

CSV Theme1

Resolving global environmental issues

Global environmental issues including climate change are extremely important issues that could threaten the very survival of humankind. Solutions or adaptation to these issues requires inclusive global initiatives and in particular companies are expected to play an important role. The HCM Group is working to reduce the environmental impacts of its products throughout the entire life cycle and to provide environmentally conscious solutions to customers and society through ICT, IoT and open innovation.

Targets				Key Initiatives
CSV targets	Reference year	2030 reduction rate	2017 progress rate	
• CO ₂ saving by products	2010	33%	46%	<ul style="list-style-type: none"> • Reduce environmental impact for manufacturing processes • Develop and deliver Eco-Products, low carbon construction machinery, dismantling, and recycling machinery • Utilize ICT and IoT • Applications for disaster recovery and disaster prevention • Environmentally conscious mining operation solutions • Green infrastructure solutions
• Fuel reduction of hybrid hydraulic excavators	2010	50%	80%	
• Improvement rate of energy basic unit in production	2005	40%	65%	
• Improvement rate of waste basic unit in production	2005	40%	83%	
• Improvement rate of water basic unit in production	2005	50%	86%	

Progress of main activities in FY2017

Development of clean technologies and environmentally conscious technologies

Worldwide greenhouse gas emissions continue to increase, and today they stand at levels more than 50% above those of 1990. The HCM Group continues to develop and put into practical use construction machinery with low carbon technologies such as hybrid machines and electric machines.



Reuse and recycling of products

The world today must manage our planet's limited resources in responsible manner and use them efficiently. The HCM Group is actively promoting the efficient use of resources, including parts reuse and remanufacturing, through the development of technologies for product recycling and other means.



Responses to water risk and biodiversity

Protecting water resources and ecosystems is a duty of companies that benefit from natural capital. The HCM Group is working to use water resources in a sustainable way and protect biodiversity, with our production bases around the world a focal point of our actions.



Future initiatives

In response to our target of achieving a CO₂ saving rate by products of 33% compared to 2010 by 2030, in FY2017 we were at 46% of this target thanks to the provision of environmentally conscious construction machinery, including new hybrid hydraulic excavators. Looking ahead, we stand committed to actively contributing to solutions to global environmental issues by not only reducing environmental impacts across the three areas of "manufacturing," "using" and "taking on challenges," but also developing environmentally conscious technologies.

Development of clean technologies and environmentally conscious technologies

Initiatives to reduce electricity usage at production plants

HCM has worked on energy conservation initiatives for added value, efficient energy usage in order to increase energy productivity. Such initiatives include the effective utilization of unused energy, reduction of standby power, use of inverters, and shift to LED lighting.

In terms of reducing standby power at production plants, the introduction of "Emilia" electric power monitoring system co-developed with Hitachi, Ltd. makes it possible to ascertain and analyze electric power by focusing on production site needs. Through this solution, we are aiming for the more efficient use of energy. EMilia visualizes the electric power data of each facility at multiple manufacturing bases in real time, making it possible to analyze and diagnose future operating methods and energy productivity. This system reduces standby power through a combination of energy usage standardization within the energy

conservation functions of each facility and monitoring of power off. Additionally, this system results in higher efficiency operations by realizing more efficiency energy use.

In FY2017, we focused on the expansion of EMilia overseas. Hitachi Construction Machinery China analyzed the characteristics of electricity usage, including standby power due to forgetting to shut off machinery and standby power at the time of shift changes using data from EMilia, enabling it to build its own pattern for energy conservation management. The company is now working to completely eliminate its use of standby power.



Energy conservation liaison conference using EMilia

TOPICS

Initiatives at KCM Corporation Banshu Works

KCM Banshu Works used to continually heat the salt bath to prevent salt (nitrate) from losing heat and solidifying during the salt quenching* method of heat treatment. However, starting in FY2017 it began efforts to optimize heating and stopping. As a result, Banshu Works reduced standby power by 135MWh annually, which corresponds to roughly one percent of the entire works' electricity usage.



Salt bath at KCM Banshu Works

* Salt quenching is a form of heat treatment where molded parts are placed in a bath of melted nitrates (salt bath) that is then heated and cooled.

Development of clean technologies and environmentally conscious technologies

Released the ZH200-6 hybrid hydraulic excavator

Since releasing the first generation ZH200-A in 2011, the HCM Group has developed a number of next-generation hybrid hydraulic excavators that help to reduce environmental impacts.

The all-new ZH200-6 hybrid hydraulic excavator released in Japan in September 2017 comes equipped with the TRIAS-HXII system developed using a combination of our long-standing proprietary technologies coupled with the One Hitachi approach and technologies from open innovation. This system achieves impressive fuel economy while maintaining operability through the integrated control of the hydraulic system and hybrid system comprising the engine, electric assist motor, lithium ion battery, power control unit (PCU), and electric swing motor, in order to maximize the machine's performance. We co-developed the

all-new hybrid motor-mounted engine with Toyota Industries Corporation and lithium ion battery with Hitachi Automotive Systems, respectively. Utilizing technologies from the automotive and industrial vehicle fields, the ZH200-6 achieves a 12% reduction in fuel costs compared to the previous ZH200-5B hybrid hydraulic excavator.



ZH200-6 hybrid hydraulic excavator

Reuse and recycling of products

Waste reduction effect in the parts remanufacturing business

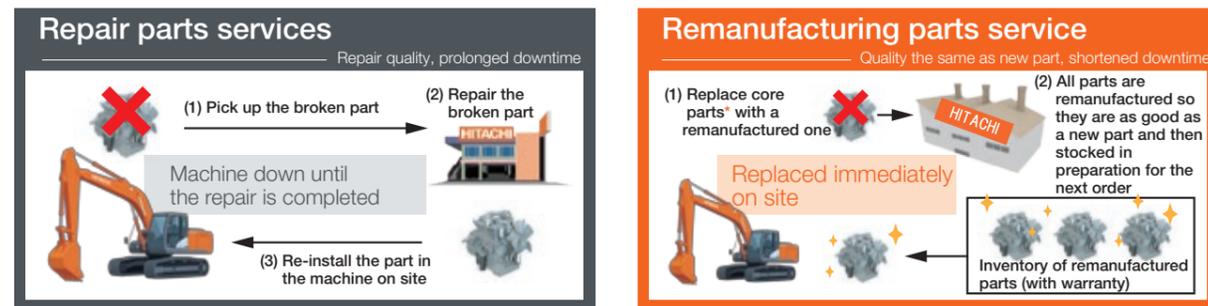
Parts replacement is essential for construction machinery used in harsh environments. By weight, construction machinery is made up of 80% to 90% steel. Therefore, if a problem occurs with a unit, there was no other choice than to replace it with an all-new one. For this reason, used units are handled as scrap and recycled after being melted down. However, repairing and reusing these units repeatedly instead of disposing of them as scrap not only reduces customers' running costs, but also results in even greater energy and resource savings. HCM's parts remanufacturing business was born as a result of matching these customer needs and our commitment to find solutions to social issues.

The parts remanufacturing business involves restoring the functions of used units collected from customers and re-selling

them as new remanufactured parts. Units are made from remanufactured parts, making it possible to provide a warranty similar to new parts. Unlike used units or repair parts, the parts remanufacturing business features a cyclical model in which a transition is possible from "recycle" to the higher priority "reuse" within the 3Rs.

The largest remanufactured unit is a dump truck decelerator, which weighs about 12 tons. This is the same as roughly 12 to 13 light motor vehicles, meaning there is a significant effect in terms of conserving resources and reducing waste. HCM has the technologies to remanufacture many other units as well. Our efforts at 12 locations around the world have helped to reduce waste by around 2,900 tons every year.

Differences between our remanufacturing parts service and repair parts services



* Core parts: Parts from which used components can be salvaged for remanufacturing and reuse. Core parts indicate those that are regularly replaced after being used for a targeted time interval when operating a machine under a preventive maintenance program.

Responses to water risk and biodiversity

Initiatives for water resource conservation

The HCM Group uses the World Resources Institute's (WRI) Aqueduct tool to determine areas within its business activities with a high level of water stress. We also utilize this tool to quantify the level of water stress for all of our production bases in Japan and abroad to identify high stress areas.

We are now deploying advanced water conservation activities at Tata Hitachi Construction Machinery Company Private Limited. (India), PT Hitachi Construction Machinery Indonesia, and Hitachi Construction Machinery Tierra in the area near Lake Biwa, where water risks are particularly high.

For example, Tata Hitachi Construction Machinery carries out de-silting work* on a lake with the cooperation of local governments and educational institutions as an initiative to prepare for water shortages. At Tata Hitachi Construction Machinery Dharwad Plant, silt that collects on the bottom of a lake is re-

moved using the company's own hydraulic excavators, making it easier for rainwater to accumulate.

The greater water volume of the lake increases domestic water used by local residents and improvements along the lake shore have attracted wildfowl. Tata Hitachi Construction Machinery has received letters of appreciation from local residents and local governments detailing how the quality of life has improved.

* De-silting work refers to the act of digging out and removing soil, etc., from the bottom of a port or river.



De-silting work by Tata Hitachi Construction Machinery

Responses to water risk and biodiversity

Niju-maru Declaration on action to protect biodiversity

The Niju-maru Declaration refers to the commitment (participation in the program) to conduct initiatives that aim to prevent the loss of biodiversity as part of the Niju-maru Project launched by the Japan Committee for International Union for Conservation of Nature (IUCN). The Niju-maru Project invites participation from businesses and local governments through declaration to commit to what they can do to achieve the Aichi Biodiversity Targets, established at the Tenth meeting of the Conference of the Parties to the Convention on Biological Diversity (COP10).

HCM's Environmental Vision includes "harmonized society with nature," and as an action to protect biological diversity we have joined the Niju-maru Declaration. Until now, HCM has declared its intent to achieve targets 1 and 17. In fiscal 2017, additional declarations were made by Tadakiko for targets 1, 5, 7, 14, and 17, Hitachi Construction Machinery Tierra for targets 1, 4, 5, 7, 8, 10, 15, and 17, as well as Hitachi Construction Machinery (Shanghai) and Hitachi Construction Machinery (China)* for targets 1, 4, 5, 7, 14, 15, and 17.

The No. 2 Works of Tadakiko is located adjacent to "Toyotomi Donguri no Mori" in Chiba Prefecture, where employees have been volunteering in forest landscape preservation (satoyama) activities including undergrowth mowing and thinning annually since 2012. Hitachi Construction Machinery Tierra has been conducting a variety of environmental initiatives including putting together biotopes (for organisms to share the same habitat), exterminating invasive species in Lake Biwa, and collecting used food oil for reuse onsite after refining.

We will continue to promote activities as a company that consider ecosystems and in turn lead to their preservation.

* See Page 42 for greening activities undertaken in the Horqin Desert of China.

The 20 Aichi Biodiversity Targets

*ABS (Access and Benefit-Sharing): the fair and balanced distribution of profits resulting from the usage of genetic resources.

Development of clean technologies and environmentally conscious technologies

Management of chemical substances

The HCM Group strives to prohibit and reduce the use of harmful chemical substances from both finished products and manufacturing processes. We strive to reduce the emission of chemical substances into the air, water and soil that are difficult to reduce, as well as prevent pollution.

In December 2017, Hitachi Construction Machinery (China) completed work on a facility that combines an active carbon filter and RCO (VOC gas cleaning and deodorizing system), which is expected to treat more than 75% of VOCs. This treatment equipment began operation in FY2018. Furthermore, another facility which involves the combination of Zeolite absorber/condenser and RTO (heat storage type deodorizing system) and can treat more than 90% of VOCs is scheduled to be installed in the second half of FY2018.



VOC gas cleaning and deodorizing system at Hitachi Construction Machinery (China)

CSV Theme2

Enhancing initiatives to increase social infrastructure workforce

Development of infrastructure promoting industrial development and underpinning more affluent lives, along with resource development for a stable supply of energy, both represent the critical first steps in building a sustainable society. The HCM Group harnesses a wide range of leading edge technologies, including remote monitoring technologies for construction machinery and unmanned work automation technologies, to tackle the many challenges faced on work sites, such as shortages of workers and skilled technicians.

Targets	Key Initiatives
<ul style="list-style-type: none"> Contribute to enhanced site productivity for customers using ICT and IoT. Reduce life cycle costs and improve utilization rate of customer machinery. Improve the safety of machinery and prevent occupational injuries on site. Contribute to alleviating the shortage of skilled technicians through advancement of machinery and systems. 	<ul style="list-style-type: none"> Provide solutions to optimize mining processes and management Achieve stable machinery operations and the reduction of life cycle costs Popularize machinery and systems that increase work efficiency Develop and delivery labor-saving machinery that is unmanned/uses robotics

Progress of main activities in FY2017

Realizing a safe and productive work environment

Realizing a safe and productive work environment through investment in technologies that mitigate human error and accident risks is essential in promoting employment that is rewarding. The HCM Group contributes to a productive work environment through the provision of machine technologies that can be safely operated by operators of different skill sets.



Innovative technological development that creates new value

The structure of industry itself needs to be transformed through improved resource utilization efficiency and the introduction of environmentally conscious technologies based on innovative technological development. The HCM Group is meeting these needs with the support of our technology developed using the collective strengths of the Hitachi Group.



Building resilient infrastructure

The SDGs aim to drastically reduce the number of fatalities and injured due to natural disasters by enhancing development plans on national and global level by 2030. HCM strives to contribute to the development of social infrastructure, including rivers and roadways, by providing higher efficiency products and services.



Future initiatives

In FY2017, we delivered new products and new ICT/IoT-based solutions in order to address various challenges at work sites including improved safety, improved productivity, and reduced life cycle costs. Going forward, we will continue to address the various challenges faced by work sites, particularly real-life testing for the commercialization of an autonomous haulage system for dump trucks at mining sites as well as advancing solutions for site management optimization.

Realizing a safe and productive work environment

Towards the Commercialization of an Autonomous Haulage System for Mining Trucks

Ensuring worker safety at mining sites where huge mining trucks operate is a major challenge. At the same time of ensuring safety, it is also necessary to streamline mine operations through total optimization leading to improved productivity and reduce life cycle costs. As one solution to this challenge, HCM offers an Autonomous Haulage System (AHS) for mining trucks.

AHS enables unmanned operation of mining trucks, which normally require the most manpower, at open-cut mining pits and provides integrated management using its control system. AHS is expected to minimize human error and improve safety, while yielding economic benefits, including reduce human exposure to Safety hazards, lowered personnel costs, increased hours of operation, and reduced fuel costs. HCM's AHS applies know-how and Hitachi's technologies in railway operation management, including block train control technology. Blockage management system divides the route mining trucks travel autonomously into multiple zones and permits only one truck per zone. Trucks haul autonomously within their permission zones without communicating with the control system, and only make contact with the system as they approach the next zone. The communication traffic volume is controlled to enable hauling permits to be given for each new zone. This fixes the issue of limits on the number of controllable mining trucks due to com-

munication traffic volume and allows more mining trucks to be controlled.

In FY2017, we performed various verification testing performed at a location in Australia aimed at commercialization. We plan to conduct user tests at customer sites in FY2018 and tests for commercialization in FY2019.

* Open-cut mining pit: A method of mining where minerals are mined directly from the surface without digging a mine shaft.



Practical various verification testing aimed at commercialization will get underway in FY2019

Innovative technological development that creates new value

Release of the ZX200X-6 Hydraulic Excavator, a Core Contributor to ICT Construction

In January 2018, HCM released the ZX200X-6 ICT hydraulic excavator, an all new addition to the ZAXIS-6 series and core ICT Construction solution. The ZX200X-6 features a proprietary system for ICT Construction that includes a machine guidance function indicating the location and position information of the machine and work target as well as Solution Linkage Assist, a machine control function that semi-autonomously operates the machine based on work target data.

The ZX200X-6 carries out work in a highly accurate and efficient manner thanks to its over-dig prevention function that controls the bucket so that it does not dig deeper than the work target and bucket angle hold mode that keeps the bucket at a pre-set angle. Compared to the previous ZX200X-5B, the ZX200X-6 offers better finishing capacity and improved workload by around 35% thanks to quicker work.

The ZX200X-6 also greatly increases productivity even on small sites and sites with no GPS signal because of its 2D capabilities. Furthermore, the machine can be upgraded easily

from 2D to 3D simply by adding a dedicated 3D device. This enables the ZX200X-6 to be used in a wide variety of regions and fields.



ZX200X-6

Innovative technological development that creates new value

Solution Linkage Mobile - work site visualization tool

HCM developed Solution Linkage Mobile, offering work site visualization, progress management, and proximity notification functions, as one of the ICT Construction solutions of Solution Linkage for improving safety and productivity on construction sites. We began providing Solution Linkage Mobile services in Japan from April 2018.

Solution Linkage Mobile was developed based on the concept of making it easier to use IoT at work sites. This solution connects machinery and people at work sites using mobile terminals such as a smartphone. For example, a mobile terminal is installed on a construction machine or dump truck operating at the work site. Location information uploaded to the cloud through an application is used to plot the position of each machine on a map. Conventionally, site managers examined work arrangements after checking the situation by telephone or other means. Now with this solution, they can use work site visualization to see in real time the location of machines and people, making it possible to increase the efficiency of work.

In real-life testing with the cooperation of customers, this

solution improved work site productivity by around 10%. Productivity can be increased even further by linking this solution with ConSite, a service that conveys a machine's operating condition and breakdown information in a timely manner.



Solution Linkage Mobile's map screen. The location information and list of machines and workers with GPS receivers is displayed using icons.

Innovative technological development that creates new value

Utilizing ICT Demonstration Site to experience ICT Construction and various solutions first hand

The HCM Group operates the Hitachi Construction Machinery ICT Demonstration Site in order for customers to realize the benefits of ICT Construction processes based on a clear understanding of i-Construction being advocated by Japan's Ministry of Land, Infrastructure, Transport and Tourism.

Opened in October 2016 at HCM's Hitachinaka Works, this area deepens customer understanding of i-Construction through demonstrations and training, ranging from surveying using unmanned aerial vehicles (UAV) and laser scanners to explanations of ICT construction machinery functions and technologies, and use of software for creating 3D data. Here, customers get to experience various solutions using the latest technologies of our business partners. In FY2017, around 1,400 customers visited this demo site.

Furthermore, in April 2018, HCM newly opened the Hitachi Construction Machinery Kagawa ICT Demo Site at the Shikoku Branch in Zentsuji City, Kagawa Prefecture, as the second demo site. The HCM Group will use these two sites to foster understanding among customers about the benefits of ICT Construction for greatly reducing conventional processes and increasing both safety and productivity. This will position us to deliver the optimal solutions to customers.



Demonstration using ICT construction machinery



Training for customers

Innovative technological development that creates new value

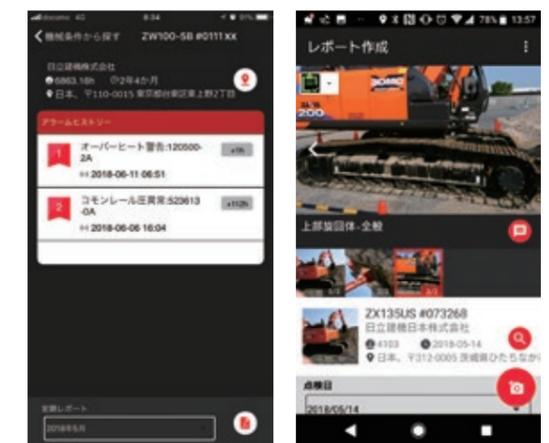
First HCM official Apps "ConSite Pocket"/ "ConSite Shot" launched world wide

ConSite is a fleet management reporting service provided by HCM. Global e-Service system processes the telematic data automatically and provides to the customer a summarized monthly report. Also Customers may receive an alarm report in case the machine detects a serious condition. Data report supports customers by improving fleet management efficiency. HCM has provided data report in 33 languages since 2014. Currently ConSite data reports are provided to 113 countries & regions for 82,432 machines. (As of March 31, 2018)

In FY2017, HCM began offering a new app called "ConSite Pocket" for iPhone and Android to the data report subscribers. The app provides an easier usage and visualization of the reports than the emails. The users receive an alarm notification on the smartphone that makes the owner realize the machine status quicker. Also, the data report can always be checked by the user on the work site. In addition, HCM launched an app called "ConSite Shot" for official dealers to provide visual inspection reports to the customers. Mechanics of Hitachi dealers can easily create an inspection report with the assistance of Global e-Service. Machine owners can decide the required repairment by seeing the visual inspection report data together with the suggestion

from experts.

These apps dramatically increase the benefits of ConSite. HCM started providing these apps from February 2018 world-wide, aiming to provide more reliable solutions to our customers.



Screenshot of ConSite Pocket (left) and ConSite Shot (right)

Innovative technological development that creates new value

ConSite OIL - 24-hour health monitoring of construction machinery

In October 2017, HCM began offering ConSite OIL in Europe ahead of its worldwide launch. This new solution utilizing ConSite's automated reporting system monitors the engine oil and hydraulic oil conditions of machinery in operation 24 hours a day and issues automated notifications to customers and service staff at dealers.

This solution analyzes engine oil and hydraulic fluid conditions of machinery, making it possible to understand the overall "health condition" of machinery, including not only oil conditions, but also the condition or breakdown of parts and components. Generally, oil is removed directly from the machine and sent off for analysis to monitor conditions, but ConSite OIL is able to monitor oil performance all time by using sensors. The Global e-Service is used to assess data on oil degradation or contamination based on indicators such as temperature, viscosity, density, and dielectric. When a reading out of the ordinary is detected, dealer staff promptly propose to customers the suitable maintenance, repair or parts replacement.

By innovating ConSite OIL, customers have increased their advanced detection rate of breakdowns occurring in their machinery from 20% to 37%. HCM is now working on developing

the next ConSite service following the success of ConSite OIL. Our ultimate goal is to increase the advanced detection rate to 90%.



ConSite OIL analysis report prepared automatically. Combining these with operating status reports from ConSite reveals details of machine usage.

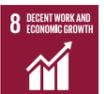
CSV Theme3

Contributing to community development

With operations around the world, the HCM Group interacts with a wide variety of local communities. In order for a company to continually grow, it must be committed to growing together with each of the communities where it operates while being mindful of the local culture. The HCM Group is aiming to realize a sustainable society through activities that capitalize on the unique nature of its business operations for the growth of both communities and the Group.

Targets	Key Initiatives
<ul style="list-style-type: none"> Support the self-reliance of emerging countries through infrastructure development Create jobs in the local community through the parts remanufacturing business Support environmental activities in the local community 	<ul style="list-style-type: none"> Develop machinery and human resources that meet regional requirements Support the development of overall community infrastructure utilized Hitachi Group integrated capability Provide financing and machinery to support infrastructure development

Progress of main activities in FY2017

<p>Build urban public works infrastructure</p> <p>The development of high quality social infrastructure in emerging countries is vital for achieving sustainable economy development. The HCM Group is contributing to sustainable cities and living spaces by providing various forms of ongoing assistance, in addition to supplying construction machinery used to make infrastructure.</p> 	<p>Create local employment opportunities</p> <p>According to a study by the International Labor Organization (ILO), the number of unemployed worldwide stood at 201 million people*(as of 2017). The HCM Group is contributing to the creation of local employment by actively hiring local people for its parts remanufacturing plants in 12 locations around the world.</p> <p>* Source: The future of work - ILO</p> 	<p>Energize global partnerships</p> <p>Innovation driven by global partnerships must be energized in order to achieve a sustainable society. HCM is now accelerating initiatives by harnessing the collective strengths of the Hitachi Group and by further reinforcing partnerships with outside institutions.</p> 
---	--	--

Future initiatives

In FY2017, we worked on developing human resources in local communities with the goal of growing our businesses together with communities. These initiatives included participation in the Manufacturing Skill Transfer Promotion Program being implemented through a public-private partnership involving Japan and India. Looking ahead, we will further strengthen partnerships with various stakeholders around the world and engage in activities that contribute to community development.

Build urban public works infrastructure

Participation in the Manufacturing Technology Transfer Promotion Program in India

The Manufacturing Technology Transfer Promotion Program supports the Government of India's manufacturing industry initiatives of "Make in India" and "Skill India" for the country's anticipated medium to long term economic growth, which is carried out in collaboration between governments and citizens of Japan and India, with the goal of developing 30,000 human resources in manufacturing over 10 years.

HCM supports the objectives of the initiatives of Japan and India as well as this program, and has announced its intent to participate through its Group company, Tata Hitachi Construction Machinery Company Private Limited. The plan is to establish a training center within Dharwad Plant, one of the three plants of Tata Hitachi Construction Machinery in India which boasts the latest facilities, as a Japanese Manufacturing School with the aim of training 30 manufacturing workers in three years through lectures and on-the-job training (OJT) in cultivating the future leaders of the industry.

The HCM Group hopes to contribute to the country of India, which is undergoing rapid economic growth, not only through provision of construction machinery including hydraulic excavators needed for social infrastructure development, but also

through cultivating human resources within India through its involvement in this program.



Dharwad Plant, Tata Hitachi Construction Machinery Company Private Limited.



On-the-job training

Create local employment opportunities

Internship program in Zambia

Hitachi Construction Machinery Zambia Co., Ltd. has launched a three month internship program for students at Northern Technical College (NORTEC) located in the northern Zambia starting January 2018. Each student was placed in the hydraulic, electrical, and mechanical departments for hands-on learning on the production floor. We are also considering the possibility of accepting interns from vocational schools in Lusaka, the capital of Zambia.

Moreover, Hitachi Construction Machinery Zambia supports the development of its employees with outstanding performance by paying for their qualification exams and school tuition. For example, two employees of the parts remanufacturing plant received their qualification as factory workers with the support of Hitachi Construction Machinery Zambia. These two employees were originally hired as general worker who had zero qualifications other than a high school diploma. Their devotion to work was recognized which made them eligible to receive financial support.

In this manner, Hitachi Construction Machinery Zambia contributes to the development of local communities through its involvement in the education and development of the future

generation and support for youth employment.



Interns on the job

Build urban public works infrastructure

Parts remanufacturing business with operations worldwide

Hitachi Construction Machinery has engaged in the parts remanufacturing business since 1970. This business involves collecting old parts that were replaced during machine repair work and then restoring them at our parts remanufacturing plants. Newly remanufactured parts are then sold to customers at a reasonable price after undergoing considerable quality assurance steps ensuring they are as good as new parts.

This parts remanufacturing service includes removing core parts from customers' machines on site and then replacing them with remanufactured parts already in stock. These used core parts are then brought back to one of our parts remanufacturing plants for remanufacturing, after which they are stocked in preparation for the next order. Therefore, compared to repair parts services where a broken part is brought back for repair and then reinstalled in the machine on site at a late date, our remanufacturing parts service helps to shorten the downtime of customers' machines. For this reason, our remanufacturing parts service is an ideal option for customers who want to maintain a high utilization rate of their machines while keeping costs down as much as possible.

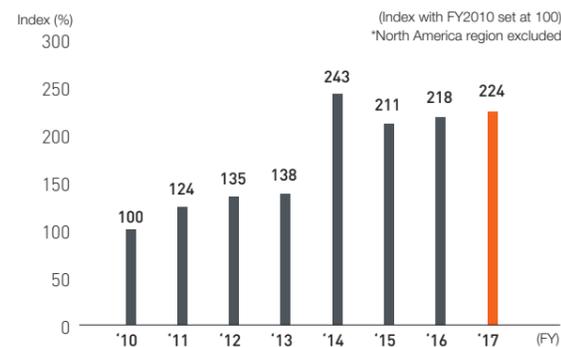
Additionally, our parts remanufacturing plants maintain technologies for reusing many parts that otherwise would be discarded. This greatly reduces the amount of waste compared to conventional repair services. When customers elect to use our remanufacturing parts service, they are helping to alleviate environmental issues, including climate change.

Furthermore, we gather information on core parts and share this with development-related departments in an effort to con-

stantly improve the quality of our products. Typically, the manufacturer is responsible for any defects that occur during the warranty period, so most of the market information that is provided to development-related departments is within the warranty period. Conversely, there is a shortage of information on product faults after the warranty period. Amidst this, a majority of the core parts handled by our remanufacturing parts service are out of warranty, so we are able to provide various detailed and quantitative data to development-related departments, enabling us to improve the quality of our products and utilize this data in the development of next-generation models.

In this manner, we now engage in the parts remanufacturing business, which generates a great deal of value for society and the environment, too, at 12 of our manufacturing bases around the world, as of March 31, 2018.

Sales of the parts remanufacturing business



Energize global partnerships

Supporting self-reliance in Cambodia through NPOs

Known as the country with the highest density of landmines in the world, Cambodia and its people still suffer from injuries and fatalities from landmine accidents even though its civil war is long over. The HCM Group has been donating to Good Earth Japan (GEJ), an NPO, since FY2007 to support the self-reliant living of local residents in Cambodia. GEJ is involved in promoting and improving farming technologies by providing agricultural training as well as infrastructure development, including roads and irrigation ponds, to improve the living environment. In addition, it also plays a role in advancing education in the country.

In June 2017, a dormitory for teachers was built next to the primary school of Prahop in Battambang Province with the financial support of GEJ. The primary school was constructed in 2010 but due to its poor traffic access for commuting, teachers had been using one of the classrooms as their office and dormitory. As such, for several years now GEJ has received re-

quests to build a teachers' dormitory. HCM cooperated with Hitachi Construction Machinery Tierra and Hitachi Construction Machinery Japan in donating a portion of proceeds from sales of mini-excavators to fund the construction project, making the plan come to fruition. The quality of education is expected to improve thanks to the new and improved work environment for the teachers.

In FY2018, we will continue to support regional development in Cambodia through our support in agricultural development, road improvement and maintenance, and school maintenance and management.



Commemorative photo taken in front of the teachers' dormitory

Energize global partnerships

Assistance activities at elementary schools in China

The municipal government of Hefei City in China's Anhui Province has been implementing the Hefei City Project Hope since 1992 to support philanthropy that benefits youth. Many companies endorse this project and to date a number of different activities have been carried out.

Since it was first established, Hitachi Construction Machinery (China) has been involved in activities that benefit society through this project. In particular, in the area of education, Hitachi Construction Machinery (China) has striven to create educational opportunities for children. These efforts include the construction of Hitachi Construction Machinery Songgang Xi Wang Elementary School in 2010 financed in part with an education fund donated to Hefei City, along with regular visits, the donation of educational supplies, and by providing hands-on learning programs.

In August 2017, Hitachi Construction Machinery (China) was given the Hefei City Project Hope award by the City of Hefei for these contributions to the community. Hitachi Construction Ma-

chinery (China) will continue to support the Hefei City Project Hope and provide assistance to youth, who represent our future.



Commemorative photo with Wang Wei-Dong, deputy secretary of the Hefei City government (center) (Representative from Hitachi Construction Machinery [China] fourth from the right)

The Hefei City Project Hope Award

Energize global partnerships

Desert afforestation activities in the Horqin Desert (China)

The Horqin Desert located in the Inner Mongolia Autonomous Region is the largest desert in China. Until about 20 years ago, most of the population lived a semi-agriculture and semi-animal husbandry lifestyle in which they farmed corn for animal feed while raising cows or goats on pasture land. However, the effects of drought completely transformed the once grassland into desert, resulting in serious issues such as a decline in agriculture and livestock productivity and growing damages caused by desertification.

The HCM Group began desert afforestation activities in the Horqin Desert in 2004 after endorsing the mission of the Green Network, an NPO. The first 10-year plan was launched by Hitachi Construction Machinery (China) in 2004, and by the end of this plan in 2014 vegetation had been planted on some 100,000m² of desert land. Later, the second 10-year plan began in 2015, with the goal of planting vegetation on 130,000m² of land in a separate area of the Horqin Desert. Since the start of this plan, Hitachi Construction Machinery (China) has been planting vegetation together with dealers to meet this goal. Furthermore, Hitachi Construction Machinery (China) is promoting the restoration of vegetation on another 100,000m² of land together with suppliers as the third 10-year plan. The restoration of forest and vegetation on a cumulative total of 330,000m² of desert land will preserve biodiversity and lead to greater CO₂ absorp-

tion and resource circulation.

Over the many years of these activities we have built strong relationships with the local government and people. Local revitalization realized through these activities because of the involvement of local people in such work as fence building, planting and maintenance has also contributed to community development. Some wild green pheasants and foxes can be seen again in the location where these activities first took place, indicating that biodiversity has been restored as well.

The HCM Group will continue to promote desert afforestation activities in the Horqin Desert in order to resolve regional environmental issues and to balance improved quality of life with sustainability.



Volunteers

Key Initiative Theme 1

Pursuing safe, effective, and sophisticated products and working environments

In 1950, HCM became the first to mass produce a mechanical excavator using purely Japanese technologies. With our excellent technical capabilities as a foundation, we continue to deliver innovative, highly reliable products that can resolve worldwide social issues. We constantly listen to the voices of customers so that we make construction machinery that is safer and more efficient for workers, and we are working collectively as a group to further increase site productivity.

Targets	Key Initiatives
<ul style="list-style-type: none"> Realize the vision of “Made by Hitachi” uniform worldwide quality Develop talented manufacturing technicians Improve service support capabilities 	<ul style="list-style-type: none"> Develop technologies to secure safety and quality and to differentiate Provide accurate information on products and services

Progress of main activities in FY2017

Expand technological innovation

Continuous investment in technological innovation essential to the development and improvement of social infrastructure represents a vital element in sustainable economic growth and development. The HCM Group is working to develop technologies to differentiate itself, while securing safety and quality, to raise competitiveness through resource efficiency and improvements in environmentally friendly technologies.



Disclose information to consumers

Supplying products and services that are safe and environmentally friendly, along with conveying the correct information to consumers in an easy-to-understand manner, is vital in building sustainable forms of production and consumption. The HCM Group is endeavoring to further reinforce its customer-first quality assurance system recognizing that the above is an important responsibility of a construction machinery manufacturer.



Transfer technologies through education

High quality education and opportunities for lifelong learning must be accessible to everyone around the world. The HCM Group promotes increased technical levels inside and outside Japan, along with global, high quality technical and occupational training, regardless of nationality, age or gender, in order to supply products that meet the needs of each country and region in a timely manner.



Future initiatives

In FY2017, we focused efforts on “Global Monozukuri Diagnosis” activities and promoted improvements in the quality control system under the vision of “Made by Hitachi” uniform worldwide quality. Looking ahead, we will continue to work on advancing human resource development and support activities in order to pass down our accumulated technologies and use the initiatives of the Tsuchiura Works (the mother plant for the HCM Group) at our overseas location as well.

Expand technological innovation

Initiatives to realize the vision of “Made by Hitachi” uniform worldwide quality

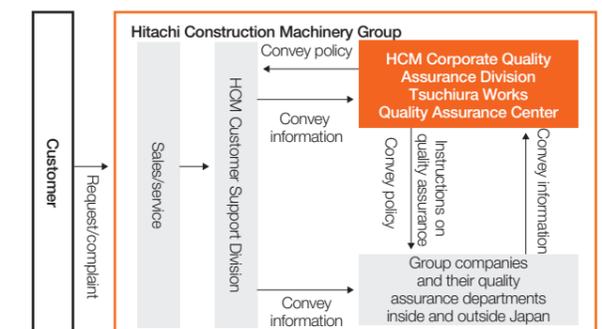
The HCM Group is committed to delivering the same standard of safety and quality of products manufactured at all of its production sites around the world under the keywords “Made by Hitachi” through various efforts so as to supply products that truly deliver peace of mind.

Our quality assurance system is headed by the Quality Assurance Center established at the Tsuchiura Works (the mother plant for the HCM Group) under the Corporate Quality Assurance Division. The center provides practical instructions and support to the quality assurance departments of HCM Group companies. The Corporate Quality Assurance Division oversees the quality assurance operations of all production sites inside and outside of Japan, which ensures the entire HCM Group delivers and improves upon the same uniform level of quality to achieve the Made by Hitachi vision.

In addition, the Corporate Quality Assurance Division collects and summarizes customer feedback and requests, comments from the sales and service frontlines as well as product deficiency information through the quality assurance division of

each Group company. These are in turn reported at the monthly Product Improvement Meeting chaired by the President in order to investigate causes as well as discuss and propose measures to prevent their recurrence. Results are then applied to all products.

Quality assurance system of the Hitachi Construction Machinery Group



TOPICS

Employee education in FY2017

We conduct a variety of employee education and assistance activities with the aim of standardizing quality assurance levels across the HCM Group inside and outside of Japan. We hold educational seminars to instill general knowledge on quality control including the Quality Control Course (Beginner/Intermediate), Reliability Engineering, and Product Safety/Product Liability Course. Moreover, the Global Quality Assurance Technician Training Program, which hosts trainees from overseas Group companies at the Tsuchiura Works to learn about quality control, has graduated 20 trainees to date. Currently, six trainees are undergoing training at the Quality Assurance Division at Tsuchiura Works over a one- to three-year period. Also, during Global Monozukuri Diagnosis activities in FY2017, a diagnostic technician for each of the processes at Tsuchiura Works, from assembly, machining, can manufacturing, painting, and quality control, visited 12 production sites around the world to visualize vulnerabilities in each of these sites’ manufacturing capabilities and quality control through diagnosis, and provide assistance for improvement to promote the realization of Made by Hitachi.

Transfer technologies through education

International Skills Competition

The International Skills Competition is held annually in order to enhance skill levels across the HCM Group and secure a higher level of quality.

In FY2017, the 14th HCM Group International Skills Competition was held for two days on November 7 and 8, 2017 at the Kasumigaura Institute. A total of 78 people who won the earlier qualifying round took part in the competition to demonstrate their skills honed through daily practice. Participants represented 17 HCM Group companies and partners inside and outside of Japan (including 23 from five overseas production sites in China, India, Indonesia, the Netherlands, and Russia).

The competition included a total of eight events; namely welding, painting, measurement, assembly, transport, process-

ing, and welding robot, in addition to facility maintenance which was launched as a new official event in FY2017. The results indicate there is the growing number of winners from overseas production sites in each event, demonstrating the strong outcomes of the Made by Hitachi vision.

Going forward, we will look to inject new excitement into such opportunities so as to improve the technical level of each site further and work toward enhancing product quality and safety.



Welding contest

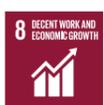
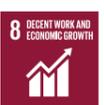
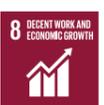
Key Initiative Theme 2

Occupational safety and work style reform

Every company maintains the important duty of protecting its employees from occupational injuries and health problems. In addition, creating a safe and secure work environment enhances corporate value. The HCM Group is exploring work styles that are more efficient and highly productive and promoting workplaces where its diverse workforce can fully contribute its skills, under the basic philosophy of giving priority to safety and health in everything we do.

Targets	Key Initiatives
<ul style="list-style-type: none"> • Make efforts to completely eliminate occupational injuries • Increase the number of business sites with OHSAS 18001 (occupational health and safety management system) certification • Reduce the total overtime of employees (indirect workers) to a monthly average of 15 hours or less by FY2020 (HCM non-consolidated basis) • Increase the average number of annual paid leave days taken by all employees to 17 or more days by FY2020 (HCM non-consolidated basis) 	<ul style="list-style-type: none"> • A fair work environment • Global management for health and safety of employees

Progress of main activities in FY2017

Prevent occupational injuries	Aid work-life balance	Achieve employee health advancement
<p>The SDGs request companies to protect the rights of all workers and promote a safe and secure work environment. The HCM Group is promoting occupational health and safety from various angles in order to realize a work environment that gives the utmost priority to employee safety.</p> 	<p>Achieving a comfortable and dynamic workplace while balancing professional and personal obligations is an issue not only faced in Japan but also in the international community. The HCM Group is promoting a productive workplace and rewarding employment by increasing the flexibility of work styles and working to curb overworking.</p> 	<p>Consideration of employee health is an important issue for management for boosting productivity and increasing employee creativity. The HCM Group is promoting strategic approaches to employee health, recognizing that the management of employee health represents one of management's responsibilities.</p> 

Future initiatives

The number of occupational accidents in FY2017 regrettably increased significantly compared to the previous year. We take this result very seriously, and will now work diligently to create a bright and healthy workplace free of injuries, with the elimination of occupational injuries one of the most important tasks for management. Specifically, we will increase each employee's safety awareness, ensure they comply with fundamental rules, and step up safety training for workers without substantial experience.

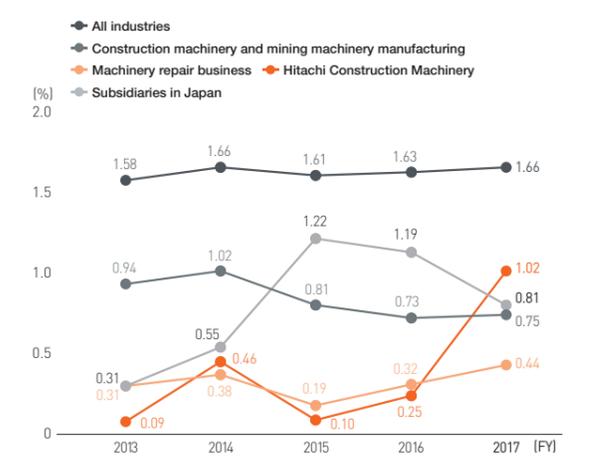
Prevent occupational injuries

Status of Work-related Accidents

There were 45 work-related accidents that occurred at Hitachi Construction Machinery in fiscal 2017, which marked an increase of 30 compared to the previous year. More than 60% of these accidents involved newer workers with fewer years of experience. As a result, we are carrying out emergency measures to review work procedures and improve safety patrols, among other solutions. There were 50 work-related accidents at our Group companies in Japan, and of these 19 occurred in manufacturing divisions and 31 in sales and services divisions.

Every day we are working diligently to ensure the safety of our employees, with safety the top priority under our basic stance of "prioritizing health and safety in every aspect of our work." However, we must now return to the basics to focus on further utilizing our occupational health and safety management system and reinforcing preventive safety based on risk assessments. At the same time, we will faithfully also implement safety measures taking into account past accidents as well as work to thoroughly eliminate the potential for accidents. The Hitachi Construction Machinery Group stands committed to raising the bar of its health and safety activities by carrying out health and safety audits globally, including at our subsidiaries outside of Japan.

Frequency of lost-time-incidents (frequency rate*)



* Frequency rate: The number of incidents per 1,000,000 employee-hours worked. It is an indicator of the state of health and safety at a workplace. (These statistics only count lost-time-incidents of at least one day.)

Aid work-life balance

Initiatives for Work Style Reform

Work style reforms for the dynamic engagement of all citizens are being promoted in Japan as a national initiative. Work style reforms tend to focus on prolonged working hours, but these reforms must also be implemented from the perspective of developing an environment where workers can do their job efficiently while ensuring their health.

The HCM Group is working to create a comfortable and dynamic work environment that further utilizes human resources with various values, while ensuring that each and every employee can use their limited time to the maximum effect. In a message from top management released in January 2018 entitled "Launch of Work Style Reforms," President declared HCM will review conventional work styles together with employees and create a healthy and dynamic work environment conducive to the growth of individual employees and the company.

Specific measures include promoting work style reforms through the use of IT tools and the introduction of novel technologies such as Robotic Process Automation where burden-

some processes are automated using robots. In addition, we will continue to promote improvements in the employment environment and carry out reviews of office layout and introduction of a free-address system, along with trial introduction of teleworking (working from home or a satellite office) to achieve more flexible work styles.



Poster on work style reform

Achieve employee health advancement

Initiatives for health and productivity management

The HCM Group is promoting initiatives for health and productivity management to contribute to measures for the mental and physical health of employees and their families and for prolonging the healthy years of workers' lives. We believe that creating a healthy and comfortable environment that boosts work productivity and assists in health maintenance and advancement and where employees can contribute their skills is an important theme for management to address. In October 2017, we released a declaration on health and productivity management issued in the President's name. Health and productivity constitutes the very foundation of our recent initiatives for work style reform and work-life management. We focus on making employees' work a healthy and comfortable everyday occurrence.

In FY2017, a working group of the safety and health committee took the lead in organizing the walking seminar (November 2017), inviting outside speakers to attend this event that incorporates the ideas and views of employees. In addition, a group walk was held (January to March 2018) in which departments formed teams that competed against one another in terms of the number of steps taken during a pre-determined period. We will continue to promote initiatives to prevent lifestyle diseases and for stopping smoking together with our Health Insurance Association as part of our ongoing actions to reinforce

and promote activities for health and productivity management.

In February 2018, HCM and Hitachi Construction Machinery Tierra were recognized under the 2018 Certified Health & Productivity Management Outstanding Organizations Recognition Program - White 500 (large enterprises segment) implemented by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.

* "Health and productivity management" is a registered trademark of the Workshop for the Management of Health on Company and Employee.



Health and productivity management promotion members of Hitachi Construction Machinery Tierra

Achieve employee health advancement

Addressing mental health

Recognizing the importance of mental health care, the HCM Group continues to carry out activities focused on four aspects of care based on the guidelines published by Japan's Ministry of Health, Labour and Welfare. We have conducted stress checks annually from before they were required by law. These checks have enabled us to raise awareness among employees about stress, create a comfortable work environment, and promote the use of hotlines staffed by professional counselors. In FY2017, stress checks were performed in November, with approximately 9,000 employees across the HCM Group in Japan receiving one. Stress checks represent an important initiative linked with our health maintenance and advancement measures and deeply correlated with measures to prevent overwork and provide appropriate solutions and guidance by physicians.

Additionally, we strive to carry out activities with an eye on both employees and their families, including self-care training targeting all employees, line-care training for managers including discussions on improving the workplace, support for employees

returning from leave, and health counseling support, including for families, through the Employee Assistance Program (EAP).

Our employees represent an irreplaceable asset. Going forward, we will aim to become a company where all of its employees can work in a healthier and more comfortable environment, and we will strive to improve the overall quality of industrial health, including mental health care.



Self-care training in progress

Learning materials handed out during self-care training

Key Initiative Theme 3

Developing human resources globally and locally

It is becoming more difficult for companies to secure the human resources they need due to the diversification of work styles and changes in values, among other factors. Under such circumstances, developing human resources is essential for raising productivity. The HCM Group is now promoting various initiatives aimed at developing both global human resources who can play an active role around the world and local human resources who can carefully respond to the needs of local markets.

Targets	Key Initiatives
<ul style="list-style-type: none"> Develop human resources development system that takes into account local cultures and business practices Expand educational opportunities for developing global human resources Transform the diversity of our workforce into an engine of organizational growth 	<ul style="list-style-type: none"> Management localization Development and recruitment of local human resources Global personnel management leveraging diversity

Progress of main activities in FY2017

Provide educational opportunities to learn technologies

Providing fair and high quality educational opportunities to all is the most valid and effective means for sustainable growth. The HCM Group is working to expand education and training systems for the entire Group both inside and outside of Japan.



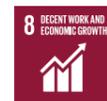
Empower women in the workplace

Even today women around the world continue to face discrimination. This has made ensuring women's greater participation and opportunities for equal leadership a challenge. The HCM Group is promoting measures for development an employment environment where women can work a great deal of motivation.



Promote diversity

To realize a sustainable society, it is important to create an environment where all people can contribute their skills and abilities, regardless of age, gender, disability, nationality or ethnicity. The HCM Group is working on initiatives recognizing that achieving diversity is an important task of management.



Future initiatives

In FY2017, we implemented a Succession Plan as an ongoing initiative. Additionally, we endeavored to develop global and local human resources through various educational and training programs. Human resources development for raising productivity is a common challenge both inside and outside of Japan and across departments. Looking ahead, we will work to expand educational opportunities and enhance educational programs.

Provide educational opportunities to learn technologies

Implementation of succession plan

We introduced a succession plan in 2011 and today it applies to the entire HCM Group. The purpose of the succession plan is to share processes for utilizing human resources across every organization of the HCM Group so that the right person is assigned to the right place globally. With a medium- to long-term vision, we plan successors to current managers, identify what these successors are missing in terms of fulfilling their future duties, and how to train and educate these successors, after the heads of each company and department identify the requirements to fulfill the duties of their respective organizations. In turn, the duties and career path of each individual employee of the HCM Group can be visualized across the entire organization. This approach enables us to utilize human resources strategically.

The key to implementing this plan is the development of

successors. Toward this end, the HCM Group in Japan has actively hosted human resources from overseas Group companies to train and develop the successors of the tomorrow. We launched this initiative in earnest in 1996 and over the past eleven years around 240 employees from overseas Group companies have come to Japan for training. As of May 2018, 32 such employees (excluding technical interns) were in Japan undergoing training. Since April 2016, we have hosted manager-level employees from overseas Group companies.

By continually implementing this initiative, our goal is to develop human resources who share the same value of the Kenkijin spirit and play an important role at our operations around the world. Eventually, these people serve as executives in charge of the business strategy of our overseas operations, which will also help us pursue management localization.

Overview of our global human resources strategy



Empower women in the workplace

Developing female instructors at training centers

Hitachi Construction Machinery Training Center have been established at 15 locations and branches in Japan in order to facilitate construction machinery related technical training, special classes, as well as health and safety learning. We are now working to develop female instructors.

One reason is that in recent years a growing number of women are operating machinery, such as part-time employees driving forklifts at supermarket warehouses, and as a result, the number of female trainees is on the rise. At the same time, many of these female trainees worry about their ability to acquire the certification they are studying for. Male instructors do not always pay attention to fine details, while female instructors can provide

female trainees with a sense of security, and therefore there is growing demand female instructors.

Moreover, each training center strives to promote a female-friendly environment for the trainees, which aims to both foster female instructors as well as cultivate more female technicians.



Female instructor playing an active role at the training center

Provide educational opportunities to learn technologies

Education and training programs for developing global human resources

HCM has developed various education and training programs in order to develop global human resources. For example, in terms of linguistic training (English), TOEIC tests are regularly held within the Group to assess employees' English ability, as well as to provide the opportunity for employees to hone their skills through practical group training and correspondence courses.

The Marketing Sales Support Program (MSSP) is designed for employees of overseas dealers in charge of sales to learn about the behavioral process of machine sales and parts sales from the delivery of new machines and service parts to follow up services; thereby, developing local human resources who can incorporate these frontline needs.

In addition, other education programs categorized by rank and skill type are made available to enhance the cultivation of global human resources. These include Overseas Trainer Edu-

cation and e-learning on Products for Domestic and Overseas Sales Personnel, which are aimed at further developing global human resources.



Group work during MSSP

Provide educational opportunities to learn technologies

Activities to develop global production engineers

The HCM Group regularly hosts training for domestic and overseas production sites at Tsuchiura Works (the mother plant for the HCM Group) in order to realize the "Made by Hitachi" vision to create products with the same uniform level of safety and quality at its production sites around the world.

This training program allows young production engineers from HCM Group companies around the world and Japan to undergo practical three-year training including process planning, rationalization, and jig design. The aim of the program is to cultivate global human resources as well as instill the philosophy of manufacturing embodied by the Tsuchiura Works in other production sites worldwide; thereby, spreading the manufacturing culture of the HCM Group.

Launched in 2008, the Global Monozukuri Human Resources Development Program has graduated 80 trainees who are now showing Kenkijin Spirit to applying what they have learned

in Japan to their workplaces in order to achieve the "Made by Hitachi" vision. In FY2018, eight new production engineers have joined the program with a total of 24 trainees currently receiving training.



Presentation of results and completion ceremony

Key Initiative Theme 4

Creating better business transactions and value chains

The business activities of the HCM Group, which offers diverse products and services around the world, are made possible with the support of many business partners and customers. With growing international interest in corporate social responsibility, the HCM Group shares its vision and policies on CSR with suppliers to promote CSR activities across the entire value chain.

Targets	Key Initiatives
<ul style="list-style-type: none"> • Maintain a sound relationship with supplies and governments • Promote fair and free competition and ensure consumer interests • Prevent risks within the supply chain 	<ul style="list-style-type: none"> • Suppliers and human rights • Fair sales partnerships • Fair procurement • Corruption prevention

Progress of main activities in FY2017

<p>Increase awareness of fair trade</p> <p>Rectifying unfair trade to promote open competition and protect consumer interests is a challenge around the world today. The HCM Group is focused on transaction audits and legal compliance training for employees to ensure fair and equal trade is practiced thoroughly.</p> 	<p>Promote CSR throughout the entire value chain</p> <p>We expect our global business partners will urge not only their group companies but also their suppliers from around the world to undertake corporate activities with consideration for CSR. Going forward, we at the HCM Group will continue to distribute and promote the Hitachi Group's guidelines on CSR among our suppliers.</p> 	<p>Promote sustainable consumption</p> <p>To attain economic growth and sustainable development, we must establish a sustainable pattern of manufacturing and consumption. The HCM Group strives to minimize the environmental impact of products throughout the life cycle by creating environmentally conscious products in promoting sustainable consumption.</p> 
--	---	---

Future initiatives

In FY2017, we worked to prevent risks in the supply chain by revising the internal review process for new suppliers, in addition to requesting all of suppliers to comply with the Hitachi Group CSR Procurement Guideline. As business activities continue to expand globally, addressing procurement risks is considered an ongoing concern. In the future, we will continue to anticipate and minimize these risks.

Increase awareness of fair trade

CSR Management in the Supply Chain

CSR management in the supply chain requires not only our own initiatives, but also the sharing of our CSR philosophy with business partners and their cooperation. HCM requires the suppliers to comply, using the "Hitachi Group CSR Procurement Guideline" which contains actions we would like suppliers to take regarding CSR. For new suppliers, we revamped procedures for in-house screenings in November 2017 in order to reinforce compliance efforts. These rigorous screenings are carried out on new suppliers and include provisions in consideration of environmental and social criteria, such as anti-bribery measures.

Furthermore, we ask that procurement partners who we regularly do business with to join the Chikuhou-kai (61 member companies*) or the Tokiwa-kai (44 member companies*) for the purpose of building and maintaining partnerships with procurement partners. Both of these organizations joint seminars to foster understanding about HCM policies as well as safety, quality and the environment. They also hold presentations on examples of rationalization, skills competitions, and safety patrols led by members from both organizations.

We promote CSR activities across the entire supply chain

through the continuation of these measures.

* As of April 2018

Websites

Hitachi Group CSR Procurement Guideline
http://www.hitachi.com/procurement/csr/csr/_icsFiles/afiedfile/2018/06/07/HITACHI_GROUP_CSR_PROCUREMENT_GUIDELINE.pdf



Joint seminar in progress

Promote sustainable consumption

Reinforcement of used equipment distribution for value chain business

From April of 2017, Hitachi Construction Machinery (HCM) launched "The used equipment remarketing solution service" for trade-in of HCM products in Japan and a modification to meet the local emission standards and fuel quality for each country and region, where Japanese used equipment redistributed, through a consolidated subsidiary, Hitachi Construction Machinery Japan, that engages the construction equipment sales, service and rental business.

Currently, most of construction machineries operated in Japan equip the diesel engine and its peripheral equipment that is designed to use ultra-low-sulfur diesel (ULSD: sulfur content is 15 parts per million [ppm] or less), which conforms to 2011 standards of Japan's Act on Regulation, Etc. of Emissions From Off-highway vehicles. Therefore, operating the used construction equipment generated from Japan in the area where ULSD is difficult to obtain may have a great possibility of engine trouble. Accordingly, in order to reduce the engine trouble risk when the used equipment is operated and to conform to local standards and regulations, we will remove the emission gas after-treatment device and rewrite the software of the used construction equipment as these are delivered to each market.

Consequently, this service often involves delivering a finely tuned and customized machine for customer's applications or specifications, which also assist to improve the technical capabilities of local dealers. We offer varieties of proposal other than new machine deals which also help us to enhance our value chain business.



To the top page of HCM Used Website
<https://www.hitachicmused.com/>

Key Initiative Theme 5 Governance

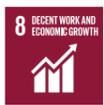
In order to enhance competitiveness as a company and enhance corporate value over the long term, it is crucial to accurately understand global trends and shifts in management environment as well as establish a structure for decision making. The HCM Group is strengthening its governance system in order to establish a structure to promptly and reliably execute management strategies as well as realize a fair and transparent management style.

Targets	Key Initiatives
<ul style="list-style-type: none"> Establish a fair and highly transparent organizational framework Respect international principles on human rights Respond to diversifying global risks Instill and establish awareness of compliance 	<ul style="list-style-type: none"> Strengthen global governance Management transparency Fair tax strategies Risk management, including ESG

Progress of main activities in FY2017

Promote a safe and secure work environment by strengthening organizational capacity

As businesses expand overseas, it has become even more important to build a secure work environment and exercise diligence towards human rights at overseas production sites. The HCM Group encourages hiring locally as well as commits to creating a system of human rights education following the Hitachi Group Human Rights Policy.



Build a resilient infrastructure through risk management

As the globalization of business advances, the risks surrounding companies are also becoming more diversified including natural as well as man-made disasters (terrorism and disturbances). The HCM Group is enhancing its global management system by anticipating various risks.



Address risks of climate change

To minimize the damage brought on by climate change, it is important to foresee, analyze, and promptly address such impacts. The HCM Group is making efforts to establish environmental compliance in order to reduce environmental risks and improve environmental values within its business activities.



Future initiatives

In FY2017, we newly introduced a safety confirmation system for all HCM Group companies in Japan to prepare for a large-scale earthquake or other disaster. We have published a new guidebook to promote the instillment and thorough implementation of compliance. Governance is an area that must be continuously implemented and strengthened. Going forward, we will continue to strengthen our governance system.

Promote a safe and secure work environment by strengthening organizational capacity

Corporate governance system

As a member of the Hitachi Group, the HCM Group shares Hitachi, Ltd.'s Basic Philosophy and Conduct guidelines and stipulates its own codes of conduct in line with them. The HCM Group positions this code of conduct as the basic policies on corporate governance.

The HCM Group has adopted a corporate organizational system based on the structure for a company with a nominating committee, etc., as defined in the Companies Act. We have greatly strengthened our system of corporate governance through this separation of management oversight from business execution. The Board of Directors comprises ten (10) Directors, of which three (3) are Outside Directors (two [2] male and one [1] female). The Representative Executive Officer and other Executive Officers, who are authorized to do so by the Board of Directors, have the right to make operational decisions and execute work in accordance with the company's basic management policies. The Board of Directors determines 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 Representative Executive Officer, President and Executive Officer in making business decisions. The Executive Committee exercises control regarding important matters related to the company's operations.

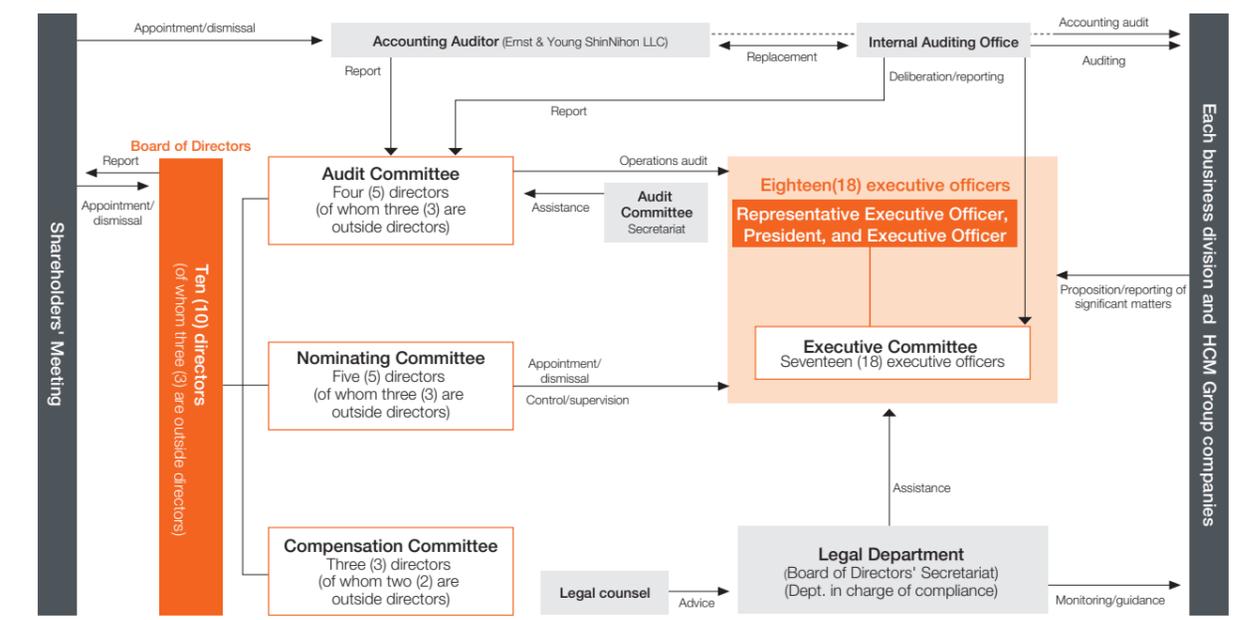
Ensuring constant independence from the parent company

Since one (1) of Hitachi Construction Machinery's ten (10) Directors also concurrently serves as advisor to Hitachi Ltd., the parent company is able to exert influence on decisions on our management policy through the views expressed by this director at Board meetings. Nevertheless, the other nine (9) directors do not serve concurrently in executive or other positions at Hitachi Ltd. and there are three (3) outside directors who have been reported to the Tokyo Stock Exchange as independent officers. Therefore, we are in a position to be able to make our own management decisions. Also, terms and conditions of transactions with Hitachi Ltd. and its group companies are determined reasonably based on mutual discussions referencing market prices and other factors.

Websites

Corporate Governance Guidelines
<https://www.hitachicm.com/global/environment-csr/csr-en/company-en/governance-en/guidelines/>

Corporate governance system (as of June 25, 2018)



Promote a safe and secure work environment by strengthening organizational capacity

Human rights initiatives

The HCM Group carries out human rights initiatives following its policies on human rights explicitly stated in the HCM Group Codes of Conduct and the HCM Group Human Rights Policy.

We continually implement education concerning human rights included in rank-specific training for new employees and new section managers, among others, for the purpose of improving each individual employee's awareness of human rights. In addition, we conduct training concerning harassment during our compliance training in order to create workplaces that are sound and comfortable.

Results of human rights training in fiscal 2017

	Participants in training during fiscal 2017	Number of participants that are section manager or above	Number of participants that are general employees	Number of harassment training sessions
Hitachi Construction Machinery ^{*1}	269 persons	37 persons	232 persons	203 persons
HCM Group companies ^{*2}	1,714 persons	288 persons	1,426 persons	664 persons
Total	1,983 persons	325 persons	1,658 persons	867 persons

^{*1} The number of HCM participants are participants of rank-specific training
^{*2} Group companies are the total for the 10 domestic companies

Build a resilient infrastructure through risk management

Strengthening our risk management system

The HCM Group is working to reinforce our business continuity plan (BCP) and business continuity management (BCM), so that when faced with a risk, such as natural disaster or accident, we are able to minimize the impacts on our business activities and restore operations as soon as practical.

In FY2017, we newly introduced a safety confirmation system for all HCM Group companies in Japan to prepare for a large-scale earthquake or other disaster. With employee safety in mind, this system can check the whereabouts and condition of employees at any time during a disaster. We also conducted a training drill using this system based on the scenario of an actual disaster. In FY2018, we will increase the frequency of training in an effort to facilitate the confirmation of employee safety using the system.

Also, the HCM Group is working to strengthen its risk management system across the entire Group in order for it to grow as a truly global corporation. We are now working to prevent various types of risk and implementing measures against the risk after assigning priority based on the impact and frequency of each risk. As a way to avoid risk overseas, we continuously monitor for incidents and disasters and issue appropriate instructions to employees traveling on business and expatriate workers.

Going forward, we will continue to heighten awareness of crisis management across the entire Group and take steps to strengthen our risk management system.

Measures against risks

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.).

Promote a safe and secure work environment by strengthening organizational capacity

Compliance promotion structure and training

The HCM Group's compliance promotion structure is headed by the Compliance and Risk Management Division, which is in charge of compliance activities for the entire HCM Group. Meetings of the Compliance and Risk Management Division are convened regularly to review, plan, and evaluate the results of various compliance measures. It also works on prevention of misconduct by deliberating on the effectiveness of measures for preventing the recurrence of misconduct. We establish a Compliance Promotion Officer and Compliance Manager at each Group company and promote compliance activities in coordination with the Compliance Promotion Center of HCM's Legal Department.

Also, we provide a variety of training programs to raise awareness about compliance across the entire HCM Group.

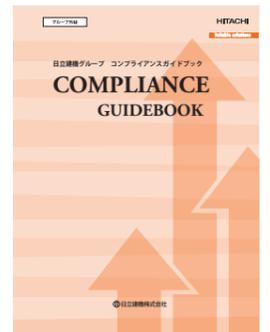
We provide e-learning on the topics of codes of conduct as well as anti-corruption and compliance with competition laws to executive officers, employees, temporary employees in Japan and overseas managers. In FY2017, a total of 5,411 employees from across the HCM Group took the course of e-learning.

Also in FY2017, we published the new Hitachi Construction Machinery Group Compliance Guidebook, which we distributed to executive officers, employees and temporary employees including at HCM Group companies in Japan. The purpose of this publication is to systematically explain compliance from the basics to awareness and organizational functions, as well as to

make the HCM Group's unwavering commitment in its Compliance Policy known to all. In FY2018, we plan to publish English and Chinese language versions of this guidebook for use at overseas Group companies.

Websites

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



Hitachi Construction Machinery Group Compliance Guidebook

Address risks of climate change

Response to environmental compliance

The HCM Group is strongly committed to environmental management. We have set our own voluntary environmental management standards that are stricter than laws and regulations in consideration of the environmental impacts caused by our business activities. Each of our business sites regularly measures water quality, noise and other indicators in an effort to reduce environmental risks. Also, whenever new facilities are introduced, we check relevant laws and regulations on the environment in advance and have a system in place to ensure compliance with laws and ordinances.

Mutual understanding among employees concerned established through communication is important to promoting environmental compliance. The HCM Group regularly provides on-site guidance at Group companies and organizes environmental exchanges. In FY2017, environmental managers from Hitachi Construction Machinery (China) visited the Tsuchiura Works where they discussed environmental management.



Discussion among environmental managers