

Message from the
President

As we are faced with
unprecedented global challenges,
we will accelerate
our transformation for the future

Kotaro Hirano

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



Introduction

The spread of COVID-19 has impacted the entire world. We hereby extend our sincere condolences and regrets to those who have lost their lives, become infected, or have been put in a difficult living arrangement as a result. We would also like to express our deepest gratitude and appreciation for frontline workers including healthcare workers who are supporting social infrastructure. The infection has continued to spread to date as of August 2020, while the future of the society and economic trends remain unclear. For this reason, we have postponed the announcement of targets and detailed measures with regard to the mid-term management plan starting FY2020. However, we will focus on thorough response to the evolving business environment at present.

The strength and competitive advantage of our company with 70 years of history

HCM celebrated its 70th anniversary of full-scale production of construction machinery. Looking back at our history once again, we realize the company has continued to develop while constantly faced social issues in each era.

In 1950, Japan finally started to come out of the post-war turmoil and embark on the period of reconstruction and economic recovery. Since a huge number of construction and civil engineering projects were launched in various places, including road and river development, the task of making construction more efficient and shortening construction time became an urgent social issue that had to be addressed by the country as well as the industry. To meet this demand, HCM's predecessor organization, the Construction Machinery Division of Hitachi Ltd., developed the first entirely-Japanese technology based mechanical excavator in Japan and begun its mass production.

Construction machinery developed by our company are used in many urban infrastructure development projects that support the development of domestic industries, having garnered trust from many customers. With the start of globalization, they became in demand worldwide. Particularly since the beginning of the 1990s, increased needs in emerging markets such as China and India have been remarkably strong.

Furthermore, as close attention was given to environmental issues such as global warming from the later part of 1990s, demand grew for environmentally conscious products. Against this backdrop, HCM also developed products utilizing environmental technology, including hybrid construction machinery and electric construction machinery, in order to respond to the society's demands. In recent years, as natural disasters frequently arise in many places worldwide, we have contributed to the recovery of disaster-stricken areas through providing machinery appropriate for the nature of the damage.

In this manner, we have been taking on social challenges in each era with earnestness and earning trust from society with solutions based on the comprehensive innovation of the Hitachi Group as a whole, or "One Hitachi" as the expertise and technology amassed by HCM. We recognize this as the strength of our Group and what gives us a competitive edge in the market.

Achievements in the previous mid-term management plan

In the mid-term management plan for FY2017-2019, CONNECT TOGETHER 2019, we focused our efforts on providing new solutions that exceed customer expectations throughout the entire life cycle of construction machinery. Specifically, we strengthened our value chain business targeting machines operating around the world, including parts and services, used machines, rentals, parts remanufacturing, and finance to stabilize our profit structure. As a result, the sales composition ratio of the value chain business has grown from 35% to 41%, greatly contributing to the growth of sales and profits.

In order to further enhance this value chain business, it is essential to build an organization that can more quickly respond to customer requests, and improve manufacturing structure appropriate for the era, and optimize the supply chain. Therefore, we have worked to rebuild our global system, drastically revised the business structure of our bases around the world, including Japan, and strove to improve management efficiency, in conjunction with strengthening the value chain business. As of the end of FY2019, the reorganization of overseas factories and the consolidation of bases are almost complete. Currently, we are working on the reorganization of development and manufacturing bases in Japan. Moreover, we have further enhanced governance of quality assurance by placing the Corporate Quality Assurance Group Division, which had been under development and production departments, under the direct control of the president. Through these efforts, we aim to improve our profit level and establish a development and manufacturing system that adapts to changes in the market environment.

In the environment with/after COVID-19, the demand for new machinery is estimated to decrease due to uncertainty about the world economy. Therefore, customers will require multiple choices in terms of machinery procurement and usage. In particular, rentals that enable procurement of the best suited machinery during a construction period at a reasonable price and high quality used machinery that have been properly maintained are expected to become more popular in the market than ever before. Given this, our value chain business is expected to see even greater growth in its presence. Therefore, in the future, we would like to further increase the sales composition ratio of the value chain business, with the support service ConSite® powered by

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the latest ICT technology to be the primary focus. We firmly believe expanding solutions that transcend the framework of construction machinery manufacturers with digital transformation, which will be the next driver of growth for the Group. On the topic of organizational restructuring, we will continue to consolidate development and production departments, actualize integrated production from parts to finished products, and aim to establish a more efficient and robust organizational structure.

Maximize social value and environmental value in order to realize vision for 2030

Under the vision of "To pass on a productive environment and prosperous cities to future generations... Hitachi Construction Machinery Group helps to create comfortable living spaces," we are contributing to the creation of comfortable living spaces. Our Group aims to achieve a sustainable society with an eye on 2030. In order to realize this vision, we believe we not only need to improve our economic value, including the business value of our company, but also to strive to maximize our social and environmental value.

The Group has reassessed how to contribute and what must be done to address the wide range of social and environmental issues, and explored its vision for 10 and 20 years into the future. The primary focus of value we provide lies in the challenges our

customers embrace on their frontline, including improving safety, increasing productivity, and reducing lifecycle costs, as well as the challenge faced by the international community as a whole, which is prevention of global warming. In order to address these issues, we have established the mid-term goals for 2022, backcasting from our vision for 2030 (see diagram below). The goal is to further clarify the focus of the efforts and accelerate their promotion.

For example, in order to improve safety at mining sites, we have the autonomous haulage system (AHS) which opened up a new world of unmanned dump trucks for mining.

This technology developed by HCM is being utilized at mines around the world. In 2020, Whitehaven Coal Limited already started the operation of six AHS-equipped rigid dump trucks at their Maules Creek Mine. In terms of technological development that contributes to preventing global warming, Hitachi Construction Machinery Tierra collaborated with EAC, a marketing and development company established in Germany in 2018, in developing a new prototype of battery powered mini-excavator, which was announced in December 2019.

We are backcasting from the vision for the group in 2030 in order to conceive our contribution to society and environment and create the narrative of our value creation. In other words, this leads to the realization of winning value for our Group. We will also conduct M&A (cross-border M&A) and pursue open innovation to secure resources including technology and human resources necessary to realize this goal while keeping abreast of future market conditions.

ESG Index as a company needed by society

<p>2030 Social value</p> <p>Provide solutions that offer safety, productivity, and life cycle cost reductions to the global infrastructure development</p> <table border="1"> <tr> <td data-bbox="160 1423 391 1549"> <p>Improving safety Contribute to zero fatalities due to falls or contact accidents</p> </td> <td data-bbox="403 1423 635 1549"> <p>Increasing productivity Standardize automation and labor-saving construction machinery</p> </td> <td data-bbox="647 1423 860 1549"> <p>Reducing lifecycle costs Aim for zero downtime</p> </td> </tr> </table>	<p>Improving safety Contribute to zero fatalities due to falls or contact accidents</p>	<p>Increasing productivity Standardize automation and labor-saving construction machinery</p>	<p>Reducing lifecycle costs Aim for zero downtime</p>	<p>2030 Environmental value</p> <p>Provide low-carbon technology to the global infrastructure development</p> <p>Prevent global warming Product lifecycle CO₂ reductions: Aim for Products -33%, Production -45%</p>
<p>Improving safety Contribute to zero fatalities due to falls or contact accidents</p>	<p>Increasing productivity Standardize automation and labor-saving construction machinery</p>	<p>Reducing lifecycle costs Aim for zero downtime</p>		
<p>2022 Management Goals (Social value)</p> <table border="1"> <tr> <td data-bbox="160 1709 391 1835"> <p>Improving safety Achieve contact prevention technology Commercialize human-machine cooperative control technology</p> </td> <td data-bbox="403 1709 635 1835"> <p>Increasing productivity Promote ICT Machinery 2,800 units*</p> <p><small>* Applicable worksites: Over 5,000 worksites</small></p> </td> <td data-bbox="647 1709 860 1835"> <p>Reducing lifecycle costs Operating status management system dissemination rate: 90% Applicable units: 200,000 units</p> </td> </tr> </table>	<p>Improving safety Achieve contact prevention technology Commercialize human-machine cooperative control technology</p>	<p>Increasing productivity Promote ICT Machinery 2,800 units*</p> <p><small>* Applicable worksites: Over 5,000 worksites</small></p>	<p>Reducing lifecycle costs Operating status management system dissemination rate: 90% Applicable units: 200,000 units</p>	<p>Environmental value</p> <p>Prevent global warming Reduce CO₂ emissions Products CO₂: -20% Production CO₂: -25% Applicable units: 500,000 units</p>
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Transform into sustainable management centered on the SDGs

The Group's vision for 2030 matches the aim of the SDGs for a sustainable world.

In FY2015, we identified the importance (materiality) of business activities and social issues and promoted them as "CSR key initiative themes." Since FY2018, we have reevaluated their relevance to the SDGs, and established 10 goals of SDGs as main initiative themes that are closely related to the key theme of our initiatives. In April 2019, we established the Sustainability Promotion Division in order to further strengthen our contributions to the SDGs. This is an organization that integrates the existing Environment Policy Division and the CSR Promotion Department to promote the SDGs in full swing. The same organization was also taking the lead in setting the goals in this instance.

In addition, as CEO, I deeply feel the global trend of ESG investment momentum and importance of non-financial corporate value. As for the Group's governance structure, we have increased the number of outside directors to four with the aim of enhancing the transparency and effectiveness of the Board of Directors. I hope this will bring out more active discussions on improving corporate value from different perspectives.

Towards the future in 2030 and 2050

As mentioned before, 2020 marks the 70th anniversary since the Group started manufacturing. The COVID-19 pandemic since the beginning of this year has shaken up the world and created severe impacts on everyone's lives and the economy. Given this historically critical condition, we strongly recognize that organizations that can transform themselves and provide sustainable value while accurately grasping social trend will be needed by society.

Over half of our Group's workforce of approximately 25,000 are non-Japanese nationals, representing multiple cultures and values. We possess flexibility from such diversity as well as a common value of Kenkijin Spirit. It is our pride and strength that our employees from around the world can cooperate with one another and take on their job responsibilities from the customers' perspective.

We will continue to refine our corporate culture built over the past 70 years and address the unprecedented global challenges. In order to envision a sustainable future together with our customers and stakeholders, we are fully committed to our business operations, and we appreciate your continued support.

Main initiative themes for SDGs



SUSTAINABLE DEVELOPMENT GOALS

