

Hitachi Construction Machinery Group will contribute to tackling social issues and customer challenges toward 2020 and beyond through the construction machinery business.

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

Become one with our stakeholders

My name is Kotaro Hirano, and I became the new representative executive officer, president and executive officer on April 1, 2017. Hitachi Construction Machinery Group has been involved in social infrastructure and resource development through the value chain (products, services, parts, used machines, rentals, finance and re-manufacturing of parts) and providing solutions.

Looking back on the business environment in FY2016, global demand for construction machinery seemed to have bottomed out with varying degrees of recovery by region. However, we expect the severe business environment to continue given the possible risks from the major global political events and fluctuations in the exchange rates. Taking over the helm as president in this environment, I decided to steer the company in a positive direction with a sense of huge responsibility. However, what I can do alone as president is limited.

In addition to the 24,000 employees in the HCM Group, the customers, business partners, shareholders, and investors who put their trust and expectations in us are a strong presence. We are determined to confront this severe business environment together with such stakeholders.

Responding to global expectations with our three strengths

The foundation of the HCM Group is imbued with the Kenkijin Spirit. This originally derived from the founding concepts of Hitachi, Ltd., which are harmony, sincerity, and a pioneering spirit. We still stick to the ideology of the 3Cs—Challenge, Customer and Communication. Our employees are our major strength. They do not fear failure, but instead possess the spirit of challenge, and always listen sincerely to the voice of our customers and the public. Employees such as this are carrying out customer-first corporate activities around the world.

The second strength is the presence of our customers who have used HCM products for many years thanks to the strong bonds built by the Kenkijin Spirit. Of the total number of machines registered on our Global e-Service platform for machine operation information, around 230,000 units in 144 countries are equipped with a communication terminal that allows remote surveillance. More than 50,000 machines are under contract for ConSite, an after-sales service solutions program. The connection between these machines, our customers, and construction and mining sites is a valuable asset and the source of our power.

Our third strength is the comprehensive capabilities of Hitachi Group. The customers' business issues are high safety, high productivity and low life-cycle costs. Customers expect to solve these issues not only by providing our products but also by overall operations in the field. Under this situation, Hitachi Construction Machinery Group has the strength to develop and provide competitive solutions by collaborating with Hitachi as "One Hitachi" to create the brand and advanced technologies, Hitachi has, such as information and communication, energy-saving, and analysis. The solution business we provide is expected to become more and more competitive in the future. We believe our strength as "One Hitachi" will be a major pillar in

our growth.

GROW TOGETHER 2016, our previous mid-term management plan, was carried out as scheduled. Under this plan we developed products that comply with the latest gas emissions regulations, and introduced them to the market. R&D for a next-generation model and the development of the Autonomous Haulage System (AHS) for mining dump trucks was also implemented as planned. In addition, we strengthened our wheel loader business by turning KCM into a consolidated subsidiary. We also enhanced our value chain by welcoming H-E Parts International, a US company that operates a global parts and services business focusing on mining, and Bradken, an Australian company that supplies cast and fabricated parts in the field of mining, to the HCM Group. Meanwhile, we implemented structural reforms, including reviewing our business and production systems and reducing fixed costs, to further reinforce the stability of our financial position.



Final chapter in 2020 VISION attaining "Reliable solutions"

We launched our next mid-term management plan, CONNECT TOGETHER 2019 in April 2017. In this plan, we aim to develop a corporate structure that is resilient to change and reap the benefits of our growth strategies. CONNECT TOGETHER 2019 refers to the connection among our customers, our products, new services, solutions and our stakeholders, including employees, business partners, and local communities. In the civil engineering industry, we forecast that the utilization of ICT and IoT will be developed rapidly in the field. In our mid-term management plan, a major theme is to establish ourselves as one of the unchangeable top three global construction machinery manufacturers by continuously providing "Reliable solutions" throughout our value chain beyond the customer expectations and thereby gaining the unwavering trust of our customers.

The first strategy in our mid-term management plan involves the after-sales services. A unique feature in the business of Hitachi Construction Machinery group is the long life cycle, which starts from R&D and production, and spans to sales of new machines to customers, rental machines, and services, and the handling of customers' used machines when they purchase new replacements. For our customers, business does not start until the start of actual operations of a new machine or rental machine delivered to their construction site, or after a damaged machine has been repaired. We recognize that the word "after" in after-sales services actually signifies the "start." Based on this, we aim to increase customer satisfaction by providing services and solutions that have a higher value than ever before.

The second strategy is to develop wheel loaders and dump trucks into our second and third mainstays. The mainstay of the

HCM Group is hydraulic excavators, which boast first-rate product strength globally. We aim to utilize our development and sales capabilities in the field of wheel loaders and dump trucks to enhance the competitiveness of these two products. We plan to develop a wheel loader that meets emission regulations. At the same time, we are eager to improve production efficiency and reduce costs, while strengthening the global sales and service infrastructure for wheel loaders to boost sales efficiency. We have already developed a series of dump trucks such as high-altitude use or trolley use or high-altitude use with low fuel consumption and high working efficiency. We are also looking to fully commercialize the Autonomous Haulage System (AHS) for dump trucks, generate synergies with the two newly acquired companies mentioned above in the field of mining, and further create synergies with Wenco, a group company that provides a Fleet Management System (FMS) for managing mining activities.

The third strategy is ICT and IoT solutions. We plan to speed up development by applying an open innovation platform that integrates a wide range of Hitachi Group technologies, including Hitachi's Lumada IoT platform, with the expert technologies of our business partners. The ICT and IoT solutions for the difficult issues faced by our customers such as ensuring high safety, high productivity, and low life cycle costs, are called Solution Linkage. Customers have requested drilling power, speedy operations, operability, durability, and low fuel costs in the past. However, recent customer requests also include autonomous driving, improved efficiency of overall construction processes, and optimization of field operations. For example, at mining sites, we have already developed and commercialized the technology, "Aerial Angle". This displays images of the surrounding area on a monitor in the dump trucks supplied by Hitachi Construction Machinery. This monitoring service helps to improve safety such as reducing the number of collisions between machines. As customers possess plants, including railways to transport the minerals they mined to the harbor, power generators, and water treatment facilities, they request us not only to help them boost the efficiency of their mining machinery, but also to help improve the safety and efficiency of the overall mining site. Hitachi Group is able to provide solutions by leveraging the comprehensive capabilities as "One Hitachi" to a wide range of business. These capabilities bring solutions for all issues customers face in their field. The other example of Solution Linkage is ICT hydraulic excavators. In 2016, Hitachi Construction Machinery launched ICT hydraulic excavators with a 3D machine guidance system and semi-automatic, easy-to-operate machine control on the market in Japan, after the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) announced "i-Construction"¹, which aimed to enhance productivity by optimizing the construction processes of an entire civil engineering project. We plan to further enhance control accuracy in the future, and will work together with customers to carry out the development of construction process solutions from surveying to inspections. In addition, we plan to make further advancements to "ConSite," a service solution that contributes to stable machine operations and lower life cycle cost, by using sensor and analytic technologies.

¹ i-Construction

i-Construction is an initiative by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) 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 it established its 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. From FY 2016, this began to bring in projects implemented by MLIT.

Set targets for three CSV themes connected to our business operations

Reduction of environmental impact from our products and services is of great importance to us. Looking back on the advancements in construction machinery thus far and the history of developments in civil engineering and mining industries, the value we provide contributes to the sustainable development of society. In fact, as a corporate citizen, we exist to create technologies and services that contribute to the development of a sustainable society: It is our mission.

In 2015, there were a number of initiatives for solving global social and environmental issues, including the adoption of the Sustainable Development Goals (SDGs)² at the United Nations and the COP21³ Paris Agreement. These made us reevaluate the relationship between our group businesses and environmental and social issues. This led to the development of three approaches for creating shared value (CSV) through business operations: Resolving global environmental issues; Enhancing initiatives to increase social infrastructure workforce; and, Contributing to community development. In FY2016, we established key measures for each of these themes and set individual goals and medium/long-term KPIs.

One of our goals is to reduce greenhouse gas emissions by 33% in 2030, compared to 2010, through the reduction of the environmental burden of our products. Greenhouse gases are emitted when customers use the products we provide. Consequently, we need to provide products adapted to the exhaust gas emissions regulations of each country. To this end, we are aiming to reduce wasteful energy consumption that occurs at our customers' production sites by developing hybrid machines that have a high environmental performance, and by expanding the use of and improving ConSite service solutions. We are also picking up the pace of development for AHS dump trucks and optimal operations management systems.

² 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.

³ 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.



Sustainable management to drive growth in the medium/long term

In recent years, ESG investments⁴ have been increasing among institutional investors. In the case of Hitachi Construction Machinery Group, which engages in the development of social infrastructure, we do not implement ESG management to play to the interests of investors. We believe ESG management is essential for the sustainable growth of our company and society at large.

As discussed earlier, the CSV themes we established are being carried out for corporate management but at the same time they contribute to solving environmental and social issues. Should we choose to continue to undertake these themes we must also take into account ESG. By helping to solve environmental and social issues through our business activities, we will expand our business opportunities. At the same time, this also contributes to securing a competitive edge over competitors. In light of this, during the period of the current mid-term management plan, we aim to further fortify R&D, and continue to allocate a certain percentage of gross profit to investments. And, furthermore, since we plan to add Hitachi Group capabilities and open innovation initiatives with business partners to this, we believe we can further enhance our advantages.

Another challenge is to develop a comfortable workplace environment for employees. Hitachi Construction Machinery Group recognizes each employees' sense of values and individuality as they are the backbone of our business activities, and positions diversity as key management issues. From FY2011, we provided support for women and minorities in the workplace, the activities of national staff, and work style reform (including work-life balance). Going forward, it is our goal to create a workplace in which each employee can feel proud and happy about their job.

No matter how efficiently we work, alone we are unable to produce satisfactory results from the implementation of the three CSV themes. We will only begin to see results once we become one with our stakeholders, including our customers and business partners. While carrying out these activities, we need to build a solid business foundation and improve our earnings so that we can gain the attention of many investors. I see this positive cycle as the link to medium/long-term growth for Hitachi Construction Machinery Group overall.

⁴ ESG investments

Method of investment that focuses on and selects companies that conduct activities that take into account the environment, society, and governance.

Mission and role as a company that plays a role in the development of social infrastructure

In 2016, we experienced a number of serious natural disasters, including the Kumamoto earthquake and Typhoon Lionrock. I would like to express my heartfelt sympathies to those disaster victims and people living in damage-stricken areas that are still under reconstruction.

The Great East Japan earthquake hit six years ago. Our customers told us that they were in need of construction machinery and that, even if they could only get one unit, they wanted us to ship it to them. Thanks to the cooperation of our business partners, we were able to collect enough parts to respond to customers' demand. This made me realize that the products the HCM Group produces truly do support our social infrastructure.

The construction machinery we produce is indispensable to the reconstruction of the disaster-stricken areas. At the same time, it can be used to build an infrastructure that will minimize damage during a natural disaster. I am fully aware that we must directly contribute to the creation of solid social infrastructure by producing superior construction machinery and supporting stable machine operations.

We are currently undertaking the establishment of a highly efficient production system. In tandem with this, we plan to strengthen the disaster measures for our production facilities and build a procurement system to ensure that we can supply products during an emergency.

Hitachi Construction Machinery will celebrate the 50th anniversary of its founding, a major milestone, in 2020. In "CONNECT TOGETHER 2019", the mid-term management plan we launched in FY2017, we plan to take a major change in direction and aim to add depth to our value chain, which is pivotal in helping us play an even bigger role in solving our customers' issues. Our employees will come together as one to take on new challenges to solve the issues our customers and society face through its business activities. Whilst acknowledging and building on the experience and knowhow we have cultivated over the past 50 years we will not become complacent. It is our goal to stand by our customers and society, and to properly recognize our own mission and responsibilities. I believe this stance is how Hitachi Construction Machinery will support the future in 2030 and 2050.