

CSV theme 1

Resolving global environmental issues



Global environmental issues including climate change are extremely important issues that could threaten the very survival of humankind. Solutions or adaptation to these issues requires inclusive 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.

Targets					Key Initiatives	
CSV2030 Long-term goals		Reference year	2030 reduction rate	2019 progress rate	<ul style="list-style-type: none"> Environmental impact reduction in manufacturing processes Develop and deliver Eco-Products, low carbon construction machinery, dismantling, and recycling machinery Utilize ICT and IoT Applications for disaster recovery and disaster prevention Eco-friendly mining operation solutions Green infrastructure solutions 	
Product	CO ₂ saving by products	FY2010	33%	64%		
	Fuel reduction of hybrid hydraulic excavators	FY2010	50%	80%		
Production	Improvement rate of energy basic unit in Production	FY2005	40%	84%		
	Improvement rate of waste basic unit in Production	FY2005	40%	103%		
	Improvement rate of water basic unit in Production	FY2005	50%	112%		

Progress of main activities in FY2019

Drastic reorganization of main development and production sites in Japan

We shifted production of mini wheel loaders from the Ryugasaki Works to Hitachi Construction Machinery Tierra Shiga Works, with production commencing in April 2020.

Introduction of internal carbon pricing

We introduced a system that assigns our own price to carbon emissions to encourage organizations to reduce their carbon emissions by reflecting these prices in management planning. We have launched efforts to accelerate investment in energy efficient facilities.

Promoting the development of electric construction machinery

We developed a prototype battery-powered mini excavator (5 ton class). We are moving ahead with the development of electric construction machinery that aligns with worldwide market needs based on findings in market research.

Future initiatives

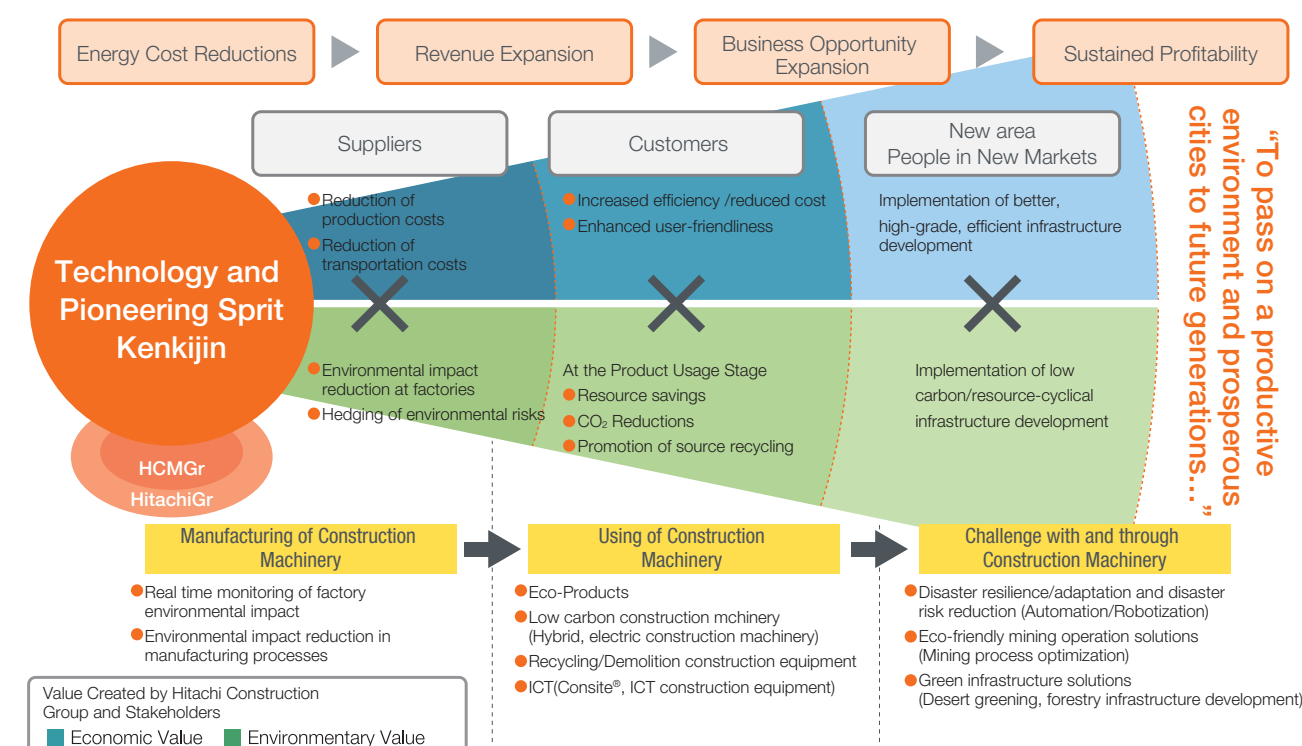
Under the new organization with Sustainability Promotion Group, in FY2019 we worked on reducing environmental impacts from manufacturing process and lowering CO₂ emissions during product usage, aimed at achieving our long-term targets set out in CSV2030. From FY2020, we will utilize our new internal carbon pricing system to further accelerate efforts to make our plants and offices more energy efficient and to introduce renewable energy.

Approach to value creation

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 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 being 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.

Web

Action Guidelines for Environmental Conservation

<https://www.hitachicm.com/global/environment-csr/environmental-activities/environmental-strategy/pdca-for-environmental-management/action-guidelines-for-environmental-conservation/>

Ideal society laid out in our environmental vision

Low-Carbon Society

We will work to reduce emissions at the "use" stage, which accounts for more than 85% of greenhouse gas emissions throughout product life cycle, along with reductions at our own "production" stage.

Resource Efficient Society

Through our businesses, we will contribute to building a water and resource recycling society.

Harmonized Society with Nature

At each stage of the value chain, we will evaluate the impact on the ecosystem and promote measures to minimize the burden.

Environmental management

The HCM Group's environmental management is administered and implemented by the Sustainability Promotion Group, which supervises the CSR and environmental activities of Group companies. The Sustainability Promotion Group categorizes HCM and its Group companies into the four groups of domestic and overseas production-related and sales/service-related, and then formulates a three-year environmental action plan for the entire Group and administers the environmental targets of each Group company. The Sustainability Promotion Group manages the progress and results of the environmental action plan on a monthly or quarterly basis, and provides support for implementing the PDCA cycle. Furthermore, we disclose information on the activities of HCM and its Group companies through the CSR & Financial Report and on our corporate website. The Sustainability Promotion Committee, which meets biannually, is comprised of

Sustainability promotion system



Manufacturing of Construction Machinery

Environmental impact reduction in manufacturing processes

In May 2019, the HCM Group made CO₂ reduction plans following SBTi (Science Based Targets Initiative) Criteria and our targets were approved by them. SBT is an initiative by research institutions, NGOs and evaluation institutions around the world to validate targets that contribute to the prevention of global warming. The HCM Group has established targets to reduce Scope 1 and Scope 2 CO₂ emissions from its business sites and factories by 45% in FY2030 and by 80% in FY2050 (compared to FY2010). At our production-related plants, we have implemented such measures as introducing solar power, investing in energy efficient facilities, and consolidating factories. In FY2019, we introduced an internal carbon pricing (ICP) system in order to further promote investment in energy efficient facilities.

ICP is a system that assigns our own price to carbon emissions to encourage the activities of organizations to emit less carbon emissions by reflecting these prices in their management planning. Through the introduction of ICP, we intend to further accelerate efforts to make our plants and offices more energy efficient and to introduce renewable energy.

members including the president and executive officers. It carries out deliberations and approvals on important matters related to management, including our response to climate change.

Environmental impacts of factories account for over 95% of the HCM Group's total environmental impacts. For this reason, our manufacturing companies are positioned as a focal point of environmental management. Our manufacturing companies have either obtained ISO 14001 certification or are introducing an environmental management system equivalent to this standard. In FY2019, there was a change in the number of Group companies, resulting in a 92% certification rate, including simplified environmental management systems at production-related Group companies.

TOPICS

Internal audits at the Hitachi Construction Machinery Group

In 2019, the Sustainability Promotion Group conducted internal audits of all the Group's major manufacturing companies. Up to 2018, environmental audits on HCM and its Group companies were conducted once every four years. However, to mitigate environmental risks and ensure thorough compliance, we need to implement the PDCA cycle over a shorter duration. As a result, from FY2019, we decided to conduct environmental audits of all major manufacturing companies, completing audits on 10 factories for five companies in Japan and 10 factories for five companies overseas. In addition, we commenced environmental patrols of branch and sales offices because Group companies engaged in sales and services also have facilities with large environmental impacts, such as service centers. In FY2019, we conducted environmental audits on two sales offices of sales and service companies in Japan. From FY2020, we intend to conduct environmental patrols of sales and service companies inside and outside of Japan by utilizing remote web-based solutions.

TOPICS

Rationalization of production at Hitachi Construction Machinery Tierra Co., Ltd.

Hitachi Construction Machinery Tierra has been moving ahead with production reforms since 2015, which have included changing the layout of its factories and automating production. As for factory layout, it consolidated its two production lines into one and optimized the logistics line of flow of the can production and painting lines to shorten time and increase efficiency. It added production robots and automatic guided vehicles (AGV) to these lines. Today, a little less than 60% of welding and 80% of painting is fully automated. In addition, the company has introduced tablet devices with operating software in multiple languages to facilitate the manufacturing work of foreign national employees. As a result of these initiatives, the company reduced work processes by 30% compared to FY2013 and increased production capacity by 50%.

In April 2020, it also began producing mini wheel loaders, making it the cutting edge production site for HCM's compact business, including mini excavators and hydraulic excavators between 0.8 and 8.5 tons.



Main assembly line

Using of Construction Machinery

Providing environmentally-conscious products and low-carbon machines

Since CO₂ emissions from products account for 85% of emissions during the product life cycle, controlling CO₂ emissions during operation will have the single greatest effect on mitigating global warming. The HCM Group has established a target to reduce emissions from products (Scope 3) by 33% in 2030 compared to FY2010, and it was approved as SBT. To achieve this target, we implement environmentally-conscious design assessments compliant with IEC 62430 during development and design. As a result, we develop products with fuel economy as one of our assessment criteria. In FY2019, we achieved an assessment implementation rate during product development of 98.2%, achieving our target of 98%.

In addition, based on customers' usage and social demands for decarbonization, we have been developing hybrid construction machinery and AC-drive dump trucks that emit fewer CO₂, along with electric excavators and battery-powered excavators that aim to eliminate CO₂ from work sites. In recent years, we have also been promoting energy savings through the increased efficiency of machinery during construction. According to the i-Construction concept being promoted by the Ministry of Land, Infrastructure, Transport and Tourism, construction work utilizing ICT stands to be 20 to 30% more efficient than conventional work. The HCM Group is also actively promoting CO₂ reduction through not only the energy savings of machinery, but also the improved efficiency of construction work itself.

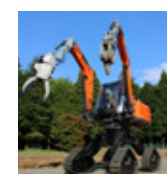
Challenge with and through Construction Machinery

Initiatives for disaster recovery and disaster prevention

Recent happenings of abnormal weather have caused frequent damages around the world. In 2019, Japan experienced record-breaking damages due to Typhoon No. 19 (Hagibis). HCM has concluded agreements with local governments and other organizations to give priority to the supply machinery and supplies for emergency response and recovery work in case of a disaster. We intend to continue with our support to disaster-stricken areas centered mainly on these agreements.

To minimize disasters and damages caused by climate change, there is a growing move around the world toward the adaptation business. This involves working to on disaster prevention and disaster risk reduction by increasing the resilience of infrastructure ahead of any disasters. HCM has developed products compatible with infrastructure projects and the site of disasters. For example, our double-arm working concept machine with four-crawler is able to perform work at sites where the footing is poor following a disaster. Remote operations ensure the safety of the operator in hazardous areas and make a swift

response possible. Looking ahead, we will tackle the challenge of developing products and solutions that contribute to adaptation to disasters caused by climate change.



Double-Arm Working Concept Machine with Four-Crawler

TOPICS

Developed a prototype battery-powered mini excavator

There are particularly high expectations for electric construction machinery, which do not emit CO₂ and other exhaust gases during operation, particularly in terms of mini excavators used on work sites in densely packed urban areas mainly in the Europe market. HCM has developed a prototype battery-powered mini excavator (5 ton class) in order to establish technologies for electric construction machinery.

This prototype was developed through a partnership between Hitachi Construction Machinery Tierra, which develops, manufactures and markets mini excavators and mini wheel loaders, and EAC in Germany. Development focused on a compact battery system that also balances extended operation so that the prototype can maximize the advantages of a mini excavator, which offers high work efficiency even in confined spaces. We intend to utilize this prototype in market research and move ahead with the development of electric construction machinery that aligns with worldwide market needs based on the environmental regulations in the Europe market through partnerships between Japan and Europe.



Prototype of battery-powered mini excavator

TOPICS

Announcement of verification test plan for remote controlled autonomous ultra-large hydraulic excavators

In July 2020, HCM announced a verification test plan for remote controlled autonomous ultra-large hydraulic excavators at mining sites. This testing aims to improve future mining site safety and productivity by combining a remote control system and operator support systems. This will optimize whole mine operations and contribute to reduced CO₂ per production output. Furthermore, since the work environment of operators will also be improved, this solution will also protect people's lives from damages due to abnormal weather.

The verification tests will begin at a mine in Australia in FY2021, with the plan to commercialize the solution in FY2022.



The EX3600-7 ultra-large hydraulic excavator (at right) that will be used in the verification tests

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

Progress of main activities in FY2019

Expansion of Solution Linkage® service	Expansion of ConSite® functions	Expansion of Aerial Angle® functions
Launched Solution Linkage® Survey which makes measuring soil volume easy using the video recording function on a smartphone. Use as a disaster assessment tool in collaboration with local governments is also starting to grow.	We launched ConSite® Health Check, an application that diagnoses the status of construction machinery based on operating noise and measurement data, for service agents of dealers in Indonesia, the Middle East, and Africa.	Expanded the functions of Aerial Angle®, a surrounding environment visual recognition device which reduces contact accidents between machine and obstacles. In June 2020, we launched sales of the Object Detection+Movement Restriction System.

Future initiatives

In FY2019, in addition to developing a new lineup of ICT and IoT solutions, we also increased the remote failure prediction detection rate up to 71% by adopting AI, analysis and analytical technology (as of March 31, 2020). The goal for FY2020 and beyond is to increase the failure prediction detection rate to approximately 90%. Moreover, we will increase the provision of products and solutions that utilize ICT and IoT.

Reinforcing 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 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. We will deliver unique products and solutions that maximize customers' business value, pursuing the optimal relationship between people and machinery by looking in from the outside while recognizing our role through social issues.

Promotion of ICT construction (BIM/Building Information Modeling)

With worker shortages growing in the construction industry, the issues of improving safety, increasing productivity, and reducing lifecycle costs faced by customers at work sites continue to increase in importance. In order to address these challenges, it is imperative to enhance work efficiency through utilization of information communication technology (ICT).

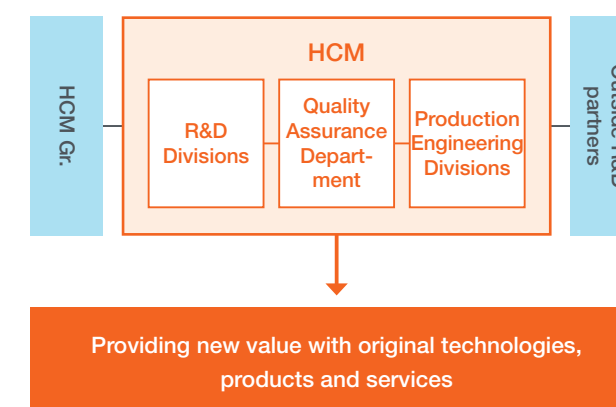
Since it launched the Client Solutions Group in 2016, the HCM Group has been supporting ICT construction (BIM) at various job sites following the development of construction site operations support services utilizing ICT. Currently, with a focus on expanding services of Solution Linkage®, an ICT construction compatible solution, we are striving to promote ICT construction from various viewpoints, aiming to achieve digital transformation of construction sites.

New expansion of Solution Linkage®

Innovative services and application have been added to HCM Group's ICT / IoT Solution Linkage®, including Solution Linkage® Cloud, which was available as a cloud-based platform up until now, Solution Linkage® Mobile, which enables visualization of construction sites on mobile devices including position of dump trucks, construction machinery and workers, as well as Solution Linkage® Wi-Fi, which improves and expands mobile telecommunication capability.

We launched Solution Linkage® Survey as a new solution in April 2019. Going forward, we will continue to collaborate with our customers to enhance functions and improve usability, which will aid in addressing challenges they face.

R&D System



TOPICS

Construction & Survey Productivity Improvement Expo Participation in CSPI-EXPO2019

In May 2019, we attended the 2nd Construction & Survey Productivity Improvement Expo (CSPI-EXPO2019) held at Makuhari Messe in Chiba Prefecture as an exhibitor. This exhibition is aimed at supporting the i-Construction initiative launched by the Ministry of Land, Infrastructure, Transport and Tourism. HCM showcased its ICT construction machinery with machine control functions, Solution Linkage® services, and more under the theme of "Voices from TEAM-Construction Job Sites Starting ICT Construction". Furthermore, future solutions for job sites where people work in harmony were exhibited, including construction machinery utilizing AI designed by the HCM Group.



The Hitachi Construction Machinery booth

TOPICS

Easy soil volume measurement with Solution Linkage® Survey

Solution Linkage® Survey is a cloud-based service that allows the volume of filling during civil engineering construction work (soil volume) to be easily quantified using the video function on a smartphone. Soil volume must be assessed at the construction site daily, but up until now this was managed by visual confirmation of on-site managers. Solution Linkage® Survey compiles a 3D model by taking a video on a smartphone and measures the approximate soil volume. This streamlines the process and lowers the cost of progress management. In addition, this service was used as a disaster assessment tool in collaboration with a local authority during a verification test to assess the damage from torrential rains that hit Western Japan in 2018.

In June 2020, we expanded the line up to include two versions based on customer feedback, including a standard version specialized in soil volume measurement and an advanced version for utilization in progress management.



Measurement of soil volume can be performed without specialized knowledge or experience.

Expansion of functions of service solution ConSite®

ConSite®, a service solution that remotely monitors the operation status of construction machinery, detects signs of breakdown, and sends data reports, has been contributing to the stable operation of machinery for customers since its launch in 2013. The number of contracted service machines exceeded the initial target and reached 142,937 (as of March 31, 2020), having earned a great deal of support.

In 2017, we recruited engineers cross-functionally from within the Hitachi Group who are knowledgeable in information data analysis using ICT and AI, and established the ConSite Business IoT Dept. as a specialist organization. Built on the expertise accumulated over many years of construction machinery maintenance and inspection and the Hitachi Group's cutting edge information data analysis technology, ConSite® is also registered as one of Hitachi Group's Lumada®*.

We launched ConSite® Health Check, the first application in the industry that diagnoses the status of construction machinery based on operating noise and measurement data, for service agents of dealers in Indonesia, the Middle East, and Africa in March 2020.

* Lumada®: The collective term for solutions, services, and technologies using Hitachi's innovative digital technologies.

Web

ConSite®

<https://www.hitachicm.com/global/solution-linkage/consite/>

TOPICS

ConSite® Health Check diagnoses the status of construction machinery from operation noises and measurement data.

ConSite® Health Check records the operation noises of engines using the microphone on a smartphone, and AI detects any small abnormal noise. The status of the fuel injector can be diagnosed in as little as three minutes. In addition, a communication device can be used to connect construction machinery with a smartphone for diagnosis, including measurement of pressure of hydraulic oil sent out by a hydraulic pump and the degree of wear and tear over time. This enables necessary maintenance before a major failure occurs and contributes to reducing downtime cost and maintenance cost.



Screen display of ConSite® Health Check

Technological development to improve safety

HCM is undertaking research and development to achieve "Cooperative Safety" at civil engineering construction sites and mining sites. "Cooperative Safety" is a new concept for establishing safety through sharing of information among people, materials and the environment. For example, the sharing of information at a civil engineering construction site among site equipment, including (such as cameras and sensors), construction machinery, machinery operation, surrounding workers and supervisors will minimize the overall risk on site.

As risk reduction measures by construction machinery alone are limited, we aim to provide site safety solutions that will reduce the overall risk onsite by combining the safety technology of the construction machinery with the management of operators and construction process. Going forward, we aim to ensure the safety of construction sites as automated and unmanned construction machinery operation becomes the norm through developing new technology, products and solutions based on the concept of "Cooperative Safety".

HCM's mining business supporting mining sites

Mining sites are expected to maintain high productivity. Any stoppage of production over a long period of time due to construction machinery failure is not tolerated. In addition, as many vehicles operate back and forth on unpaved roads to transport minerals, advanced technology in safety and durability is required. Development and production of mining machinery, including ultra-large hydraulic excavators and dump trucks, are concentrated in Japan, while technologies are sourced from Hitachi Group companies to meet this demand.

For example, advanced stabilization control technology on dump trucks was developed by applying the automobile technology of Hitachi Ltd. The autonomous haulage system (AHS) on dump trucks also utilizes the technology for railway operation management.

On the other hand, we are also focusing on the solution business centered on the value chain. In 2016, we acquired H-E Parts International (USA), a company that provides service solutions for machinery and equipment, and in 2017 we acquired Bradken (Australia), a major manufacturer of casting parts for mining machinery. The addition of these two companies to our Group made provision of comprehensive services possible. Going forward, we will continue to grasp the trends of the current times and address a wide range of customer needs.



Practical testing of autonomous hauling dump truck

TOPICS

Expansion of functions of surrounding environment recognition device Aerial Angle®

We launched Aerial Angle® STEP III Object Detection and Movement Restriction System in Japan in June 2020, which has the added feature of restricting movement of a hydraulic excavator based on the location of an object detected around the machinery and the machinery's action status in order to reduce the risk of contact accident at start up.

If an object (people or obstacle) is detected prior to start of operation, the machinery will not travel or swing, even if the lever is pulled, in order to avoid contact accident. Also, if an object is detected during travelling or swinging, the engine speed will slow, warning sign will be displayed on the monitor, and a buzzer sound will be played to warn and urge the operator to halt operation. Additionally, the status of the machinery and detection of surrounding object are also announced using external buzzer and revolving light to warn other workers nearby to mitigate contact accidents.

TOPICS

Presentation on the future concept for the mining industry at CIM Convention 2019

Wenco International Mining Systems Ltd., a consolidated subsidiary of HCM, made a presentation on the future concept of the mining industry at the trade show for mining businesses, CIM 2019 Convention, held between April 28 and May 1, 2019 in Montreal, Quebec, Canada.

Wenco International Mining Systems Ltd. is one of the few companies in the world that adopts a fleet management system (FMS), which is used at approximately 150 mining sites globally, and forms the base of autonomous haulage systems (AHS) for mining dump trucks.

The company's presentations at the venue attracted attention from the audience, including future concept of fully automation of mining sites through collaboration between infrastructure, machinery, and ICT system, as well as technical challenges for future practical use, IoT vision, and a case study on business decision and mining output improvement through data analysis in the Australian coal project.



Presentation at CIM 2019 Convention



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

Progress of main activities in FY2019		
Expand rental business globally Established Synergy Hire to engage in the rental business in the UK. We launched a wholesale rental business that engages in construction machinery rentals to agencies at Hitachi Construction Machinery (Shanghai) and Hitachi Construction Machinery Loaders America, Inc.	Increase value of used machinery HCM has systemized the sale of certified used machines under warranty as PREMIUM USED and the sale of refurbished used machinery as REFURBISHED USED.	Concluding collaboration agreements for 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. Hitachi Construction Machinery Japan has signed seven collaboration agreements for disasters in response to requests from local governments.

Future initiatives	In FY2019, in addition to value creation through the rental business and used machinery, we have conducted activities with the aim of developing together with the local community and other businesses, including participation in the Manufacturing Skills Transfer Promotion Project organized through public-private partnership in Japan and India, and human resource development through internships in the parts remanufacturing plant in Zambia. Looking ahead, we will further strengthen partnerships with various stakeholders around the world and engage in activities that contribute to community development.
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Policies concerning social contributions

In order to place an emphasis on social contributions, the HCM Group formulated the “Hitachi Construction Machinery Group Social Contribution Policy”. 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 FY2019, social contribution related costs totaled 253 million yen.

Details of our social contribution activities are featured on our website, which further deepens our relationship with society and propels continued implementation.

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. Our group contributes to society by “Resolving global environmental issues”, “Enhancing initiatives to increase social infrastructure workforce”, “Contributing to community development”, making the most of our group features, with the understanding of local society.

Supporting the response to the COVID-19 pandemic

HCM has donated one million yuan (approximately 15 million yen) to the non-profit organization, Shanghai Charity Foundation, under the jurisdiction of Shanghai Civil Affairs Bureau, to fund measures against the novel coronavirus, through our local subsidiary Hitachi Construction Machinery (Shanghai) Co., Ltd. on March 10, 2020 in order to support the local community amidst the spread of the virus. Moreover, we donated 9,600 medical grade masks to the Ministry of Health, Labour and Welfare as a member of the Hitachi Group in April 2020.

Going forward, we will promote business following the guidelines of each region while committing fully to preventing the spread of the virus by meeting the demands of communities and customers to the best of our ability.



Collaboration with Hitachi Construction Machinery (Shanghai) Co., Ltd.

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.

For example, Cambodia, known as the country with the highest density of land mines in the world, has seen a number of injuries and fatalities due to land mines even after the end of its civil war. The HCM Group donated money to Good Earth Japan (GEJ), an NPO, from FY2007 to support the removal of land mines and infrastructure development. Moreover, we continued to provide assistance including agricultural instruction, guidance for infrastructure and equipment maintenance, and school construction following the removal of land mines. These activities aim to enable the Cambodian people to live independently.

We have achieved certain results in promoting local independence in Cambodia. In addition, we are implementing support initiatives rooted in each local community globally, including afforestation in Horqin Desert in China and land development projects in India. In this manner, we believe it is important to possess the vision to grasp the diverse characteristics of each local community and foster growth together. Going forward, we aim to contribute to addressing social issues in various regions of the world.

TOPICS

GEJ donated necessary machinery for local independent activities

In March 2020, after 13 years support activities in Battambang Province in Cambodia, HCM and GEJ have decided to end its activities because a certain level of good result has been achieved. As the final support of GEJ to Cambodia, HCM and GEJ jointly donated 2 road maintenance machines and some amount of cash to Provincial Department of Rural Development (PDRD) for their future maintenance work to infrastructures which GEJ had built so that villagers can get benefit from them for a long time even after GEJ's departure from Cambodia. On March 11, the Hand-over Ceremony of the donated goods was held in Battambang Province, although officials from Japan were unable to attend due to the effects of the expansion of the new coronavirus infection, and attended by the deputy head of the GEJ Phnom Penh Office, Provincial Department of Agriculture, Forestry and Fisheries (PDAFF), Cambodia Mine Action Center (CMAC) and many villagers, who have been working locally together for many years.

What has been accumulated in the past activities will become a big foundation to enrich the villages. In the future, it is expected that the local people will become main players to regain the vitality of the region furthermore.



Hand-over of road maintenance machines

Expansion of rental business globally and provision of high quality used machinery

As the social environment evolves from owning to sharing, the value of rental and sharing services in the world of construction machinery is also gaining traction. The HCM Group is expanding its global rental business capturing the customers’ needs.

In 2018, we added rental products to our product lineup through our equity participation in ACME Lift Company, a construction machinery rental company in the United States. In 2019, we established Synergy Hire in the UK to provide rentals directly to customers. In conjunction with these movements, we also started the wholesale rental business through construction machinery rental agencies. We also launched the wholesale business for the same products at Hitachi Construction Machinery (Europe) in 2018, as well as at Hitachi Construction Machinery (Shanghai) Co., Ltd. and Hitachi Construction Machinery Loaders America, which manufactures and sells wheel loaders, in 2019.

Our growth in the rental business in this manner increases the presence of our products, and creates new value for remanufactured rentals. In 2019, HCM systemized the sale of certified used machines under warranty as PREMIUM USED and the sale of refurbished used machinery as REFURBISHED USED. Through steady provision of quality used machinery, we expect to increase the value of our products in the used machinery market. We aim to enhance our value chain business through this differentiation strategy.



HCM warranted used machinery working at construction sites worldwide

Concluding collaboration agreements for disasters

In recent years, frequent occurrence of natural disasters such as earthquakes, typhoons and heavy rain have severely impacted the lives of people and local economies. 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.

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.

In response to the multiple disasters in recent years, a growing number of local governments are requesting companies to sign a pre-agreement on assistance in order for local municipalities to receive priority in material and equipment supplies following a disaster. Hitachi Construction Machinery Japan has signed

27 such collaboration agreements for disasters in response to requests from local governments (of these one agreement was signed in FY2019). Going forward the HCM Group will work to develop a support system so that it can be useful to communities at the time of a major disaster.



Track Mounted screen can be used to sort and process earth and soil at the scene of a disaster.

Social contribution activities in FY2019

Activity name	Company conducted	Period	Content
Forest Maintenance Activities at “KoCoro no Mori”	Hitachi Construction Machinery (Banshu Works)	April 6, 2019	The 3rd forest maintenance was held at Hyogo Prefectural Mikiyama Forest Park in Miki, Hyogo. About 40 of our employees and those involved were in attendance.
Desert afforestation volunteer activities in the Horqin Desert	Hitachi Construction Machinery (China), Hitachi Construction Machinery (Shanghai)	September 10, 2019	This project was started in 2004. A group of volunteers and suppliers conducted afforestation activities and they watered the desert by bucket brigade method.
Land reclamation project	Tata Hitachi Construction Machinery	2018 to September 2019	In 2018, the company started supporting land reclamation in Maharashtra, India. A year later, Barren, rocky lands have been converted into fertile agricultural fields.
Donations to schools and villages	Hitachi Construction Machinery Zambia	July 2018 to October 2019	The company conducts various Corporate Social Responsibility activities, cooperating with “NSANSA Village Development mission” which is a community whose objective is to socially and economically strengthen the resilience of less privileged members of the community.
Hosted Hitachi Science Class	Hitachi Construction Machinery (Shanghai)	September 24, 2019	This class was held in collaboration with Hitachi High-Tech (Shanghai) International Trading Co., Ltd. The company introduced first year students at Shanghai HuaEr Private Middle School to hydraulic excavator motion theory and hybrid power technology.
Universal Design Workshop	Hitachi Construction Machinery (Malaysia)	October 22, 2019	At 2 high schools, Hitachi Volunteers taught students the concept of Universal Design in products that is easy to use for a diverse society.
Community Support in Paediatric Healthcare	Hitachi Construction Machinery Australia	November to December, 2019	The company made donations to: Mackay Base Hospital in Queensland, Nepean Hospital in Western Sydney and Sunshine Hospital in Victoria. A total contribution of \$21,620 towards supporting hospitals and childhood healthcare.
Mangrove Plantation at Protected Area	PT Hexindo Adiperkasa Tbk	November 28, 2019	The company held a Corporate Social Responsibility (CSR) Program entitled “31SA Menjaga (to Care)” which is related to mangrove plantation activity at “Mundu Beach” located at Cirebon City, West Java. They planted 2,811 seeds of mangrove.
Cleanup activities as part of Environmental Beautification Day	Hitachi Construction Machinery Tierra	November 28, 2019	The company held clean up activities together with members of the Konan Koga Environmental Association, which we are also a member of. They recovered 90 kg of combustible waste and 30 kg of non-combustible waste.

TOPICS

Activities to uplift lives in the local community in Zambia

From July 2018 to October 2019, cooperating with “NSANSA Village Development mission”, Hitachi Construction Machinery Zambia (HCMZ) built a 1-block dormitory for 32 former street children in Nsansa Village and donated beds. Nsansa Village puts efforts into counselling former street children to foster change of attitude and life style, and training in different skills.

In June 2019, in order to support education and health for the communities, HCMZ Lusaka branch operated painting of the School and replacing broken doors at Kamanga Basic School. 87 employees including the President attended the event. Also in July, 32 employees from Lumwana and Kansanshi branch visited St Charles Special School and donated 30 school desks and seven water sinks in laboratory room. Pupils welcomed them and expressed their appreciation through cultural dances with joy and happiness.

HCMZ continues to carry out activities to contribute local communities in Zambia.



Employees painting walls



Employees setting water sinks

Base 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. We make construction machinery that is safer and more efficient for workers, and we are working collectively as a group to further increase site productivity.

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

Progress of main activities in FY2019

Enhance organizational structure for quality assurance

In April 2019, the Corporate Quality Assurance Group was placed under direct control of the president. By having the president directly oversee the Corporate Quality Assurance Group, we are able to strengthen governance for quality assurance.

Establishment of the JCMG mark

HCM established the JCMG mark as a symbol of our accumulated technologies and quality prowess. We have begun applying this mark on HCM brand machinery since January 2020.

Human resources development focused on achieving uniform global quality.

In addition to self-led initiatives at each production onsite, we are making efforts toward improving quality across the entire Group through the Global Manufacturing Human Resource Development Program, Global Manufacturing Diagnoses, and International Skills Competition.

Future initiatives

Quality Information Navigation, which was launched in FY2018 to support the quality management system of Group companies overseas, will not only include information for Tsuchiura Works from FY2020, but also feature information and Hitachi Group companies as well. To achieve the Made by Hitachi vision, we are working to standardize and improve the level of quality Group-wide by enhancing training for employees and ensuring thorough quality compliance.

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 ochibo hiroi (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.

Additionally, the Quality Assurance Group of Tsuchiura Works, established as the organization responsible for quality assurance at our mother plant, is now sharing information, providing instructions and raising awareness for the quality assurance departments of Group companies. The Corporate Quality Assurance Group 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 April 2019, the Corporate Quality Assurance Group was placed under direct control of the president. By having the president directly oversee the Corporate Quality Assurance Group, we are able to strengthen governance for quality assurance.

Fostering of manufacturing technicians

The HCM Group deploys creative measures globally for improving quality with the goal of achieving Made by Hitachi uniform global quality.

For example, we hold Global Monozukuri Diagnosis where senior experts visit our production sites in Japan and overseas annually to diagnose vocational skills and workplace management, the Global Monozukuri Human Resources Development Program which accepts engineers from Group companies at HCM production sites to convey our monozukuri culture, and the International Skills Competition* where technicians from throughout the Group gather to compete in eight competitive categories covering welding, painting, measurement, assembly, transport, machinery fabrication, robot welding and facility maintenance. Under such initiatives, we are pursuing product manufacturing where customers can use our machinery with peace of mind no matter which country they are located in.

* In FY2019, seven events (excluding welding) that were scheduled to take place in Japan were canceled due to Typhoon No. 19. (Typhoon Hagibis).



Group photograph taken at the International Skills Competition (welding) held in India in October 2019

Appropriate disclosure of product information

The prompt disclosure of information about our products and services is vital to earning and building trust with customers. Therefore, Hitachi Construction Machinery shares information through various media, including its corporate website, and strives to ensure customers are informed of information concerning recalls.

For example, to ensure the quality and safety of our machines driven on public roads by customers, we collect, study and analyze information on defects that occur after a machine is sold. If a defect does not or may not conform with a safety standard, we have a system in place to ensure full compliance with the recall system stipulated in Japan's Road Vehicles Act. This includes immediately issuing a recall notice to Japan's Ministry of Land, Infrastructure, Transport and Tourism and repairing applicable machines free of charge.

Also, we provide correct information on preventive maintenance to prevent breakdowns, after-sales care, and service campaigns.

Web

Businesses and Products

<https://www.hitachicm.com/global/businesses/>

Important Notice

<https://www.hitachicm.com/global/news/important-notice-en/>

TOPICS

Establishment of the JCMG mark, symbol of Japanese technology and quality

The year 2020 marked two milestones for the HCM Group. First, we marked our 50th anniversary as a company and second we celebrated the 70th anniversary of developing and mass producing construction machinery using exclusively Japanese technologies. With these milestones in mind, we established the Japan Construction Machinery Global (JCMG) mark as a symbol of our accumulated technologies and quality prowess.

The HCM Group's products made at our production sites around the world--not just in Japan, but also our other overseas plants--with a high level of quality are eligible for the JCMG mark. We have begun applying this mark on HCM brand machinery produced at our production sites around the world since January 2020 as a guarantee of the highest level of quality to customers.



Machine with the JCMG mark

Base 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.

Targets

- Make efforts to completely eliminate occupational injuries
- Increase the number of business sites with ISO 45001 (occupational health and safety management system) certification
- Reduce the total overtime of employees (indirect workers) to a monthly average of 15 hours or less by FY2020 (HCM non-consolidated basis)
- Increase the average number of annual paid leave days taken by all employees to 17 or more days by FY2020 (HCM non-consolidated basis)

Key Initiatives

- A fair work environment
- Global management for health and safety of employees

Progress of main activities in FY2019

Response to ISO 45001

We have established an occupational safety and health management system in all domestic and overseas Group companies in promoting and supporting the acquisition of ISO 45001 certification.

Work process improvement using AI

We introduced the work posture automatic determination system utilizing AI at Tsuchiura Works in January 2020. We are promoting work style reform through implementing new technology and using IT tools.

Ensuring safety through the promotion of telework

We have adopted work arrangements that prioritize safety following each country's guidelines in response to the spread of COVID-19.

Future initiatives

There were less work-related incidents in FY2019 compared to the previous year. However, 70% of incidents that occurred at HCM on a standalone basis still involve workers with little experience. We will work diligently, under the strong leadership of organization heads who will set the example, to create a bright and healthy workplace free of injuries, with the elimination of occupational injuries one of the most important tasks for management.

FY2019 results and basic policy on occupational health and safety

In the HCM group, each fiscal year, we establish basic policy and priority items for implementation in promoting various health and safety activities with the aim of preventing work-related incidents and ensuring the health and safety of employees.

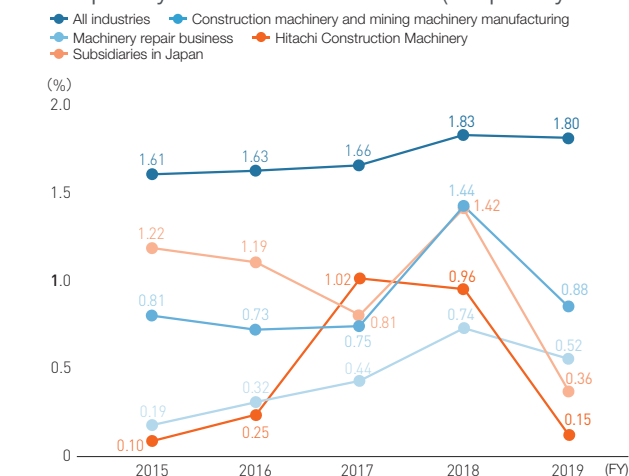
The Health and Safety Promotion Committee oversees health and safety activities across the entire Group, as well as shares information on work-related incidents and activity reports, and develops plans. Moreover, there are subcommittees under the same Committee, which are involved in fostering personnel in charge of occupational health and safety activities, conducting technical review and mutual inspections, and supporting initiatives on occupational health and safety management system of each Group company.

There were 24 work-related incidents that occurred at HCM in FY2019, an decrease of 5 compared to the previous year. There were 45 work-related incidents at our Group companies in Japan, and of these 23 occurred in manufacturing divisions and 22 in sales and services divisions. The frequency of lost-time-incidents has improved at HCM and domestic Group companies.

Initiatives for Work Style Reform

While work style reform related laws have gradually come into effect since April 2019, the HCM Group is also striving to limit overwork and to comply with related laws. However, we believe the essence of work style reform lies in the development of a work environment that ensure the health of employees and efficient operation that which improves productivity. We are working to create a comfortable and dynamic work environment that further utilizes human resources with various values, while ensuring that each and every employee can use their limited time to the maximum effect.

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



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

Web

Policies and key measures in FY2020

<https://www.hitachicm.com/global/environment-csr/csr-en/society-en/health-en/>

TOPICS

Response to COVID-19

On April 7, 2020, the government of Japan declared a state of emergency as a result of the spread of the COVID-19 pandemic. Other countries have also tightened regulations such as issuing shelter in place orders. Following this, the HCM Group restricted certain business activities based on the regulations in each country and region in order to ensure the safety of our stakeholders including employees, their families and customers. Also, we established the Novel Coronavirus Task Force which is working proactively with other departments to prevent the spread of the virus pursuant to the Infection Confirmation and Prevention Response Plan.

Our basic response policy is presented at right.

[Response to employees]

- We will establish work arrangements that prioritize safety following the guidance of each national government.
- We will cooperate to prevent the spread of the virus by allowing more employees to work from home or use telework.
- In Japan, we will actively utilize working from home and telework for our indirect departments even after the lifting of Japan's state of emergency.
- If an employee is infected, we will implement appropriate measures following the guidance of the public health department and government agencies.

[Response to customers]

- We will make the safety of all stakeholders, including customers, and business partners and prevention of the spread of the virus our top priority.

[Production in each country and region]

- Our plants, including the main Tsuchiura Works in Japan, will remain in operation while production adjustments are made.

(Information as of May 29, 2020)

Web

Please see our website for other latest information.

<https://www.hitachicm.com/global/news/covid19/>

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

Progress of main activities in FY2019

Technical succession for the next-generation

We developed measurement technology for visualizing complex work involved in welding using quantitative data. Using this technology, we have launched a verification test aimed at the development of a training system.

Empower women in the workplace

Under the action plan aimed at promoting the more active role of women in the workplace, we are carrying out such initiatives as improving the quality of target management interviews, introducing and recommending various forms of paid leave and other programs, and stepping up management training for managerial staff.

Promote diversity

We employ human rights and management trainings to ensure employees have an accurate understanding of LGBT. In doing so, we are working to achieve a work environment in which each individual respects one another and does not violate individual rights.

Future initiatives

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.

Basic policy on human resource development

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.

As part of its human resources development program, 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.

As a specific measure for fostering successors, we have a system in place to accept human resources from overseas Group companies for training at departments in Japan. We began accepting managerial staff for this system from 2016. Up to FY2019, a cumulative total of around 290 employees had taken part, including 34 currently receiving training as of June 2020.

We will continue to enhance the organization's performance by actively accepting diverse overseas personnel and expanding opportunities to utilize such human resources.

Expansion of training programs

The HCM Group has programs in place to support employees looking to grow professionally and developed various training programs for employees to further cultivate their specializations. Rank-specific training covers curriculum for the acquisition of skills and mindset required of all ranks of employees, from newly hired to managerial staff. Vocational training is for employees to master the skills required in their line of work, whether this be development, production, sales or services.

Additionally, we have actively introduced e-learning to enable the acquisition of knowledge needed in these group training programs and for review work post training. Programs using Hitachi Group's Learning Management System (LMS) were launched at HCM from FY2015 and at Group companies in Japan from FY2018. These programs are also being steadily rolled out at overseas Group companies.



Training held at Kasumigaura Training Center (Ibaraki Prefecture)

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 has implemented measures 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 Resources Department has carried on initiatives, with activity plans and progress monitored by the Career Development Committee.

We strive to promote and instill the values of diversity through platforms such as various rank-specific training for our employees.

TOPICS

Visualization of welding work using quantitative data for technical succession to the next-generation

The HCM Group developed measurement technology for visualizing complex work using quantitative data in order to effectively pass on the skills of master welders to up-and-coming technicians. Currently, skills training begins with trainees copying the standard work of master welders, with welding techniques mastered through ongoing practice. However, there are many complex and precise movements in welding work, with skill level determined largely by experience and feel, which results in discrepancies between individual workers. For this reason, we began developing measurement technologies with the cooperation of the Research & Development Group of Hitachi, Ltd. During the course of welding work, we measured workers' sight line, the speed at which they move the welding torch, and condition of joined parts, among other indicators, using multiple cameras and motion capture. Ultimately, we were able to express this work using quantitative data.

In April 2020, using this measurement technology, we began a verification test aimed at the development of a training system. In the future, we plan to incorporate this system into the skills training curriculum at production sites including those outside of Japan in an effort to further enhance human resources development.



Measuring the welding work of a young technician

Base theme 4

Creating better business transactions and value chains



The business activities of the HCM Group, which offers diverse products and services around the world, are made possible with the support of many business partners and customers.

The HCM Group shares its vision and policies on CSR with suppliers to promote CSR activities across the entire value chain.

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

Progress of main activities in FY2019

Implementation of supplier CSR survey

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 are engaging in ongoing activities, including requesting improvement based on evaluation results.

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 strive to ensure that we do not use conflict minerals.

Stepping up prevention of business dealings with anti-social forces

We newly introduced a business partner screening tool provided by an outside vendor to step up screenings for the prevention of bribery before a business dealing and prevention of business dealings with anti-social forces. We also changed procedures so that screening records are now kept.

Future initiatives

In FY2019, 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.

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 Hitachi 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, we have established the Procurement Policy and Guidelines for Procurement, which is makes known to widely to the general public through its website.

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.

Web

Hitachi Group CSR Procurement Guideline

http://www.hitachi.com/procurement/csr/csr/_icsFiles/afieldfile/2018/06/07/HITACHI_GROUP_CSR_PROCUREMENT_GUIDELINE.pdf

Procurement policy

<https://www.hitachicm.com/global/corporate/procurement/>

Guidelines for Procurement Activities

<https://www.hitachicm.com/global/wp-content/uploads/2017/09/guidelines.pdf>

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 Hitachi 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.

In FY2019, we newly introduced a business partner screening tool provided by an outside vendor to step up screenings for the prevention of bribery before a business dealing and prevention of business dealings with anti-social forces by HCM and its Group companies in Japan. We also changed procedures so that screening records are now kept.

Thanks to these initiatives, in FY2019, there were no incidents involving bribery-related violations or sanctions.

* Facilitation payment: A payment made to a public servant for facilitating approvals, immigration, customers or other public services.

TOPICS

Purchasing system for dealers Launch of ConSite® Parts Web Shop services

As part of our efforts to reinforce the parts and services business, the HCM Group developed ConSite® Parts Web Shop, a system where dealers can purchase genuine components for HCM products anywhere and at anytime over the Internet. We launched this service first in the Japan market in September 2019.

Until now, dealers contacted the HCM Group regarding the inventory and prices of genuine components after checking for the components required by customers on their frontlines. However, dealers can now swiftly ascertain information by using ConSite® Parts Web Shop. In addition, dealers can also propose solutions to customers onsite using a mobile terminal, which helps to improve the efficiency of parts sales work. Going forward, we plan to expand the coverage area to include such regions as Southeast Asia, Europe, Russia, the CIS, the Middle East and Africa.



Screenshot of ConSite® Parts Web Shop

Initiatives to prevent violations of competition laws

The HCM Group is working to increase the level of compliance awareness concerning violation of competition laws, using the basic philosophy of "conduct ourselves in accordance with the law and correct corporate ethics" and "fair and orderly competition."

We provide training and education to employees using manuals, conduct regular audits, develop rules, and share messages from officers. In order to raise the level of knowledge, the HCM Group utilizes the e-learning program (global edition) on the basics of competition laws published by Hitachi.

Thanks to these initiatives, in FY2019, there were no incidents involving violations or sanctions related to competition laws.

Base theme 5

Governance



In order to enhance competitiveness as a company and enhance corporate value over the long term, it is crucial to accurately understand global trends and shifts in management environment as well as establish a structure for decision making.

The HCM Group is strengthening its governance system in order to establish a structure to promptly and reliably execute management strategies as well as realize a fair and transparent management style.

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

Progress of main activities in FY2019

Compliance education and training	Human rights training	Reinforcement of business continuity management (BCM)
In FY2019, we presented the results of the awareness survey and held compliance training based on these results for around 10,000 regular employees (including temporary staff and contract employees) of HCM and its Group companies in Japan in an effort to raise awareness.	In addition, we continue to hold training on human rights with the purpose of improving each and every employee's awareness of human rights. In FY2019, a total of 1,119 employees from HCM and its Group companies in Japan participated in this training.	In Japan, we have introduced a crisis information management system that centrally administers information on disasters, accidents, incidents and infrastructure malfunctions. This information is being used to ensure the safety of employees and reduce impacts on our operations.

Future initiatives

In FY2019, in order to increase awareness of compliance, we held e-learning as part of the Hitachi Group Compliance Program and the Hitachi Construction Machinery Code of Conduct, in addition to compliance training for general employees. Governance is an area that must be continuously implemented and strengthened. Going forward, we will continue to strengthen our governance system.

Basic policies on corporate governance

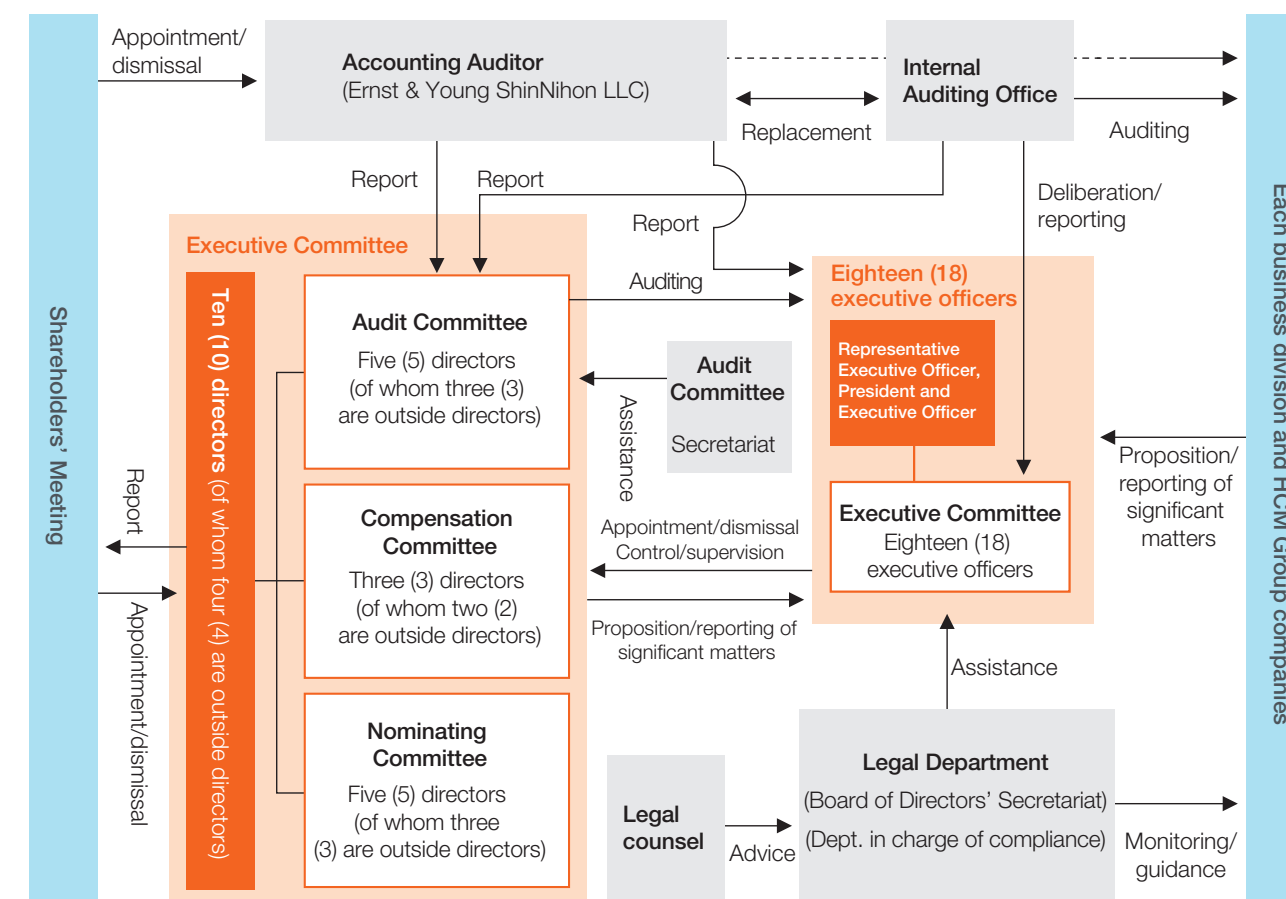
As a member of the Hitachi Group, the HCM Group shares Hitachi, Ltd.'s Basic Philosophy and Conduct guidelines and stipulates its own codes of conduct in line with them.

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 four (4) are Outside Directors (two [2] male and two [2] 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.

Ensuring constant independence from the parent company

Since one (1) of Hitachi Construction Machinery's ten (10) Directors also concurrently serves as COO to Social Infrastructure System Business unit Hitachi Ltd. as of July 20th, 2020, the parent company is able to exert influence on decisions on our management policy through the views expressed by this director at Board meetings. Nevertheless, the other nine (9) directors do not serve concurrently in executive or other positions at Hitachi Ltd. and there are four (4) outside directors who have been reported to the Tokyo Stock Exchange as independent officers. Therefore, we are in a position to be able to make our own management decisions. Also, terms and conditions of transactions with Hitachi Ltd. and its group companies are determined reasonably based on mutual discussions referencing market prices and other factors.

Corporate governance system (as of July 20, 2020)



Management Structure

Directors (as of July 20, 2020)



Hideaki Takahashi
Chairman of the Board



Kazushige Okuhara
Outside Director



Maoko Kikuchi
Outside Director



Haruyuki Toyama
Outside Director



Junko Hirakawa
Outside Director



Tetsuo Katsurayama
Director



Michifumi Tabuchi
Director



Seishi Toyoshima
Director



Kotaro Hirano
Director



Kuniaki Minami
Director

Executive Officers (as of July 20, 2020)

Representative Executive Officer, President and Executive Officer	Kotaro Hirano
Representative Executive Officer, Executive Vice President and Executive Officer	Michifumi Tabuchi
Executive Vice President and Executive Officer	Yasushi Ochiai
Senior Vice President and Executive Officer	Sonosuke Ishii
Senior Vice President and Executive Officer	Naoyoshi Yamada
Vice President and Executive Officer	Takaharu Ikeda

Vice President and Executive Officer	Seishi Toyoshima
Vice President and Executive Officer	Hideshi Fukumoto
Executive Officer	Yusuke Kajita
Executive Officer	Moriaki Kadoya
Executive Officer	Keiichi Shiojima
Executive Officer	Masafumi Senzaki

Executive Officer	Kazunori Nakamura
Executive Officer	Masaaki Hirose
Executive Officer	Hidehiko Matsui
Executive Officer	Satoshi Yamanobe
Executive Officer	David Harvey
Executive Officer	Sandeep Singh

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

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 ability required of, and the responsibilities and risks to be borne by, Directors and Executive Officers, taking into consideration package at other companies.

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.

- 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.
- 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.
- For foreign Executive Officers, standard annual income is set according to the benchmarks of salary levels of the country in question from the view point of retaining capable personnel, taking into account the competitiveness of the salary.

Web

Corporate Governance Guidelines

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

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 compliance promotion structure is headed by the Compliance and Risk Management Group, which is in charge of compliance activities for the entire HCM Group. Here, meetings of the Compliance and Risk Management Group are convened regularly to review and plan various measures, evaluate results, and deliberate on the effectiveness of measures to prevent the recurrence of scandals. We establish a Compliance Promotion Officer and Compliance Manager at each Group company and promote compliance activities in coordination with the Compliance Promotion Department, Legal Division.

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 FY2019, there were 60 reports filed. Among these, about 40% were related to harassment while 20% were related to violations of laws or regulations during the course of business operations.

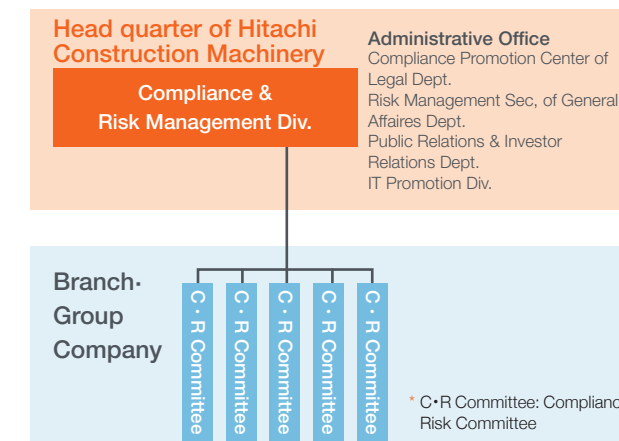
None of the details communicated or reports filed pose major risk to the HCM Group.

Basic structure of risk management

Corporate activities involve the possibility of direct exposure to such risks as natural disasters, occupational accidents, and legal violations, among others. Given this awareness, at the HCM Group the Compliance and Risk Management Division takes the lead in identifying risks during normal times and in implementing countermeasures that strive to prevent risks and minimize impacts should they occur. As a way to avoid risk overseas, we continuously monitor for incidents and disasters and issue appropriate instructions to employees traveling on business and expatriate workers.

We are working to reinforce our business continuity plan (BCP) and business continuity management (BCM), so that when faced with a risk, we are able to minimize the impacts on our business activities and restore operations as soon as practical. In Japan, we introduced a crisis information management system in FY2019 that centrally administers information on disasters, accidents, incidents and infrastructure malfunctions. This information is being used to ensure the safety of employees and reduce impacts on our operations. As a response to the rapid spread of the COVID-19 pandemic, we continued to operate our plants in Japan, striving to minimize the risk of spreading the virus, while adjusting production in stages, in order to respond to demand from around the world. Although the pandemic has not been contained as of August 2020, we are responding swiftly to address the needs of local communities and customers as much as possible and to strive to collect information that will minimize the impacts on our operations.

Compliance-Risk management structure



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

We continue to include the topic of human rights in rank-specific training with the purpose of improving each and every employee's awareness of human rights. 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 2019

	Participants in training during fiscal 2019	Number of participants that are section manager or above	Number of participants that are general employees
Hitachi Construction Machinery ^{*1}	158 persons	95 persons	63 persons
HCM Group companies ^{*2}	1,157 persons	101 persons	1,056 persons
Total	1,315 persons	196 persons	1,119 persons

^{*1} The number of HCM participants are participants of rank-specific training

^{*2} Group companies are the total for the 7 domestic companies

Web

Hitachi Construction Machinery Group Codes of Conduct

<https://www.hitachicm.com/global/corporate/conduct/>

Hitachi Construction Machinery Group Human Rights Policy

<https://www.hitachicm.com/global/wp-content/uploads/2017/02/Hitachi-Construction-Machinery-Group-Human-Rights-Policy.pdf>