd. But after joining into HCM, I became a responsible designer who delivers the final product to the customer, and I felt a big difference. Just after joining into HCM, I got an operator license for construction machines in order to actually operate excavators by myself. I also went directly to customers’ sites, and made a lot of efforts to design the machine which more operators would find easy to use. These efforts made me feel getting the confidence from customers directly, and I felt a great pleasure as a developer.

Currently I am participating in the development of intelligent excavators for informatized construction process as the engineer of HCM. I am proud to say that we are the team absolutely carrying out challenging development even in the limited time-frame. We will make efforts with the full power of the Group for creating innovative products that will be favored by many customers.

Hitachi Construction Machinery Co., Ltd.
Development and Production Group
Shiho Izumi
Promoting the wheel loader business through a full line-up and accelerated development

In 2009, HCM and Kawasaki Heavy Industries established the joint venture wheel loader company KCM in order to move forward with joint research and development and production system optimization of wheel loaders that conform the emissions regulations. On October 1, 2015, HCM made KCM into its 100% subsidiary, producing even further expansion and strengthening of the wheel loader business through integration of both companies’ technologies and improved efficiency in procurement and production. As the global competition continues to heat up, we entrusted our wheel loader development and manufacturing business to KCM as of April 1, 2016 with the goal of achieving further improvements in competitiveness. This consolidation through KCM will mean further acceleration for the strengthening of development and manufacturing in the wheel loader business.

Originally Kawasaki Heavy Industries performed well with small and medium machines while HCM did well with large machines, so integration of those technologies allowed for the expansion of the product line-up for the Group. Through making use of synergy in our sales networks to create systems that allow us to respond to the needs of different locations around the world with one-stop service, we will aim for further improvements in customer satisfaction.

Reinforcing development capacity in order to achieve total solutions based on customer needs

As part of the globalization of the market and changes to the business environment, there have been large changes in the needs for construction equipment and peripheral systems. Up until now systems development was mainly centered around the domain of construction machinery itself and its support networks, but these days systems development for total solutions centered around equipment is necessary, such as management systems for mining sites and construction sites, and information network systems that connect those systems to the equipment itself.

In response to these changes, as of FY2016 we have begun working in earnest on our “IoT Solutions Business Project” with the goal of strengthening development capacity for machinery peripheral systems products including network server systems. The mission for this project is product development that realizes the solutions planned and proposed by the “Client Solutions Business Development Division” based on customer needs.

We are promoting a three-pronged system where HCM Japan proposes these solutions to domestic clients in Japan. HCM’s development department is working towards total solutions for mining and construction sites through open innovation making proactive use of collaborations between the Hitachi Group and global leading companies in related fields.

*1 IoT: Internet of Things

Holding the 12th HCM Group International Skills Competition

The HCM Group holds the annual HCM Group International Skills Competition for the purpose of encouraging technical skills improvement and technical information sharing among technicians working at our plants. This year’s competition is the 12th since its founding, and was held over two days on November 3 and 4, 2015 at the Kasumigaura Institute. A total of 82 people participated, making it the largest scale competition in our history, including 34 individuals from each of our production hubs with Brazil’s first-ever entry and 48 individuals from domestic Group companies such as KCM and partner companies. In addition, robot welding became an official competitive category for this first time, leading to a total of seven types of competitive categories.

In recent years our overseas engineers have been displaying excellent results and we have seen definite improvements in technical ability. We will continue to work diligently toward achieving the globally unified level of quality exemplified by “Made by Hitachi” throughout all our plants around the world.
Higher productivity with less environmental impact
- Reducing the environmental impact of business activities

In order to achieve the Hitachi Group’s shared environmental vision and “Environmental Vision 2025” long-term plan, the HCM Group is working towards reducing the environmental impact during product manufacturing phase. We have established group-wide consolidated benchmarks (quantitative and non-quantitative targets) and specific action items for the entire HCM Group based on the environmental action plan covering FY2016 that need to be followed by manufacturing and sales group companies, both domestic and overseas, and each hub is working towards achieving these targets through the PDCA (plan–do–check–act) cycle.

Each company within the domestic manufacturing group is promoting energy conservation activities through reductions in peak electrical power consumption. In 2015 we conducted peak electrical power reduction activities at the Tsuchiura Works convention hall. During the hall’s peak power consumption periods we supply energy through solar power and electric automobile storage batteries, making up for the deficits through supply from the electric companies. The electric vehicles are charged in advance using night-time power supply. As a result of this initiative, we achieved a maximum peak cut of 15% and reduced total electrical power consumption by 13%. In future we will be expanding these activities to other facilities as well as making use of these strategies to address business continuity plans (BCPs) for blackouts and energy supply.

“Power monitoring (visualization) has brought the new ‘monozukuri’ into view”

We are working towards the target of a “30% improvement by FY2016 in energy consumption basic unit compared with FY2010” in five domestic plants. This is a high target that means reducing energy consumption for a fixed volume of production activities by 30%. As part of that we have placed emphasis on making electrical power consumption more visible, since it forms 80% of the energy used in plants since FY2013, and promoting independent energy reduction activities.

We collected daily data on electrical power consumption and standby power on manufacturing lines, whether for each individual device or for each phase, and displayed those trends monthly. For example, in the case of machining equipment, it became apparent that the time they were actually tooling service parts was only a small percentage of the whole while the majority of the energy consumed was for standby power. By showing this data to operations managers and staff we can instantly get them to understand where waste is occurring and begin methodical actions to cut the power. Furthermore, by displaying data comparing which phases were and weren’t achieving significant energy conservation effects through these activities and bringing attention to these issues we were able to produce further improvements.

By implementing this power monitoring, we were able to catch sight of the next issue to tackle. By using the IoT to connect the production management information and energy consumption data for each phase in real time and analyzing it by phase, it is now possible to tie the productivity of service parts to electricity. For example, comparing the electricity cost of a particular service part with that of a service part from a different model and correlating the loss rate with the electricity we become able to abstract the structural waste of the production phase. We believe that this power monitoring will help HCM’s plant reforms in future through its goal of achieving lower environmental impact and costs with higher energy productivity.

Hitachi Construction Machinery Co., Ltd.
Infrastructure Section, Production Technology Center
Yuichiro Mizumachi
Pursuing innovation by starting with customer “usage”

Rather than just offering highly reliable machines, in order to achieve true customer satisfaction it is important to contribute to a customer’s business through long-term stable operation and reduced life-cycle costs. The HCM Group is undertaking value creation in products and services by starting from customer “usage”. As part of this, it’s impossible to get to the bottom simply by using methods such as improvement or innovations to products, services, and solutions based only on market information.

Rather, it is essential to relentlessly pursue the true local needs of the customer while addressing the rapidly changing social and business environments, and to become a “close and reliable partner” to customers around the world through providing optimal support throughout the entire life-cycle of the product.
Aiming for reduction of environmental impact during product usage

Our mission as a construction equipment maker also includes providing our customers around the world with products that have a reduced environmental impact. The HCM Group has adopted the goal of reducing CO$_2$ emissions during machinery operation by 3.5 million tons annually compared to the reference year (FY2005) by FY2025, and is working towards the development of environmentally adapted technologies. In order to achieve this goal, the major theme of the undertaking is improving the fuel consumption of our main products. We have positioned a 90% reduction in environmental impact due to CO$_2$ emissions during product usage throughout the life-cycle as our most material issue, and we are promoting the development of Eco-Products and automated construction machines with even higher levels of operational efficiency.

For the hydraulic excavators that are one of our mainstay products we have achieved a roughly 20% improvement in fuel consumption through two model changes with the 2006 “ZAXIS-3” series and the 2013 “ZAXIS-5” series. In 2015 we began selling and implementing the “ZAXIS-6” series, which complies with North America’s newest emissions regulations (Tier 4 Final), under the aim of further improvements in fuel consumption in North America. In addition, we are striving not only to improve fuel efficiency of standard machinery but also to improve and increase sales of hybrid construction machines and electric/battery-powered construction machines, and in 2015 we developed the hybrid wheel loader ZW220HYB-5B. On account of these efforts, we reduced CO$_2$ emissions from our machinery during operation 2.78 million tons as of the end of FY2015. Since we appear to be on track to achieve the FY2025 goals ahead of time, we are looking into revising those reduction targets upwards.

HCM has forwarded the cause of environmental concern in the construction machinery field through developing products with an even lighter environmental impact and introducing the “Eco-Products” program in 2000 to encourage our customers to use them. Our Eco-Products are evaluated in eight areas based on the Hitachi Group’s shared “Assessment for DfE (Design for Environment)”, including volume reduction, resource recycling, energy savings, and environmental conservancy, and have cleared strict standards in these areas. As of the end of FY2015, our Eco-Products form 92% (percentage of sales) of all our products.

Environmental performance such as fuel efficiency and low noise pollution are part of the bidding conditions designated by national and regional governments for assigned construction work and are becoming domestically ubiquitous. Even overseas, each country’s regulations on gas emissions and chemical substances are becoming more and more strict. In addition to being considerate of the environment, we believe that machines that contribute to cost reduction is also one of our customers’ true needs. To prevent our customers from being forced to choose between them, we plan on creating an assessment system to ensure all of our products have a lighter environmental impact while also being superior in terms of costs.

“We are aiming to provide our customers with products that have an even lighter environmental impact”

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Hitachi Construction Machinery Co., Ltd.
Environment Promotion Office
Yoshihisa Kato
Implementing information and communication technologies (ICT) evolves “use” by customers and helps resolve various on-site issues. At a time when the majority of workers is in the older generation and the lack of skilled workers is becoming more apparent and critical in the construction and civil engineering industries, “information-oriented construction” is attracting attention as a new construction method making effective use of ICT that allows for more efficient and accurate machinery operations, as well as including improving the efficiency of operations, shortening construction time, reducing the number of required workers and increasing precision and safety. In 2016, HCM released this in the form of the “ZX200X-5B”, an ICT hydraulic excavator equipped for “information-oriented construction”. This new model of excavator comes equipped with the “machine guidance system” that provides operational guidance based on both 3D and 2D design data, as well as “machine controls” that provide semi-automatic control of the excavator’s top edge.

In addition, we have also been making efforts towards using ICT in after-sales support for our customers. At HCM, our construction equipment comes equipped with data transmission devices that allow for operation of the “Global e-Service” which provides real-time remote control of operating conditions and positional information in various countries and regions of the world. By making use of this “Global e-Service”, in 2013 we began expansion into the “ConSite” service program that automatically provides customers with maintenance and management report on the status of their machinery. We will continue to move forward with technical development adapted to our customers’ high level needs by making use of the strengths of the Hitachi Group’s advanced and a wide range of technologies.

The dump trucks used on mining sites have a series of safety issues, such as swaying and sliding due to the grade or bumpiness of the road surface. In order to resolve these issues the HCM Group partnered with Hitachi, Ltd. to develop “high-performance stability control technologies” for mining dump trucks. This is deployed and implemented on the “AC-3” rigid dump truck series in operation at mines and allows for giving independent driving instructions to the left and right wheel motors by transmitting information from various sensors, levers, and pedals to the drive system for processing. This system not only reduces swaying of the vehicle and prevents spilled loads, it also improves the driving comfort of the operator. Furthermore, it prevents sideways slipping during turnaround to allow for a more stable drive.

We are also moving forward with electricity-powered dump trucks out of consideration for the environment and to improve cost performance. The trolley-type dump trucks are only supplied with electricity from the wires when they are carrying a load up the slope, meaning they can operate using the alternate current (AC) motor without using the on-board diesel engine. This doesn’t just improve fuel efficiency, it also increases speed compared with diesel engine models. In the event of around-trip up a slope with a 10% grade, for example, this system has made it possible to reduce fuel consumption by half while operating at about twice the speed of standard vehicles.
Increasing customer’s ease-of-use through paradigm shift and technological applications

In work environments with limited space, such as in tunnel construction, customers need machinery that can operate and move around safely and efficiently amid restricted widths and heights in space. HCM took into account these needs and developed practical application products with fronts of various lengths and machinery designed for short-reach purposes adapted to our customers’ on-site conditions.

While the short-reach machinery’s development originally started with tunnel construction sites, thanks to its features of being light, compact, and capable of working efficiently in tight spaces, demand soon expanded to include applications such as “use for roof-top demolition”, where the machinery is lifted on top of tall buildings to allow for demolition of the building from the upper floors. In addition, it is mainly used for underground construction in overseas sites, especially those in Asia, including Hong Kong, Singapore, and Malaysia. These are the ways that we promote development adapted to applications, by providing functions making use of the base machine’s technology that suit the customer’s work site conditions.

The short-reach machine based on the ZAXIS-5 model has its arm shape and front structure re-designed and was given increased durability as well as achieving optimal life-cycle costs through making it possible to do maintenance in a short period of time and ensuring it had as many service parts as possible in common with the standard model.

Shortening the time for supplying service parts around the world through the launching of the “Tsukuba Central Parts Depot”

The speed with which service parts and consumable supplies are provided to customers impacts the operating efficiency of work sites and makes a major difference in the life-cycle costs of the machinery. In order to quickly and accurately deliver genuine parts to customers around the world, the HCM Group is re-building its global service parts supply systems.

Established in April 2014, the “Tsukuba Central Parts Depot” is a large-scale logistics center with an area exceeding 50 thousand square meters fulfilling the role of HCM’s maintenance parts logistics mother center and acting as the core of our service parts strategy. We aggregated the formerly scattered service parts warehouses and implemented the Hitachi Group’s proprietary “warehouse management system (WMS)” to ensure the optimal management of the roughly 230,000 types of service parts. This system has made it possible to automate all phases from the intake to the shipping of service parts, providing the capacity to handle the supply of 50,000 service parts per day. By making the full inventory visible through barcodes we can quickly deliver the service parts customers want and simultaneously achieve inventory consolidation and cost reductions. We are working towards further reinforcement of maintenance support systems and logistics cost reductions with this center as the front line.
Creation of new value that contributes to sustainable development and the resolution of social issues

Whether it’s mining, construction, or civil engineering works, in order to improve labor shortages, site efficiency, and work quality, our customers’ most important issues are “improved safety”, “improved productivity”, and “reduced life-cycle costs”. At the same time, we are being confronted with various social and environmental issues that include resource and energy problems, climate change, and poverty.

We believe that our duty is to come up with solutions that contribute to sustainable development and respond to the development needs of various sites around the globe while tackling these issues.

In April 2016 the HCM Group launched a new organization called the “Customer Solutions Business Promotion Division”. The division creates new solutions together with our customers under the “collaborative creation process with customers” which Hitachi Group promotes, and then deploys the solutions developed through the mining business into other industries. When doing so, in addition to providing solutions through “One Hitachi” by making use of the Hitachi Group’s big data analysis and cloud solutions, we are working towards business expansion using new solutions through the open innovation that makes proactive use of collaborations with other companies.

The HCM Group is taking on the challenge of providing new social value and creating new business value (Creating Shared Value).
Working on issues and vision together with our customers to open up new futures - Customer Solutions Business Promotion Division

In terms of improving on-site safety, since 2012 we have equipped our dump trucks with a full periphery safety confirmation support device called the Aerial Angle (jointly developed with Clarion), and in 2014 Nissan Motor and Clarion provided us with “Around View Monitor®”1 camera image-processing technology with moving object detection. We are currently adapting the features to hydraulic excavators.

In terms of reducing life-cycle costs, we are accelerating the penetration of the “ConSite” service program that makes use of the “Global e-Service” system which remotely monitors the operation of construction equipment. Making the operating status and malfunctions of machinery visible achieves reductions in maintenance costs through early preventive maintenance.

In addition, by implementing methods such as big data analytics we will provide optimal solutions that achieve increased efficiency for work sites and businesses as a whole, opening up entirely new futures.

1 “Around View” and “Around View Monitor®” are registered trademarks of Nissan Motor Co., Ltd.

Solutions that resolve customer issues

- **Customer issue (1) Improved safety**
  - Visualizing peripheral information for machinery
  - Expanding the on-board “Aerial Angle” product that displays peripheral information for machinery on a monitor inside the cab

- **Customer issue (2) Improved productivity [mining]**
  - Optimization of the operation process
  - Mining operations management system through use of the Fleet Management System (FMS) for managing mining operations from the successful Wenco International Mining Systems Ltd. Currently conducting verification testing on autonomous (unmanned) dump truck driving systems

- **Customer issue (3) Improved productivity [civil engineering works]**
  - Use of information and communication technologies (ICT) adapted to customer needs on work sites
  - Compliance with the “i-Construction” platform promoted by the Ministry of Land, Infrastructure, Transport and Tourism since FY2016. Expanding solutions from a customer perspective

- **Customer issue (4) Life-cycle cost reductions**
  - Visualization of construction equipment operating condition and predictors of malfunction
  - Staying on top of malfunction predictors and reducing machine down-time through thorough standardization of servicing via the “ConSite” remote monitoring system

Information network

We will build networks of the various personnel involved with construction equipment and work sites using ICT to provide accurate and efficient processes.
The advanced “ZX200X-5B” ICT hydraulic excavator that increases productivity through semi-automatic control of excavation work

As of June 2016 the HCM Group began rental of the “ZX200X-5B” information and communication technologies (ICT) hydraulic excavator that is the core of our information-oriented construction solutions, and we plan on beginning sales in November. The “ZX200X-5B” comes equipped with HCM’s proprietary machine control functions and machine guidance functions that navigate the operator, and complies with the “i-Construction” initiative promoted by the Ministry of Land, Infrastructure, Transport and Tourism. Through semi-automatic control of front work in real-time by using 3D information on the position and orientation of the machinery calculated via the global positioning system (GPS) and other global navigation satellite system (GNSS) as well as angle sensors on the front and body that references the 3D layout data for the applicable construction site, efficient excavation without over-digging of the construction target surface is now possible. In addition to the finishing stake conducted at traditional construction sites becoming unnecessary, easing the workload involved in measurement, and the possibility of large-scale reductions in construction time, this contributes to the safety and productivity of construction sites. We also offer 2D specifications that greatly increase the productivity of construction worksites with small-scale construction or lack of positioning satellite assistance through 2D machine controls and machine guidance.

With the “ZX200X-5B” ICT hydraulic excavator as the centerpiece, the Hitachi Group collaborates with partner companies to combine advanced technologies such as 3D layout data, IoT, and drone measurement to achieve total ICT solutions and contribute to the resolution of various customer issues and agenda.

The main features of the ICT hydraulic excavator (proprietary technology)

Improvements in productivity and quality through the 3D machine control system

Equipped with a “bucket angle retention mode” that allows work to proceed while maintaining the bucket at a certain angle. Slope and other finishing work is possible with operation of the arm and boom alone, achieving improvements in productivity and quality equivalent to those of veterans even for operators with little experience.

2D specifications allowing for implementation of information-oriented construction in small-scale construction

The 2D specifications come equipped with “2D machine guidance systems” that display information such as the construction surface and position and angle of the bucket on the same monitor as the standard machine (ZX200-5B). Greatly improves productivity on construction sites with small-scale construction projects that cannot make use of positioning satellite assistance.
The HCM Group is making efforts to commercialize Mining ICT (MICT) making use of advanced information technologies, such as through the Fleet Management System (FMS) that efficiently manages the operations of excavators and dump trucks operating at mining sites through ICT and the expansion of that technology to the cloud.

We have developed mining solutions involving upgraded data transmission and management that respond to customers’ mining needs, including (1) phase progress management through a finished product/piecework management system, (2) machinery operations management through a dispatching operations management system, and (3) securing safety through a system monitoring proximity of vehicles. In future we plan on expanding these solutions to civil engineering works, construction, and other industries as well.

In addition, mines consist of an extremely wide range of facilities, equipment and machinery, including not only the mining site but also refineries, port facilities for loading product, and infrastructure for supplying power and water to each facility.

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It is important to optimize the total “Pit-to-Port” process.

We will continue to take on the challenge of providing new solutions that revolutionize mining operation and management by making effective use of the collective strength of the Hitachi Group.

The “Aerial Angle” full peripheral safety confirmation support device jointly developed with Clarion Co., Ltd. provides a view from above centered around the machinery on the cab display through conversion and compositing of the images from each of the several wide-angle cameras equipped on construction equipment. The images can be switched back and forth by the operator from the “wide-area” and “close-area” displays centered around the vehicle to the “parallel” display with the conventional back monitor system images. This allows the operator to instantaneously identify the machine’s peripheral situation, such as position relative to other construction equipment and service cars, making for an even safer and more comfortable operating environment than ever before. In addition, as of 2016 the mid-size hydraulic excavator now also comes equipped with this system. From this point forward we will make use of the “Around View Monitor® camera image-processing technology with moving object detection” provided by the Nissan Motor Co., Ltd. and Clarion Co., Ltd. in 2014 and aim for further improvements in safety through the addition of functions that detect persons and objects in the proximity.
Part of the vision of the HCM Group’s vision is to be active in the evolution of “machinery”, and to make the synergy between “human” and “business” that creates rich living space more comfortable, highly developed and efficient. To achieve our vision, we offer a diverse line-up of products and services which are used around the world to build social infrastructures and develop resources. The raison d’etre and social mission of the HCM Group are to continually contribute to the sustainable development of our customers and local communities.
8 Key Initiative Themes

In FY2015, the HCM Group worked on analyzing the themes of the key CSR initiative themes along with various stakeholders both inside and outside of HCM and established themes for eight key initiative themes. We contribute to finding solutions for global social and environmental issues through our business operations in the frontlines of development sites in Japan and overseas.

3 CSV themes
Three themes having high social expectations and a high level of correlation with our business operations

- Solutions to global environmental issues
- Enhance initiatives to increase social infrastructure workforce
- Contributing to community development

5 base themes
Five themes that provide the foundation for our three CSV themes

- Pursuing safe, effective, and sophisticated products and working environments
- Occupational safety
- Developing human resources globally and locally
- Creating better business transactions and value chains
- Governance

Process for Specifying Key Initiative Themes

The initiative themes were chosen using the following process.

1. We comprehensively grasped social and environmental issues related to HCM Group business strategies and current CSR initiatives.
2. We narrowed down issues to 40 items related to sustainability and corporate management.
3. We weighted the 40 items by evaluating them from a stakeholder perspective based on social expectations and their correlation to our business activities.
4. We examined the key themes of the initiatives by gaining an understanding of the opportunities and risks presented by each of these items.
5. We consequently came up with eight CSR key initiative themes.
CSV Theme 1  
**Solutions to global environmental issues**

Efforts to build an eco-friendly infrastructure are being increasingly undertaken around the world with the goal of achieving a low-carbon, recycling-oriented society that is highly adaptable to climate change.

Along with our stakeholders, we are pursuing the establishment of low-carbon, recycling-oriented infrastructures around the world by using construction machinery and systems that boast superior environmental technologies and by leveraging our developmental capabilities which focus on resolving environmental issues. We also aim to contribute to the development of infrastructure that is highly adaptable to disaster due to climate change by providing products, services, and solutions.

**Environmental CSV Policy**

The Hitachi Construction Machinery Group conducts initiatives for long-term value creation in three fields, “manufacturing”, “use”, and “taking on challenges”, and links them to the attainment of the richness of Earth and prosperous communities.

- **Business value**
  - Reducing manufacturing costs
  - Reducing transportation costs

- **Manufacturing construction machinery**
  - Improving efficiency and cutting costs
  - Improving convenience

- **Using construction machinery**
  - Implementing better, high-grade, efficient social infrastructure development

- **Taking on challenges with construction machinery**
  - Implementing low-carbon, recycling-oriented social infrastructure
  - Adapting disaster recovery and disaster mitigation
  - Creating green infrastructure solutions

**Environmental contributions through hybrid construction machinery**

Hitachi Construction Machinery released the “ZH200-A” hybrid hydraulic excavator in 2011, and the “ZH200-5B” in 2013. With the 5B we worked towards a 30% reduction in fuel consumption compared with the ZX3 model. In April 2016, we released the “ZW220HYB-5B”, the industry’s first hybrid wheel loader, which has achieved a 20% reduction in fuel consumption compared with the standard machinery (ZW220-5B). This means that customers can now opt for low-carbon types of construction centered around hybrid construction machinery in most projects. This naturally leads to cost reductions for the customer themselves during the product usage stage.
Forestry specific equipment making use of large-scale undercarriages specialized for forestry

* The contents are reused as the filler for counterweights.
* Iron materials are sold to vendors.

CSV Theme 1

Solutions to global environmental issues

Initiatives we are focusing on

1. Reduce environmental impact for manufacturing processes
2. Develop and deliver Eco-Products, low-carbon emission construction equipment, dismantling, and recycled machinery
3. Applications for disaster recovery and disaster prevention
4. Environmentally conscious mining operation solutions
5. Green infrastructure solutions

Social value

- Reduce environmental burden due to business activities
- Achieve infrastructure that can cope with the risk of natural disasters

Business value

- Reduce cost incurred from business activities
- Achieve infrastructure development that is more gratifying, sophisticated, and efficient

Counterweight recycling activities

Counterweights are weights used for balance during the operation of construction machinery. HCM has built the construction machinery industry’s first counterweight recycling business program and has been operating it since 2006. Since it is now possible to recycle the counterweights that form roughly 10% of our products our possible recycling rate has increased from 86% to over 97% and to reuse almost all of our hydraulic excavators. These activities contribute to the promotion of resource recycling as part of our service parts remanufacturing activities.

In appreciation of these efforts we were awarded the President’s Award at the “FY2015 Reduce Reuse Recycle Promotion Distinguished Services Awards” held by the Reduce Reuse Recycle Promotion Council in October 2015.

Forestry machinery that contributes to reforestation

Due to their role of absorbing CO2 in the atmosphere and reducing damage caused by avalanches and torrential rain, forests are an important part of our green infrastructure. Initiatives that make use of forests have begun to be implemented in urban planning and flood control in the U.S. and Europe. In order to protect and grow these forests it is important to conduct forestry operations such as periodic thinning and maintenance.

HCM increases our customers’ safety and productivity and contributes to the formation of green infrastructure through business by offering a full line-up of highly specialized forestry machinery that is needed at forestry work and providing highly efficient solutions. In addition, we also make use of the emissions credits created by the Clean Development Mechanism (CDM) related to forest realignment to promote carbon offset initiatives for forestry machinery and fuel efficient construction machinery.

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Due to their role of absorbing CO2 in the atmosphere and reducing damage caused by avalanches and torrential rain, forests are an important part of our green infrastructure. Initiatives that make use of forests have begun to be implemented in urban planning and flood control in the U.S. and Europe. In order to protect and grow these forests it is important to conduct forestry operations such as periodic thinning and maintenance.

HCM increases our customers’ safety and productivity and contributes to the formation of green infrastructure through business by offering a full line-up of highly specialized forestry machinery that is needed at forestry work and providing highly efficient solutions. In addition, we also make use of the emissions credits created by the Clean Development Mechanism (CDM) related to forest realignment to promote carbon offset initiatives for forestry machinery and fuel efficient construction machinery.

Counterweight recycling activities

Counterweights are weights used for balance during the operation of construction machinery. HCM has built the construction machinery industry’s first counterweight recycling business program and has been operating it since 2006. Since it is now possible to recycle the counterweights that form roughly 10% of our products our possible recycling rate has increased from 86% to over 97% and to reuse almost all of our hydraulic excavators. These activities contribute to the promotion of resource recycling as part of our service parts remanufacturing activities.

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CSV Theme 2

Enhance initiatives to increase social infrastructure workforce

Demand, mainly for social infrastructures that supports sustainable lifestyles and mining development, is expanding worldwide. The lack of engineers, including site operators and construction engineers, to support the social infrastructure, is a major issue in Japan as well as at sites worldwide that support sustainable development.

We are actively undertaking various issues to tackle the lack of site engineers. This approach includes improving on-site work environments, as well as safety and productivity, and human resource development and passing on technologies. We aim to provide total solutions by leveraging the HCM Group’s comprehensive technological capabilities by accurately grasping the diverse needs of various job sites. We plan to contribute solutions for the lack of engineers that support social infrastructures by providing substitute labor, strengthening manpower support, and assisting in technological training.

Reducing lifecycle costs and improving machine availability through Next-generation Service Solution “ConSite”

Hitachi provides cutting-edge technology to deliver a consistent level of high-quality service to the customers worldwide through ConSite. ConSite is a consolidated solution service to sustain the running of the customers business operation developed by the original researches based on the deep service knowledge accumulated in Hitachi.

ConSite have two advance reporting system to visualize the operation status of the customers machine. The customers can automatically receive a monthly report and alarm notification report transmitted via email in a timely manner into various devices e.g PC, smartphones and tablets. ConSite can identify the alarms that require urgent attention. To prevent catastrophic failures and downtime, an emergency alarm report swiftly sent to the customers and the official dealer to immediately verify the situation and take necessary action.

The operational data highlights daily working hours and fuel consumption in a colour-coded calendar format. This gives you an insight into how productive and efficient your machine has performed. The monthly report includes technical information and detailed analysis of the operational data, ratios, pressure and the temperature trends. These information allows customers to get a detailed picture of the “health condition” of their machines that contributes to reducing life-cycle costs through getting maintenance done at appropriate timing.

ConSite’s data reports are available in more than 30 languages from around the world, and deliver regular summaries of operational data from over 35,000 machines via email. Available in more than 30 languages, ConSite’s provides automated data report service to over 35,000 machines around the world. Hitachi will continuously provide additional services through ConSite.
The TJ Group of Companies has their head office in Hampshire, England, and they were quick to implement the ConSite system in order to optimize the operation of their mid-size hydraulic excavators. They use it to adjust refueling times, conduct maintenance on the machinery, and predict repair costs, all of which leads to cost reductions. According to the ConSite reports, the standby time for their “ZX130LCN-5” has been reduced by 20%, improving their swing rate by 70%.

According to Managing Director John Gosling, “ConSite is effective in reducing running costs for the life-cycle, and is one of the reasons we purchase Hitachi’s machines. It’s easy to tell the condition of the machine, and it also improves employee awareness of reductions in fuel consumption and effective operation of the machinery. Having real-time information at your fingertips about whether suitable machinery is deployed at work sites or when they need to be replaced for the next scheduled maintenance has made it possible for us to make appropriate decisions when budgeting as well”.

The TJ Group of Companies, Hampshire (waste disposal and recycling)

Example of ConSite application

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The dump truck Autonomous Haulage System (AHS) that increases productivity and safety

In order to safely and efficiently operate the giant dump trucks in use at mining sites you need human resources with high levels of driving skill and experience. However, for various reasons that include site conditions it has become more and more difficult to secure a labor force in recent years. In order to resolve this lack of skilled labor we are currently in the process of developing the AHS, an autonomous driving system that makes it possible to run unmanned dump trucks.

In addition to HCM’s high quality vehicular control technologies, the AHS makes use of the railroad operation management systems and car navigation technologies that the Hitachi Group has spent many years refining, which will soon make it possible to make large contributions to the improvements in cost effective mining operation, labor saving, and safety.
We, cooperating with various stakeholders, created the best solutions by accurately grasping the new needs of a region.

In our aim to realize a sustainable society, we support the development of various communities together with our stakeholders by maximizing the strengths we fostered through our business activities. We are making optimal use of the Hitachi Group’s capabilities to provide a wide range of solutions in this particular field.

Expectations for corporate contribution to community development are also rising as evidenced by the United Nation’s sustainable development goals (SDGs). We plan to continue to take on challenges to achieve sustainable development globally by further strengthening collaborations with external stakeholders.

Contribution to regional sustainable development through expansion of our remanufacturing business

One of the in-progress business strategies of HCM is the “remanufacturing business” which involves recycling used parts into parts that have the same functions as new ones. The business is to offer the recycled-parts that are functionally equivalent to new ones with warranty and at a reasonable price, after collecting the parts replaced for repair at the remanufacturing plant. The biggest merit of this business is that it developed in response to the needs of our customers on location, rather than being driven by the manufacturers’ production divisions. HCM started this remanufacturing business in 1970, and as of the end of March 2015 it has now expanded to 14 locations worldwide.

Hitachi Construction Machinery Zambia (HCMZ), parts remanufacturing plant established in spring 2012, now covers approximately 100 key components operating in Zambia and Mozambique. We are making a large contribution to the creation of local employment. Actually 135 employees out of total 150 are locally hired employees at the plant in Zambia. Additional 10 local engineers are to be hired in the end of June 2016 for the expansion of the plant.

Remanufacturing sites around the world

The “remanufacturing center” in Tsuchiura, Ibaraki also plays the role of developing recycling technology and transmitting information to other Group remanufacturing locations.
Known as the “country with the world’s highest density of underground land mines”, Cambodia still suffers from injuries and deaths due to land mine accidents even now despite the end of their civil war. This is a major social issue that prevents social development. Since April 2007, the HCM Group has been supporting local people through donations to NPO Good Earth Japan (GEJ) in using land for their independent life after removal of land mines.

In terms of support activities, we started with the hardware side through equipping the country with infrastructure such as roads and arable land and now place our emphasis on continuous support activities on the softer side through instruction in road maintenance and repair skills and agricultural skills such as rice cultivation, poultry farming, and mushroom cultivation. We continue to work towards expanding the areas being supported with the goal of achieving a peaceful and flourishing society filled with the laughter of children.

Initiatives we are focusing on

1. Development of machinery and human resources that meet regional requirements
2. Support for the development of overall community infrastructure utilizing Hitachi Group integrated capability
3. Provision of financing and machinery to support infrastructure development

Social value

- Pursuit of global sustainable development including emerging countries and developing countries

Business value

- Development of new market, and differentiation of products and solutions

Support for Cambodian independence through an NPO

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The HCM Group is focusing on value creation related to the CSV key initiative themes on the frontlines of various locations around the world to work towards resolving environmental and social issues through business. In addition, we have put priority on following five themes as essential initiatives in the implementation of the three CSV themes, and are undertaking further reinforcement of the business foundations.

### The five fundamental themes of our CSV initiatives

#### Pursuit of safe, effective, and sophisticated products and working environments

**Development of technologies for securing quality and safety, and differentiation**

We aim to achieve higher productivity and safety of job sites using innovative solutions through ICT (information and communications technologies) and ALD (analysis lead design) that are created by collaboration both inside and outside of Hitachi Group.

**Provision of accurate information on products/services**

We provide accurate information about products and services in a timely manner such as preventive maintenance and after-sales service that prevents product malfunctions, in addition to information about product recalls and service campaigns.

#### Safety of employees

**A fair work environment**

In addition to complying with laws and regulations related to working hours applied in each region, we take into consideration a work-life balance and make efforts to curb overworking.

**Global management for health and safety of employees**

We have built a management system for safety and health of employees of our domestic and overseas Group companies, and are supporting their activity to obtain “OHSAS18001” certification.

*OHSAS18001: an international standard for the establishment and operation of an occupational safety and health management system.*

#### Development of global and local human resources

**Management localization**

We will strengthen governance and delegation of authority to local human resources by offering educational opportunities such as “Succession Plan”, an educational program for the development of global human resources.

**Development and recruitment of local employees**

In order to truly respond to our customers’ on-site needs, we proactively hire local personnel and aim to cultivate the skills and technicians who can provide customers with the best possible solutions.
Global personnel management leveraging diversity

We conduct personnel management in three stages to allow Kenkijin around the world to display their superior abilities. In “(1) Gather” we conduct disclosure of easily understandable information, in “(2) Learn” we conduct a wide range of training programs that take into account position and level, and in “(3) Grow” we conduct the creation of systems that promote the cultivation of local personnel on location.

Creation of better business transactions and value chains

Suppliers and human rights

We undertake the establishment of a sustainable supply chain by eliminating materials and parts supplied by armed insurgents who contribute to human-rights violation.

Fair sales partnerships

We build appropriate relationships with distributors and partner companies, and we do not conduct unfair transactions such as deals based on unfairly different conditions or restrictions on the sales prices of supplied products.

Fair procurement

In order to share our perspective on CSR procurement with our partners, we conduct various activities such as the “Supply Chain CSR Survey” we have been implementing since FY2010.

Corruption prevention

We refrain from the unfair offering, promise, or provision of profits, as well as requests for money or gifts, and build healthy and appropriate relationships with governments, administrations, partners, and clients.

Governance

Enhancement of global governance

We are working on enhancement of global governance through business localization and delegation of authority to Group companies, while sharing the values and procedures involved in business decision-making.

Fair tax strategies

We fulfill our tax responsibilities in all of the regions where we conduct business, and we comply with the spirit and tax laws applied in those countries and regions.

Risk management, including ESG

We enhance employee’s risk management awareness and company-wide risk management systems in consideration of every possible risks on business management.

Management transparency

We aim for fair and highly transparent business practices, and strengthen corporate governance through the separation of the executive supervisory and business execution functions.

CSR promotion system

The HCM Group has established “CSR Goal” and “CSR Activity Guidelines”, in addition to “CSR Agendas” which are based on the ISO 26000 global standard for corporate social responsibility; as of FY2015 we have begun work on those initiatives, and we continue to promote CSR activities. In addition, we have also discussed materiality identification when establishing creating shared value (CSV) themes, and in future we will be considering management systems based on the results.

CSR Goal
On the basis of our basic corporate credo and corporate vision, we will strive to realize sustainable society by properly understanding global social expectations into our expectations and integrating those expectations into our management, (1) contributing to resolving social issues, (2) governance, (3) and communication.

CSR Activity Guidelines
1. Properly recognize social responsibility
2. Identify relevant issues, establish priorities to address issues, and practice CSR activities
3. Review and improve CSR activities through proactive communication and stakeholder engagement

CSR Agendas
1. Recognition of Social Responsibility
2. Corporate governance
3. Human rights
4. Labor practices
5. The environment
6. Fair business practices
7. Customer-oriented (consumer issues)
8. Participation in and development of communities
9. Confirmation and improvement of CSR activities

CSR/Diversity Committees
The HCM Group promotes CSR activities through their incorporation in the PDCA (plan–do–check–act) cycle as part of everyday work. CSR/diversity tasks are approved after deliberation by the committees. Changes in policy and important matters are reported to the Management Committee.

Tasks of CSR/Diversity Committees
1. Deliberations on important matters including promotional policies and measures
2. Approval of annual plans
3. Approval of annual operations results and evaluations

Hitachi Construction Machinery Group CSR Promotion Systems

CSR/Diversity Committee
- Committee chair: Executive Officer in charge of CSR
- Committee members: Heads of business divisions (officer/director class)

CSR Promoter Meeting
- Decisions on initiative content
- Identification of materiality
- Consideration of evaluation methods

Deliberation/reporting

Secretariat
(CSR Promotion Department)

Divisions/Group companies
(Staff in charge of CSR promotion)

Reference
Initiatives concerning diversity ⇒ p37
Stakeholder engagement

It is essential to form a good relationship of mutual trust with our stakeholders in order to smoothly implement business activities. The HCM Group works towards an accurate grasp of the impact of business activities and pursues CSR activities in unity with the Group by maintaining mutual communication.

Holding shareholder’s factory tour
These are held annually in order to provide opportunity for direct opinion exchange between shareholders and executive management. In FY2015 we had 105 shareholders participate in a visit to our Tsuchiura Works and then they get more understanding of HCM’s business and the growth strategies for future.

Conducting customer satisfaction surveys
We conduct customer satisfaction surveys with customers around the world in order to implement their feedback in our products and services. The FY2015 survey began in March and received approximately 3,200 responses.

Community contribution activities in India
Tata Hitachi Construction Machinery undertakes activities such as agricultural development, support for education, and technical guidance in order to contribute to regional communities. In FY2015 they ran a program to improve local agricultural incomes.

Expansion of G-TIPS activities
The HCM Group is expanding the G-TIPS activities which support our suppliers’ operational efficiency. We conduct support suited to each level, from guiding and educating our suppliers’ employees to building model lines.

* G-TIPS activities: Global-Total Innovative & Inventive Production System. Activities expanding production methods will include “innovation” and “creative techniques” widely to production hubs and business partners both domestically and abroad.
We will now go over some characteristic activities from among the various activities conducted in FY2015.

Humanitarian support - doing things for people, which cannot be done alone

Social support through auctioning of mini excavators

Hitachi Construction Machinery (Australia) (HCA) continues to support the Humpty Dumpty Foundation, an NPO that helps children suffering from illnesses or disabilities.

In February 2016 they partnered with fellow Group company Hitachi Construction Machinery Tierra to conduct an Internet auction of the HCM Group’s first new mini excavator and donated all the proceeds. Despite being a first-time initiative, the auction was a vibrant success with approximately 2.5 million yen (approximately 30 thousand AUD) collected from a total of 35 bidders. These proceeds were used by the foundation to provide medical equipment mainly to pediatric hospitals.

In addition to continuing to support the activities of the Humpty Dumpty Foundation in future, we will continue undertaking social contributions rooted in local communities.
Environmental conversation - making contributions visible through the “HCM’s Carbon Offset Forest”

HCM conducts carbon offset activities for the CO₂ emitted via production or business operation. In addition, we have converted the results of these activities into numbers of Japanese cedar trees and disclosed this information through a visualization of the “HCM’s Carbon Offset Forest”. Through these forms of communication we are aiming to convey our carbon offset activities to larger numbers of people in a more easily understandable way and support their popularization.

In March 2016 the offset volume surpassed a total of 1,300 tons. This is the equivalent of the CO₂ absorbed by roughly 93,000 Japanese cedar trees. In FY2016 we anticipate achieving our target of 100,000 trees.

Holding a “Safety and Eco-friendliness Class” for employees and their families

On November 28, 2015 Hitachi Construction Machinery (China) held a Safety and Environmental Protection Classroom for all employees living in company housing and their families. A total of 200 people attended this event. In addition to an “Environmental Conservation and Energy-Saving Knowledge Quiz” that taught about garbage separation, recycling, and energy conservation methods, participants were able to learn and put into practice safe and environmentally friendly habits that can be used in everyday life, such as “fire drills” in preparation for sudden conflagrations.

Local community coexistence - conducting activities in step with local communities

HCM continues to undertake initiatives in collaboration with Hitachi Construction Machinery Tierra and Hitachi Construction Machinery Japan to help with community revitalization in Cambodia after land-mine removal through donating part of the profits from sales of mini excavators to NPO Good Earth Japan which conducts activities supporting the independence of local residents.

Those donations form the lion’s share of the fund which completed construction on teacher housing for the Slap Pang Hitachi Construction Machinery Elementary School in December 2015. While Cambodia is working towards enriching their education system, they haven’t been able to provide improved labor conditions for teachers in remote areas which is why continued support for NPOs and other organizations is needed. The creation of this previously non-existent teacher housing has reduced the commuting burden of the teachers that were housed in neighboring villages and improved the labor and educational environments of the region.
Diversity

In order to achieve growth as a truly global company, it is important to create a corporate culture that allows human resources with diverse values and perspectives to make maximum use of their drive and abilities. The HCM Group promotes diversity based on this awareness.

Formulation of action plans to promote women’s participation and advancement

The HCM Group established the Diversity Promotion Group in April 2011. Since then the “Diversity Committee Meeting” has been held once a year to promote diversity through confirming the progress of activities and promotion plans for the coming fiscal year.

On April 1, 2016 the “Act of Promotion of Women’s Participation and Advancement in the Workplace” that requires large companies and others to create action plans with numerical target for women’s active participation. As part of this HCM has established action plans for promotion of women’s participation and advancement in the workplace. The action plans support the active participation of female employees through three goals: “Enhancing the employees’ motivation by making use of their abilities and expanding the opportunities”, “Promoting the working style which is flexible and high productivity” and “Cultivating the corporate culture which recognizes the diversity”

Promotion of personnel exchange with the Hitachi Group

The Hitachi Group’s “Global Wakate-kai: Hitachi Global Young Spirit Members” conducts activities centered around young employees, including holding various study sessions and opinion exchange sessions with global as the keyword, in order to deepen understanding of the world’s cultures, including Japan, and to develop the perspective necessary to create new global values globally. The young employees of the HCM Group also participate in this membership, across the Group boundaries, in order to form English, Chinese, and Japanese speech clubs both internally and externally, contributing to the creation of “One Hitachi” through personnel exchanges. This initiative has received such positive feedback that it was voted among the “Big5” top entries in the idea contest held under “Make a Difference!”, a Hitachi, Ltd. employee revitalization project.

The HCM Group encourages these kind of self-initiated activities that lead to cultivation of personnel that can understand diverse cultures and values and work globally, and we are working towards the promotion of diversity.

Accelerating the participation of human resources from overseas

Various departments in the Hitachi Construction Machinery Group accept employees from overseas Group companies. This initiative was fully launched in 1996, and around 700 such people have worked in Japan up to now. By proactively taking in diverse overseas personnel and expanding their opportunities we aim to improve the performance of the organization.

TOPICS

Holding a cross-cultural experience booth at the “Hitachi Construction Machinery Festival in Ryugasaki”

Continuing from last year’s Tsuchiura Works, we held a cross-cultural experience booth at the Hitachi Construction Machinery Festival in Ryugasaki held at the Ryugasaki Works on May 24, 2015. This year the event was centered around Chinese trainees and Japanese employee volunteers, with the participation of Filipino workers through a collaboration with the Friend Nippon Cooperative, allowing for cultural exchange with local residents and employee families through events such as trying on cultural garb and quizzes on overseas plants. In future we will plan on expanding the circle of trainees from overseas to create a corporate culture that is mutually accepting of diverse cultures and values.

The entire festival had an attendance of approximately 3,200 people, making the event a great success.
Human rights

As part of the globalization of corporate activities, there has been a rapid increase in interest in corporate initiatives for respecting human rights. The HCM Group implements initiatives for correctly understanding and acknowledging human rights issues throughout the entire supply chain as well as our business activities.

Policies about respect for human rights

In accordance with the Hitachi Group Human Rights Policy, the HCM Group clearly establishes the “Hitachi Construction Machinery Codes of Conduct” and “Hitachi Construction Machinery Group Human Rights Policy”, and undertakes initiatives for respecting human rights. The “Hitachi Construction Machinery Group Human Rights Policy” that was established in March 2014 indicates that it interprets the human rights described in the “International Bill of Human Rights” and the International Labour Organization (ILO)’s “Declaration on Fundamental Principles and Rights at Work” as the absolute minimum for human rights. In addition, it also touches on human rights due diligence based on the United Nations’ “Guiding Principles on Business and Human Rights” and clearly defines the implementation of appropriate education for employees, compliance with the laws of the countries or regions in which business is conducted, and the pursuit of methods for respecting international human rights principles when there are conflicts between internationally recognized human rights and the domestic laws of individual countries.

In March 2015 the Hitachi Group established the human rights due diligence guidelines. As a member of the Hitachi Group, the HCM Group is undertaking initiatives that adhere to these prescripts. In FY2015 we participated in the “Human Rights Workshop” held by the Hitachi Group. This workshop was held as part of the Hitachi Group’s initiatives for human rights due diligence based on the “Hitachi Group Human Rights Policy” with consultation by American NPO Shift, and evaluated risks and priorities for human rights in the supply chain and confirmed measures for reducing those risks.

Moreover, we have established an “whistle-blowing system” for employees and “advice lines” for external stakeholders as part of our human rights reporting mechanisms.

*2 Includes upholding the freedom of association and the effective recognition of the right to collective bargaining, rejecting forced labor, effective elimination of child labor, and abolition of discrimination in hiring and employment.
*3 “Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie.”
*4 This refers to evaluating and responding to the impact that business has on human rights and continually verifying and disclosing the results of measures to prevent, mitigate, or provide aid for the negative impact.

Human rights education and training

The HCM Group continually implements education concerning human rights included in stratified training for new employee and new section manager, and so on, for the purpose of improving each individual employee’s awareness of human rights. In addition, we conduct training concerning harassment during our compliance training.

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<th>Results of human rights training in 2015</th>
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<td>Actual participants in FY2015</td>
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<td>HCM</td>
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<td>Group companies*</td>
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*5 This is the number of HCM participants are participants of stratified training.
*6 Group companies are the total for the 10 domestic companies.
*7 The number of harassment training includes training done as part of compliance training for department and section managers.

Respect for human rights in the supply chain

“Respect for Human Rights”, Chapter 4 in the “Hitachi Construction Machinery Codes of Conduct”, clarifies respect for various human rights starting with fundamental labor rights (such as freedom of association, collective bargaining, prohibition of forced labor, elimination of child labor, and abolition of discrimination in hiring and employment). In addition, it also makes reference to procurement activities that maintain a focus on human rights, including prohibition of unfair discrimination in hiring and employment, and the elimination of child labor and forced labor.

The “Hitachi Construction Machinery Supply Chain CSR Guidebook” covers areas such as the prohibition of forced labor, the prohibition of inhumane treatment, the prohibition of child labor, the prohibition of discrimination, appropriate wages, management of working hours, and respect for employee collective bargaining rights, and we demand that suppliers comply with these precepts. Moreover, HCM continues its dialogue with suppliers on the non-use of conflict minerals as per the Hitachi Group Conflict Minerals Procurement Policy.

Websites

Hitachi Construction Machinery Codes of Conduct
https://www.hitachicm.com/global/company/company-profile/conduct/

Hitachi Construction Machinery Supply Chain CSR Guidebook (Japanese only)
Compliance

Thorough penetration of compliance throughout the Group is essential for achieving fair and transparent management. The HCM Group believes that compliance is one of the most important issues for management, and the whole Group unites to achieve it.

Compliance promotion systems

The HCM Group defines “compliance” as conformity to laws and regulations, the basis of corporate activities, and actions in accordance with corporate ethics. We repeatedly carry out awareness surveys targeting all employees at HCM and our domestic Group companies, and implement follow-up training in line with the results of these surveys. In this manner, we are able to assess our level of compliance and carry out improvements.

We hold meetings of the Compliance and Risk Management Division twice a year and deliberate on activity reports and various strategy plans. We establish a Compliance Promotion Officer at Group companies and promote compliance activities in coordination with the Compliance Promotion Center of Legal Department.

In addition, in 2010 we established the “Hitachi Construction Machinery Codes of Conduct” which acts as the specific code of conduct applied throughout the HCM Group. Our code of conduct is thoroughly implemented by our top management leadership, and we are expanding our business activities rooted in corporate ethics and legal compliance in accordance with the “basics and ethics”. In future, we will continue working towards even further awareness and penetration throughout the Group.

Compliance Education and Training

In order to increase awareness of compliance throughout the Group, the HCM Group conducts various educational and training programs.

Domestic Group companies held 246 compliance training sessions in FY2015 for assistant manager and staff with a “zero employees misconduct and compliance incident” goal for a total of 4,300 participants. These training sessions were conducted as part of the compliance training held for each different corporate level, starting with the top management training held for HCM executives in October 2014 and including top management training for domestic Group company executives and middle management training for middle management posts or above the section manager level.

At overseas Group companies, we provided more workshop-style training sessions that provide scenarios based on actual operations, conducting training sessions with the emphasis placed on cultivating perspectives on compliance that can be immediately applied to actual operations.

In addition, in accordance with initiatives throughout the Hitachi Group, we establish the month of October as “Corporate Ethics Month” every year and work towards the reinforcing and re-evaluation of compliance. On October 1, 2015, Chairman Hiroaki Nakanishi of Hitachi, Ltd. and President Yuichi Tsujimoto released their messages to encourage employees to achieve a new level of compliance awareness in their work.

A global compliance reporting system

We established a “compliance hotline” with the goal of quickly identifying and properly handling compliance issues. In addition, we have established an independent contact “global alert line” that supports multiple languages for our overseas Group companies’ employees’ use and we continue to raise awareness of these two reporting systems.

Flow for global alert line

Hitachi Global Compliance Program

Risks are increasing around the world for compliance violations, particularly bribery, anti-social transactions, and competition law violations. Since these risks need to be addressed by the entire Hitachi Group, we have established regulations and guidelines under the guidance of Hitachi, Ltd. and are working to prevent the occurrence of compliance violations.
Risk management

In order to ensure sound management, it is important to comprehensively consider the various risks, big and small, that the Group encounters. In addition to working to prevent risks, the HCM Group also conducts risk management using appropriate methods in order to minimize damages when a crisis occurs.

Perspective on risk

When engaging in corporate activities, there is a risk of encountering natural disasters, accidents, or legal violations. Based on this awareness, the HCM Group address risk under the lead of the Compliance and Risk Management Division. In addition, we define risk under the premise that “risk will always become actualized”, so we conduct risk assessments in advance and address it through making rules that dictate how to handle it when it occurs.

Defining risk

Risk is defined as the possibility of incidents, accidents, or other problems that may cause loss or damage directly or indirectly to the HCM Group’s business, employees or their families or to people with some connection with the Group.

Types of risk

1. Damage to people: Death, injury, or the possibility of such.
2. Damage to assets: Breakage or destruction of the company assets, hindrance in production or sales, etc. caused by such breakage or destruction, or the possibility of such.
3. Financial damage: Payment of compensation, lost profits, or the possibility of such.
4. Loss of trust: Loss of trust in the Company, our products or employees, etc., thereby damaging the Company’s image, or the possibility of such.
5. Breach of laws and regulations: Breach of laws and regulations, or the possibility of such.
6. Breach of ethics: Acts contravening company ethics, or the possibility of such.

Risk countermeasures

The HCM Group conducts risk countermeasures in accordance with the procedures determined by the Compliance and Risk Management Division.

1. When a risk arises, we will implement initial measures immediately. We will promptly ascertain the risk level and decide the range of the people to be informed, according to the severity of the risk.
2. We will make constant efforts to raise the awareness of employees and other relevant persons to ensure that they recognize risks as risks, thoroughly understand the importance of compliance, proactively work to prevent the occurrence of risks and scandals, and take proper measures to cope with risks when they occur.
3. When a risk arises, or there is the possibility of such, no matter how minor the risk is, we will immediately report the matter to a superior or to the Compliance Promotion Department manager.
4. We will regularly check risk potentialities and take measures to prevent the occurrence of each risk.
5. We will always endeavor to maintain good relations with the local community (including police stations, labor standards inspection offices, fire stations, public employment security offices, local residents, etc.).

Establishing global risk management

The HCM Group is promoting the fortification of the risk management system for the overall Group in order to grow as a global corporation.

The HCM Group is developing “Business Continuity Plans (BCPs)” and strengthening its “Business Continuity Management (BCM)” to minimize the impact to business activities from risks that arise around the world from events such as natural disasters, and to attain the quickest possible recovery. We are also working to sustain our supply chain.

In FY2015, in addition to preventing risk we conducted internal business risk assessments for all domestic and overseas Group companies as an initiative to keep the impact from risk occurrence to the absolute minimum (risk minimization). In addition to increasing crisis management awareness among employees throughout the Group, in future we will be undertaking the reinforcement of company-wide management systems.
Corporate governance

In order to improve sustainable corporate value, it is important to increase management transparency and build a structure that allows for rapid decision-making. The HCM Group believes that our responsibility to stakeholders is to devote ourselves to fair and transparent corporate activity, which is why we are undertaking the reinforcement of governance systems.

Basic policies on corporate governance

As a member of the Hitachi Group, the HCM Group shares Hitachi, Ltd.’s Basic Credo and Conduct guidelines and states our Standards of Corporate Conduct in line with them. The HCM Group positions these corporate behavior standards as the basic policies on corporate governance.

Corporate governance system

The HCM Group has adopted a corporate organizational system based on a structure for company with nominating committee, etc., as defined in the Companies Act, with the aims of ensuring highly fair and transparent management while building an operational system that facilitates the prompt and sound execution of management strategy. We have greatly strengthened our system of corporate governance through this separation of management oversight from business execution.

The Board of Directors comprises nine (9) Directors, of which three (3) are Outside Directors (two (2) male and one (1) female). The Chief Executive Officer and Executive Officers, who are authorized to do so by the Board of Directors, have the right to make decisions on business execution and execute work in accordance with the Company’s basic management policies. The Board of Directors decides the responsibilities and duties of the Executive Officers, matters regarding supervision and authority, and the mutual relationships among the Executive Officers.

An Executive Committee (convening twice a month, in principle), comprising all the Executive Officers has been established as a consultative organ for the Chief Executive Officer and President in making business decisions. The Executive Committee exercises control regarding important matters related to the management of the company’s operations.

Ensuring constant independence from the parent company

Since one of the Directors on HCM’s Board of Directors also previously worked for Hitachi, Ltd., the parent company exerts influence on decisions on our management policy through the views expressed by this Director at Board meetings. However, with the exception of the aforementioned Director, among HCM’s Board of Directors members, three (3) are Outside Directors designated as independent Outside Director, and five (5) are other Directors with no concurrent relationships with Hitachi, Ltd. or companies in the Hitachi Group. This ensures that we are able to make independent management decisions.
Calculation methods for officer’s remuneration (Performance-linked compensation system)

HCM’s Compensation Committee sets the policy for deciding the amount of compensation for the company’s board members and executive officers in accordance with regulations stipulated by the Companies Act regarding companies with a committee governance structure. Compensation standards are established commensurate with the capabilities and responsibilities required and after consideration of remuneration levels at other companies.

Compensation to Board members consists of a “monthly fee,” which is the basic compensation for full- or part-time service plus an amount calculated in accordance with the Director’s position, and a “year-end allowance,” which is based on an amount multiplied by a constant coefficient.

Compensation to Executive Officers consists of a “monthly fee” in accordance with the officer’s position, and “performance-linked compensation,” which is determined in line with the Executive Officer’s performance and results achieved in the officer’s responsible duties. For Board members concurrently serving as Executive Officers, no compensation is paid for services provided as a Director of the Board.

Corporate Governance Guidelines
Ten-year Financial History
Hitachi Construction Machinery and Consolidated Subsidiaries Fiscal years ended March 31

Financial Highlights

<table>
<thead>
<tr>
<th>J-GAAP</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>756,453</td>
<td>940,537</td>
<td>744,167</td>
<td>605,788</td>
<td>773,769</td>
</tr>
<tr>
<td>Operating income</td>
<td>78,352</td>
<td>108,458</td>
<td>48,836</td>
<td>19,669</td>
<td>41,511</td>
</tr>
<tr>
<td>Net income</td>
<td>70,081</td>
<td>100,564</td>
<td>44,142</td>
<td>18,333</td>
<td>35,745</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>36,502</td>
<td>55,985</td>
<td>18,253</td>
<td>4,019</td>
<td>11,088</td>
</tr>
</tbody>
</table>

At fiscal year-end

| Total assets     | 655,326| 833,096| 841,353| 883,047| 946,370|
| Working capital  | 98,891 | 155,901| 124,398| 207,948| 248,870|
| Shareholders’ equity | 184,750| 310,747| 311,430| 319,520| 327,496|

Per share data (yen)

| Net income attributable to owners of the parent | 187.43 | 271.00 | 85.79  | 19.33  | 52.44  |
| Net income attributable to owners of the Parent (diluted) | 186.81 | 270.23 | 85.72  | 19.32  | 52.41  |
| Net assets       | 987.56 | 1,446.55| 1,422.54| 1,441.73| 1,447.52|
| Cash dividends   | 28.00  | 42.00   | 44.00  | 10.00  | 20.00  |
| Net income attributable to owners of the parent per share (basic) | 122.44 | 41.41 | 60.00 |
| Net income attributable to owners of the Parent per share (diluted) | 122.42 | 41.41 |

*Previously, 12 consolidated subsidiaries with different settlement dates than that of the parent company were accounted for based on the fiscal year consolidated financial statements for each of these companies because the difference between the settlement dates for these subsidiaries and the consolidated settlement date was within three months. However, with quarterly reporting becoming legally mandatory, beginning in the fiscal year ended March 31, 2008, HCM changed its method of consolidation on the financial statements by making provisional account settlements for the 12 subsidiaries on the consolidated settlement date. This change was made for the purpose of unifying the settlement dates of the parent company and the aforementioned consolidated subsidiaries and for ensuring appropriate disclosure of consolidated financial information.


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Graph title listed above is in IFRS however, applied figures through FY2014 is corresponding items in J-GAAP.
## Financial Section

### Ten-year Financial History

<table>
<thead>
<tr>
<th>Year</th>
<th>Unit: millions of yen (excluding per share data)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At fiscal year-end</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
<td></td>
<td>1,064,673</td>
<td>926,628</td>
</tr>
<tr>
<td>Working capital</td>
<td></td>
<td></td>
<td></td>
<td>269,906</td>
<td>236,806</td>
</tr>
<tr>
<td>Total equity</td>
<td></td>
<td></td>
<td></td>
<td>431,227</td>
<td>395,963</td>
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<tr>
<td>Interest-bearing debt</td>
<td></td>
<td></td>
<td></td>
<td>287,673</td>
<td>217,895</td>
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<tr>
<td><strong>Per share data</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Net income attributable to owners of the parent</td>
<td></td>
<td></td>
<td></td>
<td>122.44</td>
<td>41.41</td>
</tr>
<tr>
<td>Equity attributable to owners of the parent per share (basic)</td>
<td></td>
<td></td>
<td></td>
<td>122.42</td>
<td>41.41</td>
</tr>
<tr>
<td>Equity attributable to owners of the parent per share (diluted)</td>
<td></td>
<td></td>
<td></td>
<td>2,028.57</td>
<td>1,861.93</td>
</tr>
<tr>
<td>Cash dividends per share</td>
<td></td>
<td></td>
<td></td>
<td>60.00</td>
<td>40.00</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income attributable to owners of the parent on Revenue (%)</td>
<td></td>
<td></td>
<td></td>
<td>3.2</td>
<td>1.2</td>
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<tr>
<td>Net income on equity attributable to owners of the parent (%)</td>
<td></td>
<td></td>
<td></td>
<td>6.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Equity attributable to owners of the parent ratio (%)</td>
<td></td>
<td></td>
<td></td>
<td>40.5</td>
<td>42.7</td>
</tr>
<tr>
<td>Price/earning ratio (times)</td>
<td></td>
<td></td>
<td></td>
<td>17.17</td>
<td>43.18</td>
</tr>
</tbody>
</table>

**For the fiscal year**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>815,792</td>
<td>758,331</td>
</tr>
<tr>
<td>Operating income</td>
<td>63,131</td>
<td>34,052</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>58,953</td>
<td>24,517</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>26,023</td>
<td>8,804</td>
</tr>
</tbody>
</table>

### Charts

**Net income attributable to owners of the parent on Revenue (%)**

**Return on equity (%)**

**Equity attributable to owners of the parent ratio (%)**

**Price/earning ratio (times)**

---

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Management’s Discussion and Analysis

Business Performance

The HCM Group is working on the establishment of a global management support scheme, expansion of its market share, cost reduction for securing profit, and business/structural reform to enhance business efficiency and solid business infrastructure. In addition, we are making efforts in structuring the global research/development framework and strengthening the development marketing function to provide appropriate products by region and solutions for customers’ life-cycle cost reduction.

With respect to construction machinery, while demand is sluggish, we have been enhancing our parts and service business by the service menu called “ConSite,” and by expansion of the parts supply network. Additionally, HCM integrated KCM as a consolidated company in October 2015 for reinforcement of the wheel loader business with expansion of the product line-up and the global sales network.

For mining machinery, we are focusing on expanding sales of the well-accepted AC-3 series rigid dump trucks especially the one with specification for trolley use or high altitude equipped with an advanced vehicle body stability assist function. Moreover, we are bringing the Hitachi Group’s strengths to establishing a substantially advanced customer support system for optimization of mine operation and operation management system of mining machinery.

Consequently, consolidated revenue for the fiscal year 2015 (April 1, 2015 – March 31, 2016) was ¥758,331 million, down 7.0% from the previous fiscal year due to a decline in construction/mining machinery sales resulting from weaker demand.

Operating income decreased by 46.1% year on year to ¥34,052 million, due to a decline in sales volume by lower demand, exchange loss, and expenses for business/structural reform. Income before income taxes decreased by 58.4% year on year to ¥24,517 million, affected by a decline in Operating income and exchange loss. Net income attributable to owners of parent decreased by 66.2% year on year to ¥8,804 million due to the tax burden ratio.

Principles Regarding Appropriation of Earnings and Dividends for the Year under Review and the Fiscal Year Ending March 31, 2017

The HCM Group will enhance its financial soundness and work to bolster its internal reserves by considering plans for upfront investments including investments for technology development and facilities based on medium- and long-term business strategies.

With regard to purchase of treasury stock, HCM will acquire treasury stock depending on necessity, financial conditions, and stock price movement for execution of flexible capital policy.

Our policy of appropriation of profits is stable dividends linked to its consolidated business results, and its target payout ratio is around 30% or more.

Concerning year-end cash dividend, a resolution of ¥10 per share was passed at the board meeting held on May 23, 2016. Annual cash dividends for the year ended March 31, 2016 including the interim dividend of ¥30 per share amount to ¥40 per share accordingly.

Dividends for the fiscal year ending March 2017 are to be determined.
Consolidated Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>Previous fiscal year-end As of Mar. 31, 2015</th>
<th>Current fiscal year-end As of Mar. 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>51,433</td>
<td>79,110</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>231,473</td>
<td>182,928</td>
</tr>
<tr>
<td>Inventories</td>
<td>313,488</td>
<td>268,564</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>32,053</td>
<td>29,727</td>
</tr>
<tr>
<td>Other current assets</td>
<td>10,519</td>
<td>8,888</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>281,326</td>
<td>276,293</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>9,972</td>
<td>9,611</td>
</tr>
<tr>
<td>Goodwill</td>
<td>9,590</td>
<td>8,694</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>31,913</td>
<td>18,726</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>30,089</td>
<td>23,125</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>18,331</td>
<td>15,241</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>31,110</td>
<td>15,668</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>13,376</td>
<td>10,053</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,064,673</td>
<td>926,628</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>210,345</td>
<td>182,648</td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>137,094</td>
<td>111,888</td>
</tr>
<tr>
<td>Income tax payables</td>
<td>7,626</td>
<td>4,728</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>8,722</td>
<td>8,936</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>5,273</td>
<td>4,211</td>
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<tr>
<td>Non-current liabilities</td>
<td>197,711</td>
<td>157,401</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>20,091</td>
<td>23,224</td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>150,579</td>
<td>106,007</td>
</tr>
<tr>
<td>Retirement and severance benefit</td>
<td>13,446</td>
<td>16,855</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>9,483</td>
<td>6,057</td>
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<tr>
<td>Other financial liabilities</td>
<td>194</td>
<td>32</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>3,918</td>
<td>5,226</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>566,771</td>
<td>469,812</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity attributable to owners of the parent</td>
<td>431,227</td>
<td>395,963</td>
</tr>
<tr>
<td>Common stock</td>
<td>81,577</td>
<td>81,577</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>84,315</td>
<td>84,095</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>226,332</td>
<td>222,721</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>42,159</td>
<td>10,621</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>△3,156</td>
<td>△3,051</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>66,675</td>
<td>60,853</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>497,902</td>
<td>456,816</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>1,064,673</td>
<td>926,628</td>
</tr>
</tbody>
</table>
## Consolidated Statements of Income

<table>
<thead>
<tr>
<th></th>
<th>Previous fiscal year</th>
<th>Current fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For the year ended</td>
<td>For the year ended</td>
</tr>
<tr>
<td>Revenue</td>
<td>815,792</td>
<td>758,331</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>△ 597,156</td>
<td>△ 578,734</td>
</tr>
<tr>
<td>Gross profit</td>
<td>218,636</td>
<td>179,597</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>△ 156,717</td>
<td>△ 156,233</td>
</tr>
<tr>
<td>Other income</td>
<td>4,496</td>
<td>24,695</td>
</tr>
<tr>
<td>Other expenses</td>
<td>△ 3,284</td>
<td>△ 14,007</td>
</tr>
<tr>
<td>Operating income</td>
<td>63,131</td>
<td>34,052</td>
</tr>
<tr>
<td>Financial income</td>
<td>4,675</td>
<td>3,418</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>△ 10,307</td>
<td>△ 13,187</td>
</tr>
<tr>
<td>Share of profits of investments accounted for using the equity method</td>
<td>1,454</td>
<td>234</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>58,953</td>
<td>24,517</td>
</tr>
<tr>
<td>Income taxes</td>
<td>△ 28,697</td>
<td>△ 14,217</td>
</tr>
<tr>
<td>Net income</td>
<td>30,256</td>
<td>10,300</td>
</tr>
</tbody>
</table>

### Net income attributable to

|                                | Previous fiscal year | Current fiscal year |
|                                | For the year ended   | For the year ended |
| Owners of the parent           | 26,023               | 8,804              |
| Non-controlling interests      | 4,233                | 1,496              |
| Total net income               | 30,256               | 10,300             |

Net income per share (Basic) (yen) 122.44 41.41
Net income per share (Diluted) (yen) 122.42 41.41

## Consolidated Statements of Comprehensive Income

|                                | Previous fiscal year | Current fiscal year |
|                                | For the year ended   | For the year ended |
| Net income                     | 30,256               | 10,300             |

### Other comprehensive income

|                                | Previous fiscal year | Current fiscal year |
|                                | For the year ended   | For the year ended |
| **Items that cannot be reclassified into net income** |                     |                    |
| Net gains and losses from financial assets measured at fair value through OCI | 603                   | △ 2,354            |
| Remeasurements of defined benefit obligations | △ 369               | △ 4,316           |
| Other comprehensive income of equity method associates | △ 151                | △ 24              |

### Items that can be reclassified into net income

|                                | Previous fiscal year | Current fiscal year |
|                                | For the year ended   | For the year ended |
| Foreign currency translation adjustments | 24,640               | △ 26,222          |
| Cash flow hedges               | 121                  | 195                |
| Other comprehensive income of equity method associates | 1,896               | △ 3,727           |

Other comprehensive income, net of taxes 26,740 △ 36,448
Comprehensive income 56,996 △ 26,148

Comprehensive income attributable to owners of the parent 45,782 △ 22,394
Non-controlling interests 11,214 △ 3,754
Consolidated Statements of Changes in Equity Year ended Mar. 31, 2016

(Unit: millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earning</th>
<th>Treasury stock, at cost</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity attributable to owners of the Parent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remeasurements of defined benefit obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Net gains and losses from financial assets measured at fair value through OCI</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cash flow hedges</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Balance at beginning of year</td>
<td>81,577</td>
<td>84,315</td>
<td>226,332</td>
<td>431,227</td>
<td>497,902</td>
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<tr>
<td>Net income</td>
<td></td>
<td></td>
<td></td>
<td>8,804</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Comprehensive income for the year</td>
<td></td>
<td></td>
<td>8,804</td>
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<tr>
<td>Acquisition of treasury stock</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Sale of treasury stock</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Increase/decrease by share exchange</td>
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<td>37</td>
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<tr>
<td>Dividends to stockholders of the Company</td>
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<tr>
<td>Gains/losses on change in equity</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td></td>
<td></td>
<td>340</td>
<td>152</td>
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<td>492</td>
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<tr>
<td>Other increase/decrease</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Transaction with owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Balance at end of year</td>
<td>81,577</td>
<td>84,095</td>
<td>222,721</td>
<td>435,825</td>
<td>497,902</td>
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</table>

Consolidated Statements of Changes in Equity Year ended Mar. 31, 2016

(Unit: millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earning</th>
<th>Accumulated other comprehensive income</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
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</tr>
<tr>
<td>Equity attributable to owners of the Parent</td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
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<td></td>
</tr>
<tr>
<td>Remeasurements of defined benefit obligations</td>
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<td>Net gains and losses from financial assets measured at fair value through OCI</td>
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<td>Cash flow hedges</td>
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<td>Balance at beginning of year</td>
<td>34,601</td>
<td>42,159</td>
<td>△ 3,156</td>
<td>431,227</td>
<td>66,675</td>
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<td></td>
<td></td>
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<td>8,804</td>
<td></td>
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<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td>△ 24,717</td>
<td>△ 31,198</td>
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<td>△ 24,717</td>
<td>△ 31,198</td>
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<td>Acquisition of treasury stock</td>
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<td>Sale of treasury stock</td>
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<td>Increase/decrease by share exchange</td>
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<tr>
<td>Dividends to stockholders of the Company</td>
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<tr>
<td>Gains/losses on change in equity</td>
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<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
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<td>△ 340</td>
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<tr>
<td>Other increase/decrease</td>
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<td>Transaction with owners</td>
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<td>△ 340</td>
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<td>Balance at end of year</td>
<td>9,884</td>
<td>10,621</td>
<td>△ 3,051</td>
<td>395,963</td>
<td>60,853</td>
<td>456,816</td>
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<td>Consolidated Statements of Cash Flows</td>
<td>Previous fiscal year For the year ended Mar. 31, 2015</td>
<td>Current fiscal year For the year ended Mar. 31, 2016</td>
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<tr>
<td>-------------------------------------</td>
<td>-----------------------------------------------</td>
<td>-----------------------------------------------</td>
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<tr>
<td>Net income</td>
<td>30,256</td>
<td>10,300</td>
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<td>Depreciation</td>
<td>31,531</td>
<td>31,966</td>
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<tr>
<td>Amortization of intangible asset</td>
<td>5,885</td>
<td>3,481</td>
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<td>Impairment losses</td>
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<td>151</td>
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<td>Gains on business restructuring</td>
<td>—</td>
<td>△21,611</td>
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<td>Income tax expense</td>
<td>28,697</td>
<td>14,217</td>
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<td>Equity in net earnings of associates</td>
<td>△1,454</td>
<td>△234</td>
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<td>Gain (loss) on sales of property, plant and equipment</td>
<td>220</td>
<td>△141</td>
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<tr>
<td>Financial income</td>
<td>△4,675</td>
<td>△3,418</td>
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<td>Financial expenses</td>
<td>10,307</td>
<td>13,187</td>
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<td>(Increase) decrease in accounts and trade receivables</td>
<td>10,502</td>
<td>40,650</td>
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<td>(Increase) decrease in lease receivables</td>
<td>21,731</td>
<td>11,741</td>
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<td>(Increase) decrease in inventories</td>
<td>16,643</td>
<td>59,818</td>
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<td>Increase [decrease] in accounts and trade payables</td>
<td>△8,469</td>
<td>△14,654</td>
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<tr>
<td>Increase [decrease] in retirement and severance benefit</td>
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<td>825</td>
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<td>Other</td>
<td>△13,320</td>
<td>△13,169</td>
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<td>Subtotal</td>
<td>129,374</td>
<td>133,109</td>
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<td>Interest received</td>
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<td>2,994</td>
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<td>Dividends received</td>
<td>485</td>
<td>463</td>
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<td>Interest paid</td>
<td>△8,033</td>
<td>△5,210</td>
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<td>Income tax paid</td>
<td>△19,652</td>
<td>△16,482</td>
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<td>Net cash provided by operating activities</td>
<td>106,229</td>
<td>114,874</td>
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<tr>
<td>Capital expenditures</td>
<td>△15,931</td>
<td>△17,515</td>
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<td>Proceeds from sale of property, plant and equipment</td>
<td>1,930</td>
<td>576</td>
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<tr>
<td>Acquisition of intangible assets</td>
<td>△2,746</td>
<td>△2,287</td>
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<tr>
<td>Acquisition of investments in securities and other financial assets (including investments in associates)</td>
<td>△3,046</td>
<td>△4,013</td>
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<tr>
<td>Sales of investments in securities and other financial assets (including investments in associates)</td>
<td>2,023</td>
<td>32,184</td>
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<tr>
<td>Collection of long-term loan receivables</td>
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<td>10,506</td>
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<td>Payments for transfer of business</td>
<td>△478</td>
<td>△1,810</td>
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<tr>
<td>Other</td>
<td>168</td>
<td>614</td>
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<tr>
<td>Net cash provided by [used in] investing activities</td>
<td>△17,976</td>
<td>18,255</td>
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<td>Increase [decrease] in short-term borrowings, net</td>
<td>△50,495</td>
<td>△46,226</td>
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<tr>
<td>Proceeds from long-term borrowings and bond</td>
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<td>19,735</td>
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<td>Payments on long-term borrowings</td>
<td>△86,603</td>
<td>△50,921</td>
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<td>Payments on lease payables</td>
<td>△4,817</td>
<td>△3,893</td>
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<tr>
<td>Dividends paid to owners of the parent</td>
<td>△11,676</td>
<td>△12,743</td>
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<tr>
<td>Dividends paid to non-controlling interests</td>
<td>△3,289</td>
<td>△4,156</td>
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<tr>
<td>Other</td>
<td>100</td>
<td>41</td>
<td></td>
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<tr>
<td>Net cash provided by [used in] financing activities</td>
<td>△96,294</td>
<td>△98,163</td>
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<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>5,802</td>
<td>△7,289</td>
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<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>△2,239</td>
<td>27,677</td>
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<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>53,672</td>
<td>51,433</td>
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<tr>
<td>Cash and cash equivalents at end of period</td>
<td>51,433</td>
<td>79,110</td>
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</tr>
</tbody>
</table>
Corporate Information

**Company Profile (As of March 31, 2016)**

- **Company Name**: Hitachi Construction Machinery Co., Ltd. (Hitachi Kenki Kabushiki Kaisha)
- **Paid in Capital**: 81,576 million Yen
- **Head Office**: 16-1 Higashiueno 2-choume, Taito-ku, Tokyo, 110-0015, Japan
- **Establishment**: October 1, 1970
- **President**: Yuichi Tsujimoto
- **Employees**: 21,193 (Consolidated) 4,315 (Non-consolidated)
- **Major Operations**: Manufacturing, sales and service of construction machinery, transportation machinery, and other machines and devices
- **URL**: https://www.hitachicm.com/global/

**Investor Information (As of March 31, 2016)**

- **Stock Exchange Listings**: Tokyo (#6305)*
  *Tokyo Stock Exchange and Osaka Stock Exchange were integrated at July 16, 2013
- **Accounting Auditor**: Ernst & Young ShinNihon LLC
- **Stock Transfer Agent**: Tokyo Securities Transfer Agent Co., Ltd.
- **Number of Shares Authorized**: 700,000,000
- **Number of Shares Issued**: 215,115,038
- **Number of Shareholders**: 42,249
- **Annual Meeting**: The annual meeting of shareholders is usually held before the end of June in Tokyo.

**Investor Information**

- **Composition of HCM Shareholders**
  - **Foreign Companies, Foreigners**: 13.15%
  - **Financial Institutions**: 18.20%
  - **Individuals and Others**: 12.58%
  - **Other Companies**: 53.02%
  - **Securities Companies**: 3.04%

**Major Shareholders (Top 10 Largest shareholders)**

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Number of shares held (Thousands)</th>
<th>Ownership ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi, Ltd.</td>
<td>108,058</td>
<td>50.81</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (trust account)</td>
<td>12,945</td>
<td>6.09</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account)</td>
<td>10,683</td>
<td>5.02</td>
</tr>
<tr>
<td>Trust &amp; Custody Services Bank, Ltd. (securities investment trust account)</td>
<td>3,527</td>
<td>1.66</td>
</tr>
<tr>
<td>BNP Paribas Securities Co., Ltd.</td>
<td>2,291</td>
<td>1.08</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account9)</td>
<td>1,644</td>
<td>0.77</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account7)</td>
<td>1,376</td>
<td>0.65</td>
</tr>
<tr>
<td>Hitachi Urban Investment, Ltd.</td>
<td>1,295</td>
<td>0.61</td>
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<tr>
<td>Goldman Sachs Securities Co., Ltd</td>
<td>1,276</td>
<td>0.60</td>
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<td>CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW</td>
<td>1,072</td>
<td>0.50</td>
</tr>
</tbody>
</table>

*1 Hitachi Construction Machinery holds 2,451,828 of treasury shares, but these have been excluded from the list of major shareholders above.
*2 Ownership ratio is calculated without the 2,451,828 of treasury shares.