

Message from the President



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Representative Executive Officer,
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At various sites around the world, we deliver a broad range of value to meet the new needs of customers and society and tackle the challenges posed by sustainable social infrastructure development.

Safety and quality represent matters of the utmost importance that form the bedrock of management

The HCM Group launched a new mid-term management plan called CONNECT TOGETHER in FY2017. The target under this plan is to deliver “Reliable solutions” that exceed customer expectations in the value chain extending across the entire life cycle of construction machinery. The reason why we decided to focus on strengthening and expanding the value chain can be found in the rapid changes taking place in the climate surrounding the construction machinery industry.

Since becoming President in April 2017, I have taken part in dialogue with various stakeholders including customers, suppli-

ers, and employees throughout Japan. Through these meetings, I felt firsthand that changes in work approaches on the frontlines and changes in people’s attitudes are accelerating at a global level. I was also able to confirm that our vision of delivering next-generation products that meet the needs of customers as well as various services and solutions that contribute to site reforms remains sound and correct.

I was involved with HCM’s management prior to becoming President when I served as an executive officer. Since my involvement in management as President, though, safety and quality have been of the greatest interest to me. While business performance is important, safety is what underpins the very foundation of this performance, which involves both the quality of products and services we provide as well as the quality of our

operations.

I now believe that we will not be able to reach our targets and vision if we don’t reinforce and improve the fact that safety and quality represent the very bedrock of management.

CONNECT TOGETHER 2019

Provide “Reliable solutions” in the value chain extending across the entire construction machine life cycle that exceed customer expectations

Continuing with reforms in the value chain aimed at establishing a stable management base

Our customers not only in Japan, but also in Europe, the United States, and China are focusing on three important issues. These are how to improve site safety, how to increase productivity, and how to control costs related to fuel and repairs of machines that occur during the life cycle. Similar to my increased awareness of safety, our customers feel it is extremely important to find ways to keep sites accident free and to run operations efficiently.

We need to supply construction machinery that ensure the safe work and operations at sites and construction machinery that are fuel efficient and highly productive to lower site costs. This is what our customers need. Improving site safety and increasing productivity requires more than just enhancing the

performance of products. Only by providing customers with solutions that optimally control machines and site operations along with ways to lower life cycle costs, including finance, will we be able to truly solve the issues customers face today. In emerging countries such as India, national strategies are in place for the rapid advancement of resource development, building of infrastructure for attracting multinational corporations, and creation of environmental regulations.

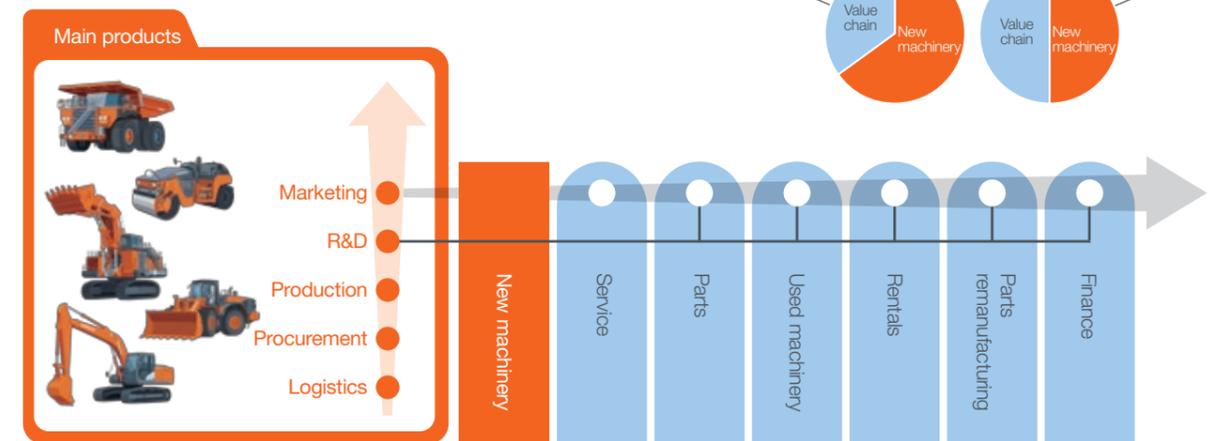
In countries with great potential because of the expansive area in need of development, there is growing interest in clean machinery that clears environmental regulations and Autonomous Haulage System (AHS) dump trucks to alleviate labor shortages.

The HCM Group has delivered products, services and solutions in line with customer needs by quickly identifying changes in the needs of these countries and economic blocs. This enabled us to beat the target laid out in CONNECT TOGETHER 2019 for FY2019 two years ahead of schedule in FY2017, the initial fiscal year under this plan.

However, as I talked about earlier, we are working to achieve more than just numbers as part of our mid-term management plan. Our goal is to also reinforce and expand the value chain and fundamentally change the very foundation of management. Only after we have achieved these qualitative goals can we say that we achieved the mid-term management plan targets.

One of these targets is to achieve a ratio of sales from non-product related businesses (value chain) of 50%. This ratio stood at around 40% in FY2017. Going forward, we are committed to achieving all of these targets as well as transforming the HCM Group’s business structure.

The HCM Group’s Value chain



Customer interests: improved safety, improved productivity, reduced life-cycle costs

Value chain reforms also expand connections to solutions to social issues

Reducing environmental impacts through the products, services, and solutions we provide to customers is of the same importance as safety and quality. Looking back on the evolution of construction machinery and the history of the civil engineering and mining industries, I strongly feel that we would not have been recognized by society or developed as a company without delivering value beneficial to the sustainable development of society as a whole.

Following the adoption of the Sustainable Development Goals (SDGs) at the United Nations and the COP21*1 Paris Agreement, in FY2015 we reevaluated the relationship between our group businesses and environmental and social issues. This led to the development of three approaches for creating shared value (CSV): 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- to 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 impacts of our products.

Within our businesses, most greenhouse gases are emitted when customers use the products we provide. Consequently, it goes without saying that 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, as well as service solutions.

For example, in terms of our ICT/IoT-based solutions called Solution Linkage*2, we propose to customers solutions compliant with i-Construction*3 and AHS dump trucks for mining sites. These solutions help to increase the efficiency of operations and fuel economy of construction machinery.

In the case of dump trucks, there are differences in how the brakes are used and speed is applied depending on the driver. Using an unmanned AHS evens out these differences, reducing tire wear and fuel consumption.

In terms of i-Construction initiatives, we sell an ICT hydraulic excavator with a system that enables semi-autonomous excavation based on 3D design data sent to the machine. This not only shortens work periods, but also increases productivity and fuel efficiency simultaneously by reducing wasteful work such as over digging necessitating soil replacement.

Furthermore, we began providing a new solution called Con-Site OIL in Europe from October 2017 and in Japan from FY2018. This solution uses sensors to monitor engine oil and hydraulic fluid conditions and notify the customer and distributor automatically whenever an abnormal reading is detected, reducing downtime.

While improving fuel economy of machines has been the single most important environmental measure in the past, today, we can largely give back to the environment by controlling the operations and movements of construction machinery, which also leads to work style reform at the customer level.

The HCM Group has expanded its connections with customers in terms of working to solve social issues together by not only supplying products, but also delivering value through solutions for machinery use and how to manage and operate entire work sites.

Another area we are working on is electricity-powered construction machinery. Currently, such construction machinery mainly is operated by plugging in a cable to a commercial power supply, but in the not too distant future smaller machinery such as mini excavators may be able to be operated using batteries alone. Our ability to harness the Hitachi Group's technologies for railways and automotive components is a major strength for HCM in the growing trend of electrification.

*1 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.

*2 Solution Linkage:

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

*3 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.

Our greatest strength is HCM's spirit passed down throughout our history

In 2020, the HCM Group will mark its 70th anniversary since commencing the mass production and sale of construction machinery and its 50th anniversary since being spun off from Hitachi Ltd.

Soon after the end of World War II, we embarked on the development, manufacture and sale of construction machinery based on a commitment to help rebuild Japan using our original technologies. The origin of this commitment can be found in Hitachi's Founding Spirit of harmony, sincerity, and pioneering spirit.

This Founding Spirit has been passed down through the years as our very identity, and today, we still stick to the ideology of the 3Cs—Challenge, Customer and Communication found in the Kenkijin Spirit, which codifies the shared values and code of conduct of the HCM Group. Our employees are one of our greatest strengths. 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. In addition to the Hitachi Group's spirit, our major brand power and wealth of technological resources represent another one of our

major strengths. Furthermore, our strong relationships built with stakeholders around the world, including suppliers who we manufacture with, distributors who sell and service our products, and customers using our machinery, represent another strength.

There is a reason why the HCM Group established the Kenkijin Spirit. From our founding through Japan's period of rapid economic growth up until the 1990s the HCM Group's business focused predominantly on Japanese people and the Japan market. However, the wave of globalization hit in the middle of the 1990s and spread instantaneously, as the number of non-Japanese customers along with manufacturers and seller began to increase.

This situation gave rise to concerns that the HCM Group's basic identity was being diluted. For example, Japanese people have a fixed impression simply by hearing the name Hitachi. Non-Japanese people, however, are not aware of this tacit knowledge, and this became one of the factors behind a lack of solidarity as a group of companies. At the time, we, of course, had a corporate philosophy, but we found that we would not be able to become one as an organization without something akin to guidelines of action identifiable among not only Japanese people, but people of other nationalities, too. As a result, in 2006, we summarized this tacit knowledge into three words, which marked the birth of the Kenkijin Spirit's 3Cs.

Today we have grown into a company with a workforce of 24,000 people, where non-Japanese nationals outnumber Japanese nationals. I hope to make the Kenkijin Spirit a set of guidelines for strengthening the cohesiveness of the group around the world, and I am sharing this commitment internally through various opportunities.

Ideology of the 3Cs

3C

Challenge

Customer

Communication

Transforming changes in the market and workplace, to energize our challenging spirit

Each and every employee, too, must change in the face of changing markets and in the process of changing the organization. The HCM Group is working toward a single goal with the help of its employees around the world representing various nationalities. It is only natural that the concept of work is different in each region given local laws and cultures. The key is not to establish a uniform rule that defines a particular work style, but rather to develop an environment that is friendly to everyone in each region. Work style values differ not only between country and region, but also exist between age groups as well.

For example, the most comfortable work style for people in their 20s differs dramatically from those in their 50s, even in Japan. In other words, I'm aware that creating an environment



where people feel happy and excited about working at the HCM Group and can contribute their individuality and capabilities more than ever before, regardless of region, nationality, age or gender, is an area HCM needs to work at the moment.

In April 2018, David Harvey, the President of Hitachi Construction Machinery (Australia) Pty Ltd., was newly appointed as Executive Officer of Hitachi Construction Machinery. Adding a non-Japanese way of thinking and viewpoint to the group's management is expected to be a major positive for promoting the transformation of employee work styles and thinking.

As part of our diversity promotion efforts, we have been supporting the activities of women and minorities. I feel that we still need to reinforce our efforts toward promoting the more active role of women on the frontlines of manufacturing. Taking into account Japan's declining birthrate and aging population and the shortage of workers, I recognize that promoting reform on the frontlines aimed at development an environment conducive to women and seniors is an urgent task from the standpoint of HCM's increased productivity and sustained growth.

As I mentioned above, global markets are undergoing major changes in recent years. I feel that the speed of change in the construction machinery market is particularly fast. Following changes at customers, technology is evolving at a fast pace, while the value provided by business is changing rapidly, too.

The HCM Group stands committed to transforming itself with the Kenkijin Spirit close at heart so as to energize our efforts to tackle challenges like never before. I firmly believe that this commitment is the key to paving the way for our future beyond the milestone year of 2020.