

## Medium/long-term CSR goals of the HCM Group

Globally, there are still numerous social and environmental issues. This includes an increase in the severity of environmental problems worldwide and a growing inequality triggered by globalization. Consequently, each year corporations are being required to play a larger role in helping to create a sustainable society. In September 2015, the United Nations adopted the 2030 Agenda for Sustainable Development, in which both advanced and developing countries alike collectively focus on Sustainable Development Goals (SDGs) for the purpose of achieving three dimensions of sustainable development: environmental, social, and economic. In addition, at the 21st session of the Conference to the Parties (COP 21), a gathering for the United Nations Framework Convention of Climate Change, the Paris Agreement was adopted as a global framework to control climate change. Public interest in sustainability is growing and actions are being stepped up in this direction.

Furthermore, in the world of investing, ESG investment is gaining attention. This investment approach emphasizes environmental, social, and governance factors (hence the acronym), in addition to traditional financial data. It is becoming more prev-

ently used by pension funds and other institutional investors in various countries. The idea that environmentally- and socially-conscious companies have the potential to enhance their corporate value in the long term is becoming more widespread. Given this, there is a stronger need for management strategies that contribute to solving environmental and social issues and thereby improve corporate value.

Reflecting these global trends and changes in the business environment, the Hitachi Construction Machinery (HCM) Group views CSR as a method of sustainable development that companies can employ to enhance their corporate value in the medium/long-term, by helping to resolve social issues through their core operations. We have established medium/long-term CSR goals. We also identify the realization of a sustainable society a high-priority management theme. Moving forward, we plan to promote CSR activities by gaining an accurate understanding of and analyzing the environmental and social issues that companies face.

### CSR roadmap

The HCM Group aims to achieve sustainable growth and enhance its corporate value by integrating CSR measures with management strategies to thereby contribute to solving social issues through core business operations.

Realizing the sustainable society that the HCM group aspires to come true

## 2030 CSV GOAL

### Corporate target

Curb CO<sub>2</sub> emissions via products: Reduce by

▲ 33%

### Target for solutions

Improve safety and productivity, reduce life cycle cost

### Identifying Materiality\*

- Establish framework to integrate CSR into management strategies
- Create 8 key CSR initiative themes

### Integrating CSR into management

- Reflect CSR actions into the next mid-term management plan
- Disclose goals and targets, and information on progress towards their achievement

\* Materiality: Issues that could potentially have substantial impact on an organization's performance

At present

Creating medium/long-term goals

Previous mid-term management plan  
FY2014 - FY2016 "GROW TOGETHER 2016"

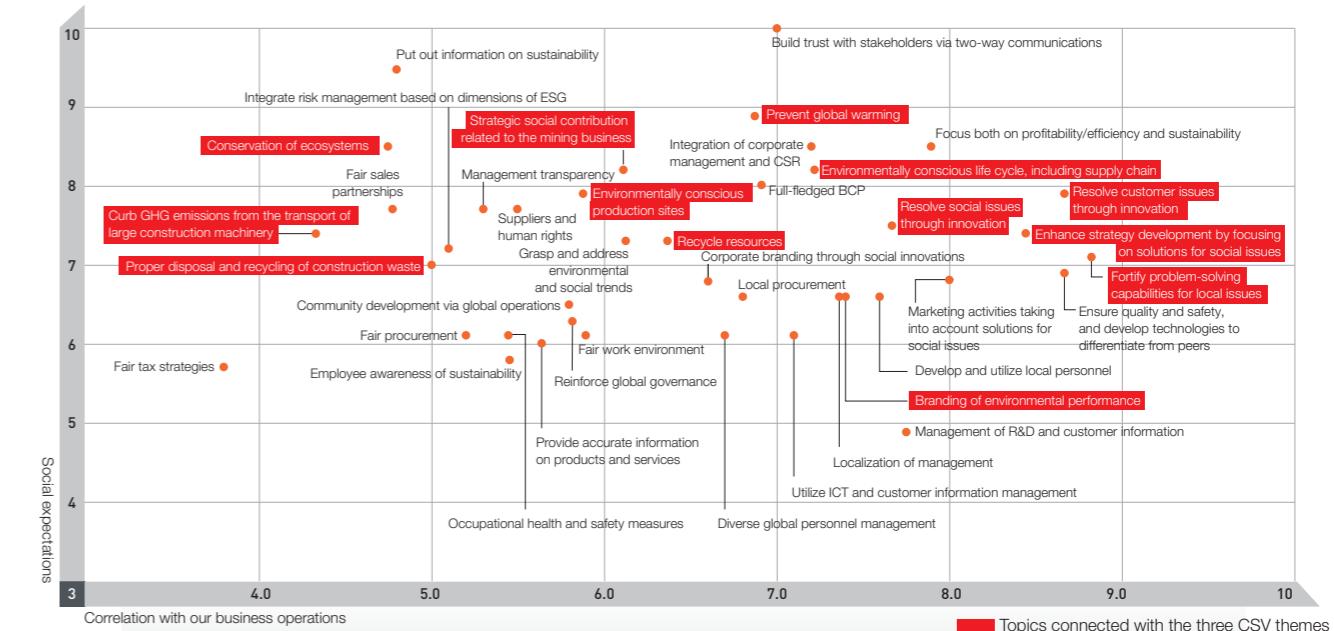
Current mid-term management plan  
FY2017 - FY2019 "CONNECT TOGETHER 2019"

## Defining materiality and 8 key CSR initiative themes

In FY2015, the HCM Group, along with outside experts and other external stakeholders, analyzed key CSR themes as a step toward achieving its goal for further growth. Taking into account recent trends in the global society at the time, we pinpointed 40 social issues, which we believed had a strong correlation with our business operations. We mapped out these issues and

assessed them based using two parameters; their significance to HCM Group businesses and the expectations the public has of the HCM Group. From this we were able to define eight CSR initiative themes that factored in the opportunities and risks of each issue.

### Mapping of materiality topics examined and identified by the HCM Group



After creating a materiality map, we systematically reviewed each topic and came up with eight key initiative themes. Those matters of particular importance are positioned as CSV themes, which aim to link business growth with the solving of social issues. The other topics which are essential to implementing CSV themes were positioned as basic themes.

### 8 Key Initiative Themes

#### 3 CSV themes

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

Resolving global environmental issues

Enhancing 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, work style reform

Developing human resources globally and locally

Creating better business transactions and value chains

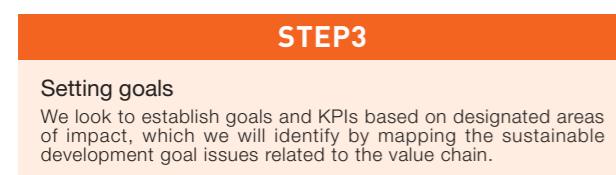
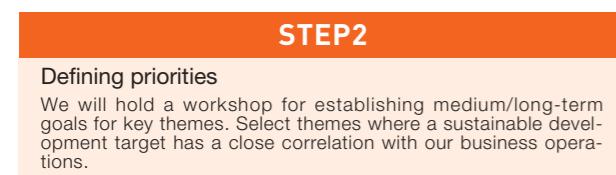
Governance

## Our approach towards SDGs

At the United Nations Sustainable Development Summit 2015, held in September, more than 150 UN member nations agreed on universal sustainable development goals. The SDGs serve as important guidelines for achieving a sustainable society. A total of 17 goals and 169 targets were set and are to be achieved by 2030. Companies are positioned as one of the main implementers of these actions.

Undertaking SDGs is not only a way to improve corporate value but a valid approach to strengthen stakeholder relations. Moreover, each SDG has an extremely close affinity to the HCM Group's eight key initiative themes. In light of this, we examine how we can employ this as a sustainable growth strategy that leverages our strengths and expertise.

### Process for setting medium/long-term goals



### The Sustainable Development Goals

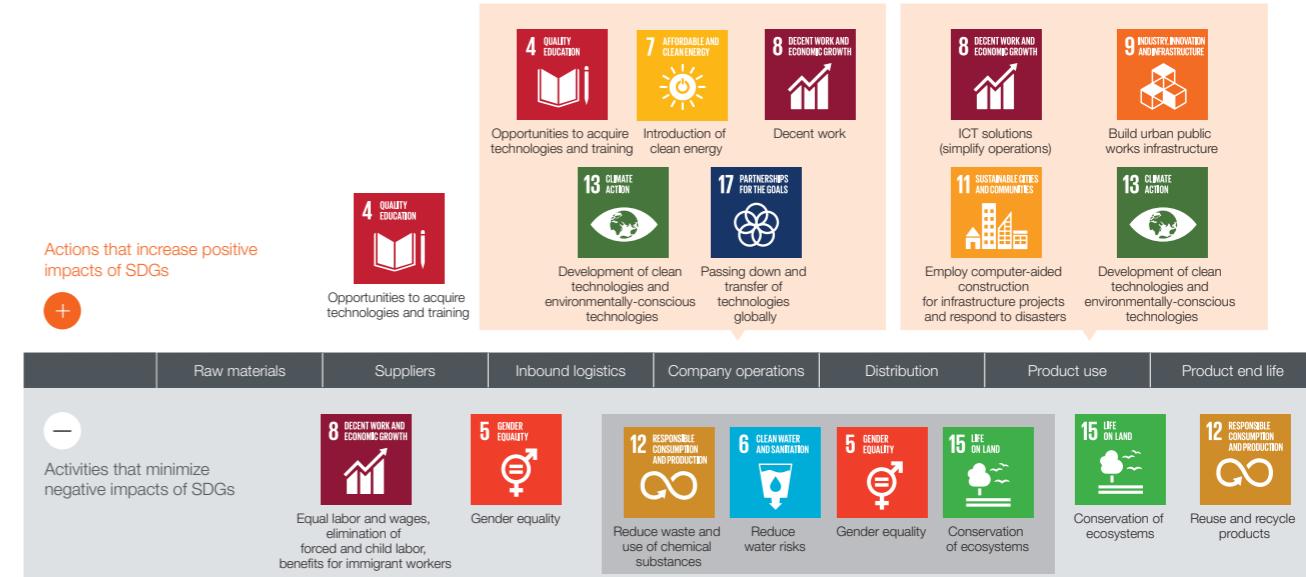
Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthens the means of implementation and revitalize the global partnership for sustainable development

## Key issues in the value chain

Construction machinery manufactured by the HCM Group is used in a variety of situations in society. This includes resource development at mines, development of social infrastructures, and in the agriculture, forestry, and livestock industries. It is now important that we clarify the correlation with sustainability issues throughout the value chain from the production and transport of construction machinery to their disposal, and not simply during use.

We assess the impact of our business operations to the

### Mapping the SDGs against the value chain



\* The value chain categories above are the same in the SDG Compass recommended in the UN Global Compact

### The SDGs strongly connected with our CSV themes

CSV theme 1 Resolving global environmental issues	CSV theme 2 Enhancing initiatives to increase social infrastructure workforce	CSV theme 3 Contributing to community development
<p>Global greenhouse gas (GHG) emissions are trending upward. At present, the amounts of GHG emissions are increasing by more than 50% in comparison to levels in 1990. We aim to address global climate change by working with suppliers and customers to develop more sophisticated environmentally-conscious products and activities to reduce environmental impact.</p>	<p>Technological advances are important for finding sustainable solutions to issues from both an economic and environmental standpoint. This includes providing new employment opportunities and improving energy efficiency. The construction machinery know-how and technologies we have cultivated since the founding of our company are closely tied in with the creation of a foundation (base) for industry and technological innovations.</p>	<p>The purpose of the SDGs is to attain decent work that is worthwhile and full and productive employment for all men and women by 2030. To this end, we aim to support local hiring and development through our construction machinery business by accurately grasping the needs of the local community.</p>
<p>The sharp growth of cities in emerging economies presents a variety of issues, including the lack of engineers to support the social infrastructure. We aim to contribute to sustainable urban development in both emerging and advanced economies, mainly through energy-saving technologies and solutions for optimizing operations in the frontlines.</p>	<p>We need to revitalize our global partnerships to achieve the UN's sustainable development goals and targets. We aim to further strengthen collaborations with external organizations by leveraging the comprehensive capabilities of the Hitachi Group, to undertake initiatives for the realization of a sustainable society.</p>	

## Understanding and addressing ESG information disclosure

In recent years, ESG investment has rapidly increased. This approach assesses a company based on environment, social, and governance factors, hence the acronym. ESG investing does not only take into account traditional financial data. Emphasis is on the incorporation of investment decisions and decision-making processes extrapolated from non-financial data, including corporate governance and a company's actions dealing with environmental and social issues.

ESG investment is sprouted from the Principles for Responsible Investment (PRI), an initiative advocated by then secretary-general of the United Nations, Mr. Kofi Annan. Institutional investors around the world began to focus on environmental as social aspects as a yardstick for investment decisions. At present, more than 1,700 institutional investors, including pension funds, with assets of over US\$60 trillion, and asset management institutions have already signed the PRI initiative and are promoting ESG investment.

A medium/long-term outlook is important when it comes to finding solutions for the environmental and social issues faced by the global community. The HCM Group believes that solidly addressing these issues will contribute to the creation of corporate value in the medium/long-term. We also aim to quickly and adequately provide information to investors on ESG issues.

### Changes in the environment surrounding companies and investors

#### Previously: Socially Responsible Investment (SRI)

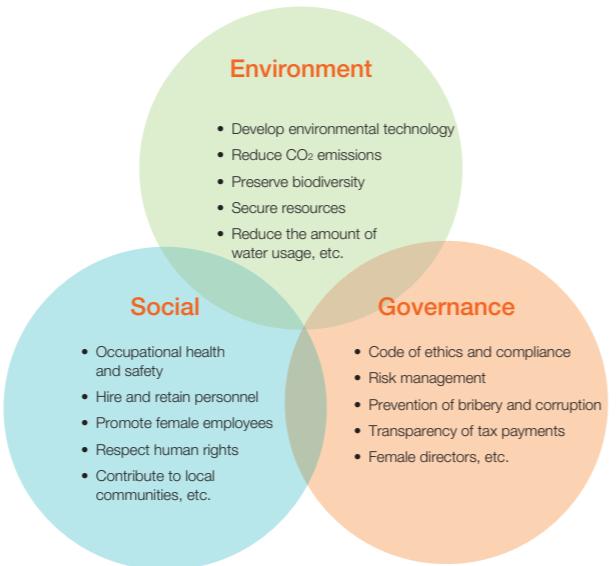
This approach incorporated CSR into the evaluation criteria for investments and required that the investment target achieve sustainable management.

**ESG is being added to the investment criteria of institutional investors (Financial and non-financial data)**

#### Domestic trends

- **February 2014** Financial Services Agency (FSA) announces Japanese-version of Stewardship Code  
→ Many institutional investors voice their approval
- **June 2015** FSA and Tokyo Stock Exchange (TSE) announce the Corporate Governance Code  
→ New guidelines adopted by many companies
- **September 2015** Government Pension Investment Fund (GPIF) signs the PRI initiative  
→ Promote ESG investing by top institutional investors who are trustees

#### ■ ESG investment approach



#### Ministry of Economy, Trade and Industry (METI) + TSE trends (part of Japan revitalization strategy)

- Nadeshiko Brand: Launched in 2012. Companies are selected for establishing workplace environments that encourage women to continue working and roles for female employees
- Health & Productivity Stocks: Launched in 2014. Companies are selected for their focus on employee health management

## ESG Index

ESG	Key Issues	Key Initiative	Reference Page
<b>Environment</b>	Philosophy concerning the environment	Environmental policy and long-term goals	p33
	Data relating to the environment	Facts and Figures about the Hitachi Construction Machinery Group (Excerpts)	p25, p26
	Climate Change	Environmental policy and long-term goals	p33
	Waste	Energy conservation activities at production plants	p34
	Water	Initiatives to reduce waste	p35
	Products and Services	Initiatives to reduce water usage	p35
<b>Social</b>	Customer	Environmental benefits of the ZH200-5 hybrid hydraulic excavator	p35, p36
	Customer	Environmental performance of electricity-powered excavators	p36
	Labor practices	Initiatives to realize the vision of "Made by Hitachi" uniform worldwide quality	p45
	Labor practices	Conducting customer satisfaction surveys	p46
	Human rights	Appropriate disclosure of product information	p46
	Human rights	Occupational safety and work style reform	p47, p48
<b>Governance</b>	Corporate governance	Developing human resources globally and locally	p49, p50
	Corporate governance	Taking on human rights due diligence	p50
	Information disclosure	Procurement policy against the use of conflict minerals	p52
	Information disclosure	Human rights initiatives	p54
	Compliance	Contributing to community development	p41 ~ p44
	Supply chain management	Corporate governance system	p53
	Philosophy concerning sustainability	Management structure	p24
	Philosophy concerning sustainability	Reinforcement of risk management	p54
	Information disclosure	Understanding and addressing ESG information disclosure	p31
	Information disclosure	Facts and Figures about the Hitachi Construction Machinery Group (Excerpts)	p25, p26
	Compliance	Compliance promotion systems and training	p52
	Supply chain management	Fair trade with suppliers	p51
	Philosophy concerning sustainability	CSR management in the supply chain	p51, p52
	Philosophy concerning sustainability	Message from the President	p9 ~ p12
	Philosophy concerning sustainability	Defining materiality and 8 key CSR initiative themes	p28
	Philosophy concerning sustainability	Medium/long-term CSR goals of the HCM Group	p27
	Philosophy concerning sustainability	Our approach towards SDGs	p29
	Philosophy concerning sustainability	Key issues in the value chain	p30

## SRI index incorporation status

With the spread of ESG investment, many foreign and domestic institutions have begun to implement Socially Responsible Investment (SRI) assessment. An SRI index is an index for selecting stocks that represent socially responsible investment based on ESG. The Hitachi Construction Machinery Group is included in multiple SRI indices.



FTSE4Good



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Sustainability Index  
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