Hitachi Construction Machinery Co., Ltd.

Creating Shared Value ———
Striving to create and share value for society
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Editorial Policy
From fiscal 2011, we consolidated our Annual Report, which reported our management strategy and financial statements, and our CSR Report, which reported Environment, Social, and Governance (ESG) information, to produce a comprehensive CSR & Financial Report. We did this to provide a clear overall view of the activities of the Hitachi Construction Machinery Group as a corporate group. In this FY 2019 CSR & Financial Report, we have highlighted the areas described right to allow our stakeholders to gain a clearer understanding of the Hitachi Construction Machinery Group’s corporate management.

Reporting Period
April 1, 2018 - March 31, 2019
(Some of the information included is from after April 1, 2019.)

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

Guidelines used for reference
This report and HCM’s corporate website “Environment / CSR” are prepared following the Core option of the Global Reporting Initiative (GRI) Standards.

Next scheduled release
Scheduled for release in June 2020
(Issued every June)
Last issue: June 2018
The HCM Group’s Philosophy

Soon after the end of World War II, HCM embarked on a new journey to develop, manufacture, market and provide services for construction machinery in an effort to contribute to Japan’s reconstruction using our own technologies. The origin of this commitment traces back to Hitachi’s founding spirit of “harmony,” “sincerity” and “pioneering spirit.” This spirit has been passed down over the years as the very fabric of our corporate DNA and is firmly entrenched in the Kenkijin Spirit that forms the heart of the HCM Group’s shared values and codes of conduct. Using the Kenkijin Spirit as a driving force, we are working to create new value in order to achieve Our Vision.

Hitachi Construction Machinery’s Vision
“Toward the richness of Earth and prosperous communities in the future…”
Hitachi Construction Machinery is contributing to the creation of comfortable living spaces.

Hitachi Founding Spirit

To realize our philosophy, it is vital that we fulfill the HCM Group’s mid- to long-term vision and mid-term management plan while addressing the needs of society in the form of our CSR. The driving force behind these efforts will be our people (Kenkijin).
If these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee’s ideas and initiatives.
The Kenkijin Spirit codifies the shared values and codes of conduct for all HCM Group employees. The underlying commitment behind this spirit are the three words “Challenge,” “Customer” and “Communication.”

Identity
Our vision is to be active in the evolution of “machinery” and the synergy between “human” and “business” that combines to create rich living spaces, making them more comfortable, developed and efficient.

Innovation
We will continually develop and supply innovative technologies, products and services that generate new value for customers.

CSR
We are committed to generating stable profits and also acting as a good corporate citizen, widely aware of our connections with society, including harmony with the environment, social contributions, and cultural activities.

Kenkijin Spirit

Hitachi founder Namihei Odaira

Harmony
The willingness to respect the opinions of others and discuss matters in a manner that is thorough and frank, but fair and impartial, and once a conclusion has been reached, to cooperate and work together to achieve a common goal.

Sincerity
To act with a sense of ownership and honesty at all times and never pass the buck.
The spirit to meet society’s expectations and generate credibility for Hitachi.

Pioneering Spirit
To work creatively, using novel approaches to enter new areas. To always act as a pioneer within our areas of expertise and to have the passion to pursue higher goals beyond our abilities.
History of Value Creation

HCM's roots can be traced back to 1950 when Hitachi, Ltd. began the full-scale supply of mechanical excavators to markets. Later, HCM was spun off into a standalone company from Hitachi, Ltd. Since then, we have produced a number of innovations meeting the needs of society and customers using our superior technical prowess as a foundation. In 2020, we will mark the milestones of 70 years since launching mass production and sales of construction machinery and 50 years since being spun off from Hitachi, Ltd. Looking ahead, we will continue contributing to the realization of a sustainable society for a brighter future.

**Our Business**

- **Changes in sales revenue**
- **Consolidation of manufacturing, sales and services Establishment of Hitachi Construction Machinery Co. Ltd.**
- **We developed the U05 cable-operated power shovel in 1949.**
- **We commenced mass production of the U06, a successor model, in Japan in 1950.**
- **It became a driving force behind nationwide reconstruction in post-war Japan.**
- **Released the UH-M10 mini excavator in 1976 (Hitachi branded product from OEM supplier).**
- **This excavator played a major role in the development of Japan's industrial base by reducing workload for small-scale civil works projects thanks to its ability to operate even in the tightest of places in cities.**
- **Released the EX550 ultra-large hydraulic excavator in 1997, one of the world's largest at the time.**
- **Released the ZAXIS series featuring the world's first satellite communication kit onboard in the year 2000.**

**Post-war reconstruction**
- Reconstruction of devastated roads and rivers, etc.

**Rapid economic growth**
- Industrial infrastructure development in cities

**Stable growth**
- Environmentally conscious construction machinery

**Economic globalization**
- Performance required at work sites overseas

**Information society**
- Increasing operational efficiency of construction machinery

**Diverse society**
- From ownership to shared use

We are reinforcing the value chain business, spanning from parts services to rentals and used machinery, in order to meet the varying needs of customers in terms of work sites, application and local characteristics. This has enabled us to provide highly valued added products and services.
Source of value creation

The HCM Group delivers a full range of services and solutions supporting the business needs of customers around the world, including construction machinery and mining equipment with world-leading performance.

Earnings structure

- Construction machinery: 56%
- Solutions business: 10%
- Sales parts service for Construction machinery: 10%
- Sales parts service for mining: 10%
- Mining machinery: 4%
- Other: 10%

FY2017 Sales: 959.2 billions of yen
FY2018 Sales: 1,033.7 billions of yen

Deepen the value chain

The HCM Group positions non-product businesses as the “value chain” and is now working to strengthen the parts services and solutions businesses.

Value chain composition ratio

- Value chain: 44%
- Machinery: 56%
- Fiscal year ended March 31, 2016
- FY2019 estimate

Developing-Manufacturing bases

HCM is undertaking a drastic reorganization of its main business sites in Japan to further boost its competitiveness globally. On April 1, 2019, we merged by absorption with KCM Inc., a company we made into a subsidiary in 2015. Next, we aim to establish an integrated production system from parts to completed machinery, by consolidating our business sites by function and merging development departments around fiscal 2022.

For details, see page 23.
Materiality and HCM Group’s vision

The HCM Group identified material issues in the form of eight CSR key initiative themes determined through dialog with stakeholders to determine correlations between social issues and our businesses. We are now steadily working to address these eight themes taking into account the latest trends in international society and changes in the business climate facing the HCM Group.

### 8 Key Initiative Themes

<table>
<thead>
<tr>
<th>Key Initiative Theme 1</th>
<th>Changes in external environment</th>
<th>HCM’s Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolving global environmental issues</td>
<td>- Development and Expansion of Environmentally Conscious Products</td>
<td>- P33</td>
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<td></td>
<td>- Spread of renewable energy technology</td>
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<td></td>
<td>- Adaptation to and mitigation of climate change</td>
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<td></td>
<td>- Increasing sophistication and complexity of internal control system</td>
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<td></td>
<td>- Operational stoppages due to natural disasters</td>
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</tbody>
</table>

### Themes that will become a platform for realizing CSV

- **Key Initiative Theme 1**
  - Pursuing safe, effective, and sophisticated products and working environments
  - Raising demand for automation and labor-saving technology driven by the declining labor population and number of experienced engineers
  - Raising demand for reducing life cycle costs

- **Key Initiative Theme 2**
  - Contributing to community development
  - Development of emerging countries in Central Asia and Africa, etc.
  - Creation of business opportunities using tie-ups with outside organizations

- **Key Initiative Theme 3**
  - Occupational safety and work style reform
  - Increasing productivity by fostering safety-mindedness
  - Increasing motivation from realization of work-life balance

- **Key Initiative Theme 4**
  - Creating better business transactions and value chains
  - Increasing reliability from sustained CSR procurement
  - Creation of innovation through partnerships

- **Key Initiative Theme 5**
  - Governance
  - Demands of the Corporate Governance Code
  - Growing influence of ESG investment
  - Growing awareness of human rights

### Themes with a high level of social expectations and correlation with our business operations

- **CSV theme 1**
  - Contributing to CSV theme 2
  - Environmental issues
  - Resolving global environmental issues
  - Curb CO₂ emissions via products: Reduce by 33% |

- **CSV theme 2**
  - Occupational safety and work style reform
  - Occupational health and safety
  - Occurrence of major accidents at production sites, etc.
  - Turnover caused by life events

- **CSV theme 3**
  - Contributing to community development
  - Reduction in local employment
  - Relations with local residents due to cultural differences

- **CSV theme 4**
  - Creating better business transactions and value chains
  - Increasing reliability from sustained CSR procurement
  - Creation of innovation through partnerships

### Long-term goals

#### 2030 CSV GOAL

- Contribute to solutions to social issues through our business by unifying CSR measures and management strategy
- Create corporate value with a mid- to long-term perspective and promote ESG-related disclosures

### Initiatives for Work Style Reform

- Increase labor productivity by introducing telework (work from home or at satellite office), etc.

### Contributions to SDGs

Identify correlation between the HCM Group’s activities and the SDGs and establish 10 key targets

*SDGs (Sustainable Development Goals) - A continuation and development of the Millennium Development Goals (MDGs) whose deadline was in 2015, adopted by the United Nations General Assembly in September of 2015 as The 2030 Agenda for Sustainable Development. These are specific guidelines for action for advanced and developing countries that stipulate responsibility for poverty, famine, discrimination, climate change, and biodiversity.*
The HCM Group is working to boost management capital and maximize corporate value by identifying social issues that can solve and continuously implementing our value creation model.

**Value Creation Model**

The HCM Group's Business Activities

**Input** (Capital committed)

- Financial capital
  - Cash flows that fund investments in value creation generated by a stable earnings structure

- Manufacturing capital
  - Our 15 manufacturing bases in Japan and 16 overseas, the head office, and a network connecting these with domestic and international distributors

- Human capital
  - Expertise and skills of globally-recruited human resources with strong motivation for success based on the Kasai Spirit

- Intellectual capital
  - Knowledge and skills concerning construction machinery and mining machinery, various solutions in preventive maintenance management consulting know-how

- Social and related capital
  - Brand power of the Hitachi Group, and long-established relationships of trust within the Group, and long-established customer, supplier and local community relationships

- Natural capital
  - Primary energy including water, air, soil, minerals, and forests, etc., and secondary energy including electricity and utility gas, etc.

**Business domains**

- Development marketing
- Production procurement

**Output** (Products and Services)

- Assist customers in solving business challenges and help resolve social issues through the provision of products, services and solutions closely tied to the needs of various work sites.

- Sophisticated products
  - Provide high performance and highly functional construction machinery underpinned by our advanced technical processes, including hybrid hydraulic excavators and ICT hydraulic excavators, etc.

- Solution service
  - Provide solutions that exceed customer expectations in the value chain spanning the entire life cycle of construction machinery

**Outcome** (Value creation)

- Social Impact of one trillion yen

Social issues to be solved

- Prevent global warming
- Formation of recycling-oriented society
- Diminishing safety and productivity at work sites caused by labor shortages
- Development of resilient infrastructure

**Customers**

- Create value that grows businesses, such as improved safety, improved productivity, and reduced life cycle costs of work site activities

**Shareholders and investors**

- Considered issues of profitability, stability, and financial condition and mid- to long-term enhancement of corporate value

**Employees**

- Realize work environments with high labor productivity and work environments that match customer needs using our worldwide network and support systems

**Suppliers**

- Build relationships capable of mutually enhancing corporate value through legal compliance, etc.

**The environment**

- Curtail global warming and use resources in a closed loop through the development, production and promotion of eco-friendly products

**Local communities**

- Develop resilient social infrastructure through the provision of products and collaboration with outside organizations, etc.
Deepening our value chain business in response to changes in customer awareness

In the past few years, I have sensed a rapid change in customer awareness in the market. The three primary needs for construction machinery manufacturers with regards to construction and mining sites are “improved safety”, “improved productivity” and “reduced life-cycle costs”. What we have observed recently are growing efforts to link these needs to global themes and demands. These include working to achieve SDGs (Sustainable Development Goals) and support ESG (Environment, Social, and Governance). For instance, safety on-site is directly linked to reducing emissions.

Moreover, this mid-term management plan has allowed us to begin reorganizing our primary factories in Japan. Our goal in this is to put in place a system for development and production aimed at strengthening our global competitiveness, while also promoting diversity and work-style reform. In recent years, the shortage of younger workers has become a serious problem. We urgently need to create a safe and worker-friendly environment that encourages participation of both men and women up in cases in which customers rent small or medium-size construction machinery. For example, we provide solutions that allow machinery on jobs even when they were a bit too large for the site. However, recently we have seen a marked increase in cases in which customers rent small or medium-size construction machinery to match the size of the site. We have begun to see this kind of change in awareness towards the way construction machinery is used not only in Japan, but also in rapidly developing countries like China.

In order to respond to these global changes, since FY 2017 the Hitachi Construction Machinery Group has been working to deepen business other than products (value chain business) through our mid-term management plan “CONNECT TOGETHER 2019”. The target under this mid-term management plan is to deliver “Reliable solutions” that exceed customer expectations in the value chain extending across the entire life cycle of construction machinery. For example, we provide solutions that allow customers to use machinery in good condition longer by replacing or remanufacturing parts. We propose more efficient ways to utilize machinery by understanding the conditions in which machinery is operating. And we maintain a rental system (rental business expansion) that enables us to supply customers with optimal machinery in a timely manner when they need it.

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By restructuring our value chain, we will work with customers to move towards a sustainable society.

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

Collaborating with customers to generate solutions to environmental and social issues

Looking back over FY 2018, the first thing that comes to mind is the frequent worldwide occurrence of natural disasters caused by climate change. How we should guard against threats like earthquakes, tsunamis, typhoons and torrential rain is a big theme for both our customers and nations. The effects of natural disasters on regional life and economies are so large that it takes a considerable amount of time to recover. It is important not just to deal with disasters after they occur, but to enact measures that enhance disaster management before the fact. In FY 2019 Japan is increasing its budget for public investment to this end. Moving forward, it will become increasing necessary not just to rely on creating new infrastructure, but to improve that which already exists to make it more robust. I believe the HCM Group should hurry to develop and supply products and services that can support infrastructure maintenance, repair and reinforcement.

In this kind of social environment, construction machinery manufacturers like us are tasked with improvements beyond what extending current technology can offer. In short, rather than improve, I believe we must innovate. From each of the targets advanced through SDGs, through measures to combat climate change, the demands of society are ever higher and require even greater speed. For example, even if we seek to electrify construction machinery we will be asked when it will be developed and when it will be brought to market. So in order to respond
with speed, we have begun to innovate the development process itself. Specifically, in October 2018 we established a German marketing and development firm. We used this to test introducing a development process in which customers actually use compact electric-drive machinery and development evolves based on their on-site feedback and requests. In our conventional traditional development process, our R&D department in Japan would spend years creating products that would then be delivered to customers around the world. But in some cases this has not been fast enough. Fundamental parts like foundations and components will continue to be thoroughly researched and developed in Japan. But from here out we believe it will be necessary to carry out speedy development together with customers all around the world.

Moreover, development takes too long using only our own engineering. For example, it is difficult for construction machinery manufacturers alone to advance development of foundational technology like lithium-ion batteries and hydrogen fuel cells in a speedy manner. For this reason, the key to swiftly achieving technological innovation is for the entire industry to keep pace with automotive and trucking industry technology in particular, and skillfully integrate it. In addition, construction machinery can succeed in applying new technology in the field even more quickly than general automotive can.

Using autonomous driving technology as an example, it is likely to be difficult to allow vehicles to travel on public roads without the driver ever touching the wheel, or without a steering wheel at all. However, trials of autonomous dump trucks are already under way in Australia. This is because they operate in a designated area within which safety can be ensured.

This kind of technological innovation in construction machinery, as well as i-Construction**, will not only make on-site work more efficient, but will bring about various changes. We are hearing from customers that, “Companies which do not seriously engage with work site automation and computerization cannot attract or retain top talent.” Up until now, construction sites have had an environment that women have found it hard to break into. But now women are able to play large roles operating drones to gather data, and analyzing the data gathered. The adoption of new technology leads to solving problems such as hiring new talent and employee training. We will provide customers with new value by accelerating “Solution Linkage”™ using ICT and IoT solutions to solve problems on construction sites together with customers.

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In April 2019 we carried out organizational reform with the goal of speeding up value chain reform. First we established the Sustainability Promotion Division to promote integrated company-wide measures relating to CSR, environmental and social issues. Moving forward, it will be increasingly vital to incorporate ways of thinking that emphasize approaching all important managerial matters from a societal and environmental point of view. In the past dealing with social issues was seen as costly, but this is now an integral part of business. Now we are beginning to see a change in thinking, wherein efforts to deal with SDGs and ESG are perceived as business opportunities. Moreover, the Corporate Quality Assurance Division (which had been under the Development and Production Department), and the Marketing Strategy Group (which handles work related to product strategy) have both been placed under the direct control of the president. We aim to further strengthen governance related to quality and swiftly reflect world trends and customer feedback in our business. We believe it is important to reform our business with an outside-in perspective that recognizes our company’s role in social issues. We also think it vital to keep a perspective of expanding together with customers and to stay even one or two steps ahead in handling issues.

Of course, we expect employee awareness to change through this organizational reform. But what is important is to actively bring in outside opinions. One of the 3 Cs in the “Kanrikihjin Spirit” (the HCM Group’s standard of value and code of conduct) is Communication. It will be increasingly important at each stage of the value chain to always maintain a high level of sensitivity, listen to others, make your own hypothesis, consider it on your own, and incorporate this into your own work. I believe that if each and every one of our employees adopts this kind of process, then HCM this group will have unlimited potential.

The market scale for construction machinery is expanding globally. This is because for the past ten of twenty years China and India have experienced rapid economic growth and pressed forward with infrastructure expansion investment in areas like roads and railways. You might think that this kind of growth has peaked, but not yet. There are still many regions that it has yet to touch. There are still countries and regions in places like Africa and central Asia that will develop from here on. Lately the HCM Group has striven to increase the performance of construction machinery, make machinery more compact and unceasingly worked to protect the environment. Also, we have not only pushed to increase the efficiency of each and every machine, we have devised solutions that we can to provide to further increase profit and value for customers when they have 10 or 100 machines. We must ensure that construction machinery demonstrates adequate performance, and provide consulting that is environmentally and economically efficient for customers to use. This represents a business opportunity, of course. And we believe it will naturally lead to value creation through things such as engaging with SDGs and ESG.

In the future, when construction machinery has proliferated in regions where infrastructure maintenance is still not as advanced, we will be able to apply the expertise we have built up through efforts in developed countries and expand it to initiatives in emerging nations. Thus, we will be able to provide deeper value chains and business models. And this cannot be accomplished by construction machinery manufacturers alone. It can only be accomplished through cooperation with our customers, and all stakeholders who share the common goal of achieving a sustainable society.

I feel that construction machinery is a familiar element of our lives. All around us countless people are using construction machinery to create the buildings and infrastructure essential to our daily existence. That is why the impact we have on society is so large. 2020 marks 70 years since the HCM Group began develop-ment, manufacture and sale of construction machinery. And it marks 50 years since we became independent of Hitachi, Ltd. We are determined to look past 2020 and take on challenges that we have never encountered before. The Hitachi Construction Machinery Group is ready to work with all our stakeholders around the world to create the future together.
Mid-term Management Plan (FY2017 ~ FY2019)

The HCM Group is implementing a new mid-term management plan called CONNECT TOGETHER 2019 as the final step toward realizing the 2020 VISION. We aim to provide "reliable solutions" that exceed customer expectations in the value chain spanning the entire life cycle of construction machinery. Our goal is to build a corporate structure resilient to change that will boost profitability and efficiency by rebuilding the value chain and relevant systems.

2020VISION
A “Close and Reliable Partner”
Anywhere on the Earth with Best Solutions through Kenkijin Spirit

Go Together 2013
GROW TOGETHER 2016
CONNECT TOGETHER 2019

Planting seeds for growth
Promoting growth and the next round of seeds
Achieving a structure resilient to change

1 Targets and progress of CONNECT TOGETHER 2019

In fiscal 2018, the second year of CONNECT TOGETHER 2019, we made great strides toward providing products, services and solutions closely in tune with customer needs. As a result, we were able to beat nearly all of our targets set for fiscal 2019, following a similar performance as last year.

In this fiscal year, the final year of the mid-term management plan, we will continue working to reinforce the value chain businesses of parts, services, used equipment and rentals as cited as a focus theme, expand the wheeled loader and dump truck business, and step up development of solutions using ICT and IoT. Our goal is to achieve our targets and establish a stable business foundation resilient in the face of a changing business climate.

Strategy

Finance
Corporation Outline
Materiality

<table>
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<tr>
<th>Focus themes</th>
<th>Results of Activities Aimed at 2020</th>
<th>Future challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parts and service</td>
<td>• Launched ConEco OIL service (first of its kind in the construction machinery industry)</td>
<td>(1) Advanced failure/predictive diagnostics utilizing Big Data, analysis, IoT, and ICT</td>
</tr>
<tr>
<td>Mining Operations</td>
<td>• Began working with Whitehaven on autonomous haulage system for mining dump trucks</td>
<td>(2) Reinforce collaboration with H-E Parts and Bradken</td>
</tr>
<tr>
<td>Used equipment and rental business</td>
<td>• Expanded sales of used equipment from Japan</td>
<td>(1) Enhance presence in dump truck business</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>• Released the ZH120-6 12-ton hybrid hydraulic excavator (first of its kind in the construction machinery industry)</td>
<td>(2) Develop and commercialize AHS</td>
</tr>
<tr>
<td>Structural reform</td>
<td>• Drastically recognize main development and production sites in Japan by around fiscal 2022</td>
<td>(1) Increase profitability of each business segment</td>
</tr>
<tr>
<td>ESG-oriented management</td>
<td>• Identified correlation between our business and the SDGs and established 10 key targets</td>
<td>(1) Further promote ESG-oriented management</td>
</tr>
</tbody>
</table>

* Guidance as of April 2017
Growth strategy and the SDGs

In fiscal 2018, we identified the correlation between the HCM Group’s activities and the SDGs and established 10 key theme goals. The Hitachi Group is contributing directly and indirectly to all 17 goals set out in the SDGs. As for our 10 key theme goals, we believe that we can meet and beat each target through our business strategy.

SDGs goals | Main ongoing initiatives | Anticipated effects
--- | --- | ---
| Activities for education | • Support acquisition of qualifications from training institutes | Develop children and leaders of the future
|  | • Assistance at Hitachi Construction Machinery Songgang X-Wang Elementary School in China |  |
|  | • Manufacturing Technology Transfer Promotion Program in India |  |
|  | • Internship program in Zambia |  |
|  | • Supporting self-reliance in Cambodia |  |
|  | • Participate in construction machinery fairs for education |  |
| Ensure inclusive and equitable quality education and promote lifelong learning | [Provide technology acquisition and education] | Increasing the skill level of individuals and technical levels in Japan and abroad contributes to sustainable growth
|  | • opportunities for employees |  |
|  | • Implementation of succession plan |  |
|  | • International Skills Competition |  |
|  | • Hold service mechanic competitions |  |
| Achieve gender equality and empower all women and girls | [Empower women in the workplace] | Encourage gender equality, etc., by providing a work environment that provides a high level of motivation to women
|  | • Developing female instructors at training centers |  |
| Ensure availability and sustainable management of water and sanitation for all | [Reduce emissions and prevent pollution] | Support local communities by ensuring sustainable management of water and conducting water-saving activities in areas of high risk
|  | • Identify areas with high water stress level |  |
|  | • Reduce water usage in business activities |  |
|  | • Management of chemical substances (Reduce water risk) |  |
| Ensure access to affordable, reliable, sustainable and modern energy for all | [Reduce environmental impact for manufacturing processes] | Flexible efficient energy use by adopting proprietary technology on the manufacturing floor
|  | • The introduction of "Emilia" electric power monitoring system |  |
|  | [Utilize renewable energy] | Ensure access to affordable, reliable, sustainable and modern energy
|  | • Install solar panels |  |
| Expand new businesses globally | [Develop new businesses globally] | Contribute to creating local employment opportunities and economic growth by hiring locally
|  | • The parts remanufacturing business |  |
|  | [Business structure reform] | Achieve decent work for all and realize a safe and efficient production line
|  | • Facilitate domestic development and production bases |  |
| Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all | [Work Style Reform] | Promote sustainable economic growth, full and productive employment through promoting decent work for all
|  | • Reinforce occupational safety and health |  |
|  | • Employee health advancement |  |
|  | • Promote diversity |  |
|  | • Equal labor and wages |  |
|  | • Elimination of forced and child labor |  |
| Promote a safe and secure work environment | [Promote a safe and secure work environment] | Strengthen organization and improve corporate value thereby enhancing economic productivity through initiatives in governance
|  | • Corporate Governance |  |
|  | • Compliance |  |
|  | • Human rights initiatives |  |

SDGs goals | Main ongoing initiatives | Anticipated effects
--- | --- | ---
| [Develop products and solutions using ICT and IoT] | Support economic development and general welfare and realize a safe and productive labor environment through innovative technological development that creates new value
|  | • Develop Solution Linkage |  |
|  | • Develop labor-saving machinery that is unmanned/uses robotics |  |
| Enhance services globally | [Establish regional sales companies] | Contribute to local infrastructure and economic development by expanding sales channels
|  | [Formulate Business Continuity Plan (BCP)] | Develop resilient infrastructure and promote sustainable industrialization through measures against risks faced by businesses such as natural and man-made disasters (terrorism and civil unrest)
|  | [Enhance the Business Continuity Management (BCM) structure] | * "Increase resilient residential areas" correlates to SDG 11
| Realize inclusive, safe and resilient cities and human dwellings that are sustainable | [Supply and support construction machinery] | Achieve a sustainable urban and living environment resilient against disasters
|  | • Support local communities by ensuring sustainable management of water and conducting water-saving activities in areas of high risk |  |
|  | • Supply rental equipment to local governments |  |
| Enhance value chain business | [Expand rental business globally] | Ensure a sustainable consumption and production pattern by enhancing the value of the product life cycle
|  | [Provide accurate information on products and services] | Contribute to reduction of waste
|  | • Prompt disclosure of recall information |  |
|  | • Prevent risk in the supply chain (mainly procurement-related) |  |
| Ensure a sustainable consumption production pattern | [Provide precise information on products and services] | Ensure sustainable a consumption and production pattern
|  | [Take urgent action to combat climate change and its impacts] | Contribute to minimizing risks of climate change through developing and putting into practical use construction machinery with low-carbon technologies
|  | [Address risks of climate change] | Contribute to solutions for global environmental issues by adopting renewable energy and introducing energy saving equipment
|  | • Introduce solar power generation |  |
|  | • Introduce internal carbon pricing |  |
|  | • Conserves water resources |  |
|  | • Consider biodiversity |  |
| Take urgent action to combat climate change and its impacts | [Development of clean technologies and environmentally-conscious technologies] | Contribute to solutions for global environmental issues by adopting renewable energy and introducing energy saving equipment
|  | • Hybridization of construction machinery |  |
|  | • Electrification of construction machinery |  |
|  | [Support acquisition of qualifications from training institutes] | Contribute to local infrastructure and economic development by expanding sales channels
|  | [Risk management] | Develop resilient infrastructure and promote sustainable industrialization through measures against risks faced by businesses such as natural and man-made disasters (terrorism and civil unrest)
|  | [Enhance the Business Continuity Management (BCM) structure] | * "Increase resilient residential areas" correlates to SDG 11
| Promote fair procurement among suppliers | [Supporting self-reliance in Cambodia] | Contribute to local infrastructure and economic development by expanding sales channels
|  | [Support acquisition of qualifications from training institutes] | Contribute to local infrastructure and economic development by expanding sales channels
|  | [Risk management] | Develop resilient infrastructure and promote sustainable industrialization through measures against risks faced by businesses such as natural and man-made disasters (terrorism and civil unrest)
|  | [Enhance the Business Continuity Management (BCM) structure] | * "Increase resilient residential areas" correlates to SDG 11

SDGs goals | Main ongoing initiatives | Anticipated effects
--- | --- | ---
| [Development support in local communities through cooperation with outside organizations] | Help energize innovation using global partnerships
|  | • Assistance at Hitachi Construction Machinery Songgang X-Wang Elementary School in China |  |
|  | • Desert afforestation activities in the Horng Desert in China |  |
|  | • Manufacturing Technology Transfer Promotion Program in India |  |
|  | • Supporting self-reliance in Cambodia |  |
| Promote CSR throughout the entire value chain | [Supporting self-reliance in Cambodia] | Contribute to solutions for global environmental issues by adopting renewable energy and introducing energy saving equipment
|  | [Promote fair procurement among suppliers] |  |
|  | [Pass down and transfer technologies globally] |  |
|  | [Risk management] | Develop resilient infrastructure and promote sustainable industrialization through measures against risks faced by businesses such as natural and man-made disasters (terrorism and civil unrest)
|  | [Enhance the Business Continuity Management (BCM) structure] | * "Increase resilient residential areas" correlates to SDG 11

SDGs goals | Main ongoing initiatives | Anticipated effects
--- | --- | ---
| [Supporting self-reliance in Cambodia] | Contribute to solutions for global environmental issues by adopting renewable energy and introducing energy saving equipment
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|  | [Pass down and transfer technologies globally] |  |
|  | [Risk management] | Develop resilient infrastructure and promote sustainable industrialization through measures against risks faced by businesses such as natural and man-made disasters (terrorism and civil unrest)
|  | [Enhance the Business Continuity Management (BCM) structure] | * "Increase resilient residential areas" correlates to SDG 11

Hitachi Construction Machinery CSR & Financial Report 2019
Hitachi Construction Machinery CSR & Financial Report 2019
Expanding the rental business as key to deepening our value chain strategy

In August 2018, HCM announced capital participation in ACME Lift Company in the United States (hereinafter, “ACME”), marking our official launch of the rental business in North America. ACME is a construction machinery rental company with 3,500 partner locations throughout North America and an excellent client base.

In addition, it is also known as a pioneer in the re-rental business, where it lends to rental companies that are focused on Aerial work platform, who in turn sublet the machinery. Unlike automobiles, which can be quickly turned around for a new rental upon their return, the rental of construction machinery is not as simple. This is because there is need for maintenance to clear any dirt or mud on the vehicle, assembly of any requested attachment (accessories) for the next customer, as well as transportation of the vehicle to their next construction site. Having the manufacturer, who possesses the knowledge of their products to provide these services, ensures that the machinery is kept in the optimal condition, which also extends service life. In other words, the rental business can be viewed as a customer-oriented business model which not only effectively utilizes resources in terms of the manufacturing of machines but also enhances the profitability of customers’ assets. The HCM Group aims to acquire know-how in the re-rental business in the United States, which is the world’s largest rental market, in order to expand the Group’s rental business. In January 2019, we established Synergy Hire as a new company to engage in the rental business in the U.K.

Future Developments

Going forward, we will globally expand our rental of quality machinery as well as implement initiatives in order to provide new ICT and IoT-based solutions to flexibly address social issues such as the worldwide shortage of technicians.

Idling economy, which maximizes product life cycle value

In order to create a customer-oriented business model, it is crucial to always monitor the operation status of construction machinery. Hitachi Construction Machinery’s proprietary information solution, “ConSite,” which remotely monitors machinery in operation at each site and predicts operating failures, makes this possible. The monitoring and optimal maintenance at the right time not only make the machines excellent for use as used vehicles, they also extend service life, maximizing life cycle value. This practice not only represents the “sharing economy” where everyone shares an asset owned by people and businesses, but is also known as “idling economy” where unoccupied resources and assets are turned into new values while being utilized efficiently.

From a society of ownership to shared use. In a time when people’s values are shifting, construction machinery makers are not only expected to develop products, but also step up their role in terms of providing services from user training, management and operation consulting as well as fulfilling their duties to preserve the environment. At the same time, this also serves as an opportunity to further relationships of trust while expanding contact points with customers. The HCM group will explore new forms of partnerships with customers through the rental business.

The diversification of people’s lifestyles is picking up the pace accelerated with changes in the social environment. Above all, there is growing value perceived in “switching from ownership to shared services,” where an asset is used only when and in the amount required, instead of owning it. This suggests the people are becoming more aware of using assets efficiently. This trend can also be seen in the world of construction machinery. Ahead of such changes in social environment, since 2017 the HCM Group has worked to reform its business structure through its mid-term management plan called CONNECT TOGETHER 2019. One of the key strategies under this plan is to enter the rental business in developed countries.

Relevant SDGs

In order to achieve sustainable development, it is essential to pursue an economic model with less social and environmental impacts by sharing existing materials, services, and spaces. We believe that by increasing the convenience of renting construction machinery, and making it a valid option, we can contribute to achieving the SDGs.

1. Expanding the rental business in North America and Europe
New values being created around the world

The diversification of people’s lifestyles is picking up the pace accelerated with changes in the social environment. Above all, there is growing value perceived in “switching from ownership to shared services,” where an asset is used only when and in the amount required, instead of owning it. This suggests the people are becoming more aware of using assets efficiently. This trend can also be seen in the world of construction machinery. Ahead of such changes in social environment, since 2017 the HCM Group has worked to reform its business structure through its mid-term management plan called CONNECT TOGETHER 2019. One of the key strategies under this plan is to enter the rental business in developed countries.
Launched the largest scale reforms since the Group’s inception

The HCM Group has reorganized its development structure that was once categorized by product, and centralize construction and mining machinery at the Tsukuba Works, and compact machines at the Shiga Works. Furthermore, production bases have been categorized by function, while structure reforms entailing development of new production lines is underway. This goal means the establishment of a flexible production structure that can adapt to changes in demand, and attain a higher level of technical development capability. Moreover, in order to achieve this goal in today’s market with labor shortages, it is imperative to establish a manufacturing environment that promotes both ease of work and productivity. The reform that started in 2018 entails a complete overhaul of the functions of our seven domestic major bases, at a large scale that has never been done before.

Developing a production line safe for seniors, women and non-Japanese employees

On the conventional frontlines of production, experienced workers with skills and knowledge have led processes and supported high productivity and quality. However, as the birthrate declines and population ages more, there is a lower number of experienced and skilled workers, which means a reduced number of hands on deck. As a result, we have thoroughly analyzed work attitudes and processes and implemented various efforts to largely reduce physical labor as part of this reform, for those with less experiences or physical strength to feel empowered to work. At Shiga Plant (Hitachi Construction Machinery Tierra), which was first to implement the reform ahead of others, the number of steps was reduced by 30% compared to before, while robots have been adopted for the handling of heavy parts, giving rise to new production lines with advanced automation and energy-saving features.

For example, robots have the same proficiency as skilled workers so that they can always check work guidelines. Every effort is made to eliminate work using stairs or on an elevated location, and eliminate the need to bend down. Feedback from female employees is actively reflected in workplace improvements, which has a positive impact on employment. Soon, the production line of mini wheel loaders will be moved to our Works plant. This means efficiency and worker friendliness are reaped.

Creating a workplace that enables a diverse workforce to actively take on their roles and increase global competitiveness

HCM prides itself on always implementing reforms on the frontlines. We have promptly implemented production process reform by bundling each stage of the process from development to sales. Prior to reorganization this time around, we successfully launched new processes while increasing productivity by introducing robots and developing programs focused on younger employees on the frontlines. Moreover, feedback from female employees is actively reflected in workplace improvements, which has a positive impact on employment. Soon, the production line of mini wheel loaders will be moved to our Works plant. This means efficiency and worker friendliness are required in all aspects of our work, including not only the production floor but also development and design. As a result, we have increased production capacity throughout Hitachi Construction Machinery Tierra by 1.5 times through creating a workplace where anyone can play an active role.

Taking into account Japan’s declining birthrate and aging population, along with worker shortages, disasters, and unusual weather, issues that pose a risk to our business activities are becoming more severe with each passing year. The HCM Group has initiated a large-scale reorganization and reforms of its domestic development and production sites since October 2018 in order to enhance its high productivity and global competitiveness. We are developing a production system that enables productive and comfortable work environment by implementing labor-saving ICT on production lines and developing frontlines that are worker friendly.

Comfortable work environments and productivity
Manufacturing reforms pursued simultaneously

Position of the seven major domestic bases

<table>
<thead>
<tr>
<th>Plant name</th>
<th>Status of business structure reforms in 2023</th>
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<tbody>
<tr>
<td>Tsukuba Works</td>
<td>Development base</td>
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<td>Ryogoku Works</td>
<td>Construction plant</td>
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<tr>
<td>Hitachi-Kanko Works</td>
<td>Mining plant</td>
</tr>
<tr>
<td>Hitachi-Terra Works</td>
<td>Components plant</td>
</tr>
<tr>
<td>Kasan Workshops</td>
<td>Development base</td>
</tr>
<tr>
<td>Banshi Works</td>
<td>Compact plant</td>
</tr>
</tbody>
</table>

Relevant SDGs

One universal goal is for everyone to have employment, in which they find the job meaningful and decent. To achieve this goal, it is essential to develop a workplace that enables a high level of economic productivity through innovation, as well as allows a diverse workforce to exert their abilities while working safely and securely.

Creating a workplace that enables a diverse workforce to actively take on their roles and increase global competitiveness

HCM prides itself on always implementing reforms on the frontlines. We have promptly implemented production process reform by bundling each stage of the process from development to sales. Prior to reorganization this time around, we successfully launched new processes while increasing productivity by introducing robots and developing programs focused on younger employees on the frontlines. Moreover, feedback from female employees is actively reflected in workplace improvements, which has a positive impact on employment. Soon, the production line of mini wheel loaders will be moved to our Works plant. This means efficiency and worker friendliness are required in all aspects of our work, including not only the production floor but also development and design. As a result, we have increased production capacity throughout Hitachi Construction Machinery Tierra by 1.5 times through creating a workplace where anyone can play an active role.
Accelerated development in Germany where EV shift is advancing

Europe is one of the markets with the strictest regulations aimed towards the prevention of global warming and realization of a carbon-free society. This makes it a high demand area for electric-powered construction machinery. Particularly, in Germany, the automotive industry is seeing a quicker shift towards EV. This trend of EV shift is expected to spread sooner or later to construction machinery.

The HCM Group has launched a new development company in Germany, which is known worldwide for its advanced environmental awareness. This company has started the development of electric-powered construction machinery geared towards the European market. The goal is for customers to try out machines at their work sites and implement improvements, thereby enhancing the speed of development. KTEG excels at marketing in Europe and possesses a wealth of knowledge on the ever-changing regulations, along with know-how to actualize customers’ latent needs. On the other hand, HCM possesses a high level of technology, including base technology, among them those related to electrification including battery and drive system.

Achieve zero emission while maintaining usability

Since electric-powered construction machinery is not equipped with an engine, they offer the excellent benefit of environmental friendliness due to a lack of waste products such as exhaust or CO₂ emission from the excavator, engine oil and filters. However, we must not let power or operability fall short as it may hinder the customers’ productivity at their work sites. HCM aims to reduce environmental impacts by minimizing exhaust gas and CO₂ emissions while achieving highly productive electric-powered construction machinery.

In April 2019, we announced two new concept models of electric-powered excavators, the ZE18 (8 ton class) and ZE19 (2 ton class), at an international trade show on construction machinery called bauma 2019, held in Munich, Germany. These models received positive feedback from customers in the European market, where domestic manufacturers are known to dominate. In the future, we aim to continue our development, by expanding from 13-ton to 30-ton class construction machinery, to further expand the business.

The skills accumulated over years of experience and desire to tackle challenges underpin our speedy turnaround time for development. One thing that surprised us in our joint development with KTEG was that the speed of development was very rapid. This illustrates that there is so much more for us to learn. At the same time, however, we also realized that the basic technology we have accumulated after spending tireless hours was what made rapid turnaround possible in the development of machines with high functionality and quality. It is difficult to predict exactly when the electric-powered construction machinery market will expand. Therefore, we aim to offer quality products that we can be proud before this demand arrives. Right now, this is what we are wholly focusing on.

Relevant SDGs

Climate change is the biggest threat to development. Its impact weighs heavily on those in the weakest position. As it is a universal goal to achieve a carbon-free society to prevent global warming, the need for electric-powered construction machinery is expected to grow in the future.

The HCM Group has always been committed to development of electric-powered construction machinery in hopes of contributing to environmental issues such as climate change and resource depletion. Until now, we implemented efforts mainly within the Japan market. In October 2018, we established a new company, European Application Center (EAC), with KTEG, a Group company of our European dealer, Kiesel (headquarters: Baienfurt, Baden-Württemberg, Germany). We are promoting the development of electric-powered construction machinery in the European market.

History of HCM’s development of electric powered construction machinery

HCM has engaged in development of higher efficiency and electric systems with energy-saving and clean solutions as one of the development goals for construction machinery. Particularly, electric-powered hydraulic excavators were first launched in the market in 1971. While currently most machines are powered through a cable using commercial power supply, we are also developing battery powered excavators.
Preparing for future large-scale disasters

The role of construction machinery

The recent spate of earthquakes, typhoons and torrential rains in Japan have had serious impacts on people’s lives and the economy. Companies and governments are both working hard to make preparations for minimizing damages and restoring operations promptly following an emergency. Construction machinery play a vital role in the onsite recovery work for various types of disasters. The HCM Group is working to develop a support system so that it can be useful to communities at the time of a major disaster.

Relevant SDGs

Securing resilience in the face of urban disasters is an urgent issue that must be addressed in response to the frequent occurrence of natural disasters. Resilience requires a network for collaboration and cooperation utilizing the strengths of various actors.

Using ICT and networks to aid the recovery at the scene of disasters lacking equipment and people

The Niiza servicing office owns around 1.7 billion yen worth of rental equipment, making it among the largest in all of Japan. Nevertheless, there is always a shortage of equipment following a major disaster. Therefore, it is building a support system network so that it can collaborate with other branch sales offices across Japan during an emergency. In addition, the scene of disasters not only lack construction equipment, but also operators to use them. HCM’s ICT construction machinery featuring machine control and machine guidance make it possible for operators with little experience to operate machines like a pro. These machines are likely to play a major part during a disaster with people shortages. Our business operations regularly support everyone in the community. We are prepared to aid communities during an emergency using the HCM Group’s technologies and network.

Construction machinery is critical for evacuation and recovery work at the scene of disasters

In 2018, Japan experienced a number of major earthquakes and torrential downpours, resulting in extensive damages in Western Japan and Hokkaido. The HCM Group provided assistance to local governments so as to aid in the rescue of victims and in the reconstruction of communities following these disasters. Construction machinery is vital to the removal, sorting and disposal of earth and sand and debris. In particular, hydraulic excavators (backhoes, Double-Arm Working Machine), Track Mounted crushers, Track Mounted screeners, and Rigid Dump Trucks are needed for each stage of recovery work.

Hitachi Construction Machinery Japan, which engages in construction machinery rentals, sales and services, works together as a company to quickly supply construction machinery to areas hit by disasters. First, following its Disaster Response Manual, a disaster support headquarters that reports directly to the president is set up at the head office, while disaster support teams are also set up at each branch office. After checking damages locally, each team works together to carry out the initial response and then provide specific assistance after examining the need for dispatch of equipment, personnel, and transport methods to reach the scene.

Concluding collaboration agreements for disasters

Acting as a company communities rely on during an emergency

In addition to Nishitokyo City, Hitachi Construction Machinery Japan has concluded collaboration agreements for disasters with Tsuchiura City and Ryugasaki City in Ibaraki Prefecture and Higashimatsubara City in Saitama Prefecture, among others. A city in Eastern Tama with a population of 203,000. The city was formed in 2001 after the merger of Tama City and Hiyoshi City.

Various forms of support include charitable donations, provision of construction machinery, and operator training for construction machinery.

Nishitokyo City, which has had experience to operate machines like a pro. These machines are likely to play a major part during a disaster with people shortages. Our business operations regularly support everyone in the community. We are prepared to aid communities during an emergency using the HCM Group’s technologies and network.

Hitachi Construction Machinery Japan has until now provided support at the request of affected local governments. However, the spate of disasters over the past several years has increased the need to have agreements on support in place before a disaster strikes.

In October 2018, the Niiza servicing office of our Tokyo Branch concluded an agreement on the priority supply of rental equipment and supplies at the time of a disaster at the request of Nishitokyo City. Nishitokyo City concluded this agreement with Hitachi Construction Machinery Japan and two other companies to work directly with companies to receive priority provision of supplies and equipment following a disaster, in order to protect the safety of local residents. The Tokyo Branch sales office and Niiza servicing office are now formulating a plan on how to specifically support the city during an emergency, based on their experience in providing aid to the scenes of disasters in the past.

1 Various forms of support include charitable donations, provision of construction machinery, and operator training for construction machinery.
2 In addition to Nishitoku City, Hitachi Construction Machinery Japan has concluded collaboration agreements for disasters with Tsuchiura City and Ryugasaki City in Ibaraki Prefecture and Higashimatsubara City in Saitama Prefecture, among others.
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in Ibaraki Prefecture and Kumagaya City in Saitama Prefecture, among others. The Niiza servicing office owns around 1.7 billion yen worth of rental equipment, making it among the largest in all of Japan. Nevertheless, there is always a shortage of equipment following a major disaster. Therefore, it is building a support system network so that it can collaborate with other branch sales offices across Japan during an emergency. In addition, the scene of disasters not only lack construction equipment, but also operators to use them. HCM’s ICT construction machinery featuring machine control and machine guidance make it possible for operators with little experience to operate machines like a pro. These machines are likely to play a major part during a disaster with people shortages. Our business operations regularly support everyone in the community. We are prepared to aid communities during an emergency using the HCM Group’s technologies and network.

Hitachi Construction Machinery Japan Co., Ltd.
Manager, Niiza servicing office,
Tokyo branch sales office,
Kanto Sales Office
Yasunori Matsubara

Practical training on recovery work using a mini excavator (Okazaki City, Fukuoka Prefecture)
### Financial and non-financial information highlights

<table>
<thead>
<tr>
<th>Description</th>
<th>Change</th>
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<tbody>
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<td>Sales revenue</td>
<td>+ 7.8%</td>
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<tr>
<td>Adjusted operating income</td>
<td>+ 24.9%</td>
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<tr>
<td>Income before income taxes</td>
<td>+ 7.4%</td>
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<tr>
<td>Net income on equity attributable to owners of the parent</td>
<td>+ 0.6%</td>
</tr>
<tr>
<td>ConSite contracts</td>
<td>+ 57.3%</td>
</tr>
<tr>
<td>Social contribution related costs</td>
<td>- 13.4%</td>
</tr>
<tr>
<td>Number of permanent employees</td>
<td>+ 2.8%</td>
</tr>
<tr>
<td>Ratio of managers that are female</td>
<td>+ 0.6%</td>
</tr>
</tbody>
</table>

#### Key Performance Indicators

<table>
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<th>Description</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue (millions of yen)</td>
<td>815,792 - 1,033,703</td>
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<tr>
<td>Adjusted operating income (millions of yen)</td>
<td>61,919 - 116,841</td>
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<tr>
<td>Income before income taxes (millions of yen)</td>
<td>58,953 - 102,702</td>
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<tr>
<td>Net income on equity attributable to owners of the parent (%)</td>
<td>6.3 - 14.7</td>
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<tr>
<td>ConSite contracts (Units)</td>
<td>15,563 - 129,701</td>
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<tr>
<td>Social contribution related costs (millions of yen)</td>
<td>317 - 187</td>
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<tr>
<td>Number of permanent employees (persons)</td>
<td>21,126 - 24,591</td>
</tr>
<tr>
<td>Ratio of managers that are female (%)</td>
<td>0.5 - 1.3</td>
</tr>
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* All Domestic and Overseas Production Bases for Consolidation
* Bradken has been included in the results since FY 2018.
* Use of the 2010 edition of the International Energy Agency (IEA) CO₂ energy conversion coefficient

#### Note

Management Structure

**Directors (as of June 24, 2019)**

- **Chairman of the Board**
  - Koji Sumioka
- **Outside Directors**
  - Kazutaka Ohki
  - Haruyuki Toyama
- **Executive Officers**
  - Katsuharu Sakurai
  - Koji Surudome
  - Seishi Toyoshima
  - Toshihiko Tatsukawa
  - Kohtarou Hishiro

**Executive Officers (as of June 24, 2019)**

- **Senior Vice Presidents**
  - Makoto Yamazawa
  - Tetsuo Katsurayama
- **Vice Presidents**
  - Masafumi Senzaki
  - Makoto Tsujino
  - Michifumi Tabuchi

**Policy on determining the amount of compensation, etc. for directors and executive officers**

(1) Method for determination of policies

Our Compensation Committee sets forth the policy on the determination of the amount of compensation for the company’s individual Directors and Executive Officers pursuant to the provision of the Companies Act applicable to companies with nominating committees, etc.

(2) Policy Overview

1. Matters relating to both Directors and Executive Officers

   - Compensation will be commensurate with the scope and range of our company’s business, the responsibilities and risks to be borne by, Directors and Executive Officers.

   - Monthly salaries are set to standard amounts according to job positions.

   - The standard sum for performance-based compensation is roughly 40% of standard annual income for the Chairman and President. For other Executive Officers it is roughly 30% of annual income. It is determined within a certain range depending on the company performance and achievement of individual roles.

2. Matters relating to Directors

   - Compensation for Directors consists of a monthly salary and year-end allowance.

   - A monthly salary is determined by making additions reflecting committees to which the employee belongs and his or her position to the base salary on a full-time or part-time basis.

   - The year-end allowance shall be, in principle, paid at the amount multiplying the amount of basic salary by a certain factor. However, the amount may be reduced depending on operating results of the Company. In case of Directors who also serve as Executive Officers, compensation as a Director is not paid.

3. Matter relating to Executive Officers

   - Compensation for Executive Officers consists of a monthly salary and performance-linked compensation.

   - Standard yearly compensation is set in accordance with societal standards by taking into account the scope and range of our company’s business, the abilities required of, and the responsibilities and risks to be borne by Executive Officers.

   - A standard yearly compensation is set in accordance with societal standards by taking into account the scope and range of our company’s business, the abilities required of, and the responsibilities and risks to be borne by Executive Officers.

Results Under the 8 Key Initiative Themes

The HCM Group is carrying out activities under eight key initiative themes, having identified three CSV themes where solutions to social issues equate to business growth and five core themes essential to the implementation of the three CSV themes.

- **CSV Theme 1: Environment**
  - Pursuing safe, effective, and sophisticated products and working environments
  - Page 45

- **CSV Theme 2: Social**
  - Resolving global environmental issues
  - Page 33
  - Developing human resources globally and locally
  - Page 49
  - Creating better business transactions and value chains
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- **CSV Theme 3: Governance**
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<td>Environmental impact reduction in manufacturing processes</td>
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</tbody>
</table>

Note: Executive officers are listed in the Japanese syllabic order for each job title.

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 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 through ICT, IoT and open innovation.

### CSV theme 1: Resolving global environmental issues

<table>
<thead>
<tr>
<th>Targets</th>
<th>Key Initiatives</th>
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<td>• Environmental impact reduction in manufacturing processes</td>
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<td></td>
<td>• Develop and deliver Eco-Products, low carbon construction machinery, dismantling, and recycling machinery</td>
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<td>• Applications for disaster recovery and disaster prevention</td>
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<td>• Eco-friendly mining operation solutions</td>
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<td></td>
<td>• Green infrastructure solutions</td>
</tr>
</tbody>
</table>

### Progress of main activities in FY2018

**Boost electrification of construction machinery**

In Germany, which has some of the world’s strictest regulations for preventing global warming, we established a new company that engages in the electrification of construction machinery and development of applied products. At an international trade fair on construction machinery, we announced the ZE85 and ZE19 electric-powered excavator concept models.

**Switching to solar power at plants in India**

Tata Hitachi Construction Machinery (India) began using electricity produced from solar power generation at the Kharagpur Works. In FY 2018, we estimate that they sourced about 30% of their annual electricity consumption, or around 7,000 MWH, from renewable energy.

**Visualizing electricity using IoT technology**

At the Group’s plants in Japan, we continue to carry out initiatives to reduce standby power using EMilia, which visualizes electricity consumption, and to recover unused energy. We received the Energy Conservation Center Chairman’s Award at the FY 2018 Energy Conservation Grand Prize.

### Environmental Vision

This environmental vision is shared throughout the Hitachi Group, and it is to resolve environmental issues and achieve both a higher quality of life and a sustainable society through its Social Innovation Business in collaborative creation with its stakeholders.

In order to create a society which has the three attributes of a “Low-Carbon Society”, “Resource Efficient Society” and “Harmonized Society with Nature,” the HCM Group Action Guidelines for Environmental Conservation form the basic policy of our environmental activities, under which we are making efforts.

The HCM Group’s CSV for the environment involves efforts in the three areas of “manufacturing”, “using” and “taking on challenges” create, use and challenge for maximizing value creation in terms of both economic value and environmental value together with all people related to the society we aim to achieve. In terms of “manufacturing”, we are carrying out activities including with suppliers to lower environmental costs.

In terms of “using”, we aim to increase earnings by boosting the environmental and social value of our products and businesses. In terms of “taking on challenges”, we are working to expand business opportunities by solving social issues globally. These initiatives to increase economic value and environmental value help to secure the long-term, stable growth of the Group. In addition, the main products and services related to CSV are managed and promoted under the long-term CSV 2030 targets.
Environmental Management

With respect to environmental management, our system is centered around the newly established Sustainability Promotion Division, which comprehensively manages and promotes environmental, social, and governance matters for the entire Group as well as discloses information as appropriate. The Sustainability Promotion Committee, which meets biannually, is comprised of members including the president and executive officers. It carries out deliberations and approvals on ESG matters related to management decisions, including our response to climate change.

In addition, the HCM Group implements an ISO 14001-compliant environmental management system centered on production Group companies that account for more than 95% of environmental impacts from plants and offices. In FY2018, there was a change in the number of Group companies, resulting in a 93% certification rate, including simplified environmental management systems at production Group companies.

Sustainability promotion system

Representative Executive Officer, President, Executive Officer and Director, CEO
Chairman, Representative Executive Officer, President, Executive Officer and Director, CEO

Manufacturing of Construction Machinery

Environmental impact reduction in manufacturing processes

The HCM Group has engaged in green procurement in an effort to achieve a highly efficient supply chain together with suppliers that reduces environmental impacts. In manufacturing processes, we have implemented a number of measures aimed at reducing energy consumption, including using solar power, investing in energy efficient facilities, encouraging recycling, and reducing waste. In FY2019, we introduced EMilia, an integrated energy and facility management system using Hitachi’s advanced IoT technology, at our five plants in Ibaraki Prefecture. This system enables us to visualize electricity consumption as well as standby power and to reduce wasteful electricity usage. The visualization data is used for making production facilities more energy efficient and conserving electricity consumed inside offices. This has included such measures as cutting electricity use during peak times and reducing standby power. As a result, in FY2018 we lowered the energy basic unit of these five plants by 37% compared to FY2010.

SCOPE 1+2: 38% reduction in energy use associated with materials, manufacturing, transport, product use and disposal along with water, fuel, and materials, including CO₂ emissions.

Using of Construction Machinery

Providing environmentally-conscious products and low-carbon machines

The HCM Group engages in environmentally-friendly product development aimed at resolving global environmental issues, including climate change. Since the year 2000, we have implemented “DEIE (Design for Environment Assessment)” that set forth, at the time of development and design of all new products, specific details of environmentally conscious products throughout the product life cycle. From FY2016, we launched new “Environmentally Conscious Design Assessments” compliant with IEC 62430, an international standard, to further enhance the environmental friendliness of products.

In addition, this assessment includes life cycle assessment (LCA) for environmental impacts, which involves quantifying energy use associated with materials, manufacturing, transport, product use and disposal along with water, fuel and materials, including CO₂ emissions.

Challenge with and through Construction Machinery

Eco-friendly mining operation solutions

In recent years, the mining industry faces the challenge of realizing greater efficiencies through total mining operation optimization while addressing growing demand for commodities. For this reason, the industry requires not only reliable machines, but also mining machinery and solutions that harness ICT and IoT technologies.

In order to meet these needs, HCM is focusing its energy on mining innovation in mining operation through the use of cutting-edge information technology. In particular, our Fleet Management System (FMS) already used at mines around the world optimizes vehicle operations and increases mine productivity. This system also monitors the condition of construction machinery used at mines, making it possible to predict and prevent failures; thus, reduce down time.

The EH5000AC-3 rigid dump truck with trolley system

In June 2018, we released the EH5000AC-3 rigid dump truck with trolley system for use in large-scale mining operations overseas. This product offers even higher efficiency operations. This is achieved by first installing overhead power or lines on hill roads at mines with a power plant, and then using the pantograph on top of the truck to capture electricity running through these overhead power lines when driving uphill.

In trolley mode, the electricity is used to operate the drive motor, eliminating the need to operate the generator at high revolutions using the engine and reducing the burden placed on the engine, which also reduces maintenance costs.

Materials

Materiality

TOPICS

Obtained SBT approval for greenhouse gas reduction targets

In May 2019, the Science Based Targets Initiative (SBT) approved our long-term goals for reducing greenhouse gas emissions as targets based on scientific facts. The HCM Group will accelerate its energy-saving and carbon-reduction initiatives to achieve these goals, and thereby contribute to the 2°C target set in the Paris Agreement.

SBT of the HCM Group

Scope 1+2: Reduce our greenhouse gas emissions by 45% by 2030 (based on FY 2010)
Scope 3: Reduce our greenhouse-gas emissions by 33% by 2030 (based on FY 2010)

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CSV theme 2
Enhancing initiatives to increase social infrastructure workforce

In the future the world will need infrastructure development that underpins an affluent life and promotes industrial development. It will also need commodities development that generates a stable supply of energy to be carried out in a way that contributes to a sustainable society. The HCM Group is addressing various issues faced by work sites including labor shortages and a lack of experienced technicians, while utilizing cutting-edge technology including ICT.

### Targets

- 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

### Key Initiatives

- 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 deliver labor-saving machinery that is unmanned/uses robotics
- Contribute to enhanced site productivity for customers using ICT and IoT

### Future initiatives

To continually provide customers with high quality services, we have been steadily installing ConSite Oil Sensor (predicts failures of engines and hydraulics by remotely detecting the condition of oil) on our main machinery. Through this we aim to achieve a failure detection rate of 90% in 2023 and beyond. Looking ahead, we will continue to promote products and solutions that utilize ICT and IoT to improve safety, productivity, and reduce life-cycle costs.

### Progress of main activities in FY2018

- Developed all-new ICT hydraulic excavator
  - Following the 20-ton ZX200X-6 in 2017, we developed the 13-ton ZX130USX-6 and began offering for the Japan market as a rental in July and for sale in October. It greatly reduces work processes, such as staking and measurement, resulting in significantly shortened work time.
- Began collaboration on autonomous haulage system for mining dump trucks
  - We agreed to work with Whitehaven, Australia’s largest specialized coal producer and seller, on the introduction of an autonomous haulage system for mining dump trucks. This system is expected to secure a higher degree of safety and raise the efficiency of mining operations.
- Making advancements in the use of AI in ConSite service solutions
  - ConSite uses AI to estimate anomaly trends by analyzing big data including repair history. The accuracy of AI is improved by using testing tools to inspect machines before they fail and then re-learning based on the results and repair details.

### R&D System

HCM carries out R&D on its mainstay product lines that generate new customer value as well as on cutting edge technologies and platforms underpinning its products. This is achieved through collaboration within the Hitachi Group and with outside R&D partners, primarily through its R&D divisions, quality assurance department, and production engineering divisions.

With co-creation activities together with customers at the forefront, we pursue R&D for solutions that resolve the three customer challenges of improving safety and productivity, reducing life-cycle costs as well as for the creation of basic value in machinery that underpins these challenges, based on our solutions building, development and manufacturing capabilities.

In FY2018, we developed and implemented “Solution Linkage”, a series of solutions utilizing ICT. In addition, in April 2019, we newly established the Marketing Strategy Group with the purpose of quickly reflecting market trends and the voice of customers in our products and businesses. Through these activities, we are providing high value-added products and optimized solutions for customer challenges.

### Solution Linkage—new value provided by HCM

**In FY2017 the HCM Group began rolling out a proprietary solution called Solution Linkage that accumulates know-how while working together with customers to solve their unique challenges. Solution Linkage represents a form of value creation provided by the HCM Group, which has extensive experience in supporting customers’ businesses using ICT and IoT.**

HCM’s construction machinery that underpins social infrastructure has evolved considerably over the years driven by various technological innovations. At the same time, the mining sector, which is searching for greater management efficiencies, and construction sites, faced with labor shortages, both require greater innovations in the production process. The key to resolving these challenges is One Hitachi, where HCM spearheads efforts that transcend the geographic regions and business fields of the Hitachi Group to deliver valuable solutions for customers and society, along with the use of open innovation converging expert technologies with business partners.

The HCM Group uses One Hitachi and open innovation to address social issues around the world.
Began working with Whitehaven on autonomous haulage system for mining dump trucks

HCM has been carrying out demonstration testing aimed at the commercialization of an Autonomous Haulage System (AHS) for mining dump trucks in Australia since FY2017. In FY2018, we agreed to work with Whitehaven, Australia's largest specialized coal producer and seller, on the introduction of an AHS. In FY2019, we plan to roll out stages of an AHS for HCM’s EH6500AC-3 rigid dump trucks operating at the Maules Creek mine, one of Whitehaven’s core projects, as well as develop the infrastructure needed for this.

Promoting i-Construction

With worker and technician shortages growing in the construction industry, the issues of improving safety and productivity, reducing life-cycle costs faced by customers at work sites continue to increase in importance. In order to resolve these challenges, it is vital that we promote i-Construction, which seeks to increase the efficiencies of construction and civil works by using information communication technology or ICT.

In 2017, the HCM Group began offering Solution Linkage Cloud, a cloud-based solution that plays a central role in ICT construction solutions. In addition, we expanded ConSite services that provide optimal service solutions by remotely monitoring the operation and positional information of construction machinery. By providing ICT construction machinery and other solutions, we are supporting the realization of ICT construction at various job sites, including building foundation work, residential land development, and cultivated land improvements, among others. Furthermore, we began operating an ICT Demo Site in 2016 with the goal of broadening understanding of i-Construction and promoting ICT construction work. In April 2018, we opened Kagawa ICT Demo Site, our second such site in Japan.

In addition, in September, we revamped the demonstration area at the Amsterdam Plant of Hitachi Construction Machinery Europe in the Netherlands, marking the opening of our first ICT Demo Site outside of Japan. By promoting understanding of ICT construction among customers using this site and providing machinery for demonstrations at customer work sites, we are working to raise awareness about our ICT hydraulic excavators in the European market.

Launched new ICT construction machinery for small-scale civil works projects

In July 2018, we launched rentals of the ZX135USX-6 ICT hydraulic excavator in Japan. This all-new machine is ideally suited to small-scale projects by harnessing the small swing radius of a 13-ton class machine while maintaining the functions of the 20-ton ZX100X-6 ICT hydraulic excavator. We launched sales of this same machine in October 2018.

In addition, we developed a mini excavator system with 3D machine control function for the PAT blade and its complex movements using 3D design data and launched sales of the ZX35U-5B mini excavator with this same function in December 2018. This machine is suited to work at sports grounds or small-scale paving works, among others.

By providing such ICT construction machinery ideally suited to relatively small-scale projects, we are working to further promote the concept of i-Construction advocated by Japan’s Ministry of Land, Infrastructure, Transport and Tourism.

Technological development that saves labor

HCM has developed a number of products that apply the same technologies as hydraulic excavators in order to address the work needs of customers from various sectors. In 2005, we developed the Double-Arm Working Machine ASTACO (Advanced System for Twin Arm Complicated Operation) series machine, aiming to enable more complex work using a hydraulic excavator. Afterwards, we worked to increase operability, culminating in the commercialization of the ZX135TF-3 (ASTACO NEO) in 2012. Since then, we have developed the series further in order to resolve social issues, including reconstruction work in areas hit by disasters.

In 2018, we developed a Double-Arm Working Concept Machine featuring a four-leg crawler, with an eye toward further expanding the possibilities of construction machinery. This design also enables stable work on slopes and in undeveloped areas where it was difficult to maintain a level position with the standard two-leg crawler design.

Excavators with dual front arms make it possible for a single operator to perform complex actions such as cutting an object while holding it and bending long objects, which reduces labor. In addition, the four-leg crawler design expands the scope of activities. This technology is also expected to be useful in natural disasters. Looking ahead, we will continue R&D with a focus on the future potential of construction machinery.
CSV theme 3
Contributing to community development

In order to develop and grow in local communities, a company must understand the various characteristics of each local community and aim to grow together with it. The HCM Group, considering local communities to be an important stakeholder, aims to realize a sustainable society through activities that contribute to the development of communities while harnessing the characteristics of its business operations.

### Targets
- Support the self-sufficiency of emerging countries through infrastructure development
- Create jobs in the local community through the parts remanufacturing business
- Support environmental activities in the local community

### Key Initiatives
- Develop machinery and human resources that meet regional requirements
- Support the development of overall community infrastructure utilizing Hitachi Group integrated capability
- Provide financing and machinery to support infrastructure development

### Progress of main activities in FY2018

#### Fostering human resources in development in India

Tata Hitachi Construction Machinery in India established a training center within Dharwad Plant as a Japan-India Institute for Manufacturing (JIM) (opened in December 2017) 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 in India.

#### Creating employment opportunities in Zambia

The parts remanufacturing plant of Hitachi Construction Machinery Zambia actively hires local human resources as a plant closely rooted in the community. Currently, 155 out of 168 employees are Zambian, with OJT being implemented for employees as well as efforts put in to ensure prompt learning of skills.

#### Future initiatives

In FY2018, we worked on developing human resources in local communities with the goal of growing our businesses together with communities. These initiatives included our ongoing involvement 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.

### Policies concerning social contributions

In order to promote social contributions in a prioritized manner, the HCM Group formulated the Hitachi Construction Machinery Group Social Contribution Policy in FY2006. Based on this policy, we genuinely recognize our role as a member of society and continually engage in activities that address social issues, including humanitarian support, environmental conservation and local community coexistence. In FY2018, social contribution-related costs totaled 187 million yen. Details of our social contribution activities are featured on our website, which further deepens our relationship with society and propels continued implementation.

### Initiatives for local community support

In order to cultivate land in countries and regions around the world and establish a wholesome and enriched living environment for those living there, it is essential to thoroughly understand environmental issues on a global scale and address environmental and social issues faced by each local community.

#### Support activities in Cambodia

For example, Cambodia is known as the country with the highest density of landmines in the world 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 removal of landmines and infrastructure development. Following the removal of landmines, activities such as agricultural instruction and infrastructure development guidance are provided to support the self-reliance of local residents in Cambodia.

#### Policies concerning social contributions

Our group solves problems in society through our business, and contributes to society as a good corporate citizen for a better society. Also, our group contributes to society by providing personal, material and financial supports, with the participation of our employees, making the most of our group features, with the understanding of our stakeholders.

#### Support by the Hitachi Construction Machinery Group

Supporting the self-sufficiency of emerging countries through infrastructure development guidance are provided to support the self-reliance of local residents in Cambodia.
Results of domestic activities in FY2018

<table>
<thead>
<tr>
<th>Activity name</th>
<th>Company involved</th>
<th>Period</th>
<th>Content</th>
</tr>
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<tbody>
<tr>
<td>Forest Maintenance Activities at Hyogo Prefectural Mikiyama Forest Park</td>
<td>KCM</td>
<td>April 21 and November 10, 2018</td>
<td>We conducted forest maintenance activities at Hyogo Prefectural Mikiyama Forest Park in Miki, Hyogo as a way to promote forest development.</td>
</tr>
<tr>
<td>Toyotomi Denguri no Mori Woodland-Preservation Activity</td>
<td>Tadakiko</td>
<td>July 23 and December 14, 2018</td>
<td>At the Chiha Toyotomi Denguri no Mori event, employees volunteered participated in undergrowth mowing and thinning activities to preserve the underdeveloped secondgrowth area.</td>
</tr>
<tr>
<td>Hitachi Construction Machinery Festival in Hitachi-nsaka</td>
<td>Hitachi Construction Machinery</td>
<td>October 21, 2018</td>
<td>Held at the Hyogo Naka Rinko Works, the event was attended by approximately 3,500 participants, and held as a way of giving back to the local community.</td>
</tr>
<tr>
<td>Environment-related Lecture at the University of Shiga Prefecture</td>
<td>Hitachi Construction Machinery Times</td>
<td>November 7, 2018</td>
<td>Our environmental activities were highlighted in the lecture entitled &quot;Environmental Management Theory&quot; from the University of Shiga Prefecture as part of the Member Lecture Dispatch Program mediated by Shiga Green activity Network, a general incorporated association.</td>
</tr>
<tr>
<td>14th Hitachi Construction Machinery Festival</td>
<td>Hitachi Construction Machinery</td>
<td>November 18, 2018</td>
<td>The event was held at the Tsuchiura Works as a way of giving back to the local community at the Tsuchiura Works. Approximately, 5,500 people took part.</td>
</tr>
<tr>
<td>Cleanup activities as part of Environmental Beautification Day in Shiga Prefecture</td>
<td>Hitachi Construction Machinery Times</td>
<td>November 20 and December 4, 2018</td>
<td>In November, five employees took part in a cleanup campaign organized by the Preliminary, joining a total of 50 participants from the community in picking up 30kg of garbage.</td>
</tr>
</tbody>
</table>

TOPICS

- Forest Maintenance Activities at Hyogo Prefectural Mikiyama Forest Park
  
  On April 1, 2018, KCM entered the "Agreement Concerning Initiatives for Forest Maintenance Activities by Companies" with Hyogo Prefecture, Miki City and the Hyogo Great Promotion Council. We established the approx. 1.2 hectare a field for activities named "KoCoro no Mori" within the park. Following the first event on opening of the forest on April 21, the second event was held on November 10. With approximately 30 people in attendance including employees and other officials, we spent about three hours on thinning and removing trees following the detailed instructions of NPO Hyogo Mori Club. Going forward, we will continue to regularly implement activities.

Results of overseas activities in FY2018

<table>
<thead>
<tr>
<th>Activity name</th>
<th>Company involved</th>
<th>Period</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>LET’S PLAY! COMMUNITY DEVELOPMENT PROGRAM</td>
<td>Hitachi Construction Machinery</td>
<td>Year-round</td>
<td>We helped develop four multipurpose sports facilities during the year in less fortunate communities in South Africa together with other sponsors.</td>
</tr>
<tr>
<td>KAIZEN Activities Win Gold at the International Convention on Quality Control Circles</td>
<td>Hitachi Construction Machinery</td>
<td>Year-round</td>
<td>These activities are ongoing.</td>
</tr>
<tr>
<td>Participation in afforestation activities in India</td>
<td>Brakken</td>
<td>September and December, 2018</td>
<td>In September, we planted 120 seedlings around the Chelfilipakam Reservoir close to the Construction Works. In December, we planted an additional 80 seedlings as part of these activities.</td>
</tr>
<tr>
<td>Desert afforestation volunteer activities in the Horqin Desert</td>
<td>Hitachi Construction Machinery (China), Hitachi Construction Machinery (Shanghai)</td>
<td>September 18-21, 2018</td>
<td>A total of 40 volunteers took part from the suppliers’ organization of Hitachi Construction Machinery (China) and Hitachi Construction Machinery (Shanghai), conducting a seeded relay to supply water.</td>
</tr>
<tr>
<td>Workshop on universal design</td>
<td>Hitachi Construction Machinery Malaysia</td>
<td>October 10, 2018</td>
<td>This workshop was held to educate Klang Valley high school students in Malaysia about the importance of designing accessible products and facilities for a diversifying society.</td>
</tr>
<tr>
<td>Company visits by students</td>
<td>Hitachi Construction Machinery Indonesia</td>
<td>December 12, 2018</td>
<td>We hosted a company visit by 63 high school students and five teachers from Namana Besek in Central Java State, where we explained about the company and took the group on a plant tour. This workplace visit provided an educational opportunity for students.</td>
</tr>
</tbody>
</table>

TOPICS

- Desert afforestation activities in China recognized by the United Nations Decade on Biodiversity-Japan (UNDB-J)

  Hitachi Construction Machinery (Shanghai) launched afforestation volunteer activities in the Horqin Desert in 2004. By 2014, vegetation and trees had been re-vegetated covering some 100,000 m² of desert in an area known as the Hitachi Construction Machinery Forest. Starting in 2015, we began tree planting as part of a 10-year plan with the goal of restoring 130,000 m² of forest land in a separate location in the desert together with dealers in China. In a separate location, Hitachi Construction Machinery (China) is also working to restore vegetation covering 100,000 m² over a 10-year period beginning in 2017. The activities of both companies were recognized as an authorized cooperative project by the United Nations Decade on Biodiversity-Japan (UNDB-J) in March 2018.
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 deliver innovative and highly reliable products, and 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.

Key Initiatives

- Realize the vision of “Made by Hitachi” uniform worldwide quality
- Develop talented manufacturing technicians
- Improve service support capabilities

Progress of main activities in FY2018

Enhance organizational structure for quality assurance

We have considered revising the organizational structure in order to further enhance governance for quality assurance. Since April 2019, the Quality Assurance Division (which had been under the Development Production Department) has been placed under direct control of the president.

Launched Quality Information Navigation

Quality Information Navigation, which was developed in FY2017 to support the quality management system of Group companies overseas, was launched in FY2018. Training documents, work manuals and recording formats have been revamped for ease of reading and use by those overseas.

International Skills Competition

A total of 82 participants from Group companies and affiliated companies in Japan and overseas who won their respective qualifiers competed in eight games. We hold this competition annually with the goal of improving skills and the quality management of the entire Group.

Future initiatives

In order to achieve the vision of “Made by Hitachi” within the expanding global supply system, it is important to promptly obtain data on quality and address any deficiency in quality without delay. Going forward, we will prevent defects through statistical processing, stop forged data and falsify possibles (quality compliance) through automation, and improve operational efficiency by introducing IoT.

Basic policy on quality control

Since the establishment of the HCM Group, we have dedicated ourselves to customer-first quality assurance that centers on the legendary oicho hiro (gleanings) concept passed down from Hitachi. This philosophy is illustrated in The Gleaners by artist Jean-François Millet, which suggests that each accident and defect should be examined for lessons to be learned from mistakes in order to thoroughly prevent recurrences. The Quality Assurance Center established at the Tsuchiura Works (the mother plant for the HCM Group) under the Corporate Quality Assurance Division provides information, 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 Group companies 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 FY2019, the Corporate Quality Assurance Division was placed under direct control of the president. By having the president directly oversee the Quality Assurance Division, we are able to further strengthen governance for quality assurance.

Ensure product safety

The reliability paramount to the construction machinery of HCM is made possible by strict quality control. Our basic philosophy is to contribute to the enhancement of social capital and the improvement of people’s lives by developing excellent proprietary technologies and products. We are committed to providing customers with safe products and reliable technologies that fully meet their needs both inside and outside of Japan.

We have established the Company-wide PS Committee as a management system for product safety. This committee promotes activities that ensure we supply customers with products with an even higher level of safety and reliability. The head of the Corporate Quality Assurance Division serves as the committee chair. The committee conducts information sharing of product safety and product liability within and outside of the company, as well as deliberates countermeasures based on reports on safety defects received from service divisions.

Moreover, we utilize media such as the website to promptly publish recall information as well as apply feedback received from customers to product safety.

FY2018 Global Monozukuri Diagnosis

During Global Monozukuri Diagnosis activities in FY2018, a diagnostic technician for each of the processes at Tsuchiura Works, from assembly to mechanical processing, from manufacturing, painting, and quality management, visited all 13 production sites at Group companies around the world to visualize vulnerabilities in manufacturing capabilities and quality management through diagnosis, and provide assistance for improvement. Storytelling sessions are held in which senior experts in each field convey their operational approaches, failings and technical know-how to engineers working on the frontlines. These sessions were held on 45 occasions at the head office and Group companies, reaching a total of 1,222 employees.
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. Moreover, ensuring a good work-life balance and work environment that enables employees to thrive will also enhance corporate value. The HCM Group is 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.

Key Initiatives

- Achieve intrinsic safety
- Rebuild a safety culture
- Implement safety activities and thorough communication and the elimination of unsafe behaviors.

Response to ISO 45001

Until now, the HCM Group has promoted activities to expand its OHSAS 18001 certification. Following the publication of ISO 45001 (International Standard for Occupational Health and Safety Management System) in March 2018, we launched initiatives geared towards switching and obtaining this certification.

Introduction of telework system

The telework system implemented on a trial basis since last year was officially adopted in January 2019. We are working to create a comfortable and dynamic work environment, while ensuring that each and every employee can use their limited time to the maximum effect.

Host of Magnet for managers

In FY2018, the presentation was held with each group business site in Japan sharing their original initiatives on safety activities and results of their creativity for reducing workload, involving both the labor and management side. The event is held annually with the goal of sharing each company's own health and activity results to learn from others.

Progress of main activities in FY2018

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Key Initiatives</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make efforts to completely eliminate occupational injuries</td>
<td>Achieve intrinsic safety</td>
<td>Reduce the total overtime of employees to a monthly average of 15 hours or less by FY2020 (HCM non-consolidated basis)</td>
</tr>
<tr>
<td>Increase the number of business sites with ISO 45001 (occupational health and safety management system) certification</td>
<td>Rebuild a safety culture</td>
<td>Reduce the average number of annual paid leave days taken by all employees to 17 or more days by FY2020 (HCM non-consolidated basis)</td>
</tr>
<tr>
<td>Global management for health and safety of employees</td>
<td>Establish a Safety Day (every month) to promote health and safety activities and results of their creativity</td>
<td>Increase the number of business sites with ISO 45001 (occupational health and safety management system) certification</td>
</tr>
</tbody>
</table>

FY2018, Initiatives for health and productivity management

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. In particular, 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. In FY2018, stress checks were performed in November, with approximately 10,000 employees across the HCM Group in Japan receiving one. Going forward, we will strive to improve the overall quality of industrial health, including mental health care.

Initiatives for Work Style Reform

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. With this in mind, the HCM Group is working to create a comfortable and dynamic work environment that further utilizes human resources.

<table>
<thead>
<tr>
<th>FY2018</th>
<th>Policies and key measures in FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2018</td>
<td>1. Basic philosophy: “Preservation of safety and health should always come first.”</td>
</tr>
<tr>
<td>2. Policy: All employees shall cooperate, honestly, cheerfully and comfortably workplaces through the elimination of all occupational accidents with a strong conviction that “all occupational accidents can be prevented”</td>
<td></td>
</tr>
<tr>
<td>3. Promotion for Eliminating Occupational Accidents (For the Entire Group)</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.81</td>
</tr>
<tr>
<td>2016</td>
<td>0.74</td>
</tr>
<tr>
<td>2017</td>
<td>0.73</td>
</tr>
<tr>
<td>2018</td>
<td>0.75</td>
</tr>
</tbody>
</table>

* frequency rate: The number of incidents per 1,000,000 employee-hours worked 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.)


<table>
<thead>
<tr>
<th>0.5</th>
<th>1.0</th>
<th>1.5</th>
<th>2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.46</td>
<td>0.81</td>
<td>1.19</td>
<td>1.66</td>
</tr>
</tbody>
</table>

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. In particular, 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. In FY2018, stress checks were performed in November, with approximately 10,000 employees across the HCM Group in Japan receiving one. Going forward, we will strive to improve the overall quality of industrial health, including mental health care.
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. Fostering of human capital is critical to improving productivity given Japan’s limited labor force. 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
- 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

### Key Initiatives
- Management localization
- Development and recruitment of local human resources
- Global personal management leveraging diversity

### Activities to develop global human resources

#### Empower women in the workplace
We have promoted measures for developing an employment environment where women can work at a high level of motivation. As part of our career development support system, we dispatched junior female employees to an outside career development seminar and published career models internally by division.

#### Promote diversity
We have implemented many measures based on the policy of harnessing the individual characteristics of our diverse pool of human resources to add to the strength of the organization, which contributes to the continued growth of both individuals and the organization. We are working on initiatives recognizing that achieving diversity is an important task of management.

### Progress of main activities in FY2018

- With the economy becoming more globalized, it is critical to cultivate global human resources. The succession plan will be promoted as a continuous initiative. In addition, we aim to foster global and local human resources through expanding education opportunities and enriching education programs.
- We strive for the continued growth of individuals and the Group by encouraging innovation with the synergistic effects from various sources.

### Future initiatives

- We will continue to foster global human resources through initiatives taken in FY2018 as well as new initiatives.
- We will expand the global human resources development programs and continue to promote diversity.

### Basic policy on human resource development

Human resource development is a common challenge for all divisions both in Japan and overseas. The HCM Group considers human resource development one of management’s most important themes, and promotes expansion of education opportunities and enrichment of education programs. The HCM Group has developed a succession plan that applies to the entire Group. The plan involves the heads of each company and division identifying the requirements of the duties of the workers they are responsible for. In turn, the duties and career path of each individual employee of the HCM Group can be visualized across the entire organization in order to plan and execute training of successors with a medium- to long-term vision. This approach enables us to utilize human resources strategically.

Since 1996, each division in Japan has actively accepted intern trainees from overseas Group companies as part of the successor training program. Since 2016, managerial level trainees have also been accepted. As of FY2018, a total of 260 intern trainees have been accepted, while there are currently 34 in training as of May 2019. We hope to enhance the organization’s performance by actively accepting diverse overseas personnel and expanding opportunities to utilize such human resources.

### Basic policy on diversity

In order to be recognized and thrive as a truly global company, we cannot continue on a linear path; instead we need to develop our business based on new strategies and ideas. To achieve this vision, it is important to recognize the different values and characteristics of each and every person who supports the business while respecting their diversity, regardless of race, nationality, gender, and age.

Based on this recognition, we established the Diversity Promotion Group in 2011, which strives to address the five themes on diversity for the HCM Group; namely, building a foundation for diversity, work style reforms (work-life and management), supporting the participation of women and minorities, supporting the activities of national staff, and globalization of HCM in Japan. From FY2016, the Human Resource Division has headed up these efforts. The progress and planning of activities is verified through the CSR and Diversity Committee.

We strive to promote and instill the values of diversity through platforms such as various rank-specific training for our employees.
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. The HCM Group shares its vision and policies on CSR with suppliers to promote CSR activities across the entire value chain.

### Key Initiative Theme 4

**Creating better business transactions and value chains**

The HCM Group revised its Anti-Corruption Regulations in 2017 in order to address the global risk of bribery. The revisions clear language on banning facilitation payments, compliance screenings of suppliers, and procedures for compliance screenings when hiring current or former public servants. Overseas Group companies newly joining the Group are required to adopt the newly revised regulations to ensure the same standards across the entire HCM Group. Suppliers are required to fully prevent improper benefits as part of the business ethics clearly stipulated in the Hitiaki Group CSR Procurement Guideline. We also utilize e-learning (global edition) on Anti-bribery released by Hitachi in order to increase basic knowledge about all aspects of corrupt practices, including bribery.

#### Procurement Policy

As the social responsibilities of companies increase in the international community, we must share CSR awareness with business partners and take steps to prevent risk in the supply chain.

The HCM Group distributes and makes known to suppliers the Hitiaki Group CSR Procurement Guideline the 3rd Edition as its CSR code of conduct and standards that must be complied with during the course of business. In addition, the HCM Group has established the Procurement Policy and Guidelines for Procurement Activities, which is made known to widely to the general public through its website. These policies give due consideration to social and environmental aspects, including legal compliance, environmental conservation, human rights and labor environment, as well as compliance with social responsibility awareness with business partners.

Procurement divisions conduct strict screenings when selecting new suppliers that examine whether or not these new suppliers are fulfilling their social responsibilities, such as sharing awareness of social responsibilities with business partners.

#### Initiatives for preventing bribery

The HCM Group revised its Anti-Corruption Regulations in 2017 in order to address the global risk of bribery. The revisions clear language on banning facilitation payments, compliance screenings of suppliers, and procedures for compliance screenings when hiring current or former public servants. Overseas Group companies newly joining the Group are required to adopt the newly revised regulations to ensure the same standards across the entire HCM Group. Suppliers are required to fully prevent improper benefits as part of the business ethics clearly stipulated in the Hitiaki Group CSR Procurement Guideline. We also utilize e-learning (global edition) on Anti-bribery released by Hitachi in order to increase basic knowledge about all aspects of corrupt practices, including bribery.

Thanks to these initiatives, in FY2018, there were no incidents involving bribery-related violations or sanctions.

### Implementation of supplier CSR survey

In FY2018, we conducted a CSR survey targeting suppliers who account for approx. 90% of Hitachi Construction Machinery's independent purchases of products. The response rate was 83.5%. We have requested improvements from suppliers whose evaluation results were not favorable and are carrying out continual improvement activities.

#### Transaction audits and legal compliance training

We are focusing efforts on transaction audits and legal compliance training for employees, aimed at ensuring fair transactions. We are increasing the transparency of audits by performing transaction audits bi-annually using self-audits as well as annual reciprocal audits within the HCM Group.

#### Response to conflict minerals

To ensure that we do not fund the activities of armed groups in conflict areas by procuring parts that contain conflict minerals, we have established a clear policy on responsible procurement activities and we engage suppliers to ensure they do not use conflict minerals.

### Progress of main activities in FY2018

#### Future initiatives

In FY2018, we worked to prevent risks in the supply chain by strictly carrying out the internal review process for new suppliers, in addition to requesting all suppliers to comply with the Hitachi Group CSR Procurement Guideline. We believe responding to procurement risks is an ongoing issue and going forward we will seek to identify such risk as far in advance as possible to help mitigate it.
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.

**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.

**Progress of main activities in FY2018**

**Compliance Education and Training**

We provide e-learning on the HCM Group Codes of Conduct, bribery prevention, and compliance with competition laws to the officers, employees and temporary employees of HCM and HCM Group companies in Japan along with managers at HCM Group companies overseas. In fiscal 2018, a total of 10,153 employees from across the HCM Group took part in compliance training.

**Human rights training**

We continually provide education on human rights for the purpose of improving each individual employee’s awareness in developing an organization free of human rights violations. In FY2018, a total of 1,912 employees (total of HCM and domestic Group companies) attended various training opportunities.

**Safety confirmation system training**

In addition to the use of the safety confirmation system regularly, the HCM Group has established a centralized information management system to handle information on disasters, incidents, accidents, and infrastructure failures in order to facilitate the confirmation of employees’ safety.

**Future initiatives**

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.

**Key Initiatives**

- Establish a fair and highly transparent organizational framework.
- Respect international principles on human rights.
- Respect to diversifying global risks.
- Instill and establish awareness of compliance.

**Targets**

- Strengthen global governance.
- Management transparency.
- Fair tax strategies.
- Risk management, including ESG.

**Materiality**

**Future initiatives**

- Risk management, including ESG.
- Strengthen global governance.
- Management transparency.
- Fair tax strategies.
- Risk management, including ESG.

**Corporate governance system (as of June 25, 2018)**

**Ensuring constant independence from the parent company**

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 Chief Executive Officer in making business decisions. The Executive Committee exercises control regarding important matters related to the company’s operation.

**Corporate bodies**

- **Board of Directors**
  - Ten (10) directors, of whom three (3) are Outside Directors (two [2] male and one [1] female). The Representative Executive Officer is concurrently taking a post as an executive officer at Hitachi as of June 24, 2019, which creates a situation where he may have an impact on HCM’s management policy decisions through expressing his opinions at board meetings. However, the board members concurrently taking on executive officer posts at Hitachi are less than the majority of HCM’s board members, and because three of HCM’s outside directors are registered with the Tokyo Stock Exchange as independent officers, HCM believes that it is able to make independent management decisions. Terms of business with Hitachi and its group companies are rationally determined based on mutual accord, referencing market prices, etc.

- **Executive Committee**
  - Eighteen (18) executive directors
  - Compensation Executive Officer, President and Chief Executive Officer/CIO
  - Executive Committee
    - Eighteen (18) executive officers
  - Audit Committee
    - Five (5) directors (of whom one (1) is the Audit Committee Chair)
  - Nominating Committee
    - Five (5) directors (of whom three (3) are outside directors)
  - Audit Committee Secretariat
    - Five (5) directors (of whom three (3) are outside directors)
  - Audit Committee
    - Five (5) directors (of whom three (3) are outside directors)
  - Compensation Committee
    - Three (3) directors (of whom two (2) are outside directors)

**Corporate Outline**

**Financial Strategy**

Hitachi Construction Machinery CSR & Financial Report 2019
Our Business

- 1,181 persons
- 1,593 persons

Business Performance

- always assess risks, and strive to prevent those risks, or to minimize them. The HCM Group promotes the development of “Solution Linkage,” utilizing ICT and IoT to offer solutions to customers’ challenges on safety, productivity, and decrease in lifecycle costs. And, to expand the sources of revenue besides new machine sales in addition to the existing parts & service business, we are expanding the value chain (Parts & Services, Solution business, Rental etc. other than new machine sales) by enhancing the parts & service business for mining machines and facilities provided by H-E Parts and Bradken.

When engaging in corporate activities, there are risks of encountering natural disasters, accidents, or legal violations. Based on this awareness, the HCM Group exercises risk management under the lead of the Compliance and Risk Management Division. We establish a Compliance Promotion Manager and Compliance Promotion Officers at each Group company to promote activities in coordination with the Compliance Promotion Center of the HCM Group’s Legal Department. Furthermore, we have two types of whistle-blowing system in place to promote compliance awareness among employees; namely, the Compliance Hot Line and Global Alert Line. In FY2018, there were 69 reports filed. Among these, about 20% were related to harassment while 30% were related to violations of laws or regulations during the course of business operations. None of the details communicated or reports filed pose major risk to the HCM Group.

Compliance-Risk management structure

Head of the Hitachi Construction Machinery
Compliance & Risk Management Div.

Branch*: Group Company

- Construction Machinery
- Construction Developers
- Construction Machinery Europe
- Construction Machinery Australia
- Construction Machinery Americas
- Construction Machinery China
- Construction Machinery Americas

- Compliance Promotion Officers

- Risk Committee

Basic policy on compliance

The HCM Group defines compliance as understanding of the codes of conduct and taking actions with a high degree of ethics, honesty and fairness, in addition to observing laws. 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 on an as-needed basis, and the results of various compliance measures are publicized. Meetings also deliberate on the effectiveness of measures for preventing the recurrence of misconduct.

We establish a Compliance Promotion Manager and Compliance Promotion Officers at each Group company to promote activities in coordination with the Compliance Promotion Center of the HCM Group’s Legal Department. Furthermore, we have two types of whistle-blowing system in place to promote compliance awareness among employees; namely, the Compliance Hot Line and Global Alert Line. In FY2018, there were 69 reports filed. Among these, about 20% were related to harassment while 30% were related to violations of laws or regulations during the course of business operations. None of the details communicated or reports filed pose major risk to the HCM Group.

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- Construction Developers
- Construction Machinery Europe
- Construction Machinery Australia
- Construction Machinery Americas
- Construction Machinery China
- Construction Machinery Americas

- Compliance Promotion Officers

- Risk Committee

Basic policy on respect for human rights

In order for a company to continually expand globally, it is imperative to establish a corporate culture that enables each and every employee to respect the rights and personality of one another and exert their greatest creative potential in all regions both inside and outside of Japan. 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 provide education on 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. We conduct training concerning harassment during our compliance training in order to create workspaces that are sound and comfortable. For reports concerning human rights, employees can use the internal whistle-blower system and external stakeholders can use the inquiries feature on our website.

Going forward, human rights initiatives will be applied at an individual level while we aim to create a work environment that empowers diverse human resources to take an active role.

Results of human rights training in fiscal 2018

- Participation in training (excluding fiscal) 502 persons
- Number of completed rank-specific training 88 persons
- Number of participants that are general employees 12 persons

Business Discussion and Analysis

The HCM Group launched a new mid-term management plan, “CONNECT TOGETHER 2019”, in April 2017. We are promoting the development of “Solution Linkage” utilizing ICT and IoT to offer solutions to customers’ challenges on safety, productivity, and decrease in lifecycle costs. And, to expand the sources of revenue besides new machine sales in addition to the existing parts & service business, we are expanding the value chain (Parts & Services, Solution business, Rental etc. other than new machine sales) by enhancing the parts & service business for mining machines and facilities provided by H-E Parts and Bradken.

In the Amsterdam factory of Hitachi Construction Machinery Europe, we opened ICT demonstration sites where customers can experience ICT construction. We also decided to introduce ICT hydraulic excavators to the European market, which will be the first time in the overseas market, to strive to spread ICT construction beyond the Japanese market. In Oceania, we decided to establish a new regional headquarters in April 2019 in order to strengthen its business in the region and further expand its construction machinery and mining machinery sales as well as its parts and service business in Europe. In Europe, which has some of the strictest regulations in the world, with the prospect of a rise in demand for EV construction machinery, a new company, EAC, was established with a German distributor for developing electric construction machinery and special application products, developed electric excavators in the 2t and 3t classes as concept models. We are focusing on expanding sales of the well-accepted AC-3 series of rigid dump trucks equipped with an advanced vehicle body stability-assist function, in addition to offering a fleet management system and aggressively developing an autonomous haulage system (AHS) to optimize the mining operations that we promote jointly with Whitehaven Coal in Australia, by taking advantage of the HCM Group’s strengths.

Additionally, we are working to restructure the main domestic bases to further strengthen our technical capabilities and product development to create a more efficient production system. At the same time, we are working to optimize capital investments and reduce fixed costs, establishing a high profit structure. As part of restructuring, on April 1, 2019 we implemented an absorption-type merger of KCM Corporation, which is a full subsidiary and takes part in the development and production of wheel loaders. Also, at five factories in Ibaraki Prefecture, our energy consumption activities have been well appraised and we won the EJCQ Chairman Prize of the Energy Conservation Grand Prix foresignal energy conservation equipment for Fiscal 2018 (hosted by The Energy Conservation Center, Japan).

Consolidated revenue for this term (April 1, 2018 to March 31, 2019) increased by 7.8% year on year to ¥1,033,703 million due to increased sales of new machines mainly in Asia and Oceania, North America, and Europe, as well as increased sales of the value chain business mainly from parts & services. Adjusted operating income increased by 24.9% year on year to ¥116,841 million, operating income increased by 6.9% to ¥102,206 million, and net income attributable to the owners of the parent increased by 14.2% to ¥68,542 million due to a decrease in the cost of sales, in addition to the contribution of the parts & service business and mining business.

Principles Regarding Appropriation of Earnings and Dividends for the Year under Review and the Fiscal Year Ending March 31, 2020

The HCM Group will maintain and strengthen its financial structure and work to bolster its internal reserves while considering implementation plans for upfront investments, including investments for technology development and facilities based on medium- and long-term business strategies. At the same time, the HCM Group will pay dividends of surplus linked to its consolidated business results twice annually, comprising interim and year-end dividends, with a target payout ratio of around 30% or higher. With the aim of enabling the execution of a flexible capital policy, Hitachi Construction Machinery will acquire treasury shares in consideration of necessary, financial conditions, and stock price movement.

With regard to the FY2018 year-end dividend, at the Meeting of the Board of Directors held on May 21, 2019, a resolution was approved for cash dividends per share of ¥57 with the record date of March 31, 2019. As a result, cash dividends for the entire FY2018 amounted to ¥100 per share. Dividends for FY2019 are to be determined.
### Consolidated Balance Sheets

**Assets**

<table>
<thead>
<tr>
<th>Item</th>
<th>Previous fiscal year (reference)</th>
<th>Current fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of March 31, 2018</td>
<td>As of March 31, 2019</td>
</tr>
<tr>
<td>Current assets</td>
<td>597,829</td>
<td>673,888</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>81,297</td>
<td>67,347</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>219,599</td>
<td>238,234</td>
</tr>
<tr>
<td>Inventories</td>
<td>255,623</td>
<td>324,844</td>
</tr>
<tr>
<td>Income taxes receivable</td>
<td>1,894</td>
<td>1,167</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>28,029</td>
<td>25,906</td>
</tr>
<tr>
<td>Other current assets</td>
<td>10,342</td>
<td>14,110</td>
</tr>
<tr>
<td>Subtotal</td>
<td>597,416</td>
<td>671,606</td>
</tr>
<tr>
<td>Assets held for sale</td>
<td>413</td>
<td>2,282</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>497,967</td>
<td>511,348</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>299,987</td>
<td>311,245</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>37,748</td>
<td>42,092</td>
</tr>
<tr>
<td>Goodwill</td>
<td>35,016</td>
<td>34,564</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>29,549</td>
<td>32,628</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>41,392</td>
<td>44,357</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>17,443</td>
<td>19,145</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>20,148</td>
<td>17,279</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>10,644</td>
<td>10,058</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,089,796</td>
<td>1,185,256</td>
</tr>
</tbody>
</table>

**Liabilities**

<table>
<thead>
<tr>
<th>Item</th>
<th>Previous fiscal year (reference)</th>
<th>Current fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of March 31, 2017</td>
<td>As of March 31, 2018</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>366,422</td>
<td>470,623</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>268,230</td>
<td>259,570</td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>68,692</td>
<td>185,644</td>
</tr>
<tr>
<td>Income tax payables</td>
<td>11,000</td>
<td>12,912</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>11,584</td>
<td>10,165</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>5,716</td>
<td>3,235</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>218,344</td>
<td>171,972</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>18,837</td>
<td>16,203</td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>140,773</td>
<td>119,167</td>
</tr>
<tr>
<td>Retirement and severance benefits</td>
<td>17,341</td>
<td>17,958</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>11,514</td>
<td>8,726</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>2,356</td>
<td>1,158</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>2,722</td>
<td>8,748</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>584,766</td>
<td>442,595</td>
</tr>
</tbody>
</table>

**Equity**

| Item                                                                 | Previous fiscal year (reference) | Current fiscal year |
|                                                                     | As of March 31, 2017             | As of March 31, 2018 |
| Equity attributo to owners of the parent                            | 448,502                          | 486,407             |
| Common stock                                                        | 81,297                           | 81,577              |
| Capital surplus                                                     | 81,991                           | 81,991              |
| Retained earnings                                                   | 279,201                          | 328,344             |
| Accumulated other comprehensive income                              | 8,802                            | 2,428               |
| Treasury stock, at cost                                            | 3,069                            | 3,077               |
| Non-controlling interests                                           | 56,529                           | 56,529              |
| Total equity                                                        | 505,030                          | 542,661             |
| Total liabilities and equity                                       | 1,089,796                        | 1,185,256           |

### Consolidated Statements of Income

**Revenue**

| Item                                                                 | Previous fiscal year (reference) | Current fiscal year |
|                                                                     | From April 1, 2017               | From April 1, 2018   |
|                                                                     | to March 31, 2017                | to March 31, 2018    |
| Revenue                                                             | 959,153                          | 1,033,703           |
| Cost of sales                                                       | △ 695,316                       | △ 735,507           |
| Gross profit                                                        | 263,837                          | 298,196             |
| Selling, general and administrative expenses                       | △ 170,205                       | △ 181,355           |
| Adjusted operating income                                          | 93,562                           | 116,841             |
| Other income                                                       | 6,458                            | 5,369               |
| Other expenses                                                     | △ 4,503                          | △ 19,914            |
| Operating income                                                   | 95,737                           | 102,796             |
| Financial income                                                   | 2,910                            | 3,781               |
| Financial expenses                                                 | △ 7,290                          | △ 8,091             |
| Share of profits (losses) of investments accounted for using the equity method | 4,355                          | 4,714               |
| Income before income taxes                                         | 95,612                           | 102,702             |
| Income taxes                                                       | △ 26,290                         | △ 28,516            |
| Net income                                                         | 69,222                           | 74,186              |

**Net income attributable to**

| Item                                                                 | Previous fiscal year (reference) | Current fiscal year |
|                                                                     | From April 1, 2017               | From April 1, 2018   |
|                                                                     | to March 31, 2017                | to March 31, 2018    |
| Owners of the parent                                               | 66,004                           | 68,042              |
| Non-controlling interests                                          | 3,218                            | 5,844               |
| Net income attributable to owners of the Parent per share (basic) (yen) | 69,222                           | 74,186              |
| Net income attributable to owners of the Parent per share (diluted) (yen) | 282,16                          | 322,31              |

### Consolidated Statements of Comprehensive Income

**Net income**

| Item                                                                 | Previous fiscal year (reference) | Current fiscal year |
|                                                                     | From April 1, 2017               | From April 1, 2018   |
|                                                                     | to March 31, 2017                | to March 31, 2018    |
| Net income                                                         | 69,222                           | 74,186              |

**Other comprehensive income**

| Items that cannot be reclassified into net income                  | Previous fiscal year (reference) | Current fiscal year |
|                                                                  | From April 1, 2017               | From April 1, 2018   |
|                                                                  | to March 31, 2017                | to March 31, 2018    |
| Net gains and losses from financial assets measured at fairvalue through OCI | 1,444                           | △ 1,743             |
| Remeasurments of defined benefit obligations                      | △ 278                           | △ 1,077             |
| Other comprehensive income of equity method associated            | 7                               | 7                   |
| Items that can be reclassified into net income                    | △ 2,425                         | △ 8,988             |
| Foreign currency translation adjustments                           | 160                             | 64                  |
| Other comprehensive income of equity method associated            | △ 313                           | △ 502               |
| Non-controlling interests                                        | 6,171                           | 61,962              |
| Comprehensive income attributable to owners of the Parent        | 58,497                           | 57,445              |
| Non-controlling interests                                        | 9,280                           | 4,502               |
### Consolidated Statements of Changes in Equity

**Current Fiscal Year**

<table>
<thead>
<tr>
<th>Equity attributable to owners of the Company</th>
<th>Accumulated other comprehensive income</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Revaluations of non-controlling interests</th>
<th>Revaluations of subsidiaries</th>
<th>Equity attributable to owners of the Company at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>81,577</td>
<td>81,991</td>
<td>279,201</td>
<td>△1,222</td>
<td>△1,741</td>
<td>81,991</td>
</tr>
<tr>
<td>Cumulative effects of changes in accounting policies</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>Restated balance</td>
<td>81,577</td>
<td>81,991</td>
<td>279,233</td>
<td>△1,222</td>
<td>△1,741</td>
<td>81,991</td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td>68,542</td>
<td>△1,098</td>
<td>△1,741</td>
<td>68,542</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>133</td>
</tr>
<tr>
<td>Comprehensive income for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>△133</td>
</tr>
<tr>
<td>Acquisition of treasury stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of treasury stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends to stockholders of the Company</td>
<td>△19,564</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in ownership interests in subsidiaries without a loss of control</td>
<td>△19,564</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in the scope of consolidation</td>
<td>△19,564</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td>△133</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>△133</td>
</tr>
<tr>
<td>Expiration of subscription rights</td>
<td>△133</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>△133</td>
</tr>
<tr>
<td>transactions with owners</td>
<td>△133</td>
<td></td>
<td>△19,564</td>
<td>△1,098</td>
<td>△1,741</td>
<td>△19,564</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>△7,429</td>
<td>△2,428</td>
<td>△2,077</td>
<td>△2,077</td>
<td>△2,077</td>
<td>△2,077</td>
</tr>
</tbody>
</table>

**Restated balance**

<table>
<thead>
<tr>
<th>Equity attributable to owners of the Company</th>
<th>Accumulated other comprehensive income</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Revaluations of non-controlling interests</th>
<th>Revaluations of subsidiaries</th>
<th>Equity attributable to owners of the Company at end of year</th>
</tr>
</thead>
<tbody>
<tr>
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<td>81,991</td>
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<td></td>
<td></td>
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<td></td>
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<tr>
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<td></td>
<td>△133</td>
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<td></td>
<td></td>
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<td></td>
<td>△133</td>
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<tr>
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<td>△2,077</td>
<td>△2,077</td>
<td>△2,077</td>
<td>△2,077</td>
</tr>
</tbody>
</table>
Company Information

**Company Profile** (As of March 31, 2019)

- **Company Name**: Hitachi Construction Machinery Co., Ltd. (Hitachi Koki Kabushiki Kaisha)
- **Paid in Capital**: 81,576 million yen
- **Head Office**: 16-1 Higashiuruma 2-chome, Taito-ku, Tokyo, 110-0015, Japan
- **Establishment**: October 1, 1970
- **Employees**: 24,591 (Consolidated) 4,341 (Non-consolidated)
- **Major Operations**: Manufacturing, sales, rental and service of construction machinery, transportation machinery, environmental related products and other machines and devices

**Investor Information** (As of March 31, 2019)

- **Stock Exchange of Listing**: First Section of the Tokyo Stock Exchange
- **Accounting Auditor**: Ernst & Young ShinNihon LLC
- **Stock Transfer Agent**: Tokyo Securities Transfer Agent Co., Ltd.
- **Number of Shares Authorized**: 700,000,000
- **Number of Shares Issued**: 215,115,038
- **Number of Shareholders**: 27,598
- **Annual Meeting**: The annual meeting of shareholders is usually held before the end of June in Tokyo.

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

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares held</th>
<th>Ownership ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi, Ltd.</td>
<td>108,058</td>
<td>50.81</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (trust account)</td>
<td>24,793</td>
<td>11.66</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account)</td>
<td>24,793</td>
<td>11.66</td>
</tr>
<tr>
<td>Trust &amp; Custody Services Bank, Ltd. (securities investment trust account)</td>
<td>24,793</td>
<td>11.66</td>
</tr>
<tr>
<td>GOLDMAN, SACKS &amp; CO., INC.</td>
<td>3,257</td>
<td>1.53</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account 9)</td>
<td>3,257</td>
<td>1.53</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account 7)</td>
<td>3,257</td>
<td>1.53</td>
</tr>
<tr>
<td>JP Morgan Chase Bank, 365151</td>
<td>1,577</td>
<td>0.74</td>
</tr>
<tr>
<td>STATE STREET BANK WEST CLIENT - TREATY 555234</td>
<td>1,577</td>
<td>0.74</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (trust account 5)</td>
<td>1,577</td>
<td>0.74</td>
</tr>
</tbody>
</table>

**HCM’s Disclosure Media**

- **CSR & Financial Report**: This report comprehensively covers the HCM Group’s management strategy as well as financial and non-financial (ESG) information.
- **Corporate Governance Report**: This report provides information about the HCM Group’s basic approach to corporate governance and capital structure, among other topics.
- **Environmental activities (corporate website)**: HCM’s corporate website provides in-depth information about its environmental management system and various information on environmental performance.

**External evaluation**

- **FTSE4Good Global Index Series**: We were selected for inclusion in the Responsible Investment (RI) indices for global companies (As of June, 2019).
- **FTSE Blossom Japan Index**: We are recognized as a Japanese company managing in excellent manner corporate social responsibility (CSR), the management structure and corporate social responsibility (CSR) (As of June, 2016).
- **SNAM Sustainability Index**: We have been selected for inclusion in the index managed by Sompo Japan Nipponkoa Asset Management Co., Ltd. (SNAM) (As of June, 2016).
- **Web**: HCM’s corporate website features activities not appearing in this report along with more comprehensive performance data.

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- **Number of Shareholders**: 27,598
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**Composition of Shareholders**

- **Foreign companies and foreigners**: 13.64%
- **Financial institutions**: 23.21%
- **Individuals and others**: 7.56%
- **Securities companies**: 3.33%
- **Other companies**: 52.26%

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